Appraisal Environmental and Social Review Summary

Appraisal Stage

(ESRS Appraisal Stage)

Date Prepared/Updated: 11/06/2019 | Report No: ESRSA00304
## BASIC INFORMATION

**A. Basic Project Data**

<table>
<thead>
<tr>
<th>Country</th>
<th>Region</th>
<th>Project ID</th>
<th>Parent Project ID (if any)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bulgaria</td>
<td>EUROPE AND CENTRAL ASIA</td>
<td>P168133</td>
<td></td>
</tr>
</tbody>
</table>

**Project Name**

Bulgaria - Deposit Insurance Contingency Financing Project

**Practice Area (Lead)**

Finance, Competitiveness and Innovation

**Financing Instrument**

Investment Project Financing

**Estimated Appraisal Date**

11/14/2019

**Estimated Board Date**

2/20/2020

**Borrower(s)**

Bulgarian Deposit Insurance Fund

**Implementing Agency(ies)**

Bulgarian Deposit Insurance Fund

**Proposed Development Objective(s)**

The Project Development Objective is to strengthen the financial sector safety net to meet potential deposit insurance and bank resolution obligations.

**Financing (in USD Million)**

<table>
<thead>
<tr>
<th>Financing (in USD Million)</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Project Cost</td>
<td>384.00</td>
</tr>
</tbody>
</table>

**B. Is the project being prepared in a Situation of Urgent Need of Assistance or Capacity Constraints, as per Bank IPF Policy, para. 12?**

No

**C. Summary Description of Proposed Project [including overview of Country, Sectoral & Institutional Contexts and Relationship to CPF]**

A vibrant private sector has helped improve economic performance in Bulgaria above expectations; this has been also supported by improvements in the fiscal position. GDP growth accelerated to 3.7% in 2016-18, due in part to a dynamic export sector which took advantage of improving external conditions and an expanded share in global trade. Fiscal accounts ran a surplus in 2016-18 as a result of improved revenue collection and slower implementation of EU funded public investment. Tax revenues reached 30% of GDP in 2018, up by 1.1 percentage point of GDP compared to 2015 thanks to strong economic activity, better compliance, and higher minimum wages. Prudent fiscal policy contributed to substantial reduction in public debt levels, and an upgrading by S&P at the end of 2017 of Bulgaria’s long-term credit rating to investment grade (BBB-), while Fitch raised the credit rating from BBB- to BBB+. 
The banking system is primarily foreign owned, although with a sizeable domestically owned segment. There have been material changes in the structure of the Bulgarian banking sector over the past 4 years, most notably, the exit of Greek-owned banks. Overall, 2018 was characterized by a sizeable credit growth, and strong deposit growth continues to drive lending. Despite improvements, NPLs of non-financial corporations remain relatively high for EU standards, but banking sector capital adequacy and profitability are generally strong.

There was a recent case of bank failure (2014) that required repayment of insured depositors by the Bulgarian Deposit Insurance Fund (BDIF), putting a severe strain on its financial capacity. Moreover, the failure of the bank highlighted corporate governance problems at domestically-owned banks, and exposed weaknesses in bank supervision and resolution regime. Authorities have taken a set of measures to address weaknesses in regulatory and supervisory framework exposed by the 2014 banking crisis, including seeking support from the World Bank to mitigate the consequences of the crisis. As a result, the World Bank supported the BDIF through a results-based loan to rebuild its reserves and strengthen its institutional capacity, while a joint IMF/WB Financial Sector Assessment Program (FSAP) assessed and helped improve the authorities’ crisis response. In mid-2018 the Government adopted a comprehensive action plan that includes measures to further strengthen financial sector stability and governance of institutions.

The Project provides additional insurance to the BDIF at a relatively low cost from a source other than taxpayers’ money, with well-defined drawdown triggers related to the BDIF’s deposit insurance and bank resolution obligations. Given still nascent efforts to implement a pan-European Deposit Insurance Mechanism, having access to contingent financing increases financial stability of the banking sector in Bulgaria, making the BDIF less reliant on a public bailout.

The proposed Project is fully consistent with the Country Partnership Framework (CPF) for Bulgaria for the period FY17-FY22. The first Pillar of the CPF – Strengthening Institutions for Sustainable Growth – includes the Objective of Improved Resilience and Stability of the Financial Sector. Under this Objective, the CPF recognizes the pivotal role of the World Bank’s support to the BDIF in bolstering its institutional and financial capacity to ensure deposit insurance and bank resolution obligations are met fully and on time.

**D. Environmental and Social Overview**

**D.1. Project location(s) and salient characteristics relevant to the ES assessment [geographic, environmental, social]**

The project will enable contingent financing to the Bulgarian Deposit Insurance Fund (BDIF), in order for it to meet potential deposit insurance and bank resolution obligations. BDIF insures depositors of 21 banks operating in the country (branches of EU banks operating in Bulgaria are covered by home countries’ deposit guarantee schemes). The majority of the banks are located in urban settings while their deposit holders, mainly households and corporations, are spread across the country. Thus, the project geographical scope is country wide.

The project will not support civil works nor procurement of goods. Strengthening the Bulgarian financial safety net through the BDIF will have a positive social impact in terms of reducing the risk of deposit loss for households and corporations. Project activities are expected to produce positive social impacts, including on vulnerable groups as in the event of a bank failure, BDIF will ensure repayment of insured deposits within 7 working days. Project beneficiaries are deposit holders and non-financial corporations. The project scope does not pose any material environmental and social risks and impacts.
D. 2. Borrower’s Institutional Capacity

BDIF will be the implementing agency for the project. With its very specific and narrow mandate, BDIF protects the depositors’ funds in banks, as well as creditors’ interests in bank bankruptcy proceedings and to participate in the process of bank resolution in the cases provided for by the law, thus contributing to the stability of and confidence in the financial system. It has 20 employees and no specific environmental and social management system nor the corporate policy statute includes statements on environmental and social sustainability. BDIF has previous experience with World Bank financing and EBRD (2016), both for the deposit insurance. Both projects were categorized with low environmental and social risks due to the activities, hence without impact on BDIF environmental and social capacity.

There are 21 BDIF member banks, majority with wide and all purpose portfolio. Many banks which are indirect project beneficiaries are signatories of Equator principles and have also signed a statement the UNEP Statement of Commitment by Financial Institutions on Sustainable Development to align the rules governing the financial system with environmental and social sustainability.

II. SUMMARY OF ENVIRONMENTAL AND SOCIAL (ES) RISKS AND IMPACTS

A. Environmental and Social Risk Classification (ESRC)

Environmental Risk Rating

The project environmental risk is assessed low. The project potential adverse risks to and impacts on human populations and/or the environment are likely to be negligible. The project will not directly result in any works or procurement of goods, as it provides contingent financing to the BDIF to meet potential deposit insurance and bank resolution obligations. The project will help ensure that insured depositors, the overwhelming majority of whom are households, will not lose their savings in case of a bank failure.

Social Risk Rating

At the current stage of project preparation no specific social risks can be identified. The project will provide contingent financing to the BDIF so that it can meet potential deposit insurance and bank resolution obligations. The project is expected to have positive impacts on domestic and commercial savings by protecting them from losses in the event of a bank failure. Protection of deposits is particularly significant for households with low liquid assets, thus having an even higher impact on poor households. The project will not fund civil works and no impacts on private land and assets are anticipated. No direct or indirect employment for the purpose of performing project activities is expected. Given the low risk nature of the intervention, the absence of major social risks and impacts, the project’s social risk is considered to be low.

B. Environment and Social Standards (ESSs) that Apply to the Activities Being Considered

B.1. General Assessment

ESS1 Assessment and Management of Environmental and Social Risks and Impacts

Overview of the relevance of the Standard for the Project:

The project will simply secure, both households and non-financial corporations deposits, which, as example in 2018 reached 72% of Bulgarian GDP. This implies no material environmental or social risks associated with the proposed project. The project will not finance any works, support procurement of goods, nor support preparation of plans and
policies that could impact the environment indicating that the project environmental risk is low. The project is not expected to entail any social risks as covered by the ESSs.

ESS10 Stakeholder Engagement and Information Disclosure

Direct beneficiaries are the BDIF, banks and deposit holders. The BDIF benefits by having access to additional financing in case of need at a relatively low cost and promptly (as by Law they’re required to repay insured depositors of a failed bank within 7 days since the Bulgarian National Bank has withdrawn the bank’s license or has established the unavailability of deposits). Banks benefit through greater financial stability, as the availability of additional financing in case of a bank failure allows the BDIF to meet its deposit insurance and bank resolution obligations, reducing the risk of contagion to other banks and increasing the confidence of depositors in the banking system. Deposit holders benefit by having their deposits insured up to a certain level (EUR 100,000) in case of a bank failure, and by securing repayment of insured deposits within the statutory limit of 7 days. Other interested parties (OIPs) include the Bulgarian National Bank and the Ministry of Finance. Stakeholder engagement is continuous since 2015 (when the World Bank started preparing the previous lending operation to the BDIF) and the BDIF will continue engaging with stakeholders on the design of the contingency financing facility. Given the low number of stakeholders and their specialized focus within the banking system and the lack of clearly identifiable beneficiaries, the Project will not prepare a Stakeholder Engagement Plan (SEP). Instead, the Project will monitor the implementation of the Strategy of BDIF for Promotion of Public Awareness of the Deposit Guarantee System, approved by its Management Board in 2018, which provides details on how BDIF will maintain public awareness of the deposit insurance system. During normal times, the BDIF will provide updated information about the deposit insurance system through its website, a Questions and Answers about Deposit Guarantee brochure disseminated via the branch network of banks and an Information Bulletin attached to deposit contracts. The BDIF will also reply to queries in writing, over the phone (including via its national hotline), as well as in-person at the premises of the BDIF in Sofia. In case of a payout event, the BDIF will inform the depositors of payout procedures through its website, and at least two major dailies. In addition, the Project will seek feedback on progress of project implementation at least bi-annually from the BDIF’s Management Board, which includes representatives of relevant stakeholders (Council of Ministers, the Bulgarian National Bank and the Association of Banks). These SEP measures have been included in the Borrower Environmental and Social Commitment Plan.

In case of a payout event, the conservator, the temporary administrator or special manager, the liquidator, the interim trustee or the trustee of the bank will manage any potential grievances by claiming depositors which are submitted within 3 months of the initial day of payout (Article 21 of the Law on Bank Deposit Guarantee). All claims must be addressed within 7 days of receipt. In case of claim dismissal, the claimant can seek his/her rights in court under the Civil Procedure Code. The Grievance Mechanism procedures are available on the websites of the BDIF and in the Questions and Answers about Deposit Guarantee brochure, which is disseminated via the branch network of banks.

B.2. Specific Risks and Impacts

A brief description of the potential environmental and social risks and impacts relevant to the Project.

ESS2 Labor and Working Conditions
BDIF staff will not be financed by the project, and therefore not considered project workers. The contingency funds will not be used for contracting services of any kind. As the project will not employ, directly or indirectly, workers to perform activities related to the project, the Borrower will not prepare Labor Management Procedures. The BDIF's HR policy has been developed in line with the Bulgarian labor code.

**ESS3 Resource Efficiency and Pollution Prevention and Management**

As the project will not support any works or procurement of goods, nor will its activity directly result in investments, the standard is not relevant.

**ESS4 Community Health and Safety**

Provided that the project does not fund activities implemented at the community level nor involve any physical works, there are no potential health and safety risks and impacts on communities. This ESS is not relevant.

**ESS5 Land Acquisition, Restrictions on Land Use and Involuntary Resettlement**

Project will not fund civil works and no impacts on private land and assets are anticipated from project activities. ESS5 is not considered relevant.

**ESS6 Biodiversity Conservation and Sustainable Management of Living Natural Resources**

As the project will not support any works or procurement of goods the standard is not relevant.

**ESS7 Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities**

No indigenous peoples are known to reside in Bulgaria.

**ESS8 Cultural Heritage**

The project will not finance civil works and no interaction with tangible or intangible cultural heritage is expected.

**ESS9 Financial Intermediaries**

ESS9 is not relevant. By definition ESS applies to Financial Intermediaries (FIs) that receive financial support from the Bank. This ESS covers all types of financing and financial products provided by FIs that are targeted to productive business activities. As the project provides contingent financing to the BDIF in case of bank failures to be used for deposit insurance and bank resolution actions ESS is not considered relevant. It does not provide financial support directly or indirectly to FIs for their financial products.

**C. Legal Operational Policies that Apply**

| OP 7.50 Projects on International Waterways | No |
### III. BORROWER'S ENVIRONMENTAL AND SOCIAL COMMITMENT PLAN (ESCP)

<table>
<thead>
<tr>
<th>DELIVERABLES against MEASURES AND ACTIONs IDENTIFIED</th>
<th>TIMELINE</th>
</tr>
</thead>
<tbody>
<tr>
<td>ESS 1 Assessment and Management of Environmental and Social Risks and Impacts</td>
<td>Currently not relevant to the project</td>
</tr>
<tr>
<td>ESS 10 Stakeholder Engagement and Information Disclosure</td>
<td>06/2025</td>
</tr>
<tr>
<td>Regular stakeholder feedback on project progress sought through the BDIF Management Board, which includes representatives from the Council of Ministers, the Bulgarian National Bank and the Association of Banks in Bulgaria.</td>
<td>06/2025</td>
</tr>
<tr>
<td>The BDIF maintains public awareness of the main features of the deposit insurance system through its website (<a href="http://www.dif.bg">www.dif.bg</a>), member banks and other relevant channels of communication (e.g. national hotline, email, in-person at BDIF premises).</td>
<td>06/2025</td>
</tr>
<tr>
<td>In case of a payout event, the BDIF provides relevant and up to date information related to the procedure to be followed by depositors on its website (<a href="http://www.dif.bg">www.dif.bg</a>) and at least two major dailies.</td>
<td>06/2025</td>
</tr>
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#### B.3. Reliance on Borrower’s policy, legal and institutional framework, relevant to the Project risks and impacts

**Is this project being prepared for use of Borrower Framework?**

No

**Areas where “Use of Borrower Framework” is being considered:**
Implementation of the project will not rely on the Recipient’s E&S framework. The project is low risk with minimum environmental and social impact. Bulgarian legislation is aligned fully with the European Environmental Acquis. Being an EU country, the Banks and the Government are on the way to implement the European Commission, 2018 action plan on sustainable finance as part of a strategy to integrate environmental, social and governance considerations into its financial policy framework and mobilize finance for sustainable growth.

IV. CONTACT POINTS

World Bank
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Borrower/Client/Recipient
Borrower: Bulgarian Deposit Insurance Fund

Implementing Agency(ies)
Implementing Agency: Bulgarian Deposit Insurance Fund

V. FOR MORE INFORMATION CONTACT

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VI. APPROVAL

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Practice Manager (ENR/Social) Kevin A Tomlinson Cleared on 23-Oct-2019 at 20:18:34 EDT