

# Project INTRA:

## Regional State of Affairs Report North-East Region - Bulgaria



Regional Agency for Entrepreneurship and Innovations - Varna  
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## I. EXECUTIVE SUMMARY

The INTRA project "Internationalisation of Regional SMEs" (PGI01464) is funded under the first call for proposals under INTERREG EUROPE 2014-2020 of the European Commission (EC) under Priority "Competitiveness of SMEs". The project focuses on the role of public authorities in creating services to promote internationalisation and to support the competitiveness of regional economies, thus contributing to the goals set out in the Europe 2020 strategy. The duration of the project is 5 years (from 01.04.2016 to 31.03.2021).

Partners of the INTRA project are from 6 EU Member States: Maribor Development Agency (Slovenia), Regional Entrepreneurship and Innovation Agency - Varna (Bulgaria), FUNDECYT - Estremadura Science and Technology Park (Spain), University of Algarve (Portugal), Coventry University (UK) and CAPITANK (Italy). All these organizations are supported by the bodies managing the European Regional Development Fund (ERDF) funds as well as by the active participants in the internationalisation process in their countries / regions.

The objectives of INTRA are to provide comprehensive mapping, evaluation and benchmarking of various internationalisation services available across the regions, highlight good practices/gaps that promote/impede on SMEs at various stages of the internationalisation process.

The current Analysis is focused on the level of internationalisation of SMEs in the North-East Region (NER) of Bulgaria. It outlines the main barriers and needs faced by the companies for international activity development, as well as the driving forces for internationalisation of SMEs. An assessment of the available policy instruments and measures supporting internationalisation of business has been made and recommendations for improvement of the international environment in the region have been given. In the process of development of the Analysis, cooperation between different partners in the socio-economic life is ensured, incl. enterprises, representatives of local, regional and national authorities, non-governmental organizations, networks, universities and experts at regional, national and international level.

The Analysis will not lead to increasing of the level of the internationalisation of SMEs from NER, but realization of the main recommendations could ensure opportunities for financial support from the Operational Programs within the EU Structural Funds for:

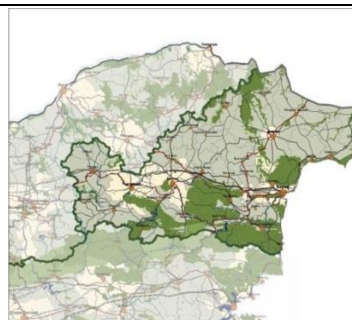
- Enhancing the capacity of enterprises to improve organization of their activity and to provide opportunities to enter and/or expand to foreign markets;
- increasing the competitiveness of enterprises and improving their innovation culture;
- creating an effective regional innovation system.

The implementation of the recommendations in the analysis will support the economic development of the region through the rational use of the intellectual potential of the NER to provide better living conditions.

## II. PORTRAIT OF THE NORTH-EAST REGION OF BULGARIA

### 2.1. General information

The North-East Region (NUTS 2) is divided according to the Regional Development Act and in accordance with the requirements of the common classification of the territorial units for statistical purposes applied in the European Union for the purposes of planning, programming, management, resource provision, monitoring and evaluation of regional development. The area is not an administrative-territorial unit. Its territorial coverage includes 4 districts and 35 municipalities.



**The North-East Region (NER)** occupies 14,487 km<sup>2</sup> or 13.05% of the country's territory. It covers the northern part of the Bulgarian Black Sea Coast, part of the Eastern part of Stara Planina, part of Ludogorie and Dobrudja. The broad outpouring of the Danube and the Black Sea is of strategic importance for the country and the development of the region. Its natural and climate conditions are extremely favorable to the development of agriculture. NER is the country's richest in arable land with high natural fertility, which is the basis for the development of intensive agriculture. The high bioclimatic potential and the numerous beaches along the Black Sea coast are the basis for the development of tourism. Thermal mineral water is also a valuable resource. Significant areas include nature parks, reserves, protected areas and other protected areas that have the potential to develop ecotourism and other forms of alternative tourism. The provision of mineral resources ensures the further development of important industrial productions (soda, ceramics, glass, etc.).

There are important **ports** operating in the area - on the Black Sea and on the Danube river - Varna, Tutrakan and Silistra. The road network is well built with a relative share of highways and first-class highways of 21.3%. Three of the ten pan-European **transport corridors** - VII, VIII and IX - pass through the NER. The communications network in the region lags behind the country average. As far as the **energy infrastructure** is concerned, Bulgaria imports about 60% of the necessary energy resources and a large part of them pass through the NER. This is why the territory of the region has developed a high-end transit energy infrastructure.

**Varna** is the largest multipurpose Bulgarian **sea port** with modern equipment and specialized terminals with continuous mode of operation. It has a total length of 5 601 m, 32 ship places, 77 500 m<sup>2</sup> warehouses and 240 800 m<sup>2</sup> of warehouse space. With its modern equipment, railway-ferry service and location, the harbor is the gateway to the freight flows between Europe, Russia, Ukraine, the Caucasus, Central Asia, the Middle and Far East. The port has quality standards ISO 9001/2000 and is one of the first Black Sea ports, certified to the requirements of the International Ship and Ports Security Code - ISPS Code. For the implementation of its main activity Port Varna has 9 specialized terminals - 3 in the Varna-East port and 6 in the Varna-West port. Terminals serve mainly the feeder lines of the Mediterranean and the Black Sea.

The **Port of Balchik** as part of a Varna port complex has been operating since 1969 and is the third largest in the Black Sea coast. It accepts ships with a displacement of 5000-6000 tons, carrying out only exports. The yacht-fishing port in Balchik has a capacity of 70 yachts.

**Varna Airport** has the status of an international airport for public use according to the

requirements for its infrastructure and it concentrates a significant part of the international air routes serviced by our country. The airport has a 2500-meter runway and operates 24 hours a day. By access to flights on the territory of the NER category is in the group with a number of flights up to 250 per day.

Till 12.04.2017, the number of the **population** in the region is 941 860 d. - 13.2% of the total population of the country. The average population density in NER is 66.1 people per km<sup>2</sup> and is slightly higher than the average for the country (65.6 people per sq km). Over the last 5 years it has been gradually decreasing. Of all areas, a significant decline is not observed only in Varna. There is a trend towards depopulation of smaller settlements, which is a consequence of the lower levels of payment and the overall lack of work

Table 2.1. Main indicators of the NER

|                             | 2011 | 2012 | 2013 | 2014 | 2015   |
|-----------------------------|------|------|------|------|--------|
| Unemployment rate (%)       | 15,4 | 18,2 | 16,8 | 12,6 | 10,3   |
| GDP per capita, BGN         | 8936 | 9329 | 9366 | 9795 | 10 193 |
| GDP of NER, in million BGN. | 8615 | 8953 | 8954 | 9327 | 9655   |
| Economic growth (%)         | 9    | 4    | 0,1  | 4,2  | 3,5    |

According available data for 2015 from National Statistic Institute, NER is distinguished by **GDP** per capita - BGN 10 193. GDP and GVA are respectively BGN 9.65 million and BGN 8.3 million. The distribution of GVA by sectors is: BGN 5.3 million - services, BGN 2,418 million - industry and BGN 0.6 million - agricultural sector. The total GDP of Bulgaria for the same year is 88.5 million leva. NER is ranked fourth after the South-West, the South Central and the South-East Region.

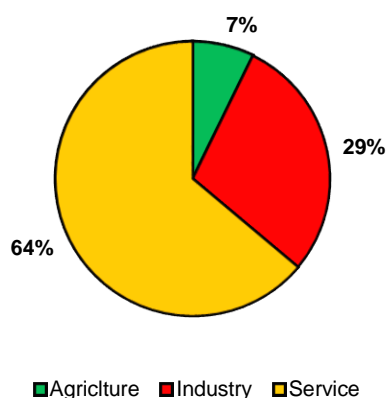


Fig.2.1. GVA by sectors of economy for 2015 for NER

The most developed in the NER is the **service sector**, followed by **industry**. Key for NER are **trade and tourism**. The structure of the industry is varied. It is determined by the production of mineral raw materials, food and beverage industry, chemical industry and transport machinery. Of particular importance to the economy of the region is the maritime industry which includes shipping, port management, shipbuilding and ship repair, marine resources, maritime science and education, as well as all activities and services covering

the maritime business.

The amount of **investment in Bulgaria's NER** for 2015 is 2.5 million leva. The biggest share was received by the industry - 1 184 235 leva, followed by agriculture with 377 658 leva.

According to the Small Business Act of Europe (SBA), Bulgaria shows weak results in four of the ten areas. This is a consequence of political instability, which creates unfavorable conditions for business. The country's profile does not show high scores in any of the areas, but at best it moves around the EU average. The best chance for improvement is in the areas of skills and innovation, environment and internationalization.

The costs for R&D in NER for 2015 are 35 556 leva. For the same year, the country spends a total of 850 457 leva. At the same time, the share of innovative enterprises in the country is 26.1%. The results of Bulgarian SMEs in this area are a major weakness, as Bulgaria holds one of the last places in the EU. The share of online marketing SMEs is significantly lower than in other EU countries. The percentage of SMEs that cooperate with each other or with research institutes is also low. There is also a need for organizational and marketing innovation. **The most innovative for NER are the maritime industry, agriculture, transport, tourism, information technology and the chemical industry.** The most important barriers to innovation are lack of funding and lack of information.

The export of goods and services has a crucial role to play in restoring Bulgarian economy after the 2008-2010 crisis. The change that has been achieved in the volume of Bulgarian exports during the period from mid 2008 to the end of 2016 is significant - 39%, with exports being particularly important for this growth since it grew with an impressive 60.1% over the same period. At the national level, there is a tendency to increase exports, with exports of goods worth 44,949.5 million leva in 2015, which is 4% more than in the previous year. In Bulgaria industrial production is usually part of the supply chains of major European exporters where Germany occupies the first place. In its analysis in the autumn of 2016, the Bulgarian Industrial Association states that the export restructuring is largely related to the EU economy and exports. This is also evident from the statistics - if ten years ago, the main destination of goods such as machinery and parts was Turkey, now only 3 EU countries are in the top three. Exports to the EU countries grew by 7.9%, with main trading partners being Germany, Italy, Romania, Greece, France and Belgium. At the same time, there is a drop in exports to third countries of 2.5%.

In 2016, for the first time in a decade, exports of machinery, equipment and parts for them outpaced the fuels. The result is somewhat due to the lower oil prices in recent years but, on the other hand, to the growth in exports of value-added goods. Total exported electric machines, materials and parts for them amount to 4.5 billion leva (growth of 3.5%). Fuels remains second with 4.3 billion (down 12%), followed by copper and copper products, cereals, specific goods, clothing, pharmaceuticals and others.

## 2.2. Internationalisation environment

Since Bulgaria joined the EU in 2007, state policies are almost entirely outlined in strategic documents of the European Commission. The European Structural Funds through national operational programs became the main and almost unique source of governmental initiatives and a key factor for the growth of the national economy. A significant number of policy measures in support of SMEs have been adopted in 2014 and the first quarter of

2015. These include e-Justice and e-government strategies, a new Public Procurement Act and a Better Regulation Program (including the Impact Assessment and Impact Assessment Guidelines).

Promotion of innovation and internationalization of Bulgarian enterprises is based on the following **national strategic documents**:

- National Development Program: Bulgaria 2020 (NDP Bulgaria 2020) - along with the national growth decisions taken in the context of the Europe 2020 strategy.
- National Strategy for Promotion of Small and Medium-Sized Enterprises 2014-2020, setting objectives in five priority areas - entrepreneurship, access to finance, skills and innovation, environment and internationalization.
- Innovation Strategy for Smart Specialization of the Republic of Bulgaria until 2020.

**NDP BG2020** is a strategic framework document based on country analysis and it identifies development trends defining the vision and common strategic objectives of national policies by 2020 covering all sectors of socio-economic policy implementation and their regional dimensions. The main goal of NDP BG2020 is to achieve quality and balanced long-term economic growth. The socio-economic analysis and the formulation of the economic policies set out in NDP BG2020 have been carried out using the achievements of modern macroeconomic theory and practice in the field of economic growth. NDP BG2020 is the basis for the programming of strategic documents in relation to the implementation of both national policies and EU policies. The program helps to optimize the programming of the development of Bulgaria by 2020, ensuring the connection between the national priorities of the Republic of Bulgaria and the EU objectives in the context of the Europe 2020 strategy. NDP BG2020 provides the framework for setting the priorities for the allocation of public funds (national and European) and the mobilization of private funding. On the basis of the formulated vision and objectives, eight priority axes have been identified. The priority strands concern both the formulation and implementation of stand-alone national policies and the implementation of pan-European policies, which encompasses the full range of state actions in the field of socio-economic development.

The issues of internationalisation of SMEs are included in Priority 5 - Support innovation and investment activities to increase the competitiveness of the economy, Sub-priority 5.5 Increasing the competitiveness and viability mainly of SMEs, area of effect: Stimulating the internationalisation mainly of SMEs. The state will implement mechanisms for financial and other support for information and training campaigns and for internationalisation of the activity. The expected results of the measures are to increase the internationalisation of SMEs. So far, no provision has been made for this area of impact in the three-year Action Plans for the implementation of the program.

**National Strategy for Small and Medium-sized Enterprises 2014-2020** was established in pursuance of Art. 5, para. 1 of the Small Business Act. It is a medium-term strategic policy paper through which the Government of the Republic of Bulgaria demonstrates its vision of state policy in support of small and medium-sized enterprises (SMEs) in the country. The strategy has been developed in accordance with the government's program "Statehood, Development, Justice" and the European Union's policy in this area. The overall strategic objective of the document is to increase the competitiveness of small enterprises by helping



start-up and viable SMEs in their efforts to be innovative, environmentally and export-oriented, creating favorable conditions for their development by improving their access to finance; promoting entrepreneurship and enhancing entrepreneurial skills; simplifying administrative and regulatory requirements, especially for small and micro enterprises. The internationalization of SMEs is set out in Priority Area 7 Internationalisation. During the period of priority of the policy of internationalisation is the promotion of SMEs to go to third-country markets. To ensure this measures will be implemented for:

- Improving information provision to SMEs for export opportunities.
- Expansion and diversification of the services provided by BSMEPA and BAEZ to the exporting companies.
- Providing financial support to exporters via the Bulgarian Development Bank.
- Conducting an active campaign abroad to promote products produced in Bulgaria.
- Priority orientation of the work of Commercial and economic offices towards SMEs.
- State support for creation of export-oriented SME associations.

The criteria on which it is intended to be influenced, the operational objectives and the way of change are presented in Table 2.2.

*Table 2.2. Criteria, Operational Goals and Way of Change*

| <b>Criteria</b>                               | <b>Objectives</b> | <b>Change</b>                    |
|---|-------------------|----------------------------------|
| 10.1. Cost of the import                      | < 1100 USD        | Shortening with at least 33%     |
| 10.2. Time of the import                      | < 11 days         | Shortening with at least 6 days  |
| 10.3. Number of import process documents      | 5 pieces          | Shortening with 1 document       |
| 10.4. Cost of the export                      | < 1000 USD        | Shortening with at least 55%     |
| 10.5. Time of the export                      | < 11 days         | Shortening with at least 10 days |
| 10.6. Number of export process documents      | 5 pieces          | Same number                      |
| 10.7. Share of SMEs importing outside the EU  | > 4,99%           | Increase with 4000 SMEs          |
| 10.8. Share of SMEs exporting outside the EU. | > 3,06%           | Increase with 4500 SMEs          |

Emergency action guidelines have been identified, including reducing the cost of obtaining export documents by 15%, expanding and diversifying the services of the Bulgarian Development Bank and the Bulgarian Export Insurance Agency to support SMEs - exporters, engaging government bodies and representative institutions with active promotion of the products produced in Bulgaria.

Based on the Small Business Act, in order to reach the EU average SME export orientation, the target set in the National Strategy for Small and Medium-sized Enterprises 2014-2020 is formulated as follows: "14,000 more SMEs to enter the Single Market, another 4,000 SMEs to enter third markets. These enterprises must be mainly from the industrial sectors. This can be done through the creation of technology partnerships using, for example, the potential of the Enterprise Europe Network, as well as by enhancing the opportunities for e-commerce in which our country is in the last place in the EU. To reach the EU average for e-commerce, another 2,400 SMEs need to start online sales. "

Through the **Innovation Strategy for Smart Specialization 2014-2020 (RIS3)**, Bulgaria declares its vision for policy change and overcoming the existing socio-economic challenges:

- low labor productivity;
- low share of high-tech production;
- demographic crisis - prevention of brain drain, attracting successful Bulgarians and youth entrepreneurship;
- providing a better and healthier lifestyle.

RIS3 has been developed in line with the Europe 2020 Strategy for Smart, Sustainable and Inclusive Growth as well as in the implementation of thematic objective 1 of Art. 9 of Regulation (RE) 1300/2013 - "Strengthening research, technological development and innovation". RIS3 is a thematic precondition of Annex XI of the same Implementation Regulation, which is the allocation of funds under Operational Programs "Innovation and Competitiveness" and "Education and Science for Smart Growth". RIS3 has been developed in line with Bulgaria's vision set out in the NDP Bulgaria 2020, Danube Strategy Action Plan to "Unlock the Potential of the Economy." During the current programming period, the development of Innovative Strategies for Smart Specialization at Regional Level according to NUTS II classification is not planned, but the needs and challenges at the regional level are the basis of RIS3 and a key element in the implementation of the activities of the strategy.

The first two parts of RIS3 are covering the issues of socio-economic analysis and capacity for research and innovation performance.

The challenges faced by the industry are:

- Bulgarian exports are mainly from low-tech industries. The internationalisation of Bulgarian enterprises is low.
- The contribution of foreign direct investment to technology transfer is limited.
- Industrial production is highly energy-intensive and energy-inefficient.
- Low labor productivity - due to the factors above.

The role of the Strategy is to identify the areas with the greatest growth potential so the support will be targeted to them. The following priority sectors are identified:

- Information and Communication Technologies.
- Mechatronics and clean technologies.
- Industries for healthy life and biotechnology (including food).
- New technologies in creative and recreational industries.

The mobilization of limited internal resources through various forms of international scientific, technological and innovation cooperation and the integration of the country into supply chains at international and global level are the main objectives of the RIS3. The role of the internationalisation of the innovation process in Bulgaria and the integration of Bulgarian researches and innovations into the overall successful EU entrepreneurship framework is of the utmost importance. This is undoubtedly the most difficult and continuous process, but it leads to real achievements in the field of research and innovation and to the

achievement of the country's sustainable competitiveness.

The strategic objective of the RIS3 is by 2020 to move from the group of "timid innovators" to the group of "moderate innovators". In practice, this change will be realized through an effective policy of promoting of:

- innovation, research and development of human capital;
- investments in high-tech areas where Bulgaria has traditions, specialists and it is successful competitor on the international market;
- export oriented industries.

The strategic goal will be realized through the achievement of two operational objectives:

Objective 1: Focus on investment to develop innovation potential in the identified thematic areas (to create and develop new technologies leading to competitive advantages and increasing the added value of national products and services)

Objective 2: Support for accelerated technology absorption, methods, etc. enhancing resource efficiency and ICT implementation in the enterprises across the industry.

Measures for the implementation of ISIS are mainly foreseen in the Operational Programs "Innovation and Competitiveness 2014-2020" (OPIC) and "Science and Education for Smart Growth 2014-2020" and the part that remains at the expense of the state budget included in the budget of the Ministry of Economy for the respective year.

**OPIC is the main national instrument for encouraging innovation of SMEs.** The OPIC envisages a number of schemes and financial measures to increase productivity, efficiency and innovation of Bulgarian enterprises. The program aims to overcome the following weaknesses and challenges:

- low innovation rates as a result of insufficient cooperation with science and universities, small volume and inefficient investment in R & D and innovation;
- Difficult access to sources of financing and weak investment activity;
- Low level of internationalisation (95% of SMEs are characterized by a low level of internationalisation and the country ranks 27th in the EU);
- Insufficient entrepreneurial culture, activity and skills for effective management of the innovation and marketing;
- Deteriorated export structure (mainly based on exports of commodities and commodities with relatively low added value);
- high resource and especially energy intensity of production, low level of application of new technologies - the Bulgarian economy is the most resource intensive and energy intensive (per unit of output) among the EU economies.

Measures to promote internationalisation are foreseen in Priority Axis 2: "Entrepreneurship and Growth Capacity for SMEs", Specific Objective 2.2. "Increasing the Productivity and Export Potential of Bulgarian SMEs". The indicative group of activities is: "Support for activities and provision of services for direct business development and export orientation for SMEs".

Another program that also supports the internationalisation of SMEs is the **SME Initiative** endorsed by the European Commission at the end of 2015 for ERDF support under the

Investment for Growth and Jobs Objective. It aims to improve access to debt financing for SMEs in Bulgaria. The SME initiative program complements OPIC in the area of access to finance for SMEs.

At local level, the main strategic document for the promotion of innovation and development of SMEs is the Municipal Development Plan of Varna Municipality 2014-2020 (MDP Varna 2014-2020). MDP Varna 2014-2020 is the main strategic document for the socio-economic policy of the municipality which sets medium-term objectives and priorities for integrated and sustainable local development, guides the main actions of the municipal administration and is bound by the annual budgets of the municipality. MDP Varna 2014-2020 was prepared in compliance with the main strategic development documents: Europe 2020 Strategy, NDP BG 2020, National Regional Development Strategy 2012-2022, Regional Development Plan for the Northeast Region 2014-2020, Regional Strategy for Development of Varna Region 2014-2020 and documents for strategic spatial planning and regional development: National Concept for Spatial Development for the Period 2013-2025, General Plan of Varna Municipality, Integrated Urban Recovery and Development Plan - Varna. The overall objective of the Plan is to achieve integrated sustainable development and raise the standard of living through effective use of own resources and expanding EU partnership.

The measures supporting the internationalisation of SMEs on the territory of the municipality of Varna, which are part of the MDP Varna 2014-2020, are included in: Priority Area 1 "Economic Growth", Strategic Objective 1 "Achieving smart economic growth by providing a favorable environment for entrepreneurship, the quality of education and research, according to the requirements of the economy, the introduction of innovation and the promotion of investment. ", Priority 1.1. "Stimulating entrepreneurship based on the knowledge economy.",

- Specific objective 1.1. Increasing the viability and competitiveness of SMEs.
  - Measure 1.1.1. Stimulating entrepreneurial culture and attitude of civil society.
  - Measure 1.1.2. Supporting entrepreneurship to create new jobs and start up businesses.
  - Measure 1.1.3. Supporting the development of social, women and youth entrepreneurship.
  - Measure 1.1.4. Support for the creation of a municipal start-up and venture capital fund to support start-up innovative SMEs.
- Specific objective 1.2. Support for the development of priority sectors of Varna Municipality, building and development of clusters.
  - Measure 1.2.1. Providing a favorable environment for building and developing clusters.
  - Measure 1.2.2. Encouraging inter-company cooperation and support for the creation of business networks and other ways of developing the economy.
  - Measure 1.2.3. Development of programs to support the development of the local economy with priority of the maritime industry and absorption of the resources of the Black Sea, tourism, environmental protection and climate change, renewable energy sources and energy efficiency, information and communication technologies and others.

The specific tool to support internationalisation at municipal level is to carry out surveys and

select good practices in the field of enhancing the export potential of SMEs and supporting their internationalization, as a result of which inclusion of projects for implementation of Implementation Program of the priorities and measures set out in the municipal plan of the Municipality of Varna will be proposed.

## 2.3 Main national and regional stakeholders

The main stakeholders identified to improve internationalisation policies are:

- public authorities - national, regional and local;
- organizations supporting business in NER - national and regional;
- universities;
- regional SMEs.

**The Ministry of Economy of the Republic of Bulgaria** has the responsibility to implement the policies and to regulate the economy of the country on the basis of the European principles and to coordinate the activities of other institutions in this direction. The main priority is to create the necessary conditions for stable economic growth in the Republic of Bulgaria. The Ministry aims to create a less bureaucratic, investment-friendly environment with simple and transparent business procedures and effective management for the benefit of entrepreneurs. Effective foreign economic cooperation is another essential part of its policies. The main directorates involved in shaping and implementing internationalisation policies are the Directorate "Economic Promotion Policies" and the General Directorate "European Funds for Competitiveness".

The Directorate "Economic Promotion Policies" implements a number of activities to develop, implement and control policy tools to promote economic development, investment and internationalization of SMEs, including by participating in the development and control of the implementation of operational programs funded by EU funds; prepares concrete proposals for improving the business environment and dropping and/or alleviating existing regulatory regimes; fulfills the function of a secretariat responsible for the implementation of RIS3.

General Directorate "European Funds for Competitiveness" is the Managing Authority of OPIC and SME Initiative; it organizes and coordinates the activities related to the fulfillment of the commitments of the Ministry provided for in the European and national legislation for the implementation of the Cohesion Policy; it coordinates the work of the Thematic Task Force for the preparation of the new Operational Program and performs the functions of a Secretariat to it under the existing legal acts.

**The Regional Administration - Varna** represents the central government in the region and ensures the correspondence between the national and local interests in the implementation of the regional policy. The Regional Governor implements the state policy in the field, coordinates the work of the executive authorities and their administrations on the territory of the district and their interaction with the local authorities; ensures the correspondence

between national and local interests, organizes the development and implementation of regional strategies and programs for regional development, interacts with the local self-government and the local administration; coordinates and controls the activities of the territorial units of the ministries and of the other administrative structures, which provide administrative services on the territory of the district; coordinate and supervise the implementation of the acts and actions of the heads of the territorial units of the central government in the territory of the district; conducts the international contacts of the region at the regional level.

**Varna Municipality** and **Aksakovo Municipality** are representatives of the local authorities in the stakeholder group, which develop, coordinate and control activities for implementing local policies to promote the internationalisation of SMEs.

The business-supported organizations involved in the stakeholder group aim to stimulate international trade and investment, promote the exchange and representation of members' interests at local and international level, and assist public institutions in developing regulatory and strategic instruments for SME development, as in the key sectors for the region: maritime business, tourism, ICT, and the identified priority sectors in RIS3. They include:

- nationally represented organization - **Bulgarian Chamber of Shipping**.
- regional structures of nationally represented organizations – **Industrial Association - Varna** as a regional structure of the Bulgarian Industrial Association; **The Chamber of Commerce and Industry - Varna** and **the Chamber of Commerce and Industry - Dobrich** as regional structures of the Bulgarian Chamber of Commerce and Industry;
- regional organizations - **Varna Tourism Chamber**, **ICT Cluster - Varna** and **Regional Agency for Entrepreneurship and Innovation - Varna**.

**The Varna Free University "Chernorizets Hrabar"** is an established academic center, which combines the training of Bulgarian and foreign students in priority areas for the country and creates an internationally convertible and competitive scientific and academic product. Within the University, the International Academy of Knowledge and Innovation is working, which responds to the EC's Horizon 2020 directives to develop key technologies for the economic uptake of ICT, which requires the creation of human capital with "new knowledge and skills for new jobs". The main goals of the University include: internationalisation; establishing link between the educational process and the needs of the business and the labor market; "new skills for new jobs"; innovative models for teaching and learning; transdisciplinarity in training programs; unity of research and training - bringing ideas from research into living laboratories and discovering the future through action, not just through analysis; an interdependent model of teaching, learning and research activities are enhanced through collaborative relations and knowledge sharing.

## 2.4 Some Results Drawn from Previous Surveys

Nowadays, internationalisation is seen as a complex of activities – along with traditional

import and export, it includes all activities that place SMEs in significant business relationships with foreign partners: import, export, foreign subcontractors and international technological partnership.

According to the **SME survey conducted by BSMEPA in 2012**, the emergence of foreign markets in Bulgaria is more common in the more mature enterprises and more difficult for young enterprises - those created before 1995, the share of the exporting producers is over 10%, while for the younger SMEs is below 10%, and the share of exporters is only 1% for enterprises established after 2006.

The importance of governmental incentives for export also increases with the size of the enterprise. To the question "Do you think that the state has a special foreign trade policy with regard to exporters compared to the rest of the economy?" 24.3% responded positively of micro enterprises, 28.9% of small enterprises and 48.8% of medium-sized companies.

**The main barriers** for internationalisation of SMEs in the EU are the high prices of their production and the high costs for entering foreign markets. Other external barriers to the enterprises are lack of capital, access to information, lack of state support and administrative difficulties associated with the organization of the transport. Availability of adequate information for programs promoting internationalisation of enterprises is low. The development of on-line trading is one of the main factors contributing to stimulation of internationalisation of enterprises. The ability to sell products online is the most direct approach for reaching external markets. The main barriers are the differences in the legislation of the Member States as well as inadequate internet infrastructure.

The **national survey conducted in 2016 by the Institute for Market Research to Bulgarian Academy of Sciences** under the Knowledge Sharing Program funded by the Korean Government for internationalisation of SMEs in Bulgaria, shows that:

- The **main barriers** for internationalisation are "too high price for resolving foreign trade disputes and complaints" (50% of respondents), followed by a lack of capital (45%). The most insignificant problem for the development of internationalization is that "the company does not know the rules to be followed (e.g. labeling)" (43%).

- The **main measures** to support internationalisation of SMEs are: grants, subsidies and low interest loans (23%); support for business partner finding and networking (23%); consultations or training (23%).

The **"European Economic Review 2017"** presents the business climate on the base of survey conducted by BCCI in 489 companies, 81% of which export on foreign markets, for assessing the business climate. It includes managers reports on business results for 2016 and their expectations for 2017 for a number of factors, including their earnings from overseas sales, their investments, the bottlenecks they face and the business climate as a whole.

The lack of skilled workers in 2017 is expected to be among the biggest obstacles and it is stated by 38% of employers. In recent years there has been a relatively constant share of firms that point to this problem - indicative of a low rate of reforms in education and training.

23% of companies expect that funding conditions will be among the top barriers to their activity in 2017. Although some decrease in the interest rates is reported, bank loans have limited use in 2016.



### III. METHODOLOGY

#### 3.1 General Positions

The Analysis presents the main results from a conducted survey in the period December 2016 – April 2017 among regional SMEs for identifying needs and barriers encountered when internationalizing their activity. Additionally the results from interviews with the main stakeholders on the measures for supporting SMEs in development of export activities are presented.

The main goal of the conducted surveys is to identify gaps between real needs of the companies and measures implemented for supporting their internationalization, and to derive and put forward recommendations for improving the policy instruments, thus improving the business environment.

Preliminary expectations are that in answers to the questions during the survey the firms will repeat to a great extent the same factors that were pointed out as reasons for difficulties in development of export activities in some previous surveys, such as: lack of capital, information, qualified staff, state support and administrative burdens. The main support measures which are expected to be identified are: grants and subsidies, training and support for finding business partners.

#### 3.2 Methods for Collection of the Data

At the start of the survey “formulative” strategy was adopted, i.e. preliminary “examination” of the object and formulation of questions and hypotheses, then “experimental” strategy is followed, i.e. to establish essential causal-consequential connections between the variables or factors describing the object.

Methods for collecting and processing of empirical data are:

- collection and processing of “secondary” data (reviews, analyses, statistics, case studies, examples, etc.);
- collection and processing of “primary” data (through surveys, interviews, discussions, observations, experiments, etc.)

The used methods of survey at the initial stage were survey by post (sending a questionnaire to a company after notification in advance) with subsequent interview at the spot.

In elaboration of questionnaires Likert’s scale (3-5 point scale estimation of preliminarily suggested statement: “Agree, ... Rather agree, ... Disagree”) or semantic differential (3-5 point scale at comparing, expressing preferences, opinion, etc. regarding the presented facts: “High/Good ... Average ... Bad/Low”) are used.

Surveys connected with collection and analysis of primary data are most often based on the so-called sample approach, when the target totality (general totality, population) of specimens of the object is studied through analysis of a definite number of its representatives. The questionnaire is sent to 200 regional SMEs that are internationalizing their activities. The percentage of the received responses is not large (12%) but it gives enough qualitative information which provides possibility for outlining the tendencies, formulation of conclusions and recommendations.

The second part of the study is focused on the regional internationalisation environment and forming of a data base of the main regional stakeholders. This part of the study is related with determining the influence of the public authorities, the business support organizations and other stakeholders to internationalisation policies. In elaboration of questionnaires Likert's scale (3-5 point scale estimation of preliminarily suggested statement: "Agree, ... Rather agree, ... Disagree") or semantic differential (3-5 point scale at comparing, expressing preferences, opinion, etc. regarding the presented facts: "High/Good ... Average ... Bad/Low") are used. The questionnaire is sent to 14 organizations, members of the Regional Stakeholder Group of INTRA project. Nine of them sent valid responses which is 64 % of the total sent.

### 3.3 Data Processing and Analysis

The data processing and analysis is carried out by software. For all organizations, included in the sampling lists, a database is created.

The next stages include:

- Preliminary data analysis: description of the data through calculation of frequencies, percentages, average values, diffusion measurers and data presentation in cross-tables, histograms, etc.
- Checking of hypotheses and analysis of dependencies.
- Final data processing and analysis.
- Formulation of conclusions and recommendations.

## IV. INTERNATIONALISATION SERVICES DEMAND. BARRIERS AND DRIVERS TO SMES INTERNATIONALISATION.

### 4.1. General description of the surveyed SMEs

Within the conducted survey 200 questionnaires were sent to companies in different economic sectors, 24 of which were completed and returned. The largest share of respondents were micro-enterprises (71%), followed by small (25%) and medium-sized companies (4%). According to the economic sector - the largest shares were companies from “Information and Communication Technologies”, “Industrial manufacturing”, “Construction/Engineering sectors” and “Trade”.

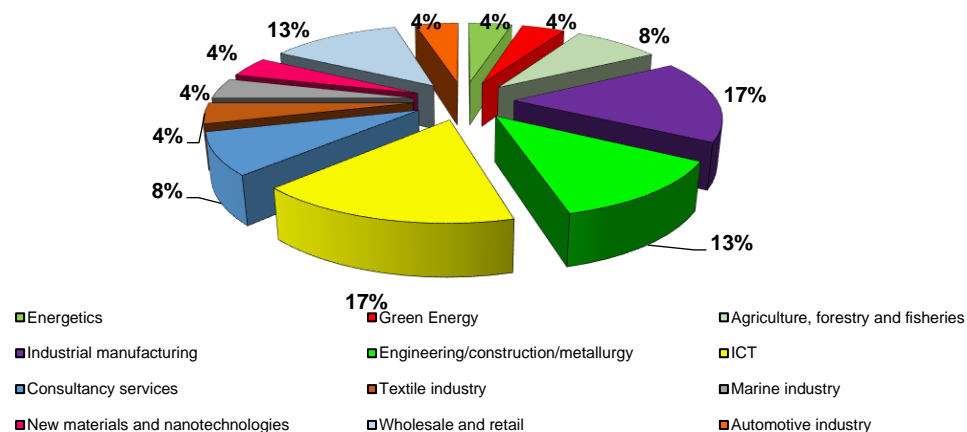


Fig. 4.1. Economic sector distribution

### 4.2. Level of competitiveness and internationalisation

Important indicators for determining the level of internationalisation of SMEs are their innovativeness and competitiveness levels. A dependency was found: the more innovative and competitive is one enterprise, the easier and faster it enters international markets.

Results show that the competitive advantages of 71% from the surveyed companies are due to the presence of high-qualified staff in the company, 67% due to the production of high quality products or services, 42% - to applied effective marketing and wide range of products or services (fig. 4.2).

More than 50% of the surveyed companies indicate that the main factors that provide high level of competitiveness are: improving the quality of products and services, expanding

activities on international markets and the introduction of new technologies (fig. 4.3).

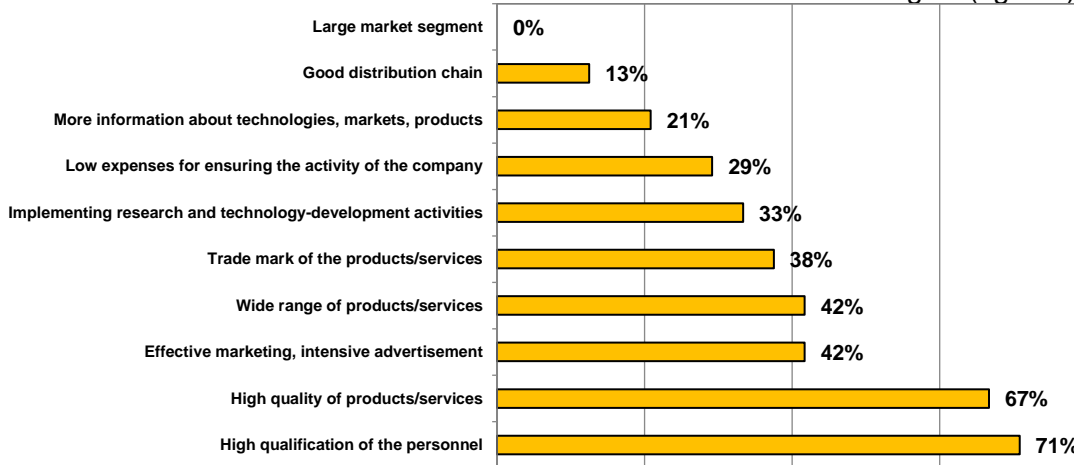


Fig. 4.2. Advantages of the companies to the competitors

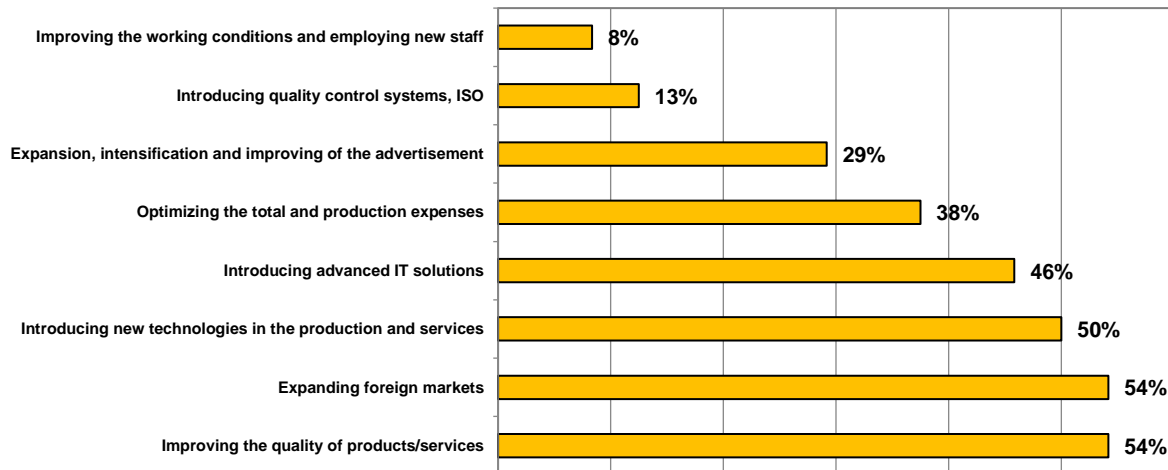


Fig. 4.3 Factors, influencing competitiveness

When determining the technological readiness level (TRL) of their main products, 33% of the respondents identify it as the highest one – 9 “actual system proven in operational environment”, while 25% indicate between TRL 6 and TRL 8 – “technology demonstrated in relevant environment”, “demonstration of a system prototype in operational environment” and “completed and qualified system”. 21% identified as the lowest - TRL 1 – “basic principles observed” (fig. 4.4).

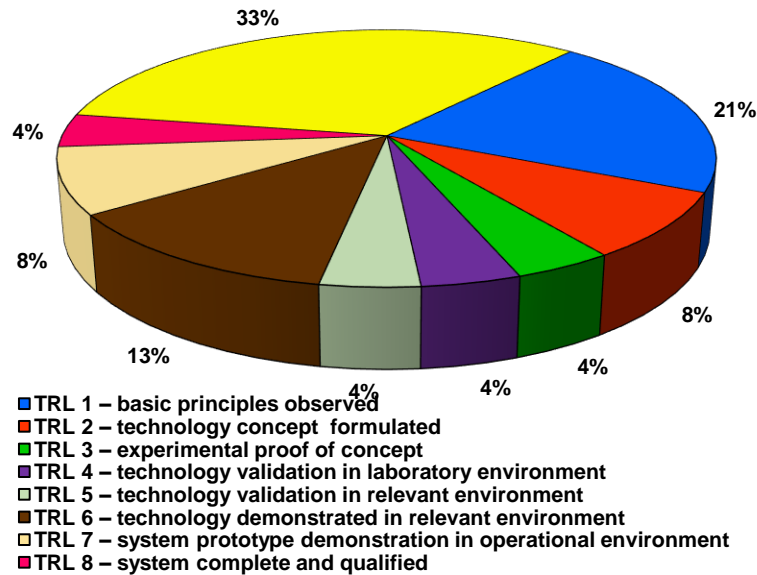


Fig. 4.4 Technology readiness level of the main products and services offered

Having in mind the high TRL of the products/services as it was expected 61% of the respondents said that they have a strategy for internationalisation. The main reasons to expand on the international markets are: reaching new faster growing markets (76% of the respondents), expanding competitiveness by accessing new technologies and know-how (43%), enhancing the productivity by reducing production cost (29%).

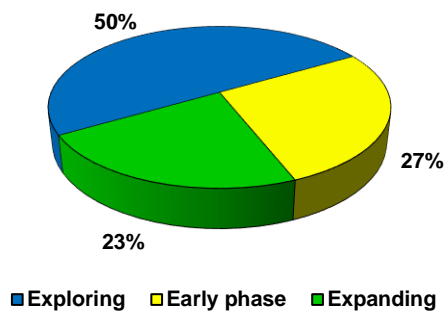


Fig. 4.5 Degree of internationalisation maturity of the companies

Most of the respondents (71%) consider that they have highly qualified staff, which is one of their most important competitive advantage. However, in fact, this staff does not have specific skills, needed to expand the company activities outside the national market. Half of the respondents determine their stage of internationalisation as “exploring”, while approximately a quarter are either in “early phase” or “expanding”.

Although more than 50% of respondents have more than 10 years of business history, none of the companies is “fully developed” or “declining” level of internationalisation.

The share of the companies with their own web page is extremely high (87%) 38% offering online orders. Data shows that 13% of the companies do not have on-line presence – either through a website or an online shop, which affects negatively their activity on foreign markets.

The benefits of internationalisation for SMEs stem not only from the export, but also from all types of international activity. Import, for example, can improve effectiveness by providing

access to new technologies and competencies. The technological partnership, the other forms of cooperation between SMEs and the direct foreign investments are also picking up speed (relocating production or outsourcing). In any of the cases, the companies are mainly seeking high competitive advantage. The access to technologies and cheap or easier-to-obtain resources are as important to them as the access to other markets.

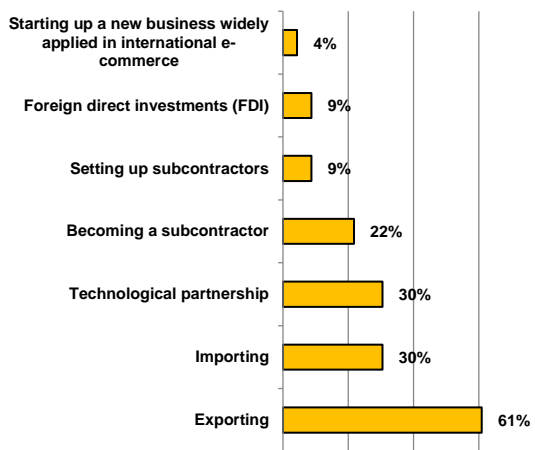


Fig. 4.6 Activities on international markets

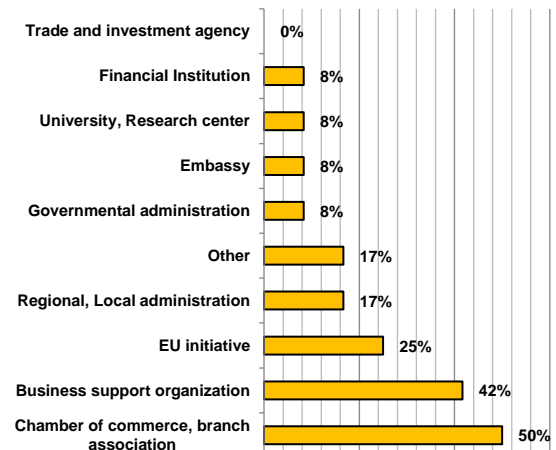


Fig. 4.7 Supporting the internationalisation institutions, that the SMEs work with

The EU aims to support SMEs and to encourage them to take advantage from the growth of the external EU markets, specifically through support within specific markets and business training activities. The companies definitely appreciate the public support, given that they are well acquainted with operational programs, as 85% benefited from them (fig. 4.8 and fig. 4.9). This, to a certain extent, is due to the fact that small companies face difficulties in securing financial guarantees, which, combined with high interest rates - limits their access to bank loans. This conclusion is supported also by the data from fig. 4.9, which shows that barely 31% of the respondents use loans as financing instrument for their activity.

Business cooperation in the field of internationalization with universities, financial institutions and public administration on local, regional and national level is very low. At the same time, 50% of the companies work in partnership with chambers of commerce or branch organizations, and 42% have trust in business support organizations.

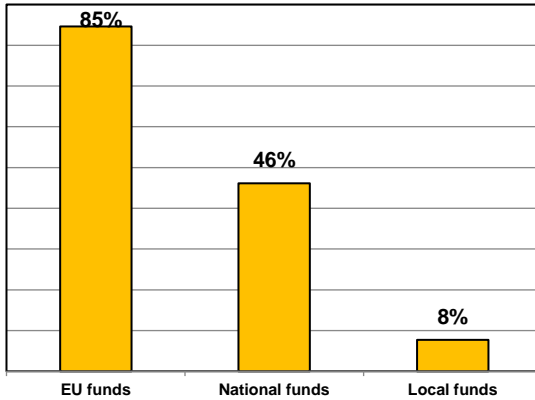


Fig. 4.8 Funds used to support activities

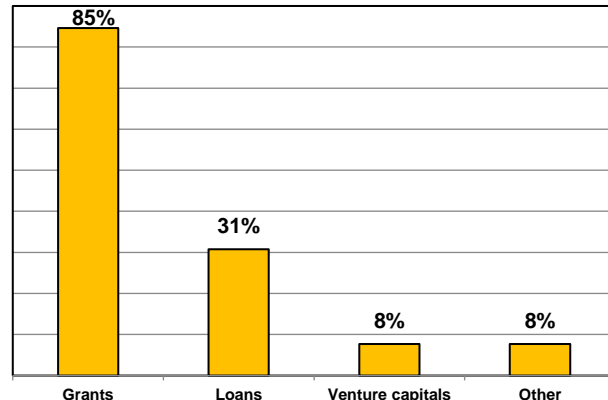


Fig. 4.9 Financial instruments used for the activity

### 4.3. Barriers for internationalisation of SMEs

The goal of the survey is to raise the awareness among support service providers about the business environment factors that encourage or hinder internationalisation – the so-called “drivers” and “barriers”. They cannot directly influence them but when they are familiar with the “drivers”, they can make the best use of them when working with businesses. On the other hand, identifying the “barriers” in front of the internationalisation of SMEs allows providing of tailored support towards specific needs of the SME.

While private and public international markets offer considerable opportunities for the European companies, SMEs face specific external barriers that hinder their expansion on the world market, with the main barriers being: difficulties in reaching potential clients, necessity for internationalisation investments and transparent financial schemes for internationalisation, and last, but not least, access to strategic information for the desired market (fig. 4.10).

SMEs usually have lack necessary working capital, managerial time enough to deal with internationalization and have shortage of human resources for export activities and adequate production capacity (fig. 4.11).

The size of the companies is not related with the identified internal barriers, except with the cases of lack of qualified staff and achieving adequate production capacity. The survey shows that small companies overcome them much harder than bigger ones.

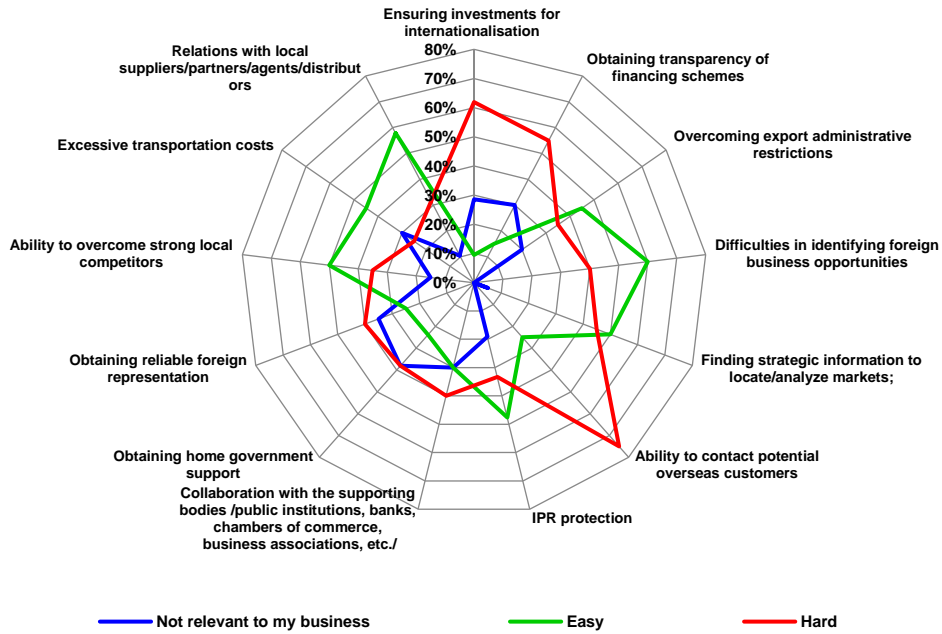


Fig. 4.10 External barriers for internationalisation

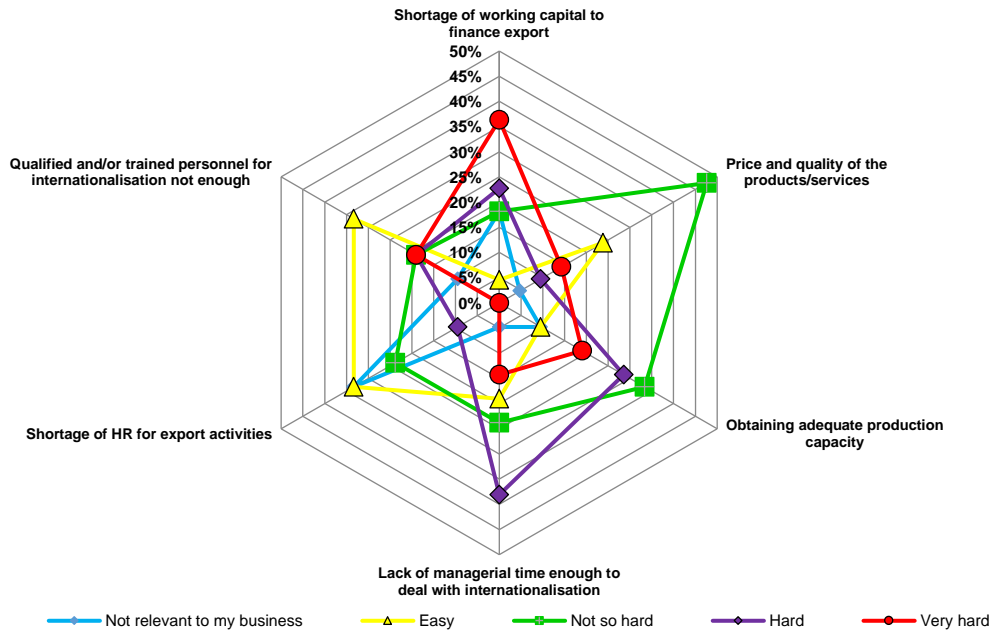


Fig. 4.11 Internal barriers for internationalisation



#### 4.4. Driving forces for SMEs internationalisation

The size of the SME is an important factor for their willingness and ability for internationalisation. The bigger the company the more likely it is to internationalise its activities – 37% from the micro, 80% of the small and 100% of the medium-sized enterprises say that they are in a starting or development phase of internationalisation of their business.

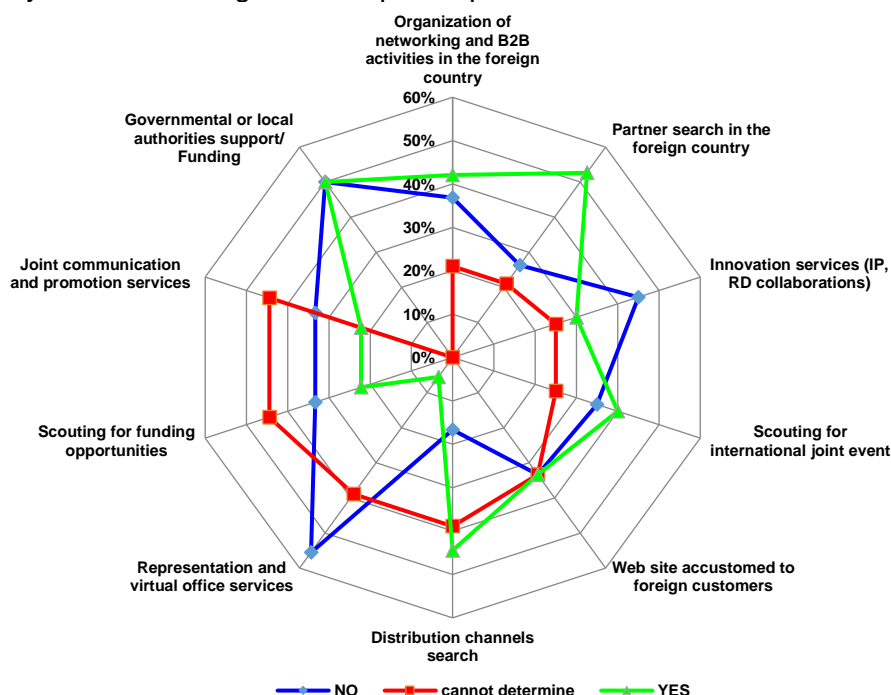


Fig. 4.12 Activities, supporting first steps of internationalisation

The most important activities that assisted the companies with their first steps on the international markets are related with partner search in the foreign country and distribution channels search. The respondents definitely appreciate the support they receive from the public authorities and inclusion in networks, B2B meetings, fairs and expositions in other countries including financing and participations. Besides grants, the companies declared that significant financial contribution for their internationalisation brings usage of bank loans, including ones with preferential interest rate. Having in mind the difficulties in securing guarantees – credit guarantee schemes are also helpful.

Non-financial support also has significant impact on the opportunities for internationalisation of the companies, the most useful being: consultancy services (50% of the respondents), market research support (46%) and services, provided by business parks, technological centers and incubators (42%).

Although one of the main internal barriers to business development on international markets is the lack of qualified staff in internationalisation activities, the majority of the respondents

(54%) have not benefited from services for increasing staff or managerial capacity. 38% of the respondents used services for foreign language competences increase and barely 13% - trainings on internationalisation and new market entry strategy. It is noticed that the size of the company plays role in frequency of benefitting from the staff training opportunities – 100% of mid-sized, 67% of small-sized and 36% of the micro – enterprises.

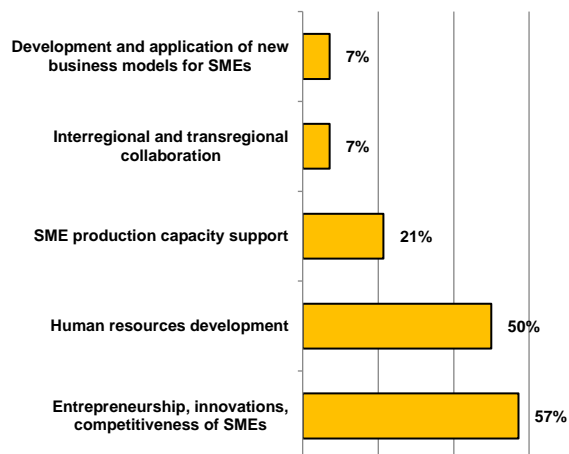


Fig. 4.13 Participation in programs, financed by the European Structural Funds

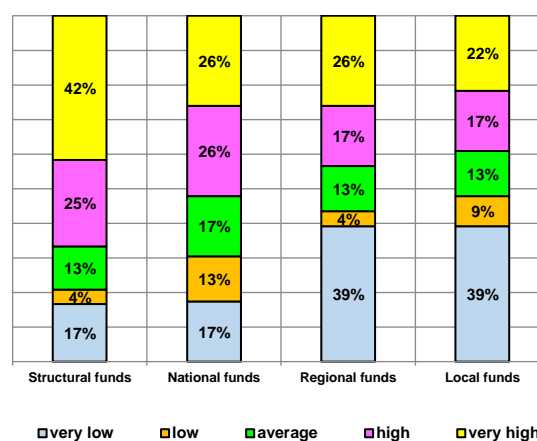


Fig. 4.14 Degree of importance of the different SME internationalisation funds

Although there are various different internationalisation support programs for SMEs, they are quite unknown for the regional SMEs which mainly participate in OP “Innovations and Competitiveness” and OP “Human Resources Development” (fig. 4.13). This is also the main reason for 67% of the respondents to identify the structural funds as the most important for the development of their international business activity. Lack of local and regional funding schemes ranks them as the least important funding sources for internationalisation (fig. 4.14).

The situation is similar for the EU support instruments – the majority of the respondents are not aware of the main tools for stimulating the internationalisation of SMEs (fig. 4.15) at all. Only 13% of the companies are constantly using the services of the European Export Helpdesk. Over 40% are aware about the European Business Network – EBN BIC and the Horizon 2020, but have never used them to support their internationalisation. It is very disturbing that the companies are not or are barely aware about the services provided by the traditional EU support instruments for internationalisation of SMEs, such as Enterprise Europe Network and Trade Defense Helpdesk.

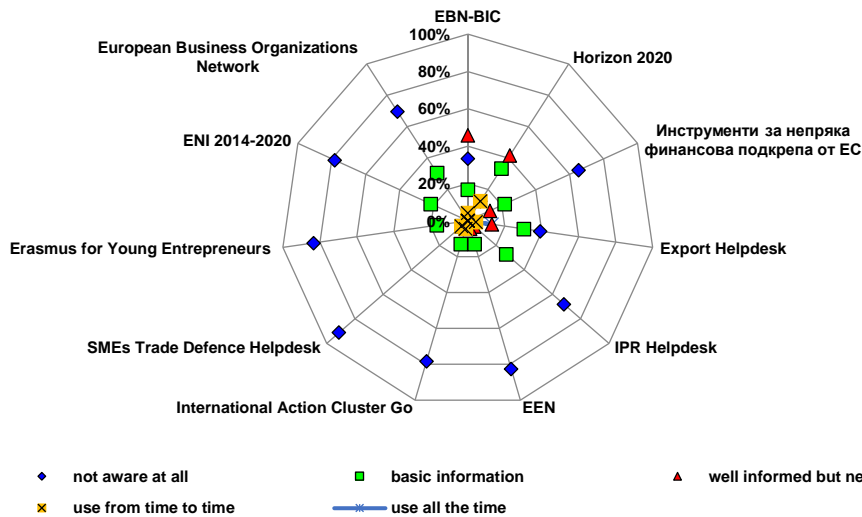


Fig. 4.15. Degree of knowledge about the European instruments for SME internationalisation support

As a result, quite logically, the main recommendations received from the respondents for improving available public funds are related to provision of more information about available schemes and instruments for internationalisation support and specific trainings on international marketing, etc.

## 4.5. Conclusions

SMEs have clear idea about their level of competitiveness and export potential and directions in which to improve their business such as:

- improving quality of production;
- expanding on international markets with the aim to reach new and faster growing ones;
- increasing productivity by reducing production costs and implementing new technologies and know-how;
- improving cooperation with universities, financial institutions and public administration on local, regional and national level.

The main internal and external barriers met by the companies for internationalisation are almost the same as the ones identified in previous studies, namely:

- difficulties in finding potential customers;
- necessity for investments and transparent financial schemes for internationalisation;
- access to strategic information about the foreign market;
- lack of operational capital;
- lack of qualified staff with specific knowledge and skills for internationalisation development.

The successful internationalisation depends mainly on the support for capacity building in the SMEs, including partner search and participation in international events, access to trainings and consultancy services.

The main programmes and instruments supporting the internationalisation of SMEs need to attract as much enterprises as possible. There are numerous business centers, information desks, websites, data bases and other services, managed or assisted by the European Commission which are designed for supporting of SMEs internationalisation. Additionally, there are a wide range of support services for entering of the enterprises on markets, in or outside of EU, offered by private and public service providers, who have a strong expertise in the field. The improvement of the cooperation between the companies and these organizations and instruments will be achieved by conducting regular and appropriate information campaigns.

Among the different funding sources, the most accessible programs for internationalization are those provided by the European Structural and Investment Funds, as they are tailored to the goals and needs of the regional enterprises and their priorities for development.

## V. MEASURES OFFERED BY NATIONAL/REGIONAL STAKEHOLDERS IN THE SPHERE OF SMES INTERNATIONALISATION SUPPORT

### 5.1. General description of the interviewed organizations

A primary data is collected through a poll conducted on the effectiveness of the measures proposed by the stakeholders for internationalisation support among:

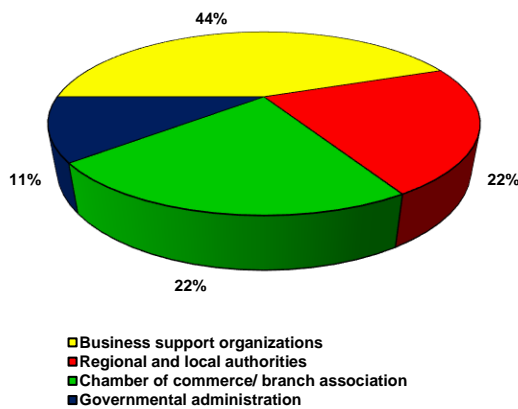


Fig. 5.1. Distribution of study participants

- public administration;
- regional and local authorities;
- commercial and other branch chambers;
- organizations and networks, supporting business;
- universities.

Questionnaires are distributed to 14 organizations included in the INTRA stakeholder group and more than 60% responses are received.

More than half of the surveyed organizations (56%) have a regional territorial coverage, 22% - local and 22% - national.

### 5.2. Support services for SMEs internationalisation

It is obvious from the answers received that training and educational activities are the most performed by the members of the Regional Stakeholder Group, followed by start-up support, innovation and technology transfer and know-how transfer. The share of activities targeting the internationalisation of SMEs, which should be significant among the surveyed organizations, is well below the average.

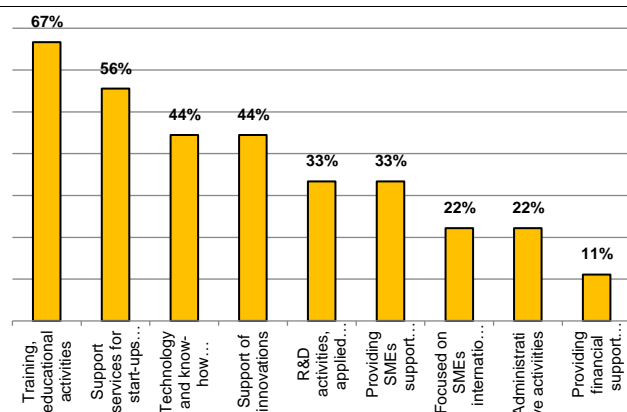


Fig. 5.2. Types of activity

Supported models of internationalisation by the organizations fully correspond to the profile of the main developed international activity pointed out by the surveyed companies – export,

import, technology transfer and partner search in foreign countries, due to good cooperation with regional SMEs and understanding of their needs. Therefore, the main financial incentives to develop internationalisation that organizations offer to companies are grants for participation in international exhibitions and fairs (fig.5.3). First of all, the organizations surveyed cooperate with the business in providing advice on internationalisation and training, conducting market research and technology transfer (fig.5.4). The trainings provided are focused on internationalisation and strategies for entering new markets, export oriented courses and export forums, followed by foreign-language trainings.

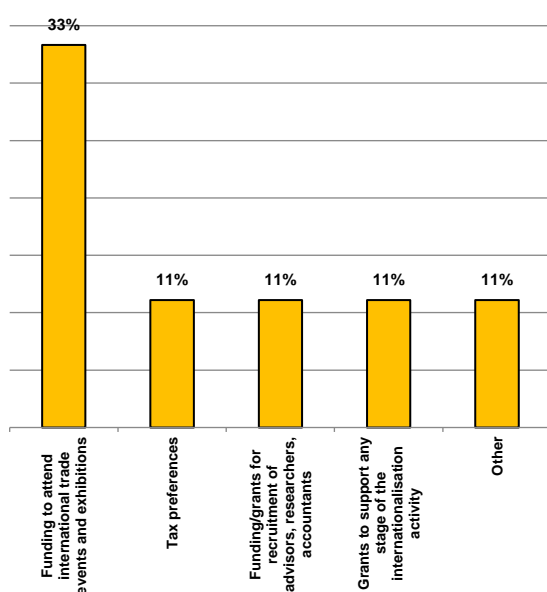


Fig. 5.3. Types of financial services

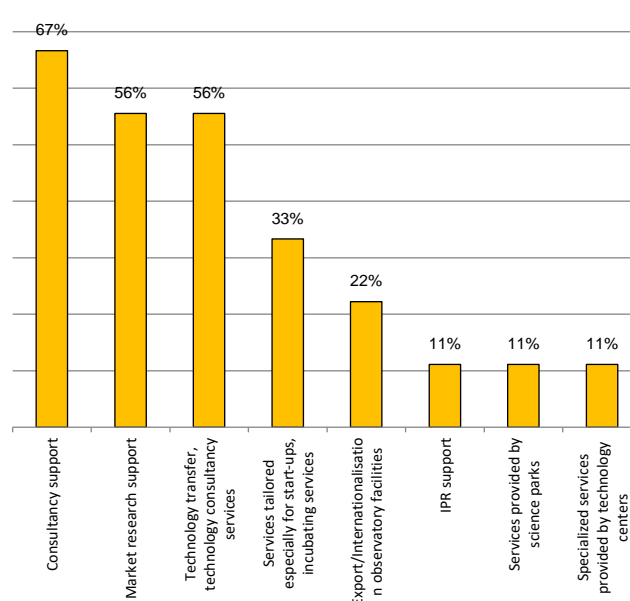


Fig. 5.4. Types of nonfinancial services

The main information services offered by the organizations surveyed are related to partner search, administrative rules and regulations and organizing international fairs, trade mission and business forums. Although, business still recognizes as barriers difficulties in finding foreign partners and information about foreign markets.

### 5.3. Collaboration between SMEs and organizations, providing SMEs support for internationalisation

The study shows that the regional companies cooperate mostly with commercial and branch chambers and organizations supporting business. It is noteworthy that companies work more actively with EU initiatives (25%) rather than with public authorities (local, regional - 17% and national - 8%), universities (8%) and financial institutions (8%) (Fig. 4.7).

The main advantages of the organizations surveyed in providing supportive internationalisation services are the high quality and minimal time of providing services, as well as the use of an one-stop-shop approach and networking. Business information is mainly provided by regular updating of website with appropriate information, publishing and

distributing newsletters as well as organizing events.

Regarding their work with companies, the respondents do not encounter any difficulties. The main problems identified are the impossibility to provide a large number of services from the branch organizations, as well as a shortage of qualified experts, mainly in the state administration (Fig. 5.5).

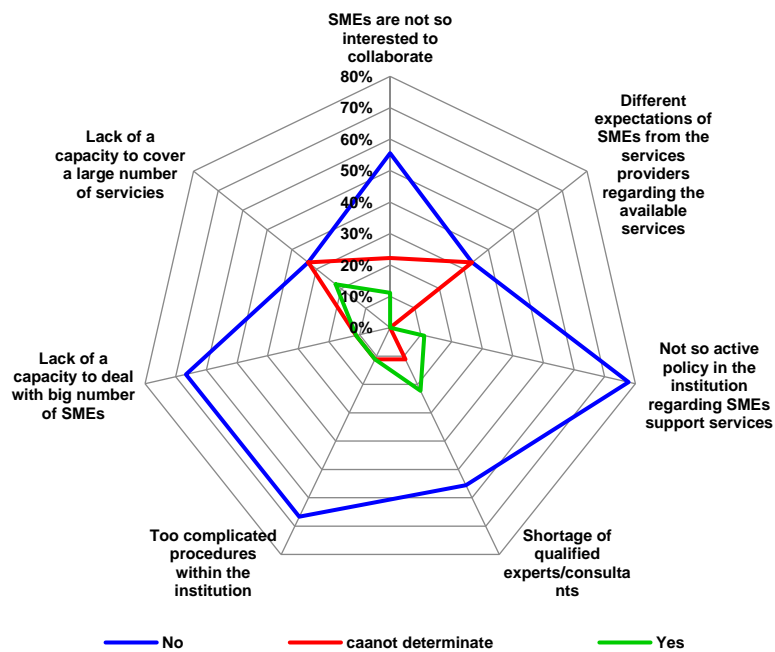
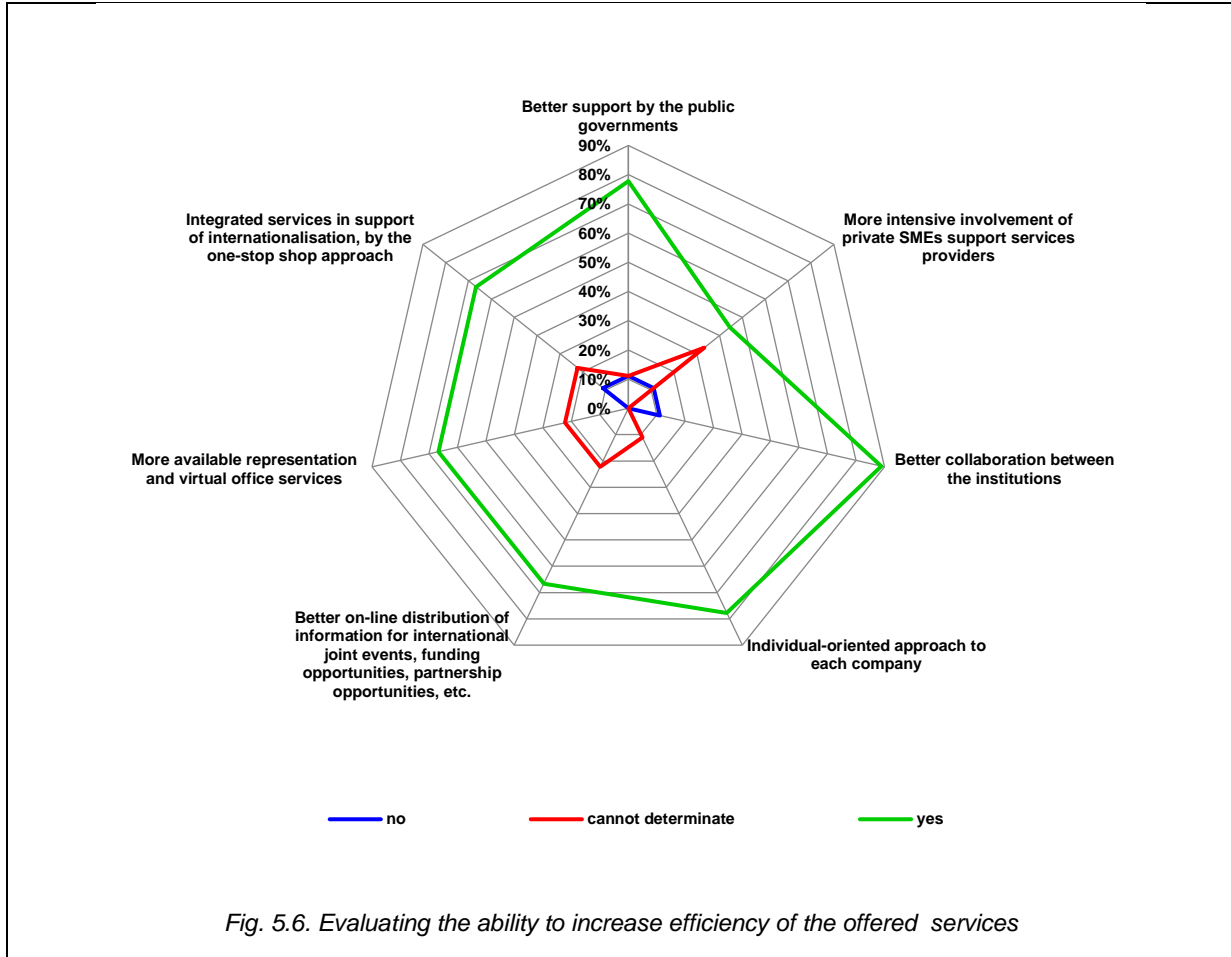


Fig. 5.5. Assessing the level of difficulty in working with companies

As a result of the joint activity, almost half of the institutions indicate that SMEs are gaining new experience and increasing their innovative potential, which helps them to launch internationalisation activities.

However, organizations say that the effectiveness of their services can be improved mainly by improving cooperation between public and private institutions in offering support to SMEs, receiving stronger governmental support, and using a tailored approach when working with companies (Fig.5.6).



#### 5.4. Estimation of policy measures for SMEs support

Public support is playing an important role in promoting internationalisation among SMEs. Most of the organizations surveyed estimate that thanks to public support, companies have started to understand better the opportunities of international markets and have the chance to participate in further activities related to internationalisation.

The European Regional Development Fund (ERDF) is the largest financial instrument set up to support EU regional and cohesion policy. Its aim is to reduce disparities in regional development and promote social and economic cohesion in the EU. In order to promote the competitiveness of SMEs, the ERDF co-finances activities in a wide range of areas. This is the reason why more than 60% of the organizations surveyed participate and support the participation of SMEs in interregional and transregional cooperation programs and more than half think that programs for the development of entrepreneurship, innovation and competitiveness of SMEs and human resources development are extremely useful for



improving the level of internationalisation of business.

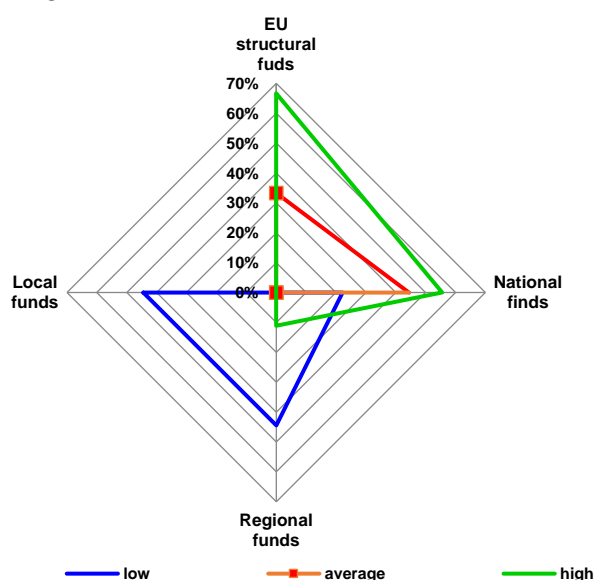


Fig. 5.7. Assessing the importance of public funds for the internationalisation of SMEs

The most important public fund for support of the internationalisation of SME according to respondents of the Regional Stakeholder Group are the EU Structural Funds and national funds. Since there are no available funds for the development of international business activity at local and regional level, these are considered to be the least important. In the context of the survey, organizations put forward various recommendations to improve the available policy tools, including:

- Providing a support for all possible models of internationalisation, not just for export and technology partnerships;
- Effective administrative simplification and application of reasonable custom control;
- Providing opportunities for cooperation with other organizations in the region from different sectors;
- Providing funding for business support organizations within the framework of EU Structural Funds for ensuring specialized consulting and training of micro- and small sized enterprises which are in exploring or initial phase of internationalisation.

## 5.5. Conclusions

The interviewed members of the Regional Stakeholder Group are familiar with the various measures for internationalisation support of the regional companies.

The main support services offered by organizations are related with staff capacity building through internationalisation training and new market entry strategies, export-oriented courses and export forums as well as foreign-language trainings. There is a need to expand specialized support with a specific focus on internationalisation.

Business support organizations are most trustworthy among SMEs, due the high quality of services provided for minimal time, using an one-stop-shop approach and networking.

In order to increase the effectiveness of the provided support services, it is necessary to improve cooperation between the institutions and to obtain more solid support from central and local authorities both through creation of adequate financial instruments and through specific instruments to promote internationalisation, including financing for specialized

consultancy activities.

## VI. IDENTIFICATION OF GAPS BETWEEN POLICY INSTRUMENTS AND SMES NEEDS

The main **national policy instrument** for promoting innovation is OP "Innovation and Competitiveness 2014-2020" (**OPIC**). OPIC envisages a number of procedures and financial measures to increase the productivity, efficiency and innovation of Bulgarian enterprises. Measures to promote internationalisation are included in Priority Axis 2: "Entrepreneurship and Growth Capacity for SMEs", Specific Objective 2.2. "Increasing the Productivity and Export Potential of Bulgarian SMEs", indicative group of activities: "Support for activities and provision of services for the direct benefit of the business development and export orientation of SMEs".

Under Specific Objective 2.2, direct support is provided to companies to develop export activities by financing activities to develop SME management and growth, promoting the use of information and communication services. The increase in management capacity is related to the introduction and certification of management systems, compliance of products with the requirements of international markets, presentation to potential investors and participation in capital markets abroad. Support is for SMEs that are on the market for a minimum of 3 years and a minimum amount of net sales revenue for the last 3 years of minimum BGN 210 000.

The purpose of the SME Enhancing Manufacturing Capacity Procedure is directly related to the specific objective of Investment Priority 2.2 "SME Growth Capacity" for increasing production capacity and enhancing the export potential of Bulgarian SMEs. Improving the market presence of Bulgarian SMEs is done by supporting the introduction of technologies for improving the production process, achieving higher productivity, reducing production costs and optimizing the production chain, respectively increasing the added value and actively involving at all stages of the Value Added Chain. Support is for SMEs that are on the market for at least 3 years and have a minimum amount of net sales revenue of BGN 175 thousand including export earnings.

The cluster development process in Bulgaria encourages business co-operation and clustering as a tool for increasing national competitiveness and establishing a market-oriented and internationally open business environment. Voluntary clustering enables the application of new production solutions and the development of their potential, which leads to increased productivity, increased added value, access to markets, and hence increases the competitiveness of the participating companies and expands their export capacity. The development of international markets is done through support for organizational and administrative strengthening of clusters, activities for attracting new members, development of cluster marketing and participation of clusters in international exhibitions and fairs.

Within the same Specific Objective 2.2. the entry and development of Bulgarian enterprises is supported by the activities of the Bulgarian Small and Medium Enterprises Promotion Agency (BSMEPA). BSMEPA is an institution that coordinates and implements state policy

to promote the development and internationalisation of Bulgarian SMEs and is the only directly responsible structure for the provision of institutional support to Bulgarian enterprises.

The Agency provides an opportunity to improve the export advantages and sustainable positioning on the foreign markets of the Bulgarian business by providing institutional, logistical and financial support to SMEs and branch organizations for their participation in the events organized by BSMEPA - trade missions abroad, business meetings, business forums and contact exchanges with foreign companies in Bulgaria. This type of support is for companies with high export potential, well-established on the market and with well-developed export positions and looking for opportunities to expand their exports by entering new markets.

In addition, the Agency creates conditions for sustainable development and successful integration of Bulgarian enterprises on European and international markets by providing support for participation in international trade fairs and conferences abroad and in Bulgaria by providing logistical support. This type of support is a priority for companies with active export activity on at least two foreign markets.

Last, but not least, OPIC provides the opportunity to develop and improve the export potential of the companies through the creation of a digital platform developed by BSMEPA. The platform provides a full range of international business services, connecting with potential investors and providing information and advice for European and external markets. The platform will provide a centralized digital information base that will increase the efficiency and preparedness of Bulgarian SMEs to enter foreign markets.

The discrepancies found between the applied national policy instruments and the specific needs of the regional SMEs are presented in table. 6.1.

Table 6.1. A matrix of gaps between policy instruments and the needs of regional SMEs for internationalisation

| support through:   | Barriers    |                             |   |                 |                                      |
|--|-------------|-----------------------------|---|-----------------|--------------------------------------|
|  | Investments | Finding potential customers | Access to strategic information about foreign markets | Working capital | Qualified internationalisation staff |
| OPIC - Activities for Development of Managerial Capacity and Growth of SMEs  | No          | Yes*                        | No  | No              | No                                   |
| OPIC - Activities to increase the production capacity of SMEs  | No          | Yes*                        | No  | No              | No                                   |
| OPIC - Development of Clusters in Bulgaria   | No          | Yes                         | Yes   | No              | No                                   |
| OPIC - Ensuring the participation of trade missions abroad, business meetings, business forums, contact exchanges with foreign companies in Bulgaria | No          | Yes**                       | No  | No              | No                                   |
| OPIC - Providing support for   | No          | Yes***                      | No  | No              | No                                   |

|   |         |    |     |    |     |
|---|---------|----|-----|----|-----|
| participation in international trade fairs and conferences abroad and Bulgaria                                |         |    |     |    |     |
| OPIC - Digital Platform for Internationalisation  | Yes     | No | Yes | No | Yes |
| OP SMEs Initiative - providing debt financing with preferential interest rates; guarantees for debt financing | Yes**** | No | No  | No | No  |

\*not applicable to start-ups that are on the market for less than 3 financial years

\*\*only if the company has a high export potential, well-established on the market, with well-developed export positions and seeking opportunities to expand its exports by entering new markets;

\*\*\*priority is given to companies carrying out export activities on at least two foreign markets;

\*\*\*\*financing and guaranteeing investment costs for the implementation of activities under OPIC projects.

It is noteworthy that none of the current instruments under consideration suggests any measures to increase the qualifications of staff to acquire specific knowledge and skills to develop internationalisation.

Contrary to expectations, this kind of support is not intended to be provided also under OP Human Resources Development 2014 - 2020, as the procedures announced so far are mainly aimed at providing training in professions and key competences (digital and language skills) and employment of long-term unemployed ("Flexible employment opportunities and training in enterprises with variable activity intensity"), inclusion in training to acquire or enhance professional qualifications and / or to acquire key competencies 2 "Communication in foreign languages" or 4 key competence "Digital competence" of employees under labor contract with medium or low level of education ("Vouchers for employees").

The shortage of working capital is a major obstacle to the development of the internationalisation of micro-enterprises, for which there are also no measures envisaged in the OPIC.

Opportunities for identifying potential clients through participation in international events at home and abroad for SMEs in the phase of exploration or early stage of internationalisation as well as start-ups are limited because of the inability to meet the eligibility requirements of the current schemes.

In addition, companies that are not beneficiaries of OPIC have difficulties in securing debt financing of investment costs under OP SMEs Initiative.

Another policy instrument for promoting innovation and development of local SMEs is provided in the main local strategy document **Municipal Development Plan of the Municipality of Varna 2014-2020 (MDP)**. The MDP includes a number of measures to support business development, and in particular the internationalisation of SMEs. It is of utmost importance to create a municipal start-up and venture capital fund to support start-up innovative SMEs, and this fund has not yet been set up.

It could be concluded that the available public support measures for internationalisation are

mainly targeted at SMEs with already developed export potential. There are no such measures to offer support to raise staff qualifications to acquire specific knowledge and skills to develop internationalisation and to address the problem of lack of working capital which are among the main internal barriers identified by the regional SMEs surveyed. Measures that offer opportunities for regional start-ups as well as micro- and small-scale start-ups - exploration or development to overcome external and internal barriers to internationalisation are assessed as insufficient.

## VII. SWOT ANALYSIS

In order to assess the state of internationalisation in NER, a SWOT analysis has been made. This analysis allows the interaction and influence between various factors, connected with the behavior of the system to be taken into account.

For the purpose of the survey, the strengths and weaknesses of the companies and then the strengths and weaknesses of the organizations and support measures, were analyzed. The impact of elements of the external environment - opportunities and threats has been considered for all participants in order to avoid repetition.

| STRENGTHS   | WEAKNESS  |
|---|---|
| <p><b>1) SMEs:</b></p> <ul style="list-style-type: none"> <li>- availability of qualified staff;</li> <li>- production of high quality products/ services;</li> <li>- conducting effective marketing;</li> <li>- wide range of products/ services;</li> <li>- presence and usage of new technologies;</li> <li>- existence of an internationalisation strategy;</li> <li>- experience in international markets;</li> <li>- high level of technological readiness of the main products;</li> <li>- desire to access new, faster-growing markets;</li> <li>- desire to access new technologies and know-how;</li> <li>- availability of own website;</li> <li>- experience with Structural Funds support;</li> <li>- cooperation with commerce, branch organizations and business support organizations.</li> </ul>   | <p><b>1) SMEs:</b></p> <ul style="list-style-type: none"> <li>- survival oriented management. Shortage of time to develop internationalisation activities;</li> <li>- lack of qualified staff on internationalisation;</li> <li>- low level of internationalisation;</li> <li>- Insufficient use of alternative forms of international activity;</li> <li>- insufficient investment and working capital. Low usage of venture capital and other forms of funding;</li> <li>- low level of cooperation with financial institutions, universities and public administration;</li> <li>- difficulties with finding potential customers;</li> <li>- lack of knowledge of European support programs for internationalization and European support instruments;</li> <li>- Insufficient staff training.</li> </ul>  |
| <p><b>2) Organizations and institutions:</b></p> <ul style="list-style-type: none"> <li>- good territorial coverage at local, regional and national level;</li> <li>- availability of skilled staff focused on internationalisation and strategies for entering new markets, export-oriented courses and export forums;</li> <li>- developing support activities for start-ups, innovation, technology transfer and know-how;</li> <li>- supporting different models of internationalization;</li> <li>- providing support for participation in international exhibitions and fairs;</li> <li>- providing information services for partner search, administrative regulations, and organizing international events;</li> <li>- a good level of cooperation between industry, trade chambers and business support organizations with regional SMEs;</li> <li>- providing high-quality internationalization services;</li> <li>- offering one-stop services;</li> <li>- offering networking opportunities;</li> </ul> | <p><b>2) Organizations and institutions:</b></p> <ul style="list-style-type: none"> <li>- Inefficient information campaigns to promote various EU schemes and tools to support internationalisation.</li> <li>- small share of specialized internationalisation activities;</li> <li>- lack of opportunities to expand the range of services offered by the branch organizations;</li> <li>- shortage of qualified experts in the state administration,</li> <li>- Insufficient cooperation between institutions (public and private);</li> <li>- weak support or lack of support from the state administration;</li> <li>- lack of funding for business support organizations to provide consultancy support and training, with priority to micro and small enterprises in the start-up or initial phase of internationalisation development.</li> </ul> |

|   |  |
|---|--|
| <ul style="list-style-type: none"> <li>- participation in European programs to improve the level of internationalization of business</li> </ul>   |  |
| <p><b>3) Measures for support:</b></p> <ul style="list-style-type: none"> <li>- improved conditions for obtaining debt financing;</li> <li>- ability for partners search abroad and distribution channels;</li> <li>- networking opportunities, B2B meetings, fairs and exhibitions in other countries;</li> <li>- opportunity to provide consultations, supporting market researches;</li> <li>- providing services through incubators, technology centers and technology parks;</li> <li>- opportunity to develop the management capacity and growth of SMEs;</li> <li>- increasing range of electronic services and a specialized digital platform.</li> </ul>                                 | <p><b>3) Measures for support:</b></p> <ul style="list-style-type: none"> <li>- lack of funding from the structural funds for BSOs to provide specialized internationalisation services.</li> <li>- lack of support measures to increase the skills of staff to acquire specific knowledge and skills;</li> <li>- lack of support measures to overcome the problem of working capital to develop internationalisation;</li> <li>- insufficient support measures for start-ups;</li> <li>- insufficient measures to support micro and small businesses that are in early stage of development or a phase of an internationalisation study;</li> <li>- Insufficient measures to develop different forms of international SME activity</li> </ul> |
| <p><b>OPPORTUNITIES</b></p>   | <p><b>THREATS</b></p>  |
| <ul style="list-style-type: none"> <li>- Using the potential and territorial coverage of commerce, industry and other BSOs to provide specialized services to overcome barriers to internationalization.</li> <li>- expanding the scope of public support;</li> <li>- awareness raising of SMEs for opportunities offered for support on European level;</li> <li>- offering integrated services to support one-stop-shop for internationalisation;</li> <li>- improving cooperation between private and public sector institutions in supporting SMEs;</li> <li>- improving the digitalisation of companies in the region;</li> <li>- creating a local fund for innovative start-ups.</li> </ul> | <ul style="list-style-type: none"> <li>- aging population, emigration of young and skilled people, increasing the shortage of people with vocational qualifications and skills.</li> <li>- insufficient funding from the state, the regional government and the municipalities;</li> <li>- fast and successful development of other countries and regions - our competitors.</li> </ul>  |

## VIII. MAIN CONCLUSIONS AND RECOMMENDATIONS

The study has shown that NER needs to look for new sources for growth. The most developed sectors are services followed by industry, with key sectors - trade and tourism, as the most innovative ones are the maritime, agriculture, transport, tourism, ICT and chemical industries.

The most important barriers for innovation are lack of funding and information. In order to be achieved economic growth, the most important barrier is the internationalisation of Bulgarian SMEs. Nowadays, internationalisation is a complex set of activities - along with traditional imports and exports, it includes all activities that place SMEs in significant business relationships with a foreign partner: export, import, foreign subcontractors and international technological partnership.

The promotion of innovation and internationalisation of Bulgarian enterprises is done through different national policies, which use a variety of instruments. The main national policy instrument for the promotion of innovation is OPIC, supplemented by the OP SMEs Initiative. On the other hand, on local level the Municipal Development Plan of Varna 2014-2020 – is adopted, the main strategic document for the socio-economic policy of the Municipality, which sets medium-term goals and priorities for integrated and sustainable local development.

As a result of the conducted surveys under the INTRA project, the specific external and internal barriers for emergence and development of SMEs on the global market are identified. The main ones are: difficulties in finding potential customers, need for investment and transparent internationalisation schemes; access to strategic market information. To address these challenges, SMEs typically lack the necessary working capital, managerial time as well as qualified staff and opportunities to reach adequate production capacity.

Successful support for internationalisation depends mainly on capacity building within SMEs, support for partner search and participation in international events, access to training and consultancy services play also a major role.

Business support organizations are the most trusted among businesses, thanks to the high quality support services provided by them as well as fast service and ability to use a one-stop-shop approach and networking.

The available public support measures for internationalisation are mainly aimed at small and medium-sized enterprises already experienced in export activities and up to now do not offer support for raising the skills of staff to acquire specific knowledge and skills to develop internationalisation. Moreover, they do not address the problem of lack of working capital, which is one of the main internal barriers identified by the regional SMEs during the survey. Regional start-ups as well as micro- and small-scale enterprises that are in the process of exploring or developing their international activities have limited opportunities to overcome



these external and internal barriers to internationalisation through available policy instruments.

Because of this, the future efforts should be directed to widening the scope of public support through:

- Awareness raising activities on various business support options - not only through operational programs and national funds, but also through different European initiatives and instruments;
- Activities to enhance the on-line presence of SMEs and stimulate the digitalization of business;
- Opportunities to increase the qualification of the staff in the field of internationalisation of the business;
- Launching of measures for funding of business support organizations (branch chambers, non-profit organizations, etc.) to provide tailored consulting and training to SMEs for the development of internationalisation;
- Development of measures to support not only the export activity of the companies, but also the other models of internationalisation;
- Launching of a municipal fund to finance innovative Start-ups.

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