USAID/Bulgaria

GRADUATION STRATEGY

2003 – 2007

June 2003

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ACRONYMS

ABA/CEELI	American Bar Association / Central European and Eurasian Law Initiative
ACILS	American Center for International Labor Solidarity
AEPS	Audit, Evaluation and Project Support
AOJ	Administration of Justice
AUBG	American University in Bulgaria
BCC	Bank Consolidation Company
BGN	Bulgarian Leva
BNB	Bulgarian National Bank
BSE	Bulgarian Stock Exchange
BTD	Bulgarian Tax Directorate
CEDAW	Convention on the Elimination of All Forms of Discrimination Against Women
CEE	Central and Eastern Europe
CIP	Courts in Partnership
CMS	Case Management System
CPC	Commission for Protection of Competition
CSO	Civil Society Organization
DCA	Development Credit Authority
DFID	UK Department for International Development
DIF	Deposit Insurance Fund
DOJ	Department of Justice
DOL	Department of Labor
EBRD	European Bank for Reconstruction and Development
E&E	Europe and Eurasia
ECESP	East European Scholarship Program
EU	European Union
EXO	Executive Officer
FCS	Foreign Commercial Section
FDI	Foreign Direct Investment
FLAG	Firm Level Assistance Group
FLGR	Foundation for Local Government Reform
FSN-PSC	Foreign Service National
FY	Fiscal Year
GDP	Gross Domestic Product
GOB	Government of Bulgaria
GTD	General Tax Directorate
GTZ	German Technical Cooperation Service
IBI	International Banking Institute
ICASS	International Cooperative Administrative Support Services
IMF	International Monetary Fund
IOM	International Organization for Migration
IR	Intermediate Result
ISPA	Instrument for Structural Politics for Pre-Accession (EU)
IT	Information Technology
JDP	Judicial Development Program

JOBS	Jobs Opportunity Program
JSA	Judicial System Act
KFOR	Kosovo Force (NATO)
LGI	Local Government Initiative
LGSO	Local Government Support Organization
LPG	Loan Portfolio Guarantee
MCA	Millennium Challenge Account
MOF	Ministry of Finance
MOJ	Ministry of Justice
MC	Model Court
MPs	Members of Parliament
MTC	Magistrate Training Center
NAMRB	National Association of Municipalities in the Republic of Bulgaria
NAO	National Audit Office
NATO	North Atlantic Treaty Organization
NEAP	National Environmental Action Plan
NGO	Non-Governmental Organization
NJI	National Justice Institute
NHIF	National Health Insurance Fund
NSSI	National Social Security Institute
OGI	Open Government Initiative
OPDAT	Overseas Prosecutorial Development Assistance and Training
PAL	Programmatic Adjustment Loan
PHARE	Pologne Hongrie Assistance pour la Reconstruction Économique (EU Technical Assistance for Central and Eastern Europe)
PLEDGE	Partners in Local Economic Development and Government Effectiveness
PSC	Personal Services Contractor
PTP	Participant Training Program
RCJI	Regional Criminal Justice Initiative
ROL	Rule of Law
SAPARD	Special Accession Programme for Agriculture and Rural Development (EU)
SEC	Securities Exchange Commission
SEED	South East European Democracy
SERC	State Energy Regulatory Commission
SFOR	Stabilization Force (NATO)
SJC	Supreme Judicial Court
SME	Small and Medium Enterprise
SO	Strategic Objective
TDC	Trade Development Center
USDA	United States Department of Agriculture
WB	World Bank

EXECUTIVE SUMMARY

After thirteen years of growing and sustained U.S. assistance to Bulgaria totaling over USD 430 million, this document presents a framework for graduation from U.S. assistance and lays groundwork for a post-graduation relationship between the U.S. and Bulgaria that serves as a strategic partnership in the region and strengthens the worldwide anti-terrorist alliance. USAID efforts were driven by our vision of Bulgaria as a country with a more energetic society, i.e. increased NGO advocacy, more jobs, more optimism, more widely shared economic gains, and stronger and more reliable international partnerships. USAID/Bulgaria believes that by the time USG programs end, Bulgaria will be securely grounded on a sustainable path toward democratic governance at all levels and its successful market economy will be better integrated in the international markets.

USAID's Vision of Bulgaria:
A country with a more energetic society, i.e. increased NGO advocacy, more jobs, more optimism, more widely shared economic gains, and stronger and more reliable international partnerships.

The strategy clearly supports the U.S. foreign policy interests in Bulgaria and the five top priority strategic goals comprising the overall U.S. strategy for Bulgaria, as defined in the FY 2005 Mission Performance Plan: Counter-terrorism; Regional Stability; Rule of Law; Economic Development; Democratic Institutions and Human Rights. Achievement of these goals will ensure that Bulgaria remains a dependable ally and continues to play a stabilizing role in this region. The strategy is based on a comprehensive analysis of the assistance environment in Bulgaria focusing on achievements to date and the remaining challenges faced by the country in the near-term. It outlines the priorities and major areas of donor involvement and addresses the importance of the donor coordination process.

Graduation Goal:
Bulgaria will be securely grounded on a sustainable path toward democratic governance at all levels and its successful market economy will be better integrated in the international markets.

The Mission summarizes some of its major achievements to date and the legacies that we will leave behind. On its graduation path, USAID/Bulgaria will continue to build upon the comparative advantages identified during the years, while at the same time looking for other efficient mechanisms to preserve its current investments and guarantee the success of other major initiatives. USAID's comparative advantages are: long-term strategic approach; flexibility and immediate responsiveness; and a partnership approach to providing assistance.

U.S. Foreign Policy Interests:
- *Counter-Terrorism*
- *Regional Stability*
- *Rule of Law*
- *Economic Development*
- *Democratic Institutions and Human Rights*

USAID/Bulgaria defines graduation as the point at which Bulgaria has achieved a level of development, measured by Mission graduation targets, after which the country will be able to continue its path toward democracy and open markets without the need for USAID assistance. A fundamental assumption of the Mission is that the funding levels requested for the strategy, will be available through FY 2006. During this period programs will start phasing out and

the Mission will close soon after that. USAID/Bulgaria anticipates that by 2007 the country will have reached most of its graduation targets. For that reason, this document builds upon the notion of an overlap between a well thought-out transition to a graduation strategy and an efficient and effective exit strategy.

Comparative Advantages

- *Long-term strategic approach*
- *Flexibility and immediate responsiveness*
- *Partnership approach*

During the transition period (2003-2006) the Mission will consolidate activities, achieve the highest impact possible, and ensure sustainability of USAID's legacies in Bulgaria. By early FY 2005, we will articulate post-presence opportunities and ensure their continuation.

Guiding Principles: Given the limited timeframe and diminishing resources, we will implement activities so that working with the Government and other partners, we achieve the greatest impact. The guiding principles of our approach are:

(a) Apply criteria, to compare and contrast across the program portfolio and to streamline the activity phase-out decision-making process: USAID/Bulgaria believes that focus should be on activities that best comply with the following list of criteria:

Activity Criteria

- *U.S. national interests*
- *Mission objectives*
- *Substantial impact*
- *Efficiency*
- *Sustainability*
- *Interagency coordination*
- *Consolidation of reform*

- ✓ Meet the mission priorities in support of U.S. national interests and Mission objectives;
- ✓ Promote the accomplishment of U.S. Mission responsibilities;
- ✓ Substantial impact - Make a difference in Bulgaria and are recognized by recipients and others as important to Bulgaria;
- ✓ Efficient - Minimum overhead expense with the most direct impact possible. Achieves specific outcomes and contains achievable conditions;
- ✓ Sustainable - Will leave behind a positive legacy or is structurally sustainable after USAID funding ends;
- ✓ USAID/Bulgaria will also keep an eye on two additional and complementary criteria as part of its decision-making during graduation. (e.g., interagency coordination, level of consolidation of reform)

(b) Maximize linkages among sectors to increase prospects for synergy and cooperation;

(c) Focus on legacies as a major vehicle for achieving sustainability;

(d) Incorporating values and partnership approach;

(e) Define conditionalities that would streamline GOB's contribution to USG assistance programs;

(f) Apply the new Millennium Challenge Account partnership approach to Bulgaria.

Strategic Choices: Mission strategic choices for the graduation period were based on the results of the analyses and consultations conducted during the past two years, as well as on the outcomes of the assistance review in December 2002. In the process of decision-making, it was extremely important for USAID to be able to use the achievements of already graduated Central European and Baltic countries as benchmarks while defining Bulgaria's strategic priorities. The outcomes of the assistance review were: (a) Bulgaria's graduation date would be after 2007, with the end of funding in FY 2006 in order to continue to generate tangible benefits and to protect U.S. investments to date; (b) top priorities will be: Rule of law and law enforcement; Economic development and promotion of private sector-led growth; and Local government reform

Graduation Date:
After 2007

Funding available
through FY 2006
at $28 million a year

In order to address these priorities, which coincide with the major reform efforts of the Government, USAID/Bulgaria has carefully reconsidered its portfolio, repackaged current strategic objectives, and ended up formulating three strategic and one program support objectives:

Top priorities

- *Rule of Law & Law Enforcement*
- *Economic Development*
- *Local Government Reform*

SO 2.2 Enhanced Rule of Law will be the centerpiece of our graduation strategy. Viable reforms in the Bulgarian rule of law environment require a continued multi-year effort to render a viable operational framework and to realize the substantial international investment in this area. We believe that packaging the judicial reform, anti-corruption activities, and law enforcement mechanisms in one strategic objective provides an opportunity for better coordination and collaboration among different players and will achieve better and faster results. Reforming each of these sub-sectors will constitute intermediate results in the new SO. The judicial program will address the lack of institutional capacity to apply the law equally and swiftly through training of legal professionals, the formulation of a code of ethics for judges and technical assistance in administration of justice. The anti-corruption program will work to decrease public tolerance of corruption and reduce opportunities for corruption in selected executive branch institutions, creating models for replication. The Department of Justice and US Treasury will address law enforcement aspects by focusing on deficiencies of the prosecution and investigation, organized crime, and financial crimes. All three major branches of the SO will be complemented by legislative changes that support a more effective rule of law.

Strategic Objectives

- *SO 2.2 Enhanced Rule of Law*
- *SO 1.3 Economic Growth and Increased Peosperity*
- *SO 2.3 Local Governance More Effective and Accountable*
- *SO 4.2 Program Support Objective*

SO 1.3 Economic Growth and Increased Prosperity consolidates the important work that the Mission has been doing in support of economic restructuring and growth. USAID will continue to address four major areas: 1) the business enabling environment, 2) job creation through strengthening the private sector, 3) access to financial resources; and 4) the agricultural sector. Streamlined business laws and regulations including the existence of a reliable and autonomous energy regulator, rational and consistent public sector policy, and effective enforcement of contracts are essential characteristics of a business friendly environment. These efforts will be closely coordinated with the work done under the rule of law objective. Agriculture will continue to be a special focus of the assistance program, given its importance for Bulgaria's economy. As part of the enabling environment, USAID will continue to assist the government to implement and consolidate the pension and health reforms and to plan and implement forward-looking economic reforms in the areas of small and medium enterprise growth, competitiveness enhancement and foreign direct investment. By continuing its support to strengthening the capacities of the private sector and particularly the small and medium enterprises, the Mission strives to promote growth and job creation in a sustainable manner. Efficiency of the labor market in Bulgaria will be addressed as a way to significantly reduce the skills mismatch between the supply of and demand for workers. Availability and accessibility of commercial credit will continue to be a priority for the Mission.

SO 2.3 Local Governance More Effective and Accountable will continue to build upon USAID's unique investment in the sector, while at the same time broadening its involvement to closely tie our assistance to community building issues. USAID will make a major effort to leave local governments with an enhanced level of autonomy vis-à-vis their responsibilities, the ways and means by which they exercise their responsibilities and availability of resources to fulfill them. Our major tasks will focus on necessary decentralization legislation and efforts to institutionalize a mechanism for maintaining dialog between central and local government on on-going reforms and intergovernmental relations. This effort will be complemented by innovative public-private partnerships for the provision of social services and the programs to promote inclusion of vulnerable groups in selected municipalities. Conflict prevention and ethnic integration issues will be addressed primarily at the community level, guided and supported by the national strategy that will be developed with USAID assistance. USAID's programs will especially target ethnic minorities, vulnerable groups and communities, and youth. We will approach the issues of trafficking in persons at both central and local levels, with primary focus on

building public awareness and the capacity of municipal level institutions to address the problem.

SO 4.2 Program Support Objective: Based on previous successful experience with SOs dealing with crosscutting and/or special initiatives, the Mission decided to have a separate strategic objective including all activities that provide significant added-value to the whole portfolio and contribute to the achievement of measurable results. This objective will also incorporate time-limited programs addressing extraordinary requirements for assistance.

Roads Not Taken: In arriving at these strategic choices, particularly in light of a projected decline in program resources, USAID confronted many hard choices. In order to devote sufficient resources and staff effort to those areas that are crucial to the reform process in Bulgaria, many important and successful programs undertaken in the past will not continue into the next strategy period.

One of the most difficult decisions resulted in eliminating the social SO, which we included in the initial versions of the strategy. Although Bulgaria's social indicators are extremely disturbing, addressing the issues would have required substantial resources and longer involvement by USAID. Nevertheless, realizing the importance of the social concerns, the Mission has tried to preserve its investment in key areas like pension and health reform, ethnic integration, and social welfare. Although not coherently structured as a separate strategic objective, USAID/Bulgaria will address these issues in the out years, if pledged funding for the country remains available. The Mission has integrated the social type programs within the three major strategic priorities. However, lack of appropriate level of resources would result in quick phasing out of these activities.

Graduation Plan Timeframe: The year 2006 marks the end of USAID funding in Bulgaria. The majority of the Mission's activities will receive funding in 2006 and have carry-over funds in 2007 to finish on-going activities. USAID believes that this will best protect USG investments to date. However, some activities will begin to phase out sooner, especially under SO 1.3 (Economic Growth and Increased Prosperity). Most of the programs contributing to improved business climate and job creation will end in 2006, with some phasing out as early as the second quarter of 2004. Program Support Objectives also begin to phase out in 2004. In the local governance area, most activities will continue through 2007, with community level involvement phasing out in 2006. The majority of rule of law programs will continue through 2007.

Graduation Targets: USAID/Bulgaria has set the following ambitious program-level targets for graduation. These will confirm the "story" of the work and legacies of this Mission after 2007.

- ✓ Unemployment rate (16 percent in 2003; 13 percent in 2006)
- ✓ Private Sector Share of GDP (70 percent in 2003; 80 percent in 2006)
- ✓ GDP per capita as percent of EU average (33 percent in 2003; 46 percent in 2006)
- ✓ Transparency International Anti-Corruption Index (4.0 in 2002; 5.0 in 2007)
- ✓ Judicial Performance Index (3.5 in 2002; 4.75 in 2007)
- ✓ Total Municipalities Revenue per Capita BGN 255 in 2003; BGN 280 in 2007)
- ✓ HIV/AIDS (Keep the cumulative prevalence rate within its current range of 419 cases)
- ✓ Ethnic integration (Increased tolerance towards the Roma minority)
- ✓ Global Competitiveness Index (62 place in 2002; 40 anticipated in 2007)

Resource Requirements: Annual funding levels reflect the conclusion of Bulgaria's Assistance Review in December 2002 that steady SEED funding through FY 2006 at $28 million/year will maximize the likelihood of achieving Bulgaria's reforms and hasten EU accession. USAID/Bulgaria will rely on the pledged resources to complete the necessary economic reforms, move enough forward the reforms in the rule of law and local governance sectors and graduate from bilateral assistance after 2007. Any remaining needs for assistance could be met through the use of post-presence mechanisms funded through the regional program.

If resources declined significantly before FY 2005 and/or were sharply curtailed before FY 2006, the Mission would have no choice but to phase out assistance in declining order of strategic priorities. However, if Bulgaria gets rewarded for its tentative role in Iraq reconstruction, USAID/Bulgaria has the management capacity to absorb the additional resources that might flow into the country. These would allow the Mission to strengthen certain programmatic components of its portfolio and be more responsive to the needs of GOB.

PART I: SUMMARY ANALYSIS OF THE ASSISTANCE ENVIRONMENT AND RATIONALE FOR STRATEGIC CHOICES

A. Introduction

This document lays out the strategy for working towards graduation of Bulgaria from USAID funding. Efforts were driven by our vision of Bulgaria as a country with a more energetic society, i.e. increased NGO advocacy, more jobs, more optimism, more widely shared economic gains, and stronger and more reliable international partnerships. While this might be an ambitious statement to be achieved within the limited time frame of this strategy, it definitely paves the way for the country to achieve this desired status. On the more pragmatic side, we believe that by the time USG programs end, Bulgaria will be securely grounded on a sustainable path toward democratic governance at all levels and its successful market economy will be better integrated in the international markets.

USAID's Vision

Bulgaria will be a country with

- *A more energetic society,*
- *Economic gains shared by more people across the society,*
- *Allied with US, NATO and EU*

This strategy moves the country toward graduation and a post-graduation relationship between the U.S. and Bulgaria that serves as a strategic partnership in the region and strengthens the worldwide anti-terrorist alliance.

The graduation plan comes as a result of the Mission's efforts, in close collaboration with the Embassy, development partners, and stakeholders, to develop a realistic and flexible document that will provide Bulgaria with the most appropriate, demand-driven and timely assistance, while aiming at sustainable development and long-lasting partnerships. The document builds upon the draft strategy developed by USAID in FY 2002. However, the document reflects the direct outcomes of the interagency review of USG assistance program to Bulgaria conducted in mid-December 2002 in Washington. The discussion at the review resulted in agreed upon assistance priorities, a time frame and funding levels for SEED programs.

Graduation Goal

Bulgaria will be securely grounded on a sustainable path toward:

- *Democratic governance at all levels and*
- *Successful market economy*

The Mission has reconsidered priorities and processes and repackaged and refocused its strategic objectives to more adequately address the needs of the country. The current strategic framework and approach to graduation sets forth the final stage of assistance to Bulgaria that will achieve the USG's overall objectives. USAID expects that with Bulgaria's graduation from USG assistance after 2007, the United States will be leaving, as one of its many legacies, a reliable partner in the Balkans.

B. The Assistance Environment in Bulgaria

1. U.S. Foreign Policy Interests in Bulgaria

A Europe-whole, free and at peace—remains the overriding U.S. interest in the region of South Central Europe. Throughout the region, the U.S. supports continued peace and stability, ethnic reconciliation, neighborly relations among states, development of market-based economies, and integration into the Euro-Atlantic institutions.

U.S. Priority Interests

- *Continued support for the war on terrorism*
- *Enhanced regional stability*

The United States has two priority interests in Bulgaria: (1) *continuing support for the war on terrorism*, and (2) *enhanced regional stability*. In this context, Bulgaria has demonstrated repeatedly that it is a staunch friend of the U.S., a strong supporter of the war on terrorism and a reliable partner in a conflict-ridden region. Both prior to and following the 2002 Prague Summit invitation to join NATO, Bulgaria has been acting as a *de facto* ally of the Alliance. It supported the U.S. and NATO during the Kosovo conflict, has been a reliable partner of the U.S. during its term as a non-permanent member of the UN Security Council, and has actively supported the Global War on Terror. Militarily, Bulgaria contributes troops to multinational peacekeeping efforts (such as SFOR, KFOR, and the international force in Afghanistan) and granted unrestricted over flight rights and hosted U.S. refueling aircraft during Operation Enduring Freedom. And, currently Bulgaria is providing air bases and other assistance as part of the "Coalition of the Willing" during Operation Iraqi Freedom.

U.S. Priority Strategic Goals

- *Counter-terrorism*
- *Regional Stability*
- *Rule of Law*
- *Economic Development*
- *Democratic Institutions and Human Rights*

The United States' overarching goals are to ensure that Bulgaria remains a dependable ally and continues to play a stabilizing role in the region. Five top priority strategic goals comprise the overall U.S. strategy in Bulgaria:

1) *Counter-terrorism*. Bulgaria is located at a strategically important crossroads connecting Europe with the Middle East and Central Asia. As such, it is a natural route for trafficking in persons, narcotics and other contraband. Insofar as these regions are a source of threats – drugs, arms, terrorists – moving towards Western Europe and the U.S., it is vitally important for the U.S. to ensure that Bulgaria is pro-U.S., democratic, economically successful, and willing and able to control its own borders.

2) *Regional Stability*. In this, Bulgaria will act as a fully capable NATO partner. The U.S. has a particular interest in ensuring that Bulgaria, as a neighbor to areas of recent conflict, continues to "export stability" to other parts of the region.

3) *Rule of Law*. Judicial Reform, Anti-Organized Crime and Corruption Measures. Inadequate consolidation of the rule of law, stemming from weak judicial institutions and high levels of crime, and widespread perceptions of corruption, represents the greatest threat to Bulgaria's political stability and Euro-Atlantic integration.

4) *Economic Development*. Job Creation. Low wages and high unemployment, exacerbated by corruption, cronyism, and mismanagement threaten to breed political and social tension and generate increased criminal activity. Therefore, the development of a competitive and thriving market economy will increase prosperity, encourage regional cooperation, and enhance stability.

5) *Democratic Institutions and Human Rights*. A strong demo cratic system, under-girded by effective local institutions and a multi-ethnic community, is a pre-condition for long-term political stability.

2. Democratic Reform

Thirteen years after the beginning of the country's democratic history, Bulgaria has become a major factor of stability on the Balkans. Fair, orderly, and well-organized elections have achieved each cabinet change. Though still relatively young in its progress towards establishing institutions mature enough to advance Western values, Bulgaria has managed to produce a viable parliamentary democracy, a relatively stable multi-party system, and a regional model of ethnic tolerance. As a barometer of these positive developments, Freedom House's Nations in Transit 2002 Index has ranked Bulgaria ninth out of the 27 transition countries in democratization progress, just behind the Northern European states and on a par with Croatia.

Democratic Reform: Achievements To Date

- *Viable parliamentary democracy*
- *Stable multiparty system*
- *Regional factor of stability*
- *Consensus on EU and NATO accession*
- *Growing role of civil society*
- *Independent private media*
- *Strategy for Reform of the Judicial System*
- *National Strategy for Combating Corruption*

Broad political and societal consensus exists regarding the cornerstones of Bulgaria's foreign policy, i.e., accession to NATO and the European Union. The Bulgarian government assumed a reformist course after the major economic collapse of 1996-1997. The EU rewarded its efforts a couple of years later when it invited the country to enter accession negotiations. Since then, Bulgaria has made considerable progress in preparation for EU membership. Most recently, the EU has provided Bulgaria with a detailed Accession Roadmap outlining the remaining steps for meeting the target accession date of 2007. Certain delays, however, can be expected due to anticipated difficulties with the first wave of expansion. Conversely, NATO membership seems much more likely in the near future, especially following the invitation extended to Bulgaria to join the Alliance at the NATO Prague Summit in November 2002.

Despite these foreign policy successes internationally, none of the past Bulgarian governments has managed to transform these achievements domestically. The current government also failed to respond to inflated expectations, although it had come to power exactly as a result of people's hope for radical change in their living standards. According to recent Pew Foundation research, only eight percent of Bulgarians are satisfied with their own lives and about two-thirds feel pessimistic about their future. The ruling party faces fading public support. It has dropped from 64 percent at the beginning of the government's term in office to 8.6 percent in March 2003. Several other alarming trends have emerged over the past two years. A growing gap between popular expectations and the political elite's agenda exists, along with plunging trust in the public institutions, and general disengagement from public life. The majority of Bulgarians feels powerless to influence governmental decisions and do not view themselves as constant participants in the democratic process. Overall, the political search for better governance is short-lived and episodic. It only occurs during election time. In addition to mounting political apathy, intensifying internal disagreements and poor coordination among the state institutions trouble the ruling majority. Major deficiencies enforcing the rule of law also exacerbate the plummeting public trust.

Democratic Reform: Remaining Challenges

- *Growing political apathy*
- *Excessive centralization*
- *Ineffective judicial system*
- *Inadequate law enforcement*
- *Rampant corruption*
- *Powerful organized crime structures*
- *Insufficient transparency and accountability of public institutions*
- *Integration of the Roma minority*

Excessive discretionary power at all levels, gaps in the legal regulatory framework, sluggish to non-existent law enforcement, as well as over-bureaucratized and inefficient administrative systems are among the main factors conducive to corruption (see section 5c below). The Bulgarian public and experts regard the judicial system as weak, poorly administered, insufficiently transparent, low in morale, and burdened by the slow speed of court proceedings. The judicial system has been unable to deal with the thriving organized crime, said to control 25-35 percent of the Bulgarian economy. The Government also has not addressed criminal activities like narcotics smuggling, trafficking in persons, money laundering, and customs fraud sufficiently.

The Government also adopted important amendments to the Judicial Systems Act last year, as well as legislation pertaining to terrorism, trafficking, and organized crime. Because the Constitutional Court invalidated a number of the amendments, some new amendments to the Judicial System Act are still pending in the Parliament. Nevertheless, despite progress in developing and streamlining laws, regulations, and administrative procedures, law enforcement continues to be inadequate, public administration reform has not moved forward, and most government institutions continue to operate in an insufficiently transparent, efficient, and accountable manner.

In both constitutional theory and practice, Bulgaria remains highly centralized. Local governments' dependence on central government financing is marked and the power to raise their own revenue insufficient. Unclear institutional roles, lack of financial resources, and disincentives to efficient management are among the factors that hamper local government reform. The national government made significant policy advances in this regard in 2002. However, these still need to be translated into specific legislative measures and state budgets.

The role of civil society in consolidating democracy has grown in importance during the past years. Yet, civil society organizations remain fragile. The number of active NGOs almost doubled between 1998 and 2002, and the Government adopted a favorable legal framework. The independent media has made significant progress in the past five years. A pluralistic, privately owned, and increasingly better managed print media is in place. At the same time, the state has continued to be tenacious in prolonging its grip on the national electronic media that still cannot be considered politically independent.

For the past decade, Bulgaria has become a regional model for ethnic tolerance. The Turkish minority has been represented in Parliament from the very beginning of the democratization process and has recently been included in the executive power. Despite this, minorities, in general, and the Roma, in particular, continue to experience prejudice, social exclusion, and lower standards of living. Broad-scale discrimination against Roma in the provision of housing, social services and health care persists. Strikingly, according to a recent survey, half of Bulgarians would not approve of Roma as their neighbors.

3. Economic Reform

As a result of sound fiscal discipline, good macroeconomic performance, and successful implementation of first stage economic reforms, Bulgaria, during the past few years, has managed to make a successful turnaround from the major economic collapse in 1996-1997. Now, the country ranks tenth out of the 27 transition countries in progress toward economic reform, slightly behind Croatia, Lithuania and Slovakia, but more advanced than the rest of Southeastern Europe.

Even in the midst of global economic slowdown and market volatility, Bulgaria has retained a positive macroeconomic outlook. Real GDP growth has been registered for five consecutive years at an average annual rate of close to four percent. The Government restored pricing

stability with the introduction of the currency board. Annual inflation declined from 570 percent in 1997 to single-digit levels in the past two years. The Government has brought budget deficits to near-balance, and fiscal revenues have increased. Following a full-scale foreign debt restructuring operation, the Bulgarian government reduced the value of the country's onerous foreign debt from 78 percent of GDP at the end of 2001 to 63 percent as of March 2003. Shortly thereafter, the international rating agencies upgraded Bulgaria's long-term foreign and local currency credit ratings with a positive forecast.

Economic Reform: Achievements To Date

- *Continuous economic growth*
- *Financial stability*
- *Trade liberalization*
- *Bank privatization almost complete*
- *70 percent private sector share of GDP*
- *Successful foreign debt restructuring*

Despite this good macroeconomic performance, Bulgaria has failed to regain its real GDP pre-transition levels. Real wages remain at less than 60 percent of their 1989 average. In contrast, the Czech Republic has long exceeded its pre-1990s compensation levels, and the Northern Tier countries have managed to recover the growth levels from a decade earlier. Throughout the transition period, foreign direct investment (FDI) also has remained well below Bulgaria's potential and capacity. Cumulative inflows per capita have been low— just $400 for 1989-2001, or roughly three times lower than the average in other Central European countries for the same period. This unfavorable trend persisted in 2002 when Bulgaria registered merely $458 million in FDI (about 35 percent less than the year before). The reasons for these disappointing figures relate largely to the slowdown in privatization; administrative failure to design and implement cogent, integrated long-term economic policies; and the overall business climate. The last, though improving, continues to hinder investors with frequent changes in the legislative framework, poor law and contract enforcement, and burdensome administrative barriers. Lack of significant reform of the judiciary, petty corruption, and unfair competition from the shadow economy (estimated between 20-50 percent of the Bulgarian economy), also discourage foreign investors from entering the Bulgarian market.

The international community has recognized Bulgaria as a market economy. The latest EU Progress Report appraised the country as capable of coping with the competitive pressures and market forces within the Union in the medium term. The 2002 Global Competitiveness Index of the World Economic Forum also indicated a slight improvement in Bulgaria's competitiveness ranking. Exports were on the rise in 2002, but the country continues to run large trade and current account deficits. Exports per capita are estimated at $600, as compared to over $2,700 in Hungary and $800-$2,000 in the Baltics. Furthermore, with over half of external trade with the European Union, Bulgarian exports have become greatly susceptible to the EU economic slowdown.

In terms of structural reforms, Bulgaria has successfully completed the first-stage economic reforms, including small-scale privatization, price and trade liberalization. The banking system has been restructured and rehabilitated, and the government has closed down most of the loss-making state-owned companies. The last state-owned bank is due for privatization within the next few months. This will constitute the complete passing of the Bulgarian banking sector into private hands. Private sector share of GDP has increased dramatically. It now accounts for 70 percent of the Bulgarian economy. Conversely, Bulgaria has not achieved second stage economic reforms. The restructuring of key large-scale industries and the privatization of large state-owned enterprises in the utilities, transportation, and tobacco industries is still incomplete.

These economic reform delays and constrained access to credit have prevented Small and Medium Enterprises (SMEs) from becoming the driving force of the Bulgarian economy. Banks are highly liquid. However, credit to the private sector, though increasing, remains at 16 percent of GDP. Meanwhile, the capital markets have offered virtually no outlet for most enterprises, which are basically unable to achieve the listing requirements. The capital markets themselves are underdeveloped, non-transparent and inactive, and their turnover and capitalization are low. SMEs also suffer unfair competition from the thriving but unrecorded shadow economy. Another obstacle to entrepreneurial success is that Bulgarian managers largely lack the long-term vision, strategy, and management skills to run their businesses effectively and profitably, and the government still needs to articulate and implement an SME policy that will effectively assist SMEs improve their competitive positions and grow.

The agricultural sector remains one of the key sub-sectors of the Bulgarian economy that accounts for almost one-fifth of the GDP. It provides about 26 percent of employment and is a major source of present and expected future earnings. Bulgaria continues to be a significant exporter of agricultural and food products in the region. The sector also plays an important role as a social buffer to rising levels of unemployment. However, current estimates show that the country has achieved only 30 percent of its production potential in agriculture. Although Bulgaria has made significant strides in land privatization, land usage is highly inefficient. Farming operations are still in great need of agricultural information services, inputs, machinery, credit, and markets. Clearly, increased production of high value crops and their processing for both internal and export markets, must be part of Bulgaria's economic growth strategy.

Economic Reform: Remaining Challenges

- *Excessive unemployment rate*
- *Low Foreign Direct Investment*
- *Widening trade deficit*
- *Limited access to credit*
- *SME growth*
- *Inefficient agricultural sector*
- *Administrative barriers and regulatory burdens*
- *Unfair competition / shadow economy*
- *Need for enhanced business operations and managerial practices*
- *Underdeveloped capital markets*
- *Low public awareness & engagement in economic issues*

Bulgaria holds an important strategic place both in gas transit and in the success of a regional electricity market. It was one of the 10 countries that signed in November 2002 "The Athens MOU—2002" on the Regional Electricity Market in South East Europe and its Integration into the European Union Internal Electricity Market. It is on a path to expanded electricity trade in SEE and eventually with Western Europe, and is a key energy transit country (currently for gas and potentially for oil and electricity). Bulgaria also has significant electricity export ambitions.

4. Social Conditions

Social Sector: Achievements To Date

- *Successful launch of a new 3-pillar pension system*
- *HIV/AIDS strategy and action plan in place*
- *Trafficking in Persons law passed by the Parliament*

During the last decade, Bulgaria experienced the steepest downward trend in human development in the region. This has been demonstrated continually in UNDP's Human Development Index. It ranks Bulgaria 62nd in 2002, as compared to Croatia at 48th and Slovenia at 29th in the list. Rather than increased prosperity and improved quality of life, the average Bulgarian witnessed increased poverty, rising unemployment, labor market rigidities, and deteriorating healthcare and social insurance systems.

Ranging steadily between 16-18 percent, unemployment in Bulgaria has been among the highest of all transition countries over the past four years. Long-term joblessness has accounted for over 60 percent of the registered unemployed. Every third unemployed person is young. Every one in five is over fifty. And, as many as 80 percent of the Roma and 65 percent of Turks currently are unemployed.

The high unemployment rate has not only impacted individuals and households, but it also has translated into fewer people paying taxes and contributing to pension plans. This foreshadows a difficult fiscal future for the health insurance, pension, and social assistance funds. At the end of 2002, the Bulgarian Government started implementation of a National Employment Plan to transform the overall concept of social protection from direct monetary assistance into employment assistance and specialized social service. Though too early to appraise its long-term impact, USAID expects the result of the program will increase temporary employment. Nevertheless, only a more flexible labor market and an improved business climate will ensure a sustainable rate of job creation.

Real household income declined by 76 percent between 1989 and 1997 when 30% of the Bulgarian population was considered living below the absolute poverty line. While poverty has indeed decreased for the past five years, the World Bank still estimates the poverty rate in Bulgaria at levels more than double its pre-crisis position (11.7% vs. 5.5% in 1995). With a minimum monthly wage of $55, an average working salary of $134, and an average pension of $50,

Bulgarians have the lowest compensation levels in Central and Eastern Europe, according to a recent Eurostat survey. GDP per capita is only half the Central European average and merely one-fourth of the EU average. It is not evenly distributed geographically or socially. Rural residents, ethnic minorities, the elderly, individuals with basic education or less, and large or unemployed-headed households have proven particularly vulnerable to the decline in living standards. For example, approximately 25 percent of the poor in Bulgaria belong to ethnic minorities. Of those, two-thirds are from the Roma population.

Bulgaria is a regional leader in pension reform with all the legislative, institutional, and regulatory structures in place. Five years ago, it introduced a three-pillar pension system gradually shifting a share of social security contributions into private pension funds and voluntary private contribution funds. This hopefully will restore the viability of the traditional pay-as-you-go system. While the reform is already in an advanced stage, the biggest challenge still remains to encourage increased participation that will ensure financial sustainability.

Unlike pension reform, healthcare reform has been moving slowly and unevenly. Launched in 1999, it started with only the reorganization of outpatient care, but it left the system heavily burdened with excessive hospital facilities, a disproportionately large workforce, and low quality service. The second phase of the reform, which entails in-patient care, is well behind schedule. This negatively impacts the poor, minorities, and rural residents. The last group faces increasingly limited access to healthcare, as a result of restructuring. In the meantime, a significant portion of the population bears substantial out-of-pocket costs for healthcare services. And, an aging population further complicates the Bulgarian pension and health systems.

The overall health status of Bulgarians generally has deteriorated over the transition period. Almost two thirds of Bulgarians suffer from heart and circulatory health problems. The incidence of tuberculosis has increased over 140 percent in the last decade. HIV/AIDS prevalence remains relatively low (419 cases reported as of April 2003), but health professionals expect an increase in positive cases in the coming years, because of growing intravenous drug use, an increase in sexually transmitted infections, and increased cross-border trafficking of persons.

As a result of evolving demographic trends, the educational system is contracting. Estimates are that primary school enrollment will fall by 30 percent over the graduation strategy period. Basic education has deteriorated both in terms of quality and access, while

Social Sector: Remaining Challenges

- *Stagnant poverty*
- *Lack of opportunity for economic development*
- *Low GDP per capita*
- *Regional disparities and marginalized groups*
- *Significant demographic decline*
- *Aging, low life expectancy, deteriorating health*
- *Financial sustainability of the pension system*
- *Delays in health reform implementation*
- *Deteriorating educational system*
- *Integration of minorities*

enrollment in secondary and tertiary education is still high as compared to other transition countries. During the 1990s, the number of students who failed to complete their studies increased fivefold. Ethnic minorities, especially females, the impoverished, and the disabled represented the greatest number contributing to declining school attendance. In the medium to long-term, limited access to education for vulnerable groups could generate greater functional illiteracy, and lead to more severe employment problems. However, restructuring in the educational system will increase unemployment for teachers, especially women, in rural areas.

Bulgaria's youth are one of the vulnerable groups deserving special attention. While the country's high quality, traditional, theoretically oriented educational system is undoubtedly successful in formally educating a large percentage of its Bulgarian citizens, there appear to be serious problems for: a) many of the students attending general secondary schools, and vocational secondary schools; b) the Roma and Turkish minority community; c) the growing numbers of drop outs; and d) children who never even enter the system. This lack of education seriously aggravates the ability of those aged 15 to 24 to enter the labor markets, which makes them especially vulnerable to long-term unemployment.

5. Cross-Cutting Factors Influencing the Reform Process

In preparation for the strategy, USAID/Bulgaria has conducted a number of assessments in order to get a comprehensive understanding of the important issues faced by the country and to identify crosscutting factors influencing the reform process. The topical reviews in this section are summaries of the findings of the assessments with implications across the portfolio. A list of all assessments, including brief overviews, is included in Annex VII.

a. Gender

This Mission defines gender as differences between men and women in their roles, activities, needs, opportunities and constraints.

Recent World Bank analysis indicates that both men and women experience the adverse social impacts of transition similarly. There are no significant gender discrepancies in terms of income, employment, and poverty. The number of jobless men slightly exceeds the number of jobless women. However, females are the predominant workforce in lower-paid, "feminized" sectors like education, healthcare, and social services. Bulgarian women earn 72% of what Bulgarian men get paid. Nevertheless, this is comparable to the income disparities existing within the EU where,

for example, German women earn 76% of what German men earn. There are no serious differences between the living standards of households headed by men and those headed by women. The gender gap in poverty is also not significantly high, with both sexes feeling equally poor. At the same time, females face higher risk of poverty and depressive disorders. They also experience more health problems with only 40% of women estimating their health as good. Data further discover significant gender specificity within the age group of 46-55 years, where the number of women in poverty is twice that of men (63% of all poor individuals within this group are women). Women also prevail in the group of poor pensioners.

Female education levels are on par with their male counterparts. Overall school attendance shows a 50/50 balance between girls and boys, with women outnumbering men in the 15-18 year age bracket. A recent assessment of small and medium enterprises revealed that women entrepreneurs own 29 percent of Bulgarian SMEs and are responsible for 40 percent of new business starts.

Since the start of the transition, women appear to have a relatively growing level of interest in politics. Female representation in government has been increasing. The number of women parliamentarians increased from 11 percent to 26 percent in the latest Parliamentary elections. However, men still dominate the important division at the top levels as well as in the specialized agencies and committees. Women also have made considerable strides to increase "women's voice" in public decision-making through the creation of advocacy NGOs.

Although both women and men in ethnic populations can be characterized as vulnerable, women overwhelmingly appear to fit into this category. Statistical and anecdotal evidence suggests that Roma women have even less education than Roma men. Roma women marry and give birth at very early ages (80 percent before the age of 18), and suffer more pregnancy complications, premature births and low-weight babies than non-Roma women.

Violence against women is a pervasive and serious problem, with the increases in domestic violence and trafficking. Experts consider Bulgaria as a country of both transit and origin of human trafficking. Lately, Bulgaria has become a country of destination as well. While no reliable gender-disaggregated data exist as to the number of trafficked persons to and from Bulgaria, there is general agreement that the number is growing, especially of female victims. Apart from gender considerations, the vast transnational criminal networks related to trafficking foster corruption at all levels as well as threaten the application of rule of law in the region.

Gender Facts on Bulgaria

- *Both men and women experience the adverse social impacts of transition similarly*
- *The number of jobless men slightly exceeds that of women*
- *Women predominate in lower-paid, "feminized" sectors*
- *The living standards of men-headed and women-headed households are similar*
- *Education levels are on par*
- *Women are responsible for 40% of business start-ups*
- *Every third SME is owned by a female*
- *Number of women in Parliament increased to 26%*
- *Domestic violence against women is pervasive*
- *The number of victims of trafficking is growing*

b. Environment and Biodiversity Conservation

Bulgaria holds a unique position in the region with respect to biodiversity and natural resources. It ranks third in Europe in terms of biodiversity, and is home to a wide variety of plant and animal communities some of which are found only in Bulgaria. In recent years, the country has made substantial progress in protected area policy and management. It has developed a comprehensive system of designated protected areas, covering 4.3 percent of the country. USAID has been responsible for a considerable part of this progress, and is currently making a significant contribution to ensure application of appropriate models of sustainable natural resource use.

Bulgaria's Unique Biodiversity

- *Bulgaria ranks third in Europe in terms of biodiversity*
- *A system of protected areas covers 4.3% of the country's territory*
- *Bulgaria is home to 750 traditional medicinal plants*
- *Bulgaria is the eighth leading country in the world exporting botanical drugs*
- *Every dollar invested in protected areas returned $2 dollars in revenue to local blueberry collectors*

Natural resources are important assets to attract international tourists and for the development of rural tourism. About 12 percent of Bulgaria's population is socially and economically dependent on the forests. These resources form the basis of forestry and woodworking industry, hunting, ecotourism, and other activities. Non-timber forest products include 750 traditional medicinal plants, a third of which have high economic importance. Remarkably, Bulgaria is the eighth leading country in the world exporting botanical drugs. Examination of the economy of one non-timber source, wild blueberries, revealed that every dollar (US) invested in protected areas returned $2 dollars in revenue to local collectors of blueberries alone. Therefore, the destruction or degradation of natural resources in Bulgaria may have high costs to the country's economic growth and the quality of life of its citizens.

Among the principal environmental concerns are: 1) loss and fragmentation of forest due to mismanagement of newly-restituted lands, forest fire, and air pollution; 2) poaching and illegal logging; 3) destruction of wetlands; 4) invasive species from trade, transport and agriculture; 5) drought, desertification and water supply; 6) untreated municipal water and non-point source air pollution from vehicles; and 7) municipal solid waste which constitutes both a vector of disease and an impediment to fostering local tourism.

Government institutions at all levels lack the human and financial resources for effective management and administration. Of greatest concern is the Government's limited ability to implement policies and enforce laws, including the capacity to prosecute crimes. Judges and prosecutors alike have limited knowledge of environmental laws and lack the will to hear and prosecute cases dealing with environmental crimes or violations. Although civil society participation has increased, transparency remains a concern in environmental policy development. In addition, pressure for fast track EU accession often contributes to rapid development of laws

that lack harmonization with other laws and policies. Lack of finances for transport and communication to field sites constrain the Regional Environmental Inspectorates and municipal governments in carrying out their monitoring and enforcement responsibilities.

c. Corruption

Corruption is one of the most serious challenges Bulgaria has faced during the past thirteen years (Also refer to Section 2 on Democratic Reform and to the subsection on Gender above). Corruption undermines democracy, reduces accountability and representation in policy-making, suspends the rule of law, and ultimately results in unequal provision of public services. As a major reform issue, Bulgaria must address it in its multiple forms—opaque privatization procedures, rampant petty corruption, perceived lack of political will to address corruption "at the top", and excessive hurdles to entrepreneurship—and at all levels of government.

- *Corruption ranked by citizens among the top four issues*
- *130,000 acts of corruption took place monthly in 2002*
- *Lawyers, police officers, doctors, customs officials, judges, prosecutors, identified as exerting most corruptive pressure*

Bulgarian citizens rank corruption among the top four critical problems facing the country along with unemployment, poverty, and low incomes. During the past year, the situation improved moderately. However, the risk of corruption affecting government institutions and the national economy and corrupt practices among lower-ranking public officials persist, according to Coalition 2000's Corruption Assessment Report. As estimated in the report, about 130,000 actual acts of corruption have taken place monthly during the past year. Among the professional groups exerting the most corruptive pressure are lawyers, police officers, doctors, customs officials, judges, administrative judicial staff, prosecutors, university professors, and municipal officials.

- *Bulgaria has moved from 66th to 45th place in TI's Corruption Perception Index*
- *A National Strategy for Combating Corruption was adopted*

The international community, however, believes the country has the capacity to deal with corruption. Bulgaria has improved its ranking in the Transparency International's Corruption Perception Index from 66th place in 1998 to 45th in 2002. The Bulgarian Government also adopted a National Strategy for Combating Corruption. Nonetheless, the public administration continues to suffer from inefficient and over-bureaucratized administrative structures, a lack of transparency, and sluggish implementation and enforcement of legislation. On the local level, complex bureaucratic procedures for licensing and permits, as well as by the lack of tradition of citizen participation in local government decision-making exacerbate corrupt practices. These considerable governance barriers, coupled with a weak judicial system that lacks sufficient transparency and adequate internal anti-corruption mechanisms, significantly impede the start-up activities and daily operations of Bulgarian enterprises. They also hinder foreign investors from

Remaining Challenges:
- *Inefficient administrative structures*
- *Sluggish law implementation and enforcement*
- *Insufficient transparency*
- *Complex bureaucratic licensing and permits procedures*

initiating or expanding their business activities in Bulgaria. And, they feed general distrust in the public institutions and elicit skepticism as to the impartial application of justice.

d. Conflict Vulnerability

Although Bulgaria has avoided the violent conflict suffered by its Balkan neighbors, it continues to face the challenge of integrating minority groups in the context of limited socio-economic development. USAID commissioned a Conflict Vulnerability Assessment to identify current and potential sources of conflict and instability in the country.

Bulgaria is unlikely to suffer the kind of ethno-political conflict that its neighbors experienced.

According to the assessment, Bulgaria is unlikely to suffer the kind of ethno-political conflict that its neighbors experienced, even if those tensions increase again. The Government has resolved conflict with Bulgarian Turks, which reached its peak in the early 1990s even though feelings of mistrust linger. With the Movement for Rights and Freedoms assuming an important role in Bulgarian politics now, as well as considering Bulgaria's good relations with Turkey, the likelihood of violent conflict is quite small.

At the same time, the underlying causes of potential conflict in Bulgaria have not been addressed, leaving Bulgaria vulnerable to a different kind of conflict:

Causes of conflict vulnerability:
- *Socio-economic factors*
- *Political participation*
- *Conflict management capacity*

- ✓ *Frequent and at times widespread spontaneous, violent protests in poor marginalized Roma communities*. With increasing competition for scarce jobs and increasing criminality associated with poverty, clashes between Roma on the one hand and Bulgarians and Turks on the other can be expected.
- ✓ *Increasingly frequent and intense political conflict at the central government level*. This is fueled by the participation of major conflict actors: students, transport workers, labor unions, supported by unemployed and disenfranchised people who have suffered from the adverse socio-economic repercussions of transition.
- ✓ *Localized conflicts* emerging from industrial failures or closures, and government failures to provide sufficient social assistance or social services.

While these conflicts are not likely to lead to a civil war, as has been the case in neighboring countries, they can lead to violence and pose a formidable obstacle to Bulgaria's economic and political recovery. It is, therefore, important that the main underlying causes of conflict vulnerability—socio-economic, political participation, and conflict management capacity—be addressed.

6. Other Donors

The EU is the largest multilateral donor allocating approximately $300 million per year. As envisaged in the EU Accession Roadmap (see Annex VI) agreed upon in 2002, assistance will further rise by 20 percent in 2004, by 30 percent in 2005, and by 40 percent in 2006. Increased assistance will be subject to progress in implementation of the roadmap and Bulgaria's absorptive capacity which, to date, has been relatively low. Funding is generally channeled through three major pre-accession instruments: the PHARE program which focuses on institution building, regulatory infrastructure development, and economic/social cohesion; SAPARD which provides aid for agricultural and rural development; and ISPA, which finances infrastructure projects in the fields of the environment and transport. In addition to its annual PHARE allocation, Bulgaria receives additional funding in the context of its understanding with the EU on early closure of units 1-4 of the Kozloduy nuclear power plant.

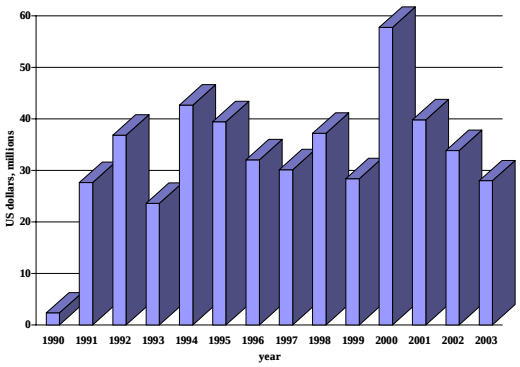
Bulgaria works closely with the IMF in implementation of the two-year, $299 million Stand-by Agreement. Because of the country's positive economic outlook, IMF and the Bulgarian Government recently have been considering the possibility of switching to a precautionary agreement in the future. The World Bank role in Bulgaria has evolved through the years from the release of structural adjustment loans to the provision of Programmatic Adjustment Loans (PAL). The latter are subject to the maintenance of a satisfactory macroeconomic framework and the implementation of a comprehensive reform program tied to specific progress benchmarks. The Bank approved the first PAL, amounting to $150 million, in February 2003. The WB's Country Assistance Strategy for 2002-2004 describes support of up to $750 million, with the purpose of improving the business climate and reducing poverty. Health reform, education modernization, social protection, labor market, public administration, energy, agriculture development, and the environment are among the Bank's other assistance priorities.

The UNDP persistently follows a "never alone" policy by leveraging resources from a multitude of other donors and government agencies in project implementation. Its Country Cooperation Framework focuses on good governance, job creation, information technology, and environmental protection. The UNDP focuses specific attention on HIV/AIDS as well. Major bilateral donors include the Swiss Government (environment, agriculture, social services, SMEs), the Japanese Government (infrastructure development), the Dutch Government (energy and environment; industry and technology; agriculture; infrastructure; civil society), the German Government (agriculture, SMEs, vocational training), and the British Know-How Fund (public sector, civil society, financial markets, social welfare).

In recent years, the donor coordination process has changed from simple exchange of information to a more focused type of coordination. The Bulgarian Government increasingly has been assuming more responsibilities in an effort to move from mostly supply- to predominantly demand-driven donor assistance. With the purpose of gradually taking over UNDP's role as donor information coordinator, the Bulgarian Government has committed itself to the creation of a donor-sponsored online database of past and ongoing donor activities. Given the recent introduction of this new system of donor coordination, it is still too early to assess its impact on the inter-donor and donor-government relations and activities.

7. Evolution of USAID/Bulgaria's Strategic Approach and Program Portfolio

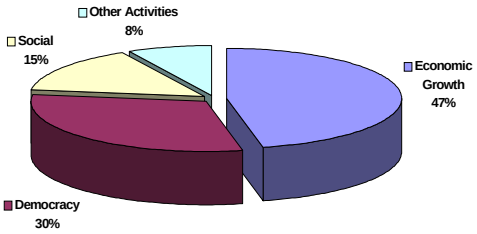
American assistance to Bulgaria began in early 1990 with a relatively modest $2 million in grants designated to strengthen the political processes by supporting free and fair elections. Since then, the U.S. Government has contributed more than $430 million in South East European Democracy (SEED) assistance to Bulgaria for the period 1990-2002.



In the early years of reform (1991-1994), when many sectors needed assistance, USAID adopted a "targets of opportunity" approach with assistance provided to a multitude of recipients. In 1994, when reform stalled in critical areas, the Mission responded to the lack of commitment at the national level and targeted assistance at the local level. The Strategy Update that outlined the Mission's activities for the next couple of years introduced a two-pronged approach: 1) support for local government, public participation, and local development; and 2) a more critical, restrained funding of activities at the national level.

In 1997, USAID revised its strategy to focus on Bulgaria's European Union accession and to actively support accelerated efforts for transition to a democratic political system and an open, free, and competitive economy. Since then, the Mission has worked to advance: 1) accelerated economic growth and restructuring; 2) a modernized financial system; 3) a stronger civil society; 4) an improved judicial system; and 5) strengthened local government. Almost half of USAID's resources were invested in the development of a competitive, private sector-led, market-oriented economy. Activities focused on improving the legal/regulatory framework for business development, strengthening a network of private business support institutions, providing access to credit, generating

employment, stimulating local economic development, and supporting public-private dialogue on strategies for private enterprise growth. In the democracy and governance arena, an equally significant portion of USAID's portfolio has been devoted to building the capacity of local governance institutions, reforming the judiciary, enhancing the professional capacity of independent broadcast media, and advancing the development of a strong civil society.



Throughout its presence in Bulgaria, USAID has been relying on several *key comparative advantages*, which have been effectively used to better respond to the needs of the country while at the same time promoting U.S. foreign policy interest.

Long-Term Strategic Approach: After the initial years when USAID applied a more emergency-based approach to programming, the Mission has followed a well-thought out strategic approach. This has helped the Mission spend limited resources in the most efficient way, focusing on selected priorities for the country and niches not covered by the big multinational donors. This strategic approach has provided for longer-term investment in areas that have been critical for the successful transition of the country.

Flexibility and Immediate Responsiveness: USAID's ability to quickly respond to key reform issues has been one of USAID's pre-eminent advantages. This has been the approach applied to major reform efforts in the country (e.g., privatization, pension, judicial). This approach acknowledges that big multinational donors are better positioned to take on the lion's share of donor support only after USAID has provided its timely and catalytic assistance. In this way, USAID has set up models for others to apply nationwide on a number of occasions.

Another important aspect of USAID's flexibility has been the ability to select the appropriate level of intervention at any given time. The Local Government and Anti-Corruption initiatives are two outstanding examples of how to target the assistance in compliance with the specific environment in the country. Both programs started at the local and civil society level. This was before demand for dealing with the respective issues elevated them to the central government level. No other donor can afford to apply such a diversified and flexible approach to assistance.

Comparative Advantages

- *Long-term strategic approach*
- *Flexibility and immediate responsiveness*
- *Partnership approach*

Partnership Approach to Providing Technical Assistance: One of the most tangible things that USAID will leave behind is a set of sustainable institutions and enhanced human capacity to further boost the reform effort. Critical to the success of this endeavor is the way we get there. USAID is providing highly qualified experts

in crucial reform areas, available to work long-term in the country. These professionals collaborate with their Bulgarian counterparts on a daily basis and transfer knowledge and know-how while doing things. Further, USAID assistance programs have worked to build capacity of local organizations and to work through them in delivering assistance to clients, thus contributing to their sustainability. In this way, local organizations gain the necessary experience, capacity, and credibility to carry on the task after USAID leaves Bulgaria. This approach transforms the normal donor-recipient relation into a partnership, which turns out to be a reliable and adequate model towards sustainability of any reform effort.

On its graduation path, USAID will continue to build upon these comparative advantages, while at the same time looking for other efficient mechanisms to preserve its current investments and guarantee the success of other major initiatives.

8. Select Achievements and Major Legacies to Date

USAID's Legacies On The Way to A Market Economy

- ***A Warehouse Receipts System,*** *established as a new financial instrument for mobilizing working capital for farmers' short-term needs.*
- ***A fully operational Business Incubator,*** *established in Vidin provides fee-based services to local entrepreneurs, rents out space to start-up SMEs, and runs a leasing program for equipment and inventory.*
- ***Sustainable Economics Think Tanks*** *provide more objective analyses on the economic environment, thus contributing to improved advocacy, policy dialogue, and more informed decision-making.*

The Mission pioneered a successful model of specialized firm level assistance to small and medium-sized enterprises through the establishment of the Firm Level Assistance Group (FLAG), a consortium of four U.S.-based not-for-profit organizations. As a result of the targeted technical assistance, training, and trade facilitation provided with USAID support, the FLAG-assisted private enterprises have achieved 15 percent average annual increases in exports, created over 4,000 jobs, and retained another 20,000 jobs. In cooperation with USDA, the World Bank and other donors, USAID led the introduction of the Grain Warehouse Receipts System, a new financial instrument that has proven highly efficient in mobilizing working capital for farmers. This successful U.S. model is being implemented countrywide, with more than 45 public grain warehouses licensed to date.

USAID has initiated a number of programs for financial intermediation, including debt and equity financing and loan guarantee facilities. The Bulgarian American Enterprise Fund (BAEF) pioneered a mortgage-lending scheme in 2000. This reduced rates, made housing more affordable, and fueled the development of a construction loan market. In the early 1990s, the Mission also paved the way to the establishment of several micro-lending mechanisms, a credit scheme basically unknown in Bulgaria at the time, which addresses the credit needs of small businesses in economically depressed regions with high unemployment. USAID's

micro-lending portfolio exceeded $2.8 million in FY 2002, after only three years of operation. USAID also successfully introduced the loan guarantee concept, another novelty for Bulgaria. Three loan guarantee facilities (through two banks) are already operational, and $36.5 million are available to private and municipal borrowers for energy efficiency projects, small business clients, and competitive industry clusters.

Challenged by the collapse of the Bulgarian financial system in early 1997, USAID was the leading donor and is currently the only one to assist the stabilization, restructuring, and overall modernization of the Bulgarian banking system. With USAID assistance, the Government sold six state-owned banks to strategic investors and will complete the privatization of the last state-owned bank, State Savings Bank, within months. In addition to building the supervision capacity of the Central Bank, USAID also sought to build a generation of bankers better prepared to manage banks and provide credit. For this reason, the Mission assisted the International Banking Institute (IBI) to deliver a broad curriculum of banking and finance courses. Today, IBI is close to achieving institutional sustainability. The Mission has also been instrumental in the establishment of capital market institutions in Bulgaria and associated regulatory oversight. By combining the purely social implications of reform of pension and health insurance with their substantial financial aspects, USAID has been flexible and responsive enough to address the compound social issues that have continuously intensified during the course of the country's transition. Specifically, USAID has assisted the Bulgarian Government in the establishment of a three-pillar social security system. USAID assistance proved instrumental at all phases of the reform, starting from design to implementation in the creation of a mandatory private pension system, the establishment of a supplementary voluntary system, and the reformed public pay-as-you-go system.

The Mission has often been the initiator of successful activities, establishing models for replication and serving as a bridge to increased financing from the international financial institutions. USAID successfully initiated a community-based planning model in 35 poor, underdeveloped municipalities with high levels of unemployment. Now, the World Bank, in collaboration with the Bulgarian Government, is institutionalizing this successful community-based paradigm under the new Social Investment Fund, to bring together citizens from the public, private, and NGO sector to formulate strategies for economic revival and local resource maximization.

Financial Sector Legacies

- ***Six banks privatized*** *since 1997, the most successful CEE bank privatization program that lays the foundation for significant economic development in future years.*
- ***Increasing Public Confidence in a Stable Banking System. The*** *Central Bank supervises banks using risk-based concepts and an internal bank rating system that follows international practices.* ***A Deposit Insurance Fund*** *was also established.*
- ***Major Capital Market Policies and Institutions*** *Established, including the Stock Exchange, the Central Depository, and the Regulator.* ***Improved financial accounting and "dematerialized" computer records*** *for company ownership.*
- ***Seven Licensed Pension Companies*** *are administering 140 million USD in individual pension savings accounts for 1.4 million Bulgarians*

Success Story: Development of the Bulgarian Capital Market

One critical factor which will support the long term growth of the Bulgarian economy is the development of its capital market. Since 1996 USAID has provided leadership and delivered substantial technical assistance in this area. As a result of USAID programs, Bulgaria has reached several important milestones: a) the institutional framework and legislation for the Bulgarian Capital Market is in place, and b) Bulgaria now has the infrastructure to support the needs of market participants. There is a steady trend of change for the Bulgarian Stock Exchange. It has increased from $15 million in the year 2000 to $78 million in 2002, with increasing diversification of trading instruments. The USAID Pension Reform Project has additionally boosted the development of the capital markets by creating a growing amount of long term pension savings invested in the Bulgarian capital market. In 2 years 140 USD have been accumulated.

Democratic Governance Legacies

- ***The Bulgarian Parliament is Modernized and More Open to Citizens****: A new computer network is utilized to improve the work of MPs and a Parliamentary Information Center is established.*
- ***Free and Fair Election Process:*** *Political parties compete by leading issue-based election campaigns and NGOs participate actively in voter education and election monitoring.*

USAID support at the early stages of Bulgaria's democratization has yielded sustainable results in terms of creating a free and fair election process and establishing a democratic system of government, rooted in the principle of checks and balances. Notably, the Bulgarian Parliament has become a stable legislative institution with democratic practices.

USAID was the first donor to support judicial reform in Bulgaria by building the institutional capacity of the Magistrate Training Center (MTC) and improving the efficiency and transparency of court administration. After three years of operation, MTC has managed to develop a comprehensive curriculum and a broad cadre of judicial educators, to provide training to 100 percent of the newly appointed judges and to 30 percent of the sitting judges. USAID supported training programs have pioneered combined judge-clerk training and developed a capable cadre of court staff trainers. USAID has modernized the court administrative system in eleven model courts and has developed a powerful and sophisticated electronic case management system. USAID provided major policy assistance that made it possible for the Government's adoption of the National Judicial Reform Strategy and Action Plan. These important policy documents lay out the framework for a comprehensive judicial reform intended to satisfy EU accession criteria and to meet U.S. interests in combating trafficking of persons, narcotics and weapons. Wide public discussion on the structural problems of the judicial system reinforced the political will for reform. USAID-supported public awareness activities like the release of the 2002 Judicial Reform Index and the pilot introduction of court press attaches helped activate this broad public debate.

USAID has taken a participatory approach to the fight against corruption through the establishment of public-private partnerships. The role of the USAID-supported Coalition 2000 has been emblematic

in this regard. It is able to advocate for reform, raise public awareness, and serve as a watchdog against corrupt practices. Today, others widely recognize Coalition 2000's Corruption Monitoring Indices as a source of monitoring information. Drawing on this successful public-private model, the Bulgarian Government recently unveiled a new National Anti-Corruption Strategy and Action Plan. Notably, the strategy acknowledged the critical importance of introducing "advanced standards of transparency and accountability" for Bulgaria's future democratization, thus laying the foundation for a coherent long-term policy for combating corruption.

A Success Story: Coalition 2000

On the initiative of Coalition 2000, a number of Municipal Councils decided to introduce local ombudsmen or civic mediators. An illustrative example of the impact of Coalition 2000 supported local ombudsman institution follows: In February 2001 the Zavet municipality (Northeastern Bulgaria) Ombudsman, Ms. Velichka Miteva, registered a complaint against the local office of the National Social Security Institute. The local bureaucracy denied children the hereditary pension from their deceased father, Mr. Metin Yashar Ljutfi. Following the intervention by the Ombudsman, the Government granted the pension.

Recognizing the importance of building capacity for reform at the local level, USAID has been the only donor to systematically and comprehensively support municipal governments in Bulgaria. Following eight years of technical assistance and training, the professionalism of local governments as well as the legitimacy and respect accorded them by national institutions has increased. The national government only now is listening to local government, whose economic plight has captured their attention. Capitalizing on a receptive policy environment during the past two to three years, USAID has refocused efforts to work with the central authorities to boost fiscal decentralization reform. As a result of Mission involvement, the 2003 State Budget for the first time stipulates key elements of these reforms, including: financing mandated services in accordance with agreed-upon standards; transparent distribution of shared taxes; equalization grants for municipalities with low own-source revenue potential; and reforms on local taxes and fees, municipal property, and municipal budgets. In addition, Parliament passed a significant reform of local taxes and fees and has new laws on municipal property and municipal budgets under consideration.

USAID's Legacy at the Community Level

Improved social and technical infrastructure in 80 underdeveloped communities *through small infrastructure projects with significant social impact. Major improvements include upgraded water supply and sewage systems, renovated public buildings and facilities, rehabilitated neighborhoods and parks.*

USAID's long-term investment in building the capacity of local support organizations is already producing results. Today, these local government support entities are institutionally developed, capable of taking the lead on the reform agenda, and able to provide training and advisory services to local elected officials and municipal administrations. USAID assisted in the establishment of the

National Association of Municipalities in the Republic of Bulgaria (NAMRB) and nine regional associations that have become a model for fledgling municipal associations in the region. The Council of Europe has recognized NAMRB as one of the strongest national associations of local authorities in Southeastern Europe.

Municipalities are opening their doors to citizens including increasing citizen access to municipal council proceedings and the use of citizen advisory committees in planning of infrastructure development. USAID-launched Customer Service Centers represent a new approach to timely, accountable and transparent service provision to citizens that also reduce opportunities for corruption in municipal administrations. Over a third of all Bulgarian municipalities have replicated these Centers.

A Success Story: Sewerage System of a Roma Neighborhood in the Municipality of Oriahovo

Low-cost, grass roots level community assistance can measurably improve the living standards of a whole community. The project financed the construction of a sewerage and wastewater collection system in a Roma minority neighborhood of the town of Oriahovo in Northern Bulgaria.

The project had a significant positive effect on its immediate environment by preventing nearby landslides that had been occurring since 1997 and has markedly improved the health situation in the neighborhood minimizing serious illnesses.

Grateful for the attention to its needs, the Roma minority community assisted in reducing the project's cost by providing the voluntary labor of 97 residents. As a testimonial to the community's appreciation of this project the following statement is attributed to Pareskeva Kostova (67) and her husband Valentin Mitev Asenov (66) who lived in the neighborhood since 1949: " We don't believe this is actually happening. We don't believe that somebody has thought of us. We are very thankful to the local authorities for the project and to the Americans for the money to execute it".

USAID's Legacies in the Civil Society Sector

- ***Resource Centers Providing Services to NGOs Established and Functioning –*** *Viable NGO resource centers exist throughout the country, providing services to grassroots NGOs.*
- ***Enabling NGO Legal Environment Created –*** *The GOB has adopted critical legislation that has created a stronger enabling legal environment for non-government organizations.*

To create a strong civil society in Bulgaria, the Mission supported the development of the so called "democracy network" comprised of thirteen non-governmental support organizations. These provide a variety of services to grassroots NGOs, including grant-making, information sharing, networking, research, and policy analysis. On the policy level, USAID has been instrumental in the adoption of a progressive NGO law and key pieces of electronic media legislation. With USAID assistance, Bulgaria established the first Broadcast Training Center in 1999. Also as a result of the Mission's successful association building, the Association of Bulgarian Broadcasters has emerged as the most advanced independent media association in

the region. The newly formed regional network of broadcaster associations from nine countries in Southeastern Europe recently elected the Bulgarian representative as its chair.

USAID has taken the lead to advance Bulgaria's natural resource management by demonstrating operational models for biodiversity conservation revenue. As a result, the country developed four model partnerships for the sustainable use of natural resources and drafted a National Ecotourism Strategy. USAID assistance also helped pioneer non-timber forest product collection activities in regions with predominantly Roma and Pomak populations, where a month-long collection season contributes to almost a year's annual income. Other donors, notably the Swiss and UNDP, have sought to replicate the success and potential of these pilot projects in their own environmental and rural development programs. USAID has completely built the institutional capacity of key protected area management institutions, from facility refurbishment to personnel training.

The Biodiversity Conservation Legacy

- ***Enhanced Protection of the Rila and Central Balkan National Parks:*** *Two out of the three Bulgarian national parks are now managed in accordance with the contemporary protected area management practices.*
- ***Bulgarian Forests Are Better Protected Against Wild Fires:*** *There is now improved coordination of wild fire protection efforts as well as new equipment and increased capacity.*

Biodiversity Conservation Programming in Bulgaria – A Success

For ten years, USAID Bulgaria has partnered with the Government of Bulgaria in a series of biodiversity conservation firsts. Because of its geographical position at the crossroads of Asia and Europe, Bulgaria has some of Europe's largest plant and animal diversity and intact ecosystems, making it among the most biologically diverse, temperate ecosystem in the world. Bulgaria capitalized on its important natural heritage and produced Europe's first National Biological Diversity Conservation Strategy, and the second in the world. Two years later, protected area policy was supplemented with Europe's first biological diversity act, and first medicinal plants act, all composed to reinforce the nation's commitment to conservation and a sustainable development agenda. In 2003, USAID will have supported the development and launching of Eastern Europe's first conservation trust – dedicated to the long-term financial sustainability of the protected area network in Bulgaria.

Throughout the Mission's operation in Bulgaria, USAID has complemented its program portfolio with a diverse number of special and cross-cutting activities. Human capacity development is one of those activities, which encompasses participant training programs and support to an American-style university. Beginning in 1991, USAID supported the establishment and operation of the American University in Bulgaria (AUBG) as a US-style liberal arts university. Seeking out the brightest students from Bulgaria and other countries in the region, AUBG supports the transition to an open-market economy and democratic society by educating the future leaders of the region. The University is widely recognized as providing the best educational opportunities in Bulgaria. Over 40% of its graduates

have sought graduate degrees, mostly in the United States. USAID has provided substantial financial assistance supporting general operations, student scholarships, and facility construction.

American University in Bulgaria - a Success

Over 1,200 students from 25 different counties have graduated from AUBG since 1995. Many of these young professionals have obtained, or are currently seeking, graduate degrees in the United States and Europe. Nearly 60% are currently employed in Bulgaria, contributing to the positive trends in economic growth in the region.

Through the START Participant Training Program, USAID has built the human capacity of a broad base of Bulgarian leaders and professionals by exposing them to relevant U.S. and third-country models that could be replicated in the Bulgarian context. To date, more than 1,400 Bulgarians, including ministerial level officials, mayors, Supreme Court justices, and chief advisors to the President have participated in START. High-level officials from the current government and several Members of Parliament are among the most prominent USAID trainees.

C. Graduation Strategy Overview

Funding available *through FY 2006 at 28 million a year*

Graduation Date: *after 2007*

USAID/Bulgaria defines graduation as the point at which Bulgaria has achieved a level of development, measured by Mission graduation targets, after which the country will be able to continue its path toward democracy and open markets without the need for USAID assistance. A fundamental assumption of this Mission is that funding for the strategy, as outlined herein, will be available through FY 2006, after which programs will start phasing out and the Mission will close out. USAID/Bulgaria believes that, by that time, the country will have reached most of its graduation targets. For that reason, this document builds upon the notion of an overlap between a well thought-out transition to a graduation strategy and an efficient and effective exit strategy.

This strategy covers the transition period between now and graduation when the Mission will seek to consolidate activities, achieve the highest impact possible, and ensure sustainability of USAID's legacies in Bulgaria. Towards the end of this transition period, we will articulate post-presence opportunities and ensure their continuation.

1. The Goal

The primary goal that drives USAID graduation strategy in Bulgaria is to make sure that by 2007, the country will be securely grounded on a sustainable path toward democratic governance at all levels and successful market economy that will be more integrated in international markets and will perform more efficiently. By the time USAID phases out its programs, Bulgaria will be allied to U.S. and NATO and will be firmly on its own way towards EU accession. The U.S. will leave a reliable partner in the Balkans and a model of a democratic and prosperous society in the region. By achieving this graduation goal, we believe USAID will have made a remarkable contribution in approaching our vision for Bulgaria in 2007 and beyond as a country with a more energetic society - with more NGO advocacy, more jobs, more optimism, economic gains being shared by more people across the society, and more reliable and stronger international partnerships.

2. Strategy Guiding Principles

Based on the substantial knowledge of remaining challenges and a clear understanding of our comparative advantages (see Section B.7), USAID/Bulgaria believes that the USG can make an important and unique contribution to help Bulgaria cross the transition finish line and take its rightful place among the community of European nations as it achieves graduation. Given the limited timeframe as well as diminishing resources, paramount to the success of the strategy is the approach we apply to implement the activities so that working with the Government and other partners, we achieve the greatest impact for the country.

(a) Apply criteria, to compare and contrast across the program portfolio and to streamline the activity phase-out decision-making process: The Mission already has faced difficult decisions in phasing out activities, while important for the country, could not be continued. This is only the beginning of the process, and in order to proceed in a consistent manner the Mission has developed a list of criteria to be applied across the programs, using an Evaluation Matrix Methodology. USAID/Bulgaria believes that focus should be on activities, which best comply with the following list of criteria:

- ✓ Meet the mission priorities in support of U.S. national interests and Mission objectives;
- ✓ Promote the accomplishment of U.S. Mission responsibilities;
- ✓ Substantial impact - Make a difference in Bulgaria and are recognized by recipients and others as important to Bulgaria;

Activity Criteria

- *U.S. national interests*
- *Mission objectives*
- *Substantial impact*
- *Efficiency*
- *Sustainability*
- *Interagency coordination*
- *Consolidation of reform*

- ✓ Efficient - Minimum overhead expense with the most direct impact possible. Achieves specific outcomes and contains achievable conditions.
- ✓ Sustainable - Will leave behind a positive legacy or is structurally sustainable after USAID funding ends.

USAID/Bulgaria will also keep an eye on two additional and complementary criteria as part of its decision-making during graduation. These are:

- ✓ Interagency Coordination—pays special attention to the following elements: leveraging of funds, programmatic linkages, and the EU (but it is not necessary in and of itself);
- ✓ Level of consolidation of reform and momentum of action in existing programs where some additional funds might better protect U.S. investments or provide increased returns on those existing investments;
- ✓ Performance—involves consideration of whether staffing is effective; the timeliness of outputs and results; whether it is possible to achieve accomplishments in timeframe remaining (implementable), whether design or redesign effort is needed);
- ✓ Responsiveness, ownership, leadership of counterparts.

While we are committed to applying a well-thought out and systematic approach to our development assistance efforts, we recognize that a wide array of political and other interests will effect decision-making as this strategy unfolds. We are prepared to deal with the constantly changing political, economic, and social contexts in which we work.

(b) Maximize linkages among sectors to increase prospects for synergy and cooperation: In order to achieve that, the Mission will work at two levels – within USAID (internally) and within the whole U.S. Mission. SO teams within USAID/Bulgaria will take advantage of multiple and diverse opportunities to cooperate. The Economic Growth and Increased Prosperity team works on issues related to improving conditions for women and other vulnerable groups that have an impact at the local level, which is the centerpiece of the Local Governance team. The Rule of Law team works on a wide array of issues that improve the enabling environment for a more transparent and accountable government. This paves the way for more trust in government at all levels. In addition, anti-corruption efforts provide for fairer and more predictable actions by both the public and private sectors. And finally, we want to ensure, among other things, that participant training opportunities are available for those working in areas across USAID's portfolio. These synergies

create a more tightly integrated program with cooperation occurring on many fronts that advance the overall program and ultimately the overall USG interests in Bulgaria.

USAID's portfolio is integrated and complementary with that of other agencies to meet the overall interests of the USG Mission. Illustrative of the collaborative achievement efforts of USAID/Bulgaria is the rule of law area, which has explicit links with DOJ, the Treasury Department and the Regional Legal Advisor (RLA) on issues of anti-corruption, trafficking of persons, and other criminal issues. In the area of Improved and Transparent Legal and Regulatory Environment, cooperation with US Treasury and USDA will be beneficial. Closer linkages with FCS will further promote US investments in the country, thus contributing to the economic growth and increase prosperity of Bulgaria.

(c) Focus on legacies as a major vehicle for achieving sustainability: By "legacies", USAID/Bulgaria means those things ("victories declared") the Mission will have left behind by the time funding ends. We have characterized "Legacy mechanisms" as those means by which these legacies will be sustained after USAID funding ends. These include, but are not limited to, the following: trust funds, foundations, bi-national commissions, NGOs, alumni associations, user charges, regional institutions and enabling environments that will sustain the legacies.

Since this is a graduation strategy, assistance efforts will increasingly concentrate on building self-sustainable local capacity. While this is not a new approach for USAID/Bulgaria, it will be important to further concentrate on it and develop the appropriate legacy mechanisms, which guarantee the replication and dissemination of successful U.S. models.

(d) Incorporating values and partnership approach: USAID believes it prudent to focus greater attention on values in its programs in Bulgaria. These values serve as the underpinnings for lasting reforms in democracy, free and open markets, anti-corruption, human rights, religious freedom, reduction of conflict and prevention of violence. USAID believes that if it fails to continue and increase our efforts in these areas, our investments to date to sustain the fostering of free societies in the region will not achieve their full potential. Building partnerships with private sector entities, NGOs, and other donors will be another approach to address the sustainability issue and preserving U.S. investment in the country.

(e) Conditionalities that demand results: USAID, in close collaboration with the Embassy, is taking a more systematic approach to streamline GOB's contribution to USG assistance

programs. Quite often the pace of the reforms is slow, inconsistent, and thus, detrimental to the planned change process. While current government is very cooperative, we believe a better-organized and orderly approach to defining GOB's responsibilities will substantially boost the reform efforts and will speed up the achievements of USG programs. Similar to the conditionalities that IMF and the World Bank develop for their structural or adjustment agreements with the government, USAID has developed a list of specific requirements that GOB must meet in order for assistance efforts to continue in the most efficient way and produce tangible results. Each item on the conditionalities matrix included in Annex II has been well thought out and addresses important aspects of the reform. Meeting the conditionalities will require recurrent dialogue with Bulgaria high-level officials to make sure that our local partners are moving in the right direction. The Mission will use different instruments, including signing of Memoranda of Understanding, to guarantee the timely contribution of Bulgarian high level counterparts.

(f) Apply the new Millennium Challenge Account (MCA) partnership approach to Bulgaria: With its excellent reform achievements thus far, Bulgaria is a good candidate for participation in the new MCA development assistance program. The Agency already has identified Bulgaria as eligible for competing for MCA funds in 2006. This timing fits well with the graduation timeframe and we believe we should seize this unique opportunity to reward Bulgaria for its successes. In addition, the MCA can be a successful tool for a reasonable transition from assistance to partnership mode of operation between the two governments.

3. Strategic Choices

Strategic Objectives

- *Enhanced Rule of Law*
- *Economic Growth and Increased Peosperity*
- *Local Governance More Effective and Accountable*

Mission strategic choices for the graduation period were based on the results of the analyses and consultations conducted during the past two years, as well as on the outcomes of the assistance review in December 2002 (Annex I). In the process of decision-making, it was extremely important for USAID to be able to use the achievements of already graduated Central European and Baltic countries as benchmarks while defining Bulgaria's strategic priorities. The comparative assessment (Annex III) reveals that, while more advanced than countries in the Balkans' Southern Tier and Eurasia, Bulgaria is only two-thirds of the way towards achieving the levels of democratic freedoms that the "Northern Tier" had reached at the time of their graduation from SEED assistance. The assessment noted major deficiencies in the areas of anti-corruption, rule of law, engagement of civil society, and an independent media. It also noted certain backsliding in the democratization process, as Bulgaria has not yet decentralized political and fiscal authority.

Bulgaria demonstrated most serious deficiencies in first and second-stage economic reforms compared to the Northern Tier countries,

particularly in the areas of price liberalization, large and small-scale privatization, infrastructure, and competitiveness. Per capita income in 2001 was less than one fifth that of the EU average, and one-half of Northern Tier countries at the time of their graduation. Bulgaria's absolute poverty rate was double that of the Northern Tier countries.

The assistance review concluded that while progressing toward the levels of Northern Tier countries in democratic reform standards and macroeconomic fundamentals, implementation of regulatory legislation is weak or nonexistent in Bulgaria. While the political debate remains moderate, Bulgaria's economic reform is still fragile and painful, and emerging social disaffection is potentially destabilizing. The biggest threat to transition is organized crime and corruption, which thrive in the environment of social disparity, bribable bureaucracy, dysfunctional judicial system, and absence of legitimate investment.

The outcomes of the assistance review were: (1) Bulgaria's graduation date would be after 2007, with the end of funding in FY 2006 in order to continue to generate tangible benefits and to protect U.S. investments to date; (2) top priorities will be:

- ✓ Rule of law and law enforcement
- ✓ Economic development and promotion of private sector-led growth
- ✓ Local government reform

In order to address these priorities, which coincide with the major reform efforts of the Government, USAID/Bulgaria has carefully reconsidered its portfolio, repackaged current strategic objectives, and ended up formulating three strategic and one program support objectives:

- ✓ SO 2.2 Enhanced Rule of Law
- ✓ SO 1.3 Economic Growth and Increased Prosperity
- ✓ SO 2.3 Local Governance More Effective and Accountable
- ✓ SO 4.2 Program Support Objective

SO 2.2 Enhanced Rule of Law will be the centerpiece of our graduation strategy. Viable reforms in the Bulgarian rule of law environment require a continued multi-year effort to render a viable operational framework and to realize the substantial international investment in this area. Driven by the complexity of problems in the sector, for the first time, the Mission will apply a more systemic approach to rule of law issues. We believe that packaging the judicial reform, anti-corruption activities, and law enforcement mechanisms in one strategic objective provides an opportunity for better coordination and collaboration among different players and will achieve better and faster results. Reforming each of these sub sectors

will constitute intermediate results in the new SO. The judicial program will address the lack of institutional capacity to apply the law equally and swiftly through training of legal professionals, the formulation of a code of ethics for judges and technical assistance in administration of justice. The anti-corruption program will work to decrease public tolerance of corruption and reduce opportunities for corruption in selected executive branch institutions, creating models for replication. The Department of Justice and US Treasury will address law enforcement aspects by focusing on deficiencies of the prosecution and investigation, organized crime, and financial crimes. All three major branches of the SO will be complemented by legislative changes that support a more effective rule of law.

SO 1.3 Economic Growth and Increased Prosperity consolidates the important work that the Mission has been doing in support of economic restructuring and growth and will continue to address three major areas: 1) the business enabling environment, 2) job creation through strengthening the private sector, 3) access to financial resources, and 4) the agricultural sector, each one as a separate intermediate result. Streamlined business laws and regulations including the existence of a reliable and autonomous energy regulator, rational and consistent public sector policy, and effective enforcement of contracts are essential characteristics of a business friendly environment. These efforts will be closely coordinated with the work done under the rule of law objective. Agriculture will continue to be a special focus of the assistance program, given its importance for Bulgaria's economy. As part of the enabling environment, USAID will continue to assist the government to implement and consolidate the pension and health reforms and to plan and implement forward-looking economic reforms in the areas of small and medium enterprise growth, competitiveness enhancement and foreign direct investment. By continuing its support to strengthening the capacities of the private sector and particularly the small and medium enterprises, the Mission strives to promote growth and job creation in a sustainable manner. Efficiency of the labor market in Bulgaria will be addressed as a way to significantly reduce the skills mismatch between the supply of and demand for workers. Availability and accessibility of commercial credit will continue to be a priority for the Mission.

SO 2.3 Local Governance More Effective and Accountable will continue to build upon USAID's unique investment in the sector, while at the same time broadening its involvement to closely tie our assistance to community building issues. USAID will make a major effort to leave local governments with an enhanced level of autonomy vis-à-vis their responsibilities, the ways and means by which they exercise their responsibilities and availability of resources to fulfill

them. Our major tasks will focus on necessary decentralization legislation and efforts to institutionalize a mechanism for maintaining dialog between central and local government on on-going reforms and intergovernmental relations. This effort will be complemented by innovative public-private partnerships for the provision of social services and the programs to promote inclusion of vulnerable groups in selected municipalities. Conflict prevention and ethnic integration issues will be addressed primarily at the community level, guided and supported by the national strategy that will be developed with USAID assistance. USAID's programs will especially target ethnic minorities, vulnerable groups and communities, and youth. We will approach the issues of trafficking in persons at both central and local levels, with primary focus on building public awareness and the capacity of municipal level institutions to address the problem.

We expect Bulgaria's graduation from USAID's assistance to roughly coincide with the country's proposed accession to the European Union. Cognizant of this timetable, we will be entering into consultations with stakeholders and partners on steps to implement an orderly and effective graduation. During this period, we expect the program to continue strengthening local governance and preparing it to be compatible with the European Charter of Local Self-Government.

SO 4.2 Program Support Objective: Based on previous successful experience with SOs dealing with crosscutting and/or special initiatives, the Mission decided to have a separate strategic objective including all activities that provide significant added value to the whole portfolio and contribute to the achievement of measurable results. This objective will also incorporate time-limited programs addressing extraordinary requirements for assistance.

4. Roads Not Taken

In arriving at these strategic choices, particularly in light of a projected decline in program resources, USAID confronted many hard choices. In order to devote sufficient resources and staff effort to those reform areas that are crucial for the success of the reform process in Bulgaria, many important and successful programs undertaken in the past will not continue into the next strategy period.

One of the most difficult decisions resulted in eliminating the social SO, which we included in the initial versions of the strategy. Although Bulgaria's social indicators are extremely disturbing, addressing the issues would have required substantial resources and longer involvement by USAID. Nevertheless, realizing the

importance of the social concerns, the Mission has tried to preserve its investment in key areas like pension and health reform, ethnic integration, and social welfare. Although not coherently structured as a separate strategic objective, USAID/Bulgaria will address these issues in the out years, if pledged funding for the country remains available. The Mission has tried to integrate the social type programs within the three major strategic priorities outlined in the previous section. However, lack of appropriate level of resources would result in quick phasing out of these activities.

USAID's successful environment program, which has historically focused on implementing key aspects of Bulgaria's National Environmental Action Plan (NEAP), promoted eco-tourism, catalyzed business starts in environmentally friendly technologies and fostered the creation of viable national parks, will end in FY 2004. However, the environmental reform in Bulgaria has approximated graduation standards and compares favorably with the achievements of the Northern Tier. In addition, Bulgaria is a signatory to all of the major international environmental treaties. Since the EU has recently opened the environmental chapter, USAID anticipates that the EU will assume technical assistance responsibilities in this sector henceforward.

Another example of a similarly difficult choice is not continuing the program to support "general" development of civil society in Bulgaria. Although the Mission has achieved good results in developing the core NGO infrastructure through its umbrella civil society project, Bulgarian civil society organizations are still fragile, lack financial sustainability and with few exceptions are not involved enough in advocating for the reform efforts. It was impossible for the Mission to continue to address the issues of the civil society for its own sake. This and the current budget constraints have prompted the Mission to rethink its initial notion of strengthening civil society in general and concentrate on enhancing the role of NGOs, labor unions and professional or business associations by engaging them in advocacy efforts to advance key reforms. In this way, limited resources available for this type of work can be channeled where they can best influence policy.

5. Graduation Plan Timeframe

The year 2006 marks the end of USAID funding in Bulgaria. The majority of the Mission's activities will receive funding in 2006 and have carry-over funds in 2007 to finish on-going activities. USAID believes that this will best protect USG investments to date. However, some activities will begin to phase out sooner, especially under SO 1.3 (Economic Growth and Increased Prosperity). Most

of the programs contributing to improved business climate and job creation will end in 2006, with some phasing out as early as the second quarter of 2004. Program Support Objectives also begin to phase out in 2004. In the local governance area, most activities will continue through 2007, with community level involvement phasing out in 2006. The majority of rule of law programs will continue through 2007. Finally, across the portfolio, some activities, primarily in the form of trusts, development funds, endowments, and foundations will carry on beyond the graduation date to ensure the legacies. The Mission will monitor its full array of activities on a regular basis to ensure that all are making an effort to move toward a "clean exit". In 2005, the Mission will begin to explore post-presence opportunities.

6. Graduation Targets

USAID/Bulgaria has set the following ambitious program-level targets for graduation. These will confirm the "story" of the work and legacies of this Mission after 2007.

- ✓ Unemployment rate
  16 percent in 2003; 13 percent in 2006
- ✓ Private Sector Share of GDP
  70 percent in 2003; 80 percent in 2006
- ✓ GDP per capita as percent of EU average
  33 percent in 2003; 46 percent in 2006
- ✓ Transparency International Anti-Corruption Index
  4.0 in 2002; 5.0 in 2007
- ✓ Judicial Performance Index
  3.5 in 2002; 4.75 in 2007
- ✓ Total Municipalities Revenue per Capita
  BGN 255 in 2003; BGN 280 in 2007
- ✓ HIV/AIDS
  Keep the cumulative prevalence rate within its current range of 419 cases
- ✓ Ethnic integration
  Increased tolerance towards the Roma minority
- ✓ Global Competitiveness Index
  62 place in 2002; 40 v anticipated in 2007

7. Critical Assumptions

In order for the Mission to be able to achieve its targets, meet Bulgaria's benchmarks, protect USG investments to date, and leave the legacies highlighted in Part II, E, the following assumption should hold true:

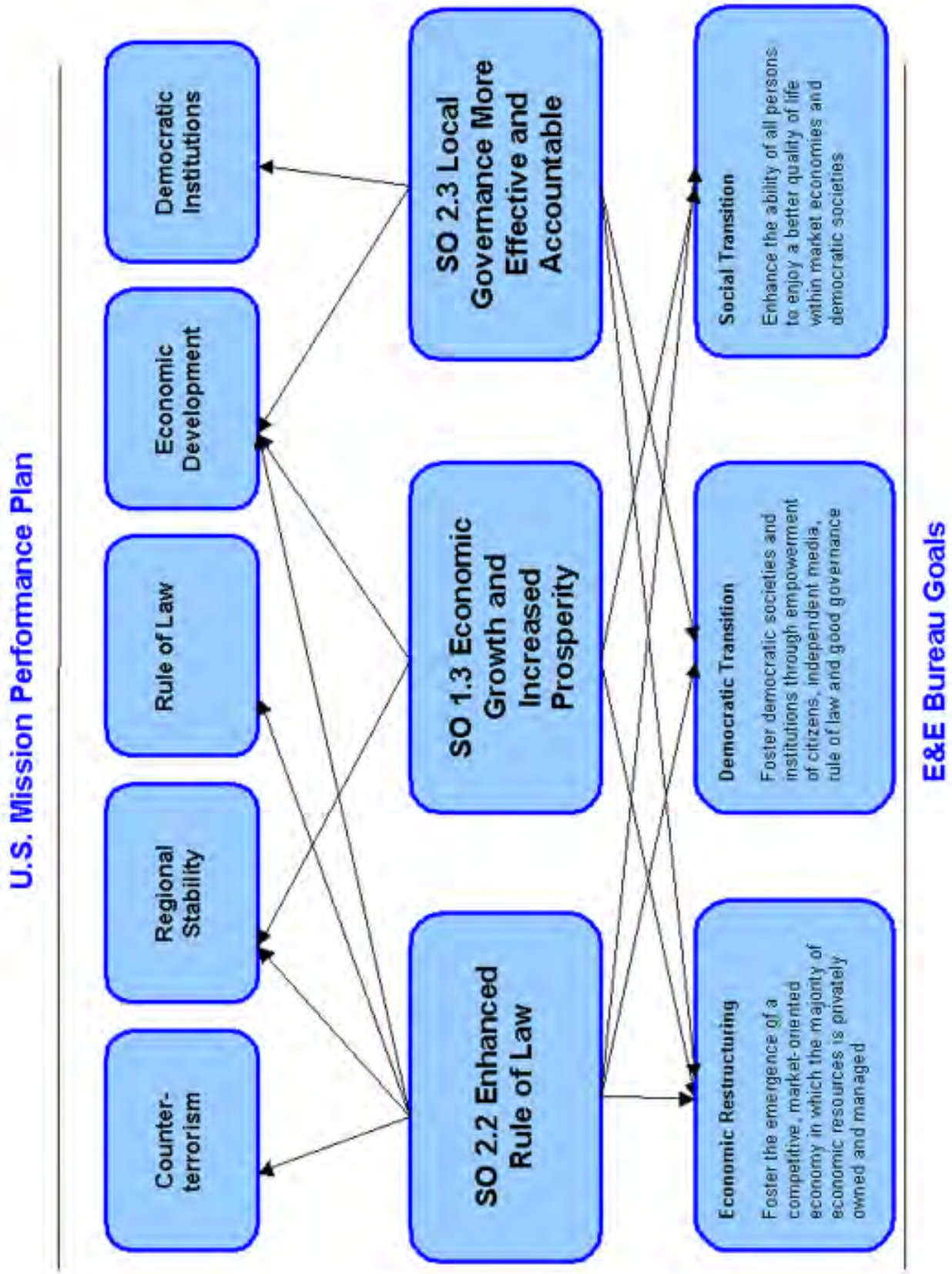
- ✓ Bulgaria's political environment remains stable
- ✓ Macroeconomic stability continues
- ✓ GOB remains committed to sustained pace of reform
- ✓ Bulgaria maintains its NATO membership commitment
- ✓ Bulgaria continues to pursue EU accession
- ✓ EU remains committed to expansion
- ✓ Southeastern Europe does not experience a regional crisis
- ✓ Consistent support from international financial institutions exists
- ✓ USG level of funding preserved at the agreed to level through FY 2006
- ✓ World economic downturn does not affect Bulgaria significantly

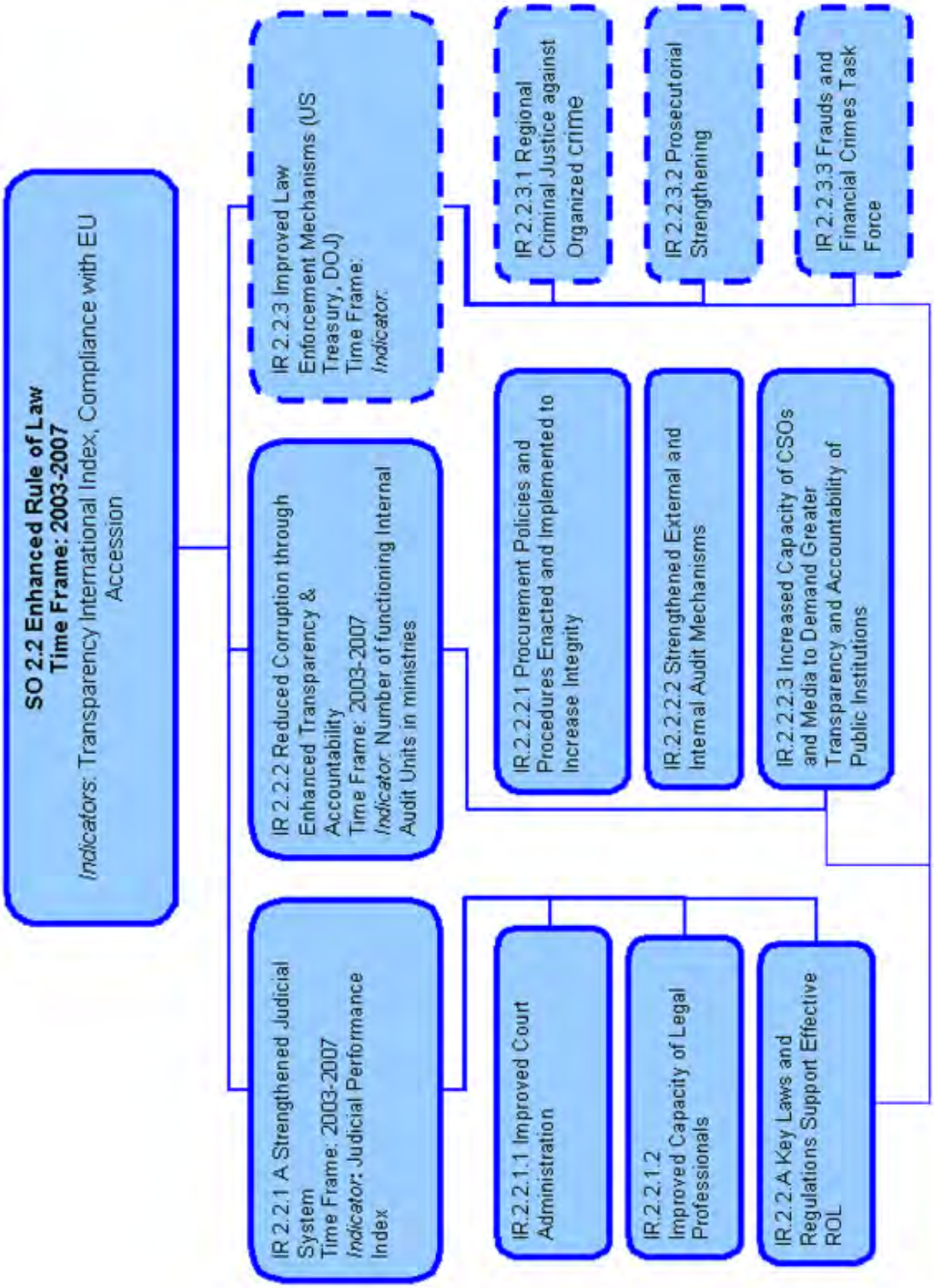
8. Contingency Planning for Activities During Graduation Phase

While USAID is committed to applying a well-thought out and systematic approach to our development assistance efforts, we recognize that a wide array of political and other interests will affect decision-making as this graduation strategy unfolds. For example, it is as yet unclear what role Bulgaria might play in a Post-Iraq reconstruction effort.

Other issues that USAID/Bulgaria will keep an eye on during graduation phase that relate to contingency planning are interagency coordination, including leveraging other funds, and the level of consolidation of reform and momentum of action in existing programs where some additional funds might better protect U.S. investments or provide increased returns on those existing investments.

USAID/Bulgaria is prepared, however, with a flexible but systematic planning process, solid staff (but with an already significant workload burden), strong program management capacity, and relationships with GOB and other organizations in Bulgaria should new activities come on line. Obviously, if new resources became available, USAID would have to carefully but rapidly plan for their effective utilization. This might mean changes in specific priorities and activities, shifts in staffing to respond to management oversight and workload issues, and reconsider the roles and functions of Direct Hires, FSNs, PSCs to accomplish new tasks under the current Strategic Objectives. However, USAID expects that the higher-level strategic elements of this plan will be substantially the same until graduation. If one critical assumption does not hold, i.e., that funds remain at the agreed upon straightline $28 million level, then we will have to prepare to cut programs before their completion.


U.S. Mission Performance Plan
Counter-terrorism
Regional Stability
Rule of Law
Economic Development
Democratic Institutions
SO 2.2 Enhanced Rule of Law
SO 1.3 Economic Growth and Increased Prosperity
SO 2.3 Local Governance More Effective and Accountable
Economic Restructuring
Foster the emergence of a competitive, market-oriented economy in which the majority of economic resources is privately owned and managed
Democratic Transition
Foster democratic societies and institutions through empowerment of citizens, independent media, rule of law and good governance
Social Transition
Enhance the ability of all persons to enjoy a better quality of life within market economies and democratic societies
E&E Bureau Goals


SO 2.2 Enhanced Rule of Law
Time Frame: 2003-2007
Indicators: Transparency International Index, Compliance with EU Accession
IR 2.2.1 A Strengthened Judicial System
Time Frame: 2003-2007
Indicator: Judicial Performance Index
IR 2.2.2 Reduced Corruption through Enhanced Transparency & Accountability
Time Frame: 2003-2007
Indicator: Number of functioning Internal Audit Units in ministries
IR 2.2.3 Improved Law Enforcement Mechanisms (US Treasury, DOJ)
Time Frame:
Indicator:
IR.2.2.1.1 Improved Court Administration
IR.2.2.1.2 Improved Capacity of Legal Professionals
IR.2.2.A Key Laws and Regulations Support Effective ROL
IR.2.2.2.1 Procurement Policies and Procedures Enacted and Implemented to Increase Integrity
IR.2.2.2.2 Strengthened External and Internal Audit Mechanisms
IR.2.2.2.3 Increased Capacity of CSOs and Media to Demand Greater Transparency and Accountability of Public Institutions
IR 2.2.3.1 Regional Criminal Justice against Organized crime
IR 2.2.3.2 Prosecutorial Strengthening
IR 2.2.3.3 Frauds and Financial Crimes Task Force

PART II: STRATEGIC OBJECTIVES AND PROGRAM PLANS

A. RULE OF LAW, CRIME AND ANTI-CORRUPTION

SO 2.2: Enhanced Rule of Law

Statement of Strategic Objective

Bulgarians Increasingly Trust Their Judicial System and Government

USAID seeks to break the cycles of citizen mistrust of and apathy toward public institutions because of the judicial system and government's inability to deliver services in an honest and effective manner. USAID works with the GOB to strengthen the judicial and executive branches, and the Mission works with the private sector to encourage and strengthen its ability to demand greater transparency and accountability in the judiciary and government.

Problem Analysis

Judicial System

Deficiencies in the administration of justice represent the country's most outstanding democracy-related problem. The European Commission, in its 2002 Regular Report, noted that: "Despite good recent progress on reforms, the judicial system remains weak and there has been little concrete change in its functioning. The planned changes do not yet tackle the overall structure of the judicial system, or the high level of immunity, for which constitutional changes will be required." This situation undermines Bulgaria's political and economic development by feeding distrust of public institutions because: a) it hampers economic development and investment since businesses have little confidence that contracts will be enforced, and b) it raises questions about Bulgaria's ability to meet international standards for the administration of justice and its ability to promote a more stable economy that better partners with U.S. interests. The leaders of the main political parties represented in parliament, issued a Declaration on Guidelines for Reforming the Bulgarian Judicial System on April 2, 2003. The Declaration recognized that amending the Constitution would be necessary to address several needed judicial reforms; specifically: "improve(ing) … the structure, powers, and responsibilities of the judicial power, including immunity, un-substitutability, and mandate." The Minister of Justice has stated that he wants to see the Constitution amended by the end of 2003. The focus of possible constitutional amendments are concerns the judiciary has in two general areas: 1) removing prosecutors and investigators from the judicial system (Articles 117, 126-128) and 2) removing the blanket immunity for magistrates and limiting it to transactional immunity (Article 132).

Judicial System Issues:

- *Constitutional amendments*
- *Insufficient funding: 0.3% of GDP*
- *Inadequate and overly theoretical legal education*
- *Lack of ongoing professional training for judges*
- *Poorly trained court administrative personnel*
- *Unreliable and inefficient case and docket management*
- *Frequent legislative changes*

The judicial system in Bulgaria receives insufficient funding and faces inadequate technical and administrative resources. Approximately 0.3 percent of the gross domestic product goes to the judicial system. While wages and social security payments absorb 73 percent of this allocation, judges continue to be poorly paid and lack job prestige. The financial situation leaves few resources for upgrading and modernizing courts and other components of the judicial system. This persistently under-funded budget remains a significant obstacle to widespread reform.

Other problems in the judicial system persist. Judges and lawyers are hard-pressed to keep up with the speed and magnitude of changes introduced into the legal system since 1990 (the 1997-2002 Parliament alone passed 520 new laws). Judges are unable to manage large caseloads involving complex commercial, financial and transactional cases and criminal matters such as racketeering, money laundering and human trafficking. Judges do not adequately recognize and address proper application of international treaties and conventions. Legal education is inadequate and overly theoretical. With few exceptions, the judiciary recruits judges immediately from law school who have no professional and little life experience. Additionally, courts have poorly-trained staff, administrative personnel and unreliable and inefficient case and docket management. Courthouse facilities almost universally lack sufficient numbers of courtrooms to permit speedy and timely resolution of cases.

Corruption and Organized Crime

Corruption and organized crime undermine Bulgaria's democratic and market foundations. Bulgarians and donors have identified corruption and organized crime as two of the country's most pervasive problems. The public increasingly is aware of corruption and has decreasing tolerance for it. The GOB, only recently, has begun to initiate concrete steps (e.g., action plans) to mitigate the problem. Abuse of public office for private gain continues. This diverts and misallocates public resources and impairs the capacity of public institutions to carry out their missions in a transparent and accountable manner.

Public administration, lacking transparency and accountability, suffers from excessive discretionary power at all levels, including: a) over-bureaucratized, inefficient and ineffective administrative systems, policies and procedures; b) non-existent or insufficiently developed internal and external oversight and controls; c) a lack of clear boundaries between the roles of public institutions and officials

and the private sector; d) gaps in the legal regulatory framework; and e) non-existent or sluggish implementation and enforcement of existing laws and regulations. Lack of understanding of how corruption affects men, women and children differently poses an additional area of concern.

Law Enforcement Mechanisms

With increased emphasis by the USG Mission on improved law enforcement to respond to issues of crime, anti-corruption, and predictable law enforcement will contribute to enhanced Rule of Law. USAID created a new high level IR that identifies that various components of this intermediate result. Other USG agencies provide assistance to address these critical issues as part of the collaborative achievement efforts of the USG.

Results Framework

Development Hypothesis

USAID seeks to break the cycles of citizen mistrust of and apathy toward public institutions. Major challenges are inability of the judicial system and the government to deliver services in more honest, transparent, accountable, and predictable ways. USAID/ Bulgaria specifically focuses on how to ensure that *Bulgarians increasingly trust their Judicial System and Government.*

In Bulgaria, the focus is on: Strengthening the Judicial System, Reducing Corruption through Increased Transparency and Accountability, and Improving Enforcement Mechanisms. USAID believes that expanding democracy, overall, improves individual opportunity for prosperity and improved wellbeing.

The Agency identified the following necessary conditions required to achieve Enhanced rule of law: 1) improved procedures ranging from improvement of court administration to procurement actions to audit mechanisms; 2) increased professional capacity to ensure more efficient, effective, and ethical actions; 3) conflict resolution mechanisms and social interactions exist that reflect laws, regulations and standards and societal values; 4) provides services that demonstrate greater transparency, accountability, and equity in response to public demand (e.g., CSOs, the media), 5) ensure that key laws and regulations support the improved administration of justice and increased transparency and accountability of other public institutions; and 6) addresses arbitrary exercise and abuse of power by other branches of government, elites, and other privileged groups that operate under an umbrella of quasi-legality or in the shadows where corruption and organized crime are major means of social interaction.

Conditions to Enhance Rule of Law

- *Improved court procedures*
- *Increased professionalism*
- *Conflict resolution mechanisms*
- *Greater transparency*
- *Improved administration of courts*
- *Reduced abuse of power*

Bulgaria's SO 2.2 recognizes the causal linkages between the above-mentioned requirements to achieve an enhanced rule of law and will focus on key elements of them, particularly relevant to the Bulgarian context that will be achieved by graduation. Further, work on issues related to corruption and organized crime will proceed through transfers to other USG agencies.

Strengthened Judicial System

- *Well-trained judges*
- *Well-administered courts*
- *Procedural reform*
- *Limited immunity of magistrates*

IR 2.2.1 A Strengthened Judicial System

The presence of an effective judicial system empowered to check and balance the authority of the legislative and executive branches of government comprise fundamental features of a functional democratic society. An independent, transparent and effective judicial system, protecting the rights of individuals and private institutions, will attract foreign investment, guarantee the structure of the market system and enforce the legal and regulatory environment necessary for sustainable economic growth and rising standards of living.

Well-trained judges and other legal professionals (IR 2.2.1.2), particularly with regard to practical skills and ethical practices, are better equipped to fulfill the responsibilities entrusted to them. Well-administered courts (IR 2.2.1.1) contribute to an efficient judicial system. Support (IR 2.2.A) from public and private sector stakeholders for key laws and regulations in the area of procedural and substantive judicial reform and meaningful implementation of legislation helps inform and propel the ROL reform process. The most important changes in the structure of the judicial system, particularly the place of the prosecutor and investigative office, and limiting the blank immunity of magistrates will require constitutional amendments.

Reduced Corruption

- *Increased transparency in government operations*
- *Transparent public procurement*
- *Increased civil society monitoring*
- *Audit and control mechanisms established*

IR 2.2.2 Reduced Corruption through Enhanced Transparency and Accountability

The transparency and accountability of public institutions together with anti-corruption measures represent key elements of sound democratic practice and the rule of law (IR 2.2.2). In order for citizens to develop confidence in the democratic process, government must be characterized by integrity. In so doing, citizens believe they have a stake in and ability to influence public policy and view governance institutions as partners in a collective effort to improve standards of living and address specific social, political and economic challenges.

Effective limits on the power and discretion of public officials and mechanisms that compel genuine accountability, together with significant anti-corruption measures, contribute to the conditions

necessary for ethical, well-informed and balanced governance. Effective and transparent public procurement policies and procedures (IR 2.2.2.1), as well as strong internal and external audit and control mechanisms (IR 2.2.2.2) deepen the professional capabilities and values of institutions and officials. Increased capacity of civil society organizations (CSOs) and media to monitor and demand greater transparency and accountability of public institutions (IR 2.2.2.3) also contribute to anti-corruption reform efforts. As with ROL, support (IR 2.2.A) from public and private sector stakeholders for key laws and regulations in this area helps inform and propel the reform process toward increased transparency and accountability of public institutions as well as stronger anti-corruption measures.

IR 2.2.3: Improved Law Enforcement Mechanisms
Driven by the critical need to address these issues, the USG Mission has undertaken efforts through various USG agencies (e.g., US Treasury, DOJ) focused on anti-corruption, human trafficking, money laundering and other organized crime activities. These are among the necessary results that must be achieved to contribute to enhanced rule of law.

Improved Law Enforcement

Focus on:
- *Anti-corruption*
- *Human trafficking*
- *Money laundering*
- *Organized crime*

Through other USG agencies (Treasury, DoJ, etc)

(See Annex IV for details on Progress to Date of this Strategic and refer back to section B7 in PART I)

Program Approaches

For a smooth graduation process, USAID will focus on ensuring the sustainability of the interventions described below. USAID will target key government institutions that have the political will and potential capacity to sustain reform. And, the Mission will increase support to private sector organizations that demand reform and hold government institutions accountable.

IR 2.2.1 A Strengthened Judicial System
The Mission will pursue a three-pronged approach that is integrated and complementary to other elements of the USG Mission program, including economic growth and the work of the U.S. Department of Justice (DOJ) Regional Legal Advisor (RLA).

IR 2.2.1.1: Improved Court Administration. USAID has designed court administration activities to increase the independence, transparency and effectiveness of Bulgarian courts. The Mission will support development of an enabling environment necessary for effective case adjudication and will increase transparency and efficiency through improved procedures, wider access to court records,

Increased transparency, independence, and effectiveness of courts will be achieved by

- *Expanding the Model Court Program to 25 courts*
- *Expandibng mediation initiatives*
- *Supporting GOB National Judicial Reform Strategy*
- *Enhancing court automation*

automation, and clarification of the roles of court personnel. Based on lessons learned from the model courts (MCs), USAID will introduce new court administration/case management processes and procedures into approximately 25 courts through the new Courts in Partnership (CIP) initiative. By making adjudication tools, such as mediation and law clinics, more accessible, the Mission will help reduce court caseloads. USAID expects to expand the pilot family law and labor mediation initiatives presently implemented in one court to other courts.

USAID will give special attention to court administration reforms in order to ensure their sustainability. The Mission is focusing on core tasks that include: a) strengthening the Supreme Judicial Council's (SJC) capacity for internal administration, b) court administration, and c) budgeting. By increasing the SJC's capacity to develop the judiciary's budget in a transparent manner, based on sound statistics, the SJC will be in a stronger position to request increased judicial funding to sustain and institutionalize the reforms.

Admittedly, the conditionalities that call for a strengthened SJC and the other ROL conditionalities are very ambitious. These conditionalities, however, are tasks that the GOB has set out for itself in its National Judicial Reform Strategy and Action Plan. Nevertheless, USAID assistance alone will not be a sufficient inducement for the GOB to undertake and implement such complex reforms. Close donor collaboration will be essential. The EU closely monitors progress on the Strategy and Action Plan in determining if Bulgaria is making progress toward complying with the ROL requirements for EU accession. Additionally, the World Bank, as part of its conditionality for PAL II, has adopted most of these conditionalities.

USAID will develop mechanisms for sustaining court automation, based on ongoing operational and functionality reviews of Information Technology (IT) use in the MCs. Increased computer skills training will enhance the effective use of available automation tools. The Mission will ensure the modification of the case management system (CMS) software to make it more user-friendly and to obtain increased "buy-in" from judges and court staff. Providing court automation equipment for the MCs and developing the CMS software will lay a solid foundation for a nation-wide EU court automation project. USAID will decrease its IT assistance as the EU activity comes on-line and as part of efforts to bring appropriate GOB support to IT development. In this context, it is important to note that in order to ensure sustainability, the EU requested and supported the preparation of a Strategy for the

nationwide computerization of the courts and the establishment of an IT Agency for the judiciary. This Strategy relied on the lessons learned from the USAID assisted MCs. USAID and the GOB welcome any court automation assistance provided by other donors.

Court automation is a critical component of court administration, but it should not be the driving component. USAID has been and will remain the lead donor in providing assistance for court administration reform. Due to the on-the-ground presence of its implementing partners and the close relations that have been developed with judicial counterparts, assistance for court administration reform is an area where USAID has a comparative advantage over other donors.

IR 2.2.1.2: Improved Capacity of Legal Professionals. USAID will continue assistance for transforming the Magistrates Training Center (MTC) into the National Justice Institute (NJI), a sustainable public institution. The strengthened SJC will be well positioned to administer adequate funding for the NJI. USAID will focus on strengthening the institutional capacity of the MTC/NJI and the training of magistrates and court staff. USAID training assistance will increasingly focus on judicial skills and court administration. European donors will become more involved in training involving substantive areas of law, particularly, EU laws. The Mission plans to expand the Legal Clinics pilot project since they provide a superb mechanism for teaching law students practical legal advocacy skills and facilitate access to legal services for vulnerable groups. USAID/ Bulgaria also will support continuing legal education for lawyers through the Bar Associations.

Enhanced Professionalism of Magistrates

- *Transform MTC into National Justice Institute*
- *Training focus on judicial skills and court administration*
- *Expand legal clinic pilot projects*
- *Continuing legal education*

IR 2.2.A: Key Laws and Regulations Support Effective ROL. USAID will assist in the formulation, enactment and implementation of laws, regulations and policies in key areas. In the Judicial system area the key legal reforms will include amendments to the Judicial System Act, implementing regulations for this Act, a Judicial Code of Ethics and the Attorneys Act to govern the private practice of law. Assistance is provided for these laws since they provide the enabling legal framework for court administration reform. The Mission will also respond to targets of opportunity to improve other key laws that impact the efficiency and effectiveness of the judiciary (e.g., various articles in the Procedural Codes that cause unnecessary delays and constitutional amendments to limit the immunity for magistrates). In areas dealing with anti-corruption, transparency and accountability the key legal reforms will include amendments

Key Laws / Regulations

- *Judicial System Act Amendments*
- *Judicial Code of Ethics*
- *Attorneys Act*

to the Public Procurement Act and the Assets Disclosure Law. USAID will work to increase the participation of magistrates and lawyers in the judicial sector reform process, forming strategic alliances and supporting institutional development of professional associations for judges, court administrators, court clerks and lawyers. USAID will continue to encourage the involvement of enterprises, business associations and legal advocacy non-governmental organizations to identify and demand reforms. Public outreach will highlight the practical benefits of specific reforms and facilitate support for enactment and implementation of key laws and regulations. This is consistent with Bulgaria's national anti-corruption strategy that states that the reform of the justice sector should "be made the subject of a vigorous debate." In addition to ongoing efforts to strengthen such professional associations and NGOs, USAID will investigate the feasibility of establishing an endowment to provide small grants to such organizations after USAID graduation. Such support will be essential for the institution building of these organizations and to keep the pressure on the GOB to sustain judicial reform.

Increased Transparency

- *Public procurement*
- *Internal audit function for GOB institutions*
- *Enhanced civil society and media monitoring*
- *Improved law enforcement mechanisms*

IR 2.2.2: Reduced Corruption through Enhanced Transparency and Accountability

Bulgarian membership in NATO and the EU structures could be hampered by national, regional and international perceptions of pervasive corruption. In order to assist Bulgaria in its efforts to combat corruption, USAID, through its Open Government Initiative (OGI), will pursue an integrated, complementary and carefully targeted approach on three fronts: procurement, audit mechanisms, and capacity building.

IR 2.2.2.1: Procurement Policies and Procedures Enacted and Implemented to Increase Integrity. USAID will support implementation of anti-corruption policies and procedures in public procurement both at national and local levels. USAID will provide technical assistance and training to the Public Procurement Directorate and procurement officers from ministries and local governments. USAID also will help improve the legislative framework and facilitate the adoption of e-procurement procedures. While the EU has taken the lead in the area of procurement legislation in terms of harmonization with the EU Directives, USAID activities will complement this work by focusing predominantly on the implementation of the legislation.

IR 2.2.2.2: Strengthened External and Internal Audit Mechanisms. USAID will introduce and strengthen mechanisms of external and internal audit and control within the public sector to limit the

opportunities for corruption. Specifically, USAID will support technical assistance to strengthen the institutional capacity of the National Audit Office (NAO) and the Public Internal Financial Control Agency (PIFCA) to detect fraud and corruption in government agencies and implement anti-corruption legislation. In order to ensure maximum cross-fertilization and synergy, USAID activities in this area will be closely coordinated with the EU that supports the overall organizational strengthening of these entities. The Mission will ensure the introduction and implementation of audit standards that comply with international and EU norms. USAID also plans to target select ministries for the establishment of internal audit units to apply modern audit techniques and serve as models for improved efficiency in operations and prevention of fraud and corruption.

IR 2.2.2.3: Increased Capacity of CSOs and Media to Demand Greater Transparency and Accountability of Public Institutions. USAID will support grants and capacity-building for NGOs working to encourage more open and efficient government through public-private partnerships and for programs that increase awareness about the extent and human costs of corruption as well as implementing watchdog and government monitoring activities. This program will expand the activities of Coalition 2000 and improve investigative media reporting.

IR 2.2.3: Improved Law Enforcement Mechanisms
To support the investigative and prosecutorial legs of the justice sector as well as operationalize anti-corruption activities, USAID will coordinate with the Department of Justice/ Overseas Prosecutorial Development Assistance and Training (DOJ/OPDAT) Regional Criminal Justice Initiative (RCJI), the Department of State, and the Treasury Department efforts to: a) improve institutional structures; b) enhance investigative and prosecutorial techniques; c) adopt and implement statutes applicable to corruption, organized crime, human trafficking, migrant smuggling, money laundering and asset forfeiture; and d) adopt a Code of Ethics for prosecutors.

Critical Assumptions

- ✓ Reform-minded people elected and appointed to Supreme Judicial Council
- ✓ Political will to change constitution and laws needed for the reform
- ✓ Other donor projects support the court case management system developed by USAID and the Supreme Judicial Council
- ✓ EU tightens conditionality for judicial reform issues
- ✓ Political support to enhance law enforcement for combating organized crime

Development Partners

Key partners

- *Ministry of Justice*
- *Supreme Judicial Council*
- *Union of Judges*
- *Union of Lawyers*
- *Bar Association*

The Administration of Justice counterparts include the Ministry of Justice (MOJ), Ministry of Interior, Supreme Judicial Court, Union of Judges in Bulgaria, the Union of Lawyers in Bulgaria, Bulgarian Bar Associations and non-governmental organizations working on legal reform and the media. Key donors include the EU, World Bank, UNDP, Open Society, and Dutch, French and British Governments. The EU will be especially active in court automation activities.

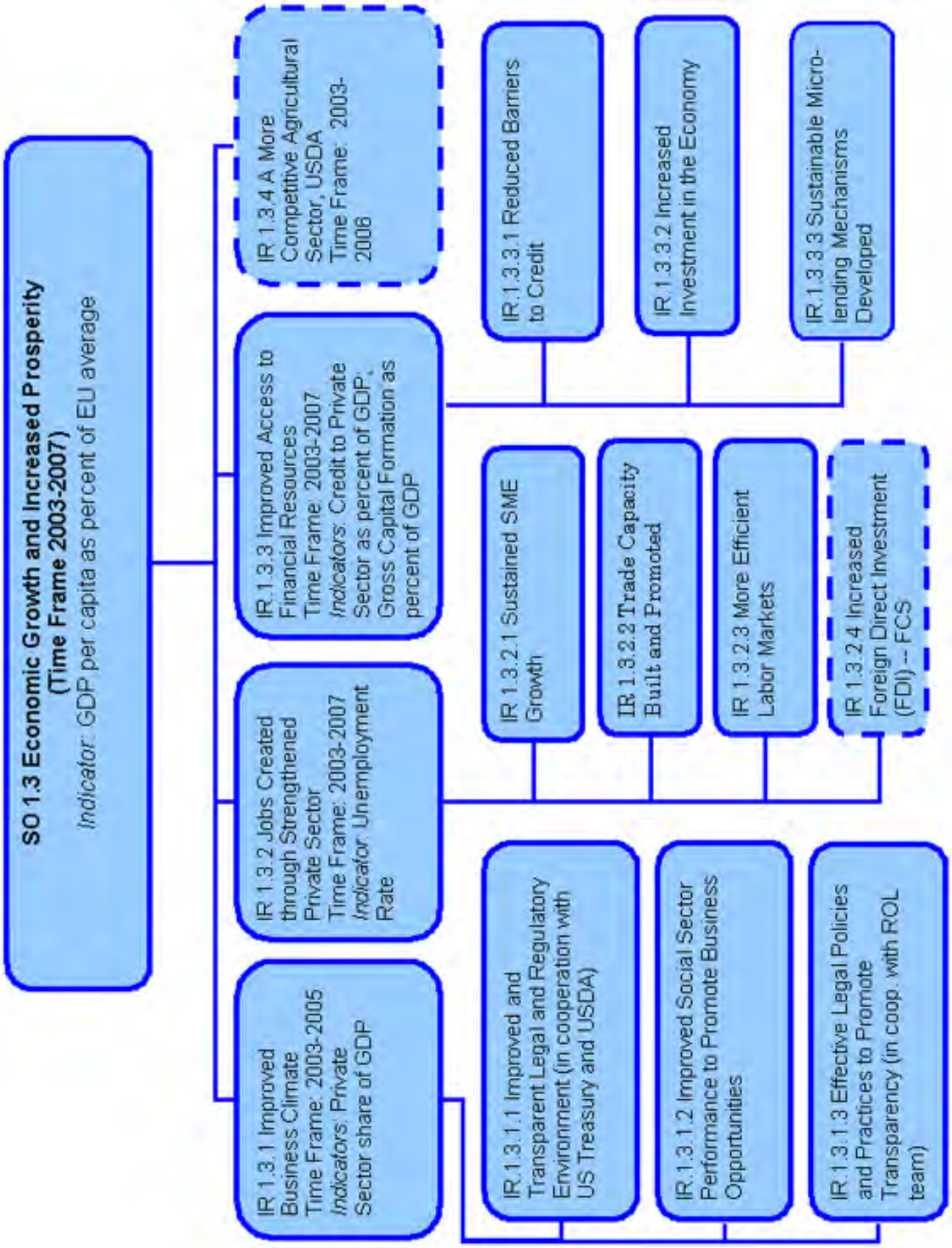
The Open Government Initiative (OGI) counterparts include the Council of Ministers, the National Assembly, the GOB's Anti-Corruption Commission, the National Audit Office (NAO), the Public Internal Financial Control Agency, Coalition 2000, Transparency International, other CSOs and the media. Key donors include EU PHARE, the World Bank and UNDP. The EU accession process should result in substantial donor funds for public administration reform in the long run. Other donors have begun contributing to Coalition 2000.

Expected Results

- ✓ Reduced case delay (i.e., application of laws in a fair and timely manner)
- ✓ Model courts operate without major delays and in a more transparent manner (11 model courts in 2003, 30 model courts in 2007)
- ✓ Expanded and improved use of automated court case management system (4 courts in 2003 and all courts in 2007 use case management system)
- ✓ Supreme Judicial Council able to negotiate adequate budget for the judiciary (5 percent increase in 2007 in comparison to 2002)
- ✓ National Justice Institute provides initial and continued legal education to the judiciary
- ✓ A network of legal clinics established (1 clinic in 2003, 5 in 2007) with increased number of students participating and providing full array of legal services to vulnerable groups
- ✓ Professional organizations able to deliver services and continued legal education programs (starting with a base line in 2002 0, the number of continued legal education type courses will reach 10 in 2007)
- ✓ Transparent public procurement law and procedures enacted and enforced
- ✓ Effective internal control mechanisms in government institutions in place (none in 2002, 8 in 2007)

- ✓ Reduced power and influence of organized crime in Bulgaria
- ✓ CSOs and the media implement better watchdog mechanisms monitoring the public sector
- ✓ Alternative Dispute Resolution mechanisms in place (e.g., family and labor mediation)

(Also, see section E below on Priority Legacies for this sector)


SO 1.3 Economic Growth and Increased Prosperity
(Time Frame 2003-2007)
Indicator: GDP per capita as percent of EU average
IR 1.3.1 Improved Business Climate
Time Frame: 2003-2005
Indicators: Private Sector share of GDP
IR 1.3.2 Jobs Created through Strengthened Private Sector
Time Frame: 2003-2007
Indicator: Unemployment Rate
IR 1.3.3 Improved Access to Financial Resources
Time Frame: 2003-2007
Indicators: Credit to Private Sector as percent of GDP; Gross Capital Formation as percent of GDP
IR 1.3.4 A More Competitive Agricultural Sector, USDA
Time Frame: 2003-2006
IR.1.3.1.1 Improved and Transparent Legal and Regulatory Environment (in cooperation with US Treasury and USDA)
IR.1.3.1.2 Improved Social Sector Performance to Promote Business Opportunities
IR.1.3.1.3 Effective Legal Policies and Practices to Promote Transparency (in coop. with ROL team)
IR 1.3.2.1 Sustained SME Growth
IR 1.3.2.2 Trade Capacity Built and Promoted
IR 1.3.2.3 More Efficient Labor Markets
IR 1.3.2.4 Increased Foreign Direct Investment (FDI) -- FCS
IR.1.3.3.1 Reduced Barriers to Credit
IR.1.3.3.2 Increased Investment in the Economy
IR.1.3.3.3 Sustainable Micro-lending Mechanisms Developed

B. ECONOMIC GROWTH AND JOB CREATION

Strategic Objective 1.3: Economic Growth and Increased Prosperity

Statement of Strategic Objective

Bulgaria will have an increasingly prosperous open-market economy.

The Mission will seek to foster development of a competitive, transparent, and business-friendly environment that is conducive to job creation, private sector growth and long-term prosperity.

Problem Analysis

Although Bulgaria has made impressive reforms over the last five years, the country remains among the poorest EU applicants, and lags behind the CEE graduates on key economic indicators:

- GDP per capita is $5,950 in Bulgaria ($14,550 in the Czech Republic; $12,570 in Hungary);
- Bulgaria is at 68 percent of 1989 GDP per capita, and at 40 percent of 1990 real salary and pensions levels;
- 5-6 times less Foreign Direct Investment (FDI)) than in Hungary and the Czech Republic.

Bulgaria is highly vulnerable to external economic fluctuations (e.g., oil prices). GDP per capita is only 28 percent of the EU average (purchasing power parity), and there are large disparities (e.g., over 40-50 percent of Bulgarians live in poverty—with incomes under US $2 per day) by regions and groups of population. Unemployment is one of the highest in the CEE at 17 percent, again with regional and ethnic disparities. Other factors contributing to instability and that limit Bulgaria's ability to maintain stable growth include: lack of transparency, excessive regulation, low attention to strategic planning, and poor overall business climate. These have led to slow FDI flow and sluggish private sector performance, low competitiveness of the national economy as reflected in low GDP, incomes, exports, low administrative and government capacity to effect necessary economic reforms, and an inadequate judicial system to enforce contracts and implement effective anti-corruption practices. The current major problems relate to the legal and regulatory environment, unemployment, lack of long-term economic growth policies and underdeveloped labor markets. These inhibit entrepreneurial activity, dampen employment generation, and perpetuate low living standards in comparison with EU member countries.

Bulgaria Economic Conditions

- *GDP per capita $5,950 (28% of EU average)*
- *At 68% of 1989 GDP*
- *At 40% of 1990 salaries*
- *5-6 times lower FDI than Hungary and Czech Republic*
- *17% unemployment*

Legal and Regulatory Environment

A number of substantive and procedural factors challenge Bulgaria's legal and regulatory environment. Key laws, policies, and regulations either are missing, poorly formulated or not enforced. Although the country has made some significant strides during the past few years to harmonize its legislation with the key EU legislative frameworks, Bulgaria still lags behind its CEE rivals in terms of actual enforcement and implementation.

Cumbersome and excessive regulatory and administrative regimes in place do not provide businesses with the necessary elements of the best international practices needed for sustained private sector development (e.g., quality of the primary and secondary legislation, levels of implementation and weak institutional capacity). Some of the critical areas also include the need for an improved and more effective judicial system, especially in business and commercial disputes; enhanced and quicker enforcement of court rulings; and streamlined, transparent services (such as licensing, tax procedures) provided by the public administration to entrepreneurs.

Problems Span Many Areas

- *Laws, regulations, and policies missing or ineffective*
- *Regulations hamper business operations, thus impacting employment*
- *High unemployment*

Unemployment and Labor Market

A significant cause of Bulgaria's unemployment has been the privatization of state-owned enterprises, and the subsequent shedding of thousands of public sector jobs. Officially at 18 percent, the unemployment rate for Bulgaria is among the highest in the region, with long-term and structural unemployment accounting for roughly 60 percent of this—more than a third of whom are under the age of 29. Further, disproportionately high rates of unemployment occur in rural areas.

Employers and workers in Bulgaria's significant informal sector strive hard to avoid entanglement in the country's burdensome tax regime. Labor market barriers, including inadequate advocacy for labor market reform and the absence of adequate labor retraining and redeployment programs also contribute by inhibiting workforce flexibility and mobility.

Growing unemployment and deepening poverty have increased demand for social insurance assistance in Bulgaria, including pensions, healthcare, and unemployment and disability benefits. However, as demand for social insurance has grown, financial resources available for public and private sector social insurance funds have diminished. Fewer formal sector employees mean fewer contributors into the social insurance system. Declining household incomes reduce the monetary size of the contributions citizens make. Ineffectiveness and inefficiency of social insurance institutions and procedures, inability of the system to limit the extensive abuse and

misuse of benefits, and its failure to target funds to the most needy reduce the potential for sustainability of Bulgaria's social insurance system.

Investment and Trade Development

Despite remarkable strides to open the economy, control inflation, lower the budget deficit and create a welcoming environment for foreign direct investment, Bulgaria remains a remarkably uncompetitive economy. The country is far behind its Central European rivals. Potential foreign investors seeking to do business in Bulgaria are still stymied by the lack of quality standards, the lack of country's integration into global markets and the dearth of companies that adhere to international standards. Some of these shortcomings threaten the country's economic development and regional standing, constrain Bulgaria's potential to attract foreign direct investment, and hinder the advance of key sectors to compete effectively in both regional and global marketplace.

Problems Hamper Development

- *FDI less in Bulgaria than other CEE countries*
- *Access to capital hampers economic growth*
- *Agricultural sector remains weak*

Although Bulgaria originally had much success in trade liberalization, it has had difficulty maintaining and building upon this success. The country has entered into several bilateral and international free trade agreements but thus far has not been able to fully capitalize on these. In recent years, the export growth rate improved as trade with the European Union increased. However, overall, Bulgaria has experienced a sharp downturn in exports since the transition to a market economy. Moreover, high dependency on the export of natural resources also makes Bulgarian exports vulnerable to international market fluctuations.

Access to Financial Resources

Bulgaria's underdeveloped financial sector inhibits overall performance of the commercial sector and has led to poor and under-productive resource allocations. The Bulgarian banking sector's credit to the private sector is still low compared to international standards. SMEs face an additional barrier to credit because the banking sector requires very high levels of collateral. Additional weaknesses include the need for more advanced early warning systems in banking supervision and additional capacity building of supervisory staff about new risks that may emerge as the system becomes more competitive and complex. Limited availability of micro-financing schemes, alternative financing mechanisms, and the narrow scope of investment and venture capital funds further challenge the business credit environment.

Agriculture

The agricultural sector in Bulgaria is still weak. Rough estimates show that Bulgaria has achieved only about 30 to 40 percent of its

production potential in this sector. Although Bulgaria has made some significant strides in the land privatization process, farming operations are still in great need of inputs, machinery, credit and markets. Additionally, in preparation for EU accession currently anticipated on or about 2007, the Bulgarian agriculture sector faces a number of *EU requirements and harmonization issues*, such as unified quality standards, productivity and efficiency problems that will significantly affect the current methods of farm operations, processing, and management.

Results Framework

Development Hypothesis

Bulgaria must build upon the good macroeconomic progress, financial stability, and accelerated structural reform achieved to date to develop a growing and prosperous economy. USAID/Bulgaria believes that it will achieve economic growth and increased prosperity by addressing the most significant barriers to business development, including improving the business environment, developing the private sector, increasing the availability of financial resources, and developing a more competitive agricultural sector.

Key to improving the Bulgarian business climate is enhancing the legal and regulatory environment to make it more transparent and business-friendly. Sustained private sector growth is essential for long-term economic prosperity, as competitive companies drive efficiency gains, represent high quality and value added, and enable the growth of exports and job creation. The availability and accessibility of financial resources are key characteristics of an economy that enables the private sector to invest, expand and respond to commercial opportunities. It empowers the private sector to investment in current and future product and service development, which they need in order to maintain and expand market shares. This, in turn, produces a multiplier effect, as the increased economic activity generates jobs and fuels expansion within the economy.

The Bulgarian agricultural sector offers significant opportunities for development, based on its potential to increase exports and generate employment. Agricultural products with improved quality are essential for long-term economic growth. These products drive efficiency gains, represent value added, and enable an increase of exports and the opening of new export markets.

The forward and backward linkages from improved business environment, strengthened private sector, increased financial intermediation and a more competitive agricultural sector are particularly strong. This is vital for healthy and robust economic expansion and lie at the very heart of Bulgaria's economic growth and prosperity.

IR 1.3.1 Improved Business Climate

Economic vitality depends upon policies, laws and regulations that support an enabling environment in which new business practices are adopted and business networks and linkages are forged. Streamlined business laws and regulations, sound and forward-looking public sector policy, and effective enforcement of contracts are essential characteristics of a business-friendly environment. Additionally, a transparent and accountable judicial system that is intolerant towards corruption helps guarantee legal proceedings that are both sound and predictable. Business and professional associations, in combination with continually accessible government institutions that open channels for public-private dialogue, can play an important role informing and guiding policy decisions that can effectively advocate for desired changes in legislative and regulatory frameworks. The existence of a sound and autonomous energy regulator is also critical for sustaining increased investment in power generation facilities as a result of privatization of power distribution companies.

Improved Business Climate Will Be Achieved Through

- *Streamlined laws*
- *Reformed judicial system*
- *Effective regulations*
- *Agriculture suffers from poor business climate*
- *Lack of healthcare financing, pension system, and employment policy reforms impact all Bulgarians*

Special emphasis will also be paid to agriculture development initiatives since it remains one of the key sub-sectors of the Bulgarian economy and accounts for almost one-fifth of the GDP. The agricultural sector in Bulgaria provides about 26 percent of employment and is a major source of present and expected future foreign exchange earnings. Bulgaria continues to be a significant exporter of agricultural and food products in the region. Thus, the Mission will coordinate with USDA to explore ways to emphasize specific aspects of agricultural development through policy-oriented change.

A country's social framework, in principle, should smooth out temporary disruptions in income (e.g. unemployment benefits, social assistance) or provide secure income after the end of the active economic life (pension system). The social framework should be based on market principles. The social reforms, in particular, directly affect business development in terms of unproductive use of resources, i.e. resources spent on complying with existing legislation (or avoiding it). To the extent that the goals of the social framework reflect society's preferences through the political process, social reforms in support of business development should focus on minimizing the costs of achieving said objectives. The social framework also affects business indirectly by affecting people's abilities and preferences to work. Special attention should be paid to the disproportionate distribution of the burden of compliance with legislation that is substantially higher for micro and small enterprises.

Jobs Must Be Created

- *Key to economic prosperity*
- *SMEs are the most important segment*
- *Labor market efficiency needs improvement*
- *Businesses need access to capital to grow*

IR 1.3.2 Jobs Created through Strengthened Private Sector

Sustained private sector growth is essential for long-term economic prosperity. Competitive companies drive efficiency gains, represent high quality, add value, and enable the growth of exports and job creation. In Bulgaria, based on their potential to activate business and generate employment, SMEs represent significant opportunities for accelerated development. During the graduation period, USAID/ Bulgaria will focus special attention on SME development because these companies remain the key income and employment generators in the country. The SME sector also plays an important role as a social buffer to rising levels of unemployment. Therefore, the Mission will explore ways to accentuate sustained SME growth and development through more effective policy-making by the government and increased capacity of the firms themselves. With stronger management practices, effective business operations, and the ability to meet internationally accepted industrial, management and accounting standards, Bulgarian SMEs can achieve greater productivity, better product/service development, export growth, and job creation. But the government must also have policies that align with and support these microeconomic goals, for the present as well as into the future, and those policies will only succeed if designed with private sector participation that responsible governmental institutions encourage and embrace. . This IR also will promote trade capacity building that will enable the country's increased integration into the global market place, and secure free flow of goods, services, and capital.

Efficient labor markets are essential to ensure the movement of workers into jobs where they are most productive. An efficient labor market will enable people to make long-term decisions to invest in education and training and gain the skills they need to be successful in the job market. Over time, efficient labor markets will supply people with the education and skills demanded by employers and thereby enable economic growth and increased employment. Any skills mismatch between the supply and demand for workers will be reduced significantly. By graduation, the Mission believes that the employment rate will increase, and structural unemployment will decrease.

IR 1.3.3 Improved Access to Financial Resources

The availability and accessibility of commercial credit is a key characteristic of an economy that enables the private sector to invest, expand and respond to commercial opportunities. It empowers the private sector to undertake investments in current and future product and service development they need to maintain and expand local, regional and global market share. This, in turn, produces a multiplier effect, as the increased economic activity generates jobs

and fuels expansion within the economy. Indeed, the forward and backward linkages from improved financial intermediation are particularly strong, vital for healthy and robust economic expansion and lie at the very heart of the Bulgaria's economic growth and prosperity.

Strong banks and well-informed enterprises are key to financial intermediation. Dialogue between lending institutions and enterprises, where both sides possess strong technical capabilities, helps all parties overcome significant barriers to credit and facilitates effective, transparent and predictable credit transactions. And, sustainable alternative (non-bank) financing mechanisms, such as micro- and equity finance, play an important role in the credit universe. The Mission will seek ways to further emphasize increased and sustained micro-lending mechanisms as means to strengthen entrepreneurship and self-employment opportunities in the country. Adequate banking system oversight and supervision also contribute to the improved access to credit.

IR 1.3.4 A More Competitive Agricultural Sector

In order to realize the economic potential for agriculture as one of the competitive sectors in Bulgaria and a major source of growth and employment, and in preparation for EU accession, farmers need to modernize equipment and farm operations in order to meet quality standards and overcome a decade of deterioration. The agricultural sector also requires reliable access to quality seasonal inputs, ecologically friendly fertilizers, modern equipment and updated processing facilities in order to meet higher demands of international and domestic markets. At present, failure of the market to provide adequate bank financing for investment and working capital hinder Bulgarian agricultural sector development. In the case of agriculture, farmers cannot meet the high collateral requirements for borrowing, and instead, rely on in-kind supplier credits for seed, fertilizers and other inputs and equipment.

Agriculture Sector Is Not Competitive

- *Strong potential for employment growth*
- *Must improve to meet EU standards*
- *Severe financial resource constraints*

(See Annex IV for details on Progress to Date of this Strategic Objective and refer back to section B7 in PART I)

Program Approaches

IR 1.3.1 Improved Business Climate

Activities in this area will focus on achieving the following intermediate results:

IR.1.3.1.1 Improved and Transparent Legal and Regulatory Environment: A new USAID initiative will strive to reform the commercial code to make the policy environment more predictable,

transparent, and rational. The ultimate objective is passage and implementation of a commercial code that facilitates the resolution of business disputes. The program will place particular emphasis on laws and regulations affecting secure transactions, carriers and transport, the use of commercial paper, and the ability to seize collateral. The SO 1.3 team will coordinate activities in this arena closely with those undertaken under the rule of law program (SO 2.2 ROL).

Legal/Regulatory Framework Reforms To Be Pursued

- *Reform of Commercial Code*
- *Dispute resolution process*
- *Effort to be closely coordinated with Rule of Law program*
- *Strengthen energy regulator*

Power sector investment may turn out to be the largest foreign investment potential of the country. Bulgaria has under consideration up to $2.3 billion in power sector investments, all of which will depend upon a sound energy regulatory framework and a well-functioning State Energy Regulatory Commission (SERC). USAID will provide support to the Ministry of Energy and Energy Resources to draft a new energy act that provides a clear and rational framework for the sector. Within this improved legal and regulatory framework, privatization and further private investment will flourish. To develop an underlying structure for the energy tariff process, USAID will assist in drafting secondary legislation and provide specific training and technical assistance in accounting and tariff methodology with an overall focus on institutional strengthening of SERC. The Mission will provide additional assistance to power generation, distribution, and transmission entities to facilitate their participation in the tariff promulgation process.

Social Sector Improvements Will Promote Economic Growth

- *Consolidation of pension reforms*
- *Enhanced public confidence in pension system*
- *Improved health care financing procedures*

To enhance the safety of the nuclear power plant in Kozloduy, USAID will sign an Interagency Agreement with the US Department of Energy. The activity will contribute to upgrading the systems of units 5 and 6 to improve existing equipment and software.

<u>IR.1.3.1.2 Improved Social Sector Performance to Promote Business Opportunities</u>: USAID plans to continue assisting the GOB to implement and consolidate pension reform. Bulgaria's pension system provides for private pension fund management for the mandatory and voluntary accumulation programs. This also requires establishment and implementation of appropriate contribution levels and regulations. In order to safeguard the integrity of the pension system and protect public confidence and the workers' account balances, strengthening of the appropriate regulatory environment is vital. Moreover, since the Bulgarian pension reform is relatively new and the private pension fund industry did not exist prior to 2001, institutional capacity building for the private pension funds is equally important. USAID will provide continued technical assistance in various aspects of the health reform, such as defining and costing out a basic benefit package, enhancing laws and

regulations that govern the creation and supervision of private health insurance funds, and establishing Diagnostic Related Groups as the preferred method of reimbursement for hospitals. The latter will allow private insurers to utilize the same method instead of the existing practice of estimating the cost of hospital services primarily through tracking historical trends and the risks associated with them. Assisting the National Health Insurance Fund and the Ministry of Health in defining and costing out a basic benefit package should open the door for private health insurance companies to design service packages that focus on benefits that complement/supplement the basic package.

Increase Transparency

- *Improved business law*
- *Streamlined licensing*
- *Reduced investment risk and costs will result*

IR.1.3.1.3 Effective Legal Policies and Practices to Promote Transparency (in cooperation with ROL team): USAID will achieve increased transparency of policies and processes indirectly through work on improvement of business laws and regulations, especially company law. Significant streamlining of licensing requirements as well as increased participation of relevant stakeholders in the legislative process will lower the costs of doing business in Bulgaria, minimize the incentives for corrupt behavior in the courts and licensing bureaus, as well as reduce the uncertainty and lack of transparency in the application of commercial legislation.

IR 1.3.2 Jobs Created through Strengthened Private Sector
In order to achieve IR 1.3.2, USAID will assist private companies and SMEs to increase their production capacity and be able to compete internationally. USAID also will address the problems related to labor market inefficiencies.

Job Creation

- *Focus on SMEs*
- *Focus on competitive sectors*
- *Improved operations lead to more jobs*
- *Trade capacity improved*

IR 1.3.2.1 Sustained SME Growth: USAID will provide technical assistance to Bulgarian businesses through integrated industry-level mechanisms and competitive tailored programs. The Mission's successful assistance in business management will target individual firms and competitive industry sectors and will focus on improving quality standards, marketing, export product development, production efficiency, and forward and backward integration. USAID activities also will assist companies in improving customer service, reducing inventory costs, increasing productivity, and achieving ISO quality standards. Efforts will lead to improved business operations and employment. Additionally, USAID technical assistance will help the government foster sustained SME growth through specific policies designed with private sector participation to answer the present and future needs of SME's

IR 1.3.2.2 Trade Capacity Built and Promoted: USAID will seek to strengthen trade facilitation and promotion efforts, thereby building capacity within the local economy to do business internationally.

USAID will work with industry sectors that show the most potential to grow and become competitive in regional and global markets. USAID will work with companies to provide technical assistance in business management practices and in development of strategies for determining their niches, marketing their goods and services and reaching quality standards (e.g., in management and accounting as well as goods and services produced).

Job Creation *(continued)*

- *Policy reforms to create more jobs*
- *Remove labor market barriers*

IR 1.3.2.3 More Efficient Labor Markets: USAID will work to identify policy changes that will reduce unemployment and create more jobs in the formal sector. This will involve modification of labor market policy and workforce development strategies that encourage competitive growth. USAID also will support work at the local level to implement policies and programs to remove labor market barriers in selected municipalities and reduce long-term unemployment through increased investment in these areas. Building on work done by the American Center for International Labor Solidarity (ACILS) in training programs in labor rights and protection, USAID will strengthen the role of labor unions in consensus-building dialogue with employers and government decision-makers. The Mission will place special focus on increasing the sustainability of the existing Labor Counseling Centers as well as opening new centers.

Foreign Direct Investment

- *Key to job creation*
- *Seeking US FDI through FCS*

IR 1.3.2.4 Increased Foreign Direct Investments: The Mission believes that a key way to boost the development of the private sector and create more jobs is by attracting Foreign Direct Investments (FDI) to the country. U.S. national interest particularly calls for increased U.S. investments in Bulgaria. Because of this strong co-relation between foreign investments and jobs, USAID will closely collaborate with the U.S. Foreign Commercial Section (FCS) in Sofia and will jointly explore various approaches that will result in increased FDI. Specific examples of activities attracting U.S. and foreign companies willing to do business in the country will be trade missions, virtual trade meetings and business-to-business events, with FCS taking the lead.

IR.1.3.3 Improved Access to Financial Resources

IR.1.3.3.1 Reduced Barriers to Credit: The Bulgarian banking system, similar to most banking systems in emerging market economies, is at the core of its financial sector. As such, it is the primary form of financial intermediary, the largest repository for the public's savings, and the main source of credit to firms. A focus on strengthening and improving the transparency of the banking systems in emerging market economies is important because they are often fragile. To improve the relationship between SMEs and banks and to increase access to business financing, USAID will expand existing training programs for both bank officers and business

entrepreneurs. USAID will continue to utilize loan portfolio guarantees in various sectors through the Development Credit Authority mechanism to leverage commercial bank resources and allow more SMEs to qualify for loans. USAID will also assist Bulgaria in privatizing its last remaining state-owned banks. As competition in the sector intensifies over the next few years, marginal banks may be unable to compete which will result in bank failures. For this reason, USAID will continue to strengthen the capacity of the Deposit Insurance Fund to deal with failed banks.

IR 1.3.3.2 Increased Investment in the Economy: The Mission will seek ways to improve both domestic and Foreign Direct Investments (FDI) in Bulgaria. USAID will undertake various approaches to help advance investment opportunities and attract foreign companies willing to do business in the country. Additionally, the Mission will partner closely with the Bulgarian Investment Agency to further promote market potentials and business undertakings and to draft a new law that encourages investment.

Access to Financial Resources

- *Reduce barriers to credit*
- *Increase transparency in banking*
- *Continue successful Development Credit Authority activities*
- *Promote market potential for FDI*
- *Support airport concessions and tourism development*
- *Continue micro-lending mechanisms*

The concession of the Black Sea Airports is expected to require over $130 million in near-term capital investments in the development of airport infrastructure. Estimates are that over $50 million will likely be in the form of foreign direct investment from a qualified strategic investor. This activity will bring private sector investment and management to the airports that will improve airport infrastructure, management and operations. It will result in better regional air-transport links, and greater commercial development of various kinds. In particular, it will increase tourism development potential for the region, one of Bulgaria's most important economic and trade sectors. Apart from this, the energy regulatory development work will facilitate an anticipated $1 billion in FDI through power sector privatization and investment.

IR 1.3.3.3 Sustainable Micro-lending Mechanisms Developed: USAID will continue to support micro-lending and equity finance throughout the strategy period. USAID intends to support systematic intermediation for smaller enterprises and link support for micro-finance and small-scale ventures with one or more professionally managed banks. NGOs would serve as "portfolio managers" that provide packages or batches of loans to the banks for financing. USAID will work carefully to ensure that women's access to non-bank credit remains at current levels or increases. USAID also will continue to encourage micro-credit cooperatives to employ women professionals and promote them into leadership positions. To provide continued support for the Bulgarian private sector with venture and long-term financing, USAID will continue to integrate the activities of existing venture capital and enterprise financing programs.

More Competitive Agriculture Sector

- *Use DCA mechanism*
- *Work with USDA*
- *Encourage improved standards*
- *Meet critical training needs*

IR.1.3.4 A More Competitive Agricultural Sector

USAID assistance will focus on development of specific Agriculture related Development Credit Authority programs to promote increased lending to agriculture, encourage large scale farming and improve competitiveness of the agribusiness sector in Bulgaria. USDA will take the lead in supporting the sector by various initiatives in some of the following areas:

- Agribusiness Investment Missions
- Cold Chain Infrastructure Development
- Enhancing Food Grades and Standards
- Support for Food Safety Regulatory Frameworks
- WTO and Agricultural Trade Policy Training
- Improvement of Animal Health and Veterinary Services
- Biotechnology Outreach
- Animal Genetics and Feed management Training
- Plant Variety Protection Training

Critical Assumptions

To achieve the strategic SO 1.3, the Mission believes that the critical assumptions outlined in PART I of the strategy must be met. If they are not, the scope and approach of the economic growth program would need to be reevaluated. Additional specific assumptions include:

- ✓ Bulgaria is not affected by any large external economic shocks
- ✓ The Bulgarian banking system remains stable
- ✓ The Currency Board Arrangement remains stable
- ✓ All major free trade agreements and WTO membership continue to be in effect
- ✓ No major currency depreciation transpires and inflation remains at reasonable level.
- ✓ Economic and GDP growth remain positive
- ✓ Parliament continues receptivity to reform legislation required for stimulated economic growth

Development Partners

USAID/Bulgaria has designed and implemented its economic programs in close collaboration with other key development partners working in country. Through persistent donor coordination and consultations with GOB, the Mission ensures that its program portfolio complements other donor initiatives and responds to the GOB demands.

The World Bank and USAID are the only donors that provide technical support in the area of health sector reform and financing, and USAID's own internal programs complement each other. The World Bank has approved a loan to finance the Social Investment Fund, which expands on the Regional Initiatives Fund program to support local infrastructure, create employment, and stimulate economic growth. In the area of labor market, EU countries have funded a number of programs. These primarily generate short-term jobs in different regions of the country. However, they give little attention to measuring their efficiency and long-term impact.

Although there have been a number of other donor projects aimed at providing direct technical assistance to enterprises in the past, only a few of these remain active in Bulgaria. These include a number of EU assistance programs designed mainly to strengthen the business environment; GTZ projects involving direct consulting services in technological improvement, export promotion and association strengthening; and UNDP's Jobs Opportunity Program which involves the establishment business support centers in underdeveloped regions. The World Bank and the UK (through DFID) provide assistance to improve the regulatory framework and reduce numerous administrative barriers to business. These are top-down programs working primarily with the Government of Bulgaria.

Development Partners

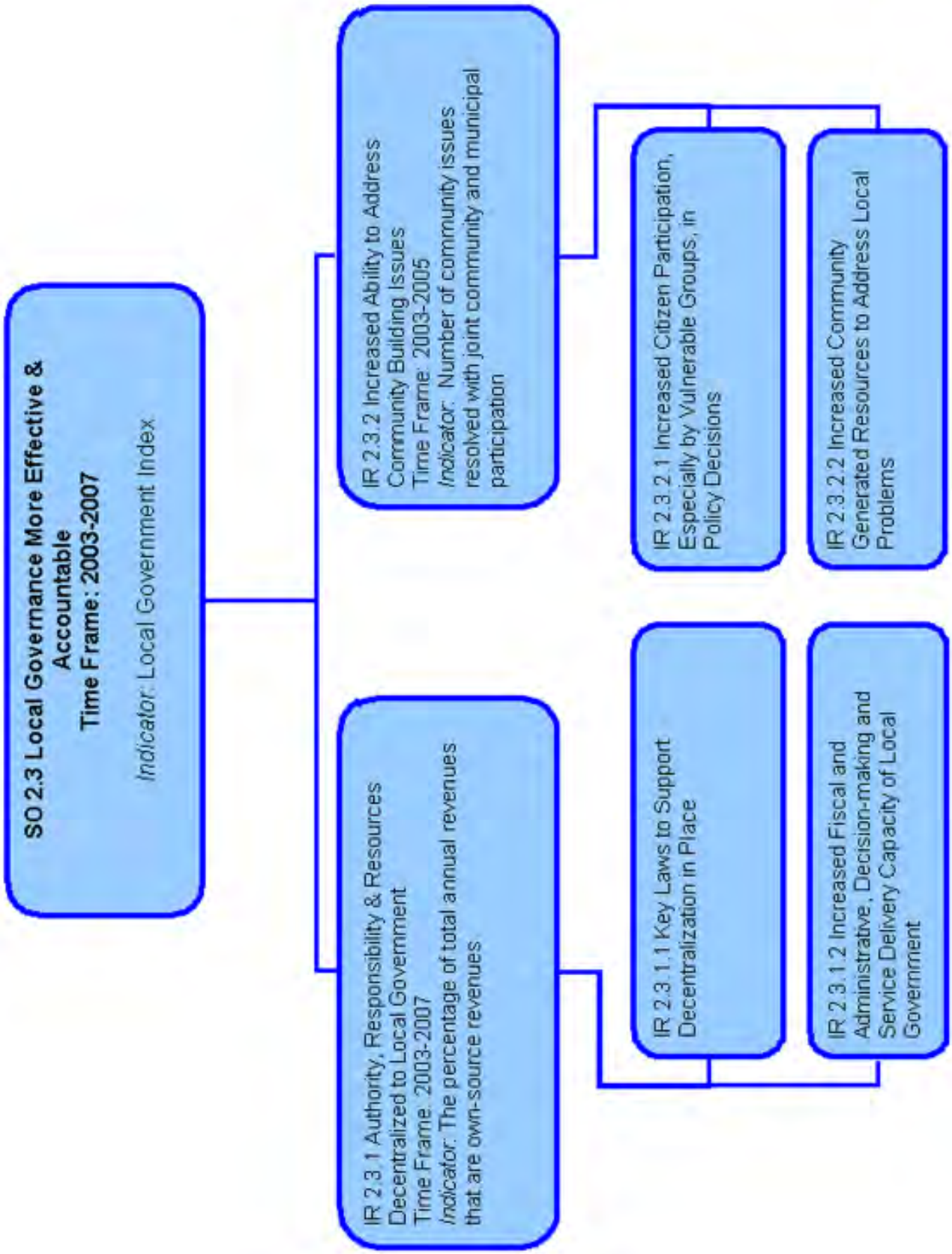
- *World Bank*
- *EU*
- *GtZ*
- *UNDP*
- *DFID*

Expected Results

By the end of the strategy period, USAID expects to have achieved the following:

- ✓ GDP per capita as percent of EU average will reach 46 percent by 2007
- ✓ Private Sector share of GDP – 80 percent by 2007
- ✓ Unemployment Rate – 13 percent by 2007
- ✓ Credit to Private Sector as percent of GDP – 25 percent by 2006
- ✓ Gross Capital Formation as percent of GDP – 33 percent by 2007

(Also, see section E below on Priority Legacies for this sector)


SO 2.3 Local Governance More Effective & Accountable
Time Frame: 2003-2007
Indicator: Local Government Index
IR 2.3.1 Authority, Responsibility & Resources Decentralized to Local Government
Time Frame: 2003-2007
Indicator: The percentage of total annual revenues that are own-source revenues
IR 2.3.2 Increased Ability to Address Community Building Issues
Time Frame: 2003-2005
Indicator: Number of community issues resolved with joint community and municipal participation
IR 2.3.1.1 Key Laws to Support Decentralization in Place
IR 2.3.1.2 Increased Fiscal and Administrative, Decision-making and Service Delivery Capacity of Local Government
IR 2.3.2.1 Increased Citizen Participation, Especially by Vulnerable Groups, in Policy Decisions
IR 2.3.2.2 Increased Community Generated Resources to Address Local Problems

C. STRENGHTENING LOCAL GOVERNANCE

SO 2.3 Local Governance More Effective and Accountable

Statement of Strategic Objective

Local governments increasingly represent and meet the needs of their citizens.

The achievement of good local governance comes through more effective local public institutions reinforcing the democratic and market principles to which the country aspires. An effective local government is one in which institutions are accountable and responsive to citizens. Local governance will be strengthened by implementation of fiscal decentralization and building the capacity of local governments to address community-building issues.

Problem Analysis

Local Governance

Governance in Bulgaria is encumbered by excessive centralization. More than a decade into the transition toward a more democratic and market-oriented society, Bulgaria remains a highly centralized state with local government essentially un-empowered. The fiscal functioning of local government is problematic because fiscal decentralization has not accompanied the shift of responsibilities from the central to the local level. Little progress has been made to match municipal revenue assignments with expenditure responsibilities. Municipal budgets continue to be dependent on the central government and inadequate funding constrains the ability of mayors and local councils to meet local needs and priorities.

Local Governance Problems

- *Bulgaria is highly centralized*
- *Revenue allocations to local government does not match responsibilities*
- *Unclear split of responsibilities*
- *Partisan relationships present issue resolution*
- *Low transparency at local level*

Unclear operational responsibilities and often adversarial and partisan relationships among central government officials, central government appointed regional governors and locally elected mayors, present considerable challenges. Regional government, re-established in 1997, exemplifies these problems. A regional governor heads each of Bulgaria's 28 districts. Appointed by the Prime Minister, regional governors are mostly responsible for designing and implementing regional economic development plans consistent with national priorities. Predictably, these governors are seen – and see themselves – as partisan representatives of the central government.

Some local governments have made progress achieving greater transparency and inclusiveness, however, many deficiencies persist. Local governments continue to suffer from inadequate administrative

capacity and management systems. Public participation in decision-making is inadequate, and citizens continue to lack mechanisms to advocate effectively as individuals and as members of issue groups. Although Sofia houses a handful of first-rate think tanks that have provided competent public policy analysis, very few are effective advocates for change on key decentralization reform issues. Decentralization will eventually correct these deficiencies, but it will be a long-term process.

Community Building Issues

- *Civil society fund-raising is limited*
- *Minorities continue to be marginalized*
- *Minorities are under-represented*
- *Disabled are excluded from labor market and public life*
- *Trafficking in persons is a significant concern*

Community Building Issues

For local governments to function in an accountable and responsive manner, it is critical that civil society organizations actively engage with local governments in community building activities. Bulgaria has 1,900 active civil society organizations. A further 4,000 Chitalishta (traditional Bulgarian community centers) provide limited educational and cultural services. Twenty-four percent of the nearly 1,900 CSOs receive some, albeit insignificant, governmental funding, and forty-eight percent receive some funding from businesses. Local fund-raising remains constrained.

Bulgaria is a relatively tolerant country that has avoided the violence and extremism of its neighbors. However, there are groups in the society who the government and the majority members of society have marginalized and made vulnerable by intolerance, and prejudice, and a mutual lack of understanding exists. While there are NGOs who advocate on behalf of vulnerable groups, little progress has been made to bring them into the mainstream of society, to meaningfully address their needs, and to mitigate the potential for social unrest. Roma, who are officially estimated to comprise 4.6 percent of the population (unofficial figures point to representation as high as 8-9 percent), represent the most marginalized and socially excluded group. They are thoroughly under-represented in all government institutions and suffer from: inadequate education and housing, chronic unemployment (95 percent in some areas), lack of professional opportunities, societal violence, and life in ghettoized settlements. The GOB is aware that making progress toward reducing discrimination against and promoting inclusion of ethnic minorities is a pre-condition for EU accession. As a result, they have requested technical assistance in the development of a comprehensive strategy for ethnic integration.

There are other segments of society that are considered vulnerable. In general, the disabled suffer from exclusion from the labor market and public life. According to the United Nations, 29,500 children are currently at risk of institutionalization as a consequence of parental neglect and the state's passive approach to social services. Therefore, USAID will promote inclusion of such groups in its programmatic activities.

Trafficking in persons from, to and through Bulgaria constitutes a serious concern. The country's vulnerable groups of women and minors are clear targets for human traffickers. Over the past two years, the GOB has acknowledged this problem and has made commitments to fight human trafficking. A draft Anti-trafficking Act has been prepared and is pending Parliament action. The Bulgarian Penal Code has been changed to criminalize trafficking in persons. Implementation of concrete anti-trafficking measures (e.g., prevention, increased awareness, training and capacity building, protection of victims, return and reintegration, and law enforcement cooperation), have begun. These efforts shall be continued and widened. However, the capacity of governmental bodies is still weak, and local institutions require support in terms of technical expertise and funding.

Results Framework

Development Hypothesis

Effective and accountable governance rests, in part, on the ability of government at the local level. USAID/Bulgaria plans to achieve greater democratic consolidation by assisting the Bulgarian government reform its structures and processes into a system of more effective local governance. Among the key necessary conditions to achieve Strengthened Local Governance are two things: (1) The need for increased decentralization or devolution of power (including authority, responsibility and resources) to local government (IR 2.3.1), and (2) The increased ability to address community issues (IR 2.3.2).

Decentralization changes the distribution of power between central and local government. It also allows for a greater degree of local decision-making and better and more locally targeted delivery of services as well as deepening the potential for democracy to expand. USAID believes that to empower local governments with the authority, responsibilities, and resources to control their own administrative and fiscal destiny, the Mission needs to promote the adoption of a favorable legal framework (IR 2.3.1.1) and to increase the capacity of local governments to discharge their responsibilities effectively and transparently (IR 2.3.1.2).

Local governance cannot be effective and accountable unless issues at the grassroots level, community building issues, are adequately addresses. The ability to address these issues (IR 2.3.2) builds upon the provision of multiple channels for citizen involvement (including minority and vulnerable populations such as ethnic groups, youth, women, the elderly) so that decision-making is closer to those most affected by it (IR 2.3.2.1) and on the availability of resources. Chances for successful community building efforts increase proportionally to the amount of resources generated through local resources (IR 2.3.2.2).

After eight years of working in the area of local governance USAID/ Bulgaria is now focusing primarily on implementing fiscal decentralization, enhancing the fiscal and administrative capacity of municipalities to function in a decentralized environment, and on increasing the ability to address community building issues through increased local participation and increased community ability to generate resources to address their own problems. These are achievable results by graduation.

Decentralization

- *Central to a healthy democracy*
- *Need to match budgets with responsibilities*
- *NGOs to advocate for fiscal reforms*

IR 2.3.1 Authority, Responsibility and Resources Decentralized to Local Government

Research indicates that good governance at the local level is central to a healthy democracy. It is at this level that most citizens have contact with their government. If people perceive local government is responsive, transparent, and effective in providing services, they are more likely to support and engage the democratic system as a whole. To this end, the devolution of authority and resources should follow the principle of "subsidiarity" (i.e., the lowest level of government capable of providing services is the best mechanism for activity implementation that meets efficiency requirements and conforms to local needs and traditions).

Laws supporting fiscal decentralization enable local governments to better match budgets with responsibilities, forcing them to be more efficient, transparent, and accountable. Capable NGOs can effectively advocate for fiscal and administrative reform and more participatory governance, and in so doing, institute pro-active democratic practices and values.

Community Building

- *Increased citizen participation in decision-making*
- *Engage vulnerable groups to address needs*
- *Create models of public-private mechanisms to address local needs*

IR 2.3.2 Increased Ability to Address Community Building Issues

More effective and accountable local government will be achieved when both municipalities and local communities engage more actively in community building. The ability of the municipal governments, NGOs and the private sector to address community building issues and to preserve social peace through conflict prevention and resolution and further inclusion of marginalized groups in policy decision-making primarily shapes citizens' perceptions of good local governance.

Through community-based outreach programs, it is possible for public and private sector organizations to engage the most vulnerable groups, and to bring their perspectives and concerns into dialogue with mainstream society. Both municipal government and NGOs can play important roles in policy formulation and implementation.

Sustainable mechanisms for citizen participation will increase the ability of both governments and communities to address community-building issues. Such mechanisms include engaging citizens in decision-making processes through developing social and economic public-private partnerships, community funds and foundations, conducting community fora, regular town hall meetings, and conciliation commissions to resolve community conflicts.

USAID wants to create models of joint public-private mechanisms that are fully participatory in local development and decision-making. To achieve this, USAID believes a new approach in selected communities will help to engage the private sector, local government, and citizens in community building through the creation of Community Funds.

(See Annex IV for details on Progress to Date of this Strategic and refer back to section B7 in PART I)

Program Approaches

Bulgaria's graduation from USAID's assistance is expected to roughly coincide with the country's proposed accession to the European Union. Cognizant of this timetable, USAID will enter into consultations with stakeholders and partners on steps to implement orderly and effective graduation. During this period, the program should continue to strengthen local governance and preparing it to be compatible with the European Charter of Local Self-Government.

Local Government Program Approach

- *Ensure enhanced autonomy of local governments*
- *Build local government capacity to meet their responsibilities*
- *Reform the legislative framework to define expenditure responsibilities*

USAID will make a major effort to leave local governments with an enhanced level of autonomy vis-à-vis their responsibilities, the ways and means by which they exercise their responsibilities and availability of resources to fulfill them. Major tasks will focus on necessary decentralization legislation and efforts to institutionalize a mechanism for maintaining dialogue between central and local government about on-going reforms and intergovernmental relations.

<u>IR 2.3.1 Authority, Responsibility and Resources Decentralized to Local Government</u>
USAID will pursue an integrated and complementary two-pronged approach to fiscal decentralization (IR 2.3.1), the core focus of this IR.

<u>IR 2.3.1.1 Key Laws Supporting Decentralization in Place</u>: USAID will support reform of the legislative framework to provide clear definition of expenditure responsibilities for central and local governments and assurance of an adequate revenue base for local governments to support public service delivery.

USAID also plans to enhance the ability and effectiveness of stakeholder organizations, groups, and individuals to advocate for decentralization reforms. The Mission will introduce mechanisms to assist local government support organizations to build coalitions that will successfully advocate for reforms. USAID will tailor activities to promote greater inclusion and good governance, and in so doing, increase participation of vulnerable groups in and increase their knowledge about local governance issues. USAID will continue to provide assistance to key local government support organizations, such as the National Association of Municipalities in the Republic of Bulgaria and the Foundation for Local Government Reform. However, realizing that these organizations are strong and pretty close to their financial sustainability, the focus of assistance will gradually move from institutional support, to a more partnership type of relationship for implementation of discrete projects through a small grants program.

Local Government Program Approach *(continued)*

- *Support advocacy for reforms*
- *Achieve sustainability of local government support organizations*
- *Continue technical twinning of US and Bulgarian cities*

IR 2.3.1.2 Increased Fiscal and Administrative, Decision-Making and Service Delivery Capacity of Local Government: In response to Ministry of Finance concerns that municipalities lack the ability to manage additional authorities and resources, USAID will support local government capacity building that responds to a key central government justification for the slow pace of fiscal decentralization. The Mission will work with appropriate authorities to address key local governance issues, such as municipal access to credit and the role of municipalities in promoting local economic development. The program will introduce mechanisms for citizen participation that further democratization of local governments and make them more transparent and responsive to citizen needs. USAID will also disseminate and replicate municipal management "best practices" implemented under the technical twinning program between U.S. and Bulgarian cities.

IR 2.3.2 Increased Ability to Address Community Building Issues
The Mission will continue support for community-based activities that emphasize ethnic cooperation and inclusion of Roma and promote joint community participation in generating local resources for local development needs.

IR 2.3.2.1 Increased Participation, Especially by Vulnerable Groups, in Policy Decisions: USAID will provide assistance to facilitate cooperative planning processes between municipalities and Roma community representatives to develop initiatives that focus on economic development, educational advancement and social support for minorities and build inter-sectoral and inter-ethnic relations. USAID also will continue to assist in the introduction of conciliation

commissions as a working model for solving urgent problems of Roma minorities and facilitating positive ethnic relations within the local community. The conciliation commission (supported by the local government, the Roma NGOs and local legal consultants) will remain as a lasting USAID accomplishment to help local communities resolve ethnically based conflicts in Bulgaria. The Roma Leadership Institute, an informal training institution for building management, leadership and networking skills will continue to train Roma leaders. USAID will support increased ethnic integration programs in five towns. USAID will provide the Ministry of Labor and Social Policy with technical assistance and training to develop a comprehensive social strategy for Roma integration and to build its capacity to implement the strategy.

USAID will collaborate with the Department of Justice and the Embassy's Public Affairs Office on trafficking of persons programs. The provision of technical and financial support should enhance the quick and efficient implementation of the new anti-trafficking legislation and standardized protocols for treatment of trafficked persons as well as sustainability of the local government and NGO initiatives.

IR 2.3.2.2 Increased Community Generated Resources to Address Local Problems: USAID will target assistance to the network of Community Funds started in 2002. The Community Funds are not-for-profit organizations with the purpose of engaging the private sector, local government and civil society organizations in fund-raising to address social or public needs of the community. USAID will increase the number of Funds from 3 to 5 with a special focus on regions with vulnerable or minority populations. In order to make the Funds sustainable, USAID will provide support to strengthen their organizational, management and fundraising capacity. USAID will increase the pool of social service NGOs that receive training and technical assistance from twenty-three to fifty and will encourage NGO/government partnerships in the area of social services delivery.

According to the new Social Assistance Act, NGOs will be able to contract with different municipalities (a potentially important source of revenues) to deliver social services alongside with the government agencies and will have an important role in policy making in the area of social assistance. USAID will provide assistance in drafting the implementing regulations of the Social Assistance Act and starting the implementation of the Act to help both local government and NGOs to actually form partnerships. Also, USAID will help develop a Social Enterprise Fund to ensure sustainability of assistance efforts. The Social Enterprise Fund will give credits to NGOs that will provide a reliable source for funding their activities.

Community Building Program Approach

- *Conciliation Commissions (to resolve local problems) to be institutionalized*
- *Support GOB Roma Integration Program*
- *Collaborate with DoJ on trafficking in persons programs*
- *Support Community Funds to raise funds to address local issues*
- *Support NGO provision of social services*

USAID is enhancing 3Net Association's capacity to be the support organization for Community Funds throughout Bulgaria. A stronger 3Net will be able to assist Community Funds in their search for resources. Also, a stronger 3Net will allow Community Funds to solve community identified issues and will ensure sustainability and replication of the models throughout the country.

Social Enterprises are a new concept in Bulgaria. They will and require continued assistance that is currently being provided by the program. Although the Social Enterprise Loan Fund will be available as a financial resource administered by a local organization, the Social Enterprises also will require additional technical support and guidance in developing and managing their businesses and in applying for and managing these loans. To this end, USAID will enhance the capacity of a local NGO to be the support organization for Social Enterprises throughout Bulgaria.

Critical Assumptions

To achieve the strategic objective, the critical assumptions identified in PART I of the strategy must hold. Additional assumptions specific to the local governance strategic objective are:

- ✓ The Bulgarian economy will continue to grow and enable the GOB to meet the budgetary demands of local governance reforms
- ✓ The GOB will make funding of these reforms a priority
- ✓ The GOB maintains its will to implement fiscal decentralization
- ✓ The GOB moves forward to compliance with the Council of Europe Framework for Protection of Minorities

Development Partners

Partners include the National Assembly, ministries, local governments, the National Association of Municipalities in the Republic of Bulgaria, the Foundation for Local Government Reform, Regional Associations of Municipalities, professional associations of municipal employees, Roma NGOs, and Community Funds.

Development Partners

- *EU*
- *UNDP*
- *World Bank*
- *Open Society*
- *Others*

Key donors include the EU, UNDP, the World Bank, the Open Society Foundation, the British Know-How Fund, the governments of the Netherlands, Switzerland, Denmark, Germany and France. These donors have implemented discrete projects targeted at local government capacity building and community building that complement USAID development activities.

Expected Results

By the end of the strategy period, USAID expects to have achieved the following results:

- ✓ Increased fiscal decentralization
  (Total Municipalities Revenue per Capita BGN 255 in 2003; BGN 280 in 2007);
- ✓ Improved quality of municipal services;
- ✓ Increased community generated resources to address local problems;
- ✓ Increased integration of Roma in mainstream society
  (Jobs created – 300 in 2002; 800 by 2006; Number of Roma children retained at school – 1,800 in 2002; 5,000 by 2006)

(Also, see section E below on Priority Legacies for this sector)

D. SO 4.2 PROGRAM SUPPORT OBJECTIVE

Statement of Program Support Objective

Program Support

- *Cross-cutting activities*
- *Special initiatives*

The Program Support Objective includes activities that have general strategic value and make significant contributions to two or more strategic objectives. They do not contribute directly to a specific priority area of the country program, are time-limited, or address extraordinary circumstances requiring assistance. Activities that have been traditionally under this objective complement other sector-specific objectives the Mission implements. Primarily they contribute to the development of human capacity within Bulgarian entities. Additionally, these activities broadly address the impact of USAID's programs through improved project preparation, evaluation and monitoring. Through their cross-cutting nature, these programs provide significant added value to the achievement of the full spectrum of Mission activities.

(See Annex IV for details on Progress to Date of this Strategic and refer back to section B7 in PART I)

Program Approaches

Program Approach to Human Capacity Development

- *Train Bulgarian experts in the U.S. and the region*
- *Demonstrate viable models of reform implementation*
- *Shift from US to third country training in later years of strategy implementation*

Human Capacity Development

Human capacity development has been one of the major long-term objectives embedded in the Mission's portfolio. With graduation on the horizon, its importance is growing. USAID views the improved indigenous human capacity as a major legacy mechanism for continuing the reforms in Bulgaria. The Mission will apply a two-pronged approach to achieve this overarching objective: 1) targeted training programs and 2) educational initiatives through the American University in Bulgaria (AUBG).

Training: The Participant Training Program will continue to be the major instrument for providing custom-tailored training for key Bulgarian leaders and professionals. This program will support all three Mission's priority areas. With the restriction to use SEED funds for training programs like the International Visitors and Hubert Humphrey programs to be enacted in FY 2004, the Participant Training Program (PTP) will remain the only tool for the whole USG Mission for human capacity development as well as to support high level visits to the States.

USAID will continue to use the PTP for providing short-term training and study tours for participants to enhance their skills, meet with expert practitioners, and observe models for their job-related responsibilities. Training events may be in the U.S., in-country, or

in the region, with specific activities selected, based on relevance and value to the participant or participants in the context of planned strategic results. As the Mission approaches the graduation date, USAID plans to increase the number of third-country and in-country training programs, and keep the overseas trips for very limited technical training efforts or high-level visits. Past experience shows that even modest training efforts, with relevant exposure to different ways of dealing with problems can improve skills, attitudes and knowledge and stimulate innovation. USAID will continue funding the small grants component on a competitive basis to returned participants in order for them to implement ideas and strategies they acquired during training.

USAID/Bulgaria will continue to benefit from the East European Scholarship Program if and until the Bureau is willing to allocate regional funding. The country hosts the center for English language and pre-departure training of participants from the region and is very well-positioned to continue to do so in the out years.

As the Mission moves towards graduation, USAID will form a Participant Alumni Association to share training experiences, application of their new knowledge and skills, and to enhance their professional networks.

American University in Bulgaria (AUBG): The University has been one of the major investments of the USG in this part of the world, already producing new leaders for the region. It is USAID's expectation that the university will become an indigenous catalyst for change. Its graduates are working for international firms, private Bulgarian businesses, non-profit organizations and independent media outlets. In addition, AUBG contributes to greater regional understanding by bringing students from the Balkans together in one institution to pursue among other things: Balkan studies, communications, business and economics from an empirical rather than from the ideological perspectives that so often dominate in the region. A sound financial footing and sustainability continue to elude the institution. AUBG's basic financial dilemma is that it educates East European students who cannot pay the full costs of tuition, employs expatriate professors, operates in a relatively week economy, and competes for donor dollars that are increasingly scarce. The ability of students to pay is not increasing as quickly as originally anticipated, thus revenues from fees and tuition cover a fraction of the cost of the students' education.

American University in Bulgaria

- *US-style university*
- *Endowment to achieve sustainability*
- *Assistance conditioned on management improvements*
- *Full sustainability expected in 2008*

The Mission will continue to work with AUBG to help them resolve the management and financial issues the University faces. USAID will disburse non-appropriated resources provided in 2002 to fund

an endowment for AUBG, leading to its financial sustainability by 2008, in an incremental approach conditioned on continued improvement of management and fund raising aspects of the University's operations. These conditionalities will be the major mechanism the Mission will use to guide the University to its desired sustainability. By mid-2003, USAID expects that the University administration will have completed upgrades to their accounting system. And by 2006, expanded fund-raising activities by AUBG are expected to result in complete financial independence.

Environmental and Biodiversity Activities

Biodiversity Conservation: During the first year of the implementation of this strategy, USAID will seek to consolidate its assistance in the area of biodiversity conservation by embarking on graduation in this sector. USAID will bring certain ongoing activities to closure, while it will continue funding others tied to concrete benchmarks jointly developed with the Bulgarian Government.

Biodiversity Conservation Priorities

- *National Ecotourism Strategy*
- *A Parks Fund to support Bulgarian protected areas*
- *Finalization of the Rila Monastery Nature Park Management Plan*

By June 2003, USAID expects to have entirely completed the institutional strengthening of the Rila and Central Balkan National Park Directorates, including partial implementation of the management plans developed and adopted with USAID assistance. Having demonstrated the economic value of non-timber forest product collection, USAID also will bring these efforts to closure with policy recommendations on the development of a national strategy for the management of non-timber natural resources. The management plan of the Rila Monastery Nature Park will be finalized by the beginning of April 2003. USAID provides limited staff involvement in going through the process of public hearings and technical expert reviews preceding management plan approval as a way of ensuring the sound and participatory land use management of this highly biologically-diverse area.

USAID needs to provide continued assistance to finalize another USAID-inspired endeavor–the development of a National Eco-Tourism Strategy. Drafted under the Mission's pilot ecotourism activities, this document can serve as an effective framework for coordination of a rural, municipal, and national economic development strategy connected to Bulgaria's tourism sector. Strategy completion will enable USAID to successfully graduate from this sector, leaving a *de facto* five-year investment plan for the Bulgarian Government or another donor to take over.

As a culmination of USAID assistance to Bulgarian protected areas, the Mission has pioneered the creation of a Parks Fund as a unique long-term tool for sustained funding to Bulgarian protected areas.

The establishment of such a Fund will ensure the financial sustainability of Bulgarian protected areas and will protect U.S. Government investment in the three parks. The Bulgarian Government has already demonstrated significant support for the establishment of the Fund by pledging $6.2 million in matching donor contributions. The World Bank also has agreed to invest $2 million in the new financing structure. As the pioneer and driving force of this initiative, USAID will assist the Fund absorb and capitalize on these resources by building its fund-raising and financial management capacity. The Mission estimates a one-year effort of coordination and institutional building activities to leverage initial capital is leveraged and to prompt concerted efforts among donors and the Bulgarian Government.

Water and Waste Water Training Center: This is a special initiative the Mission will launch in 2003. The goal of this proposed activity over a three-year period is to establish an environmental training center in cooperation with a Bulgarian university with engineering curricula. This objective will be accomplished in three phases: a) Phase I will include technical assistance to support legislative changes and regulations required to implement a Pilot Training program for water/wastewater operators; b) Phase II will consist of the design and implementation of a certification program for water/ wastewater plant operators; and c) Phase III will consist of an evaluation of the activity to identify other sources of assistance needed to help ensure sustainability of the environmental training center.

Water and Wastewater Training Center

- *3-year program to establish environmental training center*
- *Advocate for legislative reforms for professional operators*
- *Design certification training program*

Advocacy and Public Support for Reform through Media

Media legislation, independent television, active independent media associations, and professional training for broadcast journalists were virtually non-existent when USAID began a media program in 1997. USAID helped resolve all these basic issues, and as a result independent media has become a key factor in the reform implementation process in Bulgaria. At this point, the Mission views Bulgarian media as major partners in advocating for reform. This is an important new role that USAID believes the sector should play. Advocacy for reform through the media is crucial for the success of reform efforts. Improved public awareness about major reform efforts guarantees a better understanding of the changes and builds public support for the reform.

Media Advocacy

- *Use media to advocate for reforms needed under all SOs*
- *Build high professional standards within media*
- *Continue media training activities*
- *Achieve sustainability of media training center*

Knowing the broad scope of this effort and in order to further increase the effectiveness of USG programs, USAID is linking media support closely to the priority areas on which the Mission will focus. Bulgarian media will help build public support for the rule of law reform, decentralization of government, fighting corruption,

increasing the effectiveness of the legislature, resolving ethnic tensions and helping vulnerable groups. USAID will rely more closely on the linkages established among the technical programs and the media for improved advocacy efforts.

While following this approach, the Mission will continue to address the qualitative side of the media development process by building high professional standards. The training component of the media program will emphasize the development of skills that improve reporting on the above priority areas. Training will focus special attention on the development of investigative reporting and local media in ethnically mixed areas. In addition, the Mission will place a special priority on training GOB and NGOs how to work with the media to advance their work, be more responsive to their constituents and ensure greater transparency. Continued assistance will go to the Broadcast Training Center that will serve as the hub for the professional training of both broadcast and print journalists and for the development of local media. USAID expects the Center to achieve financial sustainability by 2005-2006. USAID will help with the eventual transformation of the current center into an Independent Bulgarian Broadcast Center which will function as an independent Bulgarian NGO after US assistance ends. A Board (which will include representatives of the founding USAID partner, the professional media associations established with U.S assistance and respected TV professionals) will provide oversight of the newly established NGO in order to guarantee its continued functioning as an independent training facility.

HIV/AIDS

- *Not a major issue in Bulgaria*
- *USAID to monitor trends*
- *Mission will stay involved in Global Fund activities*

HIV/AIDS

HIV/AIDS is not a major issue for Bulgaria at this time, and the Mission does not have a country specific program. There are 419 reported HIV positive cases in Bulgaria, with a trend of a rapid (five to ten times) increase in the registered cases during the past few years. The rapid growth of HIV/AIDS infections in the country is due primarily to risky sexual behavior, high prevalence of sexually transmitted infections and risky drug use practices. Some of the indirect factors are poverty, prostitution, drug and alcohol abuse, high mobility and the geographic position of the country.

Moving towards graduation, USAID will keep an eye on the trends and will be ready to quickly respond to any negative developments. USAID will stay involved in the Global Fund activities in Bulgaria. The Global Fund to fight AIDS, Tuberculosis and Malaria has approved a conditional five-year grant to Bulgaria for anti-HIV/AIDS activities. The first two years the country will receive $6,894,274. The Mission intends to offer the necessary technical support to the government of Bulgaria, when needed, to ensure effective and timely

absorption of the grant and will monitor the implementation of the anti-HIV/AIDS activities. USAID plans to actively participate in the regional HIV/AIDS program, which will be designed in the near future.

Audit, Evaluation and Project Support

This program will continue to provide instrumental assistance for all Mission activities through program staff employment contracts and related administrative support. To facilitate progress across all strategic objectives, the Mission will use these resources for program-related audits, studies, evaluations, and assessments.

Critical Assumptions

- ✓ GOB and other donors remain committed to supporting and raising capital for the Parks Endowment Fund by releasing the funds pledged previously.
- ✓ GOB will continue to support AUBG
- ✓ HIV/AIDS prevalence rate will continue to be low

Development Partners

USAID's major counterparts in the area of biodiversity conservation include the Ministry of Environment and Water, the Ministry of Economy, the Ministry of Agriculture, the National Trust Eco Fund, media, NGOs, and entrepreneurs from around the Rila and Central Balkan National Parks. USAID regularly coordinates work with other donors active in this area within the context of the Environmental Donor Coordination Group. The Swiss Government is among the major donors working in the area of forestry and biodiversity conservation. Assistance is focused on forest management, sustainable agriculture, and the development of a management plan for the Pirin National Park. UNDP has supported the sustainable development of rural areas (agriculture, forestry, and alternative tourism), biodiversity conservation in the Rhodope Mountains, and development of an information clearinghouse mechanism. EU support has focused on agriculture and rural development through the SAPARD Program. World Bank/GEF efforts have contributed to biodiversity in wetlands restoration along the Danube basin. The World Bank has also agreed to invest $2 million in the USAID-proposed Park Endowment Fund.

In the media area, the partners are the Bulgarian Media Coalition, the Association of Bulgarian Broadcasters, local independent cable networks, independent TV stations, and the German Government under a Stability Pact project. The German media training project, funded under the Stability Pact, focuses on regional radio and print

journalism training for SEE countries but does not have the capacity to meet the needs of the Bulgarian media sector alone. The GOB has delayed a three-year EU media development project scheduled to begin in 2001 that would focus on public media and journalism codes of ethics, because of a dispute over the appointment of a Bulgarian implementer.

Expected Results

- ✓ The Bulgarian Parks Fund is institutionally and financially operational, with increased fundraising, project management, and endowment fund operations capacity.
- ✓ The Management Plan for the Rila Monastery Nature Park has been reviewed and adopted by the Bulgarian Government.
- ✓ A National Ecotourism Strategy and Action Plan has been developed and submitted for Bulgarian Government endorsement.
- ✓ AUBG becomes financially sustainable
- ✓ The Independent Bulgarian Broadcast Center functions as an independent NGO

(Also, see section E below on Priority Legacies for these sub-sectors)

E. PRIORITY LEGACIES, IMPACT AND LEGACY MECHANISMS

The following highlights what USAID/Bulgaria believes are some of the priority legacies the Mission will leave at the time of graduation, their anticipated impacts and their legacy mechanisms in more detail. Our experience is that some legacies become legacy mechanisms for other legacies. This shows the synergies being created over time as one result builds upon another. Annex V provides a more detailed list of legacies and legacy mechanisms that USAID will leave after 2007.

SO 2.2 Enhanced Rule of Law

By the time of graduation, the Mission will have recorded major improvements in the area of rule-of-law. Contributing factors will be: a) the establishment of a first class National Justice Institute providing for excellence of judicial court staff, b) a strengthened Supreme Judicial Council that is selecting judicial operators based on merit, c) a fully automated court case management system providing for improved court administration, d) establishment of a network of legal clinics serving the needs of the most vulnerable, e) a series of laws governing the judiciary and Bar that conform to international standards, and f) a set of sustainable public institutions addressing fraud and corruption effectively.

Magistrate Training Center/National Justice Institute

The Magistrates Training Center (MTC), established by USAID/ Bulgaria, has been transformed from a non-governmental organization into: the National Justice Institute (NJI) — a publicly-financed institution that has its foundations in the country's statutes. NJI is a quality training institution managed and taught by Bulgarian faculty using contemporary adult education methodologies and international judicial best training practices. The NJI is a major legacy that USAID is leaving behind. Its importance and impact will be measured by the professional excellence of judges and court staff capable of rendering timely, independent and fair decisions, thereby enhancing the judiciary's performance and increasing public trust.

The legacy mechanisms are:

- ✓ The Supreme Judicial Council (SCJ) that allocates adequate financing to and assumes "ownership" of the National Justice Institute and that is committed to strategic planning as a means of focusing training activities and providing guidance for organizational development;
- ✓ The NJI, with a strong Board of Directors and Program Council whose members and alumni are active liaisons to other stakeholders, the public, press and specific constituencies; and

- ✓ Professional associations (judges, court administrators, court clerks, sentence execution judges and lawyers) and advocacy organizations that together create a positive legal and policy environment.

Strengthened Supreme Judicial Council

A strengthened Supreme Judicial Council (SJC) will include: a) the creation of professional court administrators; b) institutionalized merit selection and promotion practices for judges and court staff; c) revisions to the SJC internal rules and structure, entailing staff changes and establishment of offices for court administration, judicial discipline, court budgeting and legislative outreach; and d) eenhanced effectiveness of the working relationships with the different branches of government based on clear lines of the authority and responsibility between the SJC and the Ministry of Justice (MOJ).

Among its legacies it will serve as the policy formulation and decision-making body for the judiciary, independently will formulate and administer the budget for the judiciary, and will manage court administrative functions. A strengthened SJC will be a strong advocate for the needs of the judiciary with other governmental bodies such as the Parliament and the Council of Ministers, and professional SJC members and staff will support the effective administration of justice.

The legacy mechanisms for strengthening the SJC are:

- ✓ Continued donor pressure from the European Union and World Bank for the GOB to adequately fund the SJC;
- ✓ The SJC's capable to articulate system needs based on solid statistical data and to transparently develop and manage its budget;
- ✓ Public and professional organizations that monitor and demand effective judicial performance.

Improved Court Administration

A key legacy of USAID's work on court administration will be a fully automated court case management system (CMS). Initially, it will be introduced into a network of targeted courts at various levels and locations throughout Bulgaria, where it will guide the movement of cases between these courts and stimulate the interest of other courts in its adoption. A national Help Desk will be established to facilitate its use. The impact will be a judiciary that is functioning with principles of modern court administration, increased transparency, and greater public confidence and trust in it.

The CMS provides for the improved establishment of baseline data, connectivity among courts, better case tracking, increased transparency allowing easier and faster access to case and court information, and controlled electronic access to court documents but with the potential for widespread internet availability of court files. The creation of the court administrator's position will be critical to the establishment of the CMS and achieving and sustaining meaningful court reform. The cumulative impact of the CMS is improved public perception of the integrity of the judiciary and decreased court delays.

The legacy mechanisms for an improved court administration include:

- ✓ The Courts in Partnership (CIP) program, capitalizing on the positive results of the Model Courts (MCs), will continue installation of modern court administration principles and management at the national level. The CIP program will support sustainability by facilitating optimal workflow and utilization of court staff and by enhancing automation capabilities with the overall aim of increasing customer service.
- ✓ The "Department for Court Administration" within the National Justice Institute will develop course curricula and will deliver training for newly hired court administrators, chairpersons, and in some cases, administrative secretaries and/or chief accountants. This approach allows for immediate practical application of principles as well as an evaluation of assignments by skilled professionals.
- ✓ A judiciary that supports the use of and further development of the CMS which complies with national software technical standards.
- ✓ The SJC's and the Ministry of Justice's Information Technology Departments will be strengthened.

EU's continuing pressure for increased reduction of case delays and improved case management in courts will contribute to the success of these activities.

A Network of Functioning Legal Clinics

USAID has helped establish Legal Clinics that are affiliated with Bulgarian law schools. These clinics provide law students with practical legal advocacy skills

These clinics introduce legal education reforms into law schools. They also provide legal assistance to vulnerable groups. Moreover, they provide a corps of trained legal mentors with capacity to help students gain confidence in their ability and develop their professional integrity.

To provide for the sustainability of these clinics, USAID/Bulgaria will:

- ✓ work with the law schools themselves to assist them to see the benefits of such advocacy training;
- ✓ stimulate demand by students to learn practical advocacy skills;
- ✓ encourage law firms to hire recently graduated students with legal advocacy skills.

Laws and Regulations on Judicial Reform Enacted and Enforced

A direct legacy of USAID's efforts is a set of laws enacted and regulations promulgated governing the judiciary and Bar that conform to international norms. These include: Procedural Codes, the Judicial System Act (JSA) and implementing regulations, the Law on the Bar, Codes of Ethics for judges and lawyers, a Code of Conduct for court clerks, and amended laws providing for alternative dispute resolution (ADR).

To provide for this legacy, the Mission will seek to ensure a) that the JSA and implementing regulations govern court administration, b) that the Law on the Bar governs the practice of law, c) that judges and lawyers that do not follow the code of ethics are disciplined for infractions, and d) that the Procedural codes promote efforts to mediate labor and family disputes, thus lessening court dockets and saving potential court users' time and money.

The legacy mechanisms include but are not limited to:

- ✓ Professional organizations of judges, court staff, and lawyers participate in creation of the laws and facilitate their implementation.
- ✓ The Bulgarian people demand better judicial system

Models for Prevention of Fraud and Corruption in Public Institutions in Place

USAID is working to apply modern performance and financial audit techniques that serve as models to the various GOB ministries for improved efficiency in operations and prevention of fraud and corruption. The National Audit Office, as the supreme audit institution (external audit), will be providing for improved methodologies for audit of internal controls, best anti-corruption audit practices, and assets disclosure legislation. The Public Internal Financial Control Agency, for its part, will be implementing an integrated policy on internal financial controls. Complementing these two entities, Internal Audit Units will be established/reinforced in selected Bulgarian ministries.

The key legacy sought is Bulgarian public institutions that act more transparently and accountably, leading to reduced corruption.

SO 1.3 Economic Growth and Increased Prosperity

At the time of graduation, USAID/Bulgaria envisages a more prosperous Bulgarian economy, buoyed by: a) a credit system that meets the needs of Bulgarians, especially SMEs and small farmers; b) a strong banking sector characterized by new entries, the establishment of a first rate credit bureau, and a high quality banker trainer institute; c) mechanisms in place for the delivery of highly-valued business development services; d) a regulated energy market that meets the requirements of Bulgarian consumers and businesses; and e) a fiscally sound and sustainable pension system that permits workers to retire with greater security.

Sustainable Micro-lending Institutions

USAID will leave behind two fully sustainable Bulgarian micro-lending institutions—Nachala Cooperative and USTOI.

The two organizations will continue to deliver small loans to private entrepreneurs, thus meeting the credit needs of indigenous micro and small businesses. Continuous provision of micro-lending services in Bulgaria will address the needs of self-employed and disadvantaged people for easier access to credit. This will reduce unemployment and increase income opportunities for poor people. In addition, an improved micro-finance system will teach clients how to better utilize loan capital, enabling them to grow their businesses and achieve higher levels of economic and social welfare.

Both financial and operational sustainability of the micro-lending mechanisms will be secured by:

- ✓ the provision of loans at commercial rates (prevailing interest rates offered by other similar institutions and commercial banks in order for Nachala and USTOI to be competitive);
- ✓ revolving capital fund established (seed capital from USAID grant will remain with the institutions);
- ✓ low delinquency (to be ensured by both strong internal and external supervision); and
- ✓ profit making (to be ensured by charging fees for loan administration and applying commercial interest rates)

Sustainable SME Development Services

Bulgarian SMEs and private sector companies will inherit valued, sustainable delivery mechanisms for provision of business development services. USAID will graduate its SME assistance programs by transferring U.S. business models and know-how to local consulting companies and Bulgarian business experts. These developments will have a profound impact on Bulgaria, given the role of SMEs as the major catalysts of employment and income generation in the long run.

Legacy mechanisms include:

- ✓ local consultants capable of providing solid business development advice;
- ✓ market-tested, private sector oriented and commercially viable models delivered on a fee-base structure.

Bulgarian-American Enterprise Fund (BAEF)

The USAID-supported BAEF has been: a) a leader in starting new businesses and encouraging entrepreneurship, b) establishing joint ventures, and c) providing assistance, especially management, to Bulgarian businesses.

The BAEF has been a significant leader in drafting the Mortgage Law, Mortgage Bond Law and the Special Purpose Vehicle Law, together they have furthered development of the mortgage and bond markets, in addition to a Special Purpose Vehicle on a public real estate fund. To further financial intermediation and access to credit by SMEs and individuals, the BAEF also has established a private Bulgarian Credit Bureau. Finally, BAEF put in place a wholly owned bank—the Bulgarian-American Credit Bank, a recognized leader in mortgage and construction lending.

BAEF's legacy is one that will lead to other USAID/Bulgaria legacies over time, including:

- ✓ a commercial banking sector that is rolling out new innovative products and services that attract clients; and
- ✓ the Bulgarian-American Credit Bank and a private Bulgarian credit bureau, together contributing to a stronger banking sector—a development that will facilitate Bulgaria's entry into the European Union.

A Fully Independent State Energy Regulatory Commission (SERC)

USAID's support for the State Energy Regulatory Commission will provide a legacy for the establishment of: a) a sound energy legal and regulatory framework; and b) a sustainable fully independent energy regulatory organization capable of carrying out its responsibilities in tariffs, accounting, and regulatory reporting and monitoring and related regulatory functions by the end of the funding period.

With a legal framework as well as the regulatory policies and practices in place, Bulgaria's electricity market will meet the needs of the country's consumers. In addition, these developments will set the stage for Bulgaria's participation in broader regional markets. The country will be part of the Southeast Europe Regional Electricity Market in 2006 and a member of the European Union by 2007.

The legacy mechanism is a sustainable, fully independent State Energy Regulatory Commission. Its legacy is the achievement of a modern, safe power system in a free market based economy that:

- ✓ provides for the attraction of private capital (foreign direct investments and domestic investments); and
- ✓ permits Bulgaria's participation and full integration into regional markets.

A Sustainable International Banking Institute (IBI)

The USAID-funded banker training program will provide legacies of a sustainable banker training institution (IBI), a cadre of local trainers, and over 850 Bulgarian bankers trained on all aspects of banking and management.

Through USAID technical assistance, IBI has developed significantly. This is reflected in the exceptional growth of enrollment in courses delivered by IBI. During the entire year of 1999, the year preceding USAID assistance, IBI had enrollment of 845 persons in short term courses. Over 1,500 persons attended similar courses in 2002. And, in only the first two months of 2003, 433 persons enrolled in short term courses. There will be continued training of Bulgarian bankers by Bulgarian lecturers, using the significant body of course materials, instructor guides and case studies developed with USAID assistance.

The legacy, a banker-training program that elevates the skills of bankers and improves the overall quality of bank management in Bulgaria, will be assisted through tuition collected from USAID-funded courses that has been turned over to IBI for their future capital growth needs.

A New, Comprehensive Three-pillar, Fiscally Sound and Sustainable Pension System

USAID will leave behind the legacy of a new three-pillar pension system that provides Bulgarians greater security in old age through pensions, financed with proceeds from diversified sources and placed on a sound financial footing. USAID has been instrumental in the reformation of Bulgaria's pension system. USAID expects that, in 2007, the private pension insurance companies will manage over $900 million, a development that will significantly increase domestic investment in the Bulgarian economy.

Pension reform is an important part of the economic and social reform of Bulgaria. Historic and demographic developments rendered the previous pay-as-you-go pension system in Bulgaria unsustainable. With a deteriorating dependency ratio, decreasing birth rates, increasing levels of non-compliance, and increasing emigration

among the younger generations, Bulgaria has been unable to support the retirement benefits of future pensioners. With the introduction of the three-pillar pension system, the greater part of retirement income will come from the privately- managed pension funds, providing for higher retirement incomes for the more than 2 million pensioners.

The Mission will be working to ensure the sustainability of the new pension system through:

- ✓ the establishment of a proper legal and regulatory framework;
- ✓ effective regulation of the private pension funds;
- ✓ the installation of efficient administrative and management information systems; and
- ✓ broad-based participation in the system.

SO 2.3 Local Government Functions More Effectively and Accountably

USAID/Bulgaria envisages a new political and economic order in which the needs of citizens at the grassroots level are met far more effectively than hitherto. This will be a direct by-product of a) the Mission's landmark work in fiscal decentralization, b) its efforts to address the discrimination that takes place against the minority Roma peoples where the focus will be on the establishment of conciliatory commissions, and c) its community building work – the latter taking place through the establishment of "community funds" and the revitalization of the local community centers ("Chitalishta")

A Strong Local Government System

As a result of over a decade of assistance in the local government sector, USAID will leave behind a stronger local government system with: a) an intergovernmental fiscal system reoriented from a centralized fiscal model to one that is decentralized and provides greater fiscal autonomy for local governments; b) a legal framework that grants more authority and greater resources to local government; c) stronger local government capacity to exercise its responsibilities under the law and a vision of leadership in the community; d) an institutional structure for sustained dialogue between the central government and local governments about on-going reforms and intergovernmental relations; and e) strong and sustainable local government support organizations including associations, think tanks, and training organizations.

The key legacy will be a strong local government system through which local governments will be able to respond more effectively to the needs of their citizens. This will be achieved through both increased finances and greater technical and management capacity

within local administrations. The strengthened system will provide services and infrastructure that attract investment and promote social development. The system also ensures that citizens will be involved in local decision-making that, in turn, will increase confidence in and support for local government. Local governments also will have several NGOs to which they can turn for provision of information, training, best practices, services and assistance in a variety of areas important to the smooth and efficient functioning of local administrations.

The legacy of a strong local government system will be sustained after USAID's graduation through a number of means:

- ✓ There will be broad public support and greater public awareness of the importance of strong local government;
- ✓ A legal framework, " a body of laws," will exist supporting fiscal decentralization;
- ✓ An institutionalized mechanism will exist for sustaining dialog between central and local government relative to ongoing reforms and intergovernmental fiscal relations;
- ✓ The National Association of Municipalities (NAMRB) will continue to advocate for decentralization and support municipal finance management improvements;
- ✓ The NAMRB, the Foundation for Local Government Reform (FLGR), and the Regional Associations of Municipalities (RAMs) will be financially secure having support from a variety of sources such as membership dues, grants and assistance from the EU and other donors, and receipt of payment for services they render.

National Social Strategy for Ethnic Integration, Endorsed by Ministry of Labor and Social Policy the and Conciliation Commissions, Applied Nationwide

Within its existing strategy, USAID has undertaken concrete measures on ethnic integration to mitigate the negative social aspects of discrimination against the Roma population. USAID's legacy is the model for multi-ethnic conciliation as a structure to prevent and/or resolve ethnically based disputes. Conciliation commissions will exist in at least five towns with large Roma populations. At the local level, conciliation commissions will ensure that human rights of the minorities are protected. They will also help reduce civil unrest and will improve inter-ethnic relations. These commissions are an integral part of the GOB's Social Strategy for Ethnic Integration, which will be implemented by the Ministry of Labor and Social Policy.

The impact of this social strategy on ethnic integration will ensure Bulgaria's compliance with the Council of Europe Framework Convention for Protection of National Minorities. At the local level, ethnic conciliation commissions will ensure that the human rights

of the minorities are protected. They will also help avoid civil unrest and will improve inter-ethnic relations.

The legacy mechanism for the measures to integrate the Roma includes institutionalization and national budget allocation within the Ministry of Labor and Social Policy to implement the social integration strategy. The mechanisms for sustaining this USAID legacy will also seek in-kind and financial contributions from the:

- Conciliation Commissions
- Municipalities
- Roma NGOs

Mechanisms for Mobilizing Local Resources for Community Building

USAID has established a mechanism to mobilize local resources for community building. USAID's fundamental contribution is development of a network of NGOs called "Community Fund" in five locations. The Community Fund organizations mobilize resources from the private sector, local government, and citizens for social or public purposes. USAID also has strengthened community building in Bulgaria by reviving the role of the chitalishta (traditional local community centers) as a catalyst for citizen participation at the very grassroots level. USAID strengthened the institutional capacity of 300 chitalishta to implement income-generating activities.

The impact of mechanisms for mobilizing local resources is that they provide increased locally generated resources for community building needs. USAID expects that partnerships established between municipalities, private businesses and the NGOs will benefit the community and will revive the country's philanthropic tradition. Also, community building and participation will be strengthened through the revitalized network of the chitalishta.

The legacy mechanism is the Community Fund organization itself and its ability to conduct effective local fundraising campaigns to develop projects to meet priority local needs. Chitalishta have both institutional capacity and enabling legal environment to implement income-generating activities to ensure their self-sustainability. Community Funds together with the Chitalishta provide for partnerships between the municipalities, private businesses and the NGOS that benefit community residents, reviving the country's philanthropic tradition.

SO 4.2 Program Support Objective

The American University in Bulgaria (AUBG)

USAID has been the principal funder of the American University in Bulgaria (AUBG) since its inception. It is a U.S.-style liberal arts residential university, offering an American curriculum with predominately American professors.

The University will continue to support the concepts of an open-market, democratic society by instilling U.S. oriented values in its students. The University trains the brightest Bulgarian and regional students to become the future leaders of Bulgaria and the region.

The legacy mechanisms for AUBG are:

- ✓ An endowment provided under a cooperative agreement with USAID for AUBG to continue as a legacy. Oversight of the agreement will end in 2007, at which time AUBG will be fully sustainable.
- ✓ AUBG will also be sustained by student tuitions and increased non-USG fundraising efforts.
- ✓ An Executive Masters of Business Administration Program and other outreach educational efforts will provide additional funding to maintain the university.

Highly Trained Public and Private Sector Professionals

The USAID funded Participant Training Program provides and will continue to provide, even after graduation, a legacy of highly trained professionals in both the public and private sector.

These individuals will collectively contribute to the continued transition of Bulgaria, initiated under the USAID assistance program, from a command economy.

The Participant Training Program legacy will be achieved through:

- ✓ An alumni association of successful participants. This association will meet periodically to share individual experiences in Bulgaria through the alumni network.
- ✓ These shared experiences will continue the enhanced training concepts gained through the USAID program. Individual members will fund their participation in the association.

Long-Term Financial Sustainability of Bulgarian Protected Areas

USAID will ensure that Bulgaria's rich biological diversity is better protected and preserved by securing the long-term financial sustainability of Bulgarian protected areas.

This will have an important impact in terms of safeguarding natural ecosystems of regional and international conservation significance, as well as in terms of improving the health and quality of life of future generations.

Financial sustainability will be achieved through the following legacy mechanisms:

- ✓ Establishment of the first Parks Endowment Fund in Eastern Europe and Central Asia, meant to address one of the biggest issues facing Bulgarian protected areas – the access to financing.
- ✓ The Fund will exist as a practical mechanism complementing government policy and the administration of protected areas.
- ✓ It will afford Bulgarian parks a sustainable source of funding necessary for contemporary protected areas management, including support for capital investment, park development, infrastructure, and tourism development activities.

The Broadcast Training Center

Started with USAID assistance in 1999, the Broadcast Training Center is the only TV training facility in Bulgaria. It plays a crucial role in launching and developing broadcast media outlets that meet high professional standards. The Center offers modern equipment and a variety of training modules to improve the news-reporting skills of Bulgarian TV journalists.

The Broadcast Training Center has a considerable impact on raising the quality of news-production among the independent broadcast media. And this is spread nationwide as the Center reaches out to all starting TV stations.

Financial sustainability of the Broadcast training center will be ensured by fees for services (training courses). The target date for its sustainability is 2007.

F. RELATED PROGRAMMATIC ISSUE: ENVIRONMENTAL CONSIDERATIONS

USAID/Bulgaria contracted a biodiversity and natural resources assessment as part of the process of developing this strategy (see Annex VII, Assessment of Natural Resources and the Environment Section). The E&E Bureau Environmental Officer reviewed the assessment and found it met all requirements of FAA Section 119. Program elements within the Mission's Rule of Law, Economic Growth, and Program Support areas of this strategy contribute towards those recommendations identified as priority areas by the assessment.

Although environmental protection is a cross-cutting issue with both economic growth and governance implications, USAID/Bulgaria plans to tie most environment-related activities to its economic portfolio. In this regard, the park ecotourism model developed under the Biodiversity Conservation and Economic Growth Project might be extended to other municipalities and thus complement the development of the Bulgarian tourism industry cluster as a catalyst of economic growth. The Mission plans to complete the development of the Rila Monastery Nature Park management plan as well as bring closure to investment in the Rila and Central Balkan National Parks during the first year of strategy implementation. To ensure sustainability of the protected area system, USAID plans to join forces with other donors working in this area for the creation of a National Parks Fund to support capital investment, infrastructure, and tourism development activities. With regard to the Rule of Law SO, the Mission will utilize the existing judicial training program to train both judges and prosecutors in environmental law. In general, all judicial reform efforts will lead to improved implementation of the Bulgarian environmental laws.

After approval of this strategy, the Mission will complete an Initial Environmental Examination for the overall portfolio at the Strategic Objective level. This review will identify all mitigation efforts required and establish guidelines for additional reviews that might be required in the future where the scope of environmental impacts cannot be readily or completely identified.

PART III: RESOURCE REQUIREMENTS

A. Program Budget

Annual funding levels shown in the tables below reflect the conclusion of Bulgaria's Assistance Review in December 2002 that steady SEED funding through FY 2006 at $28 million/year will maximize the likelihood of achieving Bulgaria's reforms and hasten EU accession. USAID/Bulgaria will rely on the pledged resources to complete the necessary economic reforms, move forward the reforms in the rule of law and local governance sectors and graduate from bilateral assistance after 2007. Any remaining needs for assistance could be met through the use of post-presence mechanisms funded through the regional program.

Table 1 presents the allocation of resources among the strategic objectives and reflects the Mission's priorities and vision for a staggered phase out. Rule of law and, to some extent local governance, steadily gain resources over the strategic period. Activities under these SOs are expected to continue until the end of the strategy period. This timetable is based on the anticipated pace of the reform in each sector and acknowledges that more time will be needed to accomplish reforms in the more controversial areas as judicial reform, crime and corruption, law enforcement, and decentralization. The timeline also provides for a longer period of technical assistance to implement reforms in sectors where institutional capacity is weakest or where the attitudinal and behavioral change required is greatest. Finally, the proposed timeline allows for the gradual assumption of responsibility by the European Union based on realistic assumptions about the EU's ability to mobilize technical assistance and begin to disburse aid to the sectors from which USAID is withdrawing.

The graduation strategy proposes relatively high levels of resources for economic reform efforts in FYs 2003 and 2004 (41-42 percent of the annual country level) in order to give the sector a final boost and prepare the Bulgarian economy to compete successfully when Bulgaria joins the EU. The Mission projects that resource levels for the economic SO will decline in FY 2005 as USAID's economic reform activities draw to a close, and resources will be directed to the rule of law and local governance sectors. FY 2005 will be the last year of funding for the majority of the activities in the economic area, with healthcare and pension reforms getting their final tranche in FY 2004. The limited resources budgeted for this SO in FY 2006 will address the sustainability issue of indigenous entities, which will continue to be the driving force for reforms once USAID programs phase out. In addition, only a few activities providing for improved access to financial resources and some job creation initiatives will continue to receive marginal funding.

Funding for the program support objective remains fairly constant during the strategic period with a trend towards increasing the allocation for program evaluation and support type activities as USAID/ Bulgaria approaches graduation. The FY 2003 spike is attributed to significantly higher transfer levels to the Department of State for Public diplomacy programs, most of which are not eligible for SEED funding in the out years.

B. Programmatic Options

The Mission accepts that Bulgaria will graduate from bilateral assistance at the end of the strategy period and, hence, has proposed realistic budget allocations among the strategic objectives, based on actual needs. In return, the Mission requests that the SEED Coordinator and the Bureau make every effort to allocate the agreed upon resources in order to promote an orderly, successful graduation. In contrast, if these resources are not forthcoming or are abruptly curtailed, the reform will be truncated and any hope of promoting a seamless transition from U.S. to European assistance will be jeopardized. Further, an abrupt graduation would not only jeopardize ongoing reform but also threaten to reverse progress already achieved, rendering Bulgaria vulnerable to political and economic instability.

If resources declined significantly before FY 2005 and/or were sharply curtailed before FY 2006, the Mission would have no choice but to phase out assistance in declining order of strategic priorities. Healthcare, pension and labor market reform efforts, as well as community level activities addressing the needs of vulnerable groups, will have to be abandoned. Support to local governance will be significantly narrowed down and economic reform activities will have to be phased out more quickly than initially planned. Rule of law programs are crucial for the success of fundamental reform and will have to continue.

On the contrary, if Bulgaria gets rewarded for its tentative role in Iraq reconstruction, USAID/Bulgaria has the management capacity to absorb the additional resources that might flow into the country. These would allow the Mission to strengthen certain programmatic components of its portfolio and be more responsive to the needs of the GOB.

FY 2003 – FY 2007
USAID/BULGARIA – RESOURCE REQUIREMENTS
BY STRATEGIC OBJECTIVE
(In $000s)

Table 1

SO	STRATEGIC OBJECTIVE	FY 2003	FY 2004	FY 2005	FY 2006
2.2	Enhanced Rule of Law	7,265	8,220	9,550	12,450
1.3	Economic Growth and Increased Prosperity	11,635	11,730	9,700	5,350
2.3	Local Governance More Effective & Accountable	4,700	4,800	5,150	6,800
4.2	Program Support Objective	4,400	3,250	3,600	3,400
	TOTALS	**28,000**	**28,000**	**28,000**	**28,000**

FY2003 – FY 2007
USAID/BULGARIA – RESOURCE REQUIREMENTS
BY STRATEGIC OBJECTIVE AND INTERMEDIATE RESULT
(In $000s)

Table 2

SO	IR	*IR Name*	FY 2003	FY 2004	FY 2005	FY 2006
2.2		**Enhanced Rule of Law**				
	2.2.1	A Strengthened Judicial System	3,115	3,800	5,150	7,450
	2.2.2	Reduced Corruption through Enhanced Transparency and Accountability	2,250	2,250	2,400	3,000
	2.2.3	Improved Law Enforcement Mechanisms	1,900	2,170	2,000	2,000
		SO 2.2 Total	***7,265***	***8,220***	***9,550***	***12,450***
1.3		**Economic Growth and Increased Prosperity**				
	1.3.1	Improved Business Climate	5,075	5,409	4,350	700
	1.3.2	Jobs Created through Strengthened Private Sector	3,410	2,900	2,450	1,850
	1.3.3	Improved Access to Financial Resources	2,500	2,621*	2,100*	2,800
	1.3.4	A More Competitive Agricultural Sector	650	800**	800**	
		SO 1.3 Total	***11,635***	***11,730***	***9,700***	***5,350***
2.3		**Local Governance More Effective & Accountable**				
	2.3.1	Authority, Responsibility& Resources Decentralized to Local Government	3,100	3,100	3,300	3,500
	2.3.2	Increased Ability to Address Community Building Issues	1,600	1,700	1,850	3,300
		SO 2.3 Total	***4,700***	***4,800***	***5,150***	***6,800***
4.2		**Program Support Objective**	4,400	3,250	3,600	3,400
		TOTAL	**28,000**	**28,000**	**28,000**	**28,000**

Notes: *Level of funding still under discussion ** Funding shared by USDA and USAID

C. Management Requirements

The USAID/Bulgaria organizational structure consists of two technical offices/teams managing the three core strategic objectives, a Program Office overseeing the Program Support Objective and an Executive Office. The financial management function is split between the Program and Executive Offices with the Program Office managing SEED resources and the EXO managing the operating expenses. The EXO performs purchasing and contracting functions for OE funded activities and limited program funded activities. The Regional Services Center in Budapest provides contracting, legal and controller support to the mission.

In view of plans to graduate Bulgaria from bilateral assistance 18 – 24 months after the last obligation of resources in FY 2006, USAID has opted to consolidate its portfolio from seven to three strategic objectives and one program support objective. This consolidation not only reduces reporting requirements but also facilitates a reduction in the number of management units (contracts and grants.) This program consolidation streamlines management, maximizes the use of scarce budgetary resources and fosters synergies among similar programs in the same sector.

With a program dollar to staff ratio exceeding the Bureau's norm, USAID/Bulgaria will continue to rely on support from Washington. The Mission plans to continue to utilize the centrally managed field support agreements in USAID/W Pillar Bureaus. Although the number of these awards is limited, the time and effort saved by using centrally managed mechanisms are considerable. As we move closer to graduation and we see workforce levels decrease, we would expect an increased use of USAID/W services. With the reorganization of the headquarters, it is not quite clear how we are going to access the services that in the past were regularly provided by the E&E Bureau technical offices. We would definitely rely on Bureau's leadership in clarifying this in the near future.

Workforce Table:

OE Funded	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
USDH	3	3	3	3	1	0
USPSC-Offshore	2	1	1	1	1	0
FSNPSC	18	18	18	15	13	3
SEED Funded						
USPSC	3	2	1	0	0	0
FSNPSC	8	9	9	6	4	3
FSN Contractor	1	1	1	1	1	1
Trust Funded						
USPSC		1	1	1	1	
TOTAL	35	35	34	27	20	7

Through 2006 while funding continues, USAID will continue to require the services of three USDH staff members – a Mission Director, a Democracy Officer, and a Private Sector Officer. In 2007 we will reduce this need to just a Mission Director. Nevertheless, as programs continue to contract and Bulgarian national staff assume increased management responsibilities, the number of USPSCs is projected to decline such that by 2007 only the USPSC Executive Officer remains, and by 2008 all staff will be FSNs with their administrative support being provided by the Embassy through ICASS (International Cooperative Administrative Support Services) arrangements. FSN levels will slowly decline as program responsibilities decrease and administrative operations are handed over to the Embassy ICASS services with only a core of FSNs left in 2008 to handle residual and legacy programs.

Operating Expense Table:

FY '03	FY '04	FY '05	FY '06	FY '07	FY '08
1,318,000	1,446,000	1,501,000	1,108,000	971,000	242,000

Operating expenses are projected to remain fairly constant until 2007 when USDH and USPSC levels decrease significantly. There will be increased costs associated with the move of USAID to the New Embassy Compound. There will also be additional costs in '05, '06, '07, and '08 associated with the FSN Outplacement Program that will have three dimensions. First there will be bonuses of 20 – 25 percent for FSNs who agree to stay through the last year that their position is funded. Secondly there will be a training program set up for FSNs starting in 2005 to provide them with training that will assist them with moving on to new careers after they have completed their contracts with USAID and thirdly there will be outplacement services to assist FSNs with their transition. This type of program is consistent with the efforts in earlier closeout missions in the E&E Bureau and has met with great success in both easing the FSN's transition and also insuring that the mission has the right staff in place during the closeout process. Both of these elements are critical to a successful closeout.

ANNEX I

BULGARIA ASSISTANCE REVIEW
DECEMBER 12-13, 2002

SUMMARY AND CONCLUSIONS

I. OPENING REMARKS

Thomas Adams, Acting Coordinator of the Office of the Coordinator for U.S. Assistance for Europe and Eurasia (EUR/ACE) welcomed interagency attendees. He recommended that the possibility of Bulgaria's potential early "graduation" should not affect the assessment of where the country was in relation to other countries that had achieved levels of democratic and economic reforms sufficient to graduate from SEED assistance.

II. AMBASSADOR'S PERSPECTIVE

In order to continue to generate tangible benefits to the U.S., Ambassador Pardew requested sustained funding ($28 million) through 2006 and authority to institute new programs where needed in three priority areas: civil security and rule of law, economic reform, and local governance. The U.S. is the only donor providing the funds and technical assistance at the ground level in these deficient areas.

Bulgaria was compared to an adolescent in its progress towards establishing institutions mature enough to advance Western democratic and economic values. Bulgaria's strong macroeconomic numbers reflect successful adherence to international financial institution disciplines, but have not yet raised foreign investor confidence or increased the living standard of the Bulgarian people. The average salary in Bulgaria is $125/month, unemployment ranges from 20-80% depending on age, city, and ethnicity, and only 8% of Bulgarians express satisfaction with their lives. Without continued U.S. assistance through carefully targeted programs that open opportunities for improvement, that dissatisfaction could increase the destabilizing influences of organized crime, corruption, and lawlessness. (For example, the U.S. Secret Service has identified Bulgaria as second in the world only to Colombia in counterfeiting currency.)

Ambassador Pardew underscored that U.S. assistance, particularly when tightly conditioned on specific objectives, gave him leverage to engage Bulgaria's continued cooperation in the war against terrorism, arms proliferation, trafficking, corruption, and organized crime, as well as providing critical military support for U.S. activities in the Middle East. Announcing the reduction or elimination of SEED assistance within months of Bulgaria's invitation to join NATO and potential U.S. military activity in the Middle East could send the wrong message and jeopardize this support.

III. BULGARIA'S TRANSITION

USAID/E&E Ron Sprout presented a comparative assessment between Bulgaria and other European/ Eurasian countries' democratic, economic, and social policy reforms. The assessment was based on indicators compiled by the European Bank for Reconstruction and Development (EBRD) and Freedom House.

While more advanced than countries in the Balkans' Southern Tier and Eurasia, Bulgaria was two-thirds of the way towards achieving the levels of democratic freedoms that the "Northern Tier" had reached at the time of their graduation from SEED assistance. Major deficiencies were noted in the areas of anti-corruption, rule of law, engagement of civil society, and an independent media. Certain backsliding in the democratization process was also noted, as Bulgaria has not yet decentralized political and fiscal authority.

Bulgaria demonstrated most serious deficiencies in first and second-stage economic reforms compared to the Northern Tier countries, particularly in the areas of price liberalization, large and small-scale privatization, infrastructure, and competition. Bulgaria almost completely lacked non-bank financial reforms. Per capita income in 2001 was less than one fifth that of the EU average, and one-half of Northern Tier countries at the time of their graduation. Bulgaria's absolute poverty rate was double that of the Northern Tier countries.

These indicators suggest that Bulgaria has not yet achieved the level of progress reached by Northern Tier countries at the time of their graduation from SEED assistance.

IV. CIVIL SECURITY AND RULE OF LAW

SEED-supported programs are focused on the courts and Customs, two areas are not being adequately addressed by other donors but which are highly prone to corruption and the influences of organized crime. OPDAT programs designed to strengthen law enforcement, criminal justice, and rule of law, are developing witness protection and asset forfeiture programs, and providing vital technical assistance for the implementation of laws. These programs give Ambassador Pardew leverage to call attention to deficiencies within the prosecutor's office and money laundering unit, and conduct and publish bribe/ corruption surveys, reinforced by Embassy Sofia's no-visa policy for non-U.S. policy supporters.

Several years of continued funding in this area are recommended to be able to elaborate the necessary institutional changes, coordinate with other donors, and convert programs to public institutions (e.g. magistrate training). This area is the highest priority for post, as it is the underpinning for further democratization, decentralization, economic development, attracting foreign direct investment, and fulfilling U.S. policy objectives in the region.

V. DEMOCRACY

Success was generally declared in the area of governance and democratization, particularly thanks to SEED-funded programs that strengthened NGOs and developed a network of alumni grantees who could be called upon to give further visibility to U.S. policy and programs in the future. Further work remains to be done, however, in the areas of municipal-level partnerships to identify resources and projects and opportunities for social enterprise. Decentralization remained the Ambassador's third major priority for continued SEED assistance, given that Bulgaria's parliament has no authority to hold public hearings and fiscal decentralization will not be legislated until 2004.

Success was also declared in the area of political party development, where the political spectrum is moderate, aligned with that of the EU. Municipal elections are scheduled in 2003, although the growing Roma population still does not have a proportionate voice in the government. Success was noted in media programs, with continued assistance identified for spokesman training (particularly the judiciary), and the use of Bulgaria as a model for regional media programs. Post Public Affairs will remain on the ground to continue important programs after SEED graduation.

VI. ECONOMIC REFORM

Following the 1996-97 financial crisis, Bulgaria overcame resistance to embrace the painful reform process, and accelerated measures to achieve an efficient domestic market, improve the cost of external debt, and meet the stringent IMF reserve requirement. However, such disciplined reforms have not yet delivered perceivable economic benefits in terms of increased foreign direct investment, employment, or per capita income.

SEED-funded programs have contributed to the successful privatization of six State-owned banks, and the creation of banking supervision, a deposit insurance system, and a stock exchange. However, much remains to be done to stimulate commercial lending, upgrade business practices and competitiveness, and improve the business climate in order to create jobs. This sector is the Ambassador's second-highest priority, as major deficiencies remain in the commercial legal framework, access to credit, particularly on the micro/SME levels, and tax regulation and collection. Absent EU assistance in the energy sector, U.S. assistance addresses the legal and regulatory framework for investment, tariffs, and energy efficiency on the municipal level. Treasury programs addressing financial crimes and money laundering require sustained commitment in order to counter the pervasive criminal activity in Bulgaria.

VI. SOCIAL INTEGRATION

U.S. assistance programs seek to reverse the collapse of the pension and health systems. Since the World Bank's $30 million loan for the privatization of the health system was put in the non-performing category and could be closed, the U.S. may be the sole donor in this area. Other donors, including the Soros group, have funded Roma education projects, and may fill the gaps in labor reform, heath care, the integration of vulnerable groups, and poverty reduction.

VII. CONCLUSIONS

Although aware of the funding restraints raised by OMB and NSC, all implementing agencies shared Ambassador Pardew's view that steady SEED funding through FY 2006 ($28 million/year) would maximize the likelihood of achieving Bulgaria's reforms and hasten EU accession. U.S. strategic interests are served by acknowledging in small part Bulgaria's support of the U.S. on regional stability and issues addressed by the United National Security Council, the war on terror, non-proliferation, organized crime/corruption, and military contingencies in Middle East. An untimely end to SEED assistance would send the wrong political message to Bulgaria, which has made a historic reorientation towards NATO, inconceivable ten years ago.

While progressing toward the levels of Northern Tier countries in democratic reform standards and macroeconomic fundamentals, implementation of regulatory legislation is weak or nonexistent in Bulgaria. While the political debate remains moderate, Bulgaria's economic reform is still fragile and painful, and emerging social disaffection is potentially destabilizing. The biggest threat to transition is organized crime and corruption, which thrive in the environment of social disparity, bribable bureaucracy, dysfunctional judicial system, and absence of legitimate investment.

The top priorities for U.S. assistance specifically target rule of law and law enforcement, with some short-term "new starts" needed, economic development and the promotion of private-sector-led growth (e.g., commercial law framework, SME development); and local government reform. Selected lower priority programs should continue, if funding allows, and may require additional resources for sensible closeout and to preserve our investment to date (e.g., pension reform, health financing). Modest assistance to disadvantaged minorities is desirable as a political/moral signal, recognizing that we cannot seriously address deep poverty.

EU assistance (ostensibly 150M. EUROs) is not a substitute for U.S. assistance. It concentrates at the central government level, and focuses almost exclusively on public administration and bureaucratic requirements for EU accession. Its impact does not assist in capacity-building/implementation and does not reach the population. The EU will not step in to fill gap left by end of SEED programs, where

the U.S. is the lead donor in the areas of local governance, judicial reform, pension reform, law enforcement, and microlending. The U.S. is the only donor working to improve the trade and investment environment in the areas of commercial law reform, business development, seal of quality, and competition.

Regarding next steps, EUR/ACE will draft an Info Memo to Deputy Secretary Armitage summarizing the outcome of the Bulgaria Assistance Review. Together with Embassy Sofia, EUR/ACE will assess the "mortgages" required to cover program closeouts in the event of early graduation. An interagency process may be initiated to develop recommendations for the level and duration of U.S. assistance to Bulgaria.

Bulgaria - 02-12-13 - Review Summary and Conclusions

DRAFTED: EUR/ACE - Marilyn Bruno (776-8516)

APPROVED: EUR/ACE - R Hansen
EUR/ACE - J Roberts
EUR/ACE - J Ceriale
EUR/SCE - L Miller
EUR/ERA - J Potash
EUR/PRA - J Conlon
INL - P Praher
AID/E&E - P Feeney/V Kwok
Treasury- G Smith
OMB - E Bouzis
NSC - W Andrusyszyn
ECA - K Jenkinson-McDermott
DOJ/OPDAT- M Bechman
DOJ/ICITAP- D Wheeler

ANNEX II
CONDITIONALITIES THAT DEMAND RESULTS*

SECTOR	CONDITIONALITY	TRACK THROUGH	ACTION NEEDED BY
SO 2.2 ENHANCED RULE OF LAW			
Judicial System	▪ The National Justice Institute established and operational with adequate GOB budget support. ▪ The Supreme Judicial Council (SJC) and the Ministry of Justice (MOJ) adopt a case management system with software compatibility and interconnectivity. ▪ Parliament enacts amendments to the Judicial System Act (JSA) ▪ The SJC and MOJ promulgate implementing regulations for the JSA ▪ Parliament enacts a Law on the Bar to govern lawyers, with a Code of Ethics ▪ The SJC begins implementation of the CMS nation wide ▪ The SJC develops and implements a system of merit based selection and promotion for judges and court staff. ▪ The Ministry of Finance (MOF), the MOJ & the SJC prepare and submit to parliament a budget for the judiciary that increases over the next 2 years to a percent of GDP in line with EU member countries ▪ The SJC issues a Judicial Code of Ethics with an enforcement mechanism	2004 2004 2004 2005 2005 2005	MD AMB MD
Anti-Corruption	▪ Internal Control/Audit unit established in 1 ministry ▪ Procurement legislation updated to ensure transparency and efficiency in the public procurement process ▪ Internal Control/Audit Units established in 2 additional ministries ▪ Implementing regulations for amended procurement legislation promulgated	2004 2004 2005 2005	MD
SO 1.3 ECONOMIC GROWTH AND INCREASED PROSPERITY			
Business Environment	▪ Establish the Economic Growth Council as the focal point of highest level public-private dialogue on national economic policy, with the authority to require participation and responsiveness from ministries and agencies of the Government, as well as labour unions. ▪ Enact a new Foreign Direct Investment Act	2003 2003	MD

*See also Part I, Section C.2(e)

Business Environment (continued)	▪ Enact legislation requiring a formal Notice and Comment Period and a feasible Regulatory Impact Assessment fro all draft normative acts prior to their consideration by the Council of Ministers ▪ Enact amendments to the Law on Registered Pledges ▪ Enact amendments to the Commercial Code to strengthen corporate governance provisions ▪ Develop a National Competitiveness Strategy under the direction of the Economic Growth Council ▪ Develop a National Strategy for Attracting Foreign Direct Investment. ▪ Adoption of adequate legislation to address the regulatory and supervision needs of micro-lending institutions. ▪ Continue to progressively reduce the corporate tax rate burden to 15 percent ▪ Introduce company registration by integrating the Commercial Register with BULSTAT and/or transfer function from judiciary to the executive branch ▪ Enactment of the Law on Limiting Administrative Regulation and Control of Economic Activities ▪ Uniform licensing and permit regime established at the local level	2004 2004 2004 2004 2004 2004 2005 2005 2005 2006	MD
Financial Crimes Enforcement	▪ GOB formally acknowledges and commits to developing task force approach to pursue law enforcement priorities. ▪ GOB will revise legislatively-established secrecy provisions (e.g., bank secrecy, tax secrecy, commercial secrecy, official secrecy, etc.), which prohibit free information exchange among legitimate government institutions, domestic and foreign, pursuing government interests.	2004 2006	MD
Privatization	▪ Passage of amended Civil Aviation Act to enable investments in public property by private airport management ▪ Concessions awarded for the airports in Varna and Bourgas pursuant use of transparent tendering process	2003 2004	MD
Energy	▪ Enactment of the Energy Act ▪ Secondary legislation prepared and implemented ▪ Sound tariff methodology adopted ▪ International accounting standards and regulatory reporting adopted ▪ SERC achieves full independence and autonomy	2003 2003 2004 2004 2006	MD
Health Financing	▪ GOB makes a decision to adopt performance based hospital financing approach ▪ Ministry of Health implements the hospital restructuring strategy in two pilot regions and continues with implementation country-wide	2004 2007	MD

Labor Market	▪ Amend the Labor Code to optimize labor/management relations and diminish shadow economy employment practices ▪ Develop set of laws and regulations to more effectively regulate the functions and powers of the Labor Inspectorate.	2004 2005	MD
Pension Reform	▪ Amend legislation to optimize pension funds' operations and investments. ▪ Increase the level of contribution to Pillar II from 2 percent to 5 percent.	2005 2007	MD
Social Services	▪ The Ministry of Labor and Social Policy develops implementing regulations for the Social Assistance Act ▪ The GOB amends the Corporate Income Tax Law allowing corporate income to be non-taxable if invested in not-for-profit NGO activities	2003 2003	MD
SO 2.3 LOCAL GOVERNANCE MORE EFFECTIVE AND ACCOUTNABLE			
Fiscal Decentralization	▪ Institutionalization of a permanent mechanism for dialog between central and local governments on matters of decentralization reform and intergovernmental fiscal relations ▪ The GOB continues honoring its pledge to implement fiscal decentralization ▪ The GOB enacts relevant legislation implementing the fiscal and administrative decentralization program adopted by the Council of Ministers in 6/2002	2004 2006 2006	AMB, MD AMB, MD MD
Ethnic Integration	▪ The GOB develops and implements a strategy and allocates sufficient funds to execute the Framework Program for Roma	2004	AMB, MD
SO 4.2 PROGRAM SUPPORT OBJECTIVE			
Biodiversity Conservation	▪ The National Ecotourism Strategy and resulting Action Plan are endorsed by GOB ▪ A National Ecotourism Working Group is institutionalized within the National Tourism Council ▪ GOB commits to approving and implementing the Management Plan upon successful completion of public hearing and technical reviews ▪ GOB commits to negotiating an acceptable management mechanism that incorporates the Bulgarian Orthodox Church in the present Nature Park Directorate for Rila Monastery NP ▪ The Protected Areas Fund is formed as and remains an independent entity. ▪ GOB releases its pledged funds to the Parks Endowment Fund in a timely manner	2003 2003 2003 2003 2004 2004	MD

ANNEX III

Status of Bulgaria's Reforms Relative to E&E Bureau Benchmarks

The primary goal that drives USAID's graduation assistance program in Bulgaria is that:

By 2007, Bulgaria will be securely grounded on a sustainable path toward:

- Democratic governance at all levels, and
- Successful market economy

The section in the text that provides the overview of the assistance environment in Bulgaria outlines the reform progress achieved by Bulgaria. However, some of the trends in Bulgarian development relative to other countries in the region suggest some great challenges that the country must address over the short, medium and long term.

On a more positive note, however, by the time the USAID program ends in 2007, we expect that both first and second stage economic reforms will have been completed; democratic reforms will be well advanced; and some social policies will have been put in place that are conducive to fuller employment, rising standards of living and reduced potential for political instability or conflict.

In the process of strategic decision making it was extremely important for USAID to be able to use the achievements of already graduated Central European and Baltic countries as benchmarks while defining Bulgaria's strategic priorities. For that reason the Mission has utilized the data presented in the Monitoring Country Progress report extensively as well as the most recent reports on Bulgaria's Transition (December 2002), and USAID/Washington program objective teams. These documents reveal quite clearly where Bulgaria has already made excellent progress toward reform targets and where the country needs to devote further effort.

Economic Sector Reforms

Table 1 indicates that Bulgaria fundamentally has met all of the reform targets comprising first stage economic reform. The GOB has liberalized trade and foreign exchange; liberalized prices (with the exception of sub-sectors like energy) and phased out State procurement at non-market prices; reformed the majority of commercial laws and almost completely privatized small enterprises and ensured tradable ownership rights. However, Bulgaria has failed to achieve graduation threshold targets in small-scale privatization. In the case of price liberalization, the score would be higher if pricing issues in the energy sector did not persist.

Table 1: First Stage Economic Reforms

Reform	Bulgaria Score	Graduation Benchmark	Northern Tier CEE in 2001
Small Scale Privatization	3.7	4.0	5.0
Trade and Foreign Exchange	5.0	4.0	5.0
Price Liberalization	3.0	3.0	3.1
Extensiveness of Legal Reform	4.0	4.0	3.5

The GOB is progressing with, but not completed, second stage reforms. At the point of this analysis, Bulgaria approximated graduation thresholds in large-scale privatization, banking reform, effectiveness of legal reform and infrastructure reform.

Table 2: Second Stage Economic Reforms

Reform	Bulgaria Score	Graduation Benchmark	Northern Tier CEE in 2001
Large Scale Privatization	3.7	4.0	3.6
Governance and Enterprise Restructuring	2.3	3.0	3.0
Competition Policy	2.3	4.0	2.8
Banking Sector Reform	3.3	3.0	3.5
Non-Bank Financial Institution Reform	2.3	4.0	3.0
Effectiveness of Legal Reforms	3.7	4.0	3.6
Infrastructure Reform	2.9	3.0	3.2

Paradoxically, Bulgaria's impressive progress in economic reform has not led to increased domestic or foreign investment in the economy. In fact, Bulgaria exhibits among the lowest rates of foreign direct investment in Central and Eastern Europe for two main reasons. First, though overall reform progress is excellent, reform lags in the areas of primary concern to investors, including inadequate access to credit; a commercial law framework that is perceived as unfair and inconsistently enforced; poorly developed competition policy that hinders creation of a level playing field and debilitates firms ability to meet the challenge of EU membership; and inefficiency and inability to predict future prices of energy.

Second, Bulgaria lags considerably in the reform of non-banking institutions, competition policy and enterprise restructuring. However, even in second stage reform categories where Bulgaria's overall reform scores are good, such as legal reforms, privatization and banking reform, particular areas of weakness remain that are masked by the composite scores. These include: the need for restructuring and privatization of key large scale industries, including the energy sector; the need to complete commercial law reform and fully implement those laws that are on the books; and the need for the banking sector to extend credit to small and medium enterprises as well as to consolidate banking supervision.

Additionally, the GOB needs to continue narrowly targeted work in order to complete privatization of key industries, consolidate banking reform and enhance the effectiveness of commercial law reform, especially in the area of enforcement. Bulgaria must complete reform in these areas to attract the foreign direct investment, desperately needed to spur economic growth and generate employment.

Democratic Reforms

Importantly, progress in economic reform alone will not be sufficient to propel Bulgaria's economy into the 21st century and put it squarely on the path toward integration into world economy and building strategic partnerships. Democracy in Bulgaria is developing rapidly. However, data reveal weaknesses in key areas that not only hamper economic take-off but also threaten the country's political stability. Significant and serious barriers to investment include both the lack of the rule of law and pervasive corruption. Most government institutions still operate in an insufficiently transparent manner, and the quality of governance continues to suffer from excessive centralization.

Democratic reform in Bulgaria is headed in the right direction but falls significantly short of the level of political development that characterized the Northern Tier countries at the time of their graduation from U.S. assistance. As illustrated in Table 3, all of the Northern Tier countries except Slovakia had reached and sustained a high level of political development for several years prior to their graduation. In essence, this means that on a scale of 1-7 (where 1 equals the degree of political development evinced by the Western European democracies), the Northern Tier countries had achieved a composite score of 1 on political rights and 2 on civil liberties and maintained them for at least 3 years prior to graduation. Bulgaria's current scores of 2 in political rights mean that political corruption, violence, political discrimination against minorities and external influence on politics may be present and weaken the quality of democracy. Corruption and lack of political inclusion of minorities, particularly the Roma, undermine citizens' overall political rights in Bulgaria. In the case of civil liberties, Bulgaria's score of 3 or greater implies a political system with a mixed record on civil liberties. The country enjoys wide freedom of speech, assembly and organization, but civil society organizations are still fragile, lack financial sustainability and have only limited impact on policy making. Citizens are not completely equal under the law, nor are they free from corruption, indifference or discrimination based on gender or minority status.

These statistics clearly show that the basic institutions and processes characterizing a competitive political system exist in Bulgaria, though some of those institutions, such as the Parliament, are weaker. What is equally clear is that Bulgaria falls significantly short of Northern Tier standards in civil society, governance (including local governance), rule of law and corruption. As noted

above, civil society organizations are fragile, institutions and processes of governance are not fully developed, and the rule of law is quite weak. While the legal framework exists, the capacity and political will of the judiciary to enforce the law are severely compromised. The lack of rule of law has inhibited investors who need to be assured not only that basic civil, criminal and commercial codes are in place but also that the system can and will adjudicate disputes swiftly and fairly. Bulgaria's court system has a long way to go to meet this standard.

Table 3: Democratic Reforms

Reform	Bulgaria Score	Graduation Benchmark	Northern Tier CEE in 2001
Political process	2.0	NA	1.7
Civil Society	3.3	NA	1.6
Independent Media	3.3	NA	1.9
Governance and PA+	3.5	NA	2.3
Constitutional Framework	3.5	NA	1.9
Corruption	4.5	NA	3.0
Political Rights (index)	2.0	1.0	1.0
Civil Liberties	3.0	2.0	2.0

Compounding these problems is the degree of corruption that plagues Bulgaria's political and economic spheres. Where corruption is concerned, Bulgaria ranks high on state capture and medium on petty or administrative corruption. State capture affects 27 percent of firms compared to 12.4 percent in the Northern Tier. Administrative corruption equals 2.1 percent of revenue compared with 1.9 percent in the Northern Tier and 1.1 percent in nearby Croatia. While state capture is arguably a more serious problem, administrative corruption affects more individuals and enterprises but is relatively easier to address.

Social Reforms

Despite progress in economic and democratic reform, the Bulgarian people have yet to reap the full benefits of the transition to a market economy and a democratic political system. Not only do unemployment, poverty and the deterioration of human capital result from incomplete reform but they also constrain the reform process. In fact, policy reform in the social sector that has failed to keep pace with the other two sectors and failure of the Bulgarian economy to rebound after the transition have led to "reform fatigue" on the part of its citizenry. For example, two of the principal constraints not only to investment and business expansion but also to employment are the inadequate provisions of the Labor Code and the high social costs associated with labor.

Therefore, investors choose capital-intensive versus labor-intensive industries and technologies and avoid hiring labor through formal channels in favor of retaining occasional or part time labor "off the books". Thus, Bulgaria has a two-tiered labor market comprised of 1) a small labor elite that earns formal wages and social benefits, and 2) a sort of labor proletariat that works either full or part time for cash below the minimum wage and receives no social benefits. This situation not only disadvantages the workers themselves, but also the government and society as a whole. Workers employed in the informal economy do not pay taxes nor do they pay employee contributions into the social insurance, health care, and pension systems. Employers also avoid their payroll taxes and employer contributions into the same social benefits systems. These lost revenues are crucial to the sustainability of the social insurance system and challenge the best efforts of donors and the government to truly reform them. Unless and until Bulgaria corrects this situation, the country will not be able to complete its economic transition and will continue to be characterized by deteriorating social indicators.

Based on data contained in Monitoring Country Progress Report revealed in Table 4 below, Bulgaria has some of the worst social indicators in the region.

Table 4: Selected Social Indicators

Indicator	Bulgaria Score	Graduation Benchmark	Northern Tier
Unemployment	18.6 percent	< 10.0 percent	12.8 percent
Long Term Unemployment	60.0 percent	NA	41.0 percent
Per Capita Income	$1,480	NA	$4,460
Percent 1989 Gross Domestic Product	70.0	NA	109.0
Infant Mortality Rate	14/1000	NA	8/1000
UNDP Human Development Rank	62		
Secondary School Enrollment	76.8 percent	NA	96.5 percent

The high unemployment rate in Bulgaria compares unfavorably with the Northern Tier, where unemployed are about 12 percent of the economically active population. Large-scale layoffs, associated with the restructuring of the Bulgarian economy and the slow reallocation of labor from industry to the agriculture and service sectors contribute to the high unemployment rate. Additionally, a significant group of the long-term unemployed, particularly in the rural areas, has found it difficult to adapt to the changing requirements of the private sector. Approximately one fifth of the long-term unemployed are individuals over 50 years of age, and nearly one-third are young people. Of those who are employed, 40 percent work in the public sector while 60 percent work in the private sector.

Per capita income in Bulgaria also compares unfavorably to a Northern Tier average of $4,460. The trend persists even when purchasing power parity is examined.

Cross-national research has revealed a close correlation between the percentage of the total population in a country represented by the dominant ethnic group versus that comprised by ethnic minorities and the degree of social and cultural distance between the dominant group and the minority group. Typically, countries where the dominant ethnic group comprises less than 80 percent of the total population and where the "cultural distance" between the dominant majority and the ethnic minority is great are much more prone to conflict than countries which are ethnically more homogenous or have successfully incorporated minorities into the country's economic, social and political life. Bulgaria's recent census revealed that the Turkish minority comprises 9.5 percent of the total population. Many experts believe the same census grossly underreports the percentage of Roma. It claims that they make up only 4.6 percent of the population. Other sources, however, estimate that they comprise 10 percent or more. The already high and growing proportion of minority groups in Bulgaria, their relative poverty and their lack of economic, political and social inclusion spells trouble.

As Bulgaria approaches graduation from USAID assistance, its trends toward progress are generally positive. However, some areas progress is less than desired. USAID's approach to address some of the social issues identified above constructively move such issues from a social reform to an economic reform agenda. For example, USAID's efforts in economic growth will help provide people with an improved 3-pillar pension system, and with increased prosperity, Bulgarians will be able to increase contributions to their pensions for the future. Other donor efforts will focus on various aspects of social sector reform. For example, the World Bank has made a major loan for educational reform and has also provided funding from the Social Investment Fund.

ANNEX IV

Progress to Date of USAID/Bulgaria Strategic Objectives

[NOTE: The following materials provide an overview of USAID/Bulgaria's progress to date in its current portfolio. This text describes what has been done "to date" and therefore uses past tense verbs. However, this does not mean that many of the activities are not on-going and still receiving support in some form from USAID.]

SO 2.2 Enhanced Rule of Law

Judicial Reform

USAID played a leading role in the initial stages of judicial reform. Donors, implementers and stakeholders in all sectors acknowledge this work as having provided the most important, systematic and integrated assistance to modernize and democratize the Bulgarian judiciary to date. USAID, working with the GOB has been made progress on three major fronts: modernized courts, capacity building, and legislation and regulations.

First, from 2000 to 2003, the model court (MC) project modernized court administration/case management practices in eleven courts. Lessons learned from the MCs can be replicated now and eventually be introduced in any of the 168 courts nationwide. This modernization process improved efficiency and had an immediate, positive influence on the quality of work, morale, and service-oriented attitude of court employees from judges to the most junior clerk. As a direct consequence of the establishment of the National Association of Court Clerks and the introduction of a Court Clerks Code of Conduct, clerks now feel empowered, have an improved work ethic and demonstrate greater customer service.

Information technology (IT) constituted, and continues to do so, an important component of court administration. USAID's Judicial Development Program (JDP) developed an automated court case management system (CMS). Enhanced IT enables the courts to better and more quickly serve the public. The distribution and maintenance of electronic data within courts, between courts and with other actors inside the government and legal community improves speedy and transparent judicial administration and access to court information. The CMS currently is being tested in five MCs.

Second, USAID was the first donor to support judicial reform in Bulgaria. It established and built the institutional capacity of the Magistrates Training Center (MTC). After three years of operation, the MTC has developed a comprehensive curriculum and a broad cadre of Bulgarian judicial trainers who have provided high-quality training to 100 percent of the newly appointed judges and to 30 percent of the sitting judges (total 1,700 sitting judges). Among other topics, it teaches basic judicial skills and helps young judges learn to do critical, analytical reasoning. With USAID and other donor assistance, the MTC continues to expand its curriculum to provide judges with more specialized training in new legislation, EU laws and international treaties. This training is critical for judges to render sound decisions based on the law. MTC also provides essential training in new substantive areas of law, such as administrative and commercial law.

In order to ensure the sustainability of magistrates training (240 in 3 years), the USAID is working with the GOB to transform the MTC from a private NGO into a public institution known as the National Justice Institute (NJI). This action will help ensure GOB funding for magistrate training and satisfy an EU accession requirement.

Legal clinics are another contribution of USAID. They are mechanisms to train law students, and they provide legal services to vulnerable, poor groups.

Third, the GOB's adoption of the National Judicial Reform Strategy and Action Plan would have been impossible without the significant technical assistance provided by USAID. These documents now provide the framework for a comprehensive judicial reform and serve as the road map for the GOB to satisfy the EU judicial reform accession requirements. The Strategy and Action Plan also address US strategic interests related to fostering economic growth and combating trafficking in narcotic, weapons and persons.

USAID also provided critical assistance for drafting amendments to the Judicial System Act (JSA). These amendments address weaknesses identified in the above-mentioned Strategy and Action Plan. The JSA provides the authority for the governance and administration of the courts. Key amendments address such issues as the appointment and evaluation of magistrates, compulsory training for magistrates and court staff and the introduction of the Court Administrator position. USAID also has provided assistance for drafting a law, now pending in Parliament, which will govern the practice of law. USAID has provided the Union of Judges in Bulgaria assistance to draft a Code of Ethics. The draft currently awaits approval before the Supreme Judicial Council (SJC).

Increased Transparency and Accountability in Public Institutions

USAID has taken a participatory approach by bringing together all sectors of society to establish public-private partnerships to fight corruption. This strategy promotes "ownership" from both public and private sectors. The role of the USAID-supported Coalition 2000 has been emblematic in this regard. Coalition 2000 now has the ability to advocate for reform, raise public awareness and serve as a watchdog against corrupt practices. It has successfully facilitated cooperation among leading experts and representatives from civil society, the public sector and journalists. Today, Coalition 2000's Corruption Monitoring Indices have become a widely recognized source of monitoring information.

Drawing on this successful public-private model, the GOB recently unveiled a new National Anti-Corruption Strategy and Action Plan, an important step toward a coherent long-term policy to combat corruption. The strategy acknowledges the importance of introducing "advanced standards of transparency and accountability" to provide the foundation for a coherent long-term policy to combat corruption. The strategy also states that corruption cannot be overcome without civil society and media involvement. They are instrumental for independent monitoring, educating the public, and "reinforcing the values of transparency and accountability".

SO 1.3 Economic Growth and Increased Prosperity

Legal and Regulatory Environment

USAID's programs to date have contributed to the development of laws, policies and institutions that enable participation in crafting a legislative agenda to support policy changes essential to continued economic growth in the private sector. Through the Implementing Policy Reform activity, USAID facilitated private-public sector policy dialogue, supported economic and policy analysis, and introduced advocacy and lobbying skills to business association members. As a result, USAID-supported business associations advocated successfully for the removal of several onerous licensing and administrative requirements that constrained new business start-up and operations.

USAID is the only donor to support capital market development in Bulgaria, and played the primary role in drafting securities legislation. The assistance focused on market development and market regulation. The project helped to build institutional capacity of the Sofia exchange and central depository to achieve sustainability. It also provided assistance to the Securities Commission to improve the quality of financial accounting (i.e., International Accounting Standards), to simplify regulatory processes, and to develop electronic market surveillance.

In addition to the policy dialogue efforts, the Mission pursued some changes in commercial law and other regulatory reforms. USAID provided bankruptcy software to the Sofia district courts that expedite foreclosure proceedings. This also has improved the climate for lending and credit mobilization. USAID also supported the enactment of a multitude of commercial and business-related laws and policies that included increased public participation and worked to reduce the level of administrative and bureaucratic constraints on business.

Access to financial resources

Since 1997, USAID has made a strong contribution to banking sector development in Bulgaria. USAID support for the Bank Consolidation Company was essential and effective. It represented a major contributing factor for Bulgaria now having a predominantly private banking system. With its bank supervision program, USAID promoted the capacity of the Bank Supervision Department of the Central Bank to regulate and monitor commercial banks and the banking system as a whole. This included: enhanced regulatory reporting and analysis; assistance in on-site inspections by building competence and capacities; and guidance on other supervisory issues, including problem bank resolution and banking legislation.

USAID also has played a major role in the institutional development of the Deposit Insurance Fund during the last three years. This institution now promotes public confidence in the banking sector.

The Bulgarian-American Enterprise Fund (BAEF) pioneered mortgage lending in Bulgaria in early 2000. The new pension industry bought the entire first issue of mortgage bonds of the BAEF. And, as a result, three commercial banks followed suit. The resulting competition reduced rates, made housing more affordable, and fueled development of a construction loan market. In addition to the commercial bank lending, the Mission launched two micro-lending activities that continue to address the credit needs of small businesses in economically depressed and high unemployment areas.

USAID established three Development Credit Authority (DCA) facilities (two with Bulgarian private commercial banks). They now serve as an important cross-sectoral development tool that attracts private sector sources of financing to support development goals. The three DCA facilities provide financing for industrial and municipal energy efficiency projects, a Small Business Loan Portfolio Guarantee (LPG), and a $20 million facility for private enterprises in competitive sectors.

Private Sector Development

In an effort to boost sustainable economic development, USAID initiated a Country Competitiveness Initiative to improve the competitiveness of the Bulgarian economy. The Initiative helps develop and implement industry/cluster level strategies for sectors with considerable export potential. To gain wide understanding and support of this “competitive cluster approach”, the Mission organized a National Competitiveness Conference in 2001. An important outcome was that businesses and business associations subsequently formed cluster groups to assess common issues and develop integrated strategies and action plans.

In addition, USAID/Bulgaria developed and implemented a unique program approach for delivery of firm level assistance. Demand driven assistance focused on competitive industry sectors and clusters and addressed the competitiveness and performance needs of the private sector. A large number of USAID-assisted companies are generating employment now in disadvantaged and poor regions, and more than half of the targeted firms are either woman-owned or woman-managed.

USAID also facilitated regional integration and trade capacity building by establishing a Trade Development Center (TDC). The Center has promoted Bulgarian products abroad, facilitated joint ventures and trade, increased access to trade and investment financing, and improved marketing, quality standards and productivity. Since its establishment, TDC has facilitated linkages and trade deals worth over $7 million.

SO 2.3 Local Governance More Efficient and Accountable

USAID's Historical Role in Local Governance in Bulgaria

USAID has been, and still is, the sole donor comprehensively supporting local governance in Bulgaria. Since 1995, USAID's local governance program delivered extensive technical assistance and training in areas such as municipal budget management, municipal property management, citizen participation, and customer service. USAID programs trained over 4,000 municipal government employees in areas such as strategic planning, municipal property management, financial management, service based budgeting, solid waste fee setting, public procurement, and customer service. More recently, programs shifted emphasis toward the training of trainers, and there are now 100 skilled Bulgarian trainers in municipal administration and management.

Local Government Support Organizations and National Association of Municipalities

USAID support has increased the capacity of local government support organizations (LGSOs) steadily. Now, these organizations are institutionally developed and capable of providing technical services and training in many key areas to local elected officials and municipal administrations. They also have the knowledge and capacity to lobby and advocate before the central government, to negotiate with central authorities, and to develop cross-border projects. USAID assisted with the establishment of the National Association of Municipalities—the statutory voice of all 263 Bulgarian municipalities—and nine regional associations. The National Association of Municipalities is a model for municipal associations in the region and the Council of Europe has recognized it as one of the strongest national associations of local authorities in South-Eastern Europe. The USAID-supported Foundation for Local Government Reform is now an important local government think-tank promoting policy reform, public-private partnerships, and municipal innovations.

Local government support organizations have influenced several key pieces of legislation on intergovernmental fiscal relations, authorities of the municipalities, municipal property management, and urban development. USAID programs increased the professionalism of local governments as well as the legitimacy and respect accorded them by national institutions. The national government is now beginning to listen to its local counterparts, whose economic plight has captured their attention. Capitalizing on a receptive policy environment, USAID's local governance program is making significant progress on fiscal decentralization reform. The Council of Ministers empowered a USAID-inspired fiscal decentralization task force to prepare a national decentralization program. The program paved the way for an aggressive set of legislative reforms that are, and will continue to be, presented for consideration by the National Assembly between now and 2006. The 2003 state budget was the first to address fiscal decentralization reforms.

USAID has worked with municipalities to increase citizen access to municipal council proceedings and the use of citizen advisory committees in planning of infrastructure development. USAID also helped develop procedures for long term financial planning, capital budgeting, and asset management to gain access to funding for infrastructure investments. USAID-launched Customer Service Centers represent a new approach of timely, accountable and transparent service provision to citizens that also reduces opportunities for corruption in municipal administrations. One-third of all municipalities have replicated these Centers.

Eleven Bulgarian cities initiated innovative activities through technical twinning with U.S. cities, and developed municipal strategic plans, local economic development plans; marketing tools; landfill management practices; and GIS systems to better maintain public infrastructure. USAID helped develop procedures for long term financial planning, capital budgeting, and asset management to gain access to funding for infrastructure investments. The establishment of fifty municipal customer service centers proved to be one of the most successful innovations in Bulgaria's public administration. These centers, serving as "one-stop shops," have pioneered the delivery of fast, transparent and efficient administrative services to citizens and lead to a positive change in public attitudes to municipal administration. UNDP's Annual Early Warning Report indicated that citizen confidence in municipal authorities continued to increase and is much higher than that of other state institutions.

Ethnic Integration

USAID implemented pilot ethnic integration programs in three cities with high Roma populations. USAID small grants supporting several ethnic communities resulted in the creation of more than 300 jobs in agriculture, farming, construction and other sectors in the three pilot communities. More than 2,100 people participate in projects to reduce school drop-out rates. Since 2001, about 75 young Roma have been trained in the Roma Leadership Institute and are already working for the integration of this minority into society.

Community Fund and Social Enterprise Programs

USAID started Community Fund and Social Enterprises Programs that address the issues of mobilizing local resources and supporting the NGO sector by introducing a new model by engaging the private sector, local government and citizens in community building. One of the funds, the Chepelare Community Fund, successfully conducted their test fund raising activity and mobilized approximately $22,000, an exceptional achievement for a community of 5,000. Twenty-three social service NGOs are receiving assistance to develop successful businesses to advance their missions, for example setting up a hand-knit clothes business to employ mentally disabled, a sewing workshop for single mothers and a farm for drug-addicts.

SO 4.2 Program Support Objective

Human Capacity Development

USAID participant training program has been a crucial crosscutting program that has supported achievement of each Strategic Objective. The USAID program moved from a training program based on targets of opportunity to one more directly aimed at achieving specific Intermediate Results and Strategic Objectives. Since inception, the program has trained over 1,500 Bulgarian leaders and professionals. The trainees now have skills and practical knowledge necessary to support the transition processes in the country. Participants have included ministerial level officials, mayors, supreme court justices, SEC commissioners, and chief advisors to the President. In recent years, programs have helped participants take steps to:

a) develop legislation that supports venture capital investment;
b) increase fiscal cooperation between local and central government;
c) increase the competitiveness of Bulgarian products and industries;
d) improve the services of government tax offices;
e) expand and clarify national pension and health insurance programs;
f) increase the efficiency of the court system; and
g) strengthen programs that focus on cooperation between minority and majority communities.

American University in Bulgaria (AUBG)

The American University in Bulgaria (AUBG) is a four-year, liberal arts institution located in Blagoevgrad, Bulgaria. AUBG was the fruition of a partnership that included the Open Society Institute as well as the Government of Bulgaria, the City of Blagoevgrad, the University of Maine, and USAID (the principal financial backer). AUBG opened its doors in September 1991, with a start-up grant from USAID. The Government of Bulgaria supported the creation of AUBG by passing authorizing legislation and providing AUBG with local currencies generated from U.S.-donated grain. The City of Blagoevgrad made facilities available to AUBG rent-free. The University of Maine provided technical assistance with curriculum development, faculty recruitment, general oversight and feedback on academic quality, and initially lent academic accreditation to the new institution. Since inception, AUBG has received substantial financial support from the U.S. Government. The Open Society Institute has provided grants and student financial assistance scholarships.

The institution has evolved over its ten-year existence, bringing a liberal arts philosophy and traditional American core of courses that reflect the underpinnings of higher education as practiced in the U.S. AUBG attracts a regionally diverse, highly talented student population, and provides students with a liberal arts education rooted in Western theories of democracy and market economics in a residential campus setting. AUBG has graduated nine classes with over 1,000 individuals from more than twenty countries in Southeastern Europe, Western and Central Europe, Central Asia and the U.S.

Biodiversity Conservation

With USAID support, the GOB developed and institutionalized the legal frameworks and administrative units of Bulgaria's two most important national parks, Rila and Central Balkan within the last six years. USAID assistance helped build the park directorates institutionally, from facility refurbishment to personnel training. USAID assistance also helped the government develop and adopt the first ten-year national park management plans. USAID also adopted important aspects of the plans' implementation, including tourism management and information infrastructure. USAID assistance also has contributed to development of a management plan (soon to be finalized) for the Rila Monastery Nature Park.

USAID has taken the lead on advancing Bulgaria's natural resource management by demonstrating operational models for biodiversity conservation revenue and environmentally-friendly economic growth in the park areas. As a result, USAID assistance helped develop four partnerships on the sustainable use of natural resources and to draft a National Eco-Tourism Strategy. USAID also pioneered efforts on non-timber forest product collection activities in regions with predominantly Roma and Pomak populations, where a month-long collection season contributes to almost a year's annual income. Most recently, the Mission initiated the establishment of a Parks Fund that the Bulgarian Government has agreed to support with approximately $6.25 million in matching donor contributions.

Media Actively Advocate for Reform

Through its Professional Media Program USAID promoted the reform of media legislation, contributed to increase the professionalism of media outlets, and has been instrumental in the establishment of the professional associations of the independent media that will sustain the further development of the sector. After September 11, USAID focused on anti-crime and anti-terrorist activities by launching a fellowship program for investigative journalists and a regional "Media against corruption" program for reporters from South East Europe. USAID assistance led to establishment of the Broadcast Training Center, the only TV training facility in Bulgaria. The Broadcast Training Center supported the launch and professional development of key broadcast media outlets: bTV, the first independent broadcast television station with national coverage; the first independent cable television station with national coverage; the largest national cable networks based outside Sofia; TV Roma, the only Roma broadcaster in Bulgaria; the first news-oriented national radio network; other stations across the country. USAID supported the establishment of the Association of Bulgarian Broadcasters ABBRO (1997), currently the strongest broadcasters association in SEE, and the Bulgarian Media Coalition (1999), a unique alliance of 14 media associations

USAID assistance was crucial for the establishment of new media legislation and passage of key acts dealing with access to public information, including:

- Radio and Television Law (1998), and Telecommunications Law (2000)
- Access to Public Information Law (1998)
- Classified Data Protection Law (2002)
- Personal Data Protection Law (2002)
- Amendments to the Penal Code (2000) repealing jail sentences for libel and defamation

Parliament and Political Parties

In the early years of its democratic development (1991-1995), the U.S. House of Representatives, as part of the Frost Task Force, provided support to the Bulgarian Parliament. The technical assistance created a computer network within the Parliament, designed a parliamentary research department, trained a large number of MPs and administration staff, and helped modernize the Parliament's library. The development of the Bulgarian Association for Fair Elections into a model election-monitoring organization and the successful consolidation of the democratic opposition in the early years of the transition (1991-1995), and the organization of presidential primaries in mid-1996 are major accomplishments of U.S. assistance to Bulgaria's political processes. The Parliament has recognized the Parliamentary Internship Program as a mechanism to increase its legislative research capacity. The Parliament has employed several former student-interns as regular parliamentary staff. Following the 2001 Parliamentary elections, USAID provided key orientation training for newly elected MPs.

Audit, Evaluation and Program Support (AEPS)

The AEPS program has been used as a critical resource for funding activity design, evaluation, and FSN-PSC salaries. This program financed critical sectoral assessments for development of this strategy. Additionally, the Program funded key evaluations that enable individual activity managers to focus their programs towards the Mission's strategic objectives.

ANNEX V
Legacies and Legacy Mechanisms

SO 2.2 Enhanced Rule of Law

IR 2.2.1 A Strengthened Judicial System		IR 2.2.2 Reduced Corruption through Increased Transparency and Accountability	
Legacy	**Legacy Mechanism**	**Legacy**	**Legacy Mechanism**
On-going		**On-going**	
Magistrates Training Center/National Institute of Justice (NIJ) • Training for judges, ct. administrators and ct. clerks • Administrative capacity • Physical infrastructure	• Supreme Judicial Council • EU and WB/PAL conditionality • NIJ Board & Alumni • Professional associations (judges, ct administrators, court clerks, execution judges and lawyers) and advocacy organizations • Endowment for legal/policy advocacy	**Models for Prevention of Fraud and Corruption in Public Institutions in Place** • Strengthened anti-corruption practices implemented by National Audit Office and Public Internal Financial Control Agency	• Internal audit units in ministries in place and functioning
Strengthened Supreme Judicial Council (SJC) • Administrative capacity • Court administration capacity • Budgeting capacity • Disciplinary function	• EU and WB pressure for increased funding • Public demand & advocacy for judicial reform	**Transparent Government Procurement Process** • e-procurement	• Public procurement register in place and functioning
Improved Court Administration • Automated court case management system (CMS) Functions in Model Courts (MCs) and Courts in Partnership (CIP) • CMS functions for case movement between MCs and CIPs • Model Pilot Courts, Courts In Partnership and Other Local Court Operations • Human Resource Management and Court Administrators functioning	• EU conditionality • Judges, clerks and lawyers see utility of CMS • SJC and Ministry of Justice Information Technology Departments • Institution building and national administration assistance • Network of MCs and CIPs	**Anti-corruption, Public-Private Partnerships**	• Coalition 2000 • Transparency Int'l • "Watchdog" NGOs

A Network of Functioning Legal Clinics • Students develop practical legal advocacy skills • Legal assistance to vulnerable groups • Class credit for clinical work • Trained legal mentors	• Law Schools • Endowment for institutional building of legal/policy advocacy organizations	**Laws et al** • Amended Governmental Officials Public Asset Disclosure Law & implementing regulations • Amended Procurement Law and implementing regulations • Ombudsman Law and implementing regulations	• Advocacy organizations • EU and WB/PAL conditionality • Ombudsman institution
Alternative Dispute Resolution Institutions • Family mediation • Labor mediation • Professional standards	• ADR institutions • Public awareness and demand • Professional associations and courts promote ADR mechanisms		
Laws et al • Amended Judicial System Act and implementing regulations • Law on the Bar • Codes of Ethics for judges and lawyers • Amended ADR law and implementing regulations	• Professional associations and advocacy organizations • Endowment for institutional building of legal/policy advocacy organizations • EU and WB/PAL conditionality		

SO 1.3 Economic Growth and Increased Prosperity

IR 1.3.1 Improved Business Climate		IR 1.3.2 Jobs Created through Strengthened Private Sector		IR 1.3.3 Improved Access to Financial Resources	
Legacy	**Legacy Mechanism**	**Legacy**	**Legacy Mechanism**	**Legacy**	**Legacy Mechanism**
On-Going				**On-Going**	
A well regulated and functioning Capital Market	• Legal and regulatory framework, as well as a regulator for capital markets in place • Better financial disclosure by private sector using International Accounting Standards • Real-Time Market Watch System • Mobilized capital	**Labor Counseling Centers opened in 15 municipalities serving workers in 23 geographic regions of Bulgaria**	• Increasingly bigger portion of the costs paid by local and regional union	**International Banking Institute (IBI) fully sustainable and providing fee-based professional training for bankers and non-bankers**	• Improved cadre of local trainers • Expanded market visibility to a broader base of clients
Institutionalized National Health Accounts (NHA)	• Housing the NHA at the Ministry of Health • Establishing standards for Data Collection and Analysis • Instituting data reporting requirements for health providers	**SEAF Caresbac-Bulgaria Fund and Trans-Balkan Fund**	• Improved competitiveness of client companies • Increased profits for SEAF investments	**Bulgarian-American Enterprise Fund**	• New banking products and services • Mortgage and construction lending
A new competitive three-pillar, fiscally sound and sustainable pension system	• Private pension companies expected to invest and manage over USD 900 million expected in 2007) • strong pension regulator in place			**Development Credit Authority (Loan Portfolio Guarantees)**	• Improved access to credit for SMEs and municipalities from commercial banks

Future/Planned					
Reformed hospital financing	• Diagnostic related groups implemented at the Health Insurance Fund (NHIF) to use for reimbursing hospitals; • Unified hospital financing through the NHIF instead of financing them through state and municipal budget subsidies.	**Sustainable SME Development Services**	Local consultancy established to carry out business consultation Sustained business development services by using fee based structures and market-driven approach	**Sustainable Micro-lending Institutions**	• Sustained and profit-making delivery of micro loans based on competitive commercial interest rates.
Fully Independent State Energy Regulatory Commission (SERC)	• Around energy legal and regulatory framework • A sustainable fully independent energy regulatory	**More Developed Labor Market**	Central and local governments capacity developed to address labour market constraints at national and local level	**Further development of the Deposit Insurance Fund**	• Risk-based deposit insurance premiums • Risk assessment of the banking sector and contingency plans for crisis • Trustee management capacity
Business Environment/Commercial Law and Regulatory Reform	• Simplified Law on Regulating Economic Activity • Company Registration moved to the executive branch and simplified • Simplified Bankruptcy procedures adopted and enforced • Bankruptcy Manual, and Rules and regulation for trustees and selection of Trustees adopted • Improved enforcement of obligations, court decision, and laws and regulations			**Two airport concessions**	• Direct investment of 100-150 million USD expected into the airport infrastructure • Better airport services and increased region's commercial attractiveness • Improved framework for concession transactions

SO 2.3 Local Governance More Effective and Accountable

IR 2.3.1 Authority, Responsibility & Resources Decentralized to Local Government		IR 2.3.2 Increased Ability to Address Community Building Issues	
Legacy	**Legacy mechanism**	**Legacy**	**Legacy mechanism**
On-Going			
A stronger, more effective, responsive and accountable local government system is achieved through a variety of mechanisms chief among which are: • A fiscal decentralization program implemented through associated legislative acts, and • Sustainable Local Government Support Organizations (LGSOs) (such as the National Association of Municipalities (NAMRB); the Foundation for Local government Reform (FLGR); various Regional Associations of Municipalities)	• Implemented decentralization program and body of laws supporting fiscal decentralization • Strong civil society institutions and effective Local Government Support Organizations (LGSOs) • Strong local government managerial and technical capacity in key resource management areas • Institutionalized mechanism (a formally and permanently established lasting organization) for sustaining dialog between central and local government • A body of best practices and regulations in place for citizen participation in decision-making.	**National Social Ethnic Integration Program Endorsed by the Ministry of Labor an Social Policy and Ethnic Conciliation Commissions Applied Nationwide**	Ministry of Labor and Social Policy; Local Ethnic Conciliation Commissions will function as not-for profit entities supported through in-kind and financial contributions from the municipality, Roma NGOs, local lawyers.
The "PLEDGE" model of Local Economic Development is institutionalized in the Ministry of Labor & Social Policy (ongoing)	Ministry of Labor and Social Policy/Social Investment Fund (SIF)	**A network of Community Funds and local community centers (Chitalishta)**	Community Funds: a community-based non-governmental organization that fund-raises local philanthropic resources for social or public purposes primarily carried out by other local non-governmental organizations; Local community centers (chitalishta)

Municipal Energy Efficiency Models established in selected municipalities	Municipalities	**Roma Leadership Institute established and functioning**	Roma Leadership Institute
Key legislation implementing the fiscal decentralization program passed and enforced. Specific priority legislation is as follows: • Local Self-Government. and Local Administration Act (amendments) • Local Taxes and Fees Act (amendments) • Municipal Finance Act • Municipal Property Act • Annual State Budget Act • Municipal Budget Act • State Property Act • Regional Development Act • Personal Income Tax Act (amendments) • Corporate Income Tax (amendments) • Municipal Debt Act • Social Assistance Act • Municipal Elections Act • Amendment to the Constitution of the Republic of Bulgaria	• General Assembly (L.G. Committee) • Joint Intergovernmental Group (Local and central govt. representation)	**Legislation in support of not-for-profit activity and organizations passed and enforced**. Key legislation includes: • NGO Law (2001) • Social Assistance Act; and Implementing Regulations • Law on Health Institutions (amendments) and Implementing Regulations • Procurement Law • Law on Local Taxes and Fees • VAT Law • Corporate Income Taxation Law • Personal Income Tax Law	Bulgarian Center for Not-for-Profit law
Future/Planned			
Joint Intergovernmental Group (JIG) (A permanent forum for discussion of decentralization issues among local and central government stakeholders) **institutionalized**.	Joint Intergovernmental Group (JIG)		

SO 4.2 Program Support Objective

Legacy	Legacy Mechanisms
On-Going	
Bulgaria's protected areas are financially sustainable	A Parks Fund established and its capacity built to capitalize resources and effectively fundraise.
A framework for ecotourism policy is endorsed at the national level and promoted at the local level.	o National Ecotourism Strategy and Action Plan in place that are endorsed by the GOB. o The private sector and NGOs mobilized for ecotourism activities at the local level.
American University in Bulgaria (AUBG) provides US-style liberal arts education to Bulgaria's future leaders	USAID funded endowment coupled with increased student tuitions, profitable outreach educational programs, and non-USG fundraising efforts.
Bulgarian human capacity enhanced through professional training funded by USAID.	An alumni association will be established, where attendance to events and networking meetings will be financed by individual alumni.
Media legislation • Radio and Television Law (amendments) • Legislation allowing investigative techniques such as hidden camera, photography and recording, which may require amendments in the Constitution	Professional media associations
TV Training Center established and functioning independently	Registered as indigenous entity Fees collected from services provided Board will provide oversight
Professional support network for independent media	Association of Bulgarian Broadcasters (ABBRO) and Bulgaria Media Coalition
Parliamentary internship program	Parliamentary Research Department

ANNEX VI

Summary of the EU Accession Roadmap for Bulgaria

➢ In November 2002, the EU Commission provided Bulgaria and Romania with detailed roadmaps on the remaining steps for meeting their target accession date in 2007.

➢ Overall priority areas include further legislative alignment, improved judicial and administrative capacity, and economic reform (market flexibility).

➢ The Commission proposes progressive increase in the pre-accession assistance to Bulgaria and Romania, starting from the first round of EU enlargement. Accordingly, EU assistance should rise by 20% in 2004, 30% in 2005, and 40% in 2006. Increased assistance will be subject to progress made in implementation of the roadmap and to the country's absorptive capacity.

➢ The Commission has outlined the following benchmarks for monitoring progress:

- Progress in the privatization program
- SME development (number of start-ups)
- Implementation of program to reduce and simplify licensing procedures
- Reform of the customs and tax administrations
- Efficiency of the bankruptcy procedures
- Development of financial intermediation and the non-banking financial sector
- Property rights enforcement
- Number of transactions and prices of agricultural land
- Volume and quality of public investment, incl. infrastructure, education, environment, and health
- Reduction of State Aid (subsidies), particularly in the energy and transport sectors

➢ The roadmap further identifies a list of short- and medium-term tasks categorized by negotiation chapter that Bulgaria needs to implement. Some of the suggested measures are highlighted below:

Free Movement of Goods:

Overall

- Ensure effective remedies and abolition of the national preference scheme

Short-term

- Establish a Public Procurement Agency
- Complete harmonization on food safety

Medium-term

- Strengthen the administrative capacity in the field of standardization

Free Movement of Persons:

Medium-term

- Revise the Constitution on the right to vote, incl. special legislation on European Parliament elections

Freedom to Provide Services:

Short-term

- Align Data Protection Act
- Amend the Law on Foreigners

Medium-term
- Full compliance with the insurance acquis and capital adequacy acquis by 2005
- Align legislation with the securities acquis

By accession
- Strengthen the capacity of the pension funds supervising authority and their corporate governance

Free Movement of Capital:

Medium-term
- Legislative alignment on money laundering
- Improve the administrative capacity of the Bureau for Financial Intelligence
- Develop programs against money laundering within financial institutions

Company Law

Overall
- Improve coordination among customs, police, and judiciary on enforcement of intellectual and industrial property rights

Medium-term
- Improve enforcement of intellectual and industrial property rights by strengthening border controls and training law enforcement bodies and the judiciary
- Align legislation on company law, especially on acquisitions, mergers, and company divisions

Competition Policy

Short-term
- Complete the legislative framework re: implementation rules for state aid
- Improve state aid enforcement record
- Complete the legal antitrust framework, pursue training efforts and further develop record of effective implementation and enforcement of antitrust rules
- Prepare an overall restructuring plan for the steel sector

Agriculture

Overall
- Further efforts on legislation enforcement, particularly in the veterinary sector, and ensure appropriate controls.

Medium-term
- Develop the administrative capacity to enforce the acquis, incl. the establishment of a Paying Agency, an Integrated Administration and Control System, and a Farm Accountancy Data Network
- Further efforts to ensure organization of the dairy production and processing
- Implement quality policy
- Complete the national cadastre and property register
- Continue work on consolidation of land
- Implement and enforce legislation on food safety

Transport Policy

Overall
- Liberalization of rail and road transport

Short-term
- Strengthen the administrative capacity in the road and railway sectors

Taxation

Short-term

- Create a unified National Revenue Agency
- Develop an updated business strategy for the tax administration
- Align tax legislation on VAT and excise duties

Medium-term

- Strengthen the tax administration
- Ensure a fully operational computerized tax information system
- Ensure compliance with Code of Conduct for Business Taxation

Statistics

Short-term

- Conduct an agriculture census in 2003

Medium-term

- Strengthen the administrative and IT capacity of the statistics administration
- Improve regional statistics, the quality and coverage of national accounts, short-term statistics, and the quality and coverage of the business register
- Establish a farm register

Social Policy and Employment

Short-term

- Assess the financial impact of implementing the EU health and safety directives
- Align acquis on combating discrimination and equal opportunities for men and women
- Implement the priorities and commitments of the Joint Assessment of Employment Policy Priorities

Medium-term

- Improve the capacity of the Labor Inspectorates
- Establish a system for surveillance and control of communicable diseases
- Develop a health information system
- Develop a national integrated strategy on promoting social inclusion
- Promote autonomous social dialogue at the enterprise and sectoral level

Energy

Overall

- Implementation and refinement of the overall energy strategy
- Set clear timetables for restructuring of the energy sector, incl. the alleviation of related social consequences

Short-term

- Close down Units 1 and 2 of the Kozloduy Nuclear Power Plant
- Meet closure commitments on Units 3 and 4 of the Kozloduy NPP
- Strengthen the administrative capacity and independence (incl. financial) of the State Energy Regulatory Commission
- Adopt new framework legislation for accelerating liberalization of the energy sector

Medium-term

- Implement Action Plan for restructuring of the solid fuel sector
- Pursue implementation of an energy efficiency policy, incl. promotion of renewable energies

Industrial Policy

Overall

- Speedy completion of privatization
- Restructuring of remaining important industrial sectors, such as steel
- Enhance the business environment and competitiveness of the enterprise sector
- Stimulate domestic and foreign investment

Small and Medium-Sized Enterprises

Overall

- Resolve remaining uncertainties in the legislative and taxation areas
- Make fully operational the delivery mechanisms for promoting entrepreneurship
- Ensure appropriate coordination among the various bodies concerned on legislation implementation and enforcement (incl. at the local level)

Education and Training

Overall

- Comprehensive reform of the vocational education and training system that ensures flexibility and adaptability to the needs of the labor market

Telecommunications and Information Technologies

Short-term

- Enhance the administrative capacity and financial independence of the regulator

Medium-term

- Accelerate work on network modernization and price re-balancing

Culture and Audio-Visual Policy

Overall

- Strengthen the administrative capacity of the national regulatory body in the field of broadcasting

Regional Policy and Coordination of Structural Instruments

Medium-term

- Implement the Bulgarian National Strategy for preparation of Structural and Cohesion Funds
- Create necessary institutional structures for implementation of SCF
- Improve the administrative capacity of the units within the ministries designated as managing or paying authorities
- Improve the quality of the National Development Plan

Environment

Short-term

- Update the overall assessment of the environmental sector
- Develop implementation plans and financing strategies
- Improve the administrative capacity of the regional inspectorates and municipalities
- Adopt secondary legislation on environmental impact assessment and access to information
- Ensure implementation of the Environmental Impact Assessment Directive
- Continue legislative harmonization in the areas of waste management, nature protection, industrial pollution and risk management, chemicals and genetically modified organisms, and nuclear safety and radiation protection
- Improve inter-ministerial coordination on environmental issues

Consumers and Health Protection

Medium-term

- Complete the legislative framework in the area of consumer protection
- Improve the administrative capacity for implementation and enforcement of consumer protection legislation
- Develop market surveillance activities
- Allow for consumers' effective access to justice and out-of-court dispute settlement

Cooperation on Justice and Home Affairs

Overall

- Srengthen the capacity of the judiciary and law enforcement agencies, particularly those in charge of the fight against fraud, corruption, money laundering, coordination of police activities, and anti-drugs policy
- Improve cooperation among the different law enforcement agencies

Short-term

- Adopt new legislation on migration, incl. the establishment of a national body for its implementation
- Continue to implement the National Anti-Corruption Strategy
- Implement the strategy on the fight against crime, with special attention on drugs and human trafficking as well as on inter-agency coordination
- Improve the capacity of the Bureau for Financial Intelligence to enforce legislation and improve its cooperation with other law enforcement agencies
- Adopt and implement a new Border Security Act and a border management strategy for the modernization of the border infrastructure and equipment and training for border guards and customs officers

Medium-term

- Strengthen the administrative capacity of the State Agency for Refugees
- Ensure compliance with the international standards on the fight against misuse of the financial system and the financing of terrorism

Customs Union

Overall

- Strengthen information technology and human resource policy
- Complete major projects on revenue collection, transit control, and risk analysis
- Improve the human resource management in customs

Financial Control

Short-term

- Designate an operationally independent anti-fraud service responsible for coordination of all legislative, administrative and operational activities
- Strengthen the capacity of the National Fund, the Central Finance and Contracting Unit, and other agencies dealing with pre-accession funds
- Ensure functional independence of the Public Internal Financial Control Agency

Medium-term

- Fully implement Public Internal Financial Control (PIFC) Law and make further amendments for implementation of the Strategy Paper and Operational Plan for the PIFC Agency
- Update external audit functions

ANNEX VII

Sectoral Assessments

BULGARIA DEMOCRACY AND GOVERNANCE ASSESSMENT (May 2001)

In preparation for the new USAID/Bulgaria strategy the Mission conducted a democracy and governance strategic assessment in May 2001. Three AID experts and one external university professor came to work with the Democracy Officer, and they conducted the assessment in a period of three weeks.

I. Major Findings

This first part measures Bulgaria's performance in the D/G area by using five criteria:

- The extent to which the state provides for the rule of law;
- And the capacity of the state and societal institutions to deliver good governance.
- The extent to which the system is inclusive, and gives all segments of the population an opportunity to participate in the political process
- The degree of consensus over the basic rules of the political game;
- The degree of free and fair competition in the political system;

As this general evaluation was conducted, it became clear that the most prominent D/G obstacles confronting Bulgaria lie in **the rule of law and governance areas**, though the country also faces some significant inclusion-related challenges.

Rule of Law: There seems to be a consensus among donors that Bulgaria's deficiencies in the rule of law area represent the country's most outstanding democracy-related problem. At the heart of the problem lies the widespread perception that the judicial system is not functioning properly. Legal proceedings can drag on for years. There is a general belief that the judicial system suffers from excessive political interference – meaning in particular that those with political connections can avoid prosecution, and that those in power can use the judicial system to put pressure on their political enemies. Many practitioners told us that they believe corruption within the judicial system to be widespread. Though evidence is hard to come by, the pervasive nature of such rumors undermine the credibility of the judicial system. The roots of the problems that have just been described can be traced back to several inter-related factors. (1) Most importantly perhaps, there appears to be insufficient political will to reform the judicial system and combat corruption. (2) The very manner in which the judicial system is organized is highly problematic. (3) There are no checks on the Prosecutor General (PG), who is accountable to no one. (4) The judicial system is under-funded and lacks resources. (5) There are serious human-resources problems – in particular a shortage of qualified staff – within the judicial system. (6) Many of the laws passed by parliament have proven to be inadequately worded or ill considered, and have had to be amended shortly after their passing.

Governance: At all levels of the bureaucracy (local, regional, and central), the quality of public administration is inadequate, and there is still insufficient political will to improve it. Bulgaria's fragile democracy has been built on an administration inherited from the old system and poorly prepared to enable the country to deal with the public policy problems that it now faces. Administrative regulations, which are written by the staff in the executive bureaucracy, often subvert or distort the intent of the laws passed by parliament. Most government institutions operate in an insufficiently transparent

manner, and suffer from excessive politicization in matters of hiring and promotion. The quality of governance also suffers from the excessive centralization of government. This feature has long characterized Bulgaria, and it certainly did not disappear with the transition from a BSP-dominated central government to an UDF-dominated one in 1997.

In addition to all the above systemic problems that are pervasive throughout the bureaucracy, the central government faces a number of specific governance-related problems. Parliament, for its part, does not operate in a particularly transparent manner and lacks formal links to societal organizations (media, professional associations, think tanks and civil society groups). Also its capacity to exercise genuine oversight over the executive branch has been limited.

Local government, too, is significantly constrained in its ability to deliver good governance. For one, municipal councils are far too large, which creates or compounds governability problems. But most importantly perhaps, how effectively local government operates is far too heavily affected by political considerations. Critical in particular is the political relationship that the mayor has with his/her municipal council; with the regional governor; with the central government; and with his/her political party.

The manner in which the country's main societal institutions – political parties, the media, and NGOs – operate is characterized by an overall lack of transparency and accountability. There is a widespread perception that these institutions are generally ineffective at representing the public's needs and aspirations, and that they tend to be driven instead by personal or narrowly partisan interests. Finally, the capacity of these institutions to discharge the functions with which they are traditionally entrusted is quite limited as well. These shortcomings largely account for the widespread disengagement from public life and growing political apathy.

Inclusion: Bulgaria is faced with two overarching inclusion problems. A large segment of the population displays a tendency to wait for the authorities to take charge, and appears to believe that it is the government's responsibility to see to it that people are taken care of. There is also growing political apathy and disengagement from politics. Large portions of the Bulgarian public have become thoroughly disillusioned with the way government and politics operate. They do not feel represented by political parties. In addition to these overarching inclusion issues, three sub-groups of the population – Roma, Bulgarian Turks, and women – face significant barriers to meaningful participation in public life.

Consensus/Competition: Both in society at large and among the country's key political forces, there is a broad consensus on issues of national identity, citizenship, borders, and democracy as the most appropriate form of government. The current system provides for a significant degree of free and fair competition among various political and social forces. For the most part, the remaining key impediments to competition lie in three main areas (i) the preponderant amount of power that the central government wields over local government, (ii) the government's consistent attempts to influence the content of print and, especially, broadcast media, (iii) the weaknesses of advocacy NGOs.

II. Programmatic Recommendations

The major findings pointed to fact that challenges to the consolidation of democracy in Bulgaria lie in three main areas: rule of law (ROL), governance, and inclusion. And this section proposes a D/G strategy built around two main axes:

1. A ROL axis, with both supply- and demand-side activities aimed at improving the functioning of the judicial system and combating corruption (anti-corruption activities being included as well in the governance axis below). Supply side activities should remain focused on the two areas of judicial training for judges and court administration. In their design and implementation, judicial reform activities should also seek to tackle the inclusion problems that affect women and ethnic minorities, especially Roma.

Supply side activities should remain focused on the two areas on which the East-West Management Institute (EWMI) has concentrated: **judicial training for judges** through the Magistrates Training Center (MTC) **and court administration.** Both the beneficiaries of these activities and outside observers had nothing but praise for the EWMI program, which addresses critical needs of the judicial system, as identified in Part One. With respect to judicial training, the primary emphasis should remain on judges – especially younger judges, as they are the ones who will shape the future of courts. Though judges should remain the focus of training activities, the capacity of the MTC should be expanded to include training for prosecutors and investigators, in particular to enhance their capacity to investigate and prosecute organized crime. Given the serious obstacles that stand in the way of such activities (see above), investments in this area ought to be small. Whether training activities are directed at judges, investigators or prosecutors, their content should reflect the inclusion-related problems that were identified earlier. Consequently, legal training should address the specific issues faced by women (for instance in the areas of family law and domestic violence) and minorities (unequal access to justice by the Roma community being a particularly salient question here).

In light of persistent high needs in this area, we also recommend an **expanded court administration program**. Continued support should be provided to improve case handling and tracking, to upgrade court filing systems, to automate archives, to facilitate access to court rulings, and to develop training for administrative staff. One of several possible areas for expansion of court administration activities might be to facilitate the exchange of information about criminal records from one court to another.

Since the lack of political will to reform is one of the key reasons for the persistent and marked deficiencies within the judicial system, **on the demand side a program priority should be to bring together those actors who have a keen interest in judicial reform**, and to endeavor to turn these disparate actors into a cohesive force for change. The objective should be to create a critical mass of people who understand the need for judicial reform; who can agree on the broad outlines of a viable judicial reform program; who can advocate and lobby effectively for that program; and who can monitor progress toward its implementation.

2. A governance axis aimed at (a) increasing transparency and accountability in governmental and political processes, and (b) facilitating the decentralization of governmental authority. This axis should consist of three major programs directed at political parties, the fight against corruption, and support for local government/decentralization. Supporting the three long-term programs there should be two smaller, shorter-term programs targeted at parliament and the media – as well as, possibly, a separate program working with NGOs, though this was the one issue on which the team was internally divided. By its very nature, decentralization/local government should be seen as the longest-term endeavor within that package. One should expect faster results with the media, political parties, and parliament programs. More specifically, clear results should be manifest within two years of launching for the media program, and within three years for the political

parties and parliament programs.

Political party assistance should be coordinated closely with the parliamentary assistance program suggested below, particularly in two areas: working with parliamentary groups, and lobbying for the adoption and implementation of legislation to regulate the financing of political parties and elections.

Like with respect to the ROL program we outlined**, an anti-corruption strategy** should have both supply and demand sides. Regarding supply-side activities, three main directions can be proposed: (i) Monitor the implementation of the procurement law passed in 2000, with a view to making sure that this law does result in the transparency-related improvements for which it was intended; (ii) Strengthen the National Audit Office (NAO)'s capacity to conduct financial and performance audits of other government agencies;(iii) Help develop the role of the Inspector General in selected ministries. The demand side should revolve primarily on expanding the activities of Coalition 2000. This umbrella organization, formed in March 1998, brings together Bulgarian NGOs, governmental institutions, and private sector representatives. It has played a critical role in raising general awareness of corruption and decreasing public tolerance of it. Its activities should now be refocused so as to step up pressures on both parliament and the executive bureaucracy to put in place specific laws, regulations and instruments to combat corruption.

The current foci of the mission's **local government program** are appropriate and should be maintained. Continued efforts to generate demands for decentralization, and to pressure the government to respond to these demands, are necessary. This objective can be pursued, among other means, through continued institutional strengthening of the Foundation for Local Government Reform (FLGR), the National Association of Municipalities, and the various regional associations of municipalities. Given the apparently justified concerns that were expressed repeatedly during our interviews about the ability of municipalities to design and implement budgets, there is also a great need for further capacity building activities for municipalities. The latter should be better prepared to discharge the new responsibilities that will be given to them in the future, should decentralization actually move ahead once there is a clarification of roles and responsibilities of local, regional, and central government. As part of its decentralization/local government program, the mission should consider a sub-set of activities to facilitate the contracting of services currently provided by the government to local for-profit and non-profit organizations.

We do recommend continuing the work that has been conducted through the Parliamentary Information Center (PIC) and the internship program. Both appear to have been very effective projects, and they certainly have been extremely well received. In spite of the very limited investments that were required to bring them about, they have enabled USAID to gain a great deal of public recognition and visibility within the parliamentary institution. There are several areas in which **Parliament** could be strengthened: make the work of the committees more open to public input in general; create regular opportunities for parliamentary committees to draw on the expertise found in think tanks, professional associations, and other such institutions; Identify and put in place other mechanisms through which the capacity of legislative committees to deal with substantive issues might be improved. The parliamentary assistance program, in close collaboration with the political party program mentioned above, should work toward establishing coalitions that cut across party lines.

Following the logic that has just been discussed regarding parliament, the Mission might consider a small, stand-alone program to strengthen the capacity of **the media** to contribute to the ROL,

governance, and inclusion priorities discussed in this document. Instead of focusing on general management and journalism skills, as has been the case until now, the training component of the media program should emphasize the development of sectoral knowledge that will improve reporting on the priority areas identified in this document.

The Mission might consider **a smaller, more focused NGO program**. The rationale for that program would not be the general argument that, since a vibrant civil society is a building block of a healthy, well-operating democratic system, it should be strengthened. Instead, the program would be driven by the contributions that civil society can make to the key rule of law, governance, and inclusion challenges discussed in this document. According to this logic, targeted civil-society strengthening activities would be used mostly as instruments through which critical ROL, governance, and inclusion objectives can be attained.

POLITICAL PARTY ASSESSMENT (April 2002)

Carried out during March 16-April 6, 2002, this assessment focuses on selected aspects of political party development in Bulgaria and on a set of design recommendations. The context for the assessment is the plight of Bulgarian parties that face a considerable uphill struggle in convincing a largely demoralized and cynical public of their ability to represent their interests. In a society where parties are generally mistrusted and politicians are widely believed to be corrupt, the parties are challenged with building confidence among the public at large. The success of the NMSII in the 2001 parliamentary elections is a reflection of popular protest against the existing parties, and a desire to have political organizations that are more trustworthy and more responsive to popular demands.

Findings suggest that many political leaders and analysts see the need to improve the framework in which elections are held. The area most in need of reform is widely believed to be that of party and campaign financing. A second major issue concerns the parties' tendency to ignore public opinion, except at election time. Once the election is over, the parties, once more, turn inwards, all but ignoring the concerns and problems of their constituencies.

In formal terms, most Bulgarian parties appear to have mastered the basics of electoral communication. Platforms are written and disseminated, via the internet and printed leaflets, and overall strategies are agreed upon among the leadership. But at the micro-level, campaign communications appear to break down. Many parties attribute their difficulty in communicating their message to distortions by the media.

In strategic terms, most parties are relatively centralized. Major policy decisions are taken by the central leadership and fed down to the grass-roots, and there does not appear to be a well-developed grassroots party responsiveness. Related is the absence of strong membership recruitment practices among the parties. Additionally, there are few explicit fund-raising strategies and practices among the parties, and it is increasingly clear that transparency in party expenditure would go some way toward rebuilding confidence in parties.

Organizationally, the characteristic that most distinguishes Bulgarian parties from parties in west-central Europe, is the fact that they are organized largely on the basis of patronage, rather than on policy, and that their programmatic distinctiveness is weak. Their general willingness to form coalitions is also a feature that, though beneficial in some respects, limits the extent to which parties can develop

coherent, autonomous internal institutions. There is, undoubtedly, a need for Bulgarian political parties to reform their internal structures, both to improve information flows and to enhance input from the grass-roots.

Communication with the public is yet another one of the main areas where Bulgarian parties have shown weakness and have expressed an interest in having assistance. The UDF and the BSP both interpret their failure in the 2001 election, in terms of weaknesses in their respective communications strategies—And the NMSII has recently become acutely aware of its own lack of success in this domain, as its support in the polls has plummeted. Many party leaders blame the media for their inability to get their message across to the public. They also blame corruption of the media and of research organizations, such as polling agencies. But though tensions between the media and the parties are undoubtedly a factor, many persons interviewed also admitted that their own communications strategies were inadequate. Observers say that politicians lack the skills to get their message across to the media in clear and comprehensive fashion.

Concerning Bulgaria's coalition-building experience, the national party system is unusual in its cohesiveness. Whereas most of the post-communist states have experienced high levels of party fragmentation and party system instability, the underlying opposition in Bulgaria, between the 'red' Socialists and the 'blue' UDF (together with the orthogonally positioned MRF), generated a relatively stable partisan structure, until 2001. The unexpected success of the NMSII disrupted this pattern of alignment, but it is unclear that the basic pattern will not reassert itself. The opposition, on the other hand, has over the past twelve years, been highly polarized. This has limited the extent to which opposition forces have acted "constructively."

External assistance to political party development by the U. S. has been provided through the USAID-supported International Republican Institute (IRI), the National Democratic Institute for International Affairs (NDI), and the National Endowment for Democracy (NED). Not all of this support has been implemented along partisan lines, some of it having been aimed more broadly at fair elections and reform of the party system generally. IRI aimed at supporting the emergence of a center-right coalition in the mid-1990s. Through most of 2001, it undertook monthly polls, right up to the Parliamentary elections, as well as focus group research, especially with women voters, youth, and voters outside of Sofia.

The NDI has been supporting fair elections and civil society in Bulgaria since 1990. Its role in the country has been somewhat different from IRI, in that it has supported a broader spectrum of political activity, rather than focusing on the development of one or two parties' capacity to organize. The NDI in the mid-1990s focused on reversing the monopoly of central parties in selecting local candidates, by stressing grassroots power. In more recent work, during 1998-99, the NDI consulted MPs from BSP, UDF, MRF, and Euroleft parties and their local staffers, in how to manage citizen concerns, daily staff schedules, and public outreach generally.

Alongside assistance from the U. S., the British, Germans, and Netherlands have ongoing programs that support Bulgarian political party development. Other governments, such as Sweden and Greece, have supported short-term efforts, but do not have a presence in Bulgaria. Here, we will review the above Government programs, though with the proviso that several of the foreign parties are not physically present in Bulgaria.

The British Government provides direct support to political parties through the Westminster Foundation for Democracy (WFD). WFD funds party to party work for the major United Kingdom parties, namely the Conservatives, who are affiliated with the UDF, Labor, formerly linked with the Euroleft, and the Liberal Democrats, tied to the Liberal Democratic Union. The German Government supports four political party foundations, the Hanns Seidel Stiftung, an arm of the German Christian Social Union, Friedrich Ebert Stiftung, an arm of the Social Democratic Party, Konrad Adenauer (center-right affiliation, partnered with UDF) and Friedrich Naumann (liberal affiliation, partnered with MRF. German party foundations seem much more direct in supporting specific counterpart parties than the U. S., and somewhat more than the British. Netherlands partisan-based cooperation with European parties is similar to the Germans.

USAID indirect support on the party system includes work with civil society organizations that initiate citizen demand for more transparent and accountable elected officials and political parties. These include implementing partners, think tanks and advocacy organizations. A sample of assisted activities includes training of national legislators in parliamentary democracy, support for more accountable, transparent local government, enhancing the advocacy role among NGOs, anti-corruption assistance, and ethnic integration of the Roma people.

Donors and some of the international foundations supporting partisan party development in Bulgaria have been stalled in their planning, precisely because the political party system is in flux. Partly at stake is whether the NMS can make a convincing case with the public, the Government, and with the other parties on its eligibility and legitimacy in establishing its party status. If a scenario of a viable NMS party comes to pass, then support from its most natural US counterpart, the IRI, could be considered as a clear option. Generally, because of the partisan work of international political party foundations, there seems to be little programmatic cooperation among the parties. However, party foundations with common political agendas do coordinate, and there are even a few instances of cross-national cooperation.

Three design recommendations are proposed: First a program design for National Party Communications Capacity Building; second, Enhancing Regional and Local Party Accountability; and third, Party Youth Political Leadership Development.

The objective of the National Party Communications Capacity Building program design is to establish enhanced internal communications capability within the main Bulgarian political parties, in order to improve accountable political representation and governance. Its intended result is the establishment of self-sustaining mechanisms within the main political parties for gathering information and for disseminating party messages.

For the Enhancing Regional and Local Party Accountability program design, the objective is to aid Bulgarian political parties to broaden channels of information to the media, leading to a better informed public, which ultimately must hold political leaders accountable for their conduct in and out of office. The intended result is local and regional political party organizations, better able to communicate with their constituents and the public generally, and with a capacity to engage the media and advocacy groups in conveying a measurably greater volume of reliable political information to voters.

The objective of the Party Youth Political Leadership Development program design is the creation of a new generation of political leaders to spearhead the development of more effective and representative party structures and to improve relationships within the parties, with constituents, with the media, and the public. Its intended result is a body of young, informed political party leaders with experience to lead their parties, with a capability to operate with transparency and accountability to the voting public, and to take more and more responsibility for party leadership.

LEGISLATIVE STRENGTHENING ASSESSMENT OF THE BULGARIAN NATIONAL ASSEMBLY (May 2001)

The Bulgaria National Assembly completed its 38th parliamentary term on April 19, 2001. Significantly, it was the first National Assembly to complete its full four year term of office since the adoption of the new Constitution on July 12, 1991, thus reflecting a certain level of maturity, stability and productivity unmatched by prior National Assemblies since the beginning of the democratic political transition in 1989. During its 38th parliamentary term, the National Assembly enacted an ambitious package of economic reform and privatization legislation and moved towards closer integration with the European Union by ensuring that laws enacted by the National Assembly conformed to EU standards.

The National Assembly operates in a relatively effective and efficient manner. There are defined rules of procedures, adequate facilities, good management and administration, a broad range of legislative support services, a functioning legislative process, and significant committee processes. However, there appears to be genuine recognition among many people both within and outside the National Assembly that it could be a stronger and more representative, accountable, and responsive institution. The National Assembly faces difficulties in fully and adequately performing its constitutionally mandated duties to represent the people, exert legislative authority, and exercise parliamentary control. As a result, there is a need for reforms and changes in the legislative process and in how the National Assembly currently operates and performs its functions. Some of these reforms are institutional in nature and would need to address entrenched power structures in the political system. Other reforms, however, would not threaten these existing political power structures and could probably garner support from a broad cross-section of the legislative community.

In terms of its representation functions, the National Assembly is relatively open in its parliamentary practices and is reasonably transparent to outside scrutiny. However, interactions between the National Assembly and members of the public often do not involve substantive or meaningful public participation in the law-making process nor do they lead to satisfactory results in the area of constituency relations. In addition, the nature of the electoral system may reduce the incentive and motivation of many MPs to engage in extensive or effective constituency relation activities. The proportional representation, closed party list electoral system, along with the dominating and polarizing influence of political parties, tends to weaken the links between MPs and their constituents and limits the access and ability of civil society, business, and other outside groups and individuals to play a positive role in the policy-making and legislative process.

The National Assembly's performance in the lawmaking process has come under widespread criticism, both within and outside the institution. One of the most serious problems has been the poor quality of some of the laws enacted by the National Assembly. Reasons for this poor quality include the lack of

good expert advice and analysis on draft laws, the rapid review process, the extreme politicization of the legislative process, the lack of a constructive role for the opposition, and problems in the rules and procedures of the legislative process.

Although the National Assembly has an extensive range of oversight tools and mechanisms available to it under the Standing Rules, the nature of the parliamentary system in Bulgaria results in very little action by the National Assembly in this area. The National Assembly is especially weak in the area of reviewing and monitoring the national budget.

A USAID assistance program should focus, at least initially, on a limited number of goals and objectives. These goals and objectives should center on broadening citizen participation in the legislative process, promoting accountability over the national budget, and increasing the National Assembly's representational capacities. To achieve these goals and objectives, this report contains the following recommendations:

Recommendations

- Engage in consultations with, receive ideas and comments from, and enlist the support of, leadership, senior staff, and/or prominent members of political groups within the National Assembly
- Support the continued development and expansion of the Parliamentary Information Center.
- Increase public participation in the legislative process by strengthening the ability of commissions to receive and process public input and comments through organized formal public hearings.
- To the extent possible, assistance to strengthen the Commissions should be centered around specific draft laws or policy issues that coincide with other USAID/Sofia strategic objectives in order to provide linkages and synergy with other USAID-funded projects in Bulgaria.
- Support the further development of information technologies and web design to facilitate communication within and outside the National Assembly and to increase the National Assembly's ability to disseminate and receive information via the Internet or through the Parliamentary Information Center.
- Assistance to MPs on improving constituent relations and linkages is better delivered in the context of a political party assistance program, which should be separate from the legislative assistance program.
- Strengthen the capacity of commission advisors and other appropriate legislative staff to provide in-depth bill analysis and evaluation of draft laws.
- Continue to support the Legislative Internship Program while jointly devising with the National Assembly, a long-term sustainability plan for the program.
- Provide policy experts and seminars on specific policy issues for MPs on draft laws and issues being considered by the National Assembly and assist the National Assembly in developing a database containing names of these types of experts.
- Refrain for now from providing assistance to create a centralized research service within the National Assembly.
- Provide assistance in the form of comparative specialists on legislative process and procedures, as needed, to help the National Assembly revise its Standing Rules to increase the quality and efficiency of its lawmaking process.
- Conduct a new member orientation program near the beginning of the 39th National Assembly.
- Develop the skills and capacity of academic institutions, economic think tanks, and/or issue-oriented

NGOs, civil society organizations, and interest groups to engage in budgetary and fiscal analysis, budget policy development, performance based budgeting, issue oriented budget analysis, draft law fiscal impact evaluation, budget projecting and revenue forecasting, budget information services, review of the government accounts, and monitoring and publicizing of budget implementation including revenues, expenditures, and debt.

- Provide budget-related assistance in the form of training, educational seminars, or study missions on budget-related issues, practices, and oversight mechanisms targeting MPs and staff of the relevant legislative commissions that have primary responsibilities for budget and finance issues.
- Assistance should be provided to help the National Assembly engage in a strategic planning process designed to create a long-term institutional development plan.
- Provide technical assistance and equipment, as determined through an in-depth assessment of the National Assembly's information technology capacity, to help improve the flow of electronic information within and outside the National Assembly.

BANKING AND FINANCIAL SECTOR DEVELOPMENT ASSESSMENT (September 2001)

This updated assessment of the Bulgarian banking sector attempts to link successes and experiences as they relate to banking/financial sector trends (and other relevant areas such as macroeconomic policy and private sector development) and the challenges that policy makers, the economy at large, and the financial sector will face in Bulgaria in the coming years. The report includes a comparison of Bulgaria's experience with that of Poland and Romania. It reviews USAID objectives in the financial sector, provides broad recommendations, assesses the activities of other relevant donors in the field, and provides suggestions for continued USAID support to Bulgaria. In addition, the report includes a brief overview of major financial sector activities supported by USAID since 1997; a description of USAID's strategic objective in the financial sector and the methodology used to measure it; a summary of Bulgaria's accomplishments in the banking sector; and a review of continued weaknesses, gaps, and points of vulnerability in the financial sector.

A full version of the document is available at http://www.usembassy.bg/prog/sectoral_assessments.html

AN ASSESSMENT OF THE AGRICULTURAL AND FOOD SECTOR (December 2001)

The assessment examines the systemic and policy elements of the agricultural sector in Bulgaria by analyzing the potential for USAID investments, estimating the prospective future economic value, determining the constraints that limit realization, and suggesting feasible opportunities for USAID intervention in addressing these constraints. The report studies the current status of key external factors that affect sector development, such as financing, available leasing schemes, imports and exports, transport and irrigation infrastructure, taxation, labor pool, custom duties, and land assembly. It further goes through the existing marketing and information dissemination systems, and examines the current status (efficiency, access, integration) of the agriculture sector input and output markets. Finally, it analyzes the trade patterns, potential for and constraints to import substitution for agriculture products and processed foods; examines the status and constraints to export market development; and assesses the effect of laws, regulations and GOB policies on agriculture development.

A full version of the document is available at http://www.usaid.gov/regions/europe_eurasia/countries/bg/pdfs/assessments/agriculture_assesssment_final.pdf

SMALL/MEDIUM ENTERPRISE ASSESSMENT (October 2001)

The assessment identifies the impediments, advantages, and disadvantages to increased private sector investment in SMEs. It highlights key growth areas and provides specific recommendations to USAID on exploiting identified opportunities in coordination with other donor programs. The report looks at the general economic climate, the existing environment for SME development, existing policies, strengths and weaknesses, and entrepreneurship and enterprise development in Bulgaria. Possible venues for USAID intervention are also reviewed, proposing a tripartite strategy in the SME sector, with global competitiveness being a central thrust of USAID's approach.

A full version of the document is available at http://www.usaid.gov/regions/europe_eurasia/countries/bg/pdfs/assessments/sme_assessment_final.pdf

MICROFINANCE ASSESSMENT (March 2002)

The document assesses the applicability of various microlending activities in the context of the Bulgarian environment by equipping USAID with concise information and knowledge about the most current trends and prospects for future programming. It provides a detailed overview of the existing microfinance activities in the country, focusing on several specific areas, such as the legal status of micro-finance institutions, target groups, outreach, risk-management, loan-size, interest rate structuring, etc. The assessment specifically examines the needs and relevance of micro-finance provision in the current economic environment and the results of various activities (other donor programs included), commenting specifically on loan servicing, delinquency rates, sustainability of beneficiaries/borrowers, and the sustainability of the means/methods of the various micro-finance models. It also assesses the ability of micro-finance to produce sustainable income and create employment generation; considers various types and methodologies for micro-finance provision; and presents an overview and recommendations for the most appropriate program approach by comparing different methods and building upon the experience and lessons learned from the region.

A full version of the document is available at http://www.usaid.gov/regions/europe_eurasia/countries/bg/pdfs/assessments/microfinance_assessment.pdf

ASSESSMENT OF THE BULGARIAN ENERGY SECTOR (January 2002)

The assessment provides an overview of the energy sector in Bulgaria, focusing on the economic, political, regional, and social impact of reform. It identifies the stumbling blocks to energy sector reform; examines the existing legal framework; reviews the sector ownership and structure; outlines any existing subsidies, both direct and indirect; and pays particular attention to certain corruption-related issues. The overview is followed by a comprehensive analysis of the policy framework and the status of the proposed legislative changes; the role of the State Energy Regulatory Commission (SERC) and its oversight ability; appropriate accounting standards; and institutional development of SERC. A set of recommendations on possible USAID interventions is also included.

A full version of the document is available at http://www.usaid.gov/regions/europe_eurasia/countries/bg/pdfs/assessments/energy_assessment_public.pdf

COMMERCIAL, LEGAL, AND INSTITUTIONAL REFORM DIAGNOSTIC ASSESSMENT REPORT FOR BULGARIA (March 2002)

This report provides an overview of the reform needs in the Bulgarian commercial sector. The assessment methodology uses a four-dimensional analysis of eight areas of commercial law and a separate review of the court system. The eight areas include bankruptcy, collateral, company, competition, contract, foreign direct investment (FDI), real property, and trade. The four dimensions for each area are legal framework (laws and regulations), implementing institutions, supporting institutions, and the market for reform. The document also sets forth a list of recommendations for potential USAID intervention as well as highlights the opportunities for donor assistance.

A full version of the document is available at http://www.usembassy.bg/prog/commercial_ass.html

SOCIAL SECTOR ASSESSMENT (July 2001)

The report provides an overview of the state of social welfare in Bulgaria by identifying the major problem areas in the provision of basic services and highlighting program areas where USAID could have a significant impact. The assessment is centered around the following three areas: 1) social protection and services (including pensions, social security, health insurance, labor market, unemployment support, and needs of various vulnerable groups such as women, children, elderly, minorities, handicapped or disabled persons); 2) the healthcare system (including major health issues; a review of the healthcare system, i.e. facilities, workforce, financing, access and utilization; policy review; and recommendations); and 3) the educational system at all levels (primary, secondary, vocational and tertiary). The document also presents a detailed discussion of the following cross-cutting issues: 1) decentralization, 2) institutional capacity building and NGO involvement, 3) management capacity, and 4) information needs and capacity.

A full version of the document is available at http://www.usaid.gov/regions/europe_eurasia/countries/bg/pdfs/assessments/social_assessment.pdf

CONFLICT VULNERABILITY ASSESSMENT (March 2002)

The report examines the past, current, and future patterns of conflict behavior in Bulgaria; identifies the stakeholders and potential sources of instability; and outlines key strategic issues and programmatic interventions that could potentially mitigate or prevent conflict. It chronologically presents the occurrence, evolution, and characteristics of conflict in Bulgaria in 1989-2002. It also briefly discusses the political and socio-economic context in which these conflicts unfolded, as well as examines the regional structure of nascent and existing conflicts, as determined by their origin, intensity and significance. The assessment further identifies the most vulnerable and at-risk social groups; outlines the causes and immediate factors of social conflict; and highlights the factors that have prevented the occurrence of major conflict in Bulgaria. A proposed system of monitoring indicators is also presented.

A full version of the document is available at http://www.usembassy.bg/prog/sectoral_assessments.html

GENDER ASSESSMENT (May 2001)

The assessment is intended to promote a better understanding of gender issues in Bulgaria and their impact on the sustainability and effectiveness of USAID-funded activities. It responds to USAID's guidelines regarding the requirement of gender analysis during strategic planning. The analysis seeks to assist in mainstreaming gender into the new country strategy, technical areas, and related policies and procedures. The findings are presented by Strategic Objective. Based on the conclusions, a set of recommendations is provided for integrating gender into future portfolio activities. The report also provides an outline of cross cutting recommendations. Questions for further exploration of the topic are also suggested as an approach to deepening the awareness and understanding of Mission staff and implementing partners.

A full version of the document is available at http://www.usaid.gov/regions/europe_eurasia/countries/bg/pdfs/assessments/gender_assessment.pdf

ASSESSMENT OF NATURAL RESOURCES AND THE ENVIRONMENT (January 2002)

The document identifies the needs for biodiversity conservation and provides information on the environmental sector in Bulgaria, including cross-sectoral policy, economic and market effects, institutional capacity, and rule of law. It includes a general overview of the major ecosystem types (important endemic species and their habitats, as well as unique aspects of the country's biodiversity). It examines the legal and institutional framework governing environment and natural resources, and outlines major issues and threats to Bulgaria's biodiversity. A brief perspective on the problems pertaining to other environmental sectors is also included, such as air pollution, solid waste and municipal wastewater. In addition to assessing the Mission's overall program, the report also assesses the institutional capacity and relative effectiveness of the various government and non-government organizations and the policies and/or programs funded by international donors. Recommendations of how the proposed country strategic plan could better integrate environmental and biodiversity concerns follow the analysis, with particular attention to any existing cross-sectoral linkages with local governance and the private sector.

A full version of the document is available at http://www.usaid.gov/regions/europe_eurasia/countries/bg/pdfs/assessments/biodiversity_assessment.pdf

ANNEX VIII

A Snapshot of Bulgaria: Facts & Figures

GEOGRAPHY

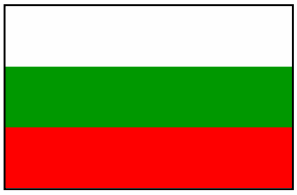
Location:	Southeastern Europe, bordering the Black Sea, Romania, Greece and Turkey, Macedonia, and Yugoslavia.
Area:	110,993 sq. km (42,672 sq. miles)
Climate:	Continental-Mediterranean
Terrain:	Mostly mountainous with lowlands in the north and southeast. Rila and Pirin are alpine mountains exceeding 2,900 m above sea-level. Stara Planina, also called *the Balkan Range* and origin of the namesake *Balkan Peninsula*, is the longest mountain range, dividing the country into Northern and Southern Bulgaria.
Highest peak:	Mussala (2,925 m), Rila Mountain

POPULATION

Population:	7.9 million (2001)
Pop. Growth Rate:	-5.5 per 1,000 population (2001)
Capital City:	Sofia (1.2 million)
Large Cities:	Plovdiv (342,500), Varna (299,800), Bourgas (195,255), and Rousse (166,467)
Ethnic Groups:	Bulgarian 83.6%, Turk 9.5%, and Roma 4.6% (2001)
Religions:	Christian Orthodox 83.8%, Muslim 12%, Roman Catholic 1.5%, and Jewish 0.8% (1998)
Health Status:	Life expectancy: males 67.6 years, females 74.6 years (2001)
Infant mortality rate:	14.4 / 1,000 (2001)

GOVERNMENT

Government Type: Parliamentary democracy
Constitution: Adopted July 12, 1991
National Holiday: Independence Day, March 3 (1878)
President: Georgi Parvanov
Prime Minister: Simeon Saxe Coburg-Gotha
Administrative Territorial Arrangement: 28 regions and 263 municipalities



ECONOMY

Currency: Bulgarian lev (BGL)
Exchange Rate: USD 1 = BGL 1.65, EUR 1 = BGL 1.95 (June 2003)
Average Monthly Salary: USD 134 (2002)
Private sector share of GVA: 72.7% (2002)
Restructuring: 81% of state assets listed for privatization have become private

Indicator	2002	2001	2000
GDP Growth, %	4.8	4.0	5.8
GDP Per Capita, USD	1,978	1,705	1,542
Inflation rate, annual	3.8	4.8	11.4
Unemployment, %	17.71	19.6	17.9
Foreign Direct Investment, USD million	458	689	1,001
Budget Deficit, %	0.7	0.9	1.1
Gross Foreign Debt, USD million	10,900	9,904	10,364
Foreign Debt (% of GDP)	70.1	73.3	86.5
Current Account (% of GDP)	-4.4	-6.5	-5.6
Trade Balance (% of GDP)	-10.4	-11.6	-9.3