FINAL REPORT

ASSESSMENT OF THE BULGARIAN ENTERPRISE GROWTH AND INVESTMENT PROJECT (EGIP)

(Formerly the Policy Reform and Advocacy Strengthening Project)

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Acronyms and Abbreviations

ASTEL	Association of Telecommunication
BAIT	Bulgarian Association of Information Technologies
BASSCOM	Bulgarian Association of Software Companies
BC	Business Center
BCCI	Bulgarian Chamber of Commerce and Industry
BI	Business Incubator
BIA	Bulgarian Industrial Association
BIBA	Bulgarian International Business Association
BIIN	Bulgarian Investment Information Network
BINA	Bulgarian Internet Association
CED	Center for Economic Development
CEG	Council for Economic Growth
CIS	Club Innovation Scenarios
CLICT	Center for Law on ICT
EGIP	Enterprise Growth and Investment Project
ESI	European Software Institute
EU	European Union
FDI	Foreign Direct Investment
FED	Foundation for Entrepreneurship Development
GOB	Government of Bulgaria
GTZ	Deutsche Gesellshaft für Technische Zusammentarbeit
IBA	Invest Bulgaria Agency
ICT	Information, Communication and Technology
IME	Institute for Market Economics
IPAEI	Institute of Public Administration and European Integration
JOBS	Job Opportunities through Business Support
MOE	Ministry of Economy
MSI	Management Systems International
NGO	Non-Governmental Organization
SME	Small and Medium Enterprise
SMEPA	Small and Medium Enterprise Promotion Agency (formerly ASME)
VEGA	Volunteers for Economic Growth Alliance
WEF	World Economic Forum

Executive Summary

This assessment was conducted within the context of the phase out of USAID operations in Bulgaria in 2007, which is reflected in the Mission's Graduation Strategy for the years 2003-2007. Consequently, the Mission requested that the team not only review the strengths and weaknesses and lessons learned from the Enterprise Growth and Investment Project (EGIP), but to make recommendations for follow-on activities to the current project that could take place over the next 18 months, prior to the close-down of the Mission.

Over the past years, EGIP has provided support to various government and private sector institutions in eight key areas:

- To the Bulgarian SME Promotion Agency through management assistance on structural changes, operational advice and developing materials for SMEs on various topics,
- To the Council for Economic Growth to promote policy reform and facilitate the ongoing dialogue between the public and private sectors,
- To the Invest Bulgaria Agency through management assistance in restructuring the agency, developing operational procedures and guidelines, and developing an investment marketing strategy,
- To the Ministry of the Economy on its restructuring and on drafting legislation to effect those changes,
- To the ICT cluster to encourage greater collaboration and facilitating exchanges with foreign companies that have resulted in both growth in the sector and increased joint venture activity,
- To the academic and business communities to collaborate on business ventures to improve technologies in Bulgarian products and services,
- To think tanks to improve their analysis capabilities, including training in Regulatory Impact Analysis, and
- To various ministries and agencies on public education campaigns and on training of key officials to communicate with the public better through improved public press relations and better policy messaging.

The overwhelming conclusion of the team is that EGIP has been extremely effective in achieving its overall objectives. Virtually all of the recipients of services of the project, as well as project collaborators expressed a great deal of satisfaction with those services and collaboration. The MSI team has been very effective in promoting an inclusive and politically unbiased approach that has been respected and admired by all persons interviewed. This approach is credited with allowing the MSI staff to be effective in promoting reforms with both the public and private sector. The knowledge of key project staff of sources of professional technical assistance, both local and international, has permitted MSI to acquire and utilize consultants and trainers who have been respected and viewed by project service recipients as very effective. Although the project has

accomplished almost all of the project tasks and outputs, there is a shortage of hard data to demonstrate quantitative results of project impact.

Being one of the first private sector development projects in Eastern Europe to use the competitiveness methodology, EGIP has achieved considerable success in promoting the competitiveness agenda throughout the country through a public education campaign and a series of meetings and conferences with both public and private sector entities. Although five clusters were originally designated for project assistance, four were eventually dropped due to perceptions of a lack of cluster leadership and cohesiveness and only the ICT cluster received long-term project assistance. However, the success of the ICT cluster is significant and has resulted in real advancement of the ICT cluster in Bulgaria through both new revenues and employment growth.

EGIP activities have focused on a few agencies and private sector organizations, notably the Ministry of the Economy, the Agency for SME Promotion, the Council for Economic Growth (and the business associations that are represented on the CEG), the Bulgarian Investment Agency and the ICT cluster. All of these entities, save the InvestBulgaria Agency appear to have been targeted early on for assistance from the project. In addition, MSI has also assisted in the development of a number of Bulgarian think tanks, including IME and CED. Recent project activities started a focus on innovation that has encouraged collaboration between Bulgarian businesses and academic institutions. MSI has collaborated with some other key institutions in Bulgaria, some private and independent and others that are donor-funded in these efforts. Sustainability of almost all of the entities with which the project has worked appears to be on track. However, further assistance may be necessary to facilitate long-term sustainability of certain key institutions due to potential changes that might occur if the upcoming national elections result in institutional changes.

Representatives of government and the private sector interviewed all agreed that the participation of the private sector business community in government policy making will go on, regardless of any potential political changes resulting from the upcoming election. The CEG and regulatory impact analyses are the most direct mechanisms for private sector input into the policy-making process of the government. Both are directly attributable to EGIP. The CEG was formulated without project assistance, but was ineffective until MSI provided assistance. The CEG is now a viable, institutionalized entity for public-private dialogue. The Regulatory Impact Analysis (RIA) is a critical, analytical tool that is mandated under law. More assistance in the utilization of this tool is needed. The RIA is an excellent legacy because it will provide the tool needed to respond to dynamic changes within the Bulgarian political economy. The ICT cluster has also been very effective in promoting its policy reform agenda, both due to MSI's assistance in formulating a strategy for ICT development in Bulgaria and due to the dynamism of the cluster members (which was a principal reason for MSI's decision to focus its cluster assistance on the ICT cluster).

Project assistance to government entities to train high-level government officials and press officers on media communications appears to have been highly effective. A

number of these press officers have moved on into the private sector in similar, better-paid positions, but this is to be expected in any county and helps to demonstrate the value of the training. The various EGIP public education campaigns in many areas appear to have been very successful. MSI's talents in this regard were recognized by the USAID Mission and utilized for other USAID projects not directly related to economic growth or reform. Video productions and printed materials reviewed revealed a high level of professionalism in communicating accurate policy messaging.

Local ownership, public and private, of the policy-making process in Bulgaria is strong. Bulgarian consultants, government officials, and local firms did the work creating the investment strategy, the ICT strategy and the creation of the CEG. The apparent result, from the interviews conducted by the assessment team, is a deep understanding of these strategies by organization leaders, as well as a long-term vision by the firms and organizations to Bulgaria's future positioning for industries, investment and growth.

Considerable evidence shows that significant job creation and private sector investment has occurred in Bulgaria during the time of the project. However, it is difficult to demonstrate that those gains can be directly attributed to EGIP. All persons interviewed in government and the private sector described the project's role as significant catalyst to the creation of conditions that resulted in those job creation and investment gains. Rankings of countries by international institutions on economic freedom and policy environments, including those of the World Economic Forum, Transparency International and the Heritage Foundation have shown demonstrable progress by Bulgaria in the past five years. Foreign investment in Bulgaria has increased substantially in the past four years. FDI had 50% growth in FDI in 2002-2003 and 100% growth in 2004. It is first in Eastern Europe in terms of FDI/GDP in 2004. Interviews with ICT cluster members revealed that the software sector has been growing at about 30%/year. Average growth in the ICT sector is about 10-15% per year. A study of SMEs in Bulgaria by CED published in 2004 stated that the number of persons employed by SMEs increased 7.1% between 2001 and 2002. Unfortunately, more recent data on SMEs was not available. However, since SMEs consist of 99% of all registered companies and unemployment has gone down from 18% to 13% in the past four years, one could extrapolate that much of this growth in employment has occurred in SMEs.

EGIP has achieved considerable results over the past four years, but has some remaining areas where further efforts are necessary to consolidate those gain, particularly related to the transition through the upcoming elections and to EU accession. These include further support to the CEG, some limited assistance to the ICT cluster, further work in innovation through business/academic institution collaboration, assisting targeted institutions in public education efforts, outreach of the InvestBulgaria Agency to American investors, further assistance to the Agency for SME Promotion and the SME unit in the Ministry of the Economy.

Since the duration of any follow-on activity in economic growth for USAID/Sofia is only 18 months and since funds are limited, it makes sense to utilize a strategy that would take

advantage of the well-qualified local MSI staff to continue to provide services that would maximize USAID's impact during and beyond the elections in June.

Over the past years, the Bulgaria USAID Mission has approached its economic development portfolio in a logical and comprehensive manner. Mission projects reflect many of the best practices presented in a recent study of Enterprise Development commissioned by EGAT/EG. USAID/Sofia has worked simultaneously to improve firm (and industry)-level operations and to improve the business environment. The portfolio has maximized resources by strategically working across approaches – firm-level, sector/industry, financial services, export orientation, and policy reform. It now will begin focusing on global integration. The Commercial Law project will continue to make improvements to the business environment and the VEGA project improvements to business services, but further efforts are necessary to address some remaining constraints to the global integration of Bulgarian enterprises prior to the closedown of the Mission in 2007.

The team recommends that the Mission consider a number of follow-on activities to EGIP that will help to both institutionalize a number of initiatives carried out under the project. These include the following:

- Targeted support to SMEPA to increase its effectiveness in delivering services to SMEs. This should focus on access to markets and help to broaden the base of SMEs through better information on government laws and regulations and through the development of private sector business service entities. SMEPA realizes that its mission is not to provide services that compete with the private sector, but rather to provide information on the enabling environment and to facilitate the development of private business services to SMEs. Other assistance could be provided to strengthen the SMEPA Advisory Council and to promote the SME agenda in other venues, such as the CEG.
- Targeted support to the IBA to encourage American investors to seriously consider Bulgaria as an attractive location for investment and as a gateway to the European Union. The IBA has already prepared a proposal in this regard and this may serve as a starting point for discussions regarding a potential grant to address this issue.
- Assistance to the CEG to assure that it continues to serve as the lynchpin for public/private sector collaboration on economic policy reform. This assistance could be provided in response to a grant proposal from the CEG that specifies the areas in which it believes USAID assistance can be the most effective.
- Potential assistance to the three departments in the Ministry of Economy to enhance their analytical capability through teaming with private sector entities such as think tanks and business associations.
- Support for the fledgling efforts to enhance collaboration between the business and academic communities of Bulgaria to develop products and services that take advantage of technologies being developed by Bulgarian scientists.

- Further assistance to institutionalize the Regulatory Impact Analysis process both within government and in the private sector through more training in RIA by IME and other potential training entities.
- Limited assistance to the ICT Cluster to promote the use of ICT in other sectors in which SMEs are active in order to broaden the impact of the work with the ICT Cluster.

It is important that any follow-on activities to EGIP by USAID are coordinated with other donor programs in Bulgaria. The key donors working in this area are the EU, GTZ, UNDP, the Japanese and UNCTAD/ITC.

Introduction & Background of the Assessment

The USAID/Sofia Mission contacted the EGAT/EG office in the fall of 2004 to request assistance in the conduct of an assessment of one of the Mission's key economic growth projects, which would be closing in April 2005. EGAT/EG, through Stephen Silcox, provided assistance in drafting a statement of work for the assessment in October 2004 and, subsequently, sent the current team in January 2005 to conduct this assessment of the Enterprise Growth and Investment Project (EGIP). This project was initially known as the Bulgarian Policy Reform and Advocacy Strengthening Project, but its name was changed in 2003 at the request of the Mission to reflect a changing emphasis in project activities.

This team conducted this assessment within the context of the phase out of USAID operations in Bulgaria in 2007, which is reflected in the Mission's Graduation Strategy for the years 2003-2007. Consequently, the Mission requested that the team not only review the strengths and weaknesses and lessons learned from EGIP, but to make recommendations for follow-on activities to the current project that could take place over the next 18 months, prior to the close-down of the Mission.

The guiding principles of USAID/Sofia's approach for its graduation strategy are:

(a) Apply criteria, to compare and contrast across the program portfolio and to streamline the activity phase-out decision-making process: USAID/Bulgaria believes that focus should be on activities that best comply with the following list of criteria:

- Meet the mission priorities in support of U.S. national interests and Mission objectives;
- Promote the accomplishment of U.S. Mission responsibilities;
- Substantial impact - Make a difference in Bulgaria and are recognized by recipients and others as important to Bulgaria;
- Efficient - Minimum overhead expense with the most direct impact possible. Achieves specific outcomes and contains achievable conditions;
- Sustainable - Will leave behind a positive legacy or is structurally sustainable after USAID funding ends;
- USAID/Bulgaria will also keep an eye on two additional and complementary criteria as part of its decision-making during graduation. (e.g., interagency coordination, level of consolidation of reform)

(b) Maximize linkages among sectors to increase prospects for synergy and cooperation;

(c) Focus on legacies as a major vehicle for achieving sustainability;

(d) Incorporating values and partnership approach;
(e) Define conditionalities that would streamline GOB's contribution to USG assistance programs; and
(f) Apply the new Millennium Challenge Account partnership approach to Bulgaria.

The team's recommendations are consistent with those guidelines that are relevant to these follow-on activities.

The team interviewed a sampling of various U. S. and Bulgarian government staff, business leaders, think tanks, consultants, donors and other relevant persons, both in Bulgaria and in the U.S. These interviewees had been involved in project design or implementation, or had received assistance from the EGIP project or had observations about its effectiveness. It was clear from our discussions with various parties both within and outside the project, that perceptions about this project were lumped together with the previous project implemented by MSI in Bulgaria under the Implementing Policy Change IQC from 1996 to 2000. Although the EGIP contractor was procured under another IQC mechanism, i.e., the SEGIR General Business and Trade Investment (GBTI) IQC, many of EGIP's initial activities flowed out of the original MSI project which dealt with general legislative strengthening activities and developing business association advocacy capacity.

This mixture of activities under both the previous and current project made the project a useful tool to USAID beyond economic growth in that some of the project activities assisted other sectors such as health program reforms and pension reform. This was particularly applicable to public education campaigns and in training government officials in better press communication skills, as project staff had well-developed skills in these areas. This is important to realize in that many persons interviewed cited project successes that occurred during the previous project while discussing the assistance that they had received from MSI. The fact that many of the implementing staff of MSI had been staff in the previous project also both provided continuity of message and better understanding of the participants in the legislative process and business association community.

Description of Key Project Components

The original Delivery Order for EGIP stated that the purpose of the project was "to institute a dynamic and efficient public-private dialogue, as well as supporting the development and expansion of advocacy and private sector policy reforms in Bulgaria." It further stated that the project would build upon prior USAID work by taking "a more aggressive approach to policy reform by building on the base of existing dialogue and moving to reform of elements of the policy environment that are acting as impediments to economic growth." It went on to say that, "the Mission believes that the ultimate objective of a policy reform program is to increase the capacity of the Bulgarian economy to thrive in the Balkan region and, in the long run, within the European Union. In other words, the litmus test for the success of policy reforms and the policy reform agenda is the competitiveness of the Bulgarian economy." This statement reflected the Mission's interest in adding a "competitiveness" approach to the project and project activities integrated this approach into the overall direction of the policy reform and advocacy effort. USAID/Bulgaria was one of the first Missions in the Balkans to utilize a competitiveness approach to private sector development through this project. This fact provides some interesting observations about the success of this relatively low-funded competitiveness activity vis-à-vis some more highly funded, recent competitiveness projects. The original Delivery Order provided for a three-year implementation period, but this period was subsequently extended to April 2005. The total project budget is approximately $6 million.

Initial project activities were categorized under four principal areas: economic and policy analysis; policy change processes; advocacy and lobbying skills building; and public education and awareness. Project implementers were to work with key government and private sector entities to further the policy and regulatory reform process in promoting private sector development and to establish vehicles for on-going collaboration and consultation between the public and private sectors. A number of tangible results and benchmarks to be achieved were listed in the delivery order.

An amendment was made to the delivery order in late 2002 to extend the project completion date and to increase the expatriate and local level of effort. It also added a number of additional specific tasks and anticipated results to the contract that fell under the SOW of the original delivery order.

It is important to note that the changing priorities of the governments of Bulgaria and the United States over the years of project implementation have resulted in changes in emphasis in project implementation, although the overall thrust of the project has remained consistent with the delivery order. There is a current priority to increase employment and investment in Bulgaria that has resulted in greater project efforts being made to achieve these ends. Furthermore, there have been other projects funded by USAID and other donors that have provided support to private sector development with a focus on small and medium enterprises (SMEs). This project has coordinated with those

projects as much as possible. Previous USAID funded projects include the FLAG project and the current VEGA project, which have provided technical support and training to SMEs and to Business Support Organizations (BSOs), respectively. EGIP has tended to provide support to government and the business community more at the macro level and those projects have provided support more at the micro level.

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- To the ICT cluster to encourage greater collaboration and facilitating exchanges with foreign companies that have resulted in both growth in the sector and increased joint venture activity,
- To the academic and business communities to collaborate on business ventures to improve technologies in Bulgarian products and services,
- To think tanks to improve their analysis capabilities, including training in Regulatory Impact Analysis, and
- To various ministries and agencies on public education campaigns and on training of key officials to communicate with the public better through improved public press relations and better policy messaging.

Key Findings

Objective #1: To assess the overall effectiveness of the project and to determine if the project has achieved the overall objectives of the project as well as the specific results and benchmarks as listed in the project delivery order and amendments.

a. What government agencies/departments have been established or strengthened as a result of the project and how effectively are they fulfilling their responsibilities?

The primary work of the project in this area has been to assist in restructuring the Ministry of Economy into three departments dealing with general economic policy, enterprise promotion and investment promotion and two restructured service agencies. All three departments in the MOE deal with economic policy. The two restructured agencies serve as executive agencies, i.e., they provide services to Bulgarian enterprises rather than formulate policy. They both report to the Ministry of Economy. The two agencies are the Bulgarian SME Promotion Agency and the Invest Bulgaria Agency. In addition, the Bulgarian SME Promotion Agency was recently combined with the Export Development Agency so it now is charged with both functions.

EGIP has worked extensively with all of these entities to assist in building their capacity with some success, but all of them are still plagued by the usual problems of government agencies, i.e., low pay for employees, frequent changes in leadership, and lack of resources to implement programs. While USAID and other donors have provided some of the resources to assist these entities to maximize their impact, any long-term solution will require that the government provide same. Nevertheless, it has been a major accomplishment that these agencies now have at least the legal and organizational basis to move forward in a more effective manner. Furthermore, the resources provided by the project have clearly assisted those agencies to improve their operations and outreach.

b. What other evidence demonstrates the effectiveness of the project interventions in terms of changes to government processes?

The Council of Economic Growth (CEG) was established in March 2002 to provide a high-level forum for public and private sector collaboration on economic policy reform. It is composed of six ministries and five major business associations. Although the CEG was formed by the GOB, it has benefited from substantial assistance from the project in terms of facilitating its work, and to some extent, serving as a secretariat to increase its impact on policy reform. The project facilitated a retreat in 2003 with the business association representatives of the CEG to help them formulate a more cohesive approach to permit them to represent the private sector as a whole. Then in January 2004, another retreat was facilitated by the project that included all members of the CEG, plus outside interests such as think tanks, that helped the CEG members to better understand their role in policy reform and to encourage other entities to participate in dialogue with the CEG

to improve the quality of debate through improved analysis and more effective communications.

Most individuals in government and the private sector believe that the CEG has established its effectiveness as a forum for public/private sector dialogue and do not believe that its role will change under any new government. Some thought that there might be some changes in terms of membership from the private sector, but its basic function would remain intact. The involvement of local think tanks as part of this consultation process is viewed as essential in the long-term success of public/private sector collaboration on reform.

To some extent, the CEG is also viewed as the equivalent of a national competitiveness council, an idea that was discussed during the early years of the project when J. E. Austin was more involved in project implementation. In the first year of the project, J. E. Austin conducted a competitiveness assessment of Bulgaria as well as an extensive public education campaign that it credited with convincing both business and government that they must view Bulgarian economic growth through the competitiveness prism.

c. What specific legislative acts have been passed or regulations promulgated that exemplify the effectiveness of the project?

Specific laws passed on which the project assisted through drafting legislation or counseling agencies or the CEG include the SME Act and regulations thereto, the Investment Act and regulations thereto, the model Loan Guarantee Fund, the Law Limiting Regulation of Business Activity, and all legislation drafted by the CEG.

d. What private sector entities have been formed or strengthened as a result of the project and how effectively are they serving as representatives of the larger private sector before government?

The project was primarily responsible for the creation of the ICT Cluster Center, since it was a direct result of the project's activities with the various players in the ICT cluster. Beyond that, the project worked closely with a number of private sector entities over the life of the project. Specific organizations strengthened include the following:

- In conjunction with the ICT Cluster – BASSCOM, BAIT, BIBA, ESI Center – Bulgaria, ASTEL, BINA, CLICT and CIS
- Through work with the CEG – BIBA, BIA, BCCI, and the Employers' Association
- Through work with Innovations for Business – BIA, GIS Transfer Center Foundation, and several branch chambers of the BCCI
- In conjunction with improving the capacity of think tanks and public relations – IME, CED, FED, Yanev & Yanev, and Alpha Research

e. What specific policy analyses or draft legislation/regulations have been prepared by private sector entities that have received project support?

Many of the following examples were jointly prepared by both private and public sector entities that have received project support, since most legislation has involved public and private sector consultation.

These include the following:

- Policies – National SME Strategy (initial strategy and update), National ICT Strategy, and the National Investment Strategy
- Legislation/laws/regulations – Law Limiting Regulation of Business Activity, SME Act and regulations, Investment Act and regulations, and the model Loan Guarantee Fund
- Regulatory Impact Assessment Law and processes
- Analyses of various issues in conjunction with the CEG

Objective #2: To assess the results of the competitiveness approach to project implementation and ascertain its usefulness in promoting SME development in Bulgaria.

a. Were the project design assumptions about the competitiveness approach in Bulgaria sound?

Over the past two or three years, there has been an explosion of USAID-supported projects built on a "competitiveness" theme. EGIP was one of the first, and since its start in the year 2000, no fewer than eleven projects in the E&E region follow some type of "competitiveness" design.

In 2004, a report commissioned by EGAT/EG, commonly known as the "Mitchell Report," attempted to summarize and synthesize the results and impacts of USAID supported competitiveness projects. The Mitchell Report attempts to define "competitiveness", and in doing so, it concludes that one of the key elements in "competitiveness" is the presence of industry-specific clusters.

The Bulgaria project design, as described in the January 2000 Delivery Order, makes only a passing reference to industry sectors and clusters. The Bulgaria project design is almost entirely macro-economic in its character. It defines or describes competitiveness from a national perspective, and emphasizes almost exclusively actions at the national level.

Therefore, if the standard for defining "competitiveness" is a "clusters" approach, one might conclude that the design assumptions were not sound. However, interviews with Bulgarian business owners and government officials paint an extremely positive picture of the benefits and achievements of the Bulgarian project. At the same time, discussions with many of the other competitiveness project implementers in the region reveal a

growing dissatisfaction with a competitiveness model in which "clusters" are the dominant implementation device. Furthermore, students of Michael Porter have commented that cluster formation is an important aspect of competitiveness, but that this aspect is often one of the last steps in a competitiveness strategy and is contingent upon the members of the cluster achieving a minimum degree of cohesiveness. As a result, one might conclude that the EGIP approach, while not in exact conformance with the more recent designs, certainly seemed to be right for Bulgaria, and seems to have made positive and substantial impacts in the Bulgarian economy.

b. Were the clusters specified in the project design appropriate and what have been the results of the activity in developing clusters?

As referenced previously, the original design made only passing references to industry sectors and clusters. The design called for undertaking a Bulgarian Competitiveness Analysis, part of which would include an analysis of industry sectors and clusters. No specific clusters were identified as targets of activity in the original design of the project.

Discussions with project management, both in the U.S. and Bulgaria, suggest that the industry sector and cluster analysis was fairly rudimentary. One person referred to it as a, "*back of the envelope*" analysis. The project staff developed a list of six important sectors: tourism, information technology and communications, textiles, winemaking, food processing, and transport. Meetings were held with leaders and associations in each sector to assess readiness, interest, and potential for development of competitiveness clusters.

Project resources were limited, so it was not possible for the project to concentrate for an extended period of time on many sectors. EGIP staff and USAID decided fairly quickly to focus entirely on the ICT sector, and the others were dropped. There is no analysis or technical report that explains the factors on which the decision was based. Project staff contends choosing ICT was right for at least three reasons:

- The sector leadership understood the concepts of competitiveness and was prepared to work with the project to achieve their goals, while other sectors did not seem quite ready to move forward with competitiveness activity,
- The sector, while relatively small in total employment and revenues, was already showing good growth and potential for greater future growth, and
- A strong ICT sector in a country can help promote change throughout other sectors as the benefits of ICT spread throughout the economy.

As to whether results might have been better if the project worked with more clusters, it is impossible to know. It is clear from talking with members of the ICT sector that they believe EGIP was very instrumental in helping the sector coalesce into a dynamic, growing sector with great potential.

The Mitchell Study cites, *inter alia*, two guiding principles for the success of cluster initiatives. It is helpful to state them below since they apply directly to the EGIP experience.

> **While the focus is global, the momentum for change must be local.**
> These kinds of changes are not changes that a donor – or any external agent -- can make happen. Promoting competitiveness requires fundamental change within firms; in the relationships among firms; and in the relationships between firms and their supporting institutions (including government and academia). These kinds of changes can only take place when firms see that it in their best interest to change and when they take ownership for making change happen. This does not mean that there is not a valid and important role for external agents like USAID; however, what is does mean is that without local business leaders taking the lead in promoting and driving the process of change, the likelihood of substantial or sustainable change is minimal.
>
> **A <u>participatory</u> strategic planning process is the starting point.**
> The participatory strategic planning process embedded in most cluster-based initiatives enables cluster members to: discuss and build their own consensus on the critical issues and the key impediments to engaging global markets; design a strategy and initiatives that will realistically enable them to engage global markets more effectively; and then – and most importantly – assume responsibility and ownership for specific initiatives and actions. It is a process that enables the cluster members themselves to determine the parameters of what they will do and will not do … as opposed to USAID or any other donor determining the parameters of what should be done from their perspective.
>
> We believe that it is the participatory strategic planning process – and the resulting local ownership in and responsibility for implementation – that makes competitiveness initiatives distinctly different from USAID's other economic growth initiatives. Competitiveness initiatives are private sector led and driven in their implementation, and this implies a fundamentally different role for USAID and its contractors.

c. Are there specific examples of increased enterprise revenues and exports due to project interventions with specific firms or clusters?

The project has collected very little tangible data about the revenues, employment, profits, and exports of firms in the sector. EGIP staff was somewhat defensive about the absence of this kind of data, and claims they were never really asked to track these types of impacts. Furthermore, since the project does not undertake firm level assistance, they state that it is impossible to make statements regarding causal relationships between their work with the ICT cluster and specific increases in sales or employment of firms in the sector.

What is clear is that the ICT sector overall is exhibiting good growth, and that the firm members credit the project with helping create an overall economic and sector environment that contributes to that growth. Several firms that were interviewed say that they have grown from 5 or 6 employees in the mid 1990's to fifty or more currently. Anecdotally, some industry experts put overall growth in the software industry at about 30% per year.

We asked many of the ICT businesses whether the industry growth, and the development of supportive institutions such as BASSCOM and the IT Cluster Organization, would have happened without the work of the project. The typical answer was that eventually they may have come to that result on their own, but the presence of EGIP helped focus and accelerate the process.

d. Was the project successful in its public relations campaign to acquaint the public with the concepts of competitiveness of Bulgarian enterprises? Why or why not?

Practically everyone interviewed credits the project with putting the "competitiveness" vocabulary into the Bulgarian economic language. Various conferences, round tables, discussions, and other activities conducted with key government ministries and industry associations do seem to have had a significant positive impact on the education of government and business, if not the general public overall. The ability to get the country's leaders talking about the kinds of reforms needed to improve Bulgaria's overall competitive standing in the region seems to be one of the project's principal achievements.

e. What types of firms most benefited from project interventions? Small, medium or large enterprises? How?

The project did not engage in firm level assistance to any significant extent. The project did organize business development events in which a number of individual firms participated, and from that some have been able to realize increases in sales. However, there is no hard, quantifiable data to verify this benefit.

As referenced previously, the only cluster with which the project worked was the ICT cluster. As with Bulgaria as a whole, within the ICT sector the overwhelming majority of firms fall within the range of micro-small-medium enterprises, so one can easily argue that many SMEs have benefited from the projects interventions with this cluster. As described to us by industry leaders, the typical participant in the growing ICT sector started with fewer than ten employees in the mid 1990's, and many have grown to the point where they now employ 50+ workers.

f. Did the government buy into the concept of competitiveness and support efforts to strengthen Bulgarian enterprises? How?

The GOB has made competitiveness one of its top three priorities and the cluster approach as the methodology for economic development. It has worked closely with the

private sector on ICT development and recognizes the ICT cluster as a key engine of growth for the economy. It has supported the development of other clusters, both through its own efforts and in conjunction with other donor projects, notably the EU and GTZ.

g. What should the project have done differently to increase the project impact on the competitiveness of Bulgarian enterprises?

It is always difficult to answer "*what should have been done differently*?" Certainly with additional resources it might have been possible to advance competitiveness activities in other sectors beyond ICT. Would it have been better to spend less time on macro-level, government-focused dialogue and more time working with other industries? Again, this is impossible to know. It does appear that the activities undertaken by the project have been effective and quite well received by key governmental officials and businesses in the ICT sector.

The choice of ICT as the cluster to support will likely lead to competitiveness in other sectors. A World Economic Forum (WEF) report states: "ICT is the key to the evolution of our practices in many domains, such as education, work, personal relations, work effectiveness, and national productivity. An interesting characteristic of ICT, such as that of the Internet and mobile communications, is that overall value increases nonlinearly with the number of connected individuals and organizations. Increasing developing countries' levels of participation in ICT not only creates benefits for the countries; it also increases the overall potential of all connected stakeholders to realize value."[1]

Returning to the points in "*question a*" regarding the overall competitiveness approach, the newer competitiveness projects in the region are following a somewhat different path than that taken by EGIP. The newer projects move fairly quickly to identify and target specific industry clusters. Often the clusters are pre-determined by the project design, and not always based on sound economic analysis. In addition, because missions are pressing the projects for "quick results", the implementers are being required to prove that their efforts are producing an immediate impact in the form of exports, new jobs, or other growth indicators. These design characteristics are causing a great deal of frustration and dissatisfaction on the part of both missions and implementers, since industry experts argue that attempts to make an outmoded sector competitive can take years, not weeks or months.

In Bulgaria, the creation of an IT cluster was one of the last steps in the process. It is something that the industry took on at the end of a three-year process of discussions and collaborations. From all indications, the industry has taken ownership of the cluster organization, and, as such, it has a high probability of becoming a permanent part of the Bulgarian IT sector. Where cluster organizations are created as the act of an external agent and supported with donor funding, the chances of permanent buy-in by the local industry seems less likely.

[1] The Global Information Technology Report 2002-2003: Readiness for the Networked World, Dutta, Soumitra; Lanvin, Bruno; and Paua, Fiona; World Economic Forum and Oxford University Press, 2003, p.22

Objective #3: To assess the effectiveness of the project in building the capacity of both government agencies and private sector organizations to conduct policy analysis and advocate reform.

a. With which government agencies and private sector organizations has the project worked and how were they selected? Did they change over time? If so, why?

The project worked most extensively with the Ministry of Economy and related executive agencies on the government side. However, it also provided assistance to other ministries, particularly in respect to public education campaigns and training high-level staff and PR officers in how to communicate more effectively with the media. More efforts were put into assisting the Invest Bulgaria Agency after USAID stressed the need for more work in the investment area. Support for SME development was consistent throughout the project's life, but ebbed and flowed to some extent, due to changes in administration of SMEPA (formerly ASME). Recent efforts with that agency have been more productive than those during the middle period of the project's existence when a particularly problematic director was in place.

EGIP has worked with a number of private sector organizations, including business associations, think tanks, the ICT cluster and others. Of particular importance is the work done by the project with the CEG, which includes both public and private sector members and is considered to be the foremost entity in Bulgaria in leading economic policy reform.

b. Provide examples of how project assisted government and private sector entities have increased their analytic capacity and have provided better advocacy to promote economic growth and SME development.

A description of how the project assisted various entities related to this topic is provided in regard to the assistance provided SMEPA, the CEG and IBA below.

Bulgarian SME Promotion Agency (formerly ASME)

In 2000, when the program began, ASME was both a policy and services organization. The Agency for Small and Medium Sized Enterprises has been dramatically reshaped from what one USAID Economic Growth Officer described as "an ineffective Agency" to an Agency with a redefined Mission that positions it better to service SMEs in Bulgaria. At the time of this evaluation, ASME had undergone major structural changes. The policy and services divisions of ASME were split into two agencies – SMEPA is now an executive agency oriented towards service provision, while the Enterprise Promotion Unit of the Ministry of Economy handles policy matters. EGIP has provided team-building training and other assistance to both entities and assisted in the development of SMEPA's 2002-2006 strategy. Stakeholders in the government and

private sector were cautiously optimistic that these changes would result in better policymaking and services to SMEs.

EGIP provided the following support to SMEPA:

a) assisting with outreach strategies to regional businesses;
b) development of a communications strategy;
c) creating packages of information products for SMEs (e.g. technical skills building, regional resource guides and how-to manuals;
d) strengthening the institution to assess and respond to information needs;
e) strengthening the SMEPA Advisory Council;
f) exposure to and cooperation with regional SME agencies abroad; and
g) creation of incentive schemes, such as the small business of the year awards.

A notable project achievement of is the creation of an web-based information system for SMEPA with a database of SMEs that gets approximately 50,000 hits per year and was voted the best government site in Bulgaria in 2003. The project was also credited for its work in developing a model for a loan guarantee fund for SMEs to be run by SMEPA.

The Council for Economic Growth

The project's crowning achievement for public-private dialogue is the strengthening of the Council for Economic Growth (CEG). The CEG was established without EGIP assistance, but meeting management was allegedly poor – too frequent without enough preparation on major policy decisions. A major problem was that the business associations were expressing different messages and did not have a consolidated long-term strategy. This disorganization made it difficult to elicit government reaction or approval to private sector suggestions. EGIP is attributed with the coordination on positions and strategies of the business associations, to promote a more united private sector position to the government. This was achieved through organizing a retreat with the business organizations where the organizations began to understand the importance of collaboration and creating long-term strategies.

The strength of this coordination has given confidence to more than one of the participating associations and government representatives that the CEG will not only survive the election, but will play a key role in briefing the new governmental officials. Project support provides an <u>independent</u> facilitator who handles meeting logistics, agenda-setting, note taking and follow-through with those assigned specific tasks by the council. This is an important role and is highly valued by the private associations on the Council.

Stakeholders view the project's contributions as critical to the progress CEG has made and it is clear that the CEG has been institutionalized. Participants state the CEG is a strong entity. The project will leave behind a functioning, well-received, effective and regular policy dialogue between the public and private sector. The CEG has allowed the government and private sector to create and work towards long-term strategies to affect

the growth and competitiveness of the Bulgarian economy. The dialogue is seen by both public and private participants as fruitful. This is a significant achievement.

The Invest Bulgaria Agency (formerly Bulgarian Foreign Investment Agency)

The Invest Bulgaria Agency (IBA) was provided the following assistance:

a) development of a national investment strategy, based on a SWOT analysis;
b) a study tour to Ireland to gain lessons learned there in FDI promotion,
c) drafting standard operating procedures of the Agency;
d) drafting of a form to assess municipality needs; and
d) marketing and informational product development.

The IBA is led by a dynamic, young Bulgarian who was appointed to the position about two years ago and has had a dramatic impact on the agency. FDI has increased substantially over the past two years and was up 50% in 2003 and 100% in 2004. However, management at the IBA is thin and is a cause for concern. The team was informed that the Japanese foreign assistance agency (JAICA) will be placing a full-time advisor with IBA in April to provide management assistance and assistance in promoting Bulgaria among Japanese investors.

c. What lessons were learned regarding how to increase the capacity of governmental and private sector entities to achieve this objective?

Local ownership, public and private, of the policy-making process in Bulgaria is strong. Bulgarian consultants, government officials and local firms did the work creating the investment strategy, the ICT strategy and the creation of the CED. The apparent result, from our interviews, is a deep understanding of these strategies by organization leaders, as well as a long-term vision by the firms and organizations to Bulgaria's future positioning for industries, investment and growth.

Analysis was a focus of both the inputs and outputs, thus creating a methodology for continued reforms based on changing conditions. The project, through local consultants, conducted a SWOT analysis of foreign and internal investment in Bulgaria. Instead of focusing on changing specific regulations that had negative impacts on firms, the project helped to enact the Regulatory Impact Assessment (RIA) law, which requires the government to assess the impact of each new law on the private sector. While the implementation and of the RIA is weak and not always well understood, it will become stronger and is a positive step towards public understanding of the need to regulate wisely. Analysis is an ongoing necessity in every society to be able to plan projects wisely. By insisting on analytical rigor prior to implementation of new activities, the project will leave behind a culture of fact-based decision-making, a legacy stronger than individual organizations.

Focus all activities around a clearly defined subject matter. This includes workshops, trainings and any form of dialogue. Demonstration of how the topic/ subject of the

conversation has worked in a context similar to Bulgaria is especially necessary to gain credibility.

Having an institution as the center of the public-private dialogue is important for continuity between administrations.

Working to better conceptualize messages among organizations, whether public or private, is critical in fostering a productive environment for policy reform. For example, the associations participating in the CEG were considerably more effective after strategy workshops were facilitated by the project.

Public education campaigns are an important tool for policy reform.

d. What were the inherent weaknesses of the entities that the project assisted? Have these weaknesses been overcome?

We mentioned under Objective #1 above that most government offices and agencies are hampered by the usual problems of government agencies, i.e., low pay for employees, frequent changes in leadership, and lack of resources to implement programs. This will continue for some time, but at least the legal and organizational basis of those entities is now more logical and will help them to both differentiate their activities and, hopefully, be more effective as a result. Continual training of new staff will be a constant requirement. Some of this may come from other donors, but should be built into government civil servant training. An interview with the director of the Institute for Public Administration and European Integration revealed that this is occurring to some extent, but will require in-house agency training programs as well.

As for the private sector entities – mainly business associations, think tanks and other NGOs – finance will remain a problem. However, as the Bulgarian economy improves, this should be less of a problem. It is encouraging that many of the larger business associations have provided finance for analysis of economic issues by think tanks, as well as developing in-house analytic capacity. Regarding the ICT Cluster, the analytic capacity of that entity seems assured.

e. What are the prospects for sustainability of the policy analysis and advocacy skills enhanced by this project?

The team expects that the policy analysis and advocacy skills addressed by the project will continue and should be sustainable over time. As stated above, some encouraging signs are evident. Major weaknesses that require attention, however, include the following:

- Implementation of the RIA will require more training for those responsible;
- An independent facilitator for the CEG is helpful, but will require financing from non-donor sources. The business associations may pick up this cost, but not until after this summer's election; and

- The SME Advisory Council is still perceived as weak. To sustain the SME advocacy role, it may be useful to give SMEs a role in the CEG, to have leadership training and continue to provide support to those agencies that serve and represent SMEs.

Objective #4: To assess the success of the project in institutionalizing participative and democratic policy-making and communicating accurate policy messaging by the GOB.

a. What mechanisms have been established to provide for private sector inputs into the policy-making process of the government that can be attributed in whole or in part to this project?

The project has had some major successes in this area, notably the CEG, the SME Advocacy group, stronger think tanks, and strategy development – particularly the Investment Strategy, the SME Development Strategy, the National Competitiveness Strategy and the ICT Cluster Strategy

b. What types of participation have been institutionalized as a result of assistance provided by the project and what are the prospects for their continuance after the project comes to an end?

The CEG and the general participation of the Bulgarian business associations and think tanks in the process of public/private sector dialogue has been firmly established during the life of the project. All parties interviewed in both the public and private sectors agreed that this new consultative process for economic policy reform has been institutionalized and take place on a regular basis in various venues. They could not imagine any new government abrogating this consultative process and expect it to continue into the future regardless of any changes in political administrations.

c. What type of assistance was provided to GOB entities to improve their communication of accurate policy messaging and was it successful? Provide examples of why or why not.

As mentioned before, the project has provided assistance to the GOB on various successful public education campaigns, including pension reform, health care reform, microlending, on-line VAT registration, deposit insurance, and investment which received considerable praise from parties involved in those campaigns. Assistance included the preparation of public education brochures, videos, and other media. Furthermore, training in public relations was provided to ministers, deputy ministers and press officers on how to better communicate with the media. The success of this training has been evidenced in better policy messaging by these government officials and an increased emphasis has been placed on good media relations and better policy messaging by the recipients of the training interviewed by the team. One particular press officer stated that the training not only enhanced the messaging by the minister in her ministry,

but it also caused the minister to place more importance on the press office to communicate better with the general public.

d. Has an overall Communication Strategy form Ministries and the Council of Ministers been developed? What types of training were provided to assist with the establishment of the communication strategy and give examples, if any, of how this may have resulted in more professional press secretaries in particular agencies?

Except for a Communications Strategy formulated by SMEPA, there have not been any real "communications strategies" adopted by any ministries or agencies. However, a number of agencies received project assistance in how to better communicate agency messages and have adopted many of the techniques in which they were trained by the project. It was clear from our interviews that the training provided to the various ministries and agencies was highly valued. See answer to "c" above.

e. Which GOB entities have gained the most from project interventions and how?

Foremost, the Ministry of Economy, including SMEPA and IBA, has gained the most from the project in ways described above. In addition, the Ministry of Transport and Communications and the ICT Agency have gained much from the project's work in the ICT Cluster. The Ministry of Finance and the Ministry of Energy have also received assistance from the project as part of the work with the CEG in pushing through several initiatives with private sector support.

f. Are the any new GOB agencies that have been formed that provide evidence of the project's effectiveness?

The CEG and the ICT Cluster are the principal new GOB entities (with private sector participation) that are evidence of the project's effectiveness.

Objective #5: To determine if and how the project has enhanced job creation and private sector investment in Bulgaria.

a. How has the project enhanced job creation in Bulgaria? Give examples of how jobs have increased (or not) in particular clusters targeted by the project.

The original Task Order states "the litmus test for the success of policy reforms and the policy reform agenda is the competitiveness of the Bulgarian economy". Five years is not sufficiently long to be statistically important in the determination of the overall competitiveness of the economy. The Task Order does not state what the competitiveness of the Bulgarian economy would look like, i.e., it should be competitive, but relative to what? In how many sectors and according to what indicators? Without this information, the assessment team used existing data to show general changes in the economy and has relied on case studies, indicators of possible future change and

perceptions by key informants to illustrate potential successes – direct or indirect – of the program. Some indicators, especially at macro-levels, are simply indicators of aspects of the economy or the body politic and it is difficult to make a direct causal relationship between them and project activities.

Having said this, the ICT cluster has grown by about 10-15% year over the past few years during the period in which the project was providing assistance. The project certainly can take credit for some of this growth.

b. In which activities has the project engaged to enhance job creation? What have been the results of those particular interventions?

Project assistance to the ICT cluster, to the CEG and to the IBA have contributed to job creation in Bulgaria, although it is impossible to ascertain how much. As one think tank director stated, the changes in the economy and institutional growth may have occurred without project assistance, but they would not have occurred as fast. Clearly, the decrease in unemployment from 18% in 2000 to 13% in 2004 is a positive indicator of job creation. FDI in 2004 will create more than 2600 jobs. It is impossible to attribute these jobs directly to the work done by the project with the IBA, but one can argue that the project's assistance had a positive impact on the IBA and that resulted, in part, in some of the job creation.

c. Has private sector investment in Bulgaria increased or decreased during the term of this project? How much has been due to domestic investment and how much due to foreign investment?

From the time the project began working with the IBA's predecessor, FDI has increased an estimated 331%. Domestic investments in 2003 reached $4.1 billion and FDI reached $1.4 billion. Total investments in 2004 increased and estimated 16.5% and their share of GDP reached an estimated 23.6%.

d. In which types of activities has the project engaged to encourage private sector investment in Bulgaria? Was any monitoring system put in place to track results from these efforts? If yes, what were the results?

See previous description of the project's work with the IBA in Objective #3, section "b" above. The work with the ICT sector has also increased private sector investment in Bulgaria, both domestic and foreign. No monitoring system was put in place to track results. Although it would have been difficult to attribute any increases directly to project activities, it would have been useful to have such a system to, at least, attempt to track those results. The MSI COP contends that the Mission never required such tracking of results and did not provide any LOE or resources to do same. Nevertheless, this would seem to be a project oversight in today's USAID world of Performance Monitoring Plans and other monitoring and evaluation systems.

e. What are the current outstanding constraints to private sector investment in Bulgaria? Are there any differences between internal and external investment constraints?

Most individuals interviewed believed that there are no real differences between internal and external investment constraints. Key constraints remaining include administrative barriers and lack of transparency in privatization of some sectors.

f. How does Bulgaria rate compared to other countries in terms of competitiveness, corruption and transparency of government policies and regulations? Has the project helped to contribute to any improvements in these areas?

The Global Competitiveness Report (GCR), produced by the World Economic Forum is widely considered the most accurate benchmark of country-level competitiveness. The GCR takes firm level, macro environment and business environment into account when compiling the rankings. According to the GCR, Bulgaria increased its competitiveness from 2001 to 2003, from being ranked number 64 out of 104 to 59 out of 104. Bulgaria's Global Competitiveness Index score is 3.98, a tie with Poland and higher than Croatia and Egypt. Bulgaria rank shows that it is only slightly less competitive than India, but is still far behind regional leaders such as Hungary and the Czech Republic.

Bulgaria's score under the Index of Economic Freedom conducted by the Heritage Foundation every year has experienced a steady increase over the past six years, going from 3.60 in 1998 to 2.74 in 2004. This puts Bulgaria in the "mostly free" category and a country ranking of 52 in the world. Bulgaria's score under this index is far above all other Balkan countries except for Slovenia, which has a rating of 45.

According to the World Bank Doing Business in 2005 report, Bulgaria is far ahead of its regional neighbors in basic business environment indicators. Corruption in Bulgaria has decreased over the past few years as well, according to Transparency International. However, Bulgaria still has a long way to go to eliminate corruption in the economy.

Regarding the project's contributions to these better ratings, one must, again, state that it is impossible to make a direct correlation. However, one can feasibly argue that the project's successes have clearly contributed to these positive results.

Conclusions

Objective #1: To assess the overall effectiveness of the project and to determine if the project has achieved the overall objectives of the project as well as the specific results and benchmarks as listed in the project delivery order and amendments.

- The overwhelming conclusion of the team is that the project has been extremely effective in achieving its overall objectives
- Virtually all of the recipients of services of the project, as well as project collaborators expressed a great deal of satisfaction with those services and collaboration.
- The MSI team has been very effective in promoting an inclusive and politically unbiased approach that has been respected and admired by all persons interviewed. This approach is credited with allowing the MSI staff to be effective in promoting reforms with both the public and private sector.
- The knowledge of key project staff of sources of professional technical assistance, both local and international, has permitted MSI to acquire and utilize consultants and trainers who have been respected and viewed by project service recipients as very effective.
- Although the project has accomplished almost all of the project tasks and outputs, there is a shortage of hard data to demonstrate quantitative results of project impact.

Objective #2: To assess the results of the competitiveness approach to project implementation and ascertain its usefulness in promoting SME development in Bulgaria.

- Being one of the first private sector development projects in Eastern Europe to use the competitiveness methodology, the project has achieved considerable success in promoting the competitiveness agenda throughout the country through a public education campaign and a series of meetings and conferences with both public and private sector entities.
- Although one interviewee from a Bulgarian think tank separated the methodology of competitiveness from EU accession, most persons interviewed believed that the upcoming EU accession was a significant factor in focusing both government and business attention on the competitiveness of Bulgarian products, services, and businesses.
- Although five clusters were originally designated for project assistance, four were eventually dropped due to perceptions of a lack of cluster leadership and cohesiveness and only the ICT cluster received long-term project assistance. However, the success of the ICT cluster is significant and has resulted in real advancement of the ICT cluster in Bulgaria through both new revenues and employment growth.

- Enterprises of all sizes were improved and enhanced as a direct consequence of the project's activities with the ICT cluster, including local SMEs and large foreign firms (both American and European).
- Some questions emerged as to the wisdom of limiting the project activities to one cluster, but it is hard to determine if that decision was proper or not. Current activities by other donors, notably the EU, in the development of other clusters will eventually reveal if the project's decision, approved by USAID, was correct.

Objective #3: To assess the effectiveness of the project in building the capacity of both government agencies and private sector organizations to conduct policy analysis and advocate reform.

- Project activities in this area have focused on a few agencies and private sector organizations, notably the Ministry of the Economy, the Agency for SME Promotion, the Council for Economic Growth (and the business associations that are represented on the CEG), the Bulgarian Investment Agency and the ICT cluster. All of these entities, save the InvestBulgaria Agency appear to have been targeted early on for assistance from the project. In addition, MSI has also assisted in the development of a number of Bulgarian think tanks, including IME and CED.
- Recent project activities started a focus on innovation that has encouraged collaboration between Bulgarian businesses and academic institutions. MSI has collaborated with some other key institutions in Bulgaria, some private and independent and others that are donor-funded in these efforts.
- The policy advocacy work of the CEG, the think tanks and the Ministry of the economy has achieved considerable results. The Bulgarian think tanks appear to have funding from various sources, including other donors, foundations and local business associations.
- Sustainability of almost all of the entities with which the project has worked appears to be on track. However, further assistance may be necessary to facilitate long-term sustainability of certain key institutions due to potential changes that might occur if the upcoming national elections result in institutional changes.
- One example of the analytical capacity of local organization rests with the Bulgarian International Business Association (BIBA). BIBA has produced the White Paper on the Business Climate for several years. Since the CEG is now the principal dialogue point for business climate issues, and these issues are addressed on a regular basis, BIBA has abandoned the White Paper analysis and begun the preparation of a handbook for business on EU accession. The first handbook will be presented to the government through the CEG during the first half of 2005.

Objective #4: To assess the success of the project in institutionalizing participative and democratic policy-making and communicating accurate policy messaging by the GOB.

- Representatives of government and the private sector interviewed all agreed that the participation of the private sector business community in government policy

making will go on, regardless of any potential political changes resulting from the upcoming election.

- The CEG and regulatory impact analyses are the most direct mechanisms for private sector input into the policy-making process of the government. Both are directly attributable to the project. The CEG was formulated without project assistance, but was ineffective until MSI provided assistance. The CEG is now a viable, institutionalized entity for public-private dialogue.
- The Regulatory Impact Analysis (RIA) is a critical, analytical tool that is mandated under law. More assistance in the utilization of this tool is needed. The RIA is an excellent legacy because it will provide the tool needed to respond to dynamic changes within the Bulgarian political economy.
- The ICT cluster has also been very effective in promoting its policy reform agenda, both due to MSI's assistance in formulating a strategy for ICT development in Bulgaria and due to the dynamism of the cluster members (which was a principal reason for MSI's decision to focus its cluster assistance on the ICT cluster).
- Project assistance to government entities to train high-level government officials and press officers on media communications appears to have been highly effective. A number of these press officers have moved on into the private sector in similar, better-paid positions, but this is to be expected in any county and helps to demonstrate the value of the training.
- The various MSI project public education campaigns in many areas appear to have been very successful. MSI's talents in this regard were recognized by the USAID Mission and utilized for other USAID projects not directly related to economic growth or reform. Video productions and printed materials reviewed revealed a high level of professionalism in communicating accurate policy messaging.
- Local ownership, public and private, of the policy-making process in Bulgaria is strong. Bulgarian consultants, government officials, and local firms did the work creating the investment strategy, the ICT strategy and the creation of the CEG. The apparent result, from the interviews conducted by the assessment team, is a deep understanding of these strategies by organization leaders, as well as a long-term vision by the firms and organizations to Bulgaria's future positioning for industries, investment and growth.

Objective #5: To determine if and how the project has enhanced job creation and private sector investment in Bulgaria.

- Considerable evidence shows that significant job creation and private sector investment has occurred in Bulgaria during the time of the project. However, it is difficult to demonstrate that those gains can be directly attributed to the project. All persons interviewed in government and the private sector described the project's role as significant catalyst to the creation of conditions that resulted in those job creation and investment gains.
- Rankings of countries by international institutions on economic freedom and policy environments, including those of the World Economic Forum,

Transparency International and the Heritage Foundation have shown demonstrable progress by Bulgaria in the past five years.

- Foreign investment in Bulgaria has increased substantially in the past four years. FDI had 50% growth in FDI in 2002-2003 and 100% growth in 2004. It is first in Eastern Europe in terms of FDI/GDP in 2004.
- Interviews with ICT cluster members revealed that the software sector has been growing at about 30%/year. Average growth in the ICT sector is about 10-15% per year.
- A study of SMEs in Bulgaria by CED published in 2004 stated that the number of persons employed by SMEs increased 7.1% between 2001 and 2002. Unfortunately, more recent data on SMEs was not available. However, since SMEs consist of 99% of all registered companies and unemployment has gone down from 18% to 13% in the past four years, one could extrapolate that much of this growth in employment has occurred in SMEs.
- Quantitative impact data for project results in SME employment, sales, exports and other items do not appear to have been tracked by MSI, despite a requirement that they do so in the workplan as revised in March 2001. The COP of MSI claims that USAID never required the project to establish a monitoring and evaluation plan.

Objective #6: To provide recommendations to the Mission regarding potential future activities to build on the project and potential mechanisms to obtain future services.

- The project has achieved considerable results over the past four years, but has some remaining areas where further efforts are necessary to consolidate those gain, particularly related to the transition through the upcoming elections and to EU accession. These include further support to the CEG, some limited assistance to the ICT cluster, further work in innovation through business/academic institution collaboration, assisting targeted institutions in public education efforts, outreach of the InvestBulgaria Agency to American investors, further assistance to the Agency for SME Promotion and the SME unit in the Ministry of the Economy.
- Since the duration of any follow-on activity in economic growth for USAID/Sofia is only 18 months and since funds are limited, it makes sense to utilize a strategy that would take advantage of the well-qualified local MSI staff to continue to provide services that would maximize USAID's impact during and beyond the elections in June.

Recommendations for Future Mission Activities

Over the past years, the Bulgaria USAID Mission has approached its economic development portfolio in a logical and comprehensive manner. Mission projects reflect many of the best practices presented in a recent study of Enterprise Development commissioned by EGAT/EG. USAID/Sofia has worked simultaneously to improve firm (and industry)-level operations and to improve the business environment. The portfolio has maximized resources by strategically working across approaches – firm-level, sector/industry, financial services, export orientation, and policy reform. It now will begin focusing on global integration. The Commercial Law project will continue to make improvements to the business environment and the VEGA project improvements to business services, but further efforts are necessary to address some remaining constraints to the global integration of Bulgarian enterprises prior to the closedown of the Mission in 2007.

The team recommends that the Mission consider a number of follow-on activities to the EGIP Project that will help to both institutionalize a number of initiatives carried out under EGIP. These include the following:

- Targeted support to SMEPA to increase its effectiveness in delivering services to SMEs. This should focus on access to markets and help to broaden the base of SMEs through better information on government laws and regulations and through the development of private sector business service entities. SMEPA realizes that its mission is not to provide services that compete with the private sector, but rather to provide information on the enabling environment and to facilitate the development of private business services to SMEs. Other assistance could be provided to strengthen the SMEPA Advisory Council and promote the SME agenda in other venues, such as the CEG.
- Targeted support to the IBA to encourage American investors to seriously consider Bulgaria as an attractive location for investment and as a gateway to the European Union. The IBA has already prepared a proposal in this regard and this may serve as a starting point for discussions regarding a potential grant to address this issue.
- Assistance to the CEG to assure that it continues to serve as the lynchpin for public/private sector collaboration on economic policy reform. This assistance could be provided in response to a grant proposal from the CEG that specifies the areas in which it believes USAID assistance can be the most effective.
- Potential assistance to the three departments in the Ministry of Economy to enhance their analytical capability through teaming with private sector entities such as think tanks and business associations.
- Support for the fledgling efforts to enhance collaboration between the business and academic communities of Bulgaria to develop products and services that take advantage of technologies being developed by Bulgarian scientists.

- Further assistance to institutionalize the Regulatory Impact Analysis process both within government and in the private sector through more training in RIA by IME and other potential training entities.
- Limited assistance to the ICT Cluster to promote the use of ICT in other sectors in which SMEs are active in order to broaden the impact of the work with the ICT Cluster.

It is important that whichever follow-on activities to EGIP are engaged in are coordinated with other donor programs in Bulgaria. The key donors working in this area are the EU, GTZ, UNDP, the Japanese and UNCTAD/ITC. The team met with all of these, except the GTZ and the Japanese. However, the team relied upon a PowerPoint presentation given by GTZ in 2004 at a donor coordination meeting that we obtained from USAID. The Japanese program was also described by a USAID officer. The various donor programs relative to any follow-on EGIP activities are summarized below.

EU

The EU program in Bulgaria is the largest donor program. The overall budget in 2004 was Euro 400 million. Next year, the budget is expected to increase by 20%. The EU expects to spend a total of Euro 4.56 billion in Bulgaria from the program's beginnings until 2009, including funds from PHARE, structural and cohesion funds. On-going projects in the private sector development area include the following:

- Support to SMEPA. This is a twinning project with the Dutch to support trade plus some organizational assistance. It is scheduled to end in October 2005, but further assistance may be provided.
- Support to the Ministry of Tourism with a related companies grant scheme
- Support for eco-tourism in rural areas
- 2 schemes in research and development and technology advancement. These involve co-financing private companies to acquire equipment and other technology.

A new pilot project in competitiveness should start in May. Euro 30 million are budgeted for the period 2004-2006. 65% will go for technical assistance and training. The project implementers will determine which clusters the pilot project will work with, but 2 clusters are expected to be identified. The follow-on project anticipates working with up to 12 clusters.

Another new project will convert military bases into business incubators, provide training centers and prepare unused buildings for foreign investors. The EU representative interviewed said that more funds could be available for private sector development, but they have not had success in a couple of projects so the budget is smaller than it might be. He also mentioned that the EU has cross-border trade projects with almost all of the countries in the region.

UNDP

The JOBS Project is the only UNDP project currently operating in Bulgaria. It started in 2000 and is being implemented with the Ministry of Labor and Social Insurance. It is a

7-year project funded at $22 million, with most of that coming from the GOB. It provides a network of Business Centers (BCs) and Business Incubators (BIs) around the country. Most of the BCs and BIs are in smaller towns of less than 100,000 populations. The project also leases equipment to enterprises. USAID provided some support to the pilot projects that preceded the JOBS project. Total employees under the project number 200+, plus persons paid with program funds in different locations.

It appears that this is a project providing considerable business support in rural areas, but sustainability is a big issue with these BCs and BIs. Subsidies to the BCs are supposed to diminish each year with all subsidies ending at the end of the fourth year. However, the project administration is beginning to consider extending them in order to assure that the target market of small and microenterprises are addressed. Likewise, businesses taking advantage of the BI premises are supposed to be paying market rents at the end of the third year or must vacate the premises. Project staff stated that the total jobs created by the project are about 13,000.

GTZ

GTZ has provided a total of Euro 580 to Bulgaria for 180 projects since 1992. Their principal programs are in three areas:

- Promoting the competitiveness of the Bulgarian economy (SMEs) through economic partnerships, vocational training and employment promotion;
- Promotion of SMEs in agriculture and forestry; and
- Assistance to the public administration.

The GTZ competitiveness project is active in six clusters including, wine, food processing, tourism, ICT, clothing/textiles, and wood processing. It also encourages subcontracting, promotion of regional economies and promotion of branch associations. Policy reform activities are related to the clusters being developed.

UNCTAD/ITC

The International Trade Center of UNCTAD is currently in the process of designing a project to encourage trade between Bulgarian SMEs and other European countries. Discussions with the principal consultant designing the program revealed that the project will run for 2 years and be funded at about $1 million per year. They expect to work with a couple of sectors – probably textiles and one other. The project will probably start in the summer of 2005. SMEPA is expected to be the principal counterpart agency for this project. They are developing a similar project in Romania.

Japanese

The Japanese plan to provide a long-term advisor to the Invest Bulgaria Agency for 2 years, starting in April, to assist on building institutional capacity and to encourage Japanese investment in Bulgaria.

ANNEXES

ANNEX 1

LIST OF PERSONS INTERVIEWED

USAID/Sofia
Debra McFarland, Director
David Lieberman, Chief, Private Enterprise Office
Nikolay Yarmov, Senior Advisor: Enterprise Development
Ivanka Tzankova, Ph.D., Program Officer
Nora Ovcharova, AE & PS Manager

USAID/Washington
Scott Kleinberg, EGAT/ (former USAID/Sofia staffmember)

Consultants/Washington
Russell Webster, former MSI EGIP Home Office Project Manager
Martin Webber, J.E. Austin EGIP Competitiveness Project Manager
Stanley Shumway, former COP of FLAG Project in Bulgaria (telephone interview)

MSI/EGIP staff
Howard Ockman, Director
Filip Stojanovic, Deputy Director
Diana Pazaitova, Program Manager
Dimo Tsvetanov, Coordinator of Council of Economic Growth
Mircho Mirchev, IP Consultant
David D'Agostino, SME Consultant
Robert Randolph, Investment Consultant

Bulgarian Businesspersons & Association Leaders
Benislav Vanev, Chairman, & Stefan Gulubov, Supervisory Board Manager, "Metallic" Metal-cutting Machines Plant, Pazardjik Automation and Information Science Union
Dimiter Petrov, Owner, "Intex"
Peter Statev, President and Member of Club "Innovation Scenarios" /KIS/ and Association Telecommunications /ASTEL
George Dimitrov, President, Center for Law on ICT (CLICT)
Nikolay Rashev, Vice President, Bulgarian Association of Software Companies (BASSCOM)
Sasha Bezouhanova, Vice President and Chairwoman of IT Committee, Bulgarian International Business Association (BIBA)
Tanya Veleva, Executive Director, ICT Cluster Center
Bojidar Danev, Chairman and Executive President, and Kamen Kolev, Ph.D., Managing Director, Bulgarian Industrial Association (BIA)
George Brashnarov, Chairman of Board, and Ivaylo Georgiev, Program Manager,

European Software Institute Center /ESI Center – Bulgaria

Bulgarian Government Officials
Ivan Sariev, Director of IT Department **(**TBC**)**, Ministry of Finance
Eli Anavi, Ph.D., Director, Enterprise Policy Directorate, Ministry of Economy
Maria Velkova, Acting Head, Promotion of SMEs & Entrepreneurship, Ministry of Economy
Elena Pishtovkoleva, Director, Investment Policy Directorate, Ministry of Economy
Alexander Babinov, Deputy Executive Director, Bulgarian SME Promotion Agency
Pavel Ezekiev, Executive Director, Invest Bulgaria Agency
Ludmila Videnova, Public Relations Counselor, Ministry of Labour and Social Policy
Georgi Manliev, Executive Director, Institute of Public Administration and European Integration (IPAEI)

Think Tanks
Krassen Stanchev, Ph.D., Executive Director, Institute for Market Economics (IME)
Anelia Damianova, Senior Researcher, Center for Economic Development (CED)

Consultants/Bulgaria
Evgeni Ivanov, Director European Programmes, Finera
Ricardo Bisso, SECO/ITC Advisor, Trade Development Programme, UNCTAD

Donors
Herman Hagspiel, Director, Private Sector Development, European Union Delegation to Bulgaria
Elena Panova, Programme Officer, UNDP

Project Staff
Tashka Gabovska, Project Manager, Job Opportunities Through Business Support (JOBS)
Aideen Mannion, Director, Volunteers for Economic Growth Alliance (VEGA) Bulgaria BTD
Angel Milev, Director, Innovation Relay Center

ANNEX 2

LIST OF DOCUMENTS REVIEWED

Bulgaria Economic Forum, 2004 Investment Guide for Southeast Europe, September 2003.

Bulgarian Industrial Association, "Competitiveness of Bulgaria," prepared for the EU-Bulgaria Joint Consultative Committee, August 2004.

Center for Economic Development, Small and Medium-Sized Enterprises in Bulgaria 2002-2003, Report by the Agency for Small and Medium-Sized Enterprises, 2004.

Center for Economic Development, The Bulgarian Economy, July 2004.

Delivery Order, "Assistance for Bulgarian Policy Reform and Advocacy Strengthening," January 2000.

Delivery Order, "Bulgaria – Implementing Policy Reform Project," August 2002.

EGIP Project Work Plans and Monthly Status Reports.

EGIP Project Budgets.

Heritage Foundation, 2005 Index of Economic Freedom, 2004.

Government of Bulgaria, Invest Bulgaria 2004 and Invest Bulgaria 2005.

GTZ, Powerpoint presentation on German-Bulgarian Economic Cooperation, 2004.

Invest Bulgaria Agency, Powerpoint presentation for USAID reviewing investment achievements and challenges in Bulgaria, January 2005.

MSI, Memorandum with attachments dealing with issues to be dealt with by the assessment team dated January 10, 2005.

USAID Bulgaria Graduation Strategy, 2003 – 2007, May 28, 2003.

ANNEX 3

STATEMENT OF WORK

ASSESSMENT OF THE BULGARIAN ENTERPRISE GROWTH AND INVESTMENT PROJECT (EGIP)

(Formerly the Policy Reform and Advocacy Strengthening Project)

(CONTRACT #PCE-I-00-98-0016-00)

PURPOSE

The purpose of this activity is to provide an independent assessment of the effectiveness of the Bulgarian Policy Reform and Advocacy Strengthening Project (hereinafter referred to as "the project") in order to assist the USAID/Bulgarian Mission in determining the overall effectiveness of the project, specific accomplishments achieved, and to make recommendations regarding future Mission activities that could build on the achievements of the project and to address areas that require further USAID assistance.

BACKGROUND

The project builds upon a prior activity entitled, the Bulgarian Implementing Policy Change Project which was implemented between December 1996 and March 2000 by Management Systems International (MSI). This project began in April 2000 has been implemented by MSI and a subcontractor, J.E. Austin Associates, and was contracted under the SEGIR GBTI IQC. The original Delivery Order provided for a three year implementation period, but this period was subsequently extended to April 2005. The total project budget is approximately $6 million.

The original Delivery Order stated that the purpose of the project was "to institute a dynamic and efficient public-private dialogue, as well as supporting the development and expansion of advocacy and private sector policy reforms in Bulgaria." It further stated that the project would build upon prior USAID work by taking "a more aggressive approach to policy reform by building on the base of existing dialogue and moving to reform of elements of the policy environment which are acting as impediments to economic growth." It went on to say that, "the Mission believes that the ultimate objective of a policy reform program is to increase the capacity of the Bulgarian economy to thrive in the Balkan region and, in the long run, within the European Union. In other

words, the litmus test for the success of policy reforms and the policy reform agenda is the competitiveness of the Bulgarian economy." This statement reflected the Mission's interest in adding a "competitiveness" approach to the project and project activities integrated this approach into the overall direction of the policy reform and advocacy effort. USAID/Bulgaria was one of the first Missions in the Balkans to utilize a competitiveness approach to private sector development through this project.

The project activities were categorized under four principal areas: economic and policy analysis; policy change processes; advocacy and lobbying skills building; and public education and awareness. Project implementers were to work with key government and private sector entities to further the policy and regulatory reform process in promoting private sector development and to establish vehicles for on-going collaboration and consultation between the public and private sectors. A number of tangible results and benchmarks to be achieved were listed in the delivery order.

An amendment was made to the delivery order in late 2002 to extend the project completion date and to increase the expatriate and local level of effort. It also added a number of additional specific tasks and anticipated results to the contract that fell under the SOW of the original delivery order.

It is important to note that the changing priorities of the governments of Bulgaria and the United States over the years of project implementation have resulted in changes in emphasis in project implementation, although the overall thrust of the project has remained consistent with the delivery order. There is a current priority to increase employment and investment in Bulgaria that has resulted in greater project efforts being made to achieve these ends. Furthermore, there have been other projects funded by USAID and other donors that have provided support to private sector development with a focus on small and medium enterprises (SMEs). This project has coordinated with those projects, notably the prior FLAG project and the current VEGA project, which have provided technical support and training to SMEs and to Business Support Organizations (BSOs), respectively. This project has tended to provide support more at the macro level and those projects have provided support more at the micro level.

OBJECTIVES OF THE ASSESSMENT

This assessment has the following objectives:

1. To assess the overall effectiveness of the project and to determine if the project has achieved the overall objectives of the project as well as the specific results and benchmarks as listed in the project delivery order and amendments.
2. To assess the results of the competitiveness approach to project implementation and ascertain its usefulness in promoting SME development in Bulgaria.
3. To assess the effectiveness of the project in building the capacity of both government agencies and private sector organizations to conduct policy analysis and advocate reform.

4. To assess the success of the project in institutionalizing participative and democratic policy-making and communicating accurate policy messaging by the GOB.
5. To determine if and how the project has enhanced job creation and private sector investment in Bulgaria.
6. To provide recommendations to the Mission regarding potential future activities to build on the project and potential mechanisms to obtain future services.

TASKS

The assessment team should address the following questions/issues in regard to each of the objectives of the assessment. Any other issues considered relevant by the team should be addressed as well.

Objective #1: To assess the overall effectiveness of the project and to determine if the project has achieved the overall objectives of the project as well as the specific results and benchmarks as listed in the project delivery order and amendments.

f. What government agencies/departments have been established or strengthened as a result of the project and how effectively are they fulfilling their responsibilities?
g. What other evidence demonstrates the effectiveness of the project interventions in terms of changes to government processes?
h. What specific legislative acts have been passed or regulations promulgated that exemplify the effectiveness of the project?
i. What private sector entities have been formed or strengthened as a result of the project and how effectively are they serving as representatives of the larger private sector before government?
j. What specific policy analyses or draft legislation/regulations have been prepared by private sector entities that have received project support?

Objective #2: To assess the results of the competitiveness approach to project implementation and ascertain its usefulness in promoting SME development in Bulgaria.

h. Were the project design assumptions about the competitiveness approach in Bulgaria sound?
i. Were the clusters specified in the project design appropriate and what have been the results of the activity in developing clusters?
j. Are there specific examples of increased enterprise revenues and exports due to project interventions with specific firms or clusters?
k. Was the project successful in its public relations campaign to acquaint the public with the concepts of competitiveness of Bulgarian enterprises? Why or why not?
l. What types of firms most benefited from project interventions? Small, medium or large enterprises? How?
m. Did the government buy into the concept of competitiveness and support efforts to strengthen Bulgarian enterprises? How?

n. What should the project have done differently to increase the project impact on the competitiveness of Bulgarian enterprises?

Objective #3: To assess the effectiveness of the project in building the capacity of both government agencies and private sector organizations to conduct policy analysis and advocate reform.

f. With which government agencies and private sector organizations has the project worked and how were they selected? Did they change over time? If so, why?
g. Provide examples of how project assisted government and private sector entities have increased their analytic capacity and have provided better advocacy to promote economic growth and SME development.
h. What lessons were learned regarding how to increase the capacity of governmental and private sector entities to achieve this objective?
i. What were the inherent weaknesses of the entities that the project assisted? Have these weaknesses been overcome?
j. What are the prospects for sustainability of the policy analysis and advocacy skills enhanced by this project?

Objective #4: To assess the success of the project in institutionalizing participative and democratic policy-making and communicating accurate policy messaging by the GOB.

g. What mechanisms have been established to provide for private sector inputs into the policy-making process of the government that can be attributed in whole or in part to this project?
h. What types of participation have been institutionalized as a result of assistance provided by the project and what are the prospects for their continuance after the project comes to an end?
i. What type of assistance was provided to GOB entities to improve their communication of accurate policy messaging and was it successful? Provide examples of why or why not.
j. Has an overall Communication Strategy form Ministries and the Council of Ministers been developed? What types of training were provided to assist with the establishment of the communication strategy and give examples, if any, of how this may have resulted in more professional press secretaries in particular agencies?
k. Which GOB entities have gained the most from project interventions and how?
l. Are the any new GOB agencies that have been formed that provide evidence of the project's effectiveness?

Objective #5: To determine if and how the project has enhanced job creation and private sector investment in Bulgaria.

g. How has the project enhanced job creation in Bulgaria? Give examples of how jobs have increased (or not) in particular clusters targeted by the project.

h. In which activities has the project engaged to enhance job creation? What have been the results of those particular interventions?
i. Has private sector investment in Bulgaria increased or decreased during the term of this project? How much has been due to domestic investment and how much due to foreign investment?
j. In which types of activities has the project engaged to encourage private sector investment in Bulgaria? Was any monitoring system put in place to track results from these efforts? If yes, what were the results?
k. What are the current outstanding constraints to private sector investment in Bulgaria? Are there any differences between internal and external investment constraints?
l. How does Bulgaria rate compared to other countries in terms of competitiveness, corruption and transparency of government policies and regulations? Has the project helped to contribute to any improvements in these areas?

Objective #6: To provide recommendations to the Mission regarding potential future activities to build on the project and potential mechanisms to obtain future services.

a. What have been the principal successes of the private sector development activities implemented by USAID/Bulgaria over the past ten years? In which areas have the activities been less successful?
b. What further types of assistance are recommended to enhance the prospects for sustainability of any project interventions?
c. What contracting vehicles might be appropriate to obtain assistance to implement those recommended activities?
d. What are the key elements of a strategy for USAID/Bulgaria to address remaining constraints to job creation and private sector investment prior to the close of USAID Mission in Bulgaria? Are there any activities that might be continued that could be managed by a regional office or out of Washington, if such activities should be necessary to extend beyond the close-out of the USAID/Bulgaria Mission?

The assessment team will also review and address the progress achieved by the project in reaching the tangible results and benchmarks specified in the initial delivery order and the amendment in 2002. The team should address and evaluate the reasons given by the project implementers if any of the specific results or benchmarks has not been achieved.

METHODOLOGY

This assessment will involve a four stage process:

1. Prior to departing the United States, the assessment team will review project-related documents, and conduct interviews in person or by telephone with persons in Washington or in other countries who have either managed or provided inputs to the project in the design or implementation of the project.

2. Conduct further document reviews and interviews with project stakeholders during a field visit to Bulgaria to address the objectives and tasks of this evaluation. This will also involve an initial briefing with USAID staff and a debriefing with various stakeholders presenting the team's major findings prior to the team's departure.
3. Prepare a draft report to submit to the Mission prior to the departure of the Team Leader from Bulgaria.
4. Prepare a final report to submit to the Mission within one month after submitting the draft report, incorporating comments received from the Mission and other stakeholders on the draft report.

TEAM COMPOSITION

The assessment team should be composed of two or three Washington-based USAID staff members and one local consultant. The qualifications of the team members should be as follows:

SME/ Policy Reform Specialist (Team Leader): This member of the team should be cognizant of issues relative to developing the capacity of government officials and private sector entities to engage in policy reform research, analysis and advocacy for policy change. He/she should also be aware of issues relative to EU accession as well as knowledge of how other countries have approached private sector policy reform, both in relation to SMEs and the larger private sector. He/she should have at least 10 years experience in SME development and policy reform with at least 5 years experience in Eastern Europe and/or the former Soviet Union. Excellent writing and communication skills are critical. Previous experience as a Team Leader and conducting project evaluations for USAID is required.

Competitiveness Specialist: This member of the team should be closely aware of the approach to competitiveness taken by USAID and other donors in implementing private sector development projects over the past years. He/she should be knowledgeable of cluster-based approaches to competitiveness and the ingredients necessary to develop clusters as a means to support SME development as well as the practical steps necessary to develop the same. He/she should be cognizant of public information techniques to reinforce competitiveness both among the business community within a country as well as with the government and the general populace. He/she should have at least 10 years experience in SME development and competitiveness, with at least 5 years experience in Eastern Europe and/or the former Soviet Union. Excellent writing and communication skills are necessary.

(Optional) Enterprise Development Specialist: This team member should have a broad understanding of the issues relative to enterprise development and at least 5 years experience in private sector development. He/she should be conversant with the recent Enterprise Development Study and recommendations for future project design recently conducted for EGAT/EG/EDFM. Experience in Eastern Europe and/or the former Soviet Union would be helpful. Excellent writing and communications skills are necessary.

Local Enterprise Development Consultant/Translator/Logistician: This member of the team shall be cognizant of the various projects and efforts in Bulgaria to support SME development and have at least 5 years experience working in the area. He/she should be knowledgeable of the key players in SME development and policy reform in Bulgaria and be able to communicate with key individuals and arrange for meetings with them for the team. He/she shall provide logistical and translation support for the team and have experience doing same for other expatriate consultant teams. He/she shall contribute to the team briefings and also serve as a sounding board for the team on findings, conclusions and recommendations made by the team in their reports.

SCHEDULE AND LOE

It is anticipated that the fieldwork for this assessment shall take place in mid-January to early February 2005 over a period of two to three weeks (up to 18 workdays LOE should be allocated for each team member). The review of documents and interviews prior to the fieldwork shall consist of 5 workdays for each expatriate consultant. The local consultant shall be allotted 5 workdays for arranging for some initial meetings and other logistical arrangements in advance of the other team members' arrival in Sophia. 5 workdays LOE are allotted for each of the three team members for the draft report and 5 workdays allotted to the Team Leader for the final report. (If the expatriate team members are USAID/Washington staff, the Mission shall only pay transportation and per diems while in Bulgaria.)

REPORTING/ DELIVERABLE REQUIREMENTS

The assessment team shall be responsible for providing a mid-term briefing to USAID/Bulgaria staff mid-way through their field work in Bulgaria and a presentation of their findings to a larger group of stakeholders at the end of their field work.

A draft report on the assessment shall be completed and submitted to the Mission prior to the departure of the Team Leader.

The format of the assessment report should be as follows:

Cover Page
Acknowledgements/Foreword
Executive Summary (Maximum 5 pages)
Table of Contents
Introduction & Background of the Assessment
Description of Key Project Components
Key Findings (addressing the first five objectives of the assessment, as stated above)
Conclusions (addressing the first five objectives of the assessment, as stated above)
Recommendations for future Mission Activities (addressing objective six above)

Annexes

A final report shall be completed within one month after submitting the draft report incorporating comments received from the Mission and other stakeholders on the draft report.

The report should be submitted in English and the body of the report shall not exceed 50 pages (excluding the cover page, acknowledgements/foreword
table of contents, executive summary, and annexes).

SUPERVISION AND LOGISTICAL ASSISTANCE

The team will report to Nikolay Yarmov and David Lieberman of the Economic Growth Office and Nora Ovcharova from the Program Office. Designated USAID/Bulgaria staff will review all reports. USAID/Bulgaria staff and MSI staff will assist in arranging appointments with officials of the GOB, private sector representatives and other donors.

ILLUSTRATIVE LIST OF REFERENCE DOCUMENTS

(Others to be added by USAID/Bulgaria and MSI)

1. Delivery Order, "Assistance for Bulgarian Policy Reform and Advocacy Strengthening," January 2000.
2. Delivery Order, "Bulgaria – Implementing Policy Reform Project," August 2002.
3. Project Work Plans and Monthly Status Reports
4. Project Budgets
5. Center for Economic Development, Small and Medium-Sized Enterprises in Bulgaria 2002-2003, Report by the Agency for Small and Medium-Sized Enterprises, 2004.
6. Center for Economic Development, The Bulgarian Economy, July 2004.

ILLUSTRATIVE LIST OF INDIVIDUALS/ORGANIZATIONS TO BE CONTACTED

(Others to be added by USAID/Bulgaria and MSI)

USAID/Bulgaria
Debra McFarland, Mission Director
David Lieberman, Chief, Private Enterprise Office
Nicolay Yarmov, Senior Advisor, Enterprise Development
Ivanka Tzankova, Program Officer
Nora Ovcharova, AE & PS Manager

Government of Bulgaria
Eli Anavi, Director, Enterprise Policy Directorate, Ministry of Economy

Maria Velkova, Acting Head of Unit "Promotion of SMEs and Entrepreneurship," Ministry of Economy

Management Systems International (MSI)
Howard Ockman, Director and COP
Filip Stojavovic, Deputy Director
Alexander Babinov, Program Manager
Dimo Tsvetanov, Coordinator of Council of Economic Growth
Diana Pazaitova, Program Manager
Mircho Mirchev, IP consultant
Russ Webster, former MSI home office Project Manager

J. E. Austin and Associates
Martin Webber, Competitiveness Project Manager

Think Tanks/Research Institutions
Anelia Daminanova, Senior Researcher, Center for Economic Development

Business and Trade Development Program (implemented by Volunteers for Economic Growth Alliance – VEGA)
Aideen Mannion, Director
George Menev, Deputy Director

Firm-Level Assistance Group (FLAG – former SME development project in Bulgaria)
Stan Shumway, former COP of FLAG, now President of FLAG International in Annapolis, MD