Standard Project Fiche
Project Fiche for Phare

1. Basic Information

1.1 CRIS Number (Year 1): BG 2005/017-586.04.02
1.2 Title: Cluster Development Initiatives – Phase II
1.3 Sector: ESC/Competitiveness
1.4 Location: Bulgaria
1.5 Duration: 36 months

2. Objectives

2.1 Overall Objective(s):
To increase the level of competitiveness and innovation in the SME sector as a basis for sustainable and balanced development of the economy.

2.2 Project purpose:
To support growth of existing or embryonic clusters of Bulgarian enterprises in order to improve their competitiveness.

2.3 Accession Partnership (AP) and NPAA priority (and implementing measures envisaged by the Action Plan for AP priorities related to strengthening administrative and judicial capacity)

The project contributes to the fulfilment of the Second Copenhagen criterion “The existence of a functioning market economy as well as the capacity to cope with competitive pressure and market forces within the Union”, and the priorities of Chapter 3 – Sectoral policies of NPAA in the part related to SMEs, namely the establishment of a national Network for SMEs support.

These targets correspond also to the National Program for the Adoption of the Acquis, and in particular to its strategic goals, the achievement of which is a pre-condition for accession, i.e. the existence of a functioning market economy and capacity to cope with competitive pressure and market forces within the Union; improvement of information and consultation services to SMEs and development of competitive SMEs as a stable economic sector by creating favourable institutional, regulatory, administrative and financial environment in the Republic of Bulgaria.

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 systems;
management systems, training and consultations, especially of SMEs in order to assist their export potential;

- Benchmarking of the different aspects of enterprise policy with the EU member states above it is Member States and candidate countries will help the transposition of their best practices;

- Education and training in entrepreneur spirit and information technologies;

Stimulating the creation of new jobs and of start-ups, and pursuing of self-employed business activities.

2.4 Contribution to National Development Plan (and/or Structural Funds Development Plan/SDP)

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 to encouraging high technology and innovative productions as a key factor for achievement of dynamic and stable economic growth.

The current project fully corresponds to the third priority (SMEs development) of the Operational Programme “Increasing the competitiveness of Bulgarian economy” of the National Development Plan. The activities of the project contribute to the measures of Sub-program SMEs, namely: support to the start-up of SMEs, SMEs development through provision of information and consultancies, facilitating SMEs access to financial resources. The project purposes correspond also to Objective 1 of the Regional Operational Programme – “Enhancing the regional and local economic activity”.

The establishment of cluster model is closely bound to the implementation of the SMEs development action plan as a part of a development of Bulgarian economy competitiveness.


2.5 Cross Border Impact

N/A.

3. Description

3.1 Background and justification:
Cluster advantages

Over the last decade clusters and clusters initiatives have been recognized as a successful tool for economic development all over the world. Cluster initiatives become part of industrial, regional and innovation policies.

‘Cluster’ can be defined as a geographically bound concentration of similar, related or complementary businesses (including suppliers, consultants, bankers, lawyers, education and training providers, business and professional associations, and government agencies) 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. This collaborative structure produces lower cost of supplies and components, specialized and customized services, skilled labour, potential partners and access to tacit knowledge of technology, markets and opportunities to network. Clusters optimise product value throughout the network. Clustering enables companies to focus on what they know and do best. 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 clustering advantages, none is as important as access to innovation, knowledge, and know-how.

Cluster concept covers a variety of different business structures - national-regional-cross-border clusters, clusters of competence, industrial or production systems and innovation systems. It is used for different purposes - to increase the competitiveness of SMEs, to support collective research, to rationalise a whole industry, and to implement environment management system. The cluster has a positive influence on: competitiveness and innovation, skill formation and information, growth and long-term business dynamics. Clusters by their nature are demand driven, with companies acting in their own best interests.

Cluster 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 do not possess the means and the potential to independently make researches and to adopt modern practices. Industrial clusters and networks are proven to be an efficient instrument tackling structural problems within SMEs and an instrument for rapid innovation and growth. Clusters help disseminate a positive industrial culture, improve the competitiveness of the whole system and foster the diffusion of technical and managerial skills. Within a cluster, entrepreneurs have a unique opportunity to learn from each other, as well as to copy from the experience of the most successful competitors. It is demonstrated that this emulative and competitive process favours a rapid diffusion of innovation and forces market leaders to constantly research for innovative technical and commercial solutions. It is also important to stimulate innovation through specialised networks of innovative interrelated firms, especially in areas deriving competitive advantages primarily from accumulated, embedded and imported knowledge among local actors.

Clusters are created to reinforce the position of individual SMEs. Cluster model can help SMEs in:

♦ Identification of specific problems and finding optimal ways to resolve them;
Achievement of long-term competitiveness.

The role of the government for clusters support

According to the Final Report of the Expert Group on Enterprise Clusters and Networks Promotion of Entrepreneurship and SMEs Improving Business Support Measures Project, Enterprise Directorate-General, European Commission, the role of the national governments and the EU in promoting clusters and networks includes:

- Catalytic role;
- Establishment of framework;
- Exchange of information;
- Financial support.

Cluster-related surveys in Bulgaria and recent tendencies in the field

Studies carried out in 2001-2002 (Phare Project BG 9908.02 “Capacity Building for the Accelerated Growth of the SME Sector in Bulgaria” - report 2001, 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) revealed sectors of Bulgarian industry with a growth potential enough to establish clusters and pointed at some non-formal clusters.

The findings of Phare Project BG 9908.02 “Capacity Building for the Accelerated Growth of the SME Sector in Bulgaria” studies indicate that Bulgarian SMEs have sufficient resources and original products and they could reposition themselves on national and international market by co-coordinating horizontally and vertically their activities (organize themselves in a cluster) and by implementing common strategies and quality requirements.

In that process public authorities should play a catalytic role in cluster development. Cluster policy is not about creating clusters from scratch but rather putting in place framework conditions favouring cluster development. It often involves fostering interactions between actors based on trade linkages, innovation linkages, knowledge flows and providing specialised infrastructure support.

Funds invested in cluster initiatives are very efficient, as the amounts involved are relatively small compared to benefits to the SMEs, particularly for networking and infrastructure.

The cluster study developed under USAID/MSI Project “Bulgaria Competitiveness Exercise (BCE) Update” has pointed to 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 has emphasized their problems and their capacity to form clusters.

The main conclusions made for all studied sectors are as follows:

- Existence of horizontal and vertical cooperation and collaboration as elements of clustering;
- Incomprehension of clustering advantages among all players;
- Lack of government support to clustering.

The suggestions made for successful development in these sectors using cluster approach are:
• Cultivate common interests;
• Develop better dialogue and understanding;
• Formalize and support existing non-formal cluster structures;
• Find outside agents, where possible to act as a catalyst for building confidence in collaboration and clustering.

Through German bilateral support a Frame of Reference (Conception) for Cluster Development in Bulgaria has been prepared, including a survey of cluster initiatives in the EU and identification of their critical success factors. Conception suggested combination of “bottom-up” and “top down” approaches for cluster development in Bulgaria. Mapping of economy sectors has been carried out with the purpose of identifying possibilities and weaknesses at macro-, mezzo-, and micro level. Awareness workshop has been conducted to promote cluster concept. In the IT Sector actions of cooperation among IT Sector companies, Technical University and service providers have been carried out (Student placement services have been elaborated under Task 2: Cluster Promotion of the project “WBF 2004 – Promotion of the Bulgarian Software Industry). Export promotion conception has been prepared.

Phare Project BG2003/004-937.02.03 “Introduction of Cluster Approach and Establishment of a Pilot Cluster Model” is under implementation. Results expected till the end of 2005 are as follows:

- Methodology (criteria and procedures) for identification of the industrial sectors where clusters can be established developed;
- Sectors selected;
- In-depth study of the sectors approved by MoE, in view of preparing them to elaborate cluster development strategies carried out;
- Campaign for recognition of potential cluster members and initial training on cluster model pointing to advantages of cluster for its members implemented;
- Methodology for cluster selection and evaluation developed;
- Two pilot clusters selected and support going on;

These results can be disseminated and utilised in present project implementation.

During the period (2002-2004) that follows the studies, a lot of changes have occurred. There is a significant accumulation in knowledge, experience and interest in clusters and cluster initiatives. In particular, the following new tendencies have been revealed:

1. The tendency SMEs to group in and to tighten up their relations accelerates in a number of sectors, such as:
   • Wood processing;
   • IT industry;
   • Textile industry;
   • Wine production;
   • Essential oils.

2. Attempts for setting up cluster projects in some industries have taken place. Two types of problems have been faced:
   • Lack of experience to manage cluster activities;
3. A new tendency has also been revealed – big enterprises become the core of newly appearing cluster structures and networks. SMEs group around one large or a limited number of large companies:

- Devnya region;
- Sevlievo region;
- Razlog region;
- Pirdop, Panagurishte region.

The international experience shows that the most successful clusters include leading firms that are part of global networks and are exposed to global market opportunities.

4. Active participation of business organizations like Bulgarian Industrial Association-BIA, Bulgarian International Business Association – BIBA (and some of its branches), Local municipalities, Regional District Authorities and NGOs in some of the cluster initiatives.

Some of these business organizations, Local municipalities and Regional District Authorities have knowledge and capacity to implement projects successfully.

5. Foundation of Entrepreneur Development takes part in INCLUDE (INdustrial CLUster DEvelopment) project funded within the framework Interreg III CADSES Programme, the Community Initiative for the European Regional Development Fund for the period 2000-2006. The project is aimed at providing an overview of existing potential clusters in Central and Eastern Europe, recommending how local Governments can undertake specific actions in order to create more supportive environment, as it has already been successfully experimented in Italy and Austria, through adaptation of industrial cluster methodology. For Bulgaria Food and Agro-industry in Plovdiv and Wood and Furniture in Blagoevgrad have been identified and analysed. The research has been supported by the analysis of EU regional laws concerning SMEs internationalisation and by the evaluation of the competitiveness of the identified clusters. As a result a high level of capacity for developing and cooperating with EU partners of identified clusters has been found.

6. Process of formal institutionalisation of clusters in Bulgaria has started:

- “Bulgarian Silk” cluster has been established in May 2004, the legal person representing the cluster has been registered in January 2005;
- IT Cluster Centre has been formally established in December 2004 as a nongovernmental organization;
- “Srednogorie – Copper” cluster formally has been established in January 2005 by representatives of local business including some leading companies of the region, local and regional authorities, Bulgarian Industrial Association-BIA, Bulgarian International Business Association– BIBA and Bulgarian Branch Association of Ferrous and Non-Ferrous Metallurgy.

7. Bulgarian government has explicitly recognised the cluster support as a tool of economic and innovation policy. The Innovation Strategy, adopted by Bulgarian Government in Sept. 2004 includes Measure 6: “Creation of clusters
in Bulgaria” as a tool for innovation and competitiveness support for Bulgarian enterprises.

8. The main social-economic partners of MoE, which have consolidated in Joint Consultative Council, including the following business organizations: Bulgarian Industrial Association, Bulgarian Chamber of Commerce and Industry, Association of Industrial Capital in Bulgaria, Bulgarian International Business Association, Employers Union in Bulgaria, Business Club “Vazrajdane”, Bulgarian Union of Private Entrepreneurs and Union for Economic Initiative, also recognize clusters as tool for economic development and insist on cluster support.

9. MoE takes actions to enhance its capacity for cluster support policy implementation:
   • Cluster Initiatives Survey has been prepared by General Economic Policy Directorate, MoE covering theoretical and practical aspects. International practices have been studied in order to highlight successful practices and adapt them to country specifics. Seven sectors of the national economy have been examined to reveal their capacity to form viable clusters: textile industry, food industry, wine industry, tourism, IT, electronic industry and wood processing.

10. Clusters and cluster initiatives become the focus of public interest end discussions– media, enterprises, NGOs, Municipalities and District Authorities etc.

**Bulgarian SMEs in the context of opportunities for clusters’ development**

Bulgarian SMEs sector starts to face the challenge of Bulgaria’s accession to the EU. During the short period of time before and after accession SMEs should prove their capability to develop in the common market environment by increasing their competitiveness.

A number of SME characteristics have been identified as needing improvement in order to raise their competitiveness.

One of the most important characteristics of competitiveness is the generated added value. Study performed by Enterprise Policy Directorate of MoE reveals the fact that Bulgarian SMEs, which are above 90% of all enterprises generate around 45% of the value added in GDP for 2002, which forms a substantial difference when compared to data from EU, where SMEs generate almost double share of added value, thus defining their important role in the economy of the Union.

Clusters are very important settings for enhancing productivity and added value of SMEs. Successful clusters create external economies by providing SMEs with better access to skills, common services, physical and knowledge infrastructure, networking, support for partnerships, branding, marketing, production systems, innovation, technological watch and co-financing from private and public players.

Some studies focused on entrepreneurship’s problems and obstacles have been carried out in previous years. According to them, ecological standards have been recognized as the biggest problem (41%) for the interviewed companies, followed by the standards for safe and quality production (38%), occupational and safety health
(32%), product requirements (31%), obligations for GMP (21%) and requirements for
R&D (12%). During the period 2000-2002 only 10.7% of Bulgarian enterprises
introduced innovative activities. Only 28% of the SMEs invested in new equipment in

The need of improving SMEs technological capability, of adopting EU legislation,
standards and requirements and of lowering production costs simultaneously are
particularly recognized as major obstacles in order to meet competition requirements
in the short and long term. Small and medium-sized firms can hardly innovate
individually, due to many reasons such as costs of innovative processes, difficulties in
processes’ implementation, increasing added value as a result of innovations, etc.
Instead, enterprises tend to form groups to develop new technologies, conduct
research activities, enrol skilled personnel, etc., which allows them to innovate in
cooperation and to keep the level of cost prices. For those SMEs developing or
applying high technology innovation capabilities, clusters form the perfect
environment.

Statistical data reveals disparities in economic and infrastructure development,
employment, incomes and quality of life among regions in Bulgaria. Reducing the
imbalance in development within and among the Bulgarian regions is an important
aim of the governmental policy. In order to reach this aim, regional clusters can play
significant role. Regional clusters have a very positive impact on regional economy.
They help regions to fully reveal their economic capacity. Clusters attract investments
in sectors and regions thus reducing regional disparities and increasing
competitiveness of regional economy. Regional clusters support SMEs to incorporate
themselves in national and global supply chains rather than having only regional
suppliers or clients.

Clusters also have positive social impact by reducing unemployment and providing
new possibilities to skilled workforce.

**Type and timing of support needed by clusters in Bulgaria**

Critical point of every economic intervention is the proper design and timing. Having
in mind the forthcoming date of accession, with all economic and social consequences
and the current situation of Bulgarian SMEs sector, a conclusion can be made that in
order to achieve smooth accession process cluster support intervention should be
massive and implemented as soon as possible.

Abovementioned surveys and studies on cluster development opportunities in
Bulgaria have outlined the most appropriate format of support to be provided to
clusters – support both for the activities of common interest for the cluster members,
and for the individual development needs of the separate cluster members.

Support to common cluster activities, related to cluster management and to common
cluster needs will assure cluster’s viability and sustainability through enhancing
synergy between cluster members, supporting effective cluster management and
access to new markets. At the same time, consultancy, investment and training
support to individual cluster members will improve each cluster member’s
management, enhance productivity and added value, lower production costs, create
external economies, stimulate innovation, best practices adoption and harmonized
legislation fulfilment, and will thus contribute to the overall cluster’s competitiveness.

**Conditions established for successful project implementation**
The present project is created as a continuation of Phare Project BG2003/004-937.02.03 “Introduction of Cluster Approach and Establishment of a Pilot Cluster Model”. The expected outcomes of this project (project results, basic documents created and implementation capacity gained) are in close relation with the implementation of the present project.

As results of Phare Project BG2003/004-937.02.03, National Cluster Strategy, and National Action Plan for Implementation of the National Strategy will be developed. These will contain a methodology for identification of clusters, for analysis and elaboration of cluster strategies, as well as an outline of the instruments for cluster support. It is expected these documents will be adopted by the Council of Ministers until the last quarter of 2005.

Another important result from the abovementioned project will be the selection and establishment of two pilot clusters, to be done on the basis of the a.m. strategic documents.

These expected outputs from the project “Introduction of Cluster Approach and Establishment of a Pilot Cluster Model” are to serve as a basis for the implementation of the present project. The methodology contained in the National Cluster Strategy, together with the lessons learned from the selection and institutional support measures to the two pilot clusters will be a valuable starting point for designing and precise targeting of this project’s activities. Apart from that, through taking active participation in the process of cluster selection, set up and support, both the Ministry of Economy’s (MoE) and the Executive Agency for Promotion of Small and Medium Sized Enterprises’s (BSMEPA) experts will gain practical experience in providing institutional support for clusters development, as well as the capacity to perform successful evaluation of project proposals and to monitor implementation of project activities.

The successful multiplication of pilot clusters will complement the results of both projects and will create synergy effect.

3.2 Sectoral rationale

N/A

3.2.1 Identification of projects

3.2.2 Sequencing

3.3 Results

3.3.1 Project 1

3.3.1.1 Purpose

To support growth of existing or embryonic clusters of Bulgarian enterprises in order to improve their competitiveness.

3.3.1.2 Results:

TA Component results
Promotion and media campaign carried out;
Workshops carried out: best EU practices and results available from project BG2003/004-937.02.03 “Introduction of Cluster Approach and Establishment of a Pilot Cluster Model” disseminated;
Potential applicant clusters screened and consulted;
Methodological support to potential applicants for identifying cluster members, assessing cluster development needs and developing cluster strategies - provided.
Fine tuning of cluster strategies and action plans done;
Monitoring common cluster strategies (action plans) implementation carried out;
Support and training of cluster management bodies (and/or cluster consultants, subcontractors of consultancy support component of the aid for common cluster activities part of Grant Scheme) provided.

Grant Scheme results:
About 8 – 14 cluster initiative projects supported - individual cluster enterprises competitiveness improved and business environment improved as a whole:
• effective cluster management set up and equipped;
• common for each cluster marketing & management strategies development and implementation supported;
• common cluster equipment delivered and set;
• common quality services received;
• successful partnership among all cluster players established;
• common tailor-made training provided;
• approach to new markets supported;
• individual members management supported;
• R&D activities supported;
• Know-how obtained and best practices adopted;
• innovative products created and/or new technology introduced;
• requirements of the harmonized legislation fulfilled.

Depending on the concrete cluster development initiatives (individual projects), part or all of above mentioned results should be achieved.

3.4 Activities (including Means)

TA component:
• To carry out awareness campaign on cluster approach:
  - Promotion activities will be held in the 6 regional planning centres;
  - Media campaign.
• To organize workshops to potential applicants in order to:
  - To disseminate best EU practices on cluster initiatives;
  - To spread results available from project BG2003/004-937.02.03 “Introduction of Cluster Approach and Establishment of a Pilot Cluster Model”;
• To screen and consult potential applicant clusters;
• On the basis of results and lessons learned from project BG2003/004-937.02.03 “Introduction of Cluster Approach and Establishment of a Pilot
Cluster Model”, to provide methodological support to the potential applicants in identification of cluster members, assessment of cluster development needs and preparation of common cluster strategies and action plans;

- To fine tune common cluster strategies (action plans) in the implementation stage;
- To monitor the implementation of common cluster strategies/action plans, (the technical monitoring should be implemented by the PIU):
- To provide consultancy support and to train cluster management bodies (and/or cluster consultants, subcontractors of consultancy support component of the aid for common cluster activities part of Grant Scheme) in the implementation phase

Cluster development grant scheme
The grant scheme will provide support to about 8-14 clusters. The individual grant will amount to up to 250,000 euro.

For the purpose of applying for grant aid under this project, the cluster members will have the following two options:

- either to establish a separate legal entity, that would act as leading organization under the application and be the beneficiary of the aid for the common cluster activities, as the individual cluster members will be partners in the project proposal, or
- to establish a consortium according to the regulations of the Civil Law, as one of the cluster members will be the leading organization and the rest will be partners. These consortia will be the applicants under the Grant Scheme1.

The documentary evidence of separate legal entity or consortium existence should be presented in the application documents.

Clusters or cluster development initiatives financed by the PHARE project BG2003/004-937.02.03 “Introduction of Cluster Approach and Establishment of a Pilot Cluster Model” or other donor programmes are not eligible for financing under this grant scheme.

The grant will finance both activities of common interest of the cluster, as well as individual activities of different cluster members. Thus the individual grant will consist of two elements: (1) aid for common cluster activities, and (2) aid to individual member(s) of that cluster. As far as the aim of the grant is to serve as an incentive for the cluster’s overall development, the focus will be put on the support for the common cluster activities. The aid for common cluster activities should be composed of compulsory consultancy support component and optional investment component. The budget for the consultancy support component should be at least 10% of the total budget of the first element - aid for common cluster activities.

The aid for individual cluster member(s) will have a complementary character, should have a justified impact on and be closely related to achieving the overall cluster development objectives. In this respect the aid for individual cluster member(s) will

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1 Under Bulgarian business law such consortia, although not legal persons, are actually treated for the purpose of their business operation as a kind-of autonomous entities (they have their own tax registration, management, etc.), which significantly facilitates their activity.
be subject to a limitation not to exceed 10% of total grant aid to the project\(^2\), as this limitation is a cumulative figure for all members, i.e. the maximum overall percentage support from the total grant to the project for all individual cluster member investments.

The applicant and partners will have the right to apply for any combination of the grant elements, within the minimum and maximum levels. Applicants should develop a detailed project budget breakdown that would allow precise identification of the two elements of the grant, including the aid envisaged for each individual cluster member, if such.

The rate of co-financing will be calculated separately for the two elements of the grant, as follows:

(i.) For the grant element “aid for common cluster activities” – the necessary co-financing to be provided by the grant beneficiaries will be not less than 50%.

(ii.) For the grant element “aid to individual cluster’ member(s)” – the necessary co-financing to be provided by each individual beneficiary will be not less than 75%.

The amounts of the grants to be awarded will be in conformity with the applicable State Aid rules – the Bulgarian Law on State Aid and its implementation rules, Commission Regulation (EC) No.70/2001, and the recently adopted Bulgaria’s Regional Map on State Aid.

Under the two elements of the individual grant the following activities will be eligible for financing:

1. **Aid to common clusters’ activities:**

The common cluster activities will support the general development of the cluster. The element will be aimed at implementation of activities of common interest, which will contribute to the strengthening of all members of the cluster.

A. Related to cluster management – the purpose of the activities is to support cluster management only and will include, but will not be limited, to:

- cluster management support – the activities to be financed could include consultancy support for the cluster management (e.g. business screening and strategy, general business management development, operational improvements, HR management, etc) and/or equipment delivery if necessary (supply for the needs of the established cluster management);
- cluster marketing & management strategies development - the activities to be financed will be aimed at the possible marketing activities for the cluster as an integrated body and for all cluster members. The measure will deliver support to a number of areas, such as market researches, marketing strategy development, implementation of strategy, development of information systems, elaboration and implementation of relevant databases, etc.;

\(^2\) A sample breakdown of individual project budget is attached as Appendix A, to illustrate the way to calculate the amounts under both elements of the grant.
B. Related to common cluster’s necessity – the support will be given for establishment of common cluster utilities, which will improve the overall competitiveness of all cluster members and will facilitate their development:

- delivery of equipment common for the cluster, which will be relevant for cluster activities and will be used by all cluster members - e.g. establishment of relevant laboratories for quality verification, quality certification, testing of new products or processes by certified institutions to ensure compliance with standards and specifications; or other cluster specific common utilities);

- common services provision for all cluster members – such as: research for demand-driven new products and services; development of new products as additions to, or replacement of, existing product lines, but with higher added value content; major upgrading of existing product range in order to create higher added value; etc.;

- common tailor-made training - closely related to the activities implemented under the common services – elaboration of detailed needs analysis for training of the cluster employees; development and delivery of specifically tailored training programmes; etc.

The amount available for financing under this grant element will be between 50,000 and 250,000 euro.

2. Aid for individual cluster members

The individual support is aimed at improving the competitiveness of cluster members through providing consultancy, investment and training support for individual cluster members - partners in the project proposal. The activities of this element should be strictly observed not to create overlapping with the measures for common cluster support. This individual support should be closely related to the activities, performed to the general cluster development, thus forming an inseparable part of the support package. The activities to be financed under this element of the grant will be related, but not limited, to:

- approach to new markets – study and consultation on the identification of the main problems and development needs of the SMEs and possible solutions, within the cluster; analysis of the different instruments available for enterprise development; etc.

- setting up an effective management – the measure will be aimed at establishment of effective management for the individual company, member of the cluster, and differing from the common support provided to cluster management. The measure will deliver support to number of areas, such as - general business management development, operational improvements, manufacturing efficiency audit, process improvement strategy and implementation; profit improvement/cost reduction initiative – evaluation and implementation, etc.

- implementation of R&D activities – technology transfer and innovations; market-oriented R&D activities; improvement of the innovation capacity; research for demand-driven new products and services; testing of new products
or processes by certified institutions to ensure compliance with standards and specifications; introduction of GMP and GLP for the relevant cluster activities needed, etc.
- access to know-how and best practices - support will be provided to the activities related to spreading of know-how and best practices among cluster members in order to improve individual cluster member’s competitiveness by repositioning them on the market, increasing productivity and lowering production cost, etc;
- equipment for creation of innovative products and/or introduction of new technology;
- consultancy support in order to achieve compliance with acquis requirements and international market standards, such as – Quality Management Systems (QMS), environmental requirements, introducing safety marks, CE marks, sector specific internationally recognized standards, etc.

Means: TA and Grant Contracts

3.5 Linked Activities:

The proposed project is a follow–up of the Phare Project BG 2003/004-937.02.03 “Introduction of Cluster Approach and Establishment of a Pilot Cluster Model” and is based on the expected results, basic documents and gained capacity.

The project is also a follow-up of 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” - 2000, 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 and German bilateral support especially related to Development of a network of suppliers and subcontractors in mechanical and electrical engineering 2003 –2004 and Promotion of the Bulgarian Software Industry -2004.

3.6 Lessons learned:

During the preparation of this project experience from the programming and implementation of the previous projects in the field was taken into account, in particular to avoid duplication of action with other projects programmed for implementation at the same time and also to ensure that mistakes observed in the programming and/or implementation of preceding projects will be avoided.

Taking into consideration the track record of Phare performance in this area, the fiche reflected some evaluation results and conclusions of previous projects. Projects in the sector are considered relevant to economic development in general and also related to specific measures of Bulgaria’s Strategy for Development of the SME Sector.

The development of a cluster model is an innovatory approach. However, the project has been developed as a follow-up of Phare Project BG 2003/004-937.02.03 “Introduction of Cluster Approach and Establishment of a Pilot Cluster Model”. The
results of Phare 2003 project will serve as a basis for planning and implementation of the present project. The methodology for identification of the industrial sectors and methodology for selection and evaluation of clusters will be elaborated by the TA under Phare 2003, and will be used for identification of prospective sectors and potential clusters, and for Grant beneficiaries’ selection. The lessons learned will be incorporated as best practices in present project implementation.

The project is also a result of involvement with the cluster development/building initiative sponsored under the Phare project 9908 “Capacity Building for the SME Sector.” The ‘lessons learned’ from this involvement in the development of clusters in the EU have been applied to this project. The main conclusion is that clustering in appropriate sectors of economy can be used as a tool for repositioning Bulgarian SMEs on national and international market.

Existence of elements of non-formal clustering, needs to formalize these cluster structures, to promote cluster concept as well as and the catalytic role of the public authorities in these processes can be considered as ‘lessons learned’ from USAID/MSI Project “Bulgaria Competitiveness Exercise (BCE) Update”. Frame of reference (Conception) for cluster development in Bulgaria, prepared through German bilateral support, is a good starting point for cluster development in Bulgaria.

One important lesson learned is the existence of significant time gap between the implementation of Phare Project BG 9908.2 “Capacity Building for the Accelerated Growth of the SME Sector in Bulgaria” (when first sectors of economy have been pointed for further study and cluster approach have been recommended) and Phare Project BG 2003/004-937.02.03 “Introduction of Cluster Approach and Establishment of a Pilot Cluster Model” (when first cluster activities supported by Phare should start – further studies, Cluster Strategy and Action Plan development and Pilot clusters support).

In order to benefit fully from the TA of Project BG 2003/004-937.02.03 and to achieve synergic effect from Project BG 2003/004-937.02.03 and new proposed Cluster Development Initiatives – Phase II it would be preferable for the proposed project to start as soon as possible, while the results from the first project are still “hot”, taking into consideration technological time and Phare requirements for grant scheme implementation. Proper sequencing of these two projects will ensure efficient spending of funds with maximum results from both projects.

As “lessons learned” from previous projects, it has been concluded that for each project indicators of achievement of objectives in PF should be clearly defined, real, easy to quantify and should have visible relation to the programme indicators listed in the NEDP.

Other important lessons and actions can be summarized as follows:

- Ensuring the institutional continuity in the event of staff changes in the implementing bodies;
- Strengthening the partnership among institutions and organizations involved in the process of programming, implementation and evaluation;
- Strengthening the coordination and cooperation among all institutions involved in project implementation;
- Ensuring and preserving the quality of the administrative capacity of the implementing structures (training to be provided when necessary);
Improvement of the quality of documents prepared by IA and consultant teams.

4. Institutional Framework

The Ministry of Economy (MoE) is the Implementing Agency (respectively Contracting Authority) of the project as it is mandated to be IA under PHARE Program in the ESC/Competitiveness sector.

The MoE will manage and administrate the project through the Programme Authorizing Officer (PAO). The Pre-accession Programs and Projects Directorate (PPPD) will act as the administration of the IA / PAO.

Evaluation committees will be formed for selection of Grant Beneficiaries.

The Project Steering Committee

A Project Steering Committee (PSC) will be established in order to co-ordinate, assist and monitor project implementation activities. The main functions of the PSC are as follows:

- Provide strategic advice and recommendations for the implementation of the project activities;
- Approval of the progress reports concerning the overall implementation, on a quarterly basis;
- Counselling on problem issues;
- Provide opinion to the PIU and the PAO of the various qualification, eligibility and evaluation criteria for the Grant Schemes, before their approval by the PAO.

A Deputy Minister of Economy will chair the Steering Committee and its members will be selected in consultation with the EC Delegation. Members of the relevant ministries will be included – Executive Agency for Promotion of Small and Medium Sized Enterprises’s (BSMEPA), Ministry of Regional Development and Public Works (MRDPW), Ministry of Finance (MoF), other concerned public bodies, and also representatives of other key stakeholders, such as branch organizations, regional associations, etc., but assuring in an appropriate way that the nominated persons will not be in a potential conflict of interests.

PAO
The PAO has the ultimate responsibility to ensure that the programme is implemented fully in line with the Financing Memorandum and the government policy in terms of sound administrative and financial management of the project, including tendering, contracting, disbursement, accounting, payment and reporting procedures, and monitoring of the project.

MoE - IA
The overall administrative and financial management is the responsibility of the MoE. This includes:

- Overall coordination of the project implementation;
• Preparing and submission of procurement documentation based on inputs from the PIU, contracting and contracting procedures of TA and grant scheme;
• Negotiations of contracts;
• Accounting, payments, and financial control for the contracts and grants;
• Overall monitoring and evaluation of the project activities;
• Preparation of quarterly and ad hoc reports on project status and fund management.

PIU
A Project Implementation Unit (PIU) will be established at the Executive Agency for Promotion of Small and Medium Sized Enterprises (BSMEPA), as it may also include representatives from other MoE directorates and relevant state institutions. The PIU will be in charge of the technical implementation and day-to-day administration of the project, will support the SPO in his/her activity, and will act as a secretariat to the PSC. The BSMEPA will appoint the Senior Project Officer (SPO). The SPO will be head of the PIU, and will be responsible for the timely, smooth and efficient technical implementation of the project.

Other Key Institutions involved in the Project’s Implementation

Among the key institutions supporting the project will be the Bulgarian Association of Regional Development Agencies (BARDA), the Bulgarian Industrial Association (BIA), the Bulgarian Chamber of Commerce and Industry (BCCI) and the regional chambers of commerce and industry, National Association of Municipalities in the Republic of Bulgaria, professional branch associations and entrepreneurial associations.

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 for the project, to implement the cluster model, and to multiply the approach amongst the members, etc.

5. Detailed Budget

<table>
<thead>
<tr>
<th></th>
<th>Phare/Pre-Accession Instrument support</th>
<th>Co-financing</th>
<th>Total Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>€M</td>
<td>National Public Funds (*)</td>
<td>Other Sources (**)</td>
<td>Total Co-financing of Project</td>
</tr>
<tr>
<td>Year 2005 - Investment support jointly co funded</td>
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<td></td>
</tr>
<tr>
<td>Grant Scheme component</td>
<td>€ 1.800M</td>
<td>€ 0.600M</td>
<td>€ 0.600M</td>
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<tr>
<td>------------------------</td>
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</tr>
<tr>
<td>Investment support – sub-total</td>
<td>€ 1.800M</td>
<td>€ 0.600M</td>
<td>€ 0.600M</td>
</tr>
<tr>
<td>% of total public funds</td>
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<td>min 25 %</td>
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In case of parallel co-funding (per exception to the normal rule, see special condition as indicated below:

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<tr>
<th>Year 2005 - Investment support co-funded in parallel</th>
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<tr>
<td>Investment support – sub-total</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% of total public funds</td>
<td>max 75 %</td>
<td>min 25 %</td>
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<table>
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<th>Year 2005 Institution Building support</th>
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<td>TA Component</td>
<td>€ 0.600M</td>
<td></td>
<td>€ 0.600 M</td>
<td></td>
</tr>
<tr>
<td>IB support</td>
<td>€ 0.600 M</td>
<td></td>
<td>€ 0.600 M</td>
<td></td>
</tr>
</tbody>
</table>

| Total project 2005                    | € 2.400M | € 0.600M | € 0.600M | € 3.0 M$^2$ |

indicative Year 2006 Investment support
indicative Year 2006 IB support
Total (indicative) project 2006

$^1$The grant will finance up to 50% of the cost of the first element of the grant activities, and 25% of the cost of the second element of the grant activities, as described in detail under p.3.4. above. The grant beneficiaries will provide the remaining amount of the individual project costs by means of co-financing.

$^2$Should the total cost of the project exceed the estimate shown in the table above, private beneficiaries will provide the necessary additional co-financing.
6. **Implementation Arrangements**

**6.1 Implementing Agency**
The Implementing Agency will be the Ministry of Economy (MoE). The Ministry of Economy (MoE) will be the Contracting Authority and in that capacity will conduct tenders, conclude contracts and authorize related payments.

Ministry of Economy
Directorate “Pre-accession Programmes and Projects”
8 Slavyanska Str.
1046 Sofia;

The PAO for the project will be Mrs Nina Radeva
E-mail: N.Radeva@mee.government.bg
Tel.: + 359 2 9407 7550

The Implementing Agency will have the following responsibilities:
- allocation of funds to the contractor;
- verification of all contract documentation and payment authorization;
- overall monitoring and evaluation of the project.

The project implementation and monitoring will be executed by the members of the PIU.
Upon EDIS accreditation of IA at the MoE, all provisions in the fiche concerning the ex-ante approval of procedures and documentation, will be considered void for the future project implementation activities.

**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 Practical Guide to contract procedures financed from the General Budget of the European Communities in the context of external actions will be strictly followed.

**6.4 Contracts**
1. TA Contract: 600,000 Euro.
2. Grant Contracts: It is envisaged to have at least 8-14 Grant Contracts with maximum grant size 250,000 Euro each.
7. **Implementation Schedule**

7.1 **Start of tendering/call for proposals**

TA Component: the first quarter of 2006  
Grant Scheme: the first quarter of 2007

7.2 **Start of project activity**

TA Component: the second quarter of 2006  
Grant Scheme: the second quarter of 2007

7.3 **Project completion**

The fourth quarter of 2008

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. Environmentally harmful activities cannot be supported.

10. **Rates of return**

N/A

11. **Investment criteria** (applicable to all investments)

11.1 **Catalytic effect**

The Project will reinforce the competitiveness of SMEs in the clusters, will work for the further development of the cluster model, and will support SMEs in increasing their competitiveness and the practical adoption of the European Directives, as well as in the application of the world standards in quality and market performance.

11.2 **Co-financing**

The national co-financing for this project will be provided from the Bulgarian national budget through National Fund. If the total cost of the project is greater than the amount envisaged in the project fiche, the grant beneficiaries will provide the extra support required.

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 as after preparing a Call for Proposals tender documentation by the responsible project units. Overall methodology for project implementation, operational monitoring and evaluation will also be prepared and included in the guidelines and manuals. A memorandum of Understanding (MoU) will be signed between the Implementing Agency (IA) and the PIU before the start of project activities. The Memorandum will detail the scope and timing of the delegation of responsibilities from the IA to the PIU. All documents will be put in operation after approval by the ECD.

11.5 Sustainability

The long-term sustainability will depend on the skills and ability of cluster members and 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 accordance with Article 92(3)(a) of the Treaty of Rome. All actions financed by Phare will be carried out in line with the rules and procedures of the Practical Guide to contract procedures financed from the General Budget of the European Communities in the context of external actions and will comply with the state aid agreements. The project is also in conformity with the rules for state aid – applicable Bulgarian Law on State Aid and its implementation rules, the Commission Regulation (EC) No.70/2001, and the recently adopted Bulgaria’s Regional Map on State Aid.

12. Conditionality and sequencing

The successful implementation of PHARE Project BG2003/004-937.02.03 “Introduction of Cluster Approach and Establishment of a Pilot Cluster Model” is a precondition for the start and smooth implementation of the present project.

The project will start after the signing of the Financial Memorandum between Bulgaria and the European Union, which is foreseen by the end of 2005.

ANNEXES TO PROJECT FICHE

1. Logframe in standard format
2. Detailed implementation chart
3. Contracting and disbursement schedule
4. Reference list of relevant laws and regulations
5. Reference list of relevant strategic plans and studies
A. Sample individual project breakdown
## PHARE LOG FRAME

### LOGFRAME PLANNING MATRIX FOR PROJECT

<table>
<thead>
<tr>
<th>Overall objective</th>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>To increase the level of competitiveness and innovation in the SME sector as a basis for sustainable and balanced development of the economy.</td>
<td>% increase in profitability of supported cluster members after participating in Cluster initiative.</td>
<td>Statistics, Surveys of Balance sheets accounts</td>
<td>Understanding amongst institutions and stakeholders; Stability of institutions.</td>
</tr>
</tbody>
</table>

### Project purpose

<table>
<thead>
<tr>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>To support growth of existing or embryonic clusters of Bulgarian enterprises in order to improve their competitiveness.</td>
<td>8-14 clusters established; % increase in revenues of cluster members after participating in Cluster initiative;</td>
<td>Statistics, Company’s reports, Project’s regular report</td>
</tr>
</tbody>
</table>

### Results

<table>
<thead>
<tr>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>TA Component results</td>
<td>3 innovative products and/or 3 new technologies created; 8-14 trainings provided; 3 R&amp;D activities supported; 8-14 common cluster strategies supported; 8-14 clusters equipped; 12-18 individual cluster members supported.</td>
<td>Regular project reports, Monitoring reports, Project final report, Cluster management reports</td>
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**Cluster Development Initiatives – Phase II**

**Contracting period expires**: 30 November 2007

**End of execution of contracts**: 30 November 2008

**Total budget**: € 3,0 M

**Phare budget**: € 2,40 M
Grant Scheme results:
About 8 –14 cluster initiative projects supported - individual cluster enterprises competitiveness improved and business environment amended as a whole:

- effective cluster management set up and equipped;
- common for each cluster marketing & management strategies development and implementation supported;
- common cluster equipment delivered and set;
- common quality services received;
- successful partnership among all cluster players established;
- common tailor-made training provided;
- approach to new markets supported;
- individual members management supported;
- R&D activities supported;
- Know-how obtained and best practices adopted;
- innovative products created and/or new technology introduced;
- requirements of the harmonized legislation fulfilled.

Depending the concrete cluster development initiatives (individual projects) part or all of above mentioned results should be achieved.

<table>
<thead>
<tr>
<th>Activities</th>
<th>Means</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>TA component:</td>
<td>TA Contract</td>
<td>• Pro-active project management;</td>
</tr>
<tr>
<td>• To carry out awareness campaign on cluster approach:</td>
<td>Service and Supply Contracts included in Grant scheme</td>
<td>• High level of coordination and cooperation between the involved institutions.</td>
</tr>
<tr>
<td>- Promotion activities will be held in the 6 regional planning centres;</td>
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<tr>
<td>- Media campaign.</td>
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<tr>
<td>• To organize workshops to potential applicants in order to:</td>
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<tr>
<td>- To disseminate best EU practices on cluster initiatives;</td>
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<tr>
<td>- To spread results available from project BG2003/004-937.02.03 “Introduction of Cluster Approach and Establishment of a Pilot Cluster Model”;</td>
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<tr>
<td>• To screen and consult potential applicant clusters;</td>
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<tr>
<td>• On the basis of results and lessons learned from project BG2003/004-937.02.03 “Introduction of Cluster Approach and Establishment of a Pilot Cluster Model”, to provide methodological support to the potential applicants in identification of cluster members, assessment of cluster development needs and preparation of common cluster strategies and action plans;</td>
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<tr>
<td>• To fine tune common cluster strategies (action plans) in the implementation stage;</td>
<td></td>
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<tr>
<td>• To monitor the implementation of common cluster strategies (action</td>
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</table>
plans) implementation (technical monitoring should be implemented by PIU):

- To provide consultancy support and to train cluster management bodies (and/or cluster consultants, subcontractors of consultancy support component of the aid for common cluster activities part of Grant Scheme) in the implementation phase

**Cluster development grant scheme**
The grant scheme will provide support to about 8-14 clusters. The individual grant will amount to up to 250,000 euro.

For the purpose of applying for grant aid under this project, the cluster members will have the following two options:

- either to establish a separate legal entity, that would act as leading organization under the application and would be the beneficiary of the aid for the common cluster activities, as the individual cluster members will be partners in the project proposal, or
- to establish a consortium according to the regulations of the Civil Law, as one of the cluster members will be the leading organization and the rest will be partners. These consortia will be the eligible applicants under the Grant Scheme.

The documentary evidence of separate legal entity or consortium existence should be presented in the application documents.

Clusters or cluster development initiatives financed by the PHARE project BG2003/004-937.02.03 “Introduction of Cluster Approach and Establishment of a Pilot Cluster Model” or other donor programmes are not eligible for financing under this grant scheme.

The grant will finance both activities of common interest of the cluster, and individual activities of different cluster members. Thus the individual grant will consist of two elements: (1) aid for common cluster activities, and (2) aid to individual member(s) of that cluster. As far as the aim of the grant is to serve as an incentive for the cluster’s overall development, the focus will be put on the support for the common cluster activities. The aid for common cluster activities should be composed of compulsory consultancy support component and optional investment component. The budget for the consultancy support component should be at least 10% of the total budget of the first element - aid for common cluster activities.

The aid for individual cluster member(s) will have a complementary character, should have a justified impact on and be closely related to achieving the overall cluster development objectives. In this respect the aid to individual cluster member(s) will be subject to a limitation not to exceed 10% of total grant aid to the project.

The applicant and partners will have the right to apply for any combination of the grant elements, within the minimum and maximum levels. Applicants would
develop a detailed project budget breakdown that would allow precise identification of the two elements of the grant, including the aid envisaged for each individual cluster member, if such. The rate of co-financing will be calculated separately for the two elements of the grant, as follows:

- For the grant element “aid for common cluster activities” – the necessary co-financing to be provided by the grant beneficiaries will be not less than 50%;
- For the grant element “aid to individual cluster’ member(s)” – the necessary co-financing to be provided by each individual beneficiary will be not less than 75%.

The amounts of the grants to be awarded will be in conformity with the applicable State Aid rules – the Bulgarian Law on State Aid and its implementation rules, Commission Regulation (EC) No.70/2001, and the recently adopted Bulgaria’s Regional Map on State Aid.

Under the two elements of the individual grant the following activities will be eligible for financing:

3. **Aid to common clusters’ activities:**

The common cluster activities will support the general development of the cluster. The element will be aimed at implementation of activities of common interest, which will contribute to the strengthening of all members of the cluster.

A. Related to cluster management – the purpose of the activities is to support cluster management only and will include, but will not be limited, to:

- cluster management support – the activities to be financed could include consultancy support for the cluster management (e.g. business screening and strategy, general business management development, operational improvements, HR management, etc) and/or equipment delivery if necessary (supply for the needs of the established cluster management);
- cluster marketing & management strategies development - the activities to be financed will be aimed at the possible marketing activities for the cluster as an integrated body and for all cluster members. The measure will deliver support to a number of areas, such as market researches, marketing strategy development, implementation of strategy, development of information systems, elaboration and implementation of relevant databases, etc.;

B. Related to common cluster’s necessity – the support will be given for establishment of common cluster utilities, which will improve the overall competitiveness of all cluster members and will facilitate their development:
• delivery of equipment common for the cluster, which will be relevant for cluster activities and will be used by all cluster members - e.g., establishment of relevant laboratories for quality verification, quality certification, testing of new products or processes by certified institutions to ensure compliance with standards and specifications; or other cluster specific common utilities);

• common services provision for all cluster members – such as: research for demand-driven new products and services; development of new products as additions to, or replacement of, existing product lines, but with higher added value content; major upgrading of existing product range in order to create higher added value; etc.;

• common tailor-made training - closely related to the activities implemented under the common services – elaboration of detailed needs analysis for training of the cluster employees; development and delivery of specifically tailored training programmes; etc.

The amount available for financing under this grant element will be between 50,000 and 250,000 euro.

4. Aid for individual cluster members

The individual support is aimed at improving the competitiveness of cluster members through providing consultancy, investment and training support for individual cluster members - partners in the project proposal. The activities of this element should be strictly observed not to create overlapping with the measures for common cluster support. This individual support should be closely related to the activities, performed to the general cluster development, thus forming an inseparable part of the support package. The activities to be financed under this element of the grant will be related, but not limited, to:

• approach to new markets – study and consultation on the identification of the main problems and development needs of the SMEs and possible solutions, within the cluster; analysis of the different instruments available for enterprise development; etc.

• setting up an effective management – the measure will be aimed at establishment of effective management for the individual company, member of the cluster, and differing from the common support provided to cluster management. The measure will deliver support to number of areas, such as - general business management development, operational improvements, manufacturing efficiency audit, process improvement strategy and implementation; profit improvement/cost reduction initiative – evaluation and implementation, etc.
- implementation of R&D activities – technology transfer and innovations; market-oriented R&D activities; improvement of the innovation capacity; research for demand-driven new products and services; testing of new products or processes by certified institutions to ensure compliance with standards and specifications; introduction of GMP and GLP for the relevant cluster activities needed, etc.
- access to know-how and best practices – support will be provided to the activities related to spreading of know-how and best practices among cluster members in order to improve individual cluster member’s competitiveness by repositioning them on the market, increasing productivity and lowering production cost, etc;
- equipment for creation of innovative products and/or introduction of new technology;
- consultancy support in order to achieve compliance with acquis requirements and international market standards, such as – Quality Management Systems (QMS), environmental requirements, introducing safety marks, CE marks, sector specific internationally recognized standards, etc.

**Preconditions**

Successful completion of PHARE Project BG2003/004-937.02.03 “Introduction of Cluster Approach and Establishment of a Pilot Cluster Model”
### Annex 2

**Implementation Chart – “Cluster Development Initiatives – Phase II”**

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<td>Signing contracts with Grant Beneficiaries</td>
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</tbody>
</table>
# ANNEX 3

## CONTRACTING AND DISBURSEMENT SCHEDULE BY QUARTER

<table>
<thead>
<tr>
<th>Components</th>
<th>Project Title “Cluster Development Initiatives – Phase II”</th>
<th>Cumulative contracting and disbursement schedule by quarter in MEUR (provisional)</th>
</tr>
</thead>
<tbody>
<tr>
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<td></td>
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<td>TA Contract</td>
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<tr>
<td>Disbursement</td>
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<tr>
<td>%</td>
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<td>60%</td>
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<td>Contract 1 – Grant Contract</td>
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<tr>
<td>Disbursement</td>
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<td>1.920</td>
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<tr>
<td>%</td>
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<td>80%</td>
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ANNEX 4

List of relevant Laws and Regulations.

1. Law on Small and Medium-Sized Enterprises;

ANNEX 5

Reference list of relevant Bulgarian strategic plans and studies:

1. National Development Plan;
2. Pre-accession Economic Programme;
3. Bulgarian Innovation Strategy;

ANNEX A

Sample Individual project budget breakdown

Total amount of grant € 250,000
Grant aid for individual cluster members(s) activity (maximum 10% of total amount of the grant) € 25,000

<table>
<thead>
<tr>
<th>Sources of funding</th>
<th>&quot;Common cluster activities&quot;</th>
<th>&quot;Aid for individual member(s)&quot;</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>Rate of co-financing within the activity (%)</td>
</tr>
<tr>
<td>Grant</td>
<td>€ 225,000</td>
<td>50%</td>
</tr>
<tr>
<td>Co-financing (to be provided by grant beneficiaries)</td>
<td>€ 225,000</td>
<td>50%</td>
</tr>
<tr>
<td>Total amount for each activity (grant+ co-financing)</td>
<td>€ 450,000</td>
<td>50%</td>
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</tbody>
</table>

Total project budget (the sum of the two activities) € 550,000
Grant aid for individual members as % of total budget 4,55%