A Study of Entrepreneurship and the Prospects for Innovations Development in SMEs (2012-2013)

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This analysis was prepared on behalf of the Bulgarian Small and Medium Enterprise Promotion Agency by Consortium INSIGHT (Noema Ltd. and Sigma Hat Ltd.).

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List of Abbreviations

BSMEPA Bulgarian Small and Medium Enterprises Promotion Agency
BSP Business Strategies and Planning
CVT Continuous Vocational Training
EC European Commission
EDC Electricity Distribution Companies
EFRD European Fund for Regional Development
EU European Union
ET Ednolichen Targovets (Sole Trader)
ETF Educational training firm
FDI Foreign Direct Investments
GDP Gross Domestic Product
HR Human resources
HRM Human Resources Management
IAF Index Access to Finance
IBP Index Good (Best) Practices
ICT Information and Communication Technologies
INT Index Internationalisation
IP Intellectual Property
i.p. index points
IRD Index Innovation (Research and Development) Activities
IS Information Society
ITM Index Intellectual Property (Trade Marks) Activities
OECD Organisation for Economic Cooperation and Development
p.p. percent points
PPP Public-Private Partnership
SME Small and Medium-sized Enterprises
TFC Tangible fixed capital
WIPO World Intellectual Property Organisation
WSS Water Supply and Sanitation
**Introduction**

**SMEs and the role of this analysis**

SMEs Analysis for the period 2012–2013 has been elaborated for the purposes and needs of the Bulgarian Small and Medium Enterprises Promotion Agency (BSMEPA), which is responsible for the implementation of national policies in the area of small and medium-size enterprises.

SMEs account for an important part of the infrastructure which determines competitiveness of the economy: small and large businesses do not exclude each other, but are complementary and mutually advancing, and thus both contribute to a balanced nature of the economy. Furthermore, in the medium and long term development of the entrepreneurship as a whole leads to the development of not only small but also large businesses. Policy measures to support entrepreneurship in the country are fundamental for overall development of the Bulgarian economy as well as its competitiveness.

Other key issue related to SMEs is that their contribution to creating and developing innovations is considered crucial nowadays. BSMEPA’s analysis of SME sector for the period 2010-2012 identify that small innovative companies are rather vulnerable in times of economic crises — with limited financial resources and liquidity strains firms are forced to significantly reduce innovative activity at the expense of providing short-term financial stability. In a period of economic recovery, however, these innovative companies manage to overcome the negative effects of the economic crisis much better than other SMEs. Moreover, in international practice, most dynamic and most high-tech small businesses are considered the engine driving national and regional economies.

**Research objectives and questions**

The main objectives of the analysis are: to track current situation in the SME sector, particularly entrepreneurship and the prospects for innovations development in the SMEs, and to assess the competitiveness of priority manufacturing sectors.

These objectives are achieved through:

1) Monitoring the dynamics of key micro- and macroeconomic indicators for the SME sector, including developments in the external environment. Overview of SMEs’ access to finance. Analysis of major markets and the internationalisation of SMEs sector. Identification of the strengths, weaknesses, threats and opportunities for the development of the SME sector.
2) A study of entrepreneurship with a special focus on education in entrepreneurship, female entrepreneurship dynamics and the state of crafts’ industry.

3) A study of the prospects for innovations development in the SMEs with particular emphasis on innovativeness of manufacturing enterprises and determinants of innovations.

4) Formulation of adequate policy measures for stabilization of the SME sector: to improve access to finance, to stimulate internationalisation and to promote innovation.

Some of the main research questions to which the analysis attempts to provide answers are: „What happens to SME sector today?“, „What are the major problems for entrepreneurship in Bulgaria?“, „Are the Bulgarian SMEs innovative and which factors determined innovations in manufacturing?“. Finding answers to these questions can support the process of identification of relevant policies for fostering SME sector in the short and the long run.

**Scope and methodology**

Developments in the SME sector are observed mainly within the period of 2007-2013. Standard statistical indicators for the sector published by the National Statistical Institute, which currently are updated as of 2011 (for objective reasons these data are published with a 2-year lag), are complemented by: expert estimates for SMEs development in 2012 prepared by BSMEPA and Consortium INSIGHT; and two nationally representative quantitative surveys of SMEs conducted in February-March, 2013. The first of the surveys, which included a representative sample of 500 SMEs in the field of services, industry, commerce and construction, is used for overview of the situation in the sector. The second survey, which covers representative sample of 500 SMEs in 18 manufacturing activities, provides an opportunity for in-depth analysis of the industry and the prospects for innovations and internationalisation development. For the purposes of this analysis, data from other studies and reports concerning SMEs in the EU are used.

**Structure**

The structure of the analysis includes an executive summary, five main sections and appendices. The main sections cover the following topics: macroeconomic and business environment, key characteristics and performance of the SME sector, current state of entrepreneurship in Bulgaria, innovations in SMEs and competitiveness of manufacturing activities, and economic policies for fostering the development of SMEs.
1 Executive Summary

1.1 Macroeconomic and business environment

In 2012 Bulgaria’s GDP growth rate slowed down to 0.8% (1.8% were recorded a year earlier). The main reason for this deceleration was the deterioration of the external environment which led to a small decline in export of goods and services (-0.4%). At the same time, domestic demand showed unambiguous signs of recovery, and the leading factor in this respect was the growth of investment - in 2012 it increased in real terms by 9.6%, and consumption stepped up by 1.8%.

The increase of consumption and investment in the Bulgarian economy was not accompanied by positive developments in the labour market. Employment decreased by 31.2 thousand persons (1.1%) which signalled serious weaknesses in the possibilities to create jobs and indicates a continuing strife to optimize costs on behalf of companies. At the same time, the number of unemployed persons went up by about 34 thousand compared to 2011, and the unemployment rate reached 12.3%. As the decrease of employment fell short of the increase of unemployment, it can be asserted that a part of the increase of the number of unemployed was due to the activation of economically inactive persons who saw in the signs of economic recovery an incentive to start looking for a paid job. At the same time, however, the corresponding labour demand on behalf of employers was still missing.

With respect to the business environment, in the opinion of more than 70% of the micro and small enterprises and of over 50% of the medium-sized enterprises the legislation in the area of tax policy was creating obstacles for doing business. As problematic to business were also assessed the legislation in the area of registration and licensing, as well as commercial legislation.

1.2 SMEs performance

The latest NSI data on SMEs shows that in 2011 there were 351 420 enterprises in the non-financial sector of the Bulgarian economy and the decreasing tendency is continued.

Structure of enterprises in Bulgaria is similar to that in EU: the greatest share belongs to micro enterprises – 92.2% of total number, followed by those of the small (6.5%), medium (1.2%) and large ones (0.2%).

Структурата на предприятията в България е сходна с тази в ЕС, като у нас с най-голям дял са микро предприятията – 92.2%; малките заемат дял от около 6.5%, средните – 1.1%, а големите – само 0.2%. In 2011, the EU and Bulgaria in the SME sector reported similar trends – keeping the cases from the previous year,
with no improvement after the crisis for all groups of companies in the sector. In Bulgaria, the structure of companies in the last three years remains constant — SMEs' share is 99.8%.

The number of new enterprises in the non-financial sector of the economy decreased by 36.8% compared to 2010, which implies a significant drop in the net birth rate (3.4%).

The decline in employment in 2011 in SMEs noted a significant slowdown, reaching 1.3% compared to 5.6% in the previous year. During the same period, SMEs account for 74.6% or 1.48 mn of the jobs in the country, which is 19.2 thousand less than the 2010 average. Number of employees per company also remains constant — 5.7 persons.

SME sector is characterized by positive dynamics of investments which growth rate amounted to 2.3%. The severe need for financing in Bulgarian firms is comparable with that of the EU companies - the share of enterprises with financing problems is about 20%. Businesses primarily use personal savings and bank loans to finance their investments. Small proportion of them use retained earnings for these purposes. 23% of the SMEs need bank loans for working capital. The share of medium and small enterprises (32%) indicating that they have ever used bank loans is twice as large as that of micro firms. Crediting is more accessible to older than younger companies — only 27% of enterprises established after 2010 have used a bank loan.

Firm level absorption of technologies in Bulgaria is still very low - Bulgaria occupies 125th position in the world keeping its place from the previous year (moving up with just 2 positions). The share of enterprises engaged in high-tech production in Bulgaria is 1% — two times lower than in the EU. R&D sector is three times smaller. Bulgarian performance in the area of public spending on research, business expenditure on research and collaboration between innovative SMEs is unfavourable compared to these in EU.

The assessment of the respondents in the 2013 SME survey for the technological development of their firms is relatively good - 63% of them consider the technological level of the firms as acceptable for the country and 19% — as modern. It is more common for the medium firm entrepreneurs to assess their firms’ technologies as outdated than for micro or small firms.

According to an analysis of external trade orientation conducted by the EC, most of the Bulgarian SMEs prefer to export their products to neighboring countries. Among the main reasons for avoiding European markets are insufficient information and lower competitiveness.

Going to foreign markets is mainly an obstacle for young and smaller enterprises. SME surveys, conducted in early 2013 for the purpose of this analysis, show that about a quarter of all small and micro enterprises, and about half of the medium firms consider that the state should have a special policy to foster exports. Leading economic activities in terms of internationalisation are the production of vehicles (car-free), of radio and television equipment, and of machinery and equipment.

1.3 Entrepreneurship in Bulgaria

All European countries, including Bulgaria, need to strengthen the entrepreneurship mind among young people, encourage the creation of their own business, and stabilized the institutional and cultural environment for innovation and SMEs growth. The overall competitiveness of Bulgarian SMEs is not high. It can be as-
sumed that the situation in the SME sector is determined to a certain extent by the lack of good organization of entrepreneurship education in the country.

According to the data from 2013 SME Survey conducted for the purposes of this report, 48.2% of the entrepreneurs possess university degree; about 1/3 have vocational education after or within the secondary education (most often technical training); 18.2% — secondary; and less than 1% — below secondary education. There are substantial differences on a regional basis — 68% of respondents from Sofia were university graduates, while in rural areas this share amounts to 20%. Graduates dominate among entrepreneurs from the industry (65%), while in the trade sector they are significantly under-represented (39%). Medium-sized enterprises have the highest share of entrepreneurs with higher education (83%), followed by small (63%) and micro enterprises (40). Entrepreneurs with higher education have a dominant share among the younger entrepreneurs.

The participation rate of the population aged 25-64 in various forms of lifelong learning in 2011 was 1.2-1.4% while EU average level was 8.9%. In 2011-2012 there is a tendency for improvement of this process observed in the index for the implementation of best practices by SMEs (including a component on training of employees): 12% of SMEs widely apply best practices and 22% — apply them at a moderate degree).

The general trend in Europe is failing to utilize the potential female entrepreneurship, fewer women are starting businesses than men, and fewer women are planning to start a business. Women usually choose to do business in the trade sector, public services, and other. Most businesses of female entrepreneurs in Bulgaria have been created since 2001, they are privately owned and are Bulgarian. These businesses operate in the fields of retail, public services and others. Owners/managers have completed tertiary or secondary education, and most frequently these women are aged 35-64. The typical company of women is micro firm. The approximate average age of the staff varies within 28-54, these companies have invested in new technology in recent years, which are financed mainly from the savings of the owners. 65.5% of the firms have constant access to the Internet, but only 11% have a corporate website. As the most promising for their produce female entrepreneurs identify domestic and European markets.

In recent years, EU policy focus on the development of crafts and micro enterprises as a key source of employment. 2013 SME Survey conducted for the purposes of this analysis covered a sample of crafts and micro enterprises, and the information collected was used to highlight the profile and identify the major problems of these enterprises in Bulgaria. The main activity of registered artisans in Bulgaria is concentrated in the following sectors: manufacturing of furniture, pulp, timber and wood products, paper, stationary; metallic and non-metallic products, food, computers, office and other equipment, chemical and pharmaceutical products. Artisans primarily used own funds to finance their businesses, while 30% have benefitted from European funding. Over 67% of registered artisans consider the qualification and skills of their employees to be at a good level. Over 74% of them confirm that their employees know the best practices in the sector. Over 72% of all managers and employees in crafts companies have undergone domestic training in 2012. About 25% of them have participated in external training in management and sales, and training in the field of their activity. Half of registered artisans have introduced some kind of innovation and are willing to internationalize their businesses. 75% of the respondents have provided training to their staff, as well as have participated in PPP. 43% of the craftsmen have implemented marketing strategy, and over 47% have made marketing research over the last year — 2012.
1.4 Innovations in Bulgarian SMEs

According to the European Innovation Index (Innovation Union Scoreboard) for 2011, Bulgaria remains at the penultimate place in the EU-27. According to NSI data for 2011, expenditures on R&D are 219.6 million - 1.9% more compared to the 2010 R&D; and the intensity of R&D was 0.57% of GDP, while the share of innovative enterprises in Bulgaria amounted to 27.1% and increased for all size groups in the 2006-2010. The share of innovative small enterprises increased from 17% to 21.8%, that of medium firms — from 26.4% to 42.3%, and of large — from 52.7 % to 63.2%. The industry (economic activities B, C, D and E, NACE) is more innovative than the sector of services - innovative SMEs in these sectors have been respectively 23.8% and 14.5% in 2006, and 31.1% and 22.0% in 2010.

According to the survey conducted for the purposes of this analysis, micro enterprises rather reported a downward trend in technological innovation over the past 2-3 years, while small and medium enterprises self-evaluation is favorable. The proportion of entrepreneurs who say they have enough financial resource to fund innovative activity on its 28%. Plans to launch new products in 2013 have 48% of SMEs. Slightly more than half of industrial enterprises have released a new product on the market in 2012 (53%) or prepare to launch one in the near future (51%). Inspite of the observed upward trend of development over the last few years, the innovation activity of one third of Bulgarian industrial enterprises is still at very low levels.

Analogically to the situation in the whole SME sector observed in 2012 and 2011, in 2013 there is high level of inter-dependance between all factors for competitiveness and development in industrial SMEs. Improving one of these factors in an undertaking entails an improvement and all other factors. Here, innovation has been explained by firm’s access to finance, intellectual property, internationalisation and implementation of best practices. Then all their impact on firm’s performance has been evaluated.

The level of innovativeness of a company as of 2013 depends primarily on the applied best practices within the enterprise. Wider application of best practices in SMEs leads to greater innovation. In the analysis the best practices cover three different in essence activities - ICT usage, human resources development and implementation of business and marketing strategies. The data shows that, the prioritisation of each of these activities for the firm’s innovativeness is as follows: the leading role in determining the level of innovation of using ICT in SMEs; the second important best practices refers to the implementation of business and marketing strategies in the management; in the third place is positioned HRD. The second factor that demermines the level of innovativeness is the access to finance. The better access to finance leads to more intensive innovation activities. Thirdly, there are two factors which influence the innovation of the manufacturing firm - its internationalisation and its intellectual property. More active firms regarding internationalisation and intellectual property are inclined to be more innovative.

2013 Survey on Manufacturing SMEs shows that provision of adequate financial resources for the registration of intellectual property is declared by 30% of the entrepreneurs in the industry. The share of manufacturing SMEs with own registered brand in Bulgaria or abroad is 42%. The share of micro enterprises with such registration is 27%, of small firms- 47%, while of medium-sized firms it is 61%. Enterprises with their own patent amounted to 20%. Presence of a registered patent is reported for 12% of the micro enterprises, 21% for the small, and 32% for the medium manufacturing firms. The share of micro enterprises that declare they
are financially secured to register intellectual property is 20%; for small companies — 31% and for medium firms — 43%.

Every three of four manufacturing SMEs have business website. Electronic data signature of the managers have 78% of the enterprises. Opportunities for online orders and sales are 45% of companies and 40% provide an opportunity for online payments. Management system of relations with clients have 18% of SMEs. Also the same is the share of those who have implemented management system providers, and they nearly as much (17%) are the companies that use an integrated management system for almost all processes.

The majority of entrepreneurs in the industry state that their employees are sufficiently qualified (80%) and that they are familiar with the best practices in the sector (81%). More than half of SMEs have provided training to employees and/or managers in 2012 — 53%. External specialized training for sales management have received 17% of the companies, and in the field of activity of the company — 22%. Nearly half of the entrepreneurs say that they demand foreign language training — 45%. Nearly one-third — 33% has identified a need for training in management, marketing and sales, 31% — ICT applications, and 26% — in exporting. More than half of the industrial enterprises have developed and are using short-term business plans with a horizon of 1-2 years — 57%. Medium-run business plans are spread in a significantly smaller proportion — 17%, and long-term plans are used by only 8% of the SMEs.

1.5 Development policies for the SME sector

The European countries become increasingly aware that the economic recovery from the crisis and the return to growth require more entrepreneurship. This is so because entrepreneurship makes the economy more competitive and innovative, and also creates jobs. This new orientation is established in many EU documents (EC, 2011; Ecorys, 2012; EC, 2013, etc.). At the same time, in a number of countries the institutional and business environment is rather not favourable to entrepreneurs, especially for the small business start-ups.

Especially for Bulgaria, the European Commission reported that the main weakness of the economy is the low level of research activity and innovation. Both activities are not funded sufficiently, do not achieve the expected results and need a radical reform1.

Policies to stimulate growth, employment and competitiveness are key to success of both Europe 2020 Strategy and the National Development Programme “Bulgaria 2020”. The preceding annual analysis of the BSMEPA have disclosed a crucial role of SMEs in the process of economic recovery from the 2008 crisis. Bulgaria is facing the challenge to promote competitiveness based on higher productivity, for which innovations, new skills and sustainability are key components. Therefore, it is necessary to formulate specific policies and implement integrated economic measures to improve access to finance, to promote entrepreneurship and innovation, and to develop all other factors for SME competitiveness in Bulgaria.

In the final part, this analysis proposes a package of measures to stimulate entrepreneurship and innovation as key’s tricks include policies for:

- improving business environment and legal regulations (including tax policy ki stimulating SMEs);

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Executive Summary

- improving access to finance for SMEs;
- promoting development of technology, innovation and energy efficiency;
- fostering of internationalisation and exports;
- developing and improving the quality of education in entrepreneurship.
Executive Summary

Selected Facts

- In 2011, SMEs include 350,679 non-financial companies as their number decreased by 0.6% on annual basis.
- SMEs’ share in the economy is 99.8%.
- All SME segments reported a slow-down in their numbers but the leading one was observed in medium-sized enterprises (-1.5%).
- The number of SMEs in the industry decreased by 3.1% while that in the service sector has stabilized.
- The SME sector is characterized by positive dynamics only in the South-West and South-East planning regions of the country.
- The net birth rate of SMEs fell to 3.4% due to the low number of start-ups.
- Growth in SMEs’ revenues amounted to 10.4%, and the rate of costs — to 10.3%
- There is a 1.7% increase in SMEs’ investments.
- The SME sector employs 1,480,952 persons.
- The average number of employees per SME remains constant — 6 persons.
- The decline in employment in SMEs amounted to 1.3%, which indicates a significant slow down in the negative trend from a year ago.
- All six planning regions are characterized by a robust moderation in the decrease of jobs.
- Likewise the reduction of the SMEs’ number, leading negative impact on employment decline is assigned to medium-sized firms.
- 20% is the share of the companies which face problems with financing, which is comparable to the EU average.
- SMEs’ investments are based primarily on personal savings and/or bank loans.
2 Macroeconomic and business environment

2.1 Macroeconomic dynamics

General assessment of the external environment

In 2012 the main world regions had mixed performance if economic growth has to be considered. The U.S. economy had a slight acceleration of its growth rate to 2.2% (vs. 1.8% in 2011). The political problems related to coping with the so-called fiscal cliff were a major issue before the U.S. government during the past year. The achieved agreements concerning the increases in some taxes however seem to be only a temporary solution, and in addition a compromise still has to be sought with respect to increasing the public debt ceiling, as well as with respect to implementing budget consolidation (cutting some expenditure items in the budget). Irrespective of this, the general assessment is that the American economy is on an upward trend which is further corroborated by the positive labour market data.

The Chinese economy continued registering one of the highest economic growth rates on a worldwide scale in 2012, too. The achieved value of 7.8% has been the lowest since 1999, which is a reflection of processes of certain ‘cooling-off’ after the intensified signs of ‘overheating’ in the previous several years. In this sense, a major issue faced by the Chinese economy is to not let additional deceleration in the growth rate and to secure sustainability in the country’s development.

Despite the short-lived recession which started in the beginning of Q2 2012, for the whole year Japan registered economic growth totalling 2.0% – a result which was significantly better than the one obtained in 2011 (-0.6%). Similarly to the U.S., the political issues in the country, although being of different nature turned out to be a significant hindrance to finding lasting solutions to the long-term problems of the Japanese economy. For the same reason, the problems of 2011 which emerged after the devastating earthquake, the tsunami and the ensuing nuclear catastrophe in Fukushima were not overcome. The announced intention to extend the stimuli to the economy on behalf of the government should also be watched carefully as they might turn out to be only a short-term solution, while at the same time they might deepen other long-term problems, e.g. the one related to debt.

The Euro Area economy remained the region in the world map which had the most pronounced weaknesses. GDP growth was negative in 2012 (-0.6%). The main explanation which can be offered in this respect rests on the continuing negative effects of the debt crisis in the European periphery, although the actions of the ECB and the new EU structures (such as the European Stability Mechanism) helped to significantly lower the yields of the most problematic bonds. The outlook before the Euro Area will remain bleak in 2013, and most probably further on, as the problem of over-indebtedness of the respective countries cannot be solved for a short
spell of time, moreover in the framework of a currency union. The insufficient decisiveness on behalf of the governments to implement fiscal reforms, to introduce the banking union, and to further integrate fiscal policies could turn out an additional obstacle to achieving a sustainable exiting from the crisis and returning to the growth path.

As far as the Euro Area is a major market for Bulgarian exports, the negative development of the past year can be ranked among the most important factors which led to the slow-down of the Bulgarian economy. In particular, this was reflected in the results of the small and medium-sized enterprises.

– The Bulgarian economy in 2012

Gross domestic product

In 2012 Bulgaria’s GDP growth rate slowed down to 0.8% (1.8% were recorded a year earlier). The main reason for this deceleration was the deterioration of the external environment which led to a small decline in export of goods and services (-0.4%). At the same time, domestic demand showed unambiguous signs of recovery, and the leading factor in this respect was the growth of investment – in 2012 it increased in real terms by 9.6%, and consumption stepped up by 1.8%. It should be born in mind that since the beginning of the economic crisis in Bulgaria in 2009 domestic demand has been characterized by negative developments. Therefore, it can be assumed that the observed positive changes in the previous year also stemmed to a large extent from the long-suppressed consumption and investment expenditures on behalf of households and companies, i.e. there was a natural symmetric reaction to the one featured in the times of deteriorating economic environment in the country several years ago.

Figure 2-1: Gross domestic product (real growth rate, %)

Viewed by economic sectors, the Bulgarian economy registered growth in two of the three sectors – in agriculture and forestry and in industry. In the former sector gross value added augmented by 3.5%, and in the latter – by 0.8%. The higher rate of increase of agriculture was due to the better performance of the sector compared to the results Europe-wide and worldwide which allowed benefiting from higher prices of export, while the relatively weak growth of industry followed from the overall deterioration of the external environment in the second half of the year, as well as from the still unrecovered domestic demand.
In 2012 the unemployment rate reached/comprise 12.3%.

**Inflation**

The increase of the price level in the country in 2012 was basically determined by two factors: the dynamics of international prices of foods and energy, and the changes in administrative prices implemented in the middle of the summer. Irrespective of the influence of those two factors, inflation in the country remained in the moderate range. At the end of the year the reported value of this indicator was 4.2%, and the annual average value equalled 3.0%. The fact that domestic demand remains weak despite some signs of recovery implies a continuation of the moderate rate of price increase in the country.

**Figure 2-2: Inflation rate (%)**

![Inflation rate graph]

Source: NSI

**Labour market**

The growth of consumption and investment in the Bulgarian economy during the past year was not accompanied by a positive development of the labour market. Employment decreased by 31.2 thousand (1.1%) which showed serious weaknesses in the possibilities to create jobs and indicated a continued strife to optimize costs on behalf of firms. At the same time, the number of unemployed persons increased by about 34 thousand persons vs. 2011, and the unemployment rate reached 12.3%. As the decrease of employment fell short of the increase of unemployment, it can be asserted that a part of the increase of the number of unemployed was due to the activation of economically inactive persons who saw in the signs of economic recovery an incentive to start looking for a paid job. At the same time, however, the corresponding labour demand on behalf of employers was still missing.

**Figure 2-3: Employment and unemployment**

![Employment and unemployment graph]

Source: NSI
Balance of payments

The weak export results accompanied by the moderate growth of import following the increasing domestic demand lead to the current account balance moving to negative territory – from a minor surplus in 2011, in 2012 a deficit of 1.3% of GDP was registered. Accordingly, the strongest driver of the negative current account balance - the trade balance deficit - reached EUR 3.6 bn (9.1% of GDP). Nevertheless, the value of the current account deficit was small and could by no means be considered a risk factor with respect to economic development. Overall, the Bulgarian economy can afford a higher deficit of the indicator without macroeconomic sustainability becoming endangered.

Figure 2-4: Current account balance

The financial account development was also in line with the indications for a reversal of the negative domestic demand trends. Unlike the previous two years when net outflows were registered, in 2012 a net inflow of EUR 2.2 bn (5.6% of GDP) was recorded. Predominantly this was an increase of currency and deposits (by EUR 1.6 bn), and foreign direct investment in the country reached EUR 1.5 bn (increasing by EUR 163.6 mn, or 12.4% on an annual basis vs. 2011). This amount of foreign direct investment was however substantially lower than the levels observed before the start of the crisis and was insufficient to generate a considerable acceleration of economic growth in Bulgaria.

Figure 2-5: Foreign direct investment in the country (eur mn)

Fiscal sector

In 2012 fiscal policy was again restrictive. The budget deficit realized at the end of the year equalled 0.5% of GDP (vs. 2.1% a year earlier) – a considerably lower level compared to the one set in the Law on the State Budget. The budget consolidation effect was the strongest at the end of the year, and at the same time this also
contributed to the slowdown of consumption growth, therefore of the whole economy.

In the summer of 2012 the government issued external debt in the form of five-year Eurobonds totalling EUR 950 mn. The main designation of this amount was to cover the forthcoming in January 2013 repayment of principal and interest of the government bonds issued ten years earlier. Irrespective of this debt issue, the public debt of Bulgaria as a share of GDP remained among the lowest in the EU.

At the end of 2012 the fiscal reserve of the government totalled BGN 6.1 bn., while the Law on the State Budget required a minimum of BGN 4.5 bn.

Figure 2-6: Budget balance (cash-based, % of GDP)

Banking system

Similarly to 2011, in 2012 the banking system continued demonstrating good figures with respect to asset growth, capitalization, and liquidity.

At the end of last year the assets of the system reached BGN 82.4 bn, and on an annual basis they augmented by BGN 5.6 bn (7.3%). There was a growth of the relative share of the locally-owned banks which was at the expense of the share of the foreign-owned (primarily the ones with EU origin) ones — to 26.4%. The composition of the five largest banks remained unchanged compare to the end of 2011 (with some rearrangement in their ranking) but in general the share of this so-called first group of banks decreased to get to 49.5% (it was 51.7% a year earlier).

Lending growth slowed down to 3.2% yoy (vs. 4.1% in 2011), and in absolute terms is totalled BGN 1.8 bn. Corporate loans increased at a higher rate than the overall one: 5.1%, but in spite of the expectations that they would be one of the drivers of the economic recovery, their increase was far from enabling them perform such a function. At the same time, household loans contracted by 0.5% which reflected the continuing process of deleveraging in the framework of employment and income stagnation and the lack of a clear outlook concerning future developments to base risk taking upon.

The continuing sense of uncertainty among households led also to maintaining a high saving rate manifested mainly in the increase of bank deposits. In 2012 this increase totalled BGN 4.0 bn (12.4%). The growth of the entire deposit volume in the banking system was correspondingly BGN 4.4 bn (8.4%).

The interbank money-market rates remained close to zero to reflect the high level of liquidity and the relatively poor opportunities to direct it to lending.
In the beginning of 2012 NPLs (expositions past due more than 90 days) totalled 14.9% of gross loans. At the end of the year this ratio reached 16.6%. With a view to the fact that the economy of the country has not fully recovered from the economic crisis, and the labour market is even showing signs of deterioration, no allegation can be made that the share of NPLs has come to the point in which it will start shrinking. This will, on the one hand, happen only after lending growth accelerates, and on the other - after the capacity of economic agents to regularly service their obligations improves.

The overall capital adequacy of the banking system at the end of 2012 equalled 16.7%, and that relating to Tier 1 capital was 15.2%. Those levels were considerably higher than the minimum ones required both in the EU and in Bulgaria (the latter are higher than in the EU). For the time being they provide sufficient stability of the system and are a reliable buffer protecting the interests of depositors.

As far as 2013 will be still featured by crisis effect, neither an acceleration of the lending rate should be expected, nor a considerable channelling of savings to consumption. A revival in banks’ activity in the local market can be expected from 2014 onwards, when an acceleration of economic growth in the country is projected.

Regional development

According to latest Eurostat data, in 2009, five of the six statistical regions of Bulgaria (level 2) fall within the list of poorest regions in EU ranked by GDP per capita: the North-West region (28% of the EU average), North Central and South Central (30% of the EU average), South-East region (36% of the EU average), North East region (37% of the EU average). The exception is the South-West region reaching 73% of EU average. The regional structure of the GDP shows that the major contribution is assigned to the South-West region, in which the capital is situated and characterised with a high concentration of economic activities and employment, and at the end of 2010, its contribution was 48.2% of the total GDP, while the lowest contribution belongs to the North-West region – 7.2%. According to NSI data in 2009 there is strong polarization in the GDP per capita dynamics between Sofia-city (the capital) and all other areas of the country. The most significant delay was observed in the districts of Vidin, Kyustendil, Razgrad, Silistra and Sliven, where GDP per capita is below 55% of the total for the whole country.

NSI data shows that in 2010, in the South-West region there is a significant concentration of R&D financing (83.0% of total R&D expenditures in the country). Spending on research by businesses is also significant in this area, amounting to 85.3% of total private expenditures in the country. Similar is the share of R&D expenditure in the public sector – in this region were invested 82.7% of total government investment. In the other regions R&D investments hold low shares of the total investment – second comes the South Central region in which the share is 5.4% of total R&D expenditure. Least developed in this respect are North-West and North Central regions. In the North-West region the number of investors from the business sector is so small that the activity data are confidential, and the money invested in research products by public and private sector accounted to 1.6% of R&D expenditure in the country. In the North Central region the business sector has spent for research products 2.2% of the total value for the country, and those made by the public sector accounted for 1% of all government spending. Total R&D expenditure in the region amounted to 1.7% of all such investments.

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2 It is however worth noting that at the end of the year banks wrote off some non-performing assets due to which the value is somewhat artificially lowered. At the end of September 2012 the value of the indicators was 17.3%.

The tax legislation is an obstacle for 70% of micro and small enterprises; and for over 50% of medium-sized enterprises.
2.2 Business and institutional environment

According to the Global Competitiveness report 2012-2013 of World Economic Forum Bulgaria slightly improves its positions with regard to institutions moving from 110th position in 2011-2012 to 108th. With regard to the indicator “Burden of government regulations” there is deterioration in the business assessment - from 86th to 109th position. There is improvement for “Efficiency of legal framework in settling disputes”. There is improvement also in the property rights index - from 119th to 115th position, but there is deterioration in the intellectual property protection - from 105 to 100 position.

— Legislative framework

The respondents in the 2013 SME survey were asked which parts of the legislation they find favorable or complication the business. With regard to registration and licenses 63% from the respondents from the micro, 61% of the small and 44% of the medium enterprises state that legislation is a complication factor for the companies. With regard to trade legislation about 40% of the respondents state that the current legislation is not favorable for the business. The share of the micro and small companies giving this negative assessment is higher. With regard to private property protection about 25% assess the legislation as unfavorable. The assessment with regard to bank legislation and sector legislation is similarly negative. Only with regard to information access legislation the assessment of the business is good.

Figure 2-7: Assessment of the influence of the current legislation framework

<table>
<thead>
<tr>
<th>How do you assess the influence of the existing legislation:</th>
<th>Mostly it is an obstacle</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access to information</td>
<td></td>
</tr>
<tr>
<td>Branch legislation</td>
<td></td>
</tr>
<tr>
<td>Bank system</td>
<td></td>
</tr>
<tr>
<td>Property protection</td>
<td></td>
</tr>
<tr>
<td>Trade legislation</td>
<td></td>
</tr>
<tr>
<td>Registration and license regimes, etc.</td>
<td></td>
</tr>
<tr>
<td>Taxes</td>
<td></td>
</tr>
</tbody>
</table>

Source: 2013 SME Survey, Consortium INSIGHT

— Tax policy

Legislation with regard to tax policy is mostly viewed by Bulgarian enterprises as an impediment for doing business according to the 2013 SME survey. 75% of the micro and small enterprises consider tax legislation as a complication. Among the taxes that are most burdensome to the business is VAT - mentioned at first place by 29% of the enterprises.

Social security taxes are burdensome to the highest extent to micro enterprises - they are mentioned first by 22% of the micro firms, whereas the bigger enterprises consider other taxes as more important complication to their business.
– Administrative barriers and burden

With regard to the communications with the central and other administrations the respondents were asked to assess their communication with different institutions. Most problematic for the business according to the study were the tax and local administrations. These two administrations, together with the central administration are most problematic for the micro and small enterprises – 23% and 19% respectively responded that they met difficulties in the communication with the tax and local administrations, while medium enterprises give more positive assessments. The central administration is an impediment to the same extent for all enterprises. Difficulties with the customs meet predominantly the small enterprises – 18% of them.

Figure 2-8: Problematic communication of SMEs with institutions

<table>
<thead>
<tr>
<th>Institution</th>
<th>Micro</th>
<th>Small</th>
<th>Medium-sized</th>
</tr>
</thead>
<tbody>
<tr>
<td>Police</td>
<td>2%</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>ERE, Water supply companies, etc.</td>
<td>14%</td>
<td>18%</td>
<td>25%</td>
</tr>
<tr>
<td>Customs Agency</td>
<td>6%</td>
<td>6%</td>
<td>18%</td>
</tr>
<tr>
<td>Tax administration</td>
<td>23%</td>
<td>34%</td>
<td>46%</td>
</tr>
<tr>
<td>Municipality administration</td>
<td>19%</td>
<td>28%</td>
<td>31%</td>
</tr>
<tr>
<td>Administration of ministry</td>
<td>23%</td>
<td>20%</td>
<td>22%</td>
</tr>
</tbody>
</table>

Source: 2013 SME Survey, Consortium INSIGHT

2.3 Technological conditions

– Position of Bulgarian enterprises in the global economy with regard to their technological level

With regard to the technological level Bulgaria occupies 52th position in the Global Competitiveness report of WEF for 2012-2013. This presents deterioration with two places compared to the previous year. Bulgaria has a very good evaluation of the technologies but this is mainly due to the excellent internet infrastructure.

For the indicator “availability of modern technologies” Bulgaria occupies 98th position in the world but a positive fact is that its position was improved from the past year with 8 places.

Firm level absorption of technologies in Bulgaria is still very low - Bulgaria occupies 125th position in the world keeping its place from the previous year (moving up with just 2 positions). Bulgaria has similar standing with regard to technological transfer via direct foreign investment - 106th place and its position is down with 1 position compared to the previous year.

– Self-assessment of Bulgarian entrepreneurs of the state of technological development of SMEs

The assessment of the respondents in the 2013 SME survey for the technological development of their firms is relatively good - 63% of them consider the
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The technological level of the firms as acceptable for the country and 19% – as modern. It is more common for the medium firm entrepreneurs to assess their firms’ technologies as outdated than for micro or small firms.

With regard to the EU standards compliance only 17% of the enterprises assess their technological equipment as modern, 52% define it as acceptable. Further to that, only 27% state to have invested in modernization of the firm’s technologies in the recent years, the highest share of these companies are medium ones - 44% of those have invested in new equipment, while the share among micro and small enterprises is 24% and 36% respectively.

Overall, the internet access is not a problem for the small and medium enterprises but 33% of the micro enterprises don’t have permanent internet access. Very few of them have a corporate website - 13.5%. The share of small medium enterprises which have a corporate website is higher - 30% and 72% respectively.

**Figure 2-9:** Technological level of the equipment in the Bulgarian SMEs according to the local and EU standards (%)

![Pie chart 1](image1)

**Source:** 2013 SME Survey, Consortium INSIGHT

**Figure 2-10:** Investment activity of Bulgarian SMEs in new technologies in the last 3 years (%)

![Pie chart 2](image2)

**Source:** 2013 SME Survey, Consortium INSIGHT
Key Points

- In 2012, the Eurozone economy remains the region with the most pronounced weaknesses on global level. The GDP growth was negative (-0.6%). The main reason for this are the ongoing negative effects of the debt crisis in the EU periphery. Prospects for the Eurozone will remain adverse and in 2013.

- Since the Eurozone is a key market for Bulgarian exports, negative developments in 2012 can be considered one of the most important factors that led to a slowdown in the Bulgarian economy.

- In 2012, GDP growth in Bulgaria slowed to 0.8% (against 1.8% achieved in the previous year). The main reason for this slowdown was the deterioration of the external environment, which led to a small decline in exports of goods and services (-0.4%).

- In 2012, the number of unemployed persons increased by around 34 thousand compared to 2011, the unemployment rate reached 12.3%.

- More than 70% of micro and small firms, and 50% of medium-sized enterprises consider the legislation framework of tax policy as an obstacle to business. Also problematic for doing business are assessed licensing regulations and commercial law.

- With regard to the absorption of new technologies, Bulgaria occupies unfavorable position in the ranking of the World Economic Forum — 125 out of 144 countries.

- With regard to EU standards, only 17% of survey entrepreneurs consider their equipment as modern, and 31% declare that their equipment is obsolete. However, 27% of respondents indicate that they have made investments to upgrade technology in the recent years.
3 SMEs Performance

3.1 Statistics of enterprises and business demography

— Number, structure and development of enterprises

In 2011 there were 351,420 enterprises\(^3\) in the non-financial sector of the Bulgarian economy and their number slightly stepped down by 0.6%, being -0.9% on a year earlier. Recent enterprise developments followed a decelerating pace of decrease, which reflected some liveliness in selected economic activities, however the dynamic of newly established and already existing enterprises remained on a negative territory.

Structure of enterprises in 2011 remained constant in both EU-27 countries and Bulgarian economy. The share of micro enterprises was 92.2% of total number, followed by those of the small (6.5%), medium (1.2%) and large ones(0.2%). The same holds true for the SMEs sector, which accounted for 99.8% of total non-financial enterprises in EU-27 and Bulgaria (Table 3-1).

<table>
<thead>
<tr>
<th>Table 3-1: Structure and development of enterprises, non-financial business economy, by size class, Bulgaria and EU-27 (estimates), 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
</tr>
<tr>
<td>---</td>
</tr>
<tr>
<td>Bulgaria</td>
</tr>
<tr>
<td>Share</td>
</tr>
<tr>
<td>Growth</td>
</tr>
<tr>
<td>EU-27</td>
</tr>
<tr>
<td>Share</td>
</tr>
</tbody>
</table>


The structure of enterprises by size class evidence certain changes in 2011 as compared to the period of 2009-2010. SMEs share remained constant (99.8%), however those of the small and medium sized enterprises fall by 1 p.p. to 6.5% and 1.2% respectively, while the micro enterprises evidenced an increasing share from 92.1% to 92.2% in 2011.

Within the SMEs sector all groups of the enterprises reported negative trends with a leading contribution of medium-sized enterprises (1.5%), followed by small (0.8%) and micro ones (0.6%). The small and medium-sized enterprises were on a decelerating pace of decrease (in 2010 their number decreased significantly by 8.4% in

\(^3\) The number of enterprises in the non-financial sector of the economy amounted to 366,240, in order to compare Bulgaria and EU-27 in this analysis the enterprises in agriculture, forestry and fishing sectors are excluded.
The average number of the employed per one enterprise in 2011 also remained unchanged.

Table 3-2: Number of enterprises and occupied persons per enterprise, non-financial business economy, by size class, Bulgaria, 2011

<table>
<thead>
<tr>
<th>Enterprises</th>
<th>Micro</th>
<th>Small</th>
<th>Medium</th>
<th>SMEs</th>
<th>LSEs</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number</td>
<td>323 641</td>
<td>22 660</td>
<td>4 378</td>
<td>350 679</td>
<td>741</td>
<td>351 420</td>
</tr>
<tr>
<td>Share</td>
<td>92.1%</td>
<td>6.4%</td>
<td>1.2%</td>
<td>99.8%</td>
<td>0.2%</td>
<td>100%</td>
</tr>
<tr>
<td>Employed</td>
<td>611 753</td>
<td>447 323</td>
<td>421 876</td>
<td>1 480 952</td>
<td>505 536</td>
<td>1 986 488</td>
</tr>
<tr>
<td>Share</td>
<td>30.8%</td>
<td>22.5%</td>
<td>21.2%</td>
<td>74.6%</td>
<td>25.4%</td>
<td>100%</td>
</tr>
<tr>
<td>Occupied persons per enterprise</td>
<td>2</td>
<td>20</td>
<td>97</td>
<td>4</td>
<td>682</td>
<td>6</td>
</tr>
</tbody>
</table>

Source: NSI, Statistics of enterprises, own calculations

Structure of enterprises by economic activity

Following the still low economic activity in the country, the number of enterprises in the industrial sector dropped by 3.1% in 2011, while services reported some liveness (-0.1%). Within the SMEs sector the reported rates of decrease were 3.2% and 0.1%, respectively, while LSEs registered a decrease of 0.2% in the industry and 0.6% in service sector (Table 3-3).
The SMEs sector could be characterized by a decline in the industry by 3.1%, while in the services the stabilization is observed (0.1% y-o-y change).

Following the negative employment dynamics in selected activities, the share of industry within the SMEs dropped to 15.3%, while those of services reported a slightly increase, reaching 84.7%. On the other hand, the structure of LSEs by economic sectors remained relatively constant as compared to 2010 (58.5% and 42.5%, respectively) and it holds true for total non-financial economy as well. SMEs developments by economic activities reported declining shares in trade\(^4\) (by 0.7p.p. to 9%), construction (by 0.4p.p. to 7.3%) and manufacturing (by 0.1p.p. to 8.7%). The share of enterprises decreased in other services\(^5\) (by 0.5p.p to 10.2%), in professional and informational activities\(^6\) (by 0.2% to 10.6% and 2.5%, respectively), in real estate, administrative activities\(^7\) and electricity\(^8\) (by 0.1p.p. to 6.0%, 2.4% and 0.5%, respectively).

### Table 3-3: Number, structure and development of enterprises, non-financial business economy, by size class and economic activity, Bulgaria, 2011

<table>
<thead>
<tr>
<th>Economic activity (NACE.BG 2008)</th>
<th>Number</th>
<th>Structure</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>SMEs</td>
<td>LSEs</td>
<td>Total</td>
</tr>
<tr>
<td>Agriculture</td>
<td>14 805</td>
<td>15</td>
<td>14 820</td>
</tr>
<tr>
<td>TOTAL</td>
<td>365 484</td>
<td>756</td>
<td>366 240</td>
</tr>
<tr>
<td>Industry</td>
<td>350 679</td>
<td>741</td>
<td>351 420</td>
</tr>
<tr>
<td>Mining and quarring</td>
<td>30 354</td>
<td>300</td>
<td>30 654</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>1 781</td>
<td>19</td>
<td>1 800</td>
</tr>
<tr>
<td>Electricity</td>
<td>713</td>
<td>44</td>
<td>757</td>
</tr>
<tr>
<td>Water supply</td>
<td>20 364</td>
<td>54</td>
<td>20 418</td>
</tr>
<tr>
<td>Services</td>
<td>297 077</td>
<td>307</td>
<td>297 384</td>
</tr>
<tr>
<td>Trade</td>
<td>139 973</td>
<td>67</td>
<td>140 040</td>
</tr>
<tr>
<td>Accommodation and food service activities</td>
<td>19 303</td>
<td>44</td>
<td>19 347</td>
</tr>
<tr>
<td>Transportation and storage</td>
<td>26 453</td>
<td>23</td>
<td>26 476</td>
</tr>
<tr>
<td>Information and communication</td>
<td>8 892</td>
<td>32</td>
<td>8 924</td>
</tr>
<tr>
<td>Real estate activities</td>
<td>21 061</td>
<td>0</td>
<td>21 061</td>
</tr>
<tr>
<td>Professional activities</td>
<td>37 092</td>
<td>8</td>
<td>37 100</td>
</tr>
<tr>
<td>Administrative service</td>
<td>8 566</td>
<td>64</td>
<td>8 630</td>
</tr>
<tr>
<td>Other</td>
<td>35 737</td>
<td>69</td>
<td>35 806</td>
</tr>
</tbody>
</table>

Within the SMEs the average number of employed in the industry and services remained unchanged to 3 and 9 persons (Table 3-4). SMEs development by economic activities SMEs reported an increasing number of occupied persons per enterprise in industry with a leading contribution of mining and quarrying (15 persons) and accommodation and food service activities (4 persons). The indicator dropped in electricity (3 persons) and informational activities (5 persons).

---

4 Wholesale and retail trade, repair of motor vehicles and motorcycles.
5 Other services include: education; human health and social work activities; arts, entertainment and recreation and other service activities.
6 Создание и распространение на информации и творчески продукти; далекосъобщения
7 Administrative and support service.
8 Electricity, gas, steam and air conditioning supply.
Table 3-4: Occupied persons per enterprise, non-financial business economy, by size class and economic activity, Bulgaria, 2011

<table>
<thead>
<tr>
<th>Economic activity (NACE.BG 2008)</th>
<th>Micro</th>
<th>Small</th>
<th>Medium</th>
<th>SMEs</th>
<th>LSEs</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>2</td>
<td>20</td>
<td>96</td>
<td>4</td>
<td>682</td>
<td>6</td>
</tr>
<tr>
<td>Industry</td>
<td>2</td>
<td>21</td>
<td>101</td>
<td>15</td>
<td>611</td>
<td>14</td>
</tr>
<tr>
<td>Mining and quarrying</td>
<td>2</td>
<td>21</td>
<td>117</td>
<td>15</td>
<td>1133</td>
<td>61</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>3</td>
<td>22</td>
<td>101</td>
<td>12</td>
<td>577</td>
<td>17</td>
</tr>
<tr>
<td>Electricity</td>
<td>1</td>
<td>19</td>
<td>93</td>
<td>3</td>
<td>1466</td>
<td>18</td>
</tr>
<tr>
<td>Water supply</td>
<td>2</td>
<td>21</td>
<td>105</td>
<td>17</td>
<td>506</td>
<td>45</td>
</tr>
<tr>
<td>Construction</td>
<td>2</td>
<td>20</td>
<td>91</td>
<td>6</td>
<td>426</td>
<td>8</td>
</tr>
<tr>
<td>Services</td>
<td>2</td>
<td>19</td>
<td>94</td>
<td>3</td>
<td>781</td>
<td>4</td>
</tr>
<tr>
<td>Trade</td>
<td>2</td>
<td>19</td>
<td>89</td>
<td>3</td>
<td>689</td>
<td>4</td>
</tr>
<tr>
<td>Accommodation and food service activities</td>
<td>2</td>
<td>19</td>
<td>103</td>
<td>4</td>
<td>1557</td>
<td>8</td>
</tr>
<tr>
<td>Transportation and storage</td>
<td>2</td>
<td>19</td>
<td>87</td>
<td>5</td>
<td>500</td>
<td>5</td>
</tr>
<tr>
<td>Information and communication</td>
<td>2</td>
<td>21</td>
<td>96</td>
<td>5</td>
<td>801</td>
<td>8</td>
</tr>
<tr>
<td>Real estate activities</td>
<td>1</td>
<td>19</td>
<td>89</td>
<td>2</td>
<td>-</td>
<td>2</td>
</tr>
<tr>
<td>Professional activities</td>
<td>2</td>
<td>18</td>
<td>95</td>
<td>2</td>
<td>397</td>
<td>2</td>
</tr>
<tr>
<td>Administrative service</td>
<td>2</td>
<td>21</td>
<td>97</td>
<td>6</td>
<td>620</td>
<td>10</td>
</tr>
<tr>
<td>Other</td>
<td>2</td>
<td>20</td>
<td>100</td>
<td>3</td>
<td>652</td>
<td>4</td>
</tr>
</tbody>
</table>

Source: NSI, Statistics of enterprises, own calculations

Figure 3-2: Economic activities with leading contribution to enterprise developments (estimates, p.p), by size class, Bulgaria, 2011

— Structure of enterprises by statistical region

In 2011 the process of decline in the number of enterprises by regions within the country continues. This drop is determined by the decrease of enterprises in North-West region (with 2.3% to 27 974) by the decline in North-East region to 49 859 and in North Central (1.2%) to 34 470 and in South Central region to 65 264. The decrease is mainly due to the SMEs sector, where micro and small enterprises decline. Only in two regions: South West and South East the growth is observed. In South-West region where are situated and functioning 37.2% of enterprises, it is registered a positive growth comparing to the previous year by 0.9% to 136 264, while in South-East region the growth is 0.4% to 52 409 firms. This increase in these regions is mainly due to the large-scaled enterprises. The growth in the SMEs is only in the micro enterprises (Table 3-5).
Table 3-5: Number, structure and development of enterprises, by statistical region, Bulgaria, 2011

<table>
<thead>
<tr>
<th>Statistical region (NUTS 2)</th>
<th>Number</th>
<th>Structure</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>SMEs</td>
<td>LSEs</td>
<td>Total</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>365 484</td>
<td>756</td>
<td>366 240</td>
</tr>
<tr>
<td>North-West</td>
<td>27 924</td>
<td>50</td>
<td>27 974</td>
</tr>
<tr>
<td>North Central</td>
<td>34 392</td>
<td>78</td>
<td>34 470</td>
</tr>
<tr>
<td>North-East</td>
<td>49 76</td>
<td>90</td>
<td>49 859</td>
</tr>
<tr>
<td>South-East</td>
<td>52 322</td>
<td>87</td>
<td>52 409</td>
</tr>
<tr>
<td>South-West</td>
<td>135 934</td>
<td>330</td>
<td>136 264</td>
</tr>
<tr>
<td>South Central</td>
<td>65 143</td>
<td>121</td>
<td>65 264</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>SMEs</th>
<th>LSEs</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SMEs</td>
<td>99.8%</td>
<td>0.2%</td>
<td></td>
</tr>
<tr>
<td>LSEs</td>
<td>100%</td>
<td>-0.2%</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>-0.2%</td>
<td></td>
</tr>
</tbody>
</table>

Source: NSI, Statistics of enterprises, own calculations

The SMEs increase only in two regions: South-West and South-East regions.

The South-West region for the second consecutive year the growth is reported; in 2011 here the positive development is by 0.9%, which is mainly due to the increase of the number of large-scaled enterprises (1.5%). In the SMEs increase is in micro enterprises (1%), while the number of medium-sized drops (4%) and small enterprises remains unchanged. The large-scaled enterprises in this region increase to 330 (Figure 3-3).

The South-East region made a leading contribution to the enterprises growth in 2011 (0.4%), where the large-scaled firms increase by 2.4%, micro enterprises it is 0.5% and small ones go up by 0.3%. The growth of medium-sized enterprises is negative (3.8%). The large-scaled enterprises expand to 87.

In the South Central region a decline in the number of registered firms is by 0.6%. This drop is mainly due to the decline in the SMEs. All groups of enterprises reports decline - in micro by 0.6%; in medium-sized by 3.9% and in the small ones by 0.5%. Only large-scaled enterprises grow by 0.8% to 121.

In the North-West region the decline is due to drop in the number in the SMEs sector (2.3%) - the micro enterprises decrease by 2.6% and medium-sized ones by 0.6%. Only small enterprises register growth (1.5%). In the region the large-scaled enterprises go up to 50 (or by 2%).

In the North Central statistical region the decrease of the number of enterprises is owed to large-scaled enterprises, where the drop is observed (by 9.3% to 78). In the SMEs sector only in the medium-sized enterprises growth is reported (1.6%).
While the fall in micro enterprises and small ones is by 0.8% and 1.2% accordingly. The total number of SMEs enterprises is 34,470.

In the North-East region the observed development is similar to the dynamics in the North Central region. The number of all SMEs groups decline - in micro and small enterprises by 1.2% and in the medium-sized by 0.7%. Only the large-scaled enterprises grow by 3.4% to 90.

— Business demography

The last available NSI data for 2010 show that the number of newly opened enterprises in non-financial sector of economy declines by 36.8% to previous year to 36,514. Their share in active enterprises decrease to 11.3% (birth rate9). Броят на заетите в новооткритите предприятия намалява (35.7%) спрямо предходния период до 74 418. Number of employed in these enterprises decrease (35.5%) to previous year to 74 418. The average number of employed in one newly established enterprise remains low and constant at the level of 2 persons. The number of closed enterprises is unchanged at its 2009 level of 25.7 thousand, while the death rate10 is 7.9%. As a result of the development of the last two coefficients the drop in the net coefficient of net enterprise birth rate is reported to 3.4% (this coefficient is the difference between the birth and death rate of the enterprises within the economy).

Net birth coefficients by economic activities differentiate. 11.3% is this coefficient for the whole economy, in the Manufacturing in 2010 only 7.2% is the newly established enterprises. The other economic activities with observed lower than average levels are Mining and quarrying (8.8%); Construction (9.1%) and Professional activities (10.8%). Financial and insurance activities excluding activities of holding companies (NACE Rev.2 642) and Accommodation and food service activities reports the highest growth of 15.3% and 14.1% accordingly, compared to 2009. In other economic activities net birth rate of enterprises are above the average for the whole economy. Micro enterprises are characterized by a positive net birth rate, while those with more than 10 employed11 in 2010 report a negative net birth rate (See Fig. 3-4). In the enterprises with up to 9 employed is amounted to 2.8%, those with more than 10 employed this coefficient is on negative territory amounting to 0.1%. These differences in the development in the different types of enterprises are determined by higher birth rate in the micro enterprises, which is over 6% for all economic activities. The higher birth rate in the micro enterprises is observed in the Financial and insurance activities, Accommodation and food service activities and Energy supply. The lowest is this coefficient in the Real estate activities. For the enterprises with more than 10 employed the birth rate is higher in the Water supply; Accommodation and food service activities and Administrative activities. Almost all economic activities, where the higher than the average growth in birth rate is reported, have also the higher survival rate12. Number of newborn enterprises in 2009 survived to 2010 is 46.5 thousand, where the average survival coefficient for the economy is 80.6%.

Net birth rate decline to 3.4%, due to a lower number of newly established enterprises.
mining and quarrying, construction, accommodation and food service activities and Real estate activities the lower than the average survival coefficient is observed.

Figure 3-4: Birth, death and net birth rates, by size class, Bulgaria, 2010

Table 3-6: Survival rate, by economic activity, Bulgaria, 2009[13]

<table>
<thead>
<tr>
<th>Economic activity (NACE.BG 2008)</th>
<th>Survival rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mining and quarrying B</td>
<td>79.4%</td>
</tr>
<tr>
<td>Manufacturing C</td>
<td>83.9%</td>
</tr>
<tr>
<td>Electricity D</td>
<td>84.8%</td>
</tr>
<tr>
<td>Water supply E</td>
<td>89.4%</td>
</tr>
<tr>
<td>Construction F</td>
<td>76.6%</td>
</tr>
<tr>
<td>Trade G</td>
<td>81.0%</td>
</tr>
<tr>
<td>Transportation and storage H</td>
<td>81.7%</td>
</tr>
<tr>
<td>Accommodation and food service activities I</td>
<td>76.1%</td>
</tr>
<tr>
<td>Information and communication J</td>
<td>86.8%</td>
</tr>
<tr>
<td>Real estate L</td>
<td>74.6%</td>
</tr>
<tr>
<td>Professional activities M</td>
<td>83.5%</td>
</tr>
<tr>
<td>Administrative service N</td>
<td>83.8%</td>
</tr>
<tr>
<td>Total</td>
<td>80.6%</td>
</tr>
</tbody>
</table>

Source: NSI, Structural business statistics

— SMEs developments in 2012

Following the negative external environment, the lower economic activity in the country is expected to influence negatively enterprises development in 2012. According to European Comission estimates, the number of enterprises within the SMEs sector is expected to decrease by 1.6%, while those in LSE by 0.6%. all groups of enterprises will follow a downward trend. The rate of decline in micro enterprises is estimated to 1.7%, in small enterprises to 1.3%, and medium-sized enterprises to 1.4% on a year earlier (Table 3-7).

Table 3-7: Number, structure and developments of enterprises, non-financial business economy, Bulgaria, 2012 (estimates)

<table>
<thead>
<tr>
<th>Enterprises</th>
<th>Micro</th>
<th>Small</th>
<th>Medium</th>
<th>SMEs</th>
<th>LSEs</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number</td>
<td>318 260</td>
<td>22 362</td>
<td>4 319</td>
<td>344 966</td>
<td>737</td>
<td>345 704</td>
</tr>
<tr>
<td>Share</td>
<td>92.1%</td>
<td>6.5%</td>
<td>1.2%</td>
<td>99.8%</td>
<td>0.2%</td>
<td>100%</td>
</tr>
<tr>
<td>Growth</td>
<td>-1.7%</td>
<td>-1.3%</td>
<td>-1.4%</td>
<td>-1.6%</td>
<td>-0.6%</td>
<td>-1.6%</td>
</tr>
</tbody>
</table>

Source: European Commission (estimates)

[13] The last available data are for 2009
Business demography expectations in 2011 and 2012 will continued the observed 2010 trends. Negative enterprise developments will be influenced by lower number of new born enterprise, while those of death enterprise is expected slightly to increase. From this point of view, birth rate is estimated to remain significantly lower than the pre-crisis period with exception of 2011, which was characterized by some liveliness in selected economic activities. Negative enterprises and business demography trends are expected to be more pronounced in 2012, following the negative economic cycle in the external environment. The latter is further supported by the lower profit rates, employment decrease and unemployment growth in 2011 and 2012 (Table 3-8).

**Table 3-8: Enterprise birth and death rate, Bulgaria, 2008—2012**

<table>
<thead>
<tr>
<th>Year</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011*</th>
<th>2012*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Birth rate</td>
<td>18.2%</td>
<td>17.6%</td>
<td>11.3%</td>
<td>13.5%</td>
<td>12%</td>
</tr>
<tr>
<td>Death rate</td>
<td>13.1%</td>
<td>7.9%</td>
<td>7.9%</td>
<td>8.1%</td>
<td>8.7%</td>
</tr>
<tr>
<td>Net birth rate</td>
<td>5.1%</td>
<td>9.8%</td>
<td>3.4%</td>
<td>5.4%</td>
<td>3.3%</td>
</tr>
</tbody>
</table>

* Estimates (Consortium IN SIGHT, BSMEPA)

Source: NSI, Structural business statistics

---

**Revenues and expenditure of enterprises**

In 2011 the SMEs’ revenues grow by 10.4% in comparison to the previous year, its level is BGN 150 230.7 mln. The large-scaled enterprises reports the revenues
growth of 10.5% to BGN 71 510 mln. In 2011 the SMEs sector keeps its 2010 share in the non-financial enterprises revenues - 67.8%. all SMEs register growth - in micro and small enterprises it is as follows by 5.1 and 4.1% accordingly to BGN 47 694.9 and 50 999.8 mln. The micro enterprises share in total revenues in 2011 goes down ( by 1.1 p.p. to 21.5%), while in small it grow by 0.7 p.p. to 23%. This drop in revenues started in 2009 and it is a consequence of lower number of enterprises and employment drop in the sector. In medium-sized enterprises the growth of revenues is 12% to BGN 51 536.1 mln., their share in total revenues increase to 23.2%. (Table 3-9)

Enterprises’ expenditure of SMEs in 2011 reports an increase of 10.3% compared to 2010. They accomplish BGN 147 129.2 mln. (BGN 13 756.8 mln. more) while their share of total expenditure remains constant - 68.1%. Expenditure of large-scaled enterprises grow stronger by 10.5% and they are BGN 68 978.3 mnl. The micro enterprises report the faster growth rate of revenues comparing to expenditure (5.1 % to 4.6%), while their share in total expenditure fall by 1.3 p.p. to 22%. In this group of enterprises the adaptation to lower economic activity is postponed. The small and medium-sized enterprises reports the reverse trend - their expenditure grow with a faster pace than their revenues (14.3% and 12.3% accordingly). This means that they couldn’t cover their expenditure with generated revenues.

Table 3-9: Size, structure and development of revenues and expenditure, 2011

<table>
<thead>
<tr>
<th></th>
<th>Micro</th>
<th>Small</th>
<th>Medium</th>
<th>SMEs</th>
<th>LSEs</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue, mln BGN</td>
<td>47 694.9</td>
<td>50 999.8</td>
<td>51 536.1</td>
<td>150 230.7</td>
<td>71 510.3</td>
<td>221 741.0</td>
</tr>
<tr>
<td>Share</td>
<td>21.5%</td>
<td>23.0%</td>
<td>23.2%</td>
<td>67.7%</td>
<td>32.3%</td>
<td>100.0%</td>
</tr>
<tr>
<td>Growth</td>
<td>5.1%</td>
<td>14.1%</td>
<td>12.0%</td>
<td>10.4%</td>
<td>10.5%</td>
<td>10.4%</td>
</tr>
<tr>
<td>Expenditure, mln BGN</td>
<td>47 613.5</td>
<td>49 594.7</td>
<td>49 921.0</td>
<td>147 129.2</td>
<td>68 978.3</td>
<td>216 107.5</td>
</tr>
<tr>
<td>Share</td>
<td>22.0%</td>
<td>22.9%</td>
<td>23.1%</td>
<td>68.1%</td>
<td>31.9%</td>
<td>100.0%</td>
</tr>
<tr>
<td>Growth</td>
<td>4.6%</td>
<td>14.3%</td>
<td>12.3%</td>
<td>10.3%</td>
<td>10.5%</td>
<td>10.4%</td>
</tr>
</tbody>
</table>

Source: NSI, Statistics of enterprises, own calculations

Within the SMEs sector there are economic activities in which revenues don’t cover expenditure such as Accommodation and food service activities; and Real estate activities. A similar development in large-scaled enterprises is observed only in Trade. Part of economic activities (Information and communication; Professional activities and Trade) the development of revenues don’t match to those of expenditure. For the SMEs the slowdown and adaptation to the demand changes is stronger, than those in the large-scaled enterprises.

The development of revenues and expenditure in the large-scaled enterprises in 2011 continue on the positive side, while the growth in revenues and expenditure is equal - 10.5%. This mirrors the higher adaptability after the recovery of the crises started firstly here in 2010 when the revenues grew, and the employment and enterprises slowdown was overcome. The expenditure of large enterprises in 2011 are BGN 68 978.3 mln.

In 2011 SMEs reports higher revenues in comparison to the previous year, mainly due to higher revenues in services and industry - the reported growth is 10.4%. The share of industry’s revenues in total remains unchanged to 29.7%. At the same time the services revenues are 70.3% of total. By economic activities SMEs revenues fall in Construction (0.5%) and Professional activities (0.3%). The growth in revenues is on average 16.4% in the rest of economic activities (Figure 3-6).
The large-scaled enterprises in industry increase their share in total revenues to 64.7%, while the share of services fall (to 35.3%) in 2011. In this group of enterprises the revenues growth in industry is 14.5%, while services growth is only by 3.9% compared to the previous year. The highest reported growth is in Manufacturing and Mining and quarrying (21.2 and 17% accordingly), they have a higher contribution to the positive development of these firms. Only one activity registers a drop of revenues in large enterprises and this activity is Energy supply (0.9%).

In the Micro enterprises, that are the backbone of the economy, it is observed stronger slowdown in adaptation to the economic environment and the crises influence is the highest. In this group of enterprises many activities register level of the revenues that couldn’t reach their expenditure. These activities are Mining and quarrying; Energy supply and Construction; Accommodation and food supply activities; Information and communication and Real estate activities. Small and medium-sized enterprises have only one activity with negative returns. Within the group of small enterprises this activity is Accommodation and food supply activities, while in the medium enterprises it is Mining and quarrying.

Revenues and expenditure structure by statistical region shows that the main contribution to the positive development of revenues and expenditure have the large-scaled enterprises. SMEs in South-West region is traditionally characterized with higher share of employment the observed growth (11.5%) is mainly due to increase of revenues in small and medium sized enterprises (21.4% and 7.6% accordingly). The highest rate of growth is reported in the North Central region (21.9%) where the revenues in the medium-sized and micro enterprises grow (by 38.1 and 15% accordingly). This positive development is due to the SMEs. The growth is registered in the South-East region (7.5%), mainly due to growth in the large scaled enterprises (22.8%). In the South Central region the main contribution to growth of the revenues in SMEs growth (9.1%) have medium-sized enterprises (26.4%). (Table 3-10)

In North-East and North-West region the revenues’ growth is mainly due to the positive development of large-scaled enterprises.

For the economy the development of revenues overtook the development of expenditure for the SMEs, with the exception of South Central region, where micro enterprises hardly adjust to the changes in economic environment and expenditure are accordingly higher than generated revenues. In the large-scaled enterprises in South-West and North-East regions the development of revenues is similar to the dynamics of expenditure. In the rest or regions within the country the revenues grow faster than the expenditure.
## Tangible fixed assets (TFA)

In 2011 in the SMEs the growth of 1.7% is reported in the investments of non-financial enterprises. The nominal value of TFA investments is BGN 64 786.4 mln., to previous year their share grow (62.7%). This growth is due to the growth of assets of micro and small enterprises (4.6% and 6.3% accordingly). The share of total investments goes up to 31.9 and 14.7% accordingly of total TFA investments. In nominal terms investments amounts to BGN 32 946.3 mln. in micro enterprises and BGN 15 197.9 mln in small enterprises. Only in medium-sized enterprises the drop is reported (7.2%) to BGN 16 642.2 mln. Their share in total investments in TFA declines to 16.1%.

In the large-scaled enterprises in 2011 the investments drop is observed (1.1%) comparing to the previous year. In nominal terms resources invested in TFA are BGN 38 566.7 mln., their share in TFA of non-financial enterprises declines to 37.3%.

### Table 3-11: Size, structure and development of TFA, Bulgaria, 2011

<table>
<thead>
<tr>
<th>TFA</th>
<th>Micro</th>
<th>Small</th>
<th>Medium-sized</th>
<th>SMEs</th>
<th>Large-scaled</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>TFA</td>
<td>32 946.3</td>
<td>15 197.9</td>
<td>16 642.2</td>
<td>64 786.4</td>
<td>38 566.7</td>
<td>103 353.1</td>
</tr>
<tr>
<td>Structure</td>
<td>31.9%</td>
<td>14.7%</td>
<td>16.1%</td>
<td>62.7%</td>
<td>37.3%</td>
<td>100.0%</td>
</tr>
<tr>
<td>Growth (%)</td>
<td>4.6</td>
<td>6.3</td>
<td>-7.2</td>
<td>1.7</td>
<td>-1.1</td>
<td>0.6</td>
</tr>
</tbody>
</table>

Source: NSI, Statistics of enterprises

For the SMEs sector the main contributor to the TFA growth have services, where investments grow (4.1%) to 2010 to BGN 42 036.7 mln. Its share in total TFA investments in SMEs enterprises are 64.3%. Only two economic activities have a negative investments growth - Trade (4.3%) its share fall to 15.1% and Other activities (3.1% drop) to 2.3% of total TFA investments. The decline in investments in trade sector to BGN 9 704.5 mln is due to lower investments of micro enterprises (10.5%) and medium-sized enterprises (2.8%). While the drop in TFA investments in other economic activities is due to the fall in investments in the medium-sized enterprises (27.7%). The main contributions for the investment growth in SMEs services have Real estate activities (9.6% growth); Accommodation and food service activities (6%) and Administrative and support services (15.2%). For the Real estate activities investments’ growth the main contribution have all types of enterprises, while in medium-sized enterprises it almost double. For the Accommodation and
food service activities all enterprises grow, but the growth in the medium-sized enterprises is leading by 10.3%. The TFA investments in Administrative and support services goes up in micro and small enterprises (by 21.1 and 7.7% accordingly), where the medium-sized enterprises drop by 9.8%. in the Transport micro and small enterprises investments goes down (by 2.1 and 2.5% accordingly). In Information and communication and Professional activities medium-sized enterprises also decline by 31.3 and 28.9% accordingly.

In industry SMEs share in the TFA is 35.7% in 2011, while in nominal terms they comprise BGN 23 136.3 mln. This slow drop (0.9%) is mainly due to lower expenditure in Construction (13.9%) to BGN 5 732.6 mln. and in Manufacturing (2.8%) to BGN 9 462.4 mln. In Construction drop is reported in all economic activities, but in Manufacturing only small enterprises showed a slow growth (0.2%) to BGN 2 691.9 mln. In The rest of industry sector SMEs have a positive growth, but Mining and quarrying in small and micro enterprises fall (by 18.6 and 7.2% accordingly). Water supply in small enterprises registers a decrease (8.3%), while medium-sized enterprises in Energy supply decline by 49.9%.

In 2011 the large-scaled enterprises reports a diminution of TFA expenditure (1.1%) to BGN 38 566.7 mln, due to decline in the industry (3.8%). In industry the 10.2% drop is observed in manufacturing, which due to its large share have a main contribution to this drop. In the rest of activities within the industry the TFA expenditure increases, highest in a Construction (8.7%). The large-scale enterprises in services sector have a positive development (4.2%) to BGN 13 826.0 mln is reported. The main contributors are Other activities (21.8% growth) and Transport (2.1%). Expenditure in these activities grows to BGN 946.6 and 5 961.4 mln. accordingly. Only in Accommodation and food service activities and Information and communication a decline is reported (to 7 and 4.9% accordingly).

In large-scaled enterprises the TFA structure by economic activities are the highest in the Energy supply (28.8%); Manufacturing (27.4%) and Transport (15.5%).

**Figure 3-7: Development of TFA, by economic sectors, 2011**

Within the SMEs sector the main contributors to TFA growth are Real estate activities (100%); Administrative and support services (89.5%) and Accommodation and food service activities (82.5%). In manufacturing SMEs have a 47.2% share that is comparable with the large-scaled enterprises share. In industry SMEs contribution in Electricity supply is low (38.7%), Information and communication (24.7%) as well as in the Mining and quarrying (20.9%). These economic activities in the large-scaled enterprises have a leading role in TFA investments in 2011.
TFA structure by statistical regions

TFA structure by statistical regions shows that in all regions the main contributor to TFA investments is SMEs sector. The highest investments region is South-West - with BGN 56 217.5 mln, where the main share of expenditure has a SMEs (59.3%). Leading role have micro enterprises (32.3%) while small and medium-sized enterprises share is equal (13.7 and 13.4% accordingly).

The next region by investments size is South-East with BGN 15 122.5 mln. In 2011 66.8% of TFA investments are made by SMEs - by micro (35.3%); medium-sized (16.4%) and small enterprises (15.1%).

In North-East region in 2011 BGN 12 689.3 mln. are invested, where the main contributor is SMEs (72.9%). The leading role have micro enterprises with 36.7% of TFA investments; medium-sized spend 18.8%, while small ones 17.4%.

In the South Central region firms spend on TFA BGN 11 936.4 mln, where SMEs have a 70% share within the region. The main contributors are micro enterprises (30.3% of total investments); medium-sized (20.4%) and small ones (19.3% share).

In 2011 in North Central region TFA expenditure amounts to BGN 6 176.8 mln, 74.8% of which are spent in the SMEs enterprises. The leading role have micro (26.3%), where small and medium firms have almost equal share (24.4 and 24.2% accordingly).

In 2011 North-West region have a lowest share of investments - BGN 5 874.2 mln., with a SMEs expenditure comprise 57.9% of total. The main contributions have small (21.4%) and micro enterprises (20.8%). The TFA expenditure of medium-sized enterprises remains unchanged at its 2010 level of 15.7%.

Table 3-12: Size, structure and development of TFA, by statistical region, Bulgaria, 2011

<table>
<thead>
<tr>
<th>Region</th>
<th>Structure Growth rate (%)</th>
<th>SMEs</th>
<th>Large-scaled</th>
<th>Total</th>
<th>SMEs</th>
<th>Large-scaled</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td></td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
<td>2.7</td>
<td>-0.5</td>
<td>1.5</td>
</tr>
<tr>
<td>North-West</td>
<td></td>
<td>4.9</td>
<td>6.3%</td>
<td>5.4%</td>
<td>7.5</td>
<td>-2.1</td>
<td>3.2</td>
</tr>
<tr>
<td>North Central</td>
<td></td>
<td>6.7</td>
<td>4.0%</td>
<td>5.7%</td>
<td>6.2</td>
<td>12.7</td>
<td>7.7</td>
</tr>
<tr>
<td>North-East</td>
<td></td>
<td>13.4%</td>
<td>8.8%</td>
<td>11.7%</td>
<td>-0.4</td>
<td>0.1</td>
<td>-0.3</td>
</tr>
<tr>
<td>South-East</td>
<td></td>
<td>14.6%</td>
<td>12.9%</td>
<td>14.0%</td>
<td>1.1</td>
<td>1.2</td>
<td>1.1</td>
</tr>
<tr>
<td>South-West</td>
<td></td>
<td>48.3%</td>
<td>58.8%</td>
<td>52.0%</td>
<td>1.9</td>
<td>-2.4</td>
<td>0.1</td>
</tr>
<tr>
<td>South Central</td>
<td></td>
<td>12.1%</td>
<td>9.2%</td>
<td>11.1%</td>
<td>8.1</td>
<td>5.0</td>
<td>7.1</td>
</tr>
</tbody>
</table>

Source: NSI, Statistics of enterprises

3.2 Employment in the SME sector

Number, structure and development of employment

In 2011 employment decline reached 1.3% y/y, being 6.5% in 2010. SMEs provided 74.8% of total employment in the non-financial economy, corresponding to 1.48 million jobs, which was 17.9 thousand persons lower than a year earlier (Table 3-13). Employed numbers followed a decelerating pace of decrease in all groups of enterprises with a leading contribution of medium and small ones (1.9% and 1.4%), while the number of employed in microenterprises stepped down by 0.4%. From this point of view the share of small enterprises in terms of employment increase
to 22.5% of total, accounting for 447.3 thousand persons. On the other hand, the share of micro and medium non-financial enterprises decreased to 30.8% and 21.2%, providing jobs for 611.7 and 421.9 thousand respectively.

In 2011, employment in large scaled enterprises increased by 0.3%, which was 1.4 thousand jobs higher in absolute term than the previous year. The latter pointed to the fact that the negative impact of the external environment on the activity of large enterprises has begun to recede. LSEs covered 505.2 thousand jobs and their share in total employment rose to 25.4% in 2011. Considering favourable employment development in LSEs, the SME sector revival is expected in the next years as well, following some lag time reaction to the changes in the economic cycle.

Table 3-13: Number, structure and development of employment, non-financial business economy, by size class, Bulgaria, 2011

<table>
<thead>
<tr>
<th></th>
<th>Micro</th>
<th>Small</th>
<th>Medium</th>
<th>SMEs</th>
<th>LSEs</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Bulgaria</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number</td>
<td>611 75</td>
<td>447 32</td>
<td>421 87</td>
<td>1 480 95</td>
<td>505 53</td>
<td>1 986 48</td>
</tr>
<tr>
<td>Share</td>
<td>30.8%</td>
<td>22.5%</td>
<td>21.2%</td>
<td>74.6%</td>
<td>25.4%</td>
<td>100.0%</td>
</tr>
<tr>
<td>Growth</td>
<td>-1.4%</td>
<td>-0.4%</td>
<td>-1.9%</td>
<td>-1.3%</td>
<td>0.3%</td>
<td>-0.9%</td>
</tr>
</tbody>
</table>

Source: NSI, Statistics of enterprises

— Structure of employment by economic activity

2011 employment development by economic activity pointed to some changes in employment structure. The industry sector continued to influence negatively on employment in non-financial business economy, while the number of employed in services remained at the previous year level. In the period under consideration the share of industry in terms of employment declined to 38.8% or 173.4 thousand jobs, while those of services increased to 61.2% or 274.9 thousand jobs. In 2011 the number of employed in industry decreased by 3.1% y/y mainly influenced by construction (10.5%). Employment in manufacturing remained close to its previous year level. The SMEs sector followed a downward trend, while employment in LSEs felt some liveliness on an annual basis and increased both in industry (0.3%) and services (0.1%). Within the SMEs the number of employed in the industry decelerated significantly its rate of decrease to 3.6%, being 12.8% on a year earlier. Unlike 2010 the SMEs employment in the service sector remained unchanged (Table 3-14).

In 2011, the share of employment in the industrial sector continued to decrease. Within the SMEs industry and services comprised of 34.1% and 65.9% of total employment, respectively. In large-scaled enterprises, the share of industry was traditionally higher than those of services (52.5% vs. 47.5%). SMEs followed a decline in employment in construction (11.4%), trade (2.1%) and manufacturing (0.8%). The activities reported an increase in employment were hotels and restaurants (3.9%), transport and storage (3.4%) and mining (5.6%). Within the LSEs employment in construction, trade, electricity, hotels and restaurants and mining registered drop of 11.9%, 4.4%, 4.5%, 0.9% and 0.8% respectively. In the rest of the economic activities employment dynamic was on a positive territory with a leading contribution made by administrative activities (2.7%) and informational activities (3.2%).
Table 3-14: Number, structure and development of employment in SMEs and LSEs, non-financial business economy, by size class and economic activity, Bulgaria, 2011

<table>
<thead>
<tr>
<th>Economic activity (NACE.BG 2008)</th>
<th>Number</th>
<th>Structure</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>SMEs</td>
<td>LSEs</td>
<td>Total</td>
</tr>
<tr>
<td>TOTAL</td>
<td>1552370</td>
<td>514167</td>
<td>2066537</td>
</tr>
<tr>
<td>Agriculture</td>
<td>71418</td>
<td>8631</td>
<td>80049</td>
</tr>
<tr>
<td>TOTAL excl. agriculture</td>
<td>1480952</td>
<td>505536</td>
<td>1986488</td>
</tr>
<tr>
<td>Industry</td>
<td>504888</td>
<td>265318</td>
<td>770206</td>
</tr>
<tr>
<td>Mining and quarrying</td>
<td>5666</td>
<td>19266</td>
<td>24932</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>351315</td>
<td>172953</td>
<td>524268</td>
</tr>
<tr>
<td>Electricity</td>
<td>5067</td>
<td>27851</td>
<td>32918</td>
</tr>
<tr>
<td>Water supply</td>
<td>11903</td>
<td>22252</td>
<td>34155</td>
</tr>
<tr>
<td>Construction</td>
<td>130937</td>
<td>22996</td>
<td>153933</td>
</tr>
<tr>
<td>Services</td>
<td>976452</td>
<td>239830</td>
<td>1216282</td>
</tr>
<tr>
<td>Trade</td>
<td>448751</td>
<td>46190</td>
<td>910641</td>
</tr>
<tr>
<td>Accommodation and food service activities</td>
<td>82864</td>
<td>68486</td>
<td>151350</td>
</tr>
<tr>
<td>Transportation and storage</td>
<td>119670</td>
<td>11510</td>
<td>131180</td>
</tr>
<tr>
<td>Information and communication</td>
<td>42938</td>
<td>25643</td>
<td>68581</td>
</tr>
<tr>
<td>Real estate activities</td>
<td>34270</td>
<td>0</td>
<td>34270</td>
</tr>
<tr>
<td>Professional activities</td>
<td>84197</td>
<td>3172</td>
<td>87369</td>
</tr>
<tr>
<td>Administrative service</td>
<td>50190</td>
<td>39702</td>
<td>89892</td>
</tr>
<tr>
<td>Other</td>
<td>113572</td>
<td>45127</td>
<td>158699</td>
</tr>
</tbody>
</table>

The lower economic activity in the country affected 2011 employment dynamic in all groups of enterprises to varying degree. Small enterprises felt some liveliness, while micro and medium ones contributed negatively to employment in the SMEs sector. The decline in employed numbers in micro enterprises was the most pronounced in trade and the small enterprises were affected mainly by construction. In services, which provided 976 thousand jobs or 65.9% of total employment, the biggest drop in employment reported trade (2.1%) and administrative activities (0.6%). Unfavorable employment trend in trade mainly contributed to the negative employment dynamics within the SMEs sector. The number of employed there accounted to 449 thousand, thus holding a leading share of total employment in the SMEs. It holds true for micro enterprises, which provided 51.1% of employment in trade and 30.3% of employment in the SMEs.

On the other hand, 2011 employed numbers in small and large-scaled enterprises followed a decelerating pace of decrease, mainly influenced by the service sector. Unlike services, the industrial sector contributed negatively to the employment dynamic in all size of enterprises in the non-financial business economy. Within the small enterprises, the employed numbers were on a positive trend in service sector (1.5%) with a leading contribution made by transport and storage and hotels and restaurants.
This analysis was prepared on behalf of BSMEPA by Consortium INSIGHT.

Figure 3-8: Development of employment in micro, small and medium sized enterprises, non-financial business economy, Bulgaria, 2010-2011

<table>
<thead>
<tr>
<th>Micro</th>
<th>Small</th>
<th>Medium</th>
<th>Micro</th>
<th>Small</th>
<th>Medium</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>-2.6%</td>
<td>-0.4%</td>
<td>-9.2%</td>
<td>-8.9%</td>
<td>-3.1%</td>
</tr>
<tr>
<td>2011</td>
<td>-6.4%</td>
<td>-2.0%</td>
<td>-11.7</td>
<td>-9.6%</td>
<td>-3.0%</td>
</tr>
</tbody>
</table>
| Source: NSI, Statistics of enterprises

Structure of employment by statistical region

Employment developments in 2011 were more favourable as compared to the previous year. In terms of employment all statistical regions registered a lower rate of decrease on a year earlier. It holds true for SMEs, while employment dynamic in LSEs was on a positive territory (Table 3-15).

South-West region, which covered the highest share of total employment in non-financial economy (40.7%) reported the biggest drop in employed numbers (0.9%). Employment in SMEs stepped down by 2.0% y/y, while in LSEs it increased by 1.6.

The largest region in terms of operating companies provided 841.9 thousand jobs in 2011, 69.1% (or 581.6 thousand) of which was due to SMEs. The main contributors to the observed negative development were medium-sized (-5.6%) and micro enterprises (0.9%). Employment share in LSEs increased to 30.9% of total employment in the region, which corresponded to 260.3 thousand jobs.

Table 3-15: Number, structure and development of employment in SMEs and LSEs, non-financial business economy, by statistical region, Bulgaria, 2011

<table>
<thead>
<tr>
<th>Number</th>
<th>Structure</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>SMEs</td>
<td>LSEs</td>
<td>Total</td>
</tr>
<tr>
<td>Total</td>
<td>1552370</td>
<td>514167</td>
</tr>
<tr>
<td>North-West</td>
<td>123424</td>
<td>30566</td>
</tr>
<tr>
<td>North Central</td>
<td>161808</td>
<td>38177</td>
</tr>
<tr>
<td>North-East</td>
<td>191589</td>
<td>50789</td>
</tr>
<tr>
<td>South-East</td>
<td>206668</td>
<td>67641</td>
</tr>
<tr>
<td>South-West</td>
<td>581633</td>
<td>260247</td>
</tr>
<tr>
<td>South Central</td>
<td>287248</td>
<td>66747</td>
</tr>
</tbody>
</table>

Source: NSI, Statistics of enterprises

South-East region evidenced a negative employment dynamic as well. Employed numbers there decreased by 0.9% in 2011, reaching 274.3 thousands or 13.3% of total employment in Bulgarian economy. Employment in the SMEs sector stepped down by 1.1%, mainly influenced by the negative trend in medium-sized enterprises (-4.6%), while micro and small enterprises felt some liveliness. Following the negative employment developments, the share of SMEs declined to 75.3% or 206.7 thousand jobs. Employed numbers in LSEs remained at 2010 level, accounting for 67.6 thousand or 24.7% of total employment in the region.
Employment in North Central and North-East regions was on a negative territory, however their impact on employment dynamics in the country was moderate. In 2011 North Central region was the only one to evidence employment decline in large-sized enterprises (3.6%). Employment in the SMEs there remained close to its previous year level (0.1%) with a leading positive contribution, coming from medium-sized enterprises (2.8%). On a contrast, the number of employed in micro and small enterprises decreased both by 1.3%. In 2011 employment in the region covered 9.7% of total in the country or 200 thousand jobs, 80.9% of which was due to the SMEs, while the LSEs accounted for 19.1%. In the North-East region employment decreased by 0.6%, reaching 242.4 thousand. Within the SMEs employed numbers decreased by 1.3%, while the LSEs followed a positive trend (2.3%). Negative employment dynamic in the region was influenced mainly by micro enterprises (-1.5%), followed by medium (-2.0%) and small ones (-0.4%). In 2011 North-East region accounted for 11.7% of total employment in the country or 242.4 thousand jobs, 79% of which were provided by SMEs and 21% by LSEs.

The lowest impact to the negative employment trends in 2011 was made by South Central and North-West regions. In 2011 the employed numbers there decreased by 0.6% and 0.9% y/y, respectively. Within the SMEs sector employment stepped down by 0.6% and 0.9%, while the LSEs reported an increase of 1.1% and 1.3%, respectively. The regions under consideration provided 354 and 154 thousand jobs, 81.1% and 80.2% of which was due to the SMEs.

Within the SMEs sector, all statistical regions registered a lower rate of decrease in employed numbers on a year earlier with exception of North Central region, where employment was close to its previous year level. The biggest negative contribution made South-West region as a result of significant negative employment trends in medium-sized enterprises. Micro enterprises contributed as well, however at a lower extent. In 2011 large-sized enterprises in all statistical regions with exception of North Central region were on a positive territory. Employment growth evidenced micro- and small enterprises in South-East region and medium enterprise in North Central region as well.

### 3.3 Financing of SMEs

SMEs as compared to the big enterprises which usually are the preferred bank clients often experience difficulties in finding financial funding. The successful establishment and development of an enterprise in the industrial sector requires availability of bigger resources as compared to the other economic sectors. The source of financing in this case include the traditional bank instruments, financing from government and international programs which support SMEs and the use of own funds – savings of proprietor and their family.

Access to funds is one of most important difficulties SMEs meet. This is not a problem reserved only for the Bulgarian firms, it’s one of the top difficulty experienced by the enterprises in EU operating in the current economic crisis. According to the 2012 survey on the SME in the Eurozone, during the period from April to September 2011 10% of the enterprises experienced a reduction in the turnover compared to the previous 6 months. Difficulties with finding the necessary funding experience mainly the micro and small enterprises as well as the young enterprises. The share of the enterprises that define the lack of financial resources as a top difficulty is 18%. This problem grows in importance during the second half of 2011. 33% of the enterprises in the Euro zone use bank loans, 41% — overdrafts and credit lines. A slight reduction in these shares (1 to 3 percentage points) is seen during this period. As a whole, respondents consider credit supply as worsened and explain this with the poor overall economic situation and the growing
business risk. They assess that the conditions for financing have been tightened for the SME and have been kept the same for the big enterprises.14

In Bulgaria the funding difficulty is the most relevant for the enterprises in the construction industry. It affects 48% of the surveyed enterprises.15 For the enterprises in the industry, trade and services the share of enterprises lacking funding is 21%, 19% and 20% respectively. The difficulty that Bulgarian enterprises experience with regard to that is comparable to that of the EU enterprises.

According to the results from the 2013 SME survey 27.2% of the SMEs have invested in new technologies. 57% of them (from the micro enterprises) state that they have financed the investments with own savings. The respective share for the small and medium enterprises is 40.1% and 47.4%. Retained earnings was the source of funding for 10.3%, 14.8% and 5.3% of the micro, small and medium enterprises respectively. A considerable part of the new technologies was financed with bank credits — 31%, 44.4% and 52.6% in the micro, small and medium enterprises.

Generally, banking financing is more easily accessible for the bigger firms — 60.5% and 65.1% from the small and medium enterprises state that they have used bank loans during the enterprise’s life, while only 32.2% of the micro enterprises have used any.

Less than 1% of the surveyed enterprises have obtained funding from the Agriculture Fund and only 5% have used a bank credit or financing from other funds.

The high share of cash payments among SMEs is indicative for the bank services penetration. This is one of the prerequisites for worsened access of financing. The micro enterprises prefer cash payments with their contractors and wholesale traders (63% and 61.5% respectively) and with the retail traders this is the predominant practice. Among the small enterprises cash payments are used with 22.4% of the contractors, 31.9% of the wholesale traders and 65.2% of the retail traders and among the medium - with 11.6%, 15.4% and 28.6% respectively.

Currently 23.1% of the respondents state that they need funding to cover working capital, 62.7% state that they don’t need any funding.

Major factor for the availability of funding is the enterprise age. The difference in the share of young and old enterprises which have used bank credits is huge. The results could be seen on the next graph.

Figure 3-9: % of SME which have ever used bank credit by year of establishment

Source: 2013 SME Survey, Consortium INSIGHT

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14 ECB, Bank Lending Survey, Sep 2012
15 NSI, Business Monitoring, Feb 2013
Index Access to Finance

Analysis of access to finance through the index provides an opportunity to look from above on the availability of financial resources, which support SME activities, so that an overview of the financing is provided by size of enterprise, sector, and region as well as an analysis of its determinants. (For more information about the index methodology, please see the annex).

The index values for access to finance show relatively improvement in the SME sector – for the period 2012-2013, the share of enterprises with very difficult access to funding has decreased by 12 p.p. At the same time, however, we observe a significant decrease in the proportion of firms that have neither difficult nor easy access to finance (a decline from 6% to a close to zero share), as well as the proportion of SMEs with easy access (from 2% share of close to zero). Rather significant change is observed also in the increase in share of firms with limited access to financing, amounting to 18 p.p. Part of this growth is due to the transfer of 12% of firms from bottom index interval to higher level at the index scale. Another part, however, are at the expense of worsening access to finance for SMEs, which previously had moderate or easy one. Interesting dynamics is observed in companies with very easy access to finance - in recent years, their share was close to zero, but in early 2013, their share is becoming more significant - 2%, indicating that afterall during the period of gradual economic recovery a very small percentage of companies have the capacity to obtain financing.

Figure 3-10: Index Access to Finance: Distribution of SMEs by level of easiness of access to finance for 2012 and 2013 (%)

Figure 3-11: Index Acess to Finance: average values by size of enterprises (index points)
Average index values for 2012 and 2013 show some decline in access to finance for micro and medium enterprises, amounting respectively to 3 and 6 index points. For small businesses, minor improvements are observed in the average index value amounting to 1 index point. The trend that a main factor for access to finance is the size of the firm is maintained over the last year - the average index value for micro enterprises are almost two times lower than that of the medium firms.

Financing of manufacturing SMEs

The majority of entrepreneurs in the manufacturing sector use as a major source of funding for their production their own resources - 77%, while the usage of bank loan is observed with 22%. As of March 2013, 62% of manufacturing enterprises have used the funds of the owner as a source of funding over the past 12 months.

The second important source for financing instrument for the manufacturing SMEs is the bank loan for working capital, which has been used by almost one third of the companies - 30%. Very close in ranking fall financial instruments for short-term financing of operating costs: overdraft - 29% and credit card - 27%. Investment bank loan is used by every fourth company - 26%, and financial leasing - 22%. Loans from family and friends have used 16% of the enterprises in the industry. EU Funding has covered 14% of manufacturing SMEs, while that of programs of the Bulgarian and/or other governments - 6%. Venture capital is distributed among the 4% of the enterprises.

In general, access to financing from banks is better for medium-sized and small enterprises, which been used own resources to a much lesser degree, in contrast to micro enterprises.

Nearly 26% of the manufacturing SMEs have overdue liabilities, and 63% have overdue receivables. About for half of the enterprises, the share of overdue receivables in total turnover exceeds 10%. At present, a significant proportion of SMEs have their own corporate policy to control cash flow - 75%.

Figure 3-12: Share of SMEs using financial instruments in 2012 (by size of enterprises)

Source: 2013 Survey on Manufacturing SMEs, Consortium INSIGHT
Index Access to Finance for the manufacturing SMEs

In early 2013, the access to finance for manufacturing enterprises, measured by the index, is very difficult for 59% of the enterprises. 27% have difficult access, 12% — neither difficult nor easy, and for a small proportion of SMEs (to 4%) the index indicates easy or very easy access to finance. The observed distribution of the index values is slightly more favorable than that relating to the whole SME sector in 2012 and 2012, which indicates that manufacturing firms are not in more favorable position on the financial market compared to other economic sectors.

Figure 3-13: Index Access to Finance: Distribution of manufacturing SMEs by level of easiness of access to finance for 2012 (%)

![Index Access to Finance: Distribution of manufacturing SMEs by level of easiness of access to finance for 2012 (%)](source)

Source: 2013 Survey on Manufacturing SMEs, Consortium INSIGHT

Figure 3-14: Index Access to Finance: Average values by size of manufacturing enterprises in 2012 (index points)

![Index Access to Finance: Average values by size of manufacturing enterprises in 2012 (index points)](source)

Source: 2013 Survey on Manufacturing SMEs, Consortium INSIGHT

Figure 3-15: Index Access to Finance: Average values by economic activities of manufacturing enterprises in 2012 (index points)

<table>
<thead>
<tr>
<th>Economic Activity</th>
<th>Index Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beverage production</td>
<td>33</td>
</tr>
<tr>
<td>Chemicals and pharmaceuticals production</td>
<td>31</td>
</tr>
<tr>
<td>Production of wood-pulp, paper, paperboard, etc.</td>
<td>29</td>
</tr>
<tr>
<td>Food production</td>
<td>27</td>
</tr>
<tr>
<td>Production of machinery, equipment and household appliances</td>
<td>26</td>
</tr>
<tr>
<td>Rubber and plastic production</td>
<td>26</td>
</tr>
<tr>
<td>Medical and optician equipment</td>
<td>22</td>
</tr>
<tr>
<td>Clothing production, incl. leather</td>
<td>21</td>
</tr>
<tr>
<td>Polygraphy and publishing</td>
<td>21</td>
</tr>
<tr>
<td>Metal production, without machinery and equipment</td>
<td>21</td>
</tr>
<tr>
<td>Furniture production</td>
<td>20</td>
</tr>
<tr>
<td>Non-metals and mineral production</td>
<td>20</td>
</tr>
<tr>
<td>Office and electronic production</td>
<td>19</td>
</tr>
<tr>
<td>Electrical machinery production</td>
<td>18</td>
</tr>
<tr>
<td>Radio, tv and etc. production</td>
<td>17</td>
</tr>
<tr>
<td>Textile and textile production</td>
<td>17</td>
</tr>
<tr>
<td>Wood and wooden material production</td>
<td>16</td>
</tr>
</tbody>
</table>

Source: 2013 Survey on Manufacturing SMEs, Consortium INSIGHT
Relatively easier access to funding is observed in the economic activities related to manufacturing of beverages, chemicals and pharmaceuticals, pulp and paper, for which the average value of the index is respectively 33, 31 and 29 index points (i.p.). Most difficulty in securing funds are met in timber production, textiles and radio and television equipment (16-17 i.p.)

### 3.4 Main markets and internationalisation of SMEs

#### External trade

Export and import dynamics in 2012 followed a decelerating pace increase. Export of goods and services grew by 2.6% y/y, being 30.2% in 2011, affected by the lower economic activity of Bulgarian main trading partners. The latter influenced also the import of goods and services, mainly through its dependence to export-oriented activities, which rate of decrease decelerated from 21.6% in 2011 to 8.9% in 2012. Recent export and import developments resulted in negative trade balance (Fig. 3-16).

**Figure 3-16: Development of trade balance, Bulgaria, 2007-2012**

Source: NSI, Foreign trade

Geographic structure of Bulgarian external trade reconfirmed its strong European direction, however the share of both imports and exports related to EU countries followed a downward trend (Fig. 3-17). In 2012 export of goods and services to EU-27 countries decresed to 58.4%, being 62.2% in the previous year. The Balkan countries maintained its share of 14.2%, while Asian markets reported an increase of 2.1 p.p, and their share reached 9.8% of total exports.

**Figure 3-17: Geographic structure of imports and exports, Bulgaria, 2012**

Source: NSI, Foreign trade, own calculations
The structure of imports in 2012 was characterized with certain changes as well. Import of goods and services coming from EU-27 countries covered 59.4% of total, being 58.6% on a year earlier. The share of Balkan countries remained close to its previous level (6.9%), while the importance of Asian countries continued to increase with a share of 26.6% (24.3% in 2011).

In 2012 export of goods and services to Balkan countries decreased by 9.3% y/y on average, with exception of Turkey, which evidenced a positive dynamic related to exports. In terms of imports all Balkan countries reported positive trends (5.7% on average). Imports of goods and services coming from European and Asian countries followed a decelerating pace of growth, reaching 7.5% and 19.5%, respectively.

The structure of exports was characterized with certain changes in 2012, mainly influenced by the declining shares of main European trading partners. Germany, which traditionally is a leading trading partner, reported a decrease of 9.7%, corresponding to a share of 10.2%. The same holds true for Romania, which was characterized by a drop of 13.6% in exports and its share stepped down to 8.0%. France followed a downward export dynamics as well (-3.5%), reaching a share of 4.0% in total exports. Export share of Italy slightly increased to 8.5%, while the structure of exports related to the rest of the EU-27 countries remained unchanged as compared to 2011. Unlike European countries, the export shares related to third countries followed a positive trend, mainly influenced by the increasing shares of Turkey (9.4%), China (2.9%) and UAE (0.8%). The growth of exports there was 12.8%, 102.6% and 175.7%, respectively. Bulgarian exports to Russian federation increased by 3.7%, which corresponded to a share of 2.7% in total exports. On a contrast, within the third countries a negative export dynamics reported Macedonia (14.9%) and Serbia (7.5%) and their shares in Bulgarian exports decreased to 1.9% and 2.1%, respectively.

Figure 3-18: Structure of exports by products (SITC), 2008-2012

2012 structure of exports by product evidenced a leading positive contribution of energy resources, followed by food products, beverages and tobacco\(^\text{17}\) (Fig. 3-18). The growth rates of exports there were 23.7% and 8.9%, which corresponded to a share of 16.6% and 12.3% in total exports, respectively. Exports of machinery and equipment and chemicals followed a decelerating pace of increase, reaching 1.6% and 6.6%, however their share remained close to its previous level. The rest of goods were characterized by a negative export dynamics. The exports of raw materials and other manufacturing goods decreased by 10.4% and 4.0%, which lead to a declining shares of 8.8% and 36.4%, respectively. 2012 changes in the structure

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\(^{17}\) SITC.
of exports was determined by the lower demand in the main Bulgarian trading partners.

Positive export developments in 2012 were mainly influenced by upward price dynamics, rather than real volume increases. It holds true for almost all groups of goods with exception of chemicals and chemical products (Table 3-16).

Table 3-16: Export prices, nominal and real volumes of exports by product (SITC), Bulgaria, 2012

<table>
<thead>
<tr>
<th>Product groups (SITC)</th>
<th>Nominal growth</th>
<th>Export prices</th>
<th>Real growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food and animals</td>
<td>8.7%</td>
<td>5.4%</td>
<td>3.1%</td>
</tr>
<tr>
<td>Beverages and tobacco</td>
<td>10.0%</td>
<td>8.3%</td>
<td>1.6%</td>
</tr>
<tr>
<td>Raw materials</td>
<td>(-10.4%)</td>
<td>8.8%</td>
<td>(-17.6%)</td>
</tr>
<tr>
<td>Mineral fuels, oils and derivatives</td>
<td>23.7%</td>
<td>17.8%</td>
<td>5.0%</td>
</tr>
<tr>
<td>Fats, oils and waxes</td>
<td>2.7%</td>
<td>2.2%</td>
<td>0.6%</td>
</tr>
<tr>
<td>Chemicals and chemical products</td>
<td>6.6%</td>
<td>0.5%</td>
<td>6.1%</td>
</tr>
<tr>
<td>Products classified by type of material</td>
<td>(-5.5%)</td>
<td>7.5%</td>
<td>(-12.0%)</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>1.6%</td>
<td>1.6%</td>
<td>(-0.1%)</td>
</tr>
<tr>
<td>Others</td>
<td>(-1.5%)</td>
<td>4.6%</td>
<td>(-5.8%)</td>
</tr>
</tbody>
</table>

Source: NSI, Foreign trade, own calculations

Figure 3-19: Structure of exports by product (SITC) and trading partner, 2012

Export structure by product and trading partners in 2012 evidenced lower demand of raw materials and other manufacturing goods coming from EU countries (Fig. 3-19). The biggest contribution made Germany, which reported a decrease of exports in selected two groups of 28.2 and 29.0%, respectively. The same holds true for France (-68.2%) and Romania (-51.9%). On the other hand, the exports to third countries followed an upward trend with a leading contribution of export growth of mineral fuels to Turkey (75.9%). The exports of raw materials and other manufacturing goods to third countries increased as well, which was mainly influenced by the higher demand from China (84.7% and 115.6%, respectively).
Internationalisation and main markets of the Bulgarian SMEs

Not long ago the term internationalisation involved only imports and exports of production. Today domesticization is viewed as a more complex concept – together with international trade it includes all activities that involve enterprises in communication with international partners – export, import, direct foreign investments and international cooperation. For the purposes of this study we will be using the following working definition for internationalized enterprise:

Enterprise which is involved in all or some of the following activities:

- Participates in specialized international events with the scope to promote its own production or to liaise with new providers;
- Imports raw materials and products;
- Exports own production/services;
- Hires foreign experts in its managerial team;
- Uses or attracts foreign funding.

Internationalisation is a key factor for the growth and improvement of competitiveness of the enterprises. According to a survey of the EU Commission on the development of the EU SMEs internationalisation from 2010, the internationalisation itself is regarded as export activity but it also includes all activities that involve enterprises in communication with international partners – export, import, direct foreign investments and international providers and technological cooperation.  

Exportation of production on international markets is correlated with the size of the company and the funding opportunities. According to the 2013 SME survey only 3% of the micro enterprises have stated that part of their production is sold on foreign markets. The share of the small and medium enterprises is higher compared to the micro ones - 15.8% and 30.2% respectively. The share of export-oriented enterprises in Bulgaria is much lower than the average in EU. According to the survey on the EU SMEs from 2010 25% of the enterprises in EU export part of their production, while in Bulgaria on average this share is 8%. It was observed that enterprises from small countries are more active in search for new markets. Having said this, the small share of firms involved in exports is disturbing. It is an unfavorable tendency that the overall exports of Bulgaria have fallen with 3.6% in 2012 compared to 2011.

According to the 2013 survey on the Bulgarian enterprises selling production on foreign markets is within the reach of older enterprises. It is more difficult for the young ones - among those establishes before 1995 the share of export-oriented enterprises is 10%, among the younger ones – it’s under 10% and among those established after 2006 - the share is only 1%.

The importance of the state aid with regard to exports is considered higher by the bigger enterprises. 24.3 % of the micro, 28.9% of the small and 48.8% of the medium enterprises have responded with YES to the question: “In your opinion should the government have a special policy towards promoting export?”

Bulgarian enterprises consider for most attractive the European market (7.6% of the enterprises), then the neighboring countries market (4.3% of all). Only 2.9% of

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18 EC Internazionalization of SME, 2010
the respondents consider the Eastern market (CIS and Asia) as appropriate for their production.

Although the export capacity of the Bulgarian firms is to great extent affected by the labor productivity and it reflects the business environment and the international competitiveness of the Bulgarian firms, the internationalisation itself could be developed in other ways, too. For example, often the first step to internationalisation is the import of products. Many firms start exporting their own production only after they have successfully sold imported production of the same kind on the home market.

Major barriers to the internationalisation of SMEs in the EU are higher prices of their products and the high cost of going out to foreign markets. Besides these, other barriers are the lack of capital, access to information, lack of support from the state and administrative difficulties associated with the transport arrangements.

The availability of adequate information on programs to promote the internationalisation of enterprises is still low for enterprises in Bulgaria and the EU as a whole. In the EU, the awareness of entrepreneurs varies from 15% for the micro to 27% for the medium-sized enterprises. The greater are the barriers for enterprises established as ‘inactive’ exporters. According to the survey on EU SMEs, only 4% of the enterprises are planning to start exporting their production in the near future.

According to a EU analysis of the state of SMEs in Bulgaria a major obstacle to the internationalisation in Bulgaria is seen in the small enterprises, which deter them from exporting to the European market, and they prefer to grow its business primarily on exporting to the neighboring markets in the Western Balkans and Turkey. The reasons for this include better knowledge of these markets, lower competition from multinational companies and lack of information on the existing foreign trade agreements with other countries.

Development of electronic commerce is one of the main factors which helps stimulate the internationalisation of enterprises. The possibility to sell products online is the quickest way to foreign markets. Main barriers to its development currently are the differences in the legislation of the member states as well as the insufficiently good internet infrastructure. So far, the proportion of consumers in EU who have performed online orders from another country is small — only 7%. Major obstacle is the lack of consumer confidence in the quality of the service. According to the Bulgarian Association of Electronic Commerce in Bulgaria besides doubt on the quality of the delivery a major obstacle to the development of electronic commerce is the low coverage of electronic payments. A factor for the development of e-commerce is the good quality of Internet infrastructure in the country. In 2012, the development of e-commerce was intense and it opened new opportunities for Bulgarian businesses, including internationalisation through import of foreign goods.

Profile of the entrepreneurs within the exporting SMEs

The predominant age of entrepreneurs whose companies export production is 45 to 54 years old - 46% of all entrepreneurs who export own production are in this age range. Another characteristic of these entrepreneurs is the high level of education - from those who export products, 74% are university graduates, while among those who have never exported to foreign markets the percentage with higher education

19 EC Internazionalization of SME, 2010
is only 46%. Among the women entrepreneurs the share of exporters is higher compared to the men entrepreneurs - 8.8% and 6.5% respectively.

In terms of state aid for exports, young entrepreneurs see more benefits from the government incentives for exports. 35% of entrepreneurs up to 35 years old believe export policy should be a priority of the state, while the share of older entrepreneurs who consider this important is less than 30%.

With regard to their main export destinations, the entrepreneurs up to 44 years old prefer to export their production to the neighboring countries and the EU. Entrepreneurs over 45 find more attractive the EU market than the neighboring region. Eastern Market (CIS and Asia) is considered attractive mainly by entrepreneurs in the age range 45 to 54 years, but this market is of little interest to young entrepreneurs. 9.5% of the entrepreneurs with higher education prefer the European market, 5.8% of them prefer the neighboring countries and 3.7% prefer CIS and Asia.

In the companies that import raw materials the average age of entrepreneurs is lower than that in the companies that do not rely on imports. In these firms there is a higher share of entrepreneurs with higher education. The comparison of the import-oriented companies with the rest shows that the bigger firms have higher capacity for importation of goods. Most often entrepreneurs speak English and Russian. 65% of entrepreneurs in companies which import products indicate that they speak English, while only 41% of entrepreneurs from firms which don’t import production speak English. About 40% on average of the entrepreneurs indicated that they speak Russian. High value added exports are predominantly performed by young entrepreneurs. 61% of the entrepreneurs exporting products with high value added are up to 44 years old. The share of entrepreneurs with higher education is larger among those who export goods with high value added. In the export of high value-added the proportion of male entrepreneurs is higher, while with the products with low added value the proportion of women is higher. Among the entrepreneurs who have certified their companies according to the international standards the share of men is higher again. Generally in these firms is the proportion of highly educated and young entrepreneurs is higher. Similar to this is the profile of entrepreneurs who have introduced new technology in their companies. They are mostly young – 60% are younger than 44 years old and highly educated – 75% have higher education. More men than women entrepreneurs said they use foreign experience in management and marketing.

Short-term business planning is mainly applied by young entrepreneurs. 20% of the entrepreneurs up to 44 old have drafted a business plan last year, and of those over 44 years old – only 14%. Entrepreneurs with higher education more often develop a business plan. 24% of all entrepreneurs up to 55 claim to have studied the opportunities of positioning their firms on foreign markets. Only 20% of those over 55 perform such studies. The study of foreign markets is more typical for the highly educated entrepreneurs – 73% of those who have performed studies on the foreign markets are university graduates.

**Main export markets**

According to preliminary data from the NSI in 2012 the Bulgarian production was realized mainly on the EU market – 61% of all exports. Nearly 21.2% of all production exported for the EU was realized on the German market. The neighboring countries had the following shares in the total exports from Bulgaria: Turkey – 8.3%, Romania – 7.4%, Greece – 6%, Macedonia – 2.1% and Serbia – 2%. CIS had 3.5% of total exports of Bulgaria.
In 2011, as in previous years, the leading export products of Bulgaria were fuels and honey, followed by electrical and electronic products and machinery. Exports of electronics in the last 5 years (2007-2011) mark an average annual growth rate of 17%, while global exports grow by 4% over the same period, i.e. Bulgaria is gaining market share. Interestingly, the export of sunflower seeds, which in 2011 amounted to almost 680 mln. USD increased with 105% compared to 2010 when Bulgaria ranks first in the world. In 2011, Romania occupied the first position in sunflower seeds export and marked an annual increase of 143% compared to 2010. For the last 5 years, Bulgaria's average annual growth rate was 36% and Romania's — 38%. Bulgaria exports the highest volumes of sunflower seeds for Romania and the Netherlands (where imports from Bulgaria rank first with 31.5% of the total volume of imported sunflower seeds), Turkey (here Ukraine ranks first with 28.4% of the total imported amount). Exports of wheat in the last 5 years traditionally show impressive growth – an average 60% increase compared to 5% increase in the world imports. Bulgaria occupies the 11th place among exporters of wheat in the world. Bulgaria is a major exporter (third in the world) in goods classified as “waste of precious metals - other” and the major importing countries are Belgium, Korea and Canada. Bulgaria ranks 11th among exporters of wheat in the world and the main importers are Spain and Italy. Bulgaria's exports of pharmaceuticals also increased in recent years - exports for Russia grew by 33% in 2011 and for Romania — by 26%.

In terms of percentage increase, the largest growth in exports in the last 5 years was registered for:

- soybean flour — 3124%;
- metal foil and Zinc — 836%;
- vermiculite and perlite — 769%;
- unbleached kraft paper and paperboard — 636%.

**Internationalisation of manufacturing SMEs**

More than half of the manufacturing enterprises have realized imports in 2012 (53%), whereas exports for the same period are observed in 44% of these SMEs. The average value of the share of exports in total turnover is approximately 42% and the average share of exports in total output — 44%.

Almost a quarter of the entrepreneurs — 24% declare that they export only products with low value added. Mainly low value-added exports are registered in 53% of the manufacturing SMEs. Less than one-fifth of them — 18% export production with predominantly high value added, while 5% state that they export only high value added products.
Leading economic activities for the internationalization are production of vehicles, excl. cars, Radio and TV technics production and Machinery and equipment production.

The main obstacles for the SMEs internationalisation in EU are high production costs and high expenditure for the external market expansion/appearance.

A key factor for the degree of internationalisation is size of the enterprise — larger companies are more internationalized, while in smaller companies activities in this area have significantly lower penetration rate.

**Index Internationalisation**

The index accounts for the activities related to the internationalisation of enterprises over the last year (2012) and is calculated for each company included in the survey; then results are summarized by size of the enterprise, and field of activity. (For more information on the methodology of the index please see the annexes.)

In 2012, 13% of enterprises have a low degree of internationalisation, 32% — rather low, 15% — moderate, 21% — rather high, and 19% — high degree of internationalisation. Unlike the trends for the entire SME sector in the past two years, the manu-facturing SMEs is characterized by a significantly higher degree of internationalisation. More than half of companies are active in participating in fairs, importing and exporting, and directing much of the production to foreign markets.

Leading economic activities in terms of internationalisation are the production of vehicles (excluding cars), production of radio and television equipment and machinery and equipment. Noticeably less internationalized are printing and publishing activities.

**Figure 3-20**: Internationalisation of manufacturing SMEs in 2012

- Does your company posses a part of other company capital?
- Do you have an international capital partner?
- Does your experience in management and trade become international?
- Do you use an international experience in the areas of trade and management?
- Did you sell your technology to a foreign company?
- Do you have a foreign technology in your enterprise?
- Have you implemented an international standard in your company?
- % of exported production, What's the contribution of export in turnover and production for the last year?
- % turnover generated by export, What's the contribution of export in turnover and production for the last year?
- Did your firm export own products/services in the past year?
- Did your firm import products/materials/raw materials in the past year?
- Did your company participate in the fair or exhibition in the last 12 months?

Source: 2013 Survey on Manufacturing SMEs, Consortium INSIGHT
3.5 Development of the SME sector: strengths, weaknesses, opportunities and threats

Weaknesses of Bulgarian SMEs

Macroeconomic environment: The weaknesses of the Bulgarian SMEs are related also to the type of economy that our country has: driven by the strive to achieve effectiveness, and not by innovations. That economy can grow extensively (as it did until 2008), but it suffers severe shocks in cases of crisis or recession, exactly because it cannot offer innovative solutions.

The continuing economic uncertainty and the accompanying policy of strict budget austerity led to a deterioration in the purchasing potential of the population, decreased demand, a sharp increase of unemployment and considerable difficulties for SMEs. This situation was additionally aggravated by the policy of delayed payment of government liabilities to businesses on already ordered and completed assignments. The negative effects which resulted were reflected in increasing inter-company indebtedness and difficulties in loan repayment. The negative dynamics of the enterprises and of employed persons which is specific for the SME sector (especially for the micro and small enterprises), is an evidence for the continuing crisis situation in the economy. Unlike them, the large enterprises maintained or even reported a slight increase of the number of employed persons. The decrease
of employment in 2011 too was due mainly to industry while in services there was some stabilization. This tendency was characteristic of the SME sector.

The expectations concerning the business demography of the enterprises are to have a continuation of the process of closing firms and reducing the number of employed persons. Additionally, in 2012 there was a considerable deceleration in the external trade turnover of the country, mainly due to the lower demand on behalf of some major trading partners in the EU. The reported (although modest) economic growth in the last two years was accompanied by a decrease in employment (jobless growth), characteristic of the more technologically and innovatively backward EU economies.

**Business and institutional environment:** According to the latest global competitiveness report, our country moved from rank 110 to rank 108 with respect to institutional environment. One of the main reasons affecting negatively this position was the item “government regulatory burden”, where there was a deterioration to the evaluations of the business — from rank 86 to rank 109. According to a number of empirical studies, the legislation does is not favourable predominantly to micro and small enterprises. For example, the results from a BCCI survey among 3000 companies show that „the firms spare no criticism on administration and continue complaining about the tax burden and state fees. Almost every second company claims that it has encountered problems with administrative services and the frequent changes in laws. The largest is the share of the companies which pointed as problematic tax and municipal administrations. The central administration creates difficulties of almost equal magnitude to all companies irrespective of their size. The competition of companies working in the grey economy also hinders entrepreneurs, and about half of them complain about the difficult access to financing‖ (Gocheva, 2012). According to the survey made for the purposes of the current study, the largest burden to SMEs stems from taxes (for 32% of SMEs), incl. VAT, and also some social security payments.

**Technologies:** According to the latest global competitiveness index data for 2012–2013, Bulgaria ranks 52nd with respect to technological level, falling down two places compared to the previous year. Very low values are reported for such a key indicator as the ability to absorb technologies at the firm level: by this indicator our country ranks 125th. The data from the survey for the current study show that only 17% of the enterprises assessed their equipment as up-to-date with respect to the EU standards, while 52% assessed it as acceptable. Despite the generally low technological level of SMEs, only 27% of the interviewed pointed that they made investments to renew technologies in the latest years (respectively 44% of the medium-sized, 36% of the small and 24% of the micro enterprises). The increase of tangible fixed assets of SMEs was predominantly due to the companies in the services sector.

**SME innovativeness:** In this relation, it is no surprise that in 2011 Bulgaria maintained the last ranking in Eu-27 with respect to innovativeness of the economy (Innovation Union Scoreboard, 2011), although it is the leader with respect to the growth rate of innovativeness among the modest innovators in the last five years (annual average growth rate of 4.4%). The reasons for this were mainly the lack of a sufficiently developed and attractive to young people research and innovation system, the weak links of research to business, the insufficient attention to the development of intellectual property and innovations in general (Innovation Union Scoreboard 2011, http://ec.europa.eu/enterprise/policies/innovation/files/ius-2011_en.pdf). Additionally, the access to financing was an issue mainly for the younger enterprises, i.e. the ones which are more likely to be innovative.
The global competitiveness index 2012-2013 ranks Bulgaria 92nd according to the level of innovations, which is predominantly due to the insufficient government support to innovations in the form of public procurements for modern technology products; to the decreased number of scientists and engineers working in the area of high-tech, etc. Our country is featured by a small number of enterprises in the high-tech sectors of the economy and a large number of enterprises in retail trade. According to the annual report of EC Regional Innovation Scoreboard 2012, Bulgaria falls in the group of countries which are weak innovators. The reason for this are the low values of many critical indicators: level of public expenditures on R&D, business expenditures on R&D, collaboration among innovative SMEs, non-technological innovations (marketing and organisational ones).

**Internationalisation:** Although the enterprises from the countries with small territory and markets are more active in the search for new external markets, our country is characterized with a low share of export-oriented SMEs. At the same time the average innovativeness index of the enterprises operating predominantly in the international markets is higher than that of the ones operating only in the local and regional markets, and also the companies which have introduced some international standard are more innovative than the ones which do not apply it. It may be assumed that there is a tight connection between the low percentage of exporting SMEs and the low innovativeness among them.

**ICT and staff training:** The level of innovativeness, internationalisation and participation in the international business networks is directly linked to the level of new ICT usage. Despite the high share of SMEs having access to the Internet (over 85%), the degree of their participation in e-business is very low. According to the data from the performed surveys, a low share of the enterprises in Bulgaria received online orders (almost 8%), and about 7% were the ones which purchased goods and services online. The reasons for the weak development of e-business are the small number active consumers of online goods and services (9% on average for the country as a whole, with a higher share in the densely populated areas — 14%), the low technological level of a part of the enterprises and the insufficient supply of the public online services.

The level of participation of the population at the age of 25-64 years in various forms of lifelong learning in 2011 was 1.2-1.4% vs. 8.9% on average for the EU countries. The backwardness of the country with respect to this indicator can be explained with the delay in the implementation of the National Lifelong Learning Strategy 2008–2013.

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**Strengths of SMEs in industry**

As far as the current study is based on a survey also among 500 SMEs in industry, the strengths description follows the performance of those enterprises. This is done because compared to all SMEs which in their greater part are micro enterprises, mainly in trade, the SMEs in industry are featured by higher values of all indexes of competitiveness.

For example, with respect to innovativeness, almost 1/3 (32%) of the studied SMEs report rather high or high innovativeness, which represents a considerably higher share compared to the whole SME sector. Completely logically innovations are best developed in the higher-tech activities and weaker in the lower-tech productions (production of timber, textile, etc.).

Again unlike the performance of the whole SME sector, for the enterprises in industry a quite higher activity with respect to managing intellectual property is ob-
served (trademarks, brands, patents, etc.). Similarly to innovation, here the higher-tech sectors stand out more distinctively.

More than half of the industrial enterprises realized imports in 2012 (53%), and 44% realized exports for the same period which shows that those firms are significantly more strongly integrated in the European and the world economy. 18% of the exporters realized in external markets output with predominantly high value added, and additional 5% exported output with high value added. More than half of those enterprises are active with respect to participating in international forums such as exhibitions and fairs which helps them orient a large part of their output to foreign markets.

— Opportunities for development of the SME sector

Macroeconomic situation: In the current period the opportunities for SME development are determined by the fluctuations in the global and in the European economy. The entrepreneurs have to be well informed on those fluctuations in order to take adequate decisions. The search, discovery, processing and analysis of information on markets, clients, technology, competitors, etc. turn into a key factor for the success of firms. This requires more time for the collection of such information from various sources — directly from partners, suppliers, clients, indirectly from various media, participation in gatherings, etc.

The improvement of the information environment includes also measures to strengthen the information exchange of companies with government bodies and NGOs (branch organizations, the BIA, the BCCI, etc.); enrichment of the sites of the branch organizations with up-to-date information on the problems of the respective sector; the establishment of consultation and IT offices. In addition, each company may use the services of the SME portal of the EC.

Business and institutional environment: According to the BIA survey data, to „75% of the representative of the business the economic environment in Bulgaria deteriorated in 2012 vs. the previous year, to 21% it remained unchanged, and only 2% were in the opinion that there was an improvement. 46% of the interviewed mentioned that the economic condition of their firm deteriorated in the outgoing year, 33% managed to maintain the previous year indicators, and 16% reported and improvement of indicators. The largest negative effect from the crisis were on sales/turnover (61% of the firms which participated in the survey reported a decrease), followed by investment (51%), output volumes (49%) and jobs (47%) (BIA: To 75% of the Businessmen the Economic Environment in Bulgaria Deteriorated, http://news.bgnes.com/view/1053314).

In the beginning of 2013 Bulgaria went through a political crisis invoked by the inability of a part of the population to pay household bills, especially for electricity. Those events will undoubtedly affect the conditions for doing business by SMEs. It is not accidental that 79% of the participants in BIA’s survey „define the actions of the government in 2012 to overcome the negative effects of the economic crisis as ‘rather unsuccessful’, and almost half of the interviewed remained extreme pessimists with respect to the development of the economic processes in the forthcoming 2013 and expect an additional deepening of the crisis” (ibid.). Nevertheless, according to the global competitiveness index, Bulgaria scored an improvement of the indicator „Efficiency of dispute resolution legal framework”, where it moves from rank 126 to rank 122, and with respect to property rights (from rank 119 to rank 115).

Employment: Irrespective of the fact that in 2011 the decline of employment in SMEs marked a considerable deceleration (1.3% vs. 6.5% in 2010), if the above-
mentioned expectations materialize, no employment growth can be expected without a special-purpose government support.

Innovations: According to the global competitiveness index 2012–2013 data Bulgaria reports a significant improvement concerning the indicator „innovative capacity”, where it moves from rank 82 to rank 64. Irrespective of the weak performance of the country with respect to the EU innovativeness index, the share of innovative enterprises in Bulgaria increased in all size groups in the period 2006–2010.

Table 3-17: Share of innovative enterprises and enterprises with technological innovations in the total number of enterprises (2006-2010)

<table>
<thead>
<tr>
<th>Economic activity (NACE — 2008)</th>
<th>Innovative enterprises (¹)</th>
<th>Enterprises with technological innovations (²)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Groups by size of enterprises according to the number of employees</td>
<td>2006</td>
<td>2008</td>
</tr>
<tr>
<td>Total</td>
<td>20.2</td>
<td>23.9</td>
</tr>
<tr>
<td>Industry (¹)</td>
<td>23.8</td>
<td>29.2</td>
</tr>
<tr>
<td>Services (²)</td>
<td>14.5</td>
<td>16.3</td>
</tr>
<tr>
<td>10 – 49 employees</td>
<td>17.0</td>
<td>20.3</td>
</tr>
<tr>
<td>50 – 249 employees</td>
<td>26.4</td>
<td>32.0</td>
</tr>
<tr>
<td>250 or more employees</td>
<td>52.7</td>
<td>59.2</td>
</tr>
</tbody>
</table>

¹ Includes sectors B, C, D and E.
² Includes sectors H and K, and also divisions 46, 58, 61, 62, 63 and 71.
³ The innovative enterprises encompass the enterprises with technological innovations, as well as the enterprises with organizational and marketing innovations (according to the innovation definition updated in 2008).
⁴ The enterprises with technological innovations include the enterprises with product innovations, with process innovations and with incomplete and terminated innovative activity.

Source: http://www.nsi.bg/ORPDOCS/Innovation1.xls

According to the SME report of the BSMEPA in 2011 also a tendency towards increasing innovative activity of SMEs was observed. The share of investment goods (productions with higher GVA) in exports increased and in 2011 reached 17.4%, vs. 14.5% in 2006, while the share of high-tech exports expanded from 3.5% of total exports of the country in 2007 г. to 3.8% in 2011.

Lifelong learning and continuous vocational training in SMEs: In 2011–2012 an improvement in the index for implemented best practices is registered (the index includes HR training) as compared to 2010-2011: 12% of SMEs are intensively applying such, 22% — implement best practices to a moderate degree. Presently, steps have been undertaken for implementation of the European Qualifications Framework for lifelong learning in the country. According to NSI data, the share of enterprises offering CVT (CVT) for its employees also reported growth.

Table 3-18: SMEs, providing CVT

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of SMEs</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>14815</td>
<td>4173</td>
</tr>
<tr>
<td>2005</td>
<td>24483</td>
<td>7016</td>
</tr>
<tr>
<td>2010</td>
<td>32335</td>
<td>10084</td>
</tr>
</tbody>
</table>

Source: http://www.nsi.bg/ORPDOCS/Edu_5.1.xls

— Threats in front of the development of the SME sector

Development of the SME sector in Bulgaria over the recent years showed that Bulgarian firms are characterized by relatively stable structures of indicators such as size, industry, employment, small share of exporters, unfavourable structure of exporting products, low competitiveness, poor integration into European and other
global business networks. One reason for this state of the sector is the large number of micro enterprises. These firms have characteristics of family businesses, most often contribute to the survival of the entrepreneurs and their employees, but not for the innovative development of economy.

SMEs lag in sustainable pattern in competitiveness compared to large firms with about twice as low productivity, profitability, profitability margins and wage level. Better potential for innovation and internationalisation show only part of the SMEs. Along with financial constraints as an important factor for the low degree of internationalisation, stand out lack of information and difficulty in quality certification. Information services for SMEs, including providing of information about protection of intellectual property, trademarks, and other international standards is still insufficient and do not cover the different stages of company development.

The main customers of the majority of SMEs are typically final users from households, a smaller proportion of firms only sells to other firms, or work under public procurement contracts. Therefore smaller firms usually sell their products and services on local (geographically close) markets. Problems arise when they face an increase in the number of firms’ competing on a limited or declining market, as often is the case in times of economic crisis. In such cases appears a need to seek for new markets, new customers, offer new products/services, to use of new production or marketing methods, application of lower prices, co-operation with promising partners, etc.

Traditionally, however, small business follows generally accepted strategies as providing “best quality” and “best service” for the customer, while innovation is less common. The first strategies are “soft” and do not imply growth (which may not be desired by entrepreneurs), while innovation is directly related to growth. Furthermore, the owners of the smaller and younger companies typically have less defined strategies. It is noteworthy that in times of crisis strategies are changing in two directions — one is a reaction (response) of the deteriorating situation, while the other is the demand (and opening) of new opportunities.

— Economic performance and business strategies

Generally poorer economic performance of SMEs is observed compared to their the scale in which they apply business strategies (in particular expenditure policies in respect of acquisition, information, advertising, training of personnel, etc.).

In comparative terms, the largest increase in 2012-2013 is observed in the costs associated with the implementation of hygiene and environmental standards; the biggest decline in economic performance is seen in the dynamics of the production volume, market share and employment (which corresponds to the observed macro-economic dynamics).
Figure 3-23: Expenditures and strategies of SMEs in Bulgaria - behavioural aspects

Source: 2013 SME Survey, Consortium INSIGHT
— Key Points

- In 2011, the SME sector includes 350,679 non-financial companies as their number decreased by 0.6% on annual basis. The structure of the enterprises over the last three years remains constant - SMEs have share of 99.8%. The dynamics of the number of SMEs in the industry is characterized by a decline of 3.1%, while in service sector it is negligible (0.1%). Development of SMEs sector shows positive dynamics in the number of firms in South and South-East region, while in all other regions there is a decline. The number of newly established non-financial in the economy decreased by 36.8% on an annual basis, which results in significant decline in net birth rate (3.4%).

- The average number of employees per SME also remains constant — 6 persons. The employment decline in 2011 in SMEs indicates a significant slowdown, reaching 1.3% compared to 5.6% in the previous year. This development is due to the stabilization of the indicator in the service sector especially in the small enterprises, while the industry continues to be characterized by negative dynamics of employment. Although the number of employees continues to decline, significant slowdown is observed in all six planning regions.

- SME sector is characterized by positive dynamics of investments, which growth rate amounted to 1.7%. Entrepreneurs primarily use personal savings and bank loans to finance their investments. A small proportion of them use for these purposes retained earnings.

- The need for funding of Bulgarian SMEs is comparable with that of the EU companies — the share of enterprises with financing problems is about 20%. 23% of Bulgarian SMEs in need a loan for a working capital. Twice a larger share is observed in medium and small enterprises (32%), which have used bank credit than in micro firms. Credit is more accessible for older firms than younger. Only 27% of businesses created after 2010 have used bank loans.

- The share of enterprises engaged in high-tech production in Bulgaria is twice lower than in similar-sized EU countries. R&D sector is three times smaller. According to 2013 SME Survey, investments in new technologies in 2012 have made 23.5% of the micro firms, 35.5% of the small, and 44.2% of the medium-sized enterprises.

- Internationalisation is a typical problem for younger and smaller SMEs. One quarter of the smaller firms and about a half of the medium enterprises declare that the state should have specialised policy for fostering esports.
4.1 Institutional framework for development of entrepreneurship in Bulgaria

All European countries, including Bulgaria, need to strengthen the entrepreneurship mind among young people, encourage the creation of their own business, and stabilized the institutional and cultural environment for innovation and SMEs growth. Following the EU politics for stimulating the entrepreneurship development, Bulgarian governments approved a number of basic documents in the field of work, education, and creation of a knowledge based competitive economy\(^2\). In almost all these documents the necessity for stimulating the entrepreneurship was accounted, but there is not entirely unified document with a unified strategy, which consolidate different initiatives in the field. For instance in the “National plan for development of Bulgaria 2007-2013” it is indicated the necessity to strengthening the links among education, science, and business; increasing the adaptability of employees to the market demands; introducing the life long-term education; improvement of the education quality, etc.

The issues of entrepreneurship are elaborated in more details in two national strategies for encouraging SMEs development (respectively for 2002-2006 and for 2007-2013) (MEE 2002; MEE 2007)\(^1\). Along with priorities like the simplification of the administrative and normative environment for SMEs, improvement of the information access, support for innovation, etc, the encouraging of entrepreneurship is the other accent in the first strategy. Quite more attention on the entrepreneurship is given in the second strategy. It envisaged the introduction of entrepreneurship in the secondary education, broadening the entrepreneurship in the higher education and universities, support for entrepreneurship training in enterprises, elaboration of appropriate consultancy services for SMEs, assisting the new start-ups, including special programs for female and ethnic minority entrepreneurship, information campaigns for stimulating own business, etc. (MEE 2007, p. 21). The other important document is the Bulgarian innovation strategy\(^2\), which contains also stimulus to entrepreneurship. It emphasized mainly the creation of special


\(^{22}\) Innovation strategy of R of Bulgaria and measures for its realization (http://europe.bg/upload/docs/Inovation _strategy.pdf)
entrepreneurship units in polytechnic universities, helping the new techno stats-up, and increasing management and marketing skills of students in these universities (Innovation strategy, p. 16-17).

The main institutions, which are engaged with the entrepreneurship promotion, are educational (schools, colleges and universities), State (Bulgarian Small and Medium Enterprises Promotion Agency – BSMEPA, Ministry of Economy, Energy, and Tourism, Ministry of Labour and Social Policy, Agency for Employment), and nationwide non-governmental organisations like Bulgarian Chamber of Commerce and Industry, Bulgarian Industrial Association, National Association of Small and Medium Size Business, and others. For instance the last organization was created in 2000 as a NGO and in 2004 became a confederation, unifying municipality associations of small business and sector specific associations. It has more than 400 juridical persons and 165 physical persons as members from different economic sectors. In its goal, tasks and structure, it is similar to other European associations for small and medium size business. It propose different services to its members as entrepreneurship education, managers qualification improvement, marketing research, business plan and investment projects creation, tax and accounting services, etc. Its mission is to contribute to the creation of a favourable environment for SMEs development. It presents its members in the dialog with governmental and local institutions. The association networks with other NGOs, state agencies and municipalities in the accomplishment of different projects. A number of research organisations from non governmental sectors work in help of entrepreneurship development too. Among these are: Centre for economic development, Foundation for entrepreneurship development, Centre for the study of democracy, Institute for market economy, Institute for economic policy, Federation for the local self-government development, and others. There are also many regional (district and town) state and non-governmental organizations, which work for local economic development, and which include in their activities the entrepreneurship promotion. In 2006 several regional centres for entrepreneurship have been set-up.

4.2 Education and entrepreneurship

– Education and participation in the labour market

The level of participation of the people aged 25-64 years in different forms of life-long learning in 2011 was only 1.2-1.4% in respect to the 8.9% an average for the EU countries. The backward situation of the country on this indicator could be explained by the delay of the execution of the National Strategy for Life-Long Learning 2008-2013, which started in 2010. There were already some initiatives to the application of the European qualification framework for life-long learning in the country.

Before the economic crisis, the employment grew extensively, when even not well qualified or enough productive persons could find easily a paid job. At the same time during 2009-2011 the formal education or on the job education, which could cope with this issues, were insufficiently financed. Because of that the employment drop as a result of the crisis could not be compensated. The lack of adequate initiatives on behalf of the private sector makes even more important the role of public sector in addressing the issues related to discrepancies between workers qualification and the market needs in mid and long term plan. Other why to return to the low level of unemployment is unlikely. There are already some signs of the private sector activation, particularly in SMEs, in respect to the
training of their employees. The BSMEPA report for 2011-2012 registered an improvement of the good management practices application (including employees training) - in comparison to the previous year 12% of the investigated SMEs applied largely such practices, and 22% applied these practices at moderate degree.24

— Entrepreneurship development in secondary education

Junior Achievement Bulgaria

The introduction of entrepreneurship in the Bulgarian secondary education started with the activity of the created in 1997 Junior Achievement Bulgaria (http://www.jabulgaria.org). It is member of the Junior Achievement Worldwide (JAW) and its regional unit Junior Achievement - Young Enterprise Europe (JA-YE). This is the leading organization with the longest tradition in delivering educational programmes in business, economics, and entrepreneurship mind development among pupils. It started in Bulgaria with 10 pilot classes, and today it propose 23 educational courses and business programs, having more than 12 000 pupils in the whole country. During the 2005-2006 academic years the Junior Achievement programs are taught by 358 teachers in 220 schools in 95 towns. Since 1997 more than 32 000 pupils, 410 pupils companies and 130 business consultants took part in the Junior Achievement activities.

Educational training firms

In 1996 the teachers from National High School in Finance and Business created the Centre of educational training firms, which serviced all similar firms in Bulgaria, and since 1999 it became an independent unit at the Ministry of Education. The creation of these firms was strengthened by the ECO NET project in the framework of the Stability Pact for South Eastern Europe, which started in 2001 (http://www.econet-see.com/bg/index.html). The project was financed by the Austrian Foreign Ministry and realized by Kultur Kontakt Austria with k.education Bureau for projects in Bucharest, Sofia, and Tirana. In spite that the project ended in 2002, it was decided to continue and widen its activities in the “Framework program ECO NET”. The targeted countries are Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Montenegro and Romania, and its targeted groups are representatives of the education ministries of the partner countries; in-service teacher training institutions; managers of the training firm centres; head-teachers of the pilot scheme schools; teachers of the pilot scheme schools; pupils of the pilot scheme schools. The main project activities included the creation and the expansion of a regional set of educational training firms (ETF); establishment of trade contacts on national and international level; training of teachers, representatives of educational institutions, and school directors on project and quality management, business communications, key qualifications and special topics related to training firms work.

As a result of these efforts, in five pilot schools in Sofia, Burgas, Montana, Stara Zagora and Varna are established modern ETF, which main tasks are:

- Monitoring of professional development and consulting of teachers and directors in establishing ETF in other schools.
- Preparation and consulting in organization and conduction of school fairs of the ETF.
- Certification of ETF.

Actually in Bulgaria there are 61 schools with 245 ETF, or 4 ETF on average by one school. Of course, some special business oriented schools have mere training firms as National High School in Finance and Business (10 ETF), national High School in Commerce and Banks (41 ETF), while some other schools have only one ETF.

- **Entrepreneurship development in colleges and universities**

According to data of the Ministry of Education, Youth and Science, there are 51 accredited universities and colleges offering tertiary education in Bulgaria. Almost in all these establishments the disciplines related to economic, management and entrepreneurship knowledge and skills are taught. Most often this is a work of economic and business faculties, while some of colleges are even exclusively business oriented. It is assumed that the leading universities propose higher quality education on economic and business, and their graduates are preferred by employers. These are University for National and World Economy in Sofia, Academy of Economy - Svistov, Economic University in Varna, Faculty of Economic and Business at the Sofia University St Kliment Ohridski and others. The higher education quality in these units is due to the better coverage with university teachers, who are able to propose larger spectre of economic and business courses. The basic disciplines are micro- and macro economics; mathematics; statistics; accounting; management, HRM, marketing, etc. At the same time the education seems to be based on the narrow understanding of entrepreneurship as the knowledge and skills for creating and managing small firm, and maybe because of that is directed mainly to students from economic and business faculties.

As noted in the EC report, (EC 2008, p. 7), „currently the teaching of entrepreneurship is not yet sufficiently integrated in higher education institutions’ curricula. Available data show that the majority of entrepreneurship courses are offered in business and economic studies. The diffusion of entrepreneurship is particularly weak in some of the Member States that joined the EU in and after 2004“. According to the commission experts, „it is questionable whether Business Schools are the most appropriate place to teach entrepreneurship: innovative and viable business ideas are more likely to arise from technical, scientific and creative studies“ (ibid). Commission experts considered that „entrepreneurship education should not be confused with general business and economic studies; its goal is to promote creativity, innovation and self-employment“ (ibid, p. 10). Bulgarian colleges and universities are not an exception of this picture.

In order to overcome these shortcomings, the special project was put in action in 2006 by the Ministry of economy and energy “Creation of entrepreneurship centres in the universities and colleges in Bulgaria”. Under this project a number of university and college centres have been established. The main goal of such centres is to educate students in entrepreneurship skills and to prepare them for successful management of their own companies. For instance the “Centre of Entrepreneurship and Industrial Property” at the Technical University in Varna, was set-up. The centre works to commercialize relevant technical knowledge (techno start-up), and accomplishes educational, consultancy and information services. In order to network better among such centres in North Eastern region of Bulgaria, in 2009 the Inter-university centre for the support of entrepreneurship was set-up in High school international college Dobrich (http://iuec-ne-bg-vumk.com/index.php).

According to data, there is not a great difference between the old and new EU member states on key six dimensions of entrepreneurial education (these dimensions are: Strategy, Institutional Infrastructures, Teaching & Learning, Outreach, Development, Resources). In some of the dimensions it seems that more institutions in EU>15 have a broader model of entrepreneurial education with more insti-
tutions having entrepreneurial professors and degrees, placing the strategic responsibility at the top-management, and providing recognition for achievements in entrepreneurial education. However, more resources seem to be allocated to entrepreneurial education in institutions in EU15 compared to institutions in EU>15 (Survey of Entrepreneurship Education in Higher Education in Europe, 2008, c. 36).

The key findings of the above mention survey are that in general, there is a shortage of entrepreneurship studies within non-business institutions and disciplines in Europe; the majority of entrepreneurship courses are offered in business and economics studies; coverage of entrepreneurship in non-business studies is particularly weak in some of the new member states; while the demand for learning about entrepreneurship is increasing, there is a shortage of human resources; there are currently too few professors of entrepreneurship; there is very little in terms of incentives to motivate and reward teachers for getting involved in entrepreneurial teaching and activities with students (Survey of Entrepreneurship Education in Higher Education in Europe, 2008, p. 65-66).

The promising exception here is the Ministry of Education scheme in 2012 for projects, related to renewal of university curricula in response to market labour needs. These projects require an updating of curricula in close relations to the real business needs.

Similar to other EU high educational establishments, the Bulgarian colleges and universities often suffered form the same weaknesses, related to organization of education in entrepreneurship, available teachers, quality of education, use of contemporary teaching methods, integration of entrepreneurship education into the whole curricula, horizontally spreading it across different fields of study. There are not so many teachers, specialized in the field of entrepreneurship, and like otherwise the stimulus for carrier development are linked mainly with publications in referred journals, and less with commitment in teaching. The faculties, departments and chairs often function not well coordinated, which create difficulties for students to have and/or attend interdisciplinary courses. Additionally, the teaching methods like lectures prevailed, while the experience based methods are used to a lesser degree. As mention in the EC report, the “mobility of teachers and researchers between higher education institutions and business is in general very low, and the practice is not encouraged. There are in many cases little or no incentives, or even disincentives... The lack of relevant skills and experience to teach entrepreneurship is especially acute in the post-transition countries of central and Eastern Europe... Although entrepreneurs and business practitioners are in general involved in the teaching, there are few examples of entrepreneurial practitioners engaged in the full curricula experience. Most frequently, they are only engaged in short presentations to students (e.g. as testimonials or guest lecturer) or as judges in competitions (EC 2008, p. 32; 38; 66).

A key recommendation of the cited survey of entrepreneurship education in higher European schools is related to the “definition of entrepreneurial education. All levels (EU, national governments and higher educational institutions) need to embrace a broad definition of entrepreneurship. Much of the resistance from academics to pursue the entrepreneurial agenda is, in our understanding, a misconception of what entrepreneurship is. Entrepreneurship has previously been closely linked to starting up businesses for profit. The courses have focused on business plan writing and product development. Therefore, many have felt that entrepreneurship is at odds with the values prevalent in academia. In academia, the objective is to create and disseminate knowledge as a common good - not to create knowledge for one’s own personal gain/profit. Consequently, it has been difficult to get the academics
48% of entrepreneurs have an university degree, 1/3 have a specialized high school degree, 18% have a high school diploma and below 1% have a basic education.

The university graduates dominate among entrepreneurs in the manufacturing (65% share).

(outside the business schools) to support and engage in the entrepreneurial agenda (Survey of Entrepreneurship Education in Higher Education in Europe, 2008, c. 36).

**Entrepreneurship development through continuing education**

In the country there are about 50 accredited private colleges for vocational training in tourism, management, and many other professions, where the entrepreneurship education is also presented. Having in mind the outlined above situation with the entrepreneurship education in universities, it is hard to imagine that vocational colleges made an exception. Besides, many private educational centres have been created particularly in the field of management and entrepreneurship, which offered short term and not expensive courses. Such courses are delivered by the specially created centres of vocational education by some of the largest nation wide professional associations.

For instance, the Centre of vocational education at the Bulgarian Industrial Association (BIA) offers courses for initial and advanced qualification in 35 professions and more than 600 specialities. Additionally, it organizes education for start up entrepreneurs. The courses can start if the group of 8-10 people is already formed. Courses are quite flexible - the education can be done evening, or during the weekends. The average prices are about 200-250 Euro for 18-200 hours. The Centre proposes also the certification of the European Business Competence* Licence (EBC*) - European standard for business competencies. The BIA partnered with German Association for Organization of Work, Enterprise and Company development (REFA) in organizing REFA courses. Successful students finished with REFA certificate. Similar centres function also at the Bulgarian Chamber of Commerce and Industry, and similar courses are proposed by the Bulgarian Small and Medium Enterprises Promotion Agency, the National Association of Small and Medium size Business, and some others branch associations and centres.

The young entrepreneurs can improve their skills in the program Top Class of the Centre for Entrepreneurship and Executive Development (CEED). The Centre organizes regular meetings among young entrepreneurs, helping to create their specific community. The yearly membership fee is about 750 Euro, and the membership guarantees meeting with established businessmen and multiple contacts. High class courses are offered by the Bulgarian Association for Management and Entrepreneurship Development together with the London Chartered Management Institute (C.M.I.), Thessalonica based Institute for Management development at the Association of Industrials in Northern Greece, and Institute of Management and Entrepreneurship for South Eastern Europe (IMESE). The education is centred on team working and resolving cases. The price of the courses was 4 700 Euro, and successfully graduated can make application for the C.M.I memberships. Each year the Bulgarian Forum of Business Leaders (http://www.bblf.bg) organizes master business classes for selected 40 students. The classes are free of charge. In each master class the up to day issues of real business are discussed and the lectors are top managers of the biggest national and foreign companies from the country.

### 4.3 The development of the entrepreneur’s profile in Bulgaria, 1991—2013

According to the data of the survey “Entrepreneurship and private business in Bulgaria”\(^25\), in 2011 the entrepreneurs are distributed by age as follow: up to 30 years (5%); 31 – 40 years (25%); 41 - 50 years (33%); 51 - 60 years (28%); and

\(^{25}\) The survey was accomplished in 2011 among 1 090 small firms’ proprietors as a part of longitudinal project on the entrepreneurships and private business development in Bulgaria (Sofia University St Kliment Ohridski, faculty of Economics and Business Administration).
Entrepreneurship in Bulgaria

For the 1997-2011 periods there was a significant change in the share of male and female entrepreneurs (Table 4-1).

Table 4-1: Distribution of entrepreneurs by gender

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>79</td>
<td>70</td>
<td>60</td>
<td>55</td>
</tr>
<tr>
<td>Female</td>
<td>21</td>
<td>30</td>
<td>40</td>
<td>45</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>


For the 1991-2011 periods the relative share of the male entrepreneurs steadily decreased from 79% to 55%, while the share of female entrepreneurs in 2011 reached 45%.

In respect to socio-professional genesis, in 2011 eleven percents of the entrepreneurs came from category 1 (workers in manufacturing/construction); 14% from category 2 (workers in trade/services; 46% from category 3 (employees in public and private administration; 11% from category 4 (technical specialists/engineers); 6% from category 5 (humanitarian specialist); and 12% from category 6 (pupils, students, and others). For the 1997 – 2011 periods the relative share of the first two categories was stable; the category 3 (employees) increased from 41% to 46% for the same periods; while the shares of categories 4 and 5 decreased (respectively from 18% to 11%, and from 9% to 6%).

In 2011 г. thirty nine percents of the entrepreneurs had secondary education, and about 60% – university and higher level. The entrepreneurs’ educational structure remained relatively stable fro the 1997-2011 periods - the entrepreneurs with secondary education were between 38% and 41%, while those with the university level - between 55% and 60%.

According to the data of the special for this report survey among entrepreneurs, 48.2% possess university educational level; about 1/3 had Vocational education (most often special technical); 18.2% – general secondary; and less than 1% -below secondary education. The female entrepreneurs prevailed among those with university education (53% against 41% of male entrepreneurs), while male entrepreneurs were presented stronger among those with Vocational (37% against 30% among female entrepreneurs) and general secondary education (respectively 20% and 16%). These differences are statistically significant, but relatively weak (Cramer’s V = .128, Approx. Sig. .043).

The educational differences among entrepreneurs are more significant in respect to the place of living. While 68.5% of the interviewed entrepreneurs from Sofia (capital) had university level, their share in villages was only 20.5% (Table 4-2).
Table 4-2: Entrepreneurs’ education in respect to the place of living

<table>
<thead>
<tr>
<th>Educational attainment of proprietor/director</th>
<th>Населено място</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Sofia</td>
<td>District center</td>
</tr>
<tr>
<td>Primary</td>
<td>0.4%</td>
<td>3.9%</td>
</tr>
<tr>
<td>Secondary</td>
<td>5.6%</td>
<td>18.0%</td>
</tr>
<tr>
<td>Vocational (after secondary)</td>
<td>25.9%</td>
<td>32.0%</td>
</tr>
<tr>
<td>Tertiary</td>
<td>68.5%</td>
<td>48.7%</td>
</tr>
<tr>
<td>Total</td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Source: 2013 SME Survey, Consortium INSIGHT

The entrepreneurs with higher education predominated among those from manufacturing (65%), and they were relatively less presented among those from trade (39%). In the second sector prevailed entrepreneurs with secondary and vocational education.

The medium size enterprises (with more than 50 employees) have the greatest share of entrepreneurs with high education (83%), followed by small (10 to 49 employees), and micro-enterprises (40%). In micro-enterprises prevailed the entrepreneurs with secondary (22%) and vocational education (38%) (Cramer’s V = .220, Approx. Sig. .000).

The entrepreneurs with high education are a little more than half in the following age groups: up to 35; from 36 to 44; and from 45 to 54, while those with vocational education predominated in the age group more than 55 (42%).

The general picture is the following: female entrepreneurs, those from manufacturing, medium and small size enterprises, and those among age groups 35-54 have a greater share of people with university education, while male entrepreneurs, those from villages, trade and services, and from the age group more than 55 predominantly possess secondary and vocational educational level.

Main attitudes of the Bulgarian entrepreneurs

For the 2004-2011 periods two third of the interviewed entrepreneurs expressed a support to the statement that „The State should not infer in the people’s affairs‖, while the same percentage of them sustained the opposite position that „The State should care for everybody‖. This domesticly contradictory position reveals both some rational and mutually excluded motives.

The entrepreneurs declared agreement with the differential type of social justice („The individual efforts should be stimulated more“). This position proved the entrepreneurs self-estimation, according which they attached themselves to the creative part of the society (creation of goods). This is the basis, on which they can pretend to the respective part of the social wealth. At the same time, and to a lesser degree, they maintained the necessity of some redistribution social mechanisms (Incomes should not differ too much) (Table 4-3).

Table 4-3: Entrepreneurs attitudes towards social justice

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>The individual’s efforts should be stimulated more</td>
<td>97</td>
<td>99</td>
<td>98</td>
<td>99</td>
</tr>
<tr>
<td>Incomes should be relatively even</td>
<td>35</td>
<td>23</td>
<td>26</td>
<td>31</td>
</tr>
</tbody>
</table>

More than 80% of entrepreneurs defended the position (2011) “One can enriched without damaging others.” Behind this attitude there is a clear message, “I am not exploited the labour of others, I am enriching thanks to my efforts and work”. At the same time there is a stable group of entrepreneurs (1997 – 33%; 2004 – 33%; 2011 – 34%), who can not or who do not want to emancipate from the vision “People enriched only at the expense of other people”. The “wealth dilemma” is a complex result of ideological schemes, ongoing practices, and historical legacy.

The data about the entrepreneurs’ attitudes towards work reveal the work ethics of the Bulgarian entrepreneurs. During the last 20 years about 87% of the entrepreneurs support the hard work as a main success factor. Nevertheless the share of entrepreneurs who believe that the success needs also luck and “connections” increased more than twice and in 2011 it reached 86%.

For the 1997-2011 about 9 of each 10 entrepreneurs declared a simultaneous belonging to two different, but connected types of the work ethics. Traditional type is “Hard work always compensate”, and more recent “Work – yes, but not at all prices”. The work in the first type of ethics is an unconditional value, while in the second type of ethics – it is a conditional value (Table 4-4).

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>At the end, hard work is always paid back.</td>
<td>88</td>
<td>88</td>
<td>86</td>
<td>87</td>
</tr>
<tr>
<td>Hard work is not enough for success, it needs also good luck, and connections.</td>
<td>41</td>
<td>86</td>
<td>90</td>
<td>86</td>
</tr>
</tbody>
</table>


The choice of the position in the “hard work dilemma” is also conditioned by number of different factors - socio-demographic characteristics of the interviewed entrepreneurs, values, factual situation with the business, etc.

In 2011 the entrepreneurs’ satisfaction with profit was significantly smaller in comparison to the previous observations. In 1997 forty eight percent of entrepreneurs were satisfied with their profit; in 2004 – 50%; and in 2011 r. – 34%. Following their explanations – guilty are the crisis and the not adequate government policy.

In spite this decreasing satisfaction with profit, the entrepreneurs’ material status did not worsen. It might be due to the entrepreneurial income distribution (between personal/family consumption and investments for development). During the discussion of this question, it turned out that a significant part of entrepreneurs do not distinguish between the field of business and the field of personal/family consumption. Making choice between these fields depends on entrepreneurs’ values, mentalities, and business configuration (sole proprietor, partnerships, etc.) (Table 4-5).

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26 For the period 1991 - 2011 the relative share of entrepreneurs maintaining this position was as follow: 1991 - 83%; 1997 - 78%; 2004 - 76%; 2011 - 82%.
27 In 2011 77% of entrepreneurs maintained both positions (“At the end hard work compensate”; and “The work is not enough for the success, it needs also a luck, and connections” (Davidkov, 2010, c. 228).
Table 4-5: Self-evaluation of entrepreneurs’ material status

<table>
<thead>
<tr>
<th>How you evaluate your wealth situation</th>
<th>1997</th>
<th>200</th>
<th>201</th>
</tr>
</thead>
<tbody>
<tr>
<td>I do not deprive anything in my everyday life</td>
<td>34</td>
<td>34</td>
<td>36</td>
</tr>
<tr>
<td>Rarely I have to deprive some important things</td>
<td>39</td>
<td>38</td>
<td>38</td>
</tr>
<tr>
<td>Often I have to derive some important things</td>
<td>22</td>
<td>23</td>
<td>22</td>
</tr>
<tr>
<td>Permanently I deprive even some elementary things</td>
<td>5</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>


— Effects of entrepreneurship education on the economy and society

Prof. W. Baumol stated that the entrepreneurship could be constructive or destructive (Baumol, 1990) - it depends on the strength of the institutions in a given country or economy. The weak institutions serve as support to the destructive entrepreneurship, which is related to bribes, corruption, and great share of the grey economy. In this environment a negative selection proceeds - the best might be those who know whom and how to bribe. Just the opposite, strong institution, which defend property rights, including intellectual property, are at the bottom of the constructive entrepreneurship, related with the innovation and creativity.

Prof. Howard Stevenson answers to the question if the entrepreneurship can be taught this way. Many years it was considered that all students of good universities are capable to become entrepreneurs – that is why there was no sense to lose their time in studying special courses on entrepreneurship. If somebody has a talent in music, the musical education should not transform him/her immediately and surely in second Beethoven, but this education would help. The talent can learn something in the process of education, and if there is no education, he/she can learn from heavy experiences trough trial and mistakes. If Harvard students are really smart and looking for achievements, the entrepreneurship education could bring them some instruments and techniques, with which they can improve their chance for a success. There are empirical evidences that entrepreneurship education help those, who have decided and who have talent to become entrepreneurs, as well as the other to understand if they have capacity for entrepreneurship, because they may have not talent for this.

According to Prof. Th. Cooney, one of entrepreneurship myth is that it relates only to the new business creation or the expansion of the existing business (Cooney, 2013). He considered that the entrepreneurship is rather a way of thinking and behaving, it is linked with the opportunities recognition, team creation, finding resources, risk taking, positive thinking, and creation of something for the future. Because of that the entrepreneurship can be applied in many different contexts - in public sector, creative industries, and many other places.

Only few European countries, however, have strategies for entrepreneurship education (Norway, Finland, and Denmark), which assure that all pupils and students can get such knowledge during their formal education. Other countries (including Bulgaria) have various, but separate initiatives for secondary and high education, which do not form, however, a coherent strategy. These initiatives are most often fragmented, and do not respond to the necessities of the local economy. Unfortunately, the application of such national entrepreneurship education strategy today sticks to the budget restrictions.
The EC initiated a research on the “Effects and impact of entrepreneurship programmes in higher education” among nine European universities. Part of the university students undertook courses in entrepreneurships (861), others did not have such courses (control group of 1 443 students), as well as alumni of the European Confederation of Junior Enterprises (JADE) also were interviewed (288). The research aims to reveal the impact of entrepreneurship education programmes provided by higher education institutions on four dimensions: 1) entrepreneurship key competence; 2) intentions towards entrepreneurship; 3) individual’s employability; and 4) impact on society and the economy. According to the results, students who have received entrepreneurship education as a part of formal curricula demonstrated better academic achievements, skills for problem solving and making decision, maintenance of interpersonal relations, team working, money management, and public presentation. These are key capabilities for larger employability and personal development (higher self-estimation and efficiency).

The report stated that students with entrepreneurship education showed to a greater degree the entrepreneurship attitudes and intentions; they found earlier employment, made innovations even as employees, and set up the beginning of most companies.

In respect to the employment, for instance, 16% of students who have undergone the entrepreneurial education, are self-employed (8% of them are entrepreneurs and 8% are freelances) in comparison with only 10% of the control group (where there are only 3% entrepreneurs and 7% in freelances). Among JADE alumni 78% have found immediately paid employment after graduation, followed by 66% of students, who have took courses in entrepreneurship, and finally are 59% of students from control group. Sixty three percents of the first two groups shared that they have opportunities to deploy their creative skills and ideas on the work places they are engaged in comparison with 55% of students from control group. The data reveal also small intergroup differences in favour of students with entrepreneurial education in respect to the net yearly income they receive.

The impact on the society was measured with voluntary work and non commercial project initiatives. According to the data, the JADE alumni predominated in these two activities (respectively with 53% and 58%), followed by students with entrepreneurship education (respectively 39% and 49%), while those from control group have 38% on the two type of activities. If 40% of students from control group stated that they never thought to undertake their own business, only 19% of JADE alumni and 25% of students with entrepreneurship education told the same. Similarly, much more students from the control group confirmed that it is unlikely they would start their own business in comparison with the first two groups.

Additionally are interviewed 133 acting entrepreneurs, among whom 65 who had entrepreneurship education, 25 JADE alumni, and 43 from the control group. The comparison revealed that persons from the first two groups started their business almost immediately after graduation, while persons from control group needed an average between 3 and 5 years to orient towards independent business. Besides, the entrepreneurs from the group with entrepreneurship education demonstrated more innovative business in respect to the entrepreneurs from the control group. Entrepreneurs from JADE alumni were created an average 5.4 workplaces, those with entrepreneurship education - 4.2, and entrepreneurs from the control group - 4. Entrepreneurs with entrepreneurial education generated on average 50% yearly growth in turnover, JADE alumni - 47%, and people from control group - 34%. A significantly greater share from the first two groups shared that they want their business to grow (respectively 58% and 48%), while barely one third of entrepreneurs from the control group expressed a willingness for that. The only indicator on which the entrepreneurs from the control group are leading is the
yearly net income. This could be due to the fact that more innovative business of entrepreneurs with entrepreneurial education requires more expenses (EC, 2012b, c. 71-81).

The general conclusion is that the entrepreneurship education has a positive impact on the young people way of thinking, their intentions to own business, opportunities to find employment, and their role in the whole society and economy (EC, 2012b, c. 82).

As a whole, the situation within the sector of Bulgarian SMEs in terms of innovation, internationalisation, standardization, ICT and e-commerce implementation is not very bright. The structure of the sector witnesses its relative weakness because of a great number of micro enterprises in most economic sectors (0-9 employees, from which more than half have no employees), low competitiveness, small share of exporters, weak inclusion in the e-business, not sufficient innovation, and quality certification. According to the last report of the Bulgarian Agency for SMEs promotion (BSMEPA, 2012), a number of these weak points of SMEs marked some improvement in respect to the degree of innovation, intellectual property management, access to finance, and internationalisation. In general, however, the level of own trademark creation, patents and other intellectual properties remained relatively low in comparison with the average for the EU countries. Other characteristics, although improved, were evaluated still as weak - such as access to financing, networking, clustering, and innovations. Practically these are the leading factors towards creation of sustainable competitive advantages in the present globalizing economy.

We can assume that the situation of the SMEs sector is related in some ways with the not very well developed strategies and structures of entrepreneurial education in the country, but this assumption should be checked more in detail.

In the last 25 years the economic theory and practice clearly outlined the role of education on economic development. The educational level as the most often used indicator for measuring the human capital in the economy, impacts positively the economic growth, total factor productivity, and technological development. In most empirical analyses, the educational level includes two basic components:

- Formal education (secondary school, university); and
- Professional education, including life-long learning, foreign languages, and ICT competencies.

The role of these two components on the Bulgarian economy was investigated in the frame of the net estimation of the impact of economic policies, financed by the Structural instruments. The estimation of the economic policies impact shows the strengthening of their positive role in the last years on the country economic development. On the one side, this is a result of restricted private investments in this field. On the other side, these policies are directed towards human capital development, which reflects on the economy in mid-term period, and because of that the effects become visible at least one-two years after the respective investments (Table 4-6).

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Table 4-6: Net impact of increased educational attainment, financed by the Structural instruments, on main macroeconomic indicators as of 2010, 2011 and 2012

<table>
<thead>
<tr>
<th>Macroeconomic indicators</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP (%)</td>
<td>0.1%</td>
<td>0.3%</td>
<td>0.7%</td>
</tr>
<tr>
<td>Private consumption (%)</td>
<td>0.2%</td>
<td>0.5%</td>
<td>1.0%</td>
</tr>
<tr>
<td>Government consumption (%)</td>
<td>0.9%</td>
<td>1.7%</td>
<td>2.7%</td>
</tr>
<tr>
<td>Private investments (%)</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Government investments (%)</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.1%</td>
</tr>
<tr>
<td>Export of goods and services (%)</td>
<td>0.0%</td>
<td>0.1%</td>
<td>0.2%</td>
</tr>
<tr>
<td>Import of goods and services (%)</td>
<td>0.0%</td>
<td>0.2%</td>
<td>0.5%</td>
</tr>
<tr>
<td>Employment (%)</td>
<td>0.4%</td>
<td>0.8%</td>
<td>1.5%</td>
</tr>
<tr>
<td>Unemployment rate (percent points)</td>
<td>-0.3%</td>
<td>-0.6%</td>
<td>-1.0%</td>
</tr>
<tr>
<td>Average yearly salary (%)</td>
<td>0.1%</td>
<td>0.5%</td>
<td>1.3%</td>
</tr>
<tr>
<td>Inflation (percent points.)</td>
<td>-0.2%</td>
<td>-0.2%</td>
<td>-0.4%</td>
</tr>
<tr>
<td>Budget balance/GDP (percent points)</td>
<td>0.0%</td>
<td>0.1%</td>
<td>0.2%</td>
</tr>
<tr>
<td>Public dept/GDP (percent points)</td>
<td>0.0%</td>
<td>-0.1%</td>
<td>-0.4%</td>
</tr>
<tr>
<td>Current account balance/GDP (percent points)</td>
<td>0.2%</td>
<td>0.2%</td>
<td>0.3%</td>
</tr>
</tbody>
</table>

Source: SIBILA

The entrepreneurship education is the bridge, which link the business with science and education. Probably the low degree of the Bulgarian SMEs innovation is due partly to the insufficient cooperation of the companies with scientific bodies. According the data of the “Alfa research” agency from 2010, „54% of the Bulgarian companies have never cooperated with the scientific or educational organizations. The other 46% of the firms resorted most often to the scientific experts — 13% of them have made investments in the scientific researches, and 11% have helped young scientists. Less often the business has bought or made use of the scientific product they received. However, 70% of the firms were satisfied with the ordered scientific product, and barely 2% were unsatisfied. About 57% of the investigated 76 big and 30 medium size firms had clear priorities for scientific investments. The main obstacle for this were most often under the rubric „we have no necessity"; about 4% explained it with the „crisis", „lack of support", and the „availability of the company experts".

At the same time the insufficient investments for innovations condemn the companies to decreasing competitiveness after while. That is why there is a need of greater activity on behalf of both the business and scientific institutions for the intensification of the mutual dialog.▼
### Key Points

- According to the survey from the present report, 48% of entrepreneurs have university education, 1/3 possess Vocational, 18% — general secondary, and less than 1% have below secondary education. There are significant educational differences by entrepreneurs’ place of living — 68% of the interviewed from Sofia (the capital) have university degree, while in villages their share is barely 20%.

- The entrepreneurs with high education predominated in the manufacturing (65%), while in the sector of trade they are relatively low represented (39%).

- The medium size enterprises (with more than 50 employees) have the greatest share of entrepreneurs with university level (83%), followed by small size (63%), and micro-enterprises (40%).

- The entrepreneurs with high education prevail in the age groups up to 35, 36-44, and 45-54 years.

- The level of the people (aged 25-64) participation in different forms of the life-long learning in 2011 was 1.2-1.4%, while the average for the EU countries was 8.9%.

- In 2011-2012 was registered an improvement of the index on the application of good management practices (including employees’ training) in comparison to the previous year. Of total 12% of the SMEs applied such practices to a large extent, and 22% applied these practices to a moderate degree.

- The introduction of the entrepreneurship education in the Bulgarian secondary school started in 1997 with the creation of the Junior Achievement Bulgaria. During the academic year 2009/2010 680 these programmes are taught by 680 teachers in more than 450 schools and in more than 100 places.

- According the Ministry of Education data, in Bulgaria there are at present 51 accredited high schools and colleges, providing high education, including courses in entrepreneurship.

- There are about 50 accredited private colleges for vocational education in tourism, management, and other professions, where the entrepreneurship education is also presented.

- The entrepreneurship education is the bridge, which link the business with science and innovations. Probably the low degree of the Bulgarian SMEs innovation is partly due to the insufficient cooperation with the scientific organizations. According to the “Alfa research” agency data from in 2010, in more than half of the investigated companies (54%), there is no such cooperation between firms and scientific or educational institutions.
4.4 Current situation and perspectives of female entrepreneurship

OECD in their analysis defines a female entrepreneurship activities as “creation, management, development and closing of a business of a independent firms”\(^{30}\). The most common working definitions of women entrepreneurship are as follows:

- Percent of self-employed women;
- Percent of women that owned business and
- Entrepreneurship rate of women.

In Europe there is a common trend not to use the full potential of female entrepreneurship; very few women start their own business in comparison with the men, as well as few women have intention to start business. Usually women choose to start and to run a business in retail trade, services, etc. EU supports female entrepreneurship and creation of friendly business environment, which helps creation and development of companies, owned by women. The female entrepreneurship is among the top priorities of EC, and female entrepreneurs are defined as “women which creates a business, that owned the bigger share of it and take the decisions, risk and manage it every day”.\(^{31}\)

The EU practice has identified the main motives for women to start business:

- Finding of a market opportunity - many women that know well a certain production, technology, product or service, market or market niche may find a prosperous market opportunity for starting a new business, an important role here have Intellectual Property Law and Authorship and Related Rights Law, that could support future female entrepreneurs to protect their business idea.

- Financial motives - the entrepreneurship activity give an opportunity to women to get higher incomes comparing to the employment that they have, but this is considered risky.

- Accumulation of knowledge, skills and professional experience - women that have knowledge, skills and professional experience as employees in a public or private organization may decide to start their own business where they could be more effective.

- Independence and satisfaction of work - women take a decision to start a new business after accounting future profits and losses from this activity as time, money, opportunities, etc. Also this decision can be taken as a form to prove they can be successful; and as a form of financial independence. Women's disapproval of their current job or lack of career developments could be a strong motive for starting their own business.

- Necessity to joint private and working live - here leading role have the social services for families like kindergardens, nannies, etc; legislation for maternity leave and for raising children; financial stimulus and demographic policy in a country. The perceived model of taking care of children - a shared responsibility between the state and families; or self responsibility of a household have also its impact.

\(^{30}\) OECD (2004), Promoting Entrepreneurship and Innovative SMEs in a Global Economy
\(^{31}\) European Commission (2004), Promoting entrepreneurship amongst women
• Unemployment evasion - sometimes women are forced to start business, because they are unemployed or they couldn’t find a job. The main factor in this case is the legislative framework for unemployment benefits and the social security system. If after a loss of work/termination of firm activity a woman knows that she couldn’t receive any benefits she can hardly risk her own savings for starting a new business.

— Profile of women entrepreneurs during the transition period

The profile of women entrepreneurs according to the most of researches is the following: they are on between 36 and 55 years of age and they don’t have a university/college degree. The financial motives for starting and running a business are extremely important for them. Given this fact they are more inclined to take risks and to manage people. Although when they started their business they didn’t have the required starting capital and personnel. Often women run a small firm in the services sector; accommodation and food service activities; trade. They use also foreign languages; and work with personal computers and internet; they prefer to work outside of their home; they are trying to combine the work with their family and child bearing. As a comparison to women entrepreneurs in other transition economies the Bulgarian ones think that their business won’t develop in the future. Almost half of women use an authoritarian management style, while the other half use a cooperation or/and consensual style. The firms owned by women are usually micro firms with up to 6 employees and they are registered as privately owned enterprises. These companies are established after 2007.

Frequently women entrepreneurs don’t have a university degree, while in the other countries women have such a degree. There are many differences among women and men entrepreneurs in the areas of firm size, business areas, recruitment of personnel, registration forms, motives for starting a new business, social-professional origin, family status, leadership style and others.

This is maybe due to the possibility of Bulgarian women to get other type of incomes from other sources in comparison to other transition economies.

— Profile of women entrepreneurs today

For this analysis the women are interviewed at the begging of 2013. They are divided in 3 groups: women owners of firms; women managers or executive directors and women, that owned but don’t run business. Their profiles will be viewed separately.

Owners mainly work in the following economic areas: trade, services; industry and construction. Their number is 165 or 57.9% of interviewed women. The profile of managers shows that according to their experience legislation in the country protects their property; where a normative base is a good. For 1/3 of examined women legislation in the areas of trade, regulatory and license regimes; branch laws and banking system are barriers for the business. Their main problems are administrative barriers possessed from tax administration.

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33 Welter et al., 2005; Zapalska, 1997; Lituchy and Reavley, 2004; Wells et al., 2003; Mrcozkowski, 1997; Özcan, 2006.
34 Davidkov, T. (2005), „Bulgaria and entrepreneurs‖. S. UP „St. Kliment Ohridski‖.
Among this group the average age varies between 35 and 56; they have a university or high school degree; there firms are private. These companies are built after 2002; with an average official turnover between BGN 5 and 35 thou. Among them the highest share has micro firms with up to 9 employees with 89.1% share. The employees on a civil contract are on average below 10. In 52.3% of firms the average age of personnel is between 30 to 42 years of age. These enterprises usually operate in activities such as retail trade; services; information and communication, food and beverages. 65.5% of interviewed women said that their firms use internet, but only 10.9% have a corporate site.

Women-owners of business claim that the personnel have a required qualification, but only 25.5% have invested in new technologies in past years. These investments are financed mainly by their savings in 43.7% of cases. Only 30.3% of women entrepreneurs have used bank credits. 100% of them needed a credit to serve their turnover. The main way to pay to their suppliers; wholesale traders and retail traders is on cash basis.

Only 13.9% of women-partners have used consultants to get information. The 13.3% have performed a marketing research. Only 27.5% think that being a branch member gives them a priority in getting a price, market and trade information. All women-partners use a regular research for customers` satisfaction. According to 52.8% of women entrepreneurs the firms in their branch are competitive on a domestic market and 30.9% thought that companies are competitive on an external market.
According to 64.8% of examined persons the technical equipment in their firm is on an acceptable level, while only 15.8% think that their equipment is too old comparing to the average level in Bulgaria. Comparing to EU standards’ 27.9% of women entrepreneurs their equipment is old, only 17% answered that their equipment is modern.

**Figure 4-3: Is your business profitable or not - for 2011-2012?**

![Bar chart showing profitability](chart)

Source: 2013 SME Survey, Consortium INSIGHT

51.6% of **women-managers** have said that the foreign firms bring new management practices into the business. Among the exporters their export starts from 20% of their production. The most perspective markets for women are Bulgarian and EU markets. For the past two years 42.6% of women entrepreneurs claimed that their profit shrinks or their losses become bigger. In the last years the expenditure on maintenance of equipment; for supplies; for employees and for trainings and for consultants for the over 64% of women firms remained constant. There are no changes in the number of employees; production level; TFA; market share and etc. for over 50% of companies managed by women. Women-owners of business assess as a perspective activities and future possibilities for enlarging business the following areas: business services and advertisement; opening of new trade objects; real estate; new machinery and new technologies; other business areas that will support their main business and closing a whole business cycle of services.

The women managers/ executive directors of companies are the second group that we are examined in our analyses. Their number is 27 or 9.5% of total women share within the study. They are divided by their main business activity the main group are the firms in the trade, services, manufacturing and construction sectors. According to these women the legislation in the tax area; register and license regimes; trade legislation represent barriers to the business.

**Figure 4-4: What’s your assessment of the current legislation with respect to:**

![Answer options for trade legislation](chart)

Source: 2013 SME Survey, Consortium INSIGHT

According to ½ of examined women the enterprises in their brach are competitive on the domestic mar-ket.
51.9% of women think that the level technical equipment in their firm is acceptable for the Bulgarian standards. Only 44.4% think that their equipment is on the average EU level. Only 18.5% women have made investments in technologies in the past years, these investments were financed by owners’ savings. According to these women the membership in the associations gives them an access to the market information and etc. Only 14.8% of interviewed women have used bank credits. At the moment their companies need “fresh” money to finance their turnover. These firms pay to their contractors and wholesale traders mainly by bank transactions, and they pay to the retail traders’ on cash basis.

Most women evaluate the firms of their branch as competitive in the domestic market (60%); while according to 42.9% this statement is valid also for the external market. The foreign firms are the herald of a new ideas and management practices, but they don’t stimulate the competitive power of Bulgarian producers. As a most perspective markets for the future growth are estimated Bulgarian and EU markets. For the 2010-2011 the financial results of firms have worsen than before, for the firms managed by women entrepreneurs. The firm expenditures for local raw materials grew in the past years.

Figure 4-5: What’s your assessment of the competitiveness' of your business?

<table>
<thead>
<tr>
<th>On the domestic market</th>
<th>On the external market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Only a few firms are competitive</td>
<td>Only a few firms are competitive</td>
</tr>
<tr>
<td>The lesser part are competitive</td>
<td>The lesser part are competitive</td>
</tr>
<tr>
<td>Most of the firms in our branch are competitive</td>
<td>Most of the firms in our branch are competitive</td>
</tr>
</tbody>
</table>

Source: 2013 SME Survey, Consortium INSIGHT

The expenditure for local supplies has grown during the past years. The firms of women managers were established after 2001, among them the micro firms with up to 8 employees have a higher share; their turnover is between BULGARIAN 8 and 300 thous. Over 50% of firms have also up to 4 persons hired on a civil contract.

According to the owner/director’s education the companies with the university and high school degree predominate. These firms are private and they are Bulgarian firms. The basic activities of the firms managed by women are in a retail trade; food and beverages, wholesale trade; metal-working and machinery construction; real estate; construction; wood, cellulose and paper products, tourism, hotels and restaurants; financial services and thermotechnics. 85.2% of firms have an internet access, but solely 18.5% have a corporate website. The average age of firm’s personnel is between 28 and 54 years of age.
A Study of Entrepreneurship and the Prospects for Innovations Development in SMEs (2012-2013)

The next group of women is that owned but don’t run business. They are 13 or 4.6% of examined women. The main activity of their firms is in the area of trade and services. For 61.5% of them the legislation in the areas in taxes, regulative and license regimes, branch legislation and tax administration are the main barriers for the business. All women have said that they don’t use a consultant for gathering information.

76.9% of women think that the technical level of their equipment as acceptable for the standards of a country, while only 69.2% of them think that it is acceptable for the EU standards. Solely 38.5% made an investment in technologies in the past years. They were mainly financed by the private savings of owners.

According to these women the branch members have more opportunities and information in comparison to non-branch members.

The age of women-partners is between 40 and 64, while the completed education of a owner is a university or high specialized school, the firms are private and Bulgarian. The most of the companies were established before 1994 and have the official turnover for 2011 is between BGN 250 and 25 000. These firms are micro companies with up to 7 employees and they have approximately the same number of employees on a civil contract. The firms work in the areas of wholesale and retail trade; sports; health; education and administration. The average age of employees is between 35 and 60 years of age.
Only 38.5% of respondents have used bank credits for their business; at this moment they need money to finance their turnover. These companies use cash payments method to pay to their clients and retail trade partners, while they pay to the wholesale traders by bank settlement. These companies make regular researches on the customer satisfaction. 61.5% of women assess compatibility of the firms as good on the domestic market, while only 25% of firms or single companies are competitive on external market.

Figure 4-8: What’s your assessment of the competitiveness of your business?

- **On the domestic market**
  - Most of the firms in our branch are competitive: 15.4%
  - The lesser part are competitive: 23.1%
  - Only a few firms are competitive: 61.5%

- **On the external market**
  - Most of the firms in our branch are competitive: 25.0%
  - The lesser part are competitive: 50.0%
  - Only a few firms are competitive: 25.0%

Source: 2013 SME Survey, Consortium INSIGHT

According to 76.9% of women non-managing partners the foreign companies bring the novelty in the management in business. Mainly domestic and neighborhood markets are assessed as perspective for the future firm development. 38.5% of firms are profitable or not losing more than previous years for the period 2010-2011. 61.5% of women company the expenditure on maintenance of equipment; for imported raw materials and for accomplishment of eco and hygienic standards increased in the last years. These firms could grow in the future only in the services sector.

Figure 4-9: Is your firm profitable or not - for 2012?

- A Certain profit: 33.3%
- With no losses: 48.1%
- A certain loss: 18.5%

Source: 2013 SME Survey, Consortium INSIGHT

92.3% of firms have an internet access, but 38.5% have a corporate site.

— **Men and women who manage Bulgarian SMEs**

In the next section of the report we have compared the attitudes that men and women show to different topics regarding the management of enterprises. We have reviewed the topics covered by the survey where men and women entrepreneurs differ in their opinions.

With regard to the existing legislation female and male respondents differ in the following: men assess commercial law as more favorable than women do: 30% of men and 23% of women indicated that it is helping the business, while 35% of the
men and 46% of women have defined that it poses obstacles to the business. In other areas of the current legislation — taxes, registration and licensing, protection of property, banking system, access to information there is no difference in the attitude of the respondents.

More often men than women regard the customs as an institution that creates problems for business rather than helps it — 11% of men and 6% of women responded positively to the question. With regard to their attitude towards other institutions — ministries, municipal administration, tax administration, electricity companies, etc. men and women responded similarly.

On the topic of the ways to enhance competitiveness of their own business women appear more inclined to apply various practices than men. More often than men applied techniques to improve general management in the enterprise — 34% of the surveyed women responded positively compared to 27% of men, 29% of the women have held advertising campaigns compared to 21% of men, 19% of the women have used external consultants compared to 13% of men.

There is some difference in the attitude of men and women with regard to the condition of the production equipment in the enterprises. More often men than women identify technological equipment in their firms as old (36% of men and 27% women). 20% of women consider it as modern, and only 15% of the men define it as such.

Women are more optimistic in their assessment of the use of production capacity in their firms. According to 45% of the women the production capacity of enterprises over the past year has been used more than 75%, while only 27% of men have given such a high estimate of the capacity usage. Most men assess the use of the plant capacity for the last year to be between 51 and 75%.

Enterprises in which the managers were men, more often resorted to bank loans to finance the operations of the company — 47% compared to 35% of the women respondents. Higher percentage of the men compared to the women consider that their firm needs a bank loan at the moment.

In terms of membership in professional organizations, women generally have a better attitude than men with regard to the benefits of memberships. 34% of the women and 29% of the men believe that membership in a professional organization may improve their awareness of new technologies, markets and prices. 24% of the women and 19% of the men believe that the organizations may be used to obtain legal advice. 27% of the women and 16% of the men believe that organizations can protect their interests in the communication with the institutions and the society.

Slightly more women than men use reporting systems for customer satisfaction in their companies. 34% of the women and 27% of the men use feedback and complaint forms in the communication with customers. 18% of women and only 13% of men stated that they have systems in place for regular control of food quality.

Last year a lot of enterprises in Bulgaria were constrained to apply sharp spending cuts. In the respondents’ answers there are differences as to which expenditure items had to be reduced the most. In terms of labor costs 23% of men indicated that these costs have been tightened over the past year, compared to 15% of the women. 54% of the men indicated that these costs remained unchanged compared to 63% of the women. 38% of the men stated that their company has been constrained to reduce the personnel, while the percentage of the women who state this was only 23%. Similar responses were given with regard to advertising costs. 18% of the men state that they have reduced advertising costs compared to 11% of
the women. 17% of the women indicated that they have increased their advertising budget and only 10% of the men say so. The use of consultancy is also more common for the women entrepreneurs than the men. Only 9% of the women indicated that they had reduced the use of such services in the last 2-3 years, while 18% of men did so. 38% of the women and only 27% of the men found that costs associated to hygiene and environmental compliance have increased for their companies.

Most of the respondents in this survey occupy positions of managers or have decision making functions. There is however a difference between positions of men and women who participated in the survey. High managerial positions are occupied more often by men. 72% of the surveyed men occupied the position of a managing partner compared to 58% of female respondents. 13% of the male respondents were managers or executives compared to 10% of the women. 18% of the women define themselves as employees who participate in the decision making process - and the percentage of the surveyed men with this position was 6%.

- **Barriers for the women entrepreneurship**

In EU practice the following barriers for the development of women entrepreneurship are identified:

- **Socio-cultural barriers** - the society expectations about the role of women and socio-economic development of the country have a strong impact on the entrepreneurship activities. The stereotypes about women are linked/connected to the men domination in the entrepreneurship and management in a larger part of economy. Women in these sectors have a lesser confidence and/or with bad image and other negative characteristics such as worse professional qualities. This means that potential clients, partners and suppliers usually underestimate women entrepreneurs and they have to prove their knowledge, skills and potential. The traditional view for a woman’s role in the society may be a serious barrier that demotivates women to start a business.

- **The women human capital** - the ability to find and use the market opportunities depends on the education and entrepreneurship experience. In the globalized world, science and technology growth, not only the education level but also the science area has an important role for the starting and development of a prosperous business in the most economic sectors. Despite the fact that the education level of women is not different from those of men, they are more inclined to choose social and the humanitarian arts that will prevent them from starting high-tech enterprises. The vertical and horizontal segregation in the recruitment process is a serious obstacle for acquiring a needed management and professional experience for starting business.

- **Economic and financial barriers** - traditionally women gather a starting capital harder than the men that has a negative impact on the probability to survive and for the success of their business. As a whole woman has lower savings compared to the men, which means that she should provide additional resources for starting business in comparison to the men. Women working in traditionally men’s sectors are considered as a less reliable from the banks and investors points of view. The restricted financial resources of women have a big impact while they have to provide other important resource such as personnel, equipment, technologies, etc. the lack of personnel and its diversification has an impact on the firms size for
the women enterprises. These factors also have influenced on the companies' profits and development intentions for the women.

- Soft barriers - the lack of required technical, science and business networks may stop the materialization of the idea into business. Reaching the potential clients, partners and suppliers; gathering of market knowledge, opportunities and challenges and to collection of information, experience may also be obstacles. The lack of positive role models, successful in a certain sectors and activities, as well as potential trainees for transfer their experience also has a negative impact on the entrepreneurship activity. The lack of competence in the respective area may be a demotivation factor for starting business for women; also the criticism of colleagues and acquaintances could prevent a starting of a new business.

- Creation of opportunities for development of women entrepreneurship

The improvement of the institutional environment for starting and managing of the business could improve entrepreneurship. Also important factor is the central and local authorities that must have a required capacity for effective service of new small and medium-sized firms, as in particular for women entrepreneurship. The EU Operative Programs are an opportunity for all enterprises that has to be used effectively. The improvement and widening of the social services will help women to be successful in a combination between personal and professional life.

Since women entrepreneurs work mainly in the services and trade sectors, policies and measures oriented to them should take into consideration their specific needs. A special attention should be given to women managers in small villages or in the rural regions. They may experience more difficulties in a resource gathering in comparison to the companies, functioning in towns.

The access to financing for women, starting their own business must be improved. The credit institutions, investors and business partners have to identify the potential successful entrepreneurs-women. The special attention on their personal characteristics, motivation for starting a business, management education and experience, and leadership style should be given. The initial requirements for starting business as a lack of personnel and capital have a long-term effect on the business performance.

The main problem in the country is a vertical segregation and relevant to this a lower number of women directors. A change should/could be supported by stimulation of women to continue their education in the areas of high technology and management studies. A special attention should be given to education and training courses for women that will help them to improve their knowledge. An inclusion of an entrepreneurship education in the high or university schools is needed in order to deepen the entrepreneurship knowledge. That’s how young people will be become acquainted with different aspects of creation and running of new and/or small firm. this may have a positive effect on their entrepreneurship intentions. The entrepreneurship education and training may/could strengthen the relationship between intentions and starting of a new business, through creation and materialization of the entrepreneurship intentions. It includes special plans with a concrete targets for starting a business. A special encouragement of women is necessary in order to create such plans for assistance in their business.

35 Welter et al. 2006.
36 Welter et al., 2005.
The fight with stereotypes that women aren’t suitable for managers positions must continue, but it will take some time. That’s why it is reasonable to develop a credit programs for small and medium enterprises, owned and created by women. The mentorship and introduction of successful women entrepreneurs, especially in the areas where men predominate, will have a positive effect as a role model for women that want to start a business.

**European Programs supporting women entrepreneurship**

According to Small Business Act as an exception of state support is treated the financial aid up to EUR 1 mln. for the newborn firms of women. As a part of the measures supporting the women entrepreneurship is the financing under the Women@business project that aims to assist a starting of business in the areas of the education of women.

Among the initiatives of EC is a creation of the Portal of Women Entrepreneurship in Europe 37, where the information from different areas was gathered. It aims to support and creation of the network of the women entrepreneurs. The EC in the summer of 2012 have published a document38 concerning a women entrepreneurship that offers a new activities and instruments for women support. According to this report in Bulgaria only 15% of women are the board members in larger companies, listed on the exchange market. Also there it is stated that in the half of the larger companies haven’t got a board member - woman. For the period 2007-2012 after the crises started, the share of women managers fell dramatically to 7%. For the same period board members women fell to 12%.

The Erasmus for the Entrepreneurs Program gives opportunities for a starting business, to women to work for the certain time frame with an experienced colleagues for other/different countries. This program aims gathering of know-how for creation, opening of a new firms, overcoming the barriers linked to the required starting capital and administrative services.

In the Europeans Network of a Women Entrepreneurship Ambassadors the skillful/experienced business women pass their experience to new business women. In this network a special attention to the opportunities for creation of a role models for an effective use of the EU funds for a starting a business is given. There are mechanisms for encouragement of women entrepreneurship - EC’s Small Business Act for supporting of a small business firms, run or owned by women, the informational portal for women entrepreneurship or Progress Program, financing with up to EUR 25 thous. for a establishment of a micro firms. So called The General Directive for a group exemption aims at a lowering a bureaucracy of state aids as a form of subsidies for a newly established enterprises. In the high-tech area for supporting women entrepreneurship a practices as “Women Innovation Network” in Great Britain, “Strength for Women Entrepreneurs”, “Women in the Information Technology Project” and “Business Academy for Women” in Germany could be used.

The EC’s Directorate General (DG) “Enterprises and Industry” foresees concrete activities supporting women enterprises. The main measures include:

- Inclusion of a target for a encouragement of women entrepreneurship into European Charter for Small Enterprises

37 http://ec.europa.eu/enterprise/entrepreneurship/women.htm
38 Women in economic decision-making in the EU: Progress report A Europe 2020 initiative (2012)
• Encouragement of projects directing to the women entrepreneurship, such as the 2003 project “Best project for identifying good practices for stimulation of a women entrepreneurship

• Creation of a Portal for Women-entrepreneurs\textsuperscript{39}, encouragement of networks for support of entrepreneurship among women, support for a venues and debates for a women entrepreneurship

• Encouragement of research and reports for women entrepreneurs and encouragement of entrepreneurship for young women.

DG “Employment, social issues and equal opportunities” ensures support for entrepreneurship among women that aims a fighting women unemployment and for increase of women employment, as well as encouragement of observation of equal opportunities principle in all spheres. These activities are financed by European Social Fund.

DG “Regional Policy” supports women entrepreneurship in accordance to the regional policy targets and employment through financial mechanisms as European Regional Development Fund and Urban Development Initiative.

DG Research has a program for increasing the information and academic support for women entrepreneurship in the areas of science and technology.

DG Education and Culture in its education and qualification program sometimes touches this question of women entrepreneurship.

\textsuperscript{39}http://ec.europa.eu/enterprise/entrepreneurship/craft/craft-women/womenentr_portal.htm
--- **Key Points** ---

The profile of women entrepreneurs and firms run by them in Bulgaria today is as follows:

- The owners and managers have a university or high school degree.
- These women are 35-64 years old.
- Women owners stated that according to them their personnel has a required qualification level, and their equipment correspondent to the standards of a country.
- Almost all interviewed women make a regular consumer satisfaction studies.
- For the half of examined women foreign firms bring a new management practices into business.
- For ½ of investigated women the companies within their branch are competitive on the domestic market, while according to the ¼ of them their enterprises are competitive also on the external market.
- The registration and license regimes, as well as the branch legislation are mostly barriers for the business.
- More women firms are established after 2001 and they are Bulgarian and private ones.
- At the moment companies need a fresh money for serving their turnover.
- Among the firms owned by women predominate a micro firms with up to 10 employees.
- Roughly the average age of the personnel in the women companies is between 28 and 54.
- These enterprises have made investments in new technologies through the last years. The last were financed mainly by owner’s savings.
- The main payments mode in these firms to suppliers; wholesale and retail traders is on cash basis.
- For the 2010-2011 period the financial results of women entreprises are worsen, but the level of expenditures, personnel; production; assets and the market share remains constant.
- The women companies work mainly in the retail trade, services, and other areas.
- 65.5% of firms have a permanent internet access, but only around 11% have got a corporate site.
- As a most perspective markets for their production women entrepreneurs estimated the domestic and EU markets.
4.5 Current situation and perspectives for crafts industry

Crafts industry is gathering the activities, mainly linked to handmade objects. As a traditional we may define crafts that the final product made by old technology/method. The part of the crafts have a long-lasting tradition, the others are modern or became popular after they were popular in a very small area of territory. The general law that regulates organization, management and registry of the craft enterprises in Bulgaria is Crafts’ Law. According to the legislation the crafts practice is completed after registration in the Crafts’ register at the Regional Crafts Chamber. The law stipulates that “Craft is a production of craft production or service, according to the crafts list introduced in the Appendix 1 of the Law, in the crafts way”. 129 activities are included in this appendix. Within the country 25 Regional Crafts Chambers (RCC) are members of a National Crafts Chamber (NCC). In the RCC the registers of the masters, journeymen and apprentices exist, they organize and perform the exams for the acquisition of the respective degree. The master and journeyman’s certificates, published by NCC are legal documents and they are accepted in almost all EU countries and all over the world after приравнителен examination in the respective crafts organization.

On EU level the European Association of Craft, Small and Medium-Sized Enterprises represents the interests of European crafts, traders and SMEs. This organization’s keeping its members informed on all matters of European Union policy of relevance to crafts, trades and SMEs. It is a recognized European Social Partner and it acts as an ‘agenda setter’ in the area of European SMEs policy. It has direct role in all EU policy that affects SMEs. European Association of Craft, Small and Medium-Sized Enterprises incorporates around 85 member organizations (consisting of national cross-sectorial SMEs federations, European Branch Federations and other associate members) represents over 12 million enterprises with nearly 55 million employees across Europe.

— Profile crafts industry and of micro enterprises in Bulgaria

The main activity of the registered craftsman is concentrated in the following sectors: furniture production; wood-pulp production; production of a paper, paste-board and its products; metal and non-metal production; food production; production of office and other techniques; timber and its wares production; chemicals and pharmaceutical products. According to 60% of registered craftsmen the regulatory regimes and administrative barriers hamper their activity. 44% of them have a constructive dialogue with administration in order to overcome these barriers. Only 48% of registered craft enterprises have an access to the information concerning EU and national programs supporting business. An access to the good management practices have 56% of the craft firms, as only 33.3% of registered craftsmen and 55.2% of the members of crafts associations have an access to the international markets and to potential partners networks.

28% of registered craftsmen had used a bank credits for investments, as 44% of craftsmen used credits to serve their turnover. The minimal is the usage of special credits — only 8% of registered craftsmen had used such credits. The risk capital isn’t also very popular - only 18% of registered according to the law producers had used this type of credit to finance their economic activities. Mainly artisans use their savings to finance business - this is valid for 80% of respondents. The EU resources have been used only by 30% of registered artisans, while the financing from the government or other programs have been used only by 12% of craftsmen.
Enterpreneurship in Bulgaria

This analysis was prepared on behalf of BSMEPA by Consortium INSIGHT

Figure 4-10: How do you finance your business?

Registered craftsman answer

<table>
<thead>
<tr>
<th>Financing</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owners resources</td>
<td>80%</td>
</tr>
<tr>
<td>Financing from EU funds</td>
<td>28%</td>
</tr>
<tr>
<td>Loans from relatives and friends</td>
<td>24%</td>
</tr>
<tr>
<td>Bank credit for serving a turnover</td>
<td>44%</td>
</tr>
<tr>
<td>Overdraft</td>
<td>44%</td>
</tr>
<tr>
<td>Financing from government, other local/domestic and foreign programs</td>
<td>12%</td>
</tr>
</tbody>
</table>

Source: 2013 SME Survey, Consortium INSIGHT

16% of registered craftsmen use a foreign management and trade experience in order to expand their production and sale of the products, but only below 8% of artisans may offer a novelty into practice to their foreign partners.

The craftsmen know the possibilities for development and popularization of the business and 92% of registered artisans have an internet firm site. Around 52% of them use an internet for the online orders and sales. The management of artisan enterprises knows and utilizes actively internet, while 80% of registered artisans use an electronic signature. The utilization of integrated systems for process control is not popular and it’s not working for the craftsmen, only 33% of them use such a systems. Over 20% of artisans use other type of system for process control.

Figure 4-11: Does your firm use the following internet applications?

Registered craftsman answer

<table>
<thead>
<tr>
<th>Application</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electronic signature of managers</td>
<td>80.0%</td>
</tr>
<tr>
<td>Having an online ordering and selling system</td>
<td>52.0%</td>
</tr>
<tr>
<td>Firm website</td>
<td>92.0%</td>
</tr>
</tbody>
</table>

Source: 2013 SME Survey, Consortium INSIGHT

84% of registered craftsmen define a level and qualification of their workforce as good. Over 74% consider that their employees know well the good practices within the sector. Over 72% of managers and employees in the artisans firms passed the domestic training in the past year. Around 25% of the managers and employees passed external management and sale training and qualification in the main sphere of firm activities and on usage of the ICT application. 44% of examined registered craftsmen think that their firms need a specialized trainings in the areas of marketing; management and sales. Around 32% think that they need a special training on export and 40% think that it is necessary to take part in the training on the communication technologies and its application. Over 48% think that they also need a foreign language trainings.
A Study of Entrepreneurship and the Prospects for Innovations Development in SMEs (2012-2013)

Figure 4-12: Does your enterprise need a training and qualification courses in the following areas?

Registered craftsman answer

- Foreign Language training: 48%
- Information technologies training: 40%
- Specialized marketing, management and sales training: 44%
- Internal trainings on a specific/main activities: 72%

Source: 2013 SME Survey, Consortium INSIGHT

Among the registered and interviewed craftsmen 52% have a short term plans, 20% have a medium-term plans and only 16% have and use a long-term plans. 44% of artisans’ possess a marketing strategy and 60% regularly perform marketing researches in the past year. 38% of artisans have done a foreign markets study in the past year, while only 16% take part in the clusters in the sector of the main activity of the enterprise. 50% of registered craftsmen use innovations and they want/wish to internationalize their firm. 75% of the interviewed have provided trainings for the personnel, the same number use public-private partnership. In the last year 40% of examined artisans laid out a part of the personnel, while 32% registered a loss. Other 52% of registered craftsmen didn’t report any changes in their economic situation during the past year.

Among members of artisans associations except from the listed above spheres they operate also in the following sectors: beverages, publications; production of a machinery, equipment and household fitting, production of a electronic devices and production of rubber and plastics and etc. Among the association members the regulative regimes and administrative barriers hamper their activity, where the registered percent is higher than among artisans and reach 66.7%.

Figure 4-13: Your main sphere of activity is?

Members of artisans associations answer

- Rubber and plastic production: 3.3%
- Electrical machinery production: 3.3%
- Production of machinery, equipment and household appliances: 3.3%
- Publishing and reproduction of recorded materials: 6.7%
- Office and electronic production: 6.7%
- Beverages production: 6.7%
- Production of wood-pulp, paper, paperboard, etc: 10.0%
- Wood and wooden material production: 10.0%
- Food production: 16.7%
- Furniture production: 30.0%

Source: 2013 SME Survey, Consortium INSIGHT

For 46.7% of the associations members’ dialogue with the administration is good. 63.3% have an access to information for the business support on the national and EU level. The accesses to the good management practices have 70% of the examined association members’. The access to the international markets and a contact with the potential partners has 55.2% of the members of craftsmen associations.
40% of the association’s members have used a bank credit to finance their investments. Credits for serving their turnover have used only 36.7%. Minimal is the percent of credits with the special purposes - 16.7% of association members. The use of risk capital is also minimal - only 6.7% have used such credits for their business. Mainly the craftsmen use their own savings to finance their activities - this is valid for 56.7% of examined artisans. The EU resources have been used only by 30% of the associations’ members. At the same time finances from government or other programs have used only 23.3%.

43% of the association members among interviewed have a marketing strategy, while 47% have made a marketing research. 43% use innovations, 29% wish to internationalize their activities, 57% have financed the training of their employees, 43% use a public-private partnership. Among examined association members 30% discharge part of their personnel; other 57% haven’t changed the number of their employees. 17% of interviewed have recorded a loss for the past year, only 17% have improved their economic situation in 2012.

Around 1/3 of the associations’ members use a foreign experience in the management and trade experience in order to expand their production and selling of the products. But only below 8% of artisans may offer a novelty in the practice to their foreign partners.

The craftsmen know the possibilities for development and popularization of the business, 86.7% of association members have an internet firm site. Around 52% of them use an internet for online orders and sales. The management of these enterprises knows and utilizes actively internet, while 73.3% of registered artisans have an electronic signature. The utilization of integrated systems for process control is not popular and it’s not working for the craftsmen, only 33% of them use such a systems. Over 20% of associations members use other type of process control system.
46.7% of association’s members define a level and qualification of their workforce as good. Over 74% consider that their employees know well the good practices within the sector. Over 72% of managers and employees in the artisans firms passed the domestic training in the past year. Over 25% of the managers and employees passed external management and selling training and qualification in the main sphere of enterprises activities and on usage of the ICT applications. Around 32% of interviewed association’s members determine that their firms need a specialized trainings in the areas of marketing; management and sales. Around 32% share that they need a special training on exports and 40% think that it is necessary to take part in the training on the communication technologies and applications. Over 48% think that they also need foreign language trainings.

Among the registered and interviewed association members 80% have a short-term plans, 33% have a medium-term plans and only 17% have and use a long-term plans. 43% of artisans’ posses a marketing strategy and 47% regularly perform marketing researches during the past years. 13% of artisans’ members of associations have done a foreign markets positioning study in the past year, while only 24% take part in the clusters in the sector of the main activity of the enterprise. 43% of registered association’s members use innovations and but only 29% want/wish to internationalize their activities.

57% of the interviewed artisans have provided trainings for the personnel, 43% use public-private partnership. In the last year 30% of examined members of associations laid out a part of the personnel, while 17% registered increase of their loss for the past year.

**Main characteristics of micro firms**

The most SMEs are the micro firms with less than 10 employees. A bigger share of them is considered in the EU practice as a craftsman firm. They are managed by their owners, while they create an employment for around 1/3 of EU work force. Micro enterprises are common in sectors as Construction, Accommodation and restaurants and Distribution, their share in employment is more than 40%. The analysis of importance and allocation of the microenterprises on EU level shows some similarities, but only a small portion of EU member states have a legal definition/concept of artisans.

Information about key indicators such as employment and education level and the main economic trends is somehow limited regarding micro and craftsmen enterprises.
— **Analysis of the craftsmen and micro enterprises in EU**

In 2012 the EC have published an analysis of a micro and small enterprises sector in 8 countries. This analysis includes 2 traditional industrial sectors – Construction (with the accent on inwardly/domestic construction) and Food industry (the main accent Meat and Milk products, and Production of Bread products). In this document an analysis of the services have also been performed, focused on the so-called “private services” - private services, cleaning, cosmetics and hairdressing services, as well as medical and dentists services. In all countries the importance of construction sector, which is characterized mainly with the micro firms, have been confirmed. The other conclusion is that Construction sector can be examined as an “economic activity barometer”, with a view to the necessity of change in the current and future/needed skills and the assessment of needs and challenges. In comparison to the construction the domination of small enterprises in the food industry is lower in the most of examined 8 countries. Despite the fact that most of the workers/employees are employed in the micro companies, the sector is characterized with a dual structure that include of one side industrial and production enterprises, and on the other small craftsmen firms. The analysis shows some differentiation and heterogeneous tendencies of structural changes and employment development. The personal services are the third sector on the focus of this study. Social services and labour activities are mostly informal and that’s why they hardly can be analyzed.

The survey of the professional education, skills, qualification within the sectors, different occupations, qualifications and skills has been established that the higher percent of qualified workers and professional education programs are widely spreading.

The actual information and knowledge of SMEs and the specific needs of micro enterprises about professional education and qualification, skills and training is limited. There are challenges in the areas of professional education and qualification in the context of a national framework and sectors requirements. There are common trends in the all three sectors - these are demographic and social factors, technology and factors due to the state regulations and standards.

**Skills needs/requirements**

The common trends in the future needs of skills of a micro and craftsmen enterprises show that the necessity of improvement of skills level is undoubted. The highest growth in the future skills has a market orientation and clients services, employment in a collaboration structures and management aspects of a business.

The most important among them are consumer services (79.4%); development of foreign market knowledge (35.3%) and newly established needs for the areas, where the supply currently is growing. The consumer relation, suppliers and employees using a foreign language (27.7%) and supply of their own innovations and patents (25.4%) are seen as future educational needs in the next 10 years in all three sectors.

It is fixed that the companies have a difficulties during the process of hiring new employees. One of the biggest barriers is the expectation of workers of a high salary, without opportunity to supply the needed/appropriate skills and a motivation. The educational institutions know well these changed skills necessities and react through orientation of requirements of the national or foreign companies. A bigger part of existing educational programs has just actualized,
without taking into account the specific requirements of a micro and crafts enterprises.

— **Opportunities for development of a crafts’ enterprises**

The recommendations of enterprises development in EU are grouped in three main areas - the need of forecasting the needed skills; market trends research and the skills connected with them, and the results should be incorporated into educational/training programs.

This research shows that there are strong link between the tendencies and changes during the management of a future skills needs. It is necessary to have a better communication and coordination between market participants. Companies should have some more market researches, aiming a better knowledge of future needs of their clients and supplier in the future. The strategic decisions for the micro and small enterprises should report a better way the market interactions. For the micro and small companies this form of a market orientation/client’s orientation is very important and it should be practice on a systematic way. The information about the market development and the future trends is vital.

The market research should be connected to the life-long learning and with the working processes. Despite the fact that educational institutions know well the necessity of those programs to the companies needs; there are not enough practical methods and instruments, mainly to the small and micro enterprises. For the development of new educational programs firms and educational institutions have to work in the close relationships. The communications and cooperation in the market researches and working processes will help to be identified relevant future skills needs. Such analyses are necessary in order to be shown a relationship between market changes and the consequences for the companies.

Regional and national participants should stimulate an economic importance and impacts of micro and small enterprises on the labour market. This means that instruments for identification of the change factors and future skills and needs should be elaborated. The micro companies should be supported to be active in participation on national/regional and sectoral level, aiming to improve and correct the existing vocational training programs, especially in the areas that they aren’t present.

In the EU initiatives among the main focuses are the specific needs of small and micro enterprises and the conditions of their functioning. Nevertheless the role of a micro and crafts enterprises the lack of empirical data in Bulgaria shows a necessity of more scientific researches and studies with the accent of the crafts and SMEs. Different studies and development activities in the context of a “New Skills for New Working Places” should be accompanied with a concrete activities focused on micro and crafts enterprises. The Commission Initiative on European Sector Councils on Employment and Skills supports the establishment of national/regional Learning and Skills Observatories networks on a sector level. They have a potential to become a very useful instrument for micro and crafts enterprises, where the information gathered/collected by them should be accessible.

The educational institutions should determine and adjust the training programs in order to accomplish of a balance between personalized concrete firms programs and standardized ones. From one viewpoint the research show the necessity of individualized educational programs, especially for the micro and crafts enterprises. In general the necessity of educational strategies and programs focused on the specific needs of these companies is a necessity. The firms should
be support for the combine education for gathering a new knowledge. They need market researches support and in the area of market trends studies and its reaction on the working processes. These analyses are sensitive when they are based on the strategies reactions of the firms and their results, on this way they become a main factors for a future behavior on the market and for the market success. Micro and crafts firms somehow underestimate the strategic orientation significance and for the development of future skills.

The educational centers should be oriented towards a more practical and applied education. For the micro and crafts enterprises the most important meaning have a market development and its influence over working process, it should be included into educational/training programs.

The business organizations should support the integrity of working process and introduction of management skills into educational programs for small and crafts enterprise. The data collected for this study support the assumption that working processes and management skills should be coordinated. The business organizations have an experience and resources that may help them to introduce these 2 skills areas together. That may help them to become a trainers or consultants for the development of concrete training programs.

**Instruments for the support of crafts development**

There are different initiatives and programs for the education and training on the EU level. One of the initiatives is Think Small First (as it is cited into the Directives about SMEs - the initiatives supporting SMEs have to become a common policy in Europe). In the last SMEs studies a specific aspects, characteristics and challenges are identified for the Professional education and training, qualification and skills development. The SMEs and crafts companies are facing domestic and external barriers for the improvement of personnel skills. The financial and organizational barriers are also present. For the micro and small enterprises it is hard to find the needed financial resources for the training courses. They don’t have resources to finance long-term trainings for the experienced personnel. Training programs and methods usually are unsuitable and they aren’t appropriate for the size and needs of these companies.

Think Small First Principle is expressed in the EU Framework Program for skills development. Despite the fact that there are mismatches between this principle and its application in the Vocational training area, in the areas of the acquisition of new qualification and skills. This lack is identified on the EU cooperation and support structures. On the same way companies have identified barriers and obstacles of SMEs participation into lifelong learning and mobility programs. The examples of this are the financial ceiling; the discrimination against micro enterprises, that couldn’t finance a long-term training abroad of their apprentices or lack of a flexibility about the duration and country of training.

The support for the artisans in Bulgaria is mainly through financing from the EU funds. But it is used only Rural Development Program Priority Axis 3 - Quality of Life in Rural Areas and Diversification of Rural economics. The enterprises functioning in rural areas are supported, where the total amount of this axis in EUR 870 mln. for the period 2007-2013. The measures that support the artisans are: Measure 311: „Diversification by Non-agricultural Activities“; Measure 312 “Support for creation and development of micro enterprises” and Measure 313 “Support of tourism activities”. Measure 311 encourages farmers to invest in non-agricultural activities. The eligible investments are in the local craftsmanship and development of social services for the population in the rural area. The grant is up to 70% of
total eligible costs, but not exceeding EUR 200 000. The minimum amount of the total eligible costs for an individual project is EUR 5 000.

Measure 312 supports newcomers or existing micro enterprises for creation and development of non-agricultural activities in rural areas. The grants are for the investments and related external services marketing and management development activities in non-agricultural sectors. The permitted activities under that measure are: services — Development of rural tourism, recreation and sport development and development consultancy and business services, social care and health services, transport services and others.

Measure 313 supports and encourages the development and creation of new work places in rural regions through support of integrated rural tourism development; diversification and improvement of tourism infrastructure, attractions and equipment in the rural areas. This measure finance investments for the tourism infrastructure that is municipal or state property or non-profit organizations for tourist attractions, as well as tourist services development and marketing on a local level.

Measure 313 encourages only non-profit activities, including building and an improvement of the equipment and/or attractions. This measure is applied only in 103 municipalities in rural areas, with the population up to 10 000 citizens.

This measure will support investment for Construction or/and Reconstruction or Renovation of tourist infrastructure, equipment and/or attractions such as:

- Attractions for the visitors and places for recreation and entertainment.
- Visitors centers for presenting and an exhibition of a local cultural and environmental heritage.
- Creation of the small open and sheltered attractions, of the small art and crafts centers as well as the temporary tourism exhibitions' centers.
Key Points

The Crafts’ industry in Bulgaria today:

- The main activity of the registered craftsman is concentrated in the following sectors: furniture production; wood-pulp production; production of a paper, pasteboard and its products; metal and non-metal production; food production; production of office and other techniques; food production; chemicals and pharmaceutical products.

- According to 60% of registered craftsmen the regulatory regimes and administrative barriers hamper their activity.

- Around 1/2 of registered craft enterprises have an access to the information concerning EU and national programs supporting business. Around 50% of craftsmen have used credits to serve their turnover.

- Mainly the craftsmen use their own savings to finance their activities. The EU resources have been used only by 30% of the registered artisans.

- The minimal is the usage of special credits — only 8% of registered craftsmen had used such credits. The usage risk capital isn’t also very popular.

- Over 87% of registered artisans have an internet site. Around 50% of them use an internet for the online orders and sales. The management of artisan enterprises knows and utilizes actively internet, while over 74% of registered artisans use an electronic signature.

- The utilization of integrated systems for process control is not popular, only 1/3 of them use such systems. Over 1/5 of artisans use the other type of system for process control.

- Over 67% of registered craftsmen define a level and qualification of their workforce as good. Over 74% consider that their employees know well the good practices within the sector.

- 52% of examined craftsmen have a short-term plans

- 1/2 of registered craftsmen use innovations and they want/wish to internationalize their firm. ¾ of the interviewed have provided trainings for the personnel, the same number use public-private partnership.

- 52% of registered craftsmen didn’t report any changes in their economic situation during the past year.

- 43% of interviewed artisans have and use a marketing strategy; over 47% had made marketing researches during the past year.
4.6 SWOT analysis of the entrepreneurship in Bulgaria

- Weaknesses

  - Bulgaria has adopted a number of documents related to the promotion of entrepreneurship, but there is no unified document or special strategy for the consolidation of different initiatives in this respect.

  - Still the traditional understanding of entrepreneurships prevail as a creation of own business, and not as a way of thinking and acting, related to the identification of opportunities, team creation, finding resources, risk taking, positive thinking and creation of something for the future. This would allow talking about entrepreneurships in many different contexts as social entrepreneurship, entrepreneurship in public sector, in creative industries, and many other fields.

  - The data reveal that the majority of courses in entrepreneurships are provided in majors of economics and business. The entrepreneurship education, however, should not be mixed with the general education in economics and business. It is questionable if the business schools are the best places for teaching entrepreneurs, given that innovations are more likely to emerge from technical and natural sciences, or from creative specialties. There is a shortage of teachers in entrepreneurship, and they are not well motivated to engage stronger in entrepreneurship education.

  - A definite country weakness is a small share of active population, which takes part in different forms of the lifelong learning, including the acquiring of entrepreneurship skills, and not only.

  - The formal education and training on the work places are still not enough supported, particularly in SMEs, although these initiatives can help to overcome some shortages of schools education.

  - To the weak points of the entrepreneurship development in Bulgaria are also the difficulties, related to the crediting of start-ups and young firms, which according to the more developed countries’ experience are more likely to be more innovative.

  - There is an insufficient knowledge and maybe because of that an insufficient utilization of national and EU programmes for the entrepreneurship and business development.

  - The other weakness is a low level of the R&D, which are not well financed and do not stimulate the academic entrepreneurship.

  - The information environment in respect to the entrepreneurships is not enough developed, and there is a lack of high quality and accessible consultancy services.

  - The communication infrastructure of many living places is unfavourable, particularly in smaller ones (roads, access to fast internet, etc.).

  - From the cultural points of view, there is a lack of public and significant role models of entrepreneurs, to whom young people would like to follow.
— **Strong points**

To the strong sides of the entrepreneurships in Bulgaria could be attributed the following:

- Enlargement of the education in entrepreneurships in many secondary and high schools;
- Support for the entrepreneurship education in companies;
- Creation of some suitable consultancy services for SMEs;
- Support for the starting entrepreneurs, including special actions to promote the entrepreneurship among wiremen, ethnic minorities, etc.
- The very positive change is the increasing share of the women entrepreneurs from 21% in 1991 to 45% in 2011.
- A number of NGO (both educational and research) work in favour of entrepreneurship development.
- All the researches reveal that the share of entrepreneurs with the university education is persistently more than half of all entrepreneurs. These are mainly the entrepreneurs among women, from the manufactory sectors, medium and small size firms, and in the age groups 35-54 years.
- The share of entrepreneurs who are using foreign languages, computers and internet is also high, particularly among younger generation of entrepreneurs.
- In respect to the work ethics, the great majority of the interviewed entrepreneurs rely on the hard work as a key for their success.
- In spite the present crisis, the living status of the entrepreneurs does not worsen. This way they shape a model of a style of living, which many young people would like to follow.

— **Opportunities for the entrepreneurships development**

The opportunities for increasing the entrepreneurship attitudes and behaviours are related to a great rate with the application of the European Small Business Act principals (2008), to which our country subscribed also:

- „Think Small First“
- Simplification of procedures
- SMEs internationalisation
- Education in entrepreneurship
- Failure and chance for the new beginning
- Lessening the administrative burden

Practically it means removing of these obstacles, according which Bulgaria has unfavorable positions on many world indexes (Doing Business, Global Competitiveness, Economic Freedom, etc.).

- The entrepreneurship would develop larger if the regulation regimes and procedures for providing different permits will be alleviating both on local and national levels.
• Chances for the entrepreneurship are the expected actions for eliminating non legal practices, simplification and decreasing of administrative fees, development of the e-government, availability of one office for contact with administration, and the application of the principle of “silent agreement”.

• At the bottom of the constructive entrepreneurship, related to innovations and creativity, is the strengthening of the institutions, which defend property rights, including intellectual property, as well as the overall improvement of the institutional environment for easy business start-up.

• The other opportunity represents the accomplishment of the declared intentions for the increasing of public expenses for R&D, stimulating the cooperation among innovative SMEs, non-technological innovations (marketing, organizational, etc.).

• There are opportunities for using more actively the entrepreneurship potential of the women entrepreneurs, particularly in some sectors as child care, creative industries as advertising, design, business services, etc.

• Creation of entrepreneurs networks, including the women entrepreneurs, public rewarding of the entrepreneurs creativity, improvement of the communication and transparency in releasing entrepreneurs achievements.

• The potential of professional organisations are not fully exploited in respect to providing help to the business start-up, counselling, coaching etc.

• There is also an unused potential in the educational system to strengthening the share of education in client services, market orientation and researches, working in cooperation, and business management.

• The other not enough used instrument represents the increasing role of the universities in stimulating more innovative start-up, which can link the researches in public sector with the world of business.

• Still are not sufficiently stimulated the firms initiatives for mutual activities with educational institutions in term of trainee programmes and grants for students, professional consultancy, cooperative work in updating the curricula, etc.

• A special attention deserves the new National Innovation Fund, directed to the promotion of innovative SMEs, particularly to innovative start-up. Its success, however, requires again the simplification of the application procedures and capital guarantee for the advance financing.

• The entrepreneurs would accelerate if Bulgaria follows the example of the other EU country members, which have:
  o adopted in their fiscal policies measures, facilitating the SMEs access to finance through the State guarantee schemes, etc.;
  o provided the financing of the innovative firms by special start-up and risk capital;
  o assured financing for energy efficiency by favourable loan conditions or direct subsidies;
  o applied tax alleviations to promote the innovative SMEs;
  o created “one stop shop” services;
- **Treats**

- Still not sufficient investments in the entrepreneurship education threaten the firms with decreasing competitiveness. That is why a greater activity is needed from both sides (business and educational institutions) to intensify the mutual dialog.

- The share of entrepreneurs is rather quite small:
  - In the high-tech sectors;
  - Among “global born”, e.g. those, who since the beginning set food on foreign markets.

- A definite treat is a significant drop of pupils and students in vocational technical, engineers and other majors, where the technological innovations usually emerged.

- The other treat represents the decreasing share of the youngest entrepreneurs and the increasing share of the elderly, which raise the issues related to the business succession and transfer.

- A neglected treat in the country is not sufficiently positive image of the entrepreneur, mass-media linkage of the entrepreneur’s success mainly the with unfair or criminal, and not with creativity and hard work.
The economic growth is directly related to firms’ capacity for development and innovation. In times of economic crisis and reduced demand, competitive advantages of enterprises are much more related to their ability to shift to technological production, to improve labour productivity and to search for new markets.

5.1 Innovation activity and competitiveness

- **R&D, innovations and competitiveness of SMEs**
  
  According to the European Innovation Index (Innovation Union Scoreboard) for 2011, Bulgaria remains at the penultimate place in the EU-27. Eurostat data for the period 2000-2010 shows that R&D expenditure in the country are on average 0.49% of GDP while it is 1.89% for the EU-27. According to NSI data for 2011, expenditures on R&D are 219.6 million — 1.9% more compared to the 2010 R&D; and the intensity of R&D was 0.57% of GDP, while the share of innovative enterprises in Bulgaria amounted to 27.1% and increased for all size groups in the 2006-2010. The share of innovative small enterprises increased from 17% to 21.8%, that of medium firms — from 26.4% to 42.3%, and of large — from 52.7 % to 63.2%. The industry (economic activities B, C, D and E, NACE) is more innovative than the sector of services - innovative SMEs in these sectores have been respectively 23.8% and 14.5% in 2006, and 31.1% and 22.0% in 2010.

- **Information and communication technologies**
  
  At the end of 2009, ICT expenditures amounted to 6.9% of GDP. According to this indicator Bulgaria ranks among the first in the EU. High share is due to the electronic communications sector.

  According to the ICT Development Index in 2011, Bulgaria takes 51st place among 165 countries and has an index value of 6.270. Internet connectivity in 2011 of households in the country was 45.0% (39.8% with broadband), and enterprises — 86.9% (68.5% with broadband). At the end of the second quarter of 2012, the proportion of Internet users is now 51.0%, indicating accelerated growth rates of increase.

5.2 Innovations in manufacturing SMEs

Slightly more than half of industrial enterprises have released a new product on the market in the past year (53%) or preparing to implement this in the near future (51%). Intentions to develop and implement in production new products in 2013 are declared by 48% of SMEs. One in five businesses, which has not developed new

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40 По последни данни на НСИ.
Innovations in Bulgarian SMEs

Innovations in Bulgarian SMEs

In the past years an increase of innovation activities of SMEs has been observed.

products in the last two years, intends to put one in 2013-2014. The share of entrepreneurs who say that they have sufficient financial resources to finance the innovation activity of the company's 28%.

Half of the companies (50%) support library with professional literature -- books, manuals, specialist journals, etc. Own R&D unit has approximately a fifth of manufacturing SMEs (22%) and a quarter (25%) have appointed staff, whose job description includes research and development. Over the past five years, 34% of manufacturing enterprises have provided specialized training for employees in the latest innovations in the industry.

In 2012, 20% of the companies have implemented joint activities with educational institutions, including internships, training, career counseling, scholarship programs, advice on preparation of lesson plans and more. The share of SMEs which use researchers of scientists and/or institutions to create new or to improve existing products, services and processes, is 16%.

**Figure 5-1: Innovation activities in manufacturing SMEs in 2012**

<table>
<thead>
<tr>
<th>Activity</th>
<th>Medium-sized</th>
<th>Small</th>
<th>Micro</th>
</tr>
</thead>
<tbody>
<tr>
<td>This enterprise has enough finance resources to finance every innovation activity</td>
<td>39%</td>
<td>22%</td>
<td>22%</td>
</tr>
<tr>
<td>Cooperation with the educational institutions in the past year</td>
<td>29%</td>
<td>33%</td>
<td>41%</td>
</tr>
<tr>
<td>Existing library with a professional literature</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employees that have passed specialized trainings for the last available innovations in the respective branch for the past 5 years</td>
<td>58%</td>
<td>56%</td>
<td>49%</td>
</tr>
<tr>
<td>Used scientific elaborations and institutions for creation of a new or improvement of current products, services and processes</td>
<td>47%</td>
<td>45%</td>
<td>57%</td>
</tr>
<tr>
<td>Servants with R&amp;D occupation positions</td>
<td>36%</td>
<td>30%</td>
<td>32%</td>
</tr>
<tr>
<td>Intention to create a new product/ for implementation of innovations in the next year</td>
<td>31%</td>
<td>48%</td>
<td>31%</td>
</tr>
<tr>
<td>Own R&amp;D section/group</td>
<td>18%</td>
<td>19%</td>
<td>19%</td>
</tr>
<tr>
<td>Creation of own product that has to be realized on the market in the near future</td>
<td>45%</td>
<td>40%</td>
<td>45%</td>
</tr>
<tr>
<td>This company produce sa new or a better version of a product during the past year</td>
<td>60%</td>
<td>57%</td>
<td>57%</td>
</tr>
</tbody>
</table>

Source: 2013 Survey on Manufacturing SMEs, Consortium INSIGHT

**Innovativeness of SMEs in Bulgaria and EU**

A comparison of Bulgarian enterprises with those of 6 other countries similar to Bulgaria by population -- Sweden, Denmark, Finland, Austria, Slovakia and Hungary, conducted by the European Commission⁴¹, clearly shows Bulgarian falling behind in the degree of innovativeness of enterprises.

In Bulgaria the share of enterprises in high-tech production is 1% — twice lower than in selected EU countries, knowledge-intensive sectors are poorly developed.

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⁴¹ EC, SME Performance Review 2012/2013
In terms of the technology sector in Bulgaria, the number of SMEs in machine-building activities is two times smaller than in the listed countries (again based on the same analysis); in the production of computers, optics and electronics — 3 times lower; in automotive sector — two times smaller; production of other vehicles (including shipbuilding and aircraft) — twice as small; in the manufacture of textiles — 30% lower; in printing industry and the production of recorded media — 25% smaller.

Table 5-1: Innovativeness of SMEs in Bulgaria and EU

<table>
<thead>
<tr>
<th></th>
<th>Bulgaria</th>
<th>EU-6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Highly technological production</td>
<td>1%</td>
<td>2%</td>
</tr>
<tr>
<td>Low technological production</td>
<td>10%</td>
<td>8%</td>
</tr>
<tr>
<td>Knowledge-intensive services</td>
<td>14%</td>
<td>23%</td>
</tr>
<tr>
<td>Services which are knowledge-intensive to a low degree</td>
<td>68%</td>
<td>51%</td>
</tr>
</tbody>
</table>

Source: EC, SME Performance Review 2012/2013

R&D sector in Bulgaria is three times smaller than in the 6 countries surveyed. This sector in Bulgaria is indeed the most competitive — with the highest labor productivity, however it is too small. In general, the country is characterized by a small number of companies in high-tech sectors and a large number of enterprises in trade retailers.

According to the annual report on innovation in EU Regional Innovation Scoreboard 2012, Bulgaria is in the group of poor innovators. The report makes an assessment of a list of indicators related to innovation at regional level for the EU. On many indicators Bulgarian indicators are critically low: level of public spending on research, business expenses for research activity, cooperation between innovative SMEs, non-technological innovation (marketing and organizational). There are significant gaps between two planning regions in Bulgaria and EU regional champions: Northern and Eastern Bulgaria has reached only 10% of the leading EU values on many of these indicators.

Table 5-2  Innovation indexes

<table>
<thead>
<tr>
<th>Indexes for Innovation development (i.p.)</th>
<th>Northern and Eastern Bulgaria</th>
<th>Southwest and Southcentral Bulgaria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share of population with tertiary education</td>
<td>0.44</td>
<td>0.59</td>
</tr>
<tr>
<td>Public expenditures on R&amp;D</td>
<td>0.11</td>
<td>0.37</td>
</tr>
<tr>
<td>Private expenditures on R&amp;D</td>
<td>0.12</td>
<td>0.25</td>
</tr>
<tr>
<td>Expenditures on innovations, other than those on R&amp;D</td>
<td>0.68</td>
<td>0.34</td>
</tr>
<tr>
<td>SMEs involved in domestic innovations</td>
<td>0.19</td>
<td>0.16</td>
</tr>
<tr>
<td>Partnerships between innovative SMEs</td>
<td>0.09</td>
<td>0.15</td>
</tr>
<tr>
<td>Partnerships between public and private sector - total publications</td>
<td>0.19</td>
<td>0.13</td>
</tr>
<tr>
<td>Patents</td>
<td>0.16</td>
<td>0.19</td>
</tr>
<tr>
<td>Technological innovations (products and processes)</td>
<td>0.21</td>
<td>0.22</td>
</tr>
<tr>
<td>Non-technological innovations (marketing and organisational)</td>
<td>0.13</td>
<td>0.08</td>
</tr>
<tr>
<td>Employment in mid- and highly technological production</td>
<td>0.23</td>
<td>0.31</td>
</tr>
<tr>
<td>Sales of new products (for the market or for the firm)</td>
<td>0.41</td>
<td>0.38</td>
</tr>
</tbody>
</table>

Source: Regional Innovation Scoreboard 2012

The micro enterprises register a drop in the technology renewal, while in the small and medium-sized this assessment is positive.

42 Индексът за всеки един показател се измерва от 0 до 1, като 0 и 1 се определят от най-лошите и най-добрите стойности на показателя.
According to the competitiveness index of the World Economic Forum 2012-2013, Bulgaria ranks 92 in the world in the level of innovation, and it maintains its position as the previous year (climbs up 1 spot). The indicator “capacity for innovation” has significant improvement by climbing from 82 to 64th place. Negative trends in the index are insufficient state support for innovation in the form of state orders for advanced technology products and in the reduction of the number of scientists and engineers working in the field of high technologies.

According to NSI data, the share of innovative enterprises in Bulgaria increased at a moderate pace. The percentage of innovative small enterprises increased from 17% to 21.8% from 2006 to 2010, on average by 26.4% to 42.3% and 52.7% larger than at 63.2%. Dynamics of development is highest in medium-sized enterprises. However, according to the National Statistical Institute in 2011 and is a small business growth in R&D spending — 28% compared to 2010. In large and micro enterprises there is a decrease in costs incurred.

According to the survey conducted for the purposes of this analysis, over the past year of 2012, in new technologies have invested respectively 23.5%, 35.5%, and 44.2% of micro-, small and medium firms. Responding micro enterprises rather reported a downward trend in technological innovation over the past 2-3 years, while small and medium enterprises self-evaluation is favorable. Appointment of a qualified professional for research and development are spread predominantly in large enterprises. Only 9.5% of the micro enterprises indicate that they have appointed one employee for R&D assignment, this share is 26.3% for the small and 41.9% for the medium firms.

**Figure 5-2: Change over the last 2-3 years (2010-2012) regarding technological renewal**

According to the survey conducted for the purposes of this analysis, over the past year of 2012, in new technologies have invested respectively 23.5%, 35.5%, and 44.2% of micro-, small and medium firms. Responding micro enterprises rather reported a downward trend in technological innovation over the past 2-3 years, while small and medium enterprises self-evaluation is favorable. Appointment of a qualified professional for research and development are spread predominantly in large enterprises. Only 9.5% of the micro enterprises indicate that they have appointed one employee for R&D assignment, this share is 26.3% for the small and 41.9% for the medium firms.

**Index Innovation Activity of manufacturing SMEs**

Innovation in a company is determined by: the corporate environment; the outside environment; as well as the knowledge and skills of the entrepreneur. Among the most important factors, however are: management approach (entrepreneur and human resources involved in innovation activities, but also developed innovative infrastructure in the enterprise), results from development and implementation of new ideas, size of the company, and technological intensity of the sector.

This analysis adopts the following working definition to innovate enterprise - enterprise which:

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43 NSI, R&D Expenditures
Employes in the long term at a specialized workplace, skilled professionals for research and development and innovative activity; or uses such in the short/medium term from scientific/academic and other business organizations for the same purposes.

Establishes and maintains an innovation infrastructure within the firm.

Develops new product ideas and implements these ideas into production.

The index reports innovation activities of enterprises during the last and the last five years. It is calculated for each company included in the 2012 SMEs Survey, and then index values are summarized by firm’s size and field of activity. (For more information on the methodology and values of the index see the annex).

34% of SMEs experience low innovation activity, in 15% this activity is rather low, in 19% — moderate, in 26% — rather high and only in 6% of the companies — high. Generally, these values are significantly higher than observed trends in the SME sector as a whole in the last two years (2010 and 2011). However, the innovation activity of a third of the Bulgarian industrial enterprises is still at very low levels.

The highest levels of innovation activity are observed mainly in high-tech economic activities, as well as furniture and food. The lowest innovation activity is in the production of pulp, wood and textiles.

**Figure 5-3: Index Innovation Activity: distribution of manufacturing SMEs by level of innovation activity in 2012 (%)**

- High innovation activity: 6%
- Mostly high innovation activity: 26%
- Moderate innovation activity: 19%
- Mostly low innovation activity: 15%
- Low innovation activity: 34%

Source: 2013 Survey on Manufacturing SMEs, Consortium INSIGHT

**Figure 5-4: Index Innovation Activity: average index values by economic activity in 2012 (i.p.)**

<table>
<thead>
<tr>
<th>Economic Activity</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Radio, tv and etc. production</td>
<td>60</td>
</tr>
<tr>
<td>Furniture production</td>
<td>57</td>
</tr>
<tr>
<td>Production of vehicles, excl. cars</td>
<td>56</td>
</tr>
<tr>
<td>Production of machinery, equipment and household appliances</td>
<td>54</td>
</tr>
<tr>
<td>Food production</td>
<td>52</td>
</tr>
<tr>
<td>Electrical machinery production</td>
<td>51</td>
</tr>
<tr>
<td>Chemicals and pharmaceuticals production</td>
<td>50</td>
</tr>
<tr>
<td>Beverage production</td>
<td>47</td>
</tr>
<tr>
<td>Medical and optical equipment</td>
<td>40</td>
</tr>
<tr>
<td>Non-metal and mineral production</td>
<td>40</td>
</tr>
<tr>
<td>Metal production, excl. machinery and equipment</td>
<td>38</td>
</tr>
<tr>
<td>Rubber and plastic production</td>
<td>37</td>
</tr>
<tr>
<td>Publishing and reproduction of recorded materials</td>
<td>37</td>
</tr>
<tr>
<td>Clothing production, incl. leather</td>
<td>36</td>
</tr>
<tr>
<td>Office and electronic production</td>
<td>32</td>
</tr>
<tr>
<td>Textile and textile production</td>
<td>27</td>
</tr>
<tr>
<td>Wood and wooden material production</td>
<td>24</td>
</tr>
<tr>
<td>Production of wood-pulp, paper, paperboard, etc.</td>
<td>18</td>
</tr>
</tbody>
</table>

Source: 2013 Survey on Manufacturing SMEs, Consortium INSIGHT
5.3 Factors for innovations development in manufacturing SMEs

The main factors for innovations development in both the industrial sector and the SME sector as a whole are: access to finance and internationalisation (which are discussed in Part 3, devoted to the SMEs performance), activity with respect to intellectual property, and implementation of best practices in the companies including the development of human resources, the use of an ICT and established practices in business planning and development of marketing strategies.

— Intellectual property

Here, the following working definition of an enterprise active in respect to intellectual property is assumed:

A company, which:

- Has registered trademarks and/or patents in Bulgaria or abroad.
- Has sufficient financing to provide for this activity.

The share of manufacturing SMEs with own registered brand in Bulgaria or abroad is 42%. The share of micro enterprises with such registration is 27%, of small firms 47%, while of medium-sized firms it is 61%.

Enterprises with their own patent amounted to 20%. Presence of a registered patent is reported for 12% of the micro enterprises, 21% for the small, and 32% for the medium manufacturing firms.

Provision of adequate financial resources for the registration of intellectual property is declared by 30% of the entrepreneurs in the industry. The share of micro enterprises that declare they are financially secured to register intellectual property is 20%; for small companies — 31% and for medium firms — 43%.

Unlike the trends across the SME sector as a whole, in the manufacturing firms there is a significantly higher level of activity with regard to intellectual property. However, in approximately half of the SME (47%) a low degree of such activity is observed, and in other one-quarter (25%) — rather low. The share of more active enterprises is 28%, which means that nearly three out of ten companies in the industry have registered intellectual property, and have sufficient funding for this purpose. In this case, similarly to the innovation activity, an identification of the most high-tech sectors is observed, but the polarization between the most active and most passive firms regarding the intellectual activity is even more sensitive.

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Every third manufacturing enterprise has enough finance to register an intellectual property.
Good practices

In practice, the application of ICT, training of human resources, and use of marketing strategies and business plans are three different kind of activities. However, the implementation of each one of them is closely connected with the others. Therefore, implementation of good practices can be described by these three types of activities simultaneously.

For purposes of this analysis, we assume the following definition of an enterprise implementing good practices:

Enterprise, which:

- Uses modern ICT (management information systems and Internet technologies);
- Implements formal or informal strategy for human resource development and provides training for its employees;
- Develops and implements marketing strategies and business plans in the short, medium and long term.

ICT in manufacturing SMEs

Every three of four manufacturing SMEs have business website. Electronic data signature of the managers have 78% of the enterprises. Opportunities for online orders and sales are 45% of companies and 40% provide an opportunity for online payments.

Management system of relations with clients have 18% of SMEs. Also the same is the share of those who have implemented management system providers, and they nearly as much (17%) are the companies that use an integrated management system for almost all processes. Another type of management information system using 24% of entrepreneurs in the sector.

Generally there is a certain delay of smaller SMEs in the implementation and use of ICT to larger enterprises.
Figure 5-7:  ICT usage in manufacturing SMEs by size of enterprise in 2012
Possession of the following automatic management system/ internet applications?

<table>
<thead>
<tr>
<th>Other type of managing processes systems</th>
<th>Yes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enterprise Resource Planning- ERP</td>
<td>45%</td>
</tr>
<tr>
<td>Supply Chain Management - SCM</td>
<td>27%</td>
</tr>
<tr>
<td>Customers Management System - CMS</td>
<td>20%</td>
</tr>
<tr>
<td>Electronic signature of the managers</td>
<td>19%</td>
</tr>
<tr>
<td>Online payments</td>
<td>16%</td>
</tr>
<tr>
<td>Online orders and sales for the products/services</td>
<td>12%</td>
</tr>
<tr>
<td>Firm website</td>
<td>8%</td>
</tr>
</tbody>
</table>

Source: 2013 Survey on Manufacturing SMEs, Consortium INSIGHT

Figure 5-8:  ICT usage in manufacturing SMEs by economic activity in 2012

<table>
<thead>
<tr>
<th>Enterprise Resource Planning- ERP</th>
<th>Online orders and sales</th>
<th>Firm website</th>
</tr>
</thead>
<tbody>
<tr>
<td>Radio, tv and etc. production</td>
<td>10%</td>
<td>52%</td>
</tr>
<tr>
<td>Metal production, excl. machinery and equipment</td>
<td>22%</td>
<td>58%</td>
</tr>
<tr>
<td>Non-metal and mineral production</td>
<td>32%</td>
<td>48%</td>
</tr>
<tr>
<td>Publishing and reproduction of recorded materials</td>
<td>19%</td>
<td>42%</td>
</tr>
<tr>
<td>Production of wood-pulp,paper, paperboard,etc.</td>
<td>4%</td>
<td>54%</td>
</tr>
<tr>
<td>Wood and wooden material production</td>
<td>2%</td>
<td>54%</td>
</tr>
<tr>
<td>Office and electronic production</td>
<td>10%</td>
<td>42%</td>
</tr>
<tr>
<td>Medical and optical equipment</td>
<td>23%</td>
<td>52%</td>
</tr>
<tr>
<td>Rubber and plastic production</td>
<td>15%</td>
<td>48%</td>
</tr>
<tr>
<td>Production of vehicles, excl cars</td>
<td>10%</td>
<td>54%</td>
</tr>
<tr>
<td>Electrical machinery production</td>
<td>20%</td>
<td>52%</td>
</tr>
<tr>
<td>Metal production, excl. machinery and equipment</td>
<td>22%</td>
<td>54%</td>
</tr>
<tr>
<td>Furniture production</td>
<td>25%</td>
<td>50%</td>
</tr>
<tr>
<td>Clothing production , incl. leather</td>
<td>10%</td>
<td>54%</td>
</tr>
<tr>
<td>Textile and textile production</td>
<td>10%</td>
<td>52%</td>
</tr>
<tr>
<td>Chemicals and pharmaceuticals production</td>
<td>10%</td>
<td>52%</td>
</tr>
<tr>
<td>Food production</td>
<td>22%</td>
<td>52%</td>
</tr>
<tr>
<td>Beverages production</td>
<td>22%</td>
<td>53%</td>
</tr>
</tbody>
</table>

Source: 2013 Survey on Manufacturing SMEs, Consortium INSIGHT

Training in manufacturing SMEs
The majority of entrepreneurs in the industry state that their employees are sufficiently qualified (80%) and that they are familiar with the best practices in the sector (81%).

More than half of SMEs have provided training to employees and/or managers in 2012 — 53%. External specialized training for sales management have received 17% of the companies, and in the field of activity of the company — 22%. Nearly half of the entrepreneurs say that they demand foreign language training — 45%. Nearly
one-third — 33% has identified a need for training in management, marketing and sales, 31% — ICT applications, and 26% — in exporting.

Figure 5-9: Human resource training in manufacturing SMEs by size of enterprises, 2012

Does your firm have a necessity of trainings on?

<table>
<thead>
<tr>
<th>Training Type</th>
<th>Micro</th>
<th>Small</th>
<th>Medium-sized</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign language trainings</td>
<td>10%</td>
<td>19%</td>
<td>32%</td>
<td>29%</td>
</tr>
<tr>
<td>ICT trainings</td>
<td>28%</td>
<td>31%</td>
<td>25%</td>
<td>29%</td>
</tr>
<tr>
<td>Exports training</td>
<td>28%</td>
<td>36%</td>
<td>19%</td>
<td>28%</td>
</tr>
<tr>
<td>Specialized trainings on management, marketing</td>
<td>20%</td>
<td>22%</td>
<td>10%</td>
<td>19%</td>
</tr>
</tbody>
</table>

Does the managers and employees participate in the trainings in the last year?

<table>
<thead>
<tr>
<th>Training Type</th>
<th>Micro</th>
<th>Small</th>
<th>Medium-sized</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>ICT applications training</td>
<td>8%</td>
<td>12%</td>
<td>20%</td>
<td>12%</td>
</tr>
<tr>
<td>External trainings in the main sphere of the business</td>
<td>73%</td>
<td>71%</td>
<td>16%</td>
<td>70%</td>
</tr>
<tr>
<td>External trainings on sales and management</td>
<td>10%</td>
<td>16%</td>
<td>32%</td>
<td>26%</td>
</tr>
<tr>
<td>Domestic trainings on the main firm activities</td>
<td>18%</td>
<td>18%</td>
<td>38%</td>
<td>28%</td>
</tr>
<tr>
<td>Do you think that your employees know well the good practices within the sector?</td>
<td>74%</td>
<td>72%</td>
<td>70%</td>
<td>72%</td>
</tr>
<tr>
<td>Do you think that your employees qualification level in good enough?</td>
<td>78%</td>
<td>76%</td>
<td>83%</td>
<td>79%</td>
</tr>
</tbody>
</table>

Source: 2013 Survey on Manufacturing SMEs, Consortium INSIGHT

Figure 5-10: Self-assessment of employed human resources in manufacturing SMEs in 2012

Do you think that your employees qualification level in good enough?

Do you think that your employees know well the good practices within the sector?

Source: 2013 Survey on Manufacturing SMEs, Consortium INSIGHT
Business strategies and planning in manufacturing SMEs

More than half of the industrial enterprises have developed and are using short-term business plans with a horizon of 1-2 years — 57%. Medium-run business plans are spread in a significantly smaller proportion — 17%, and long-term plans are used by only 8% of the SMEs.

42% of the companies have made marketing research and developed a strategy in 2012. A study on positioning own products on foreign markets have done less than a quarter of the firms — 23%.

Like all other factors for competitiveness, the size of the firm influences the degree of implementation of market analysis and business plans of the company activity. Larger SMEs apply to a considerably greater extent these practices.

Figure 5-11: Implementation of best practices in manufacturing SMEs by size of enterprise in 2012

Source: 2013 Survey on Manufacturing SMEs, Consortium INSIGHT

Figure 5-12: Implementation of best practices in manufacturing SMEs by economic activities in 2012

Source: 2013 Survey on Manufacturing SMEs, Consortium INSIGHT
— Index Best Practices

The index allows for a summary of all applicable practices of SMEs in ICT, HR and BSP. In 2012, there is some leading trend of index values for the manufacturing industry compared to those for the entire SME sector in 2010-2011: 16% of enterprises widely apply best practices (to a high degree or rather high degree), 28% — to a moderate, 43% — to a rather low, and 14% — at a low degree.

Implementation of best practices is significantly more prevalent among medium-sized enterprises, where the average value of the index is approximately 50 i.p., while for small firms this indicator is 41 i.p., and for micro companies — 32 i.p.

Figure 5-13: Index Good Practices: distribution of manufacturing SMEs by level of implementation of good practices in 2012 (%)

Source: 2013 Survey on Manufacturing SMEs, Consortium INSIGHT

Figure 5-14: Index Good Practices: average index values for manufacturing SMEs by economic activity in 2012 (i.p.)

Source: 2013 Survey on Manufacturing SMEs, Consortium INSIGHT

— Fostering innovations and impact on the economic performance if the manufacturing SMEs

For the purposes of the analysis of innovation activities in manufacturing enterprises an econometric modeling of relationships between factors (which determine innovation), innovation activities of individual SMEs and their economic performance (to identify the role of each of the factors in manufacturing SMEs at present). The summary of the estimation output is presented below, and main technical descriptions of the specified regressions are included in the annex.

Analogically to the situation in the whole SME sector observed in 2012 and 2011, in 2013 there is high level of inter-dependence between all factors for competitiv-
ness and development in industrial SMEs. Improving one of these factors in an undertaking entails an improvement and all other factors. Here, innovation has been explained by firm’s access to finance, intellectual property, internationalisation and implementation of best practices. Then all their impact on firm’s performance has been evaluated.

The level of innovativeness of a company as of 2013 depends primarily on the applied best practices within the enterprise. Wider application of best practices in SMEs leads to greater innovation. In the analysis the best practices cover three different in essence activities – ICT usage, human resources development and implementation of business and marketing strategies. The data shows that, the prioritisation of each of these activities for the firm’s innovativeness is as follows: the leading role in determining the level of innovation of using ICT in SMEs; the second important best practices refers to the implementation of business and marketing strategies in the management; in the third place is positioned HRD.

The second factor that determines the level of innovativeness is the access to finance. The better access to finance leads to more intensive innovation activities.

Thirdly, there are two factors which influence the innovation of the manufacturing firm – its internationalisation and its intellectual property. More active firms regarding internationalisation and intellectual property are inclined to be more innovative.

In turn, in 2012 and early 2013, increased innovation has contributed positively to the economic performance of manufacturing SMEs. Innovative companies have been able to retain to a greater extent market shares, revenues, profit margins, employment and wage levels, compared to less innovative enterprises.

**Figure 5-15: Factors for competitiveness and development, innovations and economic performance of manufacturing SMEs in 2012**

The innovation level of a given enterprise in 2013 depends on the first place of the implemented good practice within the company.

The second factor is the access to financing.

On the third place are the internationalisation level and intellectual property activities.
—Key Points

- In 2012, there was a trend of increased innovation activities of SMEs, yet the innovativeness of a third of manufacturing SMEs is still at very low levels.

- 48% of manufacturing SMEs intend to launch new products in 2013. About half of the companies in the industry have released a new product on the market in 2012.

- The proportion of entrepreneurs who say they have sufficient financial resources to finance innovation activities of the enterprise is 28%.

- Sufficient financial resources for registration of intellectual property are at the disposal of 30% of the entrepreneurs in the industry.

- The share of industrial SMEs with own registered brand in Bulgaria or abroad is 42%. Enterprises with their own patent are 20%.

- Every three of four industrial SMEs have company web site. Electronic signature of the managers have 78% of the enterprises. Opportunities for online orders and sales have 45% of the firms and 40% of them allow for online payments.

- Customer Relationship Management System have 18% of SMEs.

- The majority of enterprises in the industry state that their employees are adequately trained (80%), and they know the best practices in the sector (81%).

- More than half the companies in the industry use Thereafter a short-term business plans spanning 1-2 years — 57%. Medium-term business plans have a significantly smaller proportion — 17% and long-term plans do only 8% of SMEs.

- In 2012, 16% of enterprises have widely applied best practices (to high or rather high degree), 28% — to a moderate, 43% — to a rather low, and 14% — to a lower degree.

- The implementation of best practices is significantly more prevalent among medium-sized enterprises, where the average value of the index is approximately 50 i.p., while for small firms the index value is 41 i.p., and for micro — 32 i.p.
6 SME Development Policies

6.1 Improvement of the institutional and legal framework

The European countries become increasingly aware that the economic recovery from the crisis and the return to growth require more entrepreneurship. This is so because entrepreneurship makes the economy more competitive and innovative, and also creates jobs. This new orientation is established in many EU documents (EC, 2011; Ecorys, 2012; EC, 2013, etc.). At the same time, in a number of countries the institutional and business environment is rather not favourable to entrepreneurs, especially for the small business start-ups. The difficulties are related to inadequate education, hard access to lending and markets for start-ups, issues related to transferring business ownership, heavy procedures for going out of business, etc. Irrespective of the fact that many European Commission documents declare the necessity to improve the business environment for entrepreneurs (EC, 2012), the supporting measures remain insufficiently balanced.

Transforming entrepreneurship into an economic growth engine requires a thorough cultural change. In EC Action Plan concerning entrepreneurship stimulation three areas of immediate intervention are pointed out:

- Education and entrepreneurship training to support growth and the creation of new businesses;
- Strengthening the framework environment for entrepreneurs through abolishing the existing structural barrier in the critical phases of the business life-cycle;
- Stirring entrepreneurship culture in the EU countries through the creation of prerequisites for the emergence of a new generation of entrepreneurs.

In addition, the implementation of tax reliefs to encourage firm innovation activity can be pointed out as a successful practice in a number of European countries (Belgium, the UK, Denmark, Germany, Estonia, Ireland, Spain, Latvia, Poland, Finland, etc.). Their introduction aims also at bringing to light the research and development expenditures of the enterprises which have been obscure so far (Innovations.bg, 2012, p. 24).

Another measure includes the stimulation of academic entrepreneurship. Similarly to the conclusion in the report of BSMEPA of 2012 that „the expenditures for education in entrepreneurships and management can be regarded not simply as educational costs, but as investments for the economic development “ (p. 105), that training should be bound to the practical training based on the experience and the world of real entrepreneurs.

A special attention is paid to the conditions to set up a new business. To its support, efforts in six key areas are needed, such as access to financing, especially in the starting phase of the business; support in the critical phases of the life-cycle;
linking with the new business opportunities of ICT, facilitating business ownership transfers, business exiting procedures and starting a new one (a second chance for the reputable entrepreneurs), decreasing the regulatory burden (EC, 2013, p. 6-8). The European Commission will support the commercialization of research and the testing of new business models through the Programme for the Competitiveness of enterprises and SMEs (COSME), Horizon 2020 and the Structural Funds. The business regulations should be simplified and become clearer, the conditions provoking corruption should be minimized, “one-stop-shop” servicing should be implemented - all this saves a lot of costs to entrepreneurs.

The novelty in this plan to stimulate entrepreneurship is the attention to cultural change and the creation of entrepreneur role models which the young Europeans wish to follow. The goal is to accomplish a new ‘entrepreneurial’ revolution and this goal can be achieved through long-term mutual efforts of the European Commission and the Member States (EC, 2013, p. 28).

In EC’s report “Review of the “Small Business Act” for Europe” of 23.02.2011 it is noted that most of the Member States have adopted national targets to decrease the administrative burden upon the small business but not all of them have managed to efficiently accomplish this task (Pesheva, 2011). Among the main goals of the SME strategy are the:

- Simplification of administrative procedures;
- Wider usage of e-government;
- Alleviation of bankruptcy procedures.

The Commission stimulates the application of the ‘just once’ principle according to which the administrative authorities should not require from the enterprises various information, documents or certificates which have already been provided in other procedures. The simplification of the accounting framework in the EU through a review of the basic requirements concerning the annual and the consolidated reports of the SMEs is encouraged.

The Commission encourages the Member States to fulfil the recommendations laid out in the SME Strategy such as:

- To restrict the time necessary to start a new enterprise to 3 working days and reduce costs to EUR 100;
- Reduce the time necessary to obtain licenses and permits to start and run a specific SME activity to one month by the end of 2013.

6.2 Best practices


Thus, for example, in France, with the assistance of the law “Auto-entrepreneur” of 2009 each citizen (unemployed, employed, office workers, retired) is provided with the opportunity to easily establish a business. More than 500 000 such entrepreneurs have emerged in the period January 2009 — June 2010.

In Belgium the law concerning the continuity of enterprises of 2009 provides a moratorium over companies facing financial difficulties in order to avoid insolvency and pre-emptive declaration of bankruptcy.

In Estonia the Reorganization Law of 2008 introduces an alternative to bankruptcy allowing the companies to survive in cases of temporary solvency problems.
The new bankruptcy law of 2010 in Latvia makes the bankruptcy declaration procedure simpler and significantly faster thus guaranteeing the stabilization of the financial sector and the decrease of the private sector debt.

In the Czech Republic, the so-called “Data Box” law of 2009 aims at simplifying the data transfer and communication between businesses and administration.

The Hungarian administration provides the “one-stop-shop” service for registering a company and using electronic procedures services (since 2008 the electronic procedures have been made mandatory and the time necessary to establish a company has been reduced to one hour).

In Portugal a programme is launched with the purpose to simplify the administrative processes, procedures and practices. Since 2009, public consultations have been made through a public blog.

The UK government has created a web portal which offers information of the current public procurements and provides access to the electronic administrative opportunities. In 2008 the Office of Government Commerce published 12 recommendations to decrease the barriers encountered by small and medium-sized enterprises in competing for public procurements.

In 2010 Spain adopted a new law establishing a 30-day limit for executing public claims and a 60-day limit for inter-company payments.

Twenty two Member States have established operative desks of “one-stop-shop” servicing. They allow the SMEs to cope with the administrative formalities electronically when they want to do business in Europe. Fifteen of the Member States provide and internet page in English in addition to their own languages: Belgium, Cyprus, the Czech Republic, Denmark, Estonia, Finland, Germany, Hungary, Italy, Lithuania, the Netherlands, Portugal, Spain and Sweden.

6.3 Improving the access to the domestic and international markets

Bulgarian trade represents only 0.2% of world trade, and the country ranks 62nd among exporters. Bulgaria cannot be expected to be a leader in a whole sector, but our country has a role in the international markets in some niche products, and can develop its internationalisation exactly through strengthening this role.

The leading export products of Bulgaria are fuels and copper, followed by electrical and electronic products and machinery. The export of electronics and electric equipment after 2007 marked an annual average growth rate of 17%, while world exports grew by 4% for the same period, i.e. the country gained market share. Similar achievements were available for machinery: the 5-year average growth rate of export was 4% while world import grew on average by 2%. The next groups of products are iron and steel, and garments other than knitwear. Both groups registered declines in the past 5 years and loss of market shares. Oilseeds and cereals ranked seventh and eighth, followed by knitwear and pharmaceuticals (Iliev, 2012). The EU market is not sufficiently dynamic, therefore maintaining the Bulgarian export growth requires an increased presence in other markets. Our country does not fully utilize the opportunities provided by the most dynamic market in Europe and of the largest city: Istanbul, Turkey. With the approaching EU membership of the Western Balkans their competition both in the EU markets and in attracting high-quality investments will be increasing.
At the same time in our country there is a strong necessity to attract investments in industries producing high-tech export products with high value added. Investment should be channelled to further processing of resources — they are exported not because the prices in the external markets are higher but because they cannot be utilized here. In this respect, the low taxes are only one component of the total cost of doing business. Other important components are also the quality and the availability of the labour force, of public services, of local suppliers of goods and services, and of infrastructure.

Bulgaria can channel its efforts towards the production and export of goods with relatively higher value added, among which stand:

- Components for the automobile industry: hydraulics, machine knots, batteries, bearings, cables, electrical and electronic products, sensors, rims;
- Refrigerators, freezers; sanitary ware; computational machinery; pharmaceuticals.

6.4 Improving technological conditions

Even in the times of crisis, the SMEs sustained their role of being the cornerstones of the respective economies. Both in the EU and in our country they represent 99.8% of all enterprises. If in the EU-27 the SMEs account for 67% of total employment and 58% of GVA, in Bulgaria they provide 75% of the employment and 62% of GVA. Along with the threat of a repeated recession, the SMEs continue their recovery to the pre-crisis levels of value added and employment.

The economic performance of the SMEs varies significantly among the Member States. For example, the SMEs in Austria and Germany surpassed the 2008 levels with respect to GVA and employment in 2011, while in most of the remaining countries the SMEs cannot reach the pre-crisis levels of those indicators.

There are key factors which provide an explanation why the SMEs recover well in few countries. First, it is of high importance to have a strong economy with respect to high- and medium-high-tech manufacturing and knowledge-intensive services (as in the case of Germany). Second, the sector-specific labour productivity is higher where there is a higher level of investment and export in the high- and medium-high-tech manufacturing and knowledge-intensive services (for example, Austria and Germany). Third, the growth of value added in those best-performing EU economies results simultaneously from an increase in employment (which increases domestic demand) and a real growth of productivity, the growth of employment being the dominant one (Ecorys, 2012, p. 10).

Most of the sectors record a recovery in the growth of GVA of SMEs combined with decreasing employment. The only exception is found in trade, transport and services. Thus, a growth of SMEs combined with unemployment outlines (jobless growth). With respect to the performance of SMEs in the EU Member States concerning the annual average growth of value added and employment, they are divided in four groups:

1) P-P countries — having positive growth rates of both indicators;
2) P-N countries — having a positive growth of value added and a negative one of employment;
3) N-P countries — having a negative growth of value added and a positive growth of employment;
4) N-N countries — having negative growth rates of both indicators.

The data show a real improvement in 2012 compared to 2009. If in 2009 only Germany belonged to the first group, the majority of countries were in the fourth group. In 2011 already 13 countries were in the first group and only three were in the last one. For 2012 18 countries are expected to belong to the first group (among which Bulgaria) and only two (Greece and Portugal) — to the last one (Table 6-1).

Table 6-1: Categorization of the Member States by growth of value added and employment in 2009 and 2012

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>P-P</td>
<td>Germany</td>
<td>Austria, Belgium, Bulgaria, Cyprus, Denmark, Estonia, Germany, Hungary, Ireland, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Romania, Slovakia, Spain, the UK</td>
</tr>
<tr>
<td>P-N</td>
<td>Belgium, the Netherlands</td>
<td>The Czech Republic, Finland, France, Italy, Poland, Slovenia, Sweden</td>
</tr>
<tr>
<td>N-P</td>
<td>Bulgaria, the UK</td>
<td>Greece, Portugal</td>
</tr>
<tr>
<td>N-N</td>
<td>Austria, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden</td>
<td></td>
</tr>
</tbody>
</table>

Source: Ecorys, 2012, pp. 19-20

The policies to foster growth, employment and competitiveness are the key to the success of both the Europe 2020 strategy and the National Development Programme “Bulgaria 2020”. The previous annual reports of the BSMEPA revealed the decisive role of SMEs to the recovery from the 2008 crisis. Our country faces the challenge to encourage competitiveness based on higher productivity which is reflected in the seven leading priorities of the strategy, among which are innovation, new skills and sustainability are key components.

6.5 Stimulating innovations in SMEs

SMEs are viewed as one of the „leading forces” of modern economies due to their contribution to technological modernization, product and process innovations, employment creation and export development. The innovative potential of SMEs is important not only because it leads to improving their competitiveness but also due to connectedness and knowledge distribution among the remaining firms in the sector and the whole economy. With regard to the fact that Europe is increasingly transforming into a knowledge-led economy, it is of critical importance to better understand the role of SMEs in this knowledge-based economy, how research and development and innovation can affect productivity growth, especially in SMEs.

According to survey data, the growth of productivity in 2009–2012 was higher in the knowledge-intensive services than in the non-knowledge-intensive one, and also in the high-tech than in the low-tech SMEs in manufacturing. Those two types of SMEs are the most important for competitiveness.

The Member States which have relatively more knowledge-intensive economies report higher growth of GVA in their SMEs. There is a positive and statistically significant correlation between the share of employment in the knowledge-intensive SMEs in total SME employment and the GVA real growth of SMEs in the 27 Member States in the period 2008–2011. The same positive and statistically significant correlation exists in the Member States between the share of employment in high- and medium-high-tech SMEs in manufacturing and the real growth of GVA of all SMEs.
There is a stronger relationship between the growth of SMEs’ GVA and their share in employment in the knowledge-intensive services sectors. This means that the more SMEs in the knowledge-intensive services sectors, the higher the probability that the respective country has a higher value added created in the SME sector; this does not preclude the fact that some countries having a high share of SMEs in the knowledge-intensive services may report negative GVA growth in times of crisis. Generally the products and services of those sectors are more expensive and they have a higher elasticity of demand: they are more sensitive to changes in incomes (Berthou and Emlinger, 2010). Therefore, the drop in incomes in times of crisis affects very strongly this type of products and services (Esposito and Vicarelli, 2011). Vice versa, in times of economic recovery a higher growth can be observed for that type of companies. This hypothesis finds proof in the relatively faster recovery of the high- and medium-high-tech SMEs and of the ones in the knowledge-intensive services sectors in 2010 and 2011 (Ecorys, 2012, p. 44).

In addition, countries with a higher share of SME employment in the knowledge-intensive services sectors are more likely to be better in export performance. The same relationship exists also with respect to the countries having a higher share of SME employment in the high- and medium-high-tech branches of manufacturing.

However, in 2011–2012 the competitiveness of Bulgarian enterprises continued being based upon low costs and low taxes rather than on qualitative factors, education and innovations. This was to some extent due to the decreased government expenditures on R&D and innovations, and in this respect only and exclusively the EU funds were counted upon. According to the analysts, financing research and development by the government has a fragmentary nature; it is performed with no long-term vision and without substantiation in defining the state policies in the area of science and innovations (Innovations.bg, 2012, p. 46). It is no coincidence that 89.5% of the patents issued in Bulgaria in the period 2001–2011 are owned by foreign person and only 10.5% — by Bulgarian ones which limits the possibilities for Bulgarian firms to use new technologies without infringing foreign patent rights (Innovations.bg, 2012, p. 29).

At the same time in Bulgaria there are „various hidden forms of interaction between the academia and the business which are widespread and are directly linked to entrepreneurship activities of scientists and researchers. The main feature of those forms of cooperation is that they are informal and sometimes sidestep or even break the effective legal acts due to which they remain obscure both to the official statistics and to the greater part of studies in this area‖. (Innovations.bg 2010, p. 41)

All this raises the issue of adequate policy instruments and especially the role of universities in stimulating of more innovative start-ups, thus linking the public sector research to the world of business. It is necessary that a detailed review of the methods of stimulation is made, including:

- The introduction of intellectual property rules;
- The introduction of annual prizes;
- Focusing on entrepreneurs in the universities;
- Improving the access to financing for student entrepreneurs;
- Support for business incubators;
- Result-oriented technology-transfer centres.
This review needs to answer the question what the best way is to stimulate the creation and development of high-tech and knowledge-intensive SMEs. It is obvious that a significant part of this process is attributed to universities and their new role to stimulate entrepreneurship and to link scientific research with the real needs of business.

It is difficult to find funds for investment in education, science and technology, especially in times of crisis. At the same time a number of studies reveal that there is return to investments in a knowledge-based economy. The countries which reported economic growth even after the crisis of 2008, were mainly the ones characterized with a high share of investments in scientific research, technology and improving the qualification of the labour force. Those were countries like Finland, Denmark, Sweden, Switzerland, the U.S.A., Singapore, Taiwan, Belgium, Norway and the Netherlands. These countries adopted various measures to achieve a knowledge-based economy (INSEAD, 2010). „In Singapore, for example, teachers receive high remuneration, as well as additional bonuses related to the performance of their students. The curriculum is consistent and updated according to the latest requirement of the good future development of the students. In the Netherlands a number of companies support the schools and collaborate in designing ways to popularize natural sciences among the youth. In Denmark the government covers the wages of employees who are under the risk of being laid off or having a reduced working week, if the company employing them commits to train them and support them in developing additional skills and qualifications during that period” (Kamenova, 2011). The aging population in all EU countries and especially in Bulgaria, matched with a negative demographic growth poses even higher requirements with respect to increasing labour productivity and securing a qualified labour force as a main factor of economic growth. Without improving the skills of the human capital, the expenditures on new technology and infrastructure are worthless, and the attractions of investment — difficult.

6.6 Instruments to improve the access of SMEs to financing and lending

According to a study of the Bulgarian Industrial Association in 2012 the share of firms which used bank loans increased by 16% — in 2011 63% declared that they had loans, and in 2012 the percentage was 79%. At the same time, there is an increasing number of firms which manage to timely service their liabilities to banks (49%). Restructured loans decreased by 7% — from 25% in 2011 to 18% in 2012. In the last three years the firms which did not manage to repay their loans in time were 11-12%.

The study shows that the businesses counts increasingly more on bank lending and still less on European funds as 65% of the interviewed did not plan to apply for European projects in 2013, 26% had such an intention, and 9% hadn’t yet decided. The most frequently quoted reason to give up applying with projects was lack of resources for advance financing (39%). Among the other reasons were the heavy application, management and reporting procedures (15%), as well as the doubt about the objectiveness in project proposal evaluation (14%). 7% of the interviewed pointed the lack of qualified human resources to develop and manage projects, and 7% pointed the fact that they hadn’t accomplished the work under another project. A comparatively high (18%) remained the share of entrepreneurs claiming that they did not have sufficient information on the application options which was rather due to insufficient activity on behalf of the applicants for European financing (BIA. Negative assessments for 2012).
At the same time the Operational Programme “Competitiveness” contains six sub-priorities the funds for which are targeted for support of innovative entrepreneurship. In 2010 an agreement on the implementation of the JEREMIE initiative was signed between the government of the country and the European Investment Fund. This initiative includes instruments for financial engineering intended for new start-ups and support to existing micro, small and medium-sized enterprises. Five funds for SME financing are established under the agreement:

- A Guarantee Fund providing guarantees to commercial banks to lend to SMEs out of own resources.
- Three equity funds – Risk Capital Fund envisaging financing of innovative small starting enterprises, Growth Capital Funds targeted at the support of innovative SMEs in the first years after, and Mezzanine Funds envisaging joint venture financing and a lending instrument.
- Entrepreneurship Acceleration and Seed Financing Instrument supporting the entrepreneurs at the stage of idea generation and developing a business plan for its implementation.

Thus, through the Operational Programme “Competitiveness” in Bulgaria is introduced the full set of capital instruments targeted at each stage of the life-cycle of an innovative enterprise – from the development of the idea through a start-up, early development, to capital and business expansion in the mature phase. The amount of gratuitous financial aid from the EU funds and the national budget totalled slightly over BGN 389 (Innovations.bg, 2012, p. 46)

6.7 Summary: Proposed policies to stimulate SME development in Bulgaria

- Policies to improve the business environment for SME development

According to the European Small Business Act the support of small enterprises should be focused on the following ten key areas/priorities:

- Entrepreneurship education and training.
- Cheap and faster starting of business.
- Good legislation and regulations.
- Improvement of skills.
- Improving the online access to services.
- Maximum benefits from the single market.
- Tax and financial issues.
- Strengthening the technological potential of the small enterprises.
- Using successful models for e-business and development of the highest-quality support for small enterprises.
- Development of a stronger and more efficient representation of the interests of small enterprises at the EU level, as well as at the national level.

According to the Action Plan concerning the stimulation of entrepreneurship of the EC, the policies should be pointed in the following three areas of immediate intervention:
1) Entrepreneurship education and training to support growth and the establishment of new businesses.

2) Strengthening the framework conditions for the entrepreneurs through the abolishment of the existing structural barriers in the critical phases of the life-cycle of the business.

3) Stirring entrepreneurship culture in the EU countries through the creation of prerequisites for the emergence of a new generation of entrepreneurs.

According to the recommendations of the EC, Bulgaria should follow the best practices in the Small Business Act reflected in the following principles: Entrepreneurship encouragement; Second chance; Think small first; Communicative administration; Access to public procurements; Access to financing; Single market; Skills and innovations; Turning environmental challenges into opportunities; Support to internationalisation.

— Policies in the area of legal regulations

The main policies which will create prerequisites for the development of the SME sector in the area of legal regulations are as follows:

- Improving the regulatory environment with respect to predictability and sustainability.
- Facilitating procedures for issuing permits (e.g. in construction, pharmaceutical industry and the chemical production) at the local and the national level.
- Reducing the time necessary for starting new enterprises to 3 working days and costs to EUR 100.
- Reducing the time necessary to obtain licenses and permits to start and run a specific SME activity to one month until the end of 2013.
- Abolishing the illegal practices, simplifying and reducing the administrative fees.
- Facilitating the requirements for SMEs’ participation in public procurements – e.g. originals of documents should be required only from the winner of the procurement.
- Development of a law introducing a 30-day limit for public claims and a 60-days limit for inter-company payments (similar to that in Spain);
- Development of e-government.
- Guaranteeing of a better functioning “one-stop-shop” (administrative authorities should not require from enterprises information, documents or certificates which have already been provided under other procedures).
- Implementation of the “silent consent” principle.
- Simplification of the language of health and job safety standards, as well as of the product safety standards, especially the one on foods.
- Facilitating the transfer of business ownership, of the procedures for exiting a business and starting a new one (a second chance for reputable entrepreneurs).
- Simplification of the SME accounting framework through a review of the basic requirements concerning annual and consolidated reports of SMEs.
• Creation of a national web portal offering information on the current public procurements and providing access to the electronic administrative options (e.g. allowing the service providers to handle administrative formalities electronically).

— Tax policies stimulating SMEs

The proposals for policies in the area of tax policies can be summarized in the following way:

• Abolishment or reduction of the dividend tax.
• Reduction of the tax rates for single proprietorships from 15% to 10%.
• Review of the legal compliance and the size of a number of state and municipal fees in order to reduce them (especially the garbage collection fee).
• Tax reliefs for SMEs operating in underdeveloped and depopulated areas (villages), such as for example abolishing the requirement for cash registers.

— Policies facilitating the access to financing

The proposed policies aimed at facilitating the access to financing of SMEs, are as follows:

• Improving the access to financing for small and medium-sized enterprises under the EU funds and the national programmes which includes reducing bureaucracy and the delays in their administration.
• Simplifying the heavy project application, management and reporting procedures.
• Securing the initial resources for advance financing of EU projects participation.
• Popularization of the JEREMIE initiative in the mass media.

— Policies in the area of labour relations:

• Extending the practices of term-based contracts, temporary and part-time work, which requires also the introduction of acceptable sector-specific hourly wages (especially in hotels, restaurants, construction, retail trade, etc.).
• Development of the system for recognizing of informally gained professional experience and qualifications.

— Policies in the area of technologies, innovations and energy efficiency:

• Strengthening R&D financing.
• Support to SMEs’ research activities and the testing of new business models through the Operational Programme “Competitiveness”.
• Special support to SMEs in the high- and medium-high-tech manufacturing industry and the knowledge-intensive services.
• Special support to export-oriented high- and medium-high-tech SMEs in manufacturing and knowledge-intensive services.
o Creation of an e-platform for the assessment of the export and innovative rating of SMEs; it will serve as a basis for the formulation of adequate policies to stimulate innovations and support internationalisation, and also to allow the channelling of those policies to the relevant target groups.

o Regular updates of the information set and elaboration of analyses of the state of SMEs with respect to innovations and internationalisation; they are to be used in identifying efficient policies.

o Carrying out net impact assessments of the implemented policies in order to identify the efficient and inefficient measures as well as the incentives to which the SMEs react most strongly with a view to improve the efficiency of the policies implemented by the BSMEPA and the MEET.

- Assistance for the institutionalization of the hidden forms of collaboration between the academia and the business which are related to the entrepreneurial activities of scientists and researchers.

- Stimulating the new role of universities in linking research and business:
  o A review of the status of the researcher;
  o Introduction of the intellectual property rules;
  o Establishment of annual prizes;
  o Focusing on entrepreneurs from the universities;
  o Improving the access to financing for student entrepreneurs;
  o Support to business incubators;
  o Result-oriented technological transfer centres.

- Introduction of “innovation vouchers” allowing the SMEs to buy innovation-related consultancy services and know-how.

- Financing for energy efficiency through the introduction of favourable borrowing conditions or direct subsidies.

- Provision of consultancy services to SMEs on their awareness on energy efficiency.

- Co-financing of projects related to the provision of eco products and technologies (e.g., solar appliances, smart grids, etc.).

- Policies stimulating the internationalisation and export of SMEs:
  - Financial support to stimulate exports, strategies for market access and participation in various fairs.
  - Support to SMEs entering third markets outside of the EU, especially in the fast developing countries (Brazil, Russia, India, China, Turkey, etc.).
  - Priority support to productions which have proved their export competitiveness.
  - Introduction of a mentor scheme under which the large companies provide support for the internationalisation of SMEs.
— Policies in the area of education and entrepreneurial culture:

- Introduction of specific entrepreneurial skills training in primary and secondary education.
- Diffusion of the entrepreneurship training in higher education with a stress on technical and creative majors.
- Popularization of education in natural sciences and mathematics among the young people - mass scholarships for students in those majors.
- Creation of role models for entrepreneurs whom the young Bulgarians want to follow - the implementation of a cultural “entrepreneurial” revolution.

Assistance in the extension of intra-company trainings in SMEs, especially in the area of project management.

Box 6-1: BEST PRACTICES IN THE EU MEMBER STATES TO STIMULATE THE DEVELOPMENT OF SMEs

Policies and approaches

The European Small Business Act adopted by the Member States in order to improve the business environment for the small enterprises was approved by the EU leaders at the 2000 European Council. According to it, the Member States and the Commission undertook actions to support the small enterprises in ten key areas/priorities:

- Entrepreneurship education and training;
- Cheap and faster starting of business;
- Good legislation and regulations;
- Improvement of skills;
- Improvement of the online access to services;
- Maximum possible benefits from the single market;
- Tax and financial issues;
- Strengthening the technological potential of the small enterprises;
- Using successful models for e-business and development — of the highest-quality support to small enterprises;
- Developing a stronger and more efficient representation of the interest of small enterprises at the EU level as well as at the national level.

The European Small Business Act adopted in June 2008 reflects the political will of the Commission to acknowledge the central role of SMEs in the EU economy and to affirm for the first time a thorough SME policy for the EU and the Member States. The Act aims to improve the integrated approach to entrepreneurship, to introduce a continuous application of the ‘Think small first’ principle in policies, legislative activities and public services, as well as to encourage the growth and development in SMEs by assisting them in solving the problems hindering their development. The Small Business Act in Europe is applied by all independent companies having less than 250 workers and employees: such are 98% of all European enterprises.

In 2011 the Commission presented a new approach which better reflected the needs of the small enterprises. From now on the European Commission will strive as much as possible to reduce the administrative burden on micro enterprises in applying the EU legislation or to introduce special regimes so that the regulatory burden that they face is reduced to the minimum. In a special report to the Council and to the European Parliament, the Commission presented a list of initiatives which have already been undertaken or will be used in the future. It contains strict measures aiming at taking into account the opinion of SMEs in formulating the new EU initiatives.

The reporting and the exchange of best practices under the Act in the area of SME policies will continue with the increased participation of the Member States. A main instrument to discuss the best practices according to it are the annual conference organized mutually by
This analysis was prepared on behalf of BSMEPA by Consortium INSIGHT

The European Commission and the respective Presidency of the Council. The conferences attract each year more than 350 politicians and business organisations from more than 40 countries.

Best practices assessment criteria

A best practice is a policy, a project, an instrument or any other measure introduced by or under the initiative of the public authorities at the national, regional or local level with the aim to implement the Small Business Act.

It should reflect the following priorities:

– It should be specifically targeted to small and medium-sized enterprises and/or should take into account the needs of SMEs in order to apply one or more of the Small Business Act priorities with a view to achieve significant results;

– What is the influence of best practices on the local/regional/national economy in job creation? Is the project sustainable in the future? What positive long-term effect will it produce?

– Can this approach be applied in other European countries? Is the project inspiring? Are there any business relations/partnerships developed on the basis of shared lessons learned?

– Definitive support also to other practices concerning effectiveness and efficiency or a significant improvement of the SME condition within the respective Member State.

It is preferable that the best practice example includes:

– A communication strategy adapted to a target audience;

– The idea should be original and innovative;

– It should envisage a current assessment of its results, better if based upon predefined clear and measurable targets.

In the latest years there is a considerable convergence in the policies of Member States in the area of SMEs as well as in the practical aspects of their implementation. An increasing number of countries are reporting that they have implemented measures developed in other Member States thus utilizing the strengths and the experience gained in the realization of ideas.

Many concrete examples testify to the success of this method such as:

– The application of the ‘Think small first’ principle

– The simplification of procedures

– The internationalisation of SMEs

– The entrepreneurship education

– Bankruptcy and a new start

– The decrease of the administrative burden

In addition to the encouragement of the small and medium-sized enterprises and entrepreneurship at the regional and local levels, the Commission started awarding the European Entrepreneurship Prizes in order to encourage the best practices in those enterprises and the entrepreneurship.

A review of the best practices according to the Small Business Act

In implementing the 10 principles of the Small Business Act, the following best practices are available:

Principle 1: Encouragement of entrepreneurship

Many Member States have introduced programmes to encourage the entrepreneurial attitudes and skills of young people through integrating entrepreneurship in schools and university curricula or through project creation.

In some countries entrepreneurial training is specified in a coordinated national strategy (Denmark, the Netherlands, Sweden, the United Kingdom, etc.). In Latvia hundreds of students present business plans annually within the framework of a competition. Some countries are involved in national or European programmes to encourage female entreprene-
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ship (Cyprus, Denmark, Greece, Finland, France, Germany, Iceland, Ireland, Italy, Norway, Poland, Slovakia and Sweden). Several countries use significant amounts from the European funds for those programmes:

In Austria, for example, the “Succession exchange” programme (started in 2008) aims at supporting company mergers. Ancillary services and an electronic platform to connect entrepreneurs who intend to transfer their company and entrepreneurs who wish to start running it are offered.

In France „Auto-entrepreneur” (2009) allows each citizen (unemployed, employed, officials, retired) to start a business and benefit from a number of tax reliefs during the first year after the start of the business. More than 500 000 “entrepreneurial” companies were established between January 2009 and June 2010.

In Romania the “Start” programme aims at developing the entrepreneurial skills among the young people (at the age of 18-35) and at supporting the start-ups (it had a budget of EUR 21.2 mn in 2009, incl. EUR 19 mn for grants and EUR 2.1 mn to finance the executive agency).

In Sweden the National Programme to Encourage Female Entrepreneurs (for the period 2007-2010) provided services and guidance to the start-ups run by females. A National Network of female ambassadors was established and in 2009 it inspired the establishment of the European Network of Female Entrepreneurship Ambassadors.

**Principle 2: Second chance**

Only five Member States (Belgium, Finland, Ireland, Spain and the United Kingdom) have complied with the requirement to complement their legal procedures for termination of a business in case of bankruptcy within a year.

In Belgium this is the Law on Company Succession (2009r.), providing a moratorium over companies facing financial difficulties, in order to prevent a situation of insolvency and bankruptcy.

In Estonia, through a reorganization adopted in 2008 an alternative of the bankruptcy procedure was created allowing the companies to survive in cases of temporary insolvency issues.

In Latvia a new law on bankruptcy was elaborated, and it entered in force in 2010 with the purpose to simplify and accelerate the bankruptcy procedures thus guaranteeing the stabilization of the financial sectors and decreasing the level of private sector debt.

**Principle 3: Think small first**

Only a few Member States (Belgium, Denmark, Finland, Luxembourg, Germany, Poland, Slovenia, Sweden and the UK) have integrated the SME test in their national approach to decision making.

In Germany in 2009 23 bureaucratic procedures were simplified as part of the actions undertaken to reduce the bureaucratic barriers before SMEs.

In Italy in April 2010 the government adopted a recommendation to implement the Small Business Act and established a permanent working group bringing together ministries, chambers, business organizations, regions and an Italian member of the European Economic and Social Council to oversee the implementation of the Small Business Act and to propose initiatives in this respect.

**Principle 4: Communicative administrations**

In the Czech Republic the „Data Box” project of 2009 aims at simplifying the transfer of data and the communication between the business and the administration.

The administration in Hungary provides one-stop-shop services for registering a company with simplified procedure and e-procedures (since 2008 the electronic procedures have been made mandatory and the time to establish a business has been reduced to one hour).

In Portugal the „Simplex” programme aims at simplifying the administrative processes, procedures and practices. Since 2009 the public consultation have been carried out through a public blog.
**Principle 5: Access to public procurements**

Only several countries have begun to apply the European Code of Best Practices with a view to facilitate the access of SMEs to public procurements (Austria, France, Germany, Ireland, Poland, Portugal, Sweden and the United Kingdom). The most widespread measures favouring SMEs are restricting the offers and facilitating the access to information through centralized websites, interactive webpages and other electronic public procurements.

In the United Kingdom a government web portal was created (Supply2.gov.uk), in which public sector contracts are published and thus the access of SMEs to publicly financed opportunities is secured. In 2008 the Trade and Investment government department published 12 recommendations to reduce the barriers faced by SMEs when they compete for public sector contracts.

**Principle 6: Access to financing**

Most of the Member States have adopted measures in their fiscal policies to facilitate the access of SMEs to financing through government support, guarantee support schemes (Belgium, Cyprus, the Czech Republic, Estonia, France, Germany, Greece, Hungary, Italy, Latvia, Lithuania, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain and the United Kingdom) or microcredit for co-financing (Austria, Germany, Hungary, Ireland, Latvia, Lithuania, Slovakia and Sweden).

Several Member States have also undertaken measures to raise the level of risk capital (the Czech Republic, Denmark, Ireland, Luxembourg, Poland, Slovakia, Sweden and the United Kingdom). It is also necessary to mention that Belgium, Hungary, France, Ireland and since recently Finland have the so-called loan ombudsmen.

Other Member States have taken actions to cope with the late payments thus getting ahead of the Directive on late payments, and in some cases exceeding its scope (Belgium, France, Germany, Portugal and the United Kingdom). In 2010 Spain adopted a new law defining a 30-day limit in public payments and a 60-day limit for business-to-business payments.

**Principle 7: Single market**

Twenty-two Member States have created points of single contacts. They allow the provider of services handle the administrative formalities electronically when they want to do business in the whole of Europe. Fifteen of them provide information in their national languages and in English (Belgium, Cyprus, the Czech Republic, Denmark, Estonia, Finland, Germany, Greece, Hungary, Italy, Lithuania, the Netherlands, Portugal, Spain and Sweden).

**Principle 8: Skills and innovations**

Several Member States provide financing for new innovative companies through special start-up and risk capital (Austria, Belgium, the Czech Republic, Finland, Germany, Greece, Hungary, Spain, Sweden and the United Kingdom). Others provide financial support to innovative centres or to competitiveness by linking universities, research centres and enterprises (Austria, Belgium, the Czech Republic, Germany, France, Ireland, Italy and the United Kingdom). The “innovative vouchers” which allow the SMEs to purchase innovative consultancy services and know-how are widespread (Austria, Greece, Ireland, the Netherlands, Portugal, Spain and Sweden).

Another example of best practices is Italy where in order to encourage the networking of innovative small and medium-sized enterprises a Law regulating company networks was adopted in July 2010, and those networks are provided with fiscal, administrative and financial initiatives.

**Principle 9: Transforming environmental challenges into opportunities**

In order to support SMEs in improving or replacing equipment with energy-efficient alternatives, several Member States provide financing for energy efficiency though the introduction of favourable borrowing terms or direct subsidies (Belgium, Bulgaria, Cyprus, France, Germany, Malta, Portugal, Slovenia and the United Kingdom). Other countries provide support to small and medium-sized enterprises for developing business opportunities in green markets (Bulgaria, the Czech Republic, Germany and Slovakia). A third group of
countries provide consultancy services to small and medium-sized enterprises to inform them and increase their awareness on energy efficiency, and to decrease costs business opportunities in those areas (Austria, Belgium, Bulgaria, Germany, Hungary, Spain, Sweden and the United Kingdom).

In Denmark, using the Business Innovation Fund having a budget of EUR 100 mn for the period 2010-2012 (established in 2009) the Danish Ministry of Economy and Business supports the business opportunities in the so-called green markets.

The Foundation for Science and Innovation in Energy and Environment in the Netherlands (established in 2008) is a network of 160 companies, institutes, regional and local governments, and it co-fines projects for the provision of eco-products and technologies (e.g. solar appliances, smart grids, etc.).

**Principle 10: Support for internationalisation**

Several governments stimulate the internationalisation of SMEs, for example through financial support of export stimulation, strategies for market access and participation in various fairs (Cyprus, the Czech Republic, Denmark, Estonia, France, Ireland, Italy, Latvia, Lithuania, Malta, the Netherlands, Poland, Portugal, Slovakia, Spain, Sweden and the United Kingdom). Some of them such as Denmark and Slovenia focus on the growth of companies ready to internationalize. Others have established new export encouragement agencies (Luxembourg) or new programmes to support small export companies (Hungary).

The mentor scheme in which support is provided by the large firms for the internationalisation of SMEs is also a pilot project in France.
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### A1. Microeconomic indicators for the performance of SMEs sector

#### Table A1: The Matrix with key microeconomic indicators for the SMEs performance, 2012-2013

<table>
<thead>
<tr>
<th>Firm characteristics</th>
<th>Characteristics of director/owner/manager</th>
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<tr>
<td>By branch or by Key Indicators</td>
<td></td>
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<tr>
<td></td>
<td>Size by number of employees</td>
</tr>
<tr>
<td>Trade</td>
<td>9.52</td>
</tr>
<tr>
<td>Services</td>
<td>9.81</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>37.49</td>
</tr>
<tr>
<td>Construction</td>
<td>22.59</td>
</tr>
<tr>
<td>Total</td>
<td>14.34</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Firm performance</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Profit — % of firms with a profit</td>
<td>Employees — % decline in the number of employees</td>
<td>Market share — % with the increase of the market share for the past year</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Own trade mark (s)</td>
<td>Penetration of entrepreneurship among population of the country</td>
</tr>
<tr>
<td>Trade</td>
<td>35.8</td>
<td>19.5</td>
<td>14.8</td>
</tr>
<tr>
<td>Services</td>
<td>32.3</td>
<td>32.3</td>
<td>10.2</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>59</td>
<td>42.6</td>
<td>76</td>
</tr>
<tr>
<td>Construction</td>
<td>56.5</td>
<td>23.9</td>
<td>37</td>
</tr>
<tr>
<td>Total</td>
<td>6</td>
<td>39.5</td>
<td>27.2</td>
</tr>
</tbody>
</table>
### A2. Macroeconomic indicators

Таблица A2: Macroeconomic indicators in Bulgaria, 2007-2012

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP, mln. euro</td>
<td>30772</td>
<td>35430</td>
<td>34932</td>
<td>36052</td>
<td>38504</td>
<td>39667</td>
</tr>
<tr>
<td>GDP, real growth</td>
<td>6.4%</td>
<td>6.2%</td>
<td>-5.5%</td>
<td>0.4%</td>
<td>1.8%</td>
<td>0.8%</td>
</tr>
<tr>
<td>Final consumption, real growth</td>
<td>7.2%</td>
<td>2.6%</td>
<td>-7.3%</td>
<td>0.5%</td>
<td>1.5%</td>
<td>1.8%</td>
</tr>
<tr>
<td>Investments in fixed capital, real growth</td>
<td>11.8%</td>
<td>21.9%</td>
<td>-17.6%</td>
<td>-18.3%</td>
<td>-6.5%</td>
<td>0.8%</td>
</tr>
<tr>
<td>Exports, real growth</td>
<td>6.1%</td>
<td>3.0%</td>
<td>-11.2%</td>
<td>14.7%</td>
<td>12.3%</td>
<td>-0.4%</td>
</tr>
<tr>
<td>Imports, real growth</td>
<td>9.6%</td>
<td>4.2%</td>
<td>-21.0%</td>
<td>2.4%</td>
<td>8.8%</td>
<td>3.7%</td>
</tr>
<tr>
<td>Inflation (end of the year)</td>
<td>12.5%</td>
<td>7.8%</td>
<td>0.6%</td>
<td>4.5%</td>
<td>2.8%</td>
<td>4.2%</td>
</tr>
<tr>
<td>Inflation (annual average)</td>
<td>8.4%</td>
<td>12.3%</td>
<td>2.8%</td>
<td>2.4%</td>
<td>4.2%</td>
<td>3.0%</td>
</tr>
<tr>
<td>Unemployment (annual average unemployment rate)</td>
<td>6.9%</td>
<td>5.6%</td>
<td>6.8%</td>
<td>10.2%</td>
<td>11.3%</td>
<td>12.3%</td>
</tr>
<tr>
<td>Current account, mln. euro</td>
<td>-7755</td>
<td>-8182.6</td>
<td>-3116.5</td>
<td>-533.0</td>
<td>39.2</td>
<td>-528.3</td>
</tr>
<tr>
<td>Current account, percentage of GDP</td>
<td>-25.2%</td>
<td>-23.1%</td>
<td>-8.9%</td>
<td>-1.5%</td>
<td>0.1%</td>
<td>-1.3%</td>
</tr>
<tr>
<td>Trade balance, mln. euro</td>
<td>-7245.2</td>
<td>-8597.7</td>
<td>-4174.0</td>
<td>-2763.8</td>
<td>-2156.3</td>
<td>-3621.9</td>
</tr>
<tr>
<td>Trade balance, percentage of GDP</td>
<td>-23.5%</td>
<td>-24.3%</td>
<td>-11.9%</td>
<td>-7.7%</td>
<td>-5.6%</td>
<td>-9.1%</td>
</tr>
<tr>
<td>Exports, F.O.B., mln. euro</td>
<td>13511.9</td>
<td>15204.1</td>
<td>11699.4</td>
<td>15561.1</td>
<td>20264.3</td>
<td>20793.1</td>
</tr>
<tr>
<td>Imports, F.O.B., mln. euro</td>
<td>20757.1</td>
<td>23801.8</td>
<td>15873.2</td>
<td>18324.9</td>
<td>22420.3</td>
<td>24415.2</td>
</tr>
<tr>
<td>Forex reserves of BNB, mln. euro</td>
<td>11937</td>
<td>12713</td>
<td>12919</td>
<td>12977</td>
<td>13349</td>
<td>15525</td>
</tr>
<tr>
<td>Foreign direct investments, mln. euro</td>
<td>5.9</td>
<td>5.5</td>
<td>8.0</td>
<td>7.3</td>
<td>6.3</td>
<td>6.7</td>
</tr>
<tr>
<td>Foreign direct investments, percentage of GDP</td>
<td>9051.7</td>
<td>6728.0</td>
<td>2436.9</td>
<td>1151.3</td>
<td>1314.6</td>
<td>1478.2</td>
</tr>
<tr>
<td>Current account, mln. euro</td>
<td>29.4%</td>
<td>19.0%</td>
<td>7.0%</td>
<td>3.2%</td>
<td>3.4%</td>
<td>3.7%</td>
</tr>
<tr>
<td>Budget deficit/surplus, mln. euro</td>
<td>1001.9</td>
<td>1017.4</td>
<td>-320.1</td>
<td>-1443.3</td>
<td>-761.1</td>
<td>-179.1</td>
</tr>
<tr>
<td>Budget deficit/surplus, percentage of GDP</td>
<td>3.3%</td>
<td>2.9%</td>
<td>-0.9%</td>
<td>-4.0%</td>
<td>-2.0%</td>
<td>-0.5%</td>
</tr>
<tr>
<td>Government debt, mln. euro</td>
<td>5709.7</td>
<td>5465</td>
<td>5440.5</td>
<td>6020.6</td>
<td>6557.8</td>
<td>7507.0</td>
</tr>
<tr>
<td>Government debt, percentage of GDP</td>
<td>18.6%</td>
<td>15.4%</td>
<td>16.7%</td>
<td>17.0%</td>
<td>18.9%</td>
<td></td>
</tr>
<tr>
<td>Broad money (M3), mln. euro</td>
<td>21506</td>
<td>23406</td>
<td>24384</td>
<td>25943</td>
<td>29104</td>
<td>31569</td>
</tr>
<tr>
<td>Credit to private institutions, mln. euro</td>
<td>18656</td>
<td>24713</td>
<td>25599</td>
<td>25903</td>
<td>26740</td>
<td>27507</td>
</tr>
<tr>
<td>Main interest rate, end of the year</td>
<td>4.6%</td>
<td>5.8%</td>
<td>0.6%</td>
<td>0.2%</td>
<td>0.2%</td>
<td>0.03%</td>
</tr>
</tbody>
</table>

Source: NSI, BNB, Ministry of Finance
A3. Scope and methodology of the statistical analyses

A3.1. Classification of economic activities

Two classifiers are used in the analysis — NACE.BG-2003 and NACE.BG-2008, as follows:

<table>
<thead>
<tr>
<th>НКИД 2003</th>
<th>КИД 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>C</strong> Mining and quarrying</td>
<td><strong>B</strong> Mining and quarrying</td>
</tr>
<tr>
<td><strong>D</strong> Manufacturing</td>
<td><strong>C</strong> Manufacturing</td>
</tr>
<tr>
<td><strong>E</strong> Production and distribution of electrical and warming energy, gas fuels and water</td>
<td><strong>D</strong> Electricity, gas, steam and air conditioning supply</td>
</tr>
<tr>
<td><strong>E</strong> Water supply; sewerage; waste management and remediation activities</td>
<td><strong>E</strong> Water supply; sewerage; waste management and remediation activities</td>
</tr>
<tr>
<td><strong>F</strong> Construction</td>
<td><strong>F</strong> Construction</td>
</tr>
<tr>
<td><strong>G</strong> Wholesale and retail trade, repair and technical servicing of automobiles, motocycles, of personal and household goods</td>
<td><strong>G</strong> Wholesale and retail trade and repair of motor vehicles and motorcycles</td>
</tr>
<tr>
<td><strong>H</strong> Hotels and restaurants</td>
<td><strong>I</strong> Accommodation and food service activities</td>
</tr>
<tr>
<td><strong>I</strong> Transporting, storage and communications</td>
<td><strong>H</strong> Transporting and storage</td>
</tr>
<tr>
<td><strong>K</strong> Real estate activities and business services</td>
<td><strong>J</strong> Information and communication</td>
</tr>
<tr>
<td><strong>L</strong> Real estate activities</td>
<td></td>
</tr>
<tr>
<td><strong>M</strong> Professional, scientific and technical activities</td>
<td></td>
</tr>
<tr>
<td><strong>N</strong> Administrative and support service activities</td>
<td></td>
</tr>
</tbody>
</table>

In the analysis, four spheres /fields of activities are used, as follows:

- Production — Manufacturing — sectors B and C by NACE.BG-2008
- Services — sectors I to N, S95 by NACE.BG-2008
- Construction — sector F by NACE.BG-2008

The analysis is based on the SME definition in compliance with the SME Act, and the size of the enterprises has been determined by the number of employed persons.
A3.2. Methodology of SME Surveys

2013 SME Survey on all sectors

<table>
<thead>
<tr>
<th>Type of survey:</th>
<th>Nationally representative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Target group:</td>
<td>Micro, small and medium-sized enterprises</td>
</tr>
<tr>
<td>Sample:</td>
<td>500 firms</td>
</tr>
<tr>
<td>Sample design:</td>
<td>Stratified random sampling with clusters defined using three criteria: region, size of firm and field of activity</td>
</tr>
<tr>
<td>Data collection method:</td>
<td>CATI</td>
</tr>
<tr>
<td>Questionnaire:</td>
<td>Standardised questionnaire comprised of 146 questions</td>
</tr>
<tr>
<td>Average duration of the interview:</td>
<td>40 min</td>
</tr>
<tr>
<td>Field work:</td>
<td>Noema Ltd. (5 Feb – 5 Mar, 2013)</td>
</tr>
</tbody>
</table>

2013 SME Survey on 18 manufacturing activities

<table>
<thead>
<tr>
<th>Type of survey:</th>
<th>Nationally representative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Target group:</td>
<td>Micro, small and medium-sized enterprises</td>
</tr>
<tr>
<td>Sample:</td>
<td>500 firms</td>
</tr>
<tr>
<td>Sample design:</td>
<td>Random sampling using quotas for the 18 activities</td>
</tr>
<tr>
<td>Data collection method:</td>
<td>CATI</td>
</tr>
<tr>
<td>Questionnaire:</td>
<td>Standardised questionnaire comprised of 100 questions</td>
</tr>
<tr>
<td>Average duration of the interview:</td>
<td>25 min</td>
</tr>
<tr>
<td>Field work:</td>
<td>Noema Ltd. (20 Feb – 19 Mar, 2013)</td>
</tr>
</tbody>
</table>

A3.3. Index methodology

Specification of indexes for SMEs competitiveness

**Index „Access to Finance”**

The index measures the extent to which the entrepreneurs have access to finance. Easier access to finance is assumed to be such access, which enables enterprises to use financial resources from the following sources:

- Banking, investment, and other financial institutions;
- Programs funded by the state budget, European funds and other foreign support;
- Means of the owners of the enterprise, as such of family and friends.

The index contains the following financial instruments used by the companies: Investment bank loan; Bank loan for working capital; Bank loan for special purpose; Overdraft; Credit card; Financial leasing (for purchase of equipment, automobiles, etc.); Venture capital; Loan from family and friends; Means of the owner(s) of the company; EU funding; Programme funded by the state budget (of the Government, a Ministry, a State Agency, etc.) or other countries.

The index considers whether the companies have used each financial instrument in the last year. The formula used for the calculation of the index is as follows:
This analysis was prepared on behalf of BSMEPA by Consortium INSIGHT

\[
IAF_i = \frac{\sum FinInstrument_i^n + \sum Programme_i^m + \sum FamilyFriends_i^k}{\max(\sum FinInstrument_i^n + \sum Programme_i^m + \sum FamilyFriends_i^k)} \times 100
\]

where:

- \( IAF_i \) is the index of access to finance for entrepreneur \( i \), \( FinInstrument_i^n \) measures whether the entrepreneur \( i \) uses financial instrument \( n \), provided by banking, investment and other financial institutions, \( Programme_i^m \) measures whether the entrepreneur \( i \) uses funding program \( m \), granted by the Government, the EU funds and third parties, \( FamilyFriends_i^k \) measures whether the entrepreneur \( i \) uses loans from source \( k \), received by the owner(s) of the enterprise, family and friends.

The index takes values from 0 to 100, where: 1) Values close to 100 indicate presence of extremely easier access to finance, which allows SMEs to freely use all different sources] 2) Values close to 0 indicate presence of extremely difficult access to finance, which does not allow entrepreneurs to use no financial resources at all.

The index values are divided into the following conditional intervals:

<table>
<thead>
<tr>
<th>0 – 20</th>
<th>21 – 40</th>
<th>41 – 60</th>
<th>61 – 80</th>
<th>81 – 100</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very difficult access</td>
<td>Difficult access</td>
<td>Neither difficult, nor easy access</td>
<td>Easy access</td>
<td>Very easy access</td>
</tr>
</tbody>
</table>

**Index “Innovation Activity”**

The index measures the extent to which entrepreneurs pursue innovation. Innovation activities include (working definition):

- Establishment of innovation infrastructure in the enterprise.
- Development of new products and issuing them on the market.

The index contains the following two equal components:

- Availability of innovation infrastructure in the enterprise;
- Availability of development of new products.

The index is calculated based on the following types of domestic firm’s activities:

The formula by which the index is calculated as follows:

\[
IRD_i = \frac{\sum RD_{base_i}^n}{\max(\sum RD_{base_i}^n)} + \frac{\sum RD_{products_i}^m}{\max(\sum RD_{products_i}^m)} \times \frac{1}{2} \times 100
\]

where:
**IRD** is the index that measures the innovation activity of entrepreneur $i$, $RD_{Base}$ indicates whether the entrepreneur $i$ does activity $n$, associated with the establishment of innovation infrastructure, $RD_{Products}$ indicates whether the entrepreneur $i$ does activity $m$, associated with the development of new products,

The index takes values from 0 to 100, where: 1) Values close to 100 indicate presence of very high innovation activity; 2) Values close to 0 indicate a lack of innovation activity.

Index values are divided into the following conditional intervals:

<table>
<thead>
<tr>
<th>Index</th>
<th>0 – 20</th>
<th>21 – 40</th>
<th>41 – 60</th>
<th>61 – 80</th>
<th>81 – 100</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weak innovation activity</td>
<td>Rather weak innovation activity</td>
<td>Neither weak, nor advanced innovation activity</td>
<td>Rather advanced innovation activity</td>
<td>Advanced innovation activity</td>
<td></td>
</tr>
</tbody>
</table>

**Index “Trademarks and patents” (business activities related to registering intellectual property)**

The index measures the extent to which businesses have registered trademarks and patents as well as their readiness to have such.

The index contains the following three components:

- Availability of trademarks and patents at home country and abroad, and such forthcoming registrations;
- Availability of sufficient financial resources in the enterprise for registration of trademark, patent or other intellectual property;
- Level of awareness of the enterprises in respect with the value and opportunities of the brand, as well as with the possibility of registration of such in the EU.

The index formula is as follows:

$$ITM_i = w_1 \times Re\,registrations_i + w_2 \times Financing_i \times 100,$$

where:

$ITM_i$ is the index, which measures the degree of patent activities in enterprise $i$, $Re\,registrations_i$ is an indicator corresponding to the already made and expected registrations of trademarks and patents at home country and abroad by company $i$, $Financing_i$ measures the extent to which company $i$ can finance the registration of trademarks, patents or intellectual property, $w_i$ is the weight of
the registered intellectual property in the final index, which in this case is equal to 60% and $w_1$ – the weight used for the availability of funding is equal to 40%.

The index takes values from 0 to 100, where: 1) Values close to 100 indicate presence of an exceptionally high degree of registration of intellectual property, ability to finance such registration and awareness of the benefits of the brand; 2) Values close to 0 indicate both a lack of registered intellectual property rights and lack of financial means for such, but also no awareness in this area.

Index values are divided into the following conditional intervals:

<table>
<thead>
<tr>
<th>Interval</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 – 20</td>
<td>Low patent activity</td>
</tr>
<tr>
<td>21 – 40</td>
<td>Rather low patent activity</td>
</tr>
<tr>
<td>41 – 60</td>
<td>Neither low, nor high patent activity</td>
</tr>
<tr>
<td>61 – 80</td>
<td>Rather high patent activity</td>
</tr>
<tr>
<td>81 – 100</td>
<td>High patent activity</td>
</tr>
</tbody>
</table>

**Index „Internationalisation”**

The index measures the degree of internationalisation of the business of the SMEs. Internationalisation includes:

- Participation in specialized events for promoting own production on foreign markets;
- Realisation of import of raw materials, products and services;
- Realisation of export of own products and services.

The index formula is:

$$ITN_i = \frac{PR_i + EX_i}{2} \cdot 100,$$

where:

- $ITN_i$ is the index that measures the degree of internationalisation of firm $i$,
- $PR_i$ shows the promotion activities carried and is equal to:
  $$PR_i = \frac{\sum PR_i^m}{\max(\sum PR_i^m)}$$
  equal to:
- $EX_i$ measures the degree of foreign trade and is equal to:
  $$EX_i = w_1 \times \frac{\text{Import}_i + \text{Export}_i}{2} + w_2 \times \frac{\text{Exp output}_i + \text{Exp turnover}_i}{2},$$
  where $w_1$ and $w_2$ are respectively the weights (in this case assumed to be equal respectively to 40% and 60%), $\text{Import}_i$ and $\text{Export}_i$ indicate the presence of relevant import and export, $\text{Exp output}_i$ is the export share of total production.
in enterprise $i$, and $\text{Exp}_i$ — the share of turnover that comes from exports.

The index takes values from 0 to 100, such as: 1) Values close to 100 indicate presence of an exceptionally high degree of internationalisation; 2) Values close to 0 indicate absence of any internationalisation of the company.

Index values are divided into the following conditional intervals:

<table>
<thead>
<tr>
<th>Interval</th>
<th>Internationalisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>0–20</td>
<td>Low internationalisation</td>
</tr>
<tr>
<td>21–40</td>
<td>Rather low internationalisation</td>
</tr>
<tr>
<td>41–60</td>
<td>Neither low, nor high internationalisation</td>
</tr>
<tr>
<td>61–80</td>
<td>Rather high internationalisation</td>
</tr>
<tr>
<td>81–100</td>
<td>High internationalisation</td>
</tr>
</tbody>
</table>

**Index „Best practices”**

The index measures the degree of application of best practices by the SMEs. Application of best practices includes:

- Usage of modern ICT in the business activities.
- Implementation of strategies for the development of human resources.
- Development and implementation of market strategies.

The index formula is:

$$IBP_i = \frac{ICT_i + HR_i + BS_i}{3} \cdot 100$$

Where:

$IBP_i$ is the index, which measures the implementation of best practices in enterprise $i$.

$ICT_i$ measures the usage of ICTs by enterprise $i$ and is calculated as follows:

$$ICT_i = \frac{\sum_n MIS_i^n + \sum_m Internet_i^m}{\max(\sum_n MIS_i^n) + \max(\sum_m Internet_i^m)}$$

where $MIS_i^n$ shows the use of management information system $n$, and $Internet_i^m$ — use of internet technology $m$.

$HR_i$ measures the extent of implementation of human resources policies and is calculated as follows:
This analysis was prepared on behalf of BSMEPA by Consortium INSIGHT.

\[
HR_i = 0.4 \times Qualification_i + 0.6 \times \frac{\sum Training^k_i}{\max \left( \sum Training^k_i \right)}, \quad \text{where}
\]

\( Qualification_i \) is an indicator of the high qualification of the personnel and \( Training^k_i \) shows the involvement of staff in training \( k \).

\( BSP_i \) measures the extent to which firm \( i \) uses business strategies and planning,

\[
BSP_i = \frac{\sum Plan^t_i + \sum MS^j_i}{\max \left( \sum Plan^t_i \right) + \max \left( \sum MS^j_i \right)}
\]

and is calculated as follows:

where \( Plan^t_i \) indicates the existence of planning period \( t \), and \( MS^j_i \) indicates the presence of developed and implemented marketing strategy \( j \).

The index takes values from 0 to 100, such as: 1) Values close to 100 indicate presence of an exceptionally high degree of application of best practices; 2) Values close to 0 indicate no application of best practices in the enterprise. Index values are divided into the following conditional intervals:

<table>
<thead>
<tr>
<th>Interval</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 – 20</td>
<td>Low level of application of best practices</td>
</tr>
<tr>
<td>21 – 40</td>
<td>Rather low level of application of best practices</td>
</tr>
<tr>
<td>41 – 60</td>
<td>Neither low, nor high level of application of best practices</td>
</tr>
<tr>
<td>61 – 80</td>
<td>Rather high level of application of best practices</td>
</tr>
<tr>
<td>81 – 100</td>
<td>High level of application of best practices</td>
</tr>
</tbody>
</table>

### Statistical analysis of the index specifications

<table>
<thead>
<tr>
<th>Index</th>
<th>Cronbach’s α</th>
<th>Mean</th>
<th>St. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall (1,2,3,4 and 5)</td>
<td>0.66</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1 Access to Finance (if excluded)</td>
<td>0.64</td>
<td>22</td>
<td>18</td>
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Source: 2013 Survey on Manufacturing SMEs, Consortium INSIGHT
### A3.4. Quantitative analysis: estimated regression equations

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1.1 Entrepreneurship education

**Year of submission**: 2010

**Title of the measure**: TF-Fest

**Country**: Bulgaria

**Language**: English

**Responsible organisation**: Център на учебно-тренировъчните фирми

**Name and Surname of contact person**: Дария Маврудиева

**Street and number**: ул. Розова долина 1

**Postal code**: 1421

**City**: София

**Country**: BG

**E-mail of contact person**: info@buct.org

**Website of organisation**: www.buct.org

**SBA policy area**: Entrepreneurship education

**Source**: SBA implementation in member states

**Description of the measure**: To maximise the benefit to pupils participating in enterprise education projects (“training firms”), it is crucial to organise events replicating real-life trade fairs as closely as possible. Such events teach pupils how to plan participation in a trade fair, set up a stand, occupy it, engage in networking and conduct negotiations. The first fair for enterprise education projects took place in 1997, but after a thorough analysis it was decided to move up from an annual domestic event to an international forum on enterprise education where pupils can compete with each other to measure their performance.

Participation was sought from representatives of the business community, public administration, local government, NGOs, secondary schools and institutions of higher learning. Thanks to the Plovdiv International Fair this event can be held on real-life fair premises. In the run-up to the event the pupils are prepared using a specially developed methodology. At the event itself they participate in a series of competitions: best advertising strategy and positioning of their trade mark, best stand, best company clothing, etc. TF Fest has been attracting participants from Romania, Slovakia, Austria, Croatia, Ukraine, Macedonia and Montenegro for many years. It is organised by the Centre for Enterprise Education (TsUTF), a public organisation that is part of the Ministry of Education, Youth and Science. It is responsible for over 300 enterprise education projects in secondary schools throughout the country.

**Objectives**: - bring future entrepreneurs and labour market participants into contact with actual entrepreneurs and have the entrepreneurs rate the performance of pupils and their mentors — compare the performance of Bulgarian and foreign projects — achieve training conditions that replicate real-life business as realistically as possible

**Duration (dd/mm/yyyy)**

- **Start Date**: 22/04/2005
- **End Date**: Measure open-ended

**Other Information**: провежа се всяка година

**Target group**: Per year about 4000 pupils from Bulgarian secondary schools taking part in over 300 enterprise education projects from 55 schools in 39 cities

**Have you consulted business organisations before submitting this measure?**: Yes

**Comments/testimonial by business organisation/entrepreneur**: TF Fest is already a well-established and important forum and has been very popular, not only in Plovdiv and Bulgaria, but in the whole of the Balkan region. It plays a very significant role in creating, developing and fostering an entrepreneurial spirit in young people, as it lets them put their skills to the test in a real business environment and gain experience that will stand them in good stead in the future development. I have always been impressed with how seriously and thoroughly both the organisers and the participants approach the event and how eager they all are to make a good impression. This is a good way to prepare the entrepreneurs of tomorrow. They impress not only by their business skills, but also by their observance of business etiquette and fair competition practices. Valentina Petrova, manager, Fortis Bel

**Why is this measure a success?**

During the 2010 edition a record number of 97 projects took part representing 673 pupils, 43 schools, 95 teachers and 5 countries. TF Fest was sponsored by 12 companies and institutions, 14 competitions and were held, and 2 socially responsible projects were presented: Going to school on foot and Academy for Socially Responsible Business. A number of pupils have been offered traineeships by some of the sponsoring companies.
The Bulgarian organisers are assisting neighbouring countries in setting up their own enterprise education networks and events. For example, in November 2010 a Bulgarian team visited Podgorica in Montenegro to share its know-how gained from organising the TF Fest. Deepening our cooperation with other countries in the region is likely to help overcome their isolation and foster cooperation and progress, the importance of which can hardly be overstated.

14. Information on the measure can be provided in the following languages

---

### 1.1 Entrepreneurship education

**Year of submission**: 2009  
**01. Title of the measure**: Contest — Entrepreneurial Creativity in Tourism  
**02. Country**: Bulgaria  
**03. Language**: English

**Responsible organisation**: Bulgarian Center of Training Firms  
**Name and Surname of contact person**: Mrs. Dariya Mavrudieva  
**Street and number**: 1 Rozova Dolina St., POB 50  
**Postal code**: 1421  
**City**: Sofia  
**Country**: BG  
**E-mail of contact person**: info@buct.org  
**Website of organisation**: www.buct.org

**05. SBA policy area**: Entrepreneurship education  
**06. Source**: European Charter for Small Enterprises  
**07. Description of the measure**: The measure is a competition for tourist and tour operator training firms from secondary schools to prepare an entertainment programme for tourists. The task is assigned by a real tourist company, which will evaluate the performance of the training firms. The prize is awarded during the annual training firms fair TF FEST. Prize-winning pupils can do an internship with the real company, after which they may be offered a job.

**08. Objectives**: Support for pupil-oriented initiatives by small businesses aimed at training and recruiting personnel in their field. Fostering pupils' creativity and rewarding them for their entrepreneurship. Creating strong links between business and education.

**09. Duration (dd/mm/yyyy)**  
**Start Date**: 01/02/2007  
**End Date**: Measure open-ended

**10. Target group**: Pupils between 16 and 19 being trained in tourist and tour operator training firms.

**11. Have you consulted business organisations before submitting this measure?** Yes

**11.1 Comments/testimonial by business organisation/entrepreneur**: The competition, the internships and the development of relations between tourist companies and pupils are evaluated by the Bulgarian Business Leaders Forum and the Bulgarian Centre of Training Firms.

**12. Why is this measure a success? Please give information on results and achievements.** The measure supports small and family-run tourist business initiatives to select and train future staff without work experience but with knowledge and motivation for work. The measure stimulates the pupils' initiative, entrepreneurship and creativity.

**13. Problems that had to be overcome and lessons learned**: We work on involving small businesses from other sectors and from the whole country in the initiative. They would set tasks from their own sector and offer pupils internships with them. We have also designed the project "Business class", where businessmen discuss with pupils from training firms concrete real-world examples, innovative solutions and market innovations.

**14. Information on the measure can be provided in the following lan-**
1.1 Entrepreneurship education

Year of submission: 2008

Title of the measure: Network of High School Training Firms

Country: Bulgaria

Language: English

Responsibility organisation: Bulgarian Training Firms Network

Name and Surname of contact person: Dariya Mavrudieva, Director

Street and number: Sofia 1421, 1 Rozova Dolina St., POB 50

Contact details

City: Sofia

Postal code: 1421

Country: BG

E-mail of contact person: info@buct.org

Website of organisation: www.buct.org

Source: European Charter for Small Enterprises

Description of the measure: The programme covers the setting up of training firms in schools, coordination of the training firms network and training of teachers to become training-firm advisers.

Objectives: Practical education for building entrepreneurial skills and spirit. Development of technical and social skills to match business requirements.

Duration (dd/mm/yyyy): Start Date: 01/01/1994

End Date: Measure open-ended

Target group: Students from 8th to 12th grade from vocational and other high schools.

Have you consulted business organisations before submitting this measure? Yes

Comments/testimonial by business organisation/entrepreneur: The business world is already well aware of the training firms network.

Why is this measure a success? Please give information on results and achievements. The education fosters professional and personal development. It makes the students more competitive on the labour market or encourages them to start their own business.

The students are well aware of the legal and business environment and feel confident and prepared for the real-life challenges after graduation.

Problems that had to be overcome and lessons learned: A targeted policy is needed from the Ministry of Education and Science. More software products to serve the training firms are necessary.

Information on the measure can be provided in the following languages: English, Bulgarian, and Russian.
## 1.1 Entrepreneurship education

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<td>Responsible organisation</td>
<td>Ministry of Economy and Energy, Junior Achievement Bulgaria</td>
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<tr>
<td>Name and Surname of contact person</td>
<td>Mr. Eli Anavi, Enterprise Policy Director; Milena Stoycheva, CEO</td>
</tr>
<tr>
<td>Street and number</td>
<td>1052 Sofia, 8 Slavianska St., tel. +359 2 940 75 56; 1000 Sofia, 1 Hristo Belchev St., Apt. 7, tel. +359 2 989 36 60</td>
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</tbody>
</table>

### 04. Contact details

| Postal code | |
| City | |
| Country | BG |
| E-mail of contact person | e.anavi@mee.government.bg; milena@jabulgaria.org |
| Website of organisation | www.center.jabulgaria.org |

| 05. SBA policy area | Entrepreneurship education |
| 06. Source | European Charter for Small Enterprises |

### 07. Description of the measure

The measure leads to the establishment of a Center for Entrepreneurship “Student Company” at Sofia High School in Construction, Architecture, and Geodesy “Hristo Botev”. The students learn the theory and practice of basic entrepreneurship by founding and running their own enterprises — “student companies”. The student companies operate for a period of one school year and are guided by a specially trained teacher-consultants. During their first steps in the field of entrepreneurship, the students are assisted by business volunteers – members of the Business club at the Center. The volunteers consult, coach and inspire the young people.

### 08. Objectives

To form entrepreneurial mind-set, attitude and culture among the graduating students from non-economic vocational high schools by giving them a first-hand look at economic and business issues and practices and developing the entrepreneurial qualities and skills of the young people.

### 09. Duration (dd/mm/yyyy)

| Start Date | 09/05/2006 |
| End Date | 09/05/2007 |

### 10. Target group

Students from non-economic vocational high-schools

### 11. Have you consulted business organisations before submitting this Yes measure?

The business believes that the program contributes to: a) development of the entrepreneurial spirit and skills of the students; b) fostering of the entrepreneurial culture in Bulgaria as a whole; c) corporate social responsibility is still not a very popular practice in the Bulgarian companies. This hampers the process of involving business volunteers.

| 11.1 Comments/testimonial by business organisation/entrepreneur |
| a) It develops the entrepreneurial skills, spirit and culture of the young people and more precisely of the young people from vocational non-economic high schools, where the entrepreneurial education is crucial; b) it creates effective link between education and business; c) it combines theory and practice; d) it inspires interest in entrepreneurship and motivates the young people to start their own business; |

### 12. Why is this measure a success? Please give information on results and achievements.

a) It develops the entrepreneurial skills, spirit and culture of the young people and more precisely of the young people from vocational non-economic high schools, where the entrepreneurial education is crucial; b) it creates effective link between education and business; c) it combines theory and practice; d) it inspires interest in entrepreneurship and motivates the young people to start their own business;

### 13. Problems that had to be overcome and lessons learned

Corporate social responsibility is still not a very popular practice in the Bulgarian companies. This hampers the process of involving business volunteers.

### 14. Information on the measure can be provided in the following languages
### 1.1 Entrepreneurship education

**Year of submission**: 2008  
**01. Title of the measure**: Entrepreneurial Centers at the Technical Universities  
**02. Country**: Bulgaria  
**03. Language**: English

**Responsible organisation**: Ministry of Economy and Energy, University of Forestry — Sofia, Technical University of Sofia — Plovdiv Branch, Technical University of Varna and Technical University of Gabrovo

**Name and Surname of contact person**: Associate Professor Dr. Vladimir Piralkov; Eli Anavi, Enterprise Policy Director, MEE

**Street and number**: Sofia 1000, 10 Kliment Ohridski Blvd., tel: +359 2 862 28 89; 1052 Sofia, 8 Slavianska St., tel. +359 2 9407556

**E-mail of contact person**: vpiralkov@ltu.bg; e.anavi@mee.government.bg

**Website of organisation**:

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**05. SBA policy area**: Entrepreneurship education

**06. Source**: European Charter for Small Enterprises

**07. Description of the measure**: The Preliminary phase of the project was carried out under a consultancy program financed by the Dutch Government in 3 lines: a) Strategic programs development for encouragement of the entrepreneurship among the students and market realization of new products; b) Training of lecturers from the Technical Universities in order faculties of Entrepreneurship to be established; c) Training in establishment and future administration of entrepreneurial centers at the Technical Universities. After a public procurement procedure 4 Technical Universities have been selected — based on their geographical position and strategic views in entrepreneurial education at the future centers and management concepts for the centers.

- a) Establishment of entrepreneurial centers at the universities — as a driving force behind the entrepreneurial education, the encouragement of technological start-ups and market realization of their production; b) Building of entrepreneurial culture and skills among the students; c) R&D encouragement in the universities; d) Advanced co-operation between the business and the academic world

**08. Objectives**

- a) Establishment of entrepreneurial centers at the universities — as a driving force behind the entrepreneurial education, the encouragement of technological start-ups and market realization of their production; b) Building of entrepreneurial culture and skills among the students; c) R&D encouragement in the universities; d) Advanced co-operation between the business and the academic world

**09. Duration (dd/mm/yyyy)**

- **Start Date**: 20/12/2006
- **End Date**: 20/12/2008

**10. Target group**: Post-graduates, Graduates, students and lecturers — of course anybody else is warmly welcome.

**11. Have you consulted business organisations before submitting this measure?** Yes

**University of Forestry — Sofia**: There is already strong interest from the business — for instance — production of fast growing poplar plants; Technical University of Sofia — Plovdiv Branch: Strong interest from the business especially in the already announced course 'Partners for Projects' where the number of candidates exceeds the quota. The business also expects the solution of particular problems.

**12. Why is this measure a success? Please give information on results and achievements.**

- It creates strong relations between the students, financial institutions and the business and helps innovative ideas to be quickly implemented into the business world.

**13. Problems that had to be overcome and lessons learned**

**14. Information on the measure can be provided in the following languages**
### 1.2 Support and advice during the life cycle of a business

**Year of submission:** 2010

**01. Title of the measure:** Network Evening & Weekend Training Centres for Entrepreneurs

**02. Country:** Bulgaria

**03. Language:** English

**Responsible organisation** Bulgarian Chamber of Commerce and Industry

**Name and Surname of contact person** Mariyana Tancheva

**Street and number** 9 Iskar St

**Postal code** 1058

**City** Sofia

**Country** BG

**E-mail of contact person** mtancheva@bcc.bg

**Website of organisation** www.bcci.bg

**05. SBA policy area** Support and advice during the life cycle of a business

**06. Source** SBA implementation in member states

A first network of business training centres offering evening and weekend courses was started as a pilot project as early as 2004. Over a period of 2 years, the Bulgarian Chamber of Commerce and Industry, its regional offices and its partners from Flanders jointly set up the first project sponsored under the Flemish regional government’s technical aid programme. This programme was aimed at stimulating entrepreneurship in Bulgaria by sharing know-how from Flanders. The project was actively supported by the Ministry of Labour and Social Policy, which monitored the project’s activities and results. In 2005 the Chamber’s Sofia Business Training Centre (Tsentar za obuchenie po predprie-machestvo) started its work on an experimental basis. In 2006-08 the chambers of Varna, Razgrad, Stara Zagora, Haskovo, Shumen and Yambol joined the project. These cities were selected because together they covered nearly the whole country, were home to some of the most active regional business communities and had regional chambers with sufficient capacity to manage the programme. Approximately 180 active entrepreneurs, employed prospective entrepreneurs, young graduates and about 5% unemployed professionals received training under the project in 6 centres. The project was managed by the Bulgarian Chamber of Commerce and Industry, monitored by the Ministry of Labour and Social Policy and supported by the Flemish Regional Government under its technical assistance programme

**07. Description of the measure**

- set up a network of centres for regular business training at the regional chambers of Commerce and Industry — promote business activity — foster creativity — improve risk management skills — facilitate the rebirth of entrepreneurship in Bulgaria overall.

**08. Objectives**

**09. Duration (dd/mm/yyyy)**

- Start Date 01/01/2004
- End Date 31/12/2008

**10. Target group**

- active entrepreneurs looking to expand their businesses
- employed professionals looking to start their own business
- unemployed professionals under 39 years of age

**11. Have you consulted business organisations before submitting this measure?** Yes

**11.1 Comments/testimonial by business organisation/entrepreneur**

*My impressions of the Flemish-Bulgarian course were nothing but positive. Both the concept and the way it was carried out suited me well. I think Bulgaria needs more initiatives like it because private enterprise was suppressed for almost half a century and it needs a new impulse. The courses were accessible and brilliantly taught. The instructors knew what they were talking about. Another positive aspect, at least for me, were the visits to factories, the business forum, the business cocktail and the meetings...*
12. Why is this measure a success? Please give information on results and achievements.

Of the 180 participants, only 7 failed the course because of insufficient attendance or poor performance on their business plan assignment. The 6 regional chambers reported that about 23% of the participants ended up expanding their businesses and about 18% created new start-ups. The regional chambers have maintained contact with the participants and have been helping them in their endeavour.

13. Problems that had to be overcome and lessons learned

14. Information on the measure can be provided in the following languages

Bulgarian

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1.2. Support and advice during the life cycle of a business

Year of submission: 2009

01. Title of the measure: Project 100

02. Country: Bulgaria

03. Language: English

Responsible organisation: Ministry of Economy and Energy

Name and Surname of contact person: Mrs. Reneta Kopandanova

Street and number: 8 Slavyanska St

Postal code: 1052

City: Sofia

Country: BG

E-mail of contact person: r.kopandanova@mee.government.bg

Website of organisation: http://www.pro-100.org

05. SBA policy area: Support and advice during the life cycle of a business

06. Source: European Charter for Small Enterprises

The project offers support for people who would like to set up and develop a small business in 13 areas. They receive a training course in entrepreneurship, comprehensive business advice and access to grants and leasing schemes for the purchase of machines and equipment. The methodology involves support for entrepreneurs from the initial stages of reflecting on a business idea and acquiring business knowledge, through setting up a business plan, to applying it in practice and developing the new company. This ensures the establishment of more stable, competitive and promising businesses. The project is in fact a grant scheme which requires a small contribution from the entrepreneur and offers all-round support in exchange.

07. Description of the measure

Foster business initiative and entrepreneurship and create up to 100 stable and competitive small businesses in various parts of the country by offering full and targeted support to people who want to set up and develop a small production or services company.

08. Objectives

Start Date: 22/12/2003

End Date: Measure open-ended

10. Target group

Self-starters with good business ideas who want to start their own company but usually lack the knowledge and skills to set it up and run it.

11. Have you consulted business organisations before submitting this Yes measure?

Mrs. Henrieta Dimitrova — workshop for cuts and cutting markers: “There are times in our lives when we are on the verge of giving up; especially when we have health troubles and get into a hospital. At that time Project 100 set me on my feet. I aspired for the opportunity to try and create something on my own for the first time in my life.” Mr. Sasho Karapeev — winery: “Making wine was my hobby. I gave it away to relatives and friends. Then Project 100 came up. Even if I had not received a grant, the course would still be helpful because it gave me a lot of practical knowledge.”

12. Why is this measure a success? Please Foster a spirit of, and offers training in, entrepreneurship; boosts the self-confidence of people

This analysis was prepared on behalf of BSM EPA by Consortium INSIGHT
Annex

give information on results and who did not even imagine they could start a business one day. The companies established since 2004 are still on the market, which shows that the approach used to set them up guarantees their stability.

One major lesson learned is that determined local authorities and capable local business centers are crucial for the success of this measure. Another lesson is that even with a small annual budget like Euro 500,000 people with entrepreneurial ideas who go through the proper course that the project offers, can make “small miracles”. Nevertheless a substantial increase in the budget of the project would help its expansion nationwide.

13. Problems that had to be overcome and lessons learned

Project 100 needs a larger budget to increase the amount of the financial support and to become nationwide program.

14. Information on the measure can be provided in the following languages

1.2 Support and advice during the life cycle of a business

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<td>Responsible organisation</td>
<td>Ministry of Economy and Energy and JOBS - a UNDP organization</td>
</tr>
<tr>
<td>Name and Surname of contact person</td>
<td>Mrs. Reneta Kopandanova, state expert</td>
</tr>
<tr>
<td>Street and number</td>
<td>Sofia 1052, 8 Slavyanska, tel: +359 2 940 7296</td>
</tr>
<tr>
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<tr>
<td>E-mail of contact person</td>
<td><a href="mailto:r.kopandanova@mee.government.bg">r.kopandanova@mee.government.bg</a></td>
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<td>Website of organisation</td>
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<td>05. SBA policy area</td>
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<tr>
<td>06. Source</td>
<td>European Charter for Small Enterprises</td>
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</table>

Project 100 is a program for entrepreneurial education and small business start-up. People with business ideas go through a series of educational rounds in entrepreneurship and finally the best candidates receive government finance (up to BGN 20 000 - about EUR 10 000; annual budget is BGN 1 mln, about EUR 500 000) for a business start up. Annually Project 100 is going to 3 or 4 of Bulgaria’s 28 districts with well developed business centers where the lectures are held. The project’s budget allows the creation of up to 100 small enterprises annually - hence Project 100.

Project 100 intends to build competitive small companies in the fields of industry of services. The monitoring continues 2 years after the business establishment just to make sure that it goes as it was planned.

08. Objectives

Project 100 intends to build competitive small companies in the fields of industry of services. The monitoring continues 2 years after the business establishment just to make sure that it goes as it was planned.

10. Target group

People with good business ideas willing to start up their own business.
1.4 Special target group: ethnic minorities, unemployed, youth, older people

<table>
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<td>01. Title of the measure</td>
<td>Best Young Plovdiv Entrepreneur</td>
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<td>Responsible organisation</td>
<td>Plovdiv Municipality</td>
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<tr>
<td>Name and Surname of contact person</td>
<td>Deputy Mayor Georgi Tityukov</td>
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<td>Street and number</td>
<td>1, Stefan Stambolov Sq.</td>
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<tr>
<td>Postal code</td>
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</tr>
<tr>
<td>E-mail of contact person</td>
<td><a href="mailto:jorotit@abv.bg">jorotit@abv.bg</a></td>
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<tr>
<td>Website of organisation</td>
<td><a href="http://www.plovdiv.bg">www.plovdiv.bg</a></td>
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05. SBA policy area
Special target groups: ethnic minorities, unemployed, youth, older people

06. Source
SBA implementation in member states

The competition debuted in 2009 and was repeated in 2010. Eligible for participation are all young people from Plovdiv Municipality between the age of 18 and 33. A business plan from 5 to 25 pages and a CV are required. It doesn't matter whether the business has already been started or it's only a business idea for a start-up. The winner gets a prize of EUR 3,500; the runner-up EUR 2,000 and there are two third places which get EUR 1,000. There is a partnership with the College of Economics and Administration of Plovdiv which provides another prize of EUR 500. Another partner is the Center for Science and Education which prize is a free foreign language course of winner's own choice. Radio 1 Group provides winners with air time for 50 commercials in each of its 3 radio stations. The Municipality of Plovdiv awards also each participant with a small commemorative prize. The competition is announced during the previous year and by November the competitors should submit their business plans. The Award Ceremony is held every January the following year in one of Plovdiv's luxury hotels.

07. Description of the measure
It is necessary more youngsters from Plovdiv to be encouraged in starting their own business and creating fresh jobs. The local government is trying to help by awarding the best business plans, thus promoting the most viable ideas and businesses of those youngsters.

08. Objectives

09. Duration (dd/mm/yyyy)
Start Date | 01/06/2008 |
End Date | Measure open-ended |

10. Target group
Young people from Plovdiv aged 18 to 33

11. Have you consulted business organisations before submitting this Yes measure?

11.1 Comments/testimonial by business organisation/entrepreneur
Every year more business organizations are ready to get involved in the competition. Plovdiv International Fair is also interested in the subject as well as the local media. They highly appraise the competition emergence.

12. Why is this measure a success? Please give information on results and achievements.
It's an innovative step on local ground and injects young people with energy and enthusiasm to convert ideas into business. There is a follow-up of what happens to the entrepreneurs and their plans after the competition. In 2009 20 young people presented business plans while in 2010 their number increased to 30.

13. Problems that had to be overcome and lessons learned
There isn't sufficient amount of funds for bigger prizes and there is apprehension that some of the winners wouldn't be able to realize their business plans. So far only a small percentage of them failed to bring their projects to success.

14. Information on the measure can be provided in the following languages
Bulgarian
1.4. Special target group: ethnic minorities, unemployed, youth, older people

<table>
<thead>
<tr>
<th>Year of submission</th>
<th>2007</th>
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<tbody>
<tr>
<td>01. Title of the measure</td>
<td>Boosting the Skills of Minority Groups, Nova Zagora</td>
</tr>
<tr>
<td>02. Country</td>
<td>Bulgaria</td>
</tr>
<tr>
<td>03. Language</td>
<td>English</td>
</tr>
<tr>
<td>Responsible organisation</td>
<td>Business Center/Business Incubator Nova zagora</td>
</tr>
<tr>
<td>Name and Surname of contact person</td>
<td>Stanka TachevaChairman of the Management Board</td>
</tr>
<tr>
<td>Street and number</td>
<td>8900 Nova Zagora52 14th January Str.</td>
</tr>
<tr>
<td>Postal code</td>
<td></td>
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<tr>
<td>City</td>
<td></td>
</tr>
<tr>
<td>Country</td>
<td>BG</td>
</tr>
<tr>
<td>E-mail of contact person</td>
<td><a href="mailto:office@bcnzagora.org">office@bcnzagora.org</a></td>
</tr>
<tr>
<td>Website of organisation</td>
<td><a href="http://www.bcnzagora.org">www.bcnzagora.org</a></td>
</tr>
</tbody>
</table>

05. SBA policy area

Special target groups: ethnic minorities, unemployed, youth, older people

06. Source

European Enterprise Awards

07. Description of the measure

The Business Centre of Nova Zagora in Bulgaria is aimed at boosting the entrepreneurial skills of disadvantaged young people especially from minority origins to help their integration into the labour market and the community as a whole. Media publicity raised awareness about the action and increased interest in participation.

08. Objectives

09. Duration (dd/mm/yyyy)

Start Date | End Date | Measure open-ended |

10. Target group

11. Have you consulted business organisations before submitting this measure?

11.1 Comments/testimonial by business organisation/entrepreneur

12. Results achieved

13. Evaluation

14. Why is this measure a success? Please give information on results and achievements.

15. Problems that had to be overcome and lessons learned

16. Information on the measure can be provided in the following languages

1.4. Special target group: ethnic minorities, unemployed, youth, older people

<table>
<thead>
<tr>
<th>Year of submission</th>
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<tbody>
<tr>
<td>01. Title of the measure</td>
<td>Start UP 2007</td>
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<td>02. Country</td>
<td>Bulgaria</td>
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<td>03. Language</td>
<td>English</td>
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<tr>
<td>Responsible organisation</td>
<td>Bulgarian SMEs Promotion Agency (BSMEPA) and AIESEC</td>
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</tbody>
</table>

A Study of Entrepreneurship and the Prospects for Innovations Development in SMEs (2012-2013)
05. SBA policy area

Special target groups: ethnic minorities, unemployed, youth, older people

06. Source

European Charter for Small Enterprises

07. Description of the measure

Start UP 2007 is a project for entrepreneurship among youngsters. It consists of 2 subprojects: Business in Action and Business Weekends a) a series of lectures, presentations and case studies open for all students interested in small business start-up; b) business simulations - solving of real-life business cases and presentations of success stories from Bulgarian entrepreneurs. The focus is on how to grow your business idea, how to plan, prepare a business plan, find finance and register a company. There is also a Start UP conference on Entrepreneurship where the young people will have the opportunity to evaluate their own potential.

08. Objectives

Start UP 2007 aims to encourage through a series of lectures, presentations and case studies the entrepreneurial spirit and skills among youngsters in Bulgaria and help them discover business opportunities, teach them how to realize their ideas and how to take the risk to do so.

09. Duration (dd/mm/yyyy)

Start Date 03/11/2007
End Date 11/11/2007

10. Target group

- All students in technical classes aiming to combine their technical knowledge and skills with business practice.
- All students from economics high schools who'd like to expand their business knowledge and practice.
- Graduated students and young people with a fresh business.

11. Have you consulted business organisations before submitting this measure?

All of the invited organizations — Entrepreneurship Institute at the University of National and World Economy — Sofia, United Bulgarian Bank, Geotechmin, Eagle’s Flight, Eurosped took the opportunity to consult the young people and to choose some of the top performers and offer a job to them, which means they find qualities in the participants. The companies also proposed the students who study abroad to make a marketing research for them on the foreign market and opportunities for entering that market.

12. Why is this measure a success?

Please give information on results and achievements.

This measure has a synergistic effect — its a real-time and efficient system of interaction between the young people, academic world, government bodies, NGOs and last but not least — the business.

13. Problems that had to be overcome and lessons learned

Information on the measure can be provided in the following languages

---

3.1 Taxation

01. Title of the measure

Concession of 60% of the tax on profit to co-operatives, which are members of national co-operative unions

02. Country

Bulgaria

03. Language

English

04. Contact details

Name and Surname of contact person Lilan Krilov
Street and number Ministry of Finance, Tax Policy Directorate, Rakovski str. No.102, Sofia 1000

Responsible organisation Ministry of Finance, National Agency of Revenues

This analysis was prepared on behalf of BSMEPA by Consortium INSIGHT
A Study of Entrepreneurship and the Prospects for Innovations Development in SMEs (2012-2013)
## 4 Better public administration - cutting red tape

<table>
<thead>
<tr>
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<td><strong>01. Title of the measure</strong></td>
<td>Simplified and customer-oriented Administrative Service Delivery</td>
</tr>
<tr>
<td><strong>02. Country</strong></td>
<td>Bulgaria</td>
</tr>
<tr>
<td><strong>03. Language</strong></td>
<td>English</td>
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<tr>
<td><strong>04. Contact details</strong></td>
<td>Ministry of State Administration and Administrative Reform</td>
</tr>
<tr>
<td></td>
<td><strong>Name and Surname of contact person</strong></td>
</tr>
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<td></td>
<td><strong>Street and number</strong></td>
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<td><strong>E-mail of contact person</strong></td>
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<td></td>
<td><strong>Website of organisation</strong></td>
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</tbody>
</table>

**05. SBA policy area**
Bulgaria

**06. Source**
European Charter for Small Enterprises

**07. Description of the measure**
To facilitate the administrative service delivery provided to businesses and citizens, the "Ordinance on the General Rules for the Organization of the Administrative Service Delivery" has been implemented. The Ordinance established among other the following obligatory principles: 1. Equal access to services and information; 2. Different channels of access; 3. Coordination and interaction with all stakeholders involved in the improvement of the administrative service delivery; 4. Quality of the delivered services. Moreover, the implementation of the "one-stop-shop" principle is obligatory: the administrations have to provide the user with all necessary documents, also those issued by other administrations.

**08. Objectives**
To achieve a better and more effective administrative service delivery.

**09. Duration (dd/mm/yyyy)**
Start Date
End Date
Measure open-ended
Other Information
26 September 2006 – permanent

**10. Target group**
Businesses and citizens.

**11. Have you consulted business organisations before submitting this measure?**
Representatives of various administrations, the National Ombudsman as well as NGOs and business organisations (Bulgarian Chamber of Commerce and Industry, Business Industry Capital and others) participated in the working group, which was entrusted with the elaboration of the Ordinance. Contact persons: Beata Papazova, Bulgarian Chamber of Commerce and Industry. www.bcci.bg e-mail: eic@bcci.bg Sofia, 9 Iskur Str., Bulgaria; Krasen Stanchev - Institute for Market Economics. www.ime.bg e-mail: mail@ime.bg Sofia, 61 Patriarh Evtimii Blvd. Bulgaria

**12. Results achieved**
Answers to inquiries received by post or e-mail are provided within 7 days of receiving. In cases where a check on the spot or an opinion of another administrative authority might be necessary, the answers are provided within 14 days.

**13. Evaluation**
According to the survey held in November 2006, the clients' satisfaction with the administrative service delivery is 68%. In 2006, 86% of all administrations were evaluated. It is envisaged to increase this number to 90% in 2007.

**14. Why is this measure a success?**
The administrations periodically conduct surveys on the level of satisfaction of the users of their services. For the first time it is obligatory to provide the information in the administrative premises both in Bulgarian and in English, and, if possible, in another official language of the European Union.

**15. Problems that had to be overcome and lessons learned**

**16. Information on the measure can be provided in the following languages**
Annex

6.1. Access to finance

Year of submission 2009

01. Title of the measure Municipal Guarantee Fund for SMEs at Sofia Municipality
02. Country Bulgaria
03. Language English

Responsible organisation Municipal Guarantee Fund for SMEs

Name and Surname of contact person Mr. Kiril Grigorov

Street and number 4 August 11th St, floor 2
Postal code 1000

City Sofia
Country BG

E-mail of contact person office@ogf-sofia.com
Website of organisation http://www.ogf-sofia.com/

05. SBA policy area Access to finance
06. Source European Charter for Small Enterprises

07. Description of the measure The Municipal Guarantee Fund guarantees loans to companies registered or active on Sofia Municipality territory. The Fund develops guarantee schemes to guarantee up to 50% of small firms' bank loans, but not more than 30,000 euros. Firms receiving guarantees by the Fund for loans from partner commercial banks must comply with the Fund's domestic requirements and risk assessment methods.

Implementing the Sofia Municipality policy for supporting small businesses on its territory through partly guaranteeing their loans and developing an environment conducive to timely payments for commercial transactions as a solution to the overall indebtedness of companies.

08. Objectives Implementing the Sofia Municipality policy for supporting small businesses on its territory through partly guaranteeing their loans and developing an environment conducive to timely payments for commercial transactions as a solution to the overall indebtedness of companies.

09. Duration (dd/mm/yyyy) Start Date 17/06/2002
End Date Measure open-ended

10. Target group The Municipal Guarantee Fund prioritizes support (when all other conditions are equally met) for: — women entrepreneurs; — people with disabilities; — entrepreneurs younger than 30; — business initiatives in peripheral regions and villages of the Municipality.

11. Have you consulted business organisations before submitting this measure? Yes

11.1 Comments/testimonial by business organisation/entrepreneur After consulting its client SMEs in 2008 and taking into account their needs, the Fund developed new, more flexible guarantee schemes for SMEs. Under the new schemes the company only needs collateral (its fair market value being assessed by the Bank) of at least 80% of the amount of the loan. This change has led to a 50% increase in applications to the Fund.

12. Why is this measure a success? SMEs can obtain loans even when they lack sufficient collateral, which helps the development of Please give information on results and business in Sofia Municipality. The Information Centre helps SMEs get information and valuable tips for achievements.

13. Problems that had to be overcome and lessons learned Insufficient legislative measures.

14. Information on the measure can be provided in the following languages

— 6.1. Access to finance

Year of submission 2008

01. Title of the measure Investment Encouragement Act Amendment
02. Country Bulgaria
03. Language English
Annex

This analysis was prepared on behalf of BSMEPA by Consortium INSIGHT

Contact details

Responsible organisation  Investment Policy Directorate - Ministry of Economy and Energy
Name and Surname of contact person  Ms. Hristina Georgieva, senior expert
Street and number  Sofia, 1054, 8 Slavyanska St., tel. +359 2 940 7461
Postal code
City
Country  BG
E-mail of contact person  h.georgieva@mee.government.bg
Website of organisation  www.mee.government.bg/ind/invest.html

05. SBA policy area
Access to finance

06. Source
European Charter for Small Enterprises

07. Description of the measure
The amendment leads to easier investment not only in expensive hi-tech industries and services but also in some low-developed industries. For instance: The investor is going to keep all incentives envisaged in the Act even if the investment is 2 times lower per class than the defined threshold, in case the investment is in regions with higher unemployment than the average for the country for the last year; Or the investment is in hi-tech industry; Or (3 times lower) if the investment is in hi-tech services; This will increase the opportunities for investments in a greater number of small companies. The two defined thresholds are of BGN 70 mln and 40 mln.

08. Objectives
Increased competitiveness of the economy through investments in industries and services with higher value added; Investment climate improvement, surmounting regional discrepancies, securing more jobs

09. Duration (dd/mm/yyyy)
Start Date  30/08/2007
End Date  Measure open-ended

10. Target group
The amendments are focused on: a) manufacturing and energy supply from renewable energy sources; b) computer technologies, R&D, education and human health protection;

11. Have you consulted business organisations before submitting this measure?
Yes

11.1 Comments/testimonial by business organisation/entrepreneur
The Amendment concept was discussed at a special meeting of the Council for Economic Growth - the Council consists of representatives of the Government and the largest business organizations.

12. Why is this measure a success?
Please give information on results and achievements.

13. Problems that had to be overcome and lessons learned
None so far

14. Information on the measure can be provided in the following languages

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6.1. Access to finance

Year of submission  2008

01. Title of the measure
Municipal Guarantee Fund for SMEs

02. Country
Bulgaria

03. Language
English

Responsible organisation  Dobrich City Municipality
Name and Surname of contact person  Mr. Hristo Bojkov, chief expert and manager of the Fund

04. Contact details
Street and number  Dobrich 9300, 12 Bulgaria Blvd, tel: +359 58 600 050
Postal code
City
Annex

<table>
<thead>
<tr>
<th>Country</th>
<th>BG</th>
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<tbody>
<tr>
<td>E-mail of contact person</td>
<td><a href="mailto:h_bojkov@dobrich.bg">h_bojkov@dobrich.bg</a></td>
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<tr>
<td>Website of organisation</td>
<td><a href="http://www.dobrich.bg">www.dobrich.bg</a></td>
</tr>
</tbody>
</table>

05. SBA policy area | Access to finance
06. Source | European Charter for Small Enterprises
07. Description of the measure | The Fund gathers finance as a 10% share of every privatization deal of municipal property. The capital is used to guarantee the required collateral — up to 50% of the loan amount from trade banks to SMEs but not more than BGN 30 000 (about EUR 15 000).
08. Objectives | a) Easier access to finance for the SMEs; b) Increase in the competitiveness of local SMEs; c) SMEs products and services of a greater quality;
09. Duration (dd/mm/yyyy) | Start Date 01/04/2003
| End Date | Measure open-ended
10. Target group | SMEs with more than 50% Bulgarian ownership, which operate in the Municipality, are registered in the Municipality and the financed project is to be realized in the Municipality.
11. Have you consulted business organisations before submitting this measure?
11.1 Comments/testimonial by business organisation/entrepreneur | Very positive, a needful service for the SMEs, especially in their early stage after start up.
12. Why is this measure a success? Please give information on results and achievements. | The Fund gives an opportunity of small companies without any credit history to reach for an easy access to finance where half of the collateral is in cash.
13. Problems that had to be overcome and lessons learned | A change in the legislation is needed because the guarantee approval is relatively slow — first the Managing Committee of the Fund must approve the guarantee and then the Municipal Council. With this change the approval will take less time.

7. Internationalisation (EU and non-EU markets)

Year of submission | 2008
01. Title of the measure | IDEA — Interactive database for enterprises and associations
02. Country | Bulgaria
03. Language | English
| Responsible organisation | Bulgarian SMEs Promotion Agency (BSMEPA)
| Name and Surname of contact person | Boryana Mincheva, head of the SME Department
| Street and number | Sofia 1000, 1 Sveta Nedelya Sqr.
| Postal code |
04. Contact details | City
| Country | BG
| E-mail of contact person | mintcheva@sme.government.bg
| Website of organisation | www.sme.government.bg; www.ideanetwork.eu

05. SBA policy area | Internationalisation (EU and non-EU markets)
06. Source | European Charter for Small Enterprises
07. Description of the measure | IDEA is an interactive database providing information for small and medium-sized businesses from the

A Study of Entrepreneurship and the Prospects for Innovations Development in SMEs (2012-2013)
18 Central European Initiative (CEI) countries. IDEA has information on more than 250 SME support organisations and over 100 projects. Information provided in all languages of the CEI countries.

08. Objectives

To supply small businesses from CEI countries with information. A similar system is planned for the Balkan region, to provide information about IT services, consulting and finance.

Start Date 01/02/2006
End Date 31/07/2007

09. Duration (dd/mm/yyyy)

Other Information

10. Target group

SMEs and business support organizations from the CEI countries – Albania, Austria, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Hungary, Italy, Macedonia, Moldova, Montenegro, Poland, Romania, Serbia, Slovakia, Slovenia and Ukraine.

11. Have you consulted business organisations before submitting this measure?

Yes

11.1 Comments/testimonial by business organisation/entrepreneur

The measure is seen as very practical and arriving on time.

12. Why is this measure a success?

Uniting small businesses with support organizations from 18 European countries, IDEA has a great impact. The database is very easy to develop and maintain.

13. Problems that had to be overcome and lessons learned

Problems occurred due to misunderstandings between some organizations. These problems have been solved and IDEA is working properly now.

14. Information on the measure can be provided in the following languages

7. Internationalisation (EU and non-EU markets)

Year of submission 2008

01. Title of the measure Trans-frontier Business Partnership

02. Country Bulgaria

03. Language English

04. Contact details

Name and Surname of contact person Mr. Nasko Nastev – chairman of Kardzhali Chamber of Commerce and Industry

Street and number Kardzhali 6000, 3 Otets Paisiy St., Chamber of Commerce and Industry, Bulgaria, tel: +359 361 62190; fax: +359 361 62189

Postal code 6000

05. SBA policy area Internationalisation (EU and non-EU markets)

06. Source European Charter for Small Enterprises

07. Description of the measure

08. Objectives

a) Increase in the business awareness from both sides in particular business sectors with co-operation opportunities; b) Presenting the opportunities of the PHARE program that could help our initiative; c) Establishment of direct links between branch organizations and businesses from both sides; d) Stronger
co-operation between the chambers of commerce and industry of Kardzhali and Komotini.

Start Date 01/12/2003
End Date 30/11/2004
Other Information We report this measure now because the effects of it became visible a few years later

09. Duration (dd/mm/yyyy)

10. Target group

Direct beneficiaries: About 50 companies that took part in the conference “Trans-frontier business co-operation Kardzhali-Komotini” and went to visit future partners from Komotini; Both Chambers of Commerce and Industry of Kardzhali and Komotini Indirect beneficiaries: About 600 companies;

11. Have you consulted business organisations before submitting this measure?

Yes

11.1 Comments/testimonial by business organisation/entrepreneur The businesses have extremely positive attitude towards the measure because of the need they felt to expand their relations with the neighbouring countries.

12. Why is this measure a success? This measure built new partnership between the two chambers and now a new mechanism for information exchange is working. The members of the chambers now know each other and improve their business contacts and co-operation.

13. Problems that had to be overcome and lessons learned

14. Information on the measure can be provided in the following languages