Final Report

USAID Technical Assistance Project
Bulgarian Bank Consolidation Company

Contract No. PCE-I-00-97-00037-00 / Task Order No. 803

Submitted by Barents Group of KPMG Consulting, LLC

Period of Performance
February 6, 1999 – August 30, 2001

Background

Barents Group of KPMG Consulting has been engaged by USAID to provide technical and advisory assistance to the Bulgarian Bank Consolidation Company (BCC) and the Government of Bulgaria (GOB) in the area of Bank Privatization and Restructuring. The project is a continuation of previous technical assistance in this area dating back to June 1997. The primary thrust of the program since inception was threefold: (1) provide an overall analysis and evaluation of six state-owned banks held by the BCC; (2) recommend appropriate disposition strategies for each of the banks; and (3) assist the BCC in all aspects of the privatization process from beginning to end. The period of performance for this delivery order was 1 February 1999 through 31 July 2000. USAID, at the request of the Government of Bulgaria, subsequently extended the contract with two modifications, with an end date of 30 August 2001.

While the primary focus was concentrated towards bank privatization, the BCC's Executive Director, Peter Jotev, in his capacity as Minister of Economy, requested an expanded scope of work to support privatization activities outside the banking sector. In consultation with USAID Mission/Bulgaria, the scope of work was thus revised to include advisory support to the Ministry of Economy (MOE), which had a substantial portfolio of state assets/companies targeted for privatization. Accordingly and in addition to on-going efforts in the banking sector, the advisor team provided more general advice concentrated on privatization strategies and procedures, legal and regulatory reform, influencing the privatization process, organizational structure and delegation of responsibilities, and transaction process flow. Given successful bank sales early in 2000, support under this delivery order was primarily focused on non-bank privatization activities and "institution building" within the MOE and, beginning in early 2001, also Bulgaria's Privatization Agency (PA).

It should be noted that, in June 2001, Bulgaria's parliamentary elections resulted in a defeat of the UDF (United Democratic Forces) party which held a majority control in Parliament since 1997 and which was responsible for major economic and social reforms during this period. The new party in control is the Simeon National Movement (SNM), which is only beginning to organize the government at the ministerial and agency levels. As a result, privatization activities during July and August are more or less "on-hold", pending appointments of new staff in key positions. Based on the stated policies of the SNM, it appears privatization will be a top priority and that the election results will in no way change the government's policy toward economic reforms.

This conclusion report seeks to highlight the main achievements relative to the project benchmarks and tangible results, encompassing both the original Scope of Work and the expanded activities identified in subsequent modifications. We discuss first the overall status of the Bank Privatization components and, second, main activities and achievements of the general advisory assistance to the MOE and PA. We conclude with overall observations of the program and suggest where the Government of Bulgaria might benefit from continued USAID technical assistance in the privatization arena. This conclusion report is intended only to summarize main points and achievements. For a more thorough chronology of events and bank specific issues, please refer to the advisor monthly reports, included herein as an appendix. With respect to the more general areas of support covered in the modified task order, we have sought to provide a discussion of the main themes and resulting value of the advisory assistance. Again, specific efforts and issues arising are more fully captured in the advisor monthly reports.

Benchmarks and Tangible Results

Bank Privatization

With respect to the project benchmarks and tangible results in the area of Bank Privatization, the contract delineated the following:

- Express Bank will either be privatized, in an advanced stage of sale negotiation, or an alternative IMF resolution strategy will be approved and underway;
- Hebros Bank will wither be privatized, in an advance stage of sale negotiation, or an alternative IMF resolution strategy will be approved and underway;
- Bulbank will either be in an advanced stage of sale negotiations, or an alternative IMF approve resolution strategy will be underway; and
- A restructuring plan for Biochim will have been approved and in the process of implementation.

Prior to the commencement of this Task Order, two of the six state banks targeted for privatization, and under the scope of this program, had been sold – Post Bank and United Bulgarian Bank. No advisory support was provided under this period of performance and the BCC received no claims or filings for either bank under the representations and warranties period. In addition, a management contract was in place for C.B. Biochim and strong progress had been made in pre-privatization for Bulbank, Expressbank, and Hebros Bank. During the term of this Task Order, three of the four banks have been sold. The remaining bank – Biochim – is in advance stages of privatization and negotiations were in place for its sale in the first quarter of 2001. However, the BCC, after some consideration, rejected the offer from Hebros Bank in May 2001 and the tender process will have to be re-initiated, most likely in the fourth quarter of 2001. In summary, we believe the project benchmarks and tangible results relative to Bank Privatization have actually been exceeded as the sale of Bulbank, Bulgaria's largest bank, was not originally expected to occur during the term of this project. As alluded to in the monthly advisor briefings and in the completion report under the previous FSDP program, the target dates for specific privatization transactions were originally much too aggressive. These views have been shared by the advisor team with USAID, IMF, and World Bank officials and should guide future timeframes regarding continued privatization initiatives, regardless of the industry or enterprise. A brief summary of the status of each of the six banks follows. For completeness, we include all six of the major state banks in which the government of Bulgaria owned majority ownership interest starting in 1997 when the advisors were originally engaged.

Name	SPA Signed*	Date Closed	Acquirer(s)	Equity Interest	Sale Amount
United Bulgarian Bank	N/A	July 22, 1997	U.S.Oppenheimer & Co., EBRD and Bulbank	99.63%	Undisclosed
Bulgarian Post Bank	August 5, 1998	November 9, 1998	American Life Insurance Co. and Consolidated Eurofinance Holdings	78.23%	USD $38.0 Million
Expressbank	September 24, 1999	November 30, 1999	Societe Generale (SG)	97.95%	USD $39.1 Million
Hebrosbank	December 10, 1999	March 29, 2000	Regent Pacific Group (RPG)	97.57%	USD $23.5 Million
Bulbank	July 7, 2000	October 2, 2000	Consortium: UniCredito Italiano, Allianz A.G.	98.0%	EURO 360mln
Commercial Bank Biochim	N/A	N/A	N/A	99.3%	N/A

Status of the Bank Privatization – Figure 1.0

United Bulgarian Bank (UBB)

Privatized in July 1997, the United Bulgarian Bank was the first bank privatized by the BCC. UBB was sold to a consortium of U.S. Oppenheimer & Co., EBRD, and Bulbank. The consortium infused approximately $30 million USD new capital into UBB in conjunction with the acquisition and consistent with the Stock Purchase Agreement. The consortium subsequently sold its interests in UBB to the National Bank of Greece in July 2000.

Bulgarian Post Bank (Post Bank)

Bulgarian Post Bank was privatized in November 1998 for a sale price of $38 million USD. Aggressive marketing efforts were launched in September 1997, resulting in three competitive offers for the bank and eventual sale of the 78.23% interest to the strategic investor consortium of American Life Insurance Corporation and Consolidated Eurofinance Holdings.

Express Bank

BCC engaged the services of HSBC Investment Bank and Deloitte & Touche in August 1998 to assist in the due diligence activities, marketing and sale of the 97.95% interest in Express Bank. Potential acquirers submitted preliminary offers in July 1999 and the BCC selected Societe Genarale as the preferred acquirer and entered a Share Purchase Agreement on September 24, 1999. The sale closed on November 30, 1999 for a purchase share price of $39.1 million USD. A number of factors caused much concern during the negotiation process, although these were overcome with the assistance of Barents Group Advisors. These issues centered on the integrity of Express Bank's IT systems and Y2K compliant standards, the large single loan exposure to the now bankrupt Varna Shipyard (approximating $24 Million USD), and disagreement over the BCC's real equity value resulting from 1998 year end audit adjustments. None of the foregoing, however, resulted in a pull back from SG and the transaction closed in a timely manner. With respect to loan exposure, the eventual sale did not include the Varna Shipyard loans in Express Bank's portfolio as these were transferred to the BCC. It was determined that the acquirer gave little or no value to these loans so that BCC retained any upside on potential recoveries in the event the Varna shipyard is ever sold or liquidated. Two other loans, linked indirectly to the Varna shipyard, were also transferred to BCC for a purchase price of one Leva (approx.50 cents US) so that BCC may recover from collateral on these loans which are valued at up to $4 Million USD. Resolution of these loans is one of the priority areas the BCC must address when new management is appointed in September 2001.

Hebrosbank

BCC initiated marketing efforts for the sale of 97.57% equity in Hebrosbank in early 1999. Barents advisors led the marketing efforts for this bank and provided on-going support to the sales process through completion. After the potential acquirers completed their due diligence during the next several months, BCC received four offers by September 15, 1999. Regent Pacific Group was selected as the preferred acquirer on November 24, 1999 and a Share Purchase Agreement signed on December 10, 1999 for a purchase price of $23.5 Million USD. The sale subsequently closed on March 29, 2000. The transaction process was conducted relatively smoothly and advisor efforts, during the closing stages, focused mainly on preparation of transaction documentation and logistical support. Much time was devoted to Disclosure documents seeking to protect the acquirer against potential liability for information, data, and representations made by the BCC in the sales contract. One major issue arose concerning the status of Hebros as a public company, and thus the legality of the BCC selling the shares outside the rules of the Securities and Exchange Committee. The issue, which would have complicated significantly the sale of Hebros, was resolved following the announcement on December 8, 1999 that the entry of Hebrosbank into the Central Share Registry was in error and that the bank should not be considered a public company.

Bulbank

Bulbank is Bulgaria's largest bank, representing approximately 25% of total bank assets. In November of 1998, BCC engaged the services of CA IB Investmentbank Aktiengesellschaft, Credit Suisse First Boston and Arthur Anderson to assist in the due diligence, marketing and sales preparation for Bulbank. The BCC's equity interest was 98.0%. In February 2000, all potential acquirers were notified that the deadline for final offers would be April 19, 2000, contingent on completion of the December 1999 audit and availability for review. A joint bid between UniCredit Italiano and Allianz A.G. was selected the favored acquirer and a Share Purchase Agreement was signed on July 7, 2000 for a sales price of 360 Million Euro. The sale closed on October 2, 2000, with UniCredit receiving 93% equity interest and Allianz acquiring 5%. The advisors strongly believe this was major milestone in the bank privatization efforts, given the large presence of Bulbank in the Bulgarian banking sector, the highly charged politics of the deal including strong opposition from Bulbank's management and another potential acquirer. The sale signaled the BCC's and the government's strong commitment to the privatization process and the demonstrated ability to act decisively in the face of strong public criticism from those opposing the deal. It is through this transaction, the advisors believe, that the BCC and other Bulgarian officials involved in the process gained an appreciation of the importance of a coordinated capacity for public relations and communications, serving as a "case study" of sorts in this discipline. The transaction in process received strong negative press, both in local and international media. For approximately 9 months, the BCC fought misleading press articles and releases that, to large extent, sought to derail the pending deal with Allianz and UnoCredit. These events resulted in highly charged political tensions and required consistent and thoughtful deliberation on the part of BCC management. The deal did proceed and is testimony to the commitment of the BCC to conduct objective, "best value" transactions, withstand the political heat, and act responsively and effectively in the public relations field. In our estimation, it was a strong sign of the maturing capacity for effective organizational communications. The advisors played a major role in drafting press releases and statements issued by BCC supporting the sale of Bulbank.

Biochim

Marketing efforts to privatize Biochim were originally initiated in September 1999 and resulted in three offers being received by the March 31, 2000 bid deadline. After negotiations were almost completed for the sale in early June 2000, BCC received information that caused some concern about the shareholder structure of the potential acquirer and whether or not the Bulgarian National Bank would approve the deal. Eventually the offer was rejected and a new privatization procedure was initiated in September 2000 with an eventual offer deadline of January 24, 2001. Despite several potential acquirers expressing interest in acquiring Biochim, all but one eventually dropped out of the process so that only one offer, from Hebrosbank, was received by the bid deadline. However, in May 2001 BCC formally rejected the Hebrosbank offer leaving Biochim the only bank not privatized out of the six banks held by BCC in June 1997.

Due to the election results in June, 2001, it is not anticipated BCC will initiate another tender for Biochim until October, 2001, after which the government appoints new members to BCC's Board of Directors on September 17, 2001. Assuming a period of approximately nine months is needed to 1) prepare a new information memorandum; 2) complete marketing efforts; 3) allow potential acquires to complete due diligence and prepare offers; 4) evaluate and clarify offers; and 5) negotiate the share purchase agreement, our best estimate is that Biochim could be privatized in mid-summer of 2002.

Near the close of this current contract, the BCC inherited minority equity interest in two additional banks – Central Cooperative Bank (33%) and State Savings Bank (25%). The transfer of these shares took place in April and May 2001, and the BCC was subsequently tasked with selling these equity positions. The status of each is summarized below:

Central Cooperative Bank

The BCC acquired approximately 33% of the equity in Central Cooperative Bank ("CCB") in April 2001. It will be necessary to develop a sales strategy based on the perceived market interest and the fact BCC cannot offer controlling interest in the bank. In May 2001, the advisors assisted in negotiating a joint marketing plan whereby BCC, in conjunction with another Bulgarian bank holding approximately 20% interest in CCB, would jointly market their shares so that an acquirer could obtain majority control of the bank. However, after the

June 2001 elections, BCC declined to initiate any new privatization efforts and the other Bulgarian bank has now sold its 20% interest. Therefore, the disposition of BCC's 33% may be hampered due to the fact it cannot offer a controlling interest. No action is anticipated until after the new BCC Board of Directors is appointed on September 17, 2001.

State Savings Bank

The BCC now holds a 25% equity interest in State Savings Bank ("SSB"), the third largest bank in Bulgaria. One of the major policy issues in privatizing SSB is whether or not it is feasible to market only a 25% interest. There are many arguments for first offering a controlling interest (at least 51-67%) to a strategic investor, preferably a well-managed foreign bank. Discussions have also included the possibility of offering the shares over the Bulgarian Stock Exchange but we believe this may not be in the best interest of the BCC or Bulgaria for a variety of reasons. We expect the new government will look closely at transferring all of SSB's shares to BCC for privatization. However, as with the other banks held by BCC, any action is likely to be delayed several months due to the transition period needed by the new government.

Strengthen Policy and Legal Framework of BCC

The advisors provided ongoing policy guidance and support to the BCC in the areas of organizational policy and legal/regulatory reform more supportive of the privatization process. We identified a definite need to develop a more structured and coordinated approach to the privatization process and overall institution building of the various government departments with privatization responsibilities. As noted in monthly reports, virtually all GOB Ministries held equity positions, to varying degrees, in state assets targeted for privatization. Not all were sufficiently equipped nor staffed to commence an orderly and efficient sales process. Along these lines, advisor efforts focused on: 1) legal and operational guidance to streamline privatization transactions; 2) delineate clears lines of decision making and document process flow; 3) establish fundamental transactional "best practices"; and 4) emphasized the critical role of an independent legal department dedicated to privatization matters. Coordinated through the MOE, such support touched all GOB departments via seminars, working groups and privatization memoranda identifying critical path work flow methods in the privatization process. The advisors played a strong role in all such matters. In addition, the advisors had direct input to legal amendments and changes to the Privatization Law, seeking to eliminate restrictive procedural elements, bridge the gaps among the various GOB players involved in crafting the changes, and ensuring, to the extent possible, that critical financial considerations were accounted for. The points articulated in a Bulgarian International Business Association (BIBA) White Paper on Privatization parallel the arguments presented by the advisory team.

Public Relations

Advisor efforts with respect to public relations and communications were conducted throughout the period of performance. Under the previous contract, Barents Advisors conducted a seminar for journalists and the press covering some of the central themes in the Privatization Process. Given a decided opposition to privatization in some press circles, based largely on misinformed perceptions and quite often, principled objections to privatization, the seminar aimed at delineating the steps in the privatization process, clarifying issues concerning financial analysis and asset valuation, emphasizing the importance of transparency and full disclosure, and explaining the interrelated activities of the Bulgarian National Bank and Bank Supervision Department in bank privatization. A central theme repeated throughout advisor efforts was bank/asset valuation, a subject prompting much negative press when bank sales were announced and the nominal value of the deal disclosed. Advisors focused on modern valuation techniques and emphasized that fair priced valuations of entities cannot be extrapolated considering, for example, only one quarter's operating financials. The desired result was to lesson the public criticism of bank sales (and in future enterprise/asset sales) of perceived undervalued transactions. Similar support continued along these lines in this contract, coaching and guiding the Ministry of Economy, the BCC, and the Privatization Agency in how to respond to negative press regarding specific privatization sales and general privatization issues. Mr. Alan Whitney, Senior Communications Advisor for Barents Group, provided specific input in May 2000 related to the sale of Bulbank. Over the course of USAID/Barents Group assistance program, there was much knowledge exchanged in the areas of public relations and communications. As identified in the discussion regarding Bulbank, the advisors feel that the BCC, the MOE and the Privatization Agency have a much stronger appreciation for and value of a coordinated communications operation, the importance of prompt and direct responses to press accounts of specific and general cases, and the need for proactive initiatives in preparing and disseminating press releases and conferences prior to major policy announcements and transaction specific information. Continued reminders of a strong Public Relations capacity as the privatization process accelerates is well advised in future technical assistance programs.

US Based Training

No U.S. based training was coordinated through the advisor team under this contract. Representatives from the both Bulgarian Deposit Insurance Fund and Bulgarian National Bank participated in U.S. based training programs coordinated through Barents Group, World Learning and USAID, focused in the areas of bank supervision, investment and financial management, and troubled bank work out/liquidation.

Ad Hoc Policy Advice on Priority Issues for BCC

The advisors were to provide on-going ad hoc advice and guidance on relevant issues of the privatization process and other priority areas facing the BCC. This included the drafting of high level correspondence and responses to potential acquirers, BCC owned Banks, IMF and World Bank representatives and other domestic and international participants in the privatization process. Such activity was conducted by the advisors throughout the program, particularly during the negotiation stages of each transaction. Thorough and specific accounts of such support are captured in the monthly reports. The advisors believe that, through the course of such advise, the BCC (and subsequently Ministry of Economy and Privatization Agency staff) gained valuable knowledge in the procedural aspects of executing transactions, core issues to address relevant to all privatization deals, and the importance of timely and thoughtful follow-up to specific and general privatization inquiries. Institutionally, there is a more capable and informed technical knowledge base relative to privatization procedural flow.

Other Areas of Support

As noted, the scope of work was expanded in June 2000 to include technical and advisory support to the Ministry of Economy and its department for Privatization. Assistance was also provided, both directly and indirectly, to the Bulgarian Privatization Agency. The preceding discussion highlighted certain areas where efforts were expended by the advisory team. The primary shift in focus resulted from successful bank sale transactions of all banks under the BCC portfolio, less Biochim. In 2001, the BCC acquired minority interest in two additional banks – the State Savings Bank (25%) and Central Cooperative Bank (approximately 32%). Accordingly, advisor efforts continued on Biochim, SSB, and CCB, but moved more generally to the MOE and the Privatization Agency. The advisory team moved their offices from the BCC to the MOE in July 2000 and, since that time, have advised on a wide range of privatization issues, organizational structure and business process improvement, and, where appropriate, specific non-bank privatization transactions. In general, and over the last year of the engagement, efforts focused on the following:

Privatization Related Assistance:

- Financial analysis and valuation methods;
- Marketing Process and Procedures;
- Sales Structure and Stock Purchase Agreements;
- Preparation of Information Memoranda;
- Transparency and Open Field competition;
- Correspondence with Investor community, IFIs, and relevant GOB departments

Organizational Structure and Management:

- Information Systems and Data integrity;
- Departmental organization, areas of responsibility, and job descriptions;
- Ethics Policy and Management;
- External communications and public relations;
- Internal communications and document process flow;
- “Best practices” sharing

Ministry of Economy

Assistance in drafting legislative and regulatory changes to provide for a more transparent and competitive privatization process was a major thrust of advisor efforts. Given the strong relationship between the advisory team and the Ministry of Economy, under Deputy PM Jotev, the advisors had both access and trust to provide meaningful input into pending legislation and guiding principles of the privatization process. The advisors repeated the themes of removing restrictive features of the Privatization Law, discouraging incentives and preferences for MEBOs, eliminating minimum bid requirements for sales by tenders, increasing marketing time, and ensuring flexibility to account for unique transaction specific considerations.

Ad hoc assistance was also provided on a variety of topics and issues on the MOE agenda. This included coordinating MOE issues with World Bank and IMF representatives, participating in meetings with MOE staff and/or outside entities and individuals, preparation of special reports and correspondence, and general policy guidance on the re-organization of GOB departments to affect a more cohesive approach to privatization. The advisors also played a role reviewing the MOE portfolio and make strategy recommendations and target timeframes for optimal resolution success. Based on assessment of the facts in each case, some limited scenario analysis was presented to give greater mobility in the MOE and PA's adaptation to unforeseen events, resulting from IMF or World Bank mandates, changes in the pace and scope of transaction specific negotiations, or other variables influencing a particular privatization deal.

As of March 31, 2001, the MOE held a majority stake in 101 companies, of which 78 were targeted for privatization in 2001. However, we do not expect this target can be achieved and believe it will be very difficult to privatize more than a few of these companies in 2001, leaving most to be privatized after the end of the year. This delay is expected due to the temporary "freeze" on privatization activity initiated by the new government pending appointment of new senior officials of the new ruling party. As of the end of this contract, a new Executive Director of the Privatization Agency has yet to be appointed but we expect this to take place in early September. The MOE held a minority stake in 126 companies, of which 14 are scheduled for disposition in 2001. MOE held residual shares in 315 companies, all of which are scheduled for sale in 2001. In the case of majority stakes, the activities required for privatization are somewhat understated in relation to the number as some privatization transactions are expected to be via the sale of "self-contained parts," requiring multiple sales of assets from one company. We have no estimates as to the number of companies that will be privatized through the sale of individual assets. MOE employed 43 individuals within the "Privatization Department", all of which work directly in overseeing the sale of assets. In addition, the MOE employs another 55 individuals working in privatization-related activities including a) restitution; b) post-privatization control; c) liquidation and insolvency; and d) marketing and analysis. Note also that the economic team of the new government has publicly stated the intent to merge all privatization activity (excluding the banking sector) under either the Privatization Agency or a newly created entity similar to the organization of BCC. Thus, although any future privatization assistance would not likely be directed at the MOE, these efforts would merely be shifted from one entity to another.

Support to the Privatization Agency

Assistance to the Privatization Agency ("PA") staff was initiated in late 2000 and early 2001 after Mr. Levon Hampartsumian was appointed Executive Director in December 2000. Through the mutual agreement of Minister of Economy Mr. Jotev and Mr. Hampartsumian, the advisors were able to prioritize their work so as to make more effective use of the USAID funding by serving both entities while promoting the same general principals toward market driven privatization procedures. Assistance to the PA primarily took the form of general advice on issues related to privatization of specific companies, as well as general advice on improving the content of information memoranda, marketing methods, contract terms and conditions, and valuation models. Such assistance was somewhat limited value due to the inflexible procedures contained in the privatization regulations until amendments were adopted on April 5, 2001. Specific activities included working with senior staff in drafting the final Council of Minister's privatization regulations, conducting a one-hour presentation on "developing more effective privatization procedures" at a PA staff conference, attending a one-day meeting with various officials from the PA, Municipalities of Bourgas and Nessebar, private owner groups from Sunnybeach Resort, and Sunnybeach Corporation to discuss land sale issues and difficulties in ownership/maintenance issues related to the electrical, water, sewer and road infrastructure assets in the resort development, and in the PA's development of certain portions of the Bulgaria 2001 Program for Privatization, which was approved by Parliament in February 2001. The team also assisted in drafting terms of reference for privatization advisory contract solicitations on the Bulgarian Maritime Fleet, Bulgarian River Transportation and the Energy sector.

As of March 31, 2001, the PA was responsible for privatizing majority stakes in 90 companies. Although this is actually less than the number of majority controlled companies held by the MOE, the PA workload will be significantly higher as the PA assets are much larger and more complex than those held by the MOE. Furthermore, due to the size and nature of the companies to be sold by the PA, the number of privatization "transactions" will be significantly greater then the 90 majority stakes indicates. For example, "Sunnybeach", a hotel resort complex on the Black Sea, is considered as one asset in the statistical numbers. However, the PA's current strategy is to sell 12 individual hotels, as well as a number of restaurants and independent recreational facilities. Thus, the privatization of Sunnybeach alone will involve well over 20 individual sales transactions. The PA was responsible for selling a minority interest in 87 companies and employed a staff of approximately 150 full time employees.

Conclusion and Recommendations

Banking Sector Privatization

As emphasized throughout the duration of the task order, both under the terms of the old contract, this present contract and the various extensions, the advisors were impressed with the overall commitment on the part of the BCC to complete its privatization responsibilities, and to make critical, if tough, decisions regarding some of the transactions. Despite numerous set-backs and hurdles, all of the state banks under the consolidated state portfolio at the beginning of this contract have been privatized with the exception of Biochim. The delay with Biochim was, in the eyes of the advisory team, justified and again demonstrates sound and logical decision making on the part of the BCC, in particular the firm positions taken by its Mr. Jotev. The privatization of Bulgaria's banking sector can genuinely be referred to as a major success.

At the conclusion of this contract, the BCC's future activities must include the development and implementation of a sales strategy for Biochim. Also, with the acquisition of 25% interest in State Savings Bank, the issue must be addressed as to whether the BCC should also be given responsibility for selling the other 75% of SSB's shares now held directly by the government. The advisors do not believe it is feasible to privatize SSB without offering at least a majority of 51%, or possibly not less than a 67% "blocking majority" to a strategic investor. Additionally, the BCC will need to dispose of its approximately 32% ownership in Central Cooperative Bank as well as address the ultimate collection of the loans it holds to the Varna Shipyard and two other related companies. Assistance in debt resolution should be a priority, although the issue is highly political.

Commercial Sector Privatization

Given the limited amount of time the advisors worked with the MOE and PA under this contract, the number of tangible accomplishments were somewhat limited, especially given that many obstacles to privatization were not removed from the Privatization Law and regulations until April 2001. However, although the number of accomplishments were limited, the value of the work is believe to be quite large particularly given the advisor's played a major role in the government's decision to make significant revisions to the Privatization Law and regulations. Although the final versions of these amendments did not include all of the advisor's recommendations, the revisions did clearly reflect these recommendations and now provide for a much more market-driven and transparent process. In addition and as highlighted in the discussion above, the advisors feel that their exists a much stronger technical base and administrative capacity for executing the privatization process. Such progress is in many ways attributable to on-site assistance provided under this contract.

Due to recently stated policies of the new government, it appears very likely major changes will be implemented in the Fall of 2001 regarding the legislative and organizational structure of privatization activities. Most likely, all privatization responsibilities of the various cabinet level ministries will be consolidated into the Privatization Agency, or other entity possibly similar to the corporate structure of the BCC. This will require a significant level of government resources to achieve a smooth transition just in the area of merging numerous management reporting systems, accounting records, file documentation, etc. If this process is not efficient, we anticipate many problems in state-owned companies being literally "lost" in the system with no one responsible for overseeing the privatization process or addressing priority issues. Additionally, it appears the legislation may be revised to eliminate many of the problems not addressed in the revisions made in early 2001. If the legislation is not carefully drafted to consider all of the interrelated laws and regulations, there is a potential to create more problems than are solved. Once the laws are amended, the various regulations of the Council of Ministers will be inapplicable and must be revised to be consistent with the law. It would be our recommendation that the donor community continue to provide some level of technical assistance in privatization to assure a smooth and effective transition and to provide transaction assistance in determining an appropriate sales strategy, implementing an effective marketing program, recommending appropriate contractual terms and conditions of each sale and assisting in negotiations as requested by the PA management.