World Bank Group – Bulgaria Partnership Program Snapshot

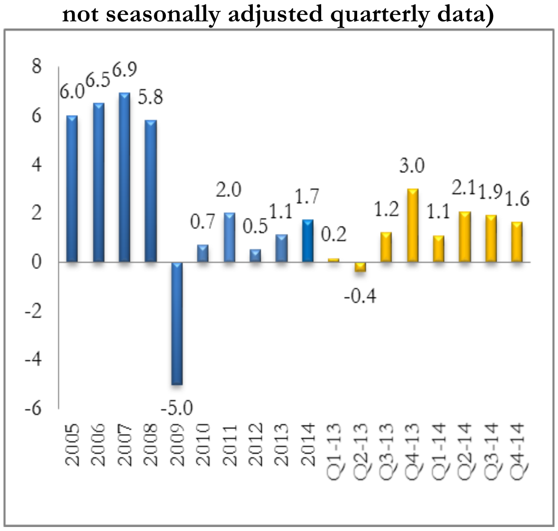
April 2015

RECENT ECONOMIC AND SECTORAL DEVELOPMENTS

Growth and External Performance

Growth in Bulgaria accelerated to 1.7 percent in 2014, up from about 1 percent per year since the 2009 financial crisis. Economic activity in 2014 was supported by stronger domestic demand. Consumption was the primary contributor to GDP growth, boosted by improvements in the labor market and deflation. A recovery in investment was supported by intensified implementation of European Union (EU)-funded projects. Unemployment declined for the first time since 2011 to 10.6 percent in the fourth quarter of 2014 from 13.0 percent one year earlier, with new jobs created mostly in agriculture, trade, transport, and tourism. These sectors, together with manufacturing, contributed most to GDP growth despite declining exports. Exports growth slowed from 9.2 percent in 2013 to 2.2 percent in 2014 on account of weakening demand in some non-EU countries. Boosted by stronger domestic demand, imports growth exceeded the growth of exports. In its winter forecast from February 2015, the European Commission (EC) projects that Bulgaria's GDP growth will decelerate to 0.8 percent in 2015 and then pick up slightly to 1 percent in 2016.

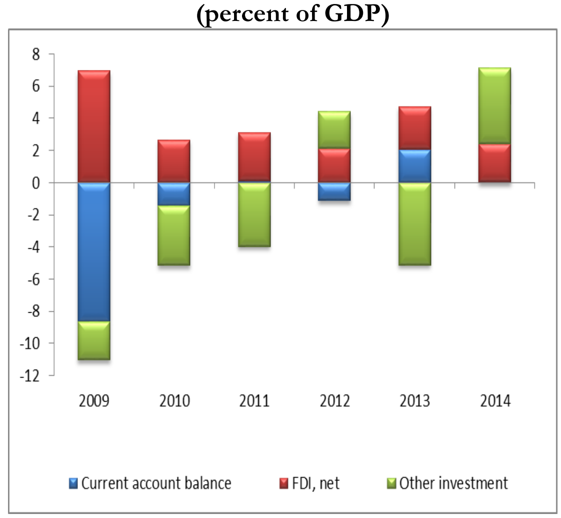
GDP Growth (percentage change, year-on-year, not seasonally adjusted quarterly data)



Source: National Statistical Institute.

External imbalances have seen a significant correction since the global crisis. The current account deficit has narrowed from 23 percent of GDP in 2007–08 to around 1 percent since 2010. The current account was even in surplus in 2013 and 2014, as the trade deficits reached record low levels. In 2014, the trade deficit widened compared to 2013 as export performance weakened, especially exports of raw materials and energy products. Nevertheless, improvements in services and income balances kept the current account in surplus in 2014 despite lower transfers. Capital inflows in 2014 were affected by the issuance of new debt by the Government, as it

External Current Account and its Financing (percent of GDP)

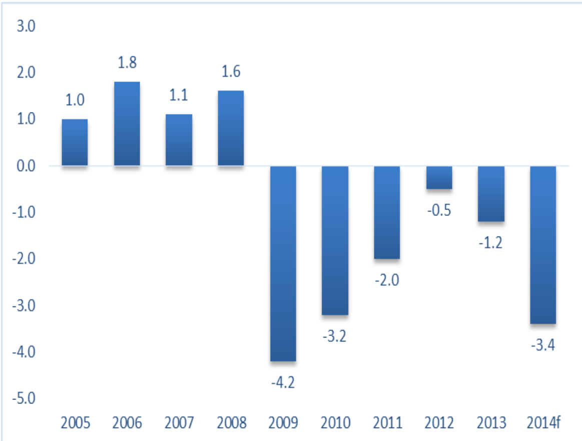


Source: Bulgarian National Bank.

had to finance the growing fiscal deficit and support the banking sector. Net foreign direct investment (FDI) has stabilized at a much lower level of close to 2.6 percent of GDP since 2010. These developments have helped reduce the external indebtedness of the private sector. Overall, private gross external debt has declined by close to 13 percentage points of GDP since 2008, while external public debt increased by 5.7 percentage points of GDP in 2014 compared to 2013 and reached 15.6 percent of GDP.

The banking sector is recovering slowly from the turbulence in mid-2014, when three banks experienced a run on deposits. One of the banks—FIB, the third-largest bank in the country—received liquidity support from the Government and is now back to normal operations. KTB, the fourth-largest bank in Bulgaria, had its license revoked. KTB's subsidiary, which was under special supervision, is now back to normal operations after some of its

Overall Fiscal Balance (percent of GDP)



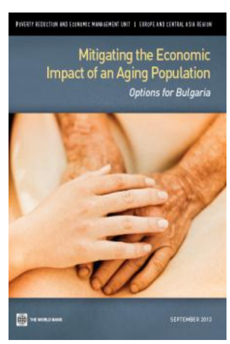
Source: Eurostat and EC.

assets were sold and its management replaced. The guaranteed deposits that were paid out to eligible depositors amounted to nearly 4.7 percent of GDP. The bulk of these deposits remained with the banking system, suggesting that confidence in banking sector stability was relatively high despite the revelation of serious governance issues. The liquidity of the banking system increased to 30 percent by the end of 2014; profits also increased, while net nonperforming loans declined from 10.5 percent in September 2014 to 9.4 percent in December. These indicators do not include KTB's operation, as the audit revealed that nearly two-thirds of KTB's portfolio was a loss and its capital adequacy was negative.

The country's fiscal position has recently worsened. On the basis of a sustained reduction of the fiscal deficit, the Council of the EU ended the excessive deficit procedure for Bulgaria in 2012.[1] In 2013, Bulgaria ran a fiscal deficit of 1.2 percent of GDP, a relatively low deficit compared to other EU members. In 2014, however, the fiscal deficit increased to 3.7 percent on a cash basis (3.4 percent on an accrual basis), compared to the 1.8 percent of GDP that was initially planned. The widening fiscal deficit was a result of lower than expected revenues and higher spending in some sectors. Moreover, the Government had to provide support to the banking sector of nearly 4 percent of GDP. The latter included liquidity support to one of the banks that experienced a run on deposits in June 2014 and the refinancing of the Deposit Insurance Fund (DIF), which had to repay the eligible deposits held with the closed KTB. To ensure the *ad hoc* financing, the Government issued additional debt in late 2014. Government debt increased sharply by nearly 10 percentage points of GDP during the year and amounted to 27 percent of GDP (EC projection) at the end of 2014. Nevertheless, Bulgaria still has one of the lowest government debt-to-GDP ratios in the EU.

Although 2013 and 2014 were marked by political instability, Bulgaria managed to preserve its relatively stable macroeconomic position. Bulgaria is confronted with two major socioeconomic challenges: the rapidly aging population, resulting in the steepest decline of the working-age population in the world; and the urgent need to accelerate the convergence to EU living standards. In the course of only three decades, Bulgaria has become the third-oldest country in Europe, and by 2050, one in three Bulgarians is projected to be older than 65 and only one in two will be of working age. At the same time, Bulgaria remains the poorest country in the EU; according to the National Reform Program, in 2014, the percentage of people living at risk of poverty or social exclusion was 49.3 percent.

Competition, Education, and Inclusion



The World Bank report, "Mitigating the Economic Impact of an Aging Population: Options for Bulgaria," reveals that aging is likely to increase fiscal pressures and depress growth. The report argues that the higher the economic growth, the easier it will be for Bulgaria to manage this challenge. Increasing labor force participation rates can mitigate the workforce decline but not stem it. Productivity growth is the key to mitigating the effects of demographic change, as it improves employment opportunities, raises household savings, boosts growth, and reduces future public debt.

[1] The excessive deficit procedure is launched by the European Commission in EU member states that exceed the budgetary ceiling of 3 percent of GDP imposed by the EU's Stability and Growth Pact.

Another World Bank report, "Addressing Unfair Trading Practices in Bulgaria" focuses its first section on a summary of conference proceedings from an international event, held in Sofia in end-January 2014 This event involved the Organisation for Economic Co-operation and Development (OECD), the United Nations Conference on Trade and Development (UNCTAD), and World Bank officials, as well as representatives of the Bulgarian, Czech, Hungarian, and Italian competition authorities, who presented the concept of Significant Market Power (SMP) and the challenges for implementation. Bulgaria's Deputy Prime Minister for Economic Development co-hosted the initiative, together with the World Bank, while senior Bulgarian government officials took part in the discussions. The second section of the report draws on a Review of Selected European Policies in Addressing Unfair Trading Practices and Options for Bulgaria. Based on the analysis, the World Bank suggested that Bulgaria needs to enhance its commercial law with specific provisions prohibiting unfair trading practices in business-to-business relations. Finally, the third section discusses the methodological issues in determining SMP. The economic analysis concluded that the introduction of SMP to address unfair trading practices will likely result in substantial uncertainty in the market. The conclusion reinforces the findings of a similar report on the practices of EU member states.

Using data from OECD's Program for International Student Assessment (PISA) 2012, the Bank prepared an in-depth study of the quality and equity of the Bulgarian education system. The findings of the report were widely disseminated in a bid to stimulate public debate on the new draft Law for Preschool and School Education. Government counterparts benefited from a cross-country exchange of experience in education policy reforms by inviting one of the architects of Poland's notable education reforms, Zbigniew Marciniak, to Bulgaria.

The continuation of the reform process in pre-university education in Bulgaria has been supported by the World Bank's knowledge and advisory services, which have informed the development of new draft legislation on preschool and school education. Through just-in-time policy advice and on-demand analytical work, the World Bank provided good practice models and options for improving school leadership and governance, promoting parental involvement in school decision making, strengthening the student assessment system, and developing models for measuring the contribution of schools to students' educational outcomes (the "value added" of schools). At the request of the Government, the World Bank applied its newly developed diagnostic and policy assessment tool, "Systems Approach for Better Education Results" (SABER), in the areas of workforce development, teacher policies, and early childhood development (ECD).

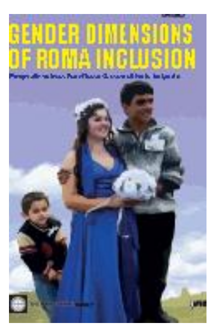
Bulgaria needs to strengthen its institutional and strategic framework for workforce development based on forward-looking priorities in preparing the workforce for the economic opportunities of the future. For Bulgaria to strengthen its workforce development systems, the country needs to (i) delay the vocational track until after compulsory schooling, (ii) implement a regular assessment of the need for new skills, (iii) reconsider and reform the vocational education and training (VET) system through the optimization of schools and the modernization of the curriculum, and (iv) ensure closer cooperation with employers at all levels. These are the key findings of the **SABER Workforce Development** report**,** which diagnosed the country's workforce development policies and institutions and identified bottlenecks and opportunities for strengthening the quality and relevance of the national education and training systems.

Teacher quality is the main school-based predictor of student achievement. Moreover, several consecutive years of outstanding teaching can offset the learning deficits of disadvantaged students. This is an underlying principle that shaped the framework for the assessment of Bulgaria's teacher policies, using the "SABER Teachers" diagnostic tool. The SABER Teachers country report for Bulgaria provided a comprehensive review of the country's programs and policies affecting teacher effectiveness and suggested a number of key directions for policy development, including (i) strengthening the system of incentives for attracting the best and most talented into teaching, (ii) improving the frameworks for monitoring teaching and learning, (iii) promoting more effective matching of teacher skills with student needs, and (iv) ensuring that teachers receive adequate practical preparation. The framework of the analysis and some of the main findings and recommendations are reflected in the draft "Strategy for Development of the Pedagogic Staff" prepared by the Government.

Bulgaria needs to improve coordination between institutions and develop a comprehensive multi-sector ECD policy framework that equally addresses education, health and nutrition, and social inclusion. This is one of the main findings of the recently completed SABER ECD assessment of Bulgaria's policies and programs for ECD. The report reveals that while the Government mandates the provision of compulsory free preprimary preparatory education for children, Bulgarian municipalities lack the necessary fiscal resources to provide this education free of charge. While the kindergarten enrollment rate in Bulgaria continues to increase, young children that need early childhood education the most are largely excluded from the system, predominantly disadvantaged Roma children. The Government should carefully review this equity challenge, which has far greater negative impacts on children later in life. ECD service delivery should be expanded to all young children to ensure they reach their full potential in life.

The World Bank has also conducted a thorough review of the governance, finance, and quality assurance frameworks of higher education in Bulgaria and spurred dialogue among stakeholders to identify priority reform areas for strengthening the quality, efficiency, effectiveness, and accountability of higher education institutions. Based on the recommendations included in the report, the Government prepared a draft strategy for the development of higher education, and some of the proposed reforms were included in the final Strategy that was approved by the Government.

The World Bank–supported *Social Inclusion Project* aims to improve opportunities for children from marginalized backgrounds, including Roma children. The project will help children below the age of seven from poor and disadvantaged families, as well as children with disabilities, to prepare for school. Because of their social situation, many vulnerable children reach school age and go to school without the necessary preparation. They are thus not on an equal footing with their peers and drop out early. The project seeks to improve their welfare by using early involvement mechanisms, safeguarding their health and education opportunities, and working with parents before the children reach school age. The project is expected to contribute to the sustainability of the school readiness program by supporting integrated social inclusion services that will subsequently be financed through the European Social Fund.



Roma represent a large ethnic minority in Bulgaria and are among the country's poorest citizens. As many as one in three Roma live in extreme poverty, earning less than US$4.30 a day, compared to just one in 20 among the rest of the population. The recent report, "Gender Dimensions of Roma Inclusion: Perspectives from Four Roma Communities in Bulgaria," takes a closer look at gender as a key factor for inclusion and tries to find answers to the question of how gender affects the strategic life choices of Bulgarian Roma when it comes to education, employment, and marriage.

Infrastructure

To boost Bulgaria's competitiveness and foster economic growth, the Government has made it a priority to better absorb, manage, and implement EU funds, particularly for infrastructure. This has emerged as a pressing challenge, given that Bulgaria ranks 102nd out of 148 countries in the quality of overall infrastructure, according to the 2013–2014 World Economic Forum's *Global Competitiveness Report*. Bulgaria seeks to leverage EU funds with financing and support from international financial institutions (IFIs), such as the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD), and the World Bank.

A quick diagnostic assessment of the challenges in the Bulgarian power sector was prepared by the World Bank in response to a request by the Government in March 2013. The note was intended to help inform the Government's deliberations on how to improve public confidence and trust in the governance of the power sector, enhance the sector's financial standing, and provide adequate support to poor households so that they can afford environmentally sustainable and reliable electricity service.

Bulgaria started upgrading its roads infrastructure to EU standards and requirements during the last decade. However, the continued underfunding of roads has left the country with a large backlog of road maintenance and investment needs. The Government pledged to improve the roads network across the country and restore troubled motorway programs by accelerating the absorption of EU funds and expanding cooperation with IFIs, including the World Bank. The World Bank–supported *Roads Infrastructure and Rehabilitation Project* reduced road transport costs by improving the condition and quality of the roads network during the first years of EU accession. The project was completed successfully in June 2013. Under the project, 307 kilometers of republican roads were rehabilitated; in addition, a Road Asset Management System was developed, which helps the Government monitor the road network and better plan and prioritize road maintenance. Additionally, detailed designs for the improvement of 25 dangerous road sections were prepared and extensive training provided to Bulgarian experts in the field of road safety, long-term planning, procurement, and contract management.

The World Bank–supported *Municipal Infrastructure Development Project* assists local governments across the country in investment planning for the water sector and in improving the reliability and quality of water provision in four municipalities. The project supports the preparation of regional Master Plans for water supply and sewerage systems covering the whole of Bulgaria except Sofia, and the completion of the construction of three dams that was interrupted about 20 years ago, along with the rehabilitation of a fourth dam. All Master Plans have now been completed and contractor selection procedures for two of the dams are ongoing. Upon project completion, more than 130,000 Bulgarians in seven municipalities are expected to enjoy access to secure and reliable supplies of quality water.

The *Second Trade and Transport Facilitation Project,* completed on June 30, 2014, further builds on Bulgaria's commitment to facilitate trade by improving the capacity, efficiency, and quality of services at selected EU border crossings, with particular focus on the Trans-European Transport Network. The project helped to improve the physical infrastructure of selected border crossings; develop more efficient customs formalities, facilities, and procedures; improve communication and the sharing of relevant border crossing data; and streamline the operational procedures of the border crossing agencies. Transit time for trucks improved significantly between 2010 and 2012; it now takes 24 minutes for a truck to exit Bulgaria at the border with Serbia compared to 57 minutes in 2010.

WORLD BANK GROUP PROGRAM IN BULGARIA

Program to Date

Bulgaria joined the World Bank in 1990 and since that time, the World Bank Group has been engaging with the Government on a wide range of reforms. The Bank supported government reforms that have: remedied past environmental damage; reduced the population's health risks; mitigated some of the costs of the transition and the 1995–96 crisis; supported a reduction in the fiscal costs of public debt, freeing resources to support spending in the social sectors; and improved the business climate. Government-led reforms have also helped increase the annual inflows of FDI from less than US$100 million per year before 1997 to an average of over US$6 billion per year in 2003–08.

In November 2012, Bulgaria and the World Bank Group celebrated 20+ years of partnership. During this period, the Bank's role played has transformed from one of premier financier to that of a knowledge partner supporting Bulgaria on its European agenda.

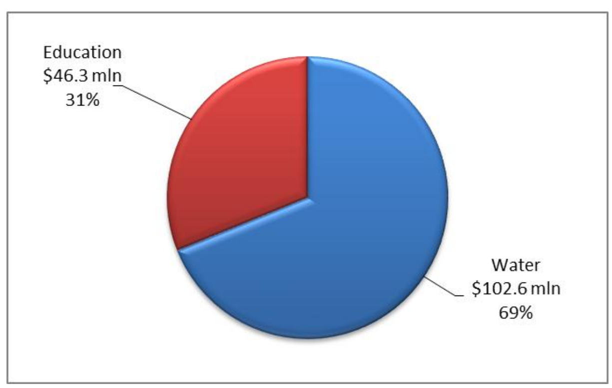
The World Bank's program in Bulgaria to date comprises 45 International Bank for Reconstruction and Development (IBRD) operations, with a total original commitment of roughly US$3 billion equivalent, consisting of 15 adjustment loans (US$1.73 billion), 23 investment projects (US$1.12 billion), one debt reduction loan (US$125 million), four World Bank–managed Global Environment Facility (GEF) grants, two World Bank–managed Prototype Carbon Fund (PCF) operations, and two Institutional Development Fund (IDF) grants.

As of March 2015, the active portfolio of World Bank–financed projects consisted of two operations with net commitments totaling US$149 million equivalent.

The International Financial Corporation (IFC) comprises an important element of the World Bank Group's strategy in Bulgaria. It focuses its private sector investments on climate change–related infrastructure and industries, social sector private investments, and, selectively, agriculture. In the short term, IFC addresses the impact of the crisis in Bulgaria by supporting the recovery of the private sector and reducing unemployment.

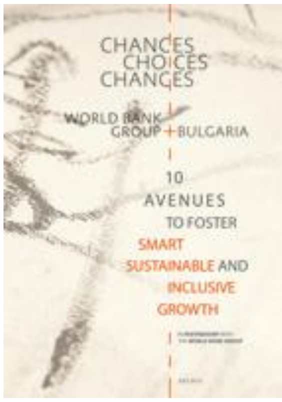
As of March 2015, the IFC had 38 projects (completed and ongoing) in Bulgaria, with total commitments of over US$981 million. IFC's single biggest investment in the country is in renewable energy in the form of a loan for the construction of the largest photovoltaic park in Bulgaria. The 60 megawatt peak (MWp) park helps the country to achieve its goal of 16 percent renewable energy output out of total power production by 2020. IFC is also involved in a number of sizable investments in various projects in the manufacturing, oil and gas, financial markets, and agriculture sectors. IFC also provides advisory support in the area of corporate governance and risk management to systemic local banks.

World Bank Portfolio: Bulgaria
Net Commitments by Global Practice (USD million)
(as of March 12, 2015)



Source: World Bank.

The Multilateral Investment Guarantee Agency (MIGA) provided 10 guarantees between 1994 and 2006 for a total of US$232 million. The last MIGA guarantee was in infrastructure in 2006 for US$117.8 million.



Building on Bulgaria's achievements, the World Bank Group has adapted its business model to support the country's goal of EU convergence. Its partnership with Bulgaria is based on a flexible framework that takes into account the country's priorities as an EU member state. Accelerating EU integration and the convergence of living standards are the Government's key medium-term goals. Bulgaria's National Reform Program maintains an overarching focus on boosting competitiveness to achieve the Europe 2020 Strategy goals of smart, sustainable, and inclusive growth. The National Reform Program has four key priorities: to boost growth, including through better infrastructure; to promote competitive youth; to create the best business environment in the EU; and to build higher confidence in state institutions. In addition, the Government has identified the efficient utilization of EU funds as an opportunity to finance public investments and accelerate EU integration.

The Country Partnership Strategy (CPS) 2011–23 supports Bulgaria in strengthening institutions and policies to achieve smart, sustainable, and inclusive growth. The World Bank program was tailored to Bulgaria's unique challenges within the European context and was firmly anchored in the National Reform Program to implement the Europe 2020 Strategy. It was dominated by knowledge and advisory services in response to the Government's interest in forging a knowledge partnership.

Knowledge and advisory services are increasingly being provided through Reimbursable Advisory Services (RAS) arrangements. A Memorandum of Understanding between the Government of Bulgaria and the World Bank provides the framework for these arrangements. The initial RAS program focused on developing sector strategies and strengthening institutional capacity in the areas of transport, water and irrigation, health, and innovations in order to improve EU funds management in the financial period 2007–13. The more recent RAS program is scaling up World Bank–financed knowledge and advisory services and also supporting preparation for the new financing period of 2014–20.

Since July 2012, the Bank has signed six RAS agreements in the areas of innovation, water, roads, agriculture, and health. One agreement, Innovation RAS, has already been completed with six major outputs delivered, including draft reports called "Research and Innovation Strategy for Smart Specialization" and "Governance and Institutional Development of Bulgaria's Innovation System." Five advisory agreements are under implementation. The first Water RAS supported the Ministry of Regional Development in its drafting of a 10-year water supply and sanitation (WSS) strategy. In April 2014, the Government of Bulgaria adopted a new 10-year WSS strategy based on this work. Following this, the Government requested additional implementation support under a new Water RAS, including support to strengthening the capacity of the water regulator and optimizing the cost of compliance with the urban wastewater treatment directive. The Road RAS for improving road sector performance and increasing the absorption of EU funds has just been expanded to provide advisory services on establishing a national e-tolling system. The Bank also provides Analytical and Advisory Services for the health sector, with a focus on health financing and on support for the drafting of national strategies and plans for hydromelioration.

In July 2013, the World Bank shared with the Government an overview of how to foster smart, sustainable, and inclusive growth in 10 areas of partnership. The note is based on World Bank knowledge and analytical work and aims to support the Government's efforts to maximize opportunities and identify the most effective policy options for achieving results for the benefit of all Bulgarian citizens.

Going Forward

Following up on the corporate commitment to end extreme poverty and promote shared prosperity, the World Bank Group team is preparing a Systematic Country Diagnostic (SCD) for Bulgaria. The diagnostic aims to identify the most critical constraints to, and opportunities for, growth and development in the country, with a particular focus on fostering the income growth of the bottom 40 percent of the population. The SCD is expected to be completed by mid-2015.

Seven years into EU accession, nearly half of the Bulgarian population (3.6 out of 7.3 million) live at risk of poverty or social exclusion, the highest in the EU. While the income of the bottom 40 percent of the population has increased, the lack of opportunities (partly related to a high perception of state capture) has prompted an estimated 100,000 Bulgarians, mostly young people, to emigrate over the past seven years alone. This is further exacerbating Bulgaria's aging and shrinking population. Bulgaria has become the third-oldest country in Europe, and its population declined by close to 1 million between 2000 and 2013.

The SCD is expected to inform a new Country Partnership Framework (CPF) for Bulgaria. The CPF will focus on the World Bank Group program of support for Bulgaria in light of the findings of the SCD, and discussions with the Government and other stakeholders on the CPF will take place following the SCD's completion.

Annex 1: Map of Bulgaria

Annex 2: Project summaries

BULGARIA: MUNICIPAL INFRASTRUCTURE DEVELOPMENT PROJECT

Key Dates:
Approved: November 24, 2009
Effective: April 30, 2010
Closing: December 31, 2017
Financing in million US Dollars*:

Financier	*Financing*	*Disbursed*	*Undisbursed*
IBRD Loan	102.6	16.3	58
Government of Bulgaria	29.6		
Total Project Cost	**131.2**		

* **As of March 12, 2015**
Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.

As a European Union (EU) member since January 1, 2007, the Bulgarian Government's priorities include the rehabilitation and construction of water supply and sewerage networks to improve service delivery and reduce health risks and to improve wastewater treatment systems in line with EU directives. Three of the eight priority water supply dams (Luda Yana, Neikovtsi, and Plovdivtsi) are included in this project, and a fourth (Studena) is included for rehabilitation.

The Project Development Objective: The project objectives are to: (a) improve bulk potable water provision in target areas, and (b) assist municipalities in improving investment-planning capacity.

Key Expected Results and Current Achievements:

There are three components to the project: (i) project implementation support to carry out the project and consultant services associated with project implementation; (ii) preparation of regional Master Plans for water supply and sewerage systems (ViK systems) to cover the territory of Bulgaria, except the territory of Sofia; and (iii) completion and rehabilitation of water treatment plants and water supply dams in Luda Yana and Plovdivtsi, and rehabilitation of the Studena dam and water treatment plant that is currently operational and supplies water to the town of Pernik.

The regional Master Plans and the prioritization of short- to medium-term sector investment plans will lead to investments (funded by the EU and other sources) that will help Bulgaria meet EU directives in the water and wastewater sector and facilitate Bulgaria's economic and social integration with the EU. Thus, the project will significantly assist Bulgaria in meeting its commitments made under the *acquis* on the environment. Most of the contracts under the Project Implementation Support component had been awarded by the end of 2013. All 51 Master Plans have been completed and approved.

About 20 percent of project funds have been committed but disbursement is still low. The project was therefore restructured in summer 2014. The start of construction for the first dam and water treatment plant (Plovdivtsi) is expected in the winter of 2015, with the start of Luda Yana and Studena dam rehabilitation to follow shortly thereafter.

Key International Partners: Close collaboration on sector dialogue is maintained with the European Commission (EC) and JASPERS (Joint Assistance to Support Projects in European Regions).

BULGARIA: SOCIAL INCLUSION PROJECT

Key Dates:
Approved: November 04, 2008
Effective: April 16, 2009
Closing: September 30, 2015
Financing in million US Dollars*:

Financier	*Financing*	*Disbursed*	*Undisbursed*
IBRD Loan	46.3	25.8	7.5
	0		
	0		
Total Project Cost	**46.3**		

*** As of March 12, 2015.**

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.

Bulgaria entered the EU with per capita income at only 37 percent of the EU average. In order to curb the intergenerational transfer of poverty, speed up the convergence of living standards, and provide equal opportunities for all children, the Government, with World Bank support, launched the Social Inclusion Project. The project aims at the early-age inclusion of children from disadvantaged and poor families, including Roma, and covers 69 municipalities, including the 28 district centers of Bulgaria with the largest population in the country.

The Project Development Objective: The project aims to help children below the age of seven from poor and disadvantaged families, as well as children with disabilities, to prepare for school. The project will improve the welfare of these children by using early involvement mechanisms, safeguarding their health and education opportunities, and working with parents before the children reach school age. The project targets low-income and marginalized families (including Roma children and children with disabilities and other special needs), and the services supported by the project will continue after project closure with European Social Fund financing.

Key Expected Results and Current Achievements:
Improved coverage and quality of child care services to low-income children and children with disabilities below the age of seven, measured by increases in

i. the number of parents having completed parenting skills sessions
ii. the number of children newly placed into kindergarten or child care facilities through project interventions (including children with disabilities)
iii. the number of kindergarten and child care facility staff having received training.

A few months after project effectiveness, a change to the project management mechanism and revisions to the project's appraisal document and operational manual were required, so the start of actual project implementation was delayed by almost two years. Subsequently, implementation has been slowed down further by the insufficient expenditure limits imposed by the Government (in adherence to a tight fiscal stance). By the time of the original closing date (October 2013), only the construction of new kindergartens and the rehabilitation and expansion of existing ones were at an advanced stage. In order to compensate for the accrued delays and to allow sufficient time for implementation of the social inclusion services, the Bank and the Government completed a comprehensive project restructuring in November 2013 that included, inter alia, an extension of the project's closing date to September 2015. The project currently suffers from an inadequate allocation of resources, triggered by the Government's decision not to allow any spending under the project in the final nine months of project implementation (January–September 2015). Thus, full-fledged implementation of the social inclusion and preschool education services is unlikely to take place by the project's closing date, and prospects for the accomplishment of the project's development objectives are low.

Key Partners: The World Bank team works closely with (i) the Ministry of Labor and Social Policy of the Republic of Bulgaria, which is responsible for overall policy setting as well as for project management; (ii) the Ministry of Finance of the Republic of Bulgaria, which is the main partner on all World Bank loans; and (iii) the Ministry of Education and Science, Ministry of Health, the State Agency for Child Protection, the Social Assistance Agency, and other institutions and nongovernmental organizations (NGOs) that are stakeholders in the early inclusion and child care policies and process.

Key International Partners include the European Union (EU), through its respective offices responsible for overseeing the financing from the European Social Fund.

BULGARIA: AES GEO ENERGY KAVARNA WINDFARM

Key Dates:

Approved: September 11, 2008
Signed: December 2, 2008
IFC financing (million US Dollars):

Financier	*Amount*	*Fiscal Year*
IFC	62.93	2009

The Kavarna wind farm is an advanced greenfield project developed by AES Corporation and its Bulgarian partner, GeoPower (GP) OOD. The project consists of the construction and operation of the 156 megawatt (MW) St. Nikola Wind Farm in the municipality of Kavarna, in the northeast of Bulgaria, close to an elevated plain approximately 3 kilometers (km) from the Black Sea.

The wind farm consists of 52 3 MW V90 turbines, manufactured by Vestas A.S. The project includes a 33/110 kilovolt (kV) substation, which is connected to the national grid through an 8 km transmission line (T-Line). The project is constructed over 52 approximately 1 decare plots of land (one per turbine), and a 6,000 square meter plot for the project substation. Only 6 hectares (60 decares) of this area are used permanently for the operation of the wind farm (equivalent to 0.09 percent of the total area of the site). All of the plots of land are owned by GP and are rented to the project for 20 years. Agricultural practices continue on the balance of usable land, which AES leases to local farmers.

The total project cost is over €260 million, which is financed by AES and a group of lenders. Debt facilities are provided to the project by the International Finance Corporation (IFC), the European Bank for Reconstruction and Development (EBRD), and UniCredit Group.

The Project Development Objective: AES is the world's largest independent power producer, with extensive project development experience and a market capitalization of approximately US$14.7 billion as of early January 2008. The company believes that this project is one of the most efficient and cleanest fossil fuel power plants in Bulgaria.

The development impact of the project is expected to include:
The project increases the country's installed power generation capacity from renewable energy sources. Currently almost 90 percent of Bulgaria's power generation comes from thermal and nuclear generation plants. The project also helps address the need for new power generation capacity in the Balkans, a net power importing region.

IFC's expected additionality includes:
The project is be the largest of its kind developed in Bulgaria and one of the largest wind development projects in Southeast Europe. By participating in the project, IFC supports Bulgaria's efforts to substantially increase renewable energy production to the desired levels, which carries a significant impact, as the project has become a benchmark for similar developments in the country and the region.

IFC's investment in this project also provides an important demonstration effect to other investors by providing a stamp of approval to the development of a landmark wind power project in Bulgaria. The project helped the country reach its goal of having 11 percent of its total power requirements come from renewable energy sources by 2010 and could potentially serve as a benchmark for similar developments in other Eastern European countries. IFC is also providing long-term support to the sponsors in their quest to develop a sizable renewable energy footprint in the region.

Key Partners: EBRD, UniCredit Group.

BULGARIA: KARADZHALOVO SOLAR PHOTOVOLTAIC PLANT

Key Dates:

Approved: March 8, 2012
Signed: March 9, 2012
IFC financing (million US Dollars):

Financier	***Amount***	***Fiscal Year***
IFC	61.97	2012

The project (Karadzhalovo SPP) involves the development, construction, operation, and maintenance of a 60.4 megawatt peak (MWp) solar photovoltaic power (SPP) plant at Karadzhalovo in the municipality of Parvomay, Plovdiv District, Bulgaria.

All of the output generated by the project is sold to the national electricity company, Natsionalna Elektricheska Kompania EAD (NEK), a 100 percent subsidiary of Bulgarian Energy Holding (BEH), under a 20-year power purchase agreement (PPA) that will provide for a fixed Feed In Tariff (FiT).

The project is 100 percent owned by ZBE Partners EOOD, a special purpose vehicle that is ultimately owned by: AKWA Power of Saudi Arabia, First Reserve of the United States, and Crescent Capital of Turkey.

The Project Development Objective: The project cost is over €181 million (including value added tax [VAT]). The IFC investment is in the form of (a) an A loan of up to €45 million; and (b) a B Loan of up to €45 million.

The development impact of the project is expected to include:

1. An increase in Bulgaria's renewable energy output, helping the country meet its renewable energy targets, including by diversifying its renewable energy mix;
2. An associated displacement of thermal power, resulting in the avoidance of carbon emissions;
3. A demonstration effect, showing the viability of financing a large SPP on a limited recourse basis.

IFC's expected additionality includes:

IFC made available debt financing to complete the project's financial plan, against a backdrop of highly constrained capital markets. IFC's experience in the sector and B loan cover provide comfort to commercial participants, given regulatory risk in Bulgaria.

Key Partners: UniCredit Group.

BULGARIA: ADVANCE TERRAFUND

Key Dates:

Approved: June 19, 2008
Signed: June 24, 2008
IFC financing (million US Dollars):

Financier	*Amount*	*Fiscal Year*
IFC, Equity	21.62	2008

The project involves an investment supporting the expansion of Advance Terrafund (ATERA), a company investing in agricultural land and promoting land consolidation in Bulgaria.

ATERA is a real estate investment trust ("REIT") primarily targeting farmland in Bulgaria. ATERA was formed in April 2005 and listed in the Bulgarian Stock Exchange (BSE) in August of the same year.

The trust invests in plots of land located in the country, providing its shareholders with a regionally diversified portfolio. It creates value by acquiring plots of arable land that are within close proximity and can be farmed efficiently. ATERA aims for "land concentration" (i.e., to acquire plots located near each other although not necessarily contiguous). Land plots within close proximity can be farmed efficiently, and ATERA seeks to rent out such land to farmers.

The Project Development Objective: IFC's investment enables the company to achieve its expansion plans. It supports the expansion of an innovative asset class that will have significant benefits by providing a private sector solution to the urgent need to consolidate agricultural land in Bulgaria. It will also support the development of the real estate and farming markets. Farmland consolidation is expected to create opportunities for investment and the growth of efficient, modern farming companies, which, in turn, are key to a competitive Bulgarian agriculture sector.

The development impact of the project is expected to include:

IFC investment in the company helps ATERA to secure the capital needed to support its expansion plan, and also allows it to extend its reach and accelerate its land acquisition program, which is then expected to improve the economic value of agricultural land to local farmers.

Key Partners: Karoll AD.

BULGARIA: PETROCELTIC (FORMER MELROSE)

Key Dates:

Approved: June 21, 2007
Signed: June 28, 2007
IFC financing (million US Dollars):

Financier	*Amount*	*Fiscal Year*
Loan	15	2007
Loan	25.4	2013

Petroceltic acquired Melrose Resources plc in 2012. The total project cost includes Petroceltic's US$150 million exploration and development program, which mainly consists of development capital expenditure in Egypt, Bulgaria, and Algeria. IFC has been requested to provide a reserve-based loan of up to US$100 million for IFC's own account, in parallel with a US$400 million financing package provided by commercial lenders. The US$500 million long-term facility will allow Petroceltic to refinance its existing US$300 million short-term bridge facility and help fund the company's ongoing exploration and development program.
In Bulgaria, Petroceltic has a 100 percent operating interest in the Galata concession, which includes three production licenses for the Galata, Kavarna, and Kaliakra gas fields and an exploration license, all located in shallow waters in the Black Sea offshore Bulgaria.

The Project Development Objective: Due to the global increases in drilling and capital costs in the oil and gas sector, Petroceltic's expected capital expenditure plan over the next several years has increased. The company is planning to support the additional capital expenditure program over the next few years by increasing its current debt facilities.

The development impact of the project is expected to include:

(i) Promoting Natural Gas Development and Use: Bulgaria has limited indigenous gas production and its domestic market for natural gas is still at an early stage of development. The Galata field development, the first upstream oil and gas development undertaken by the private sector in Bulgaria, has supported the Government's objectives to include the private sector and develop a competitive gas market. In 2005, the company provided 16 percent of the natural gas consumed domestically. The project will contribute to sustaining this positive impact on the country's gas sector.

(ii) Creating and Preserving Direct and Indirect Employment: In its Bulgarian operations, Petroceltic employs over 30 people directly and an average of 300 contracted staff per annum. Fully 100 percent of direct personnel and 70 percent of the contracted employees are locals.

(iii) Supporting Local Communities and Suppliers: In Bulgaria, the company sponsors a daycare center for children with disabilities by providing heating fuel during the winter months and has rebuilt a local church. In addition, with the exception of specialized equipment, Petroceltic aims to procure approximately 70 percent of its purchases locally in Egypt and and 70 percent locally in Bulgaria.

(iv) Benefiting the Government: The estimated net present value of future aggregate revenues to the Government of Bulgaria is expected to reach over US$5 million over the life of the proposed IFC investment.

IFC's expected additionality includes:

IFC has several important roles to play in the proposed investment:

(i) Funding mobilization: IFC was the first bank to support Petroceltic in emerging markets through the financing of the Galata field development, followed by IFC's financing of Petroceltic's Egyptian operations soon thereafter. The majority of Petroceltic's assets are located in emerging markets, which remain the focus of the company's growth strategy. Petroceltic recognizes that emerging markets are volatile, as evidenced by the recent apprehension exhibited by the financial markets. IFC's continued presence as a lender of record therefore provides significant comfort, both to the company and the commercial lenders. IFC's participation and *de facto* political risk mitigation are considered key to the successful raising of the facility, not least by providing debt with a tenor that will be three years longer than that of the commercial lenders.

(ii) Assisting with the development of the company's Environmental and Social Management Systems: IFC works closely with the company on enhancing health, safety, environmental, and social management capacity at the country level and plays a key role in helping Petroceltic develop a corporate Social and Environmental Management System (SEMS) in line with IFC's new Performance Standards.

(iii) Enhancing local benefits: support to local communities by leveraging IFC's expertise and international experience in this area.

Key Partners: Royal Bank of Scotland.