

183-0130: Economic Growth and Increased Prosperity

Performance Goal: Increasingly prosperous open-market economy

Strategic & Special Objective Closeout Report: USAID/Bulgaria

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Strategic Objective Close-out Report

SO Name: Economic Growth and Increased Prosperity

SO Number: 1.3

Approval Date: 1998, revised 2003

Geographic Area: Bulgaria

Total Cost: \$ 110,444,000

USAID: \$ 110,444,000

Mission Funding \$ 110,444,000

Global Support

Total USAID Funding: \$ 110,444,000

Principle Implementing Partners:

International Executives Service Corps (IESC)

University of Delaware

ACDI/VOCA

Land O'Lakes (LOL)

Citizens Democracy Corps (CDC)

MBA Enterprise Corps

Management Systems International (MSI)

Bearing Point

Pierce Atwood

Carana Corp.

Volunteers for Economic Growth Alliance (VEGA)

Emerging Markets

Bulgarian American Enterprise Fund (BAEF)

SEAF Trans-Balkan Bulgaria Fund LLC

Opportunity International / NACHALA Cooperative

Catholic Relief Services (CRS) / Ustoi microfinance

United Bulgarian bank (UBB)

Post Bank

Hebros Bank

First Investment Bank

Major Counterparts:

Government of Bulgaria

Universities

Business Support Organizations

Small Businesses

Background

Although Bulgaria made impressive reforms during the period 1997-2002 when this strategic objective was designed, the country was still among the poorest EU applicants, and was lagging behind the CEE graduates on key economic indicators such as GDP per capita and foreign direct investments. Unemployment was one of the highest in the CEE at 17 percent, with marked regional and ethnic disparities. The major obstacles to improvement rested with the weak legal and regulatory environment, underdeveloped labor markets, and limited access to financial resources.

A number of substantive and procedural factors challenged Bulgaria's legal and regulatory environment. Key laws, policies, and regulations were missing, poorly formulated or not enforced. Cumbersome and excessive regulatory and administrative regimes inhibited private sector development (e.g., poor primary and secondary legislation, low levels of implementation and weak institutional capacity). Critical issues also included the need for an improved and more effective judicial system, especially in business and commercial disputes; enhanced and quicker enforcement of court rulings; and streamlined, transparent services (such as licensing, tax procedures) provided by the public administration to entrepreneurs.

A significant factor in Bulgaria's high unemployment was the privatization of state-owned enterprises in the late 1990s, and the subsequent shedding of thousands of public sector jobs. Employers and workers in Bulgaria's significant informal sector avoided entanglement in the country's burdensome tax regime. Linkages between business and academia were non-existent and the educational system was preparing graduates with inadequate skills.

Bulgaria was far behind its Central European counterparts in terms of ability to attract foreign direct investment. Potential foreign investors seeking to do business in Bulgaria were stymied by the lack of quality standards, the lack of integration into global markets and the dearth of companies that adhered to international standards. Some of these shortcomings threatened the country's economic development and regional standing, constrained Bulgaria's potential to attract foreign direct investment, and hindered the advance of key sectors to compete effectively in both regional and global marketplaces.

At the inception of SO 1.3, access to credit for the Bulgarian private sector was still low by international standards. SMEs faced an additional barrier to credit because the banking sector required very high levels of collateral. Additional weaknesses included the need for more advanced early warning systems in banking supervision and additional capacity building of supervisory staff about new risks that may emerge as the system becomes more competitive and complex.

Throughout the years, this SO has evolved and has been modified to meet the specific needs of the country, but its overall priorities focused on establishing legislative environment conducive to accelerated economic growth, building a strong pool of small and medium-sized enterprises as the backbone of the economy supported by vibrant professional associations, and providing the necessary financial instruments to secure the growth of the private sector.

Summary of overall impact at SO level and IR level

Highlights of SO results include:

- More than 10% annual increase in exports from FLAG-assisted firms (1998-2002)
- More than 53,000 loans worth over \$68 million provided by Nachala and Ustoi to small and start up businesses.
- Instituted a system of private enforcement of legal judgments that resulted in the collection of more than \$60 million of delinquent debts during its first 9 months of operation in 2006. This was noted as a key element by the World Bank in naming Bulgaria one of the top 10 business reformers in 2007.
- Established a new system for raising quality standards of alternative tourism facilities through the “Authentic Bulgaria” program that certified 72 small hotels by June 2007.
- Strengthened the link between employers and universities by launching 36 career development centers and a related system of career fairs and career counseling by early 2007.
- Supported major energy reforms that culminated in privatization of electricity distribution and generation companies for more than \$1.1 billion.
- Carried out a development credit guarantee program that resulted in 540 loans for almost \$100 million through selected commercial banks to SMEs, municipalities, energy and agriculture by the end of 2006.
- Through enterprise funds, provided essential capital to foster a vibrant private enterprise.

IR 1.31: Improved Business Climate

Private sector share of GDP increased from 65% in 1998 to 75% in 2006

The improved business climate is reflected in consistent annual growth over the last 10 years, and an increase in foreign direct investment.

Upon its EU accession, Bulgaria adopted regulations and standards that conform to EU norms. The Currency Board and responsible fiscal policies have maintained macro-economic stability. The government’s chief economic policy priorities now are to continue fiscal discipline, step up structural reforms in healthcare and education, sustain the high level of foreign green-field investments and prepare the country to meet EU convergence criteria that should pave the way for Euro zone entry. Thanks to rising domestic consumption and investment, real GDP grew by 6.1 percent in 2006 increasing from an average of 5.4 percent in 2001-05. With real GDP expected to hit over 6.0 percent growth again in 2007, Bulgaria remains one of the fastest developing economies in Europe.

Official statistics generally underreport economic activity, with an unofficial market possibly representing an additional 20 to 30 percent of the official GDP. Compliance with EU market standards and lower taxes are helping reduce this illegal share. Registered unemployment

continued its downward trend to 6.9 percent (256,000 unemployed) in December 2007 due to the steady growth of the private sector. Despite the encouragingly low level, the unemployment rate continues to vary throughout the country. With EU integration promising to provide new employment opportunities for Bulgarians, there is already evidence of a shortage of qualified labor in some sectors that could lessen the potential for economic growth and hurt future investor interest. In the meantime, local workers have to acquire new skills and become more adaptive to changing labor market conditions; the USAID-supported university career centers are directly addressing this deficit through counseling, internships and educational partnerships with local businesses.

Bulgaria has established a strong reputation in the last five years for fiscal discipline and effective bank supervision. The restrictive measures introduced by the Central Bank, with the support of the IMF, in 2005 moderated annual credit growth to 43 percent in 2005 and 2006, but it accelerated again to 60 percent in 2007 after the Bank abandoned administrative constraints on lending growth. The Government still needs to address key issues including structural reforms in subsidized sectors (notably health, education, and railroads), and allocation of larger sums to public investment to meet EU infrastructure standards, such as in transportation, environmental protection, and water treatment.

IR 1.3.2: Jobs created through strengthened private sector

Unemployment rate dropped from 17.7% in 2002 to 9.6% in 2006

IR 1.3.3: Improved access to financial resources

Credit to private sector as percent of GDP rose from 25% in 2002 to 36.5% in 2006

Summary of activities used to achieve the SO and their major outputs:

Firm Level Assistance Group (FLAG)

Multiple Implementers

In order to assist private firms grow in a competitive environment, USAID pooled the resources, skills, and experience of several grantees to improve client reach, service provision and impact. The consortium became known as the Firm Level Assistance Group (FLAG). The organizations developed a Team charter with a new organizational structure, policies and procedures. FLAG was funded through individual Cooperative Agreements. This new concept was officially implemented in April 1997 with seven partners: IESC; ACIDI/VOCA; UD; CDC; LOL; World Learning/EMED; MBA Enterprise Corps. From 1997-1999, FLAG focused on institutional strengthening of Business Support Organizations (BSOs) (membership development, services, advocacy); this included utilizing them as a distribution channel for FLAG assistance and services to their members.

Between 1999 and 2003, FLAG worked on an industry cluster client approach for optimizing assistance to those clusters having the strongest likelihood of accelerated growth. Cluster assistance focused on attaining operational (i.e. efficiency, productivity, quality and cost control) and management improvements; and export growth as means of increasing job and sales growth and competitiveness.

FLAG facilitated private business growth in target sectors by focusing assistance on such Bulgarian SME problems as limited capability in market-oriented product development; low productivity; inexperienced management; limited market information and access to foreign markets; poor access to sources of financing; lack of sophisticated corporate governance and business planning skills; inadequate accounting systems and financial management; and the slow-pace of structural market reform.

Key Achievements

- \$25.5 million in credit provided by banks to private firms as a result of 39 business plans
- 24,984 jobs created or retained
- 15% increase in exports by assisted firms
- 12% increase in productivity by assisted firms
- 13% increase in domestic sales by assisted firms
- 87 companies introducing international management standards (ISO 9000, ISO 14000, GMP)
- 560 firms adopting western style business practices

Bulgarian-American Enterprise Fund (BAEF)

The Bulgarian-American Enterprise Fund was created by the US Congress through the Support for East European Democracy (SEED) Act, which authorized \$58 million for investment in the private sector of Bulgaria. Beginning in 1993, BAEF made equity investments and loans to private businesses designed to help develop Bulgaria's nascent private sector. BAEF concluded its operations with excellent results. Over the life of the Fund, BAEF and its affiliates made over \$380 million in loans and equity investments to more than 4,500 companies across the country. The largest, and most successful, of BAEF's investments was the Bulgarian-American Credit Bank, which became an early leader in Bulgaria's nascent mortgage market and in providing loans to small and medium entrepreneurs.

The Grant Agreement and underlying legislation required BAEF to develop a termination plan between ten and fifteen years subsequent to its date of incorporation, November 05, 1991, and complete the sale of assets within a timeframe specified in the plan. The proceeds from the liquidation of BAEF assets will significantly exceed the total USG capital investment of \$57.85 million. One half the amount of this initial investment was returned to the US Treasury; the remainder is to be vested in the private America for Bulgaria Foundation which will provide on-going support to key sectors.

SEAF (CARESAC)

Established in 1995 with USAID and EBRD investment, CARESBAC (\$7 million) was one of the first equity funds in Bulgaria. The Fund has invested almost \$6 million in 24 Bulgarian companies. CARESBAC portfolio companies have achieved a 7% rise in employment and 30% increase in sales.

USAID provided a grant to expand promotion of private enterprise development, through SEAF Trans-Balkan Bulgaria Fund LLC, a Delaware (USA) limited liability company (the “Bulgaria Fund”) in 2000. The grant continued the work initially carried out by CARESBAC-Bulgaria. The Bulgaria Fund provided financing, in combination with technical assistance, to small and medium-sized enterprises (“SMEs”). It invested in private Bulgarian SMEs in amounts ranging generally from \$50,000 to \$500,000. The Fund had total capitalization of \$7.146 million, and a nine-year life span. USAID’s investment in the Fund was \$2.146 million.

SEAF’s investments have historically performed very well, both in terms of financial return to investors as well as the greater economic return spread across the other stakeholders. A review of the investments found that:

- The economic impact of investment in SMEs was significant. On average across all the case studies, every dollar invested by SEAF generated an additional ten dollars in the local economy, with a range from \$4 to \$24. Virtually all the firms achieved a significant positive economic rate of return, even before the investment is brought to term.
- Two-thirds of total employment in the sampled firms went to low-skilled workers, confirming that SMEs generate new jobs that are suitable for the poor.
- Employees’ annual wage growth was generally high: up to 28 percent for low-skilled workers and 34 percent for high-skilled workers.
- Employees benefit from the stability of employment. Along with the payment of health and social security benefits, this helps them to accumulate tangible assets and plan or save for their children’s education, hedging themselves against poverty and providing a path out of poverty for their children.

SEAF also provided technical assistance and business development support to its portfolio companies through its Business Development Unit in Washington, local staff, and through its global operational support and exit specialists.

As was the case with reflows generated by CARESBAC – Bulgaria, reflows generated from the use of this award will be used to fund the execution of the Center for Entrepreneurship and Executive Development (CEED).

Micro-lending - Opportunity International (Nachala)

NACHALA Cooperative (NACHALA) was the first Eastern European partner of Opportunity International (OI). NACHALA started its operations, as a foundation in 1993, primarily providing short business training courses to small entrepreneurs. It began working in microfinance by managing a fund from the Bulgarian American Enterprise Fund (BAEF). The financial and banking crisis of 1996/97 forced the institution to suspend the lending program for

more than 18 months. Once the financial dust settled, changes in Bulgarian banking laws which severely restricted non-bank institutions from generating revenue from lending activities forced NACHALA to re-register as a cooperative in August 1997. NACHALA Cooperative took over the staff and offices of the Foundation and started lending in late 1997 with financial support from United States Agency for International Development (USAID). USAID donations were the main source of equity (almost 98%), while the remainder came from retained earnings, reserves and members' contributions. NACHALA has become one of the strongest non-banking microfinance institutions in Bulgaria. USAID's grant to NACHALA expired in 2006; in 2007, we signed a one-year portable guarantee under the Development Credit Authority program.

By late 2007, NACHALA had disbursed loans worth over \$45 million with 2100 active clients, and only 1.8% of the portfolio at risk. Nearly half of its loans were disbursed to women, and an estimated 75,000 jobs were created or sustained through its financing. NACHALA has eleven regional offices covering 88% of Bulgaria's territory and two mobile vans operating in more remote areas.

The continued expansion of NACHALA and other microfinance organizations is limited by the lack of a specific legal framework for microfinance. Such organizations are prohibited from accepting deposits, and they are not regulated by the Bulgarian National Bank.

Micro-lending - CRS Ustoi MF

In 1999, Catholic Relief Services United States Catholic Conference of Bishops (CRS USCCB) received a USAID Grant of \$3,865,142 to support specific microfinance (MF) activities in Bulgaria from 1999-2002. To the Grant, CRS provided an addition \$1,1,814,450 of matching funds for both loan capital and operating expenses.

The CRS grant was designed to address a lack of access to credit and other financial services to the smallest Bulgarian microentrepreneurs, a major obstacle to increased economic opportunities of the self-employed Bulgarian population with low income and no asset ownership. In 1998, Bulgaria faced regional instability, protracted economic transition, a rapid rise in unemployment, and movement of former state employees into micro-entrepreneurship activities. Microentrepreneurs and small businesses had no access to the still un-restructured commercial banking system.

The CRS Bulgaria program was a bridge to the formal financial sector for clients who had been excluded from access to formal capital. Clients of the program developed a greater capacity and willingness to interact with a "credit culture". In addition, the project supported reliance on civil institutions to solve community problems, to address the needs of microentrepreneurs for both financial and non-financial services, and to do so in a sustainable way.

- The program's five-year goal was *To increase income and consolidate employment for at least 8,000 micro-entrepreneurs through the creation of a financially sustainable micro-finance infrastructure in Bulgaria.*

At the date of grant completion, the CRS/USTOI MF program was serving 4,868 active clients, of whom 77.12% were women, operating with an active loan portfolio of \$2,716,975. For a period of more than 5 years, CRS/USTOI in Bulgaria provided financial services through legally registered cooperatives at the community level in 15 locations in Bulgaria.

Development Credit Authority Guarantees

As part of USAID efforts to remove some of the barriers to the businesses to obtain credit from the banks, USAID established five Development Credit Authority (DCA) facilities with four Bulgarian private commercial banks. They provided an important cross-sectoral development tool that attracted private sector sources of financing to support development goals, helping to improve the transparency of the banking system and increasing access to business financing. The guarantee facilities provided financing for industrial and municipal energy efficiency projects, agricultural initiatives, and for private enterprises in competitive sectors. USAID leveraged more than 60 million USD in credits, of which 50% was guaranteed by the US Treasury. The last guarantee will expire in 2010.

Components:

- Regional Energy Efficiency – UBB, \$5 million
 - Agriculture – Post Bank, \$10 million
 - Agriculture – Hebros Bank, \$10 million
 - SME and Competitive sector development – FIB, \$20 million
 - Municipal Energy Efficiency – UBB, \$10 million
 - MSED – UBB, \$6 million
-
- Cumulative Utilization- approximately \$100 million (not all programs have expired as of writing and final figures are not available)
 - Cumulative Loans – approximately 540

Enterprise Growth and Investment Project (EGIP)

Implementer: MSI

EGIP was one of the first private sector development projects in Eastern Europe to address competitiveness through a specific methodology, including a national public education campaign and meetings and conferences with both public and private sector entities. Although five clusters were originally designated for project assistance, four were eventually dropped due to a lack of cluster leadership and cohesiveness and only the ICT cluster received long-term project assistance. However, the success of the ICT cluster was significant and resulted in real advancement through both new revenues and employment growth.

EGIP activities focused on a few agencies and private sector organizations, notably the Ministry of Economy, the Agency for SME Promotion, the Council for Economic Growth (CEG) (and the business associations that are represented on the CEG), the Bulgarian Investment Agency and the

ICT cluster. In addition, MSI assisted in the development of Bulgarian think tanks, including IME and CED. The project focused on innovation, encouraging collaboration between Bulgarian businesses and academic institutions.

EGIP established a precedent and mechanism for private sector participation in government policy-making, particularly through the CEG and regulatory impact analyses. The ICT cluster was also very effective in promoting its policy reform agenda, both due to MSI's assistance in formulating a strategy for ICT development in Bulgaria and due to the dynamism of the cluster members (which was a principal reason for MSI's decision to focus its cluster assistance on the ICT cluster). Project assistance to government entities to train high-level government officials and press officers on media communications was highly effective.

The project helped to foster local ownership, public and private, of the policy-making process. Bulgarian consultants, government officials, and local firms created the investment strategy, the ICT strategy and the CEG. The result was improved sustainability due to a deep understanding of these strategies by organization leaders, as well as a long-term vision by the firms and organizations regarding Bulgaria's future positioning for industries, investment and growth.

During the period of the project, foreign investment in Bulgaria increased substantially: 50% growth 2002-2003 and 100% growth in 2004. Average growth in the ICT sector was between 10-15% per year.

Commercial Law Reform Project
Implementer: Bearing Point

The Commercial Law Reform initiative (2003-2007), implemented by Bearing Point, successfully inspired, helped to develop and advocated for legislation creating a private judgment enforcement system to supplement the overburdened and largely ineffective state debt collection system. CLRP also helped develop a better system for registering new companies in Bulgaria and pioneered a system for commercial alternative dispute resolution.

Private Enforcement: CLRP's private enforcement program was initiated in 2006. It developed rapidly and by the end of the year was already helping to address a key remaining issue for improving the business environment in Bulgaria, the enforcement of legal judgments. From March to the end of 2006, private enforcement agents (PEAs) reported that almost 40,000 cases had been referred to them by creditors for enforcements worth more than \$225 million. More than 5,000 of those had been successfully closed by 2007 with a value of more than \$60 million. The profession had grown to 168 trained and licensed agents by the end of 2006.

Commercial Registration Initiative: CLRP helped develop the legislation, system and procedures to improve the very inefficient, non-transparent and time consuming process of registering new companies with local judges in Bulgaria. CLRP gained important Bulgarian Government support for the reform effort because the development of a new centralized business registration system was a condition under both IMF and World Bank financing facilities, as well as an EU directive. CLRP assisted a working group to reach consensus on a new reform strategy and to draft a new law that was passed in April 2006. The new law reformed the system

dramatically, and established the basis for a centralized commercial register to be maintained by the MOJ's Registration Agency. CLRP subsequently helped with the development of implementing regulations, forms and procedures. Once operational, the new system should be much more efficient and transparent than the previous one. This should improve the business environment for registering new companies considerably, and it will remove the burden from the overstretched court system.

Alternative Dispute Resolution: Another initiative pioneered by CLRP was the introduction of alternative dispute resolution for commercial disputes and the training of judges and lawyers on commercial law matters. This program did not develop as rapidly as the other CLRP components perhaps because of resistance from lawyers and from other stakeholders in the current system.

Energy reform project

Implementer: Pierce Atwood

Worldwide experience has shown that the most critical element for successful power sector privatization is the regulatory framework. USAID's strategically focused regulatory assistance through the Pierce Atwood Group was threefold: 1) intense bi-lateral technical assistance, 2) a SEWRC-New Jersey Public Utilities Board Regulatory Partnership and participation in the Energy Regulators Regional Association (ERRA), and 3) a regional network of 22 Energy Regulators from the Europe and Eurasia region. This three-pronged approach allowed SEWRC access to experienced consultants, proven U.S. regulatory practices, and the experiences of their regional neighbors. It gave them the capacity and confidence to carry out their difficult task and allowed them to play a leadership role in the regional cooperation that emerged during this period. SEWRC regulators were chosen by their colleagues in the region to lead ERRA and its technical committee on tariffs and pricing. Regulatory assistance focused on critical issues including tariffs necessary to attract serious strategic international investors. It also included the establishment and implementation of regulatory reporting including a Uniform System of Accounts to increase the transparency and ability of the regulator to monitor events.

During this period Bulgarian regulators began to expand their role in the region. After several years of active engagement in ERRA, the positions of both the President and Head of the Tariff/Pricing Committee were held by Bulgarian Commissioners in 2005-06. Similarly, Bulgarians played an active role in the regulatory activity leading up to the signing of the Energy Community Treaty for the Southeast Europe regional energy market.

The primary result of the assistance was the establishment of the modern energy law and regulatory framework including the establishment of the autonomous SEWRC. An independent energy regulator, such as SEWRC, has been important to privatization of the energy sector in many countries. While many factors contributed to the success of this stage of reform, the primary one was the leadership and commitment of the reform-oriented Minister of Energy. His open and participatory approach to developing a national understanding and acceptance of the difficult reforms, tariffs in particular, was key. In addition, the timeliness, effectiveness and focus of the USAID technical assistance was critical to the development of the regulatory framework necessary to attract serious private investors to purchase the distribution and

generation companies. As the lead donor in the region on energy legal and regulatory development, USAID was able to respond quickly and effectively to the needs.

The impact of power sector reforms will be felt over many years as new owners bring modern management, technology and major investments for restoration of the decade long deterioration of the system. Reliable cost-effective electricity will contribute to Bulgaria's economic competitiveness and position in the region.

Labor Market Project

Implementer: Carana

Bulgarian private sector employers have cited a lack of appropriate skills among recent graduates as one of the greatest hurdles they face in the local labor market. The USAID Labor Market Project implemented initiatives to address this gap by designing specific training modules, establishing formal and informal connections between employers and the education system, and introducing career counselors into universities and vocational schools.

Highlights of results of the results achieved are listed below:

- Career Development Centers (CDC) established at 24 universities and colleges;
- more than 150,000 students with access to the services offered by the CDCs;
- more than 4000 internships facilitated in 2006 alone;
- thousands of students participated in skill-building courses;
- 50 teachers from 20 vocational schools participated in teachers' internship program;
- Business Foundation for Education established in 2005 to provide continuous support for career development in education;
- 120 counselors GCDF (Global Career Development Facilitator) certified;
- National Board of Career Counselors launched in January 2007 to support GCDF;
- Masters Program on Career Facilitation launched at the University of Ruse.

Business and Trade Development Project (BTD)

Implementers: Volunteers for Economic Growth Alliance (VEGA)

BTD worked in three major areas:

Strengthened the capacity of Bulgarian business support organizations (BSOs) to be more effective and sustainable providers of market-based services

- Supported innovative projects of 36 BSOs through small grants (up to 5,000 USD each). Projects focused on developing the capacity to provide services to their members, promoting initiatives for business support events and information campaigns.
- Eight volunteers from MBA Enterprise Corps provided long term advisory assistance to 10 Bulgarian BSOs and enterprises. As a result, they put in place marketing and long term development strategies, and added new skills and the capacity to provide specific services.

Enhanced competitiveness of the private sector

- Assisted twelve Bulgarian software and ICT service companies in obtaining the internationally recognized certification for quality standard (CMMI) thus helping these companies achieve process maturity and gain competitive advantage.
- Through “Authentic Bulgaria,” an Independent Quality Mark developed by the project, assisted 92 small hospitality and tourism providers to improve their tourism products and attract high-value tourists.
- Launched www.informoney.org website to provide a searchable database of the most relevant financial products available for Bulgarian small and medium enterprises.
- Developed a methodology and practical tools to support business park development opportunities for manufacturing, logistics, and service industry users. On the basis of this methodology, a project for turning an old military base into a modern industrial park is well underway in the city of Dobrich.

Upheld and preserved a dynamic and efficient public-private dialogue in the economic arena

- Provided advisory assistance to the Ministry of Economy and Energy in drafting amendments to the investment law for Bulgaria, making it clearer and more understandable to investors as well as adding new incentives to attract investment.
- Prepared Regulatory Impact Assessments for three laws affecting businesses in Bulgaria. These assessments will serve as a methodological model for the administration when undertaking legal initiatives.
- Developed a Communication Strategy to raise public awareness of the work of the Economic Growth Council, an important tool for public private dialogue.

Financial Sector Integrity Project (FSIP)

Implementer: Emerging Markets

FSIP was the last project to work directly with the public sector financial institutions. It was designed to be flexible, demand-driven, and address the specific needs of the financial supervisors. It worked directly with the Bulgarian National Bank (BNB), the Financial Supervision Commission (FSC), and the Bulgarian Deposit Insurance Fund (BDIF). In coordination with the US Treasury Resident Advisor, the project also integrated the Financial Intelligence Agency into training on anti-money laundering. The project worked in three major areas:

Improved Regulation of the Financial Sector to sustain soundness and stability

- Developed a Senior Level Steering Committee with counterpart representatives
- Assisted FSC in developing a Risk Based Supervision Methodology
- Assisted FSC in developing an Actuarial Certification program with 9 applicants passing the first series of certification exams
- Assisted BDIF develop alternatives for introducing Risk-Based Deposit Insurance Premiums
- Assisted BDIF address Bank Rehabilitation and Foreign Bank Bankruptcy issues
- Assisted BNB design a new Cash Center for currency processing, and able to print Euro notes by 2009.

Strengthened Anti-Money Laundering capabilities of the regulatory bodies

- Established inter-agency Anti-Money Laundering Working-Group

- Assisted BNB and FSC develop Anti-Money Laundering Inspection skills and manuals. Provided 4 advisors and sponsored 4 seminars attended by over 300 participants.

Increased Public Awareness and Consumer Protection

- Assisted BNB prepare Consumer Protection Law enacted October 1, 2006.
- Co-sponsored three seminars for press and electronic media to publicize the work of FSC and the non-banking financial sector of Insurance, Securities and Pensions.
- Organized two specialized trainings for 60 members of the Judiciary to educate them on how the financial sector works, roles of the counterparts in supervising the financial sector, and new sophisticated financial products in the Bulgarian market.
- Designed and published educational brochures: “How to check your money” and a Question and Answers Brochure on financial sector regulation.

Prospects for Long-Term Sustainability of Impact and Principal Threats to Sustainability

The prospects for long-term sustainability of impact are very good in view of the substantial progress made under the SO.

Lessons Learned

Many specific implementation lessons have been learned from this SO.

- Comprehensive and controversial reform works best when there is an impending crisis to focus attention, followed by an inclusive process to work out solutions.
- The failure of education and training institutions to adequately prepare and advance the skills of labor market participants is emerging as one of the most critical structural constraints to economic growth.
- Public outreach and effective two-way communications are essential to the success of all economic reform projects.
- IT applications contribute significantly to change in institutions, processes and behavior.
- Projects are most effective when they focus on strategic objectives and measurable results, but yet are allowed to evolve tactically based on what is working and what is learned.
- Building for sustainability is achieved by thinking of USAID resources as a co-investment in projects “owned” by local champions.

- The distinctive model used in FLAG and then in a similar form with VEGA - a collaborative structure that enables technical assistance providers to work as equal partners in a consortium – requires a high level of collaboration and effective communication between the Chief of Party and the individual entities.
- Equity investments require strong technical assistance in order to establish a replicable model.
- Public education campaigns are an important tool for policy reform.
- Microfinance: Changes in legislation require wide alliances among MFIs and donors. MFIs can successfully grow in countries where the legal environment is favorable to their activities, but are limited without a legal and regulatory framework. The process to make these changes is lengthy and very much country specific. A strong banking lobby and lack of strong history of micro-finance activities inhibit change.

Lessons Learned from Power Sector Assistance

USAID had a comparative advantage in leading energy sector reform from its experience in 15 other countries in the region, and this experience enabled the assistance in Bulgaria to be well-focused using experienced consultants. The energy reform support process was sustained over many years and this helped ensure the eventual results. Donor coordination was critical for the process, and both the IMF and IBRD built many of the USAID reform objectives into their loan conditionality matrixes. Finally, the strong leadership of a “reform champion,” in this case the Minister of Energy from 2001 to 2005, was a critical factor for achieving the reform results during this period.

SO Level Performance Indicators

Indicator: GDP per capita as percent of EU average

An increase in GDP per capita as percent of EU average from 31% in 2002 to 38% in 2007

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