



JESSICA Preliminary Study for Bulgaria

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List of Abbreviations

BBD	Bulgarian Bank for Development
BEEF	Bulgarian Energy Efficiency Fund
BoD	Board of Directors
CA	Concession Act
CAP	Common Agricultural Policy
CEDB	Council of Europe Development Bank
CF	Cohesion Fund
CoM	Council of Ministers
EC	European Commission
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
EIF	European Investment Fund
ERDF	European Regional Development Fund
ESF	European Social Fund
ESPON	European Spatial Planning Observation Network
EU	European Union
FI	Financial Institution
FLAG	Fund for Local Authorities and Governments
GEF	Global Environmental Facility
GDP	Gross Domestic Product
GHG	Green House Gas
HF	Holding Fund
IA	Implementing Agency
ISPA	Instrument for Structural Policies for Pre-Accession
IUDP	Integrated Urban Development Plan
JESSICA	Joint European Support for Sustainable Investment in City Areas
LAU	Local Administrative Unit
MA	Managing Authority
MRDPW	Ministry of Regional Development and Public Works
MS	Member State
NARI	National Agency for Road Infrastructure
NSRF	National Strategic Reference Framework
NRDS	National Regional Development Strategy
NPC	National Palace of Culture
NPRRB	National Programme for the Renovation of Residential Buildings
NUTS	Nomenclature of Territorial Units for Statistics
O&M	Operation and Management
OP	Operational Programme
OPRD	Operational Programme Regional Development
PHARE	Poland and Hungary: Assistance for Restructuring their Economies
PPA	Public Procurement Act
PPP	Public Private Partnership
SAPARD	Special Accession Programme for Agriculture and Rural Development
SCF	Structural and Cohesion Funds
TBGN	Thousand BGN
UDF	Urban Development Fund
UN	United Nations
UNDP	United Nations Development Project

Table of Contents

1. Executive Summary.....	6
1.1. Introduction	6
1.2. Outline of the Structural Funds in Bulgaria	6
1.3. Summary of the Country Overview	7
1.4. Approach to Deploying JESSICA	10
1.5. Study Recommendations	11
2. Introduction.....	13
2.1. Background to JESSICA	13
2.2. The Business Case for JESSICA	14
2.3. Terms of Reference.....	17
2.4. Study Objectives	18
2.5. Report Structure	19
2.6. Timeline of the Study.....	19
2.7. Bulgarian Experience with EU Funds and Similar Funding Programmes.....	19
2.7.1. Pre-Accession Programmes.....	19
2.7.2. Existing Instruments for Financing Urban Development	23
2.8. Criteria Used for Eligibility under JESSICA.....	26
3. Context for JESSICA in Bulgaria.....	26
3.1. Strategic Context for JESSICA in Bulgaria	26
3.2. Indicative Need for JESSICA in Bulgaria	37
3.2.1. Bourgas Municipality	37
3.2.2. Pleven Municipality.....	41
3.2.3. Plovdiv Municipality	43
3.2.4. Rousse Municipality	46
3.2.5. Sofia Municipality	49
3.2.6. Stara Zagora Municipality.....	53
3.2.7. Varna Municipality	56

3.2.8.	Conclusions	59
3.3.	PPP Examples – Benefits and Constraints.....	60
4.	Identification of Appropriate Activities	64
4.1.	Selection Process and Criteria	64
4.2.	Analysis of Projects.....	66
4.3.	Possible Obstacles to Project Delivery at Present	68
4.4.	Summary of Activity Options for JESSICA in Bulgaria	71
4.5.	Case Studies.....	75
5.	Approach to Deploying JESSICA.....	79
5.1.	The Role of the Managing Authority	79
5.2.	The Role of a Holding Fund.....	79
5.2.1.	Functions of the HF	80
5.2.2.	Organization Structure and Holding Fund's Manager	81
5.2.3.	Investors	82
5.3.	Urban Development Funds.....	83
5.3.1.	Functions of the UDFs.....	83
5.3.2.	UDF's Management	84
5.3.3.	Banks' Role as Investors in UDFs	85
5.3.4.	Municipalities' Role as Investors in UDFs.....	87
5.3.5.	UDF Structure / Types of UDFs.....	87
5.4.	Project Level – JESSICA Role and Envisaged Leverage.....	89
5.5.	Financial Flow	90
6.	Findings and Recommendations.....	91
6.1.	Summary of Findings	91
6.2.	JESSICA Action Plan	96

List of Annexes

- Annex 1 Legal Framework for Jessica
- Annex 2 Timeline of the Study
- Annex 3 Questionnaires
- Annex 4 Participants in the Meetings with Municipalities
- Annex 5 Major PPP Projects Realised by the Municipalities
- Annex 6 List of Projects
- Annex 7 Case Studies
- Annex 8 JESSICA Action Plan

1. Executive Summary

1.1. Introduction

This report sets out the results and conclusions on the JESSICA Preliminary Study for Bulgaria commissioned by the European Investment Bank (EIB) on behalf of Directorate General “Programming of Regional Development” at the Bulgarian Ministry of Regional Development and Public Works (MRDPW) in its role of a Managing Authority (MA).

The main objective of this Study is to analyse the potential for using the JESSICA instrument in Bulgaria, and propose recommendations for further steps towards introducing adequate financial engineering mechanisms.

The Evaluation Study falls within the scope of work as set out by the EIB and covers all the objectives specified in the Terms of Reference through a series of tasks, among which: analysis of the urban planning environment; evaluation of existing funding opportunities for urban regeneration and development; market demand for urban regeneration and development; and elaboration of a JESSICA Action Plan. The Study addresses the general regulatory and institutional framework for spatial planning at national level. The field work focuses on the major urban agglomerations in Bulgaria – the capital Sofia and the six biggest municipalities, i.e. Bourgas, Pleven, Plovdiv, Rousse, Stara Zagora and Varna (hereinafter referred to as “the Municipalities”).

The execution of the tasks started immediately upon signing the Contract for provision of services with the EIB and has been completed within the specified deadlines.

1.2. Outline of the Structural Funds in Bulgaria

The JESSICA concept was developed by the European Commission (EC) with the European Investment Bank for the 2007-2013 Structural Funds programme. In brief, under new procedures, Member States are being given the option of allocating part of their EU Structural funding into Urban Development Funds to make repayable investments in projects that form part of an existing or developed integrated urban plan for sustainable urban development.

In the 2007-2013 programming period in Bulgaria are being launched seven Operational Programmes (OP) with a total EU financial allocation of about EUR 6.7 billion, of which EUR 1.361 billion have been allocated to the Operational Programme “Regional Development” (OPRD). Grants from OPs may be “transformed” under JESSICA into repayable and recyclable assistance, to public-private partnerships (PPPs) and other projects for urban renewal and development using Urban Development Funds (UDF), and optionally, to Holding Funds (HF). Thus, JESSICA may be regarded as a flexible tool to give a wider range of application for Structural Funds in a Member State.

In order to be implemented, the JESSICA instrument must follow certain principles. These principles are determined by Member States and approved by the European Commission. In Bulgaria, these key principles have been set out by the MRDPW as being: projects must be

eligible under Priority Axis 1 “Sustainable and Integrated Urban Development” of the OPRD; projects have to be part of an integrated urban renewal and development plan; they are expected to generate a certain revenue; and should foster positive social and economic change.

The present Study has shown that in Bulgaria, there is an experience with structures similar to how UDFs and HFs work. Two instruments for financing urban development projects have been put in practice. These are the Bulgarian Energy Efficiency Fund (BEEF) and the Fund for Local Authorities and Governments (FLAG). Both of them offer financial products on a loan basis under preferential conditions and arguably have had some, albeit limited, success. A core aim for deploying JESSICA in Bulgaria must be to build on this early potential for using funds and pioneer the acceptance of this type of investment tool across the country.

1.3. Summary of the Country Overview

Following a series of questionnaires and meetings with representatives of local governments, non-governmental (NGOs) and business organisations in Sofia and the six largest cities in Bulgaria – Bourgas, Plevén, Plovdiv, Rousse, Stara Zagora and Varna, an initial list of 35 projects with the potential to be supported by the JESSICA instrument have been identified. These projects have been selected according to two general criteria:

- **Eligibility under Priority Axis 1 “Sustainable and Integrated Urban Development” of Operational Programme “Regional Development”.**
According to the OPRD, JESSICA could be applied only to projects under this Priority Axis, consisting of five Operations:
 - Operation 1.1. Social infrastructure;
 - Operation 1.2. Housing;
 - Operation 1.3. Organisation of Economic Activities;
 - Operation 1.4. Improvement of Physical Environment and Risk Prevention;
 - Operation 1.5. Sustainable Urban Transport Systems.
- **Potential to generate revenue** – based on a general estimate of the potential of the projects to generate reasonable levels of revenue, not necessarily to repay the investments in full.

In general, most of the submitted projects are in a very initial stage of preparation – with general formulations without precise financial and cash flow estimates; in fact, many of them are more project ideas rather than detailed projects. Most of the identified projects actually involve one or two actors, single ownership, and require relatively simple, if any, partnerships.

A general weakness of most projects is their relatively low level of “integratedness”. Very few projects are area-based. This is a key finding of the Study and demonstrates a clear need for increased focus and resources to develop Integrated Urban Development Plans (IUDP) that “tie” projects together. It appears that Municipalities have a wide range of economic

development project ideas; however, they are not experienced in bringing them together with the boundaries of an integrated framework for urban development. We understand steps are being taken to address this weakness by the MRDPW and Municipalities in conjunction with the EC, which we believe must be done alongside, and as part of, deploying a JESSICA instrument.

Initially Identified Projects by the OPRD Priority Axis 1 Operations

Operation 1.1.	Social Infrastructure	9 projects
Operation 1.2.	Housing	1 project
Operation 1.3.	Organization of Economic Activities	1 project
Operation 1.4.	Improvement of Physical Environment and Risk Prevention	17 projects
Operation 1.5.	Sustainable Urban Transport Systems	7 projects
Total		35 projects

Operation 1.1. Social Infrastructure

Under this Operation, nine projects were submitted as potentially suitable for JESSICA. They can be thematically divided into two main groups – reconstruction of sports facilities and reconstruction of cultural facilities. This clearly indicates certain needs in the Municipalities in this respect. The Operation is already opened and the Municipalities have been applying for grants with projects mainly for reconstruction of nursery schools, kindergartens, orphanages and other social facilities. In general, projects under this Operation do not ensure leverage of private capital in urban regeneration and is questionable whether it can provide enough revenue to ensure long-term recycling of funds. They would fit with JESSICA objectives only as parts of larger area-based integrated projects.

Operation 1.2. Housing

Only one project had been submitted by the Municipality of Sofia under this Operation. This does not indicate lack of needs, but lack of project preparedness and experience with complex PPPs. Moreover, this Operation is not yet opened (expected call for proposals at the end of 2010) and this is probably one of the reasons for lack of projects. The problems with the reconstruction and energy efficiency of multi-family housing (especially panel housing blocks) are very acute in all cities under the scope of this Study and cannot be solved on a mass scale only through grant financing. The successful implementation of such type of project requires that all residents agree to carry out the renovation measures in their homeowner's place, all meet the corresponding demand for loans and are able to pay.

We are also aware of anecdotal evidence that suggests certain building legislation and planning laws require review alongside planning for JESSICA backed investments. While there is no hard data to support this issue, it does appear that some projects are being held

back due the impact or absence of an appropriate housing legislation for the challenges faced.

Operation 1.3. Organisation of Economic Activities

Only one project has been submitted under this Operation. Again, this does not indicate lack of needs, but lack of a project preparedness and experience with complex PPPs. Another reason could probably be that this Operation is not yet opened, so the Municipalities have not yet started to prepare projects. In fact, the only project under this Operation has been submitted by the private sector – reconstruction of Vladaya Industrial Zone in Sofia. Industrial zones renovation and brownfield regeneration projects are very suitable for JESSICA. They provide high level of private capital leverage, possess very good revenue potential through increase of land values, and have wide integrated urban development effects. Operation 1.3 is not yet opened, so the exact eligibility criteria are still unclear. When setting eligibility rules and criteria, the Managing Authority should consider providing sufficient flexibility necessary for the successful implementation of the JESSICA instrument.

Operation 1.4. Improvement of Physical Environment and Risk Prevention

This Operation has attracted the largest number (17) and at the same time the most varied projects – from river banks consolidation to construction of underground parking lots, reconstruction of zoos and energy-efficient street lighting. This Operation provides the best possibilities for integrated area-based projects. Unfortunately, most of the submitted projects have low level of “integratedness”, and very few of them are area-based. A general weakness of most projects is that they are too widely formulated, and are to a large extent project ideas rather than detailed projects with clearly identified partners, financial estimates, timeframes, etc. Effort is required to present projects as part of an area-wide regeneration vision and not in isolation, as this makes the regeneration impact and benefits hard to quantify for EU funding.

Operation 1.5. Sustainable Urban Transport Systems

Seven projects have been submitted under this Operation by the four largest cities in the country – Sofia, Plovdiv, Varna and Bourgas. This should not be surprising bearing in mind that the largest cities have more or less severe traffic congestion problems. Sofia is going to extend its public transport system through construction of four new tram lines; Plovdiv and Varna – through reconstruction and extension of the trolleybus contact networks. Bourgas and Varna are planning the development of monorail systems; Plovdiv – development of a suburban light rail system (S-Bahn). Due to their wide positive effects, public transport projects are promoted in many cities. However, it is questionable to what extent JESSICA is the best financial engineering mechanism to be applied. Such projects cannot provide leverage of private capital and have very slow rates of return. They need enormous capital investments and are usually financed through direct loans from financial institutions (FIs) that are repaid through the general municipal budget.

For more detailed information about the OPRD and Priority Axis 1 see Chapter 3.

1.4. Approach to Deploying JESSICA

The results of the Study show that currently, there are no UDFs or any other existing structures for direct implementation of the JESSICA instrument in Bulgaria. There is some experience in the country in similar structures (such as the BEEF and FLAG) and based on that, an appropriate structure needs to be established specifically designed to promote JESSICA, and to channel the designated funds to projects for urban development.

In conjunction with the EIB, we have reviewed a range of JESSICA instruments and assessed the relative merits of these in effectively deploying JESSICA within the Bulgarian economic development landscape. The primary factors reviewed are:

- Is it necessary to establish a Holding Fund? Including, are UDFs in place ready to accept JESSICA monies, or is a Holding Fund needed to hold JESSICA allocations until they can be established?
- What is the most appropriate structure of UDFs for JESSICA in Bulgaria? Should it look to invest in one or a range of areas, sectors or thematic funds?

The establishment of a HF provides a number of advantages, among the major ones being:

- A HF structure will ensure independent and professional management of funds and generate “interest” on the deposited funds that can be invested in Bulgaria on project development;
- A HF may facilitate the development of a more comprehensive and diversified UDF structure providing better portfolio management and risk diversification;
- A HF may achieve leverage of funds with the support of FIs;
- A HF might provide better balance among different UDFs and establish more sophisticated controls.

Generally, in view of the fact that the JESSICA initiative will be among the first of its kind to be considered in the context of the Bulgarian market, the conclusions of the Study suggest that an establishment of a HF could facilitate the initial launch of the JESSICA initiative and the subsequent gradual development of a more complex UDF structure.

The UDF structure is suggested to be gradually developed. One possible option is to start with a relatively simple structure consisting of a HF and a small number of pilot UDFs. These UDFs could be vehicles with broadly defined investment goals, and act as an advertisement for JESSICA projects in different sectors and regions. These early UDFs may start out by focusing on one or two “early win” projects until a larger and more diverse pool of projects is developed. At this stage, a more complex structure could be developed combining thematically-based and / or regional UDFs.

Based on the initial research and the project ideas generated by the Municipalities, two early UDFs could be set up focused on:

- 1) Housing and energy efficiency;
- 2) Industrial zones.

Other options for the development of an UDF structure include:

- Setting up UDFs for each of the larger municipalities;
- Setting up a single UDF for all of Bulgaria;
- Setting up an UDF for each of the Priority Areas within the Operational Programme;
or
- Setting up thematic UDFs for a range of selected focus areas.

The above list is not exhaustive and the final options may result in a combination of the above being selected. However, at this stage of the Study there remain a number of issues that must be resolved by the MRDPW and Municipalities before an UDF structure should be finalised. This must include finalising Integrated Urban Development Plans, bringing forward more projects that are suitable for JESSICA backed investment and raising the profile of the JESSICA instrument with the private sector (especially local banks) that will likely set up and operate UDFs in the country.

Our findings, based on a number of meetings conducted with Bulgarian banks, show that generally banks are interested and capable of managing UDF structures. Moreover, their selection as an UDF Manager, as an UDF servicing bank or as representatives in the Supervisory Body of the UDF might serve as a stimuli for them to finance (either in the form of equity participation or loans) the respective UDF with more substantial participation. Overall it is advisable that the Managing Authority introduces all incentives that would stimulate banks' participation in the JESSICA instrument, so that the latter benefits both from the banks' experience and skills as professional asset managers and from the financial leverage envisaged.

1.5. Study Recommendations

The summary findings of our work have been outlined above and suggest that there is a role for the JESSICA instrument to play in Bulgaria's economic development financing.

Our findings show a range of projects is being generated by the Municipalities that would be suitable for JESSICA backed investments and therefore it appears reasonable to continue to develop proposals for setting up a range of Urban Development Funds.

However, due to the timing restrictions and lack of ready investment opportunities for the funds, we have suggested that a Holding Fund was required to retain the JESSICA funds and support the transition period as UDF / projects are set up.

In addition to our conclusions about the nature of the JESSICA instrument likely to be most suitable for Bulgaria, we would also like to highlight the following areas where we believe focus is required to resolve related issues for the deployment of JESSICA:

Public-Private Partnerships

- Municipalities will have to develop skills and capacity to manage complex PPP models in order to take full advantage of JESSICA. There has been a negative experience in the past, when the lack of clear regulations for the roles and responsibility of the different actors involved in PPPs has led to corruption practices. All Municipalities have declared a need for legislative regulations. The MRDPW could therefore consider preparing some sort of, not necessarily normative, document – instructions with concrete recommendations and guidelines with the necessary steps and procedures for implementing PPPs.

Capacity and Role of Local Administrations

- Appreciating the full advantages of JESSICA would require the Municipalities to start thinking more entrepreneurially, viewing themselves more as investors rather than grant beneficiaries. The problem is due not only to the lack of capacity of the local authorities to prepare revenue-generating projects, but also to some extent to the narrow eligible activities and eligibility criteria set in the OPRD Priority Axis 1 and its respective Operations. As they are designed mainly as grant mechanisms, they strictly focus on activity options and types of projects that cannot generate revenues. The MRDPW could consider introducing a certain level of flexibility of the strict eligibility criteria set in the Operational Programme, especially for those Operations that would be chosen to be implemented through JESSICA. Or it would probably be more appropriate to create specific principles particularly for the JESSICA instrument.

Integrated Urban Development

- Integrated urban development is one of the fundamental pillars of the JESSICA instrument. However, there is no unified definition of *Integrated Urban Development Planning* within the European Union – the form and concrete contents of Integrated Urban Development Plans must be designed at national level. It is important that the MRDPW and the Municipalities work together to develop a clear and simple methodology for preparation of IUDPs that do not duplicate the existing planning documents, but upgrade them through application of integrated approach on certain parts of the cities' territory in order to achieve synergies and concentration of resources for solving their economic, social and environmental problems.

Preparing projects for funding

- On the basis of the received projects and different activity options three case studies demonstrating the possible application of JESSICA in three different types of projects have been prepared:
 - Renovation of the National Palace of Culture and the Surrounding Area
 - Beautiful Maritsa Project
 - Renovation of Panel Buildings and Public Spaces in Lyulin Residential Complex

The first two case studies represent integrated projects for renovation of central areas in Bulgaria's largest cities – Sofia and Plovdiv respectively. The third case study describes a pilot project for renovation of panel housing in the largest residential complex in Sofia and demonstrates a possible approach that could be applied in other panel housing estates.

The case studies provide more detailed description of the projects, potential partners involved as well as preliminary general financial estimates, based on the information provided by the respective local authorities or organisations.

More information about the Case Studies could be found in Chapter 4.5 and Annex 7.

2. Introduction

2.1. Background to JESSICA

The Joint European Support for Sustainable Investment in City Areas (JESSICA) is a new initiative of the European Commission to be applied for the first time in programming period 2007-2013. It has its roots in the request by several Member States and the European Parliament to give special attention to the need for renewal and/or regeneration of certain urban areas. It relies on the success of the URBAN programme that focused the attention to the urban dimension of economic and social cohesion.

These developments have been taken into account while elaborating the Community Strategic Guidelines on Cohesion 2007-2013. One of the three main areas that had to be addressed in the Operational Programmes was increasing the attractiveness of the Member States, the regions and the cities through improvement of their accessibility, ensuring adequate quality and service level and preservation of the environment potential.

The issue is further developed in the Communication from the Commission to the Council and Parliament on Cohesion Policy and cities: the urban contribution to growth and jobs in the regions. It pays particular attention to specific needs of certain zones, such as urban areas. An “integrated approach” to Cohesion Policy is encouraged so that it promotes not only growth and jobs, but also pursues social and environmental objectives. It is considered that the European Union will achieve its objectives for growth and jobs more successfully, if all regions are able to contribute to the process with the cities being decisive in bringing about social cohesion and change based on innovation and economic growth. On the other hand, there are zones with high level of unemployment, underdeveloped infrastructure and neglected environment.

The Communication from the Commission outlines several proposals for action which are backed up by statistical data (especially the Urban Audit) as well as the results registered in the implementation of urban actions in the framework of the Structural Funds and EU funding programmes.

In the area of financing urban renewal, the Communication underlines that the urban renewal has been and will continue to be extensively supported by the Structural Funds. Initiatives such as JESSICA will allow for an increase in the leverage of public resources by attracting contributions from the private sector. Private financing will complement public resources and

is expected to bring in skills, technical and management competencies as well as strategic and long-term vision.

In this context, JESSICA comes to respond to the increasing investment needs for sustainable urban growth in the framework of integrated urban development a plan which is to ensure consistent approach and clear objectives.

The JESSICA initiative has its legal basis in the provisions of the Regulations that provide the background for the Structural and Cohesion Funds (SCF) for the period 2007-2013: Council Regulation (EC) No 1083/2006 laying down general provisions on the ERDF, the ESF and the CF; Regulation (EC) No 1080/2006 of the European Parliament and of the Council on the ERDF and Commission Regulation (EC) No 1828/2006 setting out rules for the implementation of Council Regulation (EC) No 1083/2006, in the articles related to financial engineering instruments.

At national level, the legal basis is complemented by the provisions of the National Strategic Reference Framework (NSRF) and the Operational Programmes, which should contain priority axes related to sustainable urban development, and the respective Integrated Urban Development Plans. The area is governed also by the eligibility rules, applicable to the respective Operational Programme and the national legislation related to public procurement, environment, state aid, etc.

More detailed information on the legal framework for JESSICA can be found in Annex 1.

2.2. The Business Case for JESSICA

As an instrument for financial engineering, JESSICA may channel Structural Funds to Urban Development Funds, that is, funds investing in public-private partnerships and other projects included in integrated plans for sustainable urban development. It envisages forms of actions which make repayable investments, or provide guarantees for repayable investments.

JESSICA is an instrument for the use of the Structural Funds for urban development in two main areas: broadening the available financial instruments and schemes, and bringing in managerial and technical expertise from the private sector.

JESSICA is a vehicle that helps to respond to the increasing investment needs for sustainable cities and towns in circumstances of scarce public resources. It allows the possibility to “recycle” public funds invested in the urban sector, thus ensuring investment resources without further accumulating public debt. JESSICA also brings an integrated approach to the financing of the development processes, which is often impeded by the small size of the Municipalities and may enhance inter-municipal cooperation for certain activities and projects.

The possibility to reinvest the contributions from the Operational Programmes into the UDFs assists to the sustainability of investment. The possibility for the EIB, other banks and investors to contribute loan capital to the UDFs or underlying urban projects provides the leverage effect that is one of the characteristics of the JESSICA instrument.

JESSICA allows also the specific technical, financial and managerial expertise of the partner financial institutions and investors to be used in order to respond to the need for ensuring adequate administrative and technical capacity in the city authorities for implementation of investment projects.

The terms and conditions for contributions from Operational Programmes to financial engineering instruments shall be set out in a funding agreement, to be concluded between the duly mandated representative of the financial engineering instrument and the Member State or the Managing Authority.

Transfer of funds to financial engineering instruments such as JESSICA also speeds up the absorption rate of the Structural Funds as they are eligible as interim payments under the Operational Programmes. If invested by the UDFs in projects, they are also eligible as final payments upon partial or final closure of Operational Programmes. When resources from the Operational Programmes invested under JESSICA are paid back to the UDF, before or after 2015, they belong to the Member State.

As mentioned in Chapter 1 above, **in Bulgaria**, the implementation of the JESSICA initiative is based on the provisions of the Operational Programme “Regional Development”.

Following the orientation given by the Community Strategic Guidelines, the overall logic of intervention of the Operational Programme aims, among other priorities, to address the deficits in basic infrastructure networks and to strengthen the capacity at local and regional level. An account is also taken for the specific role of urban areas for promotion of cities as motors of regional development; promotion of internal cohesion inside the urban areas that seek to improve the situation of districts; promotion of a more balanced development by improving the urban network, including links between the economically strongest cities and other urban areas.

The OPRD aims also to address some of the priorities of the National Reform Programme which is a strategic country document systematising the efforts of the Government to generate high and sustainable rates of economic growth and employment by outlining the mid-term framework of measures and priorities in the field of macroeconomic and microeconomic development, on the labour market and in the sphere of human capital development. In particular, efforts and financial resources are focused on implementing projects for sustainable integrated urban development and better services to citizens, including improvement of social and business infrastructures, urban environment, housing policies and development of sustainable city transport.

The National Regional Development Strategy for the period 2005-2015, which defines the strategic directions of the regional development policy, also addresses the issue under Priority 4 “Integrated Urban Development and Upgrading of the Urban Environment”.

In order to ensure compatibility with the above-mentioned strategic documents, with regards to urban renewal and development, the Operational Programme “Regional Development” focuses on urban centres and urbanized areas as engines for development and key gateways for effectively addressing the problematic intra-regional disparities in combination

with access points for smaller municipalities to the financial resources of the programme in response to their specific local problems and the overcoming of inter-municipal disparities.

The strategic focus of the Operational Programme on urban development is achieved through Priority Axis 1 “Sustainable and Integrated Urban Development” with financial allocation of EUR 839,067,973 from the ERDF.

As underlined in the OPRD, “this priority axis seeks to support a range of interventions that together will help on improving competitiveness of cities and urban functional areas in terms of providing conditions for successful and sustainable urban areas, cohesive in themselves to generate opportunities for each other and for their surrounding areas. Public investments will be oriented to upgrade and extend the provision of key infrastructures for the urban systems that will sustain urban areas as cohesive growth centres. It will promote implementation of Integrated Urban Regeneration and Development Plans sensitive to social and functional diversity with particular attention to fighting social exclusion and the recycling and/or restructuring of underused or derelict urban sites and areas, thus contributing to an effective implementation of the EU Territorial Agenda and the Leipzig Charter on Sustainable European Cities. This will include the improvement of economic, social, housing and natural environment and service infrastructure of cities considered as focal points for regional development, in order to increase their attractiveness for mobile investment.”

Interventions under this Priority Axis can be implemented using the JESSICA financial engineering instrument.

More specifically, Priority Axis 1 “Sustainable and Integrated Urban Development” will finance:

Operation	Aim	Financial allocation in EUR
Operation 1.1: Social Infrastructure	Ensure appropriate and cost effective, educational, health, social care and cultural infrastructures consistent with future demands of the cities and their surrounding urban areas	280,223,083
Operation 1.2: Housing	Provide better living conditions for citizens and make a contribution to social inclusion through raising living standards and generally improving the quality of life among disadvantaged and vulnerable urban communities	40,031,869
Operation 1.3: Organisation of Economic Activities	Favour the integration of infrastructure facilities and locations for enhanced business development and attraction of new investments	120,095,607
Operation 1.4: Improvement of	Enhance quality of life and appropriate environmental conditions, including risk	238,589,939

Physical Environment and Risk Prevention	prevention, as well as the physical aspect of the urban centres and agglomerations as a part of a broader social and environmental regeneration strategy	
Operation 1.5: Sustainable Urban Transport Systems	Promote accessibility and cohesion through efficient and sustainable urban transport systems	160,127,475

The distribution of these resources among the urban agglomeration areas is as follows:

- EUR 100,000,000 for the capital Sofia;
- EUR 300,000,000 for the Municipalities of the 6 largest cities (Plovdiv, Varna, Bourgas, Rousse, Pleven, Stara Zagora);
- EUR 100,000,000 for the 29 municipalities falling in the scope of the agglomeration areas of Sofia and the 6 largest cities;
- EUR 339,000,000 for the 50 municipalities falling in the scope of the 29 agglomeration areas of 24 medium-size cities with population over 30,000 inhabitants, 4 towns with population between 20,000 and 30,000 inhabitants and the town of Panagyuriste.

The Managing Authority of the OPRD in Bulgaria has expressed its interest to use the JESSICA instrument for implementation of the urban related priorities of the country. Therefore, it becomes necessary to review the instrument’s potential and identify options for its effective use.

2.3. Terms of Reference

The overall objective of the JESSICA Preliminary Study for Bulgaria as outlined in the Terms of Reference is to analyse the possibilities for use the JESSICA initiative in Bulgaria and formulate recommendations for steps to be undertaken in order to introduce adequate financial engineering instruments.

The Consultant’s task was to address the general regulatory and institutional framework for spatial planning, but concentrate on the main Municipalities which are identified in the OPRD as centres of agglomeration.

The Consultant had to perform the following main tasks:

- **Analyse the urban planning environment** focusing on the territorial priorities of the development strategy of Bulgaria for the current programming period and how it is transformed in the NSRF and respective Operational Programmes. The Consultant should assess the institutional and regulatory framework related to investment in the urban sector. He should review the state of play, compare the Municipal Development Plans and the Urban Master Plans and appraise the necessity of elaborating additional municipal strategic documents to promote integrated urban development;

- **Evaluate the existing funding opportunities for urban regeneration and development** focusing on prevailing public programmes, current funding arrangements and availability of financial instruments for investment in the urban sector. The Consultant should also appraise the ability of the government to provide non-grant financing and the existing fund-based investment schemes in the urban sector;
- **Assess the market demand for urban regeneration and development** with the aim to analyse the gap between the supply and demand for financial engineering products in urban restructuring operations;
- **Elaborate a JESSICA Action Plan** featuring case studies to illustrate the advantages of using JESSICA, the appropriate delivery mechanisms for urban investment and recommendations for further studies and technical assistance.

The findings resulting from the execution of the above tasks are summarised in the present Final Report and will be sent to the attention of the European Investment Bank.

2.4. Study Objectives

The Evaluation Study should review the level of preparedness of Integrated Urban Development Plans in Bulgaria and the prevailing urban renewal and development actions. It has to identify the key market participants and existing financial vehicles for urban investment, analyse potential market failures and how financial engineering actions and products could address any perceived deficiencies and establish the level of interest in using UDFs to channel such actions.

The **specific objectives** of the Study include:

- Establishment of the rationale for financial engineering action in the country's urban sector and review of the potential for using UDFs to accelerate investment in urban areas;
- Identification of the key market participants from both the public and private sectors in urban renewal/regeneration as well as existing investment delivery vehicles/structures;
- Identification and evaluation of the problems and gaps between the supply and demand for financial engineering actions and products targeting urban renewal/regeneration that could be supported by Structural Funds contributions using JESSICA;
- Proposal of adapted structures for the implementation of JESSICA taking into account any legal or state aid constraints which reflect the spatial priorities identified in the country's NSRF and the OPRD for 2007-2013;
- Suggestions for intervention possibilities for the OPRD and, where appropriate, EIB and other IFIs that respond to the preferred JESSICA implementation strategy, reduce the identified constraints and add value;
- Proposal for subsequent studies.

2.5. Report Structure

This Final report is structured so that the information required as per the Terms of Reference is presented in the most user-friendly and comprehensive way.

The report consists of six chapters, each one containing as several sub-sections to outline the main topics covered by the chapter.

Chapter 1 *Executive summary* gives a brief overview on the Study and the applied approach, outlines the Structural Funds and the context for JESSICA in Bulgaria, summarises the key findings and the approach to deploying JESSICA, and points out the main recommendations from the Study.

Chapter 2 *Introduction* gives the background to the JESSICA initiative, explains the business case for JESSICA, outlines the Terms of Reference and the objectives of the Study, presents the report structure, briefly summarises the Bulgarian experience with EU funds and similar funding structures, and sets out the criteria used to identify suitable projects for JESSICA.

Chapter 3 concentrates on the *Context for JESSICA in Bulgaria* both in strategic terms and in terms of appraising the prospects for the JESSICA initiative in Bulgaria based on the indicative need for the financial instrument in the capital and the six big cities in the country. It also outlines the benefits and the constraints of the public-private partnerships.

Chapter 4 relates to the *Identification of Appropriate Activities* by outlining the criteria for selection, analyses of projects and the possible obstacles to project delivery. It also gives a summary of the activity options for JESSICA in Bulgaria. This Chapter gives an overview of the Case Studies.

Chapter 5 gives *The Approach to Deploying JESSICA* by outlining the role of the Managing Authority and that of the Holding Fund as well as the investment role of the JESSICA instrument in UDFs. The chapter elaborates on the issues of resources available and the challenges to overcome. Examples of the Structure and UDF in Practice and the structure, proposed for Bulgaria are also covered by this chapter.

Chapter 6 delivers the *Findings and Recommendations* as well as the proposed next steps.

2.6. Timeline of the Study

The timeline of the main stages of the JESSICA Preliminary Study for Bulgaria can be found in Annex 2.

2.7. Bulgarian Experience with EU Funds and Similar Funding Programmes

2.7.1. Pre-Accession Programmes

During the period 2000-2007 the financial assistance from the European Communities to Bulgaria was being provided through three instruments: the PHARE programme (Council

Regulation 3906/89), ISPA (Council Regulation 1267/99 and 1164/99), and SAPARD (Council Regulation 1268/99).

PHARE

The main areas of PHARE support are capacity building and acquis related investment.

The projects financed by the PHARE Programme during the period 1998-2007 and directly related to the urban development process at the selected Municipalities in Bulgaria eligible for JESSICA type of financing are¹:



Sofia Municipality

- Site supervision of rehabilitation and upgrade of Sofia – Kubratovo Waste Water Treatment Plant;
- Limiting the harmful effect of the exhaust gases from the urban transport in Sofia;
- Rehabilitation and upgrade of Sofia – Kubratovo Waste Water Treatment Plant;
- Sofia Airport reconstruction, development and extension (Lot 1 ad Lot 2);
- Roma population integration location.

Plovdiv Municipality

- Electrification and upgrade of Corridors IV and X.

Bourgas Municipality

- Building of road infrastructure to the North Industrial Site to the city;
- Improvement of veterinary border control, construction works of Border Veterinary Inspection Post.

Varna Municipality

- Improvement of veterinary border control, construction works of Border Veterinary Inspection Post.

¹ Some of the projects are already completed, while others are still in a process of execution.

Rousse Municipality

- Construction of Industrial Site;
- Implementation of a System for Air quality monitoring.

Pleven Municipality

- Facilities and equipment to support vulnerable groups;
- Rehabilitation of Road II-34.

ISPA

The most important projects carried out by the Municipalities eligible for JESSICA and related to the urban development financed by the ISPA Fund are:



Sofia Municipality

- Preparation of ISPA application form for the Sofia Waste Management project;
- Construction of Lyulin Motorway – Sofia Ring Road to Daskalovo Road junction;
- Provision of supervision services on the project for the construction of Lyulin Motorway – Sofia Ring Road to Daskalovo Road junction.

Stara Zagora Municipality

- Technical Assistance for preparation of integrated water project in Stara Zagora;
- Preparation of solid waste management measures in Stara Zagora;
- Construction of Sewer Main Collector 1;
- Construction and supervision of Waste Water Treatment Plant in Stara Zagora.

Plovdiv Municipality

- Technical Assistance for preparation of integrated water measures in Plovdiv.



Bourgas Municipality

- Bourgas transmission Main for potable water from Lozovo Reservoir to Mirage Hotel;
- Resident Technical Assistance for implementation of integrated water project;
- Construction and supervision of the works for the rehabilitation of the water supply Network;
- Extension of the sewerage network and upgrading the Waste Water Treatment Plant of Bourgas;
- Technical Assistance for implementation of ISPA measures for waste water collection and treatment in Bourgas – Meden Rudnik;
- Supervision of the works for wastewater collection and wastewater treatment in Bourgas;
- Preparation of investment project for potable waters and sewerage network improvement of Bourgas – Meden Rudnik;
- Solid waste management measures in Bourgas.

Varna Municipality

- Preparation of solid waste management measures in Varna region;
- Reconstruction of the Waste Water Treatment plant in Varna.

Rousse Municipality

- Construction of a regional landfill in Rousse;
- Supervision of the construction work for the regional landfill in Rousse.

Pleven Municipality

- Preparation of solid waste management measures in Pleven.

2.7.2. Existing Instruments for Financing Urban Development

At this stage two instruments for financing urban development projects have been set up – the Bulgarian Energy Efficiency Fund and FLAG. Both of them offer different financial products on a loan basis.

Bulgarian Energy Efficiency Fund (BEEF)

The BEEF was established in 2004 after the adoption of the Energy Efficiency Act by the Bulgarian Parliament. The initial capital of the Fund is constituted by grants from the major donors: the Global Environmental Facility through the World Bank, the Government of Austria, the Government of Bulgaria and several private Bulgarian companies. The BEEF is functioning as a lending institution, a credit guarantee company and a consultancy organization. The Fund works with industrial enterprises and private individuals, assisting them to develop their own energy-saving projects and then financing, co-financing or just acting in the role of guarantor in front of the private banks or other financial institutions.

The Fund is established on the grounds of the PPP principles. The Bulgarian Government supports the main policies of the Fund. On the other hand, the Fund is structured as an independent legal entity and is functioning fully independently from any governmental, municipal and private institutions. The Fund is established as a commercial entity to work with energy efficiency investments. The Fund's main objective related to the environmental protection is to support the process of substantial reduction of green house gases.

The **product portfolio** of BEEF is separated in three main groups:

- Loans;
- Guarantees; and
- Co-financing.

Loans

All Municipalities, Corporate institutions or private individuals could be eligible for a BEEF loan. The annual interest rate is between 4-9 % with a maximum term of up to 5 years. The minimal equity contribution of the Project developer is no lower than 10-25%.

Credit guarantees

The credit guarantees provided by the Fund are with a maximum term of 5 years. They could cover 80% of the credit and 50% of a first-loss basis after the bank-creditor. The interest rate of this product varies between 0.5-2%.

Co-financing

The co-financing provided by the Fund cannot exceed BGN 800,000. Two co-financing mechanisms are developed and put in use: the first of them provides co-financing on 50:50 basis; the second mechanism could be used in case the Client use financing from the

Bulgarian International Asset Bank with partial credit guarantee from BEEF, covering up to 80% of the amount of the principle of the credit, but not more than BGN 800,000.

The **organizational structure** of the Fund consists of three main levels:

- Donors' Assembly;
- Management Board, and
- Fund Manager.

Donors' Assembly

Includes the representatives from the four primary financial donor institutions which are: the Global Environmental Facility, Bulgarian Government, bi-lateral and multi-lateral donors and private contributors. Every two years Donors' assembly makes a regular session.

Management Board

This is the body responsible for the overall strategic development and management of the Fund. The Management Board consists of seven members, according to the Bulgarian Energy Efficiency Act. The members are representatives from: the Ministry of Economy and Energy (acting as a Chairman); a representative from the Ministry of Environment and Water; the Executive Director of the Energy Efficiency Agency; four representatives from the private sector.

Fund Manager

The Fund Manager is responsible for the entire organization and operation activities of the Fund. Its main objectives are profit generation, promotion of energy efficient investments and helping the development of a sustainable energy efficiency market in Bulgaria. The current Fund Manager is a consortium between the Canadian energy efficiency consultancy "Econoler International", the Bulgarian Foundation "Centre for Energy Efficiency EnEffect" and the non-banking financial institution "Elana Holding".

Fund for Local Authorities and Governments (FLAG)

During the second half of 2006 the Government of Bulgaria announced its decision to support Municipalities to participate for EU-granted projects through establishing a fund which provides project loans and funding during the project execution until the final payment from the EU. The Fund is created with the financial support of the EBRD and the World Bank.

During the absorption of the pre-accession grants, the beneficiaries suffered from lack of financial resources due to the requirement for co-financing (at least 20%), and the fact that the EU programmes covered the payment only after the project execution, except the advance payment. After the accession of Bulgaria to the EU on 1 January 2007 the Municipalities (local authorities) became the main beneficiaries of the EU Structural Funds. In order to encourage and support their activity the Government created an Investment Fund with the main goal to provide the Municipalities with the needed resources for project

execution on the basis of fast and easy procedures. The FLAG has been created as a revolving fund and will work with the Municipalities at an interest rate lower than the market one.

By October 2007 the Fund was registered at the National Court as a single owner joint-stock company. In October 2008 Unicredit Bulbank became the Managing Bank selected for the crediting procedures and loans distribution among the Municipalities.

Each Municipality could be eligible for one of the following loans:

- Short-term loans for project preparation (Feasibility Studies) – 1 year liquidating period and the maximum amount of BGN 100,000 – 1,000,000;
- “Bridge” loans – 6 months liquidating period (till the transfer of the amount for the respective project stage from the EU);
- Mid-term loan for co-financing (10 to 50%) and for all kind of taxes (incl. VAT) that are not reimbursable from the EU. The period for loan use shall not exceed 3 years and cannot be extended after the completion of the project.

The eligibility criteria for FLAG loans are as follows:

- The project to be in compliance with the priorities of the respective EU Programmes and the Municipal Plan for Development;
- An official decision of the Municipal Council to be issued for using and securing a FLAG loan;
- The project’s budget to be realistic and is in the risk frame limits of the Fund;
- The Municipality in question has a good credit rating.

At the moment a mechanism is being elaborated for compensating from State Budget 2009 the expenditures arising from servicing the loans. The mechanism will cover entirely or partially the debt according the credit rating of the Municipalities:

Group of Municipalities	Credit Rating	Compensation Level
Group 1 (43 Municipalities)	High	n/a
Group 2 (140 Municipalities)	Medium	50%
Group 3 (81 Municipalities)	Low	100%

2.8. Criteria Used for Eligibility under JESSICA

The projects eligible for financing through the JESSICA financial engineering instrument should:

- Be eligible under Priority Axis 1 “Sustainable and Integrated Urban Development” under Operational Programme “Regional Development”;
- Be part of an integrated urban renewal and development plan;
- Generate revenue – these types of projects are not expected to generate high revenues as they would have been attractive to the private investor on their own. JESSICA targets at projects that generate revenue to extent which does not draw the attention of the private sector investors;
- Have a social impact – projects should foster positive social and economic change as a result of their intervention.

Detailed requirements with regards to types of projects, eligibility of expenditure, state aid eligibility, etc., should be set up at the time of setting the administrative structure that will be managing JESSICA in Bulgaria.

3. Context for JESSICA in Bulgaria

3.1. Strategic Context for JESSICA in Bulgaria

The successful applicability and the potential of the JESSICA initiative in Bulgaria need to take into account the existing strategic and administrative context at national and regional level.

Country’s Territorial Structure

The cities are elements of a three-tiered territorial structure of the country – municipalities, districts, and regions. Bulgaria is divided into 28 districts (NUTS 3) and 264 municipalities (LAU 1). The municipalities are the administrative-territorial units for local self-government, while district administrations are local bodies of the central administration, responsible for implementation of national policies at district level – so, they are not a level of self-government. In relation to the EU accession, a higher territorial level was introduced for planning/programming purposes – six NUTS 2 regions.

Each territorial level has specific tasks in the field of regional/spatial planning and development and role in programming and managing resources in relation to the respective territory.

The state level sets priorities and manages funds for regional strategic interventions. The MRDPW is the primary institution, which bears the overall responsibility for the state regional policy. The responsibilities at this level comprise to ensure coordination of the regional policy with the structural policies; to organize the elaboration and implementation of the National strategy for regional development, regional development plans, the OPRD and national spatial planning documents; to act as a Managing Authority of the OPRD.

The regions at NUTS 2 level are not administrative units. Regional departments are established as OPRD Implementing Bodies at this level. These departments are directly subordinated to the Managing Authority, which delegates them specific functions and tasks for programme implementation. *Regional development councils* have been set up as consultative bodies for realisation of the state policy at regional level. Their main functions are related to approval of the regional plans and monitoring reports, and the proposal of initiatives and schemes for the procurement of resources to implement the plans.

At district (NUTS 3) level the regional policy is realised by providing a strategic framework for development of Municipalities. The District Governors and the respective district administrations, as well as the District development councils, perform functions related to the elaboration and implementation of district development strategy. This administrative-territorial level has no responsibilities to manage resources for its own territory.

The Municipalities as basic units of local self-government have specific responsibilities defined to enable the planning, programming and financing of local/urban development projects. They are the final beneficiaries of many schemes and operations of different OPs, especially the OPRD.

Strategic Planning Context

One notable achievement of the regional policy in recent years has been an integrated, programming approach to policy, enhancement of the dialogue and coordination with other sectoral policies and some initial steps in implementing the programmes. This process has been triggered to a large extent by the preparatory work for Bulgaria's EU membership and the related necessity to create an adequate strategic and operational framework for the EU Cohesion policy funding.

The urban agenda is included in most national strategic planning documents. All 2007-2013 regional programming and planning documents stress the importance of the role that urban areas can play as engines of economic growth and sustainable development.

EU's Cohesion Policy Documents

The basic document for EU interventions is the **National Strategic Reference Framework 2007-2013**. The objectives of the NSRF are in line with the EU's Community Strategic Guidelines 2007-2013, Lisbon Agenda and the principles of sustainability, formulated in the Göteborg Strategy. The strategic interventions in Bulgaria, financed by the European Union, are oriented to investments in three sectoral priorities and single territorial priority:

1. Improving basic infrastructure;
2. Increasing quality of human capital with focus on employment;
3. Fostering entrepreneurship, favourable business environment and good governance;
4. Supporting balanced territorial development.

Under Priority 4 a special emphasis is given to the roles of cities. The support is focused on integrated urban development, improvement of territorial accessibility through upgrading and development of infrastructure, development of tourism, promotion of local businesses and preservation of natural and cultural heritage.

Bulgaria has translated the NSRF strategic priorities into seven Operational Programmes: “Regional Development”, “Transport”, “Environment”, “Human Resources Development”, “Development of the Competitiveness of the Bulgarian Economy”, “Administrative capacity” and “Technical Assistance”, envisaged under the financial support from the Structural and the Cohesion Funds. The cohesion policy support is spatially targeted, supporting just designated areas within the frameworks of the individual priorities of the OPRD (*mainly cities and urban agglomerations*). In the other Operational Programmes there are no explicit criteria concerning the localization of the projects, but the regional coordination of all programmes is envisaged. There are spatially-bound indicative lists under the Operational Programmes “Environment” and “Transport”.

The Operational Programme “Regional Development” (2007-2013) proposes a set of measures designed to contribute to achievement of the long-term development goals of the country by incorporating the territorial factors of growth. The programme contains priorities and interventions in the key areas of the urban development, territorial connectivity, sustainable tourism growth and support to regional and local partnerships. Five Priority Axes are formulated, number one being: *Sustainable and Integrated Urban Development*.

As already mentioned above, under this Priority Axis is envisaged a wide range of interventions aimed at improvement of the competitiveness of cities as key drivers of regional development. Public investments are oriented towards renovation and expansion of the key infrastructure for the urban systems with an emphasis on education and health care, improvement of the physical, economic and social environment in the urban centres; organization of economic activities through upgrading or construction of the business-related technical infrastructure and renovation of existing industrial sites etc. The geographic scope of the interventions extends over 36 urban agglomeration areas, involving 86 municipalities (264 total in country), inhabited by 75% of the country’s population.

More than 50% of the total EUR 1.361 billion EU funding allocated to the OPRD for the programming period 2007-2013 is designated to this priority or EUR 839,068,000 in total.

The following kinds of operations are supported under this Priority Axis:

- 1.1. *Social Infrastructure* – with a total amount of EUR 280,223,000;
- 1.2. *Housing* – with a total amount of EUR 40,032,000;
- 1.3. *Organisation of Economic Activities* – with a total amount of EUR 120,096,000;
- 1.4. *Improvement of Physical Environment and Risk Prevention* – with a total amount of EUR 238,590,000;
- 1.5. *Sustainable Urban Transport Systems* – with a total amount of EUR 160,127,000.

The list of indicative activities supported under **Operation 1.1 Social Infrastructure** includes:

- Reconstruction, refurbishment and equipment of educational institutions – pre-school facilities, primary and secondary schools and universities (e.g. lecture facilities, libraries, laboratories, sport facilities, campuses, internet connections);
- Reconstruction, refurbishment and equipment of medical and health establishments for emergency healthcare (including ambulances), primary, specialized outpatient and in-patient care in accordance with the approved National Healthcare Strategy and National Healthcare Map;
- Reconstruction, refurbishment, extension and equipment of medical radiology facilities, connected with socially important cancer-related diseases;
- Reconstruction, refurbishment and equipment of institutions providing social services and labour offices;
- Development of cultural infrastructure through reconstruction, refurbishment and equipment of cultural centres, theatres, community centres (“chitalishte” in Bulgarian), libraries, and other facilities related to cultural life;
- Energy consumption audits and energy efficiency measures for all projects related to public institutions mentioned above (e.g. thermal insulation, replacement of woodwork, local installations connected to central heating systems, gas supply connecting pipelines or alternative renewable energy sources);
- Access facilities to public institutions mentioned above for disabled people.

The activities under **Operation 1.2 Housing** will be eligible according to the criteria listed in Article 47 of Commission Regulation (EC) No. 1828/2006. Provided that the conditions of eligibility of housing set out in Articles 7(2) of Regulation 1080/2006 and 47(1) of Regulation 1828/2006 are met, interventions will be made as follows:

- Renovation and change of use of existing buildings owned by public authorities or non-profit operators in order to deliver modern social housing in compliance with Article 47(2)(b) of Commission Regulation (EC) No 1828/2006;
- Renovation of multi-family residential buildings provided that the respective intervention is listed in Article 47(2) (a) of Regulation 1828/2006.

The following activities under this Operation are eligible:

- Renovation of the common parts of multi-family residential buildings as follows: refurbishment of the following main structural parts of the building (roof, facade, windows/doors on the facade, staircase, inside and outside corridors, entrances and their exteriors, elevator); technical vertical installations (water supply, sewage, electricity, heating, communications, fire hydrants) of the building;
- Delivery of modern social housing of good quality for vulnerable, minority and lower income groups and other disadvantaged groups etc., through renovation and change of use of existing buildings owned by public authorities or non-profit operators;

- Energy consumption audits and energy efficiency measures for all projects related to housing, mentioned above (e.g. thermal insulation, replacement of woodwork, local installations connected to central heating systems, gas supply connecting pipelines or alternative renewable energy sources).

The activities, proposed for funding under **Operation 1.3 Organisation of Economic Activities**, are:

- Upgrading and reconstruction of existing (or development of new) technical business-related infrastructure (e.g. communication links, construction/reconstruction/rehabilitation of streets or short segments of local roads providing access to and within the industrial and business locations, electricity systems, public lighting, gas delivery connections, water supply and sewage system connections, signposting to or within business zones and locations, etc.);
- Revitalisation, rehabilitation, reconstruction and refurbishment of existing industrial zones.

The **Operation 1.4 Improvement of Physical Environment and Risk Prevention** will support the following activities:

- Rehabilitation and establishment, regeneration and creation of public recreation areas, e.g. parks, children playgrounds etc.;
- Improvement in the urban environment through provision of benches, shelters, fountains, statues, etc.;
- Construction/ reconstruction/ rehabilitation of street footpath and sidewalks renewal and access improvement for disabled people; construction of cycle paths and alleys, pedestrian zones, alleys and sub-passages for pedestrians and cyclists, including related interventions such as signposting, provision of off-street parking, etc.;
- Rehabilitation, reconstruction of street networks and introduction of energy efficient street lighting and other measures for increasing security and preventing criminality, e.g. park area lighting, security systems for observation and monitoring of public places, etc.;
- Access facilities to administrative municipal buildings for disabled people;
- Grassroots' initiatives, partnership networks and action plans for urban development;
- Small scale infrastructure measures for prevention against floods and landslides, (i.e. dikes, barrages and other supportive facilities); for preventing banks' erosion, creating small scale retention volumes, weirs, etc.; rehabilitation and construction of drainage facilities and infrastructures;
- Upgrading of existing, and provision of new facilities and equipment including vehicles for containing fire and preventing damage to life and property from fires and fire hazards;
- Integrated urban regeneration and development plans.

The **Operation 1.5 Sustainable Urban Transport Systems** will propose the support of the following indicative activities:

- Development of traffic management plans and establishment of automated systems for traffic management and control through introduction and improvement of Traffic Management and Information Systems (e.g. Traffic Operations Centres, Central Computer Systems, Vehicle Detector Stations, Changeable Message Signs, Ramp Metering Stations, communications sub-systems);
- Improvement of basic infrastructure access and affordability to the city bus stations – stops platforms for the disabled groups, removing the orientation and information barriers, light and audio announcements of stops, clear visual marking of the lines and readable timetables even for those with imperfect eyesight, information for the blind etc.;
- Renovation of the transport infrastructure - the socket and catenary's cable network, improving stations, repair and maintenance facilities and equipment;
- Development of infrastructure and route networks of new destinations to remote residential areas;
- Provision of protection system for noise reduction and noise screening - construction of tram tracks with anti-vibration and anti-noise elements;
- Development and improvement of urban public transport systems using buses, trams, and trolleys compliant with European legislation on harmful emissions from engines or measures to increase the use of renewable/alternative sources of energy in urban transport.

In 2007-2008 schemes under the following OPRD Priority 1 Operations have been opened:

1.1 Social Infrastructure – with a total amount of EUR 33,509,000;

1.4 Improvement of Physical Environment and Risk Prevention – with a total amount of EUR 21,628,000.

The schemes from the Operations 1.2 Housing and 1.3 Organisation of Economic Activities are scheduled to be opened in 2010.

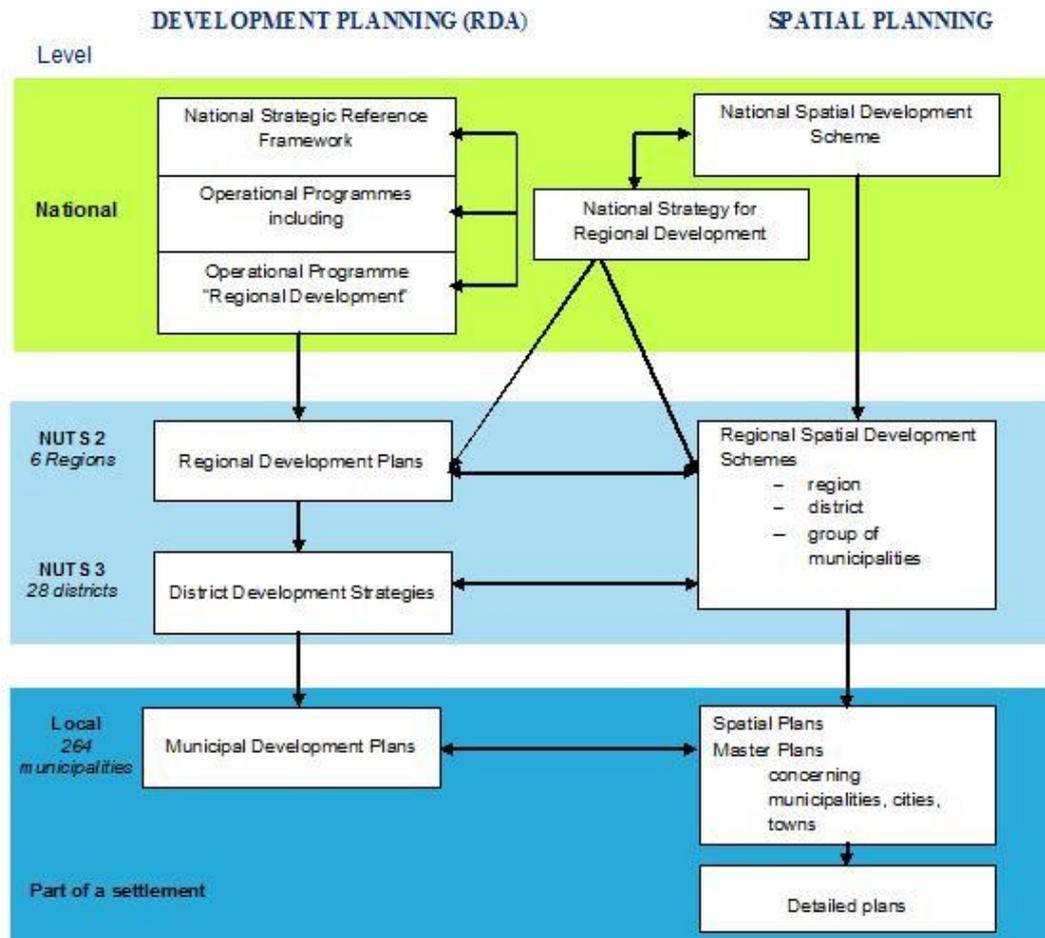
Priority Axis 1 of OPRD 2007-2013 aims at implementation of Integrated Urban Development Plans sensitive to social and functional diversity with *particular attention to fighting social exclusion and the recycling and/or restructuring of underused or derelict urban sites and areas*, thus contributing to an effective implementation of the EU Territorial Agenda and the Leipzig Charter on Sustainable European Cities. According to the OPRD, in the first half of programming period (2007-2009) *the integrated approach in urban regeneration and development will be pursued on the basis of the existing Municipal Development Plans, Urban Master Plans and Detailed Spatial Plans, while at the same time providing support for elaboration of Integrated Urban Regeneration and Development Plans in order to achieve more integrated approach during the second half of the programming period (2010-2013).*

The OPRD includes an explicit statement on the potential use of JESSICA in interventions under this Priority Axis. It is noted that the interventions “*can be implemented through aggregating additional investment funds using the JESSICA financial engineering instrument*”. According to OPRD, “the JESSICA initiative targets PPPs or other revenue generating urban projects included in integrated urban regeneration and development plans, with a view to achieve leverage and recycling for OPRD resources invested in such projects. This initiative also offers the possibility to take advantage of outside financial and managerial expertise from specialist institutions such as the EIB, the Council of Europe Development Bank and other financial institutions, to create stronger incentives for successful implementation by beneficiaries, by combining grants with loans and other financial tools. JESSICA allows a continuous availability of funds and is expected both to leverage substantial amounts of investment into areas in need of economic and social cohesion and to speed up their integrated development”.

Domestic Regional and Urban Policy’s Documents

Bulgarian legislation distinguishes between two parallel and supposedly coordinated planning processes, regulated by separate laws: Spatial Planning (regulated by Territorial Planning Act) and Regional Development Policy (regulated by Regional Development Act). Spatial planning is carried out at national and regional/district levels through *Spatial Schemes* and at local level through *Spatial Plans* (Master Plans and Detailed Plans). The regional development policy is implemented through a system of coordinated strategies and plans for the different territorial levels.

The inter-relationship between the spatial planning and the regional development policy at different territorial levels is shown in the following diagram:



The present experience shows the need for the integration of regional development planning and physical planning. This need to some extent is stipulated in the Regional Development Act and the Territorial Planning Act. The processes of regional socio-economic planning and physical planning, which until recently used to run in isolation from one another, are now getting ever better integrated at the lower planning tiers – at the local/municipal level.

For the period 2007-2013 spatial development imperatives and the corresponding urban agenda is set out in all documents of regional planning – the National Regional Development Strategy and Regional Development Plans (NUTS 2), District Development Strategies (NUTS 3), Municipal Development Plans (NUTS 4 or LAU1).

The National Regional Development Strategy (2005-2015) defines the strategic directions of the regional development policy. The primary goal defined is achievement of a sustainable and balanced development of the regions. Five priorities for achieving this goal are identified, including: *Priority 4 "Integrated urban development and upgrading of the urban environment"*. Under this priority specific objectives are formulated as implementing integrated urban development strategies, regeneration and renewal of urban areas, improving the city-region relationships, encouraging environmental-friendly urban transport, etc.

The *Regional Development Plans 2007-2013* transposed and adapted the priorities of the National Strategy for Regional Development in accordance with the specific conditions and gaps in the regions. All the plans have identified relevant key priorities and projects for regional competitiveness improvement, modernisation of the infrastructure, **urban development**, businesses development, improvement of the environment etc., laying the emphasis on their regional significance and impact.

The *District Strategies* promote sustainable urban development through activities such as: strengthening economic growth, physical environment rehabilitation, Brownfield redevelopment, the preservation of natural and cultural heritage, entrepreneurship promotion, employment and community development, and the provision of services to the population taking account of changing demographic structures.

The *Municipal Development Plans* define the objectives and priorities for development of the respective Municipalities. These planning documents, featuring the highest degree of detail, possess also a strong operational nature. The urban development dimensions are related to the site remediation and preparation, basic urban infrastructure, urban public transport, human capital infrastructure – health and education, science/business parks and clusters, restoration of historic buildings, cultural complexes, modernisation of housing stock, protection of the environment, etc.

An increasing number of local authorities realise the need for integrated **urban planning** to effectively address their urban problems with the support of the EU funding. Most big cities have recently elaborated (e.g. Sofia, Plovdiv, Stara Zagora, Sliven, Rousse) or are in a process of elaboration (e.g. Varna, Bourgas, Shumen, Blagoevgrad, etc.) of their new Master Plans (General Urban Plans), which are the basic blueprints that will guide the long-term spatial development of cities.

The basic national strategic documents focusing on **housing** so far are: the National Housing Strategy and the National Programme for Renovation of Residential Buildings.

The philosophy behind the *National Housing Strategy* (MRDPW, 2004) is to adopt competitive and market oriented housing policy with two strategic objectives: to stop the progressive deterioration of the existing housing stock, and to create effective mechanisms for affordable housing provision (for sale and rent). The first package of the Strategy concerns the institutional capacity building, the strict definition of public responsibilities (of central and local authorities) about housing, the promotion of private capital accumulation serving regeneration and provision of affordable housing, rehabilitation and restructuring of the prefabricated housing estates. The second operational package deals with the urgent problems of the housing system and suggests the need of instruments that would improve the management and maintenance of the existing housing stock, restructuring (of buildings, dwellings and land ownership) in the prefabricated housing estates, physical renovation of the panel high-rise buildings, affordability of housing for low-income households, improved quality of life for Roma population. The third operational package is targeted at public, community and administrative capacity building which will facilitate the social and financial consensus building, as well as the implementation of the proposed programmes.

The National Programme for Renovation of Housing Buildings in the Republic of Bulgaria (NPRRB) (MRDPW, 2005) aims at the comprehensive reconstruction of the housing stock in the prefabricated estates with two subprogram targets:

- The First subprogram (2005-2015) deals with the renovation of 105,000 buildings in panel housing complexes located in the largest Bulgarian cities (Sofia, Plovdiv, Varna and Bourgas). The financial resources necessary for its implementation are about BGN 670 million (approx. EUR 340 million);
- The Second subprogram (2008-2020) includes 579,676 buildings across Bulgarian cities, half of them located in prefabricated housing estates. The financial resources necessary for the implementation of this subprogram are about BGN 3.5 billion (approx. EUR 1.8 billion).

The State has declared to assist the owners of dwellings included in the Programme by means of direct subsidies the total amount of which equals BGN 830 million (approx. EUR 420 million). The Programme required proposals for legislative amendments in connection with the legal, institutional and financial-credit system improvement. Among the measurable and real ambitions set in the program which directly affect affordability, owner occupation and regeneration are the following facts:

- Priority has been assigned to panel residential multi-flat buildings, 96.5% of them private, in 120 residential complexes in the country with nearly 800,000 flats;
- Promotion of establishment of public-private partnerships.

An important condition for the real execution of this program is the Condominium Law (Law for floor property), which was expected to lay down the legal basis for the state subsidy for retrofitting of social housing and the real implementation of the adopted NPRRB.

In order to develop and test a full cycle renovation action on multifamily buildings, the MRDPW with the support of the UNDP started the joint initiative "Demonstration Project for the Renovation of Multifamily Buildings" (2006-2009). The project seeks to create a viable/working model for the implementation of the National Programme and to demonstrate the renovation of residential blocks and their cartilage, developing in parallel to this the rules and mechanisms for the implementation and management of the NPRRB. Based on it the MRDPW will prepare the secondary legislation and recommendations for legislative changes as well as good practices for the implementation of *Action 2.1 Housing Policy* of the OPRD.

The target group for the 1st stage of the demo project was identified using the following priority ranking:

- 1) Panel blocks in residential complexes;
- 2) Other multifamily residential buildings, industrially built in residential complexes;
- 3) Industrially built multifamily residential buildings in other parts of the city;
- 4) Other residential buildings built at least 15 years ago.

During the first phase 5 multifamily buildings (in four big cities) and their surrounding areas have been renovated. The reconstruction of 23 buildings in 10 cities has been already initiated as part of the second phase of the Programme for Housing Renovation.

Integrated Urban Development Plans (IUDP)

Urban development projects to be supported by the Structural Funds under the JESSICA initiative must be part of an Integrated Urban Development Plan. European law, however, does not define exactly what an Integrated Urban Development Plan is. The conclusions of discussions at the European level show the same understanding of integrated planning of urban development. An IUDP links the various fields of action and sector planning and coordinates them in regard to space, timing and content. It defines goals and determines the appropriate instruments for reaching them. Finally, all parties must fully cooperate in every stage of development and adoption of the plan².

The recommendation on the implementation of JESSICA initiative at a meeting of the Ministers of Spatial Planning in Marseilles, held on 25 November 2008, is that the form and concrete content of Integrated Urban Development Plans has to be shaped at the national level. It should therefore be possible to fall back on existing plans and programmes and link these to each other. An important element is that the prescribed content of the plans should integrate various problems and interlinks between the various sectors and plans. This limits the cost of implementing the initiative JESSICA and avoids any interference in national planning³.

Regarding the content and scope of IUDPs and their use to finance projects under the OPRD, the Bulgarian MRDPW now stands behind the idea to develop such plans for selected priority areas identified for influence within the medium-term development strategy of the city (5-7 years)⁴. It is proposed to be selected at least two areas:

- Economic growth and employment creation;
- Socially sensitive areas (areas with adverse social indicators).

The requirements to the project package of the IUDP include:

- To address the complex problems of the respective area;
- To lead to achieve the objectives and indicators of OPRD;
- To include activities from at least 2 Operations of the OPRD Priority Axis 1;
- Have a complex character including complementarity of private and public investment and complementarity between hard and soft measures.

It is envisaged in the first half of 2009 MRDPW to prepare detailed rules for the development and funding of applying IUDP. This will be the basis for application of funding for the implementation of IUDP planned projects from OPRD as well as from JESSICA.

² Urban Development Funds in Europe, Ideas for implementing the JESSICA Initiative, tabled at the Marseille meeting of the EU Urban Policy Ministers, 25.11.2008.

³ Ibid.

⁴ Integrated urban development plans. Discussion meeting with municipalities, 24 November 2008, Sofia, MRDPW.

3.2. Indicative Need for JESSICA in Bulgaria

The analysis of urban regeneration needs of the capital Sofia and the six largest cities in the country – Plovdiv, Varna, Bourgas, Rousse, Stara Zagora and Pleven – is based on desk reviews of the existing planning documents (Municipal Development Plans and Master Plans), questionnaires and two rounds of meetings with representatives of local authorities, businesses and NGOs. The major objectives during the first-round meetings, held in the period June-July 2008 with representatives of Municipalities (deputy mayors and high level officials), were to present the JESSICA initiative, the objectives of the Study and to answer the questions about JESSICA on one hand; and to gather general information about urban development, urban regeneration problems, experience with pre-accession funds and public-private partnerships, on the other hand. Municipality officials were asked to fill in a questionnaire aiming to outline the urban regeneration needs of the city and the existing project readiness in terms of Integrated Urban Development Plans, as well as to identify initial lists of projects and project ideas, suitable for JESSICA financing.

The questionnaires as filled-in by the Municipalities are given in Annex 3.

Annex 4 lists the attendees of the first and second round meetings at the Municipalities.

Representatives of local business and the non-governmental sector were invited on the next round meetings held in October-November 2008. They presented additional information about their needs and activities, related to urban regeneration and development. A second questionnaire was presented, aiming to collect more detailed information about some specific projects – financial data, time frames, partners, etc.

3.2.1. Bourgas Municipality

Overview

Population (2007)	
Municipality	204,175 inhabitants
City	187,514 inhabitants
Territory (2007)	
Municipality	51,224.8 ha
Basic growth and development parameters	
National GDP share of Bourgas district (2006)	5.8 %
Unemployment rate (2007) – municipality	1.62%
Municipal Human Development Index ⁵ (2002)	0.822 (High)

⁵ The *Municipal Human Development Index (MHDI)* is intended to Study the different aspects of human development at municipal level. It is a disaggregated version of the UN *Human Development Index (HDI)* which is a summary composite index that measures a country's average achievements in three basic aspects of human development: health, knowledge, and a decent standard of living.

Bourgas is the fourth largest city in Bulgaria. As a maritime city, Bourgas (like the city of Varna) has some specific urban development problems related to the port and tourist functions of the city. The first is related to the large harbour area and the accompanying industrial, warehousing and logistics sites. The second is related to the significant seasonal pressure to the city and its systems (e.g. transport system) during the summer period. At the same time, in and around the city there are several environmentally sensitive coastal and wet zones, very important for biodiversity.

Economically, Bourgas is one of the most important Municipalities in the country with significant share of the national GDP. This is a result again of the port function of the city and the location of big structural industries (e.g. Lukoil Neftochim), as well as of the flourishing tourist industry. Bourgas Airport is the main international gateway for a significant part of the tourist flows to the Bulgarian Black Sea coast.

Urban Regeneration

Most of the foreign and local investments concern real estate sector. There are three large residential complexes that are to be built till the end of 2010: in the region of Kyosheto, In Kraymorie neighbourhood and zone D of Meden Rudnik complex. The total built-up area on the property-led urban regeneration sites is 1,437,246 m² (the largest development 395,937 m² total built-up area) and the expected completion varies in the time span 2008-2012.

Public projects (ready for applications for funding or under preparation) in Bourgas municipality are focused on the following priorities: facilitating traffic and improving urban mobility, social infrastructure, technical infrastructure and environmental issues.



Most of the sites have been defined as “in need of regeneration and new developments”

One site (“Dolno ezerovo”) was identified both as in need for regeneration and in urgent need of intervention due to decline, ecological problems and health risk for the local neighbourhoods. For another residential district – Meden Rudnik, a programme for comprehensive regeneration has started its implementation. There is an effort for integrating different activities (renovation of buildings, rehabilitation of open space and public green, renewal of the social institutions’ buildings, construction of water treatment plant and sewerage system) and respectively different sources of finance was made.

The municipality is active in seeking opportunities for development of economic activities and housing regeneration. Bourgas is one of the 14 municipalities that took place in the PHARE Project BG 017–586.04.01 “Technical assistance for industrial zones development”. During

the first phase of the joint initiative “Demonstration Project for the Renovation of Multifamily Buildings” one building and its surrounding area has been renovated, and the renewal of two more sites has been initiated as part of the second phase. Bourgas is also an active member of the Bulgarian National Municipal Energy Efficiency network “Eco Energy”.

Urban Planning

The existing Master Plan of Bourgas Municipality is from the early 1970’s and since then has been subject to numerous partial amendments. Most of the detailed plans are similarly outdated. The elaboration of a new Master Plan is in a very initial stage. The Municipal Development Plan (2007-2013) emphasizes the sustainable development of the municipality and transformation of Bourgas into a “liveable city”. The main priorities, aims and measures, related to the OPRD Priority Axis 1 and JESSICA objectives, are:

Priority 1 – Development of competitive local economy

Specific Objective 1.1. Development of attractive economic environment

Measure: Improvement of infrastructure

- *Reconstruction of the technical infrastructure in the South Industrial Zone*
- *Reconstruction of the technical infrastructure in the North Industrial Zone*
- *Renewal of old industrial areas*

Priority 3 – Development and modernization of the technical infrastructure and protection of the environment

Specific Objective 3.1. Development of the transport network

Measure: Construction and maintenance of city street network

- *Reconstruction of streets, pedestrian spaces, etc.*

Measure: Renewal of the public transport system

- *Reconstruction of the trolley network, trolley stops*
- *Development of the automated traffic management and control centre*

Specific Objective 3.3. Improvements in energy efficiency and use of renewable energy resources

Measure: Improvements in energy efficiency of public buildings

Measure: Energy-efficient street lighting

Specific Objective 3.4. Protection of environment

Measure: Protection of banks against erosion

Priority 4 – Development of human resources and improvement in living environment

Specific Objective 4.1. Increasing the quality of public services

Measure: Reconstruction of public buildings and spaces

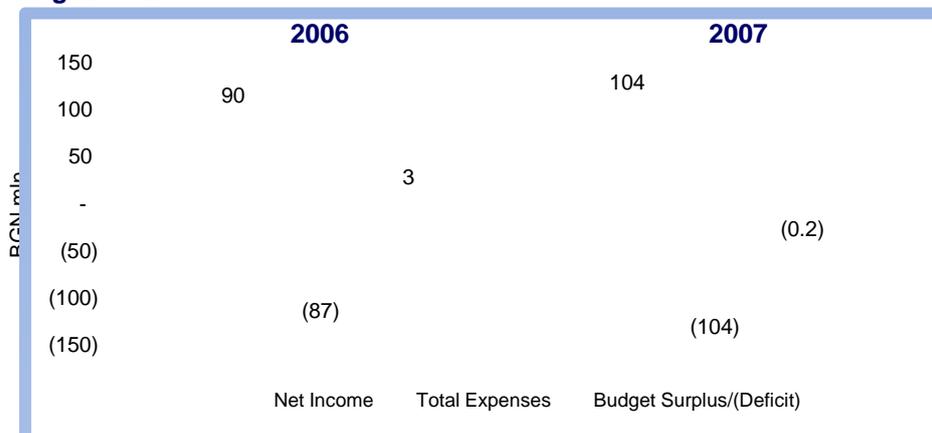
Measure: Improvement of educational, social and cultural infrastructures

PPPs

- One of the most active Municipalities in using the Service Contract model;
- 10 PPP projects executed so far;
- Specially designed programme for execution of small scale PPP projects related to:
 - Small-scale public works;
 - Site cleaning, landscaping and planting;
 - Building facilities for vulnerable groups;
 - Construction of school walls and landscaping of school yards.

Basic Financials

Bourgas - P&L



In 2006 the Bourgas municipality reported a budget surplus of BGN 3 million. In 2007 there was a minimal budget deficit of BGN 0.2 million. Total expenses in 2007 increased 20.2% y-o-y, while net income increased 16.2% y-o-y.

Credit Rating

Bourgas municipality has a credit rating of BBB.

External Financing

In 2006 bank loans increased by BGN 3.3 million, in 2007 – additionally by BGN 1.9 million. There is no additional information on the sources of funding.

3.2.2. Pleven Municipality

Overview

Population (2007)	
Municipality	139,573 inhabitants
City	112,570 inhabitants
Territory (2007)	
Municipality	80,971.2 ha
Basic growth and development parameters	
National GDP share of Pleven district (2006)	2.8%
Unemployment rate (2007) - municipality	5.44%
Municipal Human Development Index (2002)	0.819 (High)

Pleven used to be a major centre of oil processing, metalworking, machinery construction, and light and food industries before 1989. Today, after the years of rapid deindustrialization, Pleven municipality stakes on location factors as infrastructure and good urban-rural connection. About 73 % of the municipal territory is land under cultivation.

Being located in the very heart of an agricultural region, Pleven is a major economic centre of the Bulgarian Northwest Region and the third largest city of Northern Bulgaria after Varna and Rousse. Nevertheless the city ranks seventh in terms of population number, it has a good potential for economic growth due to its strategic location.



The international rail road (Sofia — Bucharest — Moscow) runs through Pleven and the international motor way E 83 passes just north of the city. The Hemus highway is projected to pass 16 km south of Pleven. The access to the Danube River (the nearest port being 30 km from Pleven) and the ongoing reconstruction of Dolna Mitropolia airport (10 km from the town) add value to the potential of the city to develop as hub integrating all types of transport.

Urban Regeneration

Pleven municipality has declared the need of urban regeneration in relation to: optimization of the social infrastructure and especially for education, social care and integration;

organization of street traffic and facilitating urban mobility; environmental design and rehabilitation of urban water and greenways; repair works and equipping the culture infrastructure in the city.

Pleven is an active member of the Bulgarian National Municipal Energy Efficiency network “Eco Energy”.

Urban Planning

Master Plan of Pleven Municipality is in the initial stage of preparation – the Municipality has started the preparation of technical specification and tendering procedure. Priorities and aims related to OPRD Priority Axis 1 and JESSICA objectives are:

Objective 1 – Accelerating economic growth and increasing the investment attractiveness of the municipality through improving accessibility, providing adequate services and protecting the environment

Priority 1.1. Extension and improvement of transport infrastructure

Measure: Development of sustainable and environmental-friendly transport network

Priority 1.2. Development of infrastructure providing attractive conditions for business and protection of the environment

Measure: Improvement of energy efficiency and use of renewable energy sources

Objective 3 – Development of the social infrastructure

Priority 3.1. Improvement of quality of life

Measure: Improvement of healthcare infrastructure

Measure: Improvement of educational infrastructure

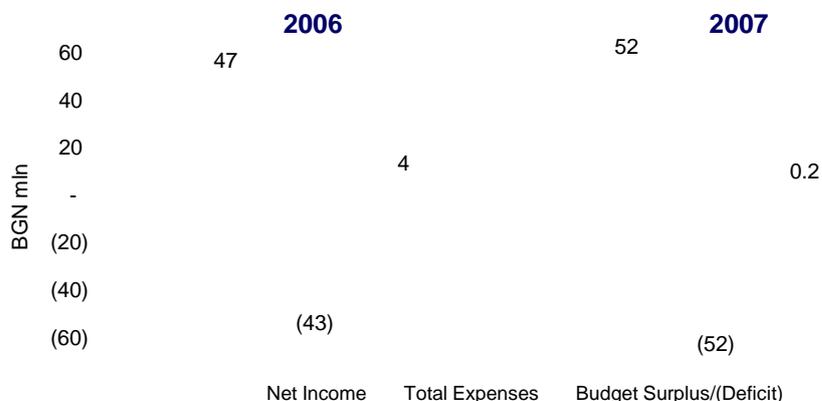
Measure: Improvement of public works and development of the territory

PPPs

- Small-scale PPP projects executed (nurseries repairing);
- Service contract based on the Public Procurement Act.

Basic Financials

Pleven - P&L



Pleven municipality had a budget surplus of BGN 4 million in 2006 and of BGN 0.2 million in 2007. In 2007 total expenses increased 20.6% y-o-y and net income increased 11.7% y-o-y.

Credit Rating

No credit rating has been assigned to the municipality.

External Financing

The municipality repaid KBGN 714 of bank loans in 2006 and 2007 each.

3.2.3. Plovdiv Municipality

Overview

Population (2007)	
Municipality	345,249 inhabitants
City	345,249 inhabitants
Territory (2007)	
Municipality	10 198.1 ha
Basic growth and development parameters	
National GDP share of Plovdiv district (2006)	7.8 %
Unemployment rate (2007) – municipality	4.9 %
Municipal Human Development Index (2002)	0.819 (High)

The European Spatial Planning Observation Network (ESPON 2003) describes Plovdiv as important European hub with a moderate international role and emphasises on its potential

advantages as a regional centre in the geographically central Balkan Peninsula region with an extremely favourable location in terms of transport and geography.

Plovdiv is the second largest city in Bulgaria and a centre of the Southern Central Region. However, it is unique that Plovdiv Municipality is among the smallest in the country – it consists of the city of Plovdiv alone, without the adjacent area. (For comparison, Sofia Municipality has a territory of 1,342 km² and includes some 37 settlements – 3 towns and 34 villages – in addition to the city of Sofia itself.) Thus, the city of Plovdiv lacks the opportunity to effectively manage the development of its hinterland. The neighbouring Municipalities of Maritsa and Rhodopi lack urban centres and most of their population use Plovdiv's public services and social infrastructure (in fact, even the administrations of these Municipalities are in the city of Plovdiv). At the same time these two Municipalities have been attracting major new industrial investments and jobs thus depriving Plovdiv Municipality of significant tax revenues.

Urban Regeneration



The total area of the sites in need of regeneration has been estimated to 3 379.5 ha. Twelve sites (total area about 1 650 ha) are in urgent need of intervention due to one or more of the following problems: concentration of roma population, high-rise buildings, informal housing and unhealthy urban environment in the residential areas; lack of infrastructure (technical, social, business services) due to the chaotic (piecemeal) development of zones for economic activities; neighbourhoods with concentration of ethnic minorities (total area 83 ha).

Property-led urban regeneration sites (private sector funded projects) comprise totally 13.9 ha (the largest development – 6.4 ha) with approximately 1 164 138 m² (the largest development: 250 000 m² total built-up area) total built-up area and expected completion 2009 – 2011. Most of the sites are being developed as mixed use (commercial, office and hotel) and residential.

The municipality has a strong project record (EU finding and other international Donors as the Swiss Government, UNESCO and the custodial Fund) related to the development of economic activities, social integration issues, restoration of buildings and improvement of the physical urban environment and ecology.

Urban Planning

The new Master Plan of Plovdiv has been approved in 2007 within the narrow territorial borders of Plovdiv Municipality. The development of the city in the wider territorial dimension will be managed through a regional planning scheme which is in a process of elaboration. The Municipal Development Plan sets several priorities, aims and measures related to OPRD Priority Axis 1 and JESSICA objectives:

Priority 1 – Development of a dynamic and competitive knowledge-based economy

Objective 5: Development of attractive and sustainable tourism

Measure 1: Reconstruction and protection of cultural-historical heritage

Priority 2 – Development and modernization of the local infrastructure, creating conditions for growth and employment

Measure 3: Expansion and modernization of the local transport system

Measure 5: Energy efficiency

Measure 9: Regeneration of derelict industrial areas

Priority 3 – Improving the attractiveness and quality of life of Plovdiv

Objective 1: Integrated urban development and improvement of urban environment

Measure 2: Reconstruction and renewal of housing and social infrastructure

Measure 3: Development of environmental-friendly public transport

Objective 2: Sustainable improvement of the environment

Measure 3: Protection and enlargement of the green system

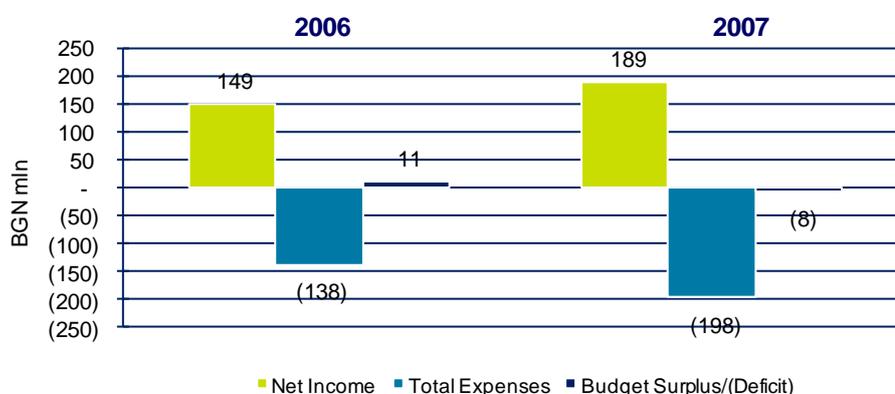
Measure 9: Regeneration of derelict industrial areas

PPPs

- Some experience in the use of O & M Contract model;
- Participation in several joint stock companies where the municipality provides part of the capital, the right to undertake construction at the sites, or land, or real estate instalments;
- The established companies are in the field of environmental protection and waste management, free commercial zones, hospital management, entertainment park and tourist activities;
- Too risky to use PPP because of the lack of legislation.

Basic Financials

Plovdiv - P&L



In terms of budget size, Plovdiv municipality ranks third in Bulgaria after Sofia and Varna. In 2007 total expenses increased 43.1% y-o-y, net income increased 26.8% y-o-y. As a result in 2007 the municipality reported a budget deficit of BGN 8 million, despite significant income from sale of municipal properties. In 2006 there was a budget surplus of BGN 11 million.

Credit Rating

The municipality has a credit rating of BB+, stable outlook, assigned by Standard & Poor's.

External Financing

The municipality raised TBGN 10,134 in 2006 and TBGN 22,292 in 2007 through an issue of municipal bonds. As of Jun 2008 the total outstanding bonds stood at TBGN 37,554. The bonds have a term of 15 years (Oct 2006 – Oct 2021), fixed interest rate at 2.88% and the issue is at the total limit of TBGN 50,077.

3.2.4. Rousse Municipality

Overview

Population (2007)	
Municipality	174,627 inhabitants
City	156,761 inhabitants
Territory (2007)	
Municipality	54,320.0 ha
Basic growth and development parameters	
National GDP share of Rousse district (2006)	2.8 %
Unemployment rate (2007) – municipality	3.88 %
Municipal Human Development Index (2002)	0.808 (High)

Rousse, the major transport centre in the Northern Bulgaria, is located on the high right bank of the river Danube, 300 km from the capital Sofia and 200 km from the Bulgarian Black Sea Coast. The city lies at the crossing point of two Pan European routes: Corridor 7 and Corridor 9. The first connects the Danube waterway with the Main-Rhine water network thus providing access to the European inland waterways. Corridor 9 links North, Central and East Europe to the Aegean Sea via Danube Bridge at Rousse and the Romanian city of Giurgiu. The city acts as a transport hub of water, railway and road infrastructure. It is the most significant Bulgarian river port, serving an important part of the international trade of the country.

The strategic location reinforces the importance of the city as an administrative, economic and cultural centre on provincial (Rousse District NUTS 125), regional (North Central Planning Region, NUTS BG12), national and transnational level.

Urban Regeneration



The total area of the sites in need for regeneration is 2,092 ha. Four sites with approximate total area of 1,650 ha are in urgent need of intervention: Rousse industrial park (Reconstruction and Development), mixed use waterfront area along the Danube (Reconstruction and Development), Selemetia neighbourhood in Drouzhba district (Regeneration), and Bozveli Str. (extension, widening of the bridge and regeneration of the surrounding area).

Three of the mentioned four sites (the waterfront not included) are in urgent need of intervention.

Rousse participated in the PHARE Project BG 017–586.04.01 “Technical assistance for industrial zones development”. The municipality is also an active member of the Bulgarian National Municipal Energy Efficiency Network “Eco Energy”.

Urban Planning

Rousse has a brand new Master Plan from 2008. The Municipal Development Plan sets the following priorities and aims related to OPRD Priority Axis 1 and JESSICA objectives:

Priority 1 – Development of efficient infrastructure and urban environment, attractive for living, investments and business in Rouse Municipality

Objective 1: Development and modernization of municipal infrastructure and transport services

Measure: Modernization and improving the safety of city street network

Measure: Optimization of the public transport

Objective 3: Development of living environment and housing policy according to the citizens' needs

Measure: Development of the social housing stock

Measure: Improvement of the housing estates

Measure: Aestetization of the urban environment

Priority 3 – Improving the quality of life and development of social services

Objective 1: Providing conditions for good-quality education for all

Measure: Modernization and reconstruction of the public schools

Priority 4 – Development of culture, sport and tourism as sources of economic and social benefits

Objective 1: Effective use of all resources for development of congress and cruise tourism

Objective 2: Protection and utilization of the cultural and historical heritage

Objective 4: Providing good-quality conditions for sports and recreation of residents and visitors

Measure: Development of a sport complex, a city park with a pier and a marina

Measures: Reconstruction and modernization of the existing sport facilities

- Some experience in the use of Partial-Private Divestiture Contract model – building of sport and entertainment complex for 5,000 persons together with two private partners. For the purpose of the project and PPP establishment a joint company was created between the municipality and the private partners (Prista Oil and Densi Story companies);
- Main advantages: social contribution, municipal budget savings and long-run financial return.

Basic Financials

Rousse - P&L



The Rousse municipality reported significant budget surplus of BGN 7 million in 2006 and BGN 4 million in 2007. In 2007 total expenses increased 15% y-o-y, while net income increased 8.4% y-o-y.

Credit Rating

There is no credit rating assigned to this municipality.

External Financing

The municipality has not resorted to external financing during the review period.

3.2.5. Sofia Municipality

Overview

Population (2007)	
Municipality	1,240,788 inhabitants
City	1,156,796 inhabitants
Territory (2007)	
Municipality	134,890.2 ha
Basic growth and development parameters	
National GDP share of Sofia district (2006)	31 %
Unemployment rate (2007) – municipality	1.75 %
Municipal Human Development Index (2002)	0.833 (High)

Sofia is the largest city and the capital of the Republic of Bulgaria – the administrative, economic and cultural centre of the country. For the last 20 years the economic structure of

the city, hence the urban structure have been subjected to slow but considerable transformation from production-based to service-based economy. At present, the tertiary sector generates about 70% of the municipality's GDP. The capital creates and develops about 80% of Bulgaria's intellectual resources due to the 19 universities. More than half of the foreign investments are concentrated in Sofia. Most of the headquarters of the large Bulgarian and foreign companies operating in Bulgaria are located here, including financial segments, distribution and retail segments, communal services, engineering industries, mining industries, construction, etc. With the employment opportunities, Sofia constantly draws in people from all over the country and contrary to the negative demographic trends, the population in the capital is on the rise.

The strategic geographic location of Sofia is very important – three of the Trans-European Transport Corridors (No 4, 8 and 10) intersect in the capital city. Sofia's International Airport's total annual capacity is 4.4 million people. The unique crossroad position of Sofia is considered as one of the main factors that will drive the development of the city and of the region.

Urban Regeneration

Due to the deindustrialization and economic restructuring, there is a large amount of sites and industrial areas in need for regeneration. The prefabricated housing estates are in urgent need of regeneration, because of the territorial scale and of the array of problems – physical, social (access, availability of services, security), ecological (technical infrastructure, urban design parameters). Urban public transport in terms of provision of access to housing, services and employment is both in need for renewal and development (extension). Urban open space, public green, and communal service provision need integrated approach to regeneration in order to provide high quality of urban environment. Nevertheless cultural infrastructure and heritage have good potential to generate returns, but some legal and organizational constraints impede their comprehensive regeneration.

The total area of the sites in need of regeneration is approximately 6,000 ha, 2,000 ha of which are in urgent need for intervention.

Total built-up area on the property-led urban regeneration sites (private sector funded projects) is 6,342,790 m², the largest development of which is 1,296,000 m² total built-up area.



During the first phase of the joint initiative “Demonstration Project for the Renovation of Multifamily Buildings” 2 buildings and their surrounding areas have been renovated, and the renewal of five more buildings in Ilinden, Izgrev, Mladost, Oborishte and Sredets have been initiated as part of the second phase.

Urban Planning

The Master Plan of Sofia Municipality was prepared in 2003 and approved by the National Parliament in 2006 by a special act – Law on Planning and Development of Sofia Municipality. This was a manifestation of the special status and importance of Sofia as the national capital.

The actualization of the Master Plan is under way and the preparation of new detailed plans of large areas of the city is in process. The Municipal Development Plan was approved by the City Council in 2008. Priorities and aims related to OPRD Priority Axis 1 and JESSICA objectives are:

Priority Axis 1 – Raising of the competitive capacity on the basis of the knowledge-based economy and information society

Operation 1: Development of modern industrial and business zones

Priority Axis 2 – Development and modernization of the transport and engineering infrastructures

Objective 3: Further construction and renewal of the internal transport and infrastructure systems in the municipality

Objective 4: Further construction of the Sofia Metropolitan Railway

Priority Axis 3 – Improvement of the living conditions and the quality of the living environment

Objective 1: Renewal of the settlement environment and public works

Operation1: Integrated development of the City of Sofia and Sofia Metropolitan Area

Objective 2: Preservation and rational use of the natural and cultural and historical heritage

Operation 3: Protection and development of the urban green system

Objective 3: Improvement of the social infrastructure and upgrading of the quality level of public services, raising the attractiveness of the Municipality

Objective 5: Sustainable development, protection and improvement of the environment and risk management

Operation 8: Promoting environmental-friendly public transport

Objective 7: Enhancement of the effectiveness of the educational system and development of culture, sports and youth activities

PPPs

- First biggest concessionaire contracts in Sofia in process of execution (the concession for Sofia water cycle management and improvement – Sofiyska voda);
- Other important concessionaire contracts in the field of:
 - Waste management;
 - Waste collection;
 - Public transport;
 - Historic sites management;
- Most experienced municipality in the different types of PPPs;
- Many problems during the execution due to concessionaire contracts;
- On the top of public interest.

Basic Financials

Sofia - P&L



Sofia municipality is by far the largest municipality in Bulgaria in terms of budget size. The municipality reported significant budget surplus of BGN 69 million in 2007.

Credit Rating

The municipality has a credit rating of BB+, positive outlook, assigned by Standard & Poor's.

External Financing

In 2007 Sofia municipality repaid BGN 19 million of loans to local banks and drew a net of BGN 17.2 million of loans from foreign banks, as follows:

Repayment of loan from Unicredit Bulbank	TBGN 4,286
Repayment of loan from Raiffeisen bank	TBGN 14,715
Total repayments:	TBGN 19,001
Drawings under a loan from the European Council	TBGN 727
Repayment of loan from the EBRD	TBGN 9,667
Drawings under the loan from the EBRD	TBGN 12,042
Drawings under the loan from the Japanese Bank for International Cooperation	TBGN 14,088
Total drawings:	TBGN 17,190

3.2.6. Stara Zagora Municipality

Overview

Population (2007)	
Municipality	164,970 inhabitants
City	140,303 inhabitants
Territory (2007)	
Municipality	106,330 ha
Basic growth and development parameters	
National GDP share of Stara Zagora district (2006)	5 %
Unemployment rate (2007) - municipality	4.49 %
Municipal Human Development Index (2002)	0.807 (High)

Stara Zagora is 220 km from Sofia and is the centre of Stara Zagora District. The region attracts considerable share of the national foreign direct investments predominantly allocated to the energy sector. Stara Zagora is the most important transport node in South Bulgaria, with a good connection to three transport corridors (No 4, No 8 and No 9) via railway and road infrastructure.

More than 97% of the industrial facilities (and the corresponding share of the revenues) and 95 % of the employed are concentrated in the city of Stara Zagora. The favourable transport and geographic location of the municipality of Stara Zagora is one of its important advantages and a significant factor predetermining its competitiveness - it provides excellent opportunities for establishing trade contacts with the countries (in Europe and Middle East) and is a good prerequisite for the development of the municipality as a logistical centre.

Urban Regeneration

Approximately 1 166.13 ha from the city’s territory are in need of regeneration. Except the poor quality of the housing stock, the housing estates with multifamily housing (about 481.62 ha) are characterized by problems of the physical urban environment (public green, furniture of open space, local access), of security (street lighting, parking and mobility), of access to social services and facilities, environmental (insufficient technical infrastructure, inappropriate urban design parameters as built up area rate). The declared problem areas are 230 ha, predominantly deserted locations within the boundaries Lozenets and Zeleznik residential areas.

In urgent need of intervention are the residential areas with concentration of unemployed and insufficient/declined public spaces/services; zones for economic activities; special service areas (cemeteries and their infrastructure) – all about 602.41 ha from the city’s territory.

The share of property-led urban regeneration sites is small compared to those of the other 6 big cities in Bulgaria. The total built-up area on the property-led urban regeneration sites is 143 299 m², the largest development – 56 000 m² total built-up area (expected completion: 2008 – 2010).

The municipality has strong project record related to the development of economic activities and social integration issues. Stara Zagora received 1-st level certificate “Municipality ready for business development ” and was awarded first prize for best marketing programme for the Industrial Park Development Project.



The municipality is a member of the INTERREG IIC , the Bulgarian National Municipal Energy Efficiency Network “Eco Energy”, “Arena” network supporting entrepreneurship and small enterprise development; EQUIPTI Project for Transport policy (2005 – 2006). Stara Zagora participated in the PHARE Project BG 017–586.04.01 “Technical assistance for industrial zones development”. The projects related to the social integration issues are part of the PHARE Programme – Urbanization and social development of Municipalities with predominated minority population (2004), PHARE BG2004/016-711.01.03 related to the Education of Roma population (2007-2008).

Urban Planning

The Master Plan of Stara Zagora Municipality was approved in 2007.

Priorities and aims related to OPRD Priority Axis 1 and JESSICA objectives in the Municipal development plan (2006) are:

Priority 2 – Development of high-quality living environment

Objective 6: Reconstruction and development of technical infrastructure

Priority 3 – Achieving territorial balance

Objective 1: Integrated urban development and improvement of urban environment

Measure 1: Urban development

- Urban renewal

PPPs

- Experience in Concession contracts (Integrated project development and Operation opportunities);
- Two concessionaire contracts:
 - Waste collection and Waste transportation at Stara Zagora Municipality;
 - Concession on Kozarevets Lake;
- Small-scale PP Service contracts based on the Public Procurement Act.

Basic Financials

Stara Zagora - P&L



Stara Zagora municipality recorded a budget deficit of BGN 3 million in 2006 and a budget surplus of BGN 4 million in 2007.

Credit Rating

The municipality has a credit rating of BB+, stable outlook, assigned by Standard & Poor's in April 2008.

External Financing

The municipality drew bank loans of TBGN 3,534 in 2007 (2006: TBGN 1,066).

3.2.7. Varna Municipality

Overview

Population (2007)	
Municipality	322,114 inhabitants
City	313,983 inhabitants
Territory (2007)	
Municipality	23,748.5 ha
Basic growth and development parameters	
National GDP share of Varna district	6.3 %
Unemployment rate (2007) – municipality	2.7 %
Municipal Human Development Index (2002)	0.811 (High)

Varna is the third largest city in Bulgaria and the biggest resort centre on the Bulgarian Black Sea Coast. There are three Pan-European routes that cross the Northeastern region of Bulgaria thus providing access to Corridors No 7 (The Danube waterway), No 8 (Skopie-Sofia-Bourgas-Varna), and No 9 (Helsinki-Kiev-Rousse-Alexandropoulos) via the four types of transport: road, air, water and railway.

Varna region ranks third in Bulgaria in terms of inflow of foreign direct investments. The natural resources and traditions in tourism have attracted significant amount of foreign investments in the past 10 years and have turned the city into one of the fastest growing real estate markets in Bulgaria. The economic growth of the city is the reason why Varna has recently attracted people from throughout Bulgaria thus multiplying its population. However, overpopulation, the increasing number of tourists, the business and real estate boom have led to over urbanization, insufficient infrastructure (transport, social and technical) and low quality of the urban environment.



Urban Regeneration

Total built-up area of the property-led urban regeneration sites (private sector funded projects) is 1,740,677 m², the largest development of which 400,000 m². Most of the sites are being developed as mixed use (retail, residential, office, sport and entertainment, commercial), holiday villages and hotels.

Public projects (ready for applications for funding or under preparation) in Varna municipality are focused on the following priorities: facilitating traffic, public transport and urban mobility; development of the Varna East port and the connections to the Hemus highway; sport and recreational infrastructure (sport buildings).

Two buildings and their surrounding areas will be renovated during the second phase of the joint initiative “Demonstration Project for the Renovation of Multifamily Buildings”. Varna is an active member of the Bulgarian National Municipal Energy Efficiency network “Eco Energy”.

Urban Planning

The Master Plan of Varna Municipality is prepared and in the process of approval. The Priorities and aims related to OPRD Priority Axis 1 and JESSICA objectives according to the Municipal development plan are:

***Priority 2 – To more attractive environment and better quality of life:
Development of social sphere, living environment and full employment
opportunities***

Specific Objective 1: Increasing the growth and development potential of the municipality through improvement in the conditions and efficiency of educational system

Specific Objective 3: Improvement in healthcare services

Specific Objective 7: Development of culture and cultural institutions

Priority 3 – Integrated development of the territory of Varna Municipality and improvement of urban environment

Specific Objective 1: Elaboration and implementation of integrated urban development strategies with wide citizens' participation

Specific Objective 2: Regeneration, renewal and development of urban areas

Specific Objective 3: Solution of transport problems and promoting environmental friendly public transport

PPPs

- Some experience in the use of Service Contract model;
- 2 PPP projects executed so far – building of nurseries (using the Service Contract model).

Basic Financials

Varna - P&L



The municipality did not provide its budget figures for 2006 and 2007 – only the total figure for income/expenses in 2007 is known.

Credit Rating

The municipality has a credit rating of BB+, stable outlook, assigned by Standard & Poor's.

External Financing

No information on external financing was provided.

3.2.8. Conclusions

The Study indicates that in each municipality there are large areas in desperate need of renewal. Although the booming real estate market and property development industry have been a considerable factor in recent years for upgrading certain areas, the private sector alone cannot solve the cities' severe problems. All Municipalities have indicated more or less similar problems and needs related to urban regeneration – neglected city centres with outdated infrastructure; residential estates with low condition of housing, green areas and public spaces; decaying brownfield zones; underdeveloped transport network, low quality public transport and traffic congestion; pollution; social segregation.

All problems are well realised by the local authorities and are reflected in their respective Master Plans and Municipal Development Plans. All Municipalities have (Sofia, Plovdiv, Varna, Rousse, Stara Zagora), or are in a process of preparation of (Bourgas, Pleven) new Master Plans. The effective use of EU structural funds is considered a major factor for generating the long needed financial resources for tackling the problems of urban regeneration and development. However, the Municipalities have not well realised the need for an integrated approach in pursuit of more sustainable and balanced urban environment. Most local planning strategies and projects are still predominantly sector-based. Although most of the priorities in the Municipal Development Plans have more or less direct implications for urban regeneration and renewal, very few of them are specifically and explicitly directed at integrated urban regeneration.

Overall, the seven Municipalities under the scope of the Study demonstrate stable financial position, although for most of them the budget balance slightly deteriorated in 2007 compared to 2006.

Sofia municipality is the richest in Bulgaria, reporting a hefty budget surplus of BGN 69 million in 2007.

All of these seven Municipalities, but Rousse, resort to some form of external financing. Most of them use bank loans, while the municipality of Plovdiv has issued municipal bonds.

Considering Municipalities' financial standing, their asset holdings in terms of land and buildings and their relatively limited indebtedness, it can be concluded that the Municipalities have good potential to participate in projects under the JESSICA initiative both through in-kind contributions of land/buildings and through direct investments of funds.

3.3. PPP Examples – Benefits and Constraints

Relevant Legislation

The applicable legislation in Bulgaria related to the establishment of PPP models constitutes from two main acts: the Public Procurement Act (PPA) and the Concessions Act (CA). The partnership with the state and the Municipalities is also governed by the Municipal Property Act and the State Property Act.

The **PPA** defines the principles, rules and conditions for awarding a public procurement. The purpose of the PPA is to ensure the maximum level of efficiency in spending of the state budget and special non-budget financial resources, as well as of the resources associated with the carrying out of relevant activities of public interest specified in the law. The PPA also defines the main principles for awarding public procurement:

- Publicity and transparency;
- Free and fair competition;
- Equal treatment and non-discrimination.

The public service procurement contracts depending on the rules for their awarding, are divided into:

- Public service procurement contracts listed in Annex 2 of the PPA⁶, which shall be awarded according to an open or restricted procedure or a negotiated procedure with publication of a contract notice depending on the type of the respective contracting authorities, where state/governmental organizations may use only the open and restricted procedures;
- Public service procurement contracts listed in Annex 3 of the PPA⁷ which shall be awarded according to an open, restricted procedure or a negotiated procedure with publication of a contract notice.

The **CA** provides the basic legislative framework for granting of concessions, execution of concession agreements and their termination. In addition to this act, a private sector investor who would like to utilise state resources should also act in compliance with other related pieces of legislation providing for specifics of the respective object of the concession (e.g. Water Act, Underground Resources Act, Railway Transport Act, Roads Act, etc.).

A concession is granted on the basis of a long-term agreement in writing involving a particular material interest, concluded between the grantor and the concessionaire.

According to its subject, concessions are classified as:

⁶ Annex 2 includes the following services: maintenance and repair, land and air transport, transport of mail by land, telecommunications, financial services, computer and related to them services, research and development services, accounting and auditing services, marketing research, management consulting services, architectural, engineering, urban planning and landscape services, advertising services, building-cleaning services and property management services, publishing and printing services, sewage and refuse disposal services, sanitation, etc.

⁷ Annex 3 includes hotel and restaurant services, rail transport services, water transport services, supporting and auxiliary transport services, legal services, personnel placement, investigation and security services, educational services, health and social services, recreation, cultural and sporting services, etc.

- Concession for construction work;
- Concession for service;
- Concession for extraction.

Granting of a concession is preceded by certain procedures to be followed depending on the identity of the grantor⁸. Generally, concessions are awarded on the basis of open tender procedures.

The preparatory work for granting a concession is initiated by the respective body (minister for objects that are state property or a mayor of the municipality for objects which are municipal property). As a result of the preparatory work a motivated proposal for granting a concession is made to the respective grantor. If the grantor decides so, he can open a tender procedure by adopting a resolution giving the details of the concession (subject and object of the concession, economic activities to be performed, term, etc). Afterwards a notice of the concession should be promulgated in the State Gazette.

The procedure is further organised by the body responsible for the preparatory work (the respective minister or mayor) and is conducted by a special commission appointed by:

1. The Prime Minister – for state concessions;
2. The Mayor of the municipality – for municipal concessions;
3. The body governing a public entity – for public concessions.

The candidates for the concession are required to file offers within the terms defined in the notice in the State Gazette. The offers should comply with the requirements stated in the documentation for participation.

Following the tender procedure, the appointed commission submits a report on the results to the respective grantor and the latter then determines to whom the concession shall be granted. A concession agreement is concluded if nobody appeals the concession procedure within the statutory deadlines.

A concession may be awarded for up to 35 years. The specific term is defined considering the financial and economic indicators of the concession, the technical and/or technological specifics of the subject of the concession and/or of the management of the service in the public interest.

Current Practice of the Municipalities

During the project performance several meetings with the selected Municipalities took place. The implemented PPP models and realised projects were discussed in details. A list with the

⁸ Grantor under the CA can be:

- The Council of Ministers – in respect of any subjects constituting state property; or
- The Municipal Council – In respect of any subjects constituting municipal property;
- A public entity, represented by its body according to its constitution act – in respect of any subjects owned by any such body;
- The competent government minister and/or municipal council – in respect of any subjects owned by a body governed by public law whereof the capital is wholly owned by the state and/or a municipality.

main projects realised by the Municipalities using PPP principles are attached to the current report.

For the list of the main PPP projects reported by the selected Municipalities please see Annex 5 to this Report.

The common opinion of the municipal representatives is that to implement PPP models out of the scope of the PPA and the CA is too heavy and risky. In general, all Municipalities prefer to use the EU grant schemes, and to avoid potential loan obligations. In addition, the Municipalities are cautious to use PPP models because of a few preconditions, such as:

- There is no specific PPP legislation in Bulgaria – this fact is assessed by the Municipalities as a main constraint for the implementation of the various PPP models;
- The PPP models are not sufficiently implemented in the field of municipal development, mainly because of the previous bad practices when the private partner used public/municipal funding to realise its own business projects. In order to minimise the risk of creating bad image of the municipal administration all interviewed municipal representatives preferred to have an explicit law on public-private partnerships.

The most frequently used PPP models by the selected Municipalities are in the area of the private involvement in traditionally procured projects – Service contracts, Operation and Management contracts (Concessions).

The Municipality of **Sofia** is the most experienced in the different PPP models. The first biggest concessionaire contract is established in Sofia and is in process of execution (the concessionaire contract for Sofia water cycle management and improvement – Sofiyska voda). Another important concessionaire contracts are in the field of Waste management and Waste collection of the city, Public transportation and History sights management. Even that Sofia Municipality is facing many problems executing the concessionaire contract, it could be concluded that the PPP models are successfully implemented and already gave positive results.

In the filled questionnaire, the Municipality of **Stara Zagora** mentioned two concessions in use – one for the waste collection and transportation and one for using the resources of Kozarevets Lake. The Municipality considers the lack of relevant PPP legislation as a main barrier for using this tool.

The Municipality of **Burgas** is one of the most active municipalities in using the Service contract PPP model. The Municipality involved private part in the performance of small-scale public works projects, some of them partially financed by the private, some of them with municipal funding and private services involvement. The total number of the performed PPP projects is 10 and the Municipality intends to continue working on this model. The Municipal representatives recognise this PPP model as the most convenient for use, friendly for all participants and with obvious results.

The Municipality of **Varna** has some tide experience using the Service contract PPP model for the building of two nursery schools. The municipal representatives consider that the use of the PPP model speeded up the building process and realised some savings. However, the lack of PPP law is considered as a main obstacle for the use of the other PPP models with larger private involvement.

Nine PPP contracts are registered in **Plovdiv** Municipality. The Municipality uses the Operation and Management form of PPP for its projects related mainly to joint exploitation and management of several companies and two hospitals. In general, the Municipality contributes to the capital of the Company. However, the municipal representatives recognise as too risky to perform projects on the basis of PPP principles as there is no clear legislation and regulations.

The Municipality of **Rousse** works on the model of Partial Private Divestiture contract using it in a project for sport and entertainment facility complex. A joint-venture of two private companies – “Prista Oil”, “Densi Story” and Rousse Municipality was created where the contribution of the Municipality ceded the construction rights to the private partners. The private partners will take care of the management and the profitability of the project and will share the assets together with the Municipality. The main advantages for the Municipality using such type of PPP are the social contribution of the project, municipal budget savings and long-run financial return.

In conclusion, based on the information provided by the Municipalities it could be pointed out that:

- All Municipalities prefer to use the EU grants instead of using some other financial engineering instruments and establishing PPP;
- All Municipalities are experienced in using private participation in traditionally procured projects and concessions;
- Sofia Municipality is the leading municipality in the implementation of the different PPP types;
- Municipalities view other PPP models as too risky to be implemented compared to traditionally procured projects as there is no relevant PPP legislation to minimise the risk;
- Municipalities are increasingly aware of the benefits that the PPPs could provide and are keen to understand how such partnership types may be beneficial in future;
- PPP models and their potential implementation could be altered / delayed because of unclear land use status and incomplete municipal master plans.
- Because of the consequences of the financial and economic world crisis it could be expected that the role and the implementation of a PPP model in the social and economic life of the municipalities would be significantly extended. PPPs could be used as a financial source; to the other hand they could provide municipalities with experience and know-how to manage the sustainable business opportunities in the public sector.

4. Identification of Appropriate Activities

4.1. Selection Process and Criteria

The process of project identification went through several stages. After the first round meetings with local government officials in June-July 2008, the Municipalities were asked to fill in a questionnaire (Annex 3) and submit information about concrete projects from their municipal strategies and plans, which they thought were suitable for financing through JESSICA. 68 projects were received with different levels of detail (from concrete schemes to general project ideas), spatial scope (from single land plots to city-wide programmes) and level of “integratedness”.

These 68 projects were subject to initial screening according to two general criteria:

- **Eligibility under Priority Axis 1 “Sustainable and Integrated Urban Development” of the OPRD.** According to OPRD, JESSICA instrument could be applied only for projects under this priority, consisting of five Operations:
 - Operation 1.1. Social infrastructure;
 - Operation 1.2. Housing;
 - Operation 1.3. Organisation of Economic Activities;
 - Operation 1.4. Improvement of Physical Environment and Risk Prevention;
 - Operation 1.5. Sustainable Urban Transport Systems.
- **Potential to generate revenue** – at this initial stage of screening process, based on a general estimate of the potential of the projects to generate reasonable levels of revenue, not necessarily to repay the investments.

By applying these two criteria the projects were divided into three groups:

- Likely to be suitable for JESSICA at this stage for further investigation;
- Potentially suitable for JESSICA subject to some modifications and/or clarification;
- Not likely to be suitable for JESSICA in terms of ineligibility under the OPRD Priority Axis 1 and/or lack of potential to generate revenue.

Identified Project Ideas after the 1st Round Meeting with Municipalities

Suitable according to JESSICA criteria (but most need further investigation)	13
Potentially suitable for JESSICA (subject to further investigations, modifications and/or details)	22
Rejected as not suitable for JESSICA (in terms of OPRD Priority Axis 1 and/or potential to generate revenue)	33
Total number of projects/project ideas received	68

33 of the projects were identified as not likely to be suitable for JESSICA, as not meeting the Priority Axis 1 eligibility requirements (e.g. are in another Priority Axis of the OPRD or are in another Operational Programme altogether). For example, several of the rejected projects (reconstruction of kindergartens, nursery schools, orphanages, etc.), although under the OPRD *Operation 1.1 Social Infrastructure*, have very little, if any, revenue generation potential and are more suitable for the grant schemes. Other projects in this category are related to construction or reconstruction of streets, which on one hand fall under the scope of the OPRD Priority Axis 2, and on the other, do not generate revenue at all. Several projects related to waste treatment and sewerage are under Operational Programme “Environment”.

A total of 35 projects were selected for further investigation and gathering more details during the second round of meetings – 13 of them were identified as likely to be suitable at this stage (satisfying the two general criteria), and 22 – as potentially suitable (satisfying at least one and partially the other of the criteria) which could have become “suitable” after some modifications, “packaging” and/or further investigation during the next round meetings.

Most of the projects – both suitable and potentially suitable – were too general and needed much more details. There was a total lack of projects under *Operations 1.2 Housing* and *1.3 Organisation of Economic Activities*. In fact, the overwhelming majority of the selected projects were under *Operations 1.1 Social Infrastructure* and *1.4 Improvement of Physical Environment and Risk Prevention*. These were (and still are) the only two opened Operations under Priority Axis 1 – so the Municipalities had started to prepare projects for them. There was also practically lack of area-based projects.

The initial outcomes were presented and discussed during the Progress Meeting with the EIB and the MRDPW in October 2008 in Sofia. It was decided on the next round meetings with Municipalities to put a special emphasis on identification of projects under Operations 1.2 and 1.3, as well as to try to identify more integrated projects.

The second round of meetings was held in October-November 2008. They were attended by local government officials, representatives of local business organisations and NGOs, which proposed additional projects.

After the second round of meetings the list of projects was complemented and specified. Some of the initially identified potential projects for JESSICA dropped, others were modified, and new ones were added.

The final list of the total 35 projects likely to be suitable for JESSICA suggested by the Municipalities and the other stakeholders can be found in Annex 6.

4.2. Analysis of Projects

Analysis of Projects by Operation of the OPRD Priority Axis 1

Operation 1.1.	Social Infrastructure	9 projects
Operation 1.2.	Housing	1 project
Operation 1.3.	Organization of Economic Activities	1 project
Operation 1.4.	Improvement of Physical Environment and Risk Prevention	17 projects
Operation 1.5.	Sustainable Urban Transport Systems	7 projects
Total		35 projects

Analysis of projects by types (groups)

- Reconstruction of existing public sport centres and facilities:
 - Bourgas – Tennis court complex, swimming pool, public sport area;
 - Rousse – “Dunav” and “Lokomotiv” swimming pools;
 - Sofia – Sport halls Winter Palace; Festivalna Hall, Hristo Botev Hall;
 - Varna – Palace of Sport.
- Development of the public transport system:
 - Construction of new tram lines – Sofia (4 lines);
 - Reconstruction and extension of the trolleybus contact network – Plovdiv, Varna;
 - Development of monorail system – Varna, Bourgas;
 - Development of suburban light rail system (S-Bahn) – Plovdiv.
- Construction of underground parking lots – Plovdiv, Bourgas, Pleven, Rousse;
- Reconstruction of cultural facilities – Sofia, Plovdiv, Pleven;

- Energy-efficient street lighting – Plovdiv, Stara Zagora;
- Renewal of green and recreational areas – Bourgas, Plovdiv, Rousse;
- Consolidation of river banks and sea coasts – Plovdiv, Pleven, Varna;
- Reconstruction of Zoos – Sofia, Varna;
- Rehabilitation of panel housing – Sofia;
- Reconstruction of industrial zone – Sofia.

There are a surprisingly small number of projects under *Operations 1.2 Housing and 1.3 Organisation of Economic Activities* – one project for each Operation from Sofia. In fact, it was not until the second round of meetings and the special emphasis on such kind of projects when these two projects have been proposed. The renewal of housing estates (especially panel housing blocks) and old industrial zones is, without exception, one of the main problems of the cities, well documented in their respective Municipal Development Plans and Master Plans. Therefore, the lack of projects in these Operations does not indicate lack of needs.

One explanation for this lack of projects is that both multi-family residential buildings and industrial zones are owned by many individuals and private enterprises. The renewal of a single multi-family housing block, for example, would require mutual agreement and common contribution by all individual owners which in practice is very hard to achieve in Bulgarian context. Obviously, with the exception of some pilot projects based on grant schemes, the local authorities, NGOs and private sector are not yet ready to provide a working mechanism for addressing these kinds of regeneration problems on a mass scale.

Notwithstanding the above considerations, some of the reasons for the lack of sufficient number of projects is that Operations 1.2 and 1.3 are not yet opened and the exact eligibility criteria are still unclear. A total of EUR 160,000,000 have been allocated for these two Operations in the OPRD, so it well might be the case that once the operations are opened and eligibility criteria clear, much more projects would appear. However, such types of projects would require complex partnerships between many different actors (individual owners, the municipality, different infrastructure companies, etc.), in which there is insufficient experience.

Most projects have been suggested under Operations 1.1 and 1.4. This is not surprising, as these two Operations are opened and the eligibility criteria are clear – therefore, Municipalities have already prepared sufficient number of projects under these Operations. Unfortunately, most of the proposed projects are obviously designed for grant schemes and their potential for generation of revenue is rather limited.

An interesting group of projects has been proposed under *Operation 1.5 Sustainable Urban Transport Systems*. In fact, the four largest cities (Sofia, Plovdiv, Varna and Bourgas) have all submitted projects for development of their public transport – extension of tram and trolley network, development of monorail and light rail systems. This should not be surprising, bearing in mind the more or less acute traffic congestion problems in these cities.

In general, most of the suggested projects were in a very initial stage of preparation – with general formulations without precise financial and cash flow estimates – in fact, many of them are actually project ideas rather than detailed projects. Most of the identified projects actually involve one or two actors, single ownership, and require relatively simple, if any, partnerships. A general weakness of most projects is their low level of “integratedness”. Very few projects are area-based.

4.3. Possible Obstacles to Project Delivery at Present

The main weaknesses of the received projects are directly related to the three fundamental concepts behind JESSICA instrument – public-private partnerships, generation of revenue from projects and integrated urban development. PPPs bring leverage by mobilising private capital and expertise; generated revenue from projects ensure recycling and long-term “revolving” funds; and integrated urban development guarantees synergies and public focus on economic, social and environmental objectives.

Some of the main obstacles to project delivery, which may hinder the successful implementation of JESSICA in Bulgaria are the lack of sufficient experience in PPPs, the capacity and role of local administration to prepare and manage investment projects, and the integrated urban planning.

Public-Private Partnerships

PPPs are inherently built into the JESSICA instrument – both at UDF and at project level. Unfortunately, the experience of Bulgarian local authorities with PPPs has not been very successful so far. During the discussions with the municipal officials, all of them without exceptions have indicated problems with the implementation of PPPs and have declared a need for legislative regulation. The bad experience from the past, whereby the lack of clear regulations of the roles and responsibility of the different actors involved in PPPs, very often led to corruption practices.

Another problem is the lack of experience and skills in managing complex partnerships. The existing experience of Bulgarian local authorities with PPPs is related to relatively simple models of partnerships – usually two participants (the municipality and a private company) in the form of concessions or forming a joint company. Some of the projects under JESSICA will require more complex partnerships between more participants – e.g. under Operations 1.2 and 1.3. Local authorities will have to develop their skills and capacity to manage more complex PPP models in order to take full advantage of these two operations.

The question of legislative regulation of PPPs has been subject to considerable debate among local authorities and at national level. International experience reveals that some of the countries with the best practice of a long-term successful implementation of PPPs (like United Kingdom, for example) do not actually have special PPP legislation – their practice is based on the general public procurement legislation. On the other hand, countries with a special PPP law (e.g. Poland) do not have many successful examples of PPPs – the regulation practically blocked PPPs. According to many international experts, the existing public procurement legislation in Bulgaria is good enough and, if strictly applied, could be a good basis for successful PPP operations. On the other hand, most local authorities regard

this as insufficient. They obviously need some guidance and maybe the MRDPW should consider preparing some sort of, not necessarily normative, document – instructions with concrete recommendations and advice with necessary steps and procedures for implementing PPPs.

In all cases, the restrictions and rules for the use/disposal of municipal property should be considered. Other constraints may arise from the State Aid Act and should be analysed and dealt on a case-by-case basis.

Capacity and Role of Local Administrations

Appreciating the full advantages of JESSICA would require the Municipalities to fundamentally reconsider their role. They should start thinking more entrepreneurially, viewing themselves more as investors rather than grant beneficiaries. Of course, projects that could not generate revenue should continue to be promoted through grants – JESSICA should not be regarded as a substitute of traditional grant schemes. However, due to the revolving capital approach inherent to JESSICA, the revenue-generating projects should take the focus of the public sector as well.

This change of thinking on EU funding seems to be confusing for Bulgarian local authorities as they have just started to understand the Structural Funds' grant mechanisms. Often during our discussions municipal officials asked why they should use repayable instruments like JESSICA when they could use grants (even if for another project). It should be noted that Bulgarian municipalities have long been waiting for the EU structural funds grants to come – they have been preparing strategies, training people and building capacity for absorption of the EU funds for years. JESSICA, however, requires another type of capacity and skills.

Many of the initially suggested projects in the course of the Study reflect the “grant way of thinking” of the local authorities. Many of the projects have very limited, if any, revenue-generating potential; some are typical “grant-type” projects. The local government officials have been urged to modify the projects to make them more “jessicable” – e.g. through wrapping individual projects into project packages that could generate sufficient total revenue to repay, even if some of the projects could not generate any revenue. Unfortunately, there are very few examples in that respect.

The problem is due not only to the lack of capacity of the local authorities to prepare revenue-generating projects, but also to some extent to the narrow activity options and eligibility criteria set in the OPRD Priority Axis 1 and its respective Operations. The OPRD, in general, has been conceptually designed mainly for utilisation of the EU Structural Funds grant mechanisms, which is perfectly logical. JESSICA is specifically emphasised in Priority Axis 1 as an optional instrument, however, most of the Operations strictly focus on activity options and types of projects that need financial assistance, i.e. cannot generate profits by themselves. Therefore, the MRDPW, and more specifically Directorate General “Programming of Regional Development” as a Managing Authority, should probably consider introducing a certain level of flexibility in the strict eligibility criteria set in the Operational Programme, especially for those Operations that would be chosen to be implemented through JESSICA. Or it would probably be more appropriate to create other specific principles particularly for the JESSICA instrument.

Integrated Urban Development

Integrated urban development is one of the fundamental pillars of the JESSICA instrument. Only projects, which are part of an Integrated Urban Development Plan, can be financed through JESSICA. However, there is no unified definition of Integrated Urban Development Planning within the European Union. Given the different planning conventions, the Integrated Urban Development Planning needs to be shaped in each of the Member States on the basis of their national planning traditions. Although the form and concrete contents of IUDPs must be designed at the national level, the JESSICA Expert Working Group has provided guidelines on the elaboration of Integrated Urban Development Plans (Prof. Nadler & FIRU, Urban Development Funds in Europe: Ideas for implementing the JESSICA Initiative – Tabled at the Marseille meeting of EU Urban Policy Ministers, 25.11.2008):

- Contribution to integrated urban development, whereby the public interest in the implementation of the project should be explained;
- The involvement and participation of citizens should be safeguarded to increase the acceptance of measures and the social cohesion;
- The plan should address all different pillars of sustainability – economic (esp. the impact on the job market and the local business), social (the improvement of the social infrastructure and integration of disadvantaged groups of the population), and ecological (e.g. reduction of traffic, emissions and energy consumption);
- Specific concerns of urban development, especially the architectural quality of new buildings and public spaces.

Operational Programme “Regional Development” 2007-2013 places an explicit requirement for projects to be part of integrated urban regeneration and development plans in order to be eligible for financing through Priority Axis 1 (and therefore through JESSICA as well). According to the OPRD, in the first half of the programming period (2007-2009) the integrated approach in urban regeneration and development will be pursued on the basis of the existing Municipal Development Plans and Urban Master Plans, while at the same time providing support for elaboration of integrated urban regeneration and development plans in order to achieve more integrated approach during the second half of the programming period (2010-2013). The MRDPW has already assigned the elaboration of methodology and is planning to allocate a significant amount of Operation 1.4 money for preparation of IUDPs.

However, there is a risk that the preparation of the new Integrated Urban Development Plans in all 86 municipalities in the 36 agglomeration areas would take too much time, which would hinder the effective use of Priority Axis 1 funds after 2009. Discussions with local authorities have revealed that many of them do not fully understand the need of these new types of plans, regarding them as to a large extent duplication or compilation of the existing Municipal Development Plans and Master Plans. Municipalities have spent a lot of time and resources for preparation of their Municipal Development Plans and Master Plans as a necessary precondition to get EU financing. The process of their elaboration – tendering, preparation, evaluations, public consultations, approval of municipal councils and MRDPW – has often taken as much as several years. Now, the new integrated plans for all 86 municipalities should be elaborated in just a year. It is questionable whether there is sufficient expert

potential in the country for professional elaboration of so many plans for such a short period of time. There is a risk that the elaboration of these plans becomes an exercise with little positive effect.

At the same time, the analysis of the projects suggested in the course of this Study has revealed a clear shortage of integrated area-based projects. Of course, all projects are more or less related to the existing Municipal Development Plans and Master Plans – which by the OPRD definition make them a part of integrated plans. Nevertheless, the projects are not sufficiently integrated by themselves. This shows a clear shortage of integrated approach by local authorities. It is important in this respect that the MRDPW should provide to the municipalities a clear and simple methodology for preparation of IUDPs that do not duplicate the existing planning documents, but upgrade them through application of integrated approach on certain parts of the cities' territory in order to achieve synergies and concentration of resources for solving their economic, social and environmental problems.

4.4. Summary of Activity Options for JESSICA in Bulgaria

Our analysis on the activity options for JESSICA in Bulgaria is based on the information provided in the series of questionnaires by the Municipalities and after the meetings with representatives of the local authorities, NGOs and business organisations in Sofia and the six largest cities in Bulgaria – Bourgas, Pleven, Plovdiv, Rousse, Stara Zagora and Varna, and can be summarised as follows:

Operation 1.1. Social Infrastructure

Nine projects have been proposed under this Operation which can be categorised in two main groups – reconstruction of sports facilities and reconstruction of cultural facilities. This clearly indicates certain needs in the Municipalities in this respect. The Operation is already opened and the Municipalities have been applying for grants with projects mainly for reconstruction of nursery schools, kindergartens, orphanages and other social facilities.

PPP

These projects require relatively simple, usually public-public partnership models. However, the leverage effect of mobilising private capital is missing.

Potential to Generate Revenue

The main weakness of these projects is their poor ability to generate sufficient revenue. The very nature of the Operation 1.1 suggests eligibility of projects with low, if any, potential to generate revenue. Sports and cultural facilities are among the only eligible activities under this Operation that can generate any revenue at all. Whether this revenue would be enough to repay the investment, however, seems rather dubious.

Integrated Development

These projects have good potential for integrated urban development only if the adjacent territories are included – green areas, public spaces, etc.

In general, this type of projects does not ensure leverage of private capital in urban regeneration and is questionable whether can provide enough revenues to ensure long-term recycling of funds. They would fit with JESSICA objectives only as parts of larger area-based integrated projects.

Operation 1.2. Housing

Only one project has been suggested under this Operation by the Sofia Municipality. This does not indicate lack of needs, but lack of project readiness and experience with complex PPPs. Moreover, this Operation is not yet opened (expected call for proposals at the end of 2010) and this is probably one of the reasons for the lack of projects. The problems with the reconstruction and energy efficiency of multi-family housing (especially panel housing blocks) is very acute in all cities included in this Study and obviously cannot be solved on a mass scale only with grant financing.

PPP

This type of projects requires complex partnership models with many individual owners, municipalities and potentially the private sector. The main difficulties are related to the achievement of mutual agreement and contribution of all owners. Owners' financial contribution is very important not only for leveraging of funds but also for better involvement and maintenance. In case private developers are involved (e.g. raising an additional storey) a higher leverage effect could be achieved.

Potential to Generate Revenue

In the typical case, low interest loans with terms of approximately 20 years are repaid by the residents through energy cost savings. The shorter the terms of the loans – the faster recycling of funds, however the higher financial burden on residents. In case of possibility for adding to a building or for raising additional store, private developers could be involved and repayment could be made considerably faster.

Integrated Development

Housing renewal projects have very good integrated urban development effects because of their direct economic, social and environmental benefits. This effect could be increased if the projects include the adjacent territory as well (green areas and public spaces) and are concentrated spatially.

Generally, there is a drastic need for this type of projects. Obviously the long term renewal of residential housing estates cannot be achieved by purely grant schemes. The successful implementation of this type of project requires that all residents agree to carry out the renovation measures in their homeowner's meetings, all meet the corresponding demand for loans and are able to pay.

Operation 1.3. Organisation of Economic Activities

Only one project has been proposed under this Operation. Again, this does not indicate a lack of needs, but a lack of project readiness and experience with complex PPPs. Another

reason could probably also be that this Operation is not yet opened, so the Municipalities have not yet started to prepare projects. In fact, the only project for this Operation has been submitted by the private sector – reconstruction of Vladaya Industrial Zone. The problem with old industrial areas and Brownfield zones is also acute in all cities under this Study.

PPP

Like housing projects, industrial zones projects require complex partnerships between many private enterprises (land owners), municipality and different infrastructure companies (state-owned, municipality-owned and private). These projects can have significant leverage effect, since private enterprises can contribute considerable amount of their own financial resources and/or external financing.

Potential to Generate Revenue

These projects can have significant revenue generating potential. Recycling of funds can be provided through regular repayments of private owners to the UDF in a longer run, or through sale of land after the renovation in the short run. If municipalities own land (other than streets and infrastructure), they can have considerable income through sales after the project completion.

Integrated Development

In most cases integrated urban development effects are very good, because of the direct economic, social and environmental benefits.

Industrial zones renovation and brownfield regeneration projects are very suitable for JESSICA. They provide high level of private capital leverage, very good revenue generating potential through increase of land values, and have wide integrated urban development effects. Operation 1.3 is not yet opened, so the exact eligibility criteria are still unclear. For example, it is not clear whether a total redevelopment or only reconstruction of the infrastructure will be eligible for financing. When setting up eligibility rules and criteria, the Managing Authority should provide for sufficient flexibility necessary for the successful implementation of the JESSICA instrument.

Operation 1.4. Improvement of Physical Environment and Risk Prevention

This Operation has attracted the largest number and at the same time the most varied projects – from river banks consolidation to construction of underground parking lots, reconstruction of zoos and energy-efficient street lighting. This Operation provides the best possibilities for integrated area-based projects.

PPP

The varied projects under this Operation require different types of PPPs – from simple models with two partners to complex partnerships between municipality, the state, infrastructure companies and private companies.

Potential to Generate Revenue

Possibilities to generate revenue are also varied, but in most cases are not very convincing at this stage. Possible sources of revenue are operational income, rents from commercial facilities and parking lots, energy cost savings, etc. As many of the projects do not have detailed cash -flow estimates, it is not clear whether the revenues will be sufficient to repay the investment.

Integrated Development

As mentioned earlier, this Operation provides very good conditions for integrated area-based projects. Several such projects have been submitted:

- Beautiful Maritsa – consolidation of the riverbank of Maritsa river and development of recreational area along the river – Plovdiv;
- Plovdiv Old Town – conservation, rehabilitation and urban renovation – Plovdiv;
- Renovation of the National Palace of Culture area – Sofia;
- Reconstruction and renovation of “Zora”, “Makedonski”, “Lozenets”, “Dabrava” and “Kolyo Ganchev” districts – Stara Zagora;
- Reconstruction and renovation of “Slaveykov”, “Vazrajdanе” and “Jeleznik-West” districts – Stara Zagora.

Unfortunately, most of these projects are too generally formulated and are to a larger extent project ideas rather than detailed projects with clear partners, financial estimates, time frames, etc.

Operation 1.5. Sustainable Urban Transport Systems

Seven projects have been submitted under this Operation by the four largest cities in the country – Sofia, Plovdiv, Varna and Bourgas. This should not be surprising bearing in mind that the largest cities have more or less severe traffic congestion problems. Sofia is going to extend its public transport system through construction of four new tram lines; Plovdiv and Varna – through reconstruction and extension of the trolleybus contact networks. Bourgas and Varna are planning the development of monorail systems; Plovdiv – development of suburban light rail system (S-Bahn).

PPP

Public transport projects provide low possibilities for PPPs (public-public partnership at best – e.g. the municipality and public transport company or national rail company) and low level of private capital leverage.

Potential to Generate Revenue

Generally, public transport projects have a low potential to generate revenue. They need large investments that repay very slowly – usually with contribution from the general tax or other municipal revenues.

Integrated Development

Development of sustainable public transport systems has very positive integrated urban development effects on cities as a whole – environmental (reduced emissions), social (better mobility and improved opportunities for wider population groups) and economic (better connectivity, reduced time waste, etc.).

Due to their wide positive effects, public transport projects are promoted in many cities. However, it is questionable to what extent JESSICA is the best instrument for their financing. They cannot provide leverage of private capital and have very low rates of return. They need enormous capital investments and are usually financed through direct loans from financial institutions that are repaid through the general municipal budget.

Conclusions

Projects under *Operation 1.1 Social Infrastructure* generally have low revenue generating potential and are more suitable for grant schemes than for JESSICA unless part of larger area-based packages.

Although at present *Operations 1.2 Housing* and *1.3 Organisation of Economic Activities* do not generate many projects, they provide good opportunities for implementation of JESSICA if sufficient flexibility is ensured in their eligibility rules and criteria.

Operation 1.4 has a good potential for implementation of JESSICA in area-based projects and projects for energy efficiency.

Despite its indisputable benefits, projects under *Operation 1.5 Sustainable Urban Transport Systems* seem not suitable for JESSICA.

4.5. Case Studies

On the grounds of the received projects and different activity options three case studies demonstrating the possible application of JESSICA in three different types of projects have been prepared.

Any input data and/or estimations in the case studies are based on the information provided by the respective local authorities or organisations.

4.5.1. Renovation of the National Palace of Culture and the Surrounding Area

The National Palace of Culture (NPC) is located in the centre of Sofia and is the largest multifunctional congress, convention and exhibitions centre in South-Eastern Europe. For almost 30 years the NPC has been one of the symbols of Sofia, and the area around NPC – one of the most imposing public spaces and a modern urban “agora”, a favourite place for meetings, social contacts and entertainment of Sofia residents and guests. Despite the emblematic significance for the city there has not been a major renovation of neither the NPC building nor the surrounding area. In 2009 with the loan from the EIB starts the construction of the second line of the Sofia Metro which will pass through the NPC area. The aim of this project is to combine the construction of the Metro line with an integrated project for renewal

of the NPC area that could be suitable for financing through JESSICA instrument. In this way, the EIB's funds for the extension of the Metro could be combined with JESSICA and other resources for a more concentrated and integrated effect on the renovation of one of the most significant parts of the city centre of Sofia.

The project is divided in two parts – one for the NPC main building and the administrative building (state-owned), and the other for the surrounding area (municipally owned). The first part will involve improvements in the energy efficiency of buildings (through retrofitting, installation of low energy consumption lighting and central air-conditioning system, etc.), replacement of the old lifts and escalators, renovation of the facades and decorations, and overbuilding the administrative building. The second part will involve renovation of green areas and open spaces; construction of cafés and kiosks; relocation of a tram line (in relation to the extension of the Metro) and construction of underground parking facility. According to preliminary estimations of the NPC management and Sofia Municipality, the total amount needed for the realisation of the project is estimated to EUR 30,000,000 – EUR 10,000,000 for the NPC and EUR 20,000,000 for the surrounding area. The repayment of the investment could be generated separately and independently from the two main parts of the project: in the case of the NPC buildings – through energy costs savings, revenues from overbuilding and additional operational income; and in the case of surrounding area – revenues from the car parking and income from cafés and kiosks. Additional funds could be provided from grants and from the state/municipal budgets.

The project will have a number of positive social, economic and environmental effects – extension of the public transport system and integration between the Metro system and the tram system, energy efficiency improvements and reduced emissions, rehabilitation of green and open spaces, improved accessibility for disabled people, and improved aesthetic quality of the urban environment. In general effect, the project will improve the image of the city and will increase the attractiveness of Sofia as a place for hosting major international events. At the same time, the implementation of the project can function as a positive illustration of possibility JESSICA provides in terms of turning the city in an attractive place for living and hence increase interest and support towards this instrument.

For more detailed information about this Case Study please refer to Annex 7.1.

4.5.2. Beautiful Maritsa

Maritsa River flows through the centre of Plovdiv and is one of its symbols. In contrast to many other river cities, Plovdiv “has turned its back” to the river – Maritsa has become a kind of a “back yard” of the city. The river bed is choked with silt and mud, and some parts of it have become garbage dumps. This brings many aesthetic and environmental concerns, as well as additional financial costs for dredging and clearing the river bed. Moreover, the river creates hazards in case of floods and other calamities. The aim of this project is to propose integrated sustainable development solutions for some of the major challenges, related to making Maritsa River safer and its better utilisation in urban environment.

The various measures and activities are grouped in three parts:

- **Activities for a safe Maritsa river** – clearing the river bed from alluvial deposits; modelling the river bed and the river banks; construction of a barrage, safety draining canal and alluvia-catching facilities; recultivation of erosive alluvia.
- **Development of the adjacent infrastructure** – construction of new sewerage system of the adjacent territory; construction of buffer car parkings at the two ends of the city centre in the beginning of the pedestrian zone along the river; implementation of small hydro-energy stations.
- **Development of zones for sports, recreation and entertainment** – construction along both sides of the river of promenades, pedestrian alleys with bicycle lanes, and development of recreation, sports and entertainment area.

The implementation of the project would be successful with coordinated efforts of the main parties involved – Plovdiv Municipality; the Ministry of Regional Development and Public Works; the Ministry of Environment and Waters; the District Government of Plovdiv; local industry and business associations; non-governmental organizations. The wide participation will guarantee transparency and adequate representation of different public interests. The participation of the business sector will ensure significant private capital leverage.

According to preliminary estimations of representatives of local business organisations, the total amount of the necessary investments for implementation of the project is calculated to EUR 78,000,000. The payback period is expected to be around 15 years, depending on the possibilities for attracting additional financing from the EU structural funds and/or the state budget. The project is expected to leverage additional EUR 60 – 80,000,000 of private capital. The following sources of financial returns could be identified:

- Recultivation of erosive alluvia (derived from cleaning the river bed from deposits);
- Implementation of small hydro-energy projects;
- Buffer car parkings at the two ends of the central city area;
- Implementation of business projects in the field of tourism, attractions and services.

Upon its implementation, the project will have significant public benefits:

- **Environmental** – cleaning the Maritsa river bed, increasing the river stream and protection of Maritsa river banks from infections and diseases; permanent protection of the river valley from calamities and floods; production of energy from renewable sources.
- **Social** – development of pedestrian zones with bicycle alleys and areas for sport and recreation.
- **Economic** – attraction of investments and creation of jobs in the field of tourism, attractions and services.

The increased attractiveness of the central part of Plovdiv and a city as a whole will be an overall effect from the project implementation.

For more detailed information about this Case Study please refer to Annex 7.2.

4.5.3. Renovation of Panel Buildings and Public Spaces in Lyulin Residential Complex

Lyulin residential area is the largest housing estate in Sofia, with a total number of 120,000 residents according to the Bulgarian National Statistical Institute, built up predominantly with multifamily housing during 1970s and 1980s. A significant part of the housing stock (30,000 dwellings) is located in large prefab buildings (panel blocks). Major part of the high rise multifamily buildings suffer various inconveniences related to the inferior thermal characteristics of the apartments, high heating costs, worn out and malfunctioning installations (water and sewerage, electrical, central heating), leaks and damp, decayed facades and entrances. This case study proposes a mechanism, based on preliminary studies conducted by the local administration and the perspectives of applying JESSICA as a vehicle, that helps respond to the increasing needs for large-scale housing regeneration and renewal. The project aims at integrated regeneration that comprises the whole cycle of a renovation process, addresses its complex and multi-dimensional aspects, and offers appropriate solutions to a number of socio-economic, physical and developmental issues.

As a first step, the Municipality of Sofia undertook an inventory of the buildings and analysed them in terms of building types and specifications. Based on an analysis of the municipal archives and additional geodetic surveys, basic drawings of the layouts, sections and facades of the three of the most common building types were prepared/updated. Furthermore, in order to facilitate the process of renovation, the Municipality has declared willingness to provide technical designs, project documentation and construction permits for the repair works free of charge. Then the owners will be encouraged to associate (according to the Condominium Law) and to apply for long-term low interest loans, potentially to UDF structures through the JESSICA instrument.

A programme with the most urgent measures in terms of energy efficiency, repair of installations and physical improvement of the housing stock has been proposed, including: repair of the roofs, setting thermal insulation on the external walls, replacement of all external windows and doors, replacement of the central heating stations, repair of the central heating installation and repair of water and sewerage installations in the buildings. According to the preliminary estimates provided by the Municipality experts these measures will cost approximately BGN 100 per m², which means that, for an average apartment of 85 m² and 20-year 5%-interest loan without down payment, the monthly instalment would be around BGN 56 per dwelling. In case a 20% state subsidy is provided (as declared in The National Programme for Renovation of Housing Buildings in the Republic of Bulgaria), the average monthly instalment would be decreased to BGN 45 per flat. The calculations so far show that the average energy savings are estimated to 25-35 kWh per m² per year. By current heat energy prices, this means annual cost savings of BGN 150 to 210 per average apartment, which would make up 20 to 30 per cent of the average monthly instalment (depending on the amount of state subsidy). The homeowners could make additional savings by requiring local tax exemption according to the Local Taxes and Fees Act.

The intervention should not be limited only to individual buildings, but on the surrounding areas and neighbourhoods as a whole – the space around the entrances, the green areas and their landscaping, the children’s playgrounds, parking lots, etc. The project would have a clear environmental effect by improving energy efficiency of buildings and thus decreasing CO₂ emissions. It would bring visible improvement of the physical environment of the residential areas. This would provide increased security, better access and mobility, feeling of belonging and identity.

For more detailed information about each of the Case Studies please refer to Annex 7.3.

5. Approach to Deploying JESSICA

5.1. The Role of the Managing Authority

The function of a Managing Authority is assumed by the Directorate General “Programming of Regional Development” at the Bulgarian Ministry of Regional Development and Public Works.

The Managing Authority has the following major functions:

- Approve the criteria for projects eligibility for support from the JESSICA instrument, including rules for selection and implementation of investments;
- Determine the amount of funds to be re-allocated from the Structural Funds to the JESSICA financial engineering instrument. Decide through which operations of the Priority Axis 1 the funds will be channelled based on the envisaged HF/UDFs’ structure;
- Define the Investment Principles for management of HF (UDF’s in a case structure without HF is elected). In a case there are also some other shareholders on a HF level, this responsibility could be undertaken at a Supervisory Body / BoD level in the HF. Under both possible structures MA should be ensured that projects financed through JESSICA correspond to relevant Operational Programmes;
- Supervise compliance of HF’s (in a case of JESSICA instrument without HF – of UDF’s) activities within the Investment Principles established.

5.2. The Role of a Holding Fund

In conjunction with the EIB, we have reviewed a range of JESSICA structures and assessed the relative merits of these in effectively deploying JESSICA within the Bulgarian economic development landscape. The primary factors reviewed are:

- Is it necessary to establish a Holding Fund? Including, are UDFs in place ready to accept JESSICA monies, or is a Holding Fund needed to hold JESSICA allocations until they can be established?
- What is the most appropriate structure for UDFs in Bulgaria? Should it look to invest in one or a range of area, sector or thematic funds?

The need of establishing a HF could be best analysed by comparing the main advantages and disadvantages of having such a fund.

Advantages	Disadvantages
<ul style="list-style-type: none"> • A HF may facilitate the development of a more comprehensive and diversified UDF's structure providing better portfolio management and risk diversification. • A HF may attract funds from FIs – a leverage that might not be easily achieved at the level of UDF. • A HF could provide better balance among different UDFs and establish more sophisticated controls preventing possible political influence or corruption practices. • Funds may be immediately distributed as a contribution to the HF providing additional time for establishment of UDFs/ preparation of projects. • Interest margin received from managing the funds may be used to cover the HF Manager's compensation. • A HF may provide expertise and guidance to interested parties in developing eligible projects. 	<ul style="list-style-type: none"> • A HF may burden the overall structure with additional decision-making bodies, administration, etc. • Bulgarian experience in similar structures is still limited.

Generally, in view of the fact that the JESSICA initiative will be among the first of its kind to be considered in the context of the Bulgarian market, the conclusions from the Study suggest that an establishment of a HF could facilitate the initial launch of JESSICA and the subsequent gradual development of a more complex UDF structure. The Study identified numerous projects potentially eligible for JESSICA type of funding, however in many cases projects need additional preparation and planning. UDF structures will be new institutions for Bulgaria which have to be established. With this respect a Holding Fund structure could be especially beneficial within the time frame until eligible UDF's and projects are finally identified and financing decision is taken.

5.2.1. Functions of the HF

The Holding Fund may have the following major functions:

- Develop overall structure of the JESSICA vehicle;
- Attract/draw financing from different sources, among which financial institutions (FIs);

- Distribute funds to UDFs for projects considered eligible in accordance with Investment Principles. Funds allocation is done with consideration of the targeted revenue set out in the Investment Principles;
- Define timeframe for extension of funds to UDF's. In a Bulgarian context, where the UDFs will be new structures, the HF can play a role to establish new UDFs or close UDFs once the funds invested in project/s have been returned and the pool of projects under the respective UDF has been exhausted;
- Consult UDF managing bodies about eligibility of projects and project management;
- Attract borrowing finance, either directly or by acting as a guarantor of funds extended by private financial institutions on an UDF level;
- Assist UDFs in attracting co-financing from banks, other financial or non-financial institutions.

5.2.2. Organization Structure and Holding Fund's Manager

The Holding Fund may be established as a legal entity, fitting in the existing types of legal entities regulated by the Bulgarian legislation (e.g. type of commercial company or non-profit organisation) or even be created as a *sui generis* legal entity under a specifically designated piece of legislation. All these aspects should be further researched and analysed from a legal point of view. Below an exemplary organisation structure that the Holding Fund may have is outlined. Such organization structure of the Fund may comprise of two main levels:

1. Supervisory Body

(Such body only in a case JESSICA funds in HF are matched with equity contributions by other parties).

In a case set-up of such body is considered appropriate, it could include the representatives from organizations contributing to the fund, such as Managing Authority (MRDPW) and other contributing parties. Among the responsibilities can be listed the following: selecting the Holding Fund Manager, establishing specific guides and priorities (Investment Policy) by which the HF shall be managed in a full compliance with the EU legislative provisions applicable to JESSICA and overseeing the Fund Manager's operations.

2. Holding Fund Manager (Executive Director)

The Holding Fund Manager could undertake the responsibility for the overall strategic development and management of the Fund as well as for the Fund's organization and operating activities in accordance with the Investment Policy defined by the Managing Authority (or HF Supervisory Body). Among its main objectives could be: generation of revenue, promotion of investments in projects for urban regeneration and development and distribution of the funds across different UDFs in the most efficient and balanced way.

The Holding Fund Manager could be eligible to receive up to 2% of the capital contributed by the Operational Programme to the Holding Fund per annum⁹.

⁹ Commission Regulation No 1828/2006, Article 43 (4a)

Three options for selection of the HF Manager can be suggested:

The European Investment Bank (EIB)

- Has the capacity and the experience in managing similar fund structures;
- Provides politically independent and professional management of funds;
- Faster process as in a case of EIB selection as procurement process for an appointment of HF Manager will not be needed;
- Sets its established practices when establishing UDFs.

Bulgarian Bank for Development (BBD)

- Will potentially gain valuable experience in managing such kind of structures which may be very useful with respect to further establishment of similar mechanisms;
- Limited track record in managing investment funds.

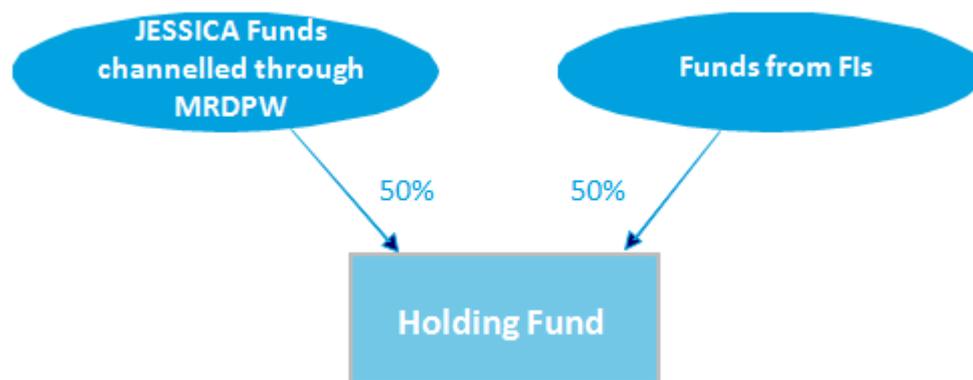
Another professional asset manager

- May prioritize projects with highest revenue potential over projects contributing best to integrated urban development;
- Selection of the manager should be done through public procedure which will delay setting-up of the JESSICA instrument;
- In any case, the practice from other countries reveals that an independent professional management of the HF is better positioned to ensure good portfolio management and prevention of possible political influence and corruption practices.

In general, a more in-depth research with regards to the organisational structure and establishment of the Holding Fund from a legal point of view is needed in order to ensure full compatibility with national legislation. In case a special *sui generis* entity is created, the State should very clearly identify and set the main principles for its management, fund raising and distribution, internal audit and procedures for granting of funds.

5.2.3. Investors

The following distribution of funds within the HF is envisaged:



The structure presented above assumes that, at the Holding Fund level, the funds allocated through JESSICA will be matched at 100% by funds provided by other financial institutions, such as EIB or others.

5.3. Urban Development Funds

UDF's could represent either a separate legal entity or a separate "account (finance)" within the existing financial institution. Interested banks can also assume the functions and management of UDFs.

Given the lack of experience in the Bulgarian context a possible approach would be for UDFs at least on the initial stage to be structured as legal entities. Such legal structuring could enhance commitment of stakeholders. Nevertheless, it must be underlined that a more detailed legal analysis should be performed in order to choose the proper type of legal entity (see Section 5.2.2).

At a later stage funds representing separate accounts could be also introduced. Such option seems more suitable for thematic UDF's, set up with a small number of explicitly defined target projects. In that case the functions of the UDF described below could be overtaken by the Holding Fund with the HF Manager responsible for the overall management and control of the projects.

5.3.1. Functions of the UDFs

The UDFs will be the investment vehicles on which the overall JESSICA instrument will be founded. Their main functions may be summarised as follows:

- Introduce the JESSICA initiative to the broader public and acquaint interested parties with the possibilities for participation;
- Assist interested parties in the preparation of feasibility studies and business plans through know-how as well as through financial support;
- Review, filter, and select among different projects for urban development;
- Approve and invest in projects that comply best with the UDF's purpose and budget (The proposal is that the final decision as to which projects will be financed should stay with the UDF, instead of the HF);

- Increase the UDF's leverage by attracting financing from commercial banks, other financial institutions (mutual funds, etc.) and interested private sector participants;
- Oversee the execution of the projects and assure the compliance with the defined terms for disbursement and repayment of funds.

5.3.2. UDF's Management

Based on the Study results, a possible approach would be that the UDFs have two managing bodies operating as follows:

1. Executive Body

The Executive Body may include representatives of the municipality/municipalities (in a case of regional UDFs) and/or industry experts (in a case of thematically-defined UDFs), representatives of the financing institutions investing in the specific UDF, independent experts in the area of UDF's activity (e.g. urban development, transportation, etc.). Their major role will be the review and selection of projects to be financed based on their expert opinion with regards to the suitability of the projects, their financial feasibility, compliance with JESSICA framework, potential to provide social benefits, etc.

2. UDF Manager (Executive Director)

The UDF Manager will be responsible for generation, pre-screening, and analysis of projects, to be handled by the Executive Body as well as for the day-to-day management – supervision of projects, funds disbursement and collection.

The UDF Manager could be eligible to receive annual remuneration of up to 3% of the capital contributed from the Operational Programme or from the Holding Fund to the specific UDF¹⁰.

One possible approach is the Bulgarian Bank for Development to be selected as the UDF Manager. Such approach has the following advantages:

- There will be no need for a public procedure for the selection of UDF Manager as BBD is a publicly owned bank with a special statute;
- Being already involved in JEREMIE programme, BBD is among a few Bulgarian institutions with some experience in funding schemes similar to JESSICA;
- The selection of BBD as the UDF's manager is not likely to present a conflict of interest, as the bank does not develop purely commercial activities and would not be interested in co-financing projects, approved for funding under JESSICA.

Another approach is the UDF managing company to be selected through an open competitive tender in compliance with the EIB's internal rules for selection of UDF Manager (in a case the EIB is selected as the HF Manager). The selection of a professional UDF Manager will potentially assure politically independent and better portfolio management.

¹⁰ Commission Regulation No 1828/2006, Article 43 (4b)

These considerations are based on best practices for management of similar structures. Nevertheless, all the aspects of the management of the specific UDF's in Bulgaria need to be further considered from a legal point of view.

5.3.3. Banks' Role as Investors in UDFs

We conducted meetings with a number of representatives of private banks to acquaint them with the JESSICA instrument and to assess their interest. More specifically, we met with representatives from Unicredito Bank, EIBank (part of KBC Group), United Bulgarian Bank (UBB, part of NBG group) and Bulgarian Bank for Development. Below we summarise the banks' response to the proposition for involvement in the UDFs:

Unicredito Bank: currently the bank does not envision participation in UDFs, besides a minimal contribution for marketing purposes.

EIBank: Expresses limited interest in participating in UDFs. While on a KBC Group level there has been some experience in financing similar schemes, the local unit has so far not been involved in such.

UBB: Expressed interest in financing an UDF only to the extent that such participation might guarantee their selection as the UDF Manager or the servicing bank.

Bulgarian Bank for Development: interested to participate in UDFs with more sizeable investments as well as to manage the UDF.

The majority of the bankers indicated that while they might contribute certain amounts as stakes or loans to the UDF, the expected return on these investments/loans could not alone foster banks' interest in participating with significant amount of funds on an UDF level, as the rate of return from investments in these stakes/loans cannot be expected to match the market ones. More sizeable bank's contribution on an UDF level might be currently expected mainly from the Bulgarian Bank for Development (a state bank).

At the same time, the commercial banks could be incentivised to participate with stakes/loans in UDF's, if they are also selected as the UDF's manager or chosen as a servicing bank. Thus, a given bank might on the one hand be directly involved in the investment process and control the return rate of the investments (and its own stake) and on the other hand receive an annual remuneration as the UDF Manager. If such an approach is selected, special attention should be placed to introduction of regulations preventing possible conflict of interests as the bank acting as the UDF's manager could be interested in promoting only projects that it could finance further on market interest levels.

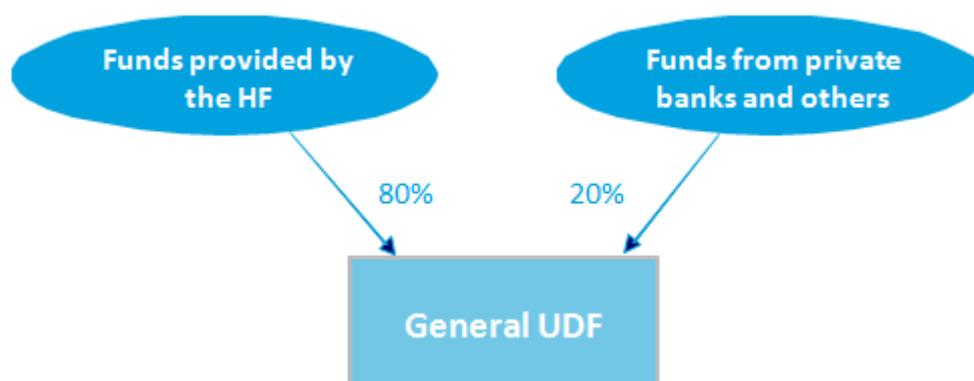
Other potential stimuli that would encourage private banks to contribute funds to the UDF were also considered:

- Financing on an UDF level above some threshold might guarantee representation of the respective bank in the UDF's Executive Body. This representation will assure that the bank will have visibility over a large pool of projects which, irrespective of whether further approved for financing through the JESSICA instrument, might generate considerable business opportunities for the bank;

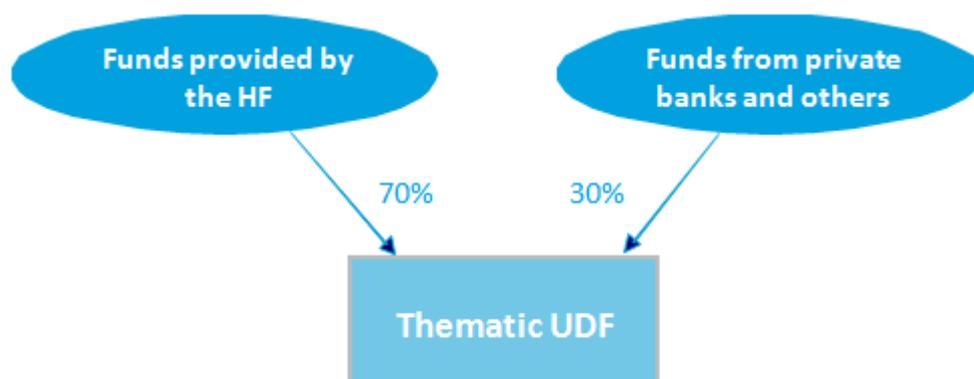
- A mechanism could be introduced by which only banks that contribute to the fund may participate in the tender for selection of servicing bank of the UDF (the bank where the UDF's account balance would be);
- Tax relief mechanisms may be introduced that would stimulate private banks' participation in the UDFs.

We should stress that a number of banks are well positioned to function as UDF Managers as they do have the experience and skills needed to successfully manage long-term investment projects. Another advantage could be the banks' branch network which through its nationwide coverage would facilitate the day-to-day management of the projects.

Still, having in mind the lack of experience of such kind of schemes in Bulgaria and the limited availability of free funds under the current market conditions it is envisaged that the size of external financing from financial institutions on UDF level might reach up to 20-25% of the total funds invested into the UDF.



Higher leverage may be achieved for thematically closely defined UDFs, where the return of the specific projects seems higher and less risky. Such UDFs might attract financial contributors from private players in respective industries and achieve higher leverage of funds (at levels of 30% of the UDF's total value).



5.3.4. Municipalities' Role as Investors in UDFs

With regards to the possible involvements of Municipalities in the funding structure of the UDFs, several considerations can be listed:

- Municipalities' contributions to urban development projects will in most cases be in the form of in-kind contributions of land, buildings, etc. This kind of contribution cannot be suitable at the UDF level, as the projects to be financed are not predetermined at the moment of the UDF's establishment;
- Municipalities' investment in UDFs (even if it is in the form of cash) does not make sense in the case of a thematically defined UDF, covering all regions of Bulgaria;
- In a case of a regionally structured UDF, Municipalities might be interested in participating with some minor contributions to the UDF that might guarantee their representation in the Executive Body. Such representation could assure some decision power in the process of review and approval of projects.

5.3.5. UDF Structure / Types of UDFs

Based on the results of the Study, a possible approach is the UDF's structure to be gradually developed. One possible option is to start with a relatively simple structure consisting of the HF and small number of pilot UDFs. These UDFs could be vehicles with broadly defined investment goals and act as an advertisement for JESSICA projects in different sectors and regions. These early UDFs may start out by focusing on one or two "early win" projects until a larger more diverse pool of projects is developed.

Based on the initial research and the project ideas generated by the Municipalities, two early UDFs could be set up focused on:

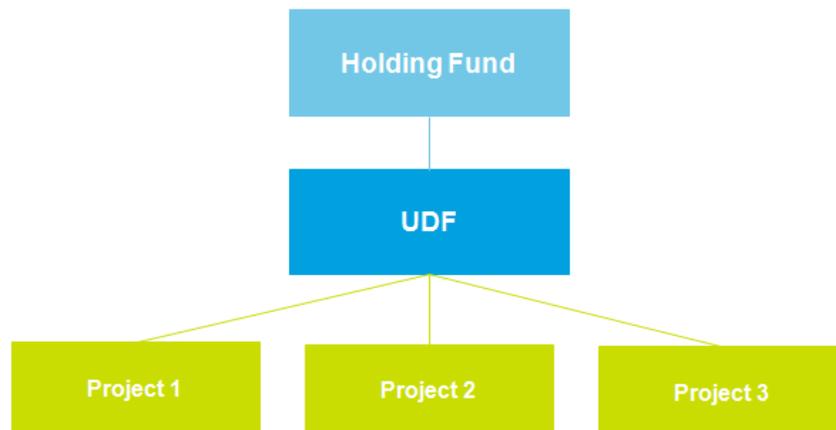
- 1) Housing and energy efficiency;
- 2) Industrial zones.

Other options for the development of an UDF structure include:

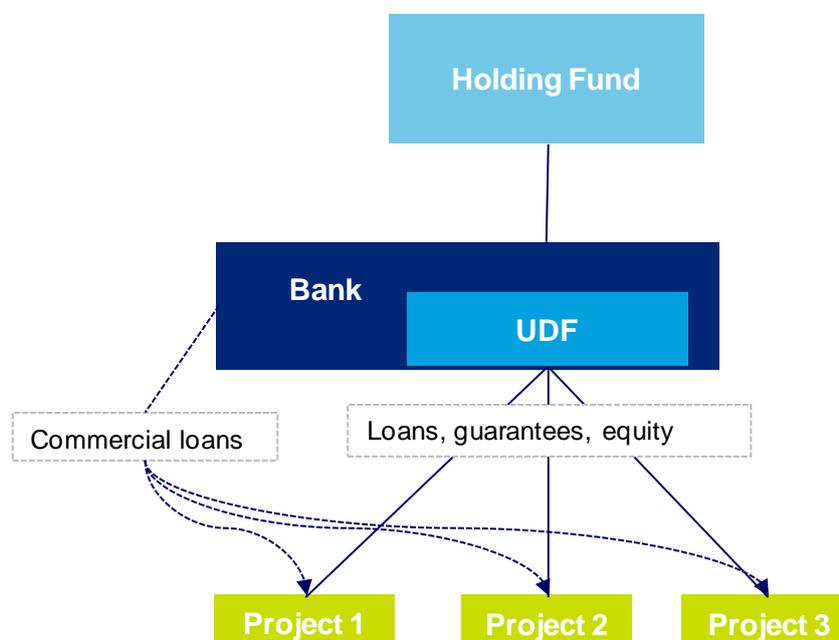
- Setting up UDFs for each municipality;
- Setting up a single UDF for all of Bulgaria;
- Setting up an UDF for each of the priority areas within the Operational Programme; or
- Setting up thematic UDFs for a range of selected focus areas.

The above list is not exhaustive and the final options may result in a combination of the above being selected. However, at this stage of the Study there remain a number of issues that must be resolved by the MRDPW and Municipalities before an UDF structure should be finalised. This must include finalising Integrated Urban Development Plans, bringing forward more projects that are suitable for JESSICA backed investment and raising the profile of the JESSICA instrument with the private sector (especially local banks) that will likely set up and operate UDFs in the Country.

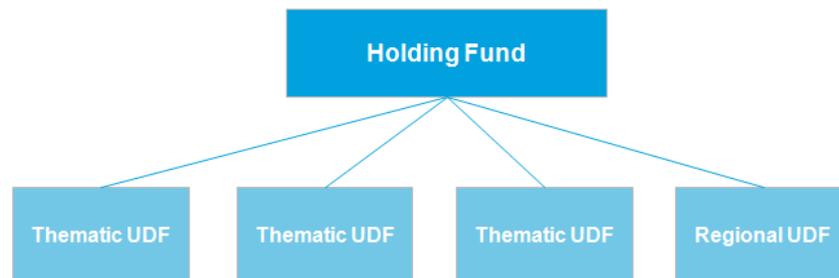
As illustrated by the Study, a number of approaches may be used to deliver economic regeneration in Bulgaria. Below we present an illustrative initial stage scheme with a single UDF, reviewing two options for the structure of the UDF – as a separate legal entity and as a structure within a bank.



This pilot UDF might as well be set within the structure of a bank, as illustrated in the graph below. This model might be further used in the more complex structure, involving several UDFs.



At a later stage a more complex structure could be developed, combining thematically-based UDFs and / or regional UDFs. Given the size of Bulgaria the total number of funds at the final stage is not expected to exceed three or four.



Based on the initial research and the project ideas generated by the Municipalities, the need of two thematically-defined UDFs with the following focus was defined:

- 1) Housing and energy efficiency;
- 2) Industrial zones.

If an UDF, focusing on housing and energy efficiency is established, it may be appropriate to benefit from the experience of the Bulgarian Energy Efficiency Fund.

It should be noted that there is no restriction for two or more UDFs to be set up in one municipality as long as specific projects' costs are covered through one UDF only.

5.4. Project Level – JESSICA Role and Envisaged Leverage

Projects for Urban Development – Generation, Selection, Approval and Financing

There are numerous parties that may be involved in the project initiation process. Throughout the Study the following project schemes were investigated:

- Solely public projects;
- Public-public projects;
- Public-private projects;
- Solely private projects;
- Projects with participation of a NGO.

In terms of projects initiation and development, the JESSICA instrument may provide several advantages:

- Once established, the Holding Fund and/or the UDFs will proactively assist interested parties in coming up with eligible projects to be financed under the scheme;
- A definite amount of the Holding Fund's resources may be allocated for financing of project development and feasibility studies – expenses that are usually not covered under grants schemes;
- The UDFs may additionally provide know-how and administrative assistance to project participants with regards to developing business plans;
- UDFs may provide some forms of guarantees in front of financing institutions, participating in the projects.

The highest leverage from external sources of financing is expected to be achieved namely on this level of the JESSICA initiative. Financing and/or other forms of investments may come from the parties involved in the project (public entities, private companies, NGOs), from private financial institutions as well as from grant schemes. The proportion of funds channelled through the UDFs versus externally provided funds will vary a lot depending solely on the specific project. It is considered that the leverage may reach levels of up to 75% of the project's overall value.

5.5. Financial Flow

The downstream financial flow will be relatively straightforward and will follow the scheme presented below (please see above for details regarding the level of leverage possible at each level).



The Managing Authority shall be responsible to determine the amount of funds to be allocated from the Operating Programme “Regional Development” (Priority Axis 1) to JESSICA. It should also decide through which operations of the Priority Axis 1 the funds will be channelled based on the envisaged HF/UDFs’ structure.

If a HF is established, probably a more feasible and practical solution will be to allocate the funds from the Priority Axis 1 as a whole, instead of channelling them specifically through one or more of the operations within the Axis. If nevertheless the Managing Authority decides

to channel the funds to the HF through one or several of the operations within the Axis, then it should establish strict mechanisms that would ensure that the HF Manager allocates these funds specifically to UDFs that will invest in projects, compatible with the eligible criteria under the respective operations, if it is required by the Managing Authority.

The Holding Fund's participation in the UDFs may be in the form of equity financing or long-term loans. Once a specific UDF has collected back the returns of its investments and has exhausted the projects falling under its field of operations, it should close and its capital should be returned to the financing parties (the Holding Fund, private banks). Suitable approach in Bulgaria, when UDF's are to be established, could be the responsibility for setting clear rules in regards to the lifetime of UDFs and the steps towards their closure to be delegated to the HF.

It may be considered that the funding received from private banks at the UDF level (if it is in the form of equity stake) could as well be repaid earlier (before the closing of the UDF) so that the private financing institutions have some security with regards to the maturity of their investments.

The UDFs' participation in individual projects may be in the form of equity participation, loans or guarantees. One of the advantages of using the JESSICA instrument is that the UDFs may finance long-term projects with relatively slow return on investments. There is no limit with regards to the tenor of the projects and the payback period may extend to 15-20 years.

Again, in order to promote the interest of private parties or financing institutions, the shareholders agreement may stipulate that the revenue of the projects are not distributed on a pro-rata basis to all participants, but serve to repay initially the loans/investments of private entities and banks and only then return the funds to the UDF.

6. Findings and Recommendations

6.1. Summary of Findings

The Study had as a main objective to analyse the possibilities to use the JESSICA initiative in Bulgaria and formulate recommendations for steps to be undertaken in order to introduce adequate financial engineering instruments. As a result, the level of preparedness of Integrated Urban Development Plans in Bulgaria and the prevailing urban renewal and development actions had to be assessed and established as well as the level of interest in using UDFs to channel such actions.

The analysis of the urban regeneration needs under this Study encompassed the capital Sofia and the six largest municipalities in the country – Bourgas, Pleven, Plovdiv, Rousse, Stara Zagora and Varna. The main methods used included analysis of the applicable legislation, existing similar financial institutions, desk reviews of the effective planning environment and documents (Municipal Development Plans and Master Plans), questionnaires and meetings with representatives of local authorities, banks, businesses and NGOs.

The long-term strategic approach to urban development is becoming increasingly important in the planning context of different policies in the country. Improving the attractiveness and competitiveness of cities is regarded as a major priority, which subsequently entered in all planning documents.

Urban issues are clearly embedded within the national and regional policies documents – the National Strategic Reference Framework, the OPRD, the National Regional Development Strategy, Regional Development Plans, District Development Strategies, Municipal Development Plans and Municipal Master Plans. The main topics of urban planning agenda are related to ensure adequate quality of life and basic level services taking into account the preservation of their environmental potential.

Incorporation of projects related to the urban regeneration and development into the OPRD covers more than 50% of the funding, demonstrating the importance of this support for regional development and the expected impact of structural interventions. The following types of operations are supported under the Priority Axis 1 “Sustainable and Integrated Urban Development”: Social Infrastructure, Housing, Organisation of Economic Activities, Improvement of Physical Environment and Risk Prevention, Sustainable Urban Transport Systems.

At the same time a detailed review of the strategies and plans shows that the included strategic territorial priorities are not substantiated with concrete proposals and projects. In many cases the projects are fragmented, not integrated. It is necessary to continue work to specify financial and technical parameters of the projects, as well as to develop PPP opportunities. It is difficult to evaluate their implications for the urban investment sector too. More efforts are needed for specific definition of relevant projects. Nevertheless, the existing plans are a prerequisite for projects eligibility under the OPRD during the first half of the programming period (2007-2009).

The assessment of the planning environment indicates that the inclusion of the urban agenda in the national and regional strategic documents provides a good basis for implementation of the JESSICA initiative in Bulgaria.

JESSICA will need to be underpinned by integrated plans for sustainable urban development, so a special support will be needed for elaboration of Integrated Urban Development Plans in order to achieve more consistent approach during the second half of the programming period (2010-2013).

Bulgarian cities suffer from a number of chronic defects – neglected city centres with outdated infrastructure; residential areas with low condition of housing, green areas and public spaces; decaying brownfield zones; urban sprawl in suburban areas lacking adequate infrastructure; underdeveloped transport network, low quality public transport and traffic congestion; pollution; social segregation; etc. All problems are well realised by the local authorities and are reflected in their respective Master Plans and Municipal Development Plans. All Municipalities have (Sofia, Plovdiv, Varna, Rousse, Stara Zagora), or are in a process of preparation of (Bourgas, Pleven) new Master Plans. The effective use of the EU structural funds is considered a major factor for generating the long needed financial resources for tackling the problems of urban regeneration and development.

The Study ended up with a list of 35 projects:

Projects		
Operation 1.1.	Social Infrastructure	9 projects
Operation 1.2.	Housing	1 project
Operation 1.3.	Organization of Economic Activities	1 project
Operation 1.4.	Improvement of Physical Environment and Risk Prevention	17 projects
Operation 1.5.	Sustainable Urban Transport Systems	7 projects

Projects under *Operation 1.1 Social Infrastructure* generally have low revenue generating potential and are more suitable for grant schemes than for JESSICA unless part of larger area-based packages. Although at present *Operations 1.2 Housing* and *1.3 Organisation of Economic Activities* do not generate many projects, they provide good opportunities for implementation of JESSICA if sufficient flexibility is ensured in their eligibility rules and criteria. *Operation 1.4* has a good potential for implementation of JESSICA in area-based projects and projects for energy efficiency. Despite its indisputable benefits, projects under *Operation 1.5 Sustainable Urban Transport Systems* seem not suitable for JESSICA.

The main weaknesses in the received projects are directly related to the three fundamental concepts behind JESSICA instrument – public-private partnerships, financial returns from the projects and integrated urban development. PPPs bring leverage by mobilising private capital and expertise; financial returns from projects ensure recycling and long-term “revolving” funds; and integrated urban development guarantees synergies and public focus on economic, social and environmental objectives.

Some of the main obstacles to project delivery, which may hinder the successful implementation of JESSICA in Bulgaria are lack of sufficient experience in PPPs, capacity and role of local administration to prepare and manage investment projects, and integrated urban planning.

Public-Private Partnerships

PPPs are inherently built into the JESSICA instrument – both at UDF and at project levels. Unfortunately, the experience of Bulgarian local authorities with PPPs has not been very successful so far. There has been a lot of bad experience from the past, whereby the lack of clear regulations for the roles and responsibility of the different actors involved in PPPs very often has led to bad practices. All Municipalities have indicated problems with the implementation of PPPs and have declared a need for legislative regulations. Although the existing public procurement legislation in Bulgaria is good enough and, if strictly applied, could be a good basis for successful PPP operations, most local authorities regard it as insufficient. They obviously need some guidance and the MRDPW should consider preparing some sort of, not necessarily normative, document – instructions with concrete

recommendations and guidelines with the necessary steps and procedures for implementing PPPs.

Capacity and Role of Local Administrations

Appreciating the full advantages of JESSICA would require the Municipalities to fundamentally reconsider their role. They should start thinking more entrepreneurially, viewing themselves more as investors rather than grants beneficiaries. This change of thinking about EU funding seems to be confusing to Bulgarian local authorities as they have just started to understand the Structural Funds' grant mechanisms. JESSICA, however, requires another type of capacity and skills.

The problem is due not only to the lack of capacity of the local authorities to prepare revenue-generating projects, but also to some extent to the narrow activity options and eligibility criteria set in the OPRD Priority Axis 1 and its respective Operations. JESSICA is specifically emphasised in Priority Axis 1 as an optional instrument, however, most of the Operations strictly focus on activity options and types of projects that cannot generate profits. The MRDPW through Directorate General "Programming of Regional Development" as a Managing Authority should probably consider a certain level of flexibility in the strict eligibility criteria set in the Operational Programme, especially for those Operations that would be chosen to be implemented through JESSICA. It could be possible that this relaxation would be valid only for projects financed through JESSICA, while the stricter eligibility criteria continue to be applied for grant projects. Or it would probably be more appropriate to create other specific principles particularly for the JESSICA instrument.

Integrated Urban Development

Integrated urban development is one of the fundamental pillars of the JESSICA mechanism. However, there is no unified definition of Integrated Urban Development Planning within the European Union – the form and concrete contents of Integrated Urban Development Plans must be designed at the national level.

According to the OPRD, in the first half of the programming period (2007-2009) the integrated approach in urban regeneration and development will be pursued on the basis of the existing Municipal Development Plans and Urban Master Plans, while at the same time providing support for elaboration of integrated urban regeneration and development plans in order to achieve more integrated approach during the second half of the programming period (2010 -2013). The Ministry of Regional Development and Public Works has already assigned the elaboration of methodology and is planning to allocate a significant amount of Operation 1.4 money for preparation of Integrated Urban Development Plans. It is important that the MRDPW should provide the municipalities with a clear and simple methodology for preparation of IUDPs that do not duplicate the existing planning documents, but upgrade them through application of integrated approach on certain parts of the cities' territory in order to achieve synergies and concentration of resources for solving their economic, social and environmental problems.

During the pre-accession period Bulgaria has had some experience with JESSICA type projects implemented under PHARE and ISPA Programmes. But the projects could not be

defined as integrated projects part of sustainable urban planning; they were delivered in the framework of grant contracts and thus could not prepare the Bulgarian local authorities for the use of financial engineering instruments such as JESSICA. The currently existing financial instruments that can be used for urban development – the BEEF and FLAG – concentrate only on loan instruments and do not offer support to the full range of projects that need to be financed in the area of urban development and renewal.

Thus, although there is a clear need for integrated urban development projects to be implemented, currently there are no UDFs or similar structures functioning in Bulgaria, which might serve as a basis for direct implementation of the JESSICA instrument. At the same time, there is some experience in the country in similar structures. Based on that, a specifically designed structure will have to be established to channel the designated funds to projects for urban development through the JESSICA instrument.

On the grounds of the analysis of the experience of the Municipalities and their readiness to implement complex urban development projects in the context of the Bulgarian market, it can be concluded that the initial launch of the JESSICA instrument could be facilitated by the establishment of a Holding Fund. The establishment of a Holding Fund could enhance the independent and professional management of the funds and help developing more comprehensive and diversified UDF structure in the future.

In conjunction with the EIB, we have reviewed a range of JESSICA instruments and assessed the relative merits of these in effectively deploying JESSICA within the Bulgarian economic development landscape. The primary factors reviewed are:

- Is it necessary to establish a Holding Fund? Including, are UDFs in place ready to accept JESSICA monies, or is a Holding Fund needed to hold JESSICA allocations until they can be established?
- What is the most appropriate structure of UDFs for JESSICA in Bulgaria? Should it look to invest in one or a range of area, sector or thematic funds?

The establishment of a HF provides a number of advantages, among the major ones being:

- A HF structure will ensure independent and professional management of funds and generate “interest” on the deposited funds that can be invested in Bulgaria on project development;
- A HF may facilitate the development of a more comprehensive and diversified UDF structure providing better portfolio management and risk diversification;
- A HF may achieve leverage of funds with the support of FIs;
- A HF could provide better balance among different UDFs and establish more sophisticated controls preventing possible political influence or corruption practices.

Generally, in view of the fact that the JESSICA initiative will be among the first of its kind to be considered in the context of the Bulgarian market, the conclusions of the Study suggest that an establishment of a HF could facilitate the initial launch of the JESSICA initiative and the subsequent gradual development of a more complex UDF structure.

The UDF's structure is suggested to be gradually developed. One possible option is to start with a relatively simple structure consisting of the HF and a small number of pilot UDFs. These UDFs could be vehicles with broadly defined investment goals, and act as an advertisement for JESSICA projects in different sectors and regions. These early UDFs may start out by focusing on one or two "early win" projects until a larger more diverse pool of projects is developed. At this stage, a more complex structure could be developed combining thematically-based and / or regional UDFs.

Based on the initial research and the project ideas generated by the Municipalities, two early UDFs could be set up with a focus on:

- 1) Housing and energy efficiency;
- 2) Industrial zones.

Other options for the development of an UDF structure include:

- Setting up UDFs for each municipality;
- Setting up a single UDF for all of Bulgaria;
- Setting up an UDF for each of the Priority Areas within the Operational Programme;
or
- Setting up thematic UDFs for a range of selected focus areas.

The above list is not exhaustive and the final options may result in a combination of the above being selected. However, at this stage of the Study there remain a number of issues that must be resolved by the MRDPW and Municipalities before an UDF structure should be finalised. This must include finalising Integrated Urban Development Plans, bringing forward more projects that are suitable for JESSICA backed investment and raising the profile of the JESSICA instrument with the private sector (especially local banks) that will likely set up and operate UDFs in the Country.

Our findings, based on a number of meetings conducted with Bulgarian banks, show that generally banks are interested and capable of managing UDF structures, Moreover, their selection as the UDF Manager, as the UDF servicing bank or as representatives in the Supervisory Body of the UDF might serve as a stimuli for them to finance (either in the form of equity participation or loans) the respective UDF with more substantial participation. Overall it is advisable that the Managing Authority introduces all incentives that would stimulate banks' participation in the JESSICA instrument, so that the latter benefits both from the banks' experience and skills as professional asset managers and from the financial leverage envisaged.

6.2. JESSICA Action Plan

The above findings clearly show that there are a few steps still to be stepped if JESSICA is to become a working instrument and they require joint efforts from all stakeholders – government, local authorities, private sector, financial institutions, and the European Commission – to be put in within a tight time scale.

If the funds are to be absorbed within the financial framework 2007-2013, the following steps have to be finalised at latest by mid 2010:

- Present the findings and recommendations to the relevant stakeholders;
- In-depth research with regard to the organisational structure and establishment of the Holding Fund from a legal point of view in order to ensure full compatibility with national legislation;
- Obtain stakeholders' agreement on the approach to be followed;
- Initiate an application to the EU for the establishment of the Holding Fund;
- Establish the Holding Fund and select a Fund Manager;
- Negotiate the funding agreement between the Holding Fund and the Managing Authority;
- Establish a pilot Urban Development Fund;
- Ensure a promotion campaign and trainings for the local authorities to support the development of projects that could be eligible under JESSICA;
- Provide trainings and seminars to the MRDPW with the following scope: composing manuals on successful PPPs and elaboration of guidelines for transformation of a "grant-type" projects into "jessicable" projects, etc.;
- Provide special support and assistance to municipalities in development of Integrated Urban Development Plans.

The steps for the period mid 2010 – end 2011 should comprise:

- Evaluate the results achieved in the JESSICA implementation so far;
- Obtain stakeholders agreement on all possible changes to the approach to be followed;
- Proceed with the establishment of thematically-based and/or regional UDFs.

The proposed JESSICA Action Plan is illustrated in Annex 8 to this Study.



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