

Meeting on "How to absorb the EU funds"; BCCI, 21 Nov. 2006

Prospects and opportunities for financial support through the EU funds after 1st Jan. 2007

Speaking points

Dear ladies and gentlemen,

Thank you very much for inviting me as a speaker at today's Euroclub meeting, dedicated to such an important and topical issue of "absorption of EU funding". My intervention will address more specifically the "prospects and opportunities for financial support through the EU funds after 1st January 2007", by focusing on the main challenges Bulgaria would face in its successful implementation of the EU Funds.

As Bulgaria becomes an EU member state on 1 January 2007, the country is set to benefit from the resources from the European Union's Structural Funds. Within the 2007-2013 Financial Perspective the funds indicatively committed to Bulgaria amount to €6.853 billion.

Within the framework of the preparation of Bulgaria for the better use of the Structural Funds the Bulgarian Government has produced several Programming Documents addressing priorities for development for the country as a whole and for the development of each sector in particular. The main document which highlights these priorities is the National Strategic Reference Framework which has been prepared for the period 2007-2013. The main vision of this document is that *by 2013 Bulgaria should become a competitive EU country with a high quality of life, incomes and social awareness*. The strategic goals put forth for the achievement of this vision are (a) to strengthen the competitiveness of the economy so as to achieve high and sustainable growth and (b) to develop human capital so as to ensure higher employment, income and social integration.

The European Commission considers that the above stated goals are relevant to Bulgaria's current situation and direction for the future, especially under the light of its being a member state of the European Union. Furthermore, Commission is of the firm opinion that the priorities addressed are in line with the framework for the European cohesion policy 2007-2013 which sets out 3 main objectives: convergence, regional competitiveness and employment and European territorial cooperation. In line with the (renewed) Lisbon Agenda, cohesion policy should seek to target resources on the following three priorities:

1. Improving the **attractiveness of member States, regions and cities** by improving accessibility, ensuring adequate quality and level of services, and preserving their environmental potential.
2. Encouraging **innovation, entrepreneurship and the growth of the knowledge economy** by research and innovation capacities, including new information and communication technologies.

3. Creating **more and better jobs** by attracting more people into employment or entrepreneurial activity, improving adaptability of workers and enterprises and increasing investment in human capital.

On this general level the objectives of Bulgaria for the efficient use of Structural Funds are in line with these three priorities. An important objective as stipulated in the relevant Programming Document is to improve the attractiveness of Bulgaria while another important priority is the improvement of basic infrastructure (transport) aimed at better accessibility. Innovation and knowledge economy are important themes within the priority of fostering entrepreneurship, favourable business environment and good governance. The priority of improving human capital is coherent with the community objective of creating more and better jobs. Furthermore, although there is no separate priority on information society, it is a prevalent objective in the existing priorities.

Referring to the specific priority aiming the **fostering of the Bulgarian entrepreneurship and of the favourable business environment and good governance** I consider that this priority addresses successfully both objectives and envisaged activities; thus the relevant Programming Document called Operational Programme for Competitiveness of Bulgarian Economy gives a clear picture of what is pursued and how it will be achieved.

More specifically, concerning **business, innovation and SMEs**, the combined approach of supporting innovation and Information Communication and Technology assimilation, improving management and production processes and enhancing investment opportunities could be considered as effective and well designed.

The business environment has been steadily improving in Bulgaria and significant efforts have been made towards making the institutional and legal framework, in which firms operate, more simple and efficient. Nevertheless, there are still certain issues hampering further development the most important of which are:

- Overregulation, especially in comparison to the other EU member states.
- Time-consuming and costly requirements for starting businesses and obtaining the necessary licences.
- High minimum capital requirements for start-ups.
- Lengthy and complicated legal procedures for exit from the market and for contract enforcement.
- Underdeveloped networks of business information and consultancy services.

The role of the SMEs in the Bulgarian economy is of an increasing importance. Both in terms of employment and value added, SMEs have exhibited remarkable growth. In the non-financial sector, the SMEs' share of employment reached 79 % in 2003 and the Gross Value Added was 61.3 %. The rate of increase of value added for SMEs is more than double of the rate of increase for the whole economy.

Nevertheless, despite the growth in value added, SMEs have low productivity of labour. SMEs produce, on average, ¼ value-added per employed person compared to large enterprises in Bulgaria. The main reason for the observed low productivity of labour is poor integration of new, high-tech technology in production among the

SMEs, coupled with insufficient knowledge of modern technology, management and production techniques on behalf of the employees.

There are several aspects of SME development and growth that are tackled in the analysis and a number of problems are identified, the most prevalent of which are the following:

- *Limited access to financing for start-ups.* Despite considerable growth of credit availability to SMEs from banks in the last few years, entrepreneurs face difficulties in getting loans for starting up a new business. In addition, alternative sources of financing (such as a national guarantee fund) are not yet well developed.
- *Inefficiencies in administrative, regulatory and support systems.* There is significant regulatory burden on SMEs in Bulgaria: lengthy and bureaucratic procedures for start-ups, large number of permits and licenses for transactions, frequent changes in regulations, etc. In addition, the institutional infrastructure for assisting SMEs (state agencies for SMEs, business centres, NGOs, etc.) has not been sufficiently developed.
- *Lack of entrepreneurial skills.* Bulgarian enterprises are lagging behind in skills and practices related to strategic planning, management, marketing, staff qualification, etc. In addition, there is limited offer of business consulting services, especially at regional level.
- *Insufficient preparation for joining the Common European Market.* Very few SMEs have sought certification for quality of production systems, management systems, or environmental procedures.

Improvement of the **state administration** at all levels is a crucial factor not only for enhancing good governance and facilitating economic growth, but also for the successful implementation of SF assistance. The proposed policies and planned activities are well clarified and outlined. It is necessary not only to improve the qualifications of the civil servants but also to provide suitable financial and other incentives for them not to leave the public sector, as the Operational Programme Administrative Capacity will aim to ensure.

Finally, significant reforms in the various state administration structures are being designed and implemented in Bulgaria, focusing on improving the effectiveness of the judiciary system, combating corruption, speeding up the introduction of e-government services and improving the quality and efficiency of civil servants. However, these reforms are to be completed and considerable efforts need to be made, especially in view of the successful management of the Structural Funds. With the good record Bulgaria has so far in the process of implementation of reforms I am convinced that this will be the case and the country will be able to fully benefit from the Structural Funds perspectives.

Dear ladies and gentlemen,

Thank you for your attention.