

REPORT ON THE PERSPECTIVES FOR ECONOMIC DEVELOPMENT OF DOBRUDZHA REGION - EXTRACT

1. INTRODUCTION

The present report shows the results of the first stage of a Cross-border Cluster Development Project financed by the European Fund for Regional Development under the Cross-border Cooperation Program Bulgaria - Romania, 2007 - 2013. The project sees Dobrudzha as a whole geographical region with common economic and historical background from both sides of the border between Bulgaria and Romania. Due to its unique geographical location, natural resources, landscape and fertility, the region provides lots of opportunities for business development and cross-border cooperation.

During the first stage of the project, the Consultant has developed an **economic analysis** of the Bulgarian region of Dobrudzha based on a field research and has studied in depth the potential for cluster development in a cross-border context. The field research has taken place within the end of November 2010 and the beginning of January 2011.

The research team visited Dobrich Industrial zone, Albena resort, Balchik, Kavarna, Shabla, Kaliakra cape and Durankulak where some of the target companies and entrepreneurs are based. The aim of the **field research** was to identify key companies and representatives of the local administration who can provide comprehensive information about the economic development in the region and more contacts for networking for the purpose of the project. With the help of the Dobrich Chamber of Commerce and representatives of the Municipality of Dobrich, about twenty members of the Chamber were singled out as more pro-active and business-oriented. Members of the management of some of those companies were interviewed in the Industrial zone and required to fill in a questionnaire for the purpose of the analysis. Others were provided with the questionnaire and asked for feedback. The same methodology was used in resorts on the Black Sea coast.

Also, the thorough field research was combined with an intensive and continuous **desk research** on various issues and topics related to the economic situation in Dobrudzha region, especially in the rural area of Dobrich. The conclusions were used as a basis for the analysis and establishment of its focal points and fulfillment of the aims of the project.



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The economic analysis has focused on the most competitive companies in key economic sectors in Dobrudzha where opportunities for cross-border cooperation are present. The research team also examined the local entrepreneurial activity and tried to identify potential leaders for the cluster establishment process.

The Consultant provided recommendations regarding the establishment of 3 clusters in economic sectors with future growth potential with the aim to match them with the findings of the parallel research team of the Romanian Consultant.

As a result of the first stage of the project, the Dobrich and Constanta Chambers of Commerce were supplied with a business concentrations cluster map and information which will enable them to single out the key companies and key business areas in the cross-border region of Dobrudzha and prepare for the launch of 3 cross-border Bulgarian - Romanian business clusters.

SWOT ANALYSIS

2. <u>STRENGTHS</u>	3. <u>WEAKNESSES</u>
<ol style="list-style-type: none"> 1. Geographical advantages - situated close to the Black Sea, its resorts and ports, and access to Eastern markets; 2. The city with the 2nd highest potential for economic growth in Northeastern Bulgaria; 3. The main economic center of the Dobrich region - center of agricultural growth and one of the main providers for the Bulgarian food industry; 4. Independent industrial zones with available industrial areas, with access to the natural gas system and is an ecologically clean region; 5. Good growth in light and food industry; 6. An increasing reach of the local gas supply to inhabitants and a considerable amount of restored electrical street lighting; 7. Dobrich - exhibition center with good growth in net trade and services; 8. A population seeking a higher quality of life; 9. Educational center, with well built college structure and intensive language training; 10. Dobrudja Agricultural Institute - this institute has introduced a variety of scientific achievements in the field of agriculture; 11. The general political development of culture, sport and youth activities, are based in traditions and historical legacy; 12. Dobrich - a peaceful city in which there is a social agreement to maintain peace and security for all citizens; 13. The institutional structure of Dobrich is based on good cooperation with local business and NGOs; 14. A long-term vision for development, "Dobrich 2020" is existing. 	<ol style="list-style-type: none"> 1. Distance from the capital/ shortage of large investment for national programs; 2. Detachment from main transportation routes; 3. Worn out and incomplete technical infrastructure/ aged water supply, sewerage and purifying systems, poor conditions of transport network; 4. High cost of water; 5. Poorly planned waste removal system with the presence of small, unregulated dumping sites, poorly organized space between residential districts; 6. Aged public transport, lack of good schedule for traffic organization and lack of competitive power of local transport; 7. Limited potential for business growth. 8. Poor conditions of building infrastructure - administrative, cultural, historical, sports and industrial; 9. Lack of actual structural plan and incomplete cadastre; 10. Manufacturing industry with low surplus value and amount of innovation, weak scientific connections and low entrepreneurship and business culture; 11. The Vocational training programs do not meet employer's specific needs; 12. Unrealized tourism potential and needs for entertainment; 13. No commercialized cultural products. 14. Undeveloped public health services - oncology, tuberculosis and psychological services; 15. Demographic collapse, migration and lack of young personnel; 16. Low social sensitivity towards criminal acts and insufficient institutional and citizen control.

4. <u>OPPORTUNITIES</u>	5. <u>THREATS</u>
<ol style="list-style-type: none"> 1. Modernization of light and food industries; 2. Priority development of small and medium enterprises; 3. Modernization of Agriculture and Farming; 4. Public private partnership development and concessions in order to attract foreign investors; 5. Raising competitive power of human resources; 6. Resource mobilization of pre-accession instruments and EU structural funds; 7. Development of informational society; 8. Developing and maintaining industrial park; 9. Attracting investors to available industrial zones; 10. Support the main suppliers connected with the tourism industry; 11. Popularize the Dobrich Fair; 12. Dobrich - University center; 13. Membership in Euro region “Danube - East”; 14. Development of cross border and cross regional cooperation; 15. EU membership; 16. Financial decentralization and implementation of ISO quality management standards. 	<ol style="list-style-type: none"> 1. Insufficient mobilization, capacity and resources to provide economic stabilization; 2. Imbalance of municipal development in the Northeast region; 3. Weak cooperation between neighboring municipalities; 4. Insufficient training specialists; 5. Demographic problems; 6. Poor ecological standards in industry; 7. Regional economy based mainly on raw materials; 8. Lack of government financing for infrastructure development; 9. High cost of electricity; 10. Unable to fulfil all EU conditions related to the local business; 11. Inability to implement national strategy for educational reforms; 12. Public monopoly of health insurance; 13. Low per capita income in comparison with other EU countries and a decrease in highly skilled specialists;

2. ANALYSIS AND RATIONALE OF THE IDENTIFIED CLUSTERS

The research on Dobrudzha region indicated 2 strong potential new Business Clusters in the following fields:

- Agro-business with an emphasis on organic foods and products;
- Tourism with an emphasis on event/ alternative/ eco/ rural tourism.

Through liaison with the Romanian contractor on the first phase of the project, the choice for a third cluster was agreed to be delegated to the Romanian project team and is subject to discussion with all stakeholders. The possible areas where the third cluster could be established are the business sectors with highest potential, traditions and importance in the cross-border region from both sides of the border:

- Furniture and Woodworking;
- Construction materials;
- Energy sector;
- Processing/ manufacturing industry;

- Others.

Also, the research team does not exclude the opportunity that the already identified cluster potential field (agro-business and tourism) are split in 3 particular cluster groupings, for instance the agro-business could be split into organic products and speciality foods or the tourism - into event tourism and rural tourism. It is also expected that the third cluster grouping emerges during the second phase of the project - organization of specialized events for promotion of cluster development. In this regard, the research team is open to other suggestions for the third cluster grouping according to the needs of the participating representatives of the local business and business supporting organizations /BSOs/. Therefore, the choice of groupings should not be considered limited only to the business sectors mentioned above.

The criteria for choosing the 3 cross-border clusters include size of sub-sector opportunities and global trends as well as strong factor conditions. Also, the fields of agro-business and event tourism were chosen due to the embryo clusters found which were already formed in the region - e.g. an organic manure association with 23 members has been just established in Dobrichka district with clear ideas and readiness for future cooperation. In addition, the research team discovered an underdeveloped 'local initiative group' for tourism in Kavarna region. The existing embryo clusters are considered suitable for further development with joint efforts of their members, the project team and the Chambers of Industry and Commerce in Dobrich and Constanta. Also, in the fields of agro-business and tourism it is most likely that the initiative for cluster cooperation stems from the business environment and it is only steered by the project team which would increase the chances for quick success.

3. CONCLUSION

The 3 potential clusters (6 in all with the Bulgarian and Romanian subclusters) can become inter-dependant groupings. They supplement and support each other. The joint approach is critical for overcoming the natural geographic, psychological and language barriers for preserving the rich natural heritage and finding common solutions for environmental threats, developing economic links that previously were almost absent and for transforming the border from a line of separation into a place for communication and cooperation.

P.E.S.T. Analysis

POLITICAL	ECONOMIC
<ul style="list-style-type: none"> • Isolation up to EU accession 	<ul style="list-style-type: none"> • Effect of financial crisis on Industrial



<ul style="list-style-type: none"> • Previous political/ colonialist history • Both countries struggling with EU speed and lowering of competition levels • Difference in Government objectives • Lack of sectoral policy at the Ministry of Economy • Fractured tourism policy 	<p>sector</p> <ul style="list-style-type: none"> • Constanta well developed and industrial • Dobrich de-industrialised • Evidence of lack of trust of each other • Poor fit of economics apart from agriculture and coastal tourism • Lack of business trust in each other's markets
SOCIAL	TECHNOLOGICAL
<ul style="list-style-type: none"> • Different languages and framework • Cultural drift away from each other • Poor connection between people and companies • Poor levels of enterprise development (needs training and local examples) • Poor knowledge of foreign languages 	<ul style="list-style-type: none"> • Craft industries rather than "Innovation" sectors (except for Constanta) • No business infrastructure for technology businesses, e.g. incubators • Packaging and branding skills are low • Areas of migration where skilled people are working in capital cities or Western Europe • Opportunities for construction technology and road infrastructure

A period of grouping the clusters together on both sides of the border needs to take place. This can include cluster development training and later in the project bringing the groupings together for shared discussion, B2B events and other training and marketing will develop a regional mentality to build trust and business opportunities.