I. Country Context

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.

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 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.

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, including improving energy productivity, 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. 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.
II. Sectoral and Institutional Context

Bulgaria faces the challenge of reducing its high energy and carbon intensity and converge to EU levels. Bulgaria is the most energy-intensive economy in the EU (with 610 kg of oil equivalent (kgoe) per €1,000), about 4.3 times higher than the EU as a whole (142 kgoe/€1,000). Its greenhouse gas (GHG) emission intensity (tons of CO₂ per unit of GDP) is about 15 percent higher than the EU average due to a highly carbon intensive energy mix –coal accounts for about 38 percent of total primary energy supply. To address these challenges, the Government of Bulgaria (GOB) has made energy efficiency (EE) a cornerstone of its energy policy.

Bulgaria aligned its legal and regulatory framework with relevant EU Directives and established a suitable institutional framework to support the implementation of its EE policy. Bulgaria adopted the EU’s Energy Performance of Buildings Directive (2010 recast) in 2013. The Ministry of Energy (MOE) is responsible for the overall coordination, implementation, and monitoring. The Sustainable Energy Development Agency (SEDA), under MOE, is delegated with the monitoring and the execution of the measures set out in the NEEAP. The Ministry of Regional Development and Public Works (MRDPW) is responsible for the implementation of EE programs in the buildings sector.

Achieving the country’s energy savings targets will be challenging as the country will need to tap into the savings potential in the residential sector. With 306 million square meters of building floor area, the buildings sector accounts for over a third of the total final energy use. The residential building stock accounts for the largest share, with about 71 percent of energy use in the buildings sector, and most of energy consumption in buildings is for space heating. Pre-1990 residential multifamily buildings account for two thirds of the building stock and their energy consumption is at least twice as those built according to current standards. At the time they were built, there were no EE norms and most of them have no or very little insulation. As a result, energy savings potential in space heating is significant, estimated to be 40-60 percent in many of these older buildings. They are also in very poor condition and structurally unsound due to chronic lack of maintenance.

Despite increasing levels of grants provided by programs targeted at improving EE in multifamily buildings, demand has been low and few buildings have been renovated. Since 2007, the MRDPW has implemented several EE programs funded by International Financial Institutions (IFIs), donors and EU structural funds to address the renovation of multifamily apartment buildings. So far, these programs have not been implemented on a large scale and have faced difficulties tapping into private funding. Increasing levels of capital grant support were needed to kick-start programs in multi-family houses (up to 85 percent). Despite such level of grant financing, demand has been low and only very few multifamily buildings have been renovated. There have also been more commercially oriented initiatives. Mainly credit lines channeled through local commercial banks which have built the capacity of financial intermediaries with regard to EE lending. However, the individual loans are typically small (an average of €1,550) and fund individual EE measures, such as window replacement, rather than comprehensive thermal retrofits.

The implementation of thermal retrofit in multi-apartment buildings face significant policy, market, financing, and information barriers. The most severe include: (i) inefficient pricing signals, especially for power and district heating (DH); (ii) lack of mechanisms for collective decision to undertake thermal retrofits and weak Home Owners Associations (HOAs); (iii) high transaction costs and lack of delivery mechanisms for thermal refurbishment; (iv) lack of financial resources by homeowners to undertake EE investments; and (v) skepticism about EE savings, which are difficult to quantify when access to reliable data is poor, baseline comfort levels (i.e., indoor temperature) are low, effective discount rates of homeowners are high (few make investments for payback periods longer than 3-5 years) and energy savings are contingent upon collective actions from other tenants.
Program Scope

The IBRD-financed PforR Program (the Program) will support the entire Government’s National Program for Energy Efficiency of Multifamily Buildings (the program) and will be fully aligned with the National program’s objective, scope, and expected results. Launched on February 2015, the program supports the rehabilitation of multifamily buildings through the implementation of EE measures and structural renovations. The objectives of the National program are to: (i) improve the EE of multifamily residential buildings and reduce energy expenditures; (ii) extend the life-time of buildings; and (iii) contribute to a reduction in local and global air pollution.

Key characteristics of the program include the following:

- **Targeting**: The program covers buildings in all 265 municipalities in the country and supports multifamily apartment building renovations. Buildings eligible to participate in the program include pre-fabricated panel, monolithic cement and brick buildings with three or more floors and 6 or more apartments (with priority given to the older, prefabricated panel buildings with the most serious structural deficiencies). To be able to apply for the program, homeowners need to form and register a HOA in accordance with the Law on Condominium Management. Once their application is accepted, registered HOAs (which requires an agreement of 95% of homeowners) sign a contract with their respective municipalities authorizing them to manage the overall renovation process.

- **Financial support**: HOAs are provided with 100 percent grant support to finance measures to: (i) improve the EE of the buildings (thermal insulation of building envelope, replacement of windows, improvements of the heating, electrical work, etc.) and common spaces; and (ii) measures to improve the structural soundness of the buildings to comply with the current building code, if needed. EE measures to be implemented are expected to bring the renovated buildings to the level of “Class C” national energy performance certification (i.e., energy use of 191 kWh/m² to 240 kWh/m²) at the lowest cost.

- **Financing**: The overall cost of the program is being financed by the State Budget through loans from development partners and financial institutions. The Bulgarian Development Bank (BDB) is responsible for mobilizing the financing for the program and channeling the resources through payments to the contractors on the basis of the request by municipalities, acting on behalf of the HOAs, and according to signed, triparty contracts with the municipalities and District Governors. Because there are no repayment mechanisms (i.e. the renovations are financed by 100% grants to homeowners), the State Budget reimburses BDB for the expenditures borne under the program to cover BDB’s repayment obligations towards financial institutions.

- **Implementation Mechanisms**: The program is implemented by municipalities. They have responsibility for preparing project financing applications and signing the contracts, as well as for all procurement and supervision of the energy and structural audits, detailed designs, construction permits, construction works, construction supervision and building certification. Procurement is done in accordance with the Bulgarian Public Procurement Act. Supervision and oversight is done in line with existing national legislation and auditing and construction standards.

- **Oversight**: MRDPW is responsible for overall program design, oversight and coordination role among government entities. MRDPW developed and issued Methodological Guidelines, which describe the Program’s objectives, eligibility criteria, procedures and institutional responsibilities. District Governors in their capacity of representatives of the state have an oversight role of the Program in their respective district.

Program Development Objective(s)
The Program development objective is to support the government’s *National Program of Energy Efficiency in Residential buildings* by reducing energy consumption, improving safety in eligible buildings and strengthening implementation capacity.

Key program results indicators would include:

- Projected lifetime energy savings. The indicator measures progress towards reducing energy consumption in renovated multifamily buildings over the lifetime.
- Renovated buildings blocks meeting national building legislation. The indicator measures progress towards improving safety in renovated multifamily buildings.

V. **Environmental and Social Effects**

The Environmental and Social System Assessment (ESSA) for the PforR concluded that there are no key gaps between the principles of Bulgarian Environmental and Social Management Systems and the PforR core principles. As a whole, environmental sustainability is promoted in the Program design, the Program design sets/ determines health and safety requirements, which will provide public and workers’ safety against the potential risks associated with the construction and operation of the rehabilitated multifamily building. With regard to social sustainability, the Program operates within an adequate legal and regulatory framework and will provide long-term livelihood improvements to all beneficiaries.

The program will lead to a number of direct and indirect social and environmental benefits. Environmental benefits include: (i) a reduction of greenhouse gas emissions which will contribute to climate change mitigation; (ii) improvements in the municipalities' ambient air quality from reduced energy use; (iii) a reduction in the country’s dependence on fossil fuels, including oil, coal and natural gas; (iv) a reduction in the amount of waste generated as a result of combustion of solid and liquid fuels; and (vi) support for sustainable development of the municipalities where program activities are implemented. Positive social benefits of the Program are expected to occur soon upon the finalization of the construction works. The positive expected social impacts include improved living conditions and comfort levels, increased value of property i.e. the assets of the house owners and an overall decrease in energy consumption i.e. costs. The project is expected to have additional wider social impacts, going beyond impacts on individual beneficiaries. Investing in these buildings and making them more attractive is expected to contribute towards less social stratification inside the targeted buildings and geographical social stratification inside the municipalities.

While the program will have considerable long-term social benefits during the use phase, negative impacts are expected to be short-term and linked to the construction/rehabilitation phase. While some adverse environmental and social impacts associated with the Program may arise during the construction works of the buildings, most of the negative impacts were assessed as mild, local, short term. The impact of waste generation is of medium severity if not mitigated through proper program implementation and management, but of low likelihood to occur. In addition, the risk of some municipalities having low capacity with environmental management was assessed as a factor with a medium likelihood to occur and with a potentially medium severity impact. There will be no land acquisition necessary in connection with the program and, thus, no negative impacts related to acquisition of land or livelihoods. Adverse social impacts are expected to be predominantly caused by the construction and rehabilitation works and are site specific. Expected negative social impacts are mostly related to construction and rehabilitation works which will temporarily negatively impact the living conditions of the households. In light of the fact that house owners apply for the rehabilitation works voluntarily, these impacts are not expected to cause any major social risks. The program follows the general grievance redress mechanism that has been established for MRDPW. Grievances and complaints are being handled by the Ministry’s Inspectorate,
established and described under the State Administration Act.

VI. Financing

Table 1. Program Financing

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount (€)</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>IBRD/IDA</td>
<td>261 million</td>
<td>51%</td>
</tr>
<tr>
<td>Other Development Partners</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Council of Europe Development Bank (CEB)</td>
<td>150 million</td>
<td>29%</td>
</tr>
<tr>
<td>KfW</td>
<td>100 million</td>
<td>20%</td>
</tr>
<tr>
<td>Total Program Financing</td>
<td>511 million</td>
<td>100%</td>
</tr>
</tbody>
</table>

VII. Program Institutional and Implementation Arrangements

The program will be implemented by the following stakeholders:

- **MRDPW**, through its Housing Policy Directorate, is responsible for overall program design and coordination among Government entities. MRDPW, developed and issued Methodological Guidelines, which describe the Program's objectives, eligibility criteria, procedures and institutional responsibilities.

- **BDB** is responsible for mobilizing the financial resources for the implementation of the Program from IFIs and disburse funds (i.e. remunerating contractors) in accordance with the Program guidelines. It has overall fiduciary responsibility for the program, as well as responsibility for the due diligence in the management of the program resources.

- **Municipalities** are responsible for program implementation within their respective territory. They are de-facto the implementing agencies of the program and, thus, responsible for overall technical, fiduciary, and safeguards aspects under the program. This includes communicating Program eligibility criteria to residents through information/awareness campaigns, receiving and assessing eligibility of HOA applications, submission of applications to BDB and signing of the final agreements, implementing all eligible renovations (procurement of services/works, supervision, approval of invoices and submission to BDB), and maintaining all records of the Program (e.g., HOA registration, applications, tender documents, licenses, invoices, certifications).

- **District Governors** provide, in essence, a second level of control on applications and procurement. In their capacity of representatives of the State at the regional level, they check and confirm that the applications are complete as per guidelines and that the selected buildings meet the eligibility criteria.

- **HOAs** are responsible for representing the interests of the residents of the respective multifamily buildings by registering and submitting applications to join the program. HOAs are also responsible for ensuring that improvements made to the buildings are properly maintained to ensure the long-term sustainability of the EE and structural improvements.

- **Residents (individual apartment owners)** are responsible to form HOAs and participate in all HOA meetings and votes and to contribute to HOA functions. They also represent the main beneficiaries of the program.

VIII. Contact point

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