



GUIDELINES FOR IMPROVING THE BUSINESS ENVIRONMENT IN SUPPORT OF SUSTAINABLE REGIONAL DEVELOPMENT

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Introduction

The state of the business environment at the regional level is a key factor that is relatively poorly researched and analysed. This fact also argues the relevance of this study. An attempt has been made to systemize information, analyses and evaluations on topical issues related to the establishment and development of the business environment and the sustainable development of the regions in Bulgaria.

The aim of the publication is to analyse the peculiarities of the business environment at regional and local level and to use the capabilities of its main elements to guide the improvement of the regional business environment in order to achieve sustainable regional development.

To accomplish the aim, the following tasks are set:

First, to identify the essential features of the business environment by examining its scope and measurement capabilities.

Second, to analyse the structural and content elements of the regional business environment.

Third, to provide guidance for improving some key elements of the regional business environment that would contribute to the transition of the regions to sustainable development.

The methodological toolbox of the study includes the use of a systematic method, a formal-logical and deductive method, and a context-analysis of publicly available empirical information. Their integrated use allows to analyse

and evaluate the determining components of the regional business environment, according to the general theoretical-methodological and normative statement.

Scope and measurement of the business environment

The definition of "business environment" is complex and ambiguous, synthesizing a variety of elements for which the position in a particular country or region is specific and individual to the different actors. There are various methodologies for assessing the business environment that are contained in reports of established international organizations and institutions, including: The World Bank, the United Nations Conference on Trade and Development, the Organization for Economic Cooperation and Development, the World Association of investment promotion agencies, etc.

The scope of public relations defining the public environment implies its main elements: political, economic, social, administrative and technological environment, etc., which are related to the structure and the institutional organization with the normative base and the public policies. Business entities work in the conditions of the public environment in its broader and narrower sense.

Business is part of the overall macroeconomic circle where the state is a major agent and should be seen in the context of the public environment. Business and business environment should not be seen in isolation, but in interaction and development of the public environment and institutions. It is very important to systematically analyse the business environment by looking at the correlation between the modern mixed market economy, combining the regulatory mechanisms of the state, the institutional aspects and the conjectural characteristics in the economic development (Kovachev, 1999).

In the area of business environment measurement, the World Bank Doing Business (2018) is one of the most widely known and used for analysis. It takes into account the level of administrative service and business regulations and gives detailed information on 10-11 specific directions. Certain administrative services for businesses are included with data on administrative procedures, terms and service charges, such as: business start-up, building permit, property

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registration, etc.

In business environment surveys at European level (2008), administrative and regulatory barriers are emerging as the biggest difficulty for small and medium-sized enterprises (SMEs). Measures are recommended to improve SMEs' access to markets, to promote entrepreneurship, to improve the growth potential of SMEs and to enhance dialogue and consultation with SMEs.

Business attitudes and expectations about the economic environment are measured monthly by a common indicator of business climate and by the National Statistical Institute in Bulgaria. Business environment surveys are conducted by the Bulgarian Industrial Association, the Bulgarian Chamber of Commerce and Industry and other organizations. Among the barriers to business in the analysis of competitiveness carried out by the experts of the Bulgarian Industrial Association are unpredictable regulatory environment, over-regulation and high administrative burdens. Institutions and inefficient administrative services are major problems of the business environment in Bulgaria.

In academia, business environment research also enjoys active scientific interest. At the University of National and World Economy (UNWE), a number of projects have been implemented in the last years under the Science and Research Fund. The phenomenon of "business environment" has manifold manifestations that underlie its identification as a multidimensional feature.

Quantification of a multidimensional trait is a typical form of cognitive process that is analysed on the basis of unity of analysis and synthesis (Mishev, 2017). On this theoretical-methodological basis was successfully realized a university project: "Analysis of the Condition and Dynamics of the Business Environment in Bulgaria and its Impact on Economic Growth", headed by Prof. Dr. Georgi Mishev¹. The project develops an original methodology and calculates an "UNWE Business Environment Index", based on indicators that refer to the economic and social component of the business environment. The theoretical concept of the index includes the idea of enriching the system of indicators with features for the legislative and political environment.

¹ Contract No. NID NI 1-27/2014, UNWE, Sofia, 2017.

The specificity of the regional business environment

Regional systems are a specific type of territorial structures that have intrinsic strength and are characterized as communities of unified factors that are predominantly socio-economic in nature. To these commonality factors are added also those of historical, socio-demographic and political nature. Each regional system is closely linked to the national economic system through the common currency, the national market, the transport, energy and information networks. Each of the regional systems is characterized by a specific set of activities and sectors, in practice it would hardly meet regional systems with a completely identical structure. The regional development policy also influences the territory of the regional systems (Tonkova, 2012, p. 212).

The European Statistical Office (Eurostat) and the European Commission use zoning as an important tool both for regional policy purposes and for regional research. Region mapping allows for territorial differences to be recorded, and then, based on an analysis of open spatial laws, to look for the reasons for these differences and to identify the most appropriate tools to overcome them.

In this context, the essence of the term "region" is also clarified, which determines the territorial basis of the site in this study. The European understanding of the region, as a geographical area based on the classification established by the Eurostat in the 60s of the last century, called the Nomenclature of Territorial Units for Statistics (NUTS), is perceived. This territorial classification adopted by Bulgaria introduces a three-level zoning corresponding to the requirements for NUTS 1, NUTS 2 and NUTS 3 territorial units under Regulation (EC) No 176/2008. of 20 February 2008 amending and supplementing Regulation (EU) No 1059/2003 on the common classification of territorial units for statistics (NUTS) applied by Eurostat to the regions of the European Union².

² Regulation (EC) 176/2008 from February 20, 2008 amending Regulation (EC) No 1059/2003 on the establishment of a common classification of territorial units for statistics (NUTS) by reason of the accession of Bulgaria and Romania to the EU, Official Journal of the European Union, L 61/1, 05/03/2008, p.0001-0005; <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2008:061:0001:0005:BG:PDF>



Regional development is the result of complex interactions between various processes and activities in the regions, with the decisive importance for the rational development of territorial systems: the level of technical and technological solutions, the level of employment and the quality of regional resources (natural, material, labour, financial, information, etc.), the specificity of the investment activity, etc. The universal goal is to achieve regional growth, which is also a major measure of regional development (Andonova, 2010).

The theories contain basic guidelines on the actions of the government to ensure regional growth (Konakchiev, 2004, p. 39). Part of the guidelines are within the competence of the central executive. In general, they are associated with the need to form and implement an adequate regional policy to stimulate economic growth geared towards overcoming the contemporary regional challenges and problems of Bulgaria, among which we can say:

- coordination of the use of the deficit resources for regional development, while respecting the state commitment for priority provision of resources to the regions with large deviations from the adopted average indicators for development;

- harmonization of the regulatory framework of regional development, contributing to adequate economic zoning of the country, targeted financing of the planned measures and activities for development of the individual regions;

- the implementation of a preventive policy to mitigate the negative effects of regional economic growth, towards reducing regional imbalances and related negative consequences, etc.

Each of these directions has a role in the process of creating and updating the regional factors for the acceleration of the regional development rate but one of the most important directions can be highlighted the creation of a favourable business environment.

It is characteristic of the overall assessment of the business environment that elements that depend on the country's macroeconomic governance and central executive activity are taken into account: political and economic stability; instruments of the tax system; public administration; legal certainty; fight against crime; available infrastructure; labour resources, etc. (National Statistical Institute, Business Climate, 2019).

In the process of regional development management, it is important to formulate objectives and priorities tailored to the specific needs and internal potential of each region. A fundamental issue that deserves attention is how the state policy for regional development would support the competitive advantages of the regional economy. On the other hand, for the assessment of the business environment in a particular region (region, region or municipality), components such as: functioning of the local economy, local and administrative relations, local taxes and local regulatory environment, infrastructure provision, demographic potential, quality of human resources, regional security and others.

The realization of the regional development objectives depends directly on ensuring the most important conditions for supporting the regional and local economy, which can be reduced to: high productivity, entrepreneurship, investment and innovation, competitive markets, regulatory environment, human capital.

In practice, the implementation of regional development policy is tied to creating the necessary conditions and prerequisites for improving the regional business environment, focusing on the impacts associated mainly with creating a favourable investment and innovation climate, marketing the regional competitive advantages of the territory for business, effective management of municipal property, improvement of the local regulatory framework, regulation of the financial and administrative pressure on the local economic subjects, establishment and maintenance of the regional technical infrastructure, targeted initiatives for improving the quality of the available human capital, etc.

Key elements of the business environment in the regions

The key elements of the regional business environment that would contribute to the sustainable development of the regions can be summarized as follows:

- Effective management of state and municipal property;
- Investments in regional infrastructure;
- Supporting the development of small and medium-sized enterprises;
- Optimization of regulatory mechanisms



and instruments;

- Improving the quality of human capital;
- Restricted access to finance for small start-ups;
- Improving administrative services for businesses and citizens;

Carry out effective regional marketing to attract foreign investment.

The constitutional and administrative bodies for regional development management are located at regional and municipal level. In this regard, the main part of the instruments for influencing the regional business environment lies within the powers and competence of the local authorities, against the backdrop of the limited functions and opportunities for regional governors to influence, despite their constitutional responsibility for "implementing regional policy".

The state and municipal property management in Bulgaria is attended by bodies at national, regional and local level, in the person of the Minister of Regional Development and Public Works, the regional governors, the municipal councils and the mayors of the municipalities. It is necessary to achieve greater transparency in the actions of the bodies and the administrative units assisting them in the rental of properties or parts of state-owned property and in conducting the procedures for disposal of such properties. Public trust in institutions would be enhanced by creating guarantees for transparency and accountability in government decision-making on state property.

Through the tools related to the management of municipal property, the local authorities have opportunities for renting, selling or replacing municipal properties, granting the right to build, build and build on a municipal property, in order to support the realization of investment intentions, etc.

Activities that can have a direct and rapid impact on attracting outside investors or help improve business conditions for local businesses are related to the development and maintenance of a municipal property register with clear and up-to-date information on ownership (public or private, and the resulting disposition), its physical characteristics, location, status, employment, etc.

Realizing greater efficiency in the use of state-owned properties could be achieved if in the process of state ownership management, the collective bodies for regional development management are also involved: Regional Development Councils and

/ or Regional Development Councils (Vasileva, 2018, p.187). Members of these public advisory bodies are set on a quota basis by existing administrative and constitutional bodies. The proposal is for regional and / or district councils to assign functions related to the monitoring and control of the status and management of available state property on the territory of the respective regions and / or districts. Through regional and / or district development councils, district governors (who are members of both collective bodies) could summarize and present on a regular basis at regional and / or district councils development meetings an analysis of the state property status and the rights granted to them. In this way, it is possible to systematize information on available properties at the regional level, to monitor their management or dedication to meet regional needs.

Investing in regional infrastructure can be identified as one of the most important tools for improving the business environment of a given territory. It is essential to build, maintain and modernize the technical infrastructure, including rehabilitation of the road network in and between settlements, plumbing and sewerage systems, water and sewage treatment plants, power supply systems, gasification and district heating, of populated areas that may be subject to public-private partnerships.

The construction of modern infrastructure is undoubtedly of great importance for efficiency, for the productivity of the local economy and for the quality of life. Jobs are also created, but they are temporary. Sustainable development of the regions can only be achieved if they have a sustainable business development. More targeted focusing of regional development programs on real and effective support for regional and local businesses is needed. It is necessary to support the development of those companies that create and maintain sustainable jobs in the regions, retain and reinvest their profits in the regional and local economy.

Supporting the development of companies from the regional and local economy means, above all, encouraging the development of small and medium-sized enterprises (SMEs). These businesses have limited access to resources - financial, informational and human, have organizational constraints, and are therefore difficult to adapt to the rapidly changing business environment and new technologies.

They are also very dependent on this



environment and cannot influence its tendencies. SMEs are also a very non-homogeneous category, which means that specific measures are needed for the individual subgroups. It is important to pay special attention to small family businesses engaged in more or less traditional forms of business. The importance of this sub-group is due to the fact that most of the jobs are provided by such firms. They have a key role to play in maintaining employment and generating income locally, and in particular in regions where resources are limited.

Small family businesses have a significant role in the development of local communities. Their owners are usually strongly committed to the long-term business prospects. The assets, reputation and future of the family are dependent on them. They have a stronger relationship between employer and employee, as well as between the company and its clients.

SME financing under the European Operational Programs is a good example of the mismatch between European priorities and national and regional priorities, which is one of the reasons why European structural and investment funds are not sufficiently effective at this stage for regional development in Bulgaria.

The European support instruments are mainly focused on applied research and innovation, start-ups in the technology sector, expanding export capacity and new forms of financing through capital markets.³ This is logical and is in line with the global trends in the global economy towards digital transformation, Industry 4.0, globalization, sharing economy and other innovative sources of comparative competitive advantage. The Adopted Operational Program "SME Initiative"⁴ also supports SMEs "to build capacity for growth within regional, national and international markets and to participate in the innovation process".

At the same time, a very small proportion of SMEs, which are mainly in 4-5 large cities in the country, can actually be beneficiaries of such programs. This is where the divergence of priorities

is born, because most SMEs in Bulgaria are engaged in traditional, not high-tech activities.

This is especially true for those in less developed regions. For them, support for innovation, for internationalization, for smart specialization or for financing from capital markets is not essential, because in most cases it is inapplicable. For them vital are measures that would help them to have easy access to common, standard bank financing, useful information about incentive programs and market opportunities, to a skilled workforce.

The strategic framework for future regional policy should be geared to helping local SMEs to develop their sustainable development by taking the appropriate priorities, measures and activities. One of the important tasks is to reduce the administrative-regulatory burden because these companies have little capacity to deal with overregulation issues. On the other hand, administrative regimes are key elements for a quality business environment in the regions.

Administrative procedures should not be too expensive, complicated and long. Information on administrative procedures, technical production standards and environmental protection must be clear, applicable and publicly available. The provision of information, communication and feedback to users of administrative services can be accomplished by undertaking four actions: defining the main user groups and their requirements, developing different channels for access to information and communication with users, developing manuals for the different types of administrative services and provision of information on the responsibilities in carrying out economic activities (Nikolov, 2016, p.134-135).

Regulatory instruments are essentially implemented as permitting and registration regimes, providing administrative services or issuing acts that are relevant to the rights and interests of citizens and businesses. For this reason, effective tools for improving the regional business environment are the efforts of the local authorities and the administration to reduce administrative regulation and administrative control by reducing administrative regimes at local level as well as improving administrative services under the current regimes (Andonova, 2010).

The application of *financial instruments* implies the optimization of the imposed local taxes,

³ See Annual Report on the Implementation of the Operational Program "Innovation and Competitiveness" for 2016, Ministry of Economy,

http://www.opcompetitiveness.bg/images/module3/2043_Odobren_Godishen_Doklad_OPIC_2016.pdf (visited March 12, 2019)

⁴ Operational Program "Small and Medium Enterprises Initiative" 2014-2020,

http://www.opcompetitiveness.bg/images/module3/1969_OP_SME_Initiative_v1.1_final_BG.pdf (visited March 12, 2019)



fees and administrative expenses, the so-called "administrative pressure" on the economy, which is an indisputable stimulus to economic activity. Local taxes and fees for a number of services have a direct impact on the business environment. These include property taxes, patent tax, waste tax, commercial use, administrative services, municipal social services, etc.

Modern communication technologies have a huge potential for providing information and should be used through local business associations for both regulatory requirements and support programs as well as for identifying market opportunities. It is necessary to accelerate the introduction of new electronic services for complex administrative servicing of companies and citizens.

It is imperative to take measures to ease access to bank lending for SMEs as well as measures to increase the proportion of public procurement executed by SMEs. Although there is an existing support program that is designed to facilitate access to bank loans to SMEs through the provision of guarantees. But in most cases, commercial banks offer guarantees to their already existing and selected customers. In this way, they reduce their credit risk, and SMEs that have not yet had access to credit are again without such a possibility.

Human capital is a major driver of regional development. The educational and professional level of the workforce determines the potential for regional growth. The territorial dimensions of labour supply, the possibility of hiring a skilled labour force and a certain price is one of the basic conditions for attracting new businesses. There are contradictions in the state and development of this strategic resource in Bulgaria in relation to the need to maintain a competitive advantage of high quality of human resources and the fact that the workforce is becoming more and more unprepared for working with new technologies.

Human resource development initiatives need to be united in a comprehensive strategy, based on joint action by educational institutions, industrial partners and local authorities. Continuing training and skills upgrading for modern technology workers depend on business desires and opportunities.

The demographic situation in almost all regions continues to deteriorate, and the business is experiencing significant difficulties in finding and hiring a skilled workforce. At the same time, many

SMEs are also experiencing increased turnover. In this regard, well-organized and permanent training and qualification programs, according to needs, would be particularly useful. Training on the possibilities of the various support programs, the documentation for them and the relevant procedures would also be useful for employees in partner networks of intermediaries such as trade unions, business associations, employers' organizations and others.

Vocational training and the administrative capacity of managers (often in the role of SME owners) should also be improved by providing training or relevant advisory services. Because almost everything in these businesses depends precisely on this factor. It would be particularly effective to build a lifelong learning system through online training materials on business planning, production standards, consumer protection, or requirements for implementing administrative regimes.

In order to stabilize the established SMEs, much more intensive cooperation with research institutions and universities is needed in the development of joint projects funded from both the national operational programs and the EU programs. The practice of enhancing the vocational training of the employees in SMEs through training courses and programs should be permanently pursued, and the vocational training centres, secondary schools and universities can be used for this purpose.

A stimulus for the innovative culture of SMEs can be the good practices of fast-growing Bulgarian and European SMEs. A significant part of them develops as a result of a new product, service, energy efficiency, better marketing approach, better management structure or other innovation. Institutional support for the development of R & D to be carried out in SMEs is needed, including assistance through consultancy services from research centers (Atanasova, Petrova, 2014).

Institutional support should be prioritized for SMEs that carry out innovations in favour of the environment. More businesses need to receive financial support, preferential lending for resource efficiency measures, introducing new "green" products and services, building an Environmental Management System, and more. Prosperity and development has this business that systematically explores and exploits its potential through the



introduction of green technologies that are the basis of the 21st century green economy.

The realization of regional marketing is another successful management tool for the real integration of the local territory with the rest of the world by attracting innovative, viable and high-tech companies as well as a highly motivated and skilled workforce. The definition of regional marketing in a region, region, or municipality implies a certain specificity, unlike the traditional understanding of marketing activities such as "selling" ideas, goods or services (Uzunova, 1992).

It is a process that integrates a variety of activities aimed at creating a unique image of the region and enhancing its competitiveness with other regional systems. In this respect, regional marketing does not only involve the provision of business information to various potential investors. In a wider context, marketing involves "selling" or "positioning" the entire region or parts of it as an attractive place to locate economic activity (Tonkova, 2002).

Marketing must ensure that the interests of economic agents and representatives of the local government, where they coincide to the greatest extent, are interrupted. On the one hand, economic operators competing with each other will have access to the most suitable terrains and conditions. On the other hand, local authorities, also in competition with each other, to fully disclose and best promote their unique competitive advantages.

Conclusion

In today's dynamic reality, regional and local authorities, through the management tools and mechanisms at their disposal, can have a significant impact on regional development to provide a supportive environment for the active business of localized business entities. In this context, in the presence of political will and responsibility, governments are able to implement initiatives to prepare the basic conditions for generating regional growth to act as a catalyst for sustainable regional development.

Regional development policy, taking into account the European and national dimensions, should be oriented towards systemic modeling and improvement of all components of the regional business environment: economic, environmental, legislative and political, administrative, socio-demographic.

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