Standard Summary Project Fiche

1. Basic Information

1.1 CRIS Number: BG2003/004-937.02.03

1.1 Title: Introduction of Cluster Approach and Establishment of a Pilot Cluster Model

1.2 Sector: Internal Market and Economic Criteria

1.3 Location: Bulgaria

2. Objectives

2.1 Overall Objective(s):

To improve the competitiveness of an appropriate sectors of the Bulgarian Economy using cluster model advantages in order to achieve sustainable growth.

2.2 Project purpose:

To establish two pilot clusters in selected sectors and to strengthen institutional capacity for implementing cluster model using EU practice as groundwork for successful multiplication of the models in other sectors.

2.3 Accession Partnership (AP) and NPAA priority

This project addresses a number of priorities within the Accession Partnership and the National Programme for the Adoption of the Acquis:

- Stimulation and support for Bulgarian SMEs;
- Preparation of Bulgarian regions for the implementation of the structural policies applied by the EU Member States through the development of strategies and programmes for sustainable social and economic development;
- Encouraging the introduction of the European and international quality systems - support of the introduction and certification of international quality management systems, as well as through training and consultations, especially of SMEs in order to assist their export potential;
- Benchmarking of the different aspects of the enterprise policy with the EU member states and candidate countries will help the introduction of the best practices;
- Education and training in entrepreneurship spirit and information technologies;
- Stimulating the creation of new jobs, stimulating the start-ups and pursuing of as self-employed business activities.

2.4 Contribution to National Development Plan

The implementation of the proposed project is in line with the programme measures of the National Economic Development Plan (NEDP) for the use of pre-accession instruments and further preparation for the management of the structural funds after accession to the EU. It is in line with the Industrial policy measures and anticipated results stipulated in the NEDP - First Development Axis. The project will directly contribute to enhancing viability of the industrial SMEs and for encouraging high technology and innovative productions as a key factor for achievement of dynamic and stable economic growth.

The establishment of cluster model is closely bound to the implementation of the SMEs development action plan as a part of a development of the competitiveness of the Bulgarian economy.
2.5 Cross Border Impact:
N/A.

3. Description

3.1 Background and justification:
Cluster can be defined as a geographically bound concentration of similar, related or complementary businesses, with active channels for business transactions, communications and dialogue, that share specialized infrastructure, labour markets and services, and that are faced with common opportunities and threats. Clustering gives businesses an advantage over more isolated competitors. It provides access to more suppliers and customized support services, to experienced and skilled labour pools, and to the inevitable transfer of knowledge that occurs where people casually meet and talk business. Clustering enables companies to focus on what they know and do best; they need not do things they do not do well. Firms also benefit from synergy - companies able to operate more or less as a system can use their resources more efficiently and collectively produce more than the sum of their individual outputs. Among all of the advantages of clustering, none is as important as access to innovation, knowledge, and know-how.

It consists of groups of companies and/or services and all of the public and private entities on which they in some way depend, including suppliers, consultants, bankers, lawyers, education and training providers, business and professional associations, and government agencies.

The clusters approach is particularly relevant to Small and Medium-sized Enterprises (SMEs) because a typical SME does not have all the range of skills and support systems within the scale at which it operates. The small and medium enterprises have not the means and the potential to independently make researches and to adopt modern practices.

In the process of reformation and restructuring of the Bulgarian economy a lot of small and medium sized enterprises have emerged and the need to regroup these SMEs into clusters has become apparent.

Clusters are a new concept for the countries in transition, including Bulgaria, and just recently have become a subject for analysis. In 2001 under the Phare project BG 9908.2 “Capacity Building for the Accelerated Growth of the SME Sector in Bulgaria” an investigation has been made and a Strategy has been proposed for the clusters development in Bulgaria. The investigation narrowed down potential clusters to 13 sectors. As a result of this analysis 5 specific sub-sectors have been identified as having comparative advantages and have been selected for a second stage analysis and as potential pilot clusters: essential oils, wood products, historical tourism, specialists textile, wine production.

Helping an already accumulated in given sectors of the Bulgarian industry to create competitive advantages is what this project aims.

3.2 Linked activities:
The proposed project is a follow–up of the PHARE project BG 9908.2 “Capacity Building for the Accelerated Growth of the SME Sector in Bulgaria.

Some ideas concerning the project are based on the USAID/MSI Project “Bulgaria Competitiveness Exercise (BCE) Update” and the Industrial enterprises study (Panorama of Bulgarian Manufacturing Industry) by sectors and regions, prepared by the MoE, with the help of the Japan International Cooperation Agency-March 2002.

3.3 Results:
1. Sectors of economy (up to two) identified where cluster approach leads to cluster benefits and successful candidates (cluster members) have been chosen.
2. Cluster strategies developed and action plans established.

3.4 Activities:
1. Identification two sectors of the economy where cluster approach will lead to long-turn cluster benefits including:
   - Development of criteria and procedure for identification the industrial sectors based on Phare Project BG 9908.02 where five sectors have been identifies following GEM and GEM+ Distinctiveness analysis used in this project;
   - Setting up criteria and overall methodology for selection and evaluation of potential members;
   - Two sectors selection (possibly: one with “horizontal activities” - its strategies and action plans can be applied in other sectors, and second with specific activities, where cluster advantages can be fully reveal);
   - Campaign for recognition potential cluster members and initial training on cluster model to point advantages of cluster for its members;
   - Cluster members selection;
   - Identification of necessary equipment and training for cluster management bodies.
2. Development of Cluster strategies and action plans for reaching the overall goals and objectives of the cluster using separated approach on each sector.
3. Establishment of the institutional support for clusters:
   - Creation and registration (if appropriate) of cluster management bodies;
   - Definition of the roles of relevant public, private and support organizations on the clusters actions and co-ordination of their activities;
   - Provision of adequate equipment;
   - Development of Management Procedures and Management Information System for the clusters based on best EU practices;
   - Cluster management bodies being trained on Management Procedures and managerial skills.

3.5 Lessons learned:
The development of a cluster model is an innovatory approach. However, the project has been developed as a result of involvement with the cluster development/building initiative sponsored under the Phare project 9908 Capacity Building for the SME Sector. From this involvement the ‘lessons learned’ in the development of clusters in the EU have been applied to this project.

Under USAID/MSI Project ‘Bulgaria Competitiveness Exercise (BCE) Update” cluster study have pointed some industry sectors: apparel and garments - Rousse, food processing - Plovdiv, wood processing and furniture - Razlog, IT - Sofia, electronic assembly - Sofia, maritime transportation - Varna, tourism – Pamporovo, wine industry, agriculture business and finance and emphasize their problems.

4. Institutional Framework
On the national level the key institutions involved in the implementation of the Project will be:

1. Ministry of Economy of the Republic of Bulgaria;
2. District Administrations;
3. Agency for Small and Medium-sized Enterprises (ASME);
4. Bulgarian Association of Regional Development Agencies (BARDA);
5. Professional Branch associations.
6. CFCU, Ministry of Finance
The Beneficiary of the project will be the Ministry of Economy. It will be responsible for overall management, implementation and co-ordination of the Project. A PIU will be operated in the MoE, with joint participation of ASME. The PIU will assist in the cooperation between the government institutions, the non-government organizations supporting.

ASME is the administrative unit at the Council of Ministers undertaking activities for the implementation and co-ordination of the national policy for SME development. The six regional agencies of ASME, which have been set up as a result of the PHARE project BG9908.02, in common with local authorities will also assist in facilitating SMEs to access the project, on the regional level. ASME will work together with BARDA for identifying the interested companies and will provide expertise and administrative support. They will assist the organization of promotion campaigns through their networks.

Professional Branch associations will act as mediators between government structures on central and local level and interested companies in providing adequate information and in supporting their members to apply to the project, to implement the cluster model, to multiply the approach amongst the members etc.

For some sectors Branch associations can act as a cluster management body after passing appropriate training programme.

5. Detailed Budget (in MEUR)

<table>
<thead>
<tr>
<th></th>
<th>Phare Support</th>
<th>Institution Building</th>
<th>Total Phare (I+IB)</th>
<th>National Co-financing*</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Contract I Service</strong></td>
<td>€ 0.500 M</td>
<td>€ 0.500 M</td>
<td>€ 0.660 M</td>
<td>€ 0.160 M</td>
<td>€ 0.800 M</td>
</tr>
<tr>
<td><strong>Contract II Supply</strong></td>
<td>€ 0.100 M</td>
<td>€ 0.100 M</td>
<td>€ 0.140 M</td>
<td></td>
<td></td>
</tr>
<tr>
<td>for Management Bodies and common use</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>€ 0.100 M</td>
<td>€ 0.500 M</td>
<td>€ 0.600 M</td>
<td>€ 0.200 M</td>
<td>€ 0.800 M</td>
</tr>
</tbody>
</table>

* Should the total cost of the equipment under Contract II exceed the estimate shown in the table above the private beneficiaries /cluster members/ will provide the necessary additional co-financing.

6. Implementation Arrangements

6.1 Implementing Units

6.1.1. Implementing Agency (IA)

The Implementing Agency will be the CFCU, Ministry of Finance. The CFCU will be the Contracting Authority and in that capacity will conduct tenders, conclude contracts and authorize related payments.

The NAO will nominate the PAO for the project.

6.1.2. Project Implementation Unit (PIU)

The technical implementation of the project will be the responsibility of the Ministry of Economy - Coordination and Management of Programmes and Projects and Directorate of Sectoral Analyses, working in close co-operation with ASME (Regional ASME offices will act as local co-ordinators).

The Ministry will establish PIU whose main function will be the day-to-day co-ordination and implementation of the project activities. In this respect PIU will ensure that all activities to be provided (equipment to be procured, advice to be offered, and training to be delivered) will be undertaken in strict accordance with the agreed work plan and Practical Guide procedures and will be authorized by the PAO.
6.1.3. Project Steering Committee (PSC)

The Ministry of Economy will establish a Project Steering Committee. The Committee will supervise the implementation of the project, review and approve project outputs, and their conformity with the purposes of NEDP. The PSC will comprise in particular representatives from:

- Ministry of Economy;
- Ministry of Finance;
- Ministry of Education and Science
- Delegation of the European Commission;
- Regional Governor Offices;
- ASME;
- BARDA;
- Professional branch organizations.

A Deputy minister of MoE will chair the PSC.

6.2 Twinning

No twinning component is envisaged for this project.

6.3 Non-standard aspects

There are no non-standard contracts or tender procedures envisaged within this project. The Phare practical guide will be strictly followed. For the provision of services the Phare DIS manual will be adhered to.

6.4 Contracts

It is envisaged that there will be two contracts:

- Service contract (No. I) - to the amount of 0.660 MEUR
- Supply contract (No. II) - to the amount of 0.140 MEUR (Equipment for Cluster Management bodies and for common use)

7. Implementation Schedule

7.1 Start of tendering/call for proposals

The first quarter of 2004

7.2 Start of project activity

The fourth quarter of 2004

7.3 Project completion

The fourth quarter of 2006

8. Equal Opportunity

The project will be implemented according to the regulations of Bulgarian law and the project implementation procedures will ensure that the project brings benefits to men and women, and to ethnic groups in equal measure. Special attention will be paid to ensure that women and members of ethnic groups are included in the projects.

9. Environment

The project will not be harmful to the environment.
10. **Rates of return**
N/A

11. **Investment criteria**

11.1 **Catalytic effect:**
The Project will facilitate the creation of a legal framework for the further development of the cluster model and will support SMEs in the practical adoption of the European Directives and in the application of the world standards in quality and market performance. The training on market-oriented management will reinforce the export capacity of SMEs in the clusters. The Ministry of Economy will contribute to the dissemination of this experience in other sectors of industry.

11.2 **Co-financing:**
The necessary co-financing for this project will be provided from the Bulgarian National Fund.

11.3 **Additionality:**
No other finances will be displaced by this Phare intervention.

11.4 **Project readiness and size:**
Project will start after preparing detailed operational guidelines to complete the general criteria for the project, as well tender dossiers and ToRs for Service Contract by responsible project units. Overall methodology for project implementation, operational monitoring and evaluation will also be prepared and comprised in the guidelines and manuals. All documents will be put in operation after approval by the ECD.
The Service Contractor will prepare technical specifications for the equipment in line with the needs of the project. Tendering of the equipment will be conducted by contracting authority.

11.5 **Sustainability:**
Sustainability will depend upon the future capacity of the Bulgarian Government to create policy and framework for sector development without external aid donor support. It is considered likely that such a capacity will exist prior to 2006.
The long-term sustainability will depend on the skills and ability of cluster management bodies for future maintenance of the cluster structures. These skills and abilities will be directly connected to the efficient implementation of the project.

11.6 **Compliance with state aids provisions**
The project is in accord with item 92(3)a of the Treaty of Rome and the relevant Bulgarian legislation. All actions financed by Phare will be carried out in line with the Phare procedures and will respect and comply with the state aid agreements.

11.7 **Contribution to NDP**
The implementation of the proposed project is in line with the program measures of the National Economic Development Plan (NEDP) for the use of pre-accession instruments and further preparation for the management of the structural funds after accession to the EU. It is in line with the Industrial policy measures and anticipated results stipulated in the NEDP – First Development Axis. The project will directly contribute to enhancing viability of the industrial SMEs and for encouraging high technology and innovative productions as a key factor for achievement of dynamic and stable economic growth.
The establishment of the pilot cluster model is closely bound to the implementation of the SMEs development action plan as a part of a development of the competitiveness of the Bulgarian economy.

12. **Conditionality and sequencing**
Supporting and incentive state policy for identification and development clusters.

**ANNEXES TO PROJECT FICHE**

1. ANNEX 1 - Logical framework matrix;
2. ANNEX 2 - Implementation chart;
3. ANNEX 3 - Contracting and disbursement schedule by quarter to full duration of the programme (MEUR);
4. ANNEX 4 - List of relevant Laws and Regulations;
5. ANNEX 5 - ADMINISTRATIVE CAPACITY FOR IMPLEMENTATION OF PHARE PROJECT PROPOSAL “Introduction of Cluster Approach and Establishment of a Cluster Model”;
7. ANNEX 7 - DETAILED BUDGET BREAKDOWN (Assumptions, for EC information only).
<table>
<thead>
<tr>
<th>LOGFRAME PLANNING MATRIX FOR Project</th>
<th>Programme name and number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction of Cluster Approach and Establishment of Cluster Model</td>
<td>Contracting period expires</td>
</tr>
<tr>
<td></td>
<td>Disbursement period expires</td>
</tr>
<tr>
<td>Total budget: <strong>0.8 MEUR</strong></td>
<td>Phare budget: <strong>0.6 MEUR</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Overall objective</th>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
</tr>
</thead>
<tbody>
<tr>
<td>To improve the competitiveness of an appropriate sectors of the Bulgarian Economy using cluster model advantages in order to achieve sustainable growth.</td>
<td>• Reinforced position of individual SMEs</td>
<td>• National Statistical Institute regular and annual reports; • MoE Reports; • Commission reports on Bulgaria’s progress toward Accession. • ASMEs report on SMEs.</td>
</tr>
</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 establish cluster in selected sectors and to strengthen institutional capacity for implementing cluster model using EU practice as groundwork for successful multiplication of the pilot cluster model in other sectors.</td>
<td>• 8% production and sales growth in the chosen sectors; • Cost reduction.</td>
<td>• National Statistical Institute regular and annual reports; • MoE Reports.</td>
<td>• Bulgarian Government Programmes for Development of the SMEs</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Results</th>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Sectors of economy /up to two/ identified where cluster approach leads to cluster benefits and successful candidates /cluster members/ have been chosen. 2. Cluster strategies developed and action plans established 3. Cluster management bodies established, trained and equipped. Managing procedures and Management Information Systems set up.</td>
<td>• Cluster management bodies established; • Action plans developed and accepted; Cluster Management Information System developed;</td>
<td>• Project progress reports; • Cluster management bodies reports; • Cluster Management Information System (MIS) data;</td>
<td>• Existing branch association bodies to be involved; • Support from other relevant institutions;</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Activities</th>
<th>Means</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Identification two sectors of the economy where cluster approach will lead to long-turn cluster benefits including: • Development of criteria and procedure for identification the industrial sectors based on Phare Project BG 9908.02 where five sectors have been identifies following GEM and GEM +</td>
<td>• Service Contract • Supply Contract equipment for Management Bodies and for common use</td>
<td>• Effective co-operation with other institutions especially universities and research institutes &amp; ASME.</td>
</tr>
</tbody>
</table>
Distinctiveness analysis used in this project;
- Setting up criteria and overall methodology for selection and evaluation of potential members;
- Two sectors selection (possibly: one with “horizontal activities” - its strategies and action plans can be applied in other sectors, and second with specific activities, where cluster advantages can be fully reveal);
- Campaign for recognition potential cluster members and initial training on cluster model to point advantages of cluster for its members;
- Cluster members selection;
- Identification of necessary equipment and training for cluster management bodies.

2. Development of Cluster strategies and action plans for reaching the overall goals and objectives of the cluster using separated approach on each sector.

3. Establishment of the institutional support for clusters:
- Creation and registration (if appropriate) of cluster management bodies;
- Definition of the roles of relevant public, private and support organizations on the clusters actions and co-ordination of their activities;
- Provision of adequate equipment;
- Development of Management Procedures and Management Information System for the clusters based on best EU practices;
- Cluster management bodies being trained on Management Procedures and managerial skills.

<table>
<thead>
<tr>
<th>Preconditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Supporting and incentive state policy for SMEs,</td>
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</table>
## Implementation Chart

**PROJECT TITLE:** Introduction of Cluster Approach and Establishment of a Cluster Model

<table>
<thead>
<tr>
<th>PERIOD</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Qtr1</td>
<td>Qtr2</td>
<td>Qtr3</td>
</tr>
<tr>
<td>Component 1</td>
<td>T</td>
<td>T</td>
<td>T</td>
</tr>
<tr>
<td>Component 2</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Legend: T – tendering, C – contracting, I – implementation

## Contracting and disbursement schedule by quarter to full duration of the programme (MEUR)

**PROJECT TITLE:** Introduction of Cluster Approach and Establishment of a Cluster Model

<table>
<thead>
<tr>
<th>PERIOD</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Qtr1</td>
<td>Qtr2</td>
<td>Qtr3</td>
</tr>
<tr>
<td>Component 1</td>
<td></td>
<td></td>
<td>€ 0.660 M</td>
</tr>
<tr>
<td>Contracting</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disbursement</td>
<td></td>
<td>€ 0.396 M</td>
<td>€ 0.594 M</td>
</tr>
<tr>
<td>Component 2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contracting</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disbursement</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
ANNEX 4

List of relevant Laws and Regulations.

1. Law on Small and Medium-Sized Enterprises - *Official Gazette* No. 84/1999
ANNEX 5

ADMINISTRATIVE CAPACITY FOR IMPLEMENTATION OF PHARE PROJECT PROPOSAL
“Introduction of Cluster Approach and Establishment of a Cluster Model”

The Ministry of Economy was established in December 1999 as a result of the merger of the Ministry of Industry and the Ministry of Trade and Tourism. The responsibilities of the Ministry of Economy include sector and regional industrial policy, foreign economic and trade policy, tourism and certain registration and licensing activities, enterprise restructuring and privatization.

Actively from 15.10.2001 within the Ministry of Economy was established Project Implementation Directorate (PID), responsible for implementation of projects and programmes, financed by the European Union. The PIUs of PHARE projects are part of Project Implementation Directorate. On September 19, 2002 a new Organizational Statute of the Ministry of Economy was adopted. The Project Implementation Directorate was enlarged and renamed to “Coordination and Management of Programmes and Projects” Directorate (CMPP).

The Coordination and Management of Programmes and Projects Directorate at the Ministry of Economy comprises of 25 full-time Commission Staff. The personnel of the Directorate are divided into two departments – “Programming, monitoring and Japanese Technical Assistance” and “Analysis and Implementation of Programmes and Projects”.

The “Programming, monitoring and Japanese Technical Assistance” Department comprises of eleven full time staff who are involved in the following activities:
- planning and programming of projects’ finance resources from pre-accession funds of the European Union, which are in the competence of the Ministry of Economy;
- preparation and actualization of the National Economic Development Plan of the Republic of Bulgaria for the respective programming period;
- organization and technical support for the activities of the Economic Development Sector Subcommittee for monitoring of PHARE Program implementation;
- coordination of programming activities and absorption of the Japanese technical assistance to the Republic of Bulgaria;
- organization and coordination of activities in the area of monitoring and evaluation of results and impacts;
- coordination of activities concerning management of donor programs, led by the Ministry of Economy;
- other activities as per the Statute of the MoE;

The “Analysis and Implementation of Programmes and Projects” Department counts twelve persons who are responsible for:
- organization, coordination and management of programme implementation financed by the EU that are in the scope of the Ministry of Economy;
- coordination of the participation of the Ministry of Economy in EU programs, including horizontal long-term programmes of the European Commission;
- preparation of position papers on program documents and financial agreements;
- other activities as per the Statute of the MoE;

The directorate interacts with respective structures within the Ministry of Economy as well as with other ministries and organizations and with administrative structures of the European Commission and countries outside the EU on issues in the scope of its activities.
It is planned Phare Project Proposal “Introduction of Cluster Approach and Establishment of a Cluster Model” to be implemented with the participation of the following institutions:

On the **national level** the key institutions involved in the implementation of the Project will be:

- Ministry of Economy of the Republic of Bulgaria;
- Ministry of Finance;
- CFCU;
- District Administrations;
- Agency for Small and Medium-sized Enterprises (ASME);
- Bulgarian Association of Regional Development Agencies (BARDA);
- Professional Branch associations.

Professional Branch associations will act on **central and local level**.

The **Project Implementation Unit (PIU)** will comprise representatives from:

- Coordination and Management of Programmes and Projects Directorate, the Ministry of Economy – consist of 25 full-time experts
- Directorate of Sectoral Analyses, the Ministry of Economy - counts 29 full-time staff persons
- Agency for Small and Medium Size Enterprises (ASME).

The **Project Steering Committee (PSC)** will comprise in particular representatives from

- Ministry of Economy;
- Ministry of Finance;
- Ministry of Education and Science
- Delegation of the European Commission;
- Regional Governor Offices;
- ASME;
- BARDA;
- Professional branch organizations.

A Deputy Minister – Economic Policy, Ministry of Economy, will chair the Project Steering Committee.
ANNEX 6

NEEDS ASSESSMENT OF PHARE 2003 PROJECT PROPOSAL “INTRODUCTION OF CLUSTER APPROACH AND ESTABLISHMENT OF A CLUSTER MODEL”

In the process of reformation and restructuring of the Bulgarian economy a lot of small and medium sized enterprises have emerged. SMEs, which in Bulgaria are above 90% of all companies, have been facing the need to improve their technological capability and to lower production costs simultaneously in order to meet competition in short and long term. Small and medium firms can not innovate individually, due to many reasons such as the costs of innovative processes, the difficulty of these processes, etc. Instead innovative enterprises tend to form groups to develop new technologies, conduct research activities, enrol skilled personnel, etc.

Increased competitiveness both nationally and internationally requires access to resources and knowledgesuch as:
♦ know-how;
♦ new technology;
♦ research;
♦ training;
♦ marketing and PR;
♦ local and international networks;
♦ support services;
♦ skilled workforce, etc.

SMEs have not the capacity to meet these requirements alone.

Possible solution is establishment of a cluster. It consists of groups of companies and/or services and all of the public and private entities on which they in some way depend, including suppliers, consultants, bankers, lawyers, education and training providers, business and professional associations, and government agencies. This collaborative structure produces lower cost of supplies and components, specialized and customized services, skilled labor, potential partners and access to tacit knowledge of technology, markets and opportunities to network. Clusters are created to reinforce the position of individual SMEs.

Cluster model can help SMEs for:
♦ Identification of specific problems and finding optimal way to resolve them;
♦ Achievement of long-term competitiveness especially when Bulgaria become member of EU.

Cluster approach become successful tool of economic development policy in less favored sectors and regions in many parts of the world.

Clusters by their nature are demand driven, with companies acting in their own best interests. An investigation under Phare project BG 9908.2 “Capacity Building for the Accelerated Growth of the SME Sector in Bulgaria” has been made. It narrowed down potential clusters to 13 specific sectors and 5 specific sub-sectors have been identified as having comparative advantages and have been selected for a second stage analysis and as potentially growth enough for cluster establishment. A proposal has been drafted for the cluster model development in Bulgaria.
The implementation of cluster development strategies varies considerably from one sector to another. No perfect model applicable everywhere in the same way. The cluster model have to be adapted to the specific socio-economic, political and cultural characteristics and organizes in different way.

Main reasons to request for EU expert and financial support for developing cluster model in Bulgaria:

1. The needs for external expert support, know-how and financial resources are crucial in the start-up of cluster model because SMEs have not enough knowledge and abilities to organize and financial potential to invest.

2. SMEs are not capable without external help to develop to cluster strategy and professional project management action plans including structure of projects, time schedule, budgets, staff demand etc., reflecting the framework conditions in which the cluster will be implemented.

3. Critically important factor for the success of the cluster is the capacity of cluster management body to guarantee quality, cost efficiency and timely implementation of action plans, which requires appropriate training programme and assistance in order to learn from EU best practices. The cluster management body have to use highly sophisticated methods of multi-project management to guarantee quality, cost efficiency and timely implementation of all actions and operations of the whole network.

4. Financial support in the first stage of cluster lifecycle will guarantee success of the cluster and further growth, which will lead to complete self-financing in the next stages.

5. Cluster approach can help SMEs to reach quality standards and appropriate EU directives for the sector.

6. Cluster model will help SMEs entrepreneurs to raise their managerial capacity and skills as well as building specialized and qualified workforce.

Focusing on industry clusters gives a competitive advantage and will foster continued growth in the sector.

Successful implementation of the cluster model will become groundwork for multiplication and establishment of new clusters in the same industry sectors as well as in complementary sectors stimulating economic development and growth.

The implementation of the project will give the Ministry of Economy, ASME and other related institutions knowledge and experience, learning with best EU practices in cluster strategy and action plan development and implementation. This knowledge and experience obtained will help MoE to implement successfully cluster know-how in other economy sectors without external assistance.
ANNEX 7

DETAILED BUDGET BREAKDOWN (assumptions, for EC information only)

<table>
<thead>
<tr>
<th>Activity</th>
<th>MEUR</th>
<th>Contract</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Identification the sectors of the economy where cluster approach will lead to long-turn cluster benefits including:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Development of criteria and procedure for identification the industrial sectors based on Phare Project BG 9908.02 where 5 sectors have been identifies following GEM and GEM + distinctiveness analysis used in this project;</td>
<td>0.040</td>
<td>Contract I</td>
</tr>
<tr>
<td>Setting up criteria and overall methodology for selection and evaluation of potential members;</td>
<td>0.040</td>
<td>Contract I</td>
</tr>
<tr>
<td>Two sectors selection (possibly: one with “horizontal activities” - its strategies and action plans can be applied in other sectors, and second with specific activities, where cluster advantages can be fully reveal);</td>
<td>0.020</td>
<td>Contract I</td>
</tr>
<tr>
<td>Campaign for recognition potential cluster members and initial training on cluster model to point advantages of cluster for its members;</td>
<td>0.060</td>
<td>Contract I</td>
</tr>
<tr>
<td>Cluster members selection.</td>
<td>0.040</td>
<td>Contract I</td>
</tr>
<tr>
<td>Identification of necessary equipment and training for cluster management bodies.</td>
<td>0.010</td>
<td>Contract I</td>
</tr>
<tr>
<td>2. Development of Cluster strategies and action plans for reaching the overall goals and objectives of the cluster using separated approach on each sector.</td>
<td>0.180</td>
<td>Contract I</td>
</tr>
<tr>
<td>3. Establishment of the institutional support for clusters:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Creation and registration /if appropriate/ of cluster management bodies</td>
<td>0.010</td>
<td>Contract I</td>
</tr>
<tr>
<td>Definition of the roles of relevant public, private and support organizations on the clusters actions and co-ordination of their activities</td>
<td>0.040</td>
<td>Contract I</td>
</tr>
<tr>
<td>Provision of adequate equipment</td>
<td>0.140</td>
<td>Contract II</td>
</tr>
<tr>
<td>Development of Management Procedures and Management Information System for the clusters based on best EU practices</td>
<td>0.160</td>
<td>Contract I</td>
</tr>
<tr>
<td>Cluster management bodies being trained on Management Procedures and managerial skills.</td>
<td>0.060</td>
<td>Contract I</td>
</tr>
<tr>
<td><strong>Total for the project</strong></td>
<td><strong>0.800</strong></td>
<td></td>
</tr>
<tr>
<td>For Contract I</td>
<td><strong>0.660</strong></td>
<td></td>
</tr>
<tr>
<td>For Contract II</td>
<td><strong>0.140</strong></td>
<td></td>
</tr>
</tbody>
</table>