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INTERCONSULT LTD.

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REPORT

ON TWO SELECTED REGIONS

REPORT ON TWO SELECTED REGIONS

A. INTRODUCTION

The present report is the final phase of the investigations and developments, which INTERCONSULT had to make under Contract No.95/216P, between the United Nations Industrial Development Organization based at Vienna International Centre, (Purchase Order No.15-5-1216P), and INTERCONSULT Ltd., based in Sofia (Clause 2.05d and Clauses 9 and 10 from Annex B, Terms of Reference).

The execution of the preceding phases under the Contract and the several years of activity in the examination of the behaviour of different production companies and providing consultancy assistance for their reorientation in a market environment brought about INTERCONSULT 's comparatively fast selection of the two regions Razgrad (Chapter B) and Pazardjik (Chapter C).

The selection was made by the following main criteria:

- existence of suitable natural conditions and resources in the regions as a necessary prerequisite for their development in a market environment;
- a comparatively well developed production and technical infrastructure of the regions, allowing a faster recovery from the crisis and subsequent development;
- a relative share of unemployed people above the average for the country, but their education being adequate for the achievement of good initial results upon introducing them in the production process;
- no prior major activities in connection with the assistance for the transition to a market economy;
- a prevailing number of the small and medium size companies;
- a prevailing number of production companies included in the list of mass and cash privatisation;
- no significant environmental damages in the regions.

The states and the behaviour of the companies and the region as a whole have been described closely abiding to the selected criteria.

A point should be made of the relatively central situation (see Annex 1, Map of Bulgaria) of the regions in Northern and Eastern Bulgaria respectively. But because of their proximity to the megapolises (for the size of Bulgaria) of Rousse and Varna (near Razgrad), and Sofia and Plovdiv (near Pazardjik), they have been to a large extent neglected up to now. Nevertheless, their natural and human resources determine a potential which could be effectively utilized in the new market conditions.

The promotion of the selected regions and the creation of jobs for the unemployed will considerably reduce migration to the nearby megapolises. This will indirectly reflect favourably on them by alleviating the social tension.

A special remark should be made on both regions with regard to their varied ethnic composition. A good economic development and an environmental prosperity would serve as an example for other regions of similar ethnic situation.

The two regions selected have good potential opportunities to achieve the long-term goals of the project. The assistance applied by the integrational approach should be focused mainly on creating a model of export promotion administration and investment promotion. For this purpose, INTERCONSULT proposes that the consultancy assistance be rendered according to the attached Job Description. As shown in Annex 1 of the Report on the Identification of a Group of SMEs and Their Consultancy Needs (clause 2.05 of the Contract with UNIDO), no enterprises had been included in the last column which is Investment Promotion.

The proposed description of consultancy assistance aims at applying the integrational approach to discovering the specific regional priorities, with the purpose of rapidly achieving the ends of the project through effective investment.

B. RAZGRAD REGION

1. BACKGROUND

1.1. Physical and Geographical Data

The region is found in North - Eastern Bulgaria and covers an area of 2,642 sq. km (Annex 2). It features a continental climate but varies greatly from a semi-mountainous (cool summer) in

the higher part, to a typically continental in the lower parts (high summer temperatures). Rainfall is normal for a continental climate - about 500-600 l/sq.m. No considerable river basins are found in the region. The Danube river lies at 65 km from its centre. For this reason, the main water supply systems in the region draw water from the terrace of the Danube river.

1.2 Demographic and Economic Data

The data on the population are given in Table 1 by municipalities (63 inhabitants per sq. km.). The population lives mostly in villages and a smaller part - in towns, which are the centres of municipalities. In ethnic composition it is varied - Bulgarians are prevailing, but there is also a relatively large share of ethnic Turks. Other nationalities (e.g. gypsies) are less in number.

Table 1

List of Municipality	Number of Settlements (number)	as of December 4th, 1992		
		Total population (person)	Including the main town of the municipality (person)	% of the residents in the main town of the municipality to the total number of residents in the municipality
1.Zavet *	7	13,637	3,918	29
2.Isperih *	23	27,936	10,494	38
3.Kubrat *	17	27,697	9,906	36
4.Loznitsa *	28	16,704	3,021	18
5. Razgrad *	19	61,847	40,933	66
6. Samuil +	14	9,585	1,901	20
7.Tsar Kaloyan *	5	10,004	4,853	49
		167,410	75,026	44

* - Town

+ - Village

The active population is 95,000, of which - 49,000 men and 46,000 women. The number of unemployed is about 16,400 (17% of the active population and 3.84% of the unemployed in Bulgaria); the larger percentage of it are women - 54% of all unemployed.

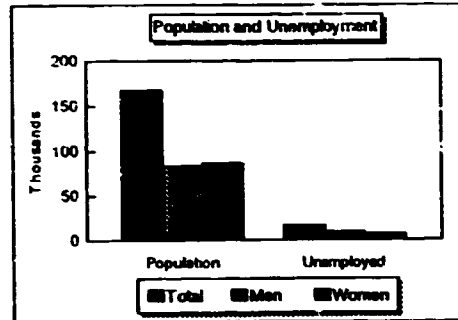


Figure 1.

The region has 1,689 thousand decars of arable land and 543 thousand decars of forests (1.45% of the forests in the country). Very good conditions exist for the development of agriculture, including viticulture, vegetable-growing (in the lower parts) and fruits (incl. tender fruits) in the higher parts. The region is a major producer of apricots.

The economic activity of the region in 1994 has registered about 1.05% of the total revenue of the country, with an active population about 2% of that for the country. The contribution of the separate activities is shown on Figure 2.

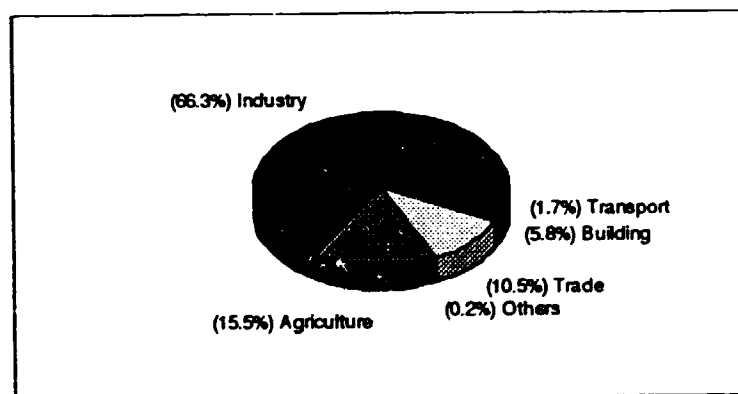


Figure 2.

As can be seen in the Figure, the major share of the economic activity of the region belongs to industry. There are 30 major production companies, employing from 15 up to 3,000 people, giving a sum of 9,700 as against the total number of 13,800 employed in the industry in the country. Figure 3 shows the income distribution of the more important industrial branches.

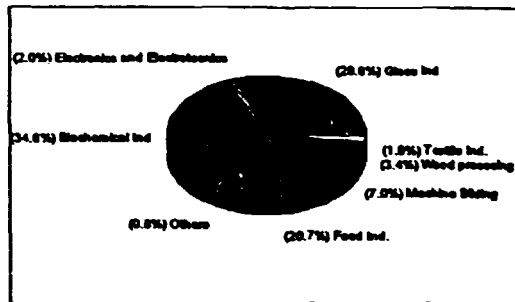


Figure 3.

As can be seen, the priority belongs to the chemical industry (Antibiotic EAD), glass-and-porcelain industry based on local raw materials, and food industry also based on local agricultural raws.

1.3 Technical Infrastructure

As mentioned above, the main source of water supply is the terrace of the Danube river. A number of local water sources are also used.

There is a well developed electricity conduction system. No considerable sources of electrical power are found in the region.

The density of the telephone network is 28 telephones per 100 inhabitants. Its quality of the network is not at a good level.

The road system is comparatively well developed. A first class road crosses the central part of the region and links the city of Rousse (at the Danube river) and the city of Varna (at the Black Sea). The Rousse - Varna railway route branches at the Samuil municipal centre thus linking the region with Silistra (the Easternmost Bulgarian port at the Danube river).

A civil airport is situated at the boundary between the regions of Razgrad and Targovishte (about 30 km from Razgrad).

1.4 Underground Resources

The region has deposits of kaolin and quartz sand which provide raw materials for the well developed glass-and-porcelain industry. In addition, the region has enormous quantities of limestone and dolomites.

2. BEHAVIOUR OF THE REGION DURING THE PERIOD OF TRANSITION

Like the whole of the country, the region lapsed into a crisis after 1989. The loss of the traditional unpretentious Eastern market and the new challenges of the market system found the state companies unprepared. As a consequence, the economic revenues dropped dramatically. They are shown on Figure 4 for the region, with an account of the inflation coefficients.

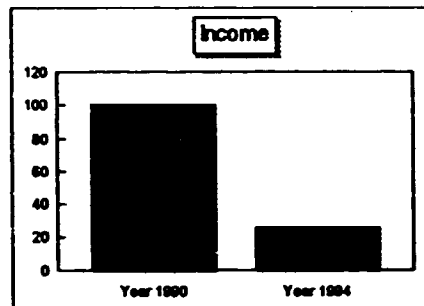


Figure 4.

With respect to their relative share for the country in the same years, the revenues fell from 2.2% down to 1.02%.

In the present year, a certain slight revival has been observed, which is due to the noticeable bustle in the agriculture.

The past years have not been enough for the managers to acquire working experience in market conditions. The incentives to an increased aggressiveness have also been quite insufficient.

A consultancy assistance in mass could largely increase the chances of overcoming the existing problems, because the region is aside from the large industrial centres where the management methods of the market system were more rapidly introduced, while here the managers of the enterprises are still not able to get a good orientation and to work in the new conditions. Moreover, a good many of the state firms have been announced for a mass and cash (management buy-back) privatisation. The consultancy assistance in mass would consist in:

- training in general and financial management;
- development of business plans of the industrial companies with an emphasis on product innovation and a rapid adaptation to the search for markets.
- training in marketing and goods promotion;

- elaboration of regional programmes for integrated development of the agriculture and the agricultural products processing industry, together with programmes for establishing on domestic and foreign markets.

3. Conditions for Industrial Development

The natural resources above described determine that:

- priority be given to the development of agriculture and the related processing industry.

The demographic characteristics of the population also determines such priorities since the larger part of it lives in the villages and is presently occupied with agriculture.

On the basis of the agricultural revival, there should be encouraged the development of the canning industry, wine-production, milk processing and milk products, flour mills and the production of durable paste products, meat processing, etc.- the production infrastructure of machine building already established allows it to be restructured in the direction of production and maintenance of agricultural machinery to support the local agricultural production;- the textile, knitwear and dress-making industry also could be developed through cooperation with partners seeking its produce, thus ensuring a low-cost and good quality production;

- development of the upholster's industry on the basis of high-quality local raw materials.

4. ENVIRONMENTAL ASSESSMENT

4.1 Atmospheric Air

The monitoring checks of the atmospheric air in the centre of the region, Razgrad, have not found significant exceedings of the norms, owing to the fact that except the transport and the antibiotics producing company, there are no other potential sources of pollution

4.2 State of the Water Currents

The waste waters of the antibiotics production company cause problems with the purity of the Cherni Lom river. The reason for this are the sporadic pollutions upon the incidental although rarely occurring failures of the purifying station of the company.

4.3 State of the Soils

During the years prior to the period of crisis, some spots of arable land polluted with nitrates and pesticides were found. In the last years, such spots have not been found owing to the greatly reduced application of such chemicals.

4.4 State of the Forests, the Flora and the Fauna

The forests, the vegetation and the animal world in the region have been preserved in a good condition.

A large well maintained hunting reserve, Voden, exists for many years already and is highly popular.

The relatively good state of the environment, indicated by the general characteristics made above, does not exclude the need to take care of the local problems which though limited still exist, e.g. the unreclaimed waste deposits and open deposits of ballast and other building materials. Yet, their impact remains insignificant.

C. PAZARDJIK REGION

1. BACKGROUND

1.1. Physical and Geographical Data

The region has a territory of 4,452 sq. km (Annex 3). It is found in the middle part of Bulgaria. The North part covers the low - mountainous massif of Sredna Gora, the middle part lies in the valley of Maritza river, and the South part includes the Rhodope mountain massif and the East part of Rila mountain. This determines the great variety of the climate, which is mostly continental with a noticeable Mediterranean influence.

Rainfall is averagely 600 mm in the plains and in the range of 800-1,000 mm in the mountains. The region is crossed by the biggest Bulgarian river, Maritza.

1.2 Demographic and Economic Data

The region is divided in 11 administrative municipalities with a total population of 326,000 (3,85% of the country population, 73 inhabitants per sq.m). The data are illustrated in Table 1. The larger part of the population (58%) inhabits the cities which are municipal centres.

Table 1.

List of Municipality	Number of Settlements (number)	as of December 4th, 1992		
		Total population (person)	Including the main town of the municipality (person)	% of the residents in the main town of the municipality to the total number of residents in the municipality
1.Batak *	3	7,639	4,588	60
2.Belovo *	7	11,756	5,023	43
3. Bratsigovo *	7	12,514	5,071	41
4.Velingrad *	24	43,059	25,634	60
5.Lesichovo +	7	7,289	1,269	17
6.Pazarjik *	32	133,685	82,578	62
7.Panagurishte *	10	32,599	21,131	65
8.Peshtera *	3	22,233	19,280	87
9.Rakitovo *	3	15,764	8,417	53
10.Septemvri *	16	32,935	9,361	28
11.Strelcha *	5	6,650	5,133	77
		326,123	187,485	58

* - Town + - Village

The ethnic composition is comparatively homogeneous - mainly Bulgarians. A small part is Gypsies who live mainly in the centre of the region, Pazardjik.

The active population comprises 183,000 people, of whom - 97,400 men and 85,400 women. The number of unemployed is 23,700 (5,56% of the total for the country) or approximately 13% of the active population in the region (Figure 1).

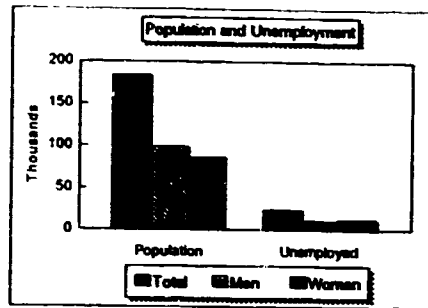


Figure 1.

The region has 1,084 thousand decars arable land (i.e. 2,33% of the arable land of the country) and 2,487 thousand decars of forests (i.e. 6,65% of the forests in the country). The arable land is found mainly in the river valley of Maritza. It is highly fertile and favoured by a well developed hydromeliorative system. Highly intensive agricultural cultures are grown: vegetables, fruits, grapes, rice, etc. In the semimountainous areas, fruit-growing and viticulture are also developed.

In 1994, the economic activity has registered a revenue amounting to 2,12% of the total for the country, with an active population comprising 3,86% of that of the country. Figure 2 shows the contribution shares of the separate activities

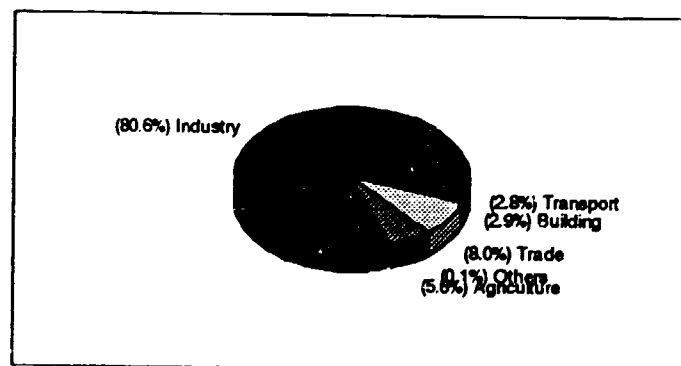


Figure 2.

A very large share belongs to industry, which is a major occupation, as can be seen on the Figure. Although there are very good climatic conditions for the development of agriculture, it has a minor share.

The number of the major production companies is above 52, employing more than 24,000 people. Figure 3 illustrates the structure of industry by branches.

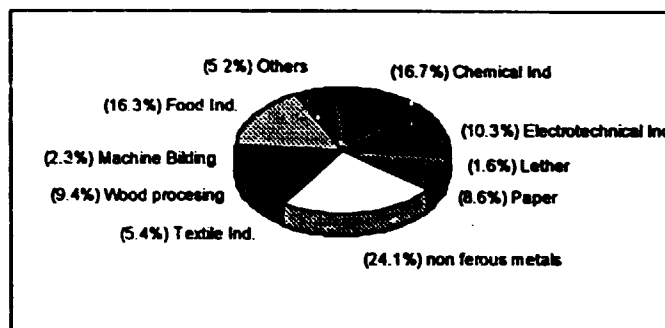


Figure 3.

The main share of the industry falls to ore-mining and ore-processing for the production of non-ferrous metals. Considerable shares fall to the chemical industry, food industry, as well as the electrical-and-technical industry and electronics. There is a considerable number of wood-working firms, using local raw material.

The production companies with more than 1,000 employees per company are 9 in number, and those with a number of employees 500-1,000 are 4. The rest have a personnel below 500.

The existing water-power stations (8 in the region) with a total power capacity of 1,000 MWt have an important place in the economy of the region and the country. They play a particularly important role in assuming the peak loads in the national power system.

There are 11 enterprises of the wood-working and upholsters industry (with less than 500 employees), 9 enterprises of the textile and dress-maker's industry (one of them is employing more than 1,000 people), and 10 enterprises of the food industry (one of which is also employing more than 1,000 people).

1.3 Technical Infrastructure

The main water source for the region is the Maritza river and its tributaries with catchment areas in the mountains of Rila and the Rhodope. There is a well developed hydro - meliorative system providing water for the irrigation of about 50% of the cultivated land. As a consequence of the change of ownership in agriculture, it has suffered neglect and has to be restored.

The populated areas have a good system of water supply.

The electricity conduction system is well developed. Except the water-power stations, there are no other significant energy sources. Possibilities exist for the utilisation of the micro-hydropower potential which is assessed a considerable one.

The density of the telephone network is 26,8 telephones sets per 100 inhabitants.

The road system is well developed. The region is crossed by the auto-high-way, already finished, which will link Europe and Asia. The average density of the road network is more than 0,5 sq. km.

The railway route linking West Europe with Minor Asia (Istanbul) crosses the central part of the region. In addition, there are a number of branches of local significance connecting the settlements of the region and those adjacent to it. Near to Pazardjik - in the Plovdiv region (about 40 km of Pazardjik) is situated the Plovdiv civil airport.

1.4 Underground Resources

Compared with the rest of the country, the region has certain amounts of underground deposits. The major ones are copper ores (which are being mined and processed), different types of marble and others.

2. BEHAVIOUR OF THE REGION DURING THE PERIOD OF TRANSITION

After 1995, the region also suffered a crisis due to the loss of the traditional Eastern markets and the comparatively low competitiveness in normal market conditions. The economic revenues sharply dropped, and unemployment rapidly arose and grew to a level surpassing the average for the country. The state companies and their managements found themselves unprepared to meet the challenges of the market system. Figure 4 shows the corresponding economic revenues for 1990 and 1994.

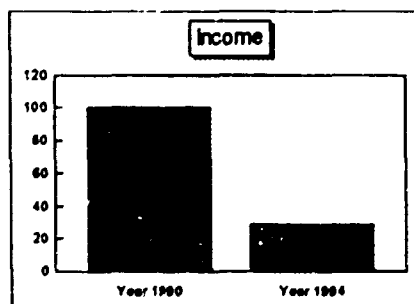


Figure 4.

In 1990 the relative share of the revenue was 4,04%, while in 1994 it dropped to 2.12% of the total for the country. Like in the whole of the country, a slight revival can be noticed in the region, which is due mainly to the recovery of the wood-working and upholster's industry, with a number of new enterprises, based on local raw materials.

There are quite great chances to revive the economy and begin a gradual restructuring in consideration with the natural resources and the conditions of the market economy with predominantly private ownership. This is with a view of the circumstance that the region has so far been neglected to a certain extent with regard to foreign consultancy assistance, and also the managers themselves are hardly aware of the great need of new management approaches in the market conditions.

A large part of the small and medium size enterprises have been announced for mass and cash privatisation, which also requires an appropriate consultancy assistance.

The mass consultancy assistance would consist in:

- training in general and financial management;
- development of business plans of the industrial companies with an emphasis on product innovation and a faster adaptation to the market requirements;
- training in marketing and goods promotion;
- elaboration of regional programmes for integrated development of the agriculture and the related processing industry, together with programmes for establishing on domestic and foreign markets;

3. CONDITIONS FOR INDUSTRIAL DEVELOPMENT

The investigation of the potential of the Pazardjik region determines industry as a leading economic branch in the economic structure. In addition, the natural resources allow a restructuring in accordance with the new market conditions. The following possibilities of a new industrial development can be outlined:

- the relatively large share of forests in the structure of land resources can be the foundation of accelerated development of the timber, wood-working and upholster's industry. Such an approach would lead to a completed production cycle through a thorough utilisation of the raw material till obtaining final ready-to-use products;

- a new development of the textile, knitwear and dress-maker's industry mainly on the basis of local raw materials and the new forms of ownership which will provide a new incentive for development;

- a new development of the machine-building, the electrical-and-technical industry and the electronics through cooperation with outstanding firms and creating new, demanded articles;

- a new development of the food industry with a main accent on creating incentives for the producers of agricultural produce and their immediate participation in the results from the sales. A due respect should be given to the collection and processing of forest fruits and herbs found in abundance in the region;

- development of economic tourism utilising the favourable mountainous climate and healing thermal springs.

4. ENVIRONMENTAL ASSESSMENT

4.1 Atmospheric Air

The existing monitoring system is carrying out regular observations on the state of the atmospheric air in the centre of the region, the city of Pazardjik. It has been found that dust (non-toxic), lead aerosols, sulphur dioxide (SO₂), nitric peroxide (NO₂) and hydrogen sulphide (H₂S) frequently exceed the tolerance limit concentrations. The main agents of this pollution are the city bus - transport, the heating with solid fuels (individual) and some production companies.

4.2 State of the Water Currents

As mentioned above, the region is crossed by the biggest inner river, Maritza. Its state in the region of Pazardjik is not good because of being subject to anthropogeneous pollution. The city lacks a local purifying station for the waste waters and the river is receiving the waste waters of the city. In addition, the settlements preceding Pazardjik along the river valley also do not have purifying stations.

4.3 State of the Soils

In the past years, before the crisis, chemicals were extensively applied in the cultivation of the agricultural lands. This could explain the pollution of the arable lands during that period. After the crisis occurred, the use of chemicals in the agriculture was greatly reduced and this could explain the restoration of the purity of the arable lands.

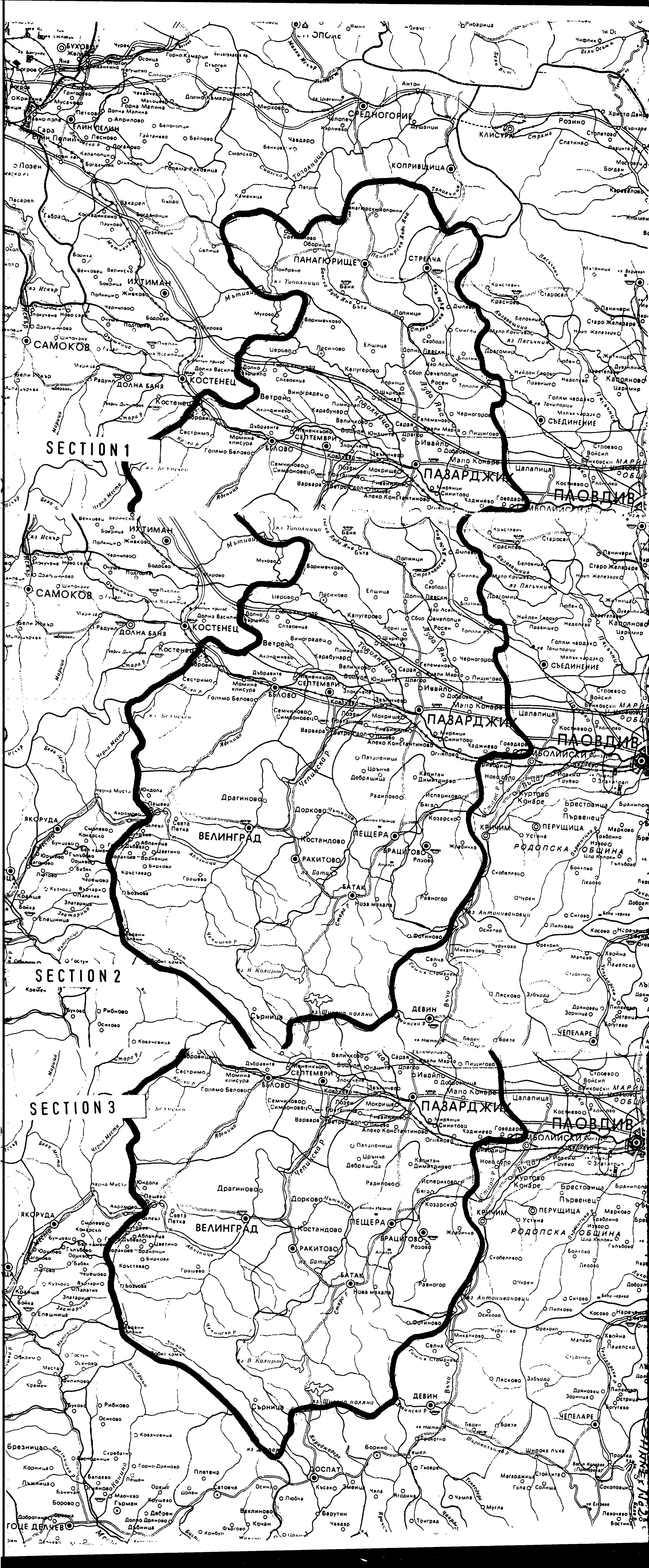
A big copper ore open pit is located in the region being the main violator of the state of the lands. A total of 4,000 decars of land have been broken by it, and the annual wastes are estimated at about 10 million tons.

In the river valley of Maritza, there are also terrains that have been broken by sand and ballast extraction for building needs.

4.4 State of the Forests, the Flora and the Fauna

Forests have been preserved in relatively good condition due to careful management. The vegetation and animal world is also in relatively good condition. A certain number of reserves and health resorts in the mountainous parts are under special protection.

The general characteristics made above indicates a relatively good state of the region. The problems with the purity of the atmospheric air in Pazardjik and the restoration of the broken lands call for the development and implementation of long-term programmes and this should be done in the immediate future.



SECTION 1

SECTION 2

SECTION 3

БУХОВО

САМОКОВ

ЯКОРУДА

БРЕЗНИЦА

ГОЦЕ ДЕЛЧЕВ

ЖЕЛАЗНИЦА

ДОЛНА БАНЯ

СМЯДОВО

КОРНИЦА

ДОБРОМИР

ОСОИНА

ИХТИМАН

СВЕТА ПЕТКА

КОРНИЦА

МАРИЧЕВО

ДОЛНА МАЛИНА

КОСТЕНЕЦ

ВЕЛИНГРАД

ВЕЛИНГРАД

МАРИЧЕВО

МИРКОВО

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РАКИТОВО

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СЕПТЕМВРИ

МЕЩЕРА

МЕЩЕРА

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КОПРИВИЦА

ПАЗАРДЖИК

БАТАК

ПАЗАРДЖИК

МАРИЧЕВО

СТРЕЧА

ПАЗАРДЖИК

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ПАЗАРДЖИК

МАРИЧЕВО

КЛИСУРА

ПАЗАРДЖИК

КРИЧИМ

ПАЗАРДЖИК

МАРИЧЕВО

ХРИСТО ДАНОВ

ПАЗАРДЖИК

РОДОПСКА ОБЩИНА

ПАЗАРДЖИК

МАРИЧЕВО

Job Description

for the RAZGRAD Region

and

for the PAZARDJIK Region

Project BUL/93/002 "Assistance For the Transition To Market Economy"

Post Title	Consultant of Regional Economy Development
Duration	Tree months, split mission (one month and a half for every region)
Date required	As soon as possible
Duty station	Sofia and Razgrad, with travels in the country in Razgrad-region and Pazardjik-region
Purpose of Project	To provide a quick and cost-effective response to address problems in specific priority areas and help national authorities in preparation of proposals and programmes intended for aid funding.
Duties	The consultant will work with officials from the Razgrad and Pazardjik regions and with experts from the Ministry of Regional Development, and the Ministry of Industry, and the Ministry of Agriculture and with other governmental officials. The consultant will be expected to produce a detail study for the possibilities of the most effective investment promotion priorities. More specifically, the consultant will be expected to assist the regions in:

...../

1. the identification of the most motivated for foreign investments areas;
2. the providing advices on the privatization schemes in respect to the regions;
3. the elaboration of business proposal(s) for investments for the aid of export promotion;
4. the developing a strategy for product reconstruction appropriate to the needs and availabilities of the regional industry and agriculture;
5. recommendations of changes , if any, to the government policies due to the decentralized administering.

The consultant will also be expected to prepare two final reports (one for every region), setting out the findings of the and recommendations to the Government on further actions which might be taken.

Qualifications

High levelled expert in Regional Economy; Background in the development and application of regional strategies.

Language

English

Background Information

The resumed information about the Razgrad-region is described in Chapter B in the Report and for the Pazardjik-region - in Chapter C.