

# COUNTRY PARTNERSHIP FRAMEWORK FOR **BULGARIA**

for the period FY25-FY29

September 2024

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The last Country Partnership Framework for Bulgaria was discussed by the World Bank Group Executive Board on May 19, 2016.

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for the period FY25-FY29



European Union Country Management Unit  
Europe and Central Asia Region

The International Finance Corporation  
Europe Region

The Multilateral Investment Guarantee Agency

## Currency Equivalents

Currency Unit = Bulgarian lev (BGN)  
BGN1.81793 = US\$1  
(as of June 30, 2024)

## Fiscal Year (FY)

January 1 – December 31

## Abbreviations and Acronyms

<b>ASA</b>	advisory services and analytics	<b>MSMEs</b>	micro, small and medium-sized enterprises
<b>AQ</b>	air quality	<b>NAPCP</b>	National Air Pollution Control Program
<b>CCDR</b>	Country Climate and Development Report	<b>NDP</b>	National Development Program
<b>CLR</b>	Completion and Learning Review	<b>NRRP</b>	National Recovery and Resilience Plan
<b>CPF</b>	Country Partnership Framework	<b>NUTS</b>	Nomenclature of Territorial Units for Statistics Level
<b>CPSD</b>	Country Private Sector Diagnostic	<b>OECD</b>	Organization for Economic Co-operation and Development
<b>CSO</b>	civil society organization	<b>PEA</b>	Poverty and Equity Assessment
<b>DGT</b>	Digital Government Transformation	<b>PIRLS</b>	Progress in International Reading Literacy Study
<b>EC</b>	European Commission	<b>PISA</b>	Programme for International Student Assessment
<b>ECA</b>	Europe and Central Asia	<b>PLR</b>	Performance and Learning Review
<b>ECE</b>	early childhood education	<b>PM</b>	particulate matter
<b>ESG</b>	environmental, social and governance	<b>PPA</b>	Public Procurement Agency
<b>ETS</b>	Emissions Trading Scheme	<b>PPP</b>	public-private partnership
<b>EU</b>	European Union	<b>PPP</b>	purchasing power parity
<b>EUR</b>	euro	<b>PPS</b>	purchasing power standards
<b>FY</b>	fiscal year	<b>PV</b>	solar photovoltaics
<b>GDP</b>	gross domestic product	<b>RAS</b>	reimbursable advisory services
<b>GHG</b>	greenhouse gas	<b>RIA</b>	Road Infrastructure Agency
<b>GPG</b>	global public goods	<b>SCD</b>	Systematic Country Diagnostic
<b>HLO</b>	High-Level Outcomes	<b>SDG</b>	Sustainable Development Goal
<b>IBRD</b>	International Bank for Reconstruction and Development	<b>SPI</b>	supplementary progress indicator
<b>ICAM</b>	Institutional Change Assessment Method	<b>TJTP</b>	Territorial Just Transition Plan
<b>IFC</b>	International Finance Corporation	<b>UNICEF</b>	United Nations Children's Fund
<b>ITI</b>	Integrated Territorial Investment	<b>US\$</b>	United States dollar
<b>MEG</b>	Ministry of E-Government	<b>WBG</b>	World Bank Group
<b>MIGA</b>	Multilateral Investment Guarantee Agency		
<b>MoEW</b>	Ministry of Environment and Water		

	<b>IBRD</b>	<b>IFC</b>	<b>MIGA</b>
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# I. INTRODUCTION

- 1. Bulgaria has undergone a remarkable transformation over the past three decades.** Its highly centralized, planned economy has evolved to become open and market-based. Between 2015 and 2020, Bulgaria experienced economic growth that improved living standards for both the average household and the poorest 40 percent, even amid the COVID-19 pandemic. Robust growth and the rise in welfare translated into poverty reduction – a significant 9.6 percentage point decrease in poverty at US\$6.85 a day and an even more substantial decline in the anchored at-risk-of-poverty rate of 20.3 percentage points. Bulgaria joined the ranks of high-income countries (HIC) in 2024.
- 2. Despite this transformation and although EU membership in 2007 raised expectations of living standards rapidly converging to EU levels, progress on a range of development challenges has been uneven.** The pre-accession reform period has been followed by a slower pace of convergence due to lost reform momentum, slower productivity growth, reduced investment inflows and worsened human capital outcomes. In 2023, Bulgaria's Gross Domestic Product (GDP) per capita was 63.9 percent of the EU average in purchasing power standard (PPS) terms, the lowest in the EU. The gap between citizens' aspirations and the development trajectory has fed into political and social instability and contributed to outmigration, further weakening growth prospects.
- 3. Bulgaria remains the most unequal country in the EU, with spatial disparities visible across a range of outcomes and inequality of opportunity reducing human capital potential.** While the most developed areas have experienced very high economic growth rates, others have fallen into development traps, with some districts reporting at-risk-of-poverty rates of around 30 percent. Inequality of opportunity ranks highest in the EU with more than 50 percent of labor incomes depending on factors at birth. The national relative poverty rate, at 20.6 percent in 2022, was one of the largest in the EU, while the Gini coefficient of income inequality was the highest in the EU at 37.2 percent in 2022, as well as above the average in the Europe and Central Asia (ECA) region.
- 4. Economic productivity and social inclusion are hampered by skill shortage and institutional and governance weaknesses.** Adverse demographics, growing labor shortages (including due to brain drain) and worsening learning outcomes pose growing challenges for inclusion and competitiveness, and businesses are facing challenges in attracting and retaining skilled labor. Also, persistent institutional and governance weaknesses (notably related to governance, corruption, rule of law and judicial independence) have capped productivity growth and convergence. Institutional deficiencies are reinforced by a loss of talent in the public administration and weak administrative capacity, negatively impacting the business environment and growth potential. Between 2001 and 2022, the population of Bulgaria declined by 21 percent, making it one of the fastest shrinking populations in the

world. It is projected to shrink by an additional 28 percent, to 5 million by 2070, further impacting the labor force and placing strains on the healthcare and pension systems. Additionally, Bulgaria confronts issues related to educational quality, access to quality education and retention of skilled professionals, which limit private sector growth and undermine the country's competitiveness. The country ranked last in the EU in performance in mathematics and second to last in reading in the 2022 Programme for International Student Assessment (PISA) scores, and on both subjects well below the OECD average<sup>1</sup>.

5. **Bulgaria is among the EU's most energy and carbon intensive economies,<sup>2</sup> its air quality is among the poorest in ECA<sup>3</sup> and it is increasingly vulnerable to climate change impact.** Its current energy mix is characterized by a significant reliance on fossil fuels for electricity generation. The adoption of renewable energy is slower than in many other countries, with only 22 percent of electricity generated from renewables, compared to 34 percent in Serbia (a neighboring country with similar economic fundamentals, population and energy sector size and structure), to 37 percent in the EU, and to 34 percent in ECA. The need for an accelerated energy transition is critical for climate change mitigation, while improving air quality can help increase life expectancy, reduce medical costs and increase productivity.
6. **The Country Partnership Framework (CPF) FY25-29 sets a new direction for World Bank Group (WBG) engagement in Bulgaria through a sharpened focus on climate and digital development, while maintaining the emphasis of the previous CPF on institutions and people for enhanced competitiveness and inclusion.** It responds to the country's evolving development opportunities and challenges while building on achievements and lessons from the previous CPF. In line with the WBG's updated mission to end extreme poverty and boost shared prosperity on a livable planet, the CPF will contribute to these goals by: (a) operationalizing the One WBG approach, with a renewed focus on enabling and mobilizing private capital through the range of instruments offered by the International Bank of Reconstruction and Development (IBRD), the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA); (b) leveraging partnerships to increase coverage and impact of the CPF program, including by scaling up impact by leveraging EU funds to implement reforms outlined in the EU-financed National Recovery and Resilience Plan (NRRP),<sup>4</sup> the EU Operational Programs,<sup>5</sup> as well as other commitments agreed by Bulgaria and the European Commission (EC); (c) drawing on lessons from Bulgaria to inform regional and global knowledge and development solutions, (d) applying strict selectivity filters, aligning country and global challenges; and (e) presenting a flexible results framework linked to the instruments planned to be used and including indicators from the WBG Corporate Scorecard for FY24-30.

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1. See: [https://www.oecd.org/en/publications/pisa-2022-results-volume-i-and-ii-country-notes\\_ed6fbcc5-en/bulgaria\\_29d65f4b-en.html](https://www.oecd.org/en/publications/pisa-2022-results-volume-i-and-ii-country-notes_ed6fbcc5-en/bulgaria_29d65f4b-en.html). For a list of the 80 participating countries in PISA 2022, also see: <https://www.oecd.org/en/about/programmes/pisa/pisa-participants.html>.

2. See: <https://www.eea.europa.eu/en/analysis/indicators/greenhouse-gas-emission-intensity-of-1>.

3. In recent years, Bulgaria's annual average PM2.5 levels have typically been about 20 µg/m<sup>3</sup> in urban areas, with peaks in Sofia and Plovdiv around 25 -30 µg/m<sup>3</sup>. This is comparable to Serbia's PM2.5 levels where reported averages are between 20 and 25 µg/m<sup>3</sup> and to North Macedonia, particularly in its capital, which often reports very high PM2.5 levels, with annual averages between 25 and 35 µg/m<sup>3</sup>, and to some of the more polluted ECA countries such as Kazakhstan (ranging between 22-32 µg/m<sup>3</sup>), Turkiye (18-22 µg/m<sup>3</sup>) and Armenia (24-34 µg/m<sup>3</sup>). See: <https://www.iqair.com/world-most-polluted-countries>.

4. Bulgaria's NRRP was endorsed by the EC in April 2022 and is financed by the Recovery and Resilience Facility (RRF), which is part of a wider EU response to mitigate negative economic and social impact of COVID-19 and make economies and societies more sustainable, resilient, and better prepared for the challenges and opportunities of the green and digital transitions.

5. These are operational plans of the National Partnership Agreement, which outline agreed priorities for Bulgaria for spending EU Structural and Investment Funds under the EU Cohesion Policy. The funding is organized in seven-year programming periods.

7. **This CPF is selective and prioritizes two high-level outcomes (HLOs):** (i) enhanced competitiveness and social inclusion; and (ii) a low-carbon and more sustainable economy. The first HLO addresses the people and prosperity agendas to eradicate remaining pockets of poverty in Bulgaria and address other inequalities across society, whereas the second HLO relates directly to making Bulgaria's growth more sustainable. The CPF proposes highly selective engagements, with a horizontal focus on enhancing institutions, helping them to serve all people and businesses, for greater prosperity.
8. **This CPF employs a knowledge-based approach, yet provides Bulgaria with access to the full range of WBG instruments, including financing.** The CPF leverages One WBG collaboration, with IBRD's knowledge program fostering enhanced synergies with IFC and MIGA. Synergies are, for example, envisaged in the following areas: (i) IBRD support to private capital enabling reforms that would allow more IFC and MIGA support for private sector investors' engagement in selected sectors; and (ii) IBRD's support to advance the energy transition, green transport, and digital development to create opportunities for leveraging private capital (see boxes 5, 6, and 7). Given Bulgaria's development path, lessons gained will help inform countries that are on a similar trajectory in Europe (including EU accession countries) and other regions.
9. **The CPF builds on lessons from the previous CPF FY17-22 and the FY23 and FY24 implementation years.** The CPF is informed by the FY22 Systematic Country Diagnostic (SCD), the Country Economic Memorandum (2022), the Completion and Learning Review (CLR) FY17-22, the FY24 Public Finance Review, and diagnostics undertaken as part of recent knowledge engagements. It is aligned with the WBG 2023 Evolution Roadmap as well as the National Development Program Bulgaria 2030 (NDP BG2030), and the Climate Change Action Plan for 2021-25. A Country Climate Development Report (CCDR) is planned for 2025, which together with a planned Poverty and Equity Assessment (PEA) and Country Private Sector Diagnostics (CPSD 2.0), will be reflected in the Performance and Learning Review (PLR).
10. **The CPF is in line with IBRD's graduation policy.** Bulgaria's gross national income per capita of US\$14,460 (2024) is above the graduation discussion income threshold, as well as above the HIC threshold of US\$14,005 (2022). Bulgaria, however, continues to experience multi-pronged challenges that warrant continued WBG engagement along institutional, developmental, and sustainability dimensions. Therefore, all new IBRD activities will have a primary focus on interventions to strengthen policies and institutions required for sustainable IBRD graduation as well as contributing to addressing global challenges (notably through its green transition), while IFC and MIGA investments will prioritize global public goods, frontier regions, deepening of capital markets, and crowd in and accelerate private investment to bridge the country's large infrastructure and connectivity gaps. IFC will systematically leverage its advisory and upstream capabilities to maximize non-financial additionality.

## II. COUNTRY CONTEXT AND DEVELOPMENT AGENDA

### 2.1 Sociopolitical and Institutional Context

11. **Despite a complex political environment in recent years, Bulgaria has embarked on a clear path of reforms reinforced by its EU membership.** The country has held six parliamentary elections in the past three years<sup>6</sup> resulting in a rapid succession of governments with shifting priorities. However, most of the population supports a Euro-Atlanticist alignment, including EU membership. Thus, and despite the complex political environment, Bulgaria remains committed to pursuing wide-ranging reforms articulated in the NRRP which are financed with EU grants. The NRRP supports Bulgaria's ambitions to reverse the adverse COVID-19 crisis impacts, strengthen its institutions and help the country prepare for the green and digital transitions. Bulgaria targets eurozone accession in 2025 and full Schengen Area admission.<sup>7</sup>
12. **Bulgaria is an important regional player in a geographically strategic position.** EU membership brought about the benefits of free movement of capital and labor and significant EU funding. This accelerated economic and social changes supporting an increased integration with EU economic markets and institutions. Bulgaria can further consolidate its regional role by taking advantage of its geographic position as a potentially vitally important transport corridor, bridging Europe and Central Asia through the Middle Corridor, as well as connecting Greece and Türkiye to the Western Balkans and beyond.<sup>8</sup>

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6. In April 2021, July 2021, November 2021, October 2022, April 2023, and June 2024.

7. Effective March 2024, the government has achieved partial Schengen Area membership that covers air and maritime transport borders; discussions on lifting land border controls are expected to continue in 2024.

8. Since Russia's invasion of Ukraine, some transport corridors such as the Ruse-Giorgiu border crossing between Bulgaria and Romania, are experiencing increases in traffic of up to 30 percent, given constraints on the use of the Black Sea route.

## 2.2 Recent Economic Developments and Outlook

13. **Bulgaria quickly recovered from the COVID-19 pandemic, but the phase-out of fiscal support has been slow.** Following a COVID-induced recession in 2020, when GDP declined by 4 percent, Bulgaria's economy resumed robust growth in 2021 and 2022 and posted remarkable growth rates of 7.7 percent and 3.9 percent, respectively, before slowing down in 2023 in tune with downward trends in the biggest EU markets (see table 1). The speedy recovery in 2021-2022 was aided by accommodative fiscal policy and generous fiscal support that helped maintain jobs and keep viable companies afloat, as well as mitigate the impact of high energy and food prices on companies and individuals after February 2022. While the fiscal support was timely and time-bound, the phase-out of some support measures has been slow. Despite that, the fiscal position remains strong due to long-standing fiscal conservatism and budget discipline related to the currency board arrangement and, more recently, the bid to join the eurozone. Fiscal deficits have been kept broadly below the 3 percent EU Stability and Growth Pact ceiling in recent years, and public debt remains low by EU standards at 23.7 percent of GDP as of end-2023. However, limited redistribution through the budget, coupled with inefficient spending, keeps key public systems chronically under-financed and results in unequal access to public services and compromises their quality.

**Table 1: Key Macroeconomic Indicators and Projections**

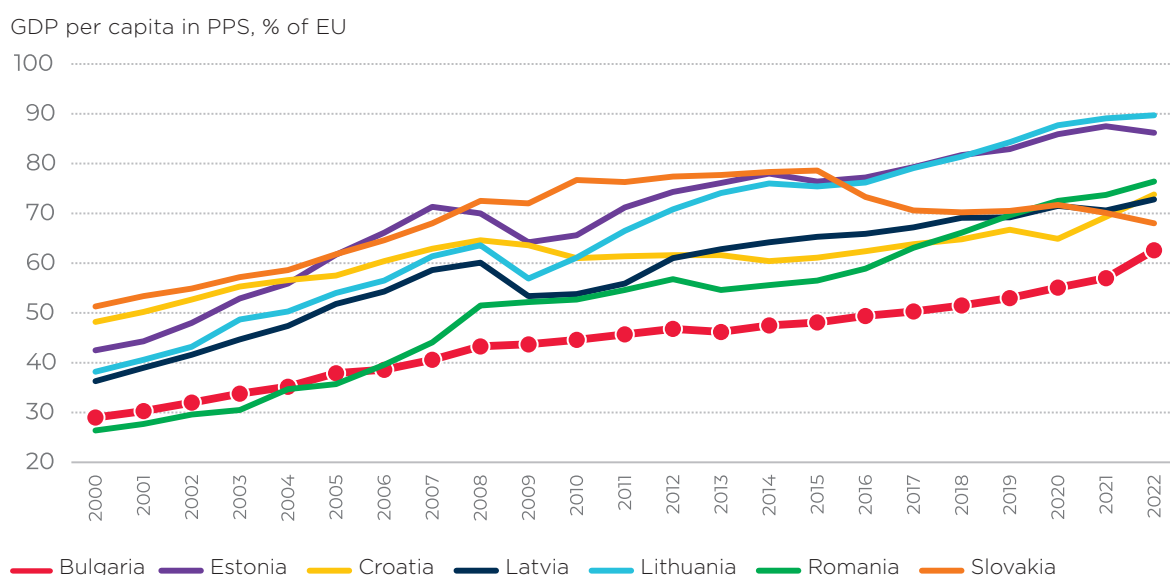
	2020	2021	2022	2023e	2024f	2025f	2026f	2027f	2028f
<b>Real GDP growth, at constant market prices</b>	-4.0	7.7	3.9	1.8	2.1	3.1	2.7	2.6	2.7
Private Consumption	-0.6	8.5	3.9	5.4	2.6	3.4	3.6	3.3	3.4
Government Consumption	8.3	0.4	5.5	-0.4	5.9	3.4	3.0	2.6	2.6
Gross Fixed Capital Investment	0.6	-8.3	6.5	3.3	4.0	1.3	2.6	4.4	4.3
Exports, Goods and Services	-10.4	11.2	11.6	-1.9	4.8	5.8	6.0	5.8	5.9
Imports, Goods and Services	-4.3	10.7	15.0	-6.3	6.3	5.5	6.6	6.5	6.4
<b>Real GDP growth, at constant factor prices</b>	-4.0	8.0	5.3	1.8	2.1	3.1	2.7	2.6	2.7
Agriculture	-3.3	28.8	-4.4	-3.9	4.3	1.2	1.0	1.1	1.0
Industry	-8.2	1.7	12.1	0.9	4.7	5.2	5.3	4.6	4.5
Services	-2.5	8.8	3.9	2.6	1.1	2.5	1.9	2.0	2.1
<b>Inflation (Consumer Price Index)</b>	1.7	3.3	15.3	9.5	5.9	4.2	2.0	1.8	1.7
<b>Current Account Balance (% of GDP)</b>	0.0	-1.7	-1.4	1.6	1.6	2.0	2.2	1.6	1.1
<b>Net Foreign Direct Investment Inflow (% of GDP)</b>	4.5	1.8	2.4	3.1	2.5	2.7	2.6	2.5	2.5
<b>Fiscal Balance (% of GDP)</b>	-2.9	-2.7	-0.8	-3.1	-2.9	-2.8	-2.7	-2.3	-1.9
<b>Revenues (% of GDP)</b>	36.8	37.7	38.6	36.5	38.1	38.7	38.9	38.8	38.8
<b>Debt (% of GDP)</b>	24.6	23.9	22.6	23.7	23.2	23.2	22.8	22.0	20.8
<b>Primary Balance (% of GDP)</b>	-2.4	-2.3	-0.4	-2.6	-2.5	-2.3	-2.3	-2.0	-1.6
<b>International poverty rate (\$2.15 in 2017 PPP)<sup>a,b</sup></b>	0.2	0.7	0.5	0.5	0.5	0.5	0.4	0.3	0.3
<b>Lower middle-income poverty rate (\$3.65 in 2017 PPP)<sup>a</sup></b>	1.4	2.0	1.8	1.7	1.7	1.6	1.6	1.5	6.4
<b>Upper middle-income poverty rate (\$6.85 in 2017 PPP)<sup>a</sup></b>	4.5	5.8	5.2	5.1	5.0	4.8	4.6	4.3	4.0
<b>GHG emissions growth (mtCO<sub>2</sub>e)</b>	-3.9	7.1	6.3	-0.4	0.6	0.6	0.1	1.9	1.9
<b>Energy related GHG emissions (% of total)</b>	79.6	78.7	75.9	75.0	73.8	72.6	71.4	71.9	72.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD. Notes: e estimate, f = forecast. Poverty data are expressed in 2017 PPP, versus 2011 PPP in previous editions resulting in major changes. See [pip.worldbank.org](http://pip.worldbank.org)

(a) Calculations based on ECAPOV harmonization, using 2021-EU-SILC. Actual data: 2020. Nowcast: 2021-2022. Forecasts are from 2023 to 2028. (b) Projection using neutral distribution (2020) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

14. **Bulgaria’s long-term growth potential has been declining, putting a drag on convergence to average EU incomes.** Bulgaria’s GDP expanded fast in the years immediately before and after EU-accession in 2007, yet growth ran out of steam after the global financial crisis of 2008 as foreign investments waned, working-age population continued to shrink, and reforms lost momentum. The 2011-2019 growth rate of 2.1 percent was half that of the preceding decade, keeping Bulgaria at the bottom of the EU in terms of relative real incomes (see figure 1). In contrast, Romania succeeded in achieving a steeper convergence path despite its lower starting point in 2000. Also, the upper-middle income country (UMIC) average growth rate for 2011-2019 at 4.5 percent was more than twice as high as Bulgaria’s. Moreover, growth simulations show that in a no-reforms scenario, Bulgaria’s growth rate is likely to decline to 1.25 percent by 2050 as working-age population continues to shrink.<sup>9</sup>
15. **Bulgaria has market access at reasonable terms, but domestic political uncertainty and the geopolitical situation in the region may pose risks going forward.** The most recent international bond issuance included parallel placement of a EUR 1.3 billion 7.5-year Eurobond and a EUR 1 billion 12.5-year Eurobond in November 2023, and achieved yields of 4.673 percent and 5.130 percent, respectively, equal to 206.2 basis points and 222.1 basis points over benchmark German sovereign bonds. As of June 2024, Bulgaria had an investment-grade rating by the three major rating agencies (BBB with positive outlook by Fitch and S&P, and a notch-higher Baa1 with stable outlook by Moody’s), one or two notches up from 2016, with all agencies projecting a potential upgrade as soon as the country joins the eurozone. Yet, frequent elections have been cited by rating agencies as a factor that could jeopardize eurozone accession and trigger a negative rating action. The geopolitical situation in the region is also subject to serious downside risks, which, if they materialize, may significantly impact market sentiment towards the country.

**Figure 1: Bulgaria’s Convergence Path to Average EU Incomes Compared to Selected Peers**



Source: Eurostat.

9. D. E. Nikolova et al., Bulgaria Country Economic Memorandum: A Path to High Income. Washington, D.C.: World Bank Group, 2022. <http://documents.worldbank.org/curated/en/099050001172322623/P17633801baaa90c60b01e02c6d23fe30db>.

## 2.3 Poverty and Shared Prosperity on a Livable Planet

- 16. Poverty fell sharply in the past two decades, including for the bottom 40 percent, but levels are still high by EU standards.** Between 2015 and 2020, living standards for all Bulgarians improved, and absolute poverty declined as EU membership helped spur economic growth. Real incomes, as measured by GDP per capita in purchasing power parity, were on a stable convergence path to the average EU levels. Incomes grew even faster among those in the bottom 20 percent of the income distribution (13.6 average annual percent rise compared to 8.1 percent in median households over the period 2015-2020). As a result, the share of the population living on less than US\$6.85 a day declined significantly, with poverty incidence declining by 9.6 percentage points over the same period. When using higher poverty lines, substantial declines in poverty are also observed.<sup>10</sup> Reductions in absolute poverty were associated with declines in unemployment and rising real wages in lower-skilled labor-intensive sectors. More recently, this positive trend reversed, with poverty increasing by 1.2 percentage points (using the US\$6.85 2017 purchasing power parity (ppp) poverty line) in 2021. Moreover, food and energy inflation, albeit eased by energy price caps for consumers, could have raised poverty (US\$6.85 line) by 1 percentage point. Child poverty, with some of the highest rates in the EU, may have long-term implications for Bulgaria. Moreover, the elderly population in Bulgaria faces a higher risk of poverty compared to the general population (22.2 percent vs 20.6 percent, respectively, in 2022).<sup>11</sup>
- 17. Despite strong income growth, income inequality remains stubbornly high.** Notwithstanding Bulgaria's continuous increase in prosperity, with per capita GDP reaching 63.9 percent (in PPS terms) of the EU average in 2023 compared to 40.6 percent in 2007, and 29.0 percent in 2000,<sup>12</sup> it still had the lowest GDP per capita among EU countries in 2023. Income inequality increased during 2015-2018, with the Gini index rising from 37.7 in 2015 to 40.8 in 2018, in contrast to the largely stable trend in inequality in the EU (figure 2). Positive trends have been observed recently, but Bulgaria still has the highest inequality in the EU, as well as above the average in the ECA region, driven by disparities in labor market outcomes, limited social protection coverage of the poorest, and a non-progressive fiscal system.<sup>13</sup> About half of the income inequality is due to inequality of opportunity,<sup>14</sup> the highest share in the EU. Economic strain measures, such as households unable to keep the house warm or afford a meal with protein, are consistently above the EU averages. The lowest income quintile experiences economic strain eleven times more than the richest quintile.<sup>15</sup>

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10. The anchored at-risk of poverty rate using the 2019 threshold fell from 35.6 percent to 15.3 percent between 2015 and 2020. This represents the proportion of people with income less than 60 percent of the national median equivalized disposable income. Using the high-income poverty line (US\$25 per day, 2017 ppp), poverty declined from 77.7 in 2015 to 56 percent in 2020, compared to 68 percent in ECA.

11. This refers to the 2023 survey year with the 2022 income reference year.

12. As per Eurostat data: [https://ec.europa.eu/eurostat/databrowser/view/nama\\_10\\_pc\\_custom\\_8967118/default/table?lang=en](https://ec.europa.eu/eurostat/databrowser/view/nama_10_pc_custom_8967118/default/table?lang=en)

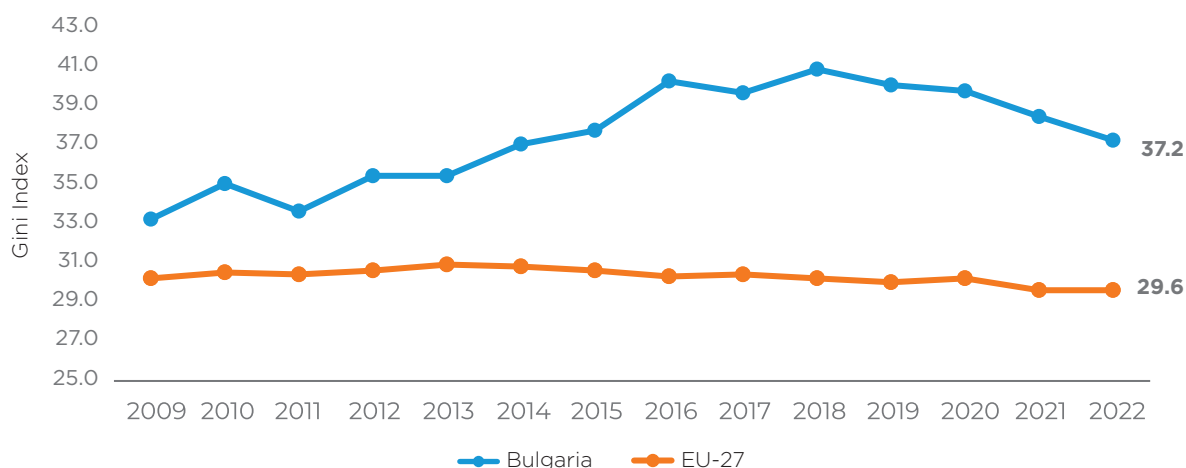
13. World Bank, *Reassessing Welfare Impacts of Bulgarian Fiscal Policy through a Child Poverty Perspective*, 2024.

14. Refers to disparities in access to opportunities and resources that are not based on their inherent abilities, efforts, or choices.

15. World Bank, *Bulgaria Systematic Country Diagnostic*, Washington, 2021, <https://doi.org/10.1596/36842>.

**Figure 2: Inequality in Bulgaria and the EU**

**Gini Index of Equivalized Disposable Income, Bulgaria and the EU, 2009-2022**



Source: World Bank estimates using Eurostat data, [https://ec.europa.eu/eurostat/databrowser/view/ILC\\_LI02/default/table?lang=en](https://ec.europa.eu/eurostat/databrowser/view/ILC_LI02/default/table?lang=en).

Note: Estimates are based on adult equivalents of disposable income. Estimates represent the reference year, not the survey year. For example, 2021 values reflect data collected in 2022 with reference to 2021. More recent estimates are not available for all EU countries.

18. **Some regions and communities continue to be left behind.** Poverty disparities at the subnational level are pronounced, as certain regions have at-risk-of-poverty rates that are twice as high as those in other regions (see figure 3). Five of Bulgaria's six regions (NUTS-2<sup>16</sup>) are among the poorest regions in the EU in terms of GDP per capita.<sup>17</sup> Regional income differences in Bulgaria are larger than in most Organization for Economic Co-operation and Development (OECD) countries.<sup>18</sup> While in recent decades the most developed areas have experienced very high economic growth rates, others have fallen into development traps. Recent evidence shows a notable increase in the mean dispersion of GDP per capita (both within and between regions) between 2000 and 2021, the largest in the EU. The capital city of Sofia has been a major driver of growth, characterized by high and increasing labor productivity. Sofia's GDP per capita is nearly 4.5 times greater than that of the city of Haskovo, near the borders of Greece and Türkiye. Disparities extend beyond economic measures, encompassing tertiary education and employment rates between the capital and other regions,<sup>19</sup> leading to significant welfare disparities. There are pronounced subnational differences in poverty rates among NUTS-2 regions. In 2022, the Southwest region reported a poverty rate of 12.9 percent, better than the national average. Conversely, the Northwest region stood out with the highest poverty rate of 26.9 percent. Income disparities at the district level are even more pronounced. For instance, while 10.9 percent of Shumen's population (part of the Northeast region) lived below the national poverty line in 2022 (income year), Stara Zagora (part of the Southeast region) had a poverty rate more than two times as high, at 25.8 percent.<sup>20</sup> The vulnerable communities are predominantly rural, with significant proportions of the Roma, who are estimated to make up between 4 and 10 percent of the population<sup>21</sup> and of whom 81 percent were at risk of poverty and social exclusion, compared to 30 percent of the overall population (2022).<sup>22</sup>

16. The Nomenclature of Territorial Units for Statistics is an EU classification system for dividing countries into statistical regions. Level 2 provides a standardized framework for data collection and analysis at the regional level.

17. World Bank, An Analysis of the Possibilities to Implement Territorial Instruments. Programme for Development of the Regions 2021-2027, 2021.

18. OECD Economic Surveys, Economic Assessment. Bulgaria, January 2021.

19. European Commission, Regional Trends for Growth and Convergence in the European Union, 2023.

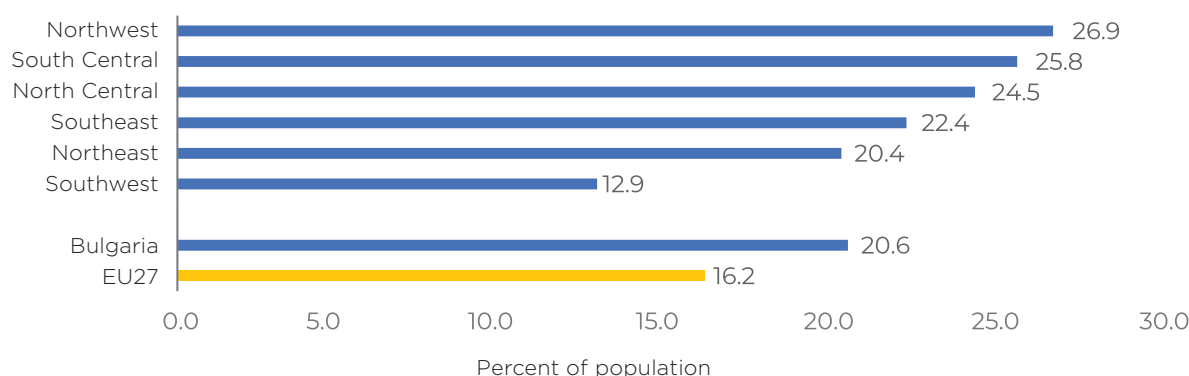
20. Bulgaria National Statistical Institute, *Poverty and Social Inclusion Indicators*, 2022.

21. According to the last three censuses (1994, 2001, 2011), the share of self-identified Roma is about 4-5 percent, while Council of Europe estimates are about 10 percent.

22. Based on official National Statistical Institute estimates, from 2022 Survey on Income and Living Conditions.

**Figure 3: Subnational Poverty Disparities**

**At-risk-of-poverty Rates for Bulgaria's NUTS 2 Regions in 2022**



**Source:** Eurostat, At-risk-of-poverty rate by NUTS 2 regions [tgs00103].

**Note:** Estimates are reported using 2023 survey year, 2022 income reference year. The English region names correspond to the following Bulgarian region names: Southwest (Yugozapaden), Northeast (Severoiztochen), North Central (Severen tsentralen), Southeast (Yugoiztochen), South Central (Yuzhen tsentralen), and Northwest (Severozapaden).

**19. Gender equality has improved, but Bulgaria still lags behind EU peers.** In 2022, Bulgaria scored 60.7 out of 100 on the Gender Equality Index,<sup>23</sup> ranking 10th lowest among the EU27. Despite progress in recent years, Bulgaria ranks below the EU average on all sub-indicators. While the country has experienced growth in the labor force participation rates for both males and females between 2012 and 2020, gender gaps have widened during this period. This is likely related to an unequal distribution of caring responsibilities and concentration of men and women in different sectors of economic activity. Nearly four out of ten women indicated that they care for their children, grandchildren, elderly, or people with disabilities every day. In contrast, daily care responsibilities were reported by only a quarter of men. Female labor force participation is however above ECA, UMIC and HIC average, and the gender gap in labor force participation is similarly lower than in these comparators. Furthermore, the 2024 Women Business and Law 2.0 legal frameworks score for Bulgaria (82.5 out of 100.0) is higher than the global average (64.2) and the ECA regional average (77.0). One of the lowest scores for Bulgaria is on the indicator measuring laws affecting the size of a woman's pension.<sup>24</sup>

**20. Micro, small and medium-sized enterprises (MSMEs) in Bulgaria, in particular women-owned, are reported to have insufficient access to finance.** The MSME finance gap is estimated at US\$6.5 billion, of which US\$1.5 billion for women-owned MSMEs. At 3 percent of GDP, the financing gap for women-owned MSMEs in Bulgaria compares with the average UMIC gap, and is higher than the average HIC gap of 2 percent of GDP.<sup>25</sup> This gap has likely widened in the aftermath of COVID-19 and Russia's invasion of Ukraine as MSMEs are particularly vulnerable to supply chain disruptions and tightened financing supply. Only 31.4 percent of firms in Bulgaria are reported to have a bank loan or line of credit, as compared to 41.2 percent in the wider ECA region, with only nearly 27 percent female-led MSMEs reporting to have a bank loan or credit. Financial products and services targeting MSMEs owned by women are rare in the market and as a result women-owned businesses largely rely on own funds to start their business.<sup>26</sup>

23. A value of 100 means a country had reached full gender equality. The index is only available for EU countries. European Institute for Gender Equality, *Gender Equality Index*, 2022. <https://eige.europa.eu/gender-equality-index/2022/country/BG>.

24. See: <https://wbl.worldbank.org/content/dam/documents/wbl/2024/pilot/WBL24-2-0-Bulgaria.pdf>.

25. See: <https://www.smefinanceforum.org/data-sites/msme-finance-gap>.

26. According to the 2023 World Bank Enterprise Survey and MSME Finance Gap report, 2018.

## 2.4 Main Development Challenges

21. **The 2022 SCD Update identifies four key development challenges that are interconnected and call for action.** The understanding of these challenges has been further informed by other more recent WBG analytics and diagnostics, including around digital development and private sector engagement.

### Challenge 1: Overcoming institutional weaknesses for good governance

22. **Governance challenges are reducing economic potential and undermining progress on poverty reduction and shared prosperity.** Indicators show that the country lags behind the rest of the EU with respect to the rule of law, control of corruption and government effectiveness. Moreover, public data on over 150,000 public procurement contracts in 2011-2021 shows that about half of them may have been awarded to firms with high collusion risk, while uncompetitive procurement practices that carry corruption risks are more common in Bulgaria than in other EU countries. The widespread use of uncompetitive procurement procedures has reduced aggregate productivity growth as it has channeled capital to less productive firms contributing to capital misallocations. This has direct repercussions for the business environment, undermining competitiveness.
23. **Institutional shortcomings have resulted in the inability to effectively implement a solid legislative framework.** Sound regulations, aligned with the EU acquis, are not applied consistently due to ineffective monitoring and control mechanisms, state capture of public institutions, administrative capacity constraints, and a weak judiciary. Institutional weaknesses undermine public confidence in the state and threaten social cohesion and political stability. The SCD identifies key reforms that can have a catalytic impact on governance: (i) strengthening regulatory quality and accountability mechanisms by increasing the transparency, accountability, and predictability of the regulatory environment and of government; and (ii) increasing the efficiency and effectiveness of public institutions.

### Challenge 2: Boosting productivity, skills and employability

24. **Bulgaria's population is in dramatic decline due to an overall aging trend and outmigration.** The fast decline is driven by the shrinking of the 25–49 age cohort, whose labor force participation is high and critical to counter the trend towards increasingly high dependency ratios. This poses significant fiscal pressures and is challenging the sustainability of the healthcare and pension systems. Life expectancy of Bulgarians is 74.3 years (2022), the lowest in the EU.<sup>27</sup> At the same time, labor shortages are resulting in steep increases of wages, making a healthy workforce hard to attract and maintain. The unemployment rate remained low at 4.1 in 2022 and 4.3 percent in 2023, following a moderate increase in 2020-2021 due to the COVID-19 pandemic. However, groups such as the Roma and those with low education levels have higher unemployment rates, highlighting the need for improved education and upskilling.
25. **Significant gaps in foundational skills across age groups limit the population's capacity for labor market adaptation and national innovation potential.** Bulgaria's education system has been unable to overcome poor performance in foundational skills (prob-

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27. *Bulgaria: Country Health Profile 2023*, State of Health in the EU, OECD Publishing, Paris.

lem-solving, reading, mathematics and science) for a decade: more than 50 percent of 15 years olds are functionally illiterate<sup>28</sup>, and 17 percent of students in grade 4 lack reading proficiency.<sup>29</sup> There is a need to refocus the education system to pursue, track and assess specific outcomes of learning and human development, which requires strengthening capacity and accountability of institutions to manage measurable change.

- 26. Bulgaria faces economic challenges due to limited entry and growth of productive firms, low foreign direct investment, lagging firm productivity, and limited access to financing.** The growing market share of less productive firms, skill gaps and a shrinking labor force with shortages of skilled workers hinder productivity and private sector growth. The misallocation of resources and weak incentives for adopting new technology undermine productivity growth in manufacturing and knowledge-intensive business services. Domestic barriers to competition, governance challenges, deficiencies in the rule of law, corruption control and government effectiveness contribute to Bulgaria's lagging behind the EU.
- 27. Bulgaria's readiness for the digital transition remains low.** Digital Government Transformation (DGT) is seen as a critical vehicle for improving the effectiveness and efficiency of the public administration, the quality of services and data for citizens and businesses, and data sharing with other EU countries (see box 4). Yet, the proportion of individuals with at least basic digital skills and above basic digital skills is well below the EU average. In 2022, Bulgaria ranked second to last of the EU27 in the EC's Digital Economy and Society Index. In the World Bank's GovTech Maturity Index 2022, Bulgaria scores 0.681<sup>30</sup>, which positions it behind ECA countries such as Albania, Moldova, Serbia, Türkiye and Ukraine, and behind almost all EU countries. In terms of GovTech enablers, core government systems and digital service delivery, Bulgaria's performance is in line with the ECA average, yet compared to the ECA average, there is significant room for improvement on digital citizen engagement<sup>31</sup>.
- 28. Although Bulgarian banks are well-funded, the financial system is not fully realizing its capacity to boost the economy's productivity, and businesses lack sufficient alternative financing options through capital markets.** Although credit penetration has been increasing, it remained well below the 145.1 percent of GDP average of UMIC in 2022. The banking sector holds good potential for supporting the green transition, but the availability of green financing instruments is limited. Also, the stock market in Bulgaria has low capitalization and has a limited number of shares available for trading, which diminishes its attractiveness to both domestic and foreign institutional investors. The scarcity of attractive investment options and a general low level of trust discourage institutional investors from entering the market. In addition, a low level of financial literacy and limited awareness among businesses about the potential benefits of capital market financing hinder the deepening of the market. The Bulgarian economy has yet to benefit from the significant potential of the private pillar of the pension system as well as eventual listing of state-owned enterprises. The prospect of adopting the Euro is significant for the financial market as it is expected to further open Bulgaria to international investors.

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28. PISA 2022 shows that learning outcomes of Bulgarian students have worsened: 54 percent of the students in mathematics and 53 percent in reading were low performing (i.e. below Level 2). This is significantly worse than the OECD averages of 31 percent and 26 percent, respectively.

29. Progress in International Reading Literacy Study, PIRLS, 2021.

30. The GovTech Maturity Index score represents the average of the normalized scores of indicators under four focus areas: enhancing service delivery, supporting core government systems, mainstreaming citizen engagement, and GovTech enablers. The Index is not intended to create a ranking but to provide a baseline and benchmark for GovTech maturity and identifying areas for improvement.

31. World Bank 2022. "GovTech Maturity Index, 2022 Update: Trends in Public Sector Digital Transformation". Equitable Growth, Finance and Institutions Insight – Governance. World Bank, Washington, DC. See: <https://openknowledge.worldbank.org/entities/publication/10b535a7-e9d4-51bd-96ed-6b917d5eb09e>.

### Challenge 3:

## Strengthening the effectiveness, efficiency and adequacy of public spending for improved service delivery

29. **Demographics are reinforcing regional inequalities and widening the urban-rural divide.** Severe population declines due to outmigration (driven by still-high income gaps between Bulgaria and other EU countries), poor infrastructure connectivity and suboptimal access to public services in many areas—especially rural and mountainous—have led to depopulation of entire districts. Only two districts experienced population growth in the 2001-2022 period, while seven districts saw declines above 25 percent. The rural population decreased by 34 percent between 2000 and 2022, while the urban population decreased by 15 percent, resulting in an increase of the urbanization level from 68 percent to 74 percent in 2022. Public services are generally better in the Southwest region and worse in less developed areas like the Northwest region. The concentration of marginalized people, including the Roma, in lagging regions and segregated neighborhoods within cities and municipalities has increased over the past two decades. This contributes to worsening social and economic outcomes, highly unequal opportunities for human capital development and high at-risk-of-poverty rates in the poorest regions, which are 2.5 times higher than in the capital city. Parental education and the urban-rural divide together explain about three quarters of the difference in opportunities in Bulgaria.
30. **Bulgaria has traditionally adhered to limited redistribution through the budget as compared to most EU members, partly owing to the need to maintain fiscal prudence as part of the currency board arrangement.**<sup>32</sup> However, this policy may need to be reconsidered as continuing depopulation of rural areas has resulted in an increase in the number of small municipalities, which threatens to undermine public service delivery in already underserved areas and for marginalized communities. Access to healthcare is one of the areas in which regional disparities in service delivery continue to be most apparent. The shortage of general practitioners in underserved areas is likely to be intensified as more than 60 percent of general practitioners are above age 55 and approaching retirement.<sup>33</sup>

### Challenge 4:

## Enhancing the sustainability of the growth model

31. **Key challenges for decarbonizing the economy include reducing climate-change drivers while transforming the energy, transport and agriculture sectors and ensuring a just transition in regions facing socio-economic challenges from the phasing out of coal and reducing CO2 emissions.** Climate change adaptation is also critical as Bulgaria is situated in a region particularly vulnerable to temperature increase and extreme precipitation leading to increased frequency of droughts and floods. The National Climate Change Adaptation Strategy 2030, supported by the WBG, identifies agriculture, food security, forests, water resources, soil erosion and flood risk as vulnerable areas needing adaptation.
32. **Bulgaria has subscribed to the EU vision embedded in the European Green Deal, yet it is falling behind its targets.** The EU targets are: (i) reducing net greenhouse gas (GHG) emissions by at least 55 percent by 2030, relative to 1990 levels,<sup>34</sup> in alignment with the

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32. See World Bank, *Bulgaria Public Finance Review*, 2023.

33. OECD, *OECD Economic Surveys: Bulgaria 2021: Economic Assessment*.

34. The 55 percent reduction by 2030 is a Europe-wide target to which all members and sectors will contribute. Effort sharing among them is mainly ensured by two legislative instruments: the European Emissions Trading Scheme (ETS) Directive and the Effort Sharing Regulation.

EU's "Fit for 55" approach;<sup>35</sup> and (ii) achieving net zero GHG emissions by 2050. Energy is the key emitting sector in Bulgaria, and its decarbonization—including through renewables and electrification of transport—will be central to the green transition, though over time action will be required across the whole economy. While Bulgaria managed to decouple economic growth from GHG emissions between 2015 and 2019, emissions have remained at 52.5 percent of 1998 levels in 2021. At the current pace, Bulgaria will not meet the 2030 and 2050 targets. Moreover, even though agriculture GHG emissions have reduced significantly since the 1990s, the recent expansion of agriculture activities has added environmental pressures.<sup>36</sup> Delivering on decarbonization objectives while pursuing development objectives with economic competitiveness in mind will require not only substantial investments (both private and public), but also political and population buy-in. It will also require unprecedented government collaboration across sectoral reforms, together with complementary policy action to ensure the transition is equitable and does not deepen regional disparities, while strengthening resilience to natural disasters.

**33. There has been significant growth of wind and solar power over the past decade.**

Yet further growth of renewables, decarbonization of heating and transport, and scaling up of investments in energy efficiency will be more challenging. Recognizing these challenges, and in line with EU climate and energy targets, Bulgaria adopted its National Energy and Climate Plan 2021-2030 in 2020 and updated it in 2023, with commitments to increase energy efficiency and the share of renewable energy. The NRRP confirmed the country's commitments towards a green transition and a target has been set to reduce GHG emissions from electricity generation by 40 percent compared to 2019 levels by 2025. Specifically, the NRRP's Green Bulgaria pillar focuses on deployment of renewables and alternative energy sources (e.g., green hydrogen), expansion of storage capacity for solar and geothermal electricity, and renovation of the building stock. It also highlights sector liberalization, which has suffered delays.

**34. Bulgaria's investment levels continue to be low, while significant investments are needed to meet development challenges and accelerate convergence.**

Bulgaria invested on average 19.5 percent of GDP in the period 2010-2022, considerably below the EU average of 22 percent. Nearly 70 percent of these investments were provided by the private sector. Bulgaria's long-term investment prospects continue to be hindered by gaps in the business environment as well as a shortage of skilled labor and a relatively large informal sector, while mobilizing private capital is essential for the success of Bulgaria's decarbonization efforts, with green finance gaining momentum and potential. The effective mobilization of public, blended and private finance relies on establishing an appropriate institutional framework. While a substantial portion of investments is anticipated to be supported by domestic and EU resources, the financial sector can play a critical role in redirecting commercial capital towards net-zero objectives.

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35. To achieve the overall target of 55 percent emissions reduction compared to the 1990 levels, all ETS sectors must contribute a reduction of 62 percent and those outside the ETS—a reduction of 43 percent compared to the 2005 levels (the total is not 100 percent due to the specific way emissions are modelled, calculated and accounted for across different sectors).

36. In 2020, the agriculture sector contributed 12.6 percent to the total of Bulgaria's GHGs (without land, land use change and forestry).

# III. WORLD BANK GROUP PARTNERSHIP FRAMEWORK

## 3.1 Government Program and Medium-term Strategy

35. **Bulgaria embarked on the implementation of the National Development Program Bulgaria 2030 (NDP BG2030), its medium-term strategic framework, in 2020.** It sets out three strategic objectives: accelerated economic development, a demographic upswing, and reduced inequalities. To achieve these, the NDP BG2030 suggests policies and interventions around five integrated axes: (i) boosting competitiveness of the economy and transforming it into an economy based on knowledge and smart growth; (ii) sustainable management of natural resources; (iii) enhancing competitiveness and sustainable development of the country's regions; (iv) building effective and responsible public institutions, and (v) enhancing the quality of life.
  
36. **The NDP BG2030 is supported by the National Recovery and Resilience Plan.** The NRRP envisages 56 investments and 47 reforms, supported by EU financing – with allocations across four pillars: (1) Innovative Bulgaria (25.3 percent) aiming to improve the competitiveness of the economy and its transformation into an economy based on knowledge and smart growth; (2) Green Bulgaria (41.9 percent) with a focus on sustainable management of natural resources allowing to meet the current needs of the economy and society, while maintaining environmental stability; (3) Connected Bulgaria (18.3 percent) emphasizing the increase of the competitiveness and sustainable development of the regions of the country; and (4) Fair Bulgaria (14.6 percent) with a focus on disadvantaged people and groups to achieve inclusive and sustainable growth and shared prosperity for all, as well as building effective and responsible public institutions. Box 1 summarizes WBG support that will help Bulgaria achieve NRRP milestones and take full advantage of the available EU resources.

### Box 1: WBG Support to Help Bulgaria Unlock EU Resources

In addition to the NDP BG2030, Bulgaria's development targets are driven by its National Recovery and Resilience Plan (NRRP) commitments, the Operational Programs, as well as other commitments agreed with the EC. Examples of ongoing or envisaged WBG support to Bulgaria to support reaching those targets are:

**Just energy transition:** With reference to an NRRP milestone and RePowerEU, IBRD has engaged in developing mechanisms that protect energy-poor and vulnerable consumers, including through the design of a national Energy Poverty Observatory, and supported the development of a fossil fuel dependency reduction roadmap.

**Renewable energy:** Building on past support to NRRP milestones on the legal and regulatory frameworks for geothermal energy, WBG will support Bulgaria to further develop its geothermal energy sector (see box 6.)

**Energy efficiency:** In support of NRRP milestones on energy efficiency, the WBG will support decarbonization of the building stock by providing diagnostics and supporting the design of financial instruments and capacity building for energy efficiency auditors and relevant software. Responding to high demand from the private sector, IFC will commit financing for construction of both new green assets and "greening" of existing industrial logistics assets throughout the country. It will also support decarbonization of large commercial real estate in big cities. MIGA will explore opportunities to support decarbonization efforts through its credit enhancement solutions.

**Regional development:** Aligned to the EU Development of Regions Programme 2021-2027, IBRD will support capacity building to enable improved implementation of the integrated approach to regional development, including financing, utilizing the Integrated Territorial Investment (ITI) mechanism.

**Air pollution:** IBRD will support the development of an updated National Air Pollution Control Program with the objective to update and, if necessary, propose new policies and measures in key economic sectors to achieve the national emission ceilings, as set by the EU National Emission Ceilings Directive. IFC will explore support to district heating utilities projects, which will support phasing out fossil fuels for heating purposes in big cities.

**Digital development:** IBRD will help addressing technical and institutional gaps to support Bulgaria deliver on commitments made in the EC Program on Research, Innovation, and Digitalization for Smart Transformation 2021-2027. The program is dedicated to building government capacity for effective data governance and management, and catching up to EU standards. On the private investment front, IFC will continue to support the emerging IT/tech sector in private venture capital industries and strengthen and green digital infrastructure (see box 5).

## 3.2 WBG Country Partnership Framework

37. **The overarching CPF goal is to help Bulgaria's economy become more competitive and inclusive, while accelerating the green and energy transitions.** The CPF is structured around two HLOs and four objectives (see figure 4) that build on achievements and lessons from the previous CPF and focus on strategically opportunistic engagements, while aligning to the evolving WBG strategic priorities. The cross-cutting theme is strengthening (national and subnational) institutions.

### Lessons learned

38. **Implementation of the previous CPF provides important lessons, notably around the knowledge agenda, leveraging WBG collaboration for greater impact, and a focus on global public goods.** Given the continued focus on the knowledge agenda, it is critical that the engagement addresses specific knowledge gaps and enables knowledge generation for application beyond Bulgaria's and Europe's borders. The key lessons of the Completion and Learning Review (CLR), which can be found in annex 2, are the following:

**Lesson 1: The knowledge agenda could be applied more strategically to support institutional change and to create opportunities to leverage EU and private funds in Bulgaria, while informing best practices to be applied globally.** This lesson was drawn from three specific CLR findings. (i) The use of knowledge products was not integrated in CPF design. The Institutional Change Assessment Method (ICAM)<sup>37</sup> used to understand whether and how knowledge led to institutional change during the previous CPF showed that some interventions only led to “knowledge gained” (rating 3 out of 6), whereas impact of knowledge interventions happens at rating 6. (ii) Knowledge spillovers were not captured systematically. (iii) In the later years of the CPF FY17-22, and implementation years FY23 and FY24 (see box 2), when knowledge gained more prominence in the portfolio, the application of knowledge was used more strategically to leverage EU funds under the NRRP, to advance Bulgaria’s evolving development priorities as the pandemic hit, and Bulgaria was impacted by the regional and global impacts of Russia’s invasion of Ukraine, and to scale innovative approaches. A new RAS Memorandum of Understanding (2022) consolidated this more strategic approach, by helping facilitate smoother processing of RAS on the side of the Government.

### **Box 2: Continued and New Engagements in FY23 and FY24**

- I. Ongoing implementation of RAS/ASA:** River Basin and Flood Risk Management RAS; Strengthening Disability System ASA (collaboration with the EC); Renovation Wave ASA (with the EC); National Social Security Institute (NSSI) Capacity Building ASA (with the EC); Compact Cities ASA; e-Gov Transformation ASA; Greening Public Investments ASA; Support to Distressed Businesses ASA (with the EC); Strengthening Monitoring & Evaluation (M&E) of EU Innovation Programs (with the EC); ECCEU Programmatic Poverty Program.
- II. Implementation started for new RAS/ASA:** Geothermal RAS (signed 2023), Air Quality RAS (signed 2023), Regional Development RAS (signed 2024), Data Governance & Data Spaces RAS (signed 2024); Public Finance Review (PFR), Subnational PFR, Strengthening Municipal Capacities and Performance ASA, Teach ECE & Analysis ASA, Promoting Digital Transformation ASA (with the EC), EU Basic Income Guarantee ASA (with the EC), Subnational Business Enabling Environment ASA (with the EC), ECCEU Programmatic Poverty Program FY23-24 (with the EC), Demographic Strategy ASA (with the EC).
- III. New RAS/ASA under discussion or formally requested:** Road Sector Development RAS; Just Transition/Maritsa East RAS, Energy Poverty Observatory RAS, Advancing Bulgaria’s Policies for Quality Education RAS, and Innovation of Industrial Economic Zones/Bulgaria Development Bank RAS. New ASA engagements under discussion (beyond core ASAs CCDR, PEA, CPSD 2.0.), including a project to set up Social Inclusion Platforms for marginalized communities including the Roma (with the EC).
- IV. RAS Memorandum of Understanding** signed with Government to provide an umbrella for RAS engagements and enable faster processing of RAS agreements on the side of Bulgaria, no longer requiring parliamentary sign-off for each single RAS.
- V. IFC’s selective program with strong additionality:** IFC new engagements in Bulgaria supported innovation and competitiveness by focusing on the development of the capital pillar of the pension system and strengthening its digital strategy. They also aimed at improving energy efficiency of buildings, greening retail and logistics infrastructure and improve access to climate finance for SMEs.

37. The ICAM rating scale tracks incremental progress towards institutional change achieved by empowering change agents through knowledge transfer. “Knowledge” is a broad label that refers not only to traditional knowledge and skills, but also to disposition (e.g., confidence and motivation) and to relationships (e.g., networks and coalitions).

**Lesson 2: WBG collaboration could be more strategic to maximize impact in a few selective areas.** Opportunities for joint IBRD, IFC, and MIGA initiatives were limited during the CPF FY17-22. IBRD and IFC were collaborating mainly through the lending program. However, as shown by the experience of the Sofia Airport project, upstream IBRD-IFC collaboration during the advisory mandate can yield positive results. In the context of the Sofia Airport projects, IFC, IBRD and MIGA joined forces to support MIGA to prepare the issuance of guarantees for the concession contract, although no guarantees were ultimately issued. Under the new CPF, the WBG will ensure systematic engagement upstream in the programming process, exploring alignment on activities and objectives.

**Lesson 3: The global public goods agenda could gain greater prominence, with Bulgaria providing leadership in developing and piloting innovative approaches to tackling urgent development challenges that have positive spillover effects for the region and the world.**

Although the green agenda was not the focus of the previous CPF, the engagement on the green agenda turned out to be highly innovative and of benefit to the global climate agenda. Novel methodologies developed in Bulgaria to understand decarbonization in non-coal regions and assess its impacts have set an innovative example for other countries in the region. The main lessons that had spillovers were related to decarbonizing solutions at the sub-national level, in places that are not coal-intensive in their energy production, but also regarding knowledge of just transition governance. Experiences from Bulgaria fed into support of the coal regions transition in Poland, the Country Climate and Development Report for the Western Balkans and the WBG 2023 report *Within Reach: Navigating the Political Economy of Decarbonization*.<sup>38</sup>

## Consultation process

39. **The CPF benefited from stakeholder consultations including the government, civil society, and the private sector.** The first round included national policy makers in Sofia, key EC counterparts, and NGOs. Subsequent rounds included local government officials and private sector representatives, civil society organizations (CSO), trade unions, and employers' associations. The topics of the consultations were informed by the priorities defined by the respondents of the Country Opinion Survey, namely, public sector governance/reforms, digital development, trade and transport, economic growth, especially with due consideration of the lagging regions, education, climate change, water, as well as a just transition to renewable energy. All stakeholders reiterated the importance of a robust WBG engagement in Bulgaria.

## Selectivity and alignment with the new WBG playbook

40. **Selectivity.** The CPF applies selectivity filters intended to sharpen the focus of the country engagement. The filters are: (i) alignment with the development priorities identified in the SCD Update; (ii) calibration with the priorities of Bulgaria's national development agenda and government demand; (iii) leveraging the WBG's comparative advantage and key corporate priorities (poverty reduction, addressing inequality, a livable planet, advancing gender equality, and mobilizing private capital). Application of the third filter includes strengthening institutions, in line with the IBRD graduation policy; potential for knowledge spillovers, replicability and scalability within and outside the EU and the ECA region; consistency between country and global challenges identified in the 2023 Evolution Roadmap; elevated prospects for One WBG approach and enabling private capital; and expanded opportunities for leveraging partnerships with the EU and other international financial institutions. In applying the selectivity filters, HLO1 is aligned with the WBG goals of ending poverty and boosting shared prosperity, including by addressing inequalities, while HLO2 is generating

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38. Available at: <https://openknowledge.worldbank.org/> and <http://documents.worldbank.org/>.

global public goods for a livable planet that benefit all people in Bulgaria, as well as beyond its borders. Each objective aims to strengthen institutions through building government capacity and supporting Bulgaria to enhance its policies. Throughout the objectives, opportunities for enabling private capital are explored, with the greatest opportunities under HLO2.

41. **Knowledge spillovers, replicability and scalability.** A RAS Memorandum of Understanding signed with the government in 2023 allows for Council of Ministers approval of new engagements as opposed to Parliamentary ratification required in the past. This will continue to serve as an important tool for enabling a more agile and strategic knowledge agenda during the CPF FY25-29, building on positive lessons of the previous CPF. The WBG will make additional efforts to ensure optimization of the use of knowledge in support of institutional change, and more systematically document knowledge and approaches replicated with clients globally, for instance through the development and dissemination of critical policy notes on lessons learned in the Bulgaria engagement. Additionally, partnerships will be leveraged more intensely to disseminate knowledge, including working closely with the EU institutions, CSOs and think tanks, as well as through task team leaders of engagements in other regions (see box 3).

### **Box 3: Generating and Sharing Knowledge**

**Knowledge spillovers and generating replicable and scalable models and approaches are underpinning the CPF FY25-29.** The Country Opinion Survey FY22 illustrates the success of the knowledge-based approach in Bulgaria, with the WBG achieving the highest score for being a source of relevant information on global good practices (8.1 on a 10-point scale), up from the previous assessment in 2015 (7.5) and higher than comparators in ECA (7.5).

**During the previous CPF, knowledge generated in Bulgaria informed approaches and practices in other countries in the ECA region and beyond.** Examples include: (i) Use of results-based financing in the Bulgaria Deposit Insurance Fund project informed innovations in other IBRD operations directed at strengthening financial and institutional capacity of deposit insurance schemes. Lessons have been replicated in the past five years in several countries including in Romania, Lao PDR, Mozambique, Tajikistan and Sri Lanka. (ii) The Air Quality RAS has informed engagements in Poland, Slovakia, Bosnia and Herzegovina, Kosovo and North Macedonia. (iii) Under a past RAS on Decarbonization, IBRD supported development of the Territorial Just Transition Plans (TJTJs). Unlike in EU peers, the TJTJs in Bulgaria focus not just on coal, but also cover other carbon intensive industries—an approach which has served as a valuable model that could influence the European Green Deal.

**Potential replicability of engagements under the CPF FY25-29:** (i) The local government capability assessment framework developed under the “PASA Bulgaria: Strengthening Municipal Capacities and Performance” aims to inform a larger EU wide assessment framework envisaged to support further decentralization of the management of EU cohesion funds. (ii) The Geothermal RAS is informed by experiences in countries and regions that have developed geothermal energy on a large scale, in particular Türkiye, the EU and Central America; and knowledge exchanges with Türkiye and France are planned. The institutional setup of a geothermal laboratory, informed by IBRD technical assistance, has built on case studies from these countries as well as Iceland, the Caribbean, US and Chile. Geothermal support will also seek to create synergies with technical assistance provided for the renovation of the building stock (Renovation Wave), identifying opportunities to develop sustainable and affordable heating services, which will be informed by successful cases in Northern Europe. The experience of Bulgaria, which is facing concomitant challenges in the phasing out of coal, energy poverty and energy security, will provide relevant lessons for countries which face similar challenges, highlighting the opportunity to take advantage of socio-economic benefits from geothermal energy. Parallel support on renovation and just transition in coal regions in Romania and Croatia will provide a platform to share knowledge and improve the quality of support.

42. **WBG global challenges.** Bulgaria’s challenges align with three out of eight global challenges identified in the WBG 2023 Evolution Roadmap. Bulgaria’s green transformation agenda links to global challenge (i) on *Climate Change Adaptation and Mitigation* with engagements on clean energy supporting mitigation, while engagement on reducing emissions and air pollution support mitigation. The country’s pressing needs to focus on productivity-led growth and a fairer and more competitive economy relate to global challenges (iv) and (vii) *Energy Access and Enabling Digitalization*.
43. **One WBG and enabling private capital.** Under the CPF FY25-29, IBRD, IFC, and MIGA will strategically coordinate to identify opportunities to build more impactful engagements. The IBRD-led knowledge program across key sectors will aim at enabling private investment and generate opportunities to mobilize private capital through IFC and/or MIGA interventions when suitable. Concretely, during the CPF FY25-29, the WBG will enable private capital through selective direct debt and equity investments for impactful projects promoting best practices, including: (i) through joint IBRD and private sector engagement in the geothermal sector, and as part of the work in support of the Renovation Wave and air quality; (ii) by promoting an enabling environment through introducing and mainstreaming new climate financial products and practices that integrate best environmental, social and governance (ESG) standards into financial products and institutions’ decision-making process, by IFC; and (iii) by prioritizing investments in innovative and green technologies and products across sectors, by IFC. MIGA will supplement these efforts by closely coordinating with IBRD and IFC, calibrating the application of its credit enhancement products more carefully to the needs of the country to identify the areas to which it can best contribute through the mobilization of cross-border private sector financing. Examples of what is envisaged in the energy, green transport and digital developments sectors are in boxes 5, 6, and 7.
44. **Partnerships.** Supporting Bulgaria’s continued development journey relies on collaboration with key partners, notably the EC. The WBG will continue to align its support to help the country unlock and absorb significant EU resources through annual high-level consultations with the EC that ensure coordination, including key regional knowledge products. The WBG will continue to engage with a range of partners beyond the EC, including through participation in regular meetings with the Heads of United Nations Agencies in the country (World Health Organization, United Nations Children’s Fund (UNICEF), UN Refugee Agency and International Organization for Migration), as well as the International Monetary Fund, and will continue to coordinate and exploit opportunities to collaborate. For example, recent rounds of household surveys were conducted jointly with UNICEF. The WBG will also continue to explore opportunities for joint technical assistance and financing with the European Investment Bank and the European Bank for Reconstruction and Development. Close coordination with partners will ensure that the WBG engages only where it has a comparative advantage and avoid duplication of efforts.

### 3.3 Objectives Supported by the WBG Program

**Figure 4: CPF HLOs, Objectives and the Crosscutting Theme**

<b>HLO 1</b> Enhanced Competitiveness and Social Inclusion	Objective 1 Greater Competitiveness and Digital Inclusion
	Objective 2 More Resilient and Inclusive Service Delivery
<b>HLO 2</b> A Low-Carbon and More Sustainable Economy	Objective 3 Increase Renewable Energy Generation and Energy Efficiency
	Objective 4 Reduce Air Pollution
Crosscutting Theme: Strengthen Institutions	

45. **The two HLOs of this CPF are closely interrelated, with both reflecting critical needs to boost productivity and support long-term sustainable growth for convergence with EU levels.** Box 4 provides further details on the interface between the HLOs' focus on people, prosperity, and the planet.

#### **Box 4: Social Dimensions of the Transition towards Greener Growth**

**Workers and communities in the coal value-chain and high GHG-emitting factories** will be at the forefront of the decarbonization agenda. The transition to a low-carbon economy is expected to impact 13,000 jobs in the coal mines and coal-fueled power plants, and an additional 3,000 jobs in the coal-value chain.<sup>a</sup> At the individual level, these workers have limited skills readiness to the transition and have low levels of foundational cognitive and functional skills, especially in digital domains.<sup>b</sup> At the community level, declining revenues will put an additional strain; for example, 44 percent of Bobov Dol municipality's revenues come from the coal-fueled power plants.

**Women, ethnic minorities like the Roma, and people with limited mobility** face heightened challenges related to climate change. Women have relatively low labor market participation, are disproportionately engaged in the informal economy, and display some of the highest poverty rates. The Roma communities are highly vulnerable to extreme weather due to their historical settlement in risk-prone areas and poor living conditions, with 18 percent lacking access to tap water compared to 7 percent of the general population.<sup>c</sup> People with limited mobility often reside in regions facing demographic decline and heightened exposure to natural hazards.

**Data and analytics on localized climate vulnerability will be critical** to policies and programs targeted at climate change adaptation and mitigation. Local governments' capacity for locally led climate action and for integrating climate vulnerability analysis in local development planning will be important. A successful transition, however, requires a whole-of-society approach. Beyond the government and economy, all citizens, including through CSO representation, will have a critical role to play to meet Bulgaria's mitigation and resilience targets are to be met.

<sup>a</sup> Mandras, G., and Salotti, S. (2021). Indirect jobs in activities related to coal, peat and oil shale: A RHOMOLO-IO analysis on the EU regions. JRC Working Papers on Territorial Modelling and Analysis No. 11/2021, European Commission, Seville, JRC127463.

<sup>b</sup> Hristova, A., C, Ferré, Y. Dimitrov, and Y. Alexeiev. 2022. "Are Workers in Brown Occupations Prepared for the Green Transition? The Case of Bulgaria's High GHG-Emitting Districts," World Bank Background Note.

<sup>c</sup> Bulgarian National Statistical Institute of the Republic of Bulgaria and Fundamental Rights Agency (FRA), 2020.

## **HLO 1: Enhanced Competitiveness and Social Inclusion**

### **Objective 1:**

#### **Greater competitiveness and digital inclusion**

46. **Greater market competition, enhanced regional connectivity and accelerated progress on digital government transformation are key factors that would help turn around the slowing of the pace of Bulgaria's convergence to average EU (living) standards.** The business environment in Bulgaria is challenging and market competition is limited due to administrative capacity constraints, state capture and ineffective enforcement of competition rules. There are substantial challenges for private sector development, with Bulgaria lagging all EU countries in firm productivity. In addition, the WBG 2020 Digital Government Readiness Assessment and the WBG-supported 2023 Digital Transformation Assessment show Bulgaria ranking second to last in the EU on digital government transformation overall and reveal critical gaps in data governance and digital service delivery. This hinders Bulgaria from fully realizing the benefits of digitalization for growth, job creation, service delivery and resilience.

47. **The CPF will scale up support to build capacity for inclusive digital transformation, while pursuing engagements that foster innovation and competitiveness.** IBRD assistance to the Ministry of e-Government on fundamental reforms related to data governance and data spaces will help Bulgaria catch up with EU standards and creates a basis for IFC to further develop its support to the IT/tech sector in private venture capital industries (see box 5). To facilitate the growth and competitiveness of companies, WBG is exploring possible entry points to help address foundational and skills development gaps (including digital skills), identifying opportunities to enhance the efficiency and effectiveness of development finance institutions, such as the Bulgarian Development Bank, and continuing to perform analytical work on providing financing and business advisory support to distressed businesses and individuals. Potential technical assistance (TA) will focus on the identification and reduction of cartel risks and bid rigging to strengthen enforcement of competition rules and ensure a level playing field for all businesses, which in turn could lead to reduced misallocation of resources in the economy and stronger productivity growth. IFC will leverage private sector capital to enhance competitiveness and productivity while supporting the deepening and enhanced inclusion and greening of the capital and financial markets and strengthening financial sector resilience. This focus will include expanding digital and ICT infrastructure supporting Bulgaria's economic resilience and connectivity and scaling up nascent long-term sustainable financing (partly due to the small capital market in Bulgaria) for underserved groups, including through financial products targeting women-owned MSMEs. Building on a strong and unique expertise gained through the structuring of the Sofia airport public-private partnerships (PPPs) during the previous CPF, IFC will explore the resumption of PPPs for the possible concessioning of river and seaports to improve physical infrastructure and services. MIGA intends to complement IBRD and IFC by supporting infrastructure projects, both led by the public sector and PPPs, including at subnational levels, and projects that are focused on improving access to finance for entrepreneurs, including women entrepreneurs, through the issuance of its credit enhancement guarantees.

#### **Box 5: Leveraging One WBG for Accelerating Digitalization**

In line with the EU's Digital Decade, Bulgaria adopted a National Digital Transformation Strategy in 2020, an updated National Strategy for e-Government 2019-2025 in 2021, and a National Artificial Intelligence Strategy in 2020. Despite these promising steps, Bulgaria's overall progress on digital transformation has been slow, inhibiting convergence with EU peers. To address key gaps in the digital space, in 2023 Bulgaria agreed with the EU a large medium-term program dedicated to building capacity for effective data governance and management. Through a Data Governance RAS (2024), IBRD will help strengthen the government's strategic, organizational and technical foundations for effective data governance and management. It will support a comprehensive set of actions designed to address gaps in Bulgaria's data governance, build a key set of dataspace to foster innovation and collaboration among public and private actors, and help the country catch up with EU standards.

IBRD support to Bulgaria's foundational aspects of data governance creates a basis for IFC to further develop its support to Bulgaria's IT/tech sector in private venture capital industries, prioritizing investments where IFC can bring unique global expertise and clear additionality in the form of proactive decarbonization and/or gender inclusion strategies, for instance. As the Data Governance RAS is being rolled out, IFC is exploring support to Bulgaria to take advantage of the following opportunities: (i) Increased data consumption trends due to the needed upgrade of fixed (fiber-to-the-home) and mobile networks (5G, fixed-wireless access) along with the establishment of own green energy generation by telecom operators through captive green energy power plants; (ii) Scope for Bulgaria to play a role in the area of data centers and cloud computing since it needs to comply with EU data protection regulations; there is a large number of submarine cables carrying global data traffic that pass through Bulgaria, along with an increased need for content production and distribution companies to get closer to customers to reduce latency;

(iii) Bulgaria has strong software development capacity supported by strong IT talent at competitive rates. Clients renting space from data center operators have increasingly stringent energy consumption requirements of data centers which is driving demand for sustainability-linked financing.

Therefore, WBG joint engagements on green energy transition (see box 6), will help attract a new group of investors in the digital development sector. In addition, building on the ongoing RAS, IBRD and IFC will explore joint engagements around data hosting, sharing, clouds, data privacy and the gaps of the respective legislation, areas that the RAS will contribute to and thus strengthen the enabling environment.

48. **One WBG synergies will be critical to enhancing competitiveness by leveraging private sector capital.** Complementing IBRD's efforts to foster innovation and competitiveness, IFC will stimulate the private sector and introduce more PPPs and deepen capital and financial markets while scaling up financial inclusion. Financing for startups and underserved MS-MEs, particularly in digital transformation and disruptive technologies, will be the focus of IFC's engagements with venture capital and private equity funds and financial institutions, prioritizing transactions where IFC brings unique value-addition and catalyzes substantial behavioral change at the institution level, through upstream and advisory support. MIGA's credit enhancement products could support investments in regional and municipal projects that will help improve delivery of public services, create jobs, increase productivity and help reduce disparities.
49. **Strategic engagements with the EC will create space to test innovative approaches and leverage the impact of EU funds.** The WBG will work with the EC to conduct one of the first randomized controlled trials worldwide to evaluate potential methods to bridge Bulgaria's digital divide. Diagnosing the constraints facing MSMEs in Bulgaria in the adoption and productive use of digital technologies will inform recommendations for policies and programs to strengthen digitalization. Another example is the Subnational Business-Ready project, which will produce a new dataset to gain insights on the business enabling environment in six Bulgarian cities and how they compare with other cities in the EU.

## Objective 2:

### More resilient and inclusive service delivery

50. **Strengthening the quality and efficiency of public service delivery is critical for stronger and more equitable human capital outcomes.** With the highest income inequality in the EU, widening regional disparities, limited social protection coverage, poor educational outcomes for children, and an aging and fast decreasing population, Bulgaria needs to advance evidence-based reforms for more efficient public spending and improved access to essential services. A robust private pension services market is needed given that Bulgaria has the highest average elderly dependency ratio in the region. Governance challenges reduce economic potential and undermine progress on poverty reduction and shared prosperity, and hence need to be addressed through strengthening institutions across the board.
51. **The CPF will contribute to this objective through ongoing and planned knowledge services, potentially complemented by investments, should the opportunity arise.** Continued analytical support will generate insights into the distribution of poverty and elucidate what shifts in government planning and investments are needed to differentiate between areas with growing productivity and working age populations and those in decline. Support to municipalities in lagging regions will aim to help optimize municipal budgets and intergovernmental fiscal relations for better access to and quality of public services for citizens. New RAS engagements are expected to help prepare the current and future labor force. The CPF will help build the capacity of the national and local authorities to better manage the Just Transition by implementing skills mapping and reskilling programs for the impacted work-

force. The future labor force will be supported through strengthening the education system at the central, district and school levels for better service delivery in education. As part of the WBG joint effort to explore the scope for support to elderly care, given the rapidly aging population, IFC will aim to further develop the capital pillar of the pension system and enhance its digital maturity, and will seek to promote cost-effective private delivery models for healthcare and services for the elderly.

52. **Strategic collaborations with the EC under this objective will enable the WBG to leverage EU funds and reforms and generate regional knowledge spillovers.** Under the EU's Development of Regions Programme, the WBG will continue to support Bulgaria in addressing regional inequalities by promoting the ITI and 'compact cities' approach, which contribute to making cities greener, more resilient, inclusive, and aligned with urban sustainability and climate goals. Another EC-funded strategic partnership will inform updates to the Strategy for the Demographic Development of Bulgaria 2012-2030 with a focus on family policies and ageing. Under the regional engagement of the EU-Basic Income Guarantee Project for Marginalized Households, also implemented in Romania and Slovakia, the WBG will assess the effectiveness of an alternative delivery mechanism for welfare benefits for marginalized households, combined with measures to support empowerment and socioeconomic advancement. This engagement takes into account lessons from the CLR for a continued need to support the poorest populations, particularly the Roma, and targets marginalized households that are currently most likely to be excluded from access to services due to policy designs and has an explicit non-exclusive focus on the Roma. If successful, this engagement could be replicable and scalable in Bulgaria, in the ECA region and globally.

## HLO 2: A Low-Carbon and More Sustainable Economy

### Objective 3:

#### Increase renewable energy generation and energy efficiency

53. **The high energy intensity of Bulgaria's economy hampers the country's overall sustainable growth prospects.** Bulgaria is the EU's most carbon-intensive economy, with the energy sector accounting for more than 70 percent of the country's GHG emissions. The need to increase energy security and sustainability gained prominence recently, which increased the urgency of Bulgaria's need to transition away from fossil fuels for power and heat and increase the use of local energy resources. Although the EU's green transition will create opportunities for new industries and jobs, it could pose socio-economic risks for Bulgaria, should the country fail to plan and prepare for a just transition. Key priorities include the diversification of the energy mix and an acceleration of energy efficiency, including in the buildings sector, and through scaling up renewable energy.
54. **The WBG will help to accelerate Bulgaria's transition away from fossil fuels for power and heat, increase the use of local energy, and decarbonize the economy.** A multi-tier approach that leverages EU and private funds will be most effective for supporting the decarbonization of Bulgarian economy. IBRD is contributing to the development of geothermal energy in Bulgaria through knowledge and potentially financing and will support capacity building to scale up building renovation programs for improving energy efficiency through the technical assistance for the Renovation Wave. By engaging the private sector, the WBG will catalyze financing for new renewable energy investments and support improvements in energy efficiency. IFC's engagements in solar photovoltaic and onshore wind will prioritize more complex financial or technical bankability structures where IFC brings unique global expertise or standard setting, such as innovative merchant structures and/or energy storage components to address grid balancing challenges. IFC will leverage upstream and advisory support and promote energy efficiency across sectors, for example, in green buildings,

EDGE<sup>39</sup> certification, green logistics projects. Aiming to maximize additionality, IFC will prioritize engagements with a private capital mobilization component. The WBG will also explore green municipal PPPs for introduction of renewable energy on existing and new assets. MIGA could support these engagements by helping further catalyze foreign private capital through its credit enhancement solutions. The WBG also expects to engage in deploying strategies for scaling up renewable energy, informing policies to improve energy efficiency, and supporting transition of the heating sector to more sustainable technologies. Through its geothermal engagement, IBRD will help the government strengthen capacity to identify the location of geothermal resources, advise on sites that may warrant investment and analyze potential financial mechanisms and institutional structures to develop geothermal energy in Bulgaria with private (and potentially public) investments (see box 6).

55. **A strategic approach is needed to support Bulgaria’s transition away from fossil fuels and other carbon-intensive industries without adverse effects for vulnerable populations.** The WBG will help to ensure a just transition by supporting the development of a master plan for Maritsa East, the largest energy complex in Southeastern Europe, for a fair and inclusive process that creates decent work opportunities and leaves no one behind. This will include catalyzing the transition to non-fossil fuels among private firms, given that the private sector controls a substantial part of the assets.

### Box 6: Leveraging One WBG for Energy Transition

In its draft updated National Energy and Climate Plan, Bulgaria reiterated its commitment to transitioning to a decarbonized energy sector, while ensuring stable and affordable energy, through five objectives: (1) enhancing energy security, (2) increasing energy efficiency, (3) expanding the use of renewable energy sources (with an objective of 29.9 percent renewable energy in consumption by 2030), (4) developing a competitive energy market (liberalization by 2025) and (5) protecting consumers. The WBG supports these goals by helping strengthen capacity of energy sector institutions and informing the country’s decarbonization strategies, encouraging coordination across sectors affected by the transition (including environment, employment and poverty) informed by IFC and MIGA’s understanding of private sector’s needs, financing and priorities.

Support on renewable energy and energy efficiency is creating opportunities to leverage the WBG value proposition, with IBRD assisting in improving the enabling framework (regulatory, institutional, market), and potential IFC and MIGA engagement on the private sector, the design of financial instruments and support mechanisms to develop innovative demonstration projects. Leveraging private investment will be key to optimizing the use of public resources and taking advantage of relevant experiences in these subsectors. IBRD may build on the technical assistance and provide financial support in early phases of development to financially derisk new technologies, while IFC may support the design of PPPs and finance relevant private sector investors, at project or program level, directly or through financial intermediaries. Likewise, MIGA’s credit enhancement solutions may play a role reducing the risk profile of PPPs and reduce capital cost in these renewable capital-intensive technologies. Such WBG synergies could be created more systematically for key projects in the energy transition (renewable energy, energy efficiency, sustainable heating, system stability). Opportunities for cooperation in developing existing hydropower and pumping storage may arise, given the key role of this technology in offsetting the variability of other renewable energy sources and enhancing grid stability.

IBRD with IFC and MIGA jointly prepared a proposal for a regional masterplan for the transition out of coal in Bulgaria’s largest coal region, supporting identification of relevant projects and programs in the field of green energy where employment and growth opportunities may be developed. IFC may also support existing electricity producers to transit from coal base to alternative fuels, while using the existing transmission infrastructure. Finally, IFC and MIGA could help facilitate access to international markets (i.e., roadshows with private firms) and access to long-term competitive financing from international financial institutions (including through MIGA credit enhancement guarantees), which may become key in supporting the energy transition.

39. The EDGE Certification Process is a voluntary certification system that recognizes buildings designed to be more energy and resource efficient than standard practice. The certification process is administered by the IFC.

## Objective 4: Reduce air pollution

56. **Poor air quality (AQ) is a persistent challenge for Bulgaria, with particulate matter (PM2.5) emissions significantly higher than the EU average and similar to some of the more polluting countries in ECA.**<sup>40</sup> Air pollution from transport and energy emissions, which is noticeable in the larger cities (Sofia, Plovdiv), shortens life expectancy, increases medical costs, and reduces productivity across economic sectors. The long-standing priority of reducing pollution and improving natural resource management remains relevant. On public health grounds and in pursuit of the Zero Pollution ambition, the EC has proposed a strengthening of the Ambient Air Quality Directive regarding pollutant concentration limit values and other aspects of AQ management. This includes a proposed reduction in the PM2.5 annual concentration limit value from 25  $\mu\text{g m}^3$  to 10  $\mu\text{g m}^3$  by 2030, bringing it closer to the value of 5  $\mu\text{g m}^3$  in the updated WHO ambient air quality guidelines<sup>41</sup> potentially adding to the pressure to reduce PM emissions from residential heating. Limit values regarding other air pollutants might also be strengthened.
57. **The WBG will continue to support Bulgaria to help meet its national emission reduction commitments.** This covers IBRD support to national emission inventories for five important air pollutants and could also extend to IBRD support for the necessary re-evaluation of the policy framework for air quality improvement in line with the upcoming update of Bulgaria's National Air Pollution Control Program. IFC aims to leverage its strong expertise in PPPs globally and in the country for possible engagements in district heating utilities projects that would support the phasing out of fossil fuels for heating purposes, thus improving air quality. Aiming to mobilize private capital, IFC's envisaged engagements will, moreover, promote decarbonization across industries (including carbon capture, offshore storage), help scale up green finance in financial sector enabling activities and green logistics infrastructure. MIGA will seek to complement the IBRD and IFC engagements by further promoting the decarbonization agenda and helping mobilize foreign investments in support of sustainable infrastructure.
58. **The WBG will also build on the momentum achieved under the previous CPF to accelerate the transition towards green, resilient and more sustainable transport infrastructure in Bulgaria.** Collaboration with the Road Infrastructure Agency (RIA) will support the preparation of the National Road Sector Strategy 2024-2030 and improve institutional efficiency. This will include enhancing revenue generation strategies for the national road network to meet maintenance needs and support improvements for greater climate resilience and for enabling Bulgaria's electrification of the road passenger fleet. Discussions are underway with the railway infrastructure company to support financing of the main railway corridors and with RIA on resilient bridges. In addition, the WBG is exploring how best to support the regional infrastructure agenda for accelerating the decarbonization of the transport sector for instance by identifying green transport projects that can be supported by 'hybrid PPPs', through which WBG enhances financial viability of economically justifiable PPPs. IFC is also aiming to resume the application of PPPs for the concessioning of river and seaports to improve physical connectivity and service delivery, while reducing GHG emissions as well. For more details on how the WBG institutions aim to jointly support the green transport sector, see box 7.

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40. See: <https://www.eea.europa.eu/themes/air/country-fact-sheets/2023-country-fact-sheets/bulgaria-air-pollution-country> and <https://www.iqair.com/world-most-polluted-countries>

41. See: <https://apps.who.int/iris/handle/10665/345329>.

## Box 7: Leveraging One WBG for Green Transport

Bulgaria has subscribed to the European Green Deal (reducing GHG emissions by at least 55 percent by 2030 relative to 1990 and achieving net zero GHG emissions by 2050). Carbon intensity of the Bulgarian transport sector is 3.5 times higher than the EU average and accounts for 26 percent of the country's GHG emissions. Transport, and road freight in particular, is the only major economic sector where current GHG emissions are growing.

A potential road sector strategy RAS includes project planning and prioritization activities that will serve as the foundation for the Road Agency to develop and implement private sector participation schemes, including performance-based contracts and PPPs towards greening infrastructure. The RAS will look at options for enhancing road user charges, which are key to supporting investment in the sector. Proper planning and investment in road rehabilitation and maintenance will be key to improving the resilience of infrastructure to climate change and natural disasters. As projects materialize, MIGA can support the initiative by improving the risk profile of the investments for international private actors interested in PPPs.

In addition, IBRD and IFC are collaborating in business development and in the pursuit of opportunities that could lead to IBRD lending and private capital mobilization via IFC's PPP advisory and investments. The aim is to develop programmatic approaches that can increase private participation at scale in a country where the use of PPPs has been relatively limited, thereby contributing to closing the investment gap, with a focus on areas that are key to transport decarbonization (i.e., rail and inland waterways) and resilience (roads). When transport projects are identified, WBG could support those with 'hybrid PPPs', through which WBG enhances financial viability of economically justifiable PPPs through IBRD IPFs, while IFC transaction advisory helps structure the PPP. The successful use of PPPs for green transport could have a positive demonstration effect for other sectors.

IBRD-IFC developed a joint proposal to support mobilization of private capital and expertise for the development of the port sector through a programmatic approach. In addition to the structuring of a PPP for the Port of Varna, to be carried out by IFC PPP Advisory, the proposal includes IBRD support for preliminary viability assessments for other potential private participation projects (inland waterway terminals and dry ports). The proposal embeds funding for the evaluation and structuring of projects to be mobilized from the Global Infrastructure Facility.

In the rail sector, IBRD has proposed support for the development of key projects that have a high potential for private sector participation, including last-mile rail connectivity projects and dry ports, to advance greener modes of transport, thereby contributing to the reduction of GHG emissions from transport. Furthermore, IBRD and IFC are collaborating on the market mapping analysis to develop private capital mobilization opportunities in rolling stock leasing in Bulgaria. As part of this collaboration, IBRD is providing analytics and overall sector knowledge. With its credit enhancement solutions, MIGA could support efforts to raise private sector financing for public-led investments in rail infrastructure and private sector participation in complementary projects.

## Cross-cutting Theme: Strengthen institutions

59. **Across CPF objectives, the WBG will support Bulgaria in strengthening public sector governance—including addressing corruption, improving the efficiency of public spending, and promoting a level playing field.** Assistance will focus on enhancing public procurement systems, improving public financial management, and developing an institutional framework for spending reviews. IBRD will help identify reforms to enhance public investment management, ensuring quality and responsiveness while promoting the green transition. The CPF will deliver two key diagnostics: (i) the 2023 Public Finance Review (PFR) that provides a menu of policy options for short- to medium-term fiscal consolidation but also for long-term mitigation of the adverse impact of population aging on public systems, and (ii) an upcoming subnational PFR (2024) that will delve deeper into municipal

finances and fiscal relations between the central government and local governments, with the aim of strengthening municipalities' own sources of revenue (including green fees and taxes), optimizing central government's financial transfers for equalization and reducing inefficiencies in spending. These two diagnostics are preceded by a 2019 assessment of the public procurement system which identified areas for improvement to enhance transparency, competition and control over the spending of public funds.

60. **Supporting public procurement, data governance, sub-national capacity for integrated investments and citizen participation will remain important areas of focus.** Dialogue with the Public Procurement Agency (PPA) and the Ministry of Finance is ongoing to discuss potential areas for collaboration, including the preparation of a public procurement strategy and action plan. Additionally, as noted above, the WBG will assist Bulgaria in implementing its EU commitments by building a strategic framework for data governance and data spaces and will support efforts by the Ministry of Regional Development and Public Works to implement a stronger place-based and integrated regional policy approach. Support will also be provided to the Ministry for capacity building of local and regional stakeholders expected to design, prioritize and implement cross-sectoral projects through partnerships.

## 3.4 Implementing the CPF

### Portfolio

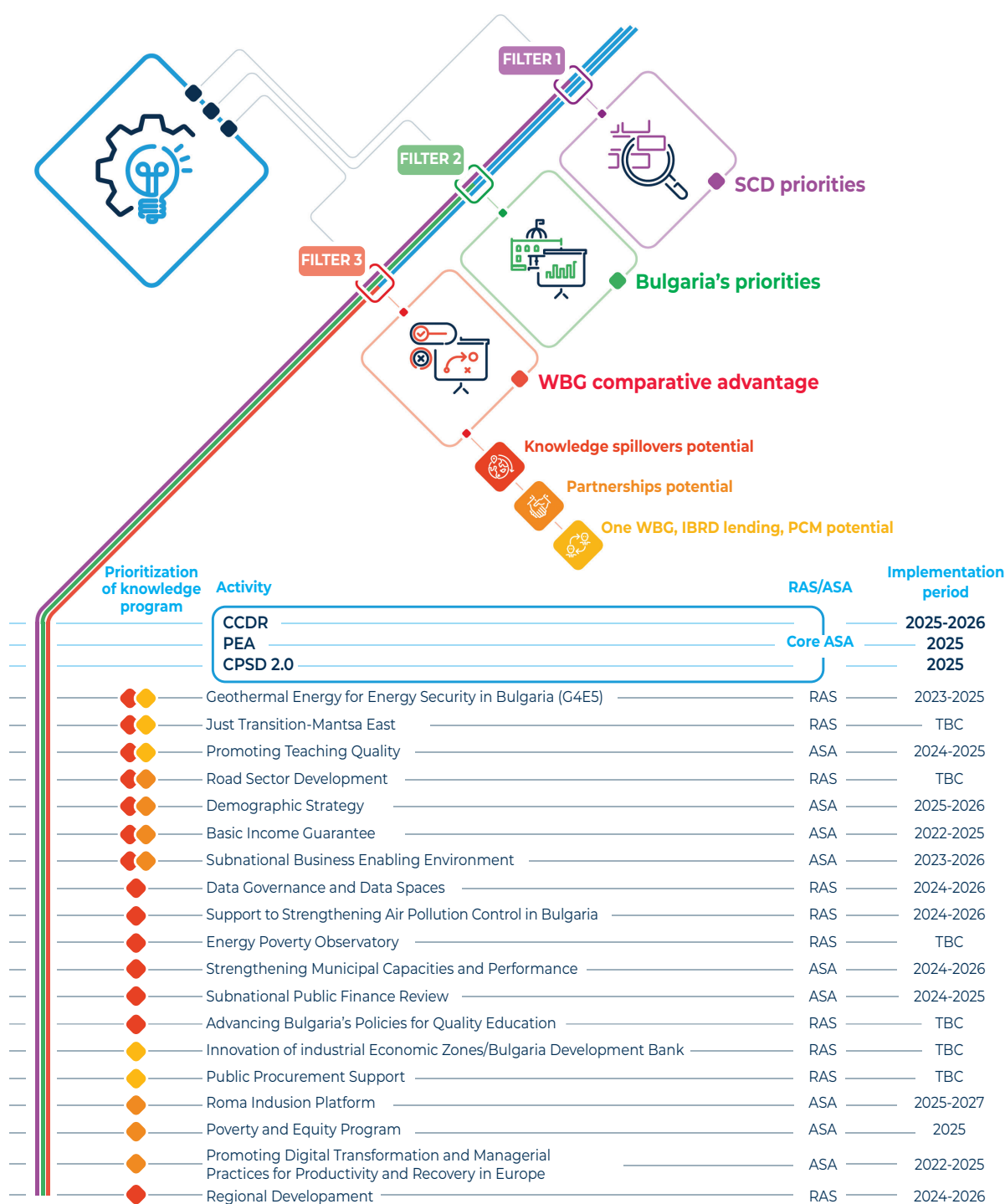
61. **Flexibility during the implementation of the CPF will be paramount.** Building on a decade of primarily knowledge-based WBG support, the main thrust of the CPF continues to be a focus on knowledge, while allowing Bulgaria to access the full range of WBG instruments, including investment project financing. Should Bulgaria avail itself of its access to IBRD lending, the CPF results framework will be updated at the time of the PLR to include WBG results indicators from the new Scorecard. For instance, IBRD is consulting the Government on including Bulgaria in the energy Multiphase Programmatic Approach on renewable energy for the ECA region with a view to supporting its aspiration to fully utilize its geothermal resources. As the implementation period of RAS engagements generally spans between one and three years, and that of ASA and Trust Funds usually spans between six months and two years, engagements under the knowledge-heavy Bulgaria CPF will have a shorter duration than in countries with a portfolio that includes more lending instruments. Due to its short preparation time, the RAS instrument allows the WBG to respond in an agile and streamlined manner to government requests for technical support. The PLR will reflect any program adjustments including potential new IBRD lending.
62. **The CPF takes a strategic approach to knowledge work.** ASA, including RAS and Trust Funds, provide a critical foundation to build knowledge and help the Government to prioritize strategic development areas and respond to evolving needs. The active ASA portfolio and indicative pipeline for FY25 and FY26 include core analytical products and other knowledge activities, both WBG and client/EU financed, related to public finance, climate action, e-government, energy security, social inclusion, and the business environment (see table 2). The knowledge work will feed into the implementation and potential further development of both HLOs and will help identify new opportunities for private sector engagements and WBG collaboration across the four objectives. IFC's committed exposure stood at US\$130.6 million as of June 30, 2024. In addition, IFC has outstanding exposure through regional projects, which is not reported separately as part of IFC's Bulgaria portfolio. The share of climate commitments was at nearly 80 percent in the FY20-24 year to date—above the average share of climate investments in IFC Europe. IFC will continue to leverage private sector solutions by introducing more PPPs, supporting private sector's role in the decarbonization of the economy and renewable energy generation, deepening capital markets

and making financial markets more inclusive. MIGA will continue to work closely with IBRD and IFC to support strategic and developmentally impactful projects in the priority areas of climate change and growth in lagging regions that require access to foreign investments/financing.

## Financial management and procurement

63. **Bulgaria has a well-established public financial management system with robust procedures and regulations in place, and future operations can increasingly rely on country systems.** Transparency in budget formulation and execution is solid, and efforts are being made to strengthen public investment management and adopt a prudent fiscal policy. However, there are variations in the quality of the system due to uneven administrative and operational capacity at the central and local levels. Past IBRD-funded projects were already integrated into the government budget and followed internal controls and accounting procedures, and future operations will also be able to rely on internal audit and external oversight by the National Audit Office.
64. **Although positive steps were taken in recent years to enhance the legal, institutional and control frameworks for public procurement, improving transparency and competitiveness remains a critical agenda.** Its public procurement system is aligned with the European framework, and Bulgaria introduced an e-procurement system in 2019. However, there is scope for improving the transparency and competitiveness of procurement processes. As per EU scoreboard data, a consistently high proportion of procedures are negotiated without prior publication (25 percent in 2021) and the single bidder rate is high (32 percent in 2021). Non-competitive practices are more common relative to EU peers, feeding into recommendations to improve transparency and increase competition in public procurement. Under the NRRP, Bulgaria has been addressing the issue of limited competition in public procurement.

**Table 2: Knowledge Program Filters and Prioritization during the Initial Years of the CPF**



65. **WBG engagement in public procurement reform has been fostered through a collaboration with the PPA dating back to 2019.** This collaboration had included the Procurement, Integrity, Management and Openness Forum and the Red Flags Workshop. Building upon the results of the assessment of the public procurement system conducted in 2018, the WBG will continue the dialogue with the Ministry of Finance to jointly identify actions required to further improve the systems by addressing identified weaknesses through advisory services and future investment lending operations.

## IV. MANAGING RISKS TO THE CPF PROGRAM

66. **The overall risk to achieving the proposed CPF program objectives is assessed as moderate.** Using the WBG Systematic Operations Risk-Rating Tool, two risk categories warrant a Substantial rating (see table 3). The overall risk rating for the forthcoming CPF period is moderate. As an overall risk mitigation measure, the CPF is designed to be pragmatic and agile, with sufficient flexibility, allowing it to adapt and respond to evolving needs in the country.

**Table 3: Risks to the Bulgaria FY25-29 CPF**

Risk Categories	Risk Rating
1. Political and Governance	SUBSTANTIAL
2. Macroeconomic	MODERATE
3. Sector Strategies and Policies	MODERATE
4. Technical Design of Project or Program	MODERATE
5. Institutional Capacity for Implementation	SUBSTANTIAL
6. Fiduciary	MODERATE
7. Environmental and Social	MODERATE
8. Stakeholders	LOW
<b>Overall</b>	<b>MODERATE</b>

### Political and Governance Risk – **SUBSTANTIAL**

67. **The recent history of frequent elections poses a substantial political and governance risk to the CPF implementation and ownership.** Frequent elections and ministerial rotations may continue to challenge continuity in sectoral priorities, as well as hamper decision making, with visions for the development of Bulgaria differing significantly across the political arena. A lack of transparency and accountability is also a continuing concern in Bul-

garia's political and governance structures. The WBG closely monitors developments and mitigates risks to the extent possible, including by conducting consultations across stakeholders, and by remaining flexible to readily respond to shifts in the political economy and demand. The CPF results framework is formulated with flexibility in mind, and the PLR will provide an opportunity to make any strategic adjustments. The EU also provides an important reform anchor and framework, including through NRRP milestones. Furthermore, municipalities are not subject to the frequent political changes outside of the regular electoral cycle, and therefore provide continuity for WBG programs to be implemented at municipal level.

## **Institutional Capacity for Implementation Risk – SUBSTANTIAL**

- 68. Institutional capacity remains a key constraint, as identified by the SCD and during the implementation of the previous CPF.** To mitigate this risk, the WBG will retain strengthening of institutions as a mandatory filter for all its engagements and will use its convening role to create institutional frameworks and platforms for cross-agency and interinstitutional collaboration.



## **ANNEXES**

## Annex 1: CPF Results Matrix

### High Level Outcome 1 (HLO 1) – Enhanced Competitiveness and Social Inclusion

This is a new HLO closely aligned with the focus area of the previous CPF, Investing in People, and with the reform priorities articulated in the FY22 Systematic Country Diagnostic (SCD) Update related to promoting inclusive and sustainable regional development, enhancing employability and mobility, and addressing productivity bottlenecks.

High-level Outcome Indicators	Data source	Current value <sup>1</sup>
• Income inequality	Eurostat	Bulgaria's Gini Coefficient: 37.2; EU: 29.6 (2022)
• State of online e-government service provision [SCORECARD]	Online Service Index, United Nations e-government development index (EGDI)	E-Govt Development index: 0.7766. Bulgaria is ranked 52 out of 193 countries (2022)

### High Level Outcome Description

**Rationale:** The next step toward Bulgaria's future development is the transition to an inclusive and innovation-driven economy, which will boost and sustain growth and improve living standards and opportunities for Bulgaria's citizens. Bulgaria has relatively low productivity—a key driver of economic growth—and growing regional disparities are a fundamental challenge for the country's sustainable development. Bulgaria is among the most unequal countries in the EU due to disparities in labor market outcomes, limited social protection coverage, and a non-progressive fiscal system. About half of the income inequality in Bulgaria is due to inequality of opportunity. Economic strain measures in Bulgaria, such as households unable to keep the house warm or afford a meal with protein, are consistently higher than the EU average. The FY22 SCD update highlighted that the lowest income quintile experiences economic strain eleven times more often than the richest quintile. Furthermore, Bulgaria's North-West is the poorest NUTS-2 region in the EU in terms of GDP per capita.

**WBG Engagement:** The CPF will contribute to HLO 1 by fostering greater competitiveness and digital inclusion and supporting more efficient and inclusive service delivery, including by the private sector. To support CPF's objectives and address quality of services, the WBG will work with central and local governments to ensure adequate coverage and improve services with a focus on vulnerable populations. Building on past support, the WBG will continue to work towards inclusive regional development, services and social protection for marginalized and aging populations, better quality education, and access to finance for startups and SMEs. New and envisioned knowledge work will scale up the WBG's role in supporting Bulgaria to enhance productivity growth through green and digital transformation and an improved business environment.

### Associated Sustainable Development Goals (SDGs)

- SDG 4 – Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all
- SDG 9 – Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation
- SDG 10 – Reduce inequality within and among countries
- SDG 11 – Make cities and human settlements inclusive, safe, resilient, and sustainable

### CPF Objective 1: Greater Competitiveness and Digital Inclusion

This is a new CPF Objective closely aligned to FY22 SCD Priority 2: Boosting productivity, skills, and employability for all, and tailored to support progress under the NRRP, in which the first pillar—Innovative Bulgaria—aims to improve the competitiveness of the economy and its transformation into an economy based on knowledge and smart growth.

1. CPFs track the trajectories of HLO indicators but do not formulate target values. Inequality estimates are based on adult equivalents of disposable income, and represent the reference year not the survey year. For example, 2022 values reflect data collected in 2023 with reference to 2022.

**Rationale:** Bulgaria’s long-term economic growth potential has been declining, slowing the pace of convergence to average EU incomes. The 2011-2019 growth rate of 2.1 percent was half the growth rate of the preceding decade, keeping Bulgaria at the bottom of the EU in terms of relative real incomes. Bulgaria’s overall progress on digital government transformation (DGT) has been slow and inhibited convergence with EU standards. The WBG’s 2020 Digital Government Readiness Assessment and the WBG-supported 2023 Digital Transformation Assessment show Bulgaria ranking second to last in the EU on DGT overall and reveal critical gaps in data governance and digital service delivery. There are also substantial challenges for private sector development, with Bulgaria being behind all EU countries in firm productivity. The productivity growth of firms would be stronger if firms innovated more, but firms lag their peers in using new technologies, including digital technology. The business environment is challenging, and market competition is limited, with an analysis of public data on more than 200,000 public procurement contracts revealing that about 50 percent of contracts in Bulgaria might have been awarded to firms with high collusion risk.

**Lessons learned and new knowledge at the program level:** The FY22 SCD articulated how Bulgaria’s readiness for the digital transition remains low, lagging seriously behind the rest of the EU member states. The WBG worked to generate and transfer key knowledge under the previous CPF to help advance digital readiness. through the pilot of a new organizational model for sharing services across the central administration, a Digital Government Readiness Assessment in 2019-2020, and an e-Government Action Plan for advancing key reforms. The WBG also provided policy notes to the Government of Bulgaria in June 2022 outlining a comprehensive set of reforms and investments aimed at increasing digital inclusion, competitiveness, and resilience to boost productivity. These included lessons relevant to fostering competitiveness and inclusive sustainable growth, covering the need for technology adoption and digitization among SMEs.

**WBG ongoing and planned support to this CPF Objective:** The WBG will support Bulgaria in enhancing productivity growth through inclusive digital transformation, attracting foreign investment, and fostering research and innovation. A new RAS will support the Ministry of e-Government (MEG) to implement a series of fundamental reforms in data governance and data spaces to help Bulgaria catch up with EU standards. This includes assisting MEG in developing a framework and national data strategy and establishing uniform data governance practices to improve data quality, transparency, and accountability of public institutions. Other ongoing and planned ASA and RAS will leverage digitalization and innovation for greater private sector competitiveness. This includes DIG-ITRANS–Promoting Digital Transformation and Managerial Practices for Productivity Project—a strategic collaboration between the WBG and DG REGIO to conduct one of the first randomized controlled trials worldwide to evaluate potential methods to bridge Bulgaria’s digital divide. Through the Subnational Business-Ready project, the WBG is building a new dataset to gain insights into the business enabling environment in six Bulgarian cities and how they compare with other cities in the EU. A planned RAS will help to strengthen the capacity of the Ministry of Innovation and Growth to oversee development finance institutions for facilitating the growth and competitiveness of companies. Potential EC-funded technical assistance could help to strengthen competition and rules to ensure a level playing field for all businesses. Support for the Bulgaria SME Promotion Agency will help to assess the status, opportunities, and recommendations for targeted cross-border economic linkages between Bulgaria and Serbia.

IFC will stimulate the private sector and leveraging private sector capital to enhance competitiveness and productivity in Bulgaria. It will promote private sector participation in infrastructure and deepen financial and capital markets. IFC will support local innovative and regionally competitive companies that have large SME supply chains and operate in sectors with potential to create quality jobs including in value-added manufacturing and services and in real estate development. In the financial sector, IFC will strengthen local banks’ capital position, through leveraging its advisory and lending program, to promote lending to underserved sectors and groups, including to women-owned MSMEs. It will facilitate equity financing for startups and SMEs, particularly in digital transformation and disruptive technologies, through engagement with venture capital (VC) and private equity (PE) funds. Digital connectivity will be strengthened by potential IFC investments in digital infrastructure, in particular to upgrade fixed and mobile networks, scale up availability of cloud computing and support the greening of data centers. MIGA will seek to provide guarantees in the infrastructure sector to help support connecting people with economic opportunities, while support for the financial sector will focus on improving access to finance with the objective of helping entrepreneurs, including women, to realize their potential. MIGA’s credit enhancement products could support investments in regional and municipal projects that will help improve delivery of public services, create jobs, increase productivity, and help reduce regional disparities.

CPF Objective Indicators	Supplementary Progress Indicators (SPIs)	WBG Program
<p><b>Indicator 1.1: Increased institutional capacity of the MEG to lead data governance and management reforms aligned with EU standards</b>  <b>[crosscutting – institutional]</b></p> <p><i>Baseline:</i> No national data strategy established</p> <p><i>Target:</i> MEG develops and adopts National Data Governance Framework which is part of the commitments under the EU program Research Innovation, and Digitalization for Smart Transformation 2021-2027 (2025)</p> <p><i>Source:</i> P181260</p>	<p><b>SPI 1.1: Priority dataspace selected by MEG for development</b></p> <p><i>Baseline:</i> No prioritization of sectors established to inform a National Data Strategy (2023)</p> <p><i>Target:</i> MEG selects 4 dataspace for development based on strategic and practical criteria for the prioritization of dataspace (2024)</p> <p><i>Source:</i> P181260</p>	<p><b>Ongoing Engagements:</b></p> <ul style="list-style-type: none"> <li>• Data Governance and Data Spaces in Bulgaria RAS</li> <li>• Promoting Digital Transformation and Managerial Practices for Productivity and Recovery in Europe (DIGITRANS) ASA</li> <li>• Subnational Public Finance Review ASA</li> <li>• Subnational Business Enabling Environment ASA</li> </ul>
<p><b>Indicator 1.2: Strategic framework adopted to accelerate the national digital transformation</b>  <b>[crosscutting – institutional]</b></p> <p><i>Baseline:</i> No digital transformation strategy in place (2022)</p> <p><i>Target:</i> Adoption of a National Digital Transformation Strategy linked to the EU Political Program Digital Decade 2030 (2025)</p> <p><i>Source:</i> P174293</p>	<p><b>SPI 1.2: Recommendations on Policies and Programs to Strengthen the Digitalization of SMEs in Bulgaria for increased competitiveness</b></p> <p><i>Baseline:</i> No (2022)</p> <p><i>Target:</i> Yes (2025)</p> <p><i>Source:</i> P178036</p>	<p><b>Potential Engagements:</b></p> <ul style="list-style-type: none"> <li>• Finance, Competitiveness, and Innovation RAS</li> <li>• Public procurement (cartel screening tool, capacity building)</li> <li>• IFC EBBG SL Climate (48705; SME climate and gender loan, green mortgages)</li> <li>• Potential MSME credit lines with banks and NBFIs, including from regional projects including Bulgaria</li> <li>• IFC investments in digital infrastructure, cloud computing, greening of data centers</li> <li>• IFC selective investments in financial sector resilience and inclusion</li> <li>• IFC investments in PE/VC funds to foster digital adoption and entrepreneurship</li> <li>• IFC PPPs of riverport and seaport infrastructure</li> <li>• MIGA credit enhancement for infrastructure projects, such as PPPs and public-led projects, including at subnational level</li> <li>• MIGA credit enhancement to improve access to finance for entrepreneurs, including women</li> <li>• TA to strengthening enforcement of competition rules</li> </ul>
<p><b>Indicator 1.3: Value of outstanding loans to MSMEs provided by financial institutions supported by IFC (in US\$ million)</b></p> <p><i>Baseline:</i> 750 (2023)</p> <p><i>Target:</i> 950(2028)</p> <p>Of which loans to SMEs owned by women entrepreneurs and provided by financial institutions supported by IFC (in US\$ million):</p> <p><i>Baseline:</i> 150 (2023)</p> <p><i>Target:</i> 400 (2028)</p> <p><i>Source:</i> IFC investments with financial institutions</p>		

## CPF Objective 2: More Resilient and Inclusive Service Delivery

This is a new CPF Objective building on related work under the previous CPF to improve access to essential services, including for the bottom 40 percent, and to strengthen institutional capacity for managing school performance.

**Rationale:** Improving the quality and efficiency of public service delivery is critical for stronger and more equitable human capital outcomes. Five of Bulgaria's six NUTS-2 regions are among the poorest regions in the EU in terms of GDP per capita. Although living standards for all Bulgarians improved between 2015 and 2020, Bulgaria has the highest income inequality in the EU, and regional disparities have widened. Disparities in labor market outcomes, limited social protection coverage, and a non-progressive fiscal system contribute to high levels of inequality. In 2021, about 82 percent of Roma were at risk of poverty and social exclusion, compared to 32 percent in the overall population. In addition, a key challenge to Bulgaria's long-term economic growth is a rapidly declining and aging population. Bulgaria is the third oldest country in Europe, and by 2060, the working age population (15-64) is expected to decrease by 40 percent while the population ages 65 and over will increase by 18 percent. The bottom 40 percent of the population already have the highest average elderly dependency ratio among regional comparators, and poverty is particularly high among elderly women. This represents one of the most concerning demographic situations in Europe, making development of a robust private pension services market paramount for Bulgaria. Governance challenges are also reducing economic potential and undermining progress on poverty reduction and shared prosperity. Bulgaria lags the rest of the EU with respect to the rule of law, control of corruption, and government effectiveness. In addition, gaps in foundational skills across learning groups limit Bulgaria's population's capacity for labor market adaptability and labor market potential. Bulgaria's education system has performed poorly in developing foundational skills (problem-solving, reading, mathematics and science) over the last decade, with close to 50 percent functional illiteracy of 15 years olds (PISA 2022) and 17 percent of students in Grade 4 (PIRLS 2021) lacking reading proficiency.

**Lessons learned and new knowledge at the program level:** According to the CLR, the WBG has generated critical knowledge in Bulgaria for addressing regional disparities, improving teaching quality, and enabling potential improvements in access to essential services for marginalized groups. Examples include establishing a new model for promoting the integrated territorial investment (ITI) approach and promoting 'compact cities,' conducting diagnostics to understand how to increase preschool enrollment among Roma children and to address the challenges faced by marginalized communities, and the development of a new instrument to improve the quality and inclusiveness of secondary education. IBRD also produced a situation analysis of the education system at all levels, an analysis of teacher policies and support, and a methodology for the monitoring and evaluation for the Education Strategy 2030. The 2021 SCD provided guidance on how the government will need to improve the redistributive efficiency of social assistance and increase the financial sustainability of the pension system for the rapidly aging population. The prioritization outlined for fast, inclusive, sustainable growth also showed how a shift in government planning and investment will be needed to differentiate between growing areas and those in decline to support consistent high quality public services across the country.

**WBG ongoing and planned support to this CPF Objective:** Ongoing and planned support through RAS and ASA focus on addressing regional inequalities and informing strategic investments in Bulgaria's education sector, inclusive and green labor market policies, and poverty-targeting social services. Ongoing ASA will help to inform improvements for more efficient public spending and generate knowledge about the distribution of poverty. This includes a public finance review to contribute to the government's plan for gradual fiscal consolidation and a subnational public finance review to analyze Bulgaria's municipal budgets and intergovernmental fiscal relations and come up with reform options to reduce disparities in access to and quality of public services at the municipal level. In partnership with DG Reform, the WBG will provide technical support to generate analytics and concrete proposals for updating the existing Strategy for Demographic Development of Bulgaria 2012-2030 in line with EU and international best practice. Other reimbursable advisory services (RAS) and trust fund (TF) engagements will help build the capacity of regional bodies to implement and monitor the ITI approach under the EU's Development of Regions Programme and analyze possibilities for inter-jurisdictional cooperation to develop a new legal framework for regional development. This will inform the effective utilization of different funding streams, including through the Just Transition Mechanism and the NRRP. Regional engagements will assess the multiple deprivations faced by vulnerable groups in Bulgaria to contribute to the policy dialogue on social inclusion and support the evaluation of the pilot of the EU Basic Income Guarantee for Marginalized

Households. To improve quality and sustainability of service delivery in education, IBRD will help to strengthen M&E capacity to allow for timely decision-making at the central, district and school levels through a planned RAS. Engagements will also help to prepare the current and future labor force for the new challenges of the labor market. A potential RAS to support the transformation of the Maritsa East Complex is expected to help build the capacity of national and local authorities for managing the just transition and provide skills mapping and programs for the directly and indirectly impacted workforce. IFC contributes to this agenda through an investment in the largest pension fund, which will be complemented by advisory services to help the company develop a long-term digital strategy and capabilities, and will also seek to promote cost-effective private delivery models for healthcare and services to the elderly.

CPF Objective Indicators	Supplementary Progress Indicators (SPIs)	WBG Program
<p><b>Indicator 2.1: Enhanced capacity of national, local and regional stakeholders to design and implement sustainable and integrated territorial development approaches</b>  <b>[crosscutting – institutional]</b>  <i>Baseline:</i> National instruments and programs designed in a top-down manner (2023)  <i>Target:</i> Stakeholder input informs revisions to national programs for regional development (such as calls for proposals, technical specifications, prioritization criteria for selection of projects, etc.) (2026)  <i>Source:</i> P500791</p>	<p><b>SPI 2.1: Evidence base available to inform the design and implementation of interventions to support marginalized households</b>  <i>Baseline:</i> Scoping assessments completed (2023)  <i>Target:</i> Evaluation completed of the new pilot initiative to support marginalized households (2025)  <i>Source:</i> P177945</p>	<p><b>Ongoing Engagements:</b></p> <ul style="list-style-type: none"> <li>• Regional Development RAS</li> <li>• Basic Income Guarantee (Roma Inclusion) ASA</li> <li>• Promoting Teaching Quality ASA</li> <li>• Poverty Maps ASA</li> <li>• Subnational Public Finance Review ASA</li> <li>• Municipal Capacities ASA</li> <li>• Demographic Strategy ASA</li> <li>• IFC Project Dolphin (46009; private pension fund)</li> </ul>
<p><b>Indicator 2.2: Enhanced capacity of the Ministry of Education and Science to improve teaching quality</b>  <b>[crosscutting – institutional]</b>  <i>Baseline:</i> Draft framework for Early Childhood Education (ECE) Quality Standards focuses on structural quality and administrative compliance rather than teaching quality (2023)  <i>Target:</i> ECE Quality Standards adopted by Ministry of Education and Science (2028)  <i>Source:</i> P502291</p>	<p><b>SPI 2.2: Evidence base available to assess teaching quality in early childhood education</b>  <i>Baseline:</i> No unified evidence base available to inform ECE teaching quality (2023)  <i>Target:</i> Classroom observation tool and methods piloted on beginning teachers (&lt;3 years), experienced teachers returning to the profession, and teachers working with majority vulnerable children (2025)  <i>Source:</i> P502291</p>	<p><b>Potential engagements:</b></p> <ul style="list-style-type: none"> <li>• Integrated Social Inclusion Investment Platforms (Roma Inclusion) ASA</li> <li>• Reskilling component Maritsa East RAS</li> <li>• Support to education sector</li> <li>• IFC investments in private delivery of healthcare services for elderly</li> </ul>

## High Level Outcome 2 (HLO 2) – A Low-Carbon and More Sustainable Economy

This HLO is aligned with previous CPF Focus Area 1 (strengthening institutions for sustainable growth). Managing climate and energy security risks is critical for Bulgaria's transition to a sustainable growth model. Development challenges for Bulgaria articulated in the FY22 SCD Update call for decarbonizing the economy, building energy sustainability and security, addressing the rising carbon intensity of the transport sector, and reducing pollution.

High-level Outcome Indicators	Data source	Current value
• Renewable energy (as percent of gross final energy consumption)	Eurostat	Bulgaria:19.4; EU:21 (2021)
• Number of people exposed to hazardous air quality [SCORECARD]	Global model estimates based on both in-situ air quality data and global datasets (related to satellite-based observations and meteorology)	[Value to be included at the time of the PLR, when the Scorecard values will be known.]

### High Level Outcome Description

**Rationale:** Bulgaria is the EU's most energy- and carbon-intensive economy and ranks amongst the EU countries with poorest air quality, largely due to residential heating-related emissions. The greenhouse gas emissions intensity is more than four times higher than the EU average. The energy mix of the country is dominated by fossil fuels, and the energy sector is the largest emitter of greenhouse gases, accounting for more than 70 percent of the country's total emissions. The use of wind and solar power increased over the past decade but further growth of renewables in the power sector and the decarbonization of heating and transport are urgently needed. Promoting green and sustainable infrastructure and technologies will be necessary to support robust economic growth for Bulgaria.

**WBG Engagement:** Building on past support, the WBG is well positioned to assist Bulgaria in developing a long-term decarbonization strategy for the energy sector, with engagements underway to support the development of geothermal energy and the decarbonization of the building stock. Other envisioned support includes working with the Government to develop a roadmap for a just energy transition and mechanisms to protect energy poor and vulnerable consumers. Investing in secure transport corridors has also gained increased importance, and the WBG is actively exploring potential areas to support the regional infrastructure agenda, encompassing transport and energy integration. Ongoing support for air pollution control could be augmented by a potential engagement to enhance the policy framework for air quality improvement in line with the expected new strengthened EU air quality directive. IFC will support private sector players in the adoption of energy efficient and low-carbon technologies on the energy supply and demand sides and promote environmental, social and governance (ESG) practices and certifications (EDGE) for energy efficient buildings as well as promote greening of transport and logistics infrastructure, including via PPPs. MIGA will seek to complement the IBRD and the IFC engagements by providing credit enhancement guarantees for public and PPP projects focused on the energy sector, and sustainable infrastructure to also help advance the country's green and sustainable development path.

### Associated Sustainable Development Goals (SDGs)

- SDG 7—Ensure access to affordable, reliable, sustainable and modern energy for all
- SDG 13—Take urgent action to combat climate change and its impacts

## CPF Objective 3: Increase renewable energy generation and energy efficiency

This is a new CPF objective to respond to Bulgaria's growing imperatives to decarbonize the economy and increase energy security for a more sustainable growth model.

**Rationale:** The energy sector accounts for more than 70 percent of the country's emissions of greenhouse gases. The primary energy mix is dominated by fossil fuels with a share of 61 percent (23 percent oil, 24 percent coal, and 14 percent natural gas). Its high energy intensity hampers Bulgaria's overall sustainable growth prospects.

Key priorities include the diversification of the energy mix and an acceleration of energy efficiency, including in the buildings sector, and through scaling up renewable energy. The need to increase energy security and sustainability gained prominence following Russia’s invasion of Ukraine, which increased the urgency of Bulgaria’s need to transition away from fossil fuels for power and heat and increase the use of local energy resources. Russian gas imports (accounting for more than 70 percent of Bulgaria’s gas supply before February 2022) were cut off at the end of April 2022. The NRRP responds to these urgent needs through reforms and investments to decarbonize the power sector, foster the clean and efficient production and use of energy and resources, and improve the energy efficiency of the building stock.

**Lessons learned and new knowledge at the program level:** The WBG delivered a broad set of policy notes to the Government in 2021 presenting findings and recommendations by sector for a green, resilient, and inclusive recovery. These emphasize the need for a clear implementation plan for the final stages of energy market liberalization, with attention to poor and vulnerable households, and for a strategy to scale up renewable energy. The SCD identified how progress to decarbonize the economy had lost momentum, with only limited progress recently towards achieving energy efficiency and encouraging renewable energy penetration. In addition, there is an urgent need for Bulgaria to develop and implement a roadmap for a just energy transition in all regions affected by a reduced reliance on coal or carbon-intensive industries, building on the WBG’s initial planning work.

**WBG ongoing and planned support to this CPF objective:** The WBG is well-positioned for helping Bulgaria to develop a long-term decarbonization strategy for the energy sector that is fiscally affordable, protects the poor and vulnerable, and contributes to mitigating climate change impacts. The WBG supported Bulgaria in the preparation of the REPowerEU Plan launched in May 2022 to tackle rising energy prices, sever fossil fuel dependency on Russia by the end of the decade and accelerate the green transition. Ongoing engagements to advance these priorities include a RAS to enable the future development of geothermal energy in the country, and contributions toward the decarbonization of the building stock and its adaptation to climate change under the EC-WBG technical assistance for the Renovation Wave in Bulgaria. Discussions are also underway to support the development and implementation of a roadmap for a just energy transition in the Maritsa East Complex. The WBG already provided just-in-time support to the Ministry of Energy for further strengthening some parts of the just transition plans for the country. The WBG will also engage with the Government to develop mechanisms that protect energy-poor and vulnerable consumers, including through the creation of a national Energy Poverty Observatory, which is required by 2026 according to the NRRP commitments. IFC will support this agenda through both investment and advisory support, including catalyzing renewable energy investments to exploit resources best available to Bulgaria, such as solar photovoltaic and onshore wind, including energy storage, to address their intermittent generation profile. In addition, IFC will support energy efficiency of commercial buildings and logistics infrastructure. Opportunities to partner with the banking system for deploying climate finance are also being explored by IFC, while also promoting ESG practices and certifications (EDGE) and potentially enabling smaller-scale renewable energy projects for SMEs and households through distributed generation. Jointly with IBRD and MIGA, IFC will also explore green municipal PPPs for introduction of renewable energy on existing and new assets. Working closely with IBRD and the IFC, MIGA will explore engagements and opportunities to provide credit enhancement guarantees for public and PPP projects with the aim to enhance the terms of private financing in the energy sector, especially in the areas of generation and transmission developments.

CPF Objective Indicators	Supplementary Progress Indicators (SPIs)	WBG Program
<p><b>Indicator 3.1: GW of renewable energy capacity enabled</b> [SCORECARD]</p> <p>Baseline: 0 (2024) Target: 0.6 GW (2029) Source: IFC RES investments (solar and wind; battery storage)</p>	<p><b>SPI 3.1: Establishment of center of excellence on geothermal energy in Bulgaria</b></p> <p>Baseline: No roadmap developed covering needed facilities, equipment, organization and staffing, and capacity building requirements (2023) Target: Geothermal laboratory established to support research and capacity building (2025) Source: P180543</p>	<p><b>Ongoing Engagements:</b></p> <ul style="list-style-type: none"> <li>• Geothermal Energy for Energy Security in Bulgaria RAS</li> <li>• IFC Investment Project Lion’s Head BG (48119; green logistics, green buildings)</li> <li>• IFC Investment Project CTP UCL (47722; green logistics &amp; industry infrastructure)</li> <li>• IFC Investment Project NEPI UCL (48424; green retail buildings infrastructure)</li> </ul>

CPF Objective Indicators	Supplementary Progress Indicators (SPIs)	WBG Program
<p><b>Indicator 3.2: Enhanced capacity of Ministry of Energy to promote and manage geothermal energy development</b> [crosscutting - institutional]</p> <p><i>Baseline:</i> No mechanism in place (2023)</p> <p><i>Target:</i> Design and launching of the mechanism to support pilot project(s) with aggregated capacity of 30MWth for heating from geothermal sources (2027)</p> <p>Mechanism in place (2027)</p> <p><i>Source:</i> P180543</p>	<p><b>SPI 3.2: Roll-out of financing instrument for energy efficient renovation of multi apartment buildings (MABs)</b></p> <p><i>Baseline:</i> No financing instrument (2023)</p> <p><i>Target:</i> Financing instrument is operational (2025)</p> <p><i>Source:</i> P177061</p>	<p><b>Potential engagements:</b></p> <ul style="list-style-type: none"> <li>• Just Transition—Maritsa East RAS</li> <li>• IFC engagement to support the implementation of just transition</li> <li>• Energy Poverty Observatory RAS</li> <li>• IFC Project St. Georges PV (48725) (solar energy generation)</li> <li>• IFC investment and advisory support to renewable energy generation and finance</li> <li>• IFC Project EBBG SL Climate (48705; SME climate &amp; gender loan, green mortgages)</li> <li>• MIGA credit enhancement for public and PPP projects to enhance the terms of private sector financing, including generation and transmission</li> </ul>
<p><b>Indicator 3.3: Enhanced capacity of the Ministry of Energy to implement a just transition</b> [crosscutting - institutional]</p> <p><i>Baseline:</i> Maritsa East Complex has total installed capacity of 3,300 MW with no Master Plan for just transitioning toward coal phasing out (2023)</p> <p><i>Target:</i> Implementation of Maritsa East roadmap (including a Just Transition Plan for workers and communities, regional economic strategy, and governance framework) (2027)</p> <p><i>Source:</i> Maritsa East RAS</p>		

## CPF Objective 4: Reduce air pollution

This is a new CPF Objective related to the previous focus area on better protected natural assets that reflects the ongoing and deepening engagement for improving air quality.

**Rationale:** Air quality (AQ) is a concern for human health: in 2020, the European Environment Agency estimated that approximately 238,000 premature deaths in EU27, of which 10,600 in Bulgaria, were attributable to exposure to particulate matter (assessed in the case of this estimate as the fraction of the total amount of air-borne particulate made up of particles with a diameter of 2.5  $\mu\text{m}$  or less). The EU norms for air quality are exceeded in 28 Bulgarian cities, and the European Green Deal calls for a higher 2030 emission reduction goal to achieve the zero-pollution ambition needed for a toxic-free environment. Air pollution, largely caused by energy and transport infrastructure, has important economic impacts, reducing life expectancy, increasing medical costs, and reducing productivity through reduced output and working days lost across various economic sectors. The carbon intensity of the transport sector is 3.5 times higher than the EU average, and the sector is one of the main emitters of greenhouse gases, accounting for 26 percent of the total emissions.

**Lessons learned and new knowledge at the program level:** The SCD concluded that the stalled progress in Bulgaria's decarbonization was due not only to the continued presence of carbon-intensive sectors in the economy

and limited progress on achieving energy efficiency but also to the rising carbon intensity of the transport sector. In addition, progress with decarbonization will require identifying and mitigating impacts on the poor and vulnerable. In the policy notes delivered to the Government in June 2022 and 2023, the WBG outlined how advisory services could be instrumental in helping Bulgaria build capacity for implementing the National Air Quality Management Program and the National Air Pollution Control Program. In addition, the Bank's multi-country study on Sustainable Cities identifies areas of underperformance related to urban spatial reform, solid waste management, and air quality.

**WBG ongoing and planned support to this CPF objective:** WBG advisory services provided through a new RAS will help the Government to update Bulgaria's National Air Pollution Control Program in line with the EU's NEC Directive (2016/2284). A potential next phase of support to the AQ agenda may include advice on policy measures to improve AQ in response to the revised standards under the expected new EU AQ Directive. In addition, the WBG is exploring how best to support the regional infrastructure agenda for accelerating the decarbonization of the transport sector, for instance, by identifying green transport projects that WBG can support by 'hybrid PPPs', through which WBG enhances financial viability of economically justifiable PPPs. Engagements will be informed by the WBG's recently completed strategic assessment of the transport sector and could potentially include support for developing a road strategy and scaled-up assistance through investment project financing. IFC will support this CPF objective by promoting industrial decarbonization across sectors by pursuing innovative low-carbon production technologies and material efficiency along the value chain, by scaling up climate/green finance in financial sector interventions and greening logistics infrastructure. IFC is also exploring engagements in transformational projects in district heating utilities to phase out fossil fuels in heating, which carries direct implications for air quality. MIGA will support this objective by exploring opportunities to provide credit enhancement guarantees for sustainable infrastructure, including at subnational levels.

CPF Objective Indicators	Supplementary Progress Indicators (SPIs)	WBG Program
<p><b>Indicator 4.1: Enhanced national policies for air pollution control</b> [crosscutting - institutional]</p> <p><i>Baseline:</i> National Air Pollution Control Program (NAPCP) based on outdated national emission inventory, with concerns about the consistency and accuracy of data in the energy and agricultural sectors (2022)</p> <p><i>Target:</i> Updated NAPCP adopted in line with EU requirements (2024)</p> <p><i>Source:</i> P181208</p>	<p><b>SPI 4.1: Improved inter-institutional cooperation on air quality management</b></p> <p><i>Baseline:</i> No functioning inter-institutional coordination body on air quality management (2022)</p> <p><i>Target:</i> Re-establishment of a Clean Air Council with high level (deputy minister) representation from key ministries and supported by expert technical working group(s) (2024)</p> <p><i>Source:</i> P181208</p>	<p><b>Ongoing Engagements:</b></p> <ul style="list-style-type: none"> <li>• Support to Strengthening Air Pollution Control RAS</li> <li>• IFC Investment Project Lion's Head BG (48119; green logistics, green buildings)</li> <li>• IFC Investment Project CTP UCL (47722; green logistics &amp; industry infrastructure)</li> <li>• IFC Investment Project NEPI UCL (48424; green retail buildings infrastructure)</li> </ul> <p><b>Potential engagements:</b></p> <ul style="list-style-type: none"> <li>• Road Sector Development RAS</li> <li>• Transport including regional infrastructure corridors</li> <li>• Engagements in district heating utilities and municipal green infrastructure (WBG)</li> <li>• Support to AQ Improvement RAS</li> <li>• IFC St. Georges PV (48725; solar energy generation)</li> <li>• IFC Project EBBG SL Climate (48705; SME climate &amp; gender loan, green mortgages)</li> <li>• New IFC PPP structured investments in river and sea ports</li> </ul>
<p><b>Indicator 4.2: Enhanced capacity of Road Infrastructure Agency (RIA) to implement a green transport agenda</b> [crosscutting - institutional]</p> <p><i>Baseline:</i> No road sector strategy in place aligned with the EU 2020 strategy (2023)</p> <p><i>Target:</i> Road strategy adopted in line with the EU 2020 strategy and the White Paper on transport with ministerial order defining responsibilities for implementation (2027)</p> <p><i>Source:</i> Road Sector Development RAS</p>		

CPF Objective Indicators	Supplementary Progress Indicators (SPIs)	WBG Program
<p><b>Indicator 4.3: GHG emissions reductions achieved by IFC investments per year</b></p> <p><i>Target:</i> at least 279,000 tCO<sub>2</sub>e/year (2029)</p> <p><i>Source:</i> IFC climate tagged investments.</p> <p><b>Indicator 4.4: Private capital mobilized by IFC investments</b> [SCORECARD]</p> <p><i>Target:</i> US\$700-800 million (2029)</p> <p><i>Source:</i> IFC portfolio monitoring for climate tagged investments with capital mobilization (IFC definition).</p>		<ul style="list-style-type: none"> <li>• New IFC investments in innovative green financial instruments</li> <li>• New IFC investments in decarbonization of high-emitting industrial sectors</li> <li>• MIGA credit enhancement for sustainable infrastructure, including at subnational level</li> </ul>

## Annex 2:

# Completion and Learning Review of the CPF FY17-22

Date of CPF:	May 19, 2016, covered period FY17-22 (Report No. 104987)
Date of PLR:	May 31, 2019, (Report No. 135421)
Date of CLR:	October 26, 2023
Period covered by the CLR:	FY17-FY22

## I. Introduction

- 1. This Completion and Learning Review (CLR) evaluates the outcomes and implementation of the World Bank Group (WBG) Country Partnership Framework (CPF) for Bulgaria for the period FY17-22.** The CLR assesses achievement of CPF objectives, quality of the program's design and implementation, and alignment with corporate goals. It draws lessons to inform the new CPF. The results framework from the Performance and Learning Review (PLR) is used as the basis for assessing the achievement of objectives (CLR annexes 1 and 2). Given emphasis on knowledge in the portfolio, the CLR incorporates ratings and lessons from application of the Institutional Change Assessment Method (ICAM), which aids understanding how WBG interventions have supported institutional strengthening and derives lessons (CLR annex 3).
- 2. Given delays in the development of the new CPF for Bulgaria for FY24-28, this CLR also considers the sustainability of results during gap year FY23.** Consultations with the Government of Bulgaria (GoB) identified areas for new and continuing engagements, but the dynamic political context (four governments in a period of 18 months) led to a delay in decision-making and a practical need to postpone development of a new CPF at several stages. For instance, preparation of the CLR and the new CPF started in FY22. At end FY22, the WBG team held CPF consultations with the Prime Minister and the Council of Ministers and reached broad agreement on the CPF framework. However, the government fell a few days after the high-level engagement. Since, two parliamentary elections rounds took place. Hence, the WBG team had to delay the CLR and CPF process at each of these stages. While the CLR ratings are based on performance under the previous CPF (FY17-22), the CLR also highlights continued progress related to CPF objectives and continued engagement during gap year FY23 (see also Box 1).

### Box 1: Continued and new engagements in CPF gap year FY23

- I. Ongoing implementation of Reimbursable Advisory Services (RAS)/Advisory Services and Analytics (ASA):** River Basin and Flood Risk Management RAS; Strengthening Disability System ASA (collaboration with the European Commission (EC)); Renovation Wave ASA; National Social Security Institute (NSSI) Capacity Building ASA (collaboration with the EC); Compact Cities ASA; e-Gov ASA; Support to Distressed Businesses ASA (collaboration with the EC); Strengthening Monitoring & Evaluation (M&E) of EU Innovation Programs.
- II. Implementation started for new RAS/ASA:** Geothermal RAS, Promoting Digital Transformation ASA; EU Basic Income Guarantee ASA; and the Subnational Business Enabling Environment ASA.
- III. New RAS/ASA formally requested:** 1. Air Quality RAS, 2. Regional Development RAS, and 3. E-Government RAS. New ASA engagements are also being discussed, including a project to set up Social Inclusion Platforms for marginalized communities including the Roma (collaboration with the EC).
- IV. RAS Memorandum of Understanding signed with the GoB** to provide an umbrella for RAS engagements and enable faster processing of RAS agreements on the side of Bulgaria, no longer requiring parliamentary sign-off for each single RAS.

3. **Despite progress, Bulgaria's poverty and inequality levels remain high by European Union (EU) standards.** Amid a projected growth slowdown and persistent inflation, poverty (using the Upper Middle-income poverty line of US\$6.85 in 2017 purchasing power parity Gross Domestic Product per capita is expected to flatten its decline, reaching 3.5 percent by 2024. Despite the recent decrease, Bulgaria's income inequality as measured by the Gini coefficient remains the highest in the EU at 38.4 in 2022. Disparities in labor market outcomes, challenges related to the coverage of the social protection system, and a fiscal system characterized by limited progressivity have been identified as reasons for the persistently high inequality rates. A study estimates that about half of income inequality is due to inequality of opportunity<sup>1</sup>.
4. **A strong knowledge program became the bedrock of the CPF, underpinned by two focus areas: strengthening institutions and investing in people.** The focus areas remained relevant throughout the CPF, with some shifts introduced at the time of the PLR in 2019 to leverage WBG comparative advantage, reflect current engagements, and align the program to new GoB requests. Lending from the International Bank for Reconstruction and Development (IBRD) was more limited than envisaged: one new US\$320 million operation was implemented to strengthen the resilience and stability of the financial sector, but a planned energy efficiency operation was dropped. However, the number and size of RAS engagements grew across several CPF objectives, with agreements implemented totaling US\$41.6 million. Strategic use of knowledge services provided through RAS and ASA funded by IBRD and the EC identified bottlenecks and increased readiness for reforms to advance the WBG mandate of shared prosperity and poverty reduction. ASA activities (28 in total) amounting to US\$4 million and 13 engagements totaling US\$5 million in grant financing (through trust funds) were also implemented.
5. **The International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) also remained selective.** IFC's program totaled US\$ 690.9 million, comprised of US\$109 million on IFC's own account and core mobilization of US\$582 million, across six projects across infrastructure, insurance, health-care and trade finance. IFC's new engagements prioritized projects with clear demand and impact, innovative features, strong demonstration effect, and private capital mobilization. Several regional IFC projects have had a notable impact in Bulgaria as well, namely in the private equity space and in the food supply chain sector<sup>2</sup>. As of end July 2023, MIGA did not have active outstanding exposure in the country. In FY06, MIGA issued guarantees of US\$88.9 million for a 16-year period, to support the construction and operation of a 600-mega-watt power plant<sup>3</sup>, which played an important role in the project's ability to mobilize long-term commercial financing. In August 2022, the MIGA guarantee was cancelled, and the outstanding loan was prepaid. During the CPF period, MIGA aimed to mobilize foreign capital for impactful projects, particularly in the infrastructure sector. However, new guarantees have not yet materialized.
6. **During the CPF, a key role envisaged for the WBG in Bulgaria was to help leverage EU funds for advancing socioeconomic convergence with more advanced EU countries.** This financial support was available through seven operational programs under the EU Cohesion Policy for 2014-2020 followed by a potential EUR16.6 billion from the 2021-2027 Multiannual Financial Framework and EUR7.5 billion in grants from NextGenerationEU, of which EUR6.27 billion is allocated to Bulgaria's National Recovery and Resilience Plan (NRRP). Bulgaria's absorption of EU funds lagged behind the EU average, hence a key focus of IBRD's engagement was to help Bulgaria strengthen institutional capacity and meet Enabling Conditions for accessing EU funding as part of the overall Maximizing Finance for Development (MFD) approach. As the EU financing architecture evolved, IBRD strengthened its dialogue with the GoB, leading to the signing of a new framework agreement (FA) for RAS in gap year FY23. The FA (July 2022) between the GoB and IBRD covers EU funding programs under the 2021-2027 programming period and means that each RAS agreement enters into force upon signature and is no longer subject to parliamentary ratification.
7. **The overall development outcome rating for the CPF FY17-22 is Moderately Satisfactory.** The WBG program is expected to achieve the targets for all the indicators tied to CPF objectives and has made gains during the CPF gap year of FY23, but this progress was not completed within the planned timeline (table 1). None-

1. World Bank, Bulgaria - Systematic Country Diagnostic. Washington, D.C., 2021.

2. In the CPF period, IFC engaged in the following regional projects that include Bulgaria: Soufflet Corp (45465), Launchub 2 (44956), Evolving Europe (43921), Blackpeak II (44918), DCM OTP MREL (45474), and CTP UCL (47722).

3. The AES-3C Maritza East I EOOD is a base load facility, in operation and supplying electricity to the state-owned NEK utility.

theless, the WBG designed and implemented a realistic, adaptive, and innovative program that achieved incremental gains toward stronger institutions and yielded regional and global knowledge spillovers. **Therefore, the WBG performance rating is “Good”.**

**Table 1: Summary of ratings for CPF objectives**

AREA	Rating	No. of objectives	Achieved	Mostly Achieved	Partially Achieved	Not Achieved
Strengthening institutions for sustainable growth	Moderately Satisfactory	3	1	1	1	0
Investing in people	Moderately Satisfactory	2	1	1	0	0
<b>OVERALL CPF</b>	<b>Moderately Satisfactory</b>	<b>5</b>	<b>2 (40%)</b>	<b>2 (40%)</b>	<b>1 (20%)</b>	<b>0</b>

## II. Progress Towards CPF Development Outcomes

### Area 1: Strengthening Institutions for Sustainable Growth

#### CPF Objective 1. Improve resilience and stability of the financial sector—Achieved

8. **The program achieved the progress expected for improving resilience and stability of the financial sector.** The Insolvency and Creditor/Debtor Regimes Report on the Observance of Standards and Codes, completed largely under the previous CPF, provided guidance for WBG engagement through its assessment of existing legislation, regulations and procedures, and proposed options for strengthening the insolvency framework and institutional environment. The mix of interventions included IBRD lending and ongoing ASA to strengthen the insolvency framework while IFC provided trade finance and advisory services to improve governance and risk management practices in the banking system.
9. **The Deposit Insurance Strengthening Project positioned the World Bank (WB) as a reliable partner for helping to stabilize the Bulgaria Deposit Insurance Fund (BDIF) and rebuild its reserves.** The EUR300 million project was the first IBRD lending since 2009, designed following the failure of the fourth-largest bank in 2014. It included the direct funding of the BDIF, which allowed for the repayment of a more expensive government loan and sent a positive signal to the market to buoy the credibility of the BDIF as a key participant in the financial sector safety net. Complementary diagnostics were conducted as part of the joint WB-International Monetary Fund (IMF) Financial Sector Assessment Program (FSAP) to address corporate governance issues in the banking sector and weaknesses in the banking supervision and resolution framework.
10. **The innovative use of results-based financing for the BDIF project proved effective for achieving project development objectives and leveraged other financing sources.** A EUR300 million loan agreement between the European Bank for Reconstruction and Development (EBRD) and BDIF became effective in 2016 to meet the requirement for mobilizing a long-term loan or back-stop funding facility. The ratio of BDIF reserves-to-covered deposits reached 2.16, exceeding the end target of 1.5. Use of disbursement-linked indicators (DLIs) in the project provided both guidance and incentives for strengthening the institutional capacity of the BDIF to recognize and respond to potential banking problems by increasing the transparency of the financial health of institutions whose deposits it insures and through the preparation of a contingency plan that would be operationalized in the event of future bank failures. An additional unintended positive outcome was that amendments to the Bank Bankruptcy Law for accelerating the recovery process were required for the achievement of two DLIs.
11. **WB support aimed to improve preventative restructuring mechanisms and help enterprises detect financial distress as early as possible.** Notable results of the ASA included the adoption of recommended amendments to the Commerce Act in 2017 to improve the insolvency framework, and preliminary steps to

establish early warning tools for identifying businesses in distress and triggering control mechanisms. WB diagnostics and guidance informed the transposition of selected articles of the EU Directive 2019/1023 on preventive restructuring frameworks, insolvency, and discharge of debt. These reforms are particularly important for small and medium-sized enterprises, which are more vulnerable to financial distress and contribute to a significant share of the Bulgarian economy.

12. **IFC complemented IBRD's effort with interventions to improve governance and risk management practices in the banking system.** These include both trade finance and advisory services. To facilitate trade, IFC's Global Trade Finance Program provided trade guarantees to three Bulgarian banks, supporting total trade flows of US\$63.1 million. The demand for IFC's support around trade finance has been muted in the second part of the CPF due to high liquidity in the banking sector.
13. **Although the CPF indicators focused narrowly on deposit insurance, the WB program supported broader trends critical for resilience and stability in the financial sector.** The 2022 Article IV Consultation Report by the IMF (June 2022) concluded that "the banking sector remains well capitalized and liquid" and that "systemic risks appear low." IMF substantiated this assessment through Financial Soundness Indicators (2016-2021), such as the ratio of capital to risk-weighted assets which remained stable, and asset quality, which improved with a declining share of nonperforming loans from 2016 to 2021.

## CPF Objective 2. Strengthening the institutional framework for transport infrastructure financing with a growing private sector participation—Partially Achieved

14. **Targets for strengthening the institutional framework for transport infrastructure financing were partially achieved.** This objective was added during the PLR to reflect new engagements designed to advise the Bulgarian Road Infrastructure Agency (RIA) for implementing e-tolling of national highways, ensure effective implementation of Bulgaria's public-private partnership (PPP) concessions framework, and support the Ministry of Transport, Information Technology and Communications for structuring private sector participation in Sofia airport. However, some targets set for this objective could not be achieved on the planned timeline in light of the COVID-19 pandemic and its adverse effects on traffic volume, the ability of road users to pay new fees, and the number of tourists using the airport.
15. **WB technical assistance enabled RIA to design and implement an e-tolling system for improving the sustainability of road network assets.** The system is based on EU principles of fairness and effectiveness, making higher polluting and heavier vehicles pay their share of the costs. The RIA RAS supported the deployment of the e-vignette and e-tolling systems (which went live in 2019). In addition, RIA gained capacity related to monitoring and quality assurance. Implementation of the system has been underway since March 1, 2020. Approximately 900 staff operate the system through the national toll authority (NTA), after being recruited and trained with the aid of WB capacity-building.
16. **However, the target level of spending on the road sector envisioned under the CPF was not achieved within the expected timeframe.** The RIA estimate for 2022 of BGN500 million fell short of the target of BGN1 billion for multiple reasons. Negotiations with the trucking industry and other stakeholders during the election period led to a reduction in the size of the road network being tolled and the setting of toll tariffs below the levels recommended by the WB. The GoB was cautious in instituting the new tolling policy, initially as a temporary measure with the option for a new Government to revise the scope and tariff levels upward. In the meantime, the pandemic reduced traffic volume and associated toll revenues. The revenue from tolling has continued to increase, estimated to reach BGN800 million for 2023, with the requirement per legislation that these funds must be used for road infrastructure. Spending on the road sector is estimated to increase for 2023<sup>4</sup>.
17. **To improve cross-border connectivity and increase private participation in infrastructure, IFC provided assistance to structure and implement a PPP to modernize, expand, operate, and maintain Bulgaria's primary international airport in Sofia.** The 35-year concession marked the first major airport-sector trans-

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4. According to [RIA](#), the budget for road infrastructure was BGN2.4 billion for 2022 and BGN41 billion for 2023.

action to close in the Europe and Central Asia (ECA) region since the onset of the pandemic. IFC mobilized a EUR480 million investment in equity and debt, resulting in an upfront concession fee of EUR285 million to the GoB. In 2021 and as part of the total amount mobilized, IFC also committed a US\$36.8 million debt facility on its own account, alongside EBRD, the European Investment Bank (EIB), and others. This investment will support a higher quality service provision for passengers and improve the efficiency and quality of cargo-handling-services, increasing international trade and supporting job creation. Due to the pandemic, the new construction in Sofia Airport was delayed until 2021, and the related CPF target was surpassed in 2022. Working with the IFC, MIGA explored opportunities to provide political risk insurance guarantees to cover the equity investment in the Sofia airport. However, no guarantees were issued in this regard. MIGA also explored other opportunities to facilitate cross-border investments into PPP projects in the transportation sector, but this has not resulted in the provision of new guarantees.

18. **Finally, WB diagnostics in the transport and logistics infrastructure sectors have provided a foundation to leverage other funding sources and identify potential areas for support during the next CPF.** The diagnostic roadmap developed under the Transport and Trade Facilitation ASA provides the basis to solicit EU funding for the development of a comprehensive logistics master plan for identifying the optimal mix of investments, a key step for attracting private investment. Support has also focused more broadly on improving fiscal sustainability, with a RAS assessing the public procurement system and the capacity of the Public Procurement Agency. This analysis provided a strong direction for strengthening the capacity of the Agency by conducting a functional review, data analytics of procurement contracts and an assessment of the public procurement system, all needed to support the PPPs tendering, amongst others.

### CPF Objective 3. Better protected natural assets and improved efficiency in use of resources—Mostly Achieved

19. **Mitigating environmental risks was a CPF priority, with a focus on supporting Bulgaria exploit its natural resources in a sustainable manner.** Most but not all targets were achieved. During CPF design, the main focus was on strengthening organizations and regulations to become EU compliant, particularly related to water, air quality, and climate change adaptation. Areas expanded as opportunities emerged during the CPF to include forestry, disaster risk management, regional development, blue economy, and decarbonization. A four-year RAS was signed to support the Ministry of Environment and Water (MoEW) with new outcome indicators added during the PLR to assess the support provided for the development of River Basin Management Plans (RBMPs) and Flood Risk Management Plans (FRMPs).
20. **Lending and RAS engagements delivered key improvements in water supply and sanitation (WSS).** The Municipal Infrastructure Development Project, implemented between 2009 and 2020, supported dam construction and rehabilitation to establish a reliable water supply for about 180,000 people.<sup>5</sup> The project also contributed to municipalities' capacity for mobilizing WSS investments through the development of regional master plans for WSS systems in 51 jurisdictions, with nationwide coverage. The three Water Supply and Sanitation RAS's implemented in support of the Ministry of Regional Development and Public Works provided support for the development of a WSS sector financing strategy, currently under implementation by the Ministry of Regional Development and Public Works (MoRDPW).
21. **Nonetheless, substantial challenges remain related to water management.** CPF targets will be achieved on a delayed timeline for the development of the RBMPs and FRMPs for the 2022-2027 period aligned with EU requirements. The RBMPs and FRMPs are currently under development with expected adoption by end 2024 following delays amongst others due to the COVID-19 impact on field data collection, insufficient data availability and quality, and political transitions.
22. **WB support delivered positive outcomes related to air quality and climate change.** A RAS helped GoB to develop a roadmap for achieving compliance with the air quality and emission ceiling directives, leading to

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5. Construction of Plovdivtsi dam was completed during the implementation period while the remaining works for dam construction (Luda Yana) and rehabilitation (Studena) were completed beyond implementation periods, but within the CPF period.

the adoption of the National Program for the Improvement of Ambient Air Quality and the National Air Pollution Control Program (NAPCP) 2020-2030. Continued support for updating the NAPCP and strengthening interinstitutional coordination for air quality management will be delivered under a new RAS to be signed in 2023. The Climate Change Adaptation RAS supported Bulgaria in meeting EU requirements with inputs for the National Climate Change Adaptation Strategy and Action Plan, approved in 2019, setting a framework for climate change adaptation priority actions and investments to 2030. The Strategy has informed 2021-2027 EU Structural and Investment Funds (ESIF) programming, where climate change adaptation and mitigation needed to be mainstreamed in at least 30 percent of sectoral funds.

23. **WB delivered policy advice and methodological support to identify the potential of both the blue and green natural assets of the country.** A Blue Economy ASA provided an analytical base and policy advice towards development of a coherent policy framework and a whole-of-government approach for reducing marine pollution and fostering sustainable blue economy growth. The Bulgarian Presidency of the EU Regional Sea Basin Strategy “Common Maritime Agenda” for Black Sea was informed by the policy recommendations of the report. A forestry RAS supported development of a methodology for preparing a national forest inventory that would enable the enhanced management and protection of the ecosystems and the sustainable management of the natural resources in Bulgaria.
24. **The disaster risk management RAS delivered timely support to leverage EU funding opportunities for crisis recovery and resilience.** Through development of a National Disaster Risk Management Plan informed by a National Risk Profile, the GoB was and is well-positioned to mobilize post-COVID recovery funds as well as EU Multiannual Financial Framework resources to invest in its disaster resilience and climate priorities. Led by the Ministry of Interior, GoB now has the diagnostics for undertaking a more structured approach to facing multiple disaster risks, as well as a robust system for identifying/prioritizing green, inclusive risk reduction investments, policy reforms and capacity building.
25. **WB support brought about a new integrated approach to regional development and decarbonization, establishing a model for the region.** Key results include the establishment of a legal framework for the integrated territorial approach and an enhanced structure and role for Bulgaria’s six regional development councils. These will serve as the territorial bodies carrying out a selection of integrated territorial investment projects under Bulgaria’s Program Development of Regions 2021-2027. The Decarbonization RAS supported the development of district-level Territorial Just Transition Plans (TJTps), which provide the opportunity to advance the European Green Deal by informing integrated territorial investments. Unlike some other EU countries that have focused TJTps for coal regions, Bulgaria has extended these to cover carbon-intensive industries more broadly, an approach that could serve as a model in the region. WB advisory services helped the government plan for a fair transition in eight carbon-intensive districts, covering 62 municipalities, 25 percent of population. This work set the foundation for future work across all districts through a new RAS with the MoRDPW, with climate resilience being an important pillar of that engagement. The Blue Economy ASA also supported an integrated approach for sustainable development, delivering a blue economy diagnostic with recommendations for synergies across sectors and helping inform the implementation of the Common Maritime Agenda for the Black Sea.
26. **WB helped to strengthen the electricity sector and achieved the CPF outcome indicator related to the adoption of an energy efficiency housing strategy.** Two power sector RAS’s informed the formulation and implementation of a comprehensive reform program, resulting in the stabilization of the National Electricity company’s financial position. A planned residential energy efficiency operation was dropped when the GoB allocated funds from its own budget to provide broad support for the National Program for the Energy Efficiency of Multifamily Buildings. However, the WB’s preparation for the planned lending operation was instrumental in mobilizing EC support through the Technical Assistance Facility to Support Renovation Wave in EU member states. An ASA provided a comprehensive analysis on residential energy efficiency, which supported the preparation and adoption of the Long-Term Strategy for Renovation of the National Building Stock of Residential and Non-Residential Buildings by 2050.

## Area 2: Investing in People

### CPF Objective 4. Strengthen institutional capacity for managing school performance— Achieved

27. **All CPF outcome indicator targets were achieved for this objective.** RAS tasks supported the development of a system of School Performance Indicators and the piloting of a new methodology, the estimation of School-Value-Added Measures (SVAM). Two SVAM pilots were completed, one for students in lower secondary education (based on test results after grades 4 and 7) and one for students in upper secondary education (based on test results after grades 7 and matriculation exam results). In addition, recently completed RAS and ASA tasks provided critical support to improve student learning outcomes prioritizing disadvantaged students. The WB supported a mapping of direct learning environments with needs, a situation analysis of the education system at all levels, an analysis of teacher policies and support, and a methodology for monitoring and evaluation for the Education Strategy 2030.

### CPF Objective 5. Improve access to essential services, including for “bottom-40” and marginalized groups—Mostly Achieved

28. **WB helped to improve WSS infrastructure for people living in poverty.** The Plovdivtzi dam rehabilitation in a remote area was supported by the Municipal Infrastructure Development Project to benefit approximately 30,000 poor and marginalized people with improved water supply. In addition, the Water Supply and Sanitation RAS laid the groundwork for more efficient use of the public budget in the WSS. Improved programming and financing of the sector resulted in increased access to wastewater collection and treatment services, with both indicators exceeding the targets set for the CPF period.
29. **Diagnostics and capacity building enabled improvements in access to essential services for marginalized groups, including Roma children and people living with disabilities.** WB conducted a randomized control trial on an intervention implemented by the Trust for Social Achievement in 236 communities to understand how to increase preschool enrollment among Roma children. It demonstrated that offering free kindergarten access is the most cost-effective strategy to increase participation. Given the pandemic, the targeted increase of children enrolled in kindergarten was not achieved during the CPF, but the ASA findings helped inform amendments to the preschool and school education Act in 2020 and tax legislation in 2022 making early childhood education and care free for all starting April 2022. WB also supported strengthening of the disability assessment system through the Structural Reform Support Service (SRSS) task, which included: i) support to the Ministry of Labor and Social Policy (MoLSP) to strengthen the individual comprehensive assessment of functioning and needs of adults with disabilities; and ii) technical advice to MoLSP regarding establishment of a State Agency for Persons with Disabilities. GoB is currently working on legal regulations revisions that would enable the establishment of such an agency.
30. **An innovative engagement, jointly delivered by the Urban, Disaster Risk Management, Poverty, and Social Sustainability and Inclusion teams, modeled an effective approach for addressing the multi-sectoral nature of the challenges faced by marginalized communities.** Recommendations delivered through the Roma Housing and Living Conditions ASA have provided GoB with a more comprehensive picture of the underlying factors affecting housing and living conditions of marginalized groups that can be considered as part of future programs and interventions targeting vulnerable, marginalized groups.
31. **RAS and ASA tasks related to e-government achieved key steps toward more efficient public spending on service delivery.** This is part of a broader push to ensure that all Bulgarians have access to essential services. The WB carried out a Digital Government Readiness Assessment in 2019-2020 and developed an e-Government action plan for advancing key reforms. Some recommendations have been implemented such as the elevation of the State E-government Agency to ministry level with the establishment of the Ministry of E-governance. A new E-Governance RAS under development will further help strengthen the institutional capacity of the Ministry.

32. **IFC support facilitated increased access to high-quality healthcare.** An IFC equity investment with a private sector health care services provider supported the creation of a countrywide, integrated healthcare network providing a comprehensive range of health services across several locations. These results aligned with Bulgaria's ongoing healthcare reform focused on the sustainability of the health system and better health outcomes through primary and preventive healthcare services. Between 2018 and 2020, IFC-supported health care providers served 1,567,332 patients, nearly achieving the target outcome of 1,579,500, while it reached a total of 2,763,886 patients for the period 2018-2022.

### III. World Bank Group Performance

33. **The overall WBG performance is rated as Good.** WBG engagement was selective in supporting key priorities identified in the National Development Program for Bulgaria 2020 with respect to strengthening institutions and service delivery. The CPF program was successful in keeping Investing in People on the agenda despite limited uptake by the GoB and enabled the WBG to establish foundations for dialogue and program development for the new CPF. The WBG program evolved in response to changing country demands and EU opportunities, with a particular focus on helping Bulgaria to strengthen institutional capacity and meet Enabling Conditions defined by the EC for the EU funding program 2021-2027<sup>6</sup>, thereby leveraging European funds to support Bulgaria at scale for disaster risk management, climate change adaptation, air quality improvement, water quality, and other areas.

#### Design and Relevance

34. **A CPF priority was to support EU convergence for Bulgaria, spurring progress toward EU standards through knowledge services.** From the outset of the CPF period, the GoB expressed reluctance to borrow from IFIs, including IBRD, and an overall reluctance to assume international debt and the knowledge agenda therefore took precedent in the partnership.
35. **A key focus area for the WB program was Investing in People, given its importance to its twin goals of poverty reduction and shared prosperity.** This area was highly relevant in Bulgaria given that the country's relatively robust economic growth and sound macroeconomy has not translated into a commensurate reduction in poverty and inequality. Despite the limited demand by the GoB for WB support to scale up engagement on the social agenda, this priority was maintained through analytical work and dialogue financed by IBRD's administrative budget and complementary support from the EC. WB diagnostics and advice laid the foundation to mobilize reforms under the new CPF period.
36. **Program design was strategic and selective in targeting incremental gains in the dynamic country context that characterized the CPF period.** The 2015 Systematic Country Diagnostic (SCD), updated in 2021, identified areas that could have a transformational impact on the economy, but opportunities for engaging in these areas relied on specific GoB demand. Frequent government transitions complicated efforts to engage champions, predict shifting priorities, or foster broad stakeholder support, particularly during election periods. Nonetheless, WB teams worked strategically to address a key cross-cutting constraint identified by the SCD, namely the need to strengthen institutions. Program design focused heavily on ASA, both from WB own budget to build readiness for reforms and through RAS's where WB support could leverage EU funds. Diagnostics, technical assistance, and policy advice were designed to inform incremental progress for institutional strengthening, as demonstrated in CLR annex 3. Similarly, by applying a selective approach, IFC managed to attain its priorities achieving demonstration effects and promoting private capital mobilization in key areas such as infrastructure and social sectors.

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6. The EC Common Provisions Regulation sets out the rules for EU shared management funds, including the European Regional Development Fund (ERDF), Cohesion Fund, European Social Fund Plus, Just Transition Fund, and Asylum, Migration and Integration Fund. MS are required to fulfil 'enabling conditions' to ensure effectiveness of and to make the most of EU funds.

37. **CPF objectives were designed to advance key priorities, within a realistic scope using targeted interventions.** The cases where objectives were not achieved generally do not reflect failures in design so much as consequences of a sharply politically dynamic implementation period. The pace of reforms related to cost-recovery in the road sector, energy efficiency in the housing sector, and river basin and flood risk management was impacted by political dynamics. Additional challenges stemmed from COVID-19—which greatly reduced the volume of traffic and tourists for the transport sector—and from rising energy costs, which limited opportunities for WSS operators to efficiently deliver services at affordable prices.
38. **The CPF was closely aligned to the IBRD capital package requirements for countries above the Graduation Discussion Income level, even though these were established in 2018 after the CPF was under implementation.** The WBG’s selective engagement highlighted the Twin Goals with a focus on investing in people and access to essential services for the “bottom 40.” Strengthening institutions for sustainable economic and social growth was both a CPF focus area and a cross-cutting priority. Innovative approaches were designed to manage potential crisis risks that could have regional/global spillovers, such as the use of results-based financing for the BDIF to leverage other financing and improve resilience and stability of the financial sector. Other engagements also produced new innovative models and approaches to be replicated or adapted in other countries, such as the RAS and ASA tasks on air quality, decarbonization, and expansion of TJTPs to cover carbon intensive industries beyond coal. IFC used innovative approaches to ensure additionality, creating a model for new infrastructure investments in transport and logistics. Given this already strong alignment with the new capital package requirements, the PLR did not focus on needed changes to strengthen alignment, nor did it articulate explicitly how the portfolio would support a trajectory toward IBRD graduation.
39. **Some of the CPF indicators in the results framework could have been better calibrated for accurately tracking progress.** The securing of a long-term loan for BDIF was an important step for ensuring the stability of the financial sector, but the loan agreement with EBRD had already been signed at the start of the CPF period. A more meaningful indicator in this case might have been the preparation of the contingency plan to operationalize in the event of future bank failures, reflecting more clearly results achieved through BDIF and FSAP interventions. For the CPF objective focused on better protected natural assets and improved efficiency in the use of resources, the assigned indicators adequately covered the protection of assets but not efficiency improvements. Stronger indicators were also needed for the second CPF area focused on investing in people to capture benefits for marginalized and vulnerable populations. Indicators established related to wastewater collection and treatment, kindergarten enrollment, and healthcare services were not designed to track changes by type of beneficiary. Overall, the results framework missed the opportunity to measure outcomes systematically for the lowest-income groups.
40. **The WB program identified openings to enhance public sector capacity, built readiness for reforms, and informed some impactful government actions including free pre-schools for all children.** Understanding and addressing knowledge gaps proved to be an effective design strategy for removing bottlenecks, leveraging resources, and building momentum. The Shared Services RAS generated some appetite and capacity for e-government in the general administration, giving the WB a base to build on through ASA engagements to conduct a public expenditure and institutional review, and to develop an e-government action plan. These investments have yielded stronger commitments to e-government reforms, reflected in the recent establishment of a new Ministry of E-governance. The WB also leveraged partnerships to amplify the results of modest-size knowledge tasks. One example is the ASA for evaluating how to close the gap in preschool participation between Roma and non-Roma children. The impact evaluation informed legislative amendments that have paved the way to free preschool for all children.
41. **WB spearheaded innovative approaches to new models in design, leading to regional and global knowledge spillovers and global public goods.** The use of results-based financing in the BDIF project served as a valuable example for other WB operations directed at supporting deposit insurance schemes, such as in Madagascar and Laos People’s Democratic Republic. Some advisory services are also producing regional or global public goods. For example, the Air Quality RAS has informed RAS and ASA tasks in Poland, Slovakia, Bosnia and Herzegovina, Kosovo, and North Macedonia. The concession of Sofia Airport laid the groundwork for future infrastructure development in Bulgaria through a PPP model. Critical amendments to the PPP legal framework, enacted with IFC’s advisory support during the Sofia Airport transaction, are expected to provide traction for new infrastructure investments.

42. **Nonetheless, there were some shortcomings in program design, in part due to internal coordination, systems, and processes.** The RAS is a client-driven instrument, often designed within a tight timeframe. Teams reflected that the pressures around defining the objective, signing an agreement with the client, and delivering outputs on accelerated timelines sometimes led to an unrealistic scope or suboptimal RAS implementation arrangements. Examples include signing a RAS to assess the public procurement system with the public procurement agency (the agency being assessed) rather than with its supervising entity, and shortcomings in the design of the e-Tolling RAS allowed the project specifications to be set by the client without adequate technical capacity for making fundamental business, operational, and organizational design decisions.

## Program Implementation

43. **Implementation of the CPF FY17-22 has laid the foundation for a strong program under the next CPF.** Diagnostics on transport, regional development and decarbonization have established the groundwork for integrated territorial investments, fostering new opportunities for strengthening infrastructure and connectivity at national and subnational levels. Continued collaboration is expected related to energy, e-government, environment, regional development amongst others. While RAS's and ASA's are the main levers for engagement, the new government has expressed openness to deepen engagement, including through lending operations with a strategic reform objective.
44. **Close collaboration between the Country Management Unit (CMU) and Global Practice teams facilitated an agile response to changing circumstances.** The WB country office has been instrumental in maintaining communication with the client and delivering customized advisory services in a context of frequent political changes. The CMU's responsiveness was highlighted by the onset of the COVID-19 pandemic in 2020, with all negotiation and supervision activities moving to a remote format. In addition, the CMU demonstrated adaptability and flexibility in offering support to mitigate the impact of COVID-19.
45. **Active supervision included careful attention to safeguard and fiduciary issues, even if this contributed to delayed implementation.** For the BDIF project, continuity of the WB team enhanced supervision and strengthened the working relationship with client institutions, contributing to its success. The Municipal Infrastructure Project presented distinct challenges for supervision over its ten-year duration, and the team was adaptive and responsive in ensuring compliance in dam construction and rehabilitation activities. This included regularly mobilizing global experts to support supervision and advise GoB as they undertook complex and innovative actions, such as the use of a synthetic membrane in the Studena dam rehabilitation. The close collaboration between the client and WB team was instrumental in maintaining progress. The team followed up closely with the GoB as the project neared closure—and even after closure—seeking to encourage completion of both the Luda Yana and Studena dams. In addition, WB's support for the development of strong municipal master plans mobilized significant additional investment for the sector, an achievement that goes beyond the planned objectives.
46. **The 2019 PLR allowed for mid-course corrections to respond to changing circumstances and GoB priorities.** Notable shifts reflected a growing emphasis on modernizing and strengthening institutions, especially related to transport infrastructure, regional development, water management, disaster risk management, e-governance, education, and the disability system. The CPF objective focused on the electricity sector was eliminated given a lack of interest on the part of the ministry at the time to pursue a partnership. The RAS instrument proved to be an important lever for advancing the development agenda, drawing on EU support to collaborate with the GoB. New CPF outcome indicators added during the PLR reflected the growing reliance on the RAS portfolio to resume or maintain momentum on key reforms and acknowledge that investment operations were unlikely during the remainder of the CPF.
47. **Collaboration with other development partners has helped to advance CPF objectives.** IBRD's BDIF project leveraged an additional EUR300 million from EBRD. The water sector team worked closely with EIB on Bulgaria's water and sanitation financing strategy. Examples of collaboration related to human development include work with the United Nations Children's Fund on a household pulse survey in 2021 to understand how people's lives had been impacted by COVID-19 and collaboration with the Sofia-based Trust for Social

Achievement for closing the early learning gap for Roma children. In the Sofia Airport project, the cooperation between IFC and EBRD intensified on environmental and sustainability issues only after the respective investment transactions had been signed in 2020 and 2021, respectively.

48. **There was regular coordination among IBRD, IFC and MIGA during the CPF, although it did not result in specific joint initiatives.** IFC and MIGA worked together in 2021 on a request for political risk insurance to cover the equity investment in Sofia airport, which ultimately did not materialize. MIGA, on the back of the upstream works conducted by IFC on PPPs, explored opportunities to issue political risk insurance guarantees to facilitate cross-border investments in PPP projects in the transportation sector.

## IV. Alignment with Corporate Goals

49. **The CPF supported selected areas aligned with the WBG's twin goals of ending extreme poverty and promoting shared prosperity, important for the poorest country in the European Union on a per capita basis.** The WB has been a ready partner for advancing some priorities in Bulgaria's development agenda as demonstrated by the work in the financial sector, which included the first lending operation since FY11. Other opportunities focused on leveraging EU funds for greater economic impact, such as through better compliance with EU directives on water and sanitation and air quality; more efficient public spending through e-governance; and better management of school performance. WB also supported the priority of Investing in People despite limited government demand for lending or new advisory services. Analytical work and dialogue financed from IBRD's administrative budget and collaboration with the EC and other partners as appropriate worked to build readiness for reforms and scaled-up support in preparation for increased government demand. Ongoing dialogue gradually strengthened government demand, reflected by requests for several RAS-financed engagements.
50. **Shifts at the PLR were designed to enhance alignment with WBG corporate goals and evolving country priorities, and to introduce greater selectivity.** The new EU funding program 2021-2027 and its Enabling Conditions generated increased interest in support for strengthening institutional capacity through an expanded RAS program, particularly related to water resource management, disaster risk mitigation, transport, and education. Selectivity criteria were also added during the PLR to ensure that any new financing would be aimed at building essential institutional capacity while adding value in at least one of the following areas: (i) providing innovative solutions that benefit the marginalized, poor, and vulnerable; (ii) catalyzing private sector investment or leveraging additional resources, including access to and efficient utilization of EU grants; and (iii) contributing to regional and global public goods.
51. **Attention to the WBG corporate priorities across the Bulgaria portfolio was mixed.** The CPF called for advancing the climate change agenda and mitigating environmental risks and this focus was broadened as opportunities emerged during the CPF period, leading to regional knowledge spillovers. WB contributed to the GoBs adoption of the National Program for the Improvement of Ambient Air Quality and the National Air Pollution Control Program 2020-2030, the approval of the National Climate Change Adaptation Strategy and Action Plan, a National Disaster Risk Management Plan, and a new integrated approach to regional development and decarbonization to advance the European Green Deal, amongst others. In addition, the growing RAS program reflected important support for maximizing the use of EU funds through strategic sector planning and strengthening the capacity of key sector institutions. Progress was also achieved in engaging the private sector for MFD through the PPP model established by IFC's work on the concession of Sofia Airport, which could be used for other transport and logistics infrastructure investments. However, the WBG program did not prioritize addressing the gender gap. Despite a detailed gender assessment in the CPF—which outlined deficits for women and girls related to access to economic opportunities and participation in public life in Bulgaria—no objectives were articulated to reduce these gaps specifically and there were no CPF indicators including targets disaggregated by gender.

## V. Lessons Learned

52. **The dynamic political context in Bulgaria called for an adaptive engagement.** A reluctance to borrow from IFIs, including IBRD, combined with frequent government changes led to a knowledge focused program with only one investment operation during the CPF period. However, the overlap of the CPF period across several political cycles, combined with a small shift during the PLR, proved instrumental to engaging in constructive dialogue with a new reform-minded government immediately after it took office in June 2023. Ultimately, this could represent the foundation for a deepened engagement in the next CPF period. Supporting realistic, modest objectives allows the WBG to build readiness for reform processes that can be accelerated when there is political commitment and demand for WBG instruments.

### Selectivity

53. **Performance under the FY17-22 CPF has demonstrated how WBG engagements can help accelerate structural, economic, and social reforms.** Based on the CPF implementation, key priorities that remain relevant for the new CPF include: (i) investing in institutions, critical given the need to strengthen government implementation capacity and ability to absorb EU resources; (ii) investing in people, a key focus of WBG's twin goals; and (iii) contributing to regional and global public goods, such as through climate investments supporting the European Green Deal. In addition, the amendments of the legal framework for PPPs in Bulgaria spearheaded by IFC during CPF implementation are expected to provide a successful model for leveraging private capital in new infrastructure investments.

54. **The WB program should maintain progress in key areas while deepening engagements where there are opportunities to leverage WB comparative advantage.** The 2021 SCD Update underscores the importance of strengthening institutions for supporting Bulgaria's development and more inclusive growth. This includes judicial transparency and accountability for rule of law and access to justice; increased capacity to deliver quality public services; stronger control and audit institutions and enhanced transparency to curb corruption and uncompetitive practices, including in public procurement; and independent regulatory institutions to ensure a level playing field. In addition, human capital formation, including the Roma agenda, is a key constraint to Bulgaria's growth and development pathways.

55. **A two-pronged strategic and action-oriented approach is needed for improving the inclusion of Roma and other marginalized populations to advance the social agenda.** The politically sensitive and technically complex subject of Roma inclusion necessitates working with a broader set of governmental and non-governmental stakeholders at the national and community levels. Poverty and hardships have broadly taken a toll on the Bulgarian population and levers for change are more likely to be successful if they include Roma as well as marginalized non-Roma neighbors, with interventions designed to address community level gaps. The WB is well-positioned to use its targeting tools—such as poverty maps and atlases of marginalized urban and rural communities—and to draw on its experiences in supporting community-driven development and bolstering lagging regions, such as the Catching Up Regions initiative in Slovakia. This spatial approach is aligned with EU cohesion policy and allows GoB to tap EU funds, which will be the key financial resource for Bulgaria closing its critical services and infrastructure gaps.

56. **The WBG could play key crosscutting roles for supporting the green transformation during the next CPF.** The European Green Deal could be a pivotal driver for expanding the country portfolio, with opportunities emerging from recent and current engagements in regional development, transport, environment, water, energy, disaster risk management, and e-government. For example, the TJTPs reflect an important knowledge spillover both throughout Bulgaria and regionally, providing roadmaps for advancing the European Green Deal by informing integrated territorial investments at the district level.

57. **Engagements should have a modest and flexible design where possible to support incremental progress toward stronger institutions.** Considerations regarding the limited administrative and technical capacity of the public administration and the challenges presented by frequent staff turnover must be factored into the design of each WBG task. During the CPF period, challenges surfaced across the country portfolio related to the lack of IT infrastructure, poor quality or unavailable data, limited technical expertise in government units

tasked with key functions, and nonexistent or inadequate systems for supporting business processes (e.g., procurement). In addition, interventions to develop the capabilities of government units or focused on public administration more broadly are critical for ensuring that the WB is helping to build capacity for longer-term results rather than replacing it in the short term.

## Maximizing Finance for Development

58. **The selection of instruments should be based on the consideration of both WBG comparative advantage and use of EU funds to generate the greatest efficiency.** WBG can play a critical role as a knowledge broker and convener to advance key development priorities and to develop innovative approaches, drawing on global knowledge. In-depth analytics, reflecting global best practice, have been instrumental to maintaining the dialogue with authorities. The knowledge program implemented through RAS/ASA has served a critical role for informing a roadmap for development. During the next CPF, lending could provide opportunities to bring tried-and-tested innovative approaches to scale. It could also strengthen institutional capacity, e.g. through hands-on training in procurement, safeguards, financial management, which will aid Bulgaria's efforts to leverage and absorb EU funds. The strategic combination of knowledge services and lending support could bring significant dividends to Bulgaria, while introducing innovative tools to leverage private funds could play a key role in advancing development objectives.
59. **PPP transactions are a key tool to achieve private capital mobilization and to deliver infrastructure services.** This was demonstrated by successful closing of the Sofia Airport concession, transactions with proper risk-allocation and which include economic re-balancing provisions, in case of unforeseen events, such as the COVID-19 crisis. A viable bankable project structure was achieved through a restructured payment flow, requiring flexibility from both the grantor and the concessionaire in the face of an unforeseen drop in air traffic. This lesson will be considered in future PPP transactions.
60. **The WBG could more clearly articulate its value added for an integrated response that leverages WBG global knowledge in the European context.** Successful experiences fostering continuity and trust in some sectors, such as education, serve as a useful model for strengthening the WB visibility and reputation in Bulgaria. This need also extends to IFC and MIGA. Opportunities for joint WB, IFC and MIGA initiatives were limited during the CPF FY17-22. However, as shown by the experience of the Sofia Airport, there was a collaboration between WB and IFC during the early stage of the advisory mandate. Likewise, IFC, WB and MIGA joined forces in support of MIGA to issue guarantees for the concession contract, however no guarantees were issued. More broadly, the next CPF presents an opportunity for MIGA to calibrate the application of its products more carefully to the needs of the country, and closely consult with the WB and IFC in the process, to find areas to which it can make meaningful contributions. During the next CPF period, IFC and MIGA could close coordinate with the CMU to identify opportunities for engagement to build a larger, trusted country presence. The WBG institutions together are poised to serve as an important development partner for the implementation of the 2021-2027 operational programs and for Bulgaria's NRRP. To closely align WBG support with the Partnership Agreement between Bulgaria and the EU for the 2021-2027 programming period, the upcoming CPF period should extend at least to 2028.

## Managing for Results

61. **CPF objectives should be specific and measurable, with indicators assigned for each targeted change.** Broad objectives are difficult to achieve, particularly in a politically dynamic or low-capacity context. In addition, the growing RAS program presents unique challenges for measuring results, and more attention could be paid to defining and measuring the incremental gains expected from these engagements. The ICAM (CLR annex 3) provides a standard framework for planning, assessing, and communicating RAS results and could be used to inform the selection of CPF indicators.
62. **The CPF results framework must include clear and realistic indicators for measuring incremental gains, particularly for objectives focused on the "bottom 40".** Although the Investing in People focus of the CPF specified the objective to improve access to essential services, including for the "bottom 40" and marginalized groups, targets were not disaggregated to assess changes in access for these populations.

63. **The PLR provides the opportunity for learning and adaptation to strengthen the results framework.** This should include not just adjustments based on current progress and unforeseen challenges but also the addition of indicators to monitor evolving priorities as needed. Despite the CPF's detailed assessment of the gender gap, the PLR did not refine objectives nor add indicators for monitoring outcomes by gender and the only CPF indicator disaggregated by gender was dropped given that the energy efficiency operation did not materialize. In addition, the PLR could have reflected in more depth on the political dynamic context, and its implications for the CPF program moving forward. For instance, the gap year (FY23) between the FY17-22 CPF and the new CPF currently under preparation for FY24-28 was not foreseen at the PLR stage, yet it could have been considered as a potential risk given the political developments at that time. A second PLR was not considered as the preparation of the new CPF was delayed, as the WBG team considered each election period an opportunity to quickly restart engagements with a new government and could not have foreseen the frequent succession of elections (three parliamentary elections and four governments in a period of 18 months).
64. **Adequate local WB capacity is essential to inform implementation support.** Local leadership and expertise, such as a task team leader or senior specialist based in the Sofia office, supports frequent communication with the client, applying diagnoses and recommendations to the country context and bridging between international expertise, global best practice, and local needs. The capacity to engage with the GoB and deliver on tasks will continue to be essential for maintaining the program and for scaling up engagements as new opportunities for the new CPF arise under the new government.
65. **Finally, WBG teams must be adequately supported in their commitment to innovation.** Building awareness of and support for new instruments and innovative products will be critical to highlight to the GoB the WBG's comparative advantage vis-à-vis other international financial institutions and the broader market. Any uncertainty in the offered terms must be eliminated before entering the client negotiation process. The experience of negotiating the Deposit Insurance Contingency Financing project—ultimately dropped by the client—demonstrated the importance of ensuring the financial conditions for a new engagement are clearly defined and communicated to all stakeholders.

## CLR Annex 1: Summary Table: Status of Bulgaria FY17-FY22 CPF Results Matrix

Description	Status at CLR	Rating
<b>CPF Objective 1: Improved resilience and stability of the financial sector</b>		
Ratio of BDIF reserves to covered deposits	<i>Achieved</i>	Achieved
Long-term loan or back-stop funding facility mobilized by BDIF (supplementary progress indicator)	<i>Achieved</i>	
<b>CPF Objective 2: Strengthening the institutional framework for transport infrastructure financing with a growing private sector participation</b>		
E-vignette and e-tolling system go live	<i>Achieved</i>	Partially Achieved
Spending on the road sector (enabled by the e-tolling revenues)	<i>Not Achieved</i>	
Number of people receiving access to improved airport services	<i>Not Achieved</i>	
<b>CPF Objective 3: Better protected natural assets and improved efficiency in use of resources</b>		
Number of people benefitting from reliable water supply	<i>Achieved</i>	Mostly Achieved
Government develops a roadmap to achieve compliance with air quality directives	<i>Achieved</i>	
Government adopts an energy efficiency housing strategy	<i>Achieved</i>	
Government approves climate change adaptation strategy	<i>Achieved</i>	
River Basin Management Plans and Flood Risk Management Plans adopted by government	<i>Partially Achieved</i>	
<b>CPF Objective 4: Strengthen institutional capacity for managing school performance</b>		
Development of system of school performance indicators to inform future government interventions	<i>Achieved</i>	Achieved
Developed methodology to estimate SVAM reflecting students' socioeconomic status	<i>Achieved</i>	
Updated model for school inspection applied	<i>Achieved</i>	
<b>CPF Objective 5: Improve access to essential services, including "bottom 40"</b>		
Number of poor people benefitting from reliable water supply	<i>Achieved</i>	Mostly Achieved
Increased access to improved wastewater collection and treatment services (at national level)	<i>Achieved</i>	
Increase in children (3-6 years old) enrolled in kindergarten:	<i>Mostly Achieved</i>	
Number of patients served (total inpatient and outpatient)	<i>Mostly Achieved</i>	

## CLR Annex 2: Bulgaria FY17-FY22 CPF Results Matrix Evaluation

Note: Further details related to the “additional evidence” section for each CPF objective are provided in CLR annex 3.

Objective and Overall Rating	Indicator	Baseline/ Target	Status at CLR	Lessons and Suggestions for the New CPF	WB Program								
<b>Area 1: Strengthening Institutions for Sustainable Growth</b>													
<b>CPF Objective 1:</b> Improved resilience and stability of the financial sector  <i>Rating: Achieved</i>	Ratio of BDIF reserves to covered deposits	<i>Baseline:</i> 0.75 percent for end-2015 <i>Target:</i> 1.5 percent by end of 2020	<i>Achieved.</i> Target exceeded—Reserve ratio was 1.92 percent at end of 2020 <table border="1"> <tr> <td>(in million BGN)</td> <td>2020</td> </tr> <tr> <td>Covered deposits (previous year)</td> <td>60,494</td> </tr> <tr> <td>BDIF portfolio</td> <td>1,164</td> </tr> <tr> <td><b>Reserve ratio</b></td> <td><b>1.92%</b></td> </tr> </table> <i>Source:</i> · BDIF portfolio: Assets in the investment portfolio · Covered deposits: page 29 of BDIF’s 2020 annual report	(in million BGN)	2020	Covered deposits (previous year)	60,494	BDIF portfolio	1,164	<b>Reserve ratio</b>	<b>1.92%</b>	Results-based financing provided an effective approach for achieving project development objectives  Strong internal coordination across the WB is necessary to support sophisticated, innovative operations  Strategic collaboration with other bilateral organizations can leverage resources for greater impact	<b>WB completed activities</b> Insolvency and Creditor Rights Review of Observance of Standards and Codes; Financial Sector Assessment Program; Support to Financial Supervision Commission Deposit Insurance Strengthening Project; Pre-Insolvency and Early Warning Tools ASA.
	(in million BGN)	2020											
	Covered deposits (previous year)	60,494											
BDIF portfolio	1,164												
<b>Reserve ratio</b>	<b>1.92%</b>												
Long-term loan or back-stop funding facility mobilized by BDIF (supplementary progress indicator)	<i>Baseline:</i> No <i>Target:</i> Yes (facility mobilized)	<i>Achieved.</i> BDIF entered into a EUR300-million loan agreement with EBRD, effective September 2016  <i>Source:</i> 2016 BDIF Annual Report	Sustaining reform for the insolvency system will require enhancing the capacity of the judicial system to handle insolvency proceedings and reforming the credit	<b>Ongoing activities</b> n/a									
<b>Additional evidence of WB contributions to institutional strengthening:</b> <ul style="list-style-type: none"> <li>BDIF project helped to enhance institutional capacity of BDIF by:               <ul style="list-style-type: none"> <li>increasing the information available on the financial health of institutions whose deposits it insures</li> <li>preparation of a contingency plan to operationalize in the event of future bank failures</li> <li>requiring amendments to Bank Bankruptcy Law to accelerate recovery process through the use of project DLLs</li> </ul> </li> <li>ASA informed amendments to the Commerce Act adopted in 2017 to improve insolvency framework</li> <li>ASA informed action plan implemented to establish early warning tools for identifying businesses in distress, in line with EU Directive</li> </ul>													
<b>CPF Objective 2:</b> Strengthening the institutional framework for transport infrastructure financing with a growing private sector participation  <i>Rating: Partially Achieved</i>	E-vignette and e-tolling system go live	<i>Baseline:</i> 0 <i>Targets:</i> By January 1, 2019, and August 16, 2019, respectively	<i>Achieved.</i> E-vignette system live on January 1, 2019, E-tolling live August 16, 2019  <i>Source:</i> <a href="https://tollpass.bg/en/toll/toll-system-in-bulgaria">https://tollpass.bg/en/toll/toll-system-in-bulgaria</a>	Sustainability of road network assets will require Bulgarian authorities ringfencing e-tolling proceeds to the road sector  Transport and trade diagnostic roadmap provides the basis for an EU-funded master plan to identify the optimal mix of financing and attract private sector investment Recently completed PPP concession for operation and upgrade of Sofia airport provides successful model for new infrastructure investments in highways, airports, railways, ports, or logistic infrastructure	<b>WB completed activities</b> Subnational Doing Business (EU funded); PPP Framework Reform (EU funded); E-Tolling RAS. Transport and Trade Facilitation—Phase Two ASA; IFC PPP Advisory Sofia Airport (IFC 602327);  <b>WB ongoing activities</b> IFC—Sofia Airport.								

Objective and Overall Rating	Indicator	Baseline/Target	Status at CLR	Lessons and Suggestions for the New CPF	WB Program
	Spending on the road sector (enabled by the e-tolling revenues)	<i>Baseline:</i> BGN600 million (2018) <i>Target:</i> BGN1.0 billion (2022)	<i>Not Achieved.</i> BGN511 million (2022) The COVID-19 pandemic reduced traffic volume and associated toll revenues, but progress toward the target was achieved for 2023 (BGN 800 million). Legislation stipulates that these funds must be used for road infrastructure.  <i>Source: Statement on RIA Website</i>		
	Number of people receiving access to improved airport services	<i>Baseline:</i> 0 (2017) <i>Target:</i> 850,000 (2020) <sup>7</sup>	<i>Not Achieved.</i> 499,434 (2020) 571,906 (2020) The target set for 2020 was surpassed in 2019 (1,208,206). However, the COVID-19 pandemic greatly reduced the level of airport use in 2020 and the new construction works in the airport did not begin until 2021, while the PPP advisory that preceded and supported the investment started in 2017/2018. The target was surpassed again in 2022 reaching 1,020,621 passengers.		
<p><b>Additional evidence of WB contributions to institutional strengthening:</b></p> <ul style="list-style-type: none"> <li>National toll authority established to operate national electronic toll system, with remaining guidance to revise structure for outsourcing business model</li> <li>Road Infrastructure Agency gained capacity for conducting due diligence and verification functions</li> <li>New tolling policy adopted to collect 60% of funding required for the annual budget in the road sector with potential to revise scope of tolled network and tariff levels upward. Other benefits include reduction in vignette fraud and fairer allocation of charges among users</li> </ul>					
<p><b>CPF Objective 3:</b> Better-protected natural assets and improved efficiency in use of resources</p> <p><i>Rating: Mostly Achieved</i></p>	Number of people benefitting from reliable water supply	<i>Baseline:</i> 0 <i>Target:</i> 170,000 people (2021)	<p><i>Achieved.</i> 180,000 people benefitting through construction of two dams and rehabilitation of a third</p> <p><i>Source:</i> Estimates are based on the population in the respective regions where the dams were constructed / rehabilitated based on national statistic. The initial project target was 2015 (as per the loan agreement), but due to many delays – the loan was extended to 2020 and some of the construction continued after the loan.</p>	<p>Procurement reform could help to reduce corruption; for example, use of algorithms could support automated red flags to detect conflicts of interest and other concerns (implemented through RAS in Romania)</p> <p>TJTPs provide the opportunity to advance the European Green Deal by informing integrated territorial investments at the district level</p> <p>Cross-cutting topics require mechanisms to facilitate inter-sectoral coordination, not just on the government's part but also within the WB</p>	<p><b>WB completed activities</b></p> <p>Water RAS 3; Forestry RAS; Residential Energy Efficiency Program Plan ASA. Climate Change Adaptation RAS; Air Quality RAS; Municipal Infrastructure Development Project; Power Sector Strategic Planning RAS; Power Sector Stabilization and Reform RAS; Disaster Risk Management RAS.</p>

7. This target was calculated using IFC PPP Advisory's standard methodology for airport PPP projects as the actual annual number of passengers (4,970,000 in 2016), times a coefficient of 0.17 for non-tourist airports.

Objective and Overall Rating	Indicator	Baseline/ Target	Status at CLR	Lessons and Suggestions for the New CPF	WB Program
					<p><b>Ongoing activities</b></p> <p>River Basin and Flood Risk Management Plans RAS;</p> <p>Decarbonization RAS;</p> <p>Compact Cities ASA;</p> <p>Greening Public Investments ASA.</p>
	Government develops a roadmap to achieve compliance with air quality directives	<i>Baseline: No Target: Yes</i>	<p><i>Achieved.</i></p> <p>Government adopted National Program for the Improvement of Ambient Air Quality and the National Air Pollution Control Program 2020-2030 (2019). These programs include timebound measures and qualify as a roadmap for reaching standards for air quality (NAQMP) and for emission reductions (NAPCP) as set in the EU Clean Air for Europe (CAFE) Directive and in the EU National Emissions Ceiling Directive – respectively.</p> <p><i>Source: Air Quality Deep Dive (WB, 2022). Page 41.</i></p>		
	Government adopts an energy efficiency housing strategy	<i>Baseline: No Target: Yes</i>	<p><i>Achieved.</i></p> <p>The Long-Term Strategy was adopted by the Government to achieve a highly energy efficient and decarbonized national building stock of both residential and non-residential buildings to 2050; Creating a stable environment for investment decisions; Opportunity for consumers and businesses to make more informed choices for saving energy and money through energy efficiency renovation of the building stock.</p> <p><i>Source: Long-term Strategy</i></p>		
	Government approves Climate Change Adaptation Strategy	<i>Baseline: No Target: Yes</i>	<p><i>Achieved.</i></p> <p>Decision № 621/25.10.2019 was approved by the Council of Ministers adopting the National Climate Change Adaptation Strategy and Action Plan. The aim of the Strategy is to serve as a reference document, setting a framework for climate change adaptation action and priority directions up to 2030.</p> <p><i>Source: MoEW</i></p>		

Objective and Overall Rating	Indicator	Baseline/ Target	Status at CLR	Lessons and Suggestions for the New CPF	WB Program
	RBMPs and FRMPs adopted by government	<i>Baseline:</i> 0 <i>Target:</i> 4 RBMPs and 4 FRMPs aligned with EU requirements, including measures for institutional integration, improvement of the condition of surface and ground water, risk assessment and mapping of flood risks for the period 2022-2027	<i>Partially Achieved.</i> To align with the EU Water Framework and Floods Directives, the third RBMPs and second Flood Risk Management Plans are currently under development with expected adoption by the end of 2024. Implementation progress was delayed by government transitions—including four ministers for the Ministry of Environment and Water—and limited capacity related to data availability and quality The public consultation process has not yet begun on the 3rd RBMP for 2022-2027. <i>Source:</i> EU. A preliminary Flood Risk Assessment was drafted in 2021. <i>Source:</i> EU		
<p><b>Additional evidence of WB contributions to institutional strengthening:</b></p> <ul style="list-style-type: none"> <li>• Municipal Infrastructure Development Project supported the preparation of regional master plans for water supply and sewerage systems for 51 jurisdictions providing nationwide coverage</li> <li>• A new national legal framework for the integrated territorial approach and the adoption of governance and operational structures for new regional bodies to ensure more spatially coherent programming were supported by the Regional Development RAS</li> <li>• Aside from informing the new National Climate Change Adaptation Strategy, the Climate Change Adaptation RAS also helped to enhance the capacity of the National Expert Council on Climate Change with participation of public and non-governmental organization stakeholders across sectors</li> <li>• Two RAS engagements in the power sector provided incremental gains toward enhancing the strategic planning capacity of the Ministry of Energy for reforming the power sector and toward enhancing the capacity of Bulgaria Energy Holding to financially stabilize its operation and ensure long-term financial sustainability</li> </ul>					
<b>Area 2 Investing in People</b>					
<b>CPF Objective 4:</b> Strengthen institutional capacity for managing school Performance  <i>Rating:</i> <b>Achieved</b>	Development of system of school performance indicators to measure multiple aspects of school performance in Bulgaria to inform future government interventions	<i>Baseline:</i> No indicators <i>Target:</i> Indicators developed	<i>Achieved.</i> School performance indicators developed and tested.  <i>Source:</i> (2017) Recommendations for a System of School Performance Indicators in Bulgaria	Increased commitment and capacity from the MoEW will be needed for implementation  Comprehensive strategy to improve school performance is still needed  Continuing to build this measurement system should be part of each future engagement	<b>WB completed activities</b>  Education RAS; Education ASA; Early Childhood Development ASA; Impact Evaluation on Access to Preschool of Roma Children ASA; Support for planning and implementing; quality focused education policies ASA.  <b>Ongoing activities</b> Education Strategy 2030 RAS; Teacher Policy Support.
	Developed methodology for estimation of school-value-added measures reflecting the socio-economic status of students	<i>Baseline:</i> No methodology <i>Target:</i> Methodology developed	<i>Achieved.</i> Methodology for the SVAM tools developed and ready for implementation by MoEW  <i>Source:</i> (2017) Peer Review of School Value-Added Measurement in Bulgaria	Systematic monitoring is critical in light of expected workforce shortages due to aging and migration  Each initiative should be part of a national integrated strategy to tackle issues related to equity and access	

Objective and Overall Rating	Indicator	Baseline/Target	Status at CLR	Lessons and Suggestions for the New CPF	WB Program
	Updated model for school inspection applied	<i>Baseline:</i> Pilot inspection model as of 2018/2019 school year <i>Target:</i> Improved school inspection model applied	<i>Achieved.</i> National Inspectorate for Education prepared framework for inspection, including criteria, indicators, procedures, and instruments tested through a pilot inspection of 71 schools and 17 kindergartens across the country. Analysis of the pilots informed measures to update and improve the Electronic Inspection Management System.  <i>Source:</i> National Inspectorate for Education Handbook (p. 2).		
<b>CPF Objective 5:</b> Improve access to essential services, including “bottom 40”  <i>Rating: Mostly Achieved</i>	Number of poor people benefitting from reliable water supply	<i>Baseline:</i> 0 <i>Targets:</i> 30,000	<i>Achieved.</i> Approximately 30,000 poor people benefitting from improved water supply from construction and rehabilitation of Plovdivtisi dam in remote area  <i>Source:</i> estimated by taking the benefiting population and reduced it to the proportion of people leaving below the poverty line in the respective regions (official statistics data)	Indicators do not adequately assess WB contributions to include the “bottom 40”  Institutional champion needed to advance social agenda  Economic argument for Roma inclusion does not resonate with all key stakeholders. Rationale for interventions should focus on addressing gaps in community across sector boundaries  Limited or nonexistent IT infrastructure and expertise presents a serious capacity constraint for the Bulgarian central administration, hindering service delivery efficiency and reforms  Acibadem Healthcare Group engagement served important function to demonstrate that private sector service providers can provide excellent quality of services without being more expensive than state-owned service provision	<b>WB completed activities</b> Water RAS 3 Poverty and Social Impact Assessment (PSIA) of energy efficiency in multifamily buildings ASA; Housing Sector Assessment ASA; Integrated Social Services ASA; Early Childhood Development ASA; Spending Reviews ASA; Impact evaluation on access to preschool of Roma children ASA; Addressing Biases, Social Expectations and Norms to Train, Educate and Empower Roma Girls in Bulgaria (ABSENTEE); EU Poverty Mapping Supporting Reform Efforts in the Health Sector ASA; Municipal Infrastructure Development Project Roma Housing ASA; IFC investment in consolidation project in universal private health services.

Objective and Overall Rating	Indicator	Baseline/Target	Status at CLR	Lessons and Suggestions for the New CPF	WB Program
	Increased access to improved wastewater (WW) collection and treatment services (at national level)	<p><i>Baseline:</i> 60% population connected to WW collection network</p> <p><i>Target:</i> 70% population connected to WW collection network</p> <p><i>Baseline:</i> 48% population connected to WW treatment services</p> <p><i>Target:</i> 55% population connected to WW treatment services</p>	<p><i>Achieved (Target exceeded).</i> As of end 2021, 75% connected to WW collection network and 67% connected to WW treatment services</p> <p><i>Source:</i> National Statistical Institute data</p>		<p><b>WB ongoing activities</b></p> <p>Addressing Roma Human Rights Gaps ASA; Strengthening Disability System (SRSS)</p> <p>NSSI Capacity Building ASA; Human Development Policy Notes ASA.</p>
	Increase in children (3-6 years old) enrolled in kindergarten:	<p><i>Baseline:</i> 82.8% (2015/16)</p> <p><i>Target:</i> 87.8% (2022)</p>	<p><i>Mostly Achieved.</i> Enrollment rate for 20210/2022 was 79.1% with decline precipitated by the COVID-19 pandemic, but this rate increased to 87.3% for 2022/2023. RAS inputs informed amendments to the preschool and school education act in 2020 and decision by MoEW that preschool will be free for all.</p> <p><i>Source:</i> Bulgaria National Statistical Institute</p>		
	Number of patients served (total inpatient and outpatient)	<p><i>Baseline:</i> 450,000 per year (2018)</p> <p><i>Target:</i> 1,579,500 by 2020)</p>	<p><i>Mostly Achieved.</i> The patient outreach for the period 2018-2022 totaled 2,763,886 patients (inpatient and outpatient), which amounts to an average of 552,777 patients per year</p>		
<p><b>Additional evidence of WB contributions to institutional strengthening:</b></p> <ul style="list-style-type: none"> <li>• A new policy for free kindergarten for all children was informed by the ASA for an impact evaluation on access to preschool of Roma children</li> <li>• RAS and ASA engagements related to e-government informed a new organizational model for shared services to enhance the efficiency and effectiveness of the Bulgarian central administration. Key recommendations for a new e-government strategy are under implementation, including the establishment of a Ministry of E-governance</li> <li>• Diagnostics and advice for strengthening the disability system are expected to inform the establishment of a state disability agency</li> <li>• The Roma Housing ASA provided inputs to inform the strategy for improving housing and living conditions in low-income, predominantly Roma settlements</li> </ul>					

## CLR Annex 3: Contributions of the WB Program to Institutional Strengthening Under the CPF FY17-FY22

The Institutional Change Assessment Method (ICAM) was used to assess how the WB program contributed to institutional strengthening in Bulgaria. The ICAM assumes three basic types of institutions, drawing on concepts presented in the World Bank’s 2002 World Development Report, Building Institutions for Markets, and on subsequent research to refine this understanding.<sup>1</sup> Progress is measured toward addressing three types of institutional challenges:<sup>2</sup>

- **Inefficient formal incentives** (supply side)—Existing policies, strategies, regulations, and administrative rules are not efficiently guiding stakeholders’ actions to achieve the development goal
- **Ineffective organizational arrangements** (supply side)—Personnel, systems, or other resources do not reflect adequate capacity for performing a key function related to the development goal
- **Inadequate stakeholder ownership** (demand side)—Informal incentives provide weak support for and/or direct barriers to the achievement of the development goal. These might include non-supportive social norms, a lack of commitment by political and religious leaders, inadequate participation in decisions by key stakeholder groups or other characteristics

The six-point ICAM rating scale tracks incremental progress towards institutional change achieved by empowering change agents through knowledge transfer. “Knowledge” is a broad label that refers not only to traditional knowledge and skills, but also to disposition (e.g., confidence and motivation) and to relationships (e.g., networks and coalitions).

ICAM Ratings of Progress Toward Institutional Change					
1. Demand identified	2. Change supported	3. Knowledge gained	4. Knowledge used	5. Institutional change started	6. Benefits confirmed from institutional change
Planning stage—limited or no actions taken for addressing identified institutional challenge	Activities or products delivered but no evidence yet of results	Early results indicate emerging changes in knowledge, skills, or connections of potential change agents	New knowledge, skills, or connections are being applied to work towards institutional change	Actions have been taken to improve legal-regulatory framework and/or organizational performance	Evidence confirms benefits from changes to improve legal-regulatory framework or organizational performance

### Evidence of Progress, by CPF Objective

Institutional Change Objective	ICAM Rating	Description of Progress	WB Program
<b>Area 1: Strengthening Institutions for Sustainable Growth</b>			
<b>CPF Objective 1: Improved resilience and stability of the financial sector</b>			
Enhance the institutional capacity of the Bulgarian Deposit Insurance Fund to recognize and respond to potential banking problems	5—Institutional change started	Measures established in line with recommendations of the International Association of Deposit Insurers, including: <ol style="list-style-type: none"> <li>1. Preparation of a contingency plan to operationalize in the event of future bank failures</li> <li>2. An updated information sharing agreement between BDIF and the Bulgarian National Bank on the financial status of commercial banks to increase the information available regarding the financial health of institutions whose deposits it insures</li> </ol>	Deposit Insurance Strengthening Project

Institutional Change Objective	ICAM Rating	Description of Progress	WB Program
More efficient Bank Bankruptcy Law for fund recovery	6—Benefits confirmed from institutional change	Required amendments to the Bank Bankruptcy Law for accelerating the recovery process were implemented to enable the achievement of two project disbursement lending indicators. These changes allowed BDIF to recover funds even during ongoing court proceedings by avoiding having a small number of objections cause further delays for the majority of creditors.	Deposit Insurance Strengthening Project
More efficient domestic legal framework for insolvency in line with recommendations of EU Directive	5— Institutional change started	Recommended amendments to the Commerce Act to improve the insolvency framework were adopted in 2017. However, there remains limited capacity of the courts regarding insolvency procedures, so these will need to be complemented with improvements in the judicial system.	Implementation Completion and Results Report  Pre-Insolvency and Early Warning Tools ASA
Establishment of early warning tools to identify businesses in distress and trigger control mechanisms	4— Knowledge used	Short-term recommendations in action plan implemented to comply with Article 3 of the EU Directive by establishing the institutional arrangements for early warning tools. Longer term reform process started to strengthen insolvency system within 5-year timeframe	
<b>CPF Objective 2: Strengthening the institutional framework for transport infrastructure financing with a growing private sector participation</b>			
Effective institutional arrangements for the deployment of national electronic toll system through NTA	4— Knowledge used	E-tolling system has been operating since March 2020 (go-live of e-vignette system on January 1, 2019, and e-tolling on August 16, 2019). NTA established but structure, roles and responsibilities need revising in accordance with new business model (outsourcing)	E-Tolling RAS
Enhanced capacity of Road Infrastructure Agency to conduct monitoring and quality assurance activities	4— Knowledge used	RIA has applied new knowledge to carry out due diligence and verification functions with WB support. Evidence was not available to confirm that RIA has adequate capacity to continue these roles without WB support	E-Tolling RAS
Efficient tolling policy to achieve full and fair cost recovery	4— Knowledge used	RIA has applied WB guidance to adopt and implement new tolling policy based on sound EU principles of fairness and effective that could make the more polluting and heavier vehicles pay their share of the costs. However, difficult negotiations with the trucking industry led to a temporary measure--the current policy collects 60% of the funding to cover the required annual budget for the road sector is collected. Also, the current policy does not guarantee 'cost recovery', with no mandate in place that e-tolling proceeds flow back to the road sector budget	E-Tolling RAS
Comprehensive strategic framework for strengthening transport and logistics infrastructure	3— Knowledge gained	Diagnostic roadmap delivered under the ASA provides the basis to solicit EU funding for the development of a comprehensive master plan to identify the optimal mix of financing and attract private sector investment	Transport and Trade Facilitation ASA

Institutional Change Objective	ICAM Rating	Description of Progress	WB Program
<b>CPF Objective 3: Better protected natural assets and improved efficiency in use of resources</b>			
Improved investment planning capacity of municipalities to mobilize investment in water and wastewater	4— Knowledge used	Prepared regional master plans for water supply and sewerage systems for 51 jurisdictions in Bulgaria providing nationwide coverage. The plans were of satisfactory quality for acceptance by Bulgaria and EC and supported investments in service delivery that are now under implementation and being designed	Municipal Infrastructure Development Project
Efficient sector financing strategy to clarify roles across WSS institutions with guidance for revenue generation and financial sustainability	5— Institutional change started	Financing strategy for the WSS sector developed and approved by MoDPW drawing on RAS inputs, with key recommendations already under implementation	Water RAS 3
Efficient air quality management framework and policy to comply with EU directives	4— Knowledge used	New programs developed with WB support not yet under implementation: NAQMP 2018-2024 and NAPCP 2019-2030	Air Quality RAS
Enhanced capacity of municipalities to plan and implement local solid fuel appliances replacement programs	3— Knowledge gained	Capacity building has prepared municipalities, but the funding and implementation of inefficient stove replacements programs is needed to reduce emissions from residential heating	Air Quality RAS
Efficient strategic framework for regional development that clarifies roles and responsibilities across sectors and levels of government	4— Knowledge used	RAS supported the establishment and strengthening of the national legal framework for the integrated territorial approach in a dedicated legislation—a Council of Ministers’ decree—using the WB team’s outline of the Council of Ministers’ decree contents as a development starting point	Regional Development RAS
Effective organizational arrangements for regional bodies to ensure more spatially coherent programming and a more regionally integrated approach to ERDF investments	5— Institutional change started	Proposed governance and operational design of regional bodies was presented to the GoB and accepted and adopted in the form of the Regional Development Act, in its rules for implementation, and in the government’s own design of the new integrated approach to regional development	
Comprehensive National Climate Change Adaptation Strategy and Action Plan, aligned with EU requirements	4— Knowledge used	RAS supported Bulgaria in meeting the EU’s requirements with inputs for National Climate Change Adaptation Strategy and Action Plan, informed by nine sector assessments	Climate Change Adaptation RAS

Institutional Change Objective	ICAM Rating	Description of Progress	WB Program
Enhanced capacity of National Expert Council on Climate Change	4— Knowledge used	Optimized expert council established with participation of public and non-governmental organization stakeholders. This is an important platform for dialogue given the need to build ownership and commitment with a coherent vision across sectors	Climate Change Adaptation RAS
Increased capacity of the Ministry of Environment and Water for managing surface water and flood risks	3— Knowledge gained	RAS has contributed to knowledge base and provided analysis tools. For example, the team delivered a database on groundwater and a survey with guidance to collect samples in the future. Statistical tools include computerized models with scenario building and testing to inform a roadmap to achieve “good status”	River Basin and Flood Risk Management Plans RAS
Enhanced strategic planning capacity for the Ministry of Energy for reforming the power sector	4— Knowledge used	RAS produced report with recommendations for defining a strategy and time-bound action plan for comprehensive reform program to put the sector in a financially and commercially viable path	RAS Power Sector Strategic Planning RAS;
Enhanced capacity of the Bulgaria Energy Holding to financially stabilize its operation and ensure its long-term financial sustainability	4— Knowledge used	RAS provided a financial model of the cashflows in the power sector, providing an overview and framework to assess financial situation in sector for guiding stabilization and transition to a competitive power market	Power Sector Stabilization and Reform
<b>Area 2 Investing in People</b>			
<b>CPF Objective 4: Strengthen institutional capacity for managing school performance</b>			
Strengthen capacity of MoEW for using student- and school-level performance data for improvement and accountability purposes	4— Knowledge used	Development of system of school performance indicators to measure multiple aspects of school performance and more efficient assessment framework to measure school value added and increase the accountability of the education system. Increased commitment and capacity of MoEW will be needed for implementation	Education RAS
Effective implementation of national strategic framework in education 2030	3— Knowledge gained	The strategy will support the operationalization of the new legislation in education and will ensure alignment with national objectives within the framework and EU standards. Situational analysis delivered on preschool; general school, vocational education and training, higher education, lifelong learning, and on learning environments in schools	Education Strategy 2030 RAS
<b>CPF Objective 5: Improve access to essential services, including bottom 40</b>			
More efficient policy for increasing preschool enrollment among Roma children	3— Knowledge gained	Impact evaluation conducted on intervention implemented by the Trust for Social Achievement in 236 communities. The finding of randomized control trial is that offering free access to kindergarten and covering major ‘hidden costs’ is the most cost-effective strategy to increase participation of Roma children in preschool education compared to this support plus additional conditional financial incentives (e.g., food vouchers) or additional information sessions	Impact Evaluation on Access to Preschool of Roma Children ASA

Institutional Change Objective	ICAM Rating	Description of Progress	WB Program
Efficient methodological and legal framework for the introduction of shared services to enhance efficiency and effectiveness of Bulgarian central administration	4— Knowledge used	RAS team worked with the central administration to set up organizational model for shared services. This model was piloted in two administrations—information communication technology and property management—and the recommendations have been implemented.	Shared Services RAS
Enhanced capacity of the NSSI to identify, monitor, and analyze challenges to the sustainability of the social security system	3— Knowledge gained	New skills developed through training focused on use of macro models for measuring the impact of socioeconomic and labor market trends on the social security system, enterprise risk management, fiscal sustainability risk management, and how to conduct social security spending reviews	NSSI Capacity Building ASA
Enhanced e-government strategy to inform policy decisions and accelerate digitalization	5— Institutional change started	Priorities highlights in the digital readiness assessment were used to inform e-government strategy with key recommendations related to the integration of performance indicators and the need for SEGA to have traction at a higher level of government. Recommendations are under implementation, with a new Ministry of E-governance recently established	GovTech ASA Bulgaria eGovernment Transformation Bulgaria eGovernment PEIR ASA
Effective organizational arrangements to strengthen and administer the disability system in Bulgaria	3— Knowledge gained	Tasks informed the governance and operational structure, with advice provided to establish a State Disability Agency. Guidance included where the agency should be situated and how it should be organized. This was reviewed through discussions with MoLSP and the executive agency for persons with disabilities. MoLSP advised to wait for establishment of new government	Strengthening Disability System (SRSS)
Efficient strategy for improving housing and living conditions in low-income, predominantly Roma settlements	3— Knowledge gained	ASA presented housing policy and implementation bottlenecks related to housing and preferences of marginalized communities in six settlements of northwestern region. Broad consultation with MoRDPW counterparts informed three areas for interventions. Recommendations have not yet been integrated into policies and programs will depend on GoB decisions	Roma Housing ASA

## CLR Annex 4: IBRD Lending Program FY16-22, Planned vs Actual

LEN Project	Amount	Status
<b>Planned in the CPF</b>		
Deposit Insurance Strengthening Project (EUR300 million)	EUR300m	Approved
Energy Efficiency Loan (FY17, EUR250 million)	EUR250m	Dropped
<b>Added/not planned</b>		
Deposit Insurance Contingency Financing Project (FY20, EUR350 million)	EUR350m	Dropped

*Note: there was no lending in FY23*

## CLR Annex 5: Bulgaria IBRD Non-Lending Portfolio

**Table A5.1. Reimbursable Advisory Service (RAS) active portfolio during CPF period FY17-22 and in FY23**

Ongoing	Planned & Actual	Completed FY
<b>RAS</b>		
Power Sector Stabilization and Reform		FY17
Power Sector Strategic Planning		FY18
Third Advisory Program in Support of Implementation of the Water Supply and Sanitation Strategy		FY19
	Education RAS*	FY18
	Climate Change Adaptation RAS*	FY19
	Forestry RAS*	FY19
	Air Quality Management RAS*	FY20
	Shared Services RAS	FY20
	Public Procurement RAS	FY19
	E-Tolling Capacity Building, Institutional Design and Support	FY21
	Regional Development RAS	FY21
	Accelerating Resilience to Disaster and Climate Risks in Bulgaria	FY22
	Education Strategy 2030	FY22
	Public Expenditure Review in Science, Technology and Innovation	FY22
	Support to Territorial Decarbonization	FY22
	River Basin and Flood Risk Management RAS	FY23
	Geothermal Energy for Energy Security on Bulgaria	FY25

\* Planned in the CPF

**Table A5.2. Trust fund-financed portfolio during CPF period FY17-22 and in FY23**

Project name	Completed FY
Impact Evaluation on Access to Preschool of Roma Children ASA (Trust Fund, TF)	FY17
PPP Framework Reform Project (funded by Structural Reform Support Service)	FY20
EU poverty mapping (TF)	FY18
Addressing Biases, Social Expectations and Norms to Train, Educate and Empower Roma Girls in Bulgaria (ABSENTEE; TF)	FY18
Understanding seismic risk in pre-1990 multi-family buildings ASA (TF): Building Resilience to Seismic Risk in Multi-family Residential Structures in Europe and Central Asia (ECA)	FY19
Addressing Roma Human Rights Gaps through Improved Living Conditions and Digital Inclusion in Bulgaria (ASA funded from the WB Nordic TF)	FY21
Strengthening Disability System in Bulgaria (Directorate-General (DG) REFORM funded ASA)	FY23
Bulgaria NSSI Capacity Building (DG REFORM-funded ASA)	FY23
Bulgaria: A Roadmap to Teachers' Policy Development and Reform (DG REFORM funded ASA)	FY22
Bulgaria - Pre-Insolvency and Early Warning Tools (DG REFORM funded ASA)	FY22
Bulgaria eGovernment Transformation (KWPF—Korea World Bank Partnership Facility funded ASA)	FY24
Compact Cities (Climate Support Facility funded ASA)	FY23
Technical Assistance Facility to Support Renovation Wave in EU Member States (DG REGIO funded)	FY24
Systematic Analysis of Support to Distressed Businesses (DG REGIO funded)	FY24
Strengthening of Monitoring and Evaluation of EU Innovation Programs	FY24
Promoting Digital Transformation and Managerial Practices for Productivity And Recovery In Europe (DG REGIO funded)	FY25
EU-Basic Income Guarantee for Marginalized Households (DG EMPL funded)	FY25
Subnational Business Enabling Environment (DG REGIO funded)	FY25

## CLR Annex 6: IFC's Program and Portfolio Exposure FY17-22 and FY23

**Table A6.1. IFC committed and outstanding portfolio as of end July 2023 (US dollars)**

Industry Group Sector	Project Short Name	Committed IFC	Committed – IFC Part	Outstanding Balance – IFC	Outstanding Balance – Part	All Committed – IFC + Part	All Outstanding Balance – IFC + Part
Infra	25713-Sofia Airport Cn	32,559,000	-	13,552,554	-	32,559,000	13,552,554
MAS	38066-AHG Bulgaria	16,312,100	-	16,312,100	-	16,312,100	16,312,100
	36671-Schwarz IV	40,611,247	-	40,611,247	-	40,611,247	40,611,247
FM	46009-Project Dolphin	20,357,578		20,347,080		20,357,578	20,347,080
<b>Total</b>		<b>109,839,924</b>	<b>-</b>	<b>90,822,979</b>	<b>-</b>	<b>109,839,924</b>	<b>90,822,979</b>

**Table A6.2. IFC investment program commitments (own account) by fiscal year and industry group as of end July 2023 (US dollars)**

Industry Group Sector	Project short name	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY17-FY23
FM	28664-GTFP FIB	1,100,109	1,728,045	0	0	0	0	0	2,828,154
	31246-GTFP EURO BANK BG	13,122,539	8,215,069	2,586,938	0	0	0	0	23,924,547
	32319-GTFP UBB BULGARI	8,598,822	528,000	0	0	0	0	0	9,126,822
	46009-Project Dolphin						0	19,873,316	19,873,317
Infra	25713-Sofia Airport Cn					36,825,00	0	0	36,825,000
	38066-AHG Bulgaria	16,089,750	0	0	0	0	0	0	16,089,750
<b>Total</b>		<b>38,911,221</b>	<b>10,471,114</b>	<b>2,586,938</b>	<b>0</b>	<b>36,825,000</b>	<b>0</b>	<b>19,873,316</b>	<b>108,667,590</b>

**Table A6.3. IFC investment program commitments by fiscal year as of end July 2023 (US dollars)**

	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY17-FY23
<b>Long Term Finance</b>	<b>16,089,750</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>619,025,000</b>	<b>-</b>	<b>19,873,320</b>	<b>654,988,066.8</b>
of which IFC Own Account	16,089,750	-	-	-	36,825,000	-	19,873,320	72,788,066.8
of which Core Mobilization	-	-	-		582,200,000	-		582,200,000
<b>Short Term Finance</b>	<b>22,821,471</b>	<b>10,471,114</b>	<b>2,586,938</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>35,879,523.2</b>

## CLR Annex 7: MIGA's Guarantee Portfolio, FY17-FY22, and FY23

As of end July 2023, MIGA did not have active outstanding exposure in the country. The guarantee for the AES-3C Maritza East I EOOD project was cancelled in August 2022, and the outstanding loan was prepaid.

*(Outstanding portfolio in million US dollars)*

Project ID	Project name	Effective Date	Expiry Date	Sector	FY17	FY18	FY19	FY20	FY21	FY22	FY23
3386	AES-3C Maritza East I EOOD	12/15/2005	3/7/2023	Energy	51.4	37.5	30.5	22.7	16.2	7.6	0
<b>Outstanding Exposure</b>			<b>51.4</b>	<b>37.5</b>	<b>30.5</b>	<b>22.7</b>	<b>16.2</b>	<b>7.6</b>	<b>0</b>	<b>-</b>	<b>-</b>
<b>Number of Projects</b>			<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>0</b>	<b>-</b>	<b>-</b>

## Annex 3: Selected Indicators of Bank Portfolio Performance and Management

As of Date 06/04/2024

Memorandum Item	Since FY80	Last Five FYs
Proj Eval by IEG by Number	44	2
Proj Eval by IEG by Amt (US\$ millions)	2,972.5	383.6
% of IEG Projects Rated U or HU by Number	22.7	50.0
% of IEG Projects Rated U or HU by Amt	23.7	16.6

## Annex 4: IBRD Operations Portfolio

As of 04/30/2024

Closed Projects	44
No Active Lending Projects	
IBRD *	
Total Disbursed (Active)	0.0
of which has been repaid	0.0
Total Disbursed (Closed)	2,972.46
of which has been repaid	2,644.22
Total Disbursed (Active + Closed)	2,972.46
of which has been repaid	2,644.22
Total Undisbursed (Active)	0.0
Total Undisbursed (Closed)	0.0
Total Undisbursed (Active + Closed)	0.0

## Annex 5: Statement of IFC's Held and Disbursed Portfolio

IFC's annual commitments in Bulgaria by FY, industry and project (in US\$ millions) as of June 4, 2024.

Industry Group Sector	Project short name	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
FM	28664-GTFP FIB	4.6	3.1	-	-	-	-	-	-
	31246-GTFP EURO BANK BG	3.7	0.4	-	-	-	-	-	-
	32319-GTFP UBB BULGARI	0.9	-	-	-	-	-	-	-
	46009-Project Dolphin	-	-	-	-	-	-	20.4	20.3
Infra	25713-Sofia Airport Cn	-	-	-	-	35.7	31.2	32.6	32.6
	26836-AES Kavarna	24.0	22.3	19.2	15.6	12.5	-	-	-
	31543-Karadzhalovo SPP	39.5	36.6	33.4	30.5	-	-	-	-
MAS	11227-Stomana	1.0	0.9	0.6	0.3	-	-	-	-
	25090-Stomana II	1.4	1.2	0.8	0.4	-	-	-	-
	26737-Atera	22.2	22.2	22.2	22.2	-	-	-	-
	29354-KauflandBulgaria	4.3	-	-	-	-	-	-	-
	29688-Stomana III	13.0	10.8	7.2	5.4	1.9	-	-	-
	33393-Lidl Bulgaria	29.5	22.1	-	-	-	-	-	-
	34665-Bulmarket LPG	11.4	-	-	-	-	-	-	-
	36671-Schwarz IV	91.2	88.6	77.8	68.0	62.9	47.0	40.6	34.3
	37241-Trakya Bul VIII	7.8	6.6	5.2	3.8	12.9	6.0	-	-
	38066-AHG Bulgaria	16.3	16.3	16.3	16.3	16.3	16.3	16.3	-
49385-LHI C loan	-	-	-	-	-	-	-	-	43.4
<b>Total</b>		<b>270.7</b>	<b>231.1</b>	<b>182.7</b>	<b>162.5</b>	<b>142.2</b>	<b>100.5</b>	<b>109.8</b>	<b>130.6</b>

Note: FM=Financial Institutions Group, INFRA= Infrastructure Group, MAS= Manufacturing, Agriculture and Services Group.

IFC's annual commitments in regional projects that include Bulgaria by FY, industry and project (in US\$ millions) as of June 30, 2024.

Industry Group Sector	Project short name	FY18	FY19	FY20	FY21	FY22	FY23	FY24YTD
CDF	43921-Evolving Eur I				23.8	21.7	20.3	20.2
	47225-AMC V						21.7	21.9
	44918-Blackpeak II	-	-	-	17.8	15.8	16.2	16.2
	44956-Launchub 2	-	-	-	17.8	16.1	16.4	16.5
	47609-Inovo III						16.3	16.4

Industry Group Sector	Project short name	FY18	FY19	FY20	FY21	FY22	FY23	FY24YTD
FM	45474-DCM OTP MREL						259.5	262.0
	48480-EFSE gender							27.3
	37052-EFSE IV	58.2	56.9	56.0	59.4	52.0	54.3	22.2
	43335-EFSE MSME	-	-	20.7	22.0	19.2	20.1	20.5
	48679-DCM OTP MREL 2							48.7
MAS	39573-Schwarz EE V	209.5						
	42728-Schwarz EE V Sp		204.9	191.7	181.9	140.4	127.0	119.6
	47722-CTP UCL						127.0	166.2
	48424-NEPI UCL							249.2
	48928-CTP UCL-Ins.							83.1
	46855-SEE Food Retail						108.5	110.8
	48083-InVivo LT 2023							166.7
	48827-EUR Food Retail							238.3
<b>Total</b>		<b>267.7</b>	<b>261.8</b>	<b>268.4</b>	<b>322.8</b>	<b>265.3</b>	<b>787.2</b>	<b>1,605.6</b>

## **Annex 6:** **MIGA's Guarantee Portfolio**

MIGA currently has no exposure.

## Annex 7: Ongoing IBRD ASA Program

As of June 4, 2024

Task ID	Task Name	Lead Global Practice	RAS (Y/N)	Completion FY
P180543	Geothermal Energy for Energy Security in Bulgaria RAS (G4ES)	Energy & Extractives	Y	2025
P181208	Bulgaria: Support to Strengthening Air Pollution Control	Environment, Natural Resources & the Blue Economy	Y	2026
P500791	Bulgaria: Improving Institutional Capacity for Integrated Territorial Development Approaches to Regional Development	Urban, Resilience and Land	Y	2026
P181260	Building a Strategic, Institutional, and Technical Framework for Data Governance and Dataspaces in Bulgaria	Governance	Y	2025
P174293	Bulgaria eGovernment Transformation	Governance	N	2024
P502291	Bulgaria ECE: Piloting Classroom Observations of Pedagogical Practices to Promote Teaching Quality	Education	N	2025
P502580	Bulgaria: Strengthening Municipal Capabilities and Performance	Governance	N	2026
P502777	Bulgaria Subnational Public Finance Review	Macroeconomics, Trade and Investment	N	2025
P177061	Technical Assistance Facility to Support Renovation Wave in EU Member States	Energy & Extractives	N	2024
P179952	Subnational Business Enabling Environment	DEC	N	2025
P178236	Systematic Analysis of Support to Distressed Businesses	Finance, Competitiveness and Innovation	N	2024
P178036	Promoting Digital Transformation and Managerial Practices for Productivity and Recovery in Europe	Finance, Competitiveness and Innovation	N	2025
P177945	EU-Basic Income Guarantee for Marginalized Households	Social Protection & Jobs	N	2025
P504241	Roma Inclusion Platform	Social Sustainability & Inclusion	N	2027
P179890	Programmatic Poverty Program FY23-24	Poverty & Equity	N	2025
P505926	Demographic Strategy / Innovative Approaches to Address Negative Demographic Trends in Bulgaria	Social Protection & Jobs	N	2026





COUNTRY PARTNERSHIP FRAMEWORK  
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FOR THE PERIOD FY25-FY29

