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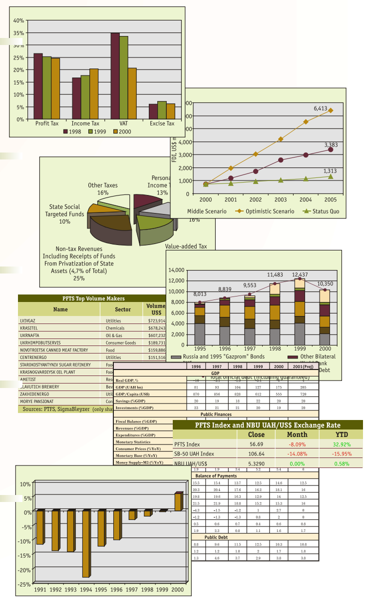
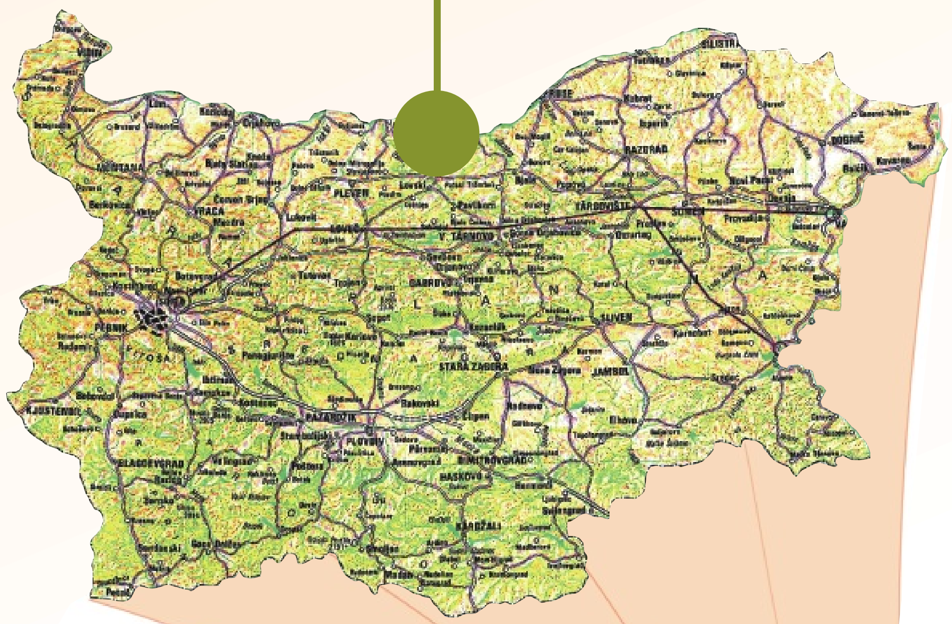
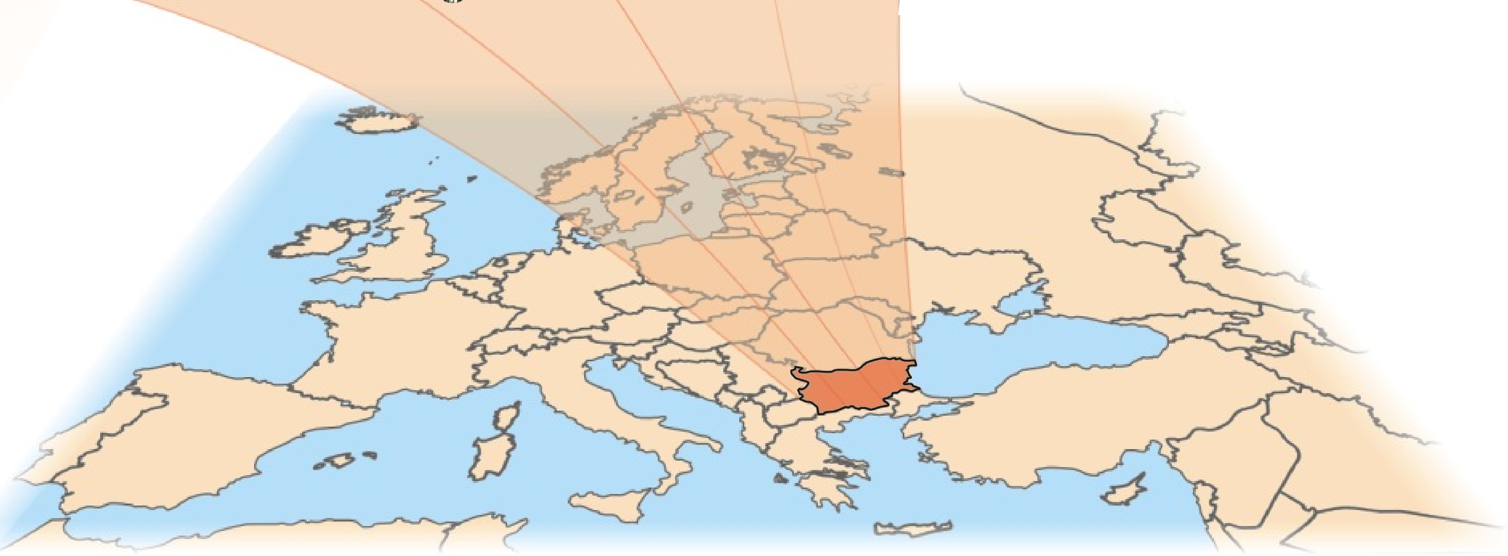
Bulgaria: Country Overview

August 2003







BULGARIA: COUNTRY OVERVIEW

Background Information

Location: northeastern part of the Balkan Peninsula
Borders on: Romania, Turkey, Greece, Serbia, and Macedonia.
Territory: 110,912 square kilometers
Population: 7.85 million people
Capital: Sofia (population — 1.2 million)
Official Language: Bulgarian
National Currency: Bulgarian lev (BGN)

Transportation network is well-developed. There are 5 airports in Bulgaria. The network of international highways links Bulgaria with the countries of Western Europe, Russia, and Asia Minor. Two Bulgarian ports, Burgas and Varna, account for 60% of the country's foreign trade shipping. The Danube is the international river route.

EXECUTIVE SUMMARY

Bulgaria is located in Southeastern Europe, in the northeastern part of the Balkan Peninsula. Bulgaria borders five countries —Romania, Turkey, Greece, Serbia, and Macedonia. The length of the border is 2,245 kilometers, including 686 kilometers by river, and 378 kilometers of Black Sea coastline.

The Bulgarian President is elected for the term of five years. The current President, Georgy Pyrvanov, was elected in 2001. The Bulgarian legislature is composed of a one-chamber Parliament, which includes 240 deputies. Today, the largest political group of the Parliament is the National Movement "Simeon II", led by the current Prime Minister Simeon Saxe-Coburg Gotha. He is a member of the royal family, which emigrated from Bulgaria. Simeon Saxe-Coburg Gotha has a very good command of several languages and wide international business contacts.

Since 1998, the Bulgarian economy has been growing steadily. The growth is the result of the sound economic policies undertaken by the government since 1997. In 2002, GDP growth was 4.8%. The program of the Bulgarian government for 2002–2005 envisages annual economic growth of 5%–7%. The aims of the current government also include NATO accession in 2004 and EU accession in 2007.

Bulgaria has a favorable environment for attracting foreign investments. From 1998 to 2002, the total volume of foreign direct investments (FDI) to Bulgaria was $3.7 billion, or 72% of total investments since 1992. Since 2000, the flow of FDI decreased slightly due to reduced privatization proceeds. Privatization in Bulgaria is coming to an end. By 2003, 81% of assets subject to privatization have been privatized. Nevertheless, it is expected that investments will increase in 2003 through inflows to the most interesting sectors, such as tourism, transport, telecommunications, light industry, and real estate.

Major Bulgarian Macroeconomic Indices

	2000	2001	2002	2003E
Gross Domestic Product (GDP), $ billion	$12.6	$13.6	$15.2	$18.9
GDP Real Growth, %	5.4%	4.1%	4.8%	5.0%
Foreign Direct Investments, $ million	$1,003	$685	$450	$928
Inflation, %	10.4%	7.5%	5.8%	2.6%

Low efficiency of the legal system is among the investment problems in Bulgaria. Lack of open information for foreign investors hampers interpretation of various laws and regulations. The share of the shadow economy is rather large: for 2000–2001, it was estimated at about 36% of GDP. Nevertheless, Bulgaria remains attractive for investment. International organizations (e.g. the EBRD and the World Bank) have implemented a number of projects in Bulgaria. A stable economy, strategic location between Europe and Asia, and qualified labor with low labor costs are the major factors attracting foreign investors.

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POLITICAL SITUATION

Bulgaria is a parliamentary republic with local government. The Constitution, adopted in 1991, is the main law of the country. The head of state — the President — is elected for a term of five years and represents the country in all international relations. The current President, Georgy Pyrvanov, was elected during the second round of elections in November 2001. In January 2002, he was inaugurated.

The superior legislative body is composed of a one-chamber Parliament (240 deputies) elected every four years. The Council of Ministers, the major executive body, controls domestic and foreign policy of the country. In July 2001, Simeon Saxe-Coburg Gotha became the Prime Minister of Bulgaria.

Simeon Saxe-Coburg Gotha was born into the royal family in 1937 in Sofia; in 1943, he acceded to the throne. In 1946, his family emigrated from Bulgaria to Egypt, then to Spain. While living abroad, Simeon Saxe-Coburg Gotha was preoccupied with developments in his country. After 50 years, Simeon II returned to Bulgaria with the intention of using his experience to improve the country.

Despite the fact that Simeon Saxe-Coburg Gotha's group, National Movement "Simeon II", was created only two months before the parliamentary elections in 2001, it won a convincing victory. Today, it is the largest political group in the Bulgarian Parliament. Over the last year, the popularity of the government has declined substantially, due in part to the high unemployment rate and perceived slow improvements in living standards. It is possible that the incumbent party may loose the election in October 2003 and the opposition may be able to form a new government. However, any future government is unlikely to reverse the policies implemented, probably continuing the current reform agenda.

Groups in Bulgarian Parliament

	Number of Seats in Parliament
National Movement "Simeon II"	108
Alliance of United Democratic Forces	50
Coalition "For Bulgaria"	48
Movement for Rights and Liberties (consisting mostly of ethnic Turks)	20
National Unity Ideal	10
Independent members of Parliament	4
Total	**240**

Source: Republic of Bulgaria National Assembly

The current government is composed of young experts, who were educated in the West and have experience working there. The work of the government is aimed at maintaining economic stability, decreasing unemployment, improving conditions for foreign investors, and at NATO/EU accession. Bulgaria will enter NATO in the spring of 2004. EU accession is expected in 2007.

Over the last several years, the government implemented a number of reforms aimed at improving the business climate and developing private entrepreneurship in the country. In 2002, a new privatization law came into force, simplifying the procedure of purchases and post-privatization control. In 2002, the government made a decision to abolish 72 and simplify 120 (of 360 existing) license and registration regimes.

MACROECONOMIC SITUATION

Background

Following the collapse of the Soviet Union in 1991, Bulgaria began its transition from a planned to a market-based economy. That year, the country signed its first program with the International Monetary Fund (IMF.) The main objectives of this program were to reduce the inflation rate, stabilize the currency, slow the decline in the economy, and encourage rapid growth of the private sector. To achieve these objectives, a number of economic reforms were planned for the following five years.

From 1991 to 1997, however, the implementation of the economic reform program was erratic and slow. Economic results, therefore, were disappointing. During this period, inflation was never brought under control, with inflation rates in excess of 30% every year (474% in 1991, 79% in 1992, 64% in 1993, 122% in 1994, 33% in 1995, 311% in 1996, and 570% in 1997.) The main reason for this high inflation was the large consolidated fiscal deficits incurred by the government to support unprofitable public sector enterprises. The government followed a preservation strategy with its state enterprises, providing subsidies to them and delaying needed restructuring. These enterprises were also supported by the central and commercial banks. This credit support led to a crowding out of resources for other activities, slowing down economic growth in general. In addition, the government was slow in implementing other structural reforms, particularly privatization. By 1997, commercial banks were bankrupt and a foreign exchange crisis had developed.

Following general elections in mid-1997, the new government responded energetically to the 1996–97 crisis. A new agreement with the IMF was reached. Considering the inability of the government to control its past fiscal deficits, they agreed to introduce a currency board, which fixed the country's foreign exchange rate to the German Mark. Under this currency board system, the government gave up control of the money supply, since the monetary base (currency in circulation and bank deposits with the Central Bank) was limited to the amount of international foreign exchange reserves. On this basis, there was no flexibility for the government to finance fiscal budget deficits by issuing money. As a result, the fiscal deficit was reduced to less that 1% of GDP and maintained below that level.

Inflation was quickly brought under control. Since 1999, annual inflation rates have never exceeded 11%. The reduction of inflation increased credibility in the currency, leading to a sharp reduction in lending rates. The fiscal budget benefited significantly from lower interest rates and lower debt service.

In 1997, the government also introduced a number of additional comprehensive economic reforms, including the following:

(1) All domestic prices were liberalized, except for household electricity and industrial heating.
(2) The tax system was reformed with a gradual decrease of the tax burden.
(3) International trade and capital flows were liberalized.
(4) The agricultural sector was reformed with over 95% of agricultural land restituted to its former owners.
(5) Privatization of state enterprises was accelerated.
(6) Other State enterprises were restructured and subjected to strict financial disciplines with hard budgets.

(7) The banking sector was reformed. A total of 17 banks were closed and most of the other state banks were privatized mainly to foreign investors.

In recognition of these economic changes, Bulgaria was invited to begin negotiations for accession to the European Union in December 1999.

Economic Growth

As a result of the economic policies introduced by the government after 1997, the economy recovered quickly. Following an average negative rate of growth of 5% between 1991 and 1997, economic growth was significant in the years thereafter. GDP grew by 4.0% in 1998, 2.3% in 1999, 5.4% in 2000, 4.1% in 2001 and 4.8% in 2002.

During the first quarter of 2003, the economy managed to grow at a rate of 3.8%. As macroeconomic fundamentals have continued to improve, GDP is expected to grow by 5.0% for 2003. This solid GDP performance is taking place despite unfavorable external factors, including the rise in oil prices and a weakening demand for exports. The main driver for GDP growth has been internal consumption (which increased by 5.9% yoy during the first quarter of 2003.) Investments have also contributed to GDP growth, increasing in the first quarter of 2003 by 15.8% yoy, mainly as a result of increases in foreign direct investments.

For 2004, GDP is expected to increase by about the same rate as in 2003. Future growth, however, will depend on an acceleration in investments. In fact, the share of domestic investments to GDP is only 20%. Although this rate represents a major increase over the past, it is significantly below the level of about 25% achieved by other faster-growing economies in Central Europe.

Increased investments are also needed to further reduce unemployment. In fact, the growth of the economy since 1997 has not been sufficient to decisively deal with high unemployment. Unemployment peaked in 2002, when it reached 18.1%. By 2002, unemployment had only been reduced to 16.8%. An overregulated labor market, high payroll taxes and heavy social contributions have contributed to high unemployment in Bulgaria. The government is keenly aware that the economic reform program must be deepened to further reduce this unemployment rate. The reforms implemented since 2000 have begun to yield results and the unemployment rate was reduced to 17.4% in 2002. Currently, in mid-2003, unemployment is 14.7%. However, this low rate may not be sustainable, because the reduction since 2002 is mainly due to the temporary employment programs implemented by municipalities for the long-term unemployed.

Fiscal Policies

With the introduction of the currency board in 1997, Bulgaria has followed appropriate fiscal budget policies. Since then, the overall fiscal deficit has never exceeded 1% of GDP, in line with the agreements with the IMF.

During 2003, fiscal performance has remained on track. The IMF agreement called for several fiscal measures in 2003, which are being implemented successfully. These include (a) monthly review of fiscal revenue targets, with significant deviation triggering offsetting expenditure measures; (b) a program of measures to improve revenue collection; and (c) discretionary spending limited to 88% of budgetary allocations for the first three quarters of 2003.

According to the World Bank, the main fiscal challenge for Bulgaria is to improve the allocation of expenditures in order to maintain fiscal balance while lowering the overall tax burden, especially payroll taxes. This is needed to increase investments and employment and reduce external debt. So far, fiscal deficits have been controlled mainly by revenue expansion rather that expenditure rationalization. But expenditure rationalization will be difficult, since the main areas for it are in the social sectors, including health care, education, and social protection systems. In health and education, significant overcapacity exists throughout the country. But local authorities will find it politically difficult to reduce the current number of local hospitals and schools, even though they are excessive. There is also a need to reduce subsidies for energy. Over the medium term, further expenditure rationalization will be needed in order to accommodate the large expenditures that are required to comply with the obligations of joining the European Union, particularly on the environment.

In any event, the Government has now put in place an effective fiscal management system that should ensure that budget deficits remain within the approved limits. This has been the major lesson learned by the government from the 1996–97 financial crisis.

Monetary Policies

The currency board, under which the Leva is now hard-pegged to the Euro, has proven to be an effective anchor for inflation. Since 1997, average annual inflation rates have been as follows: 22.2% in 1998, 0.7% in 1999, 10.4% in 2000, 7.5% in 2001 and 5.8% in 2002. In 2003, inflation is expected to drop to 2.6%, based on the fact that in mid-2003, inflation was running at an annual rate of 2%.

Under a currency board, increases in money supply are associated with increases in international foreign exchange reserves (monetary base) and expansion of deposits with commercial banks. Based on the growth of both reserves and credit, M3 increased by 30.9% in 2000, 26% in 2001, 12.4% in 2002, and is expected to increase by 11.7% in 2003.

Over the last five years, international foreign exchange reserves have continuously increased from $3.0 billion in 1998 to $4.9 billion in mid-2003 (or about 13% per year.) The current level of international reserves is quite satisfactory, with reserves equivalent to 5.2 months of imports of goods and non-factor services (exceeding the minimum standard of 3 months normally stipulated by the IMF).

International Trade

Following the economic reforms introduced since 1997, merchandise exports increased from $4.2 billion in 1998 to $5.7 billion in 2002, representing a growth rate of 7.4% per year. This growth rate for exports could have been higher, but exports were negatively affected by trade disruptions related to the Kosovo and Macedonia crises and the slow down of the European economy. About 52% of Bulgaria's merchandise exports trade is with the EU, of which Germany, Italy and Greece are the main trading partners.

The requirements of a growing economy and higher energy prices generated an even faster increase in merchandise imports. Merchandise imports grew from $4.6 billion in 1998 to $7.3 billion in 2002, an annual increase of 11.8%. As a result, the merchandise trade deficit increased from −3.0% of GDP in 1998 to −10.5% of GDP in 2002, when it reached $1.593 billion. Imports to Bulgaria originate mainly in Russia (for energy products) and Germany (for industrial products.)

The current account balance followed a trend similar to exports. The current account deficit increased from −0.5% of GDP in 1998 to −4.4% in 2002. In 2002, the current account deficit amounted to $677 million. This number for the current account deficit is significantly lower than the merchandise trade deficit, since the country received $916 million in net services, income, and transfers. Given that imports have been increasing, it is expected that the current account deficit will be somewhat higher in 2003, at about $877 million, or about −4.6% of GDP. Although this current account deficit is high, it is manageable, provided that Bulgaria maintains sound fiscal performance and continues the implementation of economic reforms.

These reforms are already increasing exports and attracting foreign direct investments. In 2002, net FDI flows amounted to $450 million. This amount was equivalent to 65% of the current account deficit. In addition, the current account deficit was financed by the successful placement of Eurobonds in Europe. Therefore, foreign exchange reserves have remained at comfortable levels as noted earlier.

International Capital and Debt

In 2002, net foreign direct investments amounted to $450 million or 3% of GDP. This figure is significant, but it represents a major reduction from the levels achieved in the last three years ($802 million in 1999, $1,003 million in 2000, and $685 million in 2001.) The reduction in 2002 was due in part to a slowdown in the privatization process.

During 2003, FDI has been recovering. In fact, net FDI reached $280 million in the first four months of 2003, an increase of 34% over the same period last year. For the 2003, FDI is expected to amount to $1 billion. This amount would represent 5.3% of GDP, which compares favorably with the levels achieved by most other transition countries (1% of GDP for Hungary, 2% of GDP for Poland, 2% of GDP for Romania, and 5% of GDP for Estonia, Latvia and Lithuania — 2002 figures.)

The cumulative value of foreign direct investments (FDI) in Bulgaria reached $5.1 billion in mid 2003. Over 90% of these investments were generated after 1998. The largest investor in Bulgaria is Germany, followed by Greece and Italy. Other major investors include Austria, Belgium, the US, Russia, the Netherlands, and the UK. FDI by sector shows the major role of industry, which has absorbed over 50% of all FDI, followed by finance, trade, tourism, and infrastructure.

In 1997, Bulgaria inherited a large external debt that reached 100% of GDP that year. Since then, this ratio of external debt to GDP has been reduced substantially. As of mid-2003, external debt, both public and private, reached $11.3 billion or 65% of GDP. As a percentage of exports, external debt amounts to 123%. Although these are still high numbers, external debt is expected to continue to decline. In addition, a fiscal reserve account established by the government has remained at over $2.0 billion, comfortably above external debt service requirements of about $1.5 billion for the next year. The government has stated its commitment to meet the Maastricht criterion (maximum public debt of 60% of GDP) by 2007, the expected date of accession to the EU.

Based on its solid economic performance, the international bond rating agencies have recently upgraded Bulgaria's sovereign debt. S&P upgraded this debt to B++, just one scale below investment grade. The key reasons mentioned by the rating agencies for the upgrading include: prudent fiscal policy, significant reduction in public debt burden, and encouraging growth performance in recent years.

INVESTMENT CLIMATE

The economic reforms implemented after 1997 have had a very positive impact on Bulgaria's business environment. As a result, the private sector has expanded and now represents about 65% of GDP, compared to 53% in 1996.

However, further sources of economic growth will come from increased investments by the private sector. To attract domestic and foreign investments, the government is eager to further improve the country's business environment.

SigmaBleyzer identified the most important measures that a government can take to improve the business environment and attract foreign direct investments. The study reviewed 50 countries across the world and carried out statistical analyses to identify the policy measures that could have the greatest impact on the flows of FDI. Through benchmarking, it also identified best practices in economic reforms in a number of successful developing countries. Also, a model was built to predict the flows of foreign direct investments that the country could receive based on the implementation of these key "policy" investment drivers. The study concluded that "first generation" reforms — macroeconomic stabilization, achieved by sound fiscal and monetary policies — are essential pre-conditions to achieving a favorable business climate and attracting foreign direct investments. But they are not sufficient to improve the business environment and achieve increases in international capital inflows. Within this macroeconomic framework, a number of "second generation" reforms are needed. Our benchmarking, statistical analyses and business surveys indicated that a significant portion of the variations in foreign direct investments in the group of 50 developing countries could be explained by nine economic policy drivers. Furthermore, studies showed that whereas there was a high correlation between the nine policy drivers and the flows of FDI, there was also a low correlation between FDI flows and the "natural characteristics" of a country (e.g., geographical location, country size, population, etc.) These key investment drivers were the following, in order of priority:

(1) **Business liberalization and de-regulation policies** to permit firms to operate freely by removing barriers to market entry, barriers to operations and barriers to exit
(2) Policies to create a **stable and predictable legal environment** with well-defined "rules of the game" for all businesses, without discrimination or preferential treatment and with capacity to enforce business contracts
(3) Policies to develop sound **corporate and public governance** that would protect ownership rights and shareholders, and avoid excesses of power by government agencies
(4) Policies to **liberalize foreign trade and international capital movements** to facilitate the export and import of goods and the transfer of capital internationally.
(5) Policies to **create a healthy financial sector** capable of meeting the financing needs of growing businesses.
(6) Actions to **minimize corruption** and protect businesses from abuse of power by government officials.
(7) Actions to minimize the effects of **political uncertainties** on business activities.
(8) Actions to **promote and inform investors** about business opportunities in the country.
(9) Actions to avoid distortions in incentives by **eliminating preferential targeted investment incentives** to companies, regions or sectors.

The performance of Bulgaria regarding the above nine investment drivers is discussed below:

1. Liberalization and Deregulation of Business Activities

During the last five years, Bulgaria made major efforts to reduce the regulatory burden on private enterprises. The legislative and regulatory framework was adjusted to better support private sector activities. But there is still significant room to improve the effectiveness of their implementation. There are still excessive government controls through inspections, audits and approval procedures. Foreign investors complain that these excessive government interventions remain among the major obstacles they face in Bulgaria.

To accelerate implementation of deregulation under the Licensing Optimization Program, an Inter-Ministerial Working Group on Regulatory Regimes, headed by the Deputy Prime Minister, reviewed all 361 centrally managed regulatory regimes. In accordance with the agreements with the World Bank, 70 of these regimes will be eliminated and 118 will be modified by the end of 2005. For those regulatory regimes that remain, the cost of compliance will be reduced by simplifying their administrative processes. This should significantly reduce the regulatory compliance cost for private enterprises. For the future, the government is introducing a new law to ensure that new regulatory regimes will be based on a clear rationale, a proper costbenefit analysis, and appropriate consultation with affected parties.

Another key area of business liberalization is the elimination of barriers to entry and exit, in order to facilitate the formation of new enterprises and the closure of uneconomic firms. A company's registration process is still cumbersome, but it is now being simplified by integrating the registration procedures that are performed by several agencies. Bankruptcy procedures are also cumbersome, in many cases taking as long as four years to resolve. To facilitate bankruptcy procedures, the commercial code is being amended to simplify the process, shorten deadlines, and provide more power to creditors.

The investment climate has also been improved by positive changes in tax legislation. Major Bulgarian taxes include:

- Corporate income tax
- Personal income tax
- Value added tax (VAT)
- Excise and customs duties
- Regional taxes and duties

In 2003, the total company municipal and income tax will be 23.5%. The Bulgarian government plans to reduce it to 20% in 2004 and to 15%in 2005.

Total annual income is taxed in accordance with an annual progressive scale. As of January 2002, the highest bracket was substantially reduced to 29%, and the lowest bracket to 18%. In 2003, it the middle bracket is planned to be reduced from 24% and 28% to 22% and 26% respectively, and from 18% to 15% for the lowest bracket.

Resident taxpayers are taxed on their worldwide income. Non-residents are liable only for their income derived from Bulgarian sources. Bulgaria participates in double tax treaties with 50 countries, including Russia and Ukraine. Certain types of income originating in Bulgaria and payable to foreign entities (dividends, interest, rents, etc.) are subject to a 15% tax.

The Bulgarian VAT legislation is based on the provisions of the EU's Sixth VAT Directive. Taxable supplies of goods or services and imports are subject to a 20% VAT. The export of goods and services and re-export of goods is zero-rated. The VAT refund period has been reduced from 4 to 3 months

Both individuals and legal entities with taxable turnover over $34,000 during the preceding 12 months must register for VAT purposes. Registration is voluntary for individuals or legal entities having taxable turnover between $22,500 and $34,000.

In terms of income tax and corporate tax rates, Bulgaria has become one of the most competitive countries in Eastern and Central Europe. In general, good progress is being made in Bulgaria in liberalizing and de-regulating its business environment.

2. Stability and Predictability of the Legal Environment

In the past five years, significant progress has been made in the enactment of market-oriented legislation. The Law on Foreign Investment was adopted in Bulgaria in October 1997. Sound legislation now exists in the areas of foreign investments, company incorporation and contract law, business concessioning, privatization, bankruptcy procedures, securities transactions, competition law, and corporate taxation. Bulgaria now has a stable and predictable legal framework. However, the country still needs to complete the enactment of supporting regulations and secondary legislation.

But the main problem in the legal environment is the inadequacy of the judiciary system. The roles of the judges are not well-defined and they do not receive pay commensurate with their responsibilities. Many lack experience in modern commercial law and have too many clerical tasks to attend to, which undercuts their ability to perform their functions. Court administration has also suffered neglect, with inadequate information and computerized support systems and obsolete procedures. As a result of these problems, court judgments are often of poor quality, take a long time to materialize, and there are a large number of pending cases. Furthermore, the enforcement of court judgments is weak, particularly contract enforcement.

To improve the Judiciary, a comprehensive institutional reform is being implemented with World Bank support. The program includes four components. First, human capacity would be upgraded by legal education, compulsory training of judges, improvements in judge selection and promotion, and establishing performance standards. Second, administrative capacity would be improved through better budget planning and allocation, better information technology support systems and an anticorruption strategy. Third, alternative dispute resolution mechanisms will be established, including arbitrators and mediators. And fourth, a monitoring system is being established to track the progress of judicial reform.

Over the medium term, the successful implementation of this program should have a major effect on Bulgaria's investment climate.

3. Corporate and Public Governance

Corporate Governance

Bulgaria has modeled its corporate governance and corporate structures on the European model. Domestic legislation is consistent with EU directives and now prevents the worst possibilities of malpractice in corporate governance. Nevertheless, there is still room for improvement in corporate governance. For example, the disclosure of information on directors' remuneration and on board decisions is still weak, and the protection of minority shareholders is still limited. Furthermore, though all commercial entities are subject to Bulgarian accounting and financial standards, these national standards differ in some important areas from international practice (such as doubtful debt provisions and valuation of some fixed assets.)

Despite these shortcomings, Bulgaria is ahead of many other transition economies in corporate governance, and this area is not regarded as a major impediment to investments.

Public Governance

Bulgaria's public administration faces significant challenges, particularly direct and indirect demands to meet the EU's accession requirements. These requirements include the ability to elaborate strategic plans and multi-year development programs, concentration of administrative effort on main developmental problems, and greater partnership with lower tiers of government and NGOs. These requirements would imply greater institutional capacity, more skilled staffing, better coordination among all agencies, and putting in place appropriate controls. A major effort to cope with these requirements is needed.

The problem with the current public administration is not its size, which is small compared to other countries, but its composition, with understaffing in some areas (such as central administration), and overstaffing in others (such as health and education.) Administrative capacity is also week, with excessive discretion and little technical training. Furthermore, the civil service is fragmented and the procedures for appointments, staff training and promotions are inadequate. The low level of public salaries is a constraint on improvements in civil service.

To address these problems, the government is implementing a comprehensive program of public administration reform. Under a new law on administrative services, the Council of Ministers approved a document entitled Strategy for State Modernization, together with a number of amendments to the Civil Servants Law. Under this program, the government is undertaking functional reviews of a number of ministries and agencies to align structures and staffing to the new role of the government in support of the private sector. Ineffective and overlapping structures will be eliminated by the end of 2005. The civil service is being modernized based on a common classifier for all posts and standardized organizational structures. Further measures are being taken to improve the salary structure and incentives and raise transparency and accountability. The government is also introducing standards of service delivery and performance for ministries, agencies, regional offices, and municipalities.

Privatization

Bulgaria has privatized over 90% of the state assets of non-infrastructure state enterprises existing at the beginning of 1996, and the current plan calls for the completion of this phase by the beginning of

2005. The next phase of privatization has begun and includes infrastructure state enterprises (energy, telecommunications, water utilities and railways.) It is expected that this phase will be completed by the beginning of 2006. By that time, the share of the private sector of GDP should have increased to 75%.

In order to improve transparency, reduce corruption and accelerate privatization, the government restructured the Privatization Agency, and Congress passed a law on privatization and post-privatization control. However, during the last few months, the privatization process has stalled. The government was forced to cancel the sale of the state tobacco company in April 2003. And in May, the planned sale of the telecom company BTC to Advent International was stopped on legal grounds. Advent presented a claim to the Supreme Administrative Court defending the legality of its bid. Privatization is now at a standstill. Orderly resolution of these two cases is needed to increase confidence in the privatization process, and to improve the government's image. Without this, future privatizations may be in jeopardy.

In 1993–2001, foreign companies made 45 large purchases in Bulgaria. All but two stakes were over 50%. Total transaction revenue reached $1.4 billion and investment commitments were $1.3 billion. The largest number of purchases was made in the chemical industry (7), tourism sector (7), food industry (4), breweries (3), pharmaceuticals (3), and the financial sector (3).

Largest Privatization Transactions with Foreign Investors in Bulgaria

Investor	Sector	Company	Stake	Price, $ million	Investment Commitments, $ million
Unicredito, Italy	Finance	BULBANK	85%	$307.0	—
National Bank of Greece, Greece	Finance	UNITED BULGARIAN BANK	90%	$270.0	—
Solvay, Belgium	Chemical Industry	Sodi — Devnya	60%	$160.0	$67.0
Lukoil Petrol JSCo, Russia	Chemical Industry	NeftochimJSCo — Bourgas	58%	$101.0	$408.3
Union Miniere Group, Belgium	Copper Production	MDK — Pirdop	56%	$80.0	$220.0
Marvex — Spain — BG	Cement Production	Devnya Cement — Devnya	70%	$44.6	$209.5

Source: Bulgaria Business Guide, October 2002

The privatization plan for 2003 envisages privatization of 145 majority government stakes (over 50%) and 900 minority and "residual" stakes. In 2003, it plans to sell two large companies: Bulgarian Telecommunication Company (BTC) and the Bulgartabak holding. The privatization procedure was launched in 2002.

Another privatization line concerns infrastructure monopolies. The enterprises prepared for sale in the electricity sector include mining companies, hydro power plants, utilities, gas and power generating and distributing companies. Consultants (BNP Paribas, Bulgaria) prepared the privatization of seven power distributing companies. In mid-2002, the Privatization Agency began preparation work on the privatization of seven local heating companies.

The following companies are also planned for privatization in 2003: Balkancar Holding (production of autotrucks and loaders), VMZ (the largest defense industry company), and DSK (the third largest bank in Bulgaria). PricewaterhouseCoopers is preparing the privatization of merchant and river fleets.

The Bulgarian government also intends to develop privatization plans for railway transport, water supply companies, and sewage systems. These enterprises, as well as specialized medical establishments, marine ports and airports, will be privatized after 2003.

The privatization process in Bulgaria is regulated by the Law on Privatization and Post-Privatization Control, which came into effect in March 2002. According to the new law, the Privatization Agency is the only competent body to sell state-owned property. The Post-Privatization Control Agency supervises the fulfillment of the buyers' obligations under concluded privatization deals. The deals on strategic and very large companies are to be endorsed by the Council of Ministers.

Major privatization methods envisaged by the new Law on Privatization and Post-Privatization Control include:

- Public offering
- Public auction
- Publicly announced tender
- Centralized public auction
- Acceptance of tender offer as per article 149 of the Law on Public Offering of Securities

The Privatization Agency publishes the list of companies ready for sale. On reviewing the list and privatization legislation, investors should submit a formal letter to the Privatization Agency describing their business intentions. Then the potential investor, who has registered with the Agency, fills out a Declaration of Confidentiality and receives information for payment on the targeted company.

Before the deadline, the investor submits an offer. The offer should include proposals for the purchase price, means of payment, payment of debts, number of jobs secured, and investment plans. A five-year business plan is submitted to support the offer. The selection of the investor is made by comparison of all submitted offers. The final contract is elaborated by the Privatization Agency and signed by the investor and Executive Director.

4. Liberalization of Foreign Trade and Capital Movements

Since 1997, Bulgaria has liberalized its foreign trade. It has reduced tariff levels, and remaining non-tariff measures affecting trade have been removed. The average import tariff in Bulgaria is now 12.4%. The country now has a liberal and stable foreign trade regime that meets the requirements of the World Trade Organization (WTO), of which Bulgaria is now a member.

However, a major remaining area for trade reform is customs. Customs procedures are still cumbersome and arbitrary. Foreign companies complain about excessive requirements for documentation, slow port handling of cargo, and corruption. The public administration reform underway is giving priority to these issues.

Regional free trade agreements have contributed to the trade liberalization process, though they have also generated discrimination towards other non-member countries. In June 2003, the European Union confirmed Bulgaria's goal to conclude negotiations for EU accession by the end of 2004, and to join the Union by 2007. In line with this objective, Bulgaria has become a member of the Europe Agreement and the European Free Trade Agreement, which have removed tariff barriers with Europe on industrial goods. Thus, Bulgaria already has tariff-free access to EU markets, becoming a part of the largest market for industrial products in the world.

Other free trade agreements (FTAs) have been entered into with countries that the European Union already has, or will shortly have, preferential trade agreements. Bulgaria has become a member of the Central European Free Trade Agreement, which includes the Czech Republic, Hungary, Poland, Romania, Slovakia and Slovenia. Trade in industrial products with these countries is not subject to tariff or non-tariff barriers. Other FTAs have been signed, or are in the process of being signed, with Turkey, Macedonia, Estonia, Latvia, Lithuania, Israel and Morocco.

The 1998 Law on Foreign Investments provides for adequate protection of foreign investments. There is now full national treatment of foreign investments, which is supported under the rules of the WTO, TRIPS, and BIT (Bilateral Investment Treatment with the US.) Foreign investors can freely purchase foreign exchange and repatriate profits and capital upon presentation of proof of paid taxes.

To facilitate foreign investments, the Bulgarian Foreign Investment Agency was established by the government in 1995. It is a one-stop shop for foreign investors. The Agency reports to the Council of Ministers and is in charge of coordinating state institutions in the field of foreign in-vestments and promoting foreign investments in the country. The Agency also assists compa-nies in the investment process. It provides to prospective investors updated information on investment processes in the country, legal advice, searching for suitable partners, etc.

In terms of land ownership, foreigners can not own agricultural land, but locally registered companies with foreign participation can acquire land.

5. Financial Sector Development

The financial crisis of 1997 led to the closure of 17 banks and the privatization of most state banks, principally to foreign financial institutions. About 95% of the banking assets are now in private ownership. A recent international study concluded that today the banking system is sound, well capitalized, profitable, and well supervised.

However, the crisis of 1997 led to very conservative lending policies and a low deposit base. Interest rate spreads are high, though they have been declining. As a result, bank intermediation has remained low, with the ratio of M2 (money in circulation and bank deposits) to GDP at 42%. The government wants the ratio of M2 to GDP to increase to 50%, in line with most advanced transition countries. To achieve this objective, the government has been improving the legal and institutional basis for lending. The measures aim to reduce delays in enforcing valid claims, upgrade secured lending under the Law of Registered Pledges, introduce international accounting and auditing standards, rationalize taxes on financial intermediation, and improve banking supervision and regulations under the new banking law.

These measures are already yielding results. Net domestic credit granted by commercial banks to the private sector increased by 42% in 2002 and by 8% in the first quarter of 2003. It is expected to increase by 30% during 2003.

The financial funds that currently operate in Bulgaria invest mainly in the development of small- and medium-sized private enterprises. Some funds participate in projects implemented in other countries.

Funds Operating in Bulgaria

Fund	Capital Base	Areas of Interest	Comments
Bulgarian-American Enterprise Fund	$57 million	Bulgarian private sector companies (agriculture, distribution, hotels and tourism, construction, finance)	Financed by the US Congress
Trans-Balkan Fund	$21 million — for the Balkans $7 million — for Bulgaria	Small- and medium-sized private enterprises of Bulgaria, Romania, Croatia, and other countries	The funds are managed by Small Enterprise Assistance Fund (SEAF), operating in Eastern Europe, South America, and Asia Trans-Balkan Fund is financed by IFC, USAID, etc. Caresback-Bulgaria is financed by USAID and EBRD
Caresback-Bulgaria	Total investments — $5 million	Small- and medium-sized private enterprises of Bulgaria (food industry)	
Black Sea Fund	$62 million	Bulgaria, Romania, other countries of Near Black Sea Region	Managed by Global Finance Company
EuroMerchant Balkan Fund	$27 million	Bulgaria, Romania	
Bulgarian Post-Privatization Fund	EUR40 million	Bulgarian private and privatized companies(industry sectors except for finance, tobacco, alcohol, industrial chemicals, defense industry, and gambling industry)	Founded by EBRD and Europe Capital Management
SOROS	$200 million	Serbia, Bulgaria, Croatia (cable companies, banks)	Invested over $100 million
Commercial Capital Group	n/a	Bulgaria, Romania, Russia, Ukraine, and other countries of Eastern and Western Europe(food packaging, construction materials, consumer goods, telecommunications)	
New Century Partners. L.P	n/a	Bulgaria, Romania, CIS and Baltic countries (consumer goods, finance, services)	

Source: http://b2b-bg.com, www.baefinvest.com, www.seaf.bg

The Bulgarian stock exchange is located in Sofia. The securities traded include company shares, government and corporate bonds, and Bulgarian depositary receipts. In 2002, the stock exchange turnover increased by 159% (compared with 2001) to reach BGN 416 million ($221 million). Despite the large growth, the turnover remains low, even compared with that of the Ukrainian stock market.

Trading Volume of the Bulgarian Stock Exchange

	2002
Number of Deals	22,910
Securities, units	311,799,947
Turnover, $ million	$221.5

Source: Bulgarian Stock Exchange

400 companies are listed on the stock exchange. However, in 2002, only 50–60 companies were actively traded. Transactions with securities in the chemical industry (6.8% of total exchange turnover), banking (4.6%), and tourism (3.9%) had the largest turnover.

There are 34 commercial banks operating in Bulgaria. 28 of them have international banking licenses. Several are Bulgarian branches of international banks including ING Bank, Citibank, and

HypoVereinsbank. Branches have a number of legal advantages over Bulgarian banks concerning their creation, loan size, and reserves to support deposits. Several international financial groups purchased local banks: Unicredito purchased Bulbank in Bulgaria, National Bank of Greece — United Bulgarian Bank, Societe General — SG Expressbank, etc.

6. Corruption Level

As with many countries in transition, administrative corruption in Bulgaria has been relatively high when compared to Western and Central Europe, but lower that in most former Soviet Union countries. The government has been successfully dealing with administrative corruption, which has been declining over the last five years. In 1998, Transparency International ranked corruption in Bulgaria number 66 out of 85 countries, placing Bulgaria below other Southern and Central European countries such as Poland, Yugoslavia, Slovakia, Hungary, and Romania. The 2003 TI survey ranked Bulgaria as number 45 out of 102 countries, similar to Poland and ahead of such countries as the Czech Republic, Slovakia, Latvia, Croatia and Romania.

Today, the main problem in administrative corruption appears to be the structure and functioning of the government, particularly concentration of power, weak legal environment, and weak accountability and transparency. The areas most affected have been customs, tax administration, health services, and the courts. As noted earlier, in recognition of these problems the government is implementing comprehensive strategies and plans of action. It is modernizing its administration, reforming the judiciary system and fighting corruption directly. In addition, a number of measures have been undertaken to strengthen administrative control of the tax administration, the customs agency, the Ministry of the Interior and the National Security Service. Although progress in combating corruption has been made, the remaining task is still large.

However, Transparency International has recently noted that Bulgaria continues to be negatively affected by a high level of non-administrative corruption, rooted in the smuggling of drugs, weapons, stolen cars and people to and from Europe. Organized crime is visible. The EU believes that the ongoing reform of the Bulgarian judiciary is a necessary condition to allow for a more efficient fight against organized crime and corruption. In particular, the immunity of magistrates should be eliminated and court action should be sped up (the process currently may take up to 8 years.)

7. Political Risks

The positive results achieved by Bulgaria since 1997 are due to the determination of the government elected that year. The government was able to put together a good, technical team were able to design and implement the economic reforms discussed in this report.

Over the last year, however, the popularity of the government has declined substantially. This was due in part to the still high unemployment rate, perceived slow improvements in living standards, and perceived non-administrative corruption. Furthermore, initial expectations about improvements in these areas were too high.

Elections are now planned for October 2003. It is possible that the incumbent party may loose the election and the opposition (the Socialist Party) may be able to form a new government. Although the

Socialists were partly responsible for inadequate policies before 1996, most political observers, both domestic and international, believe that a possible Socialist government would not make the same mistakes than in the past. In particular, any future government is unlikely to reverse the solid policies implemented so far. Most likely, it would continue the current reform agenda, though giving more emphasis to unemployment and social programs. Political risks therefore are not considered high.

8. Country Promotion and Image

Bulgaria has been quite successful in its country promotion efforts. As a result, the country's image has improved dramatically over the last five years. This is reflected in the number of international agreements that the country is entering and in the recent upgrades made by the international rating agencies for Bulgarian sovereign bonds.

9. Targeted Investment Incentives

European Union rules prohibit governments from providing state aid to industrial companies. But these rules provide for a number of exemptions, including regional aid and aid to poor areas. As agreed under the Accession Partnership Agreement between the EU and Bulgaria, the country has now established a satisfactory legal framework to make state aid consistent with EU requirements.

Following the 1997 financial crisis, most subsidies to productive entities have been eliminated. The overall level of explicit subsidies in terms of GDP is around 1.5%, which is below EU averages. As a result, investment incentives and subsidies are not currently distorting the allocation of resources or giving undue preference to selected enterprises.

To attract investments, the country has six duty-free economic zones. They were provided with land and infrastructure by the government. Each zone is managed either by a joint stock company or a state owned company. The main features of these zones are as follows: foreign goods may be kept in these zones; convertible foreign currency can be used; revenues can be transferred abroad freely without any restrictions; and administrative structures relieve the investor's need to directly contact local authorities. So far, no special tax incentives have been granted to the free-trade zones. Although the merits of such free-trade zones is questionable (they may be diverting rather that creating investments and they tend to reduce transparency), at least they do not represent a burden to public finances.

INVESTMENT OPPORTUNITIES

Tourism

The Bulgarian government determined several priority development sectors. Tourism (a part of services sector) is one of priority sectors for 2003 and one of the important export constituents, accounting for about 9% of GDP.

In 2002, tourism proceeds were $1.4 billion. Compared to 2001, sector growth reached 8.6%. The expected 2003 growth is 7%–12%, yet the growth during the first six months of the year was 9.6%. There are 742 hotels in Bulgaria; 480 of them possess licenses. However, the licensing regime in the country is being considerably simplified. Licensing for the hotel and restaurant business is being abolished. Tour operators and travel agencies require licenses in order to operate.

Investments in the sector's infrastructure and advertising are expected. Thus, the European Union is allocating $5.4 million to Bulgaria for cultural tourism development. This will enable the sector to improve its attractiveness and performance.

Agriculture and Food Industry

The agricultural sector accounts for about 11% of GDP. Bulgaria has favorable natural conditions for agricultural production development. Manufacturing and processing of agricultural products is supported by the EU, with EUR 52 million being received annually during 2000–2006 (within the framework of SAPARD program). Agricultural producers have equipment purchase benefits; export is supported by government subsidies.

Major food industry sectors include production of meat and dairy products, production of sugar, vegetable oil, wine, beer, as well as tobacco. The wine sector is attractive. There are 56 wine-making companies in Bulgaria. The sector is mostly export-oriented — it exports to Russia, Great Britain, Germany, and other countries. In 2002, wine export revenue was $53 million, and in 2001 — $50 million. The major problems of the sector include equipment deterioration and vineyard aging. Thus, further growth will be possible with investments in equipment modernization and raw materials base renovation.

Transport

The government policy on development of trade and economic relations with neighboring countries provides for development of the transportation sector. The Bulgarian road infrastructure includes 37,000 kilometers of highways and 6,500 kilometers of railways, 64% of which is electrified. Two major Bulgarian ports — Burgas and Varna — account for 60% of the country's foreign trade shipping. There are 5 international airports in Bulgaria, one of which is mostly used as a freight airport.

There are 3,000 forwarding companies registered in Bulgaria, 15% of which have experience and the ability to offer a wide range of transportation services. A lot of companies need initial investments for development of international transportation.

Information Technologies and Telecommunications

The Bulgarian IT & Communications sector has been rapidly developing over the last several years. In 2001, sector revenue was $1.15 billion, in 2002–$1.54 billion. The number of Internet subscribers increased over 2.5 times since 1999 and now amounts to over 600,000 people.

Government is the major investor in the sector. In 2003–2004, it plans to implement several national projects, which require a higher development level of information technologies. Thus, the preparation for Bulgaria's accession to NATO in 2004 requires modernization of computer and communication equipment for the Bulgarian army. USAID and the World Bank also invest in the sector.

Bulgaria is at a cross-point of telecommunications traffic from Europe to the Middle East and the southern part of the CIS and Asia. This also promotes sector development. In 2003, the sector revenue is expected to reach $1.7 billion. According to some estimates, software and IT sectors are today the most attractive. In 2003, the growth in each sector is expected to be about 17%.

Electricity Sector

The electricity sector is interesting due to the possibility of privatization in 2003. The Bulgarian energy system, which until recently had a monopoly status, was divided for privatization into seven power generating, seven power distributing, and one power transmitting company. There are also plans to modernize the existing capacities and construct new ones by attracting investments.

Machinery and textile production sectors require production modernization

Textile production and machinery sectors are attractive for investments. Textile sector development is caused by proximity of Bulgaria to the countries with vast clothes manufacturing — Turkey and Egypt. Bulgaria also has a quota for supplies to the USA and Canada.

The machinery sector updates production structure according to changing market needs. By late 2002, over half of large machinery companies had their products ISO 9000 certified, giving them a chance to strengthen their position on international markets. However, these two sectors are the oldest in the industry. Therefore, substantial revenues are possible in cases of equipment modernization.

RISKS AND OPPORTUNITIES

Opportunities and Strengths of Investing in Bulgaria

- Stable economy with prospects of growth. From 2003 to 2005, the expected growth equals 5%–7%;
- Clear aspiration for NATO accession in 2004 and for EU accession in 2007. Before Bulgaria enters the EU, it is possible to buy assets at comparatively low prices;
- Legal support of foreign investments;
- Growing, attractive sectors;
- Plans to ease the tax burden (profit tax, personal income tax);
- Not many funds currently operating in Bulgaria.

Risks and Weaknesses of Investing

- Difficulties with interpretation of various laws, lack of public information for foreign investors;
- Shadow economy and corruption in business. In 2000–2001, the "gray" economy was about 36% of GDP. In 2002, there is a trend of improving business legalization;
- Slow pace of some structural reforms.

CONCLUSION

Since 1997, Bulgaria has made extraordinary progress in transforming to an economically stable, market-based economy. It has achieved internal and external macroeconomic stability and has developed the expertise to maintain fiscal budget discipline. The liberalization of international trade and the reform of the banking sector were other major milestones. The country is now enjoying the benefits of these efforts, with a reasonable rate of economic growth. Such performance should continue during the medium term, given the commitment of the government to complete the implementation of needed structural reforms as noted earlier in this paper.

Although there is still an important reform agenda — particularly on further business de-regulation, judicial reform and privatization — it is clear that Bulgaria is en route to becoming a modern and efficient market economy. Accession to the European Union in 2007 would seal these developments.

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APPENDIX

Bulgaria: Key Economic Indicators

Year	Unit	2000	2001	2002	2003(Est.)
Population	mn, eop	8.1	8.1	8.0	7.9
Unemployment Rate	%, eop	18.1	17.5	17.4	14.3
Average monthly Salary	US$	112	116	144	na
Real Sector					
GDP	US$ bn	12.6	13.6	15.2	18.9
GDP per Capita	US$	1,590	1,730	1,984	2,400
Real GDP Growth	% yoy	5.4	4.1	4.8	5.0
Industry Share in GDP	%	25.8	25.2	24.5	Na
Agriculture Share in GDP	%	12.3	12.1	11.0	Na
Gross Domestic Investments/GDP	%	18.3	20.7	19.7	20.4
Domestic Savings/GDP	%	13.0	13.0	13.1	13.9
Public Finances					
Fiscal Balance (IMF method)	% of GDP	–1.0	–0.9	–0.6	–0.8
Fiscal Revenues	% of GDP	38.7	37.6	36.5	36.4
Fiscal Expenditures	% of GDP	39.7	38.4	37.2	37.1
Monetary Statistics					
Consumer prices	% yoy, aop	10.4	7.5	5.8	2.6
Currency in Circulation	% yoy, eop	21.2	29.8	8.2	8.2
Money Supply-M3	% yoy, eop	30.9	26.0	12.4	11.7
Net Domestic Credit to Private Sct	US$ mn	1,520	1,920	3,244	4,400
Foreign Exchange Rate	US$ aop	2.10	2.22	1.88	1.85
Balance of Payments					
Exports of Goods	US$ bn	4,825	5,113	5,688	6,771
Imports of Goods	US$ bn	–6,000	–6,693	–7,281	8,610
Trade Balance	US$ mn	–1,176	–1,580	–1,593	–1,839
Trade Balance/GDP	%	–9.3	–11.6	–10.5	–9.7
Net Services, Income & Transfers	US$ bn	475	738	916	962
Current Account Balance	US$ mn	–702	–842	–677	–877
Current Account/GDP	%	–5.6	–6.2	–4.4	–4.6
Net Foreign Direct Investments	US$ mn	1,003	685	450	928
Overall B/P Balance	US$ mn	137	373	715	342
Gross International Reserves	US$ bn eop	3.5	3.6	4.7	5.2
Public and Private Debt					
Public External Debt	US$ bn eop	9.3	8.6	8.3	8.7
Private External Debt	US$ bn eop	1.9	2.0	2.6	2.7
Total External Debt	US$ bn eop	11.2	10.6	10.9	11.4
Total External Debt/GDP	%	88.9	78.1	71.9	60.0
Public Domestic Debt	US$ bn eop	0.8	0.9	1.0	1.2

Source: IMF, World Bank, European Bank.

SOME WORDS ABOUT US

SigmaBleyzer

SigmaBleyzer, an international investment company, was established in 1993. Founded by the Bleyzers, an American family from Houston, Texas, with Ukrainian heritage, the company is committed to providing a comprehensive range of financial services for those that do business in countries with transition economies, including Eastern Europe and the CIS region. SigmaBleyzer's worldwide network of industrial and financial contacts has ensured a strong investor base and strategic industry partners in the West. The main areas of activities of the company include investment banking, asset management, corporate finance and consulting services.

Michael Bleyzer, President and CEO of SigmaBleyzer, is a respected expert on developing countries and transition economies. Before co-founding SigmaBleyzer, he had a 15-year career with Exxon Corporation and Ernst & Young, which provided him with opportunities to work in management positions in Belgium, France, Germany, United Kingdom, Netherlands, and other countries in Europe as well as in Asia Pacific. He has the vision and drive that continues to propel the company ahead of the competition.

With the strength of the company's local infrastructure, implementation of western-style management and intimate knowledge of local market conditions, SigmaBleyzer has created one of the best investment banking organizations in Ukraine. Today, SigmaBleyzer's Ukrainian Growth Fund (UGF) portfolio consists of about 60 companies with estimated value of $150 million. The most successful among them are Volia Cable — the largest TV-cable operator in Ukraine and one of the largest in the FSU, Softline — the leading Ukrainian software development company, Sevastopol Shipyard — a commercial shipbuilding, ship-repair and machine engineering facility, Poltava Confectionery — one of the largest and fastest growing companies in the industry, and many others.

The Bleyzer Foundation

The Bleyzer Foundation is an international non-government organization established in 2001. The Foundation was created by the Bleyzers, an American family with Ukrainian heritage. The President of the Foundation is Mr. Michael Bleyzer, President and CEO of multinational company, "SigmaBleyzer".

The Foundation's Managing Director is Mr. Victor Gekker, who is supported by a team of economists and business analysts. The Advisory Board of The Bleyzer Foundation is chaired by Dr. Edilberto Segura and provides advice and guidance to the activities of the Foundation.

The aim of the Bleyzer Foundation is to support the successful transition of developing countries and transition economies into healthy, democratic market economies. The Foundation provides informational and consultative assistance to developing countries on creating favorable market conditions, improving the investment climate, and ensuring sustainable economic growth. The Foundation helps these countries complete the transition process and become successful, prosperous nations, fully integrated into the global economic community.

The mission of The Bleyzer Foundation is to promote the development of the private sector and the use of best practices in government policies, which create capital-friendly environments and deliver improved quality of life through economic transformation and sustainable growth. The Foundation advocates open market economies, transparency, business liberalization, and the formation of honest partnerships between the government, business, and the community. It actively supports the creation of a stable, predictable and level playing field, which provides conditions for private-sector-led economic growth and development of international economic relationships.

A large portion of the world is in an unstable state of transition. The main goal of these countries is to successfully complete transitions and achieve stability, based on market economy, private business development and democracy. The developed countries hold the keys to this transition and must lead the effort.

There are three alternatives to consider.

Standoff — *basically where we are today, the status quo. The developed countries enjoy relative stability and prosperity, but attempt to isolate their economies. They mostly keep their wealth and their market economy know-how to themselves. The developing countries struggle to develop, but continue to be immersed in poverty, inequality, instability, and envy.*

Payoff — *the idea of "wealth redistribution" on a global scale. This would be accomplished through substantial increases in foreign aid, in order to avert possible future troubles in the world. While some believe you can simply pay your way to world stability, this approach will likely produce a global welfare system. Donors and recipients will be equally dependent on each other and motivated to maintain this dependency in perpetuity.*

Tradeoff — *joint application of best practices to manage changes in developing countries. On the one hand, the developed countries provide know-how and experience in building a market economy, better access to their markets, foreign direct investments, and precisely targeted aid. On the other hand, the developing countries fully implement necessary changes to make the business environment more attractive and trade in their commitment to build a market system, the rule of law, and a transparent and democratic society.*

The Bleyzer Foundation believes that only the last alternative — tradeoff — will achieve real, long-term results. The Foundation attempts to help refocus multilateral and bilateral assistance to developing countries on the creation of private business and market economies. Economic research on transition economies carried out by the Foundation help to identify best practices in government policies, which must be used in these countries.

To achieve these goals and to realize its mission, the Foundation's activities include:

- *Engaging governments in dialogue to influence economic policy in areas related to improving the business climate*

- *Monitoring and reporting on the evolution of key economic reforms and policies that affect the investment climate*

- *Assisting the activity of associations and alliances of businesses and non-government organizations that share the Foundation's goals*
- *Establishing cooperation with national associations and international organizations whose activities are similar to those of the Foundation*
- *Providing informational and advisory support to businesses in developing countries*
- *Advocating and promoting campaigns to create positive images of developing countries and strengthen their international reputations*
- *Promoting education and implementation of best practices in government policies, and building consensus on the major issues of economic development for transition economies*
- *Promoting the necessity of legal, administrative, economic, and other reforms in order to ensure the sustainable economic growth of developing countries*
- *Informing the community about the Foundation's activities, and advocating its ideas and objectives through the media*

SigmaBleyzer to Launch New Southeast European Growth Fund

Drawing on successful investment experiences with three previous growth funds in Ukraine, SigmaBleyzer's Southeast European Growth Fund (SEGF) will invest in three tiers of countries: 1) Bulgaria and Romania, 2) Serbia and Ukraine, and 3) Albania, Bosnia, Macedonia, Kosovo, Croatia and Slovenia.

SEGF will invest in companies with strong earnings potential, seeking to significantly enhance their performance. SigmaBleyzer will use its successful experience in diverse industries such as telecommunications, energy, food, agricultural machinery, metallurgy, shipbuilding, software development, oil and gas, cable TV, and others to identify and select the best investment opportunities.

In addition, SigmaBleyzer will continue its unique practice of engaging the governments of those countries in which it invests to help them carry out reforms necessary for economic growth and development. This is based on the recognition that improving the investment climate in emerging markets is critical to increase capital inflow into developing countries.

Why Southeast Europe?

SigmaBleyzer conducted significant research into Southeast Europe as well as other regions of Eastern Europe and the former Soviet Union before selecting Southeast Europe as its target for investment. Reasons include:

- 2007 EU Accession: *This will be a significant factor in motivating the accession countries to carry out the reforms needed to complete economic transition and improve their investment* *climates. EU accession is likely to stimulate significant growth and spur increases in foreign direct investment (FDI).*

- Macroeconomic Policies: *Most countries within the region have stabilized their macroeconomic policies and now show strong economic growth, sustainable levels of debt, improved investment ratings (Moody's, S&P, and Fitch), reduced budget deficits, and low levels of inflation.*

- Turnaround Opportunities: *SigmaBleyzer has been successful in making under-performing companies excel. Southeast Europe has a plethora of such opportunities, where management needs assistance in getting to the next level.*

- Labor Force: *Southeast Europe, as well as Eastern Europe as a whole, is known for its cheaper, yet very well-educated workforce. In modernized companies, such a workforce can be leveraged exceptionally well to add real value to portfolio companies, and to the countries themselves.*

- SigmaBleyzer Expertise: *SigmaBleyzer has a proven track record in investing and creating value in companies in emerging market economies. Through an understanding of the economic environment and by leveraging a strong local staff with Western expatriate expertise, SigmaBleyzer has successfully navigated a difficult legal environment, developed vital government relationships, added value to portfolio companies and offered high returns to its investors.*

Why A Regional Fund?

SigmaBleyzer has chosen to focus on the entire region, rather than only one or two countries, for a number of reasons:

- Size of Economies: *Most of the economies in the region are relatively small, thus limiting the pool of potential investments. Taken in aggregate, however, Southeast Europe shows substantial potential.*

- Reducing country risk: *Investors today are less interested in taking a specific country risk. In fact, most investors now actively pursue funds that look for the best investments in a region, not one individual country. Regional funds reduce individual country risk considerably.*

- Exit Strategies: *Exiting to strategic investors and public markets can be better accomplished by creating larger, cross-border businesses with a regional focus.*

- European integration play: *Each of the countries in this region is in varying stages of EU accession. By timing its investments, the fund may take advantage of these variations.*