LN 3631-BUL

Document of

The World Bank

FOR OFFICIAL USE ONLY

Report No. 11712-BUL

STAFF APPRAISAL REPORT

BULGARIA

PRIVATE INVESTMENT AND EXPORT FINANCE PROJECT

May 17, 1993

MICROFICHE COPY

Report No.:11712-BUL Type: (SAR)
Title: PRIVATE INVESTMENT AND EXPORT
Author: PERNIA, J.
Ext.:32026 Room:H 5117 Dept.:EC1CO

Country Operations Division
Country Department I
Europe and Central Asia Regional Office

CURRENCY EQUIVALENTS

Currency Unit = Bulgarian Leva (L)

	Value of US$1.00 in L
1988	0.83
1989	0.84
1990	2.19
1991	18.20
1992	23.30

ABBREVIATIONS AND ACRONYMS

BCC	-	Banking Consolidation Company
BFTB	-	Bulgarian Foreign Trade Bank
BNB	-	Bulgarian National Bank
CIS	-	Confederation of Independent States
CMEA	-	Council of Mutual Economic Assistance
DDSR	-	Debt and Debt Service Reduction Project
EBRD	-	European Bank for Reconstruction and Development
EC	-	European Community
FESAL	-	Financial and Enterprise Sector Adjustment Loan
FPB	-	First Private Bank
GDP	-	Gross Domestic Product
GOB	-	Government of Bulgaria
IBI	-	International Banking Institute
IBID	-	International Bank for Investments and Development
L/C	-	Letter of Credit
LIB	-	Limited International Bidding
LIBOR	-	London Inter-Bank Offered Rate
NTB	-	Non-Tariff Barriers
OECD	-	Organization for Economic Cooperation and Development
PIEF	-	Private Investment and Export Finance Project
PFI	-	Participating Financial Intermediaries
SAL	-	Structural Adjustment Loan
SCL	-	Single Currency Loan
SFRD	-	State Fund for Reconstruction and Development
SOE	-	Statement of Expenditures
SSB	-	State Savings Bank
SSI	-	Small-Scale Industries
TA	-	Technical Assistance
TSB	-	Tourist Sport Bank

BULGARIA - FISCAL YEAR

January 1 - December 31

BULGARIA

PRIVATE INVESTMENT AND EXPORT FINANCE PROJECT

Table of Contents

Table of Contents (continued)

Page No.

List of Annexes and Tables

This report was prepared by J. Pernia, M. Gustavsson and L. Burakreis (EC1CO), E. Manes (EMTTF), J. Duester and M. Herman (EC1AG), V. Barrios (Consultant) and P. Zhotev (RMB), following a pre-appraisal mission in October 1992 and an appraisal mission in February 1993, and under the supervision of Mr. F. Levy (Division Chief, EC1CO) and Mr. M. Wiehen (Director, EC1). Ms. D. McNaughton (CECFP) was peer-reviewer.

BULGARIA

PRIVATE INVESTMENT AND EXPORT FINANCE PROJECT

LOAN AND PROJECT SUMMARY

Borrower:	Republic of Bulgaria (GOB)
Beneficiaries:	Private Financial Intermediaries, Enterprises and Exporters
Amount:	US$55 million equivalent
Terms:	Single currency loan (SCL) in US dollars for seventeen years, including a four-year grace period, at the Bank's standard variable U.S. dollar SCL interest rate.
On-lending Terms:	The Government would on-lend Bank funds to the Participating Financial Intermediaries (PFI) through the Bulgarian National Bank (BNB) in US dollars at the prevailing six-month LIBOR plus a market-based spread, on a first-come-first-served basis. The PFIs would relend the funds to sub-borrowers in US dollars at the prevailing six-month LIBOR plus a spread to be determined by each PFI. The PFI subsidiary loans would have maturities corresponding to the maturities of their subloans. For the investment credit component, the PFIs would relend the funds to private enterprises for a minimum of three years and a maximum of ten years, including a maximum grace period of two years. For the export credit component, the subloans to private exporters would have a maximum maturity of 180 days. For both credit components, the final sub-borrowers would bear the foreign exchange risk. The PFIs would bear the full credit risks of their subloans. For the technical assistance component, the Government would on-lend the funds to the PFIs in US dollars at its cost of funds for ten years, including a three-year grace period.
Project Description:	The project consists of: investment financing for the establishment of new, and the expansion of existing, private and privatized enterprises, including project preparation; export financing for financially and economically profitable export transactions; and technical assistance to the PFIs to build capacity for project appraisal and supervision and strengthen general banking functions.

Benefits and Risks: The project would provide investment assistance following on the reforms implemented for private sector development and the privatization of state enterprises, and in banking and trade policy. It would help build healthy and efficient financial institutions and a market-based investment and export financing mechanism for the country. It would support the expansion of viable private and privatized enterprises and generate about 15,000 new full-time jobs in 3,000 enterprises. It would help realize about US$80 million of new exports annually.

The main project risk stems from institutional weaknesses. The PFIs are new and small, and are still learning traditional commercial bank functions. Project financing would be an added element of risk for them. Technical assistance and close supervision would be provided to control this risk. Private enterprises are small, under-capitalized and have short track records. Mortality rates could be high. Assistance to private enterprises in project preparation and an improved ability by the PFIs to discriminate credit risks would help mitigate this risk. The risks associated with macroeconomic and political instability are present. These could translate into project risks as investments and exports could be adversely affected, and the volatility in foreign exchange and interest rates could result in problem loans for the PFIs. Through the on-going SAL and planned FESAL, and in coordination with the IMF, the Bank will continue to have an active macroeconomic policy dialogue with the Government.

Estimated Costs:

	(US$ Million)		
	Local	Foreign	Total
Investment Credit	32.0	32.0	64.0
Export Credit	20.0	20.0	40.0
Technical Assistance	3.0	3.0	6.0
TOTAL	55.0	55.0	110.0

Financing Plan:

	(US$million)		
	Local	Foreign	Total
IBRD	0.0	55.0	55.0
Enterprise Sector	52.0	0.0	52.0
PFI	3.0	0.0	3.0
TOTAL	55.0	55.0	110.0

Estimated Disbursements:

IBRD FY	FY94	FY95	FY96	FY97	FY98
	(US$ Million)				
Annual	20.0	15.0	15.0	3.0	2.0
Cumulative	20.0	35.0	50.0	53.0	55.0

BULGARIA

STAFF APPRAISAL REPORT

PRIVATE INVESTMENT AND EXPORT FINANCE PROJECT

I. INTRODUCTION

1.01 The Government of Bulgaria has recognized the key role that the private and export sectors must play in the transformation of the economy from a centrally-planned to a market-oriented system. The failure of state enterprise under the old regime to create wealth for the country has pointed to the need to encourage private enterprise and to privatize state enterprises. The heavy dependence of the economy on trade with the former CMEA block and the small size of the domestic market have required that new markets be found for Bulgarian exports. Thus, among the first measures taken by the government in the transition process were initiatives to create an environment conducive to private enterprise, and reforms to liberalize trade. A program to privatize state enterprises has also commenced.

1.02 The government has opened-up the economy to private enterprise of all forms, and has started the long-term task of creating a supportive environment. Since 1989, the number of registered private companies has grown dramatically from 14,000 to almost 260,000 in 1992. Estimates indicate that over 145,000 firms are currently active, employing some 490,000 people on a permanent basis and perhaps an even larger number of temporary workers. So far, the private sector has been concentrated in the service, transportation and trade sectors, with the remainder in light manufacturing and construction activities (paras. 2.04 - 2.11).

1.03 The policy framework for exporting activities has also been substantially liberalized. The state monopoly on trade was dismantled and trade restrictions were relaxed, allowing most exports and imports to be undertaken on the basis of customs declarations. The tariff regime has also been unified and simplified. Exchange restrictions on current account transactions were eliminated and the daily exchange rate was allowed to float to reflect the demand for and supply of foreign exchange. In 1992, export receipts reached $4.3 billion, representing an increase of 13% over the value recorded in 1991. More significant is the increase in the share of exports to non-CMEA markets from 44% in 1991 to 63% in 1992 (paras. 2.15 - 2.22).

1.04 The legal, regulatory and institutional framework for the privatization of state enterprises has been put in place. A privatization agency has been created to oversee the privatization program. The privatization agency and line ministries have prepared their privatization programs for 1992 and 1993. After a slow start, implementation of these programs has gained momentum as evidenced by the auctioning of several enterprises and the scheduling of future auctions. The direct sale of several medium and large enterprises is also being pursued (paras. 2.12-2.14).

1.05 While a promising start has been made in promoting private investments and exports, and in privatizing state enterprises, progress in reforming the state banking and enterprise sectors has been slower than needed

to restructure the economy and return it to growth. The government continues to be committed to rapid privatization and restructuring (including liquidation) of state-owned banks and enterprises, but progress has been hampered by a concern to assure the fairness of the process. This has made the government very cautious and deliberate about selecting implementation procedures. The country also suffers from inadequate implementation capacity. Measures to accelerate implementation of reforms for the state-owned financial and enterprise sectors are being discussed and developed under a proposed Financial and Enterprise Sector Adjustment Loan (FESAL) (para. 3.05).

1.06 The proposed project would serve as a bridge to a full-scale implementation of the government's financial and enterprise sector adjustment program by supporting the initial stages of implementation. It would promote the development of the private sector by supporting private enterprises, privatized state enterprises and private exporters. It would also support banking sector reform by improving prudential regulations and bank supervision, strengthening individual banks and encouraging the restructuring and privatization of consolidated state banks. By generating growth and employment in the private sector, the project would promote faster reforms in the state sector by mitigating the cost of those reforms.

1.07 Pursuant to this assistance strategy, the proposed project would provide financial and technical assistance to the private sector to ease problems of access to credit, technical expertise and export markets. The project would consist of an investment credit component of US$32 million, an export credit component of US$20 million and a technical assistance component of US$3 million. The investment credit component would finance viable private investments expected to create about 15,000 new full-time jobs in 3,000 private enterprises. The export credit component would finance financially and economically profitable export transactions, generating about US$80 million of incremental export receipts annually. The technical assistance component would help build project-financing capacity in participating financial intermediaries and strengthen general banking functions.

II. SECTORAL CONTEXT

A. Recent Economic Developments

2.01 The state sector of the economy, which still accounts for more than 80 percent of output, has been contracting since 1989 when the economy recorded a 3.3% decline. Economic performance deteriorated rapidly with the collapse of the communist system in 1990, as GDP fell by 9.1% and inflation began to accelerate. In 1991, the decline was amplified by the loss of markets in the former CMEA, the impact of the Gulf war and the rigorous stabilization program. Restrictive monetary and fiscal policies were pursued which aimed at sharply higher interest rates and a substantial reduction in the budget deficit primarily through the elimination of budgetary subsidies. The stabilization program was supported by an IMF Stand-by Arrangement and Compensatory Contingency Financing Facility. Significant steps in trade, price and exchange rate liberalization were also taken early in the year and

changes in industrial organization attempted to diminish the concentrated structure which characterized most sectors. These measures towards liberalization, along with land reform, were supported by a second IMF Stand-by in March 1991 and by a SAL in August 1991.

2.02 Following the price liberalization and the maxi-devaluation which caused prices to triple in two months, monthly inflation slowed to 4% in December 1991, and the foreign exchange market stabilized. However, GDP declined by 12% for the year, led by a 19% decline in industrial output. Investment fell to 16% of GDP in 1991, less than half of its share in the previous year. Foreign trade activity, previously highly integrated with the former Soviet Union, was 50% below the 1990 level.

2.03 In 1992, the economy experienced a fourth straight year of contracting sales and output. Estimates indicate a slight slowing in the contraction, as GDP declined by 8%.[1] However, unemployment, which was 1.6% at the beginning of 1990, grew to 15% by end-1992. While much lower than in 1991, inflation was 79.5% for the whole year of 1992. The budget deficit is estimated at about 6% of GDP for the year but the tax base is eroding rapidly as enterprise sales and profits plummet. The drastic fall in traditional sales, coupled with radical adjustment in relative prices, has led to a precarious financial position in the state enterprise sector. Profitability in the state enterprise sector, which was relatively buoyant in 1991, slipped to net losses in 1992. While the bulk of losses is concentrated in the top 100 loss-makers, the ratio of profit-makers to loss-makers has deteriorated from 2 to 1 at the end of 1991 to 1 to 2 at the end of 1992.

B. Private Sector Development

2.04 Recent Developments. In contrast, growth in the nascent private sector has been explosive. As the economy was opened-up to private enterprise of all forms, the number of registered private companies grew from 14,000 in 1989 to almost 260,000 in 1992. Business registrations increased from a monthly average of 1,100 in 1989 to 5,700 in 1990 and 8,500 in 1991 and 1992. Considering the instability that accompanies transition, the survival ratio of private company start-ups was a surprisingly high 60%. Estimates indicate that, as of end-1992, some 145,000 companies were active, employing about 490,000 people on a permanent basis and perhaps an even larger number of temporary workers. Fixed assets employed also grew dramatically from US$20 million in 1989 to over US$190 million in 1992.

2.05 Private sector growth has been concentrated in the service and transportation sectors (66% of total active private firms and 50% of employees), and in trade (20% of active firms and 35% of employees), with the remainder in light manufacturing and construction. Geographically, Sofia accounted for a major share of the newly-created private sector jobs during the past three years. Small towns and the rural areas have so far experienced

---

1/ The economic decline could be somewhat overstated since official statistics do not yet completely capture private sector activities.

a relative decline. In fact, only Sofia experienced a real increase in private sector output, while other major cities, such as Plovdiv and Varna, experienced a decline. Overall, despite the enormous growth, the private sector still constitutes a small part of the economy.

Table 1: Private Sector Development & Profile

	1989	1990	1991	1992
No. of Registered Firms (000)	14	79	184	251
No. of Active Firms (000)	7	41	101	145
No. of Employees (000)	20	113	305	493
Firms in Services (%)	86	85	84	83

2.06 To further expand the private sector's role in the economy, the government has begun the long-term task of establishing an incentive and regulatory framework that is supportive of the private sector. Most legal barriers to new private sector activity have been removed. The new Constitution protects private property as inviolable and guarantees free economic initiatives by private agents. A company law has been passed which covers private activities and the incorporation and functioning of companies under modern corporate forms. New business laws have been enacted on accounting, protection of competition, cooperatives and foreign investment. Elements to complete the establishment of a market-oriented legal framework are being prepared, such as a bankruptcy law, a code on commercial transactions, a securities law, and a patent law. Additional work is on-going in the areas of property law, standards law, and government procurement procedures. The government has also used the process of restitution to promote private sector activity. To date, about 80% of restitution claims have been settled, resulting in a rapid growth of the private retail trade.

2.07 Problems and Prospects. Bank missions as well as a recent survey by consultants ("The Nascent Private Sector in Bulgaria") have identified constraints facing private sector firms. These include insufficient formal equity and debt finance, high corporate and labor taxes, inadequate access to space, and an unpredictable legal environment. Access to formal debt finance has been constrained by a shortage of equity capital and suitable loan collateral, and inadequate project appraisal skills in banks and project preparation skills in enterprises. Currently, most seed investment funds have come from either the entrepreneurs' own savings (60%) or from family and friends (23%). Capital for expansion is almost solely derived from internally generated funds. Recently, however, several venture capital firms have been established in Bulgaria. In addition, the newly established private banks are beginning to lend to the private sector, although principally for trade finance and seasonal working capital.

2.08 Corporate and social security taxes are high in Bulgaria. Sole proprietorships are taxed at the marginal individual rate of 40%, with full deductibility of all traditional business expenditures. Companies and partnerships, on the other hand, are taxed at a marginal rate of 52% with strict limits on deductions. High corporate tax rates, coupled with weak enforcement, have resulted in strong incentives for private sector firms to under-report earnings, hire temporary workers, or go underground. To make things worse, taxation changes are frequent and sometimes of a retroactive nature. A reform of the tax system is currently being considered by the government.

2.09 Bulgarian private sector firms generally complain about lack of access to affordable factory and office space. This problem is caused primarily by crowding out by state enterprises that still dominate the economy. In addition, the process of privatization, commercial zoning and land title registration is only beginning. As these programs are implemented more quickly, the current shortage of commercial and industrial real estate would be greatly alleviated.

2.10 While it was necessary to create a new, market-oriented legal framework for private sector activity, rapid changes in laws have in themselves created unpredictability and, therefore, anxiety in the private sector. More work also remains to be done in such key areas as taxation, basic property rights and the labor code. Moreover, beyond legislative work, little progress has been made in the implementation of the many laws due to inadequate institutions and institutional capability.

2.11 In summary, the private sector in Bulgaria could continue to grow at high rates, especially if inefficient state enterprises are liquidated and viable firms are privatized rapidly, thereby reducing the crowding-out and releasing much needed capital, land and other assets for productive private use. Equally important is the need to accelerate the implementation of new laws to provide a more stable legal environment within which local entrepreneurs can plan their investments and foreign investors better assess political risks. Finally, if investment credits are prudently provided by the private banks and equity placements by the newly established venture capital firms are well targeted, the current capital constraint of the private sector could be relieved.

C. Privatization of State Enterprises

2.12 In 1991, the government's program to implement privatization of state enterprises was to start with the sale of small establishments on a large-scale through simple auctions. The first auction conducted caused such a controversy in society over the fairness of the process that the government was forced to pull back and reconsider its approach toward privatization. This has caused a delay of almost two years, as the government meticulously prepared the groundwork for privatization by drafting and passing a privatization law in April 1992, preparing seven implementing regulations (adopted in September 1992) and establishing a privatization agency in October 1992 to oversee the privatization program. The result is an unnecessarily

complex and exceedingly cumbersome system. Procedures for implementation are extremely deliberate, administratively tedious and excessively expensive, involving, among others, valuation of assets regardless of size, legal searches for encumbrances, extensive analysis for financial and economic viability and technological analysis for strategic selection. Such a process to prepare an enterprise for privatization, regardless of size, could take up to six months, even before invitations for offers from buyers are announced.

2.13 On the basis of this system, the privatization agency and line ministries have prepared concrete programs for 1992 and 1993, identifying 92 (subsequently revised to 62) and 318 state enterprises, respectively, for privatization. The privatization agency is responsible for privatizing state enterprises with fixed assets valued at or over L10 million, whereas the line ministries are responsible for state enterprises with fixed assets of less than L10 million. Three-quarters of the selected enterprises fall within the purview of the line ministries. Progress has begun towards meeting the targets established in the annual privatization programs. A number of small enterprises have already been appraised for auctions and several auctions have already been held. Future auctions are scheduled for those enterprises already appraised. Moreover, the Privatization Agency is pursuing actively the privatization of several large enterprises.

2.14 Despite the progress to date, there are close to 8,000 enterprises that are potential candidates for privatization, underlining the need for the process to accelerate beyond the targets set for 1992 and 1993. In order for the government to complete this enormous task, the legislation must be interpreted liberally and the procedures streamlined in ways which will substantially reduce the preparation time. The burden of the process on the implementing agencies needs to be lessened. Some improvements in the legal framework are perhaps warranted. However, it is more important to speed up implementation and let experience identify needed improvements in policies and procedures. Only through aggressive implementation can obstacles be discovered and practically resolved. Continued theorizing about legal issues and procedural barriers would only delay the process further. Any further delay in implementation at this point would make large-scale privatization a more difficult goal to realize as the macroeconomic conditions become more unstable and state enterprises become increasingly less attractive to buyers.

D. The Export Sector

2.15 Recent Performance. Having a small domestic market and a high import content of production, Bulgaria has always maintained a high degree of export orientation. The unusually high trade-to-GNP ratio of 80% in 1989 was almost entirely accounted for by trade with CMEA countries. Not surprisingly, following the introduction of the reform program in 1991 and the breakdown of its traditional foreign trade system, Bulgaria's trade to both the East and the West declined dramatically. It is estimated that exports and imports to the East fell in real terms in 1991 by 47% and 40%, respectively. Exports to and imports from the West also fell in real terms by 9% and 27%, respectively. However, most of the fall came in the first half of the year, and in the

second half of the year, exports to the West did show some resiliency which continued into the next year.

2.16 During 1992, Bulgaria completely phased out of managed trading arrangements with the former CMEA countries, further stagnating non-oil trade with Russia. Exports to non-CMEA markets, on the other hand, grew considerably. During 1992, based on custom's data, export receipts reached $4.3 billion, representing a 13% increase over 1991. Data from the banking system show exports of US$4.8 billion, or an increase of 27% over 1991. Customs statistics show that the share of trade with Central and Eastern European countries fell from 56 percent for 1991 to 37 percent for 1992. In particular, the data show that trade with the CIS fell from half of recorded exports to 18 percent a year later. Conversely, the share of total exports to the EC doubled between 1991 and 1992. Clearly, even though 1991 export levels were unusually depressed and the 1992 banking system data may include unrecorded capital inflows, there has been considerable structural shift in trade patterns and in particular, an expansion of exports to EC markets, especially Germany, Greece, and Italy.[2]

2.17 Policy Framework. The policy framework for exporting activities has been substantially liberalized since 1989. In 1989, the state monopoly on trade was dismantled by allowing all economic agents to engage in trading activities. In 1991 and 1992, Decrees 119 and 114 substantially liberalized trade by: (a) allowing most exports and imports to be undertaken on the basis of customs declarations without the need for explicit government approval; and (b) unifying and simplifying the tariff regime. The average rate of tariffs is now 18 percent and the schedule contains only 5 bands, 5, 10, 15, 25 and 40 percent, with the highest rate for the food processing and textiles/garments sectors. The dispersion, as measured by the standard deviation, was reduced from 16% to only 9%. Import quotas and licensing for protection purposes are practically non-existent. Decree 15 of 1991 eliminated exchange restrictions on current account transactions, and the daily exchange rate was allowed to float to reflect total demand and supply of foreign exchange, with the Central Bank intervening through buying and selling in the market.

2.18 Bulgaria's trade liberalization has been massive in comparison with the system which existed before 1989, and rapid in comparison with the pace of reform in many other countries. However, there remains a number of existing barriers to efficient exporting. First, while many NTBs on exports where relaxed under Decree 114 and more recently changed to export taxes, these taxes along with minimum export prices, which exist on primary products and agricultural goods, represent a subsidy to production using these products as an input, and as a disincentive for efficient export production. Second,

---

2/ While customs data probably underestimate actual flows, banking system data appear to overstate them by including unrecorded capital inflows. Since large discrepancies exist between customs data and banking system data, absolute values and growth rates should be viewed with caution. In addition, as the managed trade arrangements with Russia was eliminated last year, it is impossible to accurately determine how much trade with former CMEA has actually fallen and how much of the exports which were formerly exported to the CMEA have been switched to other markets, due to the inability to value trade with the former CMEA on a comparable basis.

the simplified tariff regime has deteriorated somewhat as a result of the introduction of an additional import tax on many imported goods, most of which were already receiving the highest tariff rate. These price distortions and the continued subsidization of energy prices mean that there may be cases, particularly in energy-intensive activities, where production for export is undertaken at negative value-added in world prices, representing an efficiency and welfare loss for the economy.

2.19 While pressures for increasing non-tariff barriers to, and tax levels for, imports on a few products continue to exists, the opening-up of trading rights, the introduction of a managed floating rate for foreign exchange and the elimination of non-price trade barriers have provided the basis for a relatively unbiased trade-incentives regime, which promotes export and import activities based on efficiency and competitiveness. However, the bold movement toward trade liberalization should be considered only as a preparatory step. Trade reforms would have to be followed by a meaningful reform of the state enterprise sector if they are to become an effective inducement for efficient production and aggressive exporting.

2.20 Problems and Prospects. Renewed efforts at wage restraint and continued reliance on a market-based exchange rate should help achieve Bulgarian price competitiveness in Western markets. Further growth and development of the private sector at home and the recent signing of its association agreement with the EC should also help expand Bulgaria's exports over the medium term. In the short-run, however, due to the traditional orientation to the former CMEA markets, much of Bulgarian exports are not yet suited for sale in other markets. Furthermore, due to the state trading monopoly which existed until 1989, Bulgarian producers were completely isolated from export markets and have practically no export marketing capability, especially for non-CMEA markets. Export marketing skills are just beginning to be developed in the fledgling but fast growing private trading sector. Private traders, who to a large extent have spun-off from the old state trading companies, have so far concentrated mainly on the easier business of importing consumer goods. Thus, even when the domestic economy stabilizes, lack of export marketing skills for new markets will still represent one of the strongest constraints to export expansion.

2.21 Currently, firms are, for the most part, left on their own to improvise their own marketing methods. The government has had only a limited program for marketing support and direct export promotion. The only body supported by the government engaged in the promotion of exports is the Institute of Marketing, a semi-public arm of the Ministry of Trade, which concentrates on country studies and information data bases, and occasionally provides services for individual firms on a full cost basis. A number of measures can be taken by the government which would help support the development of exports, such as promoting private trading companies and privatizing state trading companies more rapidly. Assistance in providing the services of marketing professionals and funding to help defer the costs of important trade fairs as well as assistance in the standardization, testing, quality control and adaptation of export products to the standards of new markets would encourage a strong supply response.

2.22 Increasing trade volumes, which are now showing positive signs in EC markets, are constrained not only by external and domestic factors, but are also restricted by Bulgaria's difficulty in obtaining foreign trade credits. As the import content of Bulgaria's exports is high (more than 50 percent), the ability of firms to obtain pre-shipment finance at competitive rates is critical in sustaining those exports which are proving competitive. Domestic banks don't have the foreign exchange to lend, and pre-shipment finance based on confirmed export orders are not available because of Bulgaria's foreign debt problem. The provision of a revolving line of credit of foreign currency under the project can help remove the credit constraint to exporting by the private sector.

E. The Banking Sector

2.23 Background. The financial sector in Bulgaria has evolved from a banking system of four state banks to a two-tier system comprised of a central bank and 80 commercial banks, including ten private banks. Until 1987, there were four banks that performed separate functions. The State Savings Bank took retail deposits and extended small credits to its depositors. The Bulgarian Foreign Trade Bank (BFTB) conducted the country's foreign-exchange-related operations, including foreign borrowing on the government's behalf. The Mineral Bank financed state enterprise activities that were not included in the budget. Lastly, the Bulgarian National Bank (BNB) served as a central bank and the principal creditor to state enterprises. These institutions provided financial resources to meet economic and social priorities predetermined by the central planning authorities. All four banks extended credits without assessing financial or economic risks, and faced no competition.

2.24 In 1987, the government attempted to decentralize the banking system by creating seven specialized banks to finance specific sectors (e.g., transport, agriculture, electronics). These banks took deposits and made loans to state enterprises, diminishing the role of BNB in credit extension. They also performed a range of other financial services, including foreign exchange operations which, until then, was a monopoly of BFTB. Subsequently, from 1989 to 1990, the government undertook a broader decentralization plan. All branches of BNB were spun-off to form fifty-nine banks. BNB relinquished its role as a lender and confined itself to traditional central banking functions. The result of these actions is the two-tier banking system that exists today.

2.25 Interest Rate Liberalization. Before 1991, interest rates played an insignificant role in the mobilization and allocation of financial resources, and were determined administratively by the Council of Ministers. The interest structure was built on a basic rate, and nominal rates were fixed over long periods of time. In late January 1991, the government took a major step toward a market-based financial system. The BNB, empowered by the Council of Ministers, raised all interest rates sharply, allowed them to be determined flexibly and set the basic rate (the rediscounting rate). The current policy goal of BNB is to maintain a market-oriented interest rate, consistent with exchange rate targets agreed with the IMF. Banks now freely

negotiate and quote rates on deposits and new loans, as a spread over the basic rate.

2.26 The liberalization of interest rates has been key to encouraging the beginnings of price competition in the banking sector. All banks now offer market-oriented rates, with one exception. The State Savings Bank (SSB) still holds a special privilege as the only bank whose deposits are guaranteed by the state. With a consequently lower cost of funds, it has chosen to charge lower rates to household borrowers than most banks charge to commercial borrowers. To integrate the financial markets further, it may be necessary to either guarantee retail deposits at all banks on equal terms or abolish the guarantee of SSB deposits. This issue will be addressed under the proposed FESAL.

2.27 Legal and Regulatory Framework. In March 1992, a comprehensive banking law was passed which defines the activities of banks, and empowers the Central Bank to supervise and regulate specific bank activities. Through this legislation, all banks could be licensed to accept deposits, grant loans, buy and sell foreign currency, precious metals and securities, and act as intermediaries for investment funds. This law broadens the scope of banking activities by granting banks permission to sell and underwrite securities and, therefore, operate as universal banks. In addition, the law clearly identifies banking activities to be supervised and regulated by the Central Bank. In line with SAL agreements, new prudential regulations have been prepared by the BNB and reviewed by the Bank. These regulations cover: (i) asset classification and provisioning; (ii) lending limits; (iii) capital adequacy; (iv) risk management and internal control; (v) money laundering; and (vi) licensing. These regulations would provide an adequate foundation for safe and sound banking conduct and for BNB's supervisory role. Two of these regulations have already been adopted. Adoption of the remaining four would be a condition of loan effectiveness under this project (para. 5.10c).

2.28 The legal framework for the enforcement of rights over loan collaterals is adequately defined in existing laws, principally the 1951 law on liabilities and contracts. The registration of real estate mortgages is performed by the regional courts. The procedures for the recovery of loan collaterals by banks are spelled out in the Civil Procedure Code of 1952, as amended up to 1991. According to the legal personnel of the PFIs, the current procedures for the foreclosure of collaterals are adequate and would take only anywhere between a few days and two months. There is as yet no procedure for the registration of chattel mortgages. Banks deal with this shortcoming by taking possession of collaterals or the original ownership documents and by checking with other banks through the regular credit check process. A registration procedure for chattels needs to be developed to improve the system's ability to prevent multiple mortgages. BNB is addressing this problem in conjunction with measures to improve the credit checking system.

2.29 Private Banking. The reform of the banking system has supported the emergence of private banking and added an element of competition among banks on the basis of quality of service. In 1990, only two private banks existed, but today there are ten licensed private banks. However, while under

the law private banks enjoy a level-playing field with state banks, in practice private banks complain that they are crowded out by state banks. The present method of allocating credit ceilings is based on outstanding credit and capital, resulting in an ex-ante disadvantage for the new private banks. A new system is being considered which would link the allocation of credit ceilings to deposits, however, this scheme would still discriminate against private banks whose deposits are neither directly guaranteed by the government nor perceived to have implicit government guarantee. Private banks also face problems of access to adequate office space and branch locations. Unfair treatment, or the perception of unfair treatment, will diminish only as private banking expands its share of the banking sector through organic growth and the privatization of state banks.

2.30 Restructuring of State-Owned Banks. The biggest problem in the banking sector today is the financial condition of state-owned banks. Due principally to the central credit allocation system of the past, most state-owned banks hold a high level of non-performing loans of state enterprises. Proper accounting would render most of these banks insolvent. To improve prospects for their long-term sustainability, the government has designed a program to consolidate and restructure these banks. It was also given authority by parliament to guarantee past loans (prior to 1991) made by state-owned banks to state enterprises. In January 1992, the Banking Consolidation Company (BCC) was formed to, among others, undertake the mergers and ultimately the privatization of banks. BCC now stands as a temporary holding company for the shares of state-owned banks and holds more than 85% of the combined holdings of bank shares. The first merger scheme was approved by the BCC, and the United Bulgarian Bank was established from 22 banks. An additional six merger schemes have been approved in principle and are awaiting implementation.

2.31 Cleaning up the bad debts of state banks, though costly, may be easy. It will not be as easy to keep the portfolios of these banks clean. Until the state enterprise sector is reformed (through privatization and restructuring), the state-owned banks are likely to continue under pressure to lend to it and continue to reflect the financial distress of state enterprises in their books. Furthermore, it is doubtful whether the efficiency and prudential management of state-owned banks can be improved quickly under continued state ownership and governance. It is, therefore, essential to tackle the restructuring of the state banking and enterprise sectors simultaneously, and to move quickly toward privatization. The satisfactory resolution of these issues is part of the agenda of the proposed FESAL (para. 3.05).

2.32 Pressures to create new preferential credit schemes continue to be present. In July 1992, the board of the State Fund for Reconstruction and Development (SFRD) approved terms for a subsidized credit scheme that would channel through banks more than L10 billion of investment and export credits. This scheme could have resulted in a major distortion in credit markets and a partial return to central credit allocation. However, satisfactory reform of this program was made a Board condition of the proposed loan. This condition has been met as the SFRD board issued a new decision disallowing lending of

SFRD funds at non-market interest rates and through a centralized credit allocation mechanism. The government's continued commitment to market-orientation, which is key to the success of the reform program, is also reaffirmed through a loan covenant under the proposed loan (para. 5.09).

2.33 The banking system, which is dominated by state-owned banks, is still very fragile. There are too many banks, many of which are seriously undercapitalized and weakly organized. Furthermore, problems that existed in the old system of central credit allocation remain. Banking practices, especially in state-owned banks, are only beginning to improve. The key to the success of the reform program for the banking system lies in the government's ability to privatize the state-owned banks and enterprises rapidly and support the growth of the new private banks and private enterprises. FESAL is planned to support the measures needed for the restructuring and privatization of the state-owned banks and enterprises. The proposed project is designed to support the development of private banks and enterprises.

III. PROJECT RATIONALE

A. Bank's Country Assistance Strategy

3.01 Bulgaria's transformation from a centrally planned system to a market economy has been difficult. At the outset of the transition process, the Bulgarian economy depended greatly on trade with the former CMEA block and the country was saddled with a large external debt. As a result, the economy suffered heavily from the loss of its major markets and from limited access to external financing needed to meet the cost of adjustment. GDP declined by 12% in 1990, 23% in 1991 and 15% in 1992; inflation accelerated to an annual rate of 26% in 1990, 334% in 1991, 80% in 1992; and unemployment reached 15% by end-1992.

3.02 Since becoming a Bank member in September 1990, Bulgaria has looked to the Bank for assistance in the transformation and revival of its economy. In response, the Bank has prepared a country assistance strategy focussing on: (a) support for the design and implementation of market reforms and mitigation of the impact of reforms on the poor through an adequate social safety net through adjustment operations and technical assistance; (b) the restoration of creditworthiness by aiding in a debt reduction deal with the country's commercial and official creditors and through aid coordination; and (c) the generation of an adequate supply response from the productive sectors and the building of an adequate infrastructure through investment operations.

3.03 The centerpiece of the Bank's current operations in Bulgaria is the SAL, which was approved in August 1991. The SAL has supported steps toward the liberalization of prices and the opening of the economy to external competition, resulting in the establishment of market-based relative prices; the return of agricultural land to private owners; the demonopolization of industry, transport and domestic trade; the creation of a two-tier banking system; and the creation of a social safety net. These structural reform

measures were undertaken in coordination with an IMF-supported stabilization program, which included the adoption of a unified, market-based floating exchange rate, tight monetary and fiscal policies and an incomes policy designed to reduce real wages. All conditions for the release of the SAL's second tranche have been met except for one. The condition that requires the adoption of satisfactory prudential regulations for banks has been partially met by the adoption of two out of six regulations. The adoption of the remaining four regulations would be a condition for the effectiveness of this loan (para. 5.10c).

3.04 The Bank also approved a Technical Assistance Loan in June 1991 to provide assistance in, among other things, formulating a debt management strategy and improving the debt data base. Resolution of the debt problem remains one of the critical issues to be resolved before creditworthiness can be restored. The Bank is preparing a Debt and Debt Service Reduction (DDSR) operation to support a satisfactory settlement of the country's debt problem with commercial and official creditors.

3.05 A Financial and Enterprise Sector Adjustment Loan (FESAL) is being prepared to follow through on SAL reform measures by focussing on three key reform themes: (a) that growth in output, exports and employment be generated increasingly by new private enterprises and privatized state enterprises; (b) that loss-making by state enterprises be eliminated/reduced quickly to release resources for private sector growth; and (c) that a healthy, efficient and market-oriented financial sector be developed quickly to provide financial intermediation services for the debt and equity capital needed by the private sector (para. 3.07)

3.06 Investment operations in infrastructure and the social sectors are being prepared to help provide the physical and human resource base needed to return the country to economic growth. As sector reforms are made in each sector, lending operations in agriculture, energy, industry and telecommunications are planned to help finance investments that would generate the needed supply response to the new policy environment. An energy project and a telecommunications loan were recently approved by the Board, and an agriculture credit operation is under preparation. The proposed project focusses on important components of the economy for which adequate policies have been established - the private and export sectors.

B. Rationale for Bank Involvement

3.07 The government has recognized that reforming the financial and enterprise sectors is crucial for the transformation and revival of the Bulgarian economy. The government's reform strategy for these sectors lies on three cornerstones. First, new wealth creation will most efficiently be generated by the private sector. This entails the promotion of efficient private enterprise and a wholesale privatization of state enterprises. Second, loss-making in the state sector has to be eliminated as quickly as possible to release resources for private sector growth. This involves the liquidation of non-viable state enterprises and the restructuring of those state enterprises deemed to remain in state ownership as public utilities or

for reasons of national interest. Third, a healthy, efficient and market-oriented financial sector has to be developed quickly to provide the debt and equity capital needed by the private sector. This includes the establishment of an adequate regulatory and supervisory framework for financial institutions, the promotion of efficient and sound banks and capital market institutions and markets, interest rate liberalization and the restructuring and privatization of state-owned banks.

3.08 The government has made progress in designing and implementing components of the above strategy. An incentive and regulatory framework supportive of the private sector is in place. The process of restitution of urban property to former private owners and the dismantling of the state monopoly on trade have encouraged private sector trading and service activities. Measures taken at the macroeconomic level in the areas of price liberalization, the foreign exchange system, trade reform and subsidy reduction have rationalized incentives and helped to create a "level-playing field" between private and state enterprise.

3.09 The legal and regulatory framework for the privatization of state enterprises is in place. A privatization law was passed in April 1992. Implementing regulations were adopted in September 1992, and a privatization agency was established in October 1992. The privatization programs for 1992 and 1993 have been prepared. After a slow start, implementation of these programs is gaining momentum as evidenced by the auctioning of several enterprises and the scheduling of more auctions. Implementing agencies are also working on the direct sale of several medium and large enterprises.

3.10 The reform of the financial sector has started. Under SAL, new prudential regulations for the banking sector were prepared. Two of these have already been adopted by BNB. BNB has also been developing its bank supervision capacity with the assistance of the US Treasury for on-site examinations and the IMF for off-site monitoring. However, due to staff constraints, it will take time before bank supervision will be fully effective. In the interim, bank supervision needs to be supported by good audits of banks. Through the issuance of National Accounting Standard No. 16, all banks are required to comply fully with internationally accepted accounting standards and be audited by independent auditors according to internationally accepted auditing standards starting on January 1, 1994. With the adoption of the remaining four prudential regulations, the accounting and auditing standards for Bulgarian banks would be fully consistent with internationally accepted norms. Adoption of these remaining regulations are a condition of loan effectiveness under this project (para. 5.10c).

3.11 Since banking was opened to the private sector, ten private banks have been established. However, these banks are still small and weak. The proposed project would provide technical assistance to participating banks to strengthen their project-financing capability and other general banking functions. The state-owned banks are now in the process of consolidation by which the 59 banks would be merged into 6 or 7 banks. Consolidation is supposed to be followed by privatization. State banks would be allowed to

participate in the project once they have been consolidated and have made substantial progress in restructuring and privatization (para. 4.15).

3.12 Interest rates have been liberalized (paras. 2.25-2.26). Yet, there continue to be political pressures to introduce subsidized and directed credits. As agreed under this project, the State Fund for Reconstruction and Development has been directed away from subsidized and directed lending (para. 2.32). The government has also committed that it would not support, directly or indirectly, subsidized lending to industry and that general lending policies would be regularly reviewed with the Bank (para. 5.09). By helping develop an effective market-based lending scheme for investments and exports, the project would preempt the arguments for subsidized and directed credits.

3.13 While major steps have been taken in implementing reforms for private sector development and the privatization of state enterprises, and in banking and trade policy, there has been less progress in developing the second cornerstone of the program - the liquidation of non-viable state enterprises. This would be a major agenda item for the proposed FESAL. The proposed project supports the initial stages of implementation of the enterprise and financial sector program by promoting private sector development, the privatization of state enterprises and banking sector reforms, as described above. By providing the initial impetus, the project would serve as a bridge to a full-scale implementation of the program. By starting with aspects of the program that would generate government revenues, output, exports and employment, it would facilitate the implementation of the more costly aspects of the program, involving budgetary outlays, some contraction of economic activity and consequent unemployment.

IV. THE PROJECT

A. Objectives and Scope

4.01 In line with the country assistance strategy described in Chapter III, the proposed project would provide financial and technical assistance to private enterprises, privatized state enterprises and private exporters to encourage a strong supply response to the reforms implemented, and thereby generate much-needed growth, employment opportunities and exports. Specifically, the proposed project would have three key objectives:

(a) to promote private sector growth through the establishment of private enterprises, the privatization of state enterprises and the expansion of private sector exports;

(b) to assist in developing a sound and efficient banking system by helping build an adequate regulatory and supervisory framework, strengthening individual banks and encouraging the restructuring and privatization of state-owned banks; and

(c) to expand exports to revive efficient production capacities idled by the collapse of the CMEA market.

4.02 Project Components. To achieve the above objectives, the proposed project would have three major components:

(a) investment credits for the private sector for the financing of financially and economically viable projects;

(b) export credits for private exporters for financially and economically profitable export transactions; and

(c) technical assistance for participating financial intermediaries to strengthen their project-lending capability and other banking functions.

4.03 Definition of Private Enterprise. The private sector is currently a small segment of the financial and enterprise sectors of Bulgaria. Considering the infant stage of private enterprise, the lack of private capital, the limited inflow of private foreign investments, and the incipient nature of local entrepreneurial talent in the country, the definition of the private sector under the project is taken to encompass private enterprise of all forms, including:

(a) new or existing private enterprises with a private ownership of, at least, 51%;

(b) privatized state enterprises with a private ownership of, at least, 51%;

(c) private exporters exporting products produced by private or state enterprises; and

(d) private individuals, partnerships or companies operating a state enterprise or a part of a state enterprise under a lease agreement approved by an authorized government agency, i.e., the privatization agency, line ministries or municipalities.

4.04 Investment Credit Demand. Based on a recent survey of the private sector carried out by consultants and firm-level interviews by Bank missions, the aggregate fixed investment demand of the private sector over the next three years is estimated to be about US$55 million annually. Demand for incremental permanent working capital could be as high as US$100 million per annum. These demand projections take into account the current number and profile of private firms, an extrapolated growth of new firms, expected survival rates, average capital/labor ratios, projected sales and cost of goods sold. Private banks interviewed place their total investment credit demand well in excess of US$100 million per annum. However, there could be a high fallout rate due to the unsettled economic conditions, limitations on the

banks' capital, and lack of expertise in investment financing. Based on both sectoral assessment and bank pipelines, and assuming an average debt-equity ratio of 50-50, the aggregate demand for private sector investment credit for fixed assets and permanent working capital could be about US$75 million per year.

4.05 Demand for investment credits would also be generated by newly privatized state enterprises. If the government can achieve its privatization targets for 1992-93, there could be about 500 newly privatized small- and medium-sized companies, with fixed assets totalling L4.5 billion (excluding the few very large companies included in the program). Assuming that these firms would need loans amounting to about half of their fixed asset value for balancing, modernization and replacement projects and for permanent working capital, there could be an additional investment credit demand of US$90 million for the 1994-95 period.

4.06 Demand for Export Finance. Given the continued switching from CMEA markets and the improvement in export competitiveness in new markets, exports should continue to grow steadily, albeit at lower rates than that achieved in 1992. Exports could grow at around 10 percent in 1993, with two-thirds of the growth going to new markets. Therefore, exports to both old and new markets could increase by about US$400 million in 1993. Since the import content of export production is estimated to be around 50 percent, the incremental export credit needs could be about $200 million in 1993. But they could be as high as $300 million as growth in exports to new markets accelerates or the import content rises due to the need to adapt products to these markets. Based on these assumptions, the incremental annual demand for export finance in 1993 could range between US$100 million and US$150 million on a 180-day cycle.

4.07 With the rapid growth in the number of private exporters and the planned privatization of all state trading companies in 1993, private exports should steadily replace exports by the state, especially in garments, processed food, and other light manufactures and consumer goods. Assuming that the private sector takes over half of state trading firms in the course of 1993, about a quarter of incremental exports, or about US$100 million, could be accounted for by private exporters. Private exporters could, therefore, require export credits of about US$25 - 40 million in 1993 on a 180-day cycle. Commercial banks report that there is a growing demand for export finance from private traders with purchase contracts or processing agreements with private and state enterprises. Loans, extending for periods up to 180 days, are required for financing the imported requirements of exports, averaging about 50% of exports. In view of Bulgaria's current foreign debt problem, Bulgarian banks are not in a position to meet all of these requirements since foreign trade credit facilities are not available to them. Currently, foreign banks require all import L/Cs opened by Bulgarian banks to be covered by a 100% cash margin in hard currency, exacerbating the liquidity problem. The problem of access to credit by private exporters is especially acute due to shorter track records and relationships with banks, and to the traditional preferred relationship between state-owned banks and state trading companies.

B. Project Cost and Financing Plan

4.08 The proposed project is estimated to cost US$110 million, of which the Bank would finance US$55 million, or 50%. This financing ratio is within the ceiling of 60% for this sector in Bulgaria.

4.09 Based on the appraisal mission's estimates of credit demand, the Bank loan would contribute between 5% and 10% of the entire private investment credit demand during the three-year loan disbursement period, and about 50 - 80% of incremental private export credit demand in the first year of the project. Under the investment credit component, Bank funds would be used to finance 50% of the investment costs of subprojects of private enterprises, with the private entrepreneurs contributing the other 50% as equity. Under the export credit component, Bank funds would be used to finance up to 70% of the face value of export letters of credit, with the exporter providing the balance of 30%, with an average financing ratio of 50-50.

4.10 For the technical assistance component, Bank funds would be used to finance 50% of the costs of approved technical assistance subprojects, with participating financial intermediaries contributing the other 50%. The components, cost estimates and financing sources are summarized below:

	US$Million			
	Bank	PFI	Private Enterprises	Total
A. Investment Credit	32.0	-	32.0	64.0
B. Export Credit	20.0	-	20.0	40.0
C. Technical Assistance	3.0	3.0	-	6.0
D. Grand Total	55.0	3.0	52.0	110.0

C. Investment Credit Component

4.11 Participating Financial Intermediaries. Only financial intermediaries that meet the following minimum criteria for long-term sustainability would be allowed to participate in the investment finance component of the project:

(a) sound financial condition evidenced by the submission of financial statements audited by independent auditors, satisfactory to the Bank, according to international auditing standards;

(b) compliance with prudential regulations on loan classification, loan loss provisioning, loan concentration and capital adequacy, acceptable to the Bank;

(c) satisfactory financial performance, measured by the achievement of a minimum return on earning assets of 4%, and the potential to earn a positive real return on equity within the first five year's of operation; and

(d) maintenance, during each fiscal year, of a minimum collection ratio of 85% and a maximum infection ratio of 15% on all medium and long-term loans;

4.12 Beyond demonstrating financial soundness and satisfactory financial and operational performance, a PFI should have the capability to intermediate Bank funds. For this purpose, a PFI would be required to have the following: (a) general policies and corporate strategies, satisfactory to the Bank; (b) operating policies and procedures related to the handling of Bank funds, satisfactory to the Bank; (c) a capacity for project appraisal and supervision in accordance with Bank policies and procedures; and (d) an adequate staff development and training program. To meet these requirements, a PFI would have to adopt, through a resolution by its board of directors, a Policy Statement and a Corporate Strategy Statement, satisfactory to the Bank, as a condition for participation (para. 5.08). To help the PFIs build capability for project appraisal and supervision and improve other areas of banking, technical assistance will be provided under the project (paras. 4.22-4.26).

4.13 Seven private financial institutions were pre-appraised in October 1992 to assess their ability to meet these standards or identify steps that would be required of them to reach these standards. During appraisal in February 1993, only three were found able to meet the eligibility criteria for PFIs. These are:

(a) First Private Bank;

(b) International Bank for Investments and Development; and

(c) Tourist Sport Bank.

Volume II of the Yellow Cover SAR provides full appraisals of these PFIs.[3]

4.14 Participation by Other Private Banks. At the outset, a minimum of two eligible PFIs would be required to start project implementation. Thus, the participation of two eligible PFIs would be a condition of loan effectiveness (para. 5.10a and b). The project, however, would be kept open for participation by other financial intermediaries that are later found by the Bank to have met eligibility criteria during project implementation or through the appraisal process of future Bank credit operations. For private

3/ Volume II of the SAR has not been advanced beyond the yellow cover stage because it contains proprietary information on specific PFIs. It is available on request to a limited audience.

financial intermediaries, the following procedure would be followed for assessment of eligibility:

(a) preparation by the financial intermediary of the data requested through questionnaires provided during project pre-appraisal in October 1992;

(b) participation in the technical assistance program of the project to provide training in, and install systems for, project appraisal and supervision;

(c) submission of audit opinions by independent auditors, satisfactory to the Bank, prepared in accordance with international auditing standards for the year immediately preceding the year of application; and

(d) appraisal by the Bank according to the eligibility criteria, described above.

4.15 Participation by State-Owned Banks. The state-owned banks are now in the process of consolidation under the auspices of the Banking Consolidation Company (BCC). It is expected that, through the consolidation process, 6 or 7 banks would emerge from the 59 state banks currently existing. The consolidation process is expected to be completed by July 1993. Privatization is supposed to follow the merger process. To date, only one bank, resulting from the merger of 23 banks, has been consolidated. There are discussions for its privatization with the European Bank for Reconstruction and Development. In support of this reform strategy, a state bank would be allowed to participate in the project only after it has taken the following steps:

(a) completion of the consolidation process under BCC, including all necessary legal actions;

(b) completion of a financial and a special portfolio audit by independent auditors, prepared in accordance with international auditing standards on the basis of internationally accepted accounting principles and on terms of reference satisfactory to the Bank;

(c) an agreement with the government on a financial, organizational and operational restructuring plan prepared on the basis of the audit findings; and

(d) a concrete plan for privatization.

4.16 Subproject Eligibility Criteria. Only private sector subborrowers, as defined in para. 4.03 above, would be eligible for investment credits under the project. Any productive activity would be eligible for financing, except primary agriculture and retail trade. The cost of preparing feasibility and export marketing studies for subprojects would also be

eligible for financing under this component. Lending for primary agriculture is proposed to be handled by a separate operation, tailored to meet the needs of farmers and agrobusiness. Retail trade is spontaneously growing and does not require special attention. Given that subborrowers would bear the foreign exchange risk of their subloans, lending would, in practice, mainly be for export-oriented activities that can provide the revenue stream to hedge against the risk. Subprojects would also be required to comply with the environmental standards of the national environmental authorities, acceptable to the Bank. Given the unstable economic conditions in Bulgaria and the inherent risks associated with project finance, adherence to conservative standards for financial soundness and performance would be required. The following standards would be required as eligibility criteria of enterprises and subprojects:

Ratio	Standard
Maximum long-term debt-equity ratio for the enterprise	1.0:1
Minimum debt-service-cover ratio for the enterprise	1.5:1
Minimum real financial rate of return for the subproject	15%
Minimum real economic rate of return for the subproject	15%

4.17 Subloan Terms and Conditions. Since there is hardly any medium- or long-term lending by banks in Bulgaria, private enterprises generate long-term funds from the informal sector. Short-term funds from banks are also used to finance fixed assets on a revolving basis. Bulgarian banks have indicated that since their funds are short-term they have not been able to make medium- or long-term loans. Even if long-term funds were available, in view of the current instability, they would prefer to structure investment credits with relatively short maturities and grace periods. The preference would be for maturities of between 3 and 5 years (with 8-year maturities allowed on an exception basis), and for grace periods of from one to two years. Since, currently, most private investment projects involve small capital outlays and have short gestation periods, the PFIs' preference for shorter maturities would not be an obstacle to meeting the needs of most subborrowers. However, it would be useful to give the PFIs the option to lend for maturities of up to 10 years, especially for larger projects with longer pay-back periods.

4.18 Accordingly, the subloan terms and conditions for investment credits would be as follows:

(a) subloan maturities would be for a minimum of 3 years and a maximum of 10 years, including a grace period of up to 2 years;

(b) subloans may be used for financing fixed assets and permanent working capital only, since PFIs have short-

term funds to finance seasonal working capital, but including the cost of preparing feasibility and export marketing studies related to subprojects;

(c) the final lending rate to a subborrower would be based on the prevailing six-month LIBOR with a spread to be set by each PFI on the basis of market conditions and risk assessment;

(d) the maximum subloan per enterprise cannot be greater than US$3 million or an amount which, when added to all other loans extended to an enterprise, would exceed 25% of a PFI's capital, in accordance with the expected BNB prudential regulations;

(e) Bank funds may not be used for the purchase of project site, in accordance with Bank policy;

(f) lending would be in US dollars with the borrower bearing the exchange risk; and

(g) all subloans would be reviewed by the Bank until free-limits are given to PFIs on the basis of past performance.

D. Export Credit Component

4.19 Transaction Eligibility Criteria. Only PFIs eligible to participate in the investment credit component of the project can participate in the export credit component. Any export transaction by a private exporter would be eligible for financing under this component, provided that the specific transaction is economically and financially profitable. The export product may be sourced by the private exporter from a private or state enterprise. Thus, the criteria for eligibility for export financing under the project is transaction- rather than enterprise-based and would be as follows:

(a) possession of an irrevocable, endorsable export letter of credit (L/C) in hard currency, opened or confirmed by a bank that meets the credit standards of the PFI;

(b) track record - the private exporter should have at least two successful export transactions in the past year; and

(c) positive value added for the export product based on world prices.

4.20 Subloan Terms and Conditions. The subloan terms and conditions for export credits would be as follows:

(a) subloans may be used for pre-shipment financing needed to service an export order;

(b) the maximum subloan for each transaction would be $3.0 million, provided the 25% single borrower limit rule is met (para. 4.18d);

(c) subloan maturities would be co-terminus with the negotiation deadlines of the underlying export L/Cs, but not exceeding 180 days; on an exception basis, the maturity could extend to 365 days for export transactions with longer payment cycles, such as for capital goods or construction projects;

(d) a portion of the endorsable export L/C, equal to the subloan amount, should be assigned to the Export Finance Facility in the BNB to facilitate the revolving of the fund;

(e) the final lending rate to subborrowers would be the prevailing six-month LIBOR plus a spread to be set by the PFIs based on market conditions and risk factors;

(f) lending would be in US dollars with the borrower bearing the exchange risk; and

(g) all subloans would be reviewed by the Bank until free-limits are given to PFIs on the basis of past performance.

4.21 An export subloan may be made to a private producer-exporter or a private exporter. In the former case, the private producer-exporter would use the proceeds of the subloan to import directly or indirectly inputs for production to fill the export order. In the latter case, the private exporter could either import the required inputs on behalf of the producer or pass on the proceeds of the subloan to the producer/s for the procurement of imported inputs in accordance with the supply contract between the producer/s and the exporter. The pass-through can be done through a domestic L/C or other methods of remittance through the PFI.

E. Technical Assistance to Participating Financial Intermediaries

4.22 To be able to intermediate Bank funds, the PFIs would have to create or improve their capacities to: (i) appraise project proposals for green-field, modernization or expansion investments, including their environmental impact; (ii) assess export financing applications, including the review of all necessary documentation; (iii) supervise the implementation of investment projects, including procurement and funds disbursement in accordance with Bank procedures; and (iv) supervise the utilization of short-term export finance.

4.23 Technical Assistance would be provided to the PFIs to help train their staffs and install the necessary systems for project appraisal and supervision in accordance with Bank standards. The TA would consists of three distinct phases: (a) a review of all PFIs to assess their current capabilities and practices, identify skills gaps, reach agreement on the scope of training required and prepare the curricula and training materials; (b) formal classroom training; and (c) on-the-job training and the installation of the required systems in each PFI.

4.24 The TA would be provided by four international specialists and various short-term consultants. Counterpart services for the consultants would be provided by the training staff of the International Banking Institute (IBI), an institution in Sofia that provides training to local bankers. Based on the proposed phasing, the first and second phases of the program would be completed in four months. The on-the-job training and systems installation phase in the first two PFIs would be completed at the end of the seventh month from the start of the program. Thereafter, two more PFIs or potential PFIs would complete the program every three months.

4.25 The prospective PFIs have also expressed interest in receiving general institution-building technical assistance. Based on discussions with their top managements, the following areas were considered priority needs: strategic planning, credit analysis/operations, credit administration, asset-liability management, database management and executive information systems.

4.26 During negotiations, agreements were reached that all PFIs: (i) make available adequate staff and resources for project appraisal and supervision activities expected under the project; (ii) participate in the training program outlined above; and (iii) provide details about the TA required in other areas of banking (paras. 5.07 and 7.01 4).

F. Environmental Aspects

4.27 All subborrowers under the investment credit component of the project would be required to comply with environmental protection regulations of the country, acceptable to the Bank. In appraising subprojects, the participating financial intermediaries (PFI) would ensure that subborrowers have received clearance from the relevant regulatory agencies regarding the environmental impact of their investments. Subborrowers would be required to submit evidence of clearance as part of standard subloan processing. During subproject implementation, the PFIs would review compliance with environmental regulations and requirements of subprojects in the course of normal subproject supervision. The PFIs would report and coordinate regularly with the environmental regulators to help monitor compliance. This approach to environmental protection by the PFIs would be reflected in their policy and strategy statements, agreed with the Bank (para. 5.08). For purposes of O.D. 4.01 on Environment Assessment, the proposed project has been classified under Category "B".

V. THE LOAN

A. Terms and Conditions

5.01 This project meets the eligibility criteria for single currency loans (SCL) established by the Board in February 1993. The PFIs need an SCL in U.S. dollars to match repayments from sub-borrowers, who, in turn, would benefit from having a U.S. dollar obligation. Sub-borrowers are expected to earn revenues mainly in U.S. dollars. Some might also earn Deutsche marks to a lesser extent, but are not expected to earn Japanese yen for the foreseeable future. Because of the greater need for U.S. dollar subloans, and the administrative ease of managing a single currency obligation, the PFIs have decided to request for a U.S. dollar SCL. The PFIs are autonomous entities, as are the sub-borrowing enterprises, and are expected by the government to service their debt and manage their foreign exchange risk.

5.02 For the proposed project, the Bank would provide a Loan of US$55 million equivalent to the Government of Bulgaria (GOB) for a period of 17 years, including a four-year grace period, at the Bank's standard LIBOR-based interest rate for U.S. dollar SCLs. Of this amount, the government would on-lend US$32 million equivalent to Participating Financial Intermediaries (PFI) for the investment credit component of the project for the financing of private sector investment projects, including the preparation of project feasibility and export marketing studies. The PFIs would onlend the funds to eligible private enterprises for the financing of up to 50% of the cost of an eligible subproject and/or the preparation of a feasibility or export marketing study. The subloans would be made in US dollars for a minimum period of three years and a maximum period of ten years, including a two-year grace period, at interest rates based on the prevailing six-month LIBOR plus a spread to be determined by the PFIs.

5.03 Another US$20 million would be onlent by the government to the PFIs for the export credit component of the project. The PFIs would relend these funds to eligible private exporters for pre-shipment financing purposes. Eligible private exporters would borrow Bank funds against their export L/Cs for eligible export transactions to finance the cost of imported production inputs needed to meet export orders. The subloans would be made in US dollars at the prevailing six-month LIBOR plus a spread set by each PFI, for a maximum of 70% of the export L/C face value and a maximum of 180 days maturity. On an exception basis, the maturity could be extended to 365 days for exports with longer payment cycles, such as for the export of capital goods or for construction projects. For this component, the government would open an export finance facility in the BNB, in which repayments of subloans would be recycled for further lending for the same purposes and under the same terms and conditions as the original Bank funds for a period of three years. To facilitate this process, the PFIs would be asked to assign parts of the face value of the L/Cs to the export finance facility equal to the subloan amounts (para. 5.18).

5.04 For both the investment and export credit components, the Government would bear the credit risk of the PFIs for which it would be

compensated, together with its administrative costs, by the spread it would charge the PFIs. The PFIs will bear the full credit risks of their sub-borrowers. To avoid cross currency and interest basis risks they will denominate their subloans in US dollars and price them on the basis of the prevailing six-month LIBOR. The subborrowers (private enterprises and private exporters) will bear the primary foreign exchange risk against the leva.

5.05 The terms and conditions of the subsidiary loan of a PFI from the government would be spelled out in a Subsidiary Loan Agreement between BNB, acting as GOB's agent, and a PFI. The PFIs would be able to compete for the funds on a first-come-first-served basis. The PFI subsidiary loans would have maturities corresponding to the maturities of their subloans, i.e., on a back-to-back basis. The subsidiary loans would be made to the PFIs in US dollars at the prevailing six-month LIBOR plus a market-based spread. Initially, the spread would be 400 basis points. This spread would be reset, after consultation between BNB and the Bank, for new subloans made by the PFIs on or after the reset dates, namely January 15 and July 15 of each year. These dates have been selected to coincide with the rate reset dates for the Bank's loan.

5.06 For the technical assistance component, the government would on-lend another US$3 million equivalent in US dollars to the PFIs at its cost of funds for a period of ten years, including a three-year grace period, by means of the Subsidiary Loan Agreements. This partial subsidy is justified since the private financial institutions are still in an infant stage, state banks are expected to be assisted with restructuring by the government, and technical assistance will have externalities; e.g., staff trained under the technical assistance program may move from bank to bank or from a bank to the enterprise sector in a market-driven job market.

5.07 The funds for TA would be allocated to the PFIs on the basis of an evaluation of requests submitted. For this purpose, each PFI would submit a detailed technical assistance proposal, spelling out its objectives and scope, overall strategy for institution building, description of each component, terms of reference of consultants needed, detailed costing, and a financing plan showing a contribution by the PFI of 50% of the total cost. Should the total requirement for TA exceed the amount budgeted, the funds would be allocated on the basis of the quality of the proposals submitted, relevance of the TA to the investment and export lending activities of the project, and equitable distribution among the PFIs.

5.08 Policy Statement and Corporate Strategy Statement. Each PFI would have to prepare and submit to the Bank a Statement of Policy that defines its role in the financial sector, its overall goals and its financial and operating policies, including environmental protection policies; and a Statement of Corporate Strategy that discusses the PFI's business plan for achieving its objectives. These statements, which would have to be satisfactory to the Bank and be approved by a PFI's board of directors, would serve as the basis on which the PFI would operate under the project. Drafts of the PFIs' policy and corporate strategy statements were discussed at appraisal, and would be submitted for Bank review prior to their adoption by

the PFIs' boards of directors. Adoption of policy and corporate strategy statements, satisfactory to the Bank, of two PFIs would be a condition of loan effectiveness (para. 5.10b).

5.09 Loan Covenant. To signal its commitment to a market-based interest rate regime, the government would reconfirm, through a loan covenant, that it would not support, directly or indirectly, subsidized lending to industry and that general lending policies would be reviewed regularly with the Bank (Section 4.03 of the Draft Loan Agreement).

5.10 Conditions for Loan Effectiveness. Completion of the following steps would be conditions of Loan effectiveness:

(a) signing of subsidiary loan agreements by GOB and at least two eligible PFIs;

(b) approval by the boards of directors of, and submission to the Bank by, the same PFIs of their policy and corporate strategy statements, satisfactory to the Bank; and

(c) issuance by BNB of the new prudential regulations for banks, satisfactory to the Bank.

5.11 Condition of Disbursement. The creation of the Export Finance Facility in BNB, satisfactory to the Bank, would be a condition of disbursement for the export credit component of the project (para. 5.18).

B. Loan Administration

5.12 Procurement. Procurement procedures under the proposed project would be those established for financial intermediation operations under the Bank's procurement guidelines. Goods costing less than US$50,000 equivalent would be procured at competitive prices in accordance with the normal commercial practices acceptable to the Bank, due account being taken of other relevant factors such as time, efficiency and reliability of delivery and availability of maintenance facilities and spare parts. Goods costing US$50,000 to US$500,000 equivalent for export credits and goods costing US$50,000 to US$250,000 equivalent for investment credits would be procured through international shopping on the basis of at least three competitive quotations obtained from suppliers in three eligible countries. Goods costing more than US$500,000 equivalent for export credits or more than US$250,000 equivalent for investment credits would be procured through limited international bidding (LIB) procedures.

5.13 The first two procurement contracts per PFI for export and investment credits and all LIB procurements would be subject to prior review; all other contracts would be reviewed on a sampling basis as part of regular Bank supervision. For this purpose, the PFIs would be required to maintain records of the procurements made under the project, with summaries of offers received and awards made under each subloan. These records would also be used

by external auditors in auditing the PFIs' statement of expenditures. The technical assistance component of the project would provide staff training on, and the installation of systems for, procurement according to Bank requirements (paras. 4.22-4.26).

5.14 For the technical assistance component, consultant services would be procured under contracts awarded to consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank. Such consultants would be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981. All terms of reference and appointment of consultants would be subject to prior Bank approval.

5.15 Disbursements. Due to the great number of small disbursements expected under the project, disbursements for contracts of amounts at or under US$500,000 would be made against certified statement of expenditures (SOE) for which appropriate documentation would be retained by the PFIs. Disbursements for contracts of amounts above US$500,000 would be made on the basis of full documentation. The Bank's reimbursement would be limited to expenditures made by a subborrower not more than 180 days prior to the Bank's receipt of the request for reimbursement. This longer-than-usual time lag is needed because this would be the first experience of the PFIs in dealing with Bank procurement and disbursement procedures.

5.16 For investment credits, Bank funds would be used to finance the fixed assets and permanent working capital needs of enterprises, as well as the cost of preparing feasibility and export marketing studies relevant to the subprojects to be financed. For export credits, Bank funds would be used for pre-shipment financing purposes. For both the investment and export credit components, the Bank would disburse 100% of the CIF cost of imported goods, 70% of the cost of imported but locally purchased goods (to factor out taxes paid on them) and 50% of the cost of feasibility and export marketing studies. For the technical assistance component, the Bank would disburse 100% of the foreign expenditures for consultants and training. The disbursement percentages have been calculated in accordance with the Bank's policy that the proceeds of the Loan would not be disbursed for payment of taxes and duties levied by the government.

5.17 Special Account. Since the project would involve the financing of many small items, special accounts would be created for the project in the BNB to facilitate disbursement, one for the investment credit component, one for the export credit component and one for the technical assistance component. All expenditures under the project approved by the PFIs and subsequently authorized by the Bank would be met out of the funds in the special account. The Bank would disburse an initial amount of US$3.5 million (representing about four months of disbursements) into the special accounts upon effectiveness of the Loan and would periodically replenish the account on the basis of reimbursement requests from the PFIs through the BNB. The US$3.5 million would be divided as follows: US$1 million for the investment credit

component, US$2 million for the export credit component and US$0.5 million for the technical assistance component.

5.18 Export Finance Facility. For the export credit component of the project, the BNB would create an account that would hold the repayments of subloans by PFIs in an export finance facility for a period of three years. Funds in the export finance facility would be used to finance other export credit applications for the same purposes and under the same terms and conditions as the original funds under the export credit component. To facilitate the repayment by PFIs of subloans into the export finance facility, appropriate amounts in the export L/Cs would be assigned to the facility. The establishment of this facility, satisfactory to the Bank, would be a condition of disbursement of the export credit component of the project (para. 5.11).

5.19 Reports, Accounts and Audits. The PFIs would submit semi-annual reports on commitments, disbursements, collections and arrears under the project to the Bank. In addition, the PFIs would maintain proper accounts for subloans including supporting procurement and disbursement documents, which, together with the special accounts, would be audited annually by external auditors, acceptable to the Bank. Since most subloans would be disbursed on the basis of SOEs, they would need a separate audit, or the regular annual audit of the PFI would have to include a special opinion on the adequacy of SOE procedures. Audit reports have to be submitted to the Bank no later than three months after the close of a PFI financial year. These audits should include a certification that the PFI is in compliance with the financial covenants agreed under the project.

5.20 Under the technical assistance component, the PFIs would prepare and submit semi-annual progress reports to the Bank. Accounts specific to the project would be maintained separately and would be audited annually by external auditors acceptable to the Bank. Audit reports should be submitted to the Bank no later than three months after the close of the PFI financial year.

5.21 Closing Date. Based on the pipelines of the PFIs, the investment and export credit funds would be fully committed within eighteen months of Board approval. The export credit funds would be disbursed in the first year but recycled over three years through the export finance facility. The investment credit funds are expected to disburse principally in the second and third years. Considering that institution building is involved, the technical assistance component is estimated to take longer to complete, i.e., in five years. Therefore, the last day for submission of withdrawal applications to the Bank under the project would be December 31, 1997. The closing date of the Loan would be June 30, 1998. For the reasons cited above, the project's disbursement schedule does not reflect the latest regional disbursement profile for a typical financial intermediation operation.

VI. BENEFITS AND RISKS

A. Benefits

6.01 The Government considers private investment and export development as crucial for the transformation and revival of the economy. The proposed project provides financial and technical assistance to private enterprises and private exporters to help them respond to the reforms made, and undertake efficient investments and export transactions. It would thus give impetus to the government's financial and enterprise sector reform program by supporting the initial steps of implementation. It would promote faster reforms in the state sector as the growth that it generates in the private sector could help mitigate the costs of those reforms.

6.02 The proposed project would assist in building healthy and efficient private financial institutions that can provide competition to state-owned banks. By helping the participating financial institutions develop expertise in project lending, it would improve project selection and promote more efficient investments. A Loan condition would require the government to move away from subsidized and centrally administered lending schemes to industry. More importantly, by developing an effective market-based investment and export credit delivery system and improving credit access it would reduce the pressure to create subsidized lending programs.

6.03 It would support the expansion of viable private enterprises. By assisting entrepreneurs in preparing their investment subprojects it would improve use of capital. The project would help generate about 15,000 new full-time jobs in 3,000 new private enterprises. The export credit component of the project would help realize about $80 million of new exports annually, redirecting some of the capacities idled by the collapse of the CMEA markets to new markets.

B. Risks

6.04 The main project risk stems from institutional weaknesses. Private banks are new and small, and are still learning to handle traditional commercial banking functions. Project financing would be a added element of risk for them. Technical assistance and close supervision would be provided to control this risk.

6.05 Private enterprises are small, undercapitalized and have short track records. Mortality rates could be high. Assistance to private enterprises in preparing investment subprojects, and an improved ability by the participating financial institutions to discriminate credit risks would help mitigate these risks. These measures are included in the project.

6.06 Risks associated with macroeconomic and political instability are also present. These could translate into project risks as investments and exports are adversely affected, and volatility in foreign exchange and interest rates result in non-performing assets for banks. Through the on-going SAL and planned FESAL, and in coordination with the IMF, the Bank will

continue to have an active macroeconomic policy dialogue with the government. Providing U.S. dollar SCL terms for this Loan would reduce currency risk for sub-borrowers since their revenues are expected to be mainly in U.S. dollars. The LIBOR interest rate basis is suitable for the export finance component, but may introduce interest rate risk for sub-borrowers under the investment credit component. On balance, however, the benefit of reduced currency exposure is expected to outweigh the interest rate risk.

VII. AGREEMENTS REACHED AND RECOMMENDATIONS

7.01 During negotiations, agreements with the Government, the Bulgarian National Bank, and the PFIs were reached on the following:

1. Loan Conditions. The government would not support directly or indirectly subsidized lending to industry and would review regularly with the Bank its general lending policies (para. 5.09).

2. Conditions of Loan Effectiveness

(a) The government would sign Subsidiary Loan Agreements, satisfactory to the Bank, with, at least, two eligible PFIs (para. 5.10a);

(b) the boards of directors of these PFIs would adopt Policy Statements and Corporate Strategy Statements, agreed with the Bank (para. 5.10b); and

(c) The BNB would issue the remaining four prudential regulations for banks, satisfactory to the Bank (para. 5.10c).

3. Condition of Disbursement. For the export credit component, the establishment of the Export Finance Facility in BNB, satisfactory to the Bank, would be a condition of disbursement (paras. 5.19).

4. Other Agreement. The PFIs would participate in the staff training and systems installation for project appraisal and supervision.

7.02 The proposed project constitutes a suitable basis for a Bank Loan to the Government of Bulgaria in the amount of US$55 million at the standard variable interest rate for U.S. dollar single currency loans for a period of 17 years, including a four-year grace period, under terms and conditions outlined in Chapter V.

BULGARIA

PRIVATE INVESTMENT AND EXPORT FINANCE PROJECT

Documents Available in the Project Files

A. General

1. Structure of the Banking System (DFC)

2. 1992 Annual Report of the Bulgarian National Bank

3. Review of the Bulgarian Banking System (R. Marisol Ravicz, Quarterly Journal of Bulgarian National Bank, June 1992.)

4. "The Nascent Private Sector in Bulgaria," EC-Phare Consultants' Report, 1992.

B. Credit Component

1. Balkanbank - 1988 and 1991 Annual Report; Balance Sheet as of December 31, 1989.

2. Bank for Agricultural Credit Ltd. - 1991 Annual Report.

3. Biochim Commercial Bank - 1989 and 1991 Annual Report.

4. Bulgarian Foreign Trade Bank - 1989 Annual Report; Balance Sheet as of December 31, 1991.

5. Central Cooperative Bank - Balance Sheet as of September 30, 1992.

6. Credit Bank - Balance Sheet as of September 30, 1992.

7. First Private Bank - 1990 and 1991 Annual Report.

8. Credit Bank - Balance Sheet as of September 30, 1992.

9. International Bank for Investment and Development - Highlights of Activities.

10. "Legal Aspects Governing the Recovery of Bank Collateral, Notes by World Bank Appraisal Mission, February 1993.

11. Tourist Sport Bank

12. United Bulgarian Bank - Proposal for Banking Capital Consolidation; Consolidated Sheet as of December 31, 1991.

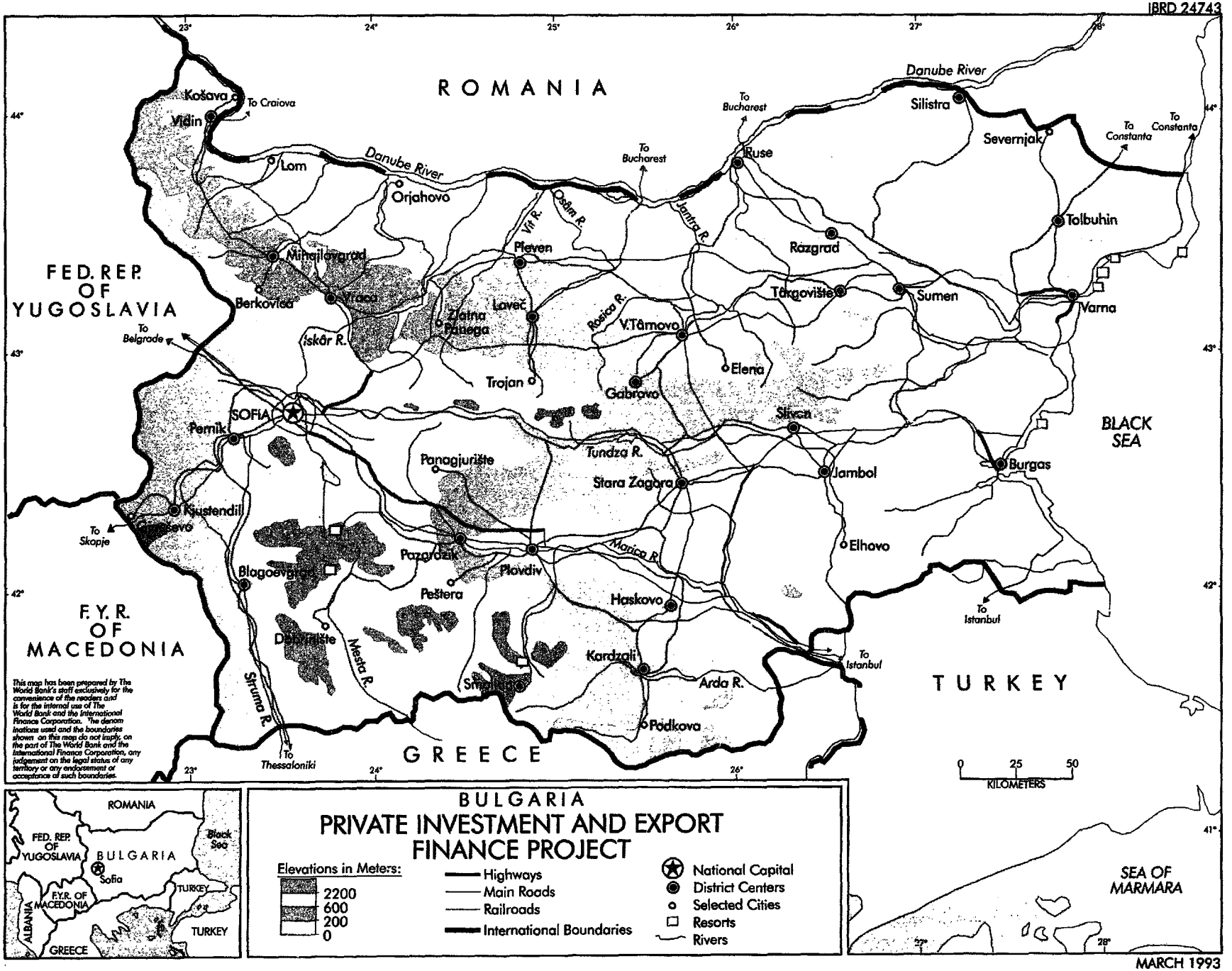
13. Volume II of Yellow Cover SAR - Appraisal of Participating Financial Intermediaries, March 10, 1993.

C. Technical Assistance Components

1. Technical Assistance For Participating Financial Intermediaries, Terms of Reference for Institutional Development, Notes by the World Bank Appraisal Mission, February 1993

2. Technical Assistance for Private Enterprises and Exporters, Notes by the World Bank Appraisal Mission, February 1993

IBRD 24743



MARCH 1993