SUMMARY PROJECT FICHE

1. Basic Information

1.1 Désirée Number: BG 0004.02

1.2 Title: INVESTMENT IN SME BUSINESS INCUBATORS IN AREAS OF INDUSTRIAL DECLINE

1.3 Sector: Economic & social cohesion

1.4 Location: North West and South Central NUTS II Regions.

2. Objectives:

2.1 Wider Objective(s):

To strengthen the small and medium sized enterprise sector in the North West and South Central regions by means of assisting entrepreneurs to set up in business and supporting existing small businesses.

2.2 Immediate Objectives:

To assist entrepreneurs, at the start up stage, to overcome premises problems and to provide additional support which will help them grow and mature.

2.3 Accession Partnership and NPAA priority

2.3.1 Accession Partnership

The priorities identified under the economic criteria in the Accession Partnership include, amongst others, “The promotion of competitiveness through market-based enterprise restructuring and taking measures to improve the business environment and stimulate domestic and inward investments”, and actions identified in the Accession Partnership under economic criteria for 2000 include the implementation of “further measures to improve the operating environment for private sector enterprises, including SMEs, and to encourage inward investment”.

This project is designed to make a contribution in terms of both the objective and action identified in the Accession Partnership.

2.3.2 NPAA

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

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Economic criteria identified within the NPAA include:

- the “promotion of flexible and viable small and medium sized businesses aimed at creating a wide basis for the economy”.
- “To push the investment activities in the direction of modernising technologies and products to ensure sustainable economic growth and reducing the level of unemployment”.
- “Stimulating the creation of new jobs through the creation of new businesses to provide self employment”.

This project will, by nature of its design, make a contribution to the objectives embedded within the above criteria.

2.4 Contribution to National Development Plan

As stated in the National Development Plan 2000-2006 “The second major priority in Bulgarian development over the 2000 to 2006 period is to raise Bulgarian business competitiveness by wholesale improvements in the business climate, utmost utilisation of existing national advantages, identifying key manufactures with good long term prospects, and improving micro level competitiveness at individual company level”.

The project will contribute strongly to the improvement of the competitiveness of those micro-enterprises which are located within the business incubators.

2.5 Contribution to the Regional Development Plans

Both regional development plans contain the following key conclusion in relation to the SME sector, “The SME sector suffers from a series of problems which in order of priority are:

1. Lack of capital
2. Ineffective public administration
3. Taxes
4. Lack of law enforcement mechanisms
5. Lack of information
6. Lack of up-to-date vocational and management know-how and experience
7. Lack of SME support programmes
8. Lack of access to new technologies”

This project is designed to: tackle the problem of lack of the shortage of suitable, affordable premises for small businesses; and, to encourage individuals in the two regions to start-up new enterprises which will grow to create new employment opportunities to replace those being lost in traditional industries being forced to restructure.
3. Description:

3.1 Background and justification

As the importance of the large State-Owned Enterprise sector continues to decline, in employment terms, it will be the SME sector which will become critical as a source of new employment opportunities in future. The SME sector in the member states, is now well established and its economic importance all too evident. In Bulgaria, the SME sector comprises of 201,674 companies employing fewer than 100 employees (in 98), employing 29.5% of employed persons and producing 48% of the national income. In Bulgaria the SME sector is underdeveloped, in comparative terms, and support is required to allow it to continue to develop.

Encouraging individuals to start-up in business is of major importance, as it ensures an inflow of new ideas and an increase in the numbers of enterprises. Barriers to enterprise formation therefore act as a brake which limits the ability of the SME sector to offer significant employment opportunities and often simply deter capable individuals from this course of action. This is the thinking which lies behind small business support programmes which are now central pillars in all regional development strategies.

For the development of the SME sector to be able to play an important role in the strengthening of the economies of the North West and South Central regions it is important that action focuses on all the barriers which stop individuals from setting up in business and which act as an impediment to the further development of those already existing small businesses. One such problem area relates to business premises. In extremis, the inability to find suitable accommodation can mean that an entrepreneur postpones his/her plans to start-up an enterprise, more commonly, small businesses are created and operate in unsuitable premises which push up their production costs as well as causing other problems (hygiene, health and safety of workforce, theft etc. etc.). Business support agencies have developed a range of initiatives to help SMEs overcome their premises problems (land and premises databases, premises available information, industrial estates and business parks, and managed workspace or business incubator initiatives).

In Bulgaria the stock of industrial premises was built up solely to service the needs of the large SOEs. However, the premises requirements of small businesses and start-ups are fundamentally different from those of large enterprises. Even where existing industrial premises become vacant (due to the closure or downsizing of large enterprises) this can be of little significance to individual small businessmen and women, who lack the resources to convert and customise these premises to suit their needs.

In such circumstances, as are found in Bulgaria, the use of existing premises as business incubators can provide a solution to the premises problems of some entrepreneurs and small businesses. Indeed, 3 such schemes have already been developed in: Gotse Delchev, Rousse and Vidin.

The rationale behind business incubators is not just as a solution to the premises problems of start-ups and existing small businesses. Such initiatives are also supported because they:

- allow tenants to reduce their production and operating costs by means of providing access to common services and equipment
- can facilitate the delivery of business advice, information and counseling
- promote inter-trading between tenants and between tenants and other non-tenant firms.
The intention is to create business centres in the two regions which offer tenants the full range of these benefits.

This project will offer existing and would-be entrepreneurs in the North West and South Central regions the opportunity to base their businesses in suitable premises within a supportive environment by providing support for the creation of 7 business incubators.

The business incubators will located in the “Areas of Industrial Decline” as they have been defined in the National Plan for Regional Development. In this way the project will play an important role in creating new jobs to (partially) replace those being lost in traditional industries which are now being forced to restructure.

3.2 Linked activities:

Under the PHARE Programme (Financing Memorandum BG9105), which had the Ministry of Industry as its counterpart, a 1.4 MECU project BG9105/03 02 “Assistance to SME Management in Bulgaria” was successfully implemented over the period 1995-1997. Three Business Support Centres were established in Rousse, Dobrich and Plovdiv, and assistance was provided to the Regional Development Agencies of Smolian and Burgas. These Business Centres now form the core of the Bulgarian Association of Regional Development Agencies (BARDA).

The United Nations Development Programme has supported the establishment of a number of Business Centres in: Vidin, (in the North West region); Blagoevgrad; Razlog; and, Gotse Delchev under their project BUL/97/012/E/01/11 "Business Promotion and Support Programme". A further Business Centre was established in Devin, under project BUL/97/013/H/01/99 "Women's Empowerment". These projects are nearing completion and have been assessed as being sustainable by the Tripartite Review Meeting (September 1999).

Following the establishment of the “Regional Development Agency-Business Centre Vidin” sic. the UNDP has embarked upon a project (BUL/99/022/A/01/99) to establish a business incubator with US AID cofinancing. This project, situated in a 900 sq. m building will produce (opening June 2000):

- 10 units for new start-up enterprises (size range of units 36 – 159 sq. m)
- 1 office with photocopier, computer, fax, and telephone switchboard
- training/meeting room
- 60 new jobs
- an additional 25 new jobs in existing enterprises.

The project being proposed for Phare 2000 support “Grant Scheme for Introduction of Quality Management Systems (Quality Management, Equipment and Training” (the subject of fiche number 2) seeks to assist enterprises attain certified levels, in quality terms. It is possible that some of the enterprises which become tenants of the business incubators could, in due course, benefit from the assistance to be made available by this project.
3.3 Results:

The results of the project will be:

- 7 business incubators renovated, equipped and operational in areas of industrial decline in the two regions
- an increase in the rate of new business formation in the two regions as a consequence of the new supply of suitable, affordable premises for start-up enterprises at 7 locations
- the improved performance of existing SMEs at the 7 locations as a consequence of the new supply of suitable, affordable premises
- increased life expectancy for start-up enterprises at the 7 locations due to the provision of good quality accommodation and access to equipment and common services
- improvements to the competitiveness of existing SMEs at the 7 locations through the provision of good quality accommodation and access to equipment and common services
- improvements to the competitiveness of existing SMEs at the 7 locations through access to better and more readily available business/market information.

Specific outputs from the project will include:

- the provision of over 100 premises for SMEs (average of 15 units per centre)
- over 75 entrepreneurs assisted to go into business
- 20 existing businesses assisted with their premises 15 start-ups saved from going out of business (at present, more than 50% of all new enterprises fail within the first 3 years of operation. It is expected that the incubators would decrease that percentage to 25%)
- over 400 business advisory consultations provided to incubator tenants (each tenant counselled at least twice per year)

3.4 Activities:

For the aforementioned results to be achieved it will be necessary to:

- establish a Project Steering Committee
- set up and properly resource a PIU to implement the project
- provide external advice and support to these two new project structures
- identify the most suitable buildings which are available in the 7 towns
- tender the renovation and refurbishment works
- tender equipment procurement
- tender contracts for the management of the incubators
- supervise and monitor the progress of the project.

The project will have an Institution Building Component. External assistance, in the form of one long-term expert from an EU member state (10.5 man-months over 12 calendar months) and a pool of short-term advisers and trainers (5/6 experts for a total of 3 man-months), will be contracted by the Ministry of Regional Development and Public Works to work with the Ministry of Economy. Institution building assistance will be required to:

- advise and work with the PIU (procurement regulations, preparation of Terms of Reference, etc.)
- provide technical advisory inputs to the Project Steering Committee (evaluations of reports, training programme proposals, etc.)
advise incubator management (rental strategy, letting policy)
train incubator managers and business advisers.

This external assistance will be contracted by the Ministry of Regional Development and Public Works, on behalf of the Ministry of Economy, under appropriate Phare procedures.

The work to convert existing industrial premises for use as incubators, and the purchase of the necessary equipment will be commissioned under procurement and works contracts, their exact number being determined by the PIU on the advice to be provided by the long-term expert. The nature of the tendering procedure to be applied will depend upon the value of the contracts to be awarded, however DIS Manual procedures will be fully respected.

The management of the incubator, the provision of common services and the delivery of business advice to tenants will all be the subject of one service contract which will relate to all aspects of the management of the incubator and which will be tendered (under Phare DIS Manual procedures). One such contract will be tendered for the management of each incubator. The management responsibilities of the contractors who will win these contracts will be specified in the in Terms of Reference to be produced by the PIU, with extensive support from the external assistance being made available.

Companies and organisations which can demonstrate relevant experience (managing incubators, providing small business support) will be invited to tender for the management of the incubators.

In all cases where contracting takes place, the selection of the contractor(s) will be made by means of Direct Agreements after Informal Consultations or by means of an Open Tenders (depending upon the value of the contract(s)).

4. Institutional framework:

The Ministry of Regional Development and Public Works will be the Implementing Agency and will have the following responsibilities:

- allocation of funds to the Ministry of Economy
- verification all contract documentation and payment authorisation
- overall monitoring and evaluation of the project.

The Ministry of Economy will be responsible for the technical implementation of the project.

The specific responsibilities of the Ministry of Regional Development and Public Works and the Ministry of Economy will be set out, in detail, in the Memorandum of Understanding to be agreed before the project commences.

The technical implementation of the project is the responsibility of the Ministry of Economy. To facilitate effective practical implementation, the Ministry of Economy will establish two new structures:

- a Programme Implementation Unit, and
- a Project Steering Committee which will include regional representatives and representatives from the social partners
These new structures are to be created expressly to facilitate the effective implementation of the project and will not result in any change to the institutional framework in Bulgaria. Nevertheless, the involvement of regional representatives and the social partners in the Project Steering Committee will create an implementation structure similar to those involved in the implementation of EU supported projects in the member states, and introduces an element of partnership working, hitherto too, rarely seen in Bulgaria.

Implementation of the project will be constrained by the difficulties experienced by the PIU and the Project Steering Committee, as new structures lacking established capacity. Accordingly, they both will benefit from having access to institution building support, and in this respect an institution building component is included in the project. This will take the form of a foreign adviser who will work in the PIU for 10.5 man-months over a 12 month calendar year, and a pool of short-term trainers and advisers. The estimated total cost of this institution building component is 450,000 Euro.

The work to be undertaken, the equipment to be procured, and the services to be provided will be contracted according to DIS Manual procedures. The contracts will be signed and awarded by the PAO in the Ministry of Regional Development and Public Works who will act upon requests received from the Ministry of Economy. The Ministry of Economy will draw upon the recommendations of the Project Steering Committee to reach conclusions on issues to be put to the Ministry of Regional Development and Public Works. The Project Steering Committee will, in relation to these contracts, form the Tender Evaluation Committee. The PIU will be responsible for the launch of these tenders. In this instance, and in others (recommending approvals to the Ministry of Economy, monitoring and reporting progress to the Ministry of Economy) the PIU will act as the Secretariat of the Project Steering Committee.

5. **Detailed Budget (3.75 M EURO):**

<table>
<thead>
<tr>
<th></th>
<th>Phare Support</th>
<th>Total Phare (= I +IB)</th>
<th>National Cofinancing</th>
<th>IFI*</th>
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</table>

1 The figures appearing in this table are indicative but relate to existing experience in Bulgaria.
6. Implementation arrangements

The Implementing Agency is the Ministry of Regional Development and Public Works. Under the Memorandum of Understanding to be signed the Ministry of Economy will be responsible for all aspects of the project’s technical implementation. On a day-to-day basis, the responsibility for the implementation of the project will rest in a Programme Implementation Unit, which will be established by the Ministry of Economy.

The PIU will ensure that all activities to be provided (works to be carried out, equipment to be procured, services to be provided to tenants, advice to be offered, and training to be delivered, and management of the incubators) will be undertaken in strict accordance with DIS Manual procedures and will be authorised by the PAO in the Ministry of Regional Development and Public Works. Since the responsibility for the technical implementation lies with the Ministry of Economy, it will be required to provide the necessary assurances to the EU that the PIU will be adequately resourced for the life of the project (staffing levels and staff salaries, accommodation and accommodation costs, telecommunications, consumables, etc.).

The Project Steering Committee will provide strategic project direction and guidance to the PIU and to the Ministries of Economy and Regional Development and Public Works. This should include:

- advising on selection criteria for 7 locations
- recommending approval of final site selection
- defining broad tenancy policy and tenant selection criteria
- reviewing incubator management including charging/renting strategies.

Further assistance to the PIU will come in the form of an external adviser who will be contracted for a period of one year, and will be located in the PIU. The external adviser will participate, as an observer, in the meetings of the Project Steering Committee.

The Project Steering Committee should comprise representatives of:

- the Ministry of Regional Development and Public Works (two)
- the Ministry of Economy (two)
- the Ministry of Labour and Social Policy (one)
- the National SME Agency (one)
- the Delegation of the EU (one)
- the Regional Governors of Montana, Pazardjik, Smolyan, Vidin and Vratsa districts (areas of industrial decline falling within these 5 districts) the Manager of the Business Incubator in Gotse Delchev (one)
- the Manager of the Business Incubator in Gotse Delchev (one)
This will create a Project Steering Committee which has 12 members. The Project Steering Committee will be Chaired by the senior representative of the Ministry of Regional Development and Public Works. The Project Steering Committee will advise the Ministry of Economy on important implementation issues, such as:

- the continued relevance of the selection criteria proposed for the project
- changes to the locations proposed resulting from unavailability of suitable buildings, high cost of conversion etc.
- selection of contractors (it being proposed that that the Project Steering Committee also sits as a Tender Evaluation Committee)
- issues arising from progress reports.

Regarding the selection of the locations for the 7 incubators proposed, “Areas of Industrial Decline” have been defined in the National Plan for Regional Development on the basis of the following criteria:

- “the employment in industry as a percentage of total employment above the national average over the last year
- mono-structural mature of the economy, dominated by declining industrial sectors ; relative share of employment in these sectors as from total employment in industry over 50% over the last year
- dynamics of industry development : negative growth of employment in industry over the last six years – above the national average” *sic.* (Source : National Plan for Regional Development).

On these criteria, 5 geographical groupings of municipalities constituting Areas of Industrial Decline have been identified in the two regions: 2 in the North West and 3 in the South Central.

**North West:**

Group 1 Chiprovisti/Chuprene in Montana and Vidin districts respectively (ferrous mining)

Group 2 Mezdra/Roman in Vratsa District (iron/steel products, metal constructions, machine building, building materials extraction, beverages, textile industries)

**South Central**

Group 1 Zlatograd/Rudozem/Madan/Nedelino in Smolyan district (coal mining)

Group 2 Septemvri/Panagyuriste/Leschivo in Pazardjik district (metallurgy)

Group 3 Dospat (fisheries, tobacco and timber) in Smolyan district
Within the Areas of Industrial Decline, the business incubators should be located centrally, with ease of access (of tenants and their clients) in mind. This will also favour locations in larger rather than smaller towns. To provide coverage of the areas of industrial decline in the two regions, one incubator will be set up in each of the following locations:

**North West:**

- Area 1: Chiprovisti
- Area 2: Mezdra

**South Central**

- Area 1: Madan
- Area 2: Panagyuriste
- Area 3: Dospat.

This leaves two locations unspecified. The PIU in its discussions with the municipalities over the coming months should seek to establish the remaining two locations, and should pay heed to:

- the delineation of new areas of industrial decline in the two regions (a review of the map of areas of industrial decline is to take place). The most populous centres within newly delineated areas (in the two regions) will be considered as locations
- the geographical distribution of business incubators in the two regions
- the availability of suitable premises.

The premises in which the business incubators are to be placed will made available by the municipalities on a free of charge (rent free) basis for a 5 year basis, following the model used successfully to establish the business incubator in Vidin.

Immediately, following the approval of the Phare Management Committee for this project to go ahead, the Ministry of Economy, with the support of the National Association of Municipalities in the Republic of Bulgaria, should enter into negotiations with the municipalities of Chiprovisti, Mezdra, Madan, Panagyuriste, and Dospat. A further two municipalities may be brought into the discussions following the review of the areas of industrial decline. Key objectives to be realised from these contacts with the municipalities are:

- dissemination of understanding on what incubators are, how they operate, etc.
- obtaining the commitment of the municipalities to fully participate in the project (representation of the Project Steering Committee) will help in this respect
- convincing the municipalities to provide a building rent free for a 5 year period.

The negotiations will identify (at the 7 locations) those premises which:

- are available (not in use, not fully in use, or which will cease to be in use in the immediate future)
- are centrally located offering good means of access and high visibility for the project
- are suitable for conversion (creation of smaller units and common spaces within)
- can be converted on an economic basis.
The conversion should seek to create incubators in buildings which can offer the possibility to create:

- 15 production/office units
- units whose floor space ranges from 50 to 250 sq. metres
- office space for a manager, 2 secretaries, janitor/handyman
- common areas and floorspace for the location of equipment for the use of tenants
- a room to be used for business consultations, small training courses, and meetings.

These conditions comprise the principal selection criteria to apply to the choice of buildings.

The problem of finding suitable buildings is dependent upon a number of key factors:

- type of tenant sought
- type of activity sought
- range of services to be provided
- rental and charging policies.

The business incubators to be supported will focus on would be entrepreneurs and will seek start-up enterprises as their tenants. However, if only start-up enterprises are to be encouraged, then the level of occupancy will be as much a question of the extent of the entrepreneurial culture locally (workers in traditional industrial areas which in decline continue to exhibit a high degree of dependence on traditionally large employers) as of the merits and attractions of the business incubator. This constitutes a passive approach towards the attainment of full occupancy. Full occupancy of the incubator is important to:

- demonstrate (in a highly visible way) the success of the project
- generate rental income to offset against operating costs (long-term sustainability).

The incubators should therefore accept as tenants existing small businesses and business persons where it can genuinely be established that their competitiveness is being harmed by location in unsuitable business premises. Existing small businesses seeking to relocate from satisfactory premises to the incubator in order to benefit from lower rents will not be accepted as tenants.

In the case of business start-ups, tenancy would be dependent upon an assessment of the business proposal of the potential tenant. This assessment will be conducted by the Manager of the incubator with the support of business advisers working for the contractor.

A further threat to full occupancy lies in letting policies which are over restrictive. This usually arises where an incubator seeks to focus on a particular sector or activity (textiles, food processing, biotechnology) but can also arise when only manufacturing activities are to be promoted. It is well known that the costs of start-up are higher in manufacturing (in terms of working and physical capital requirements) than in service sector activity and other office based work. There is therefore a danger in allowing only manufacturing firms as tenants in terms of the difficulty of attaining full occupancy levels. A more flexible approach to letting (and one more likely to attain high/full occupancy) will admit both manufacturing and service sector enterprises as tenants. The business incubators to be supported by this project will therefore not cater exclusively for enterprises from any one particular sector, rather they will accept as tenants entrepreneurs who wish to set up in manufacturing or productive or business service provision.
The incubators will therefore be open to service sector enterprises and those manufacturing enterprises involved in activities which do not involve:

- dangerous or hazardous activities
- activities which threaten the health and safety of workers, other tenants or residential and/or business neighbours
- nuisance activities (make excessive noise, cause unpleasant or noxious odours, produce excessive smoke and/or other emissions)
- the storage (in common areas) of raw materials and other semi-finished or finished products (can be dangerous to other tenants).

In some specific cases entry may have to be restricted due to the particularities of the building selected (for example, enterprises using heavy machinery if the load bearing capacity of the floors of the building are not adequate).

The availability of equipment which can be accessed by all tenants and the provision of common services is what principally, distinguishes business incubators from other similar initiatives (private sector reconversions of buildings to offer small rental units for SMEs). The incubators to be created under this project will, in this respect, offer:

- property management
- rent collection
- basic repairs and property maintenance service
- use of meeting room
- parking for workers and clients
- vehicular access for incoming delivery and outward distribution
- business advice, counselling and some basic training
- reception
- telephone answering service
- internal switchboard service
- e-mail
- secretarial support and other office based activities
- internal mail distribution
- external mail collection
- use of computers and printers
- photocopying
- internet access.

Each business incubator should have a Management Board which is responsible for providing strategic guidance to the manager (approval to change policy on types of enterprise to be admitted, increases in rents and business charges) and assuring the good management of the incubator. The Management Boards will receive monthly business reports from the Manager and their decisions will be based on the information supplied therein.
The Management Boards should comprise of:

- representatives of local small business (entrepreneurs associations, business advice centres) – maximum 3 members
- the Mayor of the municipality (one)
- the Chairperson of the District Development Council (one)
- a representative from a local bank (one)

The Incubator Manager will have the right to attend all meetings of the Management Board although he/she will not be a member.

The Management Boards will be required to report to the Project Steering Committee on a quarterly basis. In this way the Project Steering Committee can be kept aware of progress in the Areas of Industrial Decline and will be provided with information which they require to be able to carry out their advisory role vis-à-vis the Ministry of Economy.

A key issue for the Management Boards will be the level of rents to be charged and the pricing for services supplied (common services and use of equipment, heating, lighting, electricity, water etc.). In principle there is no reason to charge rent since premises are to be gifted for a five year period (there is no need to recover costs of making premises available – no such costs). There will be conversion costs, of course, however these are the subject on the Phare investment funds and the matching (Bulgarian Government) cofinancing, both of which are provided as non-reimbursable grants.

The cost of providing for the management for the incubator and common services to be provided could also be treated in this way i.e. covered 100% over the duration of the project as a non-reimbursable grant from the Phare funds and the Bulgarian cofinancing. However this course of action will weaken the sustainability of the project. Under such a policy tenants who have been enjoying the use of equipment and facilities over a two year period will suddenly be faced with a significant increase in their business outgoings when assistance from Phare and the Bulgarian Government ceases at the end of the project.

Use of equipment and services (e.g. typing by secretaries, help to prepare a business plan, etc.) should therefore be charged although prices should be set below commercially viable levels. The pricing structure will be proposed by the Incubator Manager and approved by the Management Board.

Full rate charging should be applied in relation to public utilities (electricity, water, gas, telephone and fax) with tenants receiving individualised bills where possible (electricity, water, gas and telecommunications).

The business incubators will provide a protected environment for small businesses to develop. However if that development is solely dependent upon “featherbedding” the enterprises by not allowing them to exposed to market disciplines then the initiative will be of questionable value, since it will be supporting enterprises which are non-competitive and in need of constant financial support for their very existence or it will result in enterprises experiencing extreme difficulties and even going out of business when the level of charges rises (as it must at the end of the project).

The objective will therefore be to establish charges for the use of equipment and the use of common services which contribute to the cost of providing the services (33% year 1, 66% year 2, 100% year 3).
A further payment, which can be considered as rent, to cover, in part, the property management services to be provided, will be levied on tenants. Once again the objective is not to meet the full costs relating to the management of the incubator from this income rather to introduce to new firms the discipline of having to pay rent, and to prepare them to meet the conditions which they will face when they move onto find their own premises. Tenants will therefore be expected to move out of the incubator as they mature and become more able to engage in business without support. Rising rental levels over the duration of the project will also help prepare tenants to move on from the business incubator. The Management Board will establish rental levels on the basis of proposals from the Incubator Manager.

The objective of the Ministry of Economy should be to finalise the selection of the individual buildings to be converted to become business incubators by the end of the year. To make this selection prudently, the Ministry of Economy should arrange for specific buildings under consideration to be evaluated by a qualified architect who has relevant experience in this or a related area. This work will be funded under the Phare Project Preparation Support Facility – BG 99.19. Recommendations arising from this activity will be put to the Project Steering Committee, which will verify that the agreed selection criteria have been met. All income received from those payments authorised by the Management Boards is to be treated as non-distributed profit, that is, it must be used for further investment in the incubator (new or improved premises, new or improved facilities).

Where the negotiations with the municipalities establish the unavailability of a suitable building in a particular town then the remaining municipalities from within that specific “Area of Industrial Decline” will be given the opportunity to identify a building which respects the selection criteria. Proposals will be assessed by the Ministry of Economy and a new building and a new location selected.

The process of selecting the locations and buildings must adhere to the following conditions:

- compliance with the specified criteria
- lie within one of the 5 specified “Areas of Industrial Decline”
- reach completion before the end of the year (be completed before the project commences).

6.2 Twinning

Not applicable.

6.3 Non-standard aspects

There are no non-standard elements to the project and DIS Manual procedures will be followed in all the contracting to take place.

7. Implementation schedule

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<th>Start of tendering</th>
<th>Start of project activities</th>
<th>Project Completion</th>
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<tr>
<td>March 2001</td>
<td>June 2001</td>
<td>December 2002</td>
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8. Equal Opportunity

Enterprises formed and run by both men and women will be encouraged to become tenants of the incubator on an equal footing and all contracting will encourage tenders from all qualified contractors irrespective of gender, race or creed.

9. Environment

The manager of the incubator will seek to attract as tenants enterprises which do not pose any problems for the environment and to ensure that all the activities performed in the incubator are environmentally friendly.

10. Rates of return

Inherent in the nature of the project is the assumption that the commercial property market is not capable of adequately meeting the property and business advisory requirements of small start-up enterprises. This being so the concept of a commercial rate of return is not valid.

11. Investment criteria

11.1 Catalytic Effect

The project will facilitate the creation of enterprises and will provide a (limited) number of immediate job opportunities in the areas of industrial decline. In the longer term a proportion of these new enterprises will expand thereby making a much larger contribution to employment creation in the areas of industrial decline. The Ministry of Economy will seek to replicate the scheme on a nationwide basis, if this project demonstrates success.

11.2 Additionality

EC finance will be additional to the cofinancing made available from the Bulgarian national budget, and a private sector contribution will also feature in the financing of the project. Phare funds will not displace investment by other IFIs, since there are no other proposals to create incubators in the Areas of Industrial Decline.

11.3 Project readiness and Size:

The Ministry of Economy must take immediate action to work with the participating municipalities to construct a list of potential buildings. Specific buildings must be selected from this list for conversion. This activity all must be undertaken by the end of the year to allow implementation to commence early in 2001.

The project is in compliance with project size as it exceeds the minimum of 2 M EURO required by Phare.
11.4 Sustainability

The Government of Bulgaria is committed to actions to support the SME sector, and actions to support business incubators and their activity (including eligibility criteria for tenants of business incubators) are included in the Law on SMEs as well as in the Law on Protection against Unemployment and Promotion of Employment (amendments to be passed through the National Assembly in the first half of this year).

Business incubators, world wide, find it difficult to attain strict commercial attainability if they continue to focus on start-up activity, provide common services and equipment for collective use, offer business advice and counselling and have in-house property management. their role to stimulate business formation means that they have to encourage their tenants to move out (to release units for new start-ups) just when these enterprises are becoming of paying rents which could make the incubator sustainable on commercial terms.

Sustainability will not be achieved by the end of the project and either additional assistance to part replace Phare and Bulgarian Government funds must be found or the managers of the incubators will need to find additional sources of income to supplement the revenue coming from rent and payments for services. The sustainability of the project will be helped by the 5 year rent holiday on the building. The continuation of this arrangement, if it can be negotiated, is likely to be sufficient to sustain the long-term future of the project.

The project makes its own contribution towards sustainability by a stepped scale of charges for the use of services and programmed rent increases to move rental payments towards commercial levels over the project’s duration.

11.5 Competition Criteria

The scheme is in accord with Article 92(3)(a) of the Treaty of Rome with respect to regional aid in an Objective 1 Member State.

12. Conditionality and sequencing

Establishment of an effective Implementing Agency before project implementation.

The selection of individual buildings in the 5 towns should be completed by the end of the year to allow the necessary contracting of the works to proceed as soon as possible. The signing of a Memorandum of Understanding between the Ministry of Regional Development and Public Works with the Ministry of Economy specifying respective responsibilities in terms of the management and the implementation of the project will be required.

Key milestones will be:
- establishment of the PIU and the Project Steering Committee
- appointment of the experts to deliver the Institution Building component
- letting of the contracts
- completion of conversion works
- procurement of the equipment
- completion of training to centre staff
- opening of the incubators to tenants
- attainment of full occupancy in the incubators.
<table>
<thead>
<tr>
<th><strong>Wider Objective</strong></th>
<th><strong>Indicators of Achievement</strong></th>
<th><strong>How, When and By Whom Indicators Will Be Measured</strong></th>
<th><strong>Assumptions and Risks</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>To strengthen the small and medium sized enterprise sector in the North West and South Central regions by means of assisting entrepreneurs to set up in business and supporting existing small businesses.</td>
<td>Increase in the numbers of entrepreneurs starting up their own businesses in the two regions; expansion and improved performance of existing small businesses.</td>
<td>National and regional enterprise statistics produced by the Central Statistical Office, statistics and records of business advisory bodies in the regions, records of incubator management.</td>
<td>Worsening of (macro) economic climate, Inappropriate business environment (fiscal, legislative and regulatory frameworks) corruption, etc.), inappropriate letting policy, lack of suitable premises for conversion.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Immediate Objective (Purpose)</strong></th>
<th><strong>How, When and By Whom Indicators Will Be Measured</strong></th>
<th><strong>Assumptions and Risks</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>To assist entrepreneurs, at the start up stage, to overcome premises problems and to provide additional support which will help them grow and mature.</td>
<td>Numbers of new enterprises letting space in the incubators, numbers of existing enterprises moving into the incubators, equipment available for the use of tenants, services and other facilities available to tenants, provision of in-house business advice.</td>
<td>records of incubator managers and business advisers, reports of contractors to the PIU, PIU reports to the Project steering Committee.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Results</strong></th>
<th><strong>Indicators of Achievement</strong></th>
<th><strong>How, When and By Whom Indicators Will Be Measured</strong></th>
<th><strong>Assumptions and Risks</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>7 business incubators renovated, equipped and operational in areas of industrial decline in the two regions; an increase in the rate of new business formation in the two regions as a consequence of the new supply of suitable, affordable premises for start-up enterprises at 7 locations; the improved performance of existing businesses.</td>
<td>The provision of over 100 premises for SMEs (average of 15 units per centre); over 75 entrepreneurs assisted to go into business; 20 existing businesses assisted with their premises; 20 start-ups saved from going out of business; over 400 business advisory consultations provided to</td>
<td>Incubator managers records, managers reports to Boards, PIU reports to Project Steering Committee, records of business advisers.</td>
<td>PIU to be establishment and adequately resourced, poor occupancy level because of restrictive entry policy, inappropriate premises and services (to client needs), enterprises accepted as tenants which simply transfer jobs.</td>
</tr>
</tbody>
</table>
SMEs at the 7 locations as a consequence of the new supply of suitable, affordable premises; increased life expectancy for start-up enterprises at the 7 locations due to the provision of good quality accommodation and access to equipment and common services; improvements to the competitiveness of existing SMEs at the 7 locations through to the provision of good quality accommodation and access to equipment and common services; improvements to the competitiveness of existing SMEs at the 7 locations through access to better and more readily available business/market information.

<table>
<thead>
<tr>
<th>Activities</th>
<th>Assumptions and Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>establish a Project Steering Committee; set up and properly resource a PIU to implement the project; provide external advice and support to these two new project structures; identify the most suitable building which are available at the 7 locations; tender the renovation and refurbishment works; tender equipment procurement; tender contracts for the management of the incubators; supervise and monitor the progress of the project.</td>
<td>PIU created; Project Steering Committee set up; 7 locations agreed and buildings/sites chosen; external assistance contract prepared and tendered; procurement contracts for conversion works prepared and tendered; management contracts prepared and tendered, project monitored and evaluated.</td>
</tr>
<tr>
<td>PIU reports to the Project Steering Committee.</td>
<td>Failure to agree locations and sites; insufficient management experience to manage 7 incubators; internal divisions within Project Steering Committee.</td>
</tr>
</tbody>
</table>
# APPENDIX 2

<table>
<thead>
<tr>
<th>Components</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
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<tbody>
<tr>
<td>Establishment/Operation of PIU</td>
<td>X</td>
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<tr>
<td>Project Steering Committee to be established</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7 locations and sites/buildings to be ratified by Project Steering Committee</td>
<td></td>
<td>X</td>
<td></td>
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</tr>
<tr>
<td>External assistance to be contracted</td>
<td></td>
<td>X</td>
<td></td>
<td></td>
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<tr>
<td>Procurement contracts for physical works prepared and tendered</td>
<td>X</td>
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<td>Conversion works on incubators</td>
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<td>Procurement contracts for equipment prepared and tendered</td>
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<tr>
<td>Management contracts prepared and tendered</td>
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<td>Staff recruited</td>
<td>X</td>
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<td>X</td>
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<tr>
<td>Tenants move in</td>
<td>X</td>
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<tr>
<td>Mid-term evaluation</td>
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<tr>
<td>Final evaluation</td>
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<tr>
<td>Audit</td>
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</tbody>
</table>
## Appendix 3

### INVESTMENT IN BUSINESS INCUBATORS IN AREAS OF INDUSTRIAL DECLINE

#### CUMULATIVE CONTRACTING and DISBURSEMENT SCHEDULE (Meuro)

<table>
<thead>
<tr>
<th>Date</th>
<th>31/12/00</th>
<th>31/03/01</th>
<th>30/06/01</th>
<th>30/09/01</th>
<th>31/12/01</th>
<th>31/03/02</th>
<th>30/06/02</th>
<th>30/09/02</th>
<th>31/12/02</th>
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<tbody>
<tr>
<td>Contracted</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.4</td>
<td>0.75</td>
<td>1.8</td>
<td>2.675</td>
<td>3.75</td>
<td>3.75</td>
<td>3.75</td>
<td>3.75</td>
<td>3.75</td>
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<tr>
<td>Disbursed</td>
<td>0.14</td>
<td>0.54</td>
<td>1.3</td>
<td>1.9</td>
<td>2.4</td>
<td>3.2</td>
<td>3.75</td>
<td>3.75</td>
<td>3.75</td>
</tr>
</tbody>
</table>

**NB:**

1. All contracting should normally be completed within 6-12 months and must be completed within 24 months of signature of FM
2. All disbursements must be completed within 36 months of signature of the FM
REFERENCE TO FEASIBILITY/PRE-FEASIBILITY STUDIES


2. Evaluation of the Net Impact of Active Labour Market Programmes - preliminary data

LIST OF RELEVANT LAWS

2. Law on Protection against Unemployment and Promotion of Employment – SG. N 1/ 04.01.2000
4. Law on Small and Medium Enterprises - SG. N 84/ 24.09.1999
8. Framework Agreement between the Commission of the European Communities and the Republic of Bulgaria

APPENDIX 5
LIST OF GOVERNMENT STRATEGIC PLANS AND STUDIES

4. District Plans for Regional Development - 9 districts
STATUS AND FUNCTIONS OF THE DISTRICT REGIONAL DEVELOPMENT COUNCILS AT THE DISTRICTS ADMINISTRATION

The districts development councils have been established in accordance with Regional Development Act, Art. 9(1). As it is stipulated by the regional development act Art.9(1) the Chairperson of the District Development Council is the District Governor, its members being the mayors of all the municipalities in the district, together with one of the representative of the Municipal Council of each and every municipality.

In accordance with Art.4(2) the District Governor (Chairperson) has the authority to invite to the Council’s meetings representatives of Regional Associations of Municipalities and other persons (physical and legal entities, civic associations and NGOs) related to regional development.

In compliance with Art.9, section 4 the District Governor may assign agreements for association with other districts in order to implement activities related to district development and above district scope and importance.

In compliance with Art.9 Section 5 planning regions are formed on the basis of agreements according to section 4. Plans for their regional development may be elaborated and implemented jointly.

The following 6(six) planning regions corresponding to Eurostat NUTS II level are formed:

**North-West Planning Region**
1. District of Vidin
2. District of Montana
3. District of Vratza

**North-Central Planning Region**
1. District of Rousse
2. District of Plevin
3. District of Lovech
4. District of Veliko Turnovo
5. District of Gabrovo

**North-Eastern Planning Region**
1. District of Varna
2. District of Dobrich
3. District of Shoumen
4. District of Razgrad
5. District of Silistra
6. District of Targovishte
SOUTH WESTERN PLANNING REGION
1. District of Sofia Greater Municipality (Metropolitan)
2. District of Sofia
3. District of Pernik
4. District of Kyustendil
5. District of Blagoevgrad

SOUTH-CENTRAL PLANNING REGION
1. District of Plovdiv
2. District of Staro Zagora
3. District of Pazardzhik
4. District of Haskovo
5. District of Kurdzhali
6. District of Smolyan

SOUTH-EASTERN PLANNING REGION
1. District of Bourgas
2. District of Sliven
3. District of Yambol

DISTRICT DEVELOPMENT COUNCILS MAIN FUNCTIONS
1. Coordination of activities in connection with the elaboration and up-dating of the development plans.
2. Adoption of the development plans.
3. Controlling of the development plan implementation.

STATUS AND FUNCTIONS OF THE REGIONAL DEPARTMENTS (NUTS II LEVEL UNITS) WITHIN THE STRUCTURE OF THE GENERAL DIRECTORATE “REGIONAL DEVELOPMENT AND ADMINISTRATIVE AND TERRITORIAL STRUCTURE”

Regional Development Centers will be set up in each one of the six planning regions (NUTS II level) in compliance with the adopted by Council of Ministers Decree No 220/ 30.11.1999 –“Interior regulations, organization and structure of the Ministry of Regional Development and Public Works” and the agreed “Staff (Job) List” of the Ministry of Regional Development and Public Work with the same Decree. They will be located in the following district centers:

NORTH-WESTERN PLANNING REGION: The town of Vidin
NORTH-CENTRAL PLANNING REGION: The town of Veliko Tarnovo
NORTH-EASTERN PLANNING REGION: The town of Varna
SOUTH-EASTERN PLANNING REGION: The town of Bourgas
SOUTH-WESTERN PLANNING REGION: The town of Sofia
SOUTH-CENTRAL PLANNING REGION: The town of Plovdiv
MAIN FUNCTIONS OF THE CENTERS:

1. Coordination of the district authorities activities in the elaboration of the joint planning region development plan (NUTS II level) as a consistent part of the National Economic Development Plan.
2. Coordination of activities of and interactivities between central, district, local authorities and others.
3. Consulting and training in elaboration of development plans (strategies, development programmes and projects; development plans implementation and up-dating; social-economic development projects and programmes implementation, funded by national and external financing sources).
4. Information about the implementation of national and international programmes and projects.
5. Maintenance of social-economic development data base on Planning region level (NUTS II).

REGIONAL CENTERS STRUCTURE:

Head of department – 1 person
Experts – 5 to 7 persons

The Regional centers are subordinated directly to the Directorate “Social-Economic Cohesion” within the General Directorate “Regional Development and Administrative and Territorial Structure” at the Ministry of Regional Development and Public Works.