

## LEGAL FRAMEWORK AND IMPLEMENTATION OF THE POLICY FOR STATE PARTICIPATION IN PUBLIC ENTERPRISES IN BULGARIA AND THE MEMBER STATES OF THE ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT (OECD)

### MARCO JURÍDICO E IMPLEMENTAÇÃO DA POLÍTICA DE PARTICIPAÇÃO ESTATAL EM EMPRESAS PÚBLICAS NA BULGÁRIA E NOS ESTADOS-MEMBROS DA ORGANIZAÇÃO PARA A COOPERAÇÃO E DESENVOLVIMENTO ECONÔMICO (OCDE)

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**Savina Mihaylova-Goleminova\***

\*Faculty of Economics and Business Administration, Sofia, Bulgaria

Orcid: <https://orcid.org/0000-0003-1896-752X>  
[s.mihaylova@feb.uni-sofia.bg](mailto:s.mihaylova@feb.uni-sofia.bg)

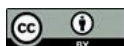
The authors declare that there is no conflict of interest

#### Abstract

This study examines the legal framework and implementation of the policy for state participation in public enterprises in the Republic of Bulgaria in comparative perspective with the member states of the Organisation for Economic Co-operation and Development (OECD). It proceeds from the understanding that the OECD Guidelines on Corporate Governance of State-Owned Enterprises constitute a shared benchmark for modern state ownership governance, applicable both to OECD member states and to Bulgaria. Particular emphasis is placed on Bulgaria as a case study illustrating the domestic adaptation of international governance standards within a European Union regulatory context. Using doctrinal legal analysis, comparative methodology and policy assessment, the study analyses the Bulgarian legal framework, including the Public Enterprises Act (PEA), its implementing regulation, and the State Ownership Policy, in light of EU law and the updated OECD Guidelines (2024). The research focuses on the institutional organisation of state ownership and on key governance principles such as transparency, accountability, efficiency, competitiveness and sustainability. The study finds that Bulgaria has made significant progress towards formal alignment with international standards, but that important challenges remain regarding institutional coordination, effective implementation, and the strategic integration of sustainability objectives. It concludes that further reforms are necessary to strengthen corporate governance, enhance legal certainty, improve public sector performance, and reinforce the

#### Resumo

*Este estudo examina o marco jurídico e a implementação da política de participação estatal em empresas públicas na República da Bulgária, numa perspectiva comparativa com os Estados-membros da Organização para a Cooperação e Desenvolvimento Econômico (OCDE). Parte do pressuposto de que as Diretrizes da OCDE sobre Governança Corporativa de Empresas Estatais constituem um parâmetro de referência comum para a governança moderna da propriedade estatal, aplicável tanto aos Estados-membros da OCDE quanto à Bulgária. É dada ênfase especial à Bulgária como um estudo de caso que ilustra a adaptação nacional das normas internacionais de governança dentro do contexto regulatório da União Europeia. Utilizando análise jurídica doutrinária, metodologia comparativa e avaliação de políticas, o estudo analisa o marco jurídico búlgaro, incluindo a Lei das Empresas Públicas (PEA), seu regulamento de implementação e a Política de Propriedade Estatal, à luz do direito da UE e das Diretrizes atualizadas da OCDE (2024). A pesquisa concentra-se na organização institucional da propriedade estatal e em princípios-chave de governança, tais como transparência, prestação de contas, eficiência, competitividade e sustentabilidade. O estudo constata que a Bulgária fez progressos significativos no sentido do alinhamento formal com os padrões internacionais, mas que permanecem desafios importantes no que diz respeito à coordenação institucional, à implementação efetiva e à integração estratégica dos objetivos de sustentabilidade. Conclui que são necessárias*



long-term contribution of public enterprises to sustainable development.

**Keywords:** Public Enterprises. State Ownership Policy. Oecd Corporate Governance. Sustainability. Bulgaria.

*novas reformas para fortalecer a governança corporativa, aumentar a segurança jurídica, melhorar o desempenho do setor público e reforçar a contribuição de longo prazo das empresas públicas para o desenvolvimento sustentável.*

*Palavras-chave:* Empresas Públicas. Política De Propriedade Estatal. Governança Corporativa Da Ocede. Sustentabilidade. Bulgária.

## 1 INTRODUCTION

Europe’s concern about persistent productivity gaps has catalysed a policy shift towards a “competitiveness-first” approach. The European Commission’s Competitiveness Compass provides a unifying framework linking investment, skills, energy, capital markets, and the single market with implementation capacity and regulatory quality (European Commission, 2024). This framework reflects a broader strategic reorientation towards strengthening economic resilience and long-term growth potential. The Competitiveness Compass<sup>1</sup> is closely connected to the preparation of the new Multiannual Financial Framework beyond 2027, as well as to a wider industrial and clean transition agenda. This includes initiatives aimed at simplifying EU rules for citizens and businesses, notably within the context of the “Clean Industrial Deal” (European Commission, 2025). In this context, the role of public enterprises and the effectiveness of state ownership policies become increasingly relevant, particularly in ensuring alignment between public governance, market efficiency, and strategic policy objectives.

For Member States, the implications are practical and far-reaching: accelerating productivity through professional management and green and digital investments; attracting private capital through transparency and predictable policies; and embedding measurable sustainability outcomes that complement financial performance (the Draghi

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<sup>1</sup>**European Commission (2024).** *A New Competitiveness Compass for the European Union.* COM (2024) final.: [https://commission.europa.eu/topics/competitiveness/competitiveness-compass\\_en](https://commission.europa.eu/topics/competitiveness/competitiveness-compass_en) (Accessed on 15 April 2026).

Report on EU Competitiveness, 2024)<sup>2</sup>. These developments reinforce the importance of effective governance frameworks, particularly in the context of state-owned enterprises, where public objectives and market performance must be carefully balanced.

Furthermore, on 26 February 2025, the European Commission adopted two “omnibus” packages aimed at reducing administrative burdens and simplifying EU rules for citizens and businesses. The scope of companies falling within the application of the Corporate Sustainability Reporting Directive (CSRD) was significantly narrowed. Companies are now subject to sustainability reporting requirements only if two cumulative criteria are met: at least 1,000 employees and a net turnover of EUR 450 million. The agreement also allows Member States to exempt so-called “first-wave” companies from sustainability reporting obligations for the financial years 2025 and 2026. This requires Bulgaria to take action at national level, notably through amendments to the Accounting Act, in order to introduce a one-year deferral of the reporting obligation for the affected entities.

At the same time, the scope of companies subject to due diligence obligations under the Corporate Sustainability Due Diligence Directive (CSDDD) has also been narrowed. The new thresholds are 5,000 employees and EUR 1.5 billion in net turnover. The requirement to adopt climate transition plans is maintained and remains aligned with the CSRD framework. Member States are required to transpose the directive by July 2028, while companies must comply with the obligations by July 2029.

With the amendments to the Bulgarian Accountancy Act promulgated in State Gazette, Issue No. 115 of 30 December 2025, the national legislator introduced a postponement of the obligation to prepare and include a sustainability report in the annual activity report. This postponement is regulated in § 30(1) of the Transitional and Final Provisions to the Act amending and supplementing the Accountancy Act, which sets revised initial reporting periods for sustainability reporting. Under the amended provision, the first reporting period for which a sustainability report must be included in the management report varies depending on the category of undertaking and begins in

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<sup>2</sup>Draghi, M. (2024). *The Future of European Competitiveness*. Brussels: European Commission. [https://commission.europa.eu/topics/competitiveness/draghi-report\\_en](https://commission.europa.eu/topics/competitiveness/draghi-report_en) (Accessed on 15 April 2026).

2026, 2027, or 2028. In practical terms, this constitutes a one-year deferral compared to the originally envisaged implementation timeline.

This legislative development should be understood within the broader context of the evolving European regulatory framework on corporate sustainability reporting, reflecting the need to provide undertakings with an adequate transitional period to adapt to new reporting standards and compliance requirements. In this context, the implications for public enterprises are particularly significant, given their dual role in achieving both economic and public policy objectives.

## 2 OECD RECOMMENDATIONS AND THEIR RELEVANCE FOR BULGARIA

The assessment of the Bulgarian state-owned enterprise (SOE) sector conducted by the Organisation for Economic Co-operation and Development provides a comprehensive set of recommendations aimed at improving the corporate governance, transparency, and efficiency of public enterprises<sup>3</sup>. The OECD Review of the Corporate Governance of State-Owned Enterprises in Bulgaria (OECD, 2019) are grounded in the OECD Guidelines on Corporate Governance of State-Owned Enterprises and reflect both structural and functional challenges identified in the Bulgarian model.

A key recommendation concerns the need to address the fragmented exercise of state ownership rights. In Bulgaria, ownership responsibilities are dispersed across multiple line ministries, which leads to inconsistencies in governance practices and weak strategic coordination. The OECD recommends the establishment of a more centralised ownership coordination mechanism capable of ensuring coherence in decision-making, effective monitoring, and accountability. Such a model would enhance the state's capacity to act as an informed and active owner, aligning ownership practices with long-term policy objectives and international standards.

Another central issue identified in the OECD review is the limited independence and professionalisation of SOE boards. Board nomination procedures are not always

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<sup>3</sup> OECD Review of the Corporate Governance of State-Owned Enterprises in Bulgaria (OECD, 2019) [https://www.oecd.org/content/dam/oecd/en/publications/reports/2019/04/oecd-review-of-the-corporate-governance-of-state-owned-enterprises-bulgaria\\_8e3ff7bd/e64274bf-en.pdf](https://www.oecd.org/content/dam/oecd/en/publications/reports/2019/04/oecd-review-of-the-corporate-governance-of-state-owned-enterprises-bulgaria_8e3ff7bd/e64274bf-en.pdf) (Accessed on 15 April 2026).

sufficiently transparent, and political influence may affect the composition and functioning of governing bodies. In response, the OECD recommends strengthening merit-based selection procedures, introducing clear qualification criteria, and ensuring a higher degree of independence of board members. The establishment of transparent and competitive nomination processes is essential for improving corporate governance and aligning board practices with international best standards.

The OECD emphasises the importance of clearly separating the state's ownership function from its regulatory and policy-making roles. In the Bulgarian context, the overlap between these functions creates risks of conflicts of interest and undermines market neutrality. The recommendation is to establish a clear institutional and functional distinction between the state as owner and the state as regulator. This separation is essential for ensuring fair competition, improving governance quality, and strengthening investor confidence.

Transparency remains one of the most critical areas requiring improvement. The OECD identifies shortcomings in disclosure practices at both the enterprise and aggregate levels, including limited availability of comparable and reliable information. The recommended approach involves strengthening reporting standards, introducing comprehensive disclosure requirements, and ensuring regular publication of aggregated information on the SOE sector. Particular emphasis is placed on the integration of non-financial reporting, including sustainability and ESG-related indicators, in line with evolving international and European standards.

The OECD highlights the importance of ensuring a level playing field between state-owned and private enterprises. In Bulgaria, SOEs may benefit from implicit or explicit advantages, including preferential financing conditions or unclear compensation for public service obligations. To address this issue, the OECD recommends clarifying the scope and cost of public policy objectives assigned to SOEs and ensuring that these are transparently compensated. At the same time, SOEs operating in competitive markets should be subject to the same legal and economic conditions as private firms.

A related structural challenge concerns the lack of clear definition and costing of public policy obligations imposed on SOEs. These obligations are often fragmented and insufficiently transparent, which affects both financial performance and accountability. The OECD recommends establishing a clear framework for defining, costing, and

financing public service obligations. This includes the introduction of transparent compensation mechanisms and the separation of commercial and non-commercial activities.

The OECD review also identifies significant fiscal risks associated with the SOE sector, particularly due to high levels of indebtedness and contingent liabilities. These risks may have a direct impact on public finances and macroeconomic stability. To mitigate these risks, the OECD recommends strengthening financial oversight mechanisms, improving risk management practices, and enhancing monitoring of SOE performance. This includes the development of more robust systems for evaluating financial sustainability and exposure to fiscal risks.

Performance monitoring across the Bulgarian SOE sector remains heterogeneous and inconsistent. Different ministries apply varying indicators and evaluation methodologies, which limits comparability and reduces the effectiveness of oversight. The OECD recommends introducing standardised performance indicators and harmonised monitoring frameworks applicable across the entire SOE portfolio. This would allow for benchmarking, improved accountability, and more effective policy evaluation.

The OECD identifies the coexistence of different legal forms of state-owned entities, including statutory enterprises that operate outside the general corporate framework, as a structural weakness. The recommendation is to gradually phase out non-corporatised forms of enterprises engaged in commercial activities and to align them with the general corporate legal framework. This process of corporatisation is essential for improving governance, transparency, and efficiency.

Finally, the OECD emphasises the need to strengthen the accountability of the state in its role as owner. This includes clearer reporting lines, improved public oversight, and enhanced responsibility of ownership entities. The introduction of structured accountability mechanisms would contribute to greater transparency and reinforce the legitimacy of state ownership in the economy.

Taken together, the OECD recommendations reveal a structural gap between formal legal alignment with international standards and their effective implementation in practice. While Bulgaria has made significant progress in aligning its legal framework with the OECD Guidelines, important challenges remain at the level of institutional

design, governance practices, and functional effectiveness. In this context, the Bulgarian model can be characterised as a transitional system of state ownership, combining elements of formal convergence with ongoing processes of institutional consolidation. Addressing the identified gaps requires a comprehensive reform approach focused on centralisation, professionalisation, transparency, and sustainability-oriented governance.

The most recent OECD report on the ownership and governance of state-owned enterprises<sup>4</sup> provides an updated and comprehensive framework for understanding the evolving role of the state as an economic actor. Building on earlier country-specific assessments, the OECD develops a set of internationally recognised standards aimed at strengthening corporate governance, enhancing transparency and ensuring the effective and sustainable management of public assets.

A central element of the OECD approach is the concept of professional and active state ownership. The state is expected to act not merely as a formal shareholder, but as an informed and strategic owner, capable of defining clear objectives, monitoring performance and ensuring that state-owned enterprises operate efficiently and create long-term value. In this regard, the report highlights the importance of establishing explicit ownership policies that define the rationale for state ownership, set out governance principles and clarify the roles of the institutions involved. However, empirical evidence shows that a significant number of jurisdictions still lack such comprehensive ownership frameworks, which weakens accountability and reduces the effectiveness of state ownership practices.

Another key recommendation concerns the organisation of the ownership function. The OECD emphasises that ownership responsibilities should be centralised or, where full centralisation is not feasible, coordinated through a dedicated entity with a clear mandate. Such institutional arrangements facilitate consistency in decision-making, allow for the pooling of expertise and contribute to a clearer separation between the state's ownership, regulatory and policy-making roles. This separation is essential in order to avoid conflicts of interest and to ensure that SOEs operate under conditions of fair competition.

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<sup>4</sup> OECD, *Ownership and Governance of State-Owned Enterprises 2024*, OECD Publishing, Paris, 2024, [https://www.oecd.org/content/dam/oecd/en/publications/reports/2024/06/ownership-and-governance-of-state-owned-enterprises-2024\\_136e9151/395c9956-en.pdf](https://www.oecd.org/content/dam/oecd/en/publications/reports/2024/06/ownership-and-governance-of-state-owned-enterprises-2024_136e9151/395c9956-en.pdf) (Accessed on 15 April 2026).

The OECD framework also places strong emphasis on the need to ensure a level playing field between state-owned and private enterprises. Despite progress in many jurisdictions, the report identifies the continued existence of preferential treatment for SOEs, including tax advantages, regulatory exemptions and preferential access to financing. The OECD therefore calls for the application of market-consistent conditions and the transparent compensation of public service obligations, in order to avoid distortions of competition and to promote efficiency.

In the area of transparency, disclosure and accountability, the OECD identifies both improvements and persistent gaps. Effective corporate governance requires comprehensive financial and non-financial reporting, including disclosure of objectives, risks and related-party transactions. At the same time, the publication of aggregate reports on the performance of the SOE sector is essential for ensuring accountability towards the public, which ultimately acts as the beneficial owner of these enterprises. Nevertheless, the report finds that reporting practices remain uneven across jurisdictions, particularly with regard to non-listed and smaller SOEs .

A further key pillar of the OECD framework is the strengthening of the role and independence of boards of directors. Boards are expected to play a central role in defining strategy, overseeing management and ensuring the long-term sustainability of SOEs. This requires a high level of professionalism, independence and diversity, as well as clear mandates and effective internal control mechanisms. Safeguarding boards from undue political influence is identified as a critical condition for improving governance outcomes.

The report also highlights the importance of financial discipline and risk management, particularly in light of the potential fiscal risks associated with state ownership. Improved monitoring of financial performance, better disclosure of contingent liabilities and the development of robust risk management frameworks are necessary to ensure the sustainability of SOEs and to protect public finances .

A distinctive feature of the 2024 OECD framework is the strong focus on sustainability and ESG integration. Given their significant presence in key sectors such as energy, infrastructure and natural resources, SOEs are expected to play a leading role in the transition towards a low-carbon and sustainable economy. This includes the adoption of sustainability reporting standards, alignment with climate objectives and the implementation of responsible business conduct practices.

Finally, the OECD underscores the importance of strengthening the institutional capacity of ownership entities. Effective state ownership requires adequate resources, specialised expertise and a certain degree of organisational autonomy. Without such capacity, even well-designed legal frameworks may fail to produce the desired governance outcomes.

Overall, the OECD (2024) framework demonstrates that the effectiveness of SOE governance depends not only on formal legal alignment with international standards, but also on the institutional quality, professionalisation and strategic orientation of the state as an owner. This perspective provides an essential analytical bridge between normative frameworks and their practical implementation, which is further explored through both theoretical and empirical studies in the following sections.

Building on the OECD framework, the academic literature provides further conceptual and empirical insights into the governance of state-owned enterprises. While international standards outline the principles of effective ownership and corporate governance, scholarly research critically examines the role of the state as an economic actor and the practical challenges associated with the implementation of these principles. From a theoretical perspective, the role of the state in SOE governance has increasingly been conceptualised as an **active and strategic function**, rather than a purely formal ownership position. The state is understood not only as a shareholder, but as a key driver of corporate governance, influencing strategic direction, accountability mechanisms and performance outcomes. In this context, effective governance depends not only on the existence of formal legal rules, but also on the capacity of the state to exercise its ownership rights in a professional, transparent and accountable manner. This requires a clear separation between ownership and regulatory functions, as well as the professionalisation of boards and management structures (Keremidchiev & Nedelchev, 2022)<sup>5</sup>.

At the same time, the literature emphasises the inherent duality of state-owned enterprises, which operate at the intersection of public policy objectives and market-based

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<sup>5</sup> Keremidchiev, S., & Nedelchev, M. (2022). *The State as a Driver for Good Corporate Governance of State-Owned Enterprises*. *Studies in Business and Economics*, 17(3), 113–131. <https://doi.org/10.2478/sbe-2022-0050>

economic performance. This dual role creates structural tensions, as SOEs are expected to pursue social and strategic goals while maintaining financial sustainability and competitiveness. As a result, corporate governance frameworks must balance efficiency, accountability and public interest considerations, which often leads to complex institutional arrangements and governance trade-offs.

Empirical studies further confirm these challenges in the Bulgarian context. Evidence from sector-specific analyses, particularly in the healthcare sector, demonstrates a strong preference for concentrated state ownership and governance models that allow direct control over management decisions. At the same time, despite the formally declared social orientation of public policy, governance practices often reveal a predominant focus on financial performance. This highlights the gap between formal objectives and actual practices, as well as the influence of external factors such as ownership concentration, social functions and sectoral importance (Nedelchev, 2019)<sup>6</sup>.

Taken together, the theoretical and empirical literature reinforces the central finding that the effectiveness of SOE governance depends not only on formal institutional design, but also on the functional capacity of the state to act as a competent and responsible owner. This perspective provides an important analytical lens for assessing the Bulgarian model in the broader context of OECD standards and comparative governance practices.

### 3 CONTEMPORARY COORDINATION OF THE GOVERNANCE OF PUBLIC ENTERPRISES AND SUSTAINABILITY ISSUES IN BULGARIA

According to Article 18(4) of the Constitution of the Republic of Bulgaria, “a state monopoly may be established by law over railway transport, national postal and telecommunications networks, the use of nuclear energy, the production of radioactive products, weapons, explosives, and biologically highly active substances.” This constitutional provision defines the strategic sectors in which the state may exercise

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<sup>6</sup> **Nedelchev, M. (2019).** *Corporate Governance of State-Owned Enterprises: The Case of Healthcare Establishments in Bulgaria.* Economic Studies, Institute of Economics, Bulgarian Academy of Sciences, Volume 28 (1), 2019, p.115-123.

exclusive control, thereby framing the role of public enterprises within areas of particular public interest. Under the Bulgarian Commercial Act (Commercial Act), state-owned and municipal enterprises may be established as single-member limited liability companies or single-member joint-stock companies. In addition, such enterprises may participate in the establishment of other commercial companies or associations of companies. Public enterprises may take the form of traders, state enterprises, or municipal enterprises (Article 61 of the Commercial Act).

Bulgarian financial law scholarship has developed a well-established academic tradition in the study of financial control and related institutions of public governance. For reasons of clarity and readability, the detailed bibliographic sources are systematised in the section “References”. An additional doctrinal perspective of particular importance concerns the relationship between public enterprises and the system of public finances. Bulgarian legal scholarship has emphasised that the contemporary concept of public finance cannot be limited solely to the state budget and traditional budgetary organisations. As noted by Dimitrov, the system of public finances also encompasses other entities whose funds, operations and economic functions have a direct relevance for the fiscal framework and the public sector as a whole (Dimitrov, 2016)<sup>7</sup>. In this context, Article 13(4) of the Public Finance Act is especially significant. While the operations and resources of public enterprises organised as commercial companies are generally not included in the Consolidated Fiscal Programme, the Minister of Finance may determine that the funds, revenues and expenditures of other entities or structurally distinct units should be incorporated where they fall within the general government sector and where their financial operations are comparable in nature to budgets or extra-budgetary accounts. This doctrinal approach demonstrates that certain state-owned enterprises cannot be regarded solely as corporate entities. Owing to the nature of their activities, public service obligations and fiscal relevance, they may also form part of the broader system of public finances. Examples include the National Railway Infrastructure Company, State Consolidation Company EAD, Eco Anthracite EAD, and the State Enterprise Radioactive Waste. Consequently, the governance of such enterprises acquires

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<sup>7</sup> **Dimitrov, V. (2016)**. Public Finance, Financial System, Financial Law. *Economic and Social Alternatives*, No. 3.

heightened public significance, requiring stronger financial control, audit mechanisms, transparency obligations and strategic state oversight.

From this perspective, the Bulgarian model of public enterprise governance should be assessed not only through the lens of corporate governance, but also through the principles of fiscal sustainability, protection of public resources and sound financial administration.

Bulgarian legal scholarship has emphasised that the PEA introduced a broader and functionally oriented concept of “public enterprise”, which goes beyond the traditional understanding of state-owned commercial companies. According to Elkov, the new framework seeks to systematise various forms of state and municipal participation in economic activity under a common governance regime, thereby aligning domestic law with contemporary European and OECD standards (Elkov, 2022)<sup>8</sup>.

The establishment and transformation of state-owned enterprises into single-member limited liability companies or single-member joint-stock companies are carried out in accordance with procedures laid down by law. The establishment and transformation of municipal enterprises into such legal forms are effected by decision of the municipal council. Furthermore, state enterprises that do not qualify as commercial companies may also be established by law (Article 62(3) of the Commercial Act).

The adoption of the PEA and the Implementing Regulation of the Public Enterprises Act (IRPEA) introduced new requirements that build upon the framework of the Bulgarian Commercial Act (Commercial Act), particularly with regard to the legal regime of state-owned enterprises, including their relationship with public finances and the state budget. At the same time, these instruments are grounded in the principles governing the exercise of state ownership rights in public enterprises (PEA, Chapter Two, Articles 5–10). Articles 61 and 62 of the Commercial Act set out the core provisions on the status of public enterprises as traders, while the PEA operates as *lex specialis* in relation to the Commercial Act<sup>9</sup>.

<sup>8</sup> **Елков, Д. [Elkov, D.] (2022).** Нова рамка на публичните предприятия в България. Концепция и систематизация [New Framework of Public Enterprises in Bulgaria: Concept and Systematization]. В: *Членството на България в Европейския съюз: Четиринадесет години по-късно. Двадесета научна конференция*, Том 1. София: Издателски комплекс – УНСС, с. 222–248.

<sup>9</sup> See **Mihaylova-Goleminova, S. (2022).** Sustainable Governance of State-Owned Enterprises: The Bulgarian Case. In: *Правовые и Финансово-Экономические Средства Достижения Целей*

The principles enshrined in the OECD Guidelines on Corporate Governance of State-Owned Enterprises are explicitly reflected in the PEA. In particular, § 1, item 10 of the supplementary provisions defines “standards for good corporate governance” by direct reference to the OECD Guidelines. Although these principles are largely incorporated into the national legal framework, certain legislative and institutional gaps remain.

Moreover, the sustainable governance of public enterprises is inherently cross-sectoral and extends beyond the scope of a single regulatory domain. Addressing these challenges—consistent with the global sustainable development agenda—requires the effective use of law as a regulatory instrument, through coherent primary and secondary legislation, as well as consistent and robust enforcement.

At present, the PEA preserves the powers of the Council of Ministers to exercise the rights of the state in public enterprises and to designate the competent line ministers as principals of those enterprises (including the alternative mechanism provided under Article 13 of the PEA). State policy in the field of public enterprises is determined and implemented by the Council of Ministers (PEA: Article 10(1); Chapter Three, Articles 11–12; Chapter Four, Articles 13–19; IRPEA, Chapter Two “State Policy”, Articles 2–12; Chapter Three “Coordination of State Participation in Public Enterprises”, Articles 13–22).

Nevertheless, the corporate governance of the different categories of state-owned and municipal public enterprises still requires further alignment with European and national requirements, including the standards established by the Organisation for Economic Co-operation and Development (OECD).

By Council of Ministers Decision No. 662 of 23 September 2025, a Programme for the Transformation of State-Owned Enterprises established by special laws pursuant to Article 62(3) of the Bulgarian Commercial Act (Commercial Act) was adopted. This programme constitutes a key element of the current state policy on ownership and governance of public enterprises (PEA: Articles 10–12; IRPEA: Chapters Two and Three). The decision builds upon previous analytical and governance approaches, aiming

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*Устойчивого Развития*. Moscow: Prometei, pp. 266–292. and **Mihaylova-Goleminova, S. et al. (2024)**. *Corporate and Financial Law Handbook*. Sofia: Ciela.

at a structured and consistent restructuring of state-owned enterprises that are not organised as commercial companies, with a view to enhancing efficiency, accountability, and alignment with standards of good corporate governance, as reflected in the OECD Guidelines on Corporate Governance of State-Owned Enterprises (2015; revised 2024).

The programme is based on the understanding that state enterprises established under Article 62(3) of the Commercial Act occupy a specific position within the system of public finance and public governance. They combine elements of economic activity with the performance of functions of public interest (PEA: Articles 7 and 8). This hybrid nature necessitates a differentiated approach to their legal status and governance, taking into account both the requirement for economic efficiency and the obligation to achieve public policy objectives and deliver public services (PEA: Articles 5 and 6). In this regard, the Bulgarian model illustrates the practical challenges of balancing market-oriented performance with public accountability, a core issue also addressed within the framework of the Organisation for Economic Co-operation and Development (OECD) standards.

In this context, the Programme introduces a principled distinction between enterprises engaged predominantly in market-based activities and those whose primary function is the implementation of public policies or the provision of strategic services. For the first category, the Programme предусматривает transformation into commercial companies organised under the framework of the Bulgarian Commercial Act (Commercial Act), with clearly defined governance and supervisory bodies, business programmes, key performance indicators, and enhanced public disclosure obligations (IRPEA: Articles 23–24; PEA: Chapters Six and Seven).

This approach is fully aligned with the requirements of the PEA and with the principles set out in the OECD Guidelines on Corporate Governance of State-Owned Enterprises (2024), particularly those relating to professional management, independent and accountable boards, and the principle of competitive neutrality. It reflects a broader policy objective of ensuring that state-owned enterprises operating in competitive markets function under conditions comparable to private sector entities, thereby improving efficiency, transparency, and market discipline.

On the other hand, for enterprises whose activities are primarily oriented towards the implementation of public policy objectives or the provision of services of strategic importance, the Programme allows for the preservation or refinement of their public-law

status. In such cases, particular emphasis is placed on the clear definition of assigned obligations, sources of funding, and mechanisms for accountability and control (PEA: Article 7(1)–(3); IRPEA: Article 65). Within this framework, requirements for transparency and disclosure become especially significant, alongside the role of external and internal control exercised by the Bulgarian National Audit Office and the Public Financial Inspection Agency, in accordance with the applicable financial legislation.

The Programme adopted by Council of Ministers Decision No. 662/2025 is also functionally linked to the performance evaluation mechanism for the business programmes of public enterprises, established through the Methodology adopted by Council of Ministers Decree No. 309 of 15 December 2023 (PEA: Article 17; CMD No. 309/2023). In this way, the transformation of state-owned enterprises is not conceived as a one-off organisational measure, but rather as part of a continuous cycle of strategic planning, implementation, reporting, and evaluation of both financial and non-financial objectives, including those related to sustainability and ESG factors, in line with the OECD Guidelines on Corporate Governance of State-Owned Enterprises (2024).

Particular significance should also be attached to the fact that Council of Ministers Decision No. 662/2025 places the reform of state-owned enterprises within the broader context of public sector modernisation and the strengthening of the state's role as an informed and active owner. In this model, the state refrains from direct involvement in day-to-day operational management while exercising effective strategic oversight (PEA: Articles 5–10; OECD Guidelines, Chapters II and VI). This approach is consistent both with the national legal framework and with the updated international standards on corporate governance of state-owned enterprises.

In conclusion, the adoption of Decision No. 662 of 23 September 2025 establishes a coherent regulatory and strategic framework for the long-term reform of state-owned enterprises under Article 62(3) of the Bulgarian Commercial Act. This framework is closely aligned with the PEA, its implementing regulation, and the standards of the Organisation for Economic Co-operation and Development (OECD), and has the potential to improve the management of public resources, mitigate fiscal risks, and enhance the competitiveness and sustainability of the Bulgarian economy in the context of the evolving strategic priorities of the European Union.

The Programme for the transformation of state-owned enterprises established under Article 62(3) of the Commercial Act provides for differentiated restructuring measures, including:

- the transformation of State Enterprise “Kabiuk” into a single-member joint-stock company, due to its predominantly commercial activity;
- the transformation of State Enterprise “Bulgarian Sports Totalizator” into a single-member joint-stock company, on the same grounds;
- the transformation of State Enterprise “Prison Fund” into an administrative structure, given its primarily public policy functions;
- the transformation of State Enterprise “Management and Operation of Dams” into an administrative structure;
- the transformation of State Enterprise “Research and Production Centre” into an administrative structure;
- the inclusion of State Enterprise “Enterprise for Management of Environmental Protection Activities” in the Consolidated Fiscal Programme as an economically distinct entity pursuant to Article 13(4) of the Public Finance Act;

At the same time, several enterprises retain their existing legal form, including State Enterprise “Air Traffic Services Authority”, State Enterprise National Company “Railway Infrastructure”, State Enterprise “Port Infrastructure”, State Enterprise “Radioactive Waste”, as well as the six regional state forestry enterprises (South-Western, South-Eastern, South-Central, North-Western, North-Eastern, and North-Central). This differentiated approach confirms the strategic intent to align the legal form and governance model of public enterprises with the nature of their activities, thereby enhancing both economic efficiency and the effective delivery of public policy objectives.

According to Article 106 of the Constitution of the Republic of Bulgaria, the Council of Ministers directs the implementation of the state budget, organises the management of state property, and concludes, ratifies, and denounces international treaties in cases provided for by law. Within this institutional framework, the Public Enterprises and Control Agency (PECA) acts as a central coordinating body for the governance of state-owned enterprises. It coordinates state policy towards public enterprises, monitors its implementation, reports to the Council of Ministers, and

performs the functions and activities assigned to it under the PEA and its implementing regulation.

Pursuant to Article 10 of the PEA, the Council of Ministers adopts a State Ownership Policy in public enterprises, which constitutes the primary strategic document defining the framework of state policy on ownership and governance. This policy sets out both the objectives and the rationale for state participation in economic activities, as well as the principles, mechanisms, and institutional responsibilities governing the exercise of the state's ownership rights. Despite the formal alignment of the Bulgarian State Ownership Policy with the OECD Guidelines, important structural inconsistencies remain. In particular, the decentralised model of exercising ownership rights through line ministries diverges from the OECD recommendation for a centralised ownership function. This institutional fragmentation limits the coherence of state ownership policy, weakens accountability, and creates risks of political influence in corporate governance. Therefore, the Bulgarian model should be understood as formally compliant, but only partially effective in terms of practical implementation.

First, the Policy defines the rationale for state participation in public enterprises by explicitly identifying the circumstances in which such participation is justified—namely, where it is driven by strategic interests, the need to provide public services, the implementation of public policies, or the protection of national security and the public interest. In this sense, the Policy functions as a normative and strategic filter, legitimising state participation not only on the basis of historical or sector-specific considerations, but also through clearly defined objectives subject to subsequent evaluation.

Second, the Policy delineates the role of the state in the governance of public enterprises by introducing a principled distinction between the state's function as owner and its regulatory or supervisory powers. This distinction is essential for avoiding conflicts of interest and for ensuring professional, independent, and effective corporate governance, in line with the principles established in the PEA and the relevant international standards for good governance of state-owned enterprises. Within this framework, the Policy sets out expectations for the governing bodies of public enterprises, including with regard to strategic planning, accountability, and the achievement of both financial and non-financial objectives.

Particular importance within the State Ownership Policy in public enterprises is attached to the regulation of the implementation and monitoring of state ownership policy. The Policy is not merely a declarative document, but is conceived as a dynamic instrument of ongoing governance and control, to be applied and assessed over time. In this context, emphasis is placed on the role of business programmes of public enterprises, reporting systems, and performance evaluation mechanisms, through which the extent of achievement of the defined objectives is monitored.

Article 10 of the PEA explicitly defines the roles and responsibilities of ministers exercising the state's ownership rights in public enterprises, as well as those of other public authorities involved in the implementation of the Policy. This regulatory framework aims to ensure a clear allocation of competences and responsibilities, thereby establishing an institutional structure for coordination and interaction among different bodies within the executive branch. The State Ownership Policy in public enterprises was adopted by Council of Ministers Decision No. 776 of 12 October 2022, constitutes the central strategic document defining the objectives, principles and mechanisms of state ownership in Bulgaria (Council of Ministers, 2022). In this sense, the Policy also performs a coordination function, aimed at harmonising governance practices across public enterprises in different sectors. A systematic assessment of the Bulgarian State Ownership Policy reveals several structural gaps when measured against the OECD (2024) framework. First, the absence of a fully centralised ownership entity leads to fragmentation in decision-making and weakens strategic coordination at portfolio level. Although the Public Enterprises and Control Agency (PECA) performs coordination functions, it does not possess the full authority required to act as a central ownership body in line with OECD standards. Second, the operational independence of state-owned enterprises remains constrained in practice. While the legal framework formally prohibits political interference, the role of line ministers in appointing and supervising management bodies creates potential risks of undue influence. Third, the performance evaluation system, although formally developed, remains insufficiently linked to managerial incentives and sanctions. This limits its effectiveness as a governance tool. Fourth, the integration of sustainability and ESG considerations, while present in the regulatory framework, is not yet fully operationalised through standardised reporting systems, data governance structures, and assurance mechanisms. Finally, the dual role of state-owned

enterprises—combining public policy functions and commercial activities—continues to create tensions that are not fully addressed through transparent compensation mechanisms for public service obligations.

The development of the State Ownership Policy is entrusted to the Public Enterprises and Control Agency (PECA), which operates in cooperation with the authorities exercising the state's ownership rights in enterprises, as well as with other public bodies involved in its implementation. This approach underscores the role of PECA as a central coordinating authority within the system of state ownership, responsible for ensuring methodological consistency and institutional continuity in the governance of public enterprises.

The legislator also provides for the periodic updating of the Policy, to be carried out when necessary, but not less than once every four years, on the basis of proposals submitted by PECA. This requirement ensures the adaptability of the state ownership policy to changes in the economic environment, the legal framework, and the strategic priorities of the state. Furthermore, the obligation to publish the Policy on the websites of the Council of Ministers and PECA guarantees transparency and public accessibility, which are essential preconditions for effective public oversight and trust.

In conclusion, the State Ownership Policy in public enterprises, adopted by the Council of Ministers pursuant to Article 10 of the PEA

constitutes a central instrument of state ownership policy, integrating strategic objectives, institutional coordination, and principles of good corporate governance into a unified framework for the governance of public enterprises.

The OECD Guidelines form the foundation of the State Ownership Policy approved by Council of Ministers Decision No. 776 of 12 October 2022, which has not been amended or updated since its adoption. At present, the governance of municipal public enterprises is framed by the European Charter of Local Self-Government, the PEA, and related legislation. In practice, however, transparency and disclosure remain insufficient. There is no unified national policy at the local level governing municipal public enterprises, including with regard to objectives and sustainability accountability.

Although both EU and national legal instruments are formally applicable, their implementation remains fragmented and uneven across municipalities. To address these deficiencies, Bulgaria should establish a central, publicly accessible register of municipal

enterprises, along with a specialised unit responsible for the collection, validation, and publication of harmonised data on ownership structures, board composition, financial performance, and sustainability indicators, based on standardised templates and unique identifiers. Such a framework would enable benchmarking, effective oversight, and data-driven policymaking at both national and municipal levels, in line with the standards of the Organisation for Economic Co-operation and Development (OECD).

The 2024 update of the OECD Guidelines elevates sustainability to the same level as traditional governance dimensions such as state ownership, market discipline, disclosure, and board effectiveness (OECD, 2024). A key innovation lies in the explicit emphasis on sustainability, requiring the integration of climate-related and broader ESG factors into corporate strategy, risk management, and disclosure practices, while simultaneously reinforcing the role of professional, merit-based, and independent boards (OECD, 2024).

In parallel, non-financial reporting requirements for public enterprises in Bulgaria are evolving towards alignment with EU standards. Amendments to the Accountancy Act, promulgated in State Gazette, Issue No. 17 of 28 February 2025, introduced a one-year deferral of sustainability reporting obligations. A specific feature applies to public enterprises under the PEA: pursuant to Article 8, public enterprises entrusted with public service obligations and/or public policy objectives are subject to the same disclosure requirements under Chapter Seven as those classified as “large” undertakings.

In this respect, a key area requiring further development in the Bulgarian State Ownership Policy concerns the insufficient integration of sustainability considerations into the governance framework of public enterprises. While the existing policy reflects the core principles of corporate governance and aligns formally with OECD standards, it dedicates limited substantive attention to sustainability as a strategic objective. This gap has become particularly evident in light of recent developments at European Union level, including the amendments introduced through the so-called “omnibus” packages, which recalibrate the scope and implementation timelines of sustainability reporting and due diligence obligations.

In parallel, ongoing developments at global regulatory level further reinforce the need for a strategic reassessment of the sustainability framework. The European Union is currently considering the possible integration of the global baseline standards developed

by the International Sustainability Standards Board (ISSB), under the IFRS Foundation, into its regulatory architecture<sup>10</sup>. This reflects a broader shift from a strictly European model based on the principle of double materiality—requiring companies to disclose both financial risks and their environmental and social impacts—towards a framework increasingly focused on financial materiality. Such convergence is driven by the need to reduce fragmentation in global reporting standards and to ensure comparability across jurisdictions, particularly for multinational enterprises.

The potential alignment with ISSB standards has significant implications for the governance of public enterprises. It signals a transition towards the treatment of sustainability-related data—particularly climate-related indicators such as carbon emissions—as auditable financial metrics, integrated into mainstream financial reporting and subject to standard accounting and assurance practices. While this development enhances comparability and reduces compliance complexity, it also raises important questions regarding the future balance between financial risk management and broader environmental and social objectives within ESG frameworks.

In this context, it is recommended that the Bulgarian State Ownership Policy be updated in order to explicitly incorporate sustainability and ESG considerations as core elements of state ownership, while preserving the principle of double materiality as a defining feature of the European governance model. This should include the alignment of policy objectives with the evolving EU and global regulatory frameworks, the integration of sustainability targets into the strategic planning and reporting of public enterprises, and the development of clear guidance on the application of European Sustainability Reporting Standards (ESRS), in coordination with emerging global standards.

At the same time, particular attention should be given to the need to update the existing methodology for the assessment of the implementation of approved business programmes of public enterprises. The current framework, while aligned with traditional financial and operational indicators, does not sufficiently capture sustainability-related performance. Therefore, it should be revised to include measurable ESG indicators,

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<sup>10</sup> EU weighing last-minute move to adopt ISSB sustainability standards: <https://www.responsible-investor.com/eu-weighing-last-minute-move-to-adopt-issb-sustainability-standards/> (Accessed on 15 April 2026).

double materiality assessments, and mechanisms for monitoring long-term environmental and social impact.

Such an approach would ensure that the governance of public enterprises evolves in line with OECD standards and the rapidly changing EU and global sustainability landscape, thereby strengthening the role of the state as a forward-looking and responsible owner and enhancing the contribution of public enterprises to long-term economic resilience and sustainable development. Ultimately, this development also raises the broader question whether ESG is evolving from a value-based sustainability paradigm into a predominantly financial risk management framework, a transformation with far-reaching implications for both public policy and corporate governance.

Recent legislative changes also assign the Minister of Finance a central role in coordinating and ensuring interaction with the European Commission and the Council of the European Union in the process of harmonising Bulgarian accounting legislation with EU law, including in the field of sustainability reporting (Article 15 of the Accountancy Act). In practice, this necessitates enhanced coordination between the Public Enterprises and Control Agency (PECA) and the Minister of Finance with regard to the implementation of sustainability requirements in state-owned and municipal enterprises. Such coordination should be centralised at the level of the Council of Ministers, rather than remaining solely within the remit of PECA.

Ensuring compliance with the Corporate Sustainability Reporting Directive (CSRD) and the Accountancy Act requires the implementation of a consistent reform programme, supported by both central government and municipal authorities. This includes: the establishment of dedicated compliance capacity (internal and/or external) and the designation of a senior responsible officer or committee; the adoption of a comprehensive sustainability strategy; the review and harmonisation of internal documents (policies, procedures, controls, and financial management systems); and the design and institutionalisation of a sustainability reporting system encompassing double materiality, data architecture, metrics, targets, internal controls, and readiness for external assurance.

Furthermore, public enterprises should implement a portfolio of projects and programmes aimed at compliance with the European Sustainability Reporting Standards (ESRS) and the achievement of measurable long-term outcomes. This should be

complemented by the establishment of a unified internal control framework (based on COSO principles), covering both financial and ESG data, as well as by clarifying the responsibilities of audit committees and the scope of internal audit with respect to non-financial reporting.

Some state-owned enterprises—particularly larger entities in the energy and transport sectors—have already developed elements of compliance, including internal control systems, disclosure practices, and sustainability-related projects. However, most enterprises remain only partially prepared: they lack comprehensive double materiality assessments, robust ESRS-aligned data flows, clearly defined allocation of responsibilities between boards and management, and structured plans for external assurance. Municipal enterprises typically lag further behind, primarily due to limited administrative capacity and fragmented data systems.

For the purposes of this analysis, relevant studies and sources have been consulted. However, there is no publicly available, comprehensive national assessment measuring the readiness of state-owned and municipal public enterprises for compliance with the Corporate Sustainability Reporting Directive (CSRD) as a group. While related sources exist—such as Organisation for Economic Co-operation and Development reviews on the governance of state-owned enterprises, annual and methodological documents under the PEA, audit reports of the Bulgarian National Audit Office, and guidance issued by the Ministry of Finance on non-financial reporting—they do not provide a systematic and integrated picture of CSRD readiness specifically for public enterprises, including at the municipal level.

Even in the absence of comprehensive empirical studies, publicly available information allows for several key findings. The convergence between the EU competitiveness framework and the standards for corporate governance of public enterprises requires institutional reform, centred on the centralisation of the state ownership function at the level of the Council of Ministers. Such a model should be equipped with powers to define portfolio-level objectives, issue binding guidelines, review significant transactions, and require systematic data reporting from enterprises.

At the same time, methodological rigour must be strengthened, encompassing data governance, internal control systems, and assurance mechanisms. This should be

complemented by accelerated operational implementation through a phased roadmap, ensuring consistency and scalability across the public enterprise sector.

Only such an integrated approach can elevate the portfolio of state-owned and municipal public enterprises from partial to high readiness, while supporting long-term competitiveness and sustainability.

The assessment of the performance of financial and non-financial objectives of state-owned public enterprises constitutes a central element of the system of corporate governance and accountability of state ownership and is explicitly regulated under Article 17 of the PEA. Pursuant to this provision, performance evaluation is carried out on the basis of the indicators set out in the approved business programmes of public enterprises, while the procedures, methods, and specific evaluation criteria are further detailed in the Methodology for the Assessment of the Implementation of Approved Business Programmes, adopted by Council of Ministers Decree No. 309 of 15 December 2023.

This regulatory framework is directly aligned with the principles set out in the OECD Guidelines on Corporate Governance of State-Owned Enterprises, which, in Chapter V (“Disclosure and Transparency”) and Chapter VI (“Responsibilities of the Boards”), emphasise the importance of clearly defined objectives, measurable performance indicators, and effective accountability mechanisms. In this context, the business programmes of public enterprises function as strategic instruments through which the expectations of the state as owner are operationalised and a structured basis is established for subsequent monitoring and performance evaluation.

According to Chapter V of the OECD Guidelines, state-owned enterprises should ensure a high level of transparency and disclosure, including through regular and reliable reporting of both financial and non-financial performance. The Methodology adopted by Council of Ministers Decree No. 309/2023 reflects this approach by requiring that performance evaluation be based on pre-defined indicators that enable comparability over time and across different enterprises. In this way, evaluation is not reduced to a formal exercise, but becomes an instrument for informed decision-making and accountability vis-à-vis the state and society.

Particular importance should also be attached to the link between the national framework and Chapter VI of the OECD Guidelines, which emphasises the role and responsibilities of the governing and supervisory bodies of state-owned enterprises. In

this context, the performance assessment under Article 17 of the PEA should be understood as an integral part of the board accountability system, as its results have direct implications for assessing managerial effectiveness, determining remuneration, and adopting corrective measures in cases of underperformance. In this way, the principle of board accountability, as established in the OECD Guidelines, is operationalised, creating a direct link between strategic governance and operational performance.

The integration of non-financial objectives into the evaluation process further aligns national practice with international standards. The OECD Guidelines require state-owned enterprises to report not only on financial performance but also on the broader impact of their activities on society, the environment, and sustainable development. In this regard, the Methodology under Decree No. 309/2023 creates the conditions for incorporating indicators related to the delivery of public services, social commitments, and sustainability. This expands the traditional understanding of performance and situates it within a broader public law and economic context.

From the perspective of the state as owner, performance evaluation in light of the OECD Guidelines also serves as a feedback mechanism regarding the adequacy of the established objectives and the effectiveness of the applied ownership policy. The results of such evaluations make it possible to identify systemic governance issues, shortcomings in strategic planning, and discrepancies between public policy objectives and actual outcomes, in line with OECD recommendations for the active and informed exercise of state ownership rights.

In conclusion, the regulatory framework governing performance evaluation of public enterprises under Article 17 of the PEA, together with the Methodology adopted by Council of Ministers Decree No. 309/2023, constitutes a national instrument for the implementation of the principles set out in Chapter V and Chapter VI of the OECD Guidelines. Through this mechanism, a higher level of transparency is achieved, greater accountability of governing bodies is ensured, and a closer alignment is established between the strategic objectives of the state and the operational performance of public enterprises.

As of August 2025, the debate surrounding the potential abolition of the Public Enterprises and Control Agency (PECA) and the reconsideration of arrangements concerning state property has signalled increasing tensions regarding the model of state

ownership in Bulgaria. A political debate has emerged concerning the application of the State Property Act. From a governance perspective, these developments indicate institutional volatility and potential disruptions in the continuity of state ownership policy.

International practice—reflected in the standards of the OECD—favours a clearly defined and centralised ownership coordination function, aimed at ensuring consistency of objectives, professional nomination and evaluation of boards, transparency at portfolio level, and competitive neutrality. The abolition of a coordinating body such as PECA, without the establishment of an equivalent or stronger centre of authority within the Council of Ministers, entails risks of fragmentation, blurred accountability, and uneven implementation across ministries.

A further important doctrinal conclusion is that the social relations within the system of governance, control, and coordination of public enterprises, as well as the executive bodies participating in these relations under the PEA and its implementing regulation, can be conceptualised in accordance with the theory of financial law relations. Relations in the field of governance and control of state-owned and municipal public enterprises may be examined from two complementary perspectives: first, as a set of governance and control relations; and second, as an aggregate of public authorities exercising executive and directive functions in this domain. In line with legal doctrine, these legal relations are governed by contemporary commercial, administrative, and financial law.

The Bulgarian reform has also been recognised in domestic legal scholarship as an attempt to create a coherent and modern governance framework for public enterprises. However, as both policy analysis and doctrinal commentary indicate, the effectiveness of this framework depends on the capacity to overcome institutional fragmentation and ensure consistent implementation (Elkov, 2022).

### **3 CONCLUSION**

The analysis confirms the need to update the State Ownership Policy in public enterprises in order to ensure coherence with recent developments in European Union law, national legislation, and international standards, in particular the OECD Guidelines

on Corporate Governance of State-Owned Enterprises (2024). Stronger coordination at both national and municipal levels is essential, given the close interdependence between public enterprises, fiscal sustainability, and the effective delivery of public policy objectives. In this regard, the Policy should explicitly prioritise measurable outcomes in terms of efficiency, competitiveness, and sustainability, supported by performance-based management and clearly defined accountability mechanisms. Council of Ministers Decision No. 662 of 23 September 2025 represents an important step towards aligning the legal status and governance of public enterprises with contemporary standards, particularly through differentiated governance models based on the nature of their activities. At the same time, formal legal alignment with OECD standards does not automatically guarantee effective implementation. The Bulgarian model reveals a structural gap between formal compliance and functional effectiveness, particularly within a decentralised ownership system characterised by fragmented institutional responsibilities and limited coordination capacity. Bulgaria may therefore be understood as a transitional model of state ownership, moving from formal convergence towards functional convergence, a process that remains incomplete and requires further institutional consolidation and governance reform. Particular attention should be given to the integration of sustainability into the state ownership framework. Although sustainability considerations are formally recognised, they remain insufficiently embedded as a core strategic objective within the current State Ownership Policy. This becomes increasingly significant in light of recent EU regulatory developments, including the “omnibus” packages, as well as the evolving global sustainability architecture. The possible alignment of the European Union with the standards of the International Sustainability Standards Board (ISSB), under the IFRS Foundation, signals a broader shift towards the financialisation of sustainability, whereby ESG considerations are increasingly incorporated into financial risk management. While this may enhance comparability and reduce fragmentation in global reporting, it also raises important questions regarding the preservation of the European principle of double materiality and the balance between financial performance and broader environmental and social objectives. In this context, the Bulgarian State Ownership Policy should be further developed to explicitly integrate sustainability and ESG considerations, including through alignment with the European Sustainability Reporting Standards (ESRS) and emerging

global frameworks. At the same time, the methodology for assessing the implementation of approved business programmes should be revised to incorporate measurable ESG indicators, double materiality assessments, and mechanisms for monitoring long-term environmental and social impact. Such reforms would strengthen the role of the state as a forward-looking and responsible owner and enhance the contribution of public enterprises to sustainable economic development.

Ultimately, the effectiveness of state ownership policy depends not only on the existence of an appropriate legal framework, but also on the institutional capacity of the state to act as a strategic, professional, and accountable owner in a rapidly evolving regulatory and economic environment. The Bulgarian experience demonstrates meaningful progress towards alignment with OECD principles, while also illustrating the broader challenges faced by states seeking to reconcile competitiveness, public accountability, and sustainable development within modern systems of public enterprise governance.

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