

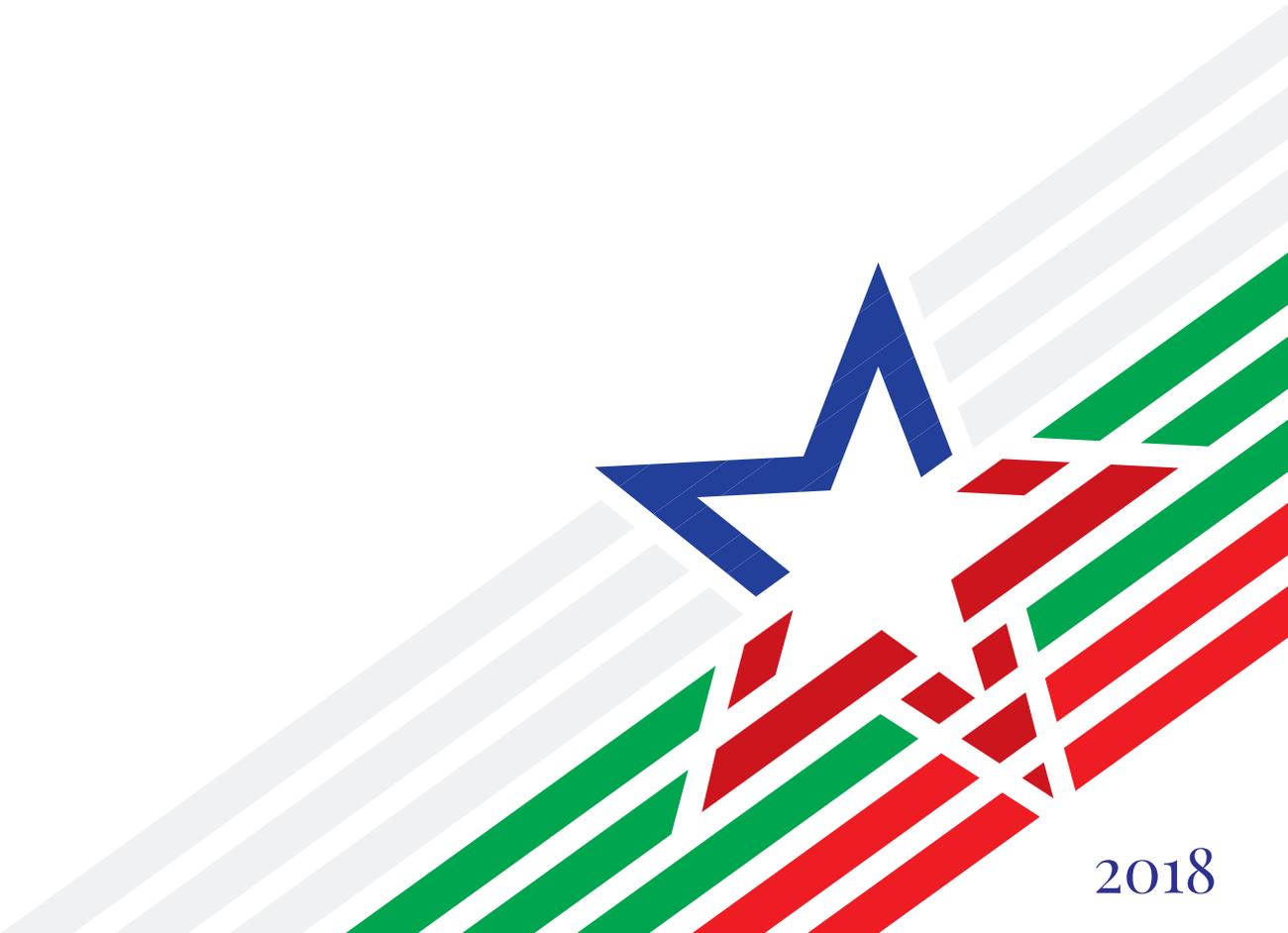


AMERICAN CHAMBER  
OF COMMERCE  
IN BULGARIA



**IME**  
Institute for Market Economics

# U.S. INVESTMENTS IN BULGARIA (1990 – 2016) + 7 case studies



2018



AMERICAN CHAMBER  
OF COMMERCE  
IN BULGARIA

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**ADDRESSES**  
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*Dear members of the business community,*

*I present to you the first of its kind economic study of the volume and importance of the investments of the United States of America in Bulgaria. It shows the real dimension of the transatlantic relations between the two countries, and it is the foundation for their future development.*

*For the American Chamber of Commerce in Bulgaria this project was of great significance. For the first time it identifies the main sectors in which U.S. capital is invested, creating and retaining jobs and developing markets.*

*The entire American community in Bulgaria should be proud of the results of the survey. They show that there are companies and businesses in our country, some of which have been here for more than a decade, which have created added value along the supply chain, developed technologically whole sectors and invested through socially responsible partnerships.*

*On behalf of the Board of Directors of the American Chamber of Commerce in Bulgaria, I express our gratitude to the U.S. Embassy in Bulgaria, the America for Bulgaria Foundation with whom we initiated the project, and to the companies that supported this publication. Special thanks go to the Institute for Market Economics – this project would not have been possible without the expertise and vision of its team.*

*Dr. Krassimira Chemishanska  
President  
American Chamber of Commerce in Bulgaria*



*Esteemed ladies and gentlemen,*

*I would like to express my deep appreciation to the American Chamber of Commerce, the U.S. Embassy's long-time strong and reliable partner, and to the Institute for Market Economics, Bulgaria's pre-eminent economic think tank, for producing this valuable report.*

*This project illustrates the role of the United States as one of the top sources of foreign direct investment in Bulgaria. Moreover, it highlights that this investment has fueled the most dynamic sectors of Bulgaria's economy, such as manufacturing, energy, and modern agriculture. Such investment drives economic growth, raises Bulgarian workers' productivity and wages, and transforms entire communities. Behind the economic data featured in this report are real people who benefited from better opportunities to provide for their families and to contribute to their society.*

*Working with our Bulgarian partners, we can ensure that we will continue to build economic links across the Atlantic, benefiting Americans and Bulgarians alike.*

*Eric S. Rubin  
U.S. Ambassador to Bulgaria*

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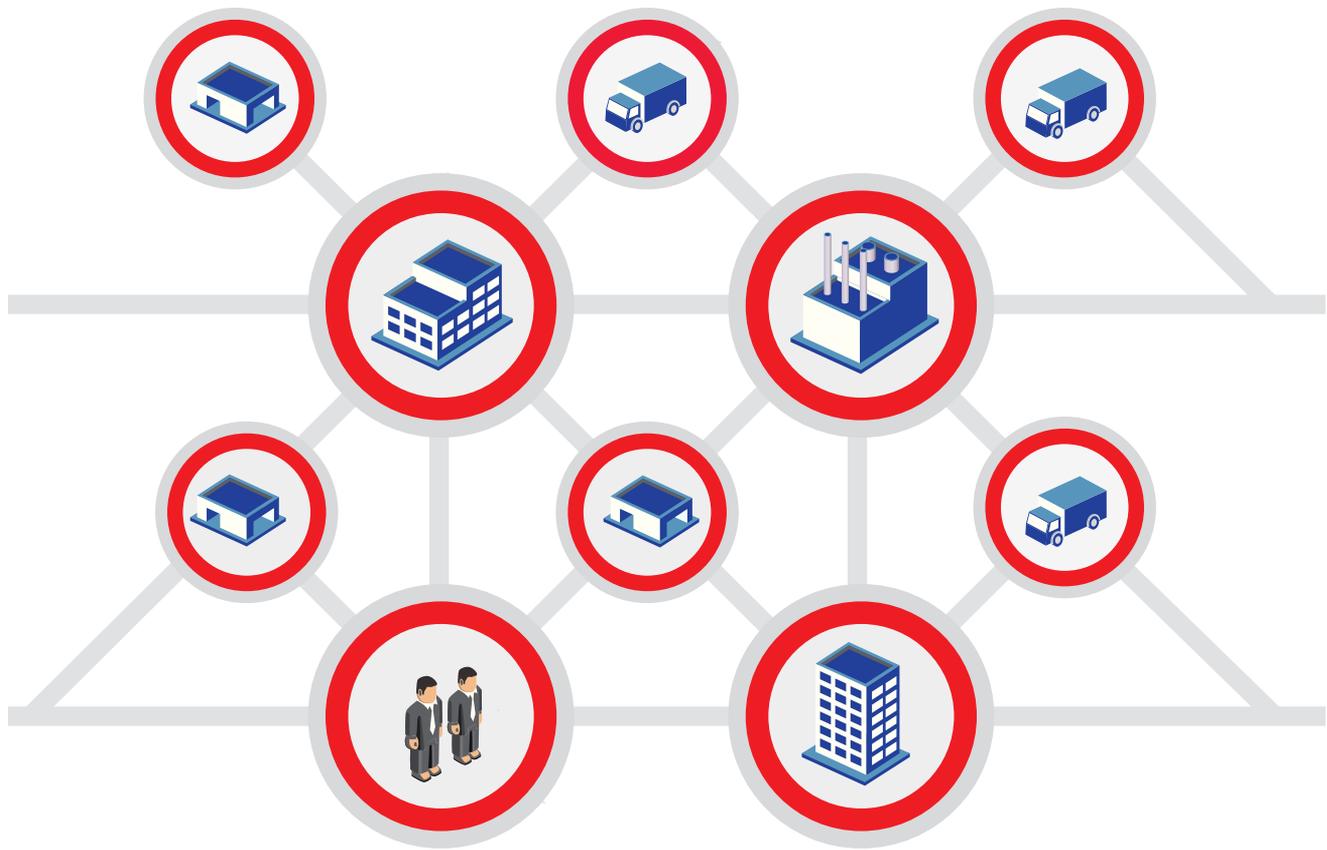
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## Acronyms

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IMF	– International Monetary Fund
OECD	– Organization for Economic Cooperation and Development
BNB	– Bulgarian National Bank
CR	– Commercial Register
FDI	– Foreign Direct Investments
FTA	– Fixed Tangible Assets



# Introduction

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Investments in an economy always attract the attention of professionals, politicians, and the general public. Bulgaria enjoyed its highest economic growth rates in years with an upturn in investments – 2006-2008 – and experienced weak growth rates whenever investments dropped or stagnated.

Bulgaria has a small and open economy with limited potential for savings accumulation and, as a result, the country lacks a stable source of capital for domestic investment. To tackle this problem, the

country attracts foreign investments from sources all over the world into various economic activities. While the flow of such investments remained high – at an average of 23% of GDP in 2006-2008 – the real annual economic growth rate amounted to around 7 percent. When the flow of foreign direct investments dropped to an average of about 3.5% of GDP in 2012-2014, real economic growth shrunk to about 1 percent.

Foreign direct investments are of key importance for improving the living standards of the

## THE STUDY

### U.S. INVESTMENTS IN BULGARIA



FDIs are of critical importance for the increase of the welfare of the citizens and for reaching the EU's quality of life.

population and for catching up with the living standards of developed European countries, often referred to as "convergence." To achieve this goal, governments must constantly improve the investing environment and the business climate in the country. This also means knowing the investors, their expectations, and the difficulties they encounter.

The BNB's current methodology for identifying the origin of foreign investors creates certain difficulties in this respect. The methodology<sup>1</sup> identifies foreign investments only on the basis of the direct ownership of the capital rather than the beneficial ownership. For instance, if a U.S. company owns a company in the Netherlands that invests in Bulgaria, the statistics will register this investment as Dutch. This leads to underreporting of the foreign direct investments from one country and to over-reporting of the investments from some other countries. Thus, the current top 10 countries that are sources of foreign direct investments include the Netherlands (the undisputed leader), Cyprus, Switzerland, and Luxembourg. At the same time, the actual investors from these countries in terms of beneficial capital ownership are less in terms of both number of companies and size of the investments.

The objective of this study is to make an as realistic and comprehensive assessment as possible of the foreign direct investments by companies whose beneficial owners are U.S. investors. It is achieved by identifying the Bulgarian companies whose

foreign direct owners are third-country companies, but whose beneficial ownership has U.S. origins. This would make it possible to fine-tune the official data which the BNB has made available about the size of the foreign direct investments from the United States and to set the record straight regarding their underreporting as a consequence of the methodological limitations. This assessment will also facilitate a better identification of the sectors where U.S. investors operate, allowing for a subsequent study of their true impact on the economy and society. This paper is not intended to study why some companies decide to opt for direct U.S. investments in Bulgaria whereas other companies choose to register firms in third countries and to invest in Bulgaria through them. ■

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The realistic evaluation of the study builds up the present official data of the National Bank.

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<sup>1</sup> As of 17 April 2015 the BNB's statistics for foreign direct investments was calculated in compliance with the Sixth Edition of the IMF's Balance of Payments and International Investment Position Manual (BPM6) (IMF, 2008). Prior to that date, the BNB based its methodology on the Fifth Edition of the same Manual.

# Literature Review

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As the United States has consistently ranked among the top foreign investor countries for more than 50 years, its influence over many countries, regions, and markets has naturally been the subject of studies from many different angles.

Raymond Vernon (1971) has made a nearly encyclopedic review of the influence of the United States after World War II. This influence was assessed through the U.S. companies that invested in industrial production in third countries as well as in developing natural resources. In general, he defined the influence of U.S. investments abroad as favorable both to the recipient countries and to the United States itself. According to Vernon, the main positive effects of U.S. investments on the recipient economies come from their ability to pay substantially higher wages to their workers than the local employers and from the high taxes they pay into the local state budgets. The author also mentioned the introduction of entirely new sectors and activities in less developed economies, which would not have been possible without the foreign investments and the new technologies they bring together with the skills needed for their use. He warned, however, that the seeming lack of control by national governments of the operations of the U.S. companies often builds up distrust among the local population and even creates political tensions around major investments.

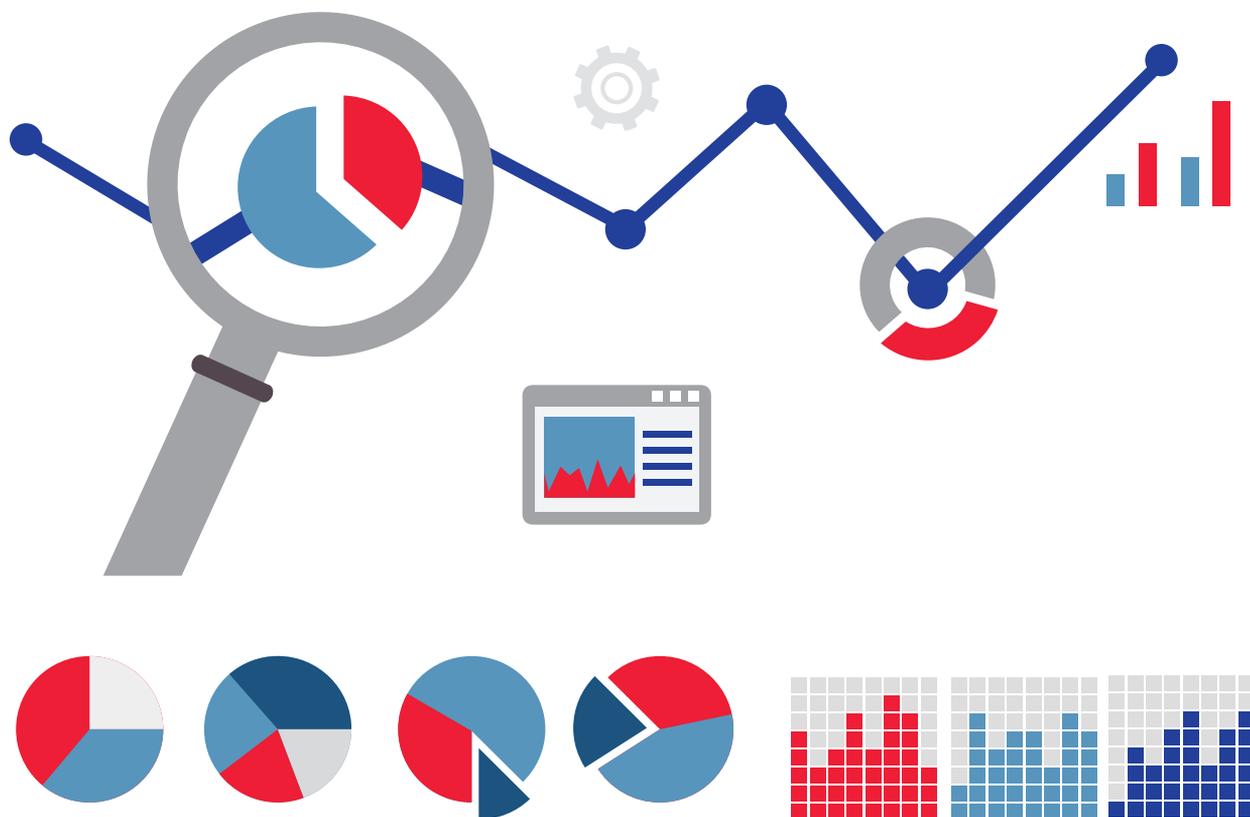
Marta Bengoa and Blanca Sanchez-Robles (2003) adopted a somewhat different approach by focusing mostly on U.S. investments in South America and their impact on the institutional environment and the development of the recipient countries. In general, they reached the conclusion that investments have a positive effect on both the

development of the recipient countries' democratic institutions and on their economic development. The freedom and openness of the markets in the receiving countries is an important condition that largely determines the success of the investment. Thus, investments are only moderately successful in markets that are tightly controlled by governments and where much of the GDP is redistributed via the budget. The authors also identified the education and skills of the local workforce as a further factor of key importance.

The spillover effect of local companies borrowing the business practices, ethics, and technologies of the foreign investors is important, too. Holger Gorg and David Greenaway (2004) carried out a meta study of this effect and discovered that the presence of foreign companies as a whole does indeed improve the business environment, the technological development, and the business practices. Stronger competition and better pay are also spilled over and increase the wages offered by local companies. This effect may also be partly the result of governments' efforts to improve business environments in order to attract more investments.

The impact of foreign investments on the economies from which they originate should also be taken into consideration. Basing his findings mostly on U.S. data, Richard Lipsey (2004) demonstrated that at company level investing abroad leads to a shift in the structure of production from labor-intensive to capital-intensive. ■

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# Methodology

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Official data provided by the BNB, the National Statistical Institute (NSI), the Invest Bulgaria Agency, and the published annual reports of companies in the Commercial Register (CR) were used to identify the companies whose beneficial owners are natural or legal persons of U.S. origin. Information about the members of the American Chamber of Commerce in Bulgaria (AmCham) and the TOP 550 ranking by the Bulgarian Chamber of Commerce and Industry (BTCP) of the companies according to their net revenues for 2016 was also used.

The study of this data resulted in the identification of the direct investors in the capital of the Top 550 Bulgarian companies and also of the ultimate investors, including those originating from the United States, who own the direct investors. There were identified seventy-five companies whose direct or indirect owners have U.S. origins. As a result, an investment that is currently registered as originating from the Netherlands is practically owned by several investors whose assets ultimately originate from the United States.

The *Methodology for Reporting Foreign Direct Investments in the Country* was used in assessing the size of the investments.<sup>2</sup> It complies with the *Sixth Edition of the IMF Balance of Payments and International Investment Position Manual*, the Third Edition of the *OECD Benchmark Definition of Foreign Direct Investment*, and the directives of EUROSTAT and the European Central Bank regarding the balance of payments. According to these standards, a foreign direct investment is defined as an investment through which a foreign natural person or corporate entity acquires long-term interest (of no less than 10% of the voting rights in the management of a business) in a Bulgarian company.

The size of the foreign investment is the sum of:

- The foreign participation in the capital of the Bulgarian company – paid-in or withdrawn contributions in cash or in kind into/from the capital of the local company.;
- Intercompany obligations – received and repaid principal of short-term and long-term loans between the direct investor and the local company;
- Reinvested profit: the foreign investors' share of the local company's retained earnings or loss.

For the purposes of this study, the amount of the foreign direct investments on 31 December 2016 was used. It is important to note that there is a difference between the size of the foreign direct investments at a given moment, such as 31 December 2016, and their flow over a period such as one year. For instance, if we know the size of the foreign direct investments on 31 December 2015 and their size on 31 December 2016, the flow of foreign direct investments for the period from 31 December 2015 to 31 December

2016 will be equal to the difference between the two amounts. This flow can be positive (an inflow of investments) or negative (an outflow of investments). In other words, the size of the investments is a snapshot of the investments accumulated into the economy at any point of time, while their flow is represented by changes in the investment position – inflow or outflow over a period of time such as a month, a quarter, or a year.

Indicators for investments in fixed tangible assets, net sales revenues, and number of hired workers were used in assessing the impact of the foreign direct investments originating from the United States. This assessment was made both at the level of the national economy and at the level of sectors as stipulated by the *Classification of Economic Activities (KID-2008)* of the National Statistical Institute. The impact of investments at regional level was examined on the basis of regional data on the indicators mentioned above.

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### Fixed assets, net income from sales, and employees are the main indicators for effect evaluation of the U.S. FDI in Bulgaria.

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In view of its goals and scope – to identify and measure the volume and impact of the direct investments originating directly or indirectly from the United States – this study makes no claim to be exhaustive due to the unavailability of comprehensive information about these investments. The results of the study nonetheless demonstrate significant underreporting in the official data. ■

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<sup>2</sup> BNB - [http://www.bnb.bg/bnbweb/groups/public/documents/bnb\\_download/st\\_m\\_instr\\_fdi\\_bg\\_bg.pdf](http://www.bnb.bg/bnbweb/groups/public/documents/bnb_download/st_m_instr_fdi_bg_bg.pdf)

# Statistical Underreporting of U.S. Investments

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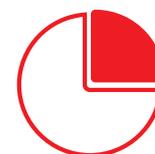
The statistical approach to identifying and measuring foreign direct investments in Bulgaria and elsewhere is based on identifying the origin of the foreign direct owners of Bulgarian companies. If, for instance, the owner is a company registered in Germany, the foreign direct investment is assumed to be originating from Germany. This assumption would completely ignore the fact that the German firm could be the subsidiary of a beneficial owner from a third country, such as the United States, that would make the investment American rather than German. Furthermore, this method of reporting investments could lead to a situation in which a Bulgarian owner may register a company in some other country, such as Luxembourg, through which he might then invest in Bulgaria. The statistics will then report this investment as a foreign direct investment originating from Luxembourg, regardless of the fact that the funds came from Bulgaria.

This method achieves accurate and expeditious processing of data at the expense of underreporting some investments and overreporting others. For example, according to BNB data, on 31 December 2016, the Top 10 countries by the size of their



foreign direct investments in Bulgaria were the Netherlands, Austria, Greece, Germany, Italy, Cyprus, the United Kingdom, Russia, Luxembourg, and Switzerland. The total amount of the foreign direct investments from these countries accounted for 69% of all foreign direct investments. Compared with those figures, the official data shows investments originating from the United States

**5,7%** of all FDI in Bulgaria are of U.S. origin – double than the official data.



amounting to 2.5% of all foreign direct investments.

This is only part of the story, however, as some investors did not enter the Bulgarian market directly from the United States. If, for instance, a U.S. company owns a subsidiary in another country, such as Belgium, and that subsidiary owns capital in a Bulgarian company, our approach would classify

the investment as American rather than Belgian.

Using this approach would more than double the share of U.S. investments of all foreign direct investments to 5.7% from 2.5 %. The ranking above would remain almost unchanged, but the United States will become the sixth biggest investor in Bulgaria and Cyprus will drop to the seventh spot.

**Table 1:**

FDI size by country, 2016

				<b>By direct owner (BNB)</b>				<b>By beneficial owner (Study 2018)</b>			
		Size, millions BGN		Share of FDI		Size, millions BGN		Share of FDI			
1	The Netherlands	13,111.1	17.0%	1	The Netherlands	11,364.4	14.7%				
2	Austria	7,848.0	10.2%	2	Austria	7,848.0	10.2%				
3	Greece	5,229.1	6.8%	3	Greece	5,229.1	6.8%				
4	Germany	5,202.3	6.7%	4	Germany	5,160.2	6.7%				
5	Italy	4,737.6	6.1%	5	Italy	4,737.6	6.1%				
6	Cyprus	4,167.3	5.4%	<b>6</b>	<b>United States</b>	<b>4,497.1</b>	<b>5.8%</b>				
7	UK	3,784.1	4.9%	7	Cyprus	4,152.6	5.4%				
8	Russia	3,754.8	4.9%	8	UK	3,734.4	4.8%				
9	Luxembourg	2,981.5	3.9%	9	Russia	3,754.8	4.9%				
10	Switzerland	2,312.4	3.0%	10	Luxembourg	2,721.8	3.5%				
<b>13</b>	<b>United States</b>	<b>1,915.0</b>	<b>2.5%</b>	11	Switzerland	2,255.4	2.9%				
	Others	22,176.6	28.7%		Others	21v764.3	28.2%				

Source: BNB, financial reports published in the CR and calculated by the Institute for Market Economics

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In other words, the official statistics calculate the FDI originating from the United States at 2.5% of all foreign direct investments in the country, whereas the data resulting from this study of the beneficial ownership of the companies indicates that another 3.5% of all foreign direct investments should be added to the official number. As is seen in Table 1, the Netherlands is the preferred base for U.S. investments in Bulgaria. The Dutch share of the total investments should be recalculated to 14.8% from 17% following the review of the origin of the investments that takes into account the beneficial owners. ■

U.S.A. are now the  
**6<sup>th</sup>**  
 largest foreign investor  
 in Bulgaria.

**Table 2:**

Direct and indirect U.S. investments by "intermediary" base countries as share of the identified American investments at the end of 2016

	Size	Share of U.S. FDI
United States	1,915.0	42.6%
The Netherlands	1,746.7	38.8%
British Virgin Islands	306.2	6.8%
Luxembourg	259.7	5.8%
Belgium	145.2	3.2%
Switzerland	57.0	1.3%
Others	67.4	1.5%

Source: Financial reports published in the CR and calculated by the Institute for Market Economics

# U.S. Investments by Sectors

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The official statistics of the foreign direct investments provide a breakdown by kind of investment (share of companies' capital, reinvested profit, and debt instruments), by geographic region (countries), or by sector of the economy. There is no combined breakdown by geographic region and sector of the economy that would have allowed an analysis of investor interest by companies from a given country.

The results of the study indicate that about **98% of the U.S. investments in Bulgaria (direct and indirect) are concentrated in four economic activities:**

- Processing industry,
- Power generation,
- Creation and dissemination of information and creative products (including information and communication technologies), and
- Commerce

Nearly 50% of the U.S. foreign direct investments are concentrated in the processing industry and another 40% in power generation. The companies with U.S. interest in the processing industry include Agropolychim, Kamenitsa, Amylum Bulgaria, Sensata Technologies Bulgaria, and Ideal Standard Vidima. Companies belonging to the groups of ContourGlobal (owner of Maritza Iztok 3 thermoelectric plant) and AES (owner of AES Galabovo TPP, also known as Maritza Iztok 1 thermoelectric plant) represent the U.S. investors in the power generation sector.

Unsurprisingly, these two sectors have attracted nearly the entire investment resource, as they are capital intensive and require significant investments in land, machinery, buildings, and equipment, i.e. fixed tangible assets. About 94% of all fixed tangible assets owned by companies with U.S. beneficial ownership are concentrated in these two sectors.

U.S. investments in Bulgaria are focused in 4 sectors: processing industry, energy, ICT, and trade.



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Apart from the high level of capital expenditure, these two sectors are characterized by the long useful life of the assets and the long-term nature of the investment. In other words, investments in these sectors can be viewed as long-term interest by the foreign investor in the development of the companies and in Bulgaria's economic life in general.

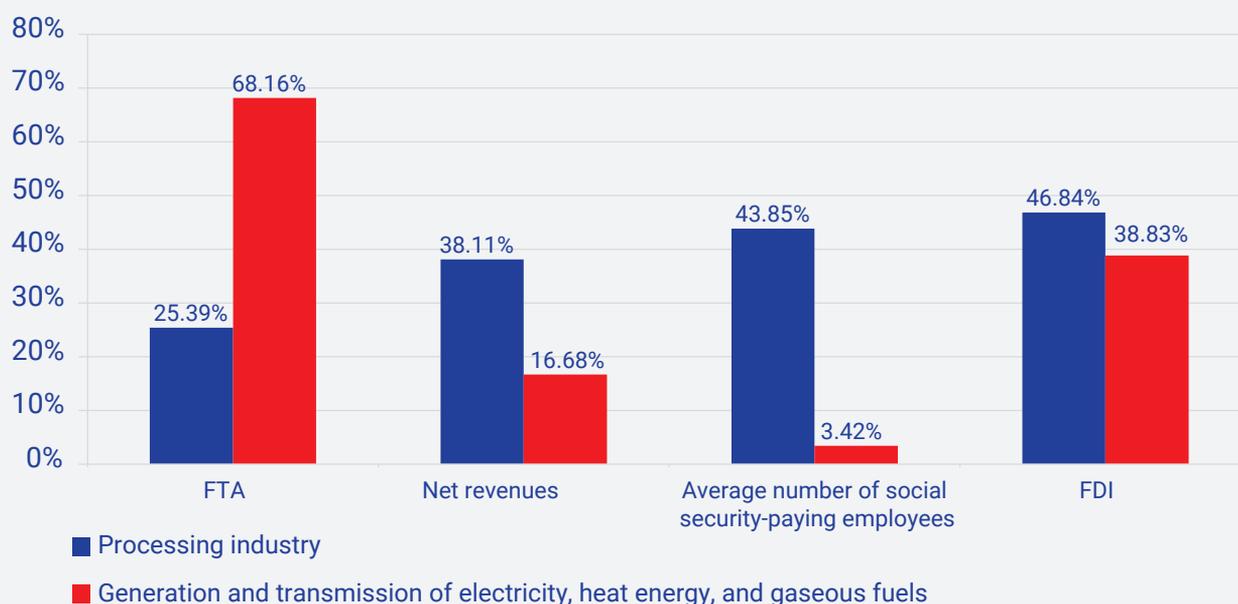
The net revenues generated by these two sectors in 2016, as measured by the net sales revenues, amounted to about 55% of the entire turnover of the companies with a U.S. beneficial owner. According to data about paid-in worker social security contributions, these companies employ about 47% of all employees in companies with

beneficial owners from the United States.

The next two most important sectors by presence of U.S. investors in Bulgaria are commerce and the creation and dissemination of information and creative products. These sectors have attracted significantly smaller U.S. investments compared to the processing and power generation industries. The total size of the U.S. investments in these sectors accounts for about 10% of all U.S. foreign direct investments. Here are some of the companies with U.S. interest in the commerce sector: Mars Inc. Bulgaria, Procter and Gamble Bulgaria, Afer Bulgaria, and 3M Bulgaria. The following US-owned companies operate in the creation and dissemination of information and creative products:

**Graph 1:**

Share of U.S. investments in the processing industry and power generation sectors of all identified American investments in Bulgaria at the end of 2016



Source: Financial reports published in the CR and calculated by the Institute for Market Economics

Fox Networks Group Bulgaria, Honeywell, Telerik, and Amdocs Bulgaria.

These sectors do not require significant capital investments but they provide employment to a large number of people. The two sectors account for 10% of the U.S. foreign direct investments but only for 1% of the fixed tangible assets held by companies with U.S. ownership. At the same time, these two sectors employ about 22% of all workers in US-owned companies in Bulgaria.

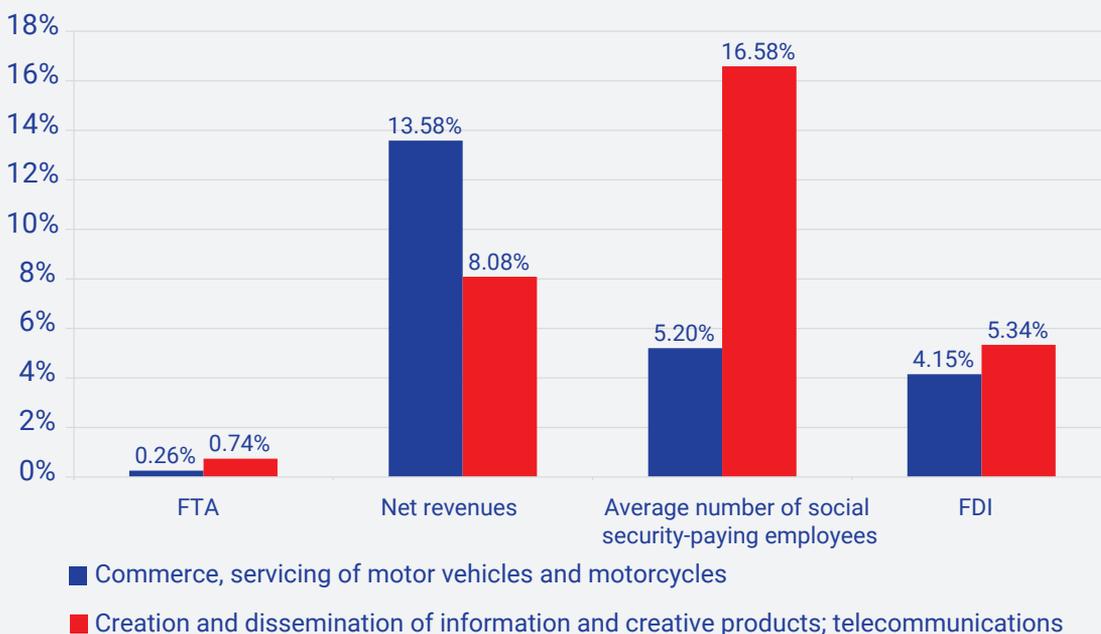
The importance of the investments in commerce and in the creation and dissemination of information and creative products should be considered beyond the number of people they

employ as it is also highlighted by the net revenues generated. Thus, in 2016, these sectors accounted for about 22% of the revenues generated by US-owned companies.

Administrative and auxiliary services, including the call-in service centers, better known as call centers, are an interesting sector that does not attract big investments and does not stand out with particularly high turnovers. The U.S. investments in this sector account for just 0.3% of the fixed tangible assets of all US-owned companies, but in 2016 it employed more than 20% of all workers employed by companies with U.S. ownership. The following companies represent the U.S. interest in this sector: Hewlett Packard Global Delivery Bulgaria Center,

**Graph 2:**

Share of the U.S. investments in commerce and the creation and dissemination of information and creative products of all identified U.S. investments in Bulgaria at the end of 2016



Source: Financial reports published in the CR and calculated by the Institute for Market Economics

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**Table 3:**

Share of U.S. investments in administrative and auxiliary services and in agriculture, forestry, and fisheries as part of all identified U.S. investments in Bulgaria at the end of 2016

	Fixed tangible assets	Net revenues	Average number of employees paying social security contributions	FDI
Administrative and auxiliary activities	0.3%	5.1%	20.4%	1.7%
Agriculture, forestry, and fisheries	0.5%	12.1%	3.2%	2.8%

Source: Financial reports published in the CR and calculated by the Institute for Market Economics

**Table 4:**

Structure of FDI in Bulgaria by sector at end of 2016

	USA	World
<b>Processing industry</b>	<b>48.1%</b>	<b>17.8%</b>
Production and distribution of electricity and thermal energy and fuel gasses	39.9%	8.2%
Creation and distribution of information and creative products; telecommunications	5.5%	2.4%
Commerce; servicing of motor vehicles and motorcycles	4.3%	14.5%

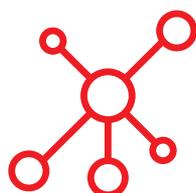
Source: Financial reports published in the CR and calculated by the Institute for Market Economics

Sutherland Global Services Bulgaria, and C3i Europe.

Agriculture, forestry, and fisheries provide another interesting example. Investments in this sector are not very big, but in 2016 they accounted for more than 12% of the turnover of all companies with U.S. ownership. The companies with U.S. ownership in this sector include Socotab Bulgaria, ADM Bulgaria Trading, and Cargill Bulgaria.

As pointed out above, the U.S. investments in Bulgaria are mostly focused on industrial sectors, such as the processing industry and power generation, indicating a long-term commitment to the development of the companies in Bulgaria.

The top four sectors in which the U.S. foreign direct investments are concentrated account for about 98% of all U.S. investments in the country but, at the same time, they make up just 43% of all foreign direct investments.



Top 4 sectors that attract U.S. investments form app.

**98%** of the all the American investments in the country.

### Breakdown of economic activities

The share of the U.S. investments of all foreign direct investments in a number of sectors is also significant. For example, 17% of the power generation, as well as 9% of the processing industry have a U.S. beneficial owner.

One can add to these the U.S. investments in the sector of administrative and auxiliary services of

which call centers are a segment, which accounts for 6.4% of all foreign direct investments in Bulgaria. Agriculture, forestry, and fisheries are also among the sectors with significant participation by U.S. investors – about 24% of all foreign direct investments in them originate from the United States. The U.S. interest in these five sectors amounts to about 11.17% of all foreign direct investments in them. ■

**Table 5:**

Share of U.S. foreign direct investments of all foreign direct investments by economic activity at end of 2016.

<b>Economic activity</b>	<b>Share</b>
Processing industry	9.2%
Generation and distribution of electricity, thermal energy, and fuel gasses	16.6%
Creation and distribution of information and creative products; telecommunications	7.6%
Agriculture, forestry, and fisheries	23.6%
Administrative and auxiliary services	6.4%
<b>Total for the five economic activities</b>	<b>11.17%</b>

Source: Financial reports published in the CR and calculated by the Institute for Market Economics

# Impact of U.S. Investments on the Bulgarian Economy

**H**aving assessed the real volume of the U.S. investments in Bulgaria, including those by subsidiaries of U.S. companies, we will examine in this chapter the impact of these investments on the Bulgarian economy. This analysis is based on several key indicators – number of employees, net sales revenue, and fixed tangible assets. The choice of indicators was limited by the restricted access to statistical information and by the information contained in the annual financial statements of the U.S. firms. The study is limited to 2016 and the presentation of dynamics and comparisons with previous periods remains outside the scope of this study.

In general, firms with U.S. interest owned slightly more than 3.3% of all fixed assets in 2016. They generated 2.4% of the net sales revenue in the Bulgarian economy for the same year, and the staff hired by them accounted for 1.1% of all employees

in the country. In absolute terms, 28,600 workers employed by them paid social security contributions, while the sum of these companies' fixed tangible assets amounted to slightly more than BGN 4 billion. The net sales revenue in 2016 reached nearly BGN 7 billion. As this methodology has not been applied to other countries yet, a comparison cannot be made between the shares of the U.S. firms and those of other countries whose firms are investing in Bulgaria. However, the favorable impact cannot be denied.

A breakdown by economic activity would provide a more detailed view of the U.S. investments' impact on certain sectors of the Bulgarian economy. Table 4 below shows these firms' shares of the sectors in which they operate.

The impact of the U.S. investments on the local economy is spread rather unevenly over the various economic activities, being the highest in industry

## Share of the U.S. companies in the economy of Bulgaria, 2016



Fixed assets

**BGN  
4 billion**

3.3%



Net income (sales)

**BGN  
7 billion**

2.4%



Employment

**28 600  
people**

1.1%

**Table 6:**

Shares of U.S. companies by economic activity as part of the total values of the Bulgarian economy's indicators for 2016.

Economic activity	Net sales revenue	Fixed tangible assets	Employment
Agriculture, forestry, and fisheries	12.5%	0.3%	1.0%
Processing industry	4.8%	4.1%	2.3%
Generation and distribution of electricity, thermal energy, and fuel gasses	7.6%	12.4%	3.1%
Commerce; repairs of motor vehicles and motorcycles	0.9%	0.1%	0.3%
Transport, warehousing, mail services	0.3%	0.0%	0.1%
Creation and dissemination of information and creative products; telecommunications	6.2%	0.9%	5.1%
Operations with real estate	0.8%	1.0%	0.1%
Professional activities and scientific research	6.0%	0.8%	1.7%
Administrative and auxiliary activities	9.8%	0.7%	5.4%
<b>Total for the economy</b>	<b>2.4%</b>	<b>3.3%</b>	<b>1.1%</b>

Source: Calculations by the Institute for Market Economics based on CR and NSI data

and power generation and relatively weaker in transport and commerce. In relative terms, it should be taken into consideration that there are significant differences between the sizes of the sectors and their structures. While in absolute terms the U.S. firms employ the highest number of people in the processing industry (more than 12,500), this is also the sector that employs the highest number of workers in the country at large. The share of the employment by the U.S. companies is therefore not particularly considerable.

The initial expectations were that U.S. investors would take a larger share of the outsourcing and information

technologies sectors. While the presence of these companies in the two sectors is not insignificant (5.4% and 5.1% of the employees and 6% and 6.2% of the net revenues of the two sectors respectively), it is very likely that this study may be underestimating the U.S. presence, as other studies<sup>3</sup> of these sectors have established that they (particularly the information technology sector) are dominated by a multitude of small firms. These may have remained outside the scope of this study because of its methodology. Agriculture provides an interesting example. Several very large companies generate 12.5% of the net sales revenue in the sector, although their shares of the tangible assets and employment are rather small. ■

<sup>3</sup> See [http://investsofia.com/wp-content/uploads/2017/10/IT\\_Sector\\_Analysis\\_Sofia\\_Sept-2017\\_BG.pdf](http://investsofia.com/wp-content/uploads/2017/10/IT_Sector_Analysis_Sofia_Sept-2017_BG.pdf) u [http://investsofia.com/wp-content/uploads/2017/12/Sofia\\_Outsourcing\\_Industry\\_Report\\_December-2017\\_BG.pdf](http://investsofia.com/wp-content/uploads/2017/12/Sofia_Outsourcing_Industry_Report_December-2017_BG.pdf)

# Impact of U.S. Investments on Regional Economies

**U**S-owned companies are market leaders and a determining factor in the local labor markets of several regional economies. We will now see where they are of the greatest importance. To do this, we will add to the assessment of the impact at national level the U.S. companies' share of the foreign direct investments accumulated until the end of 2016 in various regions, using data

provided by the NSI<sup>4</sup>. Table 5 below sums up the U.S. companies' shares of the main indicators of the regions in which there is at least one important company with U.S. interest. Understandably, the importance of U.S. investments is far from equal from the regional perspective. Gabrovo and Razgrad are the first to come to mind because a small number of companies determine the character of the entire local

**Table 7:**  
**U.S. companies' shares by region**

Region	Fixed tangible assets	Net sales revenues	Employment	Foreign direct investments
Varna	2.83%	5.30%	0.62%	8.80%
Gabrovo	7.34%	12.19%	8.41%	19.81%
Plovdiv	1.37%	1.13%	0.60%	6.99%
Razgrad	18.10%	26.98%	5.22%	75.79%
Sofia	4.75%	3.48%	1.82%	12.43%
Stara Zagora	9.32%	5.91%	0.46%**	11.83%
Dobrich	11.11%	1.76%	0.00%*	3.87%
Smolyan	2.15%	4.92%	1.60%	1.44%

Source: Calculations by the Institute for Market Economics based on CR and NSI data

\*The share of employment in Dobrich is quoted as 0% because there is just one company operating there and data about the number of its employees is not available. \*\* Does not include data about the AES, because the data published in the CR does not provide information about manpower.

<sup>4</sup> The source in this case is the Institute for Market Economics because the BNB does not offer data broken down by regions.



## The importance of the U.S. investments in the regions of Bulgaria is not equal. In Gabrovo, Razgrad, Stara Zagora several companies predetermine the outlook of the local economy.

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economy there. In the region of Gabrovo, the only investor with U.S. interest is Ideal Standard Vidima, but it employs 8% of the people who have jobs in the region; the company's influence in the municipality of Sevlievo is even greater. It would be interesting to note that in Razgrad the investments in the food producers Pilco and Amylum account for nearly one-fifth of the region's total fixed tangible assets. This is due, above all, to the low level of economic development and the almost complete absence of other investments in the region of Razgrad. The two companies stand out very clearly against this background.

Nearly all U.S. investments are concentrated in the capital city of Sofia because of its well-developed market and the easier access to workers with the relevant education and skills. While 56 of nearly 70 companies participating in the regional distribution of the U.S. investments are registered in Sofia, their regional impact is smaller than the impact of those companies operating in other regions because Sofia's economy is much bigger and better developed than the economies of all other regions. Against the background of the country's strongest economy, the companies with U.S. interest own nearly 5% of the total fixed tangible assets worth nearly BGN 2.4 billion. The reason for their relatively small share (under 2%) of the employment lies in the profiles of most of the companies that are specialized in activities with high added value per employee, such as information technologies, outsourcing of administrative services, and commerce. In comparison to the other regions, Sofia's share in industry is fairly small. While the 12% share of the US-owned

companies of the total foreign direct investments in the capital is by no means small, it should be taken into account that many of the companies whose networks operate throughout the country are registered in Sofia – the modern supermarket chains, which are among the country's biggest companies, and the mobile network operators are of particular importance in this context.

Stara Zagora also provides an interesting case study, as the U.S. investments there are concentrated in just one sector – power generation. This is where AES and ContourGlobal run their business. The characteristic features of these companies can be seen in the distribution of their presence in the local economy. They employ less than 1% of the region's workforce, but own nearly 10% of the fixed tangible assets and account for 12% of the foreign investments there. The two power plants also determine the state of the entire Bulgarian energy sector. According to data published by the Energy and Water Regulatory Commission,<sup>5</sup> they operate nearly 12% of the country's total power generation capacity and 23% of the Bulgarian thermoelectric capacity. The impact of the power plants is particularly visible in the characteristics of the economy of the municipality of Galabovo. In 2015,<sup>6</sup> one-third of the municipality's workforce were employed in the plants and their gross monthly pay exceeded BGN 2,000.

U.S. investments are by no means absent in several of the other key economic centers such as Plovdiv, Varna, and Dobrich, but their impact is less significant because of the presence of big investors from other countries. ■

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<sup>5</sup> See <http://www.dker.bg/bg/elektroenergetika/proizvodstvo.html>

<sup>6</sup> For details see *Economic Centers in Bulgaria* by the Institute for Market Economics, <http://www.regionalprofiles.bg/bg/map-ec/>

**THE STUDY**  
**U.S. INVESTMENTS**  
**IN BULGARIA**



# Conclusions

This report is intended to present a more comprehensive picture of the volume, structure, and impact of the U.S. foreign direct investments in Bulgaria than the one offered by the official statistics on foreign direct investments. The results of this study demonstrate that the underreported investments should not be overlooked. According to official data on the size of foreign direct investments, the U.S. investments in the Bulgarian economy amount to about BGN 1.9 billion, or 2.5% of all foreign direct investments. If the indirect investments originating from the United States and entering Bulgaria via third base countries are included in the calculation, this number would rise to about BGN 4.5 billion or 5.7% of all foreign

direct investments in the country. The number will thus grow by more than 2.3 times. The rankings shown above will remain essentially unchanged except that the United States will climb to the position of the sixth biggest investor in Bulgaria from the 13th position it occupies now.

Table 1 shows that the Netherlands is the preferred base for investments in Bulgaria with a share of nearly 67% of all indirect U.S. investments covered by this study. The top three countries include the British Virgin Islands (12% of the indirect U.S. investments) and Luxembourg (10% of the indirect U.S. investments). These three countries account for nearly 90% of the indirect U.S. investments in Bulgaria.

## Share of the U.S. FDI by sectors

**24%** in agriculture

**11%** is the total share of U.S. FDI in 5 sectors of the Bulgarian economy (agriculture, energy, ICT, processing industry, call-centers).

The results of the study indicate that 98% of the U.S. investments in Bulgaria (direct and indirect) are concentrated in four economic activities – processing industry, power generation, creation and dissemination of information and creative products (including information and communication services), and commerce. Nearly 50% of the U.S. foreign direct investments are concentrated in the processing industry and another 40% in the generation of electricity.

The sector of administrative and auxiliary services is quite interesting from the point of view of the U.S. investments in the country. This sector includes the so-called call centers. The U.S. investments in these services amount to just 0.3% of the fixed tangible assets owned by all companies with U.S. interest, but in 2016 they employed more than 20% of the people working for companies with U.S. ownership.

U.S. investments account for an important portion of all foreign direct investments in various sectors. Thus, 17 % of the foreign direct investments in

power generation, and 9% of the processing industry, as well as significant portion of the creation and dissemination of information and creative products have a U.S. beneficial owner. One can add to these the administrative and auxiliary services which include the call centers, that account for 6.4% of all foreign direct investments.

Agriculture, forestry and fisheries, where about 24% of all foreign direct investments have U.S. origins, is another sector with significant participation by U.S. investors. The U.S. participation in these five sectors amounts to 11.17% of all foreign direct investments in them.

The calculations using this methodology show that the U.S. investments in the Bulgarian economy have created jobs for at least 28,000 Bulgarians and have generated about BGN 7 billion in revenues according to the latest available data. From a regional perspective, large U.S. companies define the structure of the economies of several regions, particularly Razgrad, Gabrovo, and Stara Zagora. ■

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# The Role of the America for Bulgaria Foundation

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The United States provided more than one-third of the total funds used for philanthropy in Bulgaria between 2009 and 2017. The total amount spent on the six main programs of the America for Bulgaria Foundation reached \$167 million during the same period. The biggest amounts were invested in education (\$93.2 million), the development of the civic society and democratic institutions (\$24.8 million) and arts and culture (\$18.2 million). Other organizations based in the United States provided another \$51 million, raising the total amount to \$218 million, an amount that exceeded by nearly four times the government spending in these areas and by six times the total amount collected from individual donations.

The value of the annual grants provided by the

America for Bulgaria Foundation between 2011 and 2016 ranked them at the level of the three biggest certified investments in the Bulgarian economy for each of the three years under consideration. In other words, if the funds provided by the America for Bulgaria Foundation could have been certified as investments, the Foundation would have ranked among the leading investors for these years.

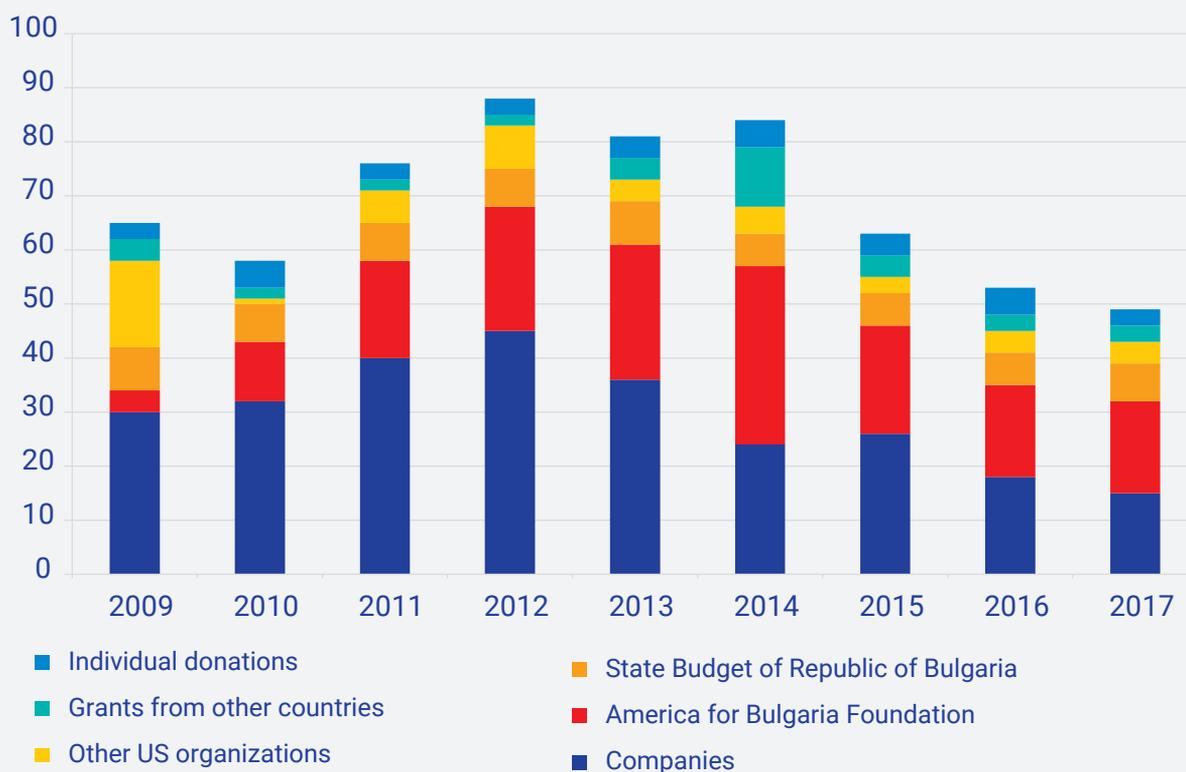
About \$16.8 million of the grants and another \$21.3 million in the form of other investments by the Foundation (such as the setting up of Muzeyko) were directed to projects that consisted mostly or entirely of capital expenditures. Although about 92% of these funds were directed to Sofia, Plovdiv, and Blagoevgrad, projects were also implemented in 27 of Bulgaria's 28 regions and in 43 of the country's 265 municipalities. ■



**1/3** of the overall volume of the philanthropy in Bulgaria comes from the U.S.A.

## Total support for philanthropy in Bulgaria (2009-2017) in millions of dollars

	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
Companies	30	32	40	45	36	24	26	18	15	266
<b>America for Bulgaria Foundation</b>	<b>4</b>	<b>11</b>	<b>18</b>	<b>23</b>	<b>25</b>	<b>33</b>	<b>20</b>	<b>17</b>	<b>17</b>	<b>167</b>
State budget of the Republic of Bulgaria	8	7	7	7	8	6	6	6	7	61
Other U.S. organizations	16	1	6	8	4	5	3	4	4	51
Grants from other countries	4	2	2	2	4	11	4	3	3	34
Individual donations	3	5	3	3	4	5	4	5	3	34
<b>Total</b>	<b>64.9</b>	<b>57.4</b>	<b>75.2</b>	<b>87.9</b>	<b>79.6</b>	<b>83.7</b>	<b>62.7</b>	<b>52.5</b>	<b>49.2</b>	<b>613</b>



Source: Institute for Market Economics, America for Bulgaria Foundation, Bulgarian Democratic Forum, Foundation Centre

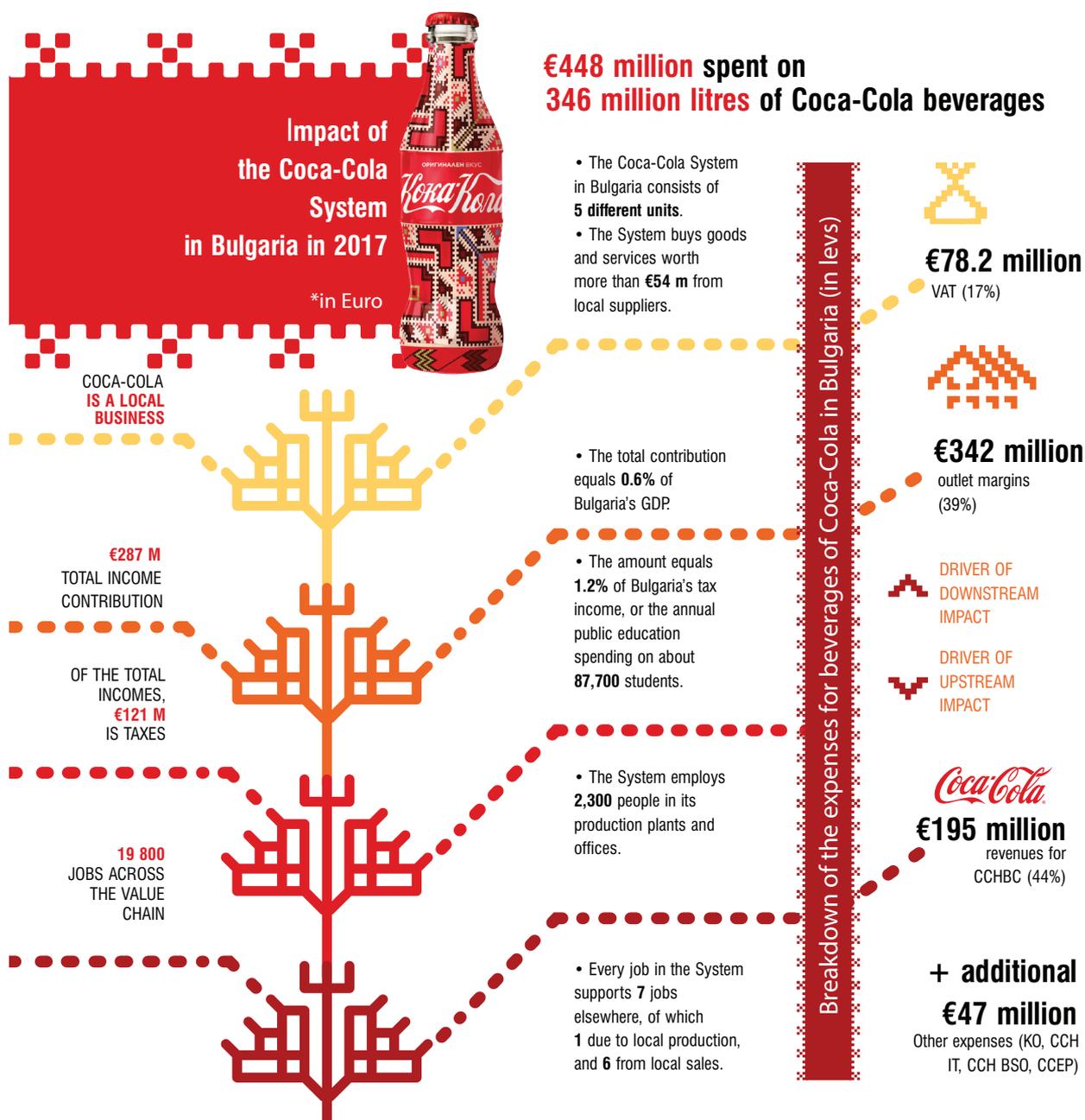
Note: The values in red are calculated by the Institute for Market Economics, incl. the number for 2009 of the America for Bulgaria Foundation.

**CASE-STUDIES**  
**U.S. INVESTMENTS**  
**IN BULGARIA**

# The Coca-Cola System contributes over half a billion levs to the Bulgarian economy

Coca-Cola is a long-term responsible partner of the Bulgarian state for sustainable growth of the Bulgarian economy. For third consecutive year, we are conducting the Socio-economic impact survey, which reflects our continued commitment and responsibility to the Bulgarian society as a whole. The objective of the study is to quantify Coca-Cola System's impact in Bulgaria and to capture the direct and indirect value chain effects of the

system. Value added and employment are the two main indicators that were analyzed. The assessment of the socio-economic impact of the Coca-Cola System has been made on the basis of an established economic model, implemented by Stewart Redkwin strategic consultancy company that aims to make business work for society.. The authors of the report are Prof. Ethan B. Capstein and Teodora Nenova, Senior Consultant at Stewart Redkwin.



## AES Bulgaria is a key contributor to grid stability and security of supply

The AES Corporation (NYSE: AES) is a Fortune 500 global power company. We provide affordable, sustainable energy to 15 countries through our diverse portfolio of distribution businesses as well as thermal and renewable generation facilities.



With a presence in Bulgaria for almost two decades, AES is the largest foreign investor in the energy sector in the country with over BGN 3.2 billion in investments. AES contributes to the security of electricity supply and increases the energy independence of the country by using only local resources.

AES Bulgaria has created more than 500 direct and 4,000 indirect jobs in Bulgaria. We also contribute to the development of the local society through different CSR programs and have invested more than BGN 14 million in projects that benefit the local communities. Since 2011, AES Bulgaria has paid over BGN 700 million in taxes and insurance contributions into the state treasury.

AES owns and operates the most modern and high-tech power plant in the region – AES Galabovo TPP with a state-of-art Waste Disposal Facility nearby, and the St. Nikola Wind Farm (Kavarna).

The 690 MW gross capacity AES Galabovo produces electricity entirely from local lignite coal. Annually it

uses over 5 million tons of lignite coal, corresponding to between 23% and 27% of the annual production of the Mini Maritza East mines. With its generating assets, AES Bulgaria provides about 7% of the total installed power capacity of the country.

AES Galabovo plant uses the world's best technologies for air quality and water management, waste storage, and soil and groundwater preservation, and meets European Union, World Bank and national standards. Safety is a core value for AES. The Power Plant and the Waste Disposal Facility in Galabovo have received several awards from the prestigious British Safety



Council. Additionally, the plant has been recognized internationally for its integrated environmental, safety and asset management systems.

AES also owns and operates St. Nikola - the largest wind farm in Bulgaria. It has 52 wind turbines with a total installed capacity of 156 MW, around 30% of the wind power generated in the country. The wind farm significantly contributes to the country's capacity in renewable energy production, helping Bulgaria reach the requirements of the European Union's renewable targets. The wind farm has implemented the first system for monitoring and protection of migrating, overwintering and native birds in Bulgaria.

### AES's investments since 2012



**BGN 3,2 bn**  
investments



**7%** of the total  
installed capacity



**BGN 14 mln**  
social investments

# Powering Progress in Bulgaria



Citi is a leading global financial services company, with businesses in more than 160 countries and jurisdictions and 200+ years of experience helping clients by enabling growth and economic progress.



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Supporting clients in more than 160 countries and jurisdictions

In Europe, the Middle East and Africa (EMEA) since 1818, Citi maintains a physical presence in 55 countries and does business in 61 more. Clients across EMEA choose Citi for our global footprint, market position, in-country relationships and full range of solutions through our extensive suite of products and services.

## Citi in Bulgaria

Present in Bulgaria since 1998, Citi is the only US bulge bracket bank with a fully-fledged branch and institutional presence in the country.

Our mission of enabling growth and economic progress in Bulgaria helps companies and the public sector overcome challenges and embrace opportunities.

Our client base includes domestic corporations, public sector, financial institutions, institutional investors as well as multinational companies operating in Bulgaria.

Leveraging its unparalleled global network and reach, Citi offers unique product solutions, market insights and innovation for our clients.

Citi Bulgaria has financed, lead-arranged, and advised on transactions in excess of €35 billion and has provided access and expansion opportunities into the international markets to both local corporates and the public sector.

We have been continuously recognized for dedication and prominent market reputation including, but not limited to:



**Top Foreign Bank Branch in Bulgaria Bank**

2010, 2011, 2012, 2016  
Bulgarian Bank of the Year Association



**Best Bank Branch in Bulgaria**

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Through Citi Foundation funding, charitable donations or employee volunteer initiatives, Citi has to-date invested more than €560,000 in programs that support economic opportunities for youth and help improve the lives of the most vulnerable groups in our communities.

We show what a global bank can do by making a positive financial and social impact in the communities we serve.



**300+**  
volunteer hours annually



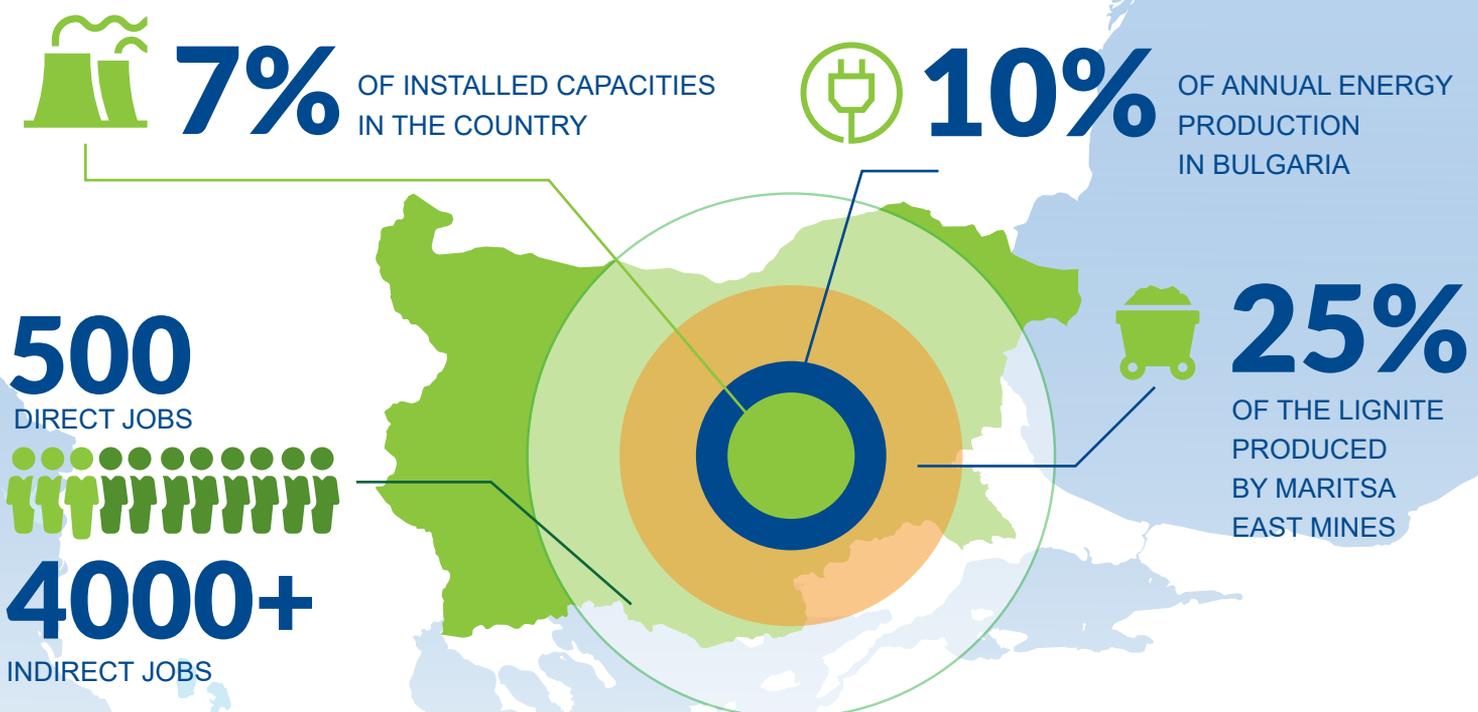
**30,000+**  
young people impacted



**€560,000+**  
in total program funding



ContourGlobal Maritsa East 3 is the second largest thermal power plant in Bulgaria operating on lignite coal solely extracted locally in the Maritsa East basin. As a result of the large-scale plant rehabilitation and modernization project – the first major investment project in the energy sector in South East Europe, financed without state guarantees – ContourGlobal Maritsa East 3 TPP is the first thermal lignite coal-fired power plant on the Balkan Peninsula, which is fully compliant with the highest European health and safety and environmental standards. With an installed capacity of 908 MW, the power plant generates 10% of the annual electricity production in Bulgaria. In this way ContourGlobal Maritsa East 3 contributes to ensuring the energy security and independence of the country by supplying clean and reliable energy at a competitive price using local resources and providing quality employment for the people in the region.



Through its “Beyond Energy” long-term Social Investment Program the company, as a responsible corporate citizen, also invests in developing and improving the standard of living of the local community by supporting projects in the fields of education, culture, sport, healthcare, ecology and preservation of local traditions.

# POWER FOR BULGARIA



## Investments in people and beer culture



Kamenitza AD is part of the American-Canadian Molson Coors Brewing Company since 2012. With its near 700 permanent employees, it is the biggest employer in the beer industry in Bulgaria, with more than 137 years of history and traditions in brewing. For Kamenitza the beer is not just a product, it is passion and vocation.

What is more, the company has recently invested in the innovative complex in Plovdiv Pivovarnitza Kamenitza with a microbrewery, beer restaurant, gift shop, visitor center and open space for cultural events. The complex will delight the beer lovers in the country, paying tribute to its hometown Plovdiv.

### Investments since 2012



**BGN 3 mln**  
in social  
responsibility



**BGN 135 mln**  
in production  
and market



**BGN 1,5 mln**  
in training

Precisely the development of great professionals is the foundation of Kamenitza's success and since 2012 the company has invested more than BGN 1.5 million in trainings – from enriching the professional knowledge of its master brewers, sales team and specialists to building capable and inspiring leaders. Being the founder of the first beer factory in Bulgaria, Kamenitza recognizes its responsibility to the development of beer culture in the country, and its employees are true beer ambassadors.

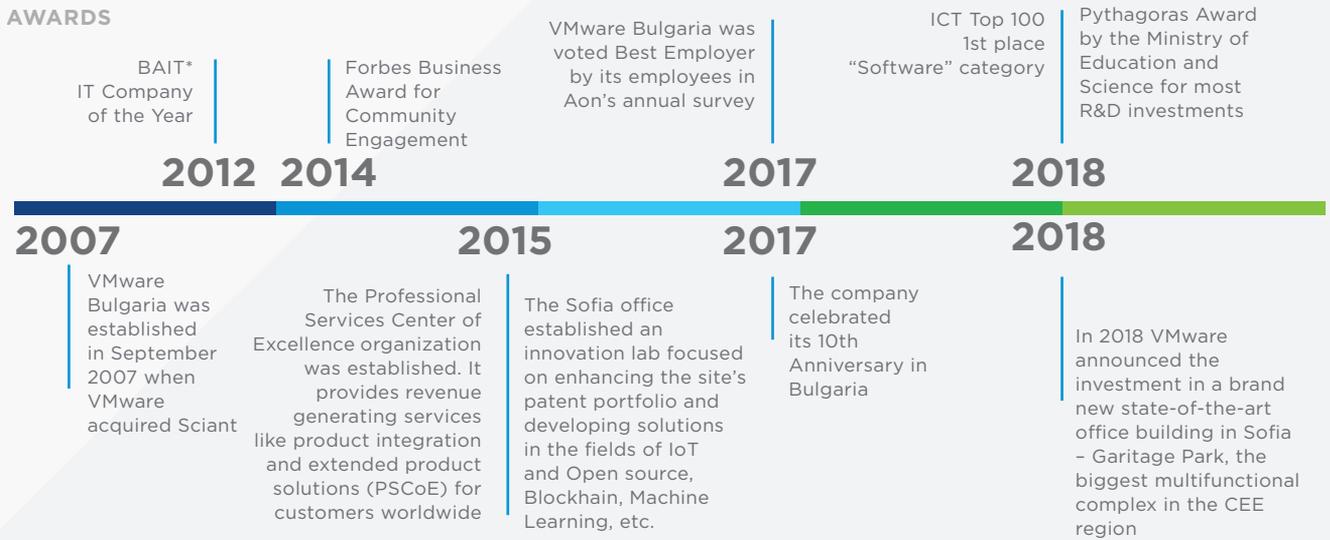
Offering extraordinary brands that stand out with a high quality and unique taste is an underlying principle in the growth strategy of Kamenitza AD. In the last 6 years the company has invested more than BGN 135 million in modernizing its brewery and market base. Kamenitza is the first beer company in the country which built an anaerobic reactor to its waste-water treatment station – an investment in unison with its sustainability strategy.



Kamenitza AD is proud with the developed culture of corporate responsibility and the significant Bulgarian contribution to the sustainability strategy of Molson Coors and the global platform Our Beer Print. In the last 6 years Kamenitza's social investments are more than BGN 3 million, as the company developed the two of the most recognizable social projects in the country - Alcohol Is a Bad Driver and Kamenitza Fan Cup.

# THE COMPANY

## AWARDS



## DEVELOPMENT OF THE COMPANY IN BULGARIA

# TODAY

VMware Bulgaria is the biggest R&D center in EMEA region as well as one of the three strategic sites globally. Transformation of VMware's Bulgaria operations from an R&D facility to a multi-purpose hub with product, revenue generating professional services and business operations teams.



# PEOPLE



# INVESTMENT



\*BAIT - Bulgarian Association for Information Technologies



AMERICAN CHAMBER OF COMMERCE IN BULGARIA

# 23 Years Speaking for American Business in Bulgaria

## Who we are

American, Bulgarian, multinational companies committed to and invested in the future of Bulgaria.

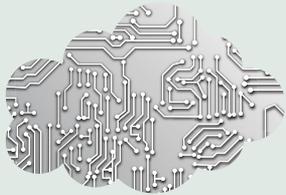
Over **350** members

Part of **44** AmChams throughout Europe and Eurasia  
(Member of AmChams in Europe)

**11** Committees Promoting Modern Legislative Framework  
Based on Best International Practices

## What we want

2018 Priority Areas:



**Digitalization**  
eGovernance  
Cyber Security  
IoT/Industry  
Privacy



**Human Capital Development**  
Future of Work  
Digital Education and Skills  
Financial Entrepreneurship  
Educational Reform  
(incl. Dual Education)

Entrepreneurship  
and Innovation

Environment

Rule of Law

Cooperation  
with Western  
Balkans

## What we do

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Environment

Advocacy  
and  
Outreach

B2B  
Meetings

Regional  
Business  
Missions

Networking

Social  
Causes



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