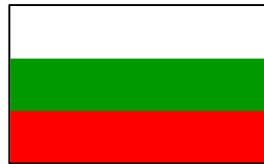


USAID/Bulgaria



Small/Medium Enterprise Assessment And Strategy Development

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October 2001

Acknowledgement

The SME assessment team wishes to express its gratitude for the invaluable help and support received from the staff of USAID/Bulgaria. We would especially like to recognize Messrs. David Lieberman, Edward LaFarge, and Nikolay Yarmov for providing guidance and direction to the group. We also wish to thank the Triumph Group for their editorial assistance for the report.

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Abbreviations

ASME	Agency for Small- and Medium-sized Enterprises
BACB	Bulgarian-American Credit Bank
BAEF	Bulgarian-American Enterprise Fund
BARDA	Bulgarian Association of Regional Development Agencies
BCCI	Bulgarian Chamber of Commerce & Industry
BIBA	Bulgarian International Business Association
BSO	Business Support Organization
CDC	Citizens Democracy Corps
CRS	Catholic Relief Services
DEG	<i>Deutsche Investitions – und Entwicklungsgesellschaft</i> (German Investment & Development Company)
DCA	Development Credit Authority
DFID	Department for International Development
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
EMED	Entrepreneurial Management Educational Development
EU/PHARE	European Union/Poland, Hungary Assistance for the Reconstruction of Europe
FIB	First Investment Bank
FINNFUND	Finnish Fund for Industrial Cooperation
FLAG	Firm-Level Assistance Group
GOB	Government of Bulgaria
GTZ	<i>Deutsche Gesellschaft für Technische Zusammenarbeit</i> (German Agency for Technical Cooperation)
IESC	International Executive Services Corps
IFC	International Finance Corporation
IPC	<i>Internationale Projekt Consult</i> (a German consulting firm)
KfW	<i>Kreditanstalt für Wiederaufbau</i> (German Development Bank)
LPG	Loan Portfolio Guarantee
MSED	Micro and Small Enterprise Development
NGO	Non-governmental Organization
NORFUND	Norwegian Investment Fund for Developing Countries
OI	Opportunity International
SEAF	Small Enterprise Assistance Funds
SECO	Swiss State Secretariat for Economic Affairs
SME	Small- and Medium-sized Enterprise
SOE	State-owned Enterprise
SRAFAS	Strategic Restructuring & Financial Advisory Service
TDC	Trade Development Center
UBB	United Bank of Bulgaria
UNDP	United Nations Development Program
VAT	Value Added Tax
WOCCU	World Council of Credit Unions

Abstract

At the request of USAID/Bulgaria, a team of four visited Bulgaria for two weeks during July 9-July 20, 2001. The team consisted of Thomas Morris (Team Leader), James May, John Godden, and Erin Nicholson (all from the Office of Market Transition, Bureau for Europe & Eurasia of USAID). The purpose of the visit was to conduct an SME assessment to assist the mission to formulate a small and medium enterprise (SME) strategy that can be incorporated into the overall five-year country strategy for 2002-2007. The strategy will be presented early in 2002.

The resulting document is intended to serve as a concept paper from which a detailed SME strategy can be developed at a later date. The assessment identified impediments, pros and cons to increased private sector investment in SMEs, identified key growth areas and provided specific recommendations to the Mission on exploiting identified opportunities in coordination with other donor programs. It is also hoped that the study will complement the Mission's SME strategy in an effort to accelerate SME expansion in the more dynamic sectors of the economy where there are clear opportunities for growth in employment, income and business investment in both the near and mid term.

Bulgaria



Edward LaFarge and Nikolay Yarmov of the Economic Reform and Growth Office (ERGO) of USAID/Bulgaria joined the team during discussions with investee companies in Sofia and the area surrounding the Black Sea port of Varna. This participation was invaluable to the assessment team.

The team looked at the general economic climate, the existing environment for SME development, existing policies, weaknesses and strengths, and entrepreneurship and enterprise development in general in Bulgaria. The assessment also looks at possible venues for USAID intervention given the three- to five-year goals of USAID/Bulgaria. The assessment identified a tripartite strategy for the mission in light of its findings. The central thrust of that strategy should be to enhance Bulgaria's global competitiveness by focusing on the growing SME sector. To succeed, the strategy will require technical assistance in two supporting but vital areas: accelerating enterprise development and enhancing financial services. The third component, which calls for an improved legal and regulatory environment, would be a lesser concentration.

These findings were presented to the Economic Reform and Growth Office of USAID/Bulgaria (David Lieberman, Edward LaFarge, Nikolay Yarmov), as well as other staff members of the mission, on Friday July 27, 2001.

Executive Summary

A. Legal & Regulatory Environment

Despite progress achieved with donor assistance in the area of legal and regulatory reform, the Bulgarian business climate continues to hinder the ability of SMEs to flourish. Major impediments include the weakness of the court system to make and enforce rulings, petty corruption, weak implementation of the SME law, and marginal financial support to the new Agency for Small- and Medium-sized Enterprise (ASME). Surprisingly, SMEs do not suffer from unfair competition with subsidized state-owned enterprises, but from competition with firms in the shadow economy.

USAID/Bulgaria contributes to the development of laws, policies and institutions that enable participation in crafting a legislative agenda. Through the Implementing Policy Reform activity, MSI has facilitated private-public sector policy dialogue, supported economic and policy analysis, and introduced advocacy and lobbying skills to business association members. More recently, the mission has begun a process designed to strengthen key “competitive” industry clusters of the Bulgarian private sector. Other efforts include those of ABA/CEELI, which provides legal expertise, training, and assistance to the government in the drafting of legislation, and of the Local Government Initiative, which assists local governments in developing the authority and capacity for democratic, decentralized administration.

For the future, details of the new government’s policies are yet unknown. Nonetheless, the existing broad policy priorities are not expected to change, as EU accession will remain at the forefront of the policy agenda. Expansion of EU chapters, however, will become more difficult and problematic. Although funding for ASME is uncertain, the new government is expected to continue support for SMEs.

In the future, consideration should be given to the following options:

- Strengthen the advocacy role of Bulgarian associations at both the national and local levels. In particular, we would recommend that such an enhanced role be used in addressing issues of taxation, as well as more general impediments to SME growth.
- Provide training to court officers and improve information systems within the legal system.
- Assist business associations to interact with key government policymakers; and
- Promote IAS accounting reform.

B. State of SMEs

Bulgarian entrepreneurs and managers have made considerable progress in recent years, but they still lack many of the management skills and experience needed to operate their firms efficiently and profitably. They have not yet realized the value of outside advisors in solving their business problems. Indeed, most entrepreneurs believe that lack of

availability and access to capital are the main obstacles to greater success. Meanwhile, they still lack many of the skills needed to make optimal use of the capital they have: general managerial (organizational), marketing, financial management, human resource, and quality control and cost control.

Unfortunately, the business-support sector, which could help managers overcome their weaknesses, is also weak. Until there are a sufficient number of skilled Bulgarian consultants/trainers, the entrepreneurs will not see them as a valuable tool. Yet, all Bulgarian firms face increasing competition and a need to increase their competitiveness, both in order to meet competition from imports and to seize export opportunities. For those businesses wishing to enter the export market, however, there is a distinct lack of a support network in Bulgaria.

The Firm Level Assistance Group (FLAG) provides technical assistance to both SMEs and to business support organizations, with its current focus on the former. FLAG works with both its own clients and the clients of business support organizations to solve specific problems facing the client SMEs and to strengthen the management skills of the entrepreneurs and the consulting skills and “know-how” of the consultants/trainers. FLAG has in recent years formed informal partnerships with some regional development agencies, business and trade associations, and consultants and consulting firms, but most of their assistance to these informal partners is in assisting them to serve their client firms. A unique feature of FLAG/Bulgaria is the inclusion of the University of Delaware, which has a number of training programs, such as courses for financial analysts, designed to strengthen the skills of Bulgarian consultants, analysts, bankers, etc. In recent years, FLAG has increasingly worked in certain sectors, such as apparel and food processing, where it has formed close relations with both the SMEs and with sector-specific trade associations. FLAG has also recently established a Trade Development Center designed to help Bulgarian firms identify and establish relationships with regional and other foreign partners, and to work closely with investment organizations such as BAEF and SEAF.

FLAG, with its more-than-four-year experience as an entity, has established a recognized name for itself in the Bulgarian market. Its impact on its immediate clients is naturally high, but its role in industry sectors is growing too. By working closely with indigenous consultants and trainers, it has improved their ability to assist further clients. By concentrating on specific, high-growth potential industry sectors, it has magnified its impact on the SME sector and the Bulgarian economy. No other donors provide a comparable service at this time, nor are they likely to do so in the future.

It is clear, however, that weaknesses in the managerial skills of Bulgarian entrepreneurs will continue to form a major obstacle to the growth of Bulgarian SMEs. The clear trend will be toward concentrating assistance on strengthening the abilities of the trainers and consultants so that they are the ones who can provide most of the services required by Bulgarian SME entrepreneurs and managers.

In the future, consideration should be given to the following new directions in the provision of technical assistance to strengthen the abilities of Bulgarian SMEs to compete on the domestic, regional and international markets:

- Providing direct technical assistance to strengthen the ability of the Bulgarian BSOs to provide the business support services required by Bulgarian entrepreneurs and managers. Such an activity should work with all types of BSOs, including consulting and training institutions, and trade associations.
- The technical assistance activity should also concentrate its efforts on the industry sectors identified through the competitiveness activity.
- To build greater sustainability, both for itself as an institution and for its partners offering business services, the technical assistance activity should only offer its services on a “fee-for-service” basis.
- USAID/Bulgaria should carry out an independent evaluation of the FLAG activity to determine what has worked well and what has not worked so well. A proper appreciation of the strengths and weakness of the present activity should help the Mission as it decides how it wishes to implement the above recommendations regarding a technical assistance activity.
- USAID/Bulgaria should consider how it might, in cooperation with other donors, meet the need for business education.
- USAID/Bulgaria should seize all opportunities to provide further support to Bulgarian businesswomens’ associations.

C. SME Access to Financing

In the Bulgarian economy, SMEs continue to lack access to commercial bank lending and long-term credit. Bank liquidity remains high with a large percentage of deposits invested outside the country. Re-investing Bulgarian capital in the economy would do more for Bulgaria than inflows of foreign capital. High collateral requirements by lenders are a major impediment to borrowing. Banks also have limited experience in working with SMEs, and in turn, entrepreneurs lack the understanding of how to effectively work with commercial banks. Working capital for business expansion is difficult to obtain and is usually acquired through family, friends, and reinvested profits. This lack of available capital slows investment in new plant and equipment. Growth in exports is also limited due to unavailable export financing and the restrictions placed upon the use of universally accepted financial instruments, such as letters of credit.

An assessment was made of current USAID programs that provide financial support to SMEs. In the area of micro-finance, the Mission, is engaged in a variety of activities that, when complemented by the work done by other donor organizations, provide relatively good coverage of the financial needs of micro-entrepreneurs. Moreover, the new micro-finance bank – ProCredit Bank, should further enhance the availability of micro-credit.

In the area of loan guarantee programs, the Mission actively encourages commercial banks to provide loans to SMEs. USAID has established two guarantee facilities through the Development Credit Authority and MSED programs, and plans to add a third. In

planning future private-sector development strategies, the Mission should continue to support loan guarantee-type programs and activities that expand the role of commercial banks in financing SMEs.

In equity and loan programs, USAID/Bulgaria already supports two important and innovative institutions, the Bulgarian-American Enterprise Fund (BAEF), and the Small Enterprise Assistance Funds (SEAF). Both programs operate countrywide and are successfully addressing the needs of SMEs, such as the provision of long-term lending, investment capital, and sound business advice. Until such time as Bulgarian bankers change their attitude towards lending to SMEs, these institutions will remain important in Bulgaria and they should continue to receive USAID support. Future prospects are good for the continued growth of BAEF and SEAF and the innovative ideas they have introduced to improve access to financing for Bulgarian SMEs.

In support of the banking system, USAID/Bulgaria is seeking to expand the availability of credit through its Commercial Banker Training Program. Because of the importance of a properly functioning banking sector, and because Bulgarian banks are not yet a major source of financing for SMEs, this program should be continued. Further, it should include additional goals that would lead to the improved understanding of commercial lending by bankers and SMEs alike.

USAID/Bulgaria's private-sector development priorities should be directed towards:

- Supporting policy reforms that would encourage Bulgarian banks to mobilize deposits and lending, invest their assets in the local economy, reduce the collateral requirements for borrowers, and provide better access to export (insurance) financing.
- Improving the existing low productivity levels in the economy by increasing SME access to operating capital, through bank lending and alternative methods of financing. This will enable SMEs to buy new plant and equipment and be more competitive in the global marketplace. As a new initiative, explore the possibility of establishing a nation-wide leasing program working with existing institutions and sources of vendor credit.
- Expanding existing training and technical assistance programs to include the training of both bank loan officers and entrepreneurs, so that they better understand the role of commercial lending in the private sector, and to introduce more competition into the banking sector.
- Given the importance of exporting to the Bulgarian economy, using existing or future training and technical assistance programs to promote export assistance, through government advocacy, bank training, competitiveness and information sharing. Activities could include the promotion of universally accepted, export insurance programs, use of export financing instruments, such as letters of credit, and allowing SMEs to use formal contracts as collateral for associated business borrowing for export and import needs.

I. Background

A. Evolution of SME Strategy

The USAID portfolio flows out of the U.S. Embassy's Mission Program Plan (MPP). Three main pillars of the MPP call for: 1) promoting regional stability through helping Bulgaria fulfill the criteria for membership in the EU; 2) fostering continued market-oriented reform; and 3) consolidating the rule of law and democratic institutions. The approach of USAID/Bulgaria to strengthening the private sector, and more specifically, its small and medium enterprise (SME) component, has evolved over time. At times, the approach has responded to changes in the political environment within which reforms could take place, while at other times it responded to developments within the SME community itself. In the earliest period following the demise of the communist regime, the emphasis of USAID – as well as other donors -- was on assisting Bulgaria to privatize state-owned enterprises. At that time, technical assistance at the firm level was provided to still state-owned enterprises in anticipation of and in preparation for their privatization. The approach of the Government of Bulgaria was to attempt to restructure enterprises before their privatization in a (vain) effort to improve their value and attractiveness.

Reconstruction, like privatization, was largely a failure, and USAID assistance was thereafter directed at private firms with an ownership and management willing to undertake the reforms needed to adapt to the market economy. Nevertheless, the policy environment was hostile to the private sector and corruption was rampant. Slowly, however, new firms appeared. Often these firms were tied to entrepreneurs who had been successful in the trade sector and saw opportunities to meet domestic demand through domestic production. And, most importantly, they were willing to invest their profits from their trading activities in these new ventures. Other new entrepreneurs were investing their own savings and borrowings from family and friends in their start-up firms. The vast majority of these new entrepreneurs had little or no prior management experience in the fields into which they ventured. They needed the advice and assistance available through USAID-funded programs working at the micro-economic (firm) level.

General education in Western business principles and assistance in writing business plans were available through the USAID-supported program of the University of Delaware. Opportunities to visit American firms to learn Western techniques and practices were available through the Entrepreneurial Management Educational Development (EMED) program. Technical assistance through advice from U.S. volunteer business people and consultants was available through the programs carried out by the International Executive Service Corps (IESC), Citizens Democracy Corps (CDC), the MBA Enterprise Corps, VOCA and Land O' Lakes. Although there was occasional collaboration among these organizations, there was no formal coordinating mechanism. In 1996, with encouragement from USAID/Bulgaria, these organizations came together in the Firm Level Assistance Group (FLAG). They made a formal, joint unsolicited application to provide firm-level technical assistance and a formal structure. The result, in spring 1997,

was individual cooperative agreements with each organization, and one contract (EMED).

Because of the difficulty of working with the then-existing socialist-party government, the Mission had adopted a strategy of working “from the bottom up.” And although lack of access to finance was a major impediment in the growth of private-sector firms, the environment was unfavorable for working in the financial sector. USAID/Bulgaria’s approach to SME financing needs was to support the Bulgarian-American Enterprise Fund (BAEF) and CARESBAC-Bulgaria, later renamed SEAF-Bulgaria. Both of these financial entities concentrated on equity investment.

The economic and political crisis of early 1997, however, led to new elections and a reform-minded government. New opportunities to encourage growth of the private sector opened up. A “Currency Board” model was imposed and, following the collapse of the banking sector, reform of that sector became a possibility. The Mission quickly created a program of support for financial reform under S.O. 1.4. These changes in the economic and commercial environment opened up new opportunities for growth of existing Bulgarian SMEs. FLAG was there to help fledgling Bulgarian enterprises find solutions to the myriad problems they faced. At the same time, in response to the changes taking place and to lessons learned elsewhere in the region, the Mission encouraged FLAG to work more closely with business support institutions to strengthen their services to their members and clientele. Also, because the domestic market had contracted, FLAG increased its focus on helping Bulgarian firms find export markets. At the same time, the Mission increased its assistance to Bulgarian associations in their advocacy role on behalf of Bulgarian businesses. The success of these activities has been attested by the growth in client firms, strengthened associations, and an improved climate for Bulgarian SMEs, as evidenced by the passage of the law on support of SMEs and the formulation of Bulgaria’s National SME Strategy. Both public and private sector members of the task force who developed the strategy took pride in pointing out not just that it existed, but that it came into existence as a joint effort of government and business.

In view of past successes, combined with the growth of the SME sector and the election of a new government with a stated commitment to reform and growth, USAID/Bulgaria considered the time appropriate for an evaluation of the current SME portfolio and the development of the broad outlines of a new SME strategy. The new strategy will build on past success, present trends and anticipated future opportunities. USAID/Bulgaria, therefore, requested the assistance of the Office of Market Transition in Washington to carry out that task and to contribute to a new Mission strategy, which will be presented early next year.

B. Recent Political Developments

June 2001 parliamentary election. Recent parliamentary elections were marked by the surprising return of former Bulgarian king, Simeon Saxecoburgotski, who returned after having left Bulgaria for Spain as a child at the close of World War II. He employed populist themes, particularly pledges to fight corruption and poverty. He effectively came

to power with the vote of the disenfranchised population – the unemployed, pensioners and generally uninformed voters rather than entrepreneurs and intellectuals. The Constitutional Court ruled out that Simeon could become president, as a presidential candidate must be resident in Bulgaria for five years before the election. Simeon II hadn't lived in Bulgaria since 1947. On July 24th, however, the National Assembly voted in the former king as Prime Minister. Simeon pledged to eliminate the budget deficit, drastically reduce taxes, foster “explosive” economic growth and boost employment. While these items generally conflict with each other, no further details were given as to how these would be achieved.

The new cabinet thus far could be described as young, multiethnic, multi-skilled and rather politically inexperienced. The two who are credited as the authors of the ambitious economic program have never before held public office. Deputy Prime Minister and Economy Minister Nikolay Vassilev, 31 years old, and Finance Minister Milen Velchev, 35, left careers as high-flying London bankers. Velchev has said that the government will pursue sufficiently restrictive fiscal policies to maintain the much-praised stability that resulted after the 1997 introduction of the Currency Board. Speedy privatization of large, state-owned utility companies will also be among the new government priorities, according to Velchev.

With Bulgaria's drive to join the EU, broad policies are not expected to vary much. Bulgaria's economy is expected to remain stable as certain features such as the Currency Board, which ties the lev to the euro under strict conditions, are not anticipated to change. At the micro level, however, details for how the new government will achieve its campaign promises of reducing poverty and fiscal debt while boosting economic growth and employment is not yet clear. There is concern that with his populist ticket, that some unsustainable policies could be adopted. For example, those interviewed in the banking sector said that the new government had promised more than \$9 million in subsidized – or even interest-free -- loans for the poor. This makes for an uncomfortable position for banks and is potentially damaging to achievement of reaching market driven reforms. The fact that the country will have a coalition government, however, implies that a gradual tax reduction as opposed to radical cuts in taxes will be adopted.

C. Macroeconomic Environment

Bulgaria has maintained a sound macroeconomic performance and continues to stay on track with its medium-term economic adjustment and reform program. With the Currency Board's introduction following the financial crisis in 1997, Bulgaria has experienced stability and low inflation since 1999. (See following Table 1, *Selected Economic Indicators*.) GDP growth close to 4 percent is predicted for 2001. This is a reduction from nearly 5 percent in 2000. The causes revolve around an expected slowdown in export growth as a result of weaker demand in the EU and a real appreciation of the Euro-pegged lev, as well as a slowdown in demand in Turkey after the devaluation of the lira in February. In 2000, Russia was the main destination of exports, at 24 percent, Italy and Germany at 14 percent each, and Turkey at 10 percent. If GDP per head is measured in

terms of purchasing power parity, Bulgaria ranks eighth among the nine other east European applicant countries to the EU (only Romania is poorer).

In 1999 services accounted for 56.6 percent of gross value added at current prices, compared with 45.2 percent in 1997. It should be noted that the relatively high share normally taken up by the service sector masks severe qualitative deficiencies within the sector, and a high share of government services within this total. Recovery of the agricultural and industrial sectors from post-communist recession, meanwhile, has been slow. Unemployment has increased significantly, reaching nearly 18 percent, due in part to restructuring in the manufacturing and agriculture sectors. Health reforms also had an effect as the unemployed had increased incentive to register.

Table 1
Selected Economic Indicators

	1997	1998	1999	2000
GDP per head (USD)	1,254	1,533	1,566	1,580
GDP (% real change pa)	-7.04	3.53	2.44	4.8
Government consumption (% of GDP)	6.18	8.17	8.41	9.5
Budget balance (% of GDP)	-3.11	1.37	-0.76	-1
Consumer prices (% change per annum; average)	1,082.33	22.23	0.39	9.97
Public debt (% of GDP)	105.26	82.91	88.57	78.2
Labor costs per hour (USD)	0.45	0.57	0.62	0.62
Recorded unemployment (%)	14.01	12.2	13.79	18.14
Current-account balance/GDP	10.32	-0.5	-5.25	-5.6
Foreign-exchange reserves (millions of USD)	2,249	2,831	3,083	3,342

Source: Economist Intelligence Unit

By mid 2000, over half of total state-owned assets had been privatized, including 82 percent of assets in the industrial sector. The share of the private sector in GDP has increased dramatically since 1989. In 1996, the private sector contributed 50 percent of GDP. By 1999, the share had risen to 70 percent. Outside agriculture, this has been due in part to an emphasis on the restitution of small urban properties in the early post-communist years and in part to more recent progress in privatizing manufacturing and extracting industries. The private sector's share of agriculture is 97 percent, of services 61 percent, and industry and construction 53 percent. The high share in agriculture masks the persistence of a considerable sector still organized on cooperative lines on restituted land. There is also a thriving but unrecorded "gray economy." Some estimates put its share of GDP at as high as 50 percent, although the National Statistical Institute puts it at around 20 percent.

According to the Foreign Investment Agency (FIA), which recorded foreign direct investment of US \$1.1 billion in 2000, more than 50 percent or \$550 million was considered "Greenfield" investment, another \$20 million was in the capital markets, and

the remaining \$530 million came from privatization. At the end of 2000, public debt as a percentage of GDP had fallen to 78 percent, after a high of over 100 percent in 1997. Senior government officials expressed a desire to bring foreign debt down to 60 percent of the GDP.

A broader economic challenge that is confronting Bulgaria is that of “brain drain.” Increasingly, Bulgaria has suffered from a migration of the young and talented as this generation sees better opportunities abroad. Bulgarian Finance Minister Milen Velchev says the new government will work to persuade young professionals working abroad to return to Bulgaria.

Financial Sector. The condition of the financial sector is improving, but continues to be tenuous. Lingering effects of the financial crisis of 1997 continue to constrain its development. Following bank consolidation and a tightening of regulation and supervision since 1997, banking sector soundness has improved substantially. The incidence of violations of major requirements (including capital adequacy, open foreign currency positions, and loan concentrations to individual borrowers) has been reduced significantly. Nevertheless, accounting standards and disclosure rules for banks still need to be applied more stringently and supervision efforts need to be strengthened.

As a result of this difficult period, the development of the banking sector has been hampered. The EBRD pointed out in its *Transition Report Update* (April 2001) that “although bank and insurance privatization is nearing completion, total credit to the private sector is low and may constrain future growth.” The banking sector is liquid, but bank credit available to the private sector remains low, at only 12 percent of GDP. Banks continue to hold government bonds, instead of extending commercial loans. This constraint is being addressed through bank privatization, particularly to foreign owners. For example, the largest bank, Bulbank, was sold in the middle of 2000 to a consortium led by UniCredito of Italy with Allianz of Germany.

Foreign banks now hold more than 70 percent of total bank assets in Bulgaria. After the successful sale of Bulbank, the Bank Consolidation Company has started negotiations with Hebrosbank, the only buyer of one of the three remaining majority state-owned banks, BioChim. Only one bid was received in early 2001 for the privatization of the biggest state-owned insurer, DZI. The bid was submitted by a consortium of the Israeli Insurance Company, TBI, and the Management and Employee Company of DZI.

II. Assessment of Current State of SME Sector

A. Legal & Regulatory Environment

Despite progress achieved with donor assistance in the area of legal and regulatory reform, the Bulgarian business climate continues to hinder the ability of SMEs to flourish. A number of legal and regulatory impediments prevail. Major impediments include the weakness of the court system to make and enforce rulings, petty corruption, weak implementation of the SME law, and marginal financial support to the new Agency for Small- and Medium-sized Enterprises (ASME). Another constraint is the continued centralization of government decision making, thereby reducing the ability of SMEs and the local government officials to affect policies and legislation. A final constraint would be the slow implementation of international accounting standards (IAS). On the positive side, an NGO law has been passed and trade associations face fewer barriers to formation.

Although experts say that ultimately the court system does operate, the delays and uncertainties and the ease with which a debtor can delay or evade processes for long periods of time or indefinitely, actively discourage banks and investors from entering into relationships. The court system's organizational structure, lack of automation, and poor coordination within the judiciary leads to severe bottlenecks. Judges lack the training necessary to understand the market system and financial/contractual relationships. As such, they are ill equipped for making decisions. At present, banks and entities prefer to rely on personal relationships, resulting in Bulgaria's high level of "internal debt" between firms and entrepreneurs. All of these factors hinder the decision making process. This leads to banks, investors, and companies with little trust in recourse through use of the system. Furthermore, entrepreneurs have little experience or understanding of how to use the court system to protect them.

While corruption does not form a significant barrier for larger firms, especially foreign-owned ones, it does have a more considerable impact on smaller firms, especially micro-enterprises, where even petty bribes represent substantial costs of doing business. Corruption has significantly declined in recent years, but it still impedes entry stages and daily operations for Bulgarian enterprises, particularly when registering and applying for permits and licenses.

The Government of Bulgaria (GOB) has expressed its recognition and demonstrated support for the importance of the SME sector through passage of a formal Law on SMEs and the establishment of the Agency for Small- and Medium-sized Enterprises (ASME) as the body to affect government policy. Further, the national government has adopted a National Strategy for SME Development (1998). The Law on SMEs and the ASME is in conformity with EU regulations. In turn, the EU has closed the chapter on SMEs. Nonetheless, the capacity of the agency to influence policies favorable for SMEs is limited. The ASME is intended to serve as the link among the private sector, the Council of Ministers, and Parliament. Further, it is expected to have an impact on state policy to

improve the business environment, reduce administrative burdens, and increase access to information and finance for SMEs. While the leadership of the ASME is vibrant and has access to top levels of government, lines of responsibility are still undefined, and the agency lacks a direct advocate at the ministerial level. Finally, funding is uncertain and falls short of what it needs to successfully carry out its mandate.

Surprisingly, SMEs do not suffer from unfair competition with subsidized state-owned enterprises (SOEs), but from competition with firms in the shadow economy, particularly in sectors with low marginal profits. Bulgaria's VAT is relatively high, and the rebate system is administered to the disadvantage of firms with a turnover under 75,000 Bulgarian leva (approximately \$31,000) per year. "One-stop shops" are being introduced in select regions as a means of lowering the barriers to entry. Meanwhile, regional and municipal governments lack the authority and resources to streamline the processes completely.

Other areas where either the lack of legislation or weak legislation hinder growth of private enterprises include shareholder rights, slow implementation of international accounting standards (IAS), and unpredictable enforcement of rights.

B. State of SMEs

Bulgarian entrepreneurs and the small- and medium-sized enterprises they own and/or manage have made considerable progress in recent years. They and their workforce are educated and the workforce retains its technical skills. But Bulgarian entrepreneurs and managers still lack many of the management skills needed to run their firms efficiently and profitably. They also do not have the years of experience in operating in a market economy that Western entrepreneurs and managers have. Most Bulgarian entrepreneurs are innovative, and they recognize both market opportunities and obstacles to their realizing these opportunities. But inevitably the pressures of the day-to-day running of their businesses prevent them from taking a longer-term, strategic view and from devoting the time necessary to improve their knowledge and skills. They also have not yet realized the value of outside advisors in solving their business problems. Indeed, most entrepreneurs believe that lack of capital and access to capital is the main obstacle to greater success. Meanwhile, they still lack many of the skills needed to make optimal use of the capital they have: general managerial (organizational), marketing, financial management, human resource, and quality control and cost control. Naturally, the larger the firm and the longer it has been in business, the greater the need for these skills. Many more Bulgarian firms are now confronting these limits.

Unfortunately, the business-support sector, which could help managers overcome their weaknesses, is also weak. The good news is that the number of consultants and trainers is growing. There is also a network of regional development agencies, which are supposed to provide business support services to SMEs, including micro-enterprises. They too, however, suffer the same weaknesses as the private-sector consulting and training firms. Both sets of business-service providers still need much improvement in their own knowledge and skills. And until there are a sufficient number of skilled Bulgarian

consultants/trainers, the entrepreneurs will not see them as a valuable tool. Much of the information needed to make informed decisions is still unavailable. The business associations that could help fill this informational gap are, for the most part, still extremely weak and not viewed as a resource for either information or assistance in overcoming legal/regulatory impediments. Further, since the latter still represent formidable barriers to profitability and growth, many entrepreneurs choose to remain in the informal sector. For those operating in the formal sector, this creates an uneven playing field, since those in the informal sector have a competitive advantage through lower costs. As long as such conditions exist, there will be a disincentive for new market entrants and those already in the informal sector to formalize their businesses.

As is the case throughout much of the region, Bulgaria suffers from aging and in most cases obsolete technology in its manufacturing sector. The difficulties of SMEs in accessing capital, which is discussed elsewhere, means that they do not have the ability to replace their existing technology. This makes their management skills in controlling costs and making the most efficient use of their existing equipment all the more important.

Increasingly Bulgarian entrepreneurs are realizing the opportunities in the export market and the need to enter that market if they are to grow. As a member of the World Trade Organization (WTO), Bulgaria is an open market. That means that even those Bulgarian firms not engaged in exporting, face inevitable competition from abroad. Therefore, they must become more competitive by international standards. For those wishing to enter the export market, there is a distinct lack of a support network in Bulgaria. Export financing is either unavailable or extremely limited for SMEs and what Bulgarian governmental institutions that exist to provide assistance are weak and ineffective. Nor have private sector institutions, such as trade associations, yet stepped in to fill the gap.

C. SME Access to Financing

Bulgarian SMEs do not currently have adequate access to commercial bank lending or to long-term credit. Where loans may be available, the collateral requirements for borrowers are onerous (125 – 300 percent), and terms are short (1-2 years). Larger companies can get access to lending but for small companies, even getting working capital is difficult – a gap in financing exists in the \$100,000 to \$300,000 range. Bulgarian banks are highly liquid and have more cash on hand than they need for normal operations. The fact that interest rates paid to depositors are so low, allows banks to make money on the interest rate spread from Treasury notes, and from deposits made outside the country (43 percent of bank assets are invested abroad). There is also no shortage of banks in Bulgaria. Currently there are approximately 25 commercial banks, six to eight of these banks are considered to be large. If anything, the country has too many banks for the size of the economy.

Most businesses and NGOs interviewed regarded bank loan officers as being inexperienced in lending to and working with SMEs. The banks have a limited understanding of the needs of SMEs, particularly in evaluating business plans that entrepreneurs often present verbally. The same could be said for entrepreneurs who don't

understand commercial banks and the lending procedures -- in particular, how to present a business plan and loan application. Most people interviewed agreed that there was a pressing need for banks to better train their loan officers on understanding the needs of SMEs. United Bank of Bulgaria (UBB), a large bank with a growing interest in the SME sector claims that its branch loan officers are well trained in SME lending. It is doubtful that this claim is entirely true. Other impediments to lending are numerous and include risk-averse policies of banks, high collateral requirements, and the existing civil law on bad loans. Under Bulgarian civil law (rarely enforced), bank-lending officers can be held criminally liable for unsecured non-performing loans. According to the bank officers interviewed, the removal of this law would have a positive impact on lending activities.

Many of the SMEs and NGOs interviewed saw indications that there was increased interest in SMEs and competition for SME business. However it was generally agreed that Bulgarian banks only “talked the talk” about SME lending, and didn’t yet “walk the walk.” Many of the businesses and organizations visited had anticipated that the entry of foreign banks into the Bulgarian economy would result in increased lending activities. This has not yet happened. Although 85 percent of the banks are now foreign-owned, there has been only a minimum increase in SME lending. The continued lack of competition among all banks and the widespread inefficiencies in operation has resulted in continued high interest rates.

Various multilateral organizations are providing SMEs with alternative sources of business lending. The EBRD provides an on-lending SME credit line through First Investment Bank and has opened another relationship with Union Bank. With EU/PHARE, EBRD also offers a guarantee program with partner banks, which offer loans of around EU125,000 through the SME agency. EIB also offers a DM20 million-credit line directly to banks for on-lending to SMEs.

Expansion of SMEs throughout Bulgaria is highly dependent on the availability of loans for working capital and investment. Without the infusion of new funds through long-term lending, businesses are forced to pay more for their resources by using vendor-financing and their own capital resources. Given the largely unmet need for long-term lending, Bulgarian productivity will continue to remain at low levels. Few commercial banks currently offer terms beyond one to two years. An exception is the Bulgarian-American Credit Bank (BACB), which offers a limited number of longer-term loans.

Export trade, a widely recognized activity for improving Bulgaria’s economy, is growing. Unfortunately, inefficient procedures and a lack of available trade financing hamper it. Banks do not provide export financing or recognize universally-accepted financial instruments such as letters of credit (illegal), nor do they accept commercial paper, orders, contracts, etc., as collateral for business lending. The state does provide an Export Insurance Guarantee program that assists SMEs to obtain bank loans for foreign trade. However, this program has high collateral requirements (up to 200 percent) and is not generally used by SMEs. The majority of Bulgarian companies use valuable capital resources to provide cash on delivery terms or pay more for imports through vendor financing programs. Bulbank, the Bulgarian commercial bank (now owned by Italian

interests), was designated by the government to develop and offer trade financing. This activity has proven ineffective and most SMEs interviewed didn't regard Bulbank as a useful trade resource. KfW (German Development Bank) has made available DM50 million to Bulbank for exporting assistance, although to date no funds have been used. DIFID (British aid program) and KPMG are working together to improve the State Export Insurance Guarantee Agency program, which is being remodeled based on the German "Eximbank." They plan to address the Agency's overall general lack of knowledge about international trade payments and financing. The Government of Bulgaria provides special funding for the Export Insurance Agency's "guarantee program" (10 million leva), and for the "transactional risk program" (30 million leva). However, it appears that none of these available funds are currently being used by the agency. DIFID has suggested that the difficulties being experienced by SMEs with the state agency will force businesses to get offshore insurance and develop tax shelters, all of which would reduce revenues to the Bulgarian economy.

Three different types of commercial banks were interviewed in the SME assessment: United Bank of Bulgaria (UBB) a large, traditional Bulgarian bank; the Bulgarian-American Credit Bank (BACB) a long-term lender with limited access to deposits; and, the First Investment Bank (FIB), a small, progressive bank.

1. United Bank of Bulgaria (UBB), with its large lending potential (capital around \$150 million) plans to establish a special division for SMEs operating outside of its commercial department. The SME division will offer both working capital and investment loans in the range of \$5,000 to \$500,000. UBB was correct in suggesting that the interest rates charged to SMEs are not the only issue for SME borrowers. Equally important were collateral requirements and terms of loan. UBB claimed to offer both medium-term loans (2-3 years) and long-term loans (5 years), but it is doubtful that many 5-year loans are actually made. UBB plans to coordinate its SME lending program with other "risk sharers," technical assistance providers and other third parties. UBB has established two USAID loan guarantee facilities, a Development Credit Authority (DCA) line of credit for energy-related projects, and a LPG/MSED facility for SME lending. At the time of the assessment, UBB was negotiating its first LPG loan. UBB headquarters plans to establish special procedures for SMEs nationwide. The relationship between headquarters, the branches and loan officer responsibilities, however, has not yet been finalized.

2. The Bulgarian-American Credit Bank (BACB), a 100 percent owned subsidiary of the Bulgarian-American Enterprise Fund (BAEF) has the biggest credit portfolio (based on percentage of assets) in Bulgaria. BACB is engaged principally in mortgage lending and has branches in the cities of Varna and Burgas. The bank has made loans equal to 90 percent of the assets of the bank and its credit portfolio is nearly 85 million leva. Nearly 74 million leva was distributed to private companies. The long-term liabilities of the bank (62.7 million leva) allow loans with longer repayment periods. BACB has limitations on taking deposits, but it does take some long-term and institutional deposits from organizations such as IFC and EBRD, which have instituted restrictions on deposit taking. The BACB considers that the unevenness of tax applications is a major cause of

concern for its SME clients. The BAEF and BACB saw possibilities in advancing available capital to SMEs through lease financing. A separate subsidiary leasing company would need to be established that would seek vendor-financing support and focus on the agriculture sector, an area where the BAEF management has considerable experience. The BACB is also very interested in having the opportunity to offer DCA support credit to expand its lending program to SMEs.

3. First Investment Bank (FIB), which is owned by EBRD (20 percent), EPIC, a European privatization organization, (35 percent), First Financial Brokerage House (13 percent), and other private investors are aggressively seeking SME clients. The FIB is willing to lend up to 25 percent of its DM50 million in capital to individual businesses that open accounts with the bank. Loans are offered from \$5,000 up to \$5 million with interest rates ranging from 12-16 percent. FIB, the only Bulgarian bank borrowing abroad, is hampered by short-term asset liquidity (deposits average one month). FIB just received a DCA line of credit potentially worth \$20 million and will actively seek privately owned SME borrowers. This proactive approach is quite the opposite of Bulgarian banking tradition. The bank is adding 100 new clients per week (many retailers) through its 10 branches. FIB offers clients a bank debit card and the services of First Leasing Corporation, with whom they have a relationship.

III. Assessment of Present USAID Activities/Sectors

A. Legal & Regulatory Environment

1. USAID

The program of USAID/Bulgaria contributes to the development of laws, policies and institutions that enable participation in crafting a legislative agenda.

Implementing Policy Reform (IPR). Through the IPR activity, MSI has facilitated private-public sector policy dialogue, supported economic and policy analysis, and introduced advocacy and lobbying skills to business association members. The objective of this assistance is to have the GOB establish laws, regulations and policies that foster a competitive market economy where private enterprise, including SMEs, can flourish. MSI continues to work with Bulgarian think tanks and the GOB – both executive and legislative branches – to inform the legislative agenda about laws affecting SMEs.

More recently, USAID/Bulgaria has begun a process designed to strengthen key “competitive” industry clusters of the Bulgarian private sector. This activity includes working closely with sector associations and strengthening their lobbying skills. There is not yet a fully developed network of businesses and industry associations in Bulgaria. Although there are some promising associations with which MSI has been working, others are either still too backward looking, or are too weakly organized.

Throughout the E&E region, there are a variety of similar activities in various stages of implementation. One of the more advanced is the one being implemented in Romania. With assistance from the Center for International Private Enterprise (CIPE), numerous business associations have been strengthened. In particular, associations were improved that works in three key sectors: 1) the high-technology sector, where the “Tech 21 Coalition” of associations was started; 2) the tourism sector, where the “T3 Coalition” was started; and 3) the furniture manufacturing sector. Meanwhile, CIPE also provides assistance to groups that more broadly represent the interest of the private sector. For example, the “Open Door Campaign” is an effort of reform-minded associations to promote a more conducive legal and regulatory environment for SMEs.

Similar activities are being pursued in Ukraine under the “BizPro” Project, where business support organizations are being strengthened in order to enhance their capacity to advocate for economic reform, and in Croatia, where a business advocacy project has just begun. Finally, in Russia USAID is focusing on the business associations and business support organizations at the oblast level. Due to the difficulty in achieving significant reform at the national level, a new project is seeking to identify and work with reform-minded officials at the local level. The objective is the removal of investment constraints through business advocacy.

Support for pro-business environment legislation. ABA/CEELI provides legal expertise, training, and assistance to the GOB to draft legislation. ABA/CEELI provides assistance in key areas that affect the environment for SMEs. These areas include commercial legislation, banking reform and bankruptcy training, intellectual property rights, judicial institution-building and training, and legal education.

A key activity that USAID has supported throughout the region that promotes transparency is accounting reform. Such reforms have many benefits, including the improvement of investor confidence in the financial system of a particular country. As a direct result of USAID assistance, full IAS and ISA standards have been adopted in Kazakhstan, Kyrgyzstan, Moldova, Georgia, Armenia, and Ukraine. In Southeastern Europe USAID helped to create the Southeastern European Partnership for Accountancy Development (SEEPAD). SEEPAD is the only regional accountancy professional association, and it is the flagship initiative of the EU Stability Pact. Countries covered in this program include Albania, Bosnia-Herzegovina, Bulgaria, Croatia, Greece, Macedonia, Montenegro, and Romania. In the case of SEEPAD, however, accounting conversion is a less pressing issue than that of EU integration and harmonization.

Local Government Initiative (LGI). The Local Government Initiative assists local governments in developing the authority and capacity for democratic, decentralized administration. It includes public policy reform, capacity building at the municipal level for cooperation with the local business community, including SMEs, and organizational development for NGOs. Under this program, “one stop shops” were introduced in five Bulgarian municipalities. Other municipalities have expressed interest in adopting this approach.

2. Other donors

The other major donors working to improve the legal and regulatory environment for SMEs are the World Bank, the EU, through PHARE, and the UK, through DFID.

World Bank. In September 2001, the World Bank indicated that it would sustain its funding strategy for Bulgaria, and urged the new government to complete privatization, restructure the energy sector, and fight corruption. In May, a Country Assistance Strategy for Bulgaria was announced, which involved a three-year funding plan of between \$220 and \$750 million, depending on how well Bulgaria meets reform and growth targets.

EU/PHARE. The EU was instrumental in creating ASME and has been the major financial support. Funding is expected to come to an end in the near future. Predictably, this has created uncertainty for the future of ASME. With this assistance, the Law on SMEs was adopted in correspondence to the “*Acquis Communautaire*,” and Chapter 15, the chapter on SMEs, has been closed.

UK/DFID. The focus of this assistance is on the conduct of surveys and analysis of existing administrative barriers. For example, one study revealed the greater costs of

complying with regulations as opposed to not complying. A future activity will focus on the study of ways to streamline administrative procedures in three major areas: registration of enterprises, provision of statistical data, and administrative controls.

B. State of SMEs

1. USAID

Firm Level Assistance Group. The major activity of USAID/Bulgaria in the SME sector is the Firm Level Assistance Group (FLAG). FLAG is currently made up of the International Executive Service Corps (IESC), ACDI/VOCA, MBA Enterprise Corps and the University of Delaware. This consortium, which operates under four separate cooperative agreements, provides technical assistance to both SMEs and to business support organizations, with its current focus on the former. FLAG works with both its own clients and the clients of business support organizations to solve specific problems facing the client SMEs and to strengthen the management skills of the entrepreneurs and the consulting skills and know-how of the consultants/trainers. Although FLAG started out working almost exclusively with client firms, they have in recent years formed informal partnerships with some regional development agencies, business and trade associations, and consultants and consulting firms. Most of their assistance to these informal partners is in assisting them to serve their client firms. This provides on-the-job training for the consultants.

SME technical assistance activities in other countries of the E&E region have also moved from strictly firm-level assistance to assistance to and through BSOs. In Poland, for example, the Business Support Program, or *Firma 2000*, created a network of BSOs that was strengthened in technical consulting skills of staff and in the management of the BSOs themselves. An important element of this program was on-the-job training from pairing BSO consultants with American volunteers. But equally important was highly professional technical assistance to the BSOs and training courses provided to their staffs. The Business Development Services activity in Russia has moved in a similar direction over several stages. The most recent stage provides for a formal partnership with Russian BSOs, providing both technical assistance to the BSOs and the use of American volunteers for on-the-job training. The Alliance program in Ukraine resembles more closely the FLAG program, with the major difference that there is only one cooperative agreement, with one PVO serving as the prime. In this case, too, however, the program is moving toward a more formal relationship between BSO partners and the Alliance.

A unique feature of FLAG/Bulgaria is the inclusion of the University of Delaware, which has a number of training programs, such as courses for financial analysts, designed to strengthen the skills of Bulgarian consultants, analysts, bankers, etc. FLAG provides assistance both through the skills of its Bulgarian staff and through short-term or long-term volunteers (in the case of MBA Enterprise Corps). In recent years, FLAG has increasingly worked in certain sectors, such as apparel and food processing, where it has formed close relations with both the SMEs and with sector-specific trade associations. In this respect, FLAG is ahead of some of the programs in other countries of the region,

although they are likely to move in this direction as increasing the competitiveness of key industry sectors becomes a focus of technical assistance programs. FLAG has also recently established a Trade Development Center, which is designed to help Bulgarian firms identify and establish relationships with regional and other foreign partners. The only other program with this feature is the Macedonian Business Resource Center. Another recent area of assistance has been in the area of quality control and meeting international standards (ISO 9000, etc.), an area of increasing interest in all programs in the region.

FLAG, with its more-than-four-year experience as an entity, has established a recognized name for itself in the Bulgarian market. Not only its own clients and partners, but also the international donor community, recognize its unique knowledge of the Bulgarian SME sector and capabilities to provide in-depth technical assistance. This is a rather unique feature of FLAG, which seems to have established its collective identity to an even greater extent than the Alliance in Ukraine, despite the differences in organization. Its impact on its immediate clients is naturally high, but its role in industry sectors is growing too. By working closely with indigenous consultants and trainers, it has improved their ability to assist further clients. By concentrating on specific, high-growth potential industry sectors, it has magnified its impact on the SME sector and the Bulgarian economy. No other donors provide a comparable service at this time, nor are they likely to do so in the future. GTZ and other European donors provide some of the same services, but their assistance tends to be provided for shorter periods and by professional consultants who take less of a long-term interest in their clients than do the volunteer advisors from IESC, ACDI/VOCA and MBA Enterprise Corps. In addition, the volunteers from the first two also have decades of experience in their specific industries. Typically, European assistance projects tend to have a life of only 18 months. FLAG now has an extremely capable local staff, many of whom are able to provide consulting services themselves and supplement the assistance provided by the short-term volunteers.

Bulgarian-American Enterprise Fund. The Bulgarian-American Enterprise Fund (BAEF) provides both loans and equity financing to select Bulgarian SMEs. BAEF has a natural interest in the profitable performance of its investees and loan clients. Through its own staff it provides expertise in financial management and accounting. When it judges that a client requires greater outside expertise, whether in general management, marketing or production efficiency, it recommends the firm as a client for FLAG's services. There has been extremely successful collaboration between BAEF and FLAG in improving the performance of BAEF's clients and in introducing FLAG clients to a source of equity and/or loan financing.

Global Technology Network. The Global Technology Network (GTN) operates within Bulgaria, connecting Bulgaria to other countries within the region as well as the network in the United States. This provides Bulgarian firms with access to information on other users and on U.S. suppliers. The Trade Development Center is currently using it as a resource for searching for potential trade partners for Bulgarian SMEs.

2. Other Donors

EU/PHARE. Although there have apparently been a number of donor projects aimed at providing technical assistance directly to enterprises in the past, only a few of these remain. Moreover, these projects are designed to strengthen the business support sector at the same time. An example is the present EU/PHARE 18-month project for management training. A consortium of European business schools (Milan, London and Copenhagen) and KPMG are implementing this project, which ends in July 2002. Technical assistance will be provided to 50 Bulgarian SMEs, while 40 Bulgarian trainers and consultants will participate in order to sharpen their skills. The consultants will be formed into groups by skill area. Five companies will receive help from each group. The groups will include a foreign consultant as well as a KPMG Bulgarian consultant. Other Bulgarian consultants will participate as trainees. One result will be a series of case studies and other training materials. The priority industry sectors are tourism, textiles, information technology and food processing.

Another EU project aimed at strengthening consultancy capacity in Bulgaria is the Strategic Restructuring and Financial Advisory Service (SRAFAS) program. This project is aimed at supporting mostly privatized medium-sized enterprises. A Spanish and a Bulgarian consulting company carry out assistance in the areas of general management, marketing, financial management, human resources management, and management of operations. This is similar to FLAG assistance. The priorities for assistance are foreign market entry and certification under ISO 9000.

GTZ. The German government's agency for delivery of technical assistance (GTZ) had a major program from 1996 to 2000 to provide consulting services on problems of technological improvement, mostly to Bulgarian export-oriented firms. GTZ also has a broad-based program to assist key, *i.e.*, competitive Bulgarian industry sectors—the "Sofia Funnel Project." This project is designed to provide technical assistance to firms and associations in these sectors. In particular, it involves teaching the associations how to strengthen themselves and serve their members through business services, consulting services, training seminars, use of a data bank to promote contacts to firms, "match making" through meetings of interested entrepreneurs, organization of fairs and branch participation in fairs, and publications. At the same time the associations are to be instructed in how to influence directly and through their members government policies and legislation.

UNDP. The United Nations Development Program (UNDP) has cooperated with the EBRD in a "Turn-Around Programme" providing high-level consultants to 35 medium-sized Bulgarian firms. The UNDP has also helped establish several SME business support centers in small municipalities, as well as a business incubator in Vidin. Other donors have also helped to establish business centers intended to help primarily micro-entrepreneurs and start-ups.

C. SME Access to Finance

1. USAID

Micro-finance. Given that USAID/ Bulgaria plans to conduct a full impact evaluation of its micro-finance portfolio in the near future, the assessment team conducted only a cursory review of these activities. Currently, the mission is engaged in a variety of activities that involve the provision of financial support to SMEs. At one end of the spectrum, the mission supports three micro-finance activities, those of Opportunity International, CRS, and the World Council of Credit Unions. USAID/Bulgaria began to provide funding to these activities in September 1999 as an immediate response to the crisis in Kosovo. Prior to that, the E&E Bureau had been supporting Opportunity International in Bulgaria. The rationale for initiation of these activities, or expansion in the case of Opportunity International, hinged on the expectation of sustainable increases in incomes and employment among low-income groups and communities throughout Bulgaria, with a particular focus on the Danube River Basin. The program of Opportunity International, known as “*Nachala*,” or “Beginnings,” would appear to be the most successful. *Nachala* has made loans totaling over \$7.2 million to more than 3,800 clients – 43 percent of whom are female. The program is well established throughout much of Bulgaria, with seven offices and 22 loan officers. The average loan size is \$1,800, while the minimum is \$300 and the maximum is \$20,000. *Nachala* has a clear commercial orientation, and is well on the path of financial sustainability. A major hindrance, however, is the legal environment, which allows the organization to be registered only as a cooperative. Unless and until this issue is resolved, the commercial prospects and impact of *Nachala* remain constrained.

The micro-finance activities supported by USAID/Bulgaria compare favorably with similar activities throughout the region. In general, USAID-supported programs in diverse settings (Armenia, Kazakhstan, Kyrgyzstan, Russia, Macedonia, Kosovo, and Georgia) have been quite successful in achieving operational sustainability, in that they recover their operating costs. Financial sustainability, however, which includes capitalization costs, has been more difficult to attain. Nonetheless, the outlook for many of these micro-finance organizations appear bright, as most are bracing for the challenge of becoming at least partially-fledged members of the commercial banking community. As a rule, the objectives of these programs include the expansion of outreach, the increased “commercialization” of the micro-finance institutions, and an improved legal and regulatory environment for such programs.

Loan Guaranties. In an attempt to leverage funds of commercial banks, USAID/Bulgaria has sought to employ the Development Credit Authority of USAID. In November 1999, USAID established two guarantee facilities with the United Bulgarian Bank to assist it in securing a portion of the risk of lending to SMEs and municipalities. The purpose of the effort was to promote market rate lending to key sectors by mitigating UBB’s risk in making loans. The Micro and Small Enterprise Development program uses a guarantee mechanism to support commercial bank lending to small and micro entrepreneurs for loans up to \$150,000. It was expected that this program would generate lending of up to

\$6 million, with terms of three to five years. The guarantee covers half of UBB's possible losses that would result from loan defaults. To date, UBB has been very slow in implementing this program. As of early July 2001, only one loan had been approved under MSED. In the case of the guarantee for energy-related lending, the facility has been fully utilized, probably because of USAID-funded technical assistance to the client firms.

Meanwhile, in July 2001, USAID/Washington approved another loan guarantee with the First Investment Bank. The FIB represents a "new generation" of bank in Bulgaria, as it concentrates its lending on the SME sector, and actively seeks to provide innovative services to its clientele, such as debit cards. It has ten branches throughout Bulgaria. The EBRD has a 20 percent equity position in FIB. The management of the bank was very enthusiastic about the prospects of the loan guarantee and was optimistic over the prospects of expanding its lending to SMEs. The broader goals of these MSED programs are to mobilize private capital, demonstrate the financial viability of such investments to the local banking sector and other sources of private capital, and to maximize USAID resources. While UBB does not appear to be the optimal channel for DCA, it indicates its intention to play a more active role in the future. FIB, on the other hand, appears well prepared to take advantage of the facility.

Throughout the region, USAID-supported loan guarantee programs have demonstrated significant impact and leverage of USAID resources. For example, in Moldova USAID has an MSED guarantee program with three banks. In Ukraine, there are two DCA activities, one of which guarantees accounts receivables for a farm implementation manufacturer, and in Russia another enables Caterpillar to guarantee receivables.

Equity and Loan Programs. USAID supports two institutions in Bulgaria that provide equity and loan capital to SMEs. The larger of the two is the Bulgarian-American Enterprise Fund (BAEF). BAEF is one of the more successful of the enterprise funds that USAID has established in Central and Eastern Europe and the former Soviet Union. BAEF concentrates on the provision of equity and loan capital to SMEs and provides innovative financial programs, which have become models for the Bulgarian banking sector. In 1996, BAEF established the Bulgarian-American Credit Bank. This operation has been successful in a variety of facets of SME lending, such as construction, hotel operations, and mortgages. Moreover, BAEF has an equity position in the Rodina Pension Fund. This fund is one of the new, private funds established under the new pension reform effort and could be a source of capital. In the future, BAEF expects to bundle mortgage-backed securities for investments by pension funds. The average term is five years – well above the average of most Bulgarian banks, which is one year. Some loans stretch to eight years. It is clear that BAEF has found a profitable niche for itself, and has become a small but innovative player in the Bulgarian financial sector.

Other enterprise funds in the region such as the Albanian-American Enterprise Fund have achieved great success with their banking subsidiary and are beginning to enter the home mortgage lending market. The U.S.-Russia Investment Fund (TUSRIF) has established very successful banking, home-mortgage lending, and leasing programs across Russia.

Another equity and loan program that is supported by USAID is the program of the Small Enterprise Assistance Funds (SEAF). The original SEAF program, which operated under the name "CARESBAC," began operating in Bulgaria in 1993. CARESBAC was the first private equity fund in Bulgaria to focus on SMEs. The initial capital, totaling about \$7 million, came from USAID and the EBRD. CARESBAC was designed to make SME equity investments of between 25 – 49 percent, as well as provide additional financing through medium-term loans, when appropriate. Typically, fund investments would range from \$100,000 to \$400,000, often in combination with other financial institutions.

Twenty-one investments were made by CARESBAC in Bulgarian enterprises. Due to a variety of factors, most of these early investments were not commercially successful. The Bulgarian economy was stagnant or declining through most of this period, while the staff of CARESBAC was new to such investments. During this period the emphasis was on finding good companies. This was frequently the case during the early days of SME private equity financing in transition economies where the private sector was just beginning to develop. Most officers of private equity investment funds were preoccupied with locating these companies and "doing deals," particularly in environments where there were very few entrepreneurs who combined integrity, entrepreneurial energy and operating experience managing a company in an open, competitive market environment.

As a result of the financial performance of CARESBAC/Bulgaria, the EBRD decided to withdraw its money from CARESBAC. This has proved to be a long and difficult process. Recently, however, negotiations with the EBRD have accelerated and the prospects for a closeout of the CARESBAC investments appear positive. CARESBAC's status with its 21 portfolio companies can be broken down as follows: one exit is completed, four are under liquidation, five have formalized management buy-outs (MBOs), three are now negotiating MBOs, and eight companies are working aggressively with CARESBAC to expand sales while at the same time strategically approaching the question of exit planning. Aggregate sales for all of the currently active portfolio companies in the first quarter of 2001 were approximately \$1.8 million, which represents about a 30 percent increase over a year earlier.

SEAF is now beginning to offer financing to Bulgarian SMEs through the newly established Trans-Balkan Fund (TBF), a \$24 million investment fund that provides financing to SMEs in Bulgaria, Romania, Croatia, Macedonia, Bosnia-Herzegovina, and Albania. Shareholders in the TBF include USAID, IFC, the Black Sea Trade and Development Bank, the Norwegian Investment Fund for Developing Countries (NorFund), the Finnish Fund for Industrial Cooperation (FinnFund), the Swiss State Secretariat for Economic Affairs (SECO), and the German Investment and Development Company (DEG). In Bulgaria, SEAF operates the Trans-Balkan Bulgaria Fund. This fund does not operate like a bank. Rather, it provides equity and quasi-equity financing by purchasing newly issued shares. This enables SEAF to become the owner of between 20 to 49 percent of the enterprise. Initially, SEAF invests between \$100,000 to \$500,000, with the opportunity to increase the investment up to one million dollars. Further financing can be arranged through SEAF or in cooperation with other financial institutions. After the successful development of the company, SEAF expects to sell its

shares for a profit. The sale would be made either back to the company, to other shareholders, or to a larger follow-on strategic or financial investor. As such, SEAF is an ideal partner for enterprises with long-term growth potential.

SEAF has been operating the Trans-Balkan Bulgaria Fund for almost one year. The prospects for a successful operation are strong, as the economic situation in Bulgaria has improved greatly, and the experienced staff of SEAF is much more astute at gauging good investment opportunities. To date, SEAF has made investments in three promising Bulgarian companies, a producer of notebooks, an electronic manufacturer, and a producer of rapid diagnostic tests. Meanwhile, another investment in a distributor of fast-moving consumer goods was recently approved. The level of sophistication of these enterprises is much greater than those that received investments under the original CARESBAC program.

In the region, SEAF operates successful funds in Croatia and Macedonia, both of which closely parallel the operation and type of investments in the SEAF/Bulgaria portfolio. Overall, the SEAF program seeks to attract additional capital from multilateral institutions and to provide its clients with a mix of equity and loan capital together with technical assistance.

Banking System Support. USAID/Bulgaria is seeking to expand the availability of credit in the country through its Commercial Banker Training program. This activity, which began in early 1998, has the goal of establishing a generation of bankers who are better prepared to manage banks and originate credit. USAID has focused its efforts on building the institutional capacity of the International Banking Institute to deliver a broad curriculum of banking and finance courses. To date, over 500 bankers have received training in various areas of commercial lending. Earlier, USAID assistance was instrumental in the privatization of five state-owned banks. Subsequently, the bank supervision program has been working to restore public confidence in the banking sector after the banking crisis of 1996-97. Internationally adopted practices have been introduced in bank supervision, such as the establishment of an internal bank rating system and the use of a risk-based approach to bank examination. In early 1999, the program was expanded to include assistance in all areas of operation to the newly created Deposit Insurance Fund. Given the very tenuous situation of the financial sector in the recent past, as well as the very low level of bank lending to SMEs, these programs would appear to be worth continuing.

A properly functioning banking sector is very important to SME growth. The Bulgarian banking sector has largely recovered from its near collapse in 1996-97, but it is not yet a major source of financing for SMEs. Bankers' attitude toward SMEs as too risky, however, is changing. Certainly, increased competition in the sector, spurred by the entry of foreign banks through the privatization process, is likely to grow and aggressive banks will force their more conservative competitors to change their approach to SMEs or lose market share. The question is more one of the pace of the change.

2. Other Donors

A recent study commissioned by the World Bank determined that there has been a “substantial increase” in volume of credit available to SMEs from international donors in recent years. Disbursements under various projects in support to SMEs amounted to \$66 million in 1998, \$57 million in 1999, and \$59 million in 2000. The leading donors for SME support are the EU, the EBRD, the IFC, the German Government, and USAID. Each of these donors has made over \$10 million in disbursements in 1998-2000.

EBRD. The projects of the EBRD are concentrated almost entirely in the facilitation of SME financing. The EBRD is among the donors most actively applying modern forms of reliable lending to the SME sector. Along with its equity participation in five local private banks, EBRD participated in four venture capital funds working with SMEs, including CARESBAC.

KfW. The bilateral assistance from Germany is growing in importance, particularly in the area of credit to SMEs. KfW carries out a long-term Program for Lending to Small Business in Bulgaria. Its credit activities began in 1999. The financial resources used for lending to micro- and small-sized enterprises come from a revolving fund worth over \$4 million. The Ministry of Finance and the Bulgarian National Bank, together with KfW, selected Eurobank and Unionbank as local partner banks to the program. They receive financial resources for lending to micro- and small-sized enterprises. The program’s goal is to improve significantly the state of affairs in the Bulgarian financial sector with respect to services offered to SMEs. Selected KfW advisors from IPC train the staff of the partner banks.

IFC. Assistance from the IFC amounted to \$9.9 million from 1998 to 2000. All of its work supported non-banking institutions. This included two significant investments in venture capital funds and a leasing company. Interlease Ltd. started operations in 1996. By the end of 2000, it had concluded over 50 lease contracts with Bulgarian companies for a total of \$15 million. In 1998, the IFC and the National Bank of Greece invested in Interlease. The latter acquired the majority shares of the company in 2000. The clients of Interlease are Bulgarian companies, mostly SMEs that need modern equipment for more efficient operations.

Micro-Finance Banks. It is worth noting that the three above-mentioned donors have been collaborating throughout the E&E region in establishing new micro-finance banks. The new Pro-Credit Bank in Bulgaria is another example of such a financial institution. Such banks have been established in Bosnia-Herzegovina, Albania, Georgia, Kosovo, Ukraine, Yugoslavia, Romania, Moldova, and Bulgaria. While these international financial institutions provide the capitalization, IPC, a German consulting firm and the recognized leader in this field, frequently provides the technical assistance for such an undertaking. The advantages of these new financial institutions are clear: 1) there has been fairly good experiences with favorable results in various countries; 2) start-up tends to be quick; 3) the banks offer a package of well-honed products and services; 4) they employ a standardized approach; 5) they have proven to generate rising levels of saving;

and 6) they offer an independent source of capital. As of yet, however, it is not clear if this approach is the most cost-effective, as the establishment of a new financial institution is costly. Further, it is not yet clear the extent to which low-income clients are served, as the number of loans made to date has been minimal. According to the Microenterprise Development Office of USAID, only 21,000 loans had been made as of June 2001, with an average loan size of \$2,600. Finally, no “exit” strategy exists. Consequently, all of the banks in the region continue to be owned by international financial institutions.

European Investment Bank. The European Investment Bank recently began to provide a credit line for SMEs. The EIB supports a long-term lending program to SMEs through Encouragement Bank. It offers credit of \$20,000 to one million dollars. The repayment period can extend up to 10 years, with a three-year grace period. The micro-lending program offers credit on concessionary terms to SMEs, with no business plans required.

DFID. The program of DFID, which has been worth \$4.7 million between 1998 to 2000, focuses on strengthening the system of SME support services, export promotion, and improvement of state policy towards SMEs.

IV. Trends & Future Directions

A. Legal & Regulatory Environment

Though specific details of the new government's policies are yet unknown, broad policy priorities in general are not expected to change, as EU accession will remain at the forefront of the policy agenda. Expansion of EU chapters, however, will become more difficult and problematic, with the greatest challenge to be the chapters on the judiciary and the environment. Court systems will continue to be weak until reforms are implemented. A new law will be passed to limit administrative fiats on legislation already passed. From the donors, support for legal and regulatory issues is expected to decline as new laws are put in place. Rather, a shift in focus will be toward implementation of laws. The VAT rebate system should continue to improve. The formal economy will continue to grow, while the shadow economy is expected to shrink. This is due, in part, to the greater availability of credit that will offer incentives for firms to join the formal economy. Though funding for ASME is uncertain, the new government is expected to continue support for SMEs. In particular, it is expected that the new leadership will continue to focus attention on improving the business environment. For example, the new government's agenda is said to offer to abolish taxes on reinvested profits, and tax deductions for interest payments. Finally, it is expected that levels of corruption and crime will continue to gradually decline, as a result of the increasing efforts to bring corruption to the forefront.

B. State of SMEs

It is clear that weaknesses in the managerial skills of Bulgarian entrepreneurs will continue to form a major obstacle to the growth of Bulgarian SMEs. In view of past and present assistance in this area, a growing number of entrepreneurs have received some assistance in this respect. And a growing number of Bulgarian trainers/consultants have also received Western assistance in strengthening their skills. The clear trend will be toward concentrating assistance on strengthening the abilities of the trainers and consultants so that they are the ones who can provide most of the services required by Bulgarian SME entrepreneurs and managers. Such services will be more broadly available and affordable. Entrepreneurs, having received outside advice or who are aware of others, who have, will be willing to pay for value received, with increased confidence in the value of the service.

At the same time, there is a clear trend toward greater concentration on strengthening the export capabilities of Bulgarian SMEs. Bulgarian SMEs need to become more competitive. Increased revenues from exports will permit the entrepreneurs to undertake necessary steps, including modernization of equipment and facilities, to improve their firm's performance. Firms that have shown improved performance and strategic vision through improving managerial skills should also benefit from easier access to financing. Instead of a "vicious" circle, there will be a "virtuous" circle. As the saying goes, "success breeds success." Growth in key industry sectors will also have repercussions on

secondary and tertiary sectors. Entire clusters will benefit from and contribute to their own growth. This will call for the strengthening of a whole host of export facilitation services.

Since it is unlikely that the Bulgarian government will soon be able to afford to establish and maintain these services at the necessary level, the private sector will need to fill these needs, encouraged as needed by the government. Therefore, in the future more assistance efforts will also be devoted to improving the status and performance of trade and other business associations, if the SME sector is to meet its potential for engagement in international trade.

C. SME Access to Financing

There is an evident trend for banks to create “SME approaches” for providing loans to SMEs. This “change” is due to a number of factors. For one, banks are faced with finding new sources of revenue because the lucrative, interest rate spreads earned from investing low-interest bearing deposits in government paper and overseas are shrinking. Second, banks recognize the potential of SMEs to pay higher interest rates and generate more service fees than larger companies. Third, SMEs are generating 90 percent of the new jobs in the Bulgarian economy, and so are perceived as having future growth potential.

Bulgarian banks are currently oriented to short-term policies both in lending and borrowing. Banks won't lend long-term because they are risk averse, and because their deposits are predominately short term (one month). GTZ, the German aid agency, considers long-term lending in Bulgaria to be for one year. Meanwhile, the EBRD considers long-term loans to average 2-3 years. Larger banks, however, have the ability to provide longer-maturity loans. The high interest rates now charged to businesses (12-16 percent) will gradually decline as the banks compete more for the emerging SME market and the foreign-owned banks becomes more established in the marketplace. Several SMEs interviewed that were clients of the Bulgarian-American Enterprise Fund (BAEF) have now become “bankable”, and they have reported having secured credit lines from Citibank and local banks (interest rates of 10-12 percent). Some companies have negotiated lower interest rates than those offered to them by the BAEF and BACB.

In addition to high interest rates, other “thorns in the side” of SMEs are reported to be the lack of progress on reducing the collateral requirements for loans, and the time required for receiving refunds from overpayment of the value-added tax (VAT). In response to the issue of high collateral requirements for loans, USAID has approved the Development Credit Authority (DCA) with two Bulgarian banks and could add a third partner bank in the future. By providing banks with a guarantee for 50 percent of their lending risk, it reduces the need for collateral. Bulgaria's Resursen Tsentar Foundation offers another credit guarantee program. While the team did not visit this organization, it is understood that its operation would assist entrepreneurs in getting bank credits for their projects. Start-up companies to receive credits of up to \$2,000, while companies that are already operational will be eligible for credits of up to \$30,000. Interest at 14 percent will be

charged on the credits. The required credit guarantee will equal 100 percent of the sum to be lent.

The second impediment for SME growth involves the government's application of the 20 percent VAT, which is applied to entire transactions instead of the applicable portion. Essentially, it serves as a turnover tax. Also, the slow process of refunding overpayment is particularly burdensome to cash-short SMEs. Until recently, the waiting period for refunds was 7.5 months (now 4 months), and for businesses with 75,000 leva annual turnover, no VAT credit is available. Further reducing the waiting period for VAT refunds is an important legal and regulatory issue that should be given a high priority.

The eventual use of capital markets and alternative finance sources such as insurance and leasing will enhance the growth and development of SMEs. In the shorter term, support for a streamlined leasing program could provide SMEs with relief from both the high collateral needs of bank loans and the impact of the present VAT system. Several companies offer leasing programs in Bulgaria, including General Electric Co., Interlease, and First Universal leasing. Terms are generally for 1-3 years with a 30 percent prepayment and financing for 70 percent of the equipment value. The leasing company keeps ownership of the asset that makes repossession easier in the case of loan default. Trade financing is another issue that requires attention. Foreign trade will continue to play a key role in Bulgaria's economic development. For exporters and importers, access to the universally accepted financing instruments such as letters of credit, will remove a major impediment for those SMEs engaged in trade. Few banks in Bulgaria are able to offer assistance with trade matters, and they generally do not recognize letters of credit (even from leading correspondent banks), nor do they accept legitimate signed contracts as sufficient collateral for lending.

Many SMEs start off as micro-enterprises. In Bulgaria, a number of existing micro-credit programs are already providing business "start-ups" with financing. In addition to what is being offered, the new Pro-Credit Bank (sponsored by the EBRD and KfW) will be making loans available to small firms (loans will range from \$10,000 to \$15,000) with interest rates around the 14-15 percent range. The Pro-Credit Bank will be managed along the lines of other micro-finance banks in the region.

V. Recommendations & Priorities for New Strategy

USAID/Bulgaria has developed a distinct niche in the donor community as well as among Bulgaria policymakers and entrepreneurs. It is clear that USAID is considered to have the comparative advantage in the area of SME development, even though other donors may have more financial resources available. In particular, the strength of USAID lies in the quality of technical leadership in the field. The team strongly supports USAID/Bulgaria in its efforts to continue to exploit this leadership for the benefit of Bulgarian entrepreneurs.

With European Union accession steps now well under way in Bulgaria, the EU will undoubtedly remain Bulgaria's most influential donor. The EBRD will also play a strong role in shaping donor assistance to the private sector.

Assistance in the broad, macroeconomic and sector, policy areas is also dominated by the EU, the IMF and the World Bank. This area will primarily be shaped by the overwhelming economic priority for Bulgarian policymakers: joining the EU as rapidly as possible. Hence, relatively little opportunity exists for the United States to engage broadly in this area, though more focused targets of opportunity may arise.

Fundamentally, the most promising strategy for USAID would be a two-pronged assault on the fundamental microeconomic constraints to enterprise formation and expansion. The key constraints that need to be addressed are:

- Lack of skills and knowledge of basic business and entrepreneurship strategies and practices among SME managers and entrepreneurs; and
- The inaccessibility of credit for entrepreneurs in general and SME owners in particular. While the funds are available, a variety of factors constrain the ability of entrepreneurs to tap into them.

A. Legal and Regulatory Environment

- *The advocacy role of Bulgarian associations at both the national and local levels should be strengthened.* This would serve to better address the problems that impede growth, such as weak implementation of existing laws, administrative barriers to market entry, and tax disincentives that discourage business development and growth among SMEs. The result of such changes would be SMEs and business associations increasingly more involved in the policymaking process.
- *Training of court officers and improved information systems should be a priority for achieving greater efficiencies in implementing current and future commercial laws.* In particular, training of judges in commercial law would be useful so that entrepreneurs and banking institutions could better trust the judicial system rather than personal relationships.

- *USAID/Bulgaria should continue to look for ways to assist business associations to interact with key government policymakers.* ASME would be a prime example of an organization that could benefit. USAID should not directly fund ASME, however, USAID could encourage the GOB to devote more resources to this agency if it is to function effectively. An alternative would be to expand its financial base to include membership fees, or fees for services to help supplement ASME's budget – also reinforcing the concept of demand driven services.
- *As IAS Accounting reform has yet to be adopted by law, policy dialogue should include this issue as part of its agenda.* A new activity should be considered in this area, should funding allow.

B. State of SMEs

- *A technical assistance activity should continue to be supported by USAID/Bulgaria.* The future focus should be on strengthening the intermediate business support organizations (BSOs), both not-for-profit and for-profit. All assistance to firms should be used as opportunities for on-the-job training for Bulgarian consultants. The BSO would be the client. In turn, the particular firm would be the client of the BSO. Fees charged to clients should first go to pay for the Bulgarian consultants. Any additional income could be, if possible, considered as “program income” to the USAID implementer. If a client could not afford to pay a Bulgarian consultant, the implementer should cover consultants' actual costs as part of its training program for the BSO. Further, the BSOs should receive technical assistance to improve their own efficiency and profitability. Finally, special attention should be paid to strengthening the BSOs' ability to “lead” their clients to financing.
- *The technical assistance activity should work to strengthen the capabilities of trade and business associations to provide business services to their members.* It should also work to improve the organizational and “business” skills of the associations' directors/leaders. The policy-reform activity would teach and improve the lobbying capabilities of these organizations, thereby enabling them to become the conduits for SMEs to influence government.
- *The technical assistance activity should serve as a “learning organization” for Bulgarian small and medium entrepreneurs, as well as BSOs.* Wherever possible, it should cooperate with BSOs, especially trade associations, to offer seminars on subjects that are within the competence of its business volunteers or in particular demand in Bulgaria. One example would be courses/seminars on the importance of international accounting standards and their use for better financial management. Again, these courses could become sources of revenue for the BSO partner as well as for the activity implementer.
- *The technical assistance activity should also concentrate its efforts on the industry sectors identified through the competitiveness activity.* Its activities should complement the work of that activity. (A number of current activities, e.g., assistance

to apparel firms, are already doing that.) Also, both the technical assistance and competitiveness activities should be closely coordinated with the “Sofia Funnel” activity of GTZ. This will avoid duplication of efforts and confusion on the part of recipients of assistance. We believe that there is ample need for both activities and that they can be complementary to each other, if properly coordinated.

- *Because the export capability of Bulgarian SMEs is so vital to the future of the Bulgarian economy, the technical assistance activity should increase its work in this area.* The Trade Development Center should be a centerpiece of this work. Although all activities should focus on the competitive sectors, the TDC should be an exception and available to all potential exporters. It should also quickly become self-supporting through a fee-for-service structure (see following recommendation).
- *To build greater sustainability, both for itself as an institution and for its partners offering business services, the technical assistance activity should only offer its services on a “fee-for-service” basis.* Through a gradual increase in the fee structure, by the end of the life of the activity its services should be near or at full cost recovery. We anticipate that some services could be offered on a full-cost basis relatively rapidly, such as the fees that a trade opportunity matching center would charge for its services (the results from these services are rapidly evident and measurable to the client). Other services may never become fully recoverable for all desirable clients, such as the use of American advisors. Much will depend on the growth of the SME sector itself and on its recognition of the value received. But it is important to charge fees and the program income should be used to increase the assistance provided. In the end, the technical assistance activity implementing organization should be able to sustain itself as a Bulgarian organization offering either “retail” business services (*i.e.*, directly to clients) or as a “wholesale” organization (offering its services, including American volunteers, only through other Bulgarian service providers).
- *USAID/Bulgaria should consider how it might, in cooperation with other donors, meet the need for business education.* There is a need for better education in business attitudes and skills at all levels of Bulgarian education. Bulgaria does not yet have a reputable MBA school. But its universities are also not offering the types of business courses needed to provide skilled personnel to the SME sector. It could fund a feasibility study for the creation of an MBA School in Bulgaria. “FLAG” could provide assistance to Bulgarian institutions of higher learning in designing new curricula aimed at careers in business. Junior Achievement could be supported, at least by making every entrepreneur and association assisted aware of the value of that program so that the Bulgarian business community would start to provide the level of support such a program demands.
- *USAID/Bulgaria should carry out an independent evaluation of the FLAG activity to determine what has worked well and what has not worked so well. A proper appreciation of the strengths and weakness of the present activity should help the Mission as it decides how it wishes to implement the above recommendations regarding a technical assistance activity.*

- *USAID/Bulgaria should seize all opportunities to provide further support to Bulgarian business womens' associations.* The team was impressed with the number of women in leadership positions within various enterprises, as well as in BAEF and SEAF. One area where USAID/Bulgaria could integrate the concerns of female entrepreneurs would be through its work with business associations. An example would include the meeting of Bulgarian and Greek businesswomen being co-sponsored by the American Chambers of Commerce in Bulgaria and Greece.

C. SME Access to Financing

- *To further encourage commercial bank lending and allow more SMEs to qualify for loans, we recommend the continued and expanded use of loan guarantee programs, such as DCA and LPG.* USAID loan guarantee programs have found a growing acceptance by local banks (*i.e.*, UBB and FIB) that are both enthusiastically committed to the program and to developing pro-active policies for lending to SMEs. Banks may need continuing USAID support in promoting these new loan guarantee facilities.
- *To improve the relationship between SMEs and banks and to increase access to business financing, USAID should expand existing or future programs to provide support for the introduction of training programs for both bank officers and business entrepreneurs.* These programs should be designed to promote a better understanding by bank loan officers officers, so that they would better understand the capital and investment needs of SMEs and entrepreneurs. In turn, entrepreneurs could more fully utilize information systems and the strategies needed for business loan applications. Also, under the "Competitiveness Initiative" there could be training for bank officers and entrepreneurs in the use of internationally accepted financial instruments and securing loans for export financing.
- *USAID should employ existing or planned advocacy strengthening activities to support reforms.* These activities could address problems such as high collateral requirements, civil penalties against bank mangers for failed loans, the VAT program and the refund process, and preferential and/or subsidized lending to SMEs. In particular, we recommend increased coordination among USAID and other donors (in particular GTZ), which are providing financing and technical assistance to SMEs, and modifying existing and future programs to include these activities.
- *To increase productivity levels in the private sector and make Bulgaria products more competitive, SMEs should be encouraged to make new investments in plant and equipment.* USAID should consider support for the establishment of a broad-based leasing finance program to be implemented in the middle of the new SME strategy. Given the existing impediments to bank lending for capital development and investment, SMEs need access to alternative sources of financing. Leasing finance will allow SMEs to reduce need for collateral required by commercial bank lending and avoid some of the arbitrary nature of the existing VAT system. A flow of new

funds would allow SMEs to address low productivity in many primary and secondary industry sectors by replacing old and outdated equipment. Initially, leasing programs could be directed at the sectors supported through the Competitiveness Initiative.. Local banks already have existing relationships with leasing companies (e.g., First Investment Bank, Interlease, the IFC, the National Bank of Greece, and the EBRD). UNDP is also launching a leasing program in rural areas of the country. Another U.S. Enterprise Fund (TUSRIF) has recently launched a highly successful leasing company (Delta Leasing), which now operates throughout Russia.

- *To provide continued support for providing the Bulgarian private sector with venture capital and long-term financing, USAID/Bulgaria should continue to integrate the activities of existing venture capital and enterprise financing programs into any proposed reforms of the SME programs.* The assessment team made the following observations of these programs. The Small Enterprise Assistance Funds (SEAF), through its Trans-Balkan Fund, appears to be emerging from the earlier, problems associated with its CARESBAC activity. The expanding Trans-Balkan Bulgaria Fund is demonstrating an aggressive new approach to investing in Bulgaria. In addition, the new, privately funded Growth Fund of SEAF will support the Trans Balkan Fund with co-investment opportunities. The Bulgarian-American Enterprise Fund (BAEF) continues to have a significant development impact in the SME sector by generating new jobs, creating important distribution network for goods and services, transferring expertise, and providing both debt and equity financing. Its subsidiary, the Bulgarian-American Credit Bank (BACB), has pioneered home-mortgage lending, the beginning of mortgage-backed securities for local pension programs and bond markets. BACB also provides one of the only available sources of long-term financing to Bulgarian companies. USAID/Bulgaria has made good use of this institution to promote activities such as home mortgage lending and information technology development.
- *The team supports USAID/Bulgaria in its plan to do a major assessment of its work in micro-finance.* While the team is of the belief that the existing micro-finance programs offered by USAID (CRS, WOCCU, and *Nachala*), and other donors (UNDP, Soros), are adequately covering this sector, a more comprehensive assessment will be valuable. With the establishment of the new Pro-Credit Bank, additional coverage will be provided. This institution, supported by the EBRD, IFC and KfW, will further strengthen the micro-finance sector. The model typically employed by these financial institutions puts a strong focus on micro-finance becoming truly commercial. As such, the creation of this bank offers significant promise for financial sustainability and greater coverage. USAID/Bulgaria should continue to cooperate with these donors and support this important micro-finance activity.

Annex 1

SOW FOR BULGARIA SME ASSESSMENT AND STRATEGY DEVELOPMENT

I. Introduction

In late summer of USAID/Bulgaria will begin the process of developing a country strategy that will guide the Mission's program over the next 5 years. As part of this process, the Mission has requested the assistance of an AID/Washington (EE/MT) team to do an SME assessment in July 2001. The goal of the proposed assessment is to validate the existing USAID/Bulgaria SME programs, fine-tune the scope and assemble an SME strategy that later on could be incorporated into the overall five-year country strategy. This document will also serve as a concept paper from which a detailed SOW for procurement(s) for SME program implementation can be developed at a later date. The assessment will identify constraints to increased private sector investment in SMEs, identify key growth areas and provide specific recommendations to the Mission on exploiting identified opportunities in coordination with other donor programs. The objective of the Mission's SME strategy will be to accelerate SME expansion in the more dynamic sectors of the economy where there are clear opportunities for growth in employment, income generation and business investment in both the near and mid term future.

II. Background

USAID/Bulgaria's country strategy, adopted in early 1998, was designed to accelerate the country's transition to a market-oriented democracy, to assist Bulgaria to meet key EU accession criteria, and to "graduate" the country from U. S. assistance. Two broad goals are the twin pillars of the USAID/Bulgaria program – "fostering the emergence of a competitive, market-oriented economy", and "supporting the transition to transparent and accountable governance and the empowerment of citizens through democratic political processes." However, with the most recent developments in the SEE region and in mind with the foreseen EU accession, the effective Mission's SME strategy became a bit outdated and calls for refinement.

i. Program Overview

The major goal of USAID/Bulgaria ongoing programs in the area of economic restructuring is **fostering the emergence of a competitive market-oriented economy led by the private sector**. The strategic objective SO 1.3 promotes the development of Bulgarian private enterprise in a competitive free-market environment. Success is denominated in terms of increased private sector contribution to GDP, export growth and job creation. USAID activities under this SO aim at strengthening business competitiveness by improving productivity and reducing legislative, regulatory and administrative barriers to private business. Significant efforts are invested in credit mobilization, to provide working and long-term capital for micro, small and medium-

sized enterprises. The projects collectively aim to prepare the Bulgarian private sector for EU accession and global market integration.

The projects under USAID/Bulgaria's private sector program promote the development of a vibrant private sector, supported by a functioning policy and regulatory framework. USAID/Bulgaria's private sector program is focused mainly on generating growth and creating jobs thus positioning the Bulgarian economy and its enterprises to sustain the competitive pressure of accession into the European Union. These primary objectives are accomplished through technical assistance to enterprises and industry clusters, trade promotion, and by strengthening the legislative, regulatory and policy environment. USAID/Bulgaria also supports venture capital funds and micro-lending institutions that provide loan and equity finance to small and medium-sized firms.

ii. Macroeconomic Conditions

Bulgaria continues to make progress in establishing a functioning market economy, thus providing the fundamentals for a thriving SME sector – the major constituent of the private sector in Bulgaria. The implementation of the macroeconomic stabilization and reform strategy - centred on a currency board arrangement¹ and a prudent fiscal policy - have produced economic stability. After having improved considerably over the past three years, Bulgaria's economic performance is widely expected to strengthened further in 2001, underpinned both by domestic and external factors. Building on last year's robust recovery from the slowdown of 1999, the economy should be able to stay on a rapid growth path as suggested by the recent dynamics of most short-term indicators. The overall 2001 outlook appears favorable, with the general expectations being for a sustained strong output expansion, lower inflation and external deficits, continuing fiscal and wage discipline, as well as rising foreign exchange reserves and FDI inflows.

Notwithstanding some uncertainties in connection with this year's general elections, the risks of a change in economic direction seem far remote as the ultimate goal of joining the EU will likely keep the country on the course of reforms and prudent macroeconomic management.

iii. Microeconomic Environment (SMEs in Bulgaria)

Research undertaken to determine the current situation of the SME sector has recognized that progress has been made in privatisation and enterprise restructuring. The private sector has raised its share of GDP to stand at 70 percent. Indeed, since the start of transition in 1990, the number of SMEs has increased rapidly and now accounts for over 98 percent of all registered economic entities. The vast majority of these are micro-enterprises with less than five employees, and their main activities are in retail business.

However, those working in SMEs account for only 46.5 percent (1999) of the working population. A figure that is low when compared with the European Union (EU) average.

¹ The Currency Board Arrangements, introduced in mid 1997, were based on the Bulgarian National Bank Act and the Banking Act.

This suggests that there is scope for developing the employment possibilities offered by these enterprises in order to create employment and to absorb redundancies from state enterprise restructuring.

The institution officially entitled to implement the state policy regarding SME development in Bulgaria is the Agency for Small and Medium-sized Enterprises (ASME). The agency was established in 1997 and is reporting directly to the Council of Ministers. In 1999, the ASME drafted and Parliament adopted the SME Act, a National Strategy for the Development of SMEs and an Action Plan for the implementation of the Strategy. Currently the National SME Strategy is being revised and expected to be finalized and presented to the new Government in the early fall.

III. Objective

The objective of this two-week, in-country SME assessment is to identify opportunities where the Mission can increase the impact of its existing/ongoing private sector activities, and to develop a broad SME strategy that will be the basis for specific initiatives and future undertakings in the SME development area. In turn, USAID/Bulgaria will take the proposed recommendations into consideration and will incorporate suggested ideas into the new country strategy in order to better address SME constraints and further promote accelerated private sector expansion. The goal is to increase SME growth thus supporting more efficient markets and global integration.

IV. Approach/Deliverables

Given the fact that USAID/Bulgaria already has a very comprehensive nationwide SME program, which has been actively implemented since early 1997, a good deal of strategy guidance will be required. The team should begin with an extensive review of the existing relevant reports, which will be provided electronically from the Mission (see Attachment 1). These will include but not be limited to the following:

1. Annual SME Report (latest available 1999)
2. National Strategy for the Development of SMEs and Action Plan for its implementation
3. The World Bank - SME Assistance Review (draft)
4. SMEs and Competitiveness Executive Summary, Center for Economic Development
5. BIBA White Paper on Foreign Investment
6. FIAS Report on Administrative Barriers to Investment
7. EU Commission – Progress Towards Accession, Regular Report November 2000

The assessment team's report should include a review of the overall legal/regulatory/policy environment for business development. The recent BIBA "White Paper" report provides a solid basis for this review, and the FIAS "Administrative Barriers to Investment" study on Bulgaria should also provide a very detailed look at the concrete roadblocks to private sector investment from business entry through exit.

Beyond the legal/regulatory/policy environment for SME development, the assessment report should also review and address other areas such as: market information and dissemination, business education and access to knowledge; market development skills; access to credit and equity capital (financing); infrastructure; business support services; and technology.

The assessment should identify those segments that are most promising for SME growth and provide recommendations for potential targeted interventions with particular emphasis on export promotion, cross boarder linkages and regional integration.

The team's assessment of Bulgaria's current and potential competitive advantages or impediments to the country's competitiveness with respect to global and regional markets should also be discussed. If appropriate, the team should suggest approaches the Mission might take to working with Bulgarian stakeholders to improve the country's competitive position.

There will be four major areas, which the assessment team should take under consideration and provide substantive input and recommendations. These will include the following areas:

- SME development and Firm Level Assistance Group - evaluation of accomplishments vs. weaknesses thus far and recommendations for future restructuring and graduation of the FLAG model leading towards full sustainability and operational empowerment;
- Equity and debt finance as a means of improved economic viability, growth generation and job creation. Enterprise funds (SEAF and BAEF) role in the economy - future perspectives. Development Credit Authority (DCA) - level of utilization, progress to date and further prospects.
- Policy, advocacy, competitiveness and local capacity building. The place of public-private dialogue and the role of MSI's IPR project - status of enhancement and prospects for broader penetration.
- Agricultural Country Strategy – lay down the foundation for developing a relevant Ag concept and provide recommendations for areas of involvement where most competitive advantages exist (other donors, agencies, and multilateral organizations plans and approaches and opportunities for USAID involvement). The Mission is planning to conduct a separate, full-blown Agricultural Study, which will lead to the formation of USAID/Bulgaria Ag Strategy.

The team will be expected to split its efforts and cover as many fields as possible both during its stay in country as well as do in-depth analyses up-front based on the existing reports. The team will be responsible for examining all the available relevant information and work in groups in order to secure consistency among different elements of the final report.

A draft schedule of suggested meetings for the team is attached (Attachment 2). The assessment team will be expected to coordinate and work closely with the Mission's economic team (Edward LaFarge and Niki Yarmov). The team will maintain constant communications with key mission staff as their findings and recommendations are developed, and key findings/recommendations will be vetted before inclusion in the draft report.

i. Tasks Requirements

Study of USAID/Bulgaria SME strategy and current country portfolio

The team shall get acquainted with the current USAID/Bulgaria portfolio, latest R4 reports and other major recently published documents. Further, the team shall examine major SME activities in the country, and identify opportunities/areas for improvement and future interventions. Work on this task shall start in the U.S. with studying the different SME related documents and shall continue in the country. The team shall meet USAID/Bulgaria private sector SOT and get a better understanding of program implementation.

Research of SME Conditions in Bulgaria v.v. other countries in the region

The exercise will begin in the US by evaluating the current status of SME development in Bulgaria. This will be done by utilizing internationally available data and information for the sector (donor reports). The analysis will include the current SME status of Bulgaria compared to other countries in the region as measured by private sector contribution to GDP, export growth, job creation, business competitiveness, productivity ratios, access to financing, legislative, regulatory and administrative environment.

Assess SME-Related Activities of Other Donors in the Country

The team shall meet and discuss regulatory and implementation issues with representatives of the World Bank, EU, UNDP, EBRD, German, Swiss, Dutch and other bilateral donors if appropriate. The purpose shall be to: define USAID comparative advantages, avoid program overlap, and identify opportunities for future cooperation and/or better coordination. Recommendations and guidance should be provided.

Develop Strategies and Recommend Priorities for Incorporating the SME work into the future country strategy

In order to do that the team shall meet with host-country counterparts, implementers, donors and other interested parties to identify prospective ideas in developing and implementing SME initiatives:

The major questions that should be answered are:

- What is the niche for USAID future involvement in the SME area?
- USAID existing SME programs - successes, failures, future expectations;

- USAID capacity to intervene in various SME activities – TA, policy, financing, others;
- Other donors' activities – comparative advantages, overlap vs. collaboration;
- Relevant examples and guidelines from other countries in the region;

ii. Deliverables

A draft assessment report will be provided to the Mission for discussion at the end of the team's visit to the country. The draft should include at a minimum an outline of the major issues that will be addressed;

A final assessment on the needs and focus of SME activities to be undertaken in Bulgaria shall be prepared within 2 weeks following the trip. This report shall be provided to USAID/Bulgaria and will serve as a guide to improve existing portfolio and introduce specific ideas to be incorporated in the new country strategy. Other recommendations may include action points for initiating or advancing specific SME activities in the future.

iii. Methodology

This activity is designed as an assessment, not an in-depth study, although one of the outputs of the exercise will be a comprehensive analysis of the constraints and opportunities for broadened application/adoption of SME related activities in Bulgaria.

iv. Operational issues

In brief, the assessment team members will provide a blueprint for USAID/Bulgaria to consider in implementing SME ongoing activities and when undertaking future initiatives. Recommendations and guidelines will be incorporated into the new USAID/Bulgaria Strategy Statement. The assessment shall take approximately 4 weeks and involve a team leader and three (four) team members. The team shall work in the field for the period of **July 9 – July 21, 2001**.

Annex 2

List of Meetings SME Assessment – Bulgaria

July 09 – July 21, 2000
Schedule for SME Assessment Team

Thomas Morris, James May, John Godden, Erin Nicholson

Monday, July 09

- 9:00 - 10:00 In-brief with ERGO Team, USAID/Bulgaria
Discuss task, objectives and schedule
Location: USAID Office, 1 Bulgaria Sq., Floor 5
Phone: 951 5637, 951 5670
- 11:00 - 12:00 Irena Petrunova, Executive Director
Agency for SME Development (ASME)
Location: 2, Triaditza St.
Phone: 988 5065, 981 6600-24, 933 2601
- 13:00 - 14:00 Ivan Drenovichki, U.S. Embassy/POLEC; R. Kanter, FCS
Location: FCS Office, 1 Bulgaria Sq., Floor 5
Phone: 951 5637, 951 5670
- 14:30 - 15:30 Meeting with Atanas Stamov
Ministry of Economy
Location: 9 Levski Str.
Tel.: 932 5150
- 16:00 - 17:00 Krassen Stanchev, Executive Director,
Luchezar Bogdanov
Institute for Market Economics
Location: 32, Patriarch Evtimii Blvd., 1000 Sofia, Bulgaria
Tel./FAX: 87 41 35, 980 24 72, 981 29 75

Tuesday, July 10

- 9:00 – 10:00 Meeting with FLAG - TDC
Location: 1 Macedonia Sq.
Tel.: 987 7514

- 10:00 – 13:00 FLAG meetings by organizations:
UD, IESC, MBA, VOCA - optional
Location: 1 Macedonia Sq.
Tel.: 987 7514
- 13:00 – 14:30 Working lunch
Location: TBD
- 15:00 - 16:00 Joe Lowther, Filip Stojanovich,
Management Systems International
Location: 57, Maria Luisa St.
Tel.: 983 1194; 983 1211
- 16:30 - 17:30 Damian Damianov, Kiril Stanchev UBB
Location: 5, Sveta Sofia Sq.
Phone: 98542 411; 98542 800
- Wednesday, July 11**
- 9:00 - 9:45 In-brief with David Lieberman, ERGO
USAID/Bulgaria
Location: USAID Office, 1 Bulgaria Sq., floor 5
Phone: 951 5637, 951 5670
- 10:00 - 11:00 John Hodges, Julieta Hubenova
CARESBAC,
Brian Shriver, Trans Balkan Fund
Location: 45, Oborishte St.
Tel.: 943 4416; 943 4163
- 11:15 - 12:00 Thomas Higgins, Frank Bauer, Denis Fieler
Bulgarian-American Enterprise Fund
Location: 3, Shipka St.
Tel.: 943 3077; 946 1656
- 12:15 - 14:00 Working lunch with Maya Georgieva, Executive Director,
Matyo Mateev, Executive Director, Credit Dept.
First Investment Bank
Location: 10, Stefan Karadja Str.
Tel.: 9100178
- 14:30 - 15:30 Micro-finance partners meeting (CRS, Nachala, WOCCU)
At USAID Conference Room
Location: 1, Bulgaria Sq.
Tel.: 951 5637

15:45 - 16:45 Antonina Stoyanovska, Vladimir Pavlov
Foundation for Entrepreneurship Development
Location: 18, Dukatska planina Str.
Tel.: 952 5798, 952 3768

Thursday, July 12

9:00 - 10:00 Stoyanka Petrova, Executive Director,
BARDA,
Location: 4, Vitosha Str., 6th fl.
Tel.: 983 0335

10:00 - 11:00 Georgi Chernev, Executive Director
Bulgarian Chamber of Commerce
Location: 42, Parchevich St.
Tel.: 987 2631; 987 6142

10:30 - 11:30 Georgi Tabakov, Iva Stoikova
Bulgarian Foreign Investment Agency,
Location: Sveta Sofia 3,
Tel.: 980 0918

11:30 - 12:30 Nikolay Babev, Executive Director
Bulgarian International Business Association (BIBA),
Location: 36A Patriarch Evtimij Blvd.
Tel.: 981 9169; 981 9564

14:00 - 15:00 Bojidar Danev, Chairman
Bulgarian Industrial Association
Location: 16-20, Alabin St.
Tel.: 980 9916

14:00 - 15:00 Stilian Stoichev, Executive Director
Open Society Institute, NGO Resource Center
Location: Zona B5, bl. 9, fl. 16+2 (Odrin Str.)
Tel.: 9265050

Friday, July 13

Field trip
(meetings with FLAG and BAEF clients)

Correct Star (Varna)
BAEF client engaged in Internet, and retail sales of books
and stationary products

Sanita Trading, JSC (Varna)

BAEF and FLAG client engaged in national distribution of pharmaceutical and medical products

Albena Style (Varna)

BAEF and FLAG client engaged in apparel manufacturing

Dobrich Bread (Varna)

BAEF and FLAG client engaged in bread and pastry production, with nationwide distribution

Saturday, July 14

Meetings with BAEF and FLAG clients

FICOSTA (Shoumen)

BAEF client engaged in detergent production and distribution of DeLonghi appliances

Hotel Shoumen (Shoumen)

BAEF and FLAG client engaged in hotel and restaurant operations

Sunday, July 15

Day off

Monday, July 16

10:00 - 11:00

David Miller, Team Leader
CBAG-SME: PHARE Project
ASME
Location: USAID Office
Tel: 980 3962
Mobile: + 44 7785 346 703

14:00 - 15:00

Toni Gruncharova
British Know-How Fund (re DFID Project)
Location: 38, Vassil Levsky Blvd.
Tel.: 980 1220

15:00 - 16:00

Victoria Airgood
ABA/CEELI
Location: 135, Rakovski St.
Tel.: 980 8084; 980 9297

16:00 - 17:00

Hanna Ruczyk, UNDP
Jobs Project
Location: Tzarigradsko Sh., 7th km.
Tel.: 960 95 174

17:00 - 18:00 Enzo Maravita, Project Manager and/or
Daniela Tchonkova, Project Coordinator
SDA BOCCONI, PHARE Project
22B, Christo Belchev St.
tel/fax: (+359 2) 980 00 91
Tel. (+359 2) 980 89 28

Tuesday, July 17

9:15 - 10:00 Elvin Guri,
EBRD
Location: 17 Moskovska Str.
Tel.: 987 6611

11:00 - 12:00 Mr. Van Knosbeldorf, Ms. Iskra Nesheva, GTZ
German Embassy
Location: 25A, Fr. J. Curie St.
Phone: 965 1019
Mobile: 088 405425

13:30 - 14:30 Lada Stoyanova, Nevena Alexieva
World Bank
Location: WB Office, 36 Dragan Tsankov Blvd,
(Interpred Building)
Phone: 918 14 244

15:00 - 16:00 Philip Philipov
American Chamber of Commerce,
Location: 19, Patriarch Evtimii Blvd.
Tel.: 981 5950; 981 4340

16:15 - 17:15 Iva Todorova, KPMG
Management Training
Location: Slavianska 13 Str.
Tel.; 980 5325

Wednesday, July 18 Report Drafting (flexible for follow up mtgs)

Thursday, July 19 Meetings with clients

U.S. Meds Holdings, Ltd. (Sofia)
SEAF/Trans-Balkan Fund client engaged in the production
and distribution of medical testing equipment

Teltek Electronics (Sofia)
SEAF/Trans-Balkan Fund client engaged in production and distribution of security systems

Report Drafting

Friday, July 20

Morning

Report Drafting (flexible for follow up mtgs)

15:00-16:30

Exit briefing with ERGO and USAID staff
USAID Bulgaria
Location: USAID Office, 1 Bulgaria Sq., floor 5
Phone: 951 5637, 951 5670

Saturday, July 21

Departure

Annex 3

References

EIU: Business Operations Report Bulgaria (1st quarter 2001)

BIBA *White Paper on Foreign Investment* - ISSUE 2000

Available at: <http://www.biba.mobikom.com/publications.html>

FIAS Report – *Bulgaria: Administrative Barriers to Investment*, World Bank, February 2000

Available at: <http://www.fias.net>

Bulecoproject - Draft Report “*Review and Analysis of the External Assistance for SME Development in Bulgaria*”, World Bank, December 2000

Available in electronic format

Bulgaria Country Economic Memorandum – “*The Dual Challenge of Transition and Accession*”, World Bank, February 2001

Available at: <http://www.worldbank.bg>

Bulgaria: *Draft Country Assistance Strategy 2002-2004*, World Bank, May 2001

Available at: <http://www.worldbank.org/bulgariacas>

The Center for Economic Development (CED) – *Small and Medium-Sized Enterprises and Competitiveness Executive Summary*, March 2001

Available at: <http://www.ced.bg/eng/small/publications.html>

EU Commission – *Progress Towards Accession, Regular Report* November 2000

Available at: http://europa.eu.int/comm/enlargement/report_11_00/index.htm

Report on the Small and Medium-Sized Enterprises in Bulgaria (1996-1999), ASME

Available at: <http://www.asme.bg/en/comments/default.htm>

Bulgaria Competitiveness Initiative - <http://www.bg-competitiveness.org>

Bulgarian Economic Portal - <http://www.econ.bg>