

SUPPORT OF THE INTERNATIONAL DEVELOPMENT OF THE SMALL AND MEDIUM ENTERPRISES IN BULGARIA

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ABSTRACT

The importance of the Small and Medium Enterprises (SMEs) for the Bulgarian economy is growing steadily. The small entrepreneurship is a necessary element of the market economy, allowing solving important socio-economic tasks. This is confirmed by the experience of developed countries, where small business is an important factor in the development of national economies. It constitutes the main generator of the innovation process in the industry, the dynamic response of the change in the structure of consumption. SMEs intensify structural changes in industries overcome monopoly in the economy affect the structure of prices, etc. No small business economy cannot function effectively or to develop. Moreover, there is a clear correlation between the efficiency of the economy, the level of social welfare and the level of development of small business.

For Bulgarian SMEs, markets outside the country are becoming more attractive because of the low and stagnant domestic market. They focus their efforts abroad, but a number of their characteristics (size and limited resources, insufficient staff expertise and organizational structures for fully independent functioning abroad), require that they receive support from the state.

The aim of this paper is to present the efforts of the Bulgarian government to support SMEs in internationalization.

Realizing the potential of internationalization is associated with the development of appropriate government policies, creating incentives and facilities (manufacturing, banking, tax and export) for Bulgarian SMEs. By promoting the development of SMEs is possible to attract foreign investment and increase the amount of exports.

Important role in the implementation of support for SMEs play The Bulgarian Small and Medium Enterprises Promotion Agency (BSMEPA). It was established in 2004 with the Ministry of Economy and Energy of Republic of Bulgaria. BSMEPA is a Government institution and its main functions are focused on the implementation of the Bulgarian Government's policy for SMEs.). In this respect the Agency provides to Bulgarian SMEs information and consulting services, organizes training courses and implements promotion activities in supporting the increase of SMEs competitiveness and strengthening their international positions. One of the basic arms of BSMEPA is to promotion of the internationalization of the Bulgarian SMEs.

Key words: Small and Medium Enterprises, international development, government support, The Bulgarian Small and Medium Enterprises Promotion Agency

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The importance of the Small and Medium Enterprises (SMEs) for the Bulgarian economy is growing steadily. The small entrepreneurship is a necessary element of the market economy, allowing solving important socio-economic tasks. This is confirmed by the experience of developed countries, where small business is an important factor in the development of national economies. It constitutes the main generator of the innovation process in the industry, the dynamic response of the change in the structure of consumption. SMEs intensify structural changes in industries overcome monopoly in the economy affect the structure of prices, etc. No small business economy cannot function effectively or to develop. Moreover, there is a clear correlation between the efficiency of the economy, the level of social welfare and the level of development of small business.

For Bulgarian SMEs, markets outside the country are becoming more attractive because of the low and stagnant domestic market. They focus their efforts abroad, but a number of their characteristics (size and limited resources, insufficient staff expertise and organizational structures for fully independent functioning abroad), require that they receive support from the state.

The aim of this paper is to present the efforts of the Bulgarian government to support SMEs in internationalization.

Bulgarian SMEs *are still suffering from the consequences of the crisis*, to different degrees depending on their sector of activity. As of November 2012, 45 % of people who lost their job came from the private sector, where three quarters of job losses were concentrated in SMEs. Looking at the different sectors, construction and real estate have been hit hard by the burst of the speculative bubble, while there are worrying trends in the wholesale and retail trade sector, where the majority of Bulgarian SMEs are concentrated. Bulgaria made some general progress in improving the business environment in such areas as entrepreneurship, public procurement and skills & innovation, where some broad initiatives were taken, such as overhauling the procedures for the award of public contracts and addressing the innovation gap of the SME sector. However, the main policy challenges for the country have remained broadly unchanged. In spite of this progress, Bulgarian SMEs are still suffering from limited internationalization and access to finance, which hamper the prospects for growth and recovery from the economic crisis. SMEs would benefit from improvements in tax administration, the streamlining of insolvency procedures and contract enforcement, and full implementation of the Point of Single Contact and e-government solutions¹⁵¹.

Table 1 shows the parallel between the state of the SME sector in the European Union (EU) and Bulgaria.

¹⁵¹ See: http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/countries-sheets/2013/bulgaria_en.pdf.

Table 1. Parallel between the state of the SME sector in the European Union (EU) and Bulgaria¹⁵²

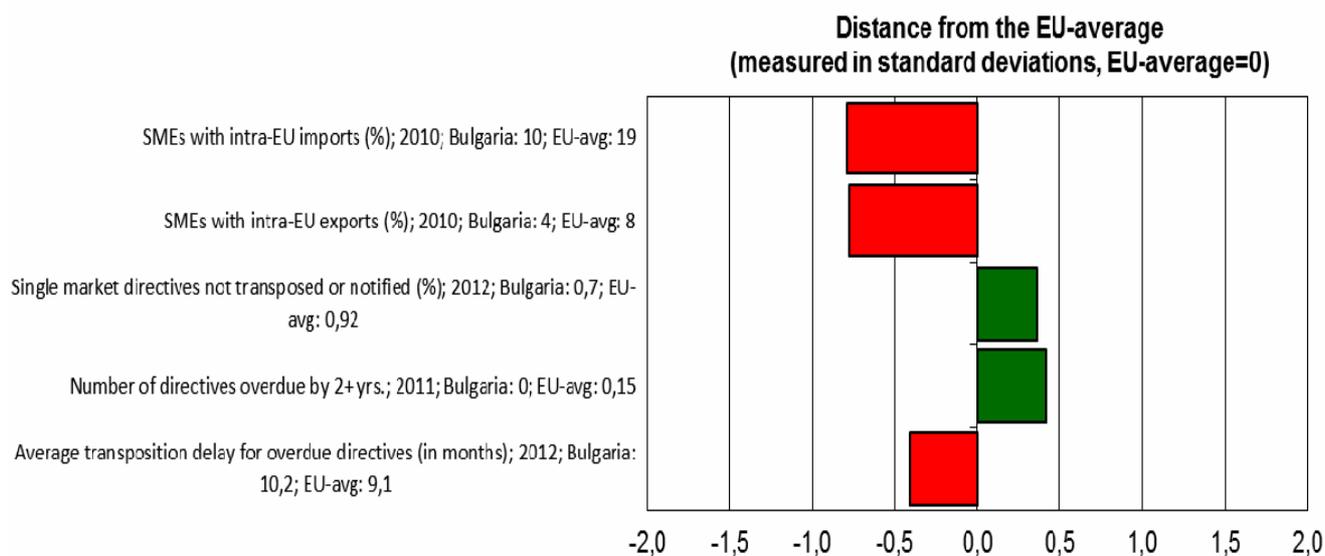
	Number of enterprises			Number of employees			Value added		
	Bulgaria		EU27	Bulgaria		EU27	Bulgaria		EU27
	Number	Share	Share	Number	Share	Share	Billion €	Share	Share
Micro	252,137	90.0%	92.1%	532,880	28.9%	28.7%	3	16.9%	21.1%
Small	22,871	8.2%	6.6%	447,581	24.3%	20.4%	3	20.8%	18.3%
Medium-sized	4,325	1.5%	1.1%	412,065	22.3%	17.3%	4	24.9%	18.3%
SMEs	279,332	99.8%	99.8%	1,392,527	75.5%	66.5%	10	62.6%	57.6%
Large	676	0.2%	0.2%	451,752	24.5%	33.5%	6	37.4%	42.4%
Total	280,008	100.0%	100.0%	1,844,279	100.0%	100.0%	16	100.0%	100.0%

The table show, that The Bulgarian SME sector is more or less similar to the European average in terms of the breakdown among business size-classes. However, **the contribution of SMEs in creating value added and especially in providing jobs exceeds the EU average.** In fact, the share of SMEs, compared to Large Enterprises (LEs), in value added and employment in almost all sectors is higher than the EU average. But one consequence of the large number of individuals employed by SMEs is that labour productivity is below the EU average, because of the lower capacity to benefit from economies of scale, especially in low-value sectors.

Bulgarian SMEs do not generally tend to internationalize and Bulgarian LEs that do are more likely to target non-EU neighbouring countries such as the western Balkans and Turkey rather than the EU. This is because *Bulgarian companies have a better knowledge of these markets and face less competition there from multinationals.* In general, however, Bulgarian SMEs, especially start-ups, *mainly rely on the dynamics of their domestic market.* Because of this dependency, **Bulgarian SMEs receive no additional opportunities from either European or foreign demand, due to the currently unsatisfactory economic climate.**

Bulgarian SMEs do not use all the possibilities available to them by Single market (see fig. 1).

¹⁵² These are estimates for 2012 produced by London Economics, based on 2008-12 figures from the Structural Business Statistics Database (Eurostat). The data cover the 'business economy', which includes industry, construction, trade, and services, but not enterprises in agriculture, forestry and fisheries and the largely non-market service sectors such as education and health. (source: http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/countries-sheets/2013/bulgaria_en.pdf).



Note: Data bars pointing right show stronger than EU-average performance and data bars pointing left show weaker performance.

Fig. 1. Parallel between the SMEs in EU and Bulgaria for use the possibilities available by Single market¹⁵³

Overall, Bulgaria's performance in this policy area is slightly below the EU average. However, groups of indicators point in different directions. On the one hand, *Bulgarian SMEs seem to be reluctant to exploit the potential of the single market*, either via imports (almost half the EU average) or exports (half the EU average). On the other hand, *Bulgaria performs well in terms of transposition of single market directives, with no directive overdue for more than two years, even if the average period by which transposition is overdue is slightly longer than the previous year.*

On the policy front, during the first half of 2013, Bulgarian legislation was amended to bring it into line with the Services Directive. Still in 2013, the Bulgarian Institute for Standardisation announced that it would develop a certification system that would help Bulgarian SMEs to ensure and prove that they comply with the requirements of standards, in order to improve their competitiveness within the single market.

In the area of internationalization parallel between the SMEs in EU and Bulgaria show, that *Bulgaria's performances is consistently and significantly below the EU average in this policy area (see fig. 2)*

¹⁵³ Source: http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/countries-sheets/2013/bulgaria_en.pdf.

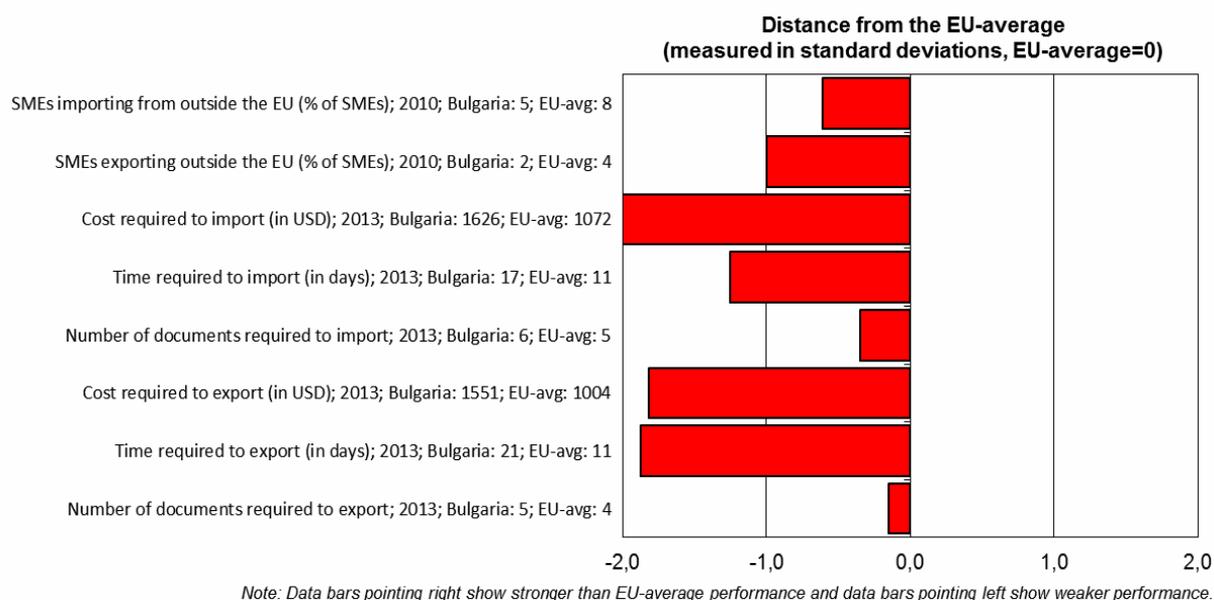


Fig. 1. Parallel between the SMEs in EU and Bulgaria in the area of internationalization¹⁵⁴

The more negative indicators concern the time and costs involved in exporting to and importing from outside the EU, in spite of the limited number of documents required. Against this background, the percentage of Bulgarian SMEs importing from (5%) or exporting to (2 %) outside the EU is not so significantly below the EU average, but there is clearly room for improvement here as there is within the single market. *On the policy front, additional efforts should be made to further reduce the time and costs involved in exporting and importing.*

Overall, up to 2012, Bulgaria exported twice as much to the EU as it did to non-EU countries, while imports decreased slightly within the single market. This was driven by a drop in imports from EU countries of about 15 %, while imports from non-EU countries increased by 10 %. In contrast, Bulgarian exports showed a more stable pattern from 2008 to 2012. Between 2008 and 2012, exports to the EU increased by just 10%, while exports to non-EU countries increased by 45%. However, about two thirds of the export volume to countries outside the EU is accounted for by LEs. On the other hand, the export volume of SMEs to EU countries grew by 20% between 2008 and 2012. In the current context, **growing exports and stable imports are welcome as they help to reach a more sustainable trade balance.**

Realizing the potential of internationalization is associated with **the development of appropriate government policies, creating incentives and facilities** (manufacturing, banking, tax and export) for Bulgarian SMEs. *By promoting the development of SMEs is possible to attract foreign investment and increase the amount of exports.*

¹⁵⁴ Op. cit.

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*General objective of this promotion is to **strengthening and expanding the presence of the Bulgarian companies at European and world markets and effective use of the advantages of the Single European market.***

It will be achieved by several activities¹⁵⁶.

*The first activity is to **Development of a National Export Internet portal**¹⁵⁷. It creates and support data base of Bulgarian companies with export potential.*

*The second activity is to create **export strategies, analysis and policies for 18 the priority economical sectors.** It increases the competitiveness of these sectors with export potential by identifying:*

- ✓ the priority export sectors and the existing opportunities, trends and perspectives for export;
- ✓ target international markets in which the Bulgarian products from the priority sectors will be competitive;
- ✓ opportunities to imposing competitive Bulgarian products on the target markets.

*The third activity is to create **seminars and training courses for SMEs.** It increases the knowledge and capacity of the Bulgarian companies to export on international markets.*

*The fourth activity is to provide **information/consultancy services for SMEs.** It gives on SMEs specific marketing and analytical information.*

*The fifth activity is to create **Trade missions and Forums in Bulgaria and abroad.** Envisaged that will be creating: 32 Trade missions in EU member states, 28 Trade missions in third countries and 12 international Forums in Bulgaria.*

¹⁵⁵ For more details see: <http://www.sme.government.bg/en/>.

¹⁵⁶ For more details see: http://www.sme.government.bg/uploads/2013/01/project_info_bg_2012.pdf.

¹⁵⁷ See: <http://export.government.bg>.

The sixth activity is related with **advertising and publishing activities**. The aim is creation and distribution of informational and promotion materials and industries' brochures, analysis and catalogues for promotion the Bulgarian sectors and products abroad.

In conclusion we can say that the implementation of these activities give important tool that can to support the introduction and successful positioning of Bulgarian SMEs in foreign markets. Encourage of the SMEs to benefit from the growth of markets, especially outside the EU, must also be focused on alleviating the conditions for foreign trade, providing the ability to access these markets, offering assistance in training and development activities of SMEs in foreign markets.

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