DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT

STRATEGY FOR BULGARIA

As approved by the Board of Directors on 12 December 2005

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EXECUTIVE SUMMARY

Bulgaria continues to meet the conditions specified in Article 1 of the Agreement Establishing the Bank. Stimulated by the goal of EU membership in 2007, Bulgaria has made considerable progress in transition with 75 per cent of economic activity in private hands, advanced price liberalisation, an open foreign trade regime and significant advances ongoing in the opening of key markets such as energy. The investment climate is becoming more attractive. Yet gaps remain in the reform process, and the business environment is negatively affected by slow and inefficient implementation of laws and regulations approved in recent years. The functioning of domestic markets is not yet at the level of well running market economies. Further advances in transition will be needed to strengthen the economy and its institutions.

General elections were held in June 2005, with a coalition government coming to power in August. The new government has affirmed EU accession as its main priority.

The economy continues to perform well, but remains vulnerable to any deterioration in external conditions. Maintaining a tight and transparent fiscal policy is essential in order to preserve macroeconomic stability and support the currency board regime. While Bulgaria prepares to tackle the challenges of EU and EMU accession, it is paramount that it improves implementation of reforms with the target of enhancing the competitiveness of its enterprises. Bulgaria has managed to attract significant inflows of FDI, thanks to its political determination to reduce the role of the state in the economy and to its stable macroeconomic framework. In the current stage of transition, however, it needs to demonstrate the ability to attract green-field FDI through the creation of a stable investment climate and the provision of a skilled labour force, within the tight framework of EU competition rules. A number of key challenges must be addressed to build on past successes and enhance the competitiveness of the country:

- The business climate needs to further improve in order to attract larger FDI inflows, which could slow down significantly with the end of large ticket privatisations. The availability of qualified labour must be improved through training and greater mobility, one-stop shops to assist investors could be introduced, and efforts to ensure a stable and more transparent regulatory system must be increased.
- Many locally-owned medium-sized companies are ill prepared for EU accession and will face considerable investment needs with uncertain financing available.
- Structural reform is required in the public administration and the judiciary. In particular efforts to increase transparency and accountability must be intensified, and the absorption capacity for EU funding must be improved.
- Significant investment is required in the country’s physical infrastructure, particularly in municipal services and regional transport links, in order to remove bottlenecks in the economy.
- Energy intensity remains high. The energy service market is yet to develop, though some companies are implementing energy efficiency measures. Much remains to be done in the household sector.

As of 30 September 2005, the Bank had made cumulative commitments of €1,102 million to 93 projects helping to mobilise €3,976 million for Bulgaria. The Bank can continue to bring an important contribution to transition over this new strategy period by focusing on projects addressing the above challenges.

To help ensure that Bulgaria remains at the leading edge of the transition process, the Bank's activities will be based on the following operational objectives:

Enterprise Sector. The Bank will actively support the restructuring and recapitalisation of the local private sector in order to increase competitiveness, prepare for entry into the Single Market and ensure compliance with EU regulations. With this aim in mind, the Bank will expand its range of financial products to include more equity, mezzanine and local currency finance, and TAM/BAS will continue to play a key role. Promoting high standards for business conduct and environmental protection will be crucial. At the same time, supporting foreign direct investment, particularly green-field, will remain a major priority, especially projects assisting the development of less advanced regions or stimulating cross border trade and regional integration.

Infrastructure. With the expected implementation of fiscal decentralisation reforms, opportunities will be created for the Bank to expand its lending to municipalities for urban transport, solid waste, and district heating transactions, structured on a commercial basis and helping to build institutional capacity. The Bank will also seek to support projects in smaller municipalities through the EU/EBRD Municipal Finance Facility. In the water and wastewater sector, loan finance will continue to be extended to regional water companies with ISPA co-financing. In other areas of infrastructure, the Bank will support private sector investment in airports, for example the concession to modernise and operate the Black Sea airports of Bourgas and Varna. Further opportunities will be pursued both in railways, and in the road sector where private capital will be required for major highway development to improve national and regional linkages.

Power and Energy Efficiency. The Bank will continue to support the energy sector, investing with the private sector in both generation and distribution, and further developing Bulgaria's role as a regional energy hub enhancing integration in south east Europe. Given Bulgaria's high energy intensity, the Bank will also promote improvements in energy efficiency and renewable energy resources. Close co-operation will be maintained with the Kozloduy International Decommissioning Support Fund in order to provide grant financing for energy and energy efficiency measures. Furthermore, the Bank will continue its policy dialogue with the authorities to promote improvements to the legal and regulatory framework in the sector.

In addition, whilst the development of the financial sector has been a notable success overall for Bulgaria in terms of institutions, financial services offered and degree of competition, the capital markets segment of this sector is still lagging behind and requires further Bank support.

The Bank will ensure that all operations in Bulgaria are subject to the Bank's Environmental Procedures, and incorporate, where appropriate, Environmental Action Plans. Finally, the Bank will continue to be a major catalyst in mobilising commercial and donor co-financing, and will co-ordinate its strategy with the IMF, World Bank and EU in order to achieve maximum impact. The Bank has a strong track record of helping to maximise access to EU funds, and will assist Bulgaria in preparing and implementing projects to meet EU criteria and enhance absorption capacity.

1. THE BANK'S PORTFOLIO

Within the last strategy period, the Bank’s portfolio has developed strongly, with 37 new operations, of which only two were in the public sector, albeit without a sovereign guarantee and on commercial basis. The Bank’s cumulative commitments in Bulgaria now exceed the €1 billion milestone.

1.1 Overview of Activities to Date

As of 30 September, the Bank had achieved a cumulative business volume of €1,102 million across a broad range of sectors. The Bank has signed 93 individual transactions, some of which are follow-up operations with existing clients, thus yielding a total of 57 investments, including allocations from 21 regional projects, and mobilising total funding for Bulgaria of €3,976 million. The outstanding portfolio amounts to €586 million, of which €313 million in operating assets. Current pipeline stock stands at €474 million.

Chart 1: Annual Business Volume in € millions per year

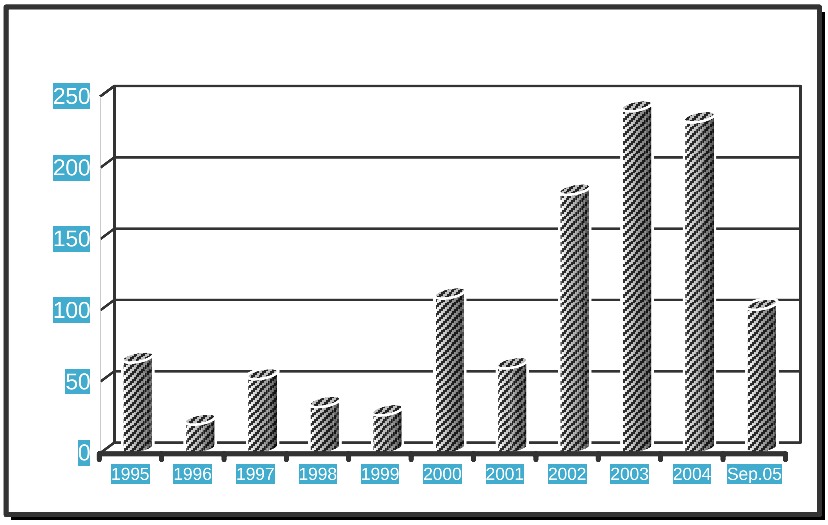

Chart 2: Number of Operations for last 5 years

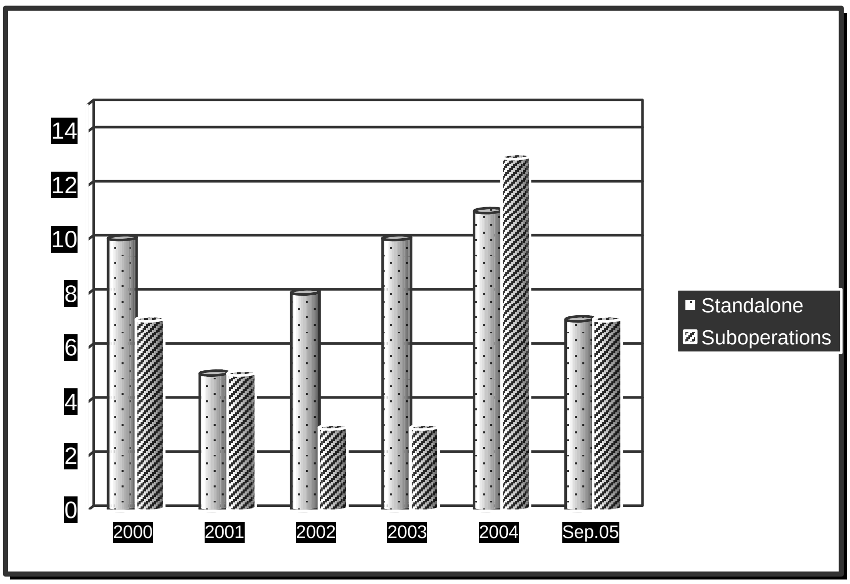

Table 1: Bulgaria Portfolio Development (2003 – 2005)

Indicators	September 2003		September 2005	
	Amount	%	Amount	%
Projects in public sector	163	30	153	26
Projects in private sector	389	70	433	74
Total:	**552**	**100**	**586**	**100**
- of which: Loans	476	86	488	83
- of which: Equity	76	14	98	17

Note: Some projects include both loans and equity. Figures are net of full repayments and cancellations. Amounts are in € millions

1.1.1 Portfolio Ratio

The distribution of the Bank's portfolio in Bulgaria is broad with no single sector dominating. The debt to equity ratio is 83:17 marking an increase in equity from the 86:14 ratio in 2003.

The overall performance of the Bank's portfolio has been good; the amount of impaired assets during the previous strategy period has been significantly reduced from €36 million (5 projects) to €2.5 million (2 projects).

Based on the portfolio of €586 million, the private/public portfolio ratio stands at 74:26 with the private sector share having increased since 2003, when it was 68:32.

Finally, 75 technical co-operation projects totalling €20 million have been approved (see Annex 5).

1.2 Implementation of the Previous Country Strategy

The last country strategy, approved in October 2003, outlined the following strategic priorities for the Bank in Bulgaria:

- promote post-privatisation investment and green-field private sector projects in industry, tourism, agribusiness and natural resources, as the main source of attracting new FDI for the country;
- broaden its geographical coverage of the micro, small and medium-sized private enterprises through carefully selected additional Bulgarian partner banks and support the development of non-banking FI sector, including the development of a three-pillar pension system, private insurance markets, leasing and mortgage financing;
- support privatisation and commercialisation of the infrastructure sector through non-sovereign financing and public-private partnerships, particularly in the energy, telecommunications and water sector;
- continue to be a major catalyst in mobilising co-financing, both commercial and donor.

Since the last strategy was approved, the Bank has successfully implemented the objectives outlined, concluding 37 new operations in Bulgaria. The Bank’s investments in Bulgaria have effectively doubled over the last 3 years, with cumulative commitments moving beyond the €1 billion milestone during 2004.

In addition to large business volumes, the Bank's product mix has been broadened, innovations have been brought to the market (including local currency finance) and the Bank has been leading the market in syndicated financing.

In 2003, for example, noteworthy transactions included the rehabilitation and environmental retrofit of the 840 MW Maritza East III Power Plant (with a total project cost of €650m), which was the first private power sector project in Bulgaria. The Bank supported the international multi-sourced financing package with a €112.1 million senior loan to the project, with a tenor of 15 years. The Bank also followed up its €31 million loan in 2000 to Sofiiska Voda AD, with an equity investment of €5.3 million. Sofiiska Voda is the country's first privately managed water and waste water company.

In 2004, for example, €73 million was committed to the telecoms sector, as part of a €196 million EBRD-led syndicated loan provided to Viva Ventures, for the privatisation of Bulgarian Telecommunications Company. An environmental improvement loan of €22 million was extended to Bulgaria's largest thermal power plant at Maritza East II, with co-financing from both ISPA and commercial lenders. In the local corporate sector, a package of equity and debt was provided to Piccadilly Supermarkets to enable the company (Boliari) to expand regionally from its base in Varna.

In its first ever Kyoto Protocol-style greenhouse gas emissions trade, the EBRD signed in December 2004 a deal to buy, on behalf of the Dutch government, carbon credits from a Bulgarian paper mill, Paper Factory Stamboliyski (PFS).

Important innovations also included a €50 million Energy Efficiency Credit Line for the corporate sector supported by €10 million grant from KIDSF and a €10 million EU/EBRD SME facility for the agricultural sector. The Bank also signed its first leasing credit line in Bulgaria.

In 2005, innovations have included the launch of a €50 million Energy Efficiency Credit Line for the residential sector, incorporating the Bank's first ever local currency financing option in Bulgaria; the bank's first direct investments in the property and tourism sector; its first mining project; and its first non-sovereign water and waste-water financing outside Sofia. Indeed, of particular note is the fact that many of these new projects are located outside the capital city, helping to stimulate economic growth in all regions of Bulgaria.

1.3 Transition Impact of the Bank's Portfolio

The Bank has played a major role in promoting and supporting Bulgaria's transition to a functioning market economy, investing in a considerable number of projects that support private sector development in telecommunications, energy and energy efficiency, banking, agriculture and general industry. Through these investments, and the nomination by the Bank of board directors in some of the investee companies, the Bank has been able to improve corporate governance practices.

The Bank has been successfully engaged with the government, government bodies, various municipalities, business associations, and NGOs in an active and fruitful policy dialogue.

The Bank has drawn valuable lessons from these activities, including corporate governance issues, privatisation processes, post privatisation investment, and the debt absorption capacities of public entities. The Bank will build on this experience to further strengthen co-operation between the Bulgarian authorities and business community, in order to support the restructuring and modernisation of the Bulgarian economy, including the development of SME sector. Of particular importance now is the need to help local businesses prepare for EU accession.

1.3.1 The Enterprise Sector

The Bank has achieved examples of very successful restructuring of local companies. For example, through its investment in Solvay Sodi (the Bulgarian soda ash producer majority-owned by Solvay of Belgium) the Bank has participated in one of the most successful privatizations and post-privatisation restructurings in the Bulgarian economy. The company provides a fine example of how to blend local and foreign managerial expertise. All necessary reductions in over-employment were achieved whilst maintaining healthy relations with the trade unions and were compensated by significant outsourcing of services, creating sustainable linkages with other sectors of the local economy. The Bank's exit was originally envisaged for 2002, but at the request of the sponsor, and in recognition of the Bank's value added, the investment was extended for a further five years.

A further example is Paper Factory Stambolijski (PFS), a company which acquired the paper and sack production assets of Celhart. The Bank, together with IFC (joint owners of PFS) played a critical role in salvaging the company after the previous sponsor run into difficulties. New senior management was installed, local managerial talent (ignored by the previous owner) was harnessed, new export markets were opened, and a successful restructuring was implemented. The Bank is now preparing to exit its investment.

1.3.2 Infrastructure and Environment

In the energy efficiency sector, the Bank, complemented by parallel efforts from the World Bank, has continued an extensive policy dialogue with the authorities to introduce private sector involvement in the Sofia District Heating project. Whilst technical implementation of the project has progressed well, the implementation of the private sector involvement has been delayed. The Bank is now working towards effecting these agreements in the course of the project.

In 2004 the Bank established a €50 million Energy Efficiency and Renewable Energy Credit Line Framework with 6 private Bulgarian banks for on-lending to the private sector for energy efficiency and small renewable projects with the support of grant funds from Kozloduy International Decommissioning Support Fund (KIDSF). The results will lead to a package of small projects that, in aggregate, will improve energy efficiency and support renewable energy at the sub-borrower level.

In industrial energy efficiency, in 2003 the Bank funded an energy audit in PFS. Energy management training for the staff of the company was also conducted. The company is in the process of implementing the identified energy efficiency measures. The Bank has also supported the monetization of CO_2 emission reductions that will be realized as a result of the project. The first project under the Netherlands Carbon Fund managed by the Bank is the purchase of 600,000 tons of CO_2 reductions from the company.

1.3.3 The Financial Sector

The Bank has played a major role in banking sector development, facilitating privatisation and involvement of strategic foreign investors. In 1997, the Bank participated in the first banking privatisation in Bulgaria, that of United Bulgarian Bank (UBB). Through an active role in the board of UBB the Bank contributed significantly towards its institutional strengthening and balance sheet restructuring, helping UBB become one of the top three banks in the country. The Bank exited UBB as a shareholder in 2004, however, continues to support UBB's development as a creditor. The Bank has supported foreign bank entry through an equity participation in BNP-Dresdner Bank (now BNP Paribas), the creation of Pro-Credit Bank, and the development of new private banks through equity, credit lines and trade facilitation programmes. The Bank exited BNP Paribas in September 2004, but currently remains a shareholder in Pro-Credit Bank and Unionbank, and thus continues to support the institutional development of the Bulgarian banking sector.

The Bank has been successful in reaching the SME segment, first through sectoral credit lines and more recently through dedicated credit lines (under the EU/EBRD SME Facility). The Bank has also initiated the creation of special-purpose energy efficiency credit lines to Bulgarian banks. The first facility, targeted at the industrial sector, is the first of its kind in the region and has increased financial intermediation and financing for rational energy utilisation. A second facility targeted at residential energy efficiency was launched in 2005, and offers local currency funding to banks for the first time, to be used for on-lending to households to help them cut energy consumption and costs. Both facilities have been developed with KIDSF support.

The Bank's investment in Bulstrad facilitated the privatisation of one of the largest insurance companies in the country. This company also established the largest Bulgarian voluntary pension fund (Doverie) and was one of the six companies to receive a license for the management of the mandatory pillar of the new pensions system. The Bank is also putting an increasing focus on developing the leasing business through products such as the EU/EBRD SME Facility.

1.4 Lessons Learned

The above experience has provided the Bank with some general lessons to be taken into consideration for future operations:

- To maintain transition momentum, the Bank must increasingly consider more innovative, smaller and riskier projects with smaller local or foreign corporate or sub-sovereign sponsors requiring flexible structured products.
- Early engagement in infrastructure projects, and TC-funded technical assistance to work with government agencies during project preparation will lead to a more fully developed project concept, and a more successful privatization for utility services.
- It is essential that management structures provide for adequate checks and balances to ensure sound corporate governance and control.
- In equity investments, the Bank should at entry agree with the sponsor company a long term strategy and financing plan to avoid divergence over the strategic direction and potential early exit.

1.5 Mobilisation of Co-financing

In addition to its own investments, the Bank helped to mobilise a further €2.9 billion (US$ 3.6 billion) of co-investment over the 1991- June 2005 period, representing a multiplier of 3.6[1]. The total value of projects in which the Bank participated is €4 billion (US$ 4.9 billion).

The Bank remains ready and able to help generate co-financing from commercial bank, export credit agencies and EU institutions, particularly for infrastructure projects or in the framework of large syndicated transactions in more difficult sectors such as energy or municipal infrastructure. The Bank's risk mitigation and coordination role was key in mobilising co-financing for large transactions such as Maritza East III private power plant, and the Bulgarian Telecommunications Company privatisation.

[1] Calculated as total project costs/cumulative business volume (EBRD commitments).

2. OPERATIONAL ENVIRONMENT

2.1 The General Reform Environment

2.1.1 Political background

Bulgaria is a constitutional parliamentary democracy ruled by a coalition government headed by the Prime Minister. The parliament consists of a single-chamber, 240-seat National Assembly, directly elected for a four-year term. The voting system is based on proportional representation, in multi-member constituencies. Parliamentary elections were held on 25 June 2005. The Bulgarian Socialist party (BSP) emerged as the largest party, followed by the National Movement Simeon II (SIINM) in second place, and in third position the Movement for Rights and Freedoms (MRF), which is supported mainly (though not exclusively) by Bulgaria's Turkish minority. A coalition government, under BSP leader Sergei Stanishev, was voted in on 16 August 2005. The government consist of eight ministers from BSP, five from SIINM 3 from MRF and one non-affiliated expert. The new government has declared its commitment to EU accession, the continuation of reforms and the currency board arrangement.

2.1.2 EU accession, NATO membership and regional integration

The European Union invited Bulgaria in December 1999 to start membership talks. Formal negotiations started in March 2000. Having made rapid progress in opening and closing the chapters of the EU's *acquis communautaire,* Bulgaria completed its accession negotiations in June 2004, signed its accession treaty with the EU in April 2005, and is scheduled to join the EU in January 2007. Before that date Bulgaria is expected to carry out a number of reforms, especially in its judicial system. The EU has stipulated that Bulgaria's EU accession could be delayed by a year if it falls behind on implementing EU-related reforms, but only in exceptional circumstances.

Bulgaria joined NATO's Partnership for Peace Programme in 1994. It was invited to join NATO at its summit in Prague in November 2002 and became a member in March 2003. Bulgaria backed NATO's campaign in Serbia in 1999. Bulgaria made a military contribution (a battalion of troops) to the US-led military intervention in Iraq, however in May 2005 parliament decided to withdraw the troops from Iraq before the end of the year, in consultation with Bulgaria's allies.

Bulgaria is an active player in international peace-keeping and crisis-prevention measures, including the EU, UN and OSCE missions and actions. It continues to take an active part in regional organisations in South-Eastern Europe such as the Stability Pact for South-Eastern Europe, South-East Europe Defence Ministerial Process (SEDM), the South-East Europe Cooperation Process (SEECP), the South-East Europe Security Cooperation Steering Group (SEEGROUP), the South-East Europe Cooperative Initiative (SECI), the Organisation of the Black Sea Cooperation (BSEC), the Central European Initiative (CEI) and is one of the nine signatories of the South East Europe Energy Community Treaty. Bulgaria participates in various business and economic initiatives, including infrastructure projects in its neighbourhood. Bulgaria's government has trilateral co-operation relationships with those of Greece and Romania, Romania and Turkey, FYR Macedonia and Albania, and Greece and Turkey.

Bulgaria maintains friendly and trouble-free bilateral relations with all its neighbours. Relations with Bulgaria's EU neighbour Greece have developed actively, with a special emphasis on bilateral economic cooperation and regional and trans-border cooperation. Bulgaria and Romania face similar challenges on the road to EU accession and share an understanding of the necessity of boosting bilateral cooperation prior to EU accession. A number of agreements have been concluded between Bulgaria and FYR Macedonia, including a free-trade agreement. Relations with FYR Macedonia are facilitated by the fact that Bulgaria was the first country to recognise FYR Macedonia in 1992. Relations with Turkey, with which Bulgaria also has a free-trade agreement, are many-sided and good. Relations with the State Union of Serbia and Montenegro, strained during the Milosevic era, have been developing well since the overthrow of his regime in Serbia in 2000. Relations with Albania are normal and unproblematic

2.1.3 Labour issues

Unemployment has declined markedly from 13.6 per cent at the end of 2003 to 10 per cent in the second quarter of 2005. Long term unemployment accounts for 60 per cent of total unemployment (second quarter 2005). The employment rate increased from 42.3 per cent at the end of 2003 to 45.1 per cent in the second quarter of 2005. Female employment rate stood at 41 per cent in the second quarter of 2005, whilst male employment rate stood at 50 per cent. Bulgaria has ratified the core ILO Conventions on discrimination. Progress has continued regarding the adoption of general legislation on equal opportunities with the entry into force of comprehensive anti-discrimination legislation in January 2004.

Approximately 18.2 per cent of the total workforce is unionised, with the percentage of the workforce that is unionised decreasing. The two largest trade unions are the Confederation of Independent Trade Unions of Bulgaria (KNSB) and Podkrepa. The European Commission’s 2004 Report on Bulgaria’s progress towards EU accession noted that further progress had been made in identifying employees’ and employers’ organisations on the basis of criteria laid down by the Labour Code and suggested that the trilateral and, particularly, bilateral dialogue should be deepened. In November 2003, the Economic and Social Council was established as an independent consultative body on economic and social issues involving both social partners and civil society.

The Labour Code sets the minimum age for employment at 16 years and the minimum age for dangerous work at 18 years; employers and the MLSP are responsible for enforcing these provisions. Child labour laws generally are enforced well in the formal sector (the World Bank reports that no children under 14 are present in the labour force (2003).

2.1.4 Social conditions

Bulgaria’s population was estimated at 7.8 million in December 2003. This represents a drastic decline from 8.4 million at the time of the December 1992 census. Two-thirds of the fall in population is explained by the aging of the population. In addition, the social and economic pressures of recent years have tended to discourage child-bearing. According to some projections, the population could decrease to 7 million or below by 2020. Bulgaria is an urban society, with just under 70 per cent of the population living in towns at the end of 2003.

According to the 2001 census (in which participants were free to state their own ethnicity) ethnic Bulgarians accounted for 86 per cent of the population, ethnic Turks 9 per cent and ethnic Roma 4.6 per cent. According to various other estimates the Roma share is between 6 and 7 per cent. A Council of Europe report issue in 2002 estimated that there were 600-800,000 Roma in the country, while the official statistics estimate their number at 371,000. Ethnic-Bulgarian Moslems known as Pomaks (2-3 per cent of the population) are descended from Slavic ancestors who converted to Islam from Orthodox Christianity.

According to independent observers, the Turkish and Pomak communities are quite well integrated while the Roma are not. The US State Department's Country Report on Human Rights Practices in Bulgaria, published on 28 February 2005, observed that severe unemployment and poverty among the Roma, combined with generally unfavourable attitudes towards Roma among ethnic Bulgarians and Turks, contributed to strained relations between the Roma and the rest of society. The European Commission's 2005 Report on Bulgaria's progress towards EU accession reiterated that the integration of Roma remains a problematic issue. The report also added that the new Action Plan for the implementation of the Framework Programme for Equal Integration of Roma into Bulgarian Society lacks a strategic direction and the required finance to be successful. A new action plan was launched in February 2005, with the specific aim of setting goals to combat discrimination in education, healthcare and housing in order to address the widespread social disadvantage affecting the country's Roma community. An independent Commission for Protection against Discrimination was set up in 2005, within the framework of the Protection and Discrimination Act.

According to the World Bank, in 2001 12.8 per cent of the population lived below the poverty line, a marked improvement from the 36 per cent recorded in 1997. In 2001 the Gini Index[2] stood at 31.9 per cent. In 2002-03 90 per cent of the relevant age group was enrolled in primary education and 87 per cent in secondary education, a net improvement from 1990-91 when these ratios stood respectively at 86 and 63 per cent. Infant mortality dropped from 15 per 1,000 live births to 12 per 1,000 live births from 1990 to 2003, and life expectancy has been stable at 72 years during the same period.

2.1.5 Integrity issues

Corruption appears to be a lesser obstacle to doing business than it was at the time of the previous strategy, although some surveys suggest it continues to be a problem. The EBRD-run Business Environment and Enterprise Performance Survey (BEEPS) carried out in 2005 identified a decrease in the importance of corruption as an obstacle to doing business with respect to 2002 and 1999. Also, the European Commission's 2005 Report on Bulgaria's progress towards EU accession notes a decline in petty corruption in the customs service, in the police and the judicial system, but stresses the weak enforcement record in the investigation and prosecution of corruption cases. In the past two years, various pieces of legislation and regulation have been adopted and amended in an effort to align the legislative environment in Bulgaria with main international standards. A new Law on Political Parties was adopted in spring 2005 in order to increase transparency and accountability in party funding. Bulgaria continues to implement anti-corruption measures within the framework of the "Updated Action Plan for the National Anti-Corruption Strategy 2004-2005", which includes measures adopted in February 2005 to tackle corruption at high level and in public procurement. These have brought Bulgaria's legal instruments in the fight against corruption broadly in line with EU standards. In February 2004, the Supreme Judicial Council adopted a strategy for the strengthening of administrative capacity for fraud-control. In March 2004 a professional code of ethics for the judges was adopted, compliant with the European Charter on the Status of Judges. A code for the business sector is under preparation and the law introducing a code of ethics for MPs is yet to be adopted. A Commission for Prevention

2 The Gini Index measures the extent to which the distribution of income among households deviates from a perfectly equal distribution, and ranges from 0 = perfect equality, to 100 = perfect inequality

and Counteracting Corruption was established in November 2003 under the authority of the Supreme Judicial Council whose task is to define policy in this respect in the judiciary and address complaints. Parliamentary approval of the penal code in October 2005 is an important step in allowing judicial reform to take place, as it will improve the capacity to prosecute organised crime and corruption.

Despite progress in a number of fields, concerns remain about organised crime which has nevertheless been significantly reduced from its peak in the mid 1990s, as reflected also in the 2005 BEEPS where the score for the importance of this business obstacle dropped sharply from 2.6 in 1999 to 1.7 in 2005[3]. Bulgaria is cooperating closely with the UK, Spain and the US in the fight against cyber-crime, with a particular attention to activities such as counterfeiting high-denomination euro notes, credit cards and passports. In April 2005 Bulgaria ratified the Convention on Cybercrime. Trafficking in human beings continues to be a problem in Bulgaria, which is a country of origin, transit but to a lesser extent destination, according to the latest reports by the European Commission and by the US State Department’s Human Rights Practices Bureau. The Law of May 2003 on Countering Illegal Trafficking in Human Beings was supplemented in March 2004 by an ordnance setting up the rules for the structure and activities of the National Commission for the Prevention of Human Trafficking, as well as rules for temporary shelters and centres for protection and assistance of victims. In September 2005 a new Law on the Protection of Individuals Endangered in relation to Criminal Proceedings was adopted to grant support and legal protection to witnesses of crime.

Bulgaria is ranked in the Transparency International’s Corruption Perceptions Index (CPI) for 2005 - reflecting the perception of businesspeople, academics, and economic and financial analysts on the behaviour of public officials - in the 55th place out of 158 countries with a score 4.0. The CPI score ranges from 10 (highly clean) to 0 (highly corrupt).

2.1.6 Legal reform

In recent years Bulgaria has continued to significantly reform its commercial law framework. This has been facilitated by the country's consistent efforts in conforming its legal system to European Union (EU) requirements. As a result, Bulgaria’s commercial laws have reached a state of development comparable to international standards and in particular to those of the 10 new EU member states.

While the overall progress has been impressive, several commercial law areas require further improvement in order to adequately respond to the expectations of local and international businesses and investors. For example, capital markets legislation is generally good but has shortcomings relating to self-regulation and investment service providers. Company and corporate governance laws are relatively effective. Concession laws are relatively sound but reform is needed to facilitate the availability of financial instruments and state support for private sector participation. Insolvency laws have been extensively revised, but there are areas that require further clarification and there still needs to be increased ease of implementation. The relatively advanced secured transactions framework still has problems with certain enforcement issues. Bulgaria's telecommunications laws are reasonably formally aligned with the EU telecoms *acquis*, but certain necessary legislative and regulatory measures are outstanding, such as those relating to interconnection.

[3] Scores for obstacles to doing business range from 0 = no obstacle to 4 = very significant obstacle.

The significant improvement in Bulgaria's legal and regulatory framework is also still not matched by sufficient progress in reforming the judiciary which remains the main weakness of the country's legal system. The business and investor communities largely perceive Bulgarian courts as unpredictable, inexperienced and prone to undue influence. The judiciary is widely viewed as the key obstacle to the enforcement of investors' rights in local courts. The problems persist regardless of the various pieces of legislation and regulation referred to in Section 2.1.5. Currently, under strong EU pressure Bulgaria is poised to undertake a final push to reform its judicial system the details of which remain unclear. The impartial and efficient implementation of Bulgaria's laws and effective curb on corruption in the public administration and especially the judiciary remain the key challenges facing the country.

2.1.7 Environmental issues

Bulgaria has been aligning its environmental legislation with European Community law. The EU's assessment report on Bulgaria's environmental *acquis communautaire* (2005) notes that Bulgaria has made progress in the areas of air quality, noise and nature protection, and it is meeting the commitments and requirements for the implementation of the *acquis communautaire*. The Report states that efforts are still needed to further improve air and water quality, to manage dangerous substances and chemicals, to introduce noise and genetically modified organisms (GMO) legislation and to improve environmental standards in energy, transport and other infrastructure. As regards administrative capacity to implement the *acquis communautaire*, regional and central government bodies have been strengthened and inter-ministerial coordination has been improved, but further efforts are necessary, in particular as regards training at the local level.

The United Nations Economic Commission for Europe noted that air quality has improved due to the reduction in industrial and energy production in the 1990s and to more stringent enforcement of environmental legislation. Bulgaria has been implementing its National Environmental Action Plan for 2000-06. Deforestation is a concern. Bulgarian NGOs such as Green Balkans have been addressing the issue through projects in biodiversity conservation, habitat restoration and nature conservation policy enhancement.

2.2 Progress in Transition and the Economy's Response

2.2.1 Macroeconomic conditions for Bank operations

For the fifth consecutive year, Bulgaria's economy showed strong growth in 2004. GDP grew by 5.6 per cent for the year as a whole, up from 4.5 per cent in 2003, and by 6.2 per cent year-on-year in the first half of 2005. The main drivers were exports (export growth accelerated in the fourth quarter of 2004 to 19.8 per cent year on year at the end of 2004) and fixed investment (which recorded an end-year value of 12 per cent in 2004). Private consumption slowed down in 2004 as compared to 2003 following the introduction of tighter regulations on bank lending whereas public consumption picked up. A good agricultural season and the accelerating development of the service sector were the main sources of growth on the supply side.

By the end of 2004 inflation had fallen to 4 per cent as temporary pressures from increased excise taxes, food and energy prices subsided. Inflation started however rising again due to higher fuel prices and food price hikes in the wake of the summer floods, to 5.4 per cent on a year on year basis in September 2005. It is possible that due to the summer floods and high oil prices the authorities' 3.6 inflation target for 2005 might be difficult to achieve.

Fiscal policy has been tightened. The consolidated fiscal balance recorded a surplus (for the second time since 1998) of 1.3 per cent of GDP according to ESA95 in 2004. This was in spite of an increase in contingent expenditures in the last quarter of the year. Very conservative revenues projections allowed for additional spending and further increase in the fiscal reserve. BGN 340 million of budget revenues in excess of projections were set aside for the eventual creation of the Public Investment Company, without the need of Parliamentary approval.

This issue, and the decision to raise the minimum wage by 25 per cent during 2004, implemented on 1 January 2005, caused an interruption of the IMF programme. The 2005 Budget Law, again based on conservative revenue projections, targeted a deficit of 0.5 per cent of GDP. However, following negotiations with the IMF to resume the 2-year precautionary agreement expiring in 2006, the target for 2005 was changed to a fiscal surplus of at least 1 per cent of GDP. This took into account more realistic revenue projections, reduced capital expenditures, maintenance and salaries and reduced interest expenditure following the 2005 Brady bond buy-back. Also the government agreed to cut fiscal transfers to the Public Investment Company (the setting up of which is still under discussion) from BGN 340 million to BGN 220 million. In February the 12-month rolling budget surplus amounted to 2.5 per cent and the fiscal reserve increased to US$ 2.1 billion, despite 2005 being an electoral year. In May 2005 the IMF agreement was put back on track. In August 2005 the twelve-month rolling general government surplus amounted to 3 per cent of GDP, well above the target agreed with the IMF. However a large increase in government spending is planned for the end of 2005.

On November 2004 the Council of Ministers and the National Bank signed an Agreement on the policy and commitments to be followed in the process of introducing the Euro in the Republic of Bulgaria in the second half of 2009 or on 1 January 2010. This would put Bulgaria ahead of some of the countries which joined the EU in the "first phase" of the fifth enlargement.

The current account deficit remained high at about 8.5 per cent of GDP in 2004, although smaller than the 9.2 per cent of GDP recorded in 2003. The decline reflected an improved balance of services mainly from higher revenues from tourism, and reduced net income deficit. However during 2005 the current account deficit widened significantly to reach 12.1 per cent of GDP on a 12-month rolling basis in August 2005. The financing of the current account deficit is eased in the short term by strong net foreign direct investment (FDI), covering over two thirds of the external deficit in 2004 and in the first eight months of 2005, and other inflows, including bank lending. Net FDI inflows were large at US$ 1.2 billion in 2004 (the figure is artificially low, due to the fact that the sale of Mobiltel, arranged as a debt for equity swap, resulted in a net FDI outflow of almost US$ 800 million), boosted by high privatisation revenues.

The economy remains strong, but the widening of the external deficit and the increase in the gross external debt have increased the external vulnerabilities of the economy. Continued fiscal tightening and further structural reforms will be necessary to accommodate external shocks, because monetary policy is constrained by the currency board regime.

2.2.2. Transition success and transition challenges

Conditions for doing business in Bulgaria have significantly improved since the last strategy. In several areas, such as prices and trade liberalisation, the standards are those of a well advanced market economy. However, room for improvement still exists and is large in very specific areas such as the functioning of the judiciary and of the public administration.

Stimulated by the goal of EU accession, Bulgaria has made significant headway with structural reforms. In mid-June 2004 EU accession negotiations were completed and all chapters of the *acquis communautaire* were provisionally closed.

Aside from the formal recognition achieved by the completion of such negotiations, progress towards reaching the standards of a market economy has been recognised also by the Bank in its annual exercise of monitoring structural reforms developments in its countries of operation. Table 2, illustrates the progress made by Bulgaria with structural reforms in relation to progress made by the countries which have become EU members in 2004 and by Romania, also scheduled, like Bulgaria, to become a EU member in 2007.

Table 2: Transition Indicators[4] of EU accession countries, 2005

	Large scale privatisation	Small scale privatisation	Enterprise restructuring	Price liberalisation	Trade & Forex system	Competition Policy	Banking reform & interest rate liberalisation	Securities markets & non-bank financial institutions	Overall infrastructure reform
BULGARIA	4.00	3.67	2.67	4.33	4.33	2.67	3.67	2.33	3.00
CZECH REPUBLIC	4.00	4.33	3.33	4.33	4.33	3.00	4.00	3.67	3.33
ESTONIA	4.00	4.33	3.67	4.33	4.33	2.67	4.00	3.33	3.33
HUNGARY	4.00	4.33	3.67	4.33	4.33	3.00	4.00	4.00	3.67
LATVIA	3.67	4.33	3.00	4.33	4.33	2.67	3.67	3.00	3.00
LITHUANIA	4.00	4.33	3.00	4.33	4.33	3.00	3.67	3.00	2.67
POLAND	3.33	4.33	3.67	4.33	4.33	3.00	3.67	3.67	3.33
ROMANIA	3.67	3.67	2.33	4.33	4.33	2.33	3.00	2.00	3.33
SLOVAK REPUBLIC	4.00	4.33	3.67	4.33	4.33	3.00	3.67	2.67	3.00
SLOVENIA	3.00	4.33	3.00	4.00	4.33	2.67	3.33	2.67	3.00
Accession Countries	**3.77**	**4.20**	**3.20**	**4.30**	**4.33**	**2.80**	**3.67**	**3.03**	**3.17**

The late start of reforms as compared to the other central European countries has impaired development in more challenging areas. For example, among the accession countries, Bulgaria scores last but one in the areas of corporate governance and enterprise restructuring. Financial intermediation, whilst increasing, is still relatively low and progress with development of non-bank financial institution is lagging behind.

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[4] *The index ranges from 1, indicating little or no progress, to 4+ pointing to standards similar to advanced economies.*

Source: EBRD Transition Report 2005

Table 3. Status of remaining transition challenges on a sectoral basis, 2005

BULGARIA	Structure	Institutions	Conduct
Agribusiness	*Medium*	*Small*	*Medium*
Banking	*Negligible*	*Small*	*Small*
Energy Efficiency	*Large*	*Medium*	*Large*
General Industry	*Small*	*Medium*	*Medium*
MEI	*Medium*	*Medium*	*Large*
MSMEs	*Medium*	*Medium*	*Small*
Natural Resources	*Small*	*Medium*	*Medium*
NBFIs	*Small*	*Medium*	*Medium*
Power	*Medium*	*Small*	*Medium*
Private Equity Funds	*Medium*	*Medium*	*Medium*
Property + Tourism	*Medium*	*Medium*	*Medium*
Telecoms	*Small*	*Medium*	*Medium*
Transport	*Medium*	*Medium*	*Medium*

Table 3 summarises the recent EBRD analysis of remaining sectoral challenges on three different levels: structure, institutions and conduct of markets. According to this analysis, the most important transition challenges that the Bank can help address through its investment projects are in the following three areas:

1. ***Enterprise Sector***. Competitiveness of local enterprises needs to be enhanced. The European Commission estimates that if the recently-adopted laws and regulations were to be tightly implemented, only 10-15 per cent of Bulgarian enterprises would survive. New legislation facilitating market entry was recently introduced and started to be implemented, including once stop shops for the delivery of administrative services, silent consent rules, accelerated licensing and authorisation procedures for new businesses. Further progress is needed in implementation and enforcement of commercial legislation. The privatisation process and new entry has also succeeded in improving market based corporate behaviour, although further improvements in corporate governance and transparency are needed. Restructuring and recapitalisation of the local private sector to prepare for entry into the Single Market and ensure compliance with EU regulations is a key priority. Tailored financial products (such as equity, mezzanine and local currency finance) to implement this restructuring are not yet widely available in the country. Standards for business conduct and environmental protection still need to be improved. Enterprises in less advanced regions are most affected by these shortcomings.

2. ***Infrastructure***. Bulgaria is faced with significant investment needs in the municipal and environmental infrastructure sector. This sector has suffered from investment neglect and inadequate maintenance for the last 15 years. Throughout the transition period, the central government budget could not support the rehabilitation of the sector and, until recently, the decentralisation of fiscal authority to local governments was not a strategic priority. As a result municipal government revenues tend to be small and dependent upon central government transfers. At the same time, there was a reluctance to allow

significant increases in tariffs for water and wastewater and other municipal services such as solid waste, district heating or urban transport. A combination of these factors resulted in low levels of service provision, operational inefficiencies, increased environmental risks, and financial difficulties for most of the utilities. For example, in the water sector about 70 per cent of the population have no access to waste water treatment. Water supply assets are in poor condition with an increase in unaccounted for water loss reported at 56 per cent in 2003 compared to 15 per cent in 1980. The rate of pipe breakage (per kilometre) is 12 times higher than best practice in EU. The district heating system is in need of urgent reform. Heating tariffs are low and, despite recent years' increases, do not reflect the cost of production.

The government has recently initiated both fiscal reform and decentralisation and regulatory reform in the provision of local services, but an amendment to the Constitution is required to enable municipal governments to levy taxes. Own revenues (in the form of fees and non-tax revenues) represent only about 23 per cent of total municipal revenues, with the balance allocated from central government on an annual basis. As a result there is limited creditworthiness among municipalities which constrains their ability to borrow or raise capital themselves for priority investments. A new Debt Law is in draft form to clarify the right of municipalities to borrow within reasonable limits.

Lastly, in March 2004 a Strategy for Water Supply and Sewerage was endorsed. This strategy emphasises two institutional reforms needed for the development of the sector and promotion of private sector participation: (i) creation of a water regulator and (ii) amendment of the water law to clarify the issue of asset ownership. In December 2004 the Government passed the Law for the Establishment of a National Water Regulator. Secondary legislation is required to be approved specifying the methodology for adjusting tariffs and setting service standards. Amendment of the water act aims at clarification of the assets ownership issue in the regional water companies.

The combination of fiscal decentralisation and effective independent regulation should significantly improve the financial stability of municipalities and of public utilities, allowing financing on a commercial basis initially by IFIs. Such loans could be packaged with co-financing from the EU ISPA programme. Once a track record of stable revenues is established a more market oriented basis for local infrastructure financing could evolve including with local banks.

In the transport sector, operating and policy setting functions in railways have been separated and core railway businesses (infrastructure and operations) have been unbundled and established as separate companies. The next step should involve the separation of passenger and freight operations, potentially enabling private sector involvement. In roads, a major highway concession was awarded recently, albeit without a competitive tender and on a negotiated basis, however this is now in the process of being reviewed. IFI financing would of course be dependent upon competitive tenders. Airport concessions are proceeding. Improved transport infrastructure would remove bottlenecks in the economy and assist regional integration.

3. ***Power and Energy Efficiency***. Challenges include a) the need to implement replacement investments to enable the closure of Kozloduy nuclear units 3 and 4; b) the importance of strengthening the independence of the regulatory environment, which will play an important role in bringing new investment into

the sector; and c) strengthening the linkage with Southeast Europe networks in order to promote regional integration and increase the role of Bulgaria as a regional energy hub.

Bulgaria's energy intensity is still among the highest in the world, and there is large potential for energy efficiency improvements in every sector. In 2002, energy intensity of Bulgaria was 9.2[5] times higher than that of the EU-15, and the highest in Central and Eastern Europe. This is due to the fact that historically, Bulgaria followed an energy-intensive development policy. The communist regime favoured the development of heavy industry, which used energy imported at favourable prices from the former Soviet union. The share of industry in GDP in Bulgaria is higher than in most western countries, and industry tends to consume more energy per unit of output compared with other components of the GDP. Low energy prices in the past have also contributed to high energy intensity levels.

Improving energy efficiency is a key element in the country's energy policy, as Bulgaria prepares for EU accession. The country has ratified the Kyoto protocol, and is currently in the course of implementing the necessary institutional set-up for energy efficiency. An energy efficiency law has been passed. Electricity tariffs have been raised and energy consumers respond to price incentives. A feed-in tariff has been introduced to stimulate renewable energy and several pilot Joint Implementation (JI) projects are currently being implemented. Electricity prices and gas prices have been liberalized and are comparable to EU levels, however heating prices are still subsidised (although the subsidy is being phased out). Though energy intensity in Bulgaria has been decreasing in recent years, and Bulgaria has started to adopt the necessary legislation, much remains to be done. Elimination of the remaining price distortions in the energy sector, in particular for household electricity and heating prices remains a challenge. Therefore, achieving this compliance, coupled with improvements in energy efficiency, increases in energy savings, and the very important promotion of renewable energy sources, will be a key challenge in the energy sector over the next few years.

On the energy supply side, Bulgaria is heavily reliant on nuclear energy (25.5 per cent of total primary energy supply). Kozloduy is the most important power plant generator in Bulgaria and the EU has urged the closure of four reactors by 2006, making it an issue in accession negotiations. Increasing electricity demand and the closure of Kozloduy units 3 and 4 can be supported by a combination of energy efficiency and renewable energy, increased use of the newly refurbished Units 5 and 6 and by a comprehensive programme of rehabilitation of existing and construction of new power stations. The share of high-polluting fossil fuels like coal (36.3 per cent) and oil (21.1 per cent) in the total primary energy supply is also quite high. Thus, the current energy supply structure presents another challenge from the energy efficiency point of view - to promote renewable energy supply sources. Currently, renewable energy sources are not widely used in Bulgaria: the share of renewable energy sources in total primary energy supply was 4.4 per cent in 2002. The energy service market is yet to develop, though some companies are implementing energy efficiency measures.

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[5]International Energy Agency data, 2002, mtoe/US$ 95 GDP, GDP figures unadjusted for PPP.

Bulgaria faces transition challenges which can be addressed through the Bank's investment activity in other sectors, albeit to a lesser degree. These sectors are:

1. ***Property and Tourism:*** Land is fully tradable domestically, with the restrictions currently applying to foreigners to be lifted for EU members at the time of EU accession. The sector is developing fast and both private developers and institutional investors in real estate are appearing in the country, with the focus on the capital, coast and mountains. Restructuring of the tourism sector has progressed and there is some good new market entry by reputable foreign investors.
2. ***Natural Resources***. Mining of most non-ferrous metals has been successfully privatised and is operating commercially often under foreign ownership. Tariff reform has progressed well and tariffs are now close to fully cost-recovery levels. Mining legislation is of international standards. Corporate governance is now good. Revenue streams are clearly defined and fully integrated into the state budget while taxation and legislation is transparent and evenly enforced.
3. ***Private Equity***. The private equity sector remains small, though the country has recently attracted interest by regional equity funds. The number of transactions is nevertheless limited and falls behind the new EU member states. Increased business activity by equity funds including offering a broader range of financial instruments is needed to improve the visibility of the sector and its role in supplying finance to local enterprises.
4. ***Non-bank financial institutions***. Securities markets legislation and regulation do not fully meet IOSCO standards but the regulator is operationally independent. Insurance legislation and regulation have been strengthened to be in line with IAIS standards. In 2003, securities markets and insurance regulators were merged into one regulatory body. Securities market has been increasing in size due to privatisations through the stock exchange and trading volume relative to market capitalisation has also been increasing. Insurance penetration is small compared to most of the EU members in CEB. There are both mandatory and voluntary privately managed pension funds. Leasing sector is growing from low base.
5. ***Agribusiness***: Prices are liberalised. Some import tariff protection continues to exist, especially for processing industries such as tobacco, fertilisers and poultry meat. Restitution of all farmland has taken place and titles for most land have been issued. While the privatisation of state and collective farms is completed, the development of efficient private farms remains a significant challenge due to significant land fragmentation and the lack of an active land market. Challenges include finalising the privatisation of large state-owned enterprises (such as Bulgartabac) and improving market infrastructure. Access to rural credit is still limited. Further improvements to the warehouse receipts system are necessary. Most working capital needs of farms are met from own resources. The volume of bank credit to agribusinesses is increasing slowly. An EU-SME agriculture credit line was approved in Bulgaria recently.
6. ***Telecoms***. The dominant fixed line operator has been recently privatised, after several years of legal disputes. There is an independent regulator, and tariffs are being rebalanced. Competition has been introduced in the mobile segment of the market.
7. ***Banking Sector***. The privatisation of the banking sector is nearly complete, and most assets are now in the hands of foreign-owned institutions. Competition in

the sector is intense, and an increasingly broader range of financial products is being offered. The authorities have been commended for adopting a sound regulatory structure and enforcing it effectively. Current reform efforts focus on making the bank insolvency regime more effective, and on the soundness of banks' ownership structures. Increased liquidity and competition in the sector are among the determinants of the recent credit boom. Domestic credit to the private sector increased by 49 per cent in 2003 and 58 per cent in 2004, but still only account for 37 per cent of GDP, versus an "old EU" average of 130 per cent of GDP. In response to the fast lending growth, the Bulgarian National Bank tightened reserve requirements and strengthened banking supervision, and when these measures proved to be largely ineffective, it introduced bank to bank loan growth limits, targeting to roughly half the aggregate 2004 credit growth rate in 2005.

8. ***MSMEs***. The business environment for SMEs is improving although gaps still remain. A law entered into force in December 2003 aimed at simplifying licensing and diminishing state interventions for enterprises. Starting a business is now no longer excessively burdensome: it takes 10 different procedures, an average of 32 days and over 10 per cent of GNI to register a company. Tax procedures are seen as too complex and sometimes inconsistent by MSMEs. A credit registry is in place but provides information on only 1.3 per cent of the population. Existing collateral and bankruptcy legislation support lending to MSMEs. The cost of registering collateral is low. Commercial banks and NGOs provide competitively finance to different segments of the MSME sector. A microfinance bank has been lending to micro and small enterprises since end of 2001.

2.3 Access to Capital

Bulgaria issued in July 1994 three types of Brady bonds worth US$ 5.16 billion, backed by the U.S. Treasury, to restructure an US$ 8.1 billion debt owed to the London Club of commercial creditors. After retiring in July 2004 about US$ 679 million in Discount Brady Bonds which were to expire in 2024, at the end of January 2005 the government completed another buy-back of US$ 938 million in Interest Arrears Bonds ahead of their 2011 maturity date. Bulgaria bought back its last US$ 607.64 million in outstanding Brady bonds at the end of July 2005, reducing its gross public and publicly guaranteed debt to 27.8 per cent and its gross external public debt to GDP ratio to 24.7 per cent. The operations were financed from its large fiscal reserves.

Good macroeconomic performance and reduced debt burden have warranted Bulgaria a series of upgrades by the major investment rating agencies, from single B in 2000 to investment ratings by Fitch and Standard & Poor in 2004. (Fitch's rating was raised in August 2005 to BBB with positive outlook and Standard and Poor's rating was upgraded to BBB in October 2005). The only agency that still had not set investment rating to Bulgaria is Moody's.

Given the decreasing but still significant level of public indebtedness, the main sources of external financing remain FDI and official funds (WB, IMF and EU pre-accession funds). FDI covered about 68 per cent of the current deficit in 2004. In addition to FDI, Balance of Payment support comes from other IFIs and from EU funds.

Private sector access to medium or long-term financing remains limited in absolute terms, although fast improving as banks have started competing healthily, and leasing activity is booming. However, development of the local capital markets is still in its early days. External issues such as recent issues of corporate Eurobonds are more likely to prove a reliable source of finance for corporates.

Despite a large number of quoted companies, total stock market capitalisation was about 5.2 per cent of GDP by May 2005 and turnover remained low. In 2004 through the centralised auction system state-owned shares were sold at a total value of BGN 59 million (€29.5 million). Through the remote auctions residual state –owned stakes of 247 companies were sold for a total value of BGN 44 million (€22 million). Through public offerings 50 publicly traded companies were registered on the BSE in 2004. The volume of the cash transactions increased by 568 per cent compared to 2003. However, the stock exchange is unlikely to play a major role in raising new corporate finance for some time to come. Corporate bonds are likely to be more important than initial public offerings over the next two years.

3. STRATEGIC ORIENTATIONS

3.1 Bank's Priorities for the Strategy Period

Based on its analysis of Bulgaria's current transition challenges, the Bank has identified three key priorities for the forthcoming period.

1. The Bank will support the restructuring and recapitalisation of the local private sector to prepare for entry into the Single Market and ensure compliance with EU regulations. In particular, in order to meet the challenge of rendering enterprises more competitive, efforts will be made to invest in the manufacturing sector with particular focus on knowledge-based and export-oriented companies. In terms of products, the Bank will offer more equity, mezzanine and local currency finance. TAM/BAS will be of core importance in helping to improve the business performance of local enterprises and to develop strong management. The Bank will continue to support foreign direct investment, particularly green-field. Foreign investors are drawn by average wages of about a dollar an hour and low tax rates. Bulgarian industry is now successfully exporting to neighbouring countries and the EU as a whole (exports to the EU accounted in 2004 for 58 per cent of total exports).
2. The Bank will consider lending directly to municipalities for urban transport, district heating and solid waste transactions structured on a commercial basis. The Bank will seek to support projects in smaller municipalities through the Municipal Finance Facility. In the water and wastewater sector, loan finance will continue to be extended to regional water companies with ISPA co-financing. In other areas of infrastructure, the Bank will support private sector investment in transport infrastructure and, in particular, will consider providing finance for the concession to modernise and operate the Black sea airports of Bourgas and Varna. Further opportunities will be pursued both in the railways sector (already restructured into separate operating and infrastructure companies) and road infrastructure, which is also important in the context of enhancing regional integration in south east Europe. Overall, the Bank will seek to assist in improving access to available EU funding.
3. The Bank will continue to support the development of the energy sector, particularly in generation and distribution where significant advances have already been made. Bulgaria's role as energy hub for the region is important in furthering integration and improving regional linkages. Given Bulgaria's high

energy intensity, the Bank will strongly promote improvements in energy efficiency and renewable energy resources. Close co-operation will be maintained with donor community of the Kozloduy International Decommissioning Support Fund established at the Bank in order to provide grant financing for decommissioning of nuclear units 3 and 4, and energy and energy efficiency measures. Furthermore, the Bank will continue its policy dialogue with the authorities to promote improvements to the legal and regulatory framework in the sector.

3.2 Sectoral Objectives

3.2.1 Private Sector Development

Enterprises. At the same time as continuing to support FDI, the Bank will target investments in local manufacturing enterprises with particular focus on knowledge-based and export-oriented companies. Building on the core objectives of TAM/BAS, it will actively support the restructuring of local companies in order to improve their competitiveness and allow them to meet EU standards and face single market competition levels. It will assist Bulgarian companies to make improvements in transparency by requiring audited financials and transparent tendering, ethical conduct, and environmental standards. The Bank will expand its range of financial products to meet the local enterprises' needs, adding local currency financing to already utilised equity instruments.

In the broader corporate sector, the Bank will continue to assist in the privatisation and restructuring of state assets (e.g. oil and gas) in the context of integration into the EU. The Bank will continue to encourage broader regional collaboration (e.g. oil or gas pipelines through Bulgaria, including from the Black Sea) and will support the modernisation of existing projects to reduce bottlenecks, ensure competitive market access and assist in development of new legislative regimes and concession-based systems in the longer term.

3.2.2. Infrastructure.

Infrastructure. Building upon the experience of lending to the City of Sofia, the Bank has been engaged over the last one year and a half in developing municipal infrastructure loans for other cities. In this regard and in the context of significant policy dialogue, the Bank envisages providing up to €60 million in loan finance through a Water and Wastewater Project Facility. Under the Facility up to six loans to six individual regional water companies (RWCs) are envisaged without a sovereign guarantee. The Facility has been designed to assist the Government in the execution of the National Water Strategy while taking into account the emerging legal and regulatory environment in the sector. Currently, regional water companies remain owned and controlled (minimum 51 per cent) by the central government through the Ministry of Regional Development and Public Works. The RWCs serving the municipalities of Burgas (deal signed on 08.06.05) and Rousse have been selected as the first two projects, to be followed by Stara Zagora. The Facility has been designed to improve commercial and operational performance of each RWC and provide urgently needed investment capital. Each loan from the EBRD is proposed to be co-financed with the European Union under its ISPA (Pre-Accession) Facility.

With expected implementation of proposed fiscal decentralisation reforms, the Bank will consider lending directly to municipalities (or to public utilities guaranteed by municipalities) for urban transport and solid waste transactions structured on a commercial basis. District heating companies have been subject to a strategy of publicly tendered privatisation which gained pace in 2005, so the Bank will review proposals from privatised district heating companies provided that the business plan is sound and consistent with principal of least cost delivery of heating, and that the sponsors meet the Bank's standards of integrity and technical and commercial competence.

The Bank will continue to support the City of Sofia with respect to the Sofiiska Voda water concession, and urban transport projects. Investment requirements are still significant in Sofia's water sector, especially in wastewater treatment, and additional financing is under consideration together with the European Union's ISPA programme. Continued reform in the urban transport sector including parking could facilitate EBRD loans to the associated municipally owned companies or to private concessions for new infrastructure investment.

In other areas of infrastructure, the Bank will support private sector investment in transport infrastructure and, in particular, will consider providing finance for the concession to modernise and operate the Black sea airports of Bourgas and Varna. Further opportunities will be pursued both in the railways sector (already restructured into separate operating and infrastructure companies) and road infrastructure, where the improvement of regional linkages is necessary.

Power and Energy Efficiency. The Bank will take a leading role in financing the privatisation of existing, and the construction of new, power generation capacity, and jointly with EU ISPA will assist in the rehabilitation of the current generation capacity to ensure compliance with emission requirements under the Sulphur Protocol and EU *acquis communautaire*. The Bank will play a significant role in the financing of a second large independent power project (IPP) – Maritza East I, with total financing needs of €980 million (US$ 1.13 billion), helping ensure the eventual closure of the nuclear units 3 and 4 at Kozloduy, as committed under the NSA Agreement. Having assisted the Bulgarian government with the privatisation of the electricity distribution companies through a substantial technical cooperation programme, the Bank expects to play a significant role in financing the modernisation needs of the privatised companies. The Bank also intends to assist the Government in identifying the appropriate strategy for the establishment of a low-pressure gas network in the country.

The Bank will continue to develop mechanisms for providing finance for energy efficiency improvements in various sectors. In the industrial sector, which accounts for 44 per cent of total final energy consumption, the Bank will encourage all of its clients to assess energy efficiency opportunities as part of any project with the Bank. TC resources will be made available for energy audits and energy management training and the Bank will consider providing additional funding to finance energy efficiency projects wherever appropriate. The Bank will also continue to work with local financial institutions to implement mechanisms to finance smaller energy efficiency and/or renewable energy projects.

In the SME sector, given the successful results of the Energy Efficiency and Renewable Energy Credit Line Framework established with Bulgarian private banks in 2004, the Bank may consider an extension of the line with an additional KIDSF grant component.

In the residential sector, the Bank has launched a €50 million credit line with which targest private individuals. The credit line will support thermal insulation of individual dwellings and more efficient options for space heating. The residential sector accounts for around 21 per cent of the total final energy consumption in Bulgaria. 70 per cent of the residential energy consumption is used for space heating. The housing stock is characterised by a poor insulation and overuse of electricity. This, combined with rising energy prices creates a significant opportunity to implement energy efficiency measures in the residential sector.

The Bank will work on developing ways to help the establishment of new ESCOs and financing the expansion of existing ESCO companies in the Bulgarian market. ESCOs have a strong transition impact as a private sector instrument to deliver energy savings, but have been functioning on a limited scale in Bulgaria to date.

The Bank will seek to facilitate the monetisation by its clients of their carbon emissions reductions, including through the purchase carbon credits from clients under the framework of the Netherlands EBRD Carbon Fund. To facilitate the sale of carbon credits, the Bank will assist the clients to identify and prepare carbon credit transactions.

Where appropriate, grant funds (e.g. KIDSF) will be sought to support the Bank's projects. Finally, the Bank will continue its policy dialogue with the authorities to promote improvements to the legal and regulatory framework in the sector.

3.2.3 The Financial Sector and SMEs

Banking Sector. The Bank's main operational objectives will be:

- *Further development of the primary banking market and introduction of new products*. The Bank will aim to expand the existing EU/EBRD SME Facility and focus on introducing residential mortgage credit lines to new eligible partner banks. These lines would ensure standardisation of mortgage loan and security documentation, which would facilitate refinancing of mortgage receivables on the secondary market. The Bank will also seek to expand its residential energy efficiency facility and the facility for small municipalities. The launch of the former Facility provides the first dedicated credit line for these purposes and banks are able to choose local currency funding for the first time. Local currency will also be available in connection with other product offerings, in close consultation with the Ministry of Finance and the Bulgarian National Bank.
- *Support for development of secondary market*. The Bank will encourage banks to access capital markets to refinance their mortgage receivables by issuing mortgage bonds or by setting up SPVs for these purposes. This would ensure access to longer term funding for banks with a more diversified set of lenders.
- *Consolidation*. The Bank would seek to contribute to the consolidation of the sector by participating in a merger or acquisition of a smaller Bulgarian bank, possibly alongside an existing equity investment of the Bank.

SME and Micro Sector. Given the intense competition in the provision of commercial finance to urban MSMEs, the Bank will concentrate its efforts within the EU/EBRD SME Facility on instruments such as the Rural Window. Support to provision of leasing finance to the sector will follow progress in reforms in the area of regulation and supervision of leasing companies.

Equity Funds. The private equity market of the Balkan region is growing rapidly albeit from a small base. Thus far, private equity activities in Bulgaria have been supported primarily by regional funds which are either (i) focused on the new EU member states but which are allowed to invest in Balkan countries, especially Romania and Bulgaria; (ii) regional funds focused on greater South Eastern Europe in general (occasionally including Ukraine and Turkey); or (iii) South Eastern European funds with limited regional scope (e.g. Bulgaria and Romania only). The Bank will actively seek opportunities to contribute to the further development of the private equity fund industry in Bulgaria.

Non-Banking Financial Sector. The Bank will focus on the following key objectives:

- Insurance and pensions. The Bank will seek to support the entry of strategic foreign investors, which will further develop the sector. The Bank will also continue its policy dialogue with the regulator.
- Leasing. In addition to efforts within the EU/EBRD SME Facility, equity investments in strong leasing companies will also be considered.
- Capital markets. The Bank will encourage its banking partners in the issue of mortgage bonds by potentially buying a portion of such an issue. The Bank will also look at supporting the establishment of SPVs to securitise receivables under the newly adopted law.

3.3 Co-Financing and Pre-Accession Funds.

The Bank will continue to be a major catalyst in mobilising co-financing, both commercial and donor. Some of the largest transactions in the pipeline, such as the Maritza East I with total financing needs of US$ 980, have been structured to allow for syndication to foreign and local banks as well as to export credit agencies. Such syndication will be strongly sought in the future, as will co-financing opportunities with other IFIs and EU programmes to address, among other things the environmental or social components of projects, as is the case in the Maritza East II, and the Water and Waste Water Project Facilities, where close cooperation with the ISPA programme is ongoing. The Bank has proven that it can be a key success factor in overcoming capacity constraints and helping to ensure absorption of EU funds in a timely and well-managed way.

3.4 Policy Dialogue

The EBRD sees the following areas as in need of government action to enable the economy to reap the fruits of years of structural reforms and of prudent economic policies. Through active policy dialogue the Bank plans to continue to stimulate government action in the following areas.

- ***The administrative capacity for effective absorption of EU funds needs to be improved.*** Currently only 20 per cent of available ISPA funds are being utilised (although this percentage is improving). There are procurement bottlenecks related to the fact that qualifying projects in Bulgaria are by necessity more complex than they are in the new EU member countries. (This is due to the relatively poorer state of development of infrastructure in Bulgaria.). Moreover public administration is not yet able to deal with the private sector effectively.

Other impediments relate to the fact that too many authorities are in charge of specific areas (for example in the case of the airport projects three ministries are in charge).

- ***The regulatory environment for SMEs is not yet conducive to the smooth set up or development of new businesses.*** One major improvement would take place should the responsibility for company registration be transferred to a single non-judicial administrative body a uniform national register of commercial companies be created in order to harmonise the procedures, which at present vary across 29 commercial courts. Civil courts' ineffectiveness, unreliability and slowness continue to affect market exit as well as entry.
- ***Public administration should offer effective support to investors*** through the creation of one-stop shops dedicated to provide information to and assist investors facing difficulties in dealing with the business.
- ***The transparency of the leasing sector needs to be further improved***, given the fast expansion of this activity. Currently only leasing companies owned by banks are formally supervised, due to the requirement for banks to submit consolidated accounts for their subsidiaries. However, monitoring of the sector is already improving (as agreed with IMF) as leasing companies not owned by banks now report their activities to the Bulgarian National Bank.

4. COOPERATION WITH DONORS AND OTHER IFIS

4.1 European Union

The Brussels European Council of December 2004 welcomed the conclusion of negotiations with Bulgaria on 14 December 2004 and stated that Bulgaria will be able to assume all the obligations of membership by January 2007, provided that it continues the completion and implementation of all necessary reforms and commitments undertaken in all areas of the *acquis*. The entry date could in theory be postponed should safeguard clauses be invoked by older EU members to address serious problems that may arise before accession.

In 2005 €187.2 million have been committed under the 2005 National Phare Programme, plus € 40 million with CBC (with Greece, Serbia and Montenegro, FYRM, Turkey and Romania) and € 50 million for KIDSF. In 2006 the indicative allocation is €196 million for the Phare National Programme, € 45 million for CBC and € 50 million for KIDSF. In addition Bulgaria benefits from Phare-supported horizontal and multi-country programmes, including TAIEX (Technical assistance office) and the SME Finance Facility. In addition to its annual PHARE allocation, Bulgaria receives additional PHARE funding for the early closure of units 1-4 of the Kozloduy nuclear power plant. The ISPA programme (indicative allocations of €149 million and € 168 million for 2005 and 2006) supports environmental (e.g. urban wastewater treatment plants and the rehabilitation of wastewater treatment facilities for a set of towns on the sensitive Black Sea Basin) and transport infrastructure (e.g. transit roads rehabilitation, the Sofia airport reconstruction and extension) projects. The SAPARD programme supports agricultural and rural development measures.

4.2 European Investment Bank (EIB)

The activities of the European Investment Bank in Bulgaria started in 1991. EIB has an outstanding portfolio of €1.18 billion covering 27 projects in transport (roads, airport and railways), energy, telecommunications, environment, industry and SMEs. Four projects were co-financed with the EBRD and discussions are underway for co-operation regarding the development of an energy facility. The EIB plans to continue to increase its support for Bulgaria in the coming years and to further its cooperation with the Bank. EIB plans to focus its efforts on (i) projects which will prepare Bulgaria for EU accession, specifically focusing on transport, environmental protection, and energy; (ii) the development of SMEs; (iii) private sector projects, led by international sponsors, where EIB support for term loans can effectively release the borrowers from political risks; and (iv) projects in the health and education sectors.

4.3 International Monetary Fund (IMF)

Bulgaria joined the IMF on 25 September 1990, Article VIII since 24 September 1998. Its quota is SDR 640.2 million (about US$ 934 million) and its outstanding use of IMF resources totalled SDR 811 million as of June 2004. The last Article IV consultation (Bulgaria is on a twelve-month cycle) was concluded in June 2004. On 6 June 2004 the executive board of the IMF approved a 25-month Stand-By Arrangement (SBA) of SDR 100 million (about US$ 146 million) to support the economic programme of 2004-2006. This arrangement has been treated as precautionary by the authorities. The programme however was interrupted for breach of quantitative (fiscal expenditure in excess of agreed benchmark and 25 per cent increase of minimum wage) and of structural performance criteria (consolidation of expenditures and reform of eligibility of disability benefits), but was put back on track in May 2005. In the context of the second review of the programme the IMF and the Bulgarian authorities did not reach full agreement on economic policies for 2005 and 2006. Discussions are expected to continue in the next several months, with a view to agreeing on a set of policies that would enable completion of the second review of the programme in early 2006.

4.4 World Bank Group

The last Country Assistance Strategy (CAS) for Bulgaria1 was approved on 9 May 2002 and outlines the World Bank assistance to Bulgaria in 2003-2005. The main priorities envisaged in the CAS are to encourage economic growth, improve governance, and promote better education, health care and a cleaner environment for the people of the country. The main tool with which the World Bank supports Bulgaria's development is the Programmatic Adjustment Lending Program (PAL) composed of three loans of US$ 150 million each. The PAL Program is aimed at generating sustained private sector-led growth and reducing poverty, while at the same time facilitating the country's progress towards EU accession. The first PAL approved in February 2003 was targeted at improvements in the business environment, the restructuring of infrastructure sectors, and the further deepening of the financial sector. PAL 2, approved in June 2004, aims at continuing the reforms initiated under PAL 1 with enhanced focus on key reforms in the country to improve public sector governance strengthening public administration, the judiciary, and anti-corruption initiatives. PAL 3 will emphasize on building human capital and improving delivery of social services.

Bank Assistance Program in Bulgaria to date comprises 33 operations for a total original commitment of US$ 1,820.9 million equivalent. This includes eight active investment operations (two infrastructure projects in district heating and trade facilitation, four social sector projects in health, employment, education and child welfare, one agriculture project and one project for revenue administration reform) and two grants (financing the restoration of wetlands and pollution reduction in the Persina Nature Park and the Kalimok/Brushlen Protected Site, and the reduction of greenhouse gas emissions at Svilosa by substituting coal with residual wood as a fuel).

ANNEX 1: POLITICAL ASSESSMENT

Bulgaria is a constitutional parliamentary democracy, ruled by a coalition government headed by the Prime Minister. Its present constitution dates back to July 1991. The Parliament consists of a single-chamber, 240-seat National Assembly, directly elected for a four-year term by proportional representation, with a threshold at 4 per cent. A recent amendment to the electoral law promulgated that at least 5,000 signatures are needed in order to register a party, together with a deposit, which becomes refundable once 1 percent of the vote share is reached. The President, elected by direct universal suffrage for a five-year term, does not have any executive powers. According to the constitution, a President cannot serve more than two terms. The President is also Commander in Chief of the army, has veto power on legislation and can rule by decree in a state of emergency. The current President is Georgi Parvanov, former party leader of the Bulgarian Socialist Party (BSP), in power since November 2001. The next presidential elections are scheduled to take place in November 2006.

The last parliamentary elections were held on 25 June 2005. The Coalition for Bulgaria, led by the Bulgarian Socialist Party (BSP), emerged as the largest party with 82 seats, followed by the National Movement Simeon II (SIINM) with 53 seats, and, in third position, by the ethnic Turkish Movement for Rights and Freedoms (MRF) with 34 seats. Other parties in the assembly are the nationalist Ataka (Attack), with 21 seats; the United Democratic forces (UtdDF) with 20 seats; Democrats for a Strong Bulgaria (DSB) with 17 seats and the Bulgarian People's Union with 13 seats. The next parliamentary elections are due in June 2009.

The current coalition government, under BSP leader Sergei Stanishev, was voted in on 16 August, six weeks after the parliamentary elections. The government consists of eight ministers from BSP, five from SIINM, 3 from MRF, and one non-affiliated expert. The three Deputy Prime Ministers are Ivailo Kalfin (BSP, also Minister of Foreign Affairs); Daniel Vulchev (SNM, also Minister for Education) and Emel Etem (MRF, also Minister for Emergencies).

The length of time it took to form the new government highlights the existing differences in the coalition and possible internal divisions. Despite this, the pro-European coalition government has remained committed to carrying out further reforms and harmonising domestic legislation with European standards, with the prospect of accession to the European Union. Prime Minister Stanishev declared in his inaugural speech on 17 August that the country’s accession to the European Union in January 2007 would be a ‘national priority’. Bulgaria completed its accession negotiations in June 2004. In April 2005, the European Parliament gave its support to Bulgaria's bid for accession. On 25 April 2005, Sofia signed its accession treaty with the EU, which was ratified by parliament on 11 May. The country is now formally scheduled to join the EU together with Romania in January 2007. In the last Comprehensive Monitoring Report (2005), the European Commission states that Bulgaria continues to meet all political criteria for accession to the EU. Despite this progress, the EC commented that further reforms are still necessary to improve the functioning of the judicial system, in particular as regards the pre-trial phase, and in the fight against corruption and organised crime. The European Commission will continue to monitor Bulgaria’s progress until accession and will review the situation in spring 2006, when it will make a final decision on the country’s accession date. The EC reserves the right to apply its “safeguard clause” agreed upon at the time of the signature of the accession treaty, on the basis of which accession may be postponed by one year if there is clear evidence that the Bulgaria is unprepared to meet the requirements of membership in a number of important areas.

ANNEX 2: LEGAL TRANSITION

ASSESSMENT OF BULGARIA'S COMMERCIAL LAWS

The EBRD has developed and regularly updates a series of assessments of legal transition in its countries of operations, with a focus on selected areas relevant to investment activities: capital markets, company law and corporate governance, concessions, insolvency, secured transactions and telecommunications. The existing tools assess both the quality of the laws "on the books" (also referred to as "extensiveness") and the actual implementation of laws (also referred to as "effectiveness"). All available results of these assessments can be found at www.ebrd.com/law. This annex presents a summary of the results for Bulgaria, accompanied by critical comments of the Bank's legal experts who have conducted the assessments.

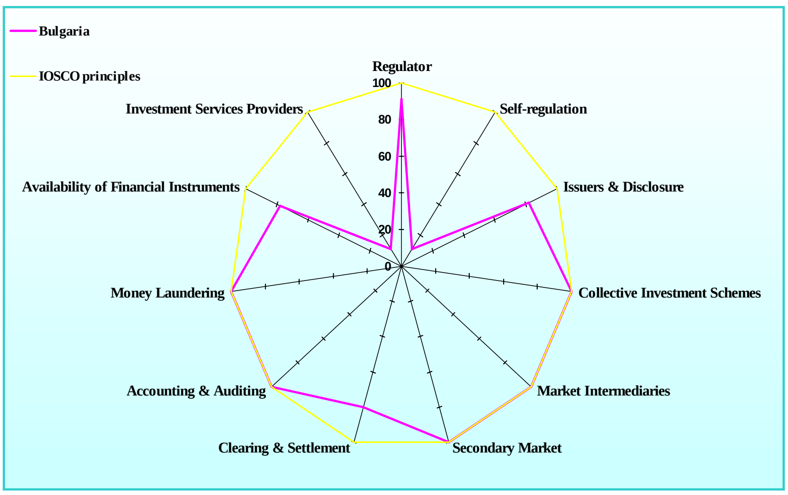
Capital Markets

The primary laws governing the Bulgarian capital market are the Financial Supervision Commission Act (the "FSCA"), which came into force in March 2003 and was last amended in May 2005; the Law on Public Offering of Securities (the "Securities Law"), which became effective in January 2000 and was lasted amended in May 2005; and the Commercial Code, which entered into force in 1991 and has been amended more than 20 times, most recently in May 2005. The Securities Law sets forth, among others, rules on mergers and acquisitions, mandatory and voluntary bids, as well as disclosure requirements, while the Commercial Code provides for the basic regulation concerning commercial companies.

The market regulator is the Financial Supervision Commission (the "FSC") established in 2003, pursuant to the FSCA. The main purpose of the FSC is to consolidate state supervision over the non-banking sectors in Bulgaria by replacing the Bulgarian National Securities Commission, the Insurance Supervision Agency and the State Insurance Supervision Agency with three corresponding departments in the FSC -- Investment Activities Supervision, Insurance Supervision and Social Insurance Supervision. As shown in the chart above, legislation on the regulator is deemed in line with international standards.

In the EBRD Securities Markets Legislation Assessment, Bulgaria scored among the "medium compliance countries" showing its main shortcomings in the Investment Services Provider and Self-Regulation areas.

Quality of securities market legislation –Bulgaria (2004)



Note: The extremity of each axis represents an ideal score, i.e., corresponding to the standards set forth in IOSCO's *Objectives and Principles for Securities Regulations*. The fuller the 'web', the closer the relevant securities market legislation of the country approximates these principles.

Source: EBRD Securities Markets Legislation Assessment 2004

The 2004 EBRD Securities Markets Legislation Assessment which benchmarked the securities markets framework against the IOSCO Objectives and Principles of Securities Regulations (see chart above) has been updated in 2005. As expected, since Bulgaria is scheduled to join the EU in 2007, most Bulgarian laws and decrees have lately been amended. Recent changes in Bulgarian securities legislation are mainly related to implementing the EU harmonisation programme in the context of Bulgaria's EU accession process. Nevertheless, these changes have not led to an upgrading of Bulgaria’s rating; this reflects the fact that in 2004 Bulgaria was already close to high compliance. The definition of Investment Services Provider has been clarified. As a result of implementation of EU legislation, cooperation between auditors and regulator (as described in article 55 of Directive 2004/39/EC) has been strengthened as auditors of Collective Investment Schemes are now required to report to the regulator any irregularities or non-compliance, and the full report must be submitted to the regulator.

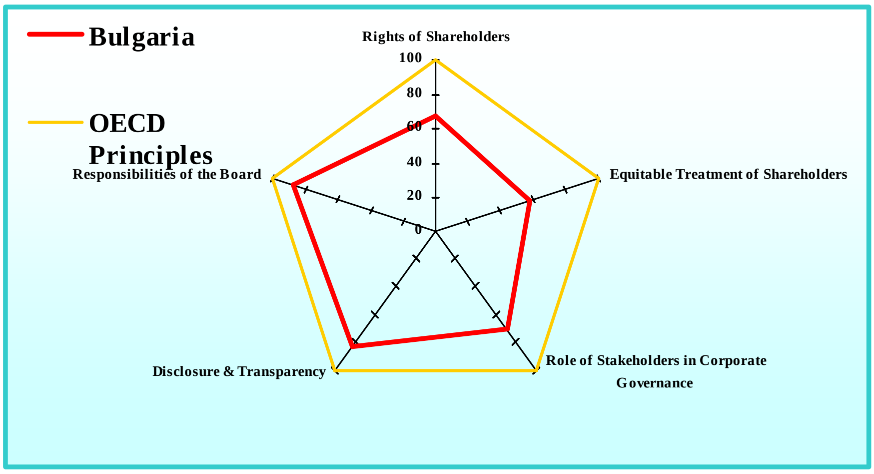
Company Law and Corporate Governance

The primary legislation governing corporate governance issues in Bulgaria includes the Commercial Code and the Law on Public Offering of Securities. According to the Commercial Code, five types of commercial entities can be set up, including the limited liability company and joint-stock company ("JSC"). Newly created companies must register with a commercial register held by the relevant district court. In the case of a JSC, a shareholders' register must be maintained by the company. In May 2005, the Government approved a strategy for reform of the existing commercial registration regimes in Bulgaria and it is planned that responsibility for company registration will be removed from the court.

In terms of protecting shareholders’ rights, measures provided for by the Commercial Code include that each shareholder in a JSC is entitled to acquire a part of the newly issued shares in proportion to its original shareholding in the company. Shareholders holding at least 10% of the total issued and outstanding shares are entitled to request that a general meeting be convened. Shareholders of 5% of the company’s stock may also request the general meeting or the district court to appoint a comptroller to audit the annual financial statements and to submit a report on his findings. The shareholders of public companies have additional legal remedies such as recovery of damages caused by members of the Board of Directors as well as to bring action against third parties in case the BoD has failed to act.

According to the results of the EBRD's 2004 Corporate Governance Sector Assessment, Bulgaria is a country whose existing corporate governance related laws (i.e., "law on the books") when compared to the OECD Principles of Corporate Governance were rated as "medium compliance", meaning that the legal framework is generally in line with international standards, but with a number of shortcomings. As shown in the chart below, major weaknesses were found in the rights and equitable treatment of shareholders. Here the law does not impose restrictions on transactions involving shareholders in conflict of interest situations and there are no checks to guarantee that the price paid for the transaction is fair. The Bulgarian Government is committed to joining the European Union in the near future and has made much effort over past years to improve the existing framework.

Quality of corporate governance legislation – Bulgaria (2004)



Note: The extremity of each axis represents an ideal score, i.e., corresponding to OECD Principles of Corporate Governance. The fuller the 'web', the more closely the corporate governance laws of the country approximate these principles

Source: EBRD Corporate Governance Sector Assessment, 2004 assessment

With reference to effectiveness of corporate governance legislation, in 2005 the EBRD completed a Legal Indicator Survey to test how corporate governance legislation works in practice. Bulgaria was found to have a relatively effective system with reference to the possibility of a minority shareholder to obtain disclosure, but with some shortcomings in the possibility of obtaining redress, due to the limited actions available to obtain a successful outcome.

Concessions

Two acts govern concessions in Bulgaria: the 1995 Concession Law and the 1996 Municipal Property Law, as amended. In addition, regulations have been adopted on the basis of these two laws. The scope of application of each of the laws is clear: the Concession Law refers to the Municipal Property Act for "granting concessions for objects which are municipal property and for granting permissions for activities which shall be governed by municipalities".

The two laws define relatively clearly their scope of application, regulate selection procedure and provide for a flexible framework for the project agreement. However, certain aspects, in particular the rules covering the role, functions and collaboration of public authorities involved, the pre-qualification procedure as well as the current rules for direct selection, could be improved and/or supplemented. Also, restrictions to dispose of and encumber concessions should be removed. Major improvements are required in the rules regulating government support, lenders' rights and financial securities.

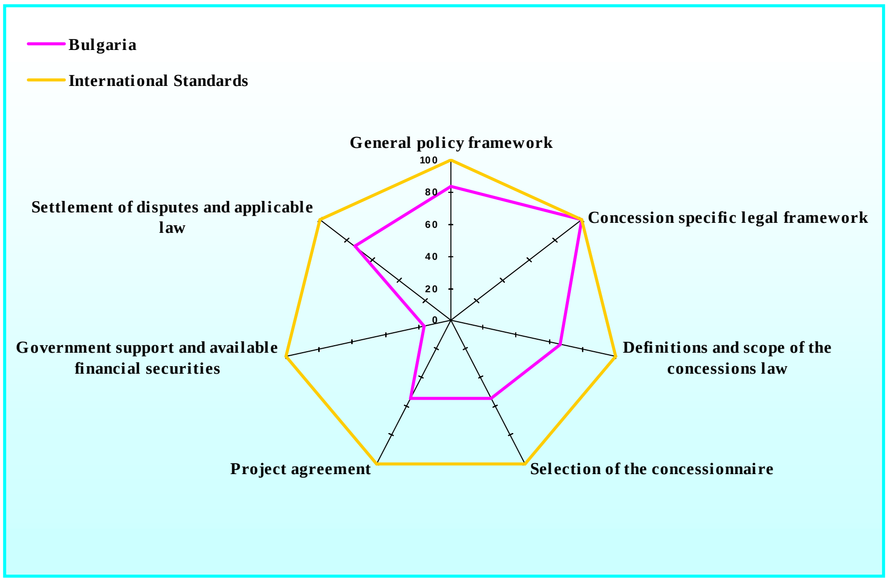
Although the law allows parties to a concession agreement to determine the method of dispute settlement, it seems there are restrictions as far as the choice of an applicable law is concerned.

Overall, Bulgaria provides for a solid legal framework for the development of private sector participation ("PSP") in the country. In addition, there can be found a general policy framework promoting PSP in the form of government strategy papers. Also, among the positive features one should mention the existence of a PSP institutional infrastructure encompassing special departments in ministries/regulators.

However, the existence of several texts, amended a number of times, creates a very detailed and complex overall framework, the functioning of which will in practice depend on the efficiency of each governmental body involved and its capacity to follow the law.

The EBRD's recent Concession Laws Assessment project undertaken to evaluate the applicable regime in each of the EBRD's 27 countries of operations (the laws on the books, as opposed to how they work in practice), revealed that Bulgarian laws had "high compliance" with internationally accepted standards in this sector. As can be seen from the chart below, there exists an extensive policy framework and concession specific legal framework. The settlement of disputes in concession-related arrangements is also regulated fairly extensively whilst the scope of law and definitions are somewhat clear but could be further improved. Rules governing the selection of concessionaires and project agreements still need to be addressed. The area that is most underdeveloped and needs to be dramatically reformed in order to meet requirements of a modern legal framework facilitating PSP is the availability of financial instruments and state support.

Quality of concession legislation –Bulgaria (2004)



Note: the extremity of each axis represents an ideal score in line with international standards such as the UNCITRAL Legislative Guide for Privately Financed Infrastructure projects. The fuller the 'web', the more closely concessions laws of the country approximate these standards.

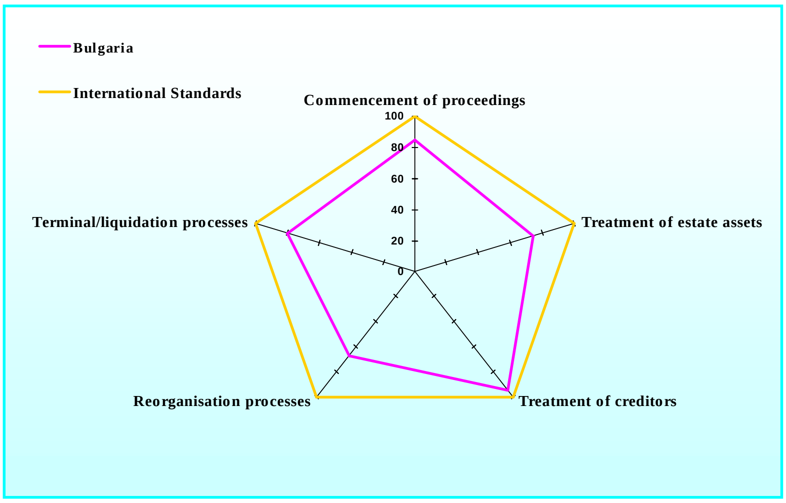
Source: EBRD Concessions Sector Assessment 2004

Insolvency

Bankruptcy and insolvency in Bulgaria are governed primarily by Part IV of the Law of Commerce (as amended, 2003) (the "Insolvency Law"), one of the leading insolvency laws in the EBRD's countries of operations. In the EBRD's 2004 Sector Assessment Survey, which measured the compliance of insolvency legislation with international standards, the Insolvency law was one of only 6 laws to receive an overall score of "high compliance".

The graph below demonstrates the level of compliance of the Insolvency Law across five critical areas in insolvency legislation. The outside line of the graph represents full compliance with critical international standards (rather than a "perfect law") and the inside line charts the Insolvency Law's score.

Compliance of the Bulgaria's Insolvency Law with International Standards
Quality of insolvency legislation – Bulgaria (2004)



Note: The extremity of each axis represents an ideal score, i.e., corresponding to the international standards such as the World Bank's Principles and guidelines for Effective Insolvency and Creditor Rights Systems, the UNCITRAL Working Group on "Legislative Guidelines for Insolvency Law", and others. The fuller the 'web', the more closely insolvency laws of the country approximate these standards.
Source: EBRD Insolvency Sector Assessment Project, 2003/4

The Insolvency Law is one of few in the EBRD's countries of operations that effectively deals with the avoidance of pre-bankruptcy transactions. This law provides sufficient detail to determine which types of transactions will be subject to challenge and the circumstances that must be established to effect such a challenge. Although reorganisation processes were the weakest area of performance for this legislation, it still provides for a relatively well-designed reorganisation process.

As described above, however, achieving a high score is not intended to suggest that a given law is perfect but, rather, that it substantially complies with a number of critical elements of international standards in insolvency. Even a law that achieved "full compliance" would still require improvement. Similarly, the Insolvency Law could be significantly improved in a number of ways. Among other things, the law could provide a clearer (and therefore more transparent) description of what precisely constitutes insolvency; could provide more stringent sanctions for the failure of officers and directors of a debtor company to comply with their respective obligations under the Insolvency Law; and could remove some of the legal obstacles that make immediate insolvency financing difficult to obtain.

Assessing the state of insolvency legislation in Bulgaria provides only part of the picture. It is also necessary to look at the practical functioning of the insolvency regime (the "effectiveness" of the regime).

The EBRD 2004 Legal Indicator Survey on Insolvency, which examined the effectiveness of insolvency regimes in both creditor-initiated insolvencies, revealed that for debtors and creditors seeking to commence insolvency proceedings in Bulgaria, it is relatively easy to determine which court such proceedings should be commenced, but that the process is unduly complex. Bringing such proceedings is seen as far too expensive and the courts cannot generally be relied upon to deal with insolvency matters in a predictable and competent manner. It should be noted however that the government has made serious efforts recently to improve qualification of bankruptcy trustees including adopting and enforcing strict professional criteria and organising and funding training programmes for bankruptcy trustees. The Survey demonstrated the large "effectiveness" gap (the difference between the quality of the legislation and the effectiveness of the insolvency regime in practice) in Bulgaria. This gap underscores the need for further reform work to be done to strengthen courts and other institutions that implement insolvency legislation.

Secured Transactions
The legal framework for secured transactions in Bulgaria is one of the most advanced in the region. Governed by the Law on Registered Pledges that entered into force on 1 April 1997, the registered pledge represents the most common means to give collateral over movable assets. It can be granted by a "merchant", as defined in art. 1, Commerce Act (natural or legal person engaged by occupation in any of the commercial transactions listed in the article), or any of the persons listed in art. 2, Commerce Act (mainly farmers, artisans and members of the professions). The charged property may be:

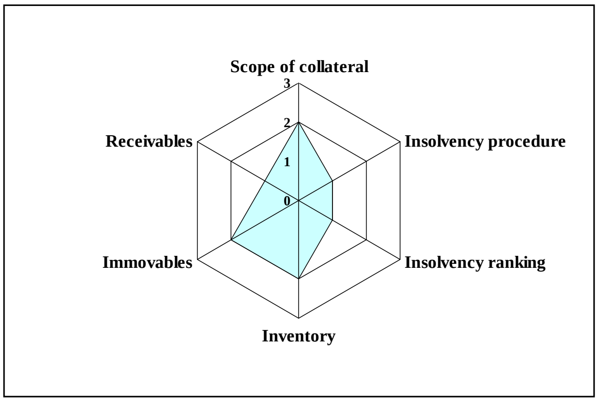
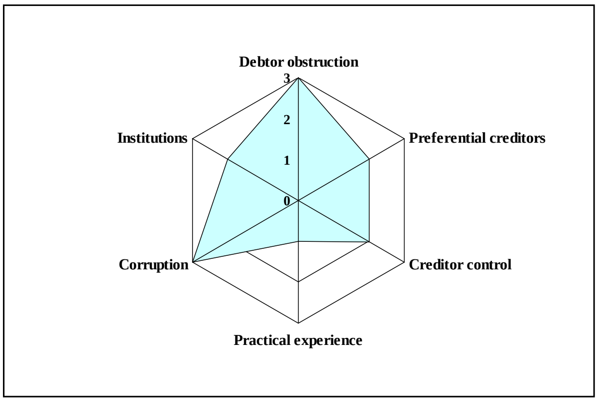
- accounts receivable, un-certificated securities, and movable assets exclusive of ships and aircraft;
- shares of equity in general and limited partnerships, limited partnerships with shares or limited liability companies;
- groups of accounts receivable, of machines and equipment, of inventory or materials; and
- commercial enterprises.

A specific regime of “commercial charges” applies to tangible and bearer securities (art. 310 Commerce Act).

The registered pledge is registered in the Central Pledge Registry, which is held at the Ministry of Justice in Sofia, with a number of regional offices. The central registry is computerised and this facilitates the process of registration and searching. Priority is determined by the time of registration. The pledgee will be paid ahead of all other creditors (except enforcement costs and other limited expenses). The registry is working very well but would benefit from being upgraded, providing a computerised network between all offices and the central database, as well as internet search capability.

Enforcement is meant to be quick and efficient: the pledgee can obtain possession of the pledged assets after he commences foreclosure of the pledged property and can take all measures to preserve the pledged property. He can obtain realisation by selling the pledged assets (via a depositor appointed by him) two weeks after registration of the statement for commencement of foreclosure, provided that the conditions and method of sale are expressly stipulated in the pledge agreement. Should the pledgor be declared bankrupt, the pledgee would be satisfied ahead of all other creditors and the commencement of bankruptcy proceedings does not suspend foreclosure of pledged property under the Registered Pledge Law. Unfortunately, in practice, the pledgor will almost always challenge the procedure, which means that out-of-court enforcement is rare. Also, actual enforcement of registered pledges can also be problematic in the context of a bankruptcy irrespective of the fact that the law specifically excludes such pledged assets from the bankruptcy estate. This, coupled with a certain level of reported subjectivity in the judicial process, means that enforcement is not as efficient as it should be (see the chart below, based on the results of an EBRD survey conducted in 2003). It seems that a USAID-funded project was launched in 2003, which was to focus on enforcement.

Obstacles to charge enforcement process – Bulgaria (2003)

Scope	Process
	

Note: The fuller the webs, the more serious the problems are in each of the respective categories. "Process" factors measure the impact that specific obstacles would have on the enforcement proceedings. "Scope" factors give an indication on how effective enforcement would be when conducted on various types of collateral and in the case of debtor insolvency.

Source: EBRD Legal Indicator Survey 2003

Telecommunications

The telecom sector in Bulgaria is currently governed by the Telecommunications Acts of 2001 and 2003 and is regulated by the Communications Regulation Commission (CRC). The CRC is an independent regulatory authority, responsible for the day-to-day regulation of the telecom sector in Bulgaria. The Ministry of Transport and Communications is the main policy development body for the telecom sector in Bulgaria.

The 2001 Act created the CRC as the sector specific regulator in a significant move towards implementation of European Union (EU) regulatory standards. Among its main functions are: the issue licences for telecom and broadcasting networks/services; administration of the national numbering plan; development of spectrum management policy; monitoring radio transmission quality, equipment approval; adjudication of inter-operator interconnection disputes; and price regulation of operators occupying a significant position in the marketplace for telecom services. The regulatory regime was supplemented more recently by the 2003 Act, further enhancing harmonisation with EU standards.

While Bulgaria maintains respectable fixed-line penetration of close to 40%, the level of digitalisation in the local loop is quite low and fixed-line growth has been accordingly static. While Bulgarian Telecommunications Company (BTC), the incumbent operator, was finally privatised in 2005 after extensive legal and political disputes over the process stretching back to 1998, lack of investment prior to that time has restricted growth potential in the fixed market. While the telecom market was formally liberalised at the beginning of 2003 (with the first alternative fixed-line licences issued by the CRC in July 2003), competition within the local loop was reserved until January 2005. This full opening of the market should enhance sector investment prospects going forward.

EU accession will be the key driver of sector development in the short to medium term and the authorities must ensure they meet all their obligations in this respect without delay. Although Bulgaria has reached a reasonable level of formal alignment with the

EU telecoms *acquis*, full implementation of these standards remains incomplete. Specifically, critical secondary legislation necessary to fully implement the liberalised marketplace envisaged in primary legislation remains outstanding. Further, certain elements of the 2002 EU framework still require transposition ahead of Bulgaria's anticipated 2007 EU accession schedule. In particular, delays in implementing the interconnection regime are understood to have impeded the entry of some competing operators and therewith the proper functioning of a competitive marketplace. These delays in interconnection are also understood to have had an impact on the implementation of carrier selection, a key instrument of competitive access to market.

Accordingly, the authorities should firmly focus immediate efforts on ensuring meaningful implementation of all outstanding legislative and regulatory measures. The authorities should ensure the elimination of any remaining barriers to entry through rapid implementation of effective interconnection and the promotion of appropriate cost-oriented pricing. Bulgaria also needs to devote attention to enhancing the independence of CRC, ensuring it has sufficient and appropriate powers to implement and enforce the legal and regulatory framework. Only with these key measures in place will Bulgaria be in a position to maximise sector private investment and therewith optimise sector development.

ANNEX 3: SELECTED ECONOMIC INDICATORS

Bulgaria

	2000	2001	2002	2003	2004	2005 *Estimate*	2006 *Projection*
Output and expenditure			*(Percentage change in real terms)*				
GDP	5.4	4.0	4.8	4.5	5.6	5.8	5.5
Private consumption	4.9	4.5	3.9	7.1	4.8	na	na
Public consumption	13.3	4.7	6.2	3.0	5.8	na	na
Gross fixed capital formation	15.4	19.9	9.3	13.9	12.0	na	na
Exports of goods and services	16.6	8.5	6.2	8.0	13.1	na	na
Imports of goods and services	18.6	13.0	4.7	15.3	14.1	na	na
Industrial gross output	12.0	0.7	2.6	12.0	15.0	na	na
Agricultural gross output	-9.1	-0.1	4.2	-1.4	na	na	na
Employment			*(Percentage change)*				
Labour force (end-year)	-3.4	-0.2	-0.5	1.1	1.2	na	na
Employment (end-year)	-2.7	-3.9	2.9	4.5	3.4	na	na
			(In per cent of labour force)				
Unemployment (end-year)	16.4	19.5	16.8	13.7	12.0	na	na
Prices and wages			*(Percentage change)*				
Consumer prices (annual average)	9.9	7.4	5.9	2.3	6.1	4.7	3.5
Consumer prices (end-year)	11.4	4.8	3.9	5.6	4.0	5.7	3.5
Producer prices (annual average)	17.3	3.6	1.3	4.9	6.0	na	na
Producer prices (end-year)	14.7	-1.8	6.3	4.3	5.2	na	na
Gross average monthly earnings in economy (annual average)	15.7	11.9	4.2	6.9	3.2	na	na
Government sector			*(In per cent of GDP)*				
General government balance[1]	-0.5	1.4	-0.2	0.6	1.3	1.0	0.5
General government expenditure[1]	39.7	38.6	37.2	38.4	37.5	37.8	na
General government debt[2]	73.6	66.2	54.0	46.3	38.8	33.3	na
Monetary sector			*(Percentage change)*				
Broad money (M2, end-year)	7.5	53.0	11.7	18.8	23.3	19.0	na
Domestic credit (end-year)	31.0	26.0	27.4	33.9	34.3	30.0	na
			(In per cent of GDP)				
Broad money (M2, end-year)	30.3	41.9	42.9	47.8	53.4	58.5	na
Interest and exchange rates			*(In per cent per annum, end-year)*				
Base interest rate[3]	4.6	4.7	3.3	2.8	2.4	na	na
Interbank interest rate (up to 1 month)	3.0	3.7	2.5	1.1	2.0	na	na
Deposit rate (1 month)	3.1	2.9	2.8	2.8	3.3	na	na
Lending rate (less than 1 year)	11.5	11.1	9.4	9.1	8.4	na	na
			(Leva per US dollar)				
Exchange rate (end-year)[4]	2.1	2.2	1.9	1.5	1.4	1.6	na
Exchange rate (annual average)[4]	2.1	2.2	2.1	1.7	1.6	1.6	na
External sector			*(In millions of US dollars)*				
Current account	-704	-984	-827	-1,856	-2,053	-3,536	-2,120
Trade balance	-1,176	-1,581	-1,595	-2,518	-3,366	-4,708	-4,615
Merchandise exports	4,825	5,113	5,692	7,541	9,848	11,323	14,024
Merchandise imports	6,000	6,693	7,287	10,059	13,214	16,031	18,639
Foreign direct investment, net	998	803	876	2,070	1,232	2,697	2,356
Gross reserves, excluding gold (end-year)	3,460	3,591	4,407	6,291	8,776	8,066	na
External debt stock	11,165	10,626	11,312	13,437	16,713	16,168	na
			(In months of imports of goods and services)				
Gross reserves, excluding gold (end-year)	5.4	5.1	5.8	6.0	6.4	4.9	na
			(In per cent of exports of goods and services)				
Debt service	16.7	20.9	16.3	14.0	24.6	17.8	na
Memorandum items			*(Denominations as indicated)*				
Population (end-year, million)	8.1	7.9	7.8	7.8	7.8	7.8	7.8
GDP (in millions of leva)[4]	26,753	29,618	32,324	34,410	38,008	41,302	44,968
GDP per capita (in US dollar)	1,546	1,718	1,984	2,546	3,109	3,432	na
Share of industry in GDP (in per cent)	25.8	25.2	24.5	20.6	26.0	na	na
Share of agriculture in GDP (in per cent)	12.3	12.1	11.0	10.1	9.4	na	na
Current account/GDP (in per cent)	-5.6	-7.3	-5.3	-9.3	-8.5	-13.3	-10.0
External debt - reserves (in US$ million)	7,705	7,035	6,905	7,146	7,937	8,102	na
External debt/GDP (in per cent)	88.6	78.4	72.7	67.7	69.3	60.7	na
External debt/exports of goods and services (in per cent)	159.5	146.8	140.4	125.5	119.6	102.7	na

[1] In 2003 and 2004 general government expenditure includes capital transfers for about 0.4 per cent of GDP, which were classified below the line in the Budget Law.

[2] From April 2001 direct debt to the Bulgarian National Bank (BNB) is excluded from domestic debt to avoid double reporting of IMF credit extended through

[3] Effective interest rate at end-month, based on the average annual yield attained at three-month government securities primary actions.

[4] On 5 July 1999 the lev was re-denominated. The post-July rate is equal to 1,000 of the pre-July 1999 leva. All data are expressed in terms of post-5 July 1999 lev.

ANNEX 4

Approved Bank Operations

ANNEX 4A EBRD OPERATIONS TO DATE

(as of 30 September 2005, € millions)

Op Name	Regional/ Direct	Signing Date	Total Project Value	EBRD Finance	Debt	Equity
Maritza East II Power Project	Direct	11.06.92	200.6	41.4	41.4	0.0
Eurovision - Network Expansion Project	Direct	26.11.92	0.8	0.8	0.8	0.0
Bulgarian Telecom	Direct	23.12.92	185.6	32.0	32.0	0.0
Total 1992			**387.0**	**74.2**		
Bulgarian Transit Roads	Direct	14.07.93	89.1	35.7	35.7	0.0
International Commercial Bank (Bulgaria) - (Formerly BIB)	Direct	21.12.93	1.0	1.0	0.0	1.0
Total 1993			**90.1**	**36.6**		
Danone-Serdika	Direct	25.03.94	5.9	1.2	0.0	1.2
BNP-Paribas (Bulgaria) A.D. (equity)	Direct	28.09.94	7.5	1.3	0.0	1.3
Caresbac Bulgaria AD	Direct	07.10.94	9.2	1.7	0.0	1.7
Euromerchant Balkan Fund	Regional	15.12.94	3.6	3.6	0.0	3.6
Delta Dairy	Direct	20.12.94	10.4	4.0	4.0	0.0
Total 1994			**36.6**	**11.9**		
MBA Loan Project (guarantee)	Regional	06.03.95	2.0	0.7	0.7	0.0
Railway Restructuring Project	Direct	17.11.95	253.9	36.9	36.9	0.0
Bulgaria Wholesale Markets	Direct	13.12.95	44.5	3.8	3.8	0.0
International Commercial Bank (Bulgaria) Capital Increase	Direct	20.12.95	2.6	1.0	0.0	1.0
BNP-Paribas (Bulgaria) - Capital Increase (1st)	Direct	29.12.95	3.2	0.7	0.0	0.7
Total 1995			**306.2**	**43.1**		
Storco	Direct	24.09.96	26.3	8.5	5.8	2.7
Danone MPF - Serdika Capital Increase	Direct	11.10.96	2.0	1.2	0.0	1.2
Astera Investment Project	Direct	23.10.96	15.5	8.3	8.3	0.0
First Investment Bank	Direct	23.10.96	5.0	5.0	5.0	0.0
Storco - Divestment	Direct	25.10.96	0.2	0.2	0.2	0.0
Total 1996			**49.0**	**23.2**		
BNP-Paribas (Bulgaria) - Capital Increase - (2nd)	Direct	12.03.97	0.7	0.2	0.0	0.2
International Commercial Bank (Bulgaria) Capital Increase	Direct	06.05.97	5.4	0.3	0.0	0.3
First Investment Bank (equity)	Direct	05.06.97	3.6	3.6	0.0	3.6
Danone MPF - Serdika Capital Increase II	Direct	09.06.97	4.1	1.5	0.0	1.5
Sodi Privatisation	Direct	27.06.97	223.1	66.4	66.4	0.0
United Bulgarian Bank - Equity Investment (portage)	Direct	22.07.97	245.6	34.2	23.5	10.7
BNP-Paribas (Bulgaria) - Capital Increase - (3rd)	Direct	15.12.97	4.0	0.8	0.0	0.8
Total 1997			**486.6**	**106.9**		
Domaine Boyar AD	Direct	29.07.98	54.6	20.8	19.1	1.7
Black Sea Fund	Regional	26.08.98	19.2	7.0	0.0	7.0
Isiklar/Celhart	Direct	12.11.98	34.2	10.0	10.0	0.0
Isiklar/Celhart (write-off)	Direct	12.11.98	2.9	2.9	1.7	1.2
MBA Loan Project II (guarantee)	Regional	07.12.98	0.4	0.0	0.0	0.0
Total 1998			**111.3**	**40.7**		
AIG New Europe Fund	Regional	29.06.99	13.6	2.4	0.0	2.4
Bulgaria Wholesale Markets (Revised Investment Plan)	Direct	05.08.99	28.2	8.3	8.3	0.0
First Investment Bank Syndicated Loan	Direct	06.08.99	15.0	5.0	5.0	0.0
PPF - Bulgarian - Pobeda	Direct	03.09.99	1.1	1.1	0.0	1.1
PPF - Bulgarian - Orbitel	Direct	12.11.99	0.7	0.7	0.0	0.7
Regional/Private Equity Fund Facility - Trigranit	Regional	07.12.99	3.8	0.7	0.0	0.7
Central & Eastern Europe Power Fund	Regional	16.12.99	1.6	0.4	0.0	0.4

Op Name	Regional/ Direct	Signing Date	Total Project Value	EBRD Finance	Debt	Equity
Bulgarian Insurance and Pension (BIP)	Direct	20.12.99	15.3	5.3	0.0	5.3
Total 1999			**79.3**	**23.9**		
BNP-Paribas (Bulgaria) - Capital Increase - (4th)	Direct	25.01.00	2.0	2.0	0.0	2.0
PPF - Bulgarian - Medika AD	Direct	10.03.00	1.6	1.4	0.0	1.4
Isiklar/Celhart (2)	Direct	26.05.00	24.5	7.9	7.9	0.0
Migros Foodstores Skopje	Regional	20.06.00	0.1	0.1	0.1	0.0
Bulgaria Grain Receipt Programme - Expressbank (2000/01)	Direct	30.06.00	0.5	0.5	0.5	0.0
Bulgarian SME and Tourism Framework Facility	Direct	25.07.00	10.2	5.1	5.1	0.0
EU/EBRD Phase II - Unionbank	Direct	25.07.00	6.0	6.0	6.0	0.0
PPF - Bulgarian - Silway Technologies	Direct	22.08.00	3.0	3.0	0.0	3.0
PPF - Bulgarian - Rodinvest/Rodina	Direct	27.10.00	1.9	1.9	0.0	1.9
PPF - Bulgarian - Damianitza	Direct	24.11.00	0.5	0.5	0.0	0.5
Regional TFP: Unionbank	Direct	30.11.00	1.0	1.0	1.0	0.0
TBIH Financial Services Group N.V. (debt & equity)	Regional	04.12.00	11.3	6.4	0.9	5.5
Sofia Water System Concession Project	Direct	15.12.00	95.2	18.5	18.5	0.0
Internet Framework - Rila Solutions	Direct	21.12.00	8.2	3.2	0.0	3.2
Total 2000			**166.1**	**57.6**		
DIF - Babylon	Direct	19.01.01	0.5	0.5	0.0	0.5
Innova/3	Regional	23.04.01	9.4	1.1	0.0	1.1
Balkanpharma	Direct	23.05.01	24.5	13.3	13.3	0.0
US/EBRD SME - ProCredit Bank Bulgaria	Direct	06.06.01	19.7	4.2	3.0	1.2
Bulgaria Grain Receipt Programme - Unionbank(2001/02)	Direct	11.07.01	1.6	1.6	1.6	0.0
EU/EBRD Phase II - Hebros Bank	Direct	24.09.01	6.0	6.0	6.0	0.0
Regional Europolis Portfolio	Regional	14.12.01	75.0	26.3	10.9	15.3
Total 2001			**136.7**	**53.0**		
Bulgarian Transmission Network	Direct	16.01.02	156.7	41.1	41.1	0.0
PFS	Direct	04.03.02	44.1	22.9	18.6	4.3
Sofia Public Transport Project	Direct	29.04.02	31.1	14.5	14.5	0.0
EU/EBRD Phase II - Raiffeisenbank Bulgaria	Direct	20.05.02	10.0	3.5	3.5	0.0
Black Sea Fund - Capital Increase	Regional	31.05.02	9.4	2.5	0.0	2.5
Sofia District Heating Rehabilitation	Direct	14.08.02	104.0	30.0	30.0	0.0
Unionbank (equity)	Direct	19.09.02	2.2	2.2	0.0	2.2
EU/EBRD Phase II ext. - United Bulgarian Bank	Direct	12.11.02	10.0	10.0	20.0	0.0
Heitman Central Europe Property Partners Fund II	Regional	09.12.02	8.8	2.7	0.0	2.7
Total 2002			**376.3**	**129.5**		
Maritza East III Power Project	Direct	28.02.03	651.3	62.2	62.2	0.0
Billa	Regional	20.03.03	53.9	6.8	6.8	0.0
US/EBRD SME - ProCredit Bank Bulgaria	Direct	15.04.03	5.1	1.2	0.0	1.2
EU/EBRD Phase I - Global Romania and Bulgaria Growth Fund	Regional	09.05.03	10.4	3.3	0.0	3.3
Bulgarian Telecommunications Company (Equity)	Direct	28.09.03	138.0	13.0	0.0	13.0
Bulgarian Post Bank - Mortgage Line	Direct	17.10.03	15.0	15.0	15.0	0.0
Herfstzon (sub debt)	Direct	04.11.03	5.8	5.8	5.8	0.0
TBI AD (debt & equity)	Direct	04.11.03	15.7	15.7	2.5	13.1
TBIF Bulgaria AD	Direct	04.11.03	0.9	0.9	0.0	0.9
International Water United Utilities	Regional	20.11.03	13.7	5.0	0.0	5.0
TUI advance payments	Regional	19.12.03	33.2	33.2	33.2	0.0
Opet-Aygaz Bulgaria	Direct	25.12.03	73.3	20.0	20.0	0.0
Total 2003			**1,016.2**	**182.0**		
Polish Enterprise Fund V	Regional	30.01.04	4.7	4.7	0.0	4.7
BPB - Energy efficiency and renewable energy facility	Direct	16.03.04	2.5	2.5	2.5	0.0
UBB - Energy efficiency and renewable energy facility	Direct	16.03.04	7.5	7.5	7.5	0.0
US/EBRD SME - ProCredit Bank Bulgaria	Direct	16.03.04	13.1	6.0	5.0	1.0
Unionbank - Energy efficiency and renewable energy facility	Direct	16.03.04	3.0	3.0	3.0	0.0
EU/EBRD Extension 4 - Hebros Bank II	Direct	11.05.04	6.0	6.0	6.0	0.0

Op Name	Regional/ Direct	Signing Date	Total Project Value	EBRD Finance	Debt	Equity
Boliari	Direct	12.05.04	14.5	10.5	8.0	2.5
Bulgarian Telecommunications (Debt - BTC AD)	Direct	11.06.04	98.1	36.5	36.5	0.0
Bulgarian Telecoms Coy (Debt - Advent)	Direct	11.06.04	118.0	43.9	43.9	0.0
Advent Central & Eastern Europe Successor Fund	Regional	25.06.04	49.6	7.5	0.0	7.5
BTC Mezzanine Co Investment Facility	Direct	18.08.04	40.0	3.5	3.5	0.0
Bulbank Energy Efficiency Credit Line	Direct	23.09.04	3.5	3.5	3.5	0.0
Energy Efficiency Framework - Biochim	Direct	23.09.04	5.0	5.0	5.0	0.0
EU/EBRD Extension 5 - Bulgarian-American Credit Bank	Direct	11.10.04	10.0	10.0	10.0	0.0
Raiffeisen International	Regional	20.10.04	10.0	5.0	0.0	5.0
Europolis II	Regional	15.11.04	30.0	7.5	5.5	2.0
EU/EBRD Extension 5 - Hebros Leasing	Direct	29.11.04	5.0	5.0	5.0	0.0
DSK Bank - Energy Efficiency and Renewable Energy Facility	Direct	30.11.04	10.0	10.0	10.0	0.0
EU/EBRD Ext.5 Rural - UBB Rural	Direct	30.11.04	10.0	10.0	10.0	0.0
EU/EBRD Extension 3 - DSK	Direct	30.11.04	5.0	10.0	10.0	0.0
Maritza east 2 TPP	Direct	30.11.04	80.3	22.0	22.0	0.0
Total 2004			**525.7**	**219.7**		
Sunny Travel EOOD	Direct	24.02.05	39.0	13.0	13.0	0.0
Chelopech Mining	Direct	06.04.05	38.9	8.3	8.3	0.0
Belvedere	Direct	27.04.05	28.6	9.0	7.0	2.0
Orchid Holdings	Direct	03.06.05	0.2	0.9	0.0	0.9
Burgas Water Company	Direct	08.06.05	21.1	11.0	11.0	0.0
Global Property Fund	Regional	29.06.05	30.0	9.0	0.0	9.0
REECL (Bulgaria) - Raiffeisenbank Bulgaria	Direct	30.06.05	10.0	10.0	10.0	0.0
REECL (Bulgaria) - UBB	Direct	30.06.05	5.1	5.1	5.1	0.0
REECL - Post Bank	Direct	30.06.05	5.0	5.0	5.0	0.0
REECL (Bulgaria) - DSK	Direct	29.07.05	10.0	10.0	10.0	0.0
Golden Yavor	Direct	11.08.05	5.2	2.6	2.6	0.0
EU/EBRD Phase II ext. - United Bulgarian Bank	Direct	30.06.05	10.0	10.0	20.0	0.0
Emerging Europe Convergence Fund II	Regional	24.08.05	6.0	6.0	0.0	6.0
Sep.05			**209.1**	**99.9**		
	Total		**3,976.3**	**1,102.1**	**925.5**	**176.6**

NET CUMULATIVE BUSINESS VOLUME BY INDUSTRY

(as of 30 September 2005, € millions)

Sector Business Group (SIC)	Sector Team (SIC)	No. of Projects	Total Project Value	EBRD Finance	Debt	Equity	% Share of Commitments
Energy	Natural Resources	2.0	112	28	28	0	3%
	Power and Energy	4.1	1,091	167	167	0	15%
Sub-total Energy		**6.1**	**1,203**	**195**	**195**	**0**	**18%**
Financial Institutions	Bank Equity	9.0	288	52	24	29	5%
	Bank Lending	6.1	185	167	167	0	15%
	Equity Funds	3.1	144	48	0	48	4%
	Non Bank Financial Institutions	4.4	54	39	14	25	4%
	Small Business Finance	0.1	38	11	8	3	1%
Sub-total Financial Institutions		**22.8**	**709**	**318**	**213**	**105**	**29%**
General Industry	General Industry	6.0	369	132	126	6	12%
Sub-total General Industry		**6.0**	**369**	**132**	**126**	**6**	**12%**
Infrastructure	Municipal & Env Inf	4.0	265	79	74	5	7%
	Transport	2.0	343	73	73	0	7%
Sub-total Infrastructure		**6.0**	**608**	**152**	**147**	**5**	**14%**
Specialised Industries	Agribusiness	8.8	273	76	63	13	7%
	Property and Tourism	2.8	225	96	65	31	9%
	Telecoms Informatics & Media	4.3	589	133	117	16	12%
Sub-total Specialised Industries		**16.0**	**1,087**	**305**	**245**	**60**	**28%**
BULGARIA TOTAL		**56.9**	**3,976**	**1,102**	**925**	**177**	**100%**

ANNEX 4B: CURRENT PORTFOLIO STOCK
(as of 30 September 2005, € millions)

Operation Name	Team of OL	Portfolio*	Undrawn Commitment	Operating Assets*	Active Op Count
Direct Investments					
Astera Investment Project	Sofia (Bulgaria)	0.0	0.0	0.0	0.0
BNP-Paribas (Bulgaria) - Capital Increase (1st)	Financial Institutions	0.0	0.0	0.0	0.0
BNP-Paribas (Bulgaria) - Capital Increase - (2nd)	Financial Institutions	0.0	0.0	0.0	0.0
BNP-Paribas (Bulgaria) - Capital Increase - (3rd)	Financial Institutions	0.0	0.0	0.0	0.0
BNP-Paribas (Bulgaria) - Capital Increase - (4th)	Financial Institutions	0.0	0.0	0.0	0.0
BNP-Paribas (Bulgaria) A.D. (equity)	Financial Institutions	0.0	0.0	0.0	0.0
BPB - Energy efficiency and renewable energy facility	Financial Institutions	2.5	0.7	1.9	0.0
BTC Mezzanine Co Investment Facility	Financial Institutions	0.0	0.0	0.0	0.0
Balkanpharma		0.0	0.0	0.0	0.0
Belvedere	Agribusiness	9.0	4.0	5.0	1.0
Boliari	Agribusiness	10.5	5.3	5.2	1.0
Bulbank Energy Efficiency Credit Line	Financial Institutions	3.5	1.3	2.3	0.1
Bulgaria Grain Receipt Programme - Expressbank (2000/01)	Financial Institutions	0.0	0.0	0.0	0.0
Bulgaria Grain Receipt Programme - Unionbank(2001/02)	Financial Institutions	0.0	0.0	0.0	0.0
Bulgaria Wholesale Markets	Agribusiness	0.0	0.0	0.0	0.0
Bulgaria Wholesale Markets (Revised Investment Plan)	Agribusiness	5.0	0.1	4.9	1.0
Bulgarian Insurance and Pension (BIP)	Financial Institutions	0.0	0.0	0.0	0.0
Bulgarian Post Bank - Mortgage Line	Financial Institutions	15.0	0.0	15.0	1.0
Bulgarian SME and Tourism Framework Facility	Financial Institutions	0.0	0.0	0.0	0.5
Bulgarian Telecom	Telecoms Informatics & Media	0.0	0.0	0.0	0.0
Bulgarian Telecommunications (Debt - BTC AD)	Telecoms Informatics & Media	0.0	0.0	0.0	0.0
Bulgarian Telecommunications Company (Equity)	Telecoms Informatics & Media	13.0	0.0	13.0	1.0
Bulgarian Telecoms Coy (Debt - Advent)	Telecoms Informatics & Media	0.0	0.0	0.0	0.0
Bulgarian Transit Roads	Transport	6.2	0.0	6.2	1.0
Bulgarian Transmission Network	Power and Energy	39.0	24.8	14.2	1.0
Burgas Water Company	Municipal & Env Inf	11.0	10.8	0.2	1.0
Caresbac Bulgaria AD	Kyiv (Ukraine)	0.0	0.0	0.0	0.0
Chelopech Mining	Natural Resources	8.3	0.0	8.3	1.0
DIF - Babylon	Sofia (Bulgaria)	0.5	0.0	0.5	0.0
DSK Bank - Energy Efficiency and Renewable Energy Facility	Financial Institutions	10.0	9.0	1.0	0.1
Danone MPF - Serdika Capital Increase	Agribusiness	0.0	0.0	0.0	0.0
Danone MPF - Serdika Capital Increase II	Agribusiness	0.0	0.0	0.0	0.0
Danone-Serdika	Agribusiness	0.0	0.0	0.0	0.0
Delta Dairy	SEEC HQ	0.0	0.0	0.0	0.0
Domaine Boyar AD	Corporate Recovery	1.7	0.0	1.7	1.0
EU/EBRD Ext.5 Rural - UBB Rural	Financial Institutions	10.0	10.0	0.0	0.2
EU/EBRD Extension 3 - DSK	Financial Institutions	10.0	9.0	1.0	0.0
EU/EBRD Extension 4 - Hebros Bank II	Financial Institutions	0.0	0.0	0.0	0.0
EU/EBRD Extension 5 - Bulgarian-American Credit Bank	Financial Institutions	10.0	7.0	3.0	0.1
EU/EBRD Extension 5 - Hebros Leasing	Financial Institutions	5.0	0.8	4.2	0.0
EU/EBRD Phase II - Hebros Bank	Financial Institutions	0.0	0.0	0.0	0.0
EU/EBRD Phase II - Raiffeisenbank Bulgaria	Financial Institutions	1.7	0.0	1.7	0.0
EU/EBRD Phase II - Unionbank	Financial Institutions	2.3	0.0	2.3	0.0
EU/EBRD Phase II ext. - United Bulgarian Bank	Financial Institutions	19.2	4.9	14.3	0.1
Energy Efficiency Framework - Biochim	Financial Institutions	5.0	5.0	0.0	0.1
Eurovision - Network Expansion Project	Telecoms Informatics & Media	0.0	0.0	0.0	0.0
First Investment Bank	Financial Institutions	0.0	0.0	0.0	0.0
First Investment Bank (equity)	Financial Institutions	3.6	0.0	3.6	1.0
First Investment Bank Syndicated Loan	Financial Institutions	0.0	0.0	0.0	0.0

Operation Name	Team of OL	Portfolio*	Undrawn Commitment	Operating Assets*	Active Op Count
Golden Yavor	Property and Tourism	2.6	2.6	0.0	0.1
Herfstzon (sub debt)	Financial Institutions	0.0	0.0	0.0	0.0
International Commercial Bank (Bulgaria) - (Formerly BIB)	Financial Institutions	0.0	0.0	0.0	0.0
International Commercial Bank (Bulgaria) Capital Increase	Financial Institutions	0.0	0.0	0.0	0.0
International Commercial Bank (Bulgaria) Capital Increase	Financial Institutions	0.0	0.0	0.0	0.0
Internet Framework - Rila Solutions	Telecoms Informatics & Media	0.0	0.0	0.0	0.0
Isiklar/Celhart	Tashkent (Uzbekistan)	0.0	0.0	0.0	0.0
Isiklar/Celhart (2)	Tashkent (Uzbekistan)	0.0	0.0	0.0	0.0
Isiklar/Celhart (write-off)	Tashkent (Uzbekistan)	0.0	0.0	0.0	0.0
Maritza East II Power Project	Power and Energy	6.3	0.2	6.1	1.0
Maritza East III Power Project	Power and Energy	62.2	43.3	18.8	1.0
Maritza east 2 TPP	Power and Energy	22.0	22.0	0.0	1.0
Opet-Aygaz Bulgaria	Natural Resources	20.0	6.9	13.1	1.0
Orchid Holdings	Property and Tourism	0.9	0.9	0.0	0.2
PFS	Corporate Recovery	18.7	1.5	17.2	1.0
PPF - Bulgarian - Damianitza	Financial Institutions	0.0	0.0	0.0	0.0
PPF - Bulgarian - Medika AD	Financial Institutions	0.0	0.0	0.0	0.0
PPF - Bulgarian - Orbitel	Financial Institutions	0.0	0.0	0.0	0.0
PPF - Bulgarian - Pobeda	Financial Institutions	0.0	0.0	0.0	0.0
PPF - Bulgarian - Rodinvest/Rodina	Financial Institutions	0.0	0.0	0.0	0.0
PPF - Bulgarian - Silway Technologies	Financial Institutions	0.0	0.0	0.0	0.0
REECL (Bulgaria) - DSK	Financial Institutions	10.0	10.0	0.0	0.1
REECL (Bulgaria) - Raiffeisenbank Bulgaria	Financial Institutions	10.0	10.0	0.0	0.1
REECL (Bulgaria) - UBB	Financial Institutions	5.1	5.1	0.0	0.1
REECL - Post Bank	Financial Institutions	5.0	5.0	0.0	0.1
Railway Restructuring Project	Sofia (Bulgaria)	19.5	0.0	19.5	1.0
Regional TFP: Unionbank	Financial Institutions	1.0	1.0	0.0	0.0
Regional TFP: United Bulgarian Bank	Financial Institutions	0.0	0.0	0.0	0.0
Sodi Privatisation	Sofia (Bulgaria)	20.4	0.0	20.4	1.0
Sofia District Heating Rehabilitation	Sofia (Bulgaria)	30.0	17.7	12.3	1.0
Sofia Public Transport Project	Sofia (Bulgaria)	14.1	5.8	8.3	0.7
Sofia Water System Concession Project	Sofia (Bulgaria)	18.5	0.0	18.5	1.0
Storco	Sofia (Bulgaria)	0.0	0.0	0.0	0.0
Storco - Divestment		0.0	0.0	0.0	0.0
Sunny Travel EOOD	Property and Tourism	13.0	1.7	11.3	1.0
TBI AD (debt & equity)	Financial Institutions	2.5	0.0	2.5	1.0
TBIF Bulgaria AD	Kyiv (Ukraine)	0.0	0.0	0.0	0.0
UBB - Energy efficiency and renewable energy facility	Financial Institutions	7.5	2.3	5.2	0.1
US/EBRD SME - ProCredit Bank Bulgaria	Group for Small Business	4.2	0.0	4.2	0.0
US/EBRD SME - ProCredit Bank Bulgaria	Group for Small Business	1.2	0.0	1.2	0.0
US/EBRD SME - ProCredit Bank Bulgaria	Group for Small Business	6.0	0.0	6.0	0.1
Unionbank (equity)	Financial Institutions	2.2	0.0	2.2	1.0
Unionbank - Energy efficiency and renewable energy facility	Financial Institutions	3.0	2.3	0.8	0.0
United Bulgarian Bank - Equity Investment (portage)	Financial Institutions	0.0	0.0	0.0	0.0
		508.1	**231.0**	**277.1**	**25.8**
Regional Investments					
AIG New Europe Fund	Financial Institutions	0.9	0.4	0.5	0.1
Advent Central & Eastern Europe Successor Fund	Warsaw (Poland)	7.5	6.9	0.6	0.2
Billa	Agribusiness	0.0	0.0	0.0	0.0
Black Sea Fund	Financial Institutions	3.5	0.0	3.5	0.4
Black Sea Fund - Capital Increase	Financial Institutions	2.5	0.7	1.8	0.3
Central & Eastern Europe Power Fund	Power and Energy	0.3	0.0	0.3	0.1
EU/EBRD Phase I - Global Romania and Bulgaria Growth Fund	Financial Institutions	3.2	2.7	0.4	0.0

Operation Name	Team of OL	Portfolio*	Undrawn Commitment	Operating Assets*	Active Op Count
Emerging Europe Convergence Fund II	Financial Institutions	6.0	6.0	0.0	0.1
Euromerchant Balkan Fund	Financial Institutions	2.5	0.0	2.5	0.5
Europolis II	Property and Tourism	7.5	7.5	0.0	0.1
Global Property Fund	Property and Tourism	9.0	8.1	0.9	0.3
Heitman Central Europe Property Partners Fund II	Property and Tourism	2.3	0.8	1.6	0.1
Innova/3	Warsaw (Poland)	0.8	0.3	0.5	0.1
International Water United Utilities	Municipal & Env Inf	3.1	0.0	3.1	0.3
MBA Loan Project (guarantee)	Financial Institutions	0.7	0.7	0.0	0.1
MBA Loan Project II (guarantee)	Financial Institutions	0.0	0.0	0.0	0.0
Migros Foodstores Skopje	Agribusiness	0.1	0.0	0.1	0.0
Polish Enterprise Fund V	Warsaw (Poland)	4.6	1.8	2.8	0.1
Raiffeisen International	Financial Institutions	4.0	0.0	4.0	0.1
Regional Europolis Portfolio	Property and Tourism	19.3	11.6	7.7	0.3
Regional/Private Equity Fund Facility - Trigranit	Property and Tourism	0.0	0.0	0.0	0.0
TBIH Financial Services Group N.V. (debt & equity)	Financial Institutions	0.0	0.0	0.0	0.0
TUI advance payments	Property and Tourism	0.0	0.0	0.0	0.0
		77.8	**47.5**	**30.3**	**3.0**
		585.9	**278.5**	**307.4**	**28.8**
	TOTAL	**585.9**	**278.5**	**307.4**	**28.8**

ANNEX 5: BILATERAL ASSISTANCE (TC) AND BILATERAL DONOR SUPPORT

ANNEX 5A: TC PROJECTS

Sector	Commitment Name	Fund Short Code	Euro Committed	Euro Disbursed	Fund Approved Date	Commit. Stage Name	Business Group
Agriculture, Forestry, Fishing	Wholesale market project	UKC	52,582	52,582	22.03.96	Closed	Specialised Industries
Total by Sector			**52,582**	**52,582**			
Commerce, Tourism	Tourism line of credit - tourism sector market study	UKC	70,584	70,584	04.09.98	Closed	Specialised Industries
Total by Sector			**70,584**	**70,584**			
Community/Social Services	Energy project support unit	HOL	119,598	119,598	14.06.94	Closed	Energy
	Target market screening for the Bulgarian Post-privatisation Fund	ITA	144,334	144,334	04.03.97	Closed	SEEC
	Sofia municipal asset management fund	UKC	66,902	66,902	01.06.94	Closed	Infrastructure
Total by Sector			**330,834**	**330,834**			
Construction	Trans-European Motorway	ECP	523,000	523,000	20.07.92	Closed	Infrastructure
Total by Sector			**523,000**	**523,000**			
Energy	Sofia District Heating: Engineering & Procurement Consultant	ECP	580,250	555,800	22.11.01	Disbursing	Infrastructure
	Power Distribution Privatisation Advisory Services	ECP	33,900	33,900	07.05.02	Closed	Energy
	Advisory Services for the Privatisation of Electricity Distribution Companies in Bulgaria	ECP	949,608	949,608	06.08.02	Closed	Energy
	Advisory services for establishment of independent power producers	ECP	892,439	892,439	14.12.98	Closed	Energy
	Sofia District Heating: Engineering & Procurement Consultant	ECP	996,468	996,468	22.11.01	Closed	Energy
	District Heating Investment Strategy Adviser	FIN	31,884	31,884	12.04.00	Closed	Energy
	Sofia District Heating Company - technical and economical appraisal	GERK	37,544	37,544	01.05.96	Closed	Energy
	Flue gas desulphurisation options for Maritsa East 3 project	GERK	40,392	40,392	09.03.98	Closed	Non-Banking
	District Heating Policy Adviser	GERK	48,813	48,813	17.01.00	Closed	Energy
	Advisory Services for Separation of Transmission Assets	IRL	40,350	40,350	26.05.99	Closed	Energy
	Financial appraisal of power transmission project	UKC	24,718	24,718	01.06.99	Closed	Energy
	Sofia District Heating Public Awareness Campaign	UKF	50,000	25,097	05.09.02	Disbursing	Infrastructure
	credit line for residential energy efficiency	UKF	21,700	20,892	06.10.04	Disbursing	Energy
Total by Sector			**3,748,065**	**3,697,904**			
Finance, Business	United Bulgarian Bank - due diligence and design of treasury and credit policies and procedures	ECP	455,925	455,925	20.03.93	Closed	Financial Institutions
	Bulgarian Investment Bank - management, training and systems establishment	ECP	841,893	841,893	20.06.93	Closed	Financial Institutions

Sector	Commitment Name	Fund Short Code	Euro Committed	Euro Disbursed	Fund Approved Date	Commit. Stage Name	Business Group
	Bulgarian Investment Bank - due diligence and registration documentation	ECP	100,000	100,000	20.07.93	Closed	Financial Institutions
	Unionbank: Institutional Development - Adviser to Senior Management	ECP	213,178	213,178	18.12.02	Closed	Financial Institutions
	Unionbank: Institutional Development - Credit Advisor	ECP	236,073	236,073	18.12.02	Closed	Financial Institutions
	United Bulgarian Bank - twinning programme	ECP	832,008	832,008	30.01.97	Closed	Financial Institutions
	PPF - Bulgarian PPF - Legal Advisory Services A	EUBPP	37,274	37,274	22.03.02	Closed	Financial Institutions
	Bulgarian Post-Privatisation Fund - Fund Manager (Year 4)	EUBPP	863,162	863,162	07.03.01	Closed	Financial Institutions
	Bulgaria Post Privatisation Fund - investment advisory services	EUBPP	32,210	32,210	07.11.01	Closed	Financial Institutions
	Bulgarian Post Privatisation Fund - investment advisory services	EUBPP	28,285	28,285	07.11.01	Closed	Financial Institutions
	Bulgarian Post Privatisation Fund - Legal Advisory Services	EUBPP	5,700	5,700	07.11.01	Closed	Financial Institutions
	Bulgarian Post Privatisation Fund - Fund Manager	EUBPP	780,836	780,836	09.01.02	Closed	Financial Institutions
	Fund manager	EUBPP	713,000	713,000	08.07.98	Closed	Financial Institutions
	PPF - Bulgarian PPF - Specialised Advisory Services	EUBPP	652,595	652,595	08.07.98	Closed	Financial Institutions
	Bulgarian PPF: Legal Advisory Services I - Eversheds	EUBPP	61,688	61,688	17.03.99	Closed	Financial Institutions
	Bulgarian PPF: Legal Advisory Services II - Salans Hertzfeld & Heilbronn	EUBPP	67,161	67,161	17.03.99	Closed	Financial Institutions
	Bulgarian PPF - Investment Advisory Services-1	EUBPP	240,090	240,090	17.03.99	Closed	Financial Institutions
	Bulgarian PPF: Investment Advisory Services - 2 - PricewaterhouseCoopers	EUBPP	171,433	171,433	17.03.99	Closed	Financial Institutions
	Bulgarian PPF - Specialist Advisory Services - individual contracts - 2	EUBPP	352,898	352,898	31.03.99	Closed	Financial Institutions
	PPF - Bulgarian PPF - Fund Manager - 2 & 3	EUBPP	1,615,002	1,615,002	31.03.99	Closed	Financial Institutions
	United Bulgarian Bank pre-privatisation (Phase II)	JAP	173,949	173,949	16.05.94	Closed	Financial Institutions
	Regional study of trade finance needs	SWE	11,573	11,573	01.11.95	Closed	SEEC
	Review of export trade finance needs	UKC	12,237	12,237	01.01.96	Closed	SEEC
	Legal Study on Feasibility of Mortgage Securitisation	UKE	45,000	0	17.11.04	Committed	Financial Institutions
	Babylon Human Resources Management Assignment	UKF	9,701	9,701	08.03.04	Closed	SEEC
	Microfinance Bank of Bulgaria - Credit Advisers	USSP	383,480	383,480	18.06.01	Closed	Deputy Vice President
	Microfinance Bank of Bulgaria (MBB) - Micro and Small Enterprise Credit Advisors	USSP	1,258,834	1,258,834	24.10.01	Closed	Deputy Vice President
	ProCredit Bank Regional Expansion	USSP	823,655	755,129	30.04.03	Disbursing	Deputy Vice President
Total by Sector			**11,018,840**	**10,905,314**			
Local Authority Services	Bulgaria Water and Wastewater Project Facility:	CEI	257,233	189,225	13.04.04	Committed	Infrastructure
	Bulgaria Water and Wastewater Project	CEI	46,210	43,860	13.10.04	Committed	Infrastructure
	Sofia water and wastewater feasibility study	ECP	150,000	150,000	20.11.92	Closed	Infrastructure

Sector	Commitment Name	Fund Short Code	Euro Committed	Euro Disbursed	Fund Approved Date	Commit. Stage Name	Business Group
	Sofia water supply improvement project	ECP	650,000	650,000	03.12.97	Closed	Infrastructure
	Sofia water supply improvement project	ECP	150,000	150,000	19.12.00	Closed	Infrastructure
	Sofia water supply improvement project	UKC	24,997	24,997	01.03.99	Closed	Infrastructure
	Preparation of secondary legislation for water sector regulation	UKF	50,000	0	24.02.05	Committed	SEEC
Total by Sector			**1,328,440**	**1,208,082**			
Manufacturing	TAM Programme in central, eastern & southern Europe - Aptechno Stara Zagora JSC	BRSF	48,069	48,069	20.06.01	Closed	SEEC
	TAM - Tikves	CEI	60,000	8,000	06.02.05	Committed	SEEC
	State railways restructuring	ECP	583,455	583,455	20.07.92	Closed	Infrastructure
	Sofia wholesale market - feasibility study	GER	183,297	183,297	20.04.93	Closed	Specialised Industries
	TAM Programme (TAM) - Alcomet	ITA	48,400	48,400	03.07.00	Closed	SEEC
	Dairy investment	JAP	375,000	375,000	16.05.94	Closed	Specialised Industries
	Bulgarian grain receipt program	USA	36,958	36,958	16.06.99	Closed	Specialised Industries
	TurnAround Management Programme (TAM) - SNS JSC	WAL	48,400	24,000	06.12.00	Disbursing	SEEC
Total by Sector			**1,383,579**	**1,307,178**			
Transport, Storage	Bulgarian Railways - costing model	CAN2	49,140	49,140	30.06.99	Closed	Infrastructure
	Preparation of Black Sea Priority Urban Investment Programme (Phase I)	ECP	228,774	228,774	17.12.93	Closed	Infrastructure
	Bulgarian Railways - financial accounting assistance for BDZ	ECP	369,375	369,375	07.09.99	Closed	Infrastructure
	Sofia public transport study	JAP	321,897	321,897	01.07.93	Closed	Infrastructure
	Port of Varna masterplan	JAP	620,000	620,000	01.07.93	Closed	Infrastructure
	Sofia Parking Project: Parking Strategy and Action Plan	JAP	189,654	189,654	19.09.03	Closed	Infrastructure
	Sofia Public Transport Project - New Ticketing System	NSPT	174,405	78,532	20.06.03	Disbursing	Infrastructure
	Sofia Public Transport Project - New Ticketing System (UITP Conference)	NSPT	2,264	2,264	03.03.04	Closed	Infrastructure
	Sofia Bus Service Tendering	TAI	192,040	53,581	12.11.03	Disbursing	Infrastructure
	Rail modernisation project	UKC	23,763	23,763	31.08.94	Closed	Infrastructure
	Sofia public transport - guarantee study	UKC	50,635	50,635	05.04.95	Closed	Infrastructure
	Sofia public transport - public transport adviser	UKC	10,006	10,006	05.04.95	Closed	Infrastructure
	Sofia public transport - legal adviser	UKC	37,035	37,035	05.04.95	Closed	Infrastructure
Total by Sector			**2,268,988**	**2,034,656**			
	Grand Total		**20,724,911**	**20,130,135**			
	No of Commitments:		**75**				

ANNEX 5B: TC FUNDS AND DONORS - AGGREGATE COMMITMENTS

DONOR	**EUR Committed**
Belgium - TC Fund Total	48,400
Canada - TC Fund Total	49,140
European Union	14,407,681
Finland - TC Fund Total	31,884
Germany - TC Fund Total	310,045
Ireland - TC Fund Total	40,350
Italy - TC Fund Total	556,177
Japan - TC Fund Total	1,680,499
Multi-Donor	114,676
Netherlands - TC Fund Total	296,267
Sweden - TC Fund Total	11,573
Taipei China - TC Fund Total	192,040
United Kingdom - TC Fund Total	549,860
United States - TC Fund Total	2,502,927
Grand Total	**20,791,519**

ANNEX 6: TAM AND BAS PROGRAMMES

TAM and BAS are multi-donor complementary SME programmes directly assisting individual, privatised enterprises in EBRD's countries of operation. The Programmes began in the early 90s, with initial funding from the EBRD, the United Nations Development Programme, the EU, the Nordic Council of Ministers and Japan. Since then, with strong funding support from the EU, the Nordic Council of Ministers and 21 individual donor countries, over 1,200 TAM projects and 3,745 BAS projects have been undertaken in 27 countries utilising over €100 million of donor funding.

TAM helps potentially viable SMEs to adapt, survive and grow in market economies, utilising the breadth and depth of knowledge of recently retired CEOs with over 15 years' experience from an industry directly related to that of the beneficiary enterprise.

BAS helps enterprises to overcome barriers to growth through the provision of grants to encourage CEOs to benefit from external business advice by local BAS accredited consultants. In addition, BAS works to increase the capacity and skills of the local consultancy sectors in the countries in which it works.

TAM/BAS maintains a pipeline of eligible projects from a wide variety of regions and industries so that funds provided by donors can be utilised swiftly.

Objectives

TAM/BAS supports economic reform and growth by transferring management and technical know-how, conveying the principles of responsible corporate governance and sharing commercial experience directly with potentially viable enterprises.

By developing strong management at the SME level and building a strong national base of local consultants to serve enterprise future needs, TAM/BAS acts as a catalyst for economic and social transition, contributing to donor objectives for alleviating poverty and improving standards of living.

In addition to improving business performance, TAM/BAS may assist enterprises to communicate with potential investors, including the EBRD and EBRD-related financial intermediaries.

TAM has controllable, reportable and measurable delivery systems and a direct link through EBRD to a network of financial intermediaries. The EBRD and other donors have various credit and loan facilities, which are appropriate for the smaller enterprises in the event that they require finance for new equipment or process controls, etc. Some of these facilities are available in Bulgaria.

Overview of Activities in Bulgaria

To date, TAM/BAS has undertaken 214 projects in Bulgaria, utilising approximately €5.5 million of Donor funding. This includes major contributions from the EU, the Central European Initiative (CEI), and the Governments of UK, Austria and Japan.

Under Japanese funding TAM also assists enterprises in Bulgaria, which have ratified the Kyoto Protocol, to implement Clean Development Mechanisms (CDM). The advisors will also assist appropriate departments of the Bulgarian government to promote and develop CDM. The projects related to CDM activities will have synergy with EBRD banking teams in terms of Carbon Credit trading, for example with regard to energy efficiency. The CDM may also attract external investment in renewable energy and other projects to reduce greenhouse emissions and therefore contribute to the sustainable development of the economy.

Evaluation and Results

TAM/BAS define the success of their projects by measuring the sales growth, productivity and employment of the companies they have assisted.

Enterprises which have benefited from BAS assistance in Bulgaria have registered an average increase of 25 per cent in turnover, 7 per cent in employment and 17 per cent in productivity within the first year following completion of the project.

BAS provides services which conform to the real business needs of enterprises. Compared with other business consultancy programmes in Bulgaria, BAS offers entrepreneurs clear application requirements, prompt procedures for the assessment of application forms and greater.

The BAS approach has been recognised by entrepreneurs as highly effective in prioritising competing development needs (quality management systems, market research, introduction of new software, etc.). With the assistance of BAS Programme staff, entrepreneurs select the most qualified among a number of competent consultants to ensure best value-for- money execution of the service. An additional benefit of the familiarity with the circumstances of numerous local companies is the ability to direct them to other Programmes or resource centres. BAS clients benefit through the Programme's knowledge resources even after the completion of their particular projects as they turn for general advice to BAS personnel.

Feedback from BAS clients in Bulgaria is overwhelmingly positive and shows that: 71 per cent of clients have been very highly satisfied with their business performance post BAS (improvement of skills, market expansion, restructuring, cost reduction, etc.) as very successful; 70 per cent evaluated the consulting service projects as very successful; and 92 per cent rated the BAS Programme assistance (including procedure, timing, cooperation in selection of the consultant, etc.) as excellent.

The TAM Programme has proven transition impact and maintains a high success rating of 80 per cent across all of its countries of operation, including Bulgaria, based on independent evaluations of the results, such as improved management skills, increased productivity and better marketing.

In Bulgaria, TAM has assisted 22,500 workers in enterprises with an aggregate turnover of US$ 330 million.

TAM interventions in Bulgaria have led to an average increase in productivity of 55 per cent for 43 enterprises across the country, with an average increase of turnover per enterprise of 33 per cent.

Beneficiary testimonials

"If it wasn’t for the BAS Programme Assistance, I wouldn't use a management consultant for the reorganisation of my company; and, if it wasn't for that particular consulting project, I wouldn't know that there is a whole world of management knowledge out there, and how it could benefit my every day business. After the project, I figured out I need to increase even further my understanding of management, this is why now I am studying in a part-time MBA programme." *CEO, Furniture Manufacturer, Bulgaria*

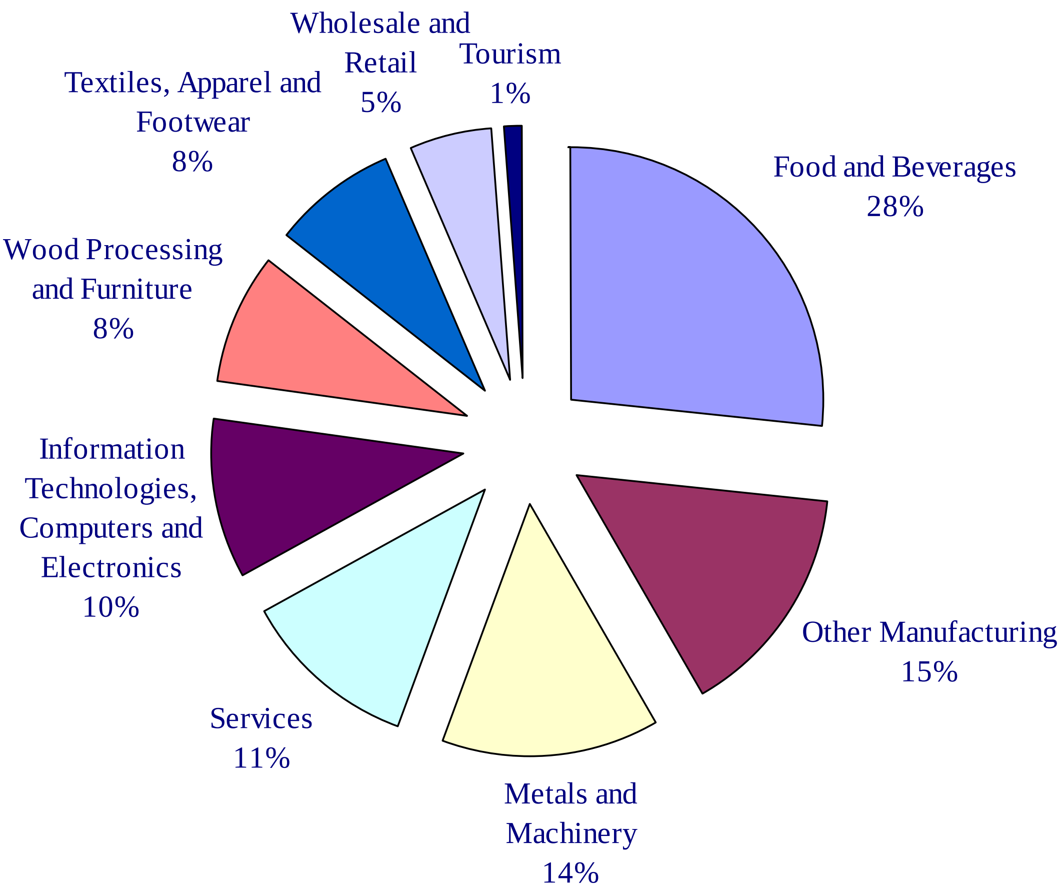
"We are completely satisfied with the correct selection of a TAM senior adviser with professional experience and background which perfectly suited our requirements. The project with the TAM programme clearly defined the way which our enterprise has to follow in order to become a real (effective) wholesaler in the Western manner." *CEO, Manufacturer of Alarm Systems, Bulgaria*

EBRD Investment and external financing for enterprises

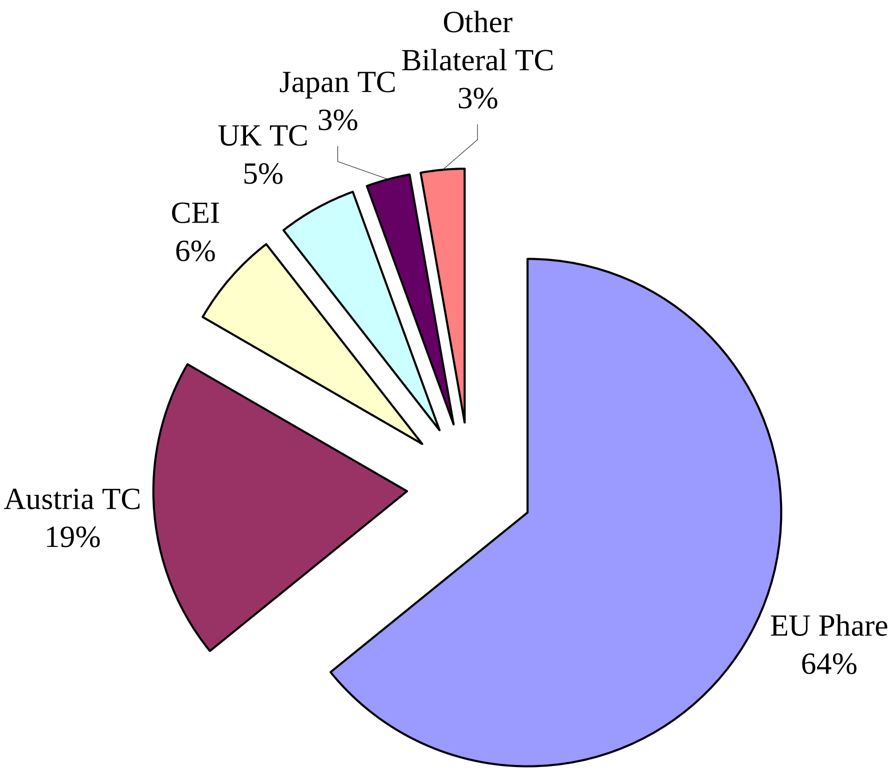
In Bulgaria, €4.3m of EBRD equity investments were attracted by 3 TAM enterprises.

BAS enterprises in Bulgaria have mobilised €80.1 million in loans and investments of which €11.95 million from EBRD's partner investment institutions.

TAM/BAS Activities in Bulgaria by Industry Sector (214 Projects)



TAM/BAS Activities in Bulgaria by Funding Source (214 Projects)



ANNEX 7: TRANSITION IMPACT EVALUATION AND LESSONS LEARNED

LESSONS LEARNED -2002-2004

2004

The importance of long-term strategic planning in equity investments. Divergence over strategic direction can lead to untimely exit. At entry, the Bank and the investee firm could agree a general strategic plan and financing plan, including financial policies as leverage and liquidity. A carefully planned budget and financial strategy on a rolling 5 year basis, approved annually at Supervisory Board level, may signal difficulties in advance and assist in the avoidance of the untimely exits. ***TBI Holding Company N.V. (Bulgaria/Romania)***

An agreed announcement of the exit by EBRD and TBIH together would have helped to allay concerns as to the potential local impact. In this connection it is worth noting that the EBRD presence in a market has considerable confidence value. Exiting therefore requires a careful strategy to ensure that confidence is maintained in the investee company, even though the exit judgment exercised by the parties may be justified. ***TBI Holding Company N.V. (Bulgaria/Romania)***

In a situation where Insurance Supervision is seen to be weak and where consumer protection is negligible, it is imperative that market practices of companies are monitored by means of ongoing market intelligence at local level. This will assist EBRD representatives at Supervisory Board level to influence responses to incorrect practices where they may exist. ***TBI Holding Company N.V. (Bulgaria/Romania)***

2003

Early engagement leads to long-term success in MEI projects. Judicious use of TC-funded technical assistance to work with government counter-part agencies early on during project preparation will lead to a more fully developed project concept, and a more successful privatization for utility services. ***SOFIYSKA VODA (BULGARIA)***

Need to brand the product also in the case of a natural monopolistic utility provider. For municipal projects emerging from privatization, a project start-up workshop is critical for knowledge sharing. The new company needs to “brand” the product to meet changing public perceptions and promote its new services. Effective public outreach is critical to gain public acceptance, especially when faced with necessary tariff increases. ***SOFIYSKA VODA (BULGARIA)***

Monopolistic utility service providers need strong independent regulators. Municipal utility projects require a strong independent regulator to act as an impartial independent body, with clear separation from political institutions, to ensure fair and equitable management of the sector. ***SOFIYSKA VODA (BULGARIA)***

Need for closer coordination and collaboration with other donor or MDB parties during preparation and execution of MEI projects. EBRD should more closely coordinate with other donors, both to harmonize expectations and to optimize project outcomes. This is especially true in the case of MEI projects which in part depend on capital improvements funded by other donors or IFI’s under an OBA scheme. ***SOFIYSKA VODA (BULGARIA)***

SELECTED LESSONS LEARNED FOR FUTURE STRATEGIES

Legal framework

It will become more important to ensure that legislation is developed to protect customers. In addition, therefore, to ensuring that adequate legislation and reform is in place at company/industry level, companies investing in immature markets will have to assist in the development of adequate legislation to protect consumers. Also, industry associations should adopt codes of conduct and best practice. The EBRD can support these efforts by encouraging its partners to take an active role in such associations and good market practice initiatives. There is room for applying TC monies in a constructive way to such ends. ***TBI Holding Company N.V. (Bulgaria/Romania)***

Specific controls for private entrepreneurial banks should include higher capital adequacy requirements and set market share criterion/objectives. A degree of related party lending is almost inevitably been found in young entrepreneurial banks, as some form of 'pocket banking' or 'business group treasury' rationale will have lain behind their formation. The best way to control this risk is to insist on a higher capital adequacy ratio than normally required of a more established bank. Particular concerns should be raised if the related party lending is between two or more financial sector operations, as these usually represent highly risky over-gearing of vulnerable capital. The risk of total failure of entrepreneurial banks lessens as their market share or franchise grows, and subject to specific country conditions, the Bank may gain a measure of control over (or comfort concerning) the risks of dealing with these banks by careful scrutiny of existing market share at entry and market share gain objectives during monitoring. ***FIRST INVESTMENT BANK (BULGARIA)***

Selecting and monitoring partners

Organisations whose objectives are primarily developmental are unlikely to be suitable equity partners for the Bank in projects intended to support the growth of entrepreneurialism. Common ground on commercial objectives needs to be established with equity partners at the outset. The Bank should carefully assess the commitment of not-for-profit partners to building the revenue earning capacity of projects that is required to achieve the Bank's transition objectives. Particular attention to the commitment and motives of partners should be paid when, as in this case, the Bank's partners are not putting their own capital at risk, but are utilising charitably given funds as a capital base. ***CARESBAC-BULGARIA A.D. (BULGARIA)***

Ensure that project agreements include provision for the Bank to take action it considers necessary in the event of poor performance by fund managers. The Bank must have recourse to remedies required to protect its investments. Where appropriate, shareholders agreements and agreements with other parties should include mechanisms enabling the Bank to rectify the adverse consequences of underperformance. In the present case, the not-for-profit status of the Bank's partners should have alerted the Bank to the possibility that the other shareholders would not give priority to the financial performance of the fund. ***CARESBAC-BULGARIA A.D. (BULGARIA)***

Corporate governance and management structure. In order to safeguard adherence to good corporate governance, it is important that project agreements require proper management structures be put in place both in the sponsor company and the project company. In this Project the Sponsor had grown rapidly into a diversified business, and the old management style was unsuitable and resulted in poor governance. ***CELHART AD (BULGARIA***

In a situation where Insurance Supervision is seen to be weak and where consumer protection is negligible, it is imperative that market practices of companies are monitored by means of ongoing market intelligence at local level. This will assist EBRD representatives at Supervisory Board level to influence responses to incorrect practices where they may exist. ***TBI Holding Company N.V. (Bulgaria/Romania)***

Use of TC

Early engagement leads to long-term success in MEI projects. Judicious use of TC-funded technical assistance to work with government counter-part agencies early on during project preparation will lead to a more fully developed project concept, and a more successful privatization for utility services. ***SOFIYSKA VODA (BULGARIA)***

Coordination with others

Need for closer coordination and collaboration with other donor or MDB parties during preparation and execution of MEI projects. EBRD should more closely coordinate with other donors, both to harmonize expectations and to optimize project outcomes. This is especially true in the case of MEI projects which in part depend on capital improvements funded by other donors or IFI's under an OBA scheme. ***SOFIYSKA VODA (BULGARIA)***

Environment

Capacity building through longer-term engagement of advisors. In complex process plants it is important to engage an environmental advisor/consultant longer-term, to ensure capacity building and transfer and implementation of processes for good environmental record. ***CELHART AD (BULGARIA)***

Environmental reporting. The environmental performance indicators, should include reporting on production-specific emissions, thereby allowing for easy comparison of environmental performance with industry standards and guidelines. ***CELHART AD (BULGARIA)***

ANNEX 8: ENVIRONMENT

The energy sector and environment

In the energy sector, the Bank will continue to play an important role to assist the sector to develop in a sustainable manner through investment projects whilst addressing environmental, health and safety issues associated with its ageing nuclear and thermal capacity. In the nuclear sector, the Bank is helping to decommission units 1 to 4 of the country's only operating nuclear power plant, Kozloduy Nuclear Power Plant (which generates 44 per cent of the country's electricity). The Kozloduy International Decommissioning Support Fund (KIDSF), administered by the Bank, was set up in 2000. The EU and 10 European countries have contributed close to €200 million to support the decommissioning and finance the preparation and implementation of projects that contribute to restructuring and modernisation of the energy capacity or help to improve energy efficiency of the country including the Sofia district heating energy efficiency project.

Assisted by grants from the Fund, the EBRD has set up two credit lines to Bulgarian banks for energy efficiency and renewable project financing. The first credit line for industrial energy efficiency for SMEs and renewable energy projects in the private sector launched in 2004 has proved to be successful resulting in 25 sub-projects for a total of approximately €12.5 million loans, and total project value of over €25.5 million, generating annually 8,000 MWH electricity savings and 160,900 GJ of heat energy savings. The second credit line for residential energy efficiency has just been extended; four loan agreements were signed in June and July 2005 with local banks for on-lending to households.

The Bank signed the first Kyoto Protocol-style carbon credits transaction under the €32 million Netherlands Emissions Reduction Cooperation Fund at end 2004. In this first project a Bulgarian paper mill (Paper Factory Stambolijski), which is jointly owned by the Bank and IFC, is going to reduce its Greenhouse Gas (GHG) emissions by switching from oil and gas to renewable biomass as a source of energy and will sell the resulting carbon credits to the Bank. The Bank is exploring another three projects under the Netherlands Emissions Reduction Co-operation Fund.

Bulgaria is committed to reducing GHG emissions by 8 per cent during 2008-12 with respect to 1988. The reduced industrial output in the 1990s combined with energy inefficiency (energy consumption relative to total output is more than seven times the average of OECD member countries) result in an annual emission of 10 million tonnes carbon dioxide.

The Bank has been involved in the upgrading of the Maritza East power plant complex including retro-fitting of flue gas desulphurisation on several units of Maritza East II and rehabilitation of Maritza East III. The Bank is going to provide a loan for Maritza East I to finance construction of a new 2X300 MW net lignite-fired power plant. The plant will replace an existing 500MW of capacity, of which 300 MW have already been phased out and dismantled.

In the 1990s Maritza's three power units were identified as Europe's number one environmental 'hotspot" for sulphur pollution. Locally-mined lignite coal, high in sulphur and ash content, is burned to fuel the power plants. The region where the Maritza complex is located has had a significant air quality problem, notably fine dust particulates and sulphur dioxide as a result of the operation of three large and inefficient lignite fired power plants, and also as the result of opencast lignite mining.

As a part of a national strategy to address this issue, a programme of replacing existing capacity as well as installing new abatement equipment on existing plants has been implemented. This has resulted in significant improvements of the local air quality in the past few years. The proposed Maritza East I project will be one of the country's largest foreign investment projects. The new plant will be using state of the art pollution control technology and will meet the relevant EU and Bulgarian emission standards for particulates. The project company has undertaken a public consultation and disclosure programme. Further public consultation was undertaken in the context of IPPC process in 2005.

The Bank is planning to invest in the privatisation of the electricity distribution systems which could lead to reduction in electricity losses and energy efficiency improvements. In the renewable energy sector, the Bank is considering financing a small hydro-power project. The construction of small scale hydropower would replace power generation capacity currently provided by nuclear and fossil fuels plants. The Bank continues to pursue energy efficiency projects

The water and waste water treatment sector

In the water and waste water treatment sector, the Bank has been targeting improvements in water quality and effluent loads in general. The Bank has been supporting Sofia Water Company's investment in the rehabilitation of the water and sewerage networks and signed a project that will enable the Burgas Water Company (BWC) to implement a programme of water and waste water infrastructure modernisation in Burgas and surrounding municipalities. The BWC project is a pilot project in Bulgaria, designed to complement significant EU ISPA grant finance.

After years of neglect and mismanagement in the water service sector water and waste water-related infrastructures is in poor condition. Water losses were reported at 56 per cent in 2003, compared to 15 per cent in 1980 and the rate of pipe breakage is 12 times higher than in the EU. The flow of private capital in the water sector is also limited given that institutional and regulatory framework is insufficiently developed. The Government of Bulgaria has recently taken steps to create an efficient water regulator and push forward necessary legal amendments that will allow use of EU ISPA funding.

The EBRD loan and the anticipated ISPA grant will also have a positive impact on tourism. The BWC currently provides water and sewage services to approximately 425,000 inhabitants of neighbouring. The company supplies water to two regional water companies in Varna and Sliven, servicing almost the entire Black Sea coast, a key region for summer tourism in Bulgaria. The Bank's involvement will allow the City of Burgas to comply with EU environmental directives and reduce pollution of the Black Sea. The Bank has recently signed two property development projects located in Varna region and is currently considering tourism development on the Black Sea coast. Such proposals will need to be carefully evaluated for environmental and social impact, and undergo public consultation, given the environmental sensitivity of the area, local concerns about development, and the seasonal nature of tourism. The Bank will continue to address waste water treatment provisions in relation to such projects to address environmental protection for the Black Sea.

Other sectors and environment

In the wood processing sector, the Bank will continue to apply rigid environmental standards based on best available techniques to mitigate environmental impacts. Environmental NGOs such as WWF have identified illegal harvesting as a problem in

Bulgaria. Although the Bulgarian legislation is very restrictive regarding the activities of the logging companies and regulates forestry activities from planning to controlling, in practice the authorities are not controlling harvesting effectively. Through a wood-related project, the Bank will have a particular focus on developing sustainable wood procurement practices based on internationally recognised principles of sustainable forest management. Especially, the Bank will promote voluntary and market-based mechanisms, such as certification schemes, for ensuring environmentally sound and sustainable wood material supply. Furthermore, the Bank seeks the opportunity to promote sustainable forest management certification through market mechanisms and is observing the availability of certified timber in Bulgaria.

Waste products from mining, currently generated in large quantities, represent the most significant environmental liability in this sector. Bank's financing of the copper and gold mine located at Chelopech, Sofia District, aims at improving the disposal of tailings, the rehabilitation of damaged areas from past industrial activities and improvement of the dam. A new green-field investment in a gold mine located near Krumovgrad in southern Bulgaria is currently under consideration. It will target a variety of environmental, occupational health and safety, and social/labour issues. An EIA has been completed and is currently being reviewed by the Bank. An Environmental Action Plan will be agreed with the Sponsor to ensure the project is structured to meet Bank requirements. The Bank's environmental staff visited the site and met with project stakeholders including NGOs in July 2005.

In the financial sector, a monitoring trip to Bulgaria to meet with NGO representatives was carried out in 2005 including site visits to the Bansko Ski Resort and Kresna Gorge. The Bank will continue to require that partner financial institutions in Bulgaria implement environmental due diligence procedures which are incorporated into the credit/investment appraisal process.

Public access to environmental information, public participation in decision-making and access to environmental justice.

Bulgaria ratified the Aarhus Convention in 2003. The 2005 report on implementation of the Convention was prepared by the Ministry of Environment and Water (MoEW) and underwent public review prior to being submitted to UNECE. No comments were received, despite notification to local NGOs of the consultation process. Bulgaria has adopted legislative measures for public access to information and prepares an annual state of the environment report. Public information centres have been established in both MoEW and regional bodies. A website (http://www.moew.government.bg) providing environmental information has been set up by the relevant ministry. The MoEW is working with NGOs to ensure that groups understand their rights under the Aarhus Convention. NGOs are provided an opportunity to comment on legal acts, strategies, plans and programmes concerning the environment and sustainable development.

A National Eco-management and Audit Scheme is being developed, and a National Eco-label Award Scheme will promote development, production, distribution and use of environmentally friendly products. A public register of pollutants will be shared with the European Register of Noxious Substance Emissions and used in integrated permits.

Legislation on environmental assessment has only been in force since 1 July 2004. There is as yet no completed procedure on environmental assessment and insufficient practice to permit summarising the implementation of the legislation. The involvement of the public in the EIA process is built in from the initial notification of the proposed project to the final decision.

A number of laws have also been passed including the right to justice on environmental matters. The awareness of the judiciary in this area of legislation is poor and results in slow implementation of the laws.