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Local Response to Globalization: MESTA Region, Bulgaria

by

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FOREWORD

This report documents the experience of one region to make the huge adjustments required in moving from dependency on a few large, state-owned enterprises for its employment base to reliance on many smaller enterprises producing for international markets. The Mesta area in southwestern Bulgaria appears to be a difficult case on first glance. Located in a remote region with few obvious attractions for foreign investors, Mesta's economy had been based on the electronics and electrical engineering industry, wood processing and furniture making, textiles and footwear, and food processing. The employment base was centred in the large state-owned electronics factories and paper mills. The paper mills have largely been shuttered because foreign companies did not deem it economically feasible to make the required investments in new productive and clean technology. The state-owned electronics plants have been privatized or shut, and a few are still in the process of downsizing and searching for foreign investors.

Its current more positive outlook attests to a mix of proactive local economic development efforts and relevant time-bound assistance from international agencies. One purpose of this study is to understand Mesta's successes and difficulties in the context of business and regional development policies at the national level. Another is to document and assess ILO activities in the region to promote small enterprise development.

The ILO inaugurated a Business Centre in Razlog, Mesta region in July 1996 to provide assistance to existing small businesses, whose growth could create new jobs, and to would-be entrepreneurs, especially displaced workers, interested in establishing their own businesses. This project was part of a Pilot Local Economic Development Project to organize collaboration among local municipalities and demonstrate how they could work together for mutual benefit. In addition to its role as a community development center, the Centre supports individual entrepreneurs and has trained over 1,000 persons in basic management, computer technology, and marketing. As a non-profit organization, the Centre has played an important catalyst role in connecting local small businesses to markets in Western European countries and promoting local investment opportunities. Several hundred local jobs have been created and sustained due to the Centre's activities.

This report is the result of a collaborative effort. Field interviews in the Mesta region were carried out by Ingrid Schubert, an enterprise development consultant based in Dusseldorf, Germany, and Antonina Stoyanovska, Director of the Foundation for Entrepreneurship Development in Sofia, Bulgaria. Background information on economic trends and policies was also compiled by Ms. Stoyanovska. Hanna Ruszczyk, then Manager of the ILO's projects on Small and Medium Enterprise Development in Bulgaria, provided overall guidance for the research and prepared the final manuscript. Generous assistance from the staff of the Business Centre in Razlog in carrying out the local research and from Klaus Haftendorf, the senior expert in enterprise development responsible for developing the Mesta project, ILO, Geneva is gratefully acknowledged.

This report was prepared as part of the research undertaken for the Action Programme on Globalization, Area-based Enterprise Development and Employment (ILO Employment and Training Department). One purpose of this Programme was to demonstrate how communities can adjust successfully to change caused by globalization, in terms of enterprise development and opportunities for decent work. Further work in this area is continuing under the InFocus Programme on Boosting Employment through Small Enterprise Development.

Christine Evans-Klock
Director
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through Small Enterprise Development

TABLE OF CONTENTS

	Page
Foreword	iii
1. Introduction	1
2. Overview of the National and Regional Economies	3
2.1. The national economy during transition	3
2.2. The economic profile of the MESTA region	7
2.3. The impact of national economic problems on a local level	13
3. Economic Environment: National Policy Framework, Donor Interventions, and MESTA Based Initiatives for Local Economic Development	14
3.1. National policy framework	14
3.2. Donor Interventions in Bulgaria	15
3.3. MESTA region: Locally based initiatives for economic development	17
3.4. Assessment of donor interventions and local initiatives in MESTA region	23
4. MESTA region's response to the transition: Field work findings	24
4.1. Key Local Actors: Views on MESTA region's economic development	25
4.2. Open issues to address	35
5. Conclusions	36
Bibliography	39
Annex: MESTA field work: Interviews with local enterprises, October 1998	41
Tables:	
Table 1. Bulgaria: Main Economic Indicators	4
Table 2. National Economic Summary	7
Table 3. Distribution of Public Sector Employment by Sector (1996)	10
Table 4. Companies by Type of Ownership in MESTA Region (1996)	10
Table 5. Foreign Investment in MESTA Region by Economic Sector (1996)	11
Table 6. Foreign Investors in MESTA Region by Country (1996)	11

1. INTRODUCTION

Throughout Bulgaria, as in other transition economies, communities have faced tremendous issues in adjusting to the free market economy. Large state-owned enterprises that have lost guaranteed markets are no longer economically viable in the face of international competition. These state-owned enterprises frequently provide the employment base for entire regions or towns, especially in remote areas, and closure of the companies is equated with economic ruin for the communities.

External factors, especially globalization, impact countries and local communities in a variety of ways. Changing investment patterns, modernization of production methods, fluctuation of market requirements and prices significantly threaten geographic areas that are difficult to reach. If joint efforts on the part of national, regional and local administration, national and international support organizations, local industrial associations, and local entrepreneurs are established in order to focus on developing revitalization and restructuring strategies then a community has a chance to make these threats into opportunities for development. The MESTA region in Bulgaria has been able to accomplish this.

The MESTA region in southwestern Bulgaria developed and implemented a response strategy based on developing new industries and new export markets as well as improving the viability of the SME sector. The aim of this working paper is to assess their regional economic development activities, and to analyze how well the region has managed to respond to change caused by globalization while maintaining local employment and stimulating job creation. It can be considered an appropriate case study for the following reasons:

- Bulgaria has faced tremendous problems in its transition from a centrally planned economy to a free market economy. The Central Government has not implemented a consistent policy for the development of a free market system nor has a properly functioning civil society been developed. Businesses also did not adapt properly to the new reality. State-owned companies were not capable of capturing new markets when their traditional customer base collapsed (the former Soviet Union), nor were they capable of competing effectively with the newly available imported consumer and investment goods. The private sector during this time period was in its initial stages of development and struggling to survive in the chaotic macro economic situation.
- MESTA is a remote region that upon first glance appears rather unattractive for new investments. Therefore, a proactive local economic development policy was and continues to be even more required than in other regions of the country.
- The ILO has supported the development of the MESTA region since 1995, notably by mobilizing the communities to address issues related to economic development and to mobilize support for the development of a Business Promotion and Support Center in the region.

- Substantial change is continuing in the region. New companies and business activities have emerged while the former economic base continues to decline.

The MESTA region has undergone a significant process of mobilizing local resources in order to develop its own strategy to combat loss of jobs and sectors of employment. The process has involved many different actors, each working in their own sphere of competency in order to achieve economic growth for their region. The lessons learned from this experience are many and they are transferable to other regions in the world that are facing similar issues related to globalization, job creation and the need to combine forces to achieve a common goal.

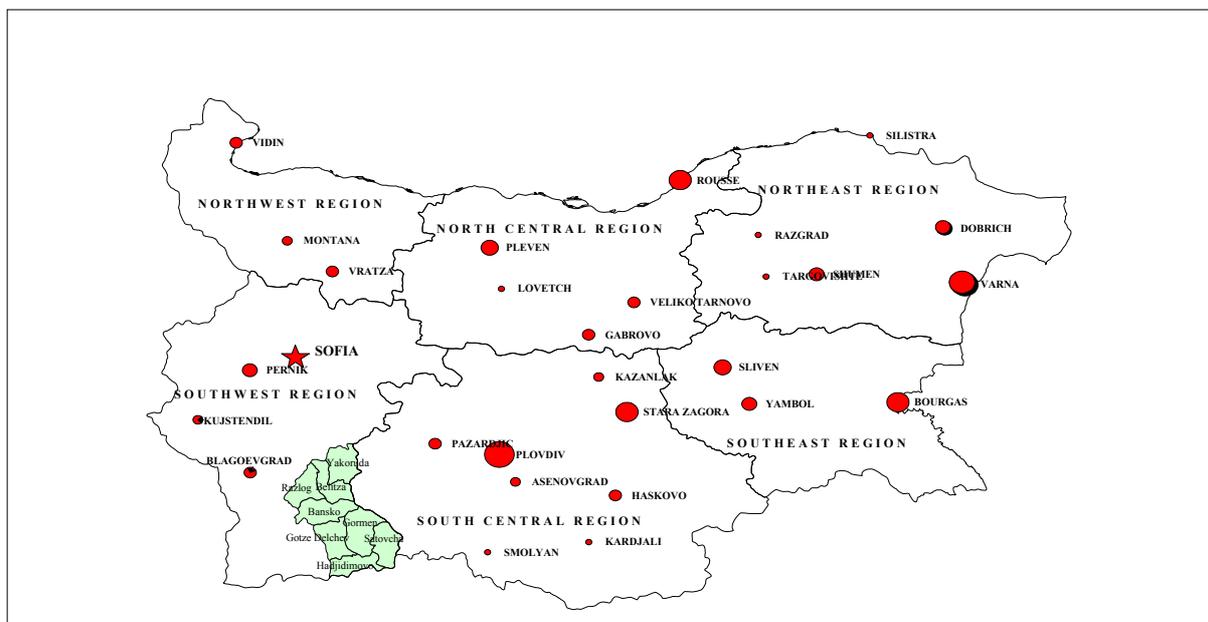
The overall objective of the working paper is to assess the regional economic development activities in the MESTA region. In this context, an analysis was made on how the region managed to respond to change caused by globalization in order to maintain local employment and to stimulate job growth. The working paper provides answers to the following questions:

1. What have been the main characteristics of the local economy?
2. What have been the major challenges of the region?
3. What have been the main contributions of the different actors involved with the local economic development initiatives?
4. What has been the impact of these activities?
5. What have been the main obstacles in the development?
6. What should be considered for future initiatives?

Special attention was paid to the following issues:

- the impact of increasing communication with Western European markets on SME development, employment, and work conditions locally;
- constraints on furthering the development of these relationships;
- how national policies have furthered or hindered these local efforts;
- the role of the Business Center MESTA.

Information for the working paper was gathered from official governmental statistical sources, various donor projects, and secondary materials. The core findings are from extensive interviews with relevant actors locally in the MESTA region, as well as with key actors on a regional and national level. This includes local enterprises, foreign-owned companies, the Business Center MESTA, local government and civic organizations, employers' and workers' representatives, and vocational training Centers. The field work was carried out in order to obtain a comprehensive overview of all of the issues and the manner in which they had been addressed. In addition to the one-on-one interviews, a one-day workshop was held with representatives of the general assembly of the Local Economic Development Agency (Business Center Mesta), employers, the local Labour Office, other NGOs and local government officials in order to identify key problems, to evaluate local development activities and to gauge their views for the future.



Map of Bulgaria with the Mesta Region highlighted in gray, 1999.

2. OVERVIEW OF THE NATIONAL AND REGIONAL ECONOMIES

2.1 The national economy during transition

To understand the overall environment in the MESTA region, a description of the national economic framework, including the national transition policies and strategies, is detailed below. In particular, this review reveals that:

- (i) regional economic and social development has depended to a very large degree on the national framework conditions, and
- (ii) Bulgaria has not adapted to the free market system easily.

The economic reforms in Bulgaria started in 1991 with a comprehensive programme aimed at liberalization of prices and trade, the break-up of state monopolies in production and trade, privatization of industrial enterprises, and restitution of land and urban property. The overall national transition process from 1991/92 until the present time has been documented in numerous international and national publications¹.

¹ Sources:

- UNDP: National Human Development Report Bulgaria 1998: *The State of Transition and Transition of the State*, Sofia, 1998.
- ILO/UNDP: *Poverty in Transition: Strengthening the national policies and strategies for poverty reduction in Bulgaria*, Geneva, 1998.
- ILO/UNDP: *Women in Poverty: An assessment of the Bulgarian anti-poverty policies and strategies*, Geneva, 1998.
- UNDP/Friedrich-Ebert-Foundation/Center of the Council of Europe (ed.): *Human Rights in Bulgaria 1998*, Sofia, 1998.

After the initial ambitious start the pace of reforms slowed down, due to an unstable political environment, pressure of different interest groups and a lack of consensus concerning priorities and instruments for economic policy². In 1994, the Government attempted an unsuccessful comeback to the initial stabilization programme. Despite the restrictive course of the fiscal and income policies pursued, the main macroeconomic parameters such as inflation and the exchange rate remained out of control. The inconsistent macroeconomic policies suppressed internal demand which, along with the collapse of some important export markets, resulted in a significant shrinkage of GDP: Between 1989 and 1993, GDP declined by 27 per cent, agricultural output contracted by more than 30 per cent. Drastic decline in exports coupled with rising imports led to a record trade balance deficit of 8.2 per cent of GDP³.

A meager recovery and slightly positive GDP growth rates were registered in 1994 and 1995 (1.8 per cent and 2.6 per cent, respectively). The recovery, however, did not have a solid foundation and was fueled mainly by an expansionist monetary policy; inflow of short-term foreign capital and debt forgiveness for some state-owned enterprises. That allowed the necessary adjustments to be postponed and distortions to build up. The losses of state-owned enterprises continued, financed by the banking sector, and government debt increased at unprecedented rates.

Table 1. Bulgaria: Main Economic Indicators

Year	1992	1993	1994	1995	1996	1997	1998
GDP at current prices (Mio BGL)	200,832	298,934	525,552	880,322	1,748,701	17,055,205	21,577,020
Average yearly exchange rate (BGL per USD)	23.4	27.6	54.2	67.2	175.9	1676.5	1760.4
GDP growth (%)	-7.3	-2.4	1.8	2.6	-11.1	-6.9	3.5
GDP per capita (USD)	944	1,276	1,147	1,559	1,189	1,224	1,484
Budget deficit (% of GDP)	-7.1	-13.6	-6.5	-6.6	-11	-3.1	0.9
Annual inflation rate(CPI, %)	79.4	63.9	121.9	32.9	410.8	578.6	0.96
Unemployment	576,893	626,141	488,422	423,773	478,770	523,507	465,202
Unemployment rate (%)	15.3	16	12.8	11.1	12.5	13.7	12.2

Source: National Statistical Institute, Statistical Yearbook (issues 1993-1999).

The extremely high nominal interest rate made credit servicing difficult (concentrated in the large state enterprises and private groupings) and hindered access to new credit.

In 1996, the economy entered a deep recession and GDP contracted by 11.1 per cent. Real incomes dropped by 27 per cent in 1996, which added to a 50 per cent reduction in the 1989-1995 period. This resulted in a drastic decline of internal demand. Inflation reached double-digit monthly rates at year-end 1996 and by January 1997 it was out of control, with a 43 per cent monthly rate^{4,5}. Confidence in the banking system was undermined and massive withdrawal of deposits from banks began. This led to the collapse of approximately 15 banks,

² For the period 1989-1997 there were seven Governments in power. This hampered the smooth implementation of economic reforms.

³ Bulgaria was very close to the COMECON system. 80% of Bulgaria's foreign trade was with eastern countries.

⁴ Bulgarian National Bank - Annual Report (issues for the period 1989-1997).

⁵ Data provided from the Foreign Investment Agency, Sofia 1998.

* Current exchange rate as set by IMF: 1 000 BGL = 1 DM.

collectively whose portfolios consisting of 31 per cent corporate clients. In the beginning of 1997, the mass upheavals forced the Socialist led Government to resign and the Caretaker Government, appointed in February 1997, started emergency stabilization measures. This prevented a slippery decline into a hyperinflationary spiral. The April 1997 elections were won by the Union of Democratic Forces, and the Government, backed by a stable majority in the Parliament, formulated a stabilization and reforms package greatly influenced by the IMF and the World Bank economic policy stance. Its main characteristics were limitation of Government ability to implement discretionary (or erratic) monetary and fiscal policy, which were among the main reasons for the macroeconomic instability in the 1990s.

In June 1997, a Currency Board arrangement was introduced which ended the Government's ability to intervene in the monetary sphere. This is guaranteed by the main elements of the Currency Board system: 100 per cent backing of the monetary base by reserves, fixed exchange rate, and a ban on extension of Central bank credits to the Government or banking sector. Discretion in the fiscal policy was limited by introducing ceilings on the budget deficit, government domestic and foreign debt.

The structural elements of the Government reform package included:

- Reform of the banking system – privatization of the remaining banks, improved supervision and increased capital adequacy requirements.
- Fast privatization and liquidation of loss making state enterprises including land reform;
- Further trade liberalization, especially in the agricultural sector;
- Reduction or elimination of Government intervention on the markets (elimination of all types of subsidies or price controls, price support etc., reduction of tariff rates, liberalization of the foreign trade regime, etc.).

The stabilization policy gave immediate results on inflation. The annual inflation rate in 1998 was less than 1 per cent, compared to 578 per cent in 1997. For the first six months of 1999, the accumulated inflation was 12 per cent⁶. The low inflation rates are going to prevail in the next three years period. It is expected that in the medium term the stabilization policy will improve the Bulgarian economic growth potential. The IMF forecast is for 4.5 – 5 per cent growth in the next three years. However, due to the deteriorating external environment the forecasts for 1999 are as low as 1.5 per cent growth rate. Achieving stable and low inflation growth rates depends on the continuous implementation of market reforms and special attention should be paid to the growing private sector, attracting foreign investment and improving export performance. In the period 1992-1998, Bulgaria attracted between 0.33 - 3.5 per cent of all the foreign direct investments in Central and Eastern Europe. In the 1992-1998 period, foreign direct investments in Bulgaria totaled US\$ 2,022.8 million. Of this, US\$ 1,085 million, or 54 per cent of the total, was in industry, followed by US\$ 419 million in trade and US\$ 204 million in the financial sector. In comparison, for the same time period

⁶ Agency for Economic Development and Prognostication - Six month Report, September, 1998.

(1992–1997), Poland attracted US\$ 32.2 billion, Hungary attracted US\$ 18.5 billion and the Czech Republic attracted US\$ 10.7 billion in direct foreign investments⁷.

Small business development is closely connected with the development of private business and hence, plays an important role in the transition from the centrally planned economy to a market economy. The Bulgarian private sector has developed in the absence of enabling legislative framework and enabling structures. The primary support has come from the international donor community. Both multilateral aid programmes such as PHARE and UNDP as well as Bi-lateral programmes assisted in the development of business centers, financial schemes, training, information and consulting services. In 1989, when the changes in Bulgaria started, the private sector in the country accounted for less than 4 per cent of all the assets, below 1 per cent of GDP and 3 per cent of employment. It started mushrooming in the liberalization of the economic environment. Bulgarian private sector in 1998 created about 63.7 per cent of the Gross Value Added and 59 per cent of employment. The newly established private companies are essentially small⁸. In addition, the bulk of the state-owned companies which were privatized over the 1993-1998 period (about 95 per cent) were small companies as well.

The private sector is more developed in sectors closely tied with domestic demand. Private companies (predominately small) began to dominate many sectors of the economy especially in agriculture (77 per cent of the sector's employment in 1998), wood processing, apparel and textile (between 80-90 per cent), trade (90 per cent) and construction (62 per cent)⁹ The private sector's international competitiveness is comparatively low – only 7 per cent of private companies have export activities – mainly for neighboring countries, Russia and a few EU markets (Germany, Italy, Greece)¹⁰.

The number of registered unemployed grew sharply over the 1991-1993 period. Unemployment dynamics in this period were mainly due to the sharp reduction in state-sector employment and the underdevelopment of the private sector to offset it. The unemployment peaked in 1993 to 16 per cent and started to decline in the next years, falling to 13.7 per cent 1997 and 12.2 per cent in 1998. The 1994-1995 period saw a turning point in the unemployment trend brought about by the temporary economic stabilization as well as by the development of the private sector, which absorbed a large number of lay-offs in the state sector¹¹.

⁷ World Investment Report, 1998.

⁸ The number of the newly registered private companies reached its peak in 1996 - more than 500,000, this decreased to 350,000 in 1997 and after a new wave of registration in 1998 they reached 450,000. Foundation for Entrepreneurship Development, *State of Small Business in Bulgaria*, Sofia, 1998.

⁹ Foundation for Entrepreneurship Development, *State of Small Business in Bulgaria*, Sofia, 1997.

¹⁰ Foundation for Entrepreneurship Development, *Role of Bulgarian SMEs in Exporting*, Sofia, 1998.

¹¹ National Employment Service/Ministry of Labor and Social Policy - Annual Reports on Unemployment in Bulgaria (various issues for the period 1990-1998).

Table 2. National Economic Summary

NATIONAL PARAMETER	CURRENT STATUS
GDP	Positive 4.5-5% growth for the next 3 years (2000-2003) expected after years of significant decline.
Foreign trade	Pattern of foreign trade - shift to EU markets. Increasing share of light industry - textile, apparel, foodstuff. Difficulties in balance of payments.
Budget deficits	Manageable deficit which does not threaten the macroeconomic stability in the long run.
Banking system	In the process of restructuring. Restrictive credit policy; companies face problems with access to credit.
Inflation/monetary stability	Stable with low inflation rates comparable to those in EU due to the IMF guidelines.
Unemployment	Employment dependent on domestic demand which is expected to recover with the GDP growth. Structural reform in the state owned companies is expected to boost unemployment in some sectors.
Privatization	Speeding up. By the end of 1999 about 2/3 of the state assets will be privatized.
Small and Medium Enterprise development	Developing; 95% of all companies are private. Increasing share in GDP and employment.
Land ownership restitution	Not completed yet. Major barrier to private business and direct foreign investment development.

This table illustrates the difficult macroeconomic Bulgarian environment within which local economic development initiatives had to work from 1990 to 1998.

2.2. The economic profile of the MESTA region

This section highlights the overall economic situation in the Mesta region. The information¹² establishes the local framework in which change was undertaken in order to create an environment for job creation and formulation of contacts and relationships with foreigners.

A. Territorial and administrative characteristics

The MESTA region is a geographic area 150-km southwest of the capital of Bulgaria, Sofia. The region is comprised of eight municipalities: Bansko, Belitza, Gotse Delchev, Gourmen, Hadjidimovo, Razlog, Satovcha, and Yacorouda with a total territory of 3,151 sq. km. Administratively, they are part of Blagoevgrad District and South-West Planning region¹³. Due in part to their geographic similarities, close knit communities that center on the family

¹² Sources :

- ILO / UNDP: MESTA Region Investment Guide, Sofia, 1996.
- Business Center MESTA, Razlog: current information.
- Foundation for Entrepreneurship Development, Sofia: compilation of current statistics.
- ILO / UNDP Local Economic Development Program LED, Sub-component Bulgaria, Report 1995.
- European Commission: Local Employment Development Action (LEDA): *Case Study Razlog Municipality*, Report 1995.

¹³ According to the new administrative structure of Bulgaria from December 1998, the country is divided into 28 districts. The 28 districts grouped voluntarily into 6 planning regions (NUTS II regions) for the needs of the regional policy planning and implementation.

unit and geographical location along the basin of the Mesta River - these municipalities are collectively known as the "MESTA REGION". The region borders with Greece and the new border crossing will be opened in Gotse Delchev in the year 2003. The proximity to Greece plays an important economic role not only for the region of MESTA but for the border region as a whole.

The physical landscape is diversified: mountainous from 430 m - 2,900 m above. Three of the highest mountains in Bulgaria and on the Balkan Peninsula - Pirin, Rila and the Rhodopes - create the uniqueness of the landscape. The climate in the southern part - Gotse Delchev - is transitional Mediterranean, while in the north - in the Razlog area - it is continental. The snow lasts for about 180 days, which favors the development of winter tourism, primarily in the Bansko area.

B. Natural resources

The most important natural resource for the region is the forests. The forests account for 64 per cent of the region's territory and form the basis for the development of the flourishing wood processing industry. The forests contain a wide variety of herbs, mushrooms and wild berries. The region boasts 89,791 ha of agricultural land in the river valleys and the lower parts of the mountains. This region is one of Bulgaria's richest in waters. In addition to the Mesta River and its 15 springs in the zone above 2,000 m, there are natural glacial lakes. There are more than 40 mineral spa in the region. The Ognyanovo springs are the largest source of nitrogenous thermal water and are a popular mineral spa resort. Hot mineral springs can be found near Razlog - in the village of Dobrinishte, Banya. The region also has deposits of marble, clay, travertine, sand and gravel used in construction.

C. Infrastructure

The MESTA region has a relatively well developed transportation infrastructure considering it is a mountainous region overall. Road transport is the prevailing form of transport. The new border crossing to be established near Gotse Delchev in the year 2003 will assist tremendously in developing good roads linking Greece to Western Europe on the E-79. There is a narrow rail gauge that ends in Dobrinishte. The telephone network is well established and assures good communication within the country and abroad. However due to the fact that this was a peripheral zone - the infrastructure in some of the municipalities is poorly maintained and needs a great deal of financing for improvement.

D. Demographics

The MESTA region is inhabited by 136,726 persons - 1.6 per cent of the country's total population (8.2 million in 1998). In the MESTA region, 71 per cent of the citizens are Bulgarian, 25 per cent Turkish and 4 per cent other. The largest communities are Gotse Delchev, Razlog and Satovcha. The majority of the population is in the working age (56 per cent), which is comparable to national figures. The population structure for the region however is more favourable - the share of the population below working age is 24 per cent (5 per cent higher than the national average) signifying a large labour pool for the future. The main cause is higher birth rates in all the municipalities, except Bansko and Razlog. The average birth rate for the country is 8.6 per cent while for the MESTA region it is 10.5 per

cent. This could be partially explained by the fact that in the municipalities of Satovcha, Gourmen and Belitza, the majority of the population are Bulgarian speaking Muslims.

The natural population growth rate in MESTA region is 0.6 per cent, which is high compared to the negative growth of the Bulgarian population (-5.4 per cent). That is determined by the higher birth rates already mentioned but also by the much lower death rate (9.9 per cent) in MESTA region compared with 14 per cent for Bulgaria as a whole. There are more people living in rural areas (58 per cent) than in urban settings.

E. Employment and production structure

Prior to 1990, the regional economy was dominated by a few large state-owned enterprises in electronics, machine building, and chemical industry. These companies (Magnetic Heads, Forage Company, Pulp and Paper Company and USV Receivers Company) were the main employers in the region. At one point, the combined employment in these 4 companies was 10,000. They currently employ just 1,000 persons. This decline in employment took place over a 6-year period. The primary reason that these companies were located in the MESTA region was political. In other words; there was no economic rationale for placing these companies in the MESTA region rather than in other parts of Bulgaria. Over a period of time the companies did build up clusters of qualified personnel, specialized training institutions emerged, and spin-off companies in the smaller settlements of the MESTA region opened. Overwhelmingly, the original large companies exported their products to the former USSR markets. Once the market situation changed and the former USSR could not afford to purchase the Bulgarian-made products, these companies faced extremely difficult times and could not find other markets to accept their low quality products.

Currently, the number of employed in the region is estimated to be approximately 60,000 persons. Employment patterns in the region have changed substantially in the past few years. The share of extracting, electronic and engineering industries in the overall industrial output has declined in favor of light industry: ready to wear footwear, furniture and food processing. Employment has also gradually shifted to other sectors such as trade, construction, and tourism. It is in these sectors that the majority of the newly established private companies have emerged.

It is worth mentioning that some of the newly created jobs are not well paid. In 1996 the average wage in the Mesta region was about 119 000 BGL (67 USD) monthly which was 71 per cent of the country average. In industry, the differential is even larger: average wages in the region's industrial sector are only 64 per cent of the national average. Wages are lowest in the Satovcha, Hadjidimovo and Satovcha municipalities, localities with predominantly rural and female labour force.

At the present time, there are approximately 6,500 private companies registered in the region, which can be interpreted as a sign that there is a high level of entrepreneurial spirit present (20 per cent)¹⁴ This is much higher than in similarly remote areas in Bulgaria (13 per cent in the Montana region). As a result of the gradual adjustment of the local economy to the

¹⁴ "Entrepreneurial spirit" here is measured by the number of companies registered per 1,000 inhabitants. Foundation for Entrepreneurship Development, *State of Small Business in Bulgaria*, Sofia, 1997/98.

new free market reality, in some of the municipalities the unemployment rate has started to decrease. In September 1998, the unemployment rate was 8 per cent in Bansko and 14 per cent in Razlog, while in the municipalities of Gotse Delchev, Satovcha and Hadjidimovo unemployment remains above the national average. In the municipalities of Belitza, Yakoruda and Gourmen, the unemployment levels remain extremely high and the principal livelihood is subsistence agriculture.

Table 3. Distribution of Public Sector Employment by Sector (1996)

Sector	Mesta Region % of total	Bulgaria % of total
Manufacturing	45	39
Education & culture	21	15
Health care and sports	10	10
Trade	5	5
Forestry	4	1
Construction	3	5
Administration	3	4
Transport	3	7
Agriculture	2	5
Communications	2	2
Finance	1	2
Other	1	5

Source: National Statistical Institute, *Regions and Municipalities in the Republic of Bulgaria*, (in Bulgarian) Sofia, 1998, pp. 52, 64.

Table 4. Companies by Type of Ownership in MESTA Region (1996)

Ownership	% of total registered companies
Private	89 %
Municipal	6 %
State	3 %
Cooperative	1 %
Other	1 %

Source: ILO/UNDP: MESTA Region Investment Guide, Sofia 1996, p. 16.

Due to the specialized nature of some of the former state-owned enterprises there are a variety of vocational training schools in the region. In both Gotse Delchev and Razlog, vocational training schools provide a quality technical education (College for Electronics - Gotse Delchev, Engineering College - Razlog). The developing tourism sector recruits personnel graduating from the vocational Schools for Hotel and Catering (Razlog, Bansko), the wood processing industry from the College for Forestry and Interior (Bansko) and the transport and construction sector from the Mechanical Engineering Schools (Bansko, Razlog and Belitza). There are two universities, the American University and the South-West University, located 80 km away in Blagoevgrad, which have students from all over Bulgaria

and abroad. But few of the graduates are interested in working in the MESTA region due to the fact that they can get much higher wages in Sofia or in other cities.

F. Foreign investment

One of the factors that contributed to the gradual economic revival was the inflow of foreign investments in ready-to-wear footwear and food-processing industries. The first foreign investors came from Greece due to the geographical proximity, incentives from the Interreg¹⁵ programme and former business and cultural ties. At the present time, in the foot and ready to wear clothes sectors there are 10 foreign investors with employment ranging from 60 - 960 employees.

In 1996, 15 joint ventures with Greek, Italian, Cypriot, Dutch and German partners were registered, and, in addition, several foreign-based companies operated production/assembly sites in the MESTA region¹⁶.

The most positive aspect of all of these investments is that they attract other foreign companies to the region. Generally speaking, foreign investors look at communities that already have a foreign investor. This gives them some assurance that the municipality will be easy to work with and will assist in resolving the bureaucratic problems that will undoubtedly arise.

Table 5. Foreign Investment in MESTA Region by Economic Sector (1996)

Sector	% of total foreign investments
Tailoring & textile industry	27 %
Footwear industry	27 %
Food processing	20 %
Chemical industry	13 %
Building materials	6.5 %
Tourism	6.5 %

Source: ILO/UNDP: MESTA Region Investment Guide, Sofia, 1996, p. 18.

Table 6. Foreign Investors in MESTA Region by Country (1996)

Country	% of total foreign investments
Italy	33 %
Greece	33 %
Netherlands	14 %
Germany	14 %
Cyprus	6 %

Source: ILO/UNDP: MESTA Region Investment Guide, Sofia, 1996.

¹⁵ EU cross border cooperation program.

¹⁶ The Chamber of Commerce & Industry in Gotse Delchev keeps a record of all the foreign investment in the MESTA region.

G. Structural changes

In the beginning of the 1990s, the MESTA region's economic base underwent a severe crisis due to the high concentration of large and highly specialized state-owned enterprises which was much greater than in other regions of Bulgaria. From 1990 onward, there were dramatic job losses due to the massive layoffs from these big employers as well as closure of the subsidiary companies and the uranium mines. The Razlog municipality was the first in Bulgaria to suffer the plant closures by state-owned enterprises. Thus the unemployment rate in the Razlog area (all the four municipalities - Razlog, Bansko, Belitza, Yakoruda) reached 25.6 per cent in 1993 when the average for the country in the same period was 12.8 per cent. The region was left to its own resources in its period of painful adaptation to the new economic environment. There was no special central government support and the municipalities lacked any experience in local economic development.

In 1995, the economy started slowly but gradually to revitalize. With the privatization of some of the non-functioning state-owned enterprises, foreign investors were attracted to the MESTA region. The main reasons why they were attracted include: the low cost but qualified labour force, availability of useable premises and a friendly attitude on the part of the local authorities towards foreigners. The Magnetic Heads Company, after a few unsuccessful privatization attempts, was finally bought by DRS Technology (USA based). At the present time, DRS employs 200 people with the possibility to hire more in the short term. A spin-off emerged from Magnetic Heads; a company called Ameritech, which created jobs for an additional 32 people all of whom were former employees of the state-owned company.

These are positive trends, despite the fact that employment in the electronics sector alone, at the present time is 80 per cent lower than it used to be in the 1980s. A similar situation can be found with the other companies. The Pulp and Paper Company in Razlog and Pirel located in Gotse Delchev are still under restructuring and privatization is forthcoming but there are no more lay-offs planned at the moment. Both companies are actively searching for markets domestically and internationally. New companies for footwear - in Hadjidimovo, D. Drayanovo and Dubnitza - absorbed significant amounts of the redundant work force. Wood processing companies established as green-field investments - mostly working as sub-contracting for UK, German, Greek, and Dutch companies - are flourishing. All of this activity is enhancing the image of the MESTA region.

Tourism has flourished mainly in the small town of Bansko - more than 60 private hotels in addition to 190 houses provide accommodation for winter and summer tourism. This stimulates people from the neighboring communities - Dobrinishte, Razlog, and Gotse Delchev to develop similar and/or other support services. One special effect of the restructuring process has been the formation of small clusters of companies belonging to shoe-making, wood processing and textile sectors. Clusters of companies has led to the sharing of work between small businesses thus promoting flexibility and economic efficiency. The Business Center Mesta played a key coordinating role and encouraged the creation of clusters and of new companies.

Especially well developed is the cluster in wood processing. The cluster's major products are household furniture and items. Through this cluster, small businesses have managed to set up an enabling structure which allows them to make themselves known throughout the country and to international markets. They now have easier access to

information about foreign markets and opportunities, as well as about potential commercial and industrial partners. They became members of the National Crafts Chamber and the companies try to improve the business environment for the whole industry. They also organised with the support of Business Center MESTA trade fairs to promote “Produced in Mesta” products.

2.3 The impact of national economic problems on a local level

The MESTA region had a very difficult time trying to adapt to the continuously changing macro environment. Almost all of the decisions regarding employment and privatization were done at the central government level. The municipalities and the managers of the state- owned companies in essence had very little power to act proactively. This was a very dangerous position to be in since it was difficult to strategize effectively. There was little accountability for decisions that were made. Due to the fact that the Municipalities received a large percentage of their municipal budget from the Central government, the national economy played a significant role in everyone's life. The fact that there were seven different governments in six years led to frustration and a lack of trust in government institutions as a whole.

The breakdown of the banking system led to a crisis situation for some credit borrowers while it created “credit millionaires” out of other people. (People made millions of dollars by taking loans in Leva and paying the loan back under the original Leva amount, when by the time the loan was due, the Leva amount was worthless). Banks now have very strict lending procedures in place, which make it almost impossible to get a loan. Most loans need at least 125 per cent to 200 per cent collateral for a short-term loan. Long-term loans are impossible to get. Banks prefer to invest their money rather than give out loans. In a region such as MESTA this creates an environment where the banking sector is unavailable to the growing private sector just when the private companies need loans most.

The legal framework for business development has not been completed. The laws governing collateral and bankruptcy need to be further defined. The implementation of laws needs to be standardized across the country. Privatization needs to become more transparent and much faster. The pace is causing havoc to the economy due to the extensive losses produced by the state-owned enterprises. Land restitution needs to be completed in a timely manner. The legal framework is essential because it affects every business and every potential investor who is interested in Bulgaria. The overall impact of the national economic problems on the MESTA region is that it created a disincentive for the region to try to make changes for the better on a local level. Since the people believed that the central government held the power base, there was little initiative and flexibility on a local level. Instead of the central government trying to empower regions and their municipalities to focus on their economic development, the central government showed that it was the primary actor responsible for these types of initiatives.

Currently, the central government is working on implementing the recently passed Regional Development Act (March 1999). Under this framework, regions are being required to develop their own strategic plans involving all relevant stakeholders on a local level. The MESTA region is well prepared for designing and implementing regional strategies due to the experience gained in the last few years in the field of local/regional development and

initiatives for alternative employment. MESTA region has promising potential for survival and revitalization both in terms of mentality (entrepreneurial spirit) and physical capability (combined traditional skills of the region with the acquisition of new know-how and skills). The region should continue to develop in the new improved macro environment.

3. ECONOMIC ENVIRONMENT: NATIONAL POLICY FRAMEWORK, DONOR INTERVENTIONS AND MESTA BASED INITIATIVES FOR LOCAL ECONOMIC DEVELOPMENT

3.1 National policy framework

The National government is now beginning to focus on issues critical to the success and development of the private sector. Currently, there are positive perspectives for economic growth, low inflation, and a reduction in public debt, increased foreign investment, and privatization. Further efforts are needed concerning transparent privatization of SOEs and Banks, developing the banking sector, completing price and trade liberalization as well as improving the legal and regulatory framework to improve law and contract enforcement.

The National Government has taken the following positive steps in assisting SMEs since 1997. First of all, the Government established a National Agency for Small and Medium- sized Enterprises in 1997. The role of this governmental agency is to develop an appropriate climate for businesses to develop. Subsequent to this, there was a National Law for SMEs developed utilizing the participatory approach. All relevant organizations were involved in the drafting of the law. This Law is currently being reviewed by Parliament. In lieu of having a functioning law, there is a Strategy to assist SME development which was adopted by the Government in July 1998. The Strategy has as its objective to create a favourable institutional, regulatory, administrative, financial and competitive environment that will promote development of SMEs in Bulgaria.

The priorities of the SME STRATEGY are:

- Simplification of SME administrative and regulatory system
- Improvement of financial services for SME support
- Improvement of SME competitiveness and SME environment
- Europeanization and global market integration of SMEs

Some of the ambitious short-term initiatives have been realized by the end of 1998 but the Mid term initiatives (1999 – 2001) are far from completed.

Until 1999 there was no clear sign from the Central Government that it was interested in regional development and local economic development. There were sectoral plans developed on a national level but nothing that resembled organized strategic planning thinking on a regional level. This is all changing. As already was mentioned, in March 1999 the Parliament adopted the Regional Development Act. In April, all 28 governors voted unanimously to regroup Bulgaria into six large planning regions for operational purposes. The law provides a framework for the bottom-up approach and involvement of business related non governmental organizations in the process of regional planning. All of the 28 regions are required to

develop their own strategic plans utilizing a participatory approach, followed by strategic plans for the six macro planning regions.

3.2 Donor interventions in Bulgaria

In the above-described context where there was no clear strategy from the Central Government on regional development and on private sector development, donors took the leading role. Donors could introduce effective models in which new institutions were set up, jobs were created, companies were strengthened, links with the West were forged, and municipalities encouraged to think in strategic terms.

The most important internationally initiated and funded programmes which focused on some aspects related to the development of the private sector with a focus on training or job creation, or on the topic of strategic planning are the following:

- ◆ A. United Nations Development Programme/International Labour Organization
 - Promotion of SME Projects
 - Regional Initiatives Fund
 - Capacity 21
- ◆ B. European Union
 - PHARE Cross Border Cooperation Programme
 - CREDO
 - LEDA
- ◆ C. United States Agency for International Development
 - LGI
 - FLAG
 - PLEDGE
- ◆ D. German Federal Government
 - TRANSFORM
 - Vocation Training Centers
 - BICC Sandanski
- ◆ E. British Know How Fund
 - REMDEP
 - PREST
- ◆ F. Dutch Government:
 - Foundation for Entrepreneurship Development (F.E.D.)
- ◆ G. Bulgarian Association of Regional Development Agencies (BARDA)

A. UNDP/ILO concentrates predominantly on poverty alleviation through micro enterprise development.

There are several projects in on this area. The projects related to the Promotion of SME will be discussed at length in section 3.3. In brief, they utilize local economic development methodologies in communities where there is high unemployment with the goal of creating an environment where jobs will be created and businesses will develop. The other UNDP projects include the Regional Initiatives Fund and Capacity 21. The Regional Initiatives Fund finances community driven micro projects which have a social or economic impact on the infrastructure of the community. The aim is to alleviate the adverse impact of the structural

reforms thus contributing to the better protection of the poor and vulnerable during the transition process. The Capacity 21 project assists two municipalities in their attempts to develop strategic plans.

B. PHARE Cross Border Cooperation Programme is of particular importance to the MESTA region due to the links it establishes and fosters between Central and Eastern European countries and European Union member countries. Similar is the objective of CREDO - an East-East cross border initiative.

The general objective of the PHARE/CBC programme is to assist border areas of the Republic of Bulgaria and the Republic of Greece by means of joint projects in order to:

- promote cooperation with regions bordering the EU, and thus to help these border regions to overcome the specific developmental problems stemming from their relative isolation in the economy;
- encourage the creation and development of cooperation networks on either side of the borders, and
- foster the establishment of links between these networks and wider EU networks.

The specific objectives of the **Bulgarian-Greek CBC programme** are:

- to support major infrastructure works in order to facilitate Bulgaria - Greece co-operation;
- to improve the transport infrastructure and facilities;
- to improve telecommunication networks;
- to alleviate bottlenecks at border points with Greece in order to reduce waiting time and improve traffic flows which have increased substantially;
- to assist and to train Bulgarian institutions in the preparation, the contracting and the implementation of important major regional infrastructure projects according to best international practice.

There are several other EU projects related to these topics but the impact is not as significant as the one highlighted above.

C. USAID has three main projects, which are of relevance to SME development and to regional development. Through their Local Government Initiative Project, they have been working very actively with municipalities on a wide range of topics including strategic planning. They have also been instrumental in establishing a National Association of Municipalities. The Firm Level Assistance Group provides consultants to assist local Bulgarian companies become more effective and efficient. The PLEDGE project works on local economic development initiatives and empowering municipalities to focus on devising strategies for development.

D. The German Federal Government has three relevant projects. Since 1994 the TRANSFORM programme has offered bilateral economic consultancy (including finance and investment) to Bulgaria. At the end of 1998, the programme (under the leadership of German Federal Ministry of Economic Affairs) was re-shaped with Bulgaria being transferred to the competence of German Federal Ministry for Economic Cooperation. Thus, future linkages are not yet clear. The vocational training programme will continue to train Bulgarians in a variety of skills according to market needs. The Business Information and Consulting Center in Sandanski provides services in the textile and tourism industries

E. The British Government through the British Know How Fund has two related projects called REMDEP and PREST. The REMDEP project for regional development aims to support local self-governance reform in Bulgaria. The project focused on several municipalities that experienced structural problems, e.g. Gotse Delchev, Vidin, St. Zagora, and Razgrad. The PREST project focused on developing the tourism capacity in the Pirin Mountain Range. (MESTA region is located in this range). More information will be found in section 3.3.

F. The Dutch Government supports the Foundation for Entrepreneurship Development (F.E.D.) in Sofia. F.E.D. is specialized in small business and local development research and consultancy as an NGO and has also contributed to the operations of Business Center MESTA in Razlog. F.E.D. concentrates on regional/local SME development and thus strengthens the bottom-up approach for the recovery of the Bulgarian economy as a whole.

G. BARDA, the Bulgarian Association of Regional Development Agencies and Business Centers, was established in 1997. It is a significant example of joint donor intervention (European Union, United Nations, and the German government) that has led to the development of an association that represents bottom-up activities on a national level. BARDA serves as an umbrella association of independent regional and local economic development agencies, bringing together representatives from the public and private sectors to promote regional development. The MESTA region is represented in this network by the Business Center MESTA in Razlog.

3.3 MESTA region: Locally based initiatives for economic development

After the changes related to economic transformation began in 1993 in a very visible way in the Razlog municipality, the community was stunned by the repercussions. The mass layoffs (thousands of people) affected the communities in very fundamental ways. The people who were unemployed were highly skilled engineers and electronics specialists. The central government did not provide any additional assistance to the devastated communities except for the unemployment payments. After several years of general inactivity and continued decline, some people decided to take action on their own.

Business Centre Mesta

The Mesta region was chosen to participate in a Pilot Local Economic Development Project from the International Labour Organization in 1995 due to the characteristics mentioned above. The purpose of this initiative was to organize municipalities together in order to bring about change. This was a very difficult initiative due to the municipalities' mutual distrust and unwillingness to work together for mutual benefit. The project evolved into a Local Economic Development Project focused on introducing new instruments for Economic Development again in the Mesta region. The instrument that was chosen was a Regional Development Agency and a Business Center (RDA-BC).

REGIONAL DEVELOPMENT AGENCY AND BUSINESS CENTRE

The **core-activities** of a RDA-BC include:

- promotion of an entrepreneurial culture where potential business men and women become aware of the responsibilities, risks and possibilities of a self-owned business
- delivery of locally-based comprehensive support to potential or actual small- and medium- sized entrepreneurs
- introduction of new management techniques and new technologies
- delivery of a wide range of information services
- consulting service to facilitate guidance and assistance in formulating and selecting “bankable” projects, implementing new projects or rehabilitating existing ones, follow-up and counseling on projects' operations with a view to consolidate their sustainability and assisting in the promotion and marketing of the product on an international level
- mobilization of opportunities and resources, as well as guidelines and procedures to facilitate access to credit and incentives for employment generation and training
- stimulation and support of a “dialogue” at the local and national level, between the public and private sector aimed at promoting private entrepreneurship in order to create a relationship built on confidence between the public institutions and the private sector

A tremendous amount of time was dedicated to getting the various communities in the MESTA region to accept the concept of a NGO that would represent them and work for them. The role of the catalyst was played by 2 Bulgarians who were supported by a Dutch expert managing the project. Fifteen persons representing key actors and institutions such as municipalities, municipal councils, private entrepreneurs, and individuals registered the Agency for Local Economic Development as an NGO in 1996. In the same year, a for-profit entity fully-owned by the Agency was formed – the Business Center MESTA¹⁷. From that point on, the organization was known as the Business Center MESTA, rather than the Agency for Local Economic Development. The Business Center MESTA covers the area of the MESTA valley with 8 municipalities with a territory of 2,905 sq. km and a population of 137,982. The municipalities that the Business Center services are Razlog, Bansko, Belitza, Yacorouda, Gotse Delchev, Satovcha, Gourmen, and Hadjidimovo.

¹⁷ This type of structure was required due to the legal requirements. NGOs were not allowed to earn profit and therefore the limited liability company was necessary in the event commercial activities were initiated.

With the assistance of the Business Center MESTA, an active lobbying effort took place with the central government for the economic revitalization of the region. A number of important meetings were organized in the Parliament, different ministries and other institutions. This led to the location of an American buyer for the Magnetic Heads Company located in Razlog in 1997. The success of this project after many unsuccessful attempts was instrumental in giving the region a psychological boost that it could survive the transformation process (which had been going on since 1993). The rescue of the Magnetic Heads Company was very significant because it retained the skills of the educated in the region. The engineers were able to continue working in their specialty. Generally, people were not interested in being retrained for new professions if they were highly specialized experts already.

The Business Center Mesta took on many different roles. It was a community development center as well as a business support organization where individuals were assisted in many different ways. To date, they have trained over 1,000 people on many different topics:

- Training courses on topics such as computers and languages (English, German and Greek) were organized for the first time in the community.
- Training activities on bookkeeping, Customer Service, Marketing via the Internet, business plan writing were organized on a regular basis.
- Training programmes for unemployed persons were also organized on a regular basis utilizing ILO's "Start Your Business" material.
- Information was given on where and how to buy used equipment for companies.

The BC Mesta introduced the concept that foreign consultants have much to offer local companies. The BC Mesta brought various foreign consultants to the region that provided advice in different sectors to local companies. These consultants would work from one day to 2 months with a given company, helping them to develop new product lines, improve quality, or find new markets. Subsequently, the BC Mesta provided follow-up services to the companies. Over 1,000 individual consultations have been conducted since 1996.

The BC Mesta also played the critical role of a catalyst. Due to the fact that people trusted the staff of the BC Mesta; the Centre introduced new ways of working together. Over a period of 2 years, the wood producers in Bansko and in Yakoruda decided to establish their own Wood Producers Chamber. BC Mesta organizes annually an exhibitions ("Produced in MESTA") inviting investors from the country and abroad to visit. As a result it has assisted in the setting up of several joint ventures. Recently they also started operating as an Internet Service Provider to respond to the requirements of the local economy¹⁸.

One of the more visible initiatives of the Business Center's activity is the publication of a comprehensive Investment Guide for the MESTA region in 1996 (in the context of

¹⁸ ILO/UNDP: Business Center MESTA, Project BUL/95/001, Progress Reports, Final Report 1997/98.

ILO/UNDP initiatives)¹⁹. The purpose of the Investment Guide is to attract foreign investors to the region. The Investment Guide contains the following information:

- an overview of the investment climate
- a description of the MESTA region by indicators important for investment decisions
- indications of investment opportunities by sector (agriculture, industries, transport, construction, tourism)
- profiles of 32 of local enterprises which have potential and a proven interest in cooperating with (foreign) partners
- an outline of the legal framework for business operations in the region
- names and addresses of contact partners

The Business Center Mesta to this day plays an important role by providing information and consultancy to the local authorities, entrepreneurs, and NGOs. It was recognized for this contribution by being selected as a Secretariat for the CREDO Programme (East-East PHARE funded cross-border initiative), and also by serving as a paid consultant for the United Nations to the newly established Center for Women Entrepreneurship in Devin.

Pirin Tourist Forum

Parallel to the development of the Regional Development Agency and the Business Center Mesta, the Pirin Tourist Forum was established by the British Know How Fund. A major constraint for the region is scarce information about the region's potential for year-round tourism. The lack of appropriate infrastructure, lack of information and sponsors to participate in tourist fairs and exhibitions are issues that are being slowly addressed by the Pirin Tourist Forum. To date the Tourist Forum has established a database with 300 hotels and 1,000 eating places, as well as a bank of 25,000 photographs from the region both on optic and magnetic disks. It also promotes the initiative "Made in Pirin" which stimulates souvenirs and crafts that are exhibited in different museums (Bansko, Belitza, Gotse Delchev, Razlog). The Forum has also supported the establishment of Tourism Councils in Bansko, Gotse Delchev, Sandanski, and Blagoevgrad. This is very important because the people have a difficult time mobilizing themselves to work together.

EUROREGION NESTOS – MESTA

The Bulgarian and Greek Governments agreed on a Cross Border Cooperation Act effective November 1997. The municipalities of Gotse Delchev and Drama and the Drama and Gotse Delchev Chambers of Commerce were chosen to be responsible for implementation. This Bulgarian-Greek partnership aims to

- produce synergy in the various fields of economic and social developments of the two regions, and
- strengthen the international appearance of the area in the international context (predominately vis-à-vis the EU)²⁰.

¹⁹ Business Center MESTA: Investment Guide MESTA Region, Razlog 1996.

²⁰ EUROREGION NESTOS-MESTA, Issue 1, Drama, May 1998.

Although the practical action programme for this initiative remains to be elaborated in detail (in order to overcome a mere programmatic approach), the signing of the agreement shows the willingness of MESTA region's officials and entrepreneurs to take steps to globalize their region. This attitude will be fostered by national and inter-national decisions on

- the official border crossing near Gotse Delchev to be opened soon,
- the re-modeling and electrification of the railway between Doupnitsa and Koutala (PHARE Cross Border Programme), and
- the construction of the Strouma Transit Road (BG/PHARE/ISPA).

Gotse Delchev Business Incubator

The United Nations Development Programme decided to implement a new instrument for job creation and business support in Gotse Delchev through the establishment of a Business Incubator. It is fully operational as of June 1999 and there are currently 5 tenants in the Incubator. One of them, a bakery owned by two middle-aged sisters who were laid off from the large state-owned enterprise, has accessed the leasing scheme. It was difficult in the beginning to explain to the community what the purpose of the initiative was. Slowly, the region is accepting the incubator.

BUSINESS INCUBATOR

The core-activities of a Business Incubator include all of the activities of the RDA-BCs and some additional elements as well. The incubator atmosphere reflects three main features that help to remove the obstacles of the formation and growth of small enterprises:

- The building space is organized in modules that are easily transformed depending on the needs of the tenant. The flexible nature of the space required and the lack of a long-term commitment to a particular location increases mobility.
- Companies have direct access to a full range of services aimed at aiding their development in the first years of their activity, which allows them to avoid overstaffing and unnecessary purchase of equipment. This lowers the operation costs of small firms. Consultancy, advice and training are all aimed to develop the companies over the long term.
- Flexible tenancy agreements make joining and leaving the incubator easy.

The situation related to economic development and business development by municipality

RAZLOG MUNICIPALITY

The municipality was involved as a partner in some international programmes. Since 1994, it participated in the PREST project with 9 other municipalities. In 1995, the Ecos Overture programme helped with the establishment and initial operations of a municipal radio station - Boomerang. The LEDA Programme assisted with the development of strategies for local economic development and stimulated the establishment of the Regional Development Agency. PHARE LACE assisted in the establishment of contacts with the Greek municipality

of Kilkis and the development of joint projects. In the municipal economic structure, industry takes the lead. Main sectors are those related to the electronic industry, represented by three companies: Magnetic Heads company, privatized by the U.S. firm, DRS Technology; Ameritech, acquired by another American company, producing equipment for telemetry and remote supervisory control for the American markets; and the electronic and electrical appliances company in Banya.

BANSKO MUNICIPALITY

After the transition, Bansko started developing tourism as its main economic activity - 87 per cent of all the tourists in the region in 1997 stayed in Bansko. Most of the municipality is the Pirin National Park, included in the UNESCO Convention for Preservation of Wildlife Heritage. There are more than 60 family hotels registered and licensed that offer on average 20 beds each. The number of catering places in the town is more than 200. The town is famous for the wood-processing industry. There are 23 private companies which are members of the Wood Processing Chamber in Bansko. Some of them produce on a sub-contracting basis for foreign companies from Germany, Italy, UK and the Netherlands. There are three companies with foreign investments: the Bulgarian-Greek joint venture "Melissa", the tourism association "Risorto & Hotelo", with a Greek share again, and a company in Dobrinishte with Bulgarian, Greek and German shareholding for the production of leather clothing.

BELITZA MUNICIPALITY

With the closure of the main state employers - mainly the plastic molding company - the unemployment in this Muslim municipality increased to 32 per cent in 1998. The active population is engaged mainly in family subsistence agriculture, woodcutting and processing, as well as in wild herbs and berry gathering. There are three foreign investments in the region: Bulgarian - Greek in the ready-to-wear clothing industry, Bulgarian-German in the food processing, and Bulgarian-UK in wood processing.

YACOROUDA MUNICIPALITY

At the present time, agriculture remains the main economic activity, especially the production of potatoes, tobacco, followed by wood processing. There is a Bulgarian-British company for furniture manufacturing and a great part of the company's production is exported for the UK market. There are also a number of small private companies dealing in this sub-sector. Another big employer in the municipality is the Bulgarian-Dutch joint venture for peeling and canning of shrimps. It plans to expand its production by investing 200,000 DM in a new plant, creating employment for women in the area. It currently employs over 700 people.

Additional investments are expected after the opening of the new cross-border checkpoint Drama - Gotse Delchev which will create new jobs for the population.

GOTSE DELCHEV MUNICIPALITY

The municipality has participated in the PREST and REMDEP projects, both financed by the British Know How Fund, that assisted in the development of a Strategy for Tourism Development and provided extensive training to the local authorities. The electronic industry has dropped to one third of the 1990 level and the factory for UCV transreceivers that previously employed 5,000 workers, currently employs only 300 people. Gotse Delchev municipality has attracted a number of foreign investments from Germany, Italy, Greece, and the Netherlands. A major goal for the municipality is the opening of the new border crossing with Greece, which will provide access to the Aegean Sea port Kavala. The municipality experienced a remarkable inflow of foreign investments in ready-to-wear, knitwear, and footwear industries. The major investors are Pirintex in Gotse Delchev (ready-to-wear subcontracting for Hugo Boss), Venta (knitwear) in Koprivlen, Eurogroup (footwear & textiles) in Dolno Draynovo and Dubnitza, Multitex (ready-to-wear). The main investors in the region are Greek, Italian and German companies²¹.

HADJIDIMOVO MUNICIPALITY

Tobacco growing is the main economic activity in the area. There are also two enterprises for the production of shoes – “Zhossy” and “SARA”. “Zhossy” was privatized in the voucher privatization sessions and currently produces shoes on subcontracting bases for Germany and Italy. It is the largest employer of the municipality with about 1,000 employees. The second largest employer in the municipality is “Kopriven Marble” for the production of marble for export, which is to be privatized soon.

GOURMEN MUNICIPALITY

The main economic activities are agriculture and timber industry. Most of the people are employed seasonally with the collection of wild herbs and berries. Tobacco and potato growing are the main agriculture products. There are no foreign investments with the exception of Greek shares in two ready-to-wear companies.

SATOVCHA MUNICIPALITY

The main economic activities are agriculture with the production of potatoes and tobacco, light industry and wood processing. The major employers are the Bulgarian- Italian joint venture for mushroom processing “Dinamot-Merliny”, which is the biggest processing plant of its kind on the Balkan Peninsula, Delya for ready-to-wear giving employment to 230 women and the French company for fine underwear “Lise Charmel.” There are also many small private wood-processing workshops.

3.4 Assessment of donor interventions and local initiatives in MESTA region

The donor interventions have been fundamentally important in stimulating the successful pro-active approach in the region. Due to the central government’s inactivity in developing policy and approaches towards economic development, donors were instrumental in assisting regions in devising their own response strategies. There were two significant

²¹ Municipality of Gotse Delchev: Development Strategy 1997-2000 (REMDEP assisted), Gotse Delchev, 1996.

initiatives, the Pirin Tourism Forum and the Business Center MESTA, which played key roles in the MESTA region and for Bulgaria as a whole.

These two initiatives highlight some crucial components of the region's response to globalization:

- Initially international initiatives were transformed into local organizations which were socially accepted by the communities.
- The region tried to market itself as a region full of potential and fighting spirit.
- The region continues to strive for self-sustainability.
- The region has many people who pride themselves on coming from the MESTA region.
- People are entrepreneurial in their actions.
- They took advantage of their assets.
- The people took advantage of the foreign contacts forged under the communist system.
- They began to organize themselves into groups such as wood processing chambers of commerce.
- They fought to keep the traditionally respected skills in the region (electronics).

4. MESTA REGION'S RESPONSE TO THE TRANSITION: FIELD WORK FINDINGS

A fact finding mission was organized in order to gauge the opinions of relevant actors related to the MESTA region. Over a period of 10 days, 38 interviews were held with representatives of municipalities, managers of wholly or majority foreign-owned manufactures, managers of locally-owned manufacturers, tourism officials, and representatives of business-oriented Non-Governmental Organizations. Annex 1 highlights the general information obtained from the interviews.

The questions raised in the interviews focused on the following issues:

- Basic trends
- Opportunities and constraints in finding new sources of business
- Interaction with Business Center MESTA (BCM) and other programmes
- Human resource issues
- Ways to access financial capital
- Ways to enter export markets
- Impact at the local level when a company exports (with regard to technology, finance, overall growth, skill development)
- Most potentially useful public administration support

The findings have been clustered according to type of organization and by business sectors visited during the field mission²²:

²² Annex I of this report.

- A. Municipalities and Labour Offices
- B. Wood processing companies
- C. Construction companies
- D. Textile companies
- E. Shoe manufacturing companies
- F. Electronics companies
- G. Plastics companies
- H. Food processing companies
- I. Tourism development representatives
- J. Local Business support organizations (Business Center MESTA (BCM), Business Incubator Gotse Delchev (BIGD), Chamber of Commerce Gotse Delchev (CCGD))

4.1 Key local actors: Views on MESTA region's economic development

A. Municipalities and Labour Offices

Representatives of Municipalities and Labour Offices emphasized the need to find substitutes for "old" industries such as pulp and paper, metallurgy (with its associated pollution problem), mines, and plastics - all of which were closed down either during privatization or by their inability to adapt after losing the former Soviet Union market. Industries with potential to absorb the available labour include traditional sectors of the region such as wood processing, textiles and other light industries as well as new industries such as high technology oriented businesses, ecologically oriented businesses (e.g. waste processing), machinery (new products), energy technologies (e.g. heating, radiators). Tourism and other services industries were also mentioned by the Municipalities as potential absorbers of the unemployed. When asked about opportunities and constraints for finding new businesses for the area, the attraction of foreign investors was regarded to be the paramount issue. The Municipalities believe that the MESTA region has an advantage in terms of the skilled and inexpensive local labour force, but otherwise Bulgaria and the MESTA region in particular are not particularly attractive for foreign investors.

However they are aware that the low price of the labour force, though essential for survival, is no longer enough to guarantee market share, growth or stability. Domestic markets, which used to be protected, are now challenged by foreign competitors, and even the simplest exporting enterprise feels the pressure to change or get out. The officials from the public administration admitted that work needs to be done in order to improve the possibility of acquiring land and premises easily as well as generally more "friendly" regulations for investors should be enacted in order to overcome these shortcomings. Nevertheless, there was a fear of getting too dependent on foreign capital and management.

SMEs are unanimously praised as the backbone of the regional future development - regardless of the sector of economic activity. Officials stressed the need to establish industries for finished products (instead of raw or semi-finished products, currently the bulk of production). They also highlighted the role played by the local consultancy institutions (BCM, BIGD, and CCGD) and of international support programmes (such as PHARE) in terms of developing the SME sector. The public sector representatives believed that the NGOs and the donor interventions were of tremendous support in terms of generating new ideas, providing technical assistance, and organizing workshops and seminars as well as providing training activities for local enterprises. In terms of human resource issues, they believe skilled people are available on the labour market, the quality of the general schools is good, educational standards are said to be competitive except in the fields of managerial, marketing and language skills (which the market economy requires). Also, more vocational training opportunities are needed, particularly in agriculture, tourism, transportation and modern textile manufacturing.

In the opinion of the public representatives, the lack of capital is the overwhelming problem for the development of their region, since the national banking and financial system keep to very restrictive credit policy and municipalities' own revenues are insufficient due to low level of economic activities and potential tax base. Attempts to facilitate access to capital are ongoing (from the national government, the World Bank, and other donor interventions for special infrastructure programmes - a waste water programme, and a town cleaning programme) but this is not regarded as a long-term solution to intensifying the investment activity in the region.

In terms of activities which need to be spearheaded from the public administration side, the representatives of the municipalities and the Labour Offices consider that their most useful contribution to fostering adjustment to a free market system would be continuing efforts to:

- develop an overall strategy for the MESTA region,
- mobilize all the relevant actors in the region to work together,
- create regional solidarity, and
- influence national decision makers.

B. Wood processing companies

Overall, the wood processing companies were positive about the long-term potential of their sector. It is a traditional industry of the region, the natural resources are present, the technical skills are available locally and there are established relations with foreign companies interested in working with the MESTA region's suppliers. Most of the companies work as subcontractors to foreign companies. The industry representatives believe that SMEs have a good chance to succeed if they concentrate on finished products (especially furniture) rather than on semi-finished items. They said that this sector lends itself to people who have an entrepreneurial spirit and initiative.

However, the companies realistically assess the industry's weaknesses. The most commonly addressed issues were reforestation and the lack of capital (working and for investment). The process of restitution of forests that is not completed yet and the delayed

privatization of forestry creates problems with illegal cutting and reforestation. The second issue relates to the lack of capital. Since most of the companies in this sector are micro or small, bank loans are difficult to obtain. These companies' start-up capital was comprised mostly of owner, family and friends' savings. The profits generated by the local companies are generally insufficient to generate investment. This situation resulted in many of the owners speaking about the difficulty of expanding their businesses due to financial constraints.

Having foreign clients opens many doors for the local companies. They are exposed to new products and new ways of working. Some of the foreign partners have bought new equipment for the local companies. Others have given technical assistance on quality and production. In some cases the foreign partners assisted financially. The foreign clients are often responsible for the marketing function which makes the local producers comfortable with the arrangement. The owners of the wood processing companies stated that the Business Center MESTA was an excellent source of assistance for business development for their sector. The Business Center MESTA provides the following services for them: business promotion, skill development in various topics (quality, marketing), acquiring contracts with foreign partners, solving administrative problems with exporting products, arranging transportation, and also organizing tailor-made training courses. The Business Center serves as the middleman in the wood processing industry. The Business Center MESTA finds international buyers and then subcontracts the order to many micro and small companies around the region and beyond. Over 200 jobs have been created due to this function of the Business Center MESTA. The companies began to realize that working together for a common order leads to economic and social benefit for all involved.

The wood processors having little difficulty finding skilled labour. There are people who either have been trained by the existing and newly established vocational colleges or on-the-job "learning by doing". There are issues related to quality standards and maintaining consistent levels of quality in their products but these will be addressed over time.

In the opinion of the local wood processors, the most useful support that they could receive from the public administration would be:

- better business regulations for themselves as well as for their foreign partners,
- better access to raw material and deregulation of prices for raw material,
- protection of forests,
- transportation infrastructure,
- alleviation of working capital problems,
- tax policy incentives, and
- SME promotion on a national level.

INTERVIEW FINDINGS: EXAMPLE 1 STIMEX WOOD PROCESSING, RAZLOG	
Products:	small furniture, tables, desks, and shelves
<i>History:</i>	The present manager was previously employed in the local electronics

	company (Magnetic Head Company) which was privatized. Due to the fact that he did not have marketable skills for other types of employment, he started from scratch to build-up a new business with the “moral help” (cit.) of his son who is a wood carving artisan. Being seasoned from his former job in entrepreneurial behavior and using his interpersonal abilities he found an UK-based client for whom he now produces exclusively.
<i>Established:</i>	1998
<i>Premises:</i>	were available
<i>Workforce:</i>	100 % local, in-house trained
<i>Employment:</i>	4 to 9 jobs
<i>Production equipment:</i>	new, investment by foreign partner
<i>Production:</i>	100 % for exports
<i>Shareholder/parent Company:</i>	UK furniture manufacturer
<i>Company visions:</i>	expand from wood processing to ready-made furniture A “guild”-like linkage could be helpful (not chamber association)
<i>Visions for the region:</i>	electronics machinery
<i>Regional strengths:</i>	Labour force, idle equipment available
<i>Regional weaknesses:</i>	lack of investors, markets, and working capital
<i>Complaints:</i>	export taxes and duties VAT problems corporate taxes banking system/working capital availability no state procurement for SMEs

C. Construction companies

Representatives of the local Construction Industry were generally positive about the situation in the region. Their business is fundamentally tied to the development of the local economy and they have minimal opportunities to work internationally. They said that the local demand was primarily for private houses, hotels and small trade Centers. This limited type of business opportunities resulted in survival strategies for the construction companies.

Company owners and managers spoke very positively about their connections with the Business Center. One of the most important actors in the construction industry is also the Chairman of the Board of the Business Center Mesta. The construction industry representatives echoed the views of those expressed by representatives the wood processing industry about the general problems with working capital and about the good quality of labour available in the region. They also stated that what they needed most from the National government and the local authorities was more support for entrepreneurship in general.

D. Textile companies

The Textile companies in general, with the single significant exception of Pirintex (to be described in Example 2 of the Interview Findings), are involved with subcontracting. This subcontracting takes the following form: all the designs and the raw materials (including threads and zippers) are given to the local company, which cuts and sews to the given specifications. The only value given by the local companies is the human resources. The contractors almost exclusively are international clients (Greek, Italian and German) or Bulgarian companies who received the contract from another subcontractor. The main reason

the subcontracting is done in Bulgaria and in the MESTA region is due to the highly skilled but low waged employees. As soon as the wage cost increases, the business will also disappear to lower cost countries and this is expected in the next 5 years or so.

According to the textile companies, the Business Center MESTA is trying to assist in changing this situation. The Business Center has been involved in conducting marketing research and finding distribution channels for those who would like to minimize the amount of subcontracting they do. The main avenue out is for companies to try to develop their own products for the Bulgarian market. The difficulty lies in finding working and investment capital to finance alternatives to subcontracting.

INTERVIEW FINDINGS: EXAMPLE 2 PIRINTEKS TEXTILES, GOTSE DELCHEV

Products:	ready-to-wear for men, local factory outlet Center, shop in Sofia
<i>History:</i>	Owner of the textile company which produces Hugo Boss clothes, Mr. Rollmann, is well aware of chances and risks to establish a production site in Bulgaria. He contacted Gotse Delchev municipal officials with regard to the acquisition of land and premises and was helped (slowly but efficiently); negotiations were conducted over 5 1/2 years, when finally a contract with the neighboring PIREL Company for land acquisition and the rest of formal regulations were settled.
<i>Established:</i>	1993, as extension of existing subsidiary in Greece
<i>Premises:</i>	not immediately available, with help of municipality acquired parts of neighboring PIREL Company
<i>Workforce:</i>	Bulgarian management, 1 German + 5 Greek middle management, rest local work force, in-house trained
<i>Employment:</i>	1,000 jobs
<i>Production equipment:</i>	some used (investment 15 million DM)
<i>Production:</i>	95% for Germany, 3% for Greece, rest for Bulgarian market (niche market)
<i>Shareholder/parent company:</i>	German textile manufacturer
<i>Company vision:</i>	expansion
<i>Visions for the region:</i>	tobacco trade with Greece “satellite” industries
<i>Regional strengths:</i>	well-educated labour force but lack of practical / technical orientation
<i>Regional weaknesses:</i>	mentality (blocks initiatives) too much trade instead of production too much quick money too much illegal employment insufficient communication infrastructure low productivity
<i>Complaints:</i>	regulations, taxes, and social security scheme bureaucracy (premises, land, equipment acquisition) customs, banks, conditions for foreign investors not adequate lack of local initiatives

Local manufacturers would like assistance from the public sector in the following areas:

- finding more international contacts,
- promoting entrepreneurial thinking,
- liberalizing business regulations, and
- improving the telecommunication infrastructure to improve international communication.

E. Shoe manufacturing companies

Traditionally, the shoe manufacturing industry is one of the backbones of the local economy. It has a positive growth perspective in the medium term and the shoe manufacturing companies depend on subcontracting orders from foreign clients (Italian and German). When the orders are very big, the larger companies subcontract out portions of the orders to other local companies. The representatives of the shoe manufacturing industry said that their relationships with the Business Center Mesta or other business support organizations were minimal. They found their own clients and did not feel they needed the services offered by the Business Center. They were generally satisfied with the skill level of their employees. The representatives of the shoe manufacturing industry did not reiterate the need for working capital. They were content with their current situation where they were subcontractors for foreign companies and the foreign partners provided any financing needed. They saw no need to change their situations.

They did have some suggestions about ways that the public sector could help them:

- less regulation
- more support for start-up companies

INTERVIEW FINDINGS: EXAMPLE 3 SARA FOOTWEAR, HADJIDIMOVO

Products:	Sports shoes
<i>History:</i>	brand new start in 1994, business take-over from municipality
	Basis: personal knowledge of the business (10 years of experience); shoe manufacturing being locally traditional sector foreign client's personal network of business partners
<i>Established:</i>	1994 start from scratch
<i>Premises:</i>	available, reconstruction needed
<i>Workforce:</i>	100 % local, in-house trained, even distribution by gender
<i>Employment:</i>	40 to 170 jobs
<i>Production equipment:</i>	used, imported, financed by credits (no longer possible)
<i>Production:</i>	100% for exports
<i>Shareholder/parent company:</i>	DIADORA, Italian sports shoes
<i>Company vision :</i>	expand from 3,000 to 10,000 pairs of shoes per month Danger: 100% dependency on single shareholder
<i>Visions for the region:</i>	electronics light industries
<i>Regional strengths:</i>	textiles, shoes, food processing, and tobacco
<i>Regional weaknesses:</i>	mentality lack of mobility rigidity to change and transition and failure to capitalize on opportunities lack of local initiatives to improve their situation
<i>Complaints:</i>	Lack of support for the sector on the national level unfavourable regulations/taxes bad infrastructure (roads) absence of start-up support

F. Electronics companies

The Electronics sector played a significant role in terms of jobs in the communist system. Over 6,000 people were employed by this sector in the whole region. Before 1989, the main clients for electronics products were the COMECON countries. After the crisis, the privatization process led to dramatic down-sizing or closure of the state-owned companies. Those, which survived (200 - 500 employees each), were either bought by foreign companies or developed spin-off products. Those that have been bought by a foreign company benefit by receiving modern equipment. The main local advantage again is considered to be skilled but inexpensive labour. All marketing is done by the parent company outside of Bulgaria.

All of the companies interviewed will try to focus on new types of products which will meet the requirements and standards of new markets. But they must attempt this effort utilizing, for the most part, old production equipment since they cannot afford to purchase new machinery. A significant degree of specialization in products as well as new quality standards are required by the world markets, making it difficult for them to compete effectively. Under these circumstances they do not foresee considerable expansion for their companies. They spoke frequently about the need for government interventions to support their industry. There is a tremendous amount of very skilled specialized labour and un- or under-employed persons desiring to continue working as engineers and technicians. They do not want to be retrained to work in other industries. They believe that technology should be one of the top priorities for the national economy. Representatives of the industry also mentioned the need to create a business-friendly environment in terms of regulations and reduced bureaucracy as well as improved infrastructure.

G. Plastics companies

The opinions voiced by representatives of the Plastics sector were slightly more optimistic than those heard in the electronic industry. Their sector played a very important role in the previous system and now it is beginning to learn how to adapt to the new market reality. Most of their products are related to household goods with some focus on industrial products.

They sell their products domestically as well as internationally. They find their international clients by visiting trade fairs and exhibitions, placing advertisements in industry publications and also by watching what their competitors are doing locally. The basic trend is for the local companies to work as subcontractors to foreign companies. The raw materials are purchased nationally from the oil refinery in Bourgas or from waste recycling facilities. The industry does not use the services of any of the business support institutions. They are satisfied with the technical skill level found in the community but find lacking critical adjunct skills such as marketing, foreign languages and maintenance of modern machinery.

Their comments about the role of the public sector were similar to those of the electronics industry. They request that an appropriate environment be created for both local and foreign investors as well as point out the urgent need to improve infrastructure.

H. Food processing companies

The Food processing companies interviewed explained that their business is seasonal and subject to strong national competition. They must either offer extended production cycles (from picking of the fruit to drying/freezing and canning) or have auxiliary businesses (wood

processing). At the present time, their employment is predominately in low-paid categories. Generally, the production equipment and land/premises are either paid for or leased by the international clients and the local company is used for access to raw materials and inexpensive labour. The representatives of the food processing industry had minimal contact with the Business Center MESTA or other local consultants since they work predominately on behalf of their foreign clients and do not believe they need assistance.

I. Tourism development representatives

The development of tourism as an alternative sector for economic growth for the region was discussed at length. The main areas where this can be developed are in Bansko and Gotse Delchev. Thus far there is winter tourism in Bansko focusing on skiing but summer tourism is also viewed as a distinct possibility. Many initiatives have been started by various donors and local actors but to marginal success. Currently there are many small private hotels, some larger hotels and many catering facilities. There is a ski lift but a proper lift would need to be built from the town of Bansko itself and better facilities are needed in general. The entertainment facilities for those who do not ski need some improvement as well.

All of the various actors agree that the community does not work together for the common goal of tourism development. The various groups are fragmented and can not or do not want to work together. The British Know How Fund and the Business Center Mesta have been active in this field by attempting to introduce different ideas, making consultants available, and fostering new ways of networking. The barriers to success which have been mentioned include: short-term profit orientation by some of the relevant actors, lack of willingness of key players to work together, conflict of interests with environmentalists who oppose the development of new skiing facilities to the detriment of forests and with the lumbering industry whose expansion hopes could jeopardize the pristine attractiveness to skiers and other vacationers, etc.

The lack of locally available skilled labour was mentioned many times. The local people do not have a customer service mentality, few speak foreign languages, and there is no concept of marketing. The present actors in the field try to compensate for this by organizing in-house training programmes but they are still not sufficient to fill in the gap. Local entrepreneurs stated that they also face the same problems with accessing funds for growth and development as the other sectors mentioned. They stated that the easiest ways to access funds was through a mortgage (if the real estate was already fully owned) or by becoming an affiliate of a big Sofia based real estate or investment holding.

It was clear from the individual interviews and from the workshop that people were hoping that a national and subsequently a regional strategy for tourism development would be developed since it is fundamental to the long-term success of tourism in the region. Working on an individual basis would only gain marginal results, as has already been seen. Those involved with tourism development did not see a fundamental conflict with the other industrial sectors. During the workshop held with stakeholders from all relevant sectors and organizations, opinions regarding priorities for regional development (industry vs. tourism) were quite controversial. Thirty per cent of the participants were very much in favour of tourism development, 30 per cent thought tourism development was “nonsense” (cit.), and the remainder were inclined to develop both types of activities.

J. Local business support organizations

(Business Center MESTA (BCM), Business Incubator Gotse Delchev (BIGD), Chamber of Commerce Gotse Delchev (CCGD))

The Local Business Support organizations believe that their role is to introduce new innovative ways of working and thinking to the community. They believe that the overall purpose of their organizations is to stimulate entrepreneurship and business development.

From all accounts it seems that they have been fulfilling this function very well. They serve several functions: they educate all the stakeholders in the principles of market economy, they attempt to get the relevant actors to focus on strategic planning and long-term thinking (proven to be very difficult), they provide technical assistance to companies in many sectors with an emphasis in wood processing, textiles, tourism and construction, they organize training programmes on many topics, and they also help companies access financing. They are fully convinced that their function is necessary but they are concerned that they are expected to be the leading actors in the efforts to create a long-term strategy for economic growth for the MESTA region. They need the support of the municipalities and the MESTA region needs the support from the central government on a variety of topics.

Agreeing with the comments made by representatives of the other sectors, they identified the lack of access to financing as a fundamental problem for the short and long-term development of micro, small and medium-sized Bulgarian companies. They believe that foreign investors or clients are the only alternative for the next five years or until the situation changes for the better. The Business Center Mesta focuses on building relationships with foreign partners in the following ways: they organize trade missions to other Southeast European countries, they participate in West European trade fairs, they maintain good relationships with the commercial counselors of the major trading partners with Bulgaria, they organize local trade fairs, they search for partners for their local companies (see box below), and they distribute information about Western companies looking for Bulgarian partners.

The fact that they have been developed and financed by Donors is a cause for concern because the financing is ending and it will be almost impossible to generate enough income locally to finance the activities related to assisting the unemployed and the micro companies. They will be forced to concentrate their activities on income generation activities or on donor driven projects, which may not be priority topics for the NGOs, or for the region.

The representatives of the local NGOs stated that the economic profile of the region should be focused on diversification of the economy. Wood processing, electronics, plastics, construction, marble, tobacco, and food processing should be the foundation. They foresee a slow expansion and think tourism would be a good complement to the already existing regional economic activities. They believe that the most important advantage of the region lies - apart from its natural resources - in the availability of a well-trained technically-oriented labour force and a solid entrepreneurial spirit.

MESTA MEBEL (MESTA FURNITURE)

In 1998 the Business Center Mesta realized that a solution needed to be found for a problem related to the wood furniture business. The Business Center MESTA had located foreign companies who were interested to buy soft pine furniture from MESTA based companies. The problem was that there were no individual companies which could complete the entire order. Dividing the order between several companies was impossible because no woodworker was willing to be a sub-contractor for another local company. No matter how much the Business Center explained the economic benefits of working together for a common contract, the local producers could not agree. After much discussion, the Business Center found a solution. The Business Center MESTA registered a company called MESTA MEBEL. MESTA MEBEL receives the contract from the West European company and then MESTA MEBEL (in reality the Business Center MESTA) contracts out the order to several local companies. This has turned out to be very fortunate for all involved. The foreign companies are satisfied because their orders are fulfilled in a timely manner, there are no language barriers, and the prices are acceptable, and quality of shipped product is checked by the Business Center Mesta for consistency. For the local companies it is an opportunity to work for foreign companies who send specialists in quality control to Bulgaria and who make suggestions for improvement in the production lines and the local companies also have a steady source of business who pays them on time (MESTA MEBEL). For the Business Center MESTA, the business is becoming a source of income to subsidize some of their other services, which will never generate enough income to cover their expenses. Finally, the Business Center MESTA has been able to create over 200 new jobs from November 1998 to July 1999 due to this innovative solution.

4.2 Open issues to address

The interviews and the workshop highlighted the fact that overall the opinions of the people interviewed were similar in many respects. They were in principle positive about the MESTA region and its long-term potential. The people interviewed were satisfied to be part of the region and were intent on remaining there.

Most of the stakeholders believed that they were responsible for their own development and success. The major exceptions were the electronics sector, plastics and tourism. All 3 sectors were dependent for the central government to devise a strategy to rescue or develop their sector. The wood processing industry needs support from the central government on the issue of deforestation and reforestation.

The fact that there is no national strategy devised to assist the development of small and medium-sized companies has led to a fragmented and uneven development of the sectors. The sectors where there is a great deal of entrepreneurial activity (wood processing) are also the sectors where many new jobs are being created. Textiles are also a good example for job creation but the long term impact may not be as significant as in the wood industry due to the fact that the sole reason for the textile business is the low cost of labour.

Contacts with western companies have created jobs, increased income levels and also assisted in acquiring needed equipment. Low quality of infrastructure, bureaucracy, lack of access to financing, inconsistent implementation of laws and insignificant emphasis on the devising, and implementing, regional development plans has created many difficulties for local companies.

A fundamental issue, which will need to be addressed at some point, is the choice of sectors that the region wants to develop over the long term. A consensus must be built around an economic development strategy for the MESTA region.

5. CONCLUSIONS

The global business environment is changing in significant ways that are difficult to predict. This has a dramatic impact on economies around the world both nationally and locally. It is becoming more apparent that regional and local responses are the key to economic development of a given community. A national strategy is fundamentally important in part to assure financing for critical areas (such as infrastructure) and to establish a conducive policy framework. What is becoming as important is the regional and local response to change.

This response to change should take into account the challenges that appear and the resources available. Regional development will be a precondition for successful integration in the global markets. This is especially true for regions that are located on borders. The local development requires cooperation, coordination of efforts, partnerships and institutions to promote ongoing mediation.

MESTA region consists of 8 municipalities located in a remote area of Bulgaria, bordering Greece, which in the 1980s relied mostly on development of large SOE electronics and paper mills as well as on small-scale agriculture to create jobs and income. The region has undergone a significant process of mobilizing local resources striving to combat the unemployment resulting from the restructuring of the pillars of the local economy. The process has involved many different actors who each worked in their own sphere of competency in order to achieve economic growth for their region. The economic restructuring took place in unfavourable environment characterized by volatile macro-economic policy and absence of consistent national and regional strategy for adjustment and development. The adjustment process was burdened by the necessity to abruptly reallocate labour from the declining sectors to growth-potential sectors for which the region has appropriate resource endowments.

As already discussed, Mesta municipalities did not receive any special support from the central government. The region was able to respond appropriately to the changes by establishing ties with foreign markets and creating a new organization that spearheaded the changes. The organization, which has been instrumental in the development of many of the new jobs especially in the wood-processing, textile and tourism sectors is the Business Center MESTA. The Business Center MESTA was opened in Razlog in July 1996 under the International Labour Organization and the United Nations Development Programme's project. The purpose was to establish a non-governmental organization, involving all of the relevant stakeholders of the region, to spearhead the economic development of the region.

The goal was to be a source of assistance and motivation to the region's business community. The Business Center MESTA was at the forefront of many of the region's initiatives, which proved to be successful. They were either the source of the new ideas or they had contacts with outsiders who were able to give suggestions for the improvement of the area. The Business Center MESTA played a crucial role in providing a forum for business

and local government leaders to talk to each other. The Center also played a vital role in mobilizing businesses (public and private) to act in a proactive manner. They helped companies become more market oriented and provided them with training, consulting or with information that helped increase their self-confidence and willingness to expand their businesses in difficult economic times. The Business Center MESTA also very successfully helped companies cluster into manageable networks in order to compete effectively in the global market. Long term, the employment impact of the business centers depends on whether their efforts will be complemented with other employment creation programmes and measures by the central government necessary for sustained economic development as well as the NGOs' capacity to become self sustainable in a difficult environment.

The MESTA region presents one road to successful transformation when national policy support is lacking; the newly emerging non-governmental structures gradually started performing key roles in the adaptation process. One conclusion to be drawn from this review of regional development to date, is that, the role of local business support structures becomes of paramount importance in a situation when the national government lacks a well-formulated regional development policy and abstains from redistribution of resources towards less developed areas. There is some maneuverability for such local institutions to substitute for some of the missing state/regional policy instruments.

The new sectors, which have seen the most rapid growth, are wood processing, textile, footwear, and tourism. The MESTA region was able to retain jobs by establishing links with foreign companies. Some of the companies made a long-term commitment to the area and have invested significant resources in terms of money and technical assistance (Pirintex, DRS Technologies). This rescued the region's sense of identity. These types of investors are strategic and need to be further supported. Other foreign contacts have also been beneficial in the short -term in regards to the number of jobs created and income generated.

The proximity to Greece is a significant advantage and MESTA region benefits from investment activities of Greek companies which shifted some of their production to a country with lower labour costs. This helps to develop new skills, business attitudes and culture as well as expands contacts with foreign markets, creates employment and generates incomes. The establishment of Mesta - Nestos - Euroregion as a result of the activity of the local Bulgarian/Greek authorities, chambers of commerce and business support institutions has started to build a European identity in the region and to help avoid marginalization of the region. Local stakeholders started believing in the benefits of joint actions, a not insubstantial contribution to changing attitudes in the centrally planned economy where local authorities were accustomed to developing vertical links with the central administration and territorial links were very weak.

Emerging globalization of the local businesses in the MESTA region was initiated by successful international donor interventions to support local initiatives and business infrastructure. This created a sustainable base, and has shown good promise of supporting the long run development of the private sector and the opening of the local economy towards international markets and trends.

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ANNEX: Mesta field work: Interviews with local enterprises, October 1998

Place	Company/ Institution	Interviewee	Sector of activity	Year established	No. of employees	Foreign investment (partners, joint ventures)	Future plans
Blagoevgrad	British Know How Fund - PREST Project	Mr. Ivan Scarbin, Pirin Tourism Forum	Tourism	1994	3	UK partners	set up desk-top publishing and PR company, promotion, publications on PIRIN region
Razlog	Regional Development Agency/ Business Centre MESTA	Mr. Luben Tatarski, Executive Director Mr. Gueorgui Grigorov, Business Consultant	Regional Development Support and Consultancy	1996	5	Dutch	expand consultancy services to local entrepreneurs, middleman activities
Razlog	Pirinstroy Invest Ltd.	Mr. Alexander Bangeev, Manager Ms. Emilia Markova	Construction industry	1988	78	None at present	set project "Trade Centre Razlog" to work, find more int'l partners
Razlog	Labour Office		Labour Administration	1993	39 +2	-----	"make Razlog Labour Office unemployed"
Razlog	Municipality of Razlog	Mr. Gueorgui Kirev, Mayor	Local Administration	-----	108	Greece-Kilkis	industrial and tourism development

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Razlog	Alpitekst	Mr. Picherini, General Manager	Textile industry	1992	100	subcontractor to Italian brands	expand premises for cutting and assembly and expand no. of employees to 170
Razlog	Ameritech	Mr. Raiko Hadjiev, Manager	Electronics	1992/1994	34	US-owned	continue, no expansion envisaged
Razlog	DRSTechnologies DRS Ahead Technology- Bulgaria	Mr. Georgi Pernov, V.P. Operations	Electronics	1992/1997	200	US-owned	continue, stabilize, and diversify the product list
Bansko	Wood Processors' Chamber	Mr. Ruzskov, Head	Woodprocessing/ NGO	1992	20 members	Koblenz HwK	continue, develop closer contacts to Germany (Handwerkskam- mer Koblenz)
Bansko	Stil Woodprocessing	Mr. Pavlin Janchovichin, General Manager	Woodprocessing	1989/1991/1994	8	Sub-contracting to UK, Dutch Co.	expand, but dim outlooks
Bansko	Bansko Tourist Information Centre	Ms. Lilyana Kovacheva, Technical Officer	Tourism/NGO	1997	1	Contacts with foreign tour operators	undecided because of institutional framework in tourism which is

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Bansko	Orion-alger	Mr. Alexander Erinin, President	Woodprocessing	1991	23	(D, NL) but not successful	unclear expansion delayed because of lack of working capital (no bank credits)
Bansko	Hotel Aneli	Mr. Anatoli Antov, Hotel Owner & Manager	Tourism	1994	32	None, but contacts with foreign tour operators	expansion, more hotels, restaurants ("McAneli") and entertainment facilities
Bansko	Hotel Glazne	Mr. Luchezar Chakuzov, Hotel Manager	Tourism	1990/1998	70-80	None (only national)	attract foreign tourists and become the best hotel in the area
Eleshnitza	KOLOS Ltd.	Mr. Bogil Karpachev, General Manager	Woodprocessing	1994/1996	23	Subcontracting (D)	double capacity in 1999
Belitza	Municipality of Belitza	Mr. Salik Salik, Mayor	Local administration	-----	36	None	plans, but no hope
Belitza	GG & CO	Mr. Georgi Beljov, Manager	Woodprocessing	1996	25	Danish	expansion with Danish and EU help, plus 10 employees
			Food processing				

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Belitza	Jana-IL-64-A Ltd.	Mr. Karamphil Diviziev, Manager	(mushrooms, berries) Wood processing (seasonal)	1993	up to 120 (according to season)	Subcontracting (D, CH), but 100% Bulgarian ownership	expand according to sales opportunities
Belitza	Woodprocessing Cooperative	Mr. Ventzi Genev, General Manger	Wood processing	1993	27	None	develop finishing operations
Gotze Delchev	Business Incubator	Ms. Elena Terzieva, Chairman	Regional industrial development/ NGO	1998	3 employees and 10-12 workshops in the BIC	UNDP	extension to 25 members
Gotze Delchev	Labour Office	Mr. Chevganov	Labour administration	1990	16	-----	improve services and introduce UNDP Start- up- your- business programme
Gotze Delchev	Municipality of Gotze Delchev	Mr. Sarandev, Vice Mayor	Local administration	-----	38	Drama - Greece, EUROREGIO, Northern Ireland	attract more foreign investors , it works o.k. at present but should be enhanced, tourism development
Gotze Delchev	Pirel Ltd.	Mr. Todorov, Manager	Electronics	1989/1992/1994	500	Contacts to Russian, German contractors	finalize privatization
Gotze Delchev	Rollmann/Hugo Boss	Mr. Bernard Rollmann, General Manager	Textiles, garments	1993	970	Bulgarian management, German, Greek contractors	expand

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Gotze Delchev	Mallamoff Hotel	Mr. Valery Mallamoff, Hotel Owner & Manager	Tourism	1994	36	None	expand to more than 3 hotels
Hadjidimovo	SARA Ltd.	Mr. Dinov, General Manager	Shoe manufacturing	1994	170	100% subcontractor for Italian investor	expand from 3.000 pairs per month to 10.000
Dryanovo	EUROGROUP Ltd.	Mr. Roumen Medarov General Manager	Shoe manufacturing (plus textiles in the Holding)	1994	700-800	int'l partners (I, D)	expand to 1.000 employees for the Holding
Gotze Delchev	Pirinplast	Mr. Stoyan Vakareev, Executive Director	plastics, (household and industrial)	1974/1989/1994	180	Swedish (IKEA), Italian, Israel	improve capacity load of machinery (from 70 to 100%)
Gotze Delchev	Foundation Dabrash	Mr. Ahmed Dunchev	Charity, Ethnic Minority Projects	1997	2	-----	From charity - to community development initiatives
Gotze Delchev	Chamber of Commerce	Mr. Krassimir Mounev, Head	NGO	1993	2	GR, UK	expand members' opportunities
Razlog	Seminar						

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Yakorouda	Intergroup	Mr. Peter Apostolov, General Manager	Food processing (shrimps)	1994	600	1 contractor (Dutch) = 100 %	expand premises and no. of employees to 1.500
Razlog	Stimex	Mr. Zachov, General Manager	Woodprocessing	1998	9	Subcontractor to UK company	expand if markets
Sofia	BARDA	Ms. Antoaneta Arsova, Executive Director	SME Development in Bulgaria	1997	2 + 2 international consultants	UNDP and German support	institutional strengthening, services diversification
Sofia	GOPA office (at BARDA office)	Ms. Albena Melin, Advisor Mr. Lothar Duelberg, Consultant	Vocational Training Programme	1994	7 BG staff and German experts	Germany	Gopa Centres in Pleven, Pazardjik, St.Zagora to become self- sustainable