The Regional Environmental Reconstruction Programme for South Eastern Europe
under the Stability Pact (REReP)

REReP-Project 1.5.1

Report (final version)

Review and Assessment of the Bulgarian NATIONAL TRUST *ECO*FUND

Submitted by:

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Review and Assessment of the Bulgarian Trust EcoFund.

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Abbreviations and Acronyms

AC	Advisory Committee (i.e. donor) of the National Trust Ecofund
BD	Board of Directors of the National Trust Ecofund
BGL	Bulgarian Leva (prior to re-denomination in July 1999)
BGN	Bulgarian Leva (after the re-denomination in July 1999)
CEE	Central and Eastern Europe
EAP	Environmental Action Programme for Central and Eastern Europe
EB	Executive Bureau of the National Trust Ecofund
EPA	Environmental Protection Act of 1995
EU	European Union
GDP	Gross Domestic Product
GEF	Global Environmental Facility
GTZ	Gesellschaft für Technische Zusammenarbeit (German Agency for Technical Cooperation)
IBRD	International Bank for Re-construction and Development
IFI	International Financing Institution
MoEW	Ministry of Environment and Water
NFEP	National Fund for Environmental Protection (recently re-constituted as a "State Enterprise")
NSEAP	National Strategy for the Environment and Action Plan 2000-2006
NTEF	National Trust Ecofund of Bulgaria
OECD	Organization for Economic Co-operation and Development
PAC	Project Appraisal Committee of the NTEF Executive Bureau
ToR	Terms-of-reference
USD	United States Dollars
WB	World Bank
WWW	World Wide Web (Internet)

Currency Exchange Rates

Exchange rates for the Bulgarian Leva against the US Dollar used for data presented in the report are shown below. All figures are nominal. Throughout the report, figures representing cumulative amounts involving both BGL and BGN are presented in BGN.

Currency exchange rates used in this report

	1996	1997	1998	1999[1]	2000	2001	2002
January	72.53	698.65	1815.73	1685.06	1.92946	2.08480	2.21474
February	74.59	2387.16	1814.92	1745.31	1.98901	2.12230	2.24804
March	77.94	1660.07	1826.68	1797.37	2.02837	2.15127	2.23369
April	81.55	1546.23	1818.23	1828.55	2.06805	2.19193	2.20959
May	119.53	1532.63	1774.49	1843.47	2.15970	2.23394	2.13121
June	143.10	1668.45	1790.64	1884.73	2.06077	2.29254	2.04781
July	180.14	1788.09	1799.15	1.88988	2.08168	2.27299	1.97152
August	191.79	1844.23	1789.03	1.84470	2.16358	2.17258	2.00039
September	224.60	1791.86	1707.27	1.86367	2.24683	2.14128	1.99537
October	224.30	1759.19	1638.95	1.82697	2.28799	2.15933	1.99354
November	283.39	1731.07	1679.16	1.89216	2.28407	2.20198	1.95327
December	461.16	1774.81	1670.07	1.93489	2.18061	2.19164	1.92447
Annual Avg.	177.88	1681.87	1760.36	1.836	2.123	2.185	2.077

Source: Bulgarian National Bank. Notes: 1) From July 1999, the Bulgarian Leva was re-denominated, whereas 1000 "old" Leva (BGL) became 1 "new" Leva (BGN). From July 1999 all rates are given in BGN.

Executive Summary

Background and Objectives of the Review

This review of the Bulgarian National Trust EcoFund (the "Fund") was conducted in response to a request made by the Executive Director of the Fund (and subsequently endorsed by the Chairman of the Fund Board of Directors) during discussions with representatives of *Gesellschaft für Technische Zusammenarbeit* (GTZ) during mid-2002. The review was financed by GTZ as part of its support for the Regional Environmental Reconstruction Programme.

The main objective of the review was to conduct an independent and objective evaluation of the Fund's performance against the internationally recognized standards and recommendations contained in the *"St. Petersburg Guidelines on Environmental Funds in the Transition to a Market Economy"* (OECD/GD(95)108, Paris 1995). More specifically, this involved:

- evaluating the organization, operations and performance of the Fund as an environmental policy tool, as a financial instrument and as a public environmental financing institution;
- identifying and recommending changes/measures, both short and long-term, for strengthening and further improving the performance and effectiveness of the Fund;
- assessing the institutional, organizational, technical and financial capacities and potential of the Fund to act as an Implementing Agency for foreign investment support programs.

Ultimately, the review should help the Fund achieve the greatest environmental benefits possible with the scarce financial resources available to it and become a more effective instrument for facilitating the evolution and application of market-based mechanisms for financing environmental investments.

The review of the NTEF can be seen as the latest of independent evaluations of several environmental funds in Central and Eastern Europe (CEE). Such reviews were pioneered by the OECD Secretariat of the Task Force for Implementation of the Environmental Action Plan for CEE (the "EAP Task Force") and have previously assessed the performance of funds in Poland, Estonia, the Czech Republic, Slovenia and Moldova. The review was conducted by a team of experts led by Patrick Francis, and including Michael Betts, Joanna Fielder and Tatjana Ristova (as an observer).

Origins of the National Trust EcoFund

The Fund's origins date to mid-1994 when the Government of Bulgaria declared interest in pursuing a "debt-for-environment" swap within the context of the Paris Club negotiations for re-scheduling Bulgaria's international debt. The Government's declaration was strongly supported by the World Bank and soon after the Bank proposed a model debt swap arrangement. In February 1995 the Government of the Swiss Confederation proposed a bi-lateral swap agreement and negotiations between the two countries were held in March. In April the negotiations were successfully completed and a Protocol was signed. The Agreement was officially concluded on October 23, 1995 during the Third "Environment for Europe" Ministerial Conference in Sofia. The Fund is only the second major debt-for-environment swap institution functioning in CEE, the first being the Polish Ecofund.

According to the provisions of the Debt-Swap Agreement, the equivalent of 20% of Bulgaria's officially guaranteed commercial debt to Switzerland, equalling 23 544 000[1] CHF, was to be paid in eight equal semi-annual instalments in Bulgarian Leva (BGL) by the State Treasury at the exchange rate of the Bulgarian National Bank on the date of payment. The first partial cancellation was made on March 31, 1996, and the last payment was transferred on September 30, 1999.

[1] The agreement also provided for conversion of the interest on the remaining debt covered under the agreement. The total of the debt instalments alone was actually 20 249 673 CHF.

The Fund was formally established as an independent legal entity, charged with administering the proceeds of the debt swap (and other potential contributions from foreign or international institutions), through Article 3b of Bulgaria's Environmental Protection Act ("EPA"; July 14, 1995). A Regulation on the Organization and Activities of the National Trust EcoFund was enacted by Decree No.163 of the Council of Ministers, August 14, 1995. In October 1995 the Chairman of the Fund's Board of Directors was appointed based on agreement between the Bulgarian and Swiss Governments and the World Bank. The Fund became truly operational in October 1996 when its Executive Bureau was established and initial staff appointed on an interim basis. The Fund approved it first projects for financing in March 1997.

The Fund's Objectives, Priorities and Institutional Framework

The Fund's legal foundations were supplemented by its *Statute* and *Procedural Rules for Selection and Evaluation of Environmental Projects*, formally adopted by the Fund's Board in February 1997. These documents further specify, *inter alia*, the Fund's objectives, priorities, governing and implementing bodies and certain key operating principles.

The Fund's objective, as defined in its Statute, is: "the management of means provided under debt-for-environment and debt-for-nature swap agreements, as well as means provided under other types of agreements by international, foreign, or Bulgarian sources aimed primarily at financing projects and activities for the protection of the environment of Bulgaria." To pursue that objective, the Fund' Statute and Procedural Rules define the following *priority areas*: cleanup of past pollution; reduction of air pollution; clean water protection; protection of biodiversity.

The EPA of 1995 and Statute establish the following *institutional framework* for the Fund: Board of Directors (BD); Advisory Committee (AC), and; Executive Bureau (EB). The authorities and obligations of these bodies and their composition are specified in the Fund's Statute.

The *BD*, in association with the AC, determines the Fund's strategy and policies, criteria for selection of projects and makes the final decision on awarding financial support to projects submitted by the EB. The BD appoints and dismisses the Director of the EB and submits annual reports on the Fund's activities to the Council of Ministers. The BD consists of six members: a Chair, Deputy Chair and four ordinary members. The Chair is appointed by the Council of Ministers for a five-year term after consultations with the AC. The Deputy Chair is a Deputy Minister of the Ministry of Environment and Water (MoEW). The remaining four voting members of the BD are: appointed Deputy Ministers of Finance and Industry, a representative of the Bulgarian Academy of Science and of the environmental non-governmental organisations.

The *AC* consists of representatives of foreign governmental or nongovernmental institutions that contribute financial support to, or otherwise substantially support the Fund's activities. The first, and thus far only, member of the AC is a representative of the Swiss Government. Members of the AC: review, evaluate and give written opinions on projects proposed for financing by the Fund and have the right to participate in meetings of the BD. The representative of the Swiss Confederation (or other donor, if so provided in the respective agreement) has a veto right over projects to be financed.

The Fund's *EB* is responsible for carrying out its daily operations. Chief among its many duties are implementation of all aspects of the Fund's involvement in project cycle management, including: marketing of the Fund's priorities and requirements; interaction with prospective and actual applicants; solicitation, receipt and appraisal of project applications seeking financial support from the Fund; conclusion of contracts with successful applicants and preparation of tender documents; monitoring and evaluation of implemented projects. The EB organizes and provides input for meetings of the BD, and is generally responsible for executing decisions of the BD and AC. The EB also prepares annual budgets for the Fund, regularly reports to the BD on the Fund's finances and often represents the Fund (principally through the Director) to external parties. The EB is headed by a Director and consists of three divisions: the Finance and Economic Division, the Technical Division and the Office Management and Coordination Division. Currently the EB has a staff number of eight.

The Fund's Performance

The Fund's revenues are summarized in Table 1 below.

Table 1: Summary of Fund revenues according to source, through end of 2002

Revenue Source	Approximate Value in USD
Debt-swap instalments	16'957'450
Other income related to swap instalments	200'819
Interest on bank deposits	2'522'279
Foreign exchange gains	206'493
Grant from WB	194'571
Grant from MoEW	34'432
Others	498'879
Total Revenues	**20'614'923**

It is important to note that the early period of the Fund's establishment, namely 1996-97, was marked by rapid and dramatically high inflation in Bulgaria which seriously depreciated the real value of the Fund's resources, which were held almost entirely in Bulgarian Leva (in accordance with the debt-swap agreement). Thus the total figure of some 20.6 million USD cited above substantially overstates the real value of the Fund's revenues, especially during 1996-97. To illustrate, the first three debt-instalments, based on the exchange rate on the day of the transfers, had a cumulative approximate USD value of 7.4 million. However, the Bulgarian Leva total of those swaps (4 174 282 008), at the time of the third swap on March 31 1997, had a USD value of only about 2.6 million USD.

Through July 2003 the Fund has approved financial support for 58 environmental investment projects; 40 of these have been fully implemented, 15 are under implementation and three are about to begin implementation. The financial support provided (or committed, in the case of projects not yet completed) by the Fund thus far has amounted to approximately USD 11 million, while the total cost of the projects supported by the Fund has totalled about USD 60 million. The Fund's share of financing in overall project costs has averaged about 19%. A summary of the Fund's support, according to priority environmental sector, is shown in Table 2 below.

Table 2: Financial support provided or committed by the Fund according to environmental sector

Priority Environmental Sector	# of Projects Approved (and as a % of total)		Value of Support Approved (in approx. USD)	
Cleanup of past pollution	3	5%	3 300 000	30%
Reduction of air pollution	30	52%	4 290 000	39%
Clean water protection	15	26%	2 970 000	27%
Protection of biodiversity	10	17%	440 000	4%

The Fund's beneficiaries include: municipalities (71% of approved projects; 43% of awarded finance); state, municipal and private companies (10% of projects; 20% of finance); state/public institutions (12% of projects; 35% of finance); and scientific/academic institutes and NGOs (7% of projects; 2%

of finance). The Fund is able to provide financial support in the form of grant or interest-free loans, though in practice the vast majority of its support has been provided as grant (50 projects) while five projects were awarded loans; three projects received both grant and loan support simultaneously. No loans have been provided since 1999.

As a matter of policy, the Fund limits itself to a co-financing role. It may provide support as follows: up to 30% of the estimated total project cost for grants; up to 50% of the estimated total project cost for loans; up to 15% for commercially viable projects; and under other arrangements upon a special decision of the BD in consultation with the AC. The Fund only supports implementation costs, i.e. project preparation is not financed, though exceptions may be made for very small projects in the area of bio-diversity protection. Such projects may receive up to 80% of total estimated project costs, subject to a special decision of the BD in consultation with the AC.

Conclusions

A summary of the Review Team's evaluation of the Fund against key criteria/recommendations contained in the *St. Petersburg Guidelines* is presented in Table 3. Table 3 also provides an indication of whether or not, in the Team's opinion, the Fund broadly fulfils each criterion/recommendation. As may be seen, the Fund can justifiably claim to fulfil nearly all the key criteria set out in the Guidelines.

Table 3: Key Criteria / Recommendations of the St. Petersburg Guidelines

Criterion / Recommendation	Fulfilled by Fund?
To avoid or minimise the long-term economic inefficiencies inherent in earmarking of funds, expenditure should be targeted to meet environmental priorities and promote projects with large environmental benefits relative to their costs.	✓
Environmental funds should play a catalytic role in financing environmental improvements and support, not compete with, emerging capital markets.	✓
Environmental funds should reinforce other environmental policy instruments.	✓
Environmental funds should develop an overall financing strategy, follow clear operating procedures for evaluating and selecting projects, adopt effective monitoring and evaluation practices, and make effective use of internal and external expertise to enhance administrative efficiency.	✓
Environmental funds should focus on addressing the specific market and institutional failures that hinder environmental investment.	**?**
In general, fund money should only contribute to the capital costs, not operational costs.	✓
For investment projects, funds should have well-designed programme and project cycles to ensure cost-effective use of resources.	✓
Environmental funds should endeavour to leverage increased private sector resources and capital market financing for environmental investments.	**?**
Environmental funds should ensure transparency and be accountable to government, parliaments, and the public for their actions.	✓

The Fund's budget is relatively small in the context of overall environmental financing in Bulgaria. Nevertheless, *the Fund has become an important mechanism for financing environmental protection and is making an impact which extends beyond the size of its revenues and expenditures*. Since its establishment, the Fund has approved some 58 projects representing disbursements or commitments of over USD 11 million. *The average percentage contribution of the Fund towards financing of projects is 19%, implying that a further USD 50 million has been mobilized through the Fund's support* for investments in environmental infrastructure. In many instances, these investments would not have taken place without the financial and project implementation support of the Fund.

Moreover, in addition to the financial resources disbursed under the "Debt-for-Environment" swap agreement with the Government of Switzerland, *the Fund has played an important role in mobilizing and managing project co-financing from other international sources, notably from the World Bank and the Danish Environmental Protection Agency*. The NTEF is also expected to play a key role in establishing and managing a new "Protected Areas Fund" (PAF) – a € 12 million endowment fund to be financed through contributions from the Government of Bulgaria and multi-lateral and bilateral donors, including the Global Environment Facility. *The PAF is expected to reside and function within the existing mandate and structure of the NTEF* and, accordingly, one of the key requirements of the foreign donors to the PAF is that the NTEF shall remain operationally independent of the Government.

Further testimony to the vital role and contribution of the NTEF was provided through comments and opinions expressed to the Review Team by representatives of key stakeholders (municipalities and other beneficiaries, foreign donors, NGOs, etc). Without exception, *those interviewed strongly endorsed and paid tribute to the Fund*, not just because of its role in financing environmental investment projects but also in terms of its professionalism and catalytic impact in raising standards of project preparation and implementation.

These are considerable achievements made all the more impressive in view of the Fund's limited resources, the difficult economic climate and the fact that, for much of its life, the Fund lacked strong Government support and endured antipathy from the previous Minister of Environment and Waters.

Much of the Fund's value-added stems from *rigorous project cycle management procedures* based on: a strict framework of clearly defined environmental priorities and project eligibility criteria; clear requirements for, and helpful, professional relations with, applicants; clearly defined appraisal criteria emphasizing environmental benefits and cost-effectiveness; disbursement of grants only upon completion of work, and; careful monitoring of projects to ensure proper use of funds and achievement of environmental effects.

Several other factors are crucial to the Fund's success:

– *political independence;*
– *stable, predictable, revenues (from the debt-swap instalments);*
– *strong leadership and highly qualified and committed staff;*
– *objective, accountable and transparent decision-making;*
– *strict application of competitive public tendering procedures.*

Recommendations

The Review Team did not identify any glaring, critical deficiencies in the NTEF's operations. Individually, the points on which the Team does believe improvements could be made would represent modest or incremental gains for the Fund. Taken en masse, and subject to realization of certain assumptions made by the Team regarding the future development of the NTEF, the proposed changes could yield important improvements in the Fund's operations. Those assumptions, to varying degrees, effect the relevance and urgency of the following recommendations. The assumptions are:

1. that the Fund will obtain additional, new sources of revenue to replenish the rapidly diminishing proceeds from the debt-swap agreement with Switzerland, and;
2. that the revenues will be of sufficient scale, and come under such conditions, to allow the Fund to continue financing projects across the full range of its environmental investment priorities.

The NTEF will need stronger and more tangible support from the Government if it is to continue the full range of its activities into the future. The need for the NTEF to do so is readily apparent to the Review Team, especially in light of the environmental investment needs associated with accession to the EU (see chapter 4). Though the NTEF is a legally independent institution, its future lies largely in the hands of the Government due to its influence in determining the Fund's revenues. Proceeds from the NTEF's main source of revenues – the debt-swap with Switzerland – will very soon be exhausted. The possibility of the NTEF administering the new PAF is very encouraging, but would not deliver resources so greatly needed to continue financing investments in environmental infrastructure (e.g. in water and wastewater services and waste management).

One step in the direction suggested above would be for the Government to *empower the Fund and its principal representatives (i.e. Chairman and Executive Director) to more actively explore possibilities for new sources of revenue* for the NTEF. These officials, being the most knowledgeable about the Fund and its potential, are well placed (and have frequent occasion) to approach potential donors and to initiate discussions with them. Of course, only Government has the authority to enter into serious negotiations with any potential donors, but the Fund officials could play a more active role in initiating and facilitating such dialogue.

The profile of the Fund's beneficiaries *suggests modification of the Fund's Board to include broader representation of stakeholders*. The Fund's Board of six fails to represent what has become by far the Fund's single largest group of beneficiaries – municipalities. This does not suggest that the current Board composition is unable to reflect the interest of municipalities, but considering that they represent such a large beneficiary group it would seem both logical and wise that they have direct representation on the Board. International good practice among environmental funds also supports representation of key stakeholders.

Administration of the new PAF may also have implications for the composition of the Board and contents of the Fund's Statute (and possibly other legal documents). Conservation endowment funds of the sort envisioned in the PAF, especially those capitalized in part by the Global Environment Facility and other international or bi-lateral donors, are typically required by those donors to be entirely independent from Government on an operational level. The current composition of the Board, in which half the members are representatives of Government ministries, may be considered too closely linked to Government for the requirements of donors. An alternative arrangement could be to retain the current Government representation on the Board, while slightly increasing the total number of members by adding, for example, a representative of municipalities and allocating one of the existing positions to an independent expert in the area of biodiversity.

The Fund should continue its efforts to allocate greater resources to the biodiversity sector. Despite being one of the four main priority investment areas, spending on biodiversity represents a mere 4% of total disbursed or committed funds. The Review Team is aware that the Fund has recognized this task as an important challenge. The challenge is likely to become greater and more urgent if and when the PAF becomes operational under the NTEF. In such case the NTEF will be under pressure to dramatically expand its financing of projects in the sector. Notwithstanding its limited success in financing projects in the sector, the NTEF has gained valuable experience in working with institutions and organizations involved in biodiversity conservation and can build upon that experience.

The Fund could and should apply its expertise and resources to greater effect to encourage the development of market-based solutions to meet environmental financing needs. While the Fund has in a number of cases entered into project co-financing arrangements with commercial banks, it has not actively sought to promote and support the development of private financing for environmental investments, for example by working closely with commercial banks in providing finance to the enterprise sector. The Review Team could envision, for example, the Fund facilitating greater involvement of commercial banks by offering interest rate subsidies to soften the loans. However, in this respect the Review Team also recognises that major barriers to the leveraging of increased private sector resources and capital market financing for environmental investments have confronted the Fund throughout the duration of its existence. Nevertheless, conditions for the involvement of private finance should steadily become more attractive and the NTEF should make more effort to stimulate the entry of private finance into the environmental financing market.

Project financial analysis should be conducted on all projects that are potentially commercially viable, not just those that are proposed by commercial entities. The true value of project financial analysis is its ability to help assess whether a project truly needs subsidized finance in order to be viable and, if yes, what level of subsidized finance is needed to make the project viable. The Review Team understands that the Fund staff is aware of this; the Team also understands that there are other rationale driving the current application of project financial analysis at the Fund, mainly that the BD (or members thereof) has a bias against providing support to commercial entities. The question, however, is a matter to be determined by policy. As far as the Team understands, commercial entities are eligible to receive support from the Fund, under various conditions. Therefore, the Team can see no valid reason for employing project financial appraisal as a means of erecting an informal barrier to commercial entities gaining access to the Fund's support.

The Fund should ensure that its assistance to beneficiaries concerning public tender procedures maximizes development of the beneficiaries' own capacities in this area. The NTEF provides an extremely valuable service to its beneficiaries with the assistance it renders related to public tender procedures. The assistance has undoubtedly helped beneficiaries get good value for money and ensured that the Fund's support was efficiently spent. The Fund's efforts in this regard are generally to be praised. However, the depth and extensiveness of NTEF's involvement in the beneficiaries' tendering process make it unique among environmental funds in CEE (at least to the Team's knowledge). While the Team does not doubt the positive effects of this approach, it does question whether such extensive involvement is an appropriate role for a fund to play. Three main concerns arise: 1) too much assistance, especially for repeat beneficiaries of the Fund, may be fostering a level of dependence that impedes development of the beneficiaries' own capacity to carry out the tender procedures; 2) the Fund may be impeding the development of private sector service providers (i.e. consulting firms) that could be providing market services that are presently being provided by the Fund for free, and; 3) that the Fund is inappropriately allocating time and resources to an area of activity that is not normally a core activity of an environmental fund, depriving other more essential activities of resources.

In terms of formalizing existing management procedures, *there may be some advantage to be gained from adopting and applying some of the principles addressed in ISO 9000 series* (the international standard for quality management systems). In particular, the Fund should consider establishing a formal Document Control System to ensure that all procedures, specifications, instructions, project documentation, etc. are correct, up-to-date and issued with the appropriate authorizations, and that erroneous, obsolete or superseded documents are promptly withdrawn from use. *The Fund should also undertake a review of current arrangements for "disaster recovery",* in particular the arrangements for generating and storing back-ups of vital files and records. Duplicates of critical paper and computer-based files and records should be created at frequent intervals and stored in a secure off-site facility.

It would be beneficial for both the Fund and recipients if a single unified computer file/document was created to contain the full Annual Reports. This could, for example, be achieved by creating a PDF file. (Presently the Reports consist of several different sections maintained as separate documents.) Additionally, the data on revenues and expenditures could be presented in a manner that is more easily and readily comprehensible for most readers.

The dramatic reduction in staff salary levels in 1997 was unnecessary and counter-productive. Current levels of remuneration paid to Fund employees are above those prevailing in the State administration, but significantly below those typically offered to locally recruited staff by international organizations with a presence in Bulgaria. The remuneration of Fund staff should in principle be set at levels which ensure that the Fund is able to attract and retain well-qualified, high caliber staff, without regard to prevailing levels and practices in the State administration. Furthermore, the Fund should consider the possibility of introducing a significant performance-related element within the overall remuneration packages offered to Fund employees.

The Review Team considers that there are the following basic options for the future development of the Fund: A) No change in the existing mandate, resources and operations of the Fund (i.e. "do nothing"); *B*) Pro-actively seek to replenish and expand the Fund's resources either through further "Debt-for-Environment" swap agreements, or other forms of donor contributions; and/or; *C*) Assign the Fund a prominent role in managing the State and EU financial resources to support and realize priority environmental investments (particularly those related to EU accession), and in leveraging other sources of finance into such priority investments.

In the Team's opinion, *Option A would fail to exploit and develop the capacity and capabilities which exist in the Fund,* and leave the Fund languishing with little prospect of further growth and development, or of being able to make a major contribution towards meeting the environmental financing needs associated with EU accession.

Option B has been open for the Government to pursue for some time but, for reasons unknown to the Review Team, little success has been achieved, with one apparent exception: establishment of the new PAF, to be administered possibly by the NTEF. The PAF represents an important achievement for Bulgaria and in its role as administrator the NTEF would appear set to continue its environmental financing activities in the field of nature protection and biodiversity conservation well into the future.

However, as important as nature protection and biodiversity conservation are, the needs for financing in these areas pale in comparison to the needs for financing environmental infrastructure in the air, water and waste sectors (see "Option C" below). It is precisely in these fields that the Fund has gained particularly valuable experience and made its most significant contributions to date. *A future scenario which sees the Fund active only in nature protection and biodiversity conservation would, in the Team's view, represent a very unfortunate under-utilization of the capabilities the Fund has to offer and be a loss to the country.*

The Review Team considers that *the Fund is uniquely capable, having the potential to act as an effective agency for managing future EU financial assistance,* and therefore recommends that this possibility be given serious consideration by the Government.

1. Introduction

This review of the National Trust Ecofund of Bulgaria (NTEF or the "Fund") has been financed by *Gesellschaft für Technische Zusammenarbeit* (GTZ) as part of its support for the Regional Environmental Reconstruction Programme. The review was conducted in response to a request made by the Executive Director of the NTEF during discussions held between representatives of GTZ and the NTEF during 2002, and particularly during a GTZ mission to Sofia in May. (This request was subsequently endorsed by the Chairman of the NTEF Board of Directors.) Implementation of the review and preparation and submission of this report have been the responsibility of Æquilibrium Consulting, GmbH, under contract to GTZ.

The ultimate goal of the review and this report, as defined in the Terms of Reference (ToR), is to help the NTEF achieve the greatest environmental benefits possible with the scarce financial resources available to it and to become a more effective instrument for facilitating the evolution and application of market-based mechanisms for financing environmental investments. On a more operational level, the objectives are to:

- evaluate the organization, operations and performance of the NTEF as an environmental policy tool, as a financial instrument and as a public environmental financing institution;
- identify and recommend changes/measures, both short and long-term, for strengthening and further improving the performance and effectiveness of the NTEF;
- assess the institutional, organizational, technical and financial capacities and potential of the NTEF to act as an Implementing Agency for foreign investment support programs.

(Detailed scope of work according to ToR is included in Annex 1.)

The review of the NTEF can be seen as the latest of independent evaluations of several environmental funds in Central and Eastern Europe (CEE) that have occurred in recent years. Such reviews were pioneered by the OECD Secretariat of the Task Force for Implementation of the Environmental Action Plan for CEE (the "EAP Task Force") and have previously assessed the performance of funds in Poland, Estonia, the Czech Republic, Slovenia and Moldova.

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The opinions contained in this report are those of the authors and do not necessarily represent the opinions of GTZ, the NTEF or other institutions participating in the review. The work was made possible with the financial support of GTZ and cooperation of the NTEF. The authors of the report would like to thank GTZ, NTEF and all others who contributed to the review.

2. Overview of the NTEF

2.1 Origins of the NTEF and Summary of its Finances

The NTEF's origins date to mid-1994 when the Government of Bulgaria declared interest in pursuing a "debt-for-environment" swap within the context of the Paris Club negotiations for re-scheduling Bulgaria's international debt. The Government's declaration was strongly supported by the World Bank and soon after the Bank proposed a model debt swap arrangement. In February 1995 the Government of the Swiss Confederation proposed a bi-lateral swap agreement and negotiations between the two countries were held in March. In April the negotiations were successfully completed and a Protocol was signed, effectively providing preliminary approval of the Agreement. The Agreement was officially signed on October 23, 1995 during the Third "Environment for Europe" Ministerial Conference held in Sofia. The Fund is only the second major debt-for-environment swap institution functioning in Central and Eastern Europe, the first being the Polish Ecofund.

According to the provisions of the Debt-for-Environment Swap Agreement, the equivalent of 20% of Bulgaria's officially guaranteed commercial debt to Switzerland, equaling 23 544 000[2] CHF, was to be paid in eight equal semi-annual installments in Bulgarian Leva (BGL) by the State Treasury at the exchange rate of the Bulgarian National Bank on the date of payment. The first partial cancellation was made on March 31, 1996, and the last payment was transferred on September 30, 1999.

At the time of its foundation, the debt-swap was perceived by its founders as offering, *inter alia,* the following benefits for Bulgaria:

- exchanging obligations for foreign debt payments into local currency payments;
- increased possibilities for co-financing priority environmental projects; as the debt-swap proceeds can be considered "non-budgetary", the swap also allows the Government to concentrate its expenditures on environmental projects of sub-national and local significance that do not fall within the scope of the NTEF's priorities;
- improvement of the country's image in international political and financial circles as the swap is evidence of Bulgaria's ability to adopt and implement innovative environmental policy instruments;
- an effective center for know-how transfer, being a pre-requisite for attracting more active interest and presence of lenders and donors.

An early step towards making the Fund operational came in October 1995, when the Chairman of the Fund's Board of Directors was appointed based on agreement between the Bulgarian and Swiss Governments and the World Bank. The Fund became truly operational in October 1996 when its Executive Bureau was established and initial staff appointed on an interim basis. The Fund approved it first projects for financing in March 1997.

Through the end of 2002 the NTEF had total revenues amounting to approximately USD 20 million, though it must be noted that the real value of these resources was much diminished at the time of actual expenditure due to hyper-inflation experienced in the country in 1996 and early 1997. (The value of the first three debt-swap installments was greatly affected.) Through July 2003, the NTEF had disbursed or committed approximately USD 11 million in support of 58 projects.

2.2 Legislative, Policy and Operational Foundations of the NTEF

In addition to the Debt-for-Environment Swap Agreement between the Governments of Bulgaria and Switzerland, four documents play a key role in laying the NTEF's foundations:

[2] The agreement also provided for conversion of the interest on the remaining debt covered under the agreement. The total of the debt instalments alone was actually 20 249 673 CHF.

- Bulgaria's Environmental Protection Act (July 14, 1995; amended September 25, 2002);
- a Regulation on the Organization and Activities of the National Trust EcoFund, enacted by Decree No.163 of the Council of Ministers (August 14, 1995);
- the NTEF's Statutes (approved by the Board and Advisory Committee in February 1997 and amended through Council of Ministers Ordinance in August 1999), and;
- the Procedural Rules for the Evaluation of Projects by the NTEF (approved by the Board and Advisory Committee in February 1997).

The most significant elements of each of these documents is summarized below.

2.2.1 Environmental Protection Act (EPA)

The Fund was formally established as an independent legal entity, charged with administering the proceeds of the debt swap (and other potential contributions from foreign or international institutions), through Article 3b of Bulgaria's EPA (of July 14, 1995). Articles 66-68 of the Act (as amended in 2002) also concern the NTEF and can be summarized as follows:

Article 66: establishes the NTEF as a legal entity based in Sofia whose objective is to manage proceeds from debt-swaps and other contributions provided by foreign governments, international financial institutions and other donors, in support of environmental protection in Bulgaria; the article goes on to outline the main elements of the Fund's institutional structure – its Managing Board, Advisory Committee and Executive Bureau;

Article 67: specifies that the management, structure and activities of the NTEF, including the raising and spending of financial resources, shall be further regulated by decree of the Council of Ministers;

Article 68: outlines potential sources of the revenue for the NTEF, including the State Budget, foreign and international organizations and institutions, loan repayments, interest on bank accounts, etc.; Art. 68 also specifies that these resources are to be spent on environmental protection activities subject to conditions established by the donors and in accordance with the priorities set in national environmental strategies.

2.2.2 Regulation on the Organization and Activities of the NTEF

Building upon the basic parameters established in the EPA, a Regulation on the Organization and Activities of the National Trust EcoFund was enacted by Decree No.163 of the Council of Ministers, August 14, 1995. Most significantly, the Regulation specifies:

- the types of environmental protection activities and projects that the Fund may provide financial support to and forms of financial support than can be provided, and;
- the structure, powers and obligations of the Fund's governing bodies (i.e. its Managing Board, Advisory Committee and Executive Bureau).

2.2.3 NTEF Statutes

Following from the EPA and Regulation, the NTEF's Statutes further elaborate:

- environmental (and therefore spending) priorities of the NTEF;
- basic operating policies and principles of the Fund, its constituent bodies and employees;
- organization of the meetings of the Board;
- policies and procedures concerning the appointment, dismissal and remuneration of Executive Bureau staff;
- accounting rules and management of the NTEF's resources;

- preparation and submission of Annual Reports, and;
- auditing requirements.

2.2.4 Procedural Rules for the Evaluation of Projects

As the title indicates, this document relates primarily to project appraisal but it also addresses subsequent stages of the project cycle. Most significantly, it concerns:

- basic terms and conditions for the provision of financial support by the Fund;
- rules and procedures for applying for funding from NTEF, including information to be submitted by applicants;
- policies and procedures the Fund is to follow while evaluating applications;
- process of preliminary and final approval of projects to receive funding, including respective roles of the Executive Bureau, Advisory Committee and Board;
- preparing and concluding award contracts with successful applicants;
- procurement and tenders, and;
- monitoring of project implementation.

2.3 The NTEF's Objectives, Priorities and Institutional Framework

The Fund's objectives, priorities and institutional framework, as elaborated in its official documents, are outlined in this section.

2.3.1 NTEF Objectives and Priorities

The Fund's objective, as defined in its Statute, is: "the management of means provided under debt-for-environment and debt-for-nature swap agreements, as well as means provided under other types of agreements by international, foreign, or Bulgarian sources aimed primarily at financing projects and activities for the protection of the environment of Bulgaria." To pursue that objective, the Fund's Statute and Procedural Rules define the following priority areas:

- *Clean up of past pollution and environmental damages*: a) disposal of hazardous waste and hazardous substances; b) contamination of sources of drinking water or food (by heavy metals, toxic organics or other harmful chemicals).
- *Air pollution reduction*: a) pollutants of health concern, e.g. particulate matter, SO2, NOx, lead and other toxic chemicals in urban areas; b) green-house gases, i.e. CO2, methane, CFCs.
- *Water quality protection*: a) municipal and industrial wastewater treatment in the Danube watershed; b) municipal and industrial wastewater treatment in the Black sea watershed.
- *Protection of biodiversity*: a) development of infrastructure in protected areas for protection of species and habitat preservation; b) monitoring and inventorying of biodiversity and sustainable utilization of components for creating social alternatives.

2.3.2 NTEF Institutional Framework

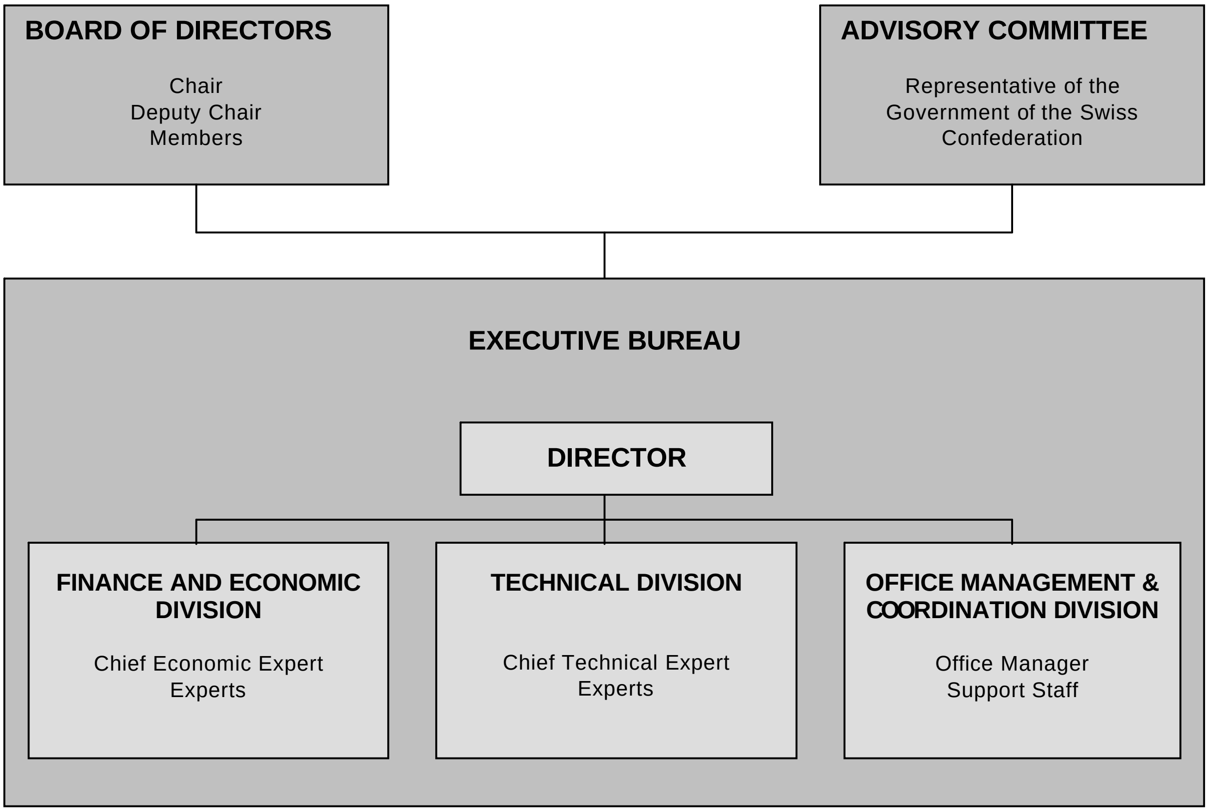
As noted above, the EPA, Regulation on the Organization and Activities of the NTEF and Statute establish the following institutional structure for the Fund:

- Board of Directors (BD);
- Advisory Committee (AC), and;
- Executive Bureau (EB).

The Fund's institutional structure is illustrated in Figure 1. The authorities and obligations of these bodies and their composition are specified in the Decree and Statute as summarized below:

The *BD*, in association with the AC, determines the Fund's strategy and policies, criteria for selection of projects and makes the final decision on awarding financial support to projects recommended by the EB. The BD appoints and dismisses the Director of the EB and submits annual reports on the Fund's activities to the Council of Ministers through the Ministry of Environment and Water (MoEW). The BD consists of six members: a Chair, Deputy Chair and four ordinary members[3]. The Chair is appointed by the Council of Ministers for a five-year term after consultations with the AC. The Deputy Chair is a Deputy Minister of the MoEW. The remaining four voting members of the BD are: appointed Deputy Ministers of Finance and Industry, a representative of the Bulgarian Academy of Science and of the environmental non-governmental organisations. The Board meets at least once every three months.

Figure 1. Organizational diagram of the National Trust EcoFund of Bulgaria.



The *AC* consists of representatives of foreign or international governmental or nongovernmental institutions that contribute financial support to, or otherwise substantially support the Fund's activities. The first, and thus far only, member of the AC is a representative of the Swiss Government. Members of the AC: review, evaluate and give written opinions on projects proposed for financing by the Fund and have the right to participate in meetings of the BD. The representative of the Swiss Confederation (or other donor, if so provided in the respective agreement) has a veto right over projects to be financed.

The Fund's *EB* is responsible for carrying out its daily operations. Chief among its many duties are implementation of all aspects of the Fund's involvement in project cycle management, including:

[3] According to the amended EPA from 25 Sept., 2002, the BD consists of seven members, including a Chair, two Deputy Chairs and four ordinary members. A new Regulation on the Organization and Activities of the NTEF will be issued reflecting the changes required by the amended EPA.

marketing of the Fund's priorities and requirements; interaction with prospective and actual applicants; solicitation, receipt and appraisal of project applications seeking financial support from the Fund; conclusion of contracts with successful applicants and preparation of tender documents; monitoring and evaluation of implemented projects. The EB organizes and provides input for meetings of the BD, and is generally responsible for executing decisions of the BD and AC. The EB also prepares annual budgets for the Fund, regularly reports to the BD on the Fund's finances and often represents the Fund (principally through the Director) to many external parties. The EB is headed by a Director and consists of three departments: the Finance and Economic Division, the Technical Division and the Office Management and Coordination Division. Currently the EB has a staff number of eight.

2.3.3 Important Links with Other Institutions

While the NTEF is a legally independent entity, it nonetheless has important links with a number of governmental and other institutions. Relationships with key governmental institutions are formally established through the composition of the Board, which includes representatives of the MoEW (as Deputy Chair of the Board) and the Ministries of Finance and Industry. The MoEW also plays other roles: it influences the Fund's spending priorities, as the NTEF is obliged to align its spending priorities with the environmental priorities identified by the MoEW and adopted through official documents such as the National Strategy for the Environment and Action Plan 2000-2006; the MoEW also reviews and conveys to the Council of Ministers the Annual Reports that the NTEF must submit. Additionally, the NTEF has important informal and indirect relations with other state bodies providing financial support for environmental protection. Chief among these is the National Fund for Environmental Protection ("NFEP"; recently re-constituted as a State Enterprise under the Commercial Code). While relations between the two funds are not formalized, they collaborate indirectly as co-financiers of individual investment projects.

Box 1: NTEF and WB Collaboration on the Environmental Remediation Pilot Project

The "Environmental Remediation Pilot Project" (ERPP) was designed to mitigate severe environmental contamination at the MDK copper smelter and refinery in Pirdop, in operation since 1957. When the Belgian metallurgical group Umicore acquired MDK, an environmental Remediation Program was drawn up in cooperation with the World Bank as a part of the privatization deal. The main objectives of the ERPP are to (i) reduce environmental hazards caused by past pollution at MDK; (ii) contribute to improvements in the environmental performance of the plant; and (iii) facilitate the privatization of MDK by reducing uncertainties and concerns of strategic investor(s) about environmental liability issues.

The Program consists of: Part A - Emergency clean-up of immediate environmental hazards, and; Part B - Clean-up of critical past environmental damage. Project financing is being provided by: the NTEF, through a grant of 3.3 million USD for equipment procurement under Part A (successfully completed in November 1999); the World Bank, through a loan for 16 million USD to the Bulgarian Government, and; the Bulgarian Government, through grants totaling 5.7 million USD. Based on the Implementation Agreements respectively for Part A (signed on March 27, 1998) and Part B (from June 02 1998), Union Miniere Pirdop Copper (UMPC) is the Implementing Agency for the Program while the NTEF is the Project Coordination Agent based on an Agency Agreement between the MoEW, as representative of the Government of Bulgaria, and the NTEF.

With its contribution of 3.3 million USD, the Program represents the Fund's single largest project and a major achievement in one of the Fund's four priority areas. Its engagement as a Coordinating Agent for Part B of the Program has involved it in a wide range of responsibilities, including: examination and preparation of expertise on technical designs; examination and approval of technical specifications; examination and approval of bidding documents and procedures; examination and approval of draft contracts with contractors and suppliers; examination, control and approval of completed works; preparation and presentation of progress reports to the Program Oversight Committee and the World Bank, and; preparation of and sending to the Bank requests for withdrawal of funds from the Bank loan. The collaboration between the Bank and NTEF on the Program has proved a very positive experience for both and helps to explain to the Bank's strong support for the Fund.

The NTEF also has strong working relations with certain foreign institutions and domestic municipalities and non-government organizations. Of the former, the World Bank deserves special mention. Besides playing a helpful role in the early establishment of the NTEF, the Bank also provided capacity development support for the Fund and collaborated with the Fund to implement a major environmental remediation project in Bulgaria (see Box 1 below.) On the domestic front, the NTEF has established extensive relations with local municipalities and non-governmental organizations (NGOs). Most typically, these relations develop as municipalities or NGOs approach the Fund for financing. In the case of NGOs, one representative serves as a member of the Fund's Board.

2.4 Comments, Conclusions and Recommendations

2.4.1 Comments and Conclusions

For most of the Fund's lifetime it has endured very challenging conditions which are not fully reflected in the descriptive information provided above: massive need for environmental investments, the costs of which greatly exceeded available resources; extreme financial hardship in the country, highlighted by hyperinflation in 1996 and early 1997; support from the Bulgarian Government (particularly the previous Government) that must be described as less than ideal. Fortunately for the Fund, improvements can be seen in recent years on all three fronts. Environmental investment needs, while still great and costly, are being given more attention than in the mid-90's and increasing resources are being mobilized. Bulgaria's macroeconomic situation has stabilized and inflation is under control and diminishing. The current Government appears more sympathetic and appreciative of the Fund's accomplishments and its potential than the previous Government (in which the Minister of Environment and Waters displayed an attitude toward the Fund that can only be described as antipathetic).

The most important effect of these challenges, and perhaps the most unfortunate, (and certainly unnecessary) was the failure of the previous Government to fully appreciate and take advantage of the potential offered by the NTEF. The lack of support from the previous Government resulted in lost opportunities of various kinds, most importantly for securing new donors to the NTEF. The difficult circumstances effectively forced the Fund to adopt a highly conservative posture and to behave so as to avoid any pretext for friction with the Government (particularly the MoEW). In such an atmosphere the Fund could not vigorously seek and attract potential new donors. Indeed, it was a significant achievement for the Fund to survive during that period. To have not only survived but also performed very well is a testament to those who supported the Fund and carried out its work, including the Chairman and other sympathetic members of the Board, the staff of the Executive Bureau and the Swiss Government through its member on the Advisory Committee.

The performance of the NTEF was universally praised by all parties the Review Team interviewed during its mission: beneficiaries, including representatives of municipalities, NGOs and public institutions; Government officials, including the Deputy Minister of Environment and Minister for European Affairs; representatives of key foreign and international partners, such as the Swiss Government, the Danish Environmental Protection Agency and the World Bank. Those interviewed frequently cited the expertise, professionalism and commitment of NTEF's leadership and staff as key to its provision of effective and efficient services. The two municipal mayors interviewed also expressed their appreciation for the objectivity and transparency of decision-making at the Fund. They suggested that the NTEF was one of the only predictable sources of environmental finance for municipalities in the country, i.e. they were confident that well-prepared, qualified projects would have a good chance of receiving funding. They also contrasted the NTEF with other sources of funding that were less transparent and predictable in their funding decisions.

The Review Team concurs with those interviewed in their opinion of the NTEF's performance. Specific aspects of the Fund's operations will be further analyzed and evaluated in the next two chapters and recommendations are made where scope for improvement exists.

2.4.2 Recommendations

In light of the current Government's more sympathetic attitude to the NTEF, a few recommendations can be offered here that concern issues raised in this chapter and require action (or at least acquiescence) from the Government:

- First and foremost of all, the NTEF will need stronger and more tangible support from the Government if it is to continue the full range of its activities into the future. The need for the NTEF to do so is readily apparent to the Review Team, especially in light of the environmental investment needs associated with accession to the EU (see chapter 4). Though the NTEF is a legally independent institution, its future lies largely in the hands of the Government due to its influence in determining the Fund's revenues. Proceeds from the NTEF's main source of revenues – the debt-swap with Switzerland – will very soon be exhausted. The possibility of the NTEF administering a new "Protected Areas Fund" (PAF) is very encouraging, but would not deliver resources so greatly needed to continue financing investments in environmental infrastructure (e.g. in water and wastewater services and waste management). As discussed in Chapter 4, the Review Team believes that the NTEF is uniquely capable of making a valuable contribution in this area and strongly encourages the Government to explore and pursue steps that would allow it to do so.
- One step in the direction suggested above would be for the Government to empower the Fund and its principal representatives (i.e. Chairman and Executive Director) to more actively explore possibilities for new sources of revenue for the NTEF. These officials, being the most knowledgeable about the Fund and its potential, are well placed (and have frequent occasion) to approach potential donors and to initiate discussions with them. Of course, only Government has the authority to enter into serious negotiations with any potential donors, but the Fund officials could play a more active role in initiating and facilitating such dialogue.
- The profile of the Fund's beneficiaries suggests modification of the Fund's Board. The Fund's Board of six fails to represent what has become by far the Fund's single largest group of beneficiaries – municipalities. This does not suggest that the current Board composition is unable to reflect the interest of municipalities, but considering that they represent such a large beneficiary group it would seem both logical and wise that they have direct representation on the Board. International good practice among environmental funds also supports representation of key stakeholders.
- Administration of the new PAF may also have implications for the composition of the Board and contents of the Fund's Statute (and possibly other legal documents). Conservation endowment funds of the sort envisioned in the PAF, especially those capitalized in part by the Global Environment Facility and other international or bi-lateral donors, are typically required by those donors to be entirely independent from Government on an operational level. The current composition of the Board, in which half the members are representatives of Government ministries, may be considered too closely linked to Government for the requirements of donors. An alternative arrangement could be to retain the current Government representation on the Board, while slightly increasing the total number of members by adding, for example, a representative of municipalities and allocating one of the existing positions to an independent expert in the area of biodiversity (e.g. from the Bulgarian Academy of Sciences). This would retain a small Board, improve representation of key stakeholders, reduce Government representation below half and yet maintain involvement of key ministries. The need for representation of the Ministry of Industry can also be questioned given that relatively few of the Fund's beneficiaries are industrial enterprises. In the future, once the PAF is operational, it might be more appropriate for the ministry responsible for rural development to be represented on the Board, due to the importance of sustainable development in rural areas for protecting biodiversity.
- Both the NTEF and the newly re-constituted National Fund for Environmental Protection would realize gains in efficiency and effectiveness if their respective strategic and operational roles were more clearly specified. Upon reading the relevant articles in the amended EPA

(2002) concerning both the NTEF and NFEP, it is far from obvious how the institutions are to differ. Indeed, one may reasonably conclude that their roles are redundant. In practice, the Team understands that, on an operational level, the two funds collaborate (if only indirectly) and compliment each other's activities, mainly through co-financing of projects. Nevertheless, the distinct role and therefore value-added of each fund could and should be further specified, and ideally, documented. This would provide a clearer and stronger framework for cooperation and coordination between the funds and support development of a more synergistic relationship. Such clarification would also be helpful to applicants to both funds, enabling them to better understand the different requirements and possibilities of each fund.

3. NTEF Operations

This chapter examines key aspects of the Fund's operations: revenues; annual planning; project cycle management (including a summary of expenditures); relations with the commercial/private finance sector, and; formal management systems and procedures.

3.1 Revenues

As noted in the previous chapter, the Fund's principle source of revenues has been the proceeds from the debt-swap agreement with Switzerland. These, and the Fund's other sources of revenues, are summarized in Table 3.1.

Table 3.1: Summary of Fund revenues according to source, through end of 2002

Revenue Source	Approximate Value in USD
Debt-swap instalments	16'957'450
Other income related to swap instalments	200'819
Interest on bank deposits	2'522'279
Foreign exchange gains	206'493
Grant from WB	194'571
Grant from MoEW	34'432
Others	498'879
Total Revenues	**20'614'923**

It is important to note that the early period of the Fund's establishment, namely 1996-97, was marked by rapid and dramatically increasing inflation in Bulgaria which seriously depreciated the real value of the Fund's resources, which were held almost entirely in Bulgarian Leva (in accordance with the debt-swap agreement). Thus the total figure of some 20.6 million USD cited above substantially overstates the real value of the Fund's revenues at the time of expenditure, especially during 1996-97. To illustrate, the first three debt-instalments, based on the exchange rate on the day of the transfers, had a cumulative approximate USD value of 7.4 million. However, the Bulgarian Leva total of those swaps (4 174 282 008), at the time of the third swap on March 31 1997, had a USD value of only about 2.6 million USD. This the first three instalments had diminished in real value by some 4.8 million USD. By the time those resources were actually spent, their real value would have diminished further.

The final debt-swap installment was transferred to the NTEF on September 30, 1999. Since that time the Fund has been operating on remaining unspent funds accumulated from the instalments and other sources of revenue, such as interest on bank accounts and foreign exchange gains. As the remaining funds from the instalments are utilized, however, these other sources of revenue, already quite limited, will also decline.

3.2 Annual Planning

Certain basic parameters of annual and longer-term planning at NTEF are provided for in the Fund's official legal documents. For example, basic spending priorities are specified in the Regulation on the Organization and Activities of the NTEF while the Statutes specify annual reporting obligations. The Fund's spending priorities, defined in the Regulation and Statutes, have remained unchanged since its establishment.

At the beginning of each year the Fund prepares an "Action Plan" for the coming year. These Action Plans are prepared by the Executive Bureau, submitted for approval to the Board and contain, *inter alia*:

– a description of follow-up work on monitoring and financing of projects approved through the end of the previous year;
– a description of follow-up work on projects that have received approval "in principle" but have not yet received "final" approval;
– a description of work anticipated concerning the identification, appraisal and approval of new projects;
– a plan for institutional development of the NTEF, which includes training and other capacity building activities, promotional activities, meetings with prospective applicants to disseminate NTEF rules and requirements, and public relations and mass media outreach efforts;
– planned budget for the coming year, including estimated figures for expenditures on investments projects and the operational maintenance (i.e. administration) of the NTEF.

3.3 Fund Expenditures and Financing Conditions

Through July 2003 the Fund has approved financial support for 58 environmental investment projects; 40 of these have been fully implemented, 15 are under implementation and three are about to begin implementation. The financial support provided (or committed, in the case of projects not yet completed) by the Fund thus far has amounted to approximately USD 11 million, while the total cost of the projects supported by the Fund has totalled about USD 60 million. The Fund's share of financing in overall project costs has averaged about 19%. A summary of the Fund's support, according to priority environmental sector, is shown in Table 3.2 below.

Table 3.2: Financial support provided or committed by the Fund according to environmental sector

Priority Environmental Sector	# of Projects Approved (and as a % of total)		Value of Support Approved (in approx. USD)	
Cleanup of past pollution	3	5%	3 300 000	30%
Reduction of air pollution	30	52%	4 290 000	39%
Clean water protection	15	26%	2 970 000	27%
Protection of biodiversity	10	17%	440 000	4%

The Fund's beneficiaries include:

– municipalities (71% of approved projects; 43% of awarded finance);
– state, municipal and private companies (10% of projects; 20% of finance);
– state/public institutions (12% of projects; 35% of finance);
– and scientific/academic institutes and NGOs (7% of projects; 2% of finance).

The Fund is able to provide financial support in the form of grant or interest-free loans, though in practice the vast majority of its support has been provided as grant (50 projects) while five projects were awarded loans; three projects received both grant and loan support simultaneously. No loans have been provided since 1999.

As a matter of policy, the Fund limits itself to a co-financing role. It may provide support as follows:

– up to 30% of the estimated total project cost for grants;

– up to 50% of the estimated total project cost for loans;
– up to 15% for commercially viable projects;
– and under other conditions upon a special decision of the BD in consultation with the AC.

The Fund only supports implementation costs, i.e. project preparation is not financed, though exceptions may be made for very small projects in the area of bio-diversity protection. Such projects may receive up to 80% of total estimated project costs, subject to a special decision of the BD in consultation with the AC. As a rule, the Fund finances only investment costs, i.e. it does not finance recurrent costs related to operation and maintenance of investments.

The NTEF sees its primary purpose as a project financier as that of closing the "financing gap" for qualified, well-prepared environmental projects in the priority areas of the Fund. Thus, the NTEF strives to allocate its finance so as to make possible the completion of projects that may not otherwise have been completed.

3.4 Project Cycle Management

3.4.1 Basic Principles and Stages

As with other environmental funds and project financing institutions, project cycle management comprises a major and critical element of the NTEF's activities. Some basic principles for the Fund's operations, highly applicable to project cycle management, are set out in its Statute. These include:

– *Loyalty and independence*: Service in the public interest and for fulfillment of the Fund's objectives. Acts in the interest of third parties and inconsistent with the Fund's objectives and principles shall be inadmissible.
– *Impartiality*: The selection of projects to be financed by the Fund, as well as the selection of suppliers of goods and services, shall take place in strict compliance with the procedures provided for in the Statute and in the Procedural Rules for Project Evaluation, Bulgarian legislation and the special requirements that may be posed by Sources of Financing (i.e. donors). No discrimination against or preference for candidates shall be allowed.
– *Transparency*: The Fund shall regularly inform the public and the Sources of Financing of its activities and, if so requested, shall provide free access to information in accordance with Article 41 of the Constitution of the Republic of Bulgaria and the relevant provisions of the Bulgarian Environmental Protection Act, except for the information classified as confidential in accordance with Bulgarian legislation.
– *Cost-effectiveness*: Decisions made at all levels, and their implementation, shall ensure maximum effectiveness of allocated funds. Limitations on the Fund's administrative expenses should not be allowed to adversely affect its substantive operations.
– *Consensus*: Differences in opinions among the Fund's governing bodies and their members in relation to the Fund's activities shall be subject to tolerant, well reasoned discussions aiming to reach consensus.
– *Joint efforts and interaction*: The Fund's governing bodies, their members, and the Fund's employees shall interact actively in the course of performing their functions.

The NTEF follows a standard project cycle, including: project identification; project preparation; project appraisal and selection; contracting and procurement; monitoring and evaluation of project implementation. Important elements of these stages are discussed below.

3.4.2 Project Identification and the Application Process

The starting point of reference for project identification is the Fund's environmental investment priorities, as defined in its Statute and unchanged since its foundation. The NTEF periodically disseminates information about its environmental investment priorities, project selection criteria, and instructions for preparation of project applications to relevant organizations including NGOs, regional governments, municipalities and companies. Representatives of the Fund regularly participate in seminars, working meetings and other activities organized by different institutions and NGOs. The Web site of the Fund contains detailed information on its financing conditions, appraisal criteria and application requirements. The Fund does not utilized standardized pro-forma application forms.

The eligibility criteria have not changed since the launch of the Fund's operations and are set out in the Fund's Procedural Rules for Project Evaluation as follows:

- Applicants must provide project documents in compliance with requirements as publicized by the Fund, quoting modern technical solutions and prices;
- Applicants must provide evidence of secured co-financing from other sources, including their own. (Required co-financing levels were described in section 3.3 above.).
- Applicants must provide proof of lowest capital and operational costs per unit of reduced pollution, based on an evaluation of project implementation options;
- Applicants must provide proof of compliance with effective national environmental standards and requirements through environmental impact assessments, when required by the Environmental Protection Act, or through other estimates and proof in accord with the effective Bulgarian legislation;
- Applicants must provide evidence for organizational and financial potential to operate the facility upon completion of the project, and to ensure the desired environmental effect for the entire duration of the project;
- Applicants must be eligible under the Government's environmental programs for implementation of the national environmental policy and in accordance with the priorities of local authorities.

Interest in obtaining support from the Fund is high, as evidenced by the number of applications received:

1997 — 60 applications;

1998 — 215 applications;

1999 — 43 applications;

2000 — 47 applications;

2001 — 34 applications;

2002 through mid-2003 – 34 applications

Through July 2003 a total of 433 applications have been received by the Fund; of these 58 have been approved for financing. From the above numbers it appears that demand clearly exceeds the Fund's financial capacity as only about 13% of the application shave been approved. However, not all applications represented well-prepared, qualified projects. Indeed, many applications have been rejected, especially in the early years of the Fund's operations, simply because the proposed projects did not comply with the Fund's environmental investment priorities. Other reasons for rejecting applications include: lack of detailed design plans; lack of adequate co-financing; lack of proven environmental effect; non-compliance with specific aspects of the Fund's eligibility criteria. In fact, nearly all project applications that satisfied the Fund's basic eligibility criteria and included the required documentation have, eventually, been approved for financing.

There is no deadline for submission of project applications, i.e. they are received and reviewed on a rolling basis. Each project application is registered as it is received by the Fund and given a number. The first review of applications is conducted by the Project Appraisal Committee, which meets once a month. This leads to the discussion of project appraisal, covered in the next section.

3.4.3 Project Preparation

Normally, environmental funds are not directly and substantively involved in project preparation as this is considered the responsibility of the project promoter (i.e. the applicant). This "hands-off" approach is helpful to ensure impartiality when the project is later submitted to the Fund for appraisal. Nevertheless, the NTEF takes a fairly pro-active approach towards project preparation, often providing significant advice and guidance to project promoters on how they might prepare their projects so as to qualify for funding from the NTEF. The NTEF has also shown great patience in waiting for applicants to revise and improve applications to the point where they meet the Fund's requirements. The Fund has found it necessary to take such an approach given the challenge it has faced in soliciting well-prepared projects that satisfy its eligibility criteria. Consultations may occur in various ways: telephone, e-mail correspondence, personal meetings, etc.

3.4.4 Project Appraisal

Fundamental principles of project appraisal are embedded in those operating principles outlined in the Fund's Statutes and summarized above in section 3.4.1. Additional rules for project appraisal are set out in the Procedural Rules for Evaluation of Projects. An important feature of the NTEF's project appraisal process is its multi-stage approach, which can be summarized as follows:

- *Stage 1: "Evaluation of the project's compliance with established criteria and terms".* Applications are evaluated by a Project Appraisal Committee (PAC); the PAC is appointed by the Director of the EB and includes members of the Finance/Economic Division, Technical Division, and, if necessary, qualified external experts. As a standard practice, the Director also participates in the PAC.
- *the PAC evaluates project applications using a standardized appraisal methodology* based on scoring of projects according to how well they satisfy various appraisal criteria (e.g. environmental effect, cost-effectiveness, suitability of technology, provision of co-financing, etc); while the methodology used does not have official standing (i.e. it has not been formally reviewed and approved by the BD), its use as a helpful means for evaluating projects is supported by the BD and has become standard practice; decisions of the PAC are recorded and signed by all members and the Director.
- *Approval of the AC:* Projects that receive a positive evaluation from the PAC are submitted to the Advisory Committee member (i.e. the representative of the Fund's donor) for review and "preliminary" approval; the AC member has the right to veto proposed projects (though in practice this has rarely happened). Should the AC veto a proposed project the decision is final, unless otherwise provided for in the agreement between the Fund and the donor. Vetoes decisions of the AC are to be submitted in writing. Approvals by the AC are typically given verbally to the Director.
- *Stage 2: Final approval by the Board*. Final decisions for approval or rejection are taken by the Board on the basis of the decisions of the EB and the AC, unless otherwise provided for in the Fund's procedural rules or in the agreement with the respective donor. The Board has the authority to set the conditions on the finance to be provided.
- it has been the practice of the EB thus far to submit project applications to the BD for both preliminary and final approval. However, often these two stages are actually combined into a single process, whereby the project application is submitted to the Board a single time and the Board is requested by the EB to convey both preliminary and final approval at one session.

- if, upon initial evaluation of an application, the PAC finds a proposed project to be qualified on its substantive merits, but lacking in some limited respects, the PAC may suggest preliminary approval of the application, but then inform the applicant of the deficiencies and offer time and advice on how they can be rectified. Once these deficiencies have been overcome, the PAC may re-consider the application and submit it to the BD for final approval if warranted. In practice, most projects that have passed preliminary approval have eventually also received final approval.
- in all cases, preliminary approval, final approval, temporary rejection (where the applicant has the chance to improve the application) and final rejection, applicants are provided a written notice explaining the decision of the Fund and rationale (in case of rejections).

Applications submitted by commercial enterprises for projects that might be commercially viable are subject to financial analysis (using Net Present Value calculations) to help the Fund assess whether or not it should provide support and, if yes, in what amount. The project financial analysis is considered complementary to the other eligibility and appraisal criteria applied by the Fund as well as other funding conditions. In practice, only a few project applications have undergone such analysis. However, The Fund expects that this analysis might be employed more frequently in the future, especially as a means of ensuring the Fund's support complies with EU rules on state aid.

3.4.5 Contracting, Procurement and Disbursement

Rules and procedures concerning contracting and procurement are set forth in the Fund's Statutes and, in particular, its Procedural Rules for Evaluation of Projects. Contracting may commence once a project has received final approval from the BD. All awards are provided on the basis of written contracts. The contracts cover all material aspects of the award and its use, including the parties involved, scope of work to be financed, objectives of that work, disbursement schedule, implementation phases and deadlines, rights and liabilities of each party, etc. Contracts include several attachments, such as: timeline for all activities under the contract; budget estimates by type or component of work; bank guarantee, if required, and; procurement documents. All contracts shall be approved separately by the EB's Technical and Finance/Economic Divisions and by a qualified lawyer. Contracts authorizing financing shall be signed by the EB Director and the BD Chair or an expressly authorized person. Amendments and addenda following the execution of a contract may be made solely through decision of the BD, upon consultation with the AC. From the time the BD gives final approval of a project the contract is typically prepared and concluded with the applicant within two weeks.

The NTEF has adopted and employs strict rules for procurement. The rules it follows are an amalgam of World Bank procedures and those required by Bulgarian Law. Strictly speaking, the Fund is not obliged to follow Bulgarian public procurement law, however, it has tried to adapt its World Bank based procedures to the Bulgarian Law to the extent possible.

What is most significant about the NTEF's approach to procurement is the depth of its involvement in preparing, monitoring and supervising tenders on behalf of its beneficiaries. The NTEF takes a very "hands on" approach, preparing the basic tender documents for all beneficiaries and closely monitoring and supervising all tenders conducted for use of the Fund's awards. For example, a Fund EB staff member usually sits on the evaluation committee for review of bids and the Fund retains the right of veto over selection decisions. Tender documents are usually prepared within 15 days of final approval by the BD and issued to the beneficiary together with the contract.

Disbursement of the Fund's financial support is made in accordance with the terms, conditions and schedule specified in the award contract. Payments are made periodically as provided for in the contract, against certified invoices provided by the beneficiary. As a general rule, advance payments are limited to 10% of construction works and provided upon the start-up of works by the selected contractor. Ten percent of the total award is withheld until the beneficiary provides evidence that the project's anticipated environmental effect has been or will be achieved. This evidence may, for example, take the form of a final operating permit issued by the appropriate authority.

3.4.6 Monitoring and Evaluation of Project Implementation

Monitoring of project implementation may involve the beneficiary, the Fund's staff and external controllers designated by the Fund. The Procedural Rules for Project Evaluation require that all projects awarded amounts of 200 000 USD or greater be monitored by the Fund or its designated agent. In practice, the NTEF closely monitors all projects it has supported. Each project undergoes at least one site inspection by a Fund staff member. The Fund maintains databases on the environmental benefits produced by projects and monitors the project-related spending of the beneficiaries to ensure compliance with the approved schedule of activities.

Thus far no cases of abuse of the Fund's support have occurred. The beneficiary must inform the Fund immediately of any important, unexpected problems or deviations form the contract. In cases where new costs are involved, but the total costs do not exceed the amount of the award, the new costs may be approved by the Director. If the new costs exceed the total award in the contract, they must be approved by the BD. The BD has the right to refuse the additional costs or to approve only part of the additional costs. In case of serious breach of contract or abuse of funds, the NTEF may freeze its award, request return of amounts disbursed plus interest (the National Bank rate for the period covered by the disbursements) and penalties may be imposed (0.5% of the total amount disbursed per day).

With regards to the evaluation of projects after implementation, beneficiaries must submit reports on the environmental benefits generated by the project. The Procedural Rules for Project Evaluation calls for such reports to be submitted for three years after the project has been completed. Measurements of pollutants and emissions must be performed by appropriate nationally certified authorities. Thus far all projects supported by the Fund that have been completed have fulfilled their expected environmental effects.

3.5 Relations with Commercial Banks and Capital Markets

As specified in the Regulation on the Organization and Activities of the NTEF, the Fund maintains its bank accounts with Bulbank SA (the Bulgarian Foreign Trade Bank). The Fund is allowed to generate revenues from interest on these accounts and has done so, as mentioned earlier in section 3.1. The Review Team understands that the Fund has also co-financed a few projects that were also financed by commercial banks. Otherwise, the Funds has had very limited relations with commercial banks or other commercial capital interests.

3.6 Fund Management Systems and Procedures

3.6.1 Operational Management & Reporting Systems

The existing operational management and reporting systems of the Fund are generally well-developed and have evolved to reflect both the legal provisions and procedural rules governing the Fund, and the scope of the Fund's operations. The Technical Division, headed by the Chief Technical Expert, undertakes all tasks related to the management and control of environmental and technical aspects of projects. Tasks related to the management and control of other issues (e.g. finance, personnel) are undertaken by the other relevant Division Heads (i.e. Finance, Office Management, the Director).

The Fund's predominantly paper-based systems are generally sufficient to meet its existing operational management and reporting requirements. An attempt was made in the recent past to computerize all of the Fund's operational management systems and procedures, but the resulting computer system (developed by external consultants) failed to fulfill the Fund's needs and was eventually abandoned.

However, the following computer databases are currently maintained to support the Fund's operational activities:

- A project database in which key information and financial data regarding completed and on-going projects supported by the Fund are stored.
- A database of registered providers (companies and individuals) of technical and other types of professional expertise and services.

Reporting of the Fund's operational activities currently takes place through:

- Routine monitoring and reporting of project-related activities and expenditure, and compliance with the terms and conditions of contracts with the Fund's beneficiaries.
- The preparation and dissemination to key stakeholders of Annual Reports on the activities of the Fund.
- Other reports on specific topics prepared by the Executive Bureau, at the request of the Board of Directors and / or the Advisory Committee.

The Annual Reports provide a very thorough and comprehensive review and analysis of the Fund's activities and resources for the preceding year, including a copy of the auditor's report and accounts. Once the Annual Reports are approved by the BD, these are then formally submitted to the Government of Bulgaria through the MoEW.

Responsibility for monitoring and controlling the Fund's activities rests ultimately with the BD. The Fund’s performance is also subject to periodic scrutiny by the World Bank and other development agencies with which it has established relationships.

3.6.2 Financial Management & Reporting Systems

The Finance and Economic Division, headed by the Chief Economic Expert, performs those functions related to the evaluation and control of economic and financial parameters during project preparation and implementation (including applications for financing, project evaluation, tenders, contracting, etc). The Division also manages the financial accounting system of the Fund. All financial data relating to completed and on-going projects are recorded and maintained in computerized spreadsheets. The Fund's financial accounting system is also computer-based using a proprietary accounting software package (Business Navigator for Windows).

Fund revenues are accounted for separately according to the source of funds. Likewise, Fund expenditures are recorded and accounted for in detail according to the type of expenditure (project-related disbursements, investments in fixed assets, operational expenses, etc). The accounting records are clear and comprehensive, and generally sufficient to ensure proper financial control and reporting. Financial reports on the Fund's operational and project financing expenditures are prepared by the EB and submitted to the BD at approximately 3-monthly intervals.

Annual audits and financial statements are prepared by an international firm of auditors (currently Ernst & Young). The financial statements are drawn up in accordance with both International Accounting Standards and Bulgarian Auditing Standards. The statements prepared according to Bulgarian Auditing Standards are submitted to the Bulgarian tax authorities. Unified accounting and audit standards are expected to be adopted from the beginning of 2004. The auditor's report for the year ending 31 December 2001 was issued without any qualifying comments or observations.

In addition, separate financial statements are prepared in respect of the Environmental Remediation Pilot Project (ERPP) which is being financed by the World Bank and coordinated and administered by the Fund under an agency agreement with the Government[4]. These statements form part of six-monthly progress reports presented for the consideration and approval of the project Oversight Committee, and for eventual submission to the World Bank.

The Fund is also subject to periodic audits by the National Audit Office. The last such audit was undertaken in 1999.

3.6.3 Personnel Management

The Fund currently employs a total of 8 full-time staff. Every new member of staff is subject to a 6-month probationary period. Staff turnover at the Fund is very low and therefore the recruitment of new staff is a comparatively rare event.

All Fund employees are appointed on the basis of 1-year contracts, with the exception of the Fund Director who is appointed for a 5-year term. The BD is responsible for the appointment and termination of the Director, taking into account the opinion of the AC. The Director is responsible for the appointment and termination of Fund employees. Brief written job descriptions exist for all staff positions.

The salaries and other benefits of Fund employees are proposed by the Fund Director and determined by the BD. Current levels of remuneration paid to Fund employees are above those prevailing in the State administration, but significantly below those typically offered to locally recruited staff by international organizations with a presence in Bulgaria (embassies, donor agencies, etc).

Training of Fund staff is the subject of a dedicated line in the Fund's operating budget, and it is evident from past Annual Reports that training and skills development is provided to staff on a regular basis.

3.7 Comments, Conclusions and Recommendations

3.7.1 Comments and Conclusions

Analysis of the Fund’s operations in the areas covered in Chapter 3 re-affirm the conclusions reached by the Review Team earlier in Chapter 2: the Fund has performed impressively well under challenging circumstances. One basis for this conclusion is assessment of the Fund against the internationally recognized standards and recommendations contained in the *“St. Petersburg Guidelines”.* A summary of the key criteria/recommendations contained in the Guidelines is presented in Table 3.3. Table 3.3 also provides an indication of whether or not, in the Review Team's opinion, the Fund broadly fulfils each criterion/recommendation. As may be seen, the Fund can justifiably claim to fulfil nearly all the key criteria set out in the Guidelines.

Looking at the list of key criteria, the Fund does: target expenditures toward high environmental priorities and projects offering high cost-effectiveness; catalyze environmental improvements by providing “gap financing” for projects that might otherwise not be financed; not compete with emerging capital markets; reinforce other policy instruments (e.g. by requiring compliance with EIA and other environmental legislation); have a clear financing strategy; follow clear operating procedures for project appraisal, selection, monitoring and evaluation; run an efficient administration; focus its support on investment rather operational costs; have a well-designed project cycle focusing on cost-effectiveness; conduct its operations in a transparent and accountable manner.

That is not to say the Fund cannot improve; it can, as implied by the two question marks found in Table 3.3. Recommendations for improvements in those and other areas are offered in the section

[4] The Operations Evaluation Department of the World Bank raised the rating of the ERPP from “satisfactory” to “highly satisfactory” in the areas of bank and borrower performance. Undoubtedly the NTEF, in its role as project coordinator and administrator, contributed much to this achievement.

below. Before presenting those, however, the Team would like to make some additional comments and conclusions. Many of these points are displayed in the SWOT analysis shown in Table 3.4.

Table 3.3: Key Criteria / Recommendations of the St. Petersburg Guidelines

Criterion / Recommendation	Fulfilled by Fund?
To avoid or minimise the long-term economic inefficiencies inherent in earmarking of funds, expenditure should be targeted to meet environmental priorities and promote projects with large environmental benefits relative to their costs.	✓
Environmental funds should play a catalytic role in financing environmental improvements and support, not compete with, emerging capital markets.	✓
Environmental funds should reinforce other environmental policy instruments.	✓
Environmental funds should develop an overall financing strategy, follow clear and explicit operating procedures for evaluating and selecting projects, adopt effective monitoring and evaluation practices, and make effective use of internal and external expertise to enhance administrative efficiency.	✓
Environmental funds should focus on addressing the specific market and institutional failures that hinder environmental investment.	?
In general, fund money should only contribute to the capital cost of projects, not the operational costs.	✓
For investment projects, funds should have well-designed programme and project cycles to ensure cost-effective use of resources.	✓
Environmental funds should endeavour to leverage increased private sector resources and capital market financing for environmental investments.	?
Environmental funds should ensure transparency and be accountable to government, parliaments, and the public for their actions.	✓

A glance at the SWOT analysis suggests that the Fund's strengths and opportunities outweigh its weaknesses and threats. While not underestimating the weaknesses and threats, the Review Team does firmly believe that the NTEF has achieved much and has compiled a strong base of experience from which to look forward. The Fund's budget is relatively small in the context of overall environmental financing in Bulgaria. Nevertheless, the Fund has become an important mechanism for financing environmental protection and is making an impact which extends beyond the size of its revenues and expenditures. Since its establishment, the NTEF has approved some 58 projects representing disbursements or commitments of over USD 11 million. The average percentage contribution of the Fund towards financing of projects is 19%, implying that a further USD 50 million has been mobilized through the Fund's activities mainly for financing investments in environmental infrastructure. In many instances, these investments would not have taken place without the financial and project implementation support of the Fund.

Moreover, in addition to the financial resources disbursed under the "Debt-for-Environment" swap agreement with the Government of Switzerland, the Fund has played an important role in mobilizing and managing project co-financing from other international sources, notably from the World Bank and the Danish Environmental Protection Agency (DEPA). The NTEF is also expected to play a key role in establishing and managing a new "Protected Areas Fund" (PAF) – a € 12 million endowment fund to be financed through contributions from the Government of Bulgaria and multi-lateral and bilateral donors, including the Global Environment Facility (GEF). It is envisioned that the PAF will reside and function within the existing mandate and structure of the NTEF and, accordingly, one of the key requirements of the foreign donors to the PAF is that the NTEF shall remain operationally independent of the Government.

These are considerable achievements made all the more impressive in view of the Fund's limited resources, the difficult economic climate and the fact that, for much of its life, the Fund has, at best, enjoyed only lukewarm support from Government.

Table 3.4: A summary SWOT (Strengths-Weaknesses-Opportunities-Threats) analysis of the NTEF

Principal Strengths	Principal Weaknesses
– Independent specialised financing institution which is not subject to undue political influence or interference in decision-making. – High degree of accountability and transparency in decision-making. – Comprehensive operational policies and procedures, which are well-suited to fulfilling the Fund's mandate and objectives. – Experienced, competent and committed staff, working closely together as a team. – Well-defined and rigorously applied project cycle and financial management practices. – Well-established relations and communications with existing Fund donors and clients. – Substantial in-house expertise in project planning and preparation, as well as implementation (including procurement). – Substantial in-house expertise in managing grant financing programmes. – Proven track record in administering financial resources on behalf of international institutions.	– Still perceived by some stakeholders in Government as "the Swiss Fund". – Value and potential of the Fund to mobilise and manage both domestic and foreign financial resources for essential environmental investments not fully recognised / appreciated by key Government decision-makers. – Limited experience and expertise in loan financing. – Financial resources available under the existing Swiss "Debt-for-Environment" swap agreement are almost fully disbursed. – Weak links and limited cooperation with the commercial banking sector.
Opportunities	**Threats**
– Potential to make a major contribution towards mobilising and targeting the large volume of additional financial resources required to meet national environmental objectives and achieve compliance with EU environmental legislation. – Potential to expand the volume of financial resources managed on behalf of international financing institutions and donor agencies. – With tangible political and financial support from Government, potential to replenish the Fund's resources either through further "Debt-for-Environment" swap agreements, or other forms of donor contributions.	– Uncertainty regarding the long-term future of the Fund, particularly in view of the apparent antipathy of the Fund's stakeholder Ministries. – Financial resources from the existing Swiss "Debt-for-Environment" swap agreement are not replenished. – The Fund is precluded from accessing EU financial resources to support accession-related environmental investments.

Much of the Fund's value-added stems from *rigorous project cycle management procedures* based on: a strict framework of clearly defined environmental priorities and project eligibility criteria; clear requirements for, and helpful, professional relations with, applicants; clearly defined appraisal criteria emphasizing environmental benefits and cost-effectiveness; disbursement of grants only upon completion of work, and; careful monitoring of projects to ensure proper use of funds and achievement of environmental effects.

Several other factors are crucial to the Fund's effectiveness:

– political independence;

– stable, predictable, revenues (from the debt-swap instalments);

– strong leadership and highly qualified and committed staff;

– objective, accountable and transparent decision-making;

– rigorous application of competitive public tendering procedures.

3.7.2 Recommendations

The Review Team did not identify any glaring, critical deficiencies in the NTEF's operations. Individually, the points on which the Team does believe improvements could be made would represent modest or incremental gains for the Fund. Taken en masse, and subject to realization of certain assumptions made by the Team regarding the future development of the NTEF, the proposed changes could yield important improvements in the Fund's operations. Those assumptions, to varying degrees, effect the relevance and urgency of the following recommendations. The assumptions are:

1. that the Fund will obtain additional, new sources of revenue to replenish the rapidly diminishing proceeds from the debt-swap agreement with Switzerland, and;
2. that those revenues will be of sufficient scale, and come under such conditions, as to allow the Fund to continue financing activities across the full range of its current environmental investment priorities.

It is impossible to know at this moment whether either or both of these assumptions will be realized. The first must be achieved or else the Fund will soon dwindle into oblivion. The arrival onto the scene of the envisioned PAF and its possible placement under the administration of the NTEF is very encouraging and may provide a vehicle to keep the NTEF operational for many years to come. Nonetheless, it is the Review Team's opinion that an NTEF whose sole function is to administer the PAF would be an NTEF whose impressive capacity is sadly and unnecessarily underutilized. (See the next chapter for more discussion on this subject.) Therefore, most of the recommendations offered here envision the NTEF continuing to fulfill most of its current functions at an equal or higher level (i.e. with comparable or more resources).

The Fund should consider establishing indicative spending targets for each of its environmental investment priorities and communicating these to prospective clients. Currently the Fund's annual Action Plans merely indicate a total amount of resources available to for spending on new investments (as opposed to investments under implementation and expenditures planned for operational maintenance of the Fund itself). By setting indicative spending targets for each priority area it encourages the Fund to more explicitly identify its priorities and clearly indicate those priorities to prospective applicants. The Team understands that to date the NTEF felt it necessary to take a rather more flexible and opportunistic approach to this issue, financing projects where it could find them. Notwithstanding the Fund's understandably pragmatic approach, the proposed alternative should help the Fund better achieve longer-term strategic investment goals and also provides a clearer indication to prospective applicants as to the Fund's true priorities. Making the targets "indicative" retains an element of flexibility; if it appears that more good projects are ready to be financed in one priority area than another, the Fund can reserve the option of adjusting the targets, for example, half way through the year.

The Fund should continue its efforts to allocate greater resources to the biodiversity sector. Despite being one of the four main priority investment areas, spending on biodiversity represents a mere 4% of total disbursed or committed funds. The Team is aware that the Fund has recognized this task as an important challenge. The challenge is likely to become greater and more urgent if and when the PAF becomes operational under the NTEF. In such case the NTEF will be under pressure to dramatically expand its financing of projects in the sector. Notwithstanding its limited success in financing projects in the sector, the NTEF has gained valuable experience in working with institutions and organizations involved in biodiversity conservation and can build upon that experience and the lessons learned in devising more effective delivery mechanisms and strategies in the future.

The Fund could and should apply its expertise and resources to greater effect to encourage the development of market-based solutions to meet environmental financing needs. While the Fund has in a number of cases entered into project co-financing arrangements with commercial banks, it has not actively sought to promote and support the development of private financing for environmental investments, for example by working closely with commercial banks in providing finance to the enterprise sector. The Review Team could envision, for example, the Fund facilitating greater involvement of commercial banks by offering interest rate subsidies to soften the loans. However, in this respect the Review Team also recognises that economic conditions throughout much of the Fund's life, in particular the parlous state of the banking and enterprise sectors during the 1990s, represented a major barrier to the leveraging of increased private sector resources and capital market financing for environmental investments. Nevertheless, conditions for the involvement of private finance should steadily become more attractive and the NTEF should make more effort to stimulate the entry of private finance into the environmental financing market.

The Fund should do even more to help build project preparation capacity among its clientele. The Team is aware that the Fund, quite legitimately, focuses its financial support on the implementation stage of investment projects. This is the surest and most tangible way of maximizing environmental benefits for each Leva spent. However, the Team has also learned that finding projects that are well-prepared, qualified and ready to be financed has been a major and persistent challenge. This is illustrated by the fact that, in many years, the Fund has been unable to fully allocate the amount of resources earmarked for financing new investments. Reasons for this could be many, but likely include that: project preparation remains a serious weakness among the Fund's clientele; that the Fund has not done enough to publicize its financing priorities, conditions and requirements; that the Fund's conditions and expectations are unrealistically high for the Bulgarian context; and/or some combination of all the above. The explanation may involve some of all the above, but the Team believes that weak project preparation capacity among clientele is the principal culprit. It also appears unlikely that this obstacle will disappear quickly. Indeed, the problem may become worse as pressures related to EU accession build. The Team therefore encourages the Fund to consider ways in which it could further strengthen its already helpful support for building project preparation capacity without seriously undermining its priority for supporting implementation of investments.

If the project preparation obstacle can be diminished, and the "availability" of well-prepared, qualified projects increased, *the Fund may wish to consider formalizing its use of its project appraisal and scoring methodology*. The methodology, as currently employed, is used as a guidance tool, along with other assessment means, for determining whether or not a project should receive support form the Fund. Furthermore, the Team understands that while the PAC scores projects using the methodology, projects are not formally ranked based on the scoring nor are ranked lists of projects submitted to the AC and BD for subsequent approval. The less rigid, unofficial use of the methodology is easily understood and entirely sensible given the atmosphere described above wherein there are insufficient qualified, well-prepared projects to be appraised and financed. However, if the Fund were to find itself in a situation where it was faced with more qualified projects than it could finance, it would be well-served by more formally and fully employing the scoring methodology so as to better, and more systematically identify the "best" projects.

Project financial analysis should be conducted on all projects that are potentially commercially viable, not just those that are proposed by commercial entities. The true value of project financial analysis is its ability to help assess whether a project truly needs subsidized finance in order to be viable and, if yes, what level of subsidized finance is needed to make the project viable. The Review Team knows that the Fund staff is aware of this; the Team also understands that there are other rationale driving the current application of project financial analysis at the Fund, mainly that the BD (or members thereof) has a bias against providing support to commercial entities. The Review Team can understand that some may hold beliefs that the Fund should refrain from providing support to commercial entities (though the Team would not support such a position). The question, however, is a matter to be determined by policy. As far as the Team understands, commercial entities are eligible to receive support from the Fund, under various conditions. Therefore, the Team can see no valid reason for employing project financial appraisal as a means of erecting an informal barrier to commercial entities gaining access to the Fund's support. If the Fund is to employ project financial analysis at all, it should be for valid reasons and should be applied to all revenue-generating projects regardless of the type of applicant.

The Team believes it is unnecessary for the EB to present projects to the AC and BD for both preliminary and final approval; submission once, for final approval would be adequate. Perhaps in the early stages of the Fund's operations, when it was still establishing its skills and gaining fresh experience, such an approach provided an extra layer of quality control and ensured that projects were properly processed. However, several years on with plenty of experience under its belt and much expertise under its hat, the Fund gains little by submitting projects for approval twice. Indeed, given that nearly all preliminary approvals are now followed by final approvals, and sometimes a given project receives both approvals at a single session, the dual approval appears largely redundant and therefore wasteful of time and resources. The Team understands that the EB does now regularly submit applications for, what amounts to, simultaneous dual approval. This, however, appears to represent and rather awkward compromise that attempts to maintain, superficially, the appearance of the two-stage approval process described in the Fund's Rules for Evaluating Projects, even though the process is no longer necessary. The Team therefore suggests to dispense with the two-stage approval process wherever possible in order to make better use of all concerned parties' resources.

In a similar vein, *the Team suggests that small projects could be given final approval by the EB Director*. Currently, all projects must obtain final approval from the BD, irregardless of how large or small they are. Thus, even a very small project must undergo more-or-less the same level of processing that a large project undergoes. A number of environmental funds in other CEE countries allow small projects, under some specified threshold amounts, and subject to clearly specified rules and procedures, to be reviewed and approved by the Fund's senior management, e.g. Director or Director and Deputy Directors. Experience has shown that such a procedure can save considerable time and resources that can be better spent elsewhere in the Fund's operations. Considering the possible establishment of the PAF under the NTEF's administration, and the fact that the PAF will likely be catering to numerous small projects, the Team believes that the NTEF can only benefit from such a reform.

The Fund should ensure that the assistance it provides to beneficiaries concerning public tender procedures maximizes development of the beneficiaries' own capacities in this area. The NTEF provides an extremely valuable service to its beneficiaries with the assistance it renders related to public tender procedures. The assistance has undoubtedly helped beneficiaries get good value for money and ensured that the Fund's support was efficiently spent. The Fund's efforts in this regard are generally to be praised. However, the depth and extensiveness of NTEF's involvement in the beneficiaries' tendering process make it unique among environmental funds in CEE (at least to the Team's knowledge). No other fund takes as much responsibility and provides so much assistance. While the Team does not doubt the positive effects of this approach, it does question whether such extensive involvement is really an appropriate role for a fund to play. Three main concerns arise: 1) too much assistance, especially for repeat beneficiaries of the Fund, may be fostering a level of dependence that impedes development of the beneficiaries' own capacity to carry out the tender procedures; 2) the Fund may be impeding the development of private sector service providers (i.e. consulting firms) that could be providing market services that are presently being provided by the Fund for free, and; 3) that the Fund is inappropriately allocating time and resources to an area of activity that is not normally a core activity of an environmental fund, depriving other more essential activities of resources. The Team is not suggesting that the Fund cease its assistance in tendering procedures. Rather, it is suggesting that the Fund should do only what is necessary to ensure that the Fund's statutory interests are adequately protected, that the Fund's resources are wisely allocated and that the beneficiaries' capacities are developed so as to be able to carry out the procedures in the future without assistance of the Fund.

Notwithstanding the previous failed attempt to computerize the Fund's operational management systems and procedures, *there are likely to be considerable benefits from introducing a fully-integrated computer-based system covering the Fund's entire range of operational functions and activities*. However, such a system would require a substantial investment of time and money to develop, and would therefore only be justified if the Fund were to expand its project financing activities. Areas where there would appear to be more immediate scope for improving existing operational management practices are:

– *The formalization of existing management procedures, particularly concerning the issue and control of documentation.*

– *Strengthening the present arrangements for coping with unexpected events or emergencies such as loss or theft of computer equipment or the destruction of vital files and records as a result of fire or flooding.*

In terms of formalizing existing management procedures, *there may be some advantage to be gained from adopting and applying some of the principles addressed in ISO 9000 series* (the international standard for quality management systems). In particular, the Fund should consider establishing a formal Document Control System to ensure that all procedures, specifications, instructions, project documentation, etc. are correct, up-to-date and issued with the appropriate authorizations, and that erroneous, obsolete or superseded documents are promptly withdrawn from use.

The Fund should also undertake a review of current arrangements for "disaster recovery", in particular the arrangements for generating and storing back-ups of vital files and records. Duplicates of critical paper and computer-based files and records should be created at frequent intervals and stored in a secure off-site facility.

While the Annual Reports are comprehensive and enlightening, *it would be beneficial for both the Fund and recipients if a single unified computer file/document was created to contain the full report.* This could, for example, be achieved by creating a PDF file. (Presently the Reports consist of several different sections maintained as separate documents.) Additionally, *the data on revenues and expenditures could be presented in a manner that is more easily and readily comprehensible for most readers*. For example, no single table in existing Reports presents all revenues or expenditures for a given year using definitions that a lay-person would readily understand (e.g. according to source). Rather, data for a given year appears on several different tables using slightly different classifications. The Reports currently contain most (possibly even all) the necessary information, but it is not compiled into single tables than can be quickly viewed and absorbed. (Of course, multiple tables could still be presented showing data in different ways; the point is to have a single table somewhere showing all key data “at a glance”.)

With regards to personnel management, written job descriptions exist for all staff positions but are, in most cases, rather brief and would generally benefit from being elaborated in greater detail.

Current levels of remuneration paid to Fund employees are above those prevailing in the State administration, but significantly below those typically offered to locally recruited staff by international organizations with a presence in Bulgaria (embassies, donor agencies, etc). Staff salaries have been a contentious issue and, as a result of pressure from the Government representatives on the Fund's Board of Directors, were reduced by 40% in 1997. As an independent institution, the Fund does not form part of the State administration and should therefore not be subject to civil service rules and pay scales. Indeed, the Fund’s Statute confirms precisely this, stating that: “The amounts of base salaries are determined taking into consideration the amounts of salaries of employees of organizations or their representative offices in the Republic of Bulgaria which manage funds under international agreements or provided by international financial institutions” (Art. 28, para. 2).

In the opinion of the Review Team, the reduction in salary levels was unnecessary and counter-productive. The remuneration of Fund staff should in principle be set at levels which ensure that the Fund is able to attract and retain well-qualified, high caliber staff, without regard to prevailing levels and practices in the State administration. Furthermore, the Fund should consider the possibility of introducing a significant performance-related element within the overall remuneration packages offered to Fund employees.

4. Future Development of the NTEF

In the opinion of the Review Team, the time is opportune for the Fund management and particularly the Government of Bulgaria to give serious consideration to the future role of the Fund: the financial resources available under the existing Swiss "Debt-for-Environment" swap agreement are almost exhausted; the demands for environmental investment financing associated with EU accession are rapidly growing; and the capacity of Bulgaria to manage and effectively absorb EU and other external sources of financial assistance is very limited.

The challenge of financing the investments required to achieve compliance with EU environmental legislation is formidable. A report published by the World Bank in 2001[5] estimated the total investment costs for Bulgaria of complying with EU environmental legislation at between €5.5 and €8.0 billion (in 1998 prices) regardless of the length of the implementation period. If the year 2015 is assumed as the date of Bulgaria's accession to the EU, the overall annual environmental expenditures required have been estimated to range between €1.2 and €1.7 billion. Experience from other EU accession countries has demonstrated that, notwithstanding the financial assistance made available by the EU and other donors, the greater part of the investment financing required to achieve compliance with EU environmental legislation will need to come from private investors (both domestic and foreign).

Thus, given the need to mobilise and manage external financial assistance and to increase very substantially the volume of private sector investment in the environmental infrastructure required for EU accession, the Review Team find it surprising that the Government has not more strongly supported and exploited the capacity and expertise of the Fund to assist in these daunting tasks.

Potential options for the future development of the Fund need to recognise and take into account a number of factors, in particular:

- The future requirements for environmental financing in Bulgaria, and the main related issues that need to be addressed.
- The role that the Fund has played to date and especially the skills, capabilities and track-record which it has acquired.
- How these attributes could be used and further developed to help meet environmental financing needs in Bulgaria.

In this context, the Review Team considers that there are the following basic options for the future development of the Fund:

A) No change in the existing mandate, resources and operations of the Fund (i.e. “do nothing”);

B) Pro-actively seek to replenish and expand the Fund's resources either through further "Debt-for-Environment" swap agreements, or other forms of donor contributions; and/or;

C) Assign the Fund a prominent role in managing the State and EU financial resources to support and realize priority environmental investments (particularly those related to EU accession), and in leveraging other sources of finance into such priority investments.

In the Team’s opinion, Option A would fail to exploit and develop the capacity and capabilities which exist in the Fund, and leave the Fund languishing with little prospect of further growth and development, or of being able to make a major contribution towards meeting the environmental financing needs associated with EU accession. Under these circumstances, the most likely scenario is that the Fund would gradually lose its key staff and eventually wither and die. In the Team’s view, this would represent an unwarranted loss of a uniquely effective and successful public institution, and a waste of a valuable asset, particularly in view of the major challenges and demands posed by EU accession.

[5] *Bulgaria – The Dual Challenge of Transition and Accession*, World Bank April 2001.

Option B has effectively been open for the Government of Bulgaria to pursue for some time but, for reasons that are still not clear to the Review Team, little success has been achieved, with one apparent exception: the establishment of the new Protected Areas Fund, to be administered possibly by the NTEF. The PAF represents an important achievement for Bulgaria and in its role as administrator the NTEF would appear set to continue its environmental financing activities in the field of nature protection and biodiversity conservation well into the future.

However, as important as nature protection and biodiversity conservation are, the needs for financing in these areas pale in comparison to the needs for financing environmental infrastructure in the air, water and waste sectors (see "Option C" below). It is precisely in these fields that the Fund has gained particularly valuable experience and made its most significant contributions to date. A future scenario which sees the Fund active only in nature protection and biodiversity conservation would, in the Team's view, represent a very unfortunate under-utilization of the capabilities the Fund has to offer and be a loss to the country.

The Fund has attracted (and continues to attract) donor interest and, with the unequivocal backing of the Government, there is a reasonable prospect that the Fund could replenish or even expand its dwindling resources through other donor contributions of one kind or another. However, this Option is likely to depend realistically on the willingness of Government to a) empower and encourage the Fund to promote and seek further financial contributions from donors, and b) make counterpart contributions to the Fund from State budgetary resources. The latter is especially important as this will be seen by potential donors as tangible evidence of the Government's commitment to supporting the Fund's continued existence and activities. (Indeed, the Government's commitment to the PAF was undoubtedly essential to its establishment.) This Option would therefore result in the Fund playing a much more prominent and pro-active role in leveraging additional donor financing to support national environmental policies and objectives.

Option C would entail fundamental revisions to the current role and mandate of the Fund with a view to the Fund becoming more flexible and able to respond to changing needs and demands for environmental financing in Bulgaria, taking on a broader range of responsibilities and tasks on behalf of the State, and playing a much greater role in mobilizing and channelling financial resources into the investments necessary to meet EU environmental requirements. In the latter context, the Review Team considers that the Fund is uniquely capable, having the potential (with appropriate institutional strengthening as recommended elsewhere in this Report), to act as an effective agency for managing future EU financial assistance, and therefore recommends that this possibility be given serious consideration by the Government.

Options B and C are not mutually exclusive, and both represent realistic possibilities for developing the role and expanding the resources of the Fund. Options regarding the future role of the Fund also need to be considered in the context of the expected role of the newly re-constituted National Fund for Environmental Protection and other public environmental financing institutions, with a view to coordinating their respective mandates and activities. In any event, the Review Team concludes that:

– *The NTEF is a well-managed and highly effective public environmental financing institution with few weaknesses and many strengths, making it a uniquely valuable institution in Bulgaria; and*

– *With clear and tangible Government support, the Fund has the potential to perform a much greater role in mobilizing and managing the financial resources needed to meet the environmental challenges of EU accession.*

Annex 1: Scope of Work According to ToR

Contents of work for the NTEF Review according to ToR included:

- Review of all available information and documentation relating to the history, mandate, organization and operations of the Fund [6].
- In co-operation with senior Fund staff, carry out a detailed review and assessment of the Fund's existing mandate/legal basis, policies, organization, financial and other resources, planning processes, documentation, management systems and operational procedures.
- Identify/analyze the strengths and any significant weaknesses, deficiencies or problems associated with the areas specified in point ii. above, taking into account the guidelines and criteria contained in relevant OECD and EU documents (the "St. Petersburg Guidelines", relevant ISPA/Phare guidelines), as well as guidelines and criteria of international financing institutions such as the World Bank and EBRD.
- Assess the current and future implications of EU accession for the Fund.
- Formulate detailed recommendations and proposals for changes/improvements in these areas, with particular emphasis on the Fund's mandate and policies, organizational structure and management, revenue generation, financial management, operational programming/planning, and project cycle management procedures.

In co-operation with senior Fund staff, the team of Consultants shall carry out a detailed review and assessment of the Fund's historical development and current mandate/legal basis, organization, financial and other resources, planning processes, documentation, management systems and operational procedures, with particular emphasis on the following areas/issues:

Historical Background

- origins of the Fund and a chronology of principal events relating to the development of the Fund to date;
- institutional and organizational evolution of the Fund;
- financial development of the Fund;
- operational development of the Fund.

Institutional Framework & Organizational Structure

- current national policy setting, legal basis and mandate of the Fund, and the laws and regulations governing management and operation of the Fund;
- organizational structure including roles and responsibilities of the Fund's governing bodies and managers;
- independence in policy and decision-making;
- mandatory reporting requirements;
- provisions/mechanisms for regular external audit/inspection/control.

[6] this may include, inter alia: the NEAP and other relevant national environmental strategies; policies, laws, decrees and regulations governing (directly or indirectly) the mandate and operation of the Fund; current and previous annual plans, budgets, reports and accounts of the Fund; organizational charts/manuals/guidelines; all written procedures and any pro-forma documentation relating to the management and operation of the Fund, especially project cycle management e.g. Calls for Applications, criteria and procedures for project selection, standard application forms, forms of contract for support, etc.; samples of actual contracts for support, covering the range and forms of financial support typically provided by the Fund; samples of standard records kept regarding the policies, decisions, operations and performance of the Fund; internal reports of the Fund; auditor's reports and reports of any other external reviews of the Fund which may have been undertaken.

Fund Activities & Operations

- Fund policies and priority environmental sectors;
- sources and flows of Fund revenues;
- volumes and types of Fund expenditures/disbursements;
- strategic programming/annual planning;
- project cycle management - project identification, preparation, appraisal, selection, implementation (including tendering and contracting), monitoring and evaluation;
- credit assessment/approval and loan portfolio management and control;
- relations and co-operation with the commercial banking sector;
- external relations and communications.

Management Systems & Procedures

- systems and procedures for operational management, control and reporting;
- systems and procedures for financial management, control and reporting;
- administrative systems and procedures e.g. governing document issue and control; record-keeping; banking arrangements; etc.;
- policies and procedures for the recruitment, appointment, periodic review, training and development of staff.

Based upon the findings and conclusions of the detailed review and assessment of the Fund, the team of Consultants shall prepare summary SWOT (Strengths-Weaknesses-Opportunities-Threats) analyses addressing each of the key areas specified above. These should, for each area, identify/define clearly existing strengths and weaknesses, and potential opportunities and threats, with supporting explanations and justifications as appropriate.

Following completion of the SWOT analyses, the team of Consultants shall formulate detailed recommendations and proposals for addressing/rectifying each of the weaknesses, deficiencies or problems revealed by the review and assessment. The Consultants' recommendations and proposals should specifically reflect and respond to the results of the SWOT analyses and, in addition:

- define explicitly the purpose/objective of each recommendation/ proposal;
- describe the changes/measures required in order to implement each recommendation/ proposal successfully;
- indicate their relative priority.

Annex 2: List of People Interviewed

Members of the NTEF Executive Bureau

- Mr. Dimiter Nenkov, Executive Director
- Mr. Radoslav Ivanov, Chief Technical Expert
- Mr. Ivaylo Tzekov, Chief Accountant and Financial Expert
- Mrs. Maria Minkova, Environmental Expert
- Mrs. Milka Docheva, Office Manager

Members of the NTEF Board of Directors and Advisory Committee

- Prof. Valentin Bossevski, Chairman of the NTEF Board of Directors
- Mrs. Fathme Iliaz, Deputy Minister, Ministry of Environment and Waters; Deputy Chair of NTEF Board of Directors
- Prof. Naum Yakimoff, Scientific Secretary General of the Bulgarian Academy of Sciences; Member of the NTEF Board of Directors
- Mr. Georges Capt, Representative of the Swiss Government on the NTEF's Advisory Committee

Beneficiaries of the NTEF

- Mr. Rossen Vassilev, Executive Director of the Bulgarian-Swiss Biodiversity Conservation Programme
- Mr. Plamen Evrev, Mayor of the City of Lovech
- Mr. Vesselin Zlatev, Mayor of the City of Shumen
- Prof. Jordan Uzunov, Institute of Zoology, Bulgarian Academy of Sciences

Government and other Collaborating Institutions

- Mrs. Meglena Kuneva, Minister of European Affairs and Chief Negotiator with the EU, Government of the Republic of Bulgaria
- Mrs. Blaga Djourdjin, Procurement Analyst, World Bank office in Sofia
- Mrs. Christina Mateva-Dontcheva, Local Programme Coordinator for the Danish Environmental Protection Agency
- Mr. Peter Hetz, Senior Resident Advisor and Team Leader for USAID's Biodiversity Conservation and Economic Growth Project, Associates in Rural Development, Inc.
- Mr. Jared Hardner, Consultant to USAID's Biodiversity Conservation and Economic Growth Project, Hardner & Gullison Associates, LLC

Annex 3: List of Documents Reviewed

- *Environmental Protection Act* (1995 and as amended in 2002; relevant articles concerning the NTEF and National Environmental Protection Fund, recently re-constituted as a State "Enterprise");
- *National Strategy for the Environment and Action Plan 2000-2006* (2001), Ministry of Environment and Water, Republic of Bulgaria, Sofia
- Annual Reports of the NTEF, 1996-2001;
- Annual Action Plans of the NTEF, 1998-2002;
- Statutes of the NTEF (Feb. 1997);
- Procedural Rules for the Evaluation of Projects by the NTEF (Feb. 1997);
- Regulation on the Organization and the Activities of the NTEF (Aug. 1995; amended Aug.1999);
- Minutes from selected Meetings of the NTEF Board of Directors;
- NTEF website: "www.ecofund-bg.org";
- Other internal documents of the NTEF;
- "National Trust Ecofund" in *Environmental Funds in Candidate Countries* (2001), Regional Environmental Center for Central and Eastern Europe, Szentendre, Hungary;
- *Bulgaria: The Challenges of Complying with EU Environmental Directives* (2000), the World Bank, Washington DC;
- *Review of the Slovenian Environmental Development Fund* (2000), OECD Secretariat of the EAP Task Force, Paris.