

COUNTRY PARTNERSHIP FRAMEWORK FOR BULGARIA

FOR THE PERIOD FY17-FY22



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INTERNATIONAL FINANCE CORPORATION
MULTILATERAL INVESTMENT GUARANTEE AGENCY
COUNTRY PARTNERSHIP FRAMEWORK

FOR
BULGARIA

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Central/Southern Europe and Baltics
Europe and Central Asia
International Finance Corporation
Europe and Central Asia
The Multilateral Investment Guarantee Agency

CURRENCY EQUIVALENTS

Currency Unit = Bulgarian lev (BGN)
 BGN1.7179 = US\$1
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FISCAL YEAR

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ABBREVIATIONS AND ACRONYMS

AAA	Analytical and Advisory Services	MoAF	Ministry of Agriculture and Food
AQR	Asset Quality Review	MoE	Ministry of Economy
ASA	Advisory Services and Analytics	ME	Ministry of Energy
BNB	Bulgarian National Bank	MoES	Ministry of Education and Science
BDIF	Bulgaria Deposit Insurance Fund	MoEW	Ministry of Environment and Water
BEH	Bulgaria Energy Holding	MoF	Ministry of Finance
BLISS	Bulgarian Longitudinal Inclusive Society Survey	MIDP	Municipal Infrastructure Development Project
CEDP	Citizens for European Development of Bulgaria	MIGA	Multilateral Investment Guarantee Association
CEQ	Commitment to Equity	NDP BG2020	National Development Program for Bulgaria 2020
CLR	Completion Learning Review	NEK	National Electricity Companies
CPF	Country Partnership Framework	NPL PforR	Non-performing Loan Program For Results
CPS	Country Partnership Strategy	PLR	Progress Learning Review
CVM	Cooperation and Verification Mechanism	PPA	Public Procurement Act
DLI	Disbursement Linked Indicator	PPP	Public Private Partnership
EBRD	European Bank for Reconstruction and Development	PISA	Program for International Student Assessment
EC	European Commission	PSIA	Poverty and Social Impact Assessment
ECD	Early Childhood Development	RAS	Reimbursable Advisory Service
EIB	European Investment Bank	SABER	Systems Approach for Better Education Results
ESF	European Social Fund	SCD	Systematic Country Diagnostic
ESIF	European Structural and Investment Funds	SMEs	Small and Medium Enterprises
EU	European Union	SOEs	State-Owned Enterprises
FSAP	Financial Sector Assessment Program	SORT	Standardized Operations Risk-rating Tool
FDI	Foreign Direct Investment	SPI	School Performance Indicators
HOA	Home Owners Association	SVAM	School Value Added Measures
IBRD	International Bank for Reconstruction and Development	TA	Technical Assistance
IFC	International Financial Corporation	WBG	The World Bank Group
		IBRD	IFC
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FOR BULGARIA**

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FY17-22 COUNTRY PARTNERSHIP FRAMEWORK FOR BULGARIA

I. INTRODUCTION

1. This program document presents the World Bank Group (WBG) FY17-22 Country Partnership Framework (CPF) for Bulgaria. Bulgaria's last Country Partnership Strategy (CPS) covered the period from FY11 to FY13. The timing of the new CPF follows the preparation of the Systematic Country Diagnostic (SCD) prepared in FY15, and informs the areas and objectives of the CPF in support of the WBG's twin goals to reduce poverty and boost shared prosperity¹ for the bottom forty percent of the population.

2. Bulgaria is a country of about 7.2 million people, and has been a member of the European Union (EU) since 2007. This CPF marks an important renewal in the WBG's engagement with Bulgaria. Following a fluid period of frequent political changes and low intensity engagement, the CPF frames the first new lending to the country in seven years while building on an established base of knowledge and advisory services. It selectively supports the Government's development agenda to accelerate convergence in living standards with its EU partners for the benefit of all citizens. This goal is articulated in the National Development Plan for Bulgaria 2020 (BG2020) that lays out priority areas for reform needed to achieve smart, sustainable and inclusive growth.

3. Bulgaria seeks to accelerate economic growth from an average growth rate between 2009 and 2014 of less than 1 percent to at least 4 percent annually over the next 25 years to catch up with the average EU income by 2040. The SCD highlights constraints to growth, including overcoming an unfavorable external environment and addressing Bulgaria's particular demographic challenges. A sustained reform commitment to strengthen institutions, boost skills and employment and make the most effective and efficient use of public spending will be needed for the current generation of Bulgarians to reach EU average living standards.

4. The CPF proposes to focus WBG support in selective areas aligned with the SCD, in response to clear Government demand, supporting and complementing Bulgaria's European Union agenda, and reflecting the WBG's comparative advantage. In addition, the CPF applies two key principles for engagement, including: (i) realism, recognizing that the WBG plays a selective role and that it will contribute most effectively by being strategic and catalytic in supporting key elements of Bulgaria's development agenda, and (ii) scalability, creating opportunities to engage in dialogue and analytical work that may create space for broader engagement in areas where there is potential for transformational impact, including IFC investments in private sector development. Government demand is focused primarily on the agenda to strengthen public institutions, notably in the financial and energy sectors. The WBG will complement that focus by investing its own resources to stay engaged in the inclusion agenda, which is critical to the WBG twin goals.

¹ Shared prosperity refers to the growth rate of the household incomes of the poorest 40 percent of the population.

5. The proposed program has benefitted from extensive consultations with a broad range of stakeholders and reflects a shared consensus and understanding of the development priorities facing Bulgaria. It also reflects the lessons learned in the FY11-13 CPS Completion Learning Review.

II. COUNTRY CONTEXT AND DEVELOPMENT AGENDA

2.1 Country Context

6. Bulgaria has undergone a significant transformation over the last twenty years. It has moved from being a highly centralized, planned economy to an open, market-based, upper middle income economy securely anchored in the European Union. In its initial transition to a market economy, the country went through a decade of slow economic restructuring and growth, high indebtedness, and loss of savings. However, advancement of structural reforms starting in the late 90s, the introduction of the currency board and expectations of EU accession unleashed a decade of exceptionally high economic growth and improved living standards of Bulgarians. Yet, some legacy issues from the early period of transition, the global economic crisis of 2008 and a period of political instability in 2013-14 undid some of the gains achieved during the high growth period. Now, in its pursuit of boosting growth and shared prosperity, Bulgaria is moving to address these issues. It will take a shift towards growth-enhancing and poverty-friendly policies, as well as sustained efforts to build strong institutions that protect the rights of all Bulgarians and ensure well-functioning markets, to put Bulgaria on a higher growth trajectory.

7. Bulgaria's initial transition to a market economy during the 1990s was painful, creating legacy issues that the country is still grappling with today. These legacy issues include lower initial income levels with associated higher poverty rates, and weaker institutions compared to other EU countries. Delays in implementation of structural reforms culminated in a severe banking crisis and hyperinflation in 1996-7 and slowed improvements in living standards. Government debt soared to over 100 percent of GDP and people lost their savings, leaving little room for investment. As a result, pre-transition assets, such as roads and housing infrastructure, deteriorated significantly. Bulgaria also faced large outmigration as well as a substantial rural to urban migration within the country. In 1997 the Government established a Currency Board Arrangement, which played a fundamental role in stabilizing the economy and is still in place.

8. From 2000 to 2008, Bulgaria saw significant economic gains and progress towards poverty reduction and shared prosperity. Structural reforms, combined with determined and deep fiscal adjustment, prospects of EU accession and a favorable external environment created conditions for impressive growth. In 2007 Bulgaria became an EU member following the harmonization of its legislation with the *acquis* and establishing institutions to preserve democratic governance and human rights and ensure a functioning market economy. Real GDP growth averaged over 6 percent a year, unemployment fell to historic low levels, and investment was boosted by foreign direct investment (FDI) inflows. Fiscal accounts were mostly in surplus during 2000-08 and government debt fell to the second lowest levels in the EU. The sustained growth translated into important gains in poverty reduction and shared prosperity. Poverty as measured by the population living on less than US\$5 a day (PPP), fell from 37 percent in 2001 to 13 percent in 2008, the lowest point

in the last decade, as strong economic growth offered employment opportunities for the bottom 40 percent², especially in construction, trade, and tourism.

9. Following the global crisis, convergence stalled and poverty rates began to increase between 2009 and 2014. The global crisis and slow structural reforms uncovered weaknesses in Bulgaria's institutional framework for growth and shared prosperity and led to a period of rapid political change with five governments over a 20-month period ending in October 2014. Between 2009 and 2014 annual real GDP growth slowed to less than 1 percent and about 400,000 Bulgarians lost their jobs, mostly in industry, construction, and agriculture sectors which use large numbers of relatively unskilled workers. Unemployment more than doubled nationwide from 5.6 percent in 2008 to 13 percent in 2013, undoing some of the pre-crisis gains. It reached almost 50 percent among workers with only primary education or lower. As a result, the poverty rate rose to 15.8 percent in 2013 from 13 percent in 2008. Fiscal pressures increased as a result of weaknesses in institutions and government debt rose by close to 9 percentage points of GDP in a year (to 27 percent of GDP in 2014) but is still one of the lowest in the EU.

10. From the appointment of a new coalition government led by the center-right CEDB in October 2014, the political context has stabilized and the government has begun to tackle a number of important issues in a more consistent way. The local elections in October 2015 consolidated the position of the four pro-government parties, although the ruling coalition does not hold an absolute majority. The coalition has found common ground as "pro-European and reformist" and is focusing on policies to accelerate growth, strengthen regulation and financial performance of energy and financial sectors, and improve the effectiveness of judiciary, education, and health. Meanwhile the emergence of a young, energetic and indigenous private sector successfully competing internationally in areas such as machine-building and IT, and the continued flow of new FDI into the country attracted by the proximity and access to Europe, the stable currency, a low flat income tax rate, and a good work ethic among well-educated young people, demonstrate the potential of Bulgaria's economy that has not yet been fully realized by the larger, established companies which came out of the initial transition to a market-based economy. As the new dynamic parts of the economy have opportunity to grow, they will support higher productivity, enhancing the economy's long run potential, thereby contributing to reducing poverty and boosting shared prosperity.

11. Today Bulgaria faces the two inter-related challenges of raising productivity and addressing issues related to the country's rapid demographic change. Higher productivity growth is critical for accelerating convergence as Bulgaria's income per capita is only 47 percent of the EU average, the lowest in the EU. Productivity will need to grow by at least 4 percent per year over the next 25 years for Bulgaria to catch up with average EU income levels and thus boost shared prosperity. Since 2008, however, productivity growth has been slowing down. At the same time, Bulgaria is facing a significant decline in the size of the working age population, putting at risk future growth prospects in an already challenging global environment. Within only three decades, Bulgaria has become the third oldest country in Europe and by 2050 its working age population is projected to be lower than in 2010, the steepest decline in the world. Bulgaria's geographic location also places it on the EU's frontline of many geopolitical and energy security issues of the day.

² The poorest 40 percent of the population.

Box 1. Mitigating the Economic Impact of An Aging Population

Bulgaria is undergoing a profound socio-economic transformation brought about by extraordinary demographic change. Between 1950 and 1988, its population grew from 7.3 million to 9.0 million and then fell in half the time to 7.5 million by 2010. Low birth rates, high mortality rates and significant emigration explained the slow population growth before the 1990s as well as its steep decline over the last two decades. Emigration alone has contributed to a 10 percent decline of the economically active population since the 1990s.

Bulgaria is heading for the steepest drop in working-ageing population of any country. This will potentially impose a heavy burden on the economy. According to UN projections, its labor supply is projected to decline by up to 40 percent by 2050. Its old-age dependency ratio, i.e., the share of elderly in the total population, is expected to double over the next four decades. By 2050, one in three Bulgarians is projected to be older than 65 and only one in two Bulgarians will be of working age. Since the proportion of the population that works is a key determinant of a country's income level, its decline is likely to depress growth.

The higher productivity grows, the easier it will be for Bulgaria to manage this demographic challenge. Given its declining working-age population, Bulgaria will have to rely on productivity growth to sustain growth in aggregate income. Productivity growth means that a country is able to produce more output with the same input factors, such as capital and labor. As output per worker increases, fewer workers will be effectively required to pay for existing health sector, pension and long-term care liabilities. Higher growth is also likely to generate better employment opportunities inducing more workers to participate in the labor force and to stay in or move to Bulgaria. It is also required to raise household savings, which are needed to ensure that the elderly can afford a decent standard of living.

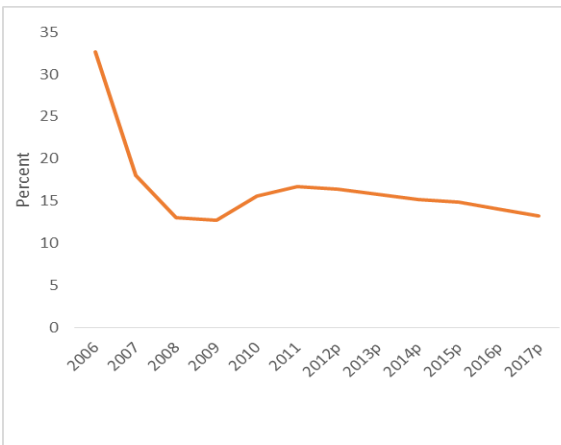
Source: *World Bank. 2013. Mitigating the Economic Impact of an Aging Population: Options for Bulgaria.* Washington, DC: World Bank

2.2 Poverty Profile and Trends

12. The global financial crisis of 2008 had a direct impact on poverty (Figures 1 and 2), as measured by the population living on less than US\$5 a day (PPP), which rose from 13 percent in 2008 from to 15.2 percent in 2015 (estimate). Mediocre growth triggered a rise in unemployment, particularly among the bottom 40 percent, and depressed income gains. Poverty in Bulgaria is associated with old age, rural location, and ethnicity which are therefore important to consider in identifying opportunities and designing policies to reduce poverty and boost shared prosperity. Education is also intrinsically linked to poverty, with a large share of the bottom 40 percent being unemployed or inactive because they lack adequate skills for the labor market³.

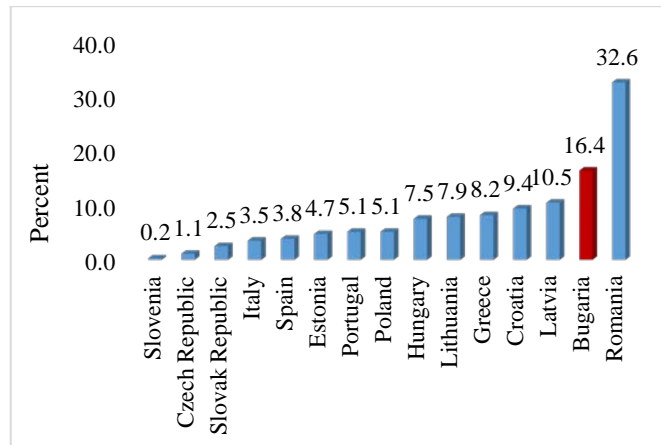
³ World Bank. 2015. *Bulgaria's Potential for Sustainable Growth and Shared Prosperity.* Washington, DC: World Bank.

Figure 1. Poverty Headcount, US\$5 (PPP) per Person per Day, 2001-17



Source: World Bank staff estimates based on EU poverty line (2007–11) as shown in the ECAPOV database, drawn from Household Budget Survey (HBS), EU-SILC, and Eurostat.

Figure 2. Poverty Headcount, US\$5 (PPP) per Person per Day, 2012



Note: EU-SILC 2008–13 surveys used reflect household incomes for 2007–12.

Source: World Bank staff estimates based on EU-SILC (2012 income reference year).

13. A growing elderly population is a key characteristic of poverty in Bulgaria. The bottom 40 percent has the highest average elderly dependency ratio among regional comparators because of aging and continuing heavy reliance on the family support system—with both elderly taking care of grandchildren and working-age members, most often women, taking care of parents. Poverty is particularly high for elderly women. Of the nearly 830,000 women in Bulgaria at risk of poverty, 33 percent are older than 65. The comparable figures for men are 697,000 and 17 percent. The traditional family support network has been undermined by cumulative outward migration from rural to urban centers and abroad. To reduce poverty among the elderly, the Government is implementing a number of programs financed by national and EU funds that aim to strengthen the delivery of more effective social assistance.

14. Rural economic activity has declined in the transition to a market economy. Nearly two-thirds of the poor live in rural areas where agriculture is the only source of jobs. Agriculture is the only sector that experienced reductions in employment, gross value added, and productivity before as well as after the boom, although there were some modest improvements in 2013 and 2014. Nearly half of Bulgarian farms are involved in subsistence farming and 75 percent of the farms are outside the scope of EU sectoral assistance. With inadequate investment in the maintenance and rehabilitation of secondary and tertiary roads, rural communities have suffered from reduced access to the country’s main centers of economic activity.

15. In communities of particularly vulnerable people poverty is high, notably among the Roma and Turkish populations. The poverty rate among the Roma is 33 percent (UNDP/WB/EC 2011) compared to 5 percent for the non-Roma population. Roma children are at a higher risk of poverty than the working age population. The Roma account for 4.8 percent of the population but form nearly 85 percent of Bulgaria’s working-age poor, and have inactivity and unemployment rates that are four to five times that of non-Roma, with gender gaps especially high for Roma women.

There are indications that poverty may also be high among the Turkish minority, which constituted 8.8 percent of the population in 2011.

16. Shared prosperity indicators⁴ are a concern in Bulgaria. Income growth of 1.3 percent⁵ per year between 2007 and 2012 among the bottom 40 percent of the population was slower than the 1.4 percent average for the entire population. Most income growth among the bottom 40 percent took place during the economic upturn (2007-08) but the ensuing global economic crisis undid some of the gains, especially for the poorest, whose incomes declined with the loss of many low-skilled jobs. The Gini coefficient based on equalized disposable income was 0.35 in 2014, the second highest in the EU. Although inequality in Bulgaria started from a relatively low level, 0.23 (World Bank, World Development Indicators) in 1989, it has increased faster than in neighboring countries. Sources of inequality include low-paid employment (especially for the large number of low-skilled workers) and inadequate coverage of the social protection system, but these alone are not enough to explain the relatively large and increasing inequality.

17. A recent WBG gender assessment (Annex 3) suggests that there are many encouraging outcomes of gender equality in Bulgaria but there are still some gender gaps that need to be addressed. The legal and institutional framework provides a good base to promote gender equality in Bulgaria. Nevertheless, women and men continue to experience different access to economic opportunities, have differences in endowments, and participation in public life. Gender gaps in economic opportunities are most pronounced for women at prime child bearing age, for those near retirement, and for women from Roma or Turkish minorities. There is a large gender pay gap between men and women, which according to Ćopop et al. can reach 31 percent if controlling for demographic and job related variables together. While girls and boys have similar enrollment and performance in primary and secondary school, there are large gender gaps in educational attainment and returns to education, especially for Roma and Turkish minorities compared to the ethnic Bulgarian population. Finally, participation of women in public life is lower compared to EU average. Women hold 20 percent of the seats in the National Assembly (Inter Parliamentary Union, 2015) and 35 percent of ministerial positions (Gender Statistics, 2015). For the EU, these numbers are 28 percent and 29 percent, respectively (Gender Statistics, 2015).

2.3 Recent Economic Developments

18. Bulgaria's economy exhibited resilience during the global economic crisis. The currency board and sound macro policies together contributed to economic stability and reduced external imbalances. High growth rates of 6.1 percent per year between 2000 and 2008 were supported by sizable capital flows, mostly in the form of foreign direct investment (FDI) from abroad that boosted investment (37 percent of GDP in 2008) and widened external imbalances. Notable gains in productivity and employment helped reduce poverty and improve shared prosperity. Similar to most economies, growth has been very modest since 2008 but the economy is gradually recovering. Between 2009 and 2014 annual GDP growth was less than 1 percent per year supported

⁴ The World Bank Group's goal of promoting shared prosperity has been defined as fostering income growth of the bottom 40 percent of the welfare distribution in every country, and is measured by annualized growth in average real per capita consumption or income of the bottom 40 percent.

⁵ World Bank Global Database of Shared Prosperity. The 2007–12 time period is used because that is the most recent period, and the longest time span, for which comparable data on household incomes are available.

mostly by exports as Bulgaria managed to increase its market share in global markets. Bulgaria is already well integrated with foreign partners; Germany, the EU's most competitive economy, is Bulgaria's most important trade partner, followed by Italy and Romania. With capital flows falling and business sentiment low, investment fell to 21.4 percent in 2014 while consumption growth was held up by slow recovery of jobs and weak lending. New jobs were created only in a few sectors that rely mostly on skilled labor. Information and communication, financial services, real estate activities, and professional services (accounting, R&D, legal, scientific, and other technical services) were the only sectors where jobs have increased since 2008. In 2014, unemployment started to decline, with the decline concentrated mainly in urban areas benefitting people with completed secondary education.

19. Convergence of income levels to EU average levels, however, has stalled. While most of the new EU member states (except Croatia and Slovenia) managed to improve their incomes relative to the EU average, the pace of Bulgaria's convergence slowed in line with slowing labor productivity growth, decelerating from 4.0 percent in 2000-08 to 2.7 percent during 2009-2014. The highest gains were in finance and insurance, ICT, and to a lesser extent trade, transport, and tourism. In contrast to regional comparators, no significant productivity improvements have taken place in manufacturing, or in the medium-high technology sector, which includes machinery and equipment and chemical products. There is evidence of significant and increasing misallocation of resources as less productive firms, notably firms that emerged from the transition to market economy and serve primarily the domestic market, provide the bulk of employment, while highly productive firms, primarily new exporting firms, contribute a significantly smaller share.

20. In 2015 the GDP growth rate improved to 3 percent, driven primarily by exports, which expanded by 7.6 percent. Stronger economic activity in the EU and improved competitiveness of Bulgarian firms helped the export market. Internal demand benefited from a spur in investment as a result of intensified implementation of EU-funded projects, continuing labor market improvements and low inflation. Unemployment fell to 9.2 percent of the labor force, the lowest level since 2009, as stronger economic activity delivered increases in employment for seven consecutive quarters. There have been particularly strong gains in industry and construction (sectors that were the hardest hit during the 2009 crisis). These sectors employ a relatively large share of low-skilled labor, thus the job gains have supported poverty reduction and shared prosperity.

21. The fiscal position improved in 2015 with a projected deficit of 2.5 percent of GDP (on accrual basis) compared to 5.8 percent in 2014. Buoyant revenue collection and a drop in extraordinary financing (needed in 2014 to manage the liquidity crisis in the banking sector) helped contribute to improved fiscal performance. Political stability helped reduce fiscal pressures in contrast to the previous two years where several changes in governments led to widening fiscal deficits and rising debt. Consolidated government debt increased marginally compared to 2014, to 28.2 percent of GDP in 2015, and is still one of the lowest in the EU. Deflation persisted in 2015 with the price index falling by 1.1 percent, slightly lower than in 2014.

22. The banking sector is stable but vulnerabilities remain. Following banking sector turbulence in 2014 the Government extended a loan to the Bulgaria Deposit Insurance Fund (BDIF) and provided liquidity support to a bank in distress. The turbulence in the banking sector was a result

of governance problems where deficiencies in the regulatory and supervisory environment have required significant amounts of government support (approximately 3.8 percent of GDP). The liquidity support is being repaid as planned while the BDIF is in the process of strengthening its institutional framework and replenishing its funds. Confidence in the banking system remains high with deposits of households still growing, although at slower rate. Spill-over risks from Greece

Table 1. Key Macroeconomic Indicators and Projections

	2010	2011	2012	2013	2014	2015e	2016p	2017p	2018p
Real Economy	Annual percentage change, unless otherwise indicated								
Real GDP	0.0	1.6	0.2	1.3	1.6	3.0	2.2	2.7	3.0
Real GDP per capita	0.7	2.2	0.9	1.8	2.1	3.4	3.1	3.4	3.4
GDP per capita, US\$ (nominal)	6,753	7,750	7,333	7,657	7,851	6,801	7,288	7,746	8,136
Contribution to GDP growth (in percentage points):									
Consumption	-0.1	1.0	2.0	-0.6	1.7	0.6	1.5	1.6	2.1
Investment	-5.1	-0.7	0.5	-0.7	0.9	0.4	0.0	0.3	0.4
Net Exports	5.2	1.4	-2.3	2.6	-1.1	2.0	0.7	0.8	0.5
Export: growth, %	17.2	11.5	0.8	9.2	-0.1	7.6	4.2	4.4	4.8
Import growth, %	4.1	8.5	4.5	4.9	1.5	4.4	3.7	4.0	4.9
Unemployment rate, average (av., age 15-64)	10.3	11.4	12.4	13.0	11.5	9.2	9.0	8.4	7.8
GDP deflator	1.2	6.9	1.6	-0.7	0.4	0.3	1.3	1.6	1.6
CPI (average, harmonized)	3.0	3.4	2.4	0.4	-1.6	-1.1	-0.2	1.1	1.4
Fiscal Accounts (ESA2010)	Percent of GDP								
Revenues	33.4	32.1	34.0	36.9	36.3	37.3	35.7	36.3	36.2
Expenditures	36.6	34.1	34.7	37.6	42.1	39.7	37.9	38.1	37.5
General Government Balance	-3.2	-2.0	-0.6	-0.8	-5.8	-2.5	-2.2	-1.9	-1.3
General Government Consolidated Debt	15.5	15.3	17.6	18.0	27.0	28.2	29.7	30.4	30.6
Selected Monetary Accounts	Percent of GDP, unless otherwise indicated								
M2 (% of GDP)	68.7	70.9	75.6	81.9	81.3	85.5	86.4	89.6	96.1
Domestic Credit to the Private Sector (% of GDP)	70.9	67.7	68.4	68.2	61.7	58.8	58.7	59.8	62.4
Domestic Credit to the Private Sector (annual percentage change)	1.3	3.8	2.8	0.3	-7.7	-1.6	-0.1	1.2	2.2
BoPs (BPM6)	Percent of GDP, unless otherwise indicated								
Current Account Balance	-1.7	0.3	-0.9	1.3	0.9	1.4	0.6	0.2	-0.6
Merchandise exports	37.6	46.6	47.2	50.6	49.2	49.7	49.5	50.3	50.9
Merchandise imports	47.1	53.1	56.8	57.6	55.7	54.0	53.2	54.8	56.1
Services, net	7.0	6.7	6.2	6.3	5.9	6.1	6.1	6.0	6.1
Foreign Direct Investment in Bulgaria	3.1	3.6	3.2	3.3	3.0	3.8	3.5	3.6	3.8
Gross Reserves (in US\$ million, eop)	17,233	17,272	20,503	19,883	20,106	22,164			
In months of imports	7.7	6.6	6.9	6.3	7.1	6.0			
Exchange Rate, USD (average)	1.48	1.41	1.52	1.47	1.47	1.76			
Other memo items									
GDP (nominal, million BGN)	73,780	80,100	81,544	81,971	83,612	86,373	89,403	93,262	97,563
GDP nominal in US\$ million	49,940	56,952	53,575	55,628	56,717	48,953	51,979	54,860	57,390

Notes: Data for 2015 are preliminary official estimates (e) by national authorities with the exception of Fiscal Accounts data which is based on EC AMECO database. Data for 2016-2018 are World Bank staff projections (p). Eop refers to end of period. Source: NSI, BNB, Eurostat, World Bank staff projections.

during the summer of 2015 were well managed and contained by the Bulgarian National Bank and the banking sector is liquid, well capitalized, with growing profits. Nevertheless, non-performing loans are still high and lending has not rebounded to support private sector investment.

23. The authorities have initiated credible reforms to address vulnerabilities and foster stronger lending to private sector in support of firm growth and exports. The authorities, under the leadership of the Central Bank Governor, have signaled a strong commitment to reforming the financial sector. To strengthen the stability of the banking sector, the Bulgarian National Bank started implementing an 18 month action plan, based on three pillars: 1) strengthening banking supervision (drawing on the recent Bank Fund Basel Core Principal Assessment); 2) implementing asset quality review and stress test of all banks; and, 3) introducing the bank resolution framework. Changes to the institutional design of banking supervision were introduced and the legal framework for bank recovery and resolution was enacted, together with a new Bank Deposit Guarantee Act. The ongoing asset quality review and stress tests in the financial system will provide the authorities with a clearer perspective on the standing of individual banks and other financial institutions and will permit them to take action as needed to further strengthen the resilience and stability of the financial sector.

24. Looking forward, economic growth is expected to remain at around 2.5 percent over the medium term. While this is a welcome improvement, it will not be enough to make significant progress towards convergence with the average EU living standard. Macroeconomic risks remain, exacerbated by remaining institutional challenges. These challenges constrain private sector growth and investment, especially in the aftermath of the global economic crisis when overall investment sentiment is particularly cautious. Bulgaria's fiscal position in 2014 deteriorated because of slow economic growth and governance challenges that led to turbulence in the banking sector and worsened financial conditions in State-Owned Enterprises (SOEs) with rising contingent liabilities. The energy sector has been one of the most serious sources of accumulating contingent liabilities and financial imbalances. Concerted government reform efforts to address challenges in the financial and energy sectors are already having a positive impact on the economy by supporting macroeconomic stability and fostering private sector growth. Furthering reforms to strengthen institutions and invest in people, which are the focus of the proposed WBG program, will create a more competitive environment for firm growth, exports, and investment, in support of Bulgaria's long-term growth and competitiveness agenda.

2.4 Key Challenges and Constraints to the Twin Goals

25. The Systematic Country Diagnostic (SCD) highlights two major challenges facing Bulgaria. The first is rapid population aging and a decline in the working age population. The second is low productivity growth around 3 percent per capita. At this rate it would take more than a generation for Bulgaria to reach the EU average level of income. On the other hand, an increase in productivity of even one percentage point per annum would increase the rate of convergence by almost a decade.

26. In response to these challenges, the SCD highlights three policy areas with the potential to transform the economy, boosting productivity and supporting more inclusive and sustainable growth: (i) strengthen the institutional and legal framework for good governance, (ii) equip

Bulgaria's workforce with skills and education to fill new and higher productivity jobs and to innovate, and (iii) improve the efficiency and effectiveness of public spending.

27. A country's institutional and legal infrastructure that protects property rights, ensures the rule of law and prevents abuse by governments is a key determinant of faster, inclusive and sustainable growth. Despite the implementation of many bold reforms, Bulgaria's economy is still hampered by remaining weaknesses in its institutional and legal framework, as evidenced by the 2014 liquidity crisis in the banking sector, the large accumulated deficits in the energy sector, the residual lack of confidence in the judiciary and the poor quality and limited access to essential public services. Addressing these institutional challenges would contribute to improved macroeconomic stability, boost investor confidence and stimulate private sector growth. There is also an opportunity for the substantial EU funds invested in the country to produce greater economic impact; and there is a need to ensure that Bulgaria exploits its natural resources in a sustainable manner. This includes forestry and irrigated land management, better compliance with EU directives on water and sanitation and air quality, which is poor relative to the rest of the EU.

28. Improving the employability and skills of all Bulgarians will be critical for achieving faster and more inclusive growth in the context of aging and a declining workforce, and reducing reliance on social assistance. Global and Bulgarian research indicates employability is closely linked to cognitive, socio-emotional and technical skills. Workers who have the right skills will be more productive and employable and are more likely to innovate. However, the majority of the bottom 40 percent are unskilled, with only primary or lower education. The unemployment rate for the bottom 40 percent of the population, at 26 percent, is much higher than for the top 60 percent (unemployment has declined significantly since 2009 among persons with secondary education). Returns to labor for unskilled workers has been stagnant, while it has been growing for those with skills. About 44 percent of working-age adults have not completed secondary education and the share of those with no primary education is much higher than in the rest of the EU. Of those exiting the education system, approximately 40 percent are functionally illiterate and innumerate demonstrating the urgency of improving educational outcomes. Nearly half of the bottom 40 percent aged 20–64 are either unemployed or outside the labor force. The inactivity rate for Roma is 32 percent⁶, more than three times higher than for ethnic Bulgarians.

29. Given Bulgaria's demographics, improving public spending will be important for boosting Bulgaria's growth and improving social outcomes. Population aging will add to fiscal pressures due to expected increases in spending on pensions, health and long-term care. Structural reforms will be needed to promote efficiency and effectiveness of social spending to ensure sustainability in the face of higher costs related to aging and equity in access to services.

30. The experience of several countries in the region shows that the potential for private sector led growth is considerable, especially, but not only, with the support of Foreign Direct Investment (FDI) in linking domestic production to the core EU markets through developing stronger value chains. Relatively high levels of human capital and the proximity to markets in the region have also proven a powerful driving force while more recent entrants to the market, both indigenous and FDI, demonstrate a new economic vibrancy. Bulgaria has yet to fully take advantage of these

⁶ World Bank. 2013. Bulgarian Longitudinal Inclusive Society Survey. Washington, DC.

opportunities, including its geographical advantage of connecting western and eastern markets, its strategic position within the EU and its economic stability relative to some of its neighbors.

III. WORLD BANK GROUP PARTNERSHIP FRAMEWORK

31. The SCD provides a World Bank Group assessment of the key constraints in making progress towards the twin goals in a sustainable manner, and has been discussed with the authorities and more broadly with stakeholders inside and outside the country.

32. There is strong convergence between the SCD recommendations and Government's efforts to accelerate growth and raise living standards. The analysis has provided important background for the dialogue on the CPF and supporting instruments, including work undertaken in support of the EU convergence agenda. It is important to note that the Government is driving its reform program and has chosen to engage the WBG in selective areas of the development agenda. The WBG will continue to align its program with the interest of the Government in a way that may create space for broader engagement where there is potential for transformational impact, including IFC investments in private sector development.

A. Government Program and Medium Term Strategy

33. The Government is promoting policies to address the gap between Bulgaria and EU with respect to incomes, institutions and service delivery. The National Development Program for Bulgaria 2020 (NDP BG2020) is the Government's medium-term strategy document and shows the link between the priorities of the EU in the context of the Europe 2020 Strategy and the national priorities of Bulgaria⁷. (See more on EC role in Bulgaria in Box 2).

34. The program includes goals to improve the competitiveness of the Bulgarian economy, the physical and institutional infrastructure, and the quality of human capital. To achieve these goals the NDP BG2020 suggests eight policy areas to boost competitiveness by enhancing the quality of education, supporting innovation, strengthening the institutional environment, ensuring energy and resource efficiency, improving transport connectivity, sound regional development and agriculture policies at the same time reducing poverty and promoting social inclusion. Multi-sectoral policies will focus on optimal use of resources, effective care for the environment, as well as increasing the prosperity of every Bulgarian citizen.

35. Of the eight policy areas identified, the WBG proposed program is aligned with selective government demand in four areas including: (i) strengthening the institutional environment; (ii) energy security and increasing resource efficiency; (iii) improving the access to and enhancing the quality of education and training for a skilled workforce; (iv) reducing poverty and promoting social inclusion.

36. Government policy priorities are to improve the institutional environment and reinforce principles of good governance, transparency and accountability. This will include a focused effort

⁷ This section is taken from the NDP BG2020.

on formulating and implementing effective policies, reducing administrative burdens for businesses and households, and the optimal use of financial resources.

Box 2: European Commission Role in Bulgaria

Under the terms of the Accession Treaty to the EU, Bulgaria fully harmonized its legislation with the EU acquis and has undertaken considerable efforts to apply and enforce this new body of legislation.

The EU supports and oversees Bulgaria's implementation of the Community legislation through application of several instruments, the most significant of which are:

- **EU Structural and Investment Funds overseen by 4 Directorates General (DG)** and applied in the Member States through Operational Programs formulated jointly by the Government and EC. Under the new EU programming period 2014-2020 Bulgaria benefits from nearly 16 billion euro from EU allocated as follows: 7.5 billion euro under nine Operational Programs; 2.3 billion euro under Rural Development program; and 5.3 billion euro for direct payments in agriculture. The Operational Programs are co-financed by the state budget and support activities under topics such as good governance; transport; environment; innovation and competitiveness; human resources development; science and education; and regional development. For this programming period the EC has adopted a new approach for achieving policy targets by setting ex-ante conditionality linked to the disbursement of the EU funds.
- **EU Semester:** Through this instrument the EC makes an assessment of the most critical issues in a given member state, and identifies key actions to be undertaken during the course of the year. The EU semester process imposes expectations for top policy reforms and improvement of enforcement capacity, referred to as country-specific recommendations (CSR).
- **Cooperation and Verification Mechanism (CVM)** initially put in place upon accession to provide assurance that perceived deficiencies in the rule of law will be addressed. Under CVM the Commission provides an annual review of Bulgaria's progress in developing effective administrative and judicial systems for strengthening rule of law.
- **Monitoring of the Implementation of EU Legislation:** The Commission monitors and verifies what measures national authorities have taken to incorporate EU directives into national law. The EC can initiate an infringement procedure in the European Court of Justice against each Member State if it fails to transpose, implement, or report on national measures taken to comply with EU regulations.

In many of the key policy areas the World Bank has specific relevant expertise and knowledge which could be useful to support the Bulgarian Government in complying with EU policies and regulations.

37. Government activities are directed towards establishing a competitive internal energy market, with efficient use of resources and application of environment-friendly practices. Enterprises and households involved in the chain of "production-transmission-consumption" of energy are the main target group of policies on energy security and energy market organization. Policies would contribute to higher growth by reducing the energy intensity of the economy, limiting greenhouse gas emissions, reducing energy costs as part of household income, as well as increasing investments and enhancing productivity.

38. The NDP BG2020 recognizes that the most precious capital of a country are the people, with their knowledge, skills, abilities, health and culture. Government policies focus on education, including implementing lifelong learning strategies, and improving the quality of the workforce.

39. In the context of the Europe 2020 strategy, and taking into account the registered higher levels of poverty among different groups of the population, the Government adopted a national objective to reduce the number of people living in poverty by 260,000 persons by 2020. The policies are directed towards the permanent overcoming of the social exclusion of the most vulnerable groups in society and to interrupt the transmission of poverty from one generation to the next. The implementation of this objective is closely related to employment, which is a key instrument for reducing poverty and promoting social inclusion.

B. Proposed WBG Country Partnership Framework

B.1 Lessons Learned

40. Based on the FY11-13 CPS Completion and Learning Review, and the extensive consultations with stakeholders, the following lessons emerged which are reflected in the design of this strategy.

- Flexibility to adapt to changing client condition and needs, including political changes, is critical. The previous CPS had anticipated a high level of commitment from Government. During implementation, however, the WBG had to adapt to unexpected and frequent turnovers in counterparts and policies. The WBG should recognize political economy risks upfront and build flexibility into the design of CPF so that the WBG is well prepared to adapt to changes in political circumstances.
- Ensuring that the RAS engagement is effective, both in expanding Bulgaria's capacity to access and better use EU funds and to serve as the basis for future reforms, is necessary. IBRD was able to calibrate expectations and remain engaged, in particular through a growing RAS program. For example, Bulgaria still faces capacity constraints in absorbing EU funds efficiently and effectively. IBRD provided support through its lending and, more significantly, through its RAS engagement to the Government's EU program, in both enhancing compliance and promoting sustainability of sectors with EU funding and, in some cases, bolstering the credibility of reform programs (e.g. water, roads). The advisory work, including RAS, was both valuable and useful to empower and inform the Government on a number of the key reforms being undertaken currently, e.g. in the roads, water, energy, health and education sectors.
- Using IBRD-financed Advisory Services and Analytics (ASA) strategically to open up dialogue and provide recommendations can create opportunities when the political or economic conditions for reforms are ripe. While reform efforts may take several years to materialize, IBRD can lay important ground work for reforms by staying engaged with ASA so that once political conditions are ripe, the Government can draw on IBRD analysis and recommendations to implement reforms (as has started to happen in the energy sector, for example). The WBG can build on opportunities when there is strong demand and/or a sector champion and where strategic use of ASA/TA and RAS could make a critical contribution to moving reform agendas forward.
- Having a concrete and realistic results framework that is grounded in reality more than aspiration is essential. At the time of preparation, the Government preferred a strategy that covered a shorter time frame (three years). However, results, particularly for analytical and advisory work, take time to materialize, and objectives evolve as unexpected shifts in demand or country circumstances occur. Results indicators need to be associated with specific interventions and the final PLR is an important opportunity to recalibrate final

expectations for the strategy. With this in mind the WBG needs to balance realism and ambition when formulating CPF outcomes. This CPF proposes a longer time period (six years) with PLR updates every two years, in order to take a more proactive approach to monitoring and capturing results. A longer time period will also provide an opportunity to revisit objectives and ensure close alignment with the country-led strategy.

41. The CPF benefitted from three main sources of stakeholder feedback. The first was a Country Opinion Survey, conducted in 2015, which revealed very positive views of WBG’s work in the country with respondents outlining education, growth and judicial reform as the most important development priorities for Bulgaria. The second feedback mechanism was an extensive set of in-country consultations with local government officials, civil society, private sector representatives, academia, and others. The in-country consultations were performed in partnership with the EC Representation team in Bulgaria and covered 9 locations across the country, plus a dedicated set of consultations with the EC in Brussels (see the consultations map). National stakeholders generally confirmed the main conclusions of the SCD and called for increased opportunities for all groups in society. International partners expressed great appreciation for the WBG involvement in the country, emphasizing in particular the relevance of our support in the context of the EC Country Specific Recommendations. The third feedback mechanism involved extensive discussions with technical staff in relevant Ministries followed by bilateral meetings with each of our counterpart line Ministers, then concluding with an in-person discussion between the IBRD Regional Vice President and the Bulgarian Deputy Prime Minister for EU Funds and Economic Policies, Minister of Finance and Minister of Regional Development and Public Works. These consultations with the Government clearly established the specific areas where there is strong Government interest in partnering with the WBG.

Consultations Map: Nine Locations across the Country



B.2 Overview of WBG Partnership Strategy

42. The Country Partnership Framework (CPF) marks a renewed engagement with Bulgaria, including the first new lending operations since FY11. The program sets out a selective engagement, but with more ambitious objectives in a few key areas where there is strong government ownership and demand for the WBG support. The proposed program includes a variety of instruments, and a closely coordinated engagement between IBRD, IFC and MIGA, in order to meet Government expectations and achieve results. Going forward the engagement strategy proposes to continue an approach of focused engagement, while creating space for broadening the engagement in areas where there is the potential for transformational impact.

43. The CPF proposes to focus its support in selective areas aligned with the SCD and Twin Goals, in response to clear Government demand, and where the WBG has a comparative advantage. In many key reform areas, the Government intends to rely on its own capacity to design, finance and/or implement reforms. It seeks to use the WBG strategically and selectively where it sees the WBG brings clear added-value in areas that are immediate priorities for action. In particular, the Government is seeking from the partnership the transfer of know-how, the permanent upgrade of local capacity and sustainable development of beneficiaries' capabilities.

44. In this regard the WBG plays a strategic and selective role which is best characterized as providing support for analysis and implementation for priority items in Bulgaria's development agenda. Consider three illustrative examples. First, in the financial sector, the authorities are currently undertaking an Asset Quality Review (AQR) as part of its reform program; the WBG, together with the IMF, will complement those activities by undertaking the forthcoming Financial Sector Assessment scheduled for the second half of 2016. Second, IBRD has provided a model which could be scaled up using other funding: for example, the roll-out and financing of Municipal Children's Centers – an initiative that was piloted with major support from IBRD under the Social Inclusion Project – is now funded with ESIF resources. Third, much of the financing of new infrastructure – roads, rails, water and sanitation, even health (emergency services equipment), all sectors where WBG has contributed important strategic analysis – comes from other sources of funding (e.g., ESIF, EIB and EBRD). Here, the WBG will continue to look for opportunities where we can play a catalytic role to leverage our own WBG capital working with IFC and MIGA, or help to draw in funds from other actors. This could include targeting a relatively small slice of bigger programs where the institution offers value over and above that available either within the Government or from alternative sources.

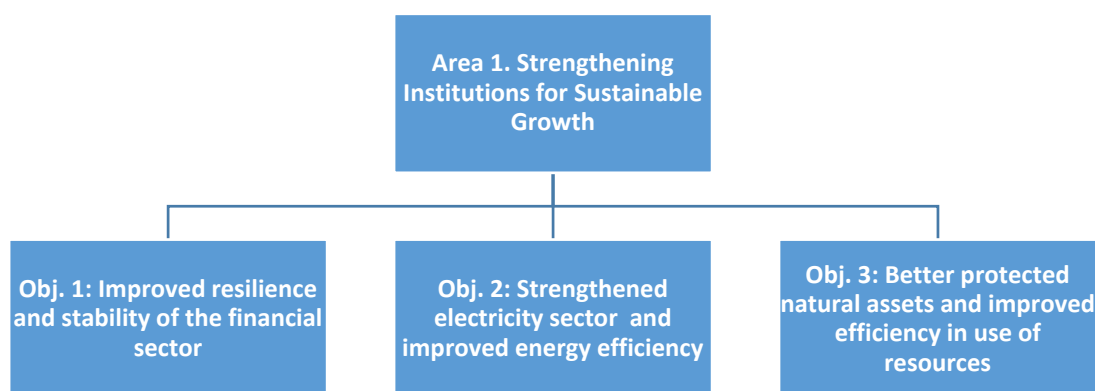
45. Not all SCD priority areas will be addressed by this WBG CPF. There are several areas highlighted in the SCD where the WBG is not anticipating providing support at this time, but where support could be considered if demand materializes in future. These include areas where the WBG may have been involved previously, and where the Bulgarian Government has capacity to implement reform programs. Some key examples include: (i) railways, where IBRD has been involved in the past in the development of the railways restructuring strategy, but where the Government has decided to pursue implementation using its own resources; (ii) pension reform, where IBRD advice contributed substantially to a major reform effort but where now the Government intends to rely on its internal capacity, (iii) health sector reform, where the IBRD recently completed a major RAS on health financing which informed the design of health sector investments funded from ESIF, but where the Government is using its own capacity for

implementation. The WBG will remain flexible and open to changes in Government demand, especially where there are opportunities to address issues affecting the bottom 40 percent of the population.

46. The CPF proposes to support Bulgaria in two broad areas: (i) strengthening institutions for sustainable growth; and (ii) investing in people. Within these two broad areas of engagement the program identifies five objectives. The objectives are strongly correlated with the twin goals of poverty reduction and shared prosperity (with a particular focus on the bottom 40 percent), and with opportunities to leverage WBG engagement to promote sustainability and inclusion. The WBG will approach each new engagement with a view to incorporate a gender perspective into each activity by identifying specific issues with a gender impact and by seeking opportunities to include gender disaggregated data and outcome indicators.

B.3 Objectives Supported by the WBG Program

Area 1: Strengthening Institutions for Sustainable Growth



*This focus area is directly aligned with the first of three transformational areas identified in the SCD: **Strengthening the institutional and legal framework for good governance**. Institutional weaknesses have undermined Bulgaria’s economic progress and improvements in shared prosperity. The SCD recommends three policy priorities for faster growth including: (1) strengthening governance of SOEs in energy and other state regulatory bodies (energy, bank and non-bank supervision); (2) improving the functioning of the court system; and (3) modernizing public administration and management of public investment to enhance the effectiveness, transparency and accountability of the conduct of public policy to accelerate absorption of EU funds.*

47. The political dialogue in the country has recently assigned a high priority to strengthening the institutions in key sectors of the economy, particularly finance, energy and water and sanitation. Strengthening governance and institutions in these sectors is also a key component of the EU

convergence agenda, with the EU financing playing a central facilitating role. In each of these sectors the WBG has built knowledge through a long term engagement in analytical work and dialogue with the Government.

48. Three sectors have been identified with important institutional issues that require immediate attention and that provide a clear sense of priority, attention and results. These are sectors where the WBG has a long standing engagement and where there is potential for transformational impact.

- In the financial sector, after addressing the run on the banks in 2014, the Government is focusing on strengthening the banking and financial institutions, enabling their capacity to finance investment and economic activity, especially among the small and medium enterprises. The urgency of the financial sector agenda is highlighted by remaining risks that include relatively high and persistent levels of non-performing loans (16.8 percent at the end of 2014), which – among other things – are precluding banks from jumpstarting credit growth.
- The immediate priority in the energy sector is establishing and implementing a roadmap for full sustainable liberalization of the electricity sector that addresses accumulated financial arrears and mitigates the impact on ‘energy poor’ households.
- Moving towards a more sustainable economy is an important government priority, which is consistent with the EU2020 and commitments made at COP21. This includes binding commitments on both the use of EU funds (more than 20 percent of resources should be used for CC related activities) and policies. To this end the Government is working to improve compliance and develop a climate change strategy that considers adaptation, mitigation and resource protection. It also plans work with WBG on improving air quality, strengthening the management of forests, and improving water resource management.

49. In addition, the WBG is engaged and will remain engaged in a dialogue with Government around several relevant issues that may create space for broader engagement. However, they are yet to mature, and as such have not been included as self-standing objectives. These complement and re-enforce the areas of engagement already fully defined. The WBG will track progress and will decide, during the Progress and Learning Review process, if progress allows the identification of additional objectives. These issues include business environment, the judiciary, public administration and a heightened engagement in the energy sector, mainly around supporting accelerated institutional reform.

Objective 1: Improved resilience and stability of the financial sector.

50. Bulgaria has implemented important steps to strengthen banking sector regulation and supervision. Legislation that had been enacted 1997 and later updated in line with EU directives did not pass the test of the financial run, revealing substantial gaps in local regulations with regard to the EU directives. Initial steps to close these gaps include the transposition of EU’s recent financial sector directives into national legislation, including the Bank Recovery and Resolution Directive. The new Act on Recovery and Resolution of Credit Institutions and Investment Firms was enacted on August 2015 jointly with a new Bank Deposit Guarantee Act. This act designates the Bulgarian National Bank (BNB) as the Resolution Authority for banks, while any resolution that entails the use of public finances requires approval by the Minister of Finance. The Bulgarian Deposit Insurance Fund (BDIF) will be responsible for managing the funds of the Bank Resolution

Fund. In addition, the BNB in October 2015 outlined a plan for improving the effectiveness of banking supervision, which introduces changes to the institutional design of the BNB. Bulgaria is currently conducting a comprehensive asset quality review and stress testing the entire banking system.

51. The WBG will be supporting efforts to strengthen the resilience of the financial sector using several instruments. An Insolvency and Creditor/Debtor Regimes Report on the Observance of Standards and Codes (ROSC), which is near completion, is assessing the existing legislation, regulations and procedures with a view to propose options for strengthening the insolvency framework and institutional environment. A Financial Sector Assessment Program (FSAP), a diagnostic tool that benchmarks the country against international best practices, will allow authorities to identify financial system vulnerabilities and develop appropriate policy responses, with support of the WBG and the IMF. Two advanced modules of the FSAP have already been completed and one is in progress, and one of them (the assessment against IADI's Core Principles for Effective Deposit Insurance Systems) has already served as the analytical foundation for the financing instrument with which the WBG is supporting the authorities under this Objective (see next paragraph). Findings of the remaining modules of the FSAP could result in the WBG supporting targeted efforts in the financial sector through new Reimbursable Advisory Services (RAS) products or lending.

52. A pivotal dimension of the WBG support under this Objective is a financing instrument to the BDIF, aiming at bolstering its institutional and financial capacity to ensure deposit insurance and bank resolution obligations are met fully and on time. This project will contribute to financing the BDIF, jointly with other external creditors, the government budget, bank premiums, and recoveries and investments, and follows a results-based approach with financing made available to the BDIF in several tranches based on the achievement of five sets of Disbursement Linked Indicators (DLIs), which were designed following the findings of the assessment against the IADI's Core Principles for Effective Deposit Insurance Systems. A key outcome from the WBG support under this Objective will be an effective safety net that will support confidence of depositors and increase the resilience of the banking system to possible shocks thereby ensuring a steady increase in domestic savings that can be channeled into productive investments.

53. IFC has supported the development of the banking system in Bulgaria, and will continue to look for opportunities. In addition to funding (SME credit lines and equity), the Corporate Governance and Risk Management advisory program implemented in key systemic banks in the country resulted in strengthening the management of one bank and received positive reactions from the regulator (BNB), investors, and clients. Pending results of the AQR and stress tests in the banking system, IFC may engage further with advisory support and potentially to support consolidation of the banking sector through strengthening the capital base of selected banks which would contribute to greater financial sector stability.

54. Going forward, in an effort to replicate the work done in other regions – Central Europe, Western Balkans – IFC may work with the Bulgarian regulator to encourage sales of Non-Performing Loans (NPLs) including through investing in NPL portfolios, mobilizing specialized NPL investors or financing NPL asset management companies.

55. The expected outcome under this objective would be a strengthened deposit insurance system as measured by the ratio of BDIF reserves to covered deposits.

Objective 2: Strengthened electricity sector and improved energy efficiency

56. Electricity supply in Bulgaria comfortably exceeds demand, which could be a powerful driver of competitiveness and of exports once the on-going liberalization of the power market is completed. Issues under attention include the market design of the sector that has contributed to a large structural tariff deficit of the National Electricity Company (NEK), and energy prices that both incentivize use of electricity for residential heating and discourage conservation. A series of measures have been implemented in 2015 (see para. 58 below) which substantially reduce the tariff deficit. However, a priority concern is the large accumulated stock of debt and arrears to private and sector companies in the power sector, thus threatening their financial viability. Another challenge going forward is to consolidate market liberalization through the creation of a fully competitive market. In line with the EU internal target model, this would sustainably improve the efficiency and governance of the sector.

57. Energy efficiency in the housing sector represents both a major climate change related challenge and an opportunity for job creation and growth to improve living conditions. The residential sector accounts for about one fourth of final energy consumption, 70 percent of which is used for space heating. The high level of consumption is due in part to the poor condition of the building stock—90 percent of the buildings were constructed before 1990 and only a small portion of them has undergone thermal retrofits, despite financial incentives. Although experience in Bulgaria and other EU countries demonstrates that a 30 to 50 percent reduction in heat demand can be achieved with cost-effective investments, only a marginal portion of this potential is realized. Most of IFC financed projects in the real sectors carry strong energy efficiency elements, with some of them meeting the highest environmental standards. IFC will continue to put focus on energy efficiency in its future investments.

58. The steps that the Government has been taking to strengthen the governance of the energy and water regulator include: (1) parliamentary election of energy commissioners to increase independence of the regulator; (2) increased number and enhanced modus operandi of commissioners to ensure more effective and better informed regulation; and (3) making most regulator meetings open to the public to enhance transparency of regulatory activities. In addition, to improve competition in the electricity market, the Bulgaria Energy Holding (BEH) has established a power exchange, the Independent Bulgarian Energy Exchange, to run day-ahead and intraday electricity markets. Another positive development is the signed preliminary agreement between NEK and two independent power producers aiming to renegotiate the terms of the long-term power purchase agreements. The Government is looking to build on this progress to deepen the market reform agenda for long-term viability of the energy sector. These institutional advances underpin Bulgaria's ambitious energy efficiency target of reducing total domestic energy consumption by 50 percent by 2020, significantly higher than the EU target of 20 percent.

59. The WBG engagement in the sector includes IBRD lending, RAS engagements and IFC investment, with careful attention being paid to the respective mandates of the institutions. The National Program for Energy Efficiency in Multifamily Buildings is part of an energy efficiency

strategy targeted to improve the living situation of the less well-off living in multifamily buildings, help regenerate economic activity in the construction and industry sectors, and contribute to addressing the country's energy and climate challenges. Implementation of this program, which is implemented at municipality level and financed through the Bulgarian Development Bank, is on track. From February through October 2015, more than 2,000 Home Owners Associations (HOAs) have registered in 28 districts with almost 2000 contracts signed between municipalities and HOAs, covering close to 10 percent of the oldest and least energy efficient prefabricated buildings. The Government foresees that facilitating energy efficiency at the residential level in combination with contributing to the upgrade of the housing stock will facilitate the tariff and energy realignments that are needed to place the sector on a sound financial footing.

60. The RAS engagements help the Government design and implement market reforms, while also improving the targeting of measures aiming at ensuring energy affordability for the lower income part of the population. Beyond the currently signed RASs, subsequent implementation support may be required, and the financial stabilization of the power sector may potentially benefit from financial support provided through refinancing or guarantees. IBRD is supporting the National Program for Energy Efficiency in Multifamily Building with a Program for Results (PforR) approach. DLIs selected to identify key results linked to the Program will monitor critical milestones and provide incentives to reward performance by ensuring quality and cost controls. A social satisfaction survey undertaken by the Ministry of Regional Development and Public Works would provide input to the results framework of the program, including the share of female beneficiaries.

61. Energy is a focus area of IFC, which has existing investments in energy generation, green buildings, gas extraction, and a focus on helping further gasification of households and SMEs. IFC supports and can continue to support private sector participation in transport and gas infrastructure, provided the regulatory climate is improved. MIGA has one active project in Bulgaria, and it is in the energy sector. Depending on the progress made on advancing institutional reform of the energy sector, the WBG would consider expanding support to help further the financial sustainability of the sector.

62. Expected outcomes in this sector would be: (i) improved efficiency of energy use in buildings; (ii) financial sustainability of the electricity sector, especially of the public supplier, NEK, and (iii) improved targeting of benefits for the 'energy poor' part of the population. Indirect outcomes may be a better carbon footprint of the energy sector. Achievement of the objective for the proposed loan can be assessed based on indicators such as:

- Energy savings in renovated multifamily buildings;
- Government adopts a roadmap for achieving financial sustainability and liberalization of the electricity sector;
- Percent of beneficiaries reporting satisfaction with the Energy Efficiency in Multifamily Building program and socioeconomic co-benefits.

Objective 3: Better protected natural assets and improved efficiency in use of resources

63. Mitigating environmental risks is an SCD priority, with significant investments and policy reforms needed to ensure that Bulgaria exploits its natural resources in a sustainable manner. The

Government is still working on strengthening its organizations and regulations aimed at becoming compliant with EU. The main compliance and investment challenges lie in the water sector but the achievements of commitments in air quality and solid waste also remain modest. The Government is also considering reforms in sectors that can contribute to climate change adaptation and mitigation and resource protection, while contributing to the economy. This is being considered in the forestry sector, for example, which lacks proper systemic databases for asset management, handicapping both the government and forest owners in planning their asset management, for example, in choosing which species to develop, preserve or commercialize.

64. Preserving the environment is a theme in WBG planned interventions in energy and water, including meeting directives and commitments in relation to climate change (reduction in greenhouse gas emissions). There are discussions on several potential RAS products that could also contribute to this objective, including providing support to the Government's strategy on climate change adaptation. More targeted analytical work is also being discussed in the forestry sector to strengthen governance and monitoring, and on air quality compliance directives. There is no demand from the Government in the solid waste field.

65. Likely outcomes for this objective include targets for reductions in associated CO₂ emissions from the energy saved in the renovated buildings. Specific indicators include the following:

- Number of people benefitting from reliable water supply – target 170,000;
- Government roadmap for achieving compliance with air quality directives developed;
- Government adopts an energy efficiency housing strategy.

66. Additional indicators could also be considered if the RASes under discussion materialize, including, for example, a forestry registry operational in a significant share of the territory, and increased compliance with the air quality directives.

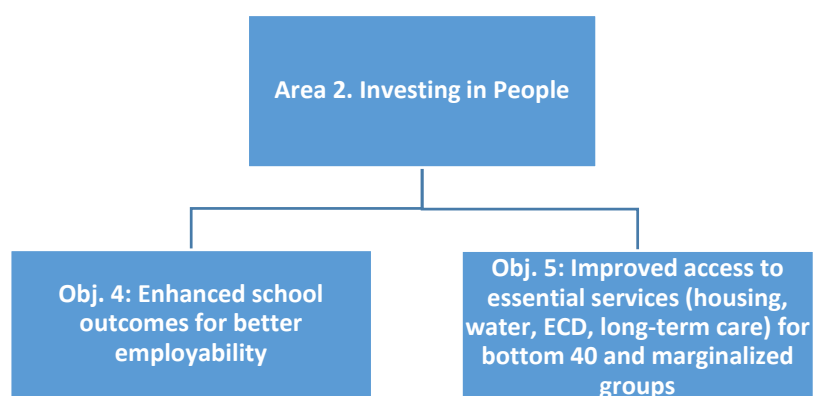
67. The WBG currently supports the sustainability of water resources through an ongoing lending operation and past strategy setting in flood protection and water and sanitation. It will support the Government in finalizing the implementation of the water supply and sanitation sector strategy, which would improve the compliance level of Bulgaria with the Water Framework Directive and the Urban Waste Water Treatment Directive. Further support to water resource management and irrigation strategy implementation may be envisaged as a scale up should the need arise. The WBG has also an active dialogue on improving irrigation practices (Hydro-melioration). IFC is considering potential involvement in financing of smaller and medium-sized municipalities through instruments for pooled financing, where water and sanitation infrastructure building is among the most capital intensive projects.

Other activities recently launched or planned in this area

68. The WBG is supporting improvements to the business environment, including a recently completed Business Reform Memorandum which highlights key areas for improvements and includes recommendations on an action plan. A Subnational Doing Business survey is planned to be undertaken with support from the EC to highlight regional differences within the country on certain business environment parameters. Further WBG support could take the form of targeted

Technical Assistance (TA) through a RAS for incorporation of changes in the legal and regulatory framework, or in the area of land administration (which also remains a weakness of the business environment). The goal is to contribute to a well-functioning business environment that ensures a level playing field for all players and greater opportunities for private sector development. Also, there is an ongoing dialogue on judicial reform that could complement the work on the business environment. If demand emerges, the WBG could engage in work on public investment management and complement Government and EU institution funding in sectors which suffer from a deficit of infrastructure asset maintenance with cause for concern regarding long term sustainability (e.g., transport, housing, flood protection). The WBG could also provide support for SOE reforms in a targeted manner under the right conditions.

Area 2: Investing in People



*This focus area is directly aligned with the second and third transformational areas identified in the SCD: **Boosting the skills and employability of all Bulgarians and improving the effectiveness and efficiency of public spending.** The SCD highlights policies to (1) expand early childhood development programs to improve school outcomes, which is critical to improve opportunities for children from poor families; (2) improve the quality and access of primary and secondary education; (3) strengthen the governance of higher education; and (4) expand adult education and continuing training especially to those in the greatest need—the low-skilled, marginalized groups, and those with the least formal education and the greatest literacy and numeracy challenges. The SCD also highlights that with the current demographic projections, the costs of pension, health and long-term care are expected to rise significantly in the absence of reforms and will require efforts to improve the efficiency and effectiveness of public spending.*

69. Bulgaria’s rapidly aging population and declining labor force poses risks to its long-term economic growth potential. Investing in human capital and social inclusion is central to the long-term policy response to boost productivity and employment along longer working lives. Bulgaria needs to achieve rapid improvements in the skills and health outcomes of the population and improve opportunities for the poorest 40 percent of the population, including its growing share of Roma citizens. This starts with improving living conditions and access to quality public services, notably in education, which remain significantly below the national average. Much of the poor and declining cognitive skills base in reading and mathematics, as documented in the Program for

International Student Assessment (PISA), can be explained by socio-economic disadvantage and the inability of the education system to provide opportunities for disadvantaged students, including Roma.

70. The WBG can draw on a long-standing engagement in human development in Bulgaria, spanning education, health, employment, social protection and social inclusion of marginalized communities, especially the Roma. Building on a series of Development Policy Operations to support a reform to education finance, governance and student assessment a decade ago, the WBG has produced a rich body of analytical work which, among others, has informed the preparation of the Preschool and School Education Act. For example, the WBG applied the Systems Approach for Better Education Results (SABER) to the policy domains of Early Childhood Development (ECD), teacher policy, school autonomy and accountability, and workforce development. In-depth analysis of PISA data helped shed light on equity dimensions of student performance. In partnership with the Open Society Institute, the IBRD recently fielded a skills assessment which resulted in a report that analyzes cognitive and socio-emotional skills of the Bulgarian workforce – a first in the EU. Beyond education, the IBRD has also conducted extensive analytical work on aging, health financing and employment activation over the past decade and has invested in survey work to track the social effects of the 2009 economic crisis. The recently closed Social Inclusion Project helped strengthen Bulgaria’s system of early childhood development with notable benefits accruing to children from Roma families. A recent WBG regional report “Being fair, faring better: promoting equality of opportunity for marginalized Roma” analyzes living conditions and opportunities among Bulgaria’s Roma. The WBG will continue to build on this stream of work to support Bulgaria in promoting human capital formation and respond to the aging challenge, including with a focus on education and tracking the impact of policies on inclusion and the bottom 40 percent. Potential areas of further engagement, beyond education, include ECD, broader policy options for health system reform, long term care and integrated social service delivery.

71. Investing in people is a clear priority for the Government of Bulgaria, but not an area of emphasis for scaled-up WBG support as of now. The Government is advancing this agenda with its own resources and resources from ESIF, in particular the European Social Fund (ESF). Given its importance to the WBG’s mandate of poverty reduction and shared prosperity, the WBG will continue to engage in this area. The program will be selective, focusing on analytical work and dialogue financed from IBRD’s administrative budget and will leverage work with the European Commission and other partners, as well as other IBRD regional engagements. Outcomes are expected to be modest, but will prepare the ground for scaling up where appropriate. The Progress and Learning Reviews will provide room for adjustment as needed.

Objective 4: Enhanced school outcomes for better employability

72. Bulgaria faces a significant challenge in boosting the skills of its current and future workforce to promote productive employment. In an effort to tackle the sources for poor cognitive foundation skills among Bulgarian students, Parliament recently adopted a new Preschool and School Education Act after several years of preparation and debate. The challenge is to translate this new legislation into increased access to preschool and improved quality in Bulgaria’s many poorly performing schools. Bulgaria still has a significant challenge of increasing access to preschool, especially for disadvantaged children. Targeted measures to improve quality in poorly performing

schools will benefit from strengthening the knowledge and evidence base beyond using national sample-based tests like PIRLS and PISA. For example, developing school value-added measurement based on national student assessments and school performance indicators can help education officials at central and local levels to assess individual schools' constraints and identify opportunities to improve performance. This would also allow tracking of the impact of measures to boost quality on disadvantaged students, including Roma, and help ensure that quality measures lead to inclusion. Beyond improving cognitive foundational skills through reforms to preschool and school education, Bulgaria needs to strengthen technical skills formation and upgrading through vocational training and lifelong learning programs.

73. The WBG would influence this objective through a combination of ASA and RAS. Under a new RAS, currently at an advanced stage of negotiation, the IBRD will provide analytical and advisory services to the Ministry of Education and Science to develop a system of School Performance Indicators (SPI) which will measure multiple aspects of school performance in Bulgaria⁸, as well as provide a comprehensive system of measuring school value addition.⁹ This can serve the basis for a program of support to poorly performing schools for improving school education quality. It will focus on providing the analytical foundation for policies and investments to boost quality in poorly performing schools as part of the implementation of the Preschool and School Education Act. Beyond a focus on schools, the WBG will also maintain its engagement on skills more broadly, including on expanding access to preschool and interventions to facilitate the school to work transition for Bulgaria's youth and to boost lifelong learning. In the follow-up to the Social Inclusion Project, the WBG will compile relevant experience from its implementation to identify priorities for policy reform and investments in ECD and will work to capture evidence of the impact of social inclusion interventions, including from the perspective of the Roma population. This work complements the broader EC support for this area.

74. Current outcome indicators include:

- Development of a system of School Performance Indicators (SPI) to measure multiple aspects of school performance in Bulgaria;
- Estimation of school value added measures of two cohorts of students, belonging to lower secondary education (based on test results after grades 4 and 7) and to upper secondary education (based on test results after grades 7 and Matura).

Objective 5: Improved access to essential services (housing, water, ECD, long-term care) for bottom 40 and marginalized groups

75. Bulgaria's demographic decline and aging of the population as well as internal and external migration have brought a significant and sustained shift in the population's demand for social services. This was exacerbated by the 2008 crisis which represented a major setback to the gains in poverty reduction and inclusion. The situation in rural areas, where nearly two-thirds of the poor

⁸ SPI will include the measurement of such dimensions as the effectiveness and efficiency of schools, social inclusion, access to quality of education, student retention rates, etc.

⁹ School Value Added Measures (SVAM) represent school performance measurement based on student test results that undergo complex statistical adjustments in order to isolate the contribution of the schools to the academic growth of the students from the factors that are beyond the control of school teachers and school management.

live, and among the Roma is of particular concern. Quality, efficiency and effectiveness of essential public service delivery in education, health, water and basic infrastructure and social protection remain below what Bulgarian citizens expect and short of what is needed to promote convergence in living standards with EU neighbors. The quality of education in many schools is poor, especially in vocational and non-profiled general secondary schools and in rural areas. The health system is excessively reliant on relatively expensive hospital-based care which is not efficient and effective in responding to Bulgaria's shifting burden of disease that is increasingly dominated by cardiovascular diseases. Water and sanitation services suffer from underfunding and institutional weaknesses, as do public employment services. Efforts to improve the living conditions and opportunities for the poorest Bulgarians suffer from fragmentation in service delivery when instead greater integration between social, education, health, employment and municipal services are needed.

76. Bulgarians have almost universal access to improved water in both urban and rural areas, but water networks need to be upgraded and wastewater collection and treatment systems extended. Pipes are on average 36 years old, many are constructed of asbestos-cement, and close to 60 percent of the water is non-revenue water. Only 66 percent of the population is connected to a wastewater collection network, and just 50 percent to a wastewater treatment plant¹⁰. Therefore, significant investments are needed to ensure that water quality and sustainable use of resources in water supply and sanitation comply with EU directives.

77. IBRD has had a long-standing engagement in the water sector through the Municipal Infrastructure Development Project (MIDP). According to the new 10-year strategy for the sector¹¹, rehabilitation and construction of water supply and sewerage networks will require BGN 12 billion (EUR6 billion). However, EU funds will cover only 30–40 percent of the total capital investments needed until 2020. The rest will have to come from central government and the water utilities. That would require water utilities to substantially improve their efficiency as well as to adjust their pricing. It is also important to ensure that financing for the water sector is affordable and sustainable. This can be done by designing and putting in place a balance of measures to secure affordable water tariffs, cost-effective compliance with EU directives, increased efficiency of water utilities, and by addressing regulatory and governance issues. To achieve tariff affordability, social assistance mechanisms and tools, could be reviewed to identify how best to calibrate support for vulnerable households.

78. Beyond lending and RAS in the water sector, the WBG will draw on its own administrative resources to engage in other aspects of service delivery reform. The WBG will invest in ASA work in the area of integrated social service delivery, drawing on similar work in neighboring countries and on global experience. The aim is to explore reforms that could boost the effectiveness of a range of social services spanning social, municipal, health, education and employment services by joining up their delivery with the use of social and community workers. Building on recent in-depth analytical work on Bulgaria's health financing system, the WBG will also invite Bulgaria to participate in a regional program of analytical and advisory work in the health sector covering health sector restructuring, integration of care, and long-term care with the aim of informing

¹⁰ Republic of Bulgaria. 2014. Strategy for Development and Management of the Water Supply and Sanitation Sector in the Republic of Bulgaria 2014–2023, Council of Ministers Decision No 269 of May 7, 2014.

¹¹ Ibid.

policy-making in Bulgaria. Drawing on regional and global experience with conducting spending reviews, the WBG will engage the authorities on the strategic use of this instrument to improve the efficiency and effectiveness of public service delivery.

79. The Government of Bulgaria and the WBG will also track the impact of energy reform on the poor using a Poverty and Social Impact Assessment (PSIA). Many low income households live in the targeted old, dilapidated multifamily buildings. Under the Energy project, it is expected that around 2,500 families within the bottom 40 percent will benefit from improved living conditions. The lessons from these interventions will serve to scale-up the national program to improve the quality of housing, the main asset of the bottom 40 percent population. The investment also supports the construction sector which provides a large number of jobs for the bottom 40 percent of the population, who have suffered the largest job losses—an 8.2 percent decline in employment between 2008 and 2014. Moreover, as part of a regional activity with support from a European Commission Trust Fund, the WBG will be working with Bulgarian authorities to develop a poverty map for Bulgaria, which can help the authorities in further refining their ability to orient services to those most in need.

80. Much of the WBG’s work on inclusion will address issues affecting the participation of Roma in essential services. For example, only 38 percent of Roma children aged 3–5 are enrolled in preschool, not even half the 82 percent rate for non-Roma, in spite of international evidence that attending preschool increases an individual’s chance of achieving socioeconomic inclusion later in life, particularly for children from disadvantaged backgrounds. Therefore, the proposed work under Objective 4 on identifying priorities for policy reforms and investment in ECD will have a positive effect on Roma. Similarly, activities planned under Objective 5 related to better access to essential services is likely to support Roma inclusion.

81. Current outcome indicators include:

- Number of people benefitting from reliable water supply – target 170,000;
- Increased access to improved wastewater (WW) collection and treatment services – 70 percent of population connected to WW collection network; 55 percent of population;
- Share of female beneficiaries benefitting from upgraded housing;
- Increase in children enrolled in kindergarten;
- Number of households in the bottom 40 percent benefitting from renovated energy efficient dwellings;
- Number of renovated buildings meeting national building code for safety.

C. Implementing the FY17-22 Country Partnership Framework

82. In line with lessons learned during implementation of last CPS, this CPF proposes to cover a six year period, with Progress Learning Reviews (PLRs) every two years. This will facilitate a more proactive approach to monitoring results and ensure close alignment with the country-led strategy. This matches with the dynamic policy environment in Bulgaria and will allow the WBG to invest its efforts in those areas where political will and government commitment is strongest. At the same time, the CPF areas are broad enough to capture future engagement while remaining

focused on select outcomes which could be scaled up over time. The PLRs will take stock of developments and provide an opportunity to adjust as needed.

83. Financial services will be used where there is clear additional benefit from accessing WBG funding over the open market. Expectations for the lending program are for a few significant projects in areas where the IBRD can bring added value. Existing demand for IBRD financing during the CPF period is approximately EUR 550 million. With this, there is room in Bulgaria's exposure limit to consider additional financing and possible needs for scale-up where there is potential for transformative impact and large unmet funding needs.

84. IBRD, IFC and MIGA will continue to coordinate in light of the country's EU membership and the growing availability of private financing. Of particular importance is IFC's ability to offer a variety of long-term financing, both equity and debt products. IFC's committed investment portfolio in Bulgaria as of February 29, 2016 is US\$276.02 million. IFC's focus has been on areas such as infrastructure, agriculture, and renewable energy. IFC has also invested in the financial markets, general manufacturing, oil and gas. Going forward, IFC's strategy in Bulgaria will focus on investing in less developed regions and municipalities, as well as in the sectors and projects where private financing remains limited, including social (e.g., health) and environmental issues and providing advisory services to develop municipal public private partnerships in infrastructure. Moreover, IFC will selectively support modernization and technology upgrade of the real sector and pay particular attention to energy efficiency across a variety of industries. IFC expects to support firms which are investing to upgrade equipment and technology and also which require improvements in operational standards and governance and create new jobs. The goal is to help real sector companies become more competitive within the country and in the wider region.

85. MIGA will continue to explore and diversify guarantee opportunities. Currently, MIGA's engagement includes one project in the energy sector. Going forward MIGA will explore options to engage in other sectors, and will continue to coordinate closely with IBRD and IFC, particularly in the energy sector.

86. Consultations with the Government have identified a pipeline of RAS engagements, primarily funded from the Operational Programs with the European Commission in line with the MOU signed in September 2015.

87. Bulgarian experience with the WBG advisory services has demonstrated value across a broad agenda, and has provided the data and analysis required to support implementation of the European agenda. The Government has appreciated the WBG's role as an impartial and objective partner that can bring both a global perspective and deep technical knowledge and capacity. This has helped lend credibility for the country in its engagement with the European Commission and can, in certain cases send positive signals to the market place (e.g., BDIF, where our involvement provides assurance regarding the credibility of government reform effort).

Table 2. Areas, Objectives and Activities of the WBG Engagement

Area 1. Strengthening Institutions for Sustainable Growth		
1. Improved resilience and stability of the financial sector	2. Strengthened electricity sector and improved energy efficiency	3. Better protected natural assets and improved efficiency in the use of resources
BDIF loan (IPF, Q3 FY16, Euro 300 million) FSAP and follow-up (Q2 FY17) Insolvency ROSC (ongoing) IFC advisory and investment services (ongoing)	Energy Efficiency Loan (PforR, FY17, Euro 250 million) Ongoing and future energy RAS Potential to scale-up, including lending IFC investment services (ongoing)	Energy Efficiency Loan Air Quality and Emission Reduction from Stationary Sources and Transport RAS (potential) Climate Change RAS (potential) Forestry RAS (potential) Hydromelioration RAS (potential)
Area 2. Investing in People		
4. Enhanced school outcomes for better employability	5. Improved access to essential services (housing, water, ECD, long-term care) for bottom 40 and marginalized groups	
Education RAS (potential) Skills (IBRD-funded ASA and engagement - planned) Early Childhood Development (IBRD-funded ASA and engagement - planned)	MIDP Loan - clean water (IPF, FY10, US\$ 102.6 million) Water RAS (signed) Education RAS (potential) Integrated Social Services (IBRD-funded ASA - planned) Integrated Care and long term care (IBRD-funded regional ASA - planned) Spending Reviews (planned)	

88. The WBG will complement the lending and demand-driven RAS by using its own resources to focus on cross-cutting strategic issues relating to the bottom 40 percent of the population. This approach may create space for broader engagement and scaling up in areas that have potential for transformational impact, particularly pertaining to gender and the most disadvantaged, including Roma. It is important, however, to recognize that the expected outcomes at this stage are modest. As part of this approach, the WBG can support the Government with established product lines for public administration, including Spending Reviews. The WBG can also play an important role in developing consensus among broader society on public policy issues, particularly in those areas of inclusion such as gender and Roma integration.

89. In addition, the WBG has opportunities to undertake work on a regional level, commissioned by the EC. The WBG will use these opportunities where it is seen as being beneficial for Bulgaria, and in consultation with the Government. Two current examples include: Subnational Doing Business and a Poverty Mapping exercise both of which include multiple countries in the EC, including Bulgaria.

90. Moving forward, the WBG will continue to apply its corporate mandate for citizen engagement both by continuing the established practice of in-country reporting back on consultations, through ASA and the energy efficiency PforR. IBRD support for the energy efficiency project includes working with Home Owners Associations and support to government efforts to improve transparency. A social impact assessment will provide opportunity for feedback throughout implementation, and a number of municipalities have developed strategies to ensure the participation of vulnerable population groups (including handicapped, pensioners, women, and

ethnic minorities). Furthermore, under the Power Sector Financial Stabilization and Market Liberalization RAS, IBRD has committed to support the Ministry of Energy in stakeholder consultations and public awareness raising events to popularize the full electricity market liberalization model that is being developed under the RAS. IBRD has also committed to support the Ministry of Agriculture and Food in engaging with stakeholders in communicating the strategy (developed under the recently completed Hydro melioration RAS) and the reform agenda for the sector. Moreover, opportunities for citizen engagement will be enhanced through the development of school performance indicators envisaged under Objective 4 and the feedback from beneficiaries through the proposed Poverty and Social Impact Assessment (PSIA) of the energy efficiency project in Objective 5. IBRD is also ready to support the Ministry of Environment and Water in cultivating of commitment by all relevant stakeholders to the Climate Change and Air Quality agendas under the RAS tasks which are currently under preparation.

91. During the proposed CPF period the WBG engagement will seek to deepen attention to actions that will address gender disparities. As discussed further in the gender annex, both ongoing operations and analytical work incorporate gender considerations. One example of gender mainstreaming is under the Residential Energy Efficiency project under which a PSIA will assess any gender disparities in accessing improved housing under the program. Upcoming analytical work in the areas of education, business environment and judicial reform will provide concrete opportunities to examine gender gaps.

C.1 Review of Government Procurement and Financial Management Systems

Public Procurement

92. The National Strategy for the Development of the Public Procurement in Bulgaria of 2014 sets the framework of the public procurement agenda for the period 2014-2020. The main objective of the strategy is to increase efficiency and lawfulness in the area of public procurement for better managing the use of public funds. To this end, the strategy covers actions in five key areas: (i) legislation, (ii) law enforcement, (iii) publicity and transparency of public procurement, (iv) strengthening the administrative capacity and professionalism in public procurement, and (v) control of the system.

93. Effective legislation is crucial for achieving the above objectives. The Public Procurement law of 2004 went through numerous revisions and updates which made its implementation difficult. On February 2, 2016 the Bulgarian Parliament adopted the new Public Procurement Act (PPA) which is expected to enter into force by 15 April 2016. The PPA transposes the provisions of the latest European Directives (Directive 2014/24/EU and Directive 2014/25/EU). The PPA establishes the principles and terms and procedures for the award of public contracts for the purpose of ensuring efficiency in spending on-budget and off-budget resources as well as resources associated with the carrying out of relevant public activities as specified in the PPA.

94. The Public Procurement Agency has a crucial role in providing an effective understanding of and applying the new legislation. The Agency was created in 2004 with the main priority of ensuring the efficiency of the public procurement system in compliance with the principles of publicity and transparency, free and fair competition, equality, and non-discrimination. Another important activity of the Agency is the ex-ante control over public procurement procedures in case

of financing from European funds or procedures above specified thresholds. The Public Procurement Portal, administered by the Agency as a centralized information system, constitutes an important and powerful management tool which ensures the application of the principles and procedures in line with the PPA. The portal provides access to all information and aspects of public procurement thereby increasing transparency and raising public awareness on procurement-related issues. The portal offers updated information aligned with ongoing amendments in Bulgarian and European law together with established good practices.

95. IBRD support to further strengthen the public procurement system in Bulgaria will be in line with the Government's Public Procurement Strategy 2014-2020. The IBRD will continue to facilitate the exchange of relevant knowledge and could provide technical assistance and advisory services in selected areas to help increase transparency, efficiency, and competitiveness of the public procurement system. Such areas may include but not be limited to the benchmarking of public procurement transparency and performance based on procurement data analytics, the standardization of public procurement procedures and documents, and effective Public-Private Partnership models with improved outcomes.

Financial Management

96. Steady progress and consolidation of the existing systems and processes have been registered in terms of reform in public financial management in the last several years. Steps have been taken to strengthen the public financial internal controls function, the transparency of budget formulation and execution and streamlining certain procedures (to accelerate implementation of EU-funded projects mainly). The quality of the public financial management system sometimes varies because of uneven administrative and operational capacity at central and local level.

97. The use of country systems for the IBRD-financed operations in Bulgaria is substantial, although there are areas where further improvement could be achieved. Projects are fully integrated in the government budget and follow the procedures applicable in the implementing line ministries. The IBRD is increasingly relying on the internal audit functions and external oversight performed by the National Audit Office (NAO). For example, NAO will undertake compliance audits of program activities at municipalities participating in the Bulgaria Residential Energy Efficiency Program for Results operation.

98. Strengthening corporate governance goes hand in hand with improvements in transparency, accountability and ultimately the efficiency and effectiveness of public spending. The Center for Financial Reporting Reform (CFRR) and IFC could partner with the relevant stakeholders to support the country reforms in this area. This can also be linked to any potential strengthening of governance in SOEs.

IV. MANAGING RISKS TO THE CPF PROGRAM

99. The overall risk to achievement of the development objectives outlined in the CPF is moderate. The main risks come from political and macroeconomic developments. Political and governance risks and macroeconomic risks are rated as substantial while all other risk categories are ranked as moderate or low.

100. Overall Bulgaria has maintained a fairly consistent set of policies across many key sectors due to the broad consensus for full implementation of the EU agenda. The EU agenda provides a clear framework e.g. in the areas of environment, transportation, water and sanitation, and economic development. Political risk associated with CPF implementation are related to the changes of counterparts at political level. Over the course of the CPF period there will be at least one Parliamentary election which will almost certainly result in many changes in ministerial portfolios. The current Government is a coalition one, with ministerial positions distributed on the basis of negotiations between the different parties forming the coalition. Any changes in the coalition are likely to result in changes in those ministerial appointments. In our experience, each time there is a change in the ministerial portfolio there is a transition period. On occasions the change confirms the partnership and the work program continues but on other occasions change may affect priorities, the agenda, and the preference for working with the WBG. The WBG's strategy for mitigating these risks is to ensure strong alignment with stated government policies, focusing the program on areas and issues where there is strong political will, effective champions and counterparts who have demonstrated interest in working with the WBG. Furthermore the WBG will actively engage in public opportunities for policy discussions contributing data and analysis to build consensus on important policy areas. Where changes in personnel take place the WBG will seek to engage with the new counterparts early to sensitize them on the activities and objectives of the partnership with the WBG.

101. Macroeconomic risks, stemming from an uncertain external environment and domestic policies, are also rated as substantial as they could pose substantial risks to the achievement of CPF objectives by limiting fiscal space to undertake needed infrastructure and human capital investments critical for growth and shared prosperity. Economic recovery in Bulgaria could be adversely affected by a slowdown of demand in the EU as a result of strains in the emerging markets or by geopolitical tensions. Unfavorable external conditions could weaken export performance feeding into GDP growth and thus increase fiscal pressures. Domestic vulnerabilities include substantial contingent liabilities in the energy sector and uncertainty in the financial sector related to the upcoming Asset Quality Review and stress tests of the banks. The Government has taken steps to limit the rise of liabilities in the energy sector and has improved the institutional framework for crisis management in the banking sector. The WBG engagement through advisory services and financing is supporting the Government in stabilizing the energy sector and improving the resilience of the banking sector. Low public debt (below 30 percent of GDP) and fiscal buffers in the fiscal reserve account provide an ample cushion in case these risks materialize.

102. With regard to financial management and procurement matters, IBRD has had a good track record in Bulgaria. The assessments for financial management and procurement are generally positive, the only issue being the efficiency (slow pace) of procurement rather than the effectiveness of the processes. It is anticipated that the RAS instrument will continue to play a significant role in the Bulgarian program. While RASs are demand driven the IBRD simply makes recommendations through its activities and it is up to the Government whether to adopt and implement the recommendations. This risk is rated as moderate based on the IBRD's track record.

103. In addition, the WBG is managing the overall risk to achieving the CPF objectives by adopting a realistic view of what is likely to be achieved under the agreed program. The WBG will

stand ready to deepen our engagement and scale up our activities rapidly as opportunities emerge to support transformational impact. The two CPF areas of engagement are likely to remain relevant over the six year time frame but what realistically can be expected to achieve may be recalibrated every two years. In Area 1, IBRD is introducing the use of disbursement linked indicators in its new operations to focus the incentives on specific reform objectives. In Area 2, the Results Framework takes into account the risk of achieving outcomes using IBRD resources to remain engaged in the inclusion agenda. The CPF is designed to incorporate regular PLRs which will provide opportunity to fundamentally review priorities and achievements, recalibrate expectations and modify the program as needed. If circumstances change quickly, the WBG may bring forward the timing of the PLR.

Annex 1. Results Monitoring Matrix
Bulgaria CPF FY2017-2022* Results Framework

*Given the nature of the ongoing dialogue with the Government of Bulgaria, the Results Framework will cover a six-year period but will be re-evaluated every two years within the process of a PLR

Area 1: Strengthening Institutions for Sustainable Growth		
Objective 1: Improved resilience and stability of the financial sector		
<p>Intervention Logic: The financial sector in Bulgaria is operating in an environment of a weakened corporate sector, characterized by highly indebted and low productive local companies, to which the banking sector is significantly exposed. This is reflected in relatively high and persistent level of Non-performing Loans (NPLs) and stagnant credit growth. In addition, the financial sector is exposed to possible external shocks that could impact parents of foreign banks operating in Bulgaria. The failure of KTB (4th largest bank in the country) in 2014 highlighted corporate governance problems in the banking sector, and exposed weaknesses in bank supervision and resolution regime. KTB's failure cost the country 2.7 percent of GDP with adverse impact on its fiscal deficit, depleted the resources of the Deposit Insurance Fund (BDIF) and froze the deposits of many small depositors for six months. The objective is therefore to support the authorities in improving the resilience and effectiveness of the financial sector in withstanding shocks and allocating resources.</p> <p>The WBG intervention encompasses diagnostic tools (assessment of deposit insurance scheme and banking supervision completed, assessment of insolvency and creditor rights in progress, and a full FSAP diagnostic to be carried out following the completion of the asset quality review of the banking sector), and financing to the BDIF based on the findings of the assessment of deposit insurance scheme. Diagnostic tools will inform authorities on financial system vulnerabilities for them to develop appropriate policy responses with support from the WBG and the IMF, while the financing instrument will help to build an effective safety net at BDIF that will support confidence of depositors and increase the resilience of the banking system to possible shocks.</p>		
CPF Indicators	Supplementary Progress Indicators	WBG Program
<ul style="list-style-type: none"> • Ratio of BDIF reserves to covered deposits: baseline of 0.75 percent for end-2015, and 1.5 percent by the end of the measuring period 	<ul style="list-style-type: none"> • Long-term loan or back-stop funding facility mobilized by BDIF 	<p>Lending:</p> <ul style="list-style-type: none"> - Deposit Insurance Strengthening Project <p>Advisory Services:</p> <ul style="list-style-type: none"> - Insolvency and Creditor Rights Review of Observance of Standards

		and Codes (ICR ROSC) (Q1-2016) Financial Sector Assessment Program (late 2016) - IFC advisory and investment services
Objective 2: Strengthened electricity sector and improved energy efficiency		
<p>Intervention Logic: Energy supply in Bulgaria comfortably exceeds demand, which can be a powerful driver of competitiveness and of exports once the on-going modernization of energy institutions is completed. Below cost pricing led to a substantial structural tariff deficit which threatens the financial viability of the energy sector companies and which does not incentivize energy conservation for residential and industrial consumers. A priority concern is the financial health of the National Electricity Company (NEK) and of its owner, the Bulgarian Energy Holding, as the current institutional design consists of a de facto single buyer, NEK, who buys power from generators contracted under long-term power purchase agreements or benefitting from feed-in tariffs, and has to sell it to supply companies at a price which does not cover all costs. Addressing the financial gap and putting in place a market design which would foster competition and integration with the internal EU energy market is the key challenge for Bulgaria. On the energy efficiency side, improving efficiency in the buildings sector is key to unlock the country's vast energy savings potential and Greenhouse Gas target reductions. In fact, buildings account for about a quarter of final energy consumption, with around 70 percent of energy use going for space heating.</p> <p>The objective of the WBG interventions is related to financial sustainability in the power sector and energy efficiency. Additional benefits may be derived from tariff measures targeting low-income households (done in the last outputs of the RAS) and in verifying the impact of the energy efficiency program for the bottom 40 percent, both of which aim to increase the quality of life for building inhabitants. These interventions in energy efficiency complement other international financial institutions (EBRD, EIB), EU grants (mostly for other buildings) while IFC and MIGA both have investments in power generation, which are negatively affected by the financial imbalances in the power sector.</p> <p>As next steps, the Government of Bulgaria has indicated its willingness to consider the options and recommendations of the RAS in the design of its Power Sector Financial Recovery and Liberalization strategy. Going beyond the National Residential Energy Efficiency Program that the IBRD would support, the Government is committed to adopt a full energy efficiency strategy for the housing sector, which would deepen the expected impact of the current program beyond 2018.</p>		
CPF Indicators	Supplementary Progress Indicators	WBG Program
<ul style="list-style-type: none"> Projected lifetime energy savings in renovated multi-family buildings. <p>Baseline: 0 Target: 2.9 TWh</p>		<p>Lending:</p> <ul style="list-style-type: none"> National Program for Residential Energy Efficiency (FY16) <p>RAS:</p>

<ul style="list-style-type: none"> • Government adopts a roadmap for achieving financial sustainability and liberalization of the electricity sector • Percent of beneficiaries reporting satisfaction with the Energy Efficiency in Multifamily Building program and socioeconomic co-benefits. 		<ul style="list-style-type: none"> - Power sector and financial recovery and market liberalization I and II <p>IFC & MIGA:</p> <ul style="list-style-type: none"> - Ongoing Support to Power Producers
<p>Objective 3: Better protected natural assets and improved efficiency in use of resources</p>		
<p>Intervention Logic: Mitigating environmental risks has been identified as a top Government priority, but requires significant investments to ensure that Bulgaria exploits its natural resources in a sustainable manner. To achieve this, it is imperative to improve the capacity of relevant institutions so that natural resources are better managed. While Bulgaria is compliant with EU environment acquis, the implementation of some key directives is still lagging (i.e. Water Framework Directive, Urban Waste Water Treatment Directive, National Emission Ceiling Directive, etc.) The main challenge lies in sectors, such as water and air quality, which are under-resourced, as well in the water sector where the Government currently faces significant challenges in responding to policy conditions (ex-ante conditionality) recently introduced by the EC in association with EU funds allocation. In response, the Government has identified the WBG as the most reliable partner to support them in building analytical and implementation capacity to improve compliance with the EU targets (as Bulgaria has also committed to the EU 2030 GHG reductions targets).</p> <p>This objective is also linked to improving resilience to climate change and natural disasters. Climate-related risks and related economic losses are expected to worsen in the next few decades and agriculture, forestry, and water resource management will be among the sectors most deeply affected. Thus, the Government has requested WBG support in building adaptation scenarios and formulating specific adaptation measures for responding to the growing risks from climate change impacts.</p> <p>Next steps include the finalization of the Municipal Infrastructure Development Project (MIDP) to increase secure water supply, to complete the implementation of the water supply and sanitation reform to better comply with the Water Framework Directive, develop a methodology for a forestry inventory and pilot it in a region with the aim of conservation and more efficient management of the forests, assist the Government in building a national program for improved air quality management, and to support the Government in building adaptation scenarios and formulating specific adaptation measures.</p>		
<p>CPF Indicators</p>	<p>Supplementary Progress Indicators</p>	<p>WBG Program</p>
<ul style="list-style-type: none"> • Number of people benefitting from reliable water supply – target 170,000 people • Government develops a roadmap to achieve compliance with air quality directives 	<ul style="list-style-type: none"> • Increased efficiency of WSS services at affordable WSS prices and a national financing strategy for the WSS sector (water RAS); • Pilot of strategic information system for forestry launched/completed in 2 districts 	<p>Lending:</p> <ul style="list-style-type: none"> - MIDP - Energy Efficiency Loan <p>Advisory Services:</p> <ul style="list-style-type: none"> - Climate Change RAS

<ul style="list-style-type: none"> • Government adopts an energy efficiency housing strategy 		<ul style="list-style-type: none"> - Air Quality and Emission Reduction from Stationary Sources and Transport RAS - Forestry RAS - WSS RAS phase 3 (implementation of the water supply and sanitation reform)
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Area 2: Investing in People

Objective 4: Enhanced school outcomes for better employability

Intervention Logic: Against the backdrop of a rapidly aging and declining population, Bulgaria needs to equip its future cohorts of labor market entrants with the skills and competencies that would help the country make a significant leap in boosting employment and labor productivity. Furthermore returns to skilled labor have been increasing while those for unskilled labor have been stagnant reflecting a strong relationship between lack of skills and poverty. This calls for education policies that could improve participation and raise the quality of teaching and learning at all levels of formal and non-formal education. Bulgaria's youth today face significant skills deficits, especially those from disadvantaged background. For example, more than 40 percent of Bulgarian students scored below Level 2 in PISA 2012 (reflecting functional innumeracy). Weak cognitive foundation skills risk undermining students' ability to acquire further skills and hampers their transition to the labor market. A 2013 survey of employers in Bulgaria indicated that Bulgarian employers place an even higher value on foundational socio-emotional skills than other countries in the region and above the global average¹². The objective is therefore to improve quality and inclusiveness of education in Bulgaria to enhance cognitive, socio-emotional and technical skills of Bulgarian youth, in particular by focusing on equipping disadvantaged students, including Roma, with the right opportunities from early childhood through formal education. Initiatives to address educational outcomes can focus on one or more of three areas: (i) addressing family and socio-economic drivers of exclusion and low participation in education, (ii) addressing structural issues in the education system itself that lead to sub-optimal outcomes, and (iii) identifying and addressing school specific factors that contribute to underperformance at the individual school level. The IBRD has previously undertaken considerable analysis of the structural issues in the education system. As a next step, the IBRD will provide analytical and advisory services to the Ministry of Education and Science on the performance of individual schools by developing a system of School Performance Indicators (SPI) to measure multiple aspects of school performance in Bulgaria¹³, as well as a comprehensive system of measuring school value added¹⁴, which can serve the basis for a program of support to poorly performing schools. Complementary to these efforts, the WBG will also continue examining socio-economic and other demand-side factors to understand better how excluded populations, including Roma, can realize greater levels of participation in education. It

¹²World Bank. 2016. "Skills for Work in Bulgaria: The Relationship between Cognitive and Socioemotional Skills and Labor Market Outcomes" World Bank, based on Manpower's Global Talent Shortage Survey 2012 data.

¹³ SPI will include the measurement of such dimensions as the effectiveness and efficiency of schools, social inclusion, access to quality of education, student retention rates, etc.

¹⁴ School Value Added Measures (SVAM) represent school performance measurement based on student test results that undergo complex statistical adjustments in order to isolate the contribution of the schools to the academic growth of the students from the factors that are beyond the control of school teachers and school management.

will also invest in learning lessons from the experience of the recently closed Social Inclusion Project to inform early childhood development, education and training policy.

CPF Indicators	Supplementary Progress Indicators	WBG Program
<ul style="list-style-type: none"> • Development of system of School Performance Indicators (SPI) to measure multiple aspects of school performance in Bulgaria to inform future government interventions Baseline: No indicators Outcome: Indicators developed • Estimation of school value added measures of two cohorts of students, belonging to lower secondary education (based on test results after grades 4 and 7) and to upper secondary education (based on test results after grades 7 and Matura) Baseline: No indicators Outcome: Indicators developed 		<p>Advisory Services:</p> <ul style="list-style-type: none"> - Education RAS (potential) <p>Own-managed resources:</p> <ul style="list-style-type: none"> - TA on Early Childhood Development (FY16) - Impact evaluation on access to preschool of Roma children (FY16) - TA on Skills (FY16 and 17) - TA on Education (FY17)

Objective 5: Improved access to essential services (housing, water, ECD, long-term care) for bottom 40 and marginalized groups

Intervention Logic: Bulgaria’s demographic decline and aging of the population as well as internal and external migration have brought a significant and sustained shift in the population’s demand for social services. This was exacerbated by the 2008 crisis, which represented a major setback to the gains in poverty reduction and inclusion. The situation in rural areas, where nearly two-thirds of the poor live, and among the Roma is of particular concern. Essential services in education, health, water and basic infrastructure and social protection are under strain and need to modernize and adjust to changing needs. Education quality remains poor in many schools across Bulgaria, especially small rural schools, and shrinking cohorts of children have triggered a significant rationalization of the school network in recent years. Access to preschool is not yet universal but with IBRD support Bulgaria has invested in expanding access to preschool and early childhood services targeted at disadvantaged children, including Roma. Bulgaria’s health system continues to rely excessively on expensive hospital-based care which is ill-suited to respond to the growing importance of non-communicable diseases which could be more effectively and efficiently addressed through more prevention and primary and out-patient care. The needs for long-term care of Bulgaria’s elderly population are increasing, but capacity to deliver such care services, especially in the community, is lacking. The bottom 40 percent has the highest average elderly dependency ratio among regional comparators because of aging and continuing heavy reliance on the family support system—with both elderly taking care of grandchildren and working-age members taking care of parents. While coverage of the population of water and electricity is almost complete, a sizeable part of the population is ‘energy poor’. Reliability of bulk water supply remains an issue, and policies to increase cost recovery of all water uses needs to be balanced with affordability concerns. The objective is to invest in ensuring and increasing access to essential services through modernizing the

design and delivery of education, health, social protection and affordable water and basic infrastructure services. The next steps focus on the water and energy sector and include work carried by the Government and the IBRD to preserve affordability of water and energy services through RAS, and to improve the condition of many families belonging to the bottom 40 percent through the Residential Energy Efficiency Program. Moreover, with the use of own resources the IBRD will continue to engage in analytical and advisory work on improving access to social services in ECD, education, health and social protection. Using EC Trust Fund resources, the IBRD will develop disaggregated poverty maps to provide a spatial picture of poverty in Bulgaria.

CPF Indicators	Supplementary Progress Indicators	WBG Program
<ul style="list-style-type: none"> • Number of people benefitting from reliable water supply – target 170,000 • Increased access to improved wastewater (WW) collection and treatment services – 70 percent of population connected to WW collection network; 55 percent of population connected to WW treatment services. • Share of female beneficiaries benefitting from upgraded housing. • Increase in children enrolled in kindergarten (baseline 83 percent) • Number of households in the bottom 40 percent benefitting from renovated energy efficient dwellings (Baseline 0; Target: TBD with results from PSIA conducted for the Energy Efficiency PforR) • Renovated buildings meeting national building code for safety: Baseline: 5 Target: 1250 buildings by 2019 		<p>Lending:</p> <ul style="list-style-type: none"> - Municipal Infrastructure Development Project - National Program for Residential Energy Efficiency (FY16) <p>Advisory Services:</p> <ul style="list-style-type: none"> - Water RAS <p>Own-managed resources:</p> <ul style="list-style-type: none"> - Poverty impact of energy efficiency project (IBRD-funded PSIA FY17) - Housing Strategy (IBRD-funded ASA FY17) - Dialogue on tariffs (e.g., energy, FY17) - Integrated social services (IBRD-funded regional ASA, FY17) - EU poverty mapping (regional TF, FY16 and 17) - TA on Early Childhood Development (FY16) - Impact evaluation on access to preschool of Roma children (FY16) - Spending Reviews (potential)

Annex 2. Bulgaria 2011-2013 CPS Completion and Learning Review

CPS Board Discussion:

May 17, 2011

Period Covered by CPS Completion Report:

May 2011- December 31, 2013

I. SUMMARY OF FINDINGS OF SELF-EVALUATION

1. **The 2011-2013 CPS was the first “European CPS” that developed and implemented the RAS business model for the EU Member States.** The CPS was designed to support Bulgaria’s aspirations to integrate fully with the European Union and achieve convergence with European living standards. The 2011-2013 CPS introduced a knowledge - including RAS - role for the WBG with EU Member States. The program proposed in the CPS was heavily weighted towards knowledge and advisory services envisioned to be increasingly delivered through reimbursable service, complemented by a modest lending program selectively focused on a few complex reforms and on areas not eligible for EU grant financing.

2. **The 2011-2013 CPS implementation coincided with a period of weak and jobless economic recovery which saw worsening poverty and inequality.** Between 2011 and 2013 annual real growth in per capita income slowed to 1.3 percent from 6.6 percent per year during the 2000-08 boom period. Recovery of economic activity was slow and was fueled mainly by exports while domestic demand remained weak. Exports quickly rebounded to pre-crisis levels, however companies shed considerable amounts of labor in order to boost productivity. The number of unemployed more than doubled compared to 2008 and reached 433,000 persons in 2013. Job losses, especially among the low skilled, together with slow economic growth pushed up poverty,¹⁵ which increased from 16.1 percent in 2008 to 18.5 percent in 2012. Income gains of the bottom 40 percent of the population have been modest compared to other regional EU comparators.¹⁶

3. **The Government’s macroeconomic and financial sector policies served to strengthen the resilience of the Bulgarian economy in the face of growing external and domestic vulnerabilities.** The external current account was mostly balanced during 2011-13 and even registered a small surplus which is a substantial improvement from the deficit of 22.4 percent of GDP in 2008 (based on BOPM5 data). While a worsening outlook across the Eurozone sustained concerns about sovereign debt and financial sector stability across Europe constraining capital flows from abroad, FDI inflows to Bulgaria actually steadied at around 3 percent of GDP, one of the highest levels in the region. Even though Bulgaria saw a reversal of capital flows from parent banks, banks in Bulgaria remained liquid and well capitalized. Simultaneously, inflation was kept low, in line with trade partners, and the fiscal deficit was reduced to less than 1 percent of GDP in 2012-13 from 4.2 percent in 2009. Bulgaria succeeded in adjusting its fiscal deficit faster than other countries in the EU and in 2011 exited the excessive fiscal deficit procedure. Government debt increased slightly to 18.3 percent of GDP in 2013 but remained one of the lowest in the EU.

¹⁵ Absolute poverty rate based on the US\$5 per day international poverty line.

¹⁶ Regional comparators include Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, and Slovenia.

4. **Given how actively the Government managed the macroeconomic challenges, the CPS was formulated with a high level of expectation that it would support important reforms, albeit in a constrained macroeconomic environment.** The WBG program focused on three pillars with a total of 10 objective areas: Pillar 1, *Policy Reforms for National Reform Program to Implement Europe 2020 Strategy*, had objectives in six areas: innovation; education; public finance and public administration; competitiveness - business regulation; green growth and climate action; and social inclusion, including Roma. Pillar 2, *Strategies and Institutions to Accelerate EU Funds Absorption*, had objectives in three areas: transport/roads; environment, water, and agriculture; and social inclusion, including Roma. Pillar 3, *Complementing EU Financing*, had one objective area focused on transport - railways. Thus, the CPS featured an ambitious agenda for a three year implementation period. The CPS identified an indicative pipeline of investments to support reform efforts in railways – a politically sensitive sector. That modest and selective lending program complemented an extensive program of RAS and ASA.

5. **However, the high expectations were not met due to a number of factors.** In the context of ongoing macroeconomic challenges the Government maintained tight control over the fiscal deficit strictly applying spending limits across the board. The government decided not to proceed with railways lending operations opting instead to undertake reforms by itself before making any investments in the sector. Projects in the portfolio ran into unexpected implementation challenges (e.g. Second Trade and Transport Facilitation Project faced changes in requirements as a result of EU membership, and unexpectedly uncovered archaeological findings).

6. **Political changes and policy uncertainty were key contributory factors.** Towards the latter part of the CPS period the country entered into a season of rapid political change initiated by the resignation of the GERB government followed by an interim government – which served about three months – followed by the newly elected Socialist-led coalition government for the rest of the CPS period. The changes in government and counterparts contributed to delays both in project implementation and the implementation of the analytic and advisory work. In the absence of new lending and development policy finance in key areas of reform, the IBRD's existing portfolio and planned RAS and ASA were not sufficient to support planned outcomes to their full extent within the envisioned three year time frame.

7. **In the context of these political developments, the WBG remained flexible in the implementation of the CPS,** supporting government in several areas under the CPS, and increasing the use of reimbursable advisory services (RAS) to support Bulgaria, particularly in reform areas related to its European Union (EU) convergence goals. The RAS program supported the country in maximizing the use of EU funds, delivering results which included strategic sector planning and strengthening the capacity of key sector institutions. It was both valuable and useful to empower and inform the client in its relationship with the EC by adding credibility to Bulgaria's response, supporting achievement of ex-ante conditionalities for EU funds and informing initial reform measures. The IBRD AAA provided an analytical foundation for reforms (e.g. energy sector).

8. **The WBG undertook an initial review of the CPS implementation in May 2012.** A formal CPS Progress Report should have been prepared in 2013 which would have provided an opportunity to revise the results framework and recalibrate the expected outcomes. It was also envisaged that the Progress Report would be used to extend the CPS for further two years. However, this did not happen partly due to a lack of incumbent counterparts, and partly to the

imminent arrival of the new Systematic Country Diagnostic (SCD) and Country Partnership Framework (CPF) products. So, rather than undertaking a full Progress Report and extending the CPS, it was decided that an SCD and CPF should be prepared over 2014-2015 to guide the WBG's engagement with the new Bulgarian government and coincide with the 2014-2020 European programming period.

9. **The Completion and Learning Review rates the overall 2011-2013 CPS development outcome as *Unsatisfactory*.** The CPS fell short of achieving its objectives in many areas because some of the anticipated activities – some of the RAS work and the new lending program - did not materialize. In others, the Results Matrix lacked outcome indicators to measure progress. Almost half of objectives were not achieved. An overview of the CPS pillars, objectives, and ratings is shown in Table 1 below (details are in the attached Annex 1).

10. **The Completion and Learning Review rates the WBG's performance as *Fair*.** The WBG fell short of achieving the objectives identified in the CPS. However, progress was made on many of the intermediate indicators used to track progress under the CPS, some of which could be considered as outcome indicators, particularly given the short implementation period of the CPS. On design, the CPS pillars and objectives were well-aligned with Bulgaria's 2011-2015 National Reform Program and medium-term goals of achieving further economic and social integration into the EU and convergence with EU living standards. The IBRD provided timely supervision of the ongoing portfolio and was flexible in supporting Bulgaria's objectives with a growing RAS program.

11. **The Completion and Learning Review notes that the CPS had a focus on shared prosperity and poverty reduction.** Even though the CPS was developed before the WBG's corporate goals of reducing extreme poverty and increasing shared prosperity in a sustainable manner were introduced, the objectives in the CPS aligned well with these goals, in the European context. The CPS was anchored in Bulgaria's National Reform Program and aligned with the EU 2020 strategy of smart, sustainable, and inclusive growth, which matches well with the WBG's corporate goals. The CPS focused on areas that would help Bulgaria—the EU's poorest member state—converge with EU living standards through the further absorption of EU funds (a form of shared prosperity within the EU) in critical sectors. Interventions in the education sector were related to shared prosperity through the aim of increasing more of the population's assets in this area. The CPS also had a particular focus on the poorest members of Bulgarian society, the Roma. Finally, the CPS included measures related to financial, social, and environmental sustainability.

II. HIGHLIGHTS OF EVALUATION OF PROGRAM DEVELOPMENT OUTCOME RATINGS

12. **The Completion and Learning Review rates the overall 2011-2013 CPS Development Outcome as *Unsatisfactory*.** Out of total of 10 objective areas in the CPS Results Matrix, two were Mostly Achieved, four were Partially Achieved and four were Not Achieved (see Table 1). A comprehensive matrix of CPS Program Self-evaluation is attached in Annex 1 to this CLR. It should be noted that the majority of the WBG activities, including the growing RAS portfolio, were on the policy side and focused on the medium-term agenda, beyond the scope of a three year

CPS. Nevertheless, the WBG has contributed to the development process in the country, primarily through its program under implementation (see Table 2).

Table 1: Overview of the CPS pillars, objectives, and ratings

BULGARIA 2011-2013 CPS PILLARS, OBJECTIVES, AND RATINGS	
Objective Areas	Ratings for Objective Areas
<i>Pillar 1: Policy Reforms for National Reform Program to Implement Europe 2020 Strategy</i>	
Innovation	Partially Achieved
Education	Partially Achieved
Public Finance and Public Administration	Mostly Achieved
Competitiveness – Business Regulation	Not Achieved
Green Growth and Climate Action	Not Achieved
Social Inclusion, including Roma	Partially Achieved
<i>Pillar 2: Strategies and Institutions to Accelerate EU Funds Absorption</i>	
Transport – Roads	Mostly Achieved
Environment, Water, and Agriculture	Partially Achieved
Social Inclusion, including Roma	Not Achieved
<i>Pillar 3: Complementing EU Financing</i>	
Transport – Railways	Not Achieved

Table 2: Ongoing operations during the CPS period

FY	Project
<i>Lending</i>	
FY07-13	Road Infrastructure Rehabilitation Project (RIRP)
FY07-14	Second Trade and Transport Facilitation Project (TTFSE2)
FY09-16	Social Inclusion Project (SIP)
FY10-18	Municipal Infrastructure Development Project (MIDP)
<i>Grants</i>	
FY11-14	Forestry Sector Institutions Reform Support - IDF
FY11-15	Strengthening the National Trust Fund Eco-Funds Financing and Implementation Capacity – IDF

13. **Bulgaria increased significantly its absorption of EU funds including under Operational Programs for sectors in which RAS services were launched.** The post-accession funds allocated to Bulgaria by the EU during the 2007-13 program period amounted to EUR9.4 billion, or on average about 3.7 percent of GDP per year during this period. Bulgaria’s overall¹⁷ EU funds absorption rate improved during the CPS period: from 18.27 percent in 2010 it increased to 51.29 percent in 2013. The absorption rate improved tenfold for Operational Program (OP) Transport where IBRD support was provided through RAS—from 5.81 percent in 2010 to 58.43 percent in 2013. In June 2015 the absorption for this OP is 78.35 percent, slightly higher than the rate for all OPs. Advisory services were provided also for the water sector, which is covered under OP Environment together with environment activities. The absorption rate of OP Environment also improved—it almost quadrupled between 2010 and 2013 to 24.11 percent—but the implementation of this OP took longer than all other OPs. In June 2015 its absorption rate was the lowest—59.69 percent as some of the EU funds were temporarily suspended by the EU in 2014.

Pillar 1: Policy Reforms for National Reform Program to Implement Europe 2020 Strategy

¹⁷ The overall absorption rate is estimated for all OPs funded by Structural Funds, European Agricultural Fund for Rural Development, and European Maritime and Fisheries Fund.

14. *Innovation.*

This objective is rated partially achieved. Intermediary indicators were particularly robust, and most were achieved. Bulgaria made modest progress in the area of innovation during the review period. Only part of the milestones was met during the 2011-2013 CPS timeframe. The achievement of the CPS objective in this area relied solely on analytical support and, while some of the recommendations put forth by the IBRD under the RAS were taken up, several recommended immediate actions have not been implemented. Bulgaria's R&D expenditures, both private and public, are well below the EU average and R&D investments remained low during the CPS period. The *Innovation RAS* program - implemented October 2012 – December 2013 -

CPS Objective: Strengthened policies, aligned instruments and effective institutions for high quality R&D.

Rating: Partially Achieved

provided the analytical backbone for Bulgaria's Research and Development Strategy for Smart Specialization, an ex-ante conditionality to access EU funds in the 2014-2020 cycle. The RAS and consequent Strategy developed proposals on improving governance, innovation policy execution, innovation funding instruments for the 2014-2020 cycle, innovation infrastructure flagships and an action plan for the commercialization of research and innovation. The embedded knowledge sharing, however, did not create ownership and ultimately was not complemented by important reforms. Further, political changes were not conducive to the implementation of serious reforms related to competitive funding for research and innovation.

15. *Education.*

CPS Objective: Improved quality of basic and secondary education by strengthening the accountability framework. Improved quality and relevance of higher education through strengthened governance, accreditation and performance-based funding.

Rating: Partially Achieved

There is only one intermediary indicator which was almost fully met, supported by additional indicators – IBRD advisory support triggered drafting of laws and strategies that strengthen the education system. Despite the sweeping governance reforms of the education system (2007-2008) and the devolution of significant financial and decision making powers to schools, the quality of education stagnated, while the equity dimensions of the system worsened. The decentralization reforms were not matched with sufficiently developed accountability mechanisms to hold key education actors accountable for the learning outcomes of the students. In order to address the above shortcomings, during the review period the government focused on the design of policy reforms intended to strengthen the accountability framework for pre-university education. The WBG supported the government's reform efforts through two *Programmatic Education Sector TA (FY11-13)* and *(FY14-15)* and the *Higher Education AAA for ECCU5 Countries (FY11-13)*, which informed the development of new draft laws and strategies that strengthen the education system. Unfortunately, the frequent changes of the Government prevented these policies from being adopted and enforced. While the comprehensive policy reforms were delayed, first steps to strengthen the national student assessment system were undertaken in 2013 with the IBRD's

support by piloting implementation of the “value added” measure of school performance. Through this pilot, test results of all Bulgarian students were used in a statistical model to isolate the impact of family and background of students on test results and, based on that, to derive a measure for school accountability that reflects the school’s contribution to the test results of the students.

16. ***Public Finance and Public Administration.***

CPS Objective: Improved efficiency and effectiveness of public expenditures.

Rating: Mostly Achieved

The CPS objective was very broad but a rating of mostly achieved is warranted given the milestones indicators were critical outcomes and alternative indicators are provided. IBRD policy advice and analytical work – for instance, the Golden Growth Study as well as the Bulgaria-specific *Mitigating the Economic Impact of an Aging Population: Options for Bulgaria* – is highly valued and appreciated by Government, and has sensitized key government stakeholders, including Ministry of Finance (MoF), on the long-term challenges - and subsequent pressure on the public finance - posed by a rapidly aging population. It supported MoF in the process of identification of expenditure optimization programs in selected areas (public sector wage bill, employment and public investment). However, as in other areas, follow-up on specific recommendations was hindered by political change during the CPS period. Public expenditure optimization in 2010-2012 relied on freezing the public sector wage bill and reducing public sector employment, which helped reduce the fiscal deficit to less than 1 percent of GDP in 2012-13 from 4.2 percent in 2009. Several organizational changes in the MoF led to a reduced role for MoF in the strategic oversight of the public investment prioritization (with the Council of Ministers taking on a greater role). Nevertheless, when the Government has political capital to act, it is better informed to do so.

17. ***Competitiveness – Business Environment.***

CPS Objective: Reduction of administrative burdens at central and local levels, through effective implementation of the Better Regulation Program and the Administrative Burden Reduction Action Plan.

Rating: Not Achieved

The CPS objective was very ambitious for a three year period; and the main instrument to support implementation was a RAS program which did not materialize. As a result, the objective was not achieved. During the review period the IBRD was engaged in policy dialogue and provided knowledge and advisory support - *Better Regulation for Higher Growth AAA* and a technical note on *Administrative Barriers to Businesses at the Municipal Level* - in support of government efforts for continued improvement of the business environment. The business environment area was a key focus for reforms in the Government’s agenda where results are yet to be seen. Administrative reform and business regulation activities of the Government in the past few years were not targeted enough. Despite a number of programs aimed at streamlining existing regulations and improving the quality of new regulations, firms in Bulgaria still face a great number of regulatory regimes, documents required, and administrative fees that constitute an obstacle to daily business operations and limit competition of local companies. No regulatory impact assessments for key policies and legislation have been conducted. Municipal-level regulations contribute heavily to the

administrative burden of enterprises in Bulgaria. E-government services at the municipal level are limited. The Policy on State Fees is not adopted yet, despite the work done including analytical support on the state fees regime provided by the IBRD.

18. *Green Growth and Climate Action.*

CPS Objective: Reduce energy consumption in buildings through scaled-up program to improve energy efficiency in public and residential buildings. Improved resilience to climate change and strengthen carbon trading management.

Rating: Not Achieved

The expected objectives in this area as articulated in the CPS were very ambitious; and the main instrument to support implementation was a RAS program which did not materialize. Given the absence of an outcome indicator it was not possible to verify, and as such has been rated as not achieved. A number of actions were taken by the government, and the dialogue continues. The IBRD provided input to the detailed design of the EU financed scheme of Energy Efficiency in Residential Buildings. However, a large-scale government program did not materialize during the CPS period due to a change in political priorities. Discussions were resumed in late 2014. Regarding the Climate Change Adaptation Strategy, the IBRD drafted terms of reference for the Strategy (*FY12 Climate Change and Green Growth AAA*). However preparation was put on hold as the government decided to use resources for financing the strategy preparation from the new EU programming period (2014-2020). The IBRD sustained policy dialogue and discussions with the Government were resumed in late 2014. In addition, the IBRD supported the government Climate Change agenda through the *FY14 Climate Change and Green Growth AAA*, for which the final report *Insurance against Climate Change: Financial Disaster Risk Management Insurance Options for Climate Change Adaptation in Bulgaria* constitutes an important input to the National Climate Change Adaptation strategy. During the CPS period the National Trust for Eco Fund (NTEF) IDF grant contributed to strengthening the institutional capacity of MoEW and NTEF for participation in carbon trading. Unfortunately, the Government dropped the proposed GIS project which aimed, among others, to develop analytical capacity for evaluating costs and benefits of GHG mitigation in the forestry sector. The *Forestry Sector Institutions Reform Support IDF grant* significantly contributed to the elaboration and adoption of new forest sector legislation and establishment of a new forest sector institutional set up, including capacity building and training in new roles for the Executive Forestry Agency and Forestry Enterprises staff. In response to social discontent with non-transparent pricing in the power sector, the Government requested the *Rapid Diagnostic Assessment of Selected Issues in the Power Sector* (FY13) from the IBRD. The IBRD's immediate and prompt response helped to outline strategic reform options in the sector and opened the door for future scaled-up engagement which started materializing in 2015. In addition, analytical capacity of the Ministry of Economy and Energy and key agencies in the gas sector to prepare strategies and action plans in the gas sector to ensure reliable and diversified energy supplies was developed. The Ministry of Energy now has a tool to identify least cost measures to improve security of gas supplies and options to maximize commercial benefits from gas trade.

19. *Social Inclusion, including Roma.*

CPS Objective: Increased social inclusion by developing better integrated mechanisms for inclusion of vulnerable groups, including early childhood development, as well as increased use of EU funds.

Rating: Partially Achieved

While results were achieved in this objective area, delays related to availability of resources and the absence of an outcome indicator meant that the objective was not fully achieved during the CPS period. Many of the intermediate indicators were met. The implementation of the *Social Inclusion Project (SIP)* resulted in expanded access to preschool education and better opportunities for social inclusion of disadvantaged children. The milestone indicator was met: over 1,000 children - including disabled and Roma - (1,107 children as of December 2013 compared to 0 in 2011) were enrolled in the facilities constructed under the project. However, the significant implementation delays of the SIP prevented the launch of the social inclusion services designed to complement the kindergarten services. The insufficient resources for the SIP - the project received a fraction of the budget needed due to adherence to strict budget ceilings - have negatively affected the impact of the project but the transition of their funding from the SIP to the EU financial mechanisms was successfully launched in 2015.

Pillar 2: Strategies and Institutions to Accelerate EU Funds Absorption

20. *Transport – Roads.*

CPS Objective: Strengthened road sector governance, management and EU funds absorption capacity. Improved roads and border infrastructure.

Rating: Mostly Achieved

All infrastructure related milestones were achieved, including partial upgrade of the Kalotina border crossing point (the full reconstruction was dropped from the *TTFSE2* project). Over 300 kilometers of national roads were rehabilitated under the *Road Infrastructure Rehabilitation Project*; the Kapitan Andreevo border crossing point was reconstructed and 3.5 km access road to Kapitan Andreevo was constructed and is operational while the Kalotina border-crossing facility benefited from equipment upgrades and institutional capacity strengthening measures, supported by the *TTFSE2* project. The Roads Infrastructure Agency (RIA) started a restructuring of its organization in line with IBRD recommendations. Through a number of strategic documents, developed under the *Road RAS*, the IBRD has provided a sound analytical basis for MRDPW decision making and significantly contributed to better informed decision-making related to EU funds absorption.

21. *Environment, Water, and Agriculture.*

CPS Objective: Increased EU-financed investments in the water sector through strategic priority setting, water master plans, and strengthened institutional capacity.

Rating: Partially Achieved

Most of the milestones were met. Through the advisory services under the *Water RAS* the Bank provided support for the development of a new strategy for the water supply and sanitation (WSS) sector that was subsequently approved by the government. The Water Act was revised to enable accelerate the transfer of WSS assets and operational rights between the Water Supply and Sanitation Associations (WSSA) and regional WSS companies. Regional Master Plans for water and wastewater for the entire territory of Bulgaria (excl. Sofia City) were prepared under the *Municipal Infrastructure Development Project* and subsequently adopted by the Minister of regional development and public works after the required consultations with WSSA and municipal councils. Implementation, however, was delayed since the water and waste water Master Plans were approved only in December 2013/January 2014. Implementation of the *Municipal Infrastructure Development Project* faced delays mainly related to the timeliness of the procurement processes, and and processing of detailed spatial plans. Construction of one of the dams (Neykovtsi) was dropped - updated cost estimates were higher than the initially projected. The contract for the construction of the first dam was signed in December 2014, with the remaining two expected to be signed in early 2016.

22. *Social Inclusion, including Roma.*

CPS Objective: Increase participation of Roma population in society through stepped-up, integrated, transparent and results-focused national strategy and actions.

Rating: Not Achieved

The objective for social inclusion, including Roma, was too ambitious and the CPS did not include a mechanism to monitor participation of Roma population in society. As a result it is rated not achieved. The IBRD provided advisory support, including public consultations, for the preparation of the National Roma Integration Strategy (NRIS); further, a review of the local implementation framework of the NRIS was completed by the IBRD and disseminated to government counterparts. However, the envisaged follow-up support for NRIS implementation through RAS did not materialize during the CPS period. A qualitative research report on gender dimensions of Roma inclusion was undertaken by the IBRD to better inform future interventions.

Pillar 3: Complementing EU Financing

23. *Transport – Railways.*

CPS Objective: Financially sustainable and modernized railways system.
Rating: Not Achieved

The CPS objective for Transport – Railways was not achieved because none of the envisaged lending instruments materialized. While the ambitious reforms in the railway sector undertaken in the first year of CPS implementation were built on a joint MoU¹⁸ and agreed reform matrix, the planned lending program in the railways sector was suspended at the request of the government. The first Programmatic Railway Sector DPL and a Railway Infrastructure Rehabilitation Project were prepared and negotiated at the time of the CPS, but the government subsequently indicated that additional reforms were necessary before proceeding with lending, and so decided not to proceed with IBRD support in the railway sector.

III. WORLD BANK GROUP PERFORMANCE RATING

24. **The overall rating of the WBG performance is *Fair*.** The major reason for rating the WBG performance as Fair is the failure to undertake a Progress Report thus missing an opportunity to recalibrate the results matrix and expected outcomes in line with implementation experience. The WBG proactively engaged to adapt to changing circumstances and evolving Government priorities. It sustained dialogue over time, provided analytical support and built a foundation of a sound program of activities for the next strategy period/CPF (i.e., RAS primarily, but also a good basis exists for future lending should the government be interested). The 2011-2013 CPS design and implementation supported Bulgaria in maximizing the use of EU funds to help meet these objectives.

25. **The political economy risks identified in the CPS materialized during the CPS period.** While the WBG did not foresee the extent to which government commitment to reform would stall as a result of the political situation, flexibility was built into the CPS, and the WBG adapted by (i) continuing to engage with the government in sector dialogue; (ii) strategically pursuing AAA (both country-specific and sub-regional including Bulgaria); and (iii) opportunistically pursuing RAS (in line with government demand and WBG comparative advantage). By maintaining its engagement with government on non-lending activities, the WBG is well-placed to scale-up support of government reforms with financial support and additional RAS activities if and when there is an interest.

26. **Risks related to macroeconomic conditions, general implementation and governance, and RAS implementation did not adversely impact CPS implementation.** Bulgaria managed the macroeconomic risks reasonably well. Risks to implementation of fee-based service (RAS) were mitigated as the IBRD focused selectively on areas where there was strong government demand and where it has a clear comparative advantage.

¹⁸ See *MoU between the Government of Bulgaria and the World Bank, Stepping up Cooperation in the Development of Bulgaria's Infrastructure*.

27. **The 2011-2013 CPS design was characterized by complementarity, flexibility and knowledge partnership.** The WBG ensured complementarity with activities supported by the European institutions and instruments, and aligned – to the extent possible - its CPS cycle with the EU programming period. Originally the WBG wanted the CPS period to coincide with the EU funding period, i.e. a 5 year CPS, but the Government preferred a shorter timeframe. The WBG and Government settled on a 3 year CPS. The WBG kept in mind an option to use the Progress Report as a basis to extend the CPS. Given the political changes this option did not materialize. On design, the CPS pillars and objectives were well-aligned with Bulgaria’s 2011-2015 National Reform Program and medium-term goals of achieving further economic and social integration into the EU. The architecture of the CPS was demand-driven and flexible, thus enabling the WBG to adapt to the changing environment and uncertainty as the global economy recovered, and the need to take into account the political economy and evolving Government priorities as Bulgaria catches up with the rest of the EU.

28. **The 2011-2013 CPS results matrix** fell short on articulating outcomes for objectives, and would have benefited from a revision had a Progress Report been prepared. The small number of CPS outcomes were overly ambitious, particularly given the three year timeframe of the CPS and the nature of WBG engagement (i.e., predominantly advisory support). There are also indicators that cannot be measured due to lack of relevant statistics (e.g. there is no definition for “vulnerable” and there are no markers for ethnicity in the Bulgarian education statistics). Still, progress was made on many of the indicators used to track progress under the CPS.

29. **The quality of implementation was *Fair*.** While the WBG was successful in achieving some of the objectives of the program, the design of the CPS and its objectives were overly ambitious. The unstable political environment in 2013 hindered the preparation of a Progress Report and a chance to adjust the CPS results framework was missed. Nevertheless, the IBRD was responsive to changing circumstances, adapting to the political changes by growing the program of RAS to respond to the evolving needs of the Government, in line with the CPS. The engagement with Government in priority areas and growing the RAS portfolio is bearing fruit now. The IBRD provided close and timely supervision to the implementation of its program. The quarterly program implementation stocktaking, launched jointly with the Government in FY11, has become a well-established mechanism led by the Ministry of Finance to proactively address bottlenecks and speed up implementation. All projects in the portfolio were restructured to better align with Government EU priorities. At the 2012 Annual CPS review and planning in April 2012¹⁹, the Government and the IBRD agreed on the priority tasks for the coming twelve months, in addition to the ongoing activities. Thus, for the first time, all AAA tasks had been agreed with the client ahead of the IBRD internal WPA discussions and were scoped out in a timely manner.

30. **The performance of the lending portfolio was mixed.** One project (Road Infrastructure Rehabilitation Project - RIRP) exited the portfolio during the review period. The ICR rated IBRD performance satisfactory, and the corresponding IEG evaluation - moderately satisfactory. While RIRP was successfully completed and significantly contributed to the achievement of the CPS outcomes related to Transport, in general most projects in the portfolio faced implementation issues resulting in delays and restructuring. Second Trade and Transport Facilitation project (TTFSE2) was implemented by multiple institutions which added complexity to implementation. Project implementation was also affected by lengthy processing times and approval procedures,

¹⁹ See 2012 *Bulgaria CPS Review and Planning: Partnering for Bulgaria’s European Future*, The World Bank Group, May 2012.

change in requirements as a result of EU membership, and exogenous factors, such as unexpected archaeological findings. Municipal Infrastructure Development Project faced delays related to the timeliness of the procurement processes and processing of detailed spatial plans. Overall portfolio implementation was affected by government's need to enforce strict budget ceilings for the line ministries. Close monitoring of the portfolio, jointly with the Ministry of Finance, was crucial to address Bulgaria's poor disbursement ratio track record in FY11 - disbursements picked up reaching 21.1 percent in FY12 and 17.6 percent in FY13, compared to 6.7 percent in FY11, which was the lowest disbursement ratio in the Bulgaria portfolio in the last 15 years.

31. **Delivery of AAA proceeded on track**, although with some delays on certain tasks due to political changes and shifting priorities that affected terms of reference and the final output of a number of tasks. The IBRD remained flexible and tailored its support: all planned AAA tasks were delivered and additional tasks were included in response to evolving Government needs and changing circumstances. The strategic relevance of the IBRD's AAA has provided sound grounds for a scaled up support through RAS. Thus, the basis for a sound program of activities is in place for the new CPF (e.g., in the power sector, water sector, climate change) based on the work undertaken in the previous period. A comprehensive list of the planned non-lending program and actual deliveries during the previous period is included in Annex 3.

32. **The financial management (FM) performance of the investment portfolio has been generally satisfactory, with no substantial issues identified during the regular monitoring reviews.** The projects complied with the reporting and auditing covenants. One systemic issue that impacted the implementation of the projects referred to the adequacy of the budgetary spending allocations, which were in some cases below the financing needs. Task teams have flagged this matter and closely monitored the financial status of the projects through regular stock take of the estimates in terms of commitments and disbursement, and ongoing dialogue with the main stakeholders and follow-up. No broad public financial management diagnostic work has been carried out during the previous CPF period. The last Report on the Observance of Standards and Codes Accounting and Auditing (ROSC A&A) was published in early 2009. A corporate financial reporting project was discussed in 2010-2011 under the Swiss Enlargement contribution for Bulgaria and a project was designed but eventually dropped by the government as it reshuffled priorities. Financial supervisors and the accounting profession are regularly invited in the events organized by the Centre for Financial Reporting Reform. Next steps could include a potential technical assistance program to update the ROSC A&A and to provide capacity building assistance for the corporate and SOEs sectors.

33. **Procurement performance of investment projects during the implementation was satisfactory for most of the life of the projects.** Procurement of works, goods and technical assistance was carried out in accordance with relevant IBRD Guidelines. There was no report of non-compliance with the IBRD's procurement policies and processes. Delays in procurement were addressed through regular implementation support with the participation of the procurement specialist from the IBRD, on the basis of the IBRD's review and advice on technical issues, and in accordance with regular reviews of and updates to the procurement plan. Despite changes on agency and ministerial levels, the implementing units were maintained with its core staff for the life of the projects, which ensured continuity, capacity and quality of project implementation. Government's need to enforce strict budget ceilings for the line ministries was another reason for delays in contract signing and implementation. These issues were addressed at regular joint

program implementation stocktaking meetings, under the leadership of MoF, to discuss and agree on appropriate implementation improvement steps.

34. **While the CPS did not include a gender focus, or gender-disaggregated results indicators, nevertheless the IBRD made a contribution through the Social Inclusion Project.** Based on feedback received during the CPF consultations, there are indications that Social Inclusion Project has had positive impact on women (in particular young Roma) joining the labor market. Beneficiaries of this project include 11,580 caregivers who received parenting counselling (Dec 2015, cumulative). By social norms these caregivers, particularly among the Roma and Turkish ethnic minority groups, are almost exclusively female. This counselling was designed to improve interaction with their children in the critically important first years of child development. As part of the project many of the abovementioned beneficiaries also participated in sessions that prepared young parents for re-entering or entering the job market.

35. **Due to the absence of new lending, the environmental safeguards support was focused on supervision of ongoing projects in their final phase of implementation.** The reports indicate good compliance with the World Bank safeguards and good cooperation with the Government on safeguards issues. Under the Second Trade and Transport Facilitation project several significant archeological find sites were conserved in cooperation with the National Institute of Archeology and Museum (NIAM). The discovery includes parts of the ancient Roman road “Via Diagonalis” and prehistoric finds like sacrificial burial sites, prehistoric sanctuary, and stone and ceramic objects. The environmental specialist, though not in their safeguards role, supported several RAS activities dealing with the environmental issues.

36. **The development of an innovative model of Reimbursable Advisory Services (RAS) was a major achievement and success of the CPS.** The Government and the IBRD forged a new and innovative form of partnership, with the IBRD stepping up the traditionally strong policy dialogue with the government through planned provision of fee-based knowledge and advisory services. The whole RAS model for EU Member States was developed with Bulgaria. A RAS mechanism was put in place: a Memorandum of Understanding (MoU) - defining the areas of intervention and the main responsibilities of the parties – was signed between the Government and the IBRD in January 2012. That was a strategic umbrella document which ensured a high level of ownership and proactive management by the Government. Another important element of the model was the standard service agreement for all IBRD RAS adopted by the Council of Ministers. In addition, a Government-IBRD Action Plan for MoU implementation was adopted outlining the agreed advisory services. A Government-IFIs coordination mechanism, under the leadership of the Minister for EU Funds Management, was established to discuss and agree Government-IFIs Action Plan on an annual basis.

37. **The WBG engaged in important reform areas that were later scaled up.** The Government highly values the IBRD’s advisory services which have been the most influential part of WBG support to Bulgaria. Through its advisory work the WBG has been building a knowledge base and capacity for the Government in important areas of strategic planning which has provided a sound analytical basis for Government of Bulgaria decision making. For example, the Government used the advice provided in the power sector as a basis for its reform and the engagement was later scaled up resulting in two RAS agreements. IBRD scaled up support for the water sector reform is another example of highly valued and longstanding partnership which provides a solid base of engagement for the new CPF.

38. **During the 2011 – 2013 CPS period the WBG strengthened its partnership with the European agencies in Brussels and Bulgaria**, including the European Commission (EC), as well as the European Investment Bank (EIB) and the European Bank for Reconstruction and Development. The WBG knowledge and advisory support was complementary to technical assistance provided by these European partners, including EIB and Joint Assistance to Support Projects in European Regions (JASPERS), under the coordinating leadership of the Government, and aimed at more effective and efficient absorption of EU structural funds.

39. **IFC Performance was Good.** IFC committed a total of US\$243 million in 3 Long Term Finance (LTF) projects in Bulgaria in FY11-13, of which US\$81.5mn was mobilized via B loans. The projects were: Stomana III – a long term loan to a leading steel manufacturing company (MAS), Lidl Bulgaria – a loan to a chain of discount grocery stores owned by the Schwartz Group (MAS) and financing for the development, construction, operation and maintenance of a 60.4 MWp solar photovoltaic power plant at Karadzhalovo in the municipality of Parvomay, Plovdiv District, Bulgaria (INFRA). As of July 7 2014, IFC’s outstanding portfolio in Bulgaria is US\$193 million (own account) in 13 projects. In addition to LTF, IFC maintained an active Short Term Finance (STF) portfolio in Bulgaria facilitating trade flows.

40. **Similar to IBRD, IFC was also affected by unexpected shifts in counterparts and policies, in particular in relation to the power sector and a sudden change in the Government’s policy with respect to renewables.** A series of government measures have come into effect in recent years and they have affected the economics of the current feed-in tariffs for renewable energy producers. These measures have threatened the viability of existing IFC investments and created constraints to any further investments. Such limiting factors are unlikely to change materially in the near future. IFC’s involvement in the financial sector was limited to SME lending and equity in systemic banks.

IV. ALIGNMENT WITH WORLD BANK GROUP CORPORATE GOALS

41. Even though the CPS was developed before the WBG’s corporate goals of reducing extreme poverty and increasing shared prosperity in a sustainable manner were articulated, the objectives in the CPS aligned well with these goals, in the European context. The CPS was anchored in Bulgaria’s National Reform Program and aligned with the EU 2020 strategy of smart, sustainable, and inclusive growth, which matches well with the WBG’s corporate goals. The CPS focused on areas that would help Bulgaria converge with EU living standards through further absorption of EU funds (a form of shared prosperity within the EU) in critical sectors. Interventions in the areas of growth and competitiveness and education were also related to shared prosperity through the aim of increasing more of the population’s assets in this area. The CPS also had a particular focus on the poorest members of Bulgarian society, the Roma. Finally, the CPS included measures related to financial, social, and environmental sustainability (e.g., support for social inclusion, focus on climate change actions, etc.). Most notably, the Social Inclusion Project targeted the bottom forty percent of the population by promoting social inclusion through increasing the school readiness of children below the age of 7, targeting low-income and marginalized families.

V. LESSONS LEARNED

42. **Flexibility to adapt to changing client condition and needs, including political changes, is critical.** The CPS had anticipated a high level of commitment from Government. During implementation, however, the WBG had to adapt to unexpected and frequent turnovers in counterparts and policies. The WBG should recognize political economy risks upfront and build flexibility into the design of CPF so that the WBG is well prepared to adapt to changes in political circumstances. The WBG was able to do this successfully under the 2011-2013 CPS.

43. **Ensuring that the RAS engagement is effective, both in expanding Bulgaria's capacity to access and better use EU funds and to serve as the basis for future reforms, is necessary.** The IBRD was able to calibrate expectations and remain engaged, in particular through a growing RAS program. For example, Bulgaria still faces capacity constraints in absorbing EU funds efficiently and effectively. The IBRD has provided support through its lending and more significantly, through its RAS engagement which has been an important contribution to the government's EU program, in both compliance and promoting sustainability of sectors with EU funding and, in some cases, bolstering the credibility of reform programs (e.g. water, roads). The advisory work, including RAS, has been both valuable and useful to empower and inform the government.

44. **Using self-financed ASA strategically to open up dialogue and provide recommendations can create opportunities when the political or economic conditions for reforms are ripe.** While reform efforts may take several years to materialize, the IBRD can lay important ground work for reforms by staying engaged with ASA so that once political conditions are ripe, the government can draw on IBRD analysis and recommendations to implement reforms (as started to happen in the energy sector, for example). IBRD can build on opportunities when there is strong demand and/or a sector champion and where strategic use of AAA/TA and RAS could make a critical contribution to moving reform agendas forward.

45. **Having a concrete and realistic results framework that is grounded in reality more than aspiration is essential.** At the time of preparation, the Government preferred a strategy that covered a shorter time frame (three years). However, results, particularly for analytical and advisory work, take time to materialize, and objectives evolve as unexpected shifts in demand or country circumstances occur. Results indicators need to be associated with specific interventions and the final PLR is an important opportunity to recalibrate final expectations for the strategy. With this in mind the WBG needs to balance realism and ambition when formulating CPF outcomes. The upcoming CPF proposes a longer time period (six years) with PLR updates every two years, in order to take a more proactive approach to monitoring and capturing results. A longer time period would also provide an opportunity to revisit objectives and ensure close alignment with the country-led strategy.

ATTACHMENTS

Table 1. Summary of CPS Program Self-evaluation

Table 2. Planned Lending Program and Actual Deliveries

Table 3. Planned Non-lending Program and Actual Deliveries

Table 1. Summary of CPS Program Self-evaluation

CPS Outcomes Influenced by WBG Program during the CPS Period and Milestones to Track CPS Implementation Progress	Status / Evaluation Summary	Lending and Non-lending Activities that Contributed to the Outcome	Lessons Learned
Pillar I. Policy Reforms for National Reform Program to Implement Europe 2020 Strategy			
<p>Innovation: Strengthened policies, aligned instruments and effective institutions for high quality R&D.</p> <p><i>CPS milestones to track progress:</i></p> <ul style="list-style-type: none"> • Strategic/functional review completed for the institutions responsible for science, technology and innovation. • New Innovation and R&D Strategy adopted by the Government. • Increasing share of government funding for innovation and science is allocated through competitive selection mechanisms. • Evaluation of “OP Competitiveness” is completed and its recommendations are adopted in the 2014-2020 programming cycle. 	<p>Innovation outcome Partially Achieved.</p> <ul style="list-style-type: none"> • Functional review of institutions and policies relevant to science, technology, and innovation completed (October 2012-September 2013); final analytical report (<i>Governance and Institutional Development of Bulgaria’s Innovation System in the Context of Smart Specialization</i>) with recommended design of the governance and institutional model for institutions responsible for policy development and implementation relevant to science, technology and innovation also completed (December 2013). • Functional review of the science and research system and detailed action plan (<i>Action Plan on Innovation Commercialization Services</i>) on increasing the impact of science on industrial activity through effective commercialization of research and innovation completed (December 2013). • Functional review of research and higher education institutions in Bulgaria and specific recommendations on aligning the research system to industry needs, promoting research excellence, increasing the impact of science and research towards a knowledge-based economy, and improving the creation of advanced human capital by research and higher education institutions (Chapters “<i>Research</i>” and “<i>Human</i>” 	<p>Non-lending Services:</p> <ul style="list-style-type: none"> • Competitiveness through Innovation TA (FY10-12) – final Policy Note: <i>Going for Smart Growth: How Research and Innovation Can Work for Bulgaria</i> published January 2012. • Innovation RAS (FY13-14). 	<ul style="list-style-type: none"> • The IBRD built a relationship with the government and “proved” through the TA the value-added of IBRD expertise in the area of innovation, which led to demand for RAS in this area. • The RAS engagement resulted in knowledge sharing and capacity building support to government experts in charge of promoting innovation-based competitiveness and the delivery of five analytical outputs to help Bulgaria (i) meet EU ex ante conditionality to access EU funds dedicated to innovation in 2014-2020 period; (ii) design innovation funding instruments to better leverage EU funds dedicated to promoting innovation-based entrepreneurship, research-industry collaboration, technology transfer, etc.; (iii) optimize the governance and intuitional set-up of Bulgaria’s research and innovation system to drive Bulgaria’s transition to a knowledge based economy; (iv) increase research-industry collaboration to promote

CPS Outcomes Influenced by WBG Program during the CPS Period and Milestones to Track CPS Implementation Progress	Status / Evaluation Summary	Lending and Non-lending Activities that Contributed to the Outcome	Lessons Learned
	<p><i>Capital Formation</i>” of final report “<i>Inputs to Bulgaria’s Research and Innovation Strategy for Smart Specialization (RIS3)</i>” August 2013).</p> <ul style="list-style-type: none"> • The analytical backbone for Bulgaria’s RIS3/innovation strategy completed (<i>Inputs to Bulgaria’s RIS3</i>, August 2013) and supported the Government in developing the RIS3 (July-December 2013); Government accepted some recommendations, which were included in the draft RIS3 (innovation strategy) presented to the EC for approval. Innovation strategy for Smart Specialization of Republic of Bulgaria, 2014-20, was approved by CoM in November 2014. • Government approved BGN 20 million (€10 million) to replenish the National Innovation Fund (September 2013), compared to zero funding in the period 2010-2013. • Government dedicated EU and national funding for innovation and science is projected to double in the 2014-2020 funding period - funds slated to promote research and innovation will increase from €211 million in the 2007-2014 period to €520 million (under all relevant Operational Programs, OPs). The Government is committed to increase R&D spending from 0.5 percent of GDP in 2014 (0.3 percent by businesses, 0.2 percent public spending) to 1.5 percent in 2020. R&D spending increased from 0.59 percent of GDP in 2010 to 0.65 percent in 2013. • Evaluation of the Operational Program on Competitiveness (OPC) 2007-2013 completed 		<p>innovation-based growth; and (v) foster business-led innovation resulting in higher value added products and services to generate higher paid employment and growth.</p> <ul style="list-style-type: none"> • While the IBRD proposes recommendations in the RAS work, it is the government that chooses whether or not to adopt those recommendations. Some of the recommendations were taken up, however several recommended immediate actions have not (yet) been implemented. • The IBRD team faced difficulties because of the multiple political changes. The team worked with three different governments during the implementation of the program.

CPS Outcomes Influenced by WBG Program during the CPS Period and Milestones to Track CPS Implementation Progress	Status / Evaluation Summary	Lending and Non-lending Activities that Contributed to the Outcome	Lessons Learned
	<p>(October 2012-February 2013) and informed the design of the innovation component of the OP Innovation and Competitiveness (OPIC) 2014-2020, including design of innovation funding instruments and financial engineering instruments (March- December 2013); Government accepted most recommendations and these were included in the draft OP presented to the EC for approval.</p> <ul style="list-style-type: none"> • Pre-feasibility studies for large-scale innovation projects to be funded under OPIC that would spur knowledge-led growth (final report, <i>Innovative Infrastructure Flagship Projects</i>, December 2013). 		
<p>Education: Improved quality of basic and secondary education by strengthening the accountability framework. Improved quality and relevance of higher education through strengthened governance, accreditation and performance-based funding.</p> <p><i>CPS Milestones to track progress:</i></p> <ul style="list-style-type: none"> • External student assessment system implemented at the end of each educational stage and integrated into school accountability systems by 2013. 	<p>Education outcome Partially Achieved.</p> <ul style="list-style-type: none"> • External student assessment system is implemented at the end of each educational stage. However, work on integration into the school accountability systems has not yet been completed. First steps in this direction were undertaken in 2013 by piloting implementation of the “value added” measure of school performance. Through this pilot, test results of all Bulgarian students were used in a statistical model to isolate the impact of family and background of students on test results and, based on that, to derive a measure for school accountability that reflects the school’s contribution to the test results of the students. In 2014 and in 2015, the pilot has been expanded to test a broader set of statistical models to inform the Government’s decision 	<p>Non-lending Services:</p> <ul style="list-style-type: none"> • Programmatic Education Sector TA (FY11-13) – key output was the SABER Teachers Assessment. • Programmatic Education Sector TA (FY14-15) – key outputs include SABER Early Childhood Development and Workforce Development Assessments and a PISA Note (FY14). • Higher Education AAA for ECCU5 Countries (FY11-13) – <i>Strengthening Higher Education in Bulgaria: Options for improving the models of governance,</i> 	<ul style="list-style-type: none"> • The TA work designed to support reform efforts has had positive impacts and triggered the drafting of laws and strategies that strengthen the education system. However, the political changes in 2013 prevented the adoption and enforcement of the main education legislation. Taking these initiatives to the next level and transforming them into effective laws and regulations requires strong leadership willing to take on implementation of challenging reforms.

CPS Outcomes Influenced by WBG Program during the CPS Period and Milestones to Track CPS Implementation Progress	Status / Evaluation Summary	Lending and Non-lending Activities that Contributed to the Outcome	Lessons Learned
	<p>for a potential nation-wide application of the school value added performance.</p> <ul style="list-style-type: none"> • Two consecutive drafts of the Law on Preschool and School Education (prepared by two different governments) reflected key recommendations stemming from IBRD policy advice, including establishment of school councils as a governance structure, strengthening of the national student assessment framework and school inspection, improving equity aspects of financing, introducing elements of performance based financing of schools, expanding access to preschool education, etc. However these drafts were not fully voted by the changing Parliaments. • Key IBRD recommendations on higher education were reflected in the draft strategy for Development of Higher Education in Bulgaria, including changing the new Higher Education Institution's (HEI) governance model by expanding participation of external (to academic staff) stakeholders in strategic decision making, changing HEI's financing by strengthening the performance-based component of HEI's financing formula, and strengthening the quality assessment framework. • Key recommendations from IBRD's SABER Teachers Policy Assessment were incorporated by the Government in its Strategy for Development of the Pedagogic Staff and a number of legislative and program changes 	<p><i>quality assurance and financing of higher education</i> published 2013.</p>	

CPS Outcomes Influenced by WBG Program during the CPS Period and Milestones to Track CPS Implementation Progress	Status / Evaluation Summary	Lending and Non-lending Activities that Contributed to the Outcome	Lessons Learned
	<p>were introduced to facilitate fast-track implementation of some of the report’s recommendations. The government formally incorporated the strategy into its 2014 national development plan, which identifies “education and life-long learning” as top budget priorities, with major new spending outlays on teacher retention programs and efforts to attract good teachers in hard to staff schools.</p>		
<p>Public Finance and Public Administration: Improved efficiency and effectiveness of public expenditures.</p> <p><i>CPS Milestones to track progress:</i></p> <ul style="list-style-type: none"> • Strengthened capacity of Ministry of Finance to identify expenditure optimization programs in selected areas (public sector wage bill, employment and public investment). • Enhanced analytical capacity of Ministry of Finance to design public finance policies in support of competitiveness. 	<p>Public Finance and Public Administration outcome Mostly Achieved.</p> <ul style="list-style-type: none"> • Public expenditure optimization in 2010-2013 relied on freezing public sector wage bill and reducing public sector employment and helped reducing the fiscal deficit to below 1 percent of GDP from 4.2 percent in 2009. • General government employment, which was one of the highest per 1000 among the regional comparators declined by 0.9 percent per year between 2010 and 2013 as overlapping structures and responsibilities were reduced. • IBRD analytical work – i.e., Policies for Growth and Competitiveness and Macro-fiscal Impact of Aging – is highly valued and appreciated by government. If/when the government determines to act, it has enhanced capacity to do so. Follow-up on specific recommendations was hindered by political instability during the CPS period. • In 2014 the IBRD commenced work on the second part of the Golden Growth report for Bulgaria focused on competitiveness 	<p>Non-lending Services:</p> <ul style="list-style-type: none"> • Policies for Growth and Competitiveness AAA (FY11) – final report, <i>Bulgaria: Public Expenditure Policies for Growth and Competitiveness</i> published 2012. • Bulgaria Golden Growth Study: Macro-fiscal Impact of Aging (FY13) – final report, <i>Mitigating the Economic Impact of an Aging Population: Options for Bulgaria</i> published 2013. 	<ul style="list-style-type: none"> • Wide dissemination—including government/Council of Ministers, parliament, civil society, academia, and major stakeholders—is critical for building awareness and consensus on proposed reforms. However, ultimately, political economy influences policy choices and decisions as to whether and when to undertake reforms.

CPS Outcomes Influenced by WBG Program during the CPS Period and Milestones to Track CPS Implementation Progress	Status / Evaluation Summary	Lending and Non-lending Activities that Contributed to the Outcome	Lessons Learned
	(completed in 2015) and the government acted in accordance with IBRD recommendations, demonstrating the IBRD's value added.		
<p>Competitiveness - Business Regulation: Reduction of administrative burdens at central and local levels, through effective implementation of the Better Regulation Program and the Administrative Burden Reduction Action Plan.</p> <p><i>CPS Milestones to track progress:</i></p> <ul style="list-style-type: none"> • Reduction of Administrative and Regulatory Burdens in compliance with national reform programs as assessed/confirmed through surveys of firms. • Submission of regulatory impact assessments for key legislation. • Adoption of a Policy on State Fees. 	<p>Business Regulation outcome Not Achieved.</p> <ul style="list-style-type: none"> • Based on the World Bank's 2013 Enterprise Survey, 28.5 percent of firms in Bulgaria report that practices of the informal sector are the biggest hurdle. Political instability and corruption take 2nd and 3rd position with each one out of 7-8 companies reporting that this is an issue. Access to finance is an obstacle reported by one out of 20 companies. According to the same survey results, 23 percent of firms in the sample have an internationally recognized quality certification, while only 15 percent of the companies use technology that is licensed from foreign companies. In addition, the survey reports that senior managers in Bulgaria spend on average 16 percent of their time dealing with requirements of government regulation and taxes. • No regulatory impact assessments for key policies and legislation have been conducted. The regulatory impact assessment instrument, which is considered international best practice, continues to be underused in Bulgaria. • E-government services at the municipal level are limited. A package of over 40 government measures was introduced in late 2013, but implementation is lagging. 	<p>Non-lending Services:</p> <ul style="list-style-type: none"> • Better Regulation for Higher Growth AAA (FY10-11). • Administrative Burden to Businesses Municipal Study (FY12-13). <p>IFC:</p> <ul style="list-style-type: none"> • IFC financing in heavy industry, banking sector. <p>Partially achieved: IFC had limited projects within the banking sector.</p>	<ul style="list-style-type: none"> • Administrative reform and business regulation activities of the government needed to be better targeted to have significant impact. Municipal-level regulations contribute heavily to the administrative burden of enterprises in Bulgaria. A national coordination effort to improve the business regulation environment is needed. Business associations could play a substantial role in the dialogue. • IFC Lessons Learned - IFC should continue to be conservative in working with the banking sector.

CPS Outcomes Influenced by WBG Program during the CPS Period and Milestones to Track CPS Implementation Progress	Status / Evaluation Summary	Lending and Non-lending Activities that Contributed to the Outcome	Lessons Learned
	<ul style="list-style-type: none"> The IBRD provided an analytical diagnostic of the state fees regime and, based on it, the government hired a consultancy to undertake a comprehensive functional review. However, the Policy on State Fees is not yet adopted. 		
<p>Green Growth and Climate Action: Reduce energy consumption in buildings through scaled-up program to improve energy efficiency in public and residential buildings.</p> <p>Improved resilience to climate change and strengthen carbon trading management.</p> <p><i>CPS Milestones to track progress:</i></p> <ul style="list-style-type: none"> Institutional assessment including assessment of capacity needs completed, mechanism for large scale energy efficiency program in public and residential buildings developed, and scaled-up activities launched. Analytical capacity to prepare strategies and action plans in the gas sector to ensure reliable and diversified energy supplies developed. Climate change adaptation strategy and action plan prepared and approved by inter- 	<p>Green Growth and Climate Action Outcome Not Achieved.</p> <ul style="list-style-type: none"> The Security of Gas Supply Study, which focused on diversification of gas supply sources and delivery routes (as a result of the 2009 supply interruption), also discussed the role of gas in Bulgaria’s energy mix to meet energy efficiency targets. Under the Study, analytical concepts and an innovative modeling approach were also developed to identify least cost measures to improve security of gas supplies and options to maximize commercial benefits from gas trade. The model was handed over to experts from the Ministry of Economy and Energy and key agencies in the gas sector, including Bulgaria Energy Holding (BEH), Bulgargaz, and Bulgartransgaz. A rapid diagnostic assessment of selected issues in the power sector was undertaken in response to a request from the 2013 caretaker government. It identified a series of immediate and short-term actions targeted at improving public confidence, financial viability, and affordability of the energy sector, including scaling-up energy efficiency programs in the residential sector. IBRD’s recommendations were endorsed by the care-taker government and made public by the Minister of Economy 	<p>Non-lending Services:</p> <ul style="list-style-type: none"> Security of Gas Supply Study AAA (FY13) – final report, <i>Republic of Bulgaria: Options to Improve Security of Gas Supply</i> published in 2013. Rapid diagnostic assessment of selected issues in the power sector (FY13). Analytical support to Energy Efficiency in Housing, as part of the preparation of potential large scale Energy Efficiency Program (FY11). Climate Change and Green Growth AAA (FY12) – Climate Change and Green Growth AAA (FY14) – final report, <i>Insurance Against Climate Change: Financial Disaster Risk Management Insurance Options for Climate Change Adaptation in Bulgaria</i> published in 2014. 	<ul style="list-style-type: none"> Incentive schemes for renewable energy need to be grounded in sound economic analysis and the application of market principles to ensure economic efficiency; such schemes require a sustainable, equitable, and transparent recovery mechanism of incremental costs in order to preserve the financial viability of the sector. Even in an upper-middle income country like Bulgaria, IBRD adds value with the expertise it brings to bear. Institutional capacity building support is still needed, especially in sectors such as forestry that are sensitive and challenging to reform. IFC: During the CPS period, IFC’s main issues were relating to power sector and the sudden change of the Government of Bulgaria policy with respect to renewables. The assessment of the political risk and regulatory

CPS Outcomes Influenced by WBG Program during the CPS Period and Milestones to Track CPS Implementation Progress	Status / Evaluation Summary	Lending and Non-lending Activities that Contributed to the Outcome	Lessons Learned
<p>ministerial coordination committee.</p> <ul style="list-style-type: none"> • Institutional capacity for participation in carbon trading strengthened through staff training and development of methodologies and procedures for participation in EU ETS. • Analytical capacity for evaluating costs and benefits of GHG mitigation in key sector developed. • Government decides on new forest sector institutional setup, based on sound economic and institutional analysis, international best practice, and models of good forest governance. 	<p>and Energy; the assessment has served as a reference for needed sector reforms. (Following on this, IBRD analytical work on energy efficiency in selected EU countries, including Bulgaria, began in 2014.)</p> <ul style="list-style-type: none"> • The IBRD report on financial disaster risk management insurance options for Bulgaria was completed to raise awareness of the role that insurance can play in climate change adaptation and highlight some of Bulgaria’s disaster risk management efforts. It constitutes an important input to the national climate change adaptation strategy being formulated by the government. • The IBRD analytical support to the Ministry of Environment and Water – Climate Change Directorate in FY12 included 2 technical workshops with the National Adaptation Strategy Working Group; Draft ToR for the development of a set of coherent climate and hydrologic projections for Bulgaria (consistent with IPCC and EU projections) based on work already done by the Bulgarian Academy of Science, review and synthesis of available work on the impact of climate change on the hydrologic cycle in Bulgaria, and its impact on basin water balances and the availability of water resources for current and future uses. • The Wood Residue to Energy Carbon Finance Project, which aimed to reduce greenhouse gases generated at the Svilosa AD pulp manufacturing plant, led to total verified emission reductions from May 1, 2004 to 	<p>IDF Grants:</p> <ul style="list-style-type: none"> • Forestry Sector Institutions Reform Support (FY11-14). • NTEF IDF (FY12-15). <p>IFC:</p> <ul style="list-style-type: none"> • IFC financing in power sector, with focus on renewable energy and energy efficiency. <p>Partially achieved outcome: IFC committed the “Karadzhhalovo SPP” project which involved the development, construction, operation and maintenance of a 60.4 MWp solar photovoltaic power plant at Karadzhhalovo in the municipality of Parvomay, Plovdiv District, Bulgaria. All of the output generated by the Project was aimed to be sold to the national electricity company, Natsionalna Elektrieska Kompania EAD (“NEK”), a 100 percent subsidiary of the Ministry of Energy, Economy and Tourism under a 20-year PPA that aimed to provide for a</p>	<p>gap was overrated from IFC side.</p>

CPS Outcomes Influenced by WBG Program during the CPS Period and Milestones to Track CPS Implementation Progress	Status / Evaluation Summary	Lending and Non-lending Activities that Contributed to the Outcome	Lessons Learned
	<p>December 31, 2012 of 476,881 tCO₂e. The Project generated 106 percent of the verified emissions reductions as contracted under the Emissions Reduction Purchase Agreement. All CO₂ emissions from the Project were regulated under the EU Emission Trading Scheme.</p> <ul style="list-style-type: none"> • National Trust for Eco Fund (NTEF) IDF grant contributed to some extent to defining the mechanisms related to the implementation of carbon trading mechanisms, such as the green investment scheme and the EU emission trading scheme through helping to define the role of NTEF in implementation of these schemes for financing of GHG-reducing projects. The capacity building part of the project was successfully completed, as well as tailored to the needs and demands for training both for the NTEF and MoEW. NTEF and MoEW experts and staff have increased knowledge in climate change policy at EU and UNFCCC level and also in positioning of NTEF in international networks. • The Forestry Sector Institutions Reform Support IDF grant significantly contributed to the elaboration and adoption of new forest sector legislation: a new Forest Law was adopted (State Gazette April 8, 2011), under which new structures were established (six state owned forest enterprises). A new regulation for timber sale was prepared and adopted, following wide consultation with stakeholders. The grant supported the development of the new structures and 	<p>fixed Feed In Tariff (“FiT”), expected to be BGN 485.6/MWh (equivalent to €248.3/MWh). Project was committed in March 2012.</p>	

CPS Outcomes Influenced by WBG Program during the CPS Period and Milestones to Track CPS Implementation Progress	Status / Evaluation Summary	Lending and Non-lending Activities that Contributed to the Outcome	Lessons Learned
	<p>operationalization of their roles of managing state forest assets (by developing sample Standard Operating Procedures and providing technical input to the Timber Sales regulation). It also supported new structures designed and established within the Executive Forest Agency to support non-state forests and control of forestry activities.</p>		
<p>Social Inclusion, Including Roma: Increased social inclusion by developing better integrated mechanisms for inclusion of vulnerable groups, including early childhood development, as well as increased use of EU funds.</p> <p><i>CPS Milestones to track progress:</i></p> <ul style="list-style-type: none"> Enrollment of (i) children from vulnerable groups including Roma; and (ii) children with disabilities in early childhood education programs increased by 25 percent in 2013 relative to 2011. 	<p>Social Inclusion, including Roma Outcome Partially Achieved.</p> <ul style="list-style-type: none"> Significant delays (almost three years) in implementation of the Social Inclusion Project led to unachieved targets for enrollment of children with disabilities. However, the completed construction works of new preschool facilities enabled the enrollment of 1,107 children (including vulnerable children) as of December 2013, with provision of services following in 2014, including services for early intervention of disabilities with the start of the school year in September 2014. Project delays stemmed from an initial change of the implementing agency, followed by a period of insufficient annual expenditure limits imposed on the project by the government due to fiscal constraints. In 2013, the project was successfully restructured and the implementation was unblocked, thus ensuring that the PDO could be met within the extended implementation period if sufficient resources are made available for the implementation of the social services, supported by the Project. The extension of the project also improved the 	<p>Non-lending Services:</p> <ul style="list-style-type: none"> Poverty and Social Policy Monitoring AAA (FY12). <p>Lending:</p> <ul style="list-style-type: none"> Social Inclusion Project (FY09-16). 	<ul style="list-style-type: none"> Project restructurings should be discussed with government counterparts as soon as first signs of delays materialize. When government faces fiscal constraints affecting project spending, project costs should be carefully reviewed and reduced wherever possible to alleviate as much as possible implementation delays of core activities.

CPS Outcomes Influenced by WBG Program during the CPS Period and Milestones to Track CPS Implementation Progress	Status / Evaluation Summary	Lending and Non-lending Activities that Contributed to the Outcome	Lessons Learned
	prospects for a seamless transition of the funding of SIP services from the Project to the EU funding mechanism.		
Pillar II. Strategies and Institutions to Accelerate EU Funds Absorption			
<p>Transport - Roads: Strengthened road sector governance, management and EU funds absorption capacity. Improved roads and border infrastructure.</p> <p><i>CPS Milestones to track progress:</i></p> <ul style="list-style-type: none"> • Road infrastructure agency restructured. • Process for decision-making in MRDPW related to absorption of EU funds is reformed. • At least 300 km of national roads rehabilitated and road management system effectively used. • Two Border-crossing facilities Kapitan Andreevo and Kalotina and 3.5 km access road to Kapitan Andreevo are improved. 	<p>Transport – Roads Outcome Mostly Achieved.</p> <ul style="list-style-type: none"> • The Roads Infrastructure Agency (RIA) started a restructuring of its organization in line with IBRD recommendations. • Through Road RAS the IBRD has significantly contributed to better informed decision-making process related to EU funds absorption. IBRD has developed a number of strategic documents, including Road Strategy, Mid-term Operational program, IT Strategy, and Business Plan, which have provided sound analytical basis for MRDPW decision making. In parallel, extensive capacity building for MRDPW and RIA staff took place. • Over 300 kilometers (km) of national roads were rehabilitated (117 km Class I, 130 km Class II, and 63 km Class III roads). • The reconstruction of Kapitan Andreevo border crossing point and the construction of the 3.5 km access road to Kapitan Andreevo are operational as a result of the Second Trade and Transport Facilitation Project. The Kalotina border-crossing facility benefited from equipment upgrades and institutional capacity strengthening measures under the Project, though the full reconstruction planned under the Project was dropped (priority was given to Kapitan-Andreevo, the largest crossing point in 	<p>Non-lending Services:</p> <ul style="list-style-type: none"> • Improving Roads Sector Performance, Capacity and EU Funds Absorption RAS (FY13-16). <p>Lending:</p> <ul style="list-style-type: none"> • Road Infrastructure Rehabilitation Project (FY07-13). • Second Trade and Transport Facilitation Project (FY07-14). 	<ul style="list-style-type: none"> • Be mindful of government processing requirements (e.g., the need for Parliamentary ratification), which can take considerable time, e.g. during summer recess. • As experienced with the Social Inclusion Project, IBRD needs to be mindful of and plan for borrower budgetary ceilings, which can constrain project implementation. • Training, workshops, peer learning opportunities (including associated travel) are an important part of capacity building and flexibility to accommodate such activities under RAS engagements needs to be maintained. • RAS work is personnel intensive and thus adequate staffing (by seasoned IBRD staff) needs to be confirmed upfront.

CPS Outcomes Influenced by WBG Program during the CPS Period and Milestones to Track CPS Implementation Progress	Status / Evaluation Summary	Lending and Non-lending Activities that Contributed to the Outcome	Lessons Learned
	Bulgaria, on the Bulgaria-Turkey border). This did not negatively impact Project outcomes as Project indicators showed significant improvements in transit times through the border crossing points (see 2014 ICR).		
<p>Environment, Water and Agriculture: Increased EU-financed investments in the water sector through strategic priority setting, water master plans, and strengthened institutional capacity.</p> <p><i>CPS Milestones to track progress:</i></p> <ul style="list-style-type: none"> • Preparatory works for the completion of three new water dams and water treatment plants as well as one dam rehabilitation are completed and civil works started rehabilitation. • Regional Master Plans for water and wastewater for the entire territory of Bulgaria (excl. Sofia City) are prepared. • Priority sector investments identified in the Master Plans are selected for future financing from Structural Funds. • New strategy for water and waste water utilities is developed and approved by Government. The Water Act is revised to ensure appropriate 	<p>Environment, Water and Agriculture Outcome Partially Achieved.</p> <ul style="list-style-type: none"> • Municipal Infrastructure Development Project faced delays related to the timeliness of the procurement processes and processing of detailed spatial plans, and budgetary constraints in 2012 and 2013. Construction of one of the dams (Neykovtsi) was dropped (updated cost estimates were higher than the initially projected). Preparatory works for the remaining dams have been completed. [The construction of one of the dams (Plovdivtsi) started in FY15.] The Project has been restructured and extended to allow for the completion of works. • Regional water and waste water master plans (51 in total) outlining short-term, mid-term, and long-term investment priorities for water and waste water were prepared and adopted in December 2013/January 2014. • Since the water and waste water Master Plans were approved only in December 2013/January 2014, implementation was delayed. Priority sector investments are expected to be selected on the basis of regional feasibility studies that will take into account the Master Plans. 	<p>Non-lending Services:</p> <ul style="list-style-type: none"> • Water Sector Strategy TA (FY11). • Advisory Program for the Development and Implementation of a Water and Sanitation Strategy RAS (FY13-15). <p>Lending:</p> <ul style="list-style-type: none"> • Municipal Infrastructure Development Project (FY10-18). <p>IFC:</p> <ul style="list-style-type: none"> • Advisory Services: Introducing private sector participation and implementing pilot Public Private Partnership project in water sector. 	<ul style="list-style-type: none"> • Unless the sector undertakes a significant amount of investments (US\$800 million at a minimum according to the WSS Strategy) in addition to the EU grant funding, long-term sector objectives as stated in the WSS Strategy are not likely to be met. • Regarding RAS, having a locally-based TTL was instrumental in contributing to the success of the engagement and also lowered the cost of implementation. The resident TTL was also instrumental in securing a follow on RAS.

CPS Outcomes Influenced by WBG Program during the CPS Period and Milestones to Track CPS Implementation Progress	Status / Evaluation Summary	Lending and Non-lending Activities that Contributed to the Outcome	Lessons Learned
<p>implementation of the Regional Master Plans.</p>	<ul style="list-style-type: none"> • New strategy for the water supply and sanitation (WSS) sector was developed in September 2013 and approved by the government in March 2014 (the RAS engagement was key in this regard). This strategy includes a planned significant increase in investment levels for both renewal/ replacement and for EU <i>acquis</i> compliance. The strategy includes an action plan with actions to optimize costs, improve regulation, and enhance sustainability of services. • The Water Act was revised <i>inter alia</i> to enable Regional Water Associations to sign contracts with the Regional water utility companies which is a precondition for the implementation of the Regional Master Plans. 		
<p>Social Inclusion, including Roma: Increase participation of Roma population in society through stepped-up, integrated, transparent and results-focused national strategy and actions.</p> <p><i>CPS Milestones to track progress:</i></p> <ul style="list-style-type: none"> • Fully integrated one-stop shop or service for Roma social assistance, housing, and labor market services established in at least 10 Roma communities by 2013. 	<p>Social Inclusion, including Roma outcome: Not Achieved.</p> <ul style="list-style-type: none"> • Support expressed in public consultations for the preparation of the National Roma Integration Strategy (NRIS). Review of the local implementation framework of NRIS completed by the IBRD and disseminated to government counterparts. The planned follow-up support for NRIS implementation through RAS did not materialize during the CPS period. The qualitative research report on gender dimensions of Roma inclusion was undertaken to better inform future interventions. 	<p>Non-lending Services:</p> <ul style="list-style-type: none"> • Roma Exclusion in ECA – Economic Costs, Education Drivers, Policy Measures AA (FY10-12). • Gender Dimensions of Roma Inclusion (FY14) – final report, <i>Gender Dimensions of Roma Inclusion: Perspectives from Four Roma Communities</i> published 2014. 	<ul style="list-style-type: none"> • The report, <i>Gender Dimensions of Roma Inclusion</i>, points to the diversity of Roma communities in Bulgaria and identified key dynamics inside the communities that will need to be taken into account for effective policy development and delivery. • Informed by IBRD work on Roma, a Roma-inclusion/Roma mainstreaming filter has been developed by IBRD (FY15) intended to make projects, AAA, TA, and RAS more sensitive and responsive to Roma-inclusion issues, including in Bulgaria.

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Pillar III. Complementing EU Financing			
<p>Transport – Railways: Financially sustainable and modernized railways system.</p>	<p>Transport – Railways outcome: Not Achieved.</p> <ul style="list-style-type: none"> Planned lending program in the railways sector was suspended at the request of the government: the first Programmatic Railway Sector DPL and a Railway Infrastructure Rehabilitation Project were prepared and negotiated at the time of the CPS, but the government subsequently indicated that additional reforms were necessary, and eventually decided not to proceed with Bank support in the railway sector. 	<p>Non-lending Services:</p> <ul style="list-style-type: none"> Railways Policy Note (FY13-14). 	<ul style="list-style-type: none"> IBRD policy advice was sought and valued; however, in the end, a government decision was taken that additional reforms are necessary before proceeding with lending.
<p><i>CPS Milestones to track progress:</i></p> <ul style="list-style-type: none"> National railway operator BDZ EAD is restructured and its financial viability improved. Sector productivity is improved: staff productivity improved by at least 45 percent, track productivity improved by at least 25 percent. 			

Table 2. Planned Lending Program and Actual Deliveries

CPS PLAN (2011-2013)				STATUS		
FY	Project	US\$M		Project	US\$M	
		IBRD	IDA		IBRD	IDA
2011	Railway Sector DPL	105.0	0.0	Dropped
	Railway Infrastructure Rehabilitation	92.0	0.0	Dropped		
2012	Railway Sector DPL	105.0	0.0	Dropped
2013	Railway Sector DPL	105.0	0.0	Dropped

Table 3. Planned Non-lending Program and Actual Deliveries

CPS PLAN (Per CPS Annex 6, Table B4)		STATUS	
Underway			
Poverty and Social Policy Monitoring	2010-2011	P125287: Poverty, Inclusion and Social Policy in ECCU5	Completed FY13
Competitiveness through Innovation TA	2011	P078931: Enhancing Bulgaria's Competitiveness and Export Performance through Technology and Innovation	Completed FY12
Better Regulation	2011-2012	P123219: BG Policy Dialogue on Regulatory Reform	Completed FY13
Security of Gas Supply	2011	P118225: Bulgaria Gas Dialogue	Completed FY13
Water Sector Strategy	2011	P120703: Water Sector Strategy	Completed FY11
Public Expenditure Policies for Growth and Competitiveness	2011	P124703: Policies for Growth and Competitiveness	Completed FY11
Education Sector	2011-2012	P122454: Programmatic TA for the Education Sector	Completed FY14
Higher Education (regional program)	2011	P122453: Higher Education TA for ECCU5 Countries	Completed FY14 (Bulgaria report published FY13)
Roma Inclusion		P118272: Roma Exclusion in ECA – Economic Costs, Education Drivers, Policy Measures	Completed FY11
Planned			
Competitiveness through Innovation KA (including FBS)	2012-2014	P148711: Bulgaria Competition TA	Completed FY14
Regulatory KA (including FBS)	2012-2014	P123219: Bulgaria Dialogue on Regulatory Reform	Completed FY13
Education	2011-2013	P146246: Programmatic Education Sector TA	Completed FY15
Higher Education (regional program)	2011-2012	P122453: Higher Education TA for ECCU5 Countries	Completed FY14
Public Finance Policy Review KA	2011-2012	P124703: Policies for Growth and Competitiveness	Completed FY11 (per above)
Green Economy, Climate Action, and Energy Efficiency KA (including FBS)	2012-2015	P147472: Energy Efficiency in Selected EU Countries	Ongoing
Improving Roads Sector Performance, Capacity and EU Funds Absorption KA (including FBS)	2012-2015	P143668: Improving Road Sector Performance, Capacity, & EU Funds Absorption (RAS)	Completed FY16
Railway Sector Improving EU Funds Absorption FBS	2012-2015	P145398: Bulgaria Railways Policy Note	Completed FY14

Water Sector Strategy, Capacity and EU Funds Absorption (including FBS) Roma Inclusion: Strategy, Institutions and EU Funds Absorption KA (including FBS)	2012-2015	P131473: Advisory Program for the Development and Implementation of a Water and Sanitation Strategy (RAS) P130455: Gender Dimensions of Roma Inclusion	Completed FY15 Completed FY14
		Other P115335: Climate Change and Green Growth ESW P127244: Green Investment Scheme Project P131216: Bulgaria Green Growth Benchmarking P118274: Programmatic Crisis Monitoring and Social Policy P143111: Consumer Protection and Financial TA P144411: Bulgaria Golden Growth: Macro-Fiscal Impact of Aging P145623: Bulgaria Power Sector Diagnostic Assessment P145996: Climate Change and Green Growth TA P131556: Fee-based Service Program on Innovation (RAS) P143351: ECCU5 Activation and Skills for Employability and Protection P147712: EU11 Regular Economic Reports P147206: Bulgaria Productivity Growth Study P143636: Portraits of Labor Market Exclusion P150387: Energy Affordability - Bulgaria P147477: Bulgaria Energy Dialogue TA P146910: Shared Prosperity in the EU11 P130960: Poverty Mapping of New Members in the EU (work on Bulgaria continues under EU Poverty Mapping - Phase II task (P155214) P146915: Financial Sector Stability (selected EU members) P145645: Health Financing (RAS) P143730: Agriculture Competitiveness and Environmental Sustainability (RAS) P148025: ECCU5 Regional Pensions TA	Code Dropped FY13 Dropped FY13 Completed FY12 Completed FY12 Completed FY13 Completed FY13 Completed FY13 Completed FY14 Completed FY14 Completed FY14 Completed FY11-14 Completed FY15 Completed FY15 Completed FY15 Completed FY15 Dropped Completed FY15 Completed FY15 Completed FY15 Completed FY16 Dropped and replaced by P159260

Table 4. Trust Funds

Trust Fund Grants	Status
P120228: Forestry Sector Institutions Reform Support - IDF	Completed FY14
P118427: Strengthening the National Trust Fund Eco-Funds Financing and Implementation Capacity - IDF	Completed FY15
P143076: Evaluating Closing the Gap between Roma and Non-Roma in Bulgaria through Pre-school Participation: Outreach and Conditional Food Coupons - SIEF	Ongoing

Annex 3. Summary Gender Assessment

While there are generally not large gender gaps in endowments in Bulgaria, some gaps do persist at higher levels of education and among specific groups. Male and female enrollment rates are similar in primary and secondary education, but women have higher tertiary enrollment rates (World Bank Gender Statistics, 2013). Additionally, segregation by gender exists across subject areas, which is later reflected in gender segregation in the labor market. One of the most important gaps in education is that education levels among Roma trail the population average and are particularly low for women. In Bulgaria, Roma women have on average one less year of education as Roma men and around half as many years as non Roma women (6 versus 11 years) (UNDP/WB/EC regional Roma survey, 2011). Only 32 percent of Roma women ages 15-18 are enrolled in formal education (World Bank, 2014). Additionally, while there are many positive women's health indicators, men's life expectancy trails that of women by seven years, 71 versus 78 years (World Bank Gender Statistics, 2013).

The largest gender gaps remain in access to economic opportunities. In 2014, female and male labor force participation rates were 63.7 percent and 71.5 percent, respectively, both having increased slightly since 2002 (World Bank Gender Statistics). Although the gender gap in labor force participation is only half that in ECA, this is driven by low male participation rather than higher female participation. The largest employment gaps between men and women can be seen among those with the highest and lowest levels of education, driven in the former by exceptionally high male employment rates and in the latter by exceptionally low female employment rates (Eurostat, 2009). When examined by age groups, the gender gaps are largest at prime child bearing ages and for those near retirement age. Additionally, behind these aggregate statistics, Roma women remain particularly marginalized, with limited participation in the labor market, and economic and social life in general. There is a 39 percentage point gap in employment rates between Roma and female majority women, and a quarter of this gap cannot be explained by observable factors²⁰ (Trentini, 2014).

Traditional gender roles continue to encourage sex segregated divisions of labor. Women spend twice as many hours per week as men on unpaid domestic work, including housework and childcare (World Bank Gender Statistics, 2010). Bulgaria also has the longest paid maternity leave in Europe and Central Asia (ECA), and the subsequent year of parental leave is most often taken by mothers (Women, Business and the Law 2016). Formal childcare usage for those under 3 years old is one of the lowest in the EU, and 51 percent of women in Bulgaria say that they would work more hours if there were available and affordable childcare (Multilinks, 2009; BLISS, 2013). Within the labor market there is gender segregation by sector, and there are laws restricting the industries in which women may work, including in mining, construction, and metalworking (Women, Business and the Law, 2016). Women also face different returns for their work in the labor market. The unadjusted gender gap in average monthly earnings as a share of men's wages is 21 percent (UNECE Gender

²⁰ These include schooling, health conditions, age, number of children, co-resident partner, rural status, unemployment rate, and high share of Roma population.

Statistics, 2012). The gender wage gap increases to 30 percent after controlling for demographic characteristics²¹ and to 31 percent after controlling for demographic and job related²² variables together (Ñopo et al., 2011). This is consistent with women having observable characteristics such as education that make them more attractive to the labor market, but in fact they are not better paid.

Bulgaria's population is aging, and the required long-term care will be more costly for women since they are disproportionately responsible for informal caregiving within families. Considering the demographic shift, the current systems of informal and formal long-term care are insufficient to meet the growing demand (Salchev and Neykov, 2014). In the current arrangement, a large care burden is placed on families without adequate governmental support. However, family time spent providing care has labor market implications, and intensive eldercare duties can reduce female labor supply during the most productive years. According to BLISS data, 46 percent of women and 27 percent of men in Bulgaria would work more hours if there were available and affordable services for ill, disabled or elderly people (2013). Additionally, individuals who fully interrupt their careers to care for elderly or disabled persons may be further disadvantaged by the design of the pension system since there are no credited non-contribution periods for this type of caregiving. Added to this that women have an earlier retirement age (63 versus 65 years), women could end up contributing significantly less to the pension system over their life cycle. This has important implications for poverty after retirement, as old-age benefits constitute 82 percent of incomes of widows living alone in Bulgaria (ECA POV calculations from Eurostat's EUSILC data). As women are disproportionately responsible for care duties, the lack of support will adversely affect the gender gap in employment and access to economic opportunities over their lifetimes.

Bulgaria's legal framework is generally strong in promoting and protecting gender equality, but women's role in public and private sector leadership continues to be limited. Bulgaria has ratified international agreements on gender and protects gender equality and nondiscrimination in a number of laws. In the private sector, 39 percent of firms have female participation in ownership, but only 24 percent have a woman as the top manager (World Bank Gender Statistics, 2013). Additionally, only 20 percent of MPs in the 43rd National Assembly are women (Inter-Parliamentary Union, 2015). However, at 35 percent, Bulgaria has slightly higher female representation among ministerial level positions compared to the EU average. In November 2015, the Cabinet passed a gender equality bill that outlines implementation of the gender equality strategy and honors international gender commitments.

Violence against women remains a concern. The 2015 EU Violence against Women Survey reveals that 28 percent of women in Bulgaria and 33 percent of women in the EU have experienced physical and/or sexual violence by a partner or non-partner since the age of 15. Additionally, women in Bulgaria have experienced the highest rates of economic violence by a partner at least once since the age of 15, at 17 percent (EU average of 12 percent). There is also a low level of awareness surrounding institutions and services for victims of violence against women in Bulgaria, particularly

²¹ These include age, urban status, education, marital status, presence of child in the household, presence of an elder in the household, and presence of another household member with income.

²² These include hours of work per week, type of employment, occupation, and economic sector.

among women with only primary education. There is likely heterogeneity of incidence of violence across groups in Bulgaria. For example, according to a 2011 regional Roma survey, 24 percent of non Roma men and 52 percent of Roma men believe that it is somewhat or fully acceptable for a man to slap his wife. This rate among Roma men in Bulgaria was the highest of all countries surveyed (UNDP/WB/EC regional Roma survey, 2011).

Gender in the World Bank's Bulgaria operations and analytical work

Both ongoing operations and analytical work in Bulgaria have incorporated gender. For example, in the *Residential Energy Efficiency Project* under preparation, the project monitoring will gender disaggregate the number of beneficiaries, which is a core indicator. Additionally, Bulgaria's analytical portfolio addresses some of the country's key gender issues. One analytical piece, *Addressing the Behavioral and Social Expectations and Norms to Train, Educate, and Empower Roma Women*, aims to address the information gap on scalable approaches that promote gender sensitivity in Roma inclusion activities. The project develops building blocks for interventions that support family members adapting to new gender roles. The activity's focus will be on developing interventions that are scalable and can be easily adopted through existing government instruments, for example in information campaigns, or mediator and social work training materials. The activity will strengthen awareness, knowledge, and capacity for gender-informed policy making, and it will generate gender relevant data and evidence on what works in supporting improved skills and education outcomes among young Roma females. Bulgaria has also benefited from its inclusion in gender trust fund work, such as *Gender Sensitivity in Energy Investments*.

Much of Bulgaria's analytical work includes a gender lens to address gaps. For example, the *Early Childhood Development TA* will explore whether there are gender differences in access to early childhood education in Bulgaria. It also plans to examine how the availability of childcare is linked to female labor force participation, depending on data availability. Additionally, the *Bulgaria Power Sector Strategic Planning Support* will analyze the distributional impact of potential electricity tariff increases, with disaggregation by income levels, gender, and geographic location. The work will therefore identify whether vulnerable women, such as single women with children, would be more affected by the possible increases, and whether the existing mechanisms would be adequate to offset welfare loss. Additionally, upcoming regional trust fund initiatives will include Bulgaria in work on gender differences in fields of study. Among upcoming analytical work under the CPF, gender gaps may be relevant to examine in anticipated studies focusing on education, business environment, inclusive employment, and judicial reform.

Annex 4. Selected Indicators* of Bank Portfolio Performance and Management

As of Date 03/31/2016

Indicator	FY13	FY14	FY15	FY16
Portfolio Assessment				
Number of Projects Under Implementation ^a	3.0	2.0	2.0	2.0
Average Implementation Period (years) ^b	4.8	5.1	6.1	3.2
Percent of Problem Projects by Number ^{a, c}	100.0	50.0	100.0	50.0
Percent of Problem Projects by Amount ^{a, c}	100.0	71.9	100.0	23.9
Percent of Projects at Risk by Number ^{a, d}	100.0	50.0	100.0	50.0
Percent of Projects at Risk by Amount ^{a, d}	100.0	71.9	100.0	23.9
Disbursement Ratio (%) ^e	17.6	17.5	10.6	2.5
Portfolio Management				
CPPR during the year (yes/no)	no	no	no	no
Supervision Resources (total US\$)				
Average Supervision (US\$/project)				
<hr/>				
Memorandum Item		Since FY80	Last Five FYs	
Proj Eval by OED by Number		40	2	
Proj Eval by OED by Amt (US\$ millions)		2,558.3	148.5	
% of OED Projects Rated U or HU by Number		22.5	0.0	
% of OED Projects Rated U or HU by Amt		25.1	0.0	

a. As shown in the Annual Report on Portfolio Performance (except for current FY).

b. Average age of projects in the Bank's country portfolio.

c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).

d. As defined under the Portfolio Improvement Program.

e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.

* All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

Annex 5. Operations Portfolio (IBRD/IDA and Grants)

As of 02/29/2016

Closed Projects **42**

IBRD/IDA*

Total Disbursed (Active)	24.24
of which has been repaid	0.00
Total Disbursed (Closed)	1,423.16
of which has been repaid	1,733.29
Total Disbursed (Active + Closed)	1,447.41
of which has been repaid	1,733.29
Total Undisbursed (Active)	402.49
Total Undisbursed (Closed)	10.43
Total Undisbursed (Active + Closed)	412.9194851

Active Projects

Project ID	Project Name	<u>Last PSR</u>		Fiscal Year	<u>Original Amount in US\$ Millions</u>				<u>Difference Between Expected and Actual Disbursements %</u>		
		<u>Developm ent Objective s</u>	<u>Implementati on Progress</u>		IBRD	ID A	Grants	Cancel.	Undishb.	Orig.	Frm Rev'd
P154219	Deposit Insurance Strengthening Project	#	#	2016	327.5	0.0		0.0	327.5	0.0	0.0
P099895	MUNICIPAL INFRASTRUCT DEVT	MU	MU	2010	118.7	0.0		16.1	75.0	94.5	38.7
Overall Result					446.2	0.0		16.1	402.5	94.5	38.7

* Disbursement data is updated at the end of the first week of the month.

a. Intended disbursements to date minus actual disbursements to date as projected at appraisal.

Annex 6. Statement of IFC's Held and Disbursed Portfolio

Amounts in US Dollar Millions
Accounting Date as of : 02/29/2016

Commitment	Institution	LN	LN	ET	QL + QE	GT	RM	ALL	ALL	LN	ET	QL + QE	GT	RM	ALL	ALL
Fiscal Year	Short Name	Cmt - IFC	repayment - IFC	Cmt - IFC	Cmt - IFC	Cmt - IFC	Cmt - IFC	Cmt - IFC	Cmt - IFC	Part Out - IFC	Out - IFC	Out - IFC	Out - IFC	Out - IFC	Out - IFC	Out - Part
2009	AES Geo Energy	26.69	13.18	0	0	0	0	26.69	21.35	26.69	0	0	0	0	26.69	21.35
2008	Atera	0	0	22.17	0	0	0	22.17	0	0	22.17	0	0	0	22.17	0.00
2016	Bulmarket	10.88	0	0	0	0	0	10.88	0	2.23	0	0	0	0	2.23	0.00
2012/ 2013/ 2014/ 2015/ 2016	Eurobank BG	0	0	0	0	7.67	0	7.67	0	0	0	0	7.67	0	7.67	0.00
2011/ 2012/ 2015/ 2016	FIB	0	0	0	0	5.78	0	5.78	0	0	0	0	5.78	0	5.78	0.00
2016	Kaufland Bul	87.07	0	0	0	0	0	87.07	0	87.07	0	0	0	0	87.07	0.00
2004/ 2005/ 2010/ 2013	Schwarz Group	45.24	83.05	0	0	0	0	45.24	18.81	45.24	0	0	0	0	45.24	18.81
2004/ 2006/ 2011	Stomana	5.54	50.87	0	12.21	0	0	17.75	0	5.54	0	12.21	0	0	17.75	0.00
2004/ 2005/ 2009/ 2016	Trakya Bulgaria	9.86	48.24	0	0	0	0	9.86	2.91	9.86	0	0	0	0	9.86	2.91
2015/ 2016	UBB	0	0	0	0	1.08	0	1.08	0	0	0	0	1.08	0	1.08	0.00
2012	ZBE Partners	41.81	9.53	0	0	0	0	41.81	37.31	41.81	0	0	0	0	41.81	37.31
Total Portfolio		227.09	204.87	22.17	12.21	14.54	0	276.02	80.38	218.43	22.17	12.21	14.54	0	267.36	80.38

