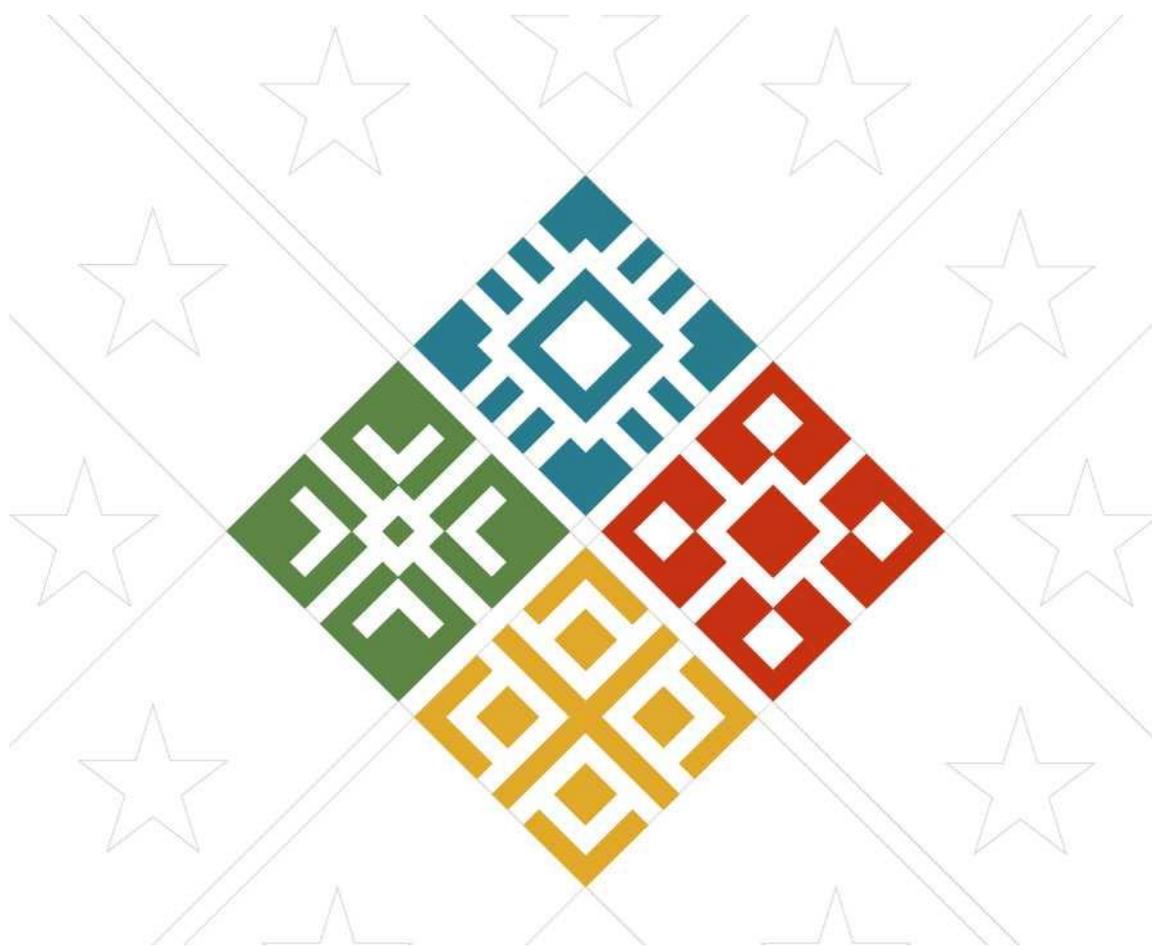


# National Recovery and Resilience Plan



OF THE REPUBLIC OF BULGARIA



COUNCIL OF MINISTERS OF  
THE REPUBLIC OF BULGARIA

The recovery plan turns the immense challenge we face into an opportunity, not only by supporting the recovery but also by investing in our future: the European Green Deal and digitalization will boost jobs and growth, the resilience of our societies and the health of our environment. This is Europe's moment. Our willingness to act must live up to the challenges we are all facing.

**Ursula von der Leyen,**  
President of the European Commission



COUNCIL OF MINISTERS OF THE  
REPUBLIC OF BULGARIA

# INTRODUCTION

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The ultimate objectives of the Recovery and Resilience Plan is to facilitate economic and social recovery from the crisis caused by the COVID-19 pandemic as well as to create a more sustainable, equitable and prosperous economy. In pursuit of these goals, the Government has designed a set of measures and reforms that not only restore the potential for economic growth, but also develop and enhance it. This, in turn, will allow in the long run to achieve the strategic goal of convergence of the Bulgarian economy and income levels to the European average. At the same time, the Plan lays the basis for the Green and Digital transformation of the economy in the context of the ambitious European Green Deal objectives.

Given the high level of uncertainty caused by the COVID-19 pandemic, the main tasks of the government are to limit and control its spread and address its consequences. The current situation requires targeted measures, and their effective implementation is the key to preserving the economic potential and competitiveness of the economy. In the short term, the Government policy is aimed at increasing the resilience of the national health system and mitigating the socio-economic consequences through measures to support enterprises and employment and to ensure appropriate safe working conditions with a view to a resumption of economic activity. In the medium term, the country's recovery strategy is based on the National Development Program: BULGARIA 2030. The document covers the national decisions for growth and development and defines three strategic goals (rapid economic development, demographic recovery and reduction of inequalities) with 13 national priorities. Although BULGARIA 2030 was adopted by the Government in early 2020, just before the outbreak of the pandemic and the accompanying economic turbulence, but the strategic choice of goals and priorities remains fully relevant to the revealed vulnerabilities in the functioning of socio-economic systems. At the same time, the severity of some of the emerging problems calls for finding short-term solutions and front-loading some of the planned interventions.

The Recovery and Resilience Plan presents the views of the Government and the society on how structural problems in the economy should be addressed. It lays down a set of reforms and investments which ensures the necessary level of coherence with the actions co-planned under the EU Cohesion Policy- both in terms of additional funding for the 2014-2020 programming period (REACT EU) and in the package of strategic documents for the next programming period. The additional efforts for transition to a climate-neutral economy, in the context of the ambitious goals of the European Green Deal, which are to be financed through the Just Transition Mechanism based on just transition plans, should also be taken into account.

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# ABBREVIATIONS USED

Abbreviation	Description
ACoM	Administration of the Council of Ministers
PPA	Public Procurement Agency
SEDA	Sustainable Energy Development Agency
AFCS	Anti-fraud coordination service
BAS	Bulgarian Academy of Sciences
GDP	gross domestic product
BSR	Bulgarian State Railways
BNR	Bulgarian National Radio
BNT	Bulgarian National Television
BNFA	Bulgarian National Film Archive
BNA	Bulgarian News Agency
Grants	grants
R(E)S	Renewable (Energy) Sources
WSS	Water Supply and Sanitation
SJC	Supreme Judicial Council
TPGOT	Traffic Plans: General Organisation of Traffic
VAT	value added tax
SES	state education standard
TFEU	Treaty on the Functioning of the European Union
p.e.	population equivalent



## Abbreviation Description

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EAD	Single-owner Shareholding Company
EEA	European Economic Area
UISCJ	Unified Information System of Courts of Justice
EC	European Commission
EODD	Single-owner Limited Liability Company
EPALE	Electronic Platform for Adult Learning in Europe
EU	European Union
ESIF	European Structural and Investment Funds
ESO	Electricity System Operator
ECA	European Court of Auditors
ESF	European Social Fund
ERDF	European Regional Development Fund
RTA	Road Traffic Act
ECA	Electronic Communications Act
RwTA	Railway Transport Act
LAS	law amending and supplementing
LSGLAA	Local Self-Government and Local Administration Act
PPA	Public Procurement Act
SDA	Spatial Development Act
ACFIAAA	Anti-Corruption and Forfeiture of Illegally Acquired Assets Act
RDA	Regional Development Act



## Abbreviation Description

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<b>MRESUFA</b>	Management of Resources from the European Structural and Investment Funds Act
<b>I(C)T</b>	Information (and Communication) Technology
<b>(N)IECP</b>	(National) Integrated Energy and Climate Plan
<b>AEUFEA</b>	Audit of EU Funds Executive Agency
<b>IS</b>	Information system
<b>IS-RRF</b>	Information System for the Recovery and Resilience Facility
<b>ISMM</b>	Information system for management and monitoring
<b>ITI</b>	integrated territorial investments
<b>IT(D)S</b>	Integrated Territorial (Development) Strategies
<b>CL</b>	Checklist
<b>FB</b>	Final beneficiary
<b>ACFIAAC</b>	Anti-Corruption and Forfeiture of Illegally Acquired Assets Commission
<b>CF</b>	Cohesion Fund
<b>FSC</b>	Financial Supervision Commission
<b>Mol</b>	Ministry of Interior
<b>RRF</b>	Recovery and Resilience Facility
<b>MEn</b>	Ministry of Energy
<b>IB</b>	Intermediate Body
<b>MEI</b>	Ministry of Economy and Industry
<b>MIG</b>	Ministry of Innovation and Growth



## Abbreviation Description

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<b>MoEW</b>	Ministry of Environment and Water
<b>MRDPW</b>	Ministry of Regional Development and Public Works
<b>MS</b>	Metro station
<b>SME</b>	Small and medium-sized enterprises
<b>MF</b>	Ministry of Finance
<b>NHIS</b>	National Health Information System
<b>NHIF</b>	National Health Insurance Fund
<b>R&amp;D</b>	Research and development
<b>NRIC</b>	National Railway Infrastructure Company
<b>MDBEENP</b>	Multi-Dwelling Building Energy Efficiency National Program
<b>NSI</b>	National Statistical Institute
<b>NAMRB</b>	National Association of Municipalities in the Republic of Bulgaria
<b>ECEC</b>	Early childhood education and care
<b>OECD</b>	Organisation for Economic Cooperation and Development
<b>OLAF</b>	European Anti-Fraud Office
<b>UN</b>	United Nations Organisation
<b>GBER</b>	General Block Exemption Regulation
<b>GHG</b>	Greenhouse gases
<b>MIDP</b>	municipal integrated development plans
<b>DCoM</b>	Decree of the Council of Ministers
<b>VET</b>	Vocational education and training



## Abbreviation Description

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SRSP	Structural Reform Support Program
RDP	Rural Development Program
STP	Sewage treatment plant
RB	Republic of Bulgaria
LM	Line ministry
SEBRA	System of Electronic Budget Payments
BIM	Building Information Modeling
SCF	Structural and Cohesion Funds
M(R)S	Monitoring (and reporting) structures
SR	Specific Recommendation of the Council
LPVET	List of professions for vocational education and training
PPS	Purchasing power standard
AA	Agricultural Academy
MCS	Management and control systems
TPS	Thermal power station
MA	Management Authority
LLL	Lifelong learning
FMC	Financial management and control
JTF	Just Transition Fund
CE	Center of Excellence
CC	Center of Competence
CCU	(Directorate) Central Coordination Unit



## Abbreviation Description

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AS	Ambulance Service
NF(D)	(Directorate) National Fund
(N)RRP	(National) Recovery and Resilience Plan
(IR)PPA	(Implementing Regulations of) Public Procurement Act
(IR)RDA	(Implementing Regulations of) Regional Development Act
API	Application Programming Interfaces
CA	Concerted Action
CO2	Carbon dioxide
COFOG	Classification of the Functions of Government
DESI	Digital Economy and Society Index
EED	Energy Efficiency Directive
e-ID	Electronic identity
EPBD	Energy Performance of Buildings Directive
ERTMS	European Rail Traffic Management System
FTE	Full-time equivalent
FTTP	Fiber to the Premises
HEMS	Helicopter Emergency Medical Service
IGB	Interconnector Greece - Bulgaria
JESSICA	Joint European Support for Sustainable Investment in City Areas
JRC	Joint Research Center
LED	light-emitting diode



## Abbreviation Description

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<b>MHz, GHz</b>	megahertz, gigahertz
<b>MW, GW, kW</b>	megawatt, gigawatt, kilowatt
<b>NEET</b>	Not in Education, Employment, or Training
<b>NUTS-3, NUTS-2</b>	Third (second) hierarchical level region
<b>PISA</b>	Programme for International Student Assessment
<b>PSAP</b>	Public Service Answering Point
<b>SCADA</b>	Supervisory control and data acquisition
<b>STEM</b>	Science, technology, engineering, and mathematics
<b>TEN-T</b>	Trans-European Transport Network
<b>VHCN</b>	Very High-Capacity Networks



COUNCIL OF MINISTERS OF THE  
REPUBLIC OF BULGARIA

# PART 1:

## GENERAL OBJECTIVES AND COHERENCE

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### 1. General objectives

The COVID-19 pandemic led to a deep recession around the world. Macroeconomic estimates show that in 2020 the European Union's economy shrunk by 6.2%<sup>1</sup>, with unemployment rate reaching 7.7%. The Bulgarian economy was also hit hard, with a reduction of 4.2% of the GDP and annual average decrease in employment at 2.3%. In this context, assessments have concluded that the EU managed to respond to the crisis in a responsible and unified manner. The current economic crisis is not comparable to any other crisis – it follows different trends. First, Member States adopted national-level measures of varying intensity to preserve jobs and provide grants to businesses and households. Importantly, the European institutions and the Member States agreed that a common European response to the crisis is needed and common EU debt has to be issued to address the crisis. This consensus showed that the EU is determined and ready to do what is necessary to ensure solidarity and an effective response to the crisis. The outbreak of the pandemic changed the EU's economic outlook for the next few years.

The *Next Generation EU* instrument was adopted to ensure full recovery in the years to come and to prevent a scenario in which the crisis can grow into permanent divergence of Member States. The instrument aims to address the economic and social damages caused by the pandemic crisis, certain structural problems of the Bulgarian economy, and to achieve faster green and digital transformation. It is also partially underpinned by years-long discussions on the need of better tools to overcome economic crises in the European Union and on the need to upgrade and optimize the architecture of the European Monetary Union of which Bulgaria, as a currency board member, is indirectly a part, as well as in light of joining the Exchange Rate Mechanism II in July 2020.

This unprecedented situation combining a health with an economic crisis with similar effects on all EU Member States has motivated the design of a coordinated response at the EU level to address and recover from the adverse effects of the pandemic situation.

The Next Generation EU program, launched in July 2020, is a major part of the strategy. It is the first EU instrument aiming not only to address the present health and economic crisis but also to transform the economies

<sup>1</sup> Source: Eurostat



so that they can adapt to the global challenges we face and achieve environmental and social sustainability.

The Recovery and Resilience Facility is the centerpiece of the program. It aims to contribute to the **economic and social recovery** from the crisis caused by the COVID-19 pandemic and to make European economies and societies more resilient and better prepared to address the challenges and opportunities of the upcoming green and digital transitions. In addition to the two main pillars, the Recovery and Resilience Plan envisages 4 other priorities: smart, sustainable and inclusive growth; social and territorial cohesion; health, economic and institutional resilience; policies for the next generation, children and youth. In that light, the financial resource under the facility will contribute to the above transformations through the structural investments and reforms laid down in the National Recovery and Resilience Plans of the Member States and linked to specific milestones and performance targets.

The Bulgarian public investment policy is characterized by major procyclicality, which, in the context of small automatic stabilizers and relatively poor social protection coverage, does not contribute to cushioning the effects of economic crises such as the 2008-2009 one and the crisis caused by the pandemic. A decade after the 2008-2009 financial crisis, the Bulgarian economy still fails to recover to the potential GDP level determined by the growth trajectory before the financial crisis. At the same time, GDP growth has decreased consistently as a result of the 2008 financial crisis, while investment in fixed capital has declined substantially to levels below the EU average (18.4% of GDP for the period 2016-2020 against an EU average of 21.3% of GDP) and the levels of other CEE countries (22.7% of GDP for the same period in Romania and 20.7% in Croatia). Another important change in the Bulgarian economy after the 2008-2009 financial crisis is the permanently subdued business dynamics relating to the entry of new companies, especially new small and medium-sized firms. In particular, in the post-2009 period, the average annual number of new small and medium-sized companies is by some 50% lower compared to the years before the financial crisis. As regards the recovery from the crisis caused by the COVID-19 pandemic, projections show that, under unchanged national policies, the economy will

not regain lost ground before the second half of 2022 and employment will not reach the pre-crisis levels before 2023.

All these adverse effects put the convergence of the Bulgarian economy and income levels towards the European average at risk in the long run. Therefore, the RRF resource presents a golden opportunity for Bulgaria to get back to the higher economic growth trajectory, compensating and building on the resources granted for addressing the direct health and economic consequences of the crisis caused by the COVID-19 pandemic. In this case the focus is more on further action for deep structural improvement of the economy.



In pursuit of this goal, the Government has grouped a set of measures and reforms in the Recovery and Resilience Plan that not only restore the potential for economic growth, but also develop and enhance it. This, in turn, will allow, in the long run, to achieve the Government's strategic goal of convergence of the economy and incomes to the European average. At the same time, the Plan lays the basis for the green and digital transformation of the economy in the context of the ambitious Green Deal objectives.

Indicator	Target value
Cumulative GDP growth in 2021-2025 period	21.7% <sup>2</sup>
GDP per capita PPS (2025)	62% of the EU-average
Unemployment rate in 2025	3.5%

**The Green Transition** is one of EU's major endeavors to address the global challenge of limiting the adverse effects of climate change. So, in December 2019, Commission President Ursula von der Leyen presented the European Green Deal which aims to make Europe the first climate neutral continent by 2050. The *Next Generation EU* resource makes it possible to target investments to “green” the economies.

The Green Transition is at the forefront of the Bulgarian Recovery and Resilience Plan, concentrating **53.66%** of the total costs foreseen, with a minimum of 37% set in the Commission Regulation. This way, Bulgaria contributes to delivery on the EU-wide gradual decarbonization goals. In doing so, efforts are focused on three main pillars: (i) enabling rapid deployment of renewable energy sources and hydrogen; (ii) enhanced actions to increase the energy efficiency of the economy; (iii) sustainable mobility.

The share of renewable in gross final energy consumption stood at 21.6% in 2019; Bulgaria continues to perform better than the EU on this indicator (18.9% EU-average in 2019)

<sup>2</sup> When setting the targets' ambition level, two limiting factors should be taken into consideration: on the one hand, at least a medium-term horizon is needed for the full manifestation of the expected effects of both reform projects and investment projects. At the same time, the design of the Recovery and Resilience Facility is such that the achievement of the targets must be statistically secured by mid-2026, implying reporting of results observed at best towards the end of 2025. These limiting factors mean that the set targets significantly underestimate the full effects of the proposed measures to be observed in the medium and long term.



and well above the national target under *Europe 2020* (16% for 2020). However, the drive to achieve climate neutrality by 2050 implies significant additional efforts to increase the share of renewable energy in gross final energy consumption.

Parallel efforts to increase energy efficiency are just as necessary given the high levels of energy intensity of the economy, exceeding 3.5 times the energy cost of producing a unit of GDP on average in the EU, as well as the extremely adverse energy performance of the building stock in the country with prevailing energy consumption classes E, F and G. Efforts to renovate the building stock will be essential to support economic recovery by creating jobs in the construction sector, energy savings, healthier living conditions and reducing energy poverty.

The carbon intensity of the transport sector in the country is 3.5 times higher than the EU average, reaching 2.8 kg of greenhouse gases per EUR 1 gross value added in 2019. The sector is a major GHG emitter with 26% of total GHG quantity. Therefore, in the context of the decarbonization efforts, it is necessary to intensify investment in sustainable transport to reduce the sector's carbon footprint.

In addition to efforts to decarbonize the economy, in the context of the Green Deal goals, water management efforts and biodiversity conservation and restoration will also be of key importance.

Further to the minimum investment in support of the climate goals laid down in the Recovery and Resilience Plan, all investments and reforms in the Plan should respect the principle „Do not significantly harm” the environment.

Indicator	Target value
Share of energy from renewable sources in gross final energy consumption (2024)	26%
Cumulative decline in the energy intensity of the economy for the period 2021-2024	10%
Cumulative reduction in the carbon intensity of the economy for the period 2021-2024	10%

The Recovery and Resilience Plan places a high level of ambition on the **Digital Transition**. The National Recovery and Resilience Plan concentrates almost 1/4 (**23.6%**) of the total investments foreseen. In doing so, efforts are focused on four main strands: (i) the deployment of broadband infrastructure; (ii) enhancing the digital skills of the population; (iii) accelerating the deployment of digital technologies in enterprises; (iv) the deployment of e-Government and e-services.



The digital transition is a good opportunity to improve productivity, innovations and employment. It encourages favorable results in decreasing the existing social inequalities by ensuring wider access to education and culture and decreasing territorial disparities.

The deployment of very large capacity networks needed to ensure that no part of the country or no group in society is left without adequate digital connectivity is the basis for developing a dynamic and innovative economy and provides better access for businesses to diverse, high quality and innovative digital services. As of 2020, only 58% of households have a broadband subscription (against 78% EU-average), and the spread of fixed broadband at a speed of at least 100 Mbps is only 11% (26% for the EU). In addition, the country lags behind in terms of the readiness to introduce 5G network, and according to DESI 2020 data it has allocated only 14% of the spectrum for wireless broadband.

One of the main reasons for the slowdown in digitalization in Bulgaria (along with insufficient investment in digital infrastructure and the shortage of ICT professionals) is the low level of digital skills of the population. Only 11% have above-basic skills, and more than 2/3 do not even have basic digital skills. Together with the fact that the cognitive abilities of Bulgarian students rank at the EU lowest in OECD's PISA study, that only one university in the country is in the top 1000 of the QS Global World Rankings, this indicates a relatively lower national human resource capacity to develop modern knowledge-intensive and high value-added projects and enterprises. In that light, the Plan envisages significant efforts, including reform efforts, in the secondary and tertiary education, as well as in active labour market measures, to address this structural challenge, given the key role of this aspect for the digital transition.

Special efforts will be made to support the Bulgarian business in the process of digital transformation. Companies are struggling to take full advantage of the opportunities offered by the new digital technologies — only 6% of SMEs sell online (the EU average is 17%), 3% of SMEs sell abroad and only 2% of their turnover comes from online trading.

The coercive physical distancing that the COVID-19 spread forced emphasized the importance of building an information society, actively using the opportunities that digital technologies provide and bring to the fore the need to accelerate and finalize the digitalization of public services. Transforming public administration, including digitalization of justice systems, through the use of new generations of digital tools will improve administrative processes and facilitate online interaction with citizens and businesses.



Indicator	Target value
Share of households with access to gigabit connectivity (2025)	100%
Share of the population with at least basic digital skills (2025)	50%
Deployment of digital technologies in enterprises (DESI, 2025)	35%

## 2. Link with the European Semester

Table 1 below illustrates the link of the different elements of the plan with the Council's Specific Recommendations in the past two cycles of the European Semester.

**Table 1: Council's Specific Recommendations (2019-2020) and the Recovery and Resilience Plan**

Specific Recommendations of the Council	Part of a Specific Recommendation	Recovery and Resilience Plan
<b>2019</b>		
1. Improve tax collection through targeted measures in areas such as fuel and labour taxes. Upgrade the state-owned enterprise corporate governance by adopting and putting into effect the forthcoming legislation.	Improve tax collection through targeted measures in areas such as fuel and labour taxes.	-
	Upgrade the state-owned enterprise corporate governance by adopting and putting into effect the forthcoming legislation	Component 10: Business environment, REFORM 7: Improving the management framework of state-owned enterprises
2. Ensure the stability of the banking sector by reinforcing supervision, promoting adequate valuation of assets, including bank collateral and ensuring functional secondary market for unserviced loans. Ensure effective supervision and enforcement of anti-money-laundering framework. Strengthen the non-banking financial sector by effectively enforcing risk-based supervision, the recently adopted valuation guidelines and group-level supervision. Implement the forthcoming roadmap tackling the gaps identified in the insolvency framework. Foster the stability of the car insurance sector, by addressing market challenges and	Ensure the stability of the banking sector by reinforcing supervision	-
	promoting adequate valuation of assets, including bank collateral	-
	Ensuring functional secondary market for unserviced loans	-
	Ensure effective supervision and enforcement of the anti-money-laundering framework.	Component 10: Business environment, REFORM 8: Anti-Money-Laundering framework
	Strengthen the non-banking financial sector by effectively enforcing risk-based supervision	-
	implementation of recently adopted valuation guidelines	-
group-level supervision	-	

Specific Recommendations of the Council	Part of a Specific Recommendation	Recovery and Resilience Plan
<i>remaining structural weaknesses.</i>	Implement the forthcoming roadmap tackling the gaps identified in the insolvency framework	Component 10: Business environment, REFORM 4: Strengthen the insolvency procedure
	Foster the stability of the car insurance sector, by addressing market challenges and remaining structural weaknesses	-
3. <i>Focus investment-related economic policy on research and innovation, transport, notably on its sustainability, water, waste and energy infrastructure and energy efficiency, taking into account regional disparities, and improving the business environment.</i>	Focus investment-related economic policy on research and innovation	Component 2: Research and innovation
	transport, notably on its sustainability	Component 8: Transport connectivity
	water, waste and energy infrastructure and energy efficiency, taking into account regional disparities	Component 4: Low-carbon economy; Component 9: Local development
	and improving the business environment	Component 10: Business environment
4. <i>Improve employability by strengthening skills, including digital skills. Improve the quality, labour market relevance, and inclusiveness of education and training, in particular for Roma and other disadvantaged groups. Address social inclusion through improved access to integrated employment and social services and more effective minimum income support. Improve access to health services, including by reducing out-of-pocket payments and addressing shortages of health professionals.</i>	Improve employability by strengthening skills, including digital skills	Component 1: Education and skills; Component 6: Sustainable agriculture, INVESTMENT 2: Digitalization of the processes from farm to fork; Component 11: Social inclusion, INVESTMENT 2: Provision of assisting devices to persons with permanent disabilities, INVESTMENT 3: Social economy development, INVESTMENT 5: Modernization of Employment Agency
	Improve the quality and inclusiveness of education and training, in particular for Roma and other disadvantaged groups	Component 1: Education and skills
	Address social inclusion through improved access to integrated employment and social services and more effective minimum income support	Component 11: Social inclusion
	more effective minimum income support	Component 11: Social inclusion, REFORM 1: Reform in the field of minimum income
	Improve access to health services, including by reducing out-of-pocket payments and addressing shortages of health professionals	Component 12: Healthcare

Specific Recommendations of the Council	Part of a Specific Recommendation	Recovery and Resilience Plan
<b>2020</b>		
<p>1. <i>In line with the general escape clause, take all necessary measures to effectively address the pandemic, sustain the economy and support the ensuing recovery.</i> <i>When economic conditions allow, pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment.</i> <i>Mobilize adequate financial resources to strengthen the resilience, accessibility and capacity of the health system, and ensure a balanced geographical distribution of health workers.</i></p>	<p>In line with the general escape clause, take all necessary measures to effectively address the pandemic, sustain the economy and support the ensuing recovery</p>	All components
	<p>When economic conditions allow, pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment</p>	All investments
	<p>Mobilize adequate financial resources to strengthen the resilience, accessibility and capacity of the health system, and ensure a balanced geographical distribution of health workers</p>	Component 12: Healthcare
<p>2. <i>Ensure adequate social protection and essential services for all and strengthen active labour market policies. Improve access to distance working and promote digital skills and equal access to education. Address the shortcomings in the adequacy of the minimum income scheme.</i></p>	<p>Ensure adequate social protection and basic services for all</p>	Component 11: Social inclusion
	<p>strengthen active labor market policies</p>	Component 1: Education and skills; INVESTMENT 3: Provision of digital skills trainings and set-up of a platform for adult learning; Component 11: Social inclusion, INVESTMENT 5: Modernization of the Employment Agency
	<p>Improve access to distance working</p>	Component 7: Digital connectivity; Component 10: Business environment, REFORM 11: Growth Bulgaria
	<p>promote digital skills</p>	Component 1: Education and skills
	<p>promote equal access to education</p>	Component 1: Education and skills
	<p>Address the shortcomings in the adequacy of the minimum income</p>	Component 11: Social inclusion, REFORM 1: Reform in the field of minimum income
<p>3. <i>Streamline and speed up the procedures to provide effective support to small and medium-sized enterprises and self-employed, also ensuring their continued access to finance and flexible payment arrangements. Front-load mature public investment projects and</i></p>	<p>Streamline and speed up the procedures to provide effective support to small and medium-sized enterprises and self-employed</p>	Component 3: Smart industry, INVESTMENT 2: Economic transformation program
	<p>also ensuring their continued access to finance and flexible payment arrangements</p>	

Specific Recommendations of the Council	Part of a Specific Recommendation	Recovery and Resilience Plan
<p><i>promote private investment to foster the economic recovery. Focus investment on the green and digital transition, in particular on clean and efficient production and use of energy and resources, environmental infrastructure and sustainable transport, contributing to a progressive decarbonization of the economy, including in the coal regions.</i></p>	<p>Front-load mature public investment projects and promote private investment to foster the economic recovery</p>	<p>All investments</p>
	<p>Focus investment on the green and digital transition, in particular on clean and efficient production</p>	<p>Component 2: Research and Innovation, INVESTMENT 2: Enhancing the innovation capacity of the Bulgarian Academy of Sciences in the field of green and digital technologies; Component 4: Low-carbon economy; REFORM 1: Establish a National Decarbonization Fund, REFORM 4: Mechanism to finance energy efficiency and RES projects together with electricity bills, REFORM 6: Encourage the generation of electricity from RES, support the process of decarbonization and reduce the administrative burden for connection and operation of RES, INVESTMENT 2: Programme to finance ad hoc measures for energy from RES in one-dwelling and multi-dwelling buildings INVESTMENT 4: Digital transformation and development of the information systems and real-time systems of the Electricity System Operator in a low-carbon economy, REFORM 7: Prepare and adopt a National Roadmap to improve the conditions for unlocking the potential of hydrogen technologies and mechanisms for production and supply of hydrogen, INVESTMENT 5: Scheme to support pilot projects for production of green hydrogen, INVESTMENT 6: Scheme to support the construction of minimum 1.4 GW RES and batteries, INVESTMENT 7: Development of the use of geothermal energy in Bulgaria for the production of electricity and heat; INVESTMENT 8: National infrastructure for storage of electricity from RES (ABBREVIATION: RESTORE), REFORM 9: Development of low-carbon economy and set up an Energy Transition Commission to design a Climate Neutrality Roadmap; REFORM 10: Decarbonisation of the energy sector; establishment of a state enterprise "Conversion of Coal Regions"<sup>3</sup>, REFORM 11: Upgrade the state-owned company corporate governance in the energy sector</p>
	<p>effective use of energy and resources</p>	<p>Component 2: Research and Innovation, INVESTMENT 2: Enhancing the innovation capacity of the Bulgarian Academy of Sciences in the field of green and digital technologies; Component 3: Smart industry, INVESTMENT 2: Economic Transformation Programme; Component 4: Low-carbon economy; REFORM 1: Establish a National Decarbonization Fund, REFORM 2: Facilitating and increasing the efficiency</p>

<sup>3</sup> At the insistence of the EC Services, this reform is not included as part of the Milestones and Targets under the National Recovery and Resilience Plan. This does not constitute an obstacle to its implementation outside the commitments under the plan, and it should be noted that it did not provide for funding by the RRF.



Specific Recommendations of the Council	Part of a Specific Recommendation	Recovery and Resilience Plan
		of investments in the energy efficiency of multifamily residential buildings; REFORM 3: Establish a definition and criteria for “energy poverty” for households in the Energy Efficiency Act for the purposes of market liberalization and financing energy efficiency projects; INVESTMENT 1: Energy efficiency in buildings, INVESTMENT 3: Energy efficient municipal systems for outdoor artificial lighting, REFORM 4: Mechanism to finance energy efficiency and RES projects together with electricity bills, REFORM 5: One-stop-shop; REFORM 8: Liberalize the electricity market; Component 5: Biodiversity
	investments in environmental infrastructure	Component 9: Local development
	investments in sustainable transport	Component 8: Transport connectivity
	gradual decarbonization of the economy, including in the coal regions	Component 1: Education and skills; INVESTMENT 2: Modernizing educational institutions to create a more attractive and quality environment for learning and innovation, Component 2: Research and innovation; Component 3: Smart industry; Component 4: Low-carbon economy; Component 8: Transport connectivity; Component 11: Social inclusion, INVESTMENT 1: Modernization of long-term care; Component 12: Healthcare, INVESTMENT 3: Modernization of psychiatric aid
	Minimize administrative burden to companies	Component 10: Business environment
4. Minimize administrative burden to companies by improving the effectiveness of public administration and reinforcing digital government. Ensure an effective functioning of the insolvency framework. Step up the efforts to ensure adequate risk assessment, mitigation, effective supervision and enforcement of the anti-money laundering framework.	Minimize administrative burden to companies	Component 10: Business environment
	improving the efficiency of public administration	Component 10: Business environment
	reinforcing digital government	Component 10: Business environment
	Ensure an effective functioning of the insolvency framework	Component 10: Business environment, REFORM 4: Strengthen the insolvency procedure
	Step up the efforts to ensure adequate risk assessment, mitigation, effective supervision and enforcement of the anti-money laundering	Component 10: Business environment, REFORM 8: Anti-Money-Laundering framework

## European initiative

### POWER UP

#### National Strategic Framework

Integrated Energy and Climate Plan 2021- 2030 (IECP) of the Republic of Bulgaria:

- The IECP sets out the country's key objectives of encouraging low-carbon economic development, developing a competitive and secure energy sector, reducing dependence on fuel and energy imports.
- To deliver on the objectives laid down in the IECP, holistic action in all areas of socio-economic relations is needed. This is particularly true for economic sectors where the potential of existing industries for the entry of new technologies must be optimally used, ensuring a smooth and just transition to a climate-neutral circular economy, such as the hydrogen economy.

In that light, IECP envisages consumption of green hydrogen produced with energy from RES, including electricity generated from wind and solar energy. IECP sets the objective to have a pilot project for production of hydrogen with total installed capacity of 20 MW designed by 2030, as a basis for development of hydrogen capacities in Bulgaria.

The national target for the share of electricity from renewable sources (RES) in gross final energy consumption by 2030 is 27.09%. A share of 30.33% is set for the electricity sector towards delivery on the objective. Projections show that this share will be achieved by increasing the installed capacity of RES power stations by up to 3000 MW, and the electricity system is projected to connect 6973 MW in RES power stations by 2030. Focused investment in the national electricity transmission grid, enabling the technical connection and integration of this energy in the electricity system, while adhering to the security criteria, is needed in order to meet the national target.

A national target of 15% electricity connectivity by 2030 has been set.

This will require, however, significant investment in inter-grid and internal transmission infrastructure (including 5 projects of common interest enhancing the electricity transmission capacity at the Bulgaria – Romania border and Bulgaria – Greece border), as well as investment in modernization and digitalization of the electricity system management processes towards maximizing the use of the existing grid resource.

#### Investments

- Scheme to support pilot projects for production of green hydrogen and biogas;



- Programme to finance ad hoc measures for energy from RES in one-dwelling and multi-dwelling buildings
- Digital transformation and development of Energy System Operator's information systems and real-time systems in a low-carbon economy;
- Scheme to support the construction of minimum 1.7 GW RES and at least 350 MW batteries;
- Development of the use of geothermal energy in Bulgaria for the production of electricity and heat;
- National infrastructure for storage of RES electricity (ABBREVIATION: RESTORE)
- Economic transformation program.

### **Reforms**

- Encourage the generation of electricity from RES;
- Prepare and adopt a National Roadmap to improve the conditions for unlocking the potential of hydrogen technologies and mechanisms for production and supply of hydrogen;
- Liberalize the electricity market
- Development of low-carbon economy and set up an Energy Transition Commission to design a Climate Neutrality Roadmap;
- Establishment of a state enterprise "Conversion of coal regions"<sup>4</sup>;
- Improving the corporate governance of state-owned companies in the energy sector.

### **Expected contribution to the delivery on the European objective**

Projects' implementation envisages construction of 55 MW electrolytic cells for the production of 7800 tons of green hydrogen per year; building infrastructure suitable for transportation of hydrogen and low-carbon gaseous fuels. The investments planned contribute to the delivery on the EU objectives of installing a capacity of 6 GM electrolytic cells and production and transportation of 1 million tons of renewable hydrogen, laid down in the European flagship "Power Up", by 2025.

The National Roadmap will provide an analysis of the present situation and the barriers to green hydrogen development in Bulgaria, including measures in

<sup>4</sup> At the insistence of the EC Services, this reform is not included as part of the Milestones and Targets under the National Recovery and Resilience Plan. This does not constitute an obstacle to its implementation outside the commitments under the plan, and it should be noted that it did not provide for funding by the RRF.

different areas (regulation, incentives, etc.) The development of green hydrogen production will contribute to the delivery on the goals laid down in the Power Up flagship, for development and use of renewable energy sources, increase in the installed capacity of electrolytic cells and for laying the basis for development of the hydrogen market and the related infrastructure.

## European initiative

### RENOVATE

#### National Strategic Framework

- National Integrated Energy and Climate Plan 2021-2030. The Integrated Energy and Climate Plan of Bulgaria includes an integrated energy and climate forecasting model and development of a Long-term Climate Strategy.
- The national strategy for adaption to the climate change that outlines the strategic framework and the priorities in respect to the adaption to the climate change until 2030.
- Long-term National Renovation Strategy to support the renovation of the national building stock of residential and non-residential buildings until 2050. The document sets out the strategic vision and priorities of Bulgaria for achieving energy-efficient and decarbonized building stock by 2050. Pursuant to Directive (EU) 2018/844, the strategy contains a roadmap with indicative milestone targets for 2030, 2040 and 2050 regarding the renovation of residential and non-residential buildings in Bulgaria. The indicative target for the period 2021-2030 is renovation of residential and non-residential buildings with a total area of over 22 million m<sup>2</sup>, with expected energy consumption savings estimated at 2,917 GWh/year and carbon emission savings – at 1,306 ktCO<sub>2</sub>/year. The strategy envisages long-term development policies and measures to improve the energy efficiency of the national building stock.
- National Development Programme BULGARIA 2030.
- Additional measures in force, to improve the energy efficiency of residential buildings:
- In 2015, the National Programme for Energy Efficiency of Multi-Dwelling Buildings (NPEEMDB) was initiated, which is implemented on a centralized basis with 100% administrative management of the process and public resource. The Programme has undoubted benefits in terms of improved energy performance and overall condition of buildings, while contributing also to air protection, reduced greenhouse gas emissions, and catalyzing a targeted long-term housing policy. As of 31.12.2020, 1,921 buildings with total floor area of 10,855,018 m<sup>2</sup> have been completed and commissioned under NPEEMDB.

## Investments

- Energy efficiency in buildings;
- Modernizing educational institutions to create a more attractive and quality environment for learning and innovation;
- Modernization of long-term care.

## Reforms

- Establish a National Decarbonization Fund;
- Facilitating and increasing the efficiency of investments in the energy efficiency of multifamily residential buildings;
- Establish a definition and criteria for “energy poverty” for households in the Energy Efficiency Act for the purposes of market liberalization and financing energy efficiency projects;
- Mechanism to finance energy efficiency and RES projects together with electricity bills;
- One-stop-shop for poverty consumers in order to facilitate the implementation of projects for energy renovation in buildings;
- A new regional approach directly involving local communities in the management of resources from European funds and instruments.

## Expected contribution to the delivery on the European objective

The energy efficiency in buildings program is expected to contribute to the renovation of residential buildings with total floor area of over 3.6 million m<sup>2</sup> by 2026. The program will raise the awareness of consumers and owners about the effect of energy efficiency improvement and the wider benefits, and will increase the demand for energy-efficiency services.

With the implementation of the reform, the “*one-stop-shop*” model will ensure strong demand for energy-efficient services by raising the awareness about the benefits and the trust and motivation of building owners, and by providing a structured mechanism for obtaining all relevant information.

Complementary measures for improvement of the energy efficiency in buildings, outside NRRP, to be implemented:

The support measures envisaged under the Energy Efficiency in Buildings Programme will complement and build on the results of the measures under Operational Programme (OP) “*Innovation and Competitiveness*”, OP “*Environment*”, and OP “*Regions in Growth*” in the 2014-2020 programming period.

The program will complement the measures under the Programme for Development of the Regions 2021-2027, which include measures for energy efficiency and renovation of residential and public buildings, as well as measures included in Programme Competitiveness and Innovation in

Enterprises 2021-2027 to improve the energy efficiency in enterprises and promote the increase in the share of energy from RES.

## European initiative

### RECHARGE AND REFUEL

#### National Strategic Framework

- National policy framework for development of the market for alternative fuels in the transport sector and for deployment of the relevant infrastructure – estimated targets, options and potential measures are proposed for the charging infrastructure for electric and hydrogen-powered vehicles.
- Integrated Transport Strategy in the period until 2030 – the objective *“Promoting the use of alternative fuels”* has been set under strategic priority 5 *“Reduction in fuel consumption and improving the energy efficiency of transport”* and measures for its delivery have been envisaged.
- National Development Programme BULGARIA 2030 – Priority 7 *“Transport Connectivity”* features the intervention field *“Impact of transport on the environment and human health”*, under which measures to promote the use of fuels and energy from alternative and renewable energy sources will be included.
- Integrated Energy and Climate Plan of Bulgaria 2021 – 2030: an estimated share of energy from renewable source in the Transport sector of 14.2% has been set. To reach this share, the uptake of hydrogen and renewable electricity will be promoted. Efforts will focus on deploying electric mobility, developing and incentivising the use of public electric transport and developing the charging infrastructure in urban areas. The responsibility of local authorities to include measures to stimulate electric mobility in their short-term and long-term programs will be regulated.
- Ordinance No РД-02-20-2/28.09.2020 laying down the terms and procedure for designing, building, commissioning and control of charging stations for hydrogen-powered vehicles – drafted on the basis of recommendations from an analysis in the National Framework.

#### Investments

- *“Green Mobility”* – a pilot scheme to support sustainable urban mobility through measures for the development of environmentally-friendly, safe, functional and energy-efficient transport systems.

#### Reforms

- Sustainable urban mobility reform;



Electric mobility.

### **Expected contribution to the delivery on the European objective**

In pursuance of the European objectives, the implementation of the pilot scheme to support sustainable urban mobility through measures for the development of environmentally-friendly, safe, functional and energy-efficient transport systems will contribute for the construction of 27 charging stations for public transport vehicles, delivery of 68 zero-emission vehicles (buses and/or trolleybuses) for urban and interurban public transport, the development of ITS and integrated digital solutions to improve public transport efficiency and for meeting the national decarbonization and energy efficiency targets.

Complementary measures, outside NRRP, to be implemented:

- Operational Programme “*Environment*”- 12 contracts for delivery of electric buses and installation of charging stations for them have been concluded with 10 municipalities. Grant amount- BGN 500 million, deadline: 2023
- Operational Programme “*Regions in Growth*”- 4 municipalities implement projects for delivery of electric buses and installation of charging stations, the implementation period is 2021-2022
- JESSICA Initiative and Operational Programme “*Regions in Growth*” 2014-2020:  
The completed charging stations as of 31.12.2020 under four projects with financing through financial instruments and/or under the JESSICA instrument are a total of 128 units. The number of charging stations is expected to reach 199 after the projects’ completion (at the end of 2022).
- Programme “*Transport Connectivity*” - building alternative fuels infrastructure along the main routes of the national road network and at ports of national significance, with indicative budget of EUR 40 million.
- Programme “*Development of the Regions*” – the construction of alternative fuels infrastructure for the needs of public urban transport will be financed. The indicative charging infrastructure budget is EUR 24 million.

### **European initiative**

## **CONNECT**

### **National Strategic Framework**

- Updated National Plan for Next-Generation Broadband Infrastructure “*Connected Bulgaria*” – it outlines the national objectives and priorities and is linked to the goals at the EU level until and after 2025, measures in the field, which are concentrated in improving the access to high-speed Internet in less populated areas and its active use by the population and the business, as well as in the development of high-speed mobile Internet in the country. The investments in introduction of 5G mobile networks in the country will be crucial for digitalization of the Bulgarian economy and public services.



- Priority 8 “Digital Connectivity” of the National Development Programme BULGARIA 2030 includes objectives for building high-speed connectivity and providing facilitated opportunities for building 5G networks and their dissemination by introducing policies for infrastructure sharing and promoting infrastructure sharing, as well as assisting in the building of complementary infrastructure.
- National Strategic Document “Digital Transformation of Bulgaria for the period 2020 – 2030”, which includes adequate digital connectivity as a priority. Deployment of very large capacity networks to ensure that no part of the country or group in society is left without adequate digital connectivity is at the heart of developing a dynamic and innovative economy and provides better access for businesses to diverse, high-quality and innovative digital services.
- The Law amending and supplementing the Electronic Communications Act transposes the requirements of the European Electronic Communications Code in the Bulgarian legislation, to achieve:
  - more efficient, effective and coordinated use of the radio spectrum;
  - develop electronic communications market;
  - building and developing very high-capacity networks, including 5G networks.

#### **Investments**

- Large-scale deployment of digital infrastructure
- Construction, development and optimization of the digital TETRA system and radio relay network

#### **Reforms**

- Development and implementation of effective policy and regulatory framework
- Efficient use of the radio spectrum
- Creating favorable investment environment

#### **Expected contribution to the delivery on the European objective**

The project under NRRP will contribute to delivery on the following European strategic objectives:

- Ensuring cyber resilience, technological sovereignty and leadership in network and information security, as a key priority of the new EU Cybersecurity Strategy for the Digital Decade, a key component of the NextGenerationEU recovery plan;
- Providing gigabit speed connectivity protected by distributed cyber-attack denial of service (DDoS) to all key drivers of

socio-economic development, such as essential service providers, strategic and critical infrastructure, public service providers, universities and schools;

- Deployment of Very High Capacity Networks (VHCN) providing Internet access with gigabit download speeds:
  - The project will bridge the digital divide through deployment of digital connectivity in remote and less populated areas and increased access of the population to digital solutions by ensuring adequate transmission capacity to reach speeds of 1 Gbps and more for end users by means of different technologies for access, such as optics and 5G connectivity.
  - The specific objective of the project is to support the deployment of Very High Capacity Networks (VHCN), connecting municipal centers with less populated and remote areas where there have been already built access networks and/or coverage of built towers of mobile operators with optical connectivity, which would provide the necessary capacity for gigabit optics or 5G connectivity;

## European initiative

### MODERNIZE

#### National Strategic Framework

- Priority 10 of the National Development Programme BULGARIA 2030 outlines the challenges to the digitalization of the public administration and the personalized electronic administrative services which are considered particularly significant for economic development and for state government focused on the needs of citizens and businesses. The objectives set under sub-priority 10.3 “*E-Government*” of NDP BULGARIA 2030 relate to improving Bulgaria’s positions on the public services indicator in the Digital Economy and Society Index (DESI). Delivery on the objectives will be ensured by a number of digitalization and data management measures, creating data models in order to ensure provision of electronic administrative services, implementation of key services of the “life/business episodes” type and proactive services, etc. A particular priority is the expansion of alternative means of enabling electronic identification, including through mobile devices.
- The objectives set under sub-priority 12.2. “Emergency services” relate to guaranteeing the quality of provided emergency medical services based on introduction of remote consultancy and quick data transmission in support of emergency teams, by building a unified communication and information platform of the National Emergency Communications System with European Emergency Number 112 which integrates the information systems of the Ambulance Station.



- The objectives set under sub-priority 12.3. “Electronic healthcare” relate to implementation of digital technologies to improve the quality of health services and the access to medical services. Delivering on the objectives will be achieved by implementing centralized electronic healthcare services, including health information system, health profile, health record and monitoring of the condition, telemedicine, drug prescriptions and administrative services.
- The National Strategic Document “*Digital Transformation of Bulgaria for the period 2020 – 2030*” includes two objectives for digitalization and standardization of public sector data as the main asset for achieving digitalization of the public administration and ensuring interoperability in order to use and replenish digital data for the provision of public services by electronic means.
- The Strategy for the Development of Electronic Government in the Republic of Bulgaria 2019- 2023 envisages to achieve until 2030 non-reversible digital transformation of public administration in Bulgaria, administration work flow optimization and change of the data model for provision of Digital by Default electronic services, as well as ensuring interoperability of information resources by default.

#### **Investments**

- Digitalize information arrays in the administration which contain registry data;
- Upgrade the Aerospace Observation Center(AOC) - Ministry of Interior to achieve national importance in space policy, implementation of European requirements and benefits for humans;
- Unified information system of spatial development, investment design and construction permitting;
- Strengthening, further development and upgrading the Unified Information System of Courts;
- Digitalization of key court proceedings in the system of administration of justice;
- Transformation of the existing information and communication infrastructure in the Bulgarian Prosecutor’s Office;
- Instrument for a better strategic planning and strategic management of the implementation;
- Ensuring an adequate information and administrative environment for the implementation of the Recovery and Sustainability Plan;



Improve the national emergency communications system 112;

National digital platform for medical diagnostics.

### **Reforms**

- Register reform for deploying e-government potential to improve the business environment;
- Higher quality and predictability of the legislative process within the National Assembly;
- Public procurement;
- Development of e-health and the National Health Information System.

### **Expected contribution to the delivery on the European objective**

In the context of the Annual Sustainable Growth Strategy, the reform and the investments directly contribute to modernizing key digital public services and making them accessible to all- interoperable, personalized and user-friendly digital public services, as well as to digitalizing public administration and public services, including administration of justice and healthcare.

### **European initiative**

## **SCALE UP**

### **National Strategic Framework**

- Innovation Strategy for Smart Specialization 2014-2020
- Informatics and ICT are one of the four priority thematic areas identified in the Innovation Strategy for Smart Specialization 2014-2020. In the period 2014-2020, investments for creation and development of new technologies bringing competitive advantages and increased value added of domestic products and services were focused on the development of the innovation potential in priority thematic area Informatics and ICT.

Present situation:

- 8% of enterprises use cloud technologies;
- 6% use advanced cloud technologies (for export of data and services).

Data show that there is available capacity for development of cloud services oriented to the domestic market. An updated Innovation Strategy for Smart Specialization 2021-2027 is under preparation.

Digitalization in the context of Industry 4.0 will be included as a horizontal priority and will be present in all five thematic areas of smart specialization.

- National Development Programme BULGARIA 2030

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Digitalization of enterprises will be carried out by introducing leading-edge technologies, with maximum efficiency sought through Industry 4.0 technologies. Connecting physical to digital systems, the use of industrial Internet (Internet of Things), 3D printing, Big Data, cloud computing, added reality, the use of artificial intelligence and cybersecurity systems, machine learning, robotics, etc., will be supported as a priority in order to increase the competitiveness of Bulgarian enterprises and the value added created.

The establishment of innovation clusters, Centers of Competence, Centers of Excellence, Digital Innovation Hubs, Sofia Tech Park and other regional innovation and high-tech infrastructures, will be stimulated. The priority aim of the interventions is to make Bulgaria a Regional Innovation Center based on a supercomputer with a capacity of 6 PFLOPS, located in *Sofia Tech Park*, which is funded by EuroHPC and is one of the five supercomputers with a petascale performance to increase Europe's computing power.

- Concept for digital transformation of the Bulgarian industry

Vision: By 2030 Bulgaria should be recognizable as a regional digital economy center through the implementation of Industry 4.0 products, technologies, business models and processes.

#### **Investments**

- Economic transformation program

#### **Expected contribution to the delivery on the European objective**

Pooling EU resources and national resources of Member States in the field of high-performance computers towards development of pan-European supercomputer infrastructure.

#### **European initiative**

## **RESKILL AND UPSKILL**

#### **National Strategic Framework**

- Reforms launched, including instruments and mechanisms designed
- National qualifications framework approved;
- Launched transition to competency-based approach (to learning content and achievement assessment);
- Outreach and retention mechanism and other inclusive policies designed and operational;
- Educational environment modernization launched;



- Increased vocational education enrollment- 56.83% in 2020-21 (51.69 % in 2018-19), with 10.19% of admitted 8-graders studying in dual training schemes;
- Financing protected specialties and specialties in which there is with shortage of specialists;
- A prototype mechanism to follow the professional career of graduates designed;
- Reforms of the qualification of educational specialists launched;
- Structures, a network of adult learning organizations and an information portal (EPALE), data bases and analytical capacity created;
- Training programs for adults with inadequate literacy, skills and professional qualification implemented;
- Dual training implemented in vocational education and training;
- Regular workforce requirements study launched; model designed, medium- and long-term forecasts of labour demand and supply prepared;
- National information system for competence assessment MyCompetence designed;
- Procedures for validation of professional knowledge, skills and competences regulated and implemented
- Short-, medium- and long-term reform processes in the strategic and regulatory framework of R Bulgaria and tools and mechanisms for implementation through the national budget and ESIF:
- Strategic framework for education, training and learning in the Republic of Bulgaria, 2021-2030, adopted in 2021.
- Skills Strategy (in partnership with OECD), 2023;
- Employment Strategy 2021-2030, 2021
- Regulatory changes:
- Amendments to the Employment Promotion Act – 2021
- Regulate the option of combined training for acquiring professional qualification and participation in a literacy course for individuals aged 16+;
- Regulate the financing of procedures for validation of professional knowledge, skills and competences with funds for active labour market policies
- New/updated Vocational Education and Training Act, 2022.
- Adopted new List of Professions and admission in upper secondary education to study broad-based professions enabling upskilling for flexible transition to and in the labour market, including between occupations



- Regulate the opportunities for education paths of different duration and orientation
- Preparation, guidance and motivation for inclusion in vocational training, including for students who have dropped out of education and have been reintegrated;
- Upgrade and design new tools and mechanisms:
- Establish Centers of Excellence, regional clusters and educational ecosystems on a regional and sectoral- 2023-2025;
- Upgrade/design of new/updated lifelong learning tools (quality system, validation system, credit system, etc.) and the coordination mechanisms in the sector.
- Upgrade and design new tools and mechanisms:
- Design tools to link education and training more closely to labour market needs – 2022;
- Create new formats and tools for partnership with the business on skills: sectoral councils and funds (DG Reform)-2023;
- Design state educational standards and learning content for the new professions in the LPVET and modernizing supply in VET (ESF), including upskilling for digital and green transformation 2022-2023;
- Design uniform digital skill profiles for key professions (ESF)- 2021-2023.

#### **Investments**

- Modernization of educational infrastructure;
- STEM centers and innovations in education;
- Provision of digital skills trainings and set-up of a platform for adult learning;
- Youth centers.

#### **Reforms**

- Reform in pre-school, school education, and lifelong learning.

#### **Expected contribution to the delivery on the European objective**

The reforms and investments planned are expected to contribute to:

- Reduced share of pupils in the 13-14 age bracket with poor computer literacy;
- Increased share of people aged 16-74 having basic digital skills;
- Increased share of the adult population participating in training every year;
- Increased share of VET graduates in employment;



Increased share of participants in on-the-job training in vocational education and training.

### *3. Equality between women and men and equal opportunities for all*

In addition to green and digital transition, the Recovery and Resilience Plan prioritises equality between people and different social groups. Ensuring equality between women and men and equal opportunities of all citizens to realise their potential is essential to the recovery of Bulgaria.

The National Strategy for Promoting Equality between Women and Men 2021 – 2030 is a key strategic document in the field of gender equality. It highlights as priority areas: equality between women and men in the labour market and equal economic independence; reduction of gender pay and earnings gaps; promoting equality between women and men in decision-making; combating violence and protecting and supporting victims; changing the gender-based stereotypes in different areas of social life, and addressing sexism. Key actions have been identified to achieve progress on each priority area.

The challenges to equality between women and men in the labour market call for measures to increase employment; access to education, vocational training and different forms of lifelong learning; upskilling and improving key competences; addressing gender-based segregation in employment; more effective control for the compliance with labour laws; equal pay for equal work; support for women, tailored to the specific difficulties they encounter in the labour market; addressing gender-based differences; providing special protection to certain categories of working women; improved quality of jobs; developing flexible employment, teleworking and job mobility options; promoting self-employment and entrepreneurship; raising pay awareness, etc. Women's participation in the labour market has a positive effect on the economy and on women's life. The economic empowerment of women is key to achieving actual gender equality and has the potential to contribute to progress on the empowerment of women and on combating violence.

Bulgaria ranks 19th in the EU on the gender equality index, with 59,6% which is lower than the EU average of 67.9%. Bulgaria scores high on healthcare (77.2%) and employment (69%). Female, as well as male full-time equivalent (FTE) employment increased in the period 2010-2018. Female employment increased from 42% in 2010 to 45% 2018 and male employment increased from 51% to 56%. The concentration of women and men in the different labour market sectors is uneven; women prevail in employment in education (79.3%), human health and social work activities (78.6%), according to NSI data for 2020. Women use twice as much time as men on average for caring for



the house and the family and use for recreation, sport and physical events, hobbies and games half of the time which men use for such activities (according to NSI data). Women's more frequent career breaks or work absences have adverse effect on their career development. Data show that, in Bulgaria, women still earn less than men, with gender-based difference in pay of 14.1% in favour of men in 2019 (according to preliminary EUROSTAT data). The new challenges to the dynamic economic and social digitalization call for attracting more ICT students.

In 2020, the gender-based difference in employment in Bulgaria for the 20-64 age bracket is 8.9% in favour of men. Women still encounter different barriers to their access to the labour market and their employability. Barriers are even higher for certain groups of women such as: single mothers, pregnant women, women with small children, as well as women with disabilities from ethnic minorities, with a migrant background, etc. The number of women with higher education in the labour market is higher than that of men but women still make a bigger share of the workforce in low-pay sectors and in lower positions; they are underrepresented in higher-pay occupations and in decision-making positions. Women have higher economic inactivity rate, for which personal and family reasons are the most-often quoted. Women's home workload increased during the COVID-19 pandemic, along with their frontline work in sectors such as healthcare, social services and education.

Modern development processes which are manifested in dynamic technological and demographic changes, headlong digitalization, the advent of artificial intelligence, longer life expectancy and population ageing, stronger migration processes, deepening social inequalities, threats and consequences of pandemic situations like the spread of COVID-19, etc., present previously unknown challenges to us. These changes affect women and men differently. Existing problems may exacerbate but new development opportunities may also appear. Adequate policies are therefore needed in response to arising challenges and the potential of the new opportunities opening up to our societies should be used.

The current Government of the Republic of Bulgaria identifies as its priority zero tolerance for corruption and injustice. One of the most affected groups of the existing vicious practices in Bulgaria is the Roma community. It is necessary to work purposefully to overcome the delays in the process of their inclusion. In this regard, the Government has a clear long-term vision. The Government has started an analysis of what has been done so far regarding the policies for integration of the population of Bulgarian citizens of Roma ethnic origin. The Council of Ministers is about to approve the National Strategy of the Republic of Bulgaria for Equality, Inclusion and Participation of the Roma (2021-2030). The strategy fits into the context of the development of European integration and inclusive policies, taking into account the guidelines set out in the Communication from the European Commission of 7



October 2020 "Union for Equality: European Union (EU) Strategic Framework for Roma Equality, Inclusion and Participation" and its annexes. The strategy will contribute to the implementation of the EU Action Plan against Racism (2021-2025) and the European Pillar of Social Rights (EPSR). Although it was prepared in 2020, the National Strategy has not been adopted and the document is currently being updated, taking into account the dynamic health and economic situation and given the current Government's desire to implement more ambitious policies and reforms to ensure the rights of every Bulgarian citizen, including from the Roma community, to create mechanisms for protection against discrimination, overcoming hate speech both by politicians and in public debate and to build an effective support system for vulnerable groups, including the Roma community. The Republic of Bulgaria should submit to the EC the adopted National Strategy of the Republic of Bulgaria for Equality, Inclusion and Participation of Roma by the end of April 2022. On the recommendation of the Secretariat of the National Council for Cooperation on Ethnic and Integration Issues at the Council of Ministers, the Strategy's action plan is biennial, which allowed flexibility in creating short-term but ambitious, concrete and measurable measures in the next 6 to 12 months. For medium- and long-term planning, the process of consulting all stakeholders will be reorganized in order to be more efficient and achieve specific results.

The projects included in the Recovery and Resilience Plan will promote equal opportunities for all. Ensuring, where possible, equal participation of men and women, will be observed, as well as non-discrimination on grounds of sex, race, ethnicity, religion or beliefs, disability, age, and sexual orientation. The microdata and target groups under the different projects will be reported segregated by sex, age, disability and ethnicity, where possible.

#### *4. Territorial Cohesion*

The Recovery and Resilience Plan is a tool promoting convergence among the regions of the country. This is very important in the Bulgarian context because 5 of the 6 NUTS-2 regions with the lowest GDP in Europe are in Bulgaria and only the region including the capital Sofia is not among them. There has been a trend of depopulation of small settlements and concentration of the population in the big cities and the capital. One of the reasons for the increasing territorial inequality is the lack of employability opportunities, good education and access to medical care in small settlements. This, in turn, further increases depreciation of human capital. Therefore, many of the investments and reforms in the National Recovery and Resilience Plan aim to address the root causes of the lop-sided development of the country.



## 5. Coherence

The Recovery and Resilience Plan presents the views of the Government and the society on how structural problems in the economy should be addressed, through a coherent and consistent combination of reforms and investments. The plan includes 57 investments and 47 reforms. The highest concentration of reform efforts could be found in the components “*Business Environment*” and “*Low-Carbon Economy*”.

The focus on further improvement of the business environment in the country is logical, given the economic turbulences caused by the COVID-19 pandemic. In addition to the direct support provided by the Government to the business during the economic crisis caused by COVID-19, facilitating the conditions in which the business operates is a powerful instrument. Timely efforts and results along these lines are important because they have the potential to attract foreign investment at times when multinational capital builds strategies to address supply chain disturbances, including by reallocating capacities and resources. Last but not least, effective efforts to improve the business environment are a prerequisite for further increasing the effectiveness of all other investments included in the Plan. Such actions related to effective and timely public investments are also supported by the adverse effects on the economy experienced as a result of the 2008-2009 financial crisis. More than a decade later, economic productivity remains consistently lower than the potential productivity determined by the growth trajectory before the financial crisis. The lack of economic stability and the deep and permanent scars left by recession on businesses and workers strongly influence this trend. The scars on the economy could be deepened by undermobilisation of public investments during the crisis and in the period of recovery. In addition to lack of full recovery, lower GDP growth is reported after the 2008-2009 financial crisis, as well as permanently reduced investment activity and subdued business dynamics and this has, in the long-term, a strong negative effect on the opportunity for convergence of the living standard of Bulgarians to the EU average. Therefore, in order to increase the growth potential of the economy and improve its resilience to shocks, the Government views the structural challenges in the investment environment as priorities that have to be addressed.

The strong presence of the “*low-carbon economy*” theme in the Plan clearly gives a sign of its place in the hierarchy of Government priorities. Decarbonization efforts should be seen not only as a sign of a conscious responsibility to future generations and a commitment to pan-European goals, but also through the prism of the national interest. The high dependence on imports of (fossil) energy resources also provides economic arguments for interventions aimed at utilizing the local potential for “*clean*” production. At the same time, the intensified efforts to improve energy efficiency would also



enhance the economic efficiency (because of improved competitiveness) and the social (improved quality of life) resilience to shocks.

Connectivity (in its various dimensions – digital, transport) is another priority theme in the Recovery Plan. In addition, the two above-mentioned priorities are interwoven into the strategic approach to connectivity - transport connectivity interventions are designed to contribute to the decarbonization of the sector, while reform and investment projects for both digital and transport connectivity are indirectly aimed at improving the business environment.

In addition to its direct effect on the resilience (of the economy and the society) to shocks, improved connectivity also has a significant effect in terms of territorial cohesion- a theme that does not have strong presence in the Recovery Plan at first glance, but is actually horizontally interwoven in all its components and pillars: the focus of transport connections is on Northern Bulgaria given its infrastructural delay; the main purpose of digital connectivity is to address territorial imbalances in the spread of broadband access; the seemingly sectoral component “Sustainable Agriculture” intervenes towards closing the gaps along the urban-rural areas axis; a reform under the “Healthcare” component addresses the imbalanced geographical distribution of health workers, etc. The economic theory and practice have proven that, in addition to their obvious relation to social resilience, investments have also a positive economic effect even outside the underdeveloped regions they are targeted at.

The human factor is another element which is horizontally interwoven in all components of the Plan, being central to at least three of them. A key principle in drafting the document and in designing the policies is to ensure equal access of all members of the society to public goods (education, healthcare). Deliberate efforts are focused on the vulnerable groups who are threatened by social exclusion and who, due to their social status, have the lowest social resilience to shocks.

The focus on double transition is also proclaimed in the document. However, this focus is determined not so much by the thematic concentration laid down in the Regulation on the Recovery and Resilience Facility as by the attempt to respond to the challenges stemming from the crisis. An argument along that line is the fact that the objectives laid down in the Regulation are significantly exceeded as the green and digital dimensions of the Plan represent 53.66% and 23.60% of the total resource, accordingly. In addition to the efforts to reduce the carbon footprint, the Plan highlights other aspects of the green transition such as water management, combating climate change, conservation of biodiversity, focusing research on climate and environmental challenges, etc. On the other hand, in the context of digital transition, the interventions planned in almost all policy areas contain elements that facilitate digital transformation.

A specific mention should be made, for example, of the effort to improve the digital skills of the population, which is included as a special intervention and a reform model being established in the education system, but also as a supplementary connotation in the interventions planned in other policy areas (from culture to agriculture).



## PART 2:

### REFORMS AND INVESTMENTS

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The plan is structured in four pillars:



#### Innovative Bulgaria

aiming to improve the competitiveness of the economy and its transformation into an economy based on knowledge and smart growth through measures in education, digital skills, science, innovations, technologies and their interrelation.

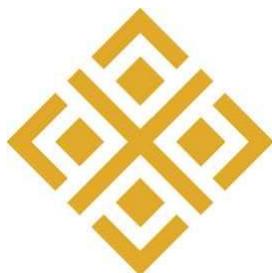
25.3% of the RRP resources



#### Green Bulgaria

with a focus on sustainable management of natural resources allowing to meet the current needs of the economy and society, while maintaining environmental stability, so that these needs can continue to be met in the long run.

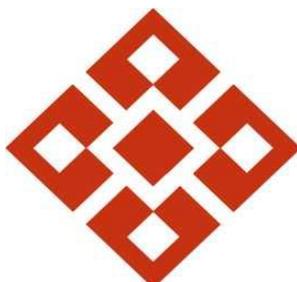
41.9% of the RRP resources



#### Connected Bulgaria

emphasizing on the increase of the competitiveness and sustainable development of the regions of the country, such as the improvement of the transport and digital connectivity, as well as the promotion of the local development, based on the specific local potential.

18.3% of the RRP resources



#### Fair Bulgaria

with a focus on disadvantaged groups and individuals to achieve a more inclusive and sustainable growth and shared prosperity for all, as well as with an emphasis on building effective and responsible public institutions responsive to the needs of businesses and citizens.

14.6% of the RRP resources

**Table 2.1: Reforms and investments in NRRP, financing in '000 BGN.**

Measure (reform/investment)	RRF financing	share, %	National public co-financing	Private co-financing
<b>Education and skills</b>				
STEM centers and innovations in education	480,126	3.5%	96,025	0
Modernization of educational infrastructure	569,418	4.2%	110,567	0
Provision of digital skills trainings and set-up of a platform for adult learning	322,041	2.4%	57,429	0
Youth centers	63,082	0.5%	6,918	0
Reform in pre-school, school education, and lifelong learning (P) <sup>5</sup>				
Reform of higher education (R)				
<b>Research and innovation</b>				
Program to power up economic recovery and transformation through science and innovation	366,493	2.7%	34,552	0
Enhancing the innovation capacity of the Bulgarian Academy of Sciences in the field of green and digital technologies	46,749	0.4%	5,673	0
Implement a common policy for development of research, innovation and technologies towards improved economic and social development of the country (R)				
<b>Smart industry</b>				
Program to support the development of industrial zones and parks and improve their infrastructural connectivity in order to attract investment (AttractInvestBG)	216,500	1.6%	0	420,000
Economic transformation program	1,349,554	10.0%	0	1,645,844
Establish a mechanism to attract industrial investments and develop industrial ecosystems (R)				
<b>Low-carbon economy</b>				
Support for sustainable energy renovation of buildings	1,189,503	8.8%	236,226	70,618
Support for sustainable energy renovation of non-residential buildings	617,656	4.6%	123,531	235,200

<sup>5</sup> Reform


Measure (reform/investment)	RRF financing	share, %	National public co-financing	Private co-financing
Programme to finance ad hoc measures for energy from RES in one-dwelling and multi-dwelling buildings	139,997	1.0%	10,000	89,998
Energy efficient municipal systems for outdoor artificial lighting	149,277	1.1%	30,575	0
Digital transformation and development of information systems and real-time systems of the Energy System Operator in a low-carbon economy	370,000	2.7%	0	241,000
National infrastructure for storage of electricity from RES (RESTORE)	1,562,815	11.6%	0	0
Scheme to support pilot projects for production of green hydrogen and biogas	68,454	0.5%	0	68,454
Scheme to support the construction of minimum 1.4 GW RES and batteries	668,894	4.9%	0	1,337,788
Feasibility study and design of a pilot project for co-generation of heat and electricity from geo-thermal sources	343,053	2.5%	0	0
Establish a National Decarbonization Fund (R)				
Facilitating and increasing the efficiency of investments in the energy efficiency of multifamily residential buildings (R)				
Establish a definition and criteria for "energy poverty" for households in the Energy Efficiency Act for the purposes of market liberalization and financing energy efficiency projects (R)				
Mechanism to finance energy efficiency and RES projects together				
One-stop-shop (R)				
Encourage production of electricity from RES and support the process of decarbonization and lowering the administrative burden for connection and operation of RES (R)				
Prepare and adopt a National Roadmap to improve the conditions for unlocking the potential of hydrogen technologies and mechanisms for production and supply of hydrogen (R)				
Liberalize the electricity market (R)				
Establish an Energy Transition Commission to prepare the Climate Neutrality Roadmap (R)				
Decarbonisation of the energy sector (R)				



Measure (reform/investment)	RRF financing	share, %	National public co-financing	Private co-financing
Establishment of a state enterprise "Conversion of coal regions" <sup>6</sup> (R)				
Improving the corporate governance of state-owned companies in the energy sector (R)				
<b>Biodiversity</b>				
Integrate the ecosystem approach and implement nature-based solutions in the protection of Natura 2000 areas	30,478	0.2%	1,802	0
Restoration of key climate ecosystems in implementation of EU Biodiversity Strategy and the objectives of European Green	62,479	0.5%	9,723	0
Establish a management structure of the National Ecological Network (R)				
<b>Sustainable agriculture</b>				
Fund for Promotion of Technological and Ecological Transition of Agriculture	437,383	3.2%	87,477	437,383
Digitalization of the processes from farm to fork	19,949	0.2%	3,925	0
Update the strategic framework of the agrarian sector (R)				
<b>Digital connectivity</b>				
Large-scale deployment of digital infrastructure on the territory of Bulgaria	527,271	3.9%	105,454	0
Building, development and optimization of digital TETRA system and radio relay network, managed by the Ministry of Interior	124,500	0.9%	24,900	0
Digital transformation of Bulgarian Posts and provision of complex services	101,664	0.8%	0	0
Design and implement an effective policy and regulatory framework (R)				
Efficient use of the radio frequency spectrum (R)				
Create favorable investment environment (R)				

<sup>6</sup> At the insistence of the EC Services, this reform is not included as part of the objectives of the NRRP and, accordingly, the national commitments under the Plan. This does not constitute an obstacle to its implementation outside the commitments under the plan, and it should be noted that it did not provide for funding by the RRF. However, this is possible from the Fair Transition Fund.

Measure (reform/investment)	RRF financing	share, %	National public co-financing	Private co-financing
<b>Transport connectivity</b>				
Reform of rail passenger services in suburban and interregional destinations by purchasing new rolling stock	665,900	4.9%	770,900	0
Implementation of the European Train Management System (ERTMS) for on-board equipment of mainline zero-emission electric locomotives and zero-emission electric multiple units operating on the conventional railway network of the Republic of Bulgaria	63,000	0.5%	0	63,000
Digitization of the comprehensive TEN-T network through the implementation of ERTMS, level 2 in the railway section Ruse - Kaspichan	205,860	1.5%	0	
Construction of an intermodal terminal in the North Central Planning Region in Bulgaria - Ruse	44,157	0.3%	7,792	0
Improve road safety in the Republic of Bulgaria by enabling sustainable road safety management	10,000	0.1%	2,000	0
Ensure sustainable transport connectivity through the construction of Stage 3 of Line 3 of the metro in Sofia - metro station "Hadzhi Dimitar" - "Levski-G"	217,465	1.6%	0	0
"Green Mobility" – a pilot scheme to support sustainable urban mobility through measures to develop environmentally-friendly, safe, functional and energy-efficient transport systems	96,959	0.7%	3,049	0
Update the strategic framework of the transport sector (R)				
Conceptually new management of road safety in a single integrated strategic framework for the period 2021-2030 (R)				
Sustainable urban mobility reform (R)				
Ensure effective access to integrated public transport (R)				
Electric mobility (R)				
<b>Local development</b>				
Programme for building/completion/reconstruction of water supply and sanitation systems, including waste water treatment plants for agglomerations between 2 000 and 10 000 p.e.;	300,000	2.2	0	92,839
Digitalization for complex management, control and efficient use of water	112,571	0.8%	22,259	0
A new regional approach with direct involvement of local communities in the management of European funds and instruments (R)				



Measure (reform/investment)	RRF financing	share, %	National public co-financing	Private co-financing
Continue the water sector reform (R)				
<b>Business environment</b>				
Strengthen, elaborate and upgrade the Unified Information System of Courts of Justice	19,313	0.1%	4,543	0
Digitalization of key court proceedings in the system of administration of justice	7,124	0.05%	1,425	0
Transform the existing information and communication infrastructure in the Prosecutor's Office of the Republic of Bulgaria into a new type - fault-tolerant, reserved, productive and protected	28,778	0.2%	5,690	0
Improving the quality and sustainability of security services	80,207	0.6%	15,954	0
Introducing methods for alternative settlement of disputes in the court system of Bulgaria – pilot introducing of compulsory court mediation; completion of the network of court centers in all district regions of the country; developing a strategy for making full use of other alternative dispute resolution methods	1,616	0.0%	323	0
Support of a pilot phase for introduction of construction information modeling (CIM / BIM) in investment design and construction as a basis for digital reform of the construction sector in Bulgaria	7,790	0.1%	1,558	0
Unified information system for spatial planning, investment design and construction permitting	2,927	0.0%	585	0
Digitalize information arrays in administration that contain register data and e-certification from registers	123,700	0.9%	24,740	0
Upgrade the Aerospace Observation Center (AOC) - Ministry of Interior to achieve national importance in space policy, implementation of European requirements and benefits for humans	110,619	0.8%	22,124	0
Instrument for a better strategic planning and strategic management of the implementation	1,434	0.0%	271	0
Ensuring an adequate information and administrative environment for the implementation of the Recovery and Sustainability Plan	12,592	0.1%	1,671	0
Accessible, effective and predictable justice (R)				
Anti-corruption (R)				
Wider use of alternative dispute resolution methods and introduction of mediation which is mandatory for certain types of cases (R)				



Measure (reform/investment)	RRF financing	share, %	National public co-financing	Private co-financing	
Strength the insolvency procedure (R)					
Digital reform of the Bulgarian construction sector (R)					
Registry reform to unlock the potential of e-government to improve the business environment (R)					
Improve the state enterprises management framework (R)					
Improve the anti-money-laundering framework (R)					
Higher quality and predictability of the legislative process within the National Assembly (R)					
Public procurement (R)					
Growing Bulgaria (R)					
Council for Economic Analyses (R)					
<b>Social inclusion</b>					
Modernization of long-term care	643,227	4.7%	109,773		0
Provision of assisting devices to persons with permanent disabilities	20,000	0.15%	4,000		0
Social economy development	24,095	0.2%	2,565		0
Modernization of the Social Assistance Agency	8,156	0.1%	1,631		0
Modernization of the Employment Agency	26,622	0.2%	5,324		0
Development of the cultural and creative sectors	79,693	0.6%	0		17,121
Digitalisation of museum collections, libraries and archives	59,532	0.4%	8,474		0
Reform in the field of minimum income (R)					
Reform in the area of social services (R)					
<b>Healthcare</b>					
Modernization of medical institutions for hospital care	349,128	2.6%	69,826		0
Centers for interventional diagnostics and endovascular treatment of cerebrovascular diseases	107,115	0.8%	21,423		0
Modernization of psychiatric aid in Bulgaria	23,768	0.2%	4,713		0
Building of emergency medical aid system on air	99,318	0.7%	19,864		0



Measure (reform/investment)	RRF financing	share, %	National public co-financing	Private co-financing
National digital platform for medical diagnostics	23,567	0.2%	4,713	0
Improve the national emergency communications system 112	46,654	0.4%	9,331	0
Development of outpatient care	70,131	0.5%	14,026	0
Update the strategic framework of the Healthcare sector (R)				
Development of e-health and the National Health Information System (R)				
Improving the attractiveness of health professions and promoting a more balanced distribution of health professionals across the country (R)				
Improving access to primary and outpatient care (R)				
Improving access to preventive screening activities (R)				
Modern health education in the Bulgarian school (R)				
<b>TOTAL</b>	<b>13,520,565</b>	<b>100.0%</b>	<b>2,123,705</b>	<b>4,719,245</b>



**Table 2.2: Financing by NRRP component and pillar, '000 BGN.**

Pillar/Component	RRF	Share, %	National co-financing	
			Public	Private
<b>Innovative Bulgaria</b>	<b>3,413,963</b>	<b>25.3%</b>	<b>311,163</b>	<b>2,065,844</b>
Education and skills	1,434,668	10.61%	270,938	0
Research and innovation	413,242	3.06%	40,225	0
Smart industry	1,566,054	11.58%	0	2,065,844
<b>Green Bulgaria</b>	<b>5,659,939</b>	<b>41.9%</b>	<b>503,258</b>	<b>2,480,440</b>
Low carbon economy	5,109,649	37.79%	400,332	2,043,057
Biodiversity	92,957	0.69%	11,525	0
Sustainable agriculture	457,332	3.38%	91,402	437,383
<b>Connected Bulgaria</b>	<b>2,469,348</b>	<b>18.3%</b>	<b>936,354</b>	<b>155,839</b>
Digital connectivity	753,435	5.57%	130,354	0
Transport connectivity	1,303,342	9.64%	783,741	63,000
Local development	412,571	3.05%	22,259	92,839
<b>Fair Bulgaria</b>	<b>1,978,315</b>	<b>14.6%</b>	<b>348,189</b>	<b>17,517</b>
Business environment	397,292	2.94%	72,482	0
Social inclusion	861,325	6.37%	131,768	17,121
Healthcare	719,698	5.32%	143,940	0
<b>TOTAL</b>	<b>13,520,565</b>	<b>100.0%</b>	<b>2,123,705</b>	<b>4,719,245</b>

# 2.A. Innovative Bulgaria

## Components

- Education and skills;
- Research and innovation;
- Smart industry.

## Reforms

- Reform in pre-school, school education, and lifelong learning;
- Reform in higher education;
- Implement a common policy for development of research, innovation and technology towards rapid economic and social development of the country;
- Build a mechanism to attract industrial investments and develop industrial ecosystems.

## 2.A.1 Education and skills

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### *a) Component Description*

**Policy area:** education, labor market

**Objective:** The policy objective is to improve the quality and coverage of education and training, with a focus on acquiring analytical skills and developing creative thinking, increasing the ability of people to timely adapt to technological transformation and to the respective changes in the labour market. Accelerated modernization and digitalization of educational approaches, methods and practices. Improve the digital skills of the workforce and focus active labour market policies on improving the qualification and skills of the workforce, to better match labour market developments.

#### **Reforms and/or investments:**

- Reform in pre-school, school education, and lifelong learning;
- Reform in higher education;
- STEM centers and innovations in education;
- Modernization of educational infrastructure;
- Provision of digital skills trainings and set-up of a platform for adult learning;



- Youth centers.

**Cost estimate:** Indicative estimates of the costs for delivery on the component's objectives- total BGN 1,705.6 million, including BGN 1,434.7 million from the Recovery and Resilience Facility and BGN 270.9 million in national co-financing.

### *b) Main challenges*

COVID-19 containment measures necessitated changes in the education in higher schools and in qualification and personal development centers which also moved to distance mode. In a state of emergency and with restrictions on mobility and social contacts, school education had to move to distance mode in the spring of 2020. The anti-epidemic measures also necessitated changes in education in higher schools and in centers for qualification and personal development, which also switched to distance learning. This created new challenges to ensuring equal opportunities for qualification and professional development. All schools introduced distance learning through cloud platforms or other means of interaction, combining synchronous and asynchronous learning. A national digital library has been set up to help teachers to share lessons and teaching materials. To adapt the learning process to the new reality, laptops, internet access devices and prepaid internet packages were purchased and made available for use. Part of the pupils in the country were not covered by distance learning, as they did not have devices that would allow them to be fully involved in the learning process. Therefore, this activity remains a financing priority under REACT-EU. In addition to the measures to ensure access to online learning, a number of compensatory actions were made available to remedy the deficiencies, such as support for every pupil in need through summer holiday study halls, consultations with different teachers and education mentors. Following the relief of the restrictive measures taken, the 2020/2021 school year began with pupils attending school in person, but the dynamics of the spread of the infection in November presupposed a re-transition on a systemic level to distance learning. Legislative changes enabled the smooth transition from face-to-face to online learning for the individual pupils and students, as well as at class, school and education system level. The option of distance learning in an electronic learning environment, attended by parents, was regulated for kindergartens. This made it possible to maintain relations with families and provide continuous support to every child. Increased number of hours for additional support in the out-of-term periods of the 2019/2020 school year and individual work with children with special education needs were envisaged.

As regards adult learning, the COVID-19 pandemic brought about termination of face-to-face training courses for unemployed and employed persons for the duration of the emergency situation and inability to organize online trainings due to the absence of a unified web-platform, electronic resources, learning



content, tools for provision and assessment of online training and tools for monitoring and control of the quality of the online training provided.

The next years are essential for the adaptation of the education and training system to industrial transformation and for addressing a number of social and economic challenges brought by the COVID-19 crisis. This calls for more effective implementation of distance learning in an electronic learning environment, combined with teamwork at education providers, as well as for real roll-out of the distance learning form laid down in the legislation, which requires changes to the learning model, acquisition of practical knowledge and skills, and development of digital skills by all the parties in the process.

In addition to the difficulties encountered during the crisis, a number of social and economic factors also pose challenges to the education and training system, for example:

- A relatively high percentage of low-skilled persons and persons with a low level of skills, low rate of participation by the population (25-64) in lifelong learning (according to EUROSTAT data, 2.0% in 2019 for Bulgaria against 11.3% for EU-28);
- Low level of basic digital skills. According to the 2020 Digital Economy and Society Index (DESI), the share of persons having at least basic digital skills is about 29% of the Bulgarian population aged 16-74, against 58% EU-average. Only 11% of the persons have above-basic skills, making up one-third of the EU-average;
- Absence of a coordinated strategic approach to skills development in a lifelong learning context, including in the adult learning sector which falls in the scope of activity of different ministries and institutions and puts bounds to the higher efficiency of implemented measures;
- Demographic and social challenges – internal migration to big cities which exerts pressure on existing educational institutions and requires additional places in kindergartens and schools in the bigger cities, as well as prepared educators. On the whole, access to quality education for children from vulnerable groups and Roma children remains difficult due to the existing local segregation and secondary segregation of those children;
- Absence of a holistic early childhood development approach- the rate of involvement in early childhood education in Bulgaria remains below the EU-average, determined also by the need to open additional places in kindergartens and to introduce measures such as eliminating kindergarten fees. The absence of indicators for the quality of ECECS, and the different requirements to the system, which operates, divided between the healthcare and the education sectors, are also a problem of the early childhood education and care system (ECECS).



In that light, development of a National Quality Framework for ECECS, to be approved in 2022/23, was launched under Commission's structural reform support program.

In addition to the difficulties encountered during the crisis, the education system in the country also faces some structural challenges, whose addressing over the years has not yet led to their full resolution. The level of the population's educational attainment is a key prerequisite for the quality of human resources, as well as for the ability of the economy to quickly adapt and recover from crisis situations and shocks. Despite ongoing efforts to modernize the education and training system, improving its quality, labour market relevance and inclusiveness remains a challenge for Bulgaria. In recent years there has been some improvement in the educational structure of the population, with an increase in the share of higher education graduates and a decrease in the number of people with basic and lower education, but the achieved share of higher education graduates among people aged 30-34 remains still below the EU-average (32.5% in 2019 for RB against 41.6% EU-average). The average results of Bulgarian pupils in reading, mathematics and science (PISA) remain significantly lower than the EU average, with the country having one of the highest shares of pupils with poor results in the three areas. This calls for upgrading the efforts, gearing education to acquiring a set of key competences, and for shifting the focus to acquiring knowledge and competences and applying these in life.

In 2019, the percentage of early school leavers is 13.9%, remaining above the EU-average of 10.6%. The share of early school leavers is particularly high in rural areas and among Roma. A standing Mechanism to regulate the activity of outreach teams and the functions of the different institutions at national, regional and municipal level in the process of finding and including the children and pupils not in education was established to cover, integrate and prevent the dropout of children and pupils of compulsory pre-school and school age. As a result of the operation of the Mechanism, the share of not included pupils aged 5-16 decreased almost twice in the 2019/2020 school year compared to the previous 2018/2019 school year (from 8.47% to 4.73%).

On the other hand, the problems of low labour market relevance of education, low participation of adults (persons aged 16+) in trainings for skilling and re-skilling, the unsatisfactory level of digital skills of the workforce, etc., prevent economy's quick adaptability to the new conditions resulting from the crisis, and do not create grounds for quick economic recovery. Increasing the relevance of curricula and study programs to the needs of jobs and implementing flexible and individualized study tracks, including facilitated procedure for validation of professional knowledge, skills and competences, remain challenges that are to be addressed over the next few years.



Financial literacy and financial education are another key prerequisite for improved economic competitiveness and citizens' well-being. The increasingly complex financial products offered, the new risks arising for financial service users, the rapidly developing financial sector, the higher number and types of financial service users and institutions call for improved financial literacy and financial education in all sectors of society. The effects of the current pandemic also confirm the need of better and more efficient management of personal finance, which is to be promoted through the curricula.

The inevitable conclusion is that crisis-related challenges, as well as structural problems, demographic trends, increasing shortage of digital and green transformation skills, including a poor focus of measures on adult literacy and re-skilling, require higher and efficient investment in the qualification and skills of the present and future workforce of Bulgaria.

### *c) Objectives*

The component is in line with the Council's 2019 and 2020 Country-Specific Recommendations. It will directly contribute to implementation of aspects of SR2/ 2020 and SR4/ 2019. The aim of Reforms 1 and 2 is to improve the quality of the education system and the labour market relevance of education. Investment 3 brings a new tool in the active labour market policies. On the other hand, some elements of the reform efforts (STEM orientation and development of cognitive skills in school education, as well as the chosen model of reform of higher education) create preconditions for development of research and innovation activity, thereby indirectly addressing SR 3/2019. The component will indirectly contribute to implementation of the other Country-Specific Recommendations of the Council, e.g., improving the energy efficiency (SR 3/2019, SR 4/2020), thereby helping to fulfill the green transition tasks. Building digital skills required to meet the challenges of digital transition is a horizontal element present in almost all measures within the component.

Investments in the education system create preconditions to simultaneously delivery on objectives of improving economic and social resilience to shocks. On one hand, they are a powerful tool for social inclusion, while on the other they lead to accumulating human capital and skills, enabling both participation of the individuals in the labour market and productivity growth in a macroeconomic aspect. Moreover, the investments planned have a lasting impact, which means that their effect will not disappear when the respective projects are completed. Increasing the education system coverage, which is the explicit and implicit aim of Reform 1, Investment 2 and Investment 4, represents investment in economic and public interest.



The component is in line with one of Europe's flagships - Reskill and Upskill. Major contributors to delivery on EU-level objectives are expected to be investments 3 and 1, as well as the reform projects, whereas Investment 2 will be mainly an indirect contributor along this line.

The measures envisaged in the component will have a macroeconomic impact in the short term. The assessment (Ref. Part 4: Impact Assessment) projects that as of 2023, the GDP level in constant prices will be by 0.3% higher than the baseline scenario (in which the interventions planned under the component are not realized), the medium-term effect (as of 2026) increases to 0.4 % GDP growth against the baseline scenario. The expected effects of the implementation of the projects under the component in respect of the labour market are 0.1% additional increase in the number of employed persons (both in the short term – by 2023, and in the medium-term – by 2026).

#### *d) Planned reforms and investments*

##### **Reform 1: Reform in pre-school, school education, and lifelong learning**

To improve the quality and applicability of education, a comprehensive and multifaceted educational reform is being implemented, strengthening the focus on building skills and key competencies from an early age.

#### **1. Developing and adopting amendments to the Pre-school and School Education Act (Q4/2020)**

- The adopted amendments to the laws and regulations are part of a continuing comprehensive educational reform to focus the education system around acquiring competences and applying them in practice, update the curricula, create, implement and disseminate innovation, expand the coverage of education, distance learning skills, STEM-orientation and cognitive skills development. The changes made include 4-year-olds in the system of pre-school education, enable building of the cognitive and social and emotional skills required for school education and, therefore, prevent dropout and improve learning results. They also allow greater flexibility in the use of innovative methods and technical means for different forms of distance learning in an electronic learning environment for the purposes of prevention at times of emergencies and ensuring continuity of the learning process;
- Amendments to Ordinance No 9 / 2016 on the institutions in the system of pre-school and school education expand the options for creating innovative



schools and allow improvement of the quality of education by designing new tools, methods, activities, organization and environment;

- Amendments to Ordinance No 10 / 2016 on the organization of activities in school education increase e-learning options thereby improving access to and quality of education;
- Amendments to Ordinance No 7 / 2016 enable profiled training;
- The amendments to the Ordinance amending Ordinance No 5 of 30 November 2015 on common educational preparation allow for updating the curricula for the state matriculation examinations in accordance with the Pre-school and School Education Act, which should be held for the first time in 2022, as well as the provision of the training in the individual subjects in line with the gradual introduction of the complex educational reform and optimization of the expected results of the education in order to increase its quality, its practical orientation and its direction towards acquisition of key competencies.
- Ordinance No 24 / 2020 on the physical environment and the information and library support of kindergartens, schools and personal development support centers changes the requirements to the physical environment in educational institutions, laying down requirements for provision of quality and inclusive education.

## 2. Modernizing the regulatory framework of vocational education and training (Q3/2023)

The new VET Act will include (a) changes to the List of professions for VET; (b) training on a smaller number of broad-based professions in order to enable employment in similar professions, including maneuverability to similar sectors; (c) preparation, guidance and motivation for inclusion in vocational training, including for dropouts; (d) identifying and implementing flexible tracks and forms to cover and train different groups of pupils, including offering online and distance learning; (e) reform the content of and update the state educational standards and programs to include and upgrade knowledge and skill requirements for the professions of the 21 century: digital, green, transferable, key competences;

## 3. Updated regulatory framework of employment promotion (Q4/2022)

The new legislative framework will regulate: an option of combining training for acquiring professional qualification and participation in a literacy course for persons aged 16+; offering a new type of comprehensive individualized trainings for persons with low educational attainment, combining acquisition of primary basic skills and basic practical skills for a profession; developing the activities for recognition and validation of professional skills and key competences acquired through non-formal and informal learning, towards ensuring wider access for all persons to learning opportunities at each stage and transition in



their career and life, whatever their age, and ensuring flexible learning opportunities adapted to the individual needs of the persons.

#### 4. Adopted Action plan to the Strategic Framework for development of education, training and learning in the Republic of Bulgaria (2021-2030) (Q4-2022)

Adopted Action Plan to the Strategic Framework, in accordance with the planned measures and activities. For the period 2022-2024 through the activities under the plan the measures and goals set in the Strategic Framework will be implemented, which will achieve the goal of the complex educational reform.

Prior to adoption, the action plan must be approved by the Advisory Board, which is responsible for monitoring and reporting on the implementation of the Strategic Framework.

**State aid:** This reform does not constitute State aid. The services provided by the educational institutions will be free for all pupils and youths, i.e., they will be widely available to all users. The activities of the institutions do not bring economic benefits to enterprises and are provided non-selectively – free for all end users (pupils and youths).

The services provided in support of employment promotion will be free and readily available to all persons and organizations. Therefore, there is no selectivity and there are no grounds to apply the State aid provisions. The trainings will not be linked to specific jobs and will not distort competition.

### Reform 2: Reform in higher education

The reform covers changes in the regulatory and strategic framework of higher education:

#### 1. Designing and approving amendments to the Higher Education Act (Q1/2020)

The reforms set as an objective shared responsibility of the Ministry of Education and Science, on one side and the rectorates on the other, for the development of higher education and higher education institutions, by promoting the modernization of the higher education schools and providing conditions for active research activity, transfer and commercialization of knowledge and technologies, rejuvenation of the teaching staff, improved quality of teaching and increased requirements to college students. As a result of the regulatory changes, contracts were concluded between the Minister of Education and Science and the rectors of all state higher schools, through which policies for development of the respective institution were approved, with strategic goals, objectives, targets and indicators for their implementation. The procedure for implementing the option, provided for in the Higher Education Act, for full or partial payment of tuition costs from the state budget for students who have a contract with an employer for internship during the period of study and for a job after successful graduation is also regulated. This will not only encourage cooperation between academic governing bodies, teachers, students and employers, but will also ensure the staffing of certain sectors in which there is proven shortage of staff.

## 2. National Map of Higher Education (Q3/2021)

The National Map of Higher Education in the Republic of Bulgaria (NPHERP), after coordination with the nationally representative trade unions and employers' organizations, was developed in accordance with the Higher Education Act and the Strategy for Development of Higher Education in the Republic of Bulgaria for the period 2021-2030. The map introduces the national policies for the development of the profile and territorial structure of higher education in the country according to professional fields and specialties of the regulated professions, in line with socioeconomic development and labour market needs. The aim is to use NPHERP for balanced development of the higher schools network in line with the needs of the regions and according to their actual capabilities, as well as for further development of the system for state-controlled subsidized admission to state higher education institutions (HEIs), in accordance with any national and regional needs and with the forecasts for the future development of the labor market. The NPHERP was developed in the conditions of regulatory acts in force, binding the state-subsidized admission in the state higher schools, as well as their financing from the state budget, to a series of factors, including taking into account the quality of education, professional success of the graduates on the labor market, as well as the assessment for program accreditation of the professional directions.

## 3. Adopted Operational Plan for Implementation of the Strategy for Development of Higher Education in the Republic of Bulgaria (2021-2030) (Q4-2021)

Adopted Operational Plan for Implementation of the Strategy for Development of Higher Education in the Republic of Bulgaria (2021-2030) in accordance with the measures and activities set out, aimed at the implementation of the Strategy.

**State aid:** This reform does not constitute State aid. The educational and research activities of higher schools are considered non-economic activities. The higher schools financed meet the definition of research organization.

The activities supporting the promotion of the research – innovation link do not bring economic benefits to enterprises and are provided non-selectively – any public entity may make use of the outcomes. To the extent that the reform and its components focus on structural, legislative and political changes and improvements of the conditions and environment for development of research and innovation, there are no grounds to apply State aid rules, provided that there is not transfer of public resources in favour of certain economic entities.



## Investment 1: STEM centers and innovations in education

The aim of the program<sup>7</sup> is to build a comprehensive educational STEM environment in the Bulgarian schools, which includes renovation, modernization and creation of new space enabling quality education- a lab complex and project competence and team work environment beyond the classical classroom environment. The project builds on the achievements after the successful launch of the National Programme “Building a school STEM environment”. Laboratories for acquiring skills and for project work will be developed and upgraded in the educational environment with modern equipment for experimental work in all STEM areas and by introducing digital technologies, including ones enabling interdisciplinary, synchronous and asynchronous work, mainly with the aim to improve digital literacy and motivation to learn and encourage interest and skills in the disciplines and areas of natural and engineering sciences, artificial intelligence, robotics, IT, life sciences, but also linguistic knowledge, knowledge in the field of arts, etc. With additional support under Programme “Education” 2021-2027 the combined teaching method (face-to-face and distance) will be expanded by designing innovative learning units and introducing new teaching methods (project and problem-based, research training, etc.), which enable high efficiency of the educational process under different conditions (synchronous and asynchronous, in a combination of face-to-face, distance or combined). Raising of the qualification of pedagogical specialists, aimed at improving the digital skills and the skills for innovative teaching in the context of application of the competence approach will also be supported under Programme “Education”. The national STEM center established under the NRRP as a central unit for development and approbation of integrated content, models, methodologies and tools will act in support of STEM education, for teachers, as well as for pupils and students; modern resources, including a lab environment for preparation and training of national Olympic teams, will be provided; quality standards and standards for improving and measuring learning outcomes will be developed. The aim is with the additional support under the two instruments (NRRP and PE) ensure acquisition of practical skills through development and implementation of innovative classes and courses, introduction of integrated courses (physical chemistry, ecology, artificial intellect, robotics, etc.) and implementation of new teaching methods (project- and problem-based teaching, research training, etc.). The program will contribute to promoting digital skills and equal access to education. The total resource planned is BGN 576.2 million (BGN 480.1 million from the Recovery and Resilience Facility and BGN 96.0 million in national co-financing), and the implementation period is 2021-2026.

<sup>7</sup> See Annex No П11



**State aid:** The measure does not constitute State aid. The services provided by the educational institutions will be free for all pupils and youths, i.e., they will be widely available to all users. The activities of the institutions do not bring economic benefits to enterprises and are provided non-selectively – free for all end users (pupils and youths). The activities are part of the National Education System of non-economic nature. Its subjects perform public tasks and are under public control. The selection for financing will be based on a competition procedure following best practices and regulations for obtaining competitive external financing. The specific amount of the funds for each project will be determined on a project-proposal basis.

## Investment 2: Modernization of educational infrastructure

The program<sup>8</sup> aims to enable equal access to education by creating a favorable, inclusive, innovative, supportive and motivating educational environment. To ensure a complete renewed appearance of educational institutions and to create more attractive conditions for learning, activities of interest of children, pupils and students, activities repair, reconstruction, rehabilitation, building installations for use of alternative energy sources, heating, ventilation and cooling of the building stock, landscaping, etc., will be performed. Priority will be given to the implementation of complete repairs and construction of kindergartens, schools, student dormitories and campuses to provide children, pupils and students with favorable conditions of living, learning, education, socialization and development.

The measure builds on the efforts of the Ministry of Education and Science to make educational institutions a modern, safe and favorable environment conducive of improved learning outcomes and motivation, and to implement a comprehensive nation-wide educational reform. The efforts include: Program to build, add extensions and superstructures, and reconstruct nurseries, kindergartens and schools 2020-2022., National Programme “*Provision of modern work conditions to children and pupils in personal development support centers*”, the actions taken pursuant to DCoM No 219 / 17 August 2020 for remediation, repair and furnishing of student hostels, etc. The Programme is based on an analysis of the needs of modernizing modernize the educational infrastructure and mapping already completed repairs in the system, carried out by the Ministry of Education and Science. The program provides for a complete renovation of at least 140 kindergartens and schools, building at least 16 new kindergartens and schools, complete renovation of at least 23 student dormitories and construction of a at least 3 student campuses. The program also includes complete renovation of the educational environment and equipment of at least 24 vocational schools to

<sup>8</sup> See Annex No П2



make them an interdisciplinary and complex learning environment for provision of training in priority economic sectors in regions with a focus on digitalization and green technologies. Emphasis will be put on the link with smart specialization, on upgrading traditional industries (transport, agriculture, etc.) for digital and green transformation, and on support to emerging industries – for example, inclusion of “green energy”, “robotics”, electric vehicles, etc. Total resource planned – BGN 680.0 million (BGN 569.4 million from the Recovery and Resilience Facility and BGN 110.6 million in national co-financing), and the implementation period is 2021-2026.

**State aid:** The measure does not constitute State aid. The services provided by the educational institutions will be free for all pupils and youths, i.e., they will be widely available to all users. The activities of the institutions do not bring economic benefits to enterprises and are provided non-selectively – free for all end users (pupils and youths). The activities are part of the National Education System of non-economic nature. Its subjects perform public tasks and are under public control. The selection for financing will be based on a competition procedure following best practices and regulations for obtaining competitive external financing. The specific amount of the funds for each project will be determined on a project-proposal basis.

### Investment 3 Provision of digital skills trainings and set-up of a platform for adult learning

The project<sup>9</sup> aims at expanding the access and opportunities for quality adult learning (people 16+), using the potential of digital technologies for online learning, on one hand, and increasing the overall digital skills and competencies of the workforce for increasing the employability and participation in online training, on the other hand. The project will be implemented in two components, including the development and implementation of a national virtual platform for online adult learning and the provision of training to the workforce for the acquisition of basic and intermediate levels of digital skills and competencies.

The development of a single virtual platform for online learning aims at providing flexible and accessible forms of learning such as online distance learning courses and e-resources for informal learning. The virtual platform will bring together electronic training opportunities and resources, it will set criteria for the quality of the provided online training and it will provide traceability, monitoring and quality control of the training. The key activities planned include: building and developing a virtual online learning platform, designing methodologies and e-content, holding trainings of trainers,

<sup>9</sup> See Annex No П3



building and managing a system environment, building and supporting a network of 760 digital clubs on the territory of the country, equipped with modern computer equipment and other devices and Internet access, where the persons, assisted by mentors, will be able to use the equipment to participate in electronic and distance learning. Digital clubs will offer free access to all interested persons, with priority given to disadvantaged people, including individuals that do not have their own computer equipment and Internet access. An interactive map of digital clubs will be published in the virtual online learning platform. A single information database of online training courses will be created and the platform will be integrated with the national labour market database, the competence assessment information system My Competence, the Employment Agency's training providers platform, the electronic register of vocational training centers of the National Agency for Vocational Education and Training, etc. The total resource planned for the component is BGN 87.5 million and the implementation period is 2022-2026.

The provision of free and accessible training for the persons in the target group (unemployed and employed persons) for acquiring the necessary basic digital skills and competences is, on one hand, motivated by the current extremely low levels of those skills in a national context, and, on the other hand, by the new needs of the labour market and the introduction of digital technologies in the social-economic processes. Unified curricula for acquiring basic and intermediate levels of digital skills and competences, as well as unified training resources and assessment tools will be designed for training purposes, in accordance with the European Digital Competence Framework DigComp2.1. This will ensure applying a unified approach to the training and assessment of digital skills and competences. The inclusion in the training will take place after enrollment and generating an *electronic voucher* for the training, as the person will choose the training organization. Opportunities for validation of digital skills and competencies acquired through informal learning are also planned, as this will be done by taking an exam as per the developed unified assessment tools. The exams for the completion of digital skills and competencies trainings and for the validation of the digital skills and competencies will be carried out by the certification centers. A special e-module will be created within a national virtual platform for online adult learning, which will service the entire process of enrollment for digital skills and competencies trainings, generation of training e-vouchers, registration and maintenance of training and certification organizations list, keeping an electronic archive of issued certificates.

Training of 500 000 registered unemployed and employed persons with low level of or without digital skills for acquiring basic and/or intermediate level of digital skills and competences is envisaged within the component, as well as validation of basic and/or intermediate level of digital skills and competences of at least 100 000 unemployed and employed persons, acquired through informal learning. The total resource planned is BGN 292 million, and the implementation period is 2022-2026.



The total planned resource is BGN 379.4 million (BGN 322.0 million at the account of the Recovery and Resilience Facility and BGN 57.4 million national co-financing) with implementation period of 2022-2026.

**State aid:** The training of employed and unemployed persons will not be considered State aid in the meaning of Articles 107 and 108, TFEU, because the trainings will not be linked to specific jobs and will not distort competition. The lists of training organizations and certification centers will be open for new organizations, therefore, there is no selectivity in the registration of the above organizations on the lists and there is no State aid in the meaning of Articles 107 and 108, TFEU. The platform will be open for use by all persons and organizations. Therefore, there is no selectivity and no grounds to apply the State aid provisions in the meaning of Articles 107 and 108, TFEU. Investment in renovation and furnishing of digital clubs will represent de minimis aid if such clubs perform economic activity.

#### Investment 4: Youth centers

The measure<sup>10</sup> will support the formation, development and fulfillment of pupils and young people by building multifunctional centers that provide both modern facilities and the application of innovative approaches in the work with these age groups. The model for construction of youth centers in the cities of Plovdiv, Stara Zagora, Dobrich and Vratsa will be followed and upgraded with the support of the Financial Mechanism of the European Economic Area. Specific activities and policies targeted at young people will be designed and pursued towards improvement of digital competences, development of entrepreneurial literacy, general and financial literacy, development of specific soft skills supporting social inclusion and employability. Maintaining the interest of students and young people to education and acquisition of new skills, participation in joint initiatives and sharing common values with their peers, including participation in national and international initiatives, will not only help the integration and socialization of young people from vulnerable groups, but it will also enable the formation of a positive attitude among young people for development and career in Bulgaria. The project envisages inclusion of at least 19 500 pupils and youths in the activities of the centers and at least 4 700 young people receiving specialized trainings for improvement of their professional competence, including digital, financial and entrepreneurial.

In addition, this program would have real effect on the creation of new jobs in municipalities, with at least 155 envisaged for the whole project. The total planned resource is BGN 70 million (BGN 63.1 million at the expense of

<sup>10</sup> See Annex No П4



Rehabilitation and Sustainability Mechanism and BGN 6.9 million national co-financing) with implementation period of 2022-2026.

**State aid:** The measure does not constitute state aid, as the activities and services provided are of a non-economic nature, implemented on the basis of state policy directly controlled by the Ministry of Education and Science and based on the national education system. The municipalities are engaged in the implementation of non-profit activities when establishing the centers, which fall within the commitments of the state in the field of education and children and youth development.

In pursuing local policy, municipalities and municipal regions support the work of the central executive power when it acts by exercising public power and performs mainly non-economic functions. In the outsourcing of certain activities, municipalities must strictly comply with the procedures of the Public Procurement Act.

The services provided at the centers will be free for all pupils and youths, i.e., they will be readily available to all users. The activities of the centers do not bring economic benefit to enterprises and are provided non-selectively-free for all end users (pupils and youths).

The existence of accommodation and/or catering is part of the established European model (Quality Label for Youth Centers: <https://rm.coe.int/quality-label-brochure-en-2015>), after the end of the project financing they will be used to finance centers' self-supporting. Earnings are not treated as profit – they are repaid to the planned budgets of the centers to be used for carrying out their activities.

As regards the costs of the Bulgarian partners for performance of activities included in the project proposals, they have to be of non-economic nature to be eligible under the procedure. If a partner has both economic and non-economic activities, such partner has to prove that they keep analytical accounting and the costs of economic and non-economic activities are separated, visible and traceable. Non-governmental organizations participating as partners in the projects should not be entitled to participate in construction works or in the purchase of materials, equipment/furniture.

When selecting partners, in order to eliminate suspected existence of State aid in the cases where municipalities outsource certain activities to other contractors and/or institutions and/or act in partnership with such contractors and/or institutions, they shall strictly comply with the provisions of the Public Procurement Act. Partners with economic activity (representatives of entrepreneurs, local businesses, enterprises) shall not participate in the spending of funds on the projects, unless they are selected in accordance with the Public Procurement Act



#### *d) Complementarity and demarcation with the Cohesion Policy instruments*

To have a lasting impact on the education reform, the projects will complement the activities under Education Programme 2021-2027 for digital transformation of education and promotion of educational innovation in pre-school and school education.

In a broad context, the projects complement the targeted efforts under the Education Programme 2021-2027 for early childhood development and expand the scope of the education system while ensuring equal access, modernizing curricula and content, supporting the professional development of teachers. Efforts are aimed at increasing the applicability of school education for achieving a professional career and they will also support reforms in vocational and higher education in order to strengthen the links between these, as well as with science and with the dynamic needs of the labour market and facilitate the transition from education to employment.

#### *e) Strategic Autonomy and Security*

Planned interventions will follow the best European practices of investment, oriented to transparency and fair trade; thus the public procurement procedures will honor the principle of achieving strategic autonomy, side by side with maintaining the openness of economy.

#### *f) Trans-boundary and multi-national projects*

The projects included in the scope of the component will be realized on national territory only and do not have an explicit cross-border dimension.

#### *g) Green and digital aspects of the component*

Some of the planned interventions (mostly Investment 2) will have as a direct effect of their implementation increased energy efficiency as a result of the renovation of the building stock of educational institutions. The measures proposed in the component contribute to the ecological transition by taking into account the six climate and ecological objectives, laid down in the Taxonomy Regulation and they do not distort the “does not significantly harm” principle, as defined in the Taxonomy Regulation. With its **15.1%** climate costs (see Table 2.A.1.1 below), this component contributes to the 37% target for the green dimensions of the Plan set in the Regulation on the Recovery and Resilience Facility.

Building digital skills required to meet the challenges of digital transition is a horizontal element present in almost all measures within the component. This is particularly pressing issue given the fact that Bulgaria seriously lags behind the other EU Member States. The share of persons with at least basic digital skills



is about 29% of the Bulgarian population aged 1674, against 58% EU-average. By including **40.8%** digital costs (ref. to Table 2.A.1.1 below), this component also contributes to the 20% target for the digital dimensions of the Plan, set out in the Regulation on the Recovery and Resilience Facility.

**Table 2.A.1.1. Green and digital impact**

Component 1: Education and skills	Financing from RRF, MBGN	Green transition	Digital transition
STEM centers and innovations in education	480.13	0.0	238.02
Modernization of educational infrastructure	569.41	216.94	0.0
Provision of digital skills trainings and set-up of a platform for adult learning	322.04	0.0	322.04
Youth centers	63.08	0.0	25.23
Reform in pre-school, school education, and lifelong learning	0.0	0.0	0.0
Reform in higher education	0.0	0.0	0.0
<b>TOTAL</b>	<b>1,434.7</b>	<b>216.94</b>	<b>585.30</b>
<b>CONTRIBUTION</b>		<b>15.1%</b>	<b>40.8%</b>

#### *h) The principle of not incurring substantial damage*

All measures, included in the scope of the component – investments and reforms – are in conformity with the principle of not incurring a substantial damage, within the meaning of Art. 17 of Regulation (EU) 2020/852.

## **2.A.2 Research and Innovation**

### *a) Component Description*

**Policy area:** research, innovation.

**Objective:** The main goal is to provide a favorable environment for the realization of new products and processes and development of innovative enterprises, as a necessary prerequisite for creating a high-tech industrial base that will take the economy to a new and higher growth projection. The priority is to strengthen and stimulate scientific activity at higher schools, to achieve overall improvement of the research infrastructure and build a capacity to develop critical mass and knowledge to deal with the double transition and prepare the country for accelerated development.



#### Reforms and/or investments:

- Implement a common policy for development of research, innovation and technologies towards rapid economic and social development of the country;
- Programme to power up economic recovery and transformation through science and innovation;
- Enhance the innovation capacity of the Bulgarian Academy of Sciences in the field of green and digital technologies.

**Cost estimate:** Indicative estimates of the costs for delivery on the component's objectives – total BGN 453.4 million, including BGN 413.2 million from the Recovery and Resilience Facility and BGN 40.2 million in national co-financing.

#### *b) Main challenges*

The potential of research and innovation to support productivity remains underutilized. Bulgaria needs to close the significant gap with the EU-average in terms of R&D spending and the ability to retain and attract talent. Public funding is insufficient, and private investment in research and development is concentrated mainly in large multinational companies, mainly in the region of the capital city. The high fragmentation of the R&D and innovation system and the depreciated infrastructure and equipment do not enable R&D investments to contribute to productivity and growth and to attract and retain talents. Besides, the percentage of people with entrepreneurial thinking in Bulgaria is still low. The existence of not entirely e-administrative services in the business sector, including for start-ups and innovative companies and investors, and outdated regulations to promote private investment in R&D are among the main reasons for this low indicator. Actions to facilitate the creation of innovative companies and the commercialization of scientific results are needed.

The country still ranks in the group of "emerging innovators"<sup>11</sup>, and the main contribution to the weak relative performance of Bulgaria is made by the quality of research in the country, including publishing and patent activity, the technological transfer to and in industry, the offering of high-tech and innovative products by the Bulgarian business, and - last but not least - the low efficiency of the coordination efforts between policies, financing structures and organisations engaged in the

<sup>11</sup> EIS 2021



process. The total funding that Bulgaria has received under the EU Framework Program for Research and Innovation "Horizon 2020" is equal to only 0.26% of the total budget of the Program, which is indicative of the country's modest performance.

### *c) Objectives*

The component is in line with the Council's 2019 and 2020 Country-Specific Recommendations. It will directly contribute to implementation of aspects of SR 3 / 2019 and SR 3 / 2020. All measures planned target research and innovation and the unlocking of their potential to accelerate economic growth. In that light, while not associated with expectations for having a significant role in the economic recovery process in the short and even in the medium term, the component has the potential to become a driver of national economic development in the long term, improving country's competitiveness, hence its economic resilience. Moreover, the investments planned have a lasting impact which means that their effect will not disappear when the respective measures are completed. Investment 2 is specifically focused on green transition and digital technologies, thereby contributing to reaching the relevant national targets.

The implementation of the component will contribute to the reduction of regional disparities in the country by (1) establishing a modern legal framework for rapid and flexible technology transfer to business and business access to scientific knowledge and research infrastructure and (2) creating a national development model of research universities as significant participants in the innovation ecosystem.

The measures envisaged under the component will have a modest macroeconomic effect. The assessment (Ref. Part 4: Impact Assessment) projects that as of 2023, the GDP level in constant prices will be by 0.14% higher than the baseline scenario (in which the interventions planned under the component are not realized), the medium-term effect (as of 2026) is a further 0.06 % GDP growth against the baseline scenario. The anticipated effects from the realization of the intentions in this component concerning the labor market would amount to 0.04% in the short term - by 2023 and to 0.02% in the medium term - by 2026 as an additional growth of the number of employees.

### *d) Planned reforms and investments*

#### **Reform 1: Implementing a common policy for development of research, innovation and technology towards rapid economic and social development of the country**

The reform is part of the policy for economic transformation of Bulgaria and reflects the need to build **trust and improve relations between academia and business** in order to efficiently and quickly transfer technology.



The research, innovation and technology policy is part of the reform efforts that began in 2017 with the adoption of the National Strategy for the Development of Research 2017-2030 and covers three stages. The first stage (2017 - 2022) aims to restore the research system and develop scientific capacity, due to the established serious and sustainable decline in the country's position in terms of scientific output - from 44th place in the world in 2000 to 59th place in 2016. In the second stage (2023 - 2025) more significant development of innovation processes is envisaged, and in the third (2026 - 2030) - accelerated development of science in individual regions. Respectively, the second and third stages coincide with the new Innovation Strategy for Smart Specialization for the period 2022-2027, which will focus investments on the transformation of the economy and society to Industry 4.0 and addressing the challenges of digital and green transition, creating conditions for entry of innovations and technologies at regional level and shortening the connection between higher education institutions and research organizations, business and talents in and outside Bulgaria.

In this context, reform efforts are focused on developing a full-fledged research and innovation ecosystem, including at regional level, and taking the country to the category of *"moderate innovators"* as set out in the National Reform Programme Bulgaria 2030 by:

- Achieving a balance of public and private funding (by 2030, 3% of GDP – 1.25% public to 1.75% private investment in R&D), as well as of support for fundamental and applied research;
- Efficient and result-oriented public funding;
- Enabling the development of the national scientific and research human potential and creating attractive conditions for the return of Bulgarian scientists from abroad and for attracting foreign talent;
- Improving the quality and productivity of scientific organizations and universities which contribute to the economic development of the country;
- Shortening the path of scientific research to innovation and new products, services and technologies;
- Coordinating demand and supply and effective cooperation with the business/industry;
- Full participation in the European and international scientific, innovation and technological area.



**The reform comprises of the following components:**

**1 . Creating conditions for full and effective policy coordination in all stages of the preparation and implementation of measures related to the achievement of the main goals in research, innovation and growth.**

The cross-cutting policy between research, innovation and technology will be developed jointly by the Ministry of Education and Science (MES) and the Ministry of Innovation and Growth (MIG). They retain their leading role in relation to specific sectors and the strategic documents guiding them, namely the National Strategy for Research Development 2017-2030 (MES) and the Innovation Strategy for Smart Specialization 2021-2027 (MIG).

An Innovation Board will be set up for more effective coordination. The Board will be an advisory body to the Ministers of Education and Science and of Innovation and Growth. The Board will be co-chaired by the two ministers. Its members will be leading experts in various scientific fields from the country and abroad, from public and private scientific organizations, innovators and business leaders. Business representatives will be at least 1/3 of the Board. They will be determined after the implementation of a transparent selection procedure and will be appointed for a period of at least 5 years.

The Board will be permanent and will meet at least six times a year. It will propose policies for the development of innovation and related research. The Board will support coordination with other national or sectoral strategies, such as the Integrated Energy and Climate Plan, the Higher Education Strategy, the National Roadmap to improve the conditions for unlocking the potential of hydrogen technologies, the Industry 4.0 Strategy, etc.

The structure, functions and powers of the Innovation Board will be regulated in the rules of its work, which will be public.

**2 . Designing and adopting the required legislative framework**

The legal support of research, innovation and technology policy will be ensured through the development and adoption of a new Law on the Promotion of Research and Innovation, which will replace the current Law on the Promotion of Research. The Law will determine the bodies and the procedure for forming the national policy for promoting research and innovation, will regulate the role of each of the institutions involved in the process of creating, implementing, monitoring and evaluating the policy, will indicate the ways of financing the policy.

With regard to technology transfer policy, the Law will define the principles and rules that will regulate the financing of technology transfer, the role of institutions involved in the preparation, implementation, monitoring and evaluation of technology transfer policy.



The Law will also regulate the policy for maintaining and strengthening the country's scientific capacity with an emphasis on areas related to national priorities and strategic documents.

The Law also amends legislation in the field of intellectual property rights to strengthen the coherence of the national framework for intellectual property rights and technology transfer, taking into account the relevant recommendations of the World Bank<sup>12</sup> and the Joint Research Center on the 14 ERDF co-financed centers of excellence and centers of competence in Bulgaria

The changes introduced by the Law are expected to lead to the need for amendments to other related laws and regulations. The necessary changes will be described in a report, which will contain (1) the normative act that needs to be amended, (2) the necessary amendments and (3) the deadline for its amendment, but not later than Q4/2024. By-laws related to the Law on the Promotion of Research and Innovation will be developed and entered into force within the same period.

The whole process of drafting the bill will be based on the principle of partnership, cooperation and coordination with all stakeholders and institutions. Drafting the bill is planned to be the subject of an established inter-institutional working group in which the Ministry of Education and Science.

### **3 . Building trust and improving the relations between the scientific community and business in order to efficiently and quickly transfer knowledge and technology.**

Some of the measures in this component of the reform include more investment in student education, creation of accelerator programs together with business and additional training of scientific staff, increase of project and innovation-oriented indicators in the criteria for scientific growth along with scientific indicators, and criteria for recognizing the contribution of researchers to more applied activities such as technology transfer, creating incentives for scientists to strengthen cooperation with business, as well as incentives for business, including tax incentives for business investment in research, support for common doctoral studies in science and business through a change in the Higher Education Act, etc.

#### **4. For increasing the capacity of research organizations and higher education schools to develop applied research and innovation and to implement joint projects with the industry**

A key factor in increasing the capacity for applied research and innovation and the success of the reform in the sector is the appearance of a new generation of researchers who

<sup>12</sup> *Bulgaria: Country Needs and STI Policy Mix Assessment; Bulgaria Functional and Governance Analysis and Enhancing the Contribution of Bulgaria's Public Research to Innovation: A Survey-based Diagnostic*



have the qualifications and skills needed to carry out applied research and projects. Activities to increase the knowledge and experience of researchers in the field of technology transfer and intellectual property protection, as well as building entrepreneurial skills, are planned. The BAS project includes measures for qualification enhancement, which are aimed at different target groups. Introducing new doctoral courses with an entrepreneurial focus, directly related to the development and implementation of green and digital technologies related to the economic transformation of the country, is planned. The courses' lecturers will include prominent innovators from abroad, as well as business representatives. At the same time, training courses for researchers will be organized aiming at increasing their knowledge in various aspects related to innovations (e.g. intellectual property, patent law, start-ups, etc.). Measures for introduction of postgraduate and post-doctoral programs are planned for retention of qualified and trained staff. An important element of the reform efforts is the implementation of cross-sectoral mobility, as well as the exchange of experience with leading international innovation centers. The measures will cover at least 150 researchers at different stages of their professional development. It should be noted that these measures will be widely promoted to encourage the active participation of female researchers. As a result of the project implementation, BAS expects re-orientation of 25% of the research staff of the institutes, which conduct research in areas related to green and digital technologies, who will participate in applied research and joint projects with the industry.

*Target group:* research organizations, higher education institutions, SMEs, public institutions

**State aid:** To the extent that the reform and its components aim to achieve structural, legislative and political changes and improvements in the establishment of conditions and an environment for development of research and innovation, there are no grounds to apply State aid rules, provided that there is not transfer of public resources in favour of certain economic operators.

### Investment 1: Program to power up economic recovery and transformation through science and innovation

The project<sup>13</sup> provides for the establishment of a mechanism to encourage public and private investment in research and innovation through coordination of government efforts and policies to optimize and strengthen the transfer of research results and technologies. The planned investments are in three main pillars. The first is aimed at accelerating the internationalization of the Bulgarian research and

<sup>13</sup> See Annex No П15



innovation system. The second pillar emphasizes on the establishment and development of a research universities network model in support of industry and society.

Under the first pillar, two operations are planned for financing: (i) project proposals from innovative SMEs that have been awarded the quality label „Seal of Excellence” in the competitions organized by the European Innovation Council, and (ii) project proposals under the “Widening Participation” element of FP “Horizon Europe”, in order to strengthen the research and innovation capacity of the Bulgarian higher education schools and research organizations.

The purpose of the second pillar is to create and pilot a national model for development of research universities which enables higher education schools to migrate to a next level in their development and become full members of the research and innovation system. The activities planned under the pillar will be facilitated also by the 2020 amendments to the Higher Education Act which enable a higher education school with significant contribution to the development of important public areas through top-level research and with excellent research results to be designated as a research university. The plan is, by approving this financing model, to make changes in the funding of higher education from the budget. Research universities will be granted subsidies for research and innovation at the rate of 40% of the subsidy for education. The other higher education schools will receive up to 10% for this purpose. By increasing the funds for research and innovation activity of research universities, the sustainability of the program will contribute to an overall greater increase of public R&D spending.

The total resource planned is BGN 401.0 million (BGN 366.5 million from the Recovery and Resilience Facility and BGN 34.6 million in national co-financing) and the implementation period is 2022-2026.

**State aid:** The planned activities will be implemented with a grant in accordance with Regulation (EU) 2021/241 of the European Parliament and the Council of 12 February 2021 establishing a Recovery and Resilience Facility, Art. 6, para. 1, item a.

Depending on the specifics of the eligible activities and the eligible applicants, the provisions of the State Aid Framework for Research, Development and Innovation and those of the Block Exemption Regulation (Commission Regulation (EU) No. 651/2014 of 17 June 2014 on declaring certain categories of aid compatible with the internal market pursuant to Article 107 and Article 108 of the Treaty (OJ L 187, 26.6.2014), as amended by Commission Regulation (EU) 2017/1084 (OB 1\_ 156/20.06.2017), and in particular Article 25 thereof. The specific applicable provisions of the respective regimes will be determined at the operation level after coordination in accordance with the State Aid Act and after receiving an opinion on the compliance by the Minister of Finance.



Beneficiaries of the Program are organizations that correspond to the definition of a scientific organization<sup>14</sup> or that of a research infrastructure<sup>15</sup> under the State Aid Framework for Research, Development and Innovation (2014/C 198/01) (the Framework). The predominant part of their activities under the program are non-profit, i.e. as such, their public funding does not fall within the scope of Article 107 (1) of the Treaty on the Functioning of the EU. In addition, the organizations' accounting systems differentiate between profit and non-profit activities, their costs, funding and revenues, so as to avoid cross-subsidization effectively.

The non-economic activities include basic activities related to training and retraining, independent research, including joint research, in which the research and knowledge spreading organization participates in effective cooperation, wide popularization of the results of the research in non-exclusive and non-discriminatory conditions. The reinvestment of revenues from knowledge transfer activities carried out by the research and knowledge spreading organizations funded by the program, in their main non-profit activities, defines the knowledge transfer activities as non-profit.

When the developments are carried out through effective cooperation with enterprises, the conditions of item 27 and item 28 of the Framework will be observed. The terms and conditions of the cooperation project, in particular as regards to the contribution to its costs, the sharing of risks and results, the popularization of the results, the access to and the rules on the allocation of intellectual property rights (IPR), will be agreed before the start of the project activities and included in the respective project or

<sup>14</sup> "organization for research and spreading knowledge" or "research organization" shall mean an entity (such as an university or a research institute, a technology transfer agency, an innovation-oriented research intermediary, physical or virtual collaborating organization), regardless of its legal status (whether established under public or private law) or funding method, whose main purpose is to carry out independent fundamental research, industrial research or experimental development and/or to widely spread the results of these activities through teaching, publications or knowledge transfer. Where these entities also engage in economic activities, the financing, the costs and revenues of these economic activities must be reported separately. Enterprises which may have a decisive influence over such an entity, for example as shareholders or members, may not enjoy preferential access to the results it has achieved;

<sup>15</sup> "research infrastructure" shall mean facilities, resources and related services used by the scientific community to conduct research in its respective fields, and it also covers scientific equipment or toolkits, knowledge-based resources such as collections, archives or structured scientific information, ancillary infrastructures, based on information and telecommunication technologies, such as networks, computer equipment, software and means of communication, as well as all other means of a unique nature, allowing the conduct of scientific research. These infrastructures can be concentrated in one entity or "spread" (organized network of resources)



activity. Subject to some of the terms and conditions of para. 28, the results of non-IPR cooperation will be widely spread and all IPRs arising from the activities of the research and knowledge-spreading organizations shall be made available to them in full; or all IPR resulting from the project for the respective development, as well as the related access rights, shall be allocated among the cooperating partners in a manner that adequately reflects their work packages, contributions and respective interests. It is assumed that the scientific organization does not provide indirect state aid.

It is envisaged that along with the non-economic activities, an organization for research and spreading knowledge will also perform supplementary economic activities within the permissible threshold of 20% according to item 20 of the Framework, including: rental of equipment and laboratories to enterprises; provision of services to enterprises; or carrying out contractual researches.

The program will be funded in compliance with the provisions of Section 2.1. of the Framework for State Aid for Research, Development and Innovation, subject to the permissible threshold allocated each year for ancillary economic activities. It is not expected to exceed 20% of the respective total annual capacity of the organization and the economic activities will consume exactly the same resources (such as materials, equipment, labor, and fixed capital) such as the non-economic activities of the organization.

To calculate the % of economic activity, analytical accounting of the costs of each project implemented in the organization will be performed. At the end of each year of the economic life of the financed infrastructure, the percentage of supplementary economic activities in the total annual capacity will be calculated as a ratio of the costs of economic activities to all costs incurred in the organization.

In the event the 20% threshold for economic activities is exceeded, we plan of taking advantage of Art. 26 of the Block Exemption Regulation (Commission Regulation (EU) No. 651/2014 of 17 June 2014 for declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty (OJ L 187, 26.6.2014), amended with Commission Regulation (EU) 2017/1084 (OB 1\_ 156/20.06.2017 г.), as for this purpose the respective control and restoration mechanism under Art. 26 (7) of Regulation (EU) No. 651/2014 will be provided. In the event no GBER is applicable, 100% of the funding will be restored with interest.

The grants under this Research and Development Program in the agriculture and forestry will be coordinated with item 59 of the Preamble of Commission Regulation (EU) No. 702/2014 of 25 June 2014.



## Investment 2: Enhancing the innovation capacity of the Bulgarian Academy of Sciences in the field of green and digital technologies

The investment<sup>16</sup> is aimed at enhancing the innovation capacity of the Bulgarian Academy of Sciences (BAS) and at its active participation in the national research and innovation ecosystem, towards supporting and accelerating the country's economic transformation, with a main thematic focus on the areas related to double transition. The project aims at: creation of tools and mechanisms for effective BAS–business cooperation, towards rapid implementation of innovation in the economy and transforming it into a knowledge-based economy; unlocking the research potential of BAS by improving innovation skills and qualification and by establishing an interdisciplinary, cross-sectoral and international approach; modernization of the green and digital technology transfer infrastructure; creation of innovative products and solutions by scientific teams from BAS in response to specific green transition requests by the business; establishment of sustainable long-term relationships with the business in the field of green and digital technologies through joint PhD programs; stronger participation of the country in R&D competitions announced by European and other institutions; protection of BAS' intellectual property in the field of green and digital technologies with a view to facilitating the commercialization of scientific results and deepening the internationalization of the BAS' R&D system in the field of green technologies. The project is also aimed at consolidation of human resources and shared use of the research infrastructure at BAS by students and professors from higher schools. The total planned resource is BGN 52.4 million (BGN 46.7 million from the Recovery and Resilience Facility and BGN 5.7 million in national co-financing) and the implementation period is 2021-2026.

**State aid:** The project will be funded in compliance with the provisions of Section 2.1. of the Framework for State Aid for Research, Development and Innovation (2014/C 198/01) (the Framework), subject to the permissible threshold allocated each year for ancillary economic activities, i.e. it is not expected to exceed 20% of the respective total annual capacity of the scientific organization and the economic activities will consume exactly the same resources (such as materials, equipment, labor, and fixed capital) such as the non-economic activities of the scientific organization.

The calculation of the capacity will be at the institute level as at this level the respective activity is performed with the organizational structure, capital, materials, and workforce, which the institute has at its disposal.

<sup>16</sup> See Annex No 176



For this purpose, analytical accounting of the costs of each project implemented in the scientific organization will be performed. At the end of each year of the economic life of the funded scientific organization, the percentage of supplementary economic activities in the total annual capacity will be calculated as a ratio of the costs of economic activities to all costs incurred in the organization.

The project beneficiaries are BAS and BAS institutes, which perform R&D in the field of green and digital/quantum technologies, i.e. they are organizations that meet the definition of a scientific organization<sup>17</sup> under the Framework for State Aid for Research, Development and Innovation. The predominant part of the activities of these institutes, including under the project, are non-profit, i.e. as such, their public funding does not fall within the scope of Article 107 (1) of the Treaty on the Functioning of the EU. In addition, the organizations' accounting systems differentiate between profit and non-profit activities, their costs, funding and revenues, so as to avoid cross-subsidization effectively.

The non-profit activities include the main activities, related to education and professional development set by the Framework and carried out by the institutes, independent R&D, including joint R&D, in which the research organization participates in effective cooperation, popularization of the research results under non-exclusive and non-discriminatory conditions. The reinvestment of revenues from knowledge transfer activities carried out by the institutes in their main non-profit activities, defines the knowledge transfer activities as non-profit.

When the developments are carried out through effective cooperation with enterprises, the conditions of item 27 and item 28 of the Framework will be observed. The terms and conditions of the cooperation project, in particular as regards to the contribution to its costs, the sharing of risks and results, the popularization of the results, the access to and the rules on the allocation of intellectual property rights (IPR), will be agreed before the start of the project activities and included in the respective project. Subject to some of the terms and conditions of para. 28, and in the specific case of the BAS project, the application of items b) and c) (i.e. the results of the cooperation, which do not give rise to IPR,

<sup>17</sup> "Organization for research and spreading knowledge" or "research organization" shall mean an entity (such as an university or a research institute, a technology transfer agency, an innovation-oriented research intermediary, physical or virtual collaborating organization), regardless of its legal status (whether established under public or private law) or funding method, whose main purpose is to carry out independent fundamental research, industrial research or experimental development and/or to widely spread the results of these activities through teaching, publications or knowledge transfer. Where these entities also engage in economic activities, the financing, the costs and revenues of these economic activities must be reported separately. Enterprises which may have a decisive influence over such an entity, for example as shareholders or members, may not enjoy preferential access to the results it has.



may be widely spread and all IPRs resulting from the activity of the research organizations shall be made available to them in full; or all IPRs resulting from the project for the respective development, as well as the related access rights, shall be allocated among the cooperating partners in a manner that adequately reflects their work packages, contributions and respective interests. It is assumed that the scientific organization does not provide indirect state aid.

Besides the non-economic activities, the BAS institutes also perform accompanying economic activities (provision of expert services to enterprises or performance of contractually assigned scientific research) within the admissible threshold of 20% according to item 20 of the Framework. Therefore, the ratio of the used capacity to the total capacity on annual basis and at institute level will be monitored.

#### *e) Complementarity and demarcation with the Cohesion Policy instruments*

The projects will complement efforts to develop innovation and research as a critical factor for overcoming crises, economic recovery and transition to a circular and green economy. The targeted efforts will seek to overcome the fragmentation in the development of research and innovation by strengthening the interaction between the two areas and to reduce regional disparities by building and upgrading a national research and innovation ecosystem contributive of emergence and development of full-fledged partnerships of research organizations and universities with industry and enterprises throughout the country. Investments will be oriented to capacity building and human resources development, support for the creation of start-ups in knowledge-intensive sectors, promotion of the internationalization of enterprises and of the Bulgarian research and innovation ecosystem.

#### *f) Strategic Autonomy and Security*

The component has the potential to increase country's strategic autonomy as an effect of the intended intensification of research and innovation activity. Investment, for example in development of green and digital technologies (renewable energy, energy storage, high cybersecurity level) will contribute to higher energy independence and competitiveness of the country, hence of the European Union.

#### *g) Trans-boundary and multi-national projects*

The measures included in the scope of the component will be implemented on national territory only, but they nevertheless have a cross-border dimension, having in mind the fostering of internationalization of enterprises and of the Bulgarian research and innovation ecosystem.



### *h) Green and digital aspects of the component*

The measures proposed in the component contribute to the ecological transition by taking into account the six climate and ecological objectives, laid down in the Taxonomy Regulation and they do not distort the “does not significantly harm” principle, as defined in the Taxonomy Regulation. With its **7.4%** digital costs and **3.7%** climate costs (see Table 2.A.2.1 below), this component contributes to the 20% target for the digital dimensions of the Plan and the 37% target for its green dimensions, as set out in the Regulation on the Recovery and Resilience Facility.

**Table 2.A.2.1. Green and digital impact**

<b>Component 2: Research and innovation</b>	<b>Financing from RRF, MBGN</b>	<b>Green transition</b>	<b>Digital transition</b>
Program to power up economic recovery and transformation through science and innovation	366.5	0.0	21.4
Enhancing the innovation capacity of the Bulgarian Academy of Sciences in the field of green and digital technologies	46.7	16.0	9.3
Implementing a common policy for development of research, innovation and technology towards improved economic and social development of the country	0.0	0.0	0.0
<b>TOTAL</b>	<b>413.2</b>	<b>16.0</b>	<b>30.7</b>
<b>CONTRIBUTION</b>		<b>3.7%</b>	<b>7.4%</b>

### *i) The principle of not incurring substantial damage*

All measures, included in the scope of the component – investments and reforms – are in conformity with the principle of not incurring a substantial damage, within the meaning of Art. 17 of Regulation (EU) 2020/852.

## **2.A.3 Smart Industry**

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### *a) Component Description*

**Policy area:** Industry 4.0.

**Objective:** The component aims to support the industrial sector in the double transition and to provide a favorable environment for new high value added investments. The expected effects of the interventions envisage an increase in the productivity of Bulgarian enterprises and the introduction of new technologies, which will reflect in a higher rate of economic growth, higher employment and higher earnings.



#### Reforms and/or investments:

1. Establish a mechanism to attract high value added industrial investments and develop industrial ecosystems for region growth;
2. Programme for public support to develop industrial zones, industrial parts and similar territories and attract investment (AttractInvestBG) implemented by the Ministry of Innovation and Growth;
3. Economic Transformation Program implemented by the Ministry of Innovation and Growth.

**Cost estimate:** Indicative estimates of the investments for delivery on the component's objectives - total BGN 3,631.9 million, including BGN 1,566.05 million from the Recovery and Resilience Facility and BGN 2,065.8 million in national (private) co-financing.

#### *b) Main challenges*

The restrictive measures taken to control the pandemic have led to a reduction in economic activity in most sectors of the economy. In the second quarter of 2020, when the most restrictive measures were in force, investment in the economy registered a 28.3% decline compared to the previous year. GDP decreased by 8.5% year on year, with construction declining by 7.4% and industry losing 10.6% of value added compared to a year earlier.

To address the liquidity difficulties of the business in the pandemic situation, the Government increased the capital of the state-owned Bulgarian Development Bank by BGN 700 million, by providing BGN 500 million for portfolio guarantees of commercial banks for granting corporate loans and BGN 200 million for interest-free loans to employees on unpaid leave. Through reprogramming of the resource from the European Structural and Investment Funds, BGN 765 million were provided for direct grant support to SMEs affected by the crisis, as well as BGN 166 million for a guarantee instrument, thus securing almost BGN 0.5 billion for additional business lending through the Fund Manager of the Financial Instruments in Bulgaria (Fund of Funds).

The need for continued liquidity support for business remains identified. At the same time, in the medium term, the Government should gear its support for economic recovery to addressing the existing structural challenges for small and medium-sized enterprises. The implementation of the legislative act on small business (Small Business Act) shows that the country is lagging behind the EU, especially in the areas of "entrepreneurship" and "skills and innovation". Bulgarian companies struggle to take full advantage of the opportunities offered by new digital technologies – only 6% of SMEs sell online (the EU average is 17%), 3% of SMEs sell abroad and only 2% of their turnover comes from trade online.



Another significant problem of Bulgarian enterprises is the low level of resource productivity - in 2019, the resource productivity in Bulgaria amounts to EUR 0.3288 / kg, compared to an EU average of EUR 2.1 / kg. At the same time, the intensity of greenhouse gas emissions in the economy is more than 4 times higher than the EU average, with a minimal reduction in the gap in the past ten years or more. The decomposition of carbon intensity by sectors of the economy shows that high values are registered in electricity production (more than three times above the EU average), transport (more than three times above the EU average) and manufacturing (more than 2.5 times the EU average).

### c) Objectives

The component is in line with the Council's 2019 and 2020 Country-Specific Recommendations. It will directly contribute to implementation of aspects of SR 3 / 2020 and SR 3 / 2019. All measures planned target promotion of private investments (SR 3/2020). The proposed program for economic transformation explicitly aims to support the enterprises in the double transition (SR 3/2020) and it will contribute to decarbonization of the economy. The reform projects for building a mechanism to attract high value added industrial investments and develop industrial ecosystems and the accompanying investment project for public support to develop industrial parks and improve their infrastructural connectivity will result in improved business environment, taking into account the regional disparities (SR 3/2019). Some of the elements of the economic transformation program have direct relevance to the targets of the National Integrated Energy and Climate Plan. All measures proposed will contribute to increased economic resilience to shocks. Moreover, their effect will not disappear after the respective projects are completed, which means that the measures have a lasting impact.

The measures envisaged in the component will have a macroeconomic impact in the short term. The assessment (Ref. Part 4: Impact Assessment) projects that as of 2023, the GDP level in constant prices will be by 0.8% higher than the baseline scenario (in which the interventions planned under the component are not realized), the medium-term effect (as of 2026) is a further 0.5 % GDP growth against the baseline scenario. The expected effects from the realization of the intentions in this component in relation to the labour market amount to 0.2% additional growth in the number of employees, both in the short and medium term.



## d) Reforms and investments

### Reform 1: Build a mechanism to attract industrial investments and develop industrial ecosystems

The reform provides for amendments to the national regulatory framework by updating the Government support for attracting investments and developing industrial ecosystems:

#### 1. Industrial Parks Act (Q1/2021)

There are several objectives in this area- establishing institutional conditions to power up investments in industry; more favorable conditions for development of industrial ecosystems; more opportunities for industrial investors to partner with local authorities, educational, scientific, research and social organizations. The Act provides for an ambitious reduction in the necessary procedures for industrial investments and will set minimum standards for work in industrial ecosystems so that the latter can benefit from state support. To the extent that this regulatory instrument does not directly concern the possibility of public support for industrial parks and zones, the country will seek to pursue a policy of support that would not displace an already evolving private initiative. In addition, the State views its industrial policy through the prism of the balanced development of the regions. Interventions to support industry in underdeveloped regions will be part of the tools of the State and the municipalities to counteract economic imbalances region by region.

**State aid:** Insofar as this regulatory instrument does not directly concern the possibility of public support for industrial parks and zones, the support should not be considered State aid.

### Investment 1: Programme for public support to develop industrial zones, industrial parts and similar territories and attract investment (AttractInvestBG)

The investment<sup>18</sup> complements the reform effort for building a mechanism to attract industrial investments and develop industrial ecosystems. This program, which will be implemented by the Ministry of Innovation and Growth, provides for putting in place conditions to attract and anchor investors in industry by preparing terrains for investment, building basic, green, specialized and/or social infrastructure, providing measures under the Industrial Parks Act and supporting investment projects

<sup>18</sup> See Annex No 17



that would otherwise not be economically feasible, based on the climate change and digitalization priorities of RRF.

The above activities are expected to result in higher economic growth, new jobs and increased national export potential. In addition to the expected positive effects in terms of national investment activity and industrial sector modernization, the implementation of the project will help reduce regional disparities in the country. To identify a strategic investor, a package of administrative and financial measures will be proposed, depending on the specific needs of the investor.

The total planned resource is BGN 636.5 million (BGN 216.5 million from the Recovery and Resilience Facility, 420 expected private co-financing, to which it is possible to add co-financing from an international financial institution), with implementation period 2022-2026.

**State aid:** The program envisages construction of elements of basic technical infrastructure- public state or public municipal property, to the borders of each industrial zone, park or similar territory. The infrastructure will be available to any existing or future user. Therefore, financing should be under non-aid treatment. The financing of the envisaged specialized and social infrastructure will also be under “non-aid” treatment because the infrastructure will be available to any existing and potential user. As regards the envisaged package of administrative and financial measures tailored to the needs of the specific investor or area operator, either regional aid under IPA or a State aid scheme for large enterprises, to be notified to the Commission, will be applied, pursuant to the Regional Aid Guidelines which are being developed.

## Investment 2: Economic transformation program

The program<sup>19</sup> envisages provision of targeted support in the form of grants and financial instruments to Bulgarian enterprises to facilitate their transition to a digital, low-carbon and resource-efficient economy. The program will be implemented by the Directorate General for European Competitiveness Funds in the Ministry of Innovation and Growth, which is also the Managing Authority of the Programme Competitiveness and innovation in enterprises in order to achieve synergies between different facilities to support the Bulgarian economy. Apart from being a tool for promoting economic transformation, the timely implementation of the program will also be a catalyst for the economic recovery of

<sup>19</sup> See Annex No 118



Bulgarian enterprises from the negative consequences of the economic crisis caused by the COVID-19 pandemic. The program consists of three funds: Fund 1 - "*Growth and innovation*", Fund 2 - "*Green transition and circular economy*" and Fund 3 "*Investments in climate neutrality and digital transformation*".

Two complementary strands will be announced under Fund 1: "*Recovery and growth*" and "*Innovation*". The first strand envisages structuring of two financial instruments (guarantee and equity), which will be implemented by the European Investment Fund. In addition, the strand envisages the establishment of a large-scale grant procedure for competitive selection for technological modernization (BGN 260 million) and a grant scheme for ICT solutions and cybersecurity in SMEs (BGN 30.6 million). The grant scheme for technological modernization aims to increase the efficiency of production processes, achieve higher productivity, reduce production costs and optimize the production chain and it will finance the purchase of new technological equipment with an emphasis on the digitalization of production processes. The grant scheme for ICT solutions will support the implementation of digital technologies in enterprises, achieving first level *Computerization* and second level *Connectivity* on the digitalization of SMEs, as well as introduction of measures to ensure cyber security of the enterprises. The second strand envisages the structuring of equity instruments for innovation (implementation through the European Investment Fund), aimed at increasing the innovation capacity of enterprises, accelerating the improvement of their productivity and the transition to a knowledge economy, which will improve Bulgaria's current position in the EU as a modest innovator.

Fund 2 "*Green transition and circular economy*" is also structured in two strands. The first aims to support the transition to climate neutrality through improved energy efficiency and energy independence at enterprise level. For this purpose, a grant scheme in support of SMEs in the amount of BGN 200 million is envisaged (including small companies with medium market capitalization and companies with medium market capitalization) for the construction of new RES for own consumption in combination with local energy storage facilities, as well as an additional guarantee financial instrument for energy efficiency and renewable energy. The second strand of the fund focuses on access to finance for SMEs and large enterprises in support of the transition to a circular economy through the introduction of circular production and consumption patterns, environmental standardization and the promotion of recycling and recycling technologies. reuse of waste, repair and use of biologically based products. The support is in the form of grants amounting to BGN 180 million.

The main objective of Fund 3 is to support the transition to a digital and zero-emission economy by supporting the structuring of equity instruments for the implementation of infrastructure projects (through project financing) in this area. This includes, but is not limited to, infrastructure assets for the production and storage of green energy (renewable energy sources, biomass, storage,



infrastructure for charging electric vehicles (hydrogen), digital infrastructure (ICT, optical infrastructure, data centers, 5G), urban regeneration, energy efficiency and social infrastructure.

The total planned resource for the Economic Transformation Programme is BGN 2,936.7 million (BGN 1,349.6 million from the Recovery and Resilience Facility and BGN 1,645.8 million in private investment) and implementation period 2021-2026.

**State aid:** The program includes State aid. The different investments envisaged under the above strands can be implemented applying different State aid treatments, in compliance with the national and European legislation (see the detailed State aid self-assessment presented in Annex П8).

#### *e) Complementarity and demarcation with the Cohesion Policy instruments*

Interventions under two programs in the next programming period will also support the construction and sustainable development of industrial parks, as part of the efforts to build modern industrial infrastructure throughout the country in order to overcome the territorial imbalances in the investment activity- support for partnerships between municipalities and investors for the construction and development of industrial parks (Programme “Development of the Regions”) and measures to support enterprises in the parks (“Enterprise Innovation and Competitiveness Programme”).

Significant support will be directed to the development of Industry 4.0 in Bulgaria through the introduction of digital technologies and solutions, promoting the introduction of technologies from Industry 4.0 in enterprises, and building the necessary human, scientific and institutional capacity.

To achieve sustainable use and management of resources as a condition for transforming the economy from linear to circular and to reduce resource and energy intensity, enterprises will be supported to implement low-carbon, resource- and energy-efficient technologies and promote the efficient use of resources throughout the product life cycle.

#### *f) Strategic Autonomy and Security*

The measures provided for under the component contribute to achieving strategic autonomy within the country and potentially in the EU, to the extent that establishment of conditions for industrial development and shortening of supply chains enables European investors to stay in the EU and deepens the process of integration of the Bulgarian into the European economy. At the same time, some of the projects included in Investment 2 contribute directly to achieving the EU's strategic autonomy in terms of a key resource like energy. By providing companies with their own capacity to generate electricity



from renewable sources for their own consumption, in addition to enabling the storage of this energy, this makes companies more energy independent, thus supporting the processes of ensuring autonomy in terms of energy supply sources at EU level.

### *g) Trans-boundary and multi-national projects*

Given the specifics of most areas of support under the component and insofar as they do not imply partnership initiatives with other Member States, they will not be implemented at supranational level. With regard to the implementation of the equity instruments, it should be borne in mind that the teams managing the funds, as well as the funds themselves, can be based anywhere in Europe, with the requirement of the Recovery and Resilience Facility to finance their strategy to partially or mainly Bulgaria, so that the amount of investment made by the Recovery and Resilience Facility can be invested in companies registered or operating in Bulgaria.

### *h) Green and digital aspects of the component*

The challenges to the industrial sector in the context of the double transition objectives are significant, given the unsatisfactory starting positions (low levels of digitalization and resource productivity, very high levels of carbon intensity). A significant portion of the financial resource under the component is allocated to those strands and the estimates (see Table 2.A.3.1 below) show **2.0%** in digital costs and **22.6%** in climate costs, demonstrating the component's contribution for achieving the thematic concentration sought by the Regulation on the Recovery and Resilience Facility. The measures proposed in the component contribute to the ecological transition by taking into account the six climate and ecological objectives, laid down in the Taxonomy Regulation and they do not distort the "does not significantly harm" principle, as defined in the Taxonomy Regulation.

**Table 2.A.3.1. Green and digital impact**

<b>Component 3: Smart industry</b>	<b>Financing from RRF, MBGN</b>	<b>Green transition</b>	<b>Digital transition</b>
Program to support the development of industrial zones and parks and improve their infrastructural connectivity in order to attract investment (AttractInvestBG)	216.5	0.0	0.0
Economic transformation program	1 349.5	354.2	30.6
Build a mechanism to attract industrial investments and develop industrial ecosystems	0.0	0.0	0.0
<b>TOTAL</b>	<b>1,566.0</b>	<b>354.2</b>	<b>30.6</b>
<b>CONTRIBUTION</b>		<b>22.6%</b>	<b>2.0%</b>



*i) The principle of not incurring substantial damage*

All measures, included in the scope of the component – investments and reforms – are in conformity with the principle of not incurring a substantial damage, within the meaning of Art. 17 of Regulation (EU) 2020/852. *Attachment DNSH provides self-assessments on the observation of the principle at the level of an individual measure.*



## 2.B

# Green Bulgaria

### Components

- Low-carbon economy;
- Biodiversity;
- Sustainable agriculture.

### Reforms

- Establish a National Decarbonization Fund;
- Facilitating and increasing the efficiency of investments in the energy efficiency of multifamily residential buildings;
- Development of a definition and criteria for "*energy poverty*" for households in the Energy Act;
- Mechanism to finance energy efficiency and RES projects together with electricity bills;
- One-stop-shop;
- Encourage the generation of electricity from RES;
- Prepare and adopt a National Roadmap to improve the conditions for unlocking the potential of hydrogen technologies and mechanisms for production and supply of hydrogen;
- Liberalize the electricity market
- Development of low-carbon economy and set up an Energy Transition Commission to design a Climate Neutrality Roadmap;
- Establishment of a state enterprise "Conversion of coal regions"<sup>20</sup>;
- Decarbonisation of the energy sector;
- Improving the corporate governance of state-owned companies in the energy sector;
- Establishment of management structure for the National Ecological Network;
- Update the strategic framework of the agrarian sector.

<sup>20</sup> At the insistence of the EC Services, this reform is not included as part of the Milestones and Targets under the National Recovery and Resilience Plan. This does not constitute an obstacle to its implementation outside the commitments under the plan, and it should be noted that it did not provide for funding by the RRF.



## 2.B.1 Low-carbon Economy

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### a) Component Description

**Policy area:** energy sector, energy efficiency, social policy

**Objective:** The main objective of this component is to decrease the carbon footprint and energy intensity of the economy and to contribute to the green transition through implementation of measures to increase the energy efficiency of residential, industrial and public buildings and promotion of electricity generation from RES. Of key importance will be to modernize the activities for planning, management and maintenance of the country's electricity grid and to complete the reform of the energy market towards full liberalization of trade. The research and piloting of low-carbon energy solutions which are currently underdeveloped in Bulgaria is another priority area towards country's decarbonization. The study and construction of geothermal energy sources as well as storage facilities will make possible the smooth decarbonization of the Bulgarian energy sector by reducing emissions, rather than by closing coal facilities in the coming years.

**Reforms and/or investments:**

- Establish a National Decarbonization Fund;
- Facilitating and increasing the efficiency of investments in the energy efficiency of multifamily residential buildings;
- Development of a definition and criteria for "*energy poverty*" for households in the Energy Act;
- Energy efficiency in buildings;
- Financing program of individual renewable energy measures in single-family buildings and multifamily buildings;
- Energy efficient municipal systems for outdoor artificial lighting;
- Mechanism to finance energy efficiency and RES projects together with energy bills;
- One-stop-shop;
- Encourage the generation of electricity from RES;
- Digital transformation and development of the information systems and real-time systems of the Electricity System Operator in a low-carbon economy;
- Prepare and adopt a National Roadmap to improve the conditions for unlocking the potential of hydrogen technologies and mechanisms for production and supply of hydrogen;

- Scheme to support pilot projects for production of green hydrogen and biogas;
- Liberalize the electricity market
- Development of low-carbon economy and set up an Energy Transition Commission to design a Climate Neutrality Roadmap;
- Decarbonisation of the energy sector;
- Establishment of a state enterprise "Conversion of coal regions"<sup>21</sup>;
- Improving the corporate governance of state-owned companies in the energy sector;
- Scheme to support the construction of minimum 1.4 GW RES and batteries;
- Development of the use of geothermal energy in Bulgaria for the production of electricity and heat;
- National infrastructure for storage of electricity from RES (RESTORE).

**Cost estimate:** The indicative estimates for the costs necessary for the realization of the objectives of the component amount to a total of BGN 7,553 million, of which BGN 5,109.6 million at the expense of the Recovery and Resilience Facility and BGN 2,443.4 million national co-financing.

### *b) Main challenges*

The Bulgarian economy is one of the most resource-intensive economies in the EU, lagging behind the EU Member States on applying the principle of circular economy and implementing eco-innovation activities. The economy spends on average 3.5 times more energy resources per unit of GDP than the average energy consumption in the EU. In the industrial sector there is stagnation in the norm of energy efficiency, and the reasons for this include the lack of significant changes in the industrial structure, as well as the lack of significant improvement in terms of technologies used and production processes. As a result, the energy intensity of Bulgarian industry remains the highest in the EU, almost three times higher than the EU- average. To a large extent, the same applies to the services sector, where the gap with the EU is relatively lower (2.5 times).

The household sector is also characterized by high energy intensity, with 93% of the residential building stock not meeting the energy efficiency requirements. Moreover, according to the review of non-renovated residential buildings by

<sup>21</sup> *At the insistence of the EC Services, this reform is not included as part of the Milestones and Targets under the National Recovery and Resilience Plan. This does not constitute an obstacle to its implementation outside the commitments under the plan, and it should be noted that it did not provide for funding by the RRF.*



energy performance and energy consumption<sup>22</sup>, 90% of non-renovated buildings are characterized with the worst energy performance- with energy consumption classes E, F and G. The necessary investments for increasing the energy efficiency and the renovation of the buildings according to the long-term national strategy for supporting the renovation of the national residential and non-residential buildings for the period 2021-2030 alone exceed BGN 4.6 billion.

Along with the significant investment requirements, an obstacle to the more intensive deployment of activities to improve energy efficiency is the administrative burden (for households, as well as for companies) accompanying the renovation process when measures to improve energy efficiency are taken. There is a need to take steps to facilitate the renovation process and support the citizens and the business with information, technical assistance and advice on regulatory, technical and financial matters related to their energy efficiency improvement projects.

Over the last twelve years, there has been significant increase in the share of energy from renewable sources in gross final energy consumption, which almost doubled in 2019 (to 21.6%) compared to 2008 (10.3%). The country continues to perform better on this indicator than the EU (the 2019 EU average is 18.9%), and the value of the indicator remains significantly above the national target under the Europe 2020 strategy (16% in 2020). The ambitious gradual decarbonization targets of the Green Deal and their projection in the national strategic documents (National Development Programme BULGARIA 2030 and the National Integrated Energy and Climate Plan) imply significant further effort to increase the share of electricity from RES in gross final energy consumption. At the same time, the increased development of renewable sources and the related variable electricity generation call for improvement of the adaptivity of electricity grid's operational management to ensure the required maneuverability, security and prompt action in managing the grid.

Greenhouse gas emissions per capita decreased from 9.1 tons of CO<sub>2</sub>-eq. in 2007 to 8.3 tons of CO<sub>2</sub>-eq. in 2018, with the value for the country being lower than the EU average (8.6 tons of CO<sub>2</sub>-eq.). However, Bulgaria remains the most carbon-intensive EU Member State, the intensity of greenhouse gas emissions in the Bulgarian economy being more than 4 times higher than the EU average, with a positive but modest trend of narrowing this gap in recent years.

<sup>22</sup> *Long-term national strategy to support the renovation of the national residential and non-residential buildings until 2050*





The Energy sector is the biggest source of greenhouse gas emissions nationally with over 70% of total emission in the country. Coal-fired thermal power plants account for almost half of the sector's emissions. The endeavor to decarbonize the economy calls for a wide reform of the national energy sector but implies significant investment requirements.

### *c) Objectives*

The component is in line with the Council's 2019 and 2020 Country-Specific Recommendations. It will directly contribute to implementation of aspects of SR 3 / 2020 and SR 3 / 2019. Investments 1 and 3 are directly aimed at energy efficiency improvement. Reform 1 will create a sustainable mechanism for support of energy efficiency measures beyond the horizon of the Recovery and Resilience Plan. Reform 2 will create preconditions for increasing the efficiency of investments in energy efficiency of multifamily residential buildings. Reform 3 will offer a permanent solution to the problem with support financing of energy efficiency improvement projects of energy-vulnerable households. Reform 4 will increase the opportunities for implementation of measures and projects to improve the energy efficiency. Reform 5 is targeted at lowering the administrative burden for the business and the households accompanying the process of renovation when energy efficiency improvement measures are implemented. These investments and reforms, in their entirety, will result in decreased national energy consumption and greenhouse gas emissions, thereby contributing significantly to the green transition targets and the targets of the Integrated Energy and Climate Plan of the Republic of Bulgaria. Furthermore, the above investments and reforms will contribute directly to delivery on the objectives of the pan-European flagship "Renovate". On the other hand, investments 2, 4, 5, 6, 7, 8, and 9, as well as reforms 4, 6, 7, 8, 9, and 10 will help address effectively the structural challenges identified in SR 3/2019 and SR 3/2020 which recommend investments in energy infrastructure and clean energy production. Grouped as above, these reform efforts and investment projects will contribute directly to the implementation of the flagship "Scale-up". All proposed projects and reforms have their important place in the process of decarbonization of the economy and reduction of its carbon footprint. At the same time, the package of measures will contribute to economic recovery by generating temporary employment in Construction, while also creating preconditions for new and sustainable employment in the hydrogen economy. Moreover, the investments planned have a lasting impact which means that their effect will not disappear when the respective measures are completed. The component will also increase social sustainability in many aspects: addressed low-income members of society, improved living conditions of households with renovated housing, improved quality of life of the entire population and the future generations in terms of reduced greenhouse gas emissions, etc.



The measures envisaged in the component will have a macroeconomic impact in the short term. The assessment (Ref. Part 4: Impact Assessment) projects that as of 2023, the GDP level in constant prices will be by 1.9% higher than the baseline scenario (in which the interventions planned under the component are not realized), the medium-term effect (as of 2026) is a further 1.4 % GDP growth against the baseline scenario. The anticipated effects from the realization of the intentions in this component concerning the labor market would amount respectively to 0.6% (in the short term - by 2023) and to 0.4% (in the medium term - by 2026) as an additional growth of the number of employees.

#### *d) Reforms and investments*

##### **Reform 1: Establish a National Decarbonization Fund**

The establishment of a national decarbonization fund aims to support investment in low-carbon development through sustainable and targeted financing of a wide group of beneficiaries – final consumers of energy – in order to maximize delivery on the goals for decarbonization of the Bulgarian economy. Existing funds will be used for creating the fund, as its structuring will be supported by an ongoing project for technical assistance from DG Reforms of the European Commission, expected to be completed in the end of 2022. The fund will be used to provide grants, financial and technical assistance, combined with financial instruments, including credit lines and guarantees and/or a combination thereof. The fund provides for the creation of a single point for technical assistance to candidates by one-stop-shop or similar mechanisms. The participation of local banks/financial institutions in this financial scheme will be a key element for the success of the Fund, as in their role of financial intermediaries their participation will not only contribute to providing a "leverage" of investments in the form of co-financing, but it should also notably simplify the project financing process.

#### **1. Preliminary phase–Technical support for consultations on the establishment of the Fund, DG Reform, EC (Q3/2022)**

An analysis of the barriers to energy efficiency investments will be prepared and relevant recommendations for changes in the national regulatory framework will be made; a proposal for structuring the fund will be prepared; a draft investment strategy and financing models of the fund will be developed;

#### **2. Drafting proposals for regulations establishing the rules for the structuring and operation of the fund (Q1/2023)**

A special working group will prepare proposals for regulations on the operation of the fund, defining the exact structure, management and rules of the fund. These will include investment strategy, implementation arrangements, financial products, final recipients, a combination of financial instruments and



grants, as well as eligible projects, promotion of energy efficiency, use of renewable sources and reduction of pollution. The proposal will be submitted to the Council of Ministers and then to the National Assembly for decision;

### 3. Institutionalisation of the fund (Q3/2024)

Within this stage, a fund manager will be appointed, an advisory board, as well as sub-funds, will be established and a public procurement procedure will be launched for the election of fund managers of the individual sub-funds - public sector, corporate clients and residential buildings;

### 4. Conducting an information campaign to promote the Fund (Q4/2024)

Creating presentation materials to be published on the websites of all institutions and parties involved. Creating content in the social media that can be shared through popular channels. Creating media interest to the established fund.

**State aid:** The National Decarbonization Fund will be structured in a manner as determined on the basis of additional analysis within a project funded from the Commission's Structural Reform Program. At this stage, it is not possible to specifically define all beneficiaries of resources from the fund, nor the specific support schemes, therefore it is not possible to determine the applicable State aid treatment. When structuring and implementing the Fund, a separate analysis of the applicable State aid treatment will be carried out for each of the support measures which will be notified to the Commission, if necessary.

## Reform 2: Facilitating and increasing the efficiency of investments in the energy efficiency of multifamily residential buildings

The measure will be implemented by amendment of the Condominium Management Act (CMA) and aims to:

- address barriers to energy efficiency investment in multi-family residential buildings, such as the need to facilitate decision-making by owners of single dwellings in multi-family residential buildings;
- regulate the professional management of condominiums in multi-family residential buildings, thus improving the control over the companies carrying out this activity and ensuring greater responsibility towards consumers;
- create a legal possibility for establishing a bank account of the condominium — for the funds collected for management and current maintenance, not only for the maintenance of the fund "*Repair and renovation*"; the bank account should be in the name of the condominium, not in the name of an individual, and should facilitate the application for collective loans.



The implementation of the measure is key to ensuring the efficiency of investment 1 (Energy efficiency in buildings).

#### 1. Entry into force of the amendments to the CMA to facilitate and increase the efficiency of investments in energy efficiency of multifamily residential buildings (Q3/2022)

The reform envisages the amendment to the CMA to be based on the current law on condominium management, and its scope is expanded by regulating the professional management of condominiums in multifamily residential buildings, which has not been subject to regulation so far. The legislative act aims to outline the regulatory parameters of the national policy for maintenance and management of multifamily residential buildings in condominium regime, regulating the role of each of the stakeholders in the process of management, maintenance and renovation of multifamily residential buildings. It stimulates professional management, regulation of the activity of the persons providing professional management services, creating an opportunity to open a bank account of the condominium — for the funds collected for the management and current maintenance, not only for the fund "*Repair and renovation*", which should be in the name of the condominium, not a natural person and it should facilitate the application for collective loans before various financial institutions of the owners of the multi-family residential building.

The changes introduced by the act will lead to a change in other related laws and by-laws, including: Ordinance № рд-02-20-8 of 11 May 2012 on the establishment and maintenance of a public register of the associations of owners of buildings in condominium regime, etc. The preparation of these texts will be part of the overall implementation of the legislative amendments. Expert support from different organizations with experience and expertise in law-making will be used when drafting the bill. The purpose is to study different models of setting and regulating the common policy for management, maintenance, and renovation of multi-family residential buildings and to make recommendations based on the specific national context, in support of the legislative development process.

In the beginning of the process, the necessary consultations will be held with the different public institutions having possible role in the processes of development and implementation of the common residential policy.

*Target group:* Owners of individual properties in buildings in condominium mode, municipalities, business companies providing professional building management services, the banking sector.

**State aid:** The measure does not constitute State aid. There are no grounds for applying the state aid rules, provided that there is no transfer of public resources in favor of certain economic entities.



### Reform 3: Establish a definition and criteria for “energy poverty” for households in the Energy Efficiency Act for the purposes of market liberalization and financing energy efficiency projects

The aim of the reform is to respond to Commission’s recommendation to regulate the "energy poverty" phenomenon and use the definition for priority treatment of households falling within the definition when energy efficiency measures and projects are implemented.

#### 1. Setting up a working group to prepare a proposal for regulatory changes (Q2/2022)

A working group will be set up with representatives of the Ministry of Energy, the Ministry of Labour and Social Policy, the Ministry of Regional Development and Public Works, and the Agency for Sustainable Energy Development and tasked with drafting the relevant regulatory changes regulating "energy poverty". The development of the definition of "energy poverty" in Europe will be examined, including information and practices from CA EED, CA EPBD, the Odyssee-Mure Additional Benefits Instrument, the European Energy Network, the Energy Poverty Observatory and others. The Bulgarian context and the social indicators monitored by the National Statistical Institute will be analyzed. A proposal for possible indicators to be included in the definition and criteria for determining the target group of the definition will be prepared;

#### 2. Stakeholder consultations (Q2/2022)

Three (3) round tables will be organized to discuss the proposals of the working group with stakeholder representatives, and a compromise option will be sought in the case of divergent opinions.

#### 3. Drafting a definition of “energy poverty” and regulatory changes (Q3/2022)

Based on the feedback from the consultations, the working group will propose a draft definition of "energy poverty" and will draft a law amending and supplementing the Energy Act. The bill will be submitted to the Council of Ministers for approval;

#### 4. Adoption of the Law amending and supplementing the Energy Act by the National Assembly (Q4/2022)

The bill will be submitted to the National Assembly for consideration and adoption. Once a Decree is issued by the President of the Republic of Bulgaria, the Law amending and supplementing the Energy Act, regulating “energy poverty” for the purposes of priority treatment of households falling within the definition in the implementation of measures and projects to increase energy efficiency, will be promulgated in the State Gazette.



**State aid:** Establishing a definition in legislation does not constitute State aid.

### Investment 1: Energy efficiency in buildings;

The measure provides for the implementation of three components to improve energy efficiency. It is imperative that after the measures under all components are implemented, there should be 30% primary energy savings per facility. The energy parameters that will be achieved after the implementation of the measures are assessed based on energy efficiency audit.

Measures to improve the energy efficiency in the national housing stock will be financed within the first component<sup>23</sup>. Residential buildings will be renovated in accordance with the objectives of the Long-term national strategy to support the renovation of the national building stock of residential and non-residential buildings (with a horizon up to 2050), and the envisaged measures for energy efficiency in multi-dwelling residential buildings will be financed.

Residential buildings financed under this component are divided into two groups depending on the time of application of the owners' associations: group 1 for applications of the associations until March 2023, providing 100% project financing from the scheme and group 2 for associations applying from April 2023 to December 2023 with provided 80% project financing from the scheme and 20% participation of the associations. Group 2 provides for the possibility, if desired by the building owners associations, to secure their financial share of the renovation activities through an energy saving contract (an ESCO component) or other financial facility. This approach assumes that the saved costs in the future will be transformed into a preliminary investment. For this purpose, an intermediate organization will be selected (the Bulgarian Development Bank, the Energy Efficiency Fund or another financial institution) to take over the servicing of the ESCO component and provide the preliminary investment, after which it will receive payments from the owner or occupant of the building for a certain period. Electricity distribution companies or other utility companies will be invited to act as intermediaries for the deferred repayment of the initial investment of the component. An approach will be sought in which the repayment contributions will be calculated so that together with the heating costs they will be below the levels of the current average heating costs. Thus, the contributions will not lead to additional financial burden for the households, but to improved temperature comfort and healthier environment.

<sup>23</sup> See Annex No П79а



The planned funding for this component is BGN 1,496.4 million. The bigger share of it (BGN 1,189.5 million) is provided by the RRF, and the national co-financing (BGN 306.9 million) should be provided by the owners associations (BGN 70.6 million) and the state budget (BGN 235.4 million).

The second and the third component<sup>24</sup> envisage measures to finance the energy renovation of non-residential buildings, including public buildings, production, trade and services buildings, as well as buildings in the tourism sector. Eligible beneficiaries under the third component cover micro/small, medium and large enterprises throughout the country with a maximum of 50% intensity of the awarded grant. The planned funding is 617.7 million at the expense of the RRF, which is supplemented by national and private co-financing.

Energy efficiency is considered a high priority, given its importance for improving the country's energy security by reducing dependence on energy imports, reducing energy costs for businesses, households and administration, creating more jobs, improving air quality, reducing greenhouse gas emissions, and improving the quality of life of citizens. Energy savings are one of the fastest and most cost-effective ways to deliver on the strategic objectives of combating climate change, ensuring energy security and achieving sustainable economic and social development.

The total planned resource for residential and non-residential buildings is BGN 2,475.4 million (of which BGN 1,807.2 million at the expense of the Recovery Facility) with implementation period of 2022-2026.

**State aid:** Different State<sup>25</sup> aid treatments (non-aid, de minimis, in some cases aid to which Articles 38 and 39 of the General Block Exemption Regulation (Regulation (EU) No 651/2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty) apply) are possible when the measure is implemented, depending on whether the buildings concerned are used for economic activity.

### Investment 2: Financing program for individual renewable energy measures in single-family buildings and multifamily buildings

The aim of the programme is to increase the use of renewable energy in the household sector's final consumption through financing the purchase of solar domestic hot water (DHW) systems and photovoltaic systems.

The programme offers financing of two types of renewable energy measures for households:

- Solar DHW systems. The maximum amount of the grant for an individual household is expected to be 100% of the value of the system, but not more than BGN 1,960.83;
- Photovoltaic systems up to 10 kWp. The maximum amount of the grant for an individual household is expected to be up to 70% of the value of the system, but not more than BGN 15,000.00. Energy-poor households can apply for a grant of up to 100% of the value of the system, but not more than BGN 15,000. In case of technical possibility to use batteries, households can include them in the project for a photovoltaic system, as long as the threshold of BGN 15,000 is not exceeded. Households can install photovoltaic installations with a capacity more than 10 kWp and value more than BGN 15,000, but the grant is limited to BGN 15,000....

The total planned funding is BGN 240.0 million (BGN 140.0 million will be provided by Recovery and Resilience Facility and BGN 100.0 million will be national and private co-financing) with implementation period 2022-2025.

**State aid:** The final beneficiaries of the project activities are households; therefore, State aid treatment is not applied.

### Investment 3: Energy efficient municipal systems for outdoor artificial lighting

The project<sup>27</sup> aims to improve energy efficiency, reduce the energy costs for outdoor artificial lighting and improve the living conditions of the population nationwide through technological renovation and modernization of the systems for outdoor artificial lighting. The project, with final beneficiaries of the grant – the Bulgarian municipalities, is a continuation of the procedure "Rehabilitation and modernization of municipal infrastructure – systems for outdoor artificial lighting" under Programme "Renewable energy, energy efficiency, energy security", financed from the European Economic Area Financial Mechanism 2014-2021, which was closed in 2020. The planned project activities include dismantling of existing luminaires, wires and cables; delivery and installation of new luminaires, wires and cables; supply and installation of facility/ies for production and storage of electricity from renewable sources for own consumption in the system for outdoor artificial lighting; performing construction and installation works directly related to the reconstruction of



<sup>27</sup> See Annex No П11



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the system/s for outdoor artificial lighting; dismantling of existing control devices, delivery and installation of new management, measuring and control devices, with possibility for upgrading and expansion, incl. introduction of, or connection to an existing, system for automation and control of the system for outdoor artificial lighting; preparation of technical/detailed design; construction supervision; author's supervision; project management and publicity. The total amount of the grant to final beneficiaries will amount to 50% of the project value and the remaining 50% will be provided in the form of an interest-free loan to be repaid within 5 years by installments to the National Decarbonization Fund upon its institutionalization. The total planned funding is BGN 180 million, of which BGN 149.0 million from the Recovery and Resilience Facility and BGN 31 million will be national co-financing in the form of VAT costs, with implementation period 2022-2025.

**State aid:** Public funding of infrastructure that is not intended for commercial operation is generally excluded from the application of the State aid rules. The grant under the project will be provided to the beneficiary municipalities, in their capacity as public authorities and owners of public infrastructure who are obliged to ensure the provision of basic services to the population in their territory and to ensure the maintenance of the infrastructure.

#### Reform 4: Mechanism to finance energy efficiency and RES projects together with energy bills

The reform aims to widen the opportunities for implementation of measures and projects for the improvement of energy efficiency and renewable energy sources under conditions of limited financial resources. For this purpose, good practices will be studied and relevant changes in the legal framework will be prepared.

##### 1. Setting up a working group to prepare a proposal for regulatory changes (Q2/2022)

A working group will be set up and tasked to design the mechanism and prepare the relevant regulatory changes. The experience of the EU Member States will be studied with the purpose to adapt it for implementation in the country. The requisite changes in the regulatory basis will be prepared on the basis of the adapted model;

##### 2. Stakeholder consultations (Q2/2022)

Round tables will be organized to discuss the proposals of the working group with stakeholder representatives (organizations of traders in electricity, associations of final consumers, financial mediators, banks, etc.), and a compromise option will be sought in the case of divergent opinions;



### 3. Drafting a mechanism and regulatory changes (Q3/2022)

Based on the consultations feedback, the working group will propose a draft mechanism and will draft regulatory changes to be submitted to the Council of Ministers for decision;

### 4. Approval of the proposed regulatory changes by the National Assembly (Q4/2022)

Promulgation of the regulatory changes governing the mechanism in the State Gazette;

### 5. Conducting an information campaign to present to end-consumers and traders in electricity the opportunities of the mechanism (Q1/2023)

Creating presentation materials to be published in the websites of ME and the Sustainable Energy Development Agency (SEDA). Creating content in the social media that can be shared through popular channels. Creating media interest in the established mechanism.

**State aid:** The reform does not enable the benefit and advantage of some economic operators over others. It creates a simplified procedure for property owners to improve the energy efficiency of their properties while avoiding the financial obstacle - the lack of free funds to be invested in a bundle in these activities. The implementers of energy efficiency measures will be freely chosen by the owners. Given that the mechanism is yet to be detailed, a comprehensive assessment cannot be made without specifying the sources of funding.

At this stage, we consider that the measure does not constitute State aid. After the mechanism is clarified and before it is implemented, a detailed assessment of the applicable State aid treatment will be made and the mechanism will be notified to the Commission, if necessary.

## Reform 5: One-stop-shop

The reform aims to lower the administrative burden (for households as well as for companies), associated with the renovation process when measures for energy efficiency improvement are taken, and to support the citizens and the business with information, technical assistance and advice on regulatory, technical and financial matters related to their energy efficiency improvement projects. For this purpose, 6 territorial units will be piloted, providing services on the "one-stop shop" principle, and in a 24-month horizon the activity will be rolled out in all 28 districts of the country.

### 1. Setting up a working group with representatives of all stakeholders (Q2/2022)

A working group with representatives of the relevant stakeholders ( ME, MRDPW, SEDA, MF,.) will be set up and tasked to: prepare specific recommendations for streamlining and reducing the administrative barriers throughout the project cycle; identify services to be offered (digital and physical); determine the required resources for provision of the services; coordinate and approve a structure of a “One-stop-shop unit”; determine the places where the units will be structured;

### 2. Piloting „one-stop-shop“(Q4/2022)

Six pilot one-stop-shops will be deployed on a regional principle throughout the country to test the requirements for the establishment and operation of the centers/offices. The aim is to manage the pilot structures over a test period and then analyse the circumstances (fostering/preventing) the introduction of one-stop-shop. Based on the analysis, the setup of identical structures in all NUTS-3 regions (or the relevant functional areas) will be proposed. The establishment and operation of the one-stop-shop units will be financed from the central budget.

### 3. Deploying/establishing “one-stop-shop” in all NUTS-3 regions (or the relevant functional area) (Q4/2023)

One-stop-shop centers will be established in all NUTS-3 regions (or the relevant functional areas). The establishment and operation of the one-stop-shop units will be financed from the central budget;

### 4. Conducting regular assessments of the operation of the “one-stop-shop” units (Q4/2023)

The regularity of the inspections and the control body are to be specified. The findings of the inspections and the recommendations made on their basis will be published. Deadlines for fulfillment of the recommendations will be set, including deadlines for addressing detected non-compliances.

**State aid:** The measure does not constitute State aid because it will not distort or threaten free competition by favoring certain economic operators over others.

## Reform 6: Encourage the generation of electricity from RES

The aim of this reform is to reduce the administrative burden on renewable investments in the installation, connection and operation of facilities.

Amendments to relevant primary and/or secondary legislation, including acts of the national regulator, should:

- simplify the licensing and permitting procedures for RES (i.e. solar and wind power), including energy storage facilities, ensure a short and binding administrative response and avoid unnecessary delays, reduce deadlines for connection to the grid;
- allow for specially designated areas where wind farms would comply with environmental legislation;
- simplify the procedure for renewable energy installations for own use up to 1 MW (e.g. roofing photovoltaic installations for households and SMEs), excluding from the procedure the technical approval of the distribution system operator and phasing out the obligation to declare excise duty.

In addition, amendments to the relevant primary and/or secondary legislation will remove barriers and introduce a specific regulatory and supportive framework for the construction, connection and operation of electricity storage facilities. This element of the reform is expected to support the implementation of Investment 8.

As a result of these actions, at least 3,500 MW of new RES capacity (wind and solar) compared to the existing ones will be put into operation and connected to the grid by 30 June 2026.

The implementation of the reform will be completed by 30 June 2026.

**State aid:** The measure does not constitute State aid because it will not distort or threaten free competition by favoring certain economic operators over others.

#### Investment 4: Digital transformation and development of the information systems and real-time systems of the Energy System Operator in a low-carbon economy

The aim of the project<sup>28</sup> is complete modernization of the activities for planning, management and maintenance of the national electricity grid through the introduction of modern digital tools and methods to ensure the necessary maneuverability, security, reliability and speed in managing the power system in a situation of low-carbon production, increasing penetration of renewable sources and distributed generation and increase the flexibility of the operational management and monitoring of the electricity system. The project

<sup>28</sup> See Annex No П12



includes a comprehensive program for complete digital transformation of the systems and processes in the Electricity System Operator and comprises the following subprojects:

- automated substation control system;
- modernization of SCADA in a base with the introduction of the possibility of remote reservation;
- expansion and modernization of the telecommunication network with new devices for remote control of substations;
- comprehensive cybersecurity system;
- supplementing functionalities in the reserve center for power system management;
- display walls;
- building a virtual work environment;
- modernization of the system for administration of the electricity market and the balancing market;
- system for dynamic monitoring of transmission capabilities.

The total planned resource is BGN 611.0 million (BGN 370.0 million from the Recovery and Resilience Facility and BGN 241.0 million in national co-financing) and the implementation period is 2021-2026.

**State aid:** Project financing with resources from the Recovery and Resilience Facility does not constitute State aid. This assessment has been confirmed by the Commission (letter COMP.B.3/ZT/LV/ajn\*2021/035894 of 31/03/2021).

### Reform 7: Prepare and adopt a National Roadmap to improve the conditions for unlocking the potential of hydrogen technologies and mechanisms for production and supply of hydrogen

The reform is a key precondition for reaching the targets of the Green Deal and for decarbonization of the economy, given the potential of hydrogen to replace fossil energy sources in the economy of the future. The steps planned for its implementation include:

1. Setting up a working group (Q2/2022)

A working group is set up and tasked to prepare the National Roadmap. Its members will include public administration representatives, but also representatives of the private sector and the academia, identified on the basis of criteria underpinned by the European and the national experience;



### Preparing a report for evaluation of the potential for development of hydrogen technologies (Q3/2022)

Based on an analysis of the experience of other countries, the working group will prepare an evaluation of the potential for development of hydrogen technologies. The barriers to the development and implementation of these technologies will be identified and proposals for regulatory changes will be prepared in order to improve the conditions for unlocking the potential for development of hydrogen technologies and the mechanisms for production and supply of hydrogen;

### 3. Preparing a National Roadmap (Q1/2023)

Discussion forums will be organized and as a result of the consultations, the working group will propose a draft National Roadmap to improve the conditions for unlocking the potential for development of hydrogen technologies, including green hydrogen and mechanisms for production and supply of hydrogen, which will be submitted to the Council of Ministers for decision; Amendments to the legislation implementing the National Roadmap. The amendments will remove the key barriers identified in the roadmap for the development of green hydrogen technology and will implement the measures needed to develop the entire green hydrogen value chain.

**State aid:** The planned reform will be implemented by the Minister of Innovation and Growth, in coordination with the Minister of Economy and Industry, the Minister of Energy, the Minister of Transport and Communications, the Minister of Education and Science and others. According to p. 17 of Commission Notice on the notion of State aid as referred to in Article 107(1) of the Treaty on the Functioning of the European Union, Article 107(1) of TFEU does not apply where the State acts “by exercising public power”, or where public entities act “in their capacity as public authorities”. In respect of the reform, there is no provision of public resources by public authorities, including European or donor resources managed by a public authority.

#### Investment 5: Scheme to support pilot projects for production of green hydrogen and biogas

The main purpose of the measure<sup>29</sup> is to provide support for designing pilot projects enabling the introduction of green hydrogen and biogas with application in industrial productions, as well as to be used in the future in transport and for electricity and thermal energy production. Taking into account the technological level, the existing practices and the underdeveloped (yet) commercialization of hydrogen technological solutions, efforts will be focused on launching projects which

<sup>29</sup> See Annex No П14



can be implemented in close cooperation between research and industry. These are essentially more developed demonstration projects having industrial value, though on a limited scale, but being a reliable basis for gaining operational experience and developing subsequent large-scale projects. The total planned resource is BGN 136.9 million (BGN 68.5 million from the Recovery and Resilience Facility and BGN 68.5 million in private co-financing) and the implementation period is 2022-2026.

**State aid:** The scheme will provide investment aids for new installations for the production of hydrogen from renewable energy and for new installations for the production of biogas (produced from biological products and waste from agriculture and forestry, as well as from biodegradable fractions of industrial waste and household waste of biological origin) in compliance with the general provisions of Chapter I and the special conditions under Art. 41 of Commission Regulation (EU) No. 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market pursuant to Articles 107 and 108 of the Treaty.

Currently, there are no installations for green hydrogen production in the country and the provided investment aid will be only for new machines, facilities and equipment. With regard to the construction of installations for biogas production will provide investment support only for new machinery, equipment and facilities, and no investment aid will be provided for modernization and expansion of existing biogas production. No aid will be granted for research and development, for connection to electricity and gas networks of the installations for the production of hydrogen from renewable energy and for installations for the production of biogas. “De minimis” rules will apply to costs of engineering and technical consulting services pursuant to Commission Regulation (EU) No. 1407/2013 of 18 December 2013 on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to de minimis aid (Regulation (EU) No. 1407/2013), as the compliances with the requirements of the Regulation and the accumulation of minimum aid on the territory of the Republic of Bulgaria will be observed.

**Reform 8: Liberalize the electricity market**

The reform efforts are aimed at continuing the process of liberalization of the electricity market, incl. of the wholesale and retail segments. The steps planned for its implementation include:

**1. Liberalization of the wholesale market (Q3/2022)**

Full liberalization of the wholesale electricity market is envisaged in 2022. This process requires legislative changes related to the removal of National Electric Company's role as a public supplier and the removal of the quotas for the regulated market. Electricity Purchase Agreements for Maritza East 1 (AES) and Maritza East 3 (Contour Global)

expire in 2024 and 2026 respectively. These contracts are not expected to be renewed. (Q3/2022)

According to the applicable legislation, all electricity producers with an installed capacity of more than 0.5 MW are obliged to sell their electricity on an exchange-trade market of electricity, with the exception of the two thermal power stations, which have concluded long-term agreements for purchase of electricity with the public provider, and the power stations with quotas, allocated by the national regulatory body for the quantities of electricity that the public provider purchases for the needs of the regulated market.

In the market liberalization process, the regulated market quotas and the role of the public provider (Q3/2022) will phase out (through amendment to the Energy Act);

**2. Reforms of the balancing market (Q4/2022)**

This segment of the reform includes several individual steps:

- 40% of all balancing capacities will be purchased daily.
- Apply an option for updating the price of balancing energy suppliers up to two hours before the intraday market closes;
- Introduce a unit balancing price for periods without balancing energy activation;
- Introduce a 15-minute imbalance authorization period;

- Eliminate price caps for activation of balancing energy and price caps for shortages and surpluses. After the platforms are launched (projects TERRE, MARI and PICASSO), the price caps for balancing energy activation will be eliminated;

### 3. Integration of the electricity market (Q4/2022)

- Market coupling within the market for the day ahead on the border with Romania, as well as on the border with Greece was implemented in 2021, and the next step in the process of market integration is the implementation of a market unification project “intraday” on the Bulgarian-Greek border, implemented within the framework of Local Implementation Project 14 (LIP 14): The project is expected to be implemented at the end of 2022, in parallel with the market integration intraday of the borders of Slovakia, carried out in the framework of Local Project 17 (LIP 17). The joint tests of the two projects are expected to start in April / May 2022 (Q4 / 2022).

### 4. Liberalization of the retail market (Q4/2025)

This segment of the reform includes 2 separate steps:

- Transposing the provisions of Directive 2019/944 in the national legislation, Bulgaria plans to set criteria for identification of

households in energy poverty and vulnerable consumers, taking into account the criteria laid down in the Directive such as low income, high energy costs as share of available earnings and low energy efficiency. This step will be implemented as part of Reform 2 (Q4 / 2022);

- gradual and incremental transition to a liberalized electricity market by 31 December 2025, by phasing out regulated prices for household customers, in the conditions of a liberalized wholesale electricity market in two successive stages (in 2023 and 2025) and termination of the determination of energy quotas for supply on a regulated market by the EWRC. During the transitional period, the EWRC will set regulated prices for the final suppliers which will buy the electricity on the free market, in accordance with the requirements of Art. 5 of Directive (EU) 2019/944. (Q4 / 2025).
- Network digitalization/Data access (Q2/2022), net measuring (Q1/2022) and Smart Measure (Q4/2024)
- enabling the same electricity meter to supply, sell and consume electricity, with consumed power data remaining property of the end consumer, not of the respective distribution company, through legislative amendments to the Energy Act and the Electric Quantity Measurement Rules.
- enabling, with legislative amendments to the Energy Act, feedback for mass consumers, by making possible the transition to hour-based electricity measuring / Smart Measure;
- establishing, with legislative amendments to the Energy Act, a requirement for network operators to provide continuously free access to a uniform database of electricity production / consumption measurements within up to 15 minutes after the closing of each settlement period. a requirement to network operators to use a uniform format for data exchange between market participants.

**State aid:** The measure does not constitute State aid because it will not distort or threaten free competition by favoring certain economic operators over others.

#### Investment 6: Scheme to support the construction of minimum 1.4 GW RES and batteries

The aim of the scheme<sup>30</sup> is to integrate a higher percentage of RES of minimum 1.4GW in the grid, in combination with the minimum required storage capacity. The implementation of the

<sup>30</sup> See Annex No H2



scheme is part of the ambitious goal of putting into operation at least 3.5 GW of new capacity for the production of electricity from renewable sources by 2026.

The financing mechanism is planned with five tender procedures, initiated by the beneficiary every six months (starting from Q4/2022), each for the provision of at least 285 MW of RES capacity for each period. The requirement to investors for each time period will be to build RES capacities with a storage facility to balance the production of renewable energy. The storage facility should have capacity for at least 4 hours and facility power of at least 30% of the total installed capacity of the RES facility, i.e., the minimum requirement for considering the production of 100MWp would be a 30MW/120MWh lithium-ion battery. This is a key element of the project proposal because investments in storage facilities in support of RES power stations are of vital importance to the whole system. They contribute to balancing the energy produced because a drawback of energy from RES is that it cannot be sustainable. Construction of total 1.4 GW RES with batteries is envisaged by the end of 2026. Construction of the first 285 MW of RES capacity can start in Q2/2023. The total planned resource is BGN 2,006.7 million (BGN 668.9 million from the Recovery and Resilience Facility and BGN 1,337.8 million in private funding) and the period of implementation is 2022-2026.

**State aid:** Before the Capital Investment Support Scheme for Enterprises enters into force, it will be brought in line with state aid rules.

#### Reform 9: Development of low-carbon economy and set up an Energy Transition Commission to design a Climate Neutrality Roadmap

The Reform will restructure the European Green Advisory Council (EGAC) to the Council of Ministers and allow the establishment of sectoral commissions related to the EU's decarbonisation targets, including those set out in the National Recovery and Resilience Plan.

The purpose of the EGAC and the line committees is to advise and assist the Council of Ministers in the context of reconciling national priorities in the field of energy security, accelerated sustainable economic development, social justice and environmental protection and the development of plans and strategic documents stemming from the Communication of the European Commission on the European Green Pact and the EU's decarbonisation targets for 2030 and 2050.

The proposed reform aims to ensure a clear process of updating the strategic framework for decarbonisation of the economy by examining the processes of assessment of decarbonisation scenarios and to outline possible paths with the respective financial, environmental and socio-economic consequences of the measures in different scenarios to take informed



decision and to unite around a certain direction of transition of the Bulgarian economy with the approval of the Parliament.

The reform will make it possible to accelerated:

- establishment of an Energy Transition Commission to consider scenarios for decarbonisation of the energy sector;
- preparation of a roadmap for climate neutrality of the Bulgarian economy.

The reform for the development of low-carbon economies will enable the organization of a well-functioning Advisory Board, which together with the sectoral Commissions will be able to develop the consultation process and discuss proposals for solutions and prepare detailed analyzes and models for achieving the European Climate Neutrality Goals for 2030 and 2050 and related changes in legislation, taking into account the "Prepared for Goal 55" legislative package and actively involving stakeholders.

The activation of stakeholders with proven experience and capacity to identify and implement solutions related to the decarbonisation of the economy and achieving the goals of climate neutrality and their inclusion in the line committees will lead to:

- Establishing significantly clearer political positions on the wide range of decarbonisation targets in the field of drafting and updating strategies and legislative initiatives, part of achieving the objectives of the European Green Deal (EGD) at EC, EP, OECD and UN levels;
- Supporting and protecting the Bulgarian economic and social interests in the context of achieving the goals for sustainable development of the country;
- Ensuring much-needed coordination and collaboration between agencies and stakeholders directly and/or indirectly related to the European Green Deal (EGD);
- Demonstrating the change in the policies and strategic goals of Bulgaria in the face of our European and international partners, which will allow our country to be reliably perceived as a desired and preferred strategic and business partner, innovator in this part of the Balkans.

The Chairperson of the EGAC is the Deputy Prime Minister for Climate Policy and the Minister of Environment and Water, appointed by order of the Prime Minister. The Deputy Chairperson of the EGAC is the Minister of Energy or a Deputy Minister of Energy appointed by him.

EGAC and the Energy Transition Commission must base their discussions and proposals on facts and reliable forecasts in order to enable fact-based and data-based decision-making. The role of the Commission is to outline possible scenarios and ways for decarbonisation of the Bulgarian energy sector, as well as possible



equitable transition measures, identify funding needs, environmental impact assessment and socio-economic impact.

The functions of the EGAC and the relevant Energy Transition Commission will be as follows:

- Ensure real stakeholder participation. While large groups contribute to the involvement of a maximum number of stakeholders, transformational change is unlikely in the presence of blocking minorities. The same goes for the need to reach a consensus in a polarized political constellation.
- The Commission's mandate will include the development of several possible policy scenarios. In this way, it will guide public debate and facilitate political decision-making. The Government is the body responsible for choosing a specific path. The timetable for the different scenarios is critical for developing policy options and creating a predictable environment for all parties concerned, and for unlocking the full positive potential of the transition because change can bring public benefits. The schedule will include options for when is the best time to withdraw a capacity and how to replace it in the energy system.
- The Commission will need a strong regional component. In order to develop rapid and equitable transition strategies for the regions concerned, regional stakeholders need to be involved.
- Effective transition financing is a key challenge: The financing of regional transition strategies is a unique opportunity to create innovative low-carbon economies. However, project evaluation and monitoring are key to ensuring that these are sustainable investments for the affected communities in line with the Paris Agreement and the Sustainable Development Goals.
- The performance of the Energy Transition Commission cannot be strictly fixed: In the medium and long term, the consensus may be influenced by factors such as public support, changes in government, domestic and international trends in economic and climate policy.
- Involving external expertise (EU): the Energy Transition Commission should involve foreign expertise in order to strengthen the internal capacity.
- Assess the opportunities for interinstitutional cooperation and input from other public authorities, in order to ensure a correct analysis of funding opportunities and gaps and of the socio-economic impact of different scenarios (e.g., local employment, industry and sectoral impacts, environmental impact, etc.)

#### 1. Elaborating the terms of reference of the Commission (Q2/2022)

The terms of reference should include clear mandate, tasks and deadlines. It should define the form of participation, as well as allow for expert input from

various stakeholders, including businesses, ministries and civil society representatives. They should define the final product and what it should include. The terms of reference should be approved with a Decision of the Council of Ministers.

## 2. Setting up the Commission (Q2/2022)

A transparent procedure for recruiting participants and appointing members to the European Green Advisory Council (EGAC) to the Council of Ministers will be launched and sectoral commissions will be structured. Wide stakeholder representation will be sought.

## 3. Preparing a report with scenarios (Q4/2022)

Following the restructuring and convening of the Energy Transition Commission, a work plan will be adopted. It will analyse the current situation and commitments under different European and international frameworks - nationally determined contributions under the Paris Agreement, NIECP within the EU Energy Union, initiatives under the European Green Deal, etc. The plan for phasing out the usage of coal will include steps until 2024, 2026, 2030, 2035, and 2038. These dates refer to commitments at EU level for 2030, 2035 as a date proposed by business organizations and 2038 as a deadline.

The Commission will consult stakeholders and the public on decarbonization scenarios in parallel with the work process, which will ensure stakeholder participation, transparency and acceptability of scenarios, roadmaps and strategies.

The territorial plans for a fair transition, developed on the basis of decarbonization scenarios, will dynamically reflect and cooperate with the work of the EGAC and the Energy Transition Commission.

Several energy transition scenarios will be worked on, including variants of the country's energy mix and different production capacities, possible dates for coal decommissioning, analysis of the impact on the workforce, environmental assessment, emission reduction targets and paths, funding needs and gaps, other relevant local and regional social and economic impacts.

Stakeholders and the public, including EU bodies and regional authorities, will be consulted. An impartial, scientifically and evidence-based process and outcome in different scenarios will also be guaranteed. The Commission will prepare a report with different energy transition scenarios and their consequences, to be adopted with a Decision of the Council of Ministers, presented to the National Assembly and published by the Council of Ministers.

The roadmap for climate neutrality will be based on the preparation of a specialized report with clear recommendations, which will be sent to the Government and will be made public. The developed scenarios and recommendations in the roadmap report will include



steps to phase out lignite as soon as possible and no later than 2038.

### Reform 10: Decarbonisation of the energy sector

Decarbonisation of the energy sector will focus on reducing carbon emissions from electricity production by 40%, taking baseline levels by 2019. The aim for reducing emissions must be achieved in 2025 (measured and confirmed by data for 2026) and will be strengthened by updating national legislation in the Climate Change Limitation Act, which will also establish a clear plan for the phasing out of coal-fired power plants by 2038 and have a regulatory threshold for their carbon dioxide emissions applicable from 1 January 2026. The law will also provide for measures related to the socio-economic consequences, which will be financed and will be in line with the measures provided under the Fair Transition Fund

The reduction of carbon dioxide emissions will cover coal-fired power plants, namely TPP Maritza 3 EAD, TPP Maritza East 2 EAD, TPP Bobov Dol EAD, AES-3C Maritza East 1, TPP Contour Global Maritza East 3, TPP BRIKEL EAD, TPP Republic, TPP Ruse East and District Heating Sliven.

In meeting the decarbonisation targets, the overall environmental performance of the installations concerned in terms of emissions of atmospheric pollutants from dust and sulfur dioxide, as well as compliance with EU ambient air quality standards in all areas, where the installations are placed, with indicators and quality standards, will be taken into account.

The achievement of these goals will have to be completed by 30 June 2026 and will be integrated into the Climate Change Limitation Act.

**State aid:** The measure does not constitute State aid because it will not distort or threaten free competition by favoring certain economic operators over others.

### Establishment of a state enterprise "Conversion of coal regions"

At the insistence of the EC Services, this reform is not included as part of the objectives of the NRRP and, accordingly, the national commitments under the Plan. This does not constitute an obstacle to its implementation outside the commitments under the plan, and it should be noted that it did not provide for funding by the RRF. However, this is possible from the Fair Transition Fund.

The enterprise will be to the Ministry of Energy and is provided with the existing terrains and facilities of state-owned coal mining or energy companies together with the adjacent infrastructure and the land, for carrying out the reclamation activities. The enterprise plans landscape and infrastructure development, prepares the terrain and modernizes the infrastructure in order



to meet the needs for new activities in the context of creating an economic zone in the Maritza East complex. To carry out the activities, the enterprise shall hire workers whose contracts are terminated in connection with the termination of mining activities.

### **Investment 7: Development of the use of geothermal energy in Bulgaria for the production of electricity and heat**

The project<sup>31</sup> consists in updating the information on the national geothermal potential and preparing a design solution for a pilot system for the use of geothermal energy for co-generation of 10MW of electricity and 30MW of heat. For the purposes of training specialists and disseminating knowledge about modern cost-effective and environmentally-friendly technologies for production and use of clean energy, the project provides for the construction of a specialized laboratory in a university for research and training on combined geothermal energy systems.

The National Integrated Energy and Climate Plan of the Republic of Bulgaria 2021-2030 sets a national target for increase in the share of energy produced from renewable energy sources to at least 27%. Delivering on these ambitious goals, the project will make it possible to study the currently unused renewable source - geothermal energy and will enable effective future use of its potential for heat and electricity production through innovative systems providing clean energy for the home, the industry, agriculture, balneology and tourism.

The analysis of the geothermal energy development potential throughout the country will make it possible to find solutions to the existing problems, such as addressing the poor technical condition of the majority of the 12 district heating companies in Bulgaria. The development of this technology will help address the problems of energy poverty and air pollution from burning of solid fuels and will facilitate the seeking and implementation of solutions for economic diversification at the local level according to the country's geothermal potential. In addition, the establishment of a laboratory for modern research, development and applied activities will develop expertise, expand the scope of research and provide a basis for students, researchers and specialists in the field of modern technologies for production of electricity, heat and cooling from geothermal and solar energy, to acquire quality knowledge, skills and competences.

<sup>31</sup> See Annex No H3



The total planned resource is BGN 343 million, all from the Recovery and Resilience Facility and the implementation period is 2022-2026.

**State aid:** The measure does not constitute State aid because it will not distort or threaten free competition by favoring certain economic operators over others.

### Investment 8: National infrastructure for storage of electricity from RES (RESTORE)

The aim of the RESTORE project is to make a significant contribution to solving the problems of the inability of renewable energy sources to fully participate in balancing the electricity system, covering peak loads and providing market-based flexibility and ancillary services through purchase, installation and commissioning of national infrastructure from electricity storage facilities with a total charged energy capacity of 6,000 MWh. The facilities (consisting of batteries, inverters, transformers, power electronics / intelligent electronic devices and control automation) will be strategically distributed evenly on the territory of the Republic of Bulgaria, located near the installed and to be deployed renewable generating facilities. Thus, the project aims in particular to ensure a significant contribution to the maximum utilization of electricity produced from existing and future RES and its transmission to the main centers of consumption with minimal losses and according to the actual load in real time, including at a decentralized level. Moreover, through these facilities the project will significantly contribute to the complex implementation of the concept of smart grids, ensuring a high degree of observability, accuracy of operational planning, maneuverability and speed of the EPS, including the prevention and/or management of accidents.

The Operator(s) of the storage facilities provided for in the project will not participate in the energy and balancing markets, but will only provide an equal and non-discriminatory opportunity for trade participant / producer and producers of renewable electricity to store the energy generated by them and fully participate in these markets, catalyzing both market competitiveness, efficiency and supply, and security and adaptability of the electricity system and hence of electricity supply as whole. The Operator(s) will provide non-discriminatory access to the infrastructure for different types of services such as storage of energy from third countries through standard access contracts for energy storage, with the possible application of smart contracts, and will provide their infrastructure for "rent" under standardized commercial conditions and schedules, and these systems can store energy from surpluses or other services at the request of a trading participant and electricity producers, relying on market signals and incentives for participants. Through the storage facilities provided by the project,



the national transmission operator and the operators of distribution networks on the territory of the Republic of Bulgaria will be able to integrate in the most efficient, economical and climate-neutral way the connected and planned to connect RES to their networks.

The total planned resource is BGN 1,562.8 million from the Recovery and Resilience Facility and the implementation period is 2022-2026.

**State aid:** The project will be notified in accordance with the EC Guidelines on State Aid in the Field of Climate, Environmental Protection and Energy from 2022.

#### Reform 11: Improving the corporate governance of state-owned companies in the energy sector

The aim of the reform is to improve the transparency and competitiveness of state-owned companies in the energy sector. The measure will consist of separating the ownership of the two operators of transmission systems for natural gas and electricity (i.e. Bulgartransgaz EAD and ESO EAD) from the corporate structure of Bulgarian Energy Holding EAD and their separation as individual public enterprises, with 100% state ownership of the capital and principal Ministry of Energy. In addition, an independent audit report will be presented to the European Commission, presenting a detailed assessment of market compliance on cross-subsidization between state-owned or state-controlled energy companies in relation to coal-fired power generation, if any, including any capital transfers between activities and between enterprises of the same group in relation to the coal-fired power generation. The report is presented annually compared to the previous calendar year.

The implementation of the reform will be completed by 30 September 2024.

**State aid:** The measure does not constitute State aid because it will not distort or threaten free competition by favoring certain economic operators over others.

#### e) *Complementarity and demarcation with the Cohesion Policy instruments*

The projects of the Plan are complemented by the interventions of the Cohesion Policy for sustainable management and use of natural resources, which makes it possible to meet the needs of the economy while maintaining environmental sustainability. The introduction of low-carbon, resource-efficient and energy-efficient technologies in enterprises, development and implementation of innovations in the field of circular economy, energy efficiency measures, use of energy from renewable sources for own consumption in enterprises will be supported.

Energy efficiency measures are envisaged in residential and public buildings on the territory of urban municipalities in the country in accordance with the Long-term

strategy for renovation of the building stock in the Republic of Bulgaria with a horizon up to 2050. Those measures will be combined with interventions, primarily in energy efficient buildings, for replacement of individual heating devices on solid fuel with environmentally friendly and energy efficient appliances/systems, the focus being on the municipalities with poor ambient air quality. Electromobility and the use of environmentally friendly vehicles will be encouraged, and charging stations for electric vehicles will be built. These measures have a direct contribution both to increasing the energy efficiency of households and to reducing greenhouse gas emissions.

#### *f) Strategic Autonomy and Security*

The component meets the strategic autonomy and security vision and will contribute to reducing the energy and resource dependence of the economy. Along these lines, there will be a contribution both from the measures aimed at increasing energy efficiency and from the interventions envisaging and / or mediating investments in renewable energy sources. The measures for construction of additional RES capacities with storage systems will help to decentralize the energy system, which is a key element for achieving a high level of sustainability and autonomy.

#### *g) Trans-boundary and multi-national projects*

The measures incorporated within the scope of the component are foreseen for implementation only on the territory of the country. However, it should be noted that individual projects and their elements have a certain cross-border dimension. Reform 6 envisages Sustainable Energy Development Agency's joining the Association of Issuing Authorities, which will facilitate international trade in guarantees of origin for all renewable energy producers. Investment 4 and reform 8 relate to the interconnection of the national electricity system with the European market.

#### *h) Green and digital aspects of the component*

The energy sector is the biggest greenhouse gas emitter in the country, generating over 70% of all greenhouse gas emissions nationally. The interventions under the component will bring about the reduction of those emissions and the component will thus contribute significantly to reaching the 37% climate change target of the Plan, as laid down in the Regulation on the Recovery and Resilience Facility, with **100%** climate costs (see Table 2.B.1.1 below). The measures proposed in the component contribute to the ecological transition by taking into account the six climate and ecological objectives, laid down in the Taxonomy Regulation and they do not distort the “does not significantly harm” principle, as defined in the Taxonomy Regulation.



By including **15.1%** digital costs (ref. to Table 2.B.1.1 below), this component also contributes to the 20% target for the digital dimensions of the Plan, set out in the Regulation on the Mechanism for Recovery and Sustainability.

**Table 2.B.1.1. Green and digital impact**

Component 4: Low-carbon economy	Financing from RRF, MBGN	Green transition	Digital transition
Support for sustainable energy renovation of buildings	1,189.5	1,189.5	0.0
Support for sustainable energy renovation of non-residential buildings	617.7	617.6	0.0
Programme to finance ad hoc measures for energy from RES in one-dwelling and multi-dwelling buildings	139.9	139.9	0.0
Energy efficient municipal systems for outdoor artificial lighting	149.3	149.3	0.0
Digital transformation and development of information systems and real-time systems of the Energy System Operator in a low-carbon economy	370.0	370.0	148.0
National infrastructure for storage of electricity from RES (RESTORE)	1,562.8	1,562.8	625.1
Scheme to support pilot projects for production of green hydrogen and biogas	68.5	68.5	0.0
Scheme to support the construction of minimum 1.4 GW RES and batteries	668.9	668.9	0.0
Feasibility study to design of a pilot project for co-generation of heat and electricity from geothermal sources	343.1	343.1	0.0
Establish a National Decarbonization Fund (R)	0.0	0.0	0.0
Facilitating and increasing the efficiency of investments in the energy efficiency of multifamily residential buildings (R)	0.0	0.0	0.0
Establish a definition and criteria for “energy poverty” for households in the Energy Efficiency Act for the purposes of market liberalization and financing energy efficiency projects (R)	0.0	0.0	0.0
Mechanism to finance energy efficiency and RES projects together with electricity bills (R)	0.0	0.0	0.0
One-stop-shop (R)	0.0	0.0	0.0
Encourage the generation of electricity from RES (R)	0.0	0.0	0.0
Prepare and adopt a National Roadmap to improve the conditions for unlocking	0.0	0.0	0.0



Component 4: Low-carbon economy	Financing from RRF, MBGN	Green transition	Digital transition
the potential for the development of hydrogen technologies and			
mechanisms for the production and supply of hydrogen (R)			
Liberalize the electricity market (R)	0.0	0.0	0.0
Establish an Energy Transition Commission to prepare the Climate Neutrality Roadmap (R)	0.0	0.0	0.0
Decarbonisation of the energy sector (R)	0.0	0.0	0.0
Improving the corporate governance of state-owned companies in the energy sector (R)	0.0	0.0	0.0
<b>TOTAL</b>	<b>5,109.6</b>	<b>5,109.6</b>	<b>773.1</b>
<b>CONTRIBUTION</b>		<b>100%</b>	<b>15.1%</b>

*i) The principle of not incurring substantial damage*

All measures, included in the scope of the component – investments and reforms – are in conformity with the principle of not incurring a substantial damage, within the meaning of Art. 17 of Regulation (EU) 2020/852.

## 2.B.2 Biodiversity

*a) Component Description*

**Policy area:** environment

**Objective:** The component objective is to ensure effective management of the National Ecological Network and to protect and restore ecosystems and natural habitats and species of European and national importance in order to halt the loss of biological diversity.

**Reforms and/or investments:**

- Establishment of management structure for the National Ecological Network;
- Integration of ecosystem approach and application of nature based solutions in the protection of Natura 2000 protected sites;
- Restoration of key ecosystems for the climate, in line with the EU Biodiversity Strategy for 2030 and the goals of the European Green Deal.

**Cost estimate:** The indicative cost estimates needed to achieve the component objectives amount to a total of BGN 104.5 million, of which BGN 92.9 million are provided by Recovery and Resilience Facility and BGN 11.6 million are national co-financing.





## *b) Main challenges*

The main risks to biodiversity in Bulgaria are related to habitat loss and to degradation of ecosystems as a result of urban and infrastructure development, unsustainable agriculture and exploitation of economically viable species. Bulgaria has not yet fulfilled its obligations to classify special areas of conservation in order to define area-specific conservation objectives, and to define the conservation measures that need to be applied therein for the objective: of conservation / restoration of species and habitats of Community interest and achievement of favorable conservation status. In this regard, establishing an effective management structure for Natura 2000 and strengthening the capacity of administration and other bodies involved in this network remains a challenge. Given that biodiversity decline and climate change are substantially linked, Bulgaria also needs to invest in healthy ecosystems and in improving forest habitats and helping zoos meet their conservation objectives. This will play an important role in restoring ecosystems important for Bulgaria, reducing the emissions and adapting to climate change.

## *c) Objectives*

The component is in line with the Country Specific Recommendations for the country for 2019 and 2020, and it will directly contribute to the implementation of aspects of SR3 of 2020, as well as SR3 of 2019. Improving the knowledge of ecosystems and ecosystem services in Natura 2000 will create conditions for sustainable and balanced economic development, in parallel with the conservation of biodiversity through implementation of nature-based solutions that will generate new jobs and livelihoods for local communities. The implementation of the planned interventions will be important for the green transition, since halting the loss of biodiversity will have a direct positive effect on the decarbonization of economy (land use, land use change and forestry sector has the role of greenhouse gas “absorber” for Bulgaria through its two categories - "Forests" and "Pastures", which absorb CO<sub>2</sub>). They are subject to conservation and restoration in Natura 2000, and the connection with their good condition for achieving the decarbonization targets has been proven. The destruction and damage of these areas would lead to release of carbon emissions into the atmosphere.

The measures envisaged in the component will have a modest macroeconomic impact, which stems to a certain degree from the planned funding and partly from the capabilities of the tool used to assess the expected effects. The assessment (Ref. Part 4: Impact Assessment) projects that as of 2023, the GDP level in constant prices will be by 0.05% higher than the baseline scenario (in which the interventions planned under the component are not realized), the medium-term effect (as of 2026) is a further 0.001 % GDP growth against the baseline scenario. The anticipated effects from the realization of the intentions in this component concerning the labor market would remain

modest, amounting to respectively to 0.01% (in the short term - by 2023) and to 0.004% (in the medium term - by 2026) as an additional growth of the number of employees.

#### d) Reforms and investments

##### Reform 1: Establishment of management structure for the National Ecological Network

The reform aims to build effective management structures for Natura 2000 with adequate administrative and financial capacity.

##### 1. Increasing the long-term capacity of the responsible administration to implement the biodiversity policy (Q3 / 2022)

Amendments to Biodiversity Act will create management structures for Natura 2000 network at national and regional level. In addition, the obligation to develop network management plans will be introduced. Thus, all areas of conservation will be managed on the basis of these planning documents, which define site-specific conservation objectives and measures.

**State aid:** The reform does not constitute state aid within the meaning of Article 107 (1) of TFEU.

##### Investment 1: Integration of ecosystem approach and application of nature-based solutions in the protection of Natura 2000 protected sites

The project<sup>32</sup> envisages the development of site-specific conservation objectives and measures for 255 Natura 2000 protected sites, and conservation measures for 86 protected sites, which will complete the process of defining site-specific conservation objectives and measures. At the same time, monetary valuation of ecosystem services will be prepared and database will be created and introduced in the country's accounting standards. Specialized databases on ecosystems, ecosystem services and green infrastructure and their visualization in the existing information environment will also be created. The planned activities include also application of nature-based solutions for restoration of ecosystems that contribute to the climate and provide connectivity of Natura 2000 network, as well as measures to ensure public support by involving the public in the decision-making process related to the protection of Natura 2000 network. The total planned funding is BGN 32.3 million (BGN 30.5 million will be provided by Recovery and Resilience Facility and BGN 1.8 million will be national co-financing) with an implementation period 2022-2025.

<sup>32</sup> See Annex No П15



**State aid:** The project does not constitute state aid within the meaning of Article 107 (1) of TFEU. Ministry of Environment and Water is beneficiary. Restoration of key ecosystems for the climate, in line with the EU Biodiversity Strategy for 2030 and the goals of the European Green Deal

## Investment 2: Restoration of key ecosystems for the climate, in line with the EU Biodiversity Strategy for 2030 and the goals of the European Green Deal

The purpose of the investment<sup>33</sup> is to contribute to the green economic transition in Bulgaria and to the implementation of 2030 EU Biodiversity Strategy by restoring the potential of ecosystems to absorb carbon and to generate more ecosystem goods and services.

The project components include the following sub-objectives:

Provision of connectivity of Natura 2000 network, restoration of traditional landscapes and creation of ecological corridors;

- Restoration of climate-critical ecosystems, such as wetlands, freshwater and river ecosystems, swamps and peatlands;
- Integration of conservation and educational measures for preservation of local protected species and sustainable development of zoos.

The project will address and find solutions for issues, critical for the restoration and protection of ecosystems and biodiversity, which concern sustainable and inclusive growth and are directly related to human health. The contribution of 'healthy' ecosystems to human health and well-being has been scientifically proven, and the COVID-19 pandemic emphasizes the need for better understanding of ecosystem functioning and ecosystem and social system interactions and their role in supporting the economy and well-being.

This calls for urgent action and investment to restore ecosystems and to increase their resilience to future crises. This project focuses on finding opportunities and solutions to restore ecosystems and to protect biodiversity as a key mechanism for sustaining life, livelihoods, economic and social development, and human well-being and achieving the EU's climate neutrality objectives.

The proposed activities are directed to:

- Provision of connectivity of Natura 2000 network:
- The proposed activities include using the potential of forest genetic resources to adapt to climate change, mapping old forests in non-state forest areas, visualizing forests in the existing information environment with public online access to forest information,

<sup>33</sup> See Annex No H5



restoring traditional forest landscapes, reducing the negative impact of fires on biodiversity, and raising the awareness of young people on biodiversity and climate issues.

- Restoration of wetlands and connectivity with rivers (rivers, wetlands, floodplains, peatlands and swamps):
- The planned activities include management of natural habitats (improvement of water flow and habitat restoration, reduction of fragmentation, and clearing of vegetation) in 6 protected sites; horizontal measures for restoration of areas with high potential for wetlands, which are currently used as agricultural land; feasibility study of Artificial wetlands; activities focused on improving river connectivity and restoring floodplain forests.
- Increasing the percentage of territories under protection, in line with the EU Biodiversity Strategy for 2030. The activity seeks to increase the percentage of territories under protection and to contribute to achieving the objectives of EU 2030 Biodiversity Strategy through the purchase of 85 hectares of private land in order to protect and restore climate-critical ecosystems.
- Integration of conservation and educational measures for preservation of local protected species and sustainable development of zoos.

The proposed activities include work on public education programs directly related to the problems of conservation of biological diversity of native, protected and threatened species; collaboration with universities, schools, museums and other institutions; trainings for appropriate behavior when encountering wild animals; raising the awareness of biodiversity protection among target groups; research, including observations of the behavior of protected and endangered species in zoos, contribution to repopulation and reintroduction of protected and threatened species at national and international level, and rescue of endangered and injured representatives of protected species. The total planned funding is BGN 72.2 million (BGN 62.5 million will be provided by Recovery and Resilience Facility and BGN 9.7 million will be national co-financing) with an implementation period 2022-2026.

**State aid:** The financing of the project by Recovery and Resilience Facility does not constitute state aid for the beneficiaries - Executive Forests Agency, Ministry of Environment and Water, and National Nature Protection Service. According to the self-assessment, the project will not constitute state aid within the meaning of Article 107, paragraph (1) of TFEU.



#### *e) Complementarity and demarcation with the Cohesion Policy instruments*

The activities planned under the component complement the interventions from the National Natura 2000 Prioritized Action Framework (2021-2027), for which financial support is provided from Common Agricultural Policy and Cohesion Policy. The required measures, which implementation will cumulatively lead to conservation or restoration of natural habitats and populations of wild animal and plant species, are related to establishment and subsequent strengthening of the National Ecological Network management bodies, raising the awareness and capacity of stakeholders and conservation and restoration measures to improve and maintain the conservation status and biodiversity.

#### *f) Strategic Autonomy and Security*

The intervention will adhere to the European best investment practices aimed at transparency and fair trade, thus making public procurement procedures respect the principle of achieving strategic autonomy, while maintaining an open economy.

#### *g) Trans-boundary and multi-national projects*

The cross-border nature of the component includes strengthening the partnerships with all identified stakeholders directly involved in Natura 2000 management processes, conservation and restoration of ecosystems and biodiversity, building green infrastructure and providing cross-border green corridors. The cross-border specific nature of Natura 2000 network will be thoroughly analyzed and used for development of site-specific conservation objectives and measures for Natura 2000 protected sites.

#### *h) Green and digital aspects of the component*

The assessment of the ecological status of the ecosystems and the valuation of the materials, the supporting, regulating, cultural and recreational ecosystem services of the Natura 2000 enables better integration of the climate objectives along with the conservation objectives in the management of the network in Bulgaria. Their valuation allows to calculate the value of the required investments, through which nature-based solutions will be implemented in the conservation of biodiversity and the Natura 2000 network. It also illustrates in monetary terms the benefits and costs of biodiversity loss, supporting management decision-making. In this way, the component will contribute to the achievement of the 37% target for climate dimensions of the Plan, set out in the Regulation establishing a Recovery and Resilience Facility (climate costs quantified up to 40% - see Table 2.B.2.1 below). The measures proposed in the component contribute to the ecological transition by taking into account the six climate and ecological objectives, laid down in the Taxonomy Regulation and they do not distort the “does not significantly harm” principle, as defined in the Taxonomy Regulation.

The project implementation will also contribute to the Digital Transformation of Bulgaria for the period 2020 - 2030, which in terms of public administration is focused mainly on the transformation of processed and stored data into core capital of society. The development of specialized databases on ecosystems, their services, green infrastructure by groups of economic activities, and the condition of Natura 2000 network and the inclusion of databases in the existing information environment will improve stakeholder participation in the decision-making process. At the same time, opportunities to extract knowledge from data, data analysis, integrated monitoring, etc. will be created. This will ensure more sustainable management of biodiversity in the country and in particular of the Natura 2000 network. Thus, the component indirectly contributes to the digital dimensions of the Plan, although according to the methodology used by the EC for calculating the contributions to the double transition, the component includes 0% digital costs, i.e. there is no direct contribution to the achievement of the 20% target for the digital dimensions of the Plan set out in the Regulation establishing a Recovery and Resilience Facility.

**Table 2.B.2.1. Green and digital impact**

Component 5: Biodiversity	Financing from RRF, MBGN	Green transition	Digital transition
Establishment of management structure for the National Ecological Network	0.0	0.0	0.0
Integrate the ecosystem approach and implement nature-based solutions in the protection of Natura 2000 areas	30.5	12.2	0.0
Restore climate-essential ecosystems pursuant to the EU's Biodiversity Strategy for 2030 and the European Green Pact objectives	62.5	25.0	0.0
<b>TOTAL</b>	<b>93.0</b>	<b>37.2</b>	<b>0.0</b>
<b>CONTRIBUTION</b>		<b>40.0%</b>	<b>0.0%</b>

*i) The principle of not incurring substantial damage*

All measures, included in the scope of the component – investments and reforms – are in conformity with the principle of not incurring a substantial damage, within the meaning of Art. 17 of Regulation (EU) 2020/852.

## 2.B.3 Sustainable Agriculture

*a) Component Description*

**Policy area:** Digitalization, agriculture



**Objective:** The component aims to increase the sustainable management and competitiveness of agricultural sector through measures to improve the economic sustainability of agricultural holdings and of the industry as a whole in the context of climate change and preservation of environmental characteristics.

**Reforms and/or investments:**

- Updating the strategic framework of agricultural sector;
- Fund for Promotion of Technological and Ecological Transition of Agriculture;
- Digitalization of the processes from farm to fork.

**Cost estimate:** The indicative cost estimates needed to achieve the component objectives amount to a total of BGN 986.1 million, of which BGN 457.3 million are provided by Recovery and Resilience Facility, BGN 528.8 million are national co-financing and BGN 437.4 million are investments from private operators.

## *b) Main challenges*

The European Green Deal places agriculture among the sectors with significant contribution to the ambition of achieving the objectives of conserving natural resources and protecting human health and well-being. The expectations from agricultural sector to produce sufficient quality and clean food are rising. However, at the same time this should be done with more efficient use of resources and with minimized harmful effects on environment, climate and biodiversity.

The Bulgarian agricultural sector has the potential to produce affordable, safe and high quality products, but still lags behind the average European level in some important indicators, such as factor productivity, collateralisation with tangible assets, and level of digitalization of production structures.

The key to achieving balance between the economic and environmental sustainability of the sector is its accelerated technological renovation and the wide take-up of digital technologies in agricultural practices. However, such transformation is a serious challenge for agricultural business, which low liquidity has further deteriorated in the context of the pandemic spread of COVID-19. This implies the need for public support to stimulate the faster introduction of innovative technologies and digital solutions in agricultural practice, which will improve the economic sustainability of the industry, on the one hand, and will significantly contribute to increasing its contribution to achieving the green deal objectives, on the other hand.

## *c) Objectives*

The component is in line with the Council's 2019 and 2020 Country-Specific Recommendations. It will directly contribute to implementation of aspects of SR 3 / 2020 and

SR 3 / 2019. Investment 1 aims and will promote the sustainable use of natural resources, addressing both the Council's recommendations and the challenges facing agriculture in the green and digital transition. The implementation of reform 1 will also contribute in this regard. At the same time, investment 2 focuses on the digital aspects of economic transformation, and in addition to the targeted contribution to the implementation of CSR 3/2020 ("... to focus investments in... the digital transition") it will also have an indirect effect on the aspects of CSR 4/2020 relating to "the efficiency of public administration and strengthening of e-government" with a view to the planned electronisation of services provided to farmers. All planned measures will improve the resilience to economic shocks in connection with the expected increased competitiveness of the agricultural sector. Moreover, their effect will not disappear immediately after the completion of the respective projects, i.e. the planned interventions have a sustainable impact. At the same time, they have the potential to strengthen the social resilience to shocks, and to lead to territorial cohesion, by reducing disparities between urban and rural areas, taking into account the high dependence of the rural population on agricultural sector.

The measures envisaged in the component will have a macroeconomic impact in the short term. The assessment (Ref. Part 4: Impact Assessment) projects that as of 2023, the GDP level in constant prices will be by 0.4% higher than the baseline scenario (in which the interventions planned under the component are not realized), the medium-term effect (as of 2026) is a further 0.1 % GDP growth against the baseline scenario. The anticipated effects from the realization of the intentions in this component concerning the labor market would amount respectively to 0.1% (in the short term - by 2023) and to 0.03% (in the medium term - by 2026) as an additional growth of the number of employees.

#### *d) Reforms and investments*

##### **Reform 1: Updating the strategic framework of agricultural sector**

The ongoing reform envisages amendments to the strategic framework of agriculture in the context of the country's commitments arising from the UN Sustainable Development Goals and Green Deal.

The 'Farm to Fork' Strategy and Biodiversity Strategy, which are the focus of the green deal, set clear objectives for agriculture in terms of more flexible and sustainable food system that ensures the health of people, societies and the planet. The achievement of these objectives requires radical change in the current production model. Farmers should rapidly change their production methods, and should use environmentally friendly, technological and digital solutions to ensure better climatic and ecological performance.



A key element in updating the strategic framework is the development and adoption of a national program to contribute to the implementation of the objectives of the Strategy “From Farm to Fork” until 2030 focused on promoting green investment, sustainable management of natural resources (water, soil, air), adapting to climate change and mitigating their consequences. The program will propose a framework for management and protection of environment and natural resources in the area of agriculture. It will cover a set of tools and activities until 2030 related to the implementation of specific objectives and commitments. The program provides for implementation of measures related to:

- preparation of analysis of the opportunities for low-carbon agriculture and more efficient use of natural resources;
- raising the awareness and knowledge of farmers about the benefits and methods of introducing nature-based environmental practices and solutions, and opportunities for applying the principles of the circular economy;
- investments related to protection of environmental components, and to introduction of innovative production and digital technologies in the work processes;
- investments in facilities and equipment to tackle the effects of climate change for agricultural sector, etc.

The following results for agriculture are expected from the implementation of the reform: improved natural resource management practices; increased number of farmers who have successfully adapted their farms to meet the challenges of green and digital transition; reduced effects of climate change on agricultural production; increase of the biological production. Farmers will be informed of their role in the transition to circular economy (through the regional structures and advisory service), and of the specific methods of processing waste raw materials, reducing water consumption and of the opportunities for their reuse.

**State aid:** The reform does not constitute state aid within the meaning of Article 107 (1) of TFEU.

#### Investment 1: Fund for Promotion of Technological and Ecological Transition of Agriculture

The main objective of the Fund<sup>34</sup> is to overcome the problems that hinder the competitiveness and sustainability of agricultural sector and to accelerate its adaptation to climate change, green production and digital

<sup>34</sup> See Annex No H4



transformation. The fund envisages provision of support to farmers for the implementation of targeted investments, for the purchase of tangible and intangible assets for the implementation of activities ensuring the protection of environmental components and mitigation of the effects of climate change, introducing innovative production and digital technologies, agricultural production and organization technologies, technologies for the automation of work processes and for shortening the supply chains and protection of genetic resources. The focus is entirely placed on the implementation of green and digital investments, which will allow the farms to adapt to climate change, green production practices and more efficient use of resources.

The fund will encourage investments in 4 areas: technological and ecological modernization; centers for preparation for marketing and storage of fruits and vegetables; construction / reconstruction and equipment of livestock farms for breeding and assessment of male breeding animals, including extraction of biological material; and effective management of water in farms.

The investment support is targeted at all registered agricultural holdings. The total planned funding is BGN 962.2 million (BGN 437.4 million will be provided by Recovery and Resilience Facility and BGN 524.9 million will be national co-financing, incl. BGN 437.4 million private co-financing) with an implementation period 2022-2025.

**State aid:** The support from the fund corresponds to the state aid rules. Aid schemes in accordance with Commission Regulation (EU) No 702/2014 of 25 June 2014 declaring certain categories of aid in the agricultural and forestry sectors and in rural areas compatible with the internal market in application of Articles 107 and 108 of the Treaty on the Functioning of the European Union and European Union 2014-2020 Guidelines for State Aid in Agriculture, Forestry and Rural Areas are proposed.

## Investment 2: Digitalization of the processes from farm to fork

A comprehensive electronic information system in agriculture will be established<sup>35</sup>. It will lead to achievement of: electronisation of the information flows from and for performing the administrative activities; electronisation of the services provided to farmers, their centralization and their use by businesses in fulfillment of the obligations and requirements depending on the type of agricultural activity; integration of administration's information systems and creation of opportunity for automated data exchange between administration and farmers. The platform will ensure single data flow

<sup>35</sup> See Annex No П17



to / from administration and farmers and avoidance of manual transfer of information and support for redundant document formats. The system will contain modules for: the use of plant protection products and fertilizers, digitizing the logs for their use; control of the use of antimicrobial veterinary medicinal products, setting specific reference thresholds for the use of antimicrobials in different categories and productive animal species; "farm to fork" tracking - tracking from primary production to final consumption based on the principle of unique identification code in order to inform consumers and to stimulate the production of quality and affordable food; online training, incl. content of training modules and consultations of farmers, while maintaining information related to modern technological and environmental solutions for growing major groups of crops and farm animals in a conventional and biological manner in accordance with the requirements for sustainable use of natural resources and adaptation to climate change. The total planned funding is BGN 23.9 million (BGN 19.9 million will be provided by Recovery and Resilience Facility and BGN 3.9 million will be national co-financing) with an implementation period 2022-2025.

**State aid:** The reform does not constitute state aid within the meaning of Article 107 (1) of TFEU (see the self-assessment included in Annex П17).

#### e) *Complementarity and demarcation with the Cohesion Policy instruments*

As regards Investment 1, complementarity and upgrading based on the currently implemented 2014-2020 Rural Development Programme (RDP) are aimed. The support for investment provided under RDP is aimed mainly at increasing the productivity and competitiveness of agricultural holdings through restructuring and modernization of the available physical capacities. Investment 1 is focused entirely on investments related to adaptation of farms to the challenges of green and digital transition. The acquisition of assets, which lead to improved use of resources, and to increased sustainability of farms based on introduction of new technological and environmental solutions, will be encouraged. The implementation of the planned investments, using funds from the Fund, will build on the results already achieved under RDP regarding environmentally friendly and based on digital solutions development.

In order to ensure that double funding for the same expenditure under RDP and Recovery and Resilience Plan is avoided, control will be exercised at the beneficiary / final recipient level. A beneficiary who has received support for certain type of investment under RDP will not be eligible for support for the same type of investment under the Recovery and Resilience Plan.

Demarcation of the investments eligible under the Recovery and Resilience Plan and interventions that will be included in the Strategic Plan for Agricultural and Rural Development will be made. The interventions set out in the Strategic Plan will stipulate that

a beneficiary who has received investment support from the Fund cannot receive support for the same type of investment under the Strategic Plan.

With regard to Investment 2, the Recovery and Resilience Plan envisages the establishment of Unified Information System in agriculture, which will integrate the information systems of the administration and will improve the services provided to farmers. Such investments for establishment of unified information system will not be supported by funds under the Strategic Plan.

#### *f) Strategic Autonomy and Security*

Planned interventions will follow the best European practices of investment, oriented to transparency and fair trade; thus the public procurement procedures will honor the principle of achieving strategic autonomy, side by side with maintaining the openness of economy. In addition, the component will contribute to the reduction of water losses in economy and will therefore help to reduce its resource intensity.

#### *g) Trans-boundary and multi-national projects*

The measures incorporated within the scope of the component are foreseen for implementation only on the territory of the country.

#### *h) Green and digital aspects of the component*

The investments and reforms included in the component aim to address the new challenges related to the green and digital transition, helping to introduce new digital technologies and solutions in agricultural holdings, to increase energy and resource efficiency and to improve the capacity of agricultural holdings to contribute to the achievement of the Green Deal objectives. Overall, the measures proposed in the component contribute to the environmental transition (assessed as **36.5%** of air conditioning costs - see table. 2.B.3.1. Below) by taking into account the six climate and ecological objectives, laid down in the Taxonomy Regulation and they do not distort the “does not significantly harm” principle, as defined in the Taxonomy Regulation.

With the inclusion of **4.4%** digital costs (see Table 2.B.3.1 below), this component also contributes to the achievement of 20% target for the digital dimensions of the Plan set out in the Regulation establishing a Recovery and Resilience Facility. The electronisation of the information flows from and for performing the administrative activity in the administration's contact with the farmers, and the electronisation of the services provided to farmers, their centralization and their use by businesses provided for in the component are examples of digital interventions in the component.



**Table 2.B.3.1. Green and digital impact**

<b>Component 6: Sustainable agriculture</b>	<b>Financing from RRF, MBGN</b>	<b>Green transition</b>	<b>Digital transition</b>
Updating the strategic framework of agricultural sector	0.0	0.0	0.0
Fund for Promotion of Technological and Ecological Transition of Agriculture	437.4	167.1	0.0
Digitalization of the processes from farm to fork	19.9	0.0	19.9
<b>TOTAL</b>	<b>457.3</b>	<b>167.1</b>	<b>19.9</b>
<b>CONTRIBUTION</b>		<b>36.5%</b>	<b>4.4%</b>

*i) The principle of not incurring substantial damage*

All measures, included in the scope of the component – investments and reforms – are in conformity with the principle of not incurring a substantial damage, within the meaning of Art. 17 of Regulation (EU) 2020/852.



## 2.B. Connected Bulgaria

### Components

- Digital connectivity;
- Transport connectivity;
- Local development.

### Reforms

- Development and implementation of effective policy and regulatory framework;
- Efficient use of the radio spectrum;
- Creating favorable investment environment;
- Updating the strategic framework of transport sector;
- Conceptually new management of the road safety in a single integrated strategic framework for the period 2021-2030;
- Integration of sustainable urban mobility in the strategic planning of regional and spatial development;
- Provision of effective access to integrated public transport;
- Electric mobility;
- New regional approach with direct involvement of local communities in European funds management and instruments;
- Continuation of the reform in water sector.

## 2.8.1 Digital connectivity

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### a) Component Description

**Policy area:** digitalization

**Objective:** The component aims to build a modern and secure digital infrastructure and to overcome the territorial imbalances associated with the broadband penetration.

**Reforms and/or investments:**

- Development and implementation of effective policy and regulatory framework;
- Efficient use of the radio spectrum;
- Creating favorable investment environment;

- Large-scale deployment of digital infrastructure;
- Construction, development and optimization of the digital TETRA system and radio relay network;
- Digital transformation of Bulgarian Posts and provision of complex services

**Cost estimate:** The indicative estimates for the costs necessary for the realization of the objectives of the component amount to a total of BGN 883.8 million, of which BGN 753.4 million at the expense of the Recovery and Resilience Facility and BGN 130.4 million national co-financing.

## *b) Main challenges*

One of the main reasons for the slowdown in digitalization in Bulgaria (along with the low level of digital skills and the shortage of ICT specialists) is the insufficient investment in digital infrastructure, especially in remote and sparsely populated areas. The index of penetration of digital technologies in economy and society DESI ranks Bulgaria 26th among the EU member states in terms of Connectivity Index.

Public administration is lagging behind in providing secure and reliable e-services to citizens and businesses, and popular and most frequently used e-service portals are often the subject of cyberattacks and denial-of-service attacks (DDoS), including incidents of personal data leakage, which undermines both trust in institutions and administration and the use of electronic services. The individual administrations do not have the expert capacity to increase their cyber resilience on their own, and the necessary investments for specific technological solutions for security and protection could not be provided separately for the different central, territorial and municipal administrations. The gradual migration of the systems of the state and municipal administration to the State Hybrid Private Cloud (SHPC) increases the requirements for ensuring high-speed, reserved and secure connectivity from all municipal centers to the information centers where the SHPC is located. The provision of the necessary level of services, including for the needs of national security, can be achieved only by combining the services provided by the state Unified Electronic Communications Network (UECN) and communication services provided by private network operators, with a view to double reservation of the infrastructure and optical paths used, where possible.

In 2020, Bulgaria has a slight increase in the implementation of the fixed broadband network, as the coverage with high-speed broadband access of the next generation is improved from 77% in 2019 to 79%, and the coverage of very high capacity networks (VHCN) increased from 42% in 2019 to 43%. There is still a significant gap between national and EU averages. VHCN coverage has seen limited growth over time, increased by an average of 2.5 percentage points from 38% in 2018 and 42% in 2019. In rural areas, VHCN coverage is only 1% ( EU average: 28 %). Furthermore,

Bulgaria ranks very low in the overall distribution of broadband Internet access, with only 59% (an increase of 1 point from 2019) of households having a subscription (EU average: 77 %).

Bulgaria is also lagging behind in the distribution of fixed broadband Internet access at a speed of at least 100 Mbps (15% compared to the EU average of 34%), and progress on an annual basis is very limited but growing: 11% in 2019 and 15% in 2020 (EU average: 34 %).

In addition, the country lags behind in terms of the readiness to introduce 5G network, and according to DESI 2020 data it has allocated only 14% of the spectrum for wireless broadband. There is a need to further enhance efforts to improve and accelerate the deployment of broadband Internet, given the fundamental role of the modern broadband infrastructure in achieving the so-called digital growth.

### c) Objectives

The component is in line with the Council's 2019 and 2020 Country-Specific Recommendations. It will directly or indirectly contribute to implementation of aspects of SR 2, SR 3 and SR 4 / 2020 and SR 3 and SR 4 / 2019.

The proposed reforms and investments implicitly or explicitly aim to increase investment in high-capacity digital infrastructure with a view to increasing coverage and distribution. This will ensure equal access to broadband-based services, which will improve the possibility of distance learning and work (CSR 2/2020). The planned measures will create preconditions for implementation of the digital transition in the country (CSR 3/2020) with indirect expected positive effects in terms of social inclusion (CSR 4/2019), e-government, efficiency of public administration and therefore the administrative burden for enterprises (CSR 4/2020) and in general - business environment (CSR 3/2019).

The component's investments also aim to ensure high cyber resilience, technological sovereignty and leadership in network and information security, as key priorities of the new EU Cybersecurity Strategy for the Digital Decade<sup>36</sup>, a key component of the NextGenerationEU Recovery Plan, by ensuring connectivity with gigabit speeds protected from cyber attacks and distributed denial of service attacks (DDoS), for essential service providers, strategic and critical infrastructure operators, public service providers, universities and schools. With regard to universities and other higher education institutions, the aim is to provide connectivity at speeds up to 100 Gbps, in particular for

<sup>36</sup> *EU Cybersecurity Strategy for the Digital Decade (reference)*



those higher education institutions that need ultra-high speeds to access the European scientific network GEANT and the National Supercomputer Center in Sofia High Tech Park.

The reforms included in the component aim to reduce the barriers to those investing in connectivity, incl. 5G connectivity, by taking action to release and to efficiently use the required radio spectrum. The set of proposed measures will contribute to the country's economic recovery in the medium term, while creating conditions for increasing long-term growth potential, job creation and strengthening the economic and social sustainability. In addition, the planned investments have sustainable impact, i. e. their effect will not disappear once the relevant measures have been completed.

The component is also essential for implementation of the pan-European flagship initiative Connection. With the successful and full implementation of the measures envisaged in the component, Bulgaria will exceed the targets set by the flagship initiative.

The measures envisaged in the component will have a macroeconomic impact in the short term. The assessment (Ref. Part 4: Impact Assessment) projects that as of 2023, the GDP level in constant prices will be by 0.1% higher than the baseline scenario (in which the interventions planned under the component are not realized), the medium-term effect (as of 2026) is a further 0.3 % GDP growth against the baseline scenario. The anticipated effects from the realization of the intentions in this component concerning the labor market would amount respectively to 0.04% (in the short term - by 2023) and to 0.1% (in the medium term - by 2026) as an additional growth of the number of employees.

#### *d) Reforms and investments*

##### **Reform 1: Development and implementation of effective policy and regulatory framework**

Several legislative and strategic initiatives have been implemented to improve the investment processes. Reform 1 envisages amendments to the strategic framework (an updated national broadband plan adopted by the Council of Ministers, and a framework strategic document Digital Transformation of Bulgaria for the period 2020 - 2030 approved by the Council of Ministers) and in the legislation (adopted the law amending and supplementing the Electronic Communications Act):

#### **1. National Broadband Plan (Q3 / 2020)**

In August 2020, an Updated National Plan for Next-Generation Broadband Infrastructure Connected Bulgaria was adopted. It outlines the national goals and priorities and is linked to the goals at European level until and after 2025. Digital connectivity is defined as an important factor both for the competitiveness of businesses, and for supporting social inclusion and development and use of e-government services. The measures in this area laid down in Connected Bulgaria will focus on



improving the access to high-speed internet in less populated regions and its active use by the population and business, and on developing the high-speed mobile Internet in the country. The investments in introduction of 5G mobile networks in the country will be crucial for digitalization of the Bulgarian economy and public services.

## 2. Strategic approach to digital transformation (Q3 / 2020)

The adequate digital connectivity is a part of the framework 2020- -2030 Digital Transformation of Bulgaria, approved in July 2020. Digital transformation is recognized as a process required by technological development to create conditions for innovation and business growth, to increase the efficiency of labour force, and to create a competitive digital economy and high living standard of citizens. The deployment of very large capacity networks needed to ensure that no part of the country or no group in society is left without adequate digital connectivity is the basis for developing a dynamic and innovative economy and provides better access for businesses to diverse, high quality and innovative digital services.

Digital connectivity contributes to providing access to all key drivers of socio-economic development, such as schools, hospitals, transport centers, major public service providers, etc. The infrastructure that integrates physical and digital aspects is crucial for the delivery of the next wave of innovation and economic growth.

## 3. Modern legislative framework in the sector (Q4 / 2020)

An updated legislative framework has been developed to promote connectivity and access to very high-capacity networks and competition, including in terms of infrastructure, to support market development and to protect citizens' interests. The aim is to encourage investment in very high-capacity networks due to their crucial importance for achieving sustainable economic growth in the context of digitalization of the economy, while not compromising the competitive environment and consumer interests. The adopted Act amending and supplementing Electronic Communications Act will:

- more efficient, effective and coordinated use of the radio spectrum;
- develop electronic communications market;
- Maintain conditions for effective competition;
- Create conditions for building and developing very high-capacity networks, including 5G networks;
- Improve the protection of the citizens' interests and end-users' rights, including people with disabilities.



**State aid:** The reform does not constitute state aid within the meaning of Article 107 (1) of TFEU.

## Reform 2: Efficient use of the radio spectrum

To address the challenges posed by the readiness to introduce 5G network, the following reform efforts are planned and are already made:

### 1. Reduction of radio spectrum fees (Q1 / 2021)

To promote the accelerated deployment of 5G networks, the Council of Ministers approved amendments to Electronic Communications Act. From 1 January 2021, changes in the fees collected by Communications Regulation Commission under Electronic Communications Act will come into force. They will reduce the one-time fee by 50% and the annual spectrum usage fee by 35%. The optimization of radio spectrum fees is an important condition for better investment in the mobile communications sector, and will enable businesses to use wider bandwidths and to build networks with higher capacity for provision of high-speed broadband services with better quality in order to meet the consumers' needs.

### 2. Accelerated spectrum allocation process (Q2 / 2023)

In order to ensure efficient and effective use of the radio spectrum, to achieve wireless broadband coverage on the territory of the country and for the population with high quality and speed, and coverage on major transport routes, and to promote competition and avoid its distortions, the term of licenses allowing the use of harmonized radio spectrum, including for wireless broadband services, will be extended - not less than 15 years with an option to extend the term for at least 20 years.

#### 700 MHz

Until 30 May 2020, frequency spectrum of 2x20 MHz was provided in the 700 MHz band for 5G networks. In July 2020, the national regulatory authority launched public consultation procedure for the prospects and conditions for using the available spectrum in the 700 MHz band. In the course of the consultations, only general interest was expressed and there were no specific intentions from operators. Taking into account the opinions of the operators that the minimum resource for the deployment of a network in this band is 2x10 MHz, actions have been taken to provide additional resource to be used in the 700 MHz band. A draft agreement has been prepared between the operators and the Ministry of Defense for conducting tests, in order to establish the possibility for joint use without harmful radio interference in the bands 700 and 800 MHz. The pandemic of COVID-19 slowed down the process. Subsequently, the operators requested unconditional provision of the entire spectrum and provision for each of them of 2x10 MHz bands.

Given the fact that this band is necessary to provide coverage throughout the country, the interest of operators is currently focused on the acquisition of



3.6 GHz spectrum, with a view to the rapid deployment of 5G networks in urban areas where there are potential customers who are expected to return on investment.

Nevertheless, the decision of the national regulatory body, with which it accepts the results of the consultation, states that new public consultations to establish the interest of companies in acquiring radio spectrum in the 700 MHz band may be planned in 2021. The market interest and efforts aimed at using the spectrum in the band 2.6- 3.6 GHz indicate that the second half of 2023 is realistic deadline for new consultations and possible allocation of free resources.

### **2.6 GHz**

In December 2020, the national regulatory authority announced public consultation on the use of individually defined limited frequency spectrum - radio spectrum in the 2.6 GHz band. As a result of the consultation, at the end of February 2021, the national regulatory authority provided for use frequency spectrum of 2x20 MHz in the 2.6 GHz band to each of the three mobile operators. The radio spectrum in this band provides an opportunity to increase the capacity of the networks in densely populated areas where the consumption of services is higher in order to serve the growing data traffic. The frequency spectrum in the 2.6 GHz band may be used to expand and modernize the networks built so far. This will encourage the development and implementation of new technologies that require the use of a larger radio spectrum.

### **3.6 GHz**

In December 2020, the national regulatory authority announced its intention to authorize the use of an individually defined frequency spectrum - radio spectrum in the 3.6 GHz band for electronic communications over a terrestrial network allowing the provision of nationally covered electronic communications services, using frequency spectrum of 100 MHz in the 3600 - 3700 MHz band (TDD operation mode). On April 6, 2021, a sealed-bid auction was held and each of the participants received a corresponding frequency band.

### **26 GHz**

Bulgaria has set a frequency spectrum of 2,078 GHz in the 26 GHz band for harmonized use by 5G networks. The spectrum is fragmented, but blocks between the 300 and 500 MHz continuous spectrum can be provided. The national regulatory authority launched public consultation procedure on the use of available spectrum in the 26 GHz band on 17 December 2020. The results of the consultation were adopted on 4 March 2021.

Businesses have expressed general interest in obtaining 26 GHz spectrum for terrestrial networks enabling the provision of electronic communications services, including 5G, with the earliest time limit for acquisition of rights of use being set for early 2022. In the operators' opinion, the minimum spectrum which



needs to be provided is a continuous block of 200 MHz. The regulator considers that a mechanism for sharing the 26 GHz band by frequency spectrum division can be proposed. It will currently provide 7 continuous blocks of 200 MHz each and 2 continuous blocks of 400 MHz each. Operators plan to use the 26 GHz band to provide in-building coverage and to create the so-called hot spots.

The actual use of the 26 GHz band for 5G networks depends on the interest of businesses after the actual start of the establishment of this type of networks. For this reason, operators are currently unable to assess the practical need to use the 26 GHz band.

**State aid:** The reform does not constitute state aid within the meaning of Article 107 (1) of TFEU.

### Reform 3: Creating favorable investment environment

On 18 September 2020, the Commission adopted a Recommendation urging the Member States to develop and agree on a common set of Union tools for best practices to promote connectivity (Connectivity Toolbox) and in particular on the deployment of VHCN, including fibre-optic and 5G networks. The following reforms cover the key recommendations of the Connectivity Toolbox:

#### 1. Streamlining the procedures for issuing licenses (Q4 / 2020)

Amendments to Spatial Planning Act have facilitated the deployment of base stations, no longer requiring building permit for maintenance, equipment and / or improvement of elements of RF transmitting systems, and their replacement or supplementation by assembling or disassembling elements of the RF transmitting system. Nevertheless, the measurement of electromagnetic fields is mandatory and the National Regulatory Authority maintains an electronic register of modernized base stations. Bulgarian law allows for appropriate legal relief and certain projects to be declared a "site of national importance". This will allow for a single building permit to be issued, which will speed up the investment process. That way the project may be initiated without delay and the implementation can start as soon as possible;

#### 2. Extending the right of access to existing physical infrastructure controlled by public-sector bodies (Q4 / 2020)

By government decision, the free capacity of fibre-optic networks controlled by public-sector bodies will be made available for use to commercial operators in places where they have no interest in building such networks or are considering how to reduce their investment costs. The same decision establishes that during the implementation of infrastructure projects financed by public funds, the requirements will oblige the beneficiaries, where possible, to prepare investment projects, that cover the construction of protective pipes and cable shafts



laid in underground infrastructure, which can be used by all network operators;

**State aid:** The reform does not constitute state aid within the meaning of Article 107 (1) of TFEU.

### Investment 1: Large-scale deployment of digital infrastructure

The project<sup>37</sup> has two main objectives:

- Extending the geographical coverage of the Unified Electronic Communications Network (UECN) of the state administration to all municipal centers, reserving optical rings, increasing capacity and ensuring high reliability, security and cyber resilience of the network for the needs of Government and national security:
  - When designing the extension of the optical cable network, all possibilities for use of already constructed pipe routes and/or ready optical cable routes, owned by other organizations, as well as routes and optical cables built by network operators and operators of electronic communications networks will be taken into account, in order to avoid duplication of routes, unless this would lead to higher reservations. The focus will be on the need to build new optical cable lines on routes where no VHCNs exist, in order to achieve the closure of optical rings and a higher degree of redundancy of the UECN optical network.
  - All new routes will be built in view of the possibilities for their use by the public and private sector (in "white zones"), as the pipe and optical capacities will be in accordance with the settlements and industrial sites on the respective routes, as well as with the needs and future potential for the development of the areas through which they pass, so that, after assessment as appropriate, optical fibers can be diverted at intermediate points of the routes.
- Support the deployment of Very High Capacity Networks (VHCN)
  - VHCNs connecting municipal centers with less populated and remote areas, where there are already built access networks and/or coverage of built towers of mobile operators with optical connectivity, which would provide the necessary mobile backhaul capacity for 5G mobile connectivity, if this is a more efficient way to provide coverage to the end user.

<sup>37</sup> See Annex No П18



- Creating conditions for the deployment of VHCNs in settlements where there is an identified "market failure" and in which commercial operators would not invest alone due to lack of economic interest.
- Effective use of the infrastructure built during the development of the UECN, so that complementarity is achieved and the established VHCNs (regardless of the technology used) in "white zones" have the opportunity to connect to the state UECN at access points in the nearest municipal centers, with the possibility to use IP/MPLS transmission services with symmetric speeds between 10 / 25Gbps and 40 / 100Gbps, or wholesale access to passive infrastructure ("dark fiber").

The total planned funding is BGN 895.4 million (BGN 527.3 million will be provided by Recovery and Resilience Facility. BGN 105.6 million will be national co-financing and BGN 262.5 million will be investments from private operators) with an implementation period 2022-2026.

**State aid:** For most of the activities included in the project state aid / aid under General Block Exemption Regulation is envisaged (see the detailed self-assessment of the state aid provided separately).

### Investment 2: Construction, development and optimization of the digital TETRA system and radio relay network

The main goal of the project<sup>38</sup> is to upgrade and modernize the TETRA system of the Ministry of Interior as a unified radiocommunication system to provide encrypted and protected communication environment for management, interaction and coordination of state structures, including all elements of the Unified Rescue System, at all levels in protection of public order, counteraction to crime, disclosure and protection of the population in case of disasters and accidents related to the Disasters and Accidents Protection Act; its use as a communication environment for the management of the elements of the National System for Early Warning and Disclosure and Development of the Potential of the System, with the introduction of organizational and technical solutions. The implementation of the project will allow effective operational cooperation at national and regional level in the event of crises and circumstances in order to consolidate resources and optimize financial resources for building and maintaining radio communications for the needs of responsible national institutions.

The total planned funding is BGN 149.4 million (BGN 124.5 million will be provided by Recovery and Resilience Facility and BGN 24.9 million will be national co-financing) with an implementation period 2022-2024.

<sup>38</sup> See Annex TETRA



**State aid:** While implementing the project, the beneficiary, the leading structures and the partners will not constitute enterprises performing economic activities. They are acting by exercising public powers. Investing of grants could not be deemed constituting government assistance within the meaning of Art. 107 (1) of TFEU.

### Investment 3: Digital transformation of Bulgarian Posts and provision of complex services

Project<sup>39</sup> aims to renovate selected post offices in remote areas, modernize and digitally transform Bulgarian Post, to provide additional services of general economic interest, such as:

- mediator of the state administration in providing administrative and electronic administrative services in the remote rural areas, where the administration is not present;
- mediator of the Ministry of Interior regarding the recording of biometric data for the issuance of identity documents, including in connection with Regulation 2019/1157, which enters into force on 02.08.2022;
- provider of basic telemedicine diagnostic services in remote settlements where there is a lack of health care;
- pilot deployment of charging stations for electric vehicles for charging at the "end point" in up to 100 selected settlements in rural areas located on routes of tourist value;

The implementation of the project will contribute to the achievement of

- Diversification of the portfolio of offered services and the transformation of Bulgarian Post into a provider of frequently used public services, and in combination with the wide national coverage of the postal network, will provide access to the widest possible range of users of public services. This will improve the equality of citizens and businesses in small and remote settlements, and access to information, administrative and health care;
- Combined with the provision of a wide range of one-stop-shop services, it will not only provide convenience for citizens and businesses, but will also significantly reduce administrative burdens, save time and direct costs for citizens and businesses to travel to settlements in which the administration directly provides such services.

<sup>39</sup> See Annex № Q49



The total planned funding is BGN 122.04 million (BGN 101.7 million will be provided by Recovery and Resilience Facility and BGN 20.34 million will be national co-financing) with an implementation period 2022-2026.

**State aid:** The procedure requires notification of state aid to the European Commission.

#### *e) Complementarity and demarcation with the Cohesion Policy instruments*

The investments under this component of the Plan will allow the implementation of digitalization as a horizontal priority, contributing to both the competitiveness of enterprises and universities, and to the support of social inclusion and development and use of e-government services. The improved data transmission environment and the digital connectivity and high protection of public institutions, administrations and users will allow adequate implementation of the measures provided for under the Cohesion Policy to increase the pace of digitalization of public sector and to ensure high level of cybersecurity.

#### *f) Strategic Autonomy and Security*

The intervention will adhere to the European best investment practices aimed at transparency and fair trade, thus making public procurement procedures respect the principle of achieving strategic autonomy, while maintaining an open economy. The conditions for concluding a contract for supply and installation of active equipment should include requirements to ensure diversification of suppliers using different technologies and business practices that have the capacity to deal with competitive distortions and to contribute to the sustainable development and green and digital transformation of the Bulgarian economy. The technologies and devices in this investment must comply with all security measures and policies at the design stage as an integral part of the infrastructure and the relevant active equipment in terms of the risk-based approach. The investment will be in full compliance with the principles and guidelines of the EU toolbox on 5G Cybersecurity, and where necessary, a preventive risk analysis of the providers will be implemented, inspection whether certified components and processes are used and ongoing testing and auditing will be implemented.

#### *g) Trans-boundary and multi-national projects*

The project included in the component is not a cross-border one, but the backbone optic lines planned to be constructed at the national level will create the necessary conditions for connection with those in the neighboring countries using administrative support and arrangements, such as the agreement concluded between Greece, Bulgaria and Serbia for connectivity on the corridor Sofia - Thessaloniki - Belgrade. The planned interventions take into account these initiatives and provide an opportunity for appropriate connectivity with neighboring countries,

including Romania and Turkey, although the cross-border sections in general generate lower market interest, but the parallel use of funding from Recovery and Resilience Facility and Connecting Europe Facility 2 (CEF2) will overcome these obstacles and will create conditions for building effective gigabit connectivity in the region, which in turn will encourage the development and provision of cross-border digital services. In this regard, encouragement of the Bulgarian participation in cross-border projects funded under CEF2 is planned in order to ensure the smooth connection of the TEH-T corridors with the neighboring countries.

### *h) Green and digital aspects of the component*

The increased coverage and the use of very high-capacity digital infrastructure will allow the measures proposed in this component to enable the development of solutions based on digital technologies, thus directly supporting the digital transition, while indirectly supporting the decarbonization of all sectors of the economy and reducing their carbon footprint. Thus, the component indirectly contributes to the climate dimensions of the Plan, although according to the methodology used by the EC for calculating the contributions to the double transition, the component includes 0.2% climate costs, i.e. there is no direct contribution to the achievement of the 37% target for the green dimensions of the Plan set out in the Regulation establishing a Recovery and Resilience Facility.

The measures proposed in the component contribute to the ecological transition by taking into account the six climate and ecological objectives, laid down in the Taxonomy Regulation and they do not distort the “does not significantly harm” principle, as defined in the Taxonomy Regulation.

With the inclusion of **96.5%** digital costs (see Table 2.C.1.1 below), this component also contributes significantly to the achievement of 20% target value for the digital dimensions of the Plan set out in the Regulation establishing a Recovery and Resilience Facility

**Table 2.B.1.1. Green and digital impact**

Component 7: Digital connectivity	Financing from RRF, MBGN	Green transition	Digital transition
Development and implementation of effective policy and regulatory framework	0.0	0.0	0.0
Efficient use of the radio spectrum	0.0	0.0	0.0
Creating favorable investment environment	0.0	0.0	0.0
Large-scale deployment of digital infrastructure	527.3	0.0	527.3
Construction, development and optimization of the digital TETRA system and radio relay network, managed by the Ministry of Interior	124.5	0.0	124.5



Component 7: Digital connectivity	Financing from RRF, MBGN	Green transition	Digital transition
Digital transformation of Bulgarian Posts and provision of complex services	101.7	11.8	75.0
<b>TOTAL</b>	<b>753.5</b>	<b>11.8</b>	<b>726.8</b>
<b>CONTRIBUTION</b>		<b>0.2%</b>	<b>96.5%</b>

*i) The principle of not incurring substantial damage*

The measures proposed in the component contribute to the ecological transition by taking into account the six climate and ecological objectives, laid down in the Taxonomy Regulation and they do not distort the “does not significantly harm” principle, as defined in the Taxonomy Regulation

## 2.C.2 Transport Connectivity

*a) Component Description*

**Policy area:** transport

**Objective:** The main objective of the component is to reduce the carbon footprint of transport sector through investments in modernization and digitalization of the railway segment. The expected effects of the interventions include contribution to the green and digital transition, increased security, and territorial balanced growth.

**Reforms and/or investments:**

- Updating the strategic framework of transport sector;
- Delivery of railway rolling stock - railcars and push-pull units to provide regular and fast service in suburban and long-distance destinations, in order to increase the share of environmentally friendly rail passenger transport, at the expense of other types of less environmentally friendly transport;
- Supply of shunting electric locomotives with battery to ensure environmental friendliness and efficiency in shunting activities;
- Digitalisation and enhancement of the safety and capacity of rail passenger and freight transport through the supply of on-board ETCS equipment for locomotives and railcars for communication with already built ERTMS sections and those to be built;
- Ensuring safety, digitalisation and increasing the capacity of the railway line between Ruse and Kaspichan by implementing for the first time in our country ERTMS Level 2, modern route-computer centralization, dispatch centralization, passenger information systems, optical cable network, etc.;

- Providing fast and competitive transport connection with the markets for business in Northern Bulgaria by building an intermodal freight terminal in the region of Ruse;
- Conceptually new management of the road safety in a single integrated strategic framework for the period 2021-2030;
- Improvement of road safety in the Republic of Bulgaria by creating conditions for sustainable road safety management;
- Sustainable urban mobility reform;
- Provision of sustainable transport connectivity through construction of Line 3 section of Sofia metro;
- “Green Mobility” – a pilot scheme to support sustainable urban mobility through measures to develop environmentally-friendly, safe, functional and energy-efficient transport systems;
- Provision of effective access to integrated public transport;
- Electric mobility.

**Cost estimate:** The indicative estimates for the costs necessary for the realization of the objectives of the component amount to a total of BGN 2,996.8 million, of which BGN 1,303.3 million at the expense of the Mechanism for Recovery and Sustainability and BGN 846.7 million national co-financing.

### *b) Main challenges*

The carbon intensity of transport sector in the country is 3.5 times higher than the EU average, reaching 2.8 kg of greenhouse gases (GHG) for 1 Euro gross value added in 2019. The sector is one of the main emitters of GHG and is associated with 26% of the total GHG in the country. In the context of the decarbonization efforts of the economy, there is a need to increase the investment in sustainable transport in order to reduce the sector's carbon footprint.

The construction and electrification of the railway infrastructure in the country has a good level (despite some territorial imbalances), but its condition remains problematic, which - in addition to the high degree of depreciation of rolling stock - results in outflow of users of the service offered by the passenger segment. The liberalization of the rail freight market has led to the entry of private railway companies and to increase in the relative share of the railway sector in the segment due to seizure of market share from the road freight transport, which, however, still retains its dominant position. At the regional level, the interventions should be focused on the less infrastructurally developed Northern Bulgaria, which, in addition to the expected positive effects on environment and green transition, will create conditions for reducing the Intra-regional inequalities in the country.



In 2019, 628 people died and 1,937 were seriously injured in road accidents on Bulgarian roads. Bulgaria has relatively low levels of road safety compared to the EU average.

### c) Objectives

The component is in line with the Country-Specific Recommendations (CSR) of the Council for the years 2019 and 2020, and will directly contribute to the implementation of aspects of 2020 CSR 3 and 2019 CSR 3. The proposed reforms and investments implicitly or explicitly aim to increase the sustainability of transport sector by reducing its carbon footprint. The implementation of the planned interventions will be crucial in the context of the green transition, given the current significant share of transport sector in greenhouse gas emissions. At the same time, the concentration of part of the investments in Northern Bulgaria, which is characterized by relatively lower level of infrastructure development, will help the reduction of regional imbalances. Road safety interventions will also help to increase the sustainability of transport, since they address its safety, attractiveness and functionality - aspects that directly determine the level of the sector development. As a result, the overall mobility of the population is improved by supporting industry and trade, since transport acts as a link between producers, on the one hand, and raw materials, labour market and consumers, on the other hand. Sustainability is also measured by the fact that the increased number of passengers and increased transportation of goods and services will lead to economic growth and stimulated economic activity which is carried out at a higher level of safety, with the inherent risks of any economic activity being mitigated by an environment which is more prepared to meet them.

The planned interventions will also directly contribute to the economic recovery through the implementation of investment projects and the temporary employment created for the purposes of their implementation. Further on, the planned investments are of a lasting influence, i.e. their effect will not disappear after the completion of the respective projects.

The measures envisaged in the component will have a macroeconomic impact in the short term. The assessment (Ref. Part 4: Impact Assessment) projects that as of 2023, the GDP level in constant prices will be by 0.4% higher than the baseline scenario (in which the interventions planned under the component are not realized), the medium-term effect (as of 2026) is a further 0.2 % GDP growth against the baseline scenario. The expected effects of the implementation of the projects under the component in respect of the labour market are 0.1% additional increase in the number of employed persons (both in the short term – by 2023, and in the medium-term – by 2026).



## d) Reforms and investments

### Reform 1: Updating of transport sector strategic framework

The reform envisages update of the strategic framework of transport sector in the context of the country's commitments arising from the UN Sustainable Development Goals and Green Deal.

The framework strategic document of the highest order in the hierarchy of national programming documents is the National Development Program BULGARIA 2030. It defines the vision and general objectives of development policies in all sectors of government, including their territorial dimensions. The detailed strategy of the National Development Programme BULGARIA 2030, adopted by the Council of Ministers on 2 December 2020 within the specific priority

Transport Connectivity to increase the sustainability and to reduce the carbon footprint of transport sector, sets specific objectives for priority development of the railway segment, for increase in the share of passengers and freight transported by rail transport, and for increase in the level of construction of the main conventional TEN-T railway network. In addition, specific objectives are set to increase the share of renewable energy in the consumption of transport fuels, to improve the quality of port infrastructure and the efficiency of air transport services, etc.

The updating of the strategic framework will be carried out in three directions as follows:

#### **Decarbonization of road transport**

The government is preparing *National plan for development of combined transport in the Republic of Bulgaria until 2030*, with the main goal of pursuing a policy to stimulate and support the transfer of goods to more environmentally friendly modes of transport-, inland waterway and sea, and to achieve a more flexible, sustainable and less harmful economy. The plan is directly hierarchically linked to the Integrated Transport Strategy until 2030 and is one of the operational documents for its implementation. It includes a package of specific measures to promote combined transport, covering (1) organizational and administrative issues, (2) operational issues and service support, and (3) infrastructure improvement, incl. terminal equipment.

#### **Preparation and prioritization of investments and results of state-owned transport companies**

On 30.06.2021, *Investment program for fulfillment of the conditions for utilization of the funds from the European funds for the period 2021- 2027* was approved. The program is developed in fulfillment of the thematic unlocking condition: *Comprehensive transport planning at the appropriate level*. It includes ten sections focused on: common policy for transport connectivity of the Republic of Bulgaria until 2030;



economic evaluation of the planned investments; compatibility with the national *Energy and Climate* plan; investments in the corridors of the main Trans-European Transport Network; investments outside the corridors of the main TEN-T network; implementation of the European Railroad Traffic Management System; promoting multimodality; promoting the use of alternative fuels; road safety risk assessment; financial resources to cover operating and maintenance costs. The program prioritizes the investments in the period until 2030.

Responsible transport investment organizations, such as the National Railway Infrastructure Company (NRIC), the Road Infrastructure Agency, together with the Ministry of Transport and Communications, will undergo an independent audit of their organization, administrative and technical capacity for management and coordination, tendering procedures, financial management, monitoring and internal quality control and reporting. The audit will include the definition of the organization, coordination, division of responsibilities and resources (number and profile of staff, other technical resources) required for the preparation and implementation of TEN-T network projects, with a view to completing the core TEN-T network until 2030.

Capacity building measures will be taken based on the results of the independent audit and will include:

- the recruitment of an appropriate number of qualified staff (according to the audit) dedicated to the preparation and implementation of TEN-T projects and appointed on the basis of a transparent and competitive procedure;
- defining a clear mandate for each responsible entity to ensure that medium- and long-term performance plans are implemented and well coordinated with other entities;
- methods and procedures for ensuring continuity in investment management and knowledge transfer in order to strengthen institutional memory.

### **Strand 3 - Railway transport**

The Republic of Bulgaria has made in due time the necessary legislative changes regarding the opening of the market of railway services for passenger railway transport with the law amending and supplementing the Railway Transport Act from March 8, 2019.

- In the period 2022 - 2023 the performance of an Analysis of the current Contract for implementing public transport services in the field of railway transport on the territory of the Republic of Bulgaria between the Ministry of Transport, Information Technology and Communications and BDZ - Passenger Transport EOOD and preparation of an offer/conditions for awarding a new contract will be assigned in accordance with the requirements of Regulation (EU) 2016/2338 of the European Parliament and the Council of 14 December 2016 amending Regulation (EC) No 1370/2007 on



public passenger transport services by rail.

- The new Public Service Contract (PSC) will be awarded through an open, non-discriminatory and competitive tender procedure. The scope of the Contract will be determined on the basis of a comprehensive analysis, part of which will be assessment of demand, assessment of what services could be provided by open access / commercial operators, assessment of whether less distortive measure can be used from concluding a Public Service Contract to achieve the policy objectives.
- The award will take into account the results of the analysis and the contract will be concluded in accordance with current legislation. The selected PSC operator will receive the rolling stock from the RRP and will be its user (the so-called „keeper“).
- After the expiration of the PSC, the operator will return to the state the rolling stock in the condition in which it was received, taking into account the depreciation.
- By the second quarter of 2026, the number of passengers carried by rail will reach 24.54 million per year, which is an increase of 15% compared to 2019.
- In the first quarter of 2026, between Sofia and Burgas (via Plovdiv) train travel time will be reduced to 4 hours and 48 minutes, compared to 6 hours and 40 minutes in 2021.

**State aid:** The reform does not constitute state aid within the meaning of Article 107 (1) of TFEU.

#### Investment 1: Reform of rail passenger services in suburban and interregional destinations by purchasing new rolling stock

Measure<sup>40</sup> aims to improve the quality of rail transport services by:

- Introduction of regular clock train service (S-bahn type) in the suburbs of Sofia, Plovdiv and other agglomerations by purchasing 35 single-decker and 7 double-decker interoperable electric multiple units with a maximum speed of 160 km/h, equipped with ERTMS;
- Improving the service of high-speed passenger trains (InterCity) in the main directions in the country by purchasing 20 single-decker interoperable electric push-pull trains (locomotive, wagons and command wagon) with a maximum speed of 200 km/h, equipped with ERTMS;

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<sup>40</sup> See Annex No П19



- Digitalisation and reduction of emissions when performing railway shunting activities in landfills by purchasing 18 electric accumulator shunting locomotives;

The implementation of the projects in their entirety will significantly improve the mobility of the population through:

- transfer of travels from individual transport to public electric rail transport;
- reducing the carbon footprint of transport on the environment;
- speeding up rail travel;
- increasing the frequency of public services;
- operation in the directions of the main TEN-T network;
- ensuring communication compatibility between the upgraded infrastructure and the newly purchased passenger rolling stock by installing ETCS on-board equipment (thus making full use of the ERTMS system).

The total planned funding is BGN 1,021.8 million, of which BGN 665.98 million will be provided by the Recovery and Resilience Facility and the rest BGN 355.82 million will be national co-financing with an implementation period 2022-2026.

**State aid:** The project does not contain state aid that is incompatible with Union rules, as the rolling stock to be supplied will be state-owned and will be made available to the next public service contract operator after 2024 through an open non-discriminatory procedure and the operator will be obliged to return it to the state after the expiration of this contract.

**Investment 2: Implementation of the European Train Management System (ERTMS) for on-board equipment of mainline zero-emission electric locomotives and zero-emission electric multiple units operating on the conventional railway network of the Republic of Bulgaria**

Project<sup>41</sup> envisages the supply of on-board equipment to existing zero-emission electric locomotives and zero-emission electric multiple units with the European Rail Traffic Management System (ERTMS). 15 railway carriers operate on the railway network of the Republic of Bulgaria. So far in the Republic of Bulgaria there is only 2 locomotives with ERTMS on-board equipment system. For the implementation of the project equipment with ERTMS on-board equipment is expected, which will achieve interoperability with the road

<sup>41</sup> See Annex No 1120



equipment of a minimum 108 available zero-emission electric locomotives and zero-emission electric multiple units of all carriers. Equipment with the on-board part of the ETCS level 2 (L2) system, which complies with standard 3 (Baseline 3) with version 3.4.0, will be supplied, with a guarantee that future transition to version 3.6.0 will be possible only by means of an update of the software (without change in hardware), or initially with version 3.6.0, according to the specifications of the European Railway Agency (ERA). Carriers will be required to operate the equipment for a minimum of 10 years.

The total budget of the investment is BGN 126 million, of which BGN 63 million will be from the Recovery and Resilience Facility, and the remaining BGN 63 million will be provided at the expense of the budget of the railway carriers (own financing).

**State aid:** The procedure requires notification of state aid to the European Commission.

### Investment 3: Digitization of the comprehensive TEN-T network through the implementation of ERTMS, level 2 in the railway section Ruse - Kaspichan

It is envisaged<sup>42</sup> implementation of ERTMS level 2 (ETCS and GSM-R), dispatch centralization with included design, delivery, construction and commissioning of:

- ERTMS - part ETCS, road equipment;
- ERTMS - part GSM-R (or the newer generation digital radio system for railway applications FRMCS) with reserved coverage level and equipment for level 2 of ETCS;
- Construction of dispatch centralization with automatic control of train movement and train operation and radio block center (RBC), located in a single dispatch center in Gorna Oryahovitsa;
- route-computer centralizations of 10 stations with provided interface to the dispatching centralization and RBC;
- auto-lock with axle counters;
- replacement of level crossings with manual control or automatic with technically depreciated equipment with new equipment with axle counters for 20 level crossings;
- construction of a modern digital IP telecommunication system based on optical cable network in the section of the 9th railway line Ruse - Kaspichan, which will be the basis for the operation of all other systems and GSM-R (FRMCS);
- passenger information systems (public address system, electronic boards, clock systems);
- construction of video surveillance on stations, station areas and crossings.

<sup>42</sup> See Annex No П21



The total budget of the investment is BGN 205.86 million entirely from the Recovery and Resilience Facility.

**State aid:** NRIC operates under conditions of legal monopoly, and the railway infrastructure sites and the land on which they are built or intended to be built are public state property. NRIC is the sole and exclusive manager of the railway infrastructure in the Republic of Bulgaria. In this context, with regard to the construction of the railway infrastructure, the company will not receive any economic benefits from this activity, and the project does not contain state aid that is incompatible with the Union rules.

#### Investment 4: Providing fast and competitive transport connection with the markets for business in Northern Bulgaria by building an intermodal freight terminal in the region of Ruse

An intermodal terminal will be built under the project<sup>43</sup>, on an area of 124 decares east of the Danube split post. This will strengthen the opportunities for the development of exchange and economic growth in Northern Bulgaria. It includes the new construction of buildings and facilities at the terminal and the reception and departure park (RDP), where the train compositions will be accepted. The project envisages the construction of one loading and unloading track, three receiving and departing tracks, electrification of the tracks, signaling and telecommunications, electricity, plumbing, administrative and service building, residential building for staff, office building of the RDP, checkpoint, suitable road connection, storage areas for storage of containers /TEU/ of various types, parking lots for trucks and cars, customs control point, site for maintenance and repair of mobile equipment, including gas station and car wash, container repair point, truck scale, scanning frame for railway trains and trucks, fence and other elements inherent in a container handling terminal. The rest of the loading and unloading and other equipment will be at the expense of the future operator of the terminal and will not be financed under this project.

The total planned funding is BGN 51.95 million, of which BGN 44.16 million will be provided by the Recovery and Resilience Facility and the rest BGN 7.79 million will be national co-financing with an implementation period 2022-2026.

**State aid:** NRIC operates under conditions of legal monopoly, and the railway infrastructure sites and the land on which they are built or intended to be built are public state property. NRIC is the sole and exclusive manager of the railway infrastructure in the Republic of Bulgaria. In this context, with regard to the construction of railway infrastructure, the company will not receive any economic benefits from this

<sup>43</sup> See Annex No П22



activity. The project does not contain state aid that is incompatible with the Union rules. The constructed terminal will be leased in accordance with the Concessions Act.

## Reform 2: Conceptually new control of road traffic safety in a single integrated strategic framework for the 2021-2030 period

To address the challenges of road traffic accident injuries, the government makes (and is planning to make) the following reform efforts:

### 1. New national GDP strategy for the period 2021-2030 and its Action Plan 2021-2023 (Q4 / 2020)

By its Decision No 775 / 26.10.2020 the Council of Ministers adopted the strategic document and the action plan to it. The process of developing, consulting and adopting the Strategy and Plan was long and multifaceted. It included a large number of institutions at the central, regional and municipal level and representatives of the non-governmental sector, scientific and academic circles, which greatly contributed to the consensus nature of the strategic and planning framework prepared after a constructive partnership debate and broad societal consensus;

### 2. Implementation of the Action Plan for GDP 2021-2023 (Q2, 2023)

It is envisaged to implement a set of key activities within the Action Plan to the National GDP Strategy. This includes: preparation of sectoral annual action plans for central institutions, 28 regional annual plan programs and 264 municipal GDP planning programs for each of the three years, with prioritization and planning of infrastructure measures that will have the greatest impact on road safety; implementation of road safety infrastructure measures in 28 districts of the country, especially with emphasis on vulnerable road users in urban areas; preparation of 28 regional reports and a summary national report for each of the three years on the state of GDP, including the technical condition of road safety elements on national and municipal roads and city streets.

The goals of the reform efforts are related to: elimination of sections with concentration of traffic accidents - 50% reduction compared to 2019 (Q1, 2026); reduction of the number of fatalities and seriously injured as a result of road accidents - 30% reduction compared to 2019 (Q1, 2026).

**State aid:** The planned activities do not constitute state aid, since the reform affects statutory requirements for road infrastructure management and road safety.



### Investment 5: Improve road safety in the Republic of Bulgaria by enabling sustainable road safety management

The specific objective of the project<sup>44</sup> is to reduce the risk of road accidents and injuries through targeted impact on key road safety management processes. Measures will be taken to optimize the activities on safety management of the national and municipal roads, development and integration of software applications for management and prioritization of road activities to ensure road safety, on establishment of national electronic system for submitting and processing signals related to road infrastructure safety, and on procurement of equipment for current repair and maintenance of the national roads. Specialized equipment will be provided to assess road safety during road inspections, including inspections of sites close to the road, in order to establish specific design characteristics, performance of the road surface and its functional condition. The traffic conditions in the area of border checkpoints are planned to be improved by introducing a system that manages the cross-border traffic of heavy goods vehicles through a specialized mobile application intended for road users. The total planned funding is BGN 12.0 million (BGN 10.0 million will be provided by Recovery and Resilience Facility and BGN 2.0 million will be national co-financing) with an implementation period 2021-2024.

**State aid:** The planned activities do not constitute state aid (see the self-assessment included in Annex П23).

### Reform 3: Sustainable urban mobility reform

1. Entry into force of the reform - adopted Integrated Territorial Strategies (ITS) for the development of planning areas of NUTS 2 level, including elements of sustainable urban mobility; adopted Plans for integrated development of municipalities with included plans for sustainable urban mobility in them (Q3 / 2022)

The ITS of NUTS 2 level planning regions determine the development objectives and priorities for each of the six regions in the country, and the measures required for their implementation. They are a prerequisite for implementation of integrated territorial investments supported by ESIF. ITS also define the spatial models for development and grouping of territories according to certain principles, including territories with specific characteristics, with IMDs being required to comply with

<sup>44</sup> See Annex No П23



them. They should include elements for planning sustainable urban mobility at the regional level.

IMDs determine the objectives and priorities for development of the respective municipal territory, including the priority measures and investments that will be implemented. Sustainable Urban Mobility Plans (SUMPs) of municipalities, developed in accordance with the SUMP Concept (Annex to the Commission Communication COM (2013) 913), should be part of the integrated development plans of municipalities, as a necessary condition for support of urban mobility measures of the respective municipality with EU funds. The plans for integrated development of the municipalities are developed by all municipalities according to the requirements of the law. SUMPs are included only for municipalities with identified needs depending on their specifics and territory.

## 2. Evaluation of the implementation of sustainable urban mobility plans (Q2 / 2025)

According to Art. 33 of the Regional Development Act it is envisaged an interim evaluation of all Plans for integrated development of municipalities in the middle of the period of their operation. The implementation of the plans for sustainable urban mobility should be evaluated as part of the Plans for integrated development of municipalities and on this basis the Ministry of Regional Development and Public Works will check how many municipalities are implementing plans for sustainable urban mobility.

According to Art. 33 of the Regional Development Act, the mid-term evaluation of the Municipal Integrated Development Plans includes:

- evaluation of the initial results of the implementation;
- evaluation of the degree of achievement of the respective goals;
- evaluation of the efficiency and effectiveness of the resources used;
- conclusions and recommendations for the implementation of the respective document.

The purpose of the mid-term evaluation of urban mobility is to assess the extent to which the integrated development plans of the municipalities and the integrated plans for sustainable urban mobility are being implemented and the extent to which they are achieving their objectives.

**State aid:** the planned activities do not constitute state aid.

**Investment 6: Provision of sustainable transport connectivity through construction of Line 3 section of Sofia metro; ;**

The project<sup>45</sup> provides for construction of a section (Stage 3) of Line 3 of Sofia metro : section "MS" Hadzhi Dimitar "- h.e. "Levski" (3 km long and 3 metro stations planned). With high environmental standards, it will provide fast and efficient service to a large number of passengers with intermodal connections to the national railway network, with

<sup>45</sup> See Annex No 1724



the airport, and through buffer metro stations with parking lots on the main entrance-exit arteries of the city - with the main car traffic to the capital city. The section of the proposed project will transport 7.6 million passengers by 2026 and 12.7 million passengers by 2030, will reduce harmful gases - greenhouse, fine dust particles, lead aerosols and other in the city and the region, the number of cars in the city will be reduced by nearly 7 thousand cars per day, and due to the significantly higher speed of the subway compared to other transport, city residents will save an additional 6,290 man-hours per day . The total planned resource is BGN 217.47 million from the Recovery and Resilience Facility and the implementation period is 2022-2026.

**State aid:** The financing for construction of the project infrastructure does not lead to distortion of competition and impact on trade, does not provide an economic advantage for the company Metropolitan EAD and in this regard does not include the provision of state aid due to the fact that there is a natural monopoly in the construction of metro infrastructure and legal monopoly in its operation and construction. The metro infrastructure is public municipal property, and its construction and operation have been assigned to the company Metropolitan EAD (100% municipal property) through a public service contract, which complies with the requirements of Regulation (EC) No 1370/2007.

#### Investment 7: “Green Mobility” – a pilot scheme to support sustainable urban mobility through measures to develop environmentally-friendly, safe, functional and energy-efficient transport systems

The scheme<sup>46</sup> aims to support the implementation of the urban mobility reform (reform 3) and the deployment of framework policies to facilitate the growth of cities and to ensure their sustainability through implementation of sustainable urban mobility measures in the framework of a framework aid scheme for different beneficiaries. The eligible activities include integration of zero-emission public transport vehicles (urban and interurban) in the urban transport system, construction of charging stations for public transport vehicles, developing ITC and integrated digital solutions for improving the effectiveness and efficiency of public transport, implementation of infrastructure measures for safe urban mobility aimed at vulnerable road users - pedestrians and cyclists, and development / updating of Traffic Plans: General Organization of Traffic. The implementation of the measure will lead to connectivity and will establish connections between urban and rural areas and to development of functional areas, while contributing to the implementation of the national decarbonization and energy efficiency targets, as well as to development of the tourism sector. The total planned

<sup>46</sup> See Annex No П25



funding is BGN 100 million (BGN 97.0 million will be provided by Recovery and Resilience Facility and BGN 3.0 million will be national co-financing) with an implementation period 2022-2026.

**State aid:** The clean vehicles and charging infrastructure fall within the scope of General Block Exemption Regulation (GBER) and may be supported without prior notice if the applicable requirements of the GBER have been met. Alternatively, the responsible municipalities may entrust a public service obligation to the transport operators concerned in accordance with Regulation (EC) No 1370/2007 of the European Parliament and of the Council of 23 October 2007 on public passenger transport services by rail and by road and repealing Council Regulations (EEC) Nos 1191/69 and 1107/70, as amended by Regulation (EU) 2016/2338 of the European Parliament and of the Council of 14 December 2016.

#### Reform 4: Ensuring efficient access to integrated public transport

In the case of an existing public service contract that needs to be amended as a result of the project, the municipalities will also take into account the above regulation. The reform of the sector is based on the adoption of Public Passenger Transport Act, which will govern the assignment, operation and management of public transport in the country as a single system consisting of many components and modes of transport, united in a single National Transport Scheme and Standard for Public Transport Development and Integration of the Regions. The Act will aim to cover the existing legal uncertainty of public transport in the country as a service based on market principles and as an element of social responsibility. It will ensure equality between contracting authorities, providers of transport services (operators) and clients of the transport service (passengers), defining the terms and conditions for regulation of the public transport on the territory of the country.

Such an Act will also determine the regulatory framework that our country needs to stimulate and define the regulations for inter-municipal integrated transport schemes, urban railways and other transport tools, such as:

- Ordinance on the terms and conditions for preparation of National Transport Scheme
- Ordinance on the terms and conditions for tariff-setting in public transport and on adoption of a single transport document
- Ordinance on the terms and conditions for compensation of carriers for provision of a social transport service
- Ordinance on the terms and conditions for elaboration of inter-municipal and regional public transport schemes
- Ordinance on the terms and conditions for registration and operation of public transport vehicles
- Public transport development standard

- Standard for integration of public transport systems

Main stages of the reform:

### 1. Preparation and adoption of Public Passenger Transport Act.

To compile and prepare this new Act, an analysis of good practices from other EU member states will be made in order to adopt approaches that are applicable in Bulgaria, and broad public debate with representatives of the administration, businesses, non-governmental and civil society organizations representing public transport stakeholders will be held.

The introduction of a new Public Passenger Transport Act will cause changes in a number of other acts, such as Local Self-Government and Local Administration Act, Spatial Development Act, Public Procurement Act, Road Traffic Act, Rail Transport Act, etc. The transposition of its Final and Transitional Provisions is crucial for the adequate and comprehensive implementation of Public Passenger Transport Act.

### 2. Preparation and adoption of the regulatory documents defined in Public Passenger Transport Act

During the preparation of the regulatory documents defined in the Act, an analysis of identical regulatory frameworks in other EU member states will be made and similar approaches will be adopted.

### 3. Introduction of a single transport document

The reform envisages, as part of the adoption of a new legislative framework for the introduction of a single National Transport Scheme and the introduction of a single transport document (the so-called „Single Ticket“). It will be introduced by the first quarter of 2026 and will allow each person traveling in Bulgaria to purchase a travel document for all modes of transport necessary for his trip, within a predetermined period of time - once, day, month, year.

**State aid:** The reform does not constitute state aid within the meaning of Article 107 (1) of TFEU.

## Reform 5: Electric mobility

The reform will accelerate the construction of charging infrastructure and electrification of vehicles and will bring Bulgaria closer to European long-term goals for reducing greenhouse gas emissions, successful green economic transformation, reducing air pollution and urban noise by introducing low-emission zones in the central parts, increasing of energy efficiency and the removal of polluting motor vehicles with internal combustion engines.

The reform will create and initiate the implementation of a comprehensive long-term vision for sustainable national and urban electromobility and connectivity through the initiation of



a new law on the development and promotion of electric mobility, which includes both green and digital transformation and has a significant positive effect on both sustainable economic and regional development and public health through reduced air and noise pollution and accompanying the gradual and widespread introduction on the principle of "polluter pays" in the transport sector in Bulgaria in the long run.

The reform will bring about specific changes in the legislation and overall planning, regulation and cultural development of transport and its electrification. First of all, the reform aims to overcome the challenges with the missing infrastructure, as well as to unlock, through reasonable information and educational work, the promotion of electric mobility in Bulgaria and through it to increase the number of purchased electric vehicles to 30,000 purchased new and imported "second hand" electric cars and plug-in hybrids by mid-2026

The reform aims to stimulate the construction of charging infrastructure, leading to the construction of at least 10,000 public charging points for electric vehicles located on the intercity road network, in the central parts of the 50 main Bulgarian cities and in the apartment areas of these cities. The indicator includes at least 30 hubs for fast charging stations on highways and at least 325 fast charging stations at the entrances and exits of cities, on municipal territory or in private sites such as shopping malls, gas stations and others. In addition, the reform will lead to future upgrades and development of the infrastructure integrity of the charging network, covering the appropriate points of high and medium voltage transmission networks and transformer substations suitable for transport infrastructure, including those of railway stations and their adjacent public parking and charging infrastructure.

The focus on charging infrastructure as a key component of the reform is the most important segment, as in Bulgaria the sales of motor vehicles are dominated by the sales of second-hand cars. Comprehensive support for the development of electromobility will support and complement regional development plans, economic development plans, plans for more efficient, safe and well-intentioned mobility, and the preservation and protection of climate and the environment. An additional effect will be the reduction of air pollution in urban areas of the country, as an average of 30% of PM pollution originates from cars with internal combustion engines.

The overall effect of the reform will be to reduce premature mortality due to air pollution, to reduce carbon emissions, and to increase citizens' satisfaction with the positive evolution of the urban and transport environment. The promotion and familiarization with electric vehicles will inevitably lead to faster scrapping and decommissioning of old polluting vehicles with internal combustion engines.

**The steps for the implementation of the reform for the development of electric mobility in Bulgaria are:**

- The Deputy Prime Minister for Climate Policy and the Ministry of Environment and Water to be designated as the national body coordinating the policies for the development of electric mobility in Bulgaria - (Q2 / 2022);
- The Council of Ministers in the person of the Deputy Prime Minister for Climate Policy to initiate and form a specialized commission for development and promotion of electric mobility (line committee of the Advisory Council on Green Deal at the Council of Ministers) with representatives of the Association of Electric Vehicle Owners, Electric Vehicle Industry Cluster, The Bulgarian Electric Vehicle Association, the Association of Bulgarian Municipalities, the Association of Cities and Regions, the Chamber of Power Engineers, etc., which has the task to prepare a model of simplified regulation to encourage the construction of charging stations and a new law to promote electric mobility Q3 / 2022);
- The Commission to the Advisory Council on the Green Deal to continue and upgrade its work on creating a long-term vision for the new law on the promotion of electric mobility in Bulgaria, expanding and supplementing its participants needed to prepare the vision and the law - (Q4 / 2022);
- The Ministry of Regional Development and Public Works (MRDPW) to prepare an analysis of the degree of impact of cars with internal combustion engines on air pollution in central urban areas and make proposals for regulations limiting this impact based on the principle “polluter pays” and the introduction of low-emission areas in cities - (Q4 / 2022);
- Requirement for preparation of detailed analysis and investment plans by the Electricity Distribution Enterprises (EDEs), together with the Electricity System Operator (ESO) and the National Railway Infrastructure Company (NRIC), for construction of high-current capacities for fast charging stations on the national road network and urban areas together with the Ministry of Energy (ME), the Ministry of Transport and the Energy and Water Regulatory Commission (EWRC) - (Q2 / 2023);
- EWRC to define ways to stimulate the Electricity Distribution Enterprises together with the Electricity System Operator, so that the network of charging infrastructure covering 10,000 public charging stations within 5 years can be achieved and built - (Q3 / 2023);
- The Ministry of Regional Development and Public Works in cooperation with municipal representative to prepare an improved regulation for the allocation of charging stations (and respectively for parking when charging) in the residential areas of the 50 largest cities in Bulgaria (Q4 / 2023);



- Ministry of Regional Development and Public Works to update the regulations for installation of charging stations in private properties, prioritizing the notification regime as a requirement for their construction - (Q3 / 2023);
- Maximum reduction and observance of deadlines for completion of administrative procedures related to the installation of charging stations by municipalities and electricity distribution companies together with the Ministry of Regional Development and Public Works, ME, EWRC - (Q3 / 2023);
- Introducing green registration numbers for electric cars and abolishing the requirement for electromagnetic tests for electric vehicles converted from internal combustion engine vehicles (Q3 / 2022);
- Complementing and upgrading national financial instruments, as a result of which it is expected that the differentiated vehicle charges will be revised according to the emission levels in accordance with the "polluter pays" principle, in order to increase the interest in electric vehicles and to use all possibilities for demarcation under the various financial instruments that will be able to support the purchase of electric vehicles through incentives, guarantee schemes and support grant programs, including the upgrade of a national financial co-financing instrument to the National Trust Ecofund (NTEF) to support the purchase of new electric vehicles - (Q1 / 2023);

The Law on the Promotion of Electric Mobility will aim to accelerate the electrification of road transport in Bulgaria and reduce related greenhouse gas emissions and air pollution. It will also enable the development and promotion of alternative emission-free fuels.

**The Law on the Promotion of Electric Mobility will enable and stimulate the expansion of the infrastructure of electric charging stations throughout the country. This includes:**

- simplification of the procedures for connecting charging stations to the electricity grid and of the construction procedures for the construction of such stations,
- regulatory obligation for municipalities to provide places for chargers in at least two parking lots;
- regulatory incentives for electricity utilities to ensure easy access to the electricity grid;
- preferential financial instruments for small and medium-sized enterprises investing in the construction and management of electricity charging infrastructure.

The Law on the Promotion of Electric Mobility will also aim to introduce incentives for the entry of electric vehicles (EVs) in accordance with the "polluter pays" principle, including special measures such as subsidies for zero-emission vehicles, differentiation of registration / property taxes depending on the level of emissions and scrapping schemes for most polluting vehicles (EURO 3 or lower).

The charging stations will be publicly available 24 hours a day, 7 days a week and will be purchased on the basis of open tenders. The regional distribution should be balanced and focus on areas with more congestion, but also cover the entire national road network, as well as the 50 largest cities in the country and their suburbs, where there is a concentration of overnight staying cars.

The locations of the charging stations will be chosen based on road needs, travel capacity, the level of road congestion, but also on the initiative and development of the business concerned.

**The new charging stations will include:**

- at least 30 fast charging stations located in TEN-T highway centers at 1-2 MW DC
- at least 325 fast charging stations - with a minimum power of 50 kW - built in the intercity road network and cities.

Low-emission zones will be introduced in at least three district cities, each with a population of over 100,000 and a total population of at least 1.5 million. Low-emission zones should be targeted at the district cities with the highest levels of pollution and cover the wider area of the central urban areas. The entry and movement of most polluting cars (with EURO 3 emission standards or lower) will be prohibited in these areas.

**State aid:** The reform does not constitute state aid within the meaning of Article 107 (1) of TFEU.

*e) Complementarity and demarcation with the Cohesion Policy instruments*

To improve the railway infrastructure along the main Trans-European Transport Network and to develop the connections with the neighboring countries under 2021-2027 Transport Connectivity Programme, the modernization of railway sections Elin Pelin - Kostenets and Voluyak - Dragoman and of railway section Sofia - Pernik - Radomir will be completed and railway connection between Bulgaria and the Republic of Northern Macedonia will be built. The implementation of the projects will contribute to the development of the Orient/Eastern Mediterranean Corridor, passing through the Republic of Bulgaria, by improving transport connectivity and ensuring interoperability. To improve connectivity between rail and air transport and to increase their efficiency, railway connections to Plovdiv Airport and Burgas Airport will be built. The facilities and systems along the railway line Karnobat - Sindel of the comprehensive Trans-European Transport Network will be completed in order to ensure greater transport safety. Railway junctions Gorna Oryahovitsa, Ruse and Varna will be developed. The construction and modernization of the railway stations and the implementation of ERTMS will continue. Activities are envisaged to support intermodal operators, which will lead to an increase in the use of ports and railway infrastructure. The envisaged steps for introducing electric mobility will be supported by investments under the Transport Connectivity Program 2021-2027 for the construction of charging infrastructure for alternative fuels on the first-class road network and the main ports (sea and inland water), which will contribute to pollution reduction and environmental protection.

Under the Connecting Europe Facility (CEF), Transport Sector, in the programming period 2021-2027 activities for modernization of the railway section Radomir - Gyueshevo, part of the railway route from Bulgaria to Northern Macedonia are envisaged, as well as the modernization of the railway section between Dragoman and the border with the Republic of Serbia. In addition, the intentions of state-owned company *Railway infrastructure* also include the submission of the following projects within the framework of the envisaged Calls for Proposals under CEF 2021-2027:

- "Doubling of sections along the railway line Plovdiv-Svilengrad-border with the Republic of Turkey";
- "Modernization of Vidin-Sofia railway line".

With regard to the other types, initiatives are envisaged for the construction of charging and hydrogen infrastructure for the ships in the Bulgarian ports on Danube River and the Black Sea, purchase of ships and other assets to improve navigation in the common Bulgarian-Romanian section of the Danube River, rehabilitation of basic infrastructure in Bulgarian ports along the Danube River and the Black Sea, as well as the implementation of engineering measures to improve the conditions for navigation in the common Bulgarian-Romanian section of the Danube River.

#### *f) Strategic Autonomy and Security*

The interventions under the component will adhere to the European best investment practices aimed at transparency and fair trade, thus making public procurement procedures respect the principle of achieving strategic autonomy, while maintaining an open economy. At the same time, some of the intentions included in the component directly contribute to achieving the EU's strategic autonomy with regard to such a key resource as the energy.

#### *g) Trans-boundary and multi-national projects*

The measures incorporated within the scope of the component are foreseen for implementation only on the territory of the country. However, there is a certain cross-border dimension. Part of the investments in the railway sector are related to sections and routes of the main and comprehensive TEN-T network and create preconditions for increasing the share of rail transport (at the expense of road transport) both in the country and abroad. Elements of reform 2 and investment 5 concern cross-border road and heavy goods traffic.

## h) Green and digital aspects of the component

The transport sector is one of the most significant greenhouse gas emitters in this country and in 2019 26% of all greenhouse gases at national level were generated by transport. The planned interventions in the component will lead to their reduction, thus the component will have significant contribution (valued **82.9%** of climate costs - see Table 2.C.2.1 below) to achieve the 37% target for the climate dimension of the Plan set out in the Regulation on the Recovery and Resilience Facility. The proposed in the component measures contribute to the ecological transition also by taking into account the six climate and ecological objectives the Regulation defines for taxonomy and they do not distort the “does not significantly harm” principle as defined for taxonomy in the Regulation.

By including **30.4%** digital costs (ref. to Table 2.C.2.1 below), this component also contributes to the 20% target for the digital dimensions of the Plan, set out in the Regulation on the Mechanism for Recovery and Sustainability.

**Table 2.C.2.1.: Green and digital impact**

Component 8: Transport connectivity	Financing from RRF, MBGN	Green transition	Digital transition
Reform of rail passenger services in suburban and interregional destinations by purchasing new rolling stock	665.9	613.0	88.3
Implementation of the European Train Management System (ERTMS) for on-board equipment of mainline zero-emission electric locomotives and zero-emission electric multiple units operating on the conventional railway network of the Republic of Bulgaria	63.0	25.2	63.0
Digitization of the comprehensive TEN-T network through the implementation of ERTMS, level 2 in the railway section Ruse - Kaspichan	205.9	153.3	205.9
Construction of an intermodal terminal in the North Central Planning Region in Bulgaria - Ruse	44.2	17.7	0
Improve road safety in the Republic of Bulgaria by enabling sustainable road safety management	10.0	0	2.0
Ensure sustainable transport connectivity through the construction of Stage 3 of Line 3 of the metro in Sofia - metro station "Hadzhi Dimitar" - "Levski-G"	217.5	186.3	29.9



Component 8: Transport connectivity	Financing from RRF, MBGN	Green transition	Digital transition
"Green Mobility" – a pilot scheme to support sustainable urban mobility through measures to develop environmentally-friendly, safe, functional and energy-efficient transport systems	96.9	84.5	7.1
Update the strategic framework of the transport sector (R)			
Conceptually new management of road safety in a single integrated strategic framework for the period 2021-2030 (R)			
Sustainable urban mobility reform (R)			
Ensure effective access to integrated public transport (R)			
Electric mobility (R)			
<b>TOTAL</b>	<b>1,303.3</b>	<b>1,079.9</b>	<b>396.3</b>
<b>CONTRIBUTION</b>		<b>82.9%</b>	<b>30.4%</b>

*i) The principle of not incurring substantial damage*

All measures, included in the scope of the component – investments and reforms – are in conformity with the principle of not incurring a substantial damage, within the meaning of Art. 17 of Regulation (EU) 2020/852.

## 2.C.2 Local development

### a) Component Description

**Policy area:** Regional policy

**Objective:** This component main objective is to ensure the prerequisites for increasing competitiveness and sustainable development of the regions in the country, and to foster local development.

**Reforms and/or investments:**

- New regional approach with direct involvement of local communities in European funds management and instruments;
- Continuation of water sector reform;



- Programme for building/completion/reconstruction of water supply and sanitation systems, including waste water treatment plants for agglomerations between 2,000 and 10,000 p.e.;
- Digitalization for complex management, control, and efficient use of water.

**Cost estimate:** The indicative calculations of the costs necessary to implement this component objectives amount to BGN 527.7 million in total, of which BGN 412.6 million are from the Recovery and Resilience Facility, and BGN 115.1 million are national co-financing.

## *b) Main challenges*

During the years after the country's EU accession the regional development disparities increased. The dominating Southwest region managed to significantly catch up for its backwardness versus the EU regions, while progress in the other regions is clumsy. The Northwest region deepens its lagging behind the other regions of the country in nearly all monitored areas of socio-economic development. Substantial internal regional differences persist to be evident too, just as those along the urban-rural line.

The EU Cohesion Policy instruments of EU are a powerful tool for increasing the economic and social resilience of the regions, however the results observed after two programming periods in which the country had access to them, suggest the necessity of regional policy readjustment focused on improving its efficiency.

The share of the population connected to public sanitation and provided with waste water treatment grows in the last years, however as of 2020 Bulgaria has not achieved yet the compliance with the requirements of Council Directive 91/271/EEC. In relation to climate changes and the occurrence of drought periods the necessity was identified to adopt measures with regard to potable quality water insufficiency by providing new and/or reserve water sources for the population. On the other hand a large part of the population is of relatively low income, which requires to keep price of services in the Water and Sanitation Sector at socially tolerable values and therefore it is not possible to ensure the financial resource necessary to implement the necessary measures by increasing price of services. The insufficient financial funds limit also the renewal and development of the Water and Sanitation Infrastructure and this has an impact also on the progress with regard to the compliance with Directive 91/271/EEC and Directive 98/83/EC.

## *c) Objectives*

The component is in compliance with the Specific Recommendations of the Council to the country for 2019 and 2020 and it will contribute directly to the implementation of certain aspects of SR 3 of 2020, and of SR 3 of 2019.

The reform proposed for the introduction of a new regional approach aims to increase the efficiency of the regional policy and therefore it addresses directly

the recommendation for taking regional disparities into account (SR 3/2020), and at the same time it will have an indirect impact on the efficiency of public administration as a whole (SR 4/2020). The investments provided for in the water sector are in direct fulfillment of the prescriptions of SR 3/2019 (“To direct economic policy related to investments to water...by taking into account the regional disparities”). The implementation of the provided for interventions will be of key importance in the context of the ecological transition, in view of the relation they have to water resource protection and climate change adaptation. The projects in water sector will lead to increase of social resilience too.

The provided for interventions will directly contribute to the economic recovery too through the implementation of investment projects and the temporary employment created to implement them. Further on, the planned investments are of a lasting influence, i.e. their effect will not disappear after the completion of the respective projects.

The measures envisaged in the component will have a macroeconomic impact in the short term. The assessment (Ref. Part 4: Impact Assessment) projects that as of 2023, the GDP level in constant prices will be by 0.1% higher than the baseline scenario (in which the interventions planned under the component are not realized), the medium-term effect (as of 2026) is a further 0.1 % GDP growth against the baseline scenario. The expected effects from the realization of the intentions in this component in relation to the labour market amount to 0.03% additional growth in the number of employees, both in the short and medium term.

#### *d) Reforms and investments*

##### **Reform 1: New regional approach with direct involvement of local communities in the management of European funds and instruments**

The implemented reform provides for changes in the regulatory and strategic framework of the regional policy and the direct involvement of local communities in the regions of the country in the management of European funds and instruments, which enhances their sense of ownership of the implemented projects, by making best use of the *prima facie* higher efficiency of the policy in view of its addressing specific, identified at local level – at a higher level of awareness - needs and potentials. This approach lays a stress on the deployment of integrated territorial investments (ITI) in search of synergic effects from the implementation of their individual sector components.

#### **1. Change of legislation in the field of regional development and EU funds management (Q2/2022)**

Following the amendment in 2020 of the Regional Development Act and the Regulations for its implementation, changes in the legislation are also expected with regard to MRESUFA, which will further contribute to the participation of regional and local



authorities in the management of EU funds by strengthening their role in the preparation and implementation of integrated territorial strategies and projects. According to these changes in the legal framework, the Regional Development Councils will act as territorial bodies responsible for the implementation of the strategic documents at regional level and for the preliminary selection of projects to be funded, based on the integrated territorial strategies for regional development.

**State aid:** The reform does not constitute state aid within the meaning of Article 107 (1) of TFEU.

## Reform 2: Continuing the water sector reform

### 1. Adoption of the Water Supply and Sanitation Act (Q1/2023)

A Water and Sanitation Act draft was prepared in 2020 setting the conditions for the implementation of the strategic objectives of the Water and Sanitation sector by, on the one hand, establishing reforms related to ownership, contractual relations between the owner and operator and the regional planning and development of Water and Sanitation infrastructure, and on the other hand gives legal regulation of the challenges facing the sector to achieve sustainable and efficient development. The Act will:

- separate the regulation of water supply and sewerage services into an independent entity;
- introduce a new prices structure for water supply and sewerage services based on guaranteeing the minimum costs for the use of the systems and consumed services;
- regulate the strategic role of Bulgarian Water and Sewerage Holding;
- clarify the roles and functions of stakeholders;
- create prerequisites for consolidation in the provision of water supply and sewerage services.

The texts of the act will introduce uniform conditions for the quality of the service and efficiency criteria to be met by all WSS operators and their application to all operators on the territory of the country, which will in practice regulate prerequisites for the consolidation of the companies to be able to meet the requirements. By adopting a WSS Act the last fundamental steps of the reform in the Water and Sanitation sector will be made.

**State aid:** The envisaged ongoing actions to implement the reform envisaged in the WSS sector do not foresee any change in the operating conditions of the sector in terms of ownership, contractual relationship and financing of the infrastructure. The stipulations laid down in the WSS sector act introduce further clarification of the functions of stakeholders in order to avoid ambiguities and interpretations of their responsibilities and planning obligations, managing, maintenance and operation of the WSS systems and equipment, the provision and regulation of WSS services, and the financing of investments for building, reconstruction, and renewal of the WSS infrastructure.



In conclusion the reform measures in the WSS sector do not presuppose changes of the already established framework and the national position for the absence of state aid for the sector.

**Investment 1: Programme for building/completion/reconstruction of water supply and sanitation systems, including waste water treatment plants for agglomerations between 2,000 and 10,000 p.e**

The project<sup>47</sup> provides for actions for construction, reconstruction and modernization of sanitation and water supply systems, treatment plants for potable and waste water in 13 agglomerations and the settlements incorporated therein, with a size between 5000 and 10,000 PE. In line with the reform in the WSS sector the scope of the project includes only agglomerations, located on the territories of a consolidated WSS operator and for which regional pre-investment studies have already been prepared. The final list of agglomerations has been prepared in accordance with the objectives under Art. 4 of the Water Framework Directive 2000/60 of the EU (Article 156a of the Water Act): achieving good ecological status and good chemical status of surface waters in water bodies by reducing discharges of wastewater; achieving good groundwater status (i.e. good chemical and quantitative status of groundwater bodies) by reducing pollution in surface water bodies that are hydraulically connected to groundwater bodies; prevention of deterioration of surface and groundwater status after the WWTPs; stopping discharges of untreated wastewater. With the implementation of the program, the following will be achieved: compliance with the European and national water legislation; efficient and sustainable use of water to achieve environmental objectives; protection of waters for drinking and domestic water supply, including protection of their quality, in order to reduce the degree of purification for obtaining waters with drinking qualities. Based on these criteria, the following agglomerations on the territories of the districts of Burgas, Varna, Dobrich, Kardzhali, Plovdiv, Silistra, Sliven, Stara Zagora, Yambol, and Smolyan fall within the scope of the projects: Devnya, General Toshevo, Pavel Banya, Dulovo, Ahtopol, Krumovgrad, Devin, Galabovo, Straldzha, Dolni Chiflik, Saedinenie, Kotel, and Rogosh - Skutare. The total planned resource is BGN 392.8 millmillion. (BGN 300 millmillion. will be provided by the Recovery and Resilience Facility and BGN 92.8 millmillion. private co-financing) with implementation period 2021-2026.

**State aid:** WSS services have the character of a natural monopoly. In view of the specifics of the use of water for drinking and domestic needs, there is no alternative for its supply without making substantial additional investments, and the construction and parallel existence of individual water supply and sanitation systems on a given territory would be economically inappropriate.

<sup>47</sup> See Annex No P26



The financing of the planned activities does not constitute State aid (see detailed self-assessment included in Annex P26).

## Investment 2: Digitalization for complex management, control and efficient use of water

The measure<sup>48</sup> aims to improve water quantity management through digitalization of the process and improving the water use control for ensuring the minimum admissible leakage and improving the information about water resources through automation of measurements. To achieve that objective, an integrated water quantity control system is planned that will consolidate data from existing and in the process of development information systems of the partners to this project - Ministry of Environment and Water, Ministry of Regional Development and Public Works, Bulgarian WSS Holding EAD, Irrigation Systems EAD, National Electricity Company EAD and the National Institute on Hydrology and Meteorology. The system will collect data in real time from an additional infrastructure too (measuring devices and systems), planned for construction by the companies – partners of the project – for observing and monitoring water levels, water consumption, inflows, ecological run-offs and automation of meteorological and hydrometric stations and radars for the data for evaluation of water resources and meteorological factors. The system will be implemented as a distributed modular information system, executed with standard technologies and it will maintain generally accepted communication standards, which will guarantee compatibility with future developments and new functionalities. The interaction between the individual modules of the information system and the integrations with external information systems will be accomplished in the form of Web Services. Application Programming Interfaces (API) will be made for each individual module/functionality of the information system. Further on, an activity to promote good practice in the use of technology for water saving and reuse in all sectors and reducing water loss to improve adaptation to climate change. The total planned funding is BGN 134.8 million (BGN 112.57 million will be provided by the Recovery and Resilience Facility and BGN 22.26 million will be national co-financing) with an implementation period 2022-2025.

**State aid:** State aid: All data collected through the implementation of the system (except those defined as classified information) will be accessible to the public. The use of data from the system will not be connected with the payment of fees or other charges. In this sense project partners performing economic activities as well, will not be benefited and will not have any market advantages compared to other

<sup>48</sup> See Annex No П27



market participants. The financing of the planned activities does not constitute State aid (see detailed self-assessment included in Annex P26).

#### *e) Complementarity and demarcation with the Cohesion Policy instruments*

The Measures under this Plan shall be complemented with the instruments applied within the frames of the Cohesion Policy for an integrated territorial approach and measures on the territories of all urban municipalities in the country will be financed. The measures to be supported are related, on the one hand, to the implementation of the national sector priorities, based on needs mapping, prepared by the relevant policy makers institutions at national level. On the other hand, measures shall be financed, identified on the basis of the “bottom-up approach”, i.e. project ideas and initiatives of local stakeholders in the implementation of priorities and objectives from the regional and municipal territorial development strategies.

Within the frames of the Programme for Development of the Regions the implementation of the infrastructure measures will be supported, aimed at improving and developing health and social services, education , vocational training, culture, sports, tourism, sustainable urban mobility, digital and safe transport connectivity, circular economy, energy efficiency, access to adequate living conditions, access to quality public services, measures to improve environmental quality (including green infrastructure), measures for fostering economic activity (including investments in technical infrastructure for the development of industrial zones or other infrastructure for development of economic activities and supporting innovations for the development of small and medium enterprises).

The Environment Programme will support investments in WSS infrastructure on the basis of developed regional pre-investment studies for demarcated territories, served by a consolidated WSS operator with focus on agglomerations of more than 10 000 p.e. Interventions aimed at studies to improve water management will also be funded.

The investment “Digitalization for complex management, control and efficient use of water” will upgrade implemented and in the process of implementation projects in the area of water and water infrastructure management, and ensure information exchange from the information systems already developed and implemented in this field, funded through the Operational Programme “Environment 2014-2020”, the financing facility of the European Economic Area 2009-2014 and the National Trust Ecofund and national funds. Through the Rural Development Programme 2014-2020 are funded measures for rehabilitation of hydro-meliorative infrastructure, the results of which will also be taken into consideration.



## f) Strategic Autonomy and Security

The interventions will adhere to the best European investment practices, directed towards transparency and fair trading and in that way public procurement awarding procedures will respect the principle of achieving strategic autonomy by preserving an open economy.

## g) Trans-boundary and multi-national projects

The measures incorporated within the scope of the component are foreseen for implementation only on the territory of the country. It should be noted however that investment 1 has a certain cross-border dimension. The ensuring of waste water collection and treatment from the settlements will improve the condition of surface and underground water and will have a positive effect on the protection of cross-border water bodies, including the Danube catchment area and the Black Sea catchment area and this will contribute to the objectives of the International Commission for Protection of the Danube River and the Commission for Protection of Black Sea.

## h) Green and digital aspects of the component

The implementation of the interventions provided for in the water sector will be important in the context of the ecological transition, in view of the relation they have to water resource protection, although according to the methodology used by EU to calculate the contributions to the double transition this component includes only **17.6%** climate costs, i.e. the contribution to the achievement of the 37% objective for the green dimensions of the Plan, laid down in the Recovery and Resilience Facility, is a modest one.

The measures proposed in the component contribute to the ecological transition by taking into account the six climate and ecological objectives, laid down in the Taxonomy Regulation and does not violate the principle of “does no significant harm” , as defined in the Taxonomy Regulation.

By including **27.4%** digital costs (see Table 2.C.3.1. below) this component contributes to 20% objective for the digital dimensions of the Plan, laid down in the Recovery and Resilience Facility.

**Table 2.C.3.1: Green and digital impact**

Component 9: Local development	Financing from RRF, MBGN	Green transition	Digital transition	
New regional approach with direct involvement of local communities in the management of European funds and instruments		0.0	0.0	0.0
Continuation of the water sector reform		0.0	0.0	0.0
Programme for building/completion/reconstruction of water supply and sanitation systems, including waste water treatment plants for agglomerations between 2,000 and 10,000 p.e	300.0	27.5	0.0	



Component 9: Local development	Financing from RRF, MBGN	Green transition	Digital transition
Digitalization for complex management, control and efficient use of water	112.9	45.2	112.9
<b>TOTAL</b>	<b>412.9</b>	<b>72.7</b>	<b>112.9</b>
<b>CONTRIBUTION</b>		<b>17.6%</b>	<b>27.4%</b>

*i) The principle of not incurring substantial damage*

All measures, included in the scope of the component – investments and reforms – are in conformity with the principle of not incurring a substantial damage, within the meaning of Art. 17 of Regulation (EU) 2020/852.



**Components**

- Business environment;
- Social inclusion;
- Healthcare.

**Reforms**

- Accessible, effective and predictable justice;
- Anti-corruption;
- Expanding the use of alternative methods for settlement of disputes and introduction of mediation, compulsory for certain types of cases;
- Strengthen the insolvency procedure;
- Digital reform of Bulgarian construction sector;
- Register reform for deploying e-government potential to improve the business environment;
- Improving state enterprise management framework;
- Improving money-laundering combat framework;
- Higher quality and predictability of the legislative process within the National Assembly;
- Public procurement;
- Growing Bulgaria;
- Economic Analyses Council;
- Reform in the field of minimum income;
- Reform in the area of social services;
- Updating the strategic framework in the Healthcare sector;
- Complete deployment of the National Health Information System;
- Designing of mechanisms for attracting and retaining of staff in the healthcare system and their career opportunities in certain regions of this country;
- Establishment of conditions and mechanisms for increased access to health care through the development of healthcare social services and consultation as promotive prophylactic method to improve public health;



- Establishment of conditions and mechanisms for performance of prenatal and neonatal screening and screening of the socially significant diseases;
- Establishment of mechanisms introducing a modern health education in the Bulgarian schools.

## 2.D.1 Business environment

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### *a) Component Description*

**Policy area:** business environment, electronic management

**Objective:** The main objective of this component is the efficient strengthening of the potential for sustainable growth and the increase of Bulgarian economy resilience by the addressing the factors deterrent to the business environment and deploying the e-government potential for its improvement.

**Reforms and/or investments:**

- Accessible, effective and predictable justice;
- Strengthening, further development and upgrading the Unified Information System of Courts;
- Digitalization of key court proceedings in the system of administration of justice;
- Anti-corruption;
- Transformation of the existing information and communication infrastructure in the Prosecutor's Office of the Republic of Bulgaria into a new type - fault-tolerant, reserved, productive and protected
- Improving the quality and sustainability of security services;
- Expanding the use of alternative methods for settlement of disputes and introduction of mediation, compulsory for certain types of cases;
- Introducing methods for alternative settlement of disputes in the court system of Bulgaria – pilot introducing of compulsory court mediation;
- Strength the insolvency procedure;
- Digital reform of Bulgarian construction sector;
- Support to the pilot stage of the introduction of building information modeling (BIM) in investment engineering and construction as a basis for digital reform of the construction sector in Bulgaria.
- Unified information system for spatial planning, investment planning and building permits;



- Register reform for deploying e-government potential to improve the business environment;
- Upgrade the Aerospace Observation Center(AOC) - Ministry of Interior to achieve national importance in space policy, implementation of European requirements and benefits for humans;
- Digitalization of information arrays in administration that contain register data and e-certification from registers;
- Improving state enterprise management framework;
- Improving money-laundering combat framework;
- Higher quality and predictability of the legislative process within the National Assembly;
- Instrument for a better strategic planning and strategic management of the implementation;
- Ensuring an adequate information and administrative environment for the implementation of the Recovery and Sustainability Plan;
- Public procurement;
- Growing Bulgaria;
- Economic Analysis Council.

**Cost estimate:** The indicative estimates for the costs necessary for the realization of the objectives of the component amount to a total of BGN 439.9 million, of which BGN 397.29 million at the expense of the Mechanism for Recovery and Sustainability and BGN 79.5 million national co-financing.

### *b) Main challenges*

During the period after the country's EU-accession the efforts of the government to improve the business environment were lagging behind versus comparable economies, as a result of which Bulgaria loses positions globally. There is the need for continuous efforts to increase judicial system effectiveness, and the sustained efforts in that direction have the potential to improve the international competitiveness of the economy and intensify the long-term investment commitments of the companies. In the context of the economic turmoil resulting from the COVID-19 pandemic, the reform of the insolvency framework becomes even more pressing. The business, which faces solvency challenges, is unable to restructure its financial liabilities to creditors outside the clumsy formal process of the insolvency procedure. A more efficient arrangement would help non-viable companies with financial difficulties to terminate their activity and in that way to avoid keeping of resources and deterioration of bank assets from them.





The coercive physical distancing that the COVID-19 spread forced emphasized the importance of building an information society, actively using the opportunities that digital technologies provide and bring to the fore the need to accelerate and finalize the digitalization of public services.

### c) Objectives

The component is in compliance with the Specific Recommendations of the Council for the country for 2019 and 2020 and will contribute directly to the implementation of the aspects of SR 4 of 2020, and SR 3 of 2019. All planned interventions, both investment ones and reformatory ones, are directly or indirectly aimed to improve the business environment, and their successful and timely implementation will contribute to increase the competitiveness of economy and, therefore the economic resilience to shocks. The continued efforts to increase the effectiveness of the insolvency framework, and these to introduce court mediation have a significant potential effect on the improvement of the investment climate in the country, allowing to reduce the administrative burden when entering insolvency proceedings, and respectively to decrease uncertainty, time and financial resources for business within the frames of these processes. In that way prerequisites are created to intensify private investments in medium-and long-term aspect, which will help to overcome the consequences of the COVID-19 pandemic crisis.

The measures in the area of e-justice (Reform 1, investments 1, 2 and 3), the e-government (Reform 6, investments 9 and 10) and the digitalization of the construction sector (Reform 5, investments 7 and 8), as well as investments 4 and 11 have very seriously expressed digital dimensions and they will contribute to overcome the challenges related to digital transition. Measures in the field of e-Government and e-Justice, as well as Reforms 9 and 10 and Investment 11 have made a significant contribution to achieving the objectives set at European level in the framework of the landmark *Modernization* Initiative.

The impact assessment (see Part 4: Impact assessment) of the measures provided for in this component shows a modest impact in macroeconomical aspect over the short term. To some extent this result comes from the foreseen amount of financing, however it is partly due also to the used instrument capability to assess the expected effects. The assessment shows that GDP level by constant prices will be 0.3 % higher versus baseline scenario (where the interventions planned in the component are not implemented) as of 2023, and the effect in the medium term (as of 2026) reaches 0.01 % additional growth of GDP versus baseline scenario. The anticipated effects from the realization of the intentions in this component concerning the labor market would amount respectively to 0.1% (in the short term - by 2023) and to 0.03% (in the medium term - by 2026) as an additional growth of the number of employees.

### d) Reforms and investments

#### Reform 1: Accessible, effective and predictable justice

##### 1. Adoption of a Roadmap by the Council of Ministers for the implementation of the ECHR decisions (Q3 / 2021)

Introducing a comprehensive approach for effective implementation of the decisions of the ECHR by adopting a Roadmap for the implementation of the ECHR' decisions and planning specific measures and terms, as well as the institutions responsible for their implementation.

## 2. Entry into force of legislative amendments to the Legal Aid Act (Q4 / 2022)

Amendments are envisaged, which will be based on analysis and will aim to extend free legal aid, the grounds for legal aid and the exemption of legal aid recipients from court fees. They will extend the scope of legal aid to cover representation:

- before the arbitral tribunals;
- before specialized administrative bodies, including the State Agency for Refugees, the Commission for Protection against Discrimination, the Commission for Consumer Protection;
- for out-of-court settlement of disputes and mediation.

**The amendments will also broaden the range of persons eligible for legal aid, including:**

- persons with disabilities, receiving monthly allowances under the terms and conditions of the Law on Integration of People with Disabilities;
- and persons for whom they are requested to be placed under guardianship.

**The amendments provide for an exemption from court fees for persons who have been granted legal aid.**

## 3. Publication of four annual analyzes of the application of e-Justice rules in the Civil Procedure Code and the Criminal Procedure Code (Q1 / 2026)

Based on regular monitoring, the Ministry of Justice and the Supreme Judicial Council will conduct and publish four annual analyzes of the application of e-justice rules in the Civil Procedure Code and the Criminal Procedure Code, including the rules for:

- delivery of notices and subpoenas to e-mail addresses;
- possibility to pay fees and other obligations to the court electronically;
- preparation of judicial acts as an electronic document in the Unified Information System of the Courts and signing with a qualified electronic signature;
- exercising procedural rights and performing procedural actions in electronic form by the parties in the court proceedings;



- conducting remote court hearings.

The analyzes will be published annually in the first quarter of the year, the first of which will be published in the first quarter of 2023 and will contain an analysis for 2022.

#### 4. Entry into force of legislative amendments to the Administrative Procedure Code regulating the legal framework for e-Justice in administrative matters (Q4 / 2024)

Legislative amendments to the Administrative Procedure Code will provide the opportunity for:

- the court act to be drawn up as an electronic document in the unified register database and to be signed with a qualified electronic signature;
- Exercising procedural rights and performing procedural actions in electronic form by the parties in court proceedings, by creating an opportunity for submission of documents on administrative cases in an electronic environment through secure authentication;
- conducting remote virtual open hearings.

**State aid:** The reform does not constitute state aid within the meaning of Article 107 (1) of TFEU. It is directed to the strengthening of the rule of law in Bulgaria by increasing the transparency and efficiency of the court procedures. That will not be a direct support to the citizens and companies and it will not distort competition. The reform will not be funded through the existing arrangements for state aid.

#### Investment 1: Strengthen, elaborate and upgrade the Unified Courts Information System

The project<sup>49</sup> aims to extend the functionalities of the Unified Courts Information System (UCIS), which is a key instrument for the implementation of the reformative efforts to introduce e-justice. The system unites all electronic cases and ensures their management, including random case allocation, reporting of workload of courts and collecting and processing of statistic information for the activities of the courts. The project provides for creating a module in the UCIS on the centralised electronic allocation and digitalisation of order for payment cases, as well as a module on the administration of mediation procedures (see Investment 6 and Reform 3); upgrading the existing functionalities and creation of new ones with regard to the development of the regulatory framework; changes in the internal administrative-management structure of the courts, integration with new systems, new electronic services and others; provision of the necessary

<sup>49</sup> See Annex No П29



computer equipment; upgrading of the data centers at SJC. By creating a module in the UCIS for order for payment cases an overall reform will be achieved in order for payment proceedings and prerequisites will be created to address the unequal workload of the regional courts in the country with direct effects on the efficiency of the court system. The total planned funding is BGN 23.9 million (BGN 19.3 million will be provided by Recovery and Resilience Facility and BGN 4.5 million will be national co-financing) with an implementation period 2022-2024.

**State aid:** The state aid regime is not applicable. The project deals with the fulfillment of the functions of state bodies, which are not related to the performance of economic activity.

### Investment 2: Digitization of key court proceedings in the system of administrative justice

Main activities, provided for under the project<sup>50</sup>: developing and implementation of an information system for digitalization of administrative case files and information exchange between individual administrative courts, and between them and the Supreme Administrative Court (SAC), with modules for electronic summoning of the parties to the administrative cases for holding remote closed court sittings. The implementation of the project will allow for a faster and transparent administration of justice. The total planned resource is 8.5 Mill. BGN (7.1 Mill. BGN from the Recovery and Resilience Facility and 1.4 Mill. BGN national co-financing) with implementation period 2022-2025.

**State aid:** The state aid regime is not applicable. The project deals with the fulfillment of the functions of state bodies, which are not related to the performance of economic activity.

### Reform 2: Increasing the efficiency of corruption countering

The main goal of the measures in this reform is to strengthen the fight against corruption at all levels in order to improve the business environment. In this regard, the recommendations of the European Commission for the protection of the European Union's financial interests as well as the rule of law have been taken into account.

1. Entry into force of amendments to the legal framework related to the protection of whistleblowers (Q3 / 2022)

Amendments to the relevant legal framework will include:

<sup>50</sup> See Annex No П31



- implementation of the requirements of Directive (EU) 2019/1937, namely: construction of confidential internal and external channels for reporting irregularities and corruption; construction of mechanisms for verification of the submitted signals; providing protection and support measures for whistleblowers; providing feedback and publicity of the results of the performed inspections based on signals;
- Ensuring publicity of the results of the activity of ethics commissions, which investigate allegations for unethical behavior, conflict of interests and other allegations for corrupt behavior by municipal councilors;
- amendments to the regulation of the Criminal Code related to insults and defamation in the Criminal Code to ensure compliance with the Convention for the Protection of Human Rights and Fundamental Freedoms of the Council of Europe and the decisions of the European Court of Human Rights. This will limit the possibilities for seeking criminal liability in private in connection with publications of journalists and whistleblowers.

## 2. Entry into force of legislative changes to reform the Commission for Combating Corruption and Confiscation of Illegally Acquired Property (Q3 / 2022)

Legislative changes will reform the current Commission for Combating Corruption and Confiscation of Illegally Acquired Property by establishing a politically and financially independent Anti-Corruption Body.

The amendments stipulate that the Anti-Corruption Authority:

- will have a management board appointed through a transparent procedure ensuring political independence;
- will have the power to investigate and use the evidence gathered in criminal proceedings, subject to appropriate legal guarantees for the rights and freedoms of individuals and businesses;
- will refer to the Authority for confiscation of illegally acquired property in cases of significant discrepancies in the property or conflict of interest;
- will participate in the conduct of integrity checks;
- will cooperate closely with the European Public Prosecutor's Office.

The draft law will be consulted with the Group of States against Corruption (GRECO) before it enters into force.

## 3. Strengthening the role of the Inspectorate at the Supreme Judicial Council for the prevention and counteraction of corruption in the judiciary branch (Q4 / 2022)

Clarification of the powers and strengthening of the institutional capacity of the Inspectorate of the Supreme Judicial Council to:



- review the ethical guidelines for the conduct of magistrates, in cooperation with the Supreme Judicial Council, and summarize good and bad practices regarding compliance with ethical rules, in line with relevant European and international standards;
- organizes and conducts anti-corruption trainings, as well as trainings for integrity and conflict of interests;
- introduce a template for reporting on the completion of cases within the statutory deadlines; and
- introduce a procedure for regular reporting and publication of the results of the closure of cases.

The envisaged measures will not lead to the extension of the disciplinary powers of the Inspectorate and will be consulted with the Venice Commission of the Council of Europe before their introduction.

#### 4. Established and functioning Anti-Corruption Commission (Q1 / 2023)

Implementing the adopted legislation to ensure the full functioning of the anti-corruption commission set out above. The implementation will cover the necessary organizational measures and elements, such as the appointment of management, selection, allocation and actual deployment of appropriate human, financial and technical resources, etc.

#### 5. Entry into force of an electronic platform and the necessary legislative changes to strengthen anti-corruption bodies and units (Q2 / 2023)

An electronic platform will collect and summarize statistical information by the selection or appointment bodies in connection with the verification of the declarations of property and interests and the establishment of conflicts of interest.

The legislative amendments will introduce the obligation for the selection and appointment bodies to provide information in the electronic platform for verification of declarations of property and interests for persons under § 2 of the Additional Provisions of the Anti-Corruption and Confiscation of Illegally Acquired Property Act.

The envisaged measures will be consulted with the Council of Europe's Group of States against Corruption (GRECO) before their implementation.

#### 6. Entry into force of legislative amendments to ensure the effectiveness of criminal proceedings. Increasing the accountability and responsibility of the Prosecutor General in order to effectively fight corruption and organized crime and protect the rights of citizens (Q2 / 2023)

- Measures to increase the efficiency of criminal proceedings include:
  - Introduction of judicial control over the decree of the prosecutor for refusal to initiate criminal proceedings, determination of the scope and conditions, in

- which such judicial control should be exercised and provisions to avoid overburdening judges and prosecutors;
- Increasing the efficiency of the criminal process, including creating legislative opportunities for the division of cases against several defendants in the trial phase, improving the prosecutor's practice in connection with bringing charges, etc.;
  - Introducing the right of the victim (possibly the reporting person) to request acceleration of the criminal proceedings even before bringing charges;
  - Introducing clear preconditions and admissible hypotheses for the resumption of the criminal proceedings, including in the cases under Art. 243, para. 10 of the PPC at the request of the Prosecutor General by introducing enhanced judicial control.
- The measures for increased accountability of the Prosecutor General and his deputies include the following measures within the framework of the Bulgarian Constitution:
- Introduction of a procedure for hearing the Prosecutor General in connection with the issues raised on the report on the activities of the Prosecutor's Office on law enforcement, crime prevention and implementation of penal policy, received during the public discussion of the report, in full compliance with Art. 6 (2) of the ECHR, Directive 2016/343 Art. 4, paragraph 3, CRB and PPC on the presumption of innocence;
  - Introduction of effective annual reporting (starting in 2023, with the first report for 2022) of investigations and convictions in corruption cases, providing key values and indicators number of high-level corruption cases, number of closed cases, detailed description of the grounds for closing, both in the investigation phase and in the judicial phase, number of convictions and acquittals and criteria for determining the cases of the highest corruption, (including the level of the person in the hierarchy of state bodies, degree of affected interest, degree of public importance and reflection in the public space of the case,). The annual report will include an analysis of the results, in particular with regard to the timing of investigations, the quality of indictments and the reasons for the specific outcome of the cases.
  - Limit the powers of the Prosecutor General in relation to the supervision of the legality of the activities of prosecutors by introducing judicial review of Prosecutor's acts, in accordance with the constitutional framework and relevant recommendations of the Venice Commission and the Committee of Ministers of the Council of Europe.
- Introducing an effective accountability mechanism by the Prosecutor General and his deputies by creating guarantees for the practical, institutional and hierarchical independence of the investigation against them, including introducing measures such as:



- regulation of temporary removal from office of the Prosecutor General and his deputies in case of initiated criminal proceedings against them by a majority of 13 out of 25 members of the Plenum of the SJC;
- Limiting the de facto power of the Prosecutor General in the SJC by excluding the representatives of the prosecution and the investigation from the quota of the National Assembly.
- Ensuring independent selection and appointment by the SJC of a judge with the required minimum professional qualification of a judge of the SCC and with experience in criminal justice, appointed at least as a judge in a district court, determined on a random basis. The elected judge will be appointed to the position of prosecutor in the Supreme Prosecution Office while the criminal proceedings against the Prosecutor General and / or his deputies are being conducted.

After referral by any person or body, the SJC initiates the selection procedure in the presence of evidence of a crime committed by the Prosecutor General and / or his deputies. The procedure will be similar to that used in the allocation of cases, using an electronic random allocation system. The SJC will only have the obligation to announce the result, without being able to change it.

The electronic system will be subject to periodic independent audits.

In order to ensure the independent conduct of investigative actions, they are carried out by the executive authorities under the supervision of the investigating magistrate nominated by the SJC.

- Establishing guarantees of career stability and independence that ensure the normal career development of the judge who has instituted and conducted an investigation against the Prosecutor General or his deputies, including the possibility of appointing him as a judge of the same rank after the trial, in accordance with the Committee of Ministers of the Council of Europe and the opinions of the Venice Commission. As an additional guarantee, the possibility of granting immunity from prosecution to this person during the term of office of the Prosecutor General will be sought;
- Limiting the control of the prosecutor's office over the prosecutorial acts of investigation of the chief prosecutor or his deputies;
- Supervision of legality and methodological guidance should not refer to the prosecutorial acts on the investigation of the Prosecutor General or his / her deputies, in accordance with the relevant decisions of the Constitutional Court;
- Effective protection and safeguards for members of the investigation team from any potential undue influence by the Prosecutor General arising from his position in the prosecution and the SJC, including disciplinary



proceedings, attestations and secondments in order to ensure the effectiveness of the established mechanism.

- Cooperation with the Human Rights Directorate of the Council of Europe in the preparation of the bill under paragraph 3. Consultations with the Venice Commission of the Council of Europe on the bill under paragraph 3 before its submission to the National Assembly.

#### *Entry into force of legislative measures regulating lobbying activities (Q4 / 2023)*

In line with the findings of the European Commission, legislative measures to regulate lobbying based on good practices from other European countries will be prepared and implemented within the horizontal Rule of Law Mechanism.

Legislative measures will be adopted to regulate lobbying activities in the Republic of Bulgaria in the context of public decision-making.

#### **8. Introduction of tools for counteracting corruption and promoting integrity in the work of public enterprises (Q1 / 2024)**

The tools for counteracting corruption and promoting integrity in the work of public enterprises will include:

- Adoption of an Ethical Conduct Code for Persons Employed in State-Owned Enterprises. The Code will establish that public officials must perform their duties in accordance with the law, while maintaining political neutrality, good faith, honesty and impartiality, while not allowing for a private interest to influence the performance of their duties.
- Introduction of corruption risk management systems as part of the overall quality management systems in all public enterprises.
- In particular, each system will cover: the election of senior officials in public enterprises; mechanisms for reporting on measures to prevent corruption and conflicts of interest; development of the capacity for assessment and control of corruption risks and periodic independent financial audits on an annual basis.
- The Group of States against Corruption (GRECO) will consult on the proposed measures before approving them.

Introduction of measures to increase transparency in public enterprises. The measures will focus on:

- trade activity and implementation of public policies and engagement, such as: subcontractors, consultants, suppliers, subsidiaries;
- state financial support and spending of public funds through public procurement by public enterprises;
- encouraging the submission of reports of violations by employees;



- training of employees in the field of prevention and counteraction of corruption and conflict of interests and introduction of an integrity officer.

#### 9. Verification mechanism to enhance the integrity of civil servants (Q1 / 2025)

An effective system for verifying and improving the integrity of high-risk civil servants will be adopted and put in place. The following steps will be taken to set up an inspection system:

- Identifying those positions that have a high risk of corruption and would require an integrity check;
- Development, validation and implementation of integrity tests and building institutional capacity for their implementation.
- Development and implementation of methodologies for risk assessment of corrupt behavior.
- Providing measures for rotation of employees working in places at risk of corruption;
- Analysis of the relevant legislation and bringing it in line with Art. 61 of Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union amending Regulations (EU) No 1296/2013, (EU) No 1301 / 2013, (EU) No 1303/2013, (EU) No 1304/2013, (EU) No 1309/2013, (EU) No 1316/2013, (EU) No 223/2014 and (EU) No 283/2014 and Decision No 541/2014/EU and repealing Regulation (EU, Euratom) No 966/2012, as well as the Guidelines on the avoidance and management of conflicts of interest under the Financial Regulation (Official Journal of the EU C 121 / 9.04.2021).
- Consultation on the actions for implementing the measure with the Group of States against Corruption (GRECO).

#### 10. Introduction of annual analyzes of the implementation of the National Strategy for Preventing and Countering Corruption (2021 - 2027) and of the Roadmap for implementation of the National Strategy for Preventing and Countering Corruption (2021 - 2027) and annual reporting of progress to European Commission in the framework of the Horizontal Rule of Law Mechanism (Q1 / 2026)

- The members of the Civil Council of the National Council for Anti-Corruption Policies will annually adopt reports (starting in 2022), analyzing and evaluating the implementation of the National Strategy for Preventing and Countering Corruption (2021-2027) and the Roadmap, if necessary, prepare proposals for the inclusion of new measures. To this end, amendments will be made to Decree No 136 of the Council of Ministers of 2015, which established the National Council for Anti-Corruption Policies.
- Annual reporting on implementation progress under the European Rule of Law Mechanism will be provided.

**State aid:** The reform does not constitute state aid within the meaning of Article 107 (1) of TFEU. It is directed to the strengthening of the rule of law in Bulgaria by increasing the efficiency of the investigation of corruption offenses. That will not be a direct support to the citizens and companies and it will not distort competition. The reform will not be funded through the existing arrangements for state aid.

**Investment 3: Transformation of the existing information and communication infrastructure in the Prosecutor's Office of the Republic of Bulgaria into a new type - fault-tolerant, reserved, productive and protected**

The measure<sup>51</sup> provides for upgrading the information and communication infrastructure of the Prosecutor's Office of the Republic of Bulgaria to adequately address its specific needs in the context of the COVID-19 pandemic and the challenges related to cyber-security. The specific objectives of the project are to achieve high fault-tolerance, protection and redundancy of the internal electronic exchange of documents between the units of the Prosecutor's Office, technical implementation of the policies for protection of personal and sensitive data in its electronic data arrays and electronic identification of electronic system users in the Prosecutor's Office and the level of direct communication with the operation authorities and inspectors at the Ministries. The project will leverage the automated electronic exchange of information between the Prosecutor's Office and the other anti-corruption authorities in the country and the data from the respective data bases will be accessible and provided in an automated way by secure electronic channels without risk for leakage of information and compromising of the systems. The total planned resource is BGN 34.5 million (BGN 28.8 million will be at the account of the Recovery and Resilience Facility and BGN 5.7 million national co-financing) with implementation period of 2022 – 2024.

**State aid:** The implementation of the project does not constitute state aid according to Art. 107, p.1 of TFEU. This conclusion must be drawn from the fact that the implementation of the project does not distort competition by setting certain enterprises or the production of some goods in a more favorable position and does not affect trade between member states and is not incompatible with the internal market. Moreover, the Prosecutor's Office of the Republic of Bulgaria is a public body and it exercises public powers not related to the activity of enterprises or production of goods.

<sup>51</sup> See Annex No П32



#### Investment 4: Improving the quality and sustainability of security services

The project<sup>52</sup> aims to improve the business environment by establishing the prerequisites for increasing public security and countering of corruption. Activities are provided for building a National Smart Security System for prevention and analysis of the information in the area of public security and for upgrading the corruption prevention and countering system among the Ministry of Interior staff and increasing transparency in citizen servicing. The project provides to replace 9% of the police vehicles in the country, the oldest and environmentally most harmful, with hybrid electric automobiles in order to reduce pollution caused by them.

The total planned resource is 96.2 Mill. BGN (80.2 Mill. BGN from the Recovery and Resilience Facility and 16.0 Mill. BGN national co-financing) with implementation period 2022-2024.

**State aid:** While implementing the project, the beneficiary, the leading structures and the partners will not constitute enterprises performing economic activities. They are acting by exercising public powers. Investing of grants could not be deemed constituting government assistance within the meaning of Art. 107 (1) of TFEU.

#### Reform 3: Expanding the use of alternative dispute resolution and the introduction of mediation, which is mandatory in certain types of cases

##### 1. Legislative amendments to the relevant legislation on the introduction of mandatory judicial mediation in certain civil and commercial disputes entered into force (Q4 / 2022)

The amendments will provide for a legal obligation for the parties to certain civil and commercial disputes to participate in judicial mediation.

The amendments to the Civil Procedure Code and the Mediation Act provide for the relevant regulation of mandatory mediation. The amendments also provide for exceptions to mandatory mediation.

Mediation will take place in the mediation centers at the courts and their territorial divisions. The amendments will regulate the organization and activities of the centers and the status of their staff in order to ensure uniformity of the procedure for selection of mediators. For this purpose, the Judiciary Act, the Rules for the Administration of Courts and the Classifier of Positions in the Judicial Administration will be amended. An Ordinance on the structure of the mediation centers

<sup>52</sup> See Annex No П33

at the courts and Ordinance on the selection and control of the activities of mediators in the mediation centers at the courts will also be adopted.

**State aid:** The reform does not constitute state aid within the meaning of Article 107 (1) of TFEU. It aims at strengthening the rule of law in Bulgaria by expanding the use of alternative methods for settlement of disputes and introduction of mediation, compulsory for certain types of cases. That will not be a direct support to the citizens and companies and it will not distort competition. The reform will not be funded through the existing arrangements for state aid.

#### **Investment 5: Introducing methods for alternative settlement of disputes in the court system of Bulgaria – pilot introducing of compulsory court**

The main objective of the measure<sup>53</sup> is to introduce compulsory court mediation in the proceedings for civil and commercial matters as an instrument to foster the use of alternative methods for settlement of disputes, to reduce the workload of courts and increase the efficiency in the area of civil and commercial administration of justice. It is provided to implement the project in two stages: (i) Introduction of compulsory court mediation in pilot courts, having already functioning mediation centers (in the cities of Sofia, Varna, Pazardzhik and Pernik) and (ii) Establishment of 15 new mediation centers to the district courts where there are none, and expansion of the already existing 9 centers, outside the pilot courts. Introduction of compulsory mediation in all district court regions in Bulgaria. The total planned resource is BGN 1.9 million (BGN 1.6 million at the expense of the Recovery and Resilience Facility and BGN 0.3 million national co-financing) with implementation period of 2022-2026.

**State aid:** The support for the investment will not constitute state aid within the meaning of Art.107, para 1 of TFEU.

#### **Reform 4: Strength the insolvency procedure**

In order to increase the international competitiveness of the companies and to reform the long and clumsy processes of the insolvency procedure efforts will be made to increase the effectiveness of the insolvency framework in the country.

<sup>53</sup> See Annex No П34



## 1. Entry into force of legislative amendments to the Commercial Law in accordance with insolvency and restructuring procedures (Q3 / 2022)

Legislative amendments to the Commercial Law transposing Directive (EU) 2019/1023 have entered into force, which provides for:

- early warning tools;
- facilitating the opening and conduct of insolvency and restructuring proceedings;
- the obligations of directors in cases of likelihood of insolvency;
- an opportunity for electronic exchange of information and documents in the insolvency, restructuring and debt relief proceedings;
- legal guarantees for traders to register the current address of management when registering companies;
- tighter regulation of the trustees' profession to ensure that they have the necessary experience and that the conditions for selection as well as the process for appointing, removing and dismissing trustees are clear, transparent and fair.

## 2. Implementation of measures to complete the insolvency framework reform (Q3 / 2022)

The following elements will be covered:

- Providing training on the new insolvency framework for insolvency trustees and judges.
- Introduction of specialized electronic tools to ensure that electronic means of communication can be used by the parties during insolvency and restructuring proceedings.
- Adoption of the necessary manuals, code, templates and guidelines to ensure efficient and effective use of the procedures for restructuring, insolvency and relief by the Ministry of Justice.
- Collecting statistics on the spot and publishing the first set of data to ensure effective monitoring of restructuring, insolvency and relief procedures.

The measures will be implemented in accordance with the amendments to the Commercial Law transposing Directive (EU) 2019/1023.

**State aid:** The reform does not constitute state aid within the meaning of Article 107 (1) of TFEU. It aims to strengthen the rule of law in Bulgaria by increasing the effectiveness of the insolvency and stabilization framework in Bulgaria. That will not be a direct support to the citizens and companies and it will not distort competition. The reform will not be funded through the existing arrangements for state aid.



## Reform 5: Digital reform of the Bulgarian construction sector

The digitalization of the construction sector represents a large-scale reform which covers the regulatory framework, the central and regional administrations, and the area of education, entrepreneurs, and construction business, the IT sector. The reforming of the construction sector could not be achieved without formulating, developing and applying of national strategic documents and policies, laid down in government programs, which determine priorities, systematic steps and the manner of their financing with regard to the reforming of the construction sector, the preparation of the participants in the construction sector and their involvement in the implementation of the reform.

### 3. Development of a project of the Long-term Strategy of the digital transformation of the construction sector and a Roadmap for the implementation of the long-term strategy (Q3 / 2022).

The strategic document drafts will be prepared with the support of project REFORM/SC2020/089 "Preparation and starting of the digital reform of Bulgarian construction sector", financed by the Programme for Structural Reform Support 2017-2020. The prepared strategic document drafts will be proposed for discussion with all relevant stakeholders within the frame of broad public consultations. After reflecting the feedback from the consultations the strategy and the Roadmap for its implementation will be submitted to the Council of Ministers for approval.

**State aid:** The reform does not constitute state aid within the meaning of Article 107 (1) of TFEU.

### Investment 6: Support for a pilot phase for the introduction of building information modeling (BIM) in investment design and construction as a basis for digital reform of the construction sector in Bulgaria

The measure<sup>54</sup> supports Reform 5 and in fact it should be considered as a stage of the proposed reform. The project will build the capacity of the BIM community in the country to provide knowledge and experience related to the implementation of BIM and will build a module to the platform set in Project 36 "Unified information system for spatial planning, investment planning and building permits", with the possibility of submitting BIM models for approval and providing access to them by contractors and control bodies during the construction, as well as to the owners of the commissioned construction. The provided activities include the conducting of specialized trainings, technical support for experts from the municipal, district and state administration, and provision of logistic support to the medium-and small sized enterprises for the application of BIM. Furthermore,

<sup>54</sup> See Annex No П35



drafts of regulatory and methodological documents will be prepared, which are necessary to implement the digital reform in the construction sector, as well as 2 curricula related to BIM, which will be proposed to be included in university programs. The total planned funding is BGN 9.35 million (BGN 7.79 million of which will be provided by the Recovery and Resilience Facility and the remaining BGN 1.56 million will be national co-financing) with an implementation period 2022-2026.

**State aid:** Some activities provided for under the project, e.g. the provided for costs for training of persons/enterprise staff (no matter whether private or public), performing economic activities on a certain market (e.g. investment design, approval, control and implementation of projects in construction), and the provision of combined software to such entities with paid license for 1 year, could constitute state/minimum aid. That is so, because training and software are provided to selected entities, operating on a market open to competition at EU level through state resource and by providing them with a benefit they would not receive on market principle without the aid extended by the administrator. Similar cost could be financed as “non-aid” only for the needs of the administrations (municipal, district, state) and for their staff, who do not perform economic activities. In that relation with regard to certain activities from the project the application of the minimum aid regime under Regulation (EU) 1407/2013 is provided.

### Investment 7: Unified information system for spatial planning, investment design and construction permitting

The objective of the project<sup>55</sup> is to establish a unified information system as a platform for provision of electronic administrative services concerning spatial planning and construction permits. Envisaged are also activities for the preparation of the necessary regulatory changes to allow for the efficient functioning of the system. The project will ease the administrative burden on citizens and businesses by significantly reducing the technological time of the service provided in the sector of spatial planning, investment design, building permits and commissioning of completed construction sites and will create possibilities to render complex electronic administrative services. The total planned funding is BGN 3.5 million (BGN 2.9 million of which will be provided by the Recovery and Resilience Facility and the remaining BGN 0.6 million will be national co-financing) with an implementation period 2022-2026.

**State aid:** During the implementation of the project the EU rules for the state aid will be observed in order to guarantee that the state resources will not be used to distort competition or create unfair advantages on

<sup>55</sup> See Annex No П36



the European single market. No subsidies, interest or tax benefits will be granted and no purchasing of goods and services at preferential prices.

#### **Reform 6: Register reform to unleash the potential of e-government to improve the business environment**

The provided reform aims: optimizing of the organization of the registers in state administration; keeping them at the lowest possible cost; official exchange of information and data for provision of quality services; possibility to provide services based on the registers, kept by other administration bodies; quality, completeness and comprehensiveness of data; ensuring possibilities for all stakeholders to use and reuse data already available in the public sector; guaranteeing the security and reliability of data, information and resources of e-government. The digitalization of the paper arrays will allow the transition to a governance based on data and the provision of safe, comfortable, integrated electronic “end-to-end” services to citizens and business.

The integrated national cyber-security system will guarantee the highest extent of security and protection of information and technologies, and of data exchange both in the public sector, as well as between the public and private sectors by increasing the efficiency and effectiveness of countering cyber-incidents.

The upgrade of the Center for Aerospace Observations of the Ministry of Interior will ensure the exploitation of the potential of data as a key capital of society and economy. The availability of even more digital data and the improving of the manner of their use, are of substantial significance for informed decision-making in policy making and management, for coping with the challenges in the demographic and socio-economic areas, climate and environment and contribute to a healthier, prospering and more resilient society.

#### **1. Development, discussion and adoption of changes of the E-Government Act (Q3/2022)**

Changes of the regulatory framework will be prepared to: (i) introduce the obligation that registers related to exercising the powers of executive and judicial authorities are saved, kept and updated electronically in a structured form; (ii) introduce rules for the creation of administrative body registers and requirements thereto; (iii) introduce definitions for “register”, “information system” and “central data controller”. The notarial deed draft will be consulted with all concerned parties and entered with Parliament.



## 2. Development, discussion and adoption of changes in the Cadastre and Property Register Act (Q3/2022)

Draft changes will be prepared for the regulatory act to: (i) detail property lots content and the process of its creation; (ii) define the responsibilities of judges as regards records at the Registry Agency during the process of setting up the register. The regulatory act draft will be consulted with all concerned parties and entered with Parliament

## 3. Development, discussion and adoption of changes in the Civil Registration Act and in the special laws (Q1/2024)

Draft changes will be prepared for the Civil Registration Act and the special laws to: (i) establish compulsory certification of the circumstances related to birth, marriage and death only by official way through the National Electronic Register of the civil status deeds; (ii) prohibit to state bodies to request citizen to present data or documents related to civil status (birth, marriage and death). The regulatory deed drafts will be consulted with all parties concerned and entered with Parliament.

**State aid:** The reform is focused on saving, maintaining and updating in electronic form and structured shape the data from the registers of the state bodies. The reform includes also the national security component and it has a horizontal character, providing protection of the digital space in the Republic of Bulgaria in order to guarantee the highest degree of security and protection of information and technologies, and of the exchange of data both in public sector as well as between the public and private sectors. At the same time a horizontal possibility will be implemented for a single point for collection/creation, saving, processing and management at central level, control and ensuring of security of the highest degree, use and reuse of the data generated and collected from the public sector by all concerned parties. The laid down regulatory changes are, by their very nature, aimed only at improving the fulfillment of the public functions of the state bodies. The scope of this reform does not include the adoption of regulatory changes leading to or likely to lead to distortion of the free competition on the market. This is the grounds for the absence of state aid in this instance.



### **Investment 8: Upgrade the Aerospace Observation Center(AOC) - Ministry of Interior to achieve national importance in space policy, implementation of European requirements and benefits for humans**

The measure<sup>56</sup> envisages upgrading the Center for Aerospace Observation (CAO) at the Ministry of Interior and its development as a modern national center with a network for monitoring, analysis, forecasting and subsequent provision of primary information obtained from sensors located in space, airspace and the earth's surface for making timely and adequate management decisions in case of emergencies. The aim is to inform the responsible institutions and the competent bodies at national, regional, municipal and local level in the field of disaster risk management in a timely manner.

The upgrade of the center and its Geoinformation portal will meet European requirements (Digital Europe, INSPIRE), will create an opportunity to use the services of the EU's flagship space program EUSPA (Galileo, EGNOS Copernicus, SSA and GOVSATCOM), will be integrates into the Geoinformation System of the Ministry of Interior. Some of the information on the geoinformation portal will be widely available to the public, which will benefit people.

The technological renewal of the systems established in the center will improve the cooperation between the whole European Union and the cooperating countries; improve cooperation between operational units monitoring hazards in the EU and cooperating countries; will improve the exchange of information between civil protection stakeholders in relation to operations within the disaster risk management cycle (prevention, preparedness, monitoring, response).

Upgrading existing Earth observation systems from space at the CAO will ensure the implementation of the next generation of innovative solutions, new concepts and projects, and interoperable standards. This will be done through the development of innovative technologies and solutions to address security gaps and reduce the risk of security threats.

Satellite information has a major role to play in shaping the modern information environment. Leveraging the capabilities provided by satellites, combined with information from unmanned aerial vehicles, innovative tools and enhanced local operational capacity, is a factor in improving disaster prevention and resilience.

<sup>56</sup> See Annex No H6



The total planned funding is BGN 132.7 million of which BGN 110.6 million will be provided by Recovery and Resilience Facility and BGN 22.1 million will be national co-financing with an implementation period 2022-2024.

**State aid:** The project will support the public administration bodies in exercising their public functions and this determines the absence of state aid within the framework of the project.

#### Investment 9: Digitize information arrays in the administration, containing register data, and e-certificates of registries

The measure<sup>57</sup> aims to build the prerequisites for a broad provision of electronic and internal electronic administrative services, and of complex administrative services, proactive services, and services of the “episodes from life” type. This will be achieved by standardizing and automating a large part of the certification processes. Certification will be possible in case of availability of digitalized information arrays. The project provides digitalization of the information arrays containing register data of key administrations- Registry Agency and Geodesy, Cartography and Cadastre Agency, and digitalization of the civil status deeds, kept by municipal administrations. To implement the objectives of the project, and for future similar initiatives for digitalization of less significant registers, a platform will be introduced to automate the processes of digitalization, follow-up processing, saving and management of digitalized information. The implementation of the project has a key role for the implementation of the register reform.

The total planned funding is BGN 148.44 million (BGN 123.7 million will be provided by Recovery and Resilience Facility and BGN 24.7 million will be national co-financing) with an implementation period 2022-2026.

**State aid:** The fact that the project will support public administration bodies in exercising their public functions determines the absence of state aid in this instance.

#### Reform 7: Improving the management framework of state-owned enterprises

According to the Action Plan for the fulfillment of the follow-up commitments of Bulgaria after the admission of the country to ERM II in order to improve the management of the state enterprises a timely and efferent application of the Public Enterprise Act and strengthening of the capacity of the Public Enterprise and Control Agency will be ensured. A project under the Structural Reform Support Programme of EC (SRSP) is being implemented with the help of the Organization for Economic Co-operation and

<sup>57</sup> See Annex No П38



Development (OECD) for developing the policy for state participation. Provided is the development and adoption by the Council of Ministers of a political document, establishing the state policy of ownership. and the preparation of an analysis of the activities of the state enterprises, set up by special laws with the purpose of clearing up the nature of the activities performed by public enterprises- predominantly commercial or public functions with regard to assisting their conversion to public limited liability companies or agencies. In this regard, it is planned to develop and adopt a program for the transformation of state-owned enterprises. Moreover, an annual aggregated report of the results from the activity of state public enterprises will be prepared and adopted and methodology for aggregated annual reporting will be developed.

Compliance of the management board members with the selection procedures, set in the Public Enterprise Act, is envisaged as well as a mechanism for monitoring the board member nominations.

The assessment of the implementation of this measure is not binding for the assessment of the implementation of the subsequent commitments of Bulgaria after the accession of the country to Monetary Mechanism II.

**State aid:** The proposed reform does not constitute state aid within the meaning of Art. 107 of TFEU, since it does not threaten to distort competition in the country and is compatible with the rules of the internal market.

### Reform 8: Anti-Money-Laundering framework

The objectives of the reform are related to strengthening the combating money laundering framework according to the Action Plan with measures for addressing follow-up commitments of the Republic of Bulgaria after its admission to ERM II.

Increasing the capacity and analytical possibilities of the institutions to carry out tasks related to the supervision of the combat against money laundering / terrorism financing, including the review of internal supervision procedures, the development of supervisory strategies, the development and implementation of a policy to reduce the risk of money laundering to which local institutions are exposed, incl. the risk with respect to "*prominent political figures*";

The supervisory procedures handbook will be revised, including the procedures for keeping the files and documents examined during on site inspections and follow-ups (e.g. corrective actions), as adequate procedures will be put in place for the inspection of the staff involved in providing company management services (e.g. accountants, tax advisers, etc.).

To increase the capacity and analytical capabilities of the Financial Intelligence Unit for a better use of suspicious transaction reporting and increased use of financial intelligence information by the competent authorities through increased staffing of the Financial Intelligence Unit by recruiting more and specialized staff to be engaged in the processing of suspicious transaction reports and the preparing of financial

information based on these reports. and to develop or acquire IT instruments for the processing and analysis of reports on suspicious transactions received by the Financial Intelligence Unit.

With the implementation of a project, financed by the EC Structural Reform Support Service, an action plan will be prepared and adopted, aimed at increasing the capacity of the competent Bulgarian institutions to efficiently reduce money-laundering and terrorist financing risks, and to reconsider and update the national assessment of risk, including by analyzing the risks related to virtual assets and general risks, arising from citizenship schemes. On that basis, actions will be taken for increasing the capacity of Bulgarian institutions for efficient reduction of money-laundering and terrorist financing risks.

The assessment of the implementation of this measure is not binding for the assessment of the implementation of the subsequent commitments of Bulgaria after the accession of the country to Monetary Mechanism II.

**State aid:** The proposed reform does not constitute state aid within the meaning of Art. 107 of TFEU, since it does not threaten to distort competition in the country and is compatible with the rules of the internal market.

### Reform 9: Higher quality and predictability of the legislative process within the National Assembly

The Rules of the National Assembly stipulate that all bills initiated by MPs must be accompanied by an impact assessment, and public consultations thereon shall be provided through the website of the respective leading parliamentary committee. All opinions from the public consultations shall be published and the report of the commission shall take a stand on them. The proposals for amendments between the first and second reading may not relate to laws other than the one currently under consideration.

**State aid:** No changes are included in the scope of the reform, which lead to distortion of free market competition. That determines the absence of state aid with regard to this reform.

### Investment 10: A tool for better strategic planning and implementation management

The measure<sup>58</sup> aims to create the prerequisites for the improvement of the strategic planning process in the country and it will complement the implementation of the reformative intentions (reform 9). To that end the Monitorstat information system of the National Statistical Institute will be upgraded

<sup>58</sup> See Annex No П47



to an instrument for strategic planning and monitoring the implementation of reporting for all strategic documents of the central government. The document will, in addition to embracing all effective strategic documents, monitor also their relation with the UN Sustainable Development Goals. The total planned resource is BGN 1.7 million (BGN 1.4 million from the Recovery and Resilience Facility and BGN 0.3 million national co-financing) with implementation period 2022-2025.

**State aid:** The fact that the project will support public administration bodies in exercising their public functions determines the absence of state aid in this instance.

### Investment 11: Ensuring an adequate information and administrative environment for the implementation of the Recovery and Sustainability Plan

The measure<sup>[1]</sup> aims to ensure an adequate information and administrative environment for the rapid, timely and lawful implementation of the Recovery and Resilience Plan. The planned activities cover:

- Information system for monitoring and trainings of the final beneficiaries and users of the reporting tool;
- Administrative capacity of the final recipients, incl. of the contracting authorities;
- Audit and control.

The total planned funding is BGN 14 million (BGN 12.4 million will be provided by Recovery and Resilience Facility and BGN 1.6 million will be national co-financing) with an implementation period 2021-2026.

**State aid:** The proposed measure does not constitute state aid within the meaning of Art. 107 of TFEU, because it does not threaten to distort competition in the country and is compatible with the rules of the internal market.

### Reform 10: Public Procurement

In the field of public procurement, actions will be taken to increase competition and transparency and reduce the risk of corruption:

#### 1. Strengthening of prevention and support to public procurement contracting authorities (Q4/2021)

Changes of methodology for selection of procedures, checked at random by the Public Procurement Agency within preliminary control will be introduced and the share of checked public procurements, financed

<sup>[1]</sup> See Annex No П16



by EU, will be increased (including under the Recovery and Resilience Facility). The access to results from the checks made by the Public Procurement Agency will be improved and information, structuring main and/or specific errors requiring the special attention of contracting authorities, will be published at the Public Procurement Portal.

## 2. Introduction of new electronic forms in the national electronic public procurement system (Q3/2023)

Provided is to develop the new European standard forms applicable for procurements with estimated value over the thresholds for publishing in Official Journal of EU (Commission Implementing Regulation (EU) 2019/1780 of 23 September 2019) and introduce them in the electronic public procurement system, as well as national standard forms (similar to the European ones), and to apply them for procurements with estimated value under the thresholds for publishing in the Official Journal of EU. The service “electronic sender” provided by the Public Procurement Agency will be developed in relation to the new standard European forms in the area of public procurement.

## 3. Reduction of non-competitive awarding of public contracts through amendments to the Public Procurement Act

The Public Procurement Act regulates the implementation of preliminary and subsequent control of public procurement. The PPA carries out inspections of negotiation procedures, opened on certain legal grounds (before concluding the contract) and timely informs about the results of PFIA and the National Audit Office - the bodies that according to Art. 238 of the Public Procurement Act carry out subsequent control over the observance of the law (after concluding the contract) of the procedures according to approved annual plans, as well as by signal (PFIA). In order to reduce the share of public contracts awarded without a competitive procedure and based on a single tender to the EU average, the following actions are envisaged:

- Extraction of data from the Public Procurement Register (PPR) for the period 2019-2021 on the negotiated procedures without publication (including the frequency of application of the various grounds for selection of such procedures subject to the contracts awarded and the contracting authorities that most often apply this type of procedure). Providing the data to the bodies under Art. 238 of the Public Procurement Act for the purpose of analysis and undertaking follow-up inspections (Q1 / 2022).
- Based on the information provided by the PPR, the bodies under Art. 238 of the Public Procurement Act carry out inspections of risk contracting authorities (with a large share of negotiated procedures). As a result of the performed inspections the bodies under Art. 238 of the Public Procurement Act prepare a report with a proposal for measures, including changes in the legal framework (Q3 / 2022). Preparation of proposals for legislative changes aimed at limiting the application of negotiated procedures without notice (Q4 / 2022), including if necessary in respect of:
- optimization of the ex-ante and ex-post control of the negotiation procedures,
- carrying out annual targeted inspections by the bodies under Art. 238 of the Public Procurement Act on the negotiated procedures on the basis of structured information provided by the Public Procurement Agency,
- as well as strengthening the administrative penal liability in connection with violations in the application of negotiated procedures without publication.

- Annual provision by the Public Procurement Agency of information about the contracting authorities, which most often apply negotiated procedures without publication, to PFIA and the Court of Auditors for follow-up control according to Art. 238 of the Public Procurement Act. In particular, this will include:
- identification of the contracting authorities, which in the previous year most often concluded public procurement contracts following a negotiation procedure without notice, resp. after a procedure with just one bid received;
- preparing and sending the respective information to PFIA and the Court of Auditors for carrying out targeted inspections.
- Ensuring publicity of the results of the follow-up control regarding the negotiated procedures without publication, incl. those on which an opinion has been expressed by the Public Procurement Agency, pursuant to Art. 233 of the Public Procurement Act, and on which information is provided.

Bulgaria will reduce negotiated procedures without notice in order to reach the EU average - from 26% by the end of 2021 to 7% by the end of 2025.

In addition, Bulgaria will reduce the level of awarding procedures with only one bid to the EU average.

In order to counteract the illegal application of the so-called "In-house" the following is envisaged:

- Proposals for legislative changes related to the prohibition of subcontracting, introduction of obligations for publication of the concluded "in-house" contracts and the annexes thereto, as well as information on the payments (in addition to the contract publication, which is still subject to disclosure) as well as appropriate sanctions for non-compliance (Q4 / 2022).
- Implementation of systematic follow-up control by PFIA and the Court of Auditors of contracts concluded in in-house conditions, for which the contracting authorities have sent announcements for the assigned contract in the previous year, as well as announcement of the results of the inspections.

**State aid:** The proposed measure does not constitute state aid within the meaning of Art. 107 of TFEU.

### Reform 11: Growth Bulgaria

In response to the need for outpacing economic growth and following the good practices of the Scaleup Europe initiative and the commitments related to Startup Nation Standard, it is planned to implement the Growth Bulgaria reform, which addresses the development of the high-tech sector in the country. The reform aims to improve Bulgaria's economy by supporting the construction of high value-added industries. In addition, startup and scalable companies in Bulgaria should grow at a faster pace, remaining registered in the country and thus contributing to greater GDP growth. The development of companies in Bulgaria with a high market value is of key importance for the expansion and strengthening of the middle class in the country. This would also help in increasing the attraction of foreign direct investment.

The components of the Growth Bulgaria reform create a basis on which high-tech companies in Bulgaria, developing products and services with high added value to be built. The reform will create conditions for the following:

- Improved access to capital (sub-measure 7),
- Improved access to talent (sub-measures 4 and 5),
- Enhancing the business administration environment (sub-measures 1, 2, 3, 5 and 6),
- Promoting of entrepreneurship (sub-measures 2 and 3).

### Main stages of the reform:

1. Elaboration and adoption of legal changes for introduction of a new commercial company in the Commercial Law (Q4 / 2022).

The current Commercial Law does not allow companies registered in Bulgaria to use a number of necessary tools for business development such as convertible loans, employee options (option pools), vesting contracts, etc. As a result, some Bulgarian companies choose to leave the country by registering their business in another country. As a result, some Bulgarian companies choose to leave the country by registering their business in another country. Following the model of other EU countries, the Ministry of Innovation and Growth will initiate the establishment of a new company, which would give more flexibility to the Bulgarian business.

2. Establishment of a legal framework for accelerated liquidation of legal entities (Q3 / 2023).

The voluntary liquidation of a business in Bulgaria takes almost 1 year and at this stage the procedure is time consuming and expensive. It needs to be accelerated, to introduce diversification between companies according to their maturity, workload and impact on the country's economy.

Between 30,000 and 50,000 new legal entities are created per year in Bulgaria, only about 1,000 are liquidated. Over 90% of the start-ups fail in the initial steps and most of them have never had an activity, have not hired people and have not been registered for VAT. Easier and faster liquidation is provided for them.

3. Adoption of the Personal Bankruptcy Act (Q3 / 2022).

The Law on Personal Bankruptcy is essential for a large part of the country's population, businesses and entrepreneurs. It is one of the components that create conditions for the development of entrepreneurship and a second chance in case of failure of the entrepreneur.

The Personal Bankruptcy Act will introduce insolvency proceedings with approval of a repayment plan, with liquidation of the property, as well as insolvency proceedings in the absence of income and property of individuals

In connection with the full transposition of Directive 1023/2019, it is necessary for the Bulgarian legislation to regulate insolvency proceedings against natural persons. Its purpose, which is formulated in the Directive itself, is to overcome the state of over-indebtedness of the natural person / debtor, entrepreneur, consumer / by allowing for partial forgiveness of obligations, fair satisfaction of creditors and creating opportunities for social recovery, entrepreneurial and labor activity.

The changes are also related to the determination of a competent court before which the procedure will be conducted, as well as to the need to appoint a specialist to assist the debtor. A key element of the preparation of the normative act is the possibility for drawing up and approval of a repayment plan, from which it will be envisaged to make repayments of the respective unsecured liabilities on a monthly basis / or another /. Possibilities should also be provided for what will happen if the debtor has no income and property, as well as in case of liquidation of the property.

#### 4. Development and adoption of the by-laws for the introduction of a Startup visa (Q3 / 2022)

The introduction of the Startup visa is envisaged as a mechanism for attracting entrepreneurs. This would help attracting foreign investment and build a larger and better developed entrepreneurial community.

The sub-stages are as follows:

- Preparation of an Ordinance, which regulates the procedure for issuing and revoking a Startup visa, following the texts of the Law on Foreigners in the Republic of Bulgaria, Art. 24r.
- Conducting a coordination procedure and public discussion by the Ministry of Innovation and Growth.
- Adoption of the Ordinance by the Council of Ministers, according to Art. 24 p of the Law on Foreigners in the Republic of Bulgaria.

The Startup Visa Procedure will follow the best practices of the European Union, being entirely online, involving representatives of the local startup ecosystem in the evaluation process.

#### 5. Improving the regulatory conditions for "Teleworking" (Q4 / 2023).

Telework is increasingly used in modern forms of employment. The existing Labor Code does not correspond to the modern relations between employer and employee in conditions of remote work. Bulgaria can become one of the places where "digital nomads" prefer to live and invest their money



The reform aims to improve the conditions for teleworking in the Labor Code and the requirements for Occupational Medicine.

## 6. Notification of private electronic notification schemes (Q3 / 2022)

Regulation (EU) No. 910/2014 allows member states to involve the private sector in the provision of electronic identification means (Para. 13 of the Preamble) without investing public funds in the creation of electronic identification schemes. With a Decision of the Council of Ministers, which is already a fact, private schemes for secure electronic identification will be acknowledged and their use for the needs of electronic management of such schemes will be regulated, taking into account the applicable regulations on measures against money laundering, rules for personal data protection and consumer protection, as well as the special provisions of Regulation No. 910/2014 on electronic identification and electronic certification services.

Sub-stages:

- Making a decision by the Council of Ministers and assigning the Chairman of State Agency "Electronic Government" to notify a Bulgarian identification scheme, which was inspected if it meets the requirements of EU Regulation No. 910/14 and which is recognized by an act of the Council of Ministers.
- The Chairperson of State Agency "Electronic Government" implements the decision of the Council of Ministers.

**State aid:** The proposed measure does not constitute state aid within the meaning of Art. 107 Treaty on the Functioning of the European Union.

## Reform 12: Council for Economic Analysis

The establishment of the Economic Analysis Council is a reform that aims to lay the foundations for a process of gradual and sustainable provision of the Bulgarian government with in-depth academic economic expertise, which will be a starting point for strategic and long-term economic decisions. Today's global challenges require decisive, sustainable and transformative economic action, the adoption of new ideas and the implementation of bold actions based on economics. In creation of the council the successful experience of a number of EU countries will be used, such as the Expert Council in Germany (Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung), the Council for Economic Analysis in France (Conseil d'analyse économique) or the Franco-German Council of Economic Experts.

The Economic Analysis Council will consist of internationally recognized economists who will assess the long-term challenges facing the Bulgarian economy and make proposals for the most appropriate policies to address them. The council will be advisory in nature and will include economists from academia, including prestigious international universities. In the light of the large socio-economic changes of the 21st century, such a council will have the task of analyzing



major economic, macroeconomic and social issues and propose appropriate policies and solutions.

The main product of the council's activity will be an annual report on the state of the Bulgarian economy, the challenges and risks facing it, as well as the possible solutions in overcoming them. In addition, the Council will have the opportunity to make recommendations for improving the effectiveness of economic policies in response to current challenges, as well as to publish positions on other key issues for the country's prosperity, such as energy and climate change policy, digitalization, artificial intelligence, innovation and industrial policy, social inequalities, demographic problems, etc.

The council will consist of five reputable economists with publications in the top 50 rated economic journals and will provide the government with independent expertise and analysis on medium- and long-term risks and opportunities for the Bulgarian economy. Three of the members will be invited for a period of three years, and the participation of the other two can be rotated for a period of one year. This will allow economists from different specific fields and with a different academic focus to participate in the council in view of the specific topics in the given year. Current economic issues will also be discussed during the council meetings, and the results of these discussions will be published in the form of expert opinions or statements.

The establishment of the council will also stimulate the upgrading of the analytical capacity of the administration, which will provide the data necessary for its activities. To the purpose, it will be supported by a secretariat, which will develop a modern approach to data policy as a basis for policy-making (data-based policy decisions). In addition to permanent employees and experts from the state administration, the unit will rely on temporary expertise of various young scientists in the field of economics and statistics at the pre-doc or post-doc level (with higher education in economics, statistics, mathematics, engineering sciences). They will support the work of the council, thus having the opportunity to interact with leading international economists, which will be important for increasing their analytical and academic potential and for their future academic careers in general.

**State aid:** No changes are included in the scope of the reform, which lead to distortion of free market competition. That determines the absence of state aid with regard to this reform.

#### e) *Complementarity and demarcation with the Cohesion Policy instruments*

Cohesion Policy investments will support the transition to data-driven governance. The main focus is on expanding the volume of open data generated and processed by government institutions and businesses and

facilitating their sharing. In order to achieve the maximum effect, the integration and synergy of these measures with investments in ensuring connectivity through high-capacity networks, financed under the Plan, is set.

To achieve the maximum benefits for society from the digital transformation of the public sector, the provision of a reliable, functional and accessible shared infrastructure and cloud services, as well as centralized and horizontal e-government solutions will be supported. The deepening digitalization of the public sector brings to the fore the need to ensure a high level of cybersecurity. The development and improvement of centralized mechanisms and tools for secure data protection and public services in the application of the highest standards of cybersecurity will be supported.

#### *f) Strategic Autonomy and Security*

The measures in the component adhere to European best investment practices, focused on transparency, market openness and fair trade, thus respecting public procurement procedures with the principle of open strategic autonomy. The terms of reference will provide requirements for ensuring diversification of suppliers using technologies and business practices capable of dealing with distortions of competition and contributing to sustainable development, green and digital transformation of the Bulgarian economy. The technologies and systems in the component must comply with all security measures and policies at the design stage.

#### *g) Trans-boundary and multi-national projects*

The measures included in the scope of the component are envisaged for implementation only on the territory of the country, but some of their elements have a cross-border dimension. For example, the planned work to build a national intelligent security system under Investment 4 has the potential to contribute to coordinated action with other Member States and their police services with regard to the protection of the EU's external borders and the warning of possible threats. Investment 9 also has a direct added value and cross-border effect on the development of the Digital Single Market. Investment 11 will provide an opportunity to connect with other regional data centers, which will help ensure the protection of life and health of the population, environmental protection and recovery from economic crises, pandemics and disasters in Bulgaria and neighboring countries.

#### *h) Green and digital aspects of the component*

Measures in the field of e-Justice (reform 1, investments 1, 2, and 3), e-government (reform 6, investments 9 and 10) and digitalization of the construction sector (reform 5, investments 7 and 8), as well as investments 4 and 11 have very serious digital dimensions and will therefore contribute significantly to achieving the 20% target for the digital dimensions of the Plan set out in the Regulation on

the Recovery and Resilience Facility (valued **89.3%** digital costs - see Table 2.D.1.1 below). The measures proposed in the component contribute to the ecological transition, taking into account the six climate and environmental objectives set out in the Taxonomy Regulation, and do not violate the "do not significantly harm" principle as defined in the Taxonomy Regulation, but according to the EC methodology used for the calculation of contributions to the double transition, the component includes 0% climate costs. Table.

**Table 2.D.1.1: Green and digital impact**

Component 10: Business environment	Financing from RRF, MBGN	Green transition	Digital transition
Strengthen, elaborate and upgrade the Unified Information System of Courts of Justice	19.3	0.0	19.3
Digitization of key court proceedings in the system of administrative justice	7.1	0.0	7.1
Transform the existing information and communication infrastructure in the Prosecutor's Office of the Republic of Bulgaria into a new type - fault-tolerant, reserved, productive and protected	28.8	0.0	28.8
Improving the quality and sustainability of security services	80.2	0.0	48.0
Introduction of ways for alternative dispute resolution in the judicial system in Bulgaria - pilot introduction of mandatory judicial mediation; completion of the network of court centers in all district regions of the country; developing a strategy for making full use of other alternative dispute resolution methods	1.6	0.0	0.0
Support of a pilot phase for introduction of construction information modeling (CIM / BIM) in investment design and construction as a basis for digital reform of the construction sector in Bulgaria	7.9	0.0	7.9
Unified information system for spatial planning, investment design and construction permitting	2.9	0.0	2.9
Digitalization of information arrays in administration that contain register data and e-certification from	94.9	0.0	94.9
Upgrade the Aerospace Observation Center(AOC) - Ministry of Interior to achieve national importance in space policy, implementation of European requirements and benefits for humans	110.6	0.0	110.6
A tool for better strategic planning and certificates performance management of strategic documents	1.4	0.0	1.4



Component 10: Business environment	Financing from RRF, MBGN	Green transition	Digital transition
Ensuring an adequate information and administrative environment for the implementation of the Accessible, effective and predictable justice	12.6	0.0	6.9
Increasing the efficiency of corruption countering			
Expanding the use of alternative dispute resolution and the introduction of mediation, which is mandatory in certain types of cases			
Strengthen the insolvency procedure			
Digital reform of Bulgarian construction sector			
Register reform to unleash the potential of e-government to improve the business environment			
Improving state enterprise management			
Improving money-laundering combat framework			
Higher quality and predictability of the legislative process within the National Assembly			
Public Procurement			
Growth Bulgaria			
Council for Economic Analysis			
<b>TOTAL</b>	<b>367.4</b>	<b>0.0</b>	<b>328.3</b>
<b>CONTRIBUTION</b>		<b>0.0%</b>	<b>89.3%</b>

*i) The principle of not incurring substantial damage*

All measures, included in the scope of the component – investments and reforms – are in conformity with the principle of not incurring a substantial damage, within the meaning of Art. 17 of Regulation (EU) 2020/852.

## 2.D.2 Social inclusion

*a) Component Description*

Policy area: social inclusion





**Objective:** The component aims at promoting the social inclusion of vulnerable groups (people with disabilities, the elderly and children, disadvantaged people and families, etc.) and to increase the quality and scope of rendered social services, to introduce integrated approaches to the provision of social services, as well as the development of integrated services.

**Reforms and/or investments:**

- Reform in the field of minimum income;
- Reform in the area of social services;
- Modernization of long-term care;
- Provision of assisting devices to persons with permanent disabilities;
- Social economy development;
- Modernization of the Social Assistance Agency;
- Modernization of the Employment Agency;
- Development of the cultural and creative sectors;
- Digitalisation of museum collections, libraries and archives

**Cost estimate:** The indicative estimates for the costs necessary for the realization of the objectives of the component amount to a total of BGN 1,010.2 million, of which BGN 861.3 million at the expense of the Mechanism for Recovery and Sustainability and BGN 148.9 million national co-financing.

*b) Main challenges*

The COVID-19 pandemic has shown that the degree of resilience to shocks of individual systems in the country is not sufficient to fully ensure adequate and timely support and assistance to individual groups in society, especially vulnerable groups.

The structural challenges in the field of social inclusion are significant. Poverty and social exclusion are serious challenges, and income inequality is high. Realized economic growth is not inclusive enough to help reduce social inequalities. Social transfers have a very limited impact on reducing poverty and inequality. They are well targeted, but do not have sufficient coverage and have little contribution to improving the condition of the assisted persons. A significant part of social support goes to people who are outside the group of the poorest, which worsens the overall picture in terms of the adequacy of social transfers. The relative share of people at risk of poverty is among the highest in the EU. The risk of poverty is significantly higher for some of the most vulnerable groups. Almost % of the over-working population is at risk of poverty or social exclusion in 2019, and just under 1/3 of this population experiences severe material deprivation. Although both

indicators have improved significantly over the last ten years or more, the lag within the Community remains significant. At the same time, a large proportion of older people live in rural areas, which results in some restrictions on their access to social services.

People with disabilities are another major group that covers a significant proportion of the country's population and is at serious risk of poverty and social exclusion. Almost 1/3 (30.5% in 2019) of people of working age with disabilities live in material deprivation, which is almost 3 times higher than the EU average (10.6%). The problems of providing quality and accessible social services for people with disabilities are similar to those that exist in the provision of services for the elderly. Fragmentation and low accessibility are among the main challenges.

### *c) Objectives*

The component is in line with the Country-Specific Recommendations of the Council for 2019 and 2020, and will directly contribute to the implementation of aspects of SR 2 of 2020, as well as SR 4 of 2019. The planned reform to improve the overall social support system, through its codification, aims to address the structural challenge of the ineffectiveness of social policy in relation to its objectives of reducing poverty and inequality. Reform efforts in the field of social inclusion are reflected in reform 2, for the implementation of which the successful implementation of investment 1 is a key. The implementation of the interventions and reform intentions planned in this component will be of key importance for increasing the social resilience to shocks. Investments 6 and 7 have the potential to be powerful drivers in the process of overcoming the social consequences of the crisis caused by the COVID-19 pandemic, in combating isolation and the process of disintegration of communities. Investments 2 and 3, in addition to their undeniable effect in terms of strengthening social sustainability, will also contribute to economic recovery, given the opportunities created for representatives of some vulnerable groups to enter the labor market. Predominantly, the planned investments have a lasting impact, i.e. their effect will not disappear after the completion of the respective projects. The component will also make an indirect contribution to the implementation of other Country-Specific Recommendations of the Council, for example, increasing energy efficiency (SP 3/2019, SP 4/2020), thus contributing to the implementation of the objectives of the green transition.

The measures envisaged in the component will have a macroeconomic impact in the short term. The assessment (Ref. Part 4: Impact Assessment) predicts that the level of GDP at constant prices will be 0.3% higher than in the baseline scenario (in which the interventions planned in the component have not been implemented) by 2023, with the effect in the medium term (by 2026) it reaches 0.1% additional GDP growth compared to the baseline scenario. The anticipated effects from the realization of the intentions in this component concerning the labor market amount to 0.1% in



short-term - by 2023 and 0.04% in the medium term - by 2026 additional growth in the number of employees.

#### *d) Reforms and investments*

##### **Reform 1: Reform in the field of minimum income**

The implementation of this reform aims to address specific recommendation № 2 of the 2020 European Council by taking steps to mitigate the shortcomings in the adequacy of the minimum income scheme and to implement social inclusion measures accordingly through better support for the minimum income. In particular, the planned reform to improve the social assistance system through its codification aims to address the structural challenges associated with the low effectiveness of social policy in achieving its high-priority objectives of reducing poverty and inequality.

The reform aims at higher efficiency, adequacy and scope of the social support system by introducing a comprehensive approach to providing social support to individuals and families from vulnerable groups, introduction of "one-stop shop", simplified and unified procedures, rules and criteria for access to social support measures, mechanisms for annual updating of social transfers, as well as increasing the efficiency of the administration working in this field and minimizing the costs of process management,

##### **1. Preparation of amendments to minimum income schemes based on social assistance impact assessment in relation to the criteria for access and adequacy of social benefits (Q1 2022)**

Establishment of a working group to review the current rules and eligibility criteria between the different subcomponents, summarize the components and optimize the eligibility criteria for persons eligible for benefits, as well as the possibilities to set a starting point for increasing the amount of benefits.

##### **2. Preparation of amendments to minimum income schemes based on social assistance impact assessment in relation to the criteria for access and adequacy of social benefits (Q1 2022)**

Amendments and supplements to the Regulations for implementation of the Social Assistance Act, which, in the period until 2024, will guarantee a gradual increase of the differentiated minimum income to 30 percent of the poverty line. This means significantly expansion of the scope of assistance and increasing the monthly allowance to this limit. This measure, adopted by the government on 28.07.2021, which is currently the most effective for the most rapid adjustment of the monthly social assistance system in line with the recommendation, marks the beginning of the transformation of assistance in line with the priority solution of the problems of poverty. The adopted decree of the Council of Ministers, which



implements the amendments to the Regulations for implementation of the Social Assistance Act, ensures that until the necessary legislative changes are made, a significant increase in the effectiveness of social benefits will be realized on the basis of expanding the scope of the people in need and increasing the amount of aid tying it to the size of the poverty line. In doing so, a mechanism will be applied for regular updating of social benefits in accordance with the dynamics of the poverty line. This will ensure a smooth transition of the social assistance system from the existing mechanism, based on the guaranteed minimum income, to tying the monthly benefits to the poverty line set for the country for the respective year, until the moment when this change becomes legally regulated.

### 3. Amendment of the Social Assistance Act to implement a regular mechanism for updating the minimum income schemes.

The mechanism will be based on objective statistics to improve its adequacy. This will be done in accordance with the principles of a smooth transition, financial sustainability, rapid implementation and greater benefits for those most in need. The expected results are: - Establishment of a mechanism for annual update of the minimum income schemes; - Making changes in the eligibility criteria of the minimum income schemes to increase their effectiveness

### 4. Adoption of the Social Support Code and secondary legislation (Q4 2023)

The idea of codification of social legislation follows the logic of harmonizing highly fragmented social laws. The codification of social legislation in the field of public support summarizes the most important laws and aims to outline the scope and structure of social benefits, services and support through which to achieve social justice and social security in society. Leading in this transformation must be several principles such as flexibility and individual approach, guaranteeing rights, inclusion of vulnerable people to ensure the functioning of a system that reflects the needs of people in need with a focus on improving opportunities for social inclusion.

### 5. Relationship with labor market activation and active labor market policies (Q4 / 2023)

The amendments to the Employment Promotion Act will place additional emphasis on activating the vulnerable groups. The new provisions of the Act will define the set of activities and services for inactive people. Data will be exchanged between the relevant institutions to identify inactive people. The changes also provide for the creation of a register for inactive people. Targeted measures to improve the synchronization of active labor market policies and minimum income schemes.

**State aid:** The reform in the area concerns the codification of aid paid to individuals. In this regard, the current reform does not distort or threaten to distort competition within the EEA and should not be considered as State aid under Art. 107 and 108 of the TFEU.

Efforts are focused on continuing the reform in the field of social services in accordance with the Social Services Act. The law, aimed at improving the mechanisms for planning, financing, control and monitoring of services, as well as to improve their quality, efficiency and sustainability, entered into force on 01.07.2020:

### 1. Preparation and adoption of a National Map of Social Services (Q4 / 2023).

The National Map of Social Services will determine the maximum number of users of all social services for which funding is provided from the state budget. The criteria for determining the services and the maximum number of users in the National Map of Social Services are defined in the Ordinance on the planning of social services (adopted by Decree No 133 of the Council of Ministers of 6 April 2021) according to the number and demographic profile of the population. The national map of social services will be developed on the basis of an analysis of the municipalities regarding the needs for social services at municipal and regional level by the Ordinance on the planning of social services;

### 2. Development and adoption of an Ordinance on the quality of social services (Q2 / 2022)

The regulation on the quality of social services is key to the implementation of the reform in the field of social services and the achievement of the objectives of the Social Services Act. It will regulate the quality standards for all types of social services, which will be for: organization and management of the service; qualification and professional development of the employees who perform the activity of providing the service; the effectiveness of the service in terms of the results achieved for its users in response to their needs. Compliance with quality standards will be assessed against compliance criteria, including integrated cross-sectoral services and relevant criteria. The quality standards of the integrated health and social services will also be part of the Ordinance. It will also regulate the procedure for control, monitoring and evaluation of the quality and efficiency of social services by municipalities, social service providers and the Agency for Quality of Social Services. It will also determine the minimum requirements for the number and qualification of the necessary employees who carry out the activity of providing the various types of social services; the requirements to the activity carried out by the employees for providing the different types of social services; the obligations of social service providers to ensure the professional and career development of their employees and others.

**State aid:** The reform does not infringe, nor threatens to infringe, the competition within the frames of the European Economic Area and shall not be deemed to constitute government assistance, in accordance with Art. 107 and Art. 108 of TFEU.



## Investment 1: Modernization of long-term care

The project<sup>59</sup> supports the continuation of the reform of the social services system, including for long-term care. It is planned to build and equip new social and integrated health and social services for residential care and accompanying specialized and consultative social services for people with disabilities, as well as to reform the existing homes for the elderly. The project has a separate component for increasing the energy efficiency of social infrastructure. By developing, building and equipping new, flexible and needs-oriented social and integrated health and social services, it will directly contribute to supporting and promoting the social inclusion of people with disabilities and addicts from care. Apart from the direct effects related to the improvement of the physical environment, the new equipment and furniture is also related to the increase of the quality of the services and their efficiency in view of the achieved results for the persons using them in response to their needs. The implementation of the project will support 332 sites of social infrastructure in the process of deinstitutionalization of long-term care services for the elderly and people with disabilities, as well as 840 social services. The total planned funding is BGN 753.0 million (BGN 643.2 million from the Recovery and Resilience Facility and BGN 109.8 million in national co-financing) and the implementation period is 2022-2026.

**State aid:** Project funding does not constitute state aid. All services that will be funded under the project are delegated by the state activity. A social service delegated by the state can be opened as such only if it is offered by the municipality and a decision is made by the Municipal Council. The responsibility for social services, delegated by the state activities, lies entirely with the municipalities. Private providers cannot find social services that are financed from the state budget. Municipalities have no commercial or economic interest in providing the social services in question. As providers of social services that are delegated by the state activities, the municipalities do not carry out economic activity, but fulfill their regulated legal obligations to the population. Emphasis should be put on the public nature of the system, the lack of potential price competition, the obligation of municipalities to provide sufficient space in services, the fact that fees collected do not cover real costs, and the element of solidarity that is characteristic of the social services system.

<sup>59</sup> See Annex No П39



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## Investment 2: Provision of assisting devices to persons with permanent disabilities

The purpose of the pilot project<sup>60</sup> is to promote activities to ensure personal mobility and accessibility for people with permanent disabilities for their social inclusion, taking into account their specific needs. It is planned to provide high-quality and high-tech technical aids, incl. specialized software programs, electronic technical means for compensation of sensory deficit, adapted technical and medical devices and other similar means and devices, according to the specific needs of people with permanent disabilities, as well as for creating an accessible environment related to their mobility and free movement. Providing training to users for the use of technical equipment and/or specialized programs. The total planned funding is BGN 24.0 million (BGN 20 million from the Recovery and Resilience Facility and BGN 4.0 million in national co-financing) and the implementation period is 2022-2024.

**State aid:** The costs of this project do not constitute state aid within the meaning of Art. 107 and 108 of the TFEU insofar as technical aids will be provided to individuals on the basis of their personal needs.

## Investment 3: Social economy development

The measure<sup>61</sup> envisages expanding and modernizing the opportunities for support of the subjects of social and solidarity economy by reforming the policy and applying an individualized approach to the needs of each subject of social and solidarity economy by creating focus points with territorial coverage in the six regions of the country. The focus of the support will be the transformation of the subjects of the social and solidarity economy in the context of the double (green and digital) transition. The project envisages surveying at least 200 social enterprises for the opportunity to digitize their work processes and support the implementation of the recommendations in at least 100 of them, as well as conducting training for their employees in connection with the implemented digital solutions. At the same time, the project envisages the promotion of networking and training, initiatives and partnerships for the inclusion of social entrepreneurs in social and civic dialog with state institutions, local authorities and local communities. The sustainability of the project results will be ensured through the planned after its completion transformation of the focus points into local incubators, realized in the form of public-private partnership, based on maintaining their functioning and by contributing the available assets. The project

<sup>60</sup> See Annex No П40

<sup>61</sup> See Annex No П41



also envisages the construction of a digital platform (network) of the subjects of the conducted policy in the field of social and solidarity economy. It is an innovative tool for modernization and digitalization of market processes and their management. Market integration of the platform will take place through audio-visual communication tools. A technology for data collection and analysis or the so-called adaptive-analytical software will be built, with the possibility for self-learning, data processing and analysis (artificial intelligence) with potential (based on various operations, cooperatives, collaborations and partnerships). to generate and process data that allow a clear and objective assessment of both sectoral deficits and policies. The total planned resource is BGN 26.7 million (BGN 24.1 million at the expense of the Mechanism for Recovery and Sustainability and BGN 2.6 million national co-financing) with a implementation period of 2022-2025.

**State aid:** With regard to some activities of the project, a minimum aid scheme is envisaged under Regulation (EU) 1407/2013 for the respective enterprises in the field of social and solidarity economy.

#### Investment 4: Modernization of the Social Assistance Agency

The project<sup>62</sup> aims to increase the efficiency and quality of administrative services provided in the system of social assistance and protection of children. It will provide an opportunity and environment for carrying out the envisaged reforms in the field of social support and for solving problems, creating a safe environment, protecting citizens' data, as well as ensuring equal access to social support for people with physical disabilities. Another focus will be the updating, the availability, where it does not yet exist, and the modernization of the material base of the territorial structures of the Social Assistance Agency. The implementation of the activities will provide quality services for the population on the territory of the whole country, provided in an accessible and safe environment, as well as will reach a complete optimization of the costs of the Agency. Also, the implementation of the project will strengthen the resilience of the social system, as well as increase the access of more people in need of support, regardless of their specific differences caused by physical or sensory disabilities. The Agency's strengthened information infrastructure will provide a technical opportunity to plan and implement future joint initiatives for the provision of integrated services and employment services without the risk of data loss.

The total planned resource is BGN 9.8 million (BGN 8.2 million at the expense of the Mechanism for Reconstruction and Sustainability and BGN 1.6 million national co-financing) with a implementation period of 2022-2024.

<sup>62</sup> See Annex No H7



**State aid:** The project is not subject to a state aid regime, as the activities for repair works and supply of specialized facilities for accessible environment, heating and information equipment are aimed at renovation, accessibility and modernization of buildings providing public administrative services, do not lead to improving market positions or expanding the business and not achieving a competitive advantage. Namely, there is no competition for the offered services, which will be introduced after the implementation of the project. In view of this and due to the lack of this component in the assessment of the presence or absence of State aid, it can be argued that the project does not meet the requirements for the existence of State aid. All activities for repair and purchase of equipment will be subject to assignment, which does not imply the existence of state aid.

### Investment 5: Modernization of the Employment Agency

This Project<sup>63</sup> aims to increase the efficiency and the quality of the administrative services rendered by the system of the National Employment Agency, establishing a safe environment, protecting citizens' data, and facilitating the access to the labor market services for people with different characteristics and needs, incl. disabled persons and vulnerable groups. The project will contribute to reducing the administrative burden, improving the quality of services provided (in terms of their accessibility, time and resource consumption, etc.) and it will rebound for better focusing on the individual needs of clients of the National Employment Agency, as well as for increasing the effectiveness of partnerships with the parties concerned. The planned interventions and technological updates of the information systems of the Employment Agency will provide conditions for the exchange of relevant information between the institutions for support of the labor force and business. A mechanism will be implemented for the transmission between the providers of mediation, social, training, and other services of the relevant information on job vacancies, training opportunities and services provided to individuals or families. The total planned resource is BGN 31.9 million (BGN 26.6 million at the expense of the Recovery and Resilience Facility and BGN 5.3 million national co-financing) with implementation period of 2022-2024.

**State aid:** State aid: this Project is not subject to a state aid regime, since the activities included therein do not result to the improvement of the market positions or to the expansion of its activity and no competitive advantage is achieved, i.e. there is no competition for the services rendered, which will be introduced after the Project implementation. The National Employment Agency falls outside the scope of the applicable rules in the European and national legislation concerning the state and minimum

<sup>63</sup> See Annex No H8



aid area. All activities that will be implemented are due to be awarded through a public tender, which does not presuppose the availability of state aid.

#### Investment 6: Development of the cultural and creative sectors

This Project<sup>64</sup> aims to mobilize the full potential of the cultural sector to overcome the social consequences of COVID-19 crisis, to combat the isolation and the disintegration process of communities. To this end, the project proposes to restructure the public expenditure on culture through legislative and administrative reform in the National Culture Fund at the Ministry of Culture, to decentralize the cultural policies by differentiating three expenditure programs: "Support for European Cultural Cooperation", "Support for Development and Access of the Public", and "New Generation of Local Cultural Policies", which will fund cultural product and content on a competitive basis. A special activity is planned for increasing the administrative capacity of the administrative staff and for enhancing the skills and competencies in the context of the digital transition - for the representatives of culture and the creative industries. The total planned funding is BGN 96.8 million (BGN 79.7 million will be provided by Recovery and Resilience Facility and BGN 17.1 million will be national co-financing) with an implementation period 2022-2026.

**State aid:** Some project activities are planned to be subject to the minimum aid regime under Regulation (EU) 1407/2013. For beneficiaries, which are budgetary units and whose economic activities and public authority are implemented in connection with the financing, and are "unitary in nature", i.e. where the economic activity is needed for the implementation of the public authority, the activities will not in general be considered to be of economic nature, and their financing accordingly will not be considered as State aid.

#### Investment 7: Digitalisation of museum collections, libraries and archives

The main goal of this Project<sup>65</sup> is to carry out a comprehensive reform of the state's policies for digitization, protection and preservation of the cultural heritage and to ensure free access of all parties concerned to the cultural wealth of the country, on an equal basis and with no restrictions, which in turn would strengthen the positive educational, scientific and tourist effect on the cultural heritage in Bulgaria. Uniform standards will be introduced to digitize the funds to museums, libraries, the Bulgarian National Film Archive (BNFA), the Bulgarian National Television (BNT), the Bulgarian National Radio (BNR) and the Bulgarian Telegraph Agency (BTA); a unified methodology for the implementation of the digitalization process at national level will be designed, which would introduce a unified coordinated

<sup>64</sup> See Annex No П42

<sup>65</sup> See Annex No П43



approach with centralized control. Part of the funds, which are stored in the museum and the library network in the country will be digitized, as well as the funds of BNFA, BNT, BNR, BTA and the state archives (structural units of the Archives State Agency), which are one of the most important cultural institutions preserving and presenting the cultural-historical, literature and audiovisual heritage of this country. In order to provide a uniform access to the digitized content at national and European level, a single electronic platform is planned to be designed, which would provide online access to the final products of the digitalization process for individuals, businesses, scientific and educational circles, which will be configured in a way to submit any additional content to European through the national aggregator. The total planned funding is BGN 68 million (BGN 59.5 million will be provided by Recovery and Resilience Facility and BGN 8.5 million will be national co-financing) with an implementation period 2022-2026.

**State aid:** Funding under this project is not considered to be a state aid. The project provides universal access to cultural heritage, as well as its preservation and protection. In compliance with the provisions of the Commission Notice on the concept of State aid referred to in Article 107 (1) of the Treaty on the Functioning of the European Union (TFEU), the EC does not consider to be a State aid the public funding of cultural activities or for the protection of cultural heritage, which are available to the public free of charge, and which follow a purely social and cultural purpose, and which are of a non-profit type. The public funding of activities in the cultural area or for the protection of the cultural heritage, which are available to the public free of charge, and they follow a purely social and cultural purpose and are of a non-profit type, does not involve aid. In this sense, the fact that visitors to a cultural institution or the participants in a cultural activity or cultural heritage activity are required to pay an amount, that covers a small part of the real costs only, does not change the non-profit type of this activity, as the amount paid cannot be considered to be the real remuneration for the service provided.

#### *e) Complementarity and demarcation with the Cohesion Policy instruments*

During the next program period the ESF+ the interventions will focus on forming and improving the quality of the human capital as a key production factor through employment and social inclusion. The realization of the labor market and the pro-active incorporation of vulnerable groups in employment and social inclusion will be supported by increasing their opportunities to be employed, improving their skills, qualification and retraining, promoting their socio-economic integration, improving their access to quality social services, employment brokerage services and integrated services. Efforts will focus as well on increasing the efficiency and the sustainability of the social inclusion policy as a means of reducing social inequalities. The equal access to specialized health and long-term care will be supported, as well as improving the quality and expanding the scope of the social services provided. The reform of the system of long-term care social services, launched in 2014, will enter

its main phase, where approximately 60% of the remaining specialized institutions for disabled persons are projected to be closed, while all existing homes for the elderly shall be reformed in line with the new quality criteria. Within the framework of the implementation of the activities set in the Recovery and Sustainability Plan, it is intended to realize the main construction works and to invest in equipment and furniture, necessary for the provisionally called "second stage" of the reform of the system of social services for long-term care. On the other hand, by financing energy efficiency works and renovating the equipment and furniture in the current social services in the community, which are delegated by the state, as well as by implementing anti-epidemic measures, it is aimed to improve the quality of social services provided to consumers. These major investments will be complemented by parallel activities under the Regional Development Program in 2021-2027, while the "soft measures" will be financed by the Human Resources Development Program in 2021-2027.

#### *f) Strategic Autonomy and Security*

Planned interventions will follow the best European practices of investment, oriented to transparency and fair trade; thus the public procurement procedures will honor the principle of achieving strategic autonomy, side by side with maintaining the openness of economy.

#### *g) Trans-boundary and multi-national projects*

The projects included in the scope of this component are intended to be implemented only on the territory of this country and do not have any explicit cross-border dimension, except for some interventions in the area of culture and cultural heritage (investments 6 and 7).

#### *h) Green and digital aspects of the component*

The implementation of Investment 1 will have a direct impact on increasing the energy efficiency related to the renovation of the building stock of the social infrastructure. The measures proposed in the component (valued **22.0%** of climate costs-ref. to Table 2.D.2.1. below) contribute to the ecological transition by taking into account the six climate and ecological objectives, laid down in the Taxonomy Regulation and they do not distort the "does not significantly harm" principle, as defined in the Taxonomy Regulation.

By including **10.0%** digital costs (ref. to Table 2.D.2.1 below), this component also contributes to the 20% target for the digital dimensions of the Plan, set out in the Regulation on the Mechanism for Recovery and Sustainability.



**Table 2.D.2.1: Green and digital impact**

Component 11: Social inclusion	Financing from RRF, MBGN	Green transition	Digital transition
Reform in the field of minimum income	0.0	0.0	0.0
Reform in the area of social services	0.0	0.0	0.0
Modernization of long-term care	643.2	187.9	0.0
Provision of assisting devices to persons with permanent disabilities	20.0	0.0	0.0
Social economy development	24.1	0.0	0.0
Modernization of the Social Assistance Agency	8.2	1.2	2.8
Modernization of the Employment Agency	26.6	0.08	23.1
Development of the cultural and creative sectors	79.7	0.0	0.0
Digitalisation of museum collections, libraries and archives	59.5	0.0	59.5
<b>TOTAL</b>	<b>861.3</b>	<b>189.3</b>	<b>85.5</b>
<b>CONTRIBUTION</b>		<b>22.0%</b>	<b>10.0%</b>

*i) The principle of not incurring substantial damage*

All measures, included in the scope of the component – investments and reforms – are in conformity with the principle of not incurring a substantial damage, within the meaning of Art. 17 of Regulation (EU) 2020/852.

## 2.D.3 Healthcare

*a) Component Description*

**Policy area:** Healthcare

**Objective:** The main objective of the component is to improve the ability of the health system to direct public health activities, increase the resilience of



the health system of shocks, and increase the access of the population to quality and timely healthcare.

**Reforms and/or investments:**

- Upgrading the strategic framework of the Healthcare sector;
- Development of e-health and the National Health Information System;
- Improving the attractiveness of healthcare professions and promoting a more balanced distribution of healthcare professionals across the country;
- Modernization of hospital facilities;
- Centers for interventional diagnostics and endovascular treatment of cerebrovascular diseases;
- Modernization of psychiatric care;
- Establishment of an air ambulance system;
- National digital platform for medical diagnostics;
- Improve the national emergency communications system 112
- Strategic framework and plan to increase the availability of primary and outpatient care;
- Supporting the improved provision of preventive screening activities;
- Plan for modern health education in schools;
- Development of outpatient care.

**Cost estimate:** The indicative cost estimates needed to achieve the component objectives amount to a total of BGN 863.6 million (BGN 719.7 million are provided by Recovery and Resilience Facility and BGN 143.9 million are national co-financing).

*b) Main challenges*

The estimated life expectancy in this country is the lowest in the EU. In 2020, despite the gradual upward trend, it decreased by 1.5 years, which is a sharp decline compared to the usually slow indicator changes over the years.

Mortality, which is preventable with both health prophylaxis and proper treatment, is one of the highest in the EU. Circulatory system diseases and cancer are the leading causes of death.

The high population mortality rate is one of the reasons for the steadily deteriorating demographic trend observed over the past years. Data indicates that mortality rate in 2020 was the highest (18 ‰) in history since 1945 so far. The total mortality rate in 2019 was 10.2 ‰ in the EU,



and 15.5 ‰ in Bulgaria. The overall mortality rate in Bulgaria has been the highest one compared to EU member states for every successive year since 2010.

The standardized mortality ratio of circulatory diseases in Bulgaria is three times higher than the average ratio in EU countries. Bulgaria also ranks first among EU countries in terms of the standardized mortality ratio of cerebrovascular disease.

The infant mortality rate in Bulgaria is among the highest ones in the EU. The levels of the perinatal infant mortality, neonatal, and post-neonatal infant mortality in this country are times higher than the EU average ones. This data is an indicator for the quality of medical care being provided, however the living standard and health awareness of the population impact these dynamics as well. In small settlements these indicators remain higher than those in cities. Some of the reasons for this are the deteriorating socio-economic conditions in smaller towns and rural areas, their limited access to health services, and the lower levels education and culture. The integrated indicator for the probability of infant mortality before the age of 5 is twice higher than the EU average. Premature birth is an important factor, and contributes significantly to the level of the perinatal infant mortality.

GPs and the outpatient specialists have been outsourced the responsibilities to perform promotional and prophylactic activities for pregnant women, mothers and children, medical checks, necessary tests, instructions for motor and nutritional regimes of pregnant women and children (nutrition, immunizations, consultations on follow-up treatment, childcare), as well as caring for disabled children.

Notwithstanding the established organization for child and maternity healthcare, the most important indicators for the country during recent years show that problems do exist, and they have a serious impact on the health of these groups. The main ones are as follows: uneven territorial distribution of GP practices, lack of information about preventive checks for pregnant women and children, as well as the rate at which these checks are performed, and lack of a monitoring capacity. The access to a general practitioner / pediatrician is restricted due to the lack of such specialists, and choosing a pediatrician from another locality is connected with additional financial costs.

In order to overcome the negative trends in this sector, urgent steps have to be undertaken in view of designing a strategy to improve child and adolescent health and comprehensive pediatric care. The fragmentation and remoteness of various key medical units, the need to transport patients, the lack of resources to carry out the full range of diagnostic procedures and consultations with the necessary specialists in one place and in an extended medical consultation all delay the provision of diagnosis and timely adequate treatment. The implementation of the strategy will improve access to highly specialized medical child care in this country through the construction of a national children's hospital and the modernization of pediatric clinics and wards, in parallel to the establishment of social health care units for



improving the accessibility and capacity of the health system for pediatric assistance in the country.

The next substantial challenge for the Bulgarian healthcare system is the lack of an organized screening not only for pregnant women and children, but also for the rest of the population, aimed at detecting, diagnosing and providing early treatment for non-communicable diseases.

The underdeveloped preventive measures and outpatient care at institutional and regional levels contribute substantially to the low performance of healthcare. The concept of preventable mortality is based on the idea that certain death cases would not have occurred at some stage, were health and medical prevention more effective, and that these cases could be avoided altogether through public health intervention, aimed at behavioral factors and lifestyle, socio-economic status and environmental factors.

It is particularly worrying that the country's population spends significantly less years living healthily compared to EU averages, which, in parallel with population trends of aging and being diagnosed with multiple diseases, have become a major challenge to the health system.

This data indicates that policies have to be designed and aimed at influencing the negative mortality and morbidity rates in Bulgaria, and that they should be based on the main determinants of health and the abilities of the healthcare system.

The healthcare system is disproportionately developed, wherein hospital care has a strong predominance at the expense of outpatient care. There are serious regional inequalities in the provision of medical care. There are also serious health status disparities between groups with different income.

The health sector crisis caused by the COVID-19 pandemic has forced the healthcare establishments to search for ways to reduce risks arising from the environmental uncertainty. The lack of technological development and resource provisioning, coupled with increased levels of competition, have posed a serious challenge for a large part of medical establishments. However, this pressure could be overcome by establishing strategic alliances between medical institutions, not only as an instrument to form competitive advantages, but also as an incentive for the development and validation of new competencies among participating medical institutions. Where such prerequisites exist, the necessary technological, informational and human resources can be provided at lower costs and risks, through cooperation with other organizations.

The restructuring of the medical establishments system will contribute mainly to the neutralization of unexpected impacts of the changing external environment, to the utilization of the favorable opportunities provided by the environment, and to the transfer of knowledge and know-how between units. From an economic point of view, the risks and the costs are expected to be reduced, and the available capacity to be utilized to a fuller extent.

In order to attain a balanced geographical distribution of medical professionals in this country, and respectively to improve the entire population's access to medical care, investments and incentives are needed for the professional development and career opportunities for medical professionals who provide initial and primary care - doctors, nurses, midwives, paramedics, medical assistants, and specialized carers in the following basic areas: Internal Medicine, Pediatrics, Obstetrics and Gynecology, Surgery, and Neurology.

The COVID-19 pandemic was unexpected, and it put all health and social systems around the world to a test. Bulgaria was no exception; – more so, it entered the pandemic with a number of pre-existing problems of public health nature. The crisis has revealed all the shortcomings of the health system, as well as highlighted and exacerbated some of the structural challenges facing it, related to its sustainability, accessibility and capacity. Unprecedented mortality rates are the result of both poor health and poor crisis management. Apart from not having any structural and resource capacity, outpatient care was, for a long period of time, entirely absent from the fight against the spread of the infection. Actions have been undertaken to renew the outdated material and technical facilities, to tackle the shortage of health professionals in certain specialties and their uneven geographical coverage, as well as to overcome the difficulties in providing timely and quality health services in every part of the country.

### *c) Objectives*

This component is in line with the Country-Specific Recommendations (CSRs) of the Council for 2019 and 2020, and will directly contribute to the implementation of certain aspects of CSR 1 for 2020 and CSR 4 for 2019 as well. All planned investments are directly targeted at strengthening the accessibility and the capacity of the health system in view of providing quality health services. In addition to that, the planned reform No 3 aims to meet the structural challenges related to the shortage and the geographical distribution of health workers. The planned investments will have a lasting impact, i.e. their effect will not go away after the completion of the respective projects. A substantial part of the government decisions to meet the problems in this sector fall outside the scope of the measures provided for in the Recovery and Sustainability Plan; for e.g., strengthening and expanding the capacity of the pre-hospital care by expanding the scope of activities related to the prophylactics and the prevention, e-health, etc., while the funding of the measures implemented is provided by national funds or by the instruments of the EU Cohesion Policy. The implementation of the interventions and reform intentions planned in this component will be of key importance for increasing the social resilience to shocks.

The measures envisaged in the component will have a macroeconomic impact in the short term. The assessment (Ref. Part 4: Impact assessment) predicts that the level of GDP at constant prices will be 0.2% higher than in the baseline scenario (in which the interventions planned in the component have not been implemented)



by 2023, as the effect in the medium term (by 2026) reaches 0.1% additional GDP growth compared to the baseline scenario. The anticipated effects from the realization of the intentions in this component concerning the labor market would amount respectively to 0.1% (in the short term - by 2023) and to 0.04% (in the medium term - by 2026) as an additional growth of the number of employees.

#### *d) Reforms and investments*

##### **Reform 1: Upgrading the strategic framework of the healthcare sector**

The implemented reform plans to increase the resilience of the health system to shocks, as well as to increase the population's access to quality and timely healthcare by providing the strategic framework of future investments and reforms, and identifying relevant actions.

#### **1. Development of a National Health Strategy 2021-2030, the Action plan for its implementation, and its adoption by the National Assembly of the Republic of Bulgaria (Q3 / 2022)**

The National Health Strategy presents a long-term vision for the development of the health sector, its strategic goals and priorities, as well as specific policies, which shall address existing structural challenges within the health system. This shall outline future actions for the actual chance to achieve economic growth and social well-being through optimal investments to provide better healthcare. The adoption of a long-term strategy for a period of ten years will ensure greater sustainability of the implemented policies given the inert nature of healthcare processes.

#### **2. Development of a National Strategy for the Mental Health of the Citizens of the Republic of Bulgaria 2021 - 2030 (Q2 / 2021)**

An entirely new National Strategy for Mental Health of the Citizens of the Republic of Bulgaria 2020 - 2030 has been prepared in order to address the main problems of the psychiatric care system in the country: outdated equipment and technical facilities, which have not been adapted to the specific needs of patients; lack of resources for comprehensive diagnosis and treatment of patients with mental disorders complicated by somatic problems; lack of sufficient staff in the sector; lack of a unified information system in healthcare, and conditions for integrated care; overall fragmentation of the psychiatric care system., Its main priorities are as follows: reduction of morbidity and mortality due to mental disorders; integration of psychiatric services with general medical care (deinstitutionalization); establishing a service network, which provides complex services to people with severe mental illnesses near their place of residence; centers for treatment of eating disorders; reducing alcohol and drug use, and thus reducing displays of aggressive and self-aggressive behavior; developing child and adolescent psychiatry, elderly psychiatry and forensic psychiatry; developing specific measures and incentives for attracting and retaining



specialists in child and adolescent psychiatry, forensic psychiatry and elderly psychiatry; restoring the balance between the individual professionals — psychiatrists, social workers, psychologists, nurses and orderlies - by developing adequate incentives to attract deficient specialists; respect for human rights and the fight against stigma and discrimination.

### 3. Designing a National Map of the Long-Term Needs of the Healthcare Sector in Bulgaria (Q3 / 2022)

This entails the preparation of a detailed document containing in-depth analyses, conclusions, and recommendations for the individual status of the healthcare system in all regions across the country. The scope of the analyses shall include all units of the healthcare system— inpatient and outpatient medical care, staffing, equipment, demographic and geographical specifics, morbidity, etc. The document shall provide a clear picture of the strengths and weaknesses within the healthcare system of each specific region in the country, as well as its potential for development and risks factors.

### 4. Development of a National Strategy for Child and Adolescent Health and Pediatric Care in the Republic of Bulgaria 2021-2030 (Q4 / 2022)

Bulgaria ranks second in terms of child mortality rate in the EU, with mortality for children aged 0-5 in the country being 70% higher than the EU average. In Bulgaria, the scope of prenatal care is relatively good, but there is serious regional imbalance with respect to access to high-quality pediatric care. The access to postnatal care also suffers from a significant regional imbalance. It should also be noted that child mortality is higher for children living in rural areas than those living in urban areas. The planned health and social service units for promoting preventive activities shall focus on providing patronage care services to children at all stages of their development. . In addition to monitoring the physical health of children from an early age, healthcare professionals in these facilities shall play a role in building and strengthening the emotional bond between children and parents. This in turn minimizes possible problems in the early development of children.

It is essential to place a strong emphasis on early childhood development and the creation of comprehensive pediatric care through the development of a Strategy for Child and Adolescent Health and Pediatric Care in the Republic of Bulgaria. The Strategy aims to improve child, youth and adolescent health by providing easier access to high-quality healthcare, the promotion and support of good practices, improving healthcare coverage, the prevention and early intervention of disabilities and chronic diseases, as well as spreading awareness about health risks among adolescents. The key measures implemented towards achieving these objective are the following:

- Improving healthcare for children and adolescents by upgrading health infrastructure;



- Creating conditions for providing high-tech, innovative and safer methods for treating children;
- Providing regional access to highly-specialized medical care;
- Raising awareness to pregnant women, couples, children and parents on various aspects of pediatric health;
- Developing and improving patronage care services across the country regions;
- Enhancing mechanisms for data collection, assessment and analysis of the state of child and adolescent health;
- Provision of integrated health-consulting services through implementing legislation.

#### 5. Development of a National Strategy for Healthy Geriatric Care and Aging in the Republic of Bulgaria 2021-2030 (Q4 / 2022)

The importance of geriatric care stems primarily from the deep social and health problems of generations of older people with specific health needs. The issue of providing high-quality medical and social care requires the existence of a comprehensive approach. Our country follows the global trend of a progressively aging population and the consequent increase in chronic non-communicable diseases. The lack of access to specialized healthcare in many regions of the country makes the development of this National Strategy an urgent necessity. The strategy will reflect approaches to the prevention of premature aging, as well as social guidelines for the effectiveness of healthcare for the elderly.

The National Strategy for Geriatric Care and Aging in Good Health in the Republic of Bulgaria 2021-2030 shall focus on the socio-medical connectivity of the services provided by modern healthcare, as well as on developing skills for adequate behavior and adaptation of the elderly to experiencing not only physical changes, but also changes in their family environment. The objectives of the strategy include enabling more people to live longer and in good health, to stay active longer, and to reduce the growing inequalities among older people; facilitating access to quality health and social services for older people in need of care and support; enabling older women and men to remain fully integrated in society and live with dignity, regardless of their health status and the need for outside care; creating an environment, which actively promotes health and prevents diseases specific to the elderly population; adapting the healthcare system to the needs of healthy aging, better quality and fairer health and social care for the elderly; and restoring the specialty "Geriatrics". The expected results include reducing health risks (morbidity and mortality) among the elderly, mainly from chronic non-communicable diseases, but also from common infectious diseases; reducing loneliness and

social exclusion, which are important risk factors affecting the health and well-being of older people; improving the quality of care for the elderly, especially those with severe chronic illnesses and functional limitations; reducing the burden of disease and disability after accidents and increasing the physical activity of the elderly through community health promotion and various social activities.

#### 6. Development of a National Strategy for e-Health and Digitalization of the Health System 2021-2030 (Q4 / 2022)

The goals of the strategy are:

- To help implement advanced e-Health services transforming the sector to support patients and health professionals, and increase the quality and efficiency of health services;
- To support the utilization of resources provided by digitalization processes and e-Health to facilitate good health for people;
- To help create a digitally-integrated healthcare system in Bulgaria, providing affordable, effective, efficient and high-quality patient care.

#### 7. Development of a National Plan for Combating Cancer in the Republic of Bulgaria 2021-2027 (Q4 / 2022)

The National Plan for Combating Cancer shall reflect the political commitment to make every effort to fight cancer and commit to modern treatment methods, including new technologies, research and innovation in the service of patient-centered prevention and care. The plan shall contribute to mobilizing the EU's collective strength to bring about change for the benefit of all EU citizens.

The National Plan for Combating Cancer will contain specific ambitious actions that shall support cancer prevention and care services, which shall provide patients with access to high-quality, modern screening and treatment technologies. It shall be structured around four main areas of action:

- extensive prophylaxis;
- early detection of oncological diseases;
- diagnosis and treatment using high-tech methods;
- ensuring high quality of life for cancer patients and survivors.

In the coming years, the National Plan for Combating Cancer will focus on research and innovation, and utilizing the potential of digitalization and new technologies.



The objectives to be laid out by the National Plan for Combating Cancer shall support the process of reversing the negative trend in cancer morbidity and mortality, as well as in the indicators that show significant differences in cancer prevention and care among and within the member states. Such inequalities are observed in access to programs for prevention, diagnosis and the early detection of the disease, its traceability and treatment with innovative and high-tech methods, and the provision of comprehensive, equally accessible care across all country regions.

#### 8. Development of a National Plan for the Development of Comprehensive Prenatal and Neonatal Screening and Screening of Socio-Significant Diseases 2021-2027 and the establishment of a National Interdisciplinary Centre for Comprehensive Screening with a regional network 2021-2027 (Q1 / 2023)

Bulgaria has a particularly high mortality and morbidity rate among the population diagnosed with socially significant diseases. Moreover, a large part of the working-age population is affected. Socially significant diseases are, at large, a significant portion of the costs for treatment and rehabilitation, as they require highly qualified and specialized medical care and comprehensive treatment using expensive drugs. The implementation of a National Plan for the Development of Comprehensive Prenatal and Neonatal Screening and Screening of Socio-Significant Diseases and the establishment of a National Interdisciplinary Centre for Comprehensive Screening with a regional network will formulate specific steps, measures and actions for the operation of a National Center for conducting screening programs for socially significant diseases. The development of a national network will enable Bulgarian citizens to have timely access to high quality specialized preventive healthcare. Achieving these goals requires a balanced geographical location of outpatient care facilities and medical professionals, as well as introducing policies to minimize the waiting periods to receive specialized comprehensive medical care.

#### 9. Development of a National Plan for the Restructuring of Hospital Care in the Republic of Bulgaria 2021-2027 (Q1 / 2023)

The National Plan for the Restructuring of Hospital Care shall express the political willingness to restructure and optimize inpatient care in order to ensure the population's access to high-quality medical care and timely emergency care in hospitals, with the necessary resources and staffing. It shall provide an overview of the current state of the hospital sector, its existing weaknesses and the shortcomings in practices and organization of the sector. It shall outline the guidelines and particular steps for restructuring and optimizing the sector in order to improve healthcare provision, ensure the stability of the hospital structures, and achieve better efficiency levels of the healthcare system. The possibilities for creating strategic alliances in healthcare with area-specific strategic directions will be analyzed. The advantages of such alliances are mainly related to

the neutralization of unexpected impacts of the changing external environment, the utilization of the favorable opportunities provided by the environment, and the exchange of knowledge and know-how between institutions. From an economic point of view, such unification between healthcare facilities will lead to a reduction of the risks, a more comprehensive utilization of the existing capacity and an optimization of the costs, and guaranteed access to comprehensive health care in the different regions. The plan for restructuring the hospital care system will be a key document in the process of planning and adequate absorption of public and EU funds.

#### 10. Drafting the National Plan for Improving the Accessibility and Capacity of Non-Hospital Primary Care and Ensuring a Balanced Territorial Distribution of Medical Care and Healthcare in the Republic of Bulgaria 2021-2027 (Q1 / 2023)

The implementation the National Plan for Improving the Accessibility and Capacity of Non-Hospital Primary Care and Ensuring a Balanced Territorial Distribution of Medical Care and Healthcare will outline goals, steps and measures for improving public health by ensuring access to primary health care, expanding the scope of outpatient care, and overcoming regional imbalances in providing comprehensive health care. The main goal of the plan is to minimize the main causes of morbidity and mortality in the country, namely the big increase of chronic non-communicable diseases and oncological diseases, which in turn are a social, economic and psychological burden for patients and their families and lead to permanent disability and change the structure of the active, working population.

#### 11. Development of the Plan for Health Education in the Bulgarian School 2021-2027 (Q4 / 2022).

**State aid:** The reform does not infringe, nor threatens to infringe, the competition within the frames of the European Economic Area and shall not be deemed to constitute government assistance, in accordance with Art. 107 and Art. 108 of TFEU.

### Reform 2: Development of e-health and of the National Health Information System

The development and implementation of the National Health Information System (NHIS) is a key stage in modernizing the entire health system the country. It will take healthcare provision to a new level, and also introduce new essential services. Which are a prerequisite for a modern health information system. The NHIS will be the IT backbone in the Health sector, and the basis for integration with all other healthcare and administrative systems, hence creating an opportunity for achieving transparency in the financial expenses management and the logistics work, control, planning and predictability of the healthcare system, an option for quality assessment and



safety of the medical services. The full implementation of the NHIS will create a unified environment for medical information exchange, establish a database system for electronic patient records, electronic medical prescriptions, electronic medical referrals, etc., and create conditions for financial management and costs monitoring.

#### 1. Updating the legislative framework of by-laws and regulations related to e-Health (Q4 / 2021)

The changes envisaged in the regulatory environment will contribute to the development of e-health. In 2020, changes were drafted and adopted to the following regulations: Ordinance No. 4 on the terms and procedures for prescribing and dispensing of medicinal products; the Ordinance on the implementing the right of access to medical care and the Ordinance of the Minister of Health, concerning the creation and maintenance of electronic health records of individuals and the terms and procedures for keeping the registers. An Ordinance on the National Health Information System is due to be drafted by 2021 year-end, which will regulate the work processes in the NHIF.

#### 2. Full implementation of the National Health Information System (Q4 / 2022)

In 2020, individual modules of the NHIS were prepared and made operational at national level, including the modules for electronic prescription and electronic referral, with electronic prescriptions being limited to medicine covered by the NHIF, and electronic referrals being applicable for medical-diagnostic checks and research results. Nomenclatures and standards have been introduced parallel to the modules' launch in order to ensure the full scope of the specialized information can be filled out. The basic activities regarding the design of the NHIS core have also been implemented, ensuring the conditions for providing an integration environment for the operation of the implemented modules. The option to create and manage users, roles and groups has also been made available. An electronic portal for access to the NHIS has been designed, following an external user log-in through the E-Authentication module, and managed by the State Agency for Electronic Government. The initial stages in the creation of an electronic medical record for every citizen of the Republic of Bulgaria have been successfully completed, while its separate sections have been designed, and medical information has partly been entered. By the end of 2022, the development and testing stages are expected to be finished, and as of the beginning of 2023 the NHIF will be fully operational. This will take hospital and outpatient healthcare system to a new level, and will ensure integration between all market participants of health services and citizens in the country. In order to increase the level of control and reporting by medical institutions, a specialized subsystem for collecting information from hospitals would be developed, as well as a system for healthcare monitoring and control.

**State aid:** The reform does not infringe, nor threatens to infringe, the competition within the frames of the European Economic Area and shall not be deemed to constitute government assistance, in accordance with Art. 107 and Art. 108 of TFEU.



### **Reform 3: Improving the attractiveness of healthcare professions and promoting a more balanced distribution of healthcare professionals across the territory**

The reform aims to overcome the shortage of medical professionals.

The uneven distribution of medical and healthcare professionals in the country, as well as the shortage of doctors and nurses in small towns and remote regions, are among the main causes of limited access to medical care in the country. The reform aims to solve this problem by overhauling the sector in terms of human resources development, and implementing measures for the retention of personnel in the health care system and their professional realization in certain regions of the country.

Part of this process is the introduction of different measures for the provision of legal opportunities to healthcare professionals (nurses, midwives, medical assistants, rehabilitators, etc.) to establish and develop individual or group practices across the country.

A procedure has been developed to provide financial incentives for medical professionals who will service the population in remote areas by opening individual practices and creating well-equipped and furnished clinics for outpatient care. This includes: incentives for doctors to open primary medical care clinics in hard-to-reach and remote areas; incentives for general practitioners (GPs) with established primary medical care clinics in hard-to-reach and remote areas to hire additional medical specialists, so that they can provide more accessible patient care to all settlements; incentives for healthcare specialists to open outpatient units in small settlements and in hard-to-reach and remote areas. The activities in these outpatient units shall be performed by nurses, midwives, medical assistants and/or rehabilitators. The financial incentives will be provided from the national budget and European Structural Funds.

The implementation of these measures will take concrete steps to address the European Commission's specific recommendations to Bulgaria for reforming the healthcare sector: improving access to healthcare, particularly primary and specialized outpatient medical care; providing a balanced geographical distribution of health workers; and dealing with the shortage of health professionals.

Ensuring their full material, technical and financial security is essential for attracting medical specialists in settlements where medical care is not currently provided. The vision for the development of human resources in the Healthcare sector also includes measures aimed at increasing the admission of students in the Healthcare-related fields, which will gradually achieve optimization of the ratio between doctors and



nurses within the next 5 to 10 years. According to standards for good medical practices, this ratio should be 1:3 doctors to nurses. With this in mind, and considering the opportunity to open independent practices with the financial support of EU funds and the state budget, nurses, midwives, medical assistants and rehabilitators shall become more attractive and better paid professions, attracting interest in young people to get training and qualifications in these areas.

In order to make the education more practically-oriented, the curricula have been changed, and the final year in healthcare training consist entirely of medical practice in healthcare facilities and hospitals. Thus, young specialists can simultaneously gain practical experience and skills increase hospital capacity by partially covering the needs for healthcare specialists. Compensation for the trainees' labour during their internship year shall be provided by resources from the *Education 2021-2027* program for providing scholarships for internships .

The human resources in healthcare-oriented measure that have been implemented also aim to preserve the resource of accumulated experience and skills of medical specialists in pre-retirement and retirement ages, and to continue supporting their professional activity. The worldwide tendency for people over the age of 55 to move back to smaller settlements to deal with a smaller workload is becoming more prominent in Bulgaria. In this regard, the reform shall create conditions to support medical professionals, who would otherwise leave the healthcare system, to remain in it by providing them with modern and optimal conditions to continue caring for patients and practicing their profession. In turn, this measure shall also provide access to high-quality health services for populations in small settlements that have been deprived of such services over the last twenty or thirty years.

The following by-laws will be amended and supplemented:

1. Ordinance amending and supplementing Ordinance No 1 of 2015 for acquiring specializations in the healthcare system (Q3 / 2021)

The draft ordinance aims to optimize the process of determining and financing the positions for specialist doctors financed by the state. This will enhance the conditions for training a larger number of post-graduate positions funded by the state, which will contribute to attracting and retaining medical professionals in the country, and hence meeting the health needs of the population to a greater extent. In order to further facilitate the candidates for specializations, timely territorial information summaries (at a regional level) for the announced vacancies for specialist doctors shall be provided, and only positions with expressed interest by candidates shall be approved. The draft ordinance will help trainee doctors trained in areas financed by the state work in an



their particular region of interest after having completed their training; meanwhile, during their training they shall practice medical activities related to their specialization, thus providing specialized healthcare to patients in their chosen healthcare facility.

### Ordinance No 8 of 2019 on the requirements for medical establishments that provide training to students and specialist doctors

The amendment to Ordinance No 8 of 2019 aims to alleviate the process of obtaining approval for medical establishments to carry out training activities for students and / or trainee doctors, while also ensuring only healthcare facilities capable of providing adequate training can receive such approval. This shall create conditions for more healthcare providing facilities across the entire country to apply for approval to train students and trainee doctors. This shall ensure that trainee doctors are more equally distributed in smaller regional facilities, as opposed to being concentrated in bigger regional cities. It will also establish conditions for attracting and retaining medical specialists

### 3. Ordinance on the terms and conditions for ensuring the payment of tuition fee expenses for students who have signed a contract with an employer (Q1 / 2021)

Provides an opportunity for meeting employers' needs for employees with appropriate professional qualifications, and for long-term commitment of graduates with employers, who are experiencing a shortage of similar staff.

### Law amending and supplementing the Medical Institutions Act (Q2 / 2020)

Creates an opportunity for nurses (as well as midwives and medical assistants) to open their own medical institution, which allows for complete realization of their professional potential and their independent involvement in healthcare service provision, which in turn also increases the attractiveness of these professions.

**State aid:** The reform does not infringe, nor threatens to infringe, the competition within the frames of the European Economic Area and shall not be deemed to constitute government assistance, in accordance with Art. 107 and Art. 108 of TFEU.

## Investment 1: Modernisation of hospital facilities

The project<sup>66</sup> aims to strengthen the capacity of medical institutions for active treatment and inpatient care key to the health system in the country, which

<sup>66</sup> See Annex No П44



shall be selected based on analysis and mapping of investment needs in the health sector, developed by the Ministry of Health. The project proposal contains three major investment guidelines, which are united in the common goal of increasing the accessibility and capacity of the healthcare system, and improving health indicators of the population across the country.

This shall include the modernization of the pediatric care system across the whole country, capacity-building for providing modern methods for treating oncological diseases through the establishment of a National Proton Radiation Therapy Center in Sofia, focusing on treating children and the modernization of oncological diagnosis and treatment systems in the country. While providing the population with highly-specialized medical services, providing healthcare facilities with high-tech modern equipment for diagnosis and treatment would also raise levels of job satisfaction for medical staff, which is a key factor in retaining healthcare professionals in the country. .

The total planned funding for the project is BGN 418.9 million (BGN 349.1 million will be provided by Recovery and Resilience Facility and BGN 69.8 million will be national co-financing), with an implementation period 2022-2026.

**State aid:** According to paragraph 24 of the Commission Notice on the concept of state aid, referred to in Art. 107 (1) of the Treaty on the Functioning of the European Union (2016/C 262/01), public hospitals are an integral part of national health care and are almost entirely based on the principle of solidarity. These hospitals are funded directly by social security contributions and other state funds and provide their services free of charge on the basis of universal insurance. The Union courts have confirmed that where such a structure exists, the organizations concerned do not act as undertakings. The medical establishments that will carry out activities under the project on diagnosis and / or treatment of oncological diseases and activities in pediatrics will be determined on the basis of prepared analysis and mapping of the needs developed by the Ministry of Health. All of them with the appropriate potential will be eligible candidates for the intervention. In view of the above, there are grounds for implementing the project outside the scope of Art. 107 of the TFEU.

## **Investment 2: Centers for interventional diagnostics and endovascular treatment of cerebrovascular diseases**

The measure<sup>67</sup> aims to improve the conditions for interventional diagnostics and endovascular treatment of cerebrovascular diseases, and to create conditions for postgraduate training of specialists in the field of endovascular treatment of

<sup>67</sup> See Annex No П45



cerebrovascular diseases in Bulgaria, through the creation of a national network of high-tech cerebrovascular diagnostic and treatment centers ("stroke" centers) in the country. The ten high-tech centers for interventional diagnostics and endovascular treatment of cerebrovascular diseases, which will be established at university multi-profile healthcare institutions for hospital treatment on the territory of 6 regions under NUTS2, shall cover the entire territory of the country. They shall provide diagnostics and treatment services, but also be used as bases to train doctors in the application of endovascular therapy for all cerebrovascular diseases, including the treatment of cerebral aneurysms, cerebral arterial-venous malformations, arterial-venous fistulas, as well as therapy in case of acute cerebral stroke. The measure aims to strengthen the capacity of hospital care institutions by improving medical specialists' knowledge and skills. The higher professional qualification of their staff shall increase the quality of provided medical services to citizens throughout the whole country. This shall result in decreasing the mortality and permanent disability rate amongst the population.

The total planned funding is BGN 128.5 million (BGN 107.1 million will be provided by Recovery and Resilience Facility and BGN 21.4 million will be national co-financing), with an implementation period 2022-2025.

**State aid:** According to paragraph 24 of the Commission Notice on the concept of state aid, referred to in Art. 107 (1) of the Treaty on the Functioning of the European Union (2016/C 262/01), public hospitals are an integral part of national health care and are almost entirely based on the principle of solidarity. These hospitals are funded directly by social security contributions and other state funds and provide their services free of charge on the basis of universal insurance. The Union courts have confirmed that where such a structure exists, the organizations concerned do not act as undertakings. The university multidisciplinary hospitals for active treatment, final recipients of the interventions under this project, will be determined on the basis of criteria developed by the Ministry of Health. All those who have the appropriate potential and meet the criteria for the construction of cerebrovascular centers for diagnostics and treatment ("stroke" centers) in all planning areas will be eligible candidates for the intervention.

In view of the above, there are grounds for implementing the project outside the scope of Art. 107 of the TFEU.



### Investment 3: Modernisation of psychiatric care

The project<sup>68</sup> aims to improve the material & technical facilities of structures in the psychiatric care system to ensure the provision of good quality health services, modern conditions for treatment and rehabilitation of patients, and the development of opportunities for their social integration. Across the country there are 11 state hospitals for psychiatric care, 12 mental health centers and 22 psychiatric clinics and departments part of multi-profile hospitals, totaling a number of about 4,000 beds. The project aims to improve the infrastructure of at least 18 healthcare institutions providing psychiatric care. The selection of healthcare institutions which require renovations shall be based on analysing their specific needs for repairs, new construction and renewal of their facilities. Moreover, the project also aims to provide the psychiatric care facilities with modern medical equipment based on the individual needs of each structure and taking into consideration the functions it performs, the presence of medical experts, and pre-existing structures. The measure, in its totality, is a key factor in achieving the targets of the National Strategy for Mental Health of Citizens of the Republic of Bulgaria 2021 – 2030 (see Reform 1 from this component).

The total planned funding is BGN 28.5 million (BGN 23.8 million from the Recovery and Resilience Facility and BGN 4.7 million in national co-financing), and the implementation period is 2022-2025.

**State aid:** The project is not subject to a regime of government assistance, as the activities on the provision of treatment of mental diseases are carried out only at governmental or municipal structures, all of them included in the present project proposal, i.e. there is no real market for such services in respect of hospital stationary treatment. In view thereof, and because of the lack of this component in the assessment of the availability or absence of government assistance, it may be stated that the project does not conform to the requirement for the presence of government assistance.

### Investment 4: Establishment of an air ambulance system

The project<sup>69</sup> aims to establish a system for contemporary and qualified urgent medical aid by air within the so-called the golden hour for providing medical care, providing emergency transportation of patients and wounded (injured) persons where requested, to and from each geographic point of the country, emergency transportation for patients between medical institutions, as well as the provision of medical equipment, blood, organs and medicine. The expected results are a

<sup>68</sup> See Annex No П46

<sup>69</sup> See Annex No H9



reduction of about 20% in lethal outcomes from road incidents, labor incidents, and specific diseases requiring emergency medical aid the golden hour. In addition, the length of hospital stays is expected to decrease, while the timely transportation of injured patients to specialized hospitals should improve, thus also reducing injury-related sick leave. Considering factors such as topography, weather conditions, the road network conditions, the ever-growing traffic in district towns and the capital, the emergency medical care system on air shall be implemented with the best practices of the Helicopter Emergency Medical Service (HEMS), providing emergency transportation of patients to specialized healthcare institutions.

The total planned funding is BGN 119.2 million (BGN 99.3 million will be provided by Recovery and Resilience Facility and BGN 19.9 million will be national co-financing), with an implementation period 2022-2026.

**State aid:** This procedure does not constitute government assistance, as the final beneficiary will be the Ministry of Health. Rendering of helicopter emergency medical services (HEMS) to the citizens of the Republic of Bulgaria will be free (of pay) and of equal access. The HEMS activities will bring economic benefits and will be rendered by no special selection to all end users. State financing will provide timely and just access to healthcare services in emergent situations of any person in need, irrespective of his/her health insurance status, age, gender, origin, language, national, ethnic or political background, educational status, beliefs, cultural level, sexual orientation, personal, social or financial standing, disability, and type and cause of disease.

#### Investment 5: National digital platform for medical diagnostics

The project<sup>70</sup> aims to cover digital diagnostics in all medical specialties and establish an opportunity to generate a database of digital images and their secondary processing by validated algorithms for machine self-training, neuron networks, etc., in conformity with the European and national legislation regarding personal data protection and the relevant standards on information and network security. The platform will be integrated with the National Health Information System and will not only improve the diagnostics and traceability of Bulgarian patients, but will also raise the quality of healthcare services per different medical specialties; it will also possess a huge medical potential and may exercise a significant medical impact, as it will contribute to the development, validation and application of export-oriented, high-value digital healthcare solutions based on artificial intelligence.

<sup>70</sup> See Annex No H10



The National digital platform for medical diagnostics shall be designated for all fields of healthcare, but the scope of the project shall include the four following fields: oncology, diagnostic radiology, dermatology and pathology. A field which provides large possible overlap with other national topics shall be selected as a pilot scenario that scopes out the platform's base capabilities.= A medical fields which fits this description is oncology and the related forthcoming National Plan for Combating Cancer in the Republic of Bulgaria 2021 – 2027.

The lack of centralized data in this medical sector and the resulting inefficient diagnostics are some of the reasons for the slow development of this area in Bulgarian healthcare. Through the diagnostics platform, this process shall be noticeably accelerated, saving human lives by perfecting the process of detection and prevention. Oncology experts will achieve higher professional qualifications, especially with respect to working with innovative digital equipment, and medical research in this area will enter a new, more up-to-date phase. As an additional effect, it is worth mentioning the possibility for cross-boundary integration with European and worldwide partners.

After implementing the pilot scenario, the platform's activity shall expand to the following medical areas: diagnostic radiology, dermatology and pathology. Together with oncology, these four areas produce the major part of the medical photo bank this project shall focus on, and they will be the major sources providing data for the activity of the platform. The long-term aim of the project is the integration of all medical fields which, through the digitalization of healthcare in Bulgaria, shall acquire the needs and resources to processes such information.

The platform on the national healthcare system upon its establishment, but its use will not be limited only to it. The following interested parties (besides representatives of the healthcare system) will have regulated access, backed-up by the European directives such as GDPR and the national regulations, to parts of the information and the ongoing processes on the platform:

- General practitioners–medical experts shall have first–line access to new information that has not been accessible to them until now, which shall significantly improve the quality of medical services, and support the professional development of experts and their diagnostic knowledge;
- ICT ecosystem – private business representatives, who develop their own solutions in the sphere of medical diagnostics, and who are in need of information for the verification and perfection of their products. This shall have a positive impact by encouraging innovations and developing Bulgarian companies as a catalyst for the sector's development, and creating/attracting talents in the sphere;
- Pharmaceutical sector – sector representatives in need of diagnostic information for validation of medicinal methods and products; This shall have a similar positive impact on the economy as the ICT ecosystem's involvement,

but also on the quality of the healthcare system through perfected medicinal products;

- Education system –universities and other educational organizations shall obtain regulated access to anonymized information, aimed at bringing education up to speed with the healthcare system; prerequisites shall be established for the adequate preparation of trainees in the healthcare system, who will have access to up-to-date methods and processes related to medical diagnostics; this shall increase the preparedness of the healthcare system while also attracting new talent due to the appeal of the proposed education/ training.

The future platform is a tool that shall support not only the improvement of the healthcare system, but of all interested parties willing to invest in healthcare and the people working in the sector. The overall project implementation will enhance the digital maturity of the Bulgarian society with respect to digital solutions in healthcare. The total planned resource is BGN 28.3 million (BGN 23.6 million will be at the account of the Recovery and Resilience Facility and BGN 4.7 million national co-financing), with implementation an period of 2022-2026.

**State aid:** This procedure does not constitute State aid, as the final beneficiary will be the Ministry of Health.

### Investment 6: Improve the national emergency communications system 112

The project<sup>71</sup> aims to ensure good quality Unified European emergency number 112 service for providing the population with emergency aid and extending the scope of the delivered service in line with the progress and development of technology, through the establishment of a developing unified communication & information platform that shall guarantee the citizens' security and trust. The necessary legislative changes shall be made in order to optimize the coordination, integration and management of processes through the national system. The National System 112 of the Next Generation for Receiving Emergency Communications and Resource Management at the Emergency Response Services, Based on a Single Platform, envisages the construction of Next Generation Communication Centers (Next Generation 112) connected in an electronic communications network with Packet Switching PS, providing broadband information exchange in the network of the National System 112 (voice, real-time text, video and data), and upgrading the systems with new and modern services. The total planned resource is BGN 56 million (BGN 46.7 million at the account of the Recovery and Resilience Facility and BGN 9.3 million national co-financing), with an implementation period of 2022 – 2024.

<sup>71</sup> See Annex No П148



**State aid:** While implementing the project, the beneficiary, the leading structures and the partners will not constitute enterprises performing economic activities. They are acting by exercising public powers. The procedures on the selection of contractors will be carried out after the order of the Public Procurement Act and the Rules on the application of the Public Procurement Act, in an open, transparent and sufficiently public, non-discriminating and unconditional manner. Within this meaning at contractors' level the support shall not be considered governmental assistance. Upon supporting of the beneficiaries, lead structures and partners there is no breach of competition and improving of their competitive positions compared to other undertakings – their competitors, within the meaning of Art. 107, par. 1 of TFEU. The activities, performed on their part in the capacity of bodies exercising public authorities are stipulated by provisions of the national legislation and may not be deemed constituting a liberalized market. In this sense, investing of grants could not be deemed constituting government assistance within the meaning of Art. 107, par. 1 of TFEU.

#### **Reform 4: Strategic framework and plan to increase the availability of primary and outpatient care**

The reform focuses on establishing a healthcare social consultation service, aimed at improving the health status of the population, popularizing a healthy lifestyle, preventing socially significant diseases, and enhancing the access to specialized medical care. The healthcare social service shall focus on integrated consultations on all matters pertaining to the public health of vulnerable groups of our society - minorities, non-insured citizens, youth, young mothers and couples before and during pregnancy, families with disabled children, parents of children with chronic diseases and special needs, and adults in risk of social exclusion.

The proposed reform shall lead to satisfying the need for promotive, prophylactic and preventive actions for the protection of public health and the prosperity of people, including vulnerable groups, as well as introducing a much-needed integrated social-medical and psychological approach for solving issues related to public health. The reform shall also result in establishing preconditions to overcome the negative trends arising from the broken connections within the public healthcare system, the expression of negativism towards the system by certain groups of the population resulting from the obstructed rendering of healthcare services, as guaranteed by the Bulgarian legislation, to all Bulgarian citizens. It also in conformity with the European Commissions' country-specific recommendations on the development of the activities for prevention and promotion of health, especially for vulnerable groups in Bulgarian society.

Through the implementation of this reform, consultative medical & social units shall be established for engaging in prophylactic activity, which shall offer social healthcare services (integrated consultative, promotional, prophylactic and patronage activity) to all groups in need in their region/area of service. These units shall also perform highly qualified medical care for diagnostics, follow-up



and support for the treatment of people with chronic diseases by conducting a range of health, medical and social activities.

The major challenges faced in preserving public health, which shall be resolved through the establishment of the integrated consultative medical social care, are:

- Active identification of target groups to be covered by a package of healthcare and social services, tailored to their specific needs;
- Supporting the access of target groups to the public healthcare system, to social services and assistance;
- Promotion of health, prevention activities and disease prophylaxis;
- Provision of access to pre-hospital care and integrated healthcare social services for young people, couples, couples with reproductive issues, children with chronic diseases, pregnant women and new mothers, vulnerable groups;
- Improved access and increased usage of medical services by children and pregnant women, especially those at risk of, and with chronic diseases;
- Early detection of risk factors for the health and development of children, and undertaking timely measures for the prevention of such issues; early identification of developmental problems among children and early intervention;
- Prevention of the diseases amongst vulnerable groups, and improved indices characterizing their health status.

All mentioned activities – promotional-prophylactic, medical and social, will be structured in major packages according to the individual needs and existing medical & social risks for the health status of each of the vulnerable groups; they will be specified by type and scope of included activities.

The reform will be implemented through:

- Developing the National Plan for Improving the Accessibility and Capacity of Non-Hospital Primary Care and Ensuring a Balanced Territorial Distribution of Medical Care and Healthcare in the Republic of Bulgaria 2021-2027 (Q1/2023).
- Preparing an analysis, and amending and/or supplementing additional legislative and regulatory acts, such as:
  - Law on healthcare institutions (Q4 / 2023)
  - Law on health insurance (Q4 / 2023)

**State aid:** The reform does not infringe, nor threatens to infringe, the competition within the frames of the European Economic Area and shall not be deemed to constitute government assistance, in accordance with Art. 107 and Art. 108 of TFEU.



The absence of organized screening activities - not only for pregnant women and children, but also for the rest of the population, which is aimed at detection, diagnostics and early treatment of socially significant diseases - poses a huge challenge to the healthcare system in Bulgaria.

As a result from the implementation of the reform, a unified National interdisciplinary center for screening purposes shall be established (prenatal and neonatal screening, and screening of socially significant diseases) by building up a regional network uniting clinical expertise, necessary screening and treatment programs, and well-equipped and accredited laboratories, covering the territory of the whole country.

The reform shall be implemented through:

- Drafting the National Plan for the Development of Comprehensive Prenatal and Neonatal Screening and Screening of Socio-Significant Diseases 2021-2027 (Q1/2023).
- Preparing an analysis, and amending and/or supplementing additional legislative and regulatory acts, such as:
  - Law on healthcare institutions (Q4 / 2023)
  - Law on health insurance (Q4 / 2023)

**State aid:** The reform does not infringe, nor threatens to infringe, the competition within the frames of the European Economic Area and shall not be deemed to constitute government assistance, in accordance with Art. 107 and Art. 108 of TFEU.

#### Reform 6: Plan for modern health education in schools

The efforts of the Ministry of Public Health through the implementation of this reform, in cooperation with the Ministry of Education and Science, shall be oriented towards establishing conditions and mechanisms to achieve the overall physical, mental and social prosperity of every Bulgarian child and student. The World Health Organization recognizes a set of vital skills as a series of psycho-social competencies and inter-personal abilities that help people take informed decisions, solve problems, think critically and creatively, communicate efficiently, establish healthy relationships, exhibit empathy towards others, cope healthily with difficulties, and manage their life in a healthy and productive manner. The challenges facing our society require Bulgarian schools to show more willingness to help young people build vital skills, and take part in a process that focuses on the personal and social development of students.

Health status is a result not only of physical attributes, family background, social norms and traditions, but it is also a consequence of an individual's personal behavior influenced by their accumulated knowledge, skills and inclinations, and the opinions of people they respect. Health, as in the complete physical, mental and social prosperity of a person, and not merely the absence of a disease or disability, is a responsibility managed by the family unit, as well as the rest society.

Over the last 10 years a number of studies of representative significance for the country have established quite worrying trends in respect to children and young people's health-related behavior, such as:

- risky sexual behavior;
- high rates of early pregnancy (aged below 19) and abortions between the ages of 15-19;
- increased rate of sexually transmitted infections;
- a worrying increase in the number of young people diagnosed with HIV;
- widespread cigarette smoking, with the highest prevalence of smoking being among teenagers;
- increased alcohol use;
- increased abuse of psycho-active substances;;
- ever-growing number of children victims of traffic accidents;
- increase in cardio-vascular disease cases and their increasing mortality rate;
- widespread aggression and violence in schools.

The reform is aimed at building inter-institutional cooperation and implementation of strategic goals related to the National Network for Children in Bulgaria 2019-2030 as part of the expected results regarding the education of children and students for the promotion of a healthy lifestyle and the formation of a health culture. A comprehensive analysis of the content of the curriculum in terms of the availability of health topics will be made, and students will have the opportunity to acquire knowledge that meets the needs listed above, which are essential for the modern development of young people. The creation of adequate educational content would allow to build knowledge and positive attitudes towards a healthy and ecological lifestyle, towards making young people active participants in civil society, towards overcoming the negative consequences of global threats against life and health of the population. It is important for healthcare education to commence from 1<sup>st</sup> grade, and to be built upon later in different areas of knowledge, concepts and skills for all ages. Building hygiene habits has to start in the 1<sup>st</sup> grade, and the education should conclude with building up skills for healthy relationships and parenthood in the 12<sup>th</sup> grade.

The reform will be implemented through:

- A mechanism for inter-institutional cooperation for modern health education in Bulgarian schools will be developed in cooperation with the Ministry of Education and Science (Q4 / 2022) and a general plan for

the implementation of modern health education in the Bulgarian school (2021-2027) shall be developed in addition to a plan for the creation of additional online resources available with up-to-date data in support of education for children and students, developed both for in-person and online environments (Q4 / 2022 ).

- An analysis of the curriculum of all school subjects for all stages of school education shall be prepared with a regulated implementation of health, environmental, civic and intercultural education topics, in addition to analysing the possible methods for its implementation, including extra-curricular activities, such as “class time”, student self-government, hobbies and club-related activities within the school day, general activities in support of personal development as per the terms and conditions of the state educational standard for inclusive education (Q4 / 2022).
- Basic guidelines for overcoming identified deficits will be formulated. If necessary, the existing framework requirements for the results of health education can be changed per stages and education levels (Ordinance No. 13 of 21.09.2016 on civil, health, environmental and intercultural education). Guidelines for extending teacher education, exchange of good practices at all stages and levels of secondary education shall be developed and validated, in addition to specific topics related to health education (Q1 / 2023)

**State aid:** The reform does not infringe, nor threatens to infringe, the competition within the frames of the European Economic Area and shall not be deemed to constitute government assistance, in accordance with Art. 107 and Art. 108 of TFEU.

#### Investment 7: Development of outpatient care

The project<sup>72</sup> aims to improve public health, and includes investments to strengthen and prioritize outpatient medical care in the country. Establishing outpatient units and health advisory units in settlements in regions with limited access to healthcare, with a minimum coverage scope of 1,700,000 people, has been planned. In parallel, a National Interdisciplinary Center for Comprehensive Screening shall be established, which shall improve regional access to outpatient medical care in small settlements, and shall provide resources for prophylaxis, health promotion and prevention of socially significant diseases. The locations and the required number of outpatient clinics shall be identified based on extensive analysis and mapping of the needs for region-specific investments in the healthcare sector, developed by the Ministry of Health.

<sup>72</sup> See Annex No H11



As a result of the identified needs and areas of intervention in outpatient care, the next step shall be for the Ministry to develop a criteria for the locations of these outpatient units, so that the project can invest in constructing them in areas where there are most needed, until the project resources have been exhausted. This process shall continue its development with funds from the national budget and/or other funds and programs, until the full, country-wide establishment of an outpatient care network, which meets the regional needs identified by the mapping process.

The total resource planned is BGN 84.1 million (BGN 70.1 million from the Recovery and Resilience Facility and BGN 14 million in national co-financing), and the implementation period is 2022–2026.

**State aid:** The beneficiary of the project is the Ministry of Health. The equipment delivered in the implementation of the project will be provided for the use of the newly opened outpatient clinics and consultative medical and social units for health care in small, remote and inaccessible settlements. The assets provided for use will be used only for the provision of medical care, which will be fully financed from the NHIF budget and will be publicly available to the population. The project is oriented to developing human resources and building health care services, directed toward diseases of social significance, thus fulfilling also the obligation of the government to provide all necessary conditions to guarantee the health and life of the population. In this connection, the provision of the equipment will give an opportunity for training of doctors and health care specialists, aimed at introducing health care services of novelty at the health care market, in the relevant fields of expertise at which the trained doctors act. In addition, an opportunity will be given for training medical specialists from all medical institutions, which are on the health services market in the country, without any restrictions.

For the equipment provided for use by the Ministry of Health, outpatient clinics and consultative medical and social units for health care will owe market rent, which will not be required by them, but will be provided to them in the form of minimum assistance, subject to EU Regulation No 1407/2013 of the Commission of 18 December 2013 on the application of Articles 107 and 108 of the TFEU to de minimis aid.

#### *e) Complementarity and demarcation with the Cohesion Policy instruments*

The efforts for continuing implementation of the policy for reform in the healthcare sector will be supported within the frames of the Development of the Regions Programme 2021 – 2027 through investments in the out-of-hospital and hospital care, related with creating equal opportunities for the population in the individual regions to access prophylaxis and prevention, as well as timely and good-quality hospital treatment, via measures for infrastructure, equipment, mobile assets, digitalization, services and

applications for electronic healthcare. The interventions will be based on mapping of healthcare needs, thus forecasting the directions of requested changes, to satisfy the healthcare necessities of the society. By ESF+ financed measures, the efforts to improve the health characteristics of the population and labor force will be continued, and in particular those focused on health promotion and prevention. The support rendered to staff engaged in the healthcare sector will go on; targeted interventions are planned, aimed at raising the skills of highly specialized personnel in key areas of the healthcare system, as well as of the personnel rendering doctor's and health aid in the out-of-hospital and long-term healthcare.

#### *f) Strategic Autonomy and Security*

Planned interventions will follow the best European practices of investment, oriented to transparency and fair trade; thus the public procurement procedures will honor the principle of achieving strategic autonomy, side by side with maintaining the openness of economy.

#### *g) Trans-boundary and multi-national projects*

The projects, included in the scope of the component, will be implemented only on the territory of the country, with the exception of Investment 6 to a certain extent, whose implementation is planned in conformity with Directive (EU) 2018/172 of the European Parliament and of the Council of 11 December 2018, where Art. 109 provides for the requirement that this network shall permit routing of urgent communications to the most appropriate PSAP on the basis of different factors (e.g. location, talks from the calling tongue or its damaging, overloading of PSAP, etc.). This makes the system open, to permit integration in a future common European network of common operability, thus providing opportunities for participation in future trans-boundary and multi-national projects.

#### *h) Green and digital aspects of the component*

The measures, proposed in the component, contribute to the ecological transition by accounting of the six climatic and ecological targets, as stipulated by the Taxonomy Regulation, not infringing the principle of "not incurring substantial damage"; according to the applied EU methodology on calculating the contribution to the double transition, the component includes **0%** green expenditures.

Investments 5 & 6 are of a clearly expressed digital element. By including **10.1%** digital costs (ref. to Table 2.D.3.1 below), this component also contributes to the 20% target for the digital dimensions of the Plan, set out in the Regulation on the Recovery and Resilience Facility.



**Table 2.D.3.1: Green and digital impact**

Component 12: Healthcare	Financing from RRF, MBGN	Green transition	Digital transition
Modernization of medical institutions for hospital care	349.1	0.0	0.0
Centers for interventional diagnostics and endovascular treatment of cerebrovascular diseases	107.1	0.0	0.0
Modernization of psychiatric aid in Bulgaria	23.8	0.0	00.0
Building of emergency medical aid system on air	99.3	0.0	0.0
National digital platform for medical diagnostics	23.6	0.0	23.6
Improve the national emergency communications system 112	46.7	0.0	46.7
Development of outpatient care	70.1	0.0	1.1
Update the strategic framework of the Healthcare sector (R)		0.0	0.0
Development of e-health and the National Health Information System (R)		0.0	0.0
Improving the attractiveness of health professions and promoting a more balanced distribution of health professionals across the country (R)		0.0	
Improving access to primary and outpatient care (R)		0.0	0.0
Improving access to preventive screening activities (R)		0.0	0.0
Modern health education in the Bulgarian school (R)		0.0	0.0
<b>TOTAL</b>	<b>706.6</b>	<b>0.0</b>	<b>71.3</b>
<b>CONTRIBUTION</b>		<b>0.0%</b>	<b>10.1%</b>

*i) The principle of not incurring substantial damage*

All measures, included in the scope of the component – investments and reforms – are in conformity with the principle of not incurring a substantial damage, within the meaning of Art. 17 of Regulation (EU) 2020/852.



## **PART 3:**

# **RRP'S COMPLEMENTARITY AND IMPLEMENTATION**

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### *1. Concurrence with other initiatives*

The crisis, raised by COVID-19, has affected multiple spheres of economic and social life in the member states. A part of the interventions, envisaged by the Recovery and Resilience Plan, will directly affect the sectors included in the National Integrated Energy and Climate Plan of the Republic of Bulgaria 2021 – 2030 (NIECP); their implementation will support in practice the goals and expected results of the NIECP.

Aimed at providing consistency and complementarity with the NIECP and by facilitating some specific investments, policies and measures per the NIECP, the NRRP envisages the following, on the individual aspects of the NIECP:

In respect of the Decarbonization measure, in addition to the target stipulated by the NIECP for increasing the share of energy generated from renewable energy sources (RES) in the gross end energy consumption to 27.09% till 2030, following the common goals of the NIECP, Bulgaria targets to achieve 26% share of energy from RES in the gross end energy consumption in 2024, 10% cumulative reduction of energy intensity and 10% of carbon intensity of the economy in the period 2021 – 2024.

In the period 2021 – 2030, reforms and investments are envisaged related with the development of the energy infrastructure, enhancement of production and supporting the integration in the electric energy grids of electricity generated from RES, as well as broader use of intelligent systems for storage of energy. Implementing of measures of the above type will enhance the more complete use of electricity generated from RES due to its easier integration in the electric energy system.

Envisaged are reforms facilitating the introduction of new RES, such as the establishment of a national Fund for decarbonization, a Facility for energy efficiency and RES projects' financing, together with on-bill financing, stimulation of the energy production from RES, and supporting the process of decarbonization and reduction of the administrative burden upon the connection and operating of RES. This direction is also followed by the included project on increasing the capacity for connection of new renewable energy generation capacities to the Electric energy system with at least 4500 MW and increasing the inter-system transmission capacity through better usage of the existing assets with at least 1200 MW (Electric Energy System Operator - ESO).

The Scheme supporting pilot projects on generating green hydrogen and biogas will enable RES to contribute even more to the achievement of the targets on decarbonization.

A key reform on this measure is also that for the establishment of a Commission on energy transition, to develop a Roadmap to climatic neutrality, aimed at making an assessment of the decarbonization scenarios and outlining of eventual with the relevant financial, ecological and socio-economic implications of the measures upon the different scenarios, and to submit them to the Government, which will take an informed decision and unite around a particular direction of the transition of the Bulgarian energy sector. This will also prepare the reform for the decarbonisation of the energy sector in the medium term by reducing emissions and in the long term by 2038.

The envisaged reform for elaboration and acceptance of a National Roadmap for improving the conditions to expand the potential for development of hydrogen technologies and the mechanisms of hydrogen production and supply is a key prerequisite to achieve the targets of the Green Deal and the decarbonization of economy, in view of the hydrogen's potential to replace excavated energy sources in the Economy of the future.

The Scheme in support of the construction of minimum 1.4GW RES, possessing capacity to store electricity, is an important constituent of the energy efficiency of the energy system and a key element in the NIECP on the energy sector and climate.

The implementation of the project on energy generation from geothermal sources through the construction of demonstrative (pilot) project aims contributing to the achievement of substantial growth of RES' share. The construction of infrastructure for energy storage from renewable sources will also help their growth and integration, as well as the achievement of lower electricity prices at peak hours.

Measures are provided to enhance the introduction of RES for the business, as well as for the households. For the business, investments are envisaged to encourage combining of new RES with local energy storage facilities, depending on the appropriate process flow solution for the relevant projects and the opportunities for implementing ecological solutions, oriented to a cycled economy and reduction of the CO<sub>2</sub> releases (Program oriented to transformation of economy). The programme to finance ad hoc measures for energy from RES in one-dwelling and multi-dwelling buildings will encourage the introduction of RES.

The projects Integration of the ecosystem approach and application of solutions, based on nature, in the preservation of the protected areas from Nature 2000, and Recovery of ecosystems of key significance for the climate, in fulfillment of the Strategy on biodiversity of the EU and the targets of the European Green Pact, aim reducing the impact from the use of land, the changes in the use of land and forestry in and outside Nature 2000, preservation and improvement of the condition of pastures and forest ecosystems, as the main "absorbers" of releases, to gain contribution to the decarbonization process. The goal is reducing vulnerability to the consequences from the climate change and improving the capacity for adapting of the ecological, social and economic systems to the impacts of climate change.



The proposed Assistance for sustainable urban mobility through measures aimed at the development of ecological, safe, functional and energy efficient transport systems will contribute to the reduction of greenhouse gas releases in the transport sector: enhancing the production and demand for electric and new ecological vehicles, accelerated development of the infrastructure for charging of electric and hybrid vehicles, and organization of campaigns to increase public awareness and creating of capacity of interested counterparts, for the development of resilient mobility.

The energy efficiency program is directly linked with the Energy Efficiency measure of the NIECP and will directly contribute to the achievement of the National cumulative target for energy efficiency, determined in accordance with the requirements of Art. 7 of Directive 2012/27/EU (amended by Directive (EU) 2018/2002), as well as the fulfillment of a long-term National Strategy supporting the renewal of the national buildings' fund of residential and non-residential buildings till 2050.

Priority shall be granted to energy efficiency, combined with the utilization of RES in the buildings' sector. The project on energy efficient municipal systems for outdoor artificial lighting will contribute to raising energy efficiency of outdoor artificial lighting systems and reducing energy consumption, as well improving the security of energy supply in the country through reducing its dependence on energy import.

Regarding the Energy Security measure, the NRRP provides possibilities for diversification and optimization of electric energy consumption and storage. In this direction are the projects for storage of electricity, for research and construction of new geothermal capacities, as well as the scheme in support of the construction of at least 1.4GW RES with capacity for storage of electricity.

The Scheme in support of pilot projects on the production of green hydrogen and biogas will contribute to the achievement of the goals set by Bulgaria in respect of the energy security, related with undertaking of measures in respect of limited or suspended supplies from a particular energy source, aimed at improving the resilience of the regional and national energy systems.

The Scheme in support of the construction of minimum 1.4GW RES, possessing capacity to store electricity, and the opportunities provided to the business under the Program for economic transformation for combining new RES with local facilities for electricity storage will contribute to the flexibility of the national energy system through the development of new storage facilities, to address the changeable nature of this type of energy.

The ESO project will add to increasing the flexibility of the national energy system; undertaking of measures in respect of limited or suspended supplies from a particular energy source, aimed at improving the resilience of the regional and national



energy systems; increasing the network and information security (cyber security).

Increasing the energy efficiency of the outdoor artificial lighting systems and reducing energy consumption in general will contribute to the achievement of the NIECP's goal for improving the energy security of the country through reducing its dependency on the import of energy.

On the Internal Energy Market measure, Bulgaria will develop a competitive market through its complete liberalization and integration in the regional and common European market, as mentioned in the Energy Security measure. A major element in the process of complete liberalization is the protection of vulnerable consumers. In conformity with the European Commission's recommendation for development of competitive wholesale and retail markets, through encouraging competition in the country and transition to complete market conditions, Bulgaria will eliminate on a stagely basis electric energy regulated prices.

Other policies and measures, directed to the development of the domestic energy market in conformity with the goals of the European Union, and incorporated in the NIECP, include optimization of consumption, stimulating the establishment of energy communities for generation and consumption of renewable energy, and stimulating the more active role of consumers.

The ESO project will particularly add to the achievement of the measures on increasing the flexibility of the energy system in respect of renewable energy generation, and in particular to the envisaged measures on the development of intelligent grids, grouping, optimization of consumption, storage, distributed generation, distribution, redistribution and decrease mechanisms, price-related allegations in real time, including connection of the markets within a day and the trans-boundary balancing markets.

The RESTORE project for the purchase, installation and commissioning of national infrastructure from electricity storage facilities with a total charged energy capacity of 6,000 MWh will significantly contribute to solving the problems of RES involved in the energy mix of the Republic of Bulgaria, which are currently not in able to participate fully in balancing the electricity system, covering peak loads and providing market-based flexibility and ancillary services. On the other hand, it is necessary to ensure security of electricity supply in connection with the "green transition". . Through these facilities the project will significantly contribute to the complex implementation of the concept of smart grids, ensuring a high degree of observability, accuracy of operational planning, maneuverability and speed of the EPS, including the prevention and/or management of accidents.

In respect of Scientific Research, Innovations and Competitiveness measure, the ESO project aims measures for building of Smart grids, automated control of the electricity systems, to provide the highest-quality electric supply to consumers



upon maximum utilization of RES energy, the final target being modernization and automation of the existing electric grids.

The major purpose of the Green Mobility project- a pilot scheme supporting the sustainable urban mobility through measures aimed at the development of ecological, safe, functional and energy efficient transport systems, will contribute to reducing releases in the transport sector: enhancing the production and demand for electric and new ecological vehicles, accelerated development of the infrastructure for charging of electric and hybrid vehicles, accelerated building of infrastructure for charging of electric and hybrid vehicles, and organization of campaigns to increase the number of innovative companies (introduction and development of innovations) in the high-tech and intensive sectors, cooperation between science and business, technological transfer and application of the results from scientific research, encouraging of business investments in research and the implementation of innovations in the industry, etc.

Envisaged is also the development of a pilot project for hydrogen, as a base for the further development of hydrogen capacities after the year of 2030.

### **Partnership Agreement**

The Partnership Agreement for the program period 2021 – 2027 acts in determining the strategy of the country and its priorities for the fulfillment of the Cohesion Policy of the European Union (and the Common Policy in the area of Fishery). On the basis of the analysis of the socio-economic development of Bulgaria in the period 2007 – 2017, the Partnership Agreement sets the basic directions of investment with European co-financing. Aimed at concurrence with the programs co-financed by the European structural funds, the Partnership Agreement envisages for complementarity with the interventions under the RRF for each of the five policy targets, in accordance with the enclosed Table.

In 2021, Bulgaria continues to implement the principles of the Youth Guarantee, and is going to fulfill the new Recommendation of the Council as of 30 October 2020 regarding the Bridge to job positions – strengthening of the youth's guarantee, replacing the Recommendation of the Council of 22 April 2013 on the establishment of Youth's Guarantee. A major priority in 2021 and the forthcoming years will be the work with youths from the NEETs group, the identification of information exchange base between the institutions, reaching youths per their place of residence, as well posing of qualitative and resilient proposals for training, work or returning to the educational system, according to the profile of each young man or the labor market demand.

Since the year of 2021, the work is continuing within the context of the new Recommendation, as the measures and actions on providing employment and training of youths, in connection with the application of the Youths' Guarantee, are contained in the annual National Employment Action Plan. Stepping on gathered experience with the application of the Youths' Guarantee as of 2013, and upon taking in consideration the changing realities at the labor market, including digital and green transition, the engagement on posing of



employment proposal, education/training, or apprenticeship for/within 4 months will be continued.

Especially ambitions will be the actions in the context of digital skills and validation, where the Recommendation emphasizes on the digital skills' assessment of all NEETs registered under the Youths Guarantee, and training for improving digital skills, according to the necessities, validation and recognition of non-formal and informal skills.

By implementing the project on Trainings for digital skills and building of national online platform for adults' training under the Recovery and Resilience Plan, envisaged is the inclusion of at least 500 thousand people in trainings for the acquisition of basic and average digital skills, in accordance with the DigComp 2.1. framework. More than 100 thousand people will be able to validate their informal skills. The new electronic trainings' platform will act as an important tool of the active policy at the labor market, including in the direction of fulfilling the Recommendation of the Council of 30 October 2020 regarding the Bridge to job positions – strengthening of the youth's guarantee.

A part of the planned professional qualification courses, or the courses for acquiring of competences will be realized namely through the electronic trainings' platform, to be put in operation via the National Recovery and Resilience Plan of the Republic of Bulgaria. Thus, complementability between the national measures and the measures under the RRP and ESF+ will be achieved. Youths, having followed training for acquiring of base digital competencies, are part of a target group under the RRP and are not allowable to trainings under the same key components under ESF+ or under national measures. The type of attended trainings is a part of the information existing in the national data base for each person registered in the Labor Bureaus.

Bulgaria will work on the proposed stages for the application of the strengthened Guarantee, namely:

Outlining – determining of the target group, available services and needs for skills, and providing possibilities for prevention through tracing and early warning systems, as well as prevention of pre-time leave-offs of the educational system;

Information activities – increasing awareness, targeted communication and better contacting of youths, especially of those from the vulnerable groups;

Preparation – usage of instruments for profiling, aimed at elaboration of individualized action plans, advising, directing and mentoring, increasing of skills in the sphere of digital technologies, upgrading and validation of other skills.

Proposal – efficiency of the stimulus for employing and starting of economic activity (particularly in the time of economic recession), bringing of proposals made in conformity with the existing standards, to guarantee quality and equal standing, providing of support, also after starting work, and obtaining

of back-feed information. In an economically favorable environment, under the conditions of insufficient number of proposed staff, unemployed youths will be quickly directed to job positions of proper suitability or to trainings needed by the business. In view of the fast and qualitative response to the labor market demand, as well as the minimization of the non-engaged stay of youths, the well-educated/qualified people will be directed by a “fast run” – priority service and oriented to proper job positions. In respect of inactive, low-educated and long-unemployed youths, a qualitative proposal rarely could be made within 4 months’ period, in view of the bigger efforts upon working with such youths, the loner time and bigger resource needed; a focus will be placed on the individual work, to achieve successful and resilient outcomes.

## 2. *Complementarity of financing*

According to Art. 11, par. 3 of the arrangement rules of the Council of Ministers and its Administration, the Deputy Prime Minister in charge of managing the European funds shall support the Prime Minister by undertaking responsibility for the overall organization and management of the coordination system upon the management of the EU funds. Upon the fulfillment of these functions of his, he shall be assisted by the Central Coordination Unit. According to Ordinance Nr. 142/07.06.2019, the Central Coordination Unit performs operative coordination upon the elaboration of the Partnership Agreement 2021-2027 and the negotiations with EU thereof, as well as upon the elaboration of the program documents in the sphere of the cohesion policy in fishery of the European Union for the period of 2021-2027. A major part of the operative coordination at a national level is the provision of concurrence and complementarity of projects implemented through shared management with other EU programs, including such funded under the RRF.

By Order of the Prime Minister No 105/21.07.2020 an interdepartmental working group was established with the task of timely coordinating the elaboration, fulfillment and surveillance of the NRRP within the frames of the RRF of the EU under the chairmanship of the Deputy Prime Minister, including representatives at political level of the Ministry of Finance and the line ministries. By Order No 91/11.06.2021, substituting Order No 105/21.07.2020, changes have been commenced amongst the working group’s members, as well as in the working group’s scope of activity, as its major task is the current concurrence of the RRP’s elaboration. The composition of the working group was updated by Order R-14 / 01.02.2022 of the Prime Minister.

Moreover, at a national level a facility to prepare investments and projects has been established, which will be implemented by RRF’s financing, including a model application form containing information on all sources of financing of the activities. The complementing financing with EU programs and instruments, as well as with national funds is mentioned thereby. The application forms are concurred in respect of their contents, as well as for confirmation of



their adequate demarcation of finance sources. Moreover, summarized information is provided on the demarcation of investments included in the RRF's financing and the other European and national instruments.

Aimed at concurrence, complementarity and coordination of the individual interventions, envisaged by the NRRP and the ones under the other programs with EU co-financing, yet at the stage of selection of areas for intervention an analysis has been made on the absence of double financing of the envisaged investments; in respect of the sensitive areas falling within the scope of financing under programs from the program period 2021-2027 and the RRP, demarcation is made in PA 2021-2027.

Aimed at completeness of double-financing checks, where possible, Bulgaria will dispose of access to EU data bases containing information on funds obtained by beneficiaries on EU directly funded programs and instruments. In the progress of realization of investments, financed by the RRF, envisaged is compulsory checking for the absence of double-financing of performed activities through checking in the accessible national information systems and internal departmental and inter-departmental data exchange.

The costing of investments in the NRRP is carried out by the relevant departments. Audit of EU Funds Executive Agency with the Minister of Finance has performed a review of planned financing and costing of expenditure.

### 3. *Application*

#### 3.1. Efficient implementation

The structures responsible at a national level for the organization and coordination of the participation of the Republic of Bulgaria in the Recovery and Resilience Facility of the EU are determined with Decision of the Council of Ministers No. 568 in force since 02.08.2021.

By Order of the Prime Minister No 105/21.07.2020 an interdepartmental working group was established with the task of timely coordinating the elaboration, fulfillment and surveillance of the NRRP within the frames of the RRF of the EU under the chairmanship of the Deputy Prime Minister. By Order No 91/11.06.2021, substituting Order No 105/21.07.2020, changes have been commenced amongst the working group's members, as well as in the working group's scope of activity, as its major task is the current concurrence of the RRF's elaboration. The composition of the working group was updated by Order P-14 / 01.02.2022 of the Prime Minister. It includes representatives of line ministries, incl. representatives of the Ministry of Finance, the Ministry of Regional Development and Public Works, the Ministry of Education and Science, the Ministry of Agriculture, the Ministry of Energy, the Ministry of Labor and Social Policy, the Ministry of Environment and Water, the Ministry of Transport, the Ministry of Health, the Ministry of Innovation and Growth, the Ministry of Justice, the Ministry of Defense, the Ministry of Youth and Sports, the Ministry of Foreign Affairs, the Ministry of Culture, the Ministry of e-Government, etc. The coordination of the issues related to the participation of the Republic of Bulgaria in the Mechanism for Reconstruction and Sustainability of the European Union is carried out jointly by the Deputy Prime Minister for EU Funds and the Minister of Finance.

According to the requirements of Art. 22 of Regulation 2021/241 regarding the establishment of the RRF, and in view of the functioning of a foreseeable, resilient and flexible internal control environment for the fulfillment of the NRRP, a system for control and management of the NRRP is developed including:

- the legal and institutional framework for the implementation of the NRRP, with clear definition of the responsibilities of the final beneficiaries and the control and auditing bodies;
- the detailed procedures regarding the provision of funds from the RRF to the final beneficiaries, the financial management and the payment process, the stages in the implementation and reporting of investments and reforms, the requests for payment and reporting to the EC, the measures for fraud prevention, conflict of interest and corruption; subsequent corrective actions at national level, as well as those for double funding, for audit trail, incl. the information according to Art. 22, Para. 2, item "d" of Regulation No. 2021/241, information and publicity, etc.
- the samples of the reporting documents for the implementation of the investments and the reforms;
- the checklists for the key processes which will be realized at all levels of implementation of the investments- public procurements, review of financial and technical reports for the implementation progress, etc.;
- the organization and responsibilities of the participants in connection with the input of information in the Information System for RRF (IS-RRF).

According to Decision of the Council of Ministers No. 568 of 02.08.2021, the MCS is approved by the Minister of Finance. The development and approval of the MCS is included in the RRP as a key stage with deadline the second quarter of 2022.

The investments and reforms, envisaged by the RRP, shall be implemented by the structures/teams for implementation in the line ministries and departments. Most of them are well experienced in the implementation of projects, co-financed with European funds, or are part of the EU funds management system within shared management, and others are leading administrations upon the performance of the relevant reforms as part of the concrete policies at a national level.

The line ministries and departments responsible for the implementation of the RRP have in-depth expertise both in the relevant areas of intervention and in the application of administrative procedures for compliance with the public procurement and state aid rules, fraud prevention mechanisms, corruption and conflict of interest, as well as double funding, which will support the effective and correct implementation of RRP investments. In addition, the line ministries and agencies implementing investments are subject to audits and inspections at national level, which ensures that there is sufficient and qualified administrative capacity to carry out the tasks assigned to them in relation to the implementation of the RRP. For final beneficiaries that are not public organizations, clear commitments are defined, including a regulatory award procedure based on the principles set out in the Public Procurement Act.

Depending on whether they perform the investments or select final beneficiaries for the implementation of the investments, the line ministries and departments are part of the implementation phase or of the control phase of the investments financed under the RRF. The line ministries, which perform the selection of investment projects and control activities in respect to final beneficiaries, are in their greater part structures that perform the functions of a managing body of an operative program for the program period of 2014-2020, or a particular beneficiary under an operative program, they have developed reliable internal management and control systems and administrative capacity and are audited within the shared management of the EU funds. The control that will be carried out for the implementation of the investments/reforms included in the RRF is similar to the control that is applied to the projects implemented within the shared management.

The efficient implementation of the investments, financed by the RRF at a national level, is guaranteed also via the Financial Management and Control in the Public Sector Act (FMCPA), in effect as of 2006, and the decrees and instructions, originating thereof, whose provisions are applicable to public funds, financed from the state budget, as well as in respect of the EU funds. According to the Law on financial management and control in the public sector, "financial management and control" is an overall process, integrated in the activity of the organizations, carried out by the management and their staff members. Financial management and control (FMC) is performed through FMC systems that include policies, procedures and activities, introduced by the managements of the organizations, including those partaking in the RRF implementation, aimed at providing reasonable assurance that the targets of the organizations are met through:

- conformity with the legislation, internal acts and contracts;
- reliability and comprehensiveness of financial and operative information;
- economy, effectiveness and efficiency of activities;
- protection of assets and information;
- prevention and detection of fraud and irregularities, and undertaking of follow-up actions.

Risk management for the achievement of the above targets *through adequate division of responsibilities on investment implementation and appropriate preventive, detection and/or corrective control activities*, to include the following in the least:

- a double-signature system, not permitting undertaking of financial obligations or making of payments without the signatures of the manager of the organization and of the person in charge of accountancy records;
- rules on the access to assets and information;
- policies and procedures on preliminary control, aimed at compliance with the law;
- policies and procedures on current control on the fulfillment of the undertaken financial obligations and executed contracts;
- policies and procedures for follow-up evaluations of performance;



policies and procedures for objective, punctual, complete, true and timely accounting of all economic operations;

- policies and procedures on human resource management;
- policies and procedures to guarantee personal honesty and professional ethics.

In addition, in 2020 the Republic of Bulgaria has filed requests for obtaining assistance under the EU Structural Reform Support Programme, which were approved, and in 2021 will be under implementation: "Perfecting the system of checking the loyalty of employees partaking in the Anti-Corruption and Forfeiture of Illegally Acquired Assets Commission", "Assistance for the establishment of a National Decarbonization Fund", "Increasing the efficiency of public investments", "Development and application of methods for assessment of corruption risk at the National Revenue Agency of the Republic of Bulgaria", etc.

In 2021, an application form for the project "General technical support for increasing the administrative capacity in the implementation of RRP" was submitted, which received approval and its implementation will start in March 2022. The implementation of these projects will contribute to the implementation of the planned reforms in RRP and it will contribute to improving the efficiency of the investment implementation.

### 3.2. Uncertainties

Bulgaria NRRP is elaborated upon maximum consideration of all risks and circumstances, known at the time being, that may affect the interventions envisaged by the Plan. The efforts of the structures, engaged with the NRRP's preparation, are directed to preliminary identification of clear and measurable targets in the concrete areas of policy that are of top priority at a national level and envisaged for assistance through the Plan, as well as to attaining the utmost realistic approaches that will be requested for the achievement of such for the entire period of the Plan's implementation.

As a compulsory element of the NRRP's structure, impact assessment of planned reforms and investments has been made, including estimated allocation of financial resource per years that confirms the realistic nature of the proposals. The implemented process of public consultations, exhibited in item 5 below, supports engaging all interested counterparts, including the socio-economic partners, upon the implementation of the plan and the achievement of the set goals.

Upon the plan's elaboration, the planned stages and targets have been analyzed, in view of guaranteeing that all deadlines and targets will be fulfilled. Upon the occurrence of extraordinary circumstances and establishing necessity for annulment of an investment or reform, envisaged in the NRRP, actions will be taken for amending of the plan in accordance with the procedures, stipulated by Regulation 2021/241.

Although the implementation of the individual investments included in the RRP are responsibility structures with experience in implementing projects or policies and taking in consideration the key significance of the administrative capacity of line ministries and departments for the successful

realization of planned investments and reforms under the RRF, the Ministry of Finance has developed Questionnaire for self-assessment of the administrative capacity of all partaking structures with functions of performance, monitoring and reporting. The major purpose of the above assessment instrument is to support the relevant organizations in carrying out their own assessments of their internal systems, including of their administrative capacity, to determine the areas needing strengthening or having other potential deficiencies. For the development of the Questionnaire, an EC documents has been used (COCOF 09/0005/00) targeted at self-assessment of the managing bodies of the European structural and investment funds.

The questionnaire is divided into four sections and it includes the following key evaluation requirements:

- clear definition, distribution and division of the functions within the respective organization;
- accumulated experience within the organization, qualification of the employees, their experience regarding the implementation of investment projects or reforms, etc.;
- level of understanding the final beneficiaries (FB) / line ministries — Monitoring and Reporting Structures (MRSs), of their responsibilities and obligations regarding the funds management, including the regulations related to the prevention and correction of corruption, fraud, conflict of interest, and double funding;
- adequate audit trail.

When the needs for further capacity building are identified, concrete actions to address those needs are planned. Thus, the aim at an early stage, before the start of the actual implementation of investments, is to plan and implement specific measures to support the key players in the process of management and control of the plan and to ensure sound financial management of investments. A necessary condition for the signing of an agreement and the provision of funds from the RRF to the final recipients and to the line ministries — Monitoring and Reporting Structures, and the final beneficiaries is the presence of a positive result from the assessment of the administrative capacity.

In this connection, within the frames of the extraordinary invitation for gathering of project proposals offered under the Technical Assistance Facility in June 2021, the National Fund Directorate with the Ministry of Finance, have filed and received an approval for funding the project “General Technical Assistance to Increase the Administrative Capacity upon the RRF’s Implementation”. The project includes the following main activities:

- Strengthening the administrative capacity of the MRSs to carry out their assigned functions with regard to the implementation and monitoring system (project selection and investment management), building capacity to further improve the reporting mechanisms (to report on progress of reaching the agreed stages and objectives), as well as to apply the Do Not Significantly Harm principle and to identify fraud, corruption and conflicts of interest;
- To assist the FBs on the managing of investments and identifying fraud, corruption, and conflicts of interest;

For the National Fund Directorate, an activity related to training of trainers is envisaged in order to ensure the ongoing support of the FBs and the MRSs in their activities related to the implementation, control and reporting of investments included in the RRP, detecting fraud, corruption and conflict of interest, the application of the Do Not Significantly Harm principle.

In addition and in order to ensure the implementation of current and future responsibilities according to Decision of the Council of Ministers No. 568 of 02.08.2021, the two structures engaged in the control and audit (National Fund Directorate and AEUFEA) analyzed the current and future responsibilities, incl. and under RRP, and also analyzed the employment of experts whose purpose is to help ensure the necessary organizational structure for the implementation of the responsibilities under RRP. The results of these analyzes were presented to the management of the Ministry of Finance in order to change the functions and responsibilities of the two structures, and if necessary to increase their number. In this regard, a key stage with a deadline the second quarter of 2022 is included in the RRP.

### 3.3. Administrative mechanisms

The established environment for controlling the investments and reforms financed by the RRF accounts for the gathered experience and lessons learned in managing the European funds, the specific provisions of Regulation 2021/241 on the establishment of RRF, and the Directions issued by the European Commission.

Horizontal structures involved in the coordination, control and audit of the RRFs

#### 3.3.1. *National Fund Directorate (NFD) in the Ministry of Finance*

The National Fund Directorate (NFD) in the Ministry of Finance has been designated as a Coordinating Unit for the implementation and control of RRF according to Decision No. 568 of the Council of Ministers of 02.08.2021. It is a certification body under ERDF, CF and ESF and it is the body responsible for receiving the payments from the EC for the periods 2007-2013 and 2014-2020. For 2021-2027 it will act as the Accounting Authority for the programs co-financed by the ERDF, CF, JTF, and ESF+ and it will be the authority responsible for receiving the payments from the EC. The team of the National Fund Directorate includes 60 highly qualified, trained in European and national training organizations and with proven experience employees involved in the development and implementation of effective and efficient systems for management and control of European funds, which will ensure the prevention of conflicts of interest, corruption, fraud and double funding at each stage of the implementation of the National Recovery and Resilience Plan. More than a third (35%) of employees hold audit certificates, such as a national audit certificate

have 14 employees, international certificates have 7 employees (5 - Certified Government Auditing Professional and 2 - Certified Internal Auditor). The Directorate has 7 attorneys-at-law and 2 experts with economic and legal education, 4 liquidity experts, 9 accountants and 35 financial controllers. The lack of experts with an engineering profile will be compensated by conducting joint inspections with representatives of the line ministries, who will contribute with specialized expertise in the respective field. The Directorate has built capacity for summarizing and analyzing audit reports, as a special unit is engaged in reporting and monitoring the implementation of recommendations made by the audit authorities on operational programs from the programming period 2014-2020, as well as in reviewing court decisions and correct reflection of the determined financial corrections in applications for payment to the EC. The Directorate has more than 20 years of experience in the management of European funds, including:

- the preparation of the Republic of Bulgaria and the establishment of an accredited system for extended decentralization in the transition from pre-accession to structural funds, including the development of procedural manuals for participants in the system (in its capacity of a team of the National Head of EU Pre-Accession Programs, as well as of a Cohesion Fund Paying Authority according to Regulation No. 1164/94);
- preparation of the regulatory framework for the implementation of the first programming period for Bulgaria 2007-2013, namely: instructions of the Minister of Finance regarding 1) procedure for establishing and reporting irregularities for the operational programs and the bilateral cooperation programs with measures in external borders for the programming period 2007-2013; 2) reporting of irregularities/financial corrections on certified expenditures after the end of the programming period 2007-2013 under the Operational Programs, co-financed by the Structural and Cohesion Funds (SCFs) of the European Union; 3) treatment of VAT as an eligible cost in the implementation of projects under the OPs 4) determination of the rules for payments; 5) verification and certification of costs; 6) reimbursement and write-off of irregular expenditure; 7) accounting; 8) completion of the operational programs co-financed by the SCFs of the European Union during the programming period 2007-2013, including the provision of methodological support for their implementation (in its capacity as Certifying Authority for Structural Funds and Cohesion Fund and body responsible for receiving payments from the EC);
- the issuance of Instructions: in connection with cases arising regarding the reporting of irregularities, imposed financial corrections and verified expenses under the OPs; to perform commitments for contractual procedures in connection with projects financed under the SCFs at the level of the beneficiary; for revenue-generating projects and the application of Art. 55 of Regulation No.1083/2006, as well as for the exchange of information between the Managing Authority/Intermediate Body and the beneficiaries in the process of applying for funds and reporting of the projects co-financed by the SCFs of the EU;



- the issuance of an Ordinance for determining the rules for payments, for verification and certification of expenditures, for reimbursement and write-off of irregular expenditure and for accounting, as well as the terms and rules for closing of the accounting year under the operational programs and the programs for European territorial cooperation for the programming period 2014-2020, including the provision of trainings and methodological support for its implementation (in its capacity as a Certifying Authority under the ERDF, CF and ESF and a body responsible for receiving payments from the EC), as well as guidelines and methodological guidelines for the preparation of forecasts for payments under the programs and accounting.

The turnover of the staff of the NFD is insignificant, as a procedure for preservation of the institutional memory has been established and is functioning from the very beginning.

Pursuant to Decree of the Council of Ministers No 568 of 02.08.2021, NFD performs the functions of a Coordinating Unit at national level with regard to the preparation of general rules and procedures for the implementation of the Mechanism, as well as inspections and control of the implementation of investments, including:

- the coordination of the preparation and signing of agreements for implementation of the investments, included in the Recovery and Sustainability Plan, between the Ministry of Finance and the respective department in its capacity of final recipient or MRS;
- the preparation of the management and control system of RRF at national level, including with regard to the measures for prevention, detection and correction of cases of conflict of interest, corruption, fraud and double funding and recovery of funds illegally received by the final beneficiary, which is approved by the Minister of Finance;
- the coordination in the preparation of the Financial Support Agreement for the Recovery and Recovery and Resilience Plan within the meaning of Art. 23 (1) of Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 for establishing a Recovery and Resilience Facility;
- the planning, budgeting and financial/accounting reporting of the funds under the RRF as part of the account for the EU funds of the National Fund;
- the preparation and sending of the package of documents with a request for payment to the European Commission and receipt of the funds from the European Commission, including the documents proving the implementation of the stages and objectives;
- making payments to the FBs;
- the performance of inspections and control activities to the FB in accordance with the management and control system of the RRF
- the establishment of requirements for the analytical accounting for the funds under the RRF;



- the establishment of the structure and the content of the data of the IS-RRF, including the rules for work and the rights for access of the users together with the Central Coordination Unit Directorate in the Administration of the Council of Ministers;
- control of functions delegated with agreement to another agency (MRS).

The specific responsibilities regarding the RRP functions will be included in the job descriptions of the NFD experts. The new organization of the work of the directorate will be approved with a new functional feature, as an analysis of the administrative capacity has been prepared, including specific proposals for reorganization of the work in the directorate in order to fulfill the commitments under the RRP. The National Fund Directorate maintains and upgrades its expert capacity by participating in meetings, trainings, seminars, etc., organized by well-established training institutions in the field of European regulations, as well as by monitoring the current and timely acquaintance with documents issued by the European institutions. In addition, an individual training plan approved by management is prepared for each employee each year. The training plans provide a brief description of the training needs and the areas and topics, for which training is required, are indicated.

In view of the specifics of the RRF and taking into account the need to acquire additional, specific knowledge, it is envisaged that the employees of the directorate will participate in the trainings/seminars organized by established training institutions in the EU funds area- incl. in terms of audit and control, irregularities, fraud, double funding, and other key topics for control and implementation of the RRF. The trainings will be identified in the application of the current rules, based on an individual training plan prepared by each employee. The plan provides a brief description of the training needs and the areas and topics, for which training is required, are indicated. The plans are prepared annually.

### 3.3.2. Central Coordination Unit Directorate

The Directorate is responsible for the development of RRP, programming documents, current internal and external coordination and monitoring of the implementation of reforms and investments, assists line ministries by clarifying the specific requirements of the RRF, prepares a strategic framework for information and communication activities under the Recovery and resilience plan. The CCU Directorate carries out activities to monitor the implementation of the stages and objectives of the Plan, including progress on common indicators, green and digital contribution of investments and the level of social expenditures, analyzing the risks of non-compliance and proposing measures to overcome them. The Directorate is responsible for horizontal RRP issues and policies such as public procurement, compliance with the principle of do no significant harm", compliance with the principle of complementarity of funding, state aid, ensuring equal opportunities and others. The Directorate is the coordinator of the implementation of all EU programs and instruments and has a sustainable capacity of 60 employees, built in the period of pre-accession programs, programming periods 2007-2013, and 2014-2020,



including the preparation of the programming period 2021- 2027. The Directorate is also responsible for the administration, maintenance and upgrading of the information system (IS) for the programs of joint management with the EU, including the IS of the RRF.

### 3.3.3. Economic and Financial Policy Directorate at the Ministry of Finance

The Directorate is responsible for the preparation and implementation of Bulgaria's strategic and planning documents in the process of EU economic governance, including the specific recommendations on the European Semester, as well as for the negotiations on the EU budget and the Multiannual Financial Framework. The Directorate coordinates and supports in an expert manner the development and monitoring of the implementation of the National Development Programme BULGARIA 2030. The Directorate is the legal successor of the Agency for Economic Analysis and Forecasting. These activities are complemented by some of the main functions it performs, such as the contact structure for reporting on the European Semester, as well as in connection with the negotiations on the multiannual financial framework.

### 3.3.4. Audit of EU Funds Executive Agency at the Ministry of Finance

The "Audit of EU Funds" Executive Agency is the structure that will perform the audit activity under the Facility in order to ensure

in the reliability of the data for the implementation of the stages and aims and of the indicators and the way of their collection, as well as confidence that in the implementation the prevention of double funding, fraud, corruption and conflicts of interest is guaranteed and the principle of sound financial management is respected.

The Audit of EU Funds Executive Agency performs the audit activity under the RRF in accordance with the requirements of the European Commission according to Decision № 568 of 02.08.2021 of the Council of Ministers of the Republic of Bulgaria for organization and coordination of the participation of the Republic of Bulgaria in the EU Recovery and Resilience Facility.

The Audit Agency was established by Decree No. 305 of the Council of Ministers of 11.12.2008 and is a second-tier budget manager to the Minister of Finance. The Agency carries out specific audit activities in accordance with Chapter Five of the Public Sector Internal Audit Act (promulgated, SG, Issue No. 27 of 31.03.2006) and Ordinance No. N-2 of 30.06.2016 on the procedure and manner of implementation, coordination and harmonization of specific audit activities under funds and programs of the European Union (issued by the Minister of Finance, prom., SG, Issue No. 52 of July 8, 2016). The functions and powers of the AEUFEA are regulated in the Rules of Organization, adopted by Decree No. 346 of the Council of Ministers of 30.12.2008, last amendment and supplement of 31.08.2018.

The activity of the AEUFEA is carried out in accordance with the internationally recognized auditing standards, in compliance with the applicable EU regulations, national legislation and international agreements signed by the Republic of Bulgaria. The audit authority has the necessary administrative capacity to carry out the Agency's audit engagements. The auditors of the EAEUFEA are civil servants and are appointed in accordance with Art. 45, para 1 of the Public Sector Internal Audit Act. According to Art. 45, para. 2 of the law, the heads of audit teams must



have at least two years of experience in auditing EU funds. According to the Rules of Organization of the AEUFEEA, the staff headcount in the Agency is 72 full-time positions, distributed in one directorate, representing a general administration and four directorates - specialized administration: "Audits of regional policy funds", "Audits of social policy and education funds", "Audits of territorial cooperation and other programs funds" and "Legal provision of audit activities". The Agency is managed by an Executive Director (Professional Auditor) and a Secretary General for Administrative Affairs. In order to cover the obligations of the Agency in relation to the RRF and based on an analysis of the necessary administrative capacity for the RRF, preparations are underway to amend the Agency's Rules of Procedure.

The Audit of EU Funds Executive Agency has the necessary capacity and methodology to plan, carry out and report on audit activity in accordance with internationally recognized auditing standards and is a recognized partner of the European Court of Auditors and of the European Commission in its capacity as an Audit Authority of the ERDF, ESF, CF, Fund for European Aid to the Most Deprived (FEAD), Erasmus+, ReactEU, JTF. All 63 auditors and audit managers have a national audit certificate, of which additional international certificates have: 17 – Certified Government Auditing Professional, 4 – Certified Internal Auditor, 3 – Certified Fraud Examiner, 2 – Certified Information Systems Auditor, 1 - ACCA (full membership - Association of Chartered Certified Accountants). In addition, 11 of the auditors are attorneys-at-law and 5 are engineers, incl. 3 civil engineers.

The improvement, the continuous advanced training and continuous increase of professional experience of the employees is among the main goals of the AEUFEEA. The Agency shall maintain a register with information about the completed trainings and the certificates obtained by each auditor. Based on the information from the register and an annual analysis performed of the training needs, the Executive Director shall approve a training program for the employees in order to maintain a high level of competencies and skills.

If it is necessary to involve external persons with specific expertise, knowledge and skills to perform specific tasks related to the audit activity, the Audit Authority shall determine appropriate specific requirements for their qualification and experience. These individuals shall be included in an audit team to perform specific inspections and specific audit procedures. The results of these inspections shall be used for the purposes of the specific audit engagement. The responsibility for the audit activity and the quality control over the work of the involved external persons/auditors lies with the AEUFEEA in accordance with the applicable standards and the quality control methodology. The described possibility for attracting external persons is a matter of principle, as at the moment the Audit Authority does not plan to outsource the audit activity under the RRF.

In the process of preparation, implementation, control and audit of the RRP, functional independence of the structures is ensured, which ensures transparency and avoidance of conflicts of interest. Regarding the implementation and control of the RRP, a description of the institutional structure with all final recipients and other participants, their responsibilities and functions are indicated in the detailed description of the MCS, developed by the Ministry of Finance, incl. detailed rules and procedures and checklists for the main processes.



### 3.3.5. Final beneficiaries (FBs)

FBs are responsible for the implementation of investments and exercise control over their contractors in order to timely and high-quality implementation. In this regard and for the adequate management of the risks for the achievement of the objectives presented in item 4.1, FBs:

- Establish organization for the fulfillment of all requirements of the agreement with the Ministry of Finance and of the approved management and control system (MCS);
- Create/appoint a team for implementation of the investment within established units that implement/have implemented projects. For FBs with which the MoF concludes operational agreements, an assessment of the administrative capacity related to the specific activities under the RRP is performed before signing the operational agreement. In case the implementation of the investment is carried out by the FB in partnership, the MoF signs a general agreement with all FBs, which determines a lead FB responsible for the overall implementation of the investment;
- Render control over the contractors, in view of the qualitative and timely performance in conformity with the executed contracts. This activity is documented and the relevant audit trail is provided;
- Carry out consultations with the State Aid and Real Sector Directorate in the Ministry of Finance or with the Minister of Agriculture in the cases of Art. 8 of the LPA according to the rules and procedures established in the MCS according to the rules and procedures established in the QMS (except for private FBs where there is a MRS, which is responsible for consulting the State Aid and Real Sector Directorate in the MoF / Minister of agriculture); )
- Present in the Information System for RRP (IS for RRP) a report on a sample of MCS - financial and technical report (FTR), containing financial and technical information on the implementation of the investment in a structured form and declarative part, which confirms the implementation of commitments in the operational agreement. In case of delay in the fulfillment of the approved plan-schedule on the performance of the stages and targets of the investment, a compulsory requirement shall be the provision of information on the causes, potential risks and opportunities for overcoming of the delay in performance;
- Submit to the IS for the RRP a Report on the progress achieved in the implementation of the RRP reform (in case the FB is responsible for the implementation of the reform);
- By the submission of a report, the final beneficiary declares that for the reported period there are no cases, established by the competent bodies, of fraud, conflict of interests or corruption, or provides information on the number and type of the established cases, including the opinions issued by the competent bodies;
- Currently filling in information in IS-RRF in respect to: concluded contracts with contractors, cost justification and payment documents, documents proving performance (certificates, acts, etc. depending on the specifics of the investment), and forecast for payment, documents proving the implementation of the stages and objectives;



- Provide analytical accountancy reporting of all expenditures and made payments under the investment, for receivables and obligations, as well as comparability with the financial information mentioned in the financial-technical report. Analytical accountancy reporting is applied also upon financing of activities performed upon investment implementation by own funds or funds from another source of financing;
- Provide access for on-site inspection of the investment, incl. to the investment management team, the assets related to it, to all documentation, including electronic documents, which are stored in the organization of national and European control and audit bodies;
- FBs are responsible for keeping records and supporting documents, including statistics and other data related to funding, as well as records and documents in electronic format, for five years after the payment of the balance (final payment) or when there is no such payment after the transaction. When the funding does not exceed EUR 60 000, this period is three years;
- The information and the documents relating to audits, appeals, litigation, claims in connection with legal obligations or OLAF investigations shall be kept until the completion of such audits, appeals, litigation, claims or investigations. In relation to information and documents relating to OLAF investigations, the obligation shall apply after the recipient has been notified of such investigations;
- The information and documents shall be stored in the form of originals or certified copies of the originals or on generally accepted media, including electronic versions of the original documents or documents existing only in electronic form. In the event of existing electronic versions, originals are not required when these documents meet the applicable legal requirements in order to be considered equivalent to the originals and to be used for audit purposes;
- With the conclusion of an operational agreement, each FB undertakes to collect and register in the IS-RRF the following data under Art. 22, para. 2, letter "d" of Regulation No. 2021/241 for creating RRF: name of the contractor and subcontractor where the final recipient of the funds is a contracting authority in accordance with the EU law or the national law in the field of public procurement and his own name(s), surname(s) and date of birth of the actual owner(s) of the contractor within the meaning of § 2 of the additional provisions of the national Measures Against Money Laundering Act (MMLA), introducing the requirement of Article 3, item 6 of Directive (EU) 2015/849 of the European Parliament and of the Council. Based on the signed operational agreement, each FB is obliged to inform the NFD/MRS (depending on which body is a counterparty to the agreement) in case of change of the actual owner of the beneficiary within the meaning of § 2 of the Additional Provisions of the MMLA, as this information is registered in IS-RRF and

the inspections whether is updated and reliable are made respectively either by NFD or MRS. The storage of the above information is provided in the IS-RRF, and for the purposes of control and audit, the system administrator provides access to it in compliance with the provisions of the applicable legislation related to personal data protection;

- Each financial-technical report, submitted by the final beneficiary in respect to the implementation of the investment, shall provide topical information on related projects or investments, which the final beneficiary fulfills with financing from other EU programs/initiatives, in view of preventing double financing of the activities – a part of the project financed under the RRF. In case of similarity of activities, performed by the final beneficiary, he shall make clear demarcation thereof.

Activity	Final beneficiary	“National Fund” Directorate	Directorate Central Coordination Unit
Implementation of the investment, including negotiating	X		
Checking of documents related with the implementation of the investment		X	
Checking for double financing	X	X	X
Checking for fraud, conflict of interests and corruption	X	X	
Field checking of the investment, including fulfillment of the quantitative indicators	X	X	X
Checking on the fulfillment of the qualitative indicators/ reforms			X

As indicated in the Effective Implementation section, the implementation of the investments and reforms envisaged in the RRP also includes the line ministries with specialized structures or departments with responsibilities for the implementation of the respective policy at national level.

There are 3 hypotheses about the role of line ministries related to the implementation of RRP:

- implements investment/reform as FB;
- to carry out selection of final beneficiaries or determined final beneficiaries based on criteria set out in RRP and be responsible for the monitoring, reporting and control of investments and reforms in the relevant sphere as a monitoring and reporting structure (MRS);
- to trace the fulfillment of phases and targets for investments and reforms as a monitoring structure (MS).



### 3.3.6. Monitoring and Reporting Structure (MRS)

*LM - through a unit / structure appointed by the Minister, performs the functions of the MRS, which is responsible for the selection of the FB, in cases where such is provided, for negotiating funding with final beneficiaries, summarizing financial and technical information provided through FTR of the FB, and control over the implementation of investments. Within the framework of the investment implemented by the MRS, it is permissible for certain activities to be performed independently by the LM, to which the MRS belongs, and for others - by selection, if such is provided, to conclude financing agreements with the FB. The responsibilities of the MRS are described in detail in the Control and Audit section.*

### 3.3.7. Monitoring structure (MS)

Line ministry performs the functions of monitoring structure and has responsibilities for the realization of the relevant policy and its related reform. The MD is determined in case the FB is a public enterprise or is a secondary administrator of the LM and is directly responsible for the implementation of the investment. The responsibilities are defined in an agreement between the Ministry of Finance, line ministry/monitoring structure and the respective FB, taking into account the requirements of the MCS. The monitoring structure participates in the monitoring of the implementation of the stages and objectives, the compliance of the reported progress for the investment / reform, and reports on the implementation of the respective reform.

The monitoring structure participates in field checks at the final beneficiary or at the place of implementation of the investment, on request of the Ministry of Finance; provide thereupon expert/s possessing the requested specific qualification; the latter shall follow the procedure for performing an on-site inspection, envisaged by the MCS.

## 4. Consultation process

The beginning of the development of the National Plan for Reconstruction and Sustainability was set by Order of the Prime Minister of the Republic of Bulgaria of July 21, 2020 for the formation of an interdepartmental working group consisting, as a rule<sup>73</sup>, of line deputy ministers, the Chairman of the State e-Government Agency (SEGA), the Chairman of the Management Board of the Fund Manager of Financial Instruments in Bulgaria (FMFIB), the directors of the "Central Coordination Unit" and "Modernization of the Administration" directorates in the Administration of the Council of Ministers.

By Decision of the Council of Ministers of October 23, 2020, a mechanism for organization and coordination of Bulgaria's participation in the Recovery and Resilience Facility.

The conceptual framework of the proposals for the plan has been developed by the interdepartmental working group in order to correspond to the priorities of the RRF and the National Development

<sup>73</sup> Some of the ministries are represented at minister level, adviser to the minister or director of a directorate in the administration.



Programme BULGARIA 2030. A set of criteria was prepared in the form of a checklist according to the draft (then) Regulation on the RRF, as well as a draft application form with the relevant details for argumentation. The ministries represented in the working group were given a deadline to submit proposals.

The collected proposals were 107. The working group in the form of sectoral meetings started working on them and assessing their eligibility according to the framework of criteria under the RRF.

The interdepartmental working group to the Deputy Prime Minister held a total of 9 joint meetings and more than 20 sectoral meetings in two rounds at the political level at the beginning of the process of preparing project proposals for providing guidance on them.

83 interdepartmental meetings were held on horizontal topics at political and expert level, depending on the case, incl. coordination ones in relation to digital aspects of the proposals.

The nominated experts responsible for the project proposals held 8 joint meetings with a full complement.

5 meetings were held with the social partners and the National Association of Municipalities in the Republic of Bulgaria to present various stages of the preparation of the plan (from August 25, even before the establishment of the working group, to the end of January).

The line ministries have been assigned to conduct public consultations in the respective area of competence and more than 35 sectoral consultations have been conducted.

The first draft of the National Recovery and Resilience Plan was uploaded and made available to the general public on October 30, 2020 on a specially created internet platform: [www.nextgeneration.bg](http://www.nextgeneration.bg), as well as discussion open to the public, pursuant to the Statutory Instruments Act, on the portal for public consultations in the preparation of national legislation: [www.strategy.bg](http://www.strategy.bg). The consultation period is 30 days, also in accordance with the legal requirements applicable to draft regulations, 30 October - 29 November 2020. More than 90 responses to the consultations were received, within and outside the deadline set for this. As the consultations were open, opinions on the first draft were received from a wide range of organizations: employers, business, trade unions, non-governmental organizations in various fields, environment, energy, etc., research organizations, etc.

5 interactive presentations were made, available on a dedicated YouTube channel called "Next Generation":

<https://www.youtube.com/channel/UCkuN11GCwbnPOJGkqwcDAEg>.

The first interactive presentation (October 30, 2020) presents the plan in its entirety, as well as its place in relation to the multiannual financial framework.

<https://www.youtube.com/watch?v=Ba4i3EFZOp4>



and an opportunity from a "questions and answers" session.

Innovative Bulgaria - broadcast on November 13, 2020

[https://www.youtube.com/watch?v=72JtKEN\\_Aq4](https://www.youtube.com/watch?v=72JtKEN_Aq4):

Connected Bulgaria - broadcast on November 20, 2020

<https://www.youtube.com/watch?v=HhScsgNKBeM;>

Fair Bulgaria - broadcast on November 27, 2020.

[https://www.youtube.com/watch?v=AlWN39\\_BXs4](https://www.youtube.com/watch?v=AlWN39_BXs4):

Green Bulgaria - broadcast on November 4, 2020

[https://www.youtube.com/watch?v=nOioYoNMq40.](https://www.youtube.com/watch?v=nOioYoNMq40)

A second version of the plan was sent to the EC on February 1, 2021 and published on the portal [www.nextgeneration.bg](http://www.nextgeneration.bg), and builds on the first version based on the discussions during the technical meetings with the EC and the public consultations. Major changes in the second version include increased support for business, in particular SMEs, a stronger focus on the low-carbon economy and the energy sector, sustainable mobility, digital skills, healthcare etc.

The following changes were effected by the public consultations:

- The part of the Plan that envisages providing support for the development of SMEs has been strengthened - the change is motivated by numerous comments received from representatives of employers' organizations, business associations and research organizations.
- A specific element is included in the Plan, aimed at building basic digital skills in the workforce. The change addresses comments received from representatives of the non-governmental sector, research organizations, workers' associations and others.
- The part of the Plan, envisaging providing support for the transition to a low-carbon economy, has been restructured. The change is in response to a number of proposals received from representatives of the non-governmental sector involved in environmental issues, branch organizations of energy producers and traders, research organizations and others.
- In addition to the envisaged investments for decarbonization of the economy, the reform intentions in this field have been significantly strengthened. The change is motivated by proposals received from representatives of the non-governmental sector involved in environmental issues, branch organizations of energy producers and traders and others.
- The topic of "sustainable urban mobility" is included. The change addresses opinions received from representatives of local authorities, branch associations of carriers, as well as of the non-governmental sector involved in environmental issues.

The scope of the interventions envisaged in the field of healthcare has been expanded. The changes were provoked by comments and suggestions received from representatives of the non-governmental sector and others.

The latest version of the plan is based on the previous ones and builds on additionally held technical meetings with the Commission and public consultations, reflecting the comments received previously. The procedure for submitting new project proposals was resumed. As a result, more than 30 new project proposals were received, as well as several reform proposals. More than 70 meetings were held with representatives of the institutions of the European Commission, Commissioner Johannes Hahn, ambassadors, representatives of international institutions in the country, representatives of civil society, the National Council for Tripartite Cooperation (NCTC), employers and trade unions, as well as the Economic and Social Council (ESC). Finally, three meetings of the working group were also held.

These discussions at political and expert level led to the decision to update approximately half of the existing projects and add new ones.

After its final preparation, the Recovery and Resilience Plan (RRP) will be approved by an act of the Council of Ministers and officially sent to the EC.

In the process of evaluation by the EC services, additional elements were put in place, which required changes in order to achieve compliance with the requirements of the RRP Regulation and the Bulgarian national positions. With this in mind, limited changes have been made focused on the low-carbon economy and transport connectivity components. At an informal meeting of the National Council for Tripartite Cooperation on February 9, 2022, the main changes in the whole plan were presented. The changes in the field of energy, transport and healthcare were the subject of a preliminary public discussion on February 11, 2022, which was also broadcast online. Deputy Prime Minister for EU Funds Management presented the changes to the drafts at a meeting of the relevant committee on 10 March 2022 and at a special hearing in the National Assembly on 11 March 2022. After consultation with the European Commission, all significantly revised drafts were published at online portal [nextgeneration.bg](http://nextgeneration.bg) in March 2022

## 5. *Control and audit*

### 5.1. Control activities

According to the requirements of Art. 22 of Regulation 2021/241 on the establishment of the RRF and the EC Guidelines and in order to ensure a functioning stable control environment for the implementation of the RRP, a description of the Management and Control Systems (MCS) at national level has been developed.

The overall monitoring of the RRP activities is carried out by the Central Coordination Unit Directorate, and the control is carried out by the National Fund Directorate.



**The National Fund Directorate has the following responsibilities:**

- To prepare agreements with the final beneficiaries after analysis and confirmed administrative capacity for implementation;
- To create an organization for implementation of the requirements of the RRP agreement and of the MCS;
- To perform checks before making of payments to the FB. When investment is implemented through MRS, to ensure limit for performing payments to MRS, upon fulfillment of the obligations stipulated by the operative agreement;
- To receive financial and technical reports from the final beneficiaries and MRS then check it as per the MCS;
- To continuously control the information entered in the IS-RRF in connection with Art. 22, para. 2, item d of Regulation 2021/241, the concluded contracts with contractors, the documents related to the performance of the contracts, as well as to the performance, as well as to the performance of the stages and objectives;
- In case of information received/established during the inspection, leading to suspicion of fraud, conflict of interest or corruption related to the implementation of a specific contract, financed by the RRF, to review the information and form a reasoned conclusion that there are grounds for processing the information as a serious irregularity, to submit it for additional inspection to the AFCOS Directorate, to introduce it in a timely manner in the IS-RRF and to update the planned / performed follow-up actions;
- To plan RRP funds and provide financial-accounting reporting for all processes arising from the financial management and control it renders;
- To provide access to documents and coordinate the access to the place of performance of investments for national and European control and auditing bodies, including the EC, ESA, OLAF and the European Prosecutor's Office.
- To provide adequate audit trail;
- To check for double funding using information systems for shared management programs, as well as other information systems and databases.

In connection with the implementation of the investments under the RRP, NFD performs the following checks:

- control of the documentation for public procurement for the investments in accordance with the procedure and rules of MCS, documenting the results of the inspections in checklists. In case of established omissions, which may lead to public procurement legislation, it makes recommendations for their elimination and/or notifies to the competent body, which is the Public Financial Inspection Agency (PFIA);
- of financial and technical reports, which provide the FB for the investments financed by the RRF, for:



reported financial and physical progress;

- compliance with the applicable public procurement legislation and the absence of conflicts of interest, corruption and fraud;
- the absence of double financing
- analytical accounting kept by the FB/MCS on the investment, as well as on the comparability of financial information by documenting the results in checklists (approved as part of the MCS) and confirming the availability of information according to Art. 22, Para. 2, item (d) Regulation (EU) 2021/241;
  - on site if there is indication of problems / discrepancies / risk of delay or illegal actions / allegations, and if specific expertise is necessary, it may request assistance from the respective line ministry. The results of all performed inspections are documented in the checklists approved as part of the MCS;
  - administrative verification of the submitted reports on the investments, which are implemented through the MRS, as well as of the delegated activities.

The NFD maintains information about the performed control and ensures objective, accurate, complete, reliable and timely accounting of all business operations in connection with the RRF under the agreements for providing funds, paid funds to FBs, adjustment of the expenses in case of established serious irregularities and other sources relevant to the verification.

In accordance with the requirement of Article 22 (2) (e) of the RRP Regulation, access to information is provided in the system of the EC, ECA, OLAF and the European Public Prosecutor's Office through explicit provisions in the MCS, as well as in the financing agreements.

During the inspection of the FTR, inspections for the absence of double financing are to be implemented on the cost justification documents or other documents with equivalent probative value through requirements for specific details, as well as through an inspection in the accounting system, described in detail in the section below.

By concluding an operational agreement, the MRS performs the following activities:



**The activities carried out by the MRS are:**

- Selection of FB in compliance with the responsibilities specified in the operating agreement and under the provisions of the legislation and the conclusion of financing agreements;
- Payments to final beneficiaries upon fulfillment of the obligations stipulated by the operating agreement;
- Carrying out inspections and control activities of the FB according to the MCS
- Before starting the procedure on the selection of FB, MRS concurs the documents for conformity with the applicable normative base regarding government assistance with "Government Assistance and Government Sector" Directorate with the Ministry of Finance / Minister of Agriculture in cases set put in the State Aid Act;
- The MRS submits a summarized FTR to the NFD after a model form, including a declarative part confirming the fulfillment of all engagements under the agreement, summarize of the results of the implemented control activities, the identified risks and undertaken actions for their overcoming, including activities on the rectification of omissions and deficiencies, identified at field checks or by auditing and control bodies. In case of a delay in the fulfillment of the approved plan-schedule, a compulsory requirement shall be the provision of information on the causes, risks and opportunities for overcoming of the delay in performance;
- By submitting a summarized report to the National Fund Directorate, the MRS declares the absence or provides information on the number and type of the established cases of serious irregularities and the affected investments and expenditures to recover.
- Confirm the availability of information in accordance with Art. 22, item 2, letter "b" of Regulation 2021/ 241;
- It shall perform verification of the information in the technical report of the investments, concerning the related projects, financed from sources outside the RRF, in order to prevent double funding of activities.
- It shall maintain in the IS - RRF information about the performed control.

The information systems that will support the control activities under the RRF and in which the information under the RRP will be stored are:



**The integrated SAP system:**

- administered by the Ministry of Finance, applying the approved policies, rules and procedures in the Ministry, in accordance with the requirements of the Electronic Government Act, the Cyber Security Act and the Ordinance on the minimum requirements for network and information security
- authorized access is provided to employees performing functions under accounting or control of the accounting by NFD and MRS;
- the system has been audited in connection with the implementation of the operational programs, EU funded for the programming periods 2007-2013 and 2014-2020;
- the entire accounting process will be implemented in the system, including: compilation of reliable and accurate data on requested and received advance payment and on the requested amounts with requests for payment sent to the EC; the receivables and liabilities of the FB arising from the financing agreements/contracts and the payments made;
- the budgeting and project management functions will be used for all investments included in the RRP, and an appropriate analytical structure will be developed in order to control the costs incurred;
- in the system will be ensured the fulfillment of all requirements arising from the national methodology for accounting reporting of EU funds.



### Information system - RRF

*In Bulgaria, the Information System for Management and Monitoring of EU Funds (UMIS2020) performs the functions of the Information System for RRF. The data for each investment / reform, necessary for the purposes of the monitoring, evaluation, financial management, inspections and audit of the RRF, are recorded and stored in a computerized form in the IS for the RRF. The system is administered by the CCU to the Administration of the Council of Ministers, is used for providing authorized access to all FBs, structures and units engaged in the management, control and audit of the RRF in accordance with clearly defined rules for working with information. Access may also be granted to other persons for control or surveillance as necessary, including the EC, the ECA, OLAF and the European Public Prosecutor's Office.*

*The IS for RRF covers the following main elements:*

- it includes a list of financing agreements and contracts;
- it reflects the financial reporting process to the elements: data on the financial and technical progress of the investments; schedule and progress formed on the basis of measurable data/documents;
- it maintains information on the selection, evaluation and negotiation process;
- it maintains information on the incurred expenses and all supporting vouchers related to the implementation of the investments financed by the RRF and complementary funding (if applicable);
- provides data and information on the control process and audit trail for the purposes of audit and control engagements;
- contains data on the grounds and the manner of adjustment of funding from the RRF as a result of deficiencies identified by control and audit inspections;
- it contains data on serious irregularities and the results of deficiencies identified by the national competent authorities;
- it contains data on contractors, subcontractors and individuals, recipients of funding from the RRF;
- it contains information related to the implementation of the stages and objectives of the investments/reforms.

In this regard, a stage for the adaptation of the system with an implementation deadline before submitting a request for the first tranche of the RRP is included in the RRP.

Integration is envisaged between the risk management and data storage tools and the IS - RRF.

Information on progress In case progress is reported on the investment and on the implementation of the reform, the information on the progress is reviewed by the *Central Coordination Unit*. The data shall be used both for reporting purposes within the European Semester cycle and for assessing the implementation of the milestones and targets of the respective reform. If necessary, the *Central Coordination Unit* requests additional information and / or requests



taking corrective action to confirm the final reporting information. The results of the review are available in the IS for RRF and shall be taken into account by the National Fund Directorate in order to be reflected/applied in the preparation of the payment request to the EC, as the procedure is described in section Preparation and Sending a Payment Request.

#### 5.1.1. Public Procurement Control

In accordance with Art. 22 of Regulation EC (EU) 2021/241, measures have been taken to protect the financial interests of the EU and to ensure that the use of the Facility complies with applicable EU and national law. With regard to the public procurement, which are to be held, these measures consist in ensuring compliance with the applicable legislation by carrying out the inspections set out in the MCS. The inspections for compliance with the legislation are carried out through preliminary and follow-up control on the public procurement procedures.

The preliminary and follow-up controls are performed with adequate division of responsibilities and through checklists (annexes to the MCS).

The preliminary control is performed by the National Fund Directorate and the MRS, regardless of the control exercised by the Public Procurement Agency for legality within the meaning of Art. 229 of the Public Procurement Act. The control is carried out with regard to the tender documentation and the reasons for amending any concluded contracts as a result of public procurements in accordance with the scope, rules and procedures set out in the MCS, and it is a way for preventing errors and irregularities in awarding the contracts. A motivated conclusion for the presence / absence of potential violations, as well as proposals for their avoidance / recommendations for corrective actions, are documented in each checklist for the performed preliminary control. The persons responsible for the preparation of the inspected draft documents shall take into account the conclusion and take the necessary corrective actions. The preliminary control also contributes to managing and minimizing the risk of fraud, corruption and conflicts of interest. The developed checklists for preliminary control contain the so-called red flags, applicable for the respective stage of the procedure.

The follow-up control aims to establish whether the public procurement procedure has been carried out lawfully. It is performed within the FTR inspection or prior.

The follow-up control, as part of the verification for ensuring that the use of the funds under the Facility corresponds to the applicable EU and national law, always takes into account the findings of the preliminary control. The follow-up control is carried out after undertaking an obligation to establish the legality of the actions in order to submit a payment request. In case of established omissions in the procedure for awarding a public procurement, a motivated finding shall be prepared and the PFIA should be notified. The developed checklists for follow-up control, similar to those for preliminary control, contain the so-called red flags or indicators of fraud with regard to: unexplained or unusual favoring of a particular tenderer (e.g. only one tender submitted; only one tenderer ranked; restrictive requirements and / or conditions favoring certain



economic operators; illegally removed tenderers; the tenderer designated as contractor does not correspond to the requirements of the contracting authority, unequal treatment of the participants in the procedure); close contacts (including publicly known) between a member of the commission for conducting the procedure or another employee directly involved in conducting the procedure and the contractor; change of an offer after being submitted after the deadline for submitting the tenders have expired, etc. These are the most common forms of fraud and red flags of fraud in connection with a public procurement.

Within the assessment of the administrative capacity, presented in item 4.2, an assessment of the capacity for implementation of public procurement procedures is also performed. When the need of trainings in the field of public procurement is established, they are conducted within the project for horizontal technical assistance under the RRP.

- .1.2. Activities related to the monitoring and control of the achievement of the milestones and targets

After signing the agreements with the Ministry of Finance in the IS - RRF, a schedule with the implementation of the milestones and targets of each investment, included in the RRF, will be uploaded, and the information will be updated regularly during the implementation. The schedule should ensure the implementation of the stages and targets in the RRP as well as the submission of requests to the EC in accordance with the agreement reached in the profile of payments. The information on the achievement of the milestones and targets is part of the FTR/summarized FTR submitted by the final beneficiaries and it is available in the IS - RRF. The reports shall be submitted quarterly and shall be subject to verification, control, and approval.

The implementation of the milestones and targets shall be inspected and confirmed by the National Fund Directorate (investments) or Central Coordination Unit (reforms)/MRS according to the controls set in the checklist for checking the Final Technical Report (FTR), as the submitted implementation proof must also be inspected. The main control elements include: verification of the reported progress in the implementation of the set quantitative indicators for compliance with the current schedule and the estimated values of the investment and in the plan, as well as verification of the evidence submitted by a competent authority, to confirm that the reported values are correct (actually achieved), accurate, complete and timely collected (in the implementation of the specific activity).

Depending on the nature of the reported implementation, an on-site inspection may be initiated to confirm it. If a specific expertise is required, the National Fund Directorate may request the MS and Central Coordination Unit Directorate to provide experts for the inspection. The main elements of the inspection include: verification for compliance of the technical characteristics of the delivered assets/performed services/performed construction works with the technical specifications in the contract in terms of quantity and quality, as well as the availability of documentation corresponding to the requirements of the national legislation and confirming the reported investment progress.



The progress in the implementation of the reforms is presented in the FTR in a special section “Report on the progress of the reform” and it is accompanied by supporting documents with which this implementation can be certified. The *Central Coordination Unit* reviews the reported information entered in the IS for RRF and confirms the data on the progress of the reform, which are taken into account both to take into account the stages and objectives of the respective reform in preparing a request for payment under the RRP. and to report on the European Semester cycle.

## 5.2. Measures to protect the EU's financial interests from fraud, corruption, conflict of interest and double funding

With Decision No. 833 of the Council of Ministers of the Republic of Bulgaria of 12 November 2020 a *National Strategy for Prevention and Fight against Irregularities and Fraud, Affecting the Financial Interests of the European Union for the period 2021-2027* was adopted. The main goal of the National Strategy is to upgrade and continue the efforts to improve the prevention, detection and counteraction of the irregularities and fraud in the revenue and expenditure part of the EU budget.

The National Strategy outlines the targets and actions of the competent national authorities in the Republic of Bulgaria in the field of prevention and combating irregularities and fraud affecting the financial interests of the European Union for the period 2021 - 2027, taking into account new initiatives to protect the financial interests of EU at European level - Directive (EU) 2017/1371 of the European Parliament and of the Council of 5 July 2017 on the fight against fraud to the Union's financial interests by means of criminal law (PIF Directive), Regulation (EU) 2017/1939 of Council of 12 October 2017 implementing enhanced cooperation on the establishment of the European Public Prosecutor's Office (EPPO Regulation) and Directive (EU) 2019/1937 of the European Parliament and of the Council of 23 October 2019 on the protection of persons who report breaches of Union law.

In the implementation of the National Strategy, the Council of Ministers with Decision No. 241 of 19 March 2021, adopted an Action Plan for 2021. The Action Plan sets a framework for achieving the strategic and operational objectives of the National Strategy, and the its activities contribute to achieving the objectives.

The national strategy and the action plan are also applicable in connection with the management and control of the funds under the RRF. According to the Action Plan, the NFD (in connection with the functions performed under the RRF) has to introduce a specific, clearly defined procedure related to serious irregularities (fraud, corruption, and conflict of interest). The procedure specifies the responsibilities of the participants in the process, the measures to combat fraud and conflict of interest, and the procedure for reporting allegations and suspicions of fraud and conflict of interest.

The role of the participants in the process of implementation and control of the RRF in the prevention, detection, correction and investigation of fraud, corruption and conflicts of interest is summarized in the following chart:





The participants in the process of implementation and control of RRF (FB, NFD, MRS, AEUFEA, AFCOS) apply controls for prevention, detection and correction of fraud, conflict of interest, and corruption. The investigative functions shall be performed by the competent authorities within the limits of their powers under the EU or national law: The Prosecutor's Office of the Republic of Bulgaria, the European Prosecutor's Office, the Anti-Corruption and Forfeiture of Illegally Acquired Assets Commission (ACFIAAC), AFCOS and OLAF. The information on the cases of serious irregularities is entered, updated and stored in a special module in the IS - RRF. In fulfilling their obligations, the participants will use all available information systems, incl. ARACHNE, ISMM (Unified Information System for Management and Monitoring of EU Funds), MIS (information systems for cross-border cooperation programs), etc.

### 5.2.1. Prevention

The measures applied in order to prevent the occurrence of fraud, corruption and conflict of interest are the following:

- The employees of the final beneficiary that are line ministries and departments, and those of the NFD and the MRS apply the Code of Conduct for the employees in the state administration, adopted by Decree No. 57 of the Council of Ministers of 07.04.2020, in force from 08.05.2020. This Code defines the rules for ethical conduct of state officials who should perform their activities in compliance with the principles of legality, good faith, impartiality, equality, integrity, etc. The Code sets out rules for the anti-corruption conduct of employees, it sets out requirements and prohibitions regarding the acceptance of gifts, services, money, benefits and other advantages that may affect the performance of their official duties, as well as a ban on mediating for such purposes, performed or not an

official action. The Code obliges employees to report to the head of the line ministry or department any information that has become known to them about corruption or a conflict of interest in the respective administration.

- In order to ensure information and understanding of the employees of the countries involved in the implementation, monitoring and control of investments by the investment implementation team of the FB and the employees of NFD and MRS, they sign a declaration that they are familiar with the definition of irregularity within the meaning of Regulation (EC, Euratom) No 2988/95, the definition of corruption within the meaning of Art. 3, para. 1 of the Anti-Corruption and Confiscation of Illegally Acquired Property Act, as well as the composition of the crime of fraud under Art. 209, Art. 212 and 212a of the Penal Code, the composition of the crime of bribery under Art. 301, Art. 304, 304a, 304b, 304c and provocation to bribe under Art. 307 of the Penal Code and with the composition of the crime misappropriation under Art. 201 of the Criminal Code transposed into Bulgarian law definitions of fraud within the meaning of Article 3 and active and passive corruption and embezzlement within the meaning of Article 4 of Directive (EU) 2017/1371 of the European Parliament and of the Council of 5 July 2017 year on combating fraud affecting the financial interests of the Union under criminal law) as well as the definitions of fraud and corruption within the meaning of Art. 3 and Art. 4 of Directive (EU) 2017/1371 of the European Parliament and of the Council of 5 July 2017 on combating fraud affecting the financial interests of the Union under criminal law and the procedure for processing information received on such irregularities.
- The members of the team for implementation of the investment of FB, as well as the employees of the NFD and MRS, shall sign a declaration for the absence of conflict of interests by virtue of Art. 61 (3) of Regulation (EU, Euratom) No. 2018/ 1046 and Art. 52 of the Law on Anti-Corruption and Confiscation of Illegally Acquired Property, and that they are familiar with the procedure for reporting allegations and suspicions of fraud, corruption and conflict of interest. In the event that a situation arises after the initial signing of the declaration against an employee, which may affect the impartial and objective performance of his/her duties, the person concerned shall be obliged to declare these circumstances immediately to his/her immediate supervisor. The latter must assess the need to replace the person who has declared a possible conflict of interest. Notwithstanding the above, since the moment of learning the circumstances, the person must refrain from any actions that may compromise the impartial performance of his/her official duties. Declarations for the absence of conflict of interest are also signed by the persons participating in the commissions for evaluation of the bids and the selection of contractors when activities under the investments are assigned. In addition, the members of the evaluation commissions in the MRS in connection with the provision to FB of funds under the RRF shall sign a declaration that:
- are not in conflict of interest within the meaning of Art. 61 of Regulation (EU, Euratom) 2018/1046 with any of the applicants or partners in the procedure for granting funds under the Facility;



- They have no interest in providing funds under the specific procedure;
- They are not related to a candidate or partner in the procedure;
- They are not persons who are hierarchically dependent on each other.

In the event of any of the above circumstances in the course of the evaluation process, the person concerned shall immediately inform the Head of the Monitoring and Reporting Structure in writing and shall be removed from the evaluation process.

- Pursuant to the Anti-Corruption and Forfeiture of Illegally Acquired Assets Act upon starting work, annually, as well as upon termination of the employment and after the expiration of one year from this circumstance, the persons holding senior public positions shall fill in and sign before the selection or appointment body a declaration of property and interests under Art. 35, para. 1, item 2 of the law. Such declarations are also signed upon appointment and on an annual basis by all government officials. In case of change in the declared circumstances, a new declaration shall be signed.
- For the implementation of the investment activities, FBs that a public or sectoral contracting authorities within the meaning of the Public Procurement Act, shall award public contracts by virtue of the Public Procurement Act. The public procurement orders are subject to preliminary control on the part of the Public Procurement Agency in conformity with Art. 229 (1) (d, e & f) of the Public Procurement Act. In addition, besides the above-mentioned inspection of the Public Procurement Agency, a preliminary control is carried out for compliance with the applicable European and national requirements in the field of public procurement at the main stages of awarding the public procurement. The follow-up control is a key tool for preventing potential breaches in the award of activities. It is carried out on the basis of a checklist and it ends with proposals to avoid violations and recommendations for corrective action, if there are grounds for such. The persons responsible for the preparation of the inspected draft documents shall take into account the conclusion and take the necessary corrective actions. The preliminary control is performed by people other than those who participated in the preparation of the tender documents.
- In case the FBs are not contracting authorities under the Public Procurement Act and assign construction, supplies and services above the thresholds under the Public Procurement Act for concluding a contract without a procedure, they shall comply with the procedures for the selection of a contractor regulated in the national legislation. This regulation sets out the rules for the collection, review and evaluation of tenders and the conclusion of contracts with contractors by the FBs in compliance with the principles of fair competition, equality, publicity and non-discrimination and by applying the measures to avoid conflicts of interest and connectivity.
- The NFD and each MRS shall carry out a fraud risk assessment in order to determine effective and proportionate anti-fraud measures within the area of investments. For this purpose, the fraud risk self-assessment tool attached to the Guidelines of the European Commission for the Member States and the bodies responsible for the programs, with No. EGESIF\_14-00-21-00/16.06.2014, and which has been revised for application under the RRF shall be used. The aim is following the implementation of the fraud risk self-assessment tool and in view of the related control measures introduced at the system level to identify specific situations that may arise in the implementation of investments, which can be characterized as specific indicators of fraud ("red flags"). The instrument includes risks and restrictive control measures in the three key areas - selection of project proposals, implementation of investments and public procurements.

- Trainings of the participants in the process of implementation and control of investments, financed by the RRF, on topics related to the risks of serious irregularities, prevention and establishment of such, are provided within the project "General Technical Assistance to Increase the Administrative Capacity upon the RRF's Implementation" or by participating in trainings organized by national and European training institutes, as well as by the NFD with the assistance of the Audit Authority, AFCOS, the School of Public Finance, the Institute of Public Administration.

### 5.2.2. Establishment

The suspicions of fraud, corruption or conflict of interest, as well as the indications of their occurrence, are usually established in the course of control activity by the NFD/MRS (verification of the reported costs and activities, on site inspection) and / or upon receiving information from an external source — an allegation from a person, civil organization, media publication, etc. In this regard, the means of detecting serious irregularities are the following:

- When performing an inspection of a public procurement (preliminary and follow-up), financial and technical report and on site checks, it is obligatory to analyze whether there are signs of fraud, conflict of interest and corruption, using the data from the ARACHNE system, as well as those contained in the Trade Register. According to the current Trade Register and the Register of Non-Profit Legal Entities Act, Trade Register and the Register of Non-Profit Legal Entities is a common electronic database containing the legally required circumstances and the deeds announced as legally required for the traders and the branches of foreign traders, non-profit legal entities and branches of foreign non-profit legal entities. The data contained in the Trade Register include data for the owners of the legal entities, their representatives, the members of their management bodies. This information will be used to check the connection of the people (FB and contractor for an activity in the investment project). In case of indications for such connection, it should be reported in accordance with the established procedure in order for an inspection for the presence of a conflict of interest to be made. Upon establishing a conflict of interests (related parties), the affected contract with the FB/contract with contractor, etc. is not financed with funds from the RRF. During the inspection, where there are any fraud indicators should also be checked using the so-called "red flags" applicable to the ESIFs and specified in the following detailed guides: Identification of conflict of interest in public procurement procedures for structural actions - EC practical guide,

European Anti-Fraud Office (OLAF), Information note on fraud indicators for the ERDF, ESF and CF (COCOF 09/0003/00-EN) and EC Guidelines on fraud risk assessment and effective and proportionate anti-fraud measures. For the purposes of the inspection, the information received through the button for allegations on the page of the Ministry of Finance and the MRS, as well as the information for allegation for irregularities reported in the IS, in respect to the RRF will be taken into account; The results of the inspections shall be documented in the relevant checklists. In case of established "red flags," the information is provided to the AFCOS Directorate in the Ministry of Interior for additional inspection and referral to the competent authorities (Prosecutor's Office of the Republic of Bulgaria / European Prosecutor's Office / ACFIAAC).

- The results and findings of reports of audit and control bodies shall be reported.
- There is a possibility to submit signals for irregularities through the buttons for reporting on the websites of all administrations managing European funds. Allegations can also be submitted orally, in writing and by e-mail. The basic regulation of the submission and consideration of allegations is contained in Chapter 8 of the Administrative Procedure Code (APC). Art. 108 (2) of the APC contains the fundamental protection of whistleblowers, namely that no one can be prosecuted for submitting an allegation.

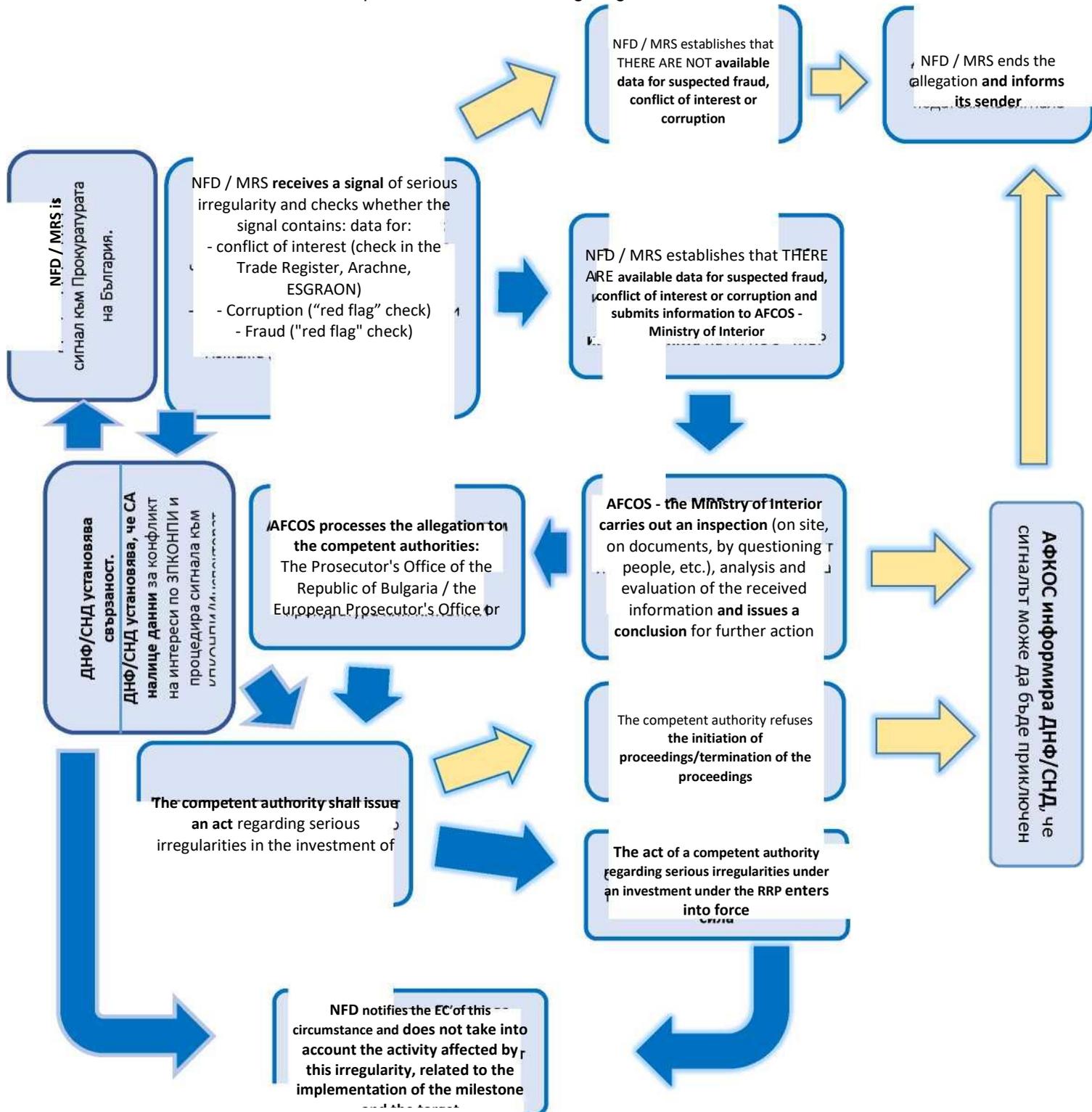
The structures involved in the implementation and control of the process, NFD and MRS, upon finding in the course of their control activity an indicator of serious irregularity or if they have received an allegation from an external source (via the button for reporting irregularities on their websites or orally, via emails and letters), shall review the information to identify whether it relates to fraud, corruption or conflict of interest. When forming a reasoned conclusion that there are grounds for processing the information as a serious irregularity, the information is submitted for additional inspection to the Anti-Fraud Coordination Service at the European Union (AFCOS) in the Ministry of Interior through IS - RRF. In Bulgaria, the AFCOS unit is part of the administrative structure of the Ministry of Interior. According to the Rules for the structure and activity of the Ministry of Interior, in force since 22.07.2014, the AFCOS has the functional competence to perform analysis, assessment and verification of the received allegations for irregularities. The AFCOS Directorate shall carry out the specified actions in order to form a conclusion whether the information contains sufficient data to be processed as a message of fraud, corruption or conflict of interest, which is to be sent to the respective competitive authority (the Prosecutor's Office of the Republic of Bulgaria / the European Public Prosecutor's Office / ACFIAAC) and to OLAF. When the allegation contains information about a criminal act in respect of which the European Public Prosecutor's Office could exercise its competence under Art. 22 of Council Regulation (EU) 2017/1939 of 12 October 2017 implementing enhanced cooperation on the establishment of the European Public Prosecutor's Office, AFCOS Directorate, without undue delay and without changes in the content of the allegation, shall report it to the European Public Prosecutor's Office.

AFCOS Directorate shall inform NFD about the actions taken - the inspection performed, analysis, assessment and conclusion made, notification to a competent authority, as well as about the information received from the establishing and investigating body on the current status



of the case, for the purposes of reporting this information by the NFD upon submission of a request for payment to the EC. The AFCOS Directorate shall receive information on the status of the respective case and its closure on the basis of concluded cooperation agreements with the relevant competent authorities.

The detailed procedure for administering reports of serious irregularities is contained in the MCS, which is presented in the following diagram:



In case the allegation of serious irregularity affects the head of the MRS or another official authorized by him, whose responsibility is to process the allegation, it should be submitted to the National Fund Directorate, which should carry out the actions for processing the allegation to the AFCOS Directorate. When the allegation concerns the director of the National Fund Directorate or another employee of the Directorate, the information should be transmitted directly to:

- the director of the National Fund Directorate (in the case of an allegation for an employee of the Directorate), or to
- the Deputy Minister of Finance in line for the National Fund Directorate or to the Minister of Finance, or to
- Director of the Protection of the European Union Financial Interests Directorate (AFCOS) in the Ministry of Interior, or to
- the European Anti-Fraud Office (OLAF) of the European Commission.

In these cases, the Inspectorate in the respective department (the Ministry of Finance or such within which the MRS is located) should also be informed.

By signing the declaration mentioned in item a), the members of the team of the final beneficiaries declare that they are familiar with the procedure for reporting allegations and suspicions of fraud, corruption and conflict of interest, specified above. In case of a suspicion or a presence of data for such irregularities, as well as in case of any "red flags", the final beneficiaries shall submit an allegation to the NFD / MRS or directly to the relevant competent authority (the Prosecutor's Office of the Republic of Bulgaria / European Prosecutor's Office / ACFIAAC). When informing the NFD / MCS, the procedure established in the NCS and described above for checking and processing the information as a serious irregularity shall be applied.

The whole information for any files for inspections on allegations (including the actions taken and corrective measures) shall be entered, updated, and stored in the IS - RRF. Upon the establishment of fraud, conflict of interests or corruption, the acts of the competent bodies shall be applied in the IS-RRF; The NFD takes it into account when submitting a request to the EC.

The NFD exercises control the timely updating and completion of information on violations, omissions and serious irregularities in the IS-RRF, including the below mentioned actions to correct payments with RRF funds, as well as the actions taken by the MRS and AFCOS, having the right to request additional information and documents on the cases.

### 5.2.3. Adjustment

The corrective actions that are taken regarding the payment requests and the reporting of the implementation of the milestones and targets under the RRP to the EC in connection with the signals and the cases of serious irregularities are the following:

- In case of received and registered signal for fraud, corruption or conflict of interests, initiated pre-trial proceedings in connection with a report of a crime of fraud or corruption or a check to establish a conflict of interest.

interests related to investment in RRP, but the presence of stages and objectives of RRP, the latter are declared as achieved by NFD to the EC and provide information on signals of serious irregularities concerning these stages and objectives, and corrective measures taken by national organs.

- In case of established serious irregularity (entered into force court decision, act of a competent body under the Law on Anti-Corruption and Confiscation of Illegally Acquired Property or established conflict of interests /related parties/ of NFD or MRS) regarding serious irregularities in an investment under RRP, the NFD notifies the EC of this circumstance and does not take into account the activity affected by this irregularity, related to the implementation of the milestone and the target. In case of an effective act of a competent authority regarding serious irregularities in an investment under RRP, the NFD notifies the EC of this circumstance and does not take into account the activity affected by this irregularity, related to the implementation of the milestone and the target.

At the national level, in the relations between NFD / MRS and the final beneficiaries, the following actions are taken if there is an allegation or a case of serious irregularity :

The payments with funds from the RRF shall be suspended in case of initiated pre-trial proceedings in connection with a report of a crime of fraud or corruption concerning an investment under the RRF and in case of a conflict of interest established by an act of the competent authority.

The suspension of investment payments is proportionate to the impact of that fraud, corruption or conflicts of interest. If they concern a core business or affect a significant part of the investment, payments on the entire investment are suspended. If the serious irregularity affects only a certain, identifiable part of the investment, and this can be proven, only the payment corresponding to its implementation shall be suspended.

In case of a suspicion of fraud, corruption or conflict of interest in relation to an official in connection with the official functions performed by him/her and concerning the implementation of an investment under the RRF, the person shall be forbidden from carrying out any activities in relation to this investment.

When a participant in the process of implementation and control learns circumstances that may create a conflict of interest regarding the investment under the RRF, he/she is obliged to withdraw from the implementation of a specific authority or duty by notifying his/her immediate supervisor.

Follow-up actions to any case of fraud, corruption or conflict of interest aiming at recovering all wrongfully spent EU funds are the actions for recovering wrongfully paid or wrongfully spent by the final beneficiary amounts as per the applicable national law for the recovery of government receivables from the National Revenue Agency. The procedure for collection of receivables is specified in the MCS.

#### 5.2.4. Investigation

Depending on the nature of the irregularity (fraud, corruption or conflict of interest), the competent authorities that carry out an inspection in order to establish a crime or violation and a subsequent investigation according to the procedure set forth in the Code of Criminal Procedure are:



- in case of suspicion of fraud or corruption — the Prosecutor's Office of the Republic of Bulgaria and the European Prosecutor's Office. In the presence of a legal reason and sufficient data for a committed crime, pre-trial proceedings shall be instituted according to the procedure set forth in the Code of Criminal Procedure with a decree of the prosecutor. When he is convinced that the necessary evidence to reveal the objective truth and to bring charges before the court has been gathered, the prosecutor shall draw up an indictment and the case shall be referred to court;
- in case of suspicion of conflict of interests - the Inspectorate at the respective first-tier budget manager or the CCCCIAP. The proceedings shall be conducted according to the procedure set forth in the Anti-corruption and Forfeiture of Illegally Acquired Assets Act, and in the cases provided by law (e.g. failure to submit an annual declaration under the law by obligated persons), acts for establishing violations and penal provisions shall be issued by the inspectorate at the respective first-tier budget manager. Outside of these cases, the acts for establishing the violations shall be drawn up by officials appointed by the chairman of CCCCIAP, and the penal provisions shall be issued by the chairman of the commission. The ACFIAAC shall rule on the proceedings for establishing a conflict of interest with a reasoned written decision, by which a fine may also imposed.

### 5.3. Identifying gaps in the application of the principle of sound financial management

When within the monitoring and control activities indicators for non-compliance with the normative acts are established, which regulate the budgetary, financial-economic or reporting activity, as well as the assignment and implementation of public procurements by the FR - organizations and persons under Art. 4 of the State Financial Inspection Act, NFD/MRS signal the Public Financial Inspection Agency (PFIA) for carrying out inspection activity according to the procedure set forth in the FIIA, as well as for establishing violations under the Public Procurement Act (PPA). The NFD/MRS shall inform AEUFEA for information purposes. When the information to PFIA is submitted by the MRS, the body shall notify the NFD.

If administrative violations are established and if there are any legal grounds, the financial inspectors shall draw up acts for establishing administrative violations, under which the administrative sanctioning body shall issue penal decrees for imposing an administrative penalty “fine” or property sanction. When, within the framework of the financial inspection, the financial inspectors establish unlawfully caused damages, they shall draw up a deed of deduction. In the event of intentional damage, the deed of deduction is sent to the Prosecutor's Office of the Republic of Bulgaria. PFIA notifies NFD when, within the framework of its inspection activity in connection with investments under the RRP, it sends a signal to the Prosecutor's Office. If administrative violations are established and if there are any legal grounds, the financial inspectors shall draw up acts for establishing administrative violations, under which the administrative sanctioning body shall issue penal decrees for imposing an administrative penalty “fine” or property sanction.



In the cases of inspections of public procurement contracting authorities, which do not fall within the scope of the PFIA, and if there are established violations of the Public Procurement Act and the regulations for its implementation as well as legal grounds, the financial inspectors draw up acts for establishing the administrative violations, which the administrative sanctioning body uses to impose the administrative penalty “fine”. The execution of penal decrees shall be carried out in accordance with the applicable national legislation by the National Revenue Agency.

In the above cases, the payments on the investment with funds from the RRF are not suspended, as the identified omissions in the application of the principle of sound financial management are corrected via the management and control system of budget funds applicable on the basis of the current national legislation.

#### 5.4. Double funding

All participants in the implementation and control of the RRF — final beneficiaries, NFD and MRS — should be careful to avoid double funding. Each financial and technical report, submitted by the final beneficiary/MRS, shall provide topical information on related projects or investments, which the final beneficiary fulfills with financing from other EU programs/initiatives, in view of preventing double financing of the activities – a part of the investment financed under the RRF. The inspection for double financing are carried out both in respect to costs and to the overall investments.

With regard to the costs, inspections on the supporting documents submitted for the presence of the mandatory attributes under national law are made and, if applicable, the existence of a reference to the specific investment in the document.

During the implementation of the investment, NFD / MRS performs the following inspections:

- Inspection for the presence of a declaration for the absence of double financing (if applicable);
- Inspection on the information in the information systems for the shared management programs (ISMM and MIS) in order to confirm the information provided in the FTR for projects under the shared management programs / programs for cross-border cooperation at the external borders of the EU. The verification in these systems includes whether the final beneficiary is also a beneficiary of the shared management programs / programs for cross-border cooperation at the EU's external borders and, if so, whether the activities of the respective project are similar or identical to those implemented on the investment under the RRF. In the case of the latter, the invoices reported for the activity shall be inspected;
- Verification in the Financial Transparency System whether the final beneficiary under the RRF is a beneficiary of funds under programs directly managed by the EC or other EU bodies. In case of a positive answer, additional information shall be required from the final beneficiary in order to demarcate the activities performed under the investment and the respective grant or contract. In case of suspicion of overlapping activities, the NFD / MRS may request additional information from the European service responsible for the program and the respective grant or contract;
- Existence of an adequate accounting system of the final beneficiary, allowing analytical reporting/independent company code for all transactions under the RRF, which would allow to differentiate the costs and financial flows in financing from other sources.

The inspection of the information in the FTR of the final beneficiary/MRS, concerning the related projects financed from sources outside the RRF, aims at preventing double funding of activities. If necessary, consultations with competent structures — the Central Coordination Unit, the State Expenditures Directorate, the Local Government Financing Directorate and the State Aid and Real Sector Directorate in the Ministry of Finance and the competent line ministry — shall be made.

When cases of double financing are established, the expenditure is not financed with RRF funds and / or its reimbursement is required. Based on the agreement between the Ministry of Finance and the final beneficiary / MRS, NFD takes action to recover wrongfully paid or used amounts by the final beneficiary / MRS in accordance with the applicable national legislation for collection of receivables and the procedure described in the MCS.

In case the activities, for which double funding has been established, are implementation of a milestone or target to be reported to the EC, the same shall not be included in the payment request to the Commission. In case the activities, for which double funding has been established, are the implementation of a milestone or target, reported to the EC at a previous stage, detailed information shall be provided in the next payment request.

#### 5.5. Submitting a payment request to the EC

Before starting the process of preparing a request for payment to the European Commission, the National Fund Directorate shall analyze the following information:

- Information on completed milestones and targets, presented by the final beneficiaries in their regular financial and technical reports;
- The results of the performed inspections by the MRS, which include the approved financial and technical reports of the final beneficiaries and the results related to the implementation of the milestones and targets, presented in their regular summarized financial and technical reports;
- The results of the audit of the Central Coordination Unit in connection with the achievement of the stages and objectives related to the implementation of reforms and investments;
- Checks by the National Fund Directorate, including on-site checks related to implementation;
- The results of the performed audits of the AEUFEEA, related to the implementation of the milestones and targets;
- Information on received signals as a result of control and audit checks, as well as opinions of competent national authorities regarding conflicts of interest, fraud, corruption;



The results of the inspection for double financing;

- The results of performed control/audit/inspections related to the implementation of investments made by national control or audit bodies (Court of Auditors, internal audit, Public Financial Inspection Agency, Public Procurement Agency, AFCOS, Anti-Corruption and Forfeiture of Illegally Acquired Assets Commission).

The information described above will be available in the IS for the RRF, including the summarized data on the progress and implementation of the milestones and targets in RRP.

Information about the initiated control/audit/inspection procedure from the national control or audit bodies will be received by the FR upon submission of the financial and technical report.

The National Fund Directorate shall review the available information according to Art. 22, para 2, item d) of Regulation 2021/241 on the establishment of a RRF in the IS for the RRF. In case incomplete or incorrect data is established, the specific final beneficiary is required to supplement the missing information/correct the information before submitting the payment application.

Based on the performed checks, the National Fund Directorate shall prepare a payment request and a declaration for the management, which are to be signed by a person authorized by the Minister of Finance. The summary of the audit findings shall be prepared by the AEUFEEA, in accordance with the guidelines given by the EC, incl. also with regard to the recommended structure of the summary. The summary, which is signed by the Executive Director of AEUFEEA, is included in the package of documents of the Payment Request.

## 5.6. Audit

### 5.6.1. Independence of the Audit Authority

The audit authority has the necessary independence to perform its functions effectively, both in decision-making and organizational structuring, and in planning (including determining the scope of audits), carrying out checks and presenting results through defined reporting lines.

The AEUFEEA is functionally and organizationally separate and independent, as it does not participate in the coordination, management and implementation of the RRP. The independence of AEUFEEA is explicitly regulated in the Public Sector Internal Audit Act, the Rules of Organization of the Agency and Ordinance No H-2 of 30.06.2016 on the procedure and manner of implementation, coordination and harmonization of specific audit activities under funds and programs of the European Union.

The lines of decision-making and reporting are independent of the bodies designated to coordinate, manage, implement, and control the National Plan for RRF. The functions and responsibilities of the AEUFEEA, the manner of their implementation and the distribution of the work between the directorates are clearly and explicitly regulated in the respective normative acts and the Manual for the audit activity of the Agency. Decisions on the audit activity are the exclusive authority of the head of the Audit Authority - the executive director. The introduced acts and procedures do not allow

interference in the work of the auditors of the AEUFEEA in the performance of their duties within the audit process (planning, implementation, reporting and follow-up of the recommendations). The activities performed at each step of the audit process and the audit documents (plans, working documents, reports, etc.) shall be subject to quality control by the heads of audit teams, the respective directors of directorates of the specialized administration and the executive director. The audit reports shall be signed and submitted to the senior management of the audited organization/body by the Executive Director, who also shall bear the ultimate responsibility for approving and signing the annual audit reports and opinions.

In order to ensure independence and objectivity, each employee, on entrance into office in the Agency, shall sign declarations for:

- acquaintance with and observance of the ethical rules;
- honest, impartial and objective performance of its duties;
- lack of conflict of interest;
- acquaintance with the definition of fraud and irregularity.

According to the ethical rules of the employees of the Agency, auditors strive not only to be independent of the audited organizations and other stakeholders, but also to be objective and impartial in their work and in dealing with the problems and issues subject to inspection. The independence of auditors should not be violated by personal or external interests in all matters relating to the audit activity. An additional guarantee of independence, objectivity and impartiality shall be provided by the signing by the manager and all members of the audit teams (including the persons performing control of the quality of audit engagements) of a declaration of no conflict of interest, confidentiality and impartiality in connection with each specific audit engagement. External persons assigned to perform specific audit tasks (if applicable) shall also sign a declaration of no conflict of interest, confidentiality and impartiality.

In addition to the organizational independence of the AEUFEA, professional independence is ensured by expanding the knowledge of auditors and by professional training and improving their skills.

The AEUFEA implements a strict quality control system, which ensures that the audit activity is performed in accordance with internationally recognized auditing standards. The Agency has an audit methodology, which is confirmed by the EC and the European Court of Auditors (ECA), for planning, sampling, checks of the performance framework - milestones, targets, indicators, checks for compliance with applicable rules, including compliance with the principle of sound financial management (avoidance of double funding and conflicts of interest and prevention of fraud and corruption), reporting and monitoring of results.

Many of the participants in the implementation of the RRP, who perform coordination, monitoring and reporting functions and implement investments and reforms in the areas of digitalization, green economy, energy efficiency, transport connectivity, job creation and the fight against unemployment, support for SMEs, education, innovations, etc., are also bodies and beneficiaries of the ESIF,

ReactEU and the Fair Transition Fund, under which the AEUFEA is an Audit Authority. This circumstance will optimize the audit work on RRP.

### 5.6.2. Audit activity

The audit activity on RRP will be systematically planned and linked to the implementation of the approved reforms and investments. The audit approach will cover the following two main pillars:

- First pillar - covers the principle of sound financial management through audits of management and control systems under the RRP.

The purpose of system audits is to provide assurance that management and control systems are functioning properly in compliance with the principle of sound financial management and ensure protection of Union's financial interests. During the system audits an assessment will be made regarding: adequate division of responsibilities; appropriate selection of final recipients; adequate verification procedures; an effective system to ensure that all documents and evidence of reported milestones and targets are stored and provide an appropriate audit trail; the existence of a comprehensive (information) system for collecting, summarizing and reporting the defined milestones/targets/indicators for the purposes of monitoring, verification and audit; the implementation of effective proportionate anti-fraud measures. The object of inspection will be the completeness of the data in the IT system regarding the final beneficiaries, according to the requirements of Regulation (EU) 2021/241. With regard to the information system, inspections will be performed for compliance with international standards for IT security, integrity and personal data protection.

Systematic audits will pay particular attention to the effective and proportional application of rules to avoid fraud, corruption, double funding and conflicts of interest (between applicants and employees involved in the procedures for selection of final recipients, as well as between final recipients and contractors/subcontractors under contracts for supplies, services or construction).

Relevant checks to avoid conflicts of interest and double funding, including with regard to fraud indicators, will also be carried out through the integrated and interoperable information and monitoring system provided by the EC to the Member States, including a single tool for data extraction and risk measurement, for obtaining access and for analyzing the relevant data with a view to general application by the Member States (Article 22(4) of Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 on establishing a Recovery and Resilience Facility).

System audits will cover all key participants in the MCS - the Central Coordination Unit Directorate (IS-RRF), the Ministry of Finance, as well as line ministries and agencies, in their capacity as monitoring structures or monitoring and reporting structures. The specific scope of each audit will be planned on the basis of a risk assessment, taking into account the specifics of the approved reforms/investments in the NRRP and the progress in their implementation. Horizontal / thematic system audits will be carried out with a focus on risk aspects of internal controls (procedures to avoid double funding,



procedures to avoid conflicts of interest and to prevent / limit the risk of fraud) and audit of the IT system (IS-RRF), where applicable.

- The second pillar: focuses on the audit of milestones and final results, as well as the established systems for their reporting.

These audits will verify the data included in the payment request and the management declaration, in order to ensure confidence that the reported milestones and targets are achieved, verified and correctly reported and that there is an appropriate audit trail (related data and evidence are complete, accurate and reliable) for this. An integral part of the audits is the evaluation of the established systems for collection, storage and reporting of data on milestones and final results.

Based on the performed audit work and the results thereof, the Audit Authority prepares an audit summary according to Art. 22, vol. 2, p. (c) (ii) of Regulation 2021/241 and in accordance with the EC Guidelines for Member States on the preparation of an audit summary under the RRF (27/09/2021), in the form provided by the EC services. The audit summary is provided to the EC together with the request for payment and the management declaration.

### 5.6.3. Audit strategy

The audit strategy for the RRF (as well as for each operational program within the scope of the Agency) reflects the long-term and short-term objectives, plans and priorities of the Audit Authority, as well as the results of the risk analysis. The strategy covers: the audit methodology; information on sampling methods for audit engagements and indicative planning of audits in order to ensure that key bodies will be audited and that appropriate audit engagements will be carried out throughout the entire implementation period of the Recovery and Resilience Plan.

At least one systematic audit will be performed for each period of six months. Based on the current information and the preliminary study of the management and control system, the Agency plans to carry out the first systematic audit immediately after the approval of the RRP and before the submission of the first payment request to the EC. The scope of the audit will include the Central Coordination Unit Directorate (including the degree of implementation of the information system for collection, summarization and reporting of the RRP data) and the Ministry of Finance, as well as structures carrying out monitoring and reporting. As part of this commitment, an inspection of the administrative capacity and the main control activities in place to avoid corruption, fraud, double funding and conflicts of interest will be carried out. With regard to the information system, an assessment will be made of the existence of an appropriate audit trail for the data on milestones and targets and the data on final recipients. Inspections will also be made for the existence of specific rules ensuring the compliance of the IT system with the international standards for IT security, integrity and protection of personal data. The first systematic audit will be completed before submitting the first application for payment to the EC.

The audit activities on the milestones and final results will be carried out together with the audits of the management and control systems under the RRP. The performance of the audits will take into account the instructions of the EC on the audit approach and methodology for the implementation of the verifications of the milestones and final results from 28.01.2022 (Guidance on sampling methods for audit bodies under the Recovery and Resilience the effective functioning of Member State systems in terms of collecting, storing, verifying and certifying reliable and accurate data on the achievement of milestones and targets).

In accordance with the instructions of the EC (28/01/2022) the audit procedures will cover inspections of the system and detailed tests of the reported data for the milestones and final results. A two-level sampling approach will be used to verify the milestones and outcomes.

At the first level, based on professional judgment and in accordance with internationally accepted auditing standards, a sample of milestones and final results reported in payment claims will be selected, which will be non-statistical. The above decision is based on the fact that the expected size of the population of milestones and final results in each payment request to the EC will not exceed 100 units and in this case the application of the statistical approach is inappropriate. The sample will be prepared on the basis of an assessment of a set of risk factors and will be combined with units selected at random. Depending on the characteristics of the population, the sample can be stratified, with high-risk units being audited at 100%, and medium and low-risk units being randomly selected, taking into account adequate audit coverage of all units in the population.

The second level of sampling includes the selection of units for detailed testing of the level of the selected milestones and final results. For the preparation of samples from final recipients / operations / projects, on the basis of which the reported values of the indicators for the milestones and final results are calculated, European Union Audit Executive Agency will apply the approaches specified by the EC by currency - standard approach (MUS) (Monetary Unit Sampling) Standard, where applicable.

In the sampling for both levels will be taken into account the Guidance on sampling methods for audit authorities - Programming periods 2007-2013 and 2014-2020 issued by the European Commission (EGESIF\_16-0014-00, 20/01/2017).

The inspections of the milestones and the end results will aim to confirm that the reported milestones/targets from the final recipients have been met and the related data are complete, accurate, reliable, correctly summarized, based on evidence, registered in the national information system and are subject to effective control mechanisms. The data from the audit trail will be subject to top-down and bottom-up evaluation.

In case of identified weaknesses, the relevant recommendations for corrective actions will be addressed to the audited structures and reported to the National Fund Directorate, in order to be taken into account when sending the application for payment to the EC. The implementation of the recommendations will be duly monitored and reported, and for this purpose the Audit Authority will maintain a register of performed audit engagements.

For the purposes of strategic planning and prioritization of audit work on systems audits and check of milestones/end results (audits of cases of support to investments and reforms), the Audit Authority shall perform a comprehensive risk assessment, which covers the management and control systems of all structures responsible for the management of funds from the NRRP. When choosing a risk assessment approach has been taken into account the Guidelines for Member States on Audit Strategy (EGESIF\_14-0011-02 of 27/08/2015), the Guidance for the Commission and Member States on a common methodology for the assessment of management and control systems in the Member States (EGESIF\_14-0010 одит 18/12/2014) and the Guidelines on Fraud Risk Assessment and Effective and Proportionate Anti-Fraud Measures adopted by the European Commission, as well as the Guidelines of the EC for the state members for preparing an audit summary under the RRF (27/09/2021).

The risk assessment shall be performed annually, taking into account the results of the performed audits of the systems and audits of the reported milestones/targets (audits of cases of support to investments and reforms), relevant for the previous year, as well as any other relevant information. The assessment shall also take into account the significant changes occurred in the management and control systems of the RRF. The results of the risk assessment shall be used to update the audit strategy. All changes in the risk assessment approach and the results of its updating shall be documented and disclosed in the Annual Plan of the Audit Authority.

The risk analysis shall take into account the powers and responsibilities of the respective structure, the planned milestones/targets, the reported milestones/targets, the amount of financial resources, changes in the applicable regulations and/or in the management teams of the respective structures, the availability of allegations of serious irregularities (fraud, corruption and conflicts of interest), others. The specific structures that will be audited during the year will be selected on the basis of a risk assessment.

The audit authority will approve an audit strategy of the RRF immediately after the approval of the RRF by the EC and before sending the first payment request to the EC. The audit strategy will further detail the frequency and type of audits, which will cover both the established management and control systems and the reported milestones/outcomes. When developing the audit strategy, the Audit Authority will take into account all the requirements for the audit activity under the RRF, given by the EC, such as the EC Guidelines for the member states for preparation of the audit summary on the RRF (27/09/2021). The draft Audit Strategy under the RRF will be consulted in advance with the respective EU unit.

For each payment request to the EC, the Audit Authority will issue a summary of the performed audits, which is prepared by the responsible director and it is approved and signed by the executive director. The summary includes information on: the audited structures, the audited period, the scope (verified key control activities, verified milestones and final results, etc.), the findings and recommendations with high and medium priority, the date of the respective audit report, the corrective measures in the implementation of the recommendations. The audit summary will be prepared as per the prepared template and in accordance with all requirements of the EC Guidelines for the member states for preparation of the audit summary under the RRF (27/09/2021).

## 5.7. Communication

According to the requirements of the part Information, Communication and Publicity of Regulation 2021/241, investments received funding under the Facility in the period 2021-2026 and



included in the RRP need to be promoted. The aim is to raise awareness among the general public about the process of implementing any reform and investment set out in the RRP.

#### 5.7.1. General objectives

- Promoting the role of the Recovery and Resilience Plan (RRP) as a mechanism for economic and social recovery from the crisis caused by the COVID-19 pandemic.
- Promotion of the Plan as a fundamental document for green and digital transformation of the economy, in the context of the objectives of the Green Deal
- Ensuring maximum transparency in the process of implementation and management of the set of measures and reforms for economic growth and convergence of the economy and income as a long-term strategic goal.
- Building and maintaining high public confidence in the processes of implementation and management of the Recovery and Resilience Plan;

#### 5.7.2. Specific objectives:

- Promotion of the four pillars of the RRP - Innovative Bulgaria; Green Bulgaria; Connected Bulgaria and Fair Bulgaria;
- Ensuring maximum publicity and transparency of the process of management and implementation of the RRP;
- Informing potential beneficiaries and final recipients about the funding opportunities provided by the RRP;
- Encouraging the active participation of all sectoral departments (project holders) in the process of implementation of the RRP.

#### 5.7.3. Target groups

The promotion of RRP will be carried out with communication and information for achieving each of the following main target groups:

- General public- all citizens at national and regional level;
- Beneficiaries and potential beneficiaries: organizations that have concluded a contract for the provision of funds for policies financed with European funds; eligible beneficiaries meeting the requirements for participation in a specific policy; professional organizations and associations, public bodies and institutions, non-governmental organizations, public sector and public institutions and organizations, etc.
- Sectoral departments (project carriers);
- Mediators / disseminators of information.



#### 5.7.4. Implementation. Approach and tools for achieving the targets

Communication activities will be performed in compliance with the following basic principles:

- Equality- the implementation of information and communication measures must ensure equal access to information for all stakeholders and the general public in general.
- Timeliness — all information and communication measures will be planned and implemented so that the identified needs of the target groups are met in a timely manner.
- Adaptability — all information and communication measures will be tailored to the specific features of both the target groups and the specific situation in which they are implemented.
- Partnership — all measures will be implemented in cooperation with all stakeholders, non-governmental organizations and associations, and the media.
- Transparency — providing information on the implementation of information and publicity measures, according to the national legislation.

#### 5.7.5. Communication means

When communicating the RRP messages to different target groups and subgroups, an integrated communication mix will be used to ensure the effectiveness of the communication, both in terms of activities and form, and channels.

#### 5.7.6. Communication channels

The following channels will be used in the implementation of the communication activities of the RRP:

- The main communication channel that will provide summary information about the RRP will be the Internet portal of the Council of Ministers <https://www.nextgeneration.bg> It will be updated on an ongoing basis with the help of employees of the administration involved in the RRP.
- The portal <https://www.nextgeneration.bg> will contain links to the website of the EC Representation in Bulgaria, the Ministry of Finance <https://www.minfin.bg/> and the Public Module of the IS-RRF. The Ministry of Finance website will also have a button to report signals of corruption, fraud, conflict of interest and double funding. The portal will also link to project pages and individual industry portals, for example on the topic of ecology.
- A Facebook page, Nextgeneration.bg, will be created, which will be maintained with an internal resource. Information about the implementation of the plan will be spread through the Facebook page Eufunds.bg, the Facebook pages of the network of the 27 Regional Information Centers and the pages of the project carriers in the social networks. Information for publication on the Facebook page of the EC Representation in Bulgaria will also be submitted on a regular basis.



- Public information activities will be organized aimed at the general public — opening at the approval of the Plan, interim to report on the progress of its implementation by 2024, and a final one to present the results achieved. The events will be held with own resource.

Individual key projects from the implementation of the RRP will be promoted after coordinated communication with the EC, including the presidency of the EC and the EU office in Bulgaria. The projects of high public importance will be communicated separately through special media briefings, newsletters, presentations, specialized internet channels to ensure that the messages reach the target audience.

In addition, the relevant line ministries will be "speakers" on the four pillars of the RRP: Innovative Bulgaria, Green Bulgaria, Connected Bulgaria, Fair Bulgaria. All RRP communication activities will provide a unified visual identity, namely the use of the EU logo and slogan: "Funded by the European Union - Next Generation EU";



## PART 4: IMPACT ASSESSMENT

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### *Strengthening economic and social sustainability*

A Simulation Macroeconomic Model was used to assess the effects on the economy of the Recovery and Resilience Plan<sup>74</sup>. The model is macroeconometric and is a system of equations, calibrated with appropriate tools, which realistically describes the structure of the Bulgarian economy. The model is updated with annual reporting data published at the end of October 2021, and with assumptions for the external environment from the International Monetary Fund from October 2021<sup>75</sup>. The model allows to assess the effects on the economy of shocks on both exogenous variables and on endogenous investments and government consumption. In the present analysis, the demand-side effects are assessed in three areas - government consumption, government investments and private investments. The funds provided under the Recovery and Resilience Plan are set as a shock in a positive direction on the relevant indicators. Grants under the Recovery and Resilience Facility have been added to budget revenues.

Based on the individual beneficiary's forecasts, the funds were distributed in the amount of BGN 21.1 billion by years<sup>76</sup>. An expert assessment of the distribution by components of demand was also made. The main part of the funds will be realized in the form of public investment, part is also allocated for public consumption, and private national co-financing is included in the form of private investments. Regarding the distribution by years, it is expected that in the period 2021-2023 nearly 45% of the costs will be utilized. The largest amount is expected to be spent in 2024, after which the share of utilized funds will decrease.

The results of the simulation show an increase in the level of GDP at constant prices by 3.6% at the end of the period in 2026. The increase in the level of GDP throughout the forecast period will primarily reflect higher investments in the economy. They, in turn, will generate more jobs, with a further increase in the number of employees expected at the end of the period of 1.1%. The unemployment rate by 2026 is expected to be 0.5 percentage points lower than the scenario without the investments under the plan. The effect of higher investments will also be manifested in terms of real labor productivity, which is expected to be 2.5% higher at the end of the period. This will also support the increase in the average wage, as the estimated accumulated positive effect at the end of

<sup>74</sup> [https://www.minfin.bg/upload/46186/doc\\_minfin\\_sim\\_ed.pdf](https://www.minfin.bg/upload/46186/doc_minfin_sim_ed.pdf)

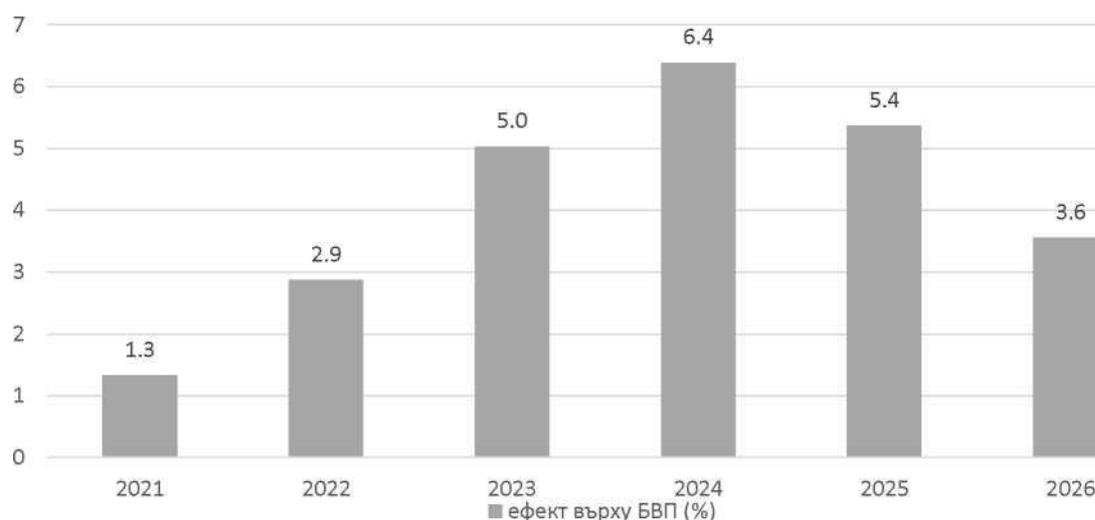
<sup>75</sup> The model has been updated with the latest available data, which were also used in the preparation of the updated autumn macroeconomic forecast of the Ministry of Finance in November 2021.

<sup>76</sup> The information on the funds is based on projects which were announced by the beginning of November 2021 and includes BGN 12.9 billion in funding under the Ministry of Foreign Affairs and BGN 8.2 billion in national co-financing.

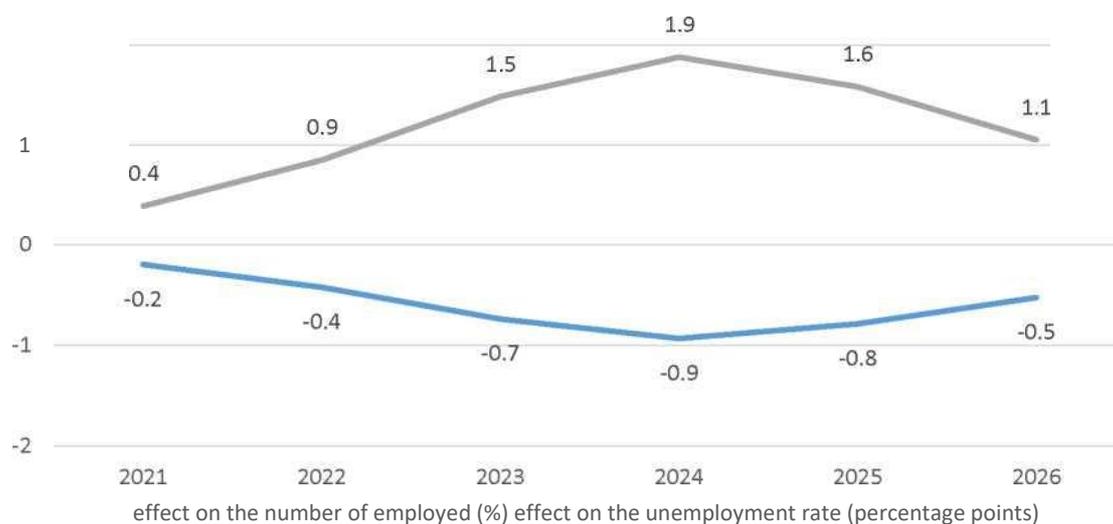


2026 is 2.2% in nominal terms. Higher employment and incomes, compared to the scenario with no funds under NRRP, will stimulate private consumption. Increased domestic demand will lead to an increase in imports of goods and services in the country, with imports of goods playing a leading role. The level of total exports of goods and services will be positively affected by the improvement of the economic situation in the country. The higher level of GDP is not expected to be accompanied by a significant acceleration of inflation, as the effect on average annual inflation is an increase of 0.1-0.2 percentage points and is mainly related to the expected reduction of unemployment.

**Chart 4.1:** Level of GDP at constant prices, difference with scenario without funds under NRRP



**Chart 4.2:** Number of employees and unemployment rate, difference with the scenario without funds under the NRRP



Higher investments in the economy will increase physical capital. Positive effects are also expected in terms of the labor factor. As a result, it is estimated that the potential growth will be on average about 0.6 percentage points higher than the scenario without the resources under the Recovery and Resilience Plan. In addition, positive effects could be expected from an increase in technological and human capital under the investments and reforms envisaged in terms of research and development activities, information and communication technologies and training.

The implementation of the plan will lead to further expansion of the tax base and higher tax receipts compared to the baseline scenario. Revenues from corporate tax and VAT will be most significantly affected. At the same time, given the more favorable economic situation, an increase in some current expenditures could be expected. National public co-financing will also increase public expenditure. As a result, the implementation of the plan will lead to gradual improvement of the budget balance which will reach 0.6% of GDP in 2025. Government debt to GDP will be lower by between 0.2-2.5 percentage points, which will be due to higher nominal GDP and the improved budget balance.

The presented scenario depends on the degree of utilization of the funds from the Recovery and Resilience Plan. With lower utilization rate, the expected positive effects on the Bulgarian economy will be smaller. Also, the effects in the individual years depend on the allocation of funds. As a risk in a positive direction, which the scenario does not take into account is that the implementation of the plan in other EU countries will stimulate their demand for goods and services and, accordingly, an additional positive effect could be expected in relation to Bulgarian exports.

**Table 4.2:** Assessment of the effects of the Recovery and Resilience Plan (difference with scenario without the funds under the plan)

Key macroeconomic indicators	2021	2022	2023	2024	2025	2026
<b>GROSS DOMESTIC PRODUCT</b>						
GDP level at constant prices [%]	1.3	2.9	5.0	6.4	5.4	3.6
Consumption	0.3	1.4	3.0	4.8	5.5	4.9
Gross fixed capital formation	6.6	14.4	24.9	32.2	28.5	20.8
Exports of goods and services	0.0	0.2	0.6	1.3	2.1	2.5
Imports of goods and services	0.3	1.6	3.7	6.3	8.2	8.4
<b>LABOUR MARKET AND PRICES</b>						
Employment rate [number, deviation in %]	0.4	0.9	1.5	1.9	1.6	1.1
Unemployment rate (Labor force monitoring) [percentage points]	-0.2	-0.4	-0.7	-0.9	-0.8	-0.5
Average salary [level, %]	0.1	0.4	0.9	1.5	1.9	2.2
GDP deflator [percentage points]	0.0	0.1	0.1	0.1	0.1	0.1
Average annual inflation (HICP) [percentage points]	0.1	0.1	0.2	0.2	0.1	0.0
<b>BALANCE OF PAYMENT</b>						
Current account % of GDP [percentage points]	-0.3	-1.1	-2.3	-3.4	-3.8	-3.4
<b>BUDGET SECTOR</b>						



Key macroeconomic indicators	2021	2022	2023	2024	2025	2026
Budget balance % of GDP [percentage points]	0.0	0.1	0.3	0.5	0.6	0.5
Government debt % of GDP [percentage points]	-0.2	-0.6	-1.2	-2.0	-2.4	-2.5
Potential GDP						
Potential GDP level at constant prices [%]	1.8	2.8	3.8	4.7	5.1	5.2
Potential GDP [growth, percentage points]	0.8	1.0	1.0	0.8	0.4	0.1

The significant shock generated by the COVID-19 pandemic will not divert Bulgaria from its trend towards convergence with the more developed economies of the European Union. The additional funds from the Plan will speed up this process. In July 2021, the European Commission presented its latest assessments<sup>77</sup> of the effect of the funds provided under the instrument of Next Generation EU on the EU economy. The Commission's assessments present two scenarios with an even distribution (i.e. 16.67% each year) of resources over a period of six years and rapid implementation over four years. The simulations also include secondary effects from the utilization of funds in other EU Member States for high and low productivity options. According to these assessments, the effect on Bulgaria's GDP, in the baseline scenario with a six-year implementation period, is expected to be 3% (of which 0.6 percentage points secondary effects) in 2026. At the same time, the level of GDP at constant prices for the EU-27 by 2026 it will be about 1.2% higher than the scenario without the funds, including 0.3 percentage points secondary effects. The scenario with rapid utilization of funds and high productivity assumes that the largest effect on Bulgaria's GDP will reach 3.8% in 2024, while EU GDP will increase by 1.5% in 2024. For both Bulgaria and the EU the effects will be lower as of 2026, reaching 1.4% and 0.8% respectively. According to both the EC and the estimates presented here, a higher positive effect is expected for Bulgaria compared to the EU average. This means that the funds from the Recovery Plan will have a positive effect on the process of convergence of our country to the EU average.

The implementation of the plan will support the process of real convergence of Bulgaria and the approximation to the EU average levels of GDP per capita. Significant investments will increase the available capital per hired employee, which will help increase the growth of productivity in the economy and respectively of incomes. The increased funds and the accompanying structural reforms in the field of education and digitalization are expected to have an additional effect on the qualification of the workforce and increase the technological intensity of production. This will ensure the desired structural transformation of the economy and the convergence of the living standards of the population with the average levels in the Union, while laying a solid foundation for continuing the country's convergence in the long run.

<sup>77</sup> [https://ec.europa.eu/info/sites/default/files/economy-finance/dp144\\_en.pdf](https://ec.europa.eu/info/sites/default/files/economy-finance/dp144_en.pdf)



Investments under the plan are also expected to lead to significant positive effects in the long run. According to the estimates of the European Commission <sup>78</sup> by 2040, Bulgaria's GDP will be 1.1% higher compared to the scenario without funds under the Plan. These assessments include the effects of investments only, but do not take into account the positive effects of the reforms set out in the plan.

Improving the quality of education related to the implementation of the reforms set out in the Education and Skills component will improve employability by strengthening skills, including digital skills, reducing the mismatch between labor supply and demand, increasing of productivity and economic activity. Potential growth will be positively affected by increasing employment and human capital. According to estimates by the European Commission <sup>79</sup>, a reform related to raising the average level of skills in the economy by increasing the share of the highly skilled or reducing the number of the low-skilled could lead to an increase in GDP of 0.9% or 1.4% in 20 years.

The Smart Industry component will support the transformation of the industrial sector and provide a favorable environment for new investments. The expected effects of the interventions envisage an increase in the productivity of Bulgarian enterprises, which will reflect in a higher rate of economic growth, higher employment and higher earnings in the long run.

Another component that will increase productivity and potential growth in the long run is "Research and Innovation". The implementation of investments and reforms in this component will strengthen and stimulate scientific activity and encourage innovation.

The improvement in energy efficiency set out in the Low-carbon economy component is also expected to lead to long-term positive effects on the economy. Reducing energy costs for consumers and businesses will lead to a redirection of savings to other sectors and reinvestment. The planned interventions will also contribute to increasing social sustainability in many respects, improving the living conditions of households, improving the quality of life of the population in connection with reduced greenhouse gas emissions.

The proposed reforms and investments in the Digital connectivity component aim to increase investment in digital infrastructure. Digital reforms also

<sup>78</sup> Pfeiffer, P, J Varga and J in 't Veld (2021), "Quantifying Spillovers of NGEU investment", *European Economy Discussion Papers* No. 144.

<sup>79</sup> Varga, J and J in 't Veld (2014), "The Potential Growth Impact of Structural Reforms in the EU: A Benchmarking Exercise", *European Economy Economic Papers* No. 541.



have a positive effect on the economy in the long run <sup>80</sup> , mainly through lower transaction costs and higher productivity in receiving and processing large amounts of information.

Reforms and investments in the Business environment component aim to improve the quality of the institutional framework for doing business. According to OECD research, reforms related to improving the quality of institutions, reducing the time of insolvency proceedings and reducing regulatory barriers have a significant positive effect on productivity and GDP in the long run. <sup>81</sup>

### *Comparison with the investment baseline scenario*

The distribution of public expenditures by functions and by years in total and at the first level according to the classification of government functions (COFOG) has been made. The average value for the years 2017-2019 is the reference level at which the total amount of these expenditures in the period 2021-2026 will be compared, excluding expenditures financed by the Recovery and Resilience Facility (RRF). The last reporting year according to the COFOG classification is 2019.

The estimated value of expenditures by function for the period 2021-2024 is based on the planned government expenditure policy for the forecast horizon until 2024, and for the last two years an assumption has been made for the amount of total expenditures. In 2021, measures to support businesses and households related to the COVID-19 pandemic, as well as those to increase income, are in force. Pandemic response measures are also planned in 2022, but on a smaller scale than in 2021, allowing for smooth fiscal consolidation.

The average level of planned public expenditures for the period 2021-2026, including payments under the Plan, is 41.5% of the projected GDP with the effects of the Plan. Excluding expenditures financed by the RRF, the level of public expenditure amounts to 40% of projected GDP, compared to the reference level of 36% for the period 2017-2019.

<sup>80</sup> D. Lorenzani, J. Varga. (2014) "The Economic Impact of Digital Structural Reforms" *European Economy. Economic Paper no. 529*

<sup>81</sup> Balazs Egert, (2018). "The quantification of structural reforms," *OECD Economics Department Working Papers 1482, OECD Publishing.*

OECD (2021), *OECD Economic Surveys: Bulgaria 2021: Economic Assessment*, OECD Publishing, Paris

