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COUNTRY PAPER BULGARIA

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A. INFORMATION ON THE COUNTRY'S EXPERIENCE

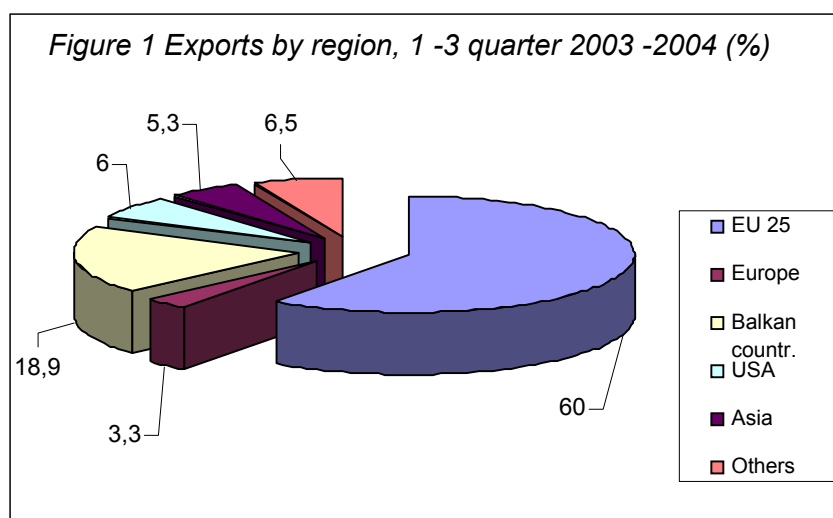
A.1 Country policy to promote exports

In Bulgaria export promotion is a priority and responsibility of the Ministry of Economy; it is also responsible for SME policy. Special state agencies such as the Bulgarian Export Insurance Agency and the Implementing Agency for Encouragement of Entrepreneurship execute the various programmes designed for this purpose. The Government also stimulates export growth by supporting innovation, labour productivity increases and improvements in product quality. Table 1 shows the major exports.

Table 1: Growth of Bulgarian manufactured exports, 1999-2004 (million €)

	1999	2000	2001	2002	2003	2004
Food products	181.9	171.6	219.2	247.4	299.5	348.9
Tobacco products	35.2	35.6	20.6	15.8	17.1	22.9
Beverages	85.6	82.7	77.4	74.7	73.0	72.6
Clothing and footwear	619.6	857.7	1 140.4	1 258.4	1 457.6	1 551.2
Medicines and cosmetics	137.3	178.4	179.5	168.5	163.2	153.3
Furniture and household appliances	93.4	113.7	147.3	210.7	245.7	279.9
Other consumer goods	95.7	124.6	132.4	158.9	184.4	197.8
Iron and steel	245.8	419.6	395.6	393.2	541.4	805.9
Other metals	263.2	535.6	474.7	470.0	534.7	749.3
Chemicals	140.3	216.2	225.7	216.0	229.4	255.4
Plastics and rubber	113.3	136.1	143.8	152.9	172.1	198.7
Fertilizers	33.9	103.8	97.3	62.6	79.4	58.1
Textiles	127.8	157.7	205.6	239.7	278.2	293.9
Wood products, paper and paperboard	122.5	146.8	142.2	158.0	196.7	229.2
Cement	25.0	35.8	33.5	28.6	29.3	22.8
Machines and equipment	198.7	234.0	263.1	297.6	310.4	357.4
Electrical machines	53.5	67.4	81.7	67.0	112.5	96.5
Vehicles	43.8	24.0	35.6	67.9	68.9	83.8
Spare parts and equipment	85.9	119.0	155.7	171.2	192.5	238.9
Other investment goods	189.2	155.3	162.6	198.9	227.8	297.3
Petroleum products	272.4	588.4	506.6	357.6	385.0	624.8

Figure 1 shows the major export destinations. The largest trading partner within the EU is Germany, followed by Italy, Greece, France, Belgium and the UK; Bulgaria's main manufactured exports to these countries are textiles and clothing, iron and steel. The largest overseas partner is the USA.



Bulgaria mainly exports low value-added products, and because of the composition of its trade Bulgaria's terms of trade with the EU, its major trading partner (see below) are unfavourable. Nor is Bulgaria using all opportunities offered by its association agreement with the EU (among other the potential for trade within branches, say among firms in the wood products industry, remains underutilized). As a consequence, the rapid growth of trade with the EU is mainly the result of increasing imports. In recent years, Bulgaria's share in total EU imports has only been 0.11-0.13%. On the positive side, Bulgarian exports to the EU are diversifying and are beginning to include higher value-added products from among others the consumer goods industry. Other sectors with major potential are information technology, engineering and chemicals.

The Bulgarian manufacturing industry has several general weaknesses which it must overcome to increase export earnings:

- Firm management is still learning to operate in a (global) market economy – openness, especially in terms of the EU markets, also means that firms face increased competition at home and abroad, for which not all of them are prepared;
- There is not enough investment in modern technologies or interaction between science and industry;
- Few enterprises have adopted international quality standards.

Some specific problems of (prospective) key export industries:

Clothing and apparel

A major problem of the industry is the low profit margin resulting from the great number of intermediaries. Firms rarely develop their own brands and usually produce with clients' materials limiting themselves to the cut, make and trim functions; in a sense, they mainly 'export' cheap labour. There is very little export promotion. They need R&D, development of own design and branding, specialized personnel and promotion abroad. Recently some companies have realized the need for clustering, for productivity increases and for investment in modern equipment.

Essential oils and cosmetics

Bulgarian know-how in this industry is valued all over the world, production of essential oils is profitable and high quality raw materials are available in Bulgaria. The problem of the sector is to market finished products under own brand. Only some large firms are doing this, the

others export essential oils as raw material. This one of the sectors with good opportunity for development of exports consortia.

Food industry

This is an industry with good prospects deriving from favourable natural conditions. Problems include insufficient financial resources for modernization and equipment, lack of a Bulgarian certifying body recognized by the international institutions (all internationally recognized testing and certifying laboratories in Bulgaria are branches of foreign certifying bodies). Firms face problems in meeting international standards, the hazard analysis and critical control points (HACCP) approach is only beginning to be implemented. Government is supporting the restructuring of the sector with national and international grant and loan schemes.

Furniture

The industry is producing quality products and has good prospects; export has risen constantly over the past 3-4 years. Problems in the sector are lack of sufficient financial resources for modern technologies and R&D, lack of export promotion and inadequate design. The industry needs to develop a complex of marketing techniques focused on branding.

In addition to the problems outlined above, the SME sector faces other obstacles to export growth. Various actions intend to remove these obstacles (see Diagram 1).

Diagram 1: Problems related to SME export performance, and measures addressing them

Problems	Programmes / Incentives
Internal SME problems: <ul style="list-style-type: none"> • Organization of the production process • Organization of marketing, lack of export know-how • Labour force quality • High raw material and energy consumption • Low product quality, inadequate quality control, international standards not applied • Inadequate investment, among other resulting in slow technological upgrading 	<ul style="list-style-type: none"> • SMEs competitiveness project PHARE • 'Competitive start-up creation' • Project 'Hazard Analysis and Critical Control Points' (HACCP) • Special training programmes • 'Job Opportunities through Business Support' (JOBS) project
Insufficient presence on foreign markets, foreign market access	<ul style="list-style-type: none"> • Government Export Promotion Programme - trade fair participation • Export Finance Programme • Free Trade Agreements
Insufficient business information	Bulgarian Small and Medium Enterprises Promotion Agency provides economic and market information
Lack of investment in R & D	Innovation Fund fully operational
Uncoordinated SME promotion efforts	<ul style="list-style-type: none"> • Council for Economic Growth • Advisory Council for SME Promotion

Obstacles in business environment	Simplification of the legal and administrative environment
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Details on support activities that have a direct bearing on export promotion are given below.

A.2 Legal and incentive framework

The Government has implemented various measures to simplify business regulations and simplify/reduce taxes. Bulgaria does not impose taxes and duties on exports (with the exception of products such as weapons and some chemicals which are subject to international agreement). Trade regulations only place limitations on a few goods (such as unprocessed wood). Bulgaria is a WTO member, and has trade agreements with the EU, EFTA, CEFTA and various non-EU countries in the Mediterranean region. There are six fully equipped free zones, located on strategic routes connecting Bulgaria with international markets.

Bulgarian commercial law allows many types of business organization. There is no specific legislation for the creation and operation of export consortia.

In 2004, Parliament adopted amendments to the Export Insurance Law. The amendments created conditions for more effective export promotion, improved relevant legislation and ensured its full conformity with EU legislation and international practice. The work of the Bulgarian Export Insurance Agency is described below.

As Diagram 1 has shown, wide variety of support is available for SME development. Support that is directly relevant to export promotion includes:

The Government's Export Promotion Programme

Since 2002, this programme supports Bulgarian exporters by covering the full cost of renting space at and part of the basic equipment for international trade fairs. The budget for 2005 is € 500,000. The programme is executed by the Bulgarian SME Promotion Agency (BSMEPA), which also provides companies participating in trade fairs with logistical support, and organizes matchmaking during the fairs.

The Export Finance Programme of the Encouragement Bank

The Encouragement Bank, a joint stock company active since 1999, is a fully state-owned institution whose priorities are providing medium- and long-term financing to Bulgarian SMEs and promoting Bulgarian exports. The Bank is also a licensed financial intermediary and broker. Although owned by the Government, the bank is a market-driven institution operating alongside other commercial banks.

Eligible enterprises must be registered in the country and meet the criteria of the Law on Small and Medium Enterprises. Export financing is provided for the purchase of raw materials (imported or of local origin) related to export output and the purchase of goods for export. The maximum loan amount cannot exceed BGN 1,000,000. The documentation required includes evidence of two successful export transactions; the programme in other words is intended for enterprises with a good basic track record. Repayment of loans correspond with the realization period of the export transaction but must not exceed 18 months. Collateral is consistent with common banking practice and Bulgarian law. Principal and interest payments are negotiated with each borrower. The interest rate is based on the basic interest rate as defined by the national bank plus an agreed margin.

The ProCredit Bank's loan programme

This bank disburses loans to micro enterprises and SMEs through a nationwide network of offices. It offers the full range of services small enterprises may need. One of the focal areas is credit for export activities.

A.3 Role of support institutions

The Bulgarian Export Insurance Agency

The Bulgarian Export Insurance Agency (BAEZ) was established in 1998 as a joint stock company. It is the first Bulgarian insurance agency which offers export credit insurance against commercial and non-commercial risks. The capital of BAEZ, BGN 10 million, is held by the Government, represented by the Minister of Economy. The insurance products offered by BAEZ to companies and commercial banks provide reliable protection against financial losses, giving Bulgarian companies an opportunity to offer more favorable financial conditions to their contractors, and thereby strengthening the competitiveness of Bulgarian firms in export markets.

Currently, the following insurance products are offered by BAEZ:

1. Export credit insurance against short-term commercial risk

For payments under export contracts, with a credit period up to 1 year. Covered are commercial risks, which include:

- Insolvency of foreign buyer;
- Protracted default for a period longer than 6 months.

The debtor can be any foreign company. The maximum amount of indemnity cannot exceed 85% of the credit limit.

2. Export credit insurance against short-term political risk

For payments under export contracts, with a credit period up to 1 year. Covered are political risks, which include:

- Political events such as war, riots, strikes, embargo, etc;
- Announcement of general moratorium on payments, changes in the currency payment regime, confiscation or nationalisation;
- Other, similar events in the foreign debtor's country or in a third country related to the payment.

The debtor can be a foreign company, foreign state or foreign state organization. The maximum amount of indemnity cannot exceed 90% of the credit limit.

3. Export credit insurance against medium-term commercial and political risk

For payments under export contracts where the credit period is between 1 and 5 years. All commercial and political risks are covered.

4. Insurance of bank credit lines for pre-shipment financing

Covers bank credit granted for the purpose of production of goods or supply of services designated for export. Covered risks are:

- Commercial risks on behalf of the borrower - insolvency and protracted default;
- Commercial risks on behalf of the foreign debtor - insolvency, unilateral cancellation of the contract and rejection of the exported goods;

- Non-commercial (political) risks related to the country of foreign buyer.

The insurance policy can be used as collateral if the exporter needs to raise finance for his activity.

5. Insurance of letters of credit

For letters of credit issued in favour of Bulgarian manufacturers. Both the Bulgarian bank in its capacity of advising bank under the letter of credit or the exporting company itself can be insured. Covered risks include: (1) non-convertibility of the local currency; (2) impossibility of transfer of payments from the host country to Bulgaria. (3) expropriation, nationalization or confiscation in the hosting country (country of investment). (4) politically motivated acts of violence. The maximum amount of indemnity is 90%.

Implementing Agency for Encouragement of Entrepreneurship

This agency of the Ministry of Economy offers informational and consultation services to SMEs, including on exports: it provides information on trade regulations, export regimes and business cooperation profiles. As part of the strategy to encourage exports and increase the competitiveness of the Bulgarian economy, the agency also deals with the promotion of Bulgarian products abroad during international trade fairs and exhibitions – it provides exhibition space to enterprises on common national stands, organises bilateral meetings, matchmaking events and trade missions.

Numerous other institutions and organizations are involved in activities that directly or indirectly have an impact on exports. Diagram 2 provides an overview, indicating which activities have a direct impact on exports.

Diagram 2: Institutional support for SME export development

Governmental	
Ministry of Economy	Defines SME and export promotion policy
Bulgarian Small and Medium Enterprises Promotion Agency	Assistance in internationalization
Bulgarian Export Insurance Agency	Export credit insurance
Euro Info Centres Network	Promotion of internationalization and business cooperation
Non-governmental	
Bulgarian Chamber of Commerce and Industry	<ul style="list-style-type: none"> • Registration of foreign trade operations, • Advice on foreign trade regimes • Assistance in visa applications for business trips, • Issue of ATA carnets*
Bulgarian Industrial Association	Foreign fairs participation
National Association of Small and Medium-Sized Businesses	Marketing studies

National Chamber of Crafts	<ul style="list-style-type: none"> • Promotion • Matchmaking
Bulgarian International Business Association	Represents the interests of international business in Bulgaria, membership open to Bulgarian firms
Foundation for Entrepreneurship Development	Training in export know-how
Employers Association of Bulgaria	Matchmaking

* ATA carnet: a unified customs document facilitating temporary import, export and transit and simplifying customs procedures. More than 55 countries recognize the carnet.

A.4 Main obstacles to creating export consortia and proposals for improvement

In Bulgaria export consortia do not exist yet, but interest is developing. The textiles, apparel, shoes, furniture and IT industries would make good candidates. Many trade associations provide a variety of support services, so the idea of cooperation for specific purposes is not unfamiliar.

The main problems hampering the creation of export consortia are:

- Lack of appropriate legislation for their establishment;
- Lack of financial incentives for this purpose;
- Lack of understanding of the potential benefits of cooperation, which is the result of a highly individualistic approach to business. Other firms are seen as great competitors. Only recently, companies in some regions have started to discuss common problems with regard to exports and internationalisation. Managers would need practical training to become familiar with this useful approach to accessing foreign markets;
- The negative example of the Foreign Trade Organizations under central planning.
- Little information on successful export consortia (best practice studies) elsewhere.