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1. Introduction

The CBCED project is investigating the challenges and prospects for cross border co-operation (CBC) for entrepreneurs in border areas affected by EU enlargement. The project seeks to identify sources of threat and opportunity for entrepreneurship in a broadly based selection of different types of border region, together with the types of policy response required at the EU, national and regional levels to influence these. Following a review of the existing evidence base and of relevant theoretical literature, the methodology employed involves a combination of secondary data and primary, empirical investigation in the case study border regions listed below.

The document represents Deliverable 11 of the CBCED project. It contains the regional summary report for the Kyustendil case study region, which is one of 12 regions included in the CBCED project for detailed empirical investigation. These case study regions are:

Imatra and Tornio in Finland
Gorlitz and Hochfranken in Germany
Biala Podlaska and Zgorzelec in Poland
Florina and Serres in Greece
Kyustendil and Petrich in Bulgaria
Ida-Viru and the South East region in Estonia

The purpose of the regional summary reports is to present a summary of the main results from each of the case study regions, in which empirical investigation has been undertaken. The regional summary reports are intended to complement the papers (Deliverables 12-16) related to each of the substantive work packages.

The content of each regional summary report follows a broadly harmonised framework. Following this introduction, subsequent sections are:

Section 2, which provides a profile of the case study region in terms of economic development; entrepreneurship; social, cultural and historical perspectives; the

policy environment for entrepreneurship development and cross border co-operation; and an assessment of the future potential for CBC.

Section 3, which summarises cross border co-operation involving institutions, paying attention to enabling and constraining influences; examples of positive and negative experience of institutional CBC in the region; evidence of cross-border clusters, if any; an assessment of any enlargement related effects on institutional cross-border co-operation; and policies for institutional and enterprise based CBC. This section is based mainly on the findings of interviews with key informants and business support organisations in the region.

Section 4 is concerned with cross-border co-operation, involving enterprises. Specific topics covered include: the types of CBC that enterprises are currently involved in; characteristics of enterprises involved in CBC, including foreign partners; evidence of change in CBC over time; the costs and benefits of CBC to enterprises; positive and negative lessons from CBC; the role of trust in enterprise-based CBC; enlargement-related effects (if any); use of external assistance and participation in public policy programmes; and policy issues identified. This section is based on interviews with entrepreneurs and/or senior managers of enterprises

Section 5 is concerned with informal and household-based cross border co-operation. Specific topics covered include the characteristics and types of informal and household-based CBC identified; the background and characteristics of participants in this type of activity; enabling and constraining forces; evidence of change over time, including current trends and future prospects; the role of trust; any enlargement-related effects; and policy issues.

Section 6 contains a summary of the main conclusions. Following an overall Assessment of CBC in the region, the section summarises findings in the region in relation to each of the main substantive topics featured in the project. These are enlargement-related issues; clustering-related issues; identity and

perception-related issues; trust-related issues; and policy issues. The section ends with a summary assessment of future prospects for CBC in the region.

2. Profile of the Cross Border Region

2.1 Economic Development: Characteristics and Key Issues

The Province of Kyustendil is situated in the South-Western part of Bulgaria, extends over an area of 3084.30 km² (constituting 2,7% of the total territory of the Republic of Bulgaria), and has a population of 173 889. It borders the Regions of Sofia, Pernik and Blagoevgrad, while to the west its limits coincide with the state borders between Bulgaria and the Republic of Macedonia, and Bulgaria and the Republic of Serbia. The administrative, commercial and cultural centre of the Province is Kyustendil. From a geo-strategic point of view, it is important to note that the Province falls into the cross-border cooperation area with both the Republic of Macedonia and Greece.



The Province of Kyustendil is comprised of nine municipalities: Kyustendil, Dupnitsa, Bobov dol, Sapareva banya, Rila, Kocherinovo, Nevestino, Boboshevo, Treklyano with a total of 182 settlements. The regional administrative centre is the town of

Kyustendil situated in its South-western part: the Kyustendil lower land. The town also serves as the administrative centre of the municipality of Kyustendil (with an area of 923 km², this Municipality represents 30,2% of the total territory of the Province). The territory of the Province is crossed by International Transport Corridors (ITC) No.4 and No.8. The development of ITC No.4 and the construction of the Danube Bridge at Vidin (an element of the National Plan for Development) increase further the opportunities for cross-border cooperation based on optimized communication networks.

Kyustendil Municipality is located in the South-Western Planning Region of Bulgaria. The municipal administrative centre is at the foot of the Hissarlaka Hill - the northernmost part of the Ossogovo Mountain along the two banks of Banshtitsa River. The city is in an area suitable for cross-border cooperation. The municipality has a common border with the Republic of Macedonia and the Republic of Serbia. The distance to Macedonia is 22 km and to the border with Serbia it is 30 km. Kyustendil is traversed by Road No. 6 - Gueshevo Border Control Point (with the Republic of Macedonia) - Kyustendil-Radomir-Sofia-Karlovo-Sliven-Bourgas, which is the main road artery and connects the capital city of Sofia to Skopje (the Republic of Macedonia) through Koumanovo. Road No. 62 connects the town of Kyustendil with the towns of Doupnitsa and Samokov. The connection of the town with Oltomantsi border control point (with the Republic of Serbia and Montenegro) is made through road No. 601. The trans-European corridor No. 8 (Vlyora-Tirana-Skopje-Sofia-Bourgas-Asia) also passes through the territory of Kyustendil Municipality. The exploration and feasibility of a track for a future high-speed highway and a railroad corridor are also being conducted.

The town of Kyustendil is the administrative, business and cultural center of the municipality. The town of Kyustendil is spa and cultural centre of national and international importance, archeological and cultural reserve and starting point for tourism and skiing in Osogovo mountain.

Economic Development

GDP per capita

The level of economic development measured by the GDP per capita of the Province of Kyustendil in BGN (Bulgarian new lev) in 2003 decreased in comparison to 2001 with 32.23% while the GDP level of the South-West region increased with 18.59 %. The main reason for the decrease of the GDP per capita of the province has been the condition (failures and downsizing) of the larger enterprises in the municipalities and the migration of population to the bigger cities of the country (for 2003 the GDP per capita for the municipality is 2997 lv., for the province – 2940 lv., for the South West Region – 6214 lv., and for Sofia (capital city) is 8389 lv).

Gross value added

The structure of the gross value added (GVA) at provincial level for the period 2001 – 2003 shows increase of the share of service sector's contribution to GVA, strong decrease of the share of agrarian sector and moderate decrease in the industrial sector's contribution.

Table 1: Trends of stable decrease/ increase of GVA per sector

<i>Highest indicators for GVA</i>	<i>Lowest indicators for GVA</i>	<i>Trend to stable increase of GVA</i>	<i>Trend of stable decrease of GVA</i>
Business services	<i>Construction sector</i>	<i>Agriculture and forestry</i>	Trade and repairing services
Transport and communication	<i>Financial sector</i>	<i>Extraction industry</i>	Hotels and restaurants
Manufacturing industry		<i>Manufacturing industry</i>	Transport and communication
Trade and repairing services		<i>Construction</i>	Finance and crediting

Energy	Business services and real estate service
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Unemployment rate

Rate of employment by sectors is respectively 22% (services), 50% (industry) and 28% (agriculture). The private sector provides employment to 65% of all employees compared to 62% nationally. Both industry and services are dominated by SMEs – 90.1% and 99.8% respectively. FDIs until 2001 are only 1.6% of the total for Bulgaria.¹

Economic Development by Sector

The agrarian and industrial sectors together have twice smaller contribution in the created GVA than this of the service sector. At South-West Region level the industrial sector recorded growth of 51% in 2003 to 2001. At province level there is a opposite trend – the industry had 7% share in GVA in 2001 and 5% share in 2003.

Table 2. Higher and lowest GVA values

No	Leading Sectors in Kyustendil Province	/shares are based on 2002 data/
1.	Textile and clothing	13,3%
2.	Extraction and construction materials	11,9%
3.	Food and flavor industry	3,8%
4.	Production of electric, optical and other equipment	3,6%
5.	Metallurgy and metal processing	3,0%
6.	Leather processing	2,9%

¹ Neighbourhood Programme 'The Republic of Bulgaria – The Former Yugoslav Republic of Macedonia' – Joint Programming Document 2004 – 2006, Sofia. 2004.

Industry Sector

The transition from a central planned to a market economy and the loss of the traditional market affected negatively the industry in the Kyustendil municipality. Today, the industrial structure in the municipality is made up by companies operating in the following branches:

- Professional kitchen equipment
- Textile industry
- Clothing industry
- Shoes production
- Transformers
- Capacitors
- Food and flavor industry
- Toys industry
- Spirits

Service sector

The most dynamic sector for the Province of Kyustendil as well as for the South-West Region during the last years is the services sector. This trend is a result of the dynamic development of mobile communications, internet providers, financial services, etc. The service sector is concentrated in the town of Kyustendil which creates imbalances in the distribution of the value added between the town and the rural areas. In the economic structure of Blagoevgrad and Kyustendil provinces the services branch contributes half of the regional value added, i.e. 48% of the total GVA (at current prices), while for the industry sector it is 37% and for the agrarian sector – 15%.

Agriculture and Forestry

The contribution of agrarian sector in GVA of the Province of Kyustendil is 16% for 2001. This high share is not indication of a well developed agricultural sector but of a shrinking industrial sector. The transition period affected most unfavorably the fruit-growing. Agrarian sector is characterized by low efficiency of employed labor, dismembered property, decreased irrigated land, old-fashioned equipment,

insufficient investments and new technologies, insufficient integration with food processing industry. The agricultural land in the municipality of Kyustendil is 50.6 % of the municipal territory and only 60.07 % of the agricultural land is cultivated.

In general terms, the Kyustendil Municipality falls within the transitional-continental climate zone, experiencing a certain Mediterranean influence mainly along the Strouma River. These climate characteristics have determined the development of fruit-growing in the region. The soil and climate peculiarities in the Kyustendil Fields determine the exquisite taste of the fruits, which are distinguished by their highest dry contents and fruit flavour compared to the type of fruit produced in Europe. The Institute for Fruit-culture exists for more than 70 years.

In 2003, 46 enterprises from the agrarian, hunting, fishing and forest sectors were active on the territory of the municipality (32 in 2000). They counted net incomes from sales of 7,864.000 BGN, which is 909, 000 BGN higher in comparison with 2000. The share of the employed in the agrarian, forest and hunting sector for 2003 in the municipality is 2.51 % of the total employment or 452 people and 3.49 % in 2000 or 584 people. This is less than the average share for the country – 3.64 %.

The development of the whole agrarian sector in the municipality is detained also by:

- Underdeveloped land market;
- Small-scaled land property;
- Low mechanization of the agricultural labour;
- Destroyed integration between the sector and the food and flavor industry;
- Lack of cooperation with the scientific units;
- Amortized and destroyed irrigation systems.

The forestry also has its tradition in the municipality. The forests in the municipality are managed by the Kyustendil State Forest Farm and the Osogovo State Hunting Farm. The forests cover 47.3% of the whole territory of the municipality.

Transport

2 Pan-European transport corridors pass through the territory of Kysutendil CBR (Including Bulgaria, Serbia and Macedonia):

Corridor 8

Bari / Brindisi – Durres / Vlora – Tirana – Skopje – Sofia – Plovdiv – Burgas / Varna

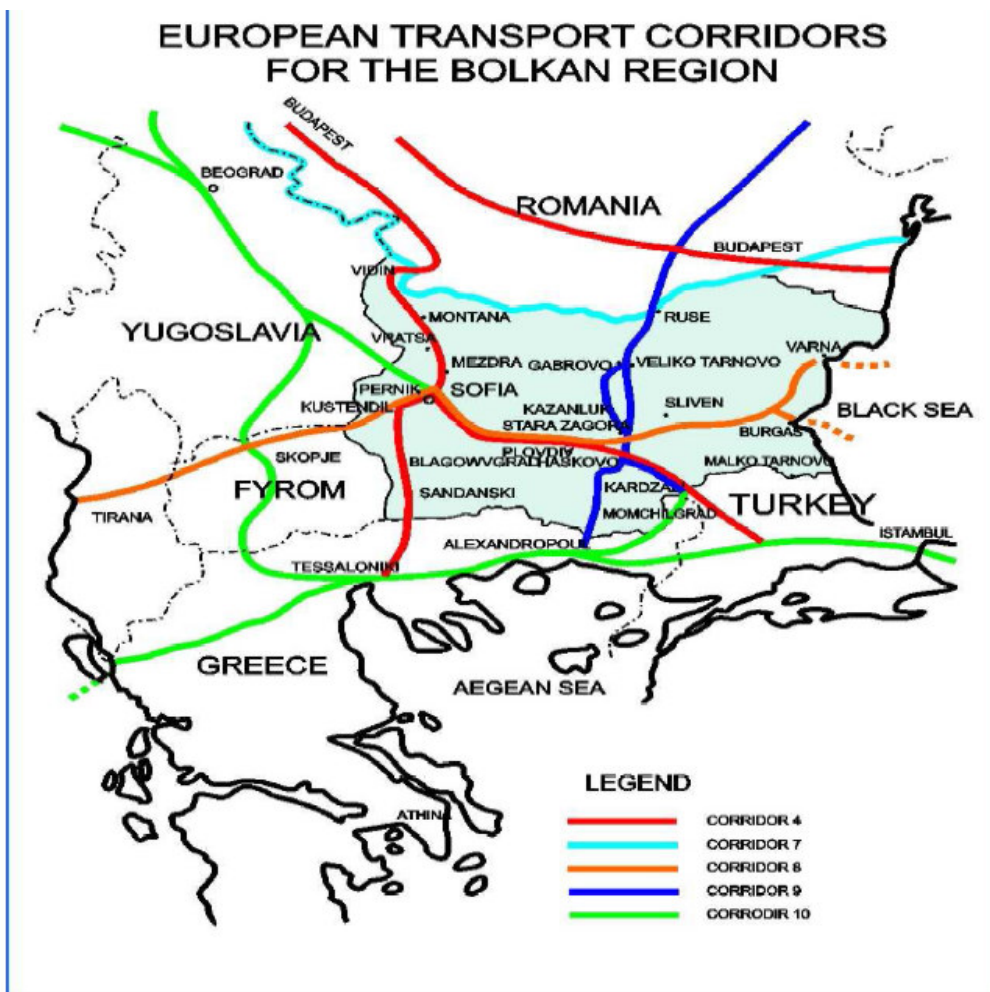
Corridor 10

Salzburg – Ljubljana – Zagreb – Belgrade – Nis – Skopje – Veles – Thessaloniki

1 Pan-European transport corridor pass only through the territory of Bulgaria near Kyustendil:

Corridor 4

Dresden / Nurnberg – Prague – Vienne / Bratislava – Budapest – Bucharest – Sofia – Thessaloniki / Plovdiv – Istanbul



Currently main economic development problems of Kyustendil CSR include:

- visa regime which hampers normal traffic between Bulgaria and Macedonia

- high levels of migration and population ageing
- lack of sufficient financial and technological capacity of many local firms.

2.2 Entrepreneurship Development

The role of small and medium-sized enterprises (SMEs) in the Bulgarian economy is increasing. They account for over 99% of total Bulgarian enterprises and generate 73% of the turnover and 58% of the value added of private enterprises. In Kyustendil municipality the micro-enterprises had biggest share in 2003 in total number of enterprises – 92.14 % (see the table below) compared to 90.8% for Bulgaria in the same period. In 2000 their share was 93.63% (2161 enterprises).

The second place by share is the enterprises employing up to 50 persons – 5.98 % (compared to 7.3% for Bulgaria) while in 2000 their share was 4.51 % (101). The share of large-scaled enterprises in 2003 is only 0.35% (compared to 0,3% for Bulgaria). SME employment is going up at a higher pace compared to the total employment growth of the economy and of large enterprises.²

The distribution of enterprises according to their size in 2003 is presented in the table below:

Table 3: Distribution of enterprises in Kyustendil CSR according to their size (compared to national data)

Region	Micro-enterprises	Small (10 – 50)	Medium-sized (51 – 100)	Medium-sized (101 – 250)	Large	Total
CSR (Kyustendil)	2110	137	18	17	8	2 290
Country (Bulgaria)	183 698	14 735	3 223	201 656	653	202 309

Sources: Plan for Development of Municipality of Kyustendil for 2007 – 2013; Bulgarian SMEs Annual Report 2003,

² Annual Report on the Condition and Development of SMEs in Bulgaria, Special Edition, Ministry of Economy and Energy, Sofia, 2006.

The local entrepreneurship is weak. The main influencing factors are diminishing local market, low purchasing power of local population.³ The training and education programs for entrepreneurs are sporadic as they depend on different initiatives providing grants for projects of limited period of activity. From 2007, a project encouraging entrepreneurship in young people will start at one of the secondary schools in Kyustendil. In Kyustendil, an active entrepreneurial culture is lacking for reasons which include:⁴

- The long period of the planned economy which neglected peripheral (border) regions, such as Kyustendil;
- The domination of political over economic considerations, which was associated with a strongly protected border leading to the isolation of these regions;
- The fear of potential conflicts during the Cold War led to a complete lack of development policies and investments in border regions. Between Sofia and Skopje (in the region of Kyustendil) a railway connection is still to be completed, because of a lack of political will. The same is true in the case of roads to the border with Serbia.
- As a consequence of the above reasons, young people migrated to the large industrial centers inland, leading to school closures in many villages. Many small facilities of large-scaled state-owned enterprises were also closed, with negative economic impacts;
- The change of economic direction and structure of the country which had strong effect in Kyustendil too.

These factors contributed to an attitude of state dependency and a preference to work in state-owned enterprises, leading to neglect of traditional occupations. The significantly reduced and ageing population is neither willing to take risks, nor is seeing opportunities for profitable business by both objective and subjective reasons. The lack of clear, purposeful regional policy helps to maintain the present situation.

³ According Ms. Tatjana Ivanova, local entrepreneur, interviewed in frames of CBCED project.

⁴ Todorov, K., K. Kolarov and D. Smallbone, *Cross Border Cooperation in the Triangle Bulgaria – Greece – Macedonia: some Preliminary Findings and Policy issues*, paper presented at the ICCEES Regional Congress held in Berlin, 2-4 August 2007.

Many local firms operating in production sector are lacking sufficient technological and financial capacity resulting in low competitiveness. Production capacities are old and there are not enough investments in new technologies. For example there is a strong interest of Greek traders in Bulgarian tasty foods, produced in Kyustendil manufactories. However the ordered quantities required by Greek customers are often too large, having in mind that average production capacity of manufactories per month is low. This results in inability of many local firms to operate in the EU market.

In summary: the long isolation, interrupted traditions (even where they exist), demographic problems, a lack of purposeful resource-backed policy has led to a condition of uncertainty, waiting for others to do the work, a lack of self-confidence, a lack of trust near and across the borders, and a lack of significant cross border cooperation and entrepreneurship.

2.3 Social, Cultural and Historical Perspectives

2.3.1. Social Perspective

The population of Municipality of Kyustendil to 31.12.2003 is 69034 inhabitants that make 44.14 % of the total population of Kyustendil Province. The territory of the municipality is relatively highly populated in comparison to the other municipalities of the province as well as to the rest of municipalities in the country. The population density is 72 people/sq.km out of 53 people/sq.km average for South-West Planning Region and 51 persons/sq.km for the province.

The data about the ethnical structure of population are on the basis of the last census held in 2001. The ethnic groups in the municipality are as follows (according NSI 2001): Bulgarian – 92,7 %; Turkish – 0,1 %; Roma – 6,9 %; other ethnics – 0,2 %.

The city of Kyustendil is the only city of the municipality and there are 71 villages. Urban population is 71% while rural 29%. The relative share of the urban population in the municipality in 2001 was 71,2 %, and the life expectancy was 71 years. The low wages in Kyustendil is the reason for the depopulation problems – active

population migrates to Spain, Portugal and Italy (more than 50% in the last few years). In summary: the overall social and economic situation in the region is deteriorating because of the lack of skilled employees due to the influence of two basic factors: (i) high level of migration of people aged between 20 – 45 years mainly to the capital city of Sofia and (ii) emigration.

2.3.2. Cultural perspective

Main characteristics of the cross-border region's art and culture are the similarity and coherence. Examples of identical forms of landmarks and traditions can be found on either side of the border, despite the isolation between the two countries in the past which led to the emergence of stereotypes that prevented a rational understanding of the "neighbours" behaviour. Currently, there are numerous forms of cooperation in media, arts and academic sphere at national and local level that contribute to mutual acceptance and understanding, facilitating promotion of further cross-border initiatives. There are several internationally recognised cultural events on both sides of the border, including theatre festivals, art festivals, the International Art Colony in Osogovo mountain (near Kriva Palanka in the fYR of Macedonia) etc.

The existing experience shows that almost all contacts in the field of fine arts, theatre, literature and musical events are a result of personal contacts and friendship, without the existence of any coordination and information centres. If developed, the exchange of information and cooperation in the areas of arts and education will expand the market of media and academic products, while at the same time the principles of reciprocity, goodwill, of objective and accurate attitudes will promote cross-border relations.

2.3.3. Historical perspective

Kyustendil is one of the most ancient Bulgarian towns. In the V-IV century BC Thracians founded a settlement, attracted by the healing mineral springs. In the first century AD, Romans made the town an important castle, trade route and popular balneological resort which they called Pautalia. In the I-II century Pautalia grew bigger and became the administrative, economic and cultural center of the

surrounding territory. Its important role continued throughout the late Antiquity as well. During the fully-fledged feudal period, the town held an important place in the economic life of the south-western Bulgarian lands and maintained trading contacts with Dubrovnik, Venice and other states.

In a 1019 charter by the Byzantine emperor Basil II the town was mentioned under the name of Velbazhd. During the reign of Kaloyan (1197 – 1207) it became part of the Bulgarian Empire. The battle of Velbazhd fought in 1330 between Bulgarians and Serbs has direct bearing on the history of Velbazhd – the town was taken by Serbs. At the end of the XIV century an independent Velbazhd principality was established in the southwestern parts of Bulgaria ruled by Constantine – son of Deyan and son-in-law of Ivan Alexander. In mid-XV century Turks started to colonize the town. A century later the city was renamed to Kyustendil in the name of the feudal ruler Constantine Dragas. Constantine's principality was the last Bulgarian fortress to fall under Turkish domination.

The hayduk⁵ movement originating in the beginning of the XVI century (the time of the Bulgarian National Revival) is manifestation of the struggle of Bulgarians against the Ottoman oppressors. Prominent representatives of the hayduk movement fighting for political liberation were Rumenski vojvoda⁶ and Ilyo vojvoda. The last led a large group of volunteers that helped the detachment of General Gurko during the Russo-Turkish War of Independence.

Kyustendil was liberated on 29 January 1878. After the Liberation, industry and commerce started to develop. The first factories and industrial enterprises in the field of ore extraction, wood-processing, yarn, oil refining, etc., were set up. The main occupations of the population of the Kyustendil area – fruit and vine-growing – greatly assisted the development of various crafts: production of copperware and ceramics, ironmongery, etc. Following the Liberation and with the development of

⁵ Also transliterated as hajduk (or haiduk, haiduc, hayduck, hayduk) is a term most commonly referring to outlaws, highwaymen or freedom fighters in the Balkans.

⁶ The leaders of Bulgaria's Hayduks (hayduti) rebels under the Ottoman Empire were called "vojvodes".

industry and trade, migratory processes commenced which had a strong influence on the development of the urban areas and their structure. Bulgarians settled here from present-day Macedonia. Factories for yarn, distilleries, butter mills, factories for making canned goods, combing wools and warehouses for tobacco etc appeared. The oldest industrial companies which were later nationalized included the Bobov Dol Mines, which commenced operations in 1891, the woodworking factory of the Balabanov Brothers in 1903 in Barakovo village, the reinforced cardboard factory and the paper factory of 1928.

In the period 1944-1980, Kyustendil region developed a predominantly industrial structure, whereas the industrial-to-agriculture output ratio was estimated at 86:14.

2.4 Policy Environment for Entrepreneurship and CBC

The policy environment for entrepreneurship and CBC could be separated into two levels – national and local.

The national policy framework consists of:

SMEs policies:

- National Strategy for Development of SMEs for the period 2007 – 2013

Regional Development Policies:

- National Strategy for Regional Development (NSRD) for the period 2005-2015
- Regional Development Plan 2007-2013

R&D Policies:

- Innovation Strategy of the Republic of Bulgaria
- National Research Strategy for the period 2005 – 2013

Education Policies:

- National Strategy for Continuing Vocational Training for the period 2005 – 2010
- Human Resources Development Strategy
- National Programme for development of school and pre-school education and training (2006 – 2015)

ICT Policies

- Strategy for Information Society Development in the Republic of Bulgaria (adopted in 1999 and amended in 2001)
- Bulgarian eGovernment Strategy (2002) and Plan for its implementation (2004)
- National Strategy and Action Plan for Introducing ICT in Bulgarian Schools (2005)
- Strategy and Action Plan for Competitiveness of Bulgaria on the Global ICT Markets (2004)

Sustainability Policies

- National Strategic Reference Framework for the period 2007 – 2013
- Strategy for Investment Promotion in the Republic of Bulgaria (2005-2010)
- Short-Term Programme for Energy Efficiency (2005 – 2007)
- National Strategy for the Environment and National Action Plan (2000-2006)

The government policy for SMEs is in line with the EU requirements in the field. This policy finds concentrated expression in the *National Strategy for Encouragement of SMEs Development, 2002 - 2006*. The main objective of the strategy is to create a favourable environment for the development of a competitive SME sector. The priorities outlined in the Strategy include:

- simplification of administrative and legislative environment for SMEs;
- financial environment improvement;
- innovations and technological development support;
- SME europeization and internationalization;
- improvement of the access to information and services;
- provision of conditions for SME development in regional aspect;
- encouragement of an entrepreneurial spirit and skills.

The analysis of Strategy's implementation shows many positive changes but also a lot of problems which still impede SME development. Notable among achievements is the harmonization of Bulgarian with the European legislation on entrepreneurship regulation and SME promotion. A Law on Amendments and Supplements to the Law

on Small and Medium-sized Enterprises was passed. It introduces new definitions of micro-, small and medium-sized enterprises in line with the corresponding terms in the European Union. Government support for the SME sector is also associated with renewal of the activity of the Bulgarian SME Promotion Agency (BSMEPA).⁷ Operation Plan “Development of the Competitiveness of the Bulgarian Economy” also provides good development opportunities for the SME sector. The Ministry of Economy and Energy has been working recently on a program for presenting OP “Competitiveness” to the business, in particular to SMEs in all Bulgarian regions.⁸

There is a bilateral Agreement for Cooperation between Bulgaria and the fYR of Macedonia. As concerns the centrally organised projects, they are entirely connected with the Joint Programming Document for the years 1999-2003, a paper adopted by the Joint Cross-border Cooperation Committee in Sandanski, Bulgaria on 13 July 1999. In the document, the main priorities are focused on complementing the development of Trans-European Networks and improving infrastructures, in particular communication facilities.

There is also free trade agreement between the Republic of Bulgaria and Serbia and Montenegro⁹. The objectives of this Agreement are:

- (a) to promote through the expansion of trade, the harmonious development of economic relations between the Contracting Parties and to strengthen their economic activity;
- (b) to provide fair conditions of competition in trade between the Contracting Parties;
- (c) to contribute by the removal of barriers to trade, to the harmonious development and expansion of the world trade;
- (d) to enhance co-operation between the Contracting Parties.

There are few, unsystematic policy measures implemented in practice at municipal level. Most of the measures in the past remain only on paper as there were no

⁷ *Annual Report on the Condition and Development of SMEs in Bulgaria*, Special Edition, Ministry of Economy and Energy, Sofia, 2006.

⁸ Ibid.

⁹ <http://www.worldtradelaw.net/fta/agreements/bulsermonfta.pdf>

working structures and support infrastructure for their implementation. Although, there were good intentions at central government level as well as the level of province and there were not obvious formal obstacles, no significant measures were implemented at local level. With the new Plan for Development of the Municipality of Kyustendil 2007 – 2013 was declared as the first priority *the improvement of the competitiveness of the local economy by modernisation and renewal of the production base, introduction of new technologies and innovations and increased access to information and knowledge*. This priority consists of several objectives, among which are the (i) the creation of conditions for the start up and development of small and medium-sized businesses; (ii) the improvement of the access to information and opportunities to attract investments; and (3) the creation of a suitable business environment.

2.5 Potential for Future CBC

The location, natural resources as well as the existing traditions in agriculture and industry in the region are among the main factors with positive influence to the potential for future CBC. In particular, the existing opportunities could be found in:

- Food and flavour industry;
- Light industries;
- Fruit-growing agriculture;
- Tourism and transport services;
- Clothing and knitting industries.

The utilisation of the local resources creates opportunities for joint businesses with FYR of Macedonia including export to third countries. There is also potential for the development of light industries' clusters although such developments could take more time and resources. The region offers good potential for initiation of bi- and multilateral projects aimed at development of local business infrastructure to serve local businesses.

3. Institutional Cross Border Co-operation

This is a mainly empirical section which is based on the findings of the interviews with key informants and business support organisations. The official statistics and other data are very scarce.

3.1 Nature and Extent of Current Institutional CBC

Several attempts of cross-border projects can be registered at local level. Among the most sustainable of them is the establishing of the first local cross-border structures between Kyustendil-Kriva Palanka, the training centre in Kriva Palanka, commonly organised cultural events, business initiatives, etc. However, those structures are limited to cooperation between development agencies, and local authorities play only a supportive role in them.¹⁰ Some of the most recent (awarded in 2006) cross border projects with Macedonia and Serbia implemented in Kyustendil municipality are:

- *Grants awarded under Call for Proposals:BG2004/016-785.01.01/Grants04SER01/02/001-04SER01/11/066 , Local Capacity Building Grant Scheme between Republic of Bulgaria and Republic of Serbia, published on April 18th 2006*

<i>Beneficiary: Name</i>	<i>Action title</i>	<i>Action duration (Months)</i>	<i>Grant amount (EUR)</i>	<i>Percentage of total eligible action costs (%)</i>
<i>Municipality of Kyustendil</i>	<i>To Make Osogovo and Kukavica an Attractive Environment for Investment</i>	<i>12</i>	<i>94 149</i>	<i>90,00</i>
<i>Centre for Youth Initiative - Kyustendil Association</i>	<i>Stimulating the Cross-Border Cooperation through Mutual Strategic Planning of Regional Development</i>	<i>12</i>	<i>74 857</i>	<i>90,00</i>

¹⁰ Joint Programme Document Greece – Bulgaria, MRDPW, Sofia, 2004.

- Grants awarded under Call for Proposals: BG2004/016-785.01.02/Grants 04SER01/11/052, Joint Small Project Funds between Republic of Bulgaria and Republic of Serbia, published on February 8th 2006

<i>Beneficiary: Name</i>	<i>Action title</i>	<i>Action duration (Months)</i>	<i>Grant amount (EUR)</i>	<i>Percentage of total eligible action costs (%)</i>
<i>No frontiers - 21 century association - Kyustendil</i>	<i>Youth, Culture and Fun: Youth Volunteer Network for Cultural and Social Initiatives</i>	<i>11</i>	<i>40 042</i>	<i>88,31</i>
<i>Secondary School of Economy – Kyustendil</i>	<i>Knowledge for life</i>	<i>12</i>	<i>46 649</i>	<i>89,35</i>
<i>Municipality of Kyustendil</i>	<i>Enhancing of cultural links and cooperation between the municipalities of Kyustendil and Leskovac - basis for cultural and social development of the cross border region</i>	<i>10</i>	<i>40 020</i>	<i>87,82</i>

- Grants awarded under Call for Proposals: BG 2004/016-786.01.01/Grants – 04MAC03/02/002: Grant Scheme for Nature Protection, Valorization of Cultural Heritage and Co-operation among Public Institutions at Regional/Local Level between Republic of Bulgaria and FYRoM, published on July 11th 2006

<i>Beneficiary: Name</i>	<i>Action title</i>	<i>Action duration (Months)</i>	<i>Grant amount (EUR)</i>	<i>Percentage of total eligible action costs (%)</i>
<i>Municipality of Kyustendil</i>	<i>“Stimulation and promotion of sustainable development of eco and cultural tourism in the cross-border region Kyustendil-Stip”</i>	<i>12</i>	<i>191 909</i>	<i>90%</i>

- *Grants awarded under Call for Proposals: BG 2004/016-786.01.02/G/CBC/JSPF – 04MAC03/02/001: Joint Small Project Funds between Republic of Bulgaria and Republic of Serbia, published on March 23rd 2006*

<i>Beneficiary: Name</i>	<i>Action title</i>	<i>Action duration (Months)</i>	<i>Grant amount (EUR)</i>	<i>Percentage of total eligible action costs (%)</i>
<i>Association "Kubrat"</i>	<i>Under the same sky</i>	<i>9</i>	<i>29 085</i>	<i>89,85%</i>
<i>Bulgarian Museum Chamber Association</i>	<i>Archaeological Heritage: Cross Border Information Exchange and Cooperation in the Fields of Culture, Theoretical and Applied Research</i>	<i>10</i>	<i>30 227</i>	<i>88,88%</i>
<i>Primary School "Daskal Dimitri"</i>	<i>Border life - a Youth Art festival</i>	<i>12</i>	<i>31 889</i>	<i>89,93%</i>
<i>Municipality of Kyustendil</i>	<i>Fashion, music and culture of Kyustendil and Shtip – from the youths point of view</i>	<i>11</i>	<i>34 833</i>	<i>89,38%</i>
<i>Regional History Museum</i>	<i>Together Along the Holy Places of the Osogovo Mountain.</i>	<i>12</i>	<i>36 537</i>	<i>82,41%</i>

The effects from the implemented projects are estimated as positive but not sufficient to extent the established relations in the future due to the lack of own resources for such CBC.

3.1.1. Government Institutions

The main institutions in the region involved in CBC are considered to be the Province Administration and the Municipality of Kyustendil. There is a lack of tradition in sharing information and collaboration between key institutions from both sides of the border. However, the Municipality of Kyustendil is implementing three new CBC projects in 2007. One of the institutions which belong to the government sector is the Yordan Zahariev Vocational High School in Economic and Management. In 2007 the school was implementing a project with Serbia under the framework of PHARE CBC Bulgaria-Serbia & Montenegro 2004. The project type is "People to people action". It

is not particularly connected with entrepreneurship but it is with business education and equalization of educational programmes in economic disciplines.

3.1.2. Non-government Institutions

One of NGOs involved in institutional CBC is the Kyustendil Chamber of Commerce and Industry (KCCI). KCCI is working in cooperation with the chambers of commerce of Skopje (Macedonia) and Leskovac (Serbia). KCCI has no experience and is not directly involved in cross-border collaboration. It just maintains contacts with organizations from Serbia and Macedonia. The other major NGO actor - the Association 'Council of Tourism' Kyustendil is not directly involved in CBC. But it prepares common projects with Macedonia and Serbia in frames of the PHARE programme.

3.2 Enabling Factors for CBC

The SWOT analysis completed for the need of the Joint Programming Document 2004 – 2006 summarises the findings about the strengths into several groups.¹¹ Here are presented the selected (confirmed by the interviewees) ones which directly affect the CBC in Kyustendil region:

1. Geographical features:

- *Favourable geographic and transport location;*
- *Strategic location in the international transport system (Trans-European Networks crossing here)*

2. Culture:

- *Language and cultural similarities*
- *Experience in cross-border cooperation*
- *Good neighbouring relations*
- *Cultural similarity and coherence*
- *Presence of structures and facilities for culture and leisure*
- *Rich historical and cultural heritage*

3. Environment and nature:

- *Favourable conditions for diversified tourism*

¹¹ Neighbourhood Programme, The Republic of Bulgaria – The Former Yugoslav Republic of Macedonia, [Joint Programming Document 2004 – 2006](#)

- *Favourable conditions for modern agriculture forms*

4. Institutional system:

- *Good bilateral relationships and existence of cooperation agreements*
- *Experience in implementation of common programmes*
- *On-going decentralisation process*
- *Favourable for cross-border cooperation legislation on local-self government*
- *Existence of regional structures for support of NGOs and Euroregions*

The common culture, language and religion are the most important factors influencing the cross-border collaboration between Bulgaria and Macedonia.

3.3 Constraining Factors for CBC

The main barriers to the institutional CBC are organisational. Low level of cooperation among the institutions – the relations are broken mainly due to subjective (personal) reasons. An obstacle to the activities of the Kyustendil Chamber of Commerce and Industry, for example, is that there is not a law which regulates its work. Bulgaria is the only country in Europe which has no such law.

Following the above mentioned SWOT analysis the identified weaknesses which were also proved by the interviews, are as follows:¹²

1. Demography:

- *Decrease of natural growth*
- *Depopulation trends*
- *Internal migration (non cross-border) from settlements to bigger centres and abroad*
- *Poor/ bad living conditions/ standard*

2. Culture:

- *Inefficient utilisation of culture and leisure facilities*
- *Lack of coordination and information centres*

3. Institutional system:

- *Different level of administration reform completeness*
- *Limited administrative and absorption capacity at local level*
- *Limited partnership in programming and implementation of regional development policy*
- *Insufficient amount of public funds and financial autonomy on local level*
- *Outdated facilities and lack of sufficient financial resources for public services*

¹² Ibid.

In conclusion, the obstacles of institutional cross-border cooperation are diverse: (i) political (heritage from previous regimes); (ii) legal (insufficient legislation); (iii) economical (low level of economic development), organizational (administrative capacity); (iv) social and cultural (some consequences from former Yugoslavian propaganda). Their influence is complex. There is not enough communication, no dialogue between the key institutions from the two sides of the border.

3.4 Examples of Positive Experiences of CBC

The limited number of joint CBC initiatives does not allow to outline some particular cases and all of the known experiences were estimated as positive. This fact could be explained by the excitement of both sides conditioned from the time of isolation which neglect some of the shortages of CBC.

3.5 Examples of Negative Experiences of CBC

No one evaluated his experience as negative although there were some criticisms by NGOs to the degree of interest and involvement of local administrations on both sides of the border.

3.6 Evidence of Cross Border Clusters (if any)

There are no identified clusters at this stage. The biggest obstacle for establishing such a structure is the low economic development of the region. The existence of cluster-like form of organization has been identified. It comprises about thirty firms from the tailoring branch in the south-west part of Bulgaria. The formation of this cluster began when a Branch organization of textile manufacturers was founded. This organization is created to defend its members' interests and it also assist with taking and delivering complex orders. The idea is for firms to have better opportunities for cooperation and help each other with the realization of their production. This process has taken about a year to complete and now the cluster involves mainly middle-sized firms. New members are also joining. There is no collaboration with a university or a research institute but this is under consideration. There is also no data on the cluster's importance to the Bulgarian GDP or exports.

3.7 Enlargement-Related Effects on Institutional CBC

The EU enlargement-related effects were estimated as two-fold. The positive effects are expected from the direction of EU funds to regions like Kyustendil. Many of the programmes funded by EU will be targeted at local government and non-government institutions. The immediate negative effect was the introduction of visa regime with Macedonia which stops the free entrance of Macedonian citizens to Bulgaria.

3.8 Policies for Institutional and Enterprise CBC

The only policies for CBC involving enterprises are coming from EU neighbourhood programme – ‘Bulgaria – FYRo Macedonia’. There are no other special policies implemented at regional or municipal levels. The effects from the first ones are quite limited and include mainly informative and training practices as organisation of meetings, seminars, trainings.

Policy measures specifically targeted at CBCs involving enterprises (i.e. direct measures), including:

- Introducing measures to raise awareness of the opportunities presented by different types of cross-border partnership among enterprises on both sides of the border.
- Taking steps to establish cross-border partnership search facilities.
- Fostering business-to-business contacts.
- Taking steps to increase the international networking capacity of and co-operation between business associations, chambers, local enterprise development agencies etc. on both sides of the border.
- Establishing cross-border partnership support programmes.

The programmes for CBC support (for example, Phare Bulgaria-Macedonia, Phare Bulgaria-Serbia & Montenegro) are the main existent programmes in the region but their potential is not fully taken advantage of. According to the Sales Manager of a local company producing windows and doors, *‘there are institutions (business support organizations) in the region, but they work independently and do not succeed to unite all business representatives to help each other and to cooperate’*.

4. Enterprise Cross-Border Co-operation

In this section we discuss issues of cross border cooperation from an enterprise perspective. This section is on the enterprise interviews conducted in Kyustendil.

4.1 Types of Current CBC Identified

The scale and the scope of cross-border partnership are estimated as not satisfactory. CBC has accidental character and is developed on the basis of informal agreements. The small number of companies that have a long-term cooperation with firms from the other side of the border is based mainly on informal and friendly relations. The CBC of local enterprises is still at its initial stage similar to the local administration institutions. There are very few examples of enterprises that cooperate on regular basis for a significant period. Most of the enterprises maintain more intensive relations with enterprises in more distant areas in the country than in the neighbouring country.

By type the identified CBC in most cases are limited to export and import activities and rarely in engagement of complex relation with the neighbouring country's partners like sharing resources and other forms of cooperation. The reasons for the limited number of types of cooperation are the still unsolved legislative issues protecting the rights of the foreign enterprises and the symbolic institutional cooperation between the concerned countries. The consequence is the adoption of risk-avoiding practices in business CBC as evidenced by the low degree of resources allocated to CBC activities.

4.2 Characteristics of enterprises involved in CBC, including foreign partners

According to an earlier CBC document:

"Surveys indicate complementarity of trade of border areas on both sides. Bulgaria border region is exporting to the fYRoM production of branches coal and energy, steel and mining, mechanical engineering, electrical engineering, electronics, wood industry, textile industry; food industry and agricultural products, while the fYRoM border region is exporting to Bulgaria products of energy

industry, mining and steel, mechanical and metal processing, wood industry, construction materials, textile industry and food industry."¹³

The field study done in the frame of the current CBCED project showed a slightly different picture as the difference is in the scope and in the scale of the registered CBC trade. The above listed production groups come mainly from the enterprises located in the major cities in the border region but not from the companies with headquarters in Kyustendil. The enterprises registered in Kyustendil and involved in CBC, with few exceptions, are operating mainly in the light industries and service sector (incl. wholesale and retail). Although the enterprises differ in their size, the size of their CBC is comparatively small to their total volume of economic activities. Again, as exception, some very small (micro) enterprises are more depending on their CBC as main source of incomes.

Some representative examples are given to particularise the picture, selected among the summaries produced from the filed study. One of the cases studied is that of E01. The cross-border partners of E01 are from Skopje and Kavadarci. The partner from Skopje is a small firm, which is operating in trade. The partner from Kavadarci (a.k.a. Kavadarci) is a small firm (15 employees), which is operating in trade too but it offers also aftersale services. Both of the firms are private property. The motivation of foreign partners to be involved in CBC with E01 is based on the offered service – 'delivery within 48 hours'. Furthermore the firm is an official representative of Bosch products for Bulgaria and Macedonia (because they are 'under the same hat') and for that reason is active in Macedonian market.

Another enterprise – E04 started CBC four years ago. In fact, a year after the registration of the firm its president signed a contract with a Macedonian firm. The aim of this contract is broadening the markets of E04 in the neighbouring country. The Macedonian partner advertises the machines offered by the firm and makes the potential clients familiar with them. He also gives information about the state and trends on the Macedonian market.

¹³ Neighbourhood Programme 'The Republic of Bulgaria – The Former Yugoslav Republic of Macedonia' – Joint Programming Document 2004 – 2006, Sofia. 2004.

The presidents of the two firms had met many times at different fairs and exhibitions before they started working together. In fact, the history of their cooperation begins with the completion of an order of the Macedonian firm for the production of casement windows machinery. Apart from the possibilities for profits, the correct relationships and trust between the partners are also factors influencing the decision for cooperation. The lack of language barriers is also an important factor for the development of CBC since the presidents of the two firms do not speak any foreign languages. The strong resemblance of the languages on the two sides of the border creates conditions for good communication between the partners.

The cooperation is mainly focused on finding clients for E04 in Macedonia for which the partner receives a certain commission. During the first few months the CBC develops on the grounds of an informal agreement but later the relations are formalized by signing a contract. The main motive of the Macedonian partner of E04 for participation in CBC is the possibility for additional profit. The CBC of E04 began in 2005. The two partners from Macedonia started to buy and sell the shoes manufactured by the firm in their shops regularly. They also gave information about the state and trends on the Macedonian market.

The initiative for CBC comes from Macedonian partners. When they visited Kyustendil they saw the products of the firm, which have high quality and original design, and they decided to show some of the models to their customers. The relations between partners are formal as they sign contracts. Sometimes problems arise between the partners which are solved by non-formal agreements. The partners of E04 are located in Macedonian cities Skopje and Prilep. They are small private firms owned by local citizens and operate mainly in the trade sector.

They are motivated to participate in CBC because the shoes of the Bulgarian company have high quality and original design. The partners of E16 (the clients) are private companies (and one State owned company) and all of them produce packages. The motivation of the partners for CBC is totally based on market reasons – close and easy contact, good price, good quality-price ratio, good location towards

the supplier (E16 is the only producer of such machines in the region of South – west Balkans), training, guarantee service and post-sale services.

4.3 Evidence of Change in CBC over time

Business cooperation prevailed at the beginning of the 90s. At present things are changing and more initiatives are taken by the local authorities and business-support organizations. The aim is that, with the EU enlargement, the institutional cooperation prevails. The region has relatively rich history of enterprise-based CBC. In the past the cooperation between Bulgarian and Macedonian partners was more active than it is currently, mainly in the field of trade and transport services. After accession of Bulgaria to EU is expected trade and business relations with fYRoM to decrease while these with Greece to be further developed.

The CBC of E04 changes in the course of time. According to its founder there is certain stagnation in the 2007. One of the factors that cause this is the introduction of a visa regime for the Macedonians. This hinders not only the regular meetings between the partners but also the contacts with potential clients who are willing to visit the production premises of the firm in Bulgaria and get familiar with its activity on the spot. The introduction of a visa regime is one of the negative consequences from the EU enlargement and the accession of Bulgaria as a full-right member since the beginning of the year 2007. However, in the long run, the expectations are towards more positive effects from the EU enlargement, mainly new, better opportunities for Bulgarian businesses. The plans concerning CBC include overcoming the period of stagnation and developing the relationships with the Macedonian partner.

4.4 Costs and Benefits of CBC to Enterprises

While in the beginning of 90s (the years when the CBC became a viable alternative to local enterprises) the costs and market prices differences between domestic and neighbouring were significant, in the recent times such differences exist only in few segments and are smaller in terms of absolute figures. In general, the costs advantages considered as typical for the cross border regions in the case of Kyustendil are no longer a source of motivation for establishing CBC.

For most of the enterprises CBC has rather a compensative and/or market diversification role than costs-advantageous or risks-reducing role.

In terms of operative costs, nowadays, they are almost equalised in the neighbouring countries. The benefits of CBC are also not significant. For Kyustendil enterprises, the markets of the neighbouring countries used to play a compensative role in times of shrinking domestic demands such as in the mid 90s but at present, the same markets are not estimated as more than supplemental to the growing domestic demand.

The advantages of the CBC in the case of E04 consist of an increase in the number of clients, the turnover and profit, as well as in making new contacts. The evaluation of the effect of the CBC is absolutely positive. The cooperation with the Macedonian partner matters to E04 but is not of prime importance. According to the founder of the last, it can definitely be said that there are no negative consequences of the CBC. For another entrepreneur (E05) the benefits from the CBC are satisfactory because collaboration is not of vital importance for his firm since the quantity of shoes sold in the Macedonian market is not significant yet.

4.5 Positive and Negative Lessons from CBC

The main lesson learned from her CBC, as one of the interviewed entrepreneurs mentioned, is the necessity of good preliminary preparation before doing business with foreign partners.

One positive example is the already mentioned case of E01. The assessment of benefits of CBC for E01 is positive because the cooperation mainly is connected with economic interests. The lack of language barrier is an advantage. According to the manager of E01 the cooperation is not connected with any negative effects because the Macedonian firms are correct partners.

The lessons from the experience of E01's CBC are only positive, because agreements are observed by the partners. When E01 started CBC it met challenges mainly related to customs. When goods of E01 crossed the border, the firm gave bribes to the custom-house officers in order to avoid some problems. To limit this

practice, the goods were sealed. For the time being, the problems of E01 are a result of customs clearance too. For example, a new electronic bill of entry has to be returned to the firm by custom-house officers. In practice, however, things do not happen this way. Usually the manager goes to customs in order to receive the bill of entry (which is waste of time and money) because it is necessary for the firm to get back the value added tax (VAT).

The founder of E04 concludes that the main lesson from CBC is that it is harder to work with partners from other countries, even those neighbouring Bulgaria, since the relations are influenced by additional factors, including international relations such as the policy of the EU institutions. Despite the difficulties, the entrepreneur states that the partnership is useful and should develop in the future.

The most significant lesson learned by E05 from CBC is that upright relations between the partners are very important. Factors as common languages, religion, and ethnos are not considered as very important in business connections in their case. One of the enterprises studied which operates as a cloth producer has stopped its cooperation with the neighbouring country. In the past the firm used to have a continuous partnership with a Macedonian firm, but now these relationships are hindered. The main factors for the development of this partnership were first, economic interests, and second, trust though it is hard to speak about trust in the region (*'you must always be careful'*).

One of the negative examples mentioned was that of a business deal for armature iron bars with a Serbian partner. They made gentleman agreement but didn't complete the deal because of standard differences in the two countries. They learned about this in the middle of the delivery process and this caused considerable financial loss. So the main problem of CBC is the weak preparation in respect of not knowing foreign business environment – legal framework, taxation, etc.

4.6 The Role of Trust in Enterprise-Based CBC

Trust is one of the everlasting issues in the business relations whether domestic or cross border co-operations are concerned. The later is featured by the existence of relatively separate business environments established in both sides of the border including specific historical backgrounds, regulations, practices and most importantly in this case ethic norms, moral, prejudices and attitudes held about the persons and enterprises in the neighbouring countries.

The geographic proximity and the common historical and cultural identity in the case of Kyustendil and its neighbours presuppose lack of significant barriers to establishing trust as far as the trust is important and equally valued on both sides of the border. At the same time, the relatively long-time isolation and the lack of co-ordinated regulations and institutional co-operation between Bulgaria and its neighbours played a two-fold role of trust in recent CBC. On one side, the role of trust under such circumstances is the must of trust for a successful CBC. On the other, dark side, is the weakened trust by the lack of mechanisms for protection from unacceptable destructive practices as frauds, dishonesty, trickery, etc.

The duality of the role of trust could be underlined in another dimension – formality and informality in relations between the partners and the consequent costs for negotiations, agreements, contracts and insurances. By presumption, trust makes a business less costly but building trust requires certain investments, and at times risks that could run up the costs of co-operation.

The enterprises investigated by the present study proved two common assumptions:

1. Trust is important but is not crucial in initiating CBC; and
2. Trust is rarely granted by the other side, it must be merited.

Some of the interview quotes exposed below illustrates these points.

In one of the cases (IBA) the established trust is resulting from the long-term successful contacts and correctness of both sides. According to the IBA's manager:

"The main factors facilitating trust building between partners are good communication, teamwork and previous experience. Although the people from the two countries are so close with their similar

manners, mentalities and cultures, the mutual trust between them is lacking because of decades of isolation and anti-Bulgarian propaganda in former Yugoslavia.”

According to another interviewed entrepreneur – *‘Trust is an important factor, but it is not a leading one for the cross-border region. Economic interest comes first. One of the main factors for building trust between the partners in CBC is dialogue.’*

‘In the near past trust between Bulgarian and Macedonian partner was bigger than now. This is due to the growing number of failures of Macedonian firms, some of which are unable to pay their duties. Other reason is delay of payments.’

Cross-border trade was made on the basis of “promise” or in other words “on fine boys trust” in the beginning of the Bulgarian transition period. In addition, the young Bulgarian market economy and democracy produced naive expectations to better economical and social development. On the other hand in this time there were not any institutionalized mechanisms to enter and develop CBC. In this respect trust played a key role in CBC in the past and now. Previous CBC experience plays a key role in affecting the level of trust between partners. After initial *naïveté* in business relations there were many cases ended with financial fraud especially concerning relations with Macedonian partners. This is the main reason for decreasing trust over time and increasing cautiousness.

In comparative aspect, according to the story of an enterprise: *‘The role of trust differs in case of co-operation with German partners. Illustrative example: may be on the base of prejudices the entrepreneur approaches with high degree of trust in business relations with German entrepreneur. The firm contracts for a supply of an important production machine. They agree to pay 50% in advance (in 2 week) and to postpone the rest 50% of the payment. Accidentally Bulgarians are not able to pay according to term of payment. German firm investigate the situation and find that Bulgarian partner has just passing financial difficulties. Foreign partner showed understanding and the deal wasn’t stopped.’*

According to another entrepreneur, *‘the main factor for establishing trust between firms is the image. It is hard to work with someone who is prejudiced. It is necessary to work with your partner for some time so that he or she would be able to become aware of the situation. There is a ‘special’ attitude toward the region and that is why the investments are scarce.’*

The main risk in the CBC process concerns the danger of deception from incorrect partners. Based on the experience of E04, the role of trust can be considered determining. Unless there is trust between the partners, CBC cannot develop.

The E04's owner places factors helping to build trust in several groups:

- *Politico-institutional factors, such as the foreign policy of the neighbouring countries, the good cooperation between institutions on both sides of the border at national and regional level, etc.*
- *Economic factors – the economic development of the neighbouring countries as well as of the cross border region, the benefits from CBC for the firms, etc.*
- *Socio-cultural factors – the resemblance of the languages and lifestyles, the “openness” of the people for making contacts and working together, family relations on both sides of the border.*

The main obstacles for building trust in the region are mostly prejudices and the historic past which burdens the relationships between people from Macedonia and Bulgaria. The E04's founder believes that in order to avoid embarrassing situations it is best not to touch on the 'hot' subjects. The relations should be concentrated on the possibilities for co-operation; a pragmatic, business tone should be used and not emotional and weighed statements.

As a whole it can be stated that Bulgarian entrepreneurs do not feel much trust for the local and national authorities on the other side of the border. To make up for this, on the basis of their gained experience, it can be said that they have the grounds to trust their foreign partners and clients. In one more case the trust between partners is considered as extremely important in the process of CBC as in the case of E05. At the same time its founder thinks that political and economic factors do not apply to trust building between partners. He also underlines that the lack of the language barrier, the sense of common identity and cultural ties support CBC and creates preconditions for establishing trust between partners – that historical burden and prejudices have negative effect in general but they are not very important in business relations.

The level of trust toward the local and national authorities on the other side of the border is perceived as low. It is difficult to assess the level of trust toward foreign

entrepreneurs and customers because they are big aggregate of actors which are very different and every conclusion will be inaccurate and even wrong.

The entrepreneur – founder of E16 doesn't differentiate trust between CBC partners and all the rest of the partners. Trust is guaranteed in the contract of purchase and sale meaning that paying the product leads to receiving it. In all these cases, relations are marked by enormous trust. Continuous contacts lead to reinforced cooperation, which makes the trust stronger and results into a very good CBC. Based on trust formed in this way, the company decides to outsource its guaranteeing service in the territory of long-term foreign partners. In this case, the key factor for strengthening trust is the continuity of the relations with the corresponding partner. The intensity of CBC of the company depends totally on the economic development of the country where the product is sold.

On the other hand, very important factors for high trust include common understanding of Balkan languages, common Balkan mentality and knowing the culture of the other Balkan partner such as music, food and drinks, legends and heroes and ways of entertainment. In other words, regional identity affects positively CBC and according to the entrepreneur the strongest factor is the lack of language difficulties, which aids easy and non-intermediated communication. In the meanwhile, the entrepreneur realizes that the diversity of existing prejudices and historical disputes between the partner states creates a realistic danger of a conflict or a problem linked to these issues. He estimates that especially the Macedonian partners are very interested in discussing such 'hot' topics which endanger the good trust and smooth relations with them. This is why the entrepreneur instructed his employees (especially those who contact directly the partners) not to discuss this topic and also the entrepreneur himself respects this rule. Most probably this is the reason why such problems have not evolved so far.

When talking about trust the entrepreneur (E19) considers it to play an important role for the development of his business. When he started trading with Macedonian citizens he used to allow his customers to buy on trust, i.e. paying the whole price

later. But after being deceived several times this practice was cancelled. The entrepreneur feels there is a common identity with his Macedonian partners (which he calls a Balkan identity) and the main reason for that are the same language and attitude of mind. He sees as the basis of mutual trust the common attitude of mind which was clearly noticed during his visit in Germany. In that foreign and unknown environment he again made contacts with people from the Balkans (Macedonians and Serbians) and had difficulties in making such contacts with Germans. In time he made more friends among the Macedonians especially, his regular customers. "The common work makes friends", he says. Despite, he chooses his friends because of their character and not because of the benefits coming from the business with them.

4.7 Enlargement-Related effects

In January 2007 Bulgaria became external frontier of EU which has led to increased control on the cross-border check-points. This made the enterprise-based cooperation between Bulgaria and Macedonia more difficult. According to the Trade Manager of one company (key informant) access of Macedonian businessmen to Bulgaria was impossible in the first 10-15 days in January. In business circles in Kyustendil, which cooperate with Macedonian partners, January was defined as 'the weakest month' in terms of turnover from 10 years ago. Few months later the situations is almost the same – big part of the Macedonian entrepreneurs have not entered Bulgaria yet.

At the same time, there are expectations that EU enlargement will create more business opportunities and more dynamic CBC. This is valid also for Macedonian firms expecting access to EU market through Bulgaria. The visa regime created new barriers. The trade activity with cross-border region declined (the stream of Serbian and Macedonian people decreased). The ties of relationship with the Bulgarians from Macedonia and Serbia broke off. To obtain visa is waste of time and money (for example, Macedonian people are waiting three months to receive a three-month visa after they have declared that are partners of E01). If these barriers are removed, the interviewee will expand trading cross-border activity.

4.8 Use of External Assistance and Participation in Public Policy Programmes

(a) in general

The use of external assistance is not a common practice of enterprises even in the more developed regions and cities in Bulgaria, not to speak for regions as Kyustendil where such assistance is very scarce. The picture could be expressed appropriately by the following old joke from the Soviet times:

Q: Why there is no supply of caviar (in shops)?

A: Because there is no demand!

Q: And why there is no demand?

A: Because there is no supply!

More or less the situation with the external assistance in Kyustendil region (and not only) is the same as with the caviar. As to the public policy programmes as a rule they are originally designed either at central government level or at EU institutional level but in both cases the mechanisms which should transform such programmes to practical working measures to be implemented or used by local business community are quite ineffective and inefficient and hence not popular among the enterprises in Kyustendil region. What is being done by the municipal authorities is simply nice policy paperwork to be advertised and forgotten till the next paper. The reasons, at first place, for such situation are in the insufficient funding of any local policy initiative.

The founder of one of enterprises involved in CBC (E04) considers that the firm needs external support for improving its activity and increasing the benefits from the CBC, because 'there is always something to learn from good specialists in a certain field.' The support will be reasonable only if it is complex and covers key areas such as business planning, marketing, finance, networking and cooperation. He is ready to pay for consultancy in these areas if he is sure that he will receive a competent opinion of an acknowledged specialist. According to him, '*as a whole such services are not available in the region*'.

The same respondent is not aware of services supporting entrepreneurship and SME development offered in the region. He does not have enough information on

this subject and believes that the lack of business support infrastructure is a serious deterrent for the development of small businesses.

The case of E16 is slightly different - generally, the company has not benefited from external support or consulting, including help concerning CBC. The company was proposed to sell a share and get help from the Programme of the Bulgarian American Investment Fund, but the entrepreneur did not agree with the conditions of the Fund to acquire a 51% share of the company. In another similar case, the entrepreneur received a proposal from an Italian entrepreneur to form a joint cooperation. The manager rejected this offer as well, because he thought that this would transform his company into an ordinary subcontractor. As a whole, one more of the interviewed entrepreneurs, E19 does not have information on the existing institutions and services in the region which are aimed at supporting the entrepreneurship and the development of SMEs.

(b) in relation to CBC

It was not surprising to learn that many of the enterprises approached by us for the purposes of the project had not heard about any assistance in their efforts to establish CBC or to strengthen the existing ones. Besides the fact of scarcity of such assistance (anyway it exists) the main reason for not looking for such is the traditional suspicion of using external help. In this case, it is still valid the old Bulgarian proverb – ‘the wolf has thick neck because he does his business unassisted’. The secondary, but also very important reason is the lack of known success stories where the success of CBC is a result of external assistance.

E04 has not addressed organizations supporting business or external consultants on the issues concerning CBC since there are no such in the region. There is a lack of information about who can be addressed in cases of need. One of the enterprises (key informant) has been in the market for 17 years but so far has not been invited to any meetings/ seminars and has not received any suggestions for CBC from the institutions in the region. It has not received support from the local authorities either.

Another enterprise, E01 has not made use of a business support agency or external consultant to help with cross-border activity. E01 has not received external assistance with respect to increasing awareness of the opportunities for CBC and participation in CBC support programs. The firm has received support for making business to business contacts through trade fairs and business delegations and partly for searching and selection of partner. E01 has made use of financial institutions in the last two years. According to its manager the firm needs external assistance in the form of business advice and training in the sphere of business planning, sales and marketing and networking and cooperation. She would pay for receiving external assistance in marketing area. She has not sufficient information about business services available for entrepreneurship and SMEs development in the region. According to her opinion there are organisations (for example, Kyustendil Chamber of Commerce and Industry), which make attempts to offer the required services in the region. But these services are not on a high level.

E05 has also not addressed organizations supporting business or external consultants on the issues concerning CBC since its founder thinks that there is lack of appropriate programmes encouraging the partnership with neighbouring countries. Therefore the firm has not had any participation in such programmes. As a whole, the other analysed case, the owner of E16 considers that business support on behalf of local institutions is very weak. At the moment, the company maintains strong contacts with the Kyustendil Chamber of Commerce and Industry, but the only motive for this is the objective of easy approval of visas for foreign partners. He showed an example and said he invited representatives of the Chamber to visit his production plant, having in mind only showing them their business activity. Despite of the kind invitation, they were not interested in visiting the site and even not willing to drink a cup of coffee together.

4.9 Policy issues identified

Political and historical factors are estimated by some of entrepreneurs as negatively influencing their CBC development. The existing policy measures introduced to facilitate creation of cross-border connections are initiated mainly with the support of

EU programmes as Phare and CARDS. There is a lack of information concerning introduction of measures to raise awareness of the opportunities presented by different types of cross-border partnership among enterprises on both sides of the border; fostering business-to-business contacts; taking steps to increase the international networking capacity of and co-operation between business associations and agencies on both sides of the border; establishment of cross-border partnership support programmes.

The general attitude towards CBC is positive but it is noted that without support by the local authority to the business and without wish from Macedonian side, results would be achieved with difficulty. The regulations that have the biggest impact on the business of E01 are taxation requirements and international trade agreements. The last ones have negative influence on the firm functioning. The manager of E01 indicates also the visa regime with Macedonia and Serbia after Bulgarian integration to EU. According to her opinion the problem is being worked on to be solved – the so-called “50 km non-visa zone”, but it will not be an appropriate solution.

Textile firms have problems related with the Labour legislation concerning standards for safety and health of employees. Predominant part of the textile firms are micro- and small and do not have sufficient resources to keep the standards. The normative basis, the frequent changes in the legislation, the multiple regulations hinder the development of business in Bulgaria according to one of the respondents. It is difficult for an entrepreneur to keep abreast of the constantly changing laws, acts and requirements. The problems come from the very legislation itself as well as from the ways of its application.

The only mechanism for convincing the institutions in charge to reconsider certain regulations and/or their application is through joined actions of all concerned. No single firm, especially a small one, is able to achieve a positive result. The services which support the entrepreneurship and SMEs in the region are considered by enterprises as being weakly developed. The participants in the study have no information about existing opportunities on support of SMEs development. Taxes

and labour legislation have the most significant impact on businesses. Frequent changes are not a problem for entrepreneurs, if they have positive effect on business development. For example government's intention to introduce 'flat' taxation from 10% is a very good decision. In that way the tax burden will be decreased and the share of informal economy will be reduced.

5. Informal and Household-Based CBC

This section is based on the analysis of household interviews conducted in Kyustendil.

5.1 Characteristics and Types of Informal and Household-Based CBC Identified

The informal and household-based CBC is a fading practice in Kyustendil region. It appeared in the beginning of 90s when the opened borders and the existing differences in the prices and in the variety of goods were large enough to be considered as sources of income or savings from shopping. An additional but also important stimulus for local people was the need for income generation in cases of lost employment.

One very common CBC is in the form of trade; the interviewee buys consumer goods in Bulgaria and sells them on the territory of Macedonia. Representative of this informal CBC is one Macedonian who could be called a 'petty trader' - buying goods cheap and sells them in Skopje where he has a street stall. He is interested in almost any kinds of goods (fast-circulating) if there is a difference in the price and if that could lead to making a profit. In this specific case, these goods are mainly food, clothing and Chinese goods. The number of his partners is about 10 and all of them are Bulgarians; he buys the goods from them. His relations with them could not be differentiated in aims and characteristics. From one side, they are partners who operate near the border (from the region of the city of Kyustendil) and he buys from them mainly food products. On the other hand, he has partners from 'Ilienti', the famous Bulgarian commodity market (located in Sofia, about 100 km away from the border with Macedonia). The interviewee buys from them Chinese goods.

Contacts among these cooperating partners are established many years ago because of the existing family relationships in the cross-border region (the 'national fairs' have been organised). The retail trade ('petty trade') developed many years ago too. CBC finds expression in trading goods in Macedonia and Serbia. The Bulgarian entrepreneur is mainly in the role of seller and very rarely buyer of goods. We could not speak for partners' availability because the relations are "seller-buyer".

The individual entrepreneurs from Kyustendil trade in Skopje, Kriva Palanka and Kumanovo. The individual entrepreneurs in Kyustendil trade more in Macedonia than in Serbia. They sell foodstuffs, cloths and rarely instruments of life.

Until 1997, this activity has covered almost 100 % of the household income of those involved in such cross border trade. Nowadays, its contribution is no more than 40 %.. Ten years ago all adult members of the household were involved in the CBC but now only one of them. CBC benefits all members of local community because it creates an opportunity for receiving income and increasing purchasing ability of the population.

In another case, ten years ago the whole income was received by cross-border activity. Now no more than 1/3 of household' income is as a result of trade on the border. Only the individual entrepreneur takes part in cross-border activity. Other members of the household are not involved. CBC is useful for all the inhabitants in this region because it is a source of income and employment (Kyustendil is a town with high level of unemployment and low living standard).

In the third representative case, the cross-border activity of the individual entrepreneur is trade with paints, brushes, hinges, nails and other similar goods. His role is as seller who buys goods in the market-places in Sofia, Plovdiv and Kyustendil. Thereafter, he offers them to the Macedonian clients. The individual entrepreneur bought only shoes from Macedonian traders in the period from 1992 up to 1993 (at that time the prices in Bulgaria were higher than in Macedonia).

One interesting example of individual enterprise is the case of one mid-aged driver: CBC is in the form of a transport service. The clients are Macedonian citizens who, entering Bulgaria from the main checkpoint Gyueshevo, take a taxi, usually to the city of Kyustendil, and return to Macedonia. The clients are from all over Macedonia but most of them come from the nearest to the border regions (municipalities of Kumanovo and Kriva Palanka). Others come from Skopje. The cross-border activity has begun in 1995 and used to be highly spread and well developed in the region of

Kyustendil during the years from 1995 to 1998. The character of this activity suggests accidental finding of customers but the interviewee tried to use a more different approach and attempted to make the customers loyal. At times he succeeded and there were regular customers who used his services by preliminary booking his taxi by phone. Those relations were based on handshake agreements, trust and respect toward the customer. Between 1995 and 1998 that used to be the main occupation of the interviewee and he had trips to Gyueshevo every day, once a day. After 1997 the demand for transport services started to decrease and nowadays that activity is not common for the region.

5.2 Background and characteristics of participants, including foreign partners

The common characteristics of the participants are their age. They can be described as mid-aged, unemployed or low skilled workers and with few possibilities for migration. They usually prefer to stay in the region and to look for local opportunities. One of the petty traders (H02) is male, age 33 and a Macedonian citizen. He has secondary technical education. There are no specific personal characteristics connected to the CBC like former domicile, working place, family's background, and family's business networks. The main reason the interviewee decided to begin cross-border trade has been the experience he gained while running his stall in Skopje.

Very similar is the case of another interviewed Macedonian (H08). He is male, 45 years old, Macedonian but has also a Bulgarian citizenship. He has secondary education. He has not any specific personal characteristics connected to the CBC too. It is almost the same in the case of another Macedonian (H03) - male, age of 52, a Macedonian citizen with secondary education, having no any specific personal characteristics connected to the CBC.

The third interviewed individual entrepreneur has started his activity since 1992. The main reason is to make a living for his family. Currently, he is made redundant so trade is the only one alternative to obtain income in former Yugoslavia. Until 1997-1998 there is great demand of all products especially essential commodities and fuels in Macedonia and Serbia.

The interviewed taxi driver (H01) is male, age of 45, Bulgarian citizen, having secondary education. His wife's family comes from a Macedonian city situated near to the border but this has not influenced his cross-border activities. Before 1989 he used to be a professional driver and worked in the former State Transport Company. After the falling of the socialism, in 1991 the interviewee had the opportunity to use a car of the State Transport Company (that was a specific form of private initiative at that time) and he used it as a taxi to provide transport services, cross-border as well. In time, when the market developed and the private property was guaranteed by the state he registered a firm as Sole Trader and continued his activities.

5.3 Enabling and Constraining Forces

Political and economic factors mainly influence the activities of individual entrepreneurs. The political factors are the crisis and disintegration of former Yugoslavia. The economic factors are connected with the price divergence on both sides of the border. For example, there are high levels of unemployment and low living standards in Kyustendil.

Indicative for the whole situation in the cross border region is the case of one Macedonian citizen described by him - the interviewee has not faced any cultural or social barriers; they do not exist for him. What is more, he was born and lives in Macedonia and is very much aware of the situation there. On the other hand, he considers himself to be Bulgarian by nationality and so he is well accepted in that country. The main problem for the development of his activity is the worsening of the economical and demographical crisis in the region of Kriva Palanka where he lives and sells his goods. Firstly, the local residents are immigrating in large numbers in other regions of the country; on the other hand, the local economy is almost not functioning. That leads to a decrease in the number of the customers and their purchasing power.

5.4 Evidence of Change over Time, including Current Trends and Future Prospects

Household cross border cooperation started 17 years ago when there was deficiency and great demand for all products in former Yugoslavia. The big boom is at the time of the wars between the countries and laid an embargo on Yugoslavia. During this period, part of the entrepreneurs has accumulated capital which they used afterwards to start a legal business. Now the trade is very much reduced so it will probably stop in the next months. The trade intensity has changed in the course of time. Years ago the individual entrepreneurs crossed the border several times a day. Now they use market-places in fixed settlements and specific dates.

Thus, cross-border household activity has no perspective. It is very limited after 2000 and according to entrepreneurs' expectations it will be stopped completely. Some years ago one of individual entrepreneurs interviewed met his clients on other side of the border every day. Now he does it on the average three or four times in a week. The risks are connected with threat of theft, or goods confiscation by police or custom authorities. This individual entrepreneur plans to stop cross-border activity because there is little profit in it and after that to start a new business in Bulgaria. The barriers to CBC development are mainly economic. Demand of goods has dropped off in the recent years. The prices in Bulgaria, Macedonia and Serbia are almost equal so there is no trade benefit.

It may be said that Bulgarian membership in EU put an end to this activity. The Macedonians tend to prefer more the Chinese than the Bulgarian goods even if there are no price divergences between them. The Macedonian people want to emphasize that "all Bulgarian is second hand". So empoison towards Bulgarian people is a fact that could not be neglected.

The third individual entrepreneur will stop his cross-border activity too. The reason is lack of benefit. Problem is also the propagation of enmity towards Bulgarian people.

5.5 The Role of Trust

Like in the cases of institutions and enterprises, the trust in informal or individual CBC is estimated as very important. The stories of people interviewed showed that there are no significant barriers to trust building which come from the differences on both sides of the border. The first interviewee (H02) has not faced any cultural or social barriers; they do not exist for him. What is more, he was born and lives in Macedonia and is very much aware of the situation there. On the other hand, he considers himself to be Bulgarian at nationality and so he is well accepted in that country.

Another interviewee (Bulgarian citizen – H08) was not able to point any social or cultural problems in the communication with the Macedonian clients, including his regular customers whom he called partners. He admits, however, that he deliberately avoided problematic topics connected with the history of the two countries because the Macedonians were very sensitive and demonstrated enormous national pride, while this their behaviour in Bulgarian eyes is mostly ridiculous. The same man never suffered fraud but the risk was high during the most difficult period in the Bulgarian transition – mid 90s; he points out that during that period many Bulgarians were deceived by Macedonian citizens and many Macedonians were pilfered as well in Kyustendil.

The third man involved in informal CBC (H03), also Macedonian citizen, shares that his relations are based entirely on handshake agreements. Like the other interviewed Macedonian, he has not had any negative experiences in the CBC and has not had any case of a fraud and considers his cross-border activity as a low-risk. The rest interviewed persons conclude that the trust is not an issue although it is very important for their CBC activity.

5.5 Enlargement-related effects

The most noticeable change is the introduction of visa regime for Macedonian citizens. According the latest publications the changes are as follows:¹⁴

- About 73,000 Macedonians passed through the Deve Bair/Gyueshevo checkpoint, for example, in December 2006, while in January 2007 the figure was only about 13,000;
- In 2006, almost 550,000 Macedonians entered Bulgaria as tourists, according to the Bulgarian Tourism State Agency.
- Miho Mihov, Bulgaria's ambassador to Macedonia admitted that the two offices issued only a combined total of 340 visas per day, well short of what is needed, given that about 2,000 Macedonians entered Bulgaria daily in 2006.

The enlargement of the EU has had a huge effect on the taxi services. Even before the acceptance of Bulgaria in EU, many Macedonian citizens and especially those who used to travel to Bulgaria on business matters chose to acquire Bulgarian citizenship or to create close relations with local residents. The Macedonian citizens were attracted by the benefits coming from Bulgaria's integration in the EU and the deriving future perspectives¹⁵. As a result many Macedonians obtained a car which to use in Bulgaria, or had friends who could accommodate them when visiting the country. This process occurred in parallel with the increasing feeling of security of the Macedonian citizens in Bulgaria. This way after 1998 the Macedonians became sure that they and their properties were secure in the neighbouring country.

The enlargement of the EU has led to an increase in the prices of many Bulgarian goods (especially foods) and has had a negative impact on the cross-border trade. This is the reason the interviewed trader is considering registering a firm in Bulgaria in a partnership with a Bulgarian merchant. His idea is to open a shop on the territory of Kyustendil where, except the standard articles there will also be available Macedonian goods, mainly vegetables, fruits, milky products, etc. Currently,

¹⁴ According article published on 27 February 2007 in http://macedoniannews.blogspot.com/2007_02_01_archive.html

¹⁵ To obtain Bulgarian citizenship an applicant must proof that at least one of her/his parents is Bulgarian by origin.

however, he has not registered a firm and his activity is semi-legal. He visits Bulgaria every day.

The enlargement of the EU has led to the introduction of a visa regime for the Macedonian citizens and also caused the prices of a number of Bulgarian goods to go up (especially food prices). That has had a huge impact on the cross-border trade. If the trade of the interviewee is concerned it suffered a negative trend. That is the main reason he has never registered a firm in the court; so his activity is semi-legal. He has no intention of registering a firm in the future as he thinks this would be unwise considering the fact that the situation in the cross-border trade is getting worse. Nowadays he visits Bulgaria twice per week.

After Bulgaria's accession in the EU there has been a tendency of decreasing the number of the customers. The entrepreneur doing trade with Macedonia estimates the decrease to be 60-70 % and in March and April it reached 80-90 %. At the moment the trade is regaining ground and is expected to develop. The period after the accession has been extremely dramatic when the trade is concerned and could be called transitional. The main reason for the decrease in the rate of trade is the introduction of a visa regime for the Macedonian citizens. This hampers their entering Bulgaria and makes it more expensive as well. The Macedonians should pay for the visas and waste time while waiting for them (preparation of documents, queuing for consultant services, etc.).

The entrepreneur points out yet another factor which has been influential for the trade. Prices of goods in Bulgaria have constantly gone up and as a result the disappearance of the price differences in the two countries. A clear example is the tendency in the trade with milky goods the prices of which in Bulgaria had a dramatic increase in a month and became higher than the prices of the same goods in Macedonia. The consequence is that the demand for these products from Macedonians ceased. And thus the risk for the petty-traders has become significant. He expects that the process of levelling the prices will continue in the future and petty trade to stop.

5.6 Policy Issues Identified

The law affects more negatively than positively on CBC. The main problem for the Macedonian and Serbian is the visa regime that creates tension. There is an active initiative named 'Zone 50 without Visa', which main purpose is to pass a bill in the National Assembly (the Bulgarian parliament) that allows the citizens of FYR of Macedonia and Serbia residing within the 50 km zone from the border to enter Bulgaria without visas. The initiative is supported by the Ministries of Foreign Affairs and Interior of Bulgaria, NGOs and representatives of border municipalities. The initially announced date for this initiative to take effect was 1 July 2007 but it was postponed to undefined time.

6. Conclusions

6.1 Overall Assessment of CBC in Region

The changes in relations to neighbouring countries in the beginning of 90s with the consequent bilateral agreements and regulations created opportunities for establishing and further developing CBC. After the initial promising start of many cross border activities a series of internal and external events of economic and political character hindered the development of CBC in the region. Among the main hindering events as the most important should be mentioned the deep economic crises during the transition, the Yugoembargo, the inconsistent policies on both sides of the border (Bulgaria – Macedonia, Bulgaria – Serbia), and the economic migration from the region to more developed regions. Thus, at present the existing CBC could not be estimated as satisfactory in comparison to some of the economical and geographical preconditions for CBC. Moreover the existing CBC is only confined to only some types of co-operation.

The accessibility related to state of road infrastructure is also important factor that both hinder/ facilitate development of enterprise CBC with Macedonia/ Greece. From this point of view Greece is more preferred even as destination then Macedonia where the road infrastructure is not in a good condition and the communication is impeded by the visa regime. Notwithstanding this, geographic proximity to

Macedonia predetermined negative development of CBC relations with Macedonian partners of many local enterprises after 2007 that do not have sufficient financial resources, information and business partners to develop CBC with Greece.

6.2 CBC: Enlargement Related Issues Emerging

The EU enlargement in short term causes significant difficulties coming from the introduced visa regime to the citizens of the neighbouring countries – Macedonia and Serbia. Notwithstanding the fact that EU Enlargement is favourable for entrepreneurship and CBC development between Bulgaria and Greece, it exerts negative influence over cooperation between Bulgarian and Macedonian and Serbian entrepreneurs.

6.3 Co-operation and Clustering Related Issues

The economic decline following the end of socialist regimes caused some very unwelcome effects. The most important for a potential CBC was the diminishing industry in Kyustendil represented earlier by some relatively significant state-owned enterprises. The depopulation of the region due to the economic migration is the second strike on the economic potential. The emerging new private sector was not able to compensate the losses from the restructuring processes. The new, today existing, structure has no critical mass (in terms of number and size of the SMEs) to form a significant network for co-operation (including cross border) and any cluster.

As far as a cluster is a result of, either quick emergence of co-operating enterprises (usually after massive investments in a geographical region), or a slow historical development leading to incremental concentration and accumulation of capital, the Kyustendil is not the case where a cluster could be identified in short-term. The sectors that could be expected to provide seeds for potential clusters are food-processing, light industries, clothing and knitting branches.

6.4 Identity and Perception-Related Issues

The common (with Macedonia) and close (with Serbia) identity plays a tricky role in cross border co-operation. The tricks are in misleading believes and assumptions

about the close neighbours – it is one to have common roots in the past and it is another to play the same way in the present. The perceptions about ‘ours’ and ‘theirs’ are very strong and such perceptions are often exploited subjectively, according to the current interests and situation. The similarities, even the fact that they prevail, are often shadowed by the small, rather artificial, differences created in the most recent decades. These artificial dividing differences are source of disputes which negatively influence co-operation in some cases.

6.5 Trust- and Learning Related Issues Emerging

Trust issues are slightly featured by the regional characteristics – they are more universal than particular if we need to look for something very specific in the region. The same could be said also for the learning. The cultural similarities make very difficult the separation of issues coming from the cross border relations and of issues which are attributes of any interpersonal relations.

6.6 Policy and Governance Related Issues

The policy and governance related issues as exposed in a paper developed in the frame of the CBCED project are as follows:

One of the key issues constraining effective policy development and implementation to encourage cross border co-operation is a lack of resources and institutional capacity at the level of the provincial and local authorities. Another is a lack of effective regional policy in Bulgaria, which could provide resources to promote institutional and enterprise based co-operation as an economic development tool. There is a lack of significant barriers caused by foreign policy (between the countries) relations and EU policy is broadly supportive. The challenge is to provide the technical assistance as well as financial resources to strengthen the role of local and provincial authorities in economic development, within the context of an effective regional policy at the national level. Resources are a key constraint currently but so too is the inadequate administrative capacity of local authorities, reflected in their inability to recruit appropriately prepared specialists and to provide them with an environment that motivates them.

The question of strengthening local policies for encouraging entrepreneurship is also constrained by a lack of institutional capacity. As a result, existing policies tend to be limited to declaring good intentions but without real measures, with budgets allocated to implement them. An additional consideration is that the development of cross border cooperation depends on bilateral rather than just unilateral efforts, involving positive interaction between provinces and municipalities in neighbouring countries. In this regard, investigation revealed significant discord in motivation of local authorities, as well as of other local organization (business and non-business), firstly between local policy makers and central government; and secondly, between the local authorities from the two sides of the border. There is no established mechanism on policy level for: provision of seed financing; start-up business support, such as mentoring programmes and/or business incubators.

To conclude, specific policy issues that need to be addressed if the potential benefits of CBC involving enterprises are to be fully exploited, include:

- The development of public-private partnerships to improve the local infrastructure for cross border cooperation and especially the provision of business support services;
- Targeted support to enterprises involved in, or having potential for, cross border cooperation. Specific support measures may vary from tax concessions through participation in joint projects and inclusion in business delegations);
- The creation of new and strengthened roles for local business associations (including the participation of enterprises); Such associations could benefit from financial support and technical assistance to strengthen their capacity for the development and implementation of cross border projects and lobbying local and national authorities;
- Training of local entrepreneurs and managers in making cross border business and joint ventures, including joint project in third countries;
- The transfer and adaptation of foreign best practices in cross border cooperation e.g. cluster formation in appropriate industries;
- Establishment of cross border entrepreneurial networks and subcontracting chains.

To be effectively addressed, these policy issues require the coordinated efforts of national and local authorities, NGOs, as well as interested businesses and their associations. Strengthened national regional policy could be the key to unlocking more of the potential contribution of CBC to regional economic development.

6.7 Future Prospects for CBC.

The CBC future in Kyustendil region will heavily depend on two main factors:

1. The future of the relations of Bulgaria with its west neighbours, which depends itself on the political will of the neighbouring governments;
2. The regional development measures implemented by the central government and local authorities, i.e. the development of general infrastructure and project (railway, pipelines, etc.).

Both factors are uncertain if we track back the recent developments which conditioned them. That makes our estimation about the future rather more conservative than enthusiastic.

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