

Strategic Management, Agility and Right Technologies for Youth

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RESEARCH on RISKS and OPPORTUNITIES CURRENT SITUATION in BULGARIA

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1.1 CURRENT SITUATION in BULGARIA

1.1.1 An Overview Regarding the Country's Economy

For the last decade, Bulgaria has been one of the fastest growing Eastern European economies. It has been a member of the European Union since 2007. The country provides excellent opportunities for the realization of investment projects of all kinds. It is characterized by a stable macroeconomic environment, the most favorable tax treatment in the European Union, highly skilled labor force and one of Europe's lowest operational costs. The geographical position of the country provides a strategic connection between Europe and Asia.

Interesting facts [1] :

- Bulgaria is among the Top 10 countries of the world with the fastest internet connection
- Bulgaria leads the world ranking in mathematics
- Third in the world in the number of IT specialists per head of population
- 49.5% of the population speaks at least one foreign language
- Bulgaria is in third place in Europe on cultural and historical heritage

According to the report of the National Statistics Institute (NSI), Bulgaria has 3.8% GDP growth for 2017, 3,1% for 2018 and 3,4% for 2019 [2]. Despite the global health crisis at the beginning of 2020, the preliminary NSI data report GDP growth in the first quarter of 2020 by 2.4%.

Bulgaria as a business destination

- Bulgaria performs relatively well on most indicators of doing business compared to the results for the region (Europe and Central Asia)
- Bulgaria has high results in the indicators "starting a business", "starting construction", "trade abroad", which are due to short lead times and low cost
- The areas in which it experiences disadvantages are "electricity supply", the indicators forming the legal framework for business termination, and "obtaining credit / financing". The latter is mainly due to the lack of a unified information system regarding the credit files of companies

Assessment of business development in the last 1-2 years

- About 40% of the companies register an expansion of their portfolio and sales in general
- there is one third of contraction in sales and turnover of companies.

The effect of COVID-19 on the economy of Bulgaria

In line with the international environment and trends in Bulgaria's major trade partners, external demand for Bulgarian goods and services is expected to grow considerably in the second and third quarters of 2021, largely reflecting the low basis in 2020 [3]. This forecast is based on the assumption that a substantial part of the containment measures imposed in the fourth quarter of 2020 in other EU Member States and in Bulgaria would be extended until the end of the second quarter of 2021 [4].

Financial Flows, Money and Credit

In 2020 the current and capital account surplus decreased significantly, reflecting the decline in net revenue from tourist and transport services. In the first half of 2021 the positive current and capital account balance on an annual basis is expected to remain close to that of end-2020. Under the assumption of gradually coping with the COVID-19 pandemic, during the third quarter it is expected to begin increasing, reflecting largely the projected growth in net revenue from these groups of services [5].

Economic Activity

Domestic economic activity continued to improve in the fourth quarter of 2020, rising by 2.2% on a quarterly basis despite the tightening of the anti-epidemic measures in Bulgaria. Quarterly GDP growth reflected the formation of a positive contribution of net exports and continuous growth of government consumption, driven mainly by the targeted fiscal measures introduced to support vulnerable households and firms. At the same time, private consumption and fixed capital investments declined on a quarterly basis.

Overall, for 2020, real GDP of Bulgaria decreased by 4.2%, with almost all subcomponents contributing negatively, excluding government and private consumption. During the fourth quarter of 2020, labour market conditions improved somewhat vis-à-vis the third quarter: a decline in unemployment and an increase in nominal compensation of employees were reported.

1.1.2 The Profile of SMEs and Entrepreneurs

As of 2018, there are 412,782 small and medium-sized enterprises, which can be seen steady growth trend over the last five years. The total increase in the number of enterprises from 2014 to 2018 amounted to 7.7%. The largest growth was observed in 2016 compared to 2015 - 3%. In the next year - 2017 - Bulgaria has maintained the levels of the previous year, and in 2018 there is an increase again by 2%.

The largest share is of micro-enterprises with up to 9 employees, which are sustainable in years about 93% of all SMEs. The companies with between 10 and 49 employees are within 6%, and medium-sized enterprises (50-249 employees) move about 1% in the period under consideration. The fact that there is no change in the structure of SMEs and the preservation of their shares show that in the last years (before the pandemic) there has been steady growth in each of the considered groups - micro, small and medium enterprises. This is an indicator of development and strengthening of all three types of SMEs.

Sectors of particular interest, which are high and medium-tech, as well as the intensive knowledge sectors, retain their shares in the overall structure. It is important to note, however, that their total share in 2018 increased compared to 2014 with 1%. This is the highest growth rate compared to all other sectors, where the increase is in the range of 0.3-0.7%, and in some there is even a decrease.

The largest increase in the number of SMEs is within activities in the field of information technologies - SMEs in this sector are 46% more in 2019 compared to 2014 year. Growth is also reported in the information services, a sector where SMEs increased by 44% in 2019 compared to 2014.

Among registered SMEs, the most popular legal form is of sole proprietor companies or sole traders. This indicates that the initial capital of SMEs is most commonly very small, and the willingness to take risks in these enterprises is lower, given the preferred legal forms. Most often registered SMEs are sole proprietorships with limited liability (EOOD) - 228 065, limited liability companies (OOD) and sole traders - 72 990. Coming last, SMEs that are registered as a limited partnership (CS) -115 and commercial representation of a foreign person (TA) -124. This shows that for SMEs the initial capital is often lower because the establishment of a limited liability company or limited liability company is low (BGN 2 capital), as additionally, riskier legal forms such as CD are not preferred by entrepreneurs in SMEs. We can summarize those micro-enterprises predominate in Bulgaria, as 55% of those registered SMEs for 2018 are sole proprietorships with limited liability.

In 2016, there is an increase of 8% in start-ups compared to the previous years, while deaths increased to 19%. Most of the enterprises that died are reported in industry, construction and services.

Statistical information on the SME sector for the period 2014-2019 allows the following conclusions to be drawn regarding the main indicators [6]:

- By 2018, there is a stable growth of the small and medium enterprises sector by all indicators - number of enterprises and employees, gross value added, net sales, turnover.

- The number of small and medium enterprises has been growing steadily over the last 5 years
- Compared to the EU, the trends in the growth of the number of SMEs in Bulgaria are comparable, and with positive trend.
- It is noteworthy that despite the large share of micro-enterprises - 93%, and their share of about 42% in the employment of people, they generate just over one third of the revenue in the sector, which shows relative vulnerability. Viable micro-enterprises need support for stability and growth.
- It is important to note that the priority sectors (technology production and knowledge-intensive services) grew by 1% in the last years of the period 2014-2019, which is the highest compared to all other sectors. However, their number remains insufficient, and the share of micro-enterprises after them - many high. The growing share of small - not micro - and especially medium - sized enterprises in priority sectors should be supported as a matter of priority, for sustainable development and improved internationalization capacity, and potential for innovation development.

New and fast-growing young enterprises

The newly established enterprises during the period are sustainable at around 40-41000 per year, that is, in the range of about 10-12% of all, while the dead enterprises are more variable in number by year.

A slight decline is observed in fast-growing enterprises, which had their peak in 2016, but in the next two years there is a relative decline in their number.

Women's entrepreneurship - status and prospects

Regarding women's entrepreneurship, the data from the relatively global World Bank research and institutional analysis from 2019 show that the objective indicators for ensuring equal conditions for women in Bulgaria are very good and Bulgaria has a total index of 94 (at maximum 100). In this ranking, the country ranks 26th in the world. This does not mean that there are no problems in stimulating female entrepreneurship, entrepreneurship is not necessarily viewed socially acceptable and desirable, especially for young women. However, the ranking offers evidence of a lack of overt discriminatory regulations in the legislation, compared to other countries in the world.

The review of the profile and characteristics of women entrepreneurs in the conducted sociological surveys and branch drilling from 2020 show that they do not differ essentially as socio-demographic characteristics of men. Also, women, in their opinion, encounter the same difficulties in developing

their business, mainly in terms of human resources, access to finance, insufficient efficiency administrative procedures, and the difficult development of innovation.

Digitization of Bulgarian SMEs

The digitalization of small and medium enterprises is currently at a basic level [7], with the majority of SMEs in possession of at least the main prerequisites such as:

- Internet (95%);
- Electronic signature of the government (79%);
- Company website / website (69%);
- Company e-mail of employees (68%).

Online sales are part of the work of 27% of companies, mainly using personal channels for this purpose - the personal website of the company (67%) and its own online portal (43%).

Given the changing circumstances, both in Bulgaria and in other countries related to the fight against the crisis caused by Covid-19, an increasing proportion of businesses are expected to look for opportunities to develop online sales. This is one of the areas in which small and medium enterprises could receive support from the state structures with services and advice on how to use this opportunity to open up new opportunities for overcoming the crisis and maintaining/ increasing sales of companies

Currently, in terms of marketing and communication, there is some use of Internet channels, but almost no presence in the largest channels to access consumers - for example, television. SMEs will have a growing need for support for use of professional services in the field of digital communication with consumers - in sync with the activities to increase online customer relations - CRM systems - is the area in which companies make the greatest efforts for automation.

Online sales are relatively uncommon among SMEs, usually using own resources - through the company's website. Expanding the capacity for online sales is especially relevant in the current situation.

1.1.3 The General Risks that the Companies are Facing

According to a national survey held in March 2020, the main factors for business development are the following:

Internal for the enterprise:

- *Leadership*
- *State of internal resource*
- *Organizational culture*

External factors for the enterprise:

- *Business development*
- *Workforce*

Main obstacles to business development

The most important obstacle to the development of the business is reported to be the lack of a trained workforce. In second place are the difficulties associated with business development partnerships, exports, and new markets. Every third entrepreneur is also worried about the existence of a gray economy and unfair competition.

About one third of entrepreneurs consider that administrative services are inefficient, which hinders their work, with the tax administration suffering the greatest criticism. One should also pay attention to licensing and permitting services, as they are determined by 37% of companies as a significant administrative obstacle to their development.

Barriers to digitalization of SMEs

The bearers of change with SMEs are usually their owners (or part of a team), in this sense their personality and their attitude towards technology is part of the reason for low familiarity. Currently, the digitalization of companies is mainly focused on using internet, creating a company website, and using an electronic signature [7].

Online sales are utilized by about 21% of companies in the sectors of interest. This is expected in view of the changed business environment as a result of the measures against COVID19. An increasing proportion of businesses are looking for ways to make more active use of online sales and the opportunities that could present advantage.

As for the automation of management processes, approximately 44% of companies are yet to implement any examples. Development in this area is forthcoming, improved information, knowledge, support and training could help speed up this process. Among the companies that use

some automated processes, integrated internal management system processes are the most commonly implemented (35.3%), followed by customer relationship management systems (23.7%).

Capital shock and demand remain among the general risks that startups are facing after the COVID-19. Capital - on the capital side of the equation, currently there is a crunch for capital across the world.

Demand - about 72% of start-ups saw their revenue drop since the beginning of the crisis, with the average startup experiencing a decline of 32%. Almost 40% of the companies saw their revenue drop by 40% or more, and only about 12% are experiencing significant growth.

Other barriers to business development

- Participation in public procurement is relatively low, with only one fifth of the Bulgarian companies are taking advantage of this opportunity.
- The main means that entrepreneurs rely on are personal. In the context of a crisis, it is even more necessary to work for facilitation access to credit and other forms of financing.

Introduced innovations in the last 2-3 years

About 32% of the companies have conducted activities focused on better digitalization of their business. Another 17% have upgraded their ICT systems and have introduced new technologies and solutions for information and data. Future developments in this area would help them cope with the new challenges posed by the COVID-19 crisis.

1.1.4 Entrepreneurial/Business Failure Rates Across the Risks

In 2020 one of the nationally represented employers' organizations in Bulgaria conducted a study aimed at examining the state of business in the current macroeconomic conditions with a special emphasis on the impact of the COVID-19 crisis on the business. The study involved the following enterprises [8]:

86% micro and small (with up to 50 employees), 10% medium (with 50 to 250 employees), and 4% large (with over 250 employees); 58% of the participants in the survey are enterprises from the services sector, 12% - from the manufacturing industry, 16% - from the trade sector, 3% from the construction sector, 2% - from the agriculture sector, 2% - "Mining and quarrying", other activities (including education, culture, healthcare) - 7%; 19% of the surveyed enterprises operate in the South-West planning region, 17% - in the North-East, 8% - in the North-Central, 13% - in the South-Central, 7% - in the North-West, 10% - in the South-East. 26% operate throughout the country.

The study shows that compared to previous years in 2020 the assessment of the business climate is deteriorating sharply, which has been provoked by the COVID-19 crisis. 89% of respondents see a deterioration in the business climate, 9% believe there is no change, and only 2% are optimistic. The assessments of the condition of the enterprises are similar - 71% declare deterioration of their economic indicators, 22% declare no change, and only 7% have achieved growth.

As a result of the COVID-19 pandemic, 56% of respondents were forced to give up their investment intentions, as well as to start optimizing costs, and 36% stopped working for a certain period. With regard to staff, the actions taken are in several directions - 42% of companies (mainly in hospitality and travel) have made redundancies, 41% have introduced partial or full teleworking, and 33% have used the opportunities for paid or unpaid leave of employees.

In the conditions of a pandemic, the business looked for new ways to survive, including by launching or developing online sales (23%), as well as transforming production into new products and / or markets (19%). 36% of enterprises have made investments in order to comply with the anti-epidemic regulations. Only 2% have increased their teams with new appointments.

Main barriers to business in the period 2010-2020:

Lack of working capital (78%), bureaucracy and regulatory burdens, administrative pressure and lack of e-government (74%), as well as frequently changing regulations (67%) are the biggest obstacles to business in 2020.

The gray economy, illegal imports and unfair competition are a problem for 45% of businesses, and 51% cite slow and inefficient justice as obstacles. The feeling of corruption is growing sharply - 69% compared to 42% in 2019.

Status of enterprises in 2020:

The COVID-19 crisis has seriously affected the performance of companies, all of which marked drastic declines compared to the previous year. Production volumes decreased in 66% of the companies, sales / turnovers - by 73% of them, foreign markets - by 43%, jobs - by 56%. Wages are the least affected, falling in 26% of companies [9].

A drastic decline is also reported in terms of investment, incl. in human resources (44% less than 2019), new products (-45%) and new capacity (-50%).

At the same time, liabilities to financial institutions (30% more than in 2019), to counterparties (also 30%), to the budget (33%) and to staff (21%) are increasing.

Expectations for 2021:

70% of respondents expect an economic downturn in 2021, 16% do not expect any change, and only 11% are optimistic.

Over 80% of respondents expect the covid crisis and the slowdown in global growth to have a negative impact on their business performance in 2021. There is more moderate pessimism about European environmental regulations, which are expected to have a negative impact.

Moderation and caution are present in business development plans in 2021. Production growth, new products / services and new markets are planned by an average of 35-37% of respondents, while in 2019 they were 57%.

Investments in production facilities, innovation and human resources development are included in the plans of an average of 23% of respondents, while last year the average was 38%.

1.1.5 Opportunities

Bulgaria has a strategic geographical position, which provides access to the following markets:

- Southeast Europe - a fast growing market with 122 million consumers
- EU - Bulgaria offers the lowest costs for business and life and duty-free access to a market with 500 million users
- CIS, Middle East and North Africa - Bulgaria offers a good combination of political and macroeconomic stability and incentives for investors

Bulgaria has stable parliamentary democracy, membership in the EU, NATO, and WTO.

The opportunities are unlocked for companies, they are also unlocked for ecosystems. The current crisis has accelerated the digitization of the offline economy, making tech companies even more important. The actions of ecosystems today will help determine how they will be positioned in the global stage tomorrow. At the same time, this is a unique opportunity for all to rebuild the economic communities with a lower negative impact on the environment and a stronger focus on inclusion and fair access to the amazing value that tech ecosystems create.

According to the national statistics priorities for innovation before the Covid-19 crisis, which would be valid in the new situation, are:

- 41% - Creating new business partnerships, including with representatives of other sectors
- 36% - raising the qualification of their employees
- 31% - use of new digital channels for marketing / sales and communication

Automated systems are currently present in about half of the companies, as about 72% did not intend to implement in the next 1-2 years.

The main automated systems currently used are:

- Customer Relationship Management - implemented by 30.7% of companies and planned for future implementation of 17.7%;
- Integrated internal process management system - currently such systems have 24% of companies and another 15% plan to use them;
- Supplier Relationship Management - used by 18% of companies and planned for implementation by another 10% of SMEs.

1.1.6 The Programs That Support the Entrepreneurs

1.1.6.1 EU Level

- Erasmus for young entrepreneurs
- Eureka
- Eurostars
- Horizon Europe
- SME Instrument
- Bank initiatives through COSME/Single Market Program schemes
- Different EU projects like Eurochambers' "Digi-Pilot" project - a system for auditing a company or a chamber, for the level of its digital transformation. After filling in the questions asked by the system, it generates suggestions / solutions for taking concrete steps to improve the level of digitalization.

1.1.6.2 National level

- National Operational Programme "Competitiveness" and "SME Initiative" 2014-2020 (the new national operational programmes are still not running)
- National Innovation Fund
- Bulgarian Development bank

- BESCO - The Bulgarian Startup Association
- Sofia Tech Park
- Bulgarian Chamber of Commerce and Industry through EEN
- Bulgarian SME Promotional Agency
- Business incubators
- Business Angels
- Start-up boosters
- VC funds
- NGOs
- Mecenates

1.1.7 Crisis Management Strategies

According to national statistical research among Bulgarian SMEs the most common organizational risk management activities during COVID-19 pandemic are:

- 79% of the companies rely on a hybrid management in the future
- 66% of the companies rely on highly flexible organizational structure
- 40% of the managers focus their work on the commitment and the experience of their employees
- 64% make changes in their work policy regarding teleworking
- 59% of the SMEs has accelerated the digitalization
- 58% has created more digital processes
- 52% demonstrate faster reactions to market changes
- 23% of the companies have started company restructuring
- 16% have chosen elimination of positions leading to permanent shrinkage
- 10% of the companies have closed offices / reduced workspaces
- 9% of the companies have changed in the functions of certain positions and assignment of certain activities of external contractors

As a crisis management strategy, statistical data can be summarized mainly as:

- Focus on employee engagement and experience
- Reformulated organizational culture
- Highly flexible organizational structure
- Frequent use of agile methodologies
- Hybrid operation / mixed live and digital control

- Retraining and improving the skills of employees
- Use workforce analysis to promote decision making based on data
- Emerging technologies such as artificial intelligence, virtual reality, augmented reality and blockchain in human resource management through more virtual and digital learning

Many of the companies share that their business is now investing even more in advertising and promotional activities as anti-crisis measures.

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