BULGARIA COMPETITIVENESS EXERCISE

Final Report

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Exhibits

LIST of ACRONYMS

ABA CEELI	American Bar Association's Central and East European Law Initiative
APMWSB	Association of Producers and Merchants of Wines and Spirits
BAEF	Bulgarian American Entrepreneurship Fund
BAIT	Bulgarian Association for Information Technology
BCCI	Bulgarian Chamber of Commerce and Industry
BCE	Bulgaria Country Competitiveness Exercise
BEST	Bulgarian Environment Simplification Task Force
BIA	Bulgarian Industrial Association
BIBA	Bulgarian International Business Association
BFIA	Bulgarian Foreign Investment Agency
BTC	Bulgarian Telecommunications Company
CAD/CAM	Computer Aided Design/Computer Aided Manufacturing
CED	Center for Economic Development
CEFTA	Central European Free Trade Agreement
COMECON	Council for Mutual Economic Assistance
EFTA	European Free Trade Agreement
EIU	Economist Intelligence Unit
EPI	Economic Policy Institute
EU	European Union
FDI	Foreign Direct Investment
FED	Foundation for Entrepreneurship Development
FIAS	Foreign Investment Advisory Service
GDI	Gross Domestic Investment
GDP	Gross Domestic Product
GNP	Gross National Product
GOB	Government of Bulgaria
IESC	International Executive Service Corps
IME	Institute for Market Economics
ISO	International Organization for Standardization
IT	Information Technology
ITU	International Telecommunication Union
JAA	J.E. Austin Associates, Inc.
KNSB	Confederation of Independent Trade Unions of Bulgaria
MSI	Management Systems International, Inc.
NGO	Non Governmental Organization
NIS	Newly Independent States

NISPAcee	The Network of Institutes and Schools of Public Administration in Central and Eastern Europe
NVWC	National Vine and Wine Chamber
OOD	Limited Liability Company (Bulgarian)
PAA	Port Administration Authority
R&D	Research and Development
TEU	Twenty Foot Equivalent Unit
TRACEA	Transport Corridor Europe-Caucasia-Asia
UK	United Kingdom
UNDP	United Nations Development
USA	United States of America
USAID	United States Agency for International Development
USD	US Dollars
VAT	Value Added Tax
WEF	World Economic Forum

INTRODUCTION

As part of the Policy Reform and Advocacy Strengthening Project in Bulgaria, which is implemented by Management Systems International (MSI) and funded by USAID/Bulgaria, J.E. Austin Associates (JAA) was requested to implement a Bulgarian Country Competitiveness Exercise (BCE). The Exercise included the work of two principal Bulgarian partners, the Institute for Market Economics (IME) and the Center for Economic Development (CED). In addition, partners in the BCE included local business leaders; the FLAG Consortium (ACDI/VOCA and IESC); the Bulgarian American Enterprise Fund (BAEF); the Foundation for Entrepreneurship Development (FED); the Economic Policy Institute (EPI); as well as several individuals.

Objectives of the Exercise

The formal objectives of the BCE were:

1. To examine competitiveness in Bulgaria's context;
2. To evaluate Bulgaria's recent performance;
3. To analyze constraints to competitiveness;
4. To conduct competitiveness workshops with stakeholders in Bulgaria;
5. To generate public-private dialogue centered on competitiveness; and
6. To provide recommendations and priorities for improving future competitiveness.

Methodologically, the design of the BCE demonstrated how to develop and institutionalize a competitiveness dialogue by enhancing the capacity of firms, industry associations, policy groups and government to analyze, discuss and plan continuous improvements in the underlying sources of Bulgaria's competitiveness. Specifically, the BCE introduced initial frameworks, tools and benchmarks that promote an effective competitiveness dialogue.

Definition of Competitiveness

Competitiveness is defined in this report as sustained increases in productivity resulting in higher wages and living standards. It is characterized by increases in export market shares. Competitiveness is not achieved by cheap labor or currency depreciation. True competitiveness is based on generating more value through improved productivity, quality, service and innovation. It requires the existence of firms that capture greater value in the marketplace not just through improved efficiency but also by strategically choosing where to compete and by designing innovative service dimensions and new product characteristics. Effective business strategies are the generators of competitiveness

Competitiveness needs to be understood at the firm and industry level, for it is they that actually compete for growth, market share and resources. At the end of the day, it is the firm/industry that delivers increased productivity to the economy. A government can allocate resources, reduce friction in the economy and create a national platform conducive to competitiveness; but it is the firms themselves that must invest, employ, innovate, export and create wealth. The improvement of incomes and living standards depend upon their performance.

Methodology of BCE

The BCE was managed in a collaborative manner, involving a number of partners. IME and CED prepared the early drafts of many of the sections of this report, including brief industry reports and company case studies. The primary analytical tool to assess the competitiveness of local industry clusters was the Competitiveness Diamond conceived by Dr. Michael Porter (Exhibit 2). Recent work by Michael Fairbanks in applying Porter's tools to developing countries in Latin America also provided methodological guidance. In order to connect macro and microeconomic analyses, the BCE drew upon the published work of Dr. James E. Austin, including tools for analyzing the impacts of policy on firm-level activity and operations.[1]

As input into the competitiveness presentations and discussion during the BCE, and as input to prepare this report, the BCE managers gathered information on 6 industry clusters in Bulgaria. The BCE organized numerous meetings with these industry groups to consider the industry's competitive situation and strategic opportunities. The BCE also engaged industry experts in agribusiness, wine, tourism, apparel, information services and transport services to provide specific analyses and inputs.

Organization of the Report

The Bulgaria Competitiveness Report is organized according to the objectives of the overall report as listed on the previous page. Section I includes the definition of competitiveness as used by the JAA competitiveness methodology. Section II locates Bulgaria on a "map of competitiveness" by presenting information on the global ranking of Bulgaria in 8 different factor areas including economic performance, export competitiveness, policy environment and science and technology. Section III applies "competitiveness" directly to the Bulgarian experience. In this section there are assessments of the macro and microeconomic environment of Bulgaria as well as brief analyses of the Bulgarian financial sector and the impacts of privatization on the Bulgarian economy. Section III also presents brief industry assessments for 6 industries. Section IV provides recommendations about where Bulgaria might go from here to plan and coordinate a strategic national and regional competitiveness campaign.

Exhibits, when referenced, are provided at the end of the Main Report. Comprehensive versions of the assessments and analyses presented in Section III, as well as company case studies and industry reports are available for review on the BCE website http://www.competitiveness.bg/.

[1] These can be found in Managing in Developing Countries by James E. Austin.

MAIN REPORT

I. DEFINITION OF COMPETITIVENESS

Definition of Competitiveness

At the level of an economy, "competitiveness" is "sustainable increases in productivity resulting in the improvement of the standard of living of the average citizen of a country". Growth in productivity is, at the end of the day, delivered by the private sector through real companies competing in real industries. Similarly, competitiveness at the business level is the implementation of strategies that provide sustainable increases in businesses' productivity resulting in the generation of increasing profits and in the ability to pay increasing wages. It is important to recognize that in this context, productivity is not simply doing things better, but doing better things.

Growth and Equity: The Virtuous Cycle (Exhibit 1)

As private companies focus on more complex exports, they generate greater wealth for the nation. Focus on complex exports also encourages private company investment in human capital to create the skills and innovations that allow them to maintain the competitive edge against world innovators. These exports rely on higher skill levels and lead to higher income levels. Poor competitive strategies based solely on cost in undifferentiated product and service areas create the opposite incentive—i.e. for lower wages, cheaper costs and devaluation.

How to Recognize a "Competitive" Country

A "competitive" country is easily recognized as having progressively higher real wage levels—but driven by productivity rather than government fiat. A competitive country is characterized by increasingly strong currency levels, based on market forces and good policy, rather than by artificial exchange controls. In competitive countries, the average citizen is able to increase his/her purchasing power both domestically and internationally.

A New Approach to Economic Growth

Traditional approaches to economic growth have emphasized comparative advantages rather than competitive advantages. Overemphasizing natural resource commodities or low cost labor typically fails to boost long-term competitiveness of an economy, as has reliance on fiscal or other incentives that other countries can easily replicate. Countries that rely on such "advantages" typically end up poorer in the long run, with low productivity and low income per capita.

The Porter Competitiveness Diamond (Exhibit 2)

The Porter Competitiveness Diamond, developed by Michael Porter on the basis of extensive industry research, is the oft-cited model for competitiveness. The "diamond" represents the competitive environment faced by firms. It is used by companies to develop strategy and by governments to improve the national platform for competitiveness. The elements of the diamond include:

- Demand conditions;
- Factor conditions;
- Strategy, structure and rivalry within industries;
- The cluster of related and supporting industries; and
- The influence of government (and sometimes chance events) on the above.

However, the key to the analysis is to understand the elements of the analysis as well as the interactions amongst them.

Extending the Competitiveness Diamond Model (Exhibit 3)

Work by David Flood and others from JAA in several countries led to additional perspectives regarding the competitiveness diamond. Competitive businesses and industries that are good at understanding customer needs and are continually innovating to provide more value to the customer. These businesses and industries operate based on demand-driven strategies. Through continual strategic innovation, the best businesses are able to continually increase their productivity, hence their competitiveness. Such businesses and industries compete at the "top" of the economy. (To reflect this, in the exhibit the diamond is rotated to put *Demand* at the "top".)

Companies with resource-driven strategies tend to focus on factors of production—particularly costs. They compete and invest at the "bottom" of the diamond, on the basis of basic production factors, and continually lose position vis-à-vis customer-oriented companies. Worse, governments in search of job-creation or otherwise adopting old models of economic development, also tend to invest in the low end of the diamond—for example, implementing policies and attracting labor-intensive investment, such as assembly operations.

To make sizeable gains in competitiveness, businesses and supporting government action in the microenvironment need to strive for the "top" of the diamond. It is insufficient to simply view this goal as simply meeting international standards—e.g. ISO compliance, or meeting EU safety requirements. These are false objective—as achievement will only place Bulgarian companies in competition with the least competitive producers. Meeting EU standards, for example would only mean that Bulgarian firms are competing with the companies that meet minimum EU market entry requirements—hence the low cost, lesser quality producers.

Key Competitiveness Questions

Practitioners and economists who study competitiveness attributes raise numerous important questions, including:

- Do businesses in a nation have to respond to the needs and standards of demanding consumers?
- How much competition is there in a specific industry, and does it compel relentless upgrading?
- Are companies building upon and moving beyond efficiency in their basic labor and capital factors, so that they look towards innovation, new design and new products for increased profits?
- Are companies and industries part of a cluster of related and supporting companies and industries?
- What are the interactions among the answers to the above questions?

Economists studying developing countries have articulated positive answers to these questions and have thereby been able to identify actions and opportunities for the enhancement of overall competitiveness.[2] These include:

1. Improvement of consumer knowledge and learning, so that quality is demanded;
2. Exploration of strategies by which firms can integrate forward or downstream and thereby realize profits from the higher prices the end consumer pays;
3. Innovation to meet competition, lead market demand and cut costs;
4. Cooperation with a cluster of related and complementary firms so as to benefit from shared planning, shared technology and shared market information;
5. Insistence on and commitment to an effective private-public dialogue to achieve the optimal results from cooperation in the spheres of economic policy, legislation and infrastructure development.

[2] See Michael Fairbanks' description of the 7 opportunities for competitiveness in Plowing the Sea (1997).

II. LOCATING BULGARIA ON THE MAP OF COMPETITIVENESS

This section provides an objective, independent assessment of Bulgaria's economic achievements and the current comparative evaluation of key factors leading to those achievements. This section is based on the analysis presented in the Bulgaria Benchmarking Report presented in 2001 and also on findings found in the World Economic Forum Global Competitiveness Report 2000.[3] A copy of the Bulgaria Benchmarking Report in its entirety is available on the BCE website http://www.competitiveness.bg/.

Benchmarking Bulgaria (Exhibits 4, 5 & 6)

The benchmarking exercise in Bulgaria took over 45 indicators from a variety of sources including the World Development Indicators Report by the World Bank, the United Nations Development Programme Human Development Report, and other organizations.[4] These indicators were arranged in 8 sections: economic performance, export competitiveness and tourism, financial sector, investment competitiveness, policy environment, science and technology, infrastructure, and human resources and workforce competitiveness. Scores were ranked, with best performers being at the top and lower performers at the bottom. For time series data, the period from 1990 onwards was chosen as the most relevant period for Bulgaria as a post-socialist, transition economy. Also provided are the benchmarks ranges for excellent performance. These were taken from analyzing the long-term performance of the top 20 countries in selected indicator areas.

Bulgaria presents an uneven competitive record, despite remarkable strides to open its economy, control inflation, lower the budget deficit and create a welcoming environment for foreign investment. Bulgaria still scores low in many important indicators of competitiveness. These shortcomings will seriously hinder its overall competitive position in the future if not addressed. Being competitive in just a few of the indicators may not be sufficient to become an important player in the global economy. Poor performance in key indicators such as the financial sector and policy environment, if not corrected, will eventually create barriers for the continuous improvement of other indicators.

Bulgaria appears to be on the right track to improve its overall competitiveness, but many challenges lie ahead. The data shows that despite commitment and change in the past few years, significant restructuring and improvement must be pursued. Bulgaria also needs to improve its attractiveness to foreign capital and expertise to realize many of these changes.

[3] World Economic Forum. Global Competitiveness Report 2000. (2000). The Center for Economic Development (CED) carries out the surveys in and reporting from Bulgaria as inputs to the Global Competitiveness Reports.
[4] World Bank. World Development Indicators 2001. (2001); UNDP. Human Development Report. (1999)

Economic Performance

Bulgaria's economic performance has improved since the introduction of the currency board, but GDP per capita (adjusted for purchasing power parity=PPP) is still low at USD$4,809 making Bulgaria one of the poorest countries in the region.

According to the Bulgarian National Institute of Statistics the GDP growth during 1999 was 2.4 percent. Strong export performance continues to drive overall growth. Numerous factors have certainly contributed to this improved performance; continued improvements in macroeconomic performance, adherence to economic adjustment and reform programs and export recovery have been key factors. Bulgaria achieved 4.7 percent increase in GDP for the first nine months of 2001, based on early economic growth reports from the Institute.[5]

Export Competitiveness

In recent years, the export growth rate has improved as trade with Western European countries increased. In the first half of 2000 merchandise exports to the EU rose 23 percent (year-on-year) accounting for more than 54 percent of total Bulgarian exports. Merchandise exports rose sharply to countries, such as France and Belgium, which are home to important strategic investors in export-orientated Bulgarian enterprises.

However, overall, Bulgaria has experienced a sharp downturn in exports since the transition to a market economy. Moreover, dependency on the export of natural resources also makes Bulgarian exports vulnerable to international market fluctuations.

Financial Sector

The analysis of financial depth indicators in Bulgaria shows that the financial sector is severely underdeveloped. This is best reflected by credit to the private sector as a percentage of GDP, which in 1998 was 12.6 percent. This places Bulgaria in the 26th percentile, being 115th out of 155 countries. Domestic credit from the banking sector as a percentage of GDP is also low at 19.6 percent, placing Bulgaria 113th out of 152 or in the 26th percentile.

The average spread between lending and deposit rates is 9 percent, which reflects the high costs of financial intermediation and perceived risk. In July 2000 a reduction in the minimum reserve requirement from 11 to 8 percent brought Bulgaria into line with international standards.

[5] National Statistics Institute. (2001)

Investment Competitiveness

Investment indicators include gross domestic investment (GDI) and foreign direct investment (FDI) as a percentage of GDP, as well as the growth rates of both GDI and FDI.

Bulgaria's GDI grew by 16.4 percent in 1998 and 25.3 percent in 1999, reaching 15.9 percent of GDP.[6] Foreign direct investment grew sharply in recent years—in 1999 the amount of FDI was greater than the total amount of FDI during the period 1992-1996. Thus the share of FDI in GDP reached 6.5 percent in 1999[7] (4.4 percent in 1998[8]). FDI per capita during 1999 reached USD$98.[9] Much of this FDI was related to privatization.

However, in a World Economic Forum (WEF) survey completed as part of the Global Competitiveness Report 2000, roughly 87 percent of firms in Bulgaria indicated that, from their perception, FDI is "non-existent".

Policy Environment

Bulgaria's policy environment has been significantly liberalized. Nevertheless, Bulgaria has shown a mixed record of liberal investment policy and high levels of corruption and bureaucratic discretion.

In the last decade, Bulgaria consistently ran budget deficits of at least 5 percent, but spiking to double digits in some years. In the last year that global data was available (1998), Bulgaria registered the budget deficit as 2.8 percent of GDP. Since the introduction of Bulgarian currency, the government has been able to strengthen this trend. Bulgaria even ran a surplus of 1.4 percent in 1998; and the 1999 deficit was only 0.9 percent.

The private sector's share of value added was 65.3 percent in 1999.[10]

Trade policy has been consistently liberalized. In addition, Bulgaria has a non-restrictive foreign investment code. There are no formal restrictions in foreign ownership and in some cases tax incentives are available to foreign investors.

Overall, the policy environment in Bulgaria seems to be moving in an effective direction. Nevertheless, despite sensible policymaking, many obstacles to the implementation of a competitive business environment remain. For instance, Bulgaria ranked 63rd out of 99 countries

[6] National Institute of Statistics. (2000)
[7] National Institute of Statistics. (2000) The European Commission figure for FDI growth in Bulgaria in 1999 is 6.3 percent.
[8] National Institute of Statistics and European Commission Regular Report 2000. (2000)
[9] Bulgarian National Bank (2000)
[10] Bulgarian National Institute of Statistics. (2000)

in Transparency International Perceptions Corruption Index for 1999. By 2001, Bulgaria's Corruption Index ranking improved to 47th out of 91, however, Bulgaria remained in the lower half of ranked countries.[11] Moreover, an entrenched bureaucracy and a multitude of cumbersome regulations can hinder Bulgaria's business environment.

Science and Technology

Given the speed of the information revolution, it is challenging to find accurate global data on connectivity to the Internet Revolution.

In 1997, the World Bank reported 29 computers per 1,000 people in Bulgaria. Thus, Bulgaria ranked 45th out of 103 countries or 56th percentile. Based on information in the *European Survey of Information Society* this computer penetration has increased since 1997 to reach 37 computers per 1,000 people in June 1999.[12] According to the same source, at the end of 1999, the level of computers per 1,000 people in several Central Eastern European Countries was significantly higher than in Bulgaria: Slovenia—250, Poland—137, Czech Republic—107, and Latvia—91. From the countries covered by the above-mentioned survey, only Romania had lower level than Bulgaria—28. As computer acquisition and diffusion have been growing rapidly in many countries, it is unlikely that Bulgaria's global ranking has changed considerably.

The Year 2000 EIU ranking of E-commerce readiness places Bulgaria in the 32nd percentile.

According to the *Global Competitiveness Report 2000* survey, Bulgarian firms reported that only 12.8 percent of companies use the Internet for e-commerce. However this usage percentage increases when considering Internet use for customer service and general information purposes. Reportedly, approximately 37 percent of firms use the Internet for provision of customer service; and roughly 84 percent of firms use the Internet for general information gathering. These percentages could be read as providing a solid platform for building strategies centered on access to customer information.

Bulgaria in 1999 had a relatively high number of scientists and engineers per million people—1747—placing Bulgaria 28th out of 88 countries (68th percentile). However, it is not clear at what level this human potential has been saved during the continuous crisis in Bulgarian science since 1990, or how well it is being applied to the competitive needs of business. R&D expenditures as a percentage of GNP were very low in Bulgaria—0.57 percent—48th place out of 78 countries or in the 46th percentile. However, in many cases companies may not have separately recorded their R&D expenditures, as there is no particular incentive for companies to record R&D expenditure.

[11] Transparency International. Global Corruption Report 2001. (2001)

[12] Reference to the *European Survey of Information Society* was made in the Building the Competitive Advantage of Bulgaria: Beyond 2000 prepared by Anelia Damianova, CED. (2000)

Public Infrastructure

Bulgaria's infrastructure ranks above average if compared to many transitional economies, yet it is far from that of the most developed countries.

Infrastructure is normally measured in the capacity for providing energy, transport, and communications. Bulgaria ranks fairly well in both road density and electricity capacity, as measured by electricity consumption.

Teledensity (number of telephones per-capita) is an indicator that is in great flux given the fast diffusion of mobile telephones worldwide. The fast growth of the mobile telecommunications industry is rapidly reducing the costs of communication. Despite Bulgaria's mobile telephone penetration almost doubling during 1998 from 8 to 15 mobile phones per 1000 people, it still only ranked at 68th out of 149 countries, lower than Bulgaria's fixed line penetration.

Bulgaria inherited one of the highest line densities amongst the former communist countries. However, the quality of the service is less impressive. According to firms reporting to the WEF Global Competitiveness Report 2000, many firms believe that Bulgarian telephone lines do not have "ample capacity" and are "unreliable." In the past few years these perceptions prompted the rise in mobile phones, satellite phones and data transmission services as "quick fix" solutions. Recently the Bulgarian Telecommunications Company (BTC) made progress in the replacement of non-digital technology with digital, especially in long-distance transmission (78.0 percent), long-distance switching (78.6 percent), international transmission (95.5 percent) and international switching (100 percent). By the end of 2000, the government tendered a new mobile phone operator; and in 2002 it is expected that another mobile phone operator will be tendered to coincide with the privatization of the BTC.

Human Resource and Workforce Competitiveness

According to the UNDP Human Development Index 1999, Bulgaria ranks 60th out of 174 countries (66th percentile). Labor force participation is at 64 percent, which puts Bulgaria at 64 out of 177, or the 64th percentile. Life expectancy is 71, which places Bulgaria 84th out of 194 countries (57th percentile). Adult literacy is 98 percent of the relevant population. Secondary education ranks 24th out of 103 countries placing Bulgaria in the 77th percentile.

III. APPLYING COMPETITIVENESS TO BULGARIA

This section provides a brief assessment of the Macroeconomic and Microeconomic conditions in Bulgaria. In addition, this section provides analysis of the impacts of the financial system and privatization on the economic environment in Bulgaria. Finally, the section provides brief industry assessments on the following sectors: information technology; tourism; canning; wine; maritime transport; and apparel. More in depth coverage of the Macroeconomic and Microeconomic sections is provided on the BCE website http://www.competitiveness.bg/.

Macroeconomic Environment

Over the past 10 years, Bulgaria has undergone a difficult transition to a market economy; and this transition continues in many respects. The unique political and economic transformation was initially accompanied by deterioration in the macroeconomic characteristics of the country compared to 1989. Despite unfavorable impacts from the Asian financial crisis and political and economic crises in Russia and Kosovo, macroeconomic developments in Bulgaria have remained positive since the beginning of 1998. The introduction of the currency board in 1997 imposed discipline on the macroeconomic environment in an effort to support economic development. The immediate result was the quick mastering of the former macroeconomic chaos.

Structural reform became the center of government policy and privatization was named as the number one goal. While the number of privatized companies has been considerable, the government did not pay sufficient attention to whether the privatized enterprises would be competitive. The age and size of the asset base in Bulgaria and the lack of effective management of newly privatized companies has been a problem in Bulgaria.

The Bulgarian banking system was, in the mid-1990s, considered amongst the poorest performing in the world. There has been significant improvement in the liquidity of banks since the middle of 1997 and measures have been taken to strengthen bank supervision and improve the efficiency of the sector. In 2000, the Heritage Foundation's Index of Economic Freedom measured Bulgaria's banking environment to be stable with a moderate level of restrictions.

Inflation in 1999 was only 1.8 percent and the budget deficit only represented 0.9 percent of GDP. However, economic growth decreased in 1999 to a low of 2.4 percent. Unemployment reached a new high in 1999 of 16 percent, up from 12 percent at the end of 1998. The true engine of growth for Bulgaria has been the increase in domestic investment since the late 1990s. The share of gross domestic investment in GDP increased to 15.9 percent in 1999.

Since the beginning of 2000, economic growth is accelerating and the trend of Bulgarian industry is on the upswing. If this continues, it will be an important factor for the sustainability of the competitiveness of the Bulgarian economy.

The government has made important progress in clarifying regulation for commercial activities, which was previously an issue for Bulgarian industry. One of the catalysts for this clarification has been to coordinate with EU practices as part of the EU integration plan for Bulgaria.

Foreign investors benefit from a liberal investment environment in Bulgaria. During the period 1992 to 2000, foreign investments totaled USD$3.929 billion. Of that amount, USD$1.167 billion came from privatization. However the investments in capital markets were expected to fall in 2001, which in fact they did. The high prices of investment goods and insufficient credit guarantees contribute to investment difficulties of private industrial companies. (See Exhibit 7)

The Effect of Privatization

The privatization process in Bulgaria started with the adoption of the Privatization Act in April 1992. By the end of 2000, 50 percent of all state owned fixed assets was in private hands. The first round of privatization took place from 1996 to 1997; the mode of offering was through investment bonds. During that period, three centralized auctions were carried out in which stocks of 1040 companies were sold to 3 million Bulgarian citizens directly and through privatization funds. The second round of privatization through investment bonds took place in 1998 and lasted until the end of 2001. Through the end of 2000, more than 1 million Bulgarians registered to take part in the centralized auction. The next stage of privatization will involve companies from the public services sector. These offerings will be tendered by way of public administration strategies approved by the Council of Ministers and the Parliament. The intension is to ensure broad public support and full transparency. The effects of privatization have varied by industry and enterprise.

For sectors that were relatively well developed before the market was reformed, privatization has been one of the key issues for gaining competitive advantage. There are a number of privatized companies, however, that proved unable to operate in the competitive environment because of a lack of managerial skills, market knowledge and strategic orientation. For the tourism industry, privatization came slowly and was not efficiently managed, but many companies do operate relatively effectively. Privatization of the Information Technology sector was slow at first, but was boosted by the privatization of supporting industries that required technology innovations to meet access and market demands.

Currently, the private sector produces 71.5 percent of the added value in the economy.[13]

Microeconomic Environment

The microeconomic environment provides a platform for business and economic growth. Overall the Bulgarian microeconomic environment consists of relatively poor quality services

[13] Bulgarian Economic Forum News Briefs. (12/21/2001)

and inefficient regulations and policies. The present legal and regulatory environment involving business in Bulgaria is over-regulated. The Heritage Foundation's Index of Economic Freedom rates Bulgaria as having a stable but high level of regulation.[14] The scale for Heritage Foundation indicators ranges from 1 (very low) to 5 (very high) level of regulation. Relative to other Eastern European countries, Bulgaria's score is poor, i.e. relatively highly regulated.

Unclear rules, insufficient capacity of institutions involved and restricted access to information hinder business competitiveness and growth by raising transaction costs, restricting the quality of services and corrupting the business environment. It is for these reasons that a large portion of business is escaping into the "shadow economy".

A joint Bannock Consulting and IME survey estimated that costs of dealing with the government amount to approximately 12 percent of total Bulgarian GDP.[15]

Tax policies in Bulgaria have been unstable over the past 10 years due to frequent changes. Since 1991, Bulgarian tax laws have been changed an average of 12 times per year. The seemingly constant changes in tax legislation have caused a high degree of confusion among authorities, legal professionals and the business community regarding the applicability of amended or newly adopted laws. It is difficult for business to operate effectively if the "rules of the game" are constantly changing.

While changes in the legal framework of customs and trade procedures have been achieved, Bulgaria experienced difficulty in implementing the reforms. Changes in tariffs and customs procedures have become direct transaction costs to economic agents. An example is the apparel industry, for which poor customs procedures have a serious impact since the industry relies heavily on exports. At issues are the poor service, slow transit time and level of tariffs, which are causing such high transaction costs.

Bulgaria originally had much success in trade liberalization, however it has been difficult to maintain and build upon this success. The microeconomic environment has been unstable resulting in uneven progress in introducing broader market reforms, and in the mid 1990s price controls reemerged. Bulgaria also experienced volatile exchange rates and increased business demands for protection. Bulgaria has entered into several major international trade agreements, although the government has occasionally imposed temporary trade restrictions as a protectionist measure.

Domestic prices were liberalized in early 1991. Entrepreneurs are largely free to set prices as they see fit. The government still maintains control over electricity, heating, gas, communication services, rail transport, cigarettes, pharmaceuticals and university fees and prices.

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[14] The Heritage Foundation. Index of Economic Freedom. (2001)

[15] IME and Bannock Company. Private Companies' Costs of Dealing with the Government: A Survey on Bulgaria. (2000). http://www.ime-bg.org/discussion.

In 1999 a new law on standardization introduced voluntary standardization. It also stipulated that in order for EU standards to become part of Bulgarian standards, they must be translated into Bulgarian and approved by the State Agency of Standardization and Metrology. Prior to the new law Bulgarian standards were quite distinct and often more stringent than EU standards. This absence of clear standards has been detrimental to some industries in Bulgaria. The canning industry for instance sees the absence of standards as a major obstacle for the production of "ecologically clean" products.

The Bulgarian Labor Code was drafted during the socialist era; while there have been numerous amendments the framework remains untouched. Compared to other countries, Bulgaria comes out in the middle in terms of stringency of labor regulations and control of wages. Data from the Economic Freedom of the World 2001 Report, published by the Fraser Institute, shows that Bulgaria has more freedom on the labor market as compared to Ireland which ranked 28th to Bulgaria's 23rd ranking. Also, Bulgaria ranked better against regional competitor Hungary, which ranked 37th. As a comparison to two major emerging market competitors, Bulgaria's labor regulations are stricter than El Salvador and freer than Indonesia.

Although protection of property had been an issue in the past, the government has guaranteed private property rights as irrevocable through Article 17 of the Bulgarian Constitution.

The Bulgarian business environment is still very reliant on personal contacts and relationships. Many business leaders lack trust enough to do business with other members of the community. There are many reasons for this of course, but one contributing factor is that the government has not effectively created an environment in which businesspeople feel safe to conduct business with other members of an industry. Laws are constantly being revised, roles are being redefined, and overall there is an air of confusion and instability.

Intellectual property rights were established in line with Western practices, however according to the Business Software Alliance in 1999, Bulgaria was amongst the worst 25 countries in terms of copyright infringement of software products. (See Exhibit 8)

The Bulgarian Telecommunications Company (BTC) has a monopoly on telephony until 2002. Investors generally perceive utility connections and services as problematic, primarily in connection times and the costs involved thereof. (See Exhibit 9)

Bulgarian transport infrastructure and services are relatively strong; although substandard by EU comparisons. Government maintains ownership of rail lines, roads and sea and river ports.

While Bulgaria is performing better than many other transition economies in microeconomic terms, it is not performing as well as those countries listed at the top of the microeconomic indicators. It is imperative, in light of its accession into the EU, that Bulgaria benchmark the provision of private and public sector services against EU countries and also against the best in the world, so as to get a clearer picture of its progress. Growth will only come from understanding Bulgaria's current situation, and the improvements that are needed to provide a competitive microeconomic platform.

Financial Sector

The Bulgarian Finance Sector and Banking Industry can certainly be looked at as an industry cluster itself, and this would be a useful focus of analysis and action. The finance and banking industry is also an important part of every other industry cluster—all industries require financial and banking services. Bulgarian industry has been critical of the ability of the financial sector to meet the growing demands of a competitive economy.

In the aftermath of the banking crises, many banks are still lacking the requisite skills for effective credit evaluation, risk assessment, asset management and project monitoring techniques. Overall services provided by banks do not meet customer demands.

The limited credit activity of many banks can be traced to several factors: relatively high risk in the real sector; lack of prior credit history of most borrowers; slow execution of creditors' rights; low quality of investment projects; restrictive banking structures; lack of investment and corporate culture of many Bulgarian entrepreneurs; and insufficient project assessment abilities. The entry of foreign banks into the domestic market has been associated with an increase in modern banking know-how, technological innovation and competitiveness.

Many businesses lack the ability to work effectively with the banking and financial system. Often the quality of business plans is poor. Businesses often lack the collateral for loans; yet businesspeople are often reluctant to give up ownership to equity investors or partners.

While many small and medium-sized companies have great difficulty in acquiring loans or equity investment, opportunities do exist for firms with good business plans and management to obtain financing from banks, venture capital funds, foreign entities and domestic capital markets.

Industry Assessments

The following industry assessments describe competitiveness issues at the specific Bulgarian industry and firm level. Leaders from each of these industries participated in strategy sessions and other cluster discussions that were facilitated by the BCE experts during the course of the Exercise. The assessments are summaries of more in depth industry reports that are presented at http://www.competitiveness.bg/. They are based on strategy sessions and discussions held with the industry; industry overviews; case study reports; and expatriate consultant reports prepared during the BCE.[16] A complete treatment of each industry overview and firm case study is available for review on the BCE website http://www.competitiveness.bg/.

Information Technology

Prior to political and economic transition in the early 1990s, Bulgaria was a leader in the COMECON region in information technology (IT) production and education. The market for Bulgarian IT products and services has increased in recent years, however the market has struggled to overcome obstacles created during the transition from a protectionist socialist economy to an open market economy. The Bulgarian market for IT products is still quite small.

There are approximately one thousand companies operating in the Bulgarian IT sector. Half of these companies are software developers; the other half is made up of computer system assemblers and sales companies. Despite the limitations of the current Bulgarian market situation, i.e. limited infrastructure and demand, representatives from most of the leading international IT companies are located in Bulgaria.

The global IT industry benefits from a market of growth and opportunity around the world. Market value for trained professionals is high compared to many other industries and opportunities exist for quick advancement. The Bulgarian IT industry faces a drain on its greatest asset—its trained processionals. Because wages are low in Bulgaria, many professionals take advantage of more lucrative offers in other countries. This "brain drain" is negatively affecting the ability of Bulgarian companies to produce value added products, because the necessary domestic human capital is moving offshore. One of the factors that underlie low wages is the lack of sufficient financing for the IT industry. Like many other Bulgarian industries that suffer from the lack of a sophisticated capital market, the IT industry lacks the necessary capital to upgrade training facilities and provide capital to entrepreneurs looking to innovate products and services for higher end markets.

Bulgarian IT companies have expended considerable effort in retaining qualified people. Some companies, such as SIRMA and Hewlett-Packard, have been successful in limiting employee turnover.

[16] The original documents were prepared by a number of individuals and institutions, with assistance from J.E. Austin Associates. Individual credits are included on the website.

The lack of domestic demand for IT products is a limiting factor. The domestic market has not generally emphasized the importance of upgrading technology as a means to increasing competitive ability. Therefore the majority of production in Bulgaria is for export markets in North America, Canada and Western Europe. Some companies produce exports for Turkish and Eastern European markets.

The small domestic and regional demand and the limitations in the factors of production have caused increases in labor costs. Profit margins have been squeezed. The result of this has been that several companies are instituting export-oriented strategies based on higher-value demand.

The IT industry is composed of many firms, each with its own strategy regarding survival and success. Firms in the industry have been reluctant to cooperate, as too often they perceive growth as a zero-sum game—the success of one is at the expense of another. This perception is slowly changing, as can be seen from the informal networking opportunities that have recently taken place. In addition to networking opportunities, there have been a number of joint ventures among industry members.

Government has been supportive of the IT industry in recognizing its importance to the future competitiveness of Bulgaria. However, there are areas where government assistance would benefit, especially in maintaining truly open markets for companies in the IT market. Open markets are the most important factor for growth of any IT sector, although attention to the affects of global markets on the Bulgarian IT industry is also quite important. In line with maintaining open markets, the IT industry should not make a habit of turning to government as the primary source of market resolutions.

The key issues for maintaining competitiveness in the IT market will be providing innovative market technologies to meet niche market demands and enlivening domestic usage of IT products and services. Also it is very important for IT companies to forge closer relationships with clients through increased interaction and by locating services close to clients. This will enable companies to obtain information on customer needs and trends that will allow the companies to provide responsive products and services, and to develop effective strategies. SIRMA is one Bulgarian company that has been very effective in this by locating customer service offices close to clients in Canada.

In 2001, the Bulgarian Parliament assisted the IT industry by ratifying the Declaration on Trade with IT Products. This will liberalize trade on six basic product groups including computer equipment, telecommunication equipment, semi-conductors, carriers of program products, and tools for scientific purposes.[17]

[17] Bulgarian Economic Forum News Briefs. (12/20/2001)

The future of the IT industry rests in large part on the ability to be flexible to market demands. This requires the availability of reliable investment and credit resources. To this end, the industry can promote the use of joint ventures and networks with foreign investors to obtain needed finance.

Tourism

The Bulgarian tourism industry benefits from the country's rich history and many natural and cultural resources. In the mid 1990s, while many other industries were suffering from market transition obstacles, the tourism industry registered positive financial results. The extent to which improvements in the tourism industry are sustainable remains to be seen. There are many ongoing developments in the industry, including modification to the industry "vision", changes in demand and in market channels, and reformation of the industry towards a more organized structure.

Privatization of the sector, while almost 100 percent by 2001, proceeded rather slowly. A deficiency of the privatization period was the failure to attract strategic investors who were international leaders with recognized names. This essentially left the industry in the hands of managers who often lacked a full understanding of the customers and market niches to which it was marketing its products.

The tourism industry was and to a great extent still is a sector with delayed investment in infrastructure, supporting facilities, new services and management. While some companies and service providers have instituted the use of technology, the technological infrastructure in Bulgaria is still lagging behind its competitors. This is the case, for example, in the industry's limited acceptance of credit cards.

The Bulgarian tourism industry can be characterized as being comprised of two sectors: mass tourism, which is focused on natural resources and caters to high volume/low value products, and specialized tourism based on niche markets (and which could be focused on high end/high price consumers). The strategy of the Bulgarian tourism industry has to this point been primarily focused on the mass tourism sector, and has not brought much to the Bulgarian economy in terms of revenues per tourist. The industry has little bargaining power vis-à-vis the large tour operators.

The performance of the tourism sector, while reported as strong, has been uneven over the past four years. In 1998 there was a marked decline in the number of tourists from all areas. The tourist base of top customers (excluding Germany) is from medium and low-income countries, although many visitors also come from the surrounding regions. These losses were most significant for tourists from Germany and Turkey. Since 1998, the trend in arrivals has been increasing, although no firm pattern can be determined. After falling from 13 percent of all visitors to 3.4 percent in 1998, tourists from Turkey remain a relatively small percent of total tourists to Bulgaria in 1999 and perhaps 2000. Overall tourist arrivals increased in 2000, and continued to increase in the first eight months of 2001 by 20 percent.[18] The domestic market is a large, but undifferentiated and undefined segment of the overall market. The attacks of September 11, 2001 in the United States are not expected to drastically effect tourism in Bulgaria.

The focus of Bulgarian tourism strategy has been on "sand, sea, sun and mountain resorts". The very small number of five-star hotels and the limited availability of international hotel chains is evidence of the dominant low-end provision of services. Deficiencies in tourism infrastructure and investment create an immediate improvement in the sector. It is difficult to compete on quality and high-end services when major hotel networks were built 15 to 20 years ago.

However the tourism industry has recognized the need to innovate its services in order to develop the tourism sector. The Albena Sea Resort, for example, has been active in this pursuit. The resort has sought to differentiate its products to attract new clients. In order to achieve these goals it has entirely renovated 17 hotels at a pace of three to four hotels a year.

Cooperation and division of responsibility amongst agents and tourism service operators seems to work relatively well. Also, there is evidence of strongly developed cooperation with traditional suppliers of transport services, food and agriculture produce. Cooperation with the non-banking financial sector is beginning to gain momentum. Cooperation between the cluster and the government seems effective. On the local level, there is much cooperation between the sector and municipalities to promote particular local cultural, environmental and historical resources.

A key area of opportunity for the tourism industry lies in the ability of the industry to begin to differentiate product offerings away from mass tourism offerings, to obtain information about niche markets and develop products and services to cater to such markets. Examples would include culturally based programs and programs centered on distinctive industries such as the wine sector. Recent statements by Prime Minister Saxe-Coburg-Gotha reflect this type of strategy. According to the Prime Minister, village tourism should be developed and the country's archeology and history should be popularized.[19] Also of utmost importance is to collaborate with training institutions on setting curricula based on market needs, such as hospitality standards and management skill development.

Canning

Overall, the Bulgarian canning industry is in a steep decline. Ten years after the end of the socialist period, during which all canning companies were state-run, 85 percent of the companies have been privatized. But this privatization has not led to profit growth or industry growth. The privatization of farms created a setback to the ability to produce large volume

[18] Bulgarian National Bank. (2001)
[19] Bulgarian Economic Forum New Briefs. (12/12/2001)

crops at competitive prices. The privatization of canning companies led to employee ownership, which in many cases resulted in ineffective management practices and lack of the necessary capital to operate.

There are many factors that have contributed to the industry decline, including limited supply of inputs, lack of qualified managers and lack of financial resources. Restricted domestic demand has also been problematic.

During the period 1996 to 1999 crop yields dropped in volume and quality, strict international requirements on food standards were applied and prices of food products have increased while the purchasing power of many Bulgarian companies decreased. Bulgarian canning companies have therefore often been unable to adequately supply their domestic and export markets. The Bulgarian canning industry also suffers from a lack of product diversification in the highly competitive export market.

The Bulgarian canning industry exports to Austria, France, Holland, Italy, Germany, Greece, Czech Republic, Jordan, Russia and other NIS countries. Domestic demand is very limited, partly because of low purchasing power and partly because of the perception that Bulgarian products are of low quality. The perception of low quality is often incorrect—in many cases Bulgarian jams and jellies are better than those produced and imported from Western Europe—but Bulgarians frequently choose the European brand over the Bulgarian product.

The Bulgarian canning industry is still in the factor-driven stage in terms of strategy setting. Collaboration among members is not highly developed. Yet effective, stable relationships between suppliers and producers will be necessary for the future of the canning industry.

One firm that has been successful in the Bulgarian canning industry is Plovdiv Canning OOD.[20] Plovdiv Canning OOD has forged a joint venture relationship with CARESBAC—Bulgaria AD, a joint venture company established by the governments of the United States and Bulgaria to facilitate equity lending to the emerging private sector in agriculture, food service and related industries.[21] This joint venture has provided Plovdiv Canning OOD with the necessary capital funds and organizational structure to allow it to implement a competitive strategy in the Bulgarian canning industry. The strategy is based on high quality and sales to gourmet export markets.

[20] The name of the firm has been changed for confidentiality. OOD is the Bulgarian abbreviation for Limited Liability Company.

[21] CARESBAC Bulgaria is an investment fund, specialized in microcredit (between 25 percent and 49 percent) in small and medium sized private Bulgarian companies. The purpose of CARESBAC is to invest in the sphere of agribusiness—agriculture, food processing and all industries associated to the former two industries. CARESBAC just started its operation in the country; it managers were looking for committed entrepreneurs and a business to invest. Plovdiv Canning OOD was one of their first projects; CARESBAC accomplishes its objectives by providing equity financing up to 350,000 USD and technical assistance in marketing, accounting, technical and other issues.

While the recent history of the Bulgarian canning industry has been disappointing, there are strategies and opportunities that the industry, and individual firms, can act on to start turning things around. Opportunity for the canning industry lies in better understanding of market trends and customer requirements, improving the domestic image of Bulgarian brand, producing high-end, value-added products for niche markets and forging strategic linkages between industry members in order to strengthen business relationships. The creation of effective cluster relationships will aid in lobbying government, setting a national strategy for the canning industry, as well as providing more reliable resource supply chains thereby stabilizing production.

Wine

The Bulgarian Wine Industry has been considered a high-performance sector within the economy for many years. Bulgaria holds 2 percent of the world market share of wine production and exportation. There are 120 wine producers operating in the markets of bottled and broached wine as well as a number of other related products. In the winter of 1997 and 1998, a severe frost and low temperatures damaged a significant part of the grape crop. This restricted the available grape resources for Bulgarian wine producers, resulted in price inflation on lower quality grapes and an increase in the amount of imported grapes. Competition for grapes among domestic producers became very high and has since remained rather high, which is fostering some growth in the grape production market.

In an attempt to remedy the supply issues of 1997 and 1998, and to deal with the aging of supply vineyards, one company, Vinzavod-Assenovgrad decided to invest in new vineyard plantings,[22] despite the limited current land market development and the lack of important financial infrastructure. In addition to internal investment, the industry has made strides to establish more formal agreements with farmers; one factor that had previously been lacking was contracts between producers and farmers. Luckily in 1999 and 2000, environmental conditions favored crop growth.

Managers in the wine industry understand the importance of quality, but have not generally taken the necessary steps to ensure that their products are up to international standards. The wine industry as a whole lacks focus on and knowledge of the standards and quality necessary for international, and sometimes even domestic markets.

There has been little progress in raising profit margins since the loss of crops in the late 1990s; accessibility to the cash necessary to expand raw material bases has been an issue. The necessary financial mechanisms to support the credit and cash flow needs of the wine sector, like many other industries, is deficient.

[22] Prior to 2000, Vinzavod-Assenovgrad did not have its own vineyards and relied on auctions and informal agreements with suppliers for their grapes.

Bulgarian commercial wine production is more than 80 percent export oriented, and accounts for more than 30 percent of the export revenues from Bulgarian food exports to the EU. Bulgaria's main competitors include France, Italy, Spain, Portugal, Chile, Australia, Argentina, New Zealand and South Africa.

Domestic sales for Bulgarian wines are estimated to be 10 to 20 percent of commercial production. Bulgarian consumers have knowledgeable tastes, but are not willing to pay the price for high quality Bulgarian wines that are currently on the market. The late 1990s saw a shift in Bulgarian purchasing practices that coincided with increased domestic wine prices. Bulgarians have opted for cheaper imported wines of similar quality.

The wine industry has been very aggressive in selling to export markets; but all too often strategies are not consistent. When a company sets prices low in a quality market, in an attempt to gain market share, the impact can be to reduce the quality image of the product; this appears to have happened to some Bulgarian wines. Also, the distribution strategies often do not provide the Bulgarian wine producers with needed knowledge of customer trends and requirements.

Cooperation within the industry is underdeveloped; joint partnerships have just begun to evolve. This uneven cooperation is partly the result of long-standing trust issues between members of the wine "cluster." There is an industry association that assists by lobbying on behalf of the industry to government, providing foreign and domestic market information and cultivating opportunities at international trade fairs and new technologies available to the industry.

One of the key areas of opportunity is to expand the marketing of unique Bulgarian grape varieties to higher-end distinctive market niches, and to create Bulgarian appellations of origin. Other opportunities lie in the development of more effective production and distribution chains for supply and finished products, and in the development of better dialogue mechanisms and policies for the relationship between grape suppliers and wine producers. It is also important for the cluster to work with government on building a national strategy for the wine industry in line with EU accession requirements.

Maritime Transport

Bulgaria has two major seaports, located in the regions of Varna and Bourgas. In 2000, it was estimated that each of these ports processed 5.5 million tons of goods. In addition to the ports of Varna and Bourgas, there are other, smaller ports in Bulgaria. Balchik is specialized only for grain cargo. The port of Ezerovo TPP serves the Varna Thermal Power Plant. The port of Lesport is a small, specialized port mainly serving timber cargo. There are also several smaller ports along the Danube River. There are two types of cargo transportation within the Bulgarian sector: direct shipments to or from Bulgaria and cargo that is transiting through Bulgaria on its way to another destination.

The port of Varna benefits from its location on the Black Sea; its primary function has been as a main junction between Europe and the Caucasus Region and the Middle East. The main challenge facing the Varna seaport is the need to retain and expand its domestic market shares, especially in light of emerging competition facilitated by transport corridor developments.

With a dearth of recent investment, the technological level of the port equipment in Bulgaria is underdeveloped, and thus impedes the more efficient operation of the port infra- and superstructure. The Bulgarian Sea Shipping Company has had problems with the age of its fleet and lack of investment capital needed to renew it. An example of a company that has embraced the rapid developments in the IT sector and learned from initiatives of other companies in capitalizing on these innovations is the Unimasters Logistics Group. Unimasters has introduced a new service called "*Interactive Tools*" that is offered through the corporate website and is aimed at facilitating communications with clients and avoiding difficulties caused by time differences around the world. In general, most companies lack the necessary finance resources for innovation yet they need to enhance their services and use of technology to become more competitive.

Bulgarian port costs reflect the inefficiencies in the maritime industry. The Port Operating Company represents the largest portion of port charges, for instance representing up to 46 percent of total charges in the Bourgas West. Varna West incorporates the smallest portion (about 40 percent) of charges from the Port Operating Company. There are also many "hidden" transaction costs endemic to the Bulgarian environment, which also affect the ports' cost competitiveness. These include the practice of posting guarantees, and inspection fees imposed on shippers.

There was a sharp decline in Bulgarian imports and exports upon the country's transition to a market economy. Foreign trade turnover as a whole dropped since the early 1990s. The 1999 level of trade was only 30 percent of what it was in 1989. The volume of cargo operated by the seaports dropped from 32,807 thousand tones in 1989 to 15,848 thousand tons in 1999.

Bulgarian ports are facing unprecedented competitive threats from intermodal alternatives being offered in neighboring ports. Romania, Greece and Turkey are competitors for transit cargo and some local cargo. The basis of this competition is on price and service.

Bulgarian ports can hope to benefit from inter-continental traffic provided that the TRACECA corridor, which links Europe to Asian markets via the Black Sea and Central Asia is fully developed.

Private "micro" companies dominate the structure of the transport industry in Varna. Transport companies in Varna realize the importance of quality for their international competitiveness, and many of them are strongly committed to incorporating quality management in their strategies—but the ability to do so is problematic.

Through the National Transport Strategy, the GOB has identified a number of modal improvements that will encourage the diversion of transport from Greek and Turkish ports to Bulgaria. The proximity of the Varna port to the Danube also offers some additional opportunities for expanded transport routes.

Despite the fact that all elements of a cluster exist, cooperation within the shipping/transport cluster is not prevalent. Most companies prefer to work individually rather than collaborate as a cluster. However, as a result of the increasing competition in the region, business, industry organizations and the public bodies have recognized the need for and the potential positive effects of the inter-cluster coordination and cooperation, and the cluster approach in the Varna maritime sector is slowly gaining momentum.

The Government strongly influences the development of the maritime sector in Bulgaria—the largest companies in the sector are state-owned, infrastructure is operated by state-owned companies, development of transport infrastructure is the public sector's responsibility, and definition of the national transport policy, including the maritime transport sector strategy, is a public sector function. Also public institutions are responsible for developing a sound and comprehensive regulatory framework in which the sector operates.

Competitiveness in the transport sector will require a number of strategic steps. The industry needs to be established as a provider of high quality/reasonable price services by adding value, ensuring faster cargo processing and expanding the range of services offered is one of the most important strategies to enact. Also, to compete globally, the maritime transport sector will need to upgrade technological capacities to provide information systems to promote ports as modern transport and logistics centers. Two opportunities for the maritime transport sector will be the establishment of a partnership program among industry members and the creation of a port portal to provide better information access to customers and improved quality customer service.

Apparel

The Bulgarian apparel sector is diverse, because companies do not manufacture the same products. Identifying producers by variation, size, markets, product/style, location, technology, capitalization, revenue, alliance and managerial expertise only begins to narrow the range of strategic choices available.

Under the socialist system, the majority of produced goods were assigned to garment producers through a strictly centralized organization in which "economic unions" were responsible for the placement of outputs. Direct exports to Western Europe and American clients were channeled through *IndustrialImport*, a state owned foreign trade organization. Upon transition to a market economy in the early 1990s, the industry faced many problems due primarily to the highly protectionist system under which it operated for so many years.

In 1992, the Russian market collapsed and the monopolistic structures that ensured the placement of Bulgarian outputs were dismantled, leaving companies to survive without any experience in the marketing of their own products or services. This transition to a market economy had many relevant impacts on the Bulgarian economy. Education, once well funded and organized, faced major changes. The apparel industry suffers from high turnover rates, due primarily to low wages. For an industry that employs the most workers save for the Bulgarian government, this is an area that will need attention.

For some sectors of the apparel industry, the availability of raw materials is an issue. The wool industry suffered from a lack of supply in the early 1990s, which led to a reorientation of supply chains towards imported materials from surrounding countries. The garment assembly sector does not have a raw material base in Bulgaria therefore virtually all of its supply is imported. This puts both subsectors in a precarious situation in that both are subject to the availability and cost of supply from outside resources.

As a result of economic deterioration, credit has been scarce. When credit has been available it has been characterized by high interest rates. As a result, the ability of many factories and companies to innovate equipment and technology has been hindered. Some companies such as Wooltex AD[23] have dealt with the some of these issues, for example by issue by implementing new systems that have improved the quality of information available about the trends and market requirements of their customer bases.

In the global garment production environment, timeliness and costs are the most important factors in mastering fluctuating demand. Bulgarian producers have excellent understanding of product design and construction capability, however they lack ability for rapid manufacturing due to their tradition of craftsman.

Domestic demand for Bulgarian apparel goods is regarded as unsophisticated and caters solely to the military and a small domestic market. Internationally, Bulgarian products compete with those from Turkey, Romania, Ukraine, Hungary and the Czech Republic in European markets. In North American markets, Bulgaria competes with products from Asia, Central Asia and recently, sub-Saharan Africa.

The JAA industry specialist voiced concern for the future of Bulgarian products in North American markets. This is because Bulgarian producers may not be prepared for the aggressive US retailer or manufacturer who cares nothing of producer margins and expects the most product and service at the lowest cost. While this product attitude may not appeal to the aesthetics or cultural traditions of Bulgarian craftsmanship, in order to produce goods for the North American consumers, Bulgarian producers will have to adjust their attitudes and find new ways to do things faster, more efficiently and cheaper.

[23] The name of the company has been changed for the purpose of confidentiality.

By the second half of the 1990s, privatization had started in the Bulgarian textile industry. The new private owners introduced a relatively more flexible management style and started to develop longer run strategies that were primarily export oriented. In many cases, though, this new management lacked the necessary knowledge of strategic vision and thinking. This led many firms to continue to feel powerless to control or participate in the factors that govern global markets. Those companies, which have set strategic plans, have done so based on cost rather than a complete understanding of market demand and customer requirements. There is little cooperation within the industry and strategies have been set on survival tactics founded in the belief that the success of one firm comes at the cost of another.

The government has not been truly effective in supporting the textile and apparel industry. The industry has not been unified in presenting their issues and the lack of appropriate government participation in the activities of the cluster.

However, opportunities do exist to enhance the competitiveness of the Bulgarian apparel sector. By understanding who their competitors are and what customers are demanding, the apparel sector will be able to make informed decisions about products and markets appropriate to their abilities. Also by forging relationships among cluster members and with the government, the apparel industry can start to present a united front on issues related to the future competitiveness of their market.

IV. CREATING A COMMON VISION FOR THE FUTURE

This section provides the conclusion of the report based on the information presented in the first three sections. It describes the next steps for Bulgaria to improve the competitiveness of Bulgarian industries and the economy. This section also provides a brief discussion of the most important points for discussion among cluster stakeholders and between the public and private sector.

Moving Bulgaria from Production-focused to Market-focused Strategies

The key conclusion of this exercise is that Bulgaria is slowly moving from a production-oriented, basic factor-driven competitiveness strategy to more complex, value added strategies that are driven by more demanding customer needs and preferences. This is a theme repeated in industry after industry. In the old type of business, Bulgarian enterprises neither sought nor received important information from ultimate users with respect to their needs. Bulgarian producers did not know what value-added design, quality or service represented value to the consumer, and did not know which consumers would pay more for special packages of goods and services. Bulgarian producers, therefore, typically did not implement market- or customer-oriented strategies. Strategy was production-oriented and factor-driven. Maritime transport, for example, offered indifferent and basic service. Wine producers had little direct contact with foreign consumers. Tourism was oriented to a low-value, undifferentiating clientele. Food production was unspecialized. Production and assurance of supply were of paramount importance.

In the global market, Bulgaria has slowly awakened to the potential value of its work and products, and is now recognizing that it can offer value to specific categories of customers. Bulgarian businesses are recognizing that customers will pay more for such particular product features and services. And businesses are starting to recognize that they must understand and communicate with the customer to develop strategic insights about customer needs. They are recognizing that they must communicate with the customer to inform the customer about their new products and services. It is no longer just the technician, engineer and production manager that create value for the enterprise, but also the strategist, designer and marketing specialist.

Not content to continue exporting low value-added products to their previous COMECON markets, many industries in Bulgaria are now focusing on adding value to their products and marketing them to global customers who are willing to pay higher prices for quality or service. Thus, for example, elements of the garment industry are moving from low-cost assembly operations to full-package production and even branding. A Rousse-based barge operator is identifying customers with specific security, timeliness and information needs, and is orienting all of its operations to meet those needs. Several wineries are recognizing the added value that can be obtained from careful focus on unique varieties and "*appellation d'origine*", and are learning how to market these features to discerning customers.

The Bulgarian business environment, with the help of government, is starting to become more supportive of such globally competitive strategies. Many successes have been achieved, but many more reforms in policies and attitudes are necessary to bring Bulgaria to the global marketplace.

Competitiveness Will Require More Sophisticated Company Strategies and Capabilities

Bulgarian industries are beginning to focus on the need to create very specific yet multi-faceted strategies in order to access market potential. This transition has been a difficult one. In order for Bulgarian businesses and industries to develop competitive advantage, a concerted effort is necessary to craft more sophisticated strategies built on knowledge of customer requirements and market demands.

Every business has all the opportunity to implement competitive strategies that imagination and the nature of the business environment will permit. Good strategy will include learning about the market and customer, and finding ways to provide information to the customer. Good strategy will obtain and organize inputs in a manner that meets the strategic objectives. And the company with good strategy will gather and work effectively with a sound cluster in order to meet the company's strategic needs.

To understand strategic opportunities, businesses and industry groups need to examine the strategies of firms in other countries. This can be accomplished through a process known as "*strategic benchmarking*".

The BCE examined and worked with many Bulgarian companies that are well advanced in implementing more sophisticated company strategies and capabilities. The garment industry and the barge operator mentioned above are examples. SIRMA, a Bulgarian software firm (See Section III), has placed great emphasis on its strategy to work closely with clients to identify and respond to client needs, and to obtain and organize its production to meet these needs. Recognizing the need to maintain qualified personnel, SIRMA implements ownership and management systems that encourage staff retention.

Plovdiv OOD*, the Plovdiv manufacturer of preserves (See Section III), recognized that the target market for its high-quality strategy was predominantly outside of Bulgaria. The company implemented a strategy to reach these customers, and to learn their preferences. It then oriented its production to ensure the quality and availability that the market needed.

Vinzavod-Assenovgrad (See Section III), recognizes the value of unique grape varieties, and is developing products that tout this characteristic. Also faced with uncertain supply, it is implementing strategies to guarantee the needed volumes and quality. However, it still needs to improve distribution and marketing, to match its quality objective and capacity for production.

In the tourism industry, Albena is investing in new services to encourage visits by both higher-value tourists, and to entice greater spending by tourists. In the Rhodope Mountain region, Pamporovs' House provides the quality and service that rates it as a premier tourist destination, and has worked closely with Exidas to be included in its specialized reference guide.

Competitiveness Also Requires Industry Leadership and Cooperation

Industry associations and other industry leaders can play a role to assist member companies in getting access to information and in fostering appropriate dialogue. This will require a common vision and a coherent industry strategy. Industry associations and leadership can do much to promote competitiveness. But it will require investment in better analytical and support capabilities.

Individual companies can be successful, given effective leadership and sound strategy. Industry competitiveness requires attention to policy reform, strategy setting and association building; it also requires many members of the industry to cooperate. Also, the history of mistrust within many industries would need to be addressed to enable effective cooperation among members. From this clustering comes the ability to present common positions to government and outside enterprises on issues affecting the industry as a whole.

Competitiveness Requires Effective Dialogue

JAA has kept a catalogue of effective and ineffective approaches to dialogue between the private and public sectors from its 400+ projects in 90 countries. JAA found that there are patterns of ineffective dialogue and of effective dialogue. Ineffective dialogue is characterized, for example, by individual companies approaching government with ad-hoc complaints involving problems at the operational level. Effective dialogue is characterized by industry-wide approaches with a comprehensive vision at the strategy level. Ineffective dialogue focuses on concessions rather than co-responsibility. Ineffective dialogue produces "laundry lists" of undifferentiated complaints based on anecdotal evidence. Effective dialogue, however, approaches the government with a few key priorities based on good data, sound analysis, concrete proposals and estimates of the costs and benefits of implementation. Ineffective dialogue is characterized by business, labor and government being on opposite sides of the table. Effective dialogue is characterized by a realization that they are on the same side of the table and facing competitors "out there" and not amongst each other.

One way to promote effective national and regional dialogue regarding competitiveness is through the creation of a National Competitiveness Council.[24] The Council, which is typically composed of representatives from the public, private, academic and labor sectors, works

[24] A brief on successful competitiveness and productivity councils in the United States, Ireland, Singapore, Hong Kong and Malaysia is provided on the Bulgaria Competitiveness Initiative website http://www.competitiveness.bg/.

together to analyze internal and external obstacles to the development of national competitiveness and to present plans on how to resolve such obstacles. The Council works independently of any one sector to provide objective views on the state of competitiveness within a country. This Council can provide a catalyst for genuine dialogue between stakeholders of the competitiveness process. It can also provide a base for regionally centered groups in order to promote a stronger voice in the dialogue process.

Can Bulgaria Accelerate Its Competitiveness?

The GOB can certainly contribute to accelerating the emerging competitiveness of Bulgaria. Greater emphasis, however, must be placed on the role of the private sector. In the end, the country's "competitiveness" will depend on thousands of companies understanding the true sources of their competitiveness and designing and implementing better strategies and operations. The GOB can encourage this process by its openness to institutionalizing the dialogue process and by acting on initial high-priority areas. Industry groups that move to create a strategic plan, gather market information, and understand the competitive position of their industry will most likely find willing collaborators, provided they themselves demonstrate financial commitment and ownership of the process.

Two Views of Competitiveness

Dialogue is influenced by perceptions regarding competitiveness. One view sees competitiveness as going after a "fixed pie". This is often the perception among those competing in mature markets for basic commodities. It is also the view of those who must compete for the limited capacity to provide incentives. Another view holds that competitiveness involves a "growing pie". It is associated with an ultimately unlimited potential to provide new products and services and create as well as receive value. The latter view drives human progress and creates the basis for rapid increases in standards of living. The former view sees little benefit from cooperation whereas the latter view thrives on it.

Summary and Recommendations

Opportunities for competitiveness exist at the company, industry, regional and national levels; all are appropriate loci for actions designed to increase competitiveness. But individual companies' success and productivity growth are the true measures of a national competitiveness process. Companies that develop competitive advantage contribute to the national competitiveness process. Ultimately, individual firms wield the power to change the way the economy looks and to increase national competitiveness.

The future competitiveness of Bulgaria will depend on a number of factors. It will primarily depend on the quality of private sector strategy and industry leadership—industry choosing to "do the right things well." It will also require more effective private-public dialogue that leads to needed action. It will also require better access to market intelligence, competitive positioning and technology. And most important to industries specifically, the future of Bulgarian competitiveness relies on the ability of industry members to cooperate as a cluster and press forward to develop and implement successful strategies, and to promote effective dialogue with the public, academic and labor sectors.

Ten Immediate Actions to Encourage Bulgarian Competitiveness

Business and government, and other economic partners, can take immediate actions towards improving Bulgaria's competitiveness. These actions should include:

1. Focus on Competitive Industry Strategies and Clusters

A competitiveness initiative should encourage industry groups and provide them with assistance to develop globally competitive strategies. They need to develop sound relationships with organizations to establish effective clusters.

The BCE commenced this work of facilitating industries to develop better strategies. But much more needs to be done, and this is a high priority.

Many tools will be used in helping industries to improve their strategies. Amongst them, *Strategic Gap Analysis* is a crucial process to assess current strategies, identify strategic opportunities and understand the gap between them. As input to the Gap Analysis, industries are helped to benchmark globally competitive strategies—to identify and understand the strategies of competitive businesses in similar industries, and to compare Bulgarian strategies to these leaders.

The output of the strategic gap analysis is a specific action plan that is implemented in concert by the cluster, and innumerable firm-level strategic improvements.

2. Improve Public-Private Dialogue: Dialogue for Action

Bulgaria needs to continue the awareness campaign that was a hallmark of the first phase of the BCE. Effective public-private dialogue should center on industry priorities and on implementing the common vision of competitiveness.

Better public private dialogue requires appropriate frequency and venues, and effective presentation of viewpoints. Business needs to develop the ability to present its issues.

The competitiveness perspective needs to inform public-private dialogue and debate. This dialogue should consider and demonstrate the impact of changes in the business environment on business competitiveness, and consideration of the impacts of specific legislative changes. Discussion should also concern the competitiveness impact of the privatization process.

3. Benchmark Public Services and the Business Environment

If the business environment and services available to Bulgarian business are not at least as good as those of the global leaders, in terms of cost, timeliness and effectiveness, than Bulgarian business will be handicapped. Bulgaria must recognize the level of performance of the global leaders in such services, and should regularly benchmark Bulgarian performance against the world leaders. The benchmarking should be very specific in nature—time and cost for customs throughput, time and cost to set up a business, time and cost of communications, and so on.

The benchmarking should contribute to public-private discussion, and commitment to actions for improvement.

4. Establish a National Competitiveness Council

Bulgaria should establish a National Competitiveness Council. Councils in countries such as Ireland, Singapore, Malaysia and Croatia can provide models. The Council will focus national consensus on competitiveness-building actions, identify competitiveness priorities, provide advice, and monitor improvement in competitiveness. As in other countries, the Council would also sponsor an annual National Competitiveness Report.

The National Competitiveness Council would develop long range strategy recommendations for promoting the competitiveness of Bulgaria's business and trade policy, promoting increased productivity, and institutionalizing public-private dialogue at a national level. The National Competitiveness Council would channel dialogue with business into a national body to provide one stance on the economic development of the country, not fragmented into different forms with many individual organizations.

The Council would be a non-partisan body, composed of leaders from the public, private, academic and labor sectors. The Council would be independent of any one sector, and strive to provide objective views on the state of competitiveness within the country.

This Council can provide a catalyst for genuine dialogue between stakeholders of the competitiveness process.

5. Encourage Regional Competitiveness

Regional competitiveness initiatives need to continue and grow in Bulgaria. These initiatives should focus on improving local industry competitiveness and clusters. The initiatives should also encourage effective business-government dialogue, to take decisions that will encourage competitiveness on a local level. Regional Competitiveness Councils could be established as an element of this process.

6. Train Bulgarians to Facilitate Strategies and Cluster Development

Bulgarians should have the ability to facilitate competitive strategy; benchmark strategies and services; and encourage effective dialogue. The action plan should therefore provide Bulgarians with these skills where they are lacking through skills transfer and through implementation by Bulgarian organizations.

7. Help Associations to Provide Better Services to Their Members

Bulgarian industry associations are often criticized for the nature and quality of services provided to members. They are often fragmented, and respond to parochial interests that are not representative of the larger constituency.

Industry associations should be useful actors in the process of building industry competitiveness. The competitiveness initiative should help associations to play a more effective role.

8. Promote Competitive Investment

Countries such as Ireland, Scotland and several Asian countries have grown and increased their competitiveness by attracting competitive foreign investment. The Czech Republic and Poland are examples of countries that are now replicating these successes. Industry clusters, government and the investment agency should collaborate in identifying priority investment for Bulgaria; improving the environment for competitive investment; and actively targeting desired investors.

9. Help Industries to Prepare for Inevitable Change

Globalization in general, and accession to the EU in particular, will impose enormous change and challenge on Bulgarian business. Bulgaria wants to be able to enter the European market as a producer of high quality goods and services that capture premium prices. It does not want to enter the market in competition with the low cost, low quality providers.

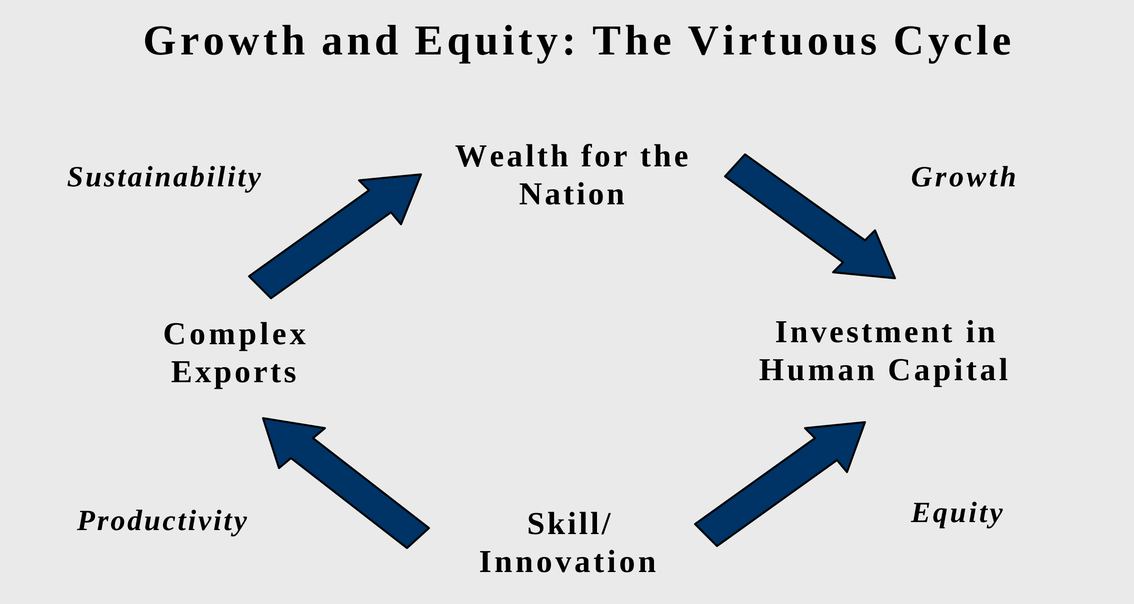
Thus, Bulgarian business needs to be able to adopt and achieve high performance standards. A consistent program to achieve and promote these standards is important. This includes making information available to the customer, and stringent environmental protection. Quality certification, grading, branding and similar actions can help business to improve its competitiveness.

10. Target Business-Oriented Programs on Competitiveness

Government and international agencies will put many programs in place to assist business. Such programs need to be designed and implemented with focus on competitiveness and competitive strategy. Sponsoring agencies should incorporate competitiveness concepts in the programs. Programs need to provide credible resources, be targeted on the needs of competitive business, and be demand-driven.

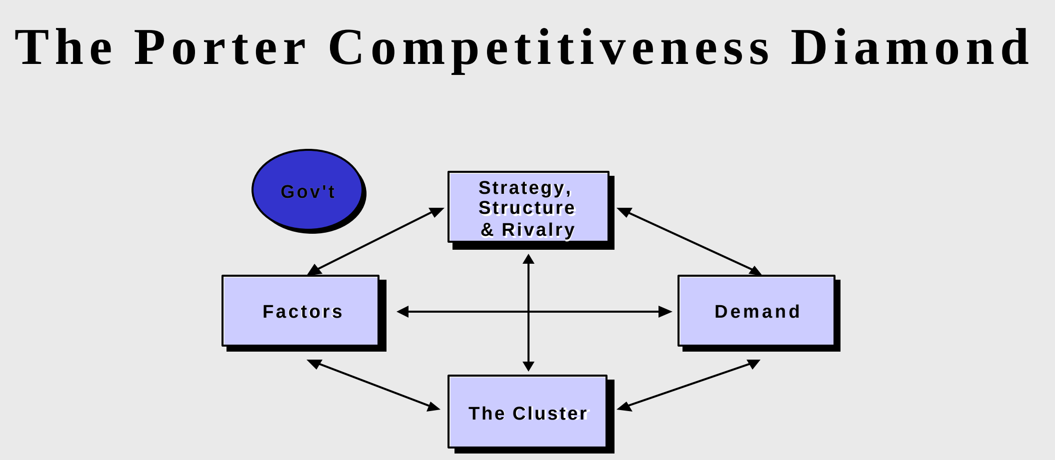
EXHIBITS

EXHIBIT 1: Growth and Equity—The Virtuous Cycle



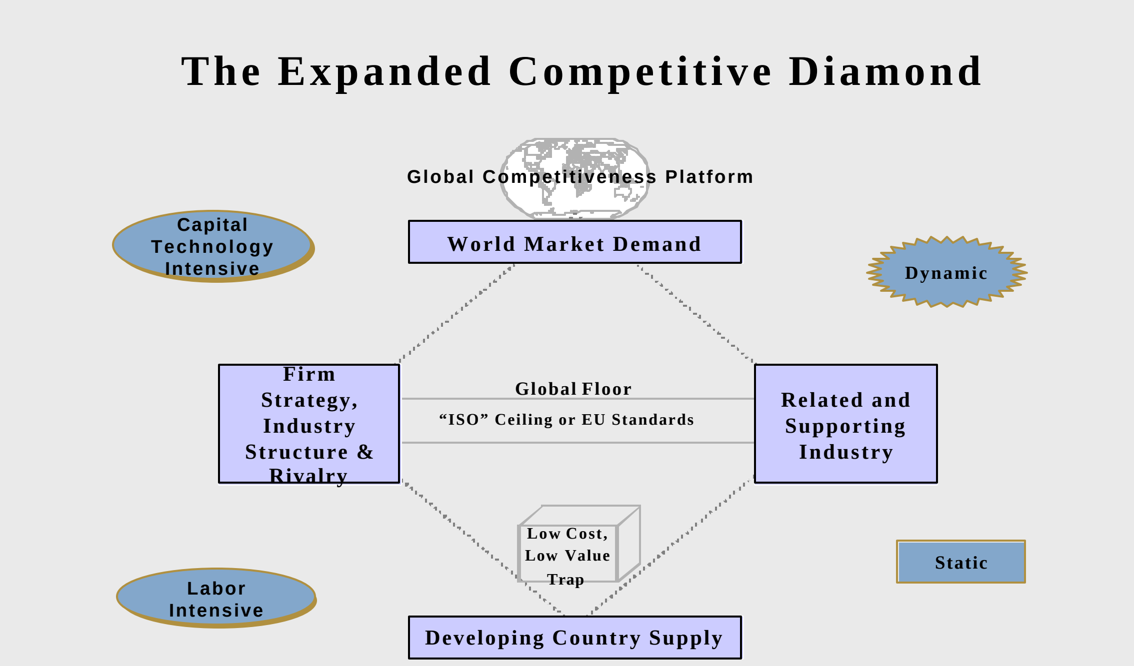
Source: JAA (2001).

EXHIBIT 2: The Porter Competitiveness Diamond



Sources: Michael Porter (1998); JAA (2001).

EXHIBIT 3: The Expanded Competitiveness Diamond



Source: JAA (2001).

EXHIBIT 4: JAA Benchmarking Report Profile of Performance Cover Sheet

BENCHMARKS FOR GROWTH:
PROFILE OF BULGARIA'S PERFORMANCE

Key Indicators	Benchmark	Bulgaria	Percentile Rank
Economic Performance--			
GDP Growth*	5-7%	3.50%	51
GDP average growth 1990-1998	6-7%	-3.92%	7
Income Distribution (GINI Coefficient)	25-30	28.8	83
Export Competitiveness--			
Exports per Capita		521 USD	48
Export Growth Rate[2]	14-19%	6.70%	46
Financial Sector--			
ICRG Risk Rating	89-78	71	63
Domestic Savings Rate as % of GDP	28-35%	14%	44
Investment Competitiveness--			
GDI as % of GDP	32-38%	14.70%	13
FDI as % of GDP	2-4%	3.30%	64
Policy Environment--			
GDP Implict Deflator (Inflation)	1%-5%	22%	10
Corruption Perceptions Index	8	3.3	36
Science and Technology--			
Computer Ubiquity per 1,000	150-300/1000	29.7	56
Telephone Density per 1,000	450-650/1000	329	78
Infrastructure--			
Paved Roads %	95%	0.92	81
Human Resource and Workforce Competitiveness--			
Life Expectancy	76-79 years	70.9	57
Secondary School Attendance Gender Inequality 1997	98-100%	95%	40
Enrolled, Secondary School	90-100%	22%	77
COMPOSITE			**51**

Note:
* Figures for growth rates represents data from 1990-1998
1 Figures for GNP/Capita represents data from 1997-1998.
2 Figures for Export Growth Rate represents data from 1990-19978

Sources: JAA Calculations; World Development Indicators CD-Rom, World Bank (1999); UNDP Human Development Report (1999).

EXHIBIT 5: JAA Benchmarking Report Main Cover Sheet

COMPETITIVENESS BENCHMARKS: Bulgaria				
Sector	**Absolute Score**	**Rank**	**Total in Sample**	**Percentile Rank**
Economic Performance				
GDP per Capita (PPP adjusted) 1998	4809 USD	73	163	55
GDP per Capita (PPP adjusted) growth 1990-1998	-1.17%	140	155	10
GDP average growth 1990-1998	-3.92%	166	179	7
Gross Domestic Product Growth 1998	3.50%	84	171	51
Gini Coefficient	28.8	16	96	83
			AVERAGE	**41**
Export Competitiveness and Tourism				
Export Value	5555 Million USD	69	140	51
Exports/Capita	521 USD	64	123	48
Merchandise Export Growth Rate 1990-1997	6.70%	66	123	46
Growth of Exports per Capita 1990-1998	-25.70%	98	106	8
Export % of GDP	45%	43	129	67
Tourism Receipts per capita 1998 (US $)	52.9	97	186	48
			AVERAGE	**45**
Financial Sector				
ICRG Risk Rating	71	47	127	63
Domestic Credit from Banking Sector as % of GDP	19.6%	113	152	26
Credit to Private Sector as % of GDP	12.6%	115	155	26
Money and Quasi Money (M2) as % of GDP	28.0%	91	146	38
Average Savings Rate as % of GDP 1990-1998	15.1%	70	121	42
			AVERAGE	**39**
Investment Competitiveness				
GDI as % of GDP	14.7%	115	132	13
Gross Domestic Investment Growth (GDI) 1990-1998	-3.3	114	129	12
Total Foreign Direct Investment (FDI)	401 Million USD	61	162	62
FDI per Capita	49 USD	75	162	54
FDI as % of GDP	3.30%	48	134	64
			AVERAGE	**41**
Policy Environment				
Overall Budget Deficit (as % of GDP)	2.10%	8	87	91
GDP Implicit Deflator (Inflation)	22.0%	154	171	10
Total Trade as a % of GDP	92%	51	126	60
Central Government Expenditure as % of GDP	33.6%	60	88	32
Corruption Perceptions Index	3.3	63	99	36
Proceeds from Privatization	569 Million USD	12	57	79
			AVERAGE	**51**
Science and Technology Competitiveness				
Computer Ubiquity (per 1,000 people) 1997 Data	29.7	45	103	56
Internet Hosts (per 10,000 people)	11.9	46	146	68
High Technology Exports ($USD Millions)	111	49	93	47
High Technology Exports (% of Exports)	4	51	91	44
Scientists and Engineers in R&D (per Million people)	1,747	28	88	68
Expenditures for R&D (% of GNP)	0.57	42	78	46
Telecommunications Costs (Domestic)/3 mins.	0	2	132	98
Telecommunications Costs (International)/3 mins.	N/A	N/A	N/A	N/A
EIU E-Business Readiness Ranking 2000	5.3	41	60	32
			AVERAGE	**58**
Infrastructure				
Paved Roads (%) 1996	92%	30	159	81
Telephone Density (fixed lines per 1,000 people)	329	33	147	78
Mobile Telephone Density (fixed lines per 1,000 people)	15	68	147	54
Electricty Consumption/Capita KHW	3,203	37	118	69
			AVERAGE	**70**
Human Resource and Workforce Competitiveness				
Human Development Index 1999	0.772HDI Value	60	174	66
Labor Force Participation Rate	74.20%	64	177	64
Labor Productivity	N/A	N/A	N/A	N/A
Life Expectancy at Birth	70.9	84	194	57
Adult Iliteracy Rate	1.8%	14	133	89
Secondary School Attendance Gender Inequality 1997	0.95	77	129	40
Unenrolled, secondary (% of secondary-age children)	0.2	24	103	77
			AVERAGE	**65**
			TOTAL AVERAGE	**51**

Sources: JAA Calculations; World Development Indicators CD-Rom, World Bank (1999); UNDP Human Development Report (1999).

EXHIBIT 6: World Economic Forum Bulgaria Competitiveness Balance Sheet 2000

Bulgaria

Growth competitiveness ranking	58
Economic Creativity	**57**
Innovation	49
Technology Transfer	56
Startups	58
Finance	**55**
Openness	**52**

Current competitiveness ranking	55
Sophistication of Company Operations and Strategy	**54**
Quality of the Business Environment	**54**

National competitiveness balance sheet

COMPETITIVE ADVANTAGES

	Criteria	Rank
	Growth Competitiveness	
	Openness	
9.11	Exchange rate alignment	14
	Current Competitiveness	
	Sophistication of Company Operations and Strategy	
11.05	Product design	27
11.04	Technology development	30
11.03	International brands	31
	Quality of the Business Environment	
9.01	Import fees	36
6.01	Public-funded schools	33
10.15	Corporate activity	32
	Other Indicators	
	Government	
3.07	Competence of public officials	6
3.13	Government saving	11
3.14	Fiscal surplus/deficit	12
3.17	Corporate income tax rate	12
	Infrastructure	
5.17	Railroad indicator	25
	Technology	
7.13	Tertiary education	23
7.02	Math and science education	26
	Labor	
6.08	Unemployment insurance	6
6.07	Employment rules	8
6.11	Wage setting	14

COMPETITIVE DISADVANTAGES

	Criteria	Rank
	Growth Competitiveness	
	Innovation	
7.09	Intellectual property protection	54
7.01	Technological sophistication	55
	Startups	
8.13	Venture capital	53
8.05	Loan availability	57
10.04	Starting a new business	59
	Openness	
9.10	Average tariff rate	52
9.04	Export promotion	52
	Finance	
8.16	National saving rate	56
8.04	Access to external finance	57
8.22	Investment rates	58
8.11	Stock market	58
8.01	Sophistication of financial markets	59
	Current Competitiveness	
	Sophistication of Company Operations and Strategy	
11.06	Production processes	58
11.07	Marketing	58
11.12	Approach to human resources	57
	Quality of the Business Environment	
5.06	Telephone service	57
5.09	Availability of information	56
5.07	Cellular telephone usage	56
	Other Indicators	
	Government	
3.11	Protection of property rights	50
3.08	Tax system encourages investment	51
3.15	Median income tax rate	56
3.19	Payroll tax rate	57
	Infrastructure	
5.02	Road quality	54
5.12	Email usage	55
5.04	Air transport efficiency	57
5.13	E-commerce	58
5.06	Telephone service	58
	Technology	
7.05	Necessity of research by firms	50
7.08	Licensing of technology	54
7.03	Brain drain	59
	Labor	
6.16	Unemployment rate	49
6.04	Quality of healthcare	53
6.09	Management/worker relations	54
	Institutions	
4.14	Organized crime	53
4.10	Litigation against government	54
4.15	Lawsuits	56
4.06	Use of courts	57

Source: The Global Competitiveness Report 2000, World Economic Forum (2000).

EXHIBIT 7: Factors Restricting Investment Decisions in the Industry in 2001 (Relative share of enterprises - %)[8]

	Total	Mining	Processing	Electricity, Gas and Water	Public Sector	Private Sector
Insufficient demand of production	18.5	43.2	19.5	3.3	14.1	20.4
High prices of investment goods	49.1	35.5	53.9	29.2	26.8	57.3
Insufficient credit guarantees	36.5	24.2	41.8	13.7	18.5	40.4
Insufficient profits	32.7	49.2	25.7	62.9	48.1	24.6
Fear of indebtedness	14.1	18.8	13.9	13.1	11.3	14.9
Technical reasons	7.7	1.1	8.2	7.4	10.1	6.5
Other	7.2	1.9	6.4	13.9	12.3	8.6

Source: National Statistical Institute (2001) as referenced in Macro Environment for Competitiveness, IME (2001).

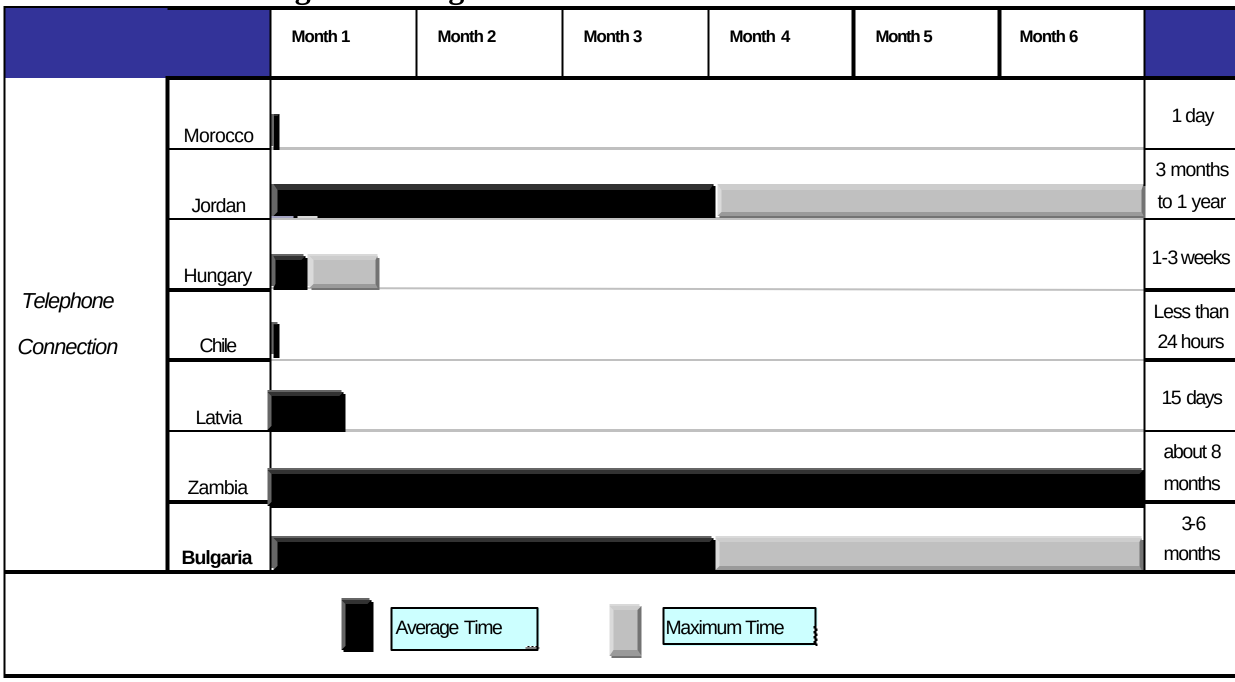
EXHIBIT 8: Software Piracy Rates in 1999

Region	Piracy rate
Bulgaria	**80%**
Africa	56%
Asia/Pacific	47%
East Europe	70%
Latin America	59%
Mid East/Africa	60%
Middle East	63%
US/Canada	26%
EU	34%
World average	36%

Source: Business Software Alliance (2001) as referenced in Microeconomic Environment for Business in Bulgaria, IME (2001).

[8] Weighted share. The sum of the percentages exceeds 100, since the enterprises have pointed more than one factor restricting investment activity.

EXHIBIT 9: Waiting Period to get connected to a Phone Line in Selected Countries



Sources: Bulgaria: Administrative Barriers to Investment, FIAS (2001); as referenced in Microeconomic Environment for Business in Bulgaria, IME (2001).

MACROECONOMIC ENVIRONMENT IN BULGARIA[1]

Over the past 10 years, Bulgaria has undergone a difficult transition. The unique political and economic transformation was accompanied by deterioration in the macroeconomic characteristics of the country compared to 1989. The abrupt drop in Gross Domestic Product (GDP) in 1993 took the total volume of GDP to 80 percent below its value in 1989. Over the last decade, the GDP decreased by an annual average of 2.53 percent. The capabilities to finance the necessary economic development decreased in parallel with the total macroeconomic slump.

In the middle of 1997, the currency board was introduced and subsequently imposed new and stringent 'rules of the game' to support the economic development of Bulgaria. The immediate result was the quick mastering of the former macroeconomic chaos. The exchange rate was pegged to the German mark; the inflation rate dropped abruptly and economic activity became predictable.

Despite unfavorable impacts from the Asian financial market crisis and political and economic crises in Russia and Kosovo, macroeconomic developments in Bulgaria have remained positive since the beginning of 1998. In 1998, Bulgaria reported its highest GDP growth rate of 3.5 percent and its lowest inflation rate 1 percent since the beginning of the 1990s.

Structural reform became the center of government policy and privatization was named as the number one goal. The cumulative share of divested long-term assets of enterprises increased from nearly 20 percent in 1997 to 41 percent in the third quarter of 1999. Bulgaria has achieved good progress in limiting the losses of state-owned enterprises and promoting their restructuring by isolating the major loss-makers from the banking system. Financial discipline has been recognized as a key structural issue in enterprise development and the government is showing its commitment to economic development by adopting a multi-pronged approach to install financial discipline in the state-owned enterprise sector. While the number of privatized companies has been considerable; the government did not pay attention to whether the enterprises that were privatized would be competitive. The lack of quality management of newly privatized companies has been a problem in Bulgaria.

As a result of privatization and enterprise development, the private sector raised its share of GDP to over 60 percent. Along with state-owned enterprise policies, the government has also isolated as a policy area the guaranteeing of private property rights in order to assist the private sector in remaining prosperous. Their intention is to strengthen the reform process by accelerating privatization plans, by making the process more transparent and dynamic, and by supporting the accumulation of gross added value in the private sector.

[1] Based on reports prepared by the CED. Available on the BCE website http://www.competitiveness.bg/.

There has been significant improvement in the liquidity of banks since the middle of 1997. The structural reform of the banking sector included privatization plans as well as a minimization of state participation in the capital of commercial banks so as to achieve more effective management. Measures have been taken to strengthen bank supervision and improve the efficiency of the sector.

The engine of growth in Bulgaria in the later half of the 1990s was the growth in gross domestic investments, which increased by 25.3 percent. The share of gross domestic investment in Bulgaria's GDP increased from 11.6 to 15.9 percent. The average annual inflation rate in 1999 was only 1.8 percent and the budget deficit only represented 0.9 percent of the GDP. However, the rate of economic growth slowed down from 3.5 to 2.4 percent and the account deficit increased to 5.2 percent of the GDP. There was also a continuation in the decline in industry and exports. Unemployment increased considerably in 1999 and reached 16 percent in December compared to 12 percent at the end of 1998.

Since the beginning of 2000, economic growth has accelerated and the trend of Bulgarian industry has been on an upswing. If it continues, this will be an important factor for the sustainability of Bulgarian competitiveness. The situation in international prices and foreign exchange ratios has favored a more active Bulgarian export sector. In fact it was the increase in Bulgarian exports that was the main factor for growth in Bulgarian industry in 2000. The greater activity in foreign trade is characterized by positive rates of export as well as of imports in goods and services. However, the domestic market for industrial products is still shrinking.

The existence of a functioning market economy is also a major precondition for international competitiveness, which is why the Bulgarian government is committed to maintaining a liberal market conditions. The government of Bulgaria has also made important progress in clarifying regulations for commercial activities. One of the catalysts for this clarification has been to coordinate Bulgarian policies with EU practices. The effect of integration into EU practices has been that Bulgaria has had to impose a tighter discipline on its macroeconomic environment.

Another aspect of the functioning of a market economy is the inflow of domestic and foreign investment. During the period 1992-2000, foreign investments in Bulgaria totaled USD$3.929 billion. The largest of these investments, USD$1.1 billion, came in 2000 and was equal to 28 percent of the total foreign investments for the nine years prior. A considerable portion of the investments from 1992-2000 came from privatization (USD$1.167 billion). A larger portion came as investments in new businesses and as supplementary investments in joint ventures (USD$2.04 billion).[2] However, investments in capital markets were reported as low (USD$167 million or 4 percent of all investments) and were expected to fall further in 2000.

[2] BFIA, Investment Statistics. (2000)

The benefit of the Bulgarian investment climate is that it has some of the more liberal foreign investment laws in the region. The law that governs foreign investment was enacted in 1997 and amended in 1998; its purpose has been to extend national treatment to foreign investors, to guarantee compensation in the event of expropriation, and to allow the repatriation of profits. The law also provides for primacy of international instruments, safeguards against subsequent unfavorable changes in legislation, strict observance of the principle of most favored nation status and the appellation of the principle of non-discrimination adopted under bilateral agreements for encouragement and protection of foreign investment. There is currently no limit on the extent or on the amount of foreign participation in Bulgarian companies and no controls on foreign exchange.

There are several reasons to explain any inconsistencies in foreign direct investment (FDI) inflows: general political and economic instability of the region; the slower privatization of some large companies; the underdevelopment of the capital market; frequent changes in legislation; the existence of bureaucratic procedures; the limited buying power of the population; persisting elements of unfair competition and widespread corruption. The major factors causing difficulties for investment activities of private industrial companies are the high prices of investment goods and insufficient credit guarantees.

MICROECONOMIC ENVIRONMENT IN BULGARIA[1]

A facilitative microeconomic environment provides a platform for business and economic growth. A poor environment or platform can also be an obstacle to the competitiveness process. While there have been improvements, overall the Bulgarian microeconomic environment consists of relatively poor quality services and inefficient regulations and policies. The current system of services and regulations has imposed costs that negatively impact the efficiency of the business environment. The Bulgarian economic environment is improving but is losing ground respective of the progress in other transition economies.

The present legal and regulatory environment involving business in Bulgaria is over-regulated. The Heritage Foundation's *Index of Economic Freedom* rates Bulgaria as having a stable but high level of regulation, with a score of 4.[2] Relative to other Eastern European countries Bulgaria's score is poor; Hungary received a 3 representing a moderate level of regulation. The Czech Republic scored a 2 representing stable low levels of regulation. The United States and Ireland also both received a score of 2.

A US State Department report on Bulgaria says, "Unnecessary licensing, administrative inefficiency and corruption hinder private business development and market entry in the country." Business start-up is a difficult process in Bulgaria. Transaction costs are high due to highly inefficient regulations and the process is very time intensive. Executives often spend an excessive amount of time navigating the necessary regulations and polices. In addition to time and costs, inconsistency and corruption are also factors. A survey of the canning industry has shown that administrative officials often seek rents from firms. Transparency International ranks Bulgaria in the bottom third of countries with a score of 3.3 for the perception of corruption.[3] This places Bulgaria close to the more highly corrupt countries of the world.

Unclear rules, insufficient capacity of institutions involved and restricted access to information slow down the process by raising transaction costs and corrupting the business environment. It is for these reasons that a large portion of business remains in the 'shadow' or informal economy.

In 1999, the government formed a working group to analyze legislation ruling licensing, permit and registration systems and prepare proposals for changes and amendments. During this period, 148 regimes were reviewed. Of this number 44 were repealed and the remainder were changed to be more effective. Until now only a few of these recommendations have been implemented.

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[1] Based on reports prepared by Yordanka Ganeveva, IME, and Latchezar Bogdanov, IME. Available through the BCE website http://www.competitiveness.bg/.

[2] The scale for Heritage Foundation indicators ranges from 1 (low) to 5 (high) level of regulation.

[3] The scale for Transparency International's Corruption Perception Index is 10 (highly clean) to 0 (highly corrupt).

A joint Bannock Consulting and IME survey showed that costs of dealing with the government amount to approximately 12 percent of total Bulgarian GDP.[4] This is much higher than many other EU countries. FIAS also provided a study on administrative barriers and steps on how to improve the microeconomic environment.

There are key issues that relate to sectors on an individual basis that also affect the development of competitiveness. When institutions do not function effectively and legislation is not comprehensive, it hinders the ability of sectors and individual firms/entrepreneurs to strategize for future development. However, sector specific legislation can also have a beneficial affect on an industry. The Tourism Law provided the regulatory environment for the tourism industry in 1998. This legislation introduced licensing procedures for hotel operators and tour agents. While this resulted in increased operation costs, it provided requirements that brought Bulgarian operators and agents closer to world standards and that much closer to being able to compete in world markets.

Tax policies in Bulgaria have been unstable over the past 10 years due to frequent changes. Since 1991, Bulgarian tax laws have been changed an average of 12 times per year. The seemingly constant changes in tax legislation have cause a high degree of confusion among authorities, legal professionals and the business community regarding the applicability of amended or newly adopted laws. It is difficult for business to operate effectively if the 'rules of the game' are constantly changing.

A positive trend in the tax policies in Bulgaria over the last five years has been the decrease in direct tax rates. However, indirect tax rates have been preserved and are even expanding. The high level of tax and social security payments in Bulgaria is one of the key factors contributing to the illegal labor market. A relatively small number of economic units in Bulgaria are willing to comply sufficiently with the tax and social security laws. Within that sort of business environment regular taxpayers are forced to compete with a 'shadow economy' that does not bear the law-determined tax burden.

The new Customs Law of 1998 introduced a centralized system of four levels of governed by the Ministry of Finance, including a General Customs Directorate directly responsible for all policy and implementation decisions related to these activities. The law regulates matters such as tariff classifications and customs regimes. The Customs Tariff is based on the International Harmonized Commodity Description and Coding System, and corresponds with EU Combined Nomenclature. The law and the Tariff mark a considerable improvement in the business climate for internationally competitive firms in Bulgaria.

However, while changes in the legal framework of customs and trade procedures have been achieved, Bulgaria still has difficulty in effectively implementing these reforms. Changes in tariffs and customs procedures have become a direct transaction cost to business. An example is the apparel industry, where poor customs procedures have a

[4] Private Companies' Costs of Dealing with the Government: A Survey on Bulgaria. IME and Bannock Company (2000). http://www.ime-bg.org/discussion.

serious impact since the industry relies heavily on exports. The poor service, slow transit time and level of tariffs cause high transaction costs.

According to the Heritage Foundation's 2000 Index of Economic Freedom Index, Bulgaria has one of the highest average trade tariff rates in Europe. This has caused Bulgaria to have a high rating in its level of protectionism. On the other hand, the Bulgarian Foreign Investment Law is one of the most liberal foreign investment laws in Eastern Europe. The Law on Foreign Investments protects foreign investors from changes that could prove harmful to profitability. In most cases, foreign investors are treated the same as Bulgarian investors. Currently Bulgaria has signed over 36 bilateral agreements for mutual protection and stimulation of investments.

Bulgaria had some success in trade liberalization; however, it has failed to maintain its level of improvement. The reason for this is that the microeconomic environment has been unstable resulting in uneven progress in introducing broader market reforms and the reemergence of price controls in the middle of the 1990s that resulted in volatile exchange rates and increased protection demands. The liberalization of foreign trade followed the path of several major international trade agreements such as the EFTA and the CEFTA. However, the government has used temporary trade restrictions as a protectionist measure. Reportedly, one example of this is the 200-day 40 percent tariff on imports of ammonium nitrate-based fertilizers, which was introduced in the fall of 1999 to 'protect' two local producers.

Prior to the adoption of the Law on Standardization in 1999, Bulgarian standards were quite distinct and in some cases more stringent that those of the EU. The new law introduced voluntary standardization and stipulates that EU standards can become Bulgarian domestic standards only after they are translated into Bulgarian and the State Agency of Standardization and Metrology approves them. This absence of clear standards has been detrimental to some industries in Bulgaria. The canning industry for instance sees the absence of standards as a major obstacle for the production of 'ecologically clean' products.

Domestically, the story is much the same as in foreign trade. There are a number of areas where successes have been made and other areas where additional work is necessary to stabilize the environment. Domestic prices were liberalized in February 1991. Entrepreneurs are free to set prices as they see fit with guidance from natural monopolies in the industry. There are a few exceptions, in the case of electricity, central heating, natural gas, phone and communication services, rail transport, cigarettes, pharmaceuticals and university fees; the government sets prices.

The Bulgarian Labor Code was drafted during the socialist era and while numerous amendments have been made to the Code, the framework has remained untouched. The framework focuses on the relationship between employees and state-owned enterprises without effectively reflecting the changes from a planned economy to a market economy. The principle of freedom of contract in labor relations is recognized in the legislation, but relative to other regional countries, the Bulgarian framework contains a large number of mandatory rules.

Compared to other countries, Bulgaria comes out in the middle in terms of stringency of labor regulations. Data from the Economic Freedom of the World 2001 Report, published by the Fraser Institute, shows that Bulgaria has more freedom on the labor market as compared to the Ireland which ranked 28th to Bulgaria's 23rd ranking. Also Bulgaria ranked better against regional competitor Hungary who ranked 37th. As a comparison to two major emerging market competitors, Bulgaria's labor regulations are stricter than El Salvador and freer than Indonesia.

Prior to the enactment of Article 17 of Bulgaria's Constitution, in which private property rights were made irrevocable; government enforcement of property rights was an issue. As a result, in the early 1990s a number of companies were established to provide protection of property. Besides guarding offices, warehouses and persons, their major services evolved to include more disreputable forms of contract 'enforcement'. Use of such firms is waning. In 1996 an IME Survey reported that 35 percent of private firms in big cities had an informal protection contract, but in a survey done in 2000, only 0.8 percent of interviewed companies resorted to the use of 'security firms' in cases of contract violations.[5]

An underlying factor is that firms often do not resort to legal modes in order to resolve contract issues. There is a large issue of trust, or rather lack there of, in the Bulgarian business environment that must be addressed in order to more legitimately promote the development of a market economy. The reason for this is in part due to the fact that government has not effectively created a 'safe' environment for business. Laws are constantly changing, roles are being redefined and overall there is an air of confusion and instability. Government has made many efforts to remedy these issues, but a concerted public-private sector partnership is necessary to organize any effort that hopes to develop a market economy mindset and environment.

The speed of Bulgarian courts, lack of institutional capacity for contract enforcement, and internal corruption have made Bulgarian apparel producers, as a particular example, feel unprotected from unfair competition on the domestic market.

Intellectual property rights laws have been established in Bulgaria according to Western practices. However, according to the Business Software Alliance, Bulgaria is still among the top 25 countries for copyright infringement of software products.

The Bulgarian Telecommunications Company (BTC), Bulgaria's national telephone company, has a legal monopoly over fixed line voice telephony until the end of 2002. Investors generally perceive utility connections and services are problematic. The problem lies less in the application process but rather in the time required for getting connected and the costs involved thereof. The strategy of the BTC has been to converge

[5] Barriers to Free Enterprise, *IME Newsletter*, vol. 3, No 7-8, 1996.

domestic and international phone call prices. However delays in connections are still major problem. Increasingly, mobile operators are providing connections for remote places at comparable prices to the BTC and significantly lower starting costs.

The Bulgarian energy market is dominated by 'natural monopolies' in gas and electricity. Gas is only available to a limited number of big consumers, mainly industrial companies from the socialist era, while household distribution is still pending. Long-term competitiveness of Bulgarian companies however will require further liberalization of the energy market. Although prices of electricity at present do not fully reflect depreciation costs.

While Bulgaria is performing better than many other transition economies in microeconomic terms, it is not performing as well as those countries listed at the top of the microeconomic indicators. It is imperative, in light of its accession into the EU, that Bulgaria consistently benchmarks the provision of private and public sector services against EU countries and also against the best in the world so as to get a clearer picture of its progress. Growth will only come from understanding where one is and where one needs to be.

Competitive growth requires a world-class competitive environment for business. To become competitive, Bulgaria must work to provide a competitive and reliable business environment.

INDUSTRY ASSESSMENT AND COMPANY CASE STUDIES

These assessments/case studies provide a brief picture of the competitive situations of several industries, and of strategies that are being used to address competitiveness weaknesses and opportunities.

The information presented in these industry reports was obtained from case studies and industry overviews prepared during the BCE, numerous meetings of cluster participants, BCE industry taskforces, and the work of specialist industry consultants.

INFORMATION TECHNOLOGY[1]

Industry Background and Performance

Prior to political and economic transition in the early 1990s, Bulgaria was regarded as a leader in the COMECON region for information technology (IT) production and education. Bulgaria produced the Riad 1020 computer system and supplied disk drives for much of the Riad series of computers. Many of the PBX systems for the COMECON region were also produced in Bulgaria.

After the changes of the early 1990s, Bulgaria's economy changed from a centrally planned to a free market economy. Not all products currently produced are competitive in the global market; the Bulgarian technological innovation gap is estimated at about four to five years behind the rest of the global market. This is because under the socialist market environment, Bulgaria's products were artificially protected and only subject to international competition under carefully controlled conditions.

There are some exceptions to this as well as some excellent examples of success in the Bulgarian IT industry. The Bulgarian market has shown increases in the number of PCs installed and in annual sales of computer systems during the period of 1996 to 1999. In 1999, World Bank indicators estimated the number of personal computers in Bulgaria at 26.6 per 1,000 persons, rather low by global standards, Singapore is estimated as having 436.6 per 1,000; and low in relation to regional partners, Croatia is estimated as having 67 computers per 1,000 persons.[2]

It is reported that more than one thousand companies are currently operating on the Bulgarian IT market. Half of them are software developers and the other half comprises of computer system assembly and sales companies. The number of assembly companies has increased more than 150 percent from 1996 to 1999. Comparatively the number of software companies has increased 25 percent during the same period. This tendency and

[1] Based on case studies prepared by Dr. Krassen Stanchev, IME. Available through the BCE website http://www.competitiveness.bg/. Ivaylo Gueorgiev of CED contributed significantly to the work of the cluster taskforce.
[2] Data are from the International Telecommunications Union (ITU) *World Development Report 2000* and *Challenges to the Network: Internet for Development* (1999).

future projections have demonstrated that this increase is likely to continue in the medium term. There is relatively little local demand for IT services and products, due in part to low sophistication in technologies currently in use by local companies.

Despite the limitations of the Bulgarian market situation, representative enterprises from almost all the leading international IT companies are located in Bulgaria.

The highest level of IT company concentration is found in the larger cities of Bulgaria. The greater part of consumer bases are also concentrated in the larger more industrialized centers. The five regions with the biggest market share represent an estimated 80 percent of the Bulgarian market. The biggest consumer region is Sofia, which maintains roughly 58 percent of market share.

Over the past decade the Bulgarian IT industry has been involved in many innovative activities and currently there are over 130 original projects of integrated circuits and 24 patents registered internationally.

Factor Conditions

There is a history of training in information technology studies in Bulgaria that stems from the training programs instituted in the 1980s to serve the electrical engineering market for the COMECON region. Today these institutions have continued to train students in technical and IT curriculums. In the 1998 to 1999 school year, there were 349 technical/vocational schools training 127, 247 students in computer and technical sciences. There are currently four universities in Bulgaria educating students in the fields of electronics, computer science and informatics. In addition to these specific programs, a number of other universities offer training in information technologies and their applications. The number of computer science majors graduated increased from 763 in 1995 to 1,143 in 1999, an almost 50 percent increase in four years.

While Bulgaria has a demonstrated history in technology and computer science education, the education lacks practical orientation. The collaboration between the industry and related educational institutions is reported as poor. In general, the level of business skills possessed by trained professionals and employees is low. Typically the skills that need the most attention are building business relationships and outsourcing. The current education curriculum also does not produce programmers with knowledge in the newest products on the market. Some of the larger Bulgarian IT companies have created their own training programs and many software companies have to provide additional training to meet current demands, which is increasing indirect labor costs.

The unique nature of the IT sector is that it is highly sensitive to the business environment and can be easily moved to other locations. The Bulgarian IT market is marked by lack of financing and low wages. Once trained many IT professionals move to other areas where wages are higher. Growing demand for IT professionals around the world has prompted some countries like the United States and Germany to offer special visas for software specialists. EPIQ Electronic Assembly has attempted to remedy the turnover issue by bringing in student engineers during their second or third year of university study through seminars and internship programs. EPIQ is planning to work more closely with Universities to plan curriculums more in line with company demands. SIRMA Ltd. has had particular success in keeping employee turnover low due to a policy of human capital investment and focus. SIRMA does not include loyalty or restriction clauses in its labor contracts, instead employees remain loyal because SIRMA offers a challenging work environment and maintains a well-respected corporate identity.

The managers of many of the IT companies in Bulgaria have stated that the economic and fiscal environment does not stimulate development of the IT industry. Technology infrastructure is lagging behind the rest of the global market and the education of IT professionals in Bulgaria is lacking in the practical skills necessary to compete. There is also lack of investment in the industry that is causing a number of problems in credit and funding terms. In 1998, private non-banking investment electronics, digital systems, computers, R&D, software, patents, trademarks etc., were reported to be less than 0.65 percent of the total assets of non-financial enterprises.

Internet is available in Bulgaria but is not as prolific as it needs to be to support a competitive IT industry sector. In 1999 it was reported that there were 18.80 Internet hosts per 10,000 persons and there are 235 thousand Internet users.[3] For the same time period, Ireland, a country that has been particularly successful in IT development reportedly had 227.43 Internet hosts per 10,000 people and 679 thousand Internet users.[4] Ireland has been able to promote greater proliferation of Internet use with a population that is half the size of Bulgaria.

Demand Conditions

The market for IT products is made up of many different sub-sectors, each which has its own particular customer requirements. The Software market, in particular, requires close linkages between clients and producers. It also requires very specialized products based on high-end customer requirements. Export-oriented companies are reporting almost all production is being sold to Western European, North American and Canadian markets. Two other firms, Hybrid Circuits ISC and Semiotech Engineering Ltd., report 95 percent of sales to these three markets with the other 5 percent going to Bulgarian, Turkish and other Eastern European markets.

Domestically, the Bulgarian government has the largest share of demand of computer systems representing almost 60 percent of total purchases. The software market in Bulgaria has shown marked increases, although it is still too small for many of the larger firms who are focusing their attention on the faster growing North American and EU markets. Domestic demand has been on the rise although at a much slower rate due primarily to the fact that the domestic market is not very sophisticated and local

[3] Data are from the International Telecommunications Union (ITU) World Development Report (2000) and Challenges to the Network: Internet for Development (1999).
[4] Ibid.

businesses have been slow on the uptake of new technologies. The domestic market has also been characterized as limited and generally providing low revenues. There are several Internet Service Providers that have points of presence in 20 to 30 cities in Bulgaria, but the bandwidth provided to those cities is small and this has reflected low demand on such resources and technologies. Some Bulgarian IT companies have attributed their export-oriented strategies on the slow growth rate and low revenues gained from producing for the domestic market.

Firm Strategy, Structure and Rivalry

The decline in domestic and regional demand and the factors of production that have caused increases in labor costs and decreases in profit margins have caused many firms to focus on export oriented strategies. The general progression of industry strategy has been a reorientation from ex-COMECON markets towards EU, North American and domestic consumers in the early 1990s to utilization of domestic resources and opportunities in the late 1990s to expansion and focus on quality standards and international partnerships since the beginning of the new millennium. The most successful of Bulgarian companies have focused their efforts on development of innovations and high quality products to be sold in the European and North American markets. These strategies also focus on methods of getting closer to market customers in terms of location and market knowledge. However, many of the firms in the IT sector still focus strategy setting on general conditions and education issues in the short-term. Two firms that have successfully set strategies for long-term development are SIRMA and EPIQ Electronic Assembly subsidiary.

SIRMA, one of the leading IT firms in the country, has focused on creating a distinct company identity; this has resulted in a highly structured business plan/vision to promote very specific products to markets of high profitability (Computer Aided Design/Computer Aided Manufacturing—CAD/CAM). It was through their ties to Turkish markets that SIRMA was brought into the CAD/CAM market and it has proved to be its most profitable. A majority of its products are also sent to North American markets, the United States and Canada. Their highly structured business plan was centered on two areas of involvement: business solutions and R&D services.

SIRMA aims to be a leading provider of strategic business solutions that enable organizational improvement. They also aim to develop innovative products and technologies through long-term research combined with strong software development capabilities. SIRMA is planning long-term goals as a means to securing long-term success in the global IT market. Their current success is based on their ability to provide quality products by a team of highly motivated professionals with solid educational training and industry know-how. SIRMA has been successful in providing its clients with full-service products including rapid response to customer needs. SIRMA accomplishes this by maintaining international offices close to its clients, particularly those in Canada. The bulk of work remains in Bulgaria, but SIRMA set up an affiliate office in Canada as a means to providing direct quick customer response to one of its largest clients. This has facilitated a deeper business relationship and has also given them direct insight into customer requirements and trends based on direct contact with their client. It was through this experience that they have committed themselves to producing quality from all levels within the firm and to understanding how to work in demand-driven markets.

EPIQ Electronic Assembly has focused its strategy on vertical integration of its company and partner companies in order to better serve their clients with quality products and services. The way EPIQ has accomplished this is by partnering itself with leading foreign companies to offer a wide range of quality services in many markets while at the same time focusing its production on small niche markets within the larger global environment. Having achieved a wide range of quality standards for different markets has ensured EPIQ's ability to be flexible to fluctuations in market demands in the shorter and longer-term. Currently, EPIQ is focused on the production of small appliance components.

Industry Cluster and Cooperation

The IT industry is composed of many firms each with their own strategy regarding survival and success. In the industry, firms are very reluctant to cooperate as they perceive growth as a zero-sum game—the success of one is at the expense of another.

Formal collaborative action has not yet been defined although some informal modes of networking have been organized. There are three associations that claim to represent the interests of the industry as a whole in the development of Bulgaria's computer and electronic industry, there are two guilds in the industry and there is at least one trade union. The Bulgarian Association for Intellectual Technology (BAIT) organizes a fair in Sofia where industry members can present their products, although their focus is mainly on conditions for companies supplying the domestic market. The Bulgarian Economic Forum (BEF) was successful in organizing a forum on Bulgaria's high technology industry to which they invited global leaders in IT to meet with their Bulgarian partners and the government. An informal group, First Tuesday, has been developed and has caught the attention of many members of the industry as it has provided new networking opportunities for members of the IT industry.

In addition to the recognition of networking events by members of the industry, the number of joint ventures and the amount of foreign investment in the IT sector has been increasing, as can be seen in the EPIQ example. This is beginning to provide a more healthy competitive environment in the IT sector by opening collaboration between organizations within Bulgaria, the region and other global markets. However the industry still looks to the government as the primary source of resolution for market inconsistencies and industry issues rather then working collaboratively to produce alternative opportunities.

Role of Government

IT markets require freedom and openness from artificial factors that can hinder its competitiveness. The Bulgarian government has some recognition that the IT industry is an essential part of the future of Bulgarian competitiveness and that the development of the IT industry is very important for the growth and prosperity of many other supporting and dependent industries. However, recent profit tax reduction measures on exports instituted by the government have not benefited the IT industry. The liability of VAT registrations arises if the turnover of a company is more than 75,000 Leva for a twelve-month period. This level is too high to be of benefit to smaller and medium sized firms. Second, software exports do not fit into standard export criteria and often do not qualify for tax credits.

In an attempt to aid the IT industry, the government drafted a High Tech bill to provide tax breaks and government financing for companies and activities at the government's discretion. The bill was passed in 2000, and there have been few attempts to revise it according to the changing vision for the industry.

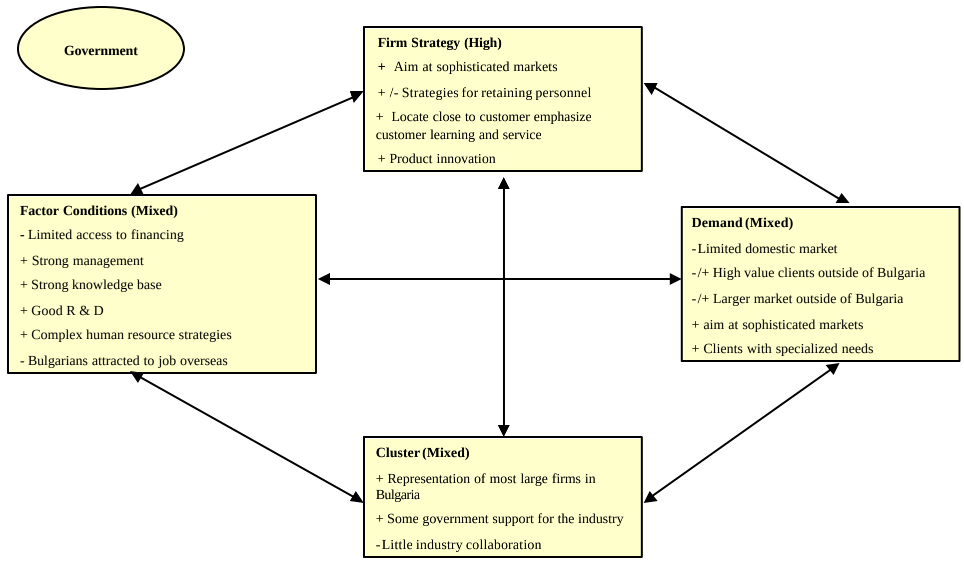
The requirements for registration by Internet Service Providers have been separated from other registration processes for business enterprises. In order to maintain a competitive environment the process for ISPs should be the same as for any other small businesses. Government assistance would be most beneficial in the promotion of imported goods for value addition export to enhance the IT market in Bulgaria. Tax relief or another type of subsidy to firms providing value addition services would also benefit the creation of an open market for IT goods and services. Open markets are the most important factor for the growth of any IT sector although attention to the influence of global markets on the Bulgarian IT industry is also quite important. In line with maintaining open markets, the IT industry should not make a habit of turning to the government for the resolutions to all difficulties.

Looking Forward

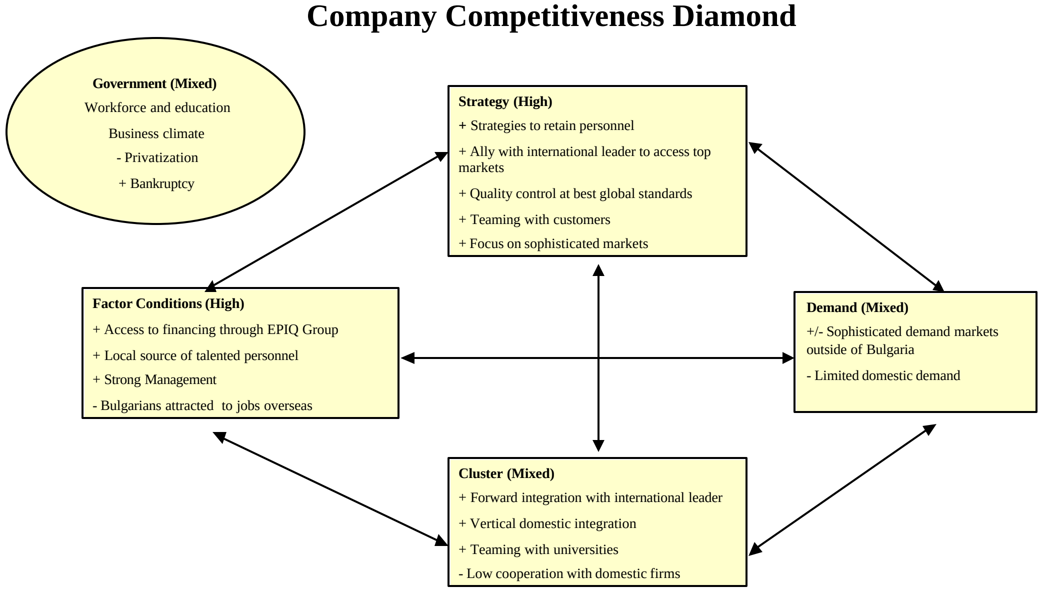
Opportunity	**Method**
1. Competitive Positioning	*Opportunity:* Innovate product offerings, such as ERP solutions and niches for increased share in international markets, and accounting and specific software needs to regain domestic market share. Strategize marketing plans for distinctive niche markets to provide sustainable and enlarged competitive positioning.
2. Customer Learning	*Opportunity:* Gain deeper knowledge of market trends and customer demands in order to create innovative demand-driven products. Forge closer relationships with customers through greater interaction and locate some operations closer to customers to provide rapid response to customer service issues. Find ways to build customer demand for services through usage seminars and domestic knowledge development of the benefit of IT products and services.

3. Innovation	*Opportunity:* Innovate current technology infrastructures to international standard levels for many if not all firms in the sector. Provide opportunities for greater Internet proliferation. Create production and marketing plans based on the requirements of niche markets.
4. Human Capital Investment	*Opportunity:* Work to create more collaboration between firms and universities and training institutions to provide more practical training in business/commercial management and technical skills. Raise domestic investment in technology skills development programs. Look to alternative organizations like Cisco for short-term training needs. Make sure skills being provided are the ones being used, if not work with training institutions to set curriculums based on skill demands.
5. Cluster Cooperation	*Opportunity:* Encourage the institution of a cluster organization to promote the attitudes and agendas of the IT sector to government and assist in marketing Bulgarian goods to foreign markets. Seek synergies between firms in the sector and with government as this may prove to be more attractive to foreign investors. Work with government to set a national strategy for IT development for domestic and international growth that benefits all sectors as much as possible. Search for partnership opportunities between consultant companies and financial institutions and IT companies.
6. Forward Integration	*Opportunity:* Promote the use of joint ventures and networks with foreign investment to improve technology infrastructure and wages. Develop internal systems of quality control to meet international standards. Develop business solutions to meet the needs of domestic and international markets as well as introducing new solutions to the domestic market.
7. Strategies and Attitudes	*Opportunity:* Gain a more accurate understanding of the effective use of information technologies as it relates to the future of the IT industry through dialogue with clients, partner firms and government.

SIRMA
Company Competitiveness Diamond



EPIQ
Company Competitiveness Diamond



CLUSTER: <u>Information Technology</u>

Platform (Policy, etc.) Impact points[5]

	PLATFORM ELEMENT	COMPANY IMPACT POINTS *Finance*	*Marketing*	*Production*	*Organization and Staffing*
Macroeconomic Policies					
	Monetary	X			
	Fiscal	X			
	Trade		X	X	
	Labor – minimum wage				X
→	Labor – expatriates			X	X
→	Capital – ownership	X			X
	Capital – repatriation	X			X
Legal and Institutional Enabling Environment					
→	Appropriate commercial legislation	X			
	Functioning judiciary or arbitration mechanisms			X	
	Productive civil service				X
	Tax collection	X			
	Customs	X	X	X	
	Heath and sanitation			X	
→	Business Licensing	X	X	X	
→	Investment Promotion	X			
	Government procurements and contract awards		X		
	Privatization	X	X	X	X
Infrastructure – Costs and Services					
	Safe Water				
→	Telecommunications		X	X	X
→	Informatics		X	X	X
	Energy			X	
	Transport		X	X	
Human Resources					
→	Literacy		X	X	X
→	Education level			X	X
	Technical and managerial training	X	X	X	X
→	Productivity			X	X
	Health initiatives				X

[5] On the Impact Points Table, an "X" represents an impact on the firm and an "→" represents a factor that has a particularly significant impact.

TOURISM[6]

Industry Background and Performance

Bulgaria has a rich history and is endowed with many natural resources. There are medieval and ancient Greek sights, mountains with ski resorts, beaches with sun and sand, and many "wild" and undeveloped rural areas for adventure seekers. Bulgaria is conveniently positioned at a crossroads between Europe and the Orient and has an abundant cultural and religious heritage. It is these resources that have provided a base for Bulgarian tourism.

In the mid-1990s many sectors of the Bulgarian economy were registering losses, the tourism sector, based on the statistics reported by the National Statistic Institute and Ministry of Finance, was steadily generating positive financial results. In 1998, foreign investors in Bulgaria were asked to identify the sectors that eventually would prove good opportunities for new entrants. 70 percent of respondents pointed to tourism.[7]

The year 2000 marked a visible improvement in Bulgaria's tourism industry. It remains to be seen, however, to what extent this improvement is sustainable. In the period between January and September 2001 tourist revenues increased 31 percent as compared to the same period in the previous year.[8] Since early 2001, there has been little policy development. The government did decide to focus activities on lowering barriers in the tourism sector and introduced a 10 percent VAT tax on tourist packages sold abroad, which will take effect January 2002.

There are two sectors of tourism present in the Bulgarian tourism industry: mass tourism which is focused on natural resources and caters to high volume/low value programs and specialized tourism based on niche markets and is focused on high end/high price consumers. The strategy of the Bulgarian tourism industry has to this point been focused on the mass tourism sector and has not brought much to the Bulgarian economy in terms of revenues per tourist. In order to get more money per tourist and keep more of the money in Bulgaria, strategies will need to be revised to capture higher end markets for niche tourism. To some degree this could already be taking place in the Bulgarian tourism industry. Part of the difficulty in analyzing the Bulgarian industry, is that there are ongoing developments in the industry, which embrace most of the competitiveness elements: the "vision" is being changed, demand and marketing channels are being reflected upon, the cluster is reshaping under a more organized framework, and the industry is entirely privatized.

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[6] Based on an industry analysis prepared by Dr. Krassen Stanchev, IME. Available through the BCE website http://www.competitiveness.bg/.
[7] Emily Taneva, Tourism Infrastructure in Bulgaria, US Department of States, 1999, p. 2.
[8] Bulgarian National Bank (2001)

Factor Conditions

The tourism industry was and to a great extent still is a sector with delayed investment in infrastructure, supporting facilities, new services and management. The skills, training and attitude of the human capital component of tourism has not changed much since the days of centrally planned economies. Tourism industry training institutions and programs have not changed much since the early 1990s.

Currently there are eight state-run universities and four private universities, primarily located around the major seacoast cities that provide courses and/or degrees in tourism. Curricula are primarily based on programs offered in Italy and Austria. The faculties of the universities have remained the same for the past ten years. Sofia University has made moves towards innovating their tourism program from topics in general geography and economy to the specific economics of tourism. None of these institutions have initiated a survey of the issues and prospects for the tourism sector. The use of knowledge as a tool for tourism development has not been explored. This can be seen in the lack of market trend analysis and understanding. Knowledge on the tastes and desires of both Bulgarian and foreign tourists is not pervasive among industry managers and employees.

On the other hand, smaller family owned enterprises have relied on practical self-learning as their primary source of human resource development. Businesses are commonly handed down from generation to generation.

Infrastructure in the tourism sector has catered to primarily unsophisticated tourism services. Delayed investment and refurbishment of infrastructure is one of numerous pieces of evidence that sun and sand, mountains and snow are believed to be sufficient in themselves to bring customers to Bulgaria. In the case of Borovetz, the largest ski resort, the streets have rarely been cleaned from snow in the last ten winters. With the exception of some of the larger resorts, for the most part the beaches of Bulgaria are predominately dirty. It should be noted that although there are issues with the current infrastructure supporting the tourism sector, more sophisticated infrastructure resources are being put into place.

For the most part, widespread Internet usage has remained limited in the tourism sector. However, since 1998 an Internet-based reservation system has been in place to serve the best hotels in the best sea and mountain locations. At the end of January 2001, there were twelve relatively easily accessible Bulgarian tourist operators' websites. One of the largest problems that the tourism and other industries face is the inability of service providers to provide credit card services for tourists. The lack of this service will have a detrimental effect on the overall ability of the industry to attract customers.

Financial and investment services have been available to finance privatization, and they are now switching to providing credit for renovation and investment in services. Also the non-banking financial services for the tourism sector improved in 2000. Some big insurers have already announced plans to launch a private guarantee fund for projects in tourism.

Domination of the Bulgarian tourism market by a relatively few large tour operators and hotels offering a mass product has discouraged innovation and risk investment into other sectors of the Bulgarian tourism industry, including in Sofia, mountain, and other regions. Provision of services by mass product operators and hotels has been in low margin products that only gain nominal revenues.

Demand Conditions

The performance of the tourism sector has been uneven over the past four years. In 1998 there was a marked decline in the number of tourists from all areas. The tourist base of customers (excluding Germany) is from medium and low-income countries, although many visitors also come from the surrounding regions. These losses were most significant for tourists from Germany and Turkey.[9]

Overall the trend in arrivals has been increasing although no firm pattern can be determined. In the period from the beginning of 2001 to September 2000, tourist arrivals increased by 20 percent and tourist revenues totaled USD$556 per tourist, an increase of roughly 9 percent from the same period in 2000.[10]

The number of Russian tourists has doubled since 1999; three times fewer Romanians visited Bulgaria than did four years before; and since 1996 there has been a steady increase in the number of Macedonians visiting Bulgaria. In general, western tourists have gravitated towards the major resorts, which provide comprehensive tourist packages through international operators. Surprisingly, the unrest in other regions surrounding Bulgaria has not been particularly detrimental to the tourism sector.

According to the World Tourist Organization Annual Report for 1999, Bulgaria experienced an average increase of 7.5 percent per annum in tourist trips over the past ten years.

The limited research and information on relative competitiveness created the public perception that Bulgarian tourism is entering an upward trend. But this perception does not necessarily reflect the relative position of Bulgaria vis-à-vis other countries, e.g. Croatia.

[9] There are specific explanations for those developments: 1997 and 1998 were particularly good for neighboring destinations (Croatia, Greece and partially Montenegro) in attracting German tourists. With Turkey there were regular exchanges of "visitors" with tourist visas but not tourists per se; those were ex-Bulgarian citizens of Turkish who settled in Turkey after being expelled by the outgoing communist regime in 1989, cross-border vendors and Muslim seasonal workers. In this regard, among other reasons, a factor that contributed to lesser "tourist" exchange was to be found in stricter visa procedures introduced by both countries in the end of 1997, plus, perhaps, 1998 restrictions on gambling.

[10] Bulgarian National Bank (2001)

In 1998 tourism receipts per capita were USD$52.92. This was almost seven times lower than the average receipts per capita for the EU accession countries, USD$370.09; and more than 10 times lower than the average for EU countries, USD$564.97. Bulgaria is 97th out of 186 countries on which data is available.[11] For 2000, the per capita figure is USD$509. For 2001, tourist revenues jumped to USD$556.

The domestic market is an undifferentiated and undefined segment of the overall market. It has not been surveyed and there is no information on its size, contribution to tourism revenues or comparisons to foreign visits.

Firm Strategy, Structure and Rivalry

According to the Ministry of Economy, there are 230,000-240,000 beds in Bulgaria, provided by 500 hotels (built between the 1950s and the1980s), 40 camping sites, mountain lodges and family hotels.[12] By January 2001, virtually all hotels had been privatized. It has been estimated that 16,000 beds are available in camping sites around Bulgaria, but in interviews with tour operators conducted during this study, the number that are actually usable only about 30 percent and decent conditions are present at only 10 percent of the camps in service.

There are only four five-star hotels. The majority of other hotels are two- or three-star hotels. International chains have a limited presence, mainly in the capital city of Sofia, and foreign brand names are essentially non-existent in the Bulgarian tourist market.

The average price per night paid by a foreign visitor in 2000 was USD$46.[13] Local Varna newspapers report prices for Russian visitors as low as USD$2 to USD$3.50 per night for accommodations in the low-star hotels in the major resort of Zlatni Piasatzi (or Golden Sands) near Varna.[14]

Conference facilities are also available, albeit in short supply as there are only 37 such facilities around the entire country.

The focus of Bulgarian tourism strategy has been on sand, sun and mountain resorts. The very small number of five-star hotels and the limited availability of international hotel chains is evidence of the dominant low-end provision of services. The industry has depended on foreign packages to bring tourists to Bulgaria. As a result of this dependency, the Bulgarian tourism sector has lost much of its bargaining power when it comes attracting certain types of tourists. However the tourism industry has recognized the need to innovate its services in order to develop the tourism sector.

[11] J.E. Austin Associates, Bulgaria Benchmarking; source: World Development Indicators, World Bank.
[12] See also: Emily Taneva, Tourism Infrastructure in Bulgaria. US Department of State, 1999, p. 3, 4.
[13] See: *Varna Standard*, October 12, 2000, p. 2.
[14] Ibid.

The year 2000 marked a turning point in the understanding the conditions and prospects of the Bulgarian tourism industry. There is already a steady process of reevaluating the values, including a criticism of the dependence on ready-made advantages such as sand and snow. This is visible in the specialized trade magazines produced for the sector, which in 2000 started to promote factors as quality of the services, hospitality, complexity and integrity of the services.

Deficiencies in tourism infrastructure and investment to a significant extent limit immediate options for strategic action in the sector. It is difficult to compete on quality and high-end services when major hotel networks were built 15 to 20 years ago. Subsequent refurbishment has been sporadic. However, motions are being made to upgrade the level of services offered and the infrastructure in place to support those services. Hospitality had rarely been a priority in strategy setting due to a lack of knowledge of customer requirements, but now some enterprises are attempting to diversify products and services to meet customer demands.

The Albena Sea Resort has been successful in this pursuit. The resort has sought to differentiate its products to attract new clients. In order to achieve these goals it has entirely renovated 17 hotels at a pace of three to four hotels a year. Also, it plans one new four-star hotel in 2000, managed by an international chain. The resort is building a new football stadium aiming to attract soccer teams to training camps in Albena, and hopes to build the first golf course in the country. Albena has been successful in seeking alternative products, such as offering additional services for clients who wish to take part in activities independent of the main packages.

Industry Cluster and Cooperation

Cooperation and division of labor between agents and tourism service operators seems to work well. Collaboration is primarily organized horizontally although dialogue between members such as suppliers and producers is vertically integrated. Outside the industry there is evidence of strongly developed cooperation with traditional suppliers of transport services, food and agriculture produce. Cooperation with the non-banking financial sector is beginning to gain momentum.

Cooperation between the cluster and the government seems effective, although not negotiated. In the last two years, Government investment in roads and other infrastructure averaged 3 percent of GDP. [15] The Ministry is also the main advertiser of the Bulgarian tourism sector. It not transparent how effective this cooperation with sector is on this front, although it is obvious that there is no concerted effort of industry members, or even a group of them, to jointly advertise abroad.

Cooperation in research and education remains limited. On the local level, there is cooperation between the sector and municipalities to promote particular local cultural, environmental and historical resources.

[15] NSI and Rossen Rozenov, Factor Conditions for Bulgaria's Competitiveness. (2000)

Role of Government

There are four government agencies that oversee elements of the tourism industry along with their local bodies. The Ministry of the Economy is responsible for licensing and categorization; the Ministry of Health is responsible for controlling in-house pollution and sanitary standards; the Ministry of Environment and Waters is responsible for controlling outdoor pollution and the quality of the environment; the Ministry of Territorial Development is responsible for controlling construction, roads and urban planning.

The tourism sector is one of the most heavily loaded with costs related to dealing with the government. Annually, an average tourism company spends between USD$3,000 and USD$3,500 on various fees related to compliance with regulations and in-kind costs. [16] At the same time the sector is receiving a government subsidy of 0.02 percent of its estimated contribution to the budget. This relationship between the private sector and the government becomes a delicate subject in that 60 percent of this subsidy comes from the industry contributions.

Prior to the adoption of the tourism law in 1998, the government had no responsibility for licensing and categorizing hotels and restaurants and entry was free for sole proprietors and family hotels. The only entry regulation was on private entrepreneurship adopted in 1989 and then replaced in terms of registration with the court, tax authorities and statistics office by the Company Law of 1991.

Privatization of the sector, while almost 100 percent by 2001, proceeded rather slowly. Before 1997, there were only two privatization deals in the works. The five biggest privatization deals totaled USD$95.6 million. The total government revenue from privatization of the tourism sector to-date is estimated at USD$200 million.

A deficiency of the privatization period was the failure to attract strategic investors who were international leaders with recognized names. Two big interest groups, Olympus, Roseximbank and Multigroup, were allowed to control major resorts and hotels, with unclear and rather limited prospects to set and follow global standards of service. This essentially left the industry in the hands of company managers that lacked a full understanding of the customers to which it was marketing its products.

In spite of almost total hotel privatization, the government also continues to serve as a provider of vacation services. The Council of Ministers owns 15 residences and 20 hotel-sized rest houses—of these, the Central Bank owns 5 of these rest houses, the Ministry of Justice owns 5 and Public Television owns 4. These rest houses and residences represent an estimated capacity of 2,000 beds, 10 percent of the estimated capacity of family-

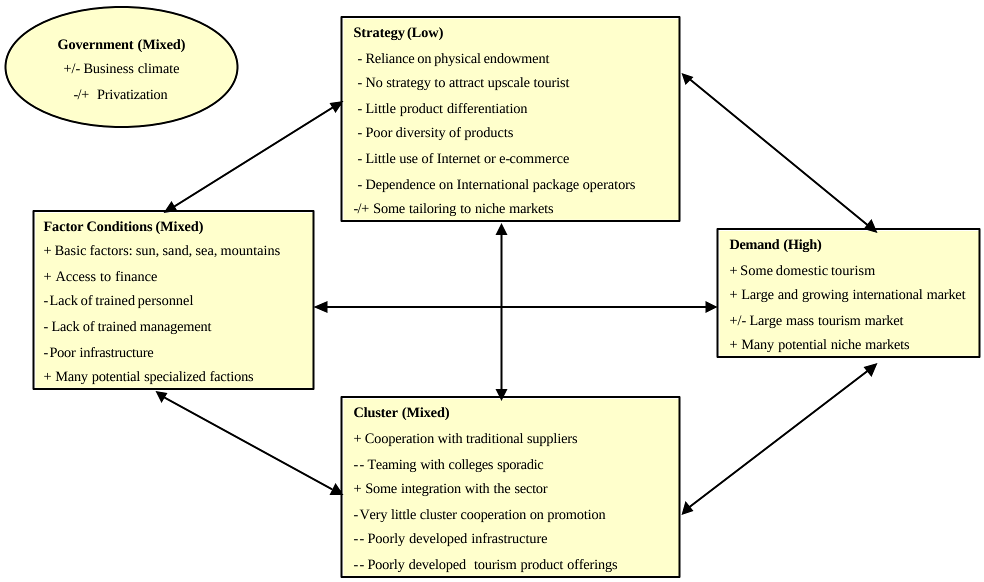
[16] See description of these fees and cost in: Y. Gancheva, A. Hristiva-Yonkova and K. Stanchev (editors), Administrative Barriers to Business Activities. IME/AIP, Sofia, 2000, pp. 15-18, 24-31, especially the costs for an average company in Borovetz – pp.32-33.

owned hotels or 0.08 percent of the gross capacity of the Bulgarian tourism infrastructure.

Looking Forward

Opportunity	Method
1. Competitive Positioning	*Opportunity:* Examine destinations within Bulgaria that incorporate its most engaging products and match these to markets, human resources, capacity limitations and investment requirements. Develop a strategy to brand an authentic "Old Europe" experience for some Bulgarian destinations. Expand services to meet higher value consumers.
2. Customer Learning	*Opportunity:* Develop better understanding of market trends and current and potential customers' requirements and develop a comprehensive strategy and common cluster actions for attracting them. Ensure that the necessary supporting factors are in place to support marketing to niche markets.
3. Innovation	*Opportunity:* Offer a greater mix of products including those that speak to particular niche market groups. Study market trends and employ cultural, historic and natural resources to access new market groups. Enhance the marketing of Sofia as a vacation gateway and business destination. Develop themed packages based on cultural activities and regional tour routes, such as linkages with the wine and perfume industries to provide tour programs based on these two industries. These innovations will assist in Bulgarian providers learning more about customer trends and requirements.
4. Human Capital Investment	*Opportunity:* Work with training institutions to incorporate more updated and diverse curriculum offerings, especially in the area of hospitality training. Upgrade management training programs to modernize skills. Assist in the penetration of IT training and usage.
5. Cluster Cooperation	*Opportunity:* Stimulate greater inter-cluster cooperation, not only with supporting industries but also among direct partners such as tour operators, trainers, etc. Stimulate regional cooperation among neighboring countries. Cultivate common interests among competitors.
6. Forward Integration	*Opportunity:* Work more closely with business partners and clients to clearly identify and effectively respond to their requirements of the customers. Provide new services based on customer requirements.
7. Strategies and Attitudes	*Opportunity:* Expand cluster advertising efforts for the entire industry. Take responsibility for the development of strategies and the search for investment opportunities. Focus on provision of higher end/value products and services.

TOURISM INDUSTRY
Competitiveness Diamond



CLUSTER: Tourism

Platform (Policy, etc.) Impact points[17]

	PLATFORM ELEMENT	COMPANY IMPACT POINTS *Finance*	*Marketing*	*Production*	*Organization and Staffing*
	Macroeconomic Policies				
	Monetary	X			
	Fiscal	X		X	
	Trade		X		
	Labor – minimum wage	X			X
	Labor – expatriates		X	X	X
	Capital – ownership	X			
→	Capital – repatriation	X		X	
	Legal and Institutional Enabling Environment				
→	Appropriate commercial legislation	X	X		
	Functioning judiciary or arbitration mechanisms	X			
	Productive civil service			X	
	Tax collection	X			
→	Customs		X	X	
→	Heath and sanitation		X	X	
	Business Licensing			X	
→	Investment Promotion	X	X	X	X
	Government procurements and contract awards				
→	Privatization	X	X	X	X
	Infrastructure – Costs and Services				
→	Safe Water		X		
→	Telecommunications		X	X	
	Informatics		X	X	
	Energy		X	X	
→	Transport		X	X	
	Human Resources				
	Literacy		X	X	X
	Education level		X	X	X
→	Technical and managerial training			X	X
→	Productivity			X	X
	Health initiatives				X

[17] On the Impact Points Table, an "X" represents an impact on the firm and an "→" represents a factor that has a particularly significant impact.

CANNING[18]

Industry Background and Performance

Overall, the Bulgarian canning industry is in a steep decline. In 1998, the industry produced 71.2 tons of canned vegetables versus 127.2 tons in 1996 and 136.1 tons in 1997. The reason is that the Bulgarian market has suffered from a number of unfavorable factors that have led to this down turn.

Ten years after the end of the socialist period, during which all canning companies were state-run, 85 percent of the companies have been privatized. But this privatization has not led to profit growth or industry growth. The privatization of farms created a setback to the ability to produce large volume crops at competitive prices. The privatization of canning companies led to employee ownership, which often resulted in ineffective management practices and a lack of the necessary capital to operate. Both of these problems were due in large part to the economy during the socialist period that ineffectively prepared either for a demand driven market economy.

Factor Conditions

The workforce is skilled and qualified. For the most part, workers involved in non-manual processes are graduated from special secondary institutions and have the necessary background to complete their job effectively, although practical training in marketing techniques is lacking. For manual and seasonal workers, the companies usually provide a short training prior to the startup of the high processing seasons. These positions usually have high turnover due to the seasonality of the industry.

Managers are not well trained in marketing techniques. Businesses lack ready access to information about foreign markets, technologies and related industries.

The infrastructure in areas surrounding centers of production is adequate, although roads have degraded and fuel costs have risen, contributing to high transport costs. Accessibility to information on market trends and customer information is another weak point. Marketing techniques are not well developed; and businesses lack the ready access to market information and technologies that could improve productivity. The factories that are currently operating were built decades ago. The technology used by many of the factories has not changed since it was built. The equipment being used remains far behind the innovative technologies that most other competitors use and the profit margins of the Bulgarian companies are low making it impossible to expand their technological base without outside investment. The effect is low productivity and efficiency levels that are negatively affecting the economy.

[18] Based on a case study prepared by Diana Kopeva, IME. Available through the BCE website http://www.competitiveness.bg/.

The Canning industry and agriculture in general are highly seasonal industries. Canning companies typically operate at full capacity for no more than four to five months out of the year (July-December). This creates problems with ensuring steady cash flows throughout the year. A lack of stable access to cash makes loan repayments difficult and raises the risk assessment of the canning industry in the eyes of the banking sector.

During the period 1996 to 1999 crop yields dropped in volume and quality, international requirements on food standards have become stricter and prices of food products have increased yet the purchasing power of many Bulgarian companies has decreased. The result of this is that Bulgarian canning companies have been unable to adequately supply its domestic and export markets. The Bulgarian canning industry also suffers from a lack of product diversification in the highly competitive export market.

Access to financing is one of the main obstacles faced by the canning industry. The security of credit is often hard to ensure and loans are difficult to obtain. The loan process is an arduous one, companies are required to guarantee solvency by depositing an amount of money to equal or sometimes greater than the amount of the loan. Interest rates are extremely high and the mortgage mechanism has not been fully developed to present a benefit to the lending process. However, credit is sometimes available between companies within the cluster.

Distribution and supply middlemen still play a key role in the industry, as they are the most educated on market information and skills. They forge contracts with suppliers and the industry as a whole to act as the intermediary for marketing and exporting of goods to foreign countries. They are in charge of the organization and control of the entire process of supplying final markets.

Demand Conditions

The Bulgarian canning industry exports canned vegetables to Germany, Russia and other NIS countries; frozen fruits and vegetables to Greece, France, Germany, Holland, Austria and Italy; and jellies and jams to Russia, Germany, Jordan, the Czech Republic and Austria. In May 2000, agreements on tariffs and quotas for the canning industry were finalized with the EU.

Finished goods are produced primarily for export markets, as there is limited domestic market demand. A prejudice against Bulgarian products exists among Bulgarians that can be traced back to the misconception that Bulgarian canning companies produce low quality goods. In some cases Bulgarian jams and jellies are better than those produced and imported from Western Europe, but Bulgarians would choose the European brand over the Bulgarian product because of product quality misconceptions. There is a small market for very high-end quality canned goods. Those canning companies involved in the production of such goods are focusing on these markets in Western Europe. Working in this market had enabled these canning companies to learn how to compete in these markets.

The market share of private industries in the canning industry is estimated at 25 percent. For the most part, the canning industry is centered in regions of agricultural production.

Firm Strategy, Structure and Rivalry

The processing of fruits and vegetables can be channeled either through state-run enterprises or through private ones. Ongoing structural reform is characterized by the restructuring of state ownership.

The Bulgarian canning industry is still in the factor-driven stage, operating at less than 50 percent of its existing capacities. The industry has not yet "jumped" into the investment-driven stage.

The elaboration of competitive, specific firm strategies is not highly developed in Bulgaria's current environment of cost pressure, low purchasing power, and business constraints. One set of difficulties arises from the lack of steady parameters for measuring production and investment programs. The supply of raw materials is uncertain in terms of regularity, price and quality. Transactions are rarely based on contracts. The supply of jars and caps presents similar problems. Bulgarian firms require greater access to market trend information in order to set effective market-based strategies.

One firm that has been successful in the Bulgarian canning industry is Plovdiv Canning OOD.[19] Plovdiv Canning OOD has forged a joint venture relationship with CARESBAC—Bulgaria AD, a joint venture company established by the governments of the United States and Bulgaria to facilitate equity lending to the emerging private sector in agriculture, food service and related industries.[20] This joint venture has provided Plovdiv Canning OOD with the necessary capital funds and organizational structure to be competitive in the Bulgarian canning industry.

Industry Cluster and Cooperation

There has not been much formal cooperation within the canning industry, particularly between processors and suppliers. Processor linkages with the agriculture supply sector have been deteriorating and there is a lack of formalized contract agreements between suppliers and processors. Key related industries such as packaging and transport are not well developed.

[19] The name of the firm has been changed for reporting purposes. OOD is the Bulgarian abbreviation for Limited Liability Company.

[20] CARESBAC Bulgaria is an investment fund, specialized in microcredits (between 25 percent and 49 percent) in small and medium sized private Bulgarian companies. The purpose of CARESBAC is to invest in the sphere of agribusiness - agriculture, food processing and all industries associated to the former two industries. CARESBAC just started its operation in the country; it managers were looking for committed entrepreneurs and a business to invest. *** OOD was one of their first projects; CARESBAC accomplishes its objectives by providing equity financing up to 350,000 USD and technical assistance in marketing, accounting, technical and other issues.

Two trade associations exist to represent the industry although linkages within the cluster are also deteriorating between processors and suppliers. These industry associations have not accomplished much in terms of forging strong ties between the processors, the suppliers and the government on issues related to market information gathering, policy setting and control requirements.

During a Competitiveness Conference in April 2001, sponsored by the BCE, the industry identified a number of areas for further discussion among industry members. One of the most important next steps for the industry was to forge collaboration among stakeholders within the cluster to identify the problems within the cluster and stimulate a dialogue between members. Through this collaboration the stakeholders can draft a strategy for the future of the Bulgarian canning industry. This includes working with government on policy changes and financial system restructuring. The industry recognizes its flaws and should work on looking for opportunities to advance the industry as a whole.

Role of Government

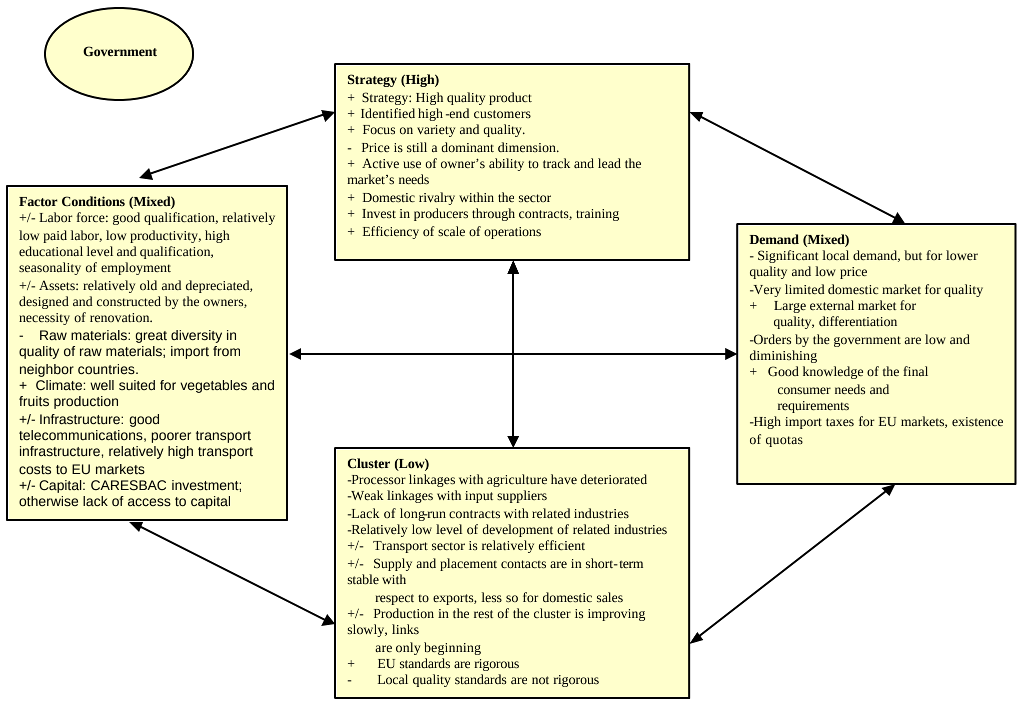
The government has supported the canning and agricultural industry by following a policy of encouragement of market activity and competitiveness. Despite the efforts to restore private land ownership, land reform policies are lacking the necessary initiatives for the development of agriculture. While 85 percent of the industry has been privatized, the process for the remaining 15 percent is slow.

Looking Forward

Opportunity	**Method**
1. Competitive Positioning	*Opportunity:* Look for opportunities and take measures for increasing value-added exports. Implementation of an aggressive marketing program including creating an image for Bulgarian goods in the domestic market. Create a series of ecologically clean canned products. Invest in improving technology. Work on creating a 'branded' Bulgarian product for specialty products.
2. Customer Learning	*Opportunity:* Better understanding of customer tastes. Orientation towards development of new packaging. Develop strategic partnerships to access market knowledge and distribution.
3. Innovation	*Opportunity:* Improve production efficiency through investing in modern equipment and technology.
4. Human Capital Investment	*Opportunity:* Invest in training of employees in marketing and business management.
5. Cluster Cooperation	*Opportunity:* Improve the current ineffective cluster structure. More active relations with producers established on contract basis.
6. Forward	*Opportunity:* Codify and write all practices, procedures, and

Integration	formulas into manuals to ensure that proper modes are followed on a consistent basis.
7. Strategies and Attitudes	*Opportunity:* Develop a common strategic direction with focus on quality and image. Develop raw material supply chains to import goods and hedge supply strategies.

PLOVDIV CANNING OOD
Company Competitiveness Diamond



CLUSTER: Canning

Platform (Policy, etc.) Impact points[21]

	PLATFORM ELEMENT	COMPANY IMPACT POINTS *Finance*	*Marketing*	*Production*	*Organization and Staffing*
Macroeconomic Policies					
	Monetary	X			
	Fiscal	X			
→	Trade		X	X	
	Labor – minimum wage	X		X	X
	Labor – expatriates	X	X		X
→	Capital – ownership	X	X	X	
	Capital – repatriation	X			
Legal and Institutional Enabling Environment					
	Appropriate commercial legislation	X		X	
	Functioning judiciary or arbitration mechanisms	X		X	
	Productive civil service				X
	Tax collection	X			
→	Customs		X	X	
→	Heath and sanitation			X	
	Business Licensing	X	X		
	Investment Promotion	X	X	X	
	Government procurements and contract awards			X	
	Privatization	X	X	X	
Infrastructure – Costs and Services					
	Safe Water			X	
	Telecommunications		X		
	Informatics		X	X	
→	Energy			X	
→	Transport		X	X	
Human Resources					
	Literacy		X		X
	Education level				X
→	Technical and managerial training		X	X	X
→	Productivity		X	X	X
	Health initiatives				X

[21] On the Impact Points Table, an "X" represents an impact on the firm and an "→" represents a factor that has a particularly significant impact.

WINE[22]

Industry History and Performance

The Bulgarian Wine Industry has been considered a high-performance sector within the economy for many years. Currently, Bulgaria holds 2 percent of the world market share of wine production and exportation. There are about 120 wine producers operating in the markets of bottled and broached wine as well as a number of other related products. All of the companies in the industry are privately held as of 2000.

In the winter of 1997 and 1998, a severe frost and low temperatures damaged a significant part of the grape crop, 50 percent in Northern Bulgaria and 20 percent in Southern Bulgarian vineyards. This restricted the available resources for Bulgarian wine producers and resulted in price inflation even on lower quality grapes and an increase in the amount of imports. Competition for grapes among domestic producers became very high and has since remained rather high, which is fostering some growth in market terms.

Factor Conditions

The industry's workforce is based in deep traditions of winemaking and production. Three main institutions provide training in vine cultivation and wine production: the Agricultural Academy in Plovdiv, the Higher Institute of Food Processing in Plovdiv and the Higher Institute of Vine-Growing and Winemaking in Pleven. Until the 1990s, these institutions housed very well equipped laboratories, but in recent years due to difficulties in financing, the laboratories have not been able to modernize their technologies. The professors and researchers at these institutions remain the foremost authorities on wine production in Bulgaria and are often take lecture around the world. In addition to formal training, the majority of companies are based in regions rich in wine growing and producing history, a percentage of expertise comes from traditional, homegrown training. In practice, very little investment is made by companies to train their workforce and there is little collaboration between the industry and its supporting academic institutions. In terms of management, while technically they are highly trained there is additional practical training in marketing and such that requires attention. Managers understand the importance of quality, but generally do not take the necessary steps to ensure their products are up to international standards. The wine industry lacks focus and knowledge of the standards and quality necessary to meet international and even domestic markets. Out of an estimated 259 Bulgarian entities that are ISO 9000 certified, not one is a wine producer.

Domestic infrastructure is reasonably good in the regions of production, rail and road transport is available and of adequate quality. There is a reliable source of electricity, water, gas and communications in the regions where wine producers and growers have settled.

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[22] Based on an industry analysis prepared by Borislav Georgiev, IME; and a case study prepared by Silvia Petrova, CED. Both are available through the BCE website http://www.competitiveness.bg/.

The quality of grape supply is also an issue. Mother vines are old and vine mortality rates are higher than the rate of replanting. The variation in climactic conditions also plays a role in the quality of domestic grape supply.

In an attempt to remedy the supply issues created by in 1997 and 1998, and to deal with the aging of supply vineyards, one company, Vinzavod-Assenovgrad decided to invest in new vineyard plantings.[23] In addition to internal investment, the industry has made strides to create more formal agreements with farmers; one factor that had previously been lacking was contracts between producers and farmers for supply distribution. Luckily in 1999 and 2000, environmental conditions favored crop growth.

There has been little progress in raising profit margins since the loss of crops in the late 1990s; accessibility to the cash necessary to expand raw material bases has been an issue. The option of credit borrowing is non-existent for many of the small and medium sized companies. This is due to the fact that turnaround on investments takes four to five years in the agricultural sectors and banks fear the risks of making such investments. Some of the larger companies have benefited from foreign investment, but this type of investment is not able to make up for the lack of domestic financing services. In many cases, farmers only receive returns on their crops after the producers have received returns on the finished products.

The lack of reliable credit has also restricted many companies' abilities to innovate technologically. Most of the companies in the industry are working with machinery, equipment and technologies purchased during state management, it is inevitable that the lack of modern equipment will have a detrimental affect on the ability of the sector to produce quality products. The necessary lines of credit necessary to bring the entire industry up to par are simply not available and small/medium sized companies are not able to handle the costs themselves.

A unique factor in the Bulgarian wine sector is the supply of grape varieties that are distinct to Bulgaria. Some vineyards have attempted to capitalize on this unique crop and market it to higher end niche markets that cater to distinctive tastes.

Demand Conditions

The wine industry exports more than 80 percent of its production. These exports account for more than 30 percent of the export revenues from trade in food exports to the European Union. Although there are limits on the industry's access to EU markets through quotas and tariffs, the top six export markets are UK, Japan, Germany, Ukraine, Poland, and the Netherlands. These six countries make up roughly 66 percent of total wine exports. In addition to the EU countries, Bulgaria continues to export to Russia and the NIS countries, which used to be large markets but have diminished greatly in the past

[23] Prior to 2000, Vinzavod-Assenovgrad did not have its own vineyards and relied on auctions and informal agreements with suppliers for their grapes.

decade. The main competitors Bulgaria faces are France, Italy, Spain, Portugal, and up and coming competition from Chile, Australia, Argentina, New Zealand and South Africa.

Domestic demand for Bulgarian wines, currently estimated at 10 to 20 percent of domestic production, diminished due to price increases in the late 1990s. Prices rose as a result of supply issues in 1997-1998. This caused many Bulgarians to switch to cheaper imported wines. In addition to the cost issue there is a tradition of homemade wine production that meets local demand. Bulgarian consumers are knowledgeable about wines but there is a very small market for high quality wines at current market values. Domestic consumers know what is good but cannot afford it. The Bulgarian wine producers have not effectively tapped into this market and while it does not represent a large portion of current commercial demand, domestic commercial consumption is not expected to rise in the near future. This has led many companies to turn to strategies based on export promotion rather than domestic marketing.

Due to the nature of demand and customer trends, some companies have decided to limit their products to specific lines of wines. Vinzavod-Assenovgrad decided to focus strictly on red wines. This was in response to the trends in the international and domestic orders that they were receiving. They have also decided to market wines made from the Mavrud grape, unique to Bulgaria, to niche markets that cater to more sophisticated and distinctive tastes.

Firm Strategy, Structure and Rivalry

There are 90,000 hectares of vineyard surface area in Bulgaria, 20,000 of which are dedicated to table grape production. Bulgarian wines include more than 25 different varieties of red and white wines with registered trademarks of origin with an additional 24 white and red wines from designated geographical origins. The most widely planted grape varieties are French and indigenous Bulgarian, while some companies have introduced newer varieties from Australia, Latin America and South Africa. A problem facing the wine industry is the age of these vineyards, as few have been developed since the 1980s.

The wine industry has been proactive in strategy setting for export markets; but all too often strategies are not consistent. Some firms have opted to produce and sell high quality wines at low prices to higher end export markets. The problem with this strategy is that it is changing the image of Bulgarian wines. When a company sets prices low in a high-end market, in an attempt to hedge out competition on price, it can have a reverse effect of being judged on the price offered rather than the true quality of the product. It is distribution strategies such as this that make the Bulgarian wine industry weak in the markets they want to access because they lack knowledge of customer trends and requirements.

There are roughly 120 wineries of various sizes in Bulgaria. The large number of current wine-producing companies and the establishment of new companies have constituted the basis for strong rivalry and competition within the sector. The result of the size and rivalry of the wine industry is that it has caused a reduction in the availability of quality resources. In some cases it has been necessary for producers, including Vinzavod-Assenovgrad, to buy lower quality grapes at higher costs in order to meet supply needs.

Industry Cluster and Cooperation

Overall there is some cooperation within the industry but it is underdeveloped; joint partnerships have just begun to evolve. This uneven cooperation is partly the result of long-standing trust issues between members of the wine "cluster."

The Bulgarian Competitiveness Exercise had a big impact on convening members of the cluster. Through participation in workshops and a national conference, the industry was able to come together and work collaboratively instead of competitively towards a common strategy for the future of the wine sector.

Role of Government

One area in which the industry is making large strides is in government involvement in keeping the market open for free trade and supporting the industry through necessary policy changes. The sector is regulated by legislation adopted in 1999 through which the Ministry of Agriculture and Forestry created the Executive Agency on Vine and Wine to organize and control the industry. The law also established the National Vine and Wine Chamber (NVWC) to consult for the industry on the necessary measures to facilitate integration into EU structures.

Prior to the creation of the NVWC, there was another association representing the wine industry, the Association of Producers and Merchants of Wines and Spirits in Bulgaria (APMWSB). The APMWSB was a non-governmental organization during Bulgaria's transition economy of the early 1990s to represent the interests of the wine industry. The APMWSB has since been replaced by the NVWC which holds as its objective to assist in the facilitation of EU integration and also to assist in the development and promotion of export marketing. The APMWSB remains active and continues to act as a lobbyist for the industry and also to provide information on foreign markets, the legislative framework of similar industries abroad, marketing opportunities at international trade fairs and new technologies available to the industry.

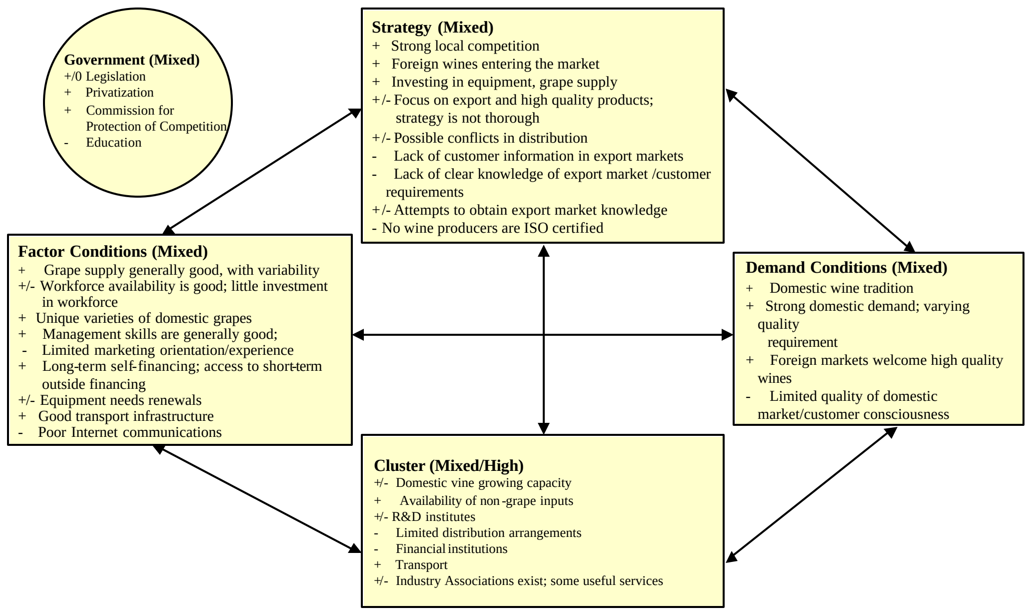
In general, the wine industry is very viable and is one of the most supported by the Government of Bulgaria, although there is definite room for growth.

Looking Forward

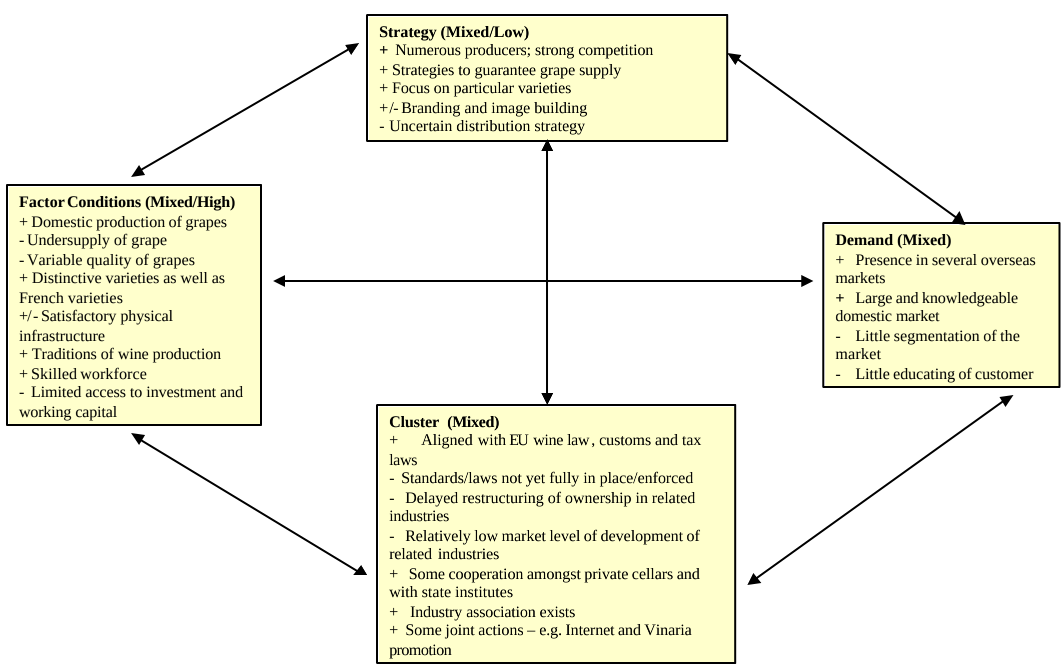
Opportunity	**Method**
1. Competitive Positioning	*Opportunity:* Facilitate the availability of financial opportunities for small and medium sized companies. Start looking into niche markets that cater to high quality and more unique tastes.

	Develop reliable production and distribution chains for supply and finished products.
2. Customer Learning	*Opportunity:* Work with external wine institutions to access market information and gain deeper knowledge of market demands, trends and customer requirements. Develop wine tours and educational seminars aimed at raising both domestic and international exposure to Bulgarian wines. Attend trade shows and market fairs as another means to accessing customer information.
3. Innovation	*Opportunity:* Work with the government to institute and finance a national laboratory responsible for quality certifications of domestic and export products.
4. Human Capital Investment	*Opportunity:* Coordinate with training institutions to upgrade the technologies and methods being used to train the workforce, especially in terms of management skills.
5. Cluster Cooperation	*Opportunity:* Present a united front to government and other groups in issues such as infrastructure upgrading, technological advancement and access to market information and financial opportunities. Capitalize on the popularity of the newly created National Vine and Wine Chamber as an excellent mode for this collaboration to take place. Develop better dialogue and a clear policy in the relationship between grape producer and wine producer.
6. Forward Integration	*Opportunity:* Market the unique indigenous vine varieties of Bulgaria. Create appellations according to origin would assist in branding these unique Bulgarian Wines.
7. Strategies and Attitudes	*Opportunity:* Work together with individual companies, farmers and other stakeholders in order to increase the competitiveness of the entire industry. Look into international financial organizations and alternate credit systems for financial services. Work with government on building a national strategy for the wine industry in line with EU accession requirements.

WINE INDUSTRY
Competitiveness Diamond



VINZAVOD-ASSENOVGRAD
Company Competitiveness Diamond



CLUSTER: Wine

Platform (Policy, etc.) Impact points[24]

	PLATFORM ELEMENT	COMPANY IMPACT POINTS *Finance*	*Marketing*	*Production*	*Organization and Staffing*
	Macroeconomic Policies				
	Monetary	X			
	Fiscal	X			
→	Trade	X	X	X	
	Labor – minimum wage			X	X
	Labor – expatriates		X	X	X
→	Capital – ownership	X	X	X	
	Capital – repatriation	X			
	Legal and Institutional Enabling Environment				
	Appropriate commercial legislation	X		X	
	Functioning judiciary or arbitration mechanisms	X	X	X	
	Productive civil service		X	X	X
	Tax collection	X			
	Customs		X		
	Heath and sanitation		X	X	
→	Business Licensing	X	X		
→	Investment Promotion	X	X	X	
	Government procurements and contract awards				
→	Privatization	X	X	X	X
	Infrastructure – Costs and Services				
	Safe Water			X	
	Telecommunications		X		
→	Informatics		X	X	
	Energy			X	
→	Transport		X	X	
	Human Resources				
	Literacy		X		X
→	Education level		X	X	X
→	Technical and managerial training		X	X	X
→	Productivity			X	
	Health initiatives			X	X

24 On the Impact Points Table, an "X" represents an impact on the firm and an "→" represents a factor that has a particularly significant impact.

MARITIME TRANSPORT[25]

Industry Background and Performance

Bulgaria has two major seaports located in the regions of Varna and Bourgas. In 2000 it is estimated that each of these ports processed 5.5 million tons of goods. Statistics from the Port Administrations in Varna and Bourgas show that in 2000, the port of Varna serviced 37,225 TEU of containers and the port of Bourgas serviced 11,445 TEU of containers. The late restructuring and the strong presence of the state in the management of the ports deprived them from large investments in the last 10 years which would have given the industry the needed funds for technological innovation, equipment updating, and improvement in the efficiency of port operations.

The port of Varna benefits from a geographical location on the Black Sea; its function has been as a main junction between Europe and the Caucasus region and the Middle and Near East.[26] The port of Varna East is the old port having terminals for containers, grain and general cargo and one slot for passenger ships. Varna West is an industrial port serving mainly the industrial giants from Devnja. It has a container terminal, and terminals for chemical products and cement. The type and volume of goods transited through Varna is directly correlated to the goods produced by the largest companies in the region. These companies provide bulk cargo in chemical products, fertilizers and cement. The price of these goods is dependent on transportation costs; therefore the competitiveness of Bulgarian ports is closely correlated to the competitiveness of its supporting industries.

The main challenge facing the Varna seaport is the need to protect and expand its domestic trade market shares especially in light of emerging competition facilitated by transport corridor developments in countries such as Turkey and Greece. The efficient utilization and provision of services and future performance will depend greatly on the development and implementation of the restructuring and privatization plan for the port sector in Bulgaria.

In addition to the ports of Varna and Bourgas, there are other smaller ports in Bulgaria. Balchik is specialized only for grain cargo. The port of Ezerovo TPP serves the Varna Thermal Power Plant. The port of Lesport is a small, specialized port mainly serving timber cargo. As well as some smaller ports along the Danube River.

Factor Conditions

The development of the maritime sector is partially dependent on the availability of well-qualified human resources. The Military Sea College and Military Sea Higher School,

[25] Based on a case study prepared by Silvia Petrova, CED. Available through the BCE website http://www.competitiveness.bg/. Lussiena Kostova and Silvia Stumpf made significant contributions to the work of the maritime industry taskforce.
[26] Three railroad and six container lines connect Varna with Ukraine, Russia and Georgia.

the University of Economy and the Technical University, all located in Varna, are among the most predominant institutions in Bulgaria that educate specialists for the maritime transport sector.

The infrastructure systems that support the maritime industry are reasonably sufficient. Road, rail and air transport systems are readily available and provide key elements of the transport sector. In spite of this, in many cases transportation costs are higher in Bulgaria compared to its neighboring competitors such as Greece. Infrequency and inefficiency of carrier services offers a formidable challenge to Varna's status as Bulgaria's premier port.

The port of Varna has sufficient ship slots and can process various types of cargo. As a result of the recent lack of investments, the technological level of the equipment is underdeveloped and thus impedes the more efficient operation of the port infra- and superstructure. The Bulgarian Sea Shipping Company has had problem with the age of its fleet and the lack of investment capital available to renew it. The average age of the fleet is over 20 years old; some ships are over 30 years old and are not allowed to call at certain ports. Long-term financing remains a problem for the development of the maritime sector because of the size and type of the required loan securities and the high interest rates of the financial sector.

While financing for innovation is limited, the need for companies to enhance their services and use of technology is imperative. The Unimasters Logistics Group is a company that has embraced the rapid developments in the IT sector and learned from initiatives of other companies in capitalizing on these innovations. They have introduced a new service called "Interactive Tools" that is offered through the corporate website and is aimed at facilitating communications with clients and avoiding difficulties caused by time differences around the world.

Also of concern is the issue of port costs. Bulgarian port costs are a reflection of the inherent inefficiencies in the maritime system. The Port Operating Company represents the largest portion of port charges, representing up to 46 percent of total charges in the Bourgas West. Varna West represents the smallest portion of charges with about 40 percent from the Port Operating Company. However, it is more expensive for ships to call the Varna West port due to the longer distance required to sail there than to other ports. The cost differential is reflected in higher pilotage and tug assist charges as well as in the vessel underway costs the vessel incurs form sailing the additional distance. Transit times to Varna East and Bourgas West are assumed to be roughly equivalent although Varna East has been reported as the most cost competitive port in Bulgaria on the basis of cost advantages relative to tug services, pilotage, vessel navigation and cargo handling.

The burden of costs on the carrier is high, for each port the carrier is subject to pay 55 percent of the total port costs. In most competitive settings, the maritime community will attempt to shift the burden of the charges to the shipper as opposed to the carrier. The result of pricing structures in many countries typically keeps the carrier burden to within

20 to 30 percent. This means that given the choice, many carriers will choose to call competing ports where carrier cost burdens are much lower than those in Bulgaria. While cost is a major issue, it is important that the services provided for the lower cost are of the necessary quality level.

Upon institution of the new Port Law, the Port Operating Companies lost about 35 percent of their revenues to the Port Administration Authority. In light of changing institutional arrangements, the Port Operating Companies believed they had no recourse other than to raise costs as they were caught unprepared with the new arrangements. They felt forced to raise cargo-handling charges to cover losses from the revenue transfers to the new Port Administration Authority. So in essence, two organizations are imposing charges for rates that had previously been imposed by only one organization; one to cover revenue losses due to institutional changes and the other to cover obligations of the Port Administration Authority.

There are other "hidden" transaction costs endemic to the Bulgarian environment, which also affect their cost competitiveness. These include the practice of posting guarantees as well as inspection fees imposed on shippers. Although guaranteeing costs are reimbursable, Customs sometimes takes up to three months to process the reimbursement. Additionally, Customs imposes fees on each container it chooses to inspect.

Today, Port Operating Companies face extreme pressure. On one hand they are fighting for survival as a viable entity in light of institutional changes and one the other hand, to the extent that Bulgaria's port privatization program is successful, there will be virtually no reason for the Port Operating Companies to provide the services it currently does.

Demand Conditions

Upon transition to a market economy there was a sharp decline in Bulgarian imports and exports to Russia, previously the largest market for Bulgaria. Exports dropped 4.7 percent and imports dropped 23 percent. The markets of Bulgaria changed to focus on Western European countries as the main trading partners.

Since the early 1990s, foreign trade turnover as a whole dropped. The 1999 level of trade was hardly 30 percent of what it was in 1989. The volume of cargo operated by the seaports dropped from 32,807 thousand tones in 1989 to 15,848 thousand tons in 1999.

There are two types of customers in the Bulgarian transport sector, those that are shipping either in or out of Bulgaria, and those that use Bulgaria as a transit point to another destination. Previously Bulgarian transport providers competed solely on cost competitiveness but quality is now an important factor in cost competitiveness. Transport sector customers are looking for low transaction costs, ease of pilotage and tug services, distinctive services such as cargo analysis and overall quality of services provided at competitive rates.

Bulgarian ports are facing unprecedented competitive threats from intermodal alternatives being offered in neighboring ports. With regard to transit cargo and some local cargo, the port of Varna competes with other Bulgarian ports (Bourgas) and with the ports of Romania (Constanza), Greece (Thessalonica) and Turkey (Haydarpasa and Kumport). According to the statistics of Unimasters Logistics Group, the TEUs of full containers for Bulgaria serviced by the port of Thessalonica has been increasing at a steady annual rate of more than 5,000 TEU over the past three years and thus ranks the Greek port second after the port of Varna with respect to Bulgarian full container servicing.[27] Potentially, Bulgaria may also end up competing with the Greek port of Alexandropolis and the Albanian ports of Vlore and Duras if plans for their modernization and expansion are successful. Greece has been very successful in promoting policies for port development primarily to serve transit cargoes to Southeast Europe. These policies are creating direct competition for Bulgarian ports. Bulgaria has also embarked on a series of economic and social reforms that if successful will open new markets for Bulgarian shipping and hopefully maintain competitive advantage in the region.

Bulgarian ports can hope to benefit from inter-continental traffic provided that the TRACECA corridor, which links Europe to Asian markets via the Black Sea and Central Asia is fully developed. Previously these corridors have served intra-continental traffic and have had a particularly deleterious impact on the port of Varna. The proximity of the Varna port to the Danube also offers some additional opportunities for expanded transport routes.

Firm Strategy, Structure and Rivalry

The majority of firms in the Varna maritime industry are private micro-sized companies, however there are a few larger sized companies operating in the Varna region. A study by the Foundation for Entrepreneurship Development[28] estimates the number of the registered in Varna companies whose activities are directly related to the maritime transport to be 250. However, it is difficult to estimate the exact number of the companies that are currently active.

Of the companies involved in the Transportation and Communications sector, 93.22 percent are considered micro, 5.10 percent are small, 1.34 percent are considered medium and 0.34 percent are large.[29] The early liberalization of the agent and forwarding services in the shipping industry allowed for the establishment of numerous small private companies that compete both among themselves and with local representatives of foreign agent and forwarding companies. This competition has had a positive impact on the service range and quality as well as on the innovation processes of the firms. The larger companies in the Varna industry are few in number and remain under the primary control

[27] *Unimasters Logistics Group, Ltd. Bulgarian Container Market 1998-2000.*
[28] Foundation for Entrepreneurship Development, *Description of the Distribution of Bulgarian Groupings of Industries,* Sofia, 2001
[29] Micro—staff up to 10 people, Small—staff between 11 and 50 people, medium---staff between 51 and 250 people, and large—staff of over 250 people.

of the government. The restructuring and privatization of these firms is important for the future of the Bulgarian shipping industry.

Transport companies in Varna realize the importance of quality for their international competitiveness and many of them are strongly committed to incorporating quality management in their strategies. Ten of them have achieved ISO 9002 certification and many small companies will receive their certifications in the near future. The companies who have aimed for such certifications believe that it will help to improve the image and competitive position of individual companies and will make them more attractive partners and service providers. They also feel that it will make good quality a symbol of the industry. This view has grown out of the strong influence that foreign competitors have had on the service quality and approaches instituted by Bulgarian firms. Some Bulgarian firms have taken the strategy of establishing partnerships with foreign companies and with them have accepted and implemented their high quality standards. Not only are standards important but also companies have to understand the demands that are driving their markets. One particular strategy that is being explored by Unimasters Logistics Group is to work in close cooperation with their clients in order to develop a clear understanding of their requirements and expectations so that Unimasters can provide full service products to their clients.

On a national level, the PAA presented its draft Strategy for the Development of the Sea and River Ports of the Republic of Bulgaria to the business community in Varna and started a dialogue with the private sector on its plan and implementation. Within the discussions many ideas were presented on the proposed restructuring plan and on the suggested development of port infrastructure and capacity. Additionally, ideas were shared on the issues of establishing specialized passenger terminals and a yacht port in Varna.

In the National Transport Strategy, the Government of Bulgaria has identified a number of modal improvements that will effectively encourage the diversion of Bulgarian cargoes to Greek and Turkish ports. The possibility for diversions depends on the total transport cost competitiveness of using Bourgas and Varna versus the Greek ports. A cursory review shows that the Greek ports have distance advantages to certain bulk cargo market areas in Bulgaria. The proximity of Varna to the Danube River reveals another opportunity to increase the volume of goods passing through the port of Varna. The challenge for the port of Varna is to combine its location to the Danube with improvements in the efficiency and quality of its operations.

Industry Cluster and Cooperation

The maritime industry "cluster" is made up of maritime transport operators; port operators; ship brokers, agents, and forwarders; ship building and repairing; scientific institutes and maritime schools; consignors; public bodies; banks; insurance companies; customs agents and consulting companies; and numerous industry associations.

Despite the fact that all elements of a cluster exist, cooperation within the shipping/transport cluster is not prevalent. Most companies prefer to work individually rather than unified as a cluster. There are an abundance of industry associations, although they are not effective in lobbying for the interest of the entire cluster, instead they are concerned with only their members.

Sometimes this individual approach is successful, however, the lack of strong coordination of the efforts and activities of the different cluster members prevents them from a ensuring that the interests of the maritime industry cluster have their place in the government policy arena and also from pursuing strategies that effectively enhance the competitiveness of the sector as a whole. A more concerted and continuous effort by all or a majority of industry participants carries the message of a united front. This "strength-in-numbers" approach can have a much greater influence not only on policies that have an effect on the cluster's competitiveness, but also on the way business is conducted within the cluster and between its members.

As a result of the increasing competition in the region, the need for and the potential positive effects of the inter-cluster coordination and cooperation have been recognized by the business, industry organizations and the public bodies and the cluster approach in the Varna maritime sector is slowly gaining momentum. At the beginning of July the state-owned companies Port of Varna, Port Fleet and Roads and Bridges, the private companies Maritime Group, Ahileos Shipping, Cargoexpress and Avangard, the Industrial Economic Chamber and the State Insurance Institute established a joint stock company to implement the project on establishing a transit zone in Varna and operate the zone in the future.

The BCE has contributed to the dialogue that is taking place in the transport industry through workshops and conferences. This dialogue has continued since the BCE became involved in the industry.

There has been some coordination between the public and the private sectors in the maritime/shipping industry. A dialogue was established by the PAA on the Draft Strategy with the private sector. This dialogue has proven to be a successful activity in fostering constructive discussions between the public and private sectors. The Marine Administration initiated plans for a joint working groups including administration experts and representatives from the respective branch associations to discuss and work on particular issues in an effort to create a sustainable environment for dialogue between the administration and business. Additionally, the Ministry of Transport and Communication initiated the setting up of a joint working group including state experts and representatives of the transport clusters of Varna and Rousse in order to discuss and explore the possibilities for developing competitive intermodal transport schemes for attracting cargo subject to transportation between Western Europe and Asia.

Two areas in which the transport sector has great opportunity, but will require collaboration of the entire industry, is in the creation of a port partners approach and an internal portal. The port partner approach is a concerted effort in which all parties in the logistics chain develop a single pricing and service strategy to divert trade from competing ports. This approach is commonly used in countries that have highly competitive markets. The other opportunity is in the creation of an internal portal that would facilitate communication between industry partners while simultaneously providing economic incentive. The internal portal would provide detailed statistics and other port information, including cargo-tracking reports and provide the ability to facilitate numerous business transactions associated with the maritime transport sector. The portal would provide a high degree of customer self-service, through accessing the portal, while simultaneously improving customer relationships. The portal can also greatly reduce transaction costs and ultimately improve port efficiency by earlier and improve information accessibility.

Role of Government

Responsibility for the functioning of the Bulgarian port sector has been primarily a function of the Ministry of Transport and Communications through the Port Administration Agency. The PAA was established by the Law for Sea Waters, the Internal Waterways, and the Ports of the Republic of Bulgaria (Port Law) in 2000. The responsibilities of the PAA include maintenance responsibilities, regulatory responsibilities and other responsibilities that include maintaining listings of port land, equipment and fixed assets, collection and reporting of port statistics, capital, construction of other marine structures and master planning.

The Government strongly influences the development of the maritime sector in Bulgaria because the largest companies in the sector are state-owned, infrastructure is operated by state-owned companies, development of transport infrastructure is the public sector's responsibility and definition of the national transport policy, including the maritime transport sector strategy, is a public sector function. Also public institutions are responsible for development of a sound and comprehensive regulatory framework in which the sector operates.

In other policy initiatives, The Ministry is currently considering the idea to relieve ship companies from paying profit tax and requires them to pay only tonnage tax for the ships owned. A special interministerial working group was created including representatives from the Ministry of Transport and Communications, Ministry of Finance and Ministry of Economy to discuss the issue. The initiative is intended to prevent Bulgarian ship owners to register their ships under foreign flags. The Bulgarian Ship Register, now 100 percent state owned but slated for privatization, has 85 percent of Bulgarian ships as well as some neighboring country ships registered in Bulgaria. The prioritization of state policy will be central to the development of the Varna port and other Bulgarian ports. The state must assist in ensuring the efficient utilization of available transport infrastructure and to prevent the construction of unnecessary additional capacities.

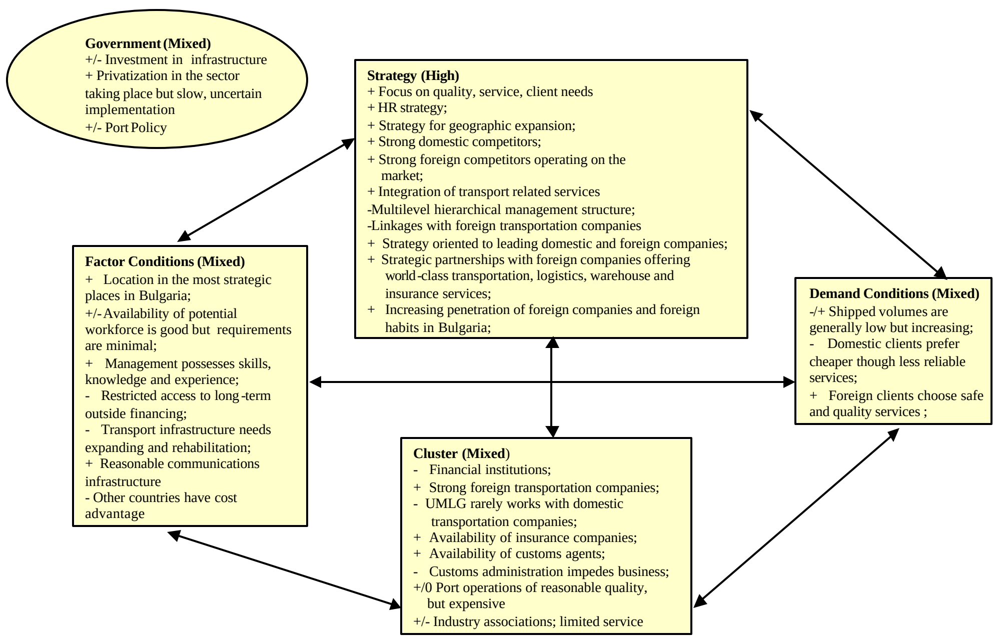
A unique feature of the maritime industry is the dependent relationship between the private sector and the public sector. The nature of the private sector in the transport industry is heavily dependent on state-owned companies and facilities. This is due to the continued role of the public sector in the more basic sectors of the transport industry, such as supporting state-owned infrastructure like rail lines and road transport.

Looking Forward

Opportunity	**Method**
1. Competitive Positioning	*Opportunity:* Establish the industry as provider of high quality/reasonable price services by adding greater value, ensuring faster cargo processing and expanding the range of the offered services. Implement quality standards. Capitalize on the beneficial location and the availability of good air, road, railroad and maritime infrastructure and to better develop multi-modal transportation. Make sound decisions on the basis of good benchmarking.
2. Customer Learning	*Opportunity:* Develop better understanding of current and potential customers' requirements and offer a package of services that entirely respond to these requirements. Identify potential customers and develop a comprehensive strategy and common cluster actions for attracting them. Help industry stakeholders to identify themselves as part of their customers' competitive clusters.
3. Innovation	*Opportunity:* Modify and upgrade services in accordance with the elaborated customers' expectations. Develop an information system promoting the capacity of Varna as a modern transport and logistics center. Develop a internal portal for development of information services provision among industry stakeholders.
4. Human Capital Investment	*Opportunity:* Develop the capacity of the training centers and elaborate and apply specialized training programs to develop and upgrade the skills and knowledge of the technical and management staff. Allow for the development of the maritime education as an industry providing highly qualified specialists competitive on the world market. Monitor and increase productivity against benchmarked standards.
5. Cluster Cooperation	*Opportunity:* Strengthen industry associations by widening the range of their activities and initiate closer interaction and coordination in their work. Improve public-private dialogue. Improve functional cluster linkages. Collaborate in joint investments. Institute the portal partners facility.
6. Forward Integration	*Opportunity:* Work closer with all business partners and the clients to clearly identify and effectively respond to their requirements of the customers. Firms can also develop strategic alliances with world leaders and serve as regional representatives of the latter. Create an internal portal to provide increased information access and quality customer service.
7. Strategies and	*Opportunity:* Varna transport companies should move from low

Attitudes	quality/low price to high quality/reasonable price strategies. Transport companies should develop and apply common marketing strategy. The State should complete the privatization and attract strategic investors in the transport sector. The Parliament and the governmental institutions should ensure a sound, comprehensive, stable, transparent and functioning regulatory framework for the sector.

UNIMASTERS
Company Competitiveness Diamond



CLUSTER: **Maritime Transport**

Platform (Policy, etc.) Impact points[30]

	PLATFORM ELEMENT	COMPANY IMPACT POINTS: *Finance*	*Marketing*	*Production*	*Organization and Staffing*
Macroeconomic Policies					
	Monetary	X			
	Fiscal	X			
→	Trade		X	X	
	Labor – minimum wage		X	X	X
	Labor – expatriates				X
	Capital – ownership	X			
	Capital – repatriation	X			
Legal and Institutional Enabling Environment					
	Appropriate commercial legislation	X		X	
→	Functioning judiciary or arbitration mechanisms			X	
→	Productive civil service		X	X	X
	Tax collection			X	
→	Customs		X	X	
	Heath and sanitation			X	
	Business Licensing	X	X		
	Investment Promotion	X	X	X	
	Government procurements and contract awards		X	X	
→	Privatization	X	X	X	X
Infrastructure – Costs and Services					
	Safe Water				
→	Telecommunications		X		
	Informatics		X	X	
	Energy			X	
→	Transport	X	X	X	X
Human Resources					
	Literacy				X
	Education level		X		X
→	Technical and managerial training		X	X	X
→	Productivity		X	X	
	Health initiatives			X	X

30 On the Impact Points Table, an "X" represents an impact on the firm and an "→" represents a factor that has a particularly significant impact.

APPAREL[31]

Industry Background and History

Apparel manufacturing is a highly competitive and refined business throughout the world. Many developing countries see the apparel sector as a "gateway" into global markets—Bulgaria is no exception.

The Bulgarian apparel sector cannot be thought of as a homogenous group of companies manufacturing the same products. Identifying producers by variation in size, markets, product style/grade, location, technology, capitalization, revenue, alliance and managerial expertise only begins to narrow the range of strategic choices available to them. Both direct and anecdotal evidence reveal that some members of the sector are thinking strategically and planning for long-term growth, while others are merely working on survival tactics.

The eastern part of Bulgaria has historically been a big sheep-breeding region. During much of its history until present time, this area was a large supplier of domestic raw material base to the Bulgarian woolen textile industry.

Under the socialist system, the greater part of production had been assigned to garment producers through a strictly centralized organization in which so-called 'economic unions' were responsible for the placement of the outputs. Direct exports to Western European and American clients went through another monopoly, IndustrialImport, a state owned foreign trade organization. The distribution system shortened the chain but completely shielded the textile producing factories from the final consumers of their products. Trade intermediaries organized demand and Bulgaria was given a major role in woolen textile production within the COMECON region.

Upon transition to a market economy in the early 1990s, the textile industry faced many problems, due primarily to the highly protectionist system under which it operated for so many years.

In 1992, the Russian market collapsed. Russia stopped relying on Bulgarian products and became the target of other competitors. The monopolistic structures that ensured the placement of Bulgarian outputs were dismantled, leaving companies to survive without any experience in the marketing of their own products or services.

Despite difficulties related to the lack of an industry cluster mentality, limited access to fresh funds and few improvements in marketing, the situation in the industry was changed by privatization efforts to attract the interest of some international textile producers.

[31] Based on a case study prepared by Dr. Giorgy Ganev, IME. Available through the BCE website http://www.competitiveness.bg/.

Factor Conditions

Bulgaria's transition from socialism had impacts on many sectors of the economy and society. Education, once well funded and organized, now faced drastic changes. The well-developed and previously highly regulated network of technical schools and universities began to lose their ability to produce highly qualified professionals, due to a lack of funding and resources, and lack of focus on the needs of business. Managers lack the necessary skills training for operating in a market economy.

Assembly laborers have the basic skills necessary for apparel—however, additional training is necessary to bring the skills set of assemblers, weavers, etc to a level where value is added by the varied abilities of any one worker to handle fluctuations in demand for certain products. In essence, it is necessary for laborers to have skills sets that are easily convertible based on changes in demand and production.

The apparel industry—which employs the most workers save for the government, suffers from high workforce turnover due to low wages. Many of the better, younger professionals have opted to take their chances elsewhere in more lucrative salary markets.

Raw material supply is also an issue in the apparel industry. The wool industry suffered from a lack of supply in the early 1990s, this led companies to reorient supply chains to imported materials from surrounding countries. This increased costs and led to an overall deficit against the costs associated with producing goods and the actual revenue earned from the sale of such goods. The garment assembly sector of the apparel industry does not have a base for raw material in Bulgaria; virtually all of its supply is imported. This makes both sectors of the apparel industry dangerously subject to the availability and cost of supply from outside resources.

The collapse of the Russian market had a destructive effect on the Bulgarian economy. As a result of this economic deterioration, credit was scarce and when it was available interest rates were steep. New investment was extremely difficult to attract and the inability of companies to invest in new machinery led to the decline in condition and suitability of the equipment being used.

The response of Wooltex AD,[32] a Bulgarian woolen textile producer, to the severely worsening business environment was like many other Bulgarian companies, to decrease production. By the mid-1990s Wooltex was producing around 40 percent of its maximum output during the 1980s.

Bulgaria has adequate telephone infrastructure. The Internet is not particularly prolific, and this is a problem for customers that expect 24-hour Internet access. Innovation in equipment and technology has been slow, due to investment and credit limitations. Some companies such as Wooltex have been successful in implementing new systems that have improved the quality of information available about the trends and requirements of their

[32] The name of the company was changed for the purposes of confidentiality.

customer bases. But across many garment assembly firms, technological innovation remains necessary to provide competitive products to many markets.

In the global garment production environment, timeliness and costs are the most important factors to meeting fluctuating demand.

Within the past decade, point-of-sale data analysis, coupled with distribution and transportation logistics has made cycle time a major competitive variable. In turn, time issues have stepped up the technological entry barriers for apparel producers. Buyers expect Bulgarian producers to have computers, access to the Internet, financing, design and marker programs, as well as shipping and bar coding capabilities to meet the needs of large distribution systems. According to global industry requirements, orders must be completed and shipped on time and may require full supply chain documentation on fabrics, trims, and subcontracted labor. The global apparel market is intolerant of late goods, quality failure and poor communication.

Bulgarian producers are not lacking the knowledge necessary for product design and construction capability. But they lack a rapid manufacturing orientation, in part due to their tradition of craftsmanship. Continuous change is a hallmark of the global sewn goods industry. Those producers who are flexible enough to move with markets stay ahead of the competition.

The current transportation infrastructure has been limited and irregular in its ability to reach both internal and foreign markets. Import and export procedures remain cumbersome, time-consuming and costly. However, recent improvements in infrastructure and capital markets have been made, albeit at a much slower pace then other improvements.

Demand Conditions

Domestically, demand is regarded as unsophisticated and small. The primary sectors that make up domestic demand have been the government and to some extent local apparel markets. Demand from the government has been low and decreasing due to the smaller share of GDP for military costs. The local market has never truly been a driving force for many of the larger production firms.

During the 1970's and the beginning of the 1980's, new machinery and equipment was installed to replace the already depreciated nationalized equipment. At that time, "integration" of the socialist economies was proceeding, and the Bulgarian woolen textile industry oriented itself to the huge Soviet market indirectly, by selling its goods to tailoring companies that in turn exported the finished garments largely to Russia.

After the collapse of the Russian market in 1992, Bulgarian production was reoriented towards exports to areas other than Russia. These exports were focused predominantly on the US and Canadian markets and to a lesser extent on European and Ukrainian markets.

Currently, Bulgarian producers compete in European markets with regional manufacturers in Turkey, Romania, Poland, Ukraine, Hungary and Czech Republic. However, for North American markets, competition in some product categories will come from Asia, Central America, and eventually, sub-Saharan Africa. The customer can be very fickle – contracting with new producers when lower costs are available. It is imperative that Bulgarian producers understand with whom they are competing in which categories, so they can make informed decisions about products and markets appropriate to their capabilities.

Within the past decade, point-of-sale data analysis, coupled with distribution and transportation logistics, has made cycle time a major customer concern and competitive variable. In turn, time issues have stepped up the technological entry barriers for apparel producers. This is where the concepts of manufacturing productivity, efficiency of capital and labor, and product/process innovation separate the winners from the losers. Buyers expect that Bulgarian producers will have computers, 24 hour internet access, financing, design and marker programs, as well as shipping and bar coding capabilities that match needs of large distribution systems. Orders must be completed and shipped on time and may require full supply chain documentation on fabrics, trims, and subcontracted labor. The markets are intolerant of late goods, quality failure, and poor communication.

The JAA industry specialist voiced concern that some Bulgarian producers may not be psychologically prepared for the aggressive US retailer or manufacturer who cares nothing of Bulgarian margins and expects the most product and service at the lowest cost. This business practice is a far cry from the gracious European style of relationship building to which many Bulgarian firms are most accustomed. While this product attitude may not appeal to the aesthetics or cultural traditions of Bulgarian craftsmanship, in order to manufacture goods for North American consumers, they will have to adjust their attitudes and find new ways to do it faster, more efficiently and most of all cheaper.

Firm Strategy, Structure and Rivalry

In the second half of the 1990s the process of privatization reached the Bulgarian textile industry, and many firms were privatized. The new private owners introduced a relatively more flexible management and started developing longer run strategies that were primarily export oriented.

In many cases, however, this new 'leadership' in many Bulgarian companies lacked the necessary knowledge of strategic vision and thinking. The firms were managed predominantly by production specialists who openly resorted to short-term, price-only strategies. This strategy, combined with excess capacity in the industry and the lack of development and attention towards the domestic market, made the industry's firms ready victims of other more strategically acting players on the global scene.

The competitive environment was perceived as global only and the basic element of this competitiveness was based on low cost. Many firms have felt powerless to control or participate in the factors that governed global markets. Their sense of despair and lack of options led many to focus primarily on survivor tactics and reactionary strategies. When asked what was the strategy of Wooltex AD, the procurator of the company answered, "The strategy is to survive this year after the last one."

Bulgarian producers do have excellent knowledge for product design and construction capability, but they lack market focus and understanding and have not proactively worked either individually or collaboratively on defining and marketing their products to demand, or lobbying for expanded financial resources. The majority of strategic plans have been based on cost rather than a complete understanding of market demand and customer requirements.

There are some strategic activities in the early stages of development that are aimed at moving from cost-based to demand-based strategies. Capability for full-package work, a value-adding pre-production service strategy, is developing all over Bulgaria. Due to the timely adoption of design software and machine technology, the more advanced members of the Bulgarian apparel industry have developed export opportunities and are building subcontracting networks. Additionally, the work being done with the assistance of IESC on the FLAG project has developed better channels and working relationships between Bulgarian and US firms. This has provided participating Bulgarian firms with an introduction to the levels of competitive effort required in the various margin and category opportunities.

However, most export-oriented firms continue to do CMT (cut, make, trim) work for European manufacturers and retailers, carrying less financial risk. Some producers feel that they have no control over energy, raw materials, labor and social charges, etc. Their customers are demanding less product cost and they are struggling to provide it.

As mentioned, it is imperative that Bulgarian producers understand with whom they are competing, and in which categories, so they can make informed decisions about products and markets appropriate to their capabilities. For example, many Bulgarian producers can do precise topstitching, while Central Americans are failing in this technique. Outerwear products in higher-end fabrics for the American market would be an excellent category for a Bulgarian producer with tailoring capabilities. Much of this competitive product knowledge comes from working with customers, studying retailing, and attending shows. Matching market information with managerial skills such as accurate costing of goods is imperative in doing successful export business. Bulgarian producers need a knowledge network provided by their associations to help them find and take advantage of opportunities.

Continuous change is a hallmark of the global sewn goods industry. Those producers who are flexible enough to move with markets stay ahead of the competition.

Industry Cluster and Cooperation

Effective cooperation in the textile industry does not yet widely exist. In part, this is because, under the central planning of the socialist system, each company had a distinct role and very rarely had direct contact with one another or other sectors of the industry. When the indirect contacts with suppliers and clients via intermediaries were severed with the end of socialist systems, companies were not equipped to handle these relations themselves.

More recently, limited resources for credit and investment have produced an environment of isolation among firms. There is little cooperation as strategies have been set on survival tactics based on the assumption that the success of one firm will come at the cost of another.

Even with the advances made through privatization, aside from forward and backward direct linkages necessary to conduct business, there is little cooperation or interaction among firms in the cluster.

Until recently, there has been no effective coordinated industrial association that represented the whole of the Bulgarian apparel industry. Numerous local and regional associations exist, but are not tied to a national effort for a unified voice to the government nor a cohesive strategy. One national group is attempting to build consensus among industry members.

The Association of Apparel and Textile Exporters is attempting to build an organization that represents the entire supply chain. They have created a website as a communication and marketing mechanism for all its members. They have also participated in a number of research and publicity activities.

The work of the BCE and of the FLAG consortium has contributed to industry dialogue and has engendered some collaboration.

Role of Government

The government has been ineffective in supporting the textile industry. This is the result of both a lack of unification in presenting issues on behalf of the industry and the lack of correct government participation in the activities of the cluster.

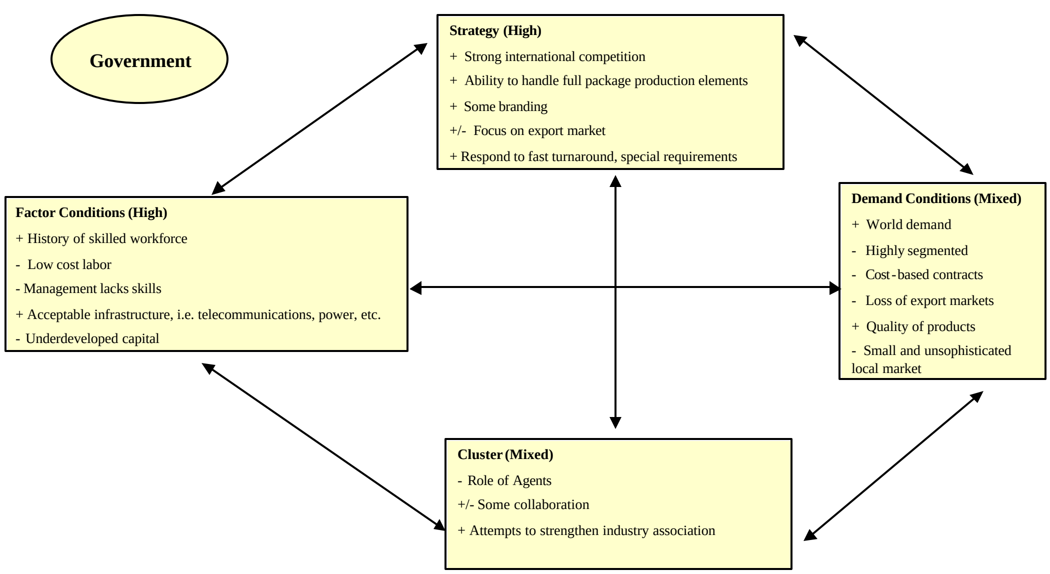
In terms of legislation, the lack of a clear business policy and the ineffectiveness of government provided tax incentives have greatly hindered the ability of many firms to add new capacities and innovate the industry to global standards.

Looking Forward

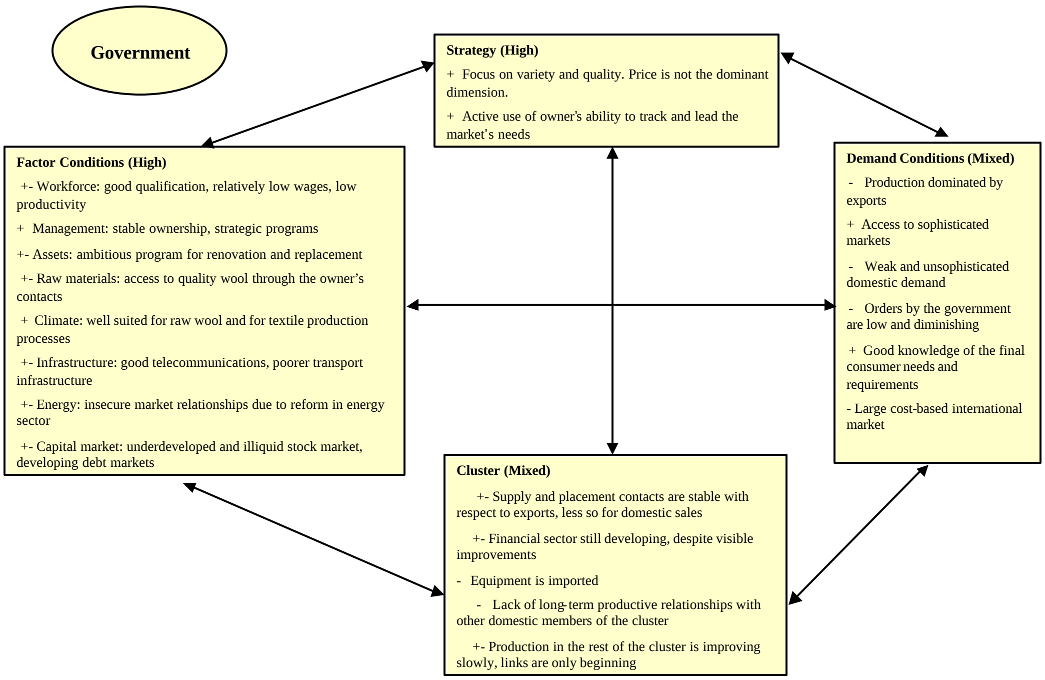
Opportunity	Method
1. Competitive Positioning	*Opportunity:* Promote the specialization of smaller firms as a means to insuring their survival and to providing valuable services to larger firms. Enhance infrastructure, transportation and communication to improve the capability of the entire industry. Develop domestic demand to protect and potentially increase local market share. Gain an understanding of competitors in order to make more informed decisions about products and markets appropriate to their capabilities. Improve capacity to generate more revenue by decreasing labor costs and increasing labor productivity. Apply discreet knowledge of European tastes to design products for other markets. Brand Bulgarian goods and license specialized equipment and services. Lower transaction costs to become more flexible in the open market economy.
2. Customer Learning	*Opportunity:* Obtain market information and attend trade shows as a means to gain a better understanding of market forces and customer demands. Gain an understanding of the competitors to the Bulgarian textile industry in order to make more informed decisions about products and markets appropriate to their capabilities.
3. Innovation	*Opportunity:* Design products backward from a manufacturing perspective rather than forward from an aesthetic perspective. Focus on niche markets that greatly enhance competitive advantage, such as top stitching, etc. Upgrade technological innovation in order to fully participate in the fast moving global markets—the textile market is particularly expectant of innovations in communication/internet access, financing, design and distribution mechanisms necessary to meet the needs of large markets. Focus on diversifying the value-added services within selected opportunity ranges. Tighten operations of medium or lower grade products to access full package programs with moderate and better retailers and manufacturers in the United States. Reduce cycle time on production.
4. Human Capital Investment	*Opportunity:* Work with training institutions to build curricula to train employees and managers in better corporate organization, management and marketing skills. Improve the level of management understanding of market forces and trends.
5. Cluster Cooperation	*Opportunity:* Find outside agents to act as a catalyst for building confidence in industry collaboration. Create a mechanism for gathering and distributing all the various information related to the cluster, the global textile markets and industry trends. Work with the business association to provide the necessary network linkages to market information. Collaborate with industry

	partners and stakeholders to address certain legislative issues as a united front to government.
6. Forward Integration	*Opportunity:* Work with the government to create more jobs; provide greater regional trade integration, and training of relevant ministerial officials on the issues specifically facing the textile industry.
7. Strategies and Attitudes	*Opportunity:* Develop a strategy for the development of the industry as a whole based on a five to ten year timeline. Distinguish the difference between product grade and manufacturing quality—grade refers to level of value and quality refers to variation. Employ more sophisticated marketing techniques to be more efficient in higher-grade production. Distinguish the difference between product grade and manufacturing quality—grade refers to level of value and quality refers to variation.

APPAREL INDUSTRY
Company Competitiveness Diamond



WOOLTEX AD
Company Competitiveness Diamond



CLUSTER: <u>Apparel</u>

Platform (Policy, etc.) Impact points[33]

	PLATFORM ELEMENT	COMPANY IMPACT POINTS: *Finance*	*Marketing*	*Production*	*Organization and Staffing*
Macroeconomic Policies					
	Monetary	X			
	Fiscal	X	X	X	
	Trade	X	X	X	
→	Labor – minimum wage		X	X	X
	Labor – expatriates				
	Capital – ownership	X			
	Capital – repatriation	X			
Legal and Institutional Enabling Environment					
	Appropriate commercial legislation	X			
	Functioning judiciary or arbitration mechanisms			X	
	Productive civil service			X	
	Tax collection	X	X	X	
→	Customs			X	
→	Heath and sanitation		X	X	
	Business Licensing		X	X	
	Investment Promotion			X	X
	Government procurements and contract awards		X	X	
	Privatization		X	X	X
Infrastructure – Costs and Services					
	Safe Water				X
→	Telecommunications		X	X	
→	Informatics		X	X	
	Energy			X	
	Transport		X	X	
Human Resources					
	Literacy				X
	Education level			X	X
→	Technical and managerial training		X	X	X
→	Productivity			X	
→	Health initiatives		X		X

[33] On the Impact Points Table, an "X" represents an impact on the firm and an "→" represents a factor that has a particularly significant impact.

INFORMATION TECHNOLOGY[1]

Industry Background and Performance

Prior to political and economic transition in the early 1990s, Bulgaria was regarded as a leader in the COMECON region for information technology (IT) production and education. Bulgaria produced the Riad 1020 computer system and supplied disk drives for much of the Riad series of computers. Many of the PBX systems for the COMECON region were also produced in Bulgaria.

After the changes of the early 1990s, Bulgaria's economy changed from a centrally planned to a free market economy. Not all products currently produced are competitive in the global market; the Bulgarian technological innovation gap is estimated at about four to five years behind the rest of the global market. This is because under the socialist market environment, Bulgaria's products were artificially protected and only subject to international competition under carefully controlled conditions.

There are some exceptions to this as well as some excellent examples of success in the Bulgarian IT industry. The Bulgarian market has shown increases in the number of PCs installed and in annual sales of computer systems during the period of 1996 to 1999. In 1999, World Bank indicators estimated the number of personal computers in Bulgaria at 26.6 per 1,000 persons, rather low by global standards, Singapore is estimated as having 436.6 per 1,000; and low in relation to regional partners, Croatia is estimated as having 67 computers per 1,000 persons.[2]

It is reported that more than one thousand companies are currently operating on the Bulgarian IT market. Half of them are software developers and the other half comprises of computer system assembly and sales companies. The number of assembly companies has increased more than 150 percent from 1996 to 1999. Comparatively the number of software companies has increased 25 percent during the same period. This tendency and future projections have demonstrated that this increase is likely to continue in the medium term. There is relatively little local demand for IT services and products, due in part to low sophistication in technologies currently in use by local companies.

Despite the limitations of the Bulgarian market situation, representative enterprises from almost all the leading international IT companies are located in Bulgaria.

The highest level of IT company concentration is found in the larger cities of Bulgaria. The greater part of consumer bases are also concentrated in the larger more industrialized centers. The five regions with the biggest market share represent an estimated 80 percent

[1] Based on case studies prepared by Dr. Krassen Stanchev, IME. Available through the BCE website http://www.competitiveness.bg/. Ivaylo Gueorgiev of CED contributed significantly to the work of the cluster taskforce.
[2] Data are from the International Telecommunications Union (ITU) *World Development Report 2000* and *Challenges to the Network: Internet for Development* (1999).

of the Bulgarian market. The biggest consumer region is Sofia, which maintains roughly 58 percent of market share.

Over the past decade the Bulgarian IT industry has been involved in many innovative activities and currently there are over 130 original projects of integrated circuits and 24 patents registered internationally.

Factor Conditions

There is a history of training in information technology studies in Bulgaria that stems from the training programs instituted in the 1980s to serve the electrical engineering market for the COMECON region. Today these institutions have continued to train students in technical and IT curriculums. In the 1998 to 1999 school year, there were 349 technical/vocational schools training 127, 247 students in computer and technical sciences. There are currently four universities in Bulgaria educating students in the fields of electronics, computer science and informatics. In addition to these specific programs, a number of other universities offer training in information technologies and their applications. The number of computer science majors graduated increased from 763 in 1995 to 1,143 in 1999, an almost 50 percent increase in four years.

While Bulgaria has a demonstrated history in technology and computer science education, the education lacks practical orientation. The collaboration between the industry and related educational institutions is reported as poor. In general, the level of business skills possessed by trained professionals and employees is low. Typically the skills that need the most attention are building business relationships and outsourcing. The current education curriculum also does not produce programmers with knowledge in the newest products on the market. Some of the larger Bulgarian IT companies have created their own training programs and many software companies have to provide additional training to meet current demands, which is increasing indirect labor costs.

The unique nature of the IT sector is that it is highly sensitive to the business environment and can be easily moved to other locations. The Bulgarian IT market is marked by lack of financing and low wages. Once trained many IT professionals move to other areas where wages are higher. Growing demand for IT professionals around the world has prompted some countries like the United States and Germany to offer special visas for software specialists. EPIQ Electronic Assembly has attempted to remedy the turnover issue by bringing in student engineers during their second or third year of university study through seminars and internship programs. EPIQ is planning to work more closely with Universities to plan curriculums more in line with company demands. SIRMA Ltd. has had particular success in keeping employee turnover low due to a policy of human capital investment and focus. SIRMA does not include loyalty or restriction clauses in its labor contracts, instead employees remain loyal because SIRMA offers a challenging work environment and maintains a well-respected corporate identity.

The managers of many of the IT companies in Bulgaria have stated that the economic and fiscal environment does not stimulate development of the IT industry. Technology infrastructure is lagging behind the rest of the global market and the education of IT professionals in Bulgaria is lacking in the practical skills necessary to compete. There is also lack of investment in the industry that is causing a number of problems in credit and funding terms. In 1998, private non-banking investment electronics, digital systems, computers, R&D, software, patents, trademarks etc., were reported to be less than 0.65 percent of the total assets of non-financial enterprises.

Internet is available in Bulgaria but is not as prolific as it needs to be to support a competitive IT industry sector. In 1999 it was reported that there were 18.80 Internet hosts per 10,000 persons and there are 235 thousand Internet users.[3] For the same time period, Ireland, a country that has been particularly successful in IT development reportedly had 227.43 Internet hosts per 10,000 people and 679 thousand Internet users.[4] Ireland has been able to promote greater proliferation of Internet use with a population that is half the size of Bulgaria.

Demand Conditions

The market for IT products is made up of many different sub-sectors, each which has its own particular customer requirements. The Software market, in particular, requires close linkages between clients and producers. It also requires very specialized products based on high-end customer requirements. Export-oriented companies are reporting almost all production is being sold to Western European, North American and Canadian markets. Two other firms, Hybrid Circuits ISC and Semiotech Engineering Ltd., report 95 percent of sales to these three markets with the other 5 percent going to Bulgarian, Turkish and other Eastern European markets.

Domestically, the Bulgarian government has the largest share of demand of computer systems representing almost 60 percent of total purchases. The software market in Bulgaria has shown marked increases, although it is still too small for many of the larger firms who are focusing their attention on the faster growing North American and EU markets. Domestic demand has been on the rise although at a much slower rate due primarily to the fact that the domestic market is not very sophisticated and local businesses have been slow on the uptake of new technologies. The domestic market has also been characterized as limited and generally providing low revenues. There are several Internet Service Providers that have points of presence in 20 to 30 cities in Bulgaria, but the bandwidth provided to those cities is small and this has reflected low demand on such resources and technologies. Some Bulgarian IT companies have attributed their export-oriented strategies on the slow growth rate and low revenues gained from producing for the domestic market.

[3] Data are from the International Telecommunications Union (ITU) World Development Report (2000) and Challenges to the Network: Internet for Development (1999).
[4] Ibid.

Firm Strategy, Structure and Rivalry

The decline in domestic and regional demand and the factors of production that have caused increases in labor costs and decreases in profit margins have caused many firms to focus on export oriented strategies. The general progression of industry strategy has been a reorientation from ex-COMECON markets towards EU, North American and domestic consumers in the early 1990s to utilization of domestic resources and opportunities in the late 1990s to expansion and focus on quality standards and international partnerships since the beginning of the new millennium. The most successful of Bulgarian companies have focused their efforts on development of innovations and high quality products to be sold in the European and North American markets. These strategies also focus on methods of getting closer to market customers in terms of location and market knowledge. However, many of the firms in the IT sector still focus strategy setting on general conditions and education issues in the short-term. Two firms that have successfully set strategies for long-term development are SIRMA and EPIQ Electronic Assembly subsidiary.

SIRMA, one of the leading IT firms in the country, has focused on creating a distinct company identity; this has resulted in a highly structured business plan/vision to promote very specific products to markets of high profitability (Computer Aided Design/Computer Aided Manufacturing—CAD/CAM). It was through their ties to Turkish markets that SIRMA was brought into the CAD/CAM market and it has proved to be its most profitable. A majority of its products are also sent to North American markets, the United States and Canada. Their highly structured business plan was centered on two areas of involvement: business solutions and R&D services.

SIRMA aims to be a leading provider of strategic business solutions that enable organizational improvement. They also aim to develop innovative products and technologies through long-term research combined with strong software development capabilities. SIRMA is planning long-term goals as a means to securing long-term success in the global IT market. Their current success is based on their ability to provide quality products by a team of highly motivated professionals with solid educational training and industry know-how. SIRMA has been successful in providing its clients with full-service products including rapid response to customer needs. SIRMA accomplishes this by maintaining international offices close to its clients, particularly those in Canada. The bulk of work remains in Bulgaria, but SIRMA set up an affiliate office in Canada as a means to providing direct quick customer response to one of its largest clients. This has facilitated a deeper business relationship and has also given them direct insight into customer requirements and trends based on direct contact with their client. It was through this experience that they have committed themselves to producing quality from all levels within the firm and to understanding how to work in demand-driven markets.

EPIQ Electronic Assembly has focused its strategy on vertical integration of its company and partner companies in order to better serve their clients with quality products and services. The way EPIQ has accomplished this is by partnering itself with leading foreign companies to offer a wide range of quality services in many markets while at the same time focusing its production on small niche markets within the larger global environment. Having achieved a wide range of quality standards for different markets has ensured EPIQ's ability to be flexible to fluctuations in market demands in the shorter and longer-term. Currently, EPIQ is focused on the production of small appliance components.

Industry Cluster and Cooperation

The IT industry is composed of many firms each with their own strategy regarding survival and success. In the industry, firms are very reluctant to cooperate as they perceive growth as a zero-sum game—the success of one is at the expense of another.

Formal collaborative action has not yet been defined although some informal modes of networking have been organized. There are three associations that claim to represent the interests of the industry as a whole in the development of Bulgaria's computer and electronic industry, there are two guilds in the industry and there is at least one trade union. The Bulgarian Association for Intellectual Technology (BAIT) organizes a fair in Sofia where industry members can present their products, although their focus is mainly on conditions for companies supplying the domestic market. The Bulgarian Economic Forum (BEF) was successful in organizing a forum on Bulgaria's high technology industry to which they invited global leaders in IT to meet with their Bulgarian partners and the government. An informal group, First Tuesday, has been developed and has caught the attention of many members of the industry as it has provided new networking opportunities for members of the IT industry.

In addition to the recognition of networking events by members of the industry, the number of joint ventures and the amount of foreign investment in the IT sector has been increasing, as can be seen in the EPIQ example. This is beginning to provide a more healthy competitive environment in the IT sector by opening collaboration between organizations within Bulgaria, the region and other global markets. However the industry still looks to the government as the primary source of resolution for market inconsistencies and industry issues rather then working collaboratively to produce alternative opportunities.

Role of Government

IT markets require freedom and openness from artificial factors that can hinder its competitiveness. The Bulgarian government has some recognition that the IT industry is an essential part of the future of Bulgarian competitiveness and that the development of the IT industry is very important for the growth and prosperity of many other supporting and dependent industries. However, recent profit tax reduction measures on exports instituted by the government have not benefited the IT industry. The liability of VAT registrations arises if the turnover of a company is more than 75,000 Leva for a twelve-month period. This level is too high to be of benefit to smaller and medium sized firms.

Second, software exports do not fit into standard export criteria and often do not qualify for tax credits.

In an attempt to aid the IT industry, the government drafted a High Tech bill to provide tax breaks and government financing for companies and activities at the government's discretion. The bill was passed in 2000, and there have been few attempts to revise it according to the changing vision for the industry.

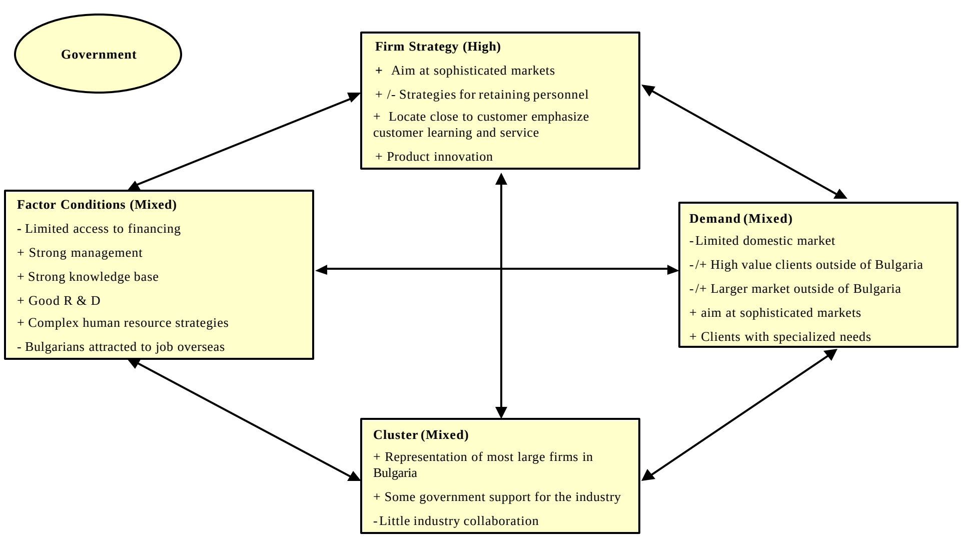
The requirements for registration by Internet Service Providers have been separated from other registration processes for business enterprises. In order to maintain a competitive environment the process for ISPs should be the same as for any other small businesses. Government assistance would be most beneficial in the promotion of imported goods for value addition export to enhance the IT market in Bulgaria. Tax relief or another type of subsidy to firms providing value addition services would also benefit the creation of an open market for IT goods and services. Open markets are the most important factor for the growth of any IT sector although attention to the influence of global markets on the Bulgarian IT industry is also quite important. In line with maintaining open markets, the IT industry should not make a habit of turning to the government for the resolutions to all difficulties.

Looking Forward

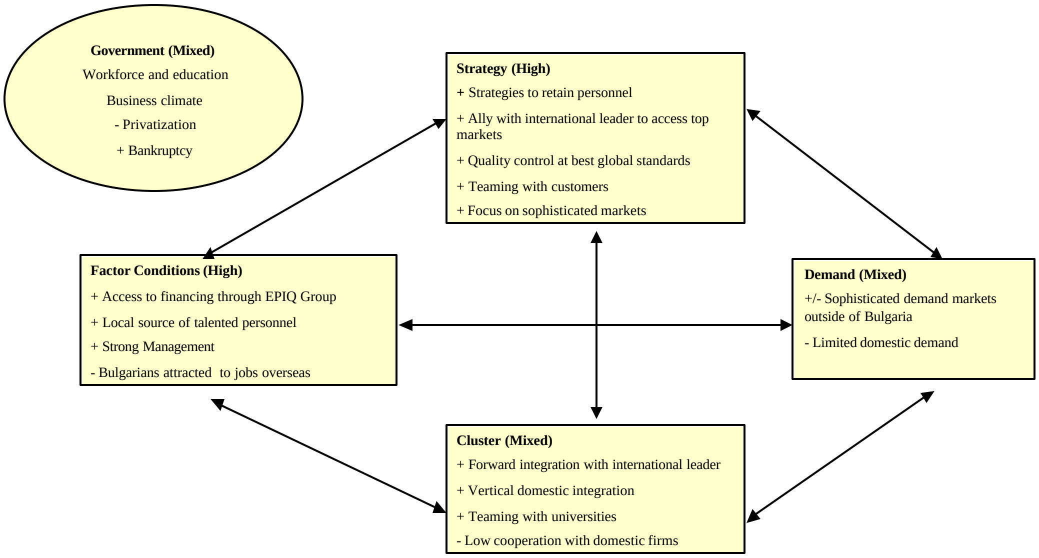
Opportunity	**Method**
1. Competitive Positioning	*Opportunity:* Innovate product offerings, such as ERP solutions and niches for increased share in international markets, and accounting and specific software needs to regain domestic market share. Strategize marketing plans for distinctive niche markets to provide sustainable and enlarged competitive positioning.
2. Customer Learning	*Opportunity:* Gain deeper knowledge of market trends and customer demands in order to create innovative demand-driven products. Forge closer relationships with customers through greater interaction and locate some operations closer to customers to provide rapid response to customer service issues. Find ways to build customer demand for services through usage seminars and domestic knowledge development of the benefit of IT products and services.
3. Innovation	*Opportunity:* Innovate current technology infrastructures to international standard levels for many if not all firms in the sector. Provide opportunities for greater Internet proliferation. Create production and marketing plans based on the requirements of niche markets.
4. Human Capital Investment	*Opportunity:* Work to create more collaboration between firms and universities and training institutions to provide more practical training in business/commercial management and technical skills. Raise domestic investment in technology skills development programs. Look to alternative organizations like Cisco for short-

	term training needs. Make sure skills being provided are the ones being used, if not work with training institutions to set curriculums based on skill demands.
5. Cluster Cooperation	*Opportunity:* Encourage the institution of a cluster organization to promote the attitudes and agendas of the IT sector to government and assist in marketing Bulgarian goods to foreign markets. Seek synergies between firms in the sector and with government as this may prove to be more attractive to foreign investors. Work with government to set a national strategy for IT development for domestic and international growth that benefits all sectors as much as possible. Search for partnership opportunities between consultant companies and financial institutions and IT companies.
6. Forward Integration	*Opportunity:* Promote the use of joint ventures and networks with foreign investment to improve technology infrastructure and wages. Develop internal systems of quality control to meet international standards. Develop business solutions to meet the needs of domestic and international markets as well as introducing new solutions to the domestic market.
7. Strategies and Attitudes	*Opportunity:* Gain a more accurate understanding of the effective use of information technologies as it relates to the future of the IT industry through dialogue with clients, partner firms and government.

SIRMA
Company Competitiveness Diamond



EPIQ
Company Competitiveness Diamond



CLUSTER: <u>**Information Technology**</u>

Platform (Policy, etc.) Impact points[5]

	PLATFORM ELEMENT	COMPANY IMPACT POINTS			
		Finance	*Marketing*	*Production*	*Organization and Staffing*
Macroeconomic Policies					
	Monetary	X			
	Fiscal	X			
	Trade		X	X	
	Labor – minimum wage				X
→	Labor – expatriates			X	X
→	Capital – ownership	X			X
	Capital – repatriation	X			X
Legal and Institutional Enabling Environment					
→	Appropriate commercial legislation	X			
	Functioning judiciary or arbitration mechanisms			X	
	Productive civil service				X
	Tax collection	X			
	Customs	X	X	X	
	Heath and sanitation			X	
→	Business Licensing	X	X	X	
→	Investment Promotion	X			
	Government procurements and contract awards		X		
	Privatization	X	X	X	X
Infrastructure – Costs and Services					
	Safe Water				
→	Telecommunications		X	X	X
→	Informatics		X	X	X
	Energy			X	
	Transport		X	X	
Human Resources					
→	Literacy		X	X	X
→	Education level			X	X
	Technical and managerial training	X	X	X	X
→	Productivity			X	X
	Health initiatives				X

[5] On the Impact Points Table, an "X" represents an impact on the firm and an "→" represents a factor that has a particularly significant impact.

TOURISM[1]

Industry Background and Performance

Bulgaria has a rich history and is endowed with many natural resources. There are medieval and ancient Greek sights, mountains with ski resorts, beaches with sun and sand, and many "wild" and undeveloped rural areas for adventure seekers. Bulgaria is conveniently positioned at a crossroads between Europe and the Orient and has an abundant cultural and religious heritage. It is these resources that have provided a base for Bulgarian tourism.

In the mid-1990s many sectors of the Bulgarian economy were registering losses, the tourism sector, based on the statistics reported by the National Statistic Institute and Ministry of Finance, was steadily generating positive financial results. In 1998, foreign investors in Bulgaria were asked to identify the sectors that eventually would prove good opportunities for new entrants. 70 percent of respondents pointed to tourism.[2]

The year 2000 marked a visible improvement in Bulgaria's tourism industry. It remains to be seen, however, to what extent this improvement is sustainable. In the period between January and September 2001 tourist revenues increased 31 percent as compared to the same period in the previous year.[3] Since early 2001, there has been little policy development. The government did decide to focus activities on lowering barriers in the tourism sector and introduced a 10 percent VAT tax on tourist packages sold abroad, which will take effect January 2002.

There are two sectors of tourism present in the Bulgarian tourism industry: mass tourism which is focused on natural resources and caters to high volume/low value programs and specialized tourism based on niche markets and is focused on high end/high price consumers. The strategy of the Bulgarian tourism industry has to this point been focused on the mass tourism sector and has not brought much to the Bulgarian economy in terms of revenues per tourist. In order to get more money per tourist and keep more of the money in Bulgaria, strategies will need to be revised to capture higher end markets for niche tourism. To some degree this could already be taking place in the Bulgarian tourism industry. Part of the difficulty in analyzing the Bulgarian industry, is that there are ongoing developments in the industry, which embrace most of the competitiveness elements: the "vision" is being changed, demand and marketing channels are being reflected upon, the cluster is reshaping under a more organized framework, and the industry is entirely privatized.

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[1] Based on an industry analysis prepared by Dr. Krassen Stanchev, IME. Available through the BCE website http://www.competitiveness.bg/.

[2] Emily Taneva, Tourism Infrastructure in Bulgaria, US Department of States, 1999, p. 2.

[3] Bulgarian National Bank (2001)

Factor Conditions

The tourism industry was and to a great extent still is a sector with delayed investment in infrastructure, supporting facilities, new services and management. The skills, training and attitude of the human capital component of tourism has not changed much since the days of centrally planned economies. Tourism industry training institutions and programs have not changed much since the early 1990s.

Currently there are eight state-run universities and four private universities, primarily located around the major seacoast cities that provide courses and/or degrees in tourism. Curricula are primarily based on programs offered in Italy and Austria. The faculties of the universities have remained the same for the past ten years. Sofia University has made moves towards innovating their tourism program from topics in general geography and economy to the specific economics of tourism. None of these institutions have initiated a survey of the issues and prospects for the tourism sector. The use of knowledge as a tool for tourism development has not been explored. This can be seen in the lack of market trend analysis and understanding. Knowledge on the tastes and desires of both Bulgarian and foreign tourists is not pervasive among industry managers and employees.

On the other hand, smaller family owned enterprises have relied on practical self-learning as their primary source of human resource development. Businesses are commonly handed down from generation to generation.

Infrastructure in the tourism sector has catered to primarily unsophisticated tourism services. Delayed investment and refurbishment of infrastructure is one of numerous pieces of evidence that sun and sand, mountains and snow are believed to be sufficient in themselves to bring customers to Bulgaria. In the case of Borovetz, the largest ski resort, the streets have rarely been cleaned from snow in the last ten winters. With the exception of some of the larger resorts, for the most part the beaches of Bulgaria are predominately dirty. It should be noted that although there are issues with the current infrastructure supporting the tourism sector, more sophisticated infrastructure resources are being put into place.

For the most part, widespread Internet usage has remained limited in the tourism sector. However, since 1998 an Internet-based reservation system has been in place to serve the best hotels in the best sea and mountain locations. At the end of January 2001, there were twelve relatively easily accessible Bulgarian tourist operators' websites. One of the largest problems that the tourism and other industries face is the inability of service providers to provide credit card services for tourists. The lack of this service will have a detrimental effect on the overall ability of the industry to attract customers.

Financial and investment services have been available to finance privatization, and they are now switching to providing credit for renovation and investment in services. Also the non-banking financial services for the tourism sector improved in 2000. Some big insurers have already announced plans to launch a private guarantee fund for projects in tourism.

Domination of the Bulgarian tourism market by a relatively few large tour operators and hotels offering a mass product has discouraged innovation and risk investment into other sectors of the Bulgarian tourism industry, including in Sofia, mountain, and other regions. Provision of services by mass product operators and hotels has been in low margin products that only gain nominal revenues.

Demand Conditions

The performance of the tourism sector has been uneven over the past four years. In 1998 there was a marked decline in the number of tourists from all areas. The tourist base of customers (excluding Germany) is from medium and low-income countries, although many visitors also come from the surrounding regions. These losses were most significant for tourists from Germany and Turkey.[4]

Overall the trend in arrivals has been increasing although no firm pattern can be determined. In the period from the beginning of 2001 to September 2000, tourist arrivals increased by 20 percent and tourist revenues totaled USD$556 per tourist, an increase of roughly 9 percent from the same period in 2000.[5]

The number of Russian tourists has doubled since 1999; three times fewer Romanians visited Bulgaria than did four years before; and since 1996 there has been a steady increase in the number of Macedonians visiting Bulgaria. In general, western tourists have gravitated towards the major resorts, which provide comprehensive tourist packages through international operators. Surprisingly, the unrest in other regions surrounding Bulgaria has not been particularly detrimental to the tourism sector.

According to the World Tourist Organization Annual Report for 1999, Bulgaria experienced an average increase of 7.5 percent per annum in tourist trips over the past ten years.

The limited research and information on relative competitiveness created the public perception that Bulgarian tourism is entering an upward trend. But this perception does not necessarily reflect the relative position of Bulgaria vis-à-vis other countries, e.g. Croatia.

[4] There are specific explanations for those developments: 1997 and 1998 were particularly good for neighboring destinations (Croatia, Greece and partially Montenegro) in attracting German tourists. With Turkey there were regular exchanges of "visitors" with tourist visas but not tourists per se; those were ex-Bulgarian citizens of Turkish who settled in Turkey after being expelled by the outgoing communist regime in 1989, cross-border vendors and Muslim seasonal workers. In this regard, among other reasons, a factor that contributed to lesser "tourist" exchange was to be found in stricter visa procedures introduced by both countries in the end of 1997, plus, perhaps, 1998 restrictions on gambling.

[5] Bulgarian National Bank (2001)

In 1998 tourism receipts per capita were USD$52.92. This was almost seven times lower than the average receipts per capita for the EU accession countries, USD$370.09; and more than 10 times lower than the average for EU countries, USD$564.97. Bulgaria is 97th out of 186 countries on which data is available.[6] For 2000, the per capita figure is USD$509. For 2001, tourist revenues jumped to USD$556.

The domestic market is an undifferentiated and undefined segment of the overall market. It has not been surveyed and there is no information on its size, contribution to tourism revenues or comparisons to foreign visits.

Firm Strategy, Structure and Rivalry

According to the Ministry of Economy, there are 230,000-240,000 beds in Bulgaria, provided by 500 hotels (built between the 1950s and the1980s), 40 camping sites, mountain lodges and family hotels.[7] By January 2001, virtually all hotels had been privatized. It has been estimated that 16,000 beds are available in camping sites around Bulgaria, but in interviews with tour operators conducted during this study, the number that are actually usable only about 30 percent and decent conditions are present at only 10 percent of the camps in service.

There are only four five-star hotels. The majority of other hotels are two- or three-star hotels. International chains have a limited presence, mainly in the capital city of Sofia, and foreign brand names are essentially non-existent in the Bulgarian tourist market.

The average price per night paid by a foreign visitor in 2000 was USD$46.[8] Local Varna newspapers report prices for Russian visitors as low as USD$2 to USD$3.50 per night for accommodations in the low-star hotels in the major resort of Zlatni Piasatzi (or Golden Sands) near Varna.[9]

Conference facilities are also available, albeit in short supply as there are only 37 such facilities around the entire country.

The focus of Bulgarian tourism strategy has been on sand, sun and mountain resorts. The very small number of five-star hotels and the limited availability of international hotel chains is evidence of the dominant low-end provision of services. The industry has depended on foreign packages to bring tourists to Bulgaria. As a result of this dependency, the Bulgarian tourism sector has lost much of its bargaining power when it comes attracting certain types of tourists. However the tourism industry has recognized the need to innovate its services in order to develop the tourism sector.

The year 2000 marked a turning point in the understanding the conditions and prospects of the Bulgarian tourism industry. There is already a steady process of reevaluating the

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[6] J.E. Austin Associates, Bulgaria Benchmarking; source: World Development Indicators, World Bank.
[7] See also: Emily Taneva, Tourism Infrastructure in Bulgaria. US Department of State, 1999, p. 3, 4.
[8] See: *Varna Standard*, October 12, 2000, p. 2.
[9] Ibid.

values, including a criticism of the dependence on ready-made advantages such as sand and snow. This is visible in the specialized trade magazines produced for the sector, which in 2000 started to promote factors as quality of the services, hospitality, complexity and integrity of the services.

Deficiencies in tourism infrastructure and investment to a significant extent limit immediate options for strategic action in the sector. It is difficult to compete on quality and high-end services when major hotel networks were built 15 to 20 years ago. Subsequent refurbishment has been sporadic. However, motions are being made to upgrade the level of services offered and the infrastructure in place to support those services. Hospitality had rarely been a priority in strategy setting due to a lack of knowledge of customer requirements, but now some enterprises are attempting to diversify products and services to meet customer demands.

The Albena Sea Resort has been successful in this pursuit. The resort has sought to differentiate its products to attract new clients. In order to achieve these goals it has entirely renovated 17 hotels at a pace of three to four hotels a year. Also, it plans one new four-star hotel in 2000, managed by an international chain. The resort is building a new football stadium aiming to attract soccer teams to training camps in Albena, and hopes to build the first golf course in the country. Albena has been successful in seeking alternative products, such as offering additional services for clients who wish to take part in activities independent of the main packages.

Industry Cluster and Cooperation

Cooperation and division of labor between agents and tourism service operators seems to work well. Collaboration is primarily organized horizontally although dialogue between members such as suppliers and producers is vertically integrated. Outside the industry there is evidence of strongly developed cooperation with traditional suppliers of transport services, food and agriculture produce. Cooperation with the non-banking financial sector is beginning to gain momentum.

Cooperation between the cluster and the government seems effective, although not negotiated. In the last two years, Government investment in roads and other infrastructure averaged 3 percent of GDP. [10] The Ministry is also the main advertiser of the Bulgarian tourism sector. It not transparent how effective this cooperation with sector is on this front, although it is obvious that there is no concerted effort of industry members, or even a group of them, to jointly advertise abroad.

Cooperation in research and education remains limited. On the local level, there is cooperation between the sector and municipalities to promote particular local cultural, environmental and historical resources.

[10] NSI and Rossen Rozenov, Factor Conditions for Bulgaria's Competitiveness. (2000)

Role of Government

There are four government agencies that oversee elements of the tourism industry along with their local bodies. The Ministry of the Economy is responsible for licensing and categorization; the Ministry of Health is responsible for controlling in-house pollution and sanitary standards; the Ministry of Environment and Waters is responsible for controlling outdoor pollution and the quality of the environment; the Ministry of Territorial Development is responsible for controlling construction, roads and urban planning.

The tourism sector is one of the most heavily loaded with costs related to dealing with the government. Annually, an average tourism company spends between USD$3,000 and USD$3,500 on various fees related to compliance with regulations and in-kind costs. [11] At the same time the sector is receiving a government subsidy of 0.02 percent of its estimated contribution to the budget. This relationship between the private sector and the government becomes a delicate subject in that 60 percent of this subsidy comes from the industry contributions.

Prior to the adoption of the tourism law in 1998, the government had no responsibility for licensing and categorizing hotels and restaurants and entry was free for sole proprietors and family hotels. The only entry regulation was on private entrepreneurship adopted in 1989 and then replaced in terms of registration with the court, tax authorities and statistics office by the Company Law of 1991.

Privatization of the sector, while almost 100 percent by 2001, proceeded rather slowly. Before 1997, there were only two privatization deals in the works. The five biggest privatization deals totaled USD$95.6 million. The total government revenue from privatization of the tourism sector to-date is estimated at USD$200 million.

A deficiency of the privatization period was the failure to attract strategic investors who were international leaders with recognized names. Two big interest groups, Olympus, Roseximbank and Multigroup, were allowed to control major resorts and hotels, with unclear and rather limited prospects to set and follow global standards of service. This essentially left the industry in the hands of company managers that lacked a full understanding of the customers to which it was marketing its products.

In spite of almost total hotel privatization, the government also continues to serve as a provider of vacation services. The Council of Ministers owns 15 residences and 20 hotel-sized rest houses—of these, the Central Bank owns 5 of these rest houses, the Ministry of Justice owns 5 and Public Television owns 4. These rest houses and residences represent an estimated capacity of 2,000 beds, 10 percent of the estimated capacity of family-owned hotels or 0.08 percent of the gross capacity of the Bulgarian tourism infrastructure.

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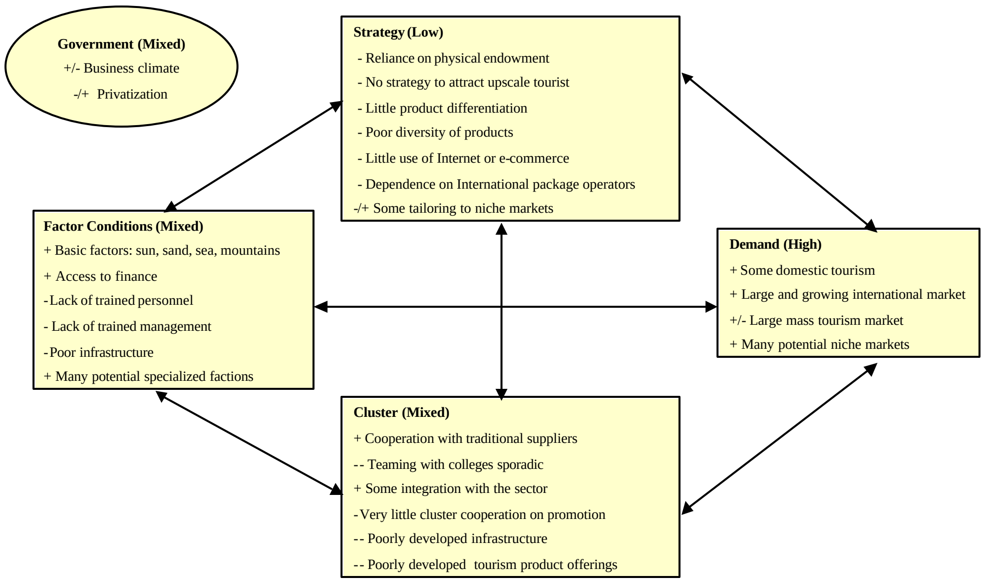
[11] See description of these fees and cost in: Y. Gancheva, A. Hristiva-Yonkova and K. Stanchev (editors), Administrative Barriers to Business Activities. IME/AIP, Sofia, 2000, pp. 15-18, 24-31, especially the costs for an average company in Borovetz – pp.32-33.

Looking Forward

Opportunity	**Method**
1. Competitive Positioning	*Opportunity:* Examine destinations within Bulgaria that incorporate its most engaging products and match these to markets, human resources, capacity limitations and investment requirements. Develop a strategy to brand an authentic "Old Europe" experience for some Bulgarian destinations. Expand services to meet higher value consumers.
2. Customer Learning	*Opportunity:* Develop better understanding of market trends and current and potential customers' requirements and develop a comprehensive strategy and common cluster actions for attracting them. Ensure that the necessary supporting factors are in place to support marketing to niche markets.
3. Innovation	*Opportunity:* Offer a greater mix of products including those that speak to particular niche market groups. Study market trends and employ cultural, historic and natural resources to access new market groups. Enhance the marketing of Sofia as a vacation gateway and business destination. Develop themed packages based on cultural activities and regional tour routes, such as linkages with the wine and perfume industries to provide tour programs based on these two industries. These innovations will assist in Bulgarian providers learning more about customer trends and requirements.
4. Human Capital Investment	*Opportunity:* Work with training institutions to incorporate more updated and diverse curriculum offerings, especially in the area of hospitality training. Upgrade management training programs to modernize skills. Assist in the penetration of IT training and usage.
5. Cluster Cooperation	*Opportunity:* Stimulate greater inter-cluster cooperation, not only with supporting industries but also among direct partners such as tour operators, trainers, etc. Stimulate regional cooperation among neighboring countries. Cultivate common interests among competitors.
6. Forward Integration	*Opportunity:* Work more closely with business partners and clients to clearly identify and effectively respond to their requirements of the customers. Provide new services based on customer requirements.
7. Strategies and Attitudes	*Opportunity:* Expand cluster advertising efforts for the entire industry. Take responsibility for the development of strategies and the search for investment opportunities. Focus on provision of higher end/value products and services.

TOURISM INDUSTRY
Competitiveness Diamond



CLUSTER: <u>Tourism</u>

Platform (Policy, etc.) Impact points[12]

	PLATFORM ELEMENT	COMPANY IMPACT POINTS *Finance*	*Marketing*	*Production*	*Organization and Staffing*
Macroeconomic Policies					
	Monetary	X			
	Fiscal	X		X	
	Trade		X		
	Labor – minimum wage	X			X
	Labor – expatriates		X	X	X
	Capital – ownership	X			
→	Capital – repatriation	X		X	
Legal and Institutional Enabling Environment					
→	Appropriate commercial legislation	X	X		
	Functioning judiciary or arbitration mechanisms	X			
	Productive civil service			X	
	Tax collection	X			
→	Customs		X	X	
→	Heath and sanitation		X	X	
	Business Licensing			X	
→	Investment Promotion	X	X	X	X
	Government procurements and contract awards				
→	Privatization	X	X	X	X
Infrastructure – Costs and Services					
→	Safe Water		X		
→	Telecommunications		X	X	
	Informatics		X	X	
	Energy		X	X	
→	Transport		X	X	
Human Resources					
	Literacy		X	X	X
	Education level		X	X	X
→	Technical and managerial training			X	X
→	Productivity			X	X
	Health initiatives				X

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[12] On the Impact Points Table, an "X" represents an impact on the firm and an "→" represents a factor that has a particularly significant impact.

CANNING[1]

Industry Background and Performance

Overall, the Bulgarian canning industry is in a steep decline. In 1998, the industry produced 71.2 tons of canned vegetables versus 127.2 tons in 1996 and 136.1 tons in 1997. The reason is that the Bulgarian market has suffered from a number of unfavorable factors that have led to this down turn.

Ten years after the end of the socialist period, during which all canning companies were state-run, 85 percent of the companies have been privatized. But this privatization has not led to profit growth or industry growth. The privatization of farms created a setback to the ability to produce large volume crops at competitive prices. The privatization of canning companies led to employee ownership, which often resulted in ineffective management practices and a lack of the necessary capital to operate. Both of these problems were due in large part to the economy during the socialist period that ineffectively prepared either for a demand driven market economy.

Factor Conditions

The workforce is skilled and qualified. For the most part, workers involved in non-manual processes are graduated from special secondary institutions and have the necessary background to complete their job effectively, although practical training in marketing techniques is lacking. For manual and seasonal workers, the companies usually provide a short training prior to the startup of the high processing seasons. These positions usually have high turnover due to the seasonality of the industry.

Managers are not well trained in marketing techniques. Businesses lack ready access to information about foreign markets, technologies and related industries.

The infrastructure in areas surrounding centers of production is adequate, although roads have degraded and fuel costs have risen, contributing to high transport costs. Accessibility to information on market trends and customer information is another weak point. Marketing techniques are not well developed; and businesses lack the ready access to market information and technologies that could improve productivity. The factories that are currently operating were built decades ago. The technology used by many of the factories has not changed since it was built. The equipment being used remains far behind the innovative technologies that most other competitors use and the profit margins of the Bulgarian companies are low making it impossible to expand their technological base without outside investment. The effect is low productivity and efficiency levels that are negatively affecting the economy.

The Canning industry and agriculture in general are highly seasonal industries. Canning companies typically operate at full capacity for no more than four to five months out of

[1] Based on a case study prepared by Diana Kopeva, IME. Available through the BCE website http://www.competitiveness.bg/.

the year (July-December). This creates problems with ensuring steady cash flows throughout the year. A lack of stable access to cash makes loan repayments difficult and raises the risk assessment of the canning industry in the eyes of the banking sector.

During the period 1996 to 1999 crop yields dropped in volume and quality, international requirements on food standards have become stricter and prices of food products have increased yet the purchasing power of many Bulgarian companies has decreased. The result of this is that Bulgarian canning companies have been unable to adequately supply its domestic and export markets. The Bulgarian canning industry also suffers from a lack of product diversification in the highly competitive export market.

Access to financing is one of the main obstacles faced by the canning industry. The security of credit is often hard to ensure and loans are difficult to obtain. The loan process is an arduous one, companies are required to guarantee solvency by depositing an amount of money to equal or sometimes greater than the amount of the loan. Interest rates are extremely high and the mortgage mechanism has not been fully developed to present a benefit to the lending process. However, credit is sometimes available between companies within the cluster.

Distribution and supply middlemen still play a key role in the industry, as they are the most educated on market information and skills. They forge contracts with suppliers and the industry as a whole to act as the intermediary for marketing and exporting of goods to foreign countries. They are in charge of the organization and control of the entire process of supplying final markets.

Demand Conditions

The Bulgarian canning industry exports canned vegetables to Germany, Russia and other NIS countries; frozen fruits and vegetables to Greece, France, Germany, Holland, Austria and Italy; and jellies and jams to Russia, Germany, Jordan, the Czech Republic and Austria. In May 2000, agreements on tariffs and quotas for the canning industry were finalized with the EU.

Finished goods are produced primarily for export markets, as there is limited domestic market demand. A prejudice against Bulgarian products exists among Bulgarians that can be traced back to the misconception that Bulgarian canning companies produce low quality goods. In some cases Bulgarian jams and jellies are better than those produced and imported from Western Europe, but Bulgarians would choose the European brand over the Bulgarian product because of product quality misconceptions. There is a small market for very high-end quality canned goods. Those canning companies involved in the production of such goods are focusing on these markets in Western Europe. Working in this market had enabled these canning companies to learn how to compete in these markets.

The market share of private industries in the canning industry is estimated at 25 percent. For the most part, the canning industry is centered in regions of agricultural production.

Firm Strategy, Structure and Rivalry

The processing of fruits and vegetables can be channeled either through state-run enterprises or through private ones. Ongoing structural reform is characterized by the restructuring of state ownership.

The Bulgarian canning industry is still in the factor-driven stage, operating at less than 50 percent of its existing capacities. The industry has not yet "jumped" into the investment-driven stage.

The elaboration of competitive, specific firm strategies is not highly developed in Bulgaria's current environment of cost pressure, low purchasing power, and business constraints. One set of difficulties arises from the lack of steady parameters for measuring production and investment programs. The supply of raw materials is uncertain in terms of regularity, price and quality. Transactions are rarely based on contracts. The supply of jars and caps presents similar problems. Bulgarian firms require greater access to market trend information in order to set effective market-based strategies.

One firm that has been successful in the Bulgarian canning industry is Plovdiv Canning OOD.[2] Plovdiv Canning OOD has forged a joint venture relationship with CARESBAC—Bulgaria AD, a joint venture company established by the governments of the United States and Bulgaria to facilitate equity lending to the emerging private sector in agriculture, food service and related industries.[3] This joint venture has provided Plovdiv Canning OOD with the necessary capital funds and organizational structure to be competitive in the Bulgarian canning industry.

Industry Cluster and Cooperation

There has not been much formal cooperation within the canning industry, particularly between processors and suppliers. Processor linkages with the agriculture supply sector have been deteriorating and there is a lack of formalized contract agreements between suppliers and processors. Key related industries such as packaging and transport are not well developed.

Two trade associations exist to represent the industry although linkages within the cluster are also deteriorating between processors and suppliers. These industry associations have not accomplished much in terms of forging strong ties between the processors, the

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[2] The name of the firm has been changed for reporting purposes. OOD is the Bulgarian abbreviation for Limited Liability Company.

[3] CARESBAC Bulgaria is an investment fund, specialized in microcredits (between 25 percent and 49 percent) in small and medium sized private Bulgarian companies. The purpose of CARESBAC is to invest in the sphere of agribusiness - agriculture, food processing and all industries associated to the former two industries. CARESBAC just started its operation in the country; it managers were looking for committed entrepreneurs and a business to invest. *** OOD was one of their first projects; CARESBAC accomplishes its objectives by providing equity financing up to 350,000 USD and technical assistance in marketing, accounting, technical and other issues.

suppliers and the government on issues related to market information gathering, policy setting and control requirements.

During a Competitiveness Conference in April 2001, sponsored by the BCE, the industry identified a number of areas for further discussion among industry members. One of the most important next steps for the industry was to forge collaboration among stakeholders within the cluster to identify the problems within the cluster and stimulate a dialogue between members. Through this collaboration the stakeholders can draft a strategy for the future of the Bulgarian canning industry. This includes working with government on policy changes and financial system restructuring. The industry recognizes its flaws and should work on looking for opportunities to advance the industry as a whole.

Role of Government

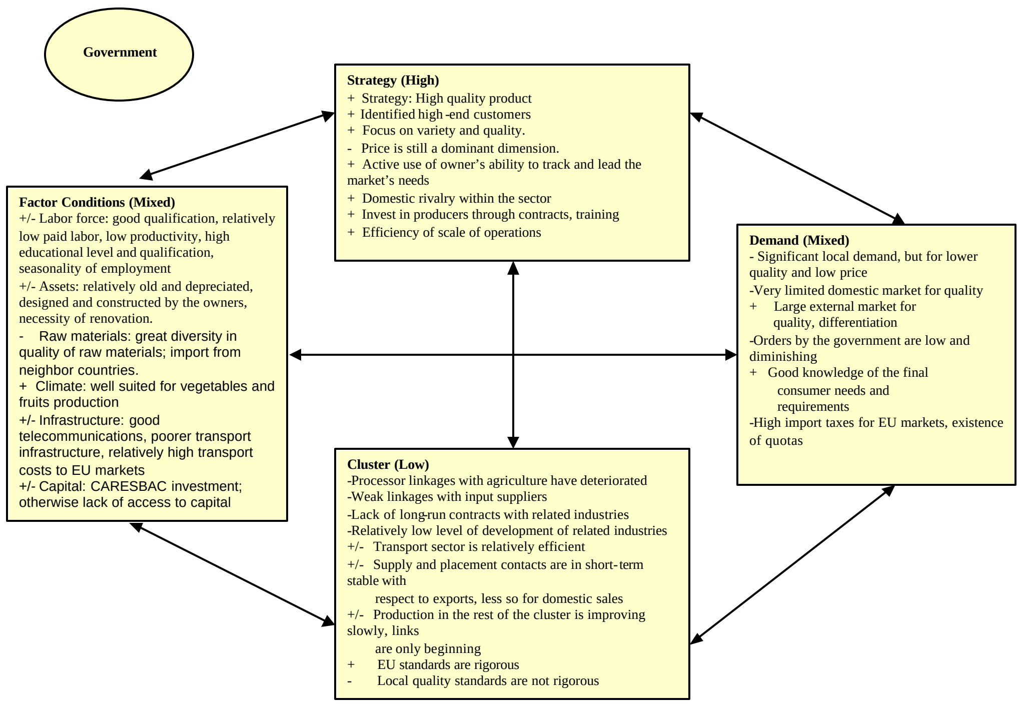
The government has supported the canning and agricultural industry by following a policy of encouragement of market activity and competitiveness. Despite the efforts to restore private land ownership, land reform policies are lacking the necessary initiatives for the development of agriculture. While 85 percent of the industry has been privatized, the process for the remaining 15 percent is slow.

Looking Forward

Opportunity	**Method**
1. Competitive Positioning	*Opportunity:* Look for opportunities and take measures for increasing value-added exports. Implementation of an aggressive marketing program including creating an image for Bulgarian goods in the domestic market. Create a series of ecologically clean canned products. Invest in improving technology. Work on creating a ‘branded’ Bulgarian product for specialty products.
2. Customer Learning	*Opportunity:* Better understanding of customer tastes. Orientation towards development of new packaging. Develop strategic partnerships to access market knowledge and distribution.
3. Innovation	*Opportunity:* Improve production efficiency through investing in modern equipment and technology.
4. Human Capital Investment	*Opportunity:* Invest in training of employees in marketing and business management.
5. Cluster Cooperation	*Opportunity:* Improve the current ineffective cluster structure. More active relations with producers established on contract basis.
6. Forward Integration	*Opportunity:* Codify and write all practices, procedures, and formulas into manuals to ensure that proper modes are followed on a consistent basis.
7. Strategies and Attitudes	*Opportunity:* Develop a common strategic direction with focus on quality and image. Develop raw material supply chains to

	import goods and hedge supply strategies.

PLOVDIV CANNING OOD
Company Competitiveness Diamond



CLUSTER: Canning

Platform (Policy, etc.) Impact points[4]

	PLATFORM ELEMENT	COMPANY IMPACT POINTS			
		Finance	*Marketing*	*Production*	*Organization and Staffing*
Macroeconomic Policies					
	Monetary	X			
	Fiscal	X			
→	Trade		X	X	
	Labor – minimum wage	X		X	X
	Labor – expatriates	X	X		X
→	Capital – ownership	X	X	X	
	Capital – repatriation	X			
Legal and Institutional Enabling Environment					
	Appropriate commercial legislation	X		X	
	Functioning judiciary or arbitration mechanisms	X		X	
	Productive civil service				X
	Tax collection	X			
→	Customs		X	X	
→	Heath and sanitation			X	
	Business Licensing	X	X		
	Investment Promotion	X	X	X	
	Government procurements and contract awards			X	
	Privatization	X	X	X	
Infrastructure – Costs and Services					
	Safe Water			X	
	Telecommunications		X		
	Informatics		X	X	
→	Energy			X	
→	Transport		X	X	
Human Resources					
	Literacy		X		X
	Education level				X
→	Technical and managerial training		X	X	X
→	Productivity		X	X	X
	Health initiatives				X

[4] On the Impact Points Table, an "X" represents an impact on the firm and an "→" represents a factor that has a particularly significant impact.

WINE[1]

Industry History and Performance

The Bulgarian Wine Industry has been considered a high-performance sector within the economy for many years. Currently, Bulgaria holds 2 percent of the world market share of wine production and exportation. There are about 120 wine producers operating in the markets of bottled and broached wine as well as a number of other related products. All of the companies in the industry are privately held as of 2000.

In the winter of 1997 and 1998, a severe frost and low temperatures damaged a significant part of the grape crop, 50 percent in Northern Bulgaria and 20 percent in Southern Bulgarian vineyards. This restricted the available resources for Bulgarian wine producers and resulted in price inflation even on lower quality grapes and an increase in the amount of imports. Competition for grapes among domestic producers became very high and has since remained rather high, which is fostering some growth in market terms.

Factor Conditions

The industry's workforce is based in deep traditions of winemaking and production. Three main institutions provide training in vine cultivation and wine production: the Agricultural Academy in Plovdiv, the Higher Institute of Food Processing in Plovdiv and the Higher Institute of Vine-Growing and Winemaking in Pleven. Until the 1990s, these institutions housed very well equipped laboratories, but in recent years due to difficulties in financing, the laboratories have not been able to modernize their technologies. The professors and researchers at these institutions remain the foremost authorities on wine production in Bulgaria and are often take lecture around the world. In addition to formal training, the majority of companies are based in regions rich in wine growing and producing history, a percentage of expertise comes from traditional, homegrown training. In practice, very little investment is made by companies to train their workforce and there is little collaboration between the industry and its supporting academic institutions. In terms of management, while technically they are highly trained there is additional practical training in marketing and such that requires attention. Managers understand the importance of quality, but generally do not take the necessary steps to ensure their products are up to international standards. The wine industry lacks focus and knowledge of the standards and quality necessary to meet international and even domestic markets. Out of an estimated 259 Bulgarian entities that are ISO 9000 certified, not one is a wine producer.

Domestic infrastructure is reasonably good in the regions of production, rail and road transport is available and of adequate quality. There is a reliable source of electricity, water, gas and communications in the regions where wine producers and growers have settled.

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[1] Based on an industry analysis prepared by Borislav Georgiev, IME; and a case study prepared by Silvia Petrova, CED. Both are available through the BCE website http://www.competitiveness.bg/.

The quality of grape supply is also an issue. Mother vines are old and vine mortality rates are higher than the rate of replanting. The variation in climactic conditions also plays a role in the quality of domestic grape supply.

In an attempt to remedy the supply issues created by in 1997 and 1998, and to deal with the aging of supply vineyards, one company, Vinzavod-Assenovgrad decided to invest in new vineyard plantings.[2] In addition to internal investment, the industry has made strides to create more formal agreements with farmers; one factor that had previously been lacking was contracts between producers and farmers for supply distribution. Luckily in 1999 and 2000, environmental conditions favored crop growth.

There has been little progress in raising profit margins since the loss of crops in the late 1990s; accessibility to the cash necessary to expand raw material bases has been an issue. The option of credit borrowing is non-existent for many of the small and medium sized companies. This is due to the fact that turnaround on investments takes four to five years in the agricultural sectors and banks fear the risks of making such investments. Some of the larger companies have benefited from foreign investment, but this type of investment is not able to make up for the lack of domestic financing services. In many cases, farmers only receive returns on their crops after the producers have received returns on the finished products.

The lack of reliable credit has also restricted many companies' abilities to innovate technologically. Most of the companies in the industry are working with machinery, equipment and technologies purchased during state management, it is inevitable that the lack of modern equipment will have a detrimental affect on the ability of the sector to produce quality products. The necessary lines of credit necessary to bring the entire industry up to par are simply not available and small/medium sized companies are not able to handle the costs themselves.

A unique factor in the Bulgarian wine sector is the supply of grape varieties that are distinct to Bulgaria. Some vineyards have attempted to capitalize on this unique crop and market it to higher end niche markets that cater to distinctive tastes.

Demand Conditions

The wine industry exports more than 80 percent of its production. These exports account for more than 30 percent of the export revenues from trade in food exports to the European Union. Although there are limits on the industry's access to EU markets through quotas and tariffs, the top six export markets are UK, Japan, Germany, Ukraine, Poland, and the Netherlands. These six countries make up roughly 66 percent of total wine exports. In addition to the EU countries, Bulgaria continues to export to Russia and the NIS countries, which used to be large markets but have diminished greatly in the past decade. The main competitors Bulgaria faces are France, Italy, Spain, Portugal, and up

[2] Prior to 2000, Vinzavod-Assenovgrad did not have its own vineyards and relied on auctions and informal agreements with suppliers for their grapes.

and coming competition from Chile, Australia, Argentina, New Zealand and South Africa.

Domestic demand for Bulgarian wines, currently estimated at 10 to 20 percent of domestic production, diminished due to price increases in the late 1990s. Prices rose as a result of supply issues in 1997-1998. This caused many Bulgarians to switch to cheaper imported wines. In addition to the cost issue there is a tradition of homemade wine production that meets local demand. Bulgarian consumers are knowledgeable about wines but there is a very small market for high quality wines at current market values. Domestic consumers know what is good but cannot afford it. The Bulgarian wine producers have not effectively tapped into this market and while it does not represent a large portion of current commercial demand, domestic commercial consumption is not expected to rise in the near future. This has led many companies to turn to strategies based on export promotion rather than domestic marketing.

Due to the nature of demand and customer trends, some companies have decided to limit their products to specific lines of wines. Vinzavod-Assenovgrad decided to focus strictly on red wines. This was in response to the trends in the international and domestic orders that they were receiving. They have also decided to market wines made from the Mavrud grape, unique to Bulgaria, to niche markets that cater to more sophisticated and distinctive tastes.

Firm Strategy, Structure and Rivalry

There are 90,000 hectares of vineyard surface area in Bulgaria, 20,000 of which are dedicated to table grape production. Bulgarian wines include more than 25 different varieties of red and white wines with registered trademarks of origin with an additional 24 white and red wines from designated geographical origins. The most widely planted grape varieties are French and indigenous Bulgarian, while some companies have introduced newer varieties from Australia, Latin America and South Africa. A problem facing the wine industry is the age of these vineyards, as few have been developed since the 1980s.

The wine industry has been proactive in strategy setting for export markets; but all too often strategies are not consistent. Some firms have opted to produce and sell high quality wines at low prices to higher end export markets. The problem with this strategy is that it is changing the image of Bulgarian wines. When a company sets prices low in a high-end market, in an attempt to hedge out competition on price, it can have a reverse effect of being judged on the price offered rather than the true quality of the product. It is distribution strategies such as this that make the Bulgarian wine industry weak in the markets they want to access because they lack knowledge of customer trends and requirements.

There are roughly 120 wineries of various sizes in Bulgaria. The large number of current wine-producing companies and the establishment of new companies have constituted the basis for strong rivalry and competition within the sector. The result of the size and rivalry of the wine industry is that it has caused a reduction in the availability of quality resources. In some cases it has been necessary for producers, including Vinzavod-Assenovgrad, to buy lower quality grapes at higher costs in order to meet supply needs.

Industry Cluster and Cooperation

Overall there is some cooperation within the industry but it is underdeveloped; joint partnerships have just begun to evolve. This uneven cooperation is partly the result of long-standing trust issues between members of the wine "cluster."

The Bulgarian Competitiveness Exercise had a big impact on convening members of the cluster. Through participation in workshops and a national conference, the industry was able to come together and work collaboratively instead of competitively towards a common strategy for the future of the wine sector.

Role of Government

One area in which the industry is making large strides is in government involvement in keeping the market open for free trade and supporting the industry through necessary policy changes. The sector is regulated by legislation adopted in 1999 through which the Ministry of Agriculture and Forestry created the Executive Agency on Vine and Wine to organize and control the industry. The law also established the National Vine and Wine Chamber (NVWC) to consult for the industry on the necessary measures to facilitate integration into EU structures.

Prior to the creation of the NVWC, there was another association representing the wine industry, the Association of Producers and Merchants of Wines and Spirits in Bulgaria (APMWSB). The APMWSB was a non-governmental organization during Bulgaria's transition economy of the early 1990s to represent the interests of the wine industry. The APMWSB has since been replaced by the NVWC which holds as its objective to assist in the facilitation of EU integration and also to assist in the development and promotion of export marketing. The APMWSB remains active and continues to act as a lobbyist for the industry and also to provide information on foreign markets, the legislative framework of similar industries abroad, marketing opportunities at international trade fairs and new technologies available to the industry.

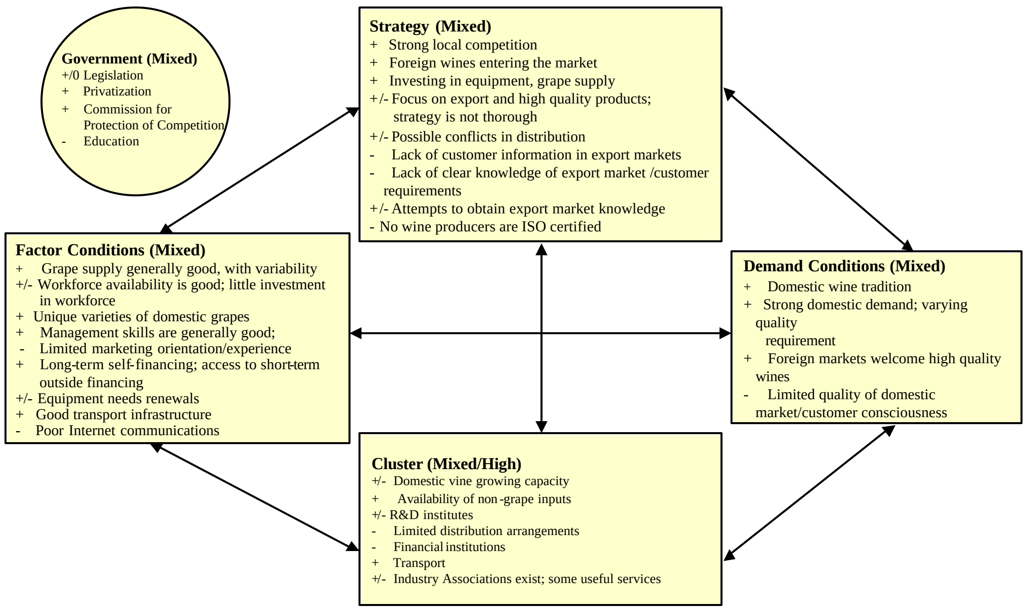
In general, the wine industry is very viable and is one of the most supported by the Government of Bulgaria, although there is definite room for growth.

Looking Forward

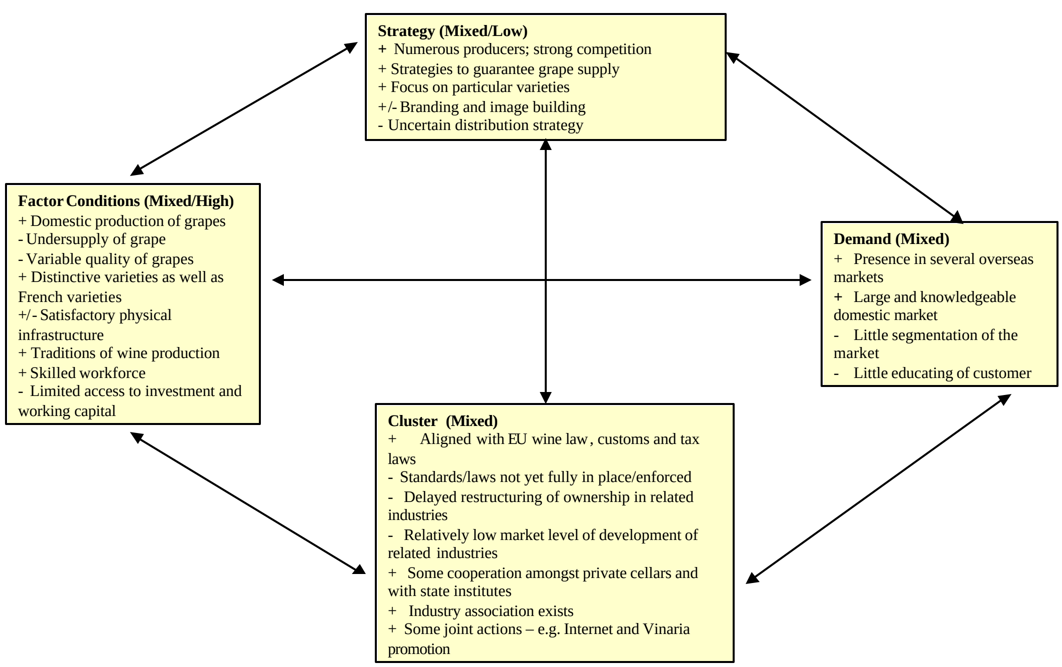
Opportunity	Method
1. Competitive Positioning	*Opportunity:* Facilitate the availability of financial opportunities for small and medium sized companies. Start looking into niche markets that cater to high quality and more unique tastes. Develop reliable production and distribution chains for supply

	and finished products.
2. Customer Learning	*Opportunity:* Work with external wine institutions to access market information and gain deeper knowledge of market demands, trends and customer requirements. Develop wine tours and educational seminars aimed at raising both domestic and international exposure to Bulgarian wines. Attend trade shows and market fairs as another means to accessing customer information.
3. Innovation	*Opportunity:* Work with the government to institute and finance a national laboratory responsible for quality certifications of domestic and export products.
4. Human Capital Investment	*Opportunity:* Coordinate with training institutions to upgrade the technologies and methods being used to train the workforce, especially in terms of management skills.
5. Cluster Cooperation	*Opportunity:* Present a united front to government and other groups in issues such as infrastructure upgrading, technological advancement and access to market information and financial opportunities. Capitalize on the popularity of the newly created National Vine and Wine Chamber as an excellent mode for this collaboration to take place. Develop better dialogue and a clear policy in the relationship between grape producer and wine producer.
6. Forward Integration	*Opportunity:* Market the unique indigenous vine varieties of Bulgaria. Create appellations according to origin would assist in branding these unique Bulgarian Wines.
7. Strategies and Attitudes	*Opportunity:* Work together with individual companies, farmers and other stakeholders in order to increase the competitiveness of the entire industry. Look into international financial organizations and alternate credit systems for financial services. Work with government on building a national strategy for the wine industry in line with EU accession requirements.

WINE INDUSTRY
Competitiveness Diamond



VINZAVOD-ASSENOVGRAD
Company Competitiveness Diamond



CLUSTER: <u>Wine</u>

Platform (Policy, etc.) Impact points[3]

	PLATFORM ELEMENT	COMPANY IMPACT POINTS *Finance*	*Marketing*	*Production*	*Organization and Staffing*
Macroeconomic Policies					
	Monetary	X			
	Fiscal	X			
→	Trade	X	X	X	
	Labor – minimum wage			X	X
	Labor – expatriates		X	X	X
→	Capital – ownership	X	X	X	
	Capital – repatriation	X			
Legal and Institutional Enabling Environment					
	Appropriate commercial legislation	X		X	
	Functioning judiciary or arbitration mechanisms	X	X	X	
	Productive civil service		X	X	X
	Tax collection	X			
	Customs		X		
	Heath and sanitation		X	X	
→	Business Licensing	X	X		
→	Investment Promotion	X	X	X	
	Government procurements and contract awards				
→	Privatization	X	X	X	X
Infrastructure – Costs and Services					
	Safe Water			X	
	Telecommunications		X		
→	Informatics		X	X	
	Energy			X	
→	Transport		X	X	
Human Resources					
	Literacy		X		X
→	Education level		X	X	X
→	Technical and managerial training		X	X	X
→	Productivity			X	
	Health initiatives			X	X

[3] On the Impact Points Table, an "X" represents an impact on the firm and an "→" represents a factor that has a particularly significant impact.

MARITIME TRANSPORT[1]

Industry Background and Performance

Bulgaria has two major seaports located in the regions of Varna and Bourgas. In 2000 it is estimated that each of these ports processed 5.5 million tons of goods. Statistics from the Port Administrations in Varna and Bourgas show that in 2000, the port of Varna serviced 37,225 TEU of containers and the port of Bourgas serviced 11,445 TEU of containers. The late restructuring and the strong presence of the state in the management of the ports deprived them from large investments in the last 10 years which would have given the industry the needed funds for technological innovation, equipment updating, and improvement in the efficiency of port operations.

The port of Varna benefits from a geographical location on the Black Sea; its function has been as a main junction between Europe and the Caucasus region and the Middle and Near East.[2] The port of Varna East is the old port having terminals for containers, grain and general cargo and one slot for passenger ships. Varna West is an industrial port serving mainly the industrial giants from Devnja. It has a container terminal, and terminals for chemical products and cement. The type and volume of goods transited through Varna is directly correlated to the goods produced by the largest companies in the region. These companies provide bulk cargo in chemical products, fertilizers and cement. The price of these goods is dependent on transportation costs; therefore the competitiveness of Bulgarian ports is closely correlated to the competitiveness of its supporting industries.

The main challenge facing the Varna seaport is the need to protect and expand its domestic trade market shares especially in light of emerging competition facilitated by transport corridor developments in countries such as Turkey and Greece. The efficient utilization and provision of services and future performance will depend greatly on the development and implementation of the restructuring and privatization plan for the port sector in Bulgaria.

In addition to the ports of Varna and Bourgas, there are other smaller ports in Bulgaria. Balchik is specialized only for grain cargo. The port of Ezerovo TPP serves the Varna Thermal Power Plant. The port of Lesport is a small, specialized port mainly serving timber cargo. As well as some smaller ports along the Danube River.

Factor Conditions

The development of the maritime sector is partially dependent on the availability of well-qualified human resources. The Military Sea College and Military Sea Higher School, the University of Economy and the Technical University, all located in Varna, are among

[1] Based on a case study prepared by Silvia Petrova, CED. Available through the BCE website http://www.competitiveness.bg/. Lussiena Kostova and Silvia Stumpf made significant contributions to the work of the maritime industry taskforce.
[2] Three railroad and six container lines connect Varna with Ukraine, Russia and Georgia.

the most predominant institutions in Bulgaria that educate specialists for the maritime transport sector.

The infrastructure systems that support the maritime industry are reasonably sufficient. Road, rail and air transport systems are readily available and provide key elements of the transport sector. In spite of this, in many cases transportation costs are higher in Bulgaria compared to its neighboring competitors such as Greece. Infrequency and inefficiency of carrier services offers a formidable challenge to Varna's status as Bulgaria's premier port.

The port of Varna has sufficient ship slots and can process various types of cargo. As a result of the recent lack of investments, the technological level of the equipment is underdeveloped and thus impedes the more efficient operation of the port infra- and superstructure. The Bulgarian Sea Shipping Company has had problem with the age of its fleet and the lack of investment capital available to renew it. The average age of the fleet is over 20 years old; some ships are over 30 years old and are not allowed to call at certain ports. Long-term financing remains a problem for the development of the maritime sector because of the size and type of the required loan securities and the high interest rates of the financial sector.

While financing for innovation is limited, the need for companies to enhance their services and use of technology is imperative. The Unimasters Logistics Group is a company that has embraced the rapid developments in the IT sector and learned from initiatives of other companies in capitalizing on these innovations. They have introduced a new service called 'Interactive Tools" that is offered through the corporate website and is aimed at facilitating communications with clients and avoiding difficulties caused by time differences around the world.

Also of concern is the issue of port costs. Bulgarian port costs are a reflection of the inherent inefficiencies in the maritime system. The Port Operating Company represents the largest portion of port charges, representing up to 46 percent of total charges in the Bourgas West. Varna West represents the smallest portion of charges with about 40 percent from the Port Operating Company. However, it is more expensive for ships to call the Varna West port due to the longer distance required to sail there than to other ports. The cost differential is reflected in higher pilotage and tug assist charges as well as in the vessel underway costs the vessel incurs form sailing the additional distance. Transit times to Varna East and Bourgas West are assumed to be roughly equivalent although Varna East has been reported as the most cost competitive port in Bulgaria on the basis of cost advantages relative to tug services, pilotage, vessel navigation and cargo handling.

The burden of costs on the carrier is high, for each port the carrier is subject to pay 55 percent of the total port costs. In most competitive settings, the maritime community will attempt to shift the burden of the charges to the shipper as opposed to the carrier. The result of pricing structures in many countries typically keeps the carrier burden to within 20 to 30 percent. This means that given the choice, many carriers will choose to call competing ports where carrier cost burdens are much lower than those in Bulgaria. While cost is a major issue, it is important that the services provided for the lower cost are of the necessary quality level.

Upon institution of the new Port Law, the Port Operating Companies lost about 35 percent of their revenues to the Port Administration Authority. In light of changing institutional arrangements, the Port Operating Companies believed they had no recourse other than to raise costs as they were caught unprepared with the new arrangements. They felt forced to raise cargo-handling charges to cover losses from the revenue transfers to the new Port Administration Authority. So in essence, two organizations are imposing charges for rates that had previously been imposed by only one organization; one to cover revenue losses due to institutional changes and the other to cover obligations of the Port Administration Authority.

There are other "hidden" transaction costs endemic to the Bulgarian environment, which also affect their cost competitiveness. These include the practice of posting guarantees as well as inspection fees imposed on shippers. Although guaranteeing costs are reimbursable, Customs sometimes takes up to three months to process the reimbursement. Additionally, Customs imposes fees on each container it chooses to inspect.

Today, Port Operating Companies face extreme pressure. On one hand they are fighting for survival as a viable entity in light of institutional changes and one the other hand, to the extent that Bulgaria's port privatization program is successful, there will be virtually no reason for the Port Operating Companies to provide the services it currently does.

Demand Conditions

Upon transition to a market economy there was a sharp decline in Bulgarian imports and exports to Russia, previously the largest market for Bulgaria. Exports dropped 4.7 percent and imports dropped 23 percent. The markets of Bulgaria changed to focus on Western European countries as the main trading partners.

Since the early 1990s, foreign trade turnover as a whole dropped. The 1999 level of trade was hardly 30 percent of what it was in 1989. The volume of cargo operated by the seaports dropped from 32,807 thousand tones in 1989 to 15,848 thousand tons in 1999.

There are two types of customers in the Bulgarian transport sector, those that are shipping either in or out of Bulgaria, and those that use Bulgaria as a transit point to another destination. Previously Bulgarian transport providers competed solely on cost competitiveness but quality is now an important factor in cost competitiveness. Transport sector customers are looking for low transaction costs, ease of pilotage and tug services, distinctive services such as cargo analysis and overall quality of services provided at competitive rates.

Bulgarian ports are facing unprecedented competitive threats from intermodal alternatives being offered in neighboring ports. With regard to transit cargo and some local cargo, the port of Varna competes with other Bulgarian ports (Bourgas) and with the ports of Romania (Constanza), Greece (Thessalonica) and Turkey (Haydarpasa and Kumport). According to the statistics of Unimasters Logistics Group, the TEUs of full containers for Bulgaria serviced by the port of Thessalonica has been increasing at a steady annual rate of more than 5,000 TEU over the past three years and thus ranks the Greek port second after the port of Varna with respect to Bulgarian full container servicing.[3] Potentially, Bulgaria may also end up competing with the Greek port of Alexandropolis and the Albanian ports of Vlore and Duras if plans for their modernization and expansion are successful. Greece has been very successful in promoting policies for port development primarily to serve transit cargoes to Southeast Europe. These policies are creating direct competition for Bulgarian ports. Bulgaria has also embarked on a series of economic and social reforms that if successful will open new markets for Bulgarian shipping and hopefully maintain competitive advantage in the region.

Bulgarian ports can hope to benefit from inter-continental traffic provided that the TRACECA corridor, which links Europe to Asian markets via the Black Sea and Central Asia is fully developed. Previously these corridors have served intra-continental traffic and have had a particularly deleterious impact on the port of Varna. The proximity of the Varna port to the Danube also offers some additional opportunities for expanded transport routes.

Firm Strategy, Structure and Rivalry

The majority of firms in the Varna maritime industry are private micro-sized companies, however there are a few larger sized companies operating in the Varna region. A study by the Foundation for Entrepreneurship Development[4] estimates the number of the registered in Varna companies whose activities are directly related to the maritime transport to be 250. However, it is difficult to estimate the exact number of the companies that are currently active.

Of the companies involved in the Transportation and Communications sector, 93.22 percent are considered micro, 5.10 percent are small, 1.34 percent are considered medium and 0.34 percent are large.[5] The early liberalization of the agent and forwarding services in the shipping industry allowed for the establishment of numerous small private companies that compete both among themselves and with local representatives of foreign agent and forwarding companies. This competition has had a positive impact on the service range and quality as well as on the innovation processes of the firms. The larger companies in the Varna industry are few in number and remain under the primary control

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[3] *Unimasters Logistics Group, Ltd. Bulgarian Container Market 1998-2000*.
[4] Foundation for Entrepreneurship Development, *Description of the Distribution of Bulgarian Groupings of Industries*, Sofia, 2001
[5] Micro—staff up to 10 people, Small—staff between 11 and 50 people, medium---staff between 51 and 250 people, and large—staff of over 250 people.

of the government. The restructuring and privatization of these firms is important for the future of the Bulgarian shipping industry.

Transport companies in Varna realize the importance of quality for their international competitiveness and many of them are strongly committed to incorporating quality management in their strategies. Ten of them have achieved ISO 9002 certification and many small companies will receive their certifications in the near future. The companies who have aimed for such certifications believe that it will help to improve the image and competitive position of individual companies and will make them more attractive partners and service providers. They also feel that it will make good quality a symbol of the industry. This view has grown out of the strong influence that foreign competitors have had on the service quality and approaches instituted by Bulgarian firms. Some Bulgarian firms have taken the strategy of establishing partnerships with foreign companies and with them have accepted and implemented their high quality standards. Not only are standards important but also companies have to understand the demands that are driving their markets. One particular strategy that is being explored by Unimasters Logistics Group is to work in close cooperation with their clients in order to develop a clear understanding of their requirements and expectations so that Unimasters can provide full service products to their clients.

On a national level, the PAA presented its draft Strategy for the Development of the Sea and River Ports of the Republic of Bulgaria to the business community in Varna and started a dialogue with the private sector on its plan and implementation. Within the discussions many ideas were presented on the proposed restructuring plan and on the suggested development of port infrastructure and capacity. Additionally, ideas were shared on the issues of establishing specialized passenger terminals and a yacht port in Varna.

In the National Transport Strategy, the Government of Bulgaria has identified a number of modal improvements that will effectively encourage the diversion of Bulgarian cargoes to Greek and Turkish ports. The possibility for diversions depends on the total transport cost competitiveness of using Bourgas and Varna versus the Greek ports. A cursory review shows that the Greek ports have distance advantages to certain bulk cargo market areas in Bulgaria. The proximity of Varna to the Danube River reveals another opportunity to increase the volume of goods passing through the port of Varna. The challenge for the port of Varna is to combine its location to the Danube with improvements in the efficiency and quality of its operations.

Industry Cluster and Cooperation

The maritime industry “cluster” is made up of maritime transport operators; port operators; ship brokers, agents, and forwarders; ship building and repairing; scientific institutes and maritime schools; consignors; public bodies; banks; insurance companies; customs agents and consulting companies; and numerous industry associations.

Despite the fact that all elements of a cluster exist, cooperation within the shipping/transport cluster is not prevalent. Most companies prefer to work individually rather than unified as a cluster. There are an abundance of industry associations, although they are not effective in lobbying for the interest of the entire cluster, instead they are concerned with only their members.

Sometimes this individual approach is successful, however, the lack of strong coordination of the efforts and activities of the different cluster members prevents them from a ensuring that the interests of the maritime industry cluster have their place in the government policy arena and also from pursuing strategies that effectively enhance the competitiveness of the sector as a whole. A more concerted and continuous effort by all or a majority of industry participants carries the message of a united front. This "strength-in-numbers" approach can have a much greater influence not only on policies that have an effect on the cluster's competitiveness, but also on the way business is conducted within the cluster and between its members.

As a result of the increasing competition in the region, the need for and the potential positive effects of the inter-cluster coordination and cooperation have been recognized by the business, industry organizations and the public bodies and the cluster approach in the Varna maritime sector is slowly gaining momentum. At the beginning of July the state-owned companies Port of Varna, Port Fleet and Roads and Bridges, the private companies Maritime Group, Ahileos Shipping, Cargoexpress and Avangard, the Industrial Economic Chamber and the State Insurance Institute established a joint stock company to implement the project on establishing a transit zone in Varna and operate the zone in the future.

The BCE has contributed to the dialogue that is taking place in the transport industry through workshops and conferences. This dialogue has continued since the BCE became involved in the industry.

There has been some coordination between the public and the private sectors in the maritime/shipping industry. A dialogue was established by the PAA on the Draft Strategy with the private sector. This dialogue has proven to be a successful activity in fostering constructive discussions between the public and private sectors. The Marine Administration initiated plans for a joint working groups including administration experts and representatives from the respective branch associations to discuss and work on particular issues in an effort to create a sustainable environment for dialogue between the administration and business. Additionally, the Ministry of Transport and Communication initiated the setting up of a joint working group including state experts and representatives of the transport clusters of Varna and Rousse in order to discuss and explore the possibilities for developing competitive intermodal transport schemes for attracting cargo subject to transportation between Western Europe and Asia.

Two areas in which the transport sector has great opportunity, but will require collaboration of the entire industry, is in the creation of a port partners approach and an internal portal. The port partner approach is a concerted effort in which all parties in the logistics chain develop a single pricing and service strategy to divert trade from competing ports. This approach is commonly used in countries that have highly competitive markets. The other opportunity is in the creation of an internal portal that would facilitate communication between industry partners while simultaneously providing economic incentive. The internal portal would provide detailed statistics and other port information, including cargo-tracking reports and provide the ability to facilitate numerous business transactions associated with the maritime transport sector. The portal would provide a high degree of customer self-service, through accessing the portal, while simultaneously improving customer relationships. The portal can also greatly reduce transaction costs and ultimately improve port efficiency by earlier and improve information accessibility.

Role of Government

Responsibility for the functioning of the Bulgarian port sector has been primarily a function of the Ministry of Transport and Communications through the Port Administration Agency. The PAA was established by the Law for Sea Waters, the Internal Waterways, and the Ports of the Republic of Bulgaria (Port Law) in 2000. The responsibilities of the PAA include maintenance responsibilities, regulatory responsibilities and other responsibilities that include maintaining listings of port land, equipment and fixed assets, collection and reporting of port statistics, capital, construction of other marine structures and master planning.

The Government strongly influences the development of the maritime sector in Bulgaria because the largest companies in the sector are state-owned, infrastructure is operated by state-owned companies, development of transport infrastructure is the public sector's responsibility and definition of the national transport policy, including the maritime transport sector strategy, is a public sector function. Also public institutions are responsible for development of a sound and comprehensive regulatory framework in which the sector operates.

In other policy initiatives, The Ministry is currently considering the idea to relieve ship companies from paying profit tax and requires them to pay only tonnage tax for the ships owned. A special interministerial working group was created including representatives from the Ministry of Transport and Communications, Ministry of Finance and Ministry of Economy to discuss the issue. The initiative is intended to prevent Bulgarian ship owners to register their ships under foreign flags. The Bulgarian Ship Register, now 100 percent state owned but slated for privatization, has 85 percent of Bulgarian ships as well as some neighboring country ships registered in Bulgaria. The prioritization of state policy will be central to the development of the Varna port and other Bulgarian ports. The state must assist in ensuring the efficient utilization of available transport infrastructure and to prevent the construction of unnecessary additional capacities.

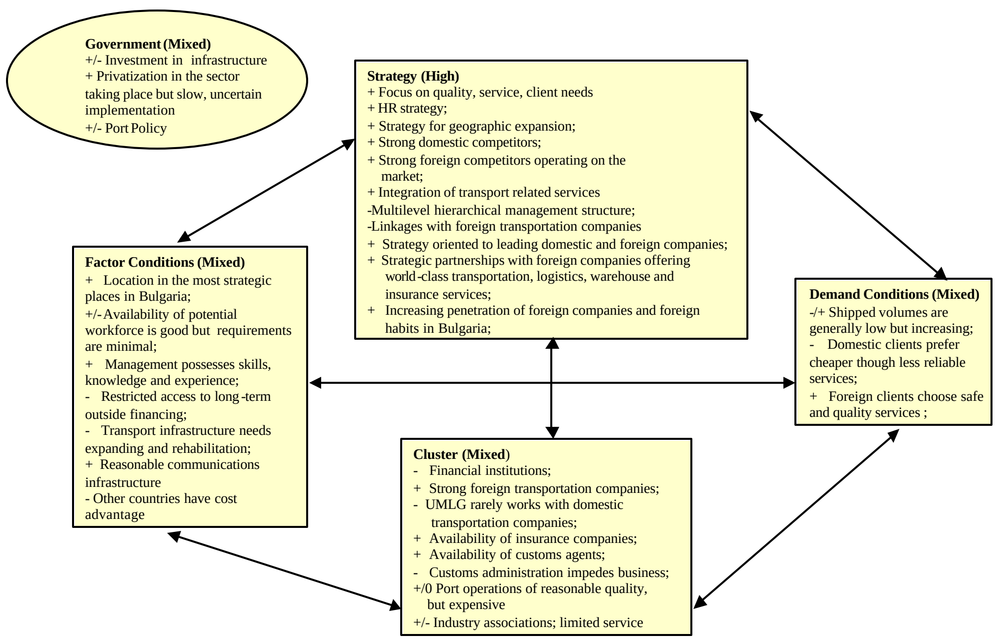
A unique feature of the maritime industry is the dependent relationship between the private sector and the public sector. The nature of the private sector in the transport industry is heavily dependent on state-owned companies and facilities. This is due to the continued role of the public sector in the more basic sectors of the transport industry, such as supporting state-owned infrastructure like rail lines and road transport.

Looking Forward

Opportunity	Method
1. Competitive Positioning	*Opportunity:* Establish the industry as provider of high quality/reasonable price services by adding greater value, ensuring faster cargo processing and expanding the range of the offered services. Implement quality standards. Capitalize on the beneficial location and the availability of good air, road, railroad and maritime infrastructure and to better develop multi-modal transportation. Make sound decisions on the basis of good benchmarking.
2. Customer Learning	*Opportunity:* Develop better understanding of current and potential customers' requirements and offer a package of services that entirely respond to these requirements. Identify potential customers and develop a comprehensive strategy and common cluster actions for attracting them. Help industry stakeholders to identify themselves as part of their customers' competitive clusters.
3. Innovation	*Opportunity:* Modify and upgrade services in accordance with the elaborated customers' expectations. Develop an information system promoting the capacity of Varna as a modern transport and logistics center. Develop a internal portal for development of information services provision among industry stakeholders.
4. Human Capital Investment	*Opportunity:* Develop the capacity of the training centers and elaborate and apply specialized training programs to develop and upgrade the skills and knowledge of the technical and management staff. Allow for the development of the maritime education as an industry providing highly qualified specialists competitive on the world market. Monitor and increase productivity against benchmarked standards.
5. Cluster Cooperation	*Opportunity:* Strengthen industry associations by widening the range of their activities and initiate closer interaction and coordination in their work. Improve public-private dialogue. Improve functional cluster linkages. Collaborate in joint investments. Institute the portal partners facility.
6. Forward Integration	*Opportunity:* Work closer with all business partners and the clients to clearly identify and effectively respond to their requirements of the customers. Firms can also develop strategic alliances with world leaders and serve as regional representatives of the latter. Create an internal portal to provide increased information access and quality customer service.
7. Strategies and Attitudes	*Opportunity:* Varna transport companies should move from low quality/low price to high quality/reasonable price strategies.

	Transport companies should develop and apply common marketing strategy. The State should complete the privatization and attract strategic investors in the transport sector. The Parliament and the governmental institutions should ensure a sound, comprehensive, stable, transparent and functioning regulatory framework for the sector.

UNIMASTERS
Company Competitiveness Diamond



CLUSTER: <u>Maritime Transport</u>

Platform (Policy, etc.) Impact points[6]

	PLATFORM ELEMENT	COMPANY IMPACT POINTS			
		Finance	*Marketing*	*Production*	*Organization and Staffing*
Macroeconomic Policies					
	Monetary	X			
	Fiscal	X			
→	Trade		X	X	
	Labor – minimum wage		X	X	X
	Labor – expatriates				X
	Capital – ownership	X			
	Capital – repatriation	X			
Legal and Institutional Enabling Environment					
	Appropriate commercial legislation	X		X	
→	Functioning judiciary or arbitration mechanisms			X	
→	Productive civil service		X	X	X
	Tax collection			X	
→	Customs		X	X	
	Heath and sanitation			X	
	Business Licensing	X	X		
	Investment Promotion	X	X	X	
	Government procurements and contract awards		X	X	
→	Privatization	X	X	X	X
Infrastructure – Costs and Services					
	Safe Water				
→	Telecommunications		X		
	Informatics		X	X	
	Energy			X	
→	Transport	X	X	X	X
Human Resources					
	Literacy				X
	Education level		X		X
→	Technical and managerial training		X	X	X
→	Productivity		X	X	
	Health initiatives			X	X

[6] On the Impact Points Table, an "X" represents an impact on the firm and an "→" represents a factor that has a particularly significant impact.

EFFECTIVENESS OF PUBLIC-PRIVATE DIALOGUE IN BULGARIA[1]

Purpose of Public-Private Dialogue

Public policies directly impact private strategies and competitive forces. Competitive advantages depend not only on private incentives but also on the character of government involvement: direct (allocate capital; lower entry barriers; improving infrastructure, education and services) or indirect (stimulate creation of advanced factors; improve quality of basic demand; increase rate of new business formation; and encourage domestic rivalry). [2] In these cases the government behaves as a primary economic actor or as a facilitator. The competitive pressure that encourages private participants to innovate and improve their positions depends on private incentives and public policies. Experience has shown that if the government interferes directly in the economy, business leaders will tend to rely on the government to provide for advantages (or privileges) and not on market forces. On the other side, if government stays out of the market and allows for free competition, private companies will tend to rely on their effort and energy. Since these basic public policies—and other more complex public policies—are of great importance to the competitive environment and the implementation of competitive business strategies, it is equally important that the public and private sectors have a sustained quality dialogue. Such a dialogue results in policies that foster sustainable private sector growth that benefits the public at large.

Vehicles for dialogue

The form of a dialogue depends on formal and informal rules and procedures. To some extent the procedures of the dialogue affect its outcome. Since 1997, the Bulgarian business environment has improved, partly as a result of improved public-private sector dialogue, which has been formal (via legally mandated procedures) and informal. At the same time, the private sector has increased its expectations for public policies. In addition, international institutions (e.g. World Bank, European Union, USAID) have pressured public institutions to obtain comments and advices on legal changes from interested parties and thus make regulatory reforms more popular. Some pressure has come from business itself, although these demands have been surprisingly lackluster. In response to demands from NGOs and business, recommendations from international institutions, and its own need for assistance in developing legislation, regulations, and policies, the government has shown serious intent to further formalize procedures for open dialogue with the public.

Current formal procedures

[1] Report prepared by Petya Mandova, IME, with inputs from JAA and MSI. Available on the BCE website http://www.competitiveness.bg/.

[2] Monitor Company, Chapter Four: Public Policy and Competitiveness, Workbook for the training manual Creating Competitive Clusters: Key Themes for Discussions with Leaders, The Competitive Advantage of Regions, The Economic Development Institute of the World Bank in cooperation with World Bank Operations and the Government of Austria, 1997, p.29.

The government regularly discusses social and economic reforms in consultative bodies that are established in different laws (e.g. Labor Code, Tourism Law and Law on Consumer Protection—Tripartite Council, National Tourism Council and National Council on Consumer Protection) or decrees (e.g. Council of Ministers Decree on Social and Demographic Council and Council of Ministers Decree on Ethnic and Demographic Council). Some regulations include lists of participants in such committees (e.g. National Tourism Council includes tour operators, hotel and restaurant owners, "national" air companies, municipalities, and national, regional and local tourism agencies). In other cases, chairmen of the committees select representatives in accordance to provisions of the law (e.g. Labor Code; Law on Regional Development). In addition, task forces are established by ministries and state agencies in which public officials meet business and labor unions to discuss different problems (e.g. task force on agricultural problems related to EU integration). In all these cases, the government regulates rights of affected parties to participate in decision-making process.

These formal consultative bodies meet several private interests and demands. During some of the meetings the organizers simply inform interested parties of regulations that are at the drafting stage. For example, the Consultative Committee in the Ministry of Economy convenes each month to inform its participants of upcoming legislation. In most cases, these committees not only inform affected parties but also discuss with them different proposals for legal changes. Institutionalized meetings enable varying interests that are not represented in the consultative bodies to advocate for their positions. For example, in February 2001, several public institutions and state-owned companies such as Competition Protection Committee and Bulgarian Telecommunication Company took part in a meeting of the National Consumer Protection Council (private companies could be presented in the committee via Consumer Protection Associations) during which they discussed legal provisions that should protect personal data and its illegal dissemination. Some of the committees are structured not only to consult public officials on sectoral policies and discuss regulations, but also to elaborate rules on products standards and formal principles of financial and quality control activities. In June 2000, the Consultative Committee on Wheat was established; three task forces within the Committee were organized to discuss production and trade problems. Such meetings are even organized to develop control standards in practice. After the establishment of a consultative committee in cereal sector, public officials and branch representatives conducted together several control activities for informal participants on the market. Activities of private parties to support public efforts to enforce rules do not include only participation in such committees but also occasional meetings with ministries and public officials. As it is with the cereal case, the purpose of the meetings is to control participants on the market. In May last year, milk producers and traders met representatives of the Council of Ministers and discussed on needed activities to limit informal operations on milk market; at the meeting, the government proposed to private parties to draft formal rules of control institutions. Some of such occasional official meetings with interested parties are held to discuss specific activities. In May 2000, wholesalers and retailers discussed with government officials' different problems that the government faced in its efforts to introduce cash registers.

The government also sometimes involves private parties in international programs. The participation of producers, risk insurers, banks and other financial institutions is essential for the implementation of such programs. In these cases, public officials not only inform private parties of the international financial sources but also train them to apply for subsidies. In the case of the SAPARD Program, public institutions (such as regional departments of the State Fund "Agriculture") and private parties (growers, bankers, insurers, agricultural consultants, branch organizations and so on) took part in more than 30 seminars organized by the Ministry of Agriculture. The public officials found that parties interested in such programs could improve the results of the financial projects. For this reason, they tried to elaborate rules and procedures and therefore promote international programs for regional and sectoral sustainable development. The efforts of the Ministry are focused on information campaigns and public discussions. They try to meet different parties in such practices and assess their interests (e.g. banks and growers interests for obtaining financial sources).

In general, the 38th National Assembly ("Parliament") has been more open to dialogue than the Government. Some commissions have made a practice of inviting non-profit institutions to discussions of draft legislation, e.g. Commission on Labor and Social Policy. The Parliamentary Information Center provides draft legislation to the public and organizes roundtables and public hearings.

After 1998, public institutions tried several times to improve in practice different procedures for public-private dialogue at the local level. In 1999, the government adopted the Law on Regional Development. The law aimed at improving the conditions for sustainable regional development. Under the law, district governors and district councils (non-elected officials) were obliged to recognize business needs and set regional priorities in regional and national plans. The government also approved financial sources for such policies and investment priorities. Some of the regional plans were financed mainly by the central budget; the financial sources that were granted to different regions varied from 30 to 96 per cent. As there are no legal rules that define how financial sources should be distributed among regions, it could be difficult to evaluate not only formal terms to finance different regional programs, but also its impact on local communities.

There are different legal procedures that allow local interested parties to influence the decision-making process. Although they were enforced, such practices were not developed. For example, different plans for sustainable regional development were financed by central and local budgets. Most of the regional projects were not even prepared by the local communities, regional agencies or affected parties. The regional plans were outsourced and regional priorities were set by non-profit institutions from Sofia and Varna. After 1998, several programs, some of them financed by international institutions, aimed at providing better public services in municipalities. Public relations centers were established in Vidin, Stara Zagora, Silistra and Blagoevgrad. However, they did not manage to develop provided services. At present, local budgets finance their activities, but political and financial problems do not let them to open themselves to the public at large.

A success story at the local level could be Razgrad Agency for Regional Development. The local community decided to establish the agency to develop public services. The agency managed to develop regional strategies in different fields (e.g. tourism), improve the business environment (e.g. lower costs for street trade), provide useful links to financial institutions, publish market-oriented articles in its weekly bulletin and organize public debates on economic and social reforms.

Informal Dialogue

Some of the public-private dialogue taking place in Bulgaria is unregulated, but semi-formal. Public officials often meet private companies in fairs and seminars that are organized by the ministries and state agencies. Several times per year state departments organize high-level meetings in different parts of the world (e.g. to sign bilateral and multilateral agreements or discuss on problems in trade operations between countries) in which private companies take part. The representatives are usually invited to open sessions on different topics. These are places where interested parties can meet public officials and discuss with them upcoming regulations and programs as well as international programs.

Private groups instigate different activities (meetings, trainings, control activities, etc.) that involve dialogue with the government. Examples of these activities are a series of public meetings and seminars organized by BIA, BCCI, and ABA CEELI on the Procurement Law, and roundtables and trainings organized by NGOs on the draft NGO law. In other cases, non-profit organizations applying for grants need public officials' support to implement programs. Some grants-providing institutions even require public endorsement from at least two governmental institutions or units to assure that there is broad based awareness of the study and commitment to its performance (e.g. NISPAcee requests such forms of government involvement for technical support projects). In other cases, the government is obliged by the international institutions to inform private parties of economic reforms and such obligations are partly due to private complains, analyses and recommendations to these institutions (e.g. Transparency International monitors privatization deals of Bulgarian Telecommunication Company). Such non-profit institutions do not only monitor decision-making process but also prepare materials and organize meetings of public and private parties.

Despite all these practices, private parties do not find the form of dialogue to be effective. There are always private complaints about public decisions that impose additional costs of doing business. Such complaints are usually published in newspapers; some complain that public officials did not invite them to meetings, others that the results of the meetings are not satisfactory, because public servants gave their special preferences to other parties in the consultative process. The problems are partially due to unclear procedures to involve interested parties in the decision-making process. Although the task forces seem to be open to private parties, the procedure is not efficient enough to involve all affected parties. It is common practice for responsible ministers to select the participants in task forces and drafting groups. Since some of the interested parties are not necessarily represented in the groups, oftentimes they prefer informal contacts with government officials. The results are that public officials believe that businesses and associations selected to participate should feel obliged, as it is not compulsory to inform them of upcoming programs and regulations. The favored private parties do not find that it is in their interest to improve procedures and involve other affected groups in the consultative process; instead they see themselves as competitors for public services. As discussed later in the paper, the approach towards the government and its role in achieving competitive advantages affects private strategies and decision-making processes.

In international practice several procedures to consult all affected groups at the drafting stage are popular. The so-called regulatory impact assessment practice includes consultations with interested parties (it is applied in UK, USA, Japan and other developed countries). In such cases, the government should inform, discuss and assess benefits and costs of the affected groups in the public decisions. The sunset regulations could also develop public programs and improve existing practices. These provisions are enforced for certain period. After that, public institutions should review the direct and indirect costs of implementing the regulation, the impact on market forces, benefits of the regulation and expected effects and so on (it is practiced in Australia and USA). In Germany, interest groups are involved even before drafting begins. The German Government also can call on over 6,000 experts from a variety of scientific advisory committees, commissions, and specialized committees that have been formed by the government. Under the Action Plan developed by the Business Environment Simplification Task Force (BEST), all EU countries are committed to developing coordinating bodies for regulatory reforms, and are committed to promoting the use of regulatory impact assessments to review all proposed new regulation.

In Bulgaria, regulatory impact assessments are not included in the legislative process. The draft regulations are accompanied by a financial justification prepared by the leading ministry, and approved by the Minister of Finance. The estimation of the alternative forms of actions cannot be found in the materials on drafts. The analyses and forecasts made by private firms are not estimated in the drafting process. For example, public officials in the Ministry of Economy do not collect statistics and analyses (other than available through official sources) and do not use forecasts of private institutions. The interested parties are not properly identified. For public institutions (departments and agencies) the principle is the following: the interested parties are those that should be responsible for applying the new regulation. It could be found in usual disagreements on the drafts on the CM meetings, especially for laws.

Rights to represent private interests

Because certain groups possess established rights and practices to be involved in public-private dialogue, and others feel excluded, there is an ongoing debate in Bulgaria over rights to present interests. During the past few years, public institutions found that one mission of the government is to protect private interests because private parties are not strong enough to do that. Part of such activities is to select private parties that could influence public policies. To recognize such parties as representative of the interests of their members, public officials mandate particular numbers of members and regional offices. In most cases the Bulgarian Industrial Chamber (BIA) and Bulgarian Chamber of Commerce and Industry (BCCI) are the recognized representatives of all Bulgarian businesses. These institutions relied on already established structures and possessed facilities. Some of their members are legally included in such structures. The Trade Register that is compulsory for the trade representation offices of foreign persons, in compliance with Art. 6 par. 1 of the Law on Foreign Investments is kept by the BCCI. As the information is not regularly updated and companies' files are updated only when the company requests services from BCCI, the registry reflects company intentions rather than the actual activity. The difference between both structures is in presented interests. There is no clear difference between BIA and BCCI. They take part in working up and preparing draft bills and other normative acts related with the structural reform. Both institutions are "representative" for employers in terms of Labor Code and as such they can take part in different committees. Almost each committee that provides various parties with opportunities to influence decision-making process can include representatives of BCCI and BIA (or its members).

Public officials believe that private institutions are not strong enough to defend their interests; according to their estimations, private parties would be stronger, if they consider on branch or industry interests. In case of several representatives in a branch, government believes that private parties cannot agree on their interests; although they compete on the market and try to take advantage over their rivals improving offered services. Public officials agree on that the level of represented interests (territorial and sectoral) is not clear. For this reason, there should be legal provisions that state whether some of such institutions could present interests of a particular industry. If administration is to decide upon who is interested and who can access information on draft regulations, there will always be allegation for discretion and special interests protection. Therefore, the government should make decision-making procedures transparent and allow the private participants to impact policy instruments. Whether the private interests are strong or not cannot be judged by the administration. The private sector better knows its interests. The public-private dialogue is a learning process for both sites. The regulations are only the policy instruments that could be evaluated in practice.

This approach to private interests could be found in a couple of laws. There is a draft law on branch organizations, but it has not yet been adopted. The idea of the draft is to identify intuitions that could speak for everybody in the branch. It is presumed that all entrepreneurs in a particular branch have identical interests. However, since they are competitors (and hopefully sometime partners in advocacy, etc.), they will often have differing interests. Recently, the government established Council of Economic and Social Policies. The idea was to select participants that could express the "will of the civil society structures on different issues related to social and economic development". The parties in the Council shall be "legitimate" as deemed by the Labor Code. The consultations shall be between public servants and "official" organizations of employers and employees, two representatives of the agrarians, one—of the craftsmen, one—of the professional organizations, one—of the women and two of the scientists. The approach of the government is to select private parties to be included in the decision-making process.

Such approaches to private interests could be explained with public attitudes towards interested parties. Public institutions believe that private complains would be weaker, if legislation provides for “special privileges” to participate in public bodies. Because of such practices, it is considered to be valuable to participate in such public committees. Public officials prefer to contact several persons on certain issues and select among proposed options. They believe that sectoral interests are the same for all the companies in a particular market niche. This approach could be found in legal provisions. The Labor Code, with the new amendments of March 2001 stipulates that the government can extend collective labor contracts for a given sector of the economy, if representative organizations request so. This means that after “representatives” (branch organizations and labor unions, supposedly) agree on terms of contract and demand the line ministry to extend it to the entire branch, private companies in a particular sector could be forced to obey the rules of the collective contract. In fact, these legal rules summarize the public approach to private interests. It is supposed not only that interests of all companies in the sector or industry are the same (even for private and state-own companies) but also that interests of the affected companies could be protected better by someone else than the company itself. In the beginning of the April, several “representative” institutions (Bulgarian Industrial Association, Independent syndicates confederation in Bulgaria and Labor confederation “Podkrepa”) signed a “national” agreement on terms of collective bargaining in different sectors and branches. The idea of the draft was to agree on labor issues that are related to private strategies on labor market. In fact, those who prepared the “national agreement” draft not only accept the provisions of the Labor Code on collective bargaining but even made further steps to put them in practice. They agreed that peculiar and particular should be leading in collective bargaining; benefits for the workers will be negotiated only after a special review of specific business conditions in the companies in sectors is done.. Although these activities try to apply market principles, the right to “free contracts” is seriously endangered. A couple of questions are not answered in the draft: whether private interests need to be represented (and “protected”), if particular needs could be identified in private deals on the market (affected parties would always hold balance of their interests); and whether representatives could evaluate different driving factors on the market, given that a main part of the companies in the sector (but not all of them) could agree on a contract that imposes additional costs on the others.

The legal rules influence private efforts to take part in task forces, consultative committees and others. Private parties, as has been mentioned, have tried to change the rules of the game and thus discuss regulations and programs with public officials. Recently, the government amended Labor Code provisions that set conditions under which organizations will be considered “representative” and as such will be allowed to influence public decisions. The amendments stipulate that associations of employers must have at least 50 organizations in more than half of the sectors and at least 10 000 employees to be acknowledged as nationally representative. The Employers Association of Bulgaria made great efforts to amend these provisions. They believe that provisions do not reflect private capabilities to protect represented interests; instead, they proposed revenues of the companies that are members of the organization and employees number to be used as measure of presented interests. The proposal tried to set different rules that limit rivalry in such services.

This begs the question of whether a national "employers association" can represent all business interests in Bulgaria on a particular legislative, regulatory, or policy issue. It seems obvious that in many cases different interests - especially different industries - will disagree. Currently most branch level associations are too weak to publicize this fact and demand participation.

Topics of Dialogue

Some of the discussions are focused on general legal regulations related to tax regimes, licenses, social and health reforms and their enforcement. Most of such private activities contribute significantly to the improvement of tax practices, including lower taxes, quicker software depreciation, more favorable and clear procedures for asset repairs, more liberal version of the "thin capitalization'" regulations and so on. Most private demands are based on the principle that all parties on the market should operate under a rule of law. They develop legal practices and assist the process of creating a more attractive economic climate. Examples are the government's recent establishment of the Consultative Council on the Tax Laws' Administering, the Ministry of Finance's Internet tax policy discussions, and the government established task force that revised existing licenses (which abolished 44 licenses and changed 104 other special regimes).

Although some of the topics aim at improving business environment, there are also several attempts of private parties to use public institutions to gain "competitive" advantages over rivals. As it is expected, such efforts can increase, if the government approves different privileges and protections. The usual practice in such cases is to contact personally ministers or other public officials. For example, the more recent case was with fertilizers. The main competitors (e.g. in Romania) have similar chemical technologies and range of products.[3] In December, the government enforced a decree that imposed 40 percent customs duties on ammonium nitrate-based fertilizers. The purpose of protection duties was to support domestic producers that after increases of gas prices had raised domestic production costs. After that, chemical companies did not only increase prices of the products (as it was expected on the market without rivals) but also delayed deliveries on contracts. These results forced the government to "support" farmers and abolish protection duties. Both interested groups fight for protections through line ministries. The arguments of the farmers were not that the government should not intervene on the market but that the public officials should "support" them.

There are problems that are not topics of dialogue because affected parties simply do not find them useful to discuss. The dialogue could be costly and inefficient. This could result in accepting strategies that do not enforce legal rules. This was the case with contracts under the Public Procurement Law. The procedure under the law is too long

[3] Reference: P. Mandova and Stanchev, K. To Cluster or Not: Cross Danube Firm Level Co-operation, December 2000; www.ime-bg.org/balkan.htm/

and very complicated. Thus, OTE Company decided simply to import the equipment that should be purchased after public procurement procedure. In fact, the Public Procurement Law forces private companies that rendered public services (post services, telecommunication, etc.) to select their contractors. In such case, the activities did not include a public campaign to improve the procedure; instead, the companies did not apply legal provisions.

The dialogue could not be effective, if public institutions and private companies do not agree on their rights and duties. The government should provide better public services and lower costs of doing business. However, public officials still believe that support services (e.g. one-stop-shops) should be developed to "support" business not to provide better services. Most likely for that reason, the government presented private success as its own success, while the failures of the public administration – as partially caused by the private sector (see: the government report published in the beginning of January). For example, it seems that the government found as its own success companies obtaining certificates under ISO, although they are more or less private choices rather than public policies. Private parties do not set clear limits of public institutions "duties" on the market. Some of them still rely on the government to grant them market positions. As Employers Association of Bulgaria mentioned in its Project 2005, the official forecasts of GDP are not "ambitious" enough to secure long-term prosperity and economic growth. The competitive companies are those that create new products and technology processes and add value to the national economy. Bulgarian Industrial Association, on its turn, demanded innovational, industrial and trade policies to develop competitive sectors. Their proposals supposed that entrepreneurs do not understand their competitive advantages and hence cannot manage without the state; it is not the business but the state creates wealth and competes on the free market.

Examples

Tripartite Council.

Several regulations recognize the right of certain private parties to participate in the legislative process. Several "official" associations of employers and employees organizations have a statutory right (under the Labor Code) to be consulted by the government in the framework of the Tripartite Council, which discusses social issues: Bulgarian Industrial Association, Bulgarian Chamber of Commence and Industry and labor unions - Podkrepa and KNSB (known as the "social partners"). In spite of the legal status of the body, the Council can control not only social issues but also others that influence social reforms (e.g. budget structure). In 2000, the consultative body convened about seven times. It decided on minimum wage rates, average wages and salaries in public sector, labor problems and provisions in state-own enterprises, government activities to reduce unemployment, and regional development. At a Council meeting, business representatives and labor unions shared with public officials their visions of the public expenditures. The interests of both groups, as it was expected, differed. The business associations insisted that smaller share of the budget revenues shall be centrally distributed and advocated for lower fees that are considered as indirect forms of taxation. The labor unions maintained that the budget structure should focus on solving social problems in the transitional society (low wages in public sector, high unemployment and so on). We can conclude that social partners meet to decide on public policies that could lower costs of economic reforms. It seems that labor unions demand certain activities (as different programs); public officials select among available options (as possible financial sources); business associations are ready to trade off their support for some of the government programs in exchange for certain improvement in the business climate (as increased spending in social programs for better administrative procedures).

Consultative Council on Foreign Investments

The consultative council discusses public policies that promote foreign investments, national and sectoral programs that support foreign companies and particular problems related to legal provisions on foreign investments. Foreign companies, banks, consultants and international organizations are represented at the Council meetings. It contributes to better legal rules and practices. For example, the government officially accepts the Bulgarian International Business Association (BIBA) reports (the White Paper) and submits them to all ministries and agencies and government officials who met with BIBA members to discuss various problems and solutions. It appears that public officials have accepted some of the proposals for legal and regulatory reform (e.g. legal changes in Commercial Code in its part on firm management, proposals to develop capital markets). Public officials did not agree with other suggestions, arguing that some of them contradict public policies (national and sectoral), existing legal rules, "interests of the society," or they are results of incorrect readings of the law (e.g. Law on Competition).

The responses of the government to private demands could be used to discover the policy differences between both sectors. Many of the proposals form the private sector do not consider all options but only those that are related to direct government regulation. The problems could be solved by other means, particularly if the costs of government intervention outweigh the benefits. However, it is difficult to find other than regulatory proposals (e.g. enforce existing legal provisions, amend or supplement current laws and secondary legislation). It seems that private suggestions do not set limits of public policies. This could be dangerous from political perspective. The results of such private strategies could be even stronger public efforts to control the market. The uniform standards should be applied in different cases to evaluate private proposals. Such principles should be market approach to different issues. Thus, it could be easy to evaluate whether private suggestions and comments on public policies should be taken into account in the decision-making process.

In fact, all these comments on private proposals unveil public officials views on "private" and "state" affairs. It appears that many public servants still believe that private parties are "immoral" in their operations on the market. Under this view, the government should limit their desires to take advantage of rivals, employees, and consumers. The labor provisions that contain an excessive number of mandatory rules for employers are an example of such approach to enterprises. The Competition Protection Commission rejected proposals for legal changes related to advertisements (in this case, BIBA insists on unlimited preliminary promotional activities preceding a product launch, such as raffles and lotteries). The arguments of the Commission are that such practices (although popular worldwide) replace the purpose of the ad, which for the Commission is "to inform consumers for products and services qualities". It is not "accepted" to "control" sales by such games, according to public officials. The consumer should be motivated to purchase products and services by qualities not additional "presents", according to the Commission. Thus, we could expect that the government shall accept private proposals, only if they do not "contradict" its "mission" (e.g. to protect consumers from "bad" entrepreneurs, employees from "bad" employers and so on).

The form of the dialogue in Bulgaria is important in developing a better business environment and increased business responsibility for economic and social issues. Because private interests are not well considered in public policies, private parties do not believe that they should be responsible for the outcome of the consultative process. The problem is not only in public efforts to control the market; it is in different visions of the public policies. The BIBA members insist on adoption of market principles in public governance. The public officials find themselves responsible for "public good", which however has not yet been clearly and publicly defined. This misunderstanding could be solved adopting general principles such as limited government intervention on the market and free operations of private parties.

Private Strategies

Political leaders are always under pressure to support special interests. In low-income economies companies with survival and subsistence strategies tend to put political institutions under pressure to support them at the expense of competitive companies. The difference between these companies is not only in their strategies and positions on the market. It is also in their attitudes towards market principles and public institutions that on its turn affect their market performances. The competitive companies rely on market forces to take advantage over rivals. They believe that public institutions should protect individual rights, private property and contract enforcement. The other companies—survival and subsistence—find that public institutions should grant them special privileges.

Such attitudes could be partly explained with their background.[4] Many of the business associations are, in fact, heirs of communist era quasi-government. Their role was to intermediate international co-operation with foreign and international guilds. Their task in transition reforms was to maintain these contacts, to keep the structure alive as an instrument of indirect and invisible control over specific sectors of the economy. Another typical group of professional organizations consists of those that were established by a leading company or businessmen to promote their specific interest in a given sector. With the development of the association they either evolved into a real representative of the all businesses in the sector or motivated an establishment of an alternative and competitor association; thus we witnessed twin-associations and, as a rule,

[4] In April 1997 IME conducted a survey "The Most Viable Business Associations in Bulgaria: An Assessment Made by the Institute for Market Economics". The project was financed by the Center for International Private Enterprise.

only the third or even fourth association in a given sector is already more or less independent and viable. In some industries and geographical areas, branch associations are maturing, but most are still too poorly organized and managed to be effective.[5]

The private strategies can be explained with their attitudes towards government role in achieving competitive advantages and national prosperity. Public institutions are encouraged to intervene on the market, when private companies cannot gain competitive advantages over rivals. When private efforts aim at improving their positions on the market through market tools (e.g. offering special services, improving the quality of the products and so on), then their vision of its role would be more limited authorities of the public institutions. The findings of the survey conducted by the Institute for Market Economics last year are that about 20 percent of business respondents believe that their competitive advantages can be gained without government support. The private companies can perform competitively only when they develop their own competitive advantages, and use public institutions and personal contacts to support economic policies that promote economic growth and an improved business environment.

[5] Reference: L. Joujou, Bulgarian Business Associations: survey and analysis of the state of the Bulgarian business associations, Management Systems International/USAID, November 2000.

APPAREL[1]

Industry Background and History

Apparel manufacturing is a highly competitive and refined business throughout the world. Many developing countries see the apparel sector as a "gateway" into global markets—Bulgaria is no exception.

The Bulgarian apparel sector cannot be thought of as a homogenous group of companies manufacturing the same products. Identifying producers by variation in size, markets, product style/grade, location, technology, capitalization, revenue, alliance and managerial expertise only begins to narrow the range of strategic choices available to them. Both direct and anecdotal evidence reveal that some members of the sector are thinking strategically and planning for long-term growth, while others are merely working on survival tactics.

The eastern part of Bulgaria has historically been a big sheep-breeding region. During much of its history until present time, this area was a large supplier of domestic raw material base to the Bulgarian woolen textile industry.

Under the socialist system, the greater part of production had been assigned to garment producers through a strictly centralized organization in which so-called 'economic unions' were responsible for the placement of the outputs. Direct exports to Western European and American clients went through another monopoly, IndustrialImport, a state owned foreign trade organization. The distribution system shortened the chain but completely shielded the textile producing factories from the final consumers of their products. Trade intermediaries organized demand and Bulgaria was given a major role in woolen textile production within the COMECON region.

Upon transition to a market economy in the early 1990s, the textile industry faced many problems, due primarily to the highly protectionist system under which it operated for so many years.

In 1992, the Russian market collapsed. Russia stopped relying on Bulgarian products and became the target of other competitors. The monopolistic structures that ensured the placement of Bulgarian outputs were dismantled, leaving companies to survive without any experience in the marketing of their own products or services.

Despite difficulties related to the lack of an industry cluster mentality, limited access to fresh funds and few improvements in marketing, the situation in the industry was changed by privatization efforts to attract the interest of some international textile producers.

[1] Based on a case study prepared by Dr. Giorgy Ganev, IME. Available through the BCE website http://www.competitiveness.bg/.

Factor Conditions

Bulgaria's transition from socialism had impacts on many sectors of the economy and society. Education, once well funded and organized, now faced drastic changes. The well-developed and previously highly regulated network of technical schools and universities began to lose their ability to produce highly qualified professionals, due to a lack of funding and resources, and lack of focus on the needs of business. Managers lack the necessary skills training for operating in a market economy.

Assembly laborers have the basic skills necessary for apparel—however, additional training is necessary to bring the skills set of assemblers, weavers, etc to a level where value is added by the varied abilities of any one worker to handle fluctuations in demand for certain products. In essence, it is necessary for laborers to have skills sets that are easily convertible based on changes in demand and production.

The apparel industry—which employs the most workers save for the government, suffers from high workforce turnover due to low wages. Many of the better, younger professionals have opted to take their chances elsewhere in more lucrative salary markets.

Raw material supply is also an issue in the apparel industry. The wool industry suffered from a lack of supply in the early 1990s, this led companies to reorient supply chains to imported materials from surrounding countries. This increased costs and led to an overall deficit against the costs associated with producing goods and the actual revenue earned from the sale of such goods. The garment assembly sector of the apparel industry does not have a base for raw material in Bulgaria; virtually all of its supply is imported. This makes both sectors of the apparel industry dangerously subject to the availability and cost of supply from outside resources.

The collapse of the Russian market had a destructive effect on the Bulgarian economy. As a result of this economic deterioration, credit was scarce and when it was available interest rates were steep. New investment was extremely difficult to attract and the inability of companies to invest in new machinery led to the decline in condition and suitability of the equipment being used.

The response of Wooltex AD,[2] a Bulgarian woolen textile producer, to the severely worsening business environment was like many other Bulgarian companies, to decrease production. By the mid-1990s Wooltex was producing around 40 percent of its maximum output during the 1980s.

Bulgaria has adequate telephone infrastructure. The Internet is not particularly prolific, and this is a problem for customers that expect 24-hour Internet access. Innovation in equipment and technology has been slow, due to investment and credit limitations. Some companies such as Wooltex have been successful in implementing new systems that have improved the quality of information available about the trends and requirements of their

[2] The name of the company was changed for the purposes of confidentiality.

customer bases. But across many garment assembly firms, technological innovation remains necessary to provide competitive products to many markets.

In the global garment production environment, timeliness and costs are the most important factors to meeting fluctuating demand.

Within the past decade, point-of-sale data analysis, coupled with distribution and transportation logistics has made cycle time a major competitive variable. In turn, time issues have stepped up the technological entry barriers for apparel producers. Buyers expect Bulgarian producers to have computers, access to the Internet, financing, design and marker programs, as well as shipping and bar coding capabilities to meet the needs of large distribution systems. According to global industry requirements, orders must be completed and shipped on time and may require full supply chain documentation on fabrics, trims, and subcontracted labor. The global apparel market is intolerant of late goods, quality failure and poor communication.

Bulgarian producers are not lacking the knowledge necessary for product design and construction capability. But they lack a rapid manufacturing orientation, in part due to their tradition of craftsmanship. Continuous change is a hallmark of the global sewn goods industry. Those producers who are flexible enough to move with markets stay ahead of the competition.

The current transportation infrastructure has been limited and irregular in its ability to reach both internal and foreign markets. Import and export procedures remain cumbersome, time-consuming and costly. However, recent improvements in infrastructure and capital markets have been made, albeit at a much slower pace then other improvements.

Demand Conditions

Domestically, demand is regarded as unsophisticated and small. The primary sectors that make up domestic demand have been the government and to some extent local apparel markets. Demand from the government has been low and decreasing due to the smaller share of GDP for military costs. The local market has never truly been a driving force for many of the larger production firms.

During the 1970's and the beginning of the 1980's, new machinery and equipment was installed to replace the already depreciated nationalized equipment. At that time, "integration" of the socialist economies was proceeding, and the Bulgarian woolen textile industry oriented itself to the huge Soviet market indirectly, by selling its goods to tailoring companies that in turn exported the finished garments largely to Russia.

After the collapse of the Russian market in 1992, Bulgarian production was reoriented towards exports to areas other than Russia. These exports were focused predominantly on the US and Canadian markets and to a lesser extent on European and Ukrainian markets.

Currently, Bulgarian producers compete in European markets with regional manufacturers in Turkey, Romania, Poland, Ukraine, Hungary and Czech Republic. However, for North American markets, competition in some product categories will come from Asia, Central America, and eventually, sub-Saharan Africa. The customer can be very fickle – contracting with new producers when lower costs are available. It is imperative that Bulgarian producers understand with whom they are competing in which categories, so they can make informed decisions about products and markets appropriate to their capabilities.

Within the past decade, point-of-sale data analysis, coupled with distribution and transportation logistics, has made cycle time a major customer concern and competitive variable. In turn, time issues have stepped up the technological entry barriers for apparel producers. This is where the concepts of manufacturing productivity, efficiency of capital and labor, and product/process innovation separate the winners from the losers. Buyers expect that Bulgarian producers will have computers, 24 hour internet access, financing, design and marker programs, as well as shipping and bar coding capabilities that match needs of large distribution systems. Orders must be completed and shipped on time and may require full supply chain documentation on fabrics, trims, and subcontracted labor. The markets are intolerant of late goods, quality failure, and poor communication.

The JAA industry specialist voiced concern that some Bulgarian producers may not be psychologically prepared for the aggressive US retailer or manufacturer who cares nothing of Bulgarian margins and expects the most product and service at the lowest cost. This business practice is a far cry from the gracious European style of relationship building to which many Bulgarian firms are most accustomed. While this product attitude may not appeal to the aesthetics or cultural traditions of Bulgarian craftsmanship, in order to manufacture goods for North American consumers, they will have to adjust their attitudes and find new ways to do it faster, more efficiently and most of all cheaper.

Firm Strategy, Structure and Rivalry

In the second half of the 1990s the process of privatization reached the Bulgarian textile industry, and many firms were privatized. The new private owners introduced a relatively more flexible management and started developing longer run strategies that were primarily export oriented.

In many cases, however, this new 'leadership' in many Bulgarian companies lacked the necessary knowledge of strategic vision and thinking. The firms were managed predominantly by production specialists who openly resorted to short-term, price-only strategies. This strategy, combined with excess capacity in the industry and the lack of development and attention towards the domestic market, made the industry's firms ready victims of other more strategically acting players on the global scene.

The competitive environment was perceived as global only and the basic element of this competitiveness was based on low cost. Many firms have felt powerless to control or participate in the factors that governed global markets. Their sense of despair and lack of options led many to focus primarily on survivor tactics and reactionary strategies. When asked what was the strategy of Wooltex AD, the procurator of the company answered, "The strategy is to survive this year after the last one."

Bulgarian producers do have excellent knowledge for product design and construction capability, but they lack market focus and understanding and have not proactively worked either individually or collaboratively on defining and marketing their products to demand, or lobbying for expanded financial resources. The majority of strategic plans have been based on cost rather than a complete understanding of market demand and customer requirements.

There are some strategic activities in the early stages of development that are aimed at moving from cost-based to demand-based strategies. Capability for full-package work, a value-adding pre-production service strategy, is developing all over Bulgaria. Due to the timely adoption of design software and machine technology, the more advanced members of the Bulgarian apparel industry have developed export opportunities and are building subcontracting networks. Additionally, the work being done with the assistance of IESC on the FLAG project has developed better channels and working relationships between Bulgarian and US firms. This has provided participating Bulgarian firms with an introduction to the levels of competitive effort required in the various margin and category opportunities.

However, most export-oriented firms continue to do CMT (cut, make, trim) work for European manufacturers and retailers, carrying less financial risk. Some producers feel that they have no control over energy, raw materials, labor and social charges, etc. Their customers are demanding less product cost and they are struggling to provide it.

As mentioned, it is imperative that Bulgarian producers understand with whom they are competing, and in which categories, so they can make informed decisions about products and markets appropriate to their capabilities. For example, many Bulgarian producers can do precise topstitching, while Central Americans are failing in this technique. Outerwear products in higher-end fabrics for the American market would be an excellent category for a Bulgarian producer with tailoring capabilities. Much of this competitive product knowledge comes from working with customers, studying retailing, and attending shows. Matching market information with managerial skills such as accurate costing of goods is imperative in doing successful export business. Bulgarian producers need a knowledge network provided by their associations to help them find and take advantage of opportunities.

Continuous change is a hallmark of the global sewn goods industry. Those producers who are flexible enough to move with markets stay ahead of the competition.

Industry Cluster and Cooperation

Effective cooperation in the textile industry does not yet widely exist. In part, this is because, under the central planning of the socialist system, each company had a distinct role and very rarely had direct contact with one another or other sectors of the industry. When the indirect contacts with suppliers and clients via intermediaries were severed with the end of socialist systems, companies were not equipped to handle these relations themselves.

More recently, limited resources for credit and investment have produced an environment of isolation among firms. There is little cooperation as strategies have been set on survival tactics based on the assumption that the success of one firm will come at the cost of another.

Even with the advances made through privatization, aside from forward and backward direct linkages necessary to conduct business, there is little cooperation or interaction among firms in the cluster.

Until recently, there has been no effective coordinated industrial association that represented the whole of the Bulgarian apparel industry. Numerous local and regional associations exist, but are not tied to a national effort for a unified voice to the government nor a cohesive strategy. One national group is attempting to build consensus among industry members.

The Association of Apparel and Textile Exporters is attempting to build an organization that represents the entire supply chain. They have created a website as a communication and marketing mechanism for all its members. They have also participated in a number of research and publicity activities.

The work of the BCE and of the FLAG consortium has contributed to industry dialogue and has engendered some collaboration.

Role of Government

The government has been ineffective in supporting the textile industry. This is the result of both a lack of unification in presenting issues on behalf of the industry and the lack of correct government participation in the activities of the cluster.

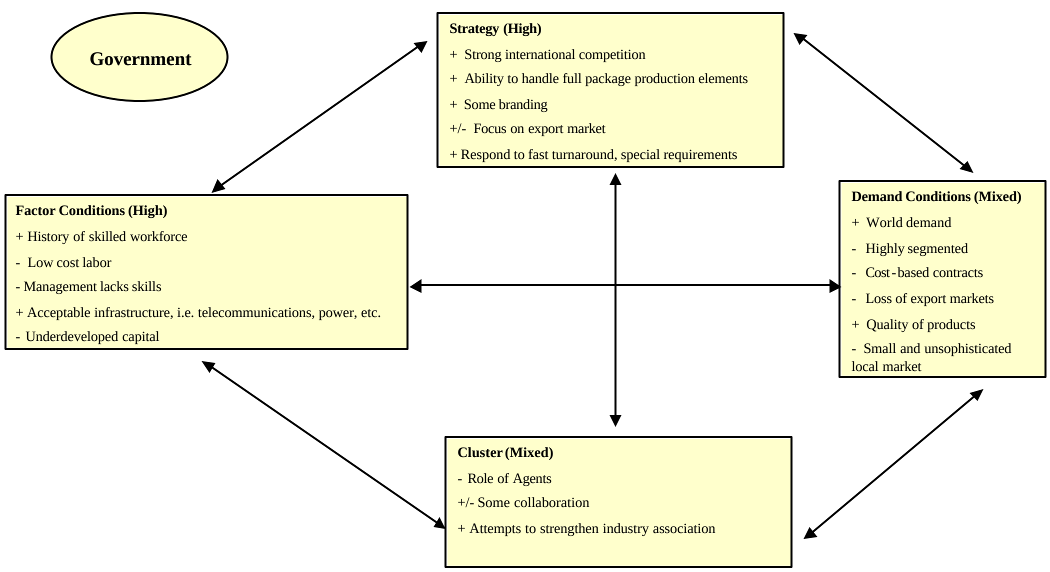
In terms of legislation, the lack of a clear business policy and the ineffectiveness of government provided tax incentives have greatly hindered the ability of many firms to add new capacities and innovate the industry to global standards.

Looking Forward

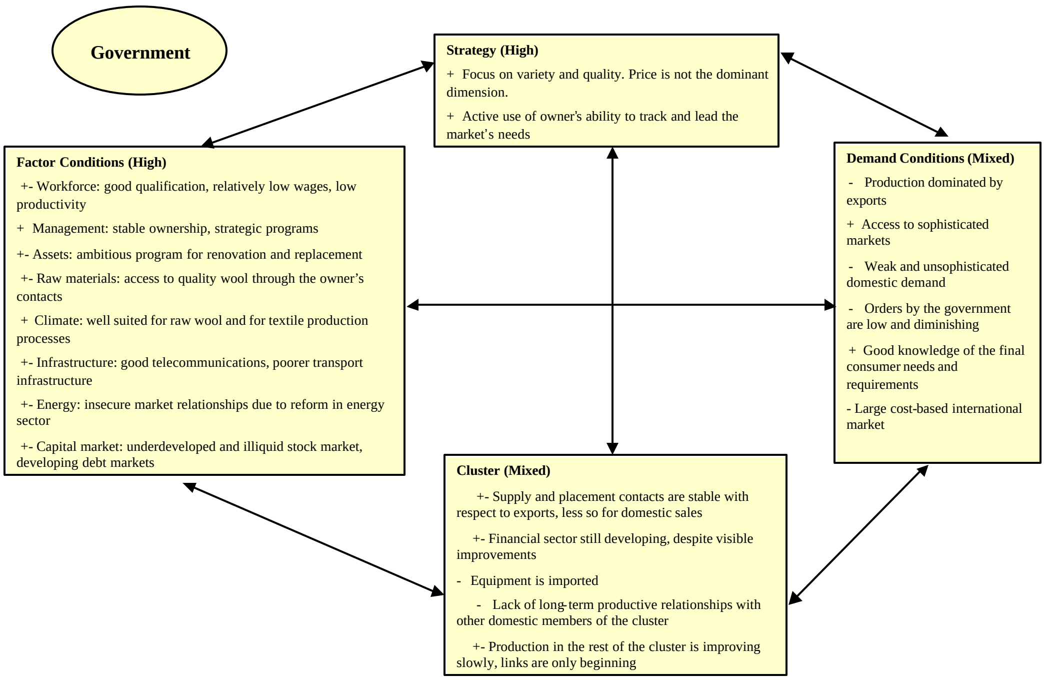
Opportunity	Method
1. Competitive Positioning	*Opportunity:* Promote the specialization of smaller firms as a means to insuring their survival and to providing valuable services to larger firms. Enhance infrastructure, transportation and communication to improve the capability of the entire industry. Develop domestic demand to protect and potentially increase local market share. Gain an understanding of competitors in order to make more informed decisions about products and markets appropriate to their capabilities. Improve capacity to generate more revenue by decreasing labor costs and increasing labor productivity. Apply discreet knowledge of European tastes to design products for other markets. Brand Bulgarian goods and license specialized equipment and services. Lower transaction costs to become more flexible in the open market economy.
2. Customer Learning	*Opportunity:* Obtain market information and attend trade shows as a means to gain a better understanding of market forces and customer demands. Gain an understanding of the competitors to the Bulgarian textile industry in order to make more informed decisions about products and markets appropriate to their capabilities.
3. Innovation	*Opportunity:* Design products backward from a manufacturing perspective rather than forward from an aesthetic perspective. Focus on niche markets that greatly enhance competitive advantage, such as top stitching, etc. Upgrade technological innovation in order to fully participate in the fast moving global markets—the textile market is particularly expectant of innovations in communication/internet access, financing, design and distribution mechanisms necessary to meet the needs of large markets. Focus on diversifying the value-added services within selected opportunity ranges. Tighten operations of medium or lower grade products to access full package programs with moderate and better retailers and manufacturers in the United States. Reduce cycle time on production.
4. Human Capital Investment	*Opportunity:* Work with training institutions to build curricula to train employees and managers in better corporate organization, management and marketing skills. Improve the level of management understanding of market forces and trends.
5. Cluster Cooperation	*Opportunity:* Find outside agents to act as a catalyst for building confidence in industry collaboration. Create a mechanism for gathering and distributing all the various information related to the cluster, the global textile markets and industry trends. Work with the business association to provide the necessary network linkages to market information. Collaborate with industry

	partners and stakeholders to address certain legislative issues as a united front to government.
6. Forward Integration	*Opportunity:* Work with the government to create more jobs; provide greater regional trade integration, and training of relevant ministerial officials on the issues specifically facing the textile industry.
7. Strategies and Attitudes	*Opportunity:* Develop a strategy for the development of the industry as a whole based on a five to ten year timeline. Distinguish the difference between product grade and manufacturing quality—grade refers to level of value and quality refers to variation. Employ more sophisticated marketing techniques to be more efficient in higher-grade production. Distinguish the difference between product grade and manufacturing quality—grade refers to level of value and quality refers to variation.

APPAREL INDUSTRY
Company Competitiveness Diamond



WOOLTEX AD
Company Competitiveness Diamond



CLUSTER: <u>Apparel</u>

Platform (Policy, etc.) Impact points[3]

	PLATFORM ELEMENT	COMPANY IMPACT POINTS			
		Finance	*Marketing*	*Production*	*Organization and Staffing*
Macroeconomic Policies					
	Monetary	X			
	Fiscal	X	X	X	
	Trade	X	X	X	
→	Labor – minimum wage		X	X	X
	Labor – expatriates				
	Capital – ownership	X			
	Capital – repatriation	X			
Legal and Institutional Enabling Environment					
	Appropriate commercial legislation	X			
	Functioning judiciary or arbitration mechanisms			X	
	Productive civil service			X	
	Tax collection	X	X	X	
→	Customs			X	
→	Heath and sanitation		X	X	
	Business Licensing		X	X	
	Investment Promotion			X	X
	Government procurements and contract awards		X	X	
	Privatization		X	X	X
Infrastructure – Costs and Services					
	Safe Water				X
→	Telecommunications		X	X	
→	Informatics		X	X	
	Energy			X	
	Transport		X	X	
Human Resources					
	Literacy				X
	Education level			X	X
→	Technical and managerial training		X	X	X
→	Productivity			X	
→	Health initiatives		X		X

[3] On the Impact Points Table, an "X" represents an impact on the firm and an "→" represents a factor that has a particularly significant impact.

A STUDY OF FIVE NATIONAL COMPETITIVENESS AND PRODUCTIVITY COUNCILS

National competitiveness and productivity councils are increasingly used as a means of strengthening economic growth. They have been used to good effect in countries that have achieved high growth rates (chart below). The unique structure of the councils allows it to work objectively with the government by providing a dialogue mechanism between the public, private, labor and academic sectors on the steps necessary to build economic and social competitiveness. Through direct policy recommendations based on studies conducted by the councils, the government is given a clear, well-substantiated and reinforced program of actions that it can take to enhance competitiveness leading to rapid economic growth and improved living standards. It is important to recognize that although the councils provide strategies to the government, they do not supercede the ability and necessity of industries to set their own action agendas and strategize for industry competitiveness. Some councils create subcouncils to study specific areas related to business and industry in which the advice of business is required in order to effectively suggest the correct strategy to government. It is through this process that both directly and indirectly the private sector can help drive the dialogue on competitiveness with government.

The information provided below is a preliminary study of competitiveness councils in Ireland, the United States and Singapore and productivity councils in Hong Kong and Malaysia. It is part of a brief that was submitted to the President of Sri Lanka as part of an ongoing process to establish a National Competitiveness Council in Sri Lanka. The specific briefs on each council are provided in the annexes attached to this document. A more detailed report is currently being undertaken by J.E. Austin Associates for competitiveness projects in other countries and should be available by the middle of September.

SELECTED COMPETITIVENESS AND PRODUCTIVITY COUNCILS

COUNTRY	NAME OF COUNCIL	ESTABLISHED BY	DATE	2000 WEF RANKING[1]	2001 IMD RANKING[2]
United States	Competitiveness Policy Council (CPC)	Omnibus Trade and Competitiveness Act of 1988	1988	1	1
Ireland	National Competitiveness Council (NCC)	Partnership 2000 Agreement	1997	5	7
Singapore	Committee on Singapore's Competitiveness (CSC)	Directive of the President of Singapore	1997	2	2

[1] The WEF provides two ranking systems, the Growth Competitiveness Ranking and the Competitiveness Ranking. For the purpose of this table we chose the Growth Competitiveness Ranking. Source: World Economic Forum. *Global Competitiveness Report 2000*. New York: Oxford University Press, 2000.

[2] World Competitiveness Ranking. Source: Institute for Management Development (IMD). *The World Competitiveness Yearbook 2001*. Lausanne, Switzerland: IMD, 2001.

Hong Kong	Hong Kong Productivity Council (HKPC)	Official Statute	1967	8	6
Malaysia	National Productivity Council (NPC)	Act 408: National Productivity Council Incorporation Act	1966[3]	25	29

All five councils/committees were instituted by an act of government. The Irish, US, Hong Kong and Malaysian Councils were all established by an official government act or statute, while the CSC in Singapore was simply a directive of the President of Singapore to the Ministry of Trade and Industry to study the future of Singapore's competitiveness.

The membership of each council/committee represents a wide-range of sectors including senior levels of government, the private and public sector, the labor sector, and academic institutions of higher learning. In most cases where the council/committee was established by an act of government, a senior member of government appoints the membership. The members of the Irish, Singapore and US councils are voluntary members, while in Hong Kong and Malaysia, members serve as consultants and are able to fund their councils through the fees they charge for advising and training companies and industries. In addition to the official membership, a number of councils/committees maintain a standing group of advisers or resource persons on which they can call for specialized issues.

Specific duties vary widely by council, although all relate to enhancing competitiveness and productivity. The reporting requirements of each council/committee are also very different. The Irish, US, Malaysian Councils and the Singapore Committee have to report directly to the government to provide their work plans and specific recommendations on policy improvements. Ireland provides the most comprehensive reporting through an advisory benchmarking report and an annual policy recommendation report.

Budgets for each council/committee vary depending on the form of their income. The US and Irish Councils are funded by the government and vary from $5 million USD to $120,000 USD annually. The Hong Kong and Malaysian Councils are able to borrow money through the Minister of Finance and also garner fees for services.

The policy recommendations provided by each council/committee represent various aspects of the economy. The recommendations offered in Ireland include financial, infrastructure, labor and social policy changes. The Irish Council provides the most recommendations for government action, which speaks directly to the Irish government's acceptance of the role of the Council in enhancing the national competitiveness and productivity of Ireland. US recommendations vary from year to year depending on the areas of focus for the report. These recommendations generally involve the areas of education, training, technology, trade policy, private

[3] Act 408 was revised in 1989 and amended twice in 1991 and 1995. The revision and amendment served to reword the duties of the Council and also to incorporate additional employment procedures.

investment and infrastructure. The Committee in Singapore produced their report as a one time study with particular focus on what strategies would be necessary to protect Singapore against falling prey to another financial crisis like the Asian financial crisis of 1997. Neither of the Productivity Councils of Hong Kong or Malaysia set out specific recommendations, although the Hong Kong Productivity Council has achieved a great deal in the areas of commercial research and development, services support, industrial support and innovation and technology.

The difference between Competitiveness Councils and Productivity Councils is that Competitiveness Councils work hand in hand with government to increase competitiveness and improve living standards. Productivity Councils work primarily as a consulting and training institution to enhance industrial and commercial productivity.

These five councils, and their counterparts in other countries enlist the support of the private sector behind key economic initiatives, advise the Government on competitiveness-related issues and provide research and action to boost productivity, exports, investment and economic growth. In the case of Bulgaria, it could provide a key venue for private-public dialogue and a means of coordinating the design and implementation of economic policies designed to create a dynamic Bulgarian private sector.

ANNEX 1:
NATIONAL COMPETITIVENESS COUNCIL (NCC) (IRELAND)[4]

A. ESTABLISHMENT/PURPOSE

1) Established in 1997 under the *Partnership 2000 Agreement*[5] to report to the Taoiseach on key competitiveness issues for the Irish Economy.
2) The Council is housed at Forfás, the National Policy and Advisory Board for Enterprise, Trade, Science, Technology and Innovation in Ireland.

B. MEMBERSHIP

1) Fourteen (14) members
   a) Appointed by the Deputy Prime Minister.
   b) Reflects representation from business and labor sectors.
      i) Senior level representatives from the Trade Union of Ireland and the Congress of Trade Unions.
      ii) Private sector representatives from multinational, indigenous, small and large business in both high technology and traditional industries.
      iii) Representatives from state-owned and regulated industries.
      iv) CEO of Forfás.
2) Advisors
   a) Government Officials from the following areas of government:
      i) Finance
      ii) Enterprise, Trade and Employment,
      iii) Environment and Local Government,
      iv) Education and Science,
      v) Public Enterprise (State-owned and regulated companies)
      vi) Taoiseach[6]
   b) Purpose is to inform the Council and government of progress in the implementation of policy recommendations of the NCC.
3) No limit on the number of members.
4) Every year the four members with the longest term are replaced, although they are eligible for reappointment, which is often the case.
5) Quorum equals four (4) members.
6) Agreements are made on a consensus basis; if necessary a simple majority commands official voting. (As of yet, no issue has required an official vote by council members.)
7) Meets four (4) to five (5) times a year.

[4] Sources: (1) Interview with Diarmuid O'Conhaile, FORFAS. (2) National Competitiveness Council. *The Competitiveness Challenge 2000*. Dublin, Ireland: 2000.
[5] The *Partnership 2000 Agreement* comes out of the Social Partnership model, which the Government of Ireland uses as a framework for a process to develop "a shared understanding of the forces and trade offs driving economic and social progress." The Partnership aims to secure a balance between competitiveness and gains in actual take-home incomes. It also works to deepen the social cohesion of Irish society to enhance the economy and social infrastructure
[6] Office of the Head of Government.

C. DUTIES/REPORTING REQUIREMENTS

1) Produce two reports for the Taoiseach on an annual basis:
   a) Annual Competitiveness Challenge Report
      i) A report on key competitiveness issues facing the Irish economy.
         (1) "Makes recommendations on public policy actions required to enhance Ireland's competitive position."
         (2) Sets specific actions necessary to safeguard and enhance Ireland's international competitiveness.
         (3) Each year the Council identifies specific priorities that define the work program for the year and which serve as the basis for the information provided in the report.
   b) Annual Competitiveness Report
      i) A report that benchmarks annual indicators of competitiveness.
      ii) The report is submitted to government as an advisory document. The only required report is the Annual Competitiveness Challenge Report.
2) Generally, the NCC is responsible for managing and directing it's own work program although periodically, they are asked to undertake specific activities defined by the Prime Minister or the Deputy Prime Minister.
3) Analytical support is provided by Forfás.

D. APPROPRIATIONS

1) Budgeted through Forfás on an as needed basis according to report requirements.
2) Typically the budget required to support the NCC has cost roughly $100-220,000 US dollars (£100-200,000 Irish)

E. FINDINGS/RECOMMENDATIONS

1) Deepen social partnerships through sectoral and enterprise-level agreements addressing sectoral and enterprise-level issues.
2) Secure continued strong growth in take-home pay through increases in gross pay, profit sharing and agreement on continued tax burden reductions.
3) Accelerated planning and actions towards the achievement of the Kyoto restrictions.
4) Boost the extent and quality of company training programs.
5) Ensure equal access to employment for women with children and ensure the provision of comprehensive and affordable childcare.
6) Design a comprehensive and proactive immigration policy to address pervasive skill and labor shortages.
7) Improve the provision of adult education and training programs.
8) Control growth in public expenditure, prudent tax policy and strict adherence to the provisions of the Growth and Stability Act.
9) Adopt medium-term targets for more equitable and sustainable distribution of taxes, especially on payroll and property/capital taxes. Assess the impact of the introduction of an environmental tax.

10) Improve cost competitiveness of energy prices as compared to international competitors.
11) Improve the level of competition in the provision of finance to SMEs.
12) Introduce a compensation board/arbitration system as an alternative to expensive and cumbersome court proceedings in order to reduce insurance liability costs.
13) Promote improved service quality of public transportation.
14) Promote more efficient use of existing infrastructure capacity such as road pricing in heavily congested areas.
15) Enact key planning provisions of the Planning and Development Bill 1999 by Summer 2000.
16) Maintain strict adherence to the two-year timeframe set for the design of the National Spatial Strategy.
17) Establish an executive overarching body responsible to the government for planning and effective implementation of transport improvements in Dublin.
18) Identify priority projects in transportation infrastructure under NDP and establish them as primary objectives for the relevant Operational Programs.
19) Appoint a small number of senior program managers with power and responsibility for delivery of priority projects.
20) Allow competition by an international consortium on large-scale national transportation infrastructure projects.
21) Institute an affordable Housing Strategy as a matter of urgency.
22) Ensure price competitiveness from telecommunications operators. Empower the Office of the Director of Telecommunications to exercise regulatory power.
23) Give priority to implementation plans in the regional broadband network.
24) Support provision of a wholly electronic interface with the enterprise sector and the general public.
25) Ensure protection of intellectual property through a legislative and regulatory framework.
26) Support the legal and regulatory framework to enable secure and certain electronic transactions.
27) Develop a consistent and comprehensive legislative and policy framework for regulation in the economy.
28) Ensure that the structures and mechanisms for the delivery of the Research, Technological, Development and Innovation (RDTI) investment work effectively to resolve existing weakness.
29) Invest in RDTI under the NDP.
30) Strengthen entrepreneurial capacity in financing of technologically advanced firm.
31) Upgrade the quality of information available to clients on the results/value-added of public service providers. Create a government website to disseminate this information.

ANNEX 2:
COMPETITIVENESS POLICY COUNCIL (CPC) (UNITED STATES)[7]

A. ESTABLISHMENT/PURPOSE

1) Established by the Omnibus Trade and Competitiveness Act of 1988 as the "Competitiveness Policy Council" as a bipartisan advisory committee under the Federal Advisory Committee Act (5USC App.)
2) Purpose: To develop long-range strategy recommendations for promoting international competitiveness of US Industries.
   a) Analyze information regarding competitiveness of US business and trade policy;
   b) Create a forum of national leaders through which it can identify economic problems inhibiting US competitiveness; and
   c) Develop long-term strategies to address problems.

B. MEMBERSHIP

1) Twelve (12) Members
   a) Four (4) appointed by President:
      (i) 1 national leader with business experience;
      (ii) 1 national leader with labor experience;
      (iii) 1 national leader with public interest experience; and
      (iv) 1 head of a federal department or agency.
   b) Four (4) appointed by the Majority and Minority leaders of the Senate:
      (i) 1 national leader with business experience;
      (ii) 1 national leader with labor experience;
      (iii) 1 national leader with academic experience; and
      (iv) 1 representative of state or local government.
   c) Four (4) appointed by the Speaker of the House and the Minority leader of the House:
      (i) 1 national leader with business experience;
      (ii) 1 national leader with labor experience;
      (iii) 1 national leader with academic experience; and
      (iv) 1 representative of state or local government.
2) Federal officials may participate as ex officio (non-voting) members as requested by the Council.
3) No more than 6 members shall be of the same political party.
4) Vacancies are filled in same manner as original appointment.
5) Members are only removed for malfeasance in office.
6) Cannot simultaneously serve as an agent for a foreign principal or lobbyist for a foreign entity.
7) Seven (7) members equal a quorum.
   a) Alternates must be named by members unable to attend meetings.

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[7] Sources: (1) *15 USC Chapter 74:* Competitiveness Policy Council. (2) Competitiveness Policy Council. *A Competitiveness Strategy for America: Second Report to the President and Congress*. Washington, DC: 1993.

b) Alternates do not carry voting ability.

8) Chairperson of the Council is elected by 2/3-majority vote.
9) Policy actions are taken upon a 2/3-majority vote.
10) Executive Director:
    a) Appointed by the Council as a full time staff member.
11) General Supporting Staff:
    a) Appointed by Executive Director as full time employees.

C. DUTIES

1) Develop recommendations for national strategies on competitiveness
2) Create forum to address problems facing the economic competieivness of the US.
3) Evaluate federal policies, regulations, and unclassified international agreements on trade, science and technology that affect the economic competitiveness of the US.
4) Provide policy recommendations to Congress, the President and Federal departments on specific issues related to US economic competitiveness.
5) Identify state and local government programs (including joint ventures between corporations and universities) devised to enhance competitiveness.
6) Establish subcouncils of public and private leaders to develop recommendations on specific topics.
7) Report findings and recommendations on long-term strategies to the President and Congress.

D. REPORTING

1) The Council must submit an annual report to the President, Senate Governmental Affairs Committee, and appropriate committees of the House and Senate by March 1st.
    a) The report should set forth the goals to achieve US competitiveness, policies to meet such goals, summary of existing policies affecting US competitiveness and a summary of significant economic and technological developments that affect US competitiveness.
2) The Council should consult with each committee to which the report is submitted, that committee then reports to its respective Congressional house, a report on the recommendations of the committee with respect to the findings of the Council.

E. APPROPRIATIONS

1) The Council is authorized to be appropriated for each fiscal year, such sums as are necessary not to exceed five million dollars ($5 million) to carry out the provisions of the establishing act.

F. FINDINGS

1) *National Goals*

a) Increase national productivity growth—from less than 1 percent to 2 percent annually.
b) Increase national investment by 4 to 6 percent of GDP.
c) Finance new investment through increased domestic savings.

2) *Education*
a) Give students a stake in high performance by making school records count for college and employers.
b) Develop content and performance standards for students.
c) Develop assessments that measure student achievement, not ability or test-taking skills.
d) Give schools the flexibility, expertise and resources needed to achieve National Education Goals.
e) Hold teachers and schools accountable for performance.

3) *Training*
a) Encourage firms to increase training through grants, tax credits, or payroll requirements.
b) Improve the school-to-work transition through service programs, apprenticeships and skills standards.
c) Ease the adjustment burden on dislocated workers.
d) Provide one-stop shopping for training needs.

4) *Technology*
a) Enact a new innovation and commercialization tax credit.
b) Redirect government spending to civilian and dual-use research and development (R&D).
c) Expand federal support to cooperative projects with private industry.

5) *Corporate Governance and Financial Markets*
a) Board of Directors and institutional investors must provide more active, on-going monitoring of corporate performance.
b) Companies should prepare periodic analyses of non-financial measures of their long-term performance prospects.

6) *Trade Policy*
a) Develop growth strategy with our G-7 partners.
b) Seek agreement in the G-7 to restore reference ranges from 1987-1988.
c) Negotiate opening of foreign markets to American products.
d) Sharply increase the quality and quantity of US export credits.
e) Consolidate and double US export promotion efforts.
f) Reduce or eliminate export disincentives that block billions of dollars of foreign sales by American companies.

7) *Private Investment*
a) Institute a permanent equipment tax credit.
b) Authorize industry consortia for joint production.
c) Allow more rapid depreciation allowances.
d) Modify regulations to remove incentives to invest abroad.

8) *Infrastructure*
a) Develop an intermodal strategy keyed to exports.
b) Reform the nations air traffic control system.
c) Improve efficiency and aggressively maintain surface transportation.

d) Create a bipartisan National Infrastructure Commission.
e) Establish a capital budget for the federal government.
f) Unify the federal role in telecommunications policy and end the current regulatory gridlock.

G. FUTURE WORK:

1) Capital Allocation;
2) Healthcare;
3) Tort Reform;
4) Services Productivity;
5) Banking Reform;
6) Energy Policy; and
7) Antitrust Policy.

ANNEX 3:
COMMITTEE ON SINGAPORE'S COMPETITIVENESS (CSC) (SINGAPORE)[8]

A. ESTABLISHMENT/PURPOSE

1) Established in May 1997 through a directive by the President of Singapore to the Ministry of Trade and Industry to study Singapore's competitiveness over the next ten (10) years.
2) The purpose of the CSC became even more prominent in light of the Asian financial crisis and hence many of the strategies are concerned with strengthening external markets to protect against further crises.

B. MEMBERSHIP

1) Primary Membership
   a) Board of fifteen (15) members representing government ministry leaders, private sector leaders, banking institution representatives and trade union representatives.
2) Resource Persons
   a) Public sector representatives from various ministries and national development boards.
   b) Academic representatives from Nayang Technological College, Singapore Management University, the National University of Singapore, the Institute of Southeast Asian Studies and the Institute of Policy Studies.

C. DUTIES

1) "To assess Singapore's economic competitiveness over the next ten (10) years, taking into consideration global trends and the development of existing and emerging competition."
2) "To identify problem areas and propose strategies and policies with a view to maintaining and strengthening Singapore's competitive positioning."
3) Additionally, five subcommittees were formed from the CSC main committee to undertake detailed reviews of the manufacturing, finance and banking, hub services, domestic business and manpower and productivity sectors.

D. REPORTING

1) In October 1998, the CSC submitted its report on the state of Singapore's competitiveness with specific recommendations on the strategies necessary to effectively enhance Singapore's competitiveness.

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[8] Source: Committee on Singapore's Competitiveness. *Committee on Singapore's Competitiveness Report*. Singapore: 1998.

E. APPROPRIATIONS

1) Information not available.

F. FINDINGS

1) "Manufacturing and services should be promoted as the twin engines of growth for the Singapore economy."
   a) Position Singapore as a base for the manufacturing of high value-added products and provide manufacturing related services to companies in Singapore and the region.
2) Strengthen participation in external markets by incorporating "a global dimension to allow diversification so that growth is maintained even if one region is weak."
3) Build world-class companies with core competitiveness to compete effectively in the global economy.
4) Strengthen the base of small and medium local enterprises.
5) "Develop a world-class workforce with outstanding capabilities."
6) Develop science, technology and innovation capabilities to enable existing industry and business clusters to upgrade to higher innovative and technological content."
7) Optimize resource management through supply promotion and efficient usage of resources.
8) Support and facilitate the private sector through government provision of sound economic policies and a regulatory environment conducive to business.

ANNEX 4:
HONG KONG PRODUCTIVITY COUNCIL (HKPC) (HONG KONG)[9]

A. ESTABLISHMENT/PURPOSE

1) Established by statute in 1967 to promote increased productivity and the use of more efficient methods throughout Hong Kong's business sectors.

B. MEMBERSHIP

1) A multi-disciplinary organization governed by a Council comprising a Chairman and 22 Members.
2) Membership represents managerial, labour, academic and professional interests as well as a number of government departments concerned with productivity issues.

C. DUTIES

1) To promote productivity excellence through the provision of professional services to achieve a more effective utilisation of available resources and to enhance the value-added content of products and services.
2) To increase efficiency and competitiveness, thereby contributing to raising the standard of living of the people of Hong Kong.
3) To provide a diverse range of services in product development, consultancy, training and technology transfer, to clients across all industrial and commercial sectors through various subsector groups among which are the sectors of innovation process and automation, environment and product innovation, information technology and services, and services and business.

D. REPORTING

1) Information not yet available.

E. APPROPRIATIONS

1) The HKPC is supported by fee income from its services and a government subvention in balance.

F. FINDINGS

1) The HKPC has made many achievements in the areas of commercial research and development, services support, industrial support and innovation and technology.

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[9] Source: www.hkpc.org

ANNEX 5:
NATIONAL PRODUCTIVITY COUNCIL (NPCM) (MALAYSIA)[10]

A. ESTABLISHMENT/PURPOSE

1) Established by Act 408—National Productivity Council Incorporation Act 1966 (revised in 1989) as a corporate body under the guidance of the Government of Malaysia. Since 1966, various Amendments (1991 and 1995) have been passed to update and further the bylaws that govern the management of the Council.

B. MEMBERSHIP

1) Twenty (20) total members
   a) Chairman;
   b) Director of the National Productivity Centre;
   c) A representative of the Ministry of Trade and Industry;
   d) A representative of the Economic Planning Unit of the Prime Minister's Department;
   e) A representative of the Ministry of Labour;
   f) A representative of the Treasury;
   g) A representative of the Ministry of Agriculture;
   h) A representative of an institution of higher learning; and
   i) Not more than twelve (12) members, of whom not more than seven (7) shall represent institutions of commerce, manufacturing industries, industrial financing, industrial development, management, labour and employers.
2) Members are appointed by the Minister in charge of industrial development (known as the "Minister").
3) The term of a Council member shall not exceed three (3) years at any one time.
4) Members are eligible for reappointment.
5) Quorum equals nine members.
6) Questions are determined by a simple majority vote. In cases of a tie, the Chairman or other member acting as Chairman shall have a casting vote.
7) The Council may employ and pay agents and technical advisers to transact any business or to do any act required for the execution of its duties.
8) The Minister may from time to time establish one or more consultative panels. The panel shall consist of:
   a) At least three (3) but no more than seven (7) members of the public sector;
   b) At least three (3) but no more than ten (10) members of the private sector;
   c) At least one (1) but no more than five (5) members from an institution of higher learning;
   d) At least one (1) but no more than five (5) members from associations representing employees.

[10] Source: www.ilo.org. Laws of Malaysia. *Act 408 National Productivity Council (Incorporation) Act 1966 (revised 1989)*.

C. DUTIES

1) From Incorporation Act of 1966: The Council shall establish and maintain a centre known as the National Productivity Centre. The objectives of the Council were Amended in 1991 to the following:
   a) Lead in the promotion and dissemination of productivity related information and issues.
   b) Establish an information and reference centre for productivity indices for the country and for management systems and case studies.
   c) Generate local expertise in the field of productivity, quality, management and entrepreneurship.
   d) Enhance the development of human resources both at the supervisory and management levels in the country.
   e) Advise on and coordinate the implementation of programmes and activities related to productivity and quality.
   f) Assess and certify supervisory and management training programmes, entrepreneurship programmes, and productivity and quality management programmes conducted by the private sector.
   g) Conduct training or other programmes relating to productivity, quality, management and entrepreneurship.
   h) Provide consultancy services relating to productivity, quality, management and entrepreneurship.
   i) Collect, produce, and publish information on productivity, quality, management, entrepreneurship and other related subject matters.
   j) Carry on business undertakings for the purpose of discharge of its functions under this Act with the approval of the Minister.
   k) Do all such matters and things as may be incidental to or consequential upon the discharge of its functions under this Act.

D. REPORTING

1) The Council must report annually to the Minister in charge of industrial development on the progress and problems of raising productivity in commerce and industry in the country. The report must also make recommendations on the manner in which such problems should be resolved.

E. APPROPRIATIONS

1) The Council may borrow, with approval from the Minister of Finance, such funds as are necessary to carry out any of its functions under this Act.
2) The Council may charge fees as it deems fit for training courses, lectures, consultations, investigations or other services provided or carried out by the Centre.
3) For the purpose of the Act, there is established a National Productivity Fund which is controlled by the Council and includes:
   a) Any monies earned or arising from property, investments, mortgages, charges, or debentures acquired by or vested in the Council;

b) Sums borrowed by the Council for the purpose of meeting any of its obligations or discharging of its duties.

F. FINDINGS

1) Information not yet available.