

Financial Sector



The emergence of a stable and efficient private financial sector which attracts investment, mobilizes savings, and allocates resources to their most productive use is critical for Bulgaria's transformation from a centrally planned to a market-based economy. Financial sector stability, based upon public confidence and trust, is a precondition and foundation for economic growth, and has important implications for improving the living standards of the Bulgarians. To encourage the formation of a market-responsive financial sector, USAID has focused assistance on the following two elements: the establishment of a sound, regulated, and efficient banking system; and, the development of a regulated, transparent and liquid securities market.

Banking System Reform

Approach:

- Banking sector restructuring, including privatization of the state-owned banks
- Strengthening banking supervision, deposit insurance, and supporting the legal/regulatory framework
- Improving commercial bank operation through banker training

Increased Private Sector Participation in Banking

To effectively restructure the Bulgarian banking system, as well as reduce the fiscal burden of state-owned banks, USAID initiated its *Banking Privatization Program* in 1997. Under this activity, a team of U.S. senior advisors has been providing technical assistance to the Bank Consolidation

Company for the development and implementation of an aggressive privatization program for state-owned banks. With USAID assistance, five out of six banks have been sold to strategic investors in less than four years at a value of more than \$425 million. In addition, since early 2000, USAID advisors have been involved in drafting legislative and regulatory changes providing for a more transparent and competitive privatization process, including both banking and enterprise privatization.

Bank Supervision and Strengthened Enforcement

USAID's *Bank Supervision Program* emerged in parallel to the bank restructuring activity to support the Bulgarian Government's efforts to stabilize the economy and restore public confidence in Bulgaria's financial institutions. To date, USAID has provided significant technical assistance to strengthen the bank examination and supervision capabilities of the Central Bank.

Internationally adopted practices have been introduced in bank supervision, such as the establishment of an internal bank rating system and the use of a risk-based approach to bank examination. In early 1999, the program was expanded to include USAID assistance to the newly created Deposit Insurance Fund in all areas of its operation: deposit insurance management, premium assessment and collection, portfolio management, and public awareness and education.

Commercial Banker Training

The *Commercial Banker Training Program* was initiated in early 1998 with the objective of building a generation of bankers better prepared to manage banks and originate credit. To institutionalize a training program designed to strengthen local banking skills and corporate governance, USAID focused its efforts on building the institutional capacity of the International Banking Institute to deliver a broad curriculum of banking and finance courses. A cadre of instructors has been recruited and trained from the local banking community to ensure sustainability of the institution. Training was initially focused in the technical areas of credit risk analysis, investment banking, and strategic planning. The program has subsequently expanded to include training in customer service and banker soft skills.

USAID FACTS:

- Over \$14 million committed in banking sector development programs
- 5 commercial banks privatized at a value of more than \$425 million
- Over 500 bankers trained
- 51 safety and soundness on-site examinations conducted
- 61 Bulgarian bankers and regulators trained in the U.S.

Capital Markets Development

Approach:

- Establishment of a sound legislative and regulatory framework
- Capital market infrastructure development
- Promotion of capital market instruments as a source of financing

➤ Ensuring accountability of corporate management

➤ Fostering regional cooperation and integration as a means of driving the development of a regional stock exchange

A Regulated, Transparent, Liquid Securities Market

USAID's *Capital Markets Regulations Project* follows an integrated strategy of capital market development through training and technical assistance to the Bulgarian National Securities Commission in the areas of institution building, capital markets development, and implementation of effective public enterprise corporate governance. To improve transparency at the corporate level, USAID is implementing a program encouraging the adoption and implementation of reliable corporate financial practices based on international accounting and auditing standards.

The *Bulgarian Capital Markets Development Project* complements USAID assistance in the area of securities regulation by addressing the immediate legislative, regulatory, policy and technical aspects of capital market development; issues related to systems design and architecture; and, capacity building of the key market institutions and participants. In particular, the project supports the development of the Bulgarian Stock Exchange, the Central Depository and the Bulgarian Association of Licensed Investment Intermediaries. Within the domestic market, USAID works with a broad spectrum of local companies and investment intermediaries for the development of various capital raising strategies. To foster regional capital market integration, USAID encourages local institutions to cooperate with other capital markets in the region. This approach includes promotion of partnership agreements as an avenue for improving regional capital and investment flow.

USAID FACTS:

- Over \$10 million committed in capital market development programs
- A new trading system installed at the Bulgarian Stock Exchange and modern information systems at the Central Depository
- An electronic market surveillance system developed for the Securities Commission and the Bulgarian Stock Exchange
- A new Regional Trading System installed
- New securities legislation and securities regulator strengthened