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**ENTREPRENEURSHIP AND SME DEVELOPMENT IN
TRANSITION COUNTRIES:
THE CASE OF BULGARIA**

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ABSTRACT

The first paper on this topic entitled “Small and Medium-Sized Enterprises Development in the Period of Transition to Market-Oriented Economy: The Case of Bulgaria” was published a year ago in the book “East European Enterprises in the Process of Transformation to a Market Economy”, in USA. The recent paper is a natural continuation of the efforts of the author towards a deeper survey on the main problems in the development of the sector of small and medium sized enterprises (SMEs) in Bulgaria during the years of transition to market-oriented economy. Stable political and economic changes have been the main characteristics of the transitional period in Bulgaria over the last two years. At present, the country has to fulfil the heavy requirements for accession into the European union. Still, the practical implementation of these requirements, especially in the field of legislation, privatization and administrative reform is slow and rather complex. The burdens of the ongoing reforms have a negative impact on the SME sector and it is still trying rather to survive than to develop. All these factors combined with the lack of networking and cooperation with international institutions, limited access to credit lines and unwillingness of the commercial banks to grant credits are the key limitations to obtaining financial resources for SME activities. Despite the formal recognition of the SME as a main factor for economic and social development this sector is still underestimated.

At the same time we should underline that a certain number of practical steps for changing this unfavorable situation have been undertaken by the Bulgarian government during the last two years. A National Agency for Small and Medium Enterprises (ASME) was established, a new Government strategy for facilitating entrepreneurship was adopted for creating a favorable institutional, legal, administrative and financial environment for development of SMEs as a stable sector of our economy, limited tax exemptions for SMEs were introduced as well. The final goal of the government measures is to create a stable market infrastructure for SME activities, building a new business culture and ethics and stimulating the European Union (EU) integration and globalisation of Bulgarian small business.

SMEs themselves suffer from a lack of understanding of the principles underpinning financial management, often failing to grasp even the need of financial management. The smaller the enterprise, the less the likelihood that it will understand the need of financial management and the poorer the understanding of the financial instruments available. In general the financial culture within the SMEs is weak and poorly developed with little knowledge about the ways in which financial management could assist the successful management of the enterprises. There is also a lack of professionalism within the SMEs in terms of strategic planning procedures, decision making processes and business planning, and this has a harmful impact on the image of SME within the banking community which is translated into an unwillingness to meet their financial requirements. Thus, education and training in financial management for SME managers, both to reinforce the importance of financial management as a power managerial tool and to improve the ability of SME to operate their working capital and external finance in a way to enhance the performance of their enterprise, become more and more vital. In this respect it is important to say that higher education institutions have and will have a central role in internationalization of the training of the SME managers and entrepreneurs.

1. CURRENT STATE OF SMALL AND MEDIUM BUSINESS SECTOR IN BULGARIA

Small and medium sized enterprises in Bulgaria have already played significant role in the national economy development. Their part in the totality of all active firms in the economy for 1997 is 98.6% and the number of people employed in the SME sector is 41.3% out of all employees in the country. Private business sector became stronger during the last two years and increased its contribution to the Gross Value Added (GVA) of the country from 55.4% in 1996 to 63.7% in 1998 (Table 1). The rapid increase of the share of the private sector in the generated GVA was due largely to the completion of the first wave of the mass privatisation process in Bulgaria and acceleration of the cash privatisation in the first half of 1997. Thus the GVA share created by the private sector of manufacturing have doubled in 1997 in spite of the decrease of the manufacturing product as a whole. Another reason for the increase of the share of SME sector in the GVA was the growth of the existing private sector especially in agriculture and transportation.

**Table 1. Contribution of the Private Sector to Gross Value Added (GVA)
(by years)¹**

Years	1993	1994	1995	1996	1997	1998
Share in GVA	37.9%	42.3%	50.6%	55.4%	63.0%	63.7%

In spite of the fact that the importance of small and medium sized enterprises as a main factor for economic development is widely recognized, there are still different criteria for definition of SME. Usually, two criteria are most commonly used and namely *number of employees* and *turnover of the company*. The National Strategy for development of small and medium business accepts the definition according to which small enterprise is one with up to 50 employees and middle-sized enterprise has from 51 to 100 employees. The distribution of private enterprises by their size is shown in Table 2. In Poland, for example, a small enterprise is defined as an economic legal entity with employees up to 5 persons. The category of medium sized enterprise relates to those economic entities which employ from 5 to 50 people with the exception of firms engaged in trade activities where the upper limit is 20 employees (Balicki et al, 1998, p.2). In the State Bank for Investments and Development Bill there is another definition of SME based on asset criterion: small enterprise is one with assets totaling 5 000 minimum work wages and medium enterprise – from 5 000 to 10 000 minimum work wages.

Table 2. Distribution of the Private Enterprises in Bulgaria by Their Size²

Size of the enterprises based on the number of employees	Percentage share in the survey sample
Up to 10 persons	72%
Between 11 and 50 persons	18%

¹ Source of data is the National Statistical Institute, 1999

² Source of data is the 'State of Small Business in Bulgaria-1998' bulletin (survey of a sample of 44 469 enterprises), Foundation for Entrepreneurship Development, 1998

Between 51 and 150 persons	6%
Between 151 and 250 persons	2%
Over 251 persons	2%

As a result of the stable political and economic reforms undertaken by the new democratic government during the last two years, SMEs not only survived, but there are already sectors where they are predominant. The distribution of small and medium sized enterprises by sectors is as follows: in trade and automobile repairing sector – 51.8%; hotels, hostels, catering services – 9.3%, agriculture, forestry and hunting – 3.6%; construction – 4.2%, transport, telecommunication and tourism – 6.9%, manufacturing industry – 12.3%, property deals and renting – 9.0% and others – 3.1% (Petrounova, 1999). The dynamics of other indexes of the development of the small and medium business such as productivity index (Table 3) and the capital efficiency also support the conclusion that the private sector in Bulgaria turned out to be an engine of the economic growth.

Table 3: Comparative Index of Labour Productivity in the Private and Public Sector³
(by years)

Years	1993	1994	1995	1996	1997
Productivity index	1,39	1,16	1,35	1,23	1,29

The productivity index represents the correlation between the Gross Value Added generated by the economy and the number of employees in the private and in the public sector. The figures in Table 3 show that the private sector surpasses the public sector in this aspect. This is confirmed by the fact that the productivity index (calculated in the same way) in the public sector has decreased with 17% for the first half of 1998 in comparison with the same period of 1997. The analysis of the statistical data, which reflects the dynamics of employment index, illustrates the importance of the SME sector in the creation of new work places. While the employment in the public sector decreased 1.09 times between 1995 and 1997 and continues to fall in 1998, in the private sector it has increased 1.12 times (Table 4). This tendency in the public sector could be explained with the existence of so-called “hidden” unemployment in the big state enterprises. As the larger part of the new big private firms (with more than 100 employees) are privatized former state-owned enterprises the growth of the employment in this sector in some cases is purely inertial. The figures in Table 4 show a decrease of the employment with 9100 work places in 1996 and approximately 121 000 in 1997 in the large enterprises.

Table 4. Distribution of Employment by Enterprise’ Size (Private and Public Sector)⁴

Enterprise’ size	1995	1996	Change	1997	Change
Self-employed	151 548	127 165	-24 383	133 637	6 472
1-9 employees	113 014	127 694	14 680	146 064	18 370

³ Sources of data are the National Statistical Institute and the Institute for Market Economy, 1999

⁴ The same sources of information

Total: micro firms (up to 10)	264 562	254 859	-9 703	279 701	24 842
10-19 employees	74 053	84 492	10 439	90 654	6 162
20-49 employees	192 523	202 317	9 794	208 723	6 406
Total: small firms (10-50)	266 576	286 809	20 233	299 377	12 568
Total: medium firms (50-99)	260 724	268 127	7 403	270 704	2 577
100-249 employees	437 850	439 774	1 924	418 678	-21 096
>249 employees	1 130 972	1 119 948	-11 024	1 020 189	-99 759
Total: big firms (100 and more)	1 568 822	1 559 722	-9 100	1 438 867	-120 855
Total number of employed	2 360 684	2 369 517	8 833	2 288 649	-80 868

The number of people employed in the private sector in Bulgaria has increased from 597 532 in 1995 to 885 743 at the end of 1997 (4,3 times). At the same time the number of SMEs has decreased 1,11 times for the same period (from 209 405 to 188 681), because some of the small enterprises didn't survive the heavy economic crisis in 1996. Still, the main source of capital for financing the establishment of SMEs and their activities remains the personal savings of entrepreneurs, of his or her family or loans from friends (82.4% of all firms in 1996). Special attention should be focused on the structure of the credits: 62% of the firms declared that they had not applied for credit and 41.5% of them had used loans from friends and relatives. Despite of the fact that most of the firms suffered from deficiency of financial resources at the beginning of their business activities, only 16.3% of the surveyed companies had applied for credit in 1997. This fact is confirmed by the figures in *Table 5*, which show the share of the private sector in all bank credits granted, the investments in fixed assets (FA) and its share in the GVA as a percentage of the totality.

Table 5. Private sector – Credits granted, Investment in Fixed Assets and Share in GVA (by years)⁵

Private sector	1993	1994	1995	1996	1997	1998
Share in credits granted, %	12.40	13.90	25.90	21.21	57.49	63.3
Share in investment in FA, %	22.76	39.04	44.45	38.53	54.40	n.a.
Share in GVA, %	35.40	39.40	48.00	52.50	58.80	63.5

If we compare the data in *Table 5* we may conclude that the situation in 1997 and 1998 has improved and the figures show that the private sector has almost equal shares in bank credits and in gross value added. The main reason is not that the banks have changed their credit policy and granted more credits to SMEs, but the fact that the access to bank credits of the state-owned enterprises have been limited during the last two years. On a second place the share of the investments in fixed assets of private enterprises is lower than their contribution to the GVA. That means the entrepreneurs have used their assets better than the managers of the state companies and, on other side the private firms are dealing rather with high labour cost production than with activities with low capital utilisation. As a result, if the productivity of the private

⁵ Sources of data are the bulletins of BNB, the National Statistical Institute and the Institute for Market Economy for 1998 and 1999

enterprises is constantly higher than the one of the state enterprises, we may conclude that the private firms generate higher income based on the same size of the fixed assets. It is interesting now to see the distribution of SMEs in Bulgaria by sectors and activities (at the end of 1997). The figures are shown in Table 6.

Table 6. Small and Medium Sized Enterprises Distributed by Sectors and Activities⁶
(at the end of 1997)

Firms	Indust ry	Agricu lture	Constr uction	Trade	Transp ort	Servic es	Finance	Others	Total
Micro									
number	19 388	4 479	6 591	111 025	12 532	16 211	870	6 241	177 337
%	10.93	2.53	3.72	62.61	7.07	9.14	0.49	3.52	100.0
employee s	36 764	11 994	13 133	155 886	16 724	24 526	1 703	9 945	270 675
%	13.58	4.43	4.85	57.59	6.18	9.06	0.63	3.67	100.0
Small									
number	2 363	1 710	836	2 588	297	414	170	369	8 747
%	27.01	19.55	9.56	29.59	3.40	4.73	1.94	4.22	100.0
employee s	50 114	38 345	16 859	48 124	5 826	8 166	3 828	7 450	178 712
%	28.04	21.46	9.43	26.93	3.26	4.57	2.14	4.17	100.0
Medium									
number	555	314	97	223	32	60	16	39	1 336
%	41.54	23.50	7.26	16.69	2.40	4.49	1.20	2.92	100.0
employee s	39 194	21 185	6 909	15 213	2 458	3 950	1 092	2 649	92 650
%	42.30	22.87	7.46	16.42	2.65	4.26	1.18	2.86	100.0
Total:	23 110	6 620	7 617	113 956	12 899	16 721	1 082	6 676	188 681
%	12.25	3.51	4.04	60.40	6.84	8.86	0.57	3.54	100.0
employee s	379 087	90 449	55 594	244 150	34 394	45 007	11 948	25 114	885 743
%	42.80	10.21	6.28	27.56	3.88	5.08	1.35	2.84	100.0

Based on the figures in *Table 6* we may draw out the following conclusions:

1. The biggest is the number of SMEs in the sector of trade (retail and wholesale) – 60.4%, followed by the number of firms in industry – 12.25% and on third place – in services sector (8.86%). This is not surprising taking into account the figures in Table 6 for SME share in bank credits and fixed assets. As the pace of privatisation was slowed down in the last two years, the access to bank credits – very limited and the investment climate is still not favorable, the private enterprises in Bulgaria are mainly oriented to the sectors with low capital utilization.
2. There are significant differences between the micro, small and medium types of firms in Bulgaria – the number of micro enterprises remains 94% of the total number of all registered

⁶ The same sources of information

firms. At the same time the small firms are equally presented in sectors like trade and industry (29.59% and 27.01%). Their share in agriculture and forestry sector is approximately 20%. The bigger number of small firms (compared to the micro enterprises) in agriculture could be explained with the fact that agricultural micro firms (up to 10 employees) usually are not officially registered, while the firms with more than 10 employees should be registered according to the National Trade Law. The share of the small firms in trade (mainly retail) and services sector is twice lower than the one of the micro enterprises, which means that the firms working in these two sectors of the economy do not hire more than 10 employees. At the same time the share of the small firms in industry sector is 2.5 higher than the one of the micro enterprises as the production process usually require more than 10 people. Medium firms are mostly represented in industry and agriculture sector (41.54% and 23.50%), while the trade (retail) is on the third place with 17%.

3. Very important indication is the distribution of the number of employees among different types of firms in Bulgaria. The figures show that the share of the firms in industry and construction sector in the total employment is higher than its share in the total number of all active firms. The figures in Table 6 for the firms in the sectors of trade (retail), transport and services are the contrary. The conclusion is that, as a whole the firms in industry and construction sector hire bigger number of employees.

The analysis of the presented data concerning the current state of the SME sector in Bulgaria draw attention to the fact that there are still certain reserves in regard to the effective use of:

- Various credit policies in regard to SMEs;
- Domestic sources of raw materials;
- Unused building funds;
- Unused or uninstalled machines and equipment;
- High qualified staff (mangers);
- Scientific potential.

The main result of enlarging the SME sector in Bulgaria could be the creation of the necessary stimuli for economic development and achievement of fast prosperity of the country. Unfortunately, there are still many obstacles for preventing that the SMEs to play an important role in the society and economic life of the country.

2. COMPARATIVE ANALYSIS OF SME DEVELOPMENT IN TRANSITION COUNTRIES

Central and Eastern European Countries (CEEC), including Bulgaria belong to the economies which are in a process of transition to market-oriented economy. In considering the SME development in these countries it would be useful to remind what this process involves (Smallbone, 1999). At the firm level, transformation involves a shift from public to private sector ownership, which may happen either through the direct privatisation of former state-owned enterprises or through the creation of completely new businesses. A second element in the process of transformation is the liberalisation of market, where the central administration of prices is replaced by market mechanisms, involving an increase in market opportunities as well as in the level of competition. A third element in the economic transformation involves the creation of market institutions, such as banks, investment funds and other financial

intermediaries, business and trading services. Smallbone (1999) defines the potential role of SMEs in the transitional process as follows:

- generating employment and contributing to absorbing labour surpluses which result from economic restructuring;
- contributing to the development of a competitive economy with diversified structures;
- contributing to the development of a supply base to serve the needs of large firms (including inward investors);
- contributing to the sectoral restructuring;
- being a source of innovation (in some cases).

The different stages of market reforms, which have been achieved in the different transition economies with respect to SME development, could be recognised using selected EBRD (European Bank for Reconstruction and Development) indicators: legal and bank reforms, privatisation and competition policy (Smallbone and Welter, 1998). *Table 7* recognises two types of transition economies: 1) countries in early stage of transformation and 2) countries in advanced stage of transformation. Each of the selected indicators was rated by EBRD on a scale from 1 (little progress) to 4 (indicating standards and performance typical for advanced industrial economies).

Table 7: Stages in Transition Process in Selected Countries

	Legal reform	Banking reform	Large-scale Privatisation	Small-scale Privatisation	Competition policy
Group 1: Countries in early (1) stage of transformation, where market reforms have been slow or not properly installed					
Belarus	2	1	1	2	1
Moldova	2	2	3	3	2
Ukraine	2	2	2+	3+	2
Group 2: Countries in advanced (2) stage of transformation					
Estonia	4	3+	4	4+	3-
Latvia	3	3	3	4	3-
Lithuania	3	3	3	4	2+
Bulgaria	3	3-	3	3	2
Poland	4	3	3+	4+	3
Compiled from EBRD, Transition report for 1997. 1 = little progress, 4 = standards and performance typical for advanced industrial economies.					

Note: Early stage countries: average score below 3; Advanced stage countries: average above 3.

We may conclude that the data in Table 7 shows a significant contrast between countries where marker reforms are fairly advanced and those where they have been slow or not properly installed. The pace of development of SMEs, correspondingly, varies from one country to another. Although there are some underlying similarities in the experience of countries which are adjusting to the new conditions of post-communist period, the differences in the pace of SME development reflect different starting points for transition, different processes that have operated and different conditions that have prevailed during the transition period, and different

government policies. With respect to the first of the conditions, one of the advantages that countries such as Poland and Hungary had over Bulgaria and Baltic States was the previous existence of a private enterprise sector. This contrasted with Bulgaria for example, where recent experience of private enterprises essentially started in 1989 and the conditions for starting an own business were influenced by two groups of factors (Mateev 1998, p.140):

- The first group represents factors of constraint: unemployment and decrease of the social assurance; unstable employment in the stated-owned enterprises likely to be privatised, restructured or liquidated; sudden increase of the cost of life; low income in the sector of employed which does not permit keeping up to a normal living standard.
- The second group includes factors reflecting the creation of favourable conditions for starting an own business: liberalisation of the economy, easier access to risk capital (low interest rate, funds for stimulation of the SMEs, alternative sources etc.); facilitating the SMEs privatisation; tax preferences for the small business. Under such conditions starting of small and medium-sized business was to a significant extent determined by the qualities of the person starting it, i.e. of the type of entrepreneur.

At this initial stage of the transitional process the economic destabilization and the decline of business activities in Bulgaria had seriously influenced the SMEs development. The Government policy had not been supportive to the private sector and in some cases even being hostile towards the small business. Macroeconomic deficiencies had affected the private sector in general, but their negative impact on the SMEs was more complex due to the SME incapability for access to information and capital. The situation has changed in January 1997, when the socialist government was forced to resign. The new Democratic Government has introduced a new policy (so called Programme 2001) towards EU and NATO membership, which had as a consequence the need for designing a pre-accession strategy for political and economic development. Administrative reform, approximation of EU legislation and privatisation could be pointed out as the most urgent among the activities undertaken in the last 12 months. Still, the practical implementation of these requirements, especially in the field of privatization and administrative reform is slow and rather complex. The burdens of the ongoing reforms have a negative impact on the SME sector and it is still trying rather to survive than to develop. *Table 8* summarizes the main weaknesses of SME development in Bulgaria in the first years of the transitional period (1990 – 1995) and the positive changes, which have occurred during the last two years.

Table 8: Main Characteristics of SME Development in Bulgaria during the Transitional Period

Weak points	Strong points
<ul style="list-style-type: none"> • the majority of the companies operate in the commercial sector • many of the companies do not seek growth and increase in the number of employees • the internal sources of financing of companies growth are limited • 60% of the small companies sell on the local market (town or region) and only about 25% of them operate on the national market 	<ul style="list-style-type: none"> • increase in the number of private small and medium sized enterprises • increase in the number of new companies founded on the basis of the entrepreneurship idea • increase in the number of companies pursuing a long-term growth • increase in the number of companies trading on the national and international markets

<ul style="list-style-type: none"> • the access to new technologies and know-how is difficult • insufficient experience in the sphere of marketing, strategic planning, accounting and administration • very insignificant internationalization of the business 	<ul style="list-style-type: none"> • improvement of the professionalism in the SME management • increase access to external sources of financing (international funds, EU programmes and direct credit lines) • improvement of legal and administrative environment
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The comparison between the dynamics of development of the private sector in Bulgaria and in the rest of the Central and East European countries during the last few years shows that similar tendencies as these in Bulgaria (Table 8) are observed in most of the aforementioned countries, but in our country they are running more intensively. For example, in the Balkan region as a whole the number of the private firms with personnel between 1 and 50 people is increasing. There are also changes in the employment structure, such as a decrease of the number of the employees in the group of the biggest firms and an increase of their number in the smaller firms. These changes are most significant in Bulgaria in comparison to all the rest of the Balkan countries. The perspectives for next one, even two years show that the large public firms and the already privatized ones will continue to reduce their employment with the aim to increase the production efficiency and productivity. It is expected that only the sector of the newly established private firms, which in most cases are small in size, could create new working places and take care of the employees, who will loose their work as a result of the restructuring of the real sector. The situation is similar if we compare the dynamics of the other indexes of development of small and medium business in the other countries in the region and in Bulgaria.

As far as economic development is concerned, the point to be stressed is that the role of SMEs varies at different stages of the transformation process as well as in different national contexts. Looking at the countries at a more advanced stage of transformation, such as Poland, Hungary and Czech Republic, whilst some of the characteristics of SMEs in early stage transition countries remain, a number of new ones appear revealing the SME contribution to economic development across a broader spectrum of economic activities (Table 9).

Table 9: Main Characteristics of SMEs in Countries at More Advanced Stage of Market Reforms

Stage	Characteristics of SMEs
<p>More advanced stage of market reforms</p> <p>e. g. Poland, Hungary, the Czech Republic, Bulgaria</p>	<ul style="list-style-type: none"> • More established SMEs, with a predominance of micro-enterprises • More various motives for starting-up a new business • Many new trade and service companies • Traditional sectors in manufacturing rather than technology and innovation based • More SMEs involved in export activities • Competitive policy typically focused on price advantages rather than quality • Improved legal and business support infrastructure

	<ul style="list-style-type: none"> • Increased demand for business and management training
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One of the characteristics that has emerged from a number of recent surveys is the high level of latent demand for management training, particularly with respect to those areas of management, which are most closely related to new market conditions: sales and marketing, business planning and financial management. This characteristic has been identified in surveys of SME owners and managers in Bulgaria⁷, Poland and the Baltic States, as well as Ukraine, Moldova and Belarus, where more than 90% of surveyed managers have identified certain areas of management weakness in their firms and the vast majority also expressed an interest in upgrading their management skills. Unlike many SME owners and managers in western countries, where there is often a reluctance to seek external assistance in the form of management training, here it does appear to be a considerable latent demand for appropriate management training in the transition countries concerned. A combination of a lack of previous experience with the demands of the market and the positive effect of higher education in encouraging these entrepreneurs to be outward looking, seems to be a major factor in explaining this phenomenon (Smallbone, 1999). Other reason is that, the high qualification of the SME managers certainly influences the internationalization of the firm activities. That is proved by the higher level of education of the managers and the owners of export firms in Bulgaria, as two thirds of them had graduated a higher school. The export-oriented firms have higher requirements for the educational level of their managers. The previous experience of the firms in this sector is one more prerequisites for success in the export.

The most important problems the small and medium sized enterprises are facing in the transition countries derive from the shortage of financial support for launching of their activities, and also later for financing their main activity or funding the necessary investments for improving the firm competitiveness. To a great extent the shortage of funds is determined by the type of the sources of financing necessary for establishing a new business, as well as for running its main activity. The main financial source is the personal savings of the entrepreneur or of his or her family and on a second place - loans from his or her friends and relatives. In 1998 hardly 8-10% of the firms in Bulgaria have had access to bank credits. This could be explained with the traditional caution of the commercial banks towards the small enterprises, as well as with their limited credit activities to the real sector during the last two or three years as a consequence of the crisis of the bank system in 1996. Despite the acute shortage of financial resources, quite a little part of the firms has applied for bank credit. The main reason is that the requirements of the commercial banks for serving the extended credits (collateral, terms etc.) are too hard for the firms, and also the price of the credits defined with the real rate of interest, is also too high because of the high credit risk in the country.

The other two problems, related to the starting and developing a business activity, are nearly equal in importance with the financial one - the unstable and unreliable legal frame for the development of the small and medium business, as well as the heavy bureaucracy. The bureaucracy problem includes not only obstacles such as issuing of licenses, most of which are unnecessary and are just a clerk's caprice, but also the proclivity of the governmental and

⁷ A research of 650 SMEs in Bulgaria conducted by Sova-5 and published by the Foundation for Entrepreneurship Development in Bulgaria, 1998

municipal officials to take bribes. The bureaucracy issue has a main significance not only to the development of the small and medium sized enterprises, but also to the business as a whole. Decreasing of the bureaucracy will improve the conditions for entrepreneurship in the country, as well as it will reduce the firm's transaction costs and in that way may contribute to increasing the inflow of investment in the country. Another problem, which is crucial for the business development in the country and is mentioned very often by the entrepreneurs, is the high taxation level and the lack of credit demand by solvent firms (Mateev, 1999, p.240). After attaining the macro-economical stabilization in the country the importance of this problem as well as the instability of the price dynamics has really decreased as an obstacle before business development in Bulgaria.

3. MAIN BARRIERS TO SMALL BUSINESS DEVELOPMENT IN BULGARIA

In most transition countries the main priority need for strengthening the SME sector is to establish the necessary institutional, legal and cultural framework to support and facilitate the development of entrepreneurship. It includes basic reforms such as changing registration and reporting procedures, and reforming the banking and tax system, as well as steps to eliminate corruption, which seriously impedes entrepreneurship in some countries. In Central and Eastern European countries such as Poland, Hungary, the Czech Republic and Bulgaria, which are at a more advanced stage of market reforms than Ukraine, Moldova and Belarus, the legal framework is no longer the most immediate problem for SMEs (Table 10). In these cases, SME development is generally more impeded by the slow pace of tax reforms, by the financial infrastructure which is still adjusting to the needs of the emerging private sector, by the existence of shrunk domestic markets, and enormous deficiencies regarding the business support infrastructure. Whilst issues such as tax reform remain a priority in some case (e.g. Bulgaria, Baltic States), in Poland for example, other priorities which include bringing legislation and regulations in line with EU standards in preparation for EU accession, encouraging the banking system to adapt and recognise the SME sector as a potential market for a range of financial services, and for the government to work in partnership with the private sector to establish an effective support infrastructure, have become increasingly important (Smallbone et al, 1999a).

Table 10: Key Barriers to SMEs Development in Countries at Different Stages of Transition to Market Economy

Early Stage	Key Barriers
e.g. Ukraine, Belarus, Moldova	<ul style="list-style-type: none"> • Very bureaucratic registration & financial reporting requirements • Unreliable legal frameworks & institutions • Inadequate financial institutions • Lack of supportive government policy • High inflation rates • Unfavorable investment climate • Corruption
Late Stage	
e.g. Poland, Hungary, the Czech Republic, Bulgaria	<ul style="list-style-type: none"> • Essential legislative framework in place

	<ul style="list-style-type: none"> • High taxation level (in some countries) • Financial infrastructure still adjusting to the needs of private sector • Limited access to bank credits and investment funds • Lack of comprehensive business support infrastructure • Increasing competition from other SMEs and from importers • Bureaucracy and corruption (in some cases)
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Different studies and researches (Jurickova, 1998, Marinova, 1998; Smallbone et al, 1999b) have focused on the problems, faced by SME over the last years in transition countries. The main difficulties could be grouped around two main categories and namely *business support infrastructure* (legal and administrative environment, consultancy services, regional business centres, business associations etc.) and *financial support*. Below are summarized some key barriers to SME development in Bulgaria (Mateev 1998a, pp.164-167):

1. Business support infrastructure:

- Legal environment – there is a lack of favourable legislative environment for the SME development; legislation at national, regional and local level is not satisfactory; often change of legislation; lack of preferential conditions for attracting foreign investments; need for internationalisation of SME activities in order to access EU and world trade markets
- Administrative environment – the bureaucracy of national, regional and local administration is a barrier for SMEs; slow decision-making process or lack of enough transparency; lack of coordination among structures at different levels; lack of administrative experience and motivation leading to corruption of civil servants; need of additional qualification and training for the administrative staff, working for the national and regional structures that support SMEs
- Consultancy services – majority of consultancy companies are not specialised and prefer to offer wide range of services, which has an impact on their professionalism; various specialised services, widely used in EU countries, are almost unknown for the Bulgarian SMEs; prices of highly specialised consultancy services are barrier for the SMEs; company users of such services are not too demanding in regard to the quality of the consultancies; SMEs are not aware of many agencies and consultancy organisations (both Bulgarian and foreign) that provide different types of SME support
- Marketing and promotion – communication between company and client is still mainly based on personal contacts (informal contacts or business visits); small companies are not aware of the advantages of other ways of promotion; lacking of traditions and experience in the use of various types of marketing and advertisement; mass media are too expensive for SMEs
- Lack of managerial and financial skills and culture – there is no sufficient managerial experience and skills, as well as and qualifications at different levels of the company (top, middle and line managers). This lack is significant in different fields, as for example, in quality standards, price expectancy, and role of marketing, fulfillment of contracts, management and business planning. There is necessity of establishing of specialised business centres and educational and training programmes (distance learning included) and development of new financial and entrepreneur culture

- Inadequate infrastructure – bad quality of existing infrastructure: roads and communication services are hampering the SME development. Monopolies in communications, electricity, water etc., through discriminative prices (deferent prices for household and industrial purposes), increase the SME production expenditures
- Informational problems – as far as equipment is concerned, private company suffer from lack of computers and/or access to global information networks (Internet). Many managers are not able to use computers in their accounting, managerial and marketing activities. They also face difficulty in getting economic and market information due to unreliable statistic, underdeveloped stock exchange, limited access to registers and lack of information on Local and Central Government initiatives
- Unfair competition – still there is no strict control on the violation of the Law on Competition
- Crimes rate and racket (selling protection) – relatively high crime rate is a problem for business and personal security. Corruption, crime and racket require additional expenditures, which reflects the investment capital. Some companies prefer to work in “shadow” or not to expand their business in order to avoid the legal taxes. Over the last year, due to the Government efforts in the fight against crime, this problem is limited.

2. Financial barriers:

- SME access to credits is difficult due to the unwillingness and lack of experience in the banking system for such customer type servicing. Non-bank institutions and schemes for alternative financing are not developed either. Despite the achievements in trade company and business transactions regulation, still there are problems preventing the application of all existing instruments for small business crediting
- Companies do not have adequate access to information on credit lines and other financial support provided by international financial institutions and intermediaries
- There is no experience in using consultancies for getting access to financial resources or applying for credits
- Few companies have used credits (or stated that have used)
- Companies that have received loan have used it mainly for purchasing of equipment, vehicles or short-term assets and not for expanding the business
- Majority of businessmen do not like to use loans for expanding the export activities, investment and starting new operations because of high interest rates on credits
- Inter-business loans and family/friends financial resources remain the main source for short-term (working) capital.

The lack of working capital and operational finance is the most important problem in the hierarchy of business problems faced by the SMEs, because various researches show that the entrepreneurs in Eastern Europe would like to create strong, long-lasting, often family companies. Unlike the problems related to markets, product design, technical capabilities etc., financial crisis threatens with a total loose of control, hampering the SMEs in the long run. The new businessmen rely on their own internal resources, which compensates the lack of external support. However, this does not apply to the short-term capital where the impact of the external environment is very strong. To manage this problem the Bulgarian entrepreneur might need a support from different alternative sources such as bank credits, financing with risk capital or other external resources coming from different international funds, Phare programme and EU bank institutions (Mateev, 1999a).

4. THE NEED FOR INTERNATIONALISATION OF ENTREPRENEURSHIP EDUCATION AND TRAINING

For countries that are at or approaching an advanced stage of transition to market economy, one of the biggest challenges facing the SMEs is the effect of an increasing internationalisation, which will be taken a step further when countries such as Poland, the Czech Republic, Estonia and Bulgaria join the European Union. In this context it is important that European SMEs must now expand and become far more efficient if they are to take on the responsibility of providing the economic and employment growth needed to increase the living standards in the overall and regional economies. Entrepreneurship and innovation are now described as the solutions to this problem – entrepreneurship as the mean by which more SMEs will be set up, innovation as the process by which SMEs will grow and become more efficient. However certain barriers to innovation have been recognized and attempts to remove them are being examined and introduced in most countries. Many of these barriers have been seen as external to the company in such areas as level of taxation, labour costs, labour regulation, welfare costs, access to technology, lack of management skills, lack of risk capital and marketing skills.

Developing an appropriate supply of training provision for entrepreneurs is important for all transition economies, if SMEs are to achieve their potential contribution to economic transformation and development. Certain functional areas of SME management (such as sales, marketing and finance) that are important requirements for firms operating in a market driven economy, were lacking under the previous system. In addition, there was clearly an enormous gap between managing the resources in a centrally planned economy and in a market environment. Whilst the provision of management training may be essentially a private sector activity, the state has a potential role to play through its influence over the educational system, particularly higher education. This could include the further development and promoting of western-style education in the new private education and training institutions. It is also important to introduce elements of business and management studies into the secondary curriculum.

During the last years we have witnessed serious changes in the educational business both on international as well as on Bulgarian markets. Taking into account the surveys conducted so far and the analyses of the changes which have taken place in a number of European countries, including Bulgaria, makes it possible for us to point out three stages in the business of education. These stages are characterised by a number of criteria, such as technological principle of education, quality of the relationship “knowledge – skills”, level of curriculum autonomy, and type/level of motivation of lecturers and entrepreneurs. In the process of establishing market-focused education of entrepreneurs, three basic technological levels of organisation and planning within the system of training could be distinguished (Ouzounova and Vassileva, 1999):

- *The passive technological level* is applicable when the demand for certain educational services is growing slowly. Its basic characteristics are: 1) small amount of investments and 2) weak or absent motivation for lecturers and entrepreneurs.
- *The active technological level* is successfully applied in segmented market of educational services with strictly allocated marketing budgets. The standardized application of “knowledge - skills” relationship is essential, since it helps in providing more accurate and active positions of the lecturer. The entrepreneur is activated by his/her higher

motivation for knowledge and skills, which he/she will be able to apply further in practice.

- *The integrative technological level* is that preferred in countries with highly developed economies. It requires application of firmly differentiated marketing approach and a high amount of investments. The lecturer is highly motivated and has a prominent role in the educational process, while the entrepreneur is professionally motivated, taking both the risk and the responsibility for his/her education.

The introduction of entrepreneurship education in Bulgarian universities was a logical development process following the social and economic changes of the yearly 1990s. Introduced for the first time in 1991 at the University of National and World Economy, Sofia and bringing new image of the education in Industrial Management, the entrepreneurship education was popularized soon and spread out to other departments and universities in Bulgaria. Even at this early stage not only university professors but also people from practice and young graduates were attracted to the process of entrepreneurship education. The process was accelerated through the financial support of Phare-Tempus project (S_JEP 08017-95) aimed at establishing four Entrepreneurship Development Centres at different Bulgarian universities and preparing trainers and educators in entrepreneurship. Based on this initial experience it became clear that a wide range of skills and knowledge were lacking and that there was an urgent need for training SME managers. We may break down the analysis of skills needed into the following groups:

- *Personal skills* - languages, report writing, presentation, time management;
- *Interpersonal skills* - customer care, team leadership, negotiating;
- *Professional skills* - computing, project management, use of the world-wide web;
- *Export skills* - export plans, international trade regulations, banking and insurance.

Having identified the training needs for the different sectors the educators/trainers are then in a position to develop courses to meet these needs and to identify other institutions such as universities and colleges that can assist in this process. Training of the following types could be provided:

- *Seminars and short courses*

It is expected that such training will run a number of seminars in different regions of the country. These seminars will be on policy matters and exporting methods. The seminars could be used both to initiate an interest in exporting to international markets and to inform trainees. Depending on the need analysis conducted short courses on obtaining appropriate skills related to exporting will also be run.

- *Web based courses*

It is expected that web based training will be set up to attract SME managers through a number of courses related to knowledge that is needed to start exporting. This web site will be fully interactive and include exercises to be completed, graphics etc.

- *Information courses*

More and more Bulgarian small and medium sized companies are using E-mail and have access to Internet. Searching on the web is a skill that all businessmen need to acquire and more and more businesses is going to be done using this medium. In the mean time access to the web is available for those companies that do not have it in house through the Regional Development Centres which are found throughout Bulgaria.

- *Foreign language courses*

Undoubtedly, it would be very helpful if the new management skills could be based on improved language abilities of SME managers and owners. It is widely recognised that foreign language

training becomes more and more important element of the overall business culture, especially for those managers who are looking to sell at international or EU markets.

Therefore, new innovative training methods and approaches should be designed not only to provide knowledge and skills but to allow development of professionals (entrepreneurs) with innovative attitude, capable of acting in a way that they would create new directions, new ideas, become builders of a new society, real actors and not part of the “audience of life”. In other words, that they would become “agents of change”.

The role of higher education (HE) institutions as main providers of entrepreneurship education and training is very important. A study undertaken by the European Commission in the early 1990s (Becher 1992, p.48) came to the conclusion that the universities’ involvement in continuing professional education of their graduates is “promising but patchy”. HE institutions are mostly involved in continuing education of graduates from economic and business fields, as well as engineering, at a lesser extent in continuing education of the traditional professionals, and marginally in occupational areas hardly professionalized. One might say that they fill a gap where a strong professional need for continuing education and training is felt but the professionals (especially entrepreneurs) are not sufficiently independent to serve for themselves. The process of internationalisation of entrepreneurship education and training in transition countries is supported by various international programmes and projects sponsored mainly by the European Commission. The projects in the field of education and training of entrepreneurs/managers in Bulgaria can be classified in three basic groups - such financed by Phare programme, bilateral projects in the field of Vocational Education and Training and multilateral projects (Mateev, 1999b). The experience so far, from these projects draws our attention to the following key aspects of the training:

- *Initiatives* – various initiatives and close contacts between the training organisations and the major figures and educational institutions in the field of entrepreneurship education and training are necessary;
- *Institutional support* – the support on behalf of the Ministry of Education is of major significance, but practice shows that engagement of municipalities, as well as collaboration with small and medium sized enterprises could provide connections with the social partners and abilities of graduates to find work; the support provided by commerce chambers and banks is also of great importance;
- *Flexibility and adaptability* – constant innovation of curricula is obligatory in order to provide timely adaptation of the education and training of entrepreneurs to the changes of labour markets; it is also important to build up a feedback mechanism that will provide information from trainees, employees and employers for the needs of management knowledge and skills in this field;
- *Key competencies* - formation of teamwork skills, learning of foreign languages and information technologies, decision making, problem solving etc. are of basic importance for professional realisation of the trainees; more modules for basic management training and entrepreneurship are to be included in the secondary education.

One might expect that attempting to match the real needs of SME’ clients in their segmented business sectors new strategies for small business development will emerge, providing value-added, market-driven support services. These services should be complementary, interactive and business-like. The end-users have to be in charge of the needs assessment and projects design with the participation of government, donors, consultants (the reverse of the current process).

Objective-targeted education and training should supply the firms with strong competitive advantages through giving an overall account of the specific conditions of a particular firm and the business context it performs in (e.g. type of business and industry sector, life-cycle phases, competitors, regional, national and international conditions). Training and counseling of entrepreneurs will play more and more vital role integrating the key elements of business support.

CONCLUSION

The globalization of international business and the rapid technological changes in the contemporary economy requires a well-developed sector of small and medium sized business, internationalization and globalization of the education and training of entrepreneurs. The benefits from such stable and fast growing private sector will be creation of new work places, activation of the export and an increased access to international markets, and acceleration of the economic reform in the country. At the same time the creation of necessary conditions for development of SME sector in each transition country depends mainly on the economic and political environment, legal framework and the free initiatives of the entrepreneurs in the country concerned.

Educational and training institutions are also a key element in developing the external support infrastructure that is necessary if SMEs are to achieve a sustainable contribution to transformation and economic development. Some evidences of the latent demand for training SME managers and owners in management and business practices have already been described in this paper, although turning this into an effective demand is depending on the price, quality and appropriateness of the training that is actually offered. One of the problems facing transition countries in this regard is the small number of people who have practical experience of SME management, which in Western countries is often a pre-requisite for SME managers and owners to take training seriously. Another thing is the need to recognize the distinctive style of managing a small or medium sized enterprise, which often requires different approaches to those that may be appropriate in larger firms.

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