SUMMARY PROJECT FICHE

1. **BASIC INFORMATION**

1.1 Désirée Number: BG 0102.02

1.2 Title: High-technology business incubators

1.3 Sector: ESC

1.4 Location: Republic of Bulgaria

2. **OBJECTIVES**

2.1 Overall Objective(s)

To increase the share of technology-based SMEs in Bulgarian GDP

2.2 Project Purpose

To strengthen the technology-based small and medium sized enterprise sector in Bulgaria by providing an infrastructure and support services for start-up and growing of innovative SMEs.

2.3 Accession Partnership and NPAA Priority

**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 actions identified in the Accession Partnership.

**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”.

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 manufacturers with good long term prospects, and improving micro level competitiveness at individual company level”.

The strategy for the improvement of the productive sector is based on the NEDP (Development Axis 2) and its aim is “achieving strong and sustainable economic growth as a pre-condition for both raising living standards and successfully integrating into the European economic and social area”. The major priority of the strategy is to “raise the sector’s competitiveness on the basis of vigorous enterprises within the framework of market principles…”.

Industry potential is comparatively uniformly distributed throughout the country. The strategy states that “horizontal measures for enhancing the viability of industry should be directed primarily to regions in decline. High-tech industries will be developed in regions possessing a developed research capacity”.

Incubators, including high-tech ones, are generally addressing newly created or still to be created firms, i.e. SMEs. The role of SMEs in Bulgaria is constantly increasing; they currently account for more than 45% of the labour force. A network of incubators will be developed in regions in decline in the framework of Phare 2000. The strategy envisages to enlarge this network in the Government defined growth regions and development regions. The planned high-tech incubators flow from this strategy.

The strategy points out that “difficult access to finance, especially in the start-up phase, is one of the basic SME problems”. It goes on to state that “this hinders the diversification of SME activities, technology transfer and SME growth”. The proposed project addresses this through a technology development / marketing grant scheme, which aims to bring innovative products to the market.

The strategy’s main objective no. 2 is “encouraging high technology and innovative productions as a key factor for achievement of dynamic and stable economic growth”. From this is deduced the sub-objective of “linking universities, research institutes, private entities, state and local authorities in high-technology areas, technology parks and technology incubators to develop innovative enterprises”. Among the measures planned to achieve this objective are:

- “creating technology parks for research, development, and marketing modern technologies, scientific and applied accomplishments
- creating technology incubators within the technology parks to encourage the development of SMEs through allowing them to use business services and infrastructure at preferential prices”
All of the regional development plans (or their drafts) emphasize the importance of supporting the creation of competitive SMEs.

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

2.5 Cross Border Impact

There is a potential for cross border co-operation emanating from future high-tech incubators located in cross border regions, such as Ruse or in Sofia, once CBC takes shape with Serbia.

3. Description

3.1 Background and Justification

Globalisation is moving the world economy from its industrial dominance to a new area: the Information Society. This “new economy” has direct implications and offers substantial potential for employment and growth. At the end of 1999, 47% of the European business sector was using Internet based E-Commerce applications.

The EU’s e-Europe initiative stresses the urgent need for a common framework and, in parallel, suggest launching a vast campaign to help SMEs to “go digital” by facilitating the transfer of technical know how through a network of centres of expertise. Other targets set by the European Commission are to help SMEs that are currently suffering from a lack of skills to integrate networking techniques into their business functions and encouraging the electronic means of public procurements. (text quoted from documents of the Second European Conference of Members of Parliaments for Information and Communication Technologies, Athens, February 2000).

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. A survey of this sector demonstrates that only some 2% of 1751 responding SMEs do R&D. Of them half (1.1%) fall within the range of 1% to 5% R&D expenditure, which according to OECD criteria corresponds to medium-high-technology category and scarcely 0.6% have over 5% such expenses, in other words meet the high-technology criterion. The findings with regard to the utilisation of information technologies show they have not yet found their way into small and medium-sized enterprises. Only 23% of respondent firms have individual computers, and those having local networks are 5.7%. Electronic mail or Internet are available to as few as 9.4% of respondents. Much better is the situation with mobile communication -- 27.2% of those who have responded use paging or mobile connection -- obviously the need for operative communication wins over the relatively high price of this service in Bulgaria. Reason for worry is the small number of those connected to the Internet and using e-mail, which speaks either of scepticism about its usefulness for SMEs, or of high costs. The low degree of computer use appears to be a real problem.

The National Plan for Regional Development for the period 2000-2006, adopted in 1999, envisages development measures aimed at creating a favourable business environment. The awareness and confidence of businesses in the field of new technologies needs to be enhanced, and support is needed for the development of relevant skills and widespread network literacy. SMEs, in particular, need to be encouraged to adopt new business methods, techniques and innovations. The SME in the field of Information Society Technologies (IST) are a key factor for introducing innovations, opening the Bulgarian economy towards European e-Economy. They have to answer to the increasing demand for information services and products from the entrepreneurs and companies as well as from the business centres and associations for regional development. Considering the
Bulgarian traditions and availability of qualified IT professionals these SMEs are also an important factor for creation of new workplaces in this sector, stabilising the national human resources and integrating its activities in the global European economic space. Their participation in the global European market is severely limited by a number of factors like lack of capital, ineffective public administration, lack of up-to-date information, vocational and management know-how and experience, lack of access to new Information Society Technologies. However, there are also many other areas for applied high-tech development in Bulgaria with a promising future (bio-technology applications, micro-mechanics, etc – see 6.2).

Technology incubators as organisations stimulating the development of innovative high technology companies are a vital element of the national high technology policy. They are structures facilitating the formation, survival and stabilisation of young high tech small and medium-sized enterprises by offering appropriate infrastructure and support services which otherwise are inaccessible for such companies. The incubators in general are formed around and closely linked with academic research centres.

In Bulgaria, the use of existing buildings 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, Ruse 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 (secretaries, accounting, meeting rooms)
- have a reinforcing clustering effect due the presence of a number of similarly motivated professionals
- provide technology transfer services
- can facilitate the delivery of business advice, information and counselling
- promote co-operation between tenants and between tenants and other non-tenant firms, for example in doing joint applied research or marketing.

This project will offer start-ups and existing SMEs the opportunity to base their businesses in suitable premises within by providing support for the creation of up to six high tech business incubators. The clients will be innovative ICT start-ups and small companies commercialising research results from the Bulgarian academic research centres and European RTD programmes.

A grant scheme to allow high-tech companies to bring to market products based on their innovative technologies is foreseen within this project. It is one of the foremost tasks of incubators, besides helping in business planning and business development, to identify grant or other financial support for start-ups. Since no such scheme exists, it is proposed to introduce a pilot technology-to-market grant scheme under this project.
In the longer term, the objective should be to develop a fuller range of services, as in many EU business and innovation centres (BICs). A typical BIC provides the following services:

- Management advice and assistance in the pre-foundation phase, during the foundation and the strengthening of the firm
- Support in developing a convincing concept
- Several months start-up training programme
- Information on support programmes for company foundations and innovative projects
- Putting together funding packages and obtention of venture capital
- Access to fully equipped and rent free incubator rooms
- Space for rent with secretarial services and structured wiring
- Accounting and controlling for companies
- Corporate identity packages and Europe-wide marketing and sales support
- Initiation, application, execution and accounting of for projects

### 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 Ruse, 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” the UNDP established a business incubator with US AID co-financing in September 2000 (BUL/99/022/A/01/99).

The project being proposed for Phare 2000 support “Investment in Business Incubators in Areas of Industrial Decline” and approved by Phare Management Committee envisages the establishment of 7 business incubators in the North West and South Central NUTS II regions.

Under Phare 2001 ESC, a project to deliver SME consultancy services through the Agency for SMEs is also being proposed.

Under the BG 99.19 PPF large services contract, it has been proposed to carry out a feasibility study on improving technology transfer mechanisms in Bulgaria. The objectives are to build a database on technologies and their providers, and to facilitate linkages between research and high-tech companies. This large services contract is also to assist in selection of the locations of the high tech incubators.
The strategy for improvement of the productive sector, in its main objective 2 – encouraging high tech and innovative production – aims at promoting the participation of Bulgarian high-tech enterprises in the international transfer of technologies and in the EU Fifth Framework Programme for Research, Technological Development and Demonstration Activities.

3.3 Results
The results of the project will be:

- Up to six high tech business incubators renovated and equipped (office furniture, ICT equipment etc)
- Management structure ensuring cost-effective and sustainable functioning of the incubators in place
- Technology start-ups assisted to start and develop their companies (see outputs, below).

Specific outputs of the project will include:

- the provision of 80 premises for technology-oriented SMEs
- at least 50 entrepreneurs assisted to go into business
- at least 30 existing businesses assisted with their premises
- up to 700 business advisory consultations provided to small firms with insufficient management, marketing, IT / technological expertise and for the incubator tenants (each tenant counselled on a regular basis)
- established link between academic research and businesses, including an effective technology transfer mechanism
- at least 20 promotion seminars and workshops for the areas of excellence of the individual incubators (innovative IT and other high tech services and products with SME applications)
- 12 courses for training of the managers and staff of the regional business incubators and SME agencies.
- 1 or 2 study trips for incubator managers to EU countries to experience the development of high tech incubators there
- allocation of approximately 30 SME applied research grants

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
- selection of up to six locations for the high tech incubators (tendering)
- identify the most suitable building which are available in up to six locations
- tender the renovation and refurbishment works
- tender equipment procurement
- tender contracts for the management of the incubators
• training of business incubators management and staff
• selection of tenants
• provide service facilities for the incubators tenants (access to advanced computer work places, qualification courses and seminars, including interactive multimedia courses, teleconferencing)
• provide environment for expert RTD and organisational support (consultations and expert advice in the field of the company management and IST applications for SME, technological and market evaluation and business plans for RTD and innovation projects, e-commerce advice and recommendations, pilot demonstrations, best practice dissemination, help in commercialisation of RTD results, help in searching of risk capital for high-tech SME).
• develop rules for a research-oriented grant scheme for technology SMEs or groups of SMEs and implement this scheme
• Organisation of study trips
• Supervise and monitor the progress of the project
• Administer grant scheme.

The project will have an Institution Building Component. External assistance, in the form of a pool of short-term advisers and trainers (12 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.)
• advise on high tech incubators best practice
• 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
• provide direct assistance to start-ups
• organise study trips
• advise on the proposed research grant scheme to SMEs or groups of SMEs

4. INSTITUTIONAL FRAMEWORK

The key institutions are the Ministry of Economy, the Ministry of Regional Development and Public Works, the Ministry of Education and Science, the National SME Agency, the Universities, Scientific and Research Institutes and local authorities.

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 of 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. To facilitate effective practical implementation, the Ministry of Economy will establish:

- Project Implementation Unit
- Project Steering Committee which will include regional representatives
- Selection Committee for selection of incubator tenants and the research grant scheme.

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. Operational guidelines for project implementation, emphasising selection criteria and procedures for incubator tenants and the grant scheme, will be elaborated under the institution building of the project towards early 2002.

The work to be undertaken, the equipment to be procured, and the services to be provided will be contracted according to Phare Practical Guide 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 (10.45 M EURO)**

<table>
<thead>
<tr>
<th>Component</th>
<th>Phare Support*</th>
<th>Total Phare (= I +IB)</th>
<th>National Co-financing</th>
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<td>5.45</td>
<td>0.15</td>
<td>5.6</td>
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</table>

* Phare will finance the total cost of the investment component up to a maximum contribution of 5.45 meuro. The remaining co-financing will be provided by the beneficiary institution and private beneficiaries, as appropriate. Should the total cost of the equipment exceed the estimate shown in the table above, the beneficiary institution and/or the private beneficiaries will provide the necessary additional co-financing.
6. IMPLEMENTATION ARRANGEMENTS

6.1 Implementing Agency

The Implementing Agency will be the Ministry of Regional Development and Public Works.

MoRDPW
PAO Mr V Garnizov, Deputy Minister
Cyril and Metodius St 17-19
1202 Sofia - Bulgaria
Phone: +359 2 940 59 and Fax: +359 2 987 40 77

6.2 Implementation Arrangements

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 Project Implementation Unit, which will be at the Ministry of Economy. The PIU established under Phare 2000 project “Investment in Business Incubators in Areas of Industrial Decline” could be used for the present project implementation with some strengthening of the capacity.

Ministry of Economy
Project Leader: Mr Eli Anavi, Director
Preaccession Funds, Co-ordination and Analysis of the Integration Process
8, Slavianska St
1046 Sofia - Bulgaria
Phone: +359 2 9842 7451 and Fax: +359 2 980 5914 E-mail: e.anavi@mi.government.bg

A selection procedure for the locations has to be communicated to potential beneficiaries as soon as possible during 2001, in order to be able to start with tendering for works early in 2002. Beneficiaries can be municipalities, universities and private sector institutions doing applied research or technology transfer. The beneficiaries shall submit proposals according to guidelines of the selection procedure. These should include areas of excellence and potential premises for the incubators, including an estimate of their renovation cost. At this stage, an independent assessment of the proposals and the state of the buildings shall be undertaken (if possible through a further BG 99.19 PPF FWC). On the basis of the recommendations of the independent assessment, selection shall then be made by the Steering Committee.

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. The nature of the tendering procedure to be applied will depend upon the value of the contracts to be awarded, however Practical Guide procedures will be fully respected.

To ensure that the incubators can operate efficiently, it is recommended that they should not be run as part of municipal structures. They could be municipally, university or privately owned NGOs or limited liability companies, their main capital being the buildings in which they are located.

The management of the incubator, the provision of common services and the delivery of business advice to tenants will all be the subject of a service contract, which will relate to all aspects of the management of the incubator and which will be tendered (under Phare Practical Guide procedures). The management and other responsibilities of the contractors who will win this contract will be specified in the Terms of Reference to be produced by the PIU, on the basis of a detailed draft which has already been worked out. 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 and the associated business advice. Preferably, this should be linked with the foreign TA contract (12 staff-months).
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 up to six 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 external advisers who will be contracted for a total of 12 staff-months, and will be based at the PIU (IB component).

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 Education and Science (one)
- the National SME Agency (one)
- the Delegation of the EU (one)
- the Regional Governors Rectors
- leading Scientific and Research Institutes (not from project beneficiaries)

The Project Steering Committee will be chaired by a senior representative of the Ministry of Economy. 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 (in being proposed that that the Project Steering Committee also sits as a Tender Evaluation Committee)
- issues arising from progress reports.

The premises in which the business incubators are to be placed will made available by the municipalities/research institutes/universities on a free of charge (rent free) basis for a minimum 5 year period. For reasons of long term sustainability, it would be preferable to envisage a transfer of property to the NGOs or limited liability companies running the incubators.

The conversion should seek to create incubators in buildings which can offer the possibility to create approximately 5,000 sq. metres of total floorspace, of which 2,000 – 3000 sq. metres should be converted in the first instance:

- an average of about 15 production/office units, based on a flexible floor-plan
- units whose floor space ranges from approximately 20 to 200 sq. metres
- office space for a manager, 2-3 business advisors, secretary
- common areas and floor-space for the location of equipment and storage areas for the use of tenants
- a room to be used for business consultations, small training courses, and meetings.
These conditions sum up the principal selection criteria to apply to the choice of buildings.

Good managerial, inter-personal and consulting qualifications are the key to the success of any incubator management. The choices of tenants or beneficiaries of advisory and technology transfer services will, to some degree, not only reflect the technical capabilities but also personal characteristics and attitudes of the entrepreneurs. It is essential to apply good judgement in these choices, for these will determine the outcome of this project. To this effect, it is envisaged to draft in, as part of the institution building component, an experienced manager of a high tech incubator from an Objective I area, preferably with experience in Bulgaria. This specialist will advise early on in the project – before incubators become operational – on best practice and management and operational guidelines. He will work in close co-operation with the managers of the incubators, which will be recruited early in 2002 and who will oversee the reconstruction work.

Each business incubator should have a Management Board which is responsible for providing strategic guidance to the manager (approval for admission of tenants, 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 Board should comprise the incubator manager, high municipal representative, technical university and/or research centre representatives, a representative of the foreign TA team, Secretary of the ESC Committee, development agency of the district and an experienced credit inspector from a local bank. The Management Boards will receive monthly business reports from the Manager and their decisions will be based on the information supplied therein. In EU practice, after some experience, incubator management will usually be allowed to decide on its own on tenants.

Use of equipment and services (e.g. typing by secretaries, help to prepare a business plan, etc.) should 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. As is standard practice in high-tech incubators, initial advice to start ups will be provided free of charge.

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). High-tech start ups will benefit from below-market rates, increasing with tenancy. There should in principle be a maximum period that companies can stay in the incubator, subject to review in specific circumstances. At the beginning of operations, in line with practice in other countries, short-term rental contracts can be concluded with other than high tech firms to ensure income to the incubator.

For these hi-tech business incubators, priority will be given to tenants from the following sectors: information technologies, telecommunications, microelectronics and micro-mechanics, biotechnology and pharmaceuticals, genetic engineering, medical and health technologies, environmental protection and sustainable resources usage technologies, chemical industries, energy and power effectiveness. These sectors have been selected based upon the national priority sectors for technology development.

Since no support schemes for high-tech SMEs and start-ups are in operation in Bulgaria, a grant scheme to assist such companies to take to market their innovations is being proposed. The grant scheme is to assist research-oriented SMEs, and takes account of the lack of other programmes that such high-tech companies could draw on in Bulgaria. In the EU, incubators always assist these firms in identifying and applying for R&D funds. Beneficiaries can be companies located in the incubator or having received technical assistance through the incubators. This means that the companies and their management are well known to the incubator management, and that their capacities can be assessed in a reasonably reliable manner. The firms must have already developed a product to such an extent that with the help of the proposed grants, there is a good chance of it
being marketable. Success would be measured by the sales volume achieved. Eligible would be purchases of equipment, software, and marketing activities (trade fairs, brochures). It might also be considered whether some relevant staff costs could be funded. Minimum grant size is 10,000 Euros, maximum 50,000; with a 50% grant element. The beneficiaries will have to fund the remaining 50%. There shall be a selection committee for the innovation marketing grant scheme. The exact composition of this needs to be determined, but the members should be mainly specialists familiar with recent trends in applied research, and include at least one foreign expert (provided through the IB component) and representatives of Ministry of Economy and Ministry of Education and Science. Proposals for grants to SMEs or groups of SMEs for applied research should be submitted to the incubator management and passed on to the selection committee with assessment attached. It is suggested that for vetting of grant proposals, use should be made of the external consultants to be contracted under the project. The Delegation must approve the financial control arrangements before the grant scheme starts. Contracts on the use of grants, milestones and expected results (in the shape of sellable products) will be drawn up, and disbursement will be subject to contracts for buying equipment of services in line with the relevant procurement rules. Beneficiaries will have to suitably demonstrate that they can shoulder their part of the funds (transferring funds to a special account). EU funds shall be transferred directly to the supplier, rather than to the company. This element will be further elaborated in the operational guidelines to be drawn up under the institution building component of this project, following the start of project activities in early 2002. The institution building component – i.e. Technical assistance – will also assist in advising on financial management of the scheme.

The project should benefit from the outcome of a study to be carried out under BG99.19 PPF (large services contract), which will look into improving technology transfer mechanisms in Bulgaria and establish a database of the main research activities and institutions. The incubators should be able to draw on this database in their advice to companies and entrepreneurs.

The objective of the Ministry of Economy should be to finalise the call for proposals and selection of the individual locations and buildings to be converted by the end of the year 2001.

6.3 Non-standard Aspects

Under the grant scheme, minimum grant size is 20,000 Euros, of which 50% - i.e. 10,000 Euros – are the EU contribution. Maximum grant size is set at 100,000 Euros. The reasons for not adhering to the standard minimum EU grant contribution and the 25% co-funding rule are;

• as opposed to EU countries, there are no programmes operating in Bulgaria that make available subsidised finance or to technology-oriented start-ups; this is especially serious when running a high tech incubator, which in the EU practically always provides assistance in obtaining subsidised funding. This project should be seen as one of two Phare 2001 ESC pilot schemes to introduce technology-oriented SME grants.

• the banking system demands extremely high rates of collateral (often over 200%), which start-ups generally are unable to provide

• there is an underdeveloped venture capital culture

It is expected for public funds to be used in this way, i.e. directly subsidising promising start-ups, only as an interim measure until entrepreneurship development in Bulgaria becomes more structured. The project is making a major contribution towards developing a nascent start-up funding culture.
6.4 **Contracts**

2-3 contracts per business incubator (for buildings renovation, equipment, management and business advice). Up to approximately 13 in total, depending on number of incubators selected.

Around 100 grant contracts for taking to market innovative products (assuming an average grant size of 30,000 Euros).

7. **IMPLEMENTATION SCHEDULE**

<table>
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<tr>
<th>Start of tendering</th>
<th>Start of project activities</th>
<th>Project Completion</th>
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<td>Jan 2002</td>
<td>March 2002</td>
<td>December 2004</td>
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N.B. ToR for local and international consultancy services under the project have been prepared. Project preparatory activities such as the selection of participating municipalities / institutions and suitable buildings must start by September of 2001, under a new FWC (BG.99.19 PPF).

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 catalyse the creation of competitive enterprises and will provide a number of immediate job opportunities in the regions. In the longer term a proportion of these new enterprises will expand, thereby making a much larger contribution to employment creation. It is also expected that the project will help to improve the competitiveness of the economy through helping create high-tech jobs, which tend to better future prospects.

11.2 **Co-financing**

Co-financing will be provided through the national budget and by the owners of the buildings in which the incubators are to be located (in kind contribution of buildings to be converted).
11.3 Additionality
EU finance will be additional to the co-financing 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 high tech incubators.

11.4 Project Readiness and Size
The Ministry of Economy must take immediate action to start a selection procedure to identify participating municipalities/institutions. As soon as possible, a list of potential buildings must be established. Specific buildings must be selected from this list for conversion. These activities must be complete by the end of the year 2001 to allow implementation to commence early in 2002. Support for this is envisaged under a BG 99.19 PPF framework contract.

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

11.5 Sustainability
Business incubators, world wide, find it difficult to attain strict commercial viability 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 capable 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-free provision of the building. The continuation of this arrangement, or even transfer of property of the building, 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.

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

11.7 Contribution to the National Development Plan
Cf. Chapter 2.4.
12. **CONDITIONALITY AND SEQUENCING**

12.1 **Conditionality**

The project cannot commence until the EU Delegation is satisfied with the capacity of both the Implementing Agency and the Beneficiary. Both Ministry of Regional Development and Public Works (MRDPW, Implementing Agency) and The Ministry of Economy (MoE, Beneficiary) will have to demonstrate to the Commission that adequate staffing and other resources have been made available to the relevant PIUs for the project to begin.

12.2 **Sequencing**

By December 2001

- establishment of the PIU and the Project Steering Committee
- 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
- selection of participating municipalities / institutions and of individual buildings in up to six locations (with foreign assistance provided through a framework contract under BG.99.19 PPF)

By March 2002

- letting of the works contracts
- award of incubator management and business advisory service contracts
- award of institution building contract

By December 2002

- completion of renovation and refurbishment works and procurement of the equipment
- completion of high-tech study and database (under BG.99.19 PPF large services contract)

By January 2003

- opening of the incubators to tenants

**Annexes**

1. Log Frame Matrix
2. Implementation Chart
3. Cumulative Commitment and Disbursement Schedule
## Annex 1 Phare Log Frame

<table>
<thead>
<tr>
<th>Logframe Planning Matrix for Project:</th>
<th>Contracting period expires</th>
<th>Disbursement period expires</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Investment in High-Technology Business Incubators</strong></td>
<td>30 November 2003</td>
<td>30 November 2004</td>
</tr>
<tr>
<td>Total budget:</td>
<td>Euro 10.45 m</td>
<td>Phare budget:</td>
</tr>
<tr>
<td>Euro 5.6 m</td>
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<table>
<thead>
<tr>
<th>Overall objective</th>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
</tr>
</thead>
<tbody>
<tr>
<td>To increase the share of technology-based SMEs in Bulgarian GDP</td>
<td>Increasing share of SMEs with a high R&amp;D spend</td>
<td>• National and regional enterprise statistics produced by the Central Statistical Office • ASME annual SME report • Statistics and records of business advisory bodies in the regions</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Project purpose</th>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>To strengthen the technology-based small and medium sized enterprise sector in Bulgaria by providing an infrastructure and support services for start-up and growing of innovative SMEs.</td>
<td>Increasing share of SMEs with a high R&amp;D spend Use of incubator space and services by SMEs Take up of R&amp;D grant scheme</td>
<td>• National and regional enterprise statistics produced by the Central Statistical Office • ASME annual SME report • Statistics and records of business advisory bodies in the regions • records of incubator managers and business advisers, • reports of contractors to the PIU, • PIU reports to the Project Steering Committee</td>
<td>• Incubators attract target entrepreneurs and enterprises (implying a good co-operation with university or other research institutes, good networking atmosphere) • good management results in enterprises leaving the incubators • sufficient quality applications for the R&amp;D grant scheme</td>
</tr>
<tr>
<td>Results</td>
<td>Objectively verifiable indicators</td>
<td>Sources of Verification</td>
<td>Assumptions</td>
</tr>
<tr>
<td>------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------</td>
</tr>
<tr>
<td>• Up to six high tech business incubators renovated and equipped</td>
<td>• PIU created; Project Steering Committee set up;</td>
<td>• Incubator managers records,</td>
<td>• Good partnership between universities / research institutes, local authorities, incubator management and business</td>
</tr>
<tr>
<td>• Management structure ensuring cost-effective and sustainable functioning of the incubators in place</td>
<td>• Up to six locations agreed and buildings/sites chosen;</td>
<td>• Managers reports to Boards,</td>
<td></td>
</tr>
<tr>
<td>• Technology start-ups assisted to start and develop their companies</td>
<td>• Procurement contracts for conversion works prepared and tendered;</td>
<td>• PIU reports to Project Steering Committee,</td>
<td></td>
</tr>
<tr>
<td>• Approximately 30 technology / marketing grants awarded</td>
<td>• 90-100 premises for SMEs (average of 15 units per incubator) provided</td>
<td>• records of business advicers.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• management contracts prepared and tendered,</td>
<td>• Company balance sheets and profit/loss accounts</td>
<td></td>
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<tr>
<td></td>
<td>• access to advanced computer work places provided</td>
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<tr>
<td></td>
<td>• consultations and expert advice in the field of the technological and market evaluation and business plans for RTD and innovation projects, e-commerce advice and recommendations</td>
<td></td>
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<tr>
<td></td>
<td>• 700 business advisory consultations provided to small firms with no or insufficient expertise and for the incubator tenants (each tenant counselled on a regular basis)</td>
<td></td>
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<tr>
<td></td>
<td>• at least 20 promotion seminars and workshops for in the areas of excellence of the individual incubators</td>
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<tr>
<td></td>
<td>• 12 courses for training of managers and staff of the regional business incubators and SME agencies.</td>
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<tr>
<td></td>
<td>• At least 50 entrepreneurs assisted to go into business</td>
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<tr>
<td></td>
<td>• 30 existing businesses assisted with their premises</td>
<td></td>
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</tr>
<tr>
<td></td>
<td>• number of grants provided</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• financial development of companies assisted (particularly, market success or failure of those who received product-to-market grants, a problem being that the grant is unlikely to run for more than two years, and market success takes time, i.e. can happen after project completion, target should be 20% increase in sales, 15% increase in profits two years after assistance)</td>
<td></td>
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</tr>
<tr>
<td></td>
<td>• companies having left incubators for own premises (unlikely after two years in incubator)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Activities</td>
<td>Means</td>
<td>Assumptions</td>
<td></td>
</tr>
<tr>
<td>---------------------------------------------------------------------------</td>
<td>-----------------------------------------------------------------------</td>
<td>-------------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td>• Establish a Project Steering Committee</td>
<td>• Organise selection of up to six locations (under PPF)</td>
<td>• Effective co-operation with other players</td>
<td></td>
</tr>
<tr>
<td>• set up and properly resource a PIU to implement the project</td>
<td>• Procurement contracts for conversion works</td>
<td>• Suitable premises for conversion.</td>
<td></td>
</tr>
<tr>
<td>• provide external advice and support to these two new project structures</td>
<td>• Foreign TA, management and business advisory contract prepared and tendered</td>
<td>• Management capacity of MoE</td>
<td></td>
</tr>
<tr>
<td>• selection of up to six locations for the high tech incubators (tendering)</td>
<td>• Foreign TA, management and business advisory contract prepared and tendered</td>
<td>• High-tech study and RTD / innovation database under PPF completed</td>
<td></td>
</tr>
<tr>
<td>• identify the most suitable building which are available in up to six locations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• tender the renovation and refurbishment works</td>
<td></td>
<td></td>
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<tr>
<td>• tender equipment procurement</td>
<td></td>
<td></td>
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<tr>
<td>• tender contracts for the management of the incubators and business advice</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• training of business incubators management and staff</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>• selection of tenants</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>• provide service facilities for the incubators tenants (access to advanced computer work places, qualification courses and seminars, including interactive multimedia courses, teleconferencing)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• provide environment for expert RTD and organisational support (consultations and expert advice in the field of the company management and IST applications for SME, technological and market evaluation and business plans for RTD and innovation projects, e-commerce advice and recommendations, pilot demonstrations, best practice dissemination, help in commercialisation of RTD results, help in searching of risk capital for high-tech SME).</td>
<td></td>
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<tr>
<td>• Develop rules for a research-oriented grant scheme for technology SMEs or groups of SMEs</td>
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<tr>
<td>• Organisation of study trips</td>
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<tr>
<td>• Supervise and monitor the progress of the project.</td>
<td></td>
<td></td>
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<tr>
<td>• Administer grant scheme</td>
<td></td>
<td></td>
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</tr>
<tr>
<td><strong>Institution Building</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Tender for and select institution building consultants</td>
<td></td>
<td></td>
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<tr>
<td>• Advise and work with the PIU (procurement regulations, management and operational guide, rules for grant scheme)</td>
<td></td>
<td></td>
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<tr>
<td>• Advise on high tech incubators best practice</td>
<td></td>
<td></td>
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<tr>
<td>• Provide technical advisory inputs to the Project Steering Committee (evaluations of reports, training programme proposals, etc.)</td>
<td></td>
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<tr>
<td>• Advise incubator management (rental strategy, letting policy)</td>
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<td></td>
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<tr>
<td>• Train incubator managers and business advisers</td>
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<tr>
<td>• Provide direct assistance to start-ups</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>• Organise study trips</td>
<td></td>
<td></td>
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<tr>
<td>• Advise on the proposed research grant scheme to SMEs or groups of SMEs</td>
<td></td>
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## Annex 2  Implementation Chart – High-Tech Incubators

<table>
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<tr>
<th>Components</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
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<tr>
<td>PIU operational</td>
<td>X X X X X X X X X</td>
<td>X X X X X X X X X</td>
<td>X X X X X</td>
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<tr>
<td>PSC operational</td>
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<td>X X X X X X X X X</td>
<td>X X X X X</td>
<td>X X X X</td>
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<tr>
<td>Draw up op. guidelines</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Call for proposals / project publicity</td>
<td>X X</td>
<td></td>
<td></td>
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<tr>
<td>Project selection</td>
<td></td>
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</tr>
<tr>
<td>Tender for incubator mgmt, business advisory service and TA contract</td>
<td>X</td>
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<td></td>
<td></td>
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<tr>
<td>IB / technical assistance</td>
<td>X X X X X X X X X</td>
<td>X X X X X</td>
<td>X X X X X</td>
<td>X X X X</td>
</tr>
<tr>
<td>Works tendering</td>
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<td></td>
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<tr>
<td>Contract awards (reconstruction)</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction works</td>
<td>X X X X X X X X X</td>
<td></td>
<td></td>
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<tr>
<td>Incubator mgmt operative</td>
<td>X X X X X X X X X</td>
<td>X X X X X</td>
<td>X X X X X</td>
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<tr>
<td>Opening of incubators to tenants</td>
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<td></td>
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<td>Business advisory services</td>
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<td>Monitoring and evaluation</td>
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<td>Mid term evaluation</td>
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<td>Final evaluation</td>
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**Annex 3**

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<th>DATE</th>
<th>01-04-02</th>
<th>01-07-02</th>
<th>01-01-03</th>
<th>31-12-03</th>
<th>01-01-04</th>
<th>31-12-04</th>
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<tr>
<td>Conversion and equipment contracts</td>
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<td>1,500</td>
<td>2,400</td>
<td>2,400</td>
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<tr>
<td>IB</td>
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<td>150</td>
<td>150</td>
<td>150</td>
<td>150</td>
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<tr>
<td>Incubator mgmt and advisory service contracts</td>
<td></td>
<td></td>
<td>450</td>
<td>450</td>
<td>900</td>
<td>900</td>
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<tr>
<td><strong>Total committed (minus grants)</strong></td>
<td></td>
<td>1,500</td>
<td>2,400</td>
<td>3,000</td>
<td>3,000</td>
<td>3,450</td>
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<tr>
<td>Sub-total Disbursed</td>
<td></td>
<td>900</td>
<td>2,800</td>
<td>3,000</td>
<td>3,250</td>
<td>3,450</td>
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<tr>
<td>Grants disbursed</td>
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<td>600</td>
<td>1,000</td>
<td>2,300</td>
<td>4,500</td>
<td>7,000</td>
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<tr>
<td><strong>Total disbursed</strong></td>
<td></td>
<td>1,500</td>
<td>3,800</td>
<td>5,300</td>
<td>7,750</td>
<td>10,450</td>
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