

# BULGARIA

## 1. Introduction

Bulgaria faces significant challenges in terms of its small and medium-sized enterprise (SME) environment – including a weak entrepreneurial ecosystem, a shortage of qualified labour and poor SME performance in innovation and digitalisation. It made some progress in access to finance for SMEs, as well as in reducing the regulatory and administrative burden – although there is still significant room for improvement.

The COVID-19 pandemic and ensuing policy measures have had a major impact on SMEs in Bulgaria. In 2020, SME value added and SME employment declined by 6.2% and 4.4% respectively<sup>1</sup>. The downturn was most pronounced in the *accommodation and food services* sector, with value added down 42.6% and employment down 28.6%. Other badly affected sectors were the *wholesale and retail trade* and *transportation and storage* sectors, both declining by 19.0% in value added. The *information and communication* sector performed much stronger in comparison, generating 8.6% growth in SME value added and 5.9% growth in employment in 2020.

The Bulgarian economy is expected to recover in 2021, with SME value added set to grow by 7.7% and SME employment by 1.6%. Consequently, in 2021, SME value added is predicted to exceed its 2019 level by 1.0%, while SME employment is expected to remain 2.9% below its 2019 level.

SMEs form the backbone of the Bulgarian 'non-financial business economy'. In 2020, they generated 64.1% of total value added and 74.0% of total employment, far surpassing the respective EU averages of 53.0% and 65.2%. However, the average productivity of Bulgarian SMEs, measured as value added per person employed, was approximately EUR 13 800, significantly lower than the EU average of EUR 40 000. Bulgarian SMEs employed an average of 4.4 people, slightly exceeding the EU average of 3.7.

Figure 1: Number of enterprises, persons employed and value added in 2020

	Number of enterprises			Number of persons employed			Value added		
	Bulgaria		EU-27	Bulgaria		EU-27	Bulgaria		EU-27
	Number	Share	Share	Number	Share	Share	€ billion	Share	Share
<b>Micro</b>	305 019	92.0%	93.3%	581 664	29.9%	29.6%	6.7	21.5%	18.7%
<b>Small</b>	21 968	6.6%	5.7%	444 431	22.8%	19.7%	.6,1	19.7%	17.0%
<b>Medium-sized</b>	4 077	1.2%	0.9%	416 132	21.4%	15.8%	7.1	22.8%	17.3%
<b>SMEs</b>	<b>331 064</b>	<b>99.8%</b>	<b>99.8%</b>	<b>1 442 227</b>	<b>74.0 %</b>	<b>65.2 %</b>	<b>19.9</b>	<b>64.1%</b>	<b>53.0%</b>
<b>Large</b>	640	0.2%	0.2%	506 088	26.0%	34.8%	11.1	35.9%	47.0%
<b>Total</b>	<b>331 704</b>	<b>100.0%</b>	<b>100.0%</b>	<b>1 948 315</b>	<b>100.0%</b>	<b>100.0%</b>	<b>31.0</b>	<b>100.0%</b>	<b>100.0%</b>

Source: These are estimates for 2020 produced by DIW Econ, based on 2008-2018 figures from the Structural Business Statistics Database as well as provisional data for 2019-2020 from the National Accounts Database and the Short-Term Business Statistics Database (Eurostat). The data cover the 'non-financial business economy', which includes industry, construction, trade, and services (NACE Rev. 2 sections B to J, L, M and N), but not enterprises in agriculture, forestry and fisheries and the largely non-market service sectors such as education and health. The following size-class definitions are applied: micro firms (0-9 persons employed), small firms (10-49 persons employed), medium-sized firms (50-249 persons employed), and large firms (250+ persons employed).

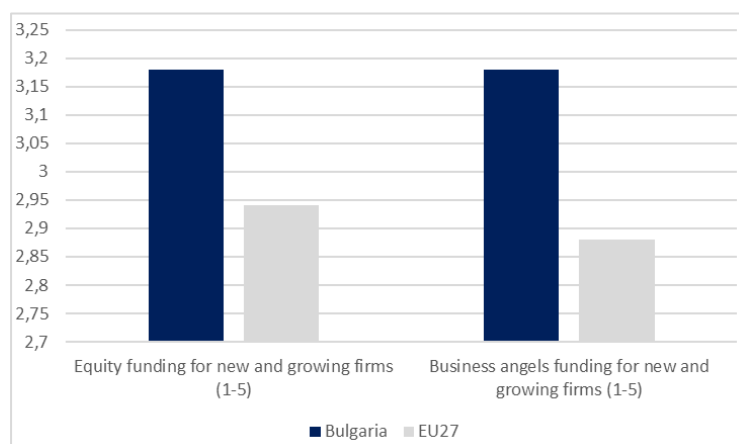
## 2. Key strengths

### Bulgarian SMEs and start-ups enjoy good access to alternative sources of finance

Equity funding is fairly well developed in Bulgaria. Several active venture capital and private equity funds currently support start-ups and provide growth capital to established businesses<sup>2</sup>.

The availability of equity funding and business angel funding for new and growing firms scores above the EU average<sup>3</sup>. However, venture capital investments represent just 0.015% of GDP – less than half the EU average<sup>4</sup>.

Figure 2: Equity funding and business angel funding for new and growing firms (Likert scale 1-5)



Source: National Expert Survey of the Global Entrepreneurship Monitor, 2019<sup>5</sup>

Bulgarian SMEs also generally have access to traditional banking finance. Only 7% of SME loan applications are rejected, which is below the EU average<sup>6</sup> – although average interest rates for small loans are higher than the EU average<sup>7</sup>. Access to public financial support is also above the EU average<sup>8</sup>. Companies traditionally have a problem using the opportunities for financing from EU funds and for implementing the instruments for innovation.

### **Regulatory and administrative burden has decreased in recent years – although still relatively high**

Bulgarian SMEs and newly created businesses now face fewer administrative and regulatory barriers, with these falling in 2015-2020<sup>9</sup>. SMEs continue to experience difficulties due to underdeveloped e-government, especially at regional and local level, the lack of information on newly adopted legislation and its implications for SMEs, as well as difficult communication with various administrative bodies.

Indeed, the percentage of businesses that think fast-changing legislation gets in the way of developing their business has steadily declined since 2015, when that share represented 69% – and is now 61%. The same applies to the administrative burden – 64% of businesses now think it is a barrier, significantly less than the 78% that expressed that opinion in 2015<sup>10</sup>. Both indicators are now below the EU average. However, improvement is still needed in order to be more responsive to the needs of SME public administration. Communication and the simplification of rules and procedures are among the problems that need addressing.

Some indicators have seen moderate progress in recent years – such as the cost to start a business, which has steadily decreased in the last decade and now stands at 1% of income per capita, below the EU average<sup>11</sup>. The number of hours a year needed to pay taxes has also decreased since 2010 – although it remains the highest in the EU at 441<sup>12</sup>.

Despite some progress, there is still significant room for improvement. According to a survey from the Bulgarian Small and Medium Enterprises Promotion Agency, around 40% of SMEs still find the business environment highly unfavourable, and around one third of entrepreneurs believe that administrative services are inefficient and hinder their work – with the tax administration perceived as being the worst<sup>13</sup>.

Services under licensing and permit regimes are also an issue – 37% of companies consider them a significant administrative obstacle to developing their business<sup>14</sup>.

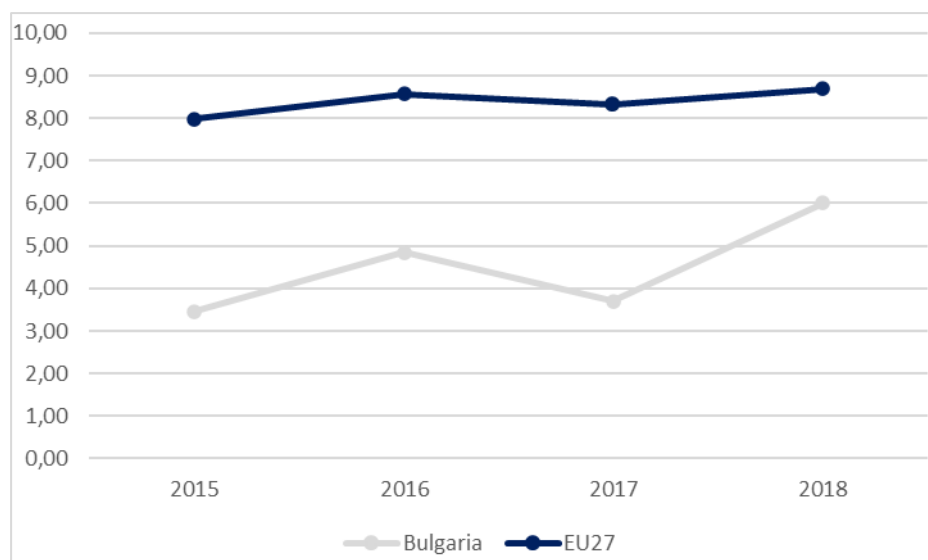
## **3. Key challenges**

### **Bulgaria remains one of the worst performers in entrepreneurship**

Entrepreneurial intentions are the lowest in the EU – only 5.03% of Bulgarian citizens plan to start a business in the next 3 years<sup>15</sup>. Survival rates leave room for improvement, as 1 in 5 new businesses are highly likely to close down during the first year<sup>16</sup>.

Bulgaria has experienced an improvement in early-stage entrepreneurial activity since 2015, although it remains significantly below the EU average. In addition, only 27% of entrepreneurs are driven by the possibility to increase their independence or income, as opposed to a lack of other options to work – the lowest rate in the EU.

Figure 3: Total early-stage entrepreneurial activity



Source: Global Entrepreneurship Report, 2018<sup>17</sup>

In recent years, there have been sporadic policy efforts to tackle these issues – in particular a support programme that provides entrepreneurship training, entrepreneurship voucher schemes and a digital guide to support help SMEs navigate the regulatory framework. Reducing regulatory barriers and business red tape, as well as modernising competition policy, would all help stimulate small business dynamism in an economy. A more rapid insolvency framework would also reduce cases of non-viable firms holding back resources and banking credit.

The shortage of highly qualified labour, a consequence of the demographic crisis affecting the country, remains one of the biggest challenges for SMEs.

Entrepreneurs point to a lack of qualified employees as the most important obstacle to developing their business<sup>18</sup>.

While this is related to the high rates of migration, the lack of value attached to soft skills and scarce in-company upskilling could also be at the root of this issue. Around half of SMEs report that they only find training valuable if it is related to core company activities – and not training in soft skills<sup>19</sup>. Only 9.3% of SMEs give their staff ICT training – one of the lowest rates in the EU<sup>20</sup>.

There have been additional policy efforts in this area. Legislative<sup>21</sup> and support measures<sup>22</sup> have been introduced to boost dual training and further involve employers. In 2019, the government launched the Education for Tomorrow Programme (*Образование за утрешния ден*) to promote the acquisition of digital skills through a reference model for integration of technologies in education<sup>23</sup>.

### **Bulgaria performs below the EU average in innovation and digitalisation**

According to the European Innovation Scoreboard 2020, Bulgaria is considered a 'modest innovator', as the country performs below 50% of the EU innovation average<sup>24</sup>. This performance extends to SMEs, which have one of the lowest rates of in-house innovation in the EU at 13.8 %<sup>25</sup>.

According to the Digital Economy and Society Index 2020<sup>26</sup>, Bulgaria also has the weakest performance in digitalisation among EU Member States.

Several measures aimed at addressing these issues were launched during 2019-2020, including an ICT technology voucher scheme for SMEs (*Ваучерна схема*)<sup>27</sup>, an initiative to develop innovation clusters (*Развитие на иновационни клъстери*)<sup>28</sup> and the provision of funding for R&D SME projects through the National Innovation Fund (*Националният иновационен фонд*)<sup>29</sup>.

## 4. Other key SME-related brief insights



### IMPACT OF COVID-19 CRISIS ON SMES

In response to the COVID-19 crisis, the government launched several measures to help SMEs in 2020. These included liquidity support worth EUR 500 million in guarantees to maintain SMEs' access to finance, as well as the postponement of several administrative deadlines (i.e. submission of annual tax declarations and annual financial statements)<sup>30</sup>. Further reforms to modernise the economy, improve the business environment and boost skills in the workforce would help strengthen the country's recovery.



### SCALE-UP ENVIRONMENT

Despite the country's weak performance in entrepreneurship, some scale-ups have succeeded. According to the latest figures available, there were 275 scale-up enterprises in Bulgaria in 2018, with an average turnover of BGN 8 million<sup>31</sup>. The main sectors for Bulgarian scale-ups include ICT, construction, transport and real estate<sup>32</sup>.



### GREEN TRANSITION OF SMES

Bulgaria is among the worst performers in the EU in terms of environment and sustainability. Only 65% of Bulgarian SMEs have taken resource efficiency measures, against an EU average of 89%. In addition, only 15% of Bulgarian SMEs offer green products or services – significantly below the EU average of 25%<sup>33</sup>. Despite this poor performance, 42% of Bulgarian SMEs benefit from public support measures to take resource efficiency action, above the EU average of 38%<sup>34</sup>.



### DIGITALISATION OF SMES

The country lags behind the EU average in digitalisation, with only 50% of small companies having a website and only 7.2% of SMEs selling online, against the EU averages of 76%<sup>35</sup> and 17%<sup>36</sup> respectively. In addition, only 8% of small companies have bought cloud computing services and only 10% use their own websites or apps to sell online – below the EU averages of 23 %<sup>37</sup> and 16 %<sup>38</sup> respectively.



### ACCESS TO FINANCE

Despite the fact that SMEs enjoy relatively good access to finance, company size is a difficult factor to overcome. Less than 20% of microenterprises have accessed bank loans, relying instead on self-financing (61.3%) and loans from family and friends (24.7%)<sup>39</sup>. This barrier is also observed with EU funding opportunities. Only 8.2% of microenterprises have benefited from EU funding – against 26.4% for medium-sized enterprises<sup>40</sup>.

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- <sup>1</sup> The data for 2020 are estimates produced by DIW Econ, based on 2008-2018 figures from the Structural Business Statistics Database as well as provisional data for 2019-2020 from the National Accounts Database and the Short-Term Business Statistics Database (Eurostat).
- <sup>2</sup> PwC Bulgaria (2020), *Technical report including in-depth analysis of the SMEs in Bulgaria and preliminary recommendations for the directions of action of the new strategy. Project 'National Strategy for Small and Medium-Sized Enterprises 2021-2027 in Bulgaria'*.
- <sup>3</sup> Global Entrepreneurship Monitor (2019), *National Expert Survey*. Available at: <http://www.gemconsortium.org/data/sets>
- <sup>4</sup> Eurostat (2018), *European Private Equity and Venture Capital Association*. Available at: <http://www.investeurope.eu>
- <sup>5</sup> See Note 3.
- <sup>6</sup> European Central Bank (2019), *Survey on the Access to Finance of Enterprises (SAFE)*. Available at: [http://ec.europa.eu/growth/access-to-finance/data-surveys/index\\_en.htm](http://ec.europa.eu/growth/access-to-finance/data-surveys/index_en.htm)
- <sup>7</sup> European Central Bank (2019), *Interest rates*. Available at: <http://sdw.ecb.europa.eu/browse.do?node=9484266>
- <sup>8</sup> See Note 6.
- <sup>9</sup> See Note 2.
- <sup>10</sup> European Commission (2019), *Flash Eurobarometer, Businesses' attitudes towards corruption in the EU. Survey number 482*. Available at: <https://data.europa.eu/euodp/data/dataset/>
- <sup>11</sup> World Bank (2020), *Doing Business Ranking*. Available at: <http://www.doingbusiness.org/>
- <sup>12</sup> Ibid.
- <sup>13</sup> Bulgarian Small and Medium Enterprises Promotion Agency (2020), *National representative survey among SMEs*. Available at: [https://www.sme.government.bg/uploads/2020/07/Kantar\\_National\\_Survey\\_SME\\_April-2020-BG-1.pdf](https://www.sme.government.bg/uploads/2020/07/Kantar_National_Survey_SME_April-2020-BG-1.pdf)
- <sup>14</sup> Ibid.
- <sup>15</sup> Global Entrepreneurship Monitor (2019), *Global Entrepreneurship Report*. Available at: <http://www.gemconsortium.org/data/key-aps>
- <sup>16</sup> See Note 2.
- <sup>17</sup> Ibid.
- <sup>18</sup> See Note 13.
- <sup>19</sup> See Note 2.
- <sup>20</sup> Eurostat (2019), *Community survey on ICT usage and eCommerce in enterprises*. Available at: [http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=isoc\\_ske\\_itn2&lang=en](http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=isoc_ske_itn2&lang=en)
- <sup>21</sup> Republic of Bulgaria, Ministry of Economy (2019), *Проект на Наредба на министъра на икономиката за условията и реда за създаване и поддържане на информационна база данни на работодателите, които отговарят на изискванията за участие в партньорства за осъществяване на обучение чрез работа*. Available at: <https://www.mi.government.bg/bg/news/proekt-na-naredba-na-ministara-na-ikonmikata-za-usloviyata-i-reda-za-sazdavane-i-poddarjane-na-infor-3788.html>
- <sup>22</sup> Infoteka.bg (2020), *Стартира прием по процедура BG16RFOP002-2.083 -Ваучерна схема*. Available at: <https://infoteka.bg/startira-priem-po-porcedura-bg16rfop002-2-83-vaucherna-shema/>
- <sup>23</sup> Ministry of Education and Science (2019), *The implementation of the project of the Ministry of Education and Science BG05M2OP001-2.012-0001 "Education for tomorrow" has started*. Available at: <https://www.mon.bg/bg/100725>
- <sup>24</sup> European Commission (2020), *European Innovation Scoreboard 2020*. Available at: [https://ec.europa.eu/commission/presscorner/detail/en/QANDA\\_20\\_1150](https://ec.europa.eu/commission/presscorner/detail/en/QANDA_20_1150)
- <sup>25</sup> Eurostat (2016), *Community innovation survey*. Available at: [http://ec.europa.eu/growth/industry/innovation/facts-figures/scoreboards\\_en](http://ec.europa.eu/growth/industry/innovation/facts-figures/scoreboards_en)
- <sup>26</sup> European Commission (2020), *The Digital Economy and Society Index (DESI)*. Available at: <https://ec.europa.eu/digital-single-market/en/digital-economy-and-society-index-desi>
- <sup>27</sup> Infoteka.bg (2020), *Стартира прием по процедура BG16RFOP002-2.083 - Ваучерна схема*. Available at: <https://infoteka.bg/startira-priem-po-porcedura-bg16rfop002-2-83-vaucherna-shema/>
- <sup>28</sup> ОПИК БГ (2019), *УО на ОПИК обявява процедура за подбор на проекти BG16RFOP002-1.016 Развитие на иновационни клъстери*. Available at: <https://opik.bg/news/u-na-opik-obyavyava-protsedura-za-podbor-na-proekti-bg16rfop002-1016-razvitie-na-inovatsionni-klsteri>
- <sup>29</sup> Republic of Bulgaria, Ministry of Economy (2019), *23 проекта ще получат финансиране по 10 – та конкурсна сесия на Националния иновационен фонд*. Available at: <https://www.mi.government.bg/bg/news/23-proekta-shte-poluchat-finansirane-po-10-ta-konkursna-sesiya-na-nacionalniya-inovacionen-fond-3844.html>
- <sup>30</sup> COVID-19 Unified Information Portal (2020), *Economic Measures*. Available at: <https://coronavirus.bg/bg/merki/ikonmicheski>
- <sup>31</sup> See Note 2.
- <sup>32</sup> Ibid.
- <sup>33</sup> European Commission (2017), *Eurobarometer survey of SMEs and the environment*. Available at: [http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/index\\_en.htm](http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/index_en.htm)
- <sup>34</sup> Ibid.
- <sup>35</sup> See Note 20.
- <sup>36</sup> Ibid.
- <sup>37</sup> Eurostat (2019), *Cloud computing services*. Available at: [http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=isoc\\_cicce\\_use](http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=isoc_cicce_use)
- <sup>38</sup> Eurostat (2019), *E-commerce sales*. Available at: [https://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=isoc\\_ec\\_eseln2&lang=en](https://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=isoc_ec_eseln2&lang=en)
- <sup>39</sup> See Note 2.

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<sup>40</sup> Ibid.