

THE DEPARTMENT FOR INTERNATIONAL DEVELOPMENT

The Department for International Development (DFID) is the British government department responsible for promoting development and the reduction of poverty. The government elected in May 1997 increased its commitment to development by strengthening the department and increasing its budget.

The policy of the government was set out in the White Paper on International Development, published in November 1997. The central focus of the policy is a commitment to the internationally agreed target to halve the proportion of people living in extreme poverty by 2015, together with the associated targets including basic health care provision and universal access to primary education by the same date.

DFID seeks to work in partnership with governments which are committed to the international targets, and seeks to work with business, civil society and the research community to encourage progress which will help reduce poverty. We also work with multilateral institutions including the World Bank, UN agencies and the European Commission. The bulk of our assistance is concentrated on the poorest countries in Asia and Sub-Saharan Africa.

We are also contributing to poverty elimination and sustainable development in middle income countries, and helping the transition countries in Central and Eastern Europe to try to ensure that the widest number of people benefit from the process of change.

As well as its headquarters in London and East Kilbride, DFID has offices in New Delhi, Bangkok, Nairobi, Harare, Pretoria, Dhaka, Suva and Bridgetown. In other parts of the world, DFID works through staff based in British embassies and high commissions.

COUNTRY STRATEGY PAPERS

Country Strategy Papers (CSPs) are prepared for all countries where we provide development assistance programmes, and are normally produced every three years. CSPs set out how we aim to contribute to achieving the international development targets in the country in question. Progress will be assessed against the strategic objectives set out in Section E of the paper. In preparing CSPs, we consult closely with governments, business, civil society, and others within both the partner country and the UK.

Department for International Development
February 1999

BULGARIA: COUNTRY STRATEGY PAPER 1999 - 2002

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A. SUMMARY

A1. Bulgaria is firmly committed to the process of transition to a market economy and pluralist democracy. It wishes to move as quickly as possible to prepare for membership of the European Union (EU). The lack of commitment to reform of previous governments has meant that the country is behind some others in addressing the changes needed to achieve successful transition. The present Government has taken positive steps, but much remains to be done.

A2. There is a greater incidence of poverty in Bulgaria than in other countries applying for accession to the EU. While the present Government is making good progress on macro level reforms, it will be some time before this is reflected in social improvements for the majority, let alone those on the margins. Democratic structures are in place. The country faces a particular challenge in integrating its minority groups, particularly the Roma.

A3. The Government elected in April 1997 is being supported by the international community. This is needed if the momentum of reform is to be maintained. There is excellent scope for effective partnership at all levels, both within and outside government. We have existing, close and co-operative relationships on which to build.

A4. Major funding is available from the European Union in support of transition in Bulgaria. The UK is a major contributor to these funds. The World Bank and other multilateral agencies to which the UK is also a contributor, are similarly providing substantial finance and technical help. We will seek to use our influence to ensure these channels of funding are directed into well designed and effective programmes assisting transition.

A5. At the same time, we shall maintain a bilateral programme of technical cooperation to support strategic reforms and strengthen capacity and key institutions taking forward the reform agenda. The UK's bilateral Know How Fund (KHF) programme has, in the past, had impact in critical areas and has helped to identify needs and opportunities for future support, as well as establishing partnerships upon which we can build.

A6. The *Goal* of this strategy is to assist Bulgaria to achieve successful transition to a pluralist democracy and well-regulated market economy, in such a way that benefits are sustainable and spread through all levels of society. The *Purpose* is to support increased capacity of government (central, regional and local), civil society and the private sector to achieve successful transition.

A7. Over the period of this strategy we will focus our efforts on helping Bulgaria to achieve the following outputs:

- a public sector better able to plan and deliver effective services;
- strengthened capacity of municipalities and regions to plan and deliver social welfare services, and to create new business and employment opportunities;
- communities benefiting from improved environment;
- civil society strengthened to reduce social exclusion and increase social cohesion;
- better and transparently regulated markets;
- increased capacity to trade and attract foreign investment.

A8. To achieve these outputs, we will:

- support a range of bilateral projects and programmes (current activities and plans are set out in Section E and will be taken forward and developed during the period of the strategy);
- work with Bulgarian partners and the European Commission to promote the effectiveness of the pre-accession programmes provided through the EU, seeking to complement these through the bilateral programme;
- participate with Bulgarian partners, civil society and international donors in discussion of and, as necessary, support for work to better understand and take forward wider policies affecting the transition process, in particular its social dimensions;
- work closely with the World Bank in areas of common interest.

B. THE CHALLENGE

B1. The Bulgarian Government's strategy (Bulgaria 2001: Program of the Government of Bulgaria 1997-2001) is to transform the country into a market economy with a vibrant private sector and ensure effective social protection for the poor and vulnerable groups in transition.

B2. The primary objective of the Government is to prepare the country for a successful application for membership of the EU. This is the Government's principal indicator of successful transition. It is also the main focus of external donor support to Bulgaria. This is a major challenge, but so too is ensuring that the benefits of transition are sustainable and are enjoyed by all levels of society, including minorities and disadvantaged groups.

ECONOMIC

B3. The failure of the previous Government to pursue real structural reforms led Bulgaria into an acute economic and social crisis which culminated in popular demonstrations and strikes in early 1997. The caretaker Government appointed in February 1997 was faced with hyperinflation, a severe banking and currency crisis and a spiralling budget deficit. Production and external trade were at a virtual standstill. Hyperinflation had destroyed personal savings and resulted in a serious, real decline in pensions, social benefits and salaries. Vulnerable groups were reduced to basic survival strategies and social infrastructure was near collapse.

B4. The caretaker administration and the succeeding Government, elected in April 1997, moved swiftly to implement measures to enforce financial discipline and market-based behaviour in the enterprise and banking sectors, and to reassert monetary and fiscal control. The centre-piece of the reforms was the adoption of a currency board in July 1997. The economy responded well. Interest and inflation rates fell, and the exchange rate stabilised. Inflation for the whole of 1998 was 1%. Flight capital is returning to the country.

B5. The currency reforms were accompanied by tight fiscal policies. The overall budget deficit was around 4% in 1997, financed out of lending by the international institutions and privatisation proceeds. In September 1998 the International

Monetary Fund (IMF) approved a three-year extended fund facility under which Bulgaria will receive \$680 million in three-monthly tranches. This will help underpin macro-economic stability, support the balance of payments and guarantee repayments of the country's external debt. There was a fiscal surplus of 1% of GDP in 1998, against a deficit target of 3% in the budget law.

B6. The external sector has performed well. The completion of some large privatisations led to foreign direct investment (FDI) of around \$500 million in 1997. This exceeded total FDI for the previous six years combined. The trade surplus of 1997 moved to a deficit in 1998, due to rising imports and weakening exports. There have been insufficient efficiency and quality improvements to boost Bulgaria's ability to retain or win competitive export markets. The economy grew by around 4% in 1998. Bulgaria has joined the World Trade Organisation and will join the Central European Free Trade Association in 1999. Bulgaria has had an Association Agreement with the EU since 1993. Trade figures for 1997 showed an increased orientation towards EU and other countries in the Organisation for Economic Co-operation and Development (OECD).

B7. Between 1996 and 1997 the number of loss-making state-owned enterprises reduced from 13,345 to 905 and the extent of their losses from \$1.3 billion to \$300 million. Privatisation revenues for 1997 exceeded the total for the period 1990-1996. The Government recognises the need to consolidate the country's stabilisation gains by pushing forward with structural reform and reform of the financial sector. Privatisation of state-owned enterprises and banking sector and financial markets reform are key requirements to increase the efficiency of resource use and release public sector funds for priority services. The Securities and Stock Exchanges Commission is acquiring strengthened regulatory powers and procedures to provide confidence to investors. The Government's revised privatisation programme envisages half of state assets privatised by the middle of 1999. Two of the original five state-owned banks have been privatised. Procedures for the sale of the remaining three have been launched. This will give rise to an increased need for staff trained in commercial banking.

B. THE CHALLENGE

CONTINUED

B8. Debt remains an important problem for Bulgaria, with a total foreign debt to GDP ratio of 96% in 1997 placing large external debt servicing needs on the country (approximately \$500 million per annum, 1999-2000).

B9. The agriculture sector, which is potentially a source of economic growth and direct support to some of the more disadvantaged social groups, remains largely underdeveloped. Agriculture and food processing employ about 20% of the population and contribute 12% of the country's GDP. Production is about 50% of 1989 levels and incomes are very low, especially for minority communities. The land reform process has resulted in nearly two million farms, of which the great majority are less than one hectare. The World Bank is discussing with the Government a major programme of reform in this area.

B10. The banking crisis and lack of access to capital in 1996 and 1997 were an effective barrier to the establishment of small and medium enterprises (SMEs), which have a potentially major role to play in the diversification of the economy and the creation of employment. In January 1998 an agency to promote the growth of SMEs was established. Many external donors are providing support in this area .

SOCIAL

B11. Bulgaria is one of the poorest countries in Europe. The United Nations Development Programme (UNDP) human development index declined by 6% between 1993 and 1996, mainly because of falls in educational enrolment and per capita GNP. The economic crisis which reached its lowest point in 1997 led to a fall in average wages to approximately US\$20 per month, less than \$1 a day, an amount insufficient to purchase even the most basic foodstuffs for an average-sized family of three. A 1997 World Bank poverty assessment found that 36% of the population (three million individuals or about one million households) were caught in a poverty trap, surviving on incomes of less than two-thirds of the national average. Poverty rates are higher in rural areas. In 1996 the average monthly wage was 42% of its 1990 level. This has led to a real increase in poverty and inequality; almost half of all poor households were headed by someone in employment, one in ten by the unemployed, and around a

third by pensioners. Between 1990 and 1996 the average monthly pension fell by 65% and at the beginning of 1997 stood at the equivalent of \$10. It is also estimated that 40% of all children live below the poverty line. There are major problems in protecting and promoting the rights of over 40,000 children in institutions and providing adequate support to the disabled. Other notably disadvantaged groups are single mothers and the elderly.

B12. Poverty is particularly acute amongst the minority Roma community, comprising 7% of the population, which suffers from multiple forms of discrimination and disadvantage, including severe unemployment, possibly over 90% in some areas, illiteracy, malnutrition, poor health care and poor housing conditions. The Turkish and Roma communities are considerably worse off on every social indicator. 40% of Turks and 84% of Roma are classified by the World Bank as living in poverty. There is a clear need for effective steps to promote and protect the rights of minorities, and to ensure that effective and appropriate services are developed to overcome their exclusion from mainstream society.

B13. Between 1993 and 1996 the official share of GDP spent on health care declined from 4.62% to 3.02%. Infant mortality, at 15.6 per 10,000 live births in 1996, is low for the region but has recovered from rates of 16.3 and 17.8 respectively in 1994 and 1995. During the 1990s life expectancy (67.1 years for men and 74.6 years for women in 1996) has declined slightly. The population of Bulgaria fell from 8.43 million in 1994 to 8.34 million in 1996. The falling birth rate and growing proportion of the elderly, dependent population (pensioners currently represent 20% of the population) will put increasing burdens on health services. Reform of the health system is badly needed but, as yet, has not been tackled systematically by the Government. As with agricultural reform, the World Bank is trying to take the lead amongst donors in getting the reform process moving.

B14. Unemployment stood at 11.1% in November 1998, a slight fall over the course of the year. There are a number of unemployment blackspots and long-term unemployment remains a serious problem. In the year from December 1996, the number of people employed in industry fell by 44%, in

B. THE CHALLENGE

CONTINUED

construction by 33% and in agriculture by 34%. There are likely to be significant further redundancies as delayed restructuring of the economy affects uncompetitive enterprises. Increasing unemployment levels have put pressure on social expenditure. Agriculture, as it develops, will reduce its labour requirements and alternative rural employment must be developed if severe depopulation of the countryside is to be avoided.

Bi5. Spending on education has declined, as have school enrolment rates. There is an increasingly serious problem of drop-outs from education. Between 1993 and 1996 the proportion of school aged children attending the first three years of education at each level fell from 82% to 71%. Minority communities are heavily over-represented in these figures and, in those communities, girls are affected more than boys. Drop-out rates are generally accepted to be closely related to the incidence of poverty. The Soros Foundation is involved in a project to investigate the reasons for the increasing drop-out rate.

Bi6. The Government recognises the challenges it faces in reducing poverty, and in increasing social inclusion and social cohesion. It has embarked on the process of creating a policy environment which is supportive of the creation and strengthening of partnerships between the state, the private sector and civil society. This is demonstrated by an attempt to create a legislative framework that is supportive of the not-for-profit sector, and in the passage of the law on Social Assistance in 1998, which explicitly makes provision for the formation of partnerships between municipal authorities and citizen groups in the design and delivery of social welfare services.

Bi7. The number of non-governmental organisations (NGOs) has grown rapidly in the 1990s. There are now around 4,600, although many have ill-defined objectives. A third of them are based in Sofia. Public recognition of the role of NGOs grew during the political and economic crises of 1996/97 when local NGOs were involved in the distribution of over \$30 million of humanitarian assistance to vulnerable populations. However, the NGO sector is weak and a small minority account for the major share of foreign funding, on which they are almost totally dependent. The EU, the United

States Agency for International Development (USAID) and the Open Society Foundation are the biggest donors in this sector. There are both advocacy and service NGOs, although many of the latter are small, have fragmented structures and are of limited effectiveness. Only a small number (about 10%) are concerned with social welfare, and about a third of these with children's issues.

POLITICAL

Bi8. Basic democratic freedoms are in place. Parliament operates in a democratic fashion. There is no blatant manipulation of the media. The judiciary however is widely regarded as ineffective and open to corruption. USAID has set up a major project in judicial training, partly to address this issue. Corruption is officially acknowledged to be at serious levels. The Government has announced a campaign against all forms of corruption including state links to organised crime, drug trafficking and counterfeiting. There is a major US-funded project to publicise and address corrupt practices.

Bi9. Although legislative change is taking place, the largely unreformed public service lacks the capacity to take forward reforms. This is due to a combination of causes, including lack of training in modern practices, staff reductions, budgetary shortages and a lack of familiarity with the requirements of a modern public sector. The Government acknowledges the importance and urgency of public administration reform. A State Administration bill has been approved by Parliament. It defines the role, functions and organisation of the executive and agencies and the role and functions of regional administrations. A Civil Service bill is expected to be approved early in 1999. It sets out the role of civil servants and systems and standards for the public service. A bill on public access to information is in preparation. These are positive moves. However, responsibility within government for the reform programme itself remains unclear. Reform in this area is a major requirement of the Government's Accession Partnership with the European Commission. Until there is effective central co-ordination, donors are able to work only with individual ministries and to aim to establish models for reform.

B. THE CHALLENGE

CONTINUED

ENVIRONMENT

B20. Bulgaria has inherited a legacy of environmental problems as a result of inadequate environmental management in heavy industries, power stations, domestic heating systems, waste disposal systems and agriculture. Since 1990 the overall quality of the environment in Bulgaria has improved, but this is almost entirely due to the slow-down in the economy. The OECD identified 14 environmental 'hot spots' in 1996. It is estimated that about 20% of the population in Bulgaria are exposed to health hazards associated with pollution in the hot spot areas. Localised air pollution is largely due to thermo-electric power stations, which use low grade coal. There are concerns regarding nuclear power generation. Approaches to disposal and storage of municipal and hazardous wastes are unsafe, and recycling is virtually non-existent.

B21. Improvement in the national economy is likely to lead to the recurrence of significant environmental problems unless the environment is integrated into future economic development planning. However, the Ministry of Environment and Water (MEW) lacks implementation and enforcement capacity. There are a few well established environmental NGOs.

B22. The biggest source of donor support is the EU Environmental Sector Programme, the overall aim of which has been to assist the MEW to implement the National Environmental Strategy. There is a general need to harmonise with EU environmental legislation. The World Bank is assisting with a pilot project to address the environmental problems inherited by privatised industry.

C. PARTNERSHIPS

C1. With the election of a reformist Government the prospect of effective partnership has been significantly improved by the election. We have well-established links with regional government and civil society, and the basis exists for expanding them.

C2. The main bilateral donor programmes are those of the USA, France and Germany. The EU is the largest donor to Bulgaria, through the PHARE* programme and pre-accession instruments which will be available from 2000. Short-term objectives in the Accession Partnership agreed between the European Commission and the Bulgarian Government are: privatisation of industry and banks; restructuring of the financial sector and agriculture; reform of institutional and administrative capacity; development of the internal market; justice and home affairs; environment legislation and planning; and the establishment of a long-term energy strategy. Medium-term strategies include additional emphasis on employment and social affairs policies, the alignment of public health standards with EU norms and the development of an adequate regional policy. The introduction by the EU of the concept of twinning with member states' institutions gives the opportunity for a wide range of UK institutions to promote Bulgaria's preparation for EU membership. There are good opportunities to build on existing relations with the EC in Brussels and, in country, to strengthen collaboration and ensure that bilateral and EU-funded activities are complementary.

C3. The World Bank's Country Assistance Strategy for Bulgaria was agreed in April 1998. While continuing to support restructuring in the industrial and banking sectors, the Bank will devote a third of its lending to human development activities including reforms to the health, social welfare, pensions, education, agriculture and energy sectors. The Bank endorses the general donor view that widespread reform to public administration systems is a necessary precursor to quickening the pace and deepening the quality of reforms. We shall continue to keep closely in touch with the Bank in areas common to our respective programmes.

C4. We shall continue to build upon our current relationship with NGOs and community based groups. We shall develop with them a strategy for support to their co-operation with Government, particularly in advocating the rights of socially excluded groups, improving access to social welfare services and supporting improvements to the way services are delivered.

* Assistance for economic restructuring in the countries of Central and Eastern Europe

D. CURRENT PORTFOLIO

D1. The UK bilateral programme has focused on finance and privatisation; employment and social security; SME development; management training; local and regional government; and environmental projects. The lack of reformist policies on the part of previous governments has restricted our ability to build strategic approaches with central government. As a result, we have pursued openings at regional and municipal level while taking up opportunities at the centre where there was clear commitment and capacity. We have also built good relationships with NGOs and civil society, in part through supporting them in emergency welfare and feeding programmes.

D2. In the area of finance and privatisation we have had major projects in support of the mass privatisation programme and the development of capital markets, including assistance with the first wave of privatisations. The UK's contribution in this critical area of reform has been effective in putting in place regulatory systems to promote greater transparency.

D3. We are funding resident advisers based in the National Social Security Institute (NSSI) and the National Employment Service (NES). The first has been working with the World Bank-supported social security reform project and has helped to put in place strategic planning processes and institutional arrangements to establish effective social security systems. The second has helped to put in place systems for the NES, including a model employment office offering a customer friendly service of a kind previously unfamiliar to Bulgarians. Both projects are helping to introduce institution-wide personnel management reforms. The NES project has also helped to establish, on a pilot basis, an ability development centre for the physically handicapped. Prior to its establishment, the needs of the disabled unemployed were largely unaddressed.

D4. We have supported the growth of SMEs. However, this has been restricted by a lack of access to credit (due to the banking collapse and economic decline), a lack of commitment by the authorities in the past to SME development and the absence of a national strategy. We have therefore taken the opportunity, at local and regional level, to promote SME development through projects designed to stimulate local economies and in particular those offering tourism-related services.

D5. We have made significant investments in management development through support to institutional links between local and UK-based private and semi-private agencies, and also between Bulgarian and UK-based university management faculties. This has led to the establishment of effective partnerships between Bulgarian universities and local business communities. It has also encouraged universities to be more responsive to local training, consultancy and research needs.

D6. Within the local and regional government sectors, we have been providing capacity building support to a range of municipalities, the national Local Government Association and the Ministry of Regional Development and Public Works. In participating municipalities, the project has led to strengthened management and planning skills including in financial and assets management and increased awareness of modern work practices. It has also supported the development of a national housing strategy document and a pilot low cost housing scheme.

D7. Since 1992 we have supported about 40 small environment projects. These have included sustainable tourism, environmental education, environmental health and capacity building in environmental impact assessment and project preparation.

D. CURRENT PORTFOLIO

CONTINUED

D8. The Metropolitan and Gwent forces in Britain have assisted the Bulgarian National Police in two regions, in developing community policing approaches, in schools liaison and relationships with minorities, particularly the Roma. The project is also assisting with crime prevention techniques.

D9. We are supporting development of civil society through the Charity Know How Fund's NGO support programme in Bulgaria. Links with NGOs have developed partly from support to emergency relief programmes in the winters of 1996/97 and 1997/98, including to children's homes.

D10. A strategy review in late 1996 concluded that the programme had been broadly effective, despite the lack of commitment to reform by governments up to that point. We took opportunities to support reformist approaches in individual ministries while also developing partnerships with individual municipalities and regions.

E. FUTURE STRATEGY

E1. Financially, the main channel of UK support to transition in Bulgaria is through our contribution to the EU pre-accession programmes managed by the European Commission. We will support the effective design and delivery of EU programmes, and assist Bulgarian partners to plan for and make effective use of EU funds. We will continue to maintain a UK bilateral programme to enable the flexible provision of well-targeted technical co-operation (know-how), building on the existing bilateral programme. We shall work closely with European Commission to ensure a complementary approach. Areas of current or prospective co-operation include environment, employment, regional development and public administration reform.

E2. To respond to the reformist approach being taken by the Bulgarian authorities and the opportunities that it offers, we are increasing the resources in support of our bilateral programme. We shall aim for maximum impact by focusing on strategic approaches in a relatively small number of areas where there is particular UK comparative advantage and we can add value through a bilateral input.

E3. The *Goal* of our strategy is successful transition to a pluralist democracy and well regulated market in Bulgaria, in such a way that benefits are sustainable and spread through all levels of society. The *Purpose* is to increase the capacity of government (central, regional and local), civil society and the private sector to achieve this successful transition. Activities will be in support of six main outputs, as follows:

I. A PUBLIC SECTOR BETTER ABLE TO PLAN AND DELIVER EFFECTIVE SERVICES

E4. A central objective for DFID will be to continue to encourage and support public administration reform. We will focus on the Ministry of Labour and Social Policy. A review of our support to the National Social Security Institute (which reports to the Ministry) will take place early in the strategy period.

E5. We have agreed to extend our support to the National Employment Service (an agency of the Ministry), to widen the impact of the service delivery and administrative reforms which it has promoted and to extend those reforms to the

Ministry itself. The plan is that further work with the NES will enable it to serve as a model for the establishment of other agencies in which the Government has a particular interest, while our support to the Ministry will, in part, serve as a model for wider reform in the public sector.

E6. We intend to explore how we can extend our work to support the Social Assistance and Social Services division of the Ministry to implement the law on Social Assistance which was enacted in 1998, and in the development of models for the formation of community partnerships between municipal authorities and civil society to tackle poverty and social exclusion by making services more responsive to local needs.

E7. We will also continue to explore opportunities for additional support to public administration reform. This is likely to depend on the Government establishing a clear plan of action to take forward its overall strategy for reform. Support to effective public administration will help contribute to combating corruption.

2. STRENGTHENED CAPACITY OF MUNICIPALITIES AND REGIONS TO PLAN AND DELIVER SOCIAL SERVICES AND CREATE NEW BUSINESS AND EMPLOYMENT OPPORTUNITIES

E8. We shall explore with Bulgarian partners a programme of support to service delivery at municipal and regional level. This will take into account the reorganisation of regional government to take place in 1999 and focus on the needs of more disadvantaged regions. We expect that a significant feature of our support will be to assist regions and municipalities with the strategic planning and programme design that will be needed if they are to take full advantage of the major amounts of funding that will be available over the period of this strategy from the EU, through PHARE and the pre-accession instruments available from 2000.

E9. We shall discuss with the Bulgarian Association of Regional Development Agencies possible support in the provision of services to new and developing SMEs. This will assist the development of alternatives to dependence on agriculture.

E. FUTURE STRATEGY

CONTINUED

Ei0. We shall discuss with selected municipalities, focusing on those with high levels of social deprivation, possible support in the provision of social welfare services that meet the needs of vulnerable and socially excluded groups. This initiative will aim to assist in the development of models of service provision that enable communities to become active agents in their own development, and will be linked to policy changes initiated under World Bank-supported reform on social protection and social assistance.

Ei1. We shall extend our current project in support of management training, refocused on assisting Bulgarian universities to support municipalities in strategic planning and programme preparation in regional development.

3. COMMUNITIES BENEFITING FROM IMPROVED ENVIRONMENT

Ei2. We shall increase the proportion of our programme resources devoted to environment. Our focus will be at municipal level, addressing issues that directly affect quality of life. There is an urgent need to enhance municipalities' environmental planning and management capacity, and to assist them to secure investment to upgrade municipal services. Working at municipal level also provides the opportunity to demonstrate new approaches. We shall investigate possible programmes in areas that are designated by the Government as environmental hot spots and which are also relatively socially deprived.

Ei3. We have agreed with the Government a strategy for our support to environment. Under it, we will investigate support to waste disposal; strengthened capacity in preparation of projects for funding by the multilateral donors; the integration of environmental issues into government planning; energy efficiency; environmental health; and the development of partnerships between government, civil society and the private sector.

4. CIVIL SOCIETY STRENGTHENED TO REDUCE SOCIAL EXCLUSION AND INCREASE SOCIAL COHESION.

Ei4. We will ensure, where possible, that community agencies are strengthened and that partnerships between civil society,

the private sector and government (central, regional and local) are reflected in all our programmes and projects. We shall also ensure that the prospective role of community-based organisations and NGOs is taken into account in all our institutional capacity building programmes.

Ei5. We shall strengthen and consolidate activities under our longstanding programme of activities with the Bulgarian National Police to help develop better access to social and legal justice for young people, minorities and other marginalised groups.

Ei6. We have agreed a project to support the establishment of Citizen's Advice Bureaux. This is an innovative approach to assisting the public to identify and pursue their rights and gain access to better information and services from public agencies.

Ei7. We shall identify projects that address the multiple disadvantage of the Roma and other minority communities. This will be pursued through practical initiatives that address local needs at regional and municipal levels, and through promoting best practice in other parts of Central and Eastern Europe.

5. BETTER AND TRANSPARENTLY REGULATED MARKETS

Ei8. We shall complete our contribution to the development of the functions of the Securities and Stock Exchanges Commission to support regulation and transparency in the capital markets. This will also contribute to combating corruption.

Ei9. Bulgaria is still relatively undeveloped in terms of an effective and dependable banking system on which the private citizen can rely for the security of his or her assets and savings. We shall investigate support to banking training for middle and junior level staff of newly privatised banks. This will complement the completion of the process of bank privatisation.

E20. Given the involvement of the multilateral agencies, we shall not take on other commitments in the financial sector.

E. FUTURE STRATEGY

CONTINUED

6. INCREASED CAPACITY TO TRADE AND ATTRACT FOREIGN INVESTMENT

E2i. We will look for opportunities to help improve Bulgaria's attractiveness to foreign investment. We are discussing possible participation in a study for the Government by the International Finance Corporation on barriers to investment. In addition, we are investigating support to the development of the fledgling Bulgarian export insurance department.

These are small but potentially significant contributions to Bulgaria's economic development. We do not plan any major activities in this area.

E22. We will continue to support a small grants scheme managed locally by the British Embassy, designed to assist activities which are separate from, but broadly complementary to, support in the above areas.

F. IMPLEMENTING THE STRATEGY

Fi. The Bulgaria programme is directed from DFID in London and managed jointly by British and Bulgarian staff in London and Sofia. We shall maintain a group of in-house advisers to help take forward this strategy, working as a team with administrative staff in the KHF Office in Sofia and DFID in London.

F2. We shall develop this strategy in close agreement and collaboration with the Bulgarian Government and with key stakeholders in the private sector and civil society, as well as with other donors. The strategy will be reviewed annually.

G. PROGRAMME RESOURCES

Gi. We expect to maintain the level of resources for bilateral activities in Bulgaria at around £4 million per year

over the period to 2001/02. This compares with likely spending of around £3 million in 1998/99.

SUMMARY OF CONSULTATION PROCESS

1. Following publication of the White Paper *Eliminating World Poverty: A Challenge for the 21st Century* and the DFID policy document *Support for Transition Countries: A New Strategy*, we have undertaken a series of reviews and missions to determine how to take forward these policies in Bulgaria.
2. This strategy reflects discussion with the Bulgarian Government at Ministerial and official levels and with a range of civil society partners. There is broad endorsement of the approach and on the focus for future co-operation.
3. We have consulted the Know How Fund Advisory Board.
4. The strategy has been shared with other donors, in particular the European Commission and World Bank through their representatives in Brussels and Washington and in the field.

ANNEX 2

BULGARIA PROGRAMME EXPENDITURE PROFILE

£ MILLION	1998/99	1999/00	2000/01	2001/02
BINDING COMMITMENTS				
Civil Society	0.78	0.59	0	0
Education	0.04	0	0	0
Finance	0.25	0	0	0
Management Development	0.90	0.15	0	0
Public Administration	0.57	0.15	0	0
Regional Development	0.32	0	0	0
SME Development	0.30	0.10	0	0
Other	0.24	0.12	0.12	0
SUB TOTAL (A)	3.40	1.11	0.12	0
OTHER PLANS*				
Public sector better able to plan and deliver effective services.		0.75	1.10	1.25
Strengthened capacity of municipalities and regions to plan and deliver social services and create new business and employment opportunities.		0.75	1.10	1.25
Communities benefiting from improved environment.		0.75	1.25	1.25
Civil society strengthened to reduce social exclusion and increase social cohesion.		0.25	0.25	0.25
Better and transparently regulated markets.		0.40	0.40	0.25
Increased capacity to trade and attract foreign investment.		0.10	0.05	0.05
SUB TOTAL (B)		3.00	4.15	4.30
TOTAL PLANS (A) + (B)		4.11	4.27	4.30
PLANNED EXPENDITURE		4.00	4.00	4.00

*Indicative figures only.