

## INVESTMENT PROFILES DESIGN AND APPLICATIONS FOR SMALL BORDER SITUATED MUNICIPALITIES

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**Abstract:** *One of the practical instruments for matching the macro policy documents as regional/municipal plans and strategies to the business needs of the local SMEs is the regional/community investment profile. In practical terms and in different types such profiles were developed or are in stage of finalisation in few Bulgarian border municipalities at the Bulgarian – Romania border and the Bulgarian – Serbia areas. The combinations between the success of the investment profiles themselves and the subsidies for the investments and the utilization of certain infrastructure among the SMEs will throw additional light on the approaches in which the national and the regional strategies will be translated at the micro-economic level.*

**Key words:** *Investments profile, Border area municipalities, Small and medium-sized enterprises isolation, Promotion of local areas resources, Regional employment issues.*

### Introduction

The business activities, investments attraction and specifically the capacities of the small and medium-sized enterprises (SMEs) for overcoming their local isolation in the European border regions was quite in the focus in the last 50 years for the business analysts/scientists and policy makers. The efforts proved to be highly advantageous in the frames of the European Union and are a big challenge for the countries in transition both newly members and candidates. One of the practical instruments for matching the macro policy documents as regional/municipal plans and strategies to the business needs of the local SMEs is the regional/community investment profile. In practical terms and in different types such profiles were developed or are in stage of finalisation in few Bulgarian border municipalities at the Bulgarian – Romania border and the Bulgarian – Serbia<sup>1</sup> areas.

If with the bigger enterprises and infrastructure projects separate instruments were elaborated, with the SMEs one of the economy scale and marketing effective platforms proved to be exactly the municipal investments profiles. The profiles were in full version with a portfolio for optional sectors investments projects and in shorter versions – both ready for use like folders/ business references/ press releases/ business support databases.

These cases for investments profiles developed for border municipalities are in the objective of the paper.

Its subject is to examine the needs for provision of targeted information for the local human, business and natural resources, the effect of these regional profiles for overcoming the isolation of the local SMEs and the investments and innovative activities

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highly targeted in the investment profiles. On the basis of the identified SMEs and employment needs the specification of this instrument, and the accompanying appropriate measures and technical assistance both for developing and then for communicating the investment profile are searched and demonstrated.

The problems both with the access to the assistance and the resources assuring for the measures and with the quality of the experts and the applicability of the managerial know-how are regarded. The combinations between the success of the investment profiles themselves and the subsidies for the investments and the utilization of certain infrastructure among the SMEs will throw additional light on the approaches in which the national and the regional strategies will be translated at the micro-economic level.

### **Specifics in the economic development of the border areas and the advantages and disadvantages of the SMEs**

The most important obstacles in the relationship between the border regions in Europe are considered to be the continuing relatively weak level of cross-border contacts. Often the common culture and language offer possibilities for joint initiatives and cooperative projects. Cross-border cooperation functions are increasingly being delegated to regional and local partners. Shared interests are found in the areas of environmental protection and better use of maritime potential (e.g. for tourism). The common language and culture may provide also a good base for real cross-border cooperation.

In cross-border cooperation in Europe, four major types of regions can be distinguished:

- Border regions within the European Union, regions whose per capita GDP is less than 75% of the Community average, and located on the internal or external borders of the European Union (EU);
- Border regions within the EU with a more developed economy but facing special problems;
- Border regions on the borders of candidate countries and on the new future external borders of the EU;
- Border regions on maritime borders.

One of the criteria for outlining the specifics of such a region is the degree of homogeneity of the cross-border region. Some border areas are characterised by a common identity or regional consciousness where cross border cooperation occurs as a natural process (example with Italy/Slovenia). Other border regions lack this type of shared identity for historical, cultural or economic reasons (e.g. parts of the Spanish/Portuguese border, Greece's borders with the Balkans) and/or for geographic /physical reasons such as the sea or a mountain range.

If referring to the level of development and support status of the border region under the EU's structural policies there is an order of preference for eligibility for support: from the least-developed regions in the EU to somewhat more developed, primarily in the core regions, to the most developed regions without Structure Funds status, likewise mostly in core regions of the EU.

Another line of division is according to the position on the EU borders. Then we can speak of border regions on the EU's internal borders and those on the new internal and external borders which are either on the periphery and less developed (e.g. Greece/Balkans, Germany/Poland and Germany/Czech Republic, Austria/Hungary) or in

Europe's more-developed areas (e.g. Italy/Switzerland, Austria/Italy, Scandinavia, Germany/Switzerland, etc.).

According to the natural geographic features such as mountain borders (Alps, Pyrenees, Scandinavia) and maritime borders we may consider various combinations of these and other factors creating a multitude of types and varieties of border and cross-border regions in Europe. For our region – the Balkans: the old EU member Greece, the two new members Bulgaria and Romania, the upcoming Croatia and the future members from the Western Balkans and Turkey most interesting is the grouping of border regions according the level of development with respect to classification under European structural policy, coupled with their position on the internal/external borders of the EU and on land/maritime borders.

Land border regions which are generally regarded as "less advanced" tend to correspond to those classified under the EU's structural policies. Up to now, these have mostly included the least developed rural regions, also characterised by a peripheral location in the national economy and in the EU. As the implementation of INTERREG programmes is still often heavily influenced by the national level, the flexibility needed to meet the special priorities of the different border regions is often lacking. In general, the border regions in this EU Objective 1 area have the following priorities:

- further improvement of the transport and communication infrastructure in and between border regions, as the basis for sustained cross-border cooperation and related new economic activities;
- improved exploitation of region specific development potential (regional cross-border Operational Programmes);
- diversification of activities in rural areas to prevent further depopulation;
- promoting cross-border networks;
- improving the quality of human resources;
- solving environmental problems, especially in rural areas;
- cross-border urban and rural development policy;
- realising cross-border forms of organisation.

A significant part of EU territory suffers geographical disadvantages that make it difficult to integrate into the European dynamics. The "geo-morphological zones" - mountainous areas, coastal and maritime areas, and island regions – are highly heterogeneous in their administrative levels and socioeconomic indicators, but with the common criteria of having geographical or natural disadvantages that act as a handicap in the European regional integration process [13].

Regions on the EU's external borders display considerable diversity in terms of development problems and other characteristics, including level of political development. The Association of European Border Regions distinguishes also categories towards the EU external borders [1]:

- Regions bordering on EFTA countries (Norway and Switzerland);
- Border regions lying next to candidate countries (e.g. Croatia, Turkey, Serbia, FYR Macedonia);
- Border regions lying close to other less developed countries (e.g. Albania, the Russian Federation, Morocco).

The ideas of regarding the pros and cons of the border regions initially were implemented in the first wave of Phare cross-border cooperation projects between Bulgaria and Romania, starting in 2001. It was not only before both countries joined the EU, but also well before the ten new members (the group of 2004) joined. A good

example was the project for the small municipalities from the border region of Rousse<sup>2</sup>. In the scope of this project exactly was the development of the investment profile and the supporting them activities of those small municipalities.

At that time, the economic activities in those small (rural) municipalities of the Rousse region was only 38,7%<sup>3</sup>, while the medium for the country is 55-57%. Among the total employment in these municipalities 38,7% were engaged in the agriculture and forestry and the unemployment was extremely high in comparison to the regional centre and the country as a whole – in Dve mogili is 33,8% and in Borovo is 35,1%. This is a reason for the strong process of migration out of these small municipalities.

Another – “institutional” problem in these 7 small municipalities of the Rousse region was the almost no active third sector – NGOs, branch organisations, etc. A certain progress from then appeared in a certain extend to the supporting the design of the investment profile activities and in one of them – the municipality Slivo pole NGO for initiatives for the development of the territory is active.

Coming to the group of the 2004 members an example for cross-border-networking the EU'REGIO'NET is a framework of Austria, the Czech Republic, Slovakia and Hungary to bring together the institutions of regional development in the border regions. It is the aim of EU'REGIO'NET to establish a cross-border network and a “learning region” between the various institutions of the Central European Region dealing with the task of new border-communication ([9], 2005). Special focus in the case is on: potentialities and variations of cooperation between cross-border-regions, institutions of cross-border-regional-development, recent problems of cross-border-networking and regional-management, “visions” of future cross-border-cooperation, etc.

Cross-border cooperation on the new internal EU borders of the countries of Central and Eastern Europe and the Mediterranean is characterised with the strong will to increase cross-border cooperation through informal contacts and organisations, with nation-states still playing a predominant role.

At the same time, the cross-border cooperation formerly absent for political reasons is making continuous progress, especially at the regional and local level. At the EU's external borders in the new member states like the Baltic States, Poland, the Czech Republic, Slovakia, Hungary, Bulgaria, Romania and Slovenia, Euroregions and other forms of cross-border cooperation have developed quickly, and their number is steadily growing.

The conflicts between neighbouring states or the political situation is still impeding cross-border cooperation (e.g. EU border regions next to Albania, FYROM or Russia). Thus having different geographic, economic and industrial features, all border regions on the external borders have to overcome major economic differences (asymmetric industries and economies, currency and wage disparities, lack of infrastructure and border crossings, environmental problems). The migration (political and economic) affects the psychological and political climate in these border regions. At the same time, the democracies and administrative structures, which are still young, have to be further improved.

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<sup>2</sup> Rousse is the biggest and most important economical and logistics town on the Bulgarian side of the Danube and the whole Bulgarian-Romanian border.

<sup>3</sup> According to the official National statistics institute data, regarding the share of those actively working in the group of the above 15 years old.

The small and medium-sized enterprises (SMEs) are the potential of the border areas and moreover of the small municipalities in them to avoid the isolation and benefit the geographic situations. Nevertheless, the co-operation with a foreign SME as the most important partner is undertaken by just 3 % of the SMEs in a ENSR Enterprise Survey ([8], 2004). Another 6 % have important partners both nationally and abroad. The importance of network activities may be indicated by a Spanish study (de Lucas, 2001) of panel data from 963 SMEs concluding that commercial networks abroad are more frequent among SMEs than exporting. Networking activities are reported to be undertaken by 53 percent, mostly micro enterprises, whereas 50 percent export.

Another form of internationalisation is indirect exporting, e.g. when the enterprise supplies a market abroad via an intermediary domestic company, e.g. a wholesale company. A Finnish survey ([11], 1998) of 270 SMEs with some international activities revealed that 40 percent had indirect exports (compared to 84 percent with direct exports). These forms of internationalisation are not easily identifiable in the general statistics.

It is worth noticing that, according to the 2003 [8] Survey, more than one third of the SMEs with subsidiaries abroad in the ENSR Enterprise Survey have no exports. This demonstrates that the creation of subsidiaries abroad is not merely a question of getting a sales platform for the company's products. Foreign subsidiaries can just as well be a platform for access to cheap labour (e.g. via sub-suppliers) or access to knowledge and technology. These figures indicate that SMEs have a differentiated approach to internationalisation where some SMEs try to optimise their competitiveness by exploiting new business opportunities in the value chain.

Financing infrastructure projects presents one of the major challenges in developing countries. Starting in the beginning of the 1990s, growing budgetary pressures led governments to transfer financing and the operation of infrastructure from the public to the private sector.<sup>1</sup> This change has not eliminated the need for government support. Rather, it has changed the form. First, investment opportunities need to be promoted to outside investors. Second, many socially valuable infrastructure projects cannot be implemented on a purely commercial basis without government support. The objective of this paper is to provide a theoretical framework to study the effectiveness of investment promotion policies.

Investment promotion policies of the government consist of designing rules for infrastructure project selection, award procedures, support and regulation. Typically, there are two negotiation stages between the government, infrastructure project operators and foreign investors (Sader, 1999). At the first stage, the project operator (a local or foreign company with expertise in the field) approaches the government to reach an initial agreement on project development.

Once the operator has exclusive rights on project development, it often invites other equity participants to build a consortium through a shareholder agreement. In general, the purpose of the consortium is to carry out a specific project. The consortium members then negotiate the terms of the project with the government. Successful negotiations result in a project or a concession contract with length of up to 30 years.

At the second stage, after a project is approved by the government, the operator must raise outside financing. According to the Foreign Investment Advisory Service<sup>2</sup> (FIAS), 75% of project costs are covered by debt, and foreign investors participate in 80% of all projects. But foreign investors do not automatically participate in an arbitrary privatization. FIAS estimates that the number of projects that are actually implemented is only 20–30% of the potential projects which have been negotiated between the

government and the operators and which have obtained government approval. The question is how the government should select and support operators to maximize the number of implemented socially valuable projects.

Financing plays an important role in PPPs. Studies that focused on model development addressed different financing issues. Researchers have attempted to study the financial viability of PPP projects. For example, Ho and Liu (2002) used an option pricing-based model for evaluating the financial viability of a privatized infrastructure project.

To estimate when the project is at risk from bankruptcy, this quantitative model takes the views of the project promoter and the government into account. Wibowo (2004) formulated a cash flow model to calculate operating revenues generated by a PPP project. Their research studied guarantees' financial impact from the perspectives of the government and the project sponsor. Simulation results revealed that guarantees could reduce financial viability risk but were not free of cost.

Researchers have also studied the return and the value of PPP projects. For example, Bakatjan et al. (2003) used a simplified model to determine the optimum equity level for decision-makers at the evaluation stage of a BOT project.

This model combines a financial model and a linear programming model to maximize the return of the project from the equity holder's point of view. Zhang (2006a,b) argued that there is a need for establishing the best-value objective dimensions for innovative project delivery models.

These models could offer the best value to the public sector. The models could also support the partnership between public and private sectors in continuously enhancing the best value through long-term contractual arrangements.

Then, a methodology was developed for capital structure optimization and financial viability analysis that reflected the characteristics of project financing, incorporated simulation and financial engineering techniques, and aimed for win-win results for both public and private sectors.

Other research, such as rescuing plans and capacity choice, has also been conducted. For example, a game-theory based model, which determines when and how the government would rescue a distressed project and what impacts the government's rescue behavior on project procurement and management. By establishing an effective rescue model, the government would be able to map out the blueprint for the public, develop policies, and negotiate with the concessionaire. Provided modeling and analysis of highway pricing and capacity choice of a BOT scheme. It was found that the combination of toll charge and roadway capacity regulation performed the best in terms of social welfare increment. Yet, in PPP highway projects, the regulation may cause a financial pressure against the private investors to operate a project. The government, therefore, may need to subsidize the private investors in order to make their participation financially viable.

### **Project success factors**

Researchers have studied what influence the success of PPP projects, developed a force field model to visualize the importance of relational forces. A framework was conceptualized to link the relational contracting approaches, through sustainable relationships, to sustainable infrastructure - introduced a decomposed evaluation model to

assess the most commonly significant decision factors that strongly affected the feasibility of BOT projects.

Risks are always an active research topic for PPP projects. Proposed a risk probability and impact assessment framework based on fuzzy-fault tree and the Delphi method. The framework included extensive scenario modeling of critical risks in projects and systematic processing of professional judgement of experts.

On the other hand, developed a fuzzy analytical hierarchy process model for the appraisal of the risk environment pertaining to the joint venture projects. Developed was a theoretical model for the construction industry, which specifies the potential stimulants and impediments to creative behavior in PPP projects. Capital investment of the private partner is recovered through the operational revenue over the concession period. Research has been conducted on how to determine the length of the concession period. Proposed was a simulation model to assist the public partner to determine an optimal concession period. The simulation output showed that risks and uncertainties, such as a change in inflation rate, traffic flow, and operation cost, could influence the decision on the concession period. Through Monte Carlo simulation, provided a method for evaluating the mean net present value (NPV), variance, and NPV-at-risk of different concession period structures. Risk-return trade-off was studied to make sure a sufficiently long concession period for generating financial returns that can compensate the risks.

Other studies have been focused on developing a model for determining the concession period for BOT projects. The model was used to identify a specific concession period, which took into account the bargaining behavior of the two parties engaged into a BOT contract. The review of these studies has provided insights for designing future research agendas. The following discussion thus recommends some possible research plans. Previous studies have attempted to identify the risks in PPP by using a small sample or a small number of cases.

To make the risk identification results more meaningful, the use of a larger sample size is recommended. Such a larger sample should include practicing. Moreover, future research should also be focused on exploring more convincing risk assessment models. As noted, it is crucial to create risk assessment models to incorporate different types of risks (such as technical and legal risks). Such models should not only be accurate, but should also be easier to be used. Models that are resisted by practitioners would be of no use to the real world.

Existing studies have shown that too much and too little governmental guarantee or support cannot achieve a suitable balance. Especially when the government provides too much guarantee, it would be easy for the concessionaire to get the benefit from the contract at the expense of the public. This has led to the commonly asked question of how to pursue a win-win scenario between the public sector, the private sector, and ultimate general public users. Future research should therefore be designed to find such an answer.

Since prior research has highlighted the importance of collaborative arrangements in public procurement that transfers from a 'controlling regime' to a 'facilitative stage', the conditions that would help to speed up the transfer process need to be identified. This is consistent with contention that the social capital underscoring the productive bonding between parties and the role of government in facilitating positive outcomes resulting from the social capital should be developed. Furthermore, the cultural and political issues in PPP should also be addressed under new agendas. PPP experiences cannot be simply copied from one country to another since different countries have different practices in terms of culture and policy. Research should be undertaken to address the relationship

issue by evaluating the effect of cultural mismatch and other relational variables on project team success.

The current paper recommends the improvement of contractual agreements. In fact, partners in a project should make sure that the contractual language is effective and that the contractual clauses conform to international practices. However, conflict and argument about contractual terms are not uncommon. One of the possible areas for improvement is the provision of clear definitions of financial indicators for foreign sponsors and lenders to avoid unnecessary misunderstanding.

Since negative behavioral relations and tendencies may lead to adversarial or litigious relations in contract implementation, more research would be needed to explore which factors affect behaviors. For example, contract terms may be a key factor as they are perceived to generally have greater impact upon relationship performance.

The scope for active government policy in this paper comes from the fact that the profitability of some of infrastructure projects is below financing costs. The pool consists of two types of projects. Both types are socially desirable. High return projects are commercially viable. Low return projects are not viable and need further government support to be attractive to investors. The government can improve the profitability of the initial pool of projects by designing selection rules and providing direct and indirect support.

Examples of direct support are grants, equity participation and subordinated loans. Indirect support includes favorable price regulation and various guarantees. When the government has a high cost of public funding and cannot pay the costs of project support, revenues from awarding production rights on high return projects can be used as a source of funding on the low return projects. For example, the government can auction the exclusive rights to develop a telecommunication network in a profitable metropolitan area and use the raised funds to support the universal service obligations in rural areas.

In practice, infrastructure builders and operators have superior knowledge about the commercial value of a project. Consequently, they will have incentives to understate that value in order to qualify for government support. To solve the adverse selection problem, the government must decrease its likelihood of approving projects that require some kind of support. An interesting feature of this problem is the interaction between the minimum subsidy necessary to implement a low return infrastructure project, the share of approved low return projects, and the information that investors learn through the award procedure.

I derive the optimal government policy in a two stage model that reflects the investment promotion stage and the financing stage of the infrastructure project implementation. In the first stage, the government designs a policy that screens potential projects on the basis of project returns. The government has two policy instruments, the probability to approve the project, and the transfer. Each approved project is assigned a transfer that can be either the payment by the operator for production rights or the support subsidy. At the second stage, the investor observes the mechanism used by the regulator to approve projects and the transfers. The investor then uses this information to decide the terms of the financing contract and the size of the infrastructure project.

A simple screening mechanism is to impose a tax on high return project operators and use the revenue to subsidize a share of the low return projects. I show that this policy is suboptimal. Under this policy, the investor is perfectly informed about the project's returns.

Complete information at the financing stage introduces a severe adverse selection problem at the investment promotion stage. The probability of approval of a low return project has to be substantially reduced to elicit information from the high return operators. In practical terms, operators of both project types request project support. In response, the government supports only a small number of projects. The result is the underdeveloped infrastructure.

The first result of this paper is that the optimal investment promotion policy leaves the investors uncertain about the project type and that a share of high return projects obtains a positive subsidy from the government. This is achieved by the means of a stochastic selection mechanism. With positive probability, the high return operator is assigned the same subsidy as the low return operator. In that case observing a subsidy leaves the investor uncertain about the project type and allows the operator to gain a positive rent. This is beneficial for the government because it reduces the cost of eliciting information about the project type from high return operators and, ultimately, results in a higher share of successfully implemented low return projects.

Internationalised SMEs collaborate more frequently, whether as formal or non-formal cooperation, than SMEs in general. Moreover, the more complex or outgoing the internationalisation activities of the SMEs are, the more often they co-operate with other SMEs as well. Among the SMEs with subsidiaries or branches abroad or more than one form of internationalisation, 32 per cent engage in formal and 51 per cent in non-formal cooperation ([8], 2004). For the internationalised enterprises, collaboration with foreign enterprises or partners is more frequent. Among the SMEs with subsidiaries abroad or more than one form of internationalisation, 22 per cent of those cooperating with other SMEs directly have foreign partners and 31 per cent have both foreign and national partners of importance.

### **Tools and methods for promoting the local enterprise in the border areas**

Most of the Euroregions or similar institutions in Central and Eastern Europe have been established at the EU external borders with Estonia (EST/FIN), Poland (D/PL), the Czech Republic (D/CZ; A/CZ), the Slovak Republic (SK/A), Hungary (HU/A), Slovenia (SLO/IT) and Bulgaria (BG/GR). These Euroregions are at the same time the most advanced cross-border structures in the Central and Eastern European countries. Many Euroregions along the EU ex-external (now new internal) borders have prospered in particular due to the EU programmes INTERREG and Phare CBC.

On the external borders to the new member states from Central and Eastern Europe, the focus is more on:

- upgrading infrastructure and opening new border crossings;
- improving transport and the communication networks;
- economic development;
- eliminating economic disparities on both sides of the border;
- improving environmental protection in all areas;
- greater participation in future INTERREG programmes and their management;
- doing a better job of combining EU resources with those of Phare CBC and TACIS CBC.

Between 1990 and 2004 several euroregions or cross-border working communities were established at the borders between then candidate countries in Central and Eastern

Europe as well as along their external borders with Russia, Belarus, the Ukraine and Moldova. Carpathian Euroregion (HU/PL/SK/ UKR/RO), Euroregion Váh-Dunaj-Ipel (SK/HU), Euroregion Danube-Drava-Sava (CRO/HU), Euroregion DMTC/DKMT (RO/HU/YU), Únia-Slaná (SK/HU), Euro-Regió Ház Kht (HU/RO), Euroregion Upper Prut (RO/MOL) and Euroregion Danube South (BG/RO).

Bilateral investment treaties (BITs) are agreements between two countries for the reciprocal encouragement, promotion and protection of investments in each other's territories by companies based in either country. The signing of the first BIT between Germany and Pakistan in 1959 initiated the creation of a network of treaties that has experienced continuous growth. By the end of 2005, 179 countries (out of approximately 200) had signed at least one BIT and there were a total of 2460 BITs in force. Nevertheless, although a significant number of new BITs were signed in the first half of the 1990s, the rate at which new BITs were signed started to decrease afterwards. Indeed, the number of new treaties in 2005 was down 60% compared to 1995. Despite this decrease, BITs are still one of the most popular and widespread forms of international treaty.

There have been many studies aimed at understanding the proliferation dynamics of BITs. Their results are inconclusive and there is a large debate about the reasons why countries sign BITs and the effects caused by their signing. Many of these studies assume that the motivation to sign BITs is to improve the chances of receiving foreign direct investment (FDI), although there is mixed evidence in the literature regarding this assumption. In particular, some studies discuss that a higher number of BITs raise the FDI that flows to a developing country [3], and Elkins, Guzman and Simmons argue that the spread of BITs is driven by international competition among potential host countries for FDI [2].

This multi-disciplinary work departs from earlier approaches and studies the body of BITs using a complex social networks perspective. A social network is a structure made of nodes that are tied by one or more specific types of interdependency. In our case, nodes represent countries and a tie between nodes indicates the existence of a BIT. Networked systems from the real world have routinely been studied using this perspective. Examples include the Internet, the World Wide Web, scientific collaboration networks, and metabolic networks. These networks are referred to as complex because they have a large number of nodes that are connected forming non-trivial topological features. The mentioned connection has been proposed with the goal of emulating the topology of a complex network. The first of these is the random graph model, which connects every pair of nodes uniformly and independently with probability distributed randomly. With the advent of more powerful computers, the empirical analysis of large, real-world networks has shown that many of them share some fundamental structural properties, such as small-world effect, high clustering coefficient and power-law degree distribution. With these results in hand, scientists started to question whether ER graphs gave rise to networks similar to those generated by real-world complex systems.

The study of the social network generated by the BITs departs from related studies in the literature for the following main reasons. First, the full history of the network is compact and available to us. While most works on real-world networks study the network evolution process over a short period of time, typically no more than 10 years, we will study the evolution process from birth to actuality, covering a period of 45 years. Second, while most networks studied in the complex networks literature are large and sparse with potentially infinite growth the BIT network is small and dense, and has almost reached its limit of growth at node level. The fact that the network is small will allow us to study the

local properties of the network such as its cohesiveness (as given by the clique or quasi-clique numbers). An analysis of these properties is not present in most of the existing literature. Third, traditional papers from the literature of social networks view them as static graphs, and concentrate their attention on the analysis of structural properties of snapshots at different times. We will study the BITs using a dynamic perspective, paying special attention to growth processes that generate networks with similar properties [7]. The main two conclusions that can be drawn from our study are that a network growth process based on a combination of preferential attachment and the fitness model is a good fit for the BIT network, and that the reason why less countries signed new BITs in the period 1995\_2005 is the existence of some saturation whereby countries had already signed the BITs that were most important to them.

There are other networks representing an interaction between countries that have been studied from a social networks perspective. To cite the most relevant, [11] studies the topology of the world trade web, defined by international import/export trade relationships. In follow up work, focuses on a directed version of the network and looks at its evolution. The complex relationships between countries in the Eurovision Song Contest, by creating a dynamic network from voting data over a ten-year period. The evolution in both of these application domains allows for the relationships to change arbitrarily over time. This means that edges could be added or deleted from one year to the next.

On the contrary, our network only admits the addition of edges: once a BIT is signed, it remains signed forever. Describing the dataset and laying out the groundwork by reporting on the structural properties of the BIT network and discusses the evolution of BITs over time and explains the difference between the BIT network and the most-commonly studied big and sparse networks. We propose the models that capture the main aspects of the BIT network and measure the goodness-of-fit using topological characteristics.

We used a dataset collected by the United Nations Conference on Trade and Development (UNCTAD) [14,15]. It contains all BITs that were signed starting with the first BIT in 1959, up to 2005. The set of pairs of countries that signed BITs can be regarded as a social network, where the countries are the nodes and an edge between two countries is present if they signed a treaty. In some limited number of cases, a dyad of countries signed a BIT more than once. We only consider the oldest treaty when that happens because the new one is usually a revision and a ratification of the BIT. In addition, some countries like Czechoslovakia and Yugoslavia have divided, so they stopped to exist as countries. Since this is a second-order consideration because it is not a frequent event, we consider that the network growth process is monotone and, thus, we never delete a country or an edge from our network. Consequently, we treat newly formed countries such as the Czech Republic and Slovakia as new countries that join the network. Overall, our network contains 2460 treaties signed by 179 different countries.

To study the dynamics of the BIT network, we define as the set of countries that signed at least one treaty before or in year  $y$ , be the state of the network at year  $y$  summarizes its growth by plotting the number of new countries and new treaties per year, in the period 1960\_2005.

We now study the properties of the BIT network, focusing on the evolution of these properties over time. Comparing our measurements with what is expected for an ER graph of similar size, we start to uncover significant patterns in the network.

To obtain representative measurements for random graphs, we average results over 50 independent trials.

A structure that proves to be specially relevant to our study is given by cohesive subgroups, defined as subsets of actors among whom there are relatively strong, direct, intense, frequent or positive ties [18]. In our context, they represent blocs of countries with a high density of treaties signed between them. More specifically, a possible way to characterize these blocs is by using cliques, which are subgraphs of the network whose nodes are fully pairwise connected. For example, the size of the largest clique – usually referred to as clique number – in 2005 is 14 and one arbitrarily chosen maximum clique consists of Albania, Bulgaria, China, Croatia, Egypt, Germany, Hungary, Poland, Portugal, Romania, Russian Federation, Slovenia, Turkey, and Ukraine plots the time-series of clique-numbers in the BIT network. We can draw a parallel to the analysis of clustering coefficients above. This provides further evidence that the formation process of the BIT network cannot be approximated accurately with ER graphs.

Looking at different largest cliques in the BIT network at different times, it is hard to detect a pattern among the countries forming them because countries are in different regions and have different economical levels. However, the different maximal cliques have many countries in common, possibly indicating that they are part of a larger cohesive subgroup that is not a clique because it is missing some edges. Notice that a dyad of countries that may not be willing to sign a treaty because, e.g. a long-standing conflict could still be part of the same bloc. This motivates us to consider quasi-cliques, defined as a subgraph with a pre-specified edge density. Quasi-cliques can be interpreted from a bicriteria optimization point of view by considering that the size of the subgraph is the first objective and its density is the second objective. This problem is computationally hard (it is NP-hard and no constant-factor approximation algorithm can exist), but we developed an integer programming formulation and a cut generation procedure that allows us to solve the problem. We do not describe the procedure here because of lack of space; the details can be found in Ref. [19]. Using our procedure, we compute the size of the maximum  $k$ -quasi-cliques for various values of  $k$  and compare them to the clique number. The conclusion is that the quasi-clique number increases at a faster pace than the clique number, indicating the presence of highly cohesive subgroups with more members than those we can detect by considering regular cliques. One interesting empirical question that we leave open is to study the reasons and find the covariates that explain why some BITs were never signed.

Alternatively, raising external funds for investment may allow firms to cheaply adjust their capital structure toward a target leverage ratio that balances the tax-benefits of debt with expected bankruptcy costs. Fixed costs of capital-structure adjustment imply that firms may periodically deviate from their target leverage ratios. The costs of adjustment are sunk when firms must finance investment projects with external funds. Lumpy investment projects therefore provide firms with the opportunity to adjust leverage at low marginal cost.

Target leverage may also evolve over the financing period of a project as a firm's growth options are converted into assets-in-place. Trade-off theory predicts that firms with unexercised growth options have lower leverage ratios. Agency conflicts between bondholders and shareholders that lead to underinvestment can be mitigated by having less debt on the firm's balance sheet. Argues that debt reduces the tendency of managers to overinvest and thereby reduces the costs of free cash flow. Moreover, show that the debt capacity of growth options is negative because the underinvestment costs of debt increase

and the free cash flow benefits of debt decline with additional growth options. Finally, argue that the debt capacity of a real option is almost always negative because the amount of risk-free borrowing required for replicating the option displaces current debt dollar-for-dollar.

The evolution of target leverage implies that firms sequence equity issues before debt issues during the financing period of a project that requires external finance. The tax-shield value of debt is not realized until the assets are in place and generating cash flows. Because early debt issuance implies potential bankruptcy costs without the tax-benefits of debt, firms first finance investment with cash and equity. Debt is issued after the assets are in place in order to shield part of the additional cash flows generated by the new project from taxes, incorporates this time-to-build feature in a dynamic model of capital structure. In the appendix, I develop a dynamic model of capital structure that makes a similar prediction.

The sequencing of debt before equity issues can also be explained on the grounds that early debt issues reduce the incentive for managers to continue a project in states of the world where the benefits of continuation belong to bondholders even though the project's net present value remains positive. Thus the evolution of target leverage during the financing period of large investment projects may explain the financing choices of firms that appear, at first glance, to place little importance on target leverage ratios.

I test these different theories of capital structure with a sample of large investment projects undertaken by U.S. industrial firms. Findings are as follows. I show that firms adjust toward their capital structure during the financing period of large investment projects.

The median deviation from target leverage at the end of the year immediately preceding the financing period of a project is  $-4\%$ , compared with  $0\%$  at the end of the last year of the financing period of a project. I also examine the convergence toward target leverage in a multivariate framework and find that the sensitivity of changes in capital structure to deviations from target leverage is significantly greater during investment years than during years characterized by low investment activity. The sensitivity is larger when the financing deficit is greater than the absolute value of the deviation from target leverage. Financially constrained firms are also more likely to time capital structure adjustments with the financing periods of large investment projects.

Target leverage evolves over the financing period of a project. Target leverage increases by over  $5\%$  on average over the financing period of multi-year investment projects. This change in target leverage is consistent with the conversion of firms' growth options into assets-in-place. I also find that the evolution of target leverage over the project's financing stages affects the order in which equity and debt issues occur during this period. Firms finance investment during the initial stages of multi-year projects with equity or internal cash. Debt issues occur near the end of the financing period as the new assets are in place. A multivariate logit analysis shows that, after controlling for market-timing and the deviation from fixed-effect estimates of target leverage employed in the literature, firms are  $10\%$  more likely to issue debt at the end of a project than at the beginning of the project.

The evolution of target leverage over the financing period of a project explains the anomalous behavior of firms engaging in pro-active leverage transactions documented in Denis and McKeon (2012). The authors of this study document that debt reductions following these transactions are slow and depend on whether the firm produces a financial surplus. I reconstruct their sample using their methodology.

Of the 2832 High Leverage Transactions (HLTs) in sample, over 63% occur during the financing period of a project and 38% occur during multi-year projects. The majority (66%) of HLTs that occur during multi-year projects occur during the last year of the projects' financing period. These findings suggest that these transactions are undertaken to finance investment when target leverage is high.

HLTs occur during periods in which target leverage is evolving. Average target leverage increases by 9% over the financing period of multi-year projects with an HLT compared with only 5% for multi-year projects without an HLT. Moreover firms undertaking HLT-financed projects are significantly under-leveraged prior to the first year of the project's financing period. These findings imply that firms engage in HLTs to move leverage toward a (higher) target leverage ratio. The fact that the proceeds from HLTs are used to finance investment expenditures during the final stage of a project rather than to finance an equity payout is therefore not incompatible with trade-off theory. Results support an alternative explanation whereby the proceeds from HLTs are used to finance investment because firms time capital-structure adjustments with the exercise of their growth options.

Overall results are supportive of trade-off theory. I find that firms move toward their target leverage ratio during the high-leverage transactions reported in Denis and McKeon (2012) occurs because firms are adjusting their capital structure to reflect the conversion of growth options into assets-in-place.

The paper's findings demonstrate the importance of real investment decisions in determining when and how much firms adjust their capital structures. In particular, the paper addresses the concern raised that restricting the analysis of firms' capital structure to leverage ratios is possibly misleading. Studying financing behavior around lumpy investment projects overcomes the concern raised in their paper that randomly simulated adjustments can yield results that resemble leverage-targeting. The paper is also related to capital structure adjustments around acquisitions. They find evidence consistent with leverage-targeting. Explore the intriguing finding that firm fixed-effects play an important role in determining capital structure. The findings suggest that firms deviate from an optimal long-run leverage ratio when they invest by financing investment with debt, which produces a temporary increase in leverage - document similar behavior for firms raising debt capital following reverse leveraged-buyouts. Empirical results suggest the opposite behavior, namely that firms undergo large capital structure adjustments toward their target leverage ratio when they invest. Results are consistent with greater speeds of adjustment when firms' cash flow realizations are in the same direction as their deviation from target leverage.

Regional clusters may be one efficient way to achieve job creation and wealth in regions, and thus, regional clusters should form an important target group for industrial and innovation policy. Several observations underlie this argument as clusters are seen to be of large quantitative importance. This statement is to some extent supported by studies that attempt to identify regional clusters in different countries. Of particular importance is the fact that empirical studies to a large extent confirm the view of regional clusters as generally rather successful industrial areas. Clustering is seen as an essential way to achieve competitiveness by regional industry, and in particular by SMEs, in the global economy.

At the same time, the firms' innovation and learning capabilities partly rest on the quality of the local industrial milieu and on the quality of partnership and interactive learning occurring between public authorities, knowledge organisations, local companies

etc. The regional level is ‘an essential level at which technological synergies are generated’ ([18], 1995). The positive link between regional competitiveness and the business environment for the SMEs is based on experiences from ‘success stories’, lessons from evaluations of policy instruments like the RIS (Regional Innovation Strategies in the EU).

Following a theoretical approach to the analysis of this aspect of European integration, the research of Lopez focuses on the importance of including regional integrative capacity as a relevant factor of integration (Hernandes Lopez, 2005). The paper does a literature revision on the main theories and perspectives on European integration in an attempt to identify from them the independent variables that enable regions to develop an effective role in the European dynamics processes.

Coming to the case of the Rouse small municipalities (in the period 2002-2003), the municipalities of Slivo pole, Ivanovo, Borovo, Dve mogili and Tzenovo were included in the first wave project for Cross-border cooperation Bulgaria Romania. The main objectives in front of them were to establish structure for CBC, to design an investment profile – as a part of the CBC planning and to create thematic working groups for certain projects. For those groups a serious expertise capacity is required of course, concerning the initiation and design of projects, both from the units at the regional administration and locally among the municipalities.

The manual on which the investment profiles were developed for those municipalities regarded as clients to a territory of a municipality both the persons and the legal entities, which might be ([19], 2003):

- Extremely important for the municipality (forming the live and development) companies – with example the Nuclear energy central for the municipality of Kozloduy (still on the Danube river, but 90 km East from Rouse);
- Those of interest to the municipality – for example tourists and
- Those which are not in the scope of the interests of a municipalities – like undesired subjects, criminals, conspicuous entrepreneurs, etc;
- Neutral elements – persons and entities: among them might be refugees for example.

On this basis, the four big target groups for the small municipalities were envisaged and in 2006, in the two small Bulgaria-Serbia border area<sup>4</sup> municipalities of Belogradchik and Chiprovci were regarded. One of the groups includes the visitors as a whole, formed by the business-type (managers or employees in business trips) and private visitors (tourists, travelers, friends or relatives). Another group is formed by the local citizens and the temporary living on the territory of the municipality – for interim employment and often this might be even the key target group in the efforts. Among the expectations here might be the inflow of unqualified working force, attracting certain type of specialists or pure increase of the population in natural way as birth rate growth.

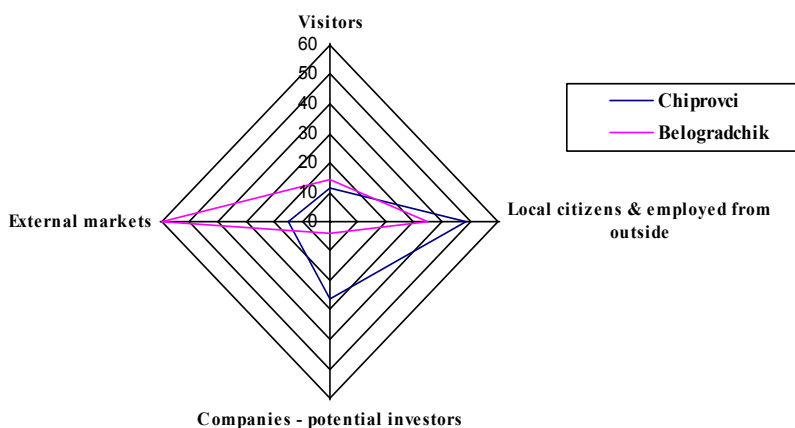
The third important group is the one of the businesses – the already operating on or with the territory and potential investors. Here the balance of the interests between the existing and future companies on one side and between the local and “outside” for the

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<sup>4</sup> Although they are close – with their town centres in less than 50 km, the two municipalities belong to two different administrative regions in Bulgaria. Belogradchik – to the Vidin region and Chiprovci – to Montana region.

territory businesses is important. And the fourth target group includes the external (national and international) markets.

**Figure 1. The main target groups for the two small border municipalities – Chiprovci and Belogradchik (in percentage of preference)**



**Source: Jelev and Baltov, Development of investment profile of Belogradchik municipality 2006, Baltov and Petkov, Dev. ... Chiprovci municipality, 2006**

The chart above indicates the degree to which in the two municipalities the target groups are perceived, based on the opinion of the SMEs operating and from here the importance given in the investment profiles. For the Belogradchik municipality (with pink line) the most attention in the investment profile is provided to the external markets. In Chiprovci it is ranked just on fourth place of importance. The big production capacities and on the other side the low incomes of the local population and businesses.

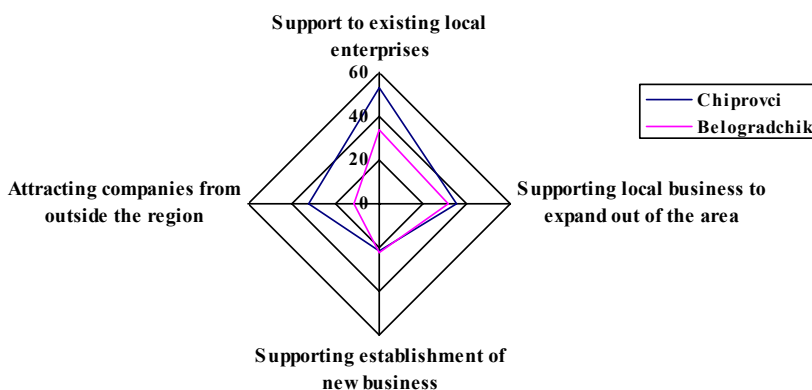
Second important in Belogradchik are the local citizens and the temporary living – employed in the municipality. Exactly the local citizens and the employed from outside – rated by almost 50% of the SMEs, are in the focus of municipality Chiprovci. The reason behind is the critical demographic situation – with the inhabitants of the town of Chiprovci only decreasing from 11 000 twenty years ago to some 2 600 now. In Chiprovci, the available resource is not the working force, but the history, business traditions and nature. With the first printed book in the Bulgarian populated lands – in 17th century, the monasteries and the school – with 180 years history and the fact that in 15th – 17th century it was with known for the merchants trading in whole Europe (a status close to the one of Dubrovnik), Chiprovci smells a history. At the same time the carpets of Chiprovci – with their design and the traditional art in them are attracting attention and often bought for the colors and combinations.

Strange or not, both places rate the target group of the visitors third. The tourist potential of both municipalities is really big, and especially Belogradchik – with the famous coloured rocks in the very town and around and the medieval castle inside them was a traditional – some 15 years ago tourist centre. Now visitors on both places are just coming to observe the historic or the nature objects and do not stay and spent the usual tourist services. Most probably the local business (even the one from the other parts of their admin. regions) is not capable – in terms of resources to develop the tourism and a solution might be search in outside companies and chains to put efforts and the local business to cover the niches and specific interests.

Especially the companies – from outside the regions those potential investors are rated second in the focus of the Chiprovci municipality and just fourth as important for the municipality of Belogradchik (explained with the self protecting SMEs). This throws further light on the fact that the local business and the municipalities overcame the period of over expectations when especially the foreign investors were seen as a remedy for everything.

Considering the issues of hoe the support is to be targeted much higher the local SMEs put the preferences on the local business. It is much of a protectionist drive – as it was stated and in the profiles envisaged more the existing companies and their survival than the opportunities for creating new business in the territory. It is also indicator for a low degree of the entrepreneurial spirit in those two municipalities, and comes contradictory to the fact that in 2006 a fine financed under EU Phare business incubator was finalized in Belogradchik.

*Figure 2. Preference in the approaches for the stimulation of the investments activity (in percentage of preference)*



*Source: Jelev and Baltov, Development of investment profile of Belogradchik municipality 2006, Baltov and Petkov, Dev. ... Chiprovci municipality, 2006)*

The Chiprovci SMEs and the measures in the investment profile indicate that the local business is more opportunistic in looking possibilities outside the territory and in

assuming outside investors should be paid more attention. In this view, it would be desirable to provide assistance to the border and cross border regions in these cases in particular concerning:

- the strengthening of cross-border structures and secretariats;
- the development and implementation of programmes in the period 2007-2013 and their financial management as well as;
- the sector-specific development of projects with the help of regional seminars, assistance and information.

The learning-based support of 'local systems' is still seen as a rather underdeveloped policy instruments in European countries and regions, regardless of some new initiatives ([17] and Wintjes, 2000). A comparative evaluation of innovation policy targeting SMEs in European countries concluded that too many policy instruments are firm-oriented and reactive, while comparatively few instruments are (regional) system-oriented and focusing on 'learning to innovate'. Policy aimed at regional clustering is one way to fill this gap in policy support systems.

The observation that the municipalities most often are seen having policy instruments of relevance for the existing and potential SMEs with the view frequently put forward in the literature stating that the regions often are the most appropriate level to design and implement policy instruments. As the regions and municipalities are very different, the design of policies targeting individual companies has to take place in close co-operation between public and private associations, and between policy bodies and local firms and labour, which is to be most efficiently organised at the local or regional level ([14], 2001). However, it should be added that a degree of national co-ordination is needed. It seems that many regions want to develop their own businesses, and to some extent in the same kind of industries. Thus, it may lead to a waste of public money if regions often support the same type of business.

#### **The capacity required and the opportunities to follow with the instruments and the investment profiles among them**

The local authorities most often act as facilitators in support of business and territory attractiveness policy. This type of policy consists of attempts to bring operators (as firms and knowledge organizations) together, as well as promoting specific investments in infrastructure, education, training, or providing passive promotional support ([6], 2000). This corresponds to some extent with the establishment of specialised organisations set up in most of the municipalities. Local firms or private organisations may initiate these organisations; however, they are quite often supported by public funds.

##### **Investment promotion**

The neoclassical view is largely based on the premise that if governments work hard to build good investment climates, then investors will automatically seek out the best investment opportunities. However, despite the fact that greater promotional effort is associated with more FDI, there is a lack of research on the subject of investment promotion of IPAs. As a matter of fact, IPA studies have been developed from Wells & Wint's original book entitled 'Marketing a Country'. The classification of techniques proposed in this book has become the standard terminology for describing what IPAs do. Many researchers cite classification (i.e., is image-building activity, investment-generating activity, and investment service techniques) studding an investment promotion. Major studies on role of IPA's from 1990 to now by chronologically are summarized in Table 1. Other research on the role of the IPA in FDI policy, that stated that a number of

functions might be performed by IPA, i.e., policy formulation, investment promotion and attraction, investment approvals, granting of incentives, providing assistance, and monitoring clients (i.e., providing after-care) to eventually act as a player in establishing FDI policy. Comparing the view on the role of the IPA, they emphasize more the policy-advisor function than an IPA's direct promotion activities. They also point that monitoring and after-care functions are bound to grow substantially in importance during the 1990s although these functions are underdevelopment.

A fourth category, policy advocacy, to the previous three categories and gave the example of Mozambique, i.e., the role of the Mozambique CPI (Centro de Promoc-aero de Investimentos), in improving the investment climate by reducing bureaucratic red tape that investors faced. Also broke down investor services into three categories: aiding pre-investment-decision (providing information services about procedures required of investors), aiding implementation (legal or accounting services necessary in the process of supporting FDI projects), and post-investment services (services to assist investors overcome problems they encounter once they are operating). MIGA (2000) also categorized IPA investor services into three phases of investment: preparing for a site visit, managing post-visit inquiries and procedures, and providing follow-up and aftercare.

In case studies on the effectiveness of investment promotion, the most effective post-approval services are provided by powerful investment authorities and stand-alone offices as overseas network type are more successful in promoting investment divided investment promotion into four main areas (strategy and organization, lead generation, facilitation, and investment services) and explained IPA activities by stage (from the stage of 'setting the national policy context' to stage of 'monitoring and evaluation'). However, he did not conduct empirical tests but rather based his explanations upon cases studies of certain countries.

Regarding empirical tests on the effectiveness of investment promotion, is classified as one of the earlier studies, which used as a proxy for the effectiveness of investment promotion a dichotomous (dummy) variable based upon whether or not the country had overseas promotional representation in the USA. Developed a proxy of IPA in the same manner that conducted their research. The effectiveness of investment promotion activity was proxied through a promotional variable calculated based on questionnaire sent to 10 promotional experts around the world in a Delphi-like research process. The empirical result showed that it had not a statistically significant impact on FDI flows.

Empirical tests with relatively large samples as to the extent investment promotion helps explain cross country variations in FDI flows were using data from a survey of 58 IPAs. The results showed that, on average, spending by IPAs was positively associated with attracting FDI, along with the influence of key factors such as the quality of the investment climate and the country's market size. They distinguished four key functions: policy advocacy, image building, investment generation, and investor services following Wells (1999) and found that policy advocacy was most associated with attracting investment, followed by image building and investor services from the empirical results.

Another large-sample empirical approach was not directly focused on analyzing the relationship between FDI inflows and the role of various IPAs. Their regressions take into consideration the influence of the presence of an investment promotion office in Japan on attracting prospective Japanese investors to the respective states of the US, based on the 225 investments made in the US by Japanese manufacturers. From the result of empirical analyses with a dummy variable indicating which American states had

representative offices in Japan, the findings did not show a significant effect from the investment promotion offices in Japan.

An investor profile or style defines an individual's preferences in investment decisions, for example:

- Short term trading (active management) or long term holding (buy and hold)
- Risk averse or risk tolerant / seeker
- All classes of assets or just one (stocks for example)
- Value stock, growth stocks, quality stocks, defensive or cyclical stocks...
- Big cap or small cap (Market capitalization) stocks,
- Use or not of derivatives
- Home turf or international diversification
- Hands on, or via investment funds

Objective personal or social traits such as age, gender, income, wealth, family, tax situation. Subjective attitudes, linked to the temper (emotions) and the beliefs (cognition) of the investor.

Generally, the investor's financial return / risk objectives, assuming they are precisely set and fully rational.

Generally, the investment profile gives information focused more or less on potential investors from Bulgaria and abroad. It includes:

- presentation of the municipality (geographic location, specifications and climate conditions), stressing the fact that the geographic centre of Bulgaria is located within the area of municipality, which actually means quick and effective transportation of products and services to any desired location in Bulgaria;
- presenting advantages, provided that an investor decides to invest and develop his/her own business qualified work force, facilities of University, ready to use infrastructure and communications, supportive attitude of municipal administration, beneficial climate, beautiful nature.

Specifics of the investment profile are reflected by the contents of the database, which could be divided in business information:

- juridical regulations, taxes (all necessary information for the investor's activity);
- typical industries for the region;
- classification of companies by type, thus defining the economic image;
- map of the city showing the most interesting free municipal sites (area measurements, built or free areas, intended function, contact person);
- construction and privatization program of the Municipality, featuring other projects in need of additional funding;
- information on current priority projects, i.e. Building up a gasification system in Gabrovo;
- register of public biddings and competition events;
- useful links (links to Chambers of Commerce and Industry, High-tech business incubator, Regional business centre, etc.);
- promotion of the city and an interesting approach in elaboration of the profile based on the advice of foreign investors, who have already developed their businesses in the region the reasons for their choice and what has attracted them to this location.

Electronic newspaper

- the right frame of the website has been organized as an electronic newspaper, where you can find any information for events on the territory of the city

- meetings of municipal administration, all entertainment and sports facilities, news flash. The site is updated daily.
- viewers of the investment profile are able to review the activity of Gabrovo Municipality all adopted regulations, meetings schedule and other details. The accumulated information has been archived since the beginning of 2001.
  - a list of all available services and activities of the Citizen Services Centre has been published also.
  - Gabrovo citizens are able to fill a form, thus evaluating services offered by municipal administration and giving an opinion about significant social issues garbage collection, stray dogs, local taxes and charges, transport problems, public works.
  - Ask the Mayor section is a specific barometer of public opinion, indicating the level of performance and service provision of municipality administration.

In this respect it is important to note that policy instruments may be relevant for the development of regional clusters, although an instrument does not focus on any specific cluster or regional clusters in general. A mature working cluster and cross-border cooperation, for example, may only need public authorities to work in a catalytic role, ensuring co-ordination, cooperation and information dissemination. An emerging one, on the other hand, may need a more direct or interventionist approach with a greater emphasis on delivering infrastructure, e.g. research and incubation facilities.

The most important government policies are found in four areas: (i) financial support to individual firms' projects, (ii) support of infrastructure (both physical and knowledge infrastructure), (iii) support of education, training and research programmes, and (iv) networking and collaboration programmes. Of least importance is to provide information on different fields, to organise mobility schemes and to foster social interaction.

Despite major policies surrounding economic integration among countries (e.g., the European Union [EU], North Atlantic Free Trade Area, and Mercosur), the theoretical and empirical research addressing the impact of such policies on various countries' entrepreneurial activities has yet to fully emerge. To address this issue, this paper draws on institutional, economic, and entrepreneurship literatures to examine if two specific economic integration mechanisms, namely market and currency commonality, increase cross-border venture capital flows made by participating nations in the EU. Findings suggest that broad scale economic integration policies do influence the extent of foreign venture capital investments made into other member countries.

The idea of allowing private firms to finance projects of public sector infrastructure results in the emergence of PPPs. However, due to many forms of PPP projects and situations in different countries, PPP has various definitions. In the UK, the United Nations Development Programme (2007), when planning PPPs for the Urban Environment, stated that the definition of the PPP should be broad such that even the informal dialogues between government officials and local community-based organizations, which are perceived to be essential to successful PPPs, should be included. In the US, the National Council for Public-Private Partnership defines a PPP as a "contractual arrangement between a public sector agency and a for-profit private sector developer, whereby resources and risks are shared for the purpose of delivery of a public service or development of public infrastructure". In Canada, the Council for Public-Private Partnerships (2004) defines a PPP as a "cooperative venture between the public

and private sectors, built on the expertise of each partner, which best meets clearly defined public needs through the appropriate allocation of resources, risks and rewards”.

One of the main advantages of the PPP approach is that it can save resources in many ways. The government can concentrate on its core competencies, and does not need to rely on its own resources for unfamiliar projects. Because of the participation of the private sector, government assets, data and intellectual property can also be utilized more productively, which leads to substantial improvement in the quality of public facilities and services. On the other hand, by proper use of the private sector’s skills, experience, technology and innovation, public services can be delivered more satisfactorily. A further advantage is that the public and private sectors can share risks at different stages. As the private sector brings commercial disciplines into public projects, the risk of cost overruns and project delays can be drastically reduced. To finish the design, build, and operation stages with PPP, the private sector can help to make a leaner civil service structure with a more efficient hierarchy of responsibility for services delivery (EU, 2005a).

Other than the advantages for saving resources and more efficient use of them, the economic aspect can be improved by using the PPP approach. For example, it has been showed that PPP leads to the reduction of lifecycle costs since these projects spread government capital investment over the life of a project. This guarantees the expected rate of return for governmental investment.

Although PPP is perceived as a way of creating public infrastructure at little or no cost to the public purse, it is still the notion that “there is no free lunch” is true - presented several cases of BOT ventures that had run into problems due to cost overruns, unrealistic price and income projections, and legal disputes between private operators and the government. In virtually all of these cases, the government and the general public, but not the private operators, have ultimately shouldered the cost of failure. Their research led us to focus on the point of view from the public sector about the failure of PPP performance.

Practitioners have indicated that political obstacles stand in the way of using PPPs. This view is not surprising since PPP projects always need special legislation. In most circumstances, the municipal or state legislature has to discuss this issue at length before legislation is enacted to regulate the use of PPP. Also, some government agencies may exhibit resistance to change in the context of adopting a new delivery/financing approach.

The relationship between organizations within the public and private sectors is perceived to be crucial to the success of PPP projects because a poor relationship would easily lead to misunderstanding and conflict. Therefore, the existing literature has mainly focused on examining what factors facilitate or inhibit the relationship.

For example, Chan et al. (2003), when conducting an industry-wide survey study, found that ‘improved relationship amongst project participants’ and ‘improved communication amongst project participants’ were the most significant benefits obtained from the use of partnering in PPP projects. Various demands of stakeholders, contractual arrangements, and different philosophical standpoints created friction between the involved parties. Apparently, friction is the major course for poor relationships.

Furthermore, researchers have found that sector relationships in PPP projects were determined by the nature of relational contracting and relationship management. Through a Malaysian case study, claimed that once privatization has taken place, re-involvement of the public sector, particularly through the injection of new funds, should be refrained from as much as possible because of its lack of expert experience and possible social impact of the project.

Since a fair deal is what project parties should achieve, researchers have studied the success factors of how to create win-win relations by comparing various kinds of BOT typed infrastructure developments in the United States, the United Kingdom, and China. Their studies were intended to identify the strengths of successful approaches and provide lessons from less successful or abortive projects. In consequence, proper maintenance of relations can be achieved through effective management of political risks, foreign exchange, and revenue risks.

A knowledge-mining process to draw experience and learn lessons from international PPP practices and to refine experiential and expert knowledge underlying the subconscious decision-making process in the field of project financing. He developed five main critical success factors (CSFs) (favorable investment environment, economic viability, reliable concessionaire consortium with strong technical strength, sound financial package, and appropriate risk allocation via reliable contractual arrangements) for a win-win relationship, each of which includes a number of success sub-factors.

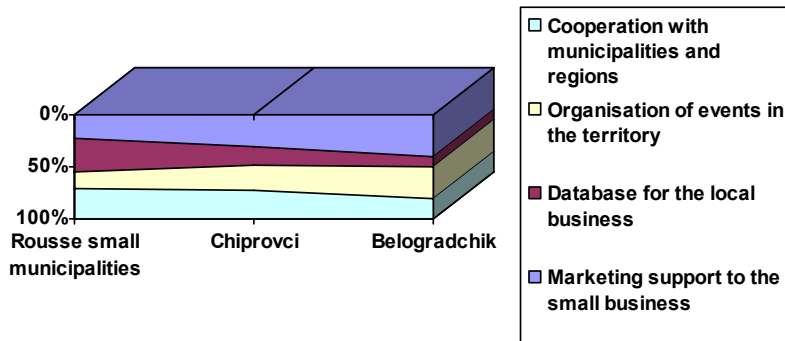
Researchers have also related the relationship issue to contractor selection. For choosing suitable contractors, researchers have not only suggested benchmarking the 'best' selection practices, but have also emphasized 'innovative' contractor selection approaches to be used by large public clients, in which relationship is always regarded as a key criterion. For example, Palaneeswaran and Kumaraswamy (2000a,b) made a comparative overview to formulate a 'cooperative' and 'non-competitive' conceptual benchmarking model to identify the core aspects for selecting a suitable bidder in order to achieve the best 'value for money'.

Having analyzed the data collected from a questionnaire, found that financial sources continued to be scarce despite a pressing need for it by contractors. As they argued, some developing countries were gradually more able to provide a higher grade of local technical expertise at competitive prices. This would result in a greater chance for local contractors to compete in overseas markets, and this situation is increasing in Asia. This raises the difficulties for contractors to participate into overseas PPP projects if they are not properly financed. As stated earlier, availability of financing influenced greatly the selection of a favorable financing strategy. Such a strategy can support participation from the private sector.

The literature and used qualitative analysis to examine factors that could continue to challenge the achievement of best value. They found that among others, high cost of the PFI procurement process is a key factor, which is a burden on the PPP project, and thus leads to a reduction in the private sector willingness to participate. Here the investment profile of a municipality is regarded not only as information material, but a focused and with marketing prospective and attractive for the investors and other decision makers (administration, NGOs), providing certain messages and focuses.

When developed, the municipality is following some directions starting with the initial conceptual version. It is followed by the structuring of the profile with the volume and structure related to the geographic and demographic specifics, the business and industrial characteristics. It is not a plain drafting but rather a process in which a working group consisting of municipal experts from the key areas of development are included. To them advisory functions are to play also ITC and marketing specialists in order the versions of the investment profile to be communicated effectively to the different target groups. Gathering the required information is related with a good on the place field research combined with desk research on the existing documentation.

*Figure 3. Expectations for active measures in making effective the investments profile in the eyes of the SMEs*



*Sources: Yordanova, Manual for Attracting Investments in Small Municipalities, 2003; Jevlev and Baltov, Development of investment profile of Belogradchik municipality 2006, Baltov and Petkov, Dev. ... Chiprovci municipality, 2006.*

In such a way in the investment profiles developed for the small Rouse region municipalities and for the municipalities of Chiprovci and Belogradchik follow certain expectations for active measures (see Fig. 3 above). Still it varies a lot in-between. On one side are the Rouse region municipalities feel more the lack and put more attention to the cooperation with other municipalities and regions – more at administrative level. It might be normal as the names of those places are not so much recognized in the country like the other two – Belogradchik and Chiprovci.

In Belogradchik, for example the measures are assumed to be a direct marketing support for the small businesses in the territory – normal for the fact that each of these businesses doesn't allow the economy of scale and the managerial capacity to conduct individual marketing efforts. In Chiprovci this trend is not so obvious; a kind of balance between the expected measures is kept in the profile, based on the local SMEs assumptions.

One of the anticipations among the small Rouse municipalities is that the creation and activation of databases for the businesses is vital and it is less shared in Belogradchik and Chiprovci. Much of an attention in Chiprovci and especially in Belogradchik is paid to the organisation of events in the territory.

One frequently mentioned problem regarding the internationalisation of SMEs is the lack of an explicit strategy in the initial phases ([15], 2000). This is supported by many studies that point to the first exports as being in response to unsolicited, sporadic demands from foreign companies. Another frequently mentioned problem is the lack of know-how with respect to international activities, identifying appropriate partners or assessing market potential. These are problems relating to the management, or more specifically, the Chief Executive Officer. According to one Swedish study ([1], 1996), when it comes to internationalisation, executives can roughly be characterised as focusing on technology, marketing and structure, but less on strategy and planning.

The long-term interest towards a territory on the side of its consumers/clients is divided on one side with the elements for functioning and on the other as elements for development and prospects ([19], 2003). To the key elements of functioning are regarded the assurance of the personal security and the public order, the situation and exploitation of the housing, including the hotels, the water and heating facilities, the waste collection. The situation of the roads, the transportation system, the public health and even the existence of the parks in the living areas make the issues important enough and investments requiring.

For good or for bad, improving or worsening those elements of functioning cannot guarantee in a big degree the dynamics of the development of a territory, as much more sensitive it is towards the elements for development and prospects. This is the reason in the municipal investment profiles those elements to be addressed directly. In the table bellow the elements of the development & prospects, instead of ranking – which will not be correct as it combines primary and secondary information, are indicated only if considered to be of primary importance.

*Table 1. The elements of the development and prospects, indicated with the biggest importance in the designed municipal investment profiles*

Development & prospects elements of the Long-term interest towards the territory	Chiprovci and Belogradchik municipalities (the Serbian border)	The small Rousse region municipalities (border to Romania admin. region)
Sectoral development		
<input type="checkbox"/> Initiation of new (for the munic.) types of industries	X	
<input type="checkbox"/> Development of the existing (on the place) industries	X	X
“New economy” dimensions		
<input type="checkbox"/> Information and communication technologies		X
<input type="checkbox"/> General dynamics of the investments	X	
The “human ware” status		
<input type="checkbox"/> Level of the employment and its structure	X	X
<input type="checkbox"/> Level of the incomes of the population		X
<input type="checkbox"/> Level of the education and vocational qualification	X	X
Business efficiencies		
<input type="checkbox"/> Levels of the production costs		X
<input type="checkbox"/> Financial status of the businesses		

*Sources: Yordanova, Manual for Attracting Investments in Small Municipalities, 2003; Jeleв and Baltov, Development of investment profile of Belogradchik municipality 2006, Baltov and Petkov, Dev. ... Chiprovci municipality, 2006.*

Considering the issues of the sectoral development, both for the territories of the small Rousse region and for the Serbian border – Chiprovci and Belogradchik municipalities the further development of the existing now or in the past industries is of

key important. In Belogradchik there is revitalization of the telephones production and in Chiprovci is about to start the production (this time with environment friendly technologies) of flour. Ambitiously in these two municipalities the initiation of new for the territory types of industries are envisaged – mostly in the services – and in Belogradchik there is a sign with already started films production.

For the two North-West municipalities the general dynamics of the investments is eloquent and they are ready to set a frame for investments regardless the fact whether in high tech or in any sector. On the contrary, feeling more isolated and with low communication and information infrastructure the Rousse region municipalities are not disregarding the need to developed in a focused way the ITC.

In both regions, the municipalities rank high all the elements for development concerning the human resources. Still the business approach is missing and the efficiencies issues are less focused in the municipal investment profiles. Only for the Rousse small municipalities the level of the production costs a special attention is provided.

There is some view that national strategic marketing management is needed to create or increase economic development (Kotler, Jatusripitak, & Maesincee, 1997). That means, in other words, a government can market a country in the same way as a company's products and services in order to attract foreign direct investment (FDI). Most governments have increasingly adopted measures such as liberalizing the legal and regulatory framework for FDI and establishing mechanisms for the settlement of investment disputes to attract FDI, as a means to achieve their economic development goals.

According to UNCTAD (1998, p. 91), the determinants of FDI include not only economic determinants (e.g., market size, low-cost unskilled labor, raw materials, and strategic assets and technology) but also business facilitation (e.g., investment promotion activities, investment incentives, and administrative services).

As for determinants of FDI, even if the literature argued that business facilitation plays a less crucial role than economic determinants.

Information dissemination activities and market imperfection If there is to be an optimal allocation of resources through market mechanisms, participants should have free access to information. However, instead of circulating freely, information is concentrated and transaction costs occur, resulting in some investment decision makers possessing it and some who do not. This type of 'information impactedness' usually occurs from uncertainty and opportunism. The asymmetry of information tends to change the bargaining power between the supplier and the demander and the side which posses less information will be at a disadvantage. Therefore, in order to overcome this asymmetry of bargaining power, harmonization of information possession should be achieved. In other words, those who posses less information should pay an information searching cost to even-up their bargaining power position. This logic can be applied for the site-selection decision process of MNCs. When making a decision on where to locate, the information base of MNCs is far from perfect, and the decision-making process can be subjective and biased (UNCTAD, 1999). Countering market imperfections in the location decision-making process, literatures found that investment promotion was most effective when it overcame informational asymmetries.

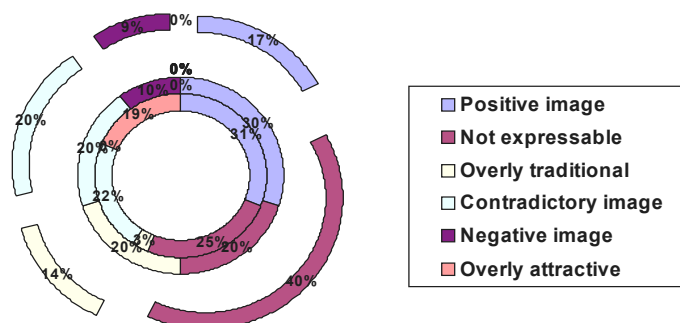
Regarding the information searching cost for foreign investors argue that, *ceteris paribus*, foreign investors experience substantial information asymmetry compared with indigenous investors. As a result, the spatial distribution of inward FDIs is governed by information costs, rather than by production and transport costs, which, on the other hand, are more influential on the choices of the physical location of plants. They also state that the information that an investor needs is divided into 'low-cost information' and 'high-

cost information'. Some information regarding traditional location factors such as manpower, raw materials, market areas, and transport cost, can be acquired at zero (or very low) cost since extensive statistical data are available. In contrast, high-cost information is needed to reduce uncertainty in the quality of available location factors, the workings of the local market in terms of consumer behavior, institutional framework, and so on.

IPA promotion activities concern not only reducing low-cost information searching but also the high-cost information searching. According to a survey by the Foreign Investment Advisory Service (FIAS) of Latin American IPAs, all 14 agencies maintain an informational database for potential investors, to respond to questions by potential investors across a wide range of topics such as current macro-economic data, domestic laws and regulations, the local costs of land, labor, energy and other factors of production, and information pertaining to specific business sectors. Demonstrated that IPA services for reducing the level of market uncertainty are considered to be the most important factor among 15 surveyed services provided to investors. (It was strongly supported in the feasibility study stage). Literature addresses that a main role of the IPA is to gather and distribute the information that prospective investors need to evaluate the attractiveness of a country as an investment site. In other words, IPA could play a role in influencing FDI decisions by compensating for market failure due to information or perception gaps about investment opportunities or country of the investment climate.

Engaging in international activities requires additional competencies compared to strictly domestic activities. The competencies needed typically encompass not only a different working language in relation to cross-border relations, but also knowledge about the foreign market conditions, laws and regulations, cultural differences etc. These competencies can be developed in a learning-by-doing process or by employing experts. However, the amount of international experience of the management or CEO may be of major importance. A number of studies point to the importance of the mindset and experience of managers as regards the internationalisation of firms. Studies show that personal factors like the personality and individual preferences of the owners of small firms; their commitment and persistence are crucial factors for a firm's growth abroad ([5], 2002).

**Figure 4. The indications from the SMEs operating with the territory on the image of the local municipality taken in the designed investment profile**



**Sources:** *Yordanova, Manual for Attracting Investments in Small Municipalities, 2003; Jeleu and Baltov, Development of investment profile of Belogradchik municipality 2006, Baltov and Petkov, Dev. ... Chiprovci municipality, 2006.*

Perceptions on the image of a territory is important for its attractiveness which is not always based on rational decision making process. How the SMEs operating in and with the investigated municipalities is demonstrated on Figure 4. In the very inside circle the anticipations towards the municipality of Chiprovci are indicated and in the next bound to it circle those towards Belogradchik. In the outer wide circle a compile of the regarding the small Rousse region municipalities is demonstrated.

Both Chiprovci and Belogradchik are regarded more in a combination of positive and contradictory image (expressed totally by almost half of the respondents). Partly it is because of the rich historical and natural heritage and on the other side the “shadow” of the percept in Bulgaria as desperately declined North-East planning region. In the small Rousse administrative region municipalities (the North-Central planning region) the image is seen as “not expressable”. Unfortunately they don’t have the flavor from the history and the names of the municipal centres are not very famous in the country as a whole.

For all these municipalities it is rarely said that the image is negative. Even surprising comes the fact that in Chiprovci there is a feeling to be overly attractive – in other words (explained in the focus groups) some of the local business and population prefer less intensive attraction in order to avoid a huge urbanization and dramatic change in the local style and traditions.

### Conclusion

The issues of the cross border cooperation in the areas of economy, culture, environment and the isolated small-scale municipalities development are much more regarded with key priority. They might be turned from trouble areas into beneficial for their countries and the EU as a whole. Already the cases with the Rousse region small municipalities showed that the developed municipal investment profiles proved a good ground and thematic groups with Romanian counterparts were formed in the period 2004-2005 and a joint office (continuing the office of the project) presenting their plans and active measures in Rousse exists. On the external Bulgarian and EU border – the Serbian one are just to start the first CBC projects and Belogradchik and Chiprovci among the first of the beneficiaries – with their investment profiles – a good ground for introducing the envisaged policies.

At the same time, for SMEs the question of attaining sufficient internal resources for cross-border activities is more acute than for larger enterprises, since the costs of hiring people with the appropriate skills are proportionately greater for smaller companies. Large companies have more labour resources to draw from in the first place and they also often have more developed routines and capacities for recruiting, selecting and integrating new employees.

In parallel, still the short track record of joint activities and especially the lack of economy of scale and tradition of working in network with the small business on the other side of the border may hinder the desired dynamics in the business relations. Unfortunately many NGOs lack either interest or understanding of developing and sharing data bases for the business when communicating. On the big municipalities and often at regional and state level these “small” problems might also be disregarded behind the considerations of the big infrastructure and institutional projects. This is the reason the investment profiles to be used as a marketing instrument become a part of the instruments not only of the municipality but also of the single businesses or their networks on the place.

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