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MINISTRY OF ECONOMY AND ENERGY

OPERATIONAL PROGRAMME

DEVELOPMENT OF THE COMPETITIVENESS OF THE BULGARIAN ECONOMY 2007-2013

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LIST OF ABBREVIATIONS

1. AEA – Agency for Economic Analysis and Forecasts
2. BCCI – Bulgarian Chamber of Commerce and Industry
3. BNB – National Bank of Bulgaria
4. BOA – Bulgarian Office of Accreditation
5. BSMEPA – Bulgarian SMEs Promotion Agency
6. BSI – Bulgarian Standardization Institute
7. CA – Certifying Authority
8. CEN – European Standardization Committee
9. CENELEC – European Electro-technique Standardization Committee
10. CEC – Council for economic cooperation (former organization)
11. CEG – Council for economic Growth
12. CEFTA - Central Europe Free Trade Association
13. CEE – Central and Eastern Europe
14. CMD – Council of Ministers Decree
15. CoM – Council of Ministers
16. DG – Directorate General
17. EA – Employment Agency
18. EA – Executive Agency
19. EC – European Commission
20. EC – European Community
21. ECA - European co-operation for Accreditation
22. EFTA European Free Trade Area
23. ERDF – European fund for Regional Development
24. ESCB – European system of central Banks
25. ESF – European Social Fund
26. ETSI – European Telecommunication Standardization Institute
27. EU – European Union
28. EUROSTAT - Statistical Office of the EU
29. FA – fixed assets
30. FB – Final Beneficiary
31. FDI – Foreign Direct Investments

32. FOB – Free on board
33. GDP – Gross Domestic Product
34. GVA – Gross value added
35. HACCP – Hazard Analysis and Critical Control Points
36. IB – Intermediate Body
37. ICT – Information and Communication Technologies
38. IMF – International Monetary Fund
39. ITC – International Trade Centre
40. MA – Managing Authority
41. MoF – Ministry of Finance
42. MoEE – Ministry of Economy and Energy
43. MSMEs – micro, small and medium-sized enterprises
44. NDP – National Development Plan
45. NGO – non-government organizations
46. NF – National Fund
47. NSRF – National Strategic reference Framework
48. NSI – National Statistics institute
49. OECD – Organization for Economic Cooperation and Development
50. OP – Operational Programme
51. PIFCA –Public Internal Financial Control Agency
52. R&D – Research and development
53. SA – State Aid
54. SAA – State Aid Act
55. SAMTS – State Agency for Metrology and Technical Surveillance
56. SG – State Gazette
57. SMEs – Small and medium-sized enterprises
58. SF – Structural funds
59. UNIDO - United Nations Industrial Development Organization
60. WTO – World Trade Organization

I. INTRODUCTION

1 EU Cohesion Policy

The European Union conducts a policy of economic and social cohesion, the purpose of which is to decrease disparities in the economic and social development of EU member states and regions. Despite the fact that in recent years Bulgaria has achieved significant success in developing into a competitive economy, mainly in respect to its relations with the EU Member States, the Gross Domestic Product (GDP) is still below 75% of the average GDP of the Union. Thus the whole country is considered a territory within the Convergence Objective according to the new regulations and it will be eligible to receive structural funds support.

2 Programming framework of OP “Competitiveness”

The Executive Agency for Economic Analysis and Forecasting is responsible for the preparation of the 2007-2013 National Strategic Reference Framework. The Coordination Council of the NDP coordinates the process of preparation of the NSRF. The Ministry of Economy and Energy participates through a member of the CC (a Deputy Minister of Economy and Energy) and a representative in the NDP work group.

The Ministry of Economy and Energy is responsible for the preparation and implementation of the Operational Programme “Development of the Competitiveness of the Bulgarian Economy”. The Managing Authority is the “European Funds for Competitiveness” Directorate of the Ministry, which also performs the functions of the Secretariat of the OP.

OP Competitiveness is one of the seven operational programmes under the NSRF for the period 2007-2013, elaborated in accordance with Chapter 21 “Regional policy and coordination of the Structural Funds instruments”. OP Competitiveness corresponds to the strategic objective of the NSRF “Strengthen the competitiveness of the economy to achieve high and sustainable growth” and its third strategic priority “Fostering entrepreneurship, favourable business environment and good governance”.

On March 1st, 2007 the Council of Ministers of Republic of Bulgaria adopted the first National Reform Programme (NRP). The document aims to streamline and synergize the national policies relevant to the achievement of the Lisbon goals. The OP “Competitiveness” takes into account the measures laid down in NRP and is in line with the ones related to the development of SMEs and entrepreneurship, development of innovation activities, improving the business environment including pro-innovative environment. Almost 90 % of the budget of the OP is devoted to those aims. As a secondary effect it is expected the implementation of such measures to have positive impact over the employment rate in the country.

3 Partnership Principle

The partnership principle is the basis of the functioning of Structural Funds. Officially introduced during the reforms in 1988, the principle was adopted in 1993 and it plays a major role in Structural Funds implementation. The principle of partnership was additionally developed in 1993, so that it included “the economic and social partners, defined on behalf of the Member State” within the framework of competent institutions and authorities.

The “Strategy for the participation of the Republic of Bulgaria in the European Union Structural Funds and Cohesion Fund”, adopted with Ordinance of the Council of Ministers (OCM) 312/2002 defines the necessity of observing the partnership principle in the process of programming and during the preparation, funding, monitoring and evaluation period.

The criteria and mechanisms to define and attract the partners are defined in a Specialized Partnership Guidelines, prepared by the Central Coordination Unit within MoF.

According to Article 11 of the EC Regulation 1083/2006, the Operational Programme “Development of the Competitiveness of the Bulgarian Economy” (OP Competitiveness) shall be elaborated on the basis of observing the partnership principle. According to OCM 171/02.08.2002, the economic and social partners were included in the elaboration of OP. Article 10d, point 5 of the Ordinance, a decision of the Coordination Council, defines the key social and economic partners to be included in the working group of the operational programmes.

The working group for the elaboration of the Operational Programme “Development of the Competitiveness of the Bulgarian Economy” was established in August 2004 on the basis of a broad representation, which ensures the observation of the partnership principle and the transparency of programming the strategic document. The working group includes representatives of the ministries and agencies directly related to Structural Funds or OP Competitiveness, social partners participating through national representative organizations of employers and employees, non-government organizations, scientific institutions, representatives of the National Association of Municipalities in the Republic of Bulgaria, as well as representatives of the banking sector. The sessions of the working group are held in conformity with rules and regulations which were adopted by the members of the group. Minutes are taken at each session and then made available to all members of the working group. The decisions made during the sessions of the working group are the main instrument of adopting, amending and monitoring the elaborated parts of the Operational Programme.

4 Priorities of the OP “Development of the Competitiveness of the Bulgarian Economy” 2007-2013

The Operational Programme “Development of the Competitiveness of the Bulgarian Economy” (OP Competitiveness) is the main programme document of the implementation of the policy of economic and social cohesion and the improvement of competitiveness of the Bulgarian economy. The purpose of the support within the framework of OP Competitiveness is to develop a competitive and efficient production and business potential, to contribute to increasing the economic effect and to assist the necessary structural changes in economy with a view to achieving a sustainable progress and feasible cohesion during the programme period. In order to achieve these objectives, support for the development of the productivity of small and medium-sized enterprises is envisaged, assisting the development of innovations and new technologies and improving the business environment. The operational programme will also contribute to the achievement of the general EU horizontal objectives, namely environment protection, equal opportunities and development of the information society.

OP Competitiveness is based on five thematic priority axes for the 2007-2013 programming period.

Priority Axis 1 “Development of a knowledge-based economy and innovation activities”, which is focused on assisting the development of R&D activities for and by enterprises, aiming at strengthening their innovation potential and establishing a suitable pro-innovative business infrastructure, which shall strengthen the science-business relationship.

Priority Axis 2 “Increasing efficiency of enterprises and promoting a supportive business environment” is focused on the support of micro-, small and medium-sized enterprises with a development potential, where the modernisation of technologies and quality management will be assisted, as well as the improvement of the consultancy and information services offered to business, improving energy efficiency of enterprises and encouraging business co-operation and networking.

Priority Axis 3 “Financial Resources for Developing Enterprises” aims at improving the access to development capital for enterprises.

Priority Axis 4 “Strengthening the international market positions of Bulgarian economy” aims to support the promotion of FDI, improve the export potential of the national economy, and provide support for the national quality infrastructure.

Priority Axis 5 “Technical assistance” will provide support for the management, implementation, monitoring and control of OP “Competitiveness” activities as well as backing for the work of the OP Monitoring Committee including support for the researches and studies necessary for the implementation and evaluation of the OP and for the information and publicity measures ensuring the transparency of the OP’s activities.

Operational Programme “Development of the Competitiveness of the Bulgarian Economy” will be funded by the European Regional Development Fund and co-financed from the national budget. The Operational Programme is in line with the main strategic and programme documents of the EU, being in conformity with the Union’s policies and the national policies.

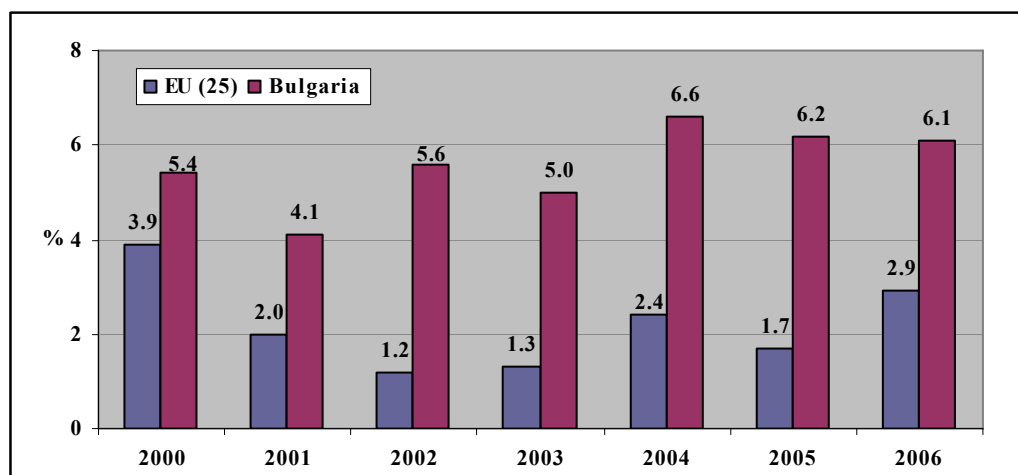
II. SOCIO-ECONOMIC ANALYSIS

1 Macroeconomic development of the Bulgarian economy

1.1 GDP

The last seven years were the years of remarkable progress along the way to long-term stability and sustainable growth. As a result of the rational macroeconomic policy combined with observation of strict budget discipline and accelerated structural reforms, the average GDP growth over the period 2000-2006 reached 5.4 %, while the average growth for EU-25 was 2.2%.

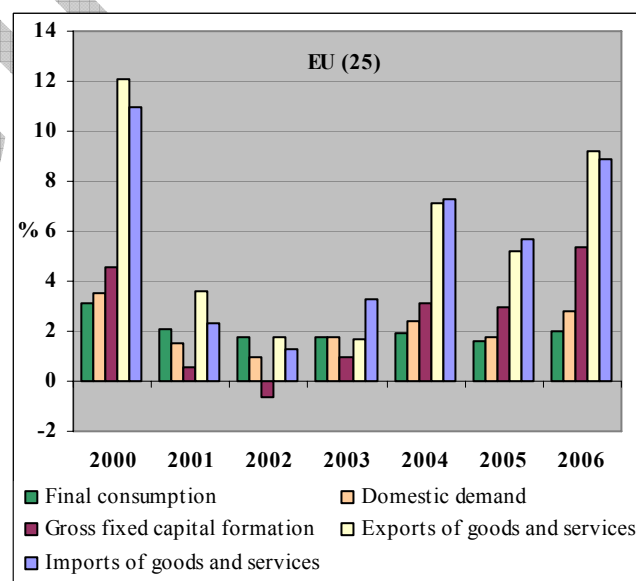
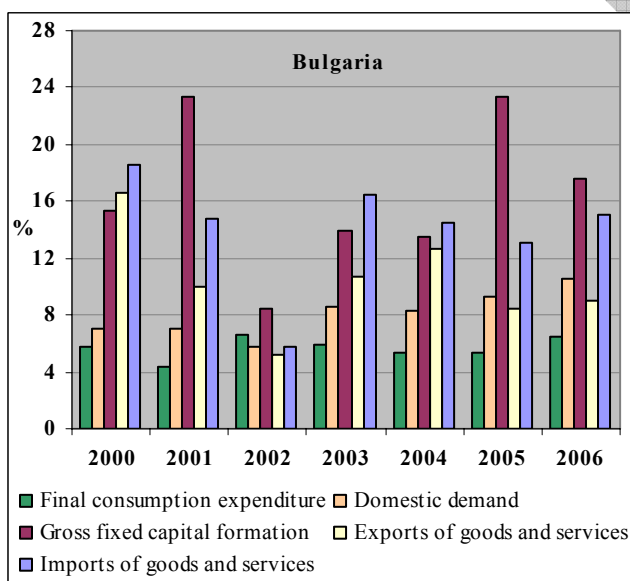
Real GDP Growth Rate (%age change on previous year, %)



Source: Eurostat, NSI

The rapid development of the private sector, investments and export are the main engine of the high economic growth over the last years, as their growth considerably outruns the EU-25 average growth. In the period 2007-2009 the export is expected to be the main contributor to growth, which will lead to a gradual limitation of the negative impact on the external sector.

GDP by Main Components (Percentage change on previous year, %)



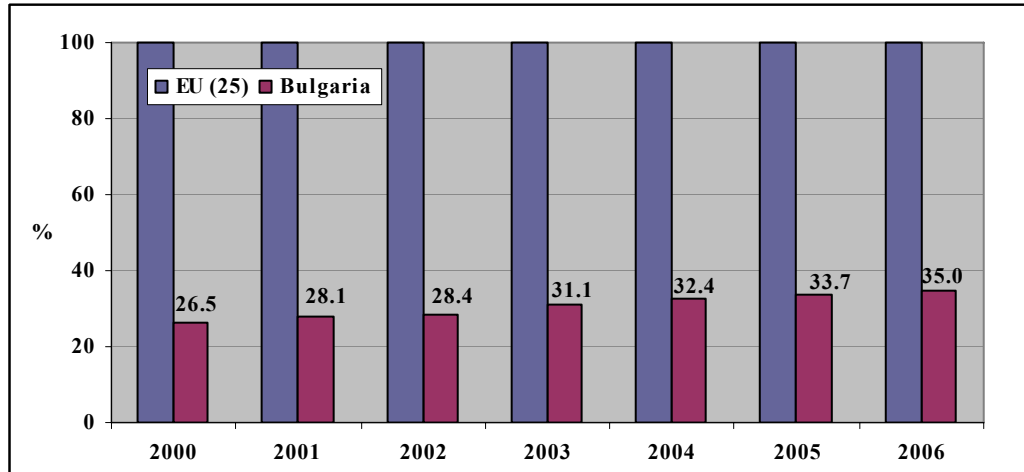
Source: Eurostat, NSI

Investments will keep their high share in GDP, because of the greater trust and the increased attractiveness of the country as a member of the Common market. The future income expectations, stemming from the sustainable growth of real incomes over the last years will give additional boost to consumption growth.

Although the incomes of Bulgarian citizens are growing, currently they are sensibly below the standards for developed EU economics. GDP per capita in the country is around 1/3 on the EU-25 average level, in terms of Purchasing Power Parity. Thus, one of the challenges to Bulgarian

economy is keeping the high pace of economic growth, while maintaining macroeconomic stability and continued market liberalization.

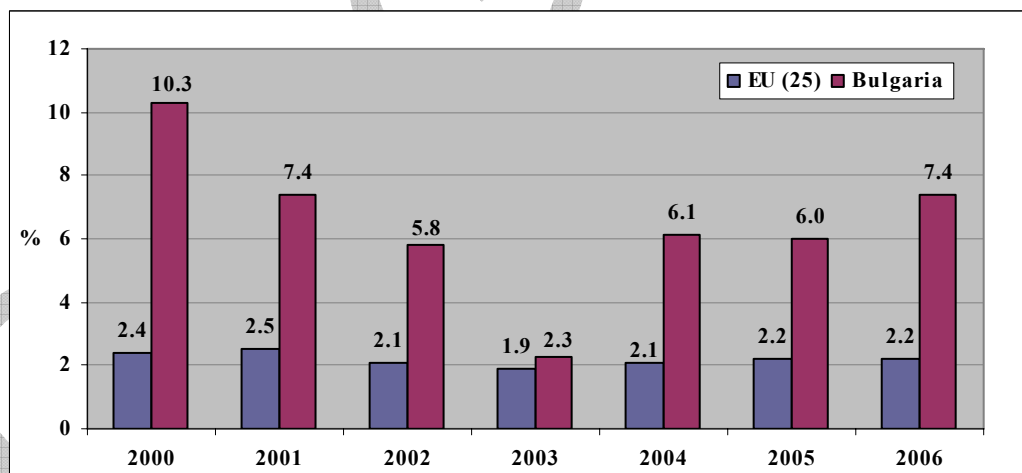
GDP per Capita in Purchasing Power Standards, (EU-25 = 100)



1.2 Inflation and Growth and Stability Pact

The high economic growth was at the backdrop of relatively low inflation. After the economic crisis and hyperinflation in 1997, the inflationary processes were harnessed and inflation was reduced to single-digit values.

Inflation Rate
(Annual average rate of change in Harmonized Indices of Consumer Prices)



Source: Eurostat

The accumulated inflation at the end of 2006 is 6.5% and the average annual inflation – 7.4%. Price dynamics were mostly determined by government decision for one-time increase of excise duties on fuels and tobacco products. This decision was prompted by desire for acceleration of implementation of treaty obligations undertaken in the process of EU accession. The other major motive was to evade accruing and joint influence of several inflationary factors in a period, when inflation should be kept at low levels in order to meet the Maastricht criterion, so that Bulgaria can successfully join the Euro-zone.

In the period 2007-2009 the process of harmonization of excise duties and corrections in administrative prices will continue, and will increase total inflation. The Program of the Ministry of Finance forecasts in this period an increase of excise duties on liquid fuels and introduction of excise duties on coals and electric power, and their total effect on annual inflation over the period is calculated at 0.5, 0.4 and 0.3 % respectively.

**Inflation rate
Forecast for the period 2007-2009**

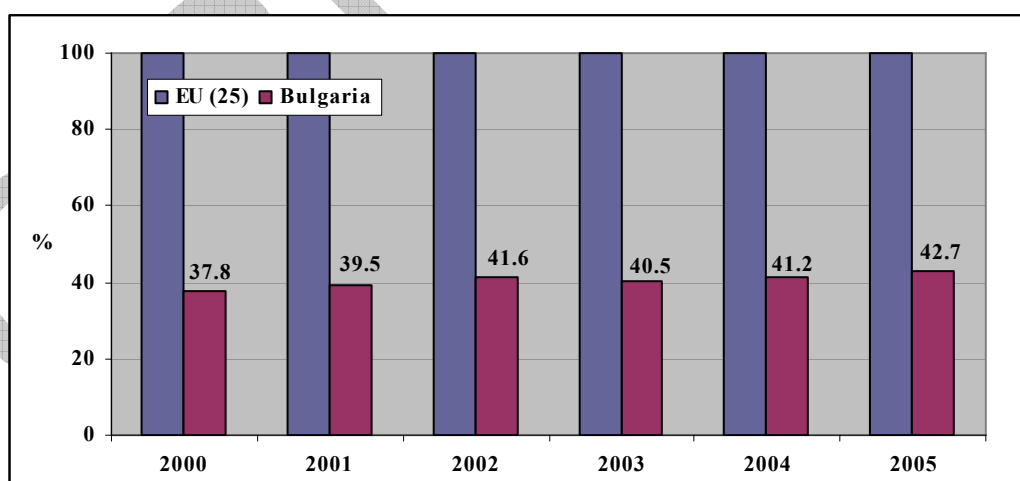
	2006		2007		2008		2009	
	end year	annual average	end year	annual average	end year	annual average	end year	annual average
Inflation rate	6.0	7.3	3.4	4.0	3.0	3.0	2.9	3.0
Administered prices	18.3	16.5	3.8	6.7	3.5	3.5	3.2	3.2
Core inflation	2.8	4.9	3.3	3.2	2.8	2.9	2.9	3.0

Source: AEF

The major factors influencing core inflation will be the international prices of fuels and raw materials, imported goods and internal factors, such as the ratio between productivity growth and salaries and the viable demand of households. Reducing inflation in the country and meeting the Maastricht criterion is additionally complicated by the fact, that price levels in Bulgaria are more than twice lower than those in the EU and the closing of the gap will inevitably impact inflation level. Despite the problems described the forecast is at the end of 2009 year the average annual inflation to go down to 3%.

Comparative price levels

Comparative price levels of final consumption by private households including indirect taxes (EU-25 = 100)



Source: Eurostat

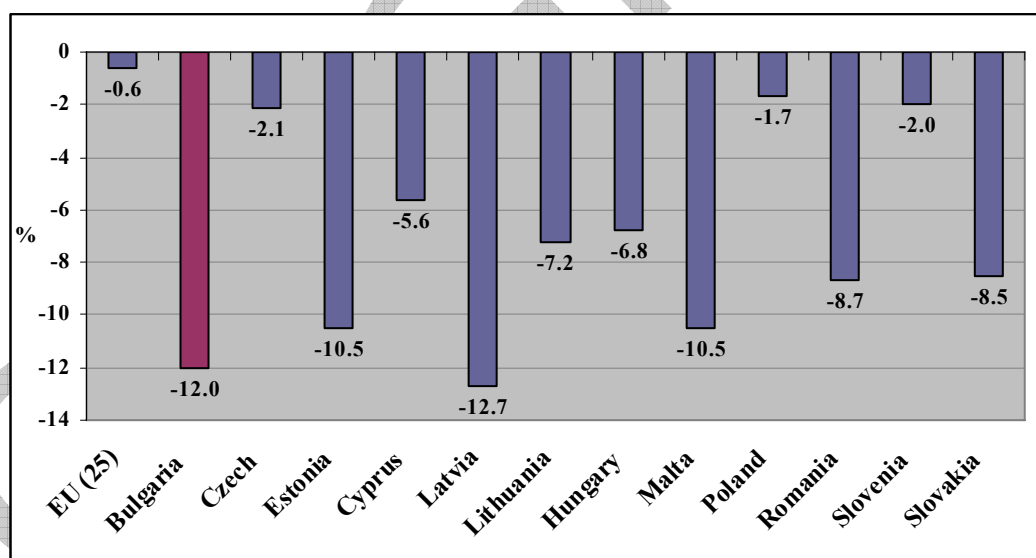
Over the last years the stable fiscal policy was an important precondition for the high economic growth in the country. After a minimal budget deficit of 0.6% of GDP in 2002, for four consecutive years Bulgaria has had a budget surplus, and in 2006 it stands at 3.6% of GDP. In accordance with the Convergence Programme of the Republic of Bulgaria for the period 2007-2009 adopted by the Council of Ministers, maintaining a budget surplus of round 1.5-2% of GDP has been planned.

A major factor for fiscal stability is the effective and transparent state debt management policy of Government. Bulgaria meets the Maastricht criterion for state debt/ GDP ratio below 60%, as state and state guaranteed debt continues to decrease and in 2006 it stands at 24.7% of GDP.

Maintaining of fiscal stability is a necessary precondition for reduction of the current account deficit, which has constantly deteriorated over the last four years and in 2006 stands on 15.8% of GDP. The major contributor to this deterioration is the growing deficit in foreign trade, resulting from the larger growth of import compared to that of export. The high turnover of goods is related to increased domestic demand resulting from income rise, as well as to the record influx of 4 billion Euros foreign direct investments. Foreign capital investment is directly related to the import of new technologies, raw materials, materials and energy resources. The greater FDI inflow is related to higher direct investment payments in incomes, which will additionally contribute to the deterioration of the current account deficit. The financial account was positive and covered in 128.3% the deficit of the current account.

It should be noted, that the high current account deficit problem is resulting from the growth and renovation of the economy and is thus typical for most of the new EU member states. According to the macroeconomic frame, developed by the Agency for Economic Analyzes and Forecasts the current account deficit should be reduced to 9% of GDP by 2009.

Balance of the current account, 2005
(% of GDP)



Source: Eurostat

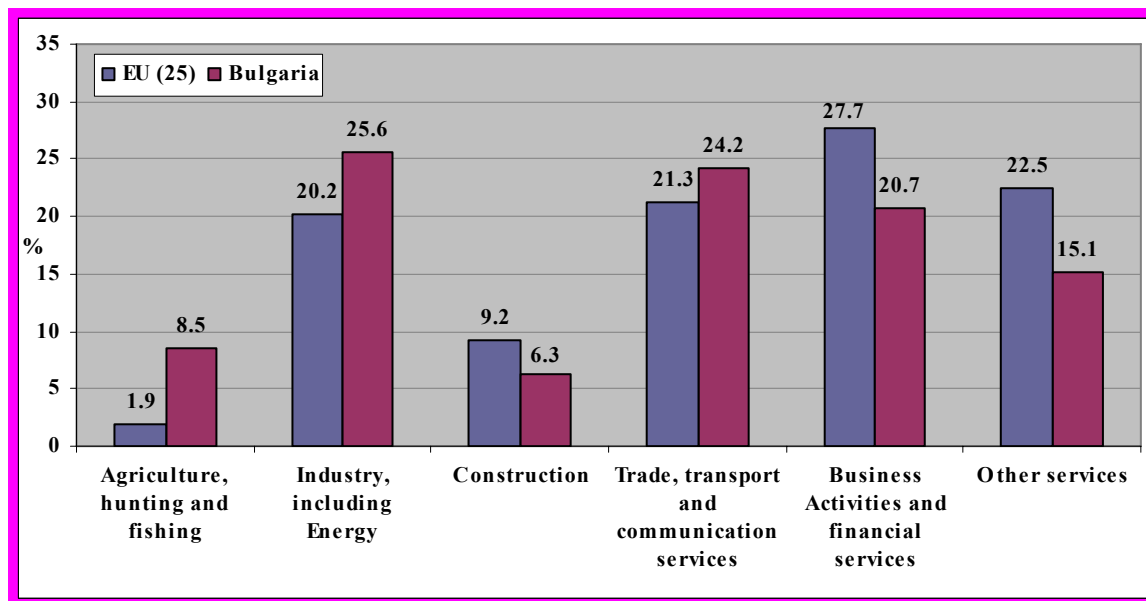
In the period 2007-2009 the high economic growth is expected to continue with more than 6% GDP growth year-on-year. Balanced budgets and the ratio state debt to GDP below 30% are to be maintained. By the end of the period the average annual inflation is foreseen to decrease to 3%. The major risks facing the country are related to inflation level and to pressure from increasing current account deficit. Attracting large amounts of FDI, absorbing EU funds and maintaining stringent fiscal discipline are priority tasks for the coming years, so that the current account deficit does not threaten the financial and macroeconomic stability of the country.

1.3 Gross Value Added by Economic Sectors

Among economic sectors, the one with largest share in GVA is the service sector (share of 60% in 2006), followed by industrial sector (31.4%) and agricultural sector (8.5%).

In the period 2000-2006 the major changes in the economic structure are related to decreasing share in GVA of agricultural sector (from 13.9% in 2000 to 8.5% in 2006) and increasing shares of construction (from 5.6% to 6.3%) and trade, transport and communication services (from 20.9% to 24.2%).

Gross value added by sectors, 2006 (% of all branches)



Source: Eurostat

The value added of agricultural sector stands at 8.5%, and remains significantly higher than the EU-25 average (1.9% of GVA in 2006). In 2006 the sector decreases its production activities, and the real decrease is by 1.9%. The main reason for the unsatisfactory results of the agricultural sector over the last years are the unfavourable agro climatic conditions. The agricultural sector employs 20.6% of all employed, but has the lowest labour productivity.

A major problem still facing the development of the agricultural sector in the country is the high unit cost of production. The average sale prices of most agricultural products are very close to production expenses. Thus, many agricultural producers make no profit and this additionally demotivates them from developing production activities. As a result, the share of uncultivated agricultural land increases.

The industrial sector (including electricity and construction) has strong representation in the inter-sector links of Bulgarian economy. It creates about a half of the internal market of non-investment goods and services used in production and employs almost 990 000 people (27.6% of all employed). Industry is the core of Bulgarian economy and holds the key to success for achieving high and lasting export-oriented economic growth.

The transition from centrally planned economy to market economy had quite negative impact on development of industrial sector. Within COMECON Bulgaria specialized in high tech, electronics and heavy industry. After the disintegration of the socialist system production turned to be

uncompetitive on international markets and private entrepreneurs capitalized on competitive advantages in light industry. Most of the heavy industry plants closed down due to low quality local raw materials, impossibility to import necessary inputs, or due to unsuccessful restructuring. Industrial restructuring was also triggered by the loss of traditional Russian and Arab markets, as well by the slow positioning of Bulgarian companies on developed markets because of their high standards.

In the last couple of years industry is the most dynamically developing sector. The efficiency of the sector, measured as the ratio of GVA to the gross volume of production, declined from 25.7% in 1997 to 23.3 % in 2006, as industry remained the most inefficient sector of the Bulgarian economy.

In 2006 the real growth in the sector was 8.3%, while in 2005 it stood at 4.7%. This is a result of the favourable external factors, like high international prices of raw materials and corresponding increase in sales triggering growth.

Industrial sector by activity groups, 2006

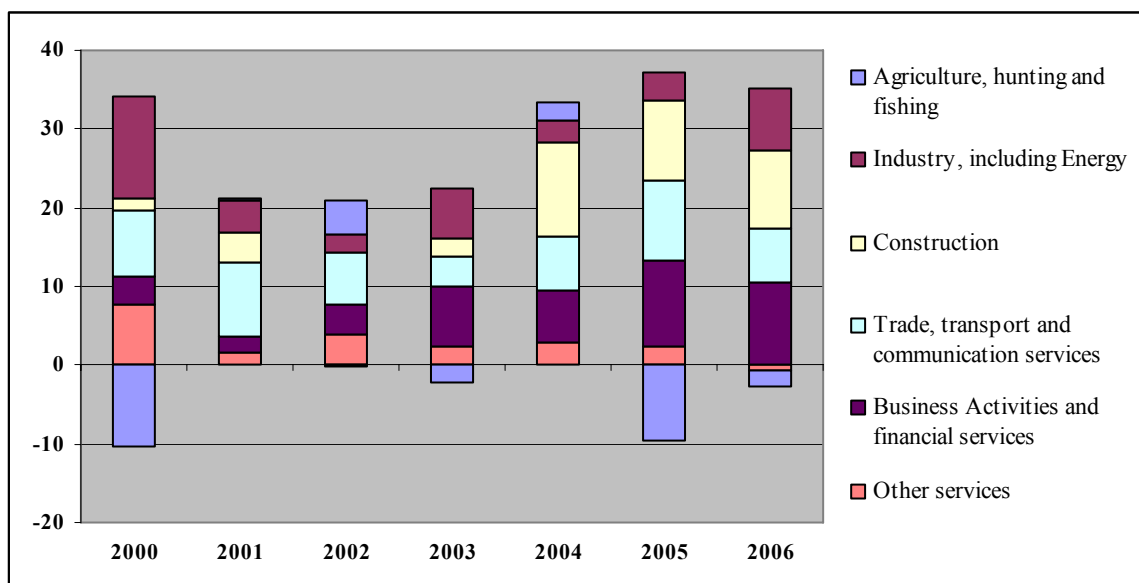
Industrial sector by activity groups	Gross Output		Gross Value Added		Employment		Labour Productivity
	mln. euro	% of total for the economy	mln. euro	% of total for the economy	Thousand	% of total for the economy	Thousand euros per employed
Mining and quarrying	1122.9	4.1	600.5	9.3	31	3.1	19.4
Manufacturing	18682.2	67.7	3798.4	59.1	711	72.0	5.3
Electricity, gas and water supply	2455.2	8.9	826.1	12.9	59	6.0	14.0
Construction	5320.4	19.3	1199.9	18.7	186	18.9	6.4
Total Industry	27580.7	100.0	6424.8	100.0	988	100.0	6.5

Source: NSI

Manufacturing is the most dynamically developing sector, marking 11.3 % growth in 2006, but still making the lowest level of labour productivity among all industrial sectors.

Production of foods and beverages (18% of total manufacturing production), metal production and casting (18%), refined oil products (16%), production of machines, equipment and vehicles (14%), textile production (9%) and chemicals (7%) figure most prominently in the structure of manufacturing production. The gross value added in manufacturing is concentrated in traditional industries.

**Gross value added by economic sectors
(Real growth for the period 2000-2006, %)**



The growth in construction over the last years has stabilized at 10% per year. The dynamic development of the sector is determined by the increased demand on real estates. The stable macro economic situation, EU membership, as well as good performance of winter and sea tourism resulted in notable growth of construction (houses, offices and business buildings) and real estates. The large scale of construction requires increased volume of building materials, namely cement, tiles, bricks and glass.

The accelerated development of the service sector over the last years makes it an important factor for economic growth. The share of the sector over the last years reaches 60% of the total gross value added of the economy. Over the period 2000-2006, the export of services has increased twice (from 2.4 billion euros in 2000 up to 4.0 billion euros in 2006), where the most significant increase is in the export of tourist services - 76 %.

The positive trends in the service sector are determined mainly by the reforms implemented in the economy – privatization, de-regulation of the monopolies in energy, insurance, banking, telecommunication and the transport sectors, etc. The service sector provides more than 50% of the total employment of the active population.

The growth of services declined from 8.3% in 2005 to 6.1% in 2006. Transport and communications generate biggest share of value added for the sector, despite its decreasing share in GVA over the last two years.

Service sector by activity groups, 2006

Service sector by activity groups	Gross Output		Gross Value Added		Employment		Labour Productivity
	mln. euro	% of total for the economy	mln. euro	% of total for the economy	Thousand	% of total for the economy	Thousand euros per employed
Trade and repair	5021.4	22.0	1892.2	15.4	508	27.4	3.7
Hotels and restaurants	1007.2	4.4	518.1	4.2	142	7.6	3.7
Transport and communications	6656.3	29.1	2542.7	20.7	234	12.6	10.9

Financial intermediation	1725.0	7.5	1040.7	8.5	42	2.3	24.8
Real estate, renting and business activities	2724.1	11.9	1343.7	11.0	172	9.3	7.8
Total Services	22875.6	100.0	12266.0	100.0	1853	100.0	6.6

Source: NSI

The most dynamically developing activities within service sector are retail and wholesale trade, real estates and business services. The spread of modern trade modes, higher incomes of population and increased consumption are the main reasons for growth in trade. IT services (software development and data-processing), business processes outsourcing and media services (PR and advertising) show the highest and most dynamic growth among business services.

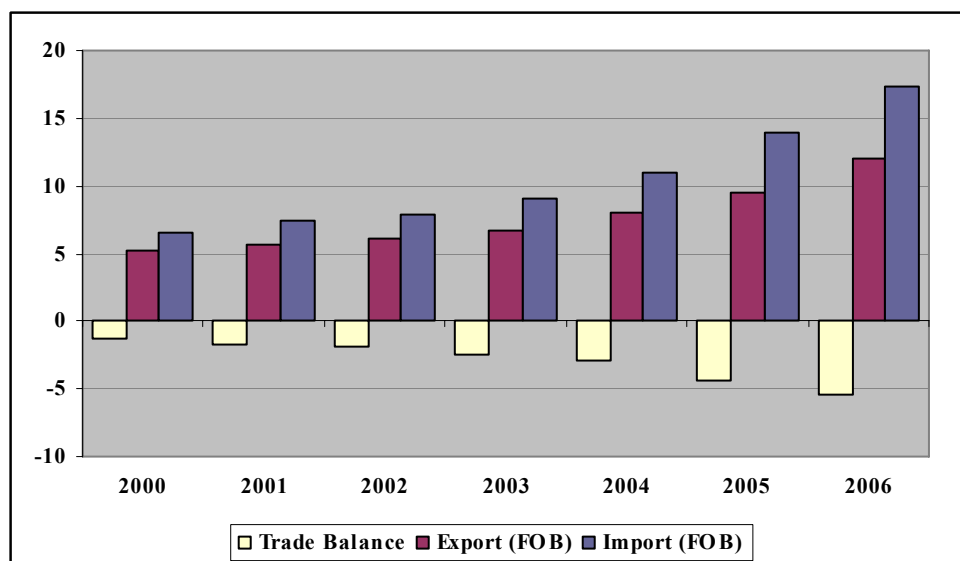
Lately, the economic stability, favourable tax policy and the high-skilled but low-paid engineers attracted many international companies to move their activities to Bulgaria, including R&D in the field of electronics (car electronics), production of electric appliances (household appliances), thus supporting the high economic growth and increasing the share of higher-added value sectors .

1.4 Foreign Trade

The foreign trade was liberalized as a result of membership in the World Trade Organization, CEFTA and the agreements with the EU. The foreign trade regime of the country is transparent and predictable. In the last several years Bulgaria have traded with more than 200 countries. The main markets of Bulgarian exports, to which over 90% of exports are directed are 40 countries, including EU-25 member states, which have a share of 55% in the total Bulgarian export. With few exceptions, all 40 commercial partners are members of WTO or have regional trade agreements, thus ensuring the observation of common trade rules.

In 2006 the export of the country reached almost 12 billion euros, registering an increase of 26.6% compared to the previous year and more than double increase compared to 2000. For the first time in 2006, compared to previous four years the export growth (26.6 %) left behind the import growth (25 %). However, the trade deficit of the country reached 21.5 % of GDP.

Bulgaria's Import, Export and Trade Balance (mlrd. euro)

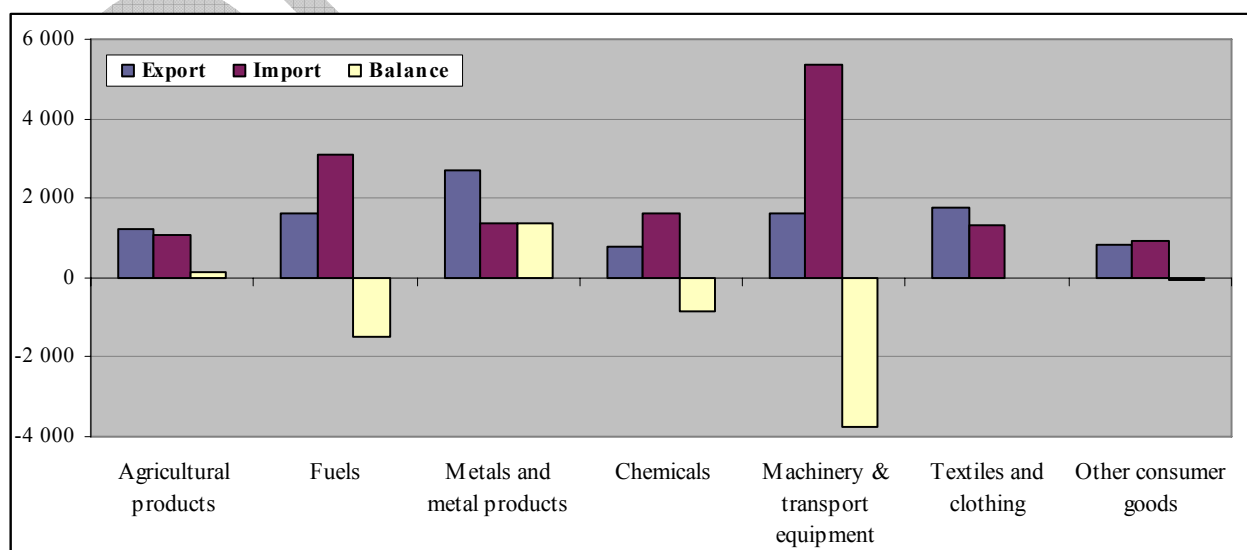


Source: BNB

The export of the country is dominated by raw materials and goods with low processing levels. In 2006 the largest share of exports (22.7%) was from Metals and metal products group. The good performance of the sector was due to the strategic foreign investments in last years, the availability of copper, lead and zinc ores, the global increase in raw materials prices and the transitional periods for introducing EU environmental protection standards. The role of the sector in the country's export will depend on the price of production that is expected to increase as a result of environmental protection and increased railway transportation costs.

The second largest sector for 2006 was Textiles (14.5%), but it was also the sixth largest import sector (7.3%). This indicates the fact that most materials are imported, the cheap and well-qualified Bulgarian labour force is used for the production, and the clothes are then exported, mainly to EU. The competitive advantage of Bulgaria is in its flexibility, high quality of production and strategic location allowing quick delivery to EU markets.

**Bulgarian trade by product groups, 2006
(SITC classification)**



Source: NSI

Machines and equipment are the third largest group contributing with 13.4% to export in 2006. however, the export of high-technology products is only 2.5 % of the total exports of the country, while for EU-25, this percentage is 18.2% in 2004 (EUROSTAT data). Machines and equipment has the largest share in import - almost 30%.

Bulgarian economy is characterised with high level of dependence on import of raw materials, influencing the volume of production of export-oriented sectors and the dynamics of the export. The export of most of the goods and services depends on the import of raw materials, machines, etc. The competitiveness of the Bulgarian export production cannot be based on material-, energy- and labour-consuming productions, which competitive prices on the international markets are affected by the increase of the raw materials and energy resources prices. The possibility is to develop new sectors with growth potential - as high-technology productions.

1.5 Investments

One of the main factors underlying the high and sustainable economic growth and the intensive development of the national economy are investments. For the period 2000 – 2006, gross investments (gross fixed capital formation) have increased more than three times reaching 6.6 bln. euro. In 2006 investments in comparable prices showed an increase of 17.6 % compared to the previous year or making 20.9% relative share of GDP.

According to Eurostat forecasts, the share of investments in GDP should reach 26.2% for 2006, or 6 times higher than EU-15 and EU-25 average. Eurostat also registered that in 2006 Bulgaria for the first time changed the negative tendency from the last years to lag behind other Central and Eastern European countries and even outran some of them.

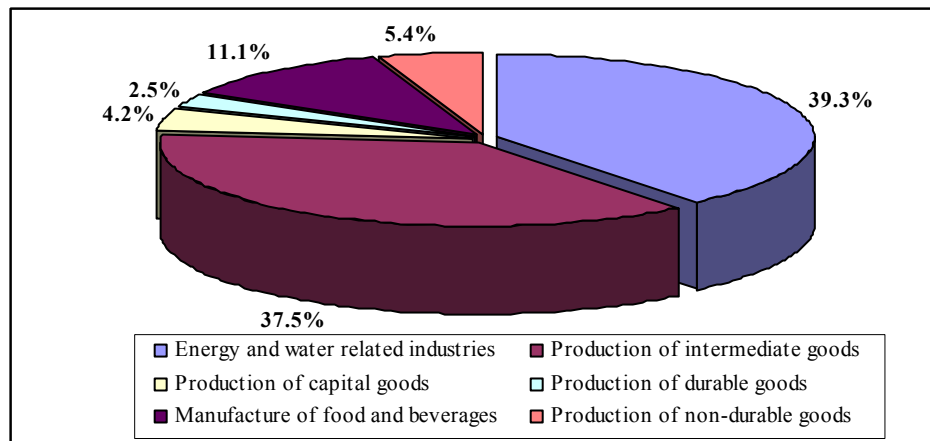
The structural reforms in the economy and the setting up of market conditions have positive influence on the investment activity. In the last six years, the expenditures for acquisition of long-term fixed assets show stable growth of almost three times – from 2,8 bill. euro in 2000 to 7,9 bill. euro in 2006. The relative shares of the cumulative expenditures for acquisition of long-term fixed assets per sectors are: manufacturing industry – 20,4%; trade, repair and technical maintenance – 17%; transport, storage and communications – 15,4%; production and distribution of electricity and heating energy, gas fuels and water – 7,5%; real estates, renting and business services – 7,7%; construction – 7,4%; hotels and restaurants – 6,3%.

According to Invest Business Survey¹ conducted by NSI among enterprises operating in industry sector² (April 2007), the private entrepreneurs plan growth of investments with 4,7% for 2007 compared to previous year, while the public sector foresees 24,6% growth. As a result, the gross total growth in 2007 is 8,6%.

Distribution of planned investments in 2007 by product orientation of industrial activities (%)

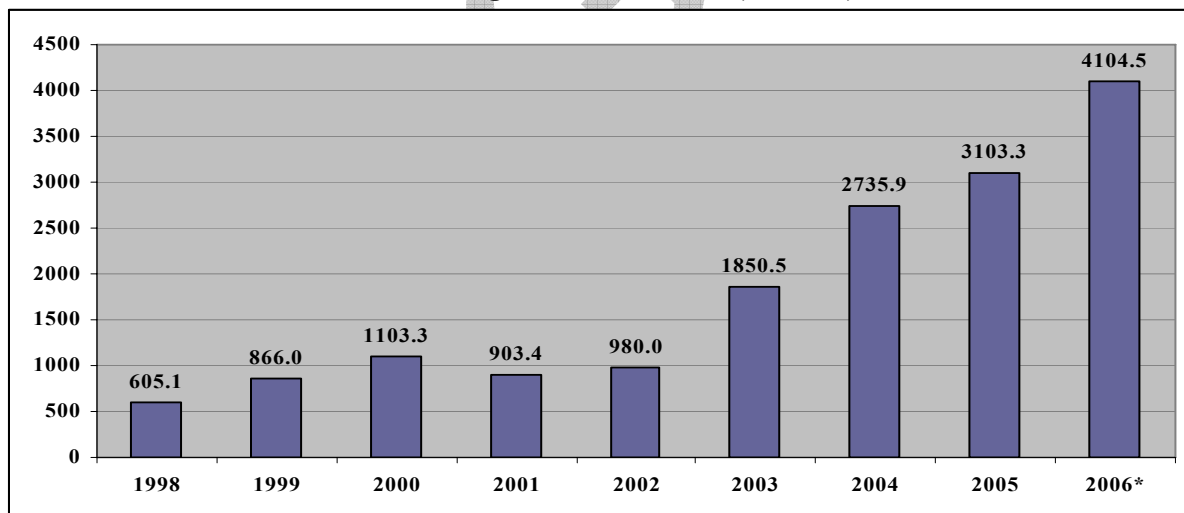
¹ Since May 2002, National Statistic Institute conduct surveillance according to the harmonized EU sur

² The survey is national representative. The observed enterprises form 90% of the annual turnover in industry.



The volume of the FDI in the country is constantly growing thus reaching the impressive amount of 4,1 bln. euro in 2006 or 16,4% of GDP. FDI in Bulgaria now makes up a considerable share of GDP and gross fixed capital formation. However, Bulgaria still has a low profile in terms of investor awareness, and image-building activities should promote specific areas of competitive advantages. To capitalize on herding and clustering behaviour, investment-generating activities should promote the country as suitable destination for investment in certain sectors. This kind of approach is more likely to attract investment than the general promotion campaign that has been carried out until now. Once certain sectors have attracted a larger number of foreign investors, knowledge and awareness of Bulgaria will increase, and companies from a variety of sectors, following the herding phenomenon, will be likely to enter the country.

Foreign Direct Investment (mln.euro)



*Preliminary data

Source: BNB

Initially, most of the foreign investment was privatisation-related. Disregarding a dip in 2001-2002, privatisation flows have remained fairly constant. This means the entirety of FDI growth has come from expansion and greenfield investments, which have been primarily market-seeking. Although there have been some limited investments in particular sectors, Bulgaria has not been developing as an export platform. Investment totals have tended to be dominated by a few very large investments, with a lot of small and medium sized investments making up a low proportion of the total.

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Foreign direct investment in Bulgaria by sector and by year in USD m

No	Sector	1998	1999	2000	2001	2002	2003	2004	2005	2006	Total by sector
1	Financial intermediation	150.5	97.8	449.4	122.6	133.8	501.9	238.9	550.7	906.0	3151.6
2	Trade and repairs	111.9	134.5	116.5	121.7	229.2	485.1	364.7	904.9	559.9	3028.5
3	Real estate and business activities	33.7	39.7	2.8	13.2	56.5	182.2	141.9	735.0	1579.6	2784.6
4	Electricity, gas and water supply	1.8	4.6	19.7	2.4	66.9	8.1	925.5	355.0	247.1	1631.0
5	Petroleum, chemical, rubber and plastic products	41.0	165.2	72.1	-9.5	6.5	169.7	-3.1	473.8	293.6	1209.3
6	Telecommunications	23.2	14.1	14.9	236.8	205.0	127.3	401.6	182.1	-159.8	1045.2
7	Construction	2.4	19.8	47.9	17.4	33.1	5.1	55.0	184.3	523.1	888.1
8	Metallurgy and metal products	13.2	72.2	17.1	81.0	-18.9	66.6	54.1	71.5	502.8	859.5
9	Mineral products (cement, glass, etc.)	150.6	71.8	7.4	27.7	0.7	76.8	97.5	131.6	71.2	635.4
10	Food products	31.5	32.7	11.7	37.4	20.1	87.6	67.6	97.4	13.7	399.6
11	Textile and clothing	4.4	25.1	27.3	57.7	9.3	84.3	45.7	30.4	20.0	304.1
12	Hotels and restaurants	17.6	16.9	26.0	17.9	7.9	27.9	15.2	50.5	79.7	259.5
13	Machine building	21.3	18.0	64.7	13.2	37.6	1.1	13.8	11.1	50.9	231.7
14	Wood products, paper	37.3	24.9	38.1	2.9	17.0	69.9	-0.6	18.0	20.6	228.1
15	Electrical engineering, electronics, computers and communication equipment	11.5	5.9	28.6	28.2	17.9	29.5	-0.7	49.8	7.6	178.3
16	Transport	6.2	-11.7	10.1	5.9	8.1	45.1	29.2	-20.1	53.3	126.2
17	Mining	0.0	2.7	0.0	4.9	10.4	21.7	19.1	-10.4	2.0	50.4
18	Agriculture, forestry and fishing	6.5	2.1	7.3	0.5	1.2	2.6	-1.9	10.2	16.0	44.6
19	Leather and leather products	0.7	0.0	21.2	0.1	0.5	-0.2	-2.5	1.7	0.5	22.1
20	Vehicles and other transport equipment	-0.9	1.7	0.0	5.1	2.2	2.1	-0.5	0.1	2.8	12.6

Source: BNB

Investments in non export-oriented services (Financial intermediation, Trade and repairs, Real estate and business activities) are prevailing – contributing to more than 50% of the FDI inflow over the last 9 years. All three sectors boast relatively stable trends of increasing FDI inflows.

Investments in the Bulgarian processing industry, as a share of the FDI inflow and as an overall amount, are less than in the other countries from Central and Eastern Europe. Petroleum, chemical, rubber and plastic products, Metallurgy and metal products and Mineral products top the list of FDI in processing industry mainly due to the trends on world markets and the booming construction industry in Bulgaria over the last four years. Investments in these sectors are followed by the far smaller amounts of FDI in Food-processing industry and Textile and clothing, generally slowing down over the last four years. Although these two sectors have a large contribution to Bulgarian exports, they are characterized by low value added and labour productivity, and will inevitably be affected by the global “shift to the East”. Although the other processing industry sectors on the Top 20 list are with higher value added and are more knowledge based (Machine building, Electrical engineering, electronics, computers and communication equipment, Vehicles and other transport equipment), trends and overall amounts of FDI in them are still insignificant, and cannot serve as a basis for forecasting major increase in the medium term without the active interference of the state.

The analysis of the investment structure per sectors shows negative tendency in terms of the role of investments as a factor for preserving high and sustainable export-oriented growth. The main conclusions could be summarized as:

- Insufficient investment growth rate in the production sector and mainly in export-oriented manufacturing industry, exporting more than 60% of the production.
- Low investment growth rate in high-technology productions and services, including researches, education, information technologies, which can develop a knowledge-based economy.

In 2007 and 2008 the FDI distribution between processing industry and services will not change much. In processing sector, major projects for extension of production capacities of basic metals (especially non-ferrous metals) and other non-mineral products are under way, because of the growing demand of the quickly growing construction sector. Sizeable extension of production facilities is also expected in the production of investment goods, especially household appliances and spare parts for automotive industry. However, construction and wholesale and retail trade will continue to attract large FDI inflows.

1.6 Human Capital

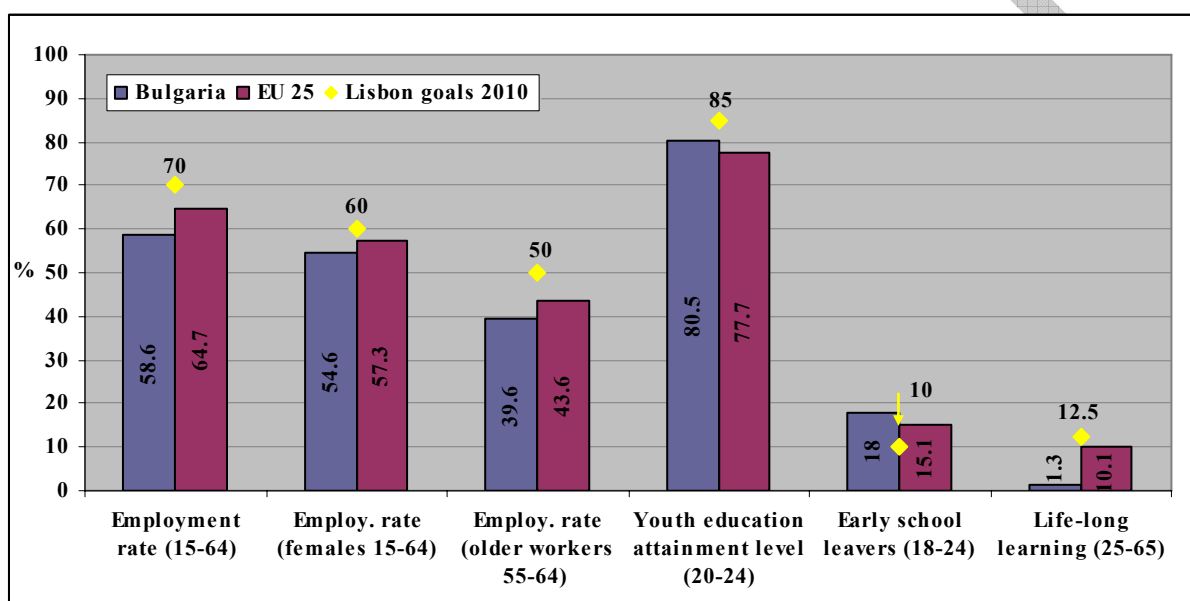
The last years formed the constant tendency of population decrease. The social and economic changes in standard of life led to significant changes in the demographic structure of the population. The main problems are the decreasing number of the population and worsening of the age structure. At the end of 2006 the population of Bulgaria was 7.7 million, showing a decrease of 5.8 % or 470 178 people for the period 2000-2006. The main factors for the decrease are the negative birth rate and external migration.

In 2006 the total average age of the population was 41.4 years. The tendency of aging population leads to changes in the demographic structure and in the distribution of the active population.

The level of economic activity of the population between 15 and 64 years has increased from 61.6% in 2000 to 64.5 % in 2006, but still lags behind the EU-25 average rate of 70.5 %.

The Bulgarian workforce is characterized traditionally as having a high level of education. The share of youngsters in Bulgaria between 20-24 years with higher education is above EU-25 average. However, the majority of those are hired not in the field of their speciality or are employed at positions that require lower qualification level. In the last years the quality of education has decreased and provision of types of follow-up education still remain underdeveloped. Life-long learning in Bulgaria remains far below EU-25 average level.

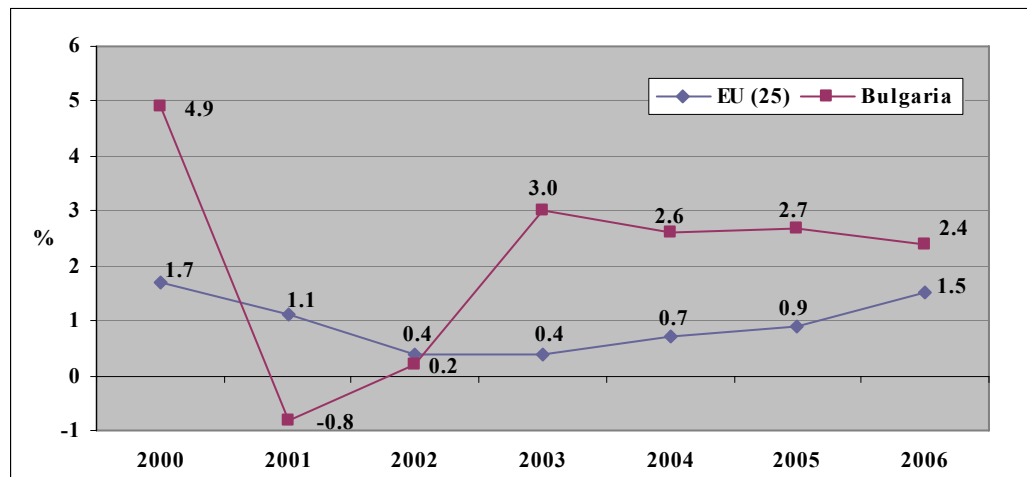
Lisbon goals about level of employment and education



Source: Eurostat

The employment level decreased from 1997 (3 157 thousand employed), to 2001 (2 968 thousand employed) due to the restructuring of the economy. After 2001, employment increased and in 2006 it reached the level of 1997. For the last four years employment rates in Bulgaria (2.4 %) are above EU-25 average (1.5 %). However, the employment rate between 15 and 64 years in 2006 is 58.6%, lagging being EU-25 64.7% of average employment.

Employment Growth (Annual %age change in total employed population)



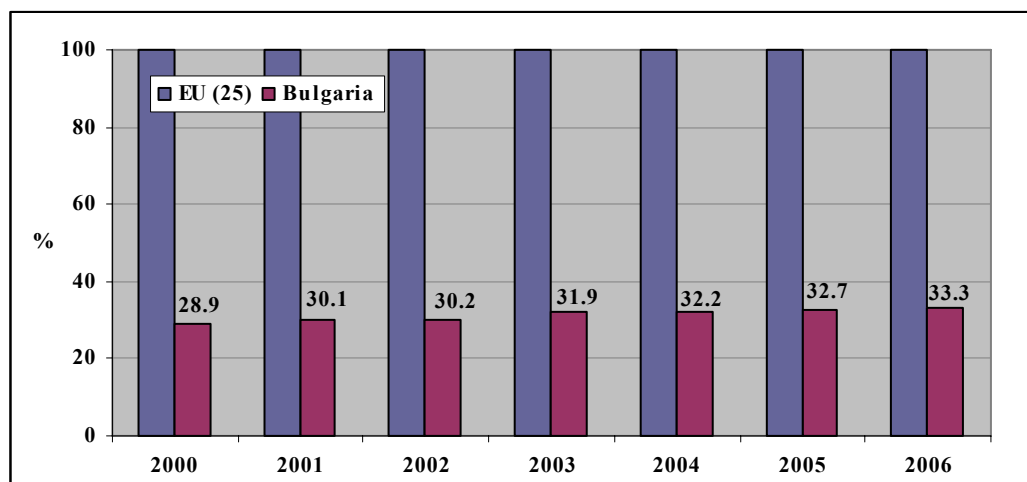
Source: Eurostat

The level of employment on women is 54.6 % in 2006 and it stands close to EU-25 average level – of 57.3 % and Lisbon strategy goals. The employment coefficient for age group 55-64 stands far below EU-25 average. In 2006 the private sector employed 72.9 % of all employees (2 333 thousands), while the public sector employed 27.1 %. Of the people employed in private sector 5.4% are employers, 11.5 % self-employed, 81.1% workers and 2% non-paid family workers. In the next few years the private sector will continue to generate employment, the new job creation is expected to keep pace and growing trend of its share in employment, while public sector is expected to slowly decrease.

After 2000, the unemployment level has gradually decreased due to the active policy on the labour market, the enhanced industry's economic activity and the achieved economic growth. In 2006 the unemployment rate stood at 9 % and is close to EU-25 average rate (7.9 % for 2006).

Labour productivity (GVA per one employed person) increase constantly in last years. However, the labour productivity of Bulgaria is only 32.7 % of the EU-25 average and is the lowest compared to the new member states and candidate countries. The labour productivity is so low, because of the employees are de-motivated, their health is generally weak due to poor health-care services and many days lost through sickness-related absence.

**Labour productivity per person employed
GDP in Purchasing Power Standards (PPS) per person employed (EU-25 = 100)**



Source: Eurostat

2 Assessment of the Competitiveness of the National Economy

According to the Global Competitiveness Report 2006-2007, the most competent international index for competitiveness, developed by the World Economic Forum, the competitiveness of the Bulgarian economy decreased from 2004 to 2006. In 2004 Bulgaria ranked 59th, in 2005 – 61st, and in 2006 – 72nd. The same tendency applied to the Romanian economy, but in 2006 Romania ranked 68th. All other EU member states are far more competitive and the candidate countries Turkey and Croatia are also more competitive than Bulgaria and Romania. This decrease in competitiveness calls for thorough revision of existing national policies and priorities, coordination of the efforts of government, NGOs and business and undertaking massive investments and information campaigns to reverse the trend. EU membership will be a further challenge to the competitiveness of the economy and only a well-thought and carefully implemented program will be successful in overcoming it.

Bulgaria fares pretty well in terms of basic requirements (62nd), but not so well in terms of efficiency enhancers (70th) and innovation factors (85th). Romania, Turkey and Croatia do much better in terms of efficiency enhancers and innovation factors. From the basic requirements, Bulgaria needs quick and thorough improvement of institutions (109th) and rehabilitation of infrastructure. Higher education and training and technological readiness need to be improved in order to increase the efficiency of the economy, while market efficiency (90th) calls for special efforts. Business sophistication (84th) and innovation (87th) are the areas in which the efforts of Bulgarian state, public and business need to be concentrated in the coming years, since the lagging behind other EU member states and candidate countries is most significant.

Business Competitiveness Index

The competitiveness of Bulgarian business followed the same negative pattern as the national economy – 75th in 2004, 78th in 2005, 83rd in 2006. This casts doubts on the preparedness of the Bulgarian companies to cope with the competitive pressure of EU.

Competitiveness of Bulgarian business is lower than the competitiveness of all new member-states. In 2006 Romania ranks 74th, Turkey - 46th.

Bulgaria registered a worsening in both sub indexes (company activities and strategies and quality of business environment), and lagged further behind in the chart. With regard to companies' strategies, the lack of experience and professionalism in company management is evident, as well as the lack of active policy for training and qualification of staff (a drop from 82nd to 95th place in only one year).

Investment competitiveness and policy

In the 2006 Report on World investments, elaborated by UNCTAD, Bulgaria takes 9th place in the world, according to the common “FDI Performance Index”³. Bulgaria is the best investment destination in SEE. According to FDI Potential index⁴ - Bulgaria is in the group of countries having highest investment potential, along with Switzerland, Finland and Estonia. Comparing those two indices show the investment competitiveness of the country.

According to UNCTAD Investment Map, Bulgarian energy sector is described as the second most competitive to be invested in at a world level, after the one of Brazil.

Economy	1993-1995	2002-2004	2003-2005
Azerbaijan	11	1	1
Brunei Darussalam	18	2	2
Hong Kong, China	13	6	3
Estonia	15	15	4
Singapore	2	7	5
Luxembourg	..	4	6
Lebanon	116	8	7
Malta	21	30	8
Bulgaria	96	9	9
Congo	7	10	10
Belgium	..	11	11
Mongolia	94	13	12
Iceland	130	58	13
Georgia	114	16	14
United Arab Emirates	90	25	15
Sudan	112	19	16
Congo, Democratic Republic of the	131	91	17
Angola	24	3	18
Jordan	132	46	19
Trinidad and Tobago	5	14	20

Source: UNCTAD.

INVESTMENT COMPETITIVENESS

IN THE PRODUCTION AND DISTRIBUTION OF ELECTRIC, THERMAL ENERGY, GAS AND WATER SECTOR

#.	Country
1.	Brazil
2.	Bulgaria
3.	France
4.	United States
5.	Portugal
6.	Bangladesh
7.	Mexico
8.	TFYR of Macedonia
9.	Russian Federation
10.	Saudi Arabia
11.	Ukraine

SOURCE: UNCTAD INVESTMENT MAP

To preserve the leading positions, the needs of the world investment flows should be taken into consideration. UNCTAD's Global Investment Prospects Assessment show that the attractive sectors are: ICT, energy production and distribution services, production sector – electronics and electro-techniques, machines and metal processing, etc. The conclusions correspond to the ones from the

³ The information on indexes is provided in “World Investment Report” 2006(UNCTAD) according to average data for the period 2003r. – 2005 r. FDI Performance Index is ratio between the share of the countries in global FDI flows and share of the country in global internal product)

⁴ FDI Potential Index is calculated on a basis of 12 economic and structural variable quantities.

Deloitte and Touché Report (elaborated under the request of Ministry of Economy and Energy in 2005), for identifying sectors with biggest investment potential in Bulgaria.

To preserve high and sustainable export-oriented growth, which to lead to improvement of the trade balance and current account deficit and to ensure good investment performance of the country, number of initiatives in designing and implementing purposeful investment policy have been taken.

New Act for Encouragement of Investments was elaborated and approved (State gazette 42/29.05.2007, in force 30.08.2007). The Act is focused on the following fields for encouragement of investments:

- From industrial sector: manufacturing; production of electricity from Renewable energy sources;
- From service sector: high-technology, mainly computer technologies; research and development; education and health care;

3 Analysis of enterprises

The number of enterprises in all size classes shows a stable trend of growth over the period 2001-2004. However, in terms of shares, the micro-enterprises have been steadily declining, small and medium-sized enterprises have increased their share, while large enterprises have generally maintained their share. Since the increase in terms of share is most significant for small enterprises, and the only decrease in share is in micro-enterprises, it can be concluded that over the period micro-enterprises have either grown into small ones, or have gone out of business. This is a natural and positive trend, since the larger the enterprise is, the higher labour productivity it has, more investment in FTA and exports it makes, and generally its competitiveness is higher.

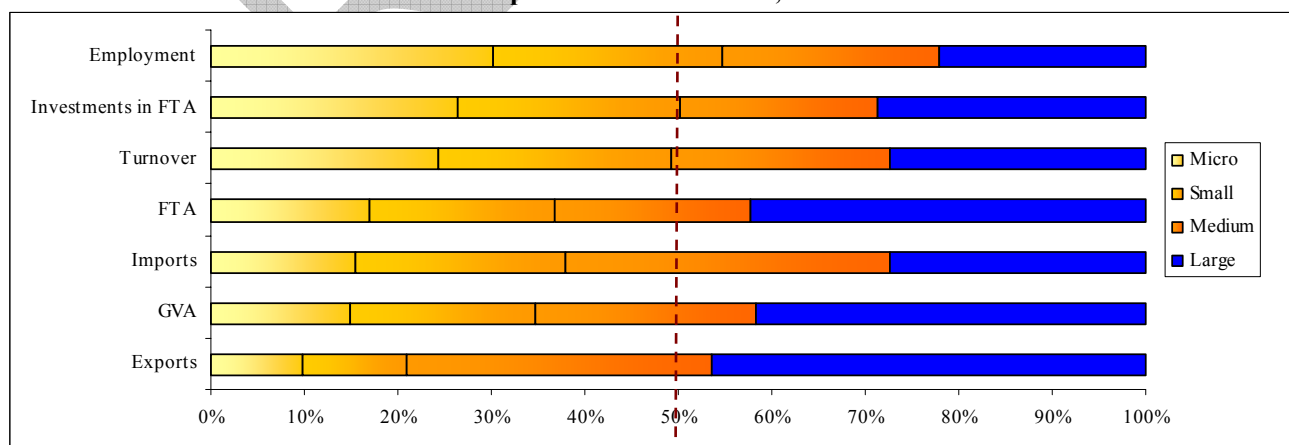
Number of enterprises in Bulgaria, 2001-2004

	Micro	Small	Medium	Total	Large	TOTAL
	SMEs					
Number of Enterprises						
2001	188361	12183	2774	203318	500	203818
2002	183347	14334	2955	200636	521	201157
2003	195780	17388	3321	216489	532	217021
2004	198727	18855	3574	221156	561	221717
%						
2001	92.4	6.0	1.4	99.8	0.2	100.0
2002	91.1	7.1	1.5	99.7	0.3	100.0
2003	90.2	8.0	1.5	99.8	0.2	100.0
2004	89.6	8.5	1.6	99.7	0.3	100.0

Source: Annual Report on the Condition and Development of SMEs in Bulgaria – Special Edition, 2006

Thus, although comprising only 0.3% of all enterprises, large enterprises make nearly half of national exports and generate trade surplus, contribute to more than 40% of the value added and own more than 40% of the fixed tangible assets. However, SMEs have important contribution to employment and turnover, and as their investments in FTA have been growing, their impact on national economy can be expected to increase in the mid-to-long term. It is these investments of SMEs that have been additionally worsening the trade and current account deficits, but can improve the overall competitiveness of SMEs and the economy if channelled in the right direction.

Enterprises in total size-class, % 2004



Employment in Enterprises, 2001-2004

	Micro	Small	Medium	Total	Large	TOTAL
	SMEs					

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Persons employed						
2001	380888	237440	282483	900811	299053	1199864
2002	392031	277699	301084	970814	300518	1271332
2003	446133	337666	334612	1118411	298012	1416423
2004	458134	368859	353413	1180406	333925	1514331
%						
2001	31.7	19.8	23.5	75.1	24.9	100.0
2002	30.8	21.8	23.7	76.4	23.6	100.0
2003	31.5	23.8	23.6	79.0	21.0	100.0
2004	30.3	24.4	23.3	77.9	22.1	100.0

Source: Annual Report on the Condition and Development of SMEs in Bulgaria – Special Edition, 2006

SMEs account for 36.6 % of total employment in the economy (3 226 343 persons employed in 2004). Compared to the number of persons employed in the entire private sector of the economy (2 488 915 persons employed in 2004) the contribution of SMEs increases to 47.4 % in 2004 from 41.4% in 2001. If we take only private non-financial enterprises the share of SMEs employment rises to 77.9%. Thus, over the period the share of SMEs in employment has been growing, while that of large enterprises has been declining. Employment in small enterprises is the only one with upward trend, which is moreover quite impressive (growth of 55.3 % over four years). The average size of one SME has increased from 4.4 to 5.3 persons employed. These changes in the structure of employment also support the opinion that a process of "growing up" of enterprises is underway.

Turnover per enterprise, 2001-2004

	Micro	Small	Medium	Total SMEs	Large	TOTAL
Thousand BGN						
2001	80	1088	3713	190	30243	263
2002	97	1103	5148	243	28480	316
2003	97	1052	4933	248	33217	328
2004	109	1178	5881	293	43459	403

Source: Annual Report on the Condition and Development of SMEs in Bulgaria – Special Edition, 2006

The turnover is increasing for all size classes and the turnover of SMEs as a whole is 3 times the volume of large enterprises', although the average turnover for an SME relates to the one of a large enterprise as 1:148. Same type of relation in EU-27 is 1:340. This difference is due actually to the smaller scale of Bulgarian large enterprises compared to the large EU-27 enterprises.

Actual size of Private non-financial enterprises compiling balance

(sections C to K of NACE'2003), 2004⁵

	Small	Medium	Large	TOTAL
With turnover and assets typical for the category	74881	40	32	
With turnover and/or assets of Small	-	3513	423	
With turnover and or assets of Medium	218	-	103	
With turnover and/or assets of Large	23	19	-	
TOTAL	75122	3572	558	79252

Source: Annual Report on the Condition and Development of SMEs in Bulgaria – Special Edition, 2006

Apparently about 0.3% of the small companies, compiling balance sheets perform too well in terms of turnover and/or assets. Almost 98% of the medium-sized enterprises actually maintain assets and turnover as small enterprises. Only 32 out of 558 large companies go beyond the definition of SMEs and perform indeed as large enterprises – these 32 (0.04% of enterprises in the table above) contribute about 25% of the value added by the enterprises compiling balance sheet.

Contribution to GVA and GDP, 2001 – 2004

	Micro	Small	Medium	Total SMEs	Large	TOTAL
To GVA						
2001	4.3	4.5	6.4	15.2	10.5	25.7
2002	4.4	5.1	6.6	16.1	10.0	26.1
2003	4.7	6.4	7.4	18.5	11.7	30.2
2004	5.7	7.5	9.0	22.2	15.8	38.1
To GDP						
2001	3.8	4.0	5.7	13.5	9.3	22.8
2002	3.8	4.5	5.9	14.2	8.8	23.0
2003	4.1	5.6	6.4	16.2	10.3	26.5
2004	4.9	6.5	7.8	19.2	13.7	33.0

Source: Annual Report on the Condition and Development of SMEs in Bulgaria – Special Edition, 2006

Contribution to GDP and GVA is increasing for all size classes. A positive trend is the acceleration of the annual increase of SME contribution. The actual SMEs contribution is reassessed by the

⁵ From those companies, which compile balance sheet the actual size of SMEs and large enterprises could be estimated. All of the sole proprietors and most of the micro enterprises do not compile balance sheets because of an option provided by the Accounting Law.

National Statistical Institute at about 45% of the value added for the economy and about 39% of GDP. Compared to 2001, the contribution in both indicators is about 2% higher.

Apparent Labour Productivity, 2001-2004

	Micro	Small	Medium	Total	Large	TOTAL
	SMEs					
Thousand BGN						
2001	3.0	5.0	6.0	4.4	9.2	5.6
2002	3.2	5.3	6.3	4.7	9.5	5.9
2003	3.2	5.8	6.6	5.0	11.9	6.5
2004	4.1	6.8	8.4	6.2	15.7	8.3

Source: Annual Report on the Condition and Development of SMEs in Bulgaria – Special Edition, 2006

Labour productivity increases with the size of enterprises. In SMEs labour productivity is about twice as low as that of large enterprises. In the period 2001-2004, productivity increases in nominal terms in each of the size classes of enterprises.

Overall, the labour productivity in Bulgaria is five to ten times lower than the EU-27 average. The labour productivity in sectors H - Hotels and restaurants and I - Transport, storage and communication is closest to the EU-27 average, but still lags considerably. The differences for the SME group and for all enterprises are not considerable largely because Bulgarian large enterprises also lag in terms of labour productivity from their EU counterparts. Increasing labour productivity should be one of the main focuses in the development of the competitiveness of Bulgarian enterprises.

Apparent Labour Productivity by Sector, comparison Bulgaria – EU-27, 2004

Thousand BGN	Micro	Small	Medium	Total SMEs	Total SMEs EU-27	Large	TOTAL	EU-27 TOTAL
C	8.0	39.7	14.8	19.8	215.1	25.4	23.5	170.9
D	4.0	4.8	7.9	6.3	68	11.9	8.3	89.3
E	11.3	31.8	39.2	31.7	213	40.9	38.2	195.5
F	5.9	6.0	7.5	6.6	60.2	8.9	7.0	64.3
G	3.5	8.2	10.4	5.6	60.4	17.2	6.1	63.9
H	1.8	3.5	8.4	3.5	34	12.3	4.2	36.8
I	5.7	10.5	11.1	8.6	72.9	45.4	20.4	102.2
K	7.8	9.5	6.6	8.0	93.8	3.7	7.2	89.1
TOTAL C-K	4.1	6.8	8.4	6.2	68	15.7	8.3	80

Source: Annual Report on the Condition and Development of SMEs in Bulgaria – Special Edition, 2006 and Eurostat

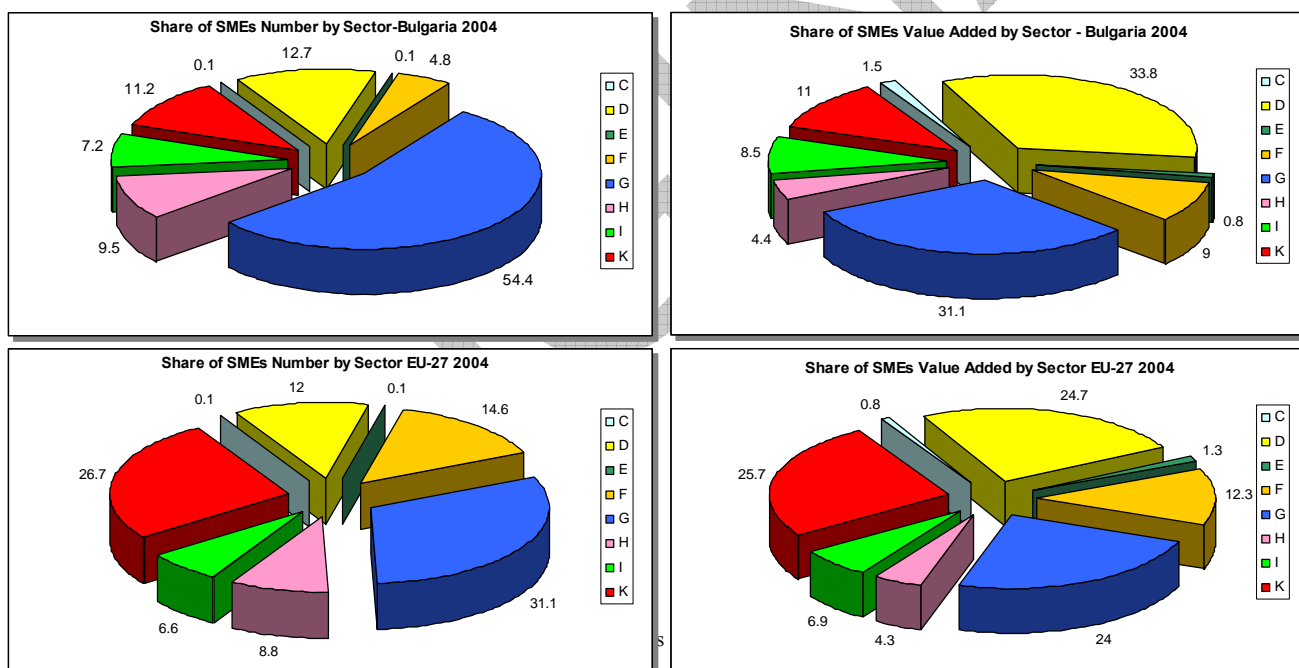
3.1.1 SMEs by economic sectors⁶

The major differences between Bulgarian and EU-27 SME sector figures are in sectors D – Manufacturing, K - Real estate, renting and business activities and G - Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods.

Although SMEs in Wholesale and retail trade (Sector G) account for more than half of active SMEs (disproportional large share when compared to EU average), their contribution in gross value added is only about 30%. At the same time, Manufacturing enterprises (Sector D) making up only 12.7% of all SMEs, contribute to nearly 34% of GVA. Moreover, Manufacturing comprises the largest share of employment among SMEs (33.5%). This makes Sector D strategically most important for the economy among all sectors.

Bulgaria lags considerably behind the EU-27 average in Sector K- Real estate, renting and business activities. Further development of this sector will be very beneficial for national economy in terms of export and value added, since it includes computer and related activities (2637 SMEs in Bulgaria are in this subsector) as well as R&D in engineering and other sciences.

Share of SMEs Number by Sector and Share of Value Added by Sector, Comparison Bulgaria (above) – EU-27(below), 2004



When analyzing SMEs by sectors in terms of average labour productivity and gross operating rate, the following observations can be made:

⁶ SMEs overview covers the following economic sectors (according to NACE 2003): C – Mining and Quarrying, D – Manufacturing, E - Electricity, gas and water supply, F – Construction, G - Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods, H - Hotels and restaurants, I - Transport, storage and communication, K - Real estate, renting and business activities

SMEs in sectors C – Mining and Quarrying and E - Electricity, gas and water supply are limited in number, because both sectors are large-company dominated. However, the labour productivity and the gross operating rate of these SMEs are on average two-three times higher than the average SME values.

Sectors K - Real estate, renting and business activities and I - Transport, storage and communication are among the drivers of economic growth over the last years and have attracted considerable amounts of foreign direct investments. This naturally leads to higher labour productivity and GORs of the SMEs in the sectors, as well as to more opportunities for new SMEs entering the market.

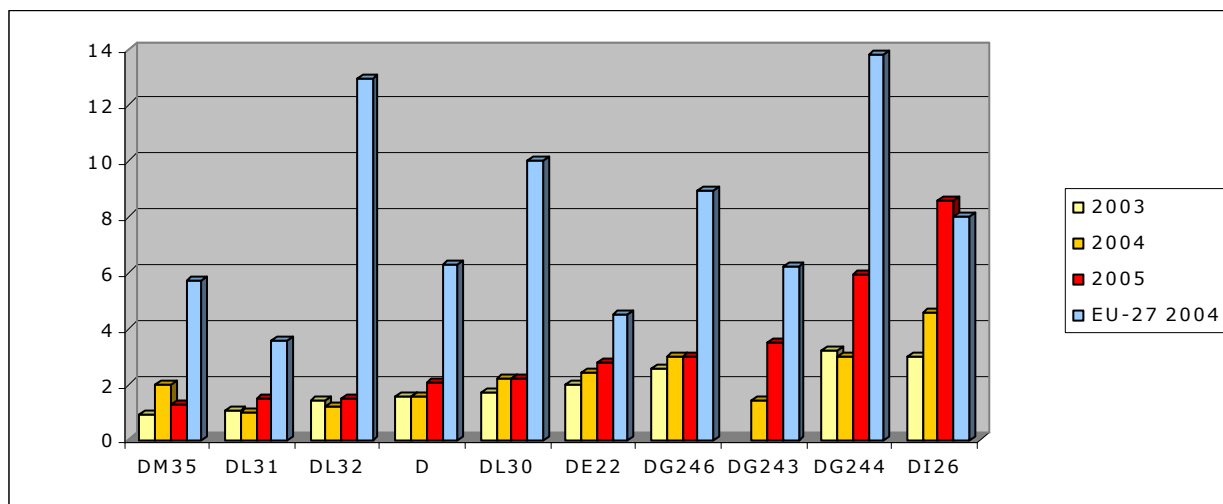
The other two sectors with higher than the average values for both labour productivity and gross operating rate are F – Construction and D – Manufacturing. Their characteristics are not as impressive as the characteristics of the first four. Manufacturing SMEs need further investments to keep the increasing trend of value added. Their GOR is still not so high which means the needed capital should come from banks and/or state programmes for SMEs competitiveness, etc.

If we take a closer look at the SMEs in the sub-sectors of Manufacturing, chemical industry (DG243 - paints, varnishes and similar coatings, printing ink and mastics, DG244 - pharmaceuticals, medicinal chemicals and botanical products, DG246 - other chemical products) and machinery and equipment (DK29 - machinery and equipment n.e.c., DL30 - office machinery and computers, DL31 - electrical machinery and apparatus n.e.c., DL32 - radio, television and communication equipment and apparatus, DM35 - other transport equipment) are the two large groups with both labour productivity and GOR higher than the average Sector D figures. These sub-sectors generate knowledge-base high value added products, and if additionally supported can turn into drivers of economic growth.

The other sub-sectors with similar characteristics are DI26 - other non-metallic mineral products due to the booming Construction industry and sizeable foreign direct investments, and DE22 - publishing, printing and reproduction of recorded media.

The ratio of investment per person employed is usually considered to be a good indicator of the effort made by an industry to develop its competitiveness by modernising and deepening its capital base. The only Bulgarian sub-sector of all in the entire manufacturing industry that overcomes the EU-27 average investments per person employed is DI26 - other non-metallic mineral products – this includes Manufacture of glass and glass products, non-refractory ceramic goods other than for construction purposes; refractory ceramic products, ceramic tiles and flags, bricks, tiles and construction products, in baked clay, cement, lime and plaster, articles of concrete, plaster and cement, Cutting, shaping and finishing of ornamental and building stone

Investment per person employed (2004 in thousand € per person)



Source: Eurostat and own calculations

The sub-sectors generating the bulk of Sector D production, export and turnover (DB17 – textiles, DB18 - wearing apparel; dressing and dyeing of fur, DD20 - wood and of products of wood and cork, except furniture; DH252- plastic products, DJ28 - fabricated metal products, except machinery and equipment) are characterized by labor productivity lower than the Sector D average and gross operating rate higher than average. Thus, these sectors are developing because of the cheap and skilled labor force in Bulgaria.

3.1.2 SMEs by planning regions

There is a significant territorial disproportion for both SMEs and large enterprises. SMEs group around the two largest cities – the capital Sofia in the South-West Region and Plovdiv in the South-Central Region. This disproportion might be relieved with provision in the other regions of better consultation and information services for starting and operating businesses and better and more abundant company incubation opportunities, as well as with attraction of export-oriented FDI, which will require formation of stable chains of subcontractors.

SMEs by Planning Region, 2001 - 2004

	Number SMEs		Persons		Turnover		Value		Labour		Gross	
	Share %		Employed, Share %		Share %		Added Share %		Productivity, % of average		Operational Rate, %	
	2001	2004	2001	2004	2001	2004	2001	2004	2001	2004	2001	2004
North-West	4.6	4.4	4.2	4.1	2.0	2.0	2.6	2.7	62	64	4.4	6.5
North-Central	15.7	14.4	15.4	14.4	11.6	9.8	11.9	10.4	77	72	4.6	5.6
North-East	15.3	15.6	14.4	14.6	14.4	12.2	15.1	13.4	105	92	5.8	6.9
South-East	10.9	11.2	8.8	9.5	9.7	8.8	7.6	8.0	86	84	4.1	5.7
South-Central	24.1	24.4	22.3	23.8	16.9	17.2	18.7	18.5	84	78	5.7	6.2
South-West	29.4	30.0	35.0	33.5	45.5	50.0	44.2	47.0	126	140	4.9	6.2

Source: Annual Report on the Condition and Development of SMEs in Bulgaria – Special Edition, 2006

SMEs in 2004 secure the largest share of employment in all regions – from 75.1% in the South West region to 81.4% in the North-East region. Micro-enterprises employ from 26.1 % in the South-West region to 37.1 % in the South-East region. The more economically developed the region is, the less is the share of employment in micro-enterprises, which are usually family businesses or shelter businesses. For medium-sized enterprises, the logic is just the opposite: they provide from 20.2% of employment in the South East region to 24.5 % in the South West. Small enterprises provide almost one and the same share of employment in all regions – 24-25%.

The dominant planning region among enterprises in a given size class is the region with the highest share in the number of persons employed in the size-class:

- The South-West planning region is dominant in employment for all size classes with over 30% of the number of persons employed in each size class. This region features 33.5% of the number of all persons employed in SMEs and 39.3% of the number of persons employed in large enterprises. The role of the South-West region is most pronounced in terms of medium-sized enterprises – 36.5% of persons employed in medium-sized enterprises are concentrated in this region.
- At the other end of the scale, the North-West planning region has only about 4% of the number of persons employed in each size class.

This statistics would mean nothing without taking account of the density of enterprises. The overall density of enterprises in Bulgaria (measured as 1 enterprise per 1000 inhabitants) is 32.12 enterprises compared to EU-27 density of about 48-49 enterprises. This means that at ceteris paribus if Bulgaria reaches the same density it should have about 126,000 more SMEs or 51% more. If the rate of increasing the SMEs number is kept as it has been during 2001-2004, Bulgaria will reach EU-27 average density not earlier than 2030. The country urgently needs establishment of more enterprises and such with better labour productivity that will significantly boost the GDP.

Although the South-West region is the most developed, the highest rate of density is visible by the seaside – in Varna and Burgas districts (41-42 per 1000), followed closely by Gabrovo and Sofia-City districts (38 per 1000).

Density of SMEs by Region



Source: Annual Report on the Condition and Development of SMEs in Bulgaria – Special Edition, 2006 and own calculations

3.1.3 Indicators and factors for SMEs competitiveness

Some Bulgarian SMEs are already competitive at the European markets. An increasing number of Bulgarian companies offer and maintain constant quality of their products. Overall, however, the capability of SMEs and their products to withstand the competitive pressure from European producers is still limited. Most SMEs are expected to encounter difficulties in keeping their positions in the Bulgarian market and/or launching their products in European/world markets. In this respect, they still rely on the competitive advantage provided by the low cost of labour. This advantage is expected to remain in effect even after EU accession, but not for long. The strengths of Bulgarian SMEs when compared to their European competitors are their adaptability and flexibility and the enterprising nature of Bulgarians.

According to data for the ratio of gross added value to the price of production Bulgarian SMEs have around 20 times less opportunities than EU 15 SMEs to recover their production factors – labour and capital. At the same time, the EU15 SMEs achieve high rates of value added with 10% to 30% less employees.

Gross operating profitability of the Bulgarian micro SMEs is above the level of GOP for those in countries like Estonia, Lithuania, Hungary and Slovenia. The same is valid also for small SMEs. This apparent advantage is because of the lower labour costs and not because of the higher added value of the manufacturing costs, which is the case in the micro and small enterprises in countries like Denmark or Austria, where the levels of GOR are from 1.5 to 2.5 higher than Bulgaria. The indicator is worse for the Bulgarian medium enterprises as the difference increases to between 1.75

and 4 times. In total, Bulgarian productive enterprises increased by almost double the indicators for gross operating profitability and gross operating surplus during the last four years. The Bulgarian SMEs labour costs per an employee are between 2 and 20 times lower compared those for the EU member-states(25). This index, as well as the Gross added value index per employee (labour efficiency) in Bulgaria, increases its level from micro enterprises to medium-sized enterprises.

This is the tendency in all European countries. However, Bulgarian SMEs have a labour efficiency ration between 2 and 7 times lower than that of the newly acceded EU member states, and between 15 to 30 times lower than in the EU-15 countries. The average number of employed persons in a micro, small and medium-sized enterprise is relatively one and the same for all EU-member states and Bulgaria.

SME ability to meet the European product standards

The majority of SMEs operate principally in the Bulgarian market. However, post accession, the integration of the Bulgarian market into the European market in terms of product standards, regulations and market requirements will depend on the capacity of the respective authorities to enforce them.

Companies depending on exports appear to be prepared or are about to become adequately prepared for the requirements of the European single market. Currently, only 10% of firms meet the requirements for CE marking and 23% the requirements for labour safety. Very few Bulgarian firms have an ISO certificate, and only 2.3% have a certification under the HACCP (Hazard Analysis and Critical Control Point) system which guarantees food safety and quality.

SMEs state that inadequate financial resources and the lack of information are the main obstacles to meeting EU requirements, Only one in five firms cites the lack of sufficiently trained personnel as a reason. 23% of all SMEs have not come across any obstacles.

The most significant actions of enterprises which are preparing to meet European product standards and market requirements are improving the control over the product quality (27% of SMEs), training of staff (22%), replacement of process equipment (17%), new strategic relations with trade partners (15%), investments in new technologies (14%) and receiving ISO certificates (11%). Well below 10% of SMEs have paid attention to meeting environmental and technical requirements for products and manufacturing, training of managers and protection of the intellectual and industrial property.

More than 45% of SMEs have not started preparation for accession to the Common European Market. One in five firms considers that EU requirements do not concern it. One in three firms is not acquainted with the European requirements in general. One in two firms does not know what the terms are for the introduction of the various requirements, while some 20% of SMEs are acquainted with these terms.

Table 6. Level Of Awareness On The Requirements Which Companies Should Observe After The Accession Of Bulgaria To The EU

	Informed	Partially informed	Not really informed	Not informed	Does not concern the company	DK/ NA
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CE-marking	14.6	17.1	15.4	14.3	34.9	3.7
Environmental protection	19.6	29.1	16.5	11.8	18.8	4.2
Quality management	21.9	29.0	17.1	10.1	18.5	3.4
Internal organisation of production	19.8	25.0	17.9	10.2	23.7	3.4
Working conditions and occupational safety	31.7	34.9	12.8	9.2	8.3	3.1

Source: National Survey of MoEE – June – July 2006

Despite not meeting EU requirements, some 70% of Bulgarian SMEs are optimistic and believe that they will withstand the competitive pressure of the Single Market. Bulgarian SMEs, however, intend to meet the requirements because half of the surveyed firms stated their intention to invest funds over the next three years to meet the requirements of the European Union.

Production technologies applied

Outdated machines, technologies and equipment are a very serious problem. Nearly half of the companies (45%) work with equipment more than ten years old and close to three-quarters (72.8%) have equipment that is more than 5 years old. Half of the SMEs state that they need serious investment funding, but the allocations for investments in new technologies are insufficient. More than half of the surveyed SMEs⁷ invest less than 10%. The average annual share (in total company revenues) of the funds allocated by the surveyed SMEs for technological renovation in the past three years amounts to 18.04%. More than one-third of the companies from the sample found it difficult to estimate this share. More than one-fourth of the SMEs reinvested 1% to 10% of their profits in long-term fixed assets in 2005, and barely one in 15 companies reinvested more than 75% of its profit for the past year in long-term fixed assets.

Export activity of SMEs

Participation by Bulgarian SMEs in international market competition remains limited. About two-thirds of Bulgarian SMEs operate in the domestic spheres of trade, services, and construction. Barely 17.5% of SMEs⁸ have exported some part of their output in the past year, with fewer than 7% having a pronounced export orientation (i.e. those whose exports account for more than half of their annual turnover). There is a clear differentiation among export companies: for about 27% of them, exports make up an insignificant and incidental share, while more than 40% export more than 75% of their production. There are very few successful exporters among the relatively newer firms on the market (created in the last five years).

⁷ National survey of the Ministry of Economy and Energy “Bulgarian SMEs and their preparedness to participate in EU Structural Funds’ absorption” – June-July 2006, conducted by “Vitosha Research”.

⁸ National survey of the Ministry of Economy and Energy “Bulgarian SMEs and their preparedness to participate in EU Structural Funds’ absorption” – June-July 2006.

Innovations have relatively little weight amongst the strengths of Bulgarian SMEs. Only 18.5% of their managers believe their competitive advantage comes from technological innovation. For 60% of small businesses, competition is essentially price-related.

A good indicator of the prospects of exporters considering foreign market penetration is their participation in fairs and exhibitions. In excess of 85% of SMEs have not taken part in such events in the past three years, i.e. only one out of seven companies has some kind of experience with this type of promotion of its products in foreign markets.

Available human capital

Bulgarian SMEs generally have low labour expenditure. However, labour force productivity is also low. These are complementary characteristics. On one hand, SMEs pay small salaries and rarely invest in the training of their employees in an attempt to minimize production costs. SME managers and owners state that they cannot keep in employment an employee they have trained over several years because large companies offer better salaries. On the other hand, low salaries, limited or non-existent education and training and vague prospects for career development, combined with working in a field not directly linked to the university or high school education of the employee explain the high turnover and low productivity of the labour force in SMEs. Switching to specific production with higher added value is one of the ways to redress the situation. Generating higher added value will increase the ability for own investments, proper employment conditions can be established and the quality of the labour force in SMEs will improve.

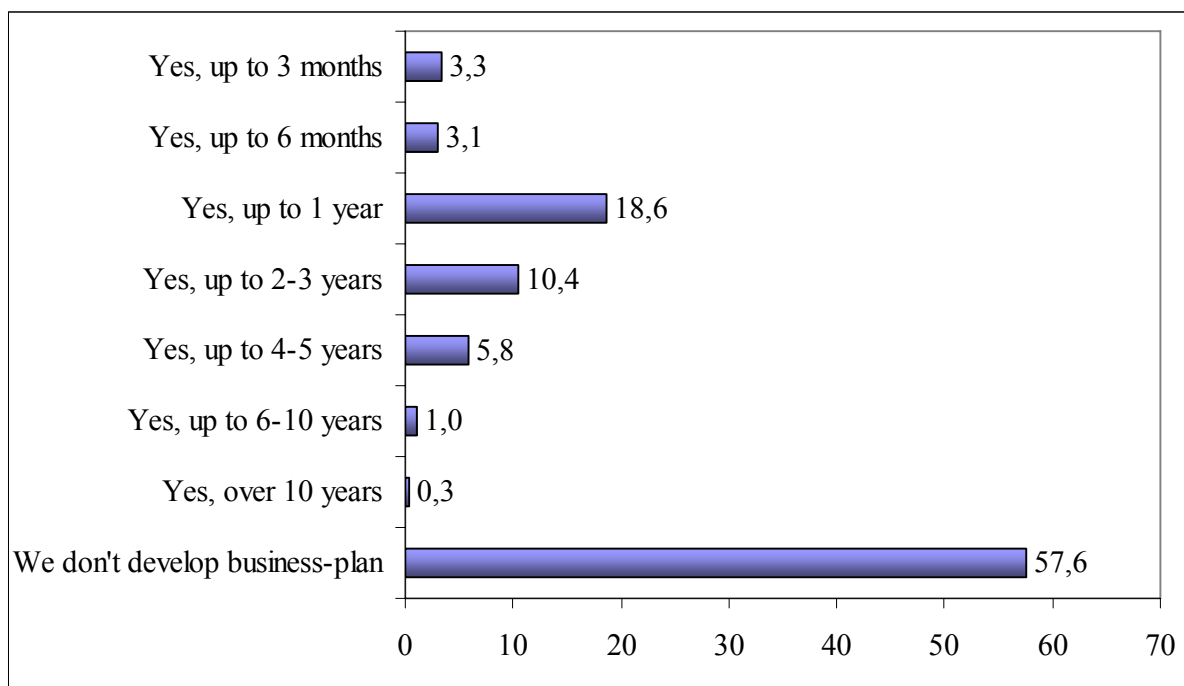
Business Development Strategies of SMEs

Adequate preparation of SMEs for competition under the conditions of EU membership includes expanding the time span of planning and emphasizing strategic management and sustainable growth instead of the current focus only on day-to-day management and survival. It is necessary to focus on strategy development mechanisms and methodologies, the internal organizational structure, and partnership among companies in developing strategies and long-term plans.

One of the indicators providing some measurement of SME strategic company management is the existence of a formal business plan. Nearly 60% of SMEs⁹ do not have a business plan but about 10% would be willing to develop one if granted aid under some programme to engage external consultants for this purpose. Naturally, the presence of a business plan does not necessarily mean there is strategic thinking within the company – more often business plans are developed for external reasons such as obtaining a bank credit. The business plans of nearly 60% of those companies who have a business plan have a span of one year or less and only 17% span more than 4 years, with a mere 2% spanning 6 to 10 years, which covers the time span of the National Strategic Reference Framework.

Chart 3. Company Business Plan Development (% Of Companies)

⁹ National survey of the Ministry of Economy and Energy “Bulgarian SMEs and their preparedness to participate in EU Structural Funds’ absorption” – June-July 2006.



Source: National Survey of MoEE – June – July 2006

Strategic planning is largely a prerogative of the owners and managers (24%), with only 5-6% of the companies having special departments or procedures for this activity. Nevertheless, there has been some progress compared to 2004 both in terms of elaborated business plans (increase of about 15 percentage points) and a slight increase of the average time span (between 6 and 10 months). Despite this, the Bulgarian firms still think in terms of about one year ahead, which is a serious structural obstacle for the coordination of their business processes with the time-frames of the national operational programmes and Structural Funds of the EU. The strategies of the SMEs are predominately reactive, rather than pro-active.

3.1.4 Access to finance for SMEs and absorption capacity of SMEs in the context of EU funded programmes

Most Bulgarian SMEs state that they need additional development capital. Only 22.5 % of SMEs do not need additional capital, 35.4 % need finance up to BGN 50 000, over 19 % need additional BGN 50-100 000, 9.8 % - BGN 100-250 000, and 13 % - more than BGN 250 000¹⁰.

According to the survey, in the next three years, SMEs plan one or more investments and will need additional financing for the following priorities – technological modernization of production lines (61.5% of companies), meeting EU requirements (50%), development of new products, technologies and services (25.4%), introduction of energy saving technologies (23.5%), modernization of company management (22.1%), training and qualification of personnel (15.6%), FDI attraction (12%), business cooperation and clustering (9.8%), consultation and information services (8.7%), popularization and increase of company export (7.5%), other (3.9%).

¹⁰ “Annual report on the condition and development of SMEs in Bulgaria, 2006”, Ministry of Economy and Energy, p. 28

More than 50% of SMEs¹¹ have not used any form of credit in the last three years. 44% have used bank credits. At least 10% of the owners have used their better personal credit history for financing company activities through consumer credits. These credits are more expensive in terms of interest rates, but require considerably less formalities and no collateral. 37% have used commercial credits in the last three years, while only 18% have used investment credits. The main reason for loan denial is the lack of collateral – 67.2 %. Nearly 14 % of credit applications are rejected because of poor financial conditions of SMEs, and 11 % because of project or business plan ambiguities.

The share of SME financing through leasing schemes is even smaller – 10%. The fact that the share of consumer credits is commensurate to the share of leasing schemes testifies to the underdevelopment of the SME financing.

The access of start-ups to financing is much worse, since they do not have a credit history, accounting records/statutory financial reports, considerable savings or assets.

The main barriers for SMEs to access bank financing are:

- the high price of credits – high interest rate;
- unclear costs, related to the reception and liquidation of the credit;
- long approval procedure;
- request for submission of numerous documents;
- high collateral requirements;
- requirements as to the type of collateral – land, buildings, machinery and equipment;
- short repayment periods;

Provision of micro financing to SMEs:

Micro financing can be important during different stages (start-up, expansion etc.) of the development of micro- small and medium enterprises.

Presently, most of the commercial banks and foreign branches active in Bulgaria have SME programmes (27 out of 33) and offer microloans. The SME programmes have the following tendencies:

- More flexible conditions and faster review procedure;
- Security requirements simplified, sometimes decreased;
- Credit terms increased – 16 banks have investment programmes for over 5-year terms, most of them offer repayment periods of up to 7 years;
- Packages of additional services offered together with the credit;
- Interest rates are applied to unpaid balances only and banks regularly offer promotions on their SME programmes, with lower rates in the first months/year of repayment

¹¹ National survey of the Ministry of Economy and Energy “Bulgarian SMEs and their preparedness to participate in EU Structural Funds’ absorption” – June-July 2006.

Several other non-banking institutions (Job Opportunities Through Business Support (JOBS), Union of Popular Savings Societies, Microfund EOD, Ustoi, Cooperative Nachala, Association of Popular Saving Societies on the Internet) implement micro finance programmes in Bulgaria.

A good example of operating non-banking financial institution is the “Micro-loan Guarantee Fund” within the Ministry of Labour and Social policy. Up to April 2006, 6 200 projects of micro-enterprises, totalling about 34 mln euro, have been approved..

In spite of these opportunities to access banks’ and non-banking institutions’ micro financing institutions, access to microloans is still a problem for SMEs (especially microenterprises) due to lack of credit history, collateral etc. A number of consumer and mortgage credits from banks can be considered hidden business microloans, where the owners use their personal, better credit rating instead of the credit rating of their business.

Provision of debt financing and guarantees:

Loans are the major source of funding for business expansion and technology modernization.

There is a strong polarization of commercial loans and a large concentration of credit amount in a limited number of enterprises – loans up to 50.000 BGN represent 68% of the total number of commercial loans and 4% of the total loan amount, while loans above 500.000 BGN represent 6% of the total number and 73% share of the total number of credits (as at the end of June 2006).

The risk aversion of commercial banks towards bank financing of SMEs and the related high collateral requirements are a major problem for the SMEs and hamper them in their development due to lack of financing.

The following disparities between demand and supply can be derived following the analysis of the SME-supporting debt financing activities in Bulgaria:

- The low proportion of long-term credits;
- High collateral requirements (amounts and types);
- Often short grace period and not always in conformity with investment project timescales and the business development plans;
- A lack of credits in the medium range between 100.000 and 500.000 BGN.

In the context of the provision of guarantee activities, there are about ten different Guarantee funds, associations and Credit guarantee organisations existing in Bulgaria, providing support to SMEs.

Loans and the provision of guarantees will play a more significant role to SMEs due to the new challenges related to EU Accession and Common Market competitive pressure.

Provision of formal equity - venture capital:

Equity provides the highest risk element of SMEs’ financial structures. Sufficient equity can improve the credit rating allowing access to other forms of finance. Bulgarian SMEs have problems with their equity and Venture capital funds can play a significant role in increasing SMEs equity.

The main existing VC players in Bulgaria are the Bulgarian-American Enterprise Fund, Small Enterprise Assistance Fund, Global Finance, Balkan Accession Fund, Equest, Sigma, Blazer, GED,

Roslyn/Enigma. Bulgaria has no special law regulating the activity of VC investors; the companies operate in compliance with the Commercial Code and Contracts and Obligations Act.

The main characteristics of the Venture Capital market in Bulgaria could be summarized as follows:

- Lack of data, no Venture/Risk capital association yet in existence
- Low volume relative to GDP
- Mainly later stage financing/privatisation of large enterprises
- Mainly pan-regional funds
- No activities in seed and start-up sectors¹²

Business angels networks:

Business angels can provide ‘informal venture capital’ and advice and mentoring making important contributions to SMEs development. Business Angels’ Networks provide matching services to put potential investors in touch with SMEs.

A so-called “Bulgarian Business Angels Network” website exists on the internet, but there is currently no formal organisation or structure behind it.

A non-existence of business financing by individual investors limits significantly the number of new enterprises created, especially the most innovative ones which, at their early stages, are most often financed by business angels in countries where there is a developed market for such investors..

Absorption capacity of SMEs in the context of EU programmes

In the process of drafting the Operational programme, in June- July 2006, the Ministry of Economy and Energy launched a nation-wide survey on competitiveness and preparedness of Bulgarian SMEs to participate in EU Structural funds. The main objective of the survey was to analyze the condition, the needs and the issues faced by SMEs in terms of their readiness to introduce the European standards; innovativeness of enterprises; competitiveness of SMEs and their competitive advantages; the role of the consultancy business and its response to the market needs; access of SMEs to additional funding sources, etc.

The conducted national representative researches cover a wide range of questions about participation of SMEs in European programmes and the absorption of resources from European funds; factors hampering their participation in the European programmes; level of awareness and information sources for SMEs on European funds; etc. The main activities performed were:

- A quantitative questionnaire-based survey has been carried out at national level, covering a target group of 1011 SMEs. The surveyed sample comprises non-financial enterprises, the core activity of which has been specified within the scope of the industrial sectors with

¹² EIF - Interim Report for Bulgaria “SME Financing Gap Assessment”

initials from C to K in the ‘National Classification of Economic Activities’ (NCEA-2003) distributed in groups according to the number of employees;

- Information has been gathered as well through qualitative methods (discussions in focus groups, in-depth interviews) from representatives of institutions and organisations playing key role in the processes of information dissemination, servicing and analysis of the activities associated with the absorption of the Structural and the Cohesion Funds of the European Union, such as managers and owners of SMEs, national representative organisations of employers, bank and non-bank financial institutions, consultancy and public research organisations.
- Other methods used were the desk research and analysis of secondary data from available information sources such as policy documents of the European Union and the Bulgarian government in the areas of small and medium-sized enterprises promotion and pre-accession programmes, laws and statutory acts in force, available statistical information, data from other surveys and studies on similar topics.

The results of the survey show that companies are not very active participants in tenders under EU programmes. Around 1.4% of the SMEs have received financial support under PHARE Programme; 1.6% were financed from SAPARD Programme and 0.7% have received financial support from ISPA. A total 5.2% of the companies state that they have applied for, but have not received financing under any EU pre-accession programmes. A total 89.5% of the surveyed firms have never applied for financial assistance from European and international funds and programmes. The main obstacles have been prioritized by companies in the following order: intricate and bureaucratic application procedure, insufficient information, additional payment to intermediaries (e.g., consultants), complicated procedures of financial reporting, very large application expenses, etc.

This inertia might be explained by the fact that a large proportion of enterprises have short planning horizons, which cannot be coordinated with the time frame of the preparation and implementation of projects. There is little knowledge of the European programmes and the opportunities they offer, due to insufficient in-house capacity for participation in tenders (staff speaking foreign languages, computer and Internet literacy, as well as skills for the development and management of projects).

In the next three years, 35,4% of the companies state they will finance their investment projects using Structural Funds. Firms propose to seek financial support from the Structural Funds for the technological upgrade of production facilities, for meeting the standards/requirements of the EU, for the introduction of energy-saving technologies and innovative projects.

3.2 Large companies

In 2005 there were 772 large enterprises in Bulgaria. However, they are large only in terms of the number of people employed – more than 250. Out of the 772 enterprises, only 76 have an annual turnover of over 50 mln. Euro, and only 49 have an annual balance sheet value of over 43 mln. Euro. This infers that Bulgarian large enterprises are far less competitive than their counterparts in the other EU member countries. They have limited capacity (in both Leva and Euro terms) to invest in the development of new products, processes and services and/or in technological modernization.

Just like SMEs, large enterprises are extremely unevenly distributed around the country. Almost 1/3 of them work on the territory of Sofia City (214) or Sofia Region (23). This is natural, since currently the capital provides the best conditions for doing business – proximity to state

administration (easier access to services), proximity to leading universities and technical schools (good quality labor force and R&D), good infrastructure (transportation, office and production premises) and easy contact with subcontractors or related companies situated nearby.

The other sub-centers of large enterprises are the regions Plovdiv (66) –Pazardjik (23), Varna (45)- Dobrich (17), Bourgas-Sliven-Yambol, Rousse-Pleven and Veliko Turnovo-Gabrovo. Thus, there are two sub-centers in the South of the country, and three in the North. The relative weight of the first three sub-centers balances the concentration of Sofia Region. Generally, the large enterprises are situated in large cities, which are also regional centers. One third of large enterprises function in regions with unemployment levels higher than the average for the country.

Less than half of large enterprises are in the Manufacturing sector. The others are generally evenly distributed among the service sectors – Health care and social activities (61), Construction (57), Transport, Communication and Storage (53), Real estate and business services (50), Electricity, Gas and Water (47), and Wholesale and retail trade and maintenance (46). Large enterprises constitute the majority of companies in 2 sectors only – Electricity, gas and water (with over 72% of people employed) and Mining and quarrying (with over 70% of people employed in the sector).

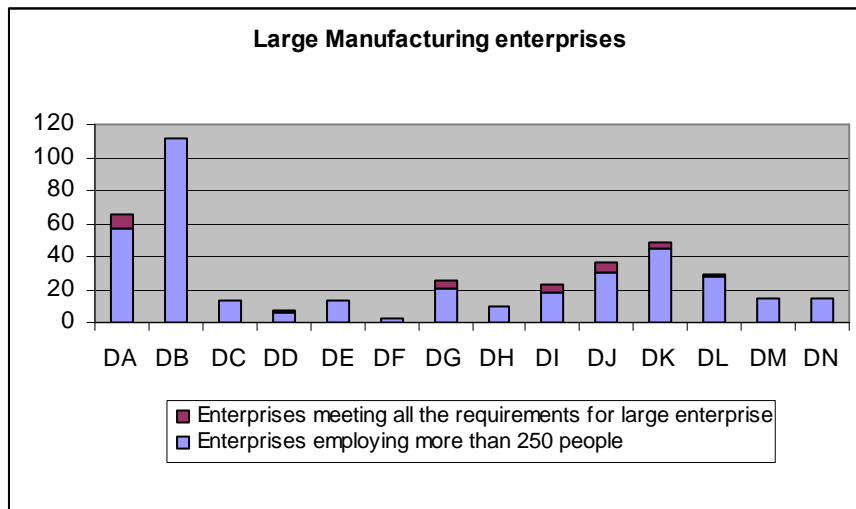
Number of large enterprises per economic sector in 2005

Sector	A	C	D	E	F	G	H	I	J	K	N	O
Enterprises employing more than 250 people	11	24	382	47	57	46	23	53	0	50	61	16
Enterprises meeting all the requirements for large enterprise	1	4	32	15	0	16	1	12	0	0	0	2

Source: NSI

Large enterprises account for over 40% of employment in the Manufacturing sector. One third of large industrial enterprises are in Textiles (111). However, only one of these enterprises is large in terms of both annual turnover and annual balance sheet – an enterprise which has received considerable foreign direct investment. The others employ more than 250 workers simply because production is labour intensive and value added is low. Food-processing and Machinery and Equipment sectors each have around 50 large companies. In the Food-processing sector, there are only 8 companies that are large in terms of annual turnover (4 cigarette factories and 4 companies with considerable foreign investments – 2 in beverages, 2 in sweets). There are only three companies in Machinery and equipment which exceed the annual turnover threshold. However, all of them currently engage in R&D activities.

Large Manufacturing enterprises



Source: NSI

Analysing large enterprises in terms of annual turnover and annual balance sheet value, the other prominent processing sectors are Basic metals and fabricated metal products (6), Other non-metallic mineral products (4) and Chemicals and chemical products (5). Large enterprises in these sectors engage in R&D and innovation activities. R&D is also a significant part of the activities of large enterprises in the Electrical and optical equipment sector. All these large enterprises have received considerable foreign investments and are well integrated into international business networks. Thus, based on historical factors, improvement of the competitiveness of Bulgarian large enterprises will greatly depend on the attraction of export-oriented FDI and integration into business networks.

4 Specific economic analysis

4.1 Research and Development. Innovations

The future of a knowledge-based society depends to a great extent on the capacity of our country and regions to create smart systems that will link and facilitate knowledge creation and innovative enterprises. As knowledge is greatest ‘natural’ resource, the creation of innovative systems to ensure the full exploitation of this resource remains a major challenge.

A key factor for achieving high competitiveness of the Bulgarian economy is the consistent implementation of a policy for promotion of innovative processes across all elements which are base for innovation system, in co-ordination with all other policies for ensuring sustainable economic development. .

The analysis of the innovation system is based on the methodology of the Innovation Scoreboard 2005, EUROSTAT data and specialized study, commissioned by the Ministry of Economy and Energy.

4.1.1 Creation of knowledge and its dissemination to enterprises

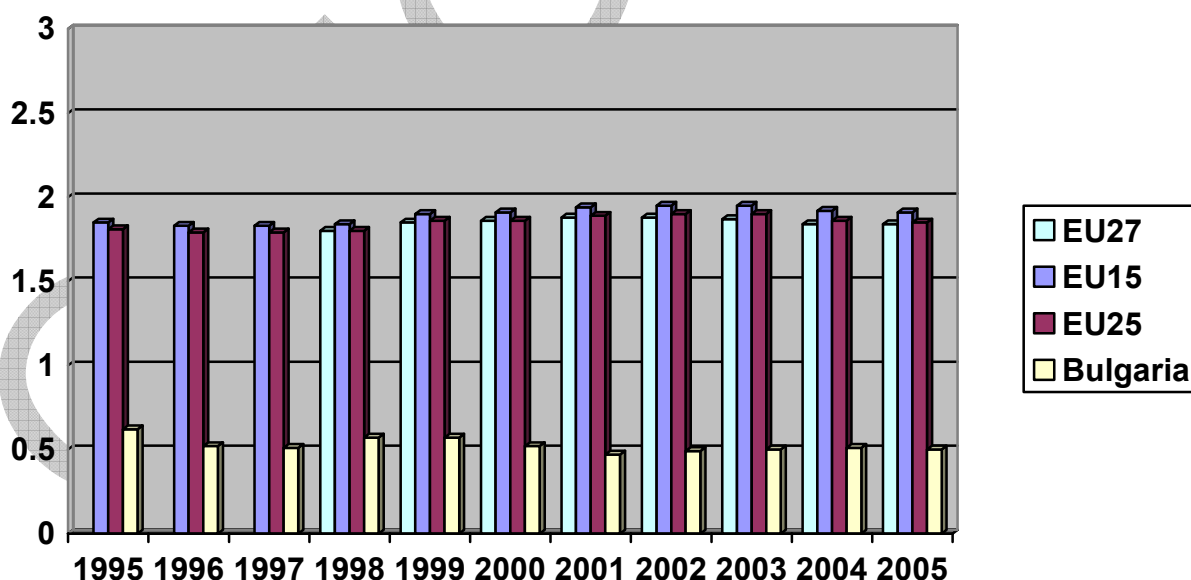
One of the key objectives of the Lisbon Strategy is the acceleration of the transition to a knowledge-based economy in which R&D activities and innovations are contributing effectively to economic growth. The Innovation Strategy of the Republic of Bulgaria and the measures for its implementation have been developed in direct correspondence to this understanding.

Support for increase of Researches and Developments is one of the priorities of the country and a driving force for innovations. Ministry of Education and Science with consultation the National Council for Science Researches has defined policy in the area of science and research.

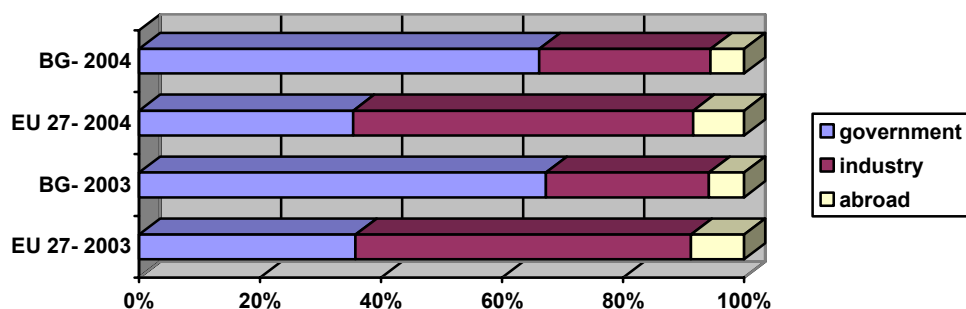
Knowledge creation is obviously a necessary if not sufficient condition for innovation. The creation and dissemination on new knowledge within the national innovation system is carried out predominantly by the research and academic units. The main core for creation of knowledge are the preserved science units in the Bulgarian Academy of Sciences (encompassing 52 Science institutes, 1 national and 12 central laboratories, 4 science centers), the National Centre for Agrarian Sciences (encompassing 21 Science institutes, 13 regional centres for applied research services, 1 national agro-biological park), 42 universities with science and research centers to 7 of them and a number of applied research laboratories and science institutes, where a relatively stable science potential of internationally recognized scientists and laboratories is existing and participate in the European science area.

The knowledge-based economy requires a well-developed science sector and highly qualified specialists what can realise with good finances. At present, investment in R&D, both from the state budget and from the private business sector, as a percentage of GDP, is one of the lowest in EU. The expenditures for R&D as a percentage of the GDP per capita is 0.5 % (2005) (in comparison with EU 27 – 1.84% GDP), of which 0.34% is from the state budget, 0,11% is from the private business sector and 0,05% – abroad. These figures are well below the 3 % Lisbon objective and the private business R&D financing.

Gross domestic expenditure on R&D, percentage of GDP



The next graph presents the correlation between expenditures by percentage of GERD (Gross domestic expenditure on R&D) financed by industry, percentage of GERD financed by government and percentage of GERD financed from abroad in comparison with, EU (27). In this case it is very important introduce mechanisms for the promotion of private investments in R&D.



An important indicator for capacity in the knowledge creation is the number of PhDs per capita - 0,8 per thousand in 2003 in Bulgaria compared to 2.9 per thousand in EU-15. The absolute figures are stable over recent years (around 400 PhDs in Bulgaria in the period 2000-2004), which indicates that a scientific career does not appeal to young Bulgarians. Reasons include low salaries and outdated equipment in most scientific laboratories. The development of PhDs in cooperation with and addressing the needs of business is one of the possible models to overcome the existing gap.

The number of graduates in scientific – technological majors in Bulgaria is 8,5 (2004) per thousand inhabitants compared to 12,4 per thousand in EU-27. The share of scientists employed in Bulgarian enterprises is very low – the lowest among all EU member-states. On the other hand, Bulgaria has the highest share of scientists in state research institutions. This disproportion has to be gradually overcome through the creation of new and the transformation of existing state science units into Technology centres to carry out researches and elaborations for the needs of the industrial sectors.

R&D activities are venture activities and there can be no guarantee that every invention, research or trial leads to a positive result. However, successful innovations guarantee higher revenue as result of more sales or greater value added of products. So enterprises need encouragement and financial support to start investing in such activities. Mechanisms for the promotion of private investments need to be introduced. One of the purposes of the Bulgarian Innovation Strategy is to activate the dialogue between scientific bodies and businesses. After the introduction of the first financial instrument of the Strategy – the National Innovation Fund - the attracted private investment in R&D is 5 times larger than the relevant state budget resources.

Enterprises still implement innovation projects by employing their resources and investing their own efforts (9.5 % of SMEs in Bulgaria). The reasons for the weak development of partnership formation in the implementation of innovation projects can be summarized as follows: the broken “science – business” link, a lack of incentives for the commercialization of scientific results in the country and obsolete and underdeveloped infrastructure for technology transfer.

According to recent studies quoted in “Innovations.bg” by European Economic Review, only the highly developed industrial countries are capable of guaranteeing the generation of new knowledge. The developing countries are not efficient enough in this sector as a result of which the expenditures on the part of business for R&D activities are very low. This tendency is very clearly expressed in Bulgaria.

* Analysis for Innovations prepared by Applied Research and Communications Foundation

4.1.2 Pro-innovative infrastructure

European experience shows that innovative firms need special infrastructure to support each stage of their development as well as each stage of their production cycle. Such structures are the Technology Transfer Centres, the innovative business centres and incubators, the Technological centres and the Technological parks.

There are few such structures in Bulgaria. The Innovation Relay Centre – Bulgaria, created with the support of EU, and Foundation “GIS Transfer Centre” (in cooperation with Foundation “Steinbeis”) provide information, skills and various resources to SMEs in regard to innovation. The Foundation “GIS Transfer Centre” works on projects with the Bulgarian Academy of Science (BAS) and SMEs. Currently it has experimentally introduced 18 technological centres (6 of them within BAS and 12 outside the structures of BAS (2 of them outside Sofia). The Innovation Relay Centre enhances technology and know-how transfer for Bulgarian enterprises, as well as information on European R&D programmes..

There are two high-tech business incubators in Gabrovo and Varna. They were created with the cooperation of the Ministry of Regional Development and Public works and have been operational from the beginning of 2005. Over the two years of their existence, the incubator in Gabrovo has housed 12 high-tech companies and has provided services to 10 more companies situated outside the incubator whilst the one in Varna has housed 7 companies and has provided services to 25 others. There is great interest among local business and scientific communities in the activities of the incubators and their scope of services. It is expected that the number of incubated firms will increase quickly.

However, the above-mentioned organizations are insufficient in number to stimulate the innovation system throughout the country. The Annual Report on the Bulgarian National Innovation Policy 2006 concludes: innovation and knowledge transfer units within the public sector organizations are not sufficient in number and the existing ones do not meet the industry needs, technology transfer offices which are of key importance to the national innovation system are still missing as elements of the system, there is insufficient management capacity within the newly established elements of the innovation infrastructure. In regard to innovation services the report concludes that they are underdeveloped and offered by a small number of intermediary organizations.

Under PHARE project in 2007, technology transfer offices will be established in leading Bulgarian universities. The pilot model of the high-tech business incubators and of the technological centres of Foundation “GIS Transfer Centre” need to be disseminated and multiplied, so that connections between science and business can be restored. Technology centres (Competences centres) should be created and developed in order to serve business needs, to be integrated into the European science arena and to take advantage of world science achievements.

Currently, ideas for the creation of high-tech parks are originating from the business and science communities. Sofia, Varna and Plovdiv emerge as potential locations for future high-tech parks. There are presently at least three rival ideas for a high-tech park near Sofia – nano-technologies, bio-technologies, and new materials (physics, chemistry and physico-chemistry).

Intervention on the part of the state will be essential for coordination of existing projects and the successful realisation of high-tech parks. Special attention must be paid to innovation co-operation.

Mechanisms to attract businesses into the development of innovation infrastructure must be introduced. The state can also support the establishment of networks for the exchange of specific knowledge and information for the benefit of enterprises.

4.1.3 Innovative companies

The Bulgarian National Statistical Institute uses the definition of Eurostat for innovative enterprise: Innovative enterprise is one that provides to the market new or significantly improved innovative products (goods, services) and/or innovative processes, including methods for rendering services or for delivery of goods. The innovative products and processes have to be new for the enterprise, but not necessarily for the market.

In 2004 the NSI carried out a study of the innovative firms in Bulgaria. According to this study, the share of innovative firms is 16.2 % (2004) of the total number of functioning enterprises that amounts to approximately $\frac{1}{4}$ of the number of innovative enterprises in EU. Bulgarian entrepreneurs do not have an innovative culture. With the forecast ‘depreciation’ of the low labour costs as a main competitive advantage of Bulgarian companies, they must turn to innovation in order to improve the efficiency of in-company processes to maintain their competitiveness. This shift in emphasis and direction will require special and coordinated efforts on the part of the state and NGOs, as according to a survey carried out by Eurobarometer, Bulgaria is one of the countries with the largest share of population who perceive innovations with reluctance (28%) or absolutely deny it (20%). The specific actions and project initiatives have to be directed towards all participants in the innovation system – business, research institutes, educational institutions, intermediary organizations and representatives of the state and regional authorities.

Early age (school and university) training in entrepreneurship skills to manage innovation processes, in the development of firms' strategies and to increase the potential of enterprises to use modern technologies, up-to-date information and to implement innovations is needed.

The share of enterprises carrying out R&D activities and working in the field of computer sciences, architecture and engineering sciences represents 30.1% of the total number of innovative enterprises or 3.43% of the total number of enterprises.

Analysing the type of realised innovations, product innovation has the largest share (44.8%) (2004). The share of process innovations is very small (7.3%). This is natural in view of the catching-up position in growth of the country compared to the EU, but the proportion should change in the future progressively in favour of process innovations. Product innovation either results in or comes as a result from process innovation.

The majority of companies in Bulgaria introduce products and processes which are new only at company level (15.7 % of all surveyed companies)¹³ or only for the Bulgarian market (12.1 %), i.e. they focus only on the renovation of their product range or on opening new market niches for products already available on the Bulgarian market. Companies that have international ambitions in the creation of new products are 5.1% of all SMEs in Bulgaria. All three types of innovators are important for the development of the Bulgarian innovation system and for the improvement of the

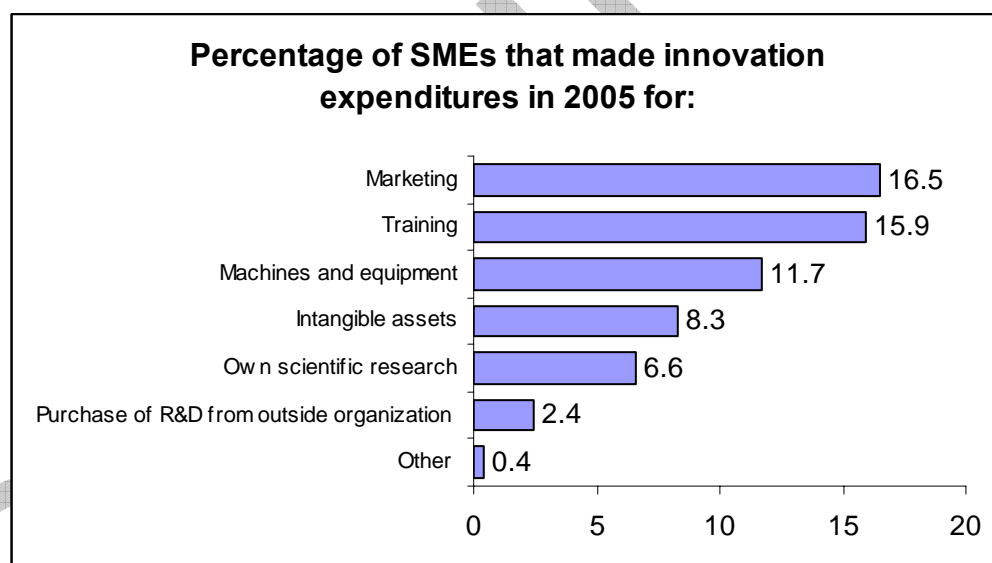
¹³ National survey of the Ministry of Economy and Energy “Bulgarian SMEs and their preparedness to participate in EU Structural Funds’ absorption” – June-July 2006.

innovative capacity of the Bulgarian economy. But, while the first two categories need a mainly favourable market environment and opportunities for technological renovation (access to technical, financial and human capital), the last one needs support for a research and development infrastructure and well-functioning technology transfer structures both in the country and with international connections.

Almost 75% of the surveyed SMEs¹⁴ have not made any expenditure for innovation activity, and only 18% have disclosed such expenditures. The greatest obstacle to investing in innovation is the lack of suitable funding sources and the high expenditures for the implementation of innovative projects. Investments in the development of new products, technologies and their implementation is a venture activity and the lack of financial instruments like guarantee funds and risk capital funds for starting innovative activities exerts a strong negative influence on the development policy of a given enterprise.

On average, companies that invest, spend 15 BGN out of each 100 BGN on innovation activity. More than 72 % of the surveyed SMEs have declared annual turnover of less than 3 million BGN. Thus the average annual expenditures on innovation activity may be roughly estimated at less than 450,000 BGN.

Type of innovation expenditures of SMEs in 2005



Source: National Survey of MoEE – June – July 2006

This distribution of innovation expenditures is a sign of the very early stage of development of a national innovation system, when implementation of ready-made foreign innovations and access to foreign innovation markets are far more important for the innovativeness of enterprises than the development of in-company and internal national capacity for the creation of innovations.

4.1.4 Patents and international trade mark registration

¹⁴ National survey of the Ministry of Economy and Energy “Bulgarian SMEs and their preparedness to participate in EU Structural Funds’ absorption” – June-July 2006

Less than 4% – 7 % of SMEs have purchased patents, licenses or trade marks and technologies on the national market during the last three years, and the percentage of companies that have purchased technologies on foreign markets is even smaller. The share of SMEs, which, during the same period, have sold technologies on the national and/or international technology markets, is almost insignificant. The most significant factors that need to be addressed to enhance the participation of SMEs on the local and foreign technology markets are: lack of awareness, know-how and financial instruments and resources on technologies; insufficient encouragement to use intellectual property protection instruments; lack of demand on the part of enterprises and inadequate supply of commercial intellectual products on the part of the Bulgarian R&D sector.

The patent system provides opportunities for the use, licensing and transfer of created technological products leading to reimbursement of the funds spent for R&D activities, thereby protecting the acquired competitive advantages. However, patent activity in Bulgaria is very weak. Over the last 4-5 years, patent applications for the territory of Bulgaria of Bulgarian national persons, scientific organizations and companies decreased from 420 (in 2002) to 345 (in 2005). The problem is not only that the number of patent applications is insignificant and decreasing, but that patents are sought for minor perfections of already existing products and not for really innovative decisions. This situation is the result of the outdated technology base of laboratories and scientific units, insufficient information on the state of technology in the EU, USA and Japan, as well as of the lack of adequate financing for R&D activities and innovation.

The European Patent Office, in 2002, received 36 patent applications from Bulgarian inventors for European patents. This number is not very big, but, when calculated per capita, Bulgaria surpasses many EU states in terms of patent activity at the European level. This points to the fact, that despite difficult conditions, innovations are made in Bulgaria that may have applications in other EU countries. The number of such inventions is expected to increase with the more active participation of Bulgarian organizations in the EU Framework Programs and as result of projects partly financed from the state budget through the National Innovation Fund and the National Science Fund. If an intellectual property culture is actively encouraged within Bulgarian enterprises and scientific organizations, Bulgaria might reach the EU average patent activity in terms of quantity and quality in 5 to 10 years.

The appearance of new trade marks can be regarded as a criterium for the development of new products. From this point of view, the presence of a reliable and an internationally recognized system for trade mark registration is of essential importance. The existing system for trade mark registration in the EU is not very popular among the potential applicants from countries from Central and Eastern Europe who are looking for protection of their marks in the framework of the EU. They still prefer the Madrid Agreement and the Protocol to it.

With the country's accession to the EU and the single market, a stronger interest is expected on the part of Bulgarian producers to trademark registration, mostly because of the increased production of products which will meet EU requirements. An increase in the number of applications for trademark registration from EU and non-EU countries in the territory of Bulgaria is expected as well.

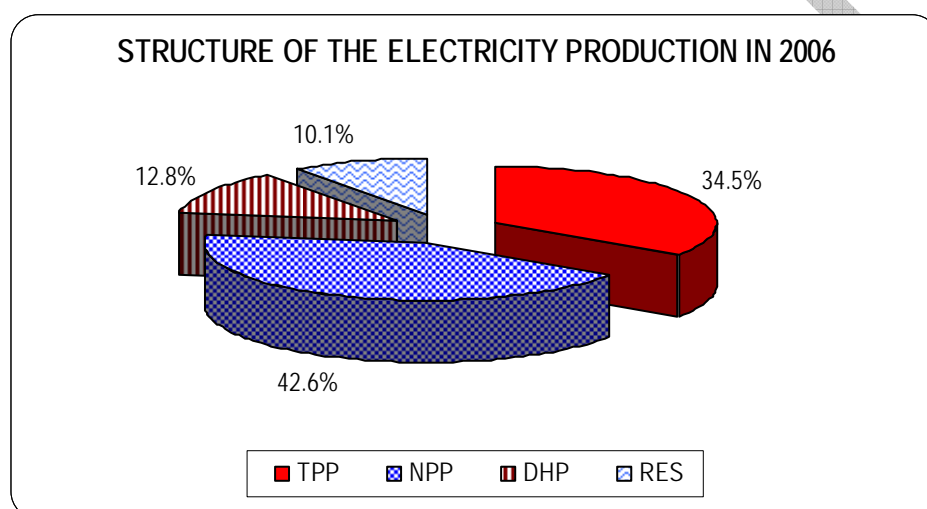
4.2 Energy efficiency and utilisation of renewable energy sources

The major priorities of Bulgarian energy policy coincide with those of the EU energy policy – development of competitive energy markets following the principles of environmental protection and guaranteeing the security of energy supplies. Bulgaria imports 70% of the necessary initial energy resources. In order to limit its dependency on imported energy resources, Bulgaria focuses its efforts in three directions:

1. Reduction of relative energy consumption per unit of GDP
2. Optimal utilization of local and renewable energy sources.
3. Diversification of energy supplies.

4.2.1 Energy Efficiency

Bulgaria imports more than 70% of its required primary energy resources, on which some 20% of GDP is spent. In 2006 the total electrical energy production in the country was 45 807GWh., out of which 19 493 GWh from nuclear power plants, 15 819 GWh thermo-electric ones, 2 139 GWh or heating-electric ones, 3 736 GWh or thermo-electric ones located within production plants и 4 620 GWh or hydro-electric power plants. 8 882 GWh of that energy was exported in 2006.



Source: MEE

Over 53% of the primary energy resources extracted or imported to Bulgaria are lost during the process of transformation into electric and thermal energy. Upgrade of energy transmission grids and outdated energy production capacities fall within the scope of the National Strategy for integrated development of the infrastructure of the Republic of Bulgaria until 2015. These investment projects are to be financed through state and state-guaranteed loans, commercial loans, own resources and grants (KIDS) on a total value of around 3 billion Euro.

The major electricity-production projects are – construction of new thermo-electric power plant using local lignite coal (Maritza East 1), construction of hydro-electric power plant (Tzankov kamak), construction of nuclear power plant (Belene). Rehabilitation and modernization of Kozloduy NPP, Maritza East 2, Maritza East 3 and Varna thermo-electric power plants (TEPP) is also under way due to the fact, that nearly 50% of existing TEPPs have been in exploitation for more than 30 years, as well as in order to prolong their life, to increase their output and efficiency, and to fulfill the requirements of environmental legislation

The National Electric Company (NEC) has been executing two major projects (Energy 1, Energy 2) for rehabilitation of the national power grid. Energy 1 Project started in 1992, has been financed by EBRD, EIB and PHARE Programme, and amounted to 100 mln. ECU. Energy 2 Project started in 2002, has been financed by EBRD, EIB and PHARE Programme, and totaled 153 mln. EUR. NEC has invested 52 mln. EUR of own resources in Energy 2. This project has important impact on the restructuring of the energy sector, connection of Bulgaria to the UCPTE and reduction of losses from energy transmission. The project is expected to end by January 2008. NEC is about to begin a project for further development of the power grid and construction of new substations. 37.5 mln. EUR funding for this project has already been guaranteed – 30 mln. EUR from Scandinavian Investment Bank, and 7.5 mln. EUR from Post Bank. Almost all of the loans have been state guaranteed.

For the period 2001-2003 the energy losses in the electricity distributing companies, which deliver energy to final consumers, have remained over 20% - 21.99% in 2001, 22.23% in 2002, 21.37% in 2003. This is mostly due to technical losses (thermo-losses and radiation) and illegal connection and energy use by final consumers. When these companies were privatized in 2004, privatization agreements included investments plans with specific amounts and target values regarding reduction of technical and commercial losses. The privatization agreement have not been opened to the public, so the exact amounts of investments pledged and the target values regarding losses can be controlled only by the Agency for Post Privatization Control. The electricity distributing companies have meanwhile invested in reduction of losses. However, in Plovdiv and Stara Zagora, losses are still around the 19-20% figure, because of illegal connection and consumption. The electricity distributing companies will need to make additional efforts in this regard.

Bulgaria is among the countries with lowest ratios between fuels and energy provided to final consumers and the energy resources used for the purpose. This specificity makes hard the comparison of the energy intensity of Bulgarian economy with the energy intensity of the other EU countries.

Macro indicators for Energy efficiency of the Bulgarian economy, 2004

Indicators	Dimensions	Bulgaria	EC25i	Difference, %
Primary energy intensity (PEI) PEI=PEC/GDP	koe/€2000p	0.346	0.179	93
Final energy intensity (FEI) FEI = FEC/GDP	koe/€2000p	0.167	0.117	43
Ratio	-	0.483	0.654	

Source: ENERDATA-France (www.odyssee-indicators.org)

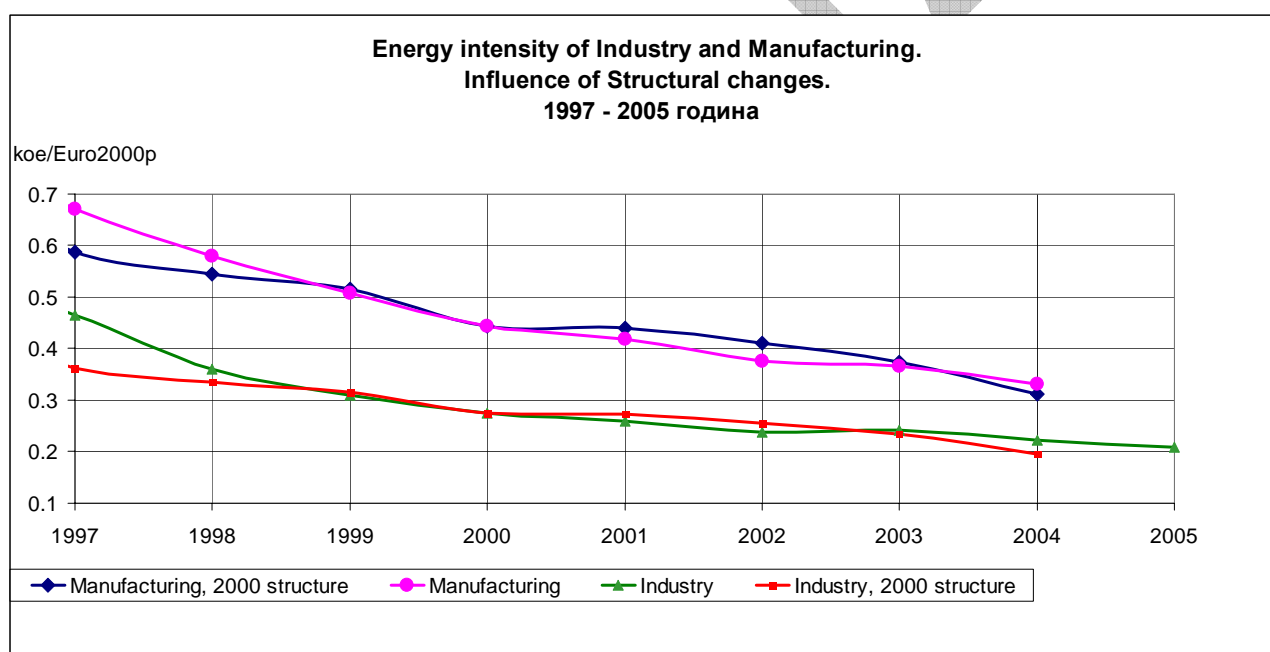
Note: The values are adjusted to the purchasing power of the national currency

At the level of Final Energy Intensity Bulgarian economy is not the most energy-intensive one in the EU. Latvia 0.172 koe/€2000p; Czech Republic – 0.183 koe/€2000p; Luxemburg-0.202 koe/€2000p and Finland-0.225 koe/€2000p are more energy intensive in terms of FEI. However, in terms of primary energy intensity, Bulgaria is the most inefficient member – spending two times

more primary energy resources for the production of unit of GDP. Estonia is nearly in the same position with PEI of 0.324 koe/€2000p. Regardless of the relatively high energy intensity of Bulgarian economy and the considerable potential for implementation of economically feasible measures for energy efficiency, after a period of stabilization, both the FEI (after 2002) and PEI (after 2004) have been growing.

This trend in the energy intensity of Bulgarian economy has been largely determined by the high energy intensity of industry. In 2005 contributing to only 27.6% of GDP, it contributed to 37.2% of the final energy intensity. The largest energy consumers within the industrial sector (according to 2002 NSI data) are as follows: chemical industry – 28%, ferrous metallurgy – 24%, production of goods from non-metallic mineral raw materials – 17.3% and food and beverages industry – 8.2%. Most branches of the industrial sector rely on obsolete, energy-intensive technologies and equipment. Industrial buildings are old, not energy efficient and not always suited to the production currently taking place in them.

Energy Intensity of Industry and Manufacturing



Source: Reports on project EIE/05/005/SI.420008/ “Assessment and monitoring on energy efficiency in new members of EU and EU 25”

The high energy intensity of industry is due to the high energy intensity of manufacturing. Over the period 1997-2004 manufacturing has improved its energy efficiency by about 50% (from 0,6 Koe/ € 2000p to 0,3 Koe/ € 2000p) and is the major contributor to the reduction of the energy intensity of the GDP. However, continued investments are necessary in view of reaching the average EU levels and maintaining sustainable growth.

Problems at company level are still daunting. The SMEs group (99.7% of all enterprises) has a significant share in end-use energy consumption. Replacement of obsolete, energy-intensive technologies and equipment with modern ones within a relatively short time limit is not an affordable solution for most SMEs. Some company managers believe that investment in energy-efficient equipment and technologies is mainly related to large expenses and state-of-the-art

technological solutions. The importance of good energy management practices is underestimated. There is a shortage of experts in the design, funding and management of projects promoting the efficient use of energy and technologies involving the use of renewable resources. Business associations have no strategies for management of energy consumption at sectoral level. Banks have no adequate approach to the funding of projects promoting the efficient use of energy and technologies involving the use of renewable resources, as they are evaluated as high-risk projects.

For enterprises which have an annual energy consumption equal to or more than 3000 MWh, an energy audit, certification and energy management are obligatory for producers of goods and services. These mandatory audits must be held every three years, and corrective measures must be undertaken in response to the results of the audit. Currently, enterprises are not completely prepared to participate in the forthcoming regional and common energy market of EU and trading with quotas for the emission of greenhouse gases. SMEs development should include measures and incentives aimed at the more efficient use of energy, the encouragement of energy saving and the promotion of the use of renewable energy resources. Implementation of such measures is vital to the process of reducing the cost of production and enhancing SME competitiveness.

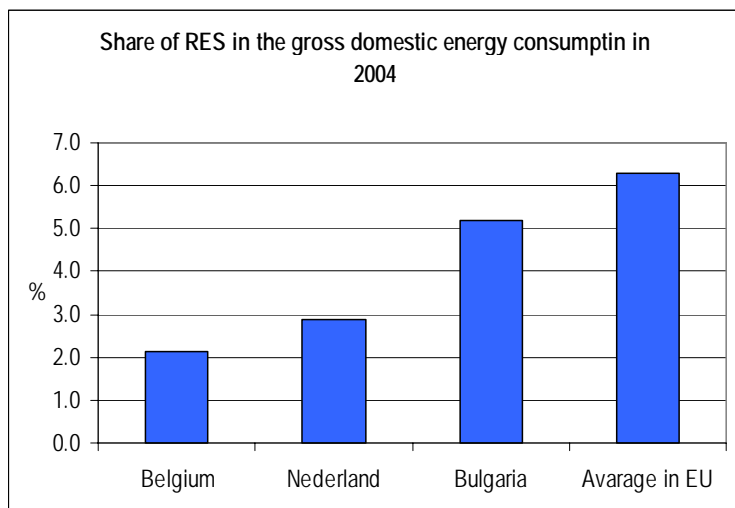
Services with largest contribution to GDP are tourism, trade and communications. At the same time, the hotels and restaurants, together with public buildings are among the largest energy consumers. Over the last years, the energy intensity of the service sector does not change considerably and remains close to the EU-25 average value.

Over the last years there is a tendency of increasing energy consumption in the transport sector and in households. This is a problem, since they do not create value added and further worsen the energy intensity indicator. However, Bulgarian households still consume twice less energy than the average European family. OP “Regional development” will provide resources for decreasing fuel consumption in public transport, energy efficiency in public buildings (hospitals, schools, social centres for disabled, etc.), as well as rehabilitation (including energy efficiency) in apartment houses. The same Operational program will further encourage gasification of households, as well as of enterprises.

It can be concluded, that the tendency of increased energy consumption in Bulgarian economy will continue mainly due to the large GDP growth and the outdated technologies in the energy intensive sub-sectors of manufacturing, which is a symptom of insufficient investments. The energy-intensive character of production hampers the acceleration of economic growth and worsens the competitiveness of exported products. Thus, special encouragement of energy efficiency measures in processing industry is needed.

4.2.2 Renewable energy sources

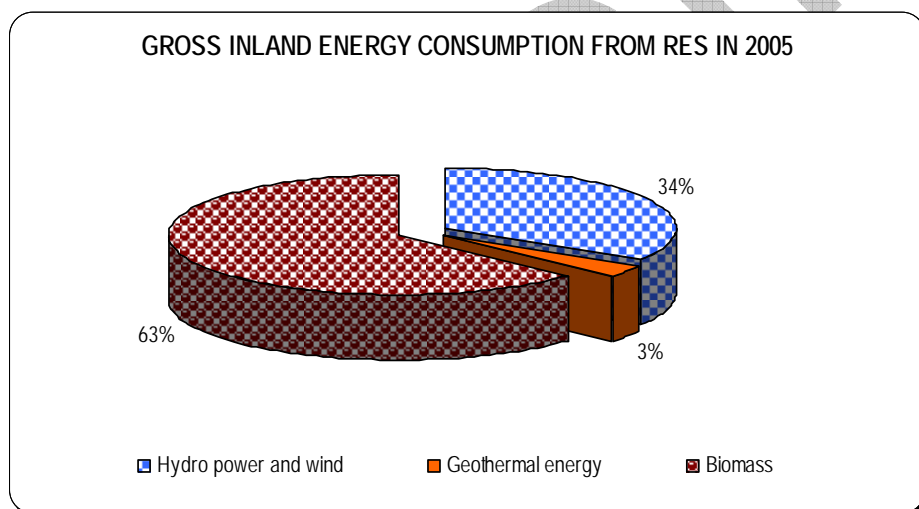
Bulgaria still lags in terms of production of energy from RES from the average EU-25 level, but fares pretty well when compared to many of the member states, even to some of the old member states like Belgium and Netherlands. Utilization of RES depends very much on the availability of such sources in each particular country. Thus, the comparisons with Belgium and Netherlands, which have RES generally similar to Bulgarian ones is in favour of our country.



Source: Data for Bulgaria: Total energy balance – NSI

Data for EU-25, Belgium and Nederland - Energy&Transport in figures, EC

Over the period 1997-2005 the share of renewable energy sources in the gross consumption of fuels and energy has increased from 2.2% to 5.6%, as the main sources are biomass (mostly wood), hydro and wind energy. This increase is due to 200% increase of the use of biomass over the period, and 71% increase in hydro-energy.



Source: NSI

Biomass is primarily (87%) used by households for heating. The other biomass is used in enterprises for production of chemical substances, products and fibres, in agriculture and in wood-processing sector. Still, the complex use of biomass for production of electrical energy and heat is not common despite proven efficiency and positive effect on environment. The hydro-electric power plants with installed capacity over 10 MW have produced over 91% of the hydro-energy. 2003 was the first year in which wind energy was used for production of electricity in Bulgaria. In 2006 28 new wind generators have been erected and connected to the national power grid, the produced wind energy increased more than three times and totalled 20 GWh. Potential exists for the construction of wind farms along the sea shore and in the mountains above 1000 meters. With the

development of wind generator technology, other mountainous zones with smaller wind velocity could become attractive.

Geothermal energy potential is not sufficient for electricity production, but could be used for heating. Solar energy can be used for electricity production in an efficient way only in South Western and South Eastern regions of the country, where the available resource is 4.25kWh/m²/daily or 1550kWh/m²/ annually. Even in these regions, production of electricity to satisfy the own needs of enterprises looks more promising, since the potential is not enough to warrant connection to the national power grid - conventional electricity is much cheaper. Bulgaria has a good potential for the production of bio-ethanol and bio-diesel from agricultural products.

National Long-term Program for Encouragement of the Use of RES 2005-2015 has been developed. It includes 920 concrete investment projects, with the following characteristics:

- total investments - 1 811 700 MEURO
- total electric power resulting from all projects - 420,09 MW
- total heating power resulting from all projects - 1 487.87 MW
- Saved electrical energy from implementation of these projects - 1 602 128 MWhe/year
- Saved heating energy - 6 973 467 MWht/year
- Saved CO₂ emissions - 4 373 Kt / year

On the basis of directives 2003/30/EC on bio-fuels and 2001/77/EC on energy from RES, in the Annex to the Treaty of Accession of the Republic of Bulgaria to the EU is included indicative target in 2010 the share of energy from RES to be 10% of the gross internal consumption of electrical energy in the country. Bulgaria supported the decisions of the March 2007 EU Summit:

- 20% share of RES in the Community energy consumption by 2020, and
- 10% mandatory target for each member-state for the share of bio-fuels under certain conditions by 2020.

The use of RES is still limited, but is increasing due to the preferential treatment stipulated in the Act for encouragement of the use of renewable energy resources, alternative energy resources and bio-fuels. The Act sets higher target – 12% and offers additional stimuli for its attainment:

- Preferential prices for electrical energy produced by RES, with the exception of hydro-electric power plants with installed capacity over 10MW – Art. 9, 16;
- Mandatory purchase of electrical energy from RES, with the exception of hydro-electric power plants with installed capacity over 10MW – Art. 16;
- Long-term contracts for purchase of electrical energy from RES (If a power plant using RES is constructed and starts producing energy by December 31, 2010, the energy produced will be purchased for a period of 12 years, i.e. by 2020.) – Art. 9;
- Mandatory and priority connection of every RES and AER producer to the national power grid – Art. 9;

- Freedom from excise duties on bio-fuels in line with the Act on Excise Duties and Tax Warehouses.

However, the legal framework favours the production of energy from RES, and does not specifically encourage medium and large enterprises to use renewable or alternative energy sources, as well as co-generation to satisfy their own energy needs. On top of providing greater independence from the national power grid, utilization of such energy sources by enterprises can have very important side effects like effects on the environment and/or effects on the local community (citizen health, development of tourism, etc.). Thus, utilization of RES and AES by enterprises could also be encouraged as a channel for their modernization, increasing their efficiency and making them more environmentally friendly.

4.3 Participation in networks and clusters

One of the major initiatives in the context of the Lisbon Agenda is to make Europe much more active and attractive in the field of research, new technologies and innovation. The revived Lisbon Strategy recognises that “Knowledge and innovation are the beating heart of European growth”.

Today, the performance of economies depends on their ability to produce, acquire, protect, translate, accumulate, combine and apply knowledge. Creating and applying knowledge depend on networking, multidisciplinary approaches and interaction between science and economy. Borrowed as a term from science, nowadays clustering is used to portrait such concentration of companies, which have developed and grown around RTD centres, suppliers and venture capitalists. Driven by innovation, clusters present a dynamic environment where networking, investment and technology transfer all happen. Such environment creates local jobs and drives the economic growth of a region and a country, this is why clusters and networking are increasingly considered as strategic resources.

Only 20% of enterprises entrust separate stages of their production to other enterprises. This is partly due to insufficient quality certification – suppliers cannot guarantee uniform high quality over long periods of time, and partly to the small scale of production of most companies. Outsourcing is a major route leading to the creation specialised companies which ensures better quality and reduced expenses for the outsourcing company. Participation in business networks can improve the links and cooperation among enterprises and create possibilities for cluster development.

However, the situation in Bulgaria is not that different from the situation in other EU countries. On average, every fourth company (employing at least 20 persons) in the European Union-25 works in a cluster-like environment. However, the proportion of companies working in a cluster-like environment is only 9% in the NMS zone, compared to the 28% measured in the EU-15 countries.

In recent years, groupings of enterprises have been established in some of the most dynamic sectors of the economy (wood processing, IT, tourism, apparel& textiles, wine. Cooperation within these groupings develops and transforms them into clusters.

Parallel to this process is the development of business networks and clusters around large enterprises – especially in the regions of Devnya, Sevlievo, Razlog, Pirdop and Panagyurishte. These large enterprises attracted large amounts of foreign direct investments, they sell their

production on the European and international market, introduce modern business models and know-how in the regions in which they operate and require a local goods and services supply support network .

According to Innobarometer 2006, innovative companies in clusters are much more likely to conduct market research than innovative companies generally (in 2004 - 53% vs. 33%). More importantly, the innovative companies in clusters are more than twice as likely to outsource research to other firms, universities, or public laboratories than are the non-cluster European innovative firms. This finding is also true as a general rule for Bulgarian clusters and innovative enterprises.

With foreign support in 2001 and 2002 a series of studies on the potential for development of business networks and clusters were conducted in Bulgaria. These studies showed potential for the successful development of clusters in a number of sectors of the economy. The state recognized clusters as an instrument of potentially quick economic development and started stimulating them. A National policy for cluster development was formulated and financial and methodological support for existing and potential clusters materialized.

Two cluster projects have been financed under PHARE Programme. The first one, BG2003/004-937.02.03 „Introduction of cluster approach and establishment of cluster model”, ended successfully in 2006 with the development of a National Cluster Development Strategy, an Action Plan for implementation of the strategy and consultancy and investment support to two pilot clusters selected from amongst 40 existing or emerging clusters classified as worthy of state aid. The set up of a special body which will function as the national coordinator of the processes of creating and developing cluster structures in Bulgaria was also foreseen as a result of the Strategy. Under the second PHARE project from 2007 to 2009 between 8 and 14 clusters will be supported. The project will also be open to clusters formed around large enterprises..

The 40 identified clusters in different stages of their life-cycles will need continued consultancy and investment support. Otherwise, there is a possibility that most of them will never reach the level of development, efficiency and innovation of EU-15 clusters due to financial difficulties and a lack of experience to manage cluster activities.

In Bulgaria 12 cluster structures have formalized their coordination structures in various sectors of the economy (table below) by the end of 2006. Four of the clusters are in the high-tech fields (information and communication technologies, energy, optical technology, machine-building), while the rest are in traditional industries. All clusters have indicated that innovation, technology and know-how transfer are among their main tasks.

№	Name	Branch	Center	Registered
1.	“Bulgarian silk”	Textile	Ruse	2004
2.	“Information and communication technologies”	ICT	Sofia	2004
3.	“Tourism Rhodopes – BG”	Tourism	Smolyan	2004
4.	“Port Varna – West”	Chemicals and extraction	Devnya	2004
5.	“Srednogorie copper”	Extraction and processing	Pirdop	2005

6.	“Furniture produced in Troyan”	Furniture	Troyan	2005
7.	“The Energy Heart in Bulgaria”	Energy production	Radnevo	2005
8.	“Tourism – Varna”	Tourism	Varna	2005
9.	“Lasers and optics”	Optical technology	Plovdiv	2005
10.	“Clothes production”	Textiles	Haskovo	2005
11.	“Agricultural technology”	Machine-building	Ruse	2006
12.	“Traditional Bulgarian products”	Food industry	Stara Zagora	2006

Source: Annual report on the Bulgarian National Innovation Policy 2006

Policy objectives for 2007 - 2013

It is recognised that cluster policy can have an impact in 3 distinct areas: cluster formation, protecting or enhancing cluster development and encouraging embryonic clusters.

All clustering initiatives in the country can be regarded as clusters in their embryonic stage. Thus, priority should be given to speeding up the clusters development processes. Support measures will have to focus on:

- the establishing of new and strengthening the existing clusters to help firms specialise and innovate;
- the cooperation among cluster members and between the clusters and other stakeholders (national/regional/local authorities, universities, intermediaries, etc.) to strengthen the governance of the clusters;
- the “maintenance” of the human capital.

4.4 Business environment

The business environment can most broadly be defined as consisting of all the outside institutions and forces that have an actual or potential impact on the enterprise's ability to achieve its objectives: competitive, economic, technological, political, legal, etc. A favourable business environment is a prerequisite for the expansion of entrepreneurs' activity and thus for economic growth. The Operational Programme can influence partly only competitive environment.

During recent years, the business environment in Bulgaria has considerably improved. Confidence in the implemented policies and in the work of the administration and the legislation increased (the political and legal environment). The trend to reduce the overall tax and social security burden of business continues and the measures to improve the effective functioning of the economic market continue (the economic and competitive environment). Cooperation and partnership between state administration and business are being strengthened.

Parallel to external business improvements, methods for stimulating the companies to implement internal changes are necessary. These methods are orientated towards marketing systems and quality management for increasing the flexibility in sales, achieving conformity to quality, new forms of control and organization, etc.

4.4.1 Consultancy and Information services available to SMEs

The access of SMEs to relevant high-quality business information and professional advice is a key factor of the business environment (competitiveness), due to the generally recognized low level of management knowledge and skills in enterprises.

Bulgaria lags considerably behind EU member states in terms of development of business services for enterprises, stemming from the limited access to, poor dissemination of and poor delivery quality of this type of services. On the other hand, the attitude of the firms towards consultants in Bulgaria tends to be muted – only one-fifth of companies used consultants during the past year. The most frequently cited reasons are the low quality of the offered services and their high price.

Availability of consultancy services to SMEs in Bulgaria

Consultancy service providers act in a fragmented and uncoordinated manner, which leads to the ineffective use of resources, weak or missing representation in small towns, vague connections between the real needs of enterprises and the services offered. Large international consultancy companies have offices in Sofia, but only large companies can afford their services. Eight centres, six of which are parts of BCCI, have been integrated into the network of the European Information Centres. BIA and BCCI have branches in the regional centres only and provide services mainly to their members. Thus, the capacity of their consultants is not used to its full potential. Private consultancy companies are registered by or employ ex-civil or international NGO servants with specific knowledge. Since the legal base and market environment change very dynamically, the expertise of these consultants is quickly outdated and the quality of their services offered subsides rapidly. The expertise issue leads also to mismatch between services demanded and those supplied.

It is very difficult for an SME to get oriented among the multitude of consultancy companies and the price ranges for a given service. SMEs from small towns have to travel to the regional centres to get consultancy and information services. Potential entrepreneurs or owners of micro-enterprises face more obstacles in getting holistic consultancy support from a single company, or cannot afford to pay the price.

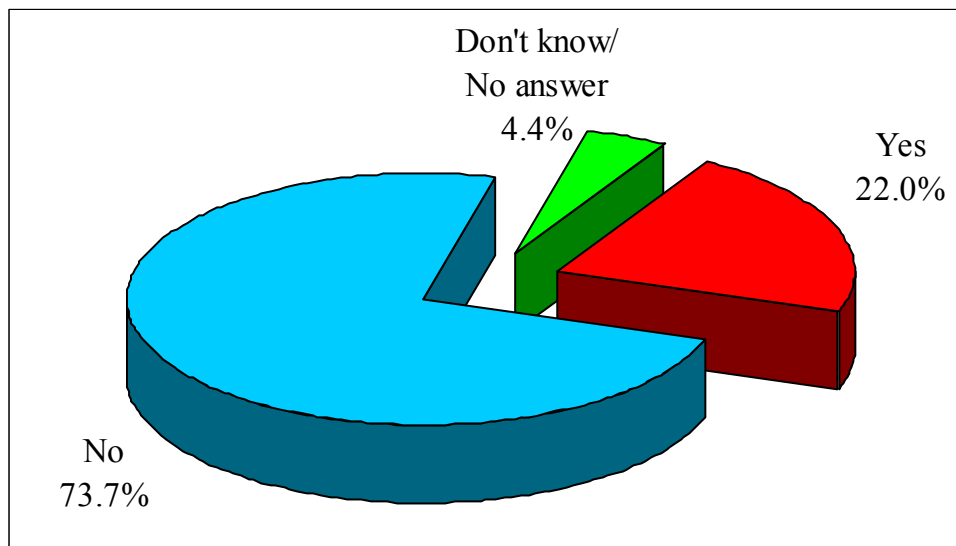
The biggest coordinated publicly-supported initiative in the field of business services is the JOBS (*Job Opportunities through Business Support*) Project supported by the United Nations Development Program (UNDP) and the Ministry of Labour and Social Policy. Since the end of 2000 the network of 42 business centres, including 10 incubators, offers services to start-ups, micro and small business in small towns and villages with high unemployment and developmental potential around the country. However, most of these centres are still not profit making and will have to close down if their activities are no longer subsidized. Additional efforts will be needed to restructure the network to make it more efficient and self-reliant in the long run.

The state funded projects are searching for niches which have not been developed by active NGOs. The objective is for business services to become accessible outside main cities, the number of services offered to become more comprehensive, a more open approach to be implemented towards beneficiaries and the quality of services and products to be enhanced.

The use of consultancy services by business – present status and analysis of the needs of the enterprises for such services

In general, firms prefer accounting/financial and marketing services related to their main and daily activities. 22% of SMEs used consultancy services during the last year of their activity: 49.5% of them were completely satisfied, and 47.3% - somewhat satisfied with the delivered services.

Chart 6. Usage of consultancy services by the firms during the last year



Source; National Survey of MoEE – June – July 2006

The main reason for not using consultancy services is the perceived lack of need for such – 63.2% of companies surveyed consider they need no consultancy support. In total, an almost equal number of answers cite the lack of information on consultancy services and their high price as the main reasons hampering the use – 31.5% and 30.5%, respectively of companies surveyed. The lack of practical value of the offered consultancy services ranks fourth with 19.6%.

Innovation consulting services, such as patenting and the protection intellectual property rights and information about new technologies and possibilities for technology transfer are also very poorly developed in Bulgaria. 7.2% of companies have used intellectual property rights services, and 12.6% technology transfer ones. These services represent yet another market niche that could need state support in order to develop in the future.

Intentions for the use of consultants for the preparation of project proposals under European funds and programmes are low. The expectations of the firms are linked more to the provision of direct support in the preparation and current work on the implementation of projects, and not to the presentation of information materials and organisation of events to explain the conditions for applying.

The lack of information about the consultancy services offered may be explained with the information sources¹⁵ SMEs use. The firms obtain information mainly from business partners, friends and colleagues – 68.9%, i.e. they basically rely on the recommendations of people who might have already used consultancy services. The share of the media, advertisements and PR agencies as an information channel is almost twice lower – 33.8%. The third place as a source of

¹⁵ National survey of the Ministry of Economy and Energy “Bulgarian SMEs and their preparedness to participate in EU Structural Funds’ absorption” – June-July 2006

information about consultancy services is occupied by fairs and exhibitions – 30.6%. Some companies obtained their information from a range of sources.

On the grounds of the survey a ‘two-fold’ conclusion can be made with respect to the consultancy services to SMEs. On one hand, Bulgarian SMEs clearly demonstrate low management culture, limited experience with strategic business planning, as a consequence of which they suffer development problems, as well as face difficulties in applying under grant programmes due mainly to low capacity to produce good project proposals. On the other hand, the interaction of SMEs with consultancy companies, which are the natural provider of expertise and professional support in those fields, is sporadic and underestimated. This situation outlines a scope of needed intervention. Easily accessible and high quality consultancy services should be made available to the SMEs to tackle the problem of low management culture and skills, as this should be combined with targeted efforts to increase SMEs’ awareness of the benefits of those services for the improvement of their business performance. The effect will be maximized if the consultancy services are really made easily accessible (in terms of local availability and reasonable pricing) and their quality is improved (through introducing unified high-level standards of services). The improvement of quality and availability of services will result in greater trust on behalf of SMEs and will allow them to develop their full potential with the support of outside expertise. Most important fields where targeted consultancy expertise is needed, is also outlined by the survey – it is the SMEs start-up and early-stage development support, support for meeting sector-specific requirements and standards, in fields such as environmental, energy-efficiency, etc., as well as export-related support (information provision, match-making, etc.), and last but not least - project preparation and management under various SME funding programmes.

4.4.2 Information and Communication Technologies supporting businesses

Utilization and distribution of information and communication technologies (ICT) leads to faster economic growth. The business use of the Internet provides wider opportunities to optimize the marketing systems of the companies in sales, promotion, logistics, deliveries, accounting, etc. Bulgaria aims to develop an information and communication environment for the promotion of business development.

78.3% of the Bulgarian enterprises are equipped with at least one computer¹⁶. The remaining 21.7% are micro, usually family businesses, which represent a form of self-employment or which operate in underdeveloped regions. Roughly half of the enterprises (50.4 %) are equipped with computers for up to 25% of their workplaces and 8.7% have computerized 26% to 50% of their workplaces. The share of companies with a high level of computerization is still low – 5.5% have more than 76% computerized workplaces and those in which every workplace is equipped with a computer amount to 7.4%. The process of computer penetration into Bulgarian enterprises is evolutionary, driven by administrative necessity rather than by proactive enterprise strategies for enhancing and innovating their business.

¹⁶ National survey of the Ministry of Economy and Energy “Bulgarian SMEs and their preparedness to participate in EU Structural Funds’ absorption” – June-July 2006.

About 73% of Bulgarian enterprises have an Internet connection. This proportion is expected to reach a maximum of 90% in 2007. The share of companies with their own web site is 32.2 %. By the end of 2007 or the beginning of 2008, the 50% mark is expected to be passed by enterprises with more than 10 staff. The situation is similar with regard to companies with web sites allowing for e-commerce: their share amounts to 6.9% of all enterprises. In the first quarter of 2006, a total of 48% of the enterprises with their own website provide the facility for online ordering, but only between 16% and 20% of the online orders could be paid via the Internet. Managers are still conservative and rely on traditional methods of business interaction, including orders and payments. Online payments are still rarely used, because the credit card system is not well developed in Bulgaria.

Bulgarian enterprises, as information consumers, mainly use the Internet for market monitoring and research on markets, offered products, services and prices. Frequently, the enterprises use the Internet in order to take advantage of financial and bank services offered or to interact with the state administration. The reasons for the poor development of e-commerce is the lack of high-speed Internet in the countryside (small towns and village municipalities) and the low level of Internet use in households – the share of Bulgarians using the Internet is under one fifth of the total population of the country, a usage lower than any of the EU25 countries.

The global conclusion is that, despite the positive trend in information and communication technologies development, the achieved results are obviously not sufficient and the country lags behind European countries and others in global terms.

4.4.3 Business start

According to the World Bank report – *Doing Business in 2005*, the time for a registration of a new company in Bulgaria is 32 days and there are 11 procedures. The minimum capital for starting a business in Bulgaria is 102.4% of the per capita income of the population. The price for starting a business in Bulgaria is 9.6% of the per capita income of the population while in the EU countries it is much lower (Ireland – 5.3%, France – 1.1%, Belgium – 11.1%, Denmark – 0.0%, Spain – 16.5%, Italy – 15.7%, Germany – 4.7%). Currently, a reform is under way which will considerably reduce the time, efforts and costs for starting a business.

The trade registration reform will be far more effective if it is complemented with consultancy services for entrepreneurs and start-ups and improved access to financing through the creation of guarantee and seed capital funds. Since high-tech start-ups bring greater value added to the economy, special attention should be paid to their incubation, entrepreneurship training in technical and medical universities and technology transfer services.

4.4.4 National Quality Infrastructure

European Union policy for the free movement of goods, people and capital is implemented through the removal of technical barriers to trade. This is attained through harmonization of technical characteristics and production requirements, quality requirements including occupation safety and health conditions, environmental protection and the procedures for evaluation and proving compliance. The basis of all these activities is standardisation. Free movement of goods, a central pillar of the Single Market, is a major driver for competitiveness and economic growth in the EU. Moreover, Community technical legislation ensuring the free circulation of products provides for

high levels of protection to be respected and generally also provides economic operators with the means to demonstrate conformity, thus ensuring free circulation through trust in the products.

Currently, the undertaken commitments for the introduction of EU harmonised legislation are almost completely fulfilled. This means that Bulgarian enterprises operate in a legal environment which is harmonised with the effective EU legislation. The main issues arise in the area of law enforcement. Series of measures have been undertaken to increase the administrative capacity for the enforcement of measures in the field of standardisation, certification, accreditation, metrology, conformity assessment and market surveillance, but more effective actions are necessary.

The development of laboratory networks for the above-mentioned activities in Bulgaria remains a problem. There are no laboratories to perform the tests under some EU directives, the equipment of other laboratories is obsolete and not precise enough to meet EU requirements on measurements. Overall, available laboratories are not sufficient to perform in number and quality the tests required by European legislation. Thus, Bulgarian enterprises are forced to test their products in other EU countries, the price of production rises, and competitiveness is decreased. Based on the practices of the other small EU-member states and due to the lack of financial interest and necessary resources in the private sector, the state will have to continue supporting the development of the national network of testing and calibration laboratories. State financing, modernization and upgrade of the laboratories will support Bulgarian enterprises in implementation of European technical legislation, in maintenance of uniform high quality of production, and in entering international business networks and foreign markets. State role in accreditation will allow international recognition of the test and measurements of laboratories.

Bulgarian producers face unfair competition from non-complying or dangerous products from non-EU producers on the national market. Very different national market surveillance infrastructures, rules and means within the EU also impact the Common market.

With regard to the latter it is required the market surveillance activity to be large-scale, uniform by sector, ensuring the placing on the market of safe and complying to the requirements products, thus preventing the unfair competition between economic operators. The effective market surveillance will also stimulate marketing of products involving innovations and state-of-the-art technological solutions.

Bulgaria is an external border for the EU, where a high efficiency of market surveillance is required. It requires cooperation between the internal authorities and the customs authorities controlling products entering the market from third countries as well as cooperation with the competent authorities of other Member States.

This must be provided by well organized, equipped, adequately trained and efficient market surveillance authorities, which will create an equal playground for businesses and precondition for quality product manufacturing.

4.5 Experience in programmes and projects for SMEs support

Projects of the Ministry of the Economy and Energy (implemented in cooperation with the Ministry of Regional Development and Public Works or with BSMEPA)

In the last few years there have been some active measures for the state support of businesses. Activities regarding enterprises' competitiveness promotion have been concentrated mainly in the improvement of the business development environment through legislative measures and information activities. The Ministry of Economy and Energy takes the first steps for starting and implementing projects which directly support businesses with resources from the state budget.

The “Project 100” – “creation of competitive starting businesses”. “Project 100” is being implemented by the Ministry of Economy and Energy in cooperation and with the assistance of the UNDP through the JOBS network. This project provides opportunities for people with sound and viable business ideas to start their own businesses through self-employment, creation of family businesses or the opening up of small enterprises. In 2004 and 2005 the budget of the project was 2.4 mln. BGN and the results were: 600 trained entrepreneurs and 145 micro- and small enterprises created. The 2006 module is still under implementation, but by October 2006 0.5 mln. BGN had been spent on the training of 200 entrepreneurs and creation of 22 micro- and small enterprises.

The “Supporting the meat producing and meat processing SMEs to introduce the quality self-control system Hazard Analysis and Control of Critical Points (HACCP)” Project was started in October 2004. The project provides assistance to enterprises from the meat processing industry to comply with the requirements of European standards. 68 meat-processing plants were supported with a project budget of 1 mln. BGN.

In April 2005 a second scheme for supporting milk producing and milk processing SMEs to introduce the quality self-control system Hazard Analysis and Control of Critical Points (HACCP) was launched. 79 milk-producing and milk-processing companies were supported with a project budget of 1 mln. BGN.

In November 2005 the third phase of the HACCP project - for bread and pastry producers was launched. These three grant schemes supported the Bulgarian food processing industry to meet EU requirements and standards and to remain operational after EU membership. 158 micro-enterprises were supported.

The main experience of the Ministry of Economy and Energy in supporting enterprises is in delivering financial support to SMEs under the PHARE pre-accession programme. The Ministry is responsible for the allocation and absorption of funding in the sector Economic and Social Cohesion, sub-sector Competitiveness. Under these priorities, the Phare Programme supports SMEs development, the creation of legal frameworks, development of business supporting services at national and local level and creation of a favourable environment for improving the competitiveness of the enterprises. Between 2000 and 2004, 15 projects in total have been realized under the Financial Memoranda 1999, 2000, 2001, 2002, 2003 and 2004, in sector ESC, sub-sector Competitiveness. The total amount of the projects was 41 921 570 euro.

Between 1999 and 2005, there were five projects aimed at strengthening the administrative capacity at central level. The projects were aimed at improving the structure of the Agency for SMEs and the development of the regional agencies' network BARDA (BG9908.02 “Capacity building for accelerated growth of small and medium size enterprises sector in Bulgaria”), strengthening the capacity of the Ministry of Economy and Energy (two twinning projects BG 0002.01: “Strengthening the capacity of the Ministry of Economy and Energy” and BG/03/IB/FI/03

“Strengthening the capacity of the Ministry of Economy and Energy to manage the Operational Programme “Development of the competitiveness of the Bulgarian economy” under the EU Structural funds”). Secondary agencies of the Ministry of Economy and Energy have been also supported in improving their capacity (BG 0201.01: “Strengthening of the Bulgarian Trade Promotion Agency”, BG2003-004-937.02.02 “Institution building of the Executive Agency for National Tourism Promotion and Information”).

To fulfil EC requirements for improving the business environment, the Ministry of Economy and Energy continues to work to decrease the administrative barriers for entrepreneurs, to improve the relations with business associations and to facilitate access to finance and other forms of support. Additionally, many Phare projects are connected with encouraging research activities, technological transfer and investment in modern equipment with which to improve productivity and the quality of products.

Projects encouraging entrepreneurship through stimulating different forms of cooperation continue. In 2003, the pilot scheme for the development of clusters BG2003-004-937.02.03 “Introduction of cluster approach and establishment of a pilot cluster model” started. Under this project, two clusters were selected and received consultations and investment support. The National Cluster Development Strategy and the Action Plan for implementation of the strategy were developed within the framework of the project. The second phase of the project PHARE project BG 2005/017-586.04.02 “Cluster Development Initiatives – Phase II” started at the end of 2006.

Pilot grant schemes for investment in tourism commenced in 2001 and 2002 (BG 0102.03: “Development of Bulgarian cultural tourism”, BG 0202.02: “Development of Bulgarian eco-tourism” and BG 0102.04: “Road access to tourist sites”). The schemes, financed under Phare and the national budget, were implemented under two FMs and amounted to almost 11 MEUR. The grant schemes were focused on the development of tourist activities by municipalities and NGOs, by supporting the diversification of tourist products and the prolonging of the tourist season. BG 0102.04: “Road access to tourist sites” was entirely implemented by MRDPW. Under BG 0102.03: “Development of Bulgarian cultural tourism” 9 municipalities, 3 district administrations, 6 NGOs and one museum were supported, and the total budget was 7 mln. Euro. The project aimed to make cultural tourism attractive, popular and accessible to the public, to accentuate the vast preserved potential of the cultural and historical heritage (material and non-material) and of the modern cultural landmarks in Bulgaria. Project BG 0202.02: “Development of Bulgarian eco-tourism” contributed to the preservation of natural resources and to the improvement of the associated public infrastructure in 26 municipalities. The total budget for the project was 5.3 mln. Euro.

Grant schemes for the modernization and support of innovation in SMEs started in 2001 with pilot schemes for R&D support services (BG 0102.01: “SMEs services and technology grant scheme” and BG 0102.02: “Hi-technology business incubators”). Project BG 0102.01: “SMEs services and technology grant scheme” was aimed at raising the ability of Bulgarian SMEs to cope with the competitive pressure of the EU market. The main project activities included provision of consultancy services for SMEs and implementation of a technology grant scheme for obtaining equipment. 70 enterprises received new equipment. Consultancy services were delivered to 278 SMEs in 6 areas (Technological transfer & innovation – 69 SMEs, Business management & development – 125 SMEs, Financial management – 33 SMEs, Marketing, sales & advertising – 150

SMEs, Human Resources – 42 SMEs, Operational improvement – 24 SMEs). The total project budget, including private co-financing, was 9.1 mln. Euro.

Two of the components of BG 0102.02: “Hi-technology business incubators” were successful. Technical Assistance prepared the launch of the grant scheme. Component BG 0102.02.05 “Research & Development grant scheme” was aimed at strengthening technology-based SMEs as well as developing innovative SMEs. The project provided grant assistance for research and development activities of 37 enterprises. The proposals financed under the grant scheme were mainly in the areas of information and communication technologies, electrical and mechanical engineering and the pharmaceutical, food and chemical industries. This component budget, including private co-financing, was 7 mln. Euro. The infrastructure component failed due to problems with the ownership of premises to be used as incubators. The high-tech incubators in Gabrovo and Varna, applicants under this project, were later financed by MRDPW with national budget resources.

The SMEs support projects have had a positive impact on parts of the enterprises as they address key aspects of SMEs’ development, such as technologies, quality and consultancy services, but they have not significantly contributed to the development of the economy as a whole, because of the limited size of the assistance and because of the lack of multiplication effects in the country.

Large scale investment support to SMEs funded under Phare started with the implementation of BG2004/016-711.11.04: “Support for increasing the competitiveness of Bulgarian enterprises”. The project purpose is to increase the competitiveness of Bulgarian productive sector enterprises and prepare them to cope with the competitive pressure within the EU through targeted support in accession-related aspects of their development, as well as improving the regional and local business environment through promoting the development of public-private partnerships. In 2006 contracts were signed for consultancy support of nearly 700 SMEs, investment support of 195 SME, and support of 47 public-private partnerships. The total annual project budget of 11.7 mln. Euro was 99% contracted. SMEs showed great interest in the grant schemes, especially in the first phase of the investment grant scheme for which more than 1400 project proposals were received in 2006. The second and third phases of the investment grant scheme will be implemented in 2007 and 2008 respectively.

The PHARE project BG 2005/017-353.10.06 “Support to the Implementation of the Bulgarian National Innovation Strategy” is another project to support the pro-innovative infrastructure. The project is currently under implementation. Component 1: Establishment of Technology Transfer Offices (TTOs) in Bulgarian Public Research Organisations (PROs) includes technical assistance and a grant scheme. The technical assistance is already successfully completed, and the call for proposals on the grant scheme will remain open until March 9, 2007. The TTOs will allow local service delivery and better response to the demands of the Bulgarian business and innovation community for new technologies and will serve as a basis for the future technology transfer network.

In December 2006 the Ministry of Economy and Energy opened a call for proposals on a Grant scheme for energy audits with the purpose of encouraging the introduction of energy-saving technologies in SMEs. The budget of the grant scheme is 1 mln. BGN funded from the ministry’s annual budget.

Projects of the Ministry of Agriculture and Forestry

The Ministry of Agriculture and Forestry coordinated the implementation of the SAPARD programme for the period 2000-2006. Under the measure “Improvement of processing and marketing of agricultural and fish products”, 357 projects were approved by the end of January 2007, and 211.4 mln. BGN (54.79% of the measure budget) has been paid out. Under the measure “Development and diversification of economic activities and creation of opportunities for multifaceted activities and alternative incomes” 687 projects have been approved by 29.01.2007, and 34.4 mln. BGN (23.3% of the measure budget) has been paid by the end of January 2007. Most of the supported projects under these two measures are in SMEs, but there are also projects in farms, agricultural cooperation, etc.

The Ministry of Agriculture and Forestry through the State Fund “Agriculture” provides investment credits for the purchase of equipment and technological modernization in the milling sector, bakery and pastry production through refinancing of commercial banks loans as part of the “Agricultural equipment program”. However, credit recipients have to be registered as agricultural producers for the whole period of the credit.

Projects under national financing, PHARE or SAPARD	OP “Development of the competitiveness of the Bulgarian economy”
“Project 100” – Creation of competitive starting businesses	1.1. Support for the creation and commercialization of innovations in enterprises and protection of industrial property rights. 2.2. Creation of business support infrastructure
Network BARDA (BG9908.02 “Capacity building for accelerated growth of small and medium size enterprises sector in Bulgaria”)	2.2. Creation of business support infrastructure
BG2003-004-937.02.03 Introduction of cluster approach and establishment of a pilot cluster model	2.3. Promotion of business networking and clustering
BG 2005/017-586.04.02 Cluster Development Initiatives – Phase II	2.3. Promotion of business networking and clustering
BG 0102.01: SMEs services and technology grant scheme	1.1. Support for the creation and commercialization of innovations in enterprises and protection of industrial property rights. 2.1. Improvement of technologies and management in enterprises
BG 0102.02: Hi-technology business incubators	1.1. Support for the creation and commercialization of innovations in enterprises and protection of industrial property rights.

BG2004/016-711.11.04: Support for increasing the competitiveness of Bulgarian enterprises	2.1. Improvement of technologies and management in enterprises
BG2005/017-353.10.06 Support to the Implementation of the Bulgarian National Innovation Strategy	1.2. Improvement of the pro-innovative infrastructure
Grant scheme for energy audits with the purpose of encouragement of introduction of energy-saving technologies in SMEs.	2.1. Improvement of technologies and management in enterprises
Third phase of the HACCP project - for bread and pastry producers	2.1. Improvement of technologies and management in enterprises
SAPARD measure “Improvement of processing and marketing of agricultural and fish products”	2.1. Improvement of technologies and management in enterprises (SMEs in sectors outside Annex 1)
SAPARD measure “Development and diversification of economic activities and creation of opportunities for multifaceted activities and alternative incomes”	1.1. Support for the creation and commercialization of innovations in enterprises and protection of industrial property rights. 2.1. Improvement of technologies and management in enterprises (SMEs in sectors outside Annex 1)

III. SWOT ANALYSIS

STRENGTHS	WEAKNESSES
<p><u>Macroeconomy</u></p> <ul style="list-style-type: none"> • Macroeconomic stability and sustainable growth; Analysis- 1.1. - page 9 ; • Accession to the Common EU Market; Analysis1.1., page 10 ; • Access of business to Structural Funds; <p><u>Industry and services</u></p> <ul style="list-style-type: none"> • Increasing contribution of SMEs in GDP Analysis - 3, page 30 ; • Good production traditions in certain sectors of the economy;_Analysis 3, page 28; 	<p><u>Macroeconomy</u></p> <ul style="list-style-type: none"> • Low GDP per capita; Analysis – 1.1. page 10; Strategy – 4.1, 4.2., page 77 • Growing trade deficit; Analysis – 1.4., page 17; Strategy – 4.3., page 80 <p><u>Industry and services</u></p> <ul style="list-style-type: none"> • High energy intensity of economy; Analysis – 4.2.1., page 54 ; Strategy – 4, page 78; 4.2., page 79 • Outdated production technologies Analysis - 3.1.3., page 38 ; Strategy – 4, page 78; 4.2., page 79

<ul style="list-style-type: none"> • Significant share of the private sector in economy; Analysis- 1.6,page 24; 3, page 28; <p><u>Financial resources</u></p> <ul style="list-style-type: none"> • Sustainable bank sector; Analysis - 3.1.4., page 40; <p><u>R&D and Innovations</u></p> <ul style="list-style-type: none"> • Existing and stable scientific institutions Analysis 4.1.1. – page 46; <p><u>Business environment</u></p> <p>Improving legal framework for starting business Analysis</p>	<ul style="list-style-type: none"> • Low labour productivity; Analysis- 3, page 31; 3.1.1.,page 32; 1.5., page 22 ; Strategy– 4, page 78; 4.2., page 79 • Dominating share in export of production with low value added; Analysis 1.5., page 22; Strategy– 4, page 78 • Insufficient use of information technologies in business; Analysis1.5., page 22 ; Strategy • Low share of enterprises with introduced management systems (QMS, OSH, environmental, etc.); Analysis –3.1.3, page 36; Strategy – 4.2. , page 79 <p><u>Financial resources</u></p> <ul style="list-style-type: none"> • Difficult access to finance for SMEs; Analysis – 3.1.4., page 40; Strategy - 4, page 78 <p><u>R&D and Innovations</u></p> <ul style="list-style-type: none"> • Weak connection business-science-education; Analysis- 4.1.2., page 49 ; Strategy – 4, page 77 • Low R&D expenditure as share of GDP Analysis- 4.1.1., page 47 ; Strategy -4, page 77 • Insignificant and decreasing patent activity for Bulgaria Analysis – 4.1.4., page 52 ; Strategy – 4.1., page 78 • Low share of process innovation Analysis – 4.1.3., page 50; <p><u>Business environment</u></p> <ul style="list-style-type: none"> • Low quality and insufficiency of business services; Analysis – 2, page 26 ; Strategy - 4.2. – page 79 • Low level of management culture on company level; Analysis – 2, page 26; Strategy - 4.2. – page 79
OPPORTUNITIES	THREATS

<p><u>Macroeconomy</u></p> <ul style="list-style-type: none"> • Expected high economic growth and maintained balanced budgets and ratio state debt to GDP. Analysis – 1.2., page 13; <p><u>Industry and services</u></p> <ul style="list-style-type: none"> • Development of environmental-friendly productions Strategy – 4.2., page 79 • Conditions for increase in the energy efficiency of production Strategy – 4.2., page 79 • Potential for development of renewable energy sources; Strategy – 4.2., page 79 • Large manufacturing enterprises are well integrated in international business networks Analysis – 3.2., page 44; Strategy – 4.2., page 79; • Identified clusters structures in different stages of their life-cycle; Strategy – 4.2., page 79 <p><u>Financial resources</u></p> <ul style="list-style-type: none"> • Initial stage of development of alternative financial sources and non-banking financial sector; Strategy– 4.2., page 79 <p><u>R&D and Innovations</u></p> <ul style="list-style-type: none"> • Access to R&D and business networks; Strategy – 4.1., page 78 • Resource and business orientation of the scientific researches; Strategy– 4.1., page 78 • Emerging infrastructure for technology, product and management transfer; Strategy– 4.1., page 78 <p><u>Business environment</u></p> <ul style="list-style-type: none"> • Promotion of entrepreneurship; Strategy – 4.2., page 79 	<p><u>Macroeconomy</u></p> <ul style="list-style-type: none"> • Recession on international markets; • Increase in the price of energy resources; <p><u>Industry and services</u></p> <ul style="list-style-type: none"> • Significant territorial disproportion in the distribution of enterprises, • Moving multinational companies to lower cost countries due to increasing labour costs; <p><u>Financial resources</u></p> <ul style="list-style-type: none"> • Banks keep high interest rates and collaterals for bridge-financing instruments <p><u>R&D and Innovations</u></p> <ul style="list-style-type: none"> • Low efficiency and impossibility to guarantee the generation of new knowledge. <p><u>Business environment</u></p> <ul style="list-style-type: none"> • Low interest in applying measures in the field of standardisation, certification,
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<ul style="list-style-type: none"> • Attraction of investments in high-productivity export-oriented sectors; Strategy – 4.3., page 79-80 • Development of information and consultancy services; Strategy - 4.2. – page 79 	<p>accreditation, metrology, conformity assessment and market surveillance.</p>
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IV. STRATEGY OF THE OPERATIONAL PROGRAMME “DEVELOPMENT OF THE COMPETITIVENESS OF THE BULGARIAN ECONOMY” 2007-2013

The strategy of the Operational programme is the “route map” for reaching OP’s objectives, defining the priority axes and showing the logic of the interventions envisaged.

The strategy of the OP interventions is based on SWOT findings and identified disparities presenting a coherent and effective reaction to the identified gaps and development barriers in order to reach both EU and national policy objectives. The strategy describes the logical relation upwards to the Community Strategic Guidelines and NSRF and downwards to the individual priority axes.

1 Community Strategic Guidelines

OP “Competitiveness” has been developed following the principles of EC Regulation 1083/2006 in respect of the new priorities in the structural and cohesion policy of the EU and in respect of the types of activities funded by the European Regional Development Fund. Special attention was given to the recommendations in the Community Strategic Guidelines on economic, social and territorial cohesion 2007-2013.

As stated in the first **priority** of the Community Strategic Guidelines “Making Europe and its regions more attractive places in which to invest and work”, the Operational programme aims at operations which strengthen the potential synergies between environmental protection and growth. Following the logic given by the CSG, the orientation of OP “Competitiveness” Priority Axis 2 “Increasing the efficiency of enterprises and promoting supportive business environment” is to stimulate sustainable growth and to encourage innovations through development and modernization of technologies. It also envisages meeting investment needs of enterprises to comply with the EU environmental legislation requirements and the commitments undertaken under the Kyoto Protocol through introducing energy saving, environmental-friendly technologies and utilizing renewable energy resources. Implementing such types of activities OP “Competitiveness” follows the strategic guidelines to focus structural funds interventions on the encouragement of environmental management systems, dissemination of clean technologies in SMEs and development of renewable and alternative energy resources. Account is also taken of ensuring high growth rates through improving the conditions and provision of services for investors, thus attracting them to sectors and productions with higher added value to the economy.

The second priority of the Community Strategic Guidelines “Improving knowledge and innovation for growth“ is directly reflected in the Operational programme Priority Axis 1 “Development of a Knowledge-based Economy and Innovation Activities” is aimed at overcoming the low investment

levels in the private sector in scientific and technological development. The encouragement of innovations through new and improved products, processes and services, which can stand international competition pressure, is a foundation for the whole of the first Priority Axis of the Operational Programme. The activities related thereto infer a close relationship with projects under the Seventh Framework Programme for Scientific and Technical Development, as well as with projects under the Competition and Innovations Framework Programme. The encouragement of scientific and technical development and innovations may provide a competitive advantage to Bulgaria if the enterprises jump over some of the development stages of technologies and strive to create new technologies. Ensuring growth and job creation is very closely related to facilitating access to available free capital for enterprises. Access to finances is one of the areas in which the existing institutions and capacity are most limited, meeting numerous barriers. As a result, OP “Competitiveness” Priority Axis 3 “Financial Resources for Developing Enterprises” is envisaged to be implemented to improve access to finance and remove barriers. It will also cover the increase of the support for risk taking, thus providing better opportunities for enterprises to focus on investments in development and R&D activities. Achieving sustainable economic growth and higher productivity depends on a number of interventions. The impact of the operations envisaged under the operational programme will improve the quality of jobs and labour conditions. It will promote the development of competitiveness, the attraction of more investments, as well as increase exports and the creation of jobs regionally and nationally. Investments in interventions focused on the creation of micro financing instruments and the provision of better support services will facilitate entrepreneurship and improve job opportunities. The potentially higher quality of outputs will have a long-term positive effect in improving the competitiveness of the economy.

2 Compliance of the Strategy to National Strategic Reference Framework

The strategic priorities of the National Strategic Reference Framework (NSRF) aim at the main socio-economic problems or perspectives of a country, region or sector. They are based on detailed analysis of development disparities, weaknesses and potential, taking into account trends in the European and world economy.

The strategic vision and purpose of the NSRF is that, by 2015, Bulgaria should become a dynamic, competitive and accessible EU country with a high quality of life, incomes and social awareness.

This vision is to be achieved through two strategic mid-term objectives, namely:

- Strengthen the competitiveness of the economy to achieve high and sustainable growth;
- Develop human capital to ensure higher employment, income and social integration

The general objective of OP “Competitiveness” for the development of a dynamic economy, competitive with European and world markets, is in compliance with the NSRF first strategic objective.

The NSRF interventions up to 2013 will be focused on four strategic priorities, in order to achieve the strategic vision and objective. They are:

- Improving basic infrastructure;
- Increasing the quality of human capital with a focus on employment;

- Fostering entrepreneurship, a favourable business environment and good governance;
- Supporting balanced territorial development

OP “Competitiveness” supports the fulfilment of the third strategic priority. The priorities and interventions of OP “Competitiveness” cover some main thematic areas, which are also part of the National Strategic Reference Framework strategy. Support for business, innovations and SMEs is within the priority area of interventions defined in the NSRF. The majority of grant schemes under OP “Competitiveness” are aimed towards enterprises, which are final beneficiaries under the first and second Priority Axes and final recipients under the other Priority Axes, i.e. they will be users of the results achieved.

The NSRF priority sector of innovations is matched entirely by OP “Competitiveness” Priority Axis 1 “Development of knowledge-based economy and innovation activities”, which envisages support in three main directions – encouraging technology start-ups, support for industrial research and pre-competitive activities and development of pro-innovative infrastructure. The first field of intervention under Priority Axis 2 also fulfils some stages in the introduction of innovative products/processes/services.

The NSRF strategy identifies the SMEs sector as a priority for economic development, including defined main areas of interventions – support for increasing the efficiency of enterprises and promoting a supportive business environment, access to finances and the promotion of Bulgarian products – which are reflected as priorities and interventions in OP “Competitiveness”.

Due to the parallel elaboration of both programming documents (NSRF and OP), the coordination between them is also done in parallel, and the coherence between the objectives and strategy of the NSRF and those of the OP is ensured.

3 Coherence between the National Reform Programme and the Strategy of OP “Development of the Competitiveness of the Bulgarian Economy”

The National Reform Programme is the national document encompassing all Bulgarian policies directed towards the achievement of the Lisbon goals. The interventions envisaged under the OP “Competitiveness” fully correspond to the measures envisaged in section 3. “Policies for improvement of the growth potential”

- Sub-section 3.2. – “Promotion of SMEs and entrepreneurship” – envisages the following measures relevant to the OP “Competitiveness”:
 - Improvement of the business environment
 - Promotion of the entrepreneurial spirit and abilities
- Support for start-ups
- Development of clusters

Investment and consultancy support for SMEs for improvement of their competitiveness

The measures in this sub-section are relevant to Indicative operation 1.1. of Priority axis 1, whole Priority axis 2, and is in compliance with the philosophy of Priority axis 3

- Sub-section 3. 3 Promotion of R&D and innovation envisages the following measures, relevant to the OP:
 - Development of financial instruments for investments in R&D
 - Establishment or improvement of existing pro-innovative infrastructure:
 - Support for protection of the intellectual property rights;

The measures in this sub-section are in full compliance with Priority axis 1 of the OP.

The National Reform Programme outline a non exhaustive list of sectors in the innovation area to be preferentially supported, due to their development potential and amounted critical mass of research results in the particular sector. The sectors relevant to the OP are:

- Information and communication technologies (ICT);
- Biotechnologies;
- Fine machine building;
- Technologies, materials, and equipment for diminishing energy consumption.
- Nanotechnologies and microelectronics

Projects from the above sectors will be considered as priority in the process of implementation of the OP and will be preferentially supported.

4 Strategy of OP ”Development of the Competitiveness of the Bulgarian Economy”

Increasing and sustaining economic competitiveness is among the main drivers for achieving economic growth. Development of the competitiveness of the economy should be seen as a process of overcoming the gaps and disparities, identified and focusing on quality characteristics and the challenges that EU membership of Bulgaria imposed.

The OP is based on the understanding of the relatively low competitiveness of the Bulgarian enterprises as compared to the EU ones. This is apparent from the indicators supplied in the social and economic analysis and the SWOT analysis. The main problem areas are defined based on these disparities, and the priorities, objectives and indicative areas of intervention of the Operational Programme are aimed at overcoming them.

In order to improve the competitiveness of economy, the measures and initiatives that have already been launched within the frameworks of governmental programmes and projects of the pre-accession EU funds, should be extended and intensified and specific attention should be paid to the development of Bulgarian enterprises into a highly competitive market environment. The utilization of the ERDF resources will accelerate this development process in individual SMEs and large enterprises in both the productive and service sector.

The support provided under OP, will be focused but not limited to SMEs. The need for provision of support also to large enterprises stems from the fact that despite the predominant number of SMEs in Bulgarian economy, large entities are an important factor for the Bulgarian economy. They maintain a significant share in the GDP. Large enterprises are an important stakeholder in the process of the creation and commercialization of innovations, capable of bringing together different

innovative players and facilitating an openness of the innovative environment. They are also major players in the field of cluster development and are an important generator of employment. Hence any activity aimed at promoting economic growth must take large companies into account.

There is a need to address challenges as well as pursuing growth opportunities. While growth opportunities are a key means of transforming the economy, challenges often relate to issues which need to be addressed to accelerate progress. There are a number of constraints which could slow down the move to a more dynamic economy, with a broader range of opportunities. These include:

- Bulgaria is in the group of catching-up countries in terms of the innovative environment, as the ratio R&D expenditures/GDP is extremely low. Main gaps in the Bulgarian innovation system are characterized by broken links business – science - poorly developed or missing pro-innovative intermediaries (TTOs, technology parks, incubators, centres), lack of innovation culture among entrepreneurs; insufficient and inadequate financing for R&D and innovative projects - both from public and private sector; low share of innovative SMEs as percentage of total; constantly reducing number of people engaged in R&D; outdated or missing R&D equipment in R&D organisations.
- The current situation of Bulgarian enterprises can be characterised by the fact that there is a lagging behind in terms of low labour productivity, high energy intensity of the economy and out-dated technologies and equipment. At the same time, enterprises have continuing problems with difficult access to bank credits for investment purposes and a poor range of business-oriented services.
- In spite of a growing global market, the country has a negative trade balance and non-favourable and insufficient track record in terms of participation in international trade, and investments in low added value sectors, where low labour costs are among the main advantages of the production.

As resources are very limited, the need to set objectives which are both realistic and achievable becomes more important, and the very limited budget has an influence in terms of the finalisation of the strategy. This is particularly relevant to take forward the conclusions of the analysis and the SWOT and resources need to be targeted at tightly defined priorities in order to affect significant change.

In accordance with the above, the most important interventions to be undertaken in order to unclog the bottlenecks of the Bulgarian economy should include:

4.1 Development of favourable pro-innovative environment and support for creation and commercialization of innovations.

- Promotion of Bulgarian innovation network and creation of new and/or upgrade of existing pro-innovative intermediaries (technological parks, centres, technology transfer offices, technology incubators, etc.) in order to promote R&D and innovation cooperation between technical universities, research institutes, etc. on the one hand and enterprises on the other hand;
- Providing the R&D institutions with modern research equipment in order to be able to develop up-to-date innovative products;

- Improvement of the innovation potential of enterprises and the quality of their product, service and technological activities through supporting innovation and research activities of enterprises, hiring researchers in enterprises, support for development of doctoral programmes in cooperation with enterprises and marketing of new products and technologies, providing support for protection of IPR;
- Support to innovative clusters or clusters implementing innovative projects will be implemented in line with the Communication to the 2005 Spring European Council on the Mid-Term Review of the Lisbon Strategy. In that document the Commission underlines the importance of “innovation poles” for competitiveness and growth. Such “innovation poles” or clusters bring together innovative enterprises with R&D and financing institutions, thus acting as a bridge between research and industry, usually at regional level. Networking between SMEs, large companies and other innovation players facilitates an open innovation environment;
- Support to the establishment and strengthening of technology start-ups that are aimed at promoting the implementation of research outputs of university research centres in practice;
- Support to flexible financial instruments – seed and venture capital to support the implementation of the above measures.

4.2 Increasing the efficiency of enterprises

- For making it to the market, performing well on the single market, and becoming a competitive player at the Common market (i.e. meeting the high quality requirements), it is essential to reach a high technological level. As a result of this technological change, the efficiency and productivity of the technology used by enterprises will be significantly improved and there will be beneficial effects on the environment. The development of the technological capabilities of enterprises and encouragement of their investment activities will result in competitive advantages that will enable enterprises to enter new markets and develop new products and manufacturing procedures to increase their market share and outputs.
- Some economic challenges are set within the context of increasing concerns about climate change, and the need to introduce environmentally-friendly technologies. With an outstanding nature, Bulgaria has an interest to protect and enhance its environment. In addition, promoting environmentally friendly, low-waste, energy saving production technologies in order to significantly reduce energy intensity and adverse environmental impacts, thus contributing to sustainable development.
- Focusing on one of the key aspects of business environment, through ensuring accessible and high-quality information and consultation services for enterprises. Support will be directed to the creation and operation of a business support network providing such services, which to significantly contribute to the improvement of management and market performance of enterprises.
- In order to support development of the regions, to create favourable environment for enterprise development, to increase SMEs competitiveness, to reinforce their market

positions and to improve access to innovations, knowledge and know-how cluster approach advantages will be used.

- Supporting financial engineering instruments will improve the possibilities for development of the SMEs, via improving their access to external financial resources.. These instruments make public funds available to SMEs on a basis where they can be recycled and also leverage additional private sector finance.

4.3 Internationalisation of enterprises

- The international competitiveness of Bulgarian enterprises should be strengthened – both by direct and indirect interventions. Developing technology-intensive and innovative industries requires considerable investments; therefore the investment promotion policy should encourage investments related to high added value production and exports. The launching and implementing of a wide international promotion campaign to promote Bulgaria as an investment destination may form a good starting point. The improvement of the range and quality of services offered to investors will only contribute to the improvement of the general operating conditions for investors.
- In order to support the introduction and presence of Bulgarian goods in foreign markets, enterprises should be provided with up-to-date and easily accessible information through the improvement of export promotion and partner finding services. Targeted international and national promotional activities should also be performed.
- The existence of an adequate national quality infrastructure is an essential condition to increasing the international market activities of Bulgarian enterprises and will contribute to their competitive performance.

5 Formulation of objectives of OP ”Development of the Competitiveness of the Bulgarian Economy”

5.1 Global objective

The global objective of the OP “Development of the Competitiveness of the Bulgarian Economy” is directly related to both the conclusions of the analysis and the guidelines provided by the National Strategic Reference Framework for 2007-2013.

On the bases of the socio-economic and SWOT analysis, the global objective of the OP “Development of the Competitiveness of the Bulgarian Economy” is defined as the:

- **Development of a dynamic economy, competitive in the European and world market.**

This definition corresponds to the vision and to the first of the strategic objectives of the National Strategic Reference Framework. The Bulgarian economy must develop dynamically if the country is to have a high-quality living standard based on a sustainable social and economic development. A high-quality living standard is guaranteed mainly by the competitiveness of manufactured goods and services on the international markets, which ensures employment and professional realisation of the population, as well as contributions to the national budget and economy. The dynamics of competitiveness guarantee, in the long-term, the sustainable social and economic development of

Bulgaria. In addition, the balance between economic development and environmental protection, as well as to the interrelation between a high economic growth and high employment and economic commitment of the population should be considered.

5.2 Specific objectives

The global objective of the operational programme will be implemented through two specific objectives that cover both aspects of competitiveness – the preparedness of Bulgarian enterprises for the Common European Market and for the fast changing conditions in international markets, as well as the condition of the environment in which they function. The specific objectives are:

- **Encouraging innovations and increasing the efficiency of enterprises.**
- **Improving the business environment.**

The description of the global objective and specific objectives represents an overall framework regarding how Bulgarian enterprises in the context of the future knowledge-based economy and increasing globalisation will be able to become internationally competitive and at the same time key actors in creating sustainable growth in Bulgarian economy.

5.3 Priority Axes and Priority Axes objectives

In order to achieve its global and specific objectives, the OP “Competitiveness” will be concentrated on four main Priority axes, each one of which characterised by a set of Priority Axe objectives so that to develop a sustainable, growth potential and competitive economy that can compete internationally. The Priority Axes are:

Priority Axis 1 “Development of knowledge-based economy and innovation activities”

Priority Axis 2 “Increasing efficiency of enterprises and promoting supportive business environment”

Priority Axis 3 “Financial resources for developing enterprises”

Priority Axis 4 “Strengthening the international market positions of the Bulgarian economy”

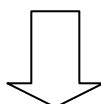
These Priority Axes are closely aligned with the Lisbon and Goteborg agendas and will make an important contribution to competitiveness and convergence and overarching the imperatives outlined in the Strategy of the OP. The four priorities will be shaped by a number of Priority axes’ objectives which to support the improvement of economic growth:

1. Promotion of R&D activities and commercialization of innovations in enterprises;
2. Protection of the industrial property rights of Bulgarian enterprises and research organizations;
3. Development of pro-innovative environment supporting enterprises.
4. Modernization of the technologies and management in SMEs.
5. Providing accessible and quality consultancy and information services to businesses.
6. Decreasing the energy intensity and diversification of energy sources by enterprises

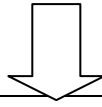
7. Increasing the efficiency of manufacturing and marketing performance of enterprises through business networking and clustering.
8. Improving access to development capital for micro, small and medium-sized enterprises.
9. Provision of funding for high-risk investments mainly related to innovation activities
10. Promoting the investors’ advantages of Bulgaria
11. Promoting the internationalisation of the Bulgarian enterprises
12. Improvement of the national quality infrastructure (NQI)

OBJECTIVES

Development of knowledge-based economy and innovation activities	Increasing efficiency of enterprises and promoting supportive business environment	Financial resources for developing enterprises	Strengthening the international market positions of the Bulgarian economy
<ul style="list-style-type: none"> ➤ Promotion of R&D activities and commercialization of innovations in enterprises; ➤ Protection of the industrial property rights of Bulgarian enterprises and research organizations; ➤ Development of pro-innovative environment supporting enterprises. 	<ul style="list-style-type: none"> ➤ Modernization of the technologies and management in SMEs. ➤ Providing accessible and quality consultancy and information services to businesses. ➤ Decreasing the energy intensity and diversification of energy sources by enterprises ➤ Increasing the efficiency of manufacturing and marketing performance of enterprises through business networking and clustering. 	<ul style="list-style-type: none"> ➤ Improving access to development capital for micro, small and medium-sized enterprises ➤ Provision of funding for high-risk investments mainly related to innovation activities 	<ul style="list-style-type: none"> ➤ Promoting the investors’ advantages of Bulgaria ➤ Promoting the internationalisation of the Bulgarian enterprises ➤ Improvement of the national quality infrastructure (NQI)



- | |
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| <ul style="list-style-type: none"> ➤ Encouraging innovations and increasing the efficiency of enterprises. ➤ Improving the business environment. |
|--|



➤ Development of a dynamic economy, competitive in the European and world market.

V. PRIORITY AXES OF THE OPERATIONAL PROGRAMME

The OP “Development of the Competitiveness of the Bulgarian Economy” will concentrate on the above outlined five priority axes. Each Priority axis is further indicatively split into one or more “areas of interventions”, the latter comprising of one or more operations.

It should be pointed out that the areas of interventions and the operations included under each Priority Axis have an indicative character and do not an exhaustive list, both in terms of number and/or scope of interventions. The Managing Authority upon due approval of the Monitoring Committee, could include new or modify operations described below, as long as such inclusion and/or modification are in compliance with relevant Priority axis’ scope of interventions and contribute to the achievement of the that Priority Axis’ objectives .

Priority Axis 1 “Development of a Knowledge-based Economy and Innovation Activities”

OBJECTIVES

The main goal of Priority axis 1 is improvement of the Bulgarian innovation system through promotion of the innovation activity and improvement of the pro-innovative infrastructure.

The specific objectives include:

1. Promotion of R&D activities and commercialization of innovations in enterprises;
2. Protection of the industrial property rights of Bulgarian enterprises and research organizations;
3. Development of pro-innovative environment supporting enterprises.

RATIONALE

This Priority axis has been selected because of the importance of the transition in Bulgaria’s economic model – from “a traditional economy” to an economy based on innovations and knowledge. For this purpose a smoothly functioning innovation system should be in place. Unfortunately, nowadays the Bulgarian innovation system is underdeveloped. It suffers structural problems, which concern each of the main actors in the system and act as barriers to the overall development of the competitiveness of the economy.

The main problem for Bulgarian companies with regard to the innovation process and the management of scientific research is the lack of financing and the high costs for the implementation of innovative projects. Only 3.43% of the total number of enterprises is engaged in R&D. The R&D expenditure of companies is relatively low as a percentage of the GDP, compared with other EU

countries and this percentage has been stable over the last years. The low number of researchers hired in enterprises to develop research activities is a logical indicator for the lack of in-house R&D in enterprises. Other serious problems for Bulgarian enterprises and research institutions are the insufficient market experience and resources for protection of their industrial property rights.

Innovative companies, especially newly created ones, are considered a high risk segment for bank financing. That is why such companies experience serious difficulties in the initial stage of their development until the moment of successful commercialization of the product or process they have developed. In the initial stage, innovative start-ups need high quality, specialized consultancy services in the fields of economic and financial evaluation and assessment of intellectual property rights of the particular innovative product or process, consultancy support towards market development, investments assuring the normal functioning of the enterprise, specialized training of the personnel of the company, etc. Unfortunately there is a serious lack of structures which provide such services to enterprises (e.g. technology business incubators) as the low number of existing ones (2) are poorly developed and provide services to an extremely low number of enterprises. The lack of structures for development of areas of excellence and providing support in the process of development of innovations (technology centres, technology parks, technology platforms, etc.) constitutes a major barrier to the development of the Bulgarian innovation system.

Due to these reasons Bulgaria is in the group of catching-up countries in terms of innovative environment. Furthermore, the business-science relationships are very weak. They broke down during the transition period from a centrally planned to an open market economy due to the lack of financing for R&D activities and the lack of adequate state policy measures. The current poor market orientation of the activities of the research institutions is a direct result of this breakdown's effect on their financing and development.

The poorly developed technology transfer structures do not provide sufficient support in the process of development and realisation of innovative products. Where such structures are created, they do not dispose with the whole necessary equipment for normal business performance, as well as they miss experience in the good practices in the area. Furthermore, the suppliers of innovations – the research organisations, which are intended to work closely with the mediators - TTOs and the users of innovations, the enterprises, in most cases are missing proper modern equipment for applied research. Until recently, the main purpose of the research organisations was in the area of fundamental research.

In order to support the overcoming of the aforementioned shortcomings with adequate financial resources the Bulgarian innovation strategy has estimated that the total R&D expenditures should gradually increase up to 1.15 % of the GDP in 2013. In the period 2002-2005 the increase of R&D expenditures followed the trend of GDP growth (4.9 -5.5 %). So they remained stable in percentage terms – between 0.49-0.51 % of the GDP. 90 % of them were spent on operational costs – mainly salaries and social insurance of the R&D personnel in the public R&D organisations. Less than 10% were invested in R&D stock capital and equipment, and that trend has been stable over the last decade. Due to the expected high GDP growth in the period 2007-2013, most probably the R&D state budget financing profile regarding the rate R&D expenditures/GDP will remain similar, so any significant development to that aspect and the attempt to reach the 3% Lisbon goal will depend mainly on EU funds and private investments.

The gradual increase in the absorption capacity of the Bulgarian innovation system will allow the support provided under Priority axis 1 of the OP to add R&D expenditures of 0.25 % of the GDP to the state expenditures for year 2013. The rate of private co-financing of PA 1 will vary between 10-75% for the different grant schemes. Thus, public investment (national and EU) of around 250 mln. Euro, for the programming period, will result in a total investment in the Bulgarian innovation system of around 400 mln. Euro.

Due to their project and competitive nature, the invested European funds will have a high leverage effect. Nearly 1/3 of the OP Priority axis 1 budget will be spent for activities related to the establishment and development of pro-innovative infrastructure, which in the long run will also lead to attracting additional private investments for R&D. Thus it is expected that along with the support for venture capital funds under Priority axis 3 the OP to add a total of 0,3-0,35 % R&D expenditures of the GDP for 2013.

The goal of 1.15 % R&D expenditures of the GDP in 2013 will be achieved with the support of the Bulgarian participation under another EU funded programmes (OP Regional development, OP Human resources, CIP, 7-th framework programme, etc.)

As 11.4 % of the Bulgarian enterprises are already involved in innovative activities and 30,2 % of them intend to apply for Structural funds assistance for their innovative projects for the next three years (2007-2009), there will be a large enough pool of quality projects for absorption for the available funds.

Indicative budget allocation per priority and areas of interventions – %	
Total Priority Axis (PA)	246 500 000 EUR 21,2 % (of total ERDF resources for the OP)
<i>Support for innovation activities in enterprises</i>	64,09 % (of total ERDF resources for the PA)
<i>Improvement of pro-innovative infrastructure</i>	35,91 % (of total ERDF resources for the PA)

The following AREAS OF INTERVENTIONS are defined under this Priority Axis:

1. *Support for innovation activities in enterprises*
2. *Improvement of pro-innovative infrastructure*

Each Area of Intervention is further split into indicative operations.

Area of intervention 1.1. Support for innovation activities in enterprises

Indicative operation 1.1.1. Support for the creation and development of innovative start-up companies

A generally recognised approach to inject the economy with the accumulated critical mass of applied research results developed during the past years in the Bulgarian research organizations, is the creation of innovative start-ups commercializing these results. Unfortunately the start-ups with high innovation potential, suffer serious risk of never entering into the possible growth mode due to lack of business experience and knowledge, inadequate planning and financing. Many potentially fast growing enterprises never get their chance, as the market has few risk oriented VCs, while bank financing is often not appropriate – and even more often not available - for such projects. Therefore, under this Priority axis, such start-ups will be supported in their initial stage of existence by integrated support, covering the variety of their needs. These interventions should result in growing number of highly innovative, yet commercially sound enterprises in the Bulgarian economy.

Indicative activities. The support would be divided in two phases in accordance with the natural logic of development of the innovative ideas. The first phase would encompass support for the industrial research and experimental development stages. Support for elaboration of different types of assessments and evaluations of innovative ideas, elaboration of marketing studies, plans and strategies, conduction of applied research activities (incl. tests, measurements, etc.), elaboration of prototypes, will be rendered to R&D organisations, universities, innovative start-up enterprises, in order to screen the vital innovations with potential for introduction in the economy and to develop them to a state of preparedness for direct commercialisation, provided that the needed financing is available. That first phase is intended to cover development of innovative products and processes, and the second stage of support (commercialization phase), will cover the introduction of innovative products and processes on the market, including also introduction of innovative services and business models. Under that second phase, support could be rendered to innovative start – ups for preparation of business plans, project management services, marketing, specialised legal services, initial investments in tangible and intangible assets, etc.

Indicative costs: costs for HR; costs for services: legal (incl. specialized – IPR, royalties, licences. etc.), consultancy, tests, measurements; costs for delivery of materials and equipment related to elaboration of prototypes and needed for introduction of the developed innovative product on the market; costs for promotion activities; protection of the IPR, etc.

Indicative beneficiaries: indicative beneficiaries under this indicative action would be either innovative start – ups or R&D institutions and organizations, universities, etc.

Quantified targets - See indicators 1, 2 and 3

Indicative operation 1.1.2. Support for creation and commercialization of innovations by enterprises

Another important “generator” of innovations is the R&D activity of enterprises or clusters of enterprises, both “in-company” (“in-cluster”) or in partnership with research organisations or universities. There are a significant number of companies, whose operations and competitiveness would greatly benefit from the introduction of innovative products, services or business models, but who lack the necessary resources to finance that R&D.. The expected result of this intervention would be an increase of the number of successful innovations developed by enterprises alone or in

partnership with research organisations, as well as increase in overall expenditure of this sector on research and development. In that sense cluster advantages could be used in order to provide innovation-friendly environment to enterprises that enables them to become more actively involved in technological research and development. Sharing resources in joint R&D activities among cluster members contributes to reduction of risks and financial barrier to R&D. Cluster's proximity and trust bring faster innovation adoption. Cluster managers play an important role in the promotion and diffusion of innovations among cluster members. In addition, firms in a cluster often have privileged access to venture capital (VC) because venture capitalists generally prefer to invest in relatively low-risk enterprises, as the risk is shared by the cluster members.

Large enterprises will also be eligible under separate schemes under this indicative action, as they have, unlike SMEs, strong potential for development of R&D with expected significant results and notable impact over the economy. The budget allocated to those schemes will be up to 20 % of the Priority axis 1 budget.

Indicative activities - Support could be provided for R&D activities, carried out by enterprises, including feasibility studies, industrial research and experimental development, as well as for consultations, investments in tangible and intangible assets, training of management and/or personnel needed for introduction of products' or process' innovations in the manufacturing and management practices of the beneficiary enterprises. Analogically to operation 1.1.1. at the stage of pre-competitive development support will be provided for development of innovative products and processes and under commercialization phase support will be extended not only for introduction on the market of innovative products and processes, but also for innovative services and business models.

Indicative costs - Expenditures would cover R&D activities, elaboration of prototypes, promotion activities, protection of the IPR, investment in tangible and intangible assets related to development and commercialization of developed innovations.

Indicative beneficiaries - Beneficiaries under that indicative action would be Bulgarian enterprises, clusters of enterprises. Separate schemes for large enterprises will be designed and implemented.

In case of assistance granted from the Structural funds to a large enterprise, the Managing Authority undertakes to request an assurance from the enterprises concerned that the assistance will not be used in support of investment that concerns the reallocation of its production or service facilities from another Member States of the European Union.

Quantified targets - see indicators 4 and 5

Indicative operation 1.1.3. Support for increase of the share of R&D personnel in enterprises

Indicative activities - The rate of R&D specialists employed in Bulgarian SMEs is the lowest, compared with other EU countries. On the other hand, the rate of researchers employed in state science institutions is the largest in EU. In order to avoid that disproportion support will be provided for employment of researchers, R&D specialists, highly qualified technicians, in enterprises, for development of particular innovative projects.

In addition, with the purpose to introduce in the Bulgarian economy the most recent innovative solutions and R&D results Doctoral Programmes with strong applied potential would be supported under condition that the developed innovation (in case of successful result) will be introduced in the economy. The support will be provided through enterprises or consortia of enterprises on the basis previously signed contract(s) with students developing PhDs with potential for introduction in the economy.

Indicative costs - Costs for salaries and social insurance of the hired R&D personnel will be partially covered, as well as, delivery of materials and limited equipment for implementation of the PhDs

Indicative beneficiaries - Beneficiaries under that indicative action would be Bulgarian enterprises, hiring R&D personnel and/or committing to finance and commercialize innovations developed as a result of PhDs.

In case of assistance granted from the Structural funds to a large enterprise, the Managing Authority undertakes to request an assurance from the enterprises concerned that the assistance will not be used in support of investment that concerns the reallocation of its production or service facilities from another Member States of the European Union.

Quantified targets - see indicators 6 and 7.

Indicative operation 1.1.4 Support for protection of the industrial property rights

Indicative activities - Support for industrial property protection through national, European and international application and registration of patents, utility models, trade marks and designs, (including Patent Cooperation Treaty, Community Trade Mark, Community Design, the Madrid Agreement and the Protocol attached, etc.) will be also provided.

Indicative costs - Costs for assessments of patent ability, preparation and filling of patent or utility model application, registration of patents, utility models, trade marks, designs will be eligible under this indicative operation.

Indicative beneficiaries - Beneficiaries under that indicative action will be Bulgarian enterprises, R&D institutions and organizations, universities.

Quantified targets - see indicators 8 and 9

Area of intervention 1.2. Improvement of the pro-innovative infrastructure

Indicative operation: 1.2.1. Creation of new and development of existing pro-innovative infrastructure

The aim of this indicative operation is to create favourable environment and conditions for development of innovative enterprises.

The financing will be extended to various types of Business Support Organisations that offer pro-innovative tailor-made advisory services and support to innovative start-ups and existing innovative enterprises. Support will be provided for the creation and/or upgrade or for diversification of the

services provided by technology transfer centres, technology incubators, technology platforms, technology parks, etc.

Indicative activities - With respect to the specifics of each supported organization or institution, different activities will be promoted. In the case of technology transfer offices and technology incubators, technology centres, support will be provided, for example, for projects related to the establishment of such structures, as well as their institutional building, development and delivery of new services to enterprises, and networking of such institutions and of BSOs and innovative enterprises. Having in mind the specific combination of factors needed for the establishment of technology parks, according to preliminary estimations no more than 5-6 regional centres in Bulgaria have the potential for creation of such structures, among which being the biggest cities as Sofia, Plovdiv and Varna. With view to the aforementioned, preparatory activities for pre-selection and establishment of the Technology parks be financed, prior to launching the full-scale support activities.

Indicative costs -

- In the case of technology transfer offices , technology incubators, technology centres:
 - establishment of institutions – pre-feasibility studies, works, delivery of equipment,
 - institutional building - development of new and/or improvement of pro-innovative services as well as the delivery to enterprises and research institutions,
- In the case of technology parks – in addition to the above, preparatory activities related to their establishment will be also financed, such as pre-feasibility studies, technical documentation, engineering plans, etc.

Indicative beneficiaries - Beneficiaries under that indicative action would be R&D institutions and organizations, municipalities, private or public bodies incl. NGOs, which are setting up and managing pro-innovative infrastructure.

Quantified targets - see indicators 10 and 11

Indicative operation 1.2.2. Support for modernization of applied research equipment

Indicative activities - In order to strengthen the capacity of the Bulgarian research organisations to conduct applied R&D activities and thus to ensure the flow of innovative ideas to the economy, research organisations will be supported to acquire and/or upgrade existing applied research equipment, under the condition of a clearly indicated business demand in their particular research field, proven necessity of such equipment, and considering the potential for wide application of the expected R&D results in the national economy.

This intervention would also lead to an improvement of enterprises' access to pro-innovative services, as well as improvement of the quality of these services.

Indicative costs - Costs for delivery of applied research equipment will be covered under that indicative action.

Indicative beneficiaries - Beneficiaries under that indicative action will be R&D institutions and organizations, laboratories, etc., both public and private

Quantified targets - see indicators 12 and 13

Indicative operation 1.2.3. Creation of national innovation network

Indicative activities - Aiming at achievement of synergetic effect of the activities of the individual actors of the innovation system, a set of related operations would be implemented, e.g. support for creation of a “national innovation network”, encompassing innovative enterprises and innovation support organizations, as the financed activities will include for example.

Indicative costs - Under this indicative action will be covered costs for networking between R&D institutions pro-innovative business support organisations, innovative enterprises, establishment of virtual environment for cooperation, organisation of joint, matchmaking events, elaboration of Internet portals, sites, data bases, organisation of trainings, provision of services to the members of the network, provision of high-speed broadband infrastructure to link all participants in the network, etc

Indicative beneficiaries - Beneficiaries under that indicative action will be innovative Bulgarian enterprises, R&D institutions and organizations – private or public, laboratories, NGOs, Technology transfer offices, Technology incubators, Technology parks, others members of the innovation system.

Quantified targets - see indicators 14

The Managing Authority of OP “Competitiveness” commits itself to participate in the European Commission’s initiative “Regions for Economic Change” for regional and urban partnership through the following actions:

- Possibility of including new operations in the OP, related to innovations and improving the innovative capacity of the enterprises, based on best practices, disseminated by the networks for interregional cooperation.
- Encourage the Monitoring Committee to receive regular updates from the network(s) where the regions are involved.
- Foresee a point in the agenda of the Monitoring Committee at least once a year to take note of the network’s activities and to discuss relevant suggestions, which may be included in the OP.
- Inform in the Annual Report on the implementation of the regional actions included in the “Regions for Economic Change” initiative.

INDICATORS

Definition/Name (Objectively verifiable Indicators)	Type	Baseline	Frequency of reviewing (where appropriate)	Quantified target mid-	Quantified target End-term	Data source/measur ement method	Breakdown by sex and size of recipient undertakings
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OPERATIONAL PROGRAMME „DEVELOPMENT OF THE COMPETITIVENESS OF THE BULGARIAN ECONOMY” 2007-2013

				term for the OP	for the OP		
1. Number of supported innovative start-ups (as defined per GfA)	Output	0	Mid-term (2010) End of implementation period (2013) Ex-post evaluation (2015)	55 - 65	155- 165	Monitoring system; survey	
2. Survival rate of innovative start-ups Definition: % of active supported innovative start-ups on the market (after the first 3 years of activity)	Result	0	Mid-term (2010) End of implementation period (2013) Ex-post evaluation (2015)	50%	70%	Monitoring system; survey	Of this: - for men - for women
3. Number of innovations introduced/ready to be introduced at the market Definition: innovations ready to be / introduced at the market as a result from the investments in supported innovative start-ups	Output	0	Mid-term (2010) End of implementation period (2013) Ex-post evaluation (2015)	40	120	Monitoring system	Of this: - for men - for women
4. Number of R&D projects supported for the stages of industrial research and experimental development. Definition: number of R&D projects in supported enterprises	Output	0	Mid-term (2010) End of implementation period (2013) Ex-post evaluation (2015)	15 - 20	60 - 65	Monitoring system;	Of this: - for small undertakings - for medium undertakings - for large undertakings
5. Number of R&D projects supported for commercialization of innovative ideas Definition: number of R&D	Output	0	Mid-term (2010) End of implementation period (2013) Ex-post	15-20	60 -70	Monitoring system	Of this: - for small undertakings - for medium undertakings - for large undertakings

OPERATIONAL PROGRAMME „DEVELOPMENT OF THE COMPETITIVENESS OF THE BULGARIAN ECONOMY” 2007-2013

projects in supported enterprises			evaluation (2015)				
6. Number of hired R&D personnel in enterprises Definition: Number of highly qualified researchers, technicians and PhDs hired in enterprises for implementation of R&D projects	Output	0	Mid-term (2010) End of implementation period (2013) Ex-post evaluation (2015)	80	300	Monitoring system	
7. Number of successful projects developed by hired R&D personnel Definition: number of projects supported under operation 1.1.3.	Result	0	Mid-term (2010) End of implementation period (2013) Ex-post evaluation (2015)	30-40	120-150	Monitoring system	
8. Number of applications for trade marks, designs, utility models, patents, by supported enterprises and research organizations. Definition: number of projects supported under operation 1.1.4.	Output	0	Mid-term (2010) End of implementation period (2013) Ex-post evaluation (2015)	220	220	Monitoring system	Of this: - for small undertakings - for medium undertakings - for large undertakings - for start-ups
9. Number of registrations of trademarks, designs, utility models, patents, by supported enterprises and research organizations Definition: number of successful projects supported under operation 1.1.4.	Result	0	Mid-term (2010) End of implementation period (2013) Ex-post evaluation (2015)	40	180	Monitoring system	Of this: - for small undertakings - for medium undertakings - for large undertakings - for start-ups
10. Number of technology transfer offices, technology incubators, technology centres, technology parks and	Output	0	Mid-term (2010) End of implementation period (2013) Ex-post	22-27	40-47	Monitoring system; statistical data, surveys	

OPERATIONAL PROGRAMME „DEVELOPMENT OF THE COMPETITIVENESS OF THE BULGARIAN ECONOMY” 2007-2013

<p>other pro-innovative intermediaries supported/ created</p> <p>Definition: number of projects of innovative intermediaries financed, including newly created and already existing entities.</p>			<p>evaluation (2015)</p>				
<p>11. Number of enterprises using services of TTOs, technology incubators, centres, parks.</p> <p>Definition: number of enterprises using services/premises from the supported institutions</p>	Result	96 (2006)	<p>Mid-term (2010)</p> <p>End of implementation period (2013)</p> <p>Ex-post evaluation (2015)</p>	0	500-600	Monitoring system	<p>Of this:</p> <ul style="list-style-type: none"> - for small undertakings - for medium undertakings - for large undertakings - for start-ups
<p>12. Number of projects supported for upgrade of applied equipment in research institutions</p>	Output	0	<p>Mid-term (2010)</p> <p>End of implementation period (2013)</p> <p>Ex-post evaluation (2015)</p>	20 - 30	65-75	Monitoring system	
<p>13. Number of R&D projects implemented with supplied applied R &D equipment</p>	Result	0	<p>Mid-term (2010)</p> <p>End of implementation period (2013)</p> <p>Ex-post evaluation (2015)</p>	70 - 90	210 - 230	Monitoring system	
<p>14. Number of institutions/organisations participating in the national innovation network.</p>	Output	0	<p>Mid-term (2010)</p> <p>End of implementation period (2013)</p> <p>Ex-post</p>	40	170-200	Monitoring system	

			evaluation (2015)				
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CROSS-FINANCING

In order to reach the objectives of Priority axis 1 it is vital that the projects supported are of an integrated nature, including as most appropriate both ERDF and ESF type of actions. Therefore it is envisaged to apply cross-financing as under art.34 of the General Regulation up to the limit of 10% of spending on the priority level. This will allow to finance, for example, innovation and industrial property trainings for managers, vocational training activities on cutting edge technologies and equipment, subsidized employment of researchers in enterprises. Such trainings are directly related to investment support for development of R&D activities in cooperation between enterprises and research centres or in-house, and to registration of patents and trade marks. These and similar types of actions have complementary character and constitute an integral part of innovation-support projects.

ENVIRONMENTAL DIMENSION OF THE INTERVENTIONS UNDER PRIORITY AXIS 1

The Strategic environmental assessment of OP “Competitiveness” points out that PA1 will have indirect positive effect on the environment. The environmental pillar of the sustainable development will be fully considered in the process of implementation of the interventions under the current priority axis. The development and commercialization of eco-innovations (incl. in the areas of energy efficiency and RES) will be preferentially supported in the process of selection of projects financed under the different operations of the priority axis.

Priority Axis 2 “Increasing efficiency of enterprises and promoting supportive business environment”

OBJECTIVES

The specific objectives of the priority axis are:

1. Modernization of the technologies and management in enterprises..
2. Providing accessible and high-quality information and consultancy services to businesses.
3. Decreasing the energy intensity and diversification of energy sources used by enterprises.
4. Increasing the efficiency of manufacturing and marketing performance of enterprises through business networking and clustering.

RATIONALE

This priority axis contributes to the achievement of the global objective of the OP “Competitiveness” - the development of a dynamic economy, competitive at the European and world market. The implementation of the aim is based on investment support for the development of competitive enterprises and the improvement of the business environment through easily

accessible and high-quality business information and consultancy services made available to enterprises.

In order to enter and become a competitive player in the Common European market, and meet the high quality requirements, enterprises need to be “equipped” with solutions and resources necessary to ensure competitiveness and economic growth in the EU market. The priority axis is focused on encouragement of investments in modern technologies and improvement of management skills. In particular, the implementation of environment/quality management and of product certification will be specifically encouraged, as it will ensure the successful access of Bulgarian products and services to the EU market and to other world markets.

Within this Priority axis, a specific focus will be provided to promote investments in environmentally friendly, low-waste, energy saving production technologies and utilization of renewable energy sources, in order to significantly reduce the energy intensity and adverse environmental impacts and thus contribute to sustainable environmental development. As a result of this technological change, in addition to the environmentally beneficial effects, the efficiency and productivity of the technology used by the enterprises will also be significantly improved.

The participation of Bulgarian enterprises in the “new economy” will require the adoption of new and competitive business models such as distance work or connection in networks and/or clusters. Clusters can achieve an integrated approach to entrepreneurship, drive the development of assets, new technology and business infrastructure and attract investments and specialised services which could not be achieved by a single company. That is why support for business networking and clustering will be another particular focus under this Priority axis.

It is of a primary importance to improve the general operating environment of enterprises and their management “culture” through easily accessible and high-quality business information and consultancy services. Support for the creation and operation of a business support network providing such services will significantly contribute to the improvement of the business performance of SMEs, including start-ups, as well as extending management knowledge and the skills of entrepreneurs.

The support provided under this Priority axis will be focused, but not limited to SMEs. Although large enterprises generally have enough possibilities to finance their investments, they are an important factor in the economy as a prime generator of employment and growth, major player in R&D and innovation activities and a key actor in business networking and clustering. This role of large enterprises has to be supported, as it produces a leverage effect on development and growth. Therefore large companies will also be eligible to receive support under this Priority axis, but under certain restrictions. The support for large enterprises will be primarily related to the development and/or purchasing and introducing innovative technologies, improving environmental protection aspects of their operations, applying energy saving measures and/or utilization of Renewable Energy Sources (RES), and similar. The support to large enterprises will be limited, as compared to the support provided to SMEs, in terms of scope (type of project activities) and intensity of aid. In order to ensure equal opportunities and fair competition, as well as compliance to applicable state aid rules, the aid to large enterprise will be provided under separate funding schemes, as the total financial allocation for large enterprises under this Priority axis will be limited to 20% of the total funds under this Axis.

Thus Priority 2 is defined as the largest in activities and has been allocated the largest budget breakdown, combining potential for both good absorption and the most effective use of resources.

Indicative budget allocation per priority and areas of interventions – %	
Total Priority Axis (PA)	593 837 780 EUR 51.10 % (of total ERDF resources for the OP)
Improvement of technologies and management in enterprises	43.28 % (of total ERDF resources for the PA)
Creation of business support infrastructure	19.53 % (of total ERDF resources for the PA)
Introduction of energy-saving technologies and renewable energy sources	34.66 % (of total ERDF resources for the PA) From them for RES – 16.63% (of total ERDF resources for the PA)
Promotion of business networking and clustering	2.53 % (of total ERDF resources for the PA)

The following AREAS OF INTERVENTIONS are defined under this Priority axis:

1. *Improvement of technologies and management in enterprises*
2. *Creation of business support infrastructure*
3. *Promotion of energy-saving technologies and utilization of renewable energy sources*
4. *Support for business networking and clustering*

AREA OF INTERVENTION 2.1. IMPROVEMENT OF TECHNOLOGIES AND MANAGEMENT IN ENTERPRISES

The indicative operations envisaged are:

Indicative operation 2.1.1. Upgrade of technologies in enterprises

A major operation under this area of intervention will be to support enterprises for investments in modern tangible and intangible assets, aiming at improvement of their business performance and expanding their operations, improving management, introducing new products, services or processes, etc.

Indicative activities - Support would be provided for the implementation of investments aiming at modernisation of enterprises' operations and improvement of their competitive

advantages, including technological modernization, extending business activities, improving management processes, introducing new products, services or processes, etc. Within this indicative operation special attention would be paid to enterprises' projects involving introduction of innovative technologies (innovative technology transfer) and products at company/regional/national level, which are not based on results from companies' own R&D activities.

The demarcation between such projects and the projects to be financed under Priority Axis 1, indicative operation 1.2.2, will be based on the origin of the innovations – while Priority 1 scheme is focused on innovations resulting from own R&D, the scheme hereto will support the purchase and introduction of externally developed innovative technologies (patents, know-how, etc., and related equipment).

Selection and grant award criteria under the aid scheme will be based on assessment the current competitive position of applicant enterprises and on the forecasted impact of their projects on the increase of their competitiveness, as well as on assessment of the projects' contribution to the achievement of EU and national horizontal policies, such as environmental protection, job creation, equal opportunities, ICT development, etc.

Indicative costs - Costs to be financed would relate to purchasing, installation and maintenance of new technologies and equipment, acquisition of patents, licenses, know-how and related software, contributing to improvement of their competitive advantages.

Indicative beneficiaries –both SMEs and large enterprises, from the productive and service sectors.

In case of assistance granted from the Structural funds to a large enterprise, the Managing Authority undertakes to request an assurance from the enterprises concerned that the assistance will not be used in support of investment that concerns the reallocation of its production or service facilities from another Member States of the European Union.

Quantified targets – see indicators 1, 3 and 4

Indicative operation 2.1.2. “Achieving compliance with internationally recognized standards”

In order to improve the international positions of Bulgarian products at the external markets, a targeted support will be provided to enterprises for achieving compliance with internationally recognised market standards – projects in the area of design, implementation and certification of international Quality Management Systems, introduction of environmental management systems and standards (EMAS), IT based management systems, GMP, etc.

Indicative activities – The support would be focused but not limited to introduction of management systems (including IT-based ones), achieving conformity of products, services, raw materials, machines and devices, including monitoring and measuring devices, and staff with international standards requirements aimed at obtaining certificate/mark of conformity (including manufacturer declaration of conformity).

Indicative costs – Costs to be covered could include consultations and training services connected with the introduction of the management systems, purchase of equipment and improvement of infrastructure of the production facilities stemming from and directly related to the introduction and/or certification under the relevant international standards (structural improvements, air conditioning or low or high level of cleanliness, re-engineering the existing equipment to facilitate procedures of validated cleaning, basic control and testing equipment, etc.).

Indicative Beneficiaries – two schemes could be designed for this operation – for SMEs and for large enterprises, both from productive and service sectors.

In case of assistance granted from the Structural funds to a large enterprise, the Managing Authority undertakes to request an assurance from the enterprises concerned that the assistance will not be used in support of investment that concerns the reallocation of its production or service facilities from another Member States of the European Union.

Quantified targets – see indicator 5

Area of Intervention 2.2. Creation of business support infrastructure

The indicative operations envisaged under this area are:

Indicative operation 2.2.1. Creation of Business Support Organizations (BSOs) network

Support for creation and partial maintenance of a network of Business Support Organizations (BSOs) will be provided. The BSOs network will include entrepreneurship support institutions. The network will have a limited number of members as a means of ensuring a locally accessible but still high-quality range of services.

Indicative activities - The BSOs network will provide a wide range of information and consultancy services to both start-up and existing SMEs. A high standard of services provided by the BSOs will be ensured through setting high requirements for would-be network members and applying a competitive selection procedure. The BSOs network will provide services such as general business consultancy on starting up and running a business, business planning, marketing, financial management, legal advice, etc., as well as specialised information and support services related to sector-specific acquis compliance, including environment protection, export-related matchmaking services, etc. Another important role of BSOs network will be as local information and promotion points for OP “Competitiveness” itself, as well as providing assistance to SME applicants in preparing their project proposals.

Indicative costs - Initial costs to be financed under this intervention would include the preparation and implementation of new service packages for enterprises, both general and specialized, covering the development and maintenance of standards for service provision by BSOs and standards of practice for the member institutions, the investment necessary for the proper functioning of the BSOs, the maintenance and/or development of thematic business support databases, etc. The operating costs of BSOs network members would be financed by services actually delivered to SMEs.

Indicative beneficiaries - Beneficiaries under this action would be public bodies, NGOs and commercial entities, providing business support services.

Quantified targets – see indicators 2, 6, 7, 8

Indicative operation 2.2.2. Creation of regional business incubators

In order to provide an integrated assistance to enterprises in their initial stage of development, regionally-based Business incubators would be supported to serve as a specific “infrastructural extension” of BSOs network. These incubators will be operated and managed by or in partnership with the BSO network’s members in that particular area.

Indicative activities - Support could be provided for setting up and running incubators, financing limited infrastructure interventions and equipments (refurbishing and modernization, equipments acquisition) and management costs. At the same time incubators would offer complex services for the enterprises from the region where support for start-ups will be of a particular attention.

Indicative costs - The operation could cover costs for creation (upgrade) of incubators (investment and consultancy services), as well as their operational costs.

Indicative beneficiaries - Beneficiaries under this action could be public bodies, NGOs and commercial entities, operating business incubators.

Quantified targets – see indicator 9

AREA OF INTERVENTION 2.3. INTRODUCTION OF ENERGY-SAVING TECHNOLOGIES AND RENEWABLE ENERGY SOURCES

The indicative operations envisaged under this area are:

Indicative operation 2.3.1. Introducing energy-saving technologies in enterprises

The implementation of energy-efficient technologies in enterprises will lead to higher economic efficiency through cost reduction and increased competitiveness. Utilising high efficiency cogeneration and other kinds of technologies in the production process of enterprises will have an important impact on lowering the costs of products and services. Implementing energy interconnection projects will generate significant economic benefits for all the partners involved and will increase security of supply. Furthermore, the development of international exchanges fosters market competition and competitiveness gains for the actors involved.

Actions aiming at introduction of energy saving technologies, as well as for utilisation of renewable energy resources by enterprises will also be supported. The interventions will be focused on:

Indicative activities - energy assessment of the needs of the enterprises and energy audit, pre-feasibility and feasibility studies, technical specifications, procurement, delivery, instalment and introduction of appropriate energy saving technologies and equipment to achieve higher exploitation of their energy potential, development of energy saving production lines, reducing losses by upgrading/ renovation of the equipment; upgrading energy management, improving heat and energy properties of the buildings, production and auxiliary operations and other facilities related to production; using energy-saving materials and products, reducing environmental impact and achieving energy savings; etc. As a complementarity, the introduction of innovative technologies, aimed at reducing the energy intensity, will be also eligible under the Priority Axis 1.

Indicative costs – the operation could cover costs for energy audit and feasibility studies; investment for delivery, instalment and introduction of appropriate energy saving technologies and equipment; investments in refurbishment, upgrading and rehabilitation of existing power and heat capacities in enterprises in order to improve the energy efficiency;

Indicative beneficiaries - the operation envisages delivery of support for both SMEs and large enterprises, both from the productive and service sectors.

In case of assistance granted from the Structural funds to a large enterprise, the Managing Authority undertakes to request an assurance from the enterprises concerned that the assistance will not be used in support of investment that concerns the reallocation of its production or service facilities from another Member States of the European Union.

Quantified targets – see indicator 11

Indicative operation 2.3.2. Introduction of renewable energy resources satisfying the needs of the enterprise (RES)

Another field of actions is the introduction of renewable energy resources satisfying the needs of the enterprise and covering production of energy from wind and solar sources and industrial facilities cogenerations.

Indicative activities - enterprise projects for use of renewable energy sources - feasibility studies, preparation of technical plans, specifications, procurement documentation, etc., building, renewing or refurbishment of equipment for the use of renewable energy sources, introduction of production technologies and equipment with low energy intensity and positive environmental impact and using equipment for energy generation from RES, including activities for combined power and heat generation using RES.

Indicative costs - The scheme would provide co-financing to eligible costs to preparation and carrying out feasibility studies, preparation of procurement documentation; investments in refurbishment, supply, delivery, installation and maintenance of production technologies and equipment.

Indicative beneficiaries - the operation envisages delivery of support for both SMEs and large enterprises, both from the productive and service sectors.

In case of assistance granted from the Structural funds to a large enterprise, the Managing Authority undertakes to request an assurance from the enterprises concerned that the assistance will not be used in support of investment that concerns the reallocation of its production or service facilities from another Member States of the European Union.

Quantified targets – see indicator 10

AREA OF INTERVENTION 2.4. PROMOTION OF BUSINESS NETWORKING AND CLUSTERING

Indicative operation 2.4.1. Promotion of business networking and clustering

The advantages of business networking and clustering are largely recognized in the modern economy as a means for improving the production and marketing performance of enterprises through the synergy effect, economies of scale and improved access to innovations. The cluster concept covers a variety of different business structures - national-regional-cross-border clusters, clusters of competence, industrial or production systems and innovation systems. It is used for different purposes - to increase the competitiveness of SMEs, to support collective research, to rationalise a whole industry, and to implement environment management system. A cluster has a positive influence on: competitiveness and innovation, skill formation and information, growth and long-term business dynamics. Clusters by their nature are demand driven, with companies acting in their own best interests. Behind every successful cluster there is a successful firm or group of firms and proactive cluster management. These lead companies often are large enterprises which have a market niche or a rapidly growing market. The key to developing and sustaining a cluster relies on the support of these benchmark companies and cluster management. Clusters can evolve in terms of the main forces that shape competitiveness: from a simple cluster based on trading relationships, to a cluster with an emphasis on investment and economies of scale, and, in its most dynamic articulation, to a cluster driven by innovation and finally to a reduced scale innovation system. Intended actions under this intervention are:

Indicative activities – Support to common cluster activities - development of joint projects in the field of cluster management (e.g. business screening and strategy, general business management development, marketing activities, etc.) and to common cluster investment needs. Support will be also given for establishment of common cluster utilities, which will improve the overall competitiveness of all cluster members and will facilitate their development. The operation also envisages support to individual clusters’ members in the means of consultancy services and investments for the individual company, member of the cluster,

Indicative costs – the operation could cover costs for consultancy support for the cluster management and/or equipment delivery if necessary; costs for marketing activities for the cluster as an integrated body and for all cluster members; delivery of equipment common for the cluster and for all cluster members; common services provision for all cluster members.

Indicative beneficiaries - Beneficiaries under this action could be public bodies and institutions, educational and/or research organizations, NGOs and other entities included in cluster networks. Support will be given to clusters already emerging or operational clusters which, in the case of Bulgaria, are mainly at the stages of clusters based on trade relationships or clusters with an emphasis on investment and scale economies.

In case of assistance granted from the Structural funds to a large enterprise, the Managing Authority undertakes to request an assurance from the enterprises concerned that the assistance will not be used in support of investment that concerns the reallocation of its production or service facilities from another Member States of the European Union.

Quantified targets – see indicator 12

INDICATORS

OPERATIONAL PROGRAMME „DEVELOPMENT OF THE COMPETITIVENESS OF THE BULGARIAN ECONOMY” 2007-2013

Name (Objectively verifiable Indicators)/ Definition	Type	Baseline	Frequency of reviewing (where appropriate)	Quantified target mid-term	Quantified target End-term	Data source/measurement method	Breakdown by sex and size of recipient undertakings (where appropriate)
<p>1. Increase of production capacity in supported enterprises (%)</p> <p><u>Define:</u> highest, sustainable output rate which can be achieved with the current product specifications, product mix, worker effort, plant, and equipment in supported enterprises</p>	Result	0	<p>Mid-term (2010)</p> <p>End of implementation period (2013)</p> <p>Ex-post evaluation (2015)</p>	+ 15%	+ 15%	<p>Statistical data; monitoring system. The information will be gathered on a basis of forecasted targets and achieved targets (results).</p>	<p>Of this:</p> <ul style="list-style-type: none"> - for small - for medium - for large - for start-ups
<p>2. Share of enterprises using general and specialized consultancy services</p> <p><u>Define:</u> % of enterprises using consultancy services different from daily ones (e.g. accounting, etc.)</p>	Impact	2006 22%	<p>Mid-term (2010)</p> <p>End of implementation period (2013)</p> <p>Ex-post evaluation (2015)</p>	29.3%	35%	<p>Monitoring system; statistical data; surveys; The information will be gathered on a basis of forecasted targets and achieved targets (results).</p>	<p>Of this:</p> <ul style="list-style-type: none"> - for small - for medium - for large - for start-ups
<p>3. Decrease in average age of equipment in supported enterprises</p> <p><u>Define:</u> years of production of equipment</p>	Result	2006 45.5% >10 years	<p>Mid-term (2010)</p> <p>End of implementation period (2013)</p> <p>Ex-post evaluation (2015)</p>	35.5% >10 years	30.0% >10 years	<p>Monitoring system. The information will be gathered on a basis of forecasted targets and achieved targets (results).</p>	<p>Of this:</p> <ul style="list-style-type: none"> - for small - for medium - for start-ups
<p>4. Number of supported SMEs introducing new technologies/products</p> <p><u>Definition:</u> SMEs applied with projects for introduction of new technologies – company level</p>	Output	0	<p>Mid-term (2010)</p> <p>End of implementation period (2013)</p> <p>Ex-post evaluation (2015)</p>	60	160	<p>Monitoring system. The information will be gathered on a basis of forecasted targets and achieved targets (results).</p>	<p>Of this:</p> <ul style="list-style-type: none"> - for small - for medium - for large - for start-ups

OPERATIONAL PROGRAMME „DEVELOPMENT OF THE COMPETITIVENESS OF THE BULGARIAN ECONOMY” 2007-2013

5. Number of certificates introduced in supported enterprises Define: number of certificates introduced by supported enterprises	Output	0	Mid-term (2010) End of implementation period (2013) Ex-post evaluation (2015)	200	537	Monitoring system. The information will be gathered on a basis of forecasted targets and achieved targets (results).	Of this: - for small - for medium - for large - for start-ups
6. Number of organizations participating in BSOs network	Output	0	Mid-term (2010) End of implementation period (2013) Ex-post evaluation (2015)	34	68	Monitoring system Information will be gathered on a basis of achieved results.	
7. Share of enterprises/entrepreneurs using services from the BSOs network	Result	0	Mid-term (2010) End of implementation period (2013) Ex-post evaluation (2015)	7%	20%	Monitoring system. Information will be gathered on a basis of achieved results.	Of this: - for small - for medium - for large - for start-ups
8. Satisfaction rate of enterprises provided with consultancy organizations services (per scale: 1- not satisfied; 5 – satisfied)	Result	2	Mid-term (2010) End of implementation period (2013) Ex-post evaluation (2015)	3	4	Monitoring system; surveys; Information will be gathered through satisfactory questionnaires distributed among enterprises using the services of the network.	Of this: - for small - for medium - for large - for start-ups
9. Number of regional business incubators created/upgraded	Output	0	Mid-term (2010) End of implementation period (2013) Ex-post evaluation (2015)	20	60	Monitoring system. The information will be gathered on a basis of forecasted targets and achieved targets (results).	

10. Share of energy from RES in all energy consumed by supported enterprises Define: % of renewable energy from all energy consumed in supported enterprises	Result	0	Mid-term (2010) End of implementation period (2013) Ex-post evaluation (2015)	5%	10%	Monitoring system. The information will be gathered on a basis of forecasted targets and achieved targets (results).	Of this: - for small - for medium - for large - for start-ups
11. Number of energy effective technologies/processes/solutions introduced in supported enterprises	Output	0	Mid-term (2010) End of implementation period (2013) Ex-post evaluation (2015)	55	250	Monitoring system. The information will be gathered on a basis of forecasted targets and achieved targets (results).	Of this: - for small - for medium - for large - for start-ups
12. Number of cluster initiatives created/already established supported	Output	0	Mid-term (2010) End of implementation period (2013) Ex-post evaluation (2015)	16	30	Monitoring system; The information will be gathered on a basis of forecasted targets and achieved targets (results).	

CROSS-FINANCING

In order to reach the objectives of the priority axis, it is important that the support for enterprises' projects can be of an "integrated" nature, including both ERDF and ESF type of actions, as most appropriate. Therefore it is envisaged to apply cross-financing as envisaged under art. 34 of General regulation up to the limit of 10% of spending on the priority axis' level. This will allow the financing of training with an emphasis on resource management (labour force, energy, ICT) and/or business cooperation (networking, consultancy). Such training will complement the larger investment support on the project and will guarantee the improved effectiveness of enterprises and better sustainability of investment. It will also allow the financing of vocational training complementary to the initial training related to the delivery and commissioning of new equipment and leading to more and better jobs and life-long learning. Such training will be very specific, directed at increasing labour productivity and the motivation of employees, and will constitute an integral part necessary for the implementation of supported projects.

ENVIRONMENTAL DIMENSION OF THE INTERVENTIONS UNDER PRIORITY AXIS 2

The Strategic environmental assessment of OP "Competitiveness" found out that Priority axis 2 of the OP will have, as a whole, a direct positive environmental effect. The concrete operations, which

will have such effect, are indicative operation 2.1.1. “Upgrade of technologies in enterprises”, as it would provide the enterprises with modern, less polluting equipment, indicative operation 2.1.2. “Achieving compliance with internationally recognized standards” (incl. environmental standards and management systems), indicative operation 2.3.1. “Introducing energy-saving technologies in enterprises” and indicative operation 2.3.2. “Introduction of renewable energy sources satisfying the needs of the enterprise (RES)”, as the last two operations will introduce in the enterprises systems, widely recognized as the main source for diminishing the usage of natural resources and pollution. Furthermore, the Indicative operation 2.2.1. Creation of Business Support Organizations (BSOs) network is expected to have indirect positive environmental effect, as it will encompass organisations providing consultancy services to enterprises in the area of compliance with the environmental legislation. The environmental considerations will be taken into account as horizontal priority in the process of evaluation of project proposals under the current priority axis and projects with significant environmental impact will be preferentially financed.

Priority Axis 3 Financial Resources for Developing Enterprises (FREDE)

RATIONALE

The operations under this priority axis aims at increasing investment activity and promotion of entrepreneurship through development of special financial instruments for SME funding. The envisaged interventions are intended to add new opportunities for access to risk capital to SMEs in “financing niches” where traditional bank finance is currently absent or deficient.

The limited access to finances for SMEs in Bulgaria is considered as one of the barriers for their development. Major groups of SMEs are facing serious problems in accessing bank financing, such as micro enterprises; start-ups; innovative enterprises; SMEs lacking credit or long-term business history; SMEs not possessing high-quality collateral, etc. At the same time, these enterprises are generally recognised to be an important driver for economic development.

The interventions will be focused on market failures in SMEs financing, caused by the lack of micro credits, credit guarantees and venture capital. In addition to the creation of a network for alternative financial sources with the support of ERDF, a special attention will be paid to ensure favourable environment for enterprises, low fees for document processing, long term self-sustainability, appropriate training and monitoring, and close cooperation between all interested parties, including the banking sector. The provision of a better and easier access to additional financing supported by suitable financial instruments, would stimulate the development of a more flexible R&D-driven environment for SMEs and will encourage the innovative activities, which are usually considered to be high-risky for bank financing. Developed microloan system will primarily support start-ups and micro enterprises.

Supply and demand analysis for financial engineering instruments is a challenging task caused by the lack of data availability and the feasibility of measuring the gap between current supply and

potential demand. Such analyses are provided by the EIF under the JEREMIE¹⁷ using macro statistical data, trends within the SME environment, entrepreneurs’ activity and the financial system with a review of the main factors affecting both supply and demand for financial engineering instruments. The financial allocation on the interventions is prepared based on this analysis and taking into consideration other factors such as the lack of financial engineering instruments experience and absorption capacity.

Indicative budget allocation per priority and areas of interventions – %	
Total Priority Axis (PA)	200 000 000 EUR 17 % (of total ERDF resources for the OP)
Improvement of access to finance for SMEs through instruments of financial engineering	199 000 000 EUR (99,5% of total ERDF resources for the PA)
Support for creating or extending the operation of existing business angels networks in Bulgaria.	1 000 000 EUR (0,5% of total ERDF resources for the PA)

OBJECTIVES

The specific objectives of the interventions are:

1. Improving access to development capital for micro, small and medium-sized enterprises.
2. Provision of funding for high-risk investments mainly related to innovation activities

The following AREAS OF INTERVENTIONS are defined under this Priority Axis:

- **Improvement of access to finance for SMEs through instruments of financial engineering**
- **Support for creating or extending the operation of existing business angels networks in Bulgaria.**

The split of the PA activities into the above areas of interventions is justified by the different nature of funding under those two areas. While financial engineering operations are based on the utilization of recycling funds, the business angels’ activity envisages grant type of support.

Area of intervention 3.1. Improvement of access to finance for SMEs through instruments of financial engineering

¹⁷ JEREMIE Gap analysis “Interim report for Bulgaria - SME Financing Gap Assessment - September 2006 “

The financial engineering actions envisaged will be implemented through setting-up of a Holding fund as under Art.44 of the Regulation (EC) 1083/2006, as the EIF will be appointed as the Fund Holder in the context of the JEREMIE Initiative. Details on implementation of JEREMIE instruments will be established through the Holding Fund business plan according to market failures and needs identified. The ratio between debt and equity instruments will be initially established on the basis of the SME Finance Gap Analysis Report, and flexibly corrected in the process of JEREMIE implementation to fully correspond to the actual market situation and demand.

An ‘Investment Board’ of the Holding Fund will be established to play the role of a methodological and policy guidance body to the Holding Fund, to include the representatives of the structures in charge of development and implementation of the policies for the encouragement of SMEs. The Investment board will set out the priorities for financial incentives of SMEs, the main requirements to which financial intermediaries should comply with, as well as the basic conditions of the financial products to be made available to the SMEs. Any specific criteria referring the selection of and the financial contributions to be made to the financial intermediaries in the course of JEREMIE implementation will have to be approved by the Monitoring Committee of the OP

The Holding fund will have the right to select financial intermediaries (operators of guarantee funds/schemes, micro credit funds/schemes and risk capital funds), on the basis of competitive procedure by applying the criteria, approved by the Monitoring Committee of the OP. The financial intermediaries will in return provide the agreed types of financial products (micro-loans, guarantees, seed and venture capital, etc.) to the SMEs by observing the rules approved by the Holding fund, and following the priorities for financial encouragement of SMEs, adopted by the Investment board. The management costs of the Holding Fund will be eligible expenditure under this operation.

In the course of JEREMIE implementation a clear synergy with the activities implemented under other PAs will be sought. In this context, in particular the creation and support for technology-transfer funds is envisaged, to complement the activities under PA 1. The support for those funds will be designed as per the outcomes and recommendations of the SME Finance Gap Analysis Report, prepared by the EIF.

Indicative operation 3.1.1. Support for guarantee funds

The Holding fund will encourage the supply of different guarantee products (guarantees) via targeted support of specialized Guarantee funds (through credits, venture funds or/and contra-guarantee), or via direct support to the bank institutions by offering guarantee for certain SMEs loan portfolios (portfolio guarantees).

Creation and capitalisation of guarantee funds/schemes, including expansion of the activities of already operating ones will be supported, as well as the management costs incurred.

Beneficiaries: Organizations (public bodies, commercial entities or NGOs), operating a guarantee fund;

Indicative operation 3.1.2. Support for micro-loan funds

The Holding fund will support the supply of micro-credit by targeted financing of micro-loan institutions and banks, which are offering micro-finance by issuing credits or guarantees.

Support will be provided to existing micro-loan funds/schemes, as well as for newly created ones, including local or regional funds or branches of funds.

Beneficiaries: Organizations (public bodies, commercial entities or NGOs), operating micro-loan funds/schemes, or banks offering micro-loans.

Indicative operation 3.1.3. Support for seed & venture capital funds investing in SMEs

Holding funds will encourage the venture capital investments, through targeted support to seed and venture capital funds for their SME investments.

The investments by the Holding Fund in venture capital funds will include, but be not limited, to: investments in equity capital or loans instruments, extending guarantees for equity investments, etc.

Beneficiaries: Seed and venture capital funds, investing in SMEs.

AREA OF INTERVENTION 3.2. SUPPORT FOR CREATING OR EXTENDING THE OPERATION OF EXISTING BUSINESS ANGELS NETWORKS IN BULGARIA.

The networks will provide matching services to put SMEs with business angels – high worth successful professionals, who wish to invest some of their surplus funds in new ventures. Supported actions will cover the operating cost of the networks, including match-making services, consultations and trainings to SMEs, etc.

Beneficiaries: organizations, managing business angels networks.

An appropriate approach to ensure complementarity between the above two areas of interventions, once the institution-building activities of the business angels network are implemented, can be JEREMIE to support a revolving fund specifically to match the business angels’ investments.

Where possible, synergy effect of the above operation with activities under other priorities should be achieved by using integrated approaches, such as:

- Support for small risk capital, guarantee or loan funds operating as a subsidiary of high technology business incubators (supported under Priority 1) and targeted to innovative SMEs;
- Support for business angel networks co-operating with high technology business incubators (supported under Priority 1), Business Support Organisations (supported under Priority 2) in order to facilitate relations between business angels and SMEs;
- Establishment of Mutual Guarantee Associations by group of SMEs, business support associations and/or Chamber of Commerce, sometimes in partnership with banks, in order to provide guarantee for loans and business support services to SMEs using capacity of their members, etc.

INDICATORS

Definition/Name (Objectively verifiable Indicators)	Type	Baseline	Frequency of reviewing (where appropriate)	Quantified target mid-term	Quantified target End-term	Data source/measurement method	Breakdown by sex and size of recipient undertakings
1. Increase of	Impact	2006	Mid-term (2010) End of	40%	43%	Statistical	Of this: - for small

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share of enterprises receiving loans Definition:		37%	implementation period (2013) Ex-post evaluation (2015)			data; monitoring system	undertakings - for medium undertakings - for start-ups
2. Share of venture capital funds in sources of financing Definition: share of seed and risk capital funds as providers of external financing for start-ups	Impact	2006 0.4%	Mid-term (2010) End of implementation period (2013) Ex-post evaluation (2015)	0.5%	0.6%	Monitoring system; survey	Of this: for men Of this: for women
3. Share of external financing sources for investment needs of enterprises Definition: share of external financing sources used for investment needs by enterprises.	Impact	<u>2006</u> 18% (banks) 10% (lease) MoEE national survey 2006	Mid-term (2010) End of implementation period (2013) Ex-post evaluation (2015)	(banks) 20% (lease) 11%	(banks)) 23% (lease) 13%	Monitoring system	Of this: - for small undertakings - for medium undertakings - for start-ups
4. Number of investment projects supported by supported risk capital funds	Result	0	Mid-term (2010) End of implementation period (2013) Ex-post evaluation (2015)	10	20	Monitoring system	Of this: - for small undertakings - for medium undertakings - for start-ups
5. Number of financial products created/developed	Output	0	Mid-term (2010) End of implementation period (2013) Ex-post evaluation (2015)	5	8	Monitoring system	

CROSS-FINANCING

It is envisaged to provide cross-financing up to the limit of 10% of spending on the priority axis level. This will allow financing of some training activities for the management staff of the funds/schemes that will be supported. Transfer of specific experience in management of successful micro-finance, guarantee or risk capital funds through trainings will potentially improve the leverage effect of public finances (ERDF and national budget money) and provide a better service to enterprises.

ENVIRONMENTAL DIMENSION OF THE INTERVENTIONS UNDER PRIORITY AXIS 3

The Strategic environmental assessment of OP “Competitiveness” points out that PA3 will have indirect positive effect on the environment as it will ensure financial recourses for enterprises willing to implement projects inherent to priority axis 1 and 2. The environmental impact of the funded projects will be considered as a selection criteria.

Priority Axis 4 “Strengthening the international market positions of Bulgarian economy”

SPECIFIC OBJECTIVES OF PRIORITY AXIS

1. Increasing the volume and economic effect of the attracted investments;
2. Facilitating access of Bulgarian enterprises to foreign markets through comprehensive export information and services to enterprises;
3. Ensuring conformity of Bulgarian products with international quality standards.

RATIONALE

The priority axis is aimed at facilitating the integration of Bulgarian economy in the single European and world market through improving the environment for investments and export, and is thus contributing to the global objective of OP “Competitiveness”. The priority axis will be mainly implemented through multi-annual projects of public institutions providing services to business, and will thus contribute to the second specific objective “Improving the business environment.”

Despite the impressive inflow of FDI, the amounts invested in production of export-oriented products and services remain at a low level. The amendment of the Law for Encouragement of Investments offers preferential treatment for investors in these fields. However, special promotion and marketing efforts will also be needed to implement the Law. The information and services offered to investors will need restructuring and major improvement. The whole system for encouragement of investments at regional-national-international level will need substantial investments and trainings. Moreover, as an EU member, Bulgaria loses some advantages as investment destination, but gains others. In order to make the best of them, important analytic work will need to be done. Foreign experience and consultancy will be a necessary ingredient of the more efficient national policy for encouragement of investments.

In order to alleviate the trade deficit and to improve the chances of Bulgarian SMEs for growth, special attention should be put on their export orientation. Thus, the introduction and presence of Bulgarian enterprises on foreign markets should be supported. Bulgarian SMEs should be provided with up-to-date and easily accessible information through the improvement of the export promotion and match-making services and targeted (inter)national promotional activities.

The quality of the products offered is another major issue for export promotion. The adequate and accredited testing and certification infrastructure in Bulgaria will allow enterprises to provide guaranteed high quality products at more competitive prices. Information about the mandatory as well as voluntary requirements and standards that goods should cover, as well as about the benefits of certification will help Bulgarian enterprises to more easily integrate into international business networks. Bulgaria is also an external border for the Community, and as an entrance point for non-EU goods a high level of market surveillance and supervision provided by well equipped testing and calibration laboratories, and control bodies are essential.

The public agencies engaged in investment and export promotion, Invest Bulgaria Agency and BSMEPA have long track records in their specific fields and good experience under PHARE Programme. Both of them have been recipients of PHARE financing for institution building. The real investment and export promotion activities have been rather limited so far, since they have been financed from the state budget resources. With the support of the Structural funds, IBA and BSMEPA will have an opportunity to better utilize their institutional capacity developed under PHARE and substantially increase the scope and volume of investment and export promotion services offered to business.

The organizations in the national quality infrastructure are public or state-owned, but some five to ten years ago they used to be parts of one and the same state body. They still cooperate significantly and implement quality projects together. As a future EU external border, Bulgaria has received, over the past five years, relatively substantial PHARE Program assistance in the field of certification, accreditation, metrology, conformity assessment and institution building of the respective bodies. This financing was directed only in gap-filling in an attempt to raise the Bulgarian quality infrastructure to the European level. More than 10 million euro PHARE funding have been invested so far. At least double this is needed to make the system efficient, pro-active and business-oriented. PHARE projects under Memoranda 2005 and 2006 are to begin implementation in 2007 and 2008. OP will build upon that base.

Indicative budget allocation per priority and areas of interventions – %	
Total Priority Axis (PA)	87 011 870 EUR 7.49 % (of total ERDF resources for the OP)
Promoting the investors' advantages of Bulgaria	33.4 % (of total ERDF resources for the PA)
Promoting the internationalisation of the Bulgarian enterprises	46.55 % (of total ERDF resources for the PA)
Improvement of the national quality infrastructure (NQI)	20.05 % (of total ERDF resources for the PA)

AREAS OF INTERVENTIONS

The activities under the priority will be concentrated on the following areas:

The following AREAS OF INTERVENTIONS are defined under this Priority axis:

- Promoting the investors' advantages of Bulgaria
- Promoting the internationalisation of the Bulgarian enterprises
- Improvement of the national quality infrastructure (NQI)

AREA OF INTERVENTION 4.1. PROMOTING THE INVESTORS' ADVANTAGES OF BULGARIA

The aim of this area of intervention is to improve the conditions for investments through implementation of multi-annual Invest Bulgaria Agency projects promoting the country as investment destination. The indicative operations envisaged under this area are:

Indicative operation 4.1.1 - Providing analytical information on investment trends in Bulgaria and abroad

The implementation of the amended Law for Encouragement of Investments calls for further analyses and concentration on the target sectors with high value added and export potential.

Indicative activities – development of a methodology for gathering information and a system for monitoring and evaluation of the trends in the competitiveness of target sectors of Bulgarian economy, sector and legal analyses of target sectors, analyses of competitive advantages of Bulgaria in the target sectors, analyses of the dynamics and trends in investment flow to Bulgaria, analyses of potential investors (states, companies) in target sectors, etc., distribution of the analyses in IBA periodicals

Indicative costs – Costs could be covered for consultancy services for development of analyses, methodologies, and systems, as well as training costs and consultancy services for IBA personnel to get the know-how of developing such analyses

Indicative beneficiaries – Invest Bulgaria Agency

Quantified targets – see indicator 3

Indicative operation 4.1.2 – Pilot marketing campaigns for attracting investors in target sectors

Until now the marketing campaigns for attracting investments to Bulgaria have been concentrated more on volume than on quality or specific sectors. Thus, new marketing products and approaches need to be tested and introduced. The overall image of Bulgaria as investment destination will also need to be reshaped to fit the new concentration on target sectors.

Indicative activities –preparation (content and design) of image-making and marketing materials and events – leaflets, brochures, CDs, TV spots, audio-commercials, printed advertisements, etc., distribution of promotion materials, improved IBA web-site, presentation module for investment and economic for a, participation at fairs, investment exhibitions and large scale conferences and economic events in the target sectors or on the target markets, hosting

matchmaking events in Bulgaria, road shows, cold calling on potential investors, developing a model for country visit of potential investors from target sectors, etc.

Indicative costs – Costs could be covered for consultancy services (PR & image making, marketing) for promotion materials, purchase of IT equipment, software and consultancy services for IBA web-site, participation in fairs, exhibitions and conferences (fees, cost of area, construction of stand, advertisements, etc.), purchase of air time in TVs and radios or columns in printed media, renting halls and paying for logistics (translation, etc.) for investment events and country visits

Indicative beneficiaries – Invest Bulgaria Agency

Quantified targets – see indicator 1

Indicative operation 4.1.3 – Diversification and standardization of the IBA services for investors

The marketing efforts need to be matched by improved IBA services for investors that choose Bulgaria as a destination for extending or moving their businesses.

Indicative activities – development of integrated information system in support of investment process, development of new services for investors (on-line services, services beyond the scope of the Law for Encouragement of Investments), improving quality or extending the scope of existing services, standardizing the technology of offering services to potential investors (unified internal rules and procedures, audit trails, e-archives, etc.)

Indicative costs – Costs could be covered for surveys of the services needed by investors, transfer of best practices in services from leading countries, travel costs for IBA and ROSIO personnel for study-visits in leading EU agencies for attraction of investments, participation in international conferences, consultancy services for development of new services, training of IBA personnel, purchase of equipment – office and IT equipment, consultancy services for development of internal rules and procedures, audit trails, e-archives, etc., purchase of equipment and software for the integrated information system (data bases accessible through the Internet), consultancy for designing the information flow to the system (methodology for data collection, cross-examination of data, data update, etc.), maintenance of the information system

Indicative beneficiaries – Invest Bulgaria Agency

Quantified targets – see indicator 2

AREA OF INTERVENTION 4.2. PROMOTING THE INTERNATIONALISATION OF THE BULGARIAN ENTERPRISES

The aim of the area of intervention is to improve the export quantity and quality of Bulgarian SMEs through implementation of multi-annual projects of the Bulgarian Small and medium-sized Enterprises Promotion Agency (BSMEPA). The indicative operations envisaged under this area are:

Indicative operation 4.2.1 Providing more abundant and better quality information of foreign markets to Bulgarian enterprises

Access to information on foreign markets and potential partners is the first step to export encouragement.

Indicative activities – development and maintenance of Internet-accessible data bases (enterprises with export potential, potential foreign partners, etc.), development and maintenance of a system for automatic business matchmaking, development of analyses (regional, sector-oriented, legal frame-oriented, best practices, etc.), information sessions and trainings for NGOs and enterprises on how to use the new available information, preparation of information materials for enterprises (printed, CDs), distribution of information materials

Indicative costs – Costs would be covered for purchase of IT equipment and software, consultancy, training of BSMEPA personnel in development of analyses and use of databases, training of trainers among NGOs, travel costs, rent of halls, accommodation of lecturers, etc., development, printing and distribution of materials, purchase and translation of foreign-trade analyses, BSMEPA subscription fees for specialized databases and analytical periodicals

Indicative beneficiaries – BSMEPA

Quantified targets – see indicators 4, 5

Indicative operation 4.2.2 Encouraging SME participation in international specialized fairs, exhibitions, and trade missions

Organized support is much more effective than participation of single enterprise. Special efforts will be concentrated on target markets and sectors.

Indicative activities – participation of BSMEPA and SMEs at international specialized fairs and exhibitions, organization of accompanying promotional events on target markets or for target sectors and products, organization of trade missions in Bulgaria and abroad to target markets or for target sectors and products. The support for participation of SMEs in fairs, exhibitions, trade missions, etc. will be provided as a grant scheme through the Intermediate Body (which is also BSMEPA Directorate).

Indicative costs – Costs could be covered for participation fees, cost of area, construction of stand, advertisements for fairs and exhibitions (catalogue of exhibitors, media taxes, CD and catalogue of Bulgarian participation, etc.), rent of premises, travel expenses, accommodation, catering, interpretation and translation, , transportation of goods to be promoted, training BSMEPA and NGO personnel, as well as staff of enterprises dealing with foreign partners and participating in exhibitions etc.

Indicative beneficiaries – BSMEPA, enterprises with export potential

Quantified targets – see indicators 6, 7

Indicative operation 4.2.3 Improvement of the image (branding) and the export potential of Bulgaria

Indicative activities – development of a Strategy and Action plan for improving the image of Bulgaria, production and distribution of PR and promotion materials (brochures, leaflets, periodicals, catalogues, TV-spots, radio-commercials, CDs, etc.)

Indicative costs – Costs could be covered for consultancy, design, production and distribution of promotion materials, training BSMEPA and NGO personnel

Indicative beneficiaries - BSMEPA

Quantified targets - see indicators 6, 7

AREA OF INTERVENTION 4.3. IMPROVEMENT OF THE NATIONAL QUALITY INFRASTRUCTURE (NQI)

Improving quality and extending the range of services provided by the national quality infrastructure bodies, including ensuring effective actions of the relevant surveillance and control authorities, is main precondition for increasing competitiveness of enterprises. These activities will improve and facilitate the access of enterprises to standards; they will also contribute to ensuring traceability of national measurement standards and international recognition of calibration and testing results, as well as ensuring equal conditions for performing business, reducing unfair competition and promoting good quality products manufacturing.

The indicative operations envisaged under this area are:

Indicative operation 4.3.1. Information and awareness campaigns for businesses

Bulgarian companies with export potential need more abundant, better structured and coherent information of the quality requirements to their products on the European and world markets. Pro-active efforts on behalf of the state and public bodies of the National quality infrastructure will be need to raise the awareness of enterprises, especially of SMEs. The operation will be implemented through multi-annual projects.

Indicative activities – organization of conferences, workshops, seminars, road shows etc. to present the requirements for the production of particular sector and the bodies to which the companies may turn for support, production of information materials (printed, CDs), development of relational database providing integrated information on standardization, accreditation, certification, testing, market surveillance, etc., elaboration of training programs on standardization and conformity assessment for technical universities, participation in fairs and exhibitions in Bulgaria to reach target sectors, upgrade of web-sites, etc.

Indicative costs – Costs could be covered for information event organization (hall rent, translation, etc.), travel expenditures of lecturers, costs related to the development, printing and distribution of brochures, leaflets, books, guides, etc., purchase of IT equipment and software, consultancy services and development of software for the relational database, maintenance of the database, consultations on training programs, study-visits to EU and international universities with similar programs, training of trainers, fees, cost of area, construction of stand, advertisements for fairs and exhibitions, purchase of hardware and consultancy services for web-site development, etc.

Indicative beneficiaries – State Agency for Metrological and Technical Surveillance, Bulgarian Institute for Standardisation, Bulgarian Institute of Metrology, Executive Agency “Certification and testing”, EA “Bulgarian Accreditation Service”,

Quantified targets – see indicators 8, 9

INDICATIVE OPERATION 4.3.2. UPGRADE OF CALIBRATION AND TESTING LABORATORIES, CONFORMITY ASSESSMENT BODIES (CABs)

The operation will be implemented through multi-annual projects for the state bodies and grant schemes for the private CABs

Indicative activities – investments and training for improving efficiency of surveillance and control activities, quality and range of services, automation of available technical facilities, exchange of experience with leading EU institutions, inter-laboratory comparisons. The support for private calibration and testing laboratories, private certification and inspection bodies, conformity assessment bodies will take the form of a grant scheme.

Indicative costs – purchase of on-site testing facilities for market surveillance activities, purchase of mobile laboratories and laboratory equipment (testing, standard, auxiliary) for traceability of measurements, calibration, testing and metrology support, purchase of software, rehabilitation of laboratories, consultancy for designing of new metrology complex, for designing new laboratories, etc., training of personnel, travel costs, accommodation, fees and logistic costs for inter-laboratory comparisons

Indicative beneficiaries – State Agency for Metrological and Technical Surveillance, Bulgarian Institute for Standardisation, Bulgarian Institute of Metrology, Executive Agency “Certification and testing”, EA “Bulgarian Accreditation Service”, public and private calibration and testing laboratories, public and private certification and inspection bodies, conformity assessment bodies

Quantified targets – see indicator 10

Indicative operation 4.3.3. Offering more and better services to business

Interrelations among NQI bodies need to be strengthened and their business orientation – improved, so that their activities are to be more efficient. The operation will be implemented through multi-annual projects of the NQI bodies.

Indicative activities – development of a Strategy and Action Plan for the NQI, training needs analyses, internal rules and procedures, audit trails, etc. strengthening the administrative and technical capacity of NQI institutions, development of new services and e-services, opening of new branches of NQI institutions in the countryside, participation in international events, groups, exchange of experience with leading EU institutions, training

Indicative costs – Costs could be covered for consultancy, purchase of equipment (office, IT, etc.), purchase of software, rehabilitation of buildings, fees, travel costs, accommodation, training of NQI personnel, etc.

Indicative beneficiaries – State Agency for Metrological and Technical Surveillance, Bulgarian Institute for Standardisation, Bulgarian Institute of Metrology, EA „Bulgarian Accreditation Service”, EA „Certification and Testing”

Quantified targets – see indicator 11

INDICATORS

Definition/Name (Objectively verifiable Indicators)	Type	Baseline	Frequency of reviewing (where appropriate)	Quantified target mid-term	Quantified target End-term	Data source/me asurement method	Breakdown by sex and size of recipient undertakings

OPERATIONAL PROGRAMME „DEVELOPMENT OF THE COMPETITIVENESS OF THE BULGARIAN ECONOMY” 2007-2013

1. Number of implemented investment projects in target sectors Definition: number of investment projects in target sectors implemented after 2007 (including projects in implementation)	Result	4	Mid-term (2010) End of implementation period (2013) Ex-post evaluation (2015)	20	30	Monitoring system	Of this: - for small undertakings - for medium undertakings - for large undertakings - for start-ups
2. Number of services offered to investors Definition: types of IBA services offered to investors	Output	5	Mid-term (2010) End of implementation period (2013) Ex-post evaluation (2015)	9	12	Monitoring system	Of this: - for small undertakings - for medium undertakings - for large undertakings - for start-ups
3. Number of enquiries from potential investors in target sectors Definition: number of information enquiries and spot-visits of target-sector investors	Result	25	Mid-term (2010) End of implementation period (2013) Ex-post evaluation (2015)	90	150	Monitoring system	
4. Increase in the number of users of BSMEPA web-page Definition: ratio of the number of BSMEPA web-page users in a given year to their number in 2007	Result	100%	Mid-term (2010) End of implementation period (2013) Ex-post evaluation (2015)	180 %	300 %	Monitoring system, statistics of BSMEPA	Of this: - for small undertakings - for medium undertakings - for large undertakings - for start-ups
5. Number of export-oriented enterprises registered in BSMEPA databases Definition: ratio of the number of companies registered in BSMEPA databases in a given year	Result	100%	Mid-term (2010) End of implementation period (2013) Ex-post evaluation (2015)	150 %	250 %	Monitoring system, statistics of BSMEPA	Of this: - for small undertakings - for medium undertakings - for large undertakings - for start-ups

OPERATIONAL PROGRAMME „DEVELOPMENT OF THE COMPETITIVENESS OF THE BULGARIAN ECONOMY” 2007-2013

to their number in 2007							
6. Volume of export in supported enterprises Definition: volume of export in total production in supported enterprises under OP	Result	0	Mid-term (2010) End of implementation period (2013) Ex-post evaluation (2015)	14 %	18 %	Monitoring system	Of this: - for small undertakings - for medium undertakings - for large undertakings - for start-ups
7. Number of enterprises participating in promotion projects Definiton: Number of enterprises participating in promotion projects in Bulgaria and abroad	Output	0	Mid-term (2010) End of implementation period (2013) Ex-post evaluation (2015)	In Bulgaria 45.3 % Abroad 18.0%	In Bulgaria 50.3 % Abroad 20.6%	Monitoring system	Of this: - for small undertakings - for medium undertakings - for large undertakings - for start-ups
8. Awareness of harmonized technical legislation and NQI services Definition: percentage of enterprises fully aware of the requirements and deadlines for their implementation in the sphere of quality of products	Result	14.6%	Mid-term (2010) End of implementation period (2013) Ex-post evaluation (2015)	18%	25%	Monitoring systems	Of this: - for small undertakings - for medium undertakings - for large undertakings - for start-ups
9. Number of information events for promotion of conformity assessment, certification and quality of products Definition: Number of information events for promotion of certification and quality of products carried out by bodies of national quality infrastructure	Output	0	Mid-term (2010) End of implementation period (2013) Ex-post evaluation (2015)	20	40	Monitoring systems	
10. Number of	Output	0	Mid-term (2010)	7	15	Monitoring	

laboratories supported Definition: number of public and private laboratories receiving investments, training, rehabilitation of premises and training of personnel			End of implementation period (2013) Ex-post evaluation (2015)			systems	
11. Number of new or improved services for business offered by NQI organizations Definition: new, improved in quality or extended in scope services for business offered by state and public NQI bodies	Output	0	Mid-term (2010) End of implementation period (2013) Ex-post evaluation (2015)	6	12	Monitoring systems	

CROSS-FINANCING

It is envisaged to provide cross-financing up to the limit of 10% of spending on the priority axis level. This will allow for the financing of some specific vocational training activities as part of the projects of the state and public institutions. The purpose of trainings will be to transfer international business-friendly practices to state institutions, thus improving the effectiveness of investments made. Without trainings, the change of business of recipient institutions will be slower and less likely to succeed, thus the sustainability of investment support for the projects might be jeopardized. Competitiveness of enterprises, which are final beneficiaries of assistance under this priority, will also be negatively affected by the lack of trainings. International consultants may be attracted for the training due to the limited in-country experience.

ENVIRONMENTAL DIMENSION OF THE INTERVENTIONS UNDER PRIORITY AXIS 4

The Strategic environmental assessment of OP “Competitiveness” points out that PA4 will have neutral effect on the environment due to the nature of the envisaged operations, which are mainly related to soft measures for promotion the investment advantages of Bulgaria and Bulgarian products on the international markets. It is expected only the Indicative operation 4.3.2. “Upgrade of calibration and testing laboratories, conformity assessment bodies (CABs)” to have indirect positive environmental effect, as it will support the compliance of Bulgarian products with the legislative and market requirements, including in the environmental area.

Priority Axis 5 Technical Assistance

RATIONALE

The axis is aimed at supporting the successful and sound management of the interventions under the OP and capacity building in the Managing and Implementing Authorities. It envisages support for the process of planning, management, project selection and evaluation of OP through assisting the Managing Authority and Intermediate Bodies.

The objective of the priority axis is to improve the quality of the interventions to be carried out and to increase the effectiveness of SF absorption through the realization of the OP at the level of MA and IBs.

The activities under the present priority will cover two **AREAS OF INTERVENTIONS**, as follows::

AREA OF INTERVENTION 5.1. SUPPORT FOR THE MANAGEMENT, IMPLEMENTATION, MONITORING AND EVALUATION OF THE OPERATIONAL PROGRAMME

- expenditures relating to the preparation, selection, appraisal, monitoring and control of the assistance and of operations,
- expenditures on meetings of Monitoring Committee. Costs of experts and other participants in the committee, including third-country participants, where their presence is considered to be essential to the effective implementation of the assistance,
- expenditures relating to audits of the operations.
- Expenditure on the provision of services relating to the preparation and implementation of an operation provided by a public authority which is itself the beneficiary and which is executing an operation for its own account without recourse to outside service-providers.

Beneficiaries

Beneficiaries under the present actions will be Managing Authority, Intermediate Body

AREA OF INTERVENTION 5.2. OTHER ACTIVITIES FOR THE IMPLEMENTATION OF THE OP

- programme management – provision of external expertise to develop technical, operational, methodological, institutional and procedural capacity at all levels of OP implementation.
- Training of staff of all organizations involved at all stages – programming, planning, management, monitoring, control and implementation of OP;
- Preparation of researches for the needs of the OP;
- Assistance to evaluation of projects – expertise, studies, evaluation, formation of pool of experts;
- Information campaigns and promotion activities

Beneficiaries

Beneficiaries under the present actions will be Managing Authority, Intermediate Body

INDICATORS

OPERATIONAL PROGRAMME „DEVELOPMENT OF THE COMPETITIVENESS OF THE BULGARIAN ECONOMY” 2007-2013

Definition/Name (Objectively verifiable Indicators)	Type	Baseline	Frequency of reviewing (where appropriate)	Quantified target mid-term	Quantified target End-term	Data source/measurement method	Breakdown by sex and size of recipient undertakings
Evaluations of the OP performed Definition: number of external and internal evaluations performed	Result	0	Mid-term (2010) Ex-post evaluation (2015) On-going evaluations	1 external 2 internal	1 external 4 internal	Monitoring system	
Number of information activities carried out	Output	0	Mid-term (2010) End of implementation period (2013) Ex-post evaluation (2015)	19	45	Monitoring system	Of this: - for small undertakings - for medium undertakings - for large undertakings - for start-ups

VI. INDICATIVE BREAKDOWN OF THE COMMUNITY CONTRIBUTION BY CATEGORY IN THE OP “DEVELOPMENT OF THE COMPETITIVENESS OF THE BULGARIAN ECONOMY”¹⁸

Commission reference No: 2007BG161PO003

Name of the programme: Development of the Competitiveness of the Bulgarian Economy

Date of the last Commission decision for the Operational Programme concerned:

__/__/__

(in euros)

Dimension 1		Dimension 2		Dimension 3		Dimension 4	
Priority theme		Form of finance		Territory		Economic activity	
Code	Amount	Code	Amount	Code	Amount	Code	Amount
02	54 400 000			00	987 883 219	00	987 883 219
03	20 825 000	01	817 883 219				
04	80 750 000	02	137 275 000				
05	161 454 818	03	32 725 000				
06	23 233 333	Total	987 883 219				
07	43 775 000						
08	139 570 409						
09	112 041 894						
14	31 875 000						
15	23 233 333						
39	27 760 748						
40	27 760 748						
43	119 440 616						
64	34 850 000						
81	57 276 302						
85	22 227 014						
86	7 409 004						

Total 987 883 219

Total 987 883 219

Total 987 883 219

¹⁸ The detailed list of the breakdown of Community contribution to codes and dimension is provided in Annex 4 of the OP

VII. INDICATIVE FINANCIAL PLAN¹⁹

Financial Plan 1 for the Operational Programme “Development of the Competitiveness of Bulgarian Economy” giving the annual commitment of each fund in the operational programme (current prices)

Operational programme reference (CCI number): 2007BG161PO003

Priority axes by source of funding (in EUR)²⁰

	Structural Funding (ERDF) (1)	Cohesion Fund (2)	Total (3) = (1)+(2)
2007	71 844 538	0	71 844 538
In Regions without transitional support			
In Regions with transitional support		0	
Total 2007	71 844 538	0	71 844 538
2008	105 171 139	0	105 171 139
In Regions without transitional support			
In Regions with transitional support		0	
Total 2008	105 171 139	0	105 171 139
2009	143 202 668	0	143 202 668
In Regions without transitional support			
In Regions with transitional support		0	
Total 2009	143 202 668	0	143 202 668
2010	150 898 409	0	150 898 409
In Regions without transitional support			
In Regions with transitional support		0	
Total 2010	150 898 409	0	150 898 409
2011	161 551 329	0	161 551 329
In Regions without transitional support			

²⁰ In case of multi-objective operational programmes, the annual financing plan shall also be broken down by objective.

In Regions with transitional support		0	
Total 2011	161 551 329	0	161 551 329
2012			
In Regions without transitional support	172 263 692	0	172 263 692
In Regions with transitional support		0	
Total 2012	172 263 692	0	172 263 692
2013			
In Regions without transitional support	182 951 444	0	182 951 444
In Regions with transitional support		0	
Total 2013	182 951 444	0	182 951 444
Total in Regions without transitional support (2007- 2013)	987 883 219	0	987 883 219
Total in Regions with transitional support (2007-2013)	0	0	0
Grand Total 2007-2013	987 883 219	0	987 883 219

Financial Plan 2 of the Operational Programme “Development of the Competitiveness of Bulgarian Economy”, giving, for the whole programming period, the amount of the total financial allocation of each fund in the operational programme, the national counterpart and the rate of reimbursement by priority axis. (current prices)

Operational programme reference (CCI number): 2007BG161PO003

Priority axes by source of funding (in EUR)

	Community Funding (a)	National counterpart (=c) + (d)	Indicative breakdown of the national counterpart		Total funding (e) = (a)+(b)	Co-financing rate (f) = (a)/(e)	For information ²¹	
			National Public Funding (c)	National private funding (d) ²²			EIB contributions	Other funding
Priority Axis 1 Development of Knowledge-based economy and Innovation Activities ERDF	209 525 000	36 975 000	36 975 000		246 500 000	85%	0	0
Priority Axis 2 Increasing efficiency of enterprises and promoting supportive business environment ERDF	504 762 113	89 075 667	89 075 667		593 837 780	85%	0	0
Priority Axis 3 Financial resources for Developing Enterprises ERDF	170 000 000	30 000 000	30 000 000		200 000 000	85%	0	0
Priority Axis 4 Strengthening the International market positions of the Bulgarian economy ERDF	73 960 090	13 051 780	13 051 780		87 011 870	85%	0	0
Priority Axis 5 Technical Assistance ERDF	29 636 016	5 229 885	5 229 885		34 865 901	85%	0	0
Total	987 883 219	174 332 332	174 332 332		1 162 215 551	85%	0	0

²¹ OP “Competitiveness” does not envisage any contribution from EIB or other financial sources

²² No national private co-financing is envisaged at Operational programme level. Private co-financing will be available at single projects level according to the co-financing rates applicable under each aid scheme.

Financial Table 3 for the Operational Programme “Development of the Competitiveness of Bulgarian Economy” by priorities and years (commitments) total 2007-2013 (current prices)

Priority axis/Year	Total costs (without private contribution)	Public						Private ²³	Cohesion Fund	Other financial instruments	Loan EIB
		Total	Community contribution		National public contribution						
			Total Community	ERDF	Total National Public	State budget	Other				
Priority axis 1											
2007	10 500 000	10 500 000	8 925 000	8 925 000	1 575 000	1 575 000	0	0	0	0	
2008	18 064 248	18 064 248	15 354 611	15 354 611	2 709 637	2 709 637	0	0	0	0	
2009	20 918 654	20 918 654	17 780 856	17 780 856	3 137 798	3 137 798	0	0	0	0	
2010	32 000 000	32 000 000	27 200 000	27 200 000	4 800 000	4 800 000	0	0	0	0	
2011	39 500 000	39 500 000	33 575 000	33 575 000	5 925 000	5 925 000	0	0	0	0	
2012	60 558 900	60 558 900	51 475 065	51 475 065	9 083 835	9 083 835	0	0	0	0	
2013	64 958 198	64 958 198	55 214 468	55 214 468	9 743 730	9 743 730	0	0	0	0	
2007-2013	246 500 000	246 500 000	209 525 000	209 525 000	36 975 000	36 975 000	0	0	0	0	
Priority axis 2											
2007	30 000 000	30 000 000	25 500 000	25 500 000	4 500 000	4 500 000	0	0	0	0	
2008	50 000 000	50 000 000	42 500 000	42 500 000	7 500 000	7 500 000	0	0	0	0	
2009	80 000 000	80 000 000	68 000 000	68 000 000	12 000 000	12 000 000	0	0	0	0	
2010	102 000 000	102 000 000	86 700 000	86 700 000	15 300 000	15 300 000	0	0	0	0	
2011	110 858 668	110 858 668	94 229 868	94 229 868	16 628 800	16 628 800	0	0	0	0	
2012	106 024 470	106 024 470	90 120 800	90 120 800	15 903 671	15 903 671	0	0	0	0	
2013	114 954 642	114 954 642	97 711 445	97 711 445	17 243 196	17 243 196	0	0	0	0	
2007-2013	593 837 780	593 837 780	504 762 113	504 762 113	89 075 667	89 075 667	0	0	0	0	
Priority axis 3											
2007	37 000 000	37 000 000	31 450 000	31 450 000	5 550 000	5 550 000	0	0	0	0	
2008	41 000 000	41 000 000	34 850 000	34 850 000	6 150 000	6 150 000	0	0	0	0	
2009	50 000 000	50 000 000	42 500 000	42 500 000	7 500 000	7 500 000	0	0	0	0	

²³ No national private co-financing is envisaged at Operational programme level. Private co-financing will be available at single projects level according to the co-financing rates applicable under each aid scheme.

OPERATIONAL PROGRAMME „DEVELOPMENT OF THE COMPETITIVENESS OF THE BULGARIAN ECONOMY” 2007-2013

2010	27 132 852	27 132 852	23 062 924	23 062 924	4 069 928	4 069 928	0	0	0	0
2011	18 000 000	18 000 000	15 300 000	15 300 000	2 700 000	2 700 000	0	0	0	0
2012	18 000 000	18 000 000	15 300 000	15 300 000	2 700 000	2 700 000	0	0	0	0
2013	8 867 148	8 867 148	7 537 076	7 537 076	1 330 072	1 330 072	0	0	0	0
2007-2013	200 000 000	200 000 000	170 000 000	170 000 000	30 000 000	30 000 000	0	0	0	0
Priority axis 4										
2007	4 487 337	4 487 337	3 814 237	3 814 237	673 101	673 101	0	0	0	0
2008	10 954 641	10 954 641	9 311 445	9 311 445	1 643 196	1 643 196	0	0	0	0
2009	12 500 943	12 500 943	10 625 802	10 625 802	1 875 141	1 875 141	0	0	0	0
2010	11 068 948	11 068 948	9 408 606	9 408 606	1 660 342	1 660 342	0	0	0	0
2011	16 000 000	16 000 000	13 600 000	13 600 000	2 400 000	2 400 000	0	0	0	0
2012	12 000 000	12 000 000	10 200 000	10 200 000	1 800 000	1 800 000	0	0	0	0
2013	20 000 000	20 000 000	17 000 000	17 000 000	3 000 000	3 000 000	0	0	0	0
2007-2013	87 011 870	87 011 870	73 960 090	73 960 090	13 051 780	13 051 780	0	0	0	0
Priority axis 5										
2007	2 535 648	2 535 648	2 155 301	2 155 301	380 347	380 347	0	0	0	0
2008	3 711 862	3 711 862	3 155 083	3 155 083	556 779	556 779	0	0	0	0
2009	5 054 130	5 054 130	4 296 010	4 296 010	758 119	758 119	0	0	0	0
2010	5 325 740	5 325 740	4 526 879	4 526 879	798 861	798 861	0	0	0	0
2011	5 701 719	5 701 719	4 846 461	4 846 461	855 258	855 258	0	0	0	0
2012	6 079 796	6 079 796	5 167 827	5 167 827	911 969	911 969	0	0	0	0
2013	6 457 005	6 457 005	5 488 454	5 488 454	968 551	968 551	0	0	0	0
2007-2013	34 865 901	34 865 901	29 636 016	29 636 016	5 229 885	5 229 885	0	0	0	0
Total										
2007	84 522 986	84 522 986	71 844 538	71 844 538	12 678 448	12 678 448	0	0	0	0
2008	123 730 752	123 730 752	105 171 139	105 171 139	18 559 613	18 559 613	0	0	0	0
2009	168 473 727	168 473 727	143 202 668	143 202 668	25 271 059	25 271 059	0	0	0	0
2010	177 527 540	177 527 540	150 898 409	150 898 409	26 629 131	26 629 131	0	0	0	0
2011	190 060 387	190 060 387	161 551 329	161 551 329	28 509 058	28 509 058	0	0	0	0
2012	202 663 167	202 663 167	172 263 692	172 263 692	30 399 475	30 399 475	0	0	0	0
2013	215 236 993	215 236 993	182 951 444	182 951 444	32 285 549	32 285 549	0	0	0	0
2007-2013	1 162 215 551	1 162 215 551	987 883 219	987 883 219	174 332 332	174 332 332	0	0	0	0

VIII. INDICATORS OF THE OP “COMPETITIVENESS”

1 Quantification of Objectives and Monitoring indicators

The OP “Competitiveness” Managing Authority together with the Monitoring Committee pursuant to Article 65 of EC Regulation 1083/2006, carry out the monitoring of the ERDF intervention by reference to the financial indicators and the indicators referring to in Article 37(1)(c) specified for the OP. Indicators defined in the OP “Competitiveness” serve to measure the progress of operational programme, priority axes, fields of interventions and activities as well as for evaluation of their effectiveness and impact.

The indicator system reflects the objectives of OP “Competitiveness”. A number of context indicators which are monitored over the course of the programme have been identified. It is not expected that the OP “Competitiveness” alone will impact on those indicators, which will also be affected by other factors (e.g. the global economy, fiscal policies, etc.). Indicators have been constructed on both a top-down (related to the global objectives) and a bottom-up (related to interventions level objectives) basis and consistency is ensured in indicators from the National Strategic Reference Framework.

Criteria for choice of indicators take into account rules recommended by the European Commission (correctness, appropriateness, availability, reliability, measurement, comparability). The indicators will show:

- the specific targets, quantified where they lend themselves to quantification, for the Priorities and Fields of interventions and their mutual consistency,
- results, and as soon as practicable, impact at the appropriate level
- the progress of the financial plan,
- where appropriate, the statistics are broken down by gender.

The Ministry of Finance of the Republic of Bulgaria drew up *Guidelines for indicators of the Bulgarian NDP and its operational Programmes*. The aim of these Guidelines is the improved understanding of the role for indicators in the programming process, how to define them, at what stage in the process and by whom during the development process of the NSRF and OPs. They were created on the basis of existing practice in structural Funds’ Programming. For further more detailed reading of the following documents are available:

- Working document No 2 - The New Programming Period, 2007-2013: Indicative guidelines on evaluation methods: Monitoring and Evaluation Indicators - DG Regio
- Working paper No 1 on ex-ante evaluation - DG Regio
- Manual Project Cycle Management, March 2001, Europe-Aid (Chapter 5)

Project data will be fed into the monitoring systems. The monitoring concentrates on the most essential data and due attention is paid to ensuring data quality. In the decentralised implementation of programmes and projects, common data in all regions are documented in a standardised way. Consistency is ensured between the National Strategic Reference Framework, the Operational Programme, Applications, other forms and reports and the monitoring systems as far as possible.

The baseline period, against which indicators are measured, is the year (or its last quarter) preceding the year when the programme, Priority Axis, fields of interventions or project started to be implemented.

The indicators have been determined at three levels:

- at programme level
- at Priority Axis level
- at fields of interventions level

The list of indicators is included in Annex 3 of the OP – “Indicators for the OP”. The separation of indicators is per type following the character and sources of information which will be used for data gathering.

2 Monitoring indicators structure

In line with EC methodological instructions, programme, Priority Axis and fields of interventions indicators involve three levels, i.e. output, result and impact indicators:

- **context indicators** - provide quantified information on the socio-economic and environmental situation and can express identified needs in quantitative terms.
- **output indicators** – specifying what the programme is producing/delivering. Output indicators are derived from the operational objectives of the OP. Outputs are mostly described in physical units. In the programme output indicators are formulated at the fields of interventions level (and not at Priority Axis level), because at the fields of interventions level clear activities and operational objectives are defined. The output of an activity is the end state of the deliverables after implementation of the activity.
- **result indicators** – specify the immediate achievement of the programme for the beneficiaries (or end-users). They are a direct result from the output delivery.
- **impact indicators** – specify the global objectives of the programme. Global objectives are objectives that describe why a programme is important for the stakeholders involved. These global objectives are related to the needs or problems of these stakeholders. Impact indicators are not expected to provide immediate result or during the period the programme is running.

Context Indicators

Definition/Name (Objectively verifiable Indicators)	Type	Baseline (year) 2005	Data source	Method of quantification	Frequency of reviewing	
					2013	2015
GDP per capita in PPS (EU-25 =100) Definition: as per Eurostat	Context	32.1 %	Statistics	The estimation is based on forecasts provided Agency for economic analysis and forecasts	51.2 %	52.0 %
Expenditures on R&D as % of GDP Definition: as per Eurostat	Context	0.51%	Statistics	Estimations are based on National Innovation Strategy forecasts	1.15 %	1.20 %
Export/GDP ratio	Context	60.8 %	Statistics	The estimation is based on forecasts provided Agency for economic analysis and forecasts	89.77 %	91.0 %
Energy intensity of economy (kgoe per 1 000 EUR) Definition: as per Eurostat	Context	2004 - 1628.16	Statistics	Estimations based on statistical data and MoEE calculations	1250.00	1150.00
Total investments as % of GDP Definition: as per Eurostat	Context	2006 - 26.2 %	Statistics	The estimation is based on forecasts provided Invest Bulgaria Agency and MoEE data	32.8 %	34.5 %

Programme Indicators

Definition/Name (Objectively verifiable Indicators)	Type	Baseline (year) 2006	Frequency of reviewing	Quantified target mid-term	Quantified target End-term	Method of quantification	Data source/measurement method	Breakdown by sex and size of recipient undertakings
Jobs created Definition: gross direct jobs created, full time equivalents	Core	0	Mid-term (2010) End of implementation period (2013) Ex-post evaluation	626	2120	Target values are made on the assumption that 60% of investment projects, financed under OP will generate an average of 2 new jobs. Calculations are based on statistics generated under Phare investment	Monitoring system	Of this: - for men - for women

			(2015)			projects implemented. Start-ups will generate average number of 3 employees per project, and HR – 1 job positions opened per project.		
Number of RTD projects Definition: number of projects for development and commercialization of innovative products/process/services	Core	0	Mid-term (2010) End of implementation period (2013) Ex-post evaluation (2015)	85	275	Assumptions are made on expected number of projects to be financed under operations 1.1.1 and 1.1.2. from PA1.	Monitoring system	
Number of cooperation projects enterprises – research institutions Definition: number of RTD projects involving both enterprises and research institutions	Core	0	Mid-term (2010) End of implementation period (2013) Ex-post evaluation (2015)	30	110	Target values are based on the assumption that 1/3 of the projects counted under the previous indicator will be implemented in a cooperation.	Monitoring system	Of this: - for small - for medium - for large
Research jobs created Definition: gross direct jobs for researchers created, full/part time equivalent	Core	0	Mid-term (2010) End of implementation period (2013) Ex-post evaluation (2015)	80	300	Assumptions are made based on: Average grant per researcher – 36 000 E (average project duration 2 years and average remuneration per employee – 1500 euro/month) Indicative Budget 2010 – 3 000 000E Indicative Budget 2015 – 10 000 000E	Monitoring system	Of this: - for men - for women

Number of investment projects Definition: number of projects supported	Core	194	Mid-term (2010) End of implementation period (2013) Ex-post evaluation (2015)	300	1100	Baseline value is made on number of contract awarded under Phare 2004 investment scheme. Estimation are based on the indicative number of projects expected to be implemented for 2007-2013 (PA1 - R&D commercialization; pro-innovative infrastructure, equipment; PA2 – technology modernization, Business incubators, energy efficiency, RES, clusters)	Monitoring system	Of this: - for small - for medium - for large - for start-ups
Investments induced (mill. euro) Definition: gross investments made by supported enterprises	Core	0	Mid-term (2010) End of implementation period (2013) Ex-post evaluation (2015)	200 MEUR	570 MEUR	Assumptions are made on indicative % of private co-financing amounting to appr. 60% (average grant % = 40%).	Monitoring system	Of this: - for small - for medium - for large - for start-ups
Number of projects for improving ICT in enterprises Definition:	Core	32	Mid-term (2010) End of implementation period (2013) Ex-post evaluation (2015)	9	33	Baseline value is calculated on the number of investment projects (or 3% of total applications), applied under Phare 2004 investment scheme, that was willing to purchase ICT equipment. target values are calculated as 3% of total investment projects under OP	Monitoring system	Of this: - for small - for medium - for large - for start-ups
Number of projects for renewable energy Definition:	Core	0	Mid-term (2010) End of implementation period (2013) Ex-post evaluation (2015)	75	310	Estimations are made based on average grant amount of 350 000 euro and indicative budget for 2007-2013 of 97 MEUR	Monitoring system	Of this: - for small - for medium - for large - for start-ups
Additional capacity of renewable energy production	Core	20 GwH wind energy	Mid-term (2010) End of implementation period (2013)	21 GwH wind energy	36 GwH wind energy	Baseline value is based on MoEE statistics for production of energy from wind. Solar is not connected to national power grid and is used	Monitoring system	Of this: - for small - for medium

Definition: energy produced for the needs of enterprises by RES		for 2006	Ex-post evaluation (2015)			only for own consumption, so National statistics does not keep record on it. Assumptions are made based on time schedule for implementing RES scheme (starting in 2009) and budget allocations (2009-2013 – 97 MEUR)		- for large - for start-ups
Number of projects seeking to promote business, entrepreneurship, new technologies Definition: projects for improving business environment, for facilitating/increasing start-ups, for introduction of new technologies	Core	0	Mid-term (2010) End of implementation period (2013) Ex-post evaluation (2015)	553	2219	Assumptions are made on expected number of projects to be financed under PA1 and PA2	Monitoring system	Of this: - for small - for medium - for large - for start-ups

Definition/Name (Objectively verifiable Indicators)	Type	Baseline (year)	Frequency of reviewing	Quantified target							Method of quantification	Data source/measurement method	Breakdown by sex and size of recipient undertakings
				2007	2008	2009	2010	2011	2012	2013			
Labour productivity (EU25=100) Define: output	Impact	2005 - 34.1%	Annual	36.4%	37.8%	39.2%	40.8%	42.4%	44.0%	45.6%	The estimation is based on forecasts provided Agency	Monitoring system	Of this: - for small - for medium

produced per unit of labour.												for economic analysis and forecasts		- for large - for start-ups
Contribution of SMEs to GDP Define: % of SMEs share in GDP from private companies	Impact	2004 - 22.2%	Annual	23.2%	25.7%	27.3%	28.5%	29.6%	30.1%	32.3%	The estimation is based on forecasts provided Agency for economic analysis and forecasts	Monitoring system, survey, statistical data	Of this: - for small - for medium - for large - for start-ups	

ORIGINAL

3 Data source and collection periodicity of indicators

Regular monitoring should provide some of process/operational information (mainly on outputs and results achieved, financial absorption and on the quality of implementation mechanisms) that allows for evaluation to be undertaken, for example, when actual or potential difficulties arise.

The collection of data depends on the nature of particular indicators. Output and result indicators are extracted and collected from project application forms and progress reports. Impact indicators require more detailed analysis. Global impact indicators at programme level are established on the basis of normal statistical data.

The periodicity of updating indicators will respect both the monitoring needs and the possibility to acquire relevant data within a short programme period. Collection of financial data and output indicators will be done on a semi-annual basis because these data will change regularly. Result indicators will be collected on annual basis (if no other periodicity is fixed for a particular indicator). The majority of impact indicators are depending on data from monitored surveys.

One of the requirements for obtaining assistance is that the recipient shall provide information to enable the evaluation of the effects of the assistance. Necessary data will be listed in the calls for proposals. The recipient is not supposed to provide information which is not publicly available, or for which he did not assume an obligation at the time of application.

However, information on certain strategic aspects, such as socio-economic impact or changes in Community, national or regional priorities affecting the Operational programme, cannot be provided by the monitoring system and would require a regular follow-up by evaluation. In this case, monitoring data could solely serve as a source of initial/additional information to be further processed and used for analysis and reporting on strategic aspects dealt with by evaluation (see chapter VIII, point 2.3).

The OP MA need to ensure strong links between monitoring and evaluation and define the periodicity of the monitoring and evaluation events in order to guarantee continues delivery of information and analysis to be used for management purposes.

IX. COMPLIANCE OF OP COMPETITIVENESS TO RELEVANT NATIONAL POLICIES AND DEMARCATION ISSUES

1 Compliance of OP to relevant national policies

One of the main programming principles, together with the partnership and co-financing is the complementarity. During the elaboration of OP “Development of the competitiveness of the Bulgarian economy” a review of different national strategies and programmes was made along with their interconnection with the OP priorities. Generally, most of the national strategies and plans do not envisage any active measures from the state to support business. Actions on increasing the competitiveness of the enterprises are focused mainly on improving the business environment through the means of legal and information activities.

Despite of this, in the context of OP “Competitiveness”, some relations of the fields of intervention under the priorities could be traced to some of the measures and objectives stated in these policies. Most of the strategies, cited below, do not include overall budget for the whole

period of the strategy (National Strategy for SMEs promotion 2007-2013, National Strategy for Cluster Development, Strategy for improvement of the quality infrastructure etc). The budgets are made in the framework of the programme budgeting and it is hard to estimate the impact the strategies might have in the certain field. However, having in mind the type of measures, envisaged in these strategies, the possible value added of the OP support is considerable and fundamental.

Along with the existing national policies, the experience of the new EU member-states is used during the elaboration of the priorities. The know-how and best practices transfer is most evident in Priority Axis 3 “Financial Resources for Developing Enterprises”, where the creation and/or support to risk capital funds, guarantee funds and microcredit funds is envisaged.

Bulgarian National Innovation strategy

The main objective of the Bulgarian Innovation strategy is to achieve competitive advantages in industry through the means of creation, introduction and dissemination of innovations, which to ensure leading competitive positions at the international markets. The strategy foresees financial and non- financial type of measures for the achievement of the aforementioned objective:

1. Financial measures for support of the innovation:

Measure 1 : National Innovation Fund (NIF).

NIF is an aid scheme for supporting industrial research and experimental development of innovative ideas to be introduced in enterprises for improvement of their innovative potential.

Measure 2: Promotion of the employment of young researchers in SMEs

The measure should be implemented by grant schemes supporting 18 months projects, as the eligible costs include health and social insurance of the research personnel hired by the enterprises.

Measure 3: Establishment and/or upgrade of technological centres

The measure provides for the transformation of the existing scientific institutes in technological centres through support provided by the NIF.

2. Non- financial measures

Measure 4: Optimizing the "Science – Technologies – Innovations” system.

The measure aims at establishment of an active dialogue between the stakeholders in the innovation system, through policy coordination in the spheres of science, applied research and innovations, and through attracting foreign experts;

Measure 5: Improvement of the entrepreneurial culture of the Bulgarian entrepreneurs.

The measure aims at supporting the Bulgarian enterprises to cope with the challenges rising from the Bulgaria’s EU accession through education in and promotion of the entrepreneurial spirit for creation of competitive and effective SME sector.

Measure 6: Promoting the creation of clusters

The aims of the measure are to promote and apply the good EU practices in the field and to support the creation of clusters.

Measure 7: Adoption of the European indicators for assessment of the innovation potential of the industrial enterprises

The aim of the measure is to create a system for evaluation of the innovative processes in Bulgaria, through adoption of the European practices and evaluation indicators.

Measure 8: Attracting foreign investments in applied research and development activities

The aim of the measure is to assure sustainable flow of orders for R&D to the Bulgarian research institutions from foreign clients.

Measure 9: Creation of new and support for already existing technological parks.

The objective of the measure is to create conditions for development of innovative production using the experience of the existing scientific organisations aiming at improvement of the capacity of the Bulgarian enterprises to absorb and introduce new technologies.

Measure 10. Creation of entrepreneur centres in Universities.

The aim of the measure is to prepare students for creation and management of own start-up companies.

For the realization of the aforementioned measures the Strategy will have annual subsidy from the state budget (5mln BGN for 2005 and increasing amount for the next years), as well as financial support from other external sources – the EU pre-accession instruments and the EU Structural funds, bilateral international programs, donor programs, etc.

The philosophy of the operations under the Priority Axis 1 “Development of knowledge-based economy and innovation activities”, as it described in CH IV of the OP, fully corresponds to the overall objective and the measures of the Innovation Strategy with exception of Measure 5 and Measure 7, which are not inherent to the nature of that particular Priority axis.

Investment promotion strategy

The Investment Promotion strategy will be implemented during the period 2005-2010 and envisages specific measures and activities in seven priority directions: improvement of the general administrative and regulatory environment; development of the technical infrastructure; enhancement of the quality of the labour force; improvement of the financial environment from the investors' perspective; investment marketing; providing support for investment in innovations; developing the regional investment promotion policies; regional policy for integrated promotion of investments and employment in the underdeveloped regions and improvement of the business infrastructure.

The main goal and timeline of the Investment promotion strategy are in line with the goal of the Lisbon Agenda and aims to increase the competitiveness of the Bulgarian economy and to achieve a stable and steady economic growth through investment promotion.

OP “Competitiveness” envisages interventions, which are in conformity with some of the objectives set in the Investment Promotion Strategy. Fields of intervention “Support for attracting investors” under Priority Axis 4 “Strengthening the international market positions of the Bulgarian economy” is in full compliance with the general concept of the Investment Promotion Strategy and the following activities, namely:

- Financial decentralization of the municipalities and improvement of the opportunities for investments attraction on regional and local level – OP Competitiveness is in compliance with second part of the objective
- development and modernization of elements of the infrastructure systems, aiming to establish favourable environment and quality of the services offered for investment attraction;
- promoting Bulgaria as an investments destination and increasing the general knowledge about Bulgaria, through introduction of a national approach in the marketing of Bulgarian products and services;
- achieving real equality between domestic and foreign investors, and improvement of the competition conditions;
- provision of the infrastructure condition necessary for Bulgaria’s opening for the global services and goods market;
- Provision of infrastructure services, corresponding to the European quality standards.

Part of the fields of interventions under other OP priorities are also in compliance with the Investment Promotion Strategy’s measures: fields of intervention under Priority Axis 1 “Development of knowledge-based economy and innovation activities” support the realization of the following objectives:

- Increasing the general share of innovation and high tech activities in the structure of the Bulgarian economy
- Competitiveness promotion, based on the increase of the investments for research and development activities and innovations.

The implementation of the measures and the activities of the Investment Promotion Strategy is financed by annual subsidy from the state budget in accordance with the Law on Investment Promotion (15mln BGN for 2005) For the years 2007, 2008 and 2009 the annual subsidies are respectively 26, 27 and 27,5 mln BGN (according to the budget forecast of the Ministry of Economy and Energy). There are also other related laws and programmes providing incentives, as well as financial support from other external sources – the EU pre-accession instruments and the EU Structural funds, bilateral and international programs, donor programs, etc The Operational Programme as an instrument for real support would assist the realization of the objectives of the Investment Promotion Strategy following the principle of complementarity.

National Strategy for SMEs promotion 2007-2013

Draft National Strategy for SMEs promotion 2007-2013, prepared by the Ministry of Economy and Energy and relevant partners, represents a long-term strategic document outlining the vision

for state support to SMEs. The strategy is a follow-up of the National Strategy for SMEs development promotion 2002-2006 and is in compliance with the EU Chapter for small enterprises and is based on the latest conclusions and recommendations from the “Annual report for SMEs development in Bulgaria”.

The strategic objective of the National Strategy 2007-2013 is to increase the effective use of the Bulgarian enterprises’ potential. This objective will be increased by the means of number of priority areas, namely:

- entrepreneurial education and increasing the entrepreneurship and entrepreneurial skills
- improving business environment
- facilitating access to financing
- competitiveness and innovations
- Development of cluster structures
- Improving the access to Single and external market
- Intellectual property protection

The National Strategy for SMEs Promotion includes a separate chapter describing the demarcations with the operations envisaged under OP “Development of the competitiveness of the Bulgarian economy 2007-2013”. In this context, the priority area for supporting innovations and R&D is in compliance with Priority Axis 1 “Development of knowledge-based economy and innovation activities”, while the technological renovation, improvement of business environment and development of clusters is fulfilled by the interventions under Priority Axis 2 “Increasing efficiency of enterprises and promoting supportive business environment”. Improvement of the financial environment is one of the Strategy’s priority areas and at the same time one of the problems aimed under Priority Axis 3 “Financial resources for developing enterprises”. Access to the Single and external markets and improving conditions for attracting investors, part of the National SMEs Strategy are in compliance with the operations under Priority Axis 4 of the OP.

National Strategy for Cluster Development

Based on the research undertaken by PHARE project: “Introduction of a Cluster Approach and Establishment of a Pilot Cluster Model” and previous PHARE/USAID work undertaken on both SME and sectoral development, there is wide-scale acceptance and support for this approach. Within the context of the current PHARE project over 100 concentrations of industry have been identified, and 40+ potential clusters been encouraged and stimulated.

Cluster Strategy Objective

The main objective of the National Strategy for Cluster Development is to increase the competitiveness of Bulgarian SMEs in key sectors (and sub-sectors) through the spread of cluster-based activities, techniques and collaboration. The period of of National Strategy for Cluster Development is to match the first Operational Programme time period of anticipated accession to the European Union by the state of Bulgaria.

Cluster Strategy Priorities

- Increase the number of cluster groups supported over the period 2006-2011 from two pilot clusters in 2006 up to 30 cluster groupings by 2011.
- Organise SMEs service delivery to address clusters firms’ needs collectively.
 - Integrate Clusters Strategy to SMEs Strategy by setting clear targets for SMEs involvement in clusters
 - Use existing incubators and regional engagement with clusters as a way of setting up mini-hubs for cluster development:
- Increase internationalisation by using cluster groupings as ‘pioneers’ for trade development.
 - Focus a percentage of cross-border and inter-regional (INTER-REG) activity through the trade expansion activities (and Action Plans) of cluster groupings
 - Encourage cluster communication channels with ‘benchmark’ clusters in other EU countries, especially Italy, Germany, Slovenia, Austria and Hungary
 - Facilitate external linkages, eg through international benchmarking, study tours, global professional organisations.
- Introduction of a sturdy monitoring and evaluation regime for sponsored/part-funded clusters.
- Use the cluster groupings as a collective source of innovation and entrepreneurship.
 - Productivity awards, specifically targeted at those conducted and achieved by small clusters of SMEs. Mid-term 2008-10
 - The use of clusters as ‘demonstration vehicles’ for the spread of environmental best practice. Short-term to mid-term 2006-8
 - As a graduate recruitment incentive – supporting grants for cluster companies which take on graduates for innovation disciplines (R&D, design, e-business, environmental etc). Mid-term 2008-10
- Accentuate competitiveness solutions throughout the period by giving extra weighting to ‘horizontal’ or ‘cross-cutting’ themes such as IT, environmental, equality, etc.
- National management. A ‘Clusters Futures’ group should be formed – consisting of key national representatives to track the results of this ambitious strategy.

Strategy for improvement of the quality infrastructure.

The Strategy for improvement of the quality infrastructure has as an overall objective to establish adequate quality infrastructure and to create preconditions for increasing the competitiveness of the Bulgarian economy through development of the national standardization, metrology and accreditation policies, the national systems for assessment and control of the industrial products market. The strategic goals of the quality policy are:

- Removal of the non-tariff barriers to the free movement of Bulgarian goods and services

- Sustainable development of the quality infrastructure through structural and legislative changes
- Increasing the information of the Bulgarian producer for the quality philosophy
- Improving the access to standardized products
- Admission of the examining, calibration, certification and control results
- Development of a national compliance assessment system
- Equal participation of all parties interested in quality activities
- Efficient control of the market to ensure consumers' protection

Operational Programme “Development of the competitiveness of the Bulgarian economy” envisages implementation of interventions for support of quality infrastructure under Priority Axis 4 “Strengthening the international market positions of Bulgarian economy”, which interventions would assist the measures under the Strategy for improvement of the quality infrastructure.

National energy-saving program for the period 2004 – 2014 and Sectoral short-term programme for energy efficiency 2005 -2007

The Energy-saving Program covers 70 % of the end-user energy consumption of the country and is expected to lead to a 30 % reduction of energy intensity per unit of GDP produced. The development of sectoral subprograms has been initiated with particular focusing on the industrial sector. The top-priority objective of the Energy-saving program is increasing the competitiveness of Bulgarian enterprises through the application of energy-saving promotion measures and the introduction of energy-efficient technologies. This will support the implementation of the strategic priorities enumerated above and in parallel with this, the energy intensity of the economy will be reduced and its competitiveness will be improved.

Operational Programme “Development of the competitiveness of the Bulgarian economy” envisages the realization of fields of intervention “Support for introduction of energy saving technologies and utilisation of renewable energy resources” under Priority Axis 2 “Increasing efficiency of enterprises and promoting supportive business environment”, which to assist the implementation of the objectives set out in the Energy-saving programme.

National Environment Strategy 2005-2014

National Environment Strategy covers the period 2005-2014. The Environmental Strategy strives to balance the direct requirements connected to the accession process with more strategic goals and aspirations of the country. Its' overall objective is to present the activities which have to be implemented in the next few years to protect the environment and to ensure sustainable utilization of the resources. The overall long-run strategic goal of the Environmental Strategy is improvement of the quality of life of the population through ensuring healthy and favourable environment and protection of the rich natural heritage on the basis of sustainable environment management.

The groups of operations aimed at technology development and modernization for enterprises under Priority Axis 2 “Increasing efficiency of enterprises and promoting supportive business environment” and interventions for introduction of energy saving technologies and utilisation of

renewable energy resources envisage support to introduce new and environmentally friendly technologies in order to help them comply with the international arrangements Bulgaria has undertaken. This intervention is directly connected to the achievement of some of the strategic objectives of the National Environmental Strategy, namely:

- Integration of the ecological policy in the economic sectors and regions development policies
- Efficient environment management
- Fulfilment of the Bulgarian commitments for global ecologic problems settlement

2 Coherence and demarcation to other Structural/Cohesion Funds Operational Programmes and EAFRD Programmes

The new EU programming rules define some main principles, which have to be observed during the whole process of programming, implementation and monitoring. Along with the limited number of operational programmes, a concentration of the resources is necessary – only the biggest and timely problems and needs should be covered by EU assistance. Due to the facilitation of Programmes’ implementation – one programme to be financed only by one Fund – complementarity and coordination between different OPs and national plans is looking for.

National Strategic Reference Framework contains seven operational programmes. All programming documents are elaborated in coordination and a mechanism for demarcation is created. After consultations with OPs’ Managing Authorities, socio-economic partners and stakeholders carried out, the range and demarcation of each OP was agreed. As a result of this, the efficiency and complementarity of all programming documents are guaranteed.

o Demarcation with NOP “Regional Development”

The relations and complementarity between different interventions is explicitly elaborated with NOP “Regional Development”. This is mainly due to the fact that bigger part of the infrastructure to be developed under ROP is basis for the successful activity of enterprises – main beneficiaries under OP “Competitiveness”.

Priority 1 “Sustainable and Integrated Urban development” is in close connection with OP “Competitiveness” interventions. The extensive economic development, concentrated in urban areas is influenced by different factors, under which the main are legal basis, fiscal policy and existing infrastructure conditions for business development. Measure 1.4 Organization of economic activities envisages infrastructure development, which would assist entrepreneurship and attraction of investments – objectives of OP “Competitiveness”.

Measure 2.3 of Priority 2 of ROP, “ICT networks and services” is in direct relation to increasing the adaptability of business to new market conditions and mainly with the introduction of new technologies and products, as well as with change in entrepreneurial culture. Operation 2.4 “Access to sustainable and efficient energy resources” contains activities for construction of gas distribution pipeline sections from the national gas transmission network to the concerned areas. Such activities originally are part of the competent policy of the Ministry of Economy and Energy, but were proposed for financing by the means of “Regional Development” OP due to the local territorial coverage of the measure and heavy infrastructure activities, aimed at improving the

conditions of the municipalities – main beneficiary under Regional Programme. There would be no duplication with energy efficiency measures under “OP Competitiveness”, as the latter supports activities for decreasing the energy consumption in enterprises, while ROP is focused on infrastructural measures for municipalities.

ROP contains measure “Ecological structures”, under which the activity “Training for sustainable development and management of water-supply utilities, programmes and plans for risk prevention and promotion of Renewable energy sources”, where municipalities, municipal enterprises and NGOs are final beneficiaries. The measure is in direct relation to the activities for increasing the use of RES in observation of the Community Strategic Guidelines.

Priority 4 of ROP – “Regional and local networking, co-operation and absorption capacity” is elaborated to contribute to regional and local development through encouragement of integrated approach. The main characteristic is creation and support of investment initiatives, regional or local property, formulated at local level by local actors in order to hold out sustainable decisions for specific local problems. In this aspect, it directly contributes to the objectives of the first fields of interventions of Priority 4 of OP “Competitiveness”.

○ **Demarcation with OP “Human Resources Development”**

The priorities of OP “Human Resources Development” are in close connection to the priorities of OP “Competitiveness”. The OP “Human Resources Development” will support actions for improving of the quality of the labour force and equipping potential employees with adequate skills and qualifications that are fully adjusted to the needs of enterprises. Therefore, the implementation of the OP “HRD” will support and complement the aims of the OP “Competitiveness” by facilitating the supply of well prepared, skilful and creative employees to the companies.. This will assist the development and market expansion of the enterprises. On the other hand the OP “Competitiveness” will strengthen the results of the OP “HRD” and will make its results more sustainable. The OP “Competitiveness” will support improving working conditions and improving quality of jobs (due to technological changes promoted), strengthen the demand for workers and will support maintaining the jobs created (due to assisting the development of enterprises). As for clearer separation of activities, OP “Competitiveness” will provide training as part of the cross-financing into very limited ranges, where the type of the activity requires it (e.g. introduction of international standards, introduction of energy saving technologies, etc.). Enterprises will receive any other type of trainings financed under ESF programmes.

The demarcation between interventions of two programmes is ensured by the different type of activities and beneficiaries supported. Within Priority Axis 2 of OP HRD are envisaged investments for improving the working conditions in enterprises. OP “Competitiveness” will complement to the measure through the means of introducing international standards in enterprises compared to investments necessary for their implementation and acquiring of certifications (group of operations 2.1, Priority axis 2).

The relations between educational and science institutions and business are covered in two main aspects by the two OPs. As one of the main priorities of OP “Competitiveness” is development of knowledge-based economy and innovations, the Programme will focus on strengthening the

scientific functions of universities and research organizations as providers of innovative ideas and natural “incubators” for spin-offs. The OP will support all elements of the innovative system – from investing in innovative start-ups, through facilitating cooperation and common projects between enterprises and research organizations, and improving the environment for development of innovations. OPHRD (by the means of Priority axis 3 “Improving the quality of education and training in correspondence with the labour market needs for building knowledge-based economy”, will focus on the general educational and knowledge-disseminating functions of the educational institutions and providing them with support for creation of a favourable environment for strengthening the intellectual potential in schools and universities - through development of new programs for higher education, creating mechanisms for school practices and granting scholarships; etc.

○ **Demarcation with OP “Administrative Capacity”**

Priority Axis1 of OP “Administrative Capacity” – “Good governance” has as a special target introducing better partnership based on good governance in administration and juridical system. The priority axis is targeted at increasing the effectiveness of administration through optimizing its structures, functions and processes, coordination and partnership between all stakeholders. It will indirectly support the implementation of investment-promotion, export-promotion and quality infrastructure projects under Priority 4 of OP Competitiveness.

The institutional building of the Managing Authorities and the Intermediate Bodies of all OPs will be covered by the technical assistance under each OP. OP “Administrative Capacity” will cover the institutional building of central, regional, local administration and socio-economic partners (Priority 2 “Governance of human resources in the state administration, judiciary and structures of civil society”). The Development of competent and effective state administration and the improvement of the link between administration and universities will support the state bodies (BSMEPA, IBA, EA “BAS”, EXACT, SASM, BIM), implementing projects under Priority 4 of OP Competitiveness. Trainings under OPAC will be of a more general character like project preparation, project implementation, computer skills, language skills, while OP Competitiveness trainings will be very specialized and targeted at achieving aims of concrete project. Thus, OPAC trainings will actually improve the quality of OP Competitiveness projects.

The activities under Priority 3 “Qualitative administrative service and development of e-Government” are focused on d improving the quality of services and supporting effectiveness of judiciary. The facilitation of business and suppression of bureaucratic problems in different regulatory regimes is in direct relation to the encouragement of entrepreneurship and development of business activity – an exact objective of OP “Competitiveness”. Development of e-Government in the framework of Priority 3 of OPAC will improve the supply side of e-services for business, while Priority 2 of OP Competitiveness will develop the demand side – modernization of business, including ICT in enterprises.

○ **Demarcation with OP “Technical Assistance”**

OP “Technical Assistance” started to be elaborated in August 2006 after a recommendation of the European Commission for strengthening the coordination process at national level in

implementing the Structural funds by ensuring reliable management information as well as providing appropriate communication to the general public about the European interventions.

The “Technical assistance” priority axis of OP “Competitiveness” will provide support for the programme management, implementation, monitoring, evaluation and control, as well as for publicity measures, programme promotion and exchange of experience. OP “Competitiveness” may support the strengthening of capacity of the municipalities as beneficiaries by providing training activities related to the specifics and technicalities of the OP.

On the other hand, training activities for local and regional authorities regarding the general principles related to receiving financial assistance from the Structural Funds and the Cohesion Fund of the European Union such as public procurement, audit trail, verification of expenditures, financial management and control, horizontal principles, etc. are included within the Operational Programme “Technical Assistance”.

The “TA” OP will complement with horizontal assistance tools for the common needs of all structures and actors involved in the management and implementation of the structural instruments, namely:

- Support to the implementation of the activities, performed by CCU, Certifying and Audit Authorities, and NSRF Monitoring Committee;
- Further development and support for the functioning of the Unified Management Information System
- Promotion of European Cohesion Policy in Bulgaria and ensuring the provision of general and statistical information for NSRF.

○ **Demarcation with Bulgarian Rural Development Programme**

According to the Strategic Guidelines for rural development and the Cohesion Policy of the Community, it is necessary to ensure complementarity and coordination among the activities, which will be financed by the Structural funds (namely: the European Regional Development Fund- ERDF; the European Social Fund – ESF; the Cohesion Fund) on one hand, and the European Agriculture Fund for Rural Development (EAFRD) and the European Fishery Fund (EFF) on the other. To put the demarcation line between the aid for rural development, the measures supporting Fishery and Aquaculture, and the activities to be financed by the Structural Funds and the Cohesion Fund two levels of coordination has been established – strategic (at the level of NSP and NSRF) and programme (at the level of OPs and RDP). The present chapter will describe only the coordination at the programme level, as strategic one is provided in NSRF.

The main principles of demarcation between OP “Competitiveness” (financed under ERDF) and Bulgarian Rural Development Programme (RDP) are depending on:

1. type of territories concerned;
2. type of beneficiaries;
3. type of actions selected under each policy;

Measures under Priority Axis 1 are aimed at increasing the competitiveness of the agriculture, food-processing industry and wood sector.

Under measure “Modernization of agricultural areas” under RDP, the support will be introduced for investments in tangible and intangible assets, which to improve the overall activities of the agricultural farms and covering the Community standards requirements, for the relevant investments. Demarcation with OP “Competitiveness” measures is ensured by the different type of beneficiaries – RDP will support agricultural producers, and producers’ organizations.

The measure for “Adding value to agricultural and forestry products” of RDP Axis 1, is focused on support for micro, small and medium-sized enterprises and enterprises, which are not MSMEs, but have up to 750 workers or annual turnover less than 200MEUR, for tangible and intangible assets, for processing and/or marketing of Annex 1 products, excluding fish products, nevertheless the processed products are part or no from Annex 1.

All sectors, related to production of energy through processing of plant and animal products, from primary or secondary biomass, described in Annex 1 of the EC Treaty, excluding fish products are eligible to be supported under this measure. For the rest of the investments under the measure, the following food-processing sectors are eligible – milk and dairy products, meat and meat products, fruits and vegetables, including mushrooms, bee honey, cereals, milling and starch products, plant and animal oils and fats, industrial and medical plants, including oil rose, herbs and unmanufactured tobacco, prefabricated food for livestock (fodders) and grape must, wine and vinegar.

For processing and/or marketing of wood products are eligible to be supported micro enterprises, which are using wood products as material and eligibility will be only for operations before industrial processing (without production of furniture).

All other type of enterprises (other than micro-enterprises in rural areas), which do not fall under the eligibility restrictions under this measure, is eligible to be supported under OP “Competitiveness”.

The demarcation for production of energy from RES is ensured per type of beneficiaries – RDP will support micro enterprises and municipalities in rural areas, agricultural producers and farmers, micro enterprise, processing wood products (before industrial processing), micro, small and medium-sized enterprises and enterprises, which are not MSMEs, but have up to 750 workers or annual turnover less than 200MEUR, processing and/or marketing of Annex 1 products, excluding fish products, nevertheless the processed products are apart or no from Annex 1. OP “Competitiveness” will finance the rest of enterprises only for measures, aimed at production of energy from RES for the needs of enterprises, only by the means of wind and solar sources and cogeneration from industrial facilities. RDP will support production of bio-fuels from biomass and production of biogas and biogas cogenerations.

Measures under Priority Axis 3 of the RDP 2007-2013 are targeted at improvement of the quality of life and diversification of job opportunities in rural areas.

The measure “Diversification into non-agricultural activities” under RDP will support diversification of the activities of agricultural producers towards non-agricultural activities in 231 municipalities in rural areas. The measure “Support for the creation and development of micro-enterprises” under RDP will support business creation and development of starting and existing micro-enterprises operating in rural municipalities, through provision of consultations and initial

investments. Micro-enterprises, including innovative start-ups which to be supported under PA1, operation 1.1 under OP “Competitiveness”, will be eligible for investment support under the OP “Competitiveness” according to the operations envisaged, only if they are operating in urban municipalities.

For the purposes of programming and facilitating demarcation process implementation and according to the national definition provided by the National Strategy Rural Development Plan, rural municipalities are defined as municipalities (LAU1) having no settlements with more than 30 000 inhabitants²⁴. According to that definition, Bulgaria has 231 municipalities qualified as rural.

Equal treatment and selection criteria between both Programming documents will be ensured during the process of implementation. This will be organized through the joint participation of the Managing Authorities in the Monitoring Committees of the two programmes.

○ **Demarcation with the Operational Programmes for Territorial Cooperation**

The Objective 3 Operational Programmes for Territorial cooperation are at an early stage of preparation. The complementarity between OP “Competitiveness” and Objective 3 OPs will be ensured through participation of MA of OP “Competitiveness” in the programming process of Objective 3 OPs and in the Monitoring Committees of the relevant OPs.

3 Horizontal Issues

3.1 Equality

The key element of the general principle of equal opportunities is the prohibition of discrimination based on gender, race, ethnic group, religion or faith, invalidity, age or sexual orientation.

According to art. 16 of the EC Regulation 1083/2006, the equality between men and women and non-discrimination should be strictly observed at all stages of programming and implementation of the Operational programme.

Article 6 of the Constitution of the Republic of Bulgaria states that all people are born free and equal in dignity and rights, as well as that all citizens are equal before the law and no limitations of the rights or privileges shall be allowed based on race, nationality, ethnic affiliation, sex, origin, religion, beliefs, political affiliations, personal and public position or property.

The Law against discrimination (in force since 1st January 2004) is built on the constitutional principle for equality in front of the law and forbiddance of discrimination, thus developing it in additional and establishing the mechanism for its practical application. Article 4 of the Law for Protection against Discrimination clarifies further the provisions of the Constitution: „Any direct or indirect discrimination shall be forbidden, based on sex, race, nationality, human gene, descent, origin, religion or faith, education, beliefs, political affiliation, personal or social position, disability, age, sexual orientation, marital status, property ownership or any other grounds, established by law or international agreement, to which the Republic of Bulgaria is a party.” The

²⁴ A map showing the rural municipalities in Bulgaria (according to statistical definition) and an explicit list of the 231 municipalities are attached as Annex 6 to the OP

Bulgarian legislation in this area is harmonized with the European one. One of the purposes of the Law against Discrimination is to guarantee the equal opportunities to women to participate in all areas of public life – the forbiddance of discrimination, as set in the Law, is applied in many areas, such as employment, education and training, health care, housing, social protection, access to goods and accessibility of public services and places, performance of economic activities, etc. The Law envisages at least 40% representation of the less-represented gender in the management bodies, which is in conformity with the European standards for balance participation of men and women in the decision-making processes.

Increase of the competitive environment in the economy and on the labour market contributing to the economic growth may on the other hand negatively influence certain population groups. Thus, the levelling of the negative impacts on the disadvantaged groups of population must be a necessary part of this horizontal objective. Unequal position of women on the labour market is characterised by their lower wages, lower level of tertiary education, low level of female entrepreneurship and women in managerial posts and continuing feminisation of certain industries. In the area of observing the equal opportunities, attention will be paid to supporting the creation of new jobs with different forms of employment, removing barriers to equal access to employment and removing discrimination based on sex, ethnic origin, health or age.

The equal opportunity issues will be taken into consideration during all stages of programming and implementation of OP “Competitiveness”. All priorities and activities within OP Competitiveness are based on the principle of equality and non-discrimination. Those principles will be observed during elaboration of selection criteria of the projects. All reports will include information of included men/women and their equal participation, where those criteria are not observed.

The Operational Programme Monitoring Committee will monitor the proper implementation of the activities and the principle of equality in particular. The fulfilment of indicators for the OP will be monitored for gender statistics, where it is possible, due to the accessibility and specific of the data. Specific horizontal issue indicator is included also.

3.2 Information Society

One of the possibilities for achieving faster economic growth in present day conditions is closely related to the use and dissemination of information and communication technologies (ICT) among the business and the public. The information technologies and communication means form an important element of the opportunity to increase the competitiveness of the enterprises and to reveal new perspectives both in work organisation and in the creation of good quality jobs. One of the key goals of the Lisbon Strategy is the speeding up of the transition to knowledge-based economy, where scientific research activities and innovations contribute effectively to the economic growth.

Bulgaria also strives to develop its information and communication environment. In the fulfilment of this plan the country has adopted a number of instruments and policies such as the Strategy and Action Plan for Improvement of the Competitiveness of Bulgaria at the Global ICT markets; Scientific Research Encouragement Act; Innovation Strategy; E-Government Plan, etc.

The development of the information society (IS) and the condition of the ICT sector in Bulgaria indicate that the country has a number of advantages such as relatively well-developed telecommunications infrastructure, highly qualified staff in the field of ICT, high quality of the Bulgarian companies working in the field of high technologies and competitive prices of the ICT sector products.

The implementation of the Operational Program “Development of the Competitiveness of the Bulgarian Economy 2007 – 2013” will contribute to the development of the information society in Bulgaria, while becoming a factor stimulating the better utilisation of the information technologies by the enterprises in order to increase their competitiveness. The horizontal issue for Information Society, set also as priority in the Lisbon agenda, will be ensured through implementation of interventions under other OPs (OP “Regional Development” and OP “Administrative capacity”) and due to the complementarity between the interventions of the different OPs.

3.3 Sustainable Growth and Environmental Protection

The sustainable development concept is relatively new, but it underlies the economic policy of the EU. It has its roots in the belief that the economic growth should be of no harm to the environment and that the generations today should secure to those coming after them conditions for life and development comparable or better than those presently existing. The polluted environment reduces the investment attractiveness of the regions, their competitiveness, as well as the quality of life for the population.

Significant decrease in environmental pollution is typical for Bulgaria after 1989. It does not result from a targeted sustainable development policy, but from restructuring of the economy as a result of the transition from planned to market economy, as well as from state-owned to private ownership of production facilities. As a result of the closure or modernisation of a large number of companies in the heavy industry and of the sources of raw materials for them, the water, soil and air pollution indicators have improved significantly. Despite the positive trends the country is still lagging behind the average indicators for the EU and is characterised by a large number of polluted terrains, high level of noise pollution in the big cities, high level of pollution with dust particles in populated areas, as well as waters announced “sensitive areas” in accordance with Directive 91/271/EC. The biggest environmental problems of the industry at present are the high energy consumption, as well as the high level of sulphur dioxide emissions.

The efforts within the framework of the Structural Funds should be directed both at meeting the EU requirements and at attempting to impose the principle of pollution prevention – assessment of the environmental impacts of economic activities, resolution of the problems at the very source of pollution and covering the costs by the polluter. The operational program may play extremely important role in respect to the prevention of new industrial pollution through the information and promotion campaigns, which will form part of the funded activities.

The priorities and activities under OP Competitiveness should follow the recommendations not only of the European Strategy on Sustainable Development from Goeteborg and the Johannesburg Summit on Sustainable Development, but also of the national legislation – the Environmental Protection Act, the Act on Purity of Atmospheric Air, the Act on Limitation of the Harmful Impact of Wastes on the Environment, the Waters Act and the Act on Limitation of the Harmful

Impact of Chemical Substances and Preparations, which are totally harmonized to the European Directives and Regulations.

Special attention is devoted to reduction of the energy consumption and raw material consumption of the economy, the diversification of the energy sources, the encouragement of cooperation among companies, non-governmental organisations and scientific institutes for the development of more environmentally friendly production processes and products, complex support to meet the EU requirements in the area of environmental protection and emissions, the implementation of environmental management systems in the companies and subsequent certification, etc. All these activities are aimed at the improvement of the effectiveness and competitiveness of the enterprises and the economy, as well as reduction of the adverse effects on the nature resultant from the fast-track economic development.

Projects co-financed by the Operational Programme will fully respect the provisions of the Environmental Impact Assessment Directive, Habitats and Birds Directives. Appropriate screening criteria will be applied at the projects selection stage to ensure that the projects are compliant with the above mentioned Directives. The Bulgarian authorities will take appropriate actions (e.g. guidance, trainings for beneficiaries, etc. based on the best Community practices) to assure that the projects will comply with these requirements. Co-financing of projects having negative impact on potential Natura 2000 sites (e.g. sites, that in the Commission's view need to be designated, but were not designated by Bulgaria), will not be permitted.

3.4 Public Procurement

The rules for the financing of activities and projects under this Operational Programme, through funds from the structural funds are compliant with the European regulation and Public Procurements Act dated 10 June, 1994.

All matters related to public procurement in Bulgaria are regulated with the Public Procurement Act in effect as of 1 October, 2004.

During the management of Structural Funds resources under OP “Competitiveness”, two specific cases of public procurement appear. When the envisaged contract is for work, supply or service activities, the national rules of public procurement will be applied. The second type of contracts is grant schemes and in this case Ordinance of the Council of Ministers № 121/31.05.2007 Lying down the provisions for awarding of grants under the operational programmes co-financed by the Structural Funds and the Cohesion Fund of the European Union, and under the PHARE Programme of the European Union and OCM № 55/12.03.2007 on Conditions and contract award procedure conducted by beneficiaries of agreed grant from the Structural Funds of the European Union and from the PHARE Programme of the European Union will be applied.

Art. 3 of OCM № 55/12.03.2007 specifies, that the conditions and procedure, provided for in the decree, shall be applied, when the amount of the agreed grant is higher than 50% of the total sum of the approved project. When the amount of the grant is smaller or equal to 50% of the total sum of the approved project, the Managing authority of the Operational Programme, can determine value thresholds, above which the procedure of the decree shall be applied.

The Managing authority also ensures that public contracts or concessions awarded, concerning projects benefiting from assistance of the Structural Funds comply with the provisions of

Directives 2004/17/EC, 2004/18/EC, Regulation (EC) No 1564/2005 or the Treaty principles where applicable.

In the case of OP “Development of the Competitiveness of the Bulgarian Economy”, the responsibility for additional control of the compliance to the public procurement procedures will be carried out by the OP Monitoring Committee. If needed the Committee may require an examination by the Public Procurements Agency of a certain procedure or may require certification of the tenders.

3.5 State Aid

Any public support under this programme must comply with the procedural and material EC State aid rules applicable at the point of time when the public support is granted.

The Member State, and in particular the Managing Authority of OP “Development of the Competitiveness of the Bulgarian Economy” is fully responsible for the compliance of Structural Funds operations within the programme with the EC State aid rules.

X. MANAGEMENT AND IMPLEMENTATION OF THE OPERATIONAL PROGRAMME ²⁵

This chapter lays down the implementation rules for Operational Program “Development of the Competitiveness of the Bulgarian Economy” in accordance with EC Regulation 1083/2006 and regulates the general framework for the management, financial flows, control, monitoring, promotion and publicity and evaluation of the OP.

1 Management structure of OP

1.1 Managing Authority

The Strategy for Participation of the Republic of Bulgaria in the Structural Funds and the Cohesion Fund of the European Union (Decision of the Council of Ministers № 312/2002 for its adoption), Chapter 21 “Regional Policy and Coordination of Structural Instruments” (CONF-BG 56/01) and the Common Position of EU (CONF-BG 80/01), determine the Managing Authorities for the operational programs for the programming period 2007-2013. Under these documents and with an Ordinance of the Council of Ministers N965/16.12.2005, the European Funds for Competitiveness Directorate within the Ministry of Economy and Energy has been appointed Managing Authority of Operational Program “Development of the Competitiveness of the Bulgarian Economy”.

The “European Funds for Competitiveness” (EFC) Directorate is part of the specialized administration of the Ministry of Economy and Energy and currently performs functions of Implementing Agency for PHARE – Economic and Social Cohesion, sector “Competitiveness”.

Organizational Structure and functions of the EFC Directorate as MA

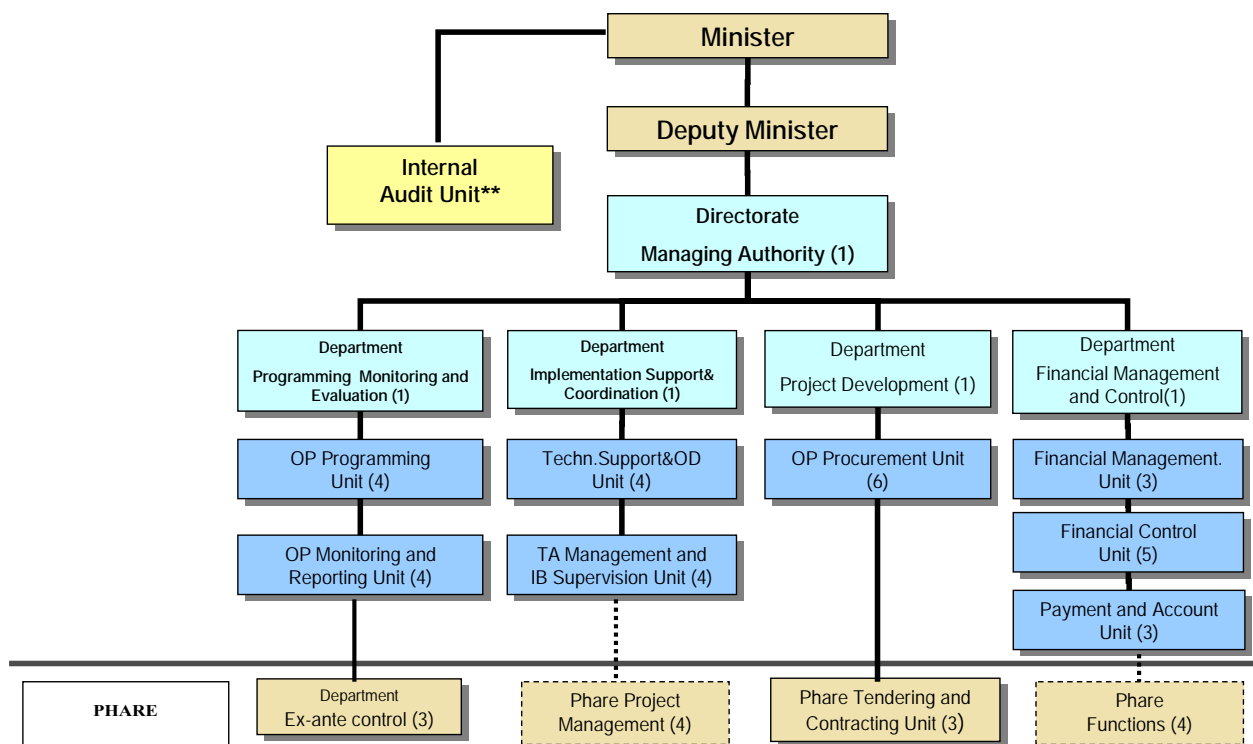
²⁵ The development of the program implementation structure and of the plan for ensuring information and publicity of the fields of interventions envisioned is indicative.

Currently the EFC Directorate as Phare Implementing Agency consists of a Director (*Deputy PAO*), three departments responsible for the tendering, implementation and financial management of Phare projects. Besides them, “Coordination of Programmes” Department is responsible for managing all coordination activities related to Phare projects and HR management and ensuring internal control and quality assurance of the tender and financial documentation of Phare projects. A separate unit within the Department is responsible for drafting, programming and negotiating the Operational Programme

It has been decided the structure of the Managing Authority in EFC Directorate to resemble as closely as possible to that of the current implementation structure for Phare ESC. In this way, the Managing Authority can grow within the existing structure of the EFC Directorate.

When the Directorate will act as Managing Authority of Operational Programme “Development of the Competitiveness of the Bulgarian Economy” will comprise four departments:

- “Programming, Monitoring and Evaluation” Department:
 - OP Programming and Evaluation Unit;
 - OP Monitoring and reporting Unit;
- “Implementation Support and Coordination” Department;
- “Project Development “ Department;
- “Financial” Department.



The responsibilities of the above-mentioned departments will be as follows:

- **“Programming, Monitoring and Evaluation” Department** shall comprise two units which will implement all activities related to programming and evaluation of the OP (drafting the OP, negotiating with the European Commission, internal/external coordination of OP, identification and definition of target groups; definition of instruments, measures etc; steering of programmes/ modification of programmes, coordinating the gathering of relevant socio-economic data for programming, analysis etc.), sub-programming (Definition of instruments, measures, drafting detailed description of OP priorities and fields of interventions – elaboration of general selection criteria, elaboration and coordination of Concept Note preparation - compliance issues, instrument to be used, identification of target groups, eligibility rules and criteria for the scheme; participation in preparation of preparation of all necessary documentations for notification of schemes under relevant applicable state aid regimes; delivery mechanism); compilation of ex-ante evaluation; organising and coordinating OP evaluations (preparation of Evaluation plan; organising, carrying out and coordinating OP evaluations – mid-term and on-going; preparation of analysis and corrective measures based on data from monitoring and on evaluation; assists the Commission in organising the ex-post evaluation referred to in Article 49 of the Council Regulation (EC) 1083/2006); OP monitoring and reporting of the Programme implementation (build up a database for monitoring/controlling of ERDF-type Programmes – registration/ collection and evaluation of programme and project data etc; elaboration of Annual Implementation; secretariat of the Monitoring Committee). A separate unit for internal control will maintain a register of the irregularities detected during the project implementation and reports them to the Certifying Authority following established procedures and will receive any irregularity reports from all stakeholders and reports to the CA for any suspected and/or actual cases of fraud and irregularity.
- **“Implementation Support and Coordination” Department** shall be responsible for management and control of operational agreements with Intermediate Bodies, management and coordination of capacity building projects (under priority TA of the OP), organizing and coordinating the specialist training for OP MA`s and IBs` staff, MIS development and maintenance in MA and IBs (IT and electronic network communications system), providing IT support – electronic networking (partial – in close collaboration under support of the MoEE - IT Unit), database and software support – day by day, and publicity activities on national level of the national programming documents; monitoring of the implementation of MA Organisational Development Strategy; publicity issues as elaboration of Communication Strategy and Communication Plan, maintaining and implementation as well as development publicity activities under the rules of the EC, organization and delivery of publicity work; organisation of Info events.
- **“Project Development “ Department** shall participate in preparation of general selection criteria, guidelines for applicants and other tendering documents, prepare and publish local advertisements, update any register(s) related to procurement, publish advertisements on EC website and EC Official Journal. The unit shall issue guidance on tendering and contracting procedures carried out by IB; ex-ante control on the tender/call for proposals documentation elaborated by the IB; ex-ante on the tender procedures carried out by the IB; verification for compliance with state aids rules, including notification procedure;

participation in Project selection/evaluation committees; tendering and contracting not delegated to IB, e.g. TA contracting under Priority 5).

- **“Financial” Department** will be responsible for the ensuring compliance with the principles of the sound and transparent financial management, administration of means (budget management), preparation of requests of payments and declaration and statement of expenditures to the Paying authority (periodically and finally), elaboration of financial reports (annual/final), elaboration of budgetary forecasting/prognoses, documentation of outlays (expenditures) and incomings (payments/settlements), registration and control of payments, receiving the payment claims from the final beneficiaries; performing validation and authorization of the expenditures; paying to the final beneficiaries; maintaining of a separate accounting system and of adequate accounting records of all the transactions related to the financial support, collecting the sums wrongly paid (bad debt collecting unit).

The structure of the directorate is in correspondence to its functions and responsibilities to manage and ensure the proper implementation, monitoring and reporting of the OP. The separation of duties among the departments of the MA is ensured by a detailed operational manual and procedures, describing the coordination of tasks and responsibilities inside the MA and outside with external partners and stakeholders.

Implementing provisions for the Managing Authority

According Art. 59 of EC Regulation 1083/2006, the Managing Authority is an authority, or public or private national, regional or local body designated by the Member State to manage an operational programme.

The functions of the Managing Authority are outlined in Art. 60 of EC Regulation 1083/2006. In line with this article, the Managing Authority is responsible for managing and implementing the operational program efficiently, effectively and correctly in accordance with the sound financial management. The specific obligations include:

a) ensuring that interventions are selected for funding in accordance with the criteria applicable to the operational programme and that they comply, for their whole implementation period, with applicable Community and national rules;

b) verifying the delivery of the co-financed products and services are delivered and that the expenditure declared by the beneficiaries for interventions has actually been incurred and complies with Community and national rules; verifications on-the-spot of individual interventions may be carried out on a sample basis in accordance with the detailed rules to be adopted by the Commission in accordance with the procedure referred to in Article 103(3);

c) ensuring that there is a system for recording and storing in computerized form detailed accounting records of each intervention under the operational programme and that the data on implementation necessary for financial management, monitoring, verification, audits and evaluation are collected;

d) ensuring that beneficiaries and other bodies involved in the implementation of fields of interventions maintain either a separate accounting system or an adequate accounting code for all transactions relating to the interventions without prejudices to national accounting rules;

e) ensuring that the evaluations of operational programmes are carried out within the time limits and in accordance with the quality standards laid down in EC Regulation 1083/2006;

f) setting up procedures to ensure that all documents regarding expenditure and audits required to ensure the adequate audit trail are held in accordance with the requirements;

g) ensuring that the certifying authority receives all necessary information on the procedures and checks carried out in relation to expenditure for the purpose of certification;

h) guiding the work of the Monitoring Committee and providing it with the documents required to permit the quality of the implementation of the operational programme to be monitored in the light of its specific goals;

i) drawing up and, after approval by the Monitoring Committee, submitting to the Commission the annual and final reports on implementation;

j) ensuring compliance with the information and publicity requirements laid down in Art. 69 of EC Regulation 1083/2006;

k) providing the Commission with information to allow it to appraise major projects.

Art. 90 and Art. 98 further stipulate the responsibilities of the Managing Authority in regard to the conservation of documents, namely, that the Managing Authority shall ensure that all the supporting documents regarding expenditure and audits on the operational program concerned are kept available for the Commission and the European Court of Auditors at least for three years after the partial closure or closure of the operational program in the form of originals or in versions certified to be in conformity with the originals on commonly accepted data carriers.

The Managing Authority will also be responsible for the implementation of fields of interventions under the Technical Assistance of the operational program.

Selection of Projects for Funding

The Managing Authority bears the overall responsibility for the project selection procedure. It develops the general project selection criteria and submits them for approval to the Monitoring Committee. The Managing Authority guarantees the transparency, objectivity and efficiency of the selection procedure, and thus the quality of selected projects.

A Decree of Council of Ministers No 121/31.05.2007 sets up the rules and procedures for granting financial aid under Operational Programmes, co-financed by the European Structural and Cohesion Fund.

The Decree defines the types of procedures to be applied in terms of deadlines and selection process. According to Art. 6 of the Decree, grants can be awarded through conducting a selection procedure or through direct grant award.

Selection procedures are:

1. According to application stages:
 - a) open procedure
 - b) pre-selection procedure
2. According to selection process
 - a) Competitive procedure

- b) Selection of projects that cover predetermined selection criteria;
3. According to deadlines for applying:
- a. Call with deadlines
 - b. Open call

The text of the Decree can be found at the internet site of the Central Coordination Unit (www.eufunds.bg) and at the OP “Competitiveness” web-page (www.opcompetitiveness.bg).

1.2 Intermediate Body

According Art. 2 (6) of EC Regulation 1083/2006, the Intermediate Body is any body or public or private service which acts under the responsibility of a managing or certifying authority or which carries out duties on behalf of such an authority vis-à-vis beneficiaries implementing interventions.

According to Art. 42 of EC Regulation 1083/2006, the Managing Authority may entrust the management and implementation of a part of an operational program to one or more intermediate bodies. The Intermediate Body ensure the implementation of one or more interventions in accordance with the provisions of an agreement concluded between the Managing Authority and that body. The Intermediate Body must provide guarantees for its solvency and competence in administrative and financial management. It must normally be established or represented in the region or regions covered by the operational program at the moment of its designation.

Where tasks are delegated to Intermediate Body, the Managing Authority retains overall responsibility and is fully responsible for the efficiency and accuracy of management and implementation of the operational program.

Decision of the Council of Ministers № 312/2002 for the adoption of the Strategy for participation of the Republic of Bulgaria in the Structural funds and the Cohesion Fund of the European Union and Chapter 21 “Regional Policy and coordination of structural instruments” (CONF-BG 56/01) and the Common Position of EU (CONF-BG 80/01) and Ordinance of the Council of Ministers N965/16.12.2005, the Bulgarian Small and Medium-sized Enterprises Promotion Agency is determined as an Intermediate Body of Operational Program “Development of the Competitiveness of the Bulgarian Economy” for Priority Axis 1 and Priority Axis 2.

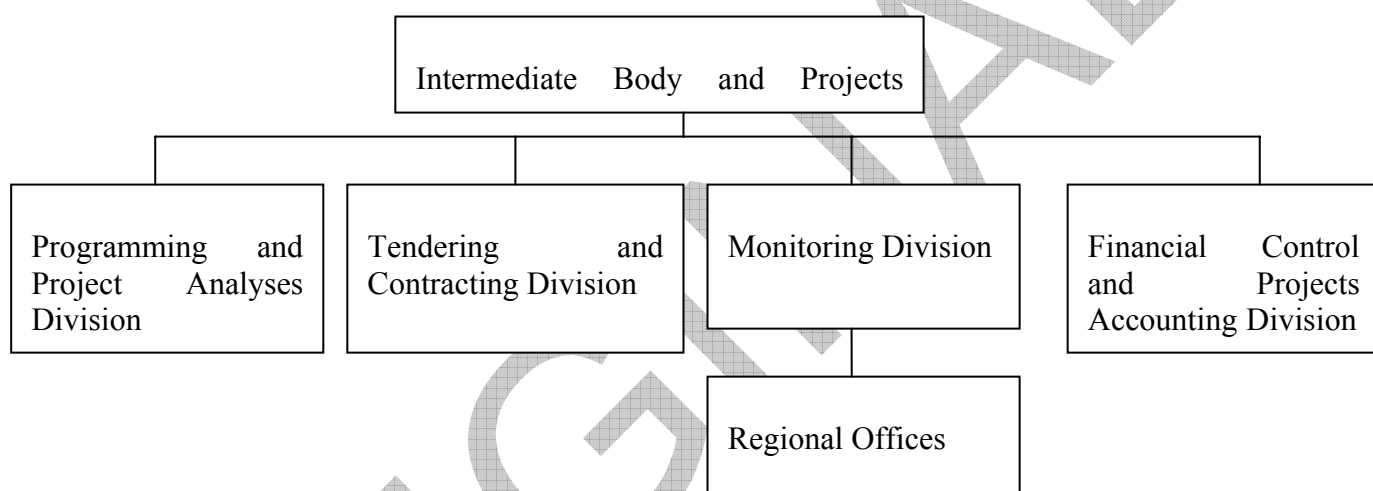
According to the new Organic Rules of the BSMEPA, a new directorate “Implementation of pre-accession programmes and projects” has been established with 10 persons. The new directorate functions as PIU to the EFC Directorate in its capacity of Implementing Agency under PHARE. The future Intermediate Body will be built up from this directorate and the civil servants will be fully trained and prepared for the functions and the responsibilities as employees of Intermediate Body.

After an amendment of the BSMEPA’s Organic Rules, a new directorate “Intermediate Body and projects implementation” is established by a merger between the “Implementation of pre-accession programmes and projects” Directorate and the “Technology Development and Innovations” Directorate and will act as an IB. The new directorate will combine the experience of the Agency as a Project Implementation Unit under PHARE Programme and as the Managing

body of the National Innovation Fund. Foreseen total staff number is 62 employees including 29 positions at regional level. The regional coordinators of the IB will have technical functions during OP’s tendering, implementation, monitoring and reporting.

When the Directorate will act as Intermediate Body for Operational Programme “Development of the Competitiveness of the Bulgarian Economy”, it will comprise four departments following the structure and functions of MA within MEE:

- “Programming and Project Analyses” Department
- “Tendering and contracting “ Department;
- “Monitoring” Department;
- “Financial management and Control” Department.



The responsibilities of the above-mentioned departments will be as follows:

“Programming and Project Analyses” Department - Elaboration of proposals for project selection criteria for different operations under the OP Competitiveness and presenting them to MA for preliminary approval. Development of draft guidelines for applicants / tenderers according to the project selection criteria approved by Monitoring Committee. Contributions to Annual, midterm and final Implementation Reports. Collecting relevant information regarding the implementation of the OP Competitiveness operations and submitting such information to the OP Managing Authority. Processing statistical, technical and financial data related to the OP measures implemented at regional level and submitting them to the OP Managing Authority, in order for the independent evaluators to prepare the midterm evaluation reports.

“Tendering and contracting“ Department – Preparation of project guidelines and tendering dossiers; launching and organizing the calls for proposals; receipt and registration of applications; project appraisal, pre-contracting check on EC policy compliance and tendering, eligibility (e.g. SEM 2000), coherence with principles of EU – policies/ strategy, verification/control regarding competition rules, pre-contractual check in regarding contracting guidelines, preparation of contractual reports and sending prepared Contracts to MA for signature, ensuring that MIS consists of information on each project.

“Monitoring” Department - Developing and extending partnerships in the field of evaluating and monitoring of the projects, information and publicity regarding the programming documents at regional and local level, undertaking the pre-contractual side visits and project monitoring, contributions to Annual, Midterm and Final Implementation Reports, collecting relevant information regarding the regional implementation of the Operational Programme measures and submitting such information to the MA, processing statistical, technical and financial data related to the OP measures implemented at regional level and submitting them to the OP Managing Authority, in order for the independent evaluators to prepare the mid-term evaluation reports, representation in official bodies, publicity, administrative implementation, management and coordination of IT projects on decentralised level, management and coordination of Institution and Administrative Capacity Building projects within the IB and decentralized offices, coordination of training within the IB, support of MIS/IT development and IT maintenance, undertaking the periodical side visits and project monitoring, verifying of MIS information on each project, execution and carrying out of project monitoring in line with approved procedures, ensuring/ verifying that adequate spot checks on compliance, contracting and project monitoring systems are carried out (EC Regulations CE 1083/2006)

“Financial management and Control” Department - administrative of means (budget management), documentation of outlays (expenditures) and incomings (payments/settlements), registration and monitoring/control of payments, reimbursements, commitments, granting of funds (approvals) etc., elaboration of financial reports – (for MA annual/final reporting), elaboration of budgetary forecasting/ prognoses – Input to MA Elaboration of budgetary forecasting/ prognoses, verification of payment claims received from the final beneficiaries and providing a declaration of expenditure, recovery of sums wrongly paid out at project level (final recipients), implementation of financial corrections and reports thereof to the Managing Authority. Ensures and accounts for the correctness of the interventions regarding projects funded through the Operational Programme, as well as for the internal control measures implementation, in compliance with the principles of the sound and transparent financial management. Check of the contracts and payment claims, executing adequate spot check is carried out on financial control systems (EC Regulations 1083/2006, final recipients).

Implementing provisions for the IB

Based on a written agreement with the Managing Authority, the Intermediate Body will be delegated the following responsibilities:

- a) information and publicity of the operational program at regional and local level;
- b) collecting and processing relevant statistical, technical and financial data regarding regional implementation of the interventions for which it is responsible, and submitting it to the Managing Authority for inclusion in the annual implementation reports or in support of the preparation of the mid-term and final evaluation reports;
- c) implementing beneficiary awareness campaign based on the strategy developed by the Managing Authority – distribution of application forms and guidance materials;
- d) launching and organizing the calls for proposals, receipt and registration of applications, project appraisal, pre-contracting check on EC policy compliance and

- respect of tendering rules, setting up selection committees and transferring the list of approved projects to the Managing Authority for approval;
- e) project monitoring and introducing into the Management Information System of the relevant information on each project/ contract - submitting the data to the Managing Authority;
 - f) conducting on-the-spot-checks in line with EC Regulation 1083/2006;
 - g) verifying and accounting for the correctness of the projects funded under the interventions for which it is responsible, receiving payment claims from final beneficiaries, validating at each project level the payment claims received from final beneficiary and submitting them together with the statement of expenditure to the Managing Authority;
 - h) reporting irregularities to the Managing Authority – ensuring that final beneficiaries properly account for and manage EU funded expenditures;
 - i) ensuring that final beneficiaries have adequate systems in place to audit payment claims – audit of final beneficiaries’ grant management system.

Without prejudice to the relevant EC and national legislation, the implementation provisions described in this chapter may be altered should it lead to more efficient system of implementation of the operational program.

1.3 Final Beneficiaries and Final Recipients

Final beneficiaries under Operational program “Development of the Competitiveness of the Bulgarian Economy” are all entities, applying for ERDF support in order to implement projects. In case of most grant schemes, the final beneficiaries are enterprises.

For the purposes of the operational program, final beneficiaries (beneficiaries) have been defined as per Art. 2 of Regulation (EC) 1083/2006, namely - “beneficiary’: an operator, body or firm, whether public or private, responsible for initiating or initiating and implementing operations. In the context of aid schemes under Article 87 of the Treaty, beneficiaries are public or private firms carrying out an individual project and receiving public aid”.

According the new EC regulations, “final recipient” is no longer defined as part of the programme implementation. For ensuring better understanding and clarity in defining the range and the scope of the OP “Competitiveness” objectives, a working explanation of the term is introduced. As per this explanation, final recipient is any person, body, company, group, which is going to make use of the final results from the implementation of the interventions and/or activities under the present OP.

Under the so proposed priorities and fields of interventions, a few groups of beneficiaries and final recipients are outlining, as follows:

During the implementation of all grant schemes, the beneficiaries are the grant recipients, namely:

- Priority Axis 1, fields of interventions 1 and fields of interventions 2 - start-ups, existing enterprises;

- Priority Axis 1, fields of interventions 3 – universities and research organizations;
- Priority Axis 2, fields of interventions 1, 3 and 4– enterprises;

In the case of the financial schemes under Priority Axis 3, the management bodies of the guarantee, venture capital or micro-loan funds or the funds themselves as institutions, are final beneficiaries, while the final recipients are all enterprises and/or credit receivers.

For the export and investment promotion projects, beneficiaries are respectively BSMEPA and Invest Bulgaria Agency. The direct results of the projects remain within the entity developing and implementing them and here the assistance has no state-aid character. As final recipients and indirect users of the results are export enterprises (interventions 2) and foreign investors (interventions 1).

In case of interventions implemented as an expenditure of Managing Authority or Intermediate Body (e.g. technical assistance), the institution is final beneficiary.

The final beneficiaries shall be responsible for ensuring that only expenditure incurred in the appropriate period and eligible to be financed under the SF rules and the present OP, is submitted for payment request. The existence of a clear audit trail will be required from all final beneficiaries. If applicable, the final beneficiary will conduct a public procurement procedure for sub-contracting any activity, directly connected with the implementation of the supported project.

2 Monitoring and Evaluation of the Implementation of OP

2.1. Monitoring Committee

The Management of the Operational Programme “Development of the Competitiveness of the Bulgarian Economy” 2007-2013 will be under the control of the Monitoring Committee. The Monitoring Committee is set up in agreement with the Managing Authority – “European Funds for Competitiveness” Directorate, within the Ministry of Economy and Energy and after consultations with the partners. According to Art. 63 of the EC Regulation 1083/2006, the Committee shall draw up its rules of procedure within the institutional, legal and financial framework of Bulgaria concerned and adopt them in agreement with the Managing Authority.

Membership of the Monitoring Committee

According to Ordinance No182/21.07.2006 of the Council of Ministers, Monitoring Committees for the National Strategic Reference Framework and for the Operational Programmes will be established. In accordance to Article 8(1), the Monitoring Committee for an Operational Programme consists of chairman, members and observers. During meeting, the chairman and the members have the right to vote, while the observers have only advisory functions.

The Monitoring Committee for the OP “Competitiveness” is formally constituted (ordinance N ПД-16-1010/25.09.2006) and the first official meeting took place in November 2006.

The chairman of the OP “Competitiveness” Monitoring Committee is the deputy-minister of the Ministry of Economy and Energy under whose responsibilities is the Managing Authority.

The representatives of the following organizations will comprise the voting members of the Monitoring Committee:

- The head of the Managing Authority for OP “Competitiveness”
- The heads of the Managing Authorities of the other Operational Programmes
- The heads of the Managing Authorities for the Programme for development of the rural areas and the National Strategic Plan for development of fisheries.
- The executive director of the Executive Agency for Economic Analysis and Forecasts
- the head of the Central Coordination Unit within the Ministry of Finance
- the head of the Certifying Authority within the Ministry of Finance
- The head(s) of the Intermediate Body(ies) for OP “Competitiveness”
- Representatives from “Economic and social policy” Directorate, “Strategic planning and management” Directorate, “Coordination of EU matters and international financial institutions” Directorate within the Council of Ministers.
- Representatives of ministries, state agencies, state commissions and other institutions, relevant to the priorities of the OP “Competitiveness”
- Representative of the National Association of the Municipalities in Bulgaria
- Representatives of the Regional Development Councils for the Planning Regions
- Representatives of the nation-wide represented business and labour organizations, appointed by a decision of the Council of Ministers

An ordinance was issued by the Minister of Economy and Energy, naming the voting members of the Committee and their substitutes. The substitutes may participate in the meetings as observers. They will have voting rights only in cases of absence of the nominated titular.

The composition of the Committee might be reviewed and extended by different non-voting members with the status of observers, in order to guarantee sufficient representation and partnership and without any requirement to amend the OP “Competitiveness”. As observers in the MC participate:

- the director of the Audit authority;
- representative of the EC;
- representative of the European Investment Bank or other financial institution (when receiving financial assistance from the European Investment Bank or other financial institution);
- experts on horizontal issues – one expert in the each of the following areas: sustainable development, equal opportunities, competition and public procurement;
- representatives of the NGOs.

The composition of the Monitoring Committee is based on the partnership principle, taking especially into account the relationships with the social partners. The composition of the Monitoring Committee will be based on the principle of equal opportunities between men and women.

The functions of the Secretariat of the OP Monitoring Committee is carried out by the Managing Authority – the “Monitoring and Reporting Unit” within the MA is responsible for following up matters relating to the Monitoring Committee. The Secretariat is responsible for preparation of the necessary documents to be reviewed by the Monitoring Committee and sends them to the members together with the agenda for the meeting 20 working days before the date of its meeting.

Role and functions of the Monitoring Committee

According Article 65 of EC Regulation 1083/2006, the Monitoring Committee shall satisfy itself as to the effectiveness and quality of the implementation of the operational programme, in accordance with the following provisions:

- it shall consider and approve the criteria for selecting the interventions financed within six months of the approval of the Operational programme. The selection criteria shall be revised in accordance with programming needs;
- it shall periodically review progress made towards achieving the specific targets of the operational programme on the basis of documents submitted by the Managing Authority;
- it shall examine the results of implementation, particularly achievement of the targets set for each Priority Axis and the evaluations linked to the monitoring of the Operational programme;
- it shall consider and approve the annual and final reports on implementation before they are sent to the Commission;
- it shall be informed of the annual control report, or of the part of the report referring to the operational programme concerned, and of any relevant comments the Commission may make after examining that report or relating to that part of the report
- it may propose to the Managing Authority adjustments or revisions or examination of the operational programme likely to make possible the attainment of the Funds’ objectives or to improve its management, including financial management;
- it shall consider and approve any proposal to amend the contents of the Commission decision on the contribution from the ERDF.

The Monitoring Committee may take a decision on the re-allocation of budget from the Structural Funds between interventions within its competence. In cases where the Monitoring Committee decides to transfer Structural Funds from one intervention to another, the same transfer will be made for the national public co-financing as a matter of principle. Any amendment to the contribution of the ERDF and transfers among priorities within or between OPs is decided by the European Commission, in agreement with the Member State.

The Monitoring Committee is responsible for drawing up its own rules of procedure within the national institutional, legal and financial framework, and agrees them with the Managing Authority. OP “Competitiveness” Monitoring Committee adopted its own Internal Rules on its first official meeting.

The Monitoring Committee shall meet at least twice a year, usually in the spring and in the autumn. In case of necessity, special sessions could be held. The Managing Authority shall inform the Monitoring Committee regularly about the progress made in implementing decisions from previous meetings. For the spring meeting a review on the progress throughout the previous year and approval of the annual report will be scheduled. The autumn meeting shall discuss the progress until June 30th of the current year. In case of circumstances urge for a decision to be made prior to the following meeting, the Monitoring Committee may make a decision via a written procedure.

The Internal Rules envisages the possibility for establishment of permanent and temporary Subcommittees on specific and current matters. The subcommittees shall follow the principle of partnership. Members of the Monitoring Committee as well as experts and representatives from the social partners, specialized in a specific theme/field of work may take part in the subcommittees. The membership of the subcommittee needs to guarantee the optimality of its work. In case, the Subcommittee has reached agreement on a certain matter, which requires making of a decision on behalf of the OP Monitoring Committee, then this decision may be made with no further debate by the Monitoring Committee. In case, agreement has not been reached by the subcommittee, The Monitoring Committee shall make a decision after additional debate and consultation.

2.2. Reporting on OP Implementation

Annual report and final report on implementation

According to Article 67 of the EC Regulation 1083/2006, for the first time in 2008 and by 30 June each year, the Managing Authority shall send the Commission an annual report on the implementation of the operational programme. The Managing Authority shall send the Commission a final report on the implementation of the operational programme by 31 March 2017.

They shall include the following information in order to obtain a clear view of the implementation of the operational programme:

- the progress made in implementing the operational programme and priorities in relation to their specific, verifiable targets, with a quantification of the physical indicators and the indicators of implementation, results and impact for the Priority Axis;
- the financial implementation of the operational programme, detailing for each Priority Axis the expenditure paid out by the beneficiary and the corresponding public contribution, the total payments received from the Commission, and quantifying the financial indicators;
- the financial implementation by field of assistance adopted by the Commission in accordance with the procedure referred to EC Regulation 1083/2006;
- the steps taken by the Managing Authority and the Monitoring Committee to ensure the quality and effectiveness of implementation, in particular:
- monitoring and evaluation measures, including data collection arrangements;

- a summary of any significant problems encountered in implementing the operational programme and any measures taken, including in response to comments made under Article 67 of EC Regulation 1083/2006;
- the use made of technical assistance;
- the measures taken to provide information on and publicise the operational programme;
- a declaration that Community law has been complied with during implementation of the operational programme and, where appropriate, identifying any problems encountered and the measures taken to deal with them;
- the progress and financing of major projects and global grants;
- information on the rules governing the grant of preferential financing in areas with a natural handicap;
- the use made of assistance repaid to the Managing Authority or to another public authority during the period of implementation of the operational programme.

The breadth of information transmitted to the Commission shall be proportional to the total amount of public expenditure of the operational programme concerned.

The reports shall be judged acceptable where they contain all the information listed in paragraph 2. The Commission shall reach a decision on the acceptability of the annual report within 10 working days.

The Commission shall reach a decision on the content of the annual report on implementation submitted by the Managing Authority within two months. For the final report on the operational programme, the time limit shall be five months. If the Commission does not respond within the time limit laid down, the report shall be deemed to be accepted.

Contribution to strategic reports by the Member State

In addition to compiling Annual and Final Implementation Reports, the Managing Authority is also contributed to the national strategic reports required from the Member State in accordance with Art. 29 of the General Regulation 1083/2006.

2.3. Evaluation of OP Implementation

The Operational Programme “Development of the Competitiveness of the Bulgarian Economy” 2007-2013 shall be the subject of evaluation. The aim of the evaluations is to improve the quality, effectiveness and consistency of Fund assistance and the implementation of operational programmes. They also appraise their impact with respect to the strategic objectives of the Community, the specific structural problems affecting the Member States and regions concerned, while taking account of the needs of sustainable development and of the relevant Community legislation concerning environmental impact and strategic environmental assessment.

Ex-ante evaluation

Ex-ante evaluation shall aim to optimise the allocation of budgetary resources under operational programmes and improve programming quality. It shall identify and appraise medium- and long-term needs, the goals to be achieved, the results expected, the quantified targets, the coherence, if

necessary, of the strategy proposed for the region, the Community value-added, the extent to which the Community’s priorities have been taken into account, the lessons drawn from previous programming and the quality of the procedures for implementation, monitoring, evaluation and financial management.

Pursuant to Article 48 of EC Regulation 1083/2006, the *ex-ante* evaluation of Operational Programme “Development of the Competitiveness of the Bulgarian Economy” 2007-2013 will be carried out as an element of a broader evaluation process, which included at that time the NSRF and all Operational Programmes. The detailed *ex-ante* evaluation results shall be described in separate annex.

Ex-post evaluation

In accordance with Article 49 of EC Regulation 1083/2006, the *ex-post* evaluation will be carried out under the responsibilities of the European commission in cooperation with the Member state and the Managing Authority of OP “Development of the Competitiveness of the Bulgarian Economy”, which shall provide for the gathering of the necessary data. The *ex-post* evaluation shall take account of evaluation works carried during the programming period.

It shall examine the extent to which resources were used, the effectiveness and efficiency of Fund programming, the socio-economic impact and the impact on the Community’s priorities.

The aim of the *ex-post* evaluation shall be to draw conclusions for the policy on economic, social and territorial cohesion. It shall identify the factors contributing to the success or failure of the implementation of operational programmes, including in terms of sustainability, and identify good practice.

Ex-post evaluation shall be completed by 31 December 2015.

Ongoing Evaluation

During the programming period, Member States carry out ongoing evaluation linked to the monitoring of operational programmes where the monitoring of programmes reveals a significant departure from the goals initially set and where proposals are made for the revision of operational programmes. The results of the ongoing evaluation of the programme implementation will be incorporated in the annual reports and periodical reports and discussed by the Monitoring Committee. The results shall be sent to the Monitoring committee for the operational programme and to the Commission.

The ongoing evaluations will be carried out during OP “Competitiveness” implementation. The ongoing valuation will be mainly two types:

- The Interim Evaluation will examine the initial results of the assistance. The interim evaluation will aim at appraising the progress of programming in relation to the commitments taken at the beginning of the period, and improving the quality, effectiveness and complementarity of the assistance delivered under OP. There will be 1 interim evaluation to be carried out at the end of 2010. It will examine the progress made in implementing the OP, mainly focused on issues such as management of the OP, analysing possible problems which could occur during the implementation and propose specific solutions to improve the operation of the system.

- The on-going evaluations will be carried out where programme monitoring reveals a significant departure from the goals initially set or where proposals are made for the revision of operational programmes. On-going evaluations can also address either implementation or management issues of an individual Priority Axis or operations, or can be “thematic”. On-going evaluations will be scheduled in the Evaluation plan, but it is envisaged that the first evaluation to be carried out at the end of 2008, when the first results from OP implementation will be available, and then continue with provisional evaluations for once a year.

The on-going evaluation will be processed under the form of a series of evaluation exercises, where the emphasises will be put on the need for stronger links between monitoring and evaluation and decision-making.

According to Art. 48(3) of Regulation (EC) 1083/2006, there are two specific cases in which Member States shall carry it out:

- where the monitoring systems reveal a significant departure from the goals initially set.

In this case, financial and physical data are going to be examined in order to see shall the Operational Programme objectives be met. For the purposes of the OP “Competitiveness” “significant departure” could be determined as a deviation in a range of 10% to 20% from the initially set goals, which could be considered as a prerequisite for undertaking an evaluation. This could be used as an “early warning call” for identification of problems-to-arise and reasons for them and thus facilitating the undertaking of corrective measures.

- when operational programme revisions are proposed

The revision of the OP should be preceded by an evaluation. The Regulation (Art. 33) reveals that OP could be re-examined in certain cases, namely significant socio-economic changes in the programme environment, major changes in Community, national or regional priorities, implementation difficulties, or where the monitoring of operational programmes reveals a significant departure from the goals initially set.

Evaluation plan

In accordance with the principles of subsidiarity and proportionality (Article 13 EC Regulation 1083/2006), Member States bear the responsibility for monitoring operational programmes, for carrying out on-going evaluations, and for taking corrective measures when problems arise. Referring to that, the managing Authority of OP Competitiveness will organize the carrying out of the on-going evaluation through preparation of an Evaluation plan, which to be in accordance to the National evaluation plan of the NSRF, if such will be elaborated.

The OP “competitiveness” MA will set up an evaluation unit (or an evaluation project manager) responsible for coordination, organization and performance of different evaluations. The MA would ensure financial resources within the frames of the Technical Assistance Priority, for carrying out evaluations, data gathering, surveys and analyses.

After consultation with the Central Coordination Unit, the OP Managing Authority will prepare and submit to the Monitoring Committee an OP evaluation plan. The Evaluation plan could cover the whole programming period but will also include annual sections, updated and revised

according to the needs of the MA and/or where specific evaluations are required under Article 48[3]. The Evaluation plan will cover both aspects of the ongoing evaluation:

- where the monitoring systems reveal a significant departure from the goals initially set.
- when operational programme revisions are proposed

The evaluation Plan will provide an overall framework for the on-going evaluation and ensure that it is effectively used as an integrated management tool during the implementation phase. It will describe and explain the overall co-ordination arrangements of the on-going evaluation process, the links with the monitoring system, the establishment of an evaluation plan steering group, division of human resources tasks as well as a mechanism for a possible revision of the evaluation plan. The plan could also include other evaluation-related activities which also need to be planned in advance, such as training programmes for evaluation coordinators and/or evaluators. The indicative evaluation activities would cover the following items: themes or parts of the programmes to be evaluated; indicative timetable; financial resources planned; specification of the management structure responsible for evaluation; a mechanism for possible revision of the evaluation plan. The Evaluation plan will be prepared after official approval of the OP; the content of the Evaluation plan could cover following issues:

1. Coordination and management process information section:

1.1. Overall co-ordination arrangements:

- Unit responsible
- Coordination with other departments

Approval process

Links with monitoring system

Human resources division and trainings envisaged

Mechanism for a possible revision of the evaluation plan

Possible links and complementarities with evaluation plan at national level

2. Specific evaluation activities section:

2.1. Indicative list of evaluations to be carried out during the programming period (titles);

2.2. Type of indicative evaluations to be carried out, e.g. internal, external, ad-hoc, etc.;

2.3. Scope of each evaluation exercise, for example:

- policy-oriented evaluation;
- performance-oriented evaluation;
- management performance-oriented evaluation;
- per type of coverage of the evaluation - operational programme, a group of operational programmes, specific themes, etc.;
- covering “potential risk areas” identified on the basis of risk assessment and past experience in specific intervention fields;

- 2.4. Main evaluation questions to be considered;
- 2.5. Potential use of each evaluation (publication and availability of evaluation reports, presentation and distribution of results, monitoring the use of recommendations);
- 2.6. Indicative timetable for evaluations to be carried out ;
- 2.7. Type of carrying out evaluation - external or internal evaluation;
- 2.8. Financial resources planned for each evaluation;
- 2.9. Management structure (including an evaluation steering group, and consultation of civil society, regional and local partners, etc.).

For ensuring the proper and transparent evaluation, the MA will decide whether to use internal or external evaluation expertise, or both, for the whole period or for different stages. For the purpose, an evaluation project manager will be appointed. In case of external expertise, the evaluation project manager will develop the Terms of Reference (ToR) for the evaluation, will organise the selection of evaluators, guide the evaluation, give feedback on the first draft; will organise approval for quality on completion. For larger scale evaluations a steering group may be set up for these tasks.

In case of internal on-going evaluation, the evaluation project manager will be responsible for organizing and carrying out the evaluation(s) and for preparation of evaluation reports. The relevant departments and Intermediate Body appoint contact persons who will help the evaluator by providing information, organising meetings, etc.

Evaluation reports should be presented to and discussed in the OP Monitoring Committee and other relevant partnership groups, as appropriate.

The Managing Authority will publish the approved evaluation report on its website (unless it contains confidential information - in that case it will publish a summary and the conclusions & recommendations).

The Managing Authority will draw up an action plan to implement recommendations from evaluations and regularly monitors its implementation.

2.4. Evaluation of Strategic Impact

According to the Bulgarian Law for preservation of the environment (LPE) (Chapter VI) the minister of the environment and water or the relevant Regional inspectorate on environment and water are the authorized institutions to perform Strategic environmental assessments of plans and programmes. The “European Funds for Competitiveness” directorate at the Ministry of economy and energy, as Managing authority of the OP “Competitiveness” sent a letter (№ 04-20-287/18.11.2005) to the Ministry of the environment and water, asking for clarification whether or not the OP “Competitiveness” should pass through a procedure for elaboration of Strategic environmental assessment. The response received (letter № 04-20-278/ 03.01.2006) by the Ministry of the environment and water stated that there is no reason for the OP “Competitiveness” to proceed through such environmental assessment due to the fact that it is relevant neither to any of the fields pointed out in art.81, § 1 of the Law for preservation of the environment, nor to the investment proposals included in Annexes 1 or 2 to the LPE.

The fundamental legislative basis for an evaluation of the possible impact on individual environmental factors due to the implementation of the proposed OP is Directive of the Council and the European Parliament No 42/2001, regarding the evaluation of the environment impact of the separate plans and programmes, Directive for the evaluation of the environmental impact (85/337/EEC and its amendment with 97/11/EC).

The OP must comply with the national legislative rules, namely Regulation for the Evaluation of the Environmental Impact of Investment Proposals for Construction Works, Activities and Technologies – elaborated in conformity with the requirements of Directive 85/337/EC, and its amendment with Directive 97/11/ EC – Ordinance of the Council of Ministers No 59/07 from March 2003. 9 SG 25/18.03.2003) and Regulation on the Organization of the National Scheme for Management and Control of Environment, which provides legal basis of applying the requirements of Regulation EC/761/2001 – OCM No 61/12 from March, 2003. (SG 26/21.03.2003).

The OP must also comply with EC Regulation 1083/2006, laying down general provisions on EC Structural Funds, which requires that fields of interventions financed by these funds comply with the environmental policy of the EU.

The Commission in cooperation with the Member state and the Managing Authority shall ensure that equality between men and women and the integration of gender perspective is promoted during the various stages of implementing the Operational Programme, as per Art. 16 of EC Regulation 1083/2006.

3 Financial Management and Control

3.1 Bodies responsible for financial implementation of the OP

The scope of this part is to describe the bodies involved in the management of the resources from the ERDF for the period 2007 – 2013, the segregation of functions and duties among them regarding management and control systems put in place for the Operational programme “Development of the Competitiveness of the Bulgarian Economy” (OP “Competitiveness”), in the principle of sound financial management. The described processes should assure the Certifying Authority that the financial and control systems in the field are working properly at all levels of EU funds management.

- **Beneficiary**

The Beneficiary is responsible for implementing projects co-financed under the ERDF within the framework of the Operational Programme.

In order to ensure the necessary data and report to the IB, the Beneficiary needs to establish a comprehensive and reliable accounting system at contract level. This task contains the maintenance (filing and archiving) of financial data, supplementary documents and reports consistent with the requirements of Art 60 of Regulation No 1083/2006.

The Beneficiary will be obliged to use an Offline tool of the Managing information system (MIS) to report the financial data and progress on the relevant project.

- **Intermediate Body (IB)**

BSMEPA acts under the responsibility of the Managing Authority and will carry out duties on behalf of MA as per delegated tasks.

An obligation of the IB will be the 100% documents verification of the payment requests submitted by the Beneficiaries. The Beneficiaries submit their paid invoices or accounting documents of equivalent probative value to the Intermediate Body.

The Intermediate Body is responsible for the aggregation of information on expenditure submitted by the Beneficiaries and for certifying such expenditure in the respective period. Based on this IB submits a report on certification to the Managing Authority. The report is completed at measure or priority levels, annexed with project lists and references made to the reports on certification of Beneficiaries, and are subject to verification by the Managing Authority.

With the certification report the IB confirms that:

- Expenditure on the operation is consistent with the provisions of National Rules for eligibility and Art 56 of Council Regulation No. 1083/2006;
- The payment request is based on eligible expenditure actually paid by the Beneficiaries and supporting documentation is available;
- The certified expenditure has been paid within the eligibility period for the relevant scheme;
- Physical and financial progress is being monitored including on-the-spot checks where appropriate;
- There has been no overlapping of EU aid for the operation;
- Evidence of receipt of funding by the Beneficiaries is available;
- Details of the underlying transactions are recorded, where possible on computer files and are available to the responsible Commission services and national authorities upon request;
- A satisfactory audit trail exists;
- Expenditure has been recorded in and reconciled with the accounting system of the Beneficiaries;
- No financial control weakness, risk or irregularities have been identified related to the project in question, or if yes, corrective action has been/will be taken.

- **Managing Authority (MA)**

The Managing Authority is responsible for managing and implementing the operational programme in accordance with the principle of sound financial management as defined in Article 60 of the Council Regulation No. 1083/2006.

The Managing Authority shall ensure the aggregation of information on expenditure supplied to it by the Intermediate Body in reports on certification. The latter is completed at OP level and submitted to the NF (CA) with the applicable lists of measures or priorities, with references made in the report on certification submitted by Intermediate Body, as well as to reports supplied by the

Beneficiaries. The MA submits to the NF (CA) the report on certification and statement of expenditure.

With the certification report the MA confirms that the requirements of Article 60 of the above mentioned Council Regulation are met.

Also the MA prepares and submits to the NF a Request of Funds if it is necessary. In case the MA does not submit Request of Funds a Financial Report will be presented.

Upon granting the approval of the limit from the NF (CA) the MA arranges without delay for the Beneficiaries to receive payment in full with no deductions, retention or further specific charges.

- **National Fund (Certifying Authority – CA and Body for receiving funds from the European Commission)**

The National Fund in its role as a Certifying Authority is responsible for drawing up and submitting statement of expenditure to the EC and preparation of applications for payment as well to receiving funds from the Commission in its role as a Body receiving funds from the European Commission. The CA performs its duties and responsibilities according to Article 61 of the Council Regulation No. 1083/2006 .

- **Audit Authority (AA) - Compliance Assessment Body (CAB)**

The functions of Compliance Assessment Body (single for all Operational Programmes in Bulgaria) under Article 71 of Regulation 1083/2006 will be performed by the “Audit of the EU Funds” Directorate within the Ministry of Finance in accordance to CM Decision from August 2006. The “Audit of the EU Funds” Directorate is responsible for making an assessment of the systems of the Operational Programmes and giving an opinion on their compliance with the provisions of Regulation 1083/2006. For the performance of the Compliance Assessment (including elaboration of methodology, performance of compliance assessment audits and elaboration of reports) of the Operational Programmes the “Audit of the EU Funds” Directorate will be assisted by external experts/auditors.

The Audit Authority is responsible in particular for:

- Ensuring that audits are carried out to verify the effective functioning of the management and control system of the operational programme;
- Ensuring that audits are carried out on operations on the basis of an appropriate sample to verify expenditure declared;
- Presenting to the Commission an audit strategy covering the bodies which will perform the audits referred to under the above mentioned points;
- Submitting to the Commission an annual control report, issuing an opinion that the management and control systems function effectively, a declaration for partial closure assessing the legality and regularity of the expenditure concerned, a closure declaration assessing the validity of the application for payment of the final balance and the legality and regularity of the underlying transactions covered by the final statement of expenditure, which shall be supported by a final control report;

- Ensuring that the audit work takes account of internationally accepted audit standards.

3.2 Procedures for the mobilisation and circulation of funding to ensure transparency of financial flows

- **Budget commitments**

Budget commitments in respect of the operational programme shall be effected annually during the period between 1 January 2007 and 31 December 2013. The first budget is made before the adoption by the Commission of the decision approving the operational programme. Each budget commitment shall be made, as a general rule, by 30 April each year by the Commission. Each subsequent commitment shall be made, as a general rule, by 30 April each year by the Commission. Where no payment has been made by 30 September of the year concerned, a transfer of commitments between different operational programmes could be made.

- **Payments**

Payments by the Commission to the body, responsible for receiving funds from EC within the MF shall take the form of pre-financing, interim payments and final balance payment. All exchanges concerning financial transactions between the Commission and the responsible body shall be made by electronic means. In cases of force majeure, and in particular of malfunction of the common computerised system or a lack of a lasting connection, statements of expenditure and applications for payment may be sent to the Commission in hard copy.

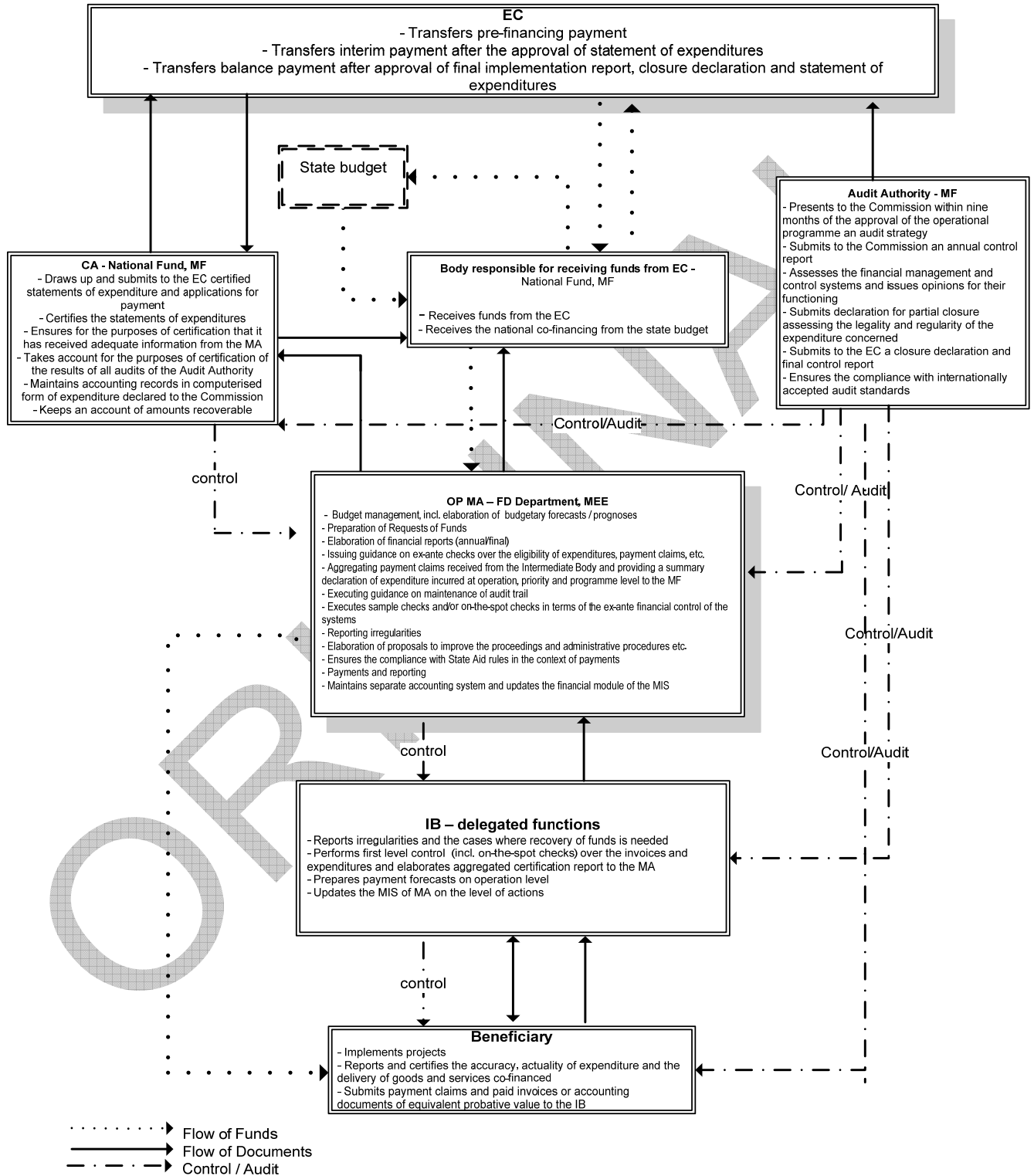
Managing authority (MA) prepares a provisional forecast of the likely applications for payment for the current financial year and the subsequent financial year that should be sent to the Commission not latest by 30 April each year by Certifying authority.

- **OP Accounts**

The main accounts for the EU funding are opened to ensure the flow of funds between the EC and the body, responsible for receiving funds at the MF. For the Operational programme “Development of the Competitiveness of Bulgarian Economy”, a single bank account in BGN will be opened as sub-account to the main account. This account will be used for the whole flow of the public (ERDF and national co-financing) funding. The MA is entitled to execute payments from the sub-account only. The sub-account always closes with zero balances at the end of the day. The sub-account should not normally have outstanding balance at the end of the day as the transfers from the main account. The sub-account also does not normally incur any fees, commissions, interest charges as these are collected from the main account and it does not generate interest itself.

Only the authorized persons in the MA shall have mandate to operate the relevant sub-account. The bank sub-account shall be operated on the basis of a double signature system. In order to avoid any disruption in disbursements two deputy signatories will be intended.

3.3 Financial Flowchart



3.4 Recovery of funds

Any proven irregularity or fraud discovered by the Audit Authority, the National Audit Office or the European Court of Auditors, and/or any irregularity and frauds, where there are circumstances calling for recovery of wrong paid funds, at any time with regard to the Operational Programme (OP) implementation will lead to the recovery of funds to the general budget of the European Union.

When preparing an Interim/Final certificate and statement of expenditure for submission to the Certifying Authority, summarized information on recoveries is presented in a separate table as an integral part of the above-mentioned document.

3.5 Financial reports

- **Requests of Funds, Disbursement Forecasts and Financial Reports**

In the process and scheduling of the reimbursement of expenditures the cycle of payment to the beneficiaries / contractors may be separated. In order to execute payments the MA on the basis of certified expenditures (or advance requests-if applicable) should ensure the availability of funds by approved limits from CA in the sub-account. MA may prepare and send to the CA request of funds. After approval of limits the MA is entitled to directly transfer funds from the sub-account to the accounts of the beneficiaries/contractors whose expenditures are certified (or advance requests approved - if applicable). In case that no RoF is sent, the MA presents only a financial report on monthly basis.

As an integral part of the RoF the MA prepares Summary Details of Expenditure and Disbursement Forecast Table.

- **Co-financing**

In order to ensure the national public co-financing once a year (first quarter) MA, based on the MF Guidelines for preparation of a three-yearly budget forecast and models for the expenditure engagements under the EU Structural Funds produces rolling cash-flow estimate, showing separately each source of funds (EU funds and national co-financing) and expenditures for the programme.

At the end of each quarter the MA prepares Model of expenditure engagements to the EU Structural Funds by months for the current year.

In the last month of the third quarter of the year MA prepares actualized Model of expenditure engagements to the EU Structural Funds for the current year.

During the second half of the year the procedure for the preparation of the budget for the next year is finalised.

4 Management and Information system

The Management Information System (MIS) is a web based solution that the MoEE will use for effective management and control of implementation of OP “Development of the Competitiveness of the Bulgarian Economy” and to perform the official reporting duties defined by the European Commission for the management of the Structural Funds. The system will provide authentic data and relevant functionalities and aggregated key indicators to be used for strategic management and

long-term policy formulation as part of the general capacity building to the UMIS maintained by the Central Coordination Unit in the Ministry of Finance. Both systems are developed independently, based on separated requirements analysis. In order to keep the independency between the systems, information provision will be done through medial connecting layer by exchanging of comma-separated text files. The integrated with MIS Reporting Tool (Crystal Reports), which provides sound and broad features for information extraction and reporting will be used as well as for MIS Exporting tool.

The MIS is structured in modules, defined on the basis of the Project Cycle Management as well as the management structure of the institutions - main users of the system. The main modules are: OP, Tenders (incl. Contracts), Projects, Financial and application management (administration).

The MIS will be utilized by the Managing Authority, the Intermediate Body (ies) and the beneficiaries/contractors under the OP. To ease the process of gathering of implementation reports, expenditure declarations, invoices and payment forecasts an offline independent desktop application is developed for the beneficiaries/contractors. The information exchange will be in electronic format (XML based) to the MIS. At user request the application will connect to the Application Server to share information.

In addition to the predefined queries and reports, the specialized software product Crystal Reports will be used as a reporting tool. It meets all requirements such as:

- Allows the use of predefined template reports as well as creation of user defined report templates, reports to be published on the web, reports to be shared within a customized web portal
- Has functionality to print, export, and drill down on charts and other report objects, and conduct conditional searches within reports
- Allows enhanced security options regarding definition of user, group, object, and folder levels
- Has good Formatting and Design capabilities
- Offers flexible report viewing and interaction features, multi-data source access and XML data access or export.

The ERDF-MIS is a 3-tier application (Presentation Layer, Business Logic and Data Access Layer) based on J2EE (Java 2, Enterprise Edition) and Oracle 10g database. The software supports work with the specified web browsers: IE 5.5, Netscape 6 and Mozilla Firefox 1.

The management information system of the Ministry of Economy and Energy is a separated computerized system, different from the unified MIS maintained by the CCU. Specialized unit is created within the MA in order to maintain and update the MIS for OP “Competitiveness”. An interface is established between the two systems (OP “Competitiveness” MIS and UMIS within CCU) and the exchange of computerized data is guaranteed. The unified MIS maintained by the CCU will manage the exchange of computerized data with European Commission.

Procedure for exchange of computerized data between MS and EC

For the purposes of Articles 66 and 76 of Regulation (EC) No 1083/2006, a computer system for exchange of data shall be established as a tool for the exchange of all data relating to the operational programme. The exchange of data between each Member State and the Commission shall be carried out using a computer system established by the Commission which permits the secure exchange of data between the Commission and each Member State. The Member States shall be involved in the further development of the computer system for data exchange.

According to Art. 40 of Regulation (EC) 1828/2006, the computer system for data exchange shall contain information of common interest to the Commission and the Member States, and at least the following data necessary for financial transactions:

- the indicative annual allocation of each Fund in each operational programme, as set out in the national strategic reference framework, in accordance with the model set out in Annex XV;
- the financing plans for operational programmes, in accordance with the model set out in Annex XVI;
- statements of expenditure and applications for payment, in accordance with the model set out in Annex X;
- annual forecasts of likely payment of expenditure, in accordance with the model set out in Annex XVII;
- the financial section of the annual reports and final implementation reports, in accordance with the model set out in Annex XVIII, point 2.1.

In addition, the computer system for data exchange shall contain at least the following documents and data of common interest enabling monitoring to be carried out:

- the national strategic reference framework referred to in Article 27(1) of Regulation (EC) No 1083/2006;
- data establishing compliance with additionality, in accordance with the model set out in Annex XIX;
- the operational programmes, including data concerning categorisation following the model set out in Part B of Annex II and in accordance with the tables set out in Part A of Annex II;
- the Commission decisions concerning the contribution of the Funds;
- the requests for assistance for major projects referred to in Articles 39, 40 and 41 of Regulation (EC) No 1083/2006, in accordance with Annexes XXI and XXII to this Regulation, together with selected data from those Annexes identified in Annex XX;
- the implementing reports in accordance with Annex XVIII, including data concerning categorisation following the model set out in Part C of Annex II and in accordance with the tables set out in Part A of Annex II;
- data on participants in ESF operations by priority, in accordance with the model set out in Annex XXIII;

- the description of management and control systems, in accordance with the model set out in Annex XII;
- the audit strategy, in accordance with the model set out in Annex V;
- the reports and opinions on audits, in accordance with the models set out in Annexes VI, VII, VIII, IX and XIII, and correspondence between the Commission and each Member State;
- the statements of expenditure concerning partial closure, in accordance with the model set out in Annex XIV; the annual statement on withdrawn and recovered amounts and pending recoveries, in accordance with Annex XI;
- the communication plan referred to in Article 2.

The Commission and the authorities designated by the Member State pursuant to Regulation (EC) No 1083/2006, as well as the bodies to which that task has been delegated, shall record into the computer system for data exchange the documents for which they are responsible, and any updates thereto, in the format required.

Member States shall centralise and send to the Commission requests for access rights to the computer system for data exchange.

Exchanges of data and transactions shall bear an electronic signature within the meaning of Directive 1999/93/EC. The Member States and the Commission shall recognise the legal effectiveness and admissibility of the electronic signature used in the computer system for data exchange as evidence in legal proceedings.

The cost of developing the computer system for data exchange shall be financed by the general budget of the European Communities under Article 45 of Regulation (EC) No 1083/2006. Any costs of an interface between the common computer system for data exchange and national, regional and local computer systems, and any costs of adapting national, regional and local systems to requirements under Regulation (EC) No 1083/2006, shall be eligible under Article 46 of that Regulation.

The computer system for data exchange shall be accessible to the Member States and the Commission either directly or via an interface for automatic synchronisation and recording of data with national, regional and local computer management systems.

The date taken into account for the forwarding of documents to the Commission shall be the date on which the Member State records the documents into the computer system for data exchange.

In cases of *force majeure*, and in particular of malfunctioning of the computer system for data exchange or a lack of a lasting connection, the Member State concerned may forward to the Commission the documents required by Regulation (EC) No 1083/2006 in hard copy, using the forms set out in Annexes II, V, VI, VII, IX, X, XII, XIII, XIV, XV, XVI, XVII, XVIII, XIX, XX, XXI, XXII and XXIII to this Regulation. As soon as the cause of *force majeure* ceases, the Member State shall record the corresponding documents into the computer system for data exchange without delay. By way of derogation from paragraph 2, the date taken into account for forwarding shall be deemed to be the date of sending of the documents in hard copy.

5 Information and Publicity. Communication Strategy

The present Communication strategy contains the aims, target groups and instruments to be used for ensuring transparency and visibility for the support granted by Structural Funds implemented by (in accordance with the European Commission Regulation (EC) No 1159/2000) the Managing Authority (MA) for the Operational Programme “Development of the Competitiveness of the Bulgarian Economy” (OP Competitiveness) 2007 - 2013.

In accordance with the European Commission Regulation (EC) No 1083/2006, the MA for the OP Competitiveness is responsible for the information activity concerning the Structural Funds falling within the scope of the OP Competitiveness, for informing potential beneficiaries about available information and assistance services, as well as for providing information to the general public about the support activity of the European Community. The Structural Funds must be seen as more than simply a set of funds. It is also important to inform citizens about how their money is being spent, i.e. the results achieved by structural policy. Transparency regarding the use of public funds is an essential requirement for any democracy. The general public must also understand that structural policy makes a vital contribution to Europe's economic and political integration and thus to peace and stability.

The aim of this communication strategy is to:

- ensure that assistance from the Structural Funds is transparent, i.e. the procedures for accessing funds under the co-financed programmes are made clear to potential beneficiaries and;
- to ensure that the role of the Community in realizing this OP is explained to the public

Objectives

The Communication Strategy will pursue the following objectives:

- Greater confidence and belief in MA messages through delivery of unified, consistent and well supported messages;
- Better public understanding of OP programme activity, how potential beneficiaries can access them, and the roles of the different players;
- Improved co-ordination between stakeholders to deliver truly effective audience-focused communication, together with efficiency gains; and
- Greater user satisfaction with OP programme through demonstration of how it benefits the economy and is focused on needs;

Target groups

The main target groups of this communication strategy are

- **Internal audiences**

The purpose of targeting internal audiences is to enhance the credibility of the administration by ensuring that all demonstrate an accurate and consistent understanding of the main programme features, progress etc. and know where to obtain, or direct the public to, further details as appropriate. This means ensuring that at least the following are targeted –

- CCU;
- Senior Ministry management and policy makers;
- Middle management;
- Management and staff in regional offices;
- Frontline offices;
- PR officers in IB;
- Regional offices;
- Experts and management in IB.

• **External audiences:**

In order to raise the image of the ministry the communication, the most relevant external audiences are as follows:

Main beneficiaries

- companies with potential to create or commercialize innovations;
- companies that need to invest more in technologies, management skills, energy efficiency;

Institutional audiences

Given their multiplier effect, special attention should be paid to working with the following institutions as a means to reach more efficiently the above groups:

- Public - other ministries; municipal agencies; semi state agencies; parliament/government; research organisations;
- Private - NGOs and business associations (chambers of commerce, SME agencies, etc); consultancies; project promoters; business support organisations; professional/trade associations ; unions/syndicates; venture capital and seed finance funds; media; other ministries; foreign and large investment support agencies; donors;

It is well known that no communication campaign can rely on just one type of communication channel, and certainly can not rely solely on the mass media. The preferences in terms of sourcing info of the particular target groups differ considerably and these differences must be respected. Therefore the mass media will then be supplemented by a range of different channels, depending on the target group, as follows:

Audiences	Communication channels
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Enterprises	Media, website, leaflets, helpdesks, dissemination events, fairs, newsletter, NGOs, professionals, district offices etc
Project promoters	Media, website, mailings, newsletter, manuals, workshops and seminars
Professionals (consultants, auditors, etc)	Media, direct mailings, website, newsletter, seminars, good practice brochures
Potential investors	Media (tenders), Direct mailings, website, workshops, regional workshops
Municipalities, regional authorities	Media, regional meetings, website, mailings, newsletter
IBs	Intranet, website, direct mailings, newsletters, manuals, workshops and seminars, annual conference
Business Support agencies	Website, workshops, annual conference, direct mailings, manuals.
Media	Press conferences, press briefings, press pack, interviews, articles, website, study visits, audio visual materials
Other ministries	Media, print materials, website, mailings, media.

Strategy

It can be difficult for stakeholders to keep their eye on the big picture behind the vast array of individual initiatives that will be put in place to achieve the objectives of the Communication Strategy. Moreover, to realise successful projects, it is not enough simply to inform, but also to engage, to consult and thus build up effective partnerships that will create the necessary level of confidence and participation to prepare successful projects. Therefore the successive states that the different types of communication tools will try to evoke are:

- Curiosity: At the initial phase interest will be stimulated by showing how much average companies in other countries are investing in comparison with their Bulgarian colleagues, and how much more productive they are as a result. Plus, how much the different industry branches have benefited from structural funds to get where they are. The objective should be to encourage sceptical enterprises to be willing to find out more. For this purpose they will above all be encouraged to check out the website of the OP.
- Understanding. The website will be designed to provide a clear, practical overview of how different stakeholders might benefit from the programme and get an accurate overview of eligibility, procedures, roles, terms etc. This clear, practical information will be illustrated with hypothetical examples, or case studies. The website should also encourage visitors to move to the next step by inviting them to attend workshops, dissemination events, etc to obtain more detailed answers to their questions, etc.

- Engagement: The future workshops, dissemination events etc will provide opportunities to make individual contact with people who can make sure they are on the right track and provide encouragement and detailed answers. By providing examples of how much their chances are likely to be enhanced by seeking professional help to complete their proposal, potential beneficiaries will also be encouraged to go to the next stage, and
- Commitment: Seek the support of the consultants of IBs in order to complete quality applications.
- Success. Finally, examples of best practices in Bulgaria should be documented and used as examples to encourage future projects

Partnership and networking

Bodies that can act as relays in the transport sector and widely disseminate the information concerning the general public are the following:

- economic and social partners
- non-governmental organisations
- educational institutions
- organisations representing business
- information centres on Europe and Commission representations in Bulgaria
- other main stakeholders of each priority.

The MA will work in close cooperation with the above mentioned bodies for the dissemination of information regard OP “Competitiveness” and the European structural and cohesion policy.

The formalization of communication network is a new aspect of the communication policy concerning the Structural and Cohesion Funds. The OP “Competitiveness” Managing Authority has designated a contact person to be responsible for information and publicity and informs the European Commission and to be a member of the INFORM network, coordinated by DG Regio.

Till the end of 2007 an informal communication network for OP “Competitiveness” will be established. Member of this network will be experts from the OP “Competitiveness” MA and IB and Publicity and Information Officers of organizations representing business. The general aim of the network will be to inform and educate its member for the EC publicity and information requirements, to train them in public communication, to ensure exchange of good practices and to provide good coordination of the communication activities regard to OP and the projects financed by OP “Competitiveness”. Trough the network the OP MA will support the beneficiaries by the implementing of the EC information and publicity requirements. In the same time there the network will create better opportunities for monitoring and control.

Financing, indicative financial plan

According to point 11.3. of Commission Regulation (EC) No 1685/2000, the preparation of information materials, distribution of information and information measures related to Structural Funds are financed from Technical Assistance. The amounts earmarked for the information and publicity operations of OP Communications Action Plan are included in the *Technical Assistance*

- **Priority Axis 5** of the Operational Programme “Development of the Competitiveness of the Bulgarian Economy”.

Implementation

The activities of the OP Competitiveness will be supported by the Information and Publicity Officer. It is planned to request participation of representatives of organisations and external experts dealing with EU related communication to take part in the activities of the Information and Publicity Officer. The Information and Publicity Officer and colleagues from the respective unit will meet regularly, aim at co-ordinating communication activities related to EU supports, and suggest the improvements necessary to increase efficiency.

The communication official of the MA is responsible for the implementation of the OP Communication Action Plan, represent the OP MA in DG REGIO’s INFORM network. The communication working-group, consisting of MA and Intermediate Body representatives, will help the communication official’s work.

In light of the above identified communication needs and objectives it is recommended that the MA focuses on the following main tasks:

- Ensure the OP has a coherent branding and corporate identity, develop PR communication guidelines and systems for the explaining the work and services of the Programme;
- Identify and coordinate main messages, development, progress etc.
- Maximise opportunities to publicise the key goals and successes of the Programme, in particular through more effective use of the media to explain the work being carried out, and ensuring that these are being documented and disseminated to other stakeholder.
- Develop capacity of individual IBs and other partners to design and implement their own communication campaigns and provide these with updates and information materials to help them to this.
- Outsource and manage contracts for professional communication services.
- Organise training to support the knowledge and presentation skills of the staff.

Evaluation

The success of the OP Communications Action Plan measures should be regularly evaluated and the results and feedback of the evaluation should be used during subsequent communication activities. The selection of appropriate communication channels can be made easier through the preparation of studies and surveys.

Periodical information on the Communication plan implementation for the Monitoring Committee and the Commission is provided by means of a system of monitoring indicators which are used for benchmarking the performance and the progress made by the main activities.

To monitor and evaluate information and communication activities it is necessary to have:

- a description of the baseline position, a baseline information on the level of knowledge of the different aspects of the Structural Funds to date;
- a monitoring system for data collection;

- a commitment to carry out formal evaluations.

The information related to the knowledge of the different aspects of Structural Funds and to the use of the different communication tools is part of the ex-ante evaluation implemented in the preparation phase. The preparation phase foresees also the planning of a devoted monitoring system for data collection. The impact evaluation on the whole Programme effectiveness should be included in the general evaluation of the Programme which will be implemented by an external expert.

XI. EX-ANTE EVALUATION

In the framework of drawing up the OP “Development the Competitiveness of the Bulgarian Economy” 2007-2013, an ex-ante evaluation in accordance to Article 48 of Council Regulation (EC) No 1083/2006 was performed and a team of external evaluators examined the coherence and strategy of the Operational Programme.

It was decided that the ex-ante evaluations of all Operational programmes under the National Strategic Reference Framework would be executed through the means of technical assistance under Phare Unallocated Institutional Building envelope 2004. The project fiche for elaboration of ex-ante evaluation of the Operational programmes was provisionally approved by the Steering Committee for management of the Unallocated Institution Building Envelope under the Phare Programme 2004 on January 26, 2005. The project fiche was split into 8 components, including 2 additional components for assistance to MEW and MTC in the elaboration of the SOP "Environment" and SOP "Transport". After launching a framework procedure, in February 2006, ECO Consortium was selected to perform the ex-ante evaluation for OP “Competitiveness”.

A team of independent international experts was set up, composed of staff specialized in the field of strategic policy development, SMEs policy and innovations, energy and environmental issues.

The process of independent assessment of the OP finished in August 2006. The final report representing ex-ante findings was provided to the MA, Contracting authority for the fiche (CFCU within the MoF) and DG Region representatives. The full text of the report is available at the website of the Managing Authority (www.opcompetitiveness.bg).

The ex-ante evaluation was conducted in parallel as an integral part of the work connected with the preparation of the programme document. The ex-ante evaluation was also linked, in terms of material and organization, with the environmental impact assessment of the OP.

The ex-ante evaluation has added significant value to the content and quality of the OP through the following key activities:

- The analysis of the previous evaluation results
- An analysis of the analytical part of the OP, in particular the strengths, weaknesses, opportunities and threats
- An assessment of the rationale for the strategy and its overall consistency
- The quantification of the Objectives
- The evaluation of expected impacts, including the environmental impact assessment

- The assessment of the quality of the implementation and monitoring mechanism.

The key aspects of the ex-ante evaluation are summarised below along with their reflection in OP and MA’s general comments:

Ex-ante findings

Socio Economic Analysis

- Significant additional research and work is needed in order to ensure that this Analysis provides a robust and rigorous foundation for a successful OP implementation. The work here needs to focus in particular on:
 - Addressing the specific omissions identified in the enclosed review of the Socio-Economic Analysis, for example the missing gaps in the analysis of the services sector, foreign direct investment etc.
 - Including more analytical data on the research and innovation sector
 - Including more analytical data on the high-tech and knowledge-intensive sectors
 - Ensuring that previous project and evaluation experience is acquired and incorporated in this section

SWOT Analysis

- The SWOT analysis will need to be further changed, once the Socio Analysis has been redone
- The following changes are thus recommended to increase the relevance and coherence of the SWOT:
 - Including a Summary Findings section that links the findings of the Socio-Economic Analysis to the SWOT
 - Providing an Introductory section explaining the purpose, content, and structure of the SWOT
 - Considering dividing the SWOT Analysis into at least 2 sections:
 - A General Section, focussing on factors that are considered ‘external’ to the focus of the Competitiveness OP
 - A Section on Competitiveness, SMEs and Innovation, focussing on the factors considered most relevant to the focus of the Competitiveness OP and which will be addressed in the Competitiveness OP Strategy, Priorities and Operational Measures

Coherence with EU Structural Fund Rules on Economic and Social Cohesion

- The Competitiveness OP is coherent with EU Structural Fund rules on Economic and Social Cohesion, mainly through its relevance to the second EU Guideline (Improving Knowledge and Innovation).

Coherence with Key National Policy Documents

- Regarding coherence with the NSRF, the Competitiveness OP is generally highly relevant to the NSRF, in particular to the NSRF’s first strategic objective of fostering rapid and high growth, and secondarily at developing a knowledge-based economy. While the revised version incorporates some changes and the transferring of actions between priorities, this does not affect significantly the coherence with the NSRF as the core focus and composition of the Competitiveness OP remains largely the same.

General Environmental Assessment of the Competitiveness OP

- The Competitiveness OP global objective and priorities demonstrate a satisfying level of environmental coherence with the NSRF, NDP and its “Environment” Sector Programme and the Environmental OP objectives and priorities.
- Most of the Competitiveness OP priorities environmental impact is of an indirect positive nature. Positive effects include for example COP-financed activities contributing to environmental protection by supporting investments in new and modern environmentally friendly or clean technologies, energy saving technologies, and promoting compliance with international market standards such as the Eco-management and audit scheme (EMAS) and environment management systems (ISO).
- The Competitiveness OP general objective should stress on the condition that the dynamic economy will be developed based on the sustainable development principles.
- Competitiveness OP should support actions that avoid and/or minimize the negative environmental impact and the supported projects should meet the environmental standards and/or to have a positive environmental statement (for projects, programmes and plans for which the legislation requires an environmental assessment).
- Some of the recommendations provided in ex-ante report are outside the scope of the Competitiveness OP and therefore need to be incorporated in other relevant OPS, in particular the Environment and Human Resources OPs

Energy Efficiency & the Competitiveness OP

- Despite energy being recognised a significant element in the competitiveness of the economy, the scope of the Competitiveness OP does not allow it to address on its own the issue in a coherent and holistic way.
- It is important to provide a clear picture of what gap in the knowledge and application of EERE measures that future projects will fill, in order to ensure that Competitiveness OP energy efficiency issues achieve complementarity with all other actions in EE in the country.
- It is highly recommended that the Ministry acquires a review of international experience in the application of support for EERE projects in the SME sector, including an appraisal of the available instruments and policy mechanisms appropriate to the Bulgarian SME profile. This will ensure successful programme implementation and high absorption and success rates.

- A review of energy and environment related directives and regulations should be undertaken with a view to identifying those with relevance to SMEs and subsequently designing future Competitiveness OP measures along those requirements.
- The Competitiveness OP needs to work in synergy with other OPs for the matters relating to energy and there should be a body or authority ensuring complementary Measures under the OPs and avoiding duplication of work.

Competitiveness OP Objectives and Priorities

- The balance and respective weight of the Competitiveness OP Priority Axis Objectives may however need to be reviewed.
- Stakeholder feedback suggests that further work needs to be undertaken as a matter of priority in validating the current proposals for Competitiveness OP financial support measures, including determining the exact financial situation and needs of SMEs in Bulgaria and the absorption capacity among SMEs for Competitiveness OP. Provide a clear overview of the current financial assistance instruments in the Bulgarian market for SMEs (guarantee instruments, grants, loans, overdraft, venture capital, venture lending etc).
- Identify and clearly document current bank and non-bank lending practices and the challenges facing SMEs seeking financial support
- Identify financing gaps that currently exist and may exist in the future during the lifetime of the Competitiveness OP
- Assess the likely absorption capacity of SMEs both now and over the coming 3 years, based on a number of development scenarios.
- Assess the likely key factors in financial intermediary absorption capacity during the implementation phase of the Competitiveness OP (factors that will influence capacity of banks to lend COP financial products or hybrid products: e.g. attractiveness of COP financial support measure for financial intermediary, publicity and marketing channels, loan application procedures, lending criteria, loan size, loan approval process etc.).
- Possibly review quickly experience and good practice in a number of other New Member States
- Clearly signpost how COP measures can provide optimal value-added and additionality in the market, and for example not displace or crowd out any private sector lending activity.
- No doubt, previous project experience and the ongoing SME survey may shed further light on this but it is unlikely to provide a comprehensive picture and guidance.
- Regarding the Priority Axes, a diagrammatic overview of the Priority Axes, the relevant Priority Axe objectives, the target groups and component measures would also help the readability of this section of the Competitiveness OP document.

Monitoring Indicators and Quantification of Objectives

- Most base values that exist depend on NSI to provide data for the base value year, i.e. 2007. These values need to be completed, and this is foreseen by the Ministry staff when the financial distribution of the OP is finalised.
- At the general level, it is recommended that:
 - Before the indicators are finalised that the Socio-Economic Analysis and SWOT are redrafted and the detailed component fields of interventions for each Priority Axe are finalised. This will allow the programme management to know exactly which type of business support initiatives etc. will be put in place and know exactly what information is available from previous evaluations and other organisations.
 - The lack of sufficient data from previous project experience and evaluations is addressed. There are likely numerous relevant indicators where data is gathered by other organisations, which could be thus added to the Competitiveness OP List without significantly increasing the monitoring workload for the Competitiveness OP managing authority

Management and Implementation Arrangements

- For the implementation phase that the European Funds for Competitiveness Directorate should consider an organisational structure that could (at least) include two sections i) a “secretariat-type” section, and ii) a “planning-monitoring” section.
- It is recommended that the Ministry further builds its programming-planning capability, especially by ensuring that all necessary monitoring/evaluation skills are fully developed among EFCD staff.
- It is recommended that a number of separate planning tools be developed (preferably in English) in parallel to the Competitiveness OP document:
 - A general planning tool, setting out forward planning across all aspects of the Competitiveness OP development and implementation preparation
 - A second management tool that:
 - Clearly documents assumptions, variable factors, boundary conditions etc., underline
 - Provides a record of various discussions held on Competitiveness OP policy and strategy choices, pros and cons of same, decisions taken
 - Records strategic and operation issues kept open, pending further information or analysis
- It is important that a comprehensive external review of BSMEPA’s state of preparation for implementing the Competitiveness OP be undertaken during Q4 of 2006, if this is not already foreseen.
- Regarding the development of the application evaluation system, which will typically require a significant number of independent application assessors experienced in evaluating applications in the various Competitiveness OP grant schemes, the evaluator

recommends that a series of publicity and training activities be conducted in order to raise the available pool of such professionals. Consideration should be given to holding a call(s) for compiling a registry of such professionals as official application assessors for Competitiveness OP measures.

Concluding Remarks

The quality of the Competitiveness OP will ultimately be determined by a number of key factors, including:

- The quality of the analysis and diagnostic (what is the problem?) i.e. The Socio-Economic Analysis, SWOT and List of Disparities
- The quality of the proposed strategy and component measures (what is the proposed solution to the problem?) i.e. The Competitiveness OP Strategy, Priorities and Operational Measures
- The quality of the programme planning and implementation effort
- The level of commitment and support of all relevant stakeholders to this shared vision

It should be emphasised that this ex-ante evaluation only can address a). and part of b). (strategy, objectives and priority axe objectives) and a limited consideration of the component Competitiveness OP measures that are being developed but are at this point in time incomplete..

Follow-up of the ex-ante recommendations

Recommendations of the evaluators have been taken into account with regard to reviewing the socio-economic analysis and SWOT. However, in order to avoid unnecessary lengthening of these chapters and to maintain the strategic character of the document, only limited adjustments and extensions have been made regarding additional data on innovations, research and some sectoral analyses. The results of the recent survey on SMEs have been added as recommended by the evaluators. Experience from other countries has been considered and built into the OP throughout the planning process with the help of the twinning and other foreign experts.

During the implementation stage of the OP, preferences would be given to actions that avoid and/or minimize the negative environmental impact and a special requirement would be put that the supported projects should meet the environmental standards and/or to have a positive environmental statement (for projects, programmes and plans for witch the legislation requires an environmental assessment).

OP “Competitiveness” MA has conducted a number of work meetings and consultations with the other MAs and with relevant stakeholders in order to achieve synergy not only in terms of energy efficiency measures but in all aspects of OP. The results of these consultations are described in Chapter VIII, 2. „Coherence and demarcation to other Structural/Coherence Funds Operational Programmes and EAFRD Programmes”.

Following the results from the national survey on SMEs capacity to absorb SF resources and taking into consideration the recommendations of the ex-ante team, the balance and respective weight of the Competitiveness OP Priority Axes were reviewed, as shown in the document.

The list of indicators has been refined and baseline values added.

Special attention has been paid to two further issues. The planners of the OP have understood that consultations with stakeholders have to be intensified further. The results of the analysis of past experience has been understood and seriously considered. Implications of past experience include sufficient staffing of the Managing Authority and the IBs, ongoing capacity building through the provision of trainings, guides, manuals etc. the future structure of MA is prepared to undertake all tasks to programme, implementation, monitor, manage (administrative and financial) and evaluate the OP. An evaluation unit is considered to be created as recommended by the ex-ante.

Regarding the development of the project selection system, which will typically require a significant number of independent application assessors experienced in evaluating applications in the various Competitiveness OP grant schemes, a pool of experts will be gathered. Currently, a call was just finalised, where external experts and assessors with proven professional experience and skills, expressed their interest, interviews followed and successful candidates will be included in the pool.

The ex-ante evaluation was performed on the OP “Competitiveness” version April 2006. All changes introduced in OP after finalizing the ex-ante, are based on evaluator’s team recommendations and EC comments and do not affect the objectives, strategy and scope of OP priorities and interventions, thus preserving the sense of the evaluation.

XII. MAJOR PROJECTS

No major projects are envisaged to be implemented under Operational Programme “Development of the Competitiveness of the Bulgarian Economy” for programming period 2007-2013.

ANNEXES

- 1 ANNEX 1. Relevant Legislation**
 - 2 ANNEX 2. Partnership principle**
 - 3 ANNEX 3. List of Indicators**
 - 4 ANNEX 4. Indicative breakdown of the Community contribution by category**
 - 5 ANNEX 5. Information and Communication Plan**
 - 6 Annex 6. Map and list of rural municipalities in Bulgaria (according to statistical definition).**
 - 7 Annex 7. Reflection of Ex-ante findings in the OP**
-