DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT

STRATEGY FOR BULGARIA

As approved by the Board of Directors at its meeting on 28 May 2008

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ABBREVIATIONS

BAS	Business Advisory Service
BAT	Best Available Techniques
BNB	Bulgarian National Bank
BSP	Bulgarian Socialist Party
BTC	Bulgarian Telecommunications Company
CPI	Corruption Perception Index
CRC	Communications Regulation Commission
CSD	Centre for the Study of Democracy
DFID	Department for Foreign and International Development of the UK Government
DH	District Heating
DIP	Debtor Insolvency Procedure
DPS	Movement for Rights and Freedoms
DZI	Former State Insurance Institute
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECA	Electronic Communications Act
EE	Energy Efficiency
EERECL	Energy Efficiency and Renewable Energy Credit Line
EIA	Environmental Impact Assessment
ESCO	Energy Service Company
ESF	European Social Fund
EU	European Union
EvD	Evaluation Department of the EBRD
FDI	Foreign Direct Investment
FI	Financial Institutions
FLAG	Fund for Local Authorities and Government
GDP	Gross Domestic Product
GERB	Citizens for European Development of Bulgaria
IAS	International Accounting Standards
IFIs	International Financial Institutions
ILO	International Labour Organisation
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
IPPC	The EU Integrated Pollution Prevention and Control
ISPA	Instrument for Structural Policies for Pre-Accession of the EU
IT	Information Technology
JASPERS	Programme for Technical Assistance for Countries Acceded to the EU
KIDSF	Kozloduy International Decommissioning Support Fund
LEVA	Bulgarian National Currency
LiTS	Life in Transition Survey
MEI	Municipal Environmental Infrastructure, Department in the EBRD
MoEW	Ministry of Environment and Water
MSME	Micro, Small and Medium-Size Enterprises
MW	Mega Watt
NATURA 2000	EU supported programme for protection of natural sites
NBFI	Non-Bank Financial Institutions
NDSV	National Movement for Stability and Progress

NETC	National Electricity Transmission Company, also known as National Electricity Company
NGOs	Non-Government Organisations
ODIHR OSCE	Office for Democratic Institutions and Human Rights of the Organisation for Security and Cooperation in Europe
OECD	Organisation for Economic Cooperation and Development
PFS	Paper Factory Stamboliyski
PIFCA	Public International Financial Control Agency
PPF	Post-privatisation Fund
PPP	Public-Private Partnership
REECL	Residential Energy Efficiency Credit Line
RWC	Regional Water Company
SAPARD	Special Accession Programme for Agriculture & Rural Development
SEA	Strategic Environmental Assessment
SEE	South East Europe
SME	Small and Medium-size Enterprises
SOFIBOR	Sofia inter-bank money-market index
STEM	Science, Technology, Engineering and Mathematics
TAM	Turnaround Management
TC	Technical Cooperation
TEN	Trans-European Network
ToR	Terms of Reference
TPP	Thermal Power Plant
UBB	United Bulgarian Bank
UN	United Nations
UNCITRAL	UN Commission on International Trade Law
UNECE	UN Economic Commission for Europe
UNEP	UN Environmental Programme
WB	World Bank
WWF	World Wildlife Fund

EXECUTIVE SUMMARY

Bulgaria continues to meet the conditions specified in Article 1 of the Agreement Establishing the Bank. Bulgaria's accession to the EU is an important landmark, rewarding a decade of coherent and prudent economic policies and structural reforms under the currency board framework. The hard and disciplined work of past years is paying off with sustained growth rates, falling inflation, declining unemployment and robust foreign investment inflows.

The economy is performing well and the right conditions are in place for it to continue to flourish: competitive pressures will further stimulate competition; membership to the EU has contributed to lowering the perceived risk associated with the economy thus making it a more attractive proposition for investors; and the availability of EU funds can potentially ease some of the existing bottlenecks to growth, in particular through regional development and upgrading of infrastructure.

EU membership is however not in itself a guarantee that economic conditions will continue to improve and that the country will attract sufficient investment levels to enable it to further stimulate productivity growth. The continuation of the current prudent economic policies and reform agenda are essential conditions for Bulgaria to make full use of the accession opportunities. Accession, on the other hand, has highlighted areas of concern and market gaps which were present before 2007, but which now are becoming more visible due to single market competitive pressures. The Bank will support Bulgaria to address these areas by focusing on projects, sectors and products in which the Bank has a leading innovative role and for which it remains additional.

Following its Assessment of Transition Challenges, the Bank had identified similar challenges in 2005 to those present in a much more binding way today, and had taken a clear position to concentrate its strategic priorities in those areas where progress towards a well functioning market economy was lagging behind. Its attitude for example was that of diminishing its attention to the already competitive and sound banking sector, albeit preserving the right to intervene with its investments in areas where transition gaps remained. As of December 2007, the Bank had made cumulative commitments of €1.546 billion to 118 projects helping to mobilise €5.908 billion for Bulgaria.

The following key areas must be addressed to eliminate remaining obstacles to competition and structural bottlenecks which would otherwise limit the competitiveness and growth potential of the country:

- Post-accession challenges include preserving a stable macroeconomic environment. The large external imbalance does not represent an immediate threat, being completely financed by large FDI inflows. At the same time, there has been very rapid property price inflation and the real estate sector may be vulnerable to changes in sentiment, including from foreign capital. The current emphasis on a tight fiscal policy should help manage the consequences of an unexpected external shock. Attracting private funding to address some of the major infrastructure bottlenecks would be very welcome in this context to provide some relief to fiscal policy, the one policy instrument left to the authorities within the currency board regime.

- Single market pressures and competition from Asian markets are forcing the economy towards some important structural changes: production will inevitably have to shift towards higher value added productions and provision of more sophisticated services. At the same time, however, large migration flows experienced in the recent past are depriving the country of higher skilled labour. Significant challenges lay ahead in the field of education and training and in the short term within the realm of income policies, to ensure that wage growth does not exceed productivity growth. Rural areas still lag behind, with particularly limited access to finance and technology.

The EBRD can help address these problems by providing finance to locally owned medium-to-large sized companies facing considerable investment needs across many sectors including services and technology. While bank credit is available on a reasonable scale to local corporates, there is a lack of equity capital, due to the relatively low level of development of capital markets. Support for local enterprises will be a priority with a special focus on enhancing local business competitiveness and investment in modernisation to allow the local private sector to cope better with enhanced competition following accession. The Bank will diversify its range of products to include more high-risk instruments such as equity, mezzanine, and structured debt. Financial tools, such as dedicated credit lines utilising EU post accession funds, will be tailored to help local businesses to meet EU environmental standards and to improve their energy efficiency. Promoting investment and supporting productivity increases will be key in particular through projects that assist in the development of less advanced regions or stimulate cross-border trade and investment.

- National infrastructure needs to be upgraded, in particular in the transport sector to ensure a more even distribution of productive resources and facilitation of regional trade and investment flows, however, funding for this upgrade cannot rely entirely on public finances. In this context, the Bank will seek to mobilise greater private sector involvement through government supported PPP structures in the modernisation of key transport infrastructure, particularly in the roads and motorways sector, to address physical bottlenecks and promote regional links in line with the Government's National Strategy for Infrastructure. Investment in municipalities' infrastructure needs to be addressed in the context of their limited capacity to raise the required funding and their implementation capacity.

  The Bank will support the upgrading of municipal infrastructure throughout the country. Although fiscal decentralisation has not yet been completed, the Bank will be able to help mobilise EU structural and cohesion funds via innovative structures (for example, the establishment of a vehicle by the Government and the Bank to provide co-finance for EU post accession funds to smaller, less creditworthy municipalities). This will allow the Bank to provide financial support to a wider range of municipalities. Through policy dialogue the Bank will seek to stimulate devolution of ownership of municipal services. Further opportunities for public-private partnerships in the water and municipal sectors will be explored. The Bank's main focus will be on water and waste water, solid waste, energy efficiency and urban transport.

- High energy intensity issues need to be addressed. 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. The Bank will invest with the private and public sector in both energy generation, and enhanced transmission and distribution in conjunction with appropriate regulatory and institutional reform. Close collaboration will be maintained with the donor community of the Kozloduy International Decommissioning Support Fund. As part of the Bank's Sustainable

Energy Initiative, projects promoting renewable energy sources and energy efficiency will be a priority together with projects supporting improved regional integration and interconnectivity in the energy field, with the aim of helping enhance Bulgaria's energy security and its position as a regional energy hub.

The business environment in Bulgaria has improved since the last strategy as recognised by the World Bank's Doing Business 2008 report. To further enhance the investment climate the authorities have acknowledged that improvements in the functioning of the judiciary and in tackling the presence of corruption and organised crime remain at the forefront of their efforts to ensure that Bulgaria remains an attractive investment destination in the global environment.

The Bank will continue regular policy dialogue and its support to the authorities and market partners in improving the business environment in Bulgaria, where much remains to be done. It will continue to ensure that all EBRD operations in Bulgaria are subject to the Bank's Environmental Procedures and incorporate, where appropriate, Environmental Action Plans. The Bank will continue to be a major catalyst in mobilising commercial and public co-financing, and will co-ordinate its strategy with the EU in order to achieve maximum impact.

1. THE BANK'S PORTFOLIO

Within the last strategy period, the Bank's portfolio has further developed, with new business volumes of €543 million including 41 direct new operations of which all but three being in the private sector. Cumulative commitments have now reached €1.546 billion as at the end of December 2007, materially contributing to Bulgaria's transition and convergence process.

1.1 Overview of activities to date

As of 31 December 2007, the Bank had achieved a cumulative business volume of €1.546 billion across a broad range of sectors: Corporate 31%; Energy 21%; Financial Institutions 37%; and Infrastructure 11%. The Bank has signed 118 individual transactions, mobilising total funding of €5.908 billion. The outstanding portfolio amounts to €830 million, of which €428 million is in operating assets. The portfolio growth since October 2005 has been 42.1 per cent. Project pipeline stock as of December 2007 comprised of over €332 million.

Chart 1: Annual Business Volume in € millions per year

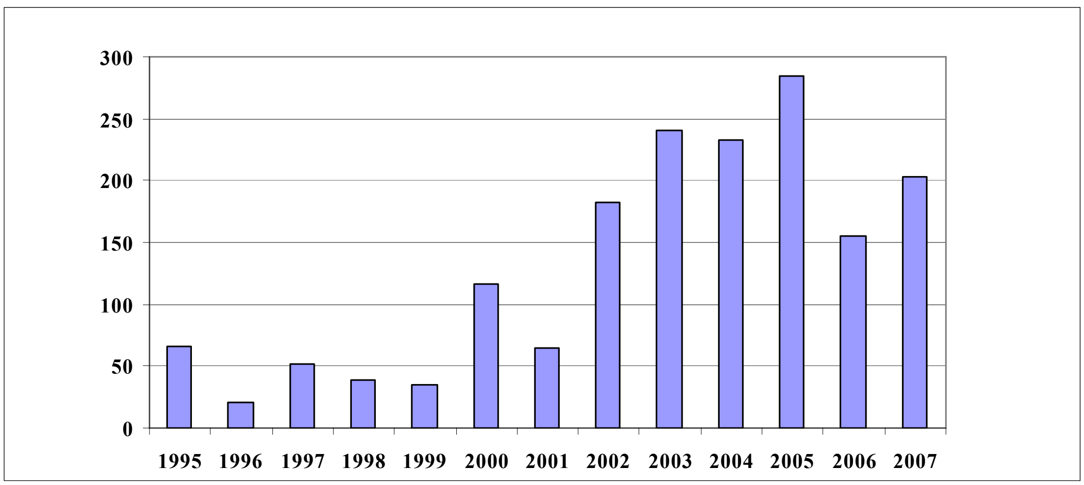


Chart 2: Number of Operations for last 5 years

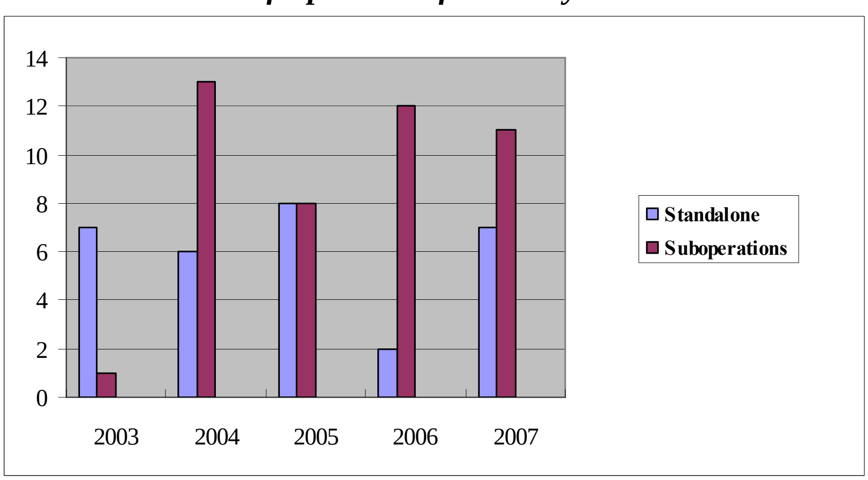


Table 1: Bulgaria Portfolio Development (2005 – 2007)

Indicators	**October 2005**		**December 2007**	
	Amount	%	Amount	%
Projects in public sector	154	26	143	17
Projects in private sector	430	74	687	83
Total:	**584**	**100**	**830**	**100**
- of which: Loans	488	84	648	78
- of which: Equity	96	16	181	22

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

The current sectoral breakdown of the net portfolio is: Corporate €122 million (15 per cent); Financial institutions €362 million (43 per cent); Energy €239 million (29 per cent); and Infrastructure €107 million (13 per cent).

1.1.1 Portfolio ratio and quality

The distribution of the Bank's portfolio in Bulgaria includes operations in all sectors with some concentration in the FI and Power sectors.

The debt to equity portfolio ratio is 78 per cent to 22 per cent.

The overall performance of the Bank's portfolio has been good; the amount of impaired assets during the review period has been further reduced from €2.2 million to €1.8 million.

Based on the portfolio of €830 million, the private/public portfolio ratio stands at 83/17 per cent; the private sector share has increased since the beginning of 2005, when it was 81/19 per cent.

Finally, 100 technical co-operation projects totalling €28.3 million have been approved (see Annex 5).

1.2 Implementation of the previous country strategy

The last country strategy, approved in December 2005, outlined the following strategic priorities for the Bank in Bulgaria:

- In the enterprise sector, promote the recapitalisation, increased competitiveness, and EU compliance of the local private sector, and continue strong support for FDI, particularly greenfield;

- In the infrastructure sector, increase lending to municipalities and regional water companies through non-sovereign financing and public-private partnerships, and support private sector investment in transport infrastructure, particularly airports, ports, roads and railways, in order to remove bottlenecks in the economy and promote regional links;

- In the power and energy efficiency sector, further support Bulgaria's role as energy hub to enhance regional integration, and aim to reduce the country's high energy intensity;

- Continue to be a major catalyst in mobilising co-financing, both commercial and donor, whilst helping to increase Bulgaria's absorption capacity of EU funding.

During the period October 2005 to December 2007 the EBRD has concluded 38 private sector operations in Bulgaria together with three public non-sovereign transactions adding to Bulgaria's transition and convergence process. The Bank's net business volume in Bulgaria has increased by 54 per cent since October 2005, with cumulative commitments of €1.546 billion as at the end of December 2007.

While implementing its previous strategy, the Bank has acknowledged the dynamism of the transition process in Bulgaria, especially in the last two years. Bulgaria has become an attractive foreign investment destination especially in the fields of financial sector services and property development, as well as energy and infrastructure. The Bank has played a key role in promoting FDI in some of the said fields since the late 1990's not only by providing long-term funding, but also in direct equity partnerships and provision of TC supported by donors. As a result, competition, for example, in the financial sector has become fierce, especially in the last couple of years. Local financial intermediaries have increasingly become more apt in funding the economy on their own, including on progressively longer terms and lower pricing. As Bulgaria moved closer to EU accession and especially since January 2007, FDI inflows have become bolder with mother companies directly financing their local subsidiaries at a low cost and long terms.

These factors are putting the Bank's *additionality principle* to the test and have contributed to a decline, in nominal terms, of the business volume both in number of operations and amount of financing the Bank provided in Bulgaria during the last strategy period (*see Charts 1 and 2 above*). However, in terms of innovation and impact there has been a major shift in the product and client mix reflecting the evolving market.

The Bank is responding to the new challenges in 2007 by allocating additional resources to the Energy Sector, by taking steps to strengthen the Bank's capacity in the local corporate sector and by concentrating on more tailor-made financing instruments (e.g. more equity, mezzanine and longer tenors) and innovative dedicated facilities to help address existing bottlenecks in infrastructure (including municipal), energy efficiency, renewable energy sources, local business competitiveness and the environment. Another dimension is the continued partnership with the Bulgarian authorities and the persistent policy dialogue in further enhancing the business environment including for local enterprises and SMEs, and improving the competitiveness of the Bulgarian economy, not least achieved with the generous support from donors for relevant TC projects. These and other measures are discussed in more detail in this document.

During 2005, and excluding regional operations, the EBRD concluded 16 new operations in Bulgaria. All of them were in the private sector, except the Bourgas Water Investment transaction, a commercial loan to a regional water company, with EU-ISPA co-financing. Annual business volume was at a record level of €285 million. Noteworthy transactions included the Maritza East 1 project with AES (a new 600MW TPP) and the co-investment with strategic sponsor E.ON in the electricity distribution companies serving north-eastern Bulgaria. Also important achievements were two projects with local private businesses –

Svilosa a pulp producer, financed via syndication and Belvedere a wine producer, via debt and equity. Building on the Bank's work with industrial SME energy efficiency and renewable energy credit lines, a landmark transaction was the €50 million energy efficiency facility for the residential sector with co-financing from the Kozloduy International Decommissioning Support Fund. A further new feature was the inclusion of the Bank's first ever local currency financing. Other innovations were the Bank's first mining project in Bulgaria, and the first direct property and tourism project: financing the construction of the first international-standard 5-star hotel on Bulgaria's Black Sea coast.

In 2006, excluding regional operations, the EBRD concluded 14 new operations in Bulgaria. All of them were in the private sector, except the Rousse Water Investment transaction, which was the Bank's second financing of a regional water company providing financing on a commercial basis with EU-ISPA co-financing. Total annual business volume stood at €155 million. The Bank continued with the first Bank-wide Energy Efficiency and Renewable Energy credit lines extended via local banks for both industrial SMEs and households with co-financing from the Kozloduy International Decommissioning Support Fund (KIDSF). By the end of 2006 KIDSF committed €298 million of grant funds, approximately half of which financed or co-financed energy efficiency projects, whilst the other half supported the decommissioning process in Kozloduy. These successful co-financing structures are recognised as good practice and models for other Bank countries of operation. Another significant transaction included Boni a locally owned private meat processor where debt funding was provided for energy efficiency and improved environmental standards in accordance with EU requirements. Also an important, albeit modest in size transaction in 2006 was the mezzanine financing of a local mobile network provider and IT services company Telelink. This was one of the first mezzanine type financings in Bulgaria.

As of 31 December 2007, eighteen new operations were signed. The total business volume was €203 million. The Bank has continued its support for the utilities sector, outside the capital Sofia, supporting regional water companies owned by the government, with the signing of the Stara Zagora Water and Plovdiv Water projects. Additionally, further financial support is in preparation for Sofia Water Infrastructure and Sofia Public Transport demonstrating the enhanced potential for the strong development of the Bank's work in the Municipal sector. In addition, the Bank's first Small/Medium Municipal Finance Facility in Bulgaria was signed. Signings also included rural SME, energy efficiency and renewable energy credit lines with co-financing from KIDSF. An innovative small hydropower cascade, Vez Svoghe on the river Iskar was transacted and involved syndication of the loan. A project with Wienerberger a world leader in brick production was signed for production of bricks locally for the Bulgarian construction market. Two further energy efficiency credit lines with local partner banks with co-financing from the EU were signed together with a project with an innovative ESCO fund with local construction and engineering company Enemona and an equity investment in a local corporate.

Also, during the first half of 2007, the Bank saw a new Carbon Credit transaction with the Bank financed Svilosa Pulp Mill materialise within the framework of the EBRD managed carbon trading fund for the account of the Dutch government. In addition, the Steering Committee for the Joint Implementation Mechanism created by the Kyoto Protocol, headed by the Minister of Environment and Water, also approved two further projects supported by the Bank – Sofia Water System and Vez Svoghe HPP Cascade.

1.3 Transition Impact of the Bank's portfolio and Lessons Learned

The Bank has played a marked role in promoting and supporting Bulgaria's transition to a functioning market economy, investing in a considerable number of projects to support private sector development and FDI in energy and energy efficiency, banking, telecommunications, as well as projects in property and tourism, agriculture and general industry. Through these investments, and the direct participation in the executive boards of investee companies, the Bank has been able to contribute to improved corporate governance practices and help raise general business standards.

The Bank has been intensively engaged with the government, government bodies, municipalities, business associations, and NGOs in a generally fruitful policy dialogue. The Bank assisted with the establishment of the state regulator for electricity and water, and engaged in active dialogue to promote private sector investment and FDI in particular.

The Bank has drawn valuable lessons from these activities, especially with regards to co-operation with various government bodies; corporate governance; privatisation processes; and debt absorption capacities of public entities. The Bank will build on this experience to strengthen further co-operation with the Bulgarian authorities and the business community in order to support the commercialisation of the remaining state and municipal companies, and to the further development of the SME sector. In particular, to maintain transition momentum the Bank must increasingly consider more innovative and riskier projects with smaller local or foreign corporates, and more efforts are needed to help local businesses face EU post-accession challenges.

1.3.1 The Enterprise Sector

Agribusiness –The Bank operations such as Billa, Boliari, and Migros Foodstores have had some impact on competition in the sector, improving the range and quality of available products and related hygiene standards. Since 2006, the restructuring of Boni (a local meat producer) is supported by the Bank and generated some impact with regard to increased efficiency of production and the introduction of animal welfare standards in Bulgarian pig farms.

Natural Resources - The Bank had the opportunity to support increased competition and to contribute to setting standards of business conduct and EU health and safety regulations in the fuel retails business through its Opet-Aygaz operation. Additionally, in 2005 the Bank signed a transaction with the Chelopech gold mine which contributed to the introduction of modern mining technology and practices, and an improvement in the efficiency and environmental performance of the mine.

Industry –The operation for the Pulp and Paper Factory Stambolijski (PFS) under the Netherlands Emissions Reductions Cooperation Fund programme contained inter alia a TC funded energy audit in 2003. PFS has successfully switched from oil and gas to biomass energy for reducing its greenhouse gas emissions with a view to sell the carbon 'credits' in the future.

Property & Tourism - There has been only limited impact achieved through the regional property funds, such as Europolis II and TriGranit III. These facilities focussed mostly on increasing competition in the sector, by financing development of modern office, warehouse, logistics and retail property.

Telecommunications – The Bank effectively supported the privatisation and restructuring of the dominant operator BTC. On the regulatory side, an amended Telecommunications law was adopted and tariff rebalancing is on track, with substantial price changes introduced. A ***lesson learned*** from the project with Bulgarian Telecoms is that essential reforms can be achieved through the Bank's active involvement in privatisation of the sector's incumbent (PEX06-281).

Overall, transition impact within the *Enterprise* Sector is rated *Moderate*.

1.3.2 The Financial Sector

Banking – The Bank played a major role in the privatisation and restructuring of United Bulgarian Bank (UBB). With equity investments, such as the one in Unionbank, the Bank was able to streamline lending operations, establish a proper risk management system and develop an adequate marketing strategy. The Bank has supported the development of new financial instruments and facilitated refinancing of mortgage receivables in the secondary market. A ***lesson learned*** from the Bank's TC support to Unionbank is to closely involve the client's senior management in project preparation, e.g. through the joint development of the ToR (PE05-327S).

NBFI - The Bank has facilitated the privatisation of one of the largest insurance companies in the country and has been involved in an active policy dialogue on pension reform via the pension provider Doverie. With these investments as well as the introduction of new investment vehicles and products, the Bank has played an important role in developing capital markets in Bulgaria. A ***lesson learned*** from the engagement with TBI Holding Company N.V. is the long gestation period, seven to ten years, recommended for pension fund firms in order to achieve their potential (PE04-281).

SME & MSME – Under the EU/EBRD Framework Facility for SMEs, credit lines and TC were extended to Hebrosbank, UBB, Unionbank, and others. The Bank stimulated healthy competition in the sector through its equity participation in ProcreditBank Bulgaria, a dedicated microfinance bank operating since 2001. A ***lesson learned*** from ProcreditBank points to the need to diversify funding to secure the long-term sustainability of a greenfield-investment. Coupling IFI funding and tapping commercial markets, e.g. through bond issues sends a strong demonstration message to the market (PEX05-245).

Private equity funds – A number of regional private equity funds have covered Bulgaria, including the Euromerchant Balkan Fund and the Black Sea Fund, which mainly contributed to the growth of the sector and Bulgaria's general development to a regional hub in the SEE private equity markets. A ***lesson learned*** from the project with Caresbac Bulgaria is to carefully assess the commitment of not-for-profit equity partners for the Bank's transitional goals and required returns on investments at the outset of an operation. (PE02-215).

Overall, transition impact within the *Financial* Sector is rated *Significant*.

1.3.3 Infrastructure

Power - The Maritza East I-III projects are the dominant Bank activities in this sector, whilst a constructive policy dialogue led to a new Energy Law, the establishment of an independent regulator, and the separation of generation, transmission and distribution. Thus, the Bank's involvement has contributed to the development of an increasingly private and liberal environment.

Energy Efficiency **–** The Energy Efficiency and Renewable Energy Credit Line Facility (EERECL) and the Residential Energy Efficiency Credit Line (REECL) led to an increased awareness of energy issues. Especially the REECL project has been successful in building skills related to EE lending within PBs and at least some of the banks have integrated REECL into their consumer product range.

MEI **–** The Bank has worked closely with the municipality of Sofia, however all projects experienced – partly severe – difficulties. The Sofyska Voda Project suffers from disputes between the City and the concessionaire, the municipal loan to the urban transport company sees only one out of three components running and the municipal district heating (DH) appears only partly successful.

Transport **-** The Bank had only limited presence in the sector with the 1993 approved road project focused on completing a section of the Pan-European network and a comprehensive railway restructuring study. A ***lesson learned*** from the TC funded Sofia Parking Project is that even with a signed Mandate Letter, there is a risk that the commitment of the Client to the Project could fade away as a result of political discussions and changes to the overall reform agenda (PE05-327S).

Overall, transition impact within the *Infrastructure* Sector is rated *Moderate.*

1.3.4 TAM and BAS Programme in Bulgaria

TAM has been operating in Bulgaria since 1998 and has provided 57 projects, utilizing €3.05 million in funding from the EU Phare Programme, various bilateral donors, including Luxembourg, United Kingdom, Belgium and Japan.

BAS has been operating in Bulgaria since November 2001 and has provided 268 projects, utilizing over 1.3 million from the EU Phare Programme, The Federal Ministry of Finance of Austria, Central European Initiative, DFID and Luxemburg. BAS Bulgaria has succeeded in developing a thriving local consultancy market and has assisted SMEs to meet EU standards required following accession and to enhance their competitiveness by improving management effectiveness and market performance, reducing cost, and implementing Quality Management Systems and Certification.

TAM and BAS are currently continuing to operate in Bulgaria as the SME sector in the country is still in need of these services, but the programme over this strategy period is expected to phase out. Meanwhile it will focus primarily on underdeveloped rural regions and initiatives related to assisting companies to compete in the EU markets. TAM/BAS therefore plan to continue a progressively scaled down programme, aiming for approximately €0.16 million to carry out additional TAM projects, and extending the current BAS Programmes in Bulgaria possibly until the end of 2008.

1.4 Mobilisation of Co-financing

In addition to its own cumulative commitments of €1.546 billion, the Bank helped to mobilise a further €4.362 billion of co-investment over the 1991-2007 period, representing a multiplier of 3.82[1]. The total value of projects in which the Bank participated is €5.908 billion.

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

The Bank remains ready to leverage co-financing from commercial banks and EU Structural and Cohesion Funds, particularly in the framework of large syndicated infrastructure projects in sectors such as energy, environment and municipal infrastructure. The Bank's risk mitigation and coordination role was key in mobilising co-financing for large transactions such as Maritza East I thermal power plant together with AES, and the North East power distribution company project together with E.ON.

2. OPERATIONAL ENVIRONMENT

2.1 The General Reform Environment

2.1.1 Political background

The period after the adoption of the previous strategy has witnessed further stabilisation of the political system. The coalition Government, led by the centre-left Bulgarian Socialist Party (BSP), established following the parliamentary elections in 2005 and comprising the centre-right National Movement for Stability and Progress (NDSV) and Movement for Rights and Freedoms (DPS), is leading a pro-reform course, like the previous centre-right Government.

The outcome of the elections for the European Parliament, held in May 2007 and the municipal elections in October 2007 showed decreased popular support for the ruling coalition parties and a shift in the balance of political forces. Yet, the coalition, which continues to enjoy a comfortable majority in the Parliament, is expected to carry on until the end of its term in 2009, albeit with possible reshuffles. The ruling BSP remains one of the strongest political parties, with a well-established net of local branches and a high coalition-building potential.

The newly established opposition political party GERB was one of the main winners of the elections to the European Parliament held in May 2007 and municipal elections conducted in October 2007. Although it does not have any MPs in the national Parliament, GERB is currently the strongest opposition party. The other opposition right and centre-right political parties remain fragmented.

2.1.2 EU accession

Bulgaria’s top foreign policy priority is further integration into EU, and there is a relatively high level of popular support to that objective. Much of Bulgaria’s progress with economic and structural reforms was geared towards EU approximation. Bulgaria signed the EU accession treaty in April 2005. It joined the EU on 1 January 2007.

Bulgaria’s accession to the EU was accompanied by a set of specific accompanying measures, put in place to prevent or remedy shortcomings in four areas: aviation safety; food safety; agricultural funds; and judicial reform, fight against corruption and organised crime. For the latter, a mechanism for cooperation and verification of progress was established, with reports requested on a six-monthly basis for a period of up to three years. (see *2.1.5. Integrity Issues*).

2.1.3 Labour issues

The unemployment rate declined to 6.9 per cent at the end of 2007, from 10.7 per cent in 2005 and the labour force participation increased to 52.6 per cent from 49.7 per cent during the same period, as a result of the strong economic growth, favourable business environment and government action. Labour market flexibility was enhanced by the amendments to the Labour Code introduced in 2006. As an additional incentive for employment creation, the government has shifted part of the burden of social security contributions from employers to employees by changing the employers/employee contributions ratio from 65:35 employer- employee in 2006 to 60:40 on 1 January 2008.

On the other hand, long-term unemployment, albeit down from 59.7 per cent at the end of 2005, is still high at 57.3 per cent of total unemployment. Given the current mismatch of skills and competencies which has been worsened by the brain drain resulting from emigration, a comprehensive reform of the education system is needed to support labour market needs.

Approximately 18 per cent of the total workforce is unionized. Bulgaria has ratified the core ILO Conventions. The Labour Code sets the minimum age for employment and the minimum age for dangerous work; child labour laws are enforced well.

2.1.4 Social conditions

The decline of the population (which was, according to the 1992 census, 8.4 million, according to the 2001 census 7.9 million, and which was estimated at 7.7 million in 2006) continued along pre-transition trends, including aging of the population, relatively low birth rate and migration. According to the UNDP Human Development Index (HDI), Bulgaria belongs to the group of countries with high human development. Life expectancy is 72.4 years (2004). Bulgaria is an urban society, with just under 70 per cent of the population living in towns. According to the 2001 census (in which participants were free to state their ethnicity) ethnic Bulgarians accounted for 86 per cent of the population, ethnic Turks 9 per cent and ethnic Roma 4.6 per cent.

Poverty in Bulgaria is declining. According to the World Bank the share of population living in poverty fell from 24 per cent in 2001 to 21.9 per cent in 2003, on account of improvements in rural areas. However, several issues remain to be addressed in the area of social inclusion: there is still significant regional disparity in living standards, with the poorest regions up to three times poorer than Sofia, as well as disparities between urban and rural population. Some studies also suggest that poverty is increasingly becoming a phenomenon characteristic of vulnerable groups, such as the ethnic Roma, whose socio-economic, educational and labour market participation status is significantly lower than the average nation-wide. Bulgaria has adopted various strategies to combat poverty and social exclusion over the last years, including the Strategy for Combating Poverty and Social Exclusion, National Strategy on Equal Opportunities for People with Disabilities, the Strategy for Educational Integration of Children and Students from the Ethnic Minorities, and the Joint Inclusion Memorandum.

2.1.5 Integrity issues

As noted in 2.1.2 above, Bulgaria's accession to the EU was accompanied by a set of specific accompanying measures, including a mechanism for cooperation and verification of progress in the areas of judicial reform, fight against corruption and organised crime. The first report under the mechanism, issued by the EC on 27 June 2007, acknowledged progress in these areas, such as the adoption of Constitutional amendments removing ambiguity regarding the independence and accountability of the judicial system, the improvement of transparency of the judicial process, the enhancement of accountability, professionalism and efficiency of the judiciary, and the prevention and fight against corruption at the border and within local government. The report, while acknowledging that that there has been insufficient time since the accession in January 2007 to demonstrate convincing results in key areas, also identified concrete issues that require further work, particularly in the areas where the progress has been assessed as 'insufficient' (i.e. in the judicial treatment of high-level corruption cases and in the fight against serious and organised crime).

Transparency International ranked Bulgaria in its 2007 Corruption Perception Index (CPI) report as 64 out of 179 countries. The CPI score of 4.1 places Bulgaria as 9th among the Bank's countries of operation and at the same time as 9th among the 'new' EU members.

2.1.6 Legal Reform

In the context of its recent EU accession, Bulgaria has continued to improve its commercial legislation. As a result, a number of legal areas are now equipped with good quality legislation and satisfactory implementation procedures. According to the assessments conducted by the EBRD, securities markets legislation, insolvency law and pledge law are governed by modern sets of legislation in accordance with international standards. Some concerns remain with the regime for taking security over immovable property which needs to be upgraded. Further concerns have been expressed as to the efficacy of corporate governance mechanisms for minority shareholders protection and as to the application of legal provisions, in particular in the insolvency sector, by the courts. Despite all the recent improvements to the legislative framework, reforming the judiciary remains a priority for the country. This was highlighted in the EC June 2007 report on Bulgaria, which stressed the need for the country to improve its judiciary's independence, transparency and professionalism.

2.1.7 Environmental issues

Bulgarian environmental legislation is essentially in place and largely in line with European Union legislation. Due to the lack of financial resources required to implement all EU Directives for environment within the defined time limits transitional periods for a number of requirements relating to the implementation of ten directives from European environmental law have been negotiated. The European Commission notes that as a new member of the European Union, Bulgaria's challenge is in the implementation of the new environmental legislation and building the capacity for implementation at regional and local level.

Bulgaria has transposed the Habitats and Birds Directives and completed the Natura 2000 list sites in November 2007. Regarding the procedures for a specific assessment under Article 6(3) of the Habitats Directive, a Regulation has been adopted and a procedure has been established.

Bulgaria delayed the issuance of the IPPC permits beyond the 30 October 2007 deadline set in the IPPC directive.

An Operational Programme for the Environment in Bulgaria for 2007-2013 has been agreed with the European Commission and forms part of the National Strategy for the Republic of Bulgaria. The Programme is based on the goals and priorities of EU environmental policy, reflects the international environmental commitments Bulgaria has undertaken as well as the commitments undertaken to the EU in the pre-accession period and specific national interests. It analyses the current status of the environment in terms of water, waste, air, greenhouse gas emissions, biodiversity and noise and sets strategic objectives, including protection and improvement of the condition of water resources, improvement of waste management and soil protection, and preservation of biodiversity and nature protection.

Bulgaria continues to face severe environmental problems particularly in water and waste sectors with much more effort and investment needed in the treatment of waste water treatment and new landfills. Finance for these and other environmental sectors to enable them to achieve EU requirements will come from EU Structural and Cohesion Funds, public money, public-private partnerships and IFIs. Much is being done to strengthen the administrative capacity in order to support municipalities in designing projects and obtaining funding. Donor funding for the project preparation phase will be crucial as project preparation can account for up to 10 per cent of the total costs before funding is secured.

Bulgarian and international NGOs claim a number of shortcomings in environmental practices: narrowly defined scope of Environmental Impact Assessments (EIAs) and public consultation in order to facilitate positive outcomes; perceived lack of trust in the judicial system in terms of environmental justice; few Strategic Environmental Assessments (SEAs) carried out in renewables, forestry and tourism; inadequately enforced legislation in small hydro projects resulting in habitat damage; decentralisation of some decision making to the municipalities leading to conflicts between local and national interests.

The EBRD's environmentally sustainable approach supports the country's implementation of its environmental legislation and addresses key environmental concerns, focusing on further improving specific environmental management areas through EBRD's projects. Investing in environmental improvements to meet EU standards is an ongoing process and the Bank will continue to cooperate with other institutions to enhance environmental improvements.

A background section on environmental issues in Bulgaria and examples of recent projects can be found in Annex 7.

2.2 Progress in Transition and the Economy's Response

2.2.1 Macroeconomic conditions for Bank operations

Buoyant domestic demand (mainly reflecting a private investment boom) stimulated strong output growth. The economy grew by 6.2, 6.3 and 6.2 per cent in 2005, 2006 and 2007 respectively. Labour productivity increased substantially in services and industry as a result of high investment levels in these two sectors. Supported by a well functioning currency board and by sound income and fiscal policies, until mid 2007 the disinflation process progressed well, even in the presence of strong growth of domestic credit and of the accession related excise tax rate increases. In June 2007 inflation had dropped to 5.6 per cent from 8.4 per cent twelve months earlier. However, because of capacity constraints (labour market conditions tightening leading to an acceleration of wage growth to around 20% in the first three quarters of 2007, outpacing productivity growth in the same period and following years of subdued wage growth), and of the effects of the summer draught, of the higher global energy prices and of higher international food prices, inflation picked up at end 2007 to 12.5 per cent.

An element of concern is the large external deficit. The current account deficit widened from 6.6 per cent of GDP in 2004 to 15.7 per cent of GDP in 2006 and further to 21.7 per cent in 2007. In 2006 this mainly reflected declines in accounts other than trade, whereas in 2007 it clearly reflected increased imports associated with an investment boom.

The financing of the current account deficit has been supported in the short-term by very strong flows of net foreign direct investment (which covered 120 per cent of the deficit in 2005, 100 per cent in 2006 and 98 per cent in 2007). Over the last years the flows of FDI have increased from €1.9 billion in 2003 to a record of €6.1 billion in 2007, one of the highest FDI per capita in the region. However, the fact that 35 per cent of FDI in 2007 are linked to investments in real estate and 32 per cent to financial intermediation while only 4 per cent of FDI in 2007 were targeting manufacturing , as shown in Table 2 is a source of concern, as they may be vulnerable to changes in sentiment in a market that shows signs of overheating. On the other hand foreign exchange reserves have increased significantly to a comfortable 5.8 months of imports of goods and services at end 2007.

Table 2:FDI flows by sector, as shares of total

	2004	2005	2006*	2007*
Agriculture, hunting and forestry	0.2%	0.3%	0.4%	0.7%
Construction	3.0%	5.4%	8.5%	11.9%
Education	0.0%	0.0%	0.0%	0.0%
Electricity, gas and water supply	24.5%	9.8%	5.9%	2.0%
Financial intermediation	8.6%	21.2%	13.3%	31.6%
Fishing	0.1%	0.0%	0.0%	0.0%
Health and social work	0.0%	0.0%	0.0%	0.0%
Hotels and restaurants	1.0%	1.7%	1.7%	1.9%
Manufacturing	15.9%	27.5%	16.8%	3.8%
Mining and quarrying	0.6%	1.2%	0.2%	0.2%
Other community, social and personal service activities	0.3%	0.6%	1.0%	1.3%
Real estate, renting and business activities	7.9%	16.9%	29.1%	35.2%
Transport, storage and communication	15.6%	-3.4%	7.1%	0.6%
Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	18.1%	18.3%	15.5%	10.4%
Non-classified	4.1%	0.5%	0.5%	0.3%

**preliminary data*
Source: BNB

The authorities are aware that in the presence of a fast developing banking sector the rapid growth of domestic credit to the private sector is a constant stimulus on the external deficit. Given that in the currency board context monetary policy is not a tool available to policy-makers, the authorities have been conducting prudent fiscal policies. As a result, the target surplus of at least 3 per cent for 2006 agreed with IMF was exceeded to an estimated surplus of 3.2 per cent of GDP (ESA95 basis). The government also agreed to target a fiscal surplus of at least 2 per cent of GDP for 2007, although the budget law for 2007 calls for a surplus of only 0.8 per cent of GDP. The budgeted surplus originally envisaged a cut in social insurance contributions by 3 percentage points and only an 8.5% increase in pensions. However additional pension increases took place and were financed from the revenue over-performance. Consolidated budget figures for the first eight months of 2007 show revenues up by 20.2% year on year and expenditures by 20.9% year on year (including the EU budget contribution), with growth of 50.2% in capital spending, a 1.5% fall in interest expenditure and a 21.8% rise in current (non-interest) expenditure. Revenue in 2007 was 11.3% above the projection envisaged in the 2007 budget law. Expenditure was 5% above the budgeted figure for 2007. Because the government envisaged the possibility of a further deterioration in the external deficit and is aware of the risks connected to letting this development go unchecked, it introduced contingency rules in the budget legislation. These consisted of spending controls on individual ministries in the event of a growing current-account deficit. They were not utilised in 2007 and a substantial additional expenditure package was adopted in December 2007. Bulgaria is very likely to record a budget surplus above the budgeted surplus. In November 2007 Bulgaria's Parliament approved a budget law for 2008 which envisages a budget surplus equal to 3% of GDP (growth is estimated at a realistic 6.4% in 2008). At end of September 2007 the Fiscal Reserve Account stood at €3.8 billion (about 13.2 per cent of GDP), even after debt buy-backs in 2005–06.

Bulgaria's medium-term economic prospects remain favourable, especially following the country's accession to the EU. GDP growth is expected to remain robust, supported by strong bank credit growth and EU capital inflows. However, much depends on Bulgaria's ability to raise productivity of production inputs. For this to happen further progress with structural reforms is crucial. The currency board regime is well established and is expected to contribute to a tight monetary policy in the run-up to eventual adoption of the euro. The main source of vulnerability remains the external position. Despite the fact that this is fully covered by FDI, the large external deficit, in the presence of a large external debt (97 per cent of GDP) are a source of concern for stability prospects. Fiscal prudence is being maintained and is key to protecting the currency board arrangement and will be instrumental in curbing inflation in a context where monetary policy is not a tool available to the authorities.

2.2.2 Transition success and transition challenges

Progress towards reaching the standards of a market economy has been recognised by the Bank in its annual exercise of monitoring structural reforms developments in its countries of operation. Table 3, 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, which also became an EU member in 2007.

Table 3. EBRD Transition Indicators for Accession Countries, 2007

	BULGARIA	CZECH REPUBLIC	ESTONIA	HUNGARY	LATVIA	LITHUANIA	POLAND	ROMANIA	SLOVAK REPUBLIC	SLOVENIA	Accession Countries
EBRD 9 Average transition indicator including infrastructure	3.5	3.8	3.9	4.0	3.6	3.7	3.8	3.4	3.7	3.4	**3.7**
Enterprises	3.6	3.9	4.0	4.0	3.7	3.8	3.8	3.3	4.0	3.4	**3.7**
Large scale privatisation	4.0	4.0	4.0	4.0	3.7	4.0	3.3	3.7	4.0	3.0	**3.8**
Small scale privatisation	4.0	4.3	4.3	4.3	4.3	4.3	4.3	3.7	4.3	4.3	**4.2**
Enterprise restructuring	2.7	3.3	3.7	3.7	3.0	3.0	3.7	2.7	3.7	3.0	**3.2**
Markets and Trade	3.8	3.9	4.1	4.0	3.9	4.0	4.0	3.8	4.0	3.7	**3.9**
Price liberalisation	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.0	**4.3**
Trade & Forex system	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	**4.3**
Competition Policy	2.7	3.0	3.7	3.3	3.0	3.3	3.3	2.7	3.3	2.7	**3.1**
Financial Institutions	3.2	3.8	3.8	4.0	3.5	3.5	3.7	3.0	3.3	3.0	**3.5**
Banking reform & interest rate liberalisation	3.7	4.0	4.0	4.0	4.0	3.7	3.7	3.3	3.7	3.3	**3.7**
Securities markets & non-bank financial institutions	2.7	3.7	3.7	4.0	3.0	3.3	3.7	2.7	3.0	2.7	**3.2**
Overall infrastructure reform	3.0	3.3	3.3	3.7	3.0	3.0	3.3	3.3	3.0	3.0	**3.2**

Source: Transition Report 2007, EBRD.

According to the EBRD analysis of remaining sectoral challenges in the structure, institutions and conduct of markets, the most important remaining transition challenges that the Bank can help address through its investment projects are in the following three areas: the ***Enterprise Sector, Municipal and Environmental Infrastructure,*** and ***Power and Energy Efficiency.*** Bulgaria faces also transition challenges which can be addressed through the Bank's investment activity in other sectors, such as transport, agribusiness, etc.

Enterprises: An economy's prosperity today is driven increasingly by its skills base. Productivity is increasingly driven by skills as is the ability of private firms to succeed in the face of growing competition. Skilled workers are better able to adapt to new technologies and market opportunities. A society with higher levels of skills drives innovation, facilitates investment and improves leadership and management. For innovation to be effectively implemented, business must be able to draw on a flexible skilled workforce.

Single market pressures and competition from Asian markets are forcing the economy towards some important structural changes: production is inevitably shifting towards higher value added productions and provision of more sophisticated services. At the same time, however, large migration flows experienced in the recent past are depriving the country of higher skilled labour. Significant challenges lie ahead in the field of education and training in particular in the area of science, technology, engineering and mathematics (STEM). The demand for these highly skilled, knowledge-intensive employees grows every year so reinforcing and developing these skills with the private sector will be important to attract and/or expand modern business. Also in the short term challenges exist within the realm of income policies, to ensure that wage growth does not exceed productivity growth.

Significant investment in the enterprise sector will also be needed to upgraded the depleted capital stock and facilitate the shift to higher value added productions.

In the area of privatisation progress has been significant (91 per cent of assets slated for privatisation have been privatised). Among the remaining 41 majority stakes the three largest – Navibulgar Shipping, Bobov Dol Thermal Power Plant and Vazov Machine Works – when sold, will bring the proportion of privatized assets to 99 per cent (the sale of 70 per cent of Navibulgar, the leader in the maritime shipping market in Bulgaria and the Black Sea region, is currently under way). The other remaining assets are quite small, most of them in companies with pending legal or financial issues to be resolved prior to their sale by the Privatization Agency. Privatisation has also advanced in infrastructure.

Municipal Infrastructure: The municipal infrastructure sector investments required by the EU environmental directives are large and well beyond the government's financing capacity. In total, investment upgrades for the water and waste water sector amount to €6.9 billion and those for the solid waste management to €0.5 billion. In 2005 legislation to regulate the water sector was introduced and a regulator is in place. However, legal issues related to the ownership of assets, which are expected to be addressed through changes in the Water Act, reduce prospects for private sector participation in the financing of these investments. Moreover, local capacity to prepare and implement projects is still limited.

The privatization in the district heating sector is advancing with Sofia, Pernik and Rousse the only remaining state owned companies in the sector. The majority of the district heating companies were acquired at privatisation by local investors while the bigger ones including those of Plovdiv and Rousse were sold respectively to Austrian EVN (€32.1 million) and Slovenian HSE (€85.1 million). Over the next several years the district heating companies need to make significant investments in co-generation and energy efficiency to bring down costs and preserve their competitiveness considering the development of gas distribution networks. Another trend in the sector is the process of consolidation where major international companies are looking to acquire district heating companies from local investors. On the other hand negotiations between Greek PPC and the government over the sale of the Bobov Dol coal-fired plant were called off in May 2007 after the parties failed to reach agreement on required environmental upgrades. The Privatization Agency is also planning to sell eight hydropower plants.

Power and Energy Efficiency: Whilst significant progress has been made in the context of meeting EU accession requirements for the energy sector, especially in facilitating sector restructuring, market liberalisation and tariff rebalancing, the relevant legislation that would allow for the implementation of market opening and operation has been delayed. The energy service market is yet to develop, though some companies are implementing energy efficiency measures. Remaining challenges include promoting energy efficiency in view of Bulgaria's high energy intensity (which, despite having decreased in the past few years is still more than double the EU average) and promoting renewable energy sources.

Following the closure of units 3 and 4 of the Kozloduy Nuclear Power Plant in January 2007, Bulgaria's need to invest in upgrades and new capacity together with improved energy efficiency is ever more compelling. The power grid operator NETC invited six international companies to bid to become strategic investors in a new 2,000-megawatt nuclear power plant at Belene, on the Danube River. In October 2006 NETC awarded a

€3.99 billion contract to Russia's Atomstroyexport to build the power plant. The first of the future plant's two reactors of 1,000MW each is scheduled to become active in January 2014.

Transport: Transport infrastructure continues to constitute a serious bottleneck for the economy's development prospects, in particular as regards trade integration and external competitiveness. The World Bank estimates that about 60 per cent of the road network is in need of rehabilitation and maintenance. Railways present high track access charges and the efficiency of the ports is low.

Agricultural sector: The land restitution in the early 1990s resulted in the restoration of small-scale holdings, typical of the Bulgarian pre-war agriculture, and led to an evolution of the agricultural sector different from that of other countries in the region: the share of employment in agriculture increased over time to 32 per cent in 2004 from 18 per cent in 1989. At the same time agriculture's contribution to GDP decreased from 18 to 9.4 per cent, reflecting large decreases in productivity and lack of investment in both farm activity and in rural infrastructure. These problems are currently being corrected by the market, albeit slowly, as changes in that sector usually require more time to produce visible results.

Rural areas appear to be lagging behind mostly due to the under provision of financial services and information technology. Per capita consumption of households outside Sofia is 10 to 25 per cent lower than that for households living in the capital city.

Banking sector: The privatisation of the banking sector is complete (the only remaining state owned bank is Encouragement bank which is a development bank, not slated for privatisation), with most assets in the hands of foreign-owned institutions. This enabled the adoption of best-practice business and risk-management and the upgrade of banking infrastructure and stimulated competition, which is now intense, with an increasingly broad range of financial products being offered. Commercial banks and non-bank financial institutions provide competitive finance to different segments of the MSME sector. A microfinance bank with EBRD participation has been lending to micro and small enterprises since end of 2001.

Financial sector vulnerabilities are limited, given that the level of capitalisation of banks is high, the enforcement of loan quality standards and provisions cover 3 per cent of total loans. Portfolio quality is good with only 2.2 per cent of loans overdue by more than 90 days

Domestic credit growth slowed down following the introduction of administrative measures from 49 per cent in 2004 to 25 per cent in 2006. The authorities have phased out the measures that made it expensive for banks to expand their credit portfolios faster than 6 per cent quarterly as the banks had increasingly circumvented them, and in the first half of 2007 domestic credit growth accelerated again to 47.7 per cent. To prevent a potential deterioration of the banks' portfolio on 1 September 2007 the authorities have increased the minimum reserve requirement for banks to be maintained with the central bank from 8 per cent to 12 per cent. Despite this measure, the credit growth continued and reached 62.5 per cent by the end of 2007. Credit to the private sector was equal to 67.6 per cent of GDP at the end of the last year.

Non-banking financial sector: The fast growing non-bank financial sector was for a long time only partially regulated and supervised. This represented a potential source of risk, in particular as regards leasing companies, as during the period in which administrative measures were in place to control bank lending, banks increasingly utilised their leasing subsidiaries to satisfy the demand for finance they could not meet. The authorities recognised the need to tighten the regulatory and supervisory framework for this part of the financial sector, which is now well supervised by the Financial Sector Supervision Commission, which has recently modernised its activities.

The Business Environment: Conditions for doing business in Bulgaria have improved since the last strategy. In particular following regulatory and judicial reforms, the previously complex regulatory environment was simplified and contract enforcement made more efficient. The Government introduced a 10 per cent flat corporate tax rate (the lowest rate within the EU) in January 2007 and a 10 per cent flat income tax rate and reduced social security rates from January 2008. The establishment of a business registry was an important landmark in reducing barriers to entry for the enterprise sector. The new Tax and Social Security Procedure Code effective as of 2006 introduced the "one-stop shop" concept in the area of state revenues. The World Bank Doing Business 2008 report ranks Bulgaria among the top ten countries in the world with the fastest improving business climate.

Ample room for improvement still exists in very specific areas including the strengthening of state institutions such as public administration, the independence of the judiciary and law enforcement; further lowering of barriers to entry by reducing minimum company capital requirements and licensing requirements.

Another priority is to rationalise the education system to provide and retain the right set of skills for the labour force in order to support the structural changes of the economy.

The procurement legislation was harmonised with EU thresholds from 2007. This resulted in higher required levels for public tenders and in higher level of scrutiny by Bulgaria's Public International Financial Control Agency (PIFCA) which found 322 procedural violations amounting to 44.4 million leva (US$ 30.7 million) out of 2,130 procedures.

2.3 Access to Capital

Bulgaria’s creditworthiness has improved since the last strategy, as a result of continued sound macroeconomic and structural policies. Its sovereign credit rating (currently investment grade) reflects the improved conditions. Low sovereign bond spreads mirror continued investor confidence.

The open capital account allows companies to borrow abroad. Thus, since the last strategy, even in the presence of administrative measures[2] to curb the growth of domestic credit, enterprises did not de facto suffer from reduced access to credit. Moreover the significant expansion of leasing companies and consumer finance companies offered alternative sources of finance in particular to SMEs and households.

The stock exchange continues to grow very rapidly, and its market capitalisation increased from 10.6 per cent of GDP at end 2004 to 51.3 per cent of GDP at end 2007.

[2] The administrative measures introduced since early 2005 to curb credit growth are being phased out, because of the distortionary impact they had on the sector.

3. STRATEGIC ORIENTATIONS

3.1 Bank's priorities for the strategy period

Based on its analysis of Bulgaria’s post-accession transition challenges, the Bank has identified and will focus on the following key operational priorities:

1. Provide post EU accession support to the local *enterprise sector* with a special focus on business competitiveness and export potential enhancement. Single Market pressures and competition from Asia and elsewhere are important immediate factors affecting local enterprises. The Bank will work to help address these challenges by providing finance *to locally owned medium-to-large sized companies* facing considerable investment needs across various sectors including services, manufacturing, technology and skills training. This aim will be pursued in close collaboration and syndications with the local partner banks and the non-bank finance sector. The Bank will diversify its range of products to include more high-risk instruments such as equity, mezzanine, and structured debt. Financial tools, such as dedicated credit lines utilising EU post accession funds, will be tailored to help local businesses. The Bank will seek to provide assistance for the development of less advanced regions and stimulate cross-border trade and regional integration. In parallel, the Bank will continue to be a catalyst for *foreign direct investment*, particularly greenfield, which should be drawn by Bulgaria’s favourable geographic position, competitive labour cost and attractive tax regime.

2. Expanding its activities in the *municipal sector* throughout the country in view of the implementation of recent fiscal decentralisation reforms and new opportunities arising from the EU post-accession structural and cohesion funds. Seeking to mobilise private sector involvement by the utilisation of PPP structures in transport infrastructure to remove existing bottlenecks to regional development whilst easing the relative burden from government finances. The Bank will continue to pursue lending on a commercial basis directly to State owned regional water companies for water supply and waste water management, and to municipalities for urban transport and roads, energy efficiency and solid waste transactions. Projects in smaller municipalities will be developed through innovative structures (for example, the establishment of a dedicated vehicle by the Government and the Bank to provide co-finance for EU post accession funds to smaller, less creditworthy municipalities). This will help expand the Bank’s financing outreach in order to support a wider range of municipalities. The Bank could also assist in the improvement of *national infrastructure*, especially in the *transport sector* to ensure enhanced regional cooperation, development of the TENs corridors, improved trade and utilisation of Single Market benefits.

3. Continuing to invest with both the public and private sectors in *energy* generation, transmission and distribution, while supporting policy dialogue to promote appropriate regulatory and institutional reform. *Renewable energy* and *energy efficiency* projects will be promoted as part of the Bank’s Sustainable Energy Initiative. The Bank will work to help address Bulgaria’s high energy intensity challenge negatively affecting the economy’s competitiveness. Further development of the *energy service market* will be promoted by means of support to local ESCO firms and dedicated funds. Energy efficiency projects, with both industries and the households will be further promoted. Close collaboration will be maintained with the donor community of the Kozloduy International Decommissioning Support Fund. The Bank will also prioritise projects

supporting improved regional integration and interconnectivity in the energy field, with the aim of helping enhance Bulgaria's energy security and its position as a *regional energy hub*.

3.2 Sectoral Objectives

3.2.1 Enterprise sector

The *Enterprise sector* remains at the core of the Bank's activities in Bulgaria. The sector, following EU accession, presents new opportunities and challenges related to the enterprises' preparedness to withstand the exposure to competition in the single market. While continuing to support FDI, particularly greenfield, the Bank will specifically pursue investments in local manufacturing enterprises with particular focus on knowledge transfer and export-oriented companies, and 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 pressures, including on the environmental front. More equity and quasi equity instruments will be provided, while improved corporate governance will be pursued. The Bank will continue to encourage broader regional trade and cooperation (including oil and gas pipelines through Bulgaria) and will support enterprise modernisation to reduce inefficiencies and ensure competitive market access.

The Bank will focus on helping local enterprises meet the new challenges faced post EU accession. To this end, the Bank will:

- In support of FDI, the Bank will promote the entrance or expansion of regional players in greenfield operations as well as assist local Bulgarian enterprises expanding in neighbouring countries to enhance *cross-border cooperation* and investment.
- Promote investments related to enhancing export competitiveness within regional markets, improving energy efficiency and meeting new environmental standards. In this context, special attention will be given to selected *agribusiness* companies facing new EU norms and regulations compliance challenges, especially those involved in food-processing in order to stimulate greater efficiency, innovation and customer orientation. The Bank's attributes in these areas will enhance the Bank's position in an increasingly competitive corporate banking environment.
- Attention will also be focussed on investment and co-operation with mid-size IT and technology service firms to assist with advanced STEM training and the development of foreign partnerships for wider market access and regional consolidation.
- To maintain additionality to the well developed private financial sector emphasis will be placed on the diversification of the Bank's financial products such as the use of more *higher-risk products* such as equity, mezzanine, structured and convertible debt instruments.
- Co-financing synergies will be pursued together with local partner banks which will promote commercial discipline in the financial and enterprise sectors.
- Special focus will be providing standalone technical assistance and financial support to local enterprises in helping them address *energy efficiency* and *environmental* problems on a case-by-case basis.
- The Bank will continue to support investments in the Bulgarian *property sector* in light of increased investor interest following EU accession. More specifically, while property

development to-date has been concentrated on the capital, coastal and mountain areas, investments in the secondary and tertiary cities have been slow. Therefore an opportunity exists for the Bank to focus its support on selected, high quality property and tourism projects in the regional centres alongside experienced local and international developers ensuring modern high standard solutions. This approach would contribute to the reduction of regional inequalities in the economic development of the country.

- In the *resource sector*, the Bank will support projects that contribute to regional cooperation and position Bulgaria as a key energy corridor including the finance of major oil and gas pipelines transiting Bulgaria. This could alternatively mean funding Bulgarian companies, whether private or state-owned, that would in turn invest equity to build such regional transportation systems or upgrade existing transmission and storage facilities thus aiming at improved reliability and security of supply. Another axis of Bank's activity would be to support the modernisation of the downstream hydrocarbon sector by investing in refining and/or distribution systems with a view to reducing bottlenecks and unfair competitive practices and developing new regulatory regimes promoting such aims.

3.2.2 Infrastructure

Municipal: The Bank established at the beginning of the previous strategy period a programme to provide without a sovereign guarantee up to €60 million in loan finance through a Water and Wastewater Project Facility directly to individual regional water companies (RWCs), majority owned by the State. Since 2005 the Bank has concluded four loans for a total of some €40 million in long term loans which in two cases co-financed ISPA grants totalling €45.2 million. The Facility has been instrumental in promoting the principals of full cost recovery in each project which in turn were built into the Business Plans approved by the newly established National Water Regulator. The RWCs serving the municipalities of Bourgas (signed 2005) and Rousse (2006) have been selected as the first two projects followed by Stara Zagora and Plovdiv in 2007. The Facility has been designed to improve commercial and operational performance of each RWC and provide urgently needed investment capital. The increasing financial stability of the RWCs make them more attractive to investors. The Bank will explore with the Government the possibility for a programme of public private partnerships in the water and wastewater sector.

Smaller cities that do not have access to credit or the institutional capacity to develop fully fledged project proposals are the focus of the government’s plans to establish a Fund for Local Authorities and Government (FLAG). The Bank is currently in discussions with the Government on an appropriate design which would mobilise commercial bank financing and achieve financial discipline in the selection and financing terms offered to cities. The funding would be used to co-finance grants from the EU Structural and Cohesion Funds.

With the expected implementation of recent fiscal decentralisation reforms, the Bank will consider lending directly to municipalities (or to public utilities supported 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 was achieved in 2006. A number of large cities have attracted international operators which now own the companies serving Varna, Plovdiv and Rousse. The Bank will review proposals from privatised district heating companies for potential funding.

The Bank will increasingly focus its *Municipal* objectives on:

- Operations outside the capital Sofia. Dialogue with *smaller municipalities* will intensify in light of innovative funding structures being developed to help address their funding needs, as well as the expected progress with the Government's fiscal decentralisation, following earlier changes in the Constitution, which will unlock the potential to overcome regional imbalances.
- Further support to *regional water companies* is considered to help address urgent rehabilitation needs and improve the administrative capacity of such companies to develop and implement complex investment projects.
- The Bank will seek to support *private sector involvement* in the water and solid waste sectors through concessions or other appropriate forms of public-private partnerships ("PPPs").
- The Bank will explore opportunities to provide municipalities with assistance in the development of *urban transport* through the commercialisation of operations, and through improved Public Service Contracts and management practices.
- Support to the *Sofia Municipality* will continue with additional funding to the Sofia Water Concession, where investment requirements remain significant, as well as with further support for Sofia Public Transport, where the public service contracts need to be strengthened in order to allow the company to operate on a commercial basis, will be considered.
- Progress with the post-privatisation development of some *district heating* companies will be closely monitored for further financial support.

In ***Transport***, the Bank's priority will be to support private sector capital in key transport infrastructure projects that will enhance economic development and promote regional links. In particular it will seek to:

- Support private sector investment in the *road sector* through public-private partnerships ("PPPs") and otherwise. The Bank will seek to mobilise technical co-operation funding to assist the Bulgarian Government to identify suitable projects and to bring adequately prepared and structured PPP projects to market. Potential projects may include stretches of the HEMUS or Cherno More motorways.
- The Bank will support commercialisation and possible privatisation within the *railway sector*. Potential projects which may offer funding opportunities for the Bank to explore include concessions for major railway stations in Sofia and Plovdiv. In addition, where viable, the Bank will offer support to private sector operators with regards to purchasing or leasing of rolling stock.
- Following the earlier *concessioning* of Varna and Bourgas airports, further concession opportunities in other areas of increasing tourist activity or logistic centres will be followed. Within *port facilities*, fuel, container and grain terminal development in Varna and Bourgas will be pursued again with private sector involvement, as well as any commercially sound intermodal development opportunities.

3.2.3 Power and Energy Efficiency

Over the last few years the Bank has played a significant role in supporting Bulgaria's efforts to restructure and modernise its electricity sector, most notably with the successful privatisation of the electricity distribution companies (including with equity participation), the modernisation of the transmission network (a €41 million loan to NETC which facilitated the sector unbundling), and the much needed investment in the Maritza East I, II and III projects (through 4 ground breaking project financings of three major power plants). The Bank will continue to support the energy sector through investing with the private and public sector in both generation and distribution and investing in improvements in energy efficiency and renewable energy resources. Close co-operation will be maintained with the donor-supported 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.

Following the closure of units 3 and 4 of the Kozloduy Nuclear Power Plant in January 2007, Bulgaria's need to invest in upgrades and new capacity together with improved energy efficiency is ever more compelling. Accordingly the Bank will:

- Seek to help Bulgaria address this challenge and maintain and enhance its position as a *regional energy hub*. Funding opportunities will be pursued with both the public and private sector. The Bank managed KIDSF will play an important role in addressing this challenge with its grant co-financing available.
- Co-operation with the *National Electricity Company* will continue and new funding opportunities will be pursued including transmission lines, substations and peak generation capacity.
- Both public and private sector investments in improved *interconnectivity* will be encouraged to foster regional energy co-operation.
- In line with its *Sustainable Energy Initiative* the Bank will continue to foster investment in energy efficiency and renewable energy to build on the success of its energy efficiency and renewable energy credit lines and seek co-financing opportunities with the KIDSF in the sector.
- In addition, the Bank will launch a new facility *EU-EBRD Energy Efficiency Financing Facility* that will provide an integrated package of loans, grant and technical assistance for industrial energy efficiency investment projects with grant financing support from the European Commission.
- The Bank will aim to develop projects involving *Energy Service Companies* ("ESCOS") in particular in public sector buildings where there is significant potential for energy savings.
- The Bank will continue to facilitate the monetisation by its clients of their carbon emissions reductions through the purchase of carbon credits from clients under the framework of the Multilateral Carbon Credit Fund. To facilitate the sale of carbon credits the Bank will assist clients to identify and prepare carbon credit transactions.
- With the *Residential Energy Efficiency Credit Line,* previously only available for individual investments, the Bank will explore mechanisms to include a progressive grant scheme supporting collective applications for the thermal rehabilitation of housing condominiums and will also seek to provide support for the renovation of public buildings.
- *Alternative energy sources* provide for new opportunities (wind, solar, biomass and co-generation) where the Bank will continue to play a lead role both financially and through continued dialogue with the regulator to help clarify areas of investors' concern. The Bank envisages attracting TC donor funding to carry out two *Strategic Environmental Assessments* for wind energy and mini-hydro power projects.

- The Bank will continue to participate in the policy dialogue within the *Energy Community of South East Europe (ECSEE)*, aiming to extend the EU internal energy market to the South East Europe region. Bulgaria is a signatory to the treaty and a key party to the ECSEE process.

The *bio fuel sector* has witnessed a large number of investment initiatives driven by (i) the EU directives requiring at least 5.75% of renewable (bio fuel) to be incorporated in road fuels by 2010 and (ii) the widespread availability of financial incentives for bio fuel developments. However very few of the bio fuel investment initiatives have materialised, due to the very high current grain and oilseed prices and limited efficiency of existing production technologies, which will be even more important when the EU introduces sustainability criteria for qualifying bio fuels. Significant commercial bio fuel production developments are unlikely to materialise until second generation technologies become economically viable. While these second generation technologies are not expected to become available for another 5-10 years, involvement in bio fuel developments based on currently available technologies will be considered on a case-by-case basis.

3.2.4 The Financial Sector and SMEs

Banking Sector

The Bank's main operational objectives will be:

- Further support to the *primary banking* market through the introduction of new products.
- Further support will be provided to the *SME sector* under the existing EU/EBRD SME Facility within the last extension available for Bulgaria, Romania and Croatia.
- The Bank will also seek to expand its *energy efficiency facilities* and the EU/EBRD *facility for lending to small municipalities*.
- Long-term *mortgage finance* will continue to be available for banks that need long-term funding to grow their mortgage loan books. Mortgage credit lines would continue to ensure standardisation of mortgage loan and security documentation, which would facilitate *refinancing of mortgage receivables* on the secondary market.
- The Bank will also keep the option open to make local currency available in connection with all 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 and support banks accessing capital markets to refinance their receivables through securitisation of loan portfolios.

SME and Micro Sector: The Bank will continue to support the Bulgarian SME sector through providing credit lines to both banks and leasing companies mainly under the last extension of the EU/EBRD SME Facility.

Equity Funds: The private equity market of the Balkan region is continuing to grow 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 prior to their accession in January 2007; (ii) South Eastern European funds with limited regional scope (e.g. Bulgaria and Romania only); or (iii) regional funds focused on greater South Eastern Europe in general (occasionally including Ukraine, Greece and

Turkey). More recently the format of the last category are more prevalent in the funds targeting medium to large capitalisation companies, suggesting a regional integration of the economies around the Black Sea region. Because such funds mix both the Bank's countries of operation and the countries outside its funding activities, it has become a challenge for the Bank to structure the investment in them while ensuring that the Bank's resource is being used for the relevant countries. Going forward, the Bank will actively seek opportunities to invest across different size/financial sophistication targets (e.g. small to medium capitalisation companies with simpler structuring to larger, structured transactions with more complex instruments.) and the sectors (e.g. technologies, energy efficiencies). The Bank believes that through funds it would be able to provide diversified equity investment alternatives to thriving entrepreneurs in Bulgaria.

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

- *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 support initially commercial banks (and eventually other financial institutions, including leasing companies) looking at securitisation of their loan portfolios as a way to grow and diversify the banks' funding base and further support the development of the capital market transactions. It is anticipated that there will be further international securitisations in the near term.
- *Insurance and pensions*. The Bank will seek to support both local and foreign investors, in order to further develop the sector. The Bank will also continue its policy dialogue with the regulator.

3.3 Co-Financing

The Bank will continue to play a leading role in mobilising co-financing from both commercial and official sources, mainly the EU. In particular, the Bank will provide support to both the enterprise sector and the authorities in the utilisation of EU structural and cohesion funds. For instance, the innovative funding structures being developed together with the government to help address the funding needs of smaller municipalities will enable the recipients to attract EU funds. Also, the Bank is working to mobilise co-financing with EU funds under the government's Development of the Competitiveness of the Bulgarian Economy Operational Programme to support the restructuring of local companies in order to improve their competitiveness and allow them to meet EU standards and face Single Market pressures. The Bank will continue its close collaboration with the authorities and the EIB under the JASPERS programme for technical assistance and will work to identify potential investment projects for co-financing with both the EIB and the EU structural and cohesion funds. Commercial syndications will be pursued in private and potential public sector operations under preparation. Specifically, the Bank will seek to syndicate more sizable funding requirements for potential projects being developed in the mining industry, power and energy and the municipal sector.

3.4 Policy Dialogue

Through active policy dialogue the Bank will endeavour to contribute to government action in the following areas:

- Improving areas that currently impede the *business environment* including administrative barriers, law enforcement and the labour code. The Bank will take part in public-private sector dialogue, in particular on rigidities in the labour market that need to be reduced to ensure smoother and faster reallocation of labour into higher value added production, to support the restructuring of the economy, and on amendments to the labour code aimed to increase flexibility for social partners, maintain productivity growth and foster innovation. EBRD, together with the World Bank, will conduct a fourth round of the Business Environment and Enterprise Performance Survey (BEEPS) in 2008, and another survey on innovation to help analyse and better address the issue.

- Improving the administrative capacity in structuring PPPs and the effective absorption of EU funds. The need for infrastructure financing is strong, while national resources have in the past been scarce. EU funds are now available to help meet these needs, however experience in utilisation of these funds is limited. The Bank has already engaged in providing support to help address the issue by organising relevant workshops. It will also continue its participation in a government established working group to help assess opportunities and promote private sector involvement in infrastructure funding for the transport sector. Close cooperation with the EIB in this regard will continue.

With the aim of securing sustainable and transparent funding in Bulgarian Lev and to contribute to the development of the local capital markets, the Bank will continue to work with the Bulgarian National Bank, the Bulgarian Dealers Association and the domestic banking community to reform and enhance the reliability of the SOFIBOR money-market index.

4. COOPERATION WITH DONORS AND OTHER IFIS

The Bank will pursue the proposed operational objectives in close co-operation with the other IFIs active in Bulgaria, the European Union and bilateral institutions in order to enhance the successful implementation of its strategy and to optimise the respective impact of each institution.

Bulgaria's post accession period provides opportunities to capitalize on the Bank's unique skills and sector knowledge by expanding its cooperation with other financial institutions and donors. Cooperation with the EIB under JASPERS will continue, in order to enhance the local administrative capacity for absorption of EU Structural and Cohesion funds by improving the quality of prepared documents and speeding up the implementation of projects in the pipeline of the Operational Programmes. The Bank will aim to identify joint funding opportunities for a number of key infrastructure projects including the Sofia Municipal Waste project, as well as identifying possibilities for PPP/Grant blending. The Bank's relationship with the European Union will continue to be key in offering the Bank significant opportunities to bring additional benefits to the Bank's clients in blending Bank financing with the EU structural and cohesion funds.

4.1 European Union (EU)

The EU provides specific targeted financial aid for acceding countries, candidates and potential future members in order to support their efforts to enhance political, economic and institutional reforms. After the accession of a country is completed, the EU provides financial support from the European Structural and Cohesion funds. The Republic of Bulgaria successfully acceded to the EU on 1 January 2007.

The EC pre-accession aid to Bulgaria was mainly provided by three instruments: the PHARE programme (mainly for projects linked to the transposition of the *acquis* and institution building across all sectors, including twinning programmes and investment projects in the areas of cross-border cooperation, and additional funding in the context of Bulgaria's commitment to close units 1-4 of the Kozloduy nuclear power plant), ISPA programme (for large-scale environmental and transport infrastructure projects) and SAPARD programme (supports development measures for the agriculture and rural areas). In 2006, €262.4 million were committed under the PHARE programme, with further €16 million under ISPA, while €282 million were committed under the SAPARD programme since 2003.

Following Bulgaria's accession in January 2007, the EU and the Bulgarian authorities have agreed on the following allocation of the EU Structural and Cohesion funds for the period 2007 - 2013:

- *Operational Programme Regional Development* (€1.361 billion) from the EU to support: sustainable and integrated urban development; regional and local accessibility; sustainable tourism development; development of regional and local networks, cooperation and capacity; technical assistance;
- *Operational Programme Development of Competitiveness of the Bulgarian Economy* (€988 million) from the EU to support: economic development based on knowledge and innovation; improving enterprise efficiency and development of a favourable business environment; financial resources for development of the enterprises; improving Bulgarian economy's international competitiveness; technical assistance;
- *Operational Programme Environment* (€1.466 billion) from the EU to support: rehabilitation and development of water supply and sewage in municipalities with

population of over 2000 inhabitants; rehabilitation and development of waste treatment infrastructure; protection and rehabilitation of bio-diversity; technical assistance;

- *Operational Programme Transport* (€1.625 billion) from the EU to support: development of railway infrastructure along the major national and Trans-European transport axes; development of road infrastructure along the major national and Trans-European transport axes; improvement of intermodality for passengers and freights; improvement of the maritime and inland-waterway navigation; technical assistance;
- *Operational Programme Development of Human Resources* (€1.032 billion) from the EU to support: incentives for the creation of employment and development of the labour market; improving labour productivity and adaptability; improve education and training according to market needs; improve education accessibility; improvement of social inclusion and social policy; improving efficiency of social, labour and healthcare institutions; transnational and regional cooperation; technical assistance;
- *Operational Programme Administrative Capacity* (€1.536 billion) from the EU to support: building administrative capacity;
- *Operational Programme Technical Assistance* (€48.3 million) from the EU to support: further enhancement of coordination; assessment, control and implementation of Structural and Cohesion funds in Bulgaria.

4.2 European Investment Bank (EIB)

Up to the end of 2007, the EIB's operations in Bulgaria covered all of the country's key sectors for a total lending of approximately €2.3 billion, ranging from basic infrastructure to manufacturing and services, including support for small and medium-sized enterprises and municipalities via local financial institutions. In 2007, the EIB signed new credit lines with commercial banks to finance small-scale investments by businesses and local authorities and prepared also an EIB-KIDS Fund Energy Efficiency Facility to support the municipal sector. The EIB signed a €380 million loan for road improvement across Bulgaria and a €12 million loan that would co-finance the water sector investments in Sofia alongside the corresponding ISPA grant and EBRD financing in the sector. Following the Memorandum of Understanding signed in 2006 between the EIB and Bulgaria, setting out a support framework for Bank lending of around **€**500-700m a year over the period 2007-2013 for the Government's investment priorities, the EIB signed in 2007 a loan of €700 million with Bulgaria to co-finance a broad range of projects that will receive grants from the Commission under the Operational Programmes of Cohesion and Structural Funds, as well as rural development measures.

4.3 International Monetary Fund (IMF)

Bulgaria joined the IMF on 25 September 1990 and accepted Article VIII on 24 September 1998. Its quota is SDR 640.2 million (about US$ 934 million). A 25-month precautionary arrangement of SDR 100 million (15.62 percent of quota) was approved on 6 August 2004 and extended to end-March 2007. The final review was successfully completed in March, 2007. Under the program, Bulgaria has achieved robust growth, falling unemployment, moderate inflation, and sustained competitiveness, albeit, strong FDI inflows, attracted by positive prospects, have contributed to a widening current account deficit. Since the completion of the program, the relationship with the IMF is marked by the usual bilateral surveillance (Article IV) and occasional technical assistance.

4.4 World Bank Group

Bulgaria joined the World Bank in 1990. Following Bulgaria's economic collapse in the late '90s, the focus of the World Bank's program has been to help restore and sustain macro-economic stability, promote structural reforms and thus foster sustainable economic growth. Subsequently, supporting Bulgaria's accession to the European Union has become an additional objective. Since the inception of the program, 32 projects for a total amount of $2.06 billion have been approved by the World Bank's Board of Directors. The World Bank has supported reforms in areas such as banking, public administration, health, education, social welfare, and environmental protection. A series of measures were undertaken to improve the country's business climate.

As reflected in its Country Partnership Strategy (2007-2009), the World Bank has adjusted its business model for operation in the country and moved towards a partnership model with greater flexibility within the strategic framework, reflecting Bulgaria's priorities as a new EU member and also building on the World Bank's agenda for well-performing middle-income countries. The World Bank's program in Bulgaria now focuses on facilitation of Bulgaria's successful economic and social integration and convergence of living standards with the EU by supporting reforms that encourage productivity and employment, strengthen institutional capacity and manage public finance to improve service delivery and make the most of post-accession EU funds.

As of August 2007, the active Bulgaria portfolio of World Bank financed operations consists of nine investment projects (including two Global Environmental Fund (GEF) Grants) and one development policy operation (DPL) for the original loan amount of US$ 574 million equivalent. In addition, the Bank has extended to Bulgaria two Prototype Carbon Funds (PCFs) for US$6.6 million, and nine grants in the amount of US$ 5.9 million in support of Government activities.

4.5 IFC

Bulgaria became a member of IFC in 1991. Since then, IFC has committed more than $ 293 million of its own funds and has arranged over $87 million in syndications for investments in the country. Over the past few years, IFC has supported 18 projects in key industries, including the finance and insurance, primary metals, oil and gas, and general manufacturing sectors.

In 2006, IFC invested in post-privatization restructuring and modernization of previously state-owned steel mill, electronic components producer and supported financially the country's only local natural gas supplier.

In 2005 IFC launched the Private Enterprise Partnership for Southeast Europe, a new technical assistance and advisory program to help strengthen the private sector. The mission of PEP-Southeast Europe Infrastructure is to help the public sector in the region increase private participation and investment in infrastructure, thus contributing to the region's economic development. The Program aims to make IFC the partner of choice for private sector technical assistance and advisory services in Albania, Bosnia and

Herzegovina, Bulgaria, Croatia, FYR Macedonia, Montenegro, Romania and Serbia. Focusing on energy, transport, water, sanitation and other infrastructure sub-sectors, the program helps develop, promote and execute infrastructure projects with private participation through project preparation, structuring, transparent bidding processes and mobilizing financing.

In 2006 this IFC advisory program has been mandated by the Ministry of Regional Development and Public Works (“MRDPW”) of Bulgaria to assist in accelerating private sector participation (“PSP”) in the country’s water and sanitation sectors. In the frame of the mandate, IFC is assisting the MRDPW in enhancing the legislative and policy framework so as to ensure its conduciveness to PSP and in the structuring and implementation of a public private partnership (“PPP”) project. The PPP will consist of a long-term contract for the operation of one of Bulgaria’s regional water companies.

ANNEX 1: POLITICAL ASSESSMENT

Bulgaria is committed to, and applying, the principles of multiparty democracy, pluralism and market economics in accordance with the conditions specified in Article 1 of the Agreement establishing the Bank.

The period after the adoption of the previous strategy has witnessed further stabilization of the political system. EU accession played a role of unifying goal for the authorities and the society in general and helped to keep the country on track throughout the approximation process. The pursuit of further EU integration and strengthening of existing market mechanisms have remained important anchor. There is relatively high level of popular support to further integration into the EU.

The current coalition Government, led by the centre-left Bulgarian Socialist Party (BSP) was established following the parliamentary elections in 2005. It comprises also centre-right NDSV (the former 'National Movement Simeon II' has recently changed its name to the National Movement for Stability and Progress, but maintained its previous acronym), and Movement for Rights and Freedoms (DPS) supported predominantly, but not exclusively, by ethnic Turkish voters. This Government is leading a pro-reform course, like the previous, centre-right, Government. There has been certain shift in the balance of political forces both within the governing coalition and between the government and the opposition since the last parliamentary elections, as demonstrated by the outcome of the elections to the European Parliament, held in May 2007 and the municipal elections in October 2007. Despite the above-mentioned changes, the ruling coalition, which continues to enjoy a comfortable majority in the Parliament, is expected to carry on until the end of its term in 2009, albeit with possible reshuffles. The ruling BSP remains one of the strongest political parties, with a well-established net of local branches and a high coalition-building potential.

The President, who was re-elected for the second mandate in 2006, and the Prime Minister belong to the same part of the political spectrum (centre-left), and the interaction between the two branches of executive power, although not entirely free of occasional frictions (stemming, to some extent, from ambiguities in the Constitution regarding division of responsibilities between them) is reasonably good.

The newly established opposition political party GERB was one of the main winners of the elections to the European Parliament held in May 2007 and the municipal elections conducted in October 2007. Although it does not have any MPs in the national Parliament, GERB is currently the strongest opposition party. Ultranationalist party *Ataka* also performed relatively well at the elections to the European Parliament. Political apathy (manifested in persistently low turnouts during recent elections) and the gradually emerging new middle class are among factors preventing any possible negative impact of populist influences. Moreover, Bulgaria's long-term stability is strongly supported by the country's progressive entrenchment in the EU and Euro-Atlantic institutions.

Elections and the Rule of Law

<u>Elections</u>

The election process in Bulgaria has enjoyed broad confidence since the beginning of transition period in the early 1990s. It has been established on a sound basis of cross-party election administration, which permits overall transparency and accountability at all levels.

All six parliamentary elections since the establishment of a multi-party system (the latest held in 2005), as well as the latest presidential elections (2006) were assessed by the ODIHR OSCE as meeting the international standards and the country’s commitments for democratic elections, as outlined in the 1990 Copenhagen Document. All election campaigns in the last years were conducted in a generally calm, although competitive environment, and confirmed the credibility of the election process in Bulgaria. All recent general elections have been relatively low-key and voter turnout has been relatively low.

Rule of law

While concluding, prior to Bulgaria’s accession to EU, that the country reached a high degree of alignment required for EU membership, the EC identified a number of areas of concern in the area of judiciary and rule of law. Although some problems persist, as concluded by the first progress report issued by the EC after the accession (see **Integrity issues** below), and much remains to be done in order to ensure implementation on the ground of the new legislation, action plans and programmes developed by Bulgarian authorities as part of their commitments to implement comprehensive judicial reforms, the country has continued progress in many areas pertaining to the rule of law and judicial reform. In particular, the authorities managed to remove any ambiguity regarding the independence of the judicial system (relevant constitutional amendments were adopted in the course of 2007), and enhanced accountability, transparency and the overall efficiency of the judiciary and law enforcement bodies.

Integrity issues

Bulgaria’s accession to the EU was accompanied by a set of specific accompanying measures, including a mechanism for cooperation and verification of progress in the areas of judicial reform, fight against corruption and organised crime. The first report under the mechanism, issued by the EC on 27 June 2007, acknowledged progress in these areas, such as the adoption of Constitutional amendments removing ambiguity regarding the independence and accountability of the judicial system, the improvement of transparency of the judicial process, the enhancement of accountability, professionalism and efficiency of the judiciary, and the prevention and fight against corruption at the border and within local government. The report, while acknowledging that that there has been insufficient time since the accession in January 2007 to demonstrate convincing results in key areas, also identified concrete issues that require further work, particularly in the areas where the progress has been assessed as ‘insufficient’ (i.e. in the judicial treatment of high-level corruption cases and in the fight against serious and organised crime).

Transparency International ranked Bulgaria in its latest Corruption Perception Index (CPI) report as 64 out of 179 countries. The CPI score of 4.1 places Bulgaria as 9th among the Bank's countries of operation and at the same time as 9th among the 'new' EU members.

Corruption is perceived as a serious problem by Bulgarian citizens, as demonstrated, in particular, by the recent Life in Transition Survey conducted by EBRD in collaboration with the World Bank.

Human trafficking

According to the latest report issued by the U.S. State Department, Bulgaria is still considered a source, transit, and destination country for men and women trafficked for the purposes of sexual exploitation. Bulgarian authorities are making significant efforts in this area but have yet to insure full compliance with the standards for the elimination of trafficking. Bulgaria prohibits trafficking for both sexual exploitation and forced labour through its criminal code, and the penalties prescribed for trafficking have been made stringent. The country has significantly improved its anti-trafficking law enforcement, and has increased of late the number of respective investigations and prosecutions. The authorities have improved victim assistance infrastructure.

Further efforts by the authorities may be needed for enhancing prevention, including relevant public awareness campaigns about the dangers of trafficking, which are currently funded largely by NGOs. As in many other EU members, additional steps are required in order to reduce the domestic demand for commercial sexual exploitation.

Ethnic minorities

Bulgaria’s different ethnic groups are well represented in political life at both national and local levels and, with the exception of the Roma, are adequately integrated in the economic and social life of the country.

The administrative capacity of the Bulgarian Commission for Protection against Discrimination has been strengthened. The implementation of vocational and other training measures for vulnerable groups has continued. Some progress has been made in the integration of the most vulnerable minority, the Roma. A programme for Roma literacy and occupational training 'From Social Aid to Employment', which aims at providing basic occupational training for jobless Roma, has been launched in 2006. In May 2006, a coordinator of the Decade of Roma Inclusion 2005-2015 was assigned. Regular monitoring meetings are organised in order to review the implementation of this programme.

Nevertheless, the socio-economic, educational and labour market participation status of the Roma is, in general, still significantly lower than the average nation-wide. The full integration of the Roma remains a considerable challenge, with additional efforts needed in particular for the inclusion of the Roma in the labour market.

External relations

Bulgaria’s top foreign policy priority is further integration into EU and Euro-Atlantic institutions. There is a relatively high level of popular support to that and other government’s main foreign policy priorities, including regional cooperation.

Bulgaria became a member of NATO in March 2004. It signed the EU accession treaty in April 2005 and joined the EU on 1 January 2007. Bulgaria’s accession to the EU was accompanied by a set of specific accompanying measures, put in place to prevent or remedy shortcomings in four areas: aviation safety; food safety; agricultural funds; and judicial reform, fight against corruption and organised crime (for the latter, see *Integrity Issues* above).

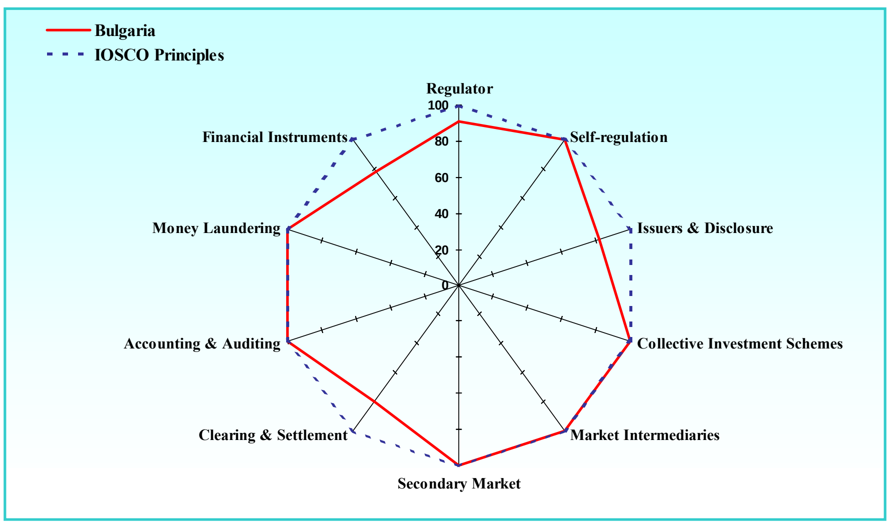
Bulgaria’s relations with immediate neighbours are stable; there are no major open issues in the bilateral cooperation, and no imminent external threats. Bulgaria continues to play a constructive role in the regional cooperation. As a member of the EU, Bulgaria is in a position to contribute significantly to the common European policy in the region, to help provide peace, stability and European perspective for the countries of the Western Balkans and to develop cooperation in the Black Sea area.

ANNEX 2: LEGAL TRANSITION

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 such 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 basic legislation on the securities market is to be found in the Law on Public Offering of Securities (last amended in 2007), the Financial Supervision Commission Law (last amended in 2006), the Law on Measures Against Market Abuse with Financial Instruments (last amended in 2007), the Law on Measures Against Money-laundering (last amended in 2006) and the Law on Markets in Financial Instruments (effective from November 2007).



Quality of securities market legislation – Bulgaria (2005)

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 Market Legislation Assessment 2005

According to the EBRD Securities Markets Legislation Assessment conducted in 2005, Bulgaria was found to be in "high compliance" with the Objectives and Principles of Securities Regulation published by the International Organization of Securities Commissions (IOSCO) (see chart above). In 2007, the EBRD is updating the assessment and conducting a Legal Indicator Survey for testing the effectiveness of securities market legislation (i.e. how the law works in practice). The preliminary results of both initiatives confirm the good quality of securities market legislation along with a fair level of effectiveness.

Company Law and Corporate Governance

The primary legislation governing corporate governance is contained in the Commercial Code, enacted in 1991 and last amended in 2006. A new voluntary Corporate Governance Code is currently being discussed and finalised by a Task Force of representatives from the

Bulgarian Stock Exchange, the Financial Supervision Commission, academic circles, business and investor associations and corporate executives.

In 2004 the EBRD Corporate Governance Sector Assessment found that corporate governance legislation in Bulgaria was in “medium compliance” with the international standards as set out in the OECD Principles of Corporate Governance, on par with a number other then-EU Accession Countries. An update of the assessment is currently being undertaken by the EBRD.

In order to understand how corporate governance legislation works in practice, in 2005 the EBRD designed two case studies dealing with related-party transactions in a listed and unlisted company. The case studies revealed that minority shareholders in Bulgaria have limited options in order to obtain disclosure of information; a request to the court for the appointment of an independent auditor seems to be the only way to provide an effective result. The framework for obtaining redress offers several avenues to minority shareholders in listed companies, but only one – the derivative suit – for unlisted ones. Moreover, procedures can be complex and lengthy while the effectiveness of enforcement essentially depends on the outcome of conservation measures requested on the debtor assets.

With respect to the institutional framework, the survey revealed that related party transactions in Bulgaria are not well defined and this negatively affects the outcome of the analysis. In general the competence and experience of courts, prosecutors and market regulator need to be improved. Judicial proceedings are slow, providing the defendant with numerous possibilities for obstruction. Finally corruption and partiality of judgements are still reported as significant problems.

Concessions

Bulgaria has a clear concessions policy framework. There is a National Programme for the development of public procurement and concessions for 2005-2007. In addition, there exists a National Strategy for Integrated Development of the Infrastructure of Bulgaria and the respective Action Plan for 2006-2015 according to which the government encourages public-private partnerships and plans to invest over €5 billion in infrastructure projects until 2009 largely in three priority areas - transport, environment and energy.

For the past decade Bulgaria has been one of the few countries in the region that had a well-written concessions law, in high compliance with international standards. In 2006 a new Concessions Law was approved and became effective. Its main aim was to improve further fairness and transparency.

Under the new law, there are three types of concession: Public Works Concession, Service Concession and Mining Concession. While the law does not mention specific activities for which concessions can be granted, it determines three main subject categories: construction, services, mining and exploration. Potential fields for concessions may therefore include the construction of roads, ports and airports, power generation and transmission, mining, petroleum exploration/drilling, telecommunications, forests and parks, beaches, and nuclear installations. Implemented concessions so far include projects in the road sector and airports. The maximum term for a concession is 35 years. The law provides for a National Concessions Register to be set up, which serves as a guarantee of transparency in compliance with EU requirements. Particulars of granting concessions for some activities are also regulated by sector specific laws - the Law on Waters, the Law on Underground Resources, the Roads Law.

The decision to grant a concession is taken by the Council of Ministers, for state assets, or by the Municipal Council, for municipal assets. The concessionaire is selected through a tender or competition procedure, or directly when the law provides for that option. By law, large-scale infrastructure projects may not be implemented without a tender procedure.

The approval process attracted some internal criticism in relation to implementation of particular projects. The new law is a relatively recent piece of legislation and its implementation is yet to be tested in practice.

Insolvency

Bankruptcy and insolvency in Bulgaria are governed primarily by Part IV of the Law of Commerce (as amended, 2005) (the "Insolvency Law"), one of the leading insolvency laws in the EBRD's countries of operations. In the EBRD's 2006 Sector Assessment Survey, which measured the compliance of insolvency legislation with international standards, the Insolvency law received an overall score of "high compliance".

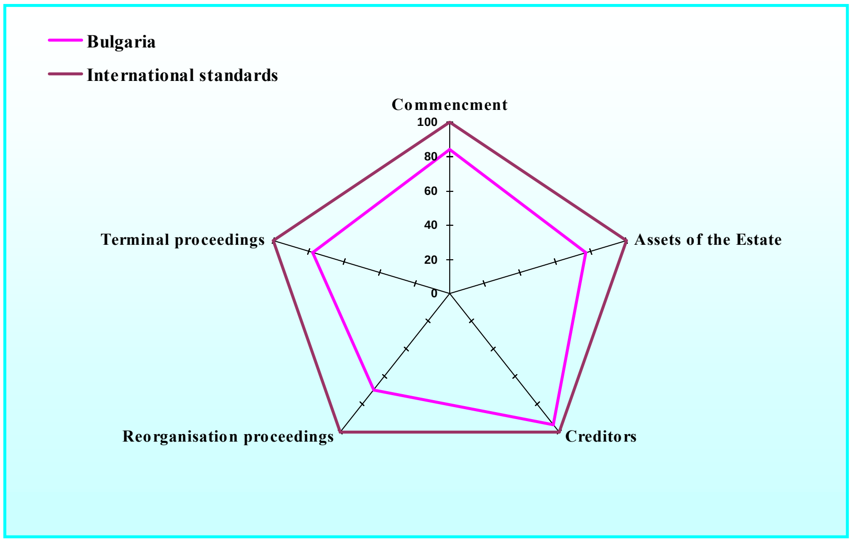
The Insolvency Law is clear and concise in a number of important areas, such as the requirement for an immediate/early hearing of insolvency cases; the effect of the opening of proceedings (particularly as regards stay/suspension of enforcement action); the avoidance of pre-bankruptcy transactions; and the general scheme of the reorganisation process.

Recent improvements to the law have clarified the definition of insolvency, including a clarification of the financial requirements relating to insolvency and the proof required to establish that condition. The amendments have made it easier for creditors to provide evidence of a debtor's insolvency, thus improving the likelihood that creditors will be able to take measures to enforce their rights. The amendments have also added the ability to obtain interim (also known as DIP) financing during a restructuring which should help to improve the chances of successful reorganisations.

Despite its "high compliance" rating the law could be improved further in order to provide adequate provisions requiring third parties to deliver up property belonging to or information concerning the debtor and to provide adequate sanctions for failure to comply with any of its provisions (although it is possible that a general provision found in another law may address this issue).

In the 2004 Insolvency Legal Indicator Survey which examined the effectiveness of insolvency regimes in both creditor-initiated insolvencies, revealed that for debtors and creditors, it was relatively easy to determine in which court insolvency proceedings should be commenced, but that the process is unduly complex. Bringing such proceedings was seen as too expensive and the courts cannot generally be relied upon to deal with insolvency matters in a predictable and competent manner. The Survey found a 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. 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, which should improve the overall effectiveness of the system.

Quality of insolvency legislation – Bulgaria (2006)



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.

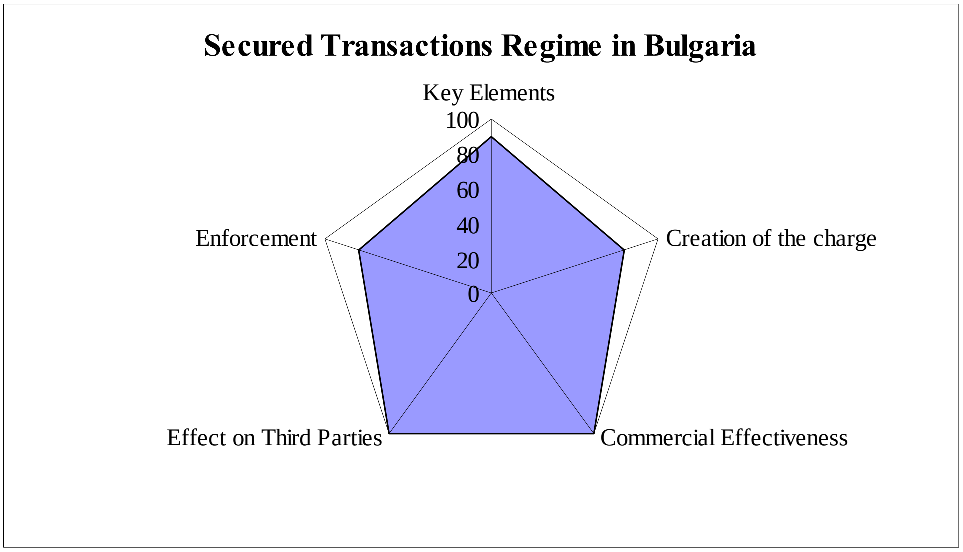
Source: EBRD Insolvency Sector Assessment 2006

Secured Transactions

The legal framework for secured transactions is one of the most advanced in the region. Governed by the 1997 Law on Registered Pledges, the registered pledge allows taking security over a wide range of movable (tangible and intangible) assets. It can be granted by a "merchant", as defined in art 1 of the 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 (that is mainly farmers, artisans and members of the professions). 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. The pledge holder 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. The rules underpinning pledge enforcement are modern and flexible: the pledge holder can in principle obtain possession of the pledged assets and sell them (via a depositor appointed by him) two weeks after registration of the commencement of foreclosure, provided that the conditions and method of sale were expressly stipulated in the pledge agreement. However, in practice, the process is often hampered by the pledgor's obstruction and the judicial institutions are not always perceived as efficient as they should be.

Security over immovable property (mortgage) is governed by the 1950 Law on Obligations and Contracts as amended. A mortgage is created after its registration in the Real Estate Register based on a written mortgage agreement executed as a notarial deed. The legal regime is not as modern or efficient as that for pledges. The most salient problems concern the creation procedure, which is cumbersome compared to other emerging markets; the Real Estate Register which is not centralised and still paper-based; and in case of mortgagor's default, realisation of the property is reported to take usually up to one year but here again, debtor obstruction can significantly prolong the process. The sale proceeds are generally below the property's market price.

Analysis of the secured transactions legal regime in Bulgaria, 2005



Note: Scoring on a scale from 1 to 100, where 100 represents the most advanced legal and practical regime.

Source: EBRD Regional Survey of Secured Transactions, 2005

Telecommunications

The communications sector (the "Sector") is currently governed by the Electronic Communications Act (the "2007 ECA"), which entered into force on 25 May 2007, and is regulated by the Communications Regulation Commission (CRC). CRC is an independent regulatory authority responsible for the implementation of the regulatory framework set out at law. The Ministry of Transport and Communications is Sector policymaker.

CRC was created as an independent sector specific regulator in 2001. CRC's activities, work organisation and structure were strengthened and further defined by regulation in 2004. Among its main functions are: the issuance of licences; administration of the national numbering plan; development of spectrum management policy; monitoring radio transmission quality, equipment approval; adjudication of interconnection disputes; and, price regulation of operators occupying a significant market position.

Although Bulgaria missed the 1 January 2007 deadline for transposition of the European Union (EU) regulatory framework, the 2007 ECA transposes into Bulgarian legislation the directives of the current EU regulatory framework in accordance with accession obligations. The emphasis now moves to the secondary legislation necessary to implement the detail of the 2007 ECA. Coordination of preparation of this secondary legislation is the responsibility of CRC with input from relevant ministries and agencies. Existing obligations imposed on operators under previous legislation will remain in force until CRC adopts new decisions and regulations in accordance with the 2007 ECA. In this respect, CRC is understood to have already published (for consultation) a draft methodology for the definition and analysis of relevant markets and for the designation of undertakings with significant market power in accordance with the EU regulatory framework.

Sector legislation from 1998 introduced liberalisation in all areas except fixed-line voice telephony and leased lines. Formal liberalisation of fixed-line voice followed in 2002, but in reality a new law passed in August 2002 extended the local loop monopoly of incumbent operator, Bulgarian Telecommunications Company's (BTC), until the end-2004. Thus, although the market is now formally liberalised, meaningful competition to BTC has yet to emerge. There are a number of licensed alternative operators in Bulgaria few have yet launched operations. The 2007 ECA is expected to allow competing operators easier access to BTC's infrastructure, thereby boosting competition.

EU accession has been, and will remain, the key driver of Sector development and reform. While the authorities appear to have formally met Sector accession obligations (albeit with some delay), extensive secondary legislation is now required to ensure the practical implementation and operation of the new rules. While CRC appears to have taken early initiative in this respect, fully and speedy adoption of this secondary legislation is critical to ensure the benefits of a fully liberalised Sector environment are fully harnessed. Following on from adoption of the required secondary legislation CRC must ensure they adopt a robust approach to market intervention to counter the dominance of BTC and facilitate a competitive fixed market – in particular the authorities should work to introduce fixed number portability earlier than the currently envisaged January 2009 timetable.

ANNEX 3: SELECTED ECONOMIC INDICATORS

Bulgaria

	2002	2003	2004	2005	2006	2007 Estimate	2008 Projection
Output and expenditure			(Percentage change in real terms)				
GDP	4.5	5.0	6.6	6.2	6.3	6.2	6.0
Private consumption	4.0	6.3	5.3	5.5	8.5	5.1	na
Public consumption	6.1	3.1	6.8	4.1	-2.5	3.4	na
Gross fixed capital formation	8.5	13.9	13.5	23.3	14.7	21.7	na
Exports of goods and services	8.1	10.7	12.7	8.5	8.7	5.2	na
Imports of goods and services	5.0	16.4	14.5	13.1	14.0	9.9	na
Industrial gross output	4.0	18.3	21.5	3.2	1.8	na	na
Agricultural gross output	4.2	-1.4	5.6	-5.0	-0.6	na	na
Employment			(Percentage change)				
Labour force (end-year)	-0.5	1.1	1.2	-0.2	3.1	1.7	na
Employment (end-year)	2.9	4.5	3.4	2.0	4.4	4.8	na
			(In per cent of labour force)				
Unemployment (end-year)	16.8	13.7	12.0	10.1	8.9	6.2	na
Prices and wages			(Percentage change)				
Consumer prices (annual average)	5.9	2.3	6.1	5.0	7.3	8.4	10.9
Consumer prices (end-year)	3.9	5.6	4.0	6.5	6.5	12.5	7.0
Producer prices (annual average)	1.3	4.9	6.0	6.9	6.9	8.4	na
Producer prices (end-year)	6.3	4.3	5.2	9.6	5.1	11.1	na
Gross average monthly earnings in economy (annual average)	3.4	9.2	9.1	4.3	4.6	19.6	na
Government sector			(In per cent of GDP)				
General government balance[1]	0.1	-0.9	2.2	1.9	3.3	3.5	2.0
General government expenditure[1]	37.1	38.1	36.7	37.5	35.3	34.4	na
General government debt[2]	54.0	45.9	37.9	29.2	22.8	20.8	na
Monetary sector			(Percentage change)				
Broad money (M2, end-year)	11.7	18.8	23.3	24.3	26.9	31.3	na
Domestic credit (end-year)	27.4	33.9	34.2	33.0	15.3	58.8	na
			(In per cent of GDP)				
Broad money (M2, end-year)	42.8	47.5	52.3	59.0	64.9	74.4	na
Interest and exchange rates			(In per cent per annum, end-year)				
Base interest rate[3]	3.3	2.8	2.4	2.1	3.3	4.6	na
Interbank interest rate (up to 1 month)	1.2	1.1	2.0	2.2	3.5	4.9	na
Deposit rate (1 month)	2.8	2.9	3.0	3.0	3.1	4.0	na
Lending rate (less than 1 year)	9.4	8.8	8.8	7.9	8.1	10.3	na
			(Leva per Euro)				
Exchange rate (end-year)	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Exchange rate (annual average)	2.0	2.0	2.0	2.0	2.0	2.0	2.0
External sector							
			(In millions of Euro)				
Current account	-338.7	-905.5	-1,345.4	-2,612.7	-4,505.1	-6,288.1	-4,354.5
Trade balance	-1,760.7	-2,281.7	-2,969.2	-4,341.1	-5,595.3	-7,421.9	-6,350.0
Merchandise exports	5,683.9	6,272.7	7,995.8	9,310.6	12,022.7	13,556.2	14,845.2
Merchandise imports	7,444.6	8,554.4	10,965.0	13,651.7	17,618.1	20,978.1	21,195.2
Foreign direct investment, net	930.3	1,833.9	2,318.1	3,164.4	5,837.7	5,967.2	3,267.9
Gross reserves, excluding gold (end-year)	4,195.5	4,981.0	6,430.4	6,815.7	8,309.0	11,179.0	na
External debt stock	10,768.9	10,640.6	12,658.5	15,089.6	19,669.9	26,248.1	na
			(In months of imports of goods and services)				
Gross reserves, excluding gold (end-year)	6.0	6.2	6.2	4.9	5.0	5.9	na
			(In per cent of exports of goods and services)				
Debt service	17.3	14.9	25.5	42.4	19.0	8.5	na
Memorandum items			(Denominations as indicated)				
Population (end-year, million)	7.8	7.8	7.8	7.7	7.7	7.7	na
GDP (in millions of leva)[4]	32,401.6	34,627.5	38,822.6	42,797.4	49,361.0	56,519.8	66,441.3
GDP per capita (in Euro)	2,110.9	2,269.3	2,556.9	2,785.1	3,273.1	3,759.1	na
Share of industry in GDP (in per cent)	25.6	20.6	26.0	26.1	na	na	na
Share of agriculture in GDP (in per cent)	10.7	10.1	9.4	8.0	na	na	na
Current account/GDP (in per cent)	-2.0	-5.1	-6.8	-12.2	-17.9	-21.7	-13.6
External debt - reserves (in EUR million)	6,573.4	5,659.6	6,228.1	8,273.9	11,360.9	15,069.1	na
External debt/GDP (in per cent)	72.5	67.2	70.1	69.4	78.2	80.0	na
External debt/exports of goods and services (in per cent)	149.7	133.8	123.8	116.6	127.0	155.3	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 the BNB.

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

[4] The lev was re-denominated in July 1999. All data have been converted to the post-July 1999 rate.

ANNEX 4

Approved Bank Operations

ANNEX 4A – EBRD OPERATIONS TO DATE

Op Name	Regional/Direct	Signing Date	Total Project Value	EBRD Finance	Debt	Equity
Maritza East II Power Project	Direct	11.06.92	199,2	40,0	40,0	0,0
Eurovision - Network Expansion Project	Direct	26.11.92	0,7	0,7	0,7	0,0
Bulgarian Telecom	Direct	23.12.92	185,6	32,0	32,0	0,0
Total 1992			**385,5**	**72,7**	**72,7**	**0,0**
Bulgarian Transit Roads	Direct	14.07.93	77,0	29,2	30,3	0,0
International Commercial Bank (Bulgaria) - (Formerly BIB)	Direct	21.12.93	1,0	1,0	0,0	1,0
Total 1993			**77,9**	**31,2**	**30,3**	**1,0**
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	7,9	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	8,5	3,3	3,4	0,0
Total 1994			**33,4**	**11,2**	**3,4**	**7,9**
MBA Loan Project (guarantee)	Regional	06.03.95	1,3	1,9	1,9	0,0
Railway Restructuring Project	Direct	17.11.95	225,6	31,3	31,3	0,0
Bulgaria Wholesale Markets	Direct	13.12.95	36,4	3,2	3,2	0,0
International Commercial Bank (Bulgaria) Capital Increase	Direct	20.12.95	2,3	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			**269,6**	**38,1**	**36,5**	**1,6**
Storco	Direct	24.09.96	22,0	7,6	4,9	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	12,7	7,0	7,0	0,0
First Investment Bank	Direct	23.10.96	4,1	4,2	4,2	0,0
Storco - Divestment	Direct	25.10.96	0,2	0,2	0,2	0,0
Total 1996			**41,0**	**20,0**	**16,1**	**3,9**
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	189,3	56,3	56,3	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
MF Bulgarian PPF	Direct	16.12.97	8,7	8,7		
Total 1997			**461,5**	**103,6**	**79,8**	**17,1**
Domaine Boyar AD	Direct	29.07.98	50,0	20,8	19,1	1,7
Black Sea Fund	Regional	26.08.98	17,0	7,0	0,0	7,0
Isiklar/Celhart	Direct	12.11.98	28,0	8,5	8,5	0,0
Isiklar/Celhart (write-off)	Direct	12.11.98	2,4	2,5	1,4	1,1
MBA Loan Project II (guarantee)	Regional	07.12.98	0,6	0,3	0,3	0,0
Total 1998			**97,8**	**39,0**	**29,3**	**9,7**
AIG New Europe Fund	Regional	29.06.99	11,5	2,3	0,0	2,3
Bulgaria Wholesale Markets (Revised Investment Plan)	Direct	05.08.99	23,0	7,0	7,0	0,0

Op Name	Regional/Direct	Signing Date	Total Project Value	EBRD Finance	Debt	Equity
First Investment Bank Syndicated Loan	Direct	06.08.99	15,0	5,0	5,0	0,0
Central & Eastern Europe Power Fund	Regional	16.12.99	1,4	0,4	0,0	0,4
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	3,2	0,7	0,0	0,7
Bulgarian Insurance and Pension (BIP)	Direct	20.12.99	13,5	5,3	0,0	5,3
Total 1999			**69,4**	**22,5**	**12,0**	**10,5**
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	20,0	6,7	6,7	0,0
Migros Foodstores Skopje	Regional	20.06.00	0,2	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	5,1	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
TBIH Financial Services Group N.V. (debt & equity)	Regional	04.12.00	10,3	6,3	0,7	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	7,3	3,2	0,0	3,2
Total 2000			**153,7**	**55,3**	**37,7**	**17,7**
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	23,2	12,2	12,2	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			**135,4**	**51,9**	**33,7**	**18,2**
Bulgarian Transmission Network	Direct	16.01.02	156,7	41,1	41,1	0,0
PFS	Direct	04.03.02	35,7	18,8	14,5	4,3
Sofia Public Transport Project	Direct	29.04.02	31,1	16,9	16,9	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	8,2	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	3,0	2,8	0,0	2,8
EU/EBRD Phase II ext. - United Bulgarian Bank	Direct	12.11.02	20,0	20,0	20,0	0,0
Heitman Central Europe Property Partners Fund II	Regional	09.12.02	7,4	2,5	0,0	2,5
Total 2002			**376,1**	**138,1**	**126,0**	**12,1**
Maritza East III Power Project	Direct	28.02.03	708,0	28,0	28,0	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	6,1	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	4,7	4,9	4,9	0,0
TBI AD (debt & equity)	Direct	04.11.03	15,2	15,3	2,2	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			**1 072,5**	**146,5**	**110,0**	**36,5**

Op Name	Regional/Direct	Signing Date	Total Project Value	EBRD Finance	Debt	Equity
EERECL (Bulgaria) - UBB	Direct	16.03.04	25,0	25,0	25,0	0,0
Polish Enterprise Fund V	Regional	30.01.04	4,7	4,7	0,0	4,7
EERECL (Bulgaria) – BPB	Direct	16.03.04	12,0	10,0	10,0	0,0
EERECL (Bulgaria) - Unionbank	Direct	16.03.04	3,0	3,0	3,0	0,0
US/EBRD SME - ProCredit Bank Bulgaria	Direct	16.03.04	13,1	6,0	5,0	1,0
EU/EBRD Extension 4 - Hebros Bank II	Direct	11.05.04	6,0	6,0	6,0	0,0
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
EERECL (Bulgaria) - UniCredit Bulbank	Direct	23.09.04	7,0	7,0	7,0	0,0
EERECL (Bulgaria) - UniCredit Bulbank	Direct	23.09.04	10,0	10,0	10,0	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 - Unicredit Leasing	Direct	29.11.04	5,0	5,0	5,0	0,0
EERECL (Bulgaria) - DSK Bank	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	10,0	10,0	10,0	0,0
Maritza east 2 TPP	Direct	30.11.04	80,3	22,0	22,0	0,0
Total 2004			**566,3**	**253,1**	**230,4**	**22,7**
Sunny Travel EOOD	Direct	24.02.05	37,6	12,2	12,2	0,0
Chelopech Mining	Direct	06.04.05	33,0	7,0	7,0	0,0
Belvedere	Direct	27.04.05	28,1	9,0	7,0	2,0
Burgas Water Company	Direct	08.06.05	21,1	11,0	11,0	0,0
Global Property Fund	Regional	29.06.05	38,9	10,4	0,0	10,4
REECL (Bulgaria) - Post Bank	Direct	30.06.05	5,0	5,0	5,0	0,0
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 (Bulgaria) - DSK Bank	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
Emerging Europe Convergence Fund II	Regional	24.08.05	6,0	6,0	0,0	6,0
Sviloza Pulp Mill	Direct	22.11.05	28,0	18,0	18,0	0,0
Argus Capital Partners II	Regional	07.12.05	4,5	4,5	0,0	4,5
Maritza East I Power Company	Direct	07.12.05	1 174,0	96,0	96,0	0,0
EU/EBRD Extension 6 - Union Leasing Bulgaria - Senior Loan	Direct	09.12.05	3,0	3,0	3,0	0,0
Southeast Europe Equity Fund II	Regional	15.12.05	7,2	7,2	0,0	7,2
North-Eastern Bulgaria Electricity Distribution Companies	Direct	20.12.05	16,8	16,8	16,8	0,0
SG AM Eastern Europe L.P.	Regional	22.12.05	1,1	0,6	0,0	0,6
SigmaBleyzer Southeast European Fund IV CV	Regional	23.12.05	5,0	5,0	0,0	5,0
Total 2005			**1 439,6**	**239,4**	**203,8**	**35,6**
EU/EBRD Extension 6 - Unicredit Leasing II	Direct	30.01.06	5,0	5,0	5,0	0,0
EU/EBRD ext. 6 - SG Expressbank	Direct	04.05.06	10,0	10,0	10,0	0,0
EU/EBRD SME Finance Facility - Raiffeisen Leasing Bulgaria	Direct	21.05.06	10,0	10,0	10,0	0,0
European Fund for Southeast Europe (EFSE)	Regional	19.06.06	2,0	2,0	0,0	2,0
Rousse Water Investment Project	Direct	20.06.06	46,8	8,0	8,0	0,0
REECL (Bulgaria) - ProCredit Bulgaria	Direct	30.06.06	10,0	10,0	10,0	0,0
Boni	Direct	14.07.06	40,8	15,0	15,0	0,0
REECL (Bulgaria) - UniCredit Bulbank	Direct	18.07.06	2,5	2,5	2,5	0,0
Telelink	Direct	27.07.06	10,0	3,0	3,0	0,0
EERECL (Bulgaria) extension - Raiffesenbank Bulgaria	Direct	04.08.06	20,0	20,0	20,0	0,0

Op Name	Regional/Direct	Signing Date	Total Project Value	EBRD Finance	Debt	Equity
Alpha CEE II, L.P.	Regional	11.08.06	2,5	2,5	0,0	2,5
Europolis 3	Regional	21.09.06	32,2	6,9	4,1	2,6
BSR Europe Co-Investment Facility	Regional	14.08.06	11,0	3,9	0,0	3,9
EU/EBRD ext 6 - Allianz Bulgaria Bank	Direct	27.09.06	5,0	5,0	5,0	0,0
Balkan Accession Fund, C.V.	Regional	04.10.06	26,2	5,5	0,0	5,5
Bluehouse equity fund	Regional	17.10.06	7,6	1,3	0,0	1,3
GED Eastern Fund II	Regional	30.10.06	8,0	8,0	0,0	8,0
AIG New Europe II	Regional	15.11.06	4,0	4,0	0,0	4,0
7L Capital Partners	Regional	09.11.06	14,7	6,0	0,0	6,0
Total 2006			**281,6**	**128,6**	**92,6**	**35,8**
Accession Mezzanine Capital II	Regional	16.01.07	40,0	8,0	0,0	8,0
NEVEQ – New Europe Venture Equity Fund	Regional	15.03.07	8,0	8,0	0,0	8,0
EU/EBRD Extension 7 - Raiffeisenbank Bulgaria (Rural)	Direct	20.05.07	5,0	5,0	5,0	0,0
Global Finance SEE Fund	Regional	29.06.07	19,2	19,2	0,0	19,2
South Eastern Europe - Joint Power Venture	Regional	29.06.07	180,0	18,0	0,0	18,0
Syntaxis Mezzanine Fund	Regional	29.06.07	2,6	2,5	0,0	2,5
Stara Zagora Water Investment Project	Direct	30.06.07	10,9	9,0	9,0	0,0
EERECL (Bulgaria) extension Piraeus Bank	Direct	19.09.07	5,0	5,0	5,0	0,0
EU/EBRD Extension 6 - Piraeus Bank Bulgaria	Direct	19.09.07	5,0	5,0	5,0	0,0
EU/EBRD Extension 6 - Piraeus Leasing Bulgaria	Direct	19.09.07	5,0	5,0	5,0	0,0
EU/EBRD MFF Extension 1 - Piraeus Bank Bulgaria	Direct	19.09.07	2,5	2,5	2,5	0,0
Unionbank (equity)	Direct	05.09.07	0,8	0,8	0,0	0,8
EERECL (Bulgaria) Unionbank	Direct	29.06.07	5,0	5,0	5,0	0,0
US EBRD SME – ProCredit	Direct	25.09.07	1,0	1,0	0,0	1,0
AIG New Europe	Regional	16.07.07	1,0	1,0	0,0	1,0
Europolis 3	Regional	26.01.07	6,8	6,8	0,0	6,8
Telelink	Direct	16.10.07	0,1	0,1	0,0	0,1
Raiffeisen Leasing	Direct	30.11.07	5,0	5,0	5,0	0,0
Royalton Partners II	Regional	25.10.07	7,5	7,5	0,0	7,5
EnerCap renewable energy financing vehicle	Regional	02.11.07	2,5	1,3	0,0	1,3
Vez Svoghe mini hydro project	Direct	26.11.07	80,8	34,0	34,0	0,0
Wienerberger Bulgaria	Direct	26.11.07	4,4	6,8	6,8	0,0
EUEFF – United Bulgarian Bank credit line	Direct	19.12.07	5,0	5,0	5,0	0,0
Bulgarian ESCO Fund (BEF)	Direct	21.12.07	7,0	7,0	7,0	0,0
EUEFF - Unicredit Bulbank credit line	Direct	21.12.07	15,0	15,0	15,0	0,0
Plovdiv Water Investment Project	Direct	21.12.07	11,4	11,4	11,4	0,0
Project Toronto	Direct	21.12.07	8,2	8,2	0,0	8,2
Total 2007			**444,6**	**203,0**	**120,7**	**82,3**
Total Cumulative Commitments			**5 908,4**	**1 546,0**	**1 230,2**	**315,8**

ANNEX 4B – CURRENT PORTFOLIO STOCK

(as of 31 December 2007, € millions)

Operation Name	Team of OL	Portfolio	Undrawn Commitment	Operating Assets
Direct Investments				
Bulgaria Wholesale Markets	Agribusiness	0,0	0,0	0,0
Bulgarian Telecom	Telecoms Informatics & Media	0,0	0,0	0,0
Maritza East II Power Project	Power and Energy	0,0	0,0	0,0
Bulgarian Transit Roads	Transport	0,0	0,0	0,0
Railway Restructuring Project	Sofia (Bulgaria)	9,6	0,0	9,6
Eurovision - Network Expansion Project	Telecoms Informatics & Media	0,0	0,0	0,0
First Investment Bank	Financial Institutions	0,0	0,0	0,0
United Bulgarian Bank - Equity Investment (portage)	Financial Institutions	0,0	0,0	0,0
Astera Investment Project	Sofia (Bulgaria)	0,0	0,0	0,0
Storco	Sofia (Bulgaria)	0,0	0,0	0,0
Sofia District Heating Rehabilitation	Sofia (Bulgaria)	27,0	15,7	11,3
Sofia Water System Concession Project	Sofia (Bulgaria)	16,1	0,0	16,1
Sodi Privatisation	Sofia (Bulgaria)	0,0	0,0	0,0
Chelopech Mining	Natural Resources	5,1	0,0	5,1
Domaine Boyar AD	Corporate Recovery	1,7	0,0	1,7
Isiklar/Celhart	Kyiv (Ukraine)	0,0	0,0	0,0
Maritza East III Power Project	Power and Energy	0,0	0,0	0,0
Bulgarian Transmission Network	Power and Energy	30,8	9,3	21,5
Bulgaria Wholesale Markets (Revised Investment Plan)	Agribusiness	2,2	0,0	2,2
Isiklar/Celhart (2)	Kyiv (Ukraine)	0,0	0,0	0,0
Maritza East I Power Company	Power and Energy	96,0	38,1	57,9
Balkanpharma		0,0	0,0	0,0
Sofia Public Transport Project	Sofia (Bulgaria)	12,0	2,7	9,3
US/EBRD SME - ProCredit Bank Bulgaria	Group for Small Business	1,2	0,0	1,2
Unionbank (equity)	Financial Institutions	1,7	0,0	1,7
Maritza east 2 TPP	Power and Energy	22,0	22,0	0,0
PFS	Corporate Recovery	0,0	0,0	0,0
Boliari	Agribusiness	0,0	0,0	0,0
EU/EBRD Phase II ext. - United Bulgarian Bank	Financial Institutions	12,5	0,0	12,5
EU/EBRD Extension 3 - DSK	Financial Institutions	5,7	0,0	5,7
EU/EBRD Phase II - Raiffeisenbank Bulgaria	Bank Lending	0,0	0,0	0,0
US/EBRD SME - ProCredit Bank Bulgaria	Group for Small Business	1,2	0,0	1,2
Opet-Aygaz Bulgaria	Sofia (Bulgaria)	13,3	0,0	13,3
Herfstzon (sub debt)	Financial Institutions	0,0	0,0	0,0
EERECL (Bulgaria) - UBB	Financial Institutions	20,3	0,7	19,6
EERECL (Bulgaria) - BPB	Bank Lending	8,5	2,4	6,0
US/EBRD SME - ProCredit Bank Bulgaria	Group for Small Business	6,0	0,0	6,0
Burgas Water Company	Sofia (Bulgaria)	11,0	6,8	4,2
North-Eastern Bulgaria Electricity Distribution Companies	Power and Energy	18,3	0,0	18,3
EERECL (Bulgaria) - Unionbank	Financial Institutions	6,9	5,0	1,9
EU/EBRD Ext.5 Rural - UBB Rural	Financial Institutions	10,0	5,0	5,0
EERECL (Bulgaria) - UniCredit Bulbank	Bank Lending	5,1	0,0	5,1
EU/EBRD Extension 6 - Unicredit Leasing II	Financial Institutions	5,0	0,0	5,0
EU/EBRD Extension 5 - Unicredit Leasing	Financial Institutions	2,9	0,0	2,9
EERECL (Bulgaria) - DSK Bank	Financial Institutions	8,0	0,0	8,0
EU/EBRD Extension 5 - Bulgarian-American Credit Bank	Financial Institutions	7,9	5,0	2,9
Belvedere	Agribusiness	9,0	0,0	9,0

Operation Name	**Team of OL**	**Portfolio**	**Undrawn Commitment**	**Operating Assets**
REECL (Bulgaria) - UBB	Financial Institutions	5,0	3,8	1,1
EERECL (Bulgaria) - UniCredit Bulbank	Bank Lending	7,0	0,0	7,0
Sunny Travel EOOD	Property and Tourism	0,0	0,0	0,0
Sviloza Pulp Mill	Sofia (Bulgaria)	18,0	0,0	18,0
REECL (Bulgaria) - UniCredit Bulbank	Bank Lending	2,5	1,3	1,3
REECL (Bulgaria) - DSK Bank	Financial Institutions	9,8	8,7	1,1
REECL (Bulgaria) - Raiffeisenbank Bulgaria	Bank Lending	10,0	5,5	4,5
Vez Svoghe mini hydro project	Power and Energy	34,0	34,0	0,0
REECL (Bulgaria) - Post Bank	Bank Lending	4,7	1,8	2,9
EU/EBRD ext. 6 - SG Expressbank	Bank Lending	10,0	0,9	9,1
EU/EBRD Extension 6 - Union Leasing Bulgaria - Senior Loan	Financial Institutions	3,0	2,7	0,3
Rousse Water Investment Project	Sofia (Bulgaria)	8,0	8,0	0,0
EU/EBRD SME Finance Facility - Raiffeisen Leasing Bulgaria	Bank Lending	15,0	0,0	15,0
Golden Yavor	Property and Tourism	2,5	0,1	2,3
EU/EBRD ext 6 - Allianz Bulgaria Bank	Financial Institutions	5,0	2,5	2,5
Boni	Agribusiness	15,0	0,0	15,0
Telelink	Telecoms Informatics & Media	3,1	0,0	3,1
REECL (Bulgaria) - ProCredit Bulgaria	Group for Small Business	10,0	5,0	5,0
EERECL (Bulgaria) extension - Raiffesenbank Bulgaria	Bank Lending	20,0	14,5	5,5
Stara Zagora Water Investment Project	Municipal & Env Inf	9,0	9,0	0,0
Wienerberger Bulgaria	Sofia (Bulgaria)	6,8	6,8	0,0
Plovdiv Water Investment Project	Sofia (Bulgaria)	11,4	11,4	0,0
EU/EBRD Extension 7 - Raiffeisenbank Bulgaria (Rural)	Bank Lending	5,0	3,0	2,0
EU/EBRD Extension 6 - Piraeus Bank Bulgaria	Bank Lending	5,0	5,0	0,0
EERECL (Bulgaria) extension Piraeus Bank	Bank Lending	5,0	5,0	0,0
EU/EBRD Extension 6 - Piraeus Leasing Bulgaria	Financial Institutions	5,0	5,0	0,0
Bulgarian ESCO Fund (BEF)	Sofia (Bulgaria)	7,0	7,0	0,0
Project Toronto	SEECCA HQ	8,2	8,2	0,0
EU/EBRD MFF Extension 1 - Piraeus Bank Bulgaria	Bank Lending	2,5	2,5	0,0
EUEFF - United Bulgarian Bank credit line	Financial Institutions	5,0	5,0	0,0
EUEFF - Unicredit Bulbank credit line	Bank Lending	15,0	15,0	0,0
		644,4	**284,4**	**360,0**
Regional Investments				
MBA Loan Project (guarantee)	Financial Institutions	0,2	0,2	0,0
Black Sea Fund	Bank Lending	0,2	0,0	0,2
AIG New Europe Fund	Financial Institutions	0,3	0,3	0,0
Central & Eastern Europe Power Fund	Power and Energy	0,2	0,0	0,2
MBA Loan Project II (guarantee)	Financial Institutions	0,1	0,1	0,0
TBIH Financial Services Group N.V. (debt & equity)	Financial Institutions	0,0	0,0	0,0
Innova/3	Warsaw (Poland)	0,0	0,0	0,0
Regional Europolis Portfolio	Property and Tourism	10,9	6,8	4,0
Black Sea Fund - Capital Increase	Bank Lending	2,5	0,0	2,5
Heitman Central Europe Property Partners Fund II	Property and Tourism	1,5	0,4	1,1
EU/EBRD Phase I - Global Romania and Bulgaria Growth Fund	Bank Lending	3,0	1,8	1,2
Raiffeisen International	Financial Institutions	4,0	0,0	4,0
International Water United Utilities	Municipal & Env Inf	3,1	0,0	3,1
Polish Enterprise Fund V	Warsaw (Poland)	3,5	0,0	3,5
Advent Central & Eastern Europe Successor Fund	Financial Institutions	6,7	2,7	4,1
Southeast Europe Equity Fund II	Financial Institutions	6,2	3,9	2,3
Migros Foodstores Skopje	Agribusiness	0,0	0,0	0,0
Europolis II	Property and Tourism	7,5	1,6	5,9
Global Property Fund	Property and Tourism	10,0	2,8	7,2

Operation Name	Team of OL	Portfolio	Undrawn Commitment	Operating Assets
European Fund for Southeast Europe (EFSE)	Group for Small Business	1,9	0,1	1,8
Argus Capital Partners II	Financial Institutions	2,9	2,5	0,4
Emerging Europe Convergence Fund II	Financial Institutions	5,3	1,6	3,7
7L Capital Partners	Financial Institutions	6,0	5,1	0,9
SigmaBleyzer Southeast European Fund IV CV	SEECCA HQ	5,0	2,4	2,6
SG AM Eastern Europe L.P.	Financial Institutions	0,6	0,5	0,1
Bluehouse equity fund	Property and Tourism	1,2	0,5	0,7
Global Finance SEE Fund	Bank Lending	19,2	12,3	7,0
GED Eastern Fund II	Financial Institutions	8,0	5,4	2,6
BSR Europe Co-Investment Facility	Property and Tourism	3,9	3,9	0,0
Alpha CEE II, L.P.	Financial Institutions	2,5	2,0	0,4
Royalton Partners II	Financial Institutions	7,5	7,2	0,3
Balkan Accession Fund, C.V.	Financial Institutions	5,0	3,9	1,1
Europolis 3	Property and Tourism	13,7	11,6	2,1
AIG New Europe Fund II	Financial Institutions	5,0	4,1	0,9
Syntaxis Mezzanine Fund	Financial Institutions	2,5	2,3	0,2
South Eastern Europe - Joint Power Venture	Power and Energy	18,0	18,0	0,0
Accession Mezzanine Capital II	Warsaw (Poland)	8,0	5,6	2,4
NEVEQ - New Europe Venture Equity Fund	Telecoms Informatics & Media	8,0	6,6	1,4
EnerCap renewable energy financing vehicle	Power and Energy	1,3	1,2	0,0
		185,3	**117,5**	**67,8**
		829,7	**401,9**	**427,8**

ANNEX 4C – NET CUMULATIVE BUSINESS VOLUME BY INDUSTRY

(as of 31 December 2007, € 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	105	27	27	0	2%
	Power and Energy	5	2 599	297	278	20	19%
Sub-total Energy		**7**	**2 705**	**324**	**304**	**20**	**21%**
Financial Institutions	Bank Equity	1	288	53	24	29	3%
	Bank Lending	25	308	288	288	0	19%
	Equity Funds	0	316	146	0	146	9%
	Non Bank FI	5	78	65	41	25	4%
	Small Business Finance	3	42	14	8	6	1%
Sub-total Energy			**1 032**	**567**	**360**	**207**	**37%**
Infrastructure	Municipal & Env Inf	7	334	110	105	5	7%
	Transport	1	303	59	59	0	4%
Sub-total Infrastructure		**8**	**637**	**169**	**164**	**5**	**11%**
Specialised Industries	Agribusiness	4	290	87	74	13	6%
	Property and Tourism	1	294	114	73	41	7%
	Telecoms Informatics & Media	1	598	136	120	16	9%
Sub-total Specialised Industries		**6**	**1,182**	**337**	**267**	**70**	**22 %**
General Industry	General Industry	4	353	149	135	14	10%
Sub-total General Industry		**4**	**353**	**149**	**135**	**14**	**10%**
BULGARIA TOTAL		**59**	**5 908**	**1 546**	**1 230**	**316**	**100%**

ANNEX 4 D: PIPELINE STOCK

(in € million as of 31 December 2007)

	Board Approval	Pipeline	Number of Operations
Bulgaria	60,8	619,1	32
Debt	40,0	562,6	24
Debt+Equity	0,0	14,5	3
Equity	20,8	42,0	5
Private	60,8	590,1	31
State	0	29,0	1
Non-Sovereign	60,8	619,1	32
Sovereign	0,0	0,0	0
Natural Resources	0,0	179,9	4
Power and Energy	0,0	100,2	2
Energy	0,0	280,1	6
Bank Lending	30,0	50,0	7
Bank Equity	0,0	0,0	0
Equity Funds	20,0	20,0	1
Non Bank Financial Institutions	10,8	25,8	5
Small Business Finance	0,0	1,5	1
Financial Institutions	60,8	97,3	14
Municipal & Environment Inf	0,0	67,5	3
Transport	0,0	100,0	1
Infrastructure	0,0	167,5	4
Agribusiness	0,0	5,0	1
General Industry	0,0	25,0	2
Property and Tourism	0,0	35,4	3
Telecoms Informatics & Media	0,0	8,8	2
Specialised Industries	0,0	74,2	8

ANNEX 5

Bilateral Assistance (TC) + 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
Commerce, Tourism	Tourism line of credit - tourism sector market study	UKC	70 584	70 584	04.09.98	Closed	Specialised Industries
Community/Social Services	District Heating Policy Adviser	GERK	48 813	48 813	17.01.00	Closed	Non-Banking
Community/Social Services	Energy project support unit	HOL	119 598	119 598	14.06.94	Closed	Energy
Community/Social Services	Sofia municipal asset management fund	UKC	66 902	66 902	01.06.94	Closed	Infrastructure
Construction	Trans-European Motorway	ECP	523 000	523 000	20.07.92	Closed	Infrastructure
Energy	Sofia District Heating: Engineering & Procurement Consultant	ECP	555 800	555 800	22.11.01	Closed	Non-Banking
Energy	Power Distribution Privatisation Advisory Services	ECP	33 900	33 900	07.05.02	Closed	Energy
Energy	Advisory Services for the Privatisation of Electricity Distribution Companies in Bulgaria	ECP	949 608	949 608	06.08.02	Closed	Energy
Energy	Advisory services for establishment of independent power producers	ECP	892 439	892 439	14.12.98	Closed	Energy
Energy	Sofia District Heating: Engineering & Procurement Consultant	ECP	996 468	996 468	22.11.01	Closed	Non-Banking
Energy	District Heating Investment Strategy Adviser	FIN	31 884	31 884	12.04.00	Closed	Non-Banking
Energy	Sofia District Heating Company - technical and economical appraisal	GERK	37 544	37 544	01.05.96	Closed	Non-Banking
Energy	Flue gas desulphurisation options for Maritsa East 3 project	GERK	40 392	40 392	09.03.98	Closed	Non-Banking
Energy	Advisory Services for Separation of Transmission Assets	IRL	40 350	40 350	26.05.99	Closed	Energy
Energy	Vez Svoghe technical due diligence	ITA	39 000	0	08.08.07	Committed	Energy
Energy	Residential energy efficiency credit line support	KIDS	681 100	598 003	18.05.05	Disbursing	Non-Banking
Energy	Residential Energy Efficiency Credit Line Support - Extension	KIDS	620 000	0	05.07.07	Committed	Non-Banking
Energy	Strategic Environmental Assessment of Development of Wind Power in the Dobrich and Varna Provinces of Bulgaria	SPA	185 000	0	19.12.07	Committed	Energy
Energy	Financial appraisal of power transmission project	UKC	24 718	24 718	01.06.99	Closed	Energy
Energy	Petrolvilla supplementary environmental due diligence	UKE	19 900	17 306	21.06.06	Disbursing	Energy
Energy	Sofia District Heating Public Awareness Campaign	UKF	25 097	25 097	05.09.02	Closed	Non-Banking
Energy	credit line for residential energy efficiency	UKF	20 892	20 892	06.10.04	Closed	Non-Banking
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

Sector	Commitment Name	Fund Short Code	Euro Committed	Euro Disbursed	Fund Approved Date	Commit. Stage Name	Business Group
Finance, Business	Bulgarian Investment Bank - management, training and systems establishment	ECP	841 893	841 893	20.06.93	Closed	Financial Institutions
Finance, Business	Bulgarian Investment Bank - due diligence and registration documentation	ECP	100 000	100 000	20.07.93	Closed	Financial Institutions
Finance, Business	Unionbank: Institutional Development - Adviser to Senior Management	ECP	213 178	213 178	18.12.02	Closed	Financial Institutions
Finance, Business	Unionbank: Institutional Development - Credit Advisor	ECP	236 073	236 073	18.12.02	Closed	Financial Institutions
Finance, Business	United Bulgarian Bank - twinning programme	ECP	832 008	832 008	30.01.97	Closed	Financial Institutions
Finance, Business	Bulgaria: EU/EBRD Sustainable Energy Financing Facility - Project Consultant (Bulgaria)	EEFF	952 250	0	05.12.07	Committed	Non-Banking
Finance, Business	PPF - Bulgarian PPF - Legal Advisory Services A	EUBPP	37 274	37 274	22.03.02	Closed	Financial Institutions
Finance, Business	Bulgarian Post-Privatisation Fund - Fund Manager (Year 4)	EUBPP	863 162	863 162	07.03.01	Closed	Financial Institutions
Finance, Business	Bulgaria Post Privatisation Fund - investment advisory services	EUBPP	32 210	32 210	07.11.01	Closed	Financial Institutions
Finance, Business	Bulgarian Post Privatisation Fund - investment advisory services	EUBPP	28 285	28 285	07.11.01	Closed	Financial Institutions
Finance, Business	Bulgarian Post Privatisation Fund - Legal Advisory Services	EUBPP	5 700	5 700	07.11.01	Closed	Financial Institutions
Finance, Business	Bulgarian Post Privatisation Fund - Fund Manager	EUBPP	780 836	780 836	09.01.02	Closed	Financial Institutions
Finance, Business	Fund manager	EUBPP	713 000	713 000	08.07.98	Closed	Financial Institutions
Finance, Business	PPF - Bulgarian PPF - Specialised Advisory Services	EUBPP	652 595	652 595	08.07.98	Closed	Financial Institutions
Finance, Business	Bulgarian PPF: Legal Advisory Services I - Eversheds	EUBPP	61 688	61 688	17.03.99	Closed	Financial Institutions
Finance, Business	Bulgarian PPF: Legal Advisory Services II - Salans Hertzfeld & Heilbronn	EUBPP	67 161	67 161	17.03.99	Closed	Financial Institutions
Finance, Business	Bulgarian PPF - Investment Advisory Services-1	EUBPP	240 090	240 090	17.03.99	Closed	Financial Institutions
Finance, Business	Bulgarian PPF: Investment Advisory Services - 2 - PricewaterhouseCoopers	EUBPP	171 433	171 433	17.03.99	Closed	Financial Institutions
Finance, Business	Bulgarian PPF - Specialist Advisory Services - individual contracts - 2	EUBPP	352 898	352 898	31.03.99	Closed	Financial Institutions
Finance, Business	PPF - Bulgarian PPF - Fund Manager - 2 & 3	EUBPP	1 615 002	1 615 002	31.03.99	Closed	Financial Institutions
Finance, Business	Target market screening for the Bulgarian Post-privatisation Fund	ITA	144 334	144 334	04.03.97	Closed	SEEC
Finance, Business	United Bulgarian Bank pre-privatisation (Phase II)	JAP	173 949	173 949	16.05.94	Closed	Financial Institutions
Finance, Business	Energy Efficiency and Renewable Energy Credit Line Support - Rational Energy Utilisation and Financing Plans	KIDS	1 111 836	998 633	16.06.04	Disbursing	Non-Banking
Finance, Business	Bulgaria: Energy Efficiency and Renewable Energy Credit Line Support - Independent Energy Engineer	KIDS	155 704	53 350	16.06.04	Disbursing	Non-Banking
Finance, Business	Energy Efficiency and Renewable Energy Credit Line Support - Rational Energy Utilisation and Financing Plans	KIDS	27 040	12 548	08.02.06	Disbursing	Non-Banking
Finance, Business	Energy Efficiency and Renewable Energy Credit Line support	KIDS	94 296	28 370	24.05.06	Disbursing	Non-Banking

Sector	Commitment Name	Fund Short Code	Euro Committed	Euro Disbursed	Fund Approved Date	Commit. Stage Name	Business Group
Finance, Business	Energy Efficiency & Renewable Energy Credit Line- Independent Energy Expert	KIDS	400 000	33 200	26.07.06	Committed	Non-Banking
Finance, Business	Energy Efficiency & Renewable Energy Credit Line- REUP Consultant First Tranche	KIDS	750 000	264 576	26.07.06	Disbursing	Non-Banking
Finance, Business	Energy Efficiency & Renewable Energy Credit Line- REUP Consultant Second Tranche	KIDS	750 000	0	26.07.06	Committed	Non-Banking
Finance, Business	Regional study of trade finance needs	SWE	11 573	11 573	01.11.95	Closed	SEEC
Finance, Business	Review of export trade finance needs	UKC	12 237	12 237	01.01.96	Closed	SEEC
Finance, Business	Legal Study on Feasibility of Mortgage Securitisation	UKE	35 000	35 000	17.11.04	Closed	Financial Institutions
Finance, Business	Babylon Human Resources Management Assignment	UKF	9 701	9 701	08.03.04	Closed	SEEC
Finance, Business	Microfinance Bank of Bulgaria - Credit Advisers	USSP	383 480	383 480	18.06.01	Closed	Deputy Vice President
Finance, Business	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
Finance, Business	ProCredit Bank Regional Expansion	USSP	780 742	780 742	30.04.03	Closed	Deputy Vice President
Local Authority Services	Burgas Water - Financial and Operational Improvement Plan & Corporate Development Plan	AUS	45 000	45 000	15.11.05	Closed	Infrastructure
Local Authority Services	Burgas Water - Financial and Operational Improvement Plan	AUS1	268 400	229 435	13.07.07	Disbursing	SEEC
Local Authority Services	Burgas Water - Project Implementation Unit	CAS2	350 000	156 790	05.12.05	Disbursing	SEEC
Local Authority Services	Bulgaria Water and Wastewater Project Facility:	CEI	257 233	204 233	13.04.04	Disbursing	Infrastructure
Local Authority Services	Bulgaria Water and Wastewater Project	CEI	43 860	43 860	13.10.04	Closed	Infrastructure
Local Authority Services	Rousse Creditworthiness Enhancement Programme	CEI	200 000	0	18.12.07	Committed	SEEC
Local Authority Services	Rousse Project Implementation Support Services	DEN	231 469	0	11.12.06	Committed	SEEC
Local Authority Services	Sofia water and wastewater feasibility study	ECP	150 000	150 000	20.11.92	Closed	Infrastructure
Local Authority Services	Sofia water supply improvement project	ECP	650 000	650 000	03.12.97	Closed	Infrastructure
Local Authority Services	Sofia water supply improvement project	ECP	150 000	150 000	19.12.00	Closed	Infrastructure
Local Authority Services	Bulgaria: Stara Zagora Water and Wastewater - FOPIP Programme	GER2	299 850	0	20.12.07	Committed	Infrastructure
Local Authority Services	Sofia water supply improvement project	UKC	24 997	24 997	01.03.99	Closed	Infrastructure
Local Authority Services	Preparation of secondary legislation for water sector regulation	UKF	49 930	49 930	24.02.05	Closed	Infrastructure
Manufacturing	TAM Programme in central, eastern & southern Europe - Aptechno Stara Zagora JSC	BRSF	48 069	48 069	20.06.01	Closed	SEEC
Manufacturing	TAM - Tikves	CEI	40 180	38 972	06.02.05	Disbursing	SEEC

Sector	Commitment Name	Fund Short Code	Euro Committed	Euro Disbursed	Fund Approved Date	Commit. Stage Name	Business Group
Manufacturing	State railways restructuring	ECP	583 455	583 455	20.07.92	Closed	Infrastructure
Manufacturing	Sofia wholesale market - feasibility study	GER	183 297	183 297	20.04.93	Closed	Specialised Industries
Manufacturing	TAM Programme (TAM) - Alcomet	ITA	48 400	48 400	03.07.00	Closed	SEEC
Manufacturing	Dairy investment	JAP	375 000	375 000	16.05.94	Closed	Specialised Industries
Manufacturing	TAM - Djebel 96	LUX	53 552	53 552	15.12.05	Closed	SEEC
Manufacturing	TAM - Dunapack Rodina	LUX	60 000	57 372	13.03.06	Disbursing	SEEC
Manufacturing	TAM - Erato Product	LUX	52 000	18 206	16.01.07	Disbursing	SEEC
Manufacturing	TAM - Nidex	LUX	44 000	3 850	30.08.07	Committed	SEEC
Manufacturing	TAM - Iskra	POR	52 000	0	19.09.07	Committed	SEEC
Manufacturing	Bulgarian grain receipt program	USA	36 958	36 958	16.06.99	Closed	Specialised Industries
Manufacturing	TurnAround Management Programme (TAM) - SNS JSC	WAL	24 000	24 000	06.12.00	Closed	SEEC
Transport, Storage	Bulgarian Railways - costing model	CAN2	49 140	49 140	30.06.99	Closed	Infrastructure
Transport, Storage	Preparation of Black Sea Priority Urban Investment Programme (Phase I)	ECP	228 774	228 774	17.12.93	Closed	Infrastructure
Transport, Storage	Bulgarian Railways - financial accounting assistance for BDZ	ECP	369 375	369 375	07.09.99	Closed	Infrastructure
Transport, Storage	Rousse Water Investment Project: Financial and Operational Improvement Plan	HOL	300 000	0	20.12.07	Committed	SEEC
Transport, Storage	Sofia public transport study	JAP	321 897	321 897	01.07.93	Closed	Infrastructure
Transport, Storage	Port of Varna masterplan	JAP	620 000	620 000	01.07.93	Closed	Infrastructure
Transport, Storage	Sofia Parking Project: Parking Strategy and Action Plan	JAP	189 654	189 654	19.09.03	Closed	Infrastructure
Transport, Storage	Sofia Public Transport Project - New Ticketing System	NSPT	155 487	155 487	20.06.03	Closed	Infrastructure
Transport, Storage	Sofia Public Transport Project - New Ticketing System (UITP Conference)	NSPT	2 264	2 264	03.03.04	Closed	Infrastructure
Transport, Storage	Sofia Bus Service Tendering	TAI	192 040	53 581	12.11.03	Disbursing	Infrastructure
Transport, Storage	Rail modernisation project	UKC	23 763	23 763	31.08.94	Closed	Infrastructure
Transport, Storage	Sofia public transport - guarantee study	UKC	50 635	50 635	05.04.95	Closed	Infrastructure
Transport, Storage	Sofia public transport - public transport adviser	UKC	10 006	10 006	05.04.95	Closed	Infrastructure
Transport, Storage	Sofia public transport - legal adviser	UKC	37 035	37 035	05.04.95	Closed	Infrastructure
	Total:		**28 298 675**	**22 933 804**			
	No of Commitments:		**100**				

Annex 5B - Technical Cooperation Programme

Table 1: Technical Cooperation by Sector as of December 2007

Sector	€ Committed	€ Disbursed
Financial Institutions	15,351,387	12,500,938
Infrastructure	11,223,212	8,838,570
Private Enterprise	1,724,076	1,594,297
Country Total	28,298,675	22,933,805

Table 2: Technical Cooperation by Donor as of December 2007

Donor	€ Committed	€ Disbursed
Austria	313,400	274,435
Multi-Donor	48,069	48,069
Canada	399,140	205,930
Italy	773,007	479,799
Denmark	231,469	0
EU	15,335,481	14,383,231
Finland	31,884	31,884
Germany	609,895	310,045
Netherlands	577,349	277,349
Ireland	40,350	40,350
Japan	1,680,499	1,680,499
KIDS	4,589,976	1,988,680
Luxembourg	209,552	132,980
Portugal	52,000	0
Spain	185,000	0
Sweden	11,573	11,573
Taipei China	192,040	53,581
UK	533,978	531,385
USA	2,460,013	2,460,013
Belgium	24,000	24,000
Country total	28,298,675	22,933,805

ANNEX 6: TRANSITION IMPACT EVALUATION AND LESSONS LEARNED

The Financial Sector

Banking – The Bank has been the most active IFI in the sector and played a major role in the privatisation and the post-privatisation restructuring of United Bulgarian Bank (UBB). Following the successful exit from UBB in July 2000, the Bank took an equity stake in Unionbank and achieved to streamline lending operations, establish proper risk management system and develop an adequate marketing strategy. The Bank has supported the development of new financial instruments, by providing a mortgage credit line to Post Bank and promoting standardisation of mortgage loans and security documentation, which has facilitated refinancing of mortgage receivables in the secondary market. A ***lesson learned*** from the Bank's TC support to Unionbank is the importance to closely cooperate with senior management of the Client in the project preparation. In this case, the joint development of the ToR has ensured the client's commitment to the project (PE05-327S).

NBFI - The investment in Bulstrad has facilitated the privatisation of one of the largest insurance companies in the country and supported its post-privatisation strategy as well. It also enabled the Bank to have an active policy dialogue on pension reform via Doverie, Bulgaria's largest pension provider. The Doverie and Bulstrad investments have played an important role in developing capital markets in Bulgaria, including the introduction of new investment vehicles and products (e.g. mutual funds). Despite the Bank's and other actor's achievements, insurance penetration in the country is significantly lower than in EU countries and the level of pension contributions remains low. A ***lesson learned*** from the engagement with TBI Holding Company N.V. is the long gestation period - seven to ten years - recommended for pension fund firms in order to achieve their potential and to be able to demonstrate profitability (PE04-281).

SME & MSME – After initial difficulties in certain cases (Caresbac, Bulgarian Investment Bank, First Investment Bank) the Bank's SME policy turned to be successful. Under the EU/EBRD Framework Facility for SMEs, credit lines and TC were extended to Hebrosbank, UBB, Unionbank, and others with the first two showing the best performance. The Bank achieved transition impact also through its equity participation in ProCredit Bank Bulgaria, a dedicated microfinance bank operating since 2001, thus, stimulating healthy competition in the sector for SME clients. A ***lesson learned*** from the Bank's project with ProCredit Bank points to the need to diversify funding to secure the long-term sustainability of a greenfield-investment. Coupling IFI funding and tapping commercial markets, e.g. through bond issues sends a strong demonstration signal to the market (PEX05-245).

Private equity funds – A number of private equity funds mostly operating locally and regionally have covered this sector in Bulgaria, most notably the Euromerchant Balkan Fund, the Black Sea Fund, the Post-Privatisation Fund (PPF) and the SEAF (Caresbac) Bulgaria Fund. The last two funds suffered from very poor financial performance and closed down. The first two Greek sponsored funds contributed to the development of the local private equity industry and the training of locally based staff. In anticipation of EU accession Bulgaria has at a time become a regional hub together with Romania of the SEE private equity markets. A ***lesson learned*** from the project with Caresbac Bulgaria is to carefully assess the commitment of not-for-profit equity partners for the Bank's transitional goals and required returns to investments at the outset of an operation. (PE02-215).

Overall, transition impact within the *Financial* Sector is rated *Significant* (see Table 1).

The Enterprise Sector

Agribusiness: Initially, the Bank supported a number of food-processing projects with mixed success. The investment in Danone-Serdika was constrained by slow reforms and an uncertain domestic environment. Within the grain receipts programme, the Bank was able to introduce innovative tools to provide farmers with working capital financing. Since 2000, EBRD started to participate in retail investments, namely with Billa, Boliari, and Migros Foodstores. The Bank operations have had some impact on competition in the sector, improving the range and quality of available products and related hygiene standards. In the case of Boliari, corporate governance standards have been addressed and improved. A ***lesson learned*** from the Bulgaria Wholesale Markets project is to maintain a close cooperation and permanent pressure on local authorities in order to enforce the existing legislation and to further improve it in the future (PER02-099).

Natural Resources: Transition in this sector is well advanced in Bulgaria, nonetheless the Bank had the opportunity to support increased competition and to contribute to setting standards of business conduct and EU health and safety regulations in the fuel retails business through its Opet-Aygaz operation. Additionally, in 2005 the Bank signed a transaction with the Chelopech gold mine which contributed to the introduction of modern mining technology and practices, and an improvement in the efficiency and environmental performance of the mine.

Industry: Reflecting the difficult operating environment, the investment into Babylon, a pharmaceutical distribution company, suffered from inconsistent practices and poor management and resulted in a loss for the Bank. A successful case proved to be the operation for the pulp and Paper Factory Stambolijski (PFS) under the Netherlands Emissions Reductions Cooperation Fund programme. Following a TC funded energy audit in 2003, PFS has successfully switched from oil and gas to biomass energy for reducing its greenhouse gas emissions with a view to sell the carbon ‘credits’ in the future. A ***lesson learned*** from the investment in Balkanpharma is the importance of a foreign strategic partner in a local pharmaceutical industry to facilitate technology upgrades, access to newly patented drugs and the set-up of efficient international distribution channels (PEX03-195).

Property & Tourism: There has been limited impact achieved through the regional property funds, such as Europolis II and TriGranit III. These facilities focussed mostly on increasing competition in the sector, by financing development of modern office, warehouse, logistics and retail property, transferring skills and know-how to the local construction sector and developing liquid secondary property markets. The Bank’s impact in the tourism sector is expected to further increase through the project with the Hermitage Grand Hotel on the Black Sea coast, approved in 2005.

Telecommunications: Early efforts by the Bank aimed at expanding and modernising the Bulgarian telecommunication network and to prepare the dominant operator BTC for privatisation. Despite some delays, privatisation occurred in June 2004 and an aggressive restructuring programme has been undertaken. The Communications Regulation Commission (CRC) auctioned three national licences for fast data transfer and a third GSM mobile operator started providing services. On the regulatory side, an amended Telecommunications law was adopted to reinforce the powers of the CRC in dealing with operators with significant market share. Implementation of tariff rebalancing is on track, with substantial price changes introduced. A ***lesson learned*** from the project with BTC is that essential reforms can be achieved through the Bank's active involvement in privatisation of the sector's incumbent (PEX06-281).

Overall, transition impact within the *Enterprise* Sector is rated *Moderate* (see Table 1).

Infrastructure

Power: The Maritza East I-III projects are the dominant Bank activities in this sector. Maritza 2 was particularly successful through loan covenants to transform the state utility into a joint stock company, introduction of commercial management system and IAS, and increasing tariffs. In cooperation with other IFIs a constructive policy dialogue on sector reform was held and led to a new Energy Law, the establishment of an independent regulator, and the separation of generation, transmission and distribution. In 2005, the Bank signed the latest Maritza East transaction, a major step towards increased private sector participation. Environmental benefits resulted from the introduction of improved technologies in the sector. The Bank's involvement has contributed to the development of an increasingly private and liberal environment.

Energy Efficiency: Initially, the Bank was mainly engaged in policy dialogue with the authorities to adopt main regulatory and tariff reforms. In 2004 the Bank approved an Energy Efficiency and Renewable Energy Credit Line Facility (EERECL) that in the meantime has been joined by eight local banks and an extension approved in 2006. Local banks and firms are increasingly aware of energy issues in the context of facing increasing competition domestically and abroad and demand and awareness for energy financing is growing. Finally, a Residential Energy Efficiency Credit Line (REECL) has been signed with UBB Bank and PostBank. This project has been successful in building skills related to EE lending within PBs and at least some of the banks have integrated REECL into their consumer product range.

MEI: The Bank has worked closely with the municipality of Sofia: the Sofia Water System Concession Project (Sofyska Voda) has experienced serious difficulties because of disputes between the City and the concessionaire, which led to the recent project's '*excessive'* TI risk classification. Second, a municipal loan to the urban transport company was designed to finance the purchase of new buses, trolley buses and the refurbishment of tramways. So far it appears that only the bus component has started off. Finally, a sovereign guaranteed loan was extended in 2002 to Toplofikacia Sofia, the municipal district heating (DH) company for the rehabilitation of the network, the improvement of collection rates and enhanced private sector participation. Tariff methodologies are now in place and subsidies have been eliminated. Despite the overall positive rating of the DH TC component by EvD, the lack of an institutional development element in project design was described to have prevented the investment from further achievements. Accordingly, the project objectives to increase collection rates and private sector involvement still have to be dealt with. A ***lesson learned*** from the Bank's operation with Sofyska Voda is the need to brand a municipal service product also in the case of a natural monopoly, with particular regard to the successful introduction of new tariffs in the particular segment (PE03-234).

Transport: The Bank had only limited presence in the sector: The 1993 approved road project focused on completing a section (32 km) of the Pan-European network. Some impact was achieved through the railway project starting two years later, with a comprehensive restructuring study aiming at improvement in management information systems and the introduction of Public Service Obligation in the context of an agreed Restructuring Action Plan. A ***lesson learned*** from the TC funded Sofia Parking Project is that even with a signed Mandate Letter, there is a risk that the commitment of the Client to the Project could fade away as a result of political discussions and changes to the overall reform agenda (PE05-327S).

Overall, transition impact within the *Infrastructure* Sector is rated *Moderate* (see Table 1).

***Table 1:* Bulgaria - Sector Ratings Summary**

Sector	Transition Impact	Remaining Challenges
Financial Sector	***Significant***	***Medium***
Banking	Significant	Small
NBFI	Significant	Medium
SME	Significant	Medium
Private Equity Funds	Moderate to Significant	Medium
Enterprise Sector	***Moderate***	***Medium***
Agribusiness	Moderate	Medium
Natural Resources	Moderate	Medium
Industry	Moderate to Significant	Medium
Property & Tourism	Minimal	Medium
Telecoms	Significant	Medium
Infrastructure	***Moderate***	***Medium***
Power	Significant	Medium
Energy Efficiency	Significant	Large
MEI	Minimal	Medium
Transport	Minimal	Medium

* EvD's summary assessment refers - inter alia - to the following inputs: TIR (1+2), ATC, TIMS as well as OPER/XMRAs' ratings.

ANNEX 7: ENVIRONMENT

Harmonisation with EU Environmental Law

As an EU Member State, Bulgaria has now adopted all of the EU's environmental law (the 'Aquis Communautaire'). The *Acquis Communautaire* comprises over 200 legal acts covering different areas such as water and air pollution, waste and chemical management, nature protection, industrial pollution management and noise protection.

Transitional periods have been agreed for some requirements relating to the implementation of the following directives: 2008 for electrical and electronic waste, until 2009 for emissions of volatile organic compounds from the storage and distribution of petrol and for certain shipments of waste, until 2011 for the sulphur content of certain fuels and the recovery and recycling of packaging waste, until 2012 for integrated pollution prevention and control, until 2014 for the land filling of certain liquid wastes and for large combustion plants and until 31 December 2014 for urban waste water.

For detailed information on the environmental legislation of Bulgaria and its harmonisation with EU environmental law please visit the website of the Bulgarian Ministry of Environmental and Water (www.moew.government.bg/index_e.html).

EBRD Operations in Bulgaria

All EBRD operations in Bulgaria are subject to the Bank's Environmental Policy and incorporate, where appropriate, environmental action plans into the legal documentation in order to address issues raised during due diligence, in line with the Bank's mandate to actively support environmentally sound and sustainable development through its investment projects.

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 and 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 so far 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. At their Assembly meeting on 5 July 2007 contributors to the Fund approved a total of 10 grant agreements amounting to almost €90 million in additional support to existing and future projects in Bulgaria's energy sector.

The Bulgarian Energy Efficiency and Renewable Energy Credit Line were launched by the EBRD in 2004 in close co-operation with the Bulgarian Ministry of Economy and Energy and the Bulgarian Energy Efficiency Agency. The €105 million facility is managed by

EBRD and presently implemented by six local participating banks that on-lend to private sector companies for industrial energy efficiency and small renewable energy projects. The facility is complemented by grant funding from KIDSF. Businesses use the facility to improve energy efficiency with projects for co-generation; process optimisation; fuel switching; automation and control; and heat and steam recovery; and to promote the use of renewable energy technologies.

As of 30 June 2007, the participating banks had disbursed €19 million in 34 loans to co-finance energy efficiency investments worth €32 million and €36 million in 51 loans to co-finance renewable energy investments worth €52 million. The completion of these projects is estimated to lead to significant energy savings (788,252MWh/year electricity saved) and CO_2 emissions reductions (398,112 tons CO2-equivalent/year), thus addressing rising concerns over the security of energy supply and contributing to climate change mitigation.

The Bulgarian Residential Energy Efficiency Energy Credit Line was launched by the EBRD in 2005 in close co-operation with the Bulgarian Ministry of Economy and Energy and the Bulgarian Energy Efficiency Agency. The €50 million facility is presently implemented by six local participating banks that on-lend to households for energy efficiency measures including double-glazing; wall, floor, and roof insulation; efficient biomass stoves and boilers; solar water heaters; efficient gas boilers; and heat pump systems. The facility is also complemented by grant funding from KIDSF.

As of 30 June 2007, the participating banks disbursed €10.8 million in 7,595 loans and the implemented energy efficiency measures are estimated to lead to energy savings of 49,457 MWh/year electricity saved and CO_2 emissions reductions of 74,332 tons CO2-equivalent/year).

For further details of the EBRD's energy efficiency investments; carbon fund transactions and greenhouse gas reductions please see section 1.2.

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 has signed a deal to finance the construction of a new 2X300MW net lignite-fired power plant at Maritza East I. The plant will replace an existing 500MW of capacity, of which 300MW 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 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 Bank has also invested in the privatisation of the electricity distribution systems which aim to reduce electricity losses and energy efficiency improvements.

The water and waste water treatment sector

In the water and wastewater treatment sector, the Bank has been targeting improvements in water and effluent quality 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 would enable the Bourgas Water Company (BWC) to implement a programme of water and wastewater infrastructure modernisation in Bourgas and surrounding municipalities. The BWC project was a pilot project in Bulgaria, designed to complement significant EU ISPA grant finance. Building on its experience in the sector, in 2006 the Bank signed further transactions with Rousse Water Company and in 2007 with the Stara Zagora and Plovdiv Water Companies.

After years of neglect and under-funding in the water service sector water and waste water-related infrastructures are 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 taken steps to create an efficient water regulator and push forward necessary legal amendments that will promote further private sector participation in the sector.

The EBRD loans and the anticipated ISPA grants will also have a positive impact on tourism development. For example, the BWC currently provides water and sewage services to approximately 425,000 inhabitants. 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 Bourgas to comply with EU environmental directives and reduce pollution of the Black Sea. The Bank has recently also signed two property development projects located in Varna region and is currently considering tourism development on the Black Sea coast. Such proposals were and will continue 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 management in relation to such projects, particularly in the environmentally sensitive area of the Black Sea coast. Other projects are expected to be developed in the context of the Bank's Framework on the Water and Wastewater Project Facility. The EBRD will require that these projects be structured so as to meet (i) applicable national environmental law and (ii) EU environmental standards, insofar as these can be applied to a specific project. In the case of financing for existing facilities, where EBRD's standards and/or requirements cannot be met at the time of Board approval (i.e., the financing is required to make the appropriate upgrades), the project sponsor will be required to include a programme for achieving compliance with EBRD's requirements as described above and taking into account the deadlines on urban waste water treatment provided in the Bulgarian Accession Treaty.

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.

In November 2005 the Bank provided financing to the Sviloza Pulp Mill, to increase its production capacity, and to comply with the EU Integrated Pollution Prevention and Control (IPPC)'s Brief on Best Available Techniques (BAT) for Pulp and Paper Manufacturing. The key indirect environmental impact of the plant will arise from the consumption of a considerable amount of round wood. To mitigate the adverse impact of the wood procurement and to ensure the wood is of legal origin, the Company will adopt and implement wood procurement procedures that are based on principles of sustainable forestry, ensuring that the wood does not originate from statutory protected forests, forest areas included in nature conservation programmes or sites which have been notified by the authorities to be excluded from felling; that the origin of the wood is monitored; that suppliers operate according to the principles of sustainable development, in compliance with the legislation currently in force and under the supervision of state authorities; and that the biodiversity and the functions of the forest ecosystem are maintained in accordance with internationally and nationally approved principles.

The Bank continues to seek 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 and face scrutiny and opposition from international and Bulgarian NGOs and from the local population. The EBRD's financing in 2005 of the copper and gold mine located at Chelopech, has improved the disposal of tailings, the rehabilitation of damaged areas from past industrial activities and improved the dam. An expansion of this project to a local processing capacity at Chelopech and a new green-field investment in a gold mine located near Krumovgrad in southern Bulgaria are currently under consideration by the Bank. Both projects are being reviewed by the Bulgarian Government. The Krumovgrad project, if approved, will have to address a variety of environmental, occupational health and safety, and social issues. An EIA has been completed and is currently being reviewed by the Bank. If the project goes ahead, an Environmental Action Plan will be agreed with the project sponsor to ensure the project is structured to meet EU and Bulgarian environmental requirements.

In the financial sector in 2006, the Bank continued to require from its partner banks in Bulgaria to implement environmental risk management procedures. The EBRD is the chair of the UNEP-FI's Central and Eastern Taskforce whose aims are to support and expand sustainable finance practices in Central and Eastern Europe by raising awareness in the region of the link between environment and finance. The EBRD will participate in the Taskforce's planned workshop in Sofia in October 2007 to raise the awareness of its partner and non-partner financial institutions.

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 impact assessment (EIA) has been in force since 1 July 2004, ensuring the involvement of the public in the EIA process from the initial notification of the proposed project to the final decision. A number of other laws have also been passed including the right to justice on environmental matters. However, according to NGO sources, problems with implementation still exist, such as the insufficient awareness of the judiciary in this area leading to slow implementation of the laws.