

SUMMARY PROJECT FICHE

1. BASIC INFORMATION

1.1 Désirée Number: BG 0102.01

1.2 Title: SME services and technology grant scheme

1.3 Sector: ESC

1.4 Location: Bulgaria

2. OBJECTIVES

2.1 Overall Objectives

Improvement of SME performance through well targeted management input and technological support.

2.2 Project Purpose

Raising the ability of Bulgarian SMEs to cope with competitive pressures during pre-accession by promotion of innovation and technological modernisation, entrepreneurship and business culture.

2.3 Accession Partnership and NPAA Priorities

The priorities identified under the economic criteria in the Accession Partnership include “Promotion of competitiveness through market-based enterprise restructuring and taking measures to improve the business environment and stimulate domestic and inward investments”.

The NPAA defines three strategic targets the achievement of which is a primary condition for accession. In the context of this project the relevant strategic target is the “Existence of a functioning market economy and capacity to cope with competitive pressure and market forces within the Union”.

Economic criteria identified within the NPAA include:

Improvement of information and consultation services to SMEs;

Development of competitive SMEs as a stable economic sector by creating a favourable institutional, regulatory, administrative and financial environment in the Republic of Bulgaria;

2.4 Contribution to National Development Plan

As stated in the National Development plan 2000-2006 *“The second major priority in Bulgarian development over the 2000 to 2006 period is to raise Bulgarian business competitiveness by wholesale improvements in the business climate, utmost utilisation of existing national advantages, identifying key manufactures with good long term prospects, and improving micro level competitiveness at individual company level”*; and as priority area 3: *“Encouraging market led behaviour by SMEs”*.

The strategy for improvement of the private sector points out as its major priority *“to raise the sector’s competitiveness on the basis of vigorous enterprises within the framework of market principles”*

The role of SMEs in Bulgaria is increasing and they currently employ more than 45% of the labour force. The strategy outlines the major structural problems as being

Low labour productivity

Small share of SMEs in industrial output

Concentration of the predominant share of SMEs in very limited market segments

The project is in line with the main objective 6 of the productive sector strategy, namely *“encouraging the start-up and development of SMEs”* and its sub-objective of *“support for SME development by provision of information and consultation”*. This will include measures such as

“Provision of consultation services related to different aspects of SME activities like company management, business plans, quality management etc

Building up of national information network for SMEs, which will provide information on markets, on production and technologies, on potential partners, on public procurement, on projects, programmes etc

Provision of specialized assistance in the fields of marketing and advertisement”

Through the grant scheme element of the project, the main objective 1 of the productive sector strategy *“enhancing the viability of the industrial enterprises”* is addressed, by *enhancing production quality* (sub-objective 3 of the main objective 1). This will be carried out in line with measure 1 of this sub-objective, i.e. *“encouraging the introduction of European and international quality standards”* by assisting companies to procure state-of-the-art equipment.

The project is designed to make a contribution in terms of both the objective and priority area.

3. DESCRIPTION

3.1 Background and Justification:

Many newly created and already developed enterprises are facing significant challenges that threaten their ability to exist, even their survival. They are forced to find new market niches as well as export markets due to stagnation and size of the national market and the disappearance of the Russian and other traditional export markets.

A great number of enterprises although active on the market, are ill prepared for the market challenges and competition. There is also growing pressure on management to reduce costs, raise productivity, improve product quality and gain access to affordable financing.

A high proportion of companies lack adequate Financial Management and Costing Systems. This often leads to poor cost assessment of products or their contribution to profit or losses.

Most SMEs do not have adequate financial management and information systems, which hinders decision-making.

Enterprises lack systematic marketing approach, most companies make opportunistic market decisions, which are not based on market research or analysis.

The management of most Bulgarian companies lack strategic management skills, personnel development programs or the means to ensure quality standards (ISO 9000) to make their products competitive.

Most entrepreneurs in Bulgaria are not ready to seek and pay for information even if it would give them access to new markets. They expect such information to be free and provided to them. Consultants are not looked well upon, and would rarely be allowed to get a clear view on the company's operations especially with regard to finance.

Consulting companies able to give services on the above mentioned topics are relatively few and are mostly concentrated in cities, which are active economic centres.

The 2000 Regular Report from the Commission on Bulgaria's Progress towards Accession states that "The government should address more systematically and energetically the major obstacles to SME development including ... **lack of business expertise among SME managers, restricted access to finance on appropriate terms** ...". It states also that "Bulgaria ... is not yet able to cope with competitive pressure and market forces within the Union in the medium term".

While the main obstacle to SME development is considered to be access to funding, experience with past consultancy to SMEs in Bulgaria shows that it has a beneficial effect on companies' performance.

The national strategy for the promotion of SME development stresses the development of managerial skills of entrepreneurs, improvement of their export potential and Europeanisation and internationalisation of the SME sector. The work programme to implement this strategy calls for a diversification of the services for SMEs.

3.2 Linked Activities

Projects oriented towards advice and information support of SMEs and for the creation of business support structures carried out by different donors generally contained an SME advisory component. Linked are also activities under Phare 1999 and the Phare 2000 scheme to develop business incubators in NW and SC planning regions, the grant scheme for the introduction of quality management, as well as the Phare 2001 scheme for high tech incubators / grant scheme for applied research. There is an ongoing Phare project to strengthen the Agency for SMEs and BARDA.

SRAFAS is a Phare project within the SARA program, which has been active since the beginning of 2000. It targets former state owned companies, already privatised, that have a turnover above 1,000,000 Euro for the last fiscal year. This requirement, which for the Bulgarian economy is a significant amount, puts these companies in the segment of the healthy medium-sized enterprises.

The experience of the SRAFAS project shows also that after the initial analysis of a company, the following consultation services and a final report with recommendations and actions to be taken, very few of the companies have enough free financial resources to implement them. This is especially valid for companies, which need improvement of quality control, product improvement by introducing better technologies or training of their staff for obtaining better results. The beneficiaries of the project are a very limited number of companies. While keeping the idea of satisfying the needs for consultation of the enterprises, as a further step in their development, the present project proposes a financing assistance for their growth. It will offer opportunities for a higher number of enterprises with growth potential for achieving quality and technology improvement, thus assuring higher impact of the project.

3.3 Results

SME management capacities increased

Marketing improved

Technology improved

Competitiveness increased

SME Consultancy delivery structure and project management capacity at MoE and ASME in place

3.4 Activities

- Publicise existence of project and its purpose.
- Create a database with information on the SMEs interested in participating in the project
- Assessment of the identified SME
- Determining the main categories to be included in the consultation package:
 - technological transfer and innovations
 - general business management development;
 - finance management;
 - marketing services;
 - human resource management;
 - operational improvements.

Provision of experts to carry out restructuring of business operations in the SMEs through direct consulting

Operation of the grant scheme

Setting up a structure at MoE and the SME Agency through which the delivery of consultancy services can be co-ordinated and which creates project management capacities.

4. INSTITUTIONAL FRAMEWORK

Key institutions supporting the project will be the Ministry of Economy and the SME Agency (ASME). A PIU will be operated in the MoE, with joint participation of ASME. ASME is the administrative unit at the Council of Ministers undertaking activities for the implementation and co-ordination of the national policy for SME development. The PIU will assist in the co-operation between the government institutions, the non-government organisations supporting SMEs and local authorities. The 6 regional agencies of ASME, which are in the process of being set up through the current PHARE project BG9908.02, will also assist in facilitating SMEs to access the project, on the regional level. ASME will work together with BARDA for identifying the interested companies and with BAMCO in the provision of the management advice.

5. DETAILED BUDGET (9.1 M EURO)

All figures in million Euro

	Phare Support*				
Component	Investment Support	Institution Building	Total Phare (=I+IB)	National Co-financing	TOTAL
TA to PIU and ASME (20 staff-months)		0.3	0.3		0.3
Consultancy Scheme (2 foreign, 8 local cons.)	1.4		1.4	0.2 (private) 0.2 (public)	1.8
Grant scheme	3.0		3.0	3.0 (private) 1.0 (public)	7.0
Total	4.4	0.3	4.7	4.4	9.1

*Phare will finance the cost of the investment component, up to a maximum contribution of 4.4 meuro. The remaining co-financing will be provided by the beneficiary institution and private beneficiaries. Should the total cost of the equipment exceed the estimate shown in the table above, the beneficiary institution and private beneficiaries – as appropriate - will provide the necessary additional co-financing.

6. IMPLEMENTATION ARRANGEMENTS

6.1 Implementing Agency

The Ministry of Regional Development and Public Works (MRDPW) is the Implementing Agency for this scheme. The MRDPW shall implement the project and the **PAO** shall be responsible for the sound administrative and financial management of the project, including tendering, contracting, administration, accounting, payment and reporting procedures and monitoring of the project implementation.

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6.2 Implementing Arrangements

The technical implementation of the project is the responsibility of the Ministry of Economy (MoE), working in close co-operation with ASME. The Scheme will be covering the territory of the whole country. A joint PIU will be set up in the MoE, with representation of the Agency.

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A project Steering Committee is planned, through which policy makers and implementing agents will communicate more consistently. This should be chaired by the Ministry of Economy, which will be responsible for the preparation and documentation of regular meetings. Other members will be representatives of ASME, MoRDPW, EU Delegation, BARDA, ESC Regional Committee Chairpersons, Bulgarian Industrial Association and Bulgarian Chamber of Commerce and Industry.

The scheme has two elements:

- consultancy provision and
- grants for upgrading production technology.

The programme will be made public through the regional offices of ASME, MoRDPW and BARDA members; and applications shall be made through regional ASME offices. These will be passed on to ASME. Applicants will be visited and interviewed by consultants, who shall on the basis of a structured questionnaire and their impressions of the company and its management, recommend whether the application should be accepted and, if so, the services to be provided. If an application is rejected, the applicant should be advised why; this information should also be available to the Steering Committee. During such company visits, BARDA or ASME representatives should accompany the consultant, so as to learn in the process and participate in selection. Eligible shall be companies from industry, services (except medical services, trade, financial sector; but including tourism). Companies interested in a consultation service package shall have to fund 15% of the cost. The main elements of such a package, to be tailor-made to each beneficiary, are likely to be (and in line with the productive and HRD strategies):

Technological transfer and innovations

Management and organizational development

Financial management

Marketing and advertising (including establishing export contacts)

HRD management

This consultancy shall be delivered by a team of 2 foreign and 8 local business consultants, to be recruited through international competitive bidding.

Technology Grant Scheme

Since the productive sector strategy identifies finance as one of the major bottlenecks, the scheme proposes to operate a grant scheme for production technology upgrading. This should help to improve productivity and product quality (and, therefore, product marketability), also one of the main shortcomings in SMEs. Minimum grant size will be 10,000 Euros, maximum 50,000 Euros. The grant will contribute 50% towards the cost of the total investment, due to the problems of obtaining loans or venture capital. Eligibility will be dependent on previous consultancy in technology audit / technology transfer and/or innovation under the present scheme. Selection criteria will be quality and productivity improvements, to result in better competitiveness, and evidence of adequate management to utilise the proposed grant effectively. Applications are to be submitted to local offices of ASME, who will pass them on to the PIU. Project consultants will have to make a recommendation as to the award of grants, and a final decision is taken by a selection committee. This should have members with a technical and engineering background, as well as local banking inspectors, chosen by the Steering Committee in line with still to be developed operational guidelines (under BG99.19 PPF framework contract; setting, i.a., certain minima for anticipated increase in sales). The Delegation must approve the financial control arrangements before the grant scheme starts. Contracts on the use of grants, milestones and expected results (in the shape of increase in sales) will be drawn up, and disbursement will be subject to contracts for buying equipment in line with the relevant procurement rules. Beneficiaries will have to suitably demonstrate that

they can shoulder their part of the funds (transferring funds to a special account). EU funds shall be transferred directly to the supplier, rather than to the company. This element will be further elaborated in the operational guidelines. The institution building component – i.e. Technical assistance – will also assist in advising on financial management of the scheme (see below).

Institution Building Component

The main beneficiaries are the individual SMEs in Bulgaria. At the same time the PIU is to receive support in building its structures in such a way so as to be able to effectively co-ordinate SME consultancy services and to improve project (particularly financial/grant) management skills. Part of the advisory services to be contracted under the scheme shall therefore be directed at institution building in the above areas within the PIU and ASME (a total of 20 staff months, to be delivered as required).

6.3 Non-standard Aspects

Minimum project size is 20,000 Euro, of which 50% - i.e. 10,000 Euro – are the EU contribution. Maximum project size is set at 100,000 Euro. The reasons for not adhering to the standard minimum EU grant contribution and the 25% co-funding rule are:

as opposed to EU countries, there are no programmes operating in Bulgaria that make available subsidized finance for production technology upgrading (productivity and quality enhancements)

the banking system demands extremely high rates of collateral (often over 200%), which SMEs generally are unable to provide

there is an underdeveloped venture capital culture

It is expected that public funds will be used in this way, i.e. subsidizing promising SMEs, only as an interim measure until entrepreneurship development in Bulgaria becomes more structured. The project is making a major contribution towards developing a nascent SME funding culture.

6.4 Contracts

One large services contract for 20 staff months support for institution building with PIU and ASME, plus 2 foreign and 8 local business consultants to deliver consultancy services and manage the grant scheme. All of these could be provided under one service contract to facilitate project management. Terms of reference are under preparation (BG.99.19 PPF FWC).

Up to 120 grant contracts for quality-related production technology upgrading.

7. IMPLEMENTATION SCHEDULE

Start of tendering/call for proposals	late 2001
Start of project activity	January 2002
Project completion	December 2004

8. EQUAL OPPORTUNITY

The project will ensure participation of both women and men in project activities on equal terms. MoE and ASME will encourage women to participate in project activities.

9. ENVIRONMENT

Equipment to be procured under the grant scheme shall conform to the latest environmental standards.

10. RATES OF RETURN

The consultants will calculate rates of return for each grant being made.

11. INVESTMENT CRITERIA

11.1 Catalytic Effect

The scheme's consultancy and investment grant components will catalyse competitiveness of Bulgarian SME's, notably through more efficient structures and production quality improvements.

11.2 Co-financing

The project attracts more than 40% co-funding, almost exclusively from the private sector.

11.3 Additionality

No risk is seen that other financiers are displaced. It is difficult for SMEs to receive investment credits.

11.4 Project Readiness and Size

Project ToR will be ready in mid 2001, and operational guidelines will be prepared through a BG 99.19 PPF framework contract by late 2001.

The project adheres to the minimum size requirement.

11.5 Sustainability

The sustainability of company operations is expected to improve. The continuing of the scheme will, however, depend on future government funding.

11.6 Compliance with State-aids Provisions

The project is in accord with Article 92(3)(a) of the Treaty of Rome with respect to regional aid in the EU.

11.7 Contribution to NDP

Cf point 2.4

12. CONDITIONALITY AND SEQUENCING

12.1 Conditionality

The project cannot commence until the EU Delegation is satisfied with the capacity of both the Implementing Agency and the Beneficiary. Both Ministry of Regional Development and Public Works (MRDPW, Implementing Agency) and The Ministry of Economy (MoE, Beneficiary) will have to demonstrate to the Commission that adequate staffing and other resources have been made available to the relevant PIUs for the project to begin.

12.2 Sequencing

An MoU will need to be signed between the MoE and ASME to clarify detailed implementation arrangements and division of responsibilities. MoE will also arrange for MoUs with MRDPW regarding their responsibilities in project implementation.

12.3 Milestones

The project can become operational quickly once the tender for the consultancy services has been put out. Project progress can be measured in terms of companies advised and number of grants allocated, and it is assumed that these will grow annually by at least 25%. On the basis of 2 foreign and 8 local consultants doing about 30 in-depth assignments a year, up to 720 companies should receive assistance (this assumes that the local consultants are always working with one of the foreign consultants).

Annexes

1. Logical framework matrix in standard format
2. Detailed implementation chart
3. Contracting and disbursement schedule by quarter for full duration of programme (including disbursement period)

Annex 1 Phare Log Frame

Logframe Planning Matrix for Project		
Improvement of SME competitiveness through a well targeted package of consultant services and technological support	Contracting period expires 30 November 2003	Disbursement period expires 30 November 2004
	Total budget: Euro 9.1 million	Phare budget : Euro 4.7 million

Overall objectives	Objectively verifiable indicators	Sources of Verification	
Improvement of SME performance through a well targeted management and technological support	<ul style="list-style-type: none"> Sales and financial performance of companies assisted improved by 10% Quality of SME consulting services improved 	Regular company surveys allowing to identify trends	
Project purpose	Objectively verifiable indicators	Sources of Verification	Assumptions
Raising the ability of Bulgarian SMEs to cope with competitive pressures during pre-accession by promotion of innovation and technological modernisation, entrepreneurship and business culture	<ul style="list-style-type: none"> Sales and financial performance of companies assisted improved by 10% R&D increased Net balance of new SME creation 	Regular company surveys to identify trends Annual reports on SMEs in Bulgaria (ASME)	Stable SME legislation Effective project management by PIU

Results	Objectively verifiable indicators	Sources of Verification	Assumptions
720 companies advised SME management capacities increased Marketing improved Technology improved (approx. 100 grants) Competitiveness increased SME Consultancy delivery structure and project management capacity at ASME in place	Sales and financial performance of companies assisted improved by 10% R&D increased Net balance of new SME creation Trend in applications to the project	Regular company surveys to identify trends Annual reports on SMEs in Bulgaria (ASME) Project reports	Efficient project management and marketing, including an increasing role of the regional ASME offices

Activities	Means	Costs	Assumptions
<ul style="list-style-type: none"> Create a database with information on the SMEs interested in participating in the project; Assessment of the identified SMEs; Determining the main categories to be included in the consultation package: Technological transfer and innovations General business management development; Finance management; Marketing services; Human resource management; Operational improvements. Provision of experts to carry out restructuring of business operations in the SMEs through direct consulting and assessing grant applications Setting up a structure at the SME Agency through which the delivery of consultancy services can be co-ordinated and which creates project management capacities 	Tendering for and implementing international and local consultancy services for ASME institution building and support with the SME consultancy and technology grants scheme	Contracts and progress reports	Effective ASME project management and selection of qualified consultants <u>Preconditions</u> <ul style="list-style-type: none"> Set of clearly defined criteria for selection of projects eligible for the Programme; Well developed working relationship between ASME offices in the 6 planning regions and RDAs

Annex 2 Implementation Chart – SME Consultancy and Production Technology Upgrading

Components	2001												2002												2003				2004			
	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	i	ii	iii	iv	i	ii	iii	iv
PIU operational					X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
PSC operational					X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Draw up op. guidelines									X																							
International tender for 8 local and 3 international consultants (business advice and IB with ASME)								X																								
Consultancy services contract award											X																					
Start of project activities													X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
IB with ASME (12 months)													X	X		X		X			X		X		X		X		X			
Monitoring and evaluation													X	X	X	X	X	X	X	X	X	X	X	X	X							
Mid term evaluation																									X							
Final evaluation																																X

Annex 3 Contracting and Disbursement

Cumulative Contracting and Disbursement Schedule (Thousand Euro)									
DATE	01-01-02	30-06-02	01-01-03	30-06-03	01-01-04	30-06-04	31-12-04		
Services Contracted	800	800	1,500	1,500	2,100	2,100	2,100		
Grants awarded		1,000	2,500	4,000	5,500	7,000	7,000		
Total contracted	800	1,800	3,500	5,500	7,600	9,100	9,100		
Contract disbursements		500	800	1,200	1,500	1,800	2,100		
Grants disbursed			1,000	2,000	4,000	6,000	7,000		
Total disbursed		500	1,800	3,200	5,500	7,800	9,100		