SUMMARY PROJECT FICHE

1. Basic Information

1.1 Désirée Number: BG 0101.02
1.2 Title: FURTHER SUPPORT FOR THE BULGARIAN POST-PRIVATISATION FUND
1.3 Sector: FI
1.4 Location: Bulgaria

2. Objectives

2.1 Wider Objective

To contribute to private sector development in Bulgaria.

2.2 Immediate Objective

To improve the performance of selected Bulgarian private enterprises by providing them with long-term equity finance and know-how, through the EU-EBRD Bulgarian Post-Privatisation Fund (BPPF).

2.3 Accession Partnership and NPAA priority

The Accession Partnership includes the following priorities under the economic criteria:

- Short-term priority: Promote competitiveness through market-based enterprise restructuring; take measures to improve the business environment and stimulate domestic and inward investment.
- Medium-term priority: Improve competitiveness through market-based restructuring, including small and medium-sized enterprises.

The NPPA elaborates on these priorities for economic and enterprise sector reform and promotion of SMEs.

2.4 Contribution to National Development Plan

The promotion of SMEs features prominently in the preliminary NDP. SMEs are identified as a key development priority at both the national and regional level.

2.5 Cross Border Impact

There is no immediate cross border impact.

3. Description

3.1 Background and justification

One of the most important barriers to private sector development in Bulgaria is the lack of long-term finance and risk capital available to enterprises on appropriate terms, and a lack of modern management advisory services. The BPPF responds to these needs by providing a source of long-term equity capital, enhanced by technical assistance to improve the management of the enterprises in which it invests.
The BPPF is an equity instrument that targets new private sector and recently privatised medium-sized enterprises that typically do not have a foreign partner, but are fundamentally sound and able to grow and improve their performance. The BPPF expects to invest in an estimated 18-21 such companies, each with between 50 and 1000 employees and annual sales of at least EUR 2.5 million. The BPPF provides the management of enterprises in which it has invested with significant consultancy advisory services.

The BPPF was set up in 1998 as a closed-end fund of ten years duration. It is capitalized with EUR 30 million of equity funds from the European Bank for Reconstruction and Development (EBRD), which has overall responsibility for the BPPF, and a further EUR 10 million from the Fund Manager that manages the BPPF. The European Commission agreed to provide up to EUR 15 million from Bulgaria’s 1997-2000 Phare National Programmes.

Phare funding is used to cover (i) the operating expenses of the Fund Manager, (ii) pre-investment expenses on due diligence of enterprises and preparation of business plans, (iii) post-investment consultancy advice to the enterprises in which the BPPF has invested, and (iv) EBRD’s own management fee. Phare grant finance makes it possible for the BPPF to invest in enterprises that could not normally be reached, because they would be too risky, expensive to research or need management assistance.

The conditions for Phare support of the BPPF are set out in a Technical Cooperation Funds (TCF) Agreement signed in May 1998 between the Commission and EBRD. The BPPF is managed as a commercial venture capital fund by Europa Capital Management Holdings Ltd, an independent asset management house that serves as Fund Manager to the BPPF. The Fund Manager was selected and contracted in compliance with standard Phare procedures in December 1997. The BPPF is based in Bulgaria and aims to achieve a commercial rate of return.

Phare funding is programmed on an annual basis, depending on the amount actually utilized and forecast spending needs for the immediate future. Phare has so far committed to the BPPF EUR 1.5 million under the 1997 National Programme (BG 9704), EUR 3.5 million under the 1998 National Programme (BG 9805) and EUR 1.5 million under the 2000 National Programme (BG 0002).

3.2 Linked activities

The EBRD and the Commission established in 1999 the SME Finance Facility for small and medium-sized enterprises operating in ten countries of central and Eastern Europe. The Facility will support the growth and development of private sector SMEs by mobilizing long-term investment capital and by its institution building impact on participating financial intermediaries. The Facility will consist of two windows, one for equity and one for loans. Bulgaria is covered initially through the loan window. A EUR 3 million SME Facility has been signed with Unionbank in July 2000 and further banks are expected to be included. The Facility will complement the activities of the BPPF.

3.3 Outputs

The BPPF’s portfolio has taken somewhat longer to establish than was initially envisaged, and this is reflected in the lower than expected use of Phare funds. Also the use of the Technical Assistance funds is lower at the beginning of the life of the Fund when it is building its portfolio. As a rule of thumb, the Fund should spend an average of only 1/3 of the amount of Technical Assistance earmarked for each investee company in pre-investment support with 2/3 in post-investment support. Thus, the largest part of the Technical Assistance funds will be spent after 2001 when the Fund increases the number of companies in its portfolio.
At 31 December 2000 the BPPF has invested in 6 companies and has received Investment Committee approval to invest in three more. Currently, the active pipeline includes 12 companies in different sectors.

At 31 December 2000 ECM-BPPF has signed commitments of EUR 13.94 million and has disbursed EUR 11.94 million and holds an EUR 2 million option to disburse in addition in Pobeda.

<table>
<thead>
<tr>
<th>Company</th>
<th>Sector</th>
<th>Employees</th>
<th>Sales (mln EUR)</th>
<th>ECM-BPPF Investment (mln EUR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pobeda</td>
<td>Confectionery</td>
<td>650</td>
<td>7.67</td>
<td>3.75&lt;sup&gt;(1)&lt;/sup&gt;</td>
</tr>
<tr>
<td>Orbitel</td>
<td>Internet service</td>
<td>45</td>
<td>2.81</td>
<td>1.00</td>
</tr>
<tr>
<td>Medica</td>
<td>Pharmaceutical</td>
<td>698</td>
<td>10.90</td>
<td>1.92</td>
</tr>
<tr>
<td>Silway</td>
<td>Integrated circuits</td>
<td>230</td>
<td>3.37</td>
<td>4.00</td>
</tr>
<tr>
<td>Rodina</td>
<td>Soft packaging</td>
<td>380</td>
<td>3.58</td>
<td>2.55</td>
</tr>
<tr>
<td>Damianitza</td>
<td>Wine producer</td>
<td>116-166</td>
<td>2.15</td>
<td>0.72</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td>2119/2169</td>
<td>30.48</td>
<td>13.94&lt;sup&gt;(1)&lt;/sup&gt;</td>
</tr>
</tbody>
</table>

Below is a short summary on each of the portfolio companies:

- The first investment of ECM-BPPF is in Pobeda. It is located in Burgas, and has 650 employees. Founded in 1920, it is the largest Bulgarian biscuit producer and one of the top 5 candy and wafer producers. It was privatised in August 1998. ECM-BPPF completed its transaction in September 1999. The investment is EUR 1.5 million for 36.6% share with further warrant issue option of EUR 2 million for additional acquisitions in the sector. The Fund Manager has one board seat and nominates the Chief Financial Officer (“CFO”).

So far ECM-BPPF has provided management expertise through its presence in the Board and has supported the company through technical assistance for the factory improvements, management control, marketing operation, management control mechanisms, and management information systems. The investment helps the company to upgrade and modernize part of the equipment.

Cumulative sales for the year 2000 are expected to amount to BGN 16.4 million. This represents a sales increase of about 21% compared to the 1999 performance and a 10% overperformance to the annual plan.

- The second enterprise in which ECM-BPPF has invested is Orbitel, founded in 1997 and based in Sofia. The company is a leading Internet service provider to corporate customers in Bulgaria. In November 1999 the Fund invested (now fully disbursed) EUR 970,000 for a total of 40% stake in the company. The other 60% are wholly privately owned by three persons (20%) and two companies (20% each).

The company’s sales for 1999 were BGN 1.9 million and 2000 sales are BGN 5.5 million. The company benefits from its excellent technical team offering reliable and high quality service. The company has a clear strategic vision which concentrates on high margin corporate clients, development of value-added services like security services, VPNs (virtual private networks) and also telecom services. Until now sales growth has been entirely organic, but some of the future growth will come through acquisitions financed mainly through new capital increases.

<sup>1</sup> EUR 2 million option of additional disbursement is included.
The Fund has provided long term finance (equity capital) which is invested successfully in new dial-up business and expansion of the network in Bulgaria. It has transferred management expertise, nominated its CFO (who has established internal control procedures), and supported its effort to consolidate the sector. The Fund is currently supporting the company to obtain 3.5 GHz license to enter in the telecom market and has provided marketing support through Technical Assistance that has made it possible to triple the sales and the number of employees in 2000 versus 1999.

- The third investment of the Fund is in Medica which was founded in 1971. It is the only domestic producer of medical dressings and microalgae food supplements in Bulgaria and the 6th largest Bulgarian pharmaceutical producer. Based in the town of Sandanski (Bulgaria), the company employs 698 people. In March 2000 the Fund committed an investment in Medica totaling EUR 1.92 million and a convertible loan (EUR 1.19 million). The post-investment BPPF stake is 23.52%. ECM-BPPF appointed its CEO and Marketing Director.

The objectives for the next two years (2001-2002) are: to build and put into operation clean rooms to ‘d’ class (USA) standard for the products that require this facility (December 2001); to build and put into operation a steam and/or a gas sterilization unit (December 2001); to obtain EN 46002, ISO 9002 and CE mark for the whole company (certificates by March/April 2002); to identify from the market research (medical dressings) products that need to be developed for the European market; to achieve GMP for the Pharma business (validation by March 2002); to reach agreement with a foreign partner that will see full and expanded usage of the Pharma facility (January 2002); to identify and implement a MIS system for the company (mid 2002).

- The fourth investment is in Silway, founded in mid-1998. Silway is a semiconductor company specializing in design and manufacturing of mixed-signal Integrated Circuits dedicated mainly to the communications market. Silway's headquarters are based in Gradignan (France), close to Bordeaux. In addition to the usual central services, the Gradignan site also hosts part of the Design Engineering Resources and the Marketing Team. The company's second and largest site is located in Sofia (Bulgaria) and handles the design engineering (complementary to French Design Center); 4" wafer fabrication facility; assembly of ceramic and plastic packages in small & medium volumes; and is the wafer probe and final test site as well as quality control. Silway has a staff of 260 employees including 40 R&D engineers and 180 manufacturing operators and engineers, only 14 of these do not work in Bulgaria.

The investment in Silway is a precedent for direct foreign investors in Bulgaria. The company is planning to be listed on the Nouveau Marché in Paris. The investment has allowed the company to begin upgrading and modernizing the Bulgarian facilities. The ECM-BPPF has had a strong influence in shaping the policy for sales network and improving the production process. The involvement of the Fund Manager is fundamental in securing adequate corporate governance and to put in place adequate financial information system.

- The fifth investment is in Rodina. It is a corrugated board and packaging manufacturer based in Plovdiv and privatized in 1996 from when there has been poor financial management with the company overindebted and squeezed for liquidity (no working capital), and with no possibility to invest.

In December 2000 ECM-BPPF bought 46.66% against an all-equity investment of BGN 4 million. The Fund has committed to disburse BGN 1 million more in case of necessity to continue supporting the company. The funds will be used for financial restructuring to increase the working capital, redirect Company orientation (customer oriented products instead of transport
packing). Fixed asset investments in 4-6 color print, product quality, new product development and improved energy efficiency.

ECM-BPPF aims to save from bankruptcy this traditional Bulgarian leader of corrugated cardboard and packaging works by building a new image of Rodina, establishing a good reputation, providing stability and a strong Balance Sheet. The Fund provided the Company with medium-term finance through the capital increase and will assist Rodina in obtaining short-term working capital loans to finance market expansion. The primary objectives of the Fund are to provide management assistance through its CFO and Marketing Director, to strengthen corporate governance in view of saving and protecting employment and assets values and to raise credibility before the Bulgarian Banking and financial community.

The Fund Manager started to transfer the adequate corporate governance and board methodology. The Fund Manager nominated the Chairman of the company and since the General Assembly Meeting on 30 October 2000 the Fund Manager attended three Meetings of the Board of Directors of Rodinvest and three meetings of the Supervisory Board of Rodina. Important decisions, such as approval of the five-year business plan, corporate structure, strategy and staffing were taken.

- The sixth investment is in Vinprom Damianitza. It was founded in 1958. Based in the village of Damianitza (Southwest Bulgaria) it is a middle-size producer of red wines (Melnik, Cabernet and Merlot). It also blends and distributes white wines under its own brand. A representative office in Sofia manages marketing and distribution.

On 24 November 2000 the Fund signed the investment contracts (fully disbursed on 18 December 2000) for a capital increase of EUR 715,812 in Vinprom Damianitza thus acquiring a 41% stake in the company.

The Fund has provided long term finance (equity capital) that will be invested in improving the production technology, obtaining control over vineyards and transferring winemaking and management expertise.

The three investments that have been approved by the Investment Committee are:

<table>
<thead>
<tr>
<th>Sector</th>
<th>Investment Approved</th>
<th>Amount Approved (mln EUR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Evrotur</td>
<td>Cable TV</td>
<td>11 April 2000</td>
</tr>
<tr>
<td>SKAT</td>
<td>Cable TV</td>
<td>15 September 2000</td>
</tr>
<tr>
<td>Chateau Belitza</td>
<td>Wine</td>
<td>15 September 2000</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Below is a short summary on each of the companies:

- **Evrotur SAT TV JSCo. (“Evrotur”)** is one of the major cable television service providers in Bulgaria. Evrotur was founded in 1992 for cable distribution systems (CDS), TV programming, trade with CDS equipment, data transmission and broadcasting. Evrotur is also one of the first companies granted a license for Cable Distribution Services in Bulgaria. The Investment Committee has approved to invest EUR 3.40 million in this company.

- **SKAT Ltd.** is a leading cable TV operator in the eastern part of the country based in the city of Bourgas. The company’s strategic objective is to become the leader in Cable TV and Internet Services in Eastern Bulgaria through consolidation and upgrading of existing cable operations and the introduction of value-added services. The Investment Committee has approved to invest EUR 1.74 million in this company.

- **Chateau Belitza** is a start-up project which aims to establish the production of premium and superpremium wines in Bulgaria. It involves the acquisition of 180 hectares of land, planting 180 hectares with vineyards and building a new cellar near the village of Belitza (South Bulgaria). Partners in the project are ECM-BPPF (50%), a local winery in Northern Bulgaria (25%) and the owner of a leading French wine producing company from Bordeaux (25%). The Investment Committee has approved subject to certain conditions to invest EUR 2.5 million in this company.

In addition to the above mentioned investments, the current deal pipeline is strong and the Fund Manager and the EBRD are confident that between four to six investments will be made in year 2001. The current budget is made on the assumption that the Fund will end 2001 with 11 investments.

3.4 Inputs

The Phare funding is used to cover (i) the operating expenses of the Fund Manager, (ii) pre-investment expenses on due diligence of enterprises and preparation of business plans, (iii) post-investment consultancy advice to the enterprises in which the BPPF has invested, and (iv) EBRD’s own management fee.

4. Institutional Framework

The institutional framework is governed by the TCF Agreement between EBRD and the Commission, and a separate Fund Management Agreement between EBRD and the Fund Manager. EBRD has overall responsibility for the management of the BPPF while the Fund Manager is responsible for the day-to-day operation and management of the BPPF.

The BPPF has two governance and decision-making bodies. A Supervisory Board, on which the Commission is represented, provides overall supervision of the BPPF’s activities, decides policy and agrees the budget. The Investment Committee, on which the Commission is not represented, takes investment and divestment decisions on the basis of the Fund Manager’s recommendations. EBRD has a veto power in this Committee.

EBRD keeps the Government of Bulgaria regularly informed of the BPPF’s activities.
5. **Detailed Budget**

EBRD has supplied the Commission with detailed information showing the use of Phare funds since the BPPF was established in 1998, and forecast use of Phare funds to the end of the year 2002. The Phare funds committed under the 1997, 1998 and 2000 National Programmes are forecast to be fully utilized by the end of 2001. The BPPF is expected to require additional Phare funding of EUR 3 million to meet eligible expenditures during 2002 and part of 2003. These additional funds will therefore be provided under the Phare 2001 National Programme.

<table>
<thead>
<tr>
<th>Phare support (million EURO)</th>
<th>Investment Support</th>
<th>Institution Building</th>
<th>Total Phare (=I+IB)</th>
<th>National Co-financing</th>
<th>IFI</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>3.000</td>
<td>-</td>
<td>3.000</td>
<td>*</td>
<td>*</td>
<td>3.000</td>
</tr>
</tbody>
</table>

- See section 11.2 below.

6. **Implementation Arrangements**

The BPPF is run as a managed account of the EBRD, under which arrangement the EBRD makes direct equity investments in Bulgarian companies with these investments being managed on its behalf by the Fund Manager. Tendering and sub-contracting the technical assistance funded by Phare under this project is the responsibility of EBRD.

As with previous Phare support for the BPPF under the 1997, 1998 and 2000 National Programmes, Phare funds provided under the 2001 National Programme will be transferred from the Commission direct to EBRD, under the arrangements set out in the TCF Agreement. Funds will not flow via the National Fund in Bulgaria.

7. **Implementation Schedule**

The project commenced in May 1998 and has a ten-year duration. The project is currently using Phare funds provided under the 1997, 1998 and 2000 National Programmes. The funds provided under the 2001 National Programme will be disbursed to EBRD in 2002 for use during 2002 and 2003.

8. **Equal Opportunity**

The BPPF is an equal opportunity employer.

9. **Environment**

The Agreement establishing the EBRD requires the EBRD and any investment funds of the EBRD to promote in the full range of its activities, environmentally sound and sustainable development. Environmental assessment and impact studies are undertaken by the BPPF as an essential part of the due diligence process and reported to the Investment Committee when an investment is put forward for approval.

10. **Rates of Return**

Although EBRD’s hurdle rate is set at 8%, the BPPF is looking to achieve higher than average return on investment by carefully selecting enterprises with high growth potential and strengthening their management and operations. The target is to achieve an internal rate of return of 20% or higher over the life of the BPPF.
11. **Investment Criteria**

11.1 **Catalytic effect**

Phare grant finance makes it possible for the BPPF to invest in enterprises that could not normally be reached by a foreign venture capital fund, because the enterprises would be too risky, expensive to research or need management assistance to achieve their potential. The BPPF’s activities will contribute to more rapid development of the private sector.

11.2 **Co-financing**

EBRD committed equity funding of EUR 30 million, with co-investment from the Fund Manager of EUR 10 million, when the BPPF was established in 1998. These funds will remain committed throughout the entire ten-year life of the project. Phare funding is committed on an annual basis, according to need. No new co-financing is required for successive Phare allocations.

11.3 **Additionality**

Phare was the only available source of grant funds on the scale required, when the project was launched in 1998.

11.4 **Project readiness and size**

The project is ongoing and has been effective since May 1998 and is achieving significant progress as described above.

11.5 **Sustainability**

The BPPF will aim to sell its stakes in Bulgarian enterprises as going concerns to other strategic investors. The Fund has already been approached from strategic investors to acquire some of its companies in specific sectors. Some of the companies in the portfolio are in the process of raising additional finance though the stock exchange in Western markets.

11.6 **Compliance with state aids provisions**

There are no state aids associated with the operation and investments of the BPPF. Although the Government of Bulgaria is kept informed of the activities of the BPPF, it has no role in its operations.

11.7 **Contribution to National Development Plan**

The promotion of SMEs features prominently in the preliminary NDP. SMEs are identified as a key development priority at both the national and regional level.

12. **Conditionality and Sequencing**

The Bulgarian Government will remain committed to its privatisation programme. It will pursue a policy of transparency in the privatisation process and refrain from introducing measures that hamper the development and operation of private sector enterprises. The Government will refrain from exercising political pressure or otherwise interfere in the operation of the BPPF.

**ANNEXES TO PROJECT FICHE**
1. Logical framework matrix in standard format
2. Implementation schedule
3. Contracting and disbursement schedule
4. Reference to feasibility and pre-feasibility studies.
<table>
<thead>
<tr>
<th>LOGFRAME PLANNING MATRIX FOR</th>
<th>Contracting period expires: 30 November 2003</th>
<th>Disbursement period expires: 30 November 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Further support for Bulgarian Post-Privatisation Fund</td>
<td>Total Budget: EUR 3 million</td>
<td>Phare contribution: EUR 3 million</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Indicators of Achievement</th>
<th>How, When and By Whom Indicators Will Be Measured</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Wider Objective</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• To contribute to private sector development in Bulgaria</td>
<td>• Increased share of the private sector in GDP of Bulgaria</td>
<td>• Bulgarian National Statistics</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• EBRD Transition Reports</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Economic and political stability in Bulgaria</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Continued process in privatisation &amp; liberalization</td>
</tr>
<tr>
<td><strong>Immediate Objective</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• To improve the performance of selected Bulgarian private enterprises by providing them with long-term equity finance and know-how</td>
<td>• Measurable improvement in enterprise shareholder value</td>
<td>• Enterprises respond to consultancy advice</td>
</tr>
<tr>
<td></td>
<td>• Enterprises invested in are sold as going concerns at end of BPPF life</td>
<td>• Stability of markets in which enterprises operate</td>
</tr>
<tr>
<td></td>
<td>• BPPF achieves target rate of return</td>
<td>• Sufficient exit opportunities</td>
</tr>
<tr>
<td><strong>Results</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Equity investments made in selected enterprises</td>
<td>• Steady flow of due diligence reports leading to regular investments</td>
<td>• Sufficient investment opportunities</td>
</tr>
<tr>
<td></td>
<td>• Management advice provided to selected enterprises.</td>
<td>• BPPF fully invested within ten-year period.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Consultancy services sub-contracted and provided after investments made</td>
</tr>
<tr>
<td><strong>Activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• BPPF established</td>
<td>• TCF and FM Agreements signed</td>
<td>• EBRD &amp; EC approval of project &amp; funding</td>
</tr>
<tr>
<td>• Equity and grant funds committed</td>
<td>• Fund Manager commences work</td>
<td>• Will be able to identify a suitable Fund Manager willing to provide co-financing</td>
</tr>
<tr>
<td>• Fund Manager recruited</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
ANNEX 2: IMPLEMENTATION CHART

The project commenced in May 1998 and has a ten-year duration.

ANNEX 3: CONTRACTING AND DISBURSEMENT SCHEDULE

There will be no new contract between the Commission and EBRD governing the additional Phare support provided under the Phare 2001 National Programme although the TCF Agreement between EBRD and the Commission which govern the management and use of Phare funds will need to be extended.

The additional Phare funds will be disbursed to EBRD when the funds are required by the BPPF, at which time EBRD will make a formal request in writing to the Commission, in accordance with the TCF Agreement.

ANNEX 4: FEASIBILITY AND PRE-FEASIBILITY STUDIES

Prior to establishing the BPPF, significant work was undertaken to identify the potential deal flow. An initial investment pipeline was developed through assessments by an enterprise screening team led by a consultant as well as enterprise screening carried out by the Fund Manager.