



Report Number : ICRR0021173

1. Project Data

Country

Poland

Practice Area(Lead)

Macroeconomics, Trade and Investment

Programmatic DPL
Planned Operations: 2

Approved Operations: 2

Operation ID

P146243

Operation Name

PL DPL Resilience and Growth

L/C/TF Number(s)

IBRD-83840

Closing Date (Original)

31-Dec-2015

Total Financing (USD)

966,000,000.00

Bank Approval Date

01-Jul-2014

Closing Date (Actual)

31-Dec-2015

IBRD/IDA (USD)
Co-financing (USD)

Original Commitment

965,800,000.00

0.00

Revised Commitment

965,800,000.00

0.00

Actual

899,010,000.00

0.00

Prepared by

Hjalte S. A. Sederlof

Reviewed by

Robert Mark Lacey

ICR Review Coordinator

Malathi S. Jayawickrama

Group

IEGEC (Unit 1)

Operation ID

P149781

Operation Name

Poland Growth and Resilience 2 (P149781)



| | | |
|---------------------------|--------------------------------|------------------------------|
| L/C/TF Number(s) | Closing Date (Original) | Total Financing (USD) |
| IBRD-83840,IBRD-85220 | 31-Dec-2016 | 1,000,000,000.00 |
| Bank Approval Date | Closing Date (Actual) | |
| 23-Jul-2015 | 31-Dec-2016 | |
| | IBRD/IDA (USD) | Co-financing (USD) |
| Original Commitment | 1,000,000,000.00 | 0.00 |
| Revised Commitment | 1,000,000,000.00 | 0.00 |
| Actual | 1,025,327,180.00 | 0.00 |

2. Program Objectives and Policy Areas

a. Objectives

The Resilience and Growth Development Policy Loan Series (RDPL) consisted of two Development Policy Operations (DPOs) processed in FY15 and FY16. The development objective (PDO) as set out in the Program Document for the first RDPL, RDPL1 (page 11), was to *enhance macroeconomic resilience, strengthen labor market flexibility and employment promotion, and improve private sector competitiveness and innovation*.

The objective remained the same in the second RDPL, RDPL2.

Efficacy is analyzed separately for *macroeconomic resilience, labor market flexibility and employment promotion, and private sector competitiveness and innovation*.

b. Pillars/Policy Areas

The policy areas supported by the RDPL series were grouped into three pillars:

Pillar 1: Enhancing macroeconomic resilience by reducing the general government fiscal deficit and debt levels towards the medium-term objective of a structural fiscal deficit of one percent of GDP, and bolstering macro-prudential oversight.

Pillar 2: Labor market resilience and employment promotion in order to reduce obstacles to job



creation and promote access to employment opportunities, especially among vulnerable groups.

Pillar 3: Enhancing private sector resilience, promoting competitiveness and innovation by reducing unnecessary regulatory burdens for private sector development, and by creating better institutional arrangements and support for innovation.

c. Comments on Program Cost, Financing, and Dates

The two single-tranche IBRD loans of Euro 700 million (US\$965.8 million) and Euro 912.7 million (US\$1 billion) were approved on April 24, 2014, and June 26, 2015, respectively. Both loan were fully disbursed and closed as scheduled, on December 31, 2015, and December 31, 2016, respectively.

3. Relevance of Objectives & Design

a. Relevance of Objectives

The objectives were relevant to the country context and Government strategy. They addressed short-term challenges of restoring fiscal space and building macroeconomic resilience. Challenges to public finances were a carry-over from the economic downturns of 2009-2010 and 2013, which had left the country with a fiscal deficit at 4.5 percent in 2013, and a need for structural reforms to support longer term economic growth. The objectives reflected a broad consensus shared by the Bank, the International Monetary Fund (IMF) and the European Commission (EC) that policy interventions aimed at sound public finances, flexible labor markets, and competitiveness were essential features of the country's growth policy. The objectives were thus aligned with the strategic objectives of the Bank, highlighted in the 2014-17 Country Partnership Strategy (CPS) emphasizing macroeconomic stability, economic competitiveness with a focus on the business environment, and equity and inclusion focusing on labor markets. The strategy is spelled out in Poland's national reform agenda for the period 2014-2020. There, the Government is committed to the three reform pillars included in the RDPLs – gradual fiscal consolidation and rebuilding of fiscal buffers, and the pursuing of structural reforms in the labor market and the business environment.

Rating
High

b. Relevance of Design



All the policy actions in the RDPL series were consistent with the DPO, and could be expected to contribute to strengthening macroeconomic fundamentals and growth performance over the short to medium term. Macroeconomic resilience would be strengthened by actions to put the general government fiscal deficit on a sustainable downward path towards a medium term objective of a structural deficit of 1 percent of GDP, while also bolstering macro-prudential oversight and introducing a sound bank resolution framework. Labor market resilience and employment promotion would be supported by changes in the labor code to improve the flexibility and ability of the labor market to create more jobs, and by reforms in labor intermediation services. Private sector resilience would be enhanced, and competitiveness and innovation promoted by removing impediments to doing business, and enhancing public support for innovation. The Program Documents explain in detail the rationale for the actions that were supported and their contribution to meeting the objectives of the RDPLs. The program was supported by extensive technical assistance from the Bank and other partners.

The macroeconomic policy framework during the preparation of the RDPL series was satisfactory. The deterioration in economic indicators as a result of the external shocks during the 2008-2010 and 2013 international crises had been partly mitigated by policies implemented during that period. Those policies helped keep external imbalances in check and allowed the maintenance of an adequately capitalized financial system. Together with measures supported by the RDPLs, they would contribute to strengthening resilience to future shocks. The IMF approved a two-year arrangement under the Flexible Credit Line of US\$33.8 billion in January, 2013. In a review in 2014, the IMF noted that the Polish economy had a “robust fiscal framework”.

Rating
Substantial

4. Achievement of Objectives (Efficacy)

Objective 1

Objective

To enhance macroeconomic resilience

Rationale

Measures to achieve fiscal and financial stability (necessary for long-term growth) included a new fiscal rule limiting growth of public expenditures to trend GDP growth (RDPL1 and 2 prior actions); a similar fiscal rule for local governments to ensure debt sustainability at local levels (RDPL 1 prior action) and overall coherence for the consolidated budget framework; a temporary deferral of an intended reduction in VAT rates to bolster the 2014-2016 budgets, while putting into place more permanent measures to ensure tax compliance (RDPL1 prior action) and a better balance between revenue and expenditure flows; a strategy to reduce tax avoidance, focused on taxation rules for foreign companies; and the introduction of a new macro-prudential framework and bank insolvency regime (RDPL2 prior action) to provide guidance on the



treatment of banks in insolvency and limit public sector liabilities in the case of systemic risks due to bank insolvency.

The aim of the fiscal rules and policies that were introduced was to reduce and subsequently stabilize the deficit and public debt. By the end of 2015, the general government deficit was estimated to have improved from 4.5 percent of GDP in 2013 to 3 percent of GDP in 2015 as a result of the above measures. Public debt was expected to be lower than the level of 55.6 percent of GDP by 2015, and manifest a downward trend. In fact, the nominal deficit of the general government was reduced to 2.6 percent in 2015. Public debt as a percent of GDP declined to 51.1 percent.

Actions to set up macro-prudential supervision, and a framework for restructuring and orderly liquidation of banks were not achieved as they raised concerns about their compliance with the Polish constitution. Instead, two laws to strengthen financial sector resilience were introduced: one on the diversification of funding sources for covered bonds and mortgage banks, and another on capital requirements for banks, implementing the European Union Capital Requirements Directive. Both measures contributed to a deepening of financial markets. The effects of the new laws are reflected in a 250 percent increase in the issuance of mortgage-backed securities between 2013 and 2015.

Rating
Substantial

Objective 2

Objective

To strengthen labor market flexibility and employment promotion

Rationale

Measures to strengthen labor market flexibility and employment promotion included initiatives to reduce length of unemployment and improve job matching: regulations on employee working time were revised (RDPL1 prior action), extending the employee settlement/probation period and introducing more flexible working hours, measures that were likely to allow employers to better adapt to changing labor needs; labor market intermediation was improved by tailoring public employment services to job seeker and labor market needs (RDPL2 prior action); a total of 190 professions were deregulated, facilitating entry, especially for young workers, and reducing upward pressures on labor costs (RDPL 1 and 2 prior actions); and restrictions on nurseries were relaxed to facilitate parents', especially women's, access to the labor market (RDPL1 and 2 prior actions).

By the end of 2015, the number of long-term unemployed had been reduced by 76,000 individuals, compared to the situation in 2013, more than double the target of 30,000. Attribution of this result to the RDPLs, however, is not obvious. Long-term unemployed are often low-skilled or unskilled workers whose workplace skills and habits may have deteriorated. They would usually need some retraining to be able to re-enter the job market competitively. Effectively functioning full-service employment services are able to meet those kinds of needs, but putting the necessary processes in place takes time; here the time period



is relatively short and the clientele consists of hard-core unemployed. Other indicators (changes in youth, female unemployment, labor costs in previously protected professions) might have been more appropriate. That said, over time, all the measures introduced are likely to have an important impact on employment (depending of course also on the business cycle).

Rating

Substantial

Objective 3

Objective

To improve private sector competitiveness and innovation

Rationale

Measures to improve private sector competitiveness and innovation included support for early stage innovation and technology start-ups through the adoption and launching of a national enterprise development program (RDPL1 and 2 prior actions); streamlining of business procedures, including creation of one-stop-shops for quick business registration, and easing issuance of construction permits (RDPL 1 and 2 prior actions); and introduction of a new bankruptcy regime reducing compliance costs and emphasizing restructuring (RDPL 1 and 2 prior actions)..

As a result, total research and development spending increased from 0.88 percent of GDP in 2012 to 0.94 percent in 2014, compared to a target of 1 percent. The average time it takes to start a business declined from 32 days in 2013 to no more than 7 days in 2015, compared to a target of 25 days. The time it takes to obtain a construction permit has gone down from 161 days in 2013 to 156 days in 2016, an improvement, although less than the 140 days that initially was anticipated. Whether other changes will lead to improvements – in innovative start-ups, and in the insolvency regime – can only be assessed with time, but the initiatives taken will plausibly have favorable outcomes.

These measures are reflected in a considerable improvement in Poland's "Ease of Doing Business" ranking which rose from 62 in 2013 to 24 in 2017.

Rating

Substantial

5. Outcome



The relevance of the PDO was **high**, and aligned with the government's development program and World Bank strategy. Relevance of program design was **substantial**: it was relevant for achieving the stated objectives based on causal links between the actions supported by the series and expected results. Efficacy was rated **substantial** for all three objectives.

a. Outcome Rating
Satisfactory

6. Rationale for Risk to Development Outcome Rating

Policy reversals in the current political environment appear unlikely: the policy areas conform with the Government's development program and are in line with EU priorities. Poland has a good track record in macroeconomic management, and the current Government has shown no inclination to deviate from moderate macroeconomic policies or micro policies that encourage employment and the private sector. Still, the ICR (page 32) points to some instances of policy reversal after the 2015 elections, for instance a reduction of the retirement age, that may have future implications for fiscal balance.

a. Risk to Development Outcome Rating
Modest

7. Assessment of Bank Performance

a. Quality-at-Entry

Program design was underpinned by significant analytical work (ICR, Table 4), it was strategically relevant, continuing in the direction set out under the previous DPO series. The policy areas were underpinned by extensive analytical work and technical assistance activities (ICR, page 12, Table 4), and include areas where the Bank has an established track record of technical capacity and international experience. This is reflected in the appropriate scope of the project, and the relatively small adjustments that needed to be made to the RDPLs prior actions. The program was developed in close collaboration with the Authorities and was designed to tackle some of the more difficult areas remaining in order to shore up economic resilience and advance the economy towards longer term shared prosperity. In particular, the focus placed on improving the business environment and promoting innovation were elements that would enhance the economy's competitiveness. The fact that the program was delivered in a timely manner and with only minor implementation difficulties, attests to a design that was well-dimensioned to the Borrower's capacities. The results framework, as presented in the policy and results matrix, was adequate, albeit with some question on the results indicators,



especially those related to the employment objective..

Quality-at-Entry Rating

Satisfactory

b. Quality of supervision

The ICR indicates that regular supervision was ensured by continuous dialogue with the Borrower, led by country teams. Bank teams consisted of a balanced mix of expertise in the main policy areas giving the program a strong focus on its potential development impact. This also opened the opportunity for engaging with the Borrower not only on the implementation of the reform program, but also on further reforms, building on the RDPL series. Ongoing technical assistance was provided, which contributed to maintaining the Government's focus on implementing the agenda. The team, and Government, were alert to implementation challenges as they related to indicative triggers, and they worked together to adjust the scope and time frame when necessary.

Quality of Supervision Rating

Satisfactory

Overall Bank Performance Rating

Satisfactory

8. Assessment of Borrower Performance

a. Government Performance

According to the ICR, the Government demonstrated full ownership of the reforms introduced under the series, provided strong leadership through the Ministry of Finance, and highly sophisticated counterparts. The ICR notes that this was crucial for advancing reforms (ICR, page 11). The fact that the policy areas correspond to the Government's own priorities as defined in its national development strategy, as well as being in line with EU priorities, also contributes to an overall satisfactory performance. The ICR (p. 36) also notes that *the Government also maintained a well-developed and transparent consultation process around reforms, which helped to develop support for measures that have proven contentious in other countries (i.e. fiscal, labor market, and regulatory reforms).*

Government Performance Rating

Satisfactory

b. Implementing Agency Performance

The program was implemented by the Government as a whole, and no separate assessment is made of implementing agency performance.



Implementing Agency Performance Rating

Not Rated

Overall Borrower Performance Rating

Satisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design

A set of key indicators for systematic tracking of outcomes were identified in the Policy and Results Matrix at the outset of the series, including baselines and targets. In the case of labor market flexibility and employment promotion, better outcome indicator than variations in long-term unemployment could have been used to measure outcomes (as noted in Section 4 above). Monitoring and evaluation was done in close collaboration between the Bank, the Ministry of Finance, the Prime Minister's office and sector ministries.

b. M&E Implementation

Monitoring occurred through the ongoing dialogue with the Government, supported by complementary analytical work by the Bank team. The latter included efforts to build up the Government's own M&E function, as well as studies to attempt to discern potential impacts of various measures introduced under the RDPLs. Little more is provided in the ICR.

c. M&E Utilization

Monitoring and data collection formed the basis for discussion on implementation aspects of the reforms. The ICR provides little more in terms of useful information.

M&E Quality Rating

Modest

10. Other Issues

a. Environmental and Social Effects

No safeguard policies were noted in the ICR



b. Fiduciary Compliance

No fiduciary concerns were noted in the ICR

c. Unintended impacts (Positive or Negative)

None

d. Other

No positive or negative unintended impacts were noted

11. Ratings

| Ratings | ICR | IEG | Reason for Disagreements/Comment |
|-----------------------------|--------------|--------------|----------------------------------|
| Outcome | Satisfactory | Satisfactory | --- |
| Risk to Development Outcome | Modest | Modest | --- |
| Bank Performance | Satisfactory | Satisfactory | --- |
| Borrower Performance | Satisfactory | Satisfactory | --- |
| Quality of ICR | | Substantial | --- |

Note

When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.

The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

12. Lessons

Lessons are drawn from the ICR with some adaptation of language.

Development Policy Lending (DPL) can help mitigate global economic and financial shocks and protect vulnerable groups. The main benefit of the DPL was not the cost-efficiency of Bank financing at the time of crisis, but strengthening longer-term reforms for inclusive growth. The DPL series was appropriate at the time as an important market signal after the financial sector crisis and to reinforce the credibility of the authorities' commitment to reform; and to provide technical solutions for design and implementation of their reforms. The DPLs created space for policy dialogue and enabled conducting innovative analytical and advisory work.



The DPL program responded well and in a timely manner to the Government's own priorities.. Facing a weak external environment, the government focused on adopting short- and medium-term growth-supporting measures, while maintaining a fiscally prudent stance. To sustain the recovery, the authorities prioritized actions to strengthen public finances and financial sector oversight. These were followed by reforms aimed at bolstering the economy's long-term competitiveness (such as enhancing labor market flexibility, raising participation rates, and improving the business environment especially through the promotion of innovation.)

The Bank focused its support in areas where it has a solid knowledge base and which were strategic. The DPLs not only created space for policy dialogue but also enabled innovative analytical and advisory work, including on a reimbursable basis. DPL engagement in a relatively high-income country must be based on a strong foundation of shared priorities, and high quality and cutting-edge analytic work (including just-in-time TA, impact evaluations, customized analytic notes). The DPLs played a key role in terms of the embedded knowledge transfer on how to tackle complex long-term structural priorities and restore fiscal buffers. An excellent example is the permanent expenditure rule, sophisticated and, at the same time, a relatively apolitical instrument to achieve and maintain fiscal prudence over the business cycle and assure long-term sustainability of public finances.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR provides a clear discussion of the background and rationale for the RDPLs, as well as a clear presentation of the available evidence regarding implementation; and it offers a good basis for evaluating the program in most instances. A more thorough discussion of the M&E section would, however, have been helpful. The document was internally consistent, and in accordance with OPCS guidelines.

a. Quality of ICR Rating

Substantial