

ANNEX 1

ANALYSIS OF THE FAO SURVEY OF RURAL SMEs

1. In order to identify some of the main characteristics of credit demand in rural areas, the FAO survey was carried out in two stages, surveying a total of 95 rural SMEs. Survey was conducted on the basis of a specifically designed questionnaire for this purpose which can be found in the attachment to this Annex.

Results from the First Stage of the Survey of Rural SMEs

2. First part of the survey was conducted among 45 SMEs in eight municipalities from three regions in Bulgaria – Sofia, Plovdiv and Shumen. 75% of the municipalities were rural, while almost all of the remaining potential borrowers, although from urban municipalities, were living in small towns (up to maximum 30,000 inhabitants) or in villages. According to the Human Development Index from 2003 the surveyed municipalities are ranked in the following way:

Municipality	Overall ranking (1-262)	GDP per person PPP \$ 2001	GDP rank (1-262)	Enrollment rank (1-262)	Literacy rank (1-262)
Plovdiv	9	7 470	21	11	14
Shumen	39	5 824	38	48	43
Veliki Preslav	113	2 216	93	157	145
Elin Pelin	135	4 258	82	247	241
Novi Pazar	139	3 850	110	144	137
Parvomai	169	2 750	219	106	114
Kaspichan	175	3 417	154	233	225
Sadovo	213	2 563	233	115	142

3. The data-set consists of a random set of 45 respondents with the following profile:

Rural economic sectors

Production of

-agricultural raw materials	22 %
-foods	18 %
-other products	8 %

Services 33 %

More than 1 activity 9 %

Legal type of the business:

Limited liability companies	55 %
Sole traders	27 %
Physical persons	18 %

Starting year of operation

1990-96	53 %
1997-00	29 %
2000-04	18 %

Number of employees (permanent plus seasonal)

Up to 10	46 %
11-50	33 %
51-100	11 %
More than 100	4 %

Assets owned

Up to 10 000 EURO	35 %
10 000 – 50 000 EURO	14 %
50 000 – 100 000 EURO	16 %
More than 100 000 EURO	35 %

Summary of results:

4. Statement of credit applications and credit transactions by potential borrowers refer to their most recent loans in the period 2001-04. The following **conclusions** can be made on the basis of the respondents' answers:

- The empirical results suggest that the majority of the respondents (58 %) do not have access to the credit market. This access has however increased significantly during the last two years when the commercial banks became more liquid and started competing among each other for clients on the domestic market.
- Non-price rationing and particularly the lack of collateral was pointed out as the main constrain by those who applied and received a loan and those who applied but were rejected.
- Among those who have been rejected or who have not applied after the lack of collateral (25 % of the respondents), the next most frequent credit constraints are: the high interest rates (24 %) and reluctance to get into debt (22 %). 16 % of the respondents who have not received a credit during the past three years declare that their own income resources are sufficient and do not need a credit, while for 8 % of them the bureaucratic application process is a serious constraint.
- In order to detect eventual wealth biases, the respondents were divided in three main groups according to the number of people employed: up to 10, 11-50 and more than 50. Bank application seems to be biased towards more affluent potential borrowers, since the share of non-applicants or rejected applicants among the micro enterprises is 65 %, among those employing between 11 and

50 people – 60 % and among those with more than 50 people – only 33 %. The average approved applicant employs 47 people compared to non-applicant or rejected applicant with 26 people.

- On the basis of the grouping made above one can conclude that affluent borrowers are less constrained than less affluent. In the first group of respondents (up to 10 people) 41 % are discouraged to apply, while in the third group (more than 50 people) there is no one discouraged and almost all of them are unconstrained.
- Having in mind the big need for reconstruction of the majority of the processing plants more affluent potential borrowers would probably also be constrained to obtain bigger credits for both investment and operational purposes in the future, because if the bank requirements for collateral do not change, they will not have enough guarantee for credits they want to obtain. A large number of respondents did not or could not provide information about the market value of their assets, but the majority of them did not dispose of assets bigger enough to be used as collateral for both working and investment capital.
- The average size of the loans obtained by borrowers with up to 10 employees is 18,000 EURO, by those who employ between 11 and 50 people – 144,000 EURO and for those with more than 50 people – 484 000 EURO.
- A larger share (53 %) of the respondents of those who have received a credit during the last three years, used it for operational purposes, a smaller share - 32 % obtained long term credits, while only 15 % received credit for both working and investment capital.
- There is a big demand for both operational and investment credits in rural areas. From the potential borrowers, 15 % need a short term credit, 18 % - a long term credit and 67 % - both operational and investment credit.
- Although the interest rates in Bulgaria are comparatively higher than in other western European countries, the majority (60 %) of the respondents would like to borrow more at the current interest rates. Of the remaining 40 % who does not need a credit, 55 % declare that they have their own financial resources while the remaining 45 % do not generate enough profit in order to repay the credit and the interest rates.
- Despite the popularity of the government and EU programs for subsidized credits and grants, they are not of sufficient size to serve more of the entrepreneurs living in rural areas. For example only 33 % of the farmers and no one from the processors have applied and have been approved to get a grant or a subsidized credit from SAPARD or from State fund “Agriculture”.
- Although the impact of government and EU programs (and especially investment programs like SAPARD) on credit market is not big, some of the respondents suggested that the subsidies are given to “unsuitable” businessmen

who are not connected with agriculture at all, but have the political connections or the money to bribe the evaluation committee. That suggests that several projects under SAPARD are financed at the moment that would have dropped out under fully commercial interest rate or without any grant.

- Rural non-farm sector cannot be thought of as a homogenous one: it includes self employment, micro and small and medium enterprises, traders. Here are incorporated jobs which range from these requiring significant access to assets and credits (farming, food industry) to self employed activities of low assets requirement (retail trade, repairs, small services).
- The majority of the respondents (80 %) keep financial statements. Among the remaining 20 % can be found both self employed people and rural businessmen who employ more than 50 people. The latter group of respondents operate in the grey sector and are employed mainly in agriculture.

Results from the second stage of the survey of rural SMEs

5. Following the results and analysis of the first part of the survey and initial visit to municipalities by FAO team, a number of other municipalities was selected (10) in cooperating with the UNDP office. The selection procedure aims to ensure 1) representation of municipalities with different economic and social profile and 2) comparison of different SME and their investment intentions. Municipalities were selected in order to insure a presence of a variety of rural activities in selected municipalities, representation of municipalities with different economic and social profile and geographical position. Following this selection criteria, FAO team of national consultants carried out a second survey on a sample of 50 rural SMEs.

6. 80 % of the selected municipalities were rural, while almost all of the remaining potential borrowers, although from urban municipalities, were living in small towns (up to maximum 30, 000 inhabitants) or in villages. According to the Human Development Index from 2003 the surveyed municipalities are ranked in the following way:

Municipality	Overall ranking in 2003 (1-262)	GDP per person PPP \$ 2001	GDP rank (1-262)	Enrollment rank (1-262)	Literacy rank (1-262)
Targovishte	45	5 914	37	83	80
Samokov	63	5 303	44	167	179
Sliven	100	5 642	41	215	208
Razlog	102	2 823	211	37	35
Devin	125	2 885	208	54	61
Aitos	190	3 759	120	197	202
Sungurlare	201	3 470	147	228	228
Nova Zagora	245	3 140	185	245	252
Dulovo	257	2 567	232	256	259
Kotel	262	2 539	235	261	261

Profile of the respondents:

Rural economic sectors

-agricultural raw materials	23 %
-food processing	9 %
-wood processing	9 %
-trade	10 %
-textiles and apparel	9 %
-services	7 %
-other industries	6 %
-tourism	4 %
-more than one activity	23 %

Legal type of the business:

Limited liability companies	74 %
Sole traders	26 %
Physical persons	0 %

Starting year of operation

1990-96	52 %
1997-00	34 %
2001-04	14 %

People employed (permanent plus seasonal)

Up to 10	8 %
11-50	72 %
51-100	12 %
More than 100	8 %

Assets owned

Up to 10 000 EURO	0 %
10 000 – 50 000 EURO	10 %
50 000 – 100 000 EURO	14 %
More than 100 000 EURO	76 %

Main Sectors and Activities

- The survey covered a wide range of SME operating in almost all the sectors of agriculture, industry and services. Almost every fourth enterprise (23 %) is engaged in more than one activity – this is especially true about the enterprises in agriculture and

processing industry. Through such a diversification the businessmen reduce the risk and prolong the production year.

- The majority of enterprises surveyed are medium size companies. 72 % of them employ between 11 and 50 people and 76 % possess assets for more than 100 000 EURO.

Income Sources and Repayment Capacity

- The main income source for the companies is the profit. By diversifying their activity some of the companies are more flexible and can transfer financial means from one enterprise to another. The risk mitigation is the main reason for diversification for 90 % of the companies which operate in more than one sector.
- The repayment capacity of the companies interviewed is very good. Only 12 % of the respondents, who have taken a bank loan, have had some difficulties in repaying the credits. 20 % of the respondents have never taken a bank loan for operational or investment purposes.

Integration in Markets

- All the surveyed companies are market oriented. The majority of them (89%) sell mainly on the domestic market. A major concern for almost all of those producing for the home market is the low purchasing power of the population and the big variation in purchasing prices (for the enterprises in agriculture).
- There are sectors that are almost entirely oriented to international markets – the most typical example is the textiles and apparel. While the export oriented companies are in general more liquid, this is not the case for the apparel industry which works mainly on the basis of CMT system.

Where to Start Rural Lending

- The survey confirmed that the private sector growth is greatest in textiles and apparel, food processing (and especially meat and dairy), construction, tourism and wood processing. Those sectors are most likely to continue to develop, at least until 2007, when they will meet the competition of the EU producers.
- In general export oriented enterprises are the most dynamic and economically viable. There are however exceptions, connected with the textile and apparel industry. The future of this industry is not very sure because of the elimination of quotas from the beginning of 2005 and the prospects for increased competition from some Asian countries. All of the respondents from this sector shared their concern about the expected liberalization of the markets and their uncertainty about their future. On the other hand the majority of the apparel companies work with comparatively cheap and second hand equipment which is not attractive collateral for the banks.

- Other relatively risky sectors are agriculture and bakery. 40 % of the companies in agriculture have never applied or have applied, but not received a bank loan. The main reasons for this high percentage are the lack of collateral, liquidity problems and unstable purchasing prices.
- It is not accurate to choose selected regions in which it would be more recommended to invest than in others. Certainly the investment needs of rural areas vary because of their different specialization. From this point of view the municipalities in which there are more enterprises from the fastest growing sectors (tourism, wood processing, meat industry etc.) are more likely to become potential bank clients for lending operations than others with a narrower or less advantageous specialization (mainly in agriculture or in other stagnating sectors). In our survey such unattractive municipalities are the municipality of Dulovo and Samokov for example.

Investment and Financial Intentions

- The majority of the surveyed enterprises (84 %) have intentions to take a bank loan in the next couple of years or months. From them, 90 % intend to invest and 10 % want the credit for operational purposes only. The range of long term investment intentions is very wide – construction of new or renovation of existing buildings (32 %), purchase of new equipment (78 %), creation of orchards and vines (7 %). The need for operating capital is existent for almost all the enterprises with the exception of those which have a regular cash flow (for example the dairy farms and the restaurants).
- Those who do not intent to borrow investment or operating bank credits range the reasons for this decision in the following way: 1) use firm credits (27 %), 2) have modern buildings and equipment and do not need to make investments (25 %), m 3) do not have a profitable business and will probably close down (25 %) and 4) do not want to expand in the near future, neither need an operational capital (23 %).
- The respondents that expressed an intention to take an investment loan stated that they would do it only if the present terms of lending change in the following way: 1) the time of repayment should be expanded to at least 7-8 years (100 % Of the respondents); 2) the collateral requirements should not be so severe (97 %) and 3) the repayment schedule should depend on the cash flow particularities (29 %).

ANNEX 1

Appendix 1

Questionnaire for the Evaluation of SME Activity, Size and Investment Intentions

SURVEY QUESTIONNAIRE

Date: _____ / 2004 Starting time: _____ Ending time: _____

Surveyor: _____

Region: _____

Municipality: _____

Distance from the nearest commercial centre: _____

Banks present in the nearest commercial centre: _____

Respondent's name: _____

Position in the enterprise: _____

Profile: _____

Type Family business Company/Firm Cooperative Farm Other

1. GENERAL INFORMATION

1.1. Description of the enterprise

Legal status:

- Sole traders
- Partnership
- Registered Company; type: _____

What is the management structure of the company (describe):

Subscribed (Paid-in) Capital (in Euro or local currency):

Year when started activities: _____

Financial history:

- What type of records company has:
 - Balance sheet? Y / N
 - Income statements? Y / N
 - Annual reports? Y / N
 - Business plan? Y / N
- Have the accounts been audited by external/internal auditors (choose one): External / Internal
- If audit was done externally, which is the firm that audited those accounts (put name):

- For how many years back have accounts been audited (put number of years):

Number of permanent employees: _____

Number of seasonal employees: _____

Main activities:	
Agro-Processing

Agricultural production	Cereals
	Cereals for fodder
	Oil crops
	Wine
	Fruits
	Vegetables
	Dairy products
	Meat
Agri-Tourism	
Manufacturing
Textile
Services (hairdressers, garages...)
Other	

2: ASSETS OWNED

How many of the following assets does the company own?

Info collected from questions

Asset Owned	Value when acquired / Purchase Price (Euro):	Replacement Value:	How was the item acquired? 1 = cash 2 = credit 3=other	If credit, what was the source of the loan? 1=supplier 2=relative or friend 3=money lender 4=trader 5=financial institution: 6=other:	Time Period of Loan (months)
1. Land					
2. Buildings					
3. Plant(s)					
4. Equipment/ Machinery _____ _____ _____ _____					
5. Motor vehicles _____ _____ _____ _____					
6. Shop/Workshop					
2. Farm equipment (if enterprise is farm)					
Tractor					
Trailer/cart					
Plough					
Weeder					
Harrower					
Other (Specify) _____					

3. LOAN HISTORY

Please provide information on loan applications by company during the past three years.

It would be particularly interesting to know if they applied and if they already benefited from any support from any of EU-funded credit lines (in case of agri-sector, particularly SAPARD programs).

YEAR	Institution that was approached? 1= commercial bank (name of the bank) 2=moneylender 3=other financial institution (name)	For what purpose was the loan intended? 1= working capital investment (<12 months) 2= longer-term investment (>12 months) 3=repay other debt	What was the size of the loan?	What was the interest rate of the loan?	Repayment schedule / term of repayment	Collateral used by the bank
2004						
2003						
2002						

3.1 If no applications are listed above, why not?- please circle as many as necessary

- 1 = Own income sources sufficient (do not really need loans)
- 2 = Reluctant to get into debt
- 3 = Interest rates too high
- 4 = Term too short
- 5= Do not have enterprises that would make a sufficient profit to repay the loan
- 6= Did not satisfy collateral requirements imposed by the bank
- 7= Not aware of the application process; do not know how to apply
- 8 = Application process too time consuming or bureaucratic
- 9= Do not believe loan application would be approved (no collateral, do not trust the financial institution)
- 10= Other (specify)

.....

3.2 If one or more loans have been received from the same source, please complete the following table:

.1.1 loan	Size of Initial Loan (R)	Has the borrower since taken out more loans of the same type? 1=yes 2=no	If yes, what was the size of the most recent loan? (R)	To what use was the initial loan put?	To what use was the most recent loan put?

Repayment

3.2.1. Have there been any events that made it difficult for the borrower(s) above to maintain loan repayments? Yes / No

3.2.2. If yes, what? _____

3.2.3. What were collateral requirements: _____

SECTION 4: SUGGESTIONS FOR IMPROVEMENTS OF FINANCIAL SERVICES

4.1. What have been the main problems with your present sources of financing?
.....
.....

4.2. Is there interest/demand for more/different kind of loans (long-term, short-term/working capital etc.) in the banks? Yes/No;

4.3. If yes, for which purpose?.....

4.4. How/from which income source would you repay an additional loan?
.....

4.5. How should loans be improved to better suit your needs:

Frequency of repayment.....

Term.....

Collateral.....

Interest.....

Technical assistance in preparation of loan applications and business plans
.....

Other.....

ANNEX 2

SURVEY OF BANK OFFICERS OF 50 DIFFERENT BANK BRANCHES IN TEN PRE-SELECTED MUNICIPALITIES

Questions Addressed to the Banks

- How many current SME and micro enterprises borrowers do you have in portfolio and what is their growth rate over the last years?
- How many investment and working capital loans were disbursed? What are the average loan sizes, ceilings, and other financial conditions by enterprise size?
- Provide main economic sub-sectors ranked by profitability and cash flows of investment opportunities.
- Describe main borrowers' requirements: banking records and credit history, collateral type/loan value ratios, profitability, marketing and cash flow perspectives.
- What are lending approval authority thresholds for branch bank staff?
- Describe lending procedures used for micro, small and medium size enterprises and various economic sectors.

Main Results

1. Average number of business clients per bank:

Companies with up to 10 employees	82
Range	1-350
Companies with more than 10 employees	6.4
Range	1-50

2. Banks' observation on the growth rate of the clients:

General economic and clients' economic performance improving	89 %
General economic and clients' economic performance improving not changing	11 %
General economic and clients' economic performance improving deteriorating	0 %

3. Number of working capital loans:

Average per bank	56
Range	0-460

4. Number of investment loans:

Average per bank	19
Range	0-90

5. Average size of the working capital loans:

Average per bank	36,000 BGN
Range	12,000-120,000 BGN

6. Average size of the investment loans:

Average per bank	106,000 BGN
Range	15,000-500,000 BGN

7. Most attractive sectors according to sector profitability and cash-flow:

<i>Sector profitability</i>	
Food trade and retail	42 %
Textile and apparel	42 %
Wood processing	10 %
Agriculture	2 %
Transport	1 %
Repairs	1 %
Construction	1 %
Tourism	1 %

<i>Regular cash flow</i>	
Retail trade with food	42 %
Repairs	17 %
Textiles and apparel	5 %
Transport	5%
Milk Processing	5 %
Construction	5 %
Trade with petrol products	5 %
Meat processing	5%
Bakery/Confectionary	5 %
Tourism	4%
Other	2 %

8. Most important factor when disbursing a loan:

Profitability	45 %
Collateral type and size	34 %
Cash flow perspectives	15 %
Good credit history	6 %
Marketing skills	3 %

9. Lending approval authority thresholds for branch bank staff:

Number of banks with any lending authority	45 %
Number of banks without lending authority	55 %

10. Average threshold per bank with lending authority:

Average	53,000 BGN
Range	20,000-200,000 BGN

11. Lending procedures used for micro, small and medium size enterprises and various economic sectors:

Differ	0%
Are the same	100 %

12. 100 % of the banks interviewed stated that the successful appraisal and due diligence of the company in loan valuation process depends heavily on the trust between the bank and the client and not on the size or the type of the business.

ANNEX 3

REVIEW AND ANALYSIS OF PROGRAMMES FOCUSED ON SME DEVELOPMENT

1. According to the review of external assistance for SME development in Bulgaria conducted by Bulgarian Chamber of Commerce and Industry¹ in 2003 and 2004, the total disbursements for SMEs for the period 1998 - 2003 accounted to more than 400 million Euro. Out of this amount 49% was disbursed as loans through financial institutions, while the balance was used for various form of technical assistance direct to SMEs. These include assistance for the establishment of legal framework and state policy support, export competitiveness and internationalisation and assistance in providing export promotion. The source of financing SME support is formed by a group of 26 donors composed of 16 bilateral and 10 multilateral donors in the reviewed period.

2. This review shows that more than 160 external assistance programmes and projects were either completed or in the process of implementation to the benefit of SME development.

Multilateral Donors

3. The leading multilateral donors includes EBRD, United States of America, European Union, Germany and IFC.

4. European Union's assistance is provided mainly through EU Phare Programme. The disbursements under the Programme's projects amounted to 10.8 million US dollars in 2000. They were increased by 9.3% in 2001 and reached 11.9 million US dollars, but in 2002 they amounted to 4.8 million US dollars only (for 2003 and 2004 there is only preliminary data available). The total disbursements under EU project and programmes in 1998 - 2002 was 54.6 million US dollars. Most EU projects were in the sector "Assistance to system of SME support services". EU had a substantial contribution in the other sectors and in almost each and every sector and sub-sector there were important EU programmes aimed at creating prerequisites of strategic importance, instrument and institutions of sustainable SME support. Among them are the projects for strengthening the national network of business centers and incubators for SMEs and for certification under ISO quality standard, which were considered of great importance for Bulgarian SMEs. These programmes and projects proved the strong EU commitment to support effectively SMEs in the period of Bulgaria's preparation for membership in the Union.

5. The disbursements under projects of the International Finance Corporation (IFC) from the World Bank group amounted to 26.3 million US dollars during the period under consideration. By its share of 6.9% of the total disbursements, it was the fifth donor contributor to SMEs in Bulgaria. All its projects were in the sector "Facilitation of SME financing". They include significant investments in two venture capital funds and in a leasing company.

6. The International Bank for Reconstruction and Development (IBRD) support to the Bulgarian Fund for Regional Initiatives made it the seventh important donor supporting SME development in Bulgaria. The disbursements under its projects amounted to 8.6 million US dollars or 2.3% of the overall disbursements under donors' assistance to SME development in 1998-2002.

¹ Review and all the data quoted in the Annex 4 obtained from the Bulgarian Chamber of Commerce and Industry.

7. The United Nations Development Programme (UNDP) was also among the important donors that supported traditionally SME sector in Bulgaria. Disbursements under its projects amounted to 8.2 million US dollars in 1998 - 2002. It is however necessary to stress that UNDP was executing important projects financed by other donors. Its assistance was in three subsectors: "SME training support"; "SME consultancy support" and "SME support services institutions".

8. The European Investment Bank (EIB) - by providing a specialized credit line for SMEs long-term lending in Bulgaria, became also an important donor. With disbursements of 8.0 million US dollars and a share of 2.1% of the total disbursements under external assistance, the Bank ranks ninth among all donors.

9. Among the other multilateral donors, that supported SMEs in Bulgaria were the Council of Europe Development Bank (CEDB); United Nations Industrial Development Organization (UNIDO) and United Nations Education Science and Culture Organization (UNESCO).

Bilateral Donors

10. Major bilateral donors include USA, Germany, The Netherlands, Switzerland and the UK.

11. The United States of America is the largest donor among the bilateral and the second among all donors supporting SME development in Bulgarian in the reviewed period according to the level of disbursements. US share of the total disbursements amounted to 84.4 million US dollars. US assistance to SME sector is provided mostly through the United States Agency for International Development (USAID) activities. US offers a comprehensive support to SME development and to the private sector in general. The assistance was provided in all sectors and sub sectors. There were 7 USAID projects with important role for establishing legal framework and raising public support to SMEs in Bulgaria at national and local levels. USAID provided financial and expert assistance to four important projects aimed at strengthening the system of SME support services as well as four projects in facilitating SME financing and two projects on increasing sector's competitiveness.

12. Germany provided a diversified support directly aimed at SMEs need. With a total disbursements of 43.9 million US dollars, Germany was the second largest bilateral donor and fourth among all donors supporting SME development in Bulgaria in 1998 - 2002. Among the 33 projects implemented with German support there were 20 important projects aimed at strengthening the system of SME support services. Six projects were aimed at facilitating SME financing and two - at improving export competitiveness and SME internationalization. Another two projects were implemented in support of the establishment of legal framework and state policy regarding SMEs.

13. The Netherlands is sixth among the donors supporting SMEs in Bulgaria with disbursements of 8.7 million US dollars. A substantial part of its assistance was aimed at strengthening the system of SME support services and their export competitiveness.

14. Switzerland was the tenth biggest donor supporting SME in Bulgaria with total disbursements of 7.9 million US dollars. The Swiss support to SMEs was provided mostly for the

improvement of export competitiveness and SME internationalization and for strengthening the system of SME support services. Significant part of the Swiss support was concentrated in selected regions through comprehensive and practically oriented programmes.

15. UK disbursed 6 million US\$. Important project was implemented with UK support for strengthening the system of SME support services, for export promotion and improvement of state policy to SME development.

16. Total disbursements under projects, supported by Japan were 5.9 million US dollars during the period under consideration. Support provided by the Japanese assistance programme was significant in improving the services to SMEs and strengthening state institutions capacities to support SMEs.

ANNEX 4

SHORT DESCRIPTION OF THE SURVEYED MUNICIPALITIES¹

TARGOVISHTE

2. The municipality of Targovishte is situated in the eastern part of the Danube valley and is part of the Northeastern-planning region. The city of Targovishte is the administrative center of the municipality and of the district. The total population of the municipality is 61,241 people, distributed in 41 settlements (1 city and 40 villages). Two thirds of the population lives in the City of Targovishte (40,775). The age structure of the municipality population is a little bit better than the country average.
3. The total territory is 69,159 ha, of which about 46 thousand ha agricultural lands and 16,630 ha – forests. The relief consists predominantly of plains and hills. The climate is temperate continental. There are strong northeast winds in winter, and summers are hot and dry.
4. The municipality of Targovishte has a very convenient geographical location. The city of Targovishte is situated on the two banks of the Vrana River. It is a crossing of the roads leading to the cities of Sumen and Razgrad and the towns of Popovo and Kotel.
5. Targovishte municipality falls in the group of the medium developed municipalities in the country. In terms of HDI it ranked 45th and in terms of GDP Index – 37th.
6. The number of the active non-financial non-budget enterprises is 1,501 and the company density is 24.5 companies per 1,000 inhabitants, which is lower than the country average. About 99 % of the active non-financial non-budget enterprises employ below 100 persons. The share of large companies in the total number of business is just 0.9 %.
7. Manufacturing enterprises create about half of GVA. Another sector, playing an important role is trade, contributing 12-15 % of the GVA. The GVA created in agriculture accounts for 9-10 % of total GVA. The average agricultural land per capita is 0.63 ha, which is above the average for the country. The number of the agricultural producers registered in the municipality is 210. Grain production is leading on the territory of the municipality – wheat, barley and maize are sown on 48 % of the managed arable lands. Sunflower is also grown, taking 12 % of the total arable land. Perennials are planted on part of the remaining agricultural lands, where vineyards are predominant.
8. Manufacturing plays the leading part in terms of employment creation. Second in importance to the local employment is the trade sector, which provides between 20 and 25 % of the total number of jobs in the separate years. Agricultural sector is ranked third in terms of employment creation, contributing to about 15 % of the local employment. Although the number of large companies is small, they employ a significant part of the local labor force. Small and medium sized companies gradually increase their importance to the level of employment.

¹ Data in the annex based on the “Baseline surveys on economic development potential” of selected municipalities in Bulgaria, study carried out by the Ministry of labor and social policy and UNDP under the Project “Job Opportunities through business support” (JOBS), Sofia , 2001.

9. Targovishte municipality is one of the regions with the highest level of unemployment, registered in the country. In 2002, the difference between the levels of local unemployment and the country average was 12.4 percentage points. In 2002 and 2003 the number of unemployed decreased, mainly due to the active measures for employment promotion of the Ministry of labor.

10. Targovishte municipality has a good potential for economic development. Its good geographical location and fertile soil allow for the development of agriculture, manufacturing and trade.

SAMOKOV

11. Samokov municipality is located in Sofia district, covering 19 % of its territory (1,303.6 sq. km). Its strategic geographical location combines with a mountainous relief, which restrains the development of intensive farming, while creating excellent opportunities for year-round tourism and winter sports. High quality drinking waters and spa centers present another valuable asset for tourism development. Samokov municipality also shelters the Rila National park – one of the largest protected natural territories in Bulgaria. The town of Samokov is rich with cultural and historical traditions.

12. The total population is 42,431 people. Due to its mountainous relief, the municipality is comparatively sparsely populated – 32.6 persons per sq.km. The negative population dynamics resulted in unfavorable age structure and aging population.

13. The last couple of years witnessed a boom of newly company registrations, mainly in trade and healthcare. Almost all the companies are SMEs. The number of large enterprises is only 7.

14. Manufacturing and tourism dominate the economy. Manufacturing has a significant share in the local GVA. The leading local industries include textiles, metal processing, and the production of machinery, equipment and electro-technical devices.

15. Total agricultural land amounts to 49.5 thousand ha, or about 1.1 ha per capita of the population. Arable land accounts for about 40 % of the total agricultural land, and forests take 59.5 thousand ha.

16. Prior to the reforms, crops accounted for 57 % of the local agricultural output. Fodder crops (43 %) had a major share in the crop mix, followed by cereals (38 %) and vegetables (14 %). Potato growing earned a significant share of the agricultural revenues in the municipality, since the local varieties are well accepted on the domestic market. The transition brought a significant change in the crop mix with a reduction of yields and land under cultivation. Potatoes and wheat gradually took over and became the staple crops for the municipality.

17. Manufacturing has the highest share of the total employment in the enterprise sector, having engaged almost half of the employed. Hotels and catering are the second biggest sector in terms of employment generation, occupying 20 % of total employment. Samokov municipality employs 2.3 % of the entire hotel and restaurant personnel in Bulgaria.

18. In contrast to other municipalities, agriculture and trade do not post a substantial employment contribution. That is determined by the low level of agricultural development, while the modest employment in trade results from the good employability of other local industries like manufacturing and tourism.

19. The level of unemployment is higher than the country average. It remained high even after 2000, affecting 42 % of the population.

20. Samokov municipality is situated at convenient distance from the capital Sofia and the internationally famous tourist resort Borovetz. Combined with the local natural and economic conditions, these assets cumulate a good potential for development.

SLIVEN

21. Sliven municipality is situated in the Southeastern region of Bulgaria and covers 1,367 sq. km. It has a population of 137,073 persons and is one of the ten biggest municipalities in Bulgaria. It consists of 48 settlements – 2 towns and 46 villages.

22. According to the HDI Sliven municipality is one of the medium developed municipalities in Bulgaria. In the last couple of years it started to gradually recover part of its economic potential.

23. The number of the active non-financial non-budget companies is 3,947. The company density is 25.8 per 1,000 inhabitants, which is quite close to the country average. Like in most municipalities in Bulgaria, about 99 % of the active non-financial non-budget enterprises are small and medium-sized. The number of the large companies is continuously decreasing and they represent only 0.8 % of the total businesses. All the large companies, except one, are registered in the town of Sliven.

24. The agricultural land amounts to 70,960 ha. The territory of the municipality includes 51,544 ha of arable agricultural land and approximately 45,800 forestry land. About 33 % of the arable land is under irrigation. The average arable land size per capita is 0.2 ha, which is well below the country average. The number of agricultural producers, registered on the territory of the municipality, amounts to 390 persons.

25. Grain crops are leading in the plant growing sector, sown on 41 % of the managed arable land, where wheat, barley and sunflower are the leading crops. Perennials are planted on part of the remaining agricultural lands where vineyards and peaches are predominant. As far as animal breeding is concerned, poultry, sheep, goats, pigs and cattle are bred on the territory of the municipality.

26. The sector with the highest share in the employment is manufacturing. It employs 39 % of the employed in the non-financial non-budget sector. Second in importance to the employment is trade. The relative share of the employed in the commercial companies is 23 %. This high percentage is a result of the decreased employment in some leading sectors, like agriculture, manufacturing, electricity, heat, gas and water supply and the increased employment in trade. Other sectors, which registered growth in employment, are transport and communication, and financial services (other than banks and insurance companies). The average employment in

Sliven municipality marked a gradual decline in the transition period. The average employment per enterprise is 5.8 persons.

27. The unemployment rate in 1997-2001 was 16-19 % and was higher than the country average. This was due to the industrial decline and to unfavorable features of the local labor force which have low entrepreneurial skills. The potential of the municipality is connected with its good location, favorable soils and traditions in a number of industries – textile, food processing, machine-building etc.

RAZLOG

28. Razlog municipality is situated in the southwestern Bulgaria in the Razlog valley along the Mesta river basin in the foothills of the mountains Pirin, Rila and Rhodope. The municipality covers an area of 375.8 sq. km and comprises a stretch of the Pirin national park and the Rila national park. The municipality is also the site of the largest Bulgarian biosphere reserve.

29. The population of the municipality is 22,197 people. The density is 59.06 persons per sq. km, which is lower than the country average. The number of population has been relatively stable in the last years. Inside the municipality the number of population in the villages has even grown, as opposed to a decrease in the urban population. This can be explained by the increased migration towards the villages.

30. According to the HDI Razlog municipality ranks 102th among the other municipalities and in terms of GDP Index it ranks 211th, which is much lower than the country average.

31. 1,500 companies are registered in the municipality. Yet less than one third report results on their activity. The company density, based on the active enterprises, is 21 companies per 1,000 inhabitants, which is a comparatively good indicator for the rural municipalities. Company size structure is similar to that in other small municipalities in the country. SMEs comprises about 98.5 % of the active companies in the region.

32. The prevailing part (45 %) of the active companies operates in trade. The company concentration in manufacturing (19.5 % of the active enterprises in the region) and hotels and catering (16.8 %) is relatively high. The share of manufacturing in the sector GVA is 63 %. Forestry and wood processing are typically well developed, as well as food processing and ready-to-wear industries. In contrast to other rural regions, the hi-tech sector is comparatively well developed. Two US companies made relatively big investments in the production of telemetric equipment and electro-mechanical devices.

33. The natural resources favor the development of agriculture and forestry. Arable land accounts for 9.1 ha and forest lands cover 24,000 ha of the municipal territory. Potatoes, beans, tobacco, cereals and fodder crops are the main agricultural crops.

34. The high concentration of labor is another typical feature of Razlog municipality. 25 of the largest enterprises in the municipality create about three quarters of local employment and 10 of them, with the highest employment, comprise 56 %.

35. Almost 60 % of the employed in the municipality work in manufacturing. Construction and trade are next in importance. The minor share of employment in the service sector illustrates its underdeveloped position in the locale economy. The registered unemployment rate in Razlog municipality stands close to the country average.

36. The significant changes in the local economy over the last years, combined with the favorable natural conditions, the qualified labor force and the good cooperation between the local authorities and the business community prove that the municipality has big potential for economic growth.

AITOS

37. Aitos municipality is one of the biggest rural municipalities in Bulgaria. In terms of population it ranks 21st among all the rural municipalities in Bulgaria and 3rd – in the Southeastern planning region. The population amounted to 30,709. The population growth is negative, though the decline rate is lower than the country average.

38. There are 2,010 registered companies on the territory of the municipality, of which only 635 are active. The active companies' density is 21 companies per 1,000 inhabitants. The active companies are mainly micro- and small-sized and their share in the total number of companies is 98 %. The large companies are quite few, but they provide the majority of jobs.

39. Though the main share of registered companies is in the sector of services, the GVA is created mainly by the agricultural and industrial sectors. The importance of agriculture is higher than in the country and in the district, to which the Aitos municipality belongs.

40. The GDP per capita is much lower than the country and the district average. The structure of the local economy and the relatively lower efficiency of the local companies can explain this fact. The low labor productivity results in low wages and in low living standard of the local population.

41. Aitos municipality is a rural area depending mainly on agriculture as a source of employment and incomes. Cereals and technical crops account for the main part of the area under cultivation.. Second in importance are the perennials – vineyards, cherries and peaches. The specialization varies by the size of the agricultural holding – small farms specialize in vegetable production while large produce mainly cereals and oilseeds. The diversification of the agricultural production is small and farmers are vulnerable to fluctuation in prices. Land ownership is fragmented and agricultural holdings, cultivating less than 10 ha predominate. Land use is however concentrated and large agricultural holdings cultivate more than 95 % of land.

42. The unemployment rates in the municipality are higher than the country average. The vacancies are very limited and despite the active labor policy measures the pressure on the labor market is high.

43. Despite the stagnant current economic situation, the municipality has a potential for economic development. Local actors perceive that the most promising sectors are agriculture, food processing and light industry.

SUNGURLARE

44. The municipality of Sungurlare is one of the biggest, by territory, in the Bourgas district, Southeast Planning Region of Bulgaria. It is situated on an area of 824.4 sq.km.

45. The territory of the municipality is a rich combination of mountain, hilly and flat terrain. The climate is moderately continental. It is characterized by mild winter, early spring mild summer and warm autumn. The rainfalls are insufficient. The soils are predominantly forest maroon, which favor the viticulture, vegetable and tobacco growing and almost all kinds of grain crops.

46. There are 31 settlements in Sungurlare municipality, with a total population of 15,544. Of them, 3,717 people live in the administrative center – the town of Sungurlare. The population has been constantly decreasing. This is due both to the migration to the bigger cities and the poor natural growth indicators. The combined educational index is very unfavorable and this fact can be an obstacle for the further social and economic development of the municipality.

47. Sungurlare municipality is among the medium developed areas in the Bourgas district. In recent years the economic and social conditions in the municipality improved substantially. According to the overall HDI the municipality is ranked 201st among the municipalities in Bulgaria. In terms of the economic component of the index, the GDP index, the municipality is even in better position, ranking 147th.

48. The number of active non-financial non-budget enterprises in the municipality is 165, and the company density (10.1 per 1,000 inhabitants) is lower than the country average. The investment activity in the municipality is still quite low and substantial investments have been made in only one-two local companies. Vine growing is a sector with established traditions. The financial resources in the agricultural sector are however limited, as individual farmers dominate it.

49. The prevailing part (41 %) of the active companies in the municipality are from the trade sector, most of them being micro-companies. Second in importance in terms of company concentration the agricultural sector (28 %). Manufacturing companies account for 9 % of the active businesses. Other sectors with relatively high concentration are hotels and catering (11 %) and transport and communications (8 %), although none of those companies employed more than 10 people.

50. Manufacturing enterprises generates the major part of GVA in the municipality. Other sectors, playing an important role for the GVA generation are agriculture and trade. The agricultural sector generated between 10 % and 17 % of the local GVA in the separate years.

51. The arable land in the municipality is not much and accounts for only 35 %, as substantial part of the municipal territory is in the east Stara Planina Mountain.. This, however, allow the development of cattle breeding and vine growing in the area, which are the sectors dominating the agricultural activities. Between 25 % and 30 % of the active companies are from the stock-breeding and vine growing sectors. The number of registered agricultural producers is 24 and the number of the registered tobacco growers is 770 since tobacco growing is an important economic activity in the municipality. The only large company, giving the specific characteristics of the municipality, is “Vinex”, Slavianzi.

52. The level of unemployment is substantially higher than the country average. The unemployment issues occur as a result of the lack of large enterprises in the area. The other major reason is the low level of education and qualification of the local labor force.

53. Sungurlare municipality has good potential for economic development. The favorable soils, the hilly relief, the warm climate, the relatively long autumn are important conditions for the development of vine growing and wine production, vegetable and tobacco growing and for almost all grain crops.

NOVA ZAGORA

54. The municipality of Nova Zagora is a rural area located in the fertile Thracia Valley. It has a relatively well-developed infrastructure and good access to road and railway transport.

55. With its total population of 47,994, Nova Zagora ranks third largest among the rural municipalities in Bulgaria. The municipal center – Nova Zagora, is surrounded by 33 small settlements. The population density in the municipality is 55.2 people per sq. km. In the transition period the population suffered a decline determined mainly by the negative natural growth and outward migration. The population in the villages is aging, with a higher population drop in the smaller settlements. The share of the working age population in the municipality is below the country average.

56. There are 2,950 registered companies, less than 50 %, of which are active. The density of 28 companies per 1,000 inhabitants is comparatively low. The share of micro-companies has been increasing, accounting for about 94 % of all registered companies. Micro and small companies create about 60 % of the local employment.

57. The majority of the companies (80 % of all registered companies) operate in the service sector, predominantly in trade. Agriculture and manufacturing generate a bigger share of the GVA (respectively 60 % and 30 %). Agriculture creates most of the jobs (30 % of the employed).

58. The municipality has excellent natural conditions for the development of agriculture. The soils and the climate allow for the efficient growth of a large variety of agricultural products. Cereals and sunflower are the staple crops in the municipality, accounting for up 90 % of the arable land. Vineyards and fruits are also essential. Livestock numbers have considerably declined in the transition period. The size of agricultural holdings is larger than the country average.

59. The unemployment rates have been steadily increasing over the period 1997-2001. Very high is the share of unemployed under 30 years of age. In the same time one of the main problems of business community is the emerging deficit of qualified labor force.

60. In view of their good potential for development, agriculture and food processing have the capacity to boost local economic growth. The rate of development and the efficiency of these sectors will determine the overall development of the municipality.

DULOVO

61. Dulovo municipality is situated in the northeast part of the Danube valley. It is part of Silistra district, Northeast planning region. The territory of the municipality is 56,702 ha.

62. The relief is predominantly flat with height above sea level of 150-250 m. The climate is temperate continental. The territory of the municipality is largely opened to the north. The road transportation network is well developed, consisting mainly of forth grade inter-village roads. The first grade road Silistra-Shumen crosses the municipality.

63. The population is 30,712 inhabitants and includes 27 settlements. The municipal center is the only town and has a population of 7,108 inhabitants. The municipality has a relatively good age structure and the natural growth indicators of the local population are more favorable than the country average. The most numerous ethnic group in the municipality is that of ethnic Turks, comprising more than two thirds of the population.

64. Dulovo municipality is among the most underdeveloped areas in Bulgaria. According to the HDI the municipality is one of the most poorly developed economies in the last couple of years. The last HD index places Dulovo on 257th among the 263 municipalities in Bulgaria and the GDP index – to 232nd place among the municipalities.

65. The number of active non-financial and non-budget enterprises is 451 and the company density is 15 companies per 1,000 inhabitants, which is nearly as two times as low the country average. About 99 % of the active non-financial non-budget enterprises are SMEs, most of them being micro-companies, employing up to 10 persons. The number of the large companies is small and they operate predominantly in manufacturing.

66. Highest contribution to the GVA generated in the municipality, have the enterprises from manufacturing, followed by those from trade and agriculture and forestry. The economy of Dulovo is predominantly agrarian, with weakly developed industrial sector, and the service sector is limited to the scope of the municipality. The sector structure of the economy explains the low productivity.

67. The territory of the municipality includes 32,520 ha of arable land and approximately 800 ha of forestry lands. The arable land per capita is 1 ha, which is above the average for the country. The number of the agricultural producers registered on the territory of the municipality, amounts to 170 entities. Grain production is leading (wheat, barley and maize). Sunflower is also grown, as well as perennials but on significant smaller part of the land. Tobacco growing is well developed too. The number of the registered tobacco growers is 2,068.

68. Highest contributions to the municipal employment have the manufacturing companies. They employ more than 50 % of all employed in the company sector of the municipality. In the agricultural sector are employed 15 % of the total number of employed in the municipality. The data do not include however the individual agricultural producers who would substantially increase the importance of agriculture to the local employment level, as its share would exceed that of the manufacturing. Trade companies employ a little over 25 % of the employees in the local enterprise sector.

69. The level of registered unemployment in Dulovo municipality is close to the county average.

70. The future prospects for development are connected with the good geographic and climatic conditions and the abundant soil resources that facilitate the development of grain, technical cultures and fodder.

DEVIN

71. Devin municipality is located in the Southwestern Rgodopes along the Vacha river. It borders to the south on the republic of Greece. The relief is mountainous with steep slopes and deep river gorges. The municipality is rich in water resources –springs, rivers, dams and thermal spas. The mineral waters are drinkable and have curative effects. The soils in the municipality do not favor the development of agriculture. The forests, rich in game, are the biggest assets of the municipality. Three natural reserves have been established to protect the variety of species.

72. The technical infrastructure is not well developed. The high altitude and the steep slopes hamper its maintenance. The infrastructure is a serious constraint on the economic development of the municipality and the utilization of its natural resources.

73. The number of population is 15,094 persons. The density is much lower than the country average, owing to its peripheral border region location. The population dynamics is negative: the absolute population number is one on the decrease and this is due to the outward migration to other urban areas and emigration, mainly to Turkey. The outward migration to areas with better prospects for employment is rendering Devin into a gradually depopulating municipality. In the near future there might be serious problems with aging population and depopulation.

74. The number of companies registered in Devin municipality is 1,130. The company density is 75 per 1,000 persons. As per active companies, this density falls to 39 firms per 1,000 inhabitants. Over the past few years, the number of newly established companies has steadily decreased as a result of the decreased number of newly established enterprises in the field of trade, forestry, hotels and catering.

75. The economic transformations have brought about profound changes in the economic texture of the municipality. The closure of the small manufacturing enterprises that were spread in almost all the settlements in the pre-reform period, left little other opportunities for employment except agriculture and forestry. The local population whose mentality and values had been shaped by life in an isolated community had to adjust to the completely changed economic pattern of the municipality

76. Agriculture and tourism are perceived to be the most promising sectors in the region. The light industry (and mainly wood processing) has a good potential for development. Proximity to the border with Greece is also expected to dynamize the region in the future.

KOTEL

77. The municipality of Kotel is situated in Southwestern Bulgaria. The territory of the municipality is 858 sq.km. The relief is mountainous with height above sea level of 520 m. The highest peak is Razboina (1,128m). The region is famous for its karst forms [caves, waterfalls, springs, etc.], which make it quite interesting and beautiful, and attractive from a tourist point of view. The climate is middle continental and transcontinental with influence of the mountains – snow in the winter, nice summer, long and warm autumn.

78. The municipality of Kotel has relatively good density of the road network, close to the average of the country. The road of the first and second-class roads is limited [54.3 km] but the network of third- and fourth-grade roads is well developed. The only first class road is from the village of Mokren to the Petoluchka crossing, connecting the municipality with the main road E 773 Sliven-Burgas.

79. The municipality of Kotel consists of 27 settlements (1 town and 26 villages) and has a population of 22,000 people. Almost two-third of the population is grouped in three settlements: the municipal center [the town of Kote], the village of Gradets and Yablanovo village. In the period of the last three centuries, the population of the municipality has declined by about 9%. Nevertheless, municipal population has a relatively good age structure, which is due both to the better natural growth as compared to the country average and the specific ethnic composition of the local population.

80. The Educational index of Kotel municipality is 0,866, which gives it penultimate ranking 261st among the municipalities of Bulgaria. The high percentage of the ethnic Turks group and particularly of the group of ethnic Roma is likely responsible to a great extent for the bad education indicators. This will be a serious obstacle in the economic development of the municipality.

81. In the past years the municipality of Kotel has been continuously ranked last in terms of Human Development Index, calculated with the UNDP methodology. It is almost entirely located in the region of Stara Planina Mountain and the arable land in the municipality accounts for the modest 19% of its territory. The results are an underdeveloped agricultural sector, which could not provide alternative employment to the people made redundant after the substantial lay-off in the past decade.

82. The number of the active non-financial, non-budget enterprises in Kotel municipality at the end of 2001 is 313, and the company density is 12.9 companies per 1,000 inhabitants, which is more than two times as low as the country average. In 2001 the share of SMEs in the municipality is 99% and micro-companies is 94.9%, which means that the local economy is in fact driven by micro-companies, providing employment to the owner and his family members and in some case to two-three hired employees.

83. In the 1997-1999 period, manufacturing enterprises created nearly half of the gross value added in the area but in 2001 their share in GVA decreased to about 16%. In the last years, the main source of income in the municipality became forestry and the wood processing, followed by other agricultural activities, mainly stockbreeding and vine growing. The agricultural sector contributes to about 21% of the GVA, created in the municipality in 2001. Another sector, which marked an increase in terms of its share in GVA, was trade [about 20% in 2001] though that was

mainly a result of the shrunk activity of the other economic sectors. The capacity of the tourist sector was not utilised at all and the share of tourism in the GVA, generated in the area was only 2-3%. The sector has a high development potential and its development could contribute to the solution of the social and economic problems in the area.

84. The territory of Kotel municipality includes 17,064 ha of arable land and approximately 48,900 ha of forestry lands. The average agricultural land per capita in the municipality is 0,7 ha, which is closed to the average for the country. The number of the agricultural producers registered on its territory is barely 14 persons. Grain production is leading on the territory of the municipality, mainly wheat, barley, maize and sunflower/ Vegetable production is best represented by potato growing. Perennials are planted on part of the remaining agricultural lands, mainly vineyards and the tobacco variety "Iztochen Balkan". On the territory of the municipality are registered 180 tobacco growers.

85. The sector, playing a decisive role for the local employment in the last years is agriculture and forestry. In 2001 is employed over 22% of the employed in the municipality. Another sector with a substantial impact on the levels of local employment is trade. In the recent years the sector employed about 20% of the total number of parity. Moreover, only one industrial enterprise employed more that 50 people. Qualifying as a medium-sized company. All other companies are of small size. The only companies employing over 100 people in 2001 are the Employment Association, established under one of the active measures on the labor market, the municipal hospital and the state-owned wood processing and landscaping enterprises.

86. The level of registered unemployment in Kotel municipality is about two times as high as the country average. The average number of unemployed registered annually reached its peak in 2000 [3,629 people] but in the following two year the number of unemployed decreased so that in 2002 it was 3.404.

87. The decreased number of unemployed in the municipality is to a high extend as a result of active measures and programs for employment promotion, carried out by the MLSP. In 2000, Employment Association was registered in the municipality and in 2002 the program "From Social Assistance to Employment" was launched, which was focused on long-term employment with low level of education and qualification. Another instrument used to fight unemployment in the area were the program for temporary employment, although their scope has been gradually decreased during the past years.

88. The beautiful and preserved natural environment, the favorable conditions for the development of animal breeding and vine yard growing, the rich cultural and historical heritage give good potential for the development of Kotel municipality. About 780 culture monuments, including five architectural preserves (Kotel, Zheravna, Katunishte, Medven and Gradetz] and two natural reserves are situated on the territory of the municipality.

ANNEX 5

OVERVIEW OF PRIORITY SUBSECTOR IN RURAL AREAS

Main Subsectors

1. Food industry consists of 13 sub-sectors: meat and meat products; canned fruits and vegetables; fish/seafood; animal fats and vegetable oils; milk and dairy products; grains and cereal products; pet foods; bread milling, confectionery and other cereal products; sugar, chocolate and cocoa products; food additives; diet foods; alcohol: wine; beer and malt manufacturing; mineral water and soft drinks.
2. The largest number of registered companies is in the cereal food industry (439), meat processing (274) and beverages (186). The highest value of sales is registered by the bakery sector (27 % of the total food sales), beverage production industry (26 % of the total), and meat and fish industry (19 % of the total).
3. Major products include flour and other grain products, sunflower and other vegetable oils, dairy products, wine, tobacco, processed fruits and vegetables, essential oils, fresh and dried mushrooms and herbs. Major exported products are grains, sunflower, vegetable oils, dairy products, wine, tobacco, processed fruits and vegetables, essential oils and herbs. It is estimated that the local food processing industry sources (on average) 30 percent of its raw materials from imports.
4. Most export oriented sub-sectors are canned fruit and vegetables (32%), fish/seafood products (21%) and beer and malt manufacturing and other beverages (20%). For the remaining sub-sectors, less than 10 % of the production is export oriented. Local and international experts agree that the best opportunities for Bulgaria to compete in international markets, especially in European markets, exist in the area of fruit and vegetables and wine.
5. Parallel to the formal processing industry, almost half of the food companies are estimated to operate in the grey sector with the highest number being in the beverage and bakery industries.

Meat Processing

6. One of the most dynamic sectors in Bulgaria. Over the past four years, a large number of new companies have emerged in this sub-sector and the growth is the highest of all the food processing sub-sectors. Partly the reason for these recent developments is the increased consumption of ready and semi-ready convenience foods, and increase in purchasing power of local consumers..
7. Companies face frequent fluctuations in prices of raw meat, as well as lack of a constant and reliable meat supply. Raw meat supply to the processing industry is closely related to price and quality of raw meat sold in the retail market. Usually, when local meat has a high price, processors prefer to use imported meat.
8. New EU's sanitary and hygiene standards that were adopted in 2003 and started to be implemented in 2004 are inducing a major transformation and restructuring of the sector whereby

a number of producers and processors are forced to close their businesses under a heavy scrutiny of the National Veterinary Service.

9. Out of a total of 607 meat processing plants (including those that are unregistered), operating in 2002, 150 have already been closed down. Of the remaining, only 20 processing plants fully meet the requirements of the national legislation and have EU approved facilities. These include four pig meat slaughterhouses in Svishtov, Vratza, Silistra, Shumen, nine poultry meat slaughterhouses and processors (mainly for ducks and geese) and five meat processing facilities for red meat. In addition, Bulgaria has two EU approved facilities for game meat and four seafood plant facilities (two for caviar and two for fish). Audits (inspections) carried out by the National Veterinary Service have made recommendations for improvements to be made in 492 plants. The facilities, which will not be able to meet the sanitary requirements, will be shut down in 2005 and 2006. This will increase unemployment in some rural areas, but is an inevitable step resulting from the commitments of the Bulgarian government to the EU during the accession negotiations.

10. Cattle and pig inventories decreased sharply during transition as herds of the former state and cooperative farms were slaughtered or sold off. In the period 1990-1997 the number of cattle decreased almost three times. After the grain crisis from 1996-97 the livestock production stabilized and even started to grow, reaching 634,000 heads in 2001. The larger part of the cattle is of milk species and animals are used for the dual production of milk and meat. Although the percentage of combined breeds is growing, the predominant share of meat production comes from milk breeds. Approximately 60 % of the beef is produced on small and medium-sized farms. In most cases this meat is for self consumption and is not offered on the market. The lack of reliable supply of raw material from the point of view of quantity and quality is the main reason for the considerable share (about 40 %) of imported beef for the domestic consumption. The imported beef is used mainly for processing (Bulgarians do not have the habit to consume much beef, because pork has traditionally been the main meat consumed).

11. Although pork remains the mainstay in the diet of Bulgarian consumers, poultry has lately displaced it on the market because of lower and more constant prices and changes in the food habits of the population. As in the case of cattle breeding pigs are bred mainly for subsistence and on small farms. The number of animals fluctuates from year to year depending on the prices of fodder. There are two main reasons for the increasing share (about 30 %) of imported meat in the domestic consumption. The first is connected with the lower prices of pork in some other countries and the second with the low ability of the local farmers to deliver big lots of animals of uniform quality.

12. The enterprises in the meat industry tend to be much smaller than in Western Europe and more heavily concentrated on second stage meat processing, rather than on slaughtering. The annual capacity of a large Bulgarian meat processor (about 3,600 tons) for example is equal to the week output of only one of the 10 processing plants belonging to the Spanish company, Campofrio. The concentration and consolidation of the meat processing industry after 2007 is the only way to survive in the enlarged European Union according to the opinion of the experts in the branch.

13. The total investments in the meat processing sector in the next two years are estimated at 125 million Euro¹. This is the amount needed for the industry to invest in the processing facilities in order to reach the standards prescribed by the new legislation and comply with the EU sanitary regulations. Detailed analysis of the total demand for investment in the sector is provided in the main report.

Milk Processing and Dairy Sector

14. This is the other sector of the food industry that will have to quickly reshape to meet the EU standards which are gradually coming in force since 2002 or face closures which already started last year. The new EU hygiene and sanitary norms in the industry should be fully put into practice by 2010 according to agreements between the Government and EU. Dairies that will not meet EU requirements by 2007 will not be able to export their produce into EU, and 2010 they will have to face closure.

15. Only in 2003, mass veterinary inspections resulted in closure of 25% of mainly small dairies for not meeting the standards that are being harmonised with the EU standards. The main reasons for closure were lack of cooling equipment, excess water content in fresh milk, poor hygiene conditions and shorter than required ageing period for processed dairy products. It is expected that most of the remaining small dairies will close in the next five years.

16. As of August 2004, there were 318 dairy plants operating in the country: 213 of them with industrial capacity, while the remaining 105 are small processing units. Only 10% of the operating enterprises fully meet the national requirements; 181 big and 93 smaller processing dairy plants have been categorized by the National Veterinary Service in the second group, i.e. their production and store buildings might meet the sanitary norms by the end of 2005.

17. The sector is currently mainly oriented to the domestic market but traditional products like the feta cheese and the yellow cheese are well known on the international markets. Although only a 3% are licensed to export to the EU (10 dairies), in the last four years (2001-2004) the export of dairy products has increased by almost 80 % showing the good potential of the industry. The main markets are the USA (20 %), Greece (18 %), Germany (14 %), Lebanon (11 %) and Australia (10 %). However, these exporters also face difficulties related to the protection of their trade marks and brands. For example, Bulgarian exporters are not able to export under the label "Feta" for "Bulgarian white cheese" since these two appellations are already patented by Greek and Turkish parties.

18. The industry consists of two types of processors: small processing plants called 'mandras' with a low cost policy producing only a few varieties of long-lasting cheese (such as feta) and large, modern, processing plants (mainly with partial foreign ownership) which have the capacity to compete internally and in the wider EU market.

19. After the break up of the large co-operative state farms at the beginning of the 1990s and the consequent redistribution of co-operatives' assets, the majority (over 80%) of the milk production (total of 370,000 cows in 2002 .) has moved to small private farms with herds of less

¹ Estimate provided by the Union of Bulgarian Meat Processors; mostly for large investments close to one million Euro per investment, but the need for smaller, working capital investments and more specific investments is needed by the same processors.

than 10 animals. 48. Farms are characterized by an inferior production processes, technologically primitive breeding methods and a lack of mechanization. Cattle breeding is equally spread around the southern region of Bulgaria, but the most promising regions where more commercially-oriented farmers are emerging are the regions of Veliko Turnovo, Haskovo and Plovdiv. One of the biggest problems in the sector is the supply of quality raw milk. Still 60 -70 % of the supplies come from small and medium dairy farms with 1-2 cows which do not comply with the sanitary and hygienic requirements. However, during the survey it became apparent that the new breed of farmers who run medium size farms (10-30 cows) account for an increasing proportion of milk production. The number of these specialised farmers has increased over the last five years, particularly in the in regions of Veliko Turnovo and Haskovo. Farmers are usually young families, in some cases former workers of large state-owned co-operatives, with strong technical backgrounds and some agricultural education. In many cases these farmers rent or purchase buildings and machinery from the dismantled cooperatives at a very low price, which provides them with a good start for their future business. These farms have the biggest potential for the future as they have a capacity to produce a higher quality of milk providing them with the premium price and subsidies from the state. The banks should look at those farms and support them in growth of their business into "closing" the circle whereby they would move towards production and sale of cheese, yogurt and butter to the market directly, thus allowing them to increase their profits and production.

20. Bulgaria should be ready to fully meet the EU norms in the dairy industry by 2010. The dairies which can not adopt the standards by 2007 may continue to work for three more years but they can only sell products locally. After 2010, all working dairies must completely comply with the EU norms.

21. The most serious structural changes that are expected to occur after 2007 are in the field of dairy farms. It is certain that some of the existing medium-sized farms will expand at the expense of disappearing subsistence farmers (who will be able to use the raw milk only for their own consumption). The milk quota of almost 1 million liter which Bulgaria will be allowed to produce after its accession to the EU is not big, but still it will be hard to fulfill unless medium- and big-sized farmers will substantially expand (currently, 80 % of the cows are concentrated on subsistence farms). Otherwise, Bulgaria will become a consumer market of the EU dairy products.

22. The total investments needs for all milk processors will be about 42 million EURO. This is assuming only "industrial" processors (approximately half of the industry) where the investment would allow them to reach the sanitary regulations and standards of the EU.

Fruit and Vegetables Processing

23. This is the most export oriented sector of the processing industry. However, due to the transition to the market economy and the land fragmentation, the industry is facing difficult times. Installed capacities are able to process 761,000 ton of raw materials, but only about 40 % of this capacity is used. The main reasons for the decline of production was the collapse of the former markets (mainly ex-communist countries), lack of raw materials and lack of working and investment capital.

24. Currently, there are 57 operating canning factories. Some of them are mainly producing for the domestic market, while others are export oriented. Main international markets

are the EU, the US, Israel, Australia, and Russia. The majority of the operating companies apply modern marketing practices. They have their own trade mark or sell under an international distributors' label. The main obstacles that need to be overcome by the industry in the coming years are the difficulties in supplying big commercial lots, consistency in quality and quantity, and the promotion for the export markets.

25. The production facilities are concentrated mainly in southern Bulgaria in the districts of Plovdiv, Pazardjik, Stara Zagora and Iambol. In northern Bulgaria the highest concentration of canning plants is in the districts of Pleven and Veliko Tirnov. Detailed review of the fruit and vegetables processing sector can be found in Annex 6.

26. Out of 57 operating factories, only ten have renovated their production and store facilities in the last two years. It is expected that the remaining 47 companies will need to invest at least 13 million EURO in the next two years if they want to stay in business after 2007.

Wine and Orchard Sector

27. Bulgaria has a long history of vine cultivation and wine production. Natural conditions are good for the production of quality wines for both the domestic and export markets. The total area covered by vineyards in 2003 is somewhere between 96,000 ha and 110,000 ha¹. It is estimated that commercially cultivated vineyards totalled 71,500 ha (both table and wine grapes), while the balance is cultivated for non-commercial purposes.

28. There are around 270 wineries in Bulgaria owned by 96 enterprises of which 11 are large concerns that dominate the sector. The privatization of wineries started in 1993 and, in September 2003, all the wineries had been privatized. There is an increasing number of private, medium-sized wineries (around 50 at the moment) with new type of owners that are mostly Bulgarian entrepreneurs, not necessarily originating from the wine sector, but interested in investing in sector with good prospects of returns. It is estimated that, in 2002², most wineries made profits.

29. The sector is more than 80% export-oriented, and accounts for 30% of the export revenues of trade between Bulgarian food exporters and the EU³.

Table 1: Value of Wine Export

		1998	1999	2000
Total export	EURO (millions)	4,000	3,850	4,500
Value of wine export	EURO (millions)	118	70	55
Wine share in export	%	2.8%	2%	1.2%
Volume of wine export	Litters (millions)	169	101	76

¹ MAF, Wine Outlook Report, 2002.

² Vertumne, Etude de marche, Bulgarian Wine and Vine industry overview, 2002.

³ Bulgarian Wine Industry, J.E. Austin Associates, 2001.

30. The first major foreign private investment in the sector took place in 1998 when Agribusiness Team of EBRD signed EURO 2million equity investment and EURO 26 million long-term loan investment in Domaine Boyar, the biggest and most successful exported of Bulgarian wine. The investment was aimed at the enhancement of skills and technology and the strengthening of the competitive position of Domaine Boyar in export markets.

31. The main weakness and threat facing the industry are old and depleted vineyards (more than 70% are older than 25 years¹). However, above mentioned emerging medium-size private producers are in the process of establishing long term contracts with vineyard owners and encouraging new plantations of vine. They also provide extension services on vineyard management, cultivation practices, mechanization and advise on more profitable sorts of grapes. This process provides an investment gap for the banks who can explore financing of the grape producers through risk-sharing mechanism with the processors.

32. The southern central region is the biggest producer of grapes (28 % of the vineyards), followed by the northern eastern (18 %) and the southern eastern region (27 %). Only 7 % of the plantations are young. In the northern western region almost half of the vineyards have been abandoned because they were old or in a very bad agro-technical condition. The diminishing area of vineyards is very unfavorable for the wine industry which otherwise has good perspectives for development in the enlarged European Union. Because of the lack of enough and good raw materials the wine industry production decreased by 42 % in 2001 compared to 2000 and since then it has been stagnating around 1 million hectoliters per year. The development of the wine sector in the next couple of years will depend mainly on the size of investments in new vineyards

33. Two thirds of the orchards are concentrated in the southern central and in the northern central regions of the country and 65 % of the orchards are grown by cooperatives. The average size of their farms is 32 ha. Due to the structural reforms in agriculture and the collapse of the traditional international markets 24 % of the plantations have been abandoned. More than half of the cherry and apple trees are more than 20 years old. Only about 10 % of the cherry, plums, peach, apricots and apple orchards are new (under 10 years old). The age structure is better only for raspberries and sour cherry trees. The age structure of the orchards should also be renewed in the next two years.

34. In the past, commercially marketed wine was produced mainly by co-operatives. However, since land restitution there are a large number of privately owned vineyards with an average area of around 0.3 ha per farmer². Some of these growers have taken the opportunity to plant new vineyards with more profitable varieties of grapevines, and the performance of these rehabilitated enterprises is generally much better than that of those co-operatives which still exist. However, there are still very large areas of suitable land which have not been improved, constituting an opportunity for profitable investment.

35. Market opportunities for Bulgarian wine are potentially good, but much effort needs to go into key strategies in order to unlock this potential. Individual growers can re-plant in varieties for which there is a strong demand (unlike many currently grown in Bulgaria). Then, on a national basis, much can be done to promote quality Bulgarian varieties such as Mavrud, and to strengthen export demand for these by introducing a provenance of origin system, with associated

¹ Vertumne, Etude de marche, Bulgarian Wine and Vine industry overview, 2002.

² Investing in vineyards in Bulgaria, FAO, 1998.

controls and publicity. Coupled with this are the steps the Government of Bulgaria is now taking to implement a strategy for giving a stronger role to vine-growing associations. This will give more power and lobbying strength to these associations, and should result in fairer prices being paid to growers by wineries. Currently the biggest problems faced by growers are: price fixing (at low levels) by wineries, difficulties in obtaining credit for the rehabilitation of vineyards, including planting new varieties, and the lack of a balanced approach to marketing Bulgarian wine. These difficulties are strongly inter-connected, and remedial measures need to be harmonized.

36. Vineyard rehabilitation is a long term investment, and banks entering this field need to be prepared to structure loans accordingly. Many grape farmers will also need access to seasonal loans to meet the costs of labour and materials, especially in spring and early summer, for pruning, fertilization, weed control, spraying and irrigation. Labour costs at harvest, in the late autumn, can also be high, and in the case of some growers these will need to be credit-financed.

37. It is expected that the investments in vineyards and orchards in next two years will be substantial and if the investments needs are to be met, they could reach up to 130 million EURO.

Other Sectors which will Lend Themselves Most Readily to Credit Financed Investments

Wood Processing

38. 65 % of the wood processing companies in Bulgaria are micro-enterprises, 32 % are small and medium size and only 3 % are large enterprises. Some wood-processing companies in rural areas employ more than 10 persons and are connected with a large number of smaller firms providing carpentry and joiner products.

39. With rich natural resources (forests covering 33 % of the country's total territory), wood processing and furniture making industry has a good potential for development in some rural areas.

40. At national level wood processing accounts for only 1.4 % of the total industrial output. In the mountain regions of southern and central Bulgaria it is one of the traditional and most promising industries. In some areas like the region of Mesta, wood processing facilities are so many that a whole cluster of companies has emerged. Such clusters keep people and production activities tied together. Another advantage is the sharing of work between the small businesses guaranteeing flexibility and economic efficiency. Through such clusters small business companies networks managed to set up a structure necessary for making them known on the domestic and international markets.

41. 65 % of the wood processing companies are micro-enterprises, 32 % are SMEs and only 3 % - large enterprises. Some wood-processing companies in rural areas employ more than 10 persons and are connected with a large number of smaller firms providing carpentry and joiner products. The wood processing enterprises are connected also with the furniture making companies in bigger cities.

42. The majority of the enterprises in the sector have the most important woodworking equipment and well qualified and trained labor. With rich natural resources (forests covering 33 %

of the country's total territory), wood processing and furniture making industry has a good potential for development in some rural areas. Textile and apparel

43. The clothing sector has become one of the most competitive industries in recent years with considerable export and employment opportunities. The textile, knitting and clothing branches account for 7% of the total industrial output and 25% of the total exports. In the first half of 2004 Bulgarian companies have exported 1,031 billion BGN worth of goods, with 90 % of the exports realized to the EU – mainly Greece, Germany, USA, France and Italy.

44. The industry employs more than 150,000 people from both urban and rural areas and comprises some 3,000 enterprises with the facilities which in almost in every district. Their geographic concentration is, however, the biggest in Plovdiv, Tryavna, Veliko Tirnovo, Blagoevgrad, and Gotse Delchev. Rural areas are an attractive place to organize an apparel enterprise, because of the higher level of unemployment (and especially of female population), the low wages and the disciplined workers. With men unemployed or absent from the villages, women have been employed mainly in agriculture. Because agriculture labor is seasonal, apparel assembly absorbed the surplus labor in many rural areas.

45. The clothing sector has become one of the most competitive industries in recent years with considerable export and employment opportunities. The textile, knitting and clothing branches account for 7% of the total industrial output and 25% of the total exports. The clothing sector's growth significantly surpasses the average for the whole industry. In the period 1994-2003 the sales on international markets increased seven times. In the first half of 2004 Bulgarian companies have exported 1,031 billion BGN worth of goods, i.e. an increase of 25 % compared to the same period of 2003. 90 % of the exports are destined to EU – mainly Greece, Germany, USA, France and Italy.

46. The industry employs more than 150,000 people from both urban and rural areas and comprises some 3,000 enterprises. They are frequently SMEs created after privatization. Most are positioned in low value-added production due to their concentration on cut-make-trim (CMT) business. Some are developing full package production, but only a few have successfully introduced their own brands on international markets.

47. The primary reason for the dynamic growth of assembly production of apparel for international markets is the competitive pressure on productivity and the high costs in western economies. The first foreign investors in Bulgarian apparel sector have been Turkish and Greek contractors who organized their small enterprises in the mountain rural areas of South Bulgaria. Some of those enterprises have closed after having fulfilled the contract and re-opened in a neighboring village. As apparel enterprises became increasingly linked to larger international retail buying chains, the importance of such kinds of businesses gradually diminished and contractors stick to the national regulations for payments, social benefits and working time.

48. A big impact on the future development of this industry will have the increased competition as the world market is going to open up and phase out the quota system under the WTO in January 2005 and the textile industry of Bulgaria will be threatened by more competitive producers from China and India. It is expected that Bulgaria will maintain its competitiveness mainly in higher-grade apparel directed to European market segments.

Tourism

49. In the last two years Bulgarian rural areas have witnessed opening of a number of small family hotels offering many activities to their clients like mounting biking, adventurous sports, horse riding, hunting and fishing. The rural and eco-tourism is not attracting a large number of people, but it offers a possibility for additional income to rural population and those involved in other activities such as agriculture.

50. The total capacity of the members of the Bulgarian Association of Alternative Tourism is 560 beds. The majority of members are family hotels and guest houses, mainly in the mountain areas, but there are also some larger hotels. Experts estimate that in 2002 the alternative tourist products and services generated almost 550,000 EURO in the economy of villages and small towns.

51. Bulgaria has a strong tradition in tourism sector. Despite the stagnation of the market due to the terrorist threat, the number of tourists in Bulgaria has been increasing during the last couple of years. Until recently the tour agencies were concentrating their efforts mainly on mass Black Sea and mountain sport tourism. However eco and rural tourist initiatives have lately sprung up from many sources ranging from hotel owners and tour operators, to municipalities, national parks, branch associations and NGOs.

52. Most of the tourists visiting the rural areas in Bulgaria are foreigners. The middle class Bulgarian families do not have the tradition to spend their vacation in the countryside (with the exception of some mountain regions where they go to practice winter sports or to spend weekends in summer). A lot of Bulgarians have their own small holiday houses in the countryside or have relatives who live there, so a large domestic demand for an organized supply of rural tourist products does not exist. The nature and traditions in rural areas have a large potential but foreign tourists are not attracted alone by beautiful nature. Good accommodation and services are also required.

53. The rural and eco-tourism can not attract a big number of people and will not bring masses of tourists to rural areas, but they can offer a good means of living and occupation for the local people. Small family hotels are good places for higher income and senior-aged tourists who require not only bed and breakfast, but also a quiet and pleasant home atmosphere. In the last couple of years people who work in the sphere of rural tourism have started offering many other activities to their clients like mounting biking, adventurous sports, horse riding, hunting and fishing.

54. The total capacity of the members of the Bulgarian Association of Alternative Tourism is 560 beds. The majority of members are family hotels and guest houses, mainly in the mountain areas, but there are also some larger hotels. Experts estimate that in 2002 the alternative tourist products and services generated almost 550,000 EURO in the economy of villages and small towns, situated mainly in the interior mountain regions of Pirin, the Rhodopes, the Balkan range and Strandja as well as in the Dobrudja plain. More than 3,200 alternative tourists visited Bulgaria, paying tourist packages in the range of 800 to 1,000 EURO. If other services like tours and souvenirs are included, those tourists provide revenues to local people amounting to 1.2 million EURO. In addition, at least 12,000 foreign and local tourists use various services in the form of lunches or dinners in a Bulgarian village, Christmas or New Year celebration in a traditional village house, trips on horseback or on bicycle and guided mountain trips. At the

moment, rural tourism mainly provides additional income for rural families (as part-time activity particularly for the female population) and contributes to the development of multi-activities. In some least developed villages rural tourism may be the only economic activity with economic potential.

Other Non-farm Rural Activities

55. Other parts of industry and the tertiary services activities are under-developed in rural areas. There are however villages and small towns (mainly the peri-urban centers) in which the non-farming economy is quite diversified. For example, in one of the surveyed rural municipalities – Elin Pelin, situated at 25 km from Sofia enterprises in more than 10 sectors, i.e. food processing, packaging, construction, production of building materials, furniture, fiber glass, detergents, porcelain, pottery, scrap material processing, garden design, agriculture and agricultural services, golf and entertainment, sport hunting, and petrol trade, can be found. Such rural municipalities are, however, more an exception than the rule. Their dynamic growth is due mainly to their vicinity to the big cities, but also to the initiative of the local administration to attract outside investors.