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CLUSTER DEVELOPMENT IN THE REPUBLIC OF BULGARIA

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Abstract: *The business environment presents a number of challenges for the modern enterprises: unfolding of crisis processes, accelerated internationalization of business, intensified competition, fast changes in consumer tastes and needs, development of knowledge economy etc. This, on its part, turns clusters into a suitable organizational body which can be used to stimulate innovation and cooperation between partners and improves their competitiveness. The implementation of the public-private partnership observes the principles of openness, transparency, free and open competition, prevention of discrimination, fairness and proportionality, which fully correspond with the key idea of establishing cluster formations in the country.*

Keywords: *cluster, innovation, cooperation, competitiveness.*

1. Introduction

The aim of this paper is to discover the framework of cluster development in the Republic of Bulgaria. **Clusters** are *groups of entities* that can include: legal entities or sole traders, registered under the Commercial Law or the Law on Cooperatives; not for profit legal entities, incorporated under the Law on Non-Profit Legal Entities; Bulgarian higher education institutions; vocational schools and vocational high schools under article 26 of the Law on Education; Bulgarian Academy of Sciences and its institutions and departments; Academy of Agricultural Sciences and its associated institutions; experimental laboratories, research institutes; scientific organizations, municipalities and/or regional administration.

2. Characteristics of clusters in the Republic of Bulgaria

The Public-Private Partnership Act (PPP) considerably facilitates the establishment and successful development of clusters in the Republic of Bulgaria. Under article 3. (1) the Public-private partnership constitutes a long-term contractual cooperation

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between one or more public partners, on the one hand and one or more private partners, on the other, aiming to conduct an activity which is of public interest in order to achieve higher value of the used public funds and risk allocation between partners, all of which is carried out under the terms and conditions of this act. With respect to this, an essential goal of the National programme for public-private partnership is the establishment of competitive clusters and business networks which stimulate cooperation between the participants in the respective clusters and accelerates innovation and investment.

Educational institutions can also significantly facilitate the establishment of clusters through training staff who have the expertise and skills which match the needs of the business. In this connection legal initiatives should be initiated to strengthen the cooperation between the educational institutions and the clusters in order to improve the quality of the education and qualification acquired and guarantee their practice-oriented focus.

"The Europe 2020 strategy is about delivering growth that is: smart, through more effective investments in education, research and innovation; sustainable, thanks to a decisive move towards a low-carbon economy; and inclusive, with a strong emphasis on job creation and poverty reduction." (Georgieva, S., p. 893) A primary goal of the *National regional development strategy of Republic of Bulgaria 2012 – 2022* is to guarantee sustainable and balanced development of the regions in the country. (National strategy for regional development of Republic of Bulgaria 2012 - 2022) One of the key priorities for achieving this goal is related to improving regional competitiveness based on knowledge economy. In this context primary importance is attached to the aim of increasing investment and innovation regionally and actively introducing information and communication technology in manufacturing and public sectors. One adequate step towards this goal is the creation of business networks and regional and transnational clusters. Unfortunately, so far this process can be rated as insufficiently developed in the context of the sustainable development of the regions in the country. "EU innovation research projects define Bulgaria as one of "the catching-up countries" in innovation activities. It has been found that regions lag behind in their economic development and more diverse and wide-range priority axis should be included in more operational programmes aiming to establish and support the development of innovative clusters and structures in the regions." (National strategy for regional development of Republic of Bulgaria 2012 - 2022, p. 51) This alternative is outlined in the strategy on the basis of the SWOT analysis carried out in the regions. To achieve specific goal 3 special attention has been devoted to the introduction of energy-saving technologies and renewable energy sources as key aspects of competitiveness and a targeted support subject as well as stimulating cooperation and cluster formation. (See *Specific goal 3* in the source quoted above: Improving region competitiveness through developing new business models for SME, introducing new technology and innovation in SME in underdeveloped rural areas and regions with targeted support. /pp. 119 – 120) To achieve its goals it is necessary that several strategic documents be used in the management process: The 2020 National Scientific Research Strategy; National Strategy for encouraging small and medium-sized enterprises in Bulgaria (2007 – 2013); National Strategy for promoting the production of organic fruit and vegetables in Bulgaria; National Fisheries and Aquaculture programme (2007 – 2013); National Energy Strategy 2020 and the National Environmental Strategy (2005 – 2014). "In Bulgaria, the cluster structures in different sectors of the economy have legitimized their coordination units and have stated that innovation, technology and know-how transfers are among their

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main functions. Innovation strategies based on inter-regional and transnational cooperation are also essential and comply with the priorities of the National Strategy for promoting cluster development between 2007 – 2013.” (See the source quoted above, p. 169.) The National Strategy for Regional Development of Republic of Bulgaria 2012 – 2022 sets forth guidelines for developing regional plans for development for the period 2014 – 2020, related to the construction of modern business infrastructure. It predetermines the establishment of innovative and adapted “clusters”, business networks and industrial/business areas. Along with that, it is necessary to promote investments and stimulate public-private partnerships as a precondition to fulfill investment projects and also to secure investments in production and services with higher added value.

Another important aspect of the National Regional Development Strategy in the Republic of Bulgaria 2012 – 2022 provides for establishing knowledge economy: improving the rate and sustainability of the economic development in the region, achieving quality characteristics of economic dynamics, improving the investment attractiveness of the region. To achieve this goal adequate business infrastructure should be built to stimulate investment and technological renovation as well as building and renovating growth areas (business, industrial, transport and logistic centres and incubators) and to establish cluster units. There are plans to establish innovation centres in Rousse, Veliko Turnovo and Gabrovo.

Proactive measures are being planned to encourage the development of the regions:

- ❖ Regarding the economic environment in the South-east region: Development of diversified economy capable to improve flexibility and adaptability of local economy in relation to the ongoing processes in the global economy. Promotion and development of SME, clusters and business networks, which will have impact on competitiveness and the improvement of the efficiency of local companies will speed up the rate of technological renovation and innovation and stimulate the creation of new business activities.
- ❖ Regarding the South central region: Establishing clusters and developing and implementing innovation and technological development of the means of production. Creation and absorption of innovation and broad implementation of information and communication technology both in the manufacturing and the public sector. Improving access to and building regional and local business infrastructure – establishing new and developing existing business, industrial and technological parks in big industrial centres: Plovdiv, Dimitrovgrad, Kurdzali, Pazardzik, Panagyurishte, Haskovo, Rakovski etc.

Operational Programme "Development of the Competitiveness of the Bulgarian Economy 2007 - 2013" pays special attention to the development of clusters under priority axis 2: “Improving efficiency of enterprises and creating favourable business environment”, Area of impact 2.4: “Promoting business cooperation and clusters”, Operation 2.4.1: “Promoting business cooperation and clusters”. Under the operational programme the establishment and development of clusters in Bulgaria is defined as a factor which strengthens the competitiveness of Bulgarian enterprises through providing support for setting up and enhancing the administrative and managerial capacity of the cluster, development of products and services, broadening the market positions, attracting new

cluster members as well as stimulating investment in modern technologies and equipment for joint cluster activities.

The main goal of the “*Support for the development of clusters in Bulgaria*” scheme under Operational programme “Competitiveness” is to contribute to the establishment and development of clusters in Bulgaria through providing support for setting up and strengthening the administrative and management capacity of the cluster, development of products and services, expanding market positions, attracting new members to the cluster as well as stimulating investment in modern technologies and equipment for joint cluster activities.

The minimum amount of any grant that can be extended for a given project is BGN 100 000, while the maximum amount is BGN 2 mln. Over the past years under the scheme the following projects have been approved: “Improving competitiveness and stimulating sustainable development of the “Renewable energy sources cluster””, “Strengthening the administrative body and promoting Srednogorie med industrial cluster”, “Sustainable and competitive development of photo style cluster” and “Establishing the “Green cargo transport” cluster as a determinant for the development of international transport in Bulgaria”. The projects will be granted BGN 782 505.63 (€400 088.78). The total amount of financial grants under the procedure amounts to BGD 29 337 450. The following activities qualify for funding under the scheme under consideration. (Enterprise Europe Network)

Under Component 1 “Setting up and supporting the administrative body of the cluster”:

- Generation and provision of resources for the activity of the management and administrative body of the cluster – securing the personnel needed to manage and coordinate the cluster activities: resource provisions for the management and administrative body of the cluster – providing the necessary supplies for the working premises of the administrative body of the cluster;
- Activities related to enhancing the management capacity and coordination of the cluster – participation in seminars, trainings, conferences, information events, sharing experience, good practices and others for the tenure workforce involved in the cluster management and coordination.
- Consultation services directed at preparing project proposals under the current procedure, but not more than BGN 10 000.
- Project visualization – not more than BGN 5 000.
- Project audit – not more than BGN 20 000.

The subsidy amounts to 85% during the first year and 75% during the second.

Under *Component 2* “Short-term projects with immediate results and activities directed at attracting new members of the cluster”:

- Organizing and conducting events to promote the cluster directed at enlarging and developing its activity as well as attracting new clients and new members of the cluster:
- Creating internet and intranet web pages for the needs of the cluster.

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- Conducting market research, domestic and foreign target market analysis, developing a marketing strategy, investment strategy, general strategy for cluster development in case the cluster has not already got a developed one;
- Promoting the name (brand) of the cluster – designing and printing brochures and information materials to promote the cluster activity;
- Participation of the cluster in national and international exhibitions and fairs;
- Activities directed at cluster members connected in a network, including the establishment of trans-national cluster connections to stimulate cooperation with other clusters;
- Activities directed at supporting the development of the cluster and attracting new members: - Activities to promote cluster marketing and enlarging the cluster membership: - Other marketing activities, activities to attract new members etc., included in the marketing strategy and/or the general strategy for cluster development.

The subsidy amounts to 65%.

Under *Component 3* “Investment component”:

- Acquiring fixed tangible assets for joint cluster activity – purchasing equipment for lecture halls, training centres, experimental laboratories, production centres etc. where resources can be used by all cluster members and are run by the cluster organization;
- Acquiring intangible assets for joint cluster activities – software applications, patent rights, licences, “know-how” or unpatented technical expertise etc., which are classified as intangible fixed assets;
- Carrying out construction work to improve the functional characteristics of existing buildings and facilities – owned by the cluster or a cluster member when it is important and necessary for the exploitation of fixed tangible assets (up to 20% of the total recognized expenditure under Component 3).
- Contribution in kind including renting out property or part of it in order to accomplish the project goals (up to 20% of the total recognizable expenditure under Component 3).

The subsidy amounts to 50%.

Unfortunately over the past years the number of clusters established with European funds was relatively small. Merely 14 clusters were established during the past years: “Electric vehicles industrial cluster”, “Culinary arts and hospitality” in Dobrich, “Green energy” and “Veterinary e-practice” in Plovdiv, “Inter fashion trading” in Kyustendil, “Marine cluster” and “Black Sea Energy Cluster” in Varna. The biggest number of registered clusters is in Sofia – “Metaloleene”, “Health tourism”, “Dignified tourism”, “Innovation and ecological technologies – green construction and Renewable energy sources”. The so called agricultural

clusters are not included in the European funding scheme. In this regard it should be pointed out that the Rural Development Programme does not finance their activity.

The cluster management is coordinated by “cluster councils”, whose activity is largely supported by the respective regional and branch industrial associations and chambers. (Business information and consultation centre, Clusters – forms for improving business competitiveness.)

The National Cluster Development Strategy in Bulgaria envisaged support for up to 30 cluster formation in the country which would improve the competitiveness of over 1500 firms in key subsectors in the period before 2013. The strategy has the following priorities: organizing the delivery of services for SME to help them meet the joint needs of the companies, participating in the cluster; enhancing internationalization through cluster formations as “pioneers” in the development of trade; introducing a stable regime to monitor and assess the supported/partially financed clusters; using cluster groups as a collective source of innovation and entrepreneurship; focusing on decisions related to competitiveness during the entire period by attaching further importance to topics like information technology, ecology, equality etc.; establishing national cluster management bodies, including the setting up of a group “Cluster Perspectives” to track the strategy outcomes.

The Law on Environment Protection also has impact on the possibilities for cluster development in the country. Therefore, the regional and national policies aimed at promoting the production of environmental products and services can significantly improve innovation as basis for accelerated cluster growth. One example is the inclusion of Stara Zagora region in the European network for ecology and innovation aiming to achieve sustainable and nature-friendly economy and clean nature for everyone. (Stara Zagora joined ECREIN -The European Clusters and Regions for Eco-innovation and Eco-investments Network.)

According to representatives of *the Association of Business Clusters in Bulgaria*, a cluster accreditation system should be established aiming to improve their structure and their contribution to growth promotion both nationally and regionally. When applying for European finance applicants should be in the process of being set up, newly founded or established clusters which include at least seven legal entities or sole traders.

Applicants with investment projects should be newly established or established clusters with at least 20 participants and at least one of them is a Higher Educational Institution or a vocational school (High school). Most clusters, registered under the Commercial Act, comply with the requirement for minimum number of 7 members, but most of them include neither research and non-government organizations, nor local structures which is typical of cluster formations. There are 230 clusters in Bulgaria, way too many. For example, Romania has 47 clusters, Croatia – 56. It should be borne in mind that the policy in the EU is directed at the so called “Excellence” clusters, which would in fact contribute to the development of the industry they work in as well as clustering of resources and positive results. Brussels does not target organizations, created on project principle, which according to ABC abound in Bulgaria. (Association of Business Clusters)

3. Conclusion

In conclusion it should be stated that the framework of the development of clusters in the Republic of Bulgaria facilitates significantly their establishment and development and certain changes should be made in the future in order to improve their activity aimed at encouraging innovation and cooperation between the partners in areas, which are strategic both for the country and its regional areas.

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RAZVOJ KLASTERA U BUGARSKOJ

Apstrakt: Poslovno okruženje postavlja niz izazova sa kojima se suočavaju moderne organizacije: rešavanje kriznih procesa, ubrzana internacionalizacija poslovanja, naglašena konkurencija, brze promene potrošačkih ukusa i potreba, razvoj ekonomskih znanja i dr. Ovo, zauzvrat, čini klastere odgovarajućim organizacionim telima, koja stimulišu inovativnost i saradnju između partnera i povećavaju njihovu konkurentnost. Prilikom implementacije javno-privatnog partnerstva poštuju se principi otvorenosti, transparentnosti, slobodne i fer konkurencije, prevencije diskriminacije, korektnosti i proporcionalnosti, i oni su u potpunosti u skladu sa ključnim idejama o izgradnji klaster formacija u zemlji.

Ključne reči: klaster, inovativnost, saradnja, konkurentnost.