Report No.

Poland
Country Assistance Review
(In Two Volumes) Volume I: Main Report

April 14, 1997

Operations Evaluation Department

Document of the World Bank

Abbreviations and Acronyms

ARPP	Annual Review of Portfolio Performance
ASAL	Agriculture Sector Adjustment Loan
ATF	Agricultural Task Force
BAS	Budget Accounting System
BGZ	Polish Bank of Food Economy
CAR	Country Assistance Review
CAS	Country Assessment Strategy
CEE	Central and Eastern Europe
CEM	Country Economic Memorandum
CMEA/COMECON	Council of Mutual Economic Assistance
COS	Cost Accounting System
CSIR	Country Strategy Implementation Review
CSP	Country Strategy Paper
DDSR	Debt and Debt Service Reduction
DHE	District Heating Enterprises
EAA	European Association Agreement
EBRD	European Bank for Reconstruction and Development
EC-PHARE	European Commission Poland and Hungary Assistance in Restructuring Economies
EC	European Commission
EU	European Union
ECA	Europe and Central Asian Region
ECU	European Currency Unit (now called the Euro)
EDI	Economic Development Institute
EFF	Extended Fund Facility(IMF)
EFSAL	Enterprise and Financial Sector Adjustment Loan
EIB	European Investment Bank
EP	Employment Promotion Project
EPSP	Employment Promotion Service Project
ERG	Energy Restructuring Group
ERR	Economic Rate of Return

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Abbreviations and Acronyms (cont.)

ESAL	Energy Sectoral Loan
ESMAP	Energy Sector Management Assistance Program
ESW	Economic Sector Work
ETP	Economic Transformation Program
FACT	A World Bank Database
FDI	Foreign Direct Investment
FIDL	Financial Institutions Development Loan
FY	Fiscal Year
GATT	General Agreement of Tariffs and Trade
GDPR	General Directorate of Public Roads
GEF	Global Environmental Facility
GOP	Government of Poland
HFPO	Housing Finance Project Unit
HO	Housing Office
HSDP	Health Service Development Project
HUB	Hungarian Central Regional Resident Mission
IAR	Investment Assessment Report
ICB	International Competitive Bidding
IDA	International Development Agency
IEPS	Initial Executive Project Summary
IFC	International Finance Corporation
IFI	International Finance Institute
IMF	International Monetary Fund
IMIS	Database
JV	Joint Venture
LAC	Latin American and the Caribbean
MOF	Ministry of Finance
MOHSW	Ministry of Housing and Social Welfare
MOLSP	Ministry of Labor and Social Policy
MOSEC	Ministry of Spatial Economy and Construction
MPT	Ministry of Post and Telecommunications
MTME	Ministry of Transport and Maritime Economy
MTS	Medium-Term Scenario
MTSAP	Medium-Term Sector Adjustment Program
NBP	National Bank of Poland
OECD	Organization of Economic Cooperation and Development
OED	Operations Evaluation Department
OPMIS	Operational Management Information System
PCU	Project Coordination Unit
PDB	Polish Development Bank
PGNG	Polish Oil and Gas Company
PKOBP	National Savings Bank
PKP	Polish State Railway

Abbreviations and Acronyms (cont.)

POM	Project Operation Manual
PPF	Project Preparation Facility
PPGC	Polish Power Grid Company
PPTT	Polish Post, Telephone and Telecommunications
PSD	Private Sector Development
PSU	Project Support Unit of the Cooperation Fund
RM/RMW	Resident Mission in Warsaw
RVP	Regional Vice-President(cy)
SAL	Structural Adjustment Loan
SAR	Staff Appraisal Report
SECAL	Sectoral Adjustment Loan
SME	Small- and Medium-Size Enterprise
SOE	State-owned Enterprise
SSN	Social Safety Net
SWKS	Staffweeks
TA	Technical Assistance
TM	Task Manager
TPSA	Polish Telecommunications Company
TRS	Time Report System
UNDP	United Nations Development Program
USAID	United States Agency for International Development
VAT	Value Added Tax
VPU	Vice-Presidency Unit
WHO	World Health Organization

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MEMORANDUM TO THE EXECUTIVE DIRECTORS AND THE PRESIDENT

Poland: Country Assistance Review

Attached is the report *Poland: Country Assistance Review* prepared by the Operations Evaluation Department (OED). This Country Assistance Review (CAR) is the fifth of the new type of country-focused studies that, for each country concerned, evaluate (i) the relevance of the Bank's overall country assistance strategy and (ii) the efficacy of Bank assistance. This CAR also evaluates the cost-effectiveness of the Bank's lending instruments. The objectives are to establish accountability, derive lessons of experience and provide recommendations for action.

The Poland CAR evaluates Bank assistance from 1986 (when Poland rejoined the World Bank) until today. Following several years of studies and project preparation, Bank lending started in 1990, after a new government had launched a decisive, market-oriented economic transformation program (ETP), and reached agreement with the IMF on an Extended Fund Facility. Since that time the Bank has maintained a permanent presence in Poland and has supported decisively the efforts of successive Polish governments to move the country rapidly towards a market-oriented, private-sector driven economy increasingly integrated with the rest of the world.

Poland's transition performance has been excellent both in comparison with other transition economies and in its own right. Poland has experienced the highest economic growth rate in 1990-95, and its private sector activity now accounts for two thirds of GDP. Its currency is stable and its international creditworthiness has been restored. Enterprise restructuring and privatization, financial sector and environmental issues are being addressed. In 1995 Poland became a member of the OECD, and its prospects for early accession into the European Union are good. EBRD has ranked Poland among the top performers, particularly in the areas of small-scale privatization, trade, and foreign exchange reforms. On the other hand unemployment and poverty remain high. There is a need to accelerate the privatization of unprofitable state enterprises such as heavy industry (coal, steel, petrochemicals, oil and gas) and the state-owned commercial banks. The losses of some specialized banks (housing, food economy) and the fiscal burden of a costly social safety net make it difficult to strengthen public finances. Institutionally, the legal and regulatory frameworks, while much improved, still fall short of what Poland needs to take full advantage of its potential to attract private investment.

The study finds that Bank support was most valuable in assisting Poland achieve progress in nearly all of these areas. As an advisor, the basic reform strategy was always that of the Polish authorities, but the Bank played a constructive role through an intensive policy dialogue throughout the years, based on responsive Economic and Sector Work, active project preparation, and on Bank-sponsored seminars and other dissemination activities, including those carried out by the Economic

Development Institute. The Bank's role as a development agency was also most valuable, although its efficacy was lessened sometimes by poor quality at entry of projects (such as in the case of projects based on credit lines). Implementation problems have also plagued many operations. Some were due to over-ambitious project design, and complex institutional arrangements. Others were the result of the many government changes experienced by Poland throughout the period. Finally, cumbersome Bank procedures, communication problems and lack of flexible lending instruments to compete with those offered by other lenders contributed to the slow pace of implementation. The cost-effectiveness of the Bank's assistance program was low when compared to other countries in the ECA Region and elsewhere in the Bank.

In spite of these shortcomings, the Bank's assistance was particularly valuable in many areas, notably the following: helping Poland secure exceptional levels of debt relief, upgrading the country's infrastructure in power, transport and telecommunications, strengthening and modernizing the commercial banks (in close cooperation with IFC), facilitating the conciliation process of many state-owned enterprises with their creditors, and more generally, strengthening institutions in most sectors of the economy. On the other hand, it has taken longer than originally expected to achieve progress in some of the social sectors and in agriculture.

During preparation of this study OED staff have exchanged views with the ECA Region, and an earlier version of the CAR (dated January 27 1997) has been taken into account in preparation of the CAS dated April 14 1997.

The study recommends that future Bank assistance to Poland should emphasize selectivity. Since the country has less need for transfer of resources, the focus should be policy formulation, institution building and provision of nonlending services. Lending could still be directed towards infrastructure, agriculture and social services, provided that there is a full unequivocal ministerial commitment to the reforms pursued by the loans, and that maximum use is made of cofinancing opportunities, with private lenders and with other IFIs.

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Volume I

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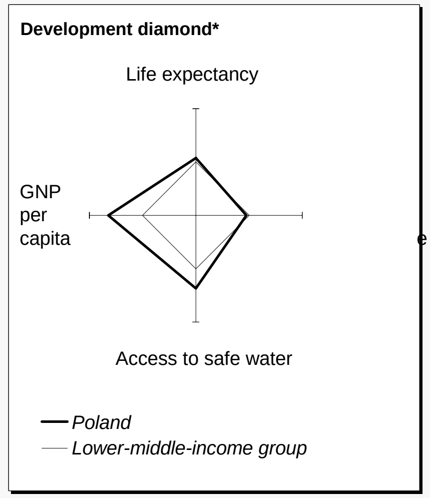
Poland at a glance

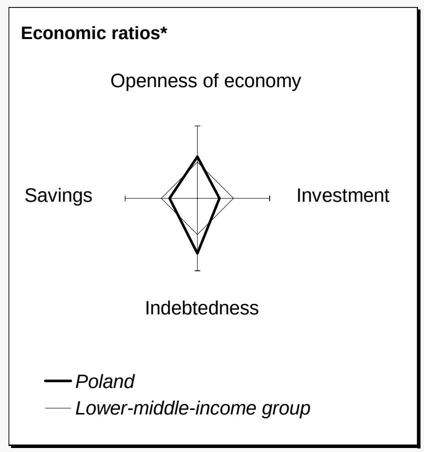
POVERTY and SOCIAL	Poland	Europe & Central Asia	Lower-middle-income
Population mid-1995 *(millions)*	38.6	488	1,154
GNP per capita 1995 *(US$)*	2,800	2,240	1,700
GNP 1995 *(billions US$)*	108.3	1,093	1,962
Average annual growth, 1990-95			
Population *(%)*	0.3	0.4	1.4
Labor force *(%)*	0.8	0.6	1.7
Most recent estimate *(latest year available since 1989)*			
Poverty: headcount index *(% of population)*	24	..	..
Urban population *(% of total population)*	61.8	65	56
Life expectancy at birth *(years)*	72	68	67
Infant mortality *(per 1,000 live births)*	13.6	23	36
Child malnutrition *(% of children under 5)*	..	..	..
Access to safe water *(% of population)*	100	..	73
Illiteracy *(% of population age 15+)*	..	..	..
Gross primary enrollment *(% of school-age population)*	99	97	104
Male	98	97	105
Female	97	97	101



KEY ECONOMIC RATIOS and LONG-TERM TRENDS

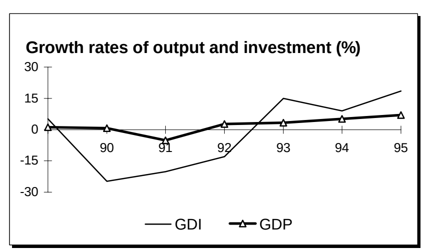
	1975	1985	1994	1995
GDP *(billions US$)*	..	71.1	92.6	117.7
Gross domestic investment/GDP	..	27.7	15.9	17.0
Exports of goods and non-factor services/GDP	..	18.2	24.0	27.9
Gross domestic savings/GDP	..	29.0	16.9	18.6
Gross national savings/GDP	..	26.5	16.7	18.2
Current account balance/GDP	..	-1.7	-1.0	-1.8
Interest payments/GDP	..	2.1	1.9	1.0
Total debt/GDP	..	46.9	46.1	37.5
Total debt service/exports	..	17.1	15.8	6.3
Present value of debt/GDP	..	..	38.4	..
Present value of debt/exports	..	..	179.6	..

(average annual growth)	1975-84	1985-95	1994	1995	1996-04
GDP	..	1.1	5.2	7.0	4.7
GNP per capita	..	1.2	3.6	8.3	4.1
Exports of goods and nfs	..	7.4	13.1	25.8	9.2



STRUCTURE of the ECONOMY

(% of GDP)	1975	1985	1994	1995
Agriculture	..	14.5	7.0	7.3
Industry	..	51.0	42.6	44.0
Manufacturing	..	..	36.2	37.6
Services	..	34.4	50.3	48.7
Private consumption	..	61.8	64.3	63.2
General government consumption	..	9.2	18.8	18.2
Imports of goods and non-factor services	..	16.9	23.0	26.3



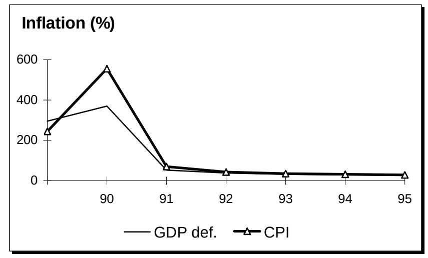
(average annual growth)	1975-84	1985-95	1994	1995
Agriculture	..	-3.2	-15.1	11.6
Industry	..	-4.5	8.8	11.1
Manufacturing	..	..	10.3	12.0
Services	..	7.5	5.1	1.5
Private consumption	..	2.9	3.8	4.5
General government consumption	..	2.5	2.8	3.0
Gross domestic investment	..	-3.9	9.0	18.5
Imports of goods and non-factor services	..	7.9	11.3	26.5
Gross national product	..	1.5	5.4	8.3

Note: 1995 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

PRICES and GOVERNMENT FINANCE

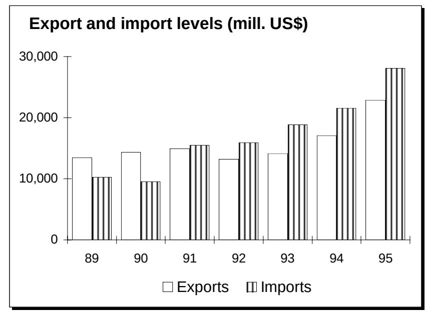
	1975	1985	1994	1995
Domestic prices				
(% change)				
Consumer prices	2.3	11.5	32.2	27.8
Implicit GDP deflator	..	16.7	28.4	27.0
Government finance				
(% of GDP)				
Current revenue	..	..	47.8	46.6
Current budget balance	..	..	-0.2	0.0
Overall surplus/deficit	..	..	-2.2	-1.8



Inflation (%)

TRADE

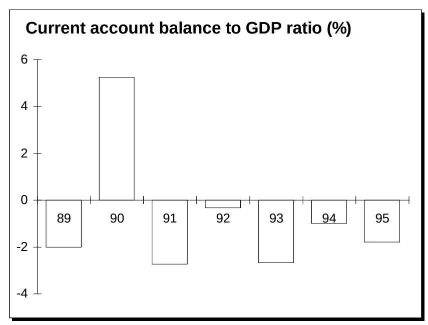
	1975	1985	1994	1995
(millions US$)				
Total exports (fob)	..	..	17,047	22,895 [1]
Other metals	..	..	1,057	
Other metals	..	..	267	
Manufactures	..	..	11,695	15,879
Total imports (cif)	..	..	21,569	28,050
Food	..	..	1,876	2,338
Fuel and energy	..	..	2,263	2,662
Capital goods	..	..	6,226	8,688
Export price index *(1990=100)*	..	..	109	106
Import price index *(1990=100)*	..	..	124	118
Terms of trade *(1990=100)*	..	..	103	105



Export and import levels (mill. US$)

BALANCE of PAYMENTS

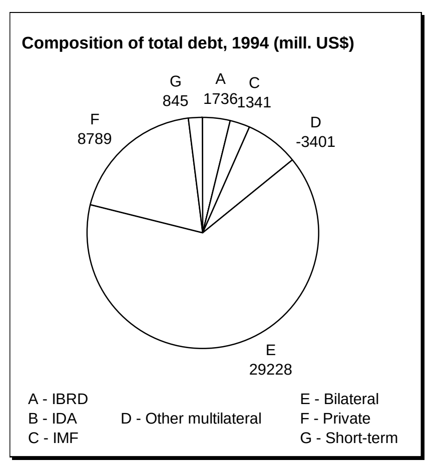
	1975	1985	1994	1995
(millions US$)				
Exports of goods and non-factor services	..	5,677	19,050	26,068
Imports of goods and non-factor services	..	4,615	19,829	27,745
Resource balance	..	569	-779	-1,677
Net factor income	..	-2,557	-2,087	-628
Net current transfers	..	778	1,816	6
Current account balance,				
before official transfers	..	-1,382	-1835 [1]	-2580 [1]
Financing items (net)	..	974	1,812	10,513
Changes in net reserves	..	236	-2,534	-8,147
Memo:				
Reserves including gold *(mill. US$)*	..	1,025	6,028	14,963
Conversion rate *(local/US$)*	..	1.47E-02	2.2	2.4



Current account balance to GDP ratio (%)

EXTERNAL DEBT and RESOURCE FLOWS

	1975	1985	1994	1995
(millions US$)				
Total debt outstanding and disbursed	698	33,307	38,538 [1]	40,964
IBRD	0	0	1,736	..
IDA	0	0	0	..
Total debt service	190	2,045	3,093	..
IBRD	0	0	88	..
IDA	0	0	0	..
Composition of net resource flows				
Official grants	0	0	1,664	..
Official creditors	-6	693	565	..
Private creditors	328	-193	-636	..
Foreign direct investment	0	15	1,875	..
Portfolio equity	0	0	5	..
World Bank program				
Commitments	0	0	215	..
Disbursements	0	0	672	..
Principal repayments	0	0	0	..
Net flows	0	0	672	..
Interest payments	0	0	88	..
Net transfers	0	0	585	..



Composition of total debt, 1994 (mill. US$)

Note: (1) Figures supplied by Ministry of Finance on April 7, 1997
Government finance represents general government accounts.
Balance of payments financing item includes cross border trade surplus (around 3,350 $US millions).

Preface

This Country Assistance Review (CAR) examines World Bank Assistance to Poland during the period 1986-1996. The CAR is a countrywide evaluation that concentrates on the *relevance, efficacy and efficiency* of the Bank's program of assistance to Poland. It is similar to project evaluations which review the relevance of the project's objectives, the degree to which they were achieved (efficacy) and the cost-effectiveness of the resources used (efficiency), but it takes the country as the unit of account.

The Poland CAR is the fifth in the series, which was initiated in 1994. Only a small number of Bank operations in Poland have been completed and evaluated (completion reports have been finalized for four loans, only one of which has been audited by the Operations Evaluation Department, OED). For this reason, preparatory work for the present CAR included a more detailed review of ongoing operations than has been the case for the earlier reviews. As a result, extensive background papers have been prepared for the main areas of Bank assistance. These unedited papers have been shared and discussed with staff of the Europe and Central Asia (ECA) Region, and are available to interested staff. An earlier draft of this CAR has been discussed with the Region, and the latest CAS (dated April 14, 1997) incorporates its main findings and recommendations.

One-page evaluative summaries for each loan to Poland can be found in Volume II. The portfolio review is largely based on the situation at the end of FY96. Some important changes that took place since that time are noted in this report, but have not been evaluated by OED.

The study is based on a thorough review of Bank files, economic and sector reports, strategy papers and other Bank internal documentation, on an extensive review of the literature on transition economies, and on relevant documents written by other donors and by Polish sources. The CAR team exchanged views with Bank and IFC staff (past and present) who had been involved in the design and/or implementation of assistance to the country. The CAR is also based on interviews with past and present Polish officials, held during two visits to Poland. A small "company town" was visited to observe the transformation process at the grass-roots level (the findings are summarized in Volume II). OED conducted two surveys in Poland under the supervision of Polish experts to secure the informal views of Polish stakeholders at large and the official views of all the ministries associated with Bank operations, as well as the National Bank of Poland. In Warsaw and in other European cities members of the CAR team held discussions with officials of the UK ODA and Knowhow Fund, European Bank for Reconstruction and Development (EBRD), European Investment Bank, European Commission, Organization of Economic Cooperation and Development (OECD) and with representatives of the Governments of the United Kingdom, Germany, and France. The Bank's field office in Warsaw provided guidance and competent logistic support.

An earlier version of this CAR, dated January 27 1997, was discussed internally in the Bank. A revised version dated February 11, 1997 was translated into Polish and distributed to the National Bank of Poland, ministries and other government agencies that have been associated with the Bank's activities in Poland. They have all responded with detailed and constructive comments. Summaries of their views are reflected in various parts of this report, and an English translation of the full text of their responses is presented in Volume II. The kind assistance of all those who cooperated with the study is gratefully acknowledged.

Executive Summary

1. When Poland rejoined the Bank in 1986, the Bank pursued a strategy of encouraging the economic reform programs of successive Polish governments. The Bank was cautious however, carefully monitoring the government's progress to determine when the Bank should start to lend. When lending did begin in 1990, the Bank formulated a broad strategy, which gave it flexibility in a rapidly changing environment to maximize the relevance of its assistance program. Among the strategic priorities of the Bank in the early years of assistance were: to help Poland secure stable macroeconomic management and thus to strengthen Poland's creditworthiness; to support enterprise reform, restructuring and privatization, and private sector growth; to help upgrade the physical and financial infrastructure in support of a market economy, including modernization and eventual privatization of the banking system; to protect the environment; and to strengthen the country's social safety net. After the first few years of lending, implementation difficulties began to emerge, especially with credit-line projects. Some projects were too large and complicated, institution building lagged in some sectors, loan documents failed to specify conditions clearly enough, and the changing country social and political situation, especially the many changes in government, further impeded implementation. In spite of these challenges, tangible progress was achieved on most of the Bank's early objectives, and nearly all the sectors in which the Bank has been involved have benefited from its advice and intellectual contributions—perhaps more so than from its traditional lending operations.

Bank support for the reform programs, 1986–90

2. Following Poland's membership in 1986, the Bank immediately launched studies to identify and analyze the needs of the Polish economy. It also started project preparation work, but lending was delayed because of doubts about the sustainability of the government's program, concerns about creditworthiness, and negative signals from major shareholders. The first country strategy paper (CSP), discussed internally in November 1987, proposed that lending be timed to match the strength and progress of the government's reform program and its progress in restoring creditworthiness. Aware of Poland's poor track record on following through on reforms, the Bank sought in the CSP to encourage the government to produce and stick to a feasible and credible medium-term economic and debt management program that would restore Poland to creditworthiness. This strategy was reaffirmed in a country strategy note reviewed by management in mid-1989.

3. After initially opposing lending to Poland, some of the Bank's major shareholders began to urge an acceleration of project preparation, after a newly elected democratic government announced the decisive, market-oriented Economic Transformation Program in 1989. In early November, following Poland's agreement on an extended fund facility with the International Monetary Fund (IMF), a structural adjustment loan (SAL) was proposed to open up the possibility of further structural and sectoral adjustment loans. In early December 1989 a SAL appraisal mission was sent to Poland. The Bank articulated a strategy of full support for the reform program. Bank lending began in 1990.

4. Considering the opportunities and risks facing the Polish reform program, the Bank's cautious strategy of 1987 was appropriate to the uncertainties of the time. While a case could

have been made for earlier, selective Bank lending, postponing lending until 1990 had the positive effect of encouraging the Polish authorities to make a stronger commitment to reform. And by waiting until the international and domestic climates were more receptive, the Bank began lending when the ratio of opportunities to risks was unusually favorable.

Rapid buildup of the portfolio, 1990–91

5. Reflecting the high priority the Bank attached to the success of Poland's reform effort, senior Bank officials from the President and Senior Vice President for Operations to the Regional Vice President and Country Director were directly involved in shaping the early program. They launched special task forces and expedited internal processes to ensure timely assistance and to exploit the unprecedented opportunities for historic reform. The Bank exhibited a high degree of responsiveness to a historic opportunity to affect change.

6. Internal documents and statements to the Board showed the Bank's close involvement in all key areas of the reform program: supporting Poland's reentry into the world economy through trade liberalization, resolving foreign debt issues, stabilizing the economy, strengthening the currency and balance of payments, disposing of nonviable enterprises and restructuring those with a future, softening the negative impacts of reforms on vulnerable groups, creating the institutional and legal framework for a market economy, handing over control of the economy from the planners to the market, reducing the burden of controls and monopolies, encouraging the growth of private sector business, and mobilizing and coordinating other donor assistance.

7. Lending began in February 1990 with two credit-line loans aimed at increasing convertible currency exports. These were followed by loans for environmental protection, transport, energy, and the financial sector. Much of this lending was through financial intermediaries that were expected to onlend to beneficiaries. A weakness of this approach was that, contrary to established policies, the Bank did not first ascertain whether Polish banks had the institutional capacity to perform this pivotal onlending role. Subsequent developments showed that they did not.

8. The earliest and most visible Bank support for the reform program was the US$300 million Structural Adjustment Loan (SAL) approved in July 1990. The loan's objective was to bolster the reform program by demonstrating the Bank's belief in the program's technical soundness and viability and by providing foreign exchange to strengthen foreign reserves and add to the credibility of the stabilization program. The executive directors strongly endorsed the loan, although some expressed concern that its conditionality was too general, particularly on subsidy reductions and the pace of privatization. Some executive directors called for more decisive action to protect vulnerable groups during stabilization. The SAL became a major vehicle for Bank-government dialogue. By including conditionality on environmental policy, for example, the SAL helped bring environmental issues to the center of Bank-government economic dialogue.

9. The Bank responded to the magnitude of the task ahead and the need for a permanent presence on the ground by setting up a high-level Resident Mission in Warsaw in July 1990, headed by a member of the Regional Management Team. Its main activities would be to coordinate and help develop the Bank's assistance program, help the government coordinate financial and technical assistance from other sources, and monitor economic, financial, legislative, and social progress.

10. The pace of lending picked up. In the brief period from April to June 1991 the Board approved twelve loans totaling US$1,140 million. There were several energy sector loans, including an Energy Adjustment Loan that focused on pricing and subsidy issues. There were also loans for telecommunications, employment promotion, agriculture, privatization and restructuring, and financial institutions. A Financial Institutions Development Loan (FIDL) included both policy and institutional development components aimed at removing interest rate subsidies, reducing directed credit, modernizing banking legislation, helping develop capital markets, and restructuring state-owned commercial banks before privatizing them.

11. Technical assistance was emphasized and included preparation of sector strategy papers for agriculture, health, and public housing administration. Six energy sector studies laid the foundations for restructuring the energy sector. The Bank also mobilized technical assistance from other sources, often on grant terms. With several donors funding technical assistance, issues of aid coordination and ownership arose.

12. An important part of the Bank's assistance strategy was to help Poland put in place a legal framework to support a market economy. During the early stage of the transition Bank staff underestimated the difficulty of transmitting legal concepts to a setting unaccustomed to Western practices. The Bank approached legal reforms in a responsive mode and in limited areas, dealing with legal concerns mainly as they arose in privatization, banking, housing finance, and other projects. Unlike other countries in Eastern Europe and the former Soviet Union, where the Bank undertook some more systematic studies of the legal situation, the Bank did not receive a clear request from Poland to provide assistance on systemic legal reform. In the early days of the Poland program the Bank did not have a vehicle it could offer the Poles to analyze the legal system or provide grant-based technical assistance.

13. The first two years of lending were more intensive than expected. The last strategy paper (1987) prior to the onset of lending in 1990 had proposed a small trial portfolio (one-third the size of a typical Bank lending program to a country Poland's size). When instructed to prepare a portfolio much larger than anticipated, the country team did not always have enough time to fully prepare new projects or to modify existing project proposals to suit the new, more market-oriented environment. The quality at entry of credit-line projects was particularly affected by this pressure to lend. Several loans were approved before another formal strategy review was held in November 1992.

14. Despite these handicaps, the Bank was able to provide strong and effective support to the Polish government during the critical early stages of the economic transformation. Although the Bank's loan disbursements helped to strengthen the country's external position in the early years, its technical inputs, advice, and intellectual support were more valuable than its financial assistance. The impetus for the reform program came from the Polish team, and the Bank provided valuable support through advice, technical backing, dissemination of market-oriented ideas, and endorsement of Poland's debt relief proposals to other creditors.

15. A good example of the Bank's early intellectual support was the Strategic Investment Review. The green-cover report was well received by the government. It focused on an area that had received scant attention on Poland's transition agenda, the articulation and management of a public investment program to support the emerging market economy. This review was the first comprehensive review by the Bank of public investments in a transition economy. Other internal studies prepared in this period helped to address critical transition issues in several areas, such as public administration reform, trade policy and fiscal management.

Emerging implementation problems and reform issues, 1992–93

16. Towards the end of 1991 strong doubts were emerging regarding the viability of the ETP. Fiscal policy worsened, the IMF program went offtrack, banks and enterprises started to fail. Responding to the crisis, the Bank made a thorough assessment of the situation in its next major economic report.

17. The 1992 country economic memorandum (CEM), “Economic Transformation at a Crossroads,” was intended as an input to decisionmaking in Poland and the Bank’s 1992 CSP as well as an analysis of the reform program. The report found that Poland had made great progress and that the private sector was prospering. It also noted that the restructuring and privatization of state enterprises was lagging and that sharp drops in investment in infrastructure and human resources development could be undermining growth. It identified the difficulty of restructuring and privatizing state enterprises as the root of the problem. The rapid expansion of the private sector was not enough to compensate for the loss in output and employment in many large state-owned enterprises. When subsidies were reduced and state enterprises cut back on free social services, the cost of living rose and real wages fell sharply. Women suffered a dual blow from the loss of daycare facilities and higher than average unemployment. The fiscal impact of the eastern bloc’s collapse was worse than had been predicted. Public support for the reform program waned. Successive general elections and coalition realignments led to frequent ministerial changes and loss of continuity in reform.

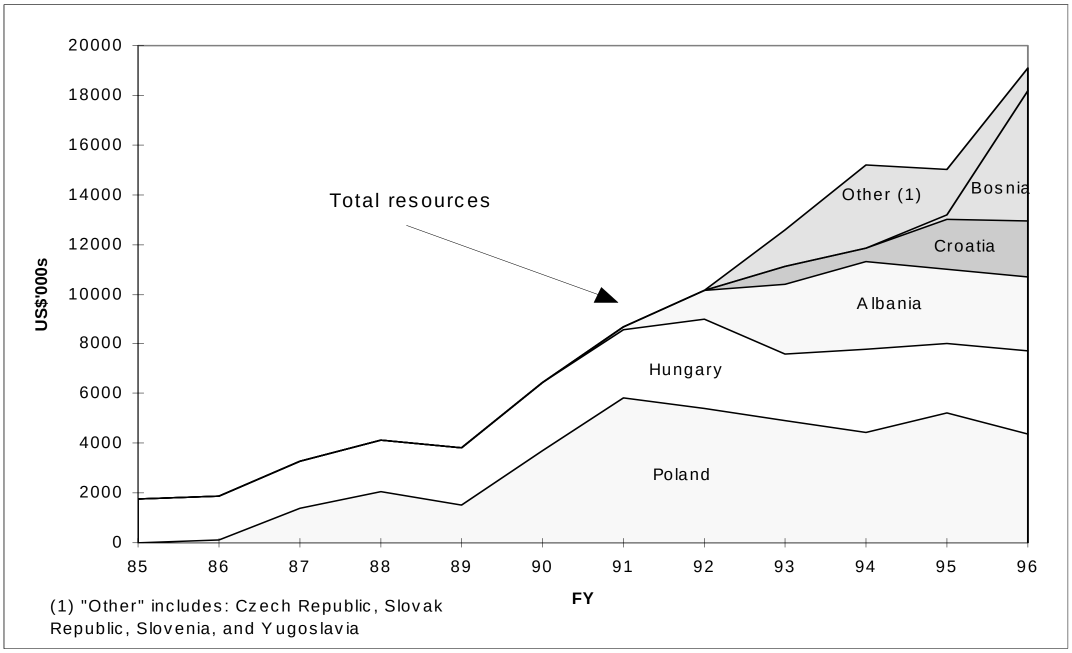
18. The CEM recommended that Poland focus on quick ownership reform and integration into the world economy to expedite enterprise restructuring and privatization, consolidate stabilization, strengthen core state institutions, and build up infrastructure with private sector participation. Since social expenditures had skyrocketed during 1990-92, the CEM called for public finance reforms to target expenditures more efficiently, to allocate social transfers to the most needy, and to weed out the large numbers of ineligible social welfare claims. Tax reforms were also needed. The country’s external debt had to be consolidated, and agreement had to be reached with commercial creditors to fully restore Poland’s creditworthiness.

19. With the country’s changing political and social situation, implementation of Bank projects suffered, and disbursements lagged behind estimates. It became apparent that some projects were too large and complicated, involving several ministries or agencies that did not always share the same objectives. The turnover of government personnel also revealed some gaps in the Bank’s institution building efforts. New officials had difficulty to learn the Bank’s language and procedures. Communications between Polish officials and Bank staff were not always smooth. Lack of continuity in Bank staff sent from headquarters also contributed to implementation delays. In some cases, loan documents had failed to spell out clearly what actions the borrower was required to take, having relied instead on general understandings reached with officials who were no longer in office. There was little if any disbursement from Bank projects involving credit lines, a consequence of lack of demand, slow and cumbersome Bank procedures, and emerging competition in credit lines from donors offering more flexible procedures and better terms than the Bank. Some of these problems point to the difficulty of using traditional Bank instruments in transition economies, in an environment requiring considerable agility and flexibility.

20. At the same time that these portfolio problems were emerging, there were management changes in the Bank’s Regional office. The Bank missed an opportunity to be closer to the client and empower the Resident Mission's authority to be more proactive, to resolve implementation

issues on the ground. There was less delegation of authority from headquarters, and the attention of some managers and senior staff shifted from Poland to other countries in the region. Response times from Washington became longer, and the Bank's assistance to Poland lost some of its earlier drive. Projects took on a life of their own, with progress depending on the initiative of the staff involved and their government counterparts. Projects in sectors whose ministries were shielded from frequent changes in government, and where the Bank had maintained seasoned staff on the ground (such as in infrastructure), continued to make progress, while other projects stagnated.

Figure 1: Distribution of Bank resources among EC2 countries in FY85-96 (in US$'000s)



21. The country strategy paper completed in November 1992 recognized some of the emerging implementation problems, which it attributed mostly to causes outside the Bank, such as political instability, lack of familiarity with the Bank's requirements and practices, lack of institutional ability, and competition from other donors. The CSP also defined five objectives of the Bank's lending strategy that were clearly relevant to Poland's situation: securing a stable macroeconomic framework and thus strengthen Poland's creditworthiness; supporting enterprise reform and restructuring, privatization, and the growth of the private sector; upgrading infrastructure (including financial sector infrastructure) in ways that would support a market economy; enhancing environmental amelioration in all sectors of economic activity; and supporting a stronger social safety net to help the country reduce the social impact of its systemic transformation. The CSP proposed a tentative three-year lending program of US$0.9 billion a year, including US$400 million to support a debt-reduction operation. It also mentioned the need to improve implementation of existing projects and donor leadership. Despite the emerging implementation problems, the CSP made no recommendations for restructuring the portfolio and provided no operational guidelines on how to improve portfolio management, other than calling for targeted supervision efforts, training in procurement and disbursement procedures, and discussions with the government.

22. This initiative led to a constructive series of Country Strategy and Implementation Reviews (CSIR), which have been held regularly since 1993. The first joint review with the Polish authorities took place in Warsaw in January 1993. Government officials complained that some Bank project staff had encouraged line ministries to request new Bank loans without the knowledge or concurrence of the Ministry of Finance. The Bank agreed to respect the coordinating functions of the ministry in formulating future lending proposals. Despite these useful discussions, implementation problems intensified during the year, and the new authorities asked for more time to define priority areas of future cooperation and for the design of new projects in order to "avoid repeating mistakes of the past."

23. A revised country assistance strategy—without the proposed lending targets—was presented to the Board in April 1993. Some executive directors criticized the document's lack of specificity on fiscal projections (which some executive directors thought were overly optimistic), safety net targeting needs, and the social consequences of restructuring—objections that in hindsight proved justified. On balance, however, the executive directors endorsed the proposed strategy and praised the emphases on environmental protection and assistance for debt reduction.

24. Despite the mounting implementation difficulties during 1992-93, Bank staff and government counterparts were able to put together seven new loans totaling US$1,436 million. This diversified portfolio included innovative and ambitious loans for health and housing, and loans for forestry development, roads, and private sector development. Two adjustment loans, prepared with full participation by the borrowers, were particularly innovative and far-reaching: the Agricultural Sector Adjustment Loan (ASAL) for US$300 million, and the Enterprise and Financial Sector Adjustment Loan (EFSAL) for US$450 million.

25. In the *health* sector the Bank undertook an ambitious program to help to arrest the twenty-year decline in the health status of the population and to ameliorate the adverse effects of the economic crisis. The Bank's health sector specialists felt under pressure to expedite preparation of a project, whereas the Polish counterparts were not ready to define priorities. There was insufficient time for project design, and insufficient exploration of alternatives. As a result, an ambitious US$130 million project was put together without full participation—and ownership—of stakeholders, giving little attention to women's health issues and missing opportunities for donor coordination, especially in grant-based technical assistance. The project attempted to do too much in too complex a manner. A recent restructuring has addressed these problems and recent implementation performance has improved.

26. Responding to a direct request by the Polish government to the Bank President in February 1990, staff were instructed to expedite preparation of a *housing* project. A US$200 million loan was approved in June 1992. The project attempted to support the government's movement away from heavily subsidized housing production to a market-based system which eliminated subsidies for new housing. The objective was that the most needy rather than the purchasers of new homes, who tend to be middle and upper income families, would receive subsidies. It also attempted to replace existing subsidies with finance, with the finance modeled on a successful series of housing finance projects in Mexico.

27. From a loan disbursement perspective, this project clearly did not work. In an economy undergoing major restructuring of production and ownership rights, and simultaneously experiencing a severe recession, it is reasonable to expect housing investment to contract sharply—all the more so considering that housing was one of the most highly subsidized and publicly controlled goods under central planning. However, to argue that the project had a basic

design flaw or that the lack of disbursement is evidence that the project should have been renegotiated is contradicted by what occurred in the sector. Now, five years after loan approval, many of the aspirations of the project are in place: interest rate subsidies for new housing have been eliminated, and unsubsidized finance has developed.

28. The *Agriculture Sector Adjustment Loan*, by contrast, was the result of careful preparatory work and Bank leadership. Following two earlier Bank loans for agriculture that had been rushed to Board approval without adequate preparation, the Bank organized an agricultural task force jointly with the government and the EC. The task force report on an agricultural strategy for Poland became the framework for government action and for aid coordination by bilateral and multilateral donors. From this participatory framework emerged the ASAL, which was exceptionally comprehensive and offered the opportunity for productive dialogue on most issues related to the transition of agriculture in Poland. It. The loan's emphasis was on accelerating the privatization and restructuring of state enterprises and state farms and on formulating a long-term land policy to facilitate the expansion of the private market for farmland. During implementation, however, this loan fell short of achieving its ambitious objectives because of its complexity, which made it difficult to supervise the many components, monitorable actions, studies and technical assistance projects.

29. A small group of Polish officials, in full cooperation with Bank staff, were behind the other pathbreaking loan, the *Enterprise and Financial Sector Adjustment Loan*. Its objectives were to deal simultaneously with the debt overhang of state enterprises and the portfolio problems of the banking system and to resolve a root cause of the state enterprise crisis, the unclear structure of enterprise ownership and governance. The loan stimulated the banks to play a central role in restructuring enterprises through mandatory conciliation agreements and provided state enterprises with new opportunities to succeed in their reorganization efforts. Since rapid liquidation or restructuring of sensitive enterprises could be too costly socially and politically, the Bank agreed to finance an intervention fund to act as a social shock absorber during downsizing and liquidation of some large state enterprises. The loan's intended conditionality was weakened by lack of precision in the legal documents, which did not give the Bank a clear mandate to monitor the agreed pace of privatization or to supervise the operations of the intervention fund. Notwithstanding these limitations, EFSAL was effective in proposing an innovative decentralized approach to the recovery and restructuring of bank portfolios that isolated banks from political influences and enhanced their autonomy.

Reduced lending, portfolio consolidation, and a sharper focus on implementation, 1994–95

30. By the beginning of 1994, the Polish economy was embarked in a strong recovery, as the earlier reforms began to bear fruit. Bank project implementation problems continued. The government continued to welcome the Bank's policy advice. However, it also was articulating more clearly its reservations about the lack of flexibility of the Bank's lending instruments, including the mounting burden of the Bank's commitment charges on undisbursed loan balances and the financial management problems associated with the currency-pool system. The Bank's requirement of a government guarantee was seen as encouraging borrowers to be irresponsible. In the social sectors the government criticized deficiencies in project design, such as insufficient local participation, the lack of monitorable action programs for project implementation and vague definition of expected benefits. The Bank, for its part, was increasingly concerned about the slow progress on important structural and institutional reforms that were required under various projects. These included progress on privatizing and restructuring enterprises,

strengthening public finances, reducing the losses of the specialized banks, rationalizing the banking system, creating a deposit-insurance scheme, adopting a law on collateral, streamlining safety net operations, and opening up public utilities to private sector participation. Although the Bank offered to cancel unsatisfactory loans, the authorities chose not to do so. The country director and the government agreed, during a special Bank mission to Poland in January 1994, on a period of consolidation, during which priority would be given to implementation of existing projects.

31. A notable exception in this period of consolidation was the joint efforts of the Bank, the Fund, and other major donors in putting together a *debt and debt-service reduction package* on Poland's massive debt to private banks, which had been in default. A successful London Club arrangement was reached in March 1994, which the Bank supported with a US$400 million loan (US$170 million from the Debt and Debt Service Reduction loan and US$230 million from funds set aside from three previously approved adjustment loans). Poland used these funds to buy back a part of its outstanding debt. The Bank's support—financial and technical—for this important operation was pivotal and showed the responsiveness of the Bank when it is able to use more flexible instruments. The deal provided Poland with exceptional amounts of debt relief and helped restore its creditworthiness and access to international financial markets.

32. In parallel with the London Club arrangements, Poland's economic situation continued to improve. Financial stability and continued private sector expansion helped to attract foreign private capital inflows, and Poland soon had an abundance of foreign exchange. Its need for Bank financial support was diminishing, largely because other international financial institutions were offering finance with simpler conditionality, faster processing, and more attractive financial conditions. Poland's prospects for accession to the European Union, a high priority on the government's agenda, also reduced the need for the Bank's presence in the country.

33. The government's new stance was spelled out in an official document published in June 1994, "The Strategy for Poland." Quick accession to the European Union was a major objective, along with slowing the rate of increase in the public debt. These changes were reflected in Bank-government dialogue, which increasingly became a dialogue between equals. At a country strategy review in Warsaw in April 1994 and in subsequent discussions prior to completion of the 1994 country assistance strategy (CAS), the parties reiterated the critical importance of halting the deterioration in portfolio performance. The authorities were concerned about the mounting cost of the Bank's commitment fees on the large pipeline of undisbursed loans.[1] The Bank proposed maintaining an annual level of commitments of US$600-800 million for the next five years (compared with US$880 million in 1991-93), but the authorities pointed out that the size of the lending program would be affected by private capital inflows. They expressed a preference for smaller and simpler Bank projects and for social sector projects that could not attract private financing.

34. The Bank recognized that errors had been made in some cases, and repeated its willingness to restructure and/or cancel ongoing loans. Responding decisively and with flexibility the Bank conducted a thorough portfolio review. This resulted in major restructuring of some loans, such as health, and in dropping from the pipeline a large number of projects in

[1] Commitment fees charged by the Bank on undisbursed investment loans in fiscal 1994 were US$4.3 million, equivalent to 3.3 percent of disbursements on investment loans in that year. For the period fiscal 1990-96 the equivalent percentage was 1.9 percent.

preparation.[2] The Warsaw office representative intensified the dialogue with government officials in an effort to resolve implementation problems.

35. The 1994 CAS proposed a three-year lending program of US$600-700 million, two-fifths of it for large adjustment loans. The Region felt that it needed the special incentive provided by adjustment operations to push for comprehensive structural reforms. The aggressive lending policies of European international financial institutions—often delinked from the policy debate and supported by complementary concessionary finance from the European Union—had diminished the Bank's financial leverage to push for reforms in the context of investment operations. Senior management cautioned that so much reliance on policy-based adjustment operations was undesirable because it could lead to the neglect of technical and institutional aspects of the reforms. The CAS emphasized three areas for Bank support: reforming public finance (particularly social security expenditures), closing down large loss-making state enterprises, and reforming the financial sector. The CAS also proposed a focus on private sector development, including the provision of contractual compliance guarantees to encourage private sector financing, in close cooperation with the IFC. The CAS included a proposal to continue working on small, simpler investment projects in social and economic infrastructure and to put more emphasis on work at the local government level.

36. This strategy did not include operational actions in a number of important areas, such as accession to the European Union, poverty- and gender-related issues, or the still largely distorted agricultural sector. During the Board discussion in November 1994, several executive directors expressed concern about aid coordination and possible duplication of effort, slow progress on privatization, and the large unfinished agenda in the financial sector. The Board nonetheless approved the proposed strategy while urging the Bank to make further efforts to improve the quality of the portfolio and to encourage private sector participation in the financing of infrastructure projects.

37. Progress in meeting the 1994 CAS lending objectives was modest at best. New loan commitments fell far short of the amounts proposed in the CAS, and no adjustment loans have been approved. Through joint Bank-Government meetings (CSIRs) held in July 1995 and June 1996, the Bank-country has focused instead on implementation, improving results on the ground, the possible use of nonlending instruments of assistance and on better aid coordination.

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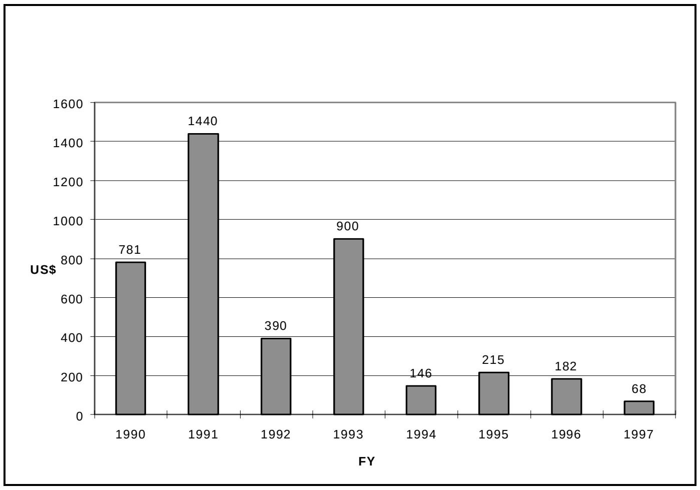
[2] The process of dropping projects continued into FY96. In FY95-96 a total of 15 projects were dropped, after having invested in them at least 710 staffweeks at a cost of US$2.3 million (these figures include only direct costs, and exclude overhead and management time). These costs are higher (in relation to total lending costs) than regional and Bank-wide averages. Dropping projects when it is realized that they are not likely to succeed is a good managerial practice. However, the direct cost of dropped projects for Poland has been much higher than for other countries. In FY93-96 it was 53 staffweeks, compared to 29 for EC2, 26 for ECA, and 33 Bank-wide. This suggests that the Bank allowed those projects to drag on too long before deciding to scrap them. A discussion of cost effectiveness of the Bank's program in Poland is presented in chapter 4 of this report.

Total Bank commitments to Poland in US$ millions by fiscal year



38. A new CAS for Poland has just been completed following one year of intensive collaboration and reflection within the Region and with counterparts in the government, representatives of Polish civil society, and OED. Throughout the preparation of the CAS the OED team evaluating the Bank's assistance program to Poland has shared with the country team its findings as they emerged, including background papers for a number of sectors, results from the OED surveys of Polish stakeholders and of Ministries, and other Poland CAR inputs. At a time of change and uncertainty over the future direction of Bank's involvement in Poland (especially with the prospect of Poland's accession to the EU) the OED evaluation helped to take stock of the Bank's experience to date in the country, and make recommendations on the basis of this. The new CAS incorporates the major findings and recommendations of this report.

39. The new CAS recognizes that, having gained good access to international markets, Poland's need for the Bank's financial assistance is small. Poland's expected accession to the European Union will further reduce the policy leverage of the Bank. Therefore, the Bank's future role will remain as an independent adviser in policy formulation and as a partner in building and strengthening market-oriented institutions. As a consequence, the CAS proposes to assist Poland with greater selectivity in three major ways: First, by helping formulate and implement policies that are required for sustained growth. Second, by providing an independent evaluation capacity, as well as investment support in selected areas such as the environment and labor market policies. And third, by helping to insure the social sustainability of reform and reduce poverty. This strategy is highly relevant to today's needs and is consistent with the recommendation of the present CAR.

Outcome

40. On balance Poland's transition performance has been excellent both in comparison with other transition economies and in its own right. Among the key indicators reflecting this remarkable performance are that Poland has experienced the highest average GDP growth rate in the period 1990-95 compared with other transition economies, and by mid-1995 its private sector activity accounted for 60 percent of GDP (see table 5.2). Also in 1995 Poland became a member of OECD, and its prospects for early accession into the EU are good. In EBRD's *1995 Transition*

Report Poland ranked among the top performers in an analysis of the progress of transition economies, in particular in the areas of small-scale privatization, trade and foreign exchange reforms, and on setting-up a regulatory environment conducive to private investment (see table 5.3). On the other hand inflation and unemployment remain high. While poverty also remains relatively high, it should be noted that it is declining, and that the majority of poverty in Poland is classified as "shallow," and is therefore expected to improve substantially with sustained economic growth.

41. Tangible progress has been achieved on most of the Bank's early objectives, and nearly all of the sectors in which the Bank has been involved have benefited from its advice and intellectual contributions. Bank support was pivotal in securing exceptional levels of debt reduction and in restoring Poland's creditworthiness. Thanks to early and careful planning and to remarkable staff continuity, the Bank has been instrumental in assisting to upgrade the country's infrastructure in power, energy, transport, and telecommunications; introducing new ideas, technology, and production methods; and opening the door for private sector participation. Together with the IFC, the Bank helped to set up twinning arrangements that proved valuable in modernizing several Polish banks. Bad loans have declined sharply, and other financial sector reforms are under way. In agriculture the Bank's leadership helped to coordinate the efforts of various donors. Environmental issues have been addressed decisively in most sectors. In the social sectors the Bank warned early on of the many worrisome problems now facing the country, such as the explosion of pension funds, but the government did not fully address these issues owing to their political sensitivity. However, intensive ongoing dialogue on public sector reforms, decentralization, education, health, and other social policies are expected to yield positive results in the near future. Across sectors, the Bank's involvement has helped put in place good management practices, transparent public procurement procedures, and strong environmental protection measures. Bank research and economic and sector work, complemented by the dissemination activities of the Economic Development Institute, have been influential in bringing about a better understanding and acceptance of Poland's market-oriented policies.

42. Those achievements are remarkable, even if they fall short of the original Bank expectations. In many areas, however, there is an unfinished agenda of important reforms that must be carried out to ensure the sustainability of Poland's transformation:

- The restructuring and privatization of unprofitable state enterprises and state-owned commercial banks need to be accelerated (public enterprises still account for three-fifths of industrial employment). Heavy industry (coal, petrochemicals, steel, oil and gas) needs particular attention. So do the large state-owned specialized banks (housing, rural finance), which account for one-third of the assets and liabilities of the banking system, are in precarious financial shape, and impose a heavy burden on the budget.

- Reform of the social safety net is another urgent task. Programs should be targeted to the most needy and should address the special problems of women and children. Failure to reform the pension system will lead to unmanageable public sector deficits.

- The legal foundations for a smooth-working market economy need to be strengthened by implementing the unfinished agenda: enforcing the collateral law and registry of liens, regulating leasing activities, strengthening bank supervision, and developing more fully the institutions of free markets and commercial law to facilitate private investment in infrastructure and the development of capital markets more generally.

- Agriculture needs to be modernized and opened up more to market forces, not only to permit its fuller development, but also to begin to meet the requirements of eventual accession to the European Union.

- Critical reforms, including a regulatory regime aimed at encouraging private investment, need to be completed in railroads, motorways, energy and telecommunications.

43. Looking to the future, the consensus in Poland in favor of becoming a member of the European Union gives reason for confidence that the reforms begun in 1989 will continue and that achievements will be sustained. As a member of the European Union, Poland would be locking in its reforms, making reversal much more difficult.

Assessment of Bank assistance[3]

44. Overall, the Bank's **strategy was highly relevant** to support Poland's needs at a most critical time in its history. The **efficacy** of the Bank's support varied over time and among sectors. It was perhaps **high** in the case of **adjustment loans** that dealt with the central authorities and in loans to strong, highly technical sectors. On the other hand, in those sectors that were more subject to frequent political changes, a stronger Bank presence could have yielded better results. On balance, however, the **efficacy** of the Bank's assistance is rated as **satisfactory**. When compared to other comparable borrower countries in the ECA region and elsewhere, the Bank carried out its assistance program at a relative high cost in terms of staff and financial resources; its efficiency can, at best, only be rated as **marginally satisfactory**. But, in assessing the **Bank's and the Borrower's performance**, it is necessary to keep in mind that this was a completely new, unprecedented experience for both. And although mistakes were made on all sides, the overall evaluation is that both were **satisfactory**. The **institutional development impact** of the Bank's assistance was **substantial**, and the **sustainability** of the benefits is **likely**.

Major findings for Poland

45. The Bank’s efforts had a strong impact in many ways in the important area of institution building. Public sector management practices, such as procurement, prioritization of public expenditures, foreign-debt management, and opening up to private sector participation in transport, clearly benefited from the Bank’s involvement. The modernization of commercial banks also reflects successful Bank support for institutional development. But progress has been disappointing in other areas of institution building, such as ending the dependence of major

[3] Commenting on an earlier draft of this CAR, the Ministry of Finance has stated: “To sum up, it should be said that—apart from the issues dealt with above—the report accurately analyses the successes and failures in the cooperation of the World Bank and Poland, although in several parts it excessively points out the causative role of the World Bank. In the process of transformation of the Polish economy the Bank has played a very important role, among other things by supporting the reconstruction of the institutional system, but in most cases its actions were supplementary and authenticating the economic programs taken up and carried out by the Polish authorities.” (Cf. letter from the Vice Director of Foreign Department to OED, dated April 7, 1997, Attachment 1, Volume II.)

enterprises on fiscal subsidies, bringing down inflation, rationalizing the management of specialized banks, and sustaining the pace of privatization.

46. Despite a generally positive outcome in many areas, several factors diminished the efficacy of the Bank's assistance. During 1989-91, the Bank clearly established support to the unprecedented reforms through high levels of lending as the main objective for the Poland assistance strategy. Initially, the only available operations were credit lines that had been previously appraised and set aside. These were quickly approved, without due consideration to their adequacy as a vehicle for resource transfer under the complex change of circumstances. As some had predicted, the credit lines failed to achieve their objectives, and became in the end a major hindrance on Bank-Poland relations. At the same time, several other projects were developed, addressing more directly the difficult problems of the transition in several areas. With all the difficulties connected to designing policy changes in this unprecedented environment, it is here that the Bank gave its best contribution to Poland's agenda. Other problems during the early period of assistance included the frequent changes in government and in government commitment to reform, creating bureaucratic gridlock and disrupting policy dialogue and program implementation. Competition to lend to Poland from several donors, some with different policy objectives, reduced Poland's receptivity to Bank advice. And changing priorities within the Bank sometimes resulted in less continuity and sustainability of effort than were needed to carry out the ambitious reform agenda. Partly as a result of these problems, the cost-effectiveness of the Bank's country assistance program was relatively low.

47. The difficulties were aggravated by the lack of flexible instruments for assistance. Early pressure to lend resulted in poor quality at entry for many projects, notably those that relied on credit lines for disbursement. Loan conditionality was not always clearly spelled out, in part because the Bank's lawyers were not involved at the project design stage. The Bank's heavy reliance on quick-disbursing adjustment loans (55 percent of disbursements in fiscal 1990-96) limited its ability to influence sector policies and institution building at the project level. The problem was compounded by excessive Bank centralization of decisionmaking, by ambiguity in the conditionality of certain loans, by weak enforcement of conditionality, and by loan cancellations before all conditions had been carried out. Inadequate coordination with other donors also weakened policy reforms and contributed to wasted technical assistance funds.

48. There is clearly a useful role for the Bank in helping Poland address much of its unfinished agenda. But Poland's transformation has come a long way, and its need for Bank assistance is much less than it was. It has abundant foreign exchange, first-class development experts of international caliber, and easy access to international capital markets and to European financial institutions, which are eager to provide technical and financial assistance. The Bank, on the other hand, must take the needs of its other member countries—many of them in the ECA Region—into account as well, particularly the countries that are just beginning the transformation process and for which Bank help is vital. Therefore, in formulating the Bank's role in Poland, selectivity should be the guiding principle.

49. The focus of future Bank assistance should be policy formulation and institution building rather than the transfer of resources. Assistance could still be directed toward sectors such as transport, energy, and telecommunications, provided that there is a full commitment to carry out the remaining reforms and to open up the sectors to private participation. In agriculture and the social sectors a precondition for additional Bank support should be an unequivocal commitment to needed reforms by all the ministries involved. More generally, the Bank's emphasis should be on encouraging private sector participation, cofinancing with other international financial

institutions, and cooperating closely with the IFC. It is also important not to neglect the monitoring of macroeconomic and fiscal management, particularly in the absence of any IMF conditional assistance programs. Conventional medium-term creditworthiness analysis should continue, notwithstanding Poland's comfortable foreign-exchange position. If it is decided that future Bank assistance should consist largely of nonlending services, such as special studies, technical assistance, or guarantee arrangements for private sector investment, the Bank could consider charging Poland for the cost of such services.

Findings for transition countries

50. The Bank's experience in Poland also has implications for its assistance programs in other transition countries.

Strategy

- The Bank needs flexible instruments to support a government's reform program other than through rapid approval of new loans. In Poland, although the Bank's loan disbursements helped to strengthen the country's external position in the early years, its technical inputs, advice, and intellectual support were more valuable than its financial assistance. The Bank provided valuable support for Poland's home-grown reform program through advice, technical backing, dissemination of market-oriented ideas, and endorsement of Poland's debt relief proposals to other creditors.

- Relatedly, staff should not be pressured to rush projects to the Board for approval when that means sacrificing quality at entry. The first two years of lending to Poland were more intensive than expected. The last strategy paper (1987) prior to the onset of lending in 1990 had proposed a small trial portfolio. When instructed to prepare a portfolio much larger than anticipated, the country team did not have the time to fully prepare new projects or to modify existing project proposals to suit the new environment.

- The Bank's budget allocation for work on individual countries should not be rigidly linked to the amount of its lending there, to avoid building in perverse incentives for lending.

- Frequent monitoring and self-evaluation of progress on meeting strategy objectives are essential. Completion reports should be prepared without delay, so as not to miss opportunities of learning from experience.

Design

- Major stakeholders should participate fully in project design, and the Bank should ensure that there is consensus and ownership within the government at early stages of project preparation. In some loans to Poland, loan documents had failed to spell out clearly what actions the borrower was required to take, having relied instead on general understandings reached with officials who were no longer in office.

- In a fast changing and uncertain environment, Bank staff should be ready to modify projects as the environment changes. Risk analysis and flexibility should be built into project design.

Similarly, projects should allow for easy changes in implementation in light of new developments.

- Project design should incorporate gender and poverty targeting whenever feasible. In the case of Poland's Structural Adjustment Loan some of the Bank's executive directors expressed concern that its conditionality was too general, particularly on subsidy reductions and the pace of privatization. Although they strongly endorsed the loan, their concern proved warranted since subsidy reductions remained a sticking point and privatization proceeded more slowly than anticipated. Similarly, some executive directors called for more decisive action to protect vulnerable groups during stabilization. Again, more could have been done. When subsidies were reduced and state enterprises cut back on free social services, the cost of living rose and real wages fell sharply. Women suffered a dual blow from the loss of daycare facilities and higher than average unemployment.

- Loans such as the SAL can be an important vehicle for Bank-government dialogue on issues such as environmental management. By including conditionality on environmental policy, Poland's SAL helped bring environmental issues to the center of Bank-government economic dialogue.

- The need for flexibility in an uncertain environment makes it risky to start projects that are difficult to modify as the environment changes. Small, simple projects are better than complex projects involving several implementation agencies.

Implementation and resident missions

- The Bank should make sure that sufficient staff are committed to ensure successful implementation. If the project is pursuing institution building or difficult policy changes, the Bank should be prepared to station seasoned staff members in the field until the project is well under way.

- High staff turnover may disrupt the continuity of projects and lead to a loss of institutional memory. Continuity of project staff is particularly important when there are frequent changes on the borrower's side.

- Implementation decisions should be delegated as much as possible to the staff who are working on the ground, subject to clearly formulated project objectives and monitorable indicators of performance.

Institutional and legal issues

- The Bank should give early attention to the creation of a legal and institutional framework for a market economy. Legal experts should be involved early and more fully in program design, playing a substantive role.
- Institutional development and capacity must be carefully assessed. Much of the initial lending to Poland was through financial intermediaries that were expected to onlend to beneficiaries. But the Bank did not first ascertain whether Polish banks had the institutional capacity to perform this pivotal onlending role, and subsequent developments showed that

they did not. There was little if any disbursement from Bank projects involving credit lines, a consequence of lack of demand, slow and cumbersome Bank procedures, and emerging competition in credit lines from donors offering more flexible procedures and better terms than the Bank.

Maximizing combined donor impact

- Aid coordination must be monitored to ensure consistency of policy advice and to avoid duplication of effort.

- Donor coordination can be crucial to success. The joint efforts of the Bank, the Fund, and other major donors were essential in putting together a debt and debt-service reduction package on Poland's massive debt to private banks, which had been in default. The Bank's support—financial and technical—for the successful London Club arrangement reached in March 1994, was pivotal. Poland received exceptional amounts of debt relief and was able to restore its creditworthiness and access to international financial markets.

Dissemination

- The Bank should make a greater efforts to disseminate its studies and intellectual products in the client countries, including the translation into the local language of at least the summaries of its economic and sector studies.

1. How the Bank's Assistance Strategy Changed Over Time

Background

1.1 Poland was a founding member of the World Bank in 1945, but dropped out (to join the Council for Mutual Economic Assistance) in March 1950. During the 1970s Poland borrowed heavily from abroad to finance a massive industrial investment program. The program failed, plunging Poland into economic crisis in late 1981, leading to the imposition of martial law and the rejection of its application to rejoin the IMF and the Bank. In 1986 Poland was admitted as a member of the IMF and the Bank, despite the opposition of some major shareholders. The succeeding years witnessed several attempts at economic reform that left untouched Poland's severe structural problems. These had been created by distortions in relative prices and by weak public finances, a consequence of widespread subsidies and lack of financial discipline in the extensive state-owned enterprise sector.

1.2 In December 1987 Poland signed an agreement with its Paris Club creditors to reschedule maturities totaling US$9 billion (principal and interest, most of it in arrears and most of it due in 1988). An agreement was signed with commercial bank creditors in July 1988 rescheduling about US$8 billion in principal obligations due from 1987 through 1993. These developments led to growing expectations that the Bank was going to begin its lending program to Poland at any moment. The Bank had made substantial investments in economic and sector work and in preparing a pipeline of projects. But lending was delayed, largely because of concerns about Poland's creditworthiness and doubts about the soundness of its reforms.

1.3 In early 1988, amid food shortages and following a wave of strikes demanding wage increases, further steps were taken toward economic liberalization, most notably reform of private sector and foreign trade policies. The reforms were accompanied by a weak package of macroeconomic policies, which were not up to the task of addressing wage inflation pressures. Many price controls were maintained, exacerbating repressed inflation and shortages.

1.4 The momentous political events that shook the Soviet bloc in 1989—perestroika, glasnost, and the collapse of the Berlin Wall, the Warsaw Pact, CMEA, and the Soviet Union—had dramatic repercussions for Poland. In April 1989, the Round Table negotiations between the communist government and Lech Walesa's Solidarity led to an agreement on freedom of expression and of political and social organization, new electoral rules to make parliament more representative, the establishment of municipal self-government, and an ending of the ban on the Solidarity movement. On the economic front the agreement proposed greater support for developing the private sector, but no program of privatization.

1.5 Events moved quickly in the summer of 1989. In June, Solidarity won the country's first free election in the post-war period by a big margin. In August, President Jaruzelski accepted a proposal from Solidarity to form a coalition government. This Solidarity-United Peasants Party coalition government assumed control of all the key economics ministries. As Tadeusz Mazowiecki took the position of Prime Minister, 45 years of communist rule came to an end. In September, Poland and the EC concluded a comprehensive bilateral commercial agreement. In November, the government announced a new economic transformation program (ETP), drawn up by a group of Polish economists, led by Finance Minister Leszek Balcerowicz.

1.6 The program called for macroeconomic stabilization, followed by major institutional changes to take advantage of a sudden opportunity to break with the communist past and create a western-style market economy with private ownership and full integration into world markets. The main elements of the ETP were drastic macroeconomic stabilization, removal of price controls and of international trade barriers, substantial cuts in subsidies, establishment of a legal environment supportive of private sector activity, privatization, establishment of a suitable social safety net, and mobilization of international assistance. The ETP, which included a medium-term macroeconomic framework and an external financing strategy, received strong financial support from the international financial community.

1.7 The ETP became operational on January 1, 1990. The Bank, giving its full endorsement and support to the ETP, began lending to Poland shortly thereafter, four years after Poland had rejoined the Bank.

Evolution of the Bank's assistance strategy[4]

1986-89: intensive preparation but no lending

1.8 In the first two years of activities following Poland's rejoining the Bank, the Bank focused on getting to know Poland. Comprehensive reviews of the economy (the First Report 1986, and the Country Economic Memorandum of 1987) identified the main assistance issues and provided opportunities to establish ties with Polish counterparts. The first strategy paper (CSP) followed this preparatory work and was reviewed by the President's Council in November 1987.

1.9 The considerable opportunities and risks associated with lending to Poland led to a debate within the Bank on when to begin lending, and how. The government's Medium-term Scenario reform program seemed reasonable, but there were doubts about Poland's creditworthiness and its commitment to reform. Furthermore, staff were aware that major shareholders would oppose the start of lending. Management decided that an agreement between Poland and the IMF would be a prerequisite for Bank lending.

1.10 In the end, after intensive internal debate, the Bank settled on an open-ended strategy of supporting government reform initiatives, while carefully monitoring progress to determine when to start formal loan negotiations. This strategy allowed the Bank considerable flexibility. Aware of Poland's poor track record on following through on reforms, the Bank sought in the CSP to encourage the government to produce and stick to a feasible and credible medium-term economic and debt management program that would restore Poland to creditworthiness. Lending was expected to begin in FY88. The proposed strategy was to support activities that would generate foreign exchange, in order to alleviate critical shortages of hard currencies. The tentative lending program included an industrial export project of US$250 million in fiscal 1988, followed in fiscal 1989 by an agro-processing project of US$50 million and an energy project of US$250 million. The beneficiaries of these loans would be state-owned enterprises. Thereafter, the lending mix was to have changed to a combination of policy and investment lending directed at sectoral restructuring programs, on the condition that the government had made adequate

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[4] The successive formal enunciations of the evolving Bank Strategy can be found in the following documents: Country Strategy Paper 1987 (November 12, 1987), Country Strategy Note (September 20, 1989), Draft Country Strategy Paper 1991(never finalized), Country Strategy Paper 1992 (November 19, 1992), Country Assistance Strategy (CAS) 1993 (April 8, 1993), and Country Assistance Strategy (CAS) 1994 (October 20, 1994).

progress on its reform programs. However, dissatisfied with Polish progress on reforms, Bank managers decided to postpone the start of lending.

1.11 Considering the opportunities and risks facing the Polish reform program, the Bank's cautious strategy of 1987 was appropriate to the uncertainties of the time. While a case could have been made for earlier, selective Bank lending, postponing lending until 1990 had the positive effect of encouraging the Polish authorities to make a stronger commitment to reform. And by waiting until the IMF was involved in Poland and the international and domestic climates were more receptive, the Bank began lending when the ratio of opportunities to risks was unusually favorable.

1990-91: strong Bank support for the reform program and rapid buildup of the portfolio

1.12 After initially opposing lending to Poland, some of the Bank's major shareholders reversed their position in the months leading up to the appointment of the Solidarity-led government in 1989 and began to urge the Bank to accelerate project preparation. In six weeks at the end of 1989 the Bank shifted its proposed strategy in response to calls from shareholders to clearly demonstrate the Bank's full endorsement of the reform program and exploit opportunities for assistance. In early November, following Poland's agreement on an extended fund facility with the IMF, a proposal for a structural adjustment loan (SAL) was put forward for the end of fiscal 1990 or early 1991, in support of the reform program and to open up the possibility of further structural and sectoral adjustment loans. In early December 1989 a SAL appraisal mission was sent to Poland. In view of the determination shown by the government's new economic team to act forcefully to transform Poland's economy, the Bank's strategy became one of full support for the new government's program.

1.13 Reflecting the high priority the Bank attached to the success of Poland's reform effort, senior Bank officials from the President and Senior Vice President for Operations to the Regional Vice President and Country Director were directly involved in designing the early program. They launched special task forces and expedited processes to ensure timely assistance and to exploit the unprecedented opportunities for historic reform.

1.14 According to internal documents and statements to the Board, the Bank sought to get involved in all key areas of the reform program including: supporting Poland's reentry into the world economy through trade liberalization, resolving foreign debt issues, stabilizing the economy, strengthening the currency and the balance of payments, disposing of nonviable enterprises and restructuring those with a future, softening the negative impacts of reforms on vulnerable groups, creating the institutional and legal framework for a market economy, handing over control of the economy from the planners to the market, reducing the burden of controls and monopolies, encouraging the growth of private sector business, and mobilizing and coordinating other donor assistance.

1.15 Lending started in February 1990 with two loans aimed at increasing convertible currency exports. These were followed by loans for environmental protection, transport, energy, and the financial sector. Much of this lending was through credit lines to financial intermediaries that were expected to onlend to beneficiaries. A weakness of this approach was that the Bank did not first ascertain whether Polish banks had the institutional capacity to perform this pivotal onlending role. Although this strategy seemed appropriate at the time, subsequent developments showed that conditions were not right, particularly with respect to the institutional readiness of onlending financial intermediaries.

1.16 One of the earliest and more visible forms of Bank support for the ETP was the US$300 million Structural Adjustment Loan approved in July 1990. The loan's main objective was to bolster the ETP by demonstrating the Bank's belief in the program's technical soundness and viability and by providing foreign exchange to strengthen the country's foreign reserves and add to the credibility of the stabilization program. The executive directors strongly endorsed the SAL, although some expressed concern that its conditionality was too general, particularly on subsidy reduction and the pace of privatization. Some executive directors called for more decisive action to protect vulnerable groups during stabilization. The SAL became a major vehicle for Bank-government dialogue. For example, by including conditionality on environmental policy, the SAL helped bring environmental issues to the center of Bank-government economic dialogue.

1.17 Realizing the magnitude of the task ahead and the need for a permanent presence on the ground, the Bank set up a high-level Resident Mission in Warsaw in July 1990, headed by a member of the Regional Management Team. Its main activities would be to coordinate and help develop the Bank's assistance program, help the government coordinate financial and technical assistance from other sources, and monitor economic, financial, legislative, and social progress.

1.18 The rush to lend continued. In the brief period from April to June 1991 the Board approved twelve loans totaling US$1,140 million. These included several loans in the energy sector, including an Energy Adjustment Loan which focused on pricing and subsidy issues. Other loans were for telecommunications, employment promotion, agriculture, privatization and restructuring, and financial institutions. The Financial Institutions Development Loan (FIDL) included both policy and institutional development components aimed at removing interest rate subsidies, reducing directed credit, modernizing banking legislation (introducing a law on collateral security, a deposit insurance mechanism, bankruptcy laws), helping develop capital markets, and restructuring the state-owned commercial banks with the intention of privatizing them.

1.19 Technical assistance was also emphasized and included preparation of sector strategy papers for agriculture, health, and housing. Six energy sector studies laid the foundations for restructuring the energy sector. The Bank also mobilized technical assistance from other sources, often on grant terms. The Bank understood the appeal to the government of utilizing grant money for technical assistance, but with several donors funding technical assistance, issues of aid coordination and ownership arose.

1.20 The first two years of lending were rushed. Country managers had not anticipated creating such a large portfolio in Poland. The last strategy paper (1987) prior to the beginning of lending in 1990 had proposed a small trial portfolio (one-third the size of a typical Bank lending program to a country of Poland's size). When instructed to prepare a portfolio much larger than anticipated, the country team did not have the time to fully prepare new projects or to modify existing project proposals to suit the new environment. No new formal strategy reviews were held until November 1992, after most of the loans had been approved.

Box 1.1: Risks and advantages of creating a large portfolio quickly

The Bank built up a large portfolio of projects in Poland in a short time. Fifteen loans were approved between fiscal 1991 and 1992 amounting to a commitment of US$2.6 billion. Nine of the loans were eventually subject to at least partial cancellation.

Why the Bank created a US$2.6 billion program in such a short period of time

- The Bank was under great pressure from shareholders to support the reform program in Poland and to lend.
- There was a window of opportunity in the early period, when strong government, public, and international support for reforms created an environment conducive to a quick construction of a large portfolio.
- Poland was in the limelight, and there were personal incentives and rewards for staff who were associated with a high-profile country.

Risks

- Project design and preparation may be compromised in the effort to get projects out as quickly as possible.
- The need to meet immediate financing needs is likely to result in a program that starts with quick-disbursing loans. The risk with these loans was that financial institutions would not be capable of efficiently onlending Bank credit lines and that the continued availability of government-subsidized credit would dampen demand for credit.
- In Poland’s unstable and changing environment, both project design and assistance relied heavily on forecasts of future conditions, yet the very instability made forecasting unreliable.
- Introducing a large number of projects at an early stage of reform, in a rapidly changing environment, exposes all of them to a risk of losing relevance as the climate changes.

Results

Positive

- The Bank provided timely help with substantial commitments (US$2.6 billion) in support of reform.
- The Bank's endorsement of reforms and active participation in reforms encouraged others to get involved in Poland.
- The Bank was instrumental in bringing about the renegotiation of Poland's debt, and the reestablishment of creditworthiness.
- The Bank was able to influence policy and encourage macroeconomic discipline and tough but necessary reforms through loan conditions.

Negative

- Nine of fifteen loans approved in this period were eventually canceled or partially canceled.
- Fifteen projects that had been approved under two proreform governments were implemented by subsequent governments that were less reform minded and possibly less committed. Average loan performance declined, and implementation obstacles mounted.
- Many of the Bank’s initial forecasts proved wrong, to varying degrees, making it important that the Bank make appropriate mid-course adjustments to meet changing and unforeseen conditions. For example, nobody foresaw the boom of new private enterprises. The Bank had put its emphasis on backing restructured and privatized former state-owned enterprises as the source of future private sector growth.
- The portfolio, built up to a great extent following tremendous international and internal Bank pressure, was somewhat neglected once the pressure subsided. This neglect was demonstrated by lack of follow-up and by other indicators.

Conclusion

There were definite costs associated with the strategy of establishing a large portfolio in a short period of time, but regardless of the poor performance of several individual projects, the overall goal of helping drive the reform process was achieved. Regardless of the portfolio imperfections, Poland has successfully met many reforms goals. Without the Bank's assistance, the possibilities opened up in the early years might not have been so fully realized.

1.21 Despite these handicaps, the Bank succeeded in providing strong and effective support to the Polish government during the critical early stages of the economic transformation. Although the impetus for the reform program came from the Polish team led by Leszek Balcerowicz, the Bank provided valuable support through intellectual advice, technical and moral backing, dissemination of market-oriented ideas, and the endorsement of Poland's debt relief proposals to other creditors. Although the Bank's loan disbursements also helped to strengthen the country's external position in the early years, its technical inputs, advice, and intellectual support for the reforms were more valuable than its financial assistance.

1.22 A good example of the Bank’s early intellectual support was the Strategic Investment Review (SIR). The green-cover report was well received by the government. It focused on an area that had received scant attention on Poland's transition agenda, the articulation and management of a public investment program to support the emerging market economy. As the first comprehensive review by the Bank of public investments in a transition economy, the SIR helped disseminate information widely about investment management issues in transition economies. Other vehicles for Bank advice were informal reports and project preparation work.

1992-93: lending continues but attention shifts to emerging implementation problems and reform issues

1.23 The Bank's first opportunity to take stock of its assistance program came in 1992, in the country economic memorandum (CEM), "Economic Transformation at a Crossroads." This analysis of the transformation experience of 1990-91 was intended as an input to decisionmaking in Poland and the Bank's 1992 CSP. The report found that Poland had made great progress and that the private sector was prospering. It also noted that the restructuring and privatization of state enterprises was lagging and that sharp drops in investment in infrastructure and human resources development could be undermining growth.

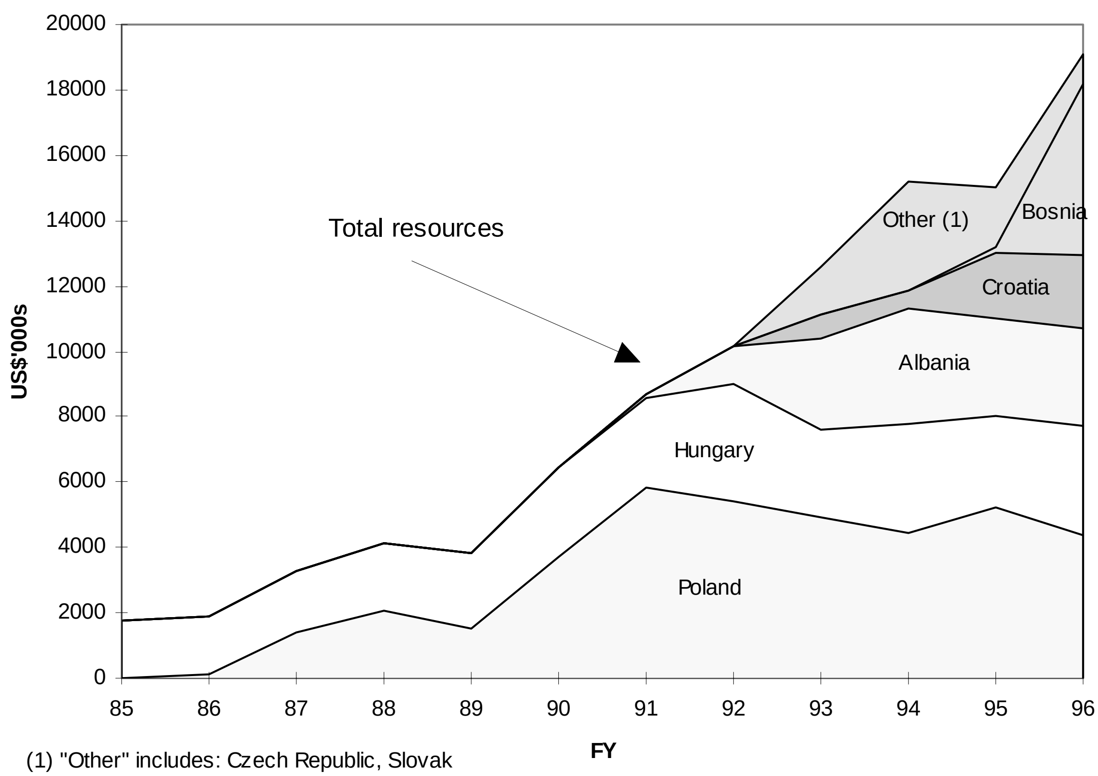
1.24 At the heart of the problem was the difficulty of restructuring and privatizing state enterprises. The rapid expansion of the private sector was not enough to compensate for the loss in output and employment in many large state-owned enterprises. As a result, the portfolios of commercial banks were much weaker than had originally been believed. When subsidies were reduced and state enterprises cut back on free social services, the cost of living rose. Real wages fell sharply from the unsustainably high levels of early 1989. Women suffered a dual blow from the loss of daycare facilities and a higher than average incidence of unemployment. Public finances weakened, and the original program supported by the IMF veered off-track. Public support for the ETP waned. Successive general elections and coalition realignments led to frequent ministerial changes.

1.25 The CEM recommended that Poland focus on quick ownership reform and integration into the world economy to deal with its massive restructuring problem, specifically that it consolidate macroeconomic stabilization and supply side response, strengthen core state institutions, build up infrastructure functions with private sector participation, and expedite enterprise restructuring and privatization. Since social expenditures had skyrocketed during the 1990-92 period, public finance reforms were needed to target expenditures more efficiently, to allocate social transfers to the most needy, and to weed out the large numbers of ineligible social welfare claims. Other public finance reforms were also needed: implementation of a modern tax system, decentralization of expenditure responsibility, and introduction of a value added tax. The country's external debt had to be consolidated, and agreement had to be reached with commercial creditors to fully restore Poland's creditworthiness.

1.26 With the country's changing political and social situation, implementation of Bank projects suffered, and disbursements lagged behind estimates. It became apparent that some projects were too large and complicated, involving several ministries or agencies that did not always share the same objectives. The turnover of government personnel also revealed that the Bank's institution building efforts had not always been fully successful. The new officials took a long time to learn the Bank's jargon and procedures. Communications between Polish officials and Bank staff were not always smooth. Lack of continuity in Bank staff sent from headquarters was also to blame for implementation delays. In some cases, loan documents had failed to spell out clearly what actions the borrowers were required to take, having relied instead on general understandings reached with officials who were no longer in office. There was little if any disbursement from Bank projects involving credit lines, a consequence of lack of demand, a perception that Bank procedures were slow and cumbersome, and emerging competition in credit lines made available by donors offering more flexible procedures and better terms.

1.27 At the same time that these portfolio problems were emerging, management changes in the Regional office resulted in a gradual reduction of the Resident Mission's authority to handle day-to-day issues. There was less delegation of authority from headquarters, and the attention of some managers and senior staff shifted from Poland to other countries in the region (figure 1.1.). Response times from Washington became longer, and the Bank's assistance to Poland lost some of its earlier drive. Projects took on a life of their own, with progress depending on the initiative of the staff involved and their government counterparts. Projects in sectors whose ministries were shielded from frequent changes in government, and where the Bank had maintained seasoned staff on the ground (such as in infrastructure), continued to make progress, while other projects stagnated.

Figure 1.1: Distribution of Bank resources among EC2 countries in FY85-96 (in US$'000s)



(1) "Other" includes: Czech Republic, Slovak Republic, Slovenia, and Yugoslavia

1.28 The country strategy paper completed in November 1992 recognized some of the emerging implementation problems, which it attributed mostly to causes outside the Bank, such as political instability, lack of familiarity with the Bank's requirements and practices, lack of institutional ability, and competition from other donors. It failed to note, however, the poor fit between some of the Bank's instruments, especially credit-line loans, and the institutional environment in Poland or the gap between strategy and instruments in some cases. The CSP defined five objectives of the Bank's lending strategy: to secure a stable macroeconomic framework and thus strengthen Poland's creditworthiness; to support enterprise reform and restructuring, privatization, and the growth of the private sector; to upgrade infrastructure (including financial sector infrastructure) in ways that would support a market economy; to enhance environmental amelioration in all sectors of economic activity; and to support the strengthening of Poland's social safety net to help the country reduce the social impact of its systemic transformation. The CSP proposed a tentative three-year lending program of US$0.9 billion a year, including US$400 million to support a debt-reduction operation. It also mentioned the need to improve implementation of existing projects and to provide donor leadership. No specific operational guidelines were provided on how to improve portfolio management, other than calling for targeted supervision efforts, training in procurement and disbursement procedures, and discussions with the government.[5]

1.29 A revised country assistance strategy—without the proposed lending targets—was presented to the Board in April 1993. Some executive directors criticized the document's lack of specificity on fiscal projections (which some executive directors thought were overly optimistic), safety net targeting needs, and the social consequences of restructuring—objections that in hindsight proved well taken.. On balance, however, the executive directors endorsed the proposed strategy and praised the emphases on environmental protection and assistance for debt reduction.

1.30 The first joint country strategy and implementation review (CSIR) with the Polish authorities took place in Warsaw in January 1993. Government officials complained about Bank project staff who encouraged line ministries to request new Bank loans without the knowledge or concurrence of the Ministry of Finance. The Bank agreed to respect the coordinating functions of the ministry in formulating future lending proposals. Despite these useful discussions, implementation problems intensified during the year, and the new authorities asked for more time to define priority areas of future cooperation and for the design of new projects in order to "avoid repeating mistakes of the past."

1.31 Despite the mounting difficulties during this two-year period, Bank staff were able to put together seven additional loans totaling US$1,436 million. This diversified portfolio included innovative and ambitious loans for health and housing, and loans for forestry development, roads, and private sector development (most of these, however, also would run into serious implementation difficulties). Two adjustment loans, prepared with full participation by the borrowers, were particularly innovative and far-reaching: the Agricultural Sector Adjustment Loan (ASAL) for US$300 million, and the Enterprise and Financial Sector Adjustment Loan (EFSAL) for US$450 million.

1.32 In the health sector the Bank undertook an ambitious program to help arrest the twenty-year decline in the health status of the population and to ameliorate the adverse effects of the economic crisis. The Bank's health sector specialists felt under pressure to expedite preparation of a project, whereas the Polish initial counterparts, who were spread across four ministries, were not ready to define priorities. As a result, the US$130 million project was put together without full participation—and ownership—of stakeholders, giving little attention to women's health issues and missing opportunities for donor coordination, especially in grant-based technical assistance. The project attempted to do too much and in too complex a manner. Following a major restructuring in mid-1994 that strengthened the project implementation unit, performance improved.

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[5] This initiative led to a constructive series of Country Strategy Implementation reviews that have been held regularly since 1993.

1.33 Responding to a direct request by the Polish government to the Bank president in February 1990, staff were instructed to expedite preparation of a *housing* project loan. A US$200 million loan (cofinanced by the EBRD and USAID) was approved in June 1992. The project addressed complex legal, financial, and institutional issues affecting the housing market. It was the first of a number of housing loans made to reforming socialist economies. However, the project was in two respects more ambitious than the housing projects pursued in other reforming economies. First, the project attempted to support the government's movement away from heavily subsidized housing production to a market-based system which eliminated subsidies for new housing. The objective was that the most needy rather than the purchasers of new homes, who tend to be middle and upper income families, would receive subsidies. Secondly, it attempted to replace existing subsidies with finance, with the finance modeled on a successful series of housing finance projects in Mexico. From a loan disbursement perspective, this project clearly did not work. Yet in some ways this result is not surprising. In an economy undergoing major restructuring of production and ownership rights, and simultaneously experiencing a severe recession, it is reasonable to expect housing investment to contract sharply—all the more so considering that housing was one of the most highly subsidized and publicly controlled goods under central planning. The project had quite ambitiously sought to eliminate all housing subsidies for new housing production, and replace it with a mortgage instrument that through indexation of repayments to inflation would eliminate the need for subsidies.

1.34 The ASAL, by contrast, was an example of careful preparatory work and Bank leadership. Following two earlier Bank loans for agriculture that had been rushed to Board approval without adequate preparation, the Bank organized an agricultural task force jointly with the government and the EC. The task force produced a report on an agricultural strategy for Poland that was to become the framework for government action and for aid coordination by bilateral and multilateral donors. From this participatory framework emerged the ASAL, which embraced almost the full range of policy elements needed for the transition of agriculture in Poland. It was exceptionally comprehensive and offered the opportunity for productive dialogue on most sectoral issues. The loan’s emphasis was on accelerating the privatization and restructuring of state enterprises and state farms, and on formulating a long-term land policy to facilitate the expansion of the private market for farmland. During implementation, however, this ambitious loan fell short of its potential usefulness because of its complexity. The large number of studies, TA projects and conditions, made its thorough supervision by Bank staff very difficult. Still, the project had an undeniable influence by guiding agricultural policy in the country.

1.35 A small group of Polish officials, in full cooperation with Bank staff, were behind the other pathbreaking loan, the EFSAL. Its objectives were to deal simultaneously with the debt overhang of state enterprises and the portfolio problems of the banking system and to resolve a root cause of the state enterprise crisis, the unclear structure of enterprise ownership and governance. The loan, which also aimed at allowing faster bank privatization by strengthening bank supervision, stimulated the banks to play a central role in restructuring enterprises through mandatory conciliation agreements and provided state enterprises with new opportunities to succeed in their reorganization efforts. Since rapid liquidation or restructuring of sensitive enterprises could be too costly socially and politically, the Bank agreed to finance an intervention fund to act as a social shock absorber during downsizing and liquidation of some large state enterprises. But the loan’s design suffered from insufficient economic work in the financial sector and limited information about the condition of enterprises. The loan’s intended conditionality was weakened by lack of precision in the legal documents, which did not give the Bank a clear mandate to monitor the agreed pace of privatization or to supervise the operations of the intervention fund. Notwithstanding these limitations, the EFSAL was effective in introducing an innovative decentralized approach to the recovery and restructuring of bank portfolios that isolated banks from political influences and enhanced their autonomy.

1994-95: reduced Bank lending (US$0.4 billion), portfolio consolidation, and a sharper focus on implementation

1.36 By the beginning of 1994, Bank-country relations had not improved. The government was articulating more clearly its reservations about Bank assistance, including the mounting burden of the Bank's commitment charges on undisbursed loan balances and the financial management problems associated with the currency-pooling system. The Bank's requirement of a government guarantee was seen as encouraging borrowers to be irresponsible. In the social sectors the government criticized deficiencies in project design, such as the lack of monitorable action programs for project implementation and vague definition of expected benefits. The Bank, for its part, was increasingly concerned about the slow progress on important structural and institutional reforms that were required under the various projects in the pipeline. These included progress on privatizing and restructuring enterprises, strengthening public finances, reducing the losses of the specialized banks, rationalizing the banking system, creating a deposit-insurance scheme, adopting a law on collateral, streamlining safety net operations, and opening up public utilities to private sector participation. The country operations director went on a special mission to Poland in January 1994, and the two sides agreed on a period of consolidation, during which priority would be given to implementation of existing projects. This marked the beginning of reassessment process by the Bank, in line with OED's earlier recommendations.[6]

1.37 A notable exception in this period of consolidation was the joint efforts of the Bank, the Fund, and other major donors in putting together a debt and debt-service reduction package on Poland's massive debt to private banks, which had been in default. A successful London Club arrangement was reached in March 1994, which the Bank supported with a US$400 million loan (US$170 million from the Debt and Debt Service Reduction loan and US$230 million from funds set aside from three previously approved adjustment loans). Poland used these funds to buy back a part of its outstanding debt. The Bank's support—financial and technical—for this important operation was pivotal. The deal provided Poland with exceptional amounts of debt relief and helped restore its creditworthiness and access to international financial markets.

1.38 In parallel with the London Club arrangements, Poland's economic situation began to improve. Financial stability and continued private sector expansion helped to attract foreign private capital inflows, and Poland soon had an abundance of foreign exchange. Its need for Bank financial support was diminishing, largely because other international financial institutions were offering finance with simpler conditionality, faster processing, and more attractive financial conditions. Poland's prospects for imminent accession to the European Union, a high priority on the government's agenda, also reduced the need for the Bank's presence in the country.

1.39 The government's new stance was spelled out in an official document published in June 1994, "The Strategy for Poland." Quick accession to the European Union was a major objective, along with slowing the rate of increase of public debt. These changes were positively reflected in Bank-government dialogue, which increasingly became a dialogue between equals. At a country strategy review in Warsaw in April 1994 and in subsequent discussions prior to completion of the 1994 country assistance strategy (CAS), the parties reiterated the critical importance of halting the deterioration in portfolio performance. The authorities were concerned about the

[6] Cf. OED, *Process Review of the FY95 Annual Report on Portfolio Performance (ARPP)*, November 22, 1995.

mounting cost of the Bank's commitment fees on the large pipeline of undisbursed loans.[7] The Bank proposed maintaining an annual level of commitments of US$600-800 million for the next five years (compared with US$880 million in 1991-93), but the authorities pointed out that the size of the lending program would be affected by private capital inflows. They expressed a preference for smaller and simpler Bank projects and for social sector projects that could not attract private financing.

1.40 The Bank recognized that errors had been made in some cases, and repeated its willingness to restructure and/or cancel ongoing loans. Responding decisively and with flexibility the Bank conducted a thorough portfolio review. This resulted in major restructuring of some loans, such as health, and in dropping from the pipeline a large number of projects in preparation.[8] The Warsaw office representative intensified the dialogue with government officials in an effort to resolve implementation problems. At headquarters, Regional managers started to turn their attention and to reallocate resources towards assisting other transition economies.

1.41 Other studies under preparation have been dropped or put on the back burner, after having absorbed expensive Bank resources. Following the return to headquarters of a major financial sector review mission (17 people) in August 1994, the task manager was instructed to stop working on the report, in view of the limited prospects for sector lending to Poland, and to work instead on a possible financial sector loan to Croatia. Responsibility for financial sector analysis was shifted to the senior and principal economists for Poland, who then produced a series of reports focused on specialized banks. A year later, a planned loan for education was dropped at the government's request after long preparation, which absorbed 129 direct staffweeks (the green cover President's Report had been issued). The authorities cited several reasons for this request, from changing government priorities to general dissatisfaction with the Bank's social sector assistance and a reluctance to borrow on conventional terms for social sector projects. Other planned projects were kept on hold because of a lack of consensus within the government, and their future is uncertain. These include adjustment loans for coal restructuring, public sector reform, and financial sector reform. Partially disbursed loans, canceled at the government's request, have limited the Bank's capacity to influence reforms in energy and the financial sectors, among others.

1.42 The 1994 CAS proposed a three-year lending program of US$600-700 million, two-fifths of it for large adjustment loans. The Region felt that it needed the special incentive provided by adjustment operations to push for comprehensive structural reforms. The aggressive lending policies of European international financial institutions—often delinked from the policy debate and supported by complementary concessionary finance from the European Union—had lessened the Bank's financial leverage to push for reforms in the context of investment operations. Senior management cautioned that so much reliance on policy-based adjustment operations was undesirable because it could lead to the neglect of technical and institutional aspects of the

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[7] Commitment fees charged by the Bank on undisbursed investment loans in FY94 were US$4.3 million, equivalent to 3.3 percent of disbursements on investment loans in that year. For the period FY90-96 the equivalent percentage was 1.9 percent.

[8] The process of dropping projects continued into FY96. In FY95-96 a total of 15 projects were dropped, after having invested in them at least 710 staffweeks at a cost of US$2.3 million (these figures include only direct costs, and exclude overhead and management time). These costs are higher (in relation to total lending costs) than regional and Bank-wide averages. Dropping projects when it is realized that they are not likely to succeed is a good managerial practice. However, the direct cost of dropped projects for Poland has been much higher than for other countries. In FY93-96 it was 53 staffweeks, compared to 29 for EC2, 26 for ECA, and 33 Bank-wide. This suggests that the Bank allowed those projects to drag on too long before deciding to scrap them.

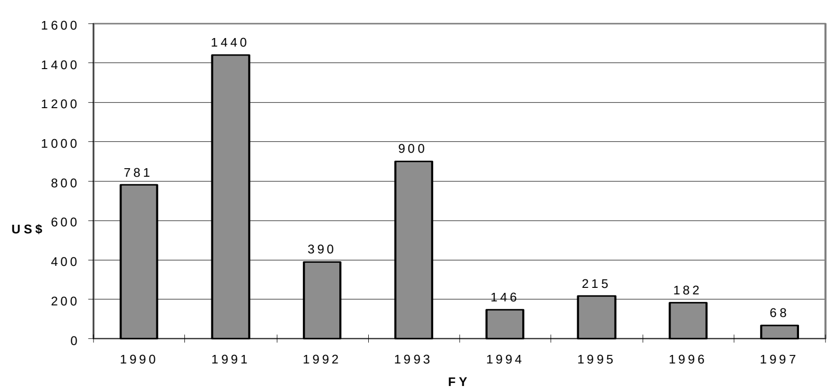
reforms. The CAS emphasized three areas for Bank support: reforming public finance, (particularly social security expenditures), closing down large loss-making state enterprises, and reforming financial sector. The CAS also proposed a focus on private sector development, including the provision of contractual compliance guarantees to encourage private sector financing, in close cooperation with the International Finance Corporation (see box 3.3 for a discussion of IFC strategy in Poland). Finally, the CAS included a proposal to continue working on small, simpler investment projects in social and economic infrastructure and to put more emphasis on work at the local government level.

1.43 This strategy did not include operational actions in a number of important areas, such as accession to the European Union, poverty and gender-related issues, or the still largely distorted agricultural sector. During the Board discussion in November 1994, several executive directors expressed concern about aid coordination and possible duplication of efforts, slow progress on privatization, and the large unfinished agenda in the financial sector. The Board approved the proposed strategy but urged the Bank to make further efforts to improve the quality of the existing portfolio and to encourage private sector participation in the financing of infrastructure projects.

Cutting back

1.44 Progress in meeting the 1994 CAS lending objectives has been modest at best. New loan commitments have fallen far short of the amounts proposed in the CAS, and no adjustment loans have been approved. Joint Bank-government meetings (CSIRs) held in July 1995 and in June 1996 recognized the need for further consolidation of the Bank's assistance program and focused on loan implementation issues, on the use of nonlending instruments of assistance, and on aid coordination issues.

Figure 1.2: Total Bank commitments to Poland, by fiscal year (US$ millions)



Note: Fiscal 1997 data are for half a year only.

Source: Bank's lending database.

1.45 A new CAS for Poland has just been completed following one year of intensive collaboration and reflection within the Region and with counterparts in the government, representatives of Polish civil society, and OED. Throughout the preparation of the CAS the

OED team evaluating the Bank's assistance program to Poland has shared with the country team its findings as they emerged, including background papers for a number of sectors, results from the OED survey of Ministries, and other Poland CAR inputs. At a time of change and uncertainty over the future direction of Bank's involvement in Poland (especially with the prospect of Poland's accession to the EU) the OED evaluation helped to take stock of the Bank's experience to date in the country, and make recommendations on the basis of this. The new CAS incorporates the major findings and recommendations of this report.

1.46 The new CAS recognizes that, having gained good access to international markets, Poland's need for the Bank's financial assistance is small. Poland's expected accession to the European Union will further reduce the policy leverage of the Bank. Therefore, the Bank's future role will remain as an independent adviser in policy formulation and as a partner in building and strengthening market-oriented institutions. As a consequence, the CAS proposes to assist Poland selectively, in three major ways: First, by helping formulate and implement policies that are required for sustained growth. Second, by providing an independent evaluation capacity, as well as investment support in selected areas such as the environment and labor market policies. And third, by helping to insure the social sustainability of reform and reduce poverty. This strategy is highly relevant to today's needs and is consistent with the recommendation of the present CAR.

Table 1.1: Bank assistance versus reform program, needs, and environment

Period	*World Bank Assistance*	*Major assistance issue*	*Macroeconomic*	*Political*	*Social*	*Reform progress*
1986-1989 ***CSP 87***	Mostly economic sector work, policy advice and project performance facility. Frequent missions. Proposal to begin lending in 1988, but lending does not begin. Bank perceives major lending risks to be: Poland's lack of creditworthiness, political uncertainty, economic instability, and distortions.	Lack of creditworthiness. Need to reschedule debt. Need to formulate feasible reform program. If Poland is to succeed in its reform proposals, it needs strong support from international financial institutions. If they do not support attempted reforms, Poland's debt position could worsen, further slowing market reforms.	External debt crisis. Hyperinflation. Heavily subsidized production.	Authorities becoming increasingly reform minded. 1989 Solidarity Government .	Growing public support for reforms.	Reform proposals becoming increasingly radical.
1990-1991 ***CSN 89***	Mobilizing donor assistance. Stabilization Fund with G24. Bank committed 15 loans to Poland in an amount equivalent to US$2.6 billion: 43 percent were fast-disbursing or hybrid loans, 20 percent were for financial intermediation. By end-1992 US$487 million had been disbursed, leaving a balance of US$2.1 billion.	Debt overhang and creditworthiness. Macroeconomic instability following economic liberalization. Enterprise reform, privatization, and growth of private sector. Need to reorient the country's infrastructure (including financial sector infrastructure) to support a market economy. Need to help improve all sectors of economic activity. Strengthening of the social safety net to help the country offset the social impact of transformation process.	Price and trade liberalization, large devaluation, followed by overshot inflation and stabilization of economy. Collapse of CMEA. Current account in surplus in 1990 but in deficit (US$1.4 billion) in 1991.	Successive reform minded governments.	Impact of unemployment and other harmful social impacts cushioned in part by social safety net.	Radical Economic Transformation Program implemented. Program lays foundations for reorienting Poland from planned to market economy.
1992-1993 ***CSP 92***	Bank continues to support government efforts of strengthening the macroeconomic framework and stimulating private sector development. The assistance program targets areas of economic activity that remain the domain of the state, and investment and rehabilitation of infrastructure, while encouraging private sector participation.	Growth emerges in Poland. Inflation is brought under control. Creditworthiness improving. Need to maintain macroeconomic discipline to consolidate position toward medium-term growth. Privatization and restructuring is not progressing as quickly as hoped; need to accelerate this process. Subsidized credit remains in some sectors; need to remove this. Current account recovery in 1992 with deficit of US$269 million as exports grow. Deficit slips again to US$2.3 billion in 1993 as imports increase and recession in Western Europe reduces volume of Polish exports.	Economy stabilizes. Economic growth driven by private sector. Trade with Europe is growing.	1992-93 period of political crisis, with 27 parties in Sejm. Coalition governments lack political direction on reforms.	An expectations gap emerges as benefits of reform are slow to be felt by public.	Signs that reform efforts will pay off as economy stabilizes and growth emerges. Government "Strategy for Poland" medium-term economic program issued in 1993.
1993-1994 ***CAS 93***	This strategy outlined in CAS 1993 is essentially the same as for the preceding year. However, this was the first time that the Bank formally presented its strategy to the Board. Some executive directors criticized the CAS for its lack of specificity on fiscal projections (which some executive directors thought were overly optimistic), safety net targeting needs, and the social consequences of restructuring.	On balance executive directors endorse the strategy proposed in CAS 1993, although there were some complaints about the size, composition, and instrumentation of the lending program.	The private sector is leading growth. Public finances threaten macroeconomic stability.	Government is making progress on reforms.	Largest strikes witnessed since 1980s.	Government reform progress being held back by insufficient implementation capacity.
1994-present ***CAS 94***	Bank focuses on public finance reform, downsizing of large loss-making sectors, and financial sector reform. Bank continues to work on a relatively diversified lending program of medium-sized investment projects in social and economic infrastructure, and puts more emphasis on work at local government level. Bank perceives a shift in financing needs away from macroeconomic oriented toward financing for microeconomic and structural reforms. Diverging agenda within government coalition leads to stop and go implementation of reforms .	Public finance reforms become increasingly significant issue with explosive trend of social transfers, particularly social security expenditures, and continued operation of large loss-making enterprises in key sectors (coal, steel and railways), and the portfolio problems of some specialized banks are a burden the government budget. Poland needs to maintain momentum of reforms and widen the benefits of the new market-driven growth. Investment in social infrastructure is too low threatening future growth. Macroeconomic discipline needs to be maintained. Poland needs to meet requirements for accession in EU.	Poland is experiencing the fastest growth in Europe. There is an increasing burden of public expenditures coupled with low level of investment in social infrastructure threatens future growth prospects.	Coalition governments, increasing divisions over direction of reforms. Increasing reluctance to borrow from Bank in social sectors.	Large volume of imported consumable goods. Growing middle class.	Reform efforts are increasingly oriented toward meeting requirements for accession into EU. Poland becomes a member of the OECD.
Future ***CAS 1997***	Future role of Bank in Poland to be decided. Important questions include impact of Bank assistance on Poland's accession to EU. Should the Bank consolidate its assistance program?	Same as above: speed up enterprise restructuring and privatization (including commercial banks). Public finance and safety net reforms. Energy restructuring. Infrastructure development.	Improving economy; but persistent inflation, fiscal deficit, need for macro monitoring.	EU oriented. Seeking membership in NATO.	High unemployment, gender inequality	EU-directed reforms; need to address politically sensitive reforms.

2. Systemic and Institutional Transformation and Social Amelioration

2.1 The Bank assisted Poland's transformation program through a broad program of lending, technical assistance, and advice. Much of this assistance was directed at helping Poland put in place a legal and institutional framework compatible with the needs of a market economy. This was done through adjustment loans, the conditionality embodied in most loans, technical assistance, and economic and sector work. In the social sectors, the Bank recognized the importance of easing the impact of the transition on vulnerable groups and of ensuring the handover of responsibility for social services. The Bank provided extensive advice and studies, complemented by project preparation and loans.

2.2 Most of the loans that the Bank has made to Poland are still under implementation, and of the few that have been closed, only three have been evaluated by a completion report. This chapter and the next present a brief analysis and evaluation of the Bank's Poland portfolio; the main features of each loan are summarized in individual project summaries, following chapter 5.

Systemic and institutional transformation

Collateral law and registry of liens—underestimating the complexity of legal reform

2.3 *Why*. An important part of the Bank's assistance strategy was to help Poland put in place a legal framework to support a market economy. However, unlike a number of other countries in Eastern Europe and the former Soviet Union, the Bank did not receive a clear request from Poland to provide assistance on systemic legal reform. In addition, the Bank had no vehicle in the early days of the Poland program like the Soviet Union Trust Fund or IDFs which the Bank could offer to the Poles to analyze the legal system or provide grant-based technical assistance. Moreover, because Poland was fairly sophisticated in its approach to the legal framework and relatively self-sufficient, there were few requests which the Bank received for assistance. The result of these factors was that the Bank had few opportunities to engage the government in a broad dialogue on legal reform and the Bank's legal assistance activities tended to be limited and sporadic. Even when the Bank was able to provide grant assistance such as on the Banking Law, it is clear that there were sensitivities in the Polish Government about receiving assistance that was perceived to be tilted towards particular external jurisdictions. As a consequence of the above, Poland is not a very good model to judge the effectiveness of Bank activities in the legal area. Since 1994, however, when the Private Sector Development unit in the Legal Department became the Legal Reform and Private Sector Development unit, the Bank has placed more emphasis on systemic legal reform as a foundation for a market economy and has recognized the need for legal education and stronger legal drafting capability.

2.4 *What.* The story of collateral law reform in Poland illustrates both the many attempts to provide assistance for legal reforms and the many disappointments. Realizing that the lack of a modern collateral law and of an effective central registry of liens was a serious obstacle to financial development in Poland, the Bank retained a British law firm to draft a collateral law for Poland. The Bank's regional staff intended to include approval of a collateral law as a condition for disbursement of the second tranche of the Financial Institutions Development Loan of June 1991, but the condition was not included in the legal agreement, and the draft collateral law was never approved. The Polish legal establishment was offended that the Bank would suggest the immediate adoption of a law based on Anglo-American legal concepts that were not consistent with other elements of Polish law (including contract, property, and bankruptcy, and with procedures for executing court orders) or integrated with registries of liens. The law also needed to undergo public debate, to make it acceptable and useful in the business sphere.[9]

2.5 There was no mention of a condition on the collateral law in the March 1995 Initial Executive Project Summary for the proposed Judicial Reform Loan. Despite questions about whether the proposed lien registry would be effective without a new collateral law, it was agreed to go ahead with Board presentation in view of the long period of time required for reform of registries and the limited leverage that a small investment operation could exert on legislative approval of a new collateral law. After a long and disputatious process, a new collateral law has been approved recently by the Sejm.

2.6 *Findings.* The Bank's experience with the collateral law and registry in Poland illustrates that:

- Legal reform considerations should have been fully integrated with the Bank's assistance strategy.
- There should have been a systematic review of the need for legal reforms at the beginning of Bank assistance, followed by comprehensive monitoring of progress.
- Bank lawyers should have been more directly involved in the formulation of the Bank's assistance strategy and in the design and implementation of individual projects.
- Clear links should be established between proposed legal reforms and their impact on economic growth and the broader transformation process, to improve understanding of the purpose of reforms and advance their adoption.
- Legal reforms must be complemented by other necessary reforms, especially institutional reforms, to facilitate the successful transformation to a market economy and the emergence of private enterprises.

Getting rid of monopolies—a dramatic increase in competition

2.7 *Why.* An early concern of the Bank was that the monopolistic or oligopolistic structure of Poland's industrial, commercial, and transportation enterprises would be a serious obstacle to the transition program. The Bank's objectives in antimonopoly policy were congruent with those of Poland's Anti-Monopoly Office: to develop the policies and institutional frameworks needed for

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[9] The Private Sector Assessment of January 19, 1993 contains a description of the 1990-1991 experience with collateral law reform that is consistent with the above description. It also makes the point that "There is also something of a growing xenophobic reaction, with the senior Polish bar showing an **increasing resistance to foreign bankers, lawyers and experts** telling Poland what laws to enact....In brief, it seems that no important piece of legislation will be adopted in Poland which is not prepared in main by Polish professors of law who are personally known to the people on the Commissions" (pp. 87-88).

competitive markets. This has involved dismantling old structures and changing old attitudes among producers, opening up the economy to international trade, removing barriers to the entry of new businesses, and developing legal and institutional frameworks for natural monopoly sectors. These efforts have dramatically increased the level of competition in the economy.

2.8 *What.* While the World Bank did not provide technical assistance to the Anti-Monopoly Office, the two organizations have worked together to promote competitive structures in several sectors in which the World Bank has extended loans. The Anti-Monopoly Office has been involved in ongoing negotiations initiated in 1993 between the Bank and Poland on appropriate regulatory institutions in water supply and wastewater removal. The Bank and the Anti-Monopoly Office also cooperated in the negotiation and implementation of the Agricultural Sector Adjustment Loan (see project summary 24), as it related to antimonopoly policy (legal frameworks for agro-industrial processing, restructuring of the milling industry). The Bank also supported the Anti-Monopoly Office's work on competition rules for the restructuring of the energy sector. There was some disagreement between the two in the telecommunications sector, however, with the Anti-Monopoly Office viewing the Bank's role as protective of the monopolistic position of the state company and not as a strong force for demonopolization and privatization.

2.9 *Findings.* Despite considerable progress, serious problems remain. Development of regulatory frameworks for the natural monopoly sectors still lags. The government's commitment to expanding competition in the economy weakened considerably after 1994. Recent proposals to limit competition in certain sectors suggest some danger of backsliding on antimonopoly policy. Government ministries and elements in the Sejm have proposed the creation of cartels in sugar refining and tobacco and the exclusion of foreign trucking firms from the Polish market. In telecommunications and energy more decisive action is needed to accommodate private investment.

Procurement—establishing a competitive procurement environment

2.10 *Why.* In socialist economies government bureaucracies were not accustomed to operating in a transparent manner and had no experience with the practical procedures of competitive bidding for public procurement contracts. Thus the Bank's insistence from the beginning on the adoption of strict procedures for the procurement of goods and services under Bank loans was initially a source of friction and delay. Borrower representatives complained frequently of alleged rigid and cumbersome procedures, which implementing agencies did not always fully understand. There was a feeling that the Bank's procurement officials could have responded faster and with greater flexibility to resolve unexpected problems. Bank-sponsored procurement seminars in Poland suffered from overcrowding and language difficulties. And much of the external assistance on procurement procedures has suffered from the same kinds of difficulties that donors encountered in legal reforms, particularly in trying to apply foreign practices and rules to the Polish environment.

2.11 *What.* To help implementing agencies apply Bank procurement rules, the Bank organized many procurement seminars and workshops in Poland. Both public and private sector agencies, including foreign trade companies, have benefited from these seminars. The Bank also provided training for the procurement staff of implementation agencies. As the Polish authorities came to understand the importance of competitive procurement practices and the savings they entailed, these practices became more acceptable. Polish implementing agencies were able to save up to 40 percent on goods contracts over estimated costs on the Telecommunication Project, District

Heat Projects, Power Transmission Projects, and others. Applying competitive procedures also meant introducing discipline and accountability to public spending.

2.12 *Findings.* The Bank's insistence on strict procedures, complemented by intensive training efforts, has paid off and Poland has made great progress in its public procurement procedures, culminating in passage of the Act on Public Procurement in June 1994. Initial efforts to draft a public procurement law grew out of a 1992 World Bank grant of US$300,000 from the Institutional Development Fund to support public administration reform. The Bank also provided direct technical assistance, including technical inputs by the Legal Department and the Regional procurement staff. However, it would have been helpful to have an experienced procurement specialist based in the field office. By the spring of 1994 the draft law had been approved by the Council of Ministers and was being defended in Parliament. After vigorous debate, the draft law was passed largely intact. Bank attention to procurement reform and the advice provided at this important juncture contributed to successful passage of the law and to lower prices for public sector purchases generally. The persistent and widespread attention to procurement practices in Bank-financed projects helped establish a culture of competitive procurement in Poland based on economic efficiency, transparency, and accountability criteria.

Decentralization—analytical work and advice as a vehicle for donor coordination

2.13 *Why*. Poland's record on decentralization is mixed, with some successes and some missed opportunities. Decentralization is often viewed as crucial to the consolidation of democracy in post-communist societies, but it represents a major institutional challenge. The tendency is to pass far-reaching legislation, while falling short on implementing the institutional changes needed to enable local and regional governmental entities to function effectively. Poland made considerable progress in 1990 and 1991, with the gminas (elected local governments) taking on new responsibilities in a way that contributed to the success of the transition, especially in leasing municipal property to private firms and in raising the prices of some municipal services.

2.14 *What.* The World Bank's objective through its analytical work and advice was to help Poland develop an appropriate assignment of responsibilities to different levels of government, improve the administrative capacity of gminas, and develop clear rules for fiscal transfers to gminas and the collection of local taxes. The Bank's 1992 report on decentralization and reform of the state was the first of its kind for a transition economy and was intended as an input into the government's decisionmaking. It was used by the Ministry of Finance as a vehicle for donor coordination among the World Bank, OECD, EC-PHARE, USAID, and the Council of Europe. The report recommended the establishment of a municipal development agency in the central government, whose job it would be to develop the national strategy and promote decentralization. The Municipal Development Agency (ARK) finally came into existence in March 1995, but so far it has not been given the necessary political clout to conduct its activities.

2.15 The Bank is contributing to the development of municipal borrowing under a proposed Municipal finance Project. This is a creative approach, and if successful, could be expanded. Other donors are rushing to facilitate the capacity of the gminas to borrow on capital markets, but this is occurring at a time when their taxing authorities are constrained and intergovernment fiscal relations are unclear. There may be a case for the Bank to take a position urging caution in the promotion of gmina access to capital markets.

Support for social amelioration

2.16 Before 1990 the main goal of Poland's social safety net was to prevent excessive income differentiation and to preserve the welfare state. Universal and equal access to social benefits and the gradual replacement of wages with centrally allocated social benefits were its guiding principles. The system was tremendously costly, a disincentive to productivity growth, and not very efficient in poverty alleviation.

2.17 To win public support for economic reform, the social safety net had to be an integral part of the program. During the first stage of the reform, efforts to improve the social safety net concentrated on unemployment benefits, retraining, and job creation. Social services were not to be reduced suddenly to the lower, constitutionally mandated levels. Rather, one of the goals of the economic reform program was to raise standards of living while protecting groups that were hit hardest by the reform.

2.18 From the beginning of the transformation process the Bank recognized the importance to the sustainability of reforms that the stabilization process have a human face. Early work in Hungary gave the Bank a slight headstart when it entered the social spheres in Poland. Providing rapid assistance to the government in preparing and putting in place a social safety net package was the major challenge of Bank missions at the end of 1989 and the beginning of 1990.

Poverty assessment—reweaving the safety net

2.19 *Why. World Development Report 1990* reconfirmed the Bank's three-part strategy for poverty reduction: promotion of labor-intensive growth, investment in the human resources of the poor, and provision of safety nets to protect vulnerable groups and the very poor. A poverty assessment for Poland was completed in December 1994. It provides a comprehensive profile of poverty in Poland and of how poverty is related to unemployment, educational status, and gender. The following paragraphs summarize key findings that are relevant to the Bank's CAS and future project design.

2.20 *What.* At 15 percent of GDP, Poland spends more for social transfers (for both social assistance, which is aimed at poverty reduction, and social insurance, mainly pensions, which is not) than do market economies at similar or higher levels of income. Chile, with income comparable to Poland's, spends 7 percent, and Portugal and Spain, with GDPs two and three times higher than Poland's, spend 11 and 13 percent. With current imperfect targeting, it is estimated that an additional 1.7 percent of GDP would need to be spent in social transfers to close the poverty gap. Therefore, there is an urgent need to streamline and improve the targeting of social transfers in Poland.

2.21 In 1988, the family of a basic vocational school graduate was 2.7 times more likely to be poor than that of a university graduate; by 1992, this had risen to almost nine times. Eighty percent of the unemployed poor have only a vocational education or less. The poverty assessment concluded that a guaranteed minimum income should not be introduced because it would be too costly and would create the wrong incentive. Rather, the poverty assessment explored efficient measures for reducing poverty such as better targeting of family allowances. Shifting the income threshold from the minimum wage to 50 percent of the average wage would save about 0.65 percent of GDP without increasing the poverty rate. Doubling family allowances for households with four or more children could reduce poverty rates by 1.2 percentage points at a cost of only

0.1 percent of GDP. A similar result could be achieved by providing kindergarten vouchers to families with four or more children. Improved income testing for social assistance, provision of school meals for poor children, and the use of actual poverty rates as the criteria for allocating central social assistance funds to local governments were identified as other measures to explore.

2.22 *Findings.* The poverty assessment focuses on how the transition to a market economy and sectoral policies affect the demand for skilled and unskilled labor. With respect to the human resources of the poor it focuses more on education than on health or nutrition. Safety nets are analyzed in detail—their reach, targeting, and cost effectiveness. Overall, the poverty assessment is statistically strong, analytically competent, and gender sensitive, with transparent conclusions. However, it does not address how labor-intensive growth and investment in the human resources of the poor could contribute to poverty reduction.

Attention to gender—missed opportunities

2.23 *Why.* To increase project efficiency and sustainability, gender issues and differential needs can be explicitly addressed through gender analysis as an integral part of the design of new projects, followed by project activities integrating gender action and attention to gender aspects of implementation in supervision and evaluation. The three projects in the Poland portfolio in which gender issues could be expected to feature more prominently (Private Enterprise Development, Employment Promotion and Services, and Health Services Development) showed different degrees of attention to how gender would affect activities and outcomes. The private enterprise project included no gender analysis and no actions addressing gender differences. The employment project analyzed gender issues in some detail, but included no actions to address the problems identified. The health project analyzed some issues by gender and included some actions to address gender inequities for men. None of the projects took steps to promote project participation by women at the design stage or at the time projects were restructured, thereby missing opportunities to further overall project objectives. These projects are reviewed in the next section. Here, we look at the three projects from the point of view of missed opportunities for including a gender dimension.

2.24 *What. Gender and private enterprise development.* Women made up only about 20 to 25 percent of new private entrepreneurs in 1991, and loans to women-owned businesses constituted just 15-30 percent of the loan portfolios of most banks. There was a clear need in 1991 to stimulate women's entrepreneurial activities, to ensure their participation in private enterprise development.

2.25 These statistics suggest that gender-neutral programs were unlikely to reach women and that special efforts would be needed to introduce private enterprise to women as well as men in Poland. Yet the Private Enterprise Development Project (project summary 20) did not analyze private sector development by gender and took no action to widen participation across genders. Measures to ensure take up by women might have included a component of lending to small and microenterprises, business training programs, skills training, business incubators for women, business associations for women, and greater attention to credit and business development in the service sectors in which women are more active.

2.26 *Gender issues in the labor market.* At the time of preparation of the Employment Promotion and Services Project (project summary 9), there was already concrete evidence of greater unemployment problems for women. In 1990 there were 40 unemployed women per job vacancy compared with 14 unemployed men per job vacancy. Women's unemployment remained higher than men's throughout the period. Although the project SAR discussed female labor force issues, it failed to address them in programs and policies.

2.27 Why this was so is not clear. On the Bank's side there may have been too great a belief in the ability of market forces to create an open labor market, coupled with a lack of incentive to address gender issues; gender did not form part of the policy dialogue or country strategy for Poland. On the government's side there may have been a reluctance to encourage female labor force participation (a return of women to the home was sometimes perceived as a characteristic of the Polish way of life), a desire to abandon the protective labor market interventions of the socialist era, and an absence of a political constituency for female labor force interventions.

2.28 *Health issues.* The two immediately apparent gender-related health issues in Poland are life expectancy differentials between men and women and reproductive health issues. Life expectancy is 8.5 years shorter for men than for women. The rising rate of male mortality from cardiovascular diseases, strokes, and cancers was identified early on in the Bank's health project (project summary 21) through health promotions on critical and preventable risk factors (such as alcohol and tobacco consumption and unhealthy diets).

2.29 Reproductive health issues such as fertility rates and maternal mortality appeared to be well addressed. However, the abortion rate is high, which is consistent with low use of modern methods of contraception. Abortions decreased dramatically following passage of legislation in January 1993 severely restricting abortions. Thus the need for increasing the availability of modern contraceptive supplies could have been expected. However, the task manager reports that although including contraceptive supplies was discussed during project preparation, as a politically charged issue it met with weak response from Polish authorities. More attention could have been given to the high costs of abortion compared with contraception. This was, however, a most difficult issue in view of its political and religious dimensions. A switch to a greater reliance on contraception could have helped reduce state expenditure on health care. This failure to examine in detail the gender aspects of health care reform led to the omission of substantial cost savings in the health care system.

2.30 *Findings.* Overall, then, there was a lack of awareness of the potential to further project objectives through analysis of gender differences in project participation and impact. Opportunities were missed for the development of microenterprises by women in the Private Sector Development Project, greater liberalization of the labor market by removing constraints to women's labor mobility in the Employment Services Project, and establishment of more cost-effective health services by promoting contraception in place of abortion.

Instruments of Bank assistance for systemic and institutional transformation and social amelioration

Structural Adjustment Loan—strong, early support for Poland's reform program

2.31 *Why.* One of the earliest and more visible forms of Bank support for Poland's Economic Transformation Program (ETP) was the US$300 million structural adjustment loan (SAL) approved in July 1990 (project summary 7). It was put together quickly, taking advantage of the window of opportunity offered by the unique political situation, which gave strong support for the radical transformation of the economy. The loan's main objective was to bolster the ETP by demonstrating the Bank's belief in the program's technical soundness and viability and by providing foreign exchange to boost the country's foreign reserves and add credibility to the stabilization program. Detailed objectives for the financial system, state-owned enterprises, social sectors, agriculture, and infrastructure were left to be tackled through future planned sector adjustment and investment loans. The SAL did, however, include some conditions on environmental policy, which helped bring environmental issues to the attention of the top economic authorities.

Box 2.1: Gender differentials during the transition

Despite the socialist rhetoric about sexual equality, men and women in Poland began the transition from very different positions, in the areas of health, work, income, leisure, and political participation. As a result, their experience of the transition differed considerably.

In the labor market, despite employment rates of 57 percent for women age 15 and above, women were not in a position that facilitated their absorption in the market economy. In 1990, there were 18 women per 100 men in administrative and managerial positions. Women were concentrated in female-dominated sectors with lower pay and in the so-called nonproductive sphere, in the service sector. Except in agriculture, women were also more likely to be employed in the state sector than were men (Fong and Paul 1992).

Women's position in the *labor market* reflected their heavy responsibilities outside the labor market. According to 1984 data, women spent an average of 30.5 hours a week on housework, in addition to their paid work; men spent just 7.7 hours. As a result, despite women's shorter hours of paid work, their total work week was 8 hours longer than men's (UN 1995). During the transition, female unemployment reached 130 percent of the male unemployment rate in 1993 (US Bureau of the Census, 1995). This was exacerbated by limited opportunities for women's reemployment. Women's position in the labor market was further weakened by the decline in child-care services. Twenty percent of all kindergartens closed between 1990 and 1992, and fees increased to 20 percent of the average monthly wage (World Bank 1994).

In *health*, however, men were at a considerable disadvantage, with life expectancies 8.5 years lower than for women, a larger differential than would be expected. In part, this reflected high male death rates from diseases of the circulatory system.

Women's *reproductive health* conditions underwent a dramatic change after January 1993, following legislation severely restricting abortion, previously a major form of birth control. Registered abortions dropped from 11,640 in 1992 to 777 in 1993 (David 1994).

Box 2.1: Gender differentials during the transition (cont.)

Concomitant with their weakening economic and health position, women saw significant reductions in *political participation* in the initial years of the transition, despite one government headed by a woman. The percentage of women in the legislature declined from 20 percent in 1987 to 13 percent in 1994, while the number of women in ministerial positions increased from 3.4 to 6.7 percent.

2.32 *What.* The President's Report stated that the loan was not meant to finance a projected foreign reserves gap, but rather was to be added to Poland's foreign reserves to help the country through a time of great uncertainty regarding medium-term prospects. The Board accepted this approach, recognizing the need to restore the country's creditworthiness. Because the senior government officials acknowledged the importance of this operation, the SAL became the main vehicle for Bank-country dialogue on issues of systemic transformation and social policy.

2.33 Because the Polish authorities had made major progress in implementing parts of the reform program before Board presentation of the SAL, the loan carried no conditions for effectiveness. There were eight formally binding conditions for second-tranche release, but these were general and subject to sharper definition or interpretation at a future date. Some executive directors expressed serious concern about the lack of more precise conditionality on the speed of privatization and other structural reforms. Of particular significance was that no detailed conditionality regarding the macroeconomic framework was included in the loan agreement other than a general statement requiring satisfactory macroeconomic management. The government's Memorandum of Development Policy included an indicative medium-term macroeconomic framework and financing plan (consistent with the pre-existing IMF standby program). It was agreed that the Bank would monitor a list of parameters and indicators, but these were only indicative. The implicit understanding was that the Fund would monitor the macroeconomic conditionality, but there was no provision for monitoring in case the Fund program should cease to be active.

2.34 Although the Bank recognized that implementation of the planned institutional reforms would require intensive technical assistance, the loan included no resources for this purpose, in part because of government reluctance to accept loans for technical assistance on conventional terms. The Bank helped to arrange for US$180 million in concessionary financing for technical assistance from other sources.

2.35 The Resident Mission closely monitored economic developments. It reported monthly on the deteriorating fiscal situation, particularly when it became clear that the Fund program had gone off track in mid-1991. But the lack of precise conditionality made it difficult to press for corrective actions. Formal supervision missions from Headquarters gave general good marks for implementation, although there were questions of interpretation regarding some conditionality.

2.36 Loan implementation was delayed by difficulties in complying with the Bank's disbursement procedures. It took ten months from loan effectiveness to fully disburse the first tranche, even though there were no outstanding conditions. The Bank provided assistance to solve these procedural difficulties, but similar problems have persisted.

2.37 *Findings.* At loan closing, progress on planned institutional reforms was disappointing. Restructuring and privatizing of the larger state enterprises had stalled, largely because of insufficient support in Parliament. The mounting losses and arrears of the enterprises weakened the quality of banks' portfolios, pushing many of them into virtual bankruptcy and delaying planned reforms. Institutional weaknesses delayed adoption of good accounting and auditing standards, supervision practices, and prudential regulation. With the benefit of hindsight, it would seem that the Bank should have pressed more decisively for faster implementation of the main structural reforms while political support was still strong.

2.38 Despite the mixed results, the loan's specific objective of providing strong and early support to the ETP was clearly relevant to Poland’s needs at that time. Although early expectations regarding economic growth and the pace of institutional reforms were not fulfilled, the loan was efficacious in providing the desired technical, moral, and financial support.

Debt and Debt-Service Reduction Loan—technical and financial assistance to improve Poland's creditworthiness

2.39 *Why*. The London Club agreement of March 1994 was a critical step in restoring Poland's creditworthiness. The amount of debt relief provided by this agreement far exceeded the total value of disbursements on loans and grants from all sources during 1990-94. The Bank assisted Poland in arriving at this agreement with advice and technical assistance, with advice in its dealings with other donors, and with direct financial assistance.

2.40 *What.* A Bank loan for US$170 million was approved by the Board in October 1994 (see project summary 27). The IMF provided a similar amount of cofinancing. Two technical assistance projects financed by the Japanese Trust Fund and other technical assistance provided by the U.S. Treasury enabled Poland to prepare and implement the operation. The Bank loan was fully disbursed within two months of approval.

2.41 The debt relief operation aimed at assisting the Polish government in settling its arrears with commercial creditors and thus restoring Poland's full creditworthiness and access to international financial markets. To this end, the Bank provided additional finance by releasing set-aside funds from three ongoing adjustment loans: US$30 million from the Financial Institutions Development Loan (project summary 12), US$100 million from the Enterprise and Financial Sector Adjustment Loan (project summary 25), and US$100 million from the Agriculture Sector Adjustment Loan (project summary 24). These funds were used to reimburse the government for part of the debt buyback costs incurred in implementing the London Club agreement. The Bank also granted a partial waiver of negative pledge clauses in the amount of US$623.4 million, to allow for the collateralization of newly issued Polish bonds.

2.42 *Findings.* Careful preparatory work by the government, with strong support from the Bank, Fund, and bilateral donors, resulted in smooth implementation of the operation. The government's determination to put together a sound financial program was facilitated by an earlier commitment to the Paris Club to seek debt relief from private creditors on terms comparable to those of the Paris Club and to comply with the conditionality of an ongoing IMF extended facility program. The operation resulted in debt-reduction equivalent to US$8.6 billion, or 60 percent of total eligible debt—more than generally provided in such cases.

2.43 Poland's experience confirms earlier OED findings that debt relief operations are more likely to succeed when they follow, rather than precede, successful stabilization and structural reform. The earlier commitment to the Paris Club to seek comparable terms from private creditors and to comply with IMF conditionality also contributed to the success to this operation.

Labor market loan—modernization of Poland's unemployment services, despite serious implementation problems

2.44 *Why*. The World Bank's major activity in Poland's labor market has been the Employment Promotion and Services Project (EPSP), a US$100 million loan to improve the cost-effectiveness of employment and social welfare programs; improve the occupational, sectoral, and geographic mobility of the labor force; increase the productivity of the labor force; promote investment; and test mechanisms for job creation for the unemployed through microenterprise development (project summary 9). The project had five components and was to be implemented by December 1996.

2.45 *What.* The project got off to a rocky start. Poles who worked on the project noted a lack of consensus regarding the project's direction. Results did not meet the borrower's or the Bank's expectations, and frustrations built up within the ministry. A Polish external assessment of the project led to public criticism of its low achievements, high preparation costs, and concerns about the high cost and questionable value of foreign consultants in the provision of technical assistance. The project was eighteen months behind schedule by mid-1994; it was restructured and reduced in scope in December 1994. At the request of the Ministry of Labor and Social Policy the loan amount was reduced to US$80 million and the closing date was extended to end-1997.

2.46 *Findings.* Much of the implementation problems could be attributed to changes in government, high turnover and inexperience of project management staff, and poor definition of roles and responsibilities within the Project Coordination Unit and between the Project Coordination Unit and technical units. However, the borrower has indicated that the Bank did not take into consideration at the beginning of the project the need to integrate Polish experts in the teams, and that it provided insufficient substantive advice to the government team.

2.47 Bank leadership in employment promotion was appreciated and even requested at different times during project development, but it was not translated into any systematic action to improve coordination among donors. An overall picture of all the donor resources available to the labor ministry was never put together, nor was there continuing monitoring of these resources to optimize their use. Bank efforts to lead donor assistance efforts in the social sectors and to coordinate support to the ministry were insufficient to permit more comprehensive understanding of the project and optimal utilization of external inputs. This situation was exacerbated by weak communication within and across ministries.

2.48 The Bank rushed to provide assistance to Poland following traditional Bank approaches to project preparation and implementation, but issues of participation, gender sensitivity, and project duration received little attention. The Bank overestimated the borrower's absorptive and managerial capacity and underestimated institutional weaknesses and the time required for learning Bank procedures. Greater use of the Resident Mission to provide assistance in identifying stakeholders, following up on key reform proposals, and offering a forum for policy dialogue might have improved project implementation. The project has now reached its final and most decisive stage. Although it is too early to determine the project's contribution to its development objectives, the project certainly contributed to the creation and modernization of the Poland's unemployment services system.[10]

Health Services Development Project—attempting too much in too complex a manner

2.49 *Why.* The objectives of the US$130 million Health Services Development Project (project summary 21) were to improve the health status of the population through the

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[10] The Ministry of Labour and Social Policy expressed dissatisfaction with the Bank's under utilization of local expertise. According to the Ministry, the usefulness of foreign consultants was often limited by their lack of understanding of the Polish situation and the high cost of these experts compared with local ones. The quality of advice would have been better had consulting teams consisted of a greater number of local specialists. The Ministry also noted that while the project was of some importance, it was one among many government actions in this area, and so its importance should not be overstated. (Cf. letter from the Ministry of Labour and Social Policy, dated March 11, 1997, Attachment 8, Volume II.)

introduction of health promotion and primary health care services; to strengthen the social safety net (through capacity building in health policymaking, planning, management, and evaluation and access to improved information systems); and to contain rising budgetary costs (through decentralization in three pilot regions and better cost control).

2.50 *What.* The seven-year project had four components and fifteen subcomponents. Generally, the Bank prepared the project in a traditional way: initial broad macroeconomic analysis followed by individual sector work. This work laid a good foundation for project design and involved many Bank health sector specialists. Missing were Polish specialists and some public sector management specialists, who could have provided more insight into the realities of institutional and organizational culture in a formerly communist state.

2.51 *Findings.* From an implementation perspective, the project attempted too much in too complex a manner. It failed to adequately address institutional capacity or to explore alternative approaches. No piloting approach was considered, and sector and project work were combined. The Bank overestimated the leverage the project would provide as a financial incentive for reform, especially when considering annual government outlays.

2.52 The complexity and expectations of the project design posed extraordinary difficulties. The Poles were unfamiliar with the project concept and had little understanding of (or capacity in) the basics of Bank-financed project implementation. It took far more time than expected to mount, train, and operationalize project teams and support systems. These factors contributed significantly to a loss in project momentum, which was compounded by the transformation occurring within the ministries. What was needed instead of one large, complex project was a series of smaller projects, to provide greater flexibility and feedback in an environment undergoing such rapid and radical change.[11]

2.53 There were other institutional weaknesses as well. The project called for the establishment of coordinating committees, without considering whether they would have the political clout and money needed to implement priorities among competing voivodships and to evaluate the activities. The project introduced a community nursing model that would require training of a new cadre of professionals, without a clear indication of how such training would be provided. The project also made no mention of the role of private practice.

2.54 The project was restructured in 1994. The implementation unit was strengthened and Polish specialists brought in. Implementation has improved following the restructuring. It is too early to determine the contribution of the project to its development objectives. It did get health promotion efforts started, introduced a family physicians program in primary health care, and promoted regionalization of health financing through the consortia approach. Before

[11] The Ministry of Health and Social Welfare expressed dissatisfaction at the irregularity of Bank communications, which suggests to them wavering Bank commitment to the project. The Ministry provides the example of when the loan was reduced from US$130 million to US$100 million, they say "the rescheduling did not arrive from Washington for over one year, in spite of seven letters from the Polish party and WB commitment to send it in several days." While communications with the Resident Mission have improved following the appointment of a liaison officer, the Resident Mission still lacks the authority to act as anything but a transmitter of information. The Ministry believes that if the Bank could provide a continuous counterpart in the Bank and if the Resident Mission were empowered with greater decisions making authority, this could significantly improve the performance of project implementation. (See letter from the Ministry of Health and Social Welfare, Attachment 5, Volume II.)

regionalization of health financing can be implemented, however, further reform and modernization of the Polish health system are required.

Proposed education restructuring project—a no-go, after long preparation, but the need for reform remains

2.55 *Why*. Poland's high level of structural unemployment, reflecting a mismatch between skills demanded by employers and skills supplied by unemployed labor, is in part a reflection of the shortcomings of Poland's education and training system. Under communism, Poland's education system focused on the acquisition of narrow occupational skills, rather than on broad-based multidisciplinary programs to facilitate occupational mobility and the development of new fields of employment. In recent years only about 30 percent of secondary school graduates have found work immediately after graduation.

2.56 The need for reform was identified as early as 1992 in two Bank reports ("Social Sectors Expenditure Review" and "Reorienting Investments in Human Capital: A Critical Review of Secondary Education and Training Systems"). The reports recommended reallocating resources from secondary vocational education to secondary general and broad-based technical education. Secondary education was seen as the linchpin to the successful restructuring of the whole sector. Both reports emphasized the significant impacts of education and training on economic growth, fiscal expenditures, political stability, and Poland's ability to complete its transformation.

2.57 *What.* On the basis of these reports, a US$127 million Education Restructuring Project was prepared for presentation to the Board in mid-1993. The project fit well with the Bank's Country Assistance Strategy for 1993, which placed strong support for social sector reforms among its priorities. The proposed project aimed at increasing the relevance of the system of secondary and post-secondary schooling by producing graduates with broader-based skills tailored to the needs of Poland's changing economy. The project would also improve the management and cost effectiveness of the overall education system by strengthening the effectiveness and efficiency of the Ministry of Education.

2.58 After long preparation, the government decided not to go ahead with loan negotiations, dropping the project in mid-1995 after the green cover President's Memorandum had been produced. Following a change in government, the Ministry of Education was no longer as interested in the project. Also, the Ministry of Health and the Ministry of Labor had expressed some dissatisfaction with their experience with earlier Bank loans in social sectors. The government was also reluctant to accept conventional loans for social sectors, expecting to get concessionary financing elsewhere.

2.59 *Findings.* Though the project itself did not work out, its strategies and the policies it supported are still relevant to Poland's education and training reform needs. Poland's current system threatens to impede economic growth and exacerbate unemployment. Development gains that might have been realized had Poland begun its education sector reforms earlier have been forgone, and a significant cost has been incurred to maintain an inappropriate education system. The proposed project is well designed, although it is being superseded by the Ministry of Education's own sector reform program, produced at the request of the Sejm and presented on National Education Day in October 1996. The proposal is in line with the Bank's Education Restructuring Project proposals in emphasizing general education, but it also addresses tertiary education reforms. Its overall goal is to increase the number of secondary and university graduates and to bring Poland's education up to European standards by 2010-2015. The financing plan for the reform package has not yet been announced, but the government has indicated that it may consider non-budgetary sources of finance.

2.60 If the Bank proposes to continue with the Education Restructuring Project, it must consider how it will fit with the government's own sector reform package. It might be useful to present the government with arguments on the advantages of borrowing from the Bank, compared with financing the reforms through its own budget or through bilateral sources. Just this year the Ministry of Education proposed financing the sector reforms proposed by the Bank through its own budget, even though the ministry has been unable even to finance the operation of existing schools under its jurisdiction. Financing sector reforms through bilateral sources would likely involve a large number of relatively small donor contributions. While this option might cost the government less, it might imply significant coordination and ownership problems. Again, the risk would be that the reforms might not be implemented effectively.

2.61 The Bank and Poland were preoccupied with macroeconomic reforms in the first few years of Bank lending to Poland, to the detriment of some social sectors. The Bank could have done more to encourage the government of Poland to take earlier action on education by giving a higher profile to the restructuring of education for economic growth, employment, and harmony with EU standards. If the Bank decides not to pursue the Education Restructuring Project, it may yet have a role to play in advising Poland on implementation of its education reform program. The Bank might also play an important role by prodding Poland to implement its proposed sector reforms as soon as possible, pointing out the opportunity costs incurred by staying with an outdated education and training system.

3. Private Sector and Infrastructure Development

3.1 In terms of resource allocation, the largest part of the Bank's country assistance efforts in Poland went to facilitating the expansion of the private sector and helping Poland build a physical infrastructure capable of accommodating the growth of a market economy that is fully integrated internally and with the rest of the world. To these ends, the Bank's strategy evolved from initial support to state enterprises (before the start of Bank lending) to promoting the participation of the private sector in agriculture, industry, housing, and the financial sector. The International Finance Corporation (IFC) had similar objectives in its own operations. The Bank's strategy also called for conventional and hybrid projects to rebuild and restructure the main infrastructure sectors, particularly transport, energy, and telecommunications. Poland's severe environmental problems were addressed through a small free-standing loan and specific conditionality in the Structural Adjustment Loan (SAL) and various investment loans. The Bank's efforts to carry out its assistance strategy were repeatedly frustrated by the frequent changes in government and by the resulting ups and downs in official support for the reforms.

Instruments of Bank assistance for private sector development

3.2 As explained in chapter 2, the SAL became the focal point for dialogue on most of the broad issues of adjustment. More detailed sectoral and institutional questions were addressed through numerous other loans. (The main features of these loans are presented in individual project summaries following chapter 5.) The rest of this section is devoted to a selected review of the principal instruments of the Bank's assistance for private sector development.

3.3 Coalitions have come and gone, but the main outline of Poland's private sector development policy has remained consistent since 1989. A booming private sector has continued to grow—despite the absence of many of the conventional "preconditions" for private sector expansion—with output increasing in some sectors and falling in others. To the surprise of many, most private sector development has been driven by the creation of new enterprises and not by the privatization and restructuring of large state-owned enterprises. Burdened by their old operational procedures, lack of marketing experience, heavy debt, and outdated technology, privatized and restructured state enterprises have generally lacked the dynamism needed to compete in new markets. The private sector is flourishing despite the absence of a fully evolved legal and institutional framework for the private sector. It is developing beyond small-scale street traders, with the emergence of organized businesses with wide distribution networks.

Enterprise restructuring and privatization—falling far short of expectations, despite helpful technical assistance

3.4 *Why*. The Bank's major contribution to the emergence of Poland's market economy has been its support of macroeconomic reforms and liberalization of prices and international trade. The Bank's strategy was also to play a major role in promoting the restructuring and privatization of state-owned enterprises. The 1991 Private Enterprise Development Project (project summary 20) was designed to support the development of new businesses, which was at the center of the government's economic transformation program, and to build support services for private enterprise development. To complement the Private Enterprise Development Project and to support Poland's efforts to develop and implement an enterprise privatization program, the Bank also prepared a Privatization and Restructuring Project (project summary 11). It was designed to implement an effective enterprise privatization program and to support restructuring across a broad range of industries by assisting with the establishment and strengthening of the institutional framework for privatization; providing finance in ways that would mobilize additional resources in support of the government's objective of privatizing half the state-owned assets within three years; and providing finance for enterprise restructuring programs, where warranted.

3.5 *What.* In 1991 the Bank formulated the US$60 million Private Enterprise Development Project, with US$58 million for investment financing and US$2 million for institution building. The investment financing component was intended to be onlent by the Polish Development Bank (PDB) to participating banks and then to enterprises at market interest rates to support the creation of new private businesses. In addition to providing investment financing for private enterprises, an institutional strengthening component targeted improvements in the Office of the Undersecretary for Business Promotion, the Project Support Unit of the Cooperation Fund (PSU), and local business promotion agencies. The complementary Privatization and Restructuring Project included a policy component (US$75 million) to support implementation of the necessary policy and institutional conditions to facilitate enterprise transformation and privatization. Up to US$50 million of this component was proposed to be used for the Debt and Debt Service Reduction operation. A second technical assistance component (US$65 million) was designed to support the key agencies involved in the privatization and restructuring process. An investment component (US$140 million) for privatization and restructuring was to be channeled through the PDB and eligible banks to finance the direct foreign exchange investment costs, including physical improvements to production facilities, permanent working capital, interest during construction, licenses or other types of technology transfer, as well as software, technical assistance, and training at the enterprise level.

3.6 *Findings.* At the time the Private Enterprise Development Project was conceived in 1991, Poland was very short of foreign exchange and of funds for medium-term instrument lending. By the time of project implementation in 1993, however, other sources of funds had become available. The apex lender PDB was not well suited to its task under the project, and very little of the loan was disbursed. Meanwhile the objectives of the project were being supported by other donors, who provided grant support for business training and start-up centers. Bank efforts were not well coordinated with those of other donors, but there was little opportunity for the Bank to take the lead in coordination since its loan funds did not disburse and its technical assistance funds were not utilized. Thus despite good economic analysis, the project accomplished little.

3.7 Implementation of the Privatization and Restructuring Project suffered as well. It was hurt by the frequent changes in government and the consequent wavering in official support for privatization. The credit component was compromised by the same factors that affected other Bank credit line operations in Poland, including overoptimistic projections of demand for credit, competition from other credit sources, weak domestic banking institutions, and reluctance to comply with cumbersome Bank procedures. The technical assistance component of the loan did, however, help solve complex privatization issues, despite original concerns that this component was too large. Still, overall the project stagnated and fell far short of achieving its objectives. After many delays and false starts, however, the government recently launched a Mass Privatization Program, and the Bank's efforts to support privatization may begin to pay off.

Box 3.1: Poland enterprise behavior study, 1991-1992

How would state enterprises respond to the reforms introduced as part of Poland's "big bang" in January 1990? This crucial question arose soon after the start of transition because of the dominance of the enterprise sector in output, exports, employment and tax revenues; but enterprise behavior remained a black box with most contemporary studies confined to macroeconomic issues. A Bank study was therefore designed to examine the behavior of 75 large state enterprises drawn from five different sectors all over Poland. The goal was to answer topical questions, e.g., were state enterprises merely decapitalizing assets or restructuring; were banks extending "soft" loans; was the excess wage tax working; would inability or unwillingness of state enterprise managers to adapt lead to a collapse of industry, thereby sabotaging reforms. These questions were formulated jointly with Professor Stan Wellisz, Adviser to Mr. Leszek Balcerowicz, then Deputy Prime Minister and Minister of Finance. Mr. Balcerowicz signed letters of introduction to the enterprise managers, expressing his interest in the policy implications and assuring them of confidentiality. The study was done jointly with two Polish economists, Professors Marek Belka and Stefan Krajewski of Lodz University, with the task managed by staff of the Resident Mission. It involved two rounds of visits to the sample enterprises, one 18 months after the onset of reform and the second a year later. The field work and analysis were supported by two RPOs (676-58 and 677-58).

Prevailing opinion in 1990-91 held that state enterprise managers were incapable of restructuring and were likely to destroy their companies. However, little evidence was found to support this view. On the contrary, spurred by hard budgets and competition, managers were responding positively even though privatization had not yet occurred. The results showed managers attempting to restructure their companies through labor force reduction, divestment of unnecessary assets and attempts at enhancing efficiency in existing operations while attempting to repackage their products and find new markets. Not all managers met with success, and many companies were making losses; but everyone was trying. In addition to the discipline of hard budgets and competition, this unexpectedly positive behavior was attributed to managers' concerns for their own reputations. Managers were using restructuring as an opportunity to signal their own ability to operate successfully in a market environment. Lastly, they expected to be rewarded when privatization occurred, which they believed would happen sooner or later, underlining the importance of a credible privatization program.

The findings were published in the *Brookings Papers on Economic Activity* in Spring 1993 (1:1993, pp. 213-270): "Transforming State Enterprises in Poland: Evidence on Adjustment by Manufacturing Firms."

Financial sector assistance—a major role in transforming the financial sector

3.8 *Why.* The dual objectives of the World Bank strategy for financial sector assistance in Poland were: removal of the major policy constraints and development of the institutions required for financial intermediation in a market-based system, and use of the banks as a major vehicle to help bring about the restructuring, privatization, and consolidation of the large network of state-owned enterprises. An ultimate objective was to stimulate sustained growth based on a dynamic private sector and to speed Poland's economic transformation. The reforms and interventions under the Financial Institutions Development Loan (FIDL) and the Enterprise and Financial Sector Adjustment Loan (EFSAL) were ambitious in scope (project summaries 12 and 25). The program focused on three main areas: modernization of the financial system (FIDL and EFSAL), and enterprise restructuring and privatization (EFSAL).

3.9 *What. Modernization of the financial system* through FIDL focused on revision of banking legislation, strengthening of bank supervision, development of deposit insurance and mechanisms to deal with insolvent banks, and the introduction of a collateral law. EFSAL focused on development of the National Bank of Poland's (NBP) supervision capabilities. FIDL conditionality entailed removing subsidies on lending rates (mainly in agricultural and housing credits) and reducing directed credit and NBP refinancing.

3.10 Institutional strengthening and privatization of banks (FIDL and EFSAL) twinning arrangements between seven Polish and seven foreign banks were the core of commercial banking *institutional strengthening*. Moreover, to prepare banks for privatization, a major recapitalization was carried out under the bank-led enterprise restructuring program. The recapitalization and *privatization of the nine commercial banks* represented another important area where the World Bank played a major role, especially in providing a general framework for donor assistance. The Bank coordinated these activities with the U.S. Treasury, which has been the main actor in setting up the Bank Privatization Fund (BPF), an offshoot of the stabilization fund established by the G24 to prop up the zloty against speculation upon its convertibility. Once the zloty was stabilized, most of the participating countries agreed to redirect about US$500 million from the stabilization fund to the recapitalization of banks under the EFSAL program. To be eligible, banks were to be privatized before the end of 1996. However, to implement the program in accordance with its original design, the remaining five banks would have to be privatized by the end of 1996, and it is now evident that this was not feasible. Bank privatization turned out to be far more complex than expected. Finding strategic investors was difficult, and the absorption capacity of capital markets was grossly overestimated. In October 1996 the Polish authorities adopted a new blueprint for consolidation and privatization of the banking sector for the coming years, to replace the 1991 program. Thus, the original Memorandum of Understanding between Poland and donors is likely to be modified in the near future.

3.11 *Enterprise restructuring and privatization* were tackled through innovative legislation designed to change the incentives and governance framework of enterprises and banks in order to promote debt resolution, privatization, and restructuring. Banks were expected to play a leading role in enterprise restructuring through out-of-court conciliation, and enterprises were provided with new opportunities to succeed in a market environment following their reorganization. The government and the World Bank agreed that for special key or sensitive enterprises, restructuring or liquidation could be too disruptive and politically costly to be feasible. Under the Intervention Decree, the government would assume new responsibilities for certain large state-owned enterprises to mitigate the consequences of reorganization and downsizing. For these difficult cases specific annual budgetary allocations to finance restructuring or to cushion the impact of liquidation were supported by the EFSAL.

3.12 *Findings.* Preparation, design, and implementation of the loans have generally been positive, except for bank privatization.[12] The Resident Mission played a crucial role in launching the reform program, in giving the Bank credibility and visibility, and in coordinating the Bank's program with other donors. The innovative programs designed and implemented under the two loans contributed to the rapid recovery and transformation of the Polish economy. The bank twinning arrangements and the decentralized approach to dealing with banks' bad loans were pathbreaking innovations that were later applied in other countries. The development of bank

[12] The loan documents, however, did not always spell out clearly the intended conditionality. For example, contrary to the understanding of the staff the introduction of a collateral law, or the limits to the scope of the Intervention Fund were not included as tranche release conditions of the FIDL and the EFSAL, respectively.

supervision capabilities progressed successfully as well, although upgrading took longer than expected.

3.13 There were some problems in preparation and implementation as well. For FIDL the lack of adequate protection for lenders has held back the development of safer intermediation services. Twinning arrangements could have been improved by increasing the involvement of the domestic banks, providing more information about the Polish environment for the foreign banks, and paying more attention to potential conflicts of interests between partners. There were also some procurement problems, and Polish banks made only limited use of FIDL funds. Overall, World Bank supervision has been considered insufficient too.

3.14 EFSAL suffered from the long delay between preparation and implementation and from political instability. Though the bank-led enterprise restructuring program seems to have been largely successful, uncertainty remains about the outcome of restructuring through the conciliation agreements. It is not clear whether enterprises have moved to a healthy and viable path or whether problems have merely been postponed. The recent operation of the Intervention Fund is also cause for concern. Some of the initiatives financed through IDA funds at very low interest rates seem outside the spirit of the EFSAL, which was intended to deal with some well-defined and time-bound special exceptions. These concerns were heightened by the government’s request (formulated in June 1966) to cancel the third tranche of the EFSAL, thus preventing the Bank from reviewing the operations of the Intervention Fund. The burden of enterprise financing could become a heavy drain on the government budget while distorting the functioning of credit markets and conflicting with the general approach of the reform program. Some of these problems might have been prevented had there been more economic and sector work on the financial sector and a better understanding of rapidly changing conditions.

3.15 Despite these implementation problems, the Bank's strategy produced many positive outcomes. World Bank support lent credibility to some Polish initiatives and strengthened many projects. The structure of Poland’s banking sector is suitable for a modern market economy. An independent central bank has responsibility for monetary policy, and a professional bank supervision department has been developed. Some banks have been privatized, capital adequacy ratios of participating commercial banks exceed international standards, problem loans are fully provisioned, workouts have been actively pursued, and most of management is considered progressive and market oriented. Foreign banks have entered the Polish market, fostering competition for good corporate clients, and the banking sector seems relatively efficient and profitable. Interest rates spreads are drastically smaller, and the menu and quality of financial services have improved significantly. FIDL and the EFSAL have helped banks improve key banking skills. But the privatization of most banks has not proceeded in line with earlier plans.

3.16 On the enterprise side it is too early to assess the final results of the restructuring program. On the positive side are the success of bank influence on enterprise governance, incentives for avoiding the unloading of debts on the government, and resolution of conflicts between creditors without triggering unnecessary liquidation. But the pace of enterprise restructuring and privatization is much slower than expected. If privatization were to continue at the rate of recent years, it would take another 10 years to complete the privatization of state-owned enterprises. These delays and some lack of transparency in financial sector support for enterprises make it necessary to withhold assessing the outcome of the Bank’s efforts.

Agriculture—a successful blueprint for reform, but some misses as well

3.17 *Why.* Prior to 1990, the Bank did not have a clearly articulated strategy for assisting Polish agriculture. The stated goal of agricultural lending was to improve the efficiency of the agricultural system by alleviating constraints to agroprocessing and agricultural exports. The Bank conducted an Agricultural Trade Study and Agriculture Sector Study, prepared an Agro-industrial Export Development Project (project summary 1) and initiated preparation of an Agricultural Development Project (project summary 10). But since the Bank was not really prepared for lending under the prevailing political and economic conditions, its efforts were inconsistent, leading to strained relations with the government. Unable to proceed with lending before a specific economic stabilization program was in place, the Bank appeared ineffective and inefficient in its use of resources.

3.18 Following the political and economic reforms in 1989-90, the Bank's agricultural strategy aimed at supporting the transition to a market-based system. This new strategy was fully consistent with the Bank's overall assistance strategy and with the objectives of the government. The Agricultural Strategy for Poland, prepared by a joint Polish-EC-World Bank Task Force, became the basis for the government's Medium-Term Sector Adjustment Program and provided a framework of priorities for much of the bilateral assistance to agriculture in Poland.

3.19 *What.* Following preparation of the Agricultural Strategy, the Bank's assistance program for this sector included a Livestock Sector Review, a Market Logistics Review, a Land Policy Study, a Rural Financial Sector Review, and about a dozen informal sectoral analyses. These studies provided useful, if expensive, inputs to the decisionmaking process by the Polish authorities. They were of mixed effectiveness in terms of the adoption of proposed recommendations and the generation of projects for Bank support.

Box 3.2: Agriculture Task Force—a vehicle for providing nonlending services

Following the political and economic reforms of 1989, the Bank's Regional management and the government decided in April 1990 to establish three task forces for preparing reform strategies for agriculture, infrastructure, and health. While planning, fieldwork, and responsibility for the Agriculture Task Force proceeded with extraordinary speed, the infrastructure and health task force exercises were much less dynamic.

The Agricultural Task Force was planned and implemented as a joint understanding between the Government of Poland, the Bank, and the EU. The chairman was the Undersecretary of State in the Ministry of Agriculture and the task force leader was the Senior Operations Advisor in the RVP office. Of the 57 professionals, 14 were Bank staff, 34 were Polish professionals, and 9 were consultants. After a preparatory mission in April 1990, the task force started its fieldwork on May 28, 1990, and submitted its report, "An Agricultural Strategy for Poland," to the Ministry of Agriculture in July 1990. The Ministry submitted the report to the Council of Ministers for deliberation. Its recommendations then became the basis for the government's Medium-Term Sector Adjustment Program. The cost of the exercise is estimated at US$1 million, of which about 90 percent was covered by the Bank and the EU in equal shares and the remaining 10 percent by the government.

Factors underlying the success include:

- Conducting the exercise as a joint undertaking with intensive participation of Polish individuals and institutions and with the EU as an important donor helped build consensus and led to a widespread understanding of and identification with the proposed strategy and its adoption in the form of the Medium-Term Sector Adjustment Program. It also helped pave the way for extensive EU assistance to Polish agriculture and cofinancing of future Bank-supported operations.
- The personal involvement of the Regional Vice President and the Minister of Agriculture gave the exercise authority and prominence in the Bank and in Poland, which freed it of bureaucratic and administrative constraints in implementation, staffing, financing, and disseminating of recommendations.
- Using a task force approach with management outside of the sector operations division prevented the task from getting lost among competing divisional work program priorities, eliminated an unwanted focus on project generation in the strategy work, and freed the task force of administrative and financial demands and restrictions that the operations divisions have to contend with.

3.20 In the push by major shareholders of the Bank for immediate and accelerated lending to Poland after 1990, however, the Agro-industrial Export Development Project and the Agricultural Development Project (project summaries 1 and 10), operations that had been prepared for pre-reform conditions, were hurriedly readied and approved by the Board. The objectives of these two projects— to provide lines of credit to agro-industries and farms—were consistent with the post-reform strategy, but their design did not conform to the new economic environment. By contrast, the Agriculture Sector Adjustment Loan (ASAL), prepared immediately after completion of the Agricultural Strategy for Poland, embraced almost the full range of policy elements needed for the transition of agriculture (project summary 24). The ASAL supported systemic changes in agriculture in accordance with the Bank's sectoral and overall assistance strategy. The ASAL was followed by the Forest Development Support Project (project summary 26), which, although focused on increasing the efficiency of a socially, economically, and environmentally important sector, is only indirectly related to the sectoral strategy mapped out in the Agricultural Strategy for Poland.

3.21 *Findings.* Only one Implementation Completion Report has been reviewed by OED for any of the agricultural projects, the Agro-industries Exports Development Project. The project's outcome was rated unsatisfactory by the Region. In fact, both the credit-line projects were ill-suited to the post-1989 situation, and only half the aggregate loan amounts had been disbursed by loan closing. The projects were unable to cope with an environment of monetary instability, the financial difficulties of enterprises and their loss of traditional markets, and the absence of a functioning system of financial intermediation. The appropriate remedy would have been a drastic restructuring of the projects to reduce their credit components and strengthen their institution-building components. For the ASAL and the Forestry Project, however, implementation has been good. The government pursued the action program agreed to in ASAL credibly and with good, though uneven success. Bank supervision and implementation assistance was much above the Bank's average supervision intensity, but "hands on" field supervision was still not enough to allow this project to be used as a vehicle for dealing with unfinished policy issues. Implementation of the technically oriented Forestry Project has reflected full ownership of the project by the implementing entities.

3.22 The Resident Mission greatly facilitated project preparation and supervision by providing logistical support, following up on pending issues, supervising consultants, providing clarifications and assistance to implementing agencies, organizing training seminars, and other activities. However, there was some sentiment in Poland that the Resident Mission did not have sufficient decisionmaking authority to quickly resolve operational matters. Having an agricultural project officer with full supervision authority stationed in Warsaw between 1991 and 1995, especially during the ASAL implementation period, might have helped resolve some of these issues.

3.23 While substantial progress has been made in adjusting the agricultural policy framework, much institution building remains to be done, and key productive subsectors of agriculture (small private farms and state farms) need restructuring if agriculture is to become a source of growth. The early, almost exclusive priority given to supporting agro-industries delayed efforts to address the serious issues of the state-farm and the small-farm sector and of much-needed agricultural services.[13] The Bank's most valuable contribution at this time may be its expertise in conceptualizing solutions. It has spent considerable resources and made proposals for addressing state-farm restructuring and the problems of the rural financial system and agricultural marketing. Except in agricultural marketing, the government has shown no interest in Bank support, mainly because it expects to have access to less expensive resources through its affiliation with the EU. The Bank's role in agriculture may thus be limited to an occasional, heavily cofinanced project.

Housing—too much too soon?

3.24 *Why.* In February 1990 the newly elected Solidarity government requested the World Bank President to expedite assistance for housing and agriculture. The Bank established a joint task force on housing policy reform, which culminated in project preparation discussions with the architects of the Polish reform program and rapid agreement on a US$200 million housing

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[13] However, the Ministry of Agriculture and Food Economy disagrees with this indicating that "priority given to agri-food industry is expressed in about 50 loans with a total value of approximately US$70 million" (see Attachment 3, Volume II).

loan in June 1992. The loan would be cofinanced by the European Bank for Reconstruction and Development and USAID.

3.25 The Housing Project (project summary 22), built on extensive work on housing undertaken for the first Country Economic Memorandum in 1986 and the work of the joint Poland-Bank task force. It was supported by technical assistance from USAID and a grant for project preparation from the government of Japan. It was the first of a number of housing loans made to reforming socialist economies. However, the project was in two respects more ambitious than the housing projects pursued in other reforming economies. First, the project attempted to support the government's movement away from heavily subsidized housing production to a market-based system which eliminated subsidies for new housing. The objective was that the most needy rather than the purchasers of new homes, who tend to be middle and upper income families, would receive subsidies. Secondly, it attempted to replace existing subsidies with finance, with the finance modeled on a successful series of housing finance projects in Mexico.

3.26 *What.* The project consisted of two lines of credit that were intended to provide mortgages for households seeking to buy property (27,000 loans) and loans for housing construction companies (15,000 dwelling units). To get the credit to the intended recipients, a financial system for housing lending was to be established. A network of financial institutions would on-lend funds from an apex lender (BudBank), which would also show the banks how to market and administer housing loans. Implementation would be supported by a housing finance project office, a group of consultants reporting to the Ministry of Spatial Economy and Construction, staffed largely by Polish specialists. An operational manual would specify the eligibility criteria that the on-lending institutions were to follow. The guidelines would ensure that credits went to appropriate recipients and would help financial institutions learn how to conduct credit risk analysis. Important legal reforms were also needed to liberalize housing finance and construction markets. In addition to the Bank's US$200 million loan, project-related technical assistance to the apex bank (BudBank) and the onlending financial institutions would be funded through grants amounting to US$10 million.

3.27 At the beginning of reform, despite large subsidies, housing conditions in Poland were among the worst in the twelve Eastern and Central European economies in transition. By 1994 housing investment in Poland was even worse, having fallen more sharply than in the other countries of the region. Although Poland was one of the first reformers to restore economic growth, the level of housing investment in 1994—the third year of positive growth—was probably not enough to prevent the stock of housing capital from contracting. Yet the Bank-financed housing project was unable to disburse funds, much less catalyze other resources, for investments in a sector that almost certainly had high long-run economic rates of return. At the time of the Country Strategy Implementation Review in June 1996 only US$1.5 million of the loan had been disbursed (an amount less than the commitment fees paid on the loan). The Polish government requested that all but US$20 million of the loan be canceled (there had been a previous cancellation from US$200 million to US$50 million). Poland also informed the Bank that it is no longer interested in other loans earmarked for the housing sector.

3.28 *Findings.* From a loan disbursement perspective, this project clearly did not work. Yet in some ways this result is not surprising. In an economy undergoing major restructuring of production and ownership rights, and simultaneously experiencing a severe recession, it is reasonable to expect housing investment to contract sharply—all the more so considering that housing was one of the most highly subsidized and publicly controlled goods under central planning. The project had quite ambitiously sought to eliminate all housing subsidies for new housing production, and replace it with a mortgage instrument that through indexation of repayments to inflation would eliminate the need for subsidies. In such a disrupted environment the project may have tried to do too much too soon.

3.29 However, there is also another explanation as to why the project did not disburse—the withdrawal of government commitment to the project. By the time of project initiation the designers of the program—those seeking to improve subsidy targeting and reducing the government role in those parts of the economy where the private sector was demonstrably more efficient—had left the government. After these interlocutors left the government, the new authorities were reluctant to embrace the project's most basic concept: replacing subsidies for new construction with housing finance. Nevertheless, the National Savings Bank (PKOBP), a publicly-owned bank, throughout the project supported a line of credit with terms similar to those of the project with slightly higher interest rates but lower monthly repayments. A highly liquid bank with direct access to budgetary support, PKOBP has relied on its own funds to finance its housing portfolio, competing directly with the project. In such a context, it was difficult for the project funds to disburse. At the same time, little progress was made on establishing the property rights required for a private housing market. When the "owners" of the housing stock are reluctant to operate in a way that maximizes the return to the capital, it is difficult for finance to be used effectively.

3.30 One could also argue that the project did not disburse because the Bank refused to renegotiate the project as the Poles requested shortly after the change in government. But, to argue that the project had a basic design flaw or that the lack of disbursement is evidence that the project should have been renegotiated is contradicted by what occurred in the sector.[14] Now, five years after loan approval, many of the aspirations of the project are in place: interest rate subsidies for new housing have been eliminated, and unsubsidized finance has developed. In short, a project that did not disburse because of an unwillingness on the Bank's part to provide subsidies for a good—-new housing—that could not justify such subsidies, at least did no harm. The project may have also accelerated the development of sustainable finance.

Instruments of Bank assistance for infrastructure development

3.31 This analysis of the effectiveness of Bank assistance to infrastructure projects in transport, energy, and telecommunications is mainly qualitative, focusing on the relation of sector developments to the economic and political transition in Poland and to the Bank's

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[14] Commenting on an earlier draft of this report, the Ministry of Finance has indicated: "As regards credit for housing construction purposes, the Ministry of Finance would like to observe that the authors of the report have placed the blame for the project's failure on the Polish side, while it seems that the most important reasons for this was the adoption of incorrect assumptions by the World Bank as regards the need for credit resources of this type, with the known cost of this, which was high in Polish conditions in the given period. The application of other lending forms for housing by the state (which was very limited anyway) was of secondary significance. Since 1989 the state has been consistently withdrawing from preferential terms of granting housing loans that are competitive for the Mortgage Fund. In practice the credit preferences in this area were already marginal, and therefore cannot be regarded as the reason for the low interest in loans granted from World Bank resources. The basic reason for the low absorption of loans should be sought in the high "price" of these resources for the end recipients and the complicated procedures of application for such credit, not adjusted to the Polish conditions, and also in the social and technical requirements of the World Bank. At the same time, it should be emphasized that the program of the Mortgage Fund has unquestionably fulfilled a useful role in the promotion of mortgage loans as the basic instrument of financing housing construction." (See Attachment 1, Volume II.)

macroeconomic work. It is based on the understanding that efficient and responsive infrastructure services are essential to economic growth.

Transport—moving ahead, but a need for better donor coordination

3.32 *Why*. The Bank's involvement in the transport sector began with an economic mission in 1986, culminating in the 1987 Country Economic Memorandum. A Transport Sector Memorandum followed in April 1989 and provided a framework for discussions with Polish officials. Considering the economic and political uncertainty at the time, the report was remarkably optimistic in presuming that Poland would continue to move toward greater market reliance, financial transparency and accountability, efficiency pricing, competition, and decentralization. According to the report, the main problems in the sector were closely linked to the efficient functioning of the economy itself: the scant attention to pricing, a pronounced vertical integration of enterprises, a high degree of centralization, the lack of an intermodal transport system, major needs for modernization of procedures, installations, and equipment, as well as uneconomic services, especially in railways. Recommendations for a more efficient transport system covered policies, institutional and regulatory concerns, and investment for modernization.

Box 3.3: IFC country strategy in Poland

As the Polish economy underwent a remarkably rapid transformation to a more liberal, market-oriented environment, the activities of the IFC changed accordingly. The IFC’s initial activities in Poland focused on advisory work, providing general advice on establishing the framework for privatization, on legislative and institutional aspects of the program, on the design of multitrack privatization, and on the selection of candidate enterprises for early privatization. The IFC also successfully handled some major privatization transactions: the furniture company, Swarzedz, the first underwritten public offering and listing on the Warsaw Stock Exchange, and implemented the first and probably the most successful sectoral privatization program, with sales to variety of strategic investors. The IFC collaborated with local consultants in both these transactions, helping to develop local expertise. However, while IFC support undoubtedly helped improve the efficiency of privatization and demonstrated a variety of techniques, the overall pace of transformation has remained slow, due to external political reasons.

In cooperation with the Bank, the IFC developed a bank twinning exercise, arranging foreign technical and institutional partners for seven Polish banks, following the split-up of the NBP. The program which was subsequently adopted by the World Bank was generally regarded as highly successful (see project summaries 12 and 25). The arrangement led to the development of closer commercial relationships and in some cases to foreign partners taking equity stakes in twinned banks.

The IFC also established and managed the Polish Business Advisory Service (PBAS), to provide consultancy services to small- and medium-size enterprises that would be unable to afford them on a fully commercial basis. Services ranged from preparation of detailed business plans to help in accessing financing sources and practical studies on marketing, information on management, or technical

Box 3.3: IFC country strategy in Poland (cont.)

certification. With funding of nearly US$15 million from a variety of bilateral and multilateral sources, PBAS completed 185 projects over its five-year life, which generated or saved about 3,000 jobs and were associated with an estimated 10 percent of investment in small- and medium-size businesses. The program relied on concessional finance, however, so it was not feasible to privatize the facility once funding ceased. Part of its functions (the consultant training program PBAN) was taken over by the SME Foundation, a Polish government agency. Other capabilities developed at PBAS have been dispersed to the private sector through its staff, which joined other consulting or financing organizations when the facility closed in 1996.

With the exception of the advisory services provided by PBAS, IFC's efforts to support the growth of small- and medium-size enterprises have been only partially successful. The IFC and other investment finance institutions have had little success with using banks as intermediaries to channel funds to small enterprises. Banks are unwilling to take the risk of lending to relatively new companies (none with a track record dating to before 1990) or to take on the administrative cost of making relatively small loans. Two locally based venture capital funds in which the IFC has invested have committed to a number of promising investments, but the amounts are quite small, and the funds tend not to cater to smaller or purely local companies. It is difficult for most projects to meet the criteria of high projected return, minimum size, and management with a track record of success. Nevertheless, private equity investment funds are likely to become more important as local companies mature.

Providing small companies with access to financing on reasonable terms remains a major issue. The IFC is considering an investment in a specialist bank in Gdansk and a regional investment company in Lodz. In view of experience elsewhere showing that leasing is well-suited to financing, the IFC is reviewing a number of prospects, including a facility to finance the leasing arms of a group of local banks as well as joint-ventures with several foreign partners. However, development of the leasing sector in Poland has been frustrated by the lack of specific legislation and by legal uncertainties.

Over the period, the IFC also approved commitments of US$445 on 24 large projects involving foreign partners, mostly on projects based on privatizations. These included a hotel, the first new office development in Warsaw, two paper projects, a float glass plant, a specialty steel company, and a consortium bank. IFC’s involvement was critical since there were very few sources of long-term finance available for major projects at the time—the London Club agreement had yet to be signed, foreign banks faced heavy provisioning requirements, local banks’ services were very limited, and the political and economic environment still seemed unstable. The IFC’s involvement and political risk umbrella were an important reassurance to foreign investors.

The situation changed radically, however, following the signing of the London Club Agreement, Poland’s membership in the OECD, and the economy’s impressive performance. Multinationals can now raise project financing and corporate loans from both foreign and local banks. The biggest local firms are also well serviced. Serious legal and administrative problems still remain, however, because Poland’s system of commercial law has evolved little since the 1930s. And more initiatives are needed to accelerate privatization and generate momentum in certain key privatizations, such as steel and infrastructure, which will require massive private capital to finance modernization and expansion needs.

The IFC has committed significant resources to move several smaller (US$100-150 million) infrastructure projects forward, especially in the power sector. However, developments on a broader scale will require far-reaching regulatory changes. Promoting these development through policy dialogue with the government is among the Bank Group's most important tasks for supporting private-sector development over the medium and long term. In addition, IFC is focusing on capital market development, particularly widening the range of nonbank financial institutions and services.

3.33 In the fall of 1988 the decision was made to accelerate preparation for the first lending operation in transport. Project identification and preparation were undertaken in close cooperation with the Ministry of Transport and Maritime Economy (MTME), the General Directorate of Public Roads (GDPR), and the Polish State Railways (PKP). Prepared for the most part by the borrowers, the project was found ready for appraisal in May 1989. The Bank task manager in charge of the 1988 Transport Sector Memorandum led the appraisal mission and remained project task manager throughout implementation.

3.34 *What.* The project addressed priority needs in the sector consistent with a strategy of improving the economy's ability to compete in international markets. Two loans were approved in May 1990, one for US$145 million for the state railways (project summary 5) and one for US$8 million for highways and sector reform. Loan conditions addressed mainly sector policies and improved financial objectives and greater efficiency for PKP and major associated suppliers, including the elimination of uneconomic lines and stations.

3.35 *The Railways Project.* Implementation of the Railways Project was overshadowed by the collapse of railway system traffic as a result of the severe recession and sharp curtailment of trade with former COMECON partners. Though the SAR had projected a long-term economic decline, it had anticipated little change in freight traffic levels during this period. Freight traffic plummeted from 383 million tons in 1989 to 200 tons in 1992. This dramatic change had two important positive results: PKP took the opportunity to reduce staffing from 435,000 (including affiliated enterprises) to about 240,000, and it accelerated the closing of uneconomic lines and stations called for in loan covenants.

3.36 On the negative side, the collapse in traffic made it much more difficult for PKP to achieve the financial viability objectives agreed to under the loan. PKP adjusted its tariffs periodically and succeeded in covering most costs in freight traffic. Passenger traffic continued to show a yearly loss of almost US$1 billion in 1991-95. The Bank agreed to a downward adjustment in the ratio of operating expenditure to operating revenue, which reduced the pressure on PKP to adjust and required continuing large government subsidies. The new railway law of November 1995 introduced performance contracts between PKP and the government, which should allow closer scrutiny of PKP's performance.

3.37 The European Investment Bank (EIB) used the project as a vehicle for starting its own operational involvement in Poland, extending a loan of ECU 20 million to fund part of the Bank-assisted project. In 1993, EIB followed up with an ECU 200 million loan to modernize the Kunowice-Warszawa section of the E-20 line. Two years later, in December 1995, EIB continued with an ECU 40 million loan to modernize the Warsaw-Minsk Mazowiecki section of the Berlin-Moscow line. These loans were part of the EU's efforts to integrate an improved Eastern European railway system into that of Western Europe. While there had been extensive discussions with the Bank on this project, the Bank was not persuaded that the project was justified and feared its effect on PKP's finances.

3.38 *Findings.* Relations between the Bank and PKP improved over time, and cooperation has generally been excellent. At the beginning, lack of familiarity on both sides made for a slow start, despite initial high disbursements for a few urgent purchases. As a result of close collaboration, project investments were adapted to PKP's changing circumstances, and there have been no significant procurement problems. The most difficult lesson for the Bank, though not entirely unexpected in the light of its general experience with railways projects, has been the much larger dependence of PKP on government subsidies than had been projected. True, there were good reasons for this development (collapse in traffic) which led the Bank to accept a marked softening of the pertinent financial covenant. Thus, the results of the railways project, though reported to be satisfactory on the investment side and especially on the managerial handling of the critical labor issue, leave a large unfinished agenda for major future adjustments.

3.39 *The Roads Project.* As the post-1989 reforms took hold, there was a marked shift in traffic from railways to roads. Following preparation work done in Poland, a road project was ready for appraisal in mid-1992, and a loan of US$150 million was approved on March 9, 1993. It addressed institutional issues in the MTME and GDPR; policies on maintenance of highways, planning and project evaluation techniques, competitive procurement procedures, and road safety; and rehabilitation and modernization of roads within the 1993-95 investment program.

3.40 *Findings.* With the exception of some legal problems early on over interpretation of clauses in Poland’s new Provisional Constitution, which delayed project effectiveness and the start of road construction, implementation has generally moved ahead well. Cooperation between the Bank and the borrower has been good, having started well before negotiations. This was the first infrastructure project implemented almost entirely under construction contracts rather than purchases of foreign equipment. The project helped GDPR learn to use new sound contracting procedures and offered excellent opportunities for Polish contractors, mostly commercialized public companies and a number of private companies. Forty of an expected 48 contracts were signed (only five with foreign firms) at the beginning of 1996, without any major problems. An internationally recruited consulting firm with extensive experience in supervising contract work provided technical assistance to Polish contractors.

3.41 Because of the government's reluctance to use loan funds when it could get grant funds, the loan for highways and sector reform was reduced early on from US$8 million to US$4.75 million[15]. The GDPR also expressed some concern about the US$9 million limit set for the revolving fund established under the loan, fearing that difficulties in paying contractors could arise because of the abbreviated period for highway construction in Poland, between June and August. No payment problems have surfaced so far, but the subject should be kept under review.

3.42 EU-related financial institutions have taken the lead in the development of a modern system of motorways in Eastern Europe, linked to the Western European system (an ECU 45 million EBRD loan for a section of toll-motorways and an ECU 125 million EIB loan for sections of the A-4 Motorway). The Polish government is interested in seeing a privately financed investment program emerge for such roads. The Bank has been cautiously supportive, making available its experience and offering the possibility of guarantees, where appropriate. Since the Bank is considering further assistance to the non-motorway highways system, it should satisfy itself that Poland has a realistic program for motorways and for coordination between the GDPR and the motorways' administration.

[15] On April 25, 1990, a few days prior to Board approval of the First Transport Project, the government of Poland sent the World Bank a fax requesting the cancellation of US$3.25 million TA component of the proposed loan. The reason for this cancellation request was that the Polish government were seeking an alternative financing for the component in the form of grant money. Since no guarantee had been received by the government that they would receive grant financing, the World Bank persuaded the government that it would be better to retain World Bank financing of the component for the time being, and if grant money were found a cancellation could made at that later date. This explains the early cancellation of the TA component that took place soon after loan approval.

3.43 *General Programs.* The Bank has also been involved in efforts to develop an urban transport strategy, beginning with a request for assistance for a subway project in Warsaw in 1992. Other cities (Krakow, Lodz, Poznan, Wroclaw, Katowice and Gdansk) expressed similar interest. Following several missions in 1993, the Bank produced an Urban Transport Review. Despite considerable interest in this analytical work, its impact has been limited in large measure because of local political commitments to other actions. More recently, a good dialogue on the ports sector led to appraisal of a first port project in late 1995 (project summary 31).

3.44 *Findings.* The transport sector in Poland still requires massive investments, and there may be room for a future role for the Bank, depending on Poland's access to external capital markets and on opportunities for the Bank to engage in effective dialogue on critical reforms needed in railways (downsizing, cost reductions, paving the way for privatization) and in the institutional arrangements for motorways (for example, by developing opportunities for the private sector). Better coordination with EIB and EBRD on substantive reforms and institutional issues is also critical for Bank effectiveness in the sector.

Energy—overoptimistic assessment of political support

3.45 *Why.* The Bank’s First Economic Report on Poland in October 1966 saw problems with the high energy intensity of the economy and identified the energy sector as the country's greatest source of pollution. By the time the Bank was prepared to engage in lending to Poland (FY90), it had identified the principal issues underlying the vast inefficiencies and waste in the sector: overcentralization, resulting in significant inefficiencies in decisionmaking, and the absence of market-related price signals (except for coal exports). The Bank's initial strategy was to increase efficiency through a restructuring of sector institutions, increased private sector participation, progressive elimination of subsidies, and a move toward international prices.

3.46 *What.* Though the initial intention of the government and the Bank was to develop an operation covering all primary energy sectors (coal, lignite, oil and gas), the powerful coal sector was not prepared to work on a Bank-assisted project. Thus during appraisal the energy project was narrowed to a US$250 million loan to the Polish Oil and Gas Company (PGNG). The EIB cofinanced the project with a US$60 million loan. The Bank project provided assistance for increasing the production and distribution of natural gas as a substitute for hard coal, for encouraging energy conservation and efficiency through assistance for appropriate energy pricing and development and implementation of energy sector restructuring programs, and for developing a framework for private sector participation in the oil and gas sector.

3.47 The US$250 million loan to PGNG was followed in June 1991 by five loans of from US$25 million to US$100 million for district heating enterprises in Gdansk, Gdynia, Katowice, Krakow, and Warsaw (project summaries 14-18) and a US$20 million credit line to the Bank of Poznan (project summary 19) for onlending to smaller district heating enterprises (supplemented by a US$50 million loan from EBRD). The loan to the Bank of Poznan was canceled when it became evident that there was no demand for such funds. The Katowice loan, which was never signed (because the system area was redistricted), was replaced by a US$45 million loan in November 1994 (project summary 28). The Polish Power Grid Company (PPGC) received a US$160 million loan in November 1995 (project summary 29). All these investment operations fit into the sector strategy and were linked to the ESAL (see below) on sector conditionality. These operations addressed aspects internal to the borrowing entity and were designed to improve organizational, technical, and financial arrangements.

3.48 Other energy sector issues were addressed through the SAL, which focused on the removal of subsidies and a managed transition toward international energy prices. The main vehicle for systematic reform and strengthening of the sector was a US$75 million Energy Sector Adjustment Loan (ESAL) approved in June 1991 (project summary 13). The ESAL was an ambitious program of action for a new energy sector strategy. It included demonopolization of the sector, starting with coal, and commercialization and privatization—from establishing a dozen or so commercial mining companies in coal to identifying new commercial power companies, transferring the district heating system to local governments, and restructuring PGNG into viable divisions, followed by commercialization. In addition, regulatory bodies were to be established for power, gas, and district heating, and residential prices for power and gas were to be raised to full parity with commercial prices.

3.49 *Findings.* Though implementation of the program started out well, the second tranche (US$37.5 million) of the ESAL was canceled because of inadequate progress on the regulatory system. A new Energy Law with regulatory provisions was drafted, but there was not enough support to submit the bill to Parliament. Though dialogue with the government continued, the comprehensive program of action for the energy sector no longer guided government actions. Since 1993 progress has been limited, with much slower than agreed increases in tariffs and hesitation in promoting private sector involvement, especially in power generation. It was evident that both the government and the Bank had been overoptimistic about reforming the sector.

3.50 The price policy agreed under the program would have benefited from greater scrutiny of its social impact. The Bank may have lost an opportunity to help the government follow through on its intended price policy changes by failing to press for energy cross-subsidies to low-income groups since letting energy prices rise to Western European levels would have meant an enormous jump in household spending on energy. The lower-than-agreed levels of prices have seriously reduced the sector's self-financing ability. As the economy grows, the failure to achieve efficient pricing will become increasingly costly, considering the need to close a significant number of uneconomic plants, to install improved pollution abatement technology, and to meet the rising demand for generating capacity.

3.51 Shortfalls on the institutional reform side also reflect too optimistic an assessment of political support. Demonopolization, commercialization, and privatization became contentious issues in the wider political debate, reflected in the many changes in government during the period. Resistance to change in the energy sector came not only in coal, with its large and unionized labor force, but also in the monopolized gas and oil sectors, where those making the policy decisions benefited most from the old system.

3.52 The overoptimism that characterized these efforts seems to have continued unabated, as reflected in the SARs of the two loans approved in 1994 (Katowice heat supply and conservation) and 1995 (power transmission), which presented pending institutional changes in a very positive light. Thus, for example, the October 1994 SAR expected the critical Energy Law to be submitted to Parliament during 1994; the November 1995 SAR expected submission in 1995. By early 1996 the government's proposal was about to be considered by a parliamentary commission—together with a proposal for a much greater role for local authorities in the sector (including ownership).

3.53 In sum, while Bank lending in the initial years of reform benefited from a solid knowledge of the energy sector acquired through a series of sector studies linked to the overall economic assessment, discontinuities associated with government changes after 1992 led to a bumpy ride for sector reforms and a postponement of formerly agreed institutional and policy actions. As one borrower put it, it was "a bad period for long-term investment decisions." The mix of lending instruments was well adapted to the initial situation, but cancellation of the ESAL's second tranche limited the Bank's capacity to influence sector reforms. Stronger conditionality built into individual investment operations appears appropriate under these conditions. The inability to establish a basis for greater private sector involvement in running energy enterprises and financing investment has been disappointing.

3.54 Given the Bank's depth of knowledge of the sector, its close relations with Poland's energy institutions, and the large unfinished business, there are good reasons for the Bank to remain associated with the energy sector as long as Poland requires large external funds that it cannot get from the EBRD or EIB or from direct access to foreign capital markets. However, Bank involvement would have to be based on getting reforms back on track.

Telecommunications—success in financial terms, but inadequate preparation for competition

3.55 *Why*. The Bank’s 1987 economic report found Poland's telecommunications system to be one of the worst in Europe and a serious impediment to the country's economic development. As soon as prospects for Bank lending to Poland improved in 1989, a mission visited Poland to asses the possibilities for Bank involvement in the sector. A US$120 million loan for a Telecommunications Project (project summary 8) was approved in April 1991 for “quickly executable investments” in the Polish Post, Telephone, and Telecommunications Company (PPTT). The EIB provided US$90 million in cofinancing. A more comprehensive program of rehabilitation, modernization, and expansion was to follow, based on a major sector survey. This led to a proposed US$400 million second telecommunications project, which was appraised in the summer of 1994, but negotiations never materialized. Eventually, a US$150 million EIB loan was the only financing from an international financial institution for the second project.

3.56 *What.* The first loan from international finance institutions came just after the 1990 Post and Telecommunications Act transformed the telecommunications activities of the state-owned PPTT into the joint-stock Polish Telecommunications Company (TPSA) and lifted restrictions on private ownership of public switched telephone networks. Because of this timing, the Bank’s knowledge of the sector and the effectiveness of its dialogue with the ministry had not reached the depth achieved in other infrastructure sectors. The sector was in the midst of a major institutional reform when the loan was extended, and commitment to the changes in the sector was mixed.

3.57 After initial procurement delays, physical implementation moved ahead well. Unexpected savings, made possible by the adoption of international competitive bidding procedures, allowed more purchases than had been planned, leading to further extension of the disbursement schedule. Discontinuities in management occurred on both sides. The project had three Bank task managers between 1991 and 1995, and project supervision was less intensive than for other infrastructure projects.

3.58 *Findings.* In financial terms, the project was highly successful. The appraisal for the second telecommunications project found TPSA to be one of Poland's most profitable companies. However, some concerns remained with the incomplete separation of operations from regulatory and policy functions, the legal setting of the regulatory regime, and the introduction of alternative suppliers of services and competition. The unfinished business at the enterprise and network level included the need to modernize at a faster pace, to increase commercialization and possibly to privatize TPSA (after 1997), and to prepare for a multioperator environment.

3.59 TPSA did not feel ready to negotiate a loan for the appraised second telecommunications project during FY95. Ostensibly, TPSA's board wanted to see the first loan drawn down more (less than half of the US$120 million had been disbursed at the time). However, there remained a sense on the Polish side that dialogue on critical institutional issues had not advanced to the point of readiness for formal negotiations and that the Bank strategy in the sector did not fully match the Polish position. The availability of EIB funds with less onerous conditionality also dampened interest in a second loan from the Bank.

Environmental protection—bringing environment into the core economic dialogue

3.60 *Why*. The Bank's involvement in environmental issues in Poland began in 1987, when the first economic report noted the serious health effects of environmental deterioration in Poland. A follow-up background paper on the environment put Poland among the worst countries for water, air, and soil pollution. Four decades of central planning had left Poland with an inefficient materials- and energy-intensive and geographically concentrated industrial sector, based mainly on coal. Together with lax pollution controls, inadequate wastewater treatment, and neglect of maintenance, rehabilitation, and modernization, this had resulted in very high levels of air and water pollution and large quantities of solid and hazardous wastes.

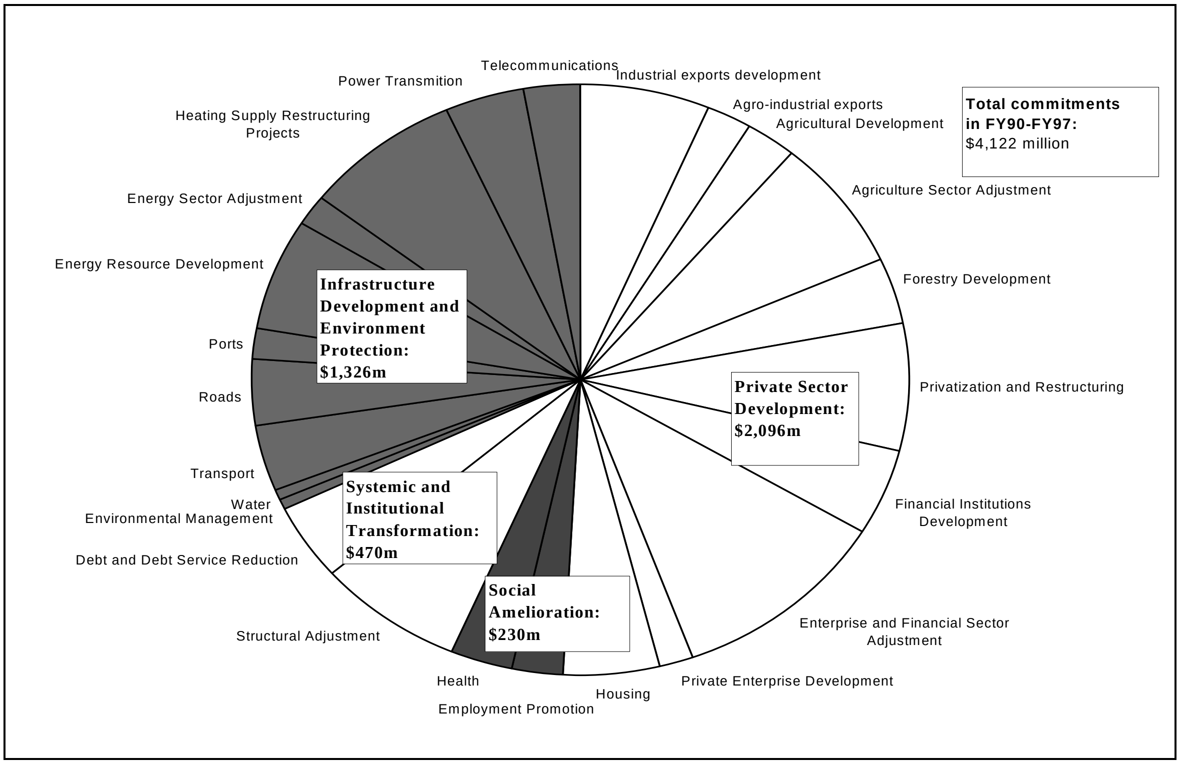
3.61 *What.* The Bank's early country strategy papers also identified environmental deterioration as an important structural issue. Although they did not contain a statement of objectives for the environment or develop a clear strategy for addressing them, the operations that emerged in 1990-91 were fully integrated with the Bank's overall strategy for the country. Operations included the Environmental Management Project (project summary 3); the Structural Adjustment Loan (project summary 7); investment projects addressing major sources of pollution in specific sectors, including those identified in the Baltic Sea Environment Program; the environmental strategy sector report; and projects on biodiversity protection and global warming funded through the Global Environment Facility (GEF).

3.62 *Findings.* Six years after the Bank's initial involvement in environmental issues in Poland, the level of pollution has been reduced, although the Bank's contribution is difficult to assess. The government's commitment to environmental management was the main driving force behind the establishment of funding mechanisms that led to a high level of investment in pollution abatement. The Bank played a supporting role through its integration of environmental issues into the core economic dialogue (through the SAL), its broad engagement in the Economic Transformation Program, the strengthening of key institutions, support of international environmental agreements (such as the Baltic Program), and its unwillingness to support investments in energy, mining, industry, and urban infrastructure unless they complied with environmental guidelines. This stance contributed to the mainstreaming of these guidelines and the working through of market forces that led to the closure of some of the most polluting plants.

3.63 The most important new environmental policies and instruments that the Bank supported were the issuance of national emission standards for air pollutants, improved environmental monitoring of air and water and increased fees for the emission of pollutants, and better environmental assessment guidelines. Poland’s environmental fees are among the highest in the world, and it has established effective institutions for funding environmental investments.

3.64 Another important outcome of the Bank's involvement has been the strengthening of the foreign aid coordination and management capabilities of the Ministry of the Environment. According to an OECD review, total environmental assistance to Poland had reached US$230 million as of November 1993. Such an extensive environmental program might not have been manageable without the support provided by the Bank's Environmental Management Project. In addition, the Bank's insistence on local consultations in the Forest Biodiversity Project provided a useful lesson about the importance of community participation from the early stages for projects, for which community involvement is a condition for success (project summary 26).

Figure 3.1: World Bank lending to Poland by purpose



4. Implementation and Supervision

4.1 Implementation of Bank projects was generally difficult in Poland, and many factors contributed to the problems. For one, loans were prepared quickly early in the transition, which often did not allow for adequate preparation and for full participation of the stakeholders in project design. Second, a certain overoptimism was prevalent in the Bank, which led to inflated financial projections and to insufficient attention to the institutional and administrative weaknesses faced by the fledgling market economy.[16] Third, loan documents did not always clearly spell out the intended conditionality. Fourth, frequent government changes meant that Bank task managers often had to deal with newly appointed officials who did not know or even share the projects' original objectives. Fifth, communications between field staff and headquarters were not always swift and fluid, and staff on the ground lacked enough delegated authority to solve emerging implementation issues. Sixth, in other cases, as in the financial sector, economic and sector work was inadequate to support extensive lending operations, particularly with respect to institutional capabilities and legal frameworks.

4.2 Bank staff tackled these problems creatively, but in general implementation was slow, and disbursements lagged behind expectations. Additional challenges the Bank faced in implementing its assistance program for Poland were due to the rapid transformation Poland was experiencing. Transitions on several fronts—from an authoritarian to a parliamentary type of government, from one-party rule to frequently shifting coalitions, from a command economy to a market system, from a highly protected productive sector to an open economy—complicated the day-to-day activities of team leaders and task managers.

4.3 Realizing the potential difficulties of working in a rapidly changing environment, the Bank correctly decided early on, in 1990, to establish a high-level representation in Warsaw to assist the government in the design and implementation of the country assistance program. The intention was to include the head of this office on the Region's management team and to provide a full complement of experienced staff who would work hand-in-hand with government counterparts. As the Regional office went through significant management changes at headquarters, the role of the resident office was gradually weakened, and the authority of local staff to deal with implementation issues was curtailed. Because of these changes, the Bank lost the ability to respond quickly to problems on the ground. Short, frequent missions from headquarters became the main channel for Bank-country dialogue.

Portfolio management

4.4 The annual country strategy implementation reviews (CSIRs) became an effective vehicle for resolving implementation issues and, more generally, for maintaining a constructive dialogue with the government on operational matters. Four CSIRs have been held, all in Warsaw (January 1993, April 1994, July 1995, and June 1996). These reviews reflected the evolving

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[16] Internal Bank records show that Bank staff on occasion alerted managers against making overoptimistic assumptions, but such voices seem to have been ignored by their superiors.

relationship with a new borrower. They also reflected the management and staff changes in the country department and the Resident Mission, as responsibility for preparing the CSIR shifted in 1994 from the Resident Mission to the country department at headquarters. The CSIR provided a mechanism for dealing with both generic and specific implementation issues and for preventing them from imperiling projects. In particular, the CSIR was a new instrument for high-level exchange with the borrower on strategic and systemic issues affecting the Bank's operational relations, with a view to facilitating and accelerating disbursements under Bank-assisted operations.

4.5 The letter from the Resident Representative to the Ministry of Finance of June 30, 1992, transmitting a draft briefing paper for a first CSIR meeting, noted that "as a balance of US$2.1 billion equivalent remains to be disbursed from the Bank's portfolio, it is our common interest to ensure that these resources can be transferred to the Polish economy efficiently and expeditiously." The emphasis was on speeding up the use of funds in Poland's loan accounts with the Bank; no reference was made to the substantive objectives of individual operations or to the possible tradeoffs between expediting disbursement and taking the steps needed to obtain a loan's development objectives.

4.6 The evolution of the CSIRs shows their changing emphasis. For the first meeting the agenda consisted of a macroeconomic update, major adjustment issues, pipeline overview, and portfolio implementation issues. The agenda for the second meeting covered the portfolio, the pipeline, and economic and sector work. By the third meeting the agenda covered only portfolio and pipeline. The agenda for the fourth meeting was the same, with the addition of a suggested procedure for preparing a new country assistance strategy in FY97. Thus, over time the CSIRs became an instrument for dealing with portfolio implementation issues as a precursor to discussions on a pipeline of future projects.

Findings of the country strategy implementation reviews

4.7 The first review observed from disbursement data that the second generation of Bank loans (those approved after 1990) had performed considerably below Bank averages and worse than the 1990 loans. This was attributed to delays in signing and in effectiveness of loans, delays in procurement, delays in setting up and funding project implementation units, sluggish restructuring of the state-owned enterprises responsible for implementing projects, abrupt personnel changes, and delays in making counterpart funds available. The lack of familiarity with procurement procedures under Bank-financed operations and the absence of regulations for public sector procurement were discussed during the review, but no policy issues on procurement emerged. The Bank agreed to provide more assistance on procurement, which it did through supervision missions and several procurement workshops.

4.8 The second review in spring 1994 commented that the strengthened cooperation between the Ministry of Finance and other government agencies should prevent further problems or delays in signing and effectiveness. The review recognized good progress on procurement among "old" borrowers but again noted delays in the case of new implementing agencies. It was expected that the proposed new Public Procurement Code (prepared with assistance from the Bank) would make competitive procurement procedures much more familiar throughout the public sector. Because confusion on applicable procurement procedures under credit lines was seen as a contributor to the low demand for funding under these loans, procurement procedures under the different lines of credit were simplified and made uniform. The government was found to have made progress in integrating Bank loans and counterpart funds for projects in the budget, though the problem was not completely resolved.

4.9 By the time of the third and fourth reviews, the focus had shifted from general implementation issues to issues in individual operations. Specific, well-prepared objectives were discussed for improving operations, and cancellations were proposed for parts of loans with little prospects of completion. The Board, apparently believing that enough progress had been made, did not bring up the generic issues of the previous reviews.

4.10 One issue that should have been on the agenda but was not was problems with audits and accounting (see Annex 5, Volume II). Audits have generally been submitted on time, but overdue revolving fund audits have been a serious shortcoming, given the time-bound purpose of such funds. Also worrisome, 17 audits (under six loans) are listed as unsatisfactory, spread over agriculture, energy, housing, and industry. With so many unsatisfactory audits, the issue should have come to the attention of the CSIR.

Other generic implementation issues evident from a review of operations

4.11 In addition to the generic issues addressed through the CSIRs, other factors also affected the implementation of projects in the initial phase of cooperation with Poland, especially in infrastructure and human resource areas. One was the need to anticipate change and be ready to adapt to the vast political and economic changes occurring in Poland in the short period (less than six years) of Bank-assisted operations there. Projects were not always successful in doing so. The government's capacity for change in the initial 1989-91 period was overestimated by both the government and the Bank, and several economic blows—the severe recession of the early 1990s and the total collapse of COMECON—were not fully anticipated. Many institutional and policy changes introduced by one government and built into many agreements with the Bank were later questioned by succeeding governments. These developments have severely tested project implementation and have raised questions about the adequacy of project design and the ability to respond to changed circumstances.

4.12 Some projects were better than others at weathering this transition period. That included projects that were well insulated from political changes and projects whose borrowers were more technical, such as the General Directorate of Public Roads, or that had significant institutional and financial independence, such as the Polish Telecommunications Company. Close dialogue with the Resident Mission appears to have been helpful to implementation of projects in areas in which the Mission had seasoned staff, although the ability of the Mission to address implementation issues has been circumscribed following the reconcentration of staff at headquarters. At the other end of the spectrum were projects in the social sectors (health, housing, employment promotion), which seem to have attracted the immediate attention of incoming governments and whose management has had to justify the validity of agreements with predecessor governments.

4.13 During this initial period, project design was often severely tested. Adaptability to changing circumstances and a reliable policy and institutional framework were emphasized. The broad macroeconomic policy framework has been generally supportive. In most infrastructure sectors, the policy and institutional framework had improved enough during the initial period of cooperation that sector viability conditions existed for most infrastructure projects (though with larger than anticipated subsidies to the Polish Railways - PKP). That was not the case in some social sector projects, particularly in housing. Unrealistic designs (in the employment project) and less experienced staff (in health sector) contributed to implementation problems in some projects.

4.14 Unfamiliarity with Bank procurement procedures (and with competitive procurement generally) also had an effect on project implementation and disbursement by adding to the length of implementation. The cost savings introduced by following Bank procurement procedures were a pleasant surprise to borrowers, but there was considerable unhappiness about large commitment charges that resulted from the extended disbursement periods.

Some inefficiencies in project supervision

4.15 The overall intensity of supervision on Bank projects in Poland has been comparable to that for other Bank projects. However, budget statistics indicate a diminishing allocation of resources to supervision in Poland in recent years. And several inefficiencies in project supervision suggest a need for management (division chiefs and higher) to become more involved in monitoring the quality of project supervision.

4.16 Supervision was not always effective for a variety of reasons:

- *The Resident Mission lacked authority and resources.*[17] In general the Resident Mission was not given sufficient autonomy or resources to fulfill its potential for supervision in the field. Supervision and implementation performance were effective in cases such as infrastructure projects and (until recently) the Enterprise and Financial Sector Adjustment Loan, where the Bank maintained seasoned staff members in the Resident Mission, but this was not the general rule.[18]

- *Problems with field missions*. Bank records show that a considerable amount of staff supervision time was expended at headquarters rather than in the field. More time in the field could have improved the quality of supervision. Also, coordination among successive supervision missions to Poland was poor. Occasionally, successive Bank supervision missions would ask the same questions of Polish officials. Often, supervision missions did not touch base with the Resident Mission while in Poland, to improve coordination and benefit from the resources available there. In some cases supervision mission teams met with the wrong people, senior officials who were not personally working on project implementation. Some of this could have been avoided by consulting with the Resident Mission first.

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[17] Some Poland task managers interviewed felt that their personal ability to supervise the implementation of their projects would have been more effective had they been stationed in the Resident Mission in Poland. One senior task manager who had the experiences of supervising Poland projects from both the Resident Mission and HQ, said that working from HQ was much more difficult and less effective than doing it from the Resident Mission. This was because in HQ he was not exposed to the daily issues and events relevant to the project. Managers in the field were much more involved and better informed of the issues concerning the projects they were managing.

[18] For example, the lines of credit projects were relatively expensive to manage in Poland compared to Hungary. The ARPP for FY93 attributes this largely to the presence of a large resident mission (hub for the Region) in Hungary which had the capacity to resolve routine supervision obstacles as they arose.

- *The quality of back-to-office reporting has been mixed.* Without trying to assess whether the quality of written supervision reports reflect the quality of actual supervision on the ground, it is possible to make a number of observations from a review of back-to-office reports: There is marked difference in quality among back-to-office supervision reports, ranging from excellent through perfunctory to poor. Good reports included monitorable indicators, clearly stated mission objectives, a detailed statement of the mission's success in achieving these objectives, and a balanced update of the strengths and weaknesses of implementation performance. However, issues important to project implementation were not always systematically or satisfactorily addressed, and in some cases they were side-stepped. Excessive use of jargon made some reports inaccessible to reviewers with a different technical background. There were often long delays in completing reports following a mission. Sometimes Form 590's were not fully completed, or they assigned better ratings than would seem justified from other sources.

Slow disbursement of credit line operations

4.17 Various lines of credit were approved by the World Bank to finance investments in specific sectors (agriculture, housing, energy, industry, and others). The lines of credit were thought to be an adequate instrument for alleviating Poland's foreign exchange constraint in the late 1980s and early 1990s. However, because of the speed at which Poland was changing, the Bank did not always have a deep understanding of the microeconomic and sectoral constraints militating against a faster drawdown of these funds.[19]

4.18 Although the reasons for the slow disbursement of funds differed across sectors, some systemic factors seem to have contributed to the poor disbursement performance, particularly an overestimation of the demand for credit from creditworthy borrowers in a period of political and economic uncertainty. Poland experienced near hyperinflationary conditions in 1989-90 and political instability. Property rights were unclear, and the legal framework failed to provide sufficient security to lenders and investors. The Bank's efforts to modernize Polish commercial legislation, establish a registry of liens, and adopt a law on collateral did not proceed as expected.

4.19 In addition, some of the terms and conditions of loans were a disincentive to the use of credit lines. World Bank interest rates were not always competitive with those offered by other foreign donors or by domestic alternatives. Pooled-currency loans were another problem. Borrowers and intermediaries were not offered single-currency loans in dollars, and they found it difficult to understand and hedge loans priced against a currency pool. Moreover, given the relatively high weights in the currency pool of currencies that were appreciating (deutsche mark, yen), the dollar cost of Bank loans was *ex ante* uncertain and *ex post* too high in dollar terms. The compounding of fees charged by different intermediaries added further to the high cost of loans to the borrower. Just accessing the Bank's funds was a challenge for new borrowers, who were unfamiliar with the many contractual, reporting, and disbursement requirements. In addition, the use of Bank funds was linked to specific subproject selection and appraisal

[19] It should be noted that fast disbursement of the credit lines should not be seen as an end *per se*. If a distorted policy environment persists (e.g., permanence of subsidized credit which competes with the Bank's funding) the no disbursement of the credit lines should not be seen per se as a negative factor. In other words, the cause (policy distortions) and the effect(no or slow disbursement) should be clearly identified and addressed.

(including more rigorous financial and cost-benefit analysis, compliance with environmental standards, and the like) and to the requirement to follow the Bank's procurement rules. These procedures discouraged financial intermediaries and final borrowers. Financial intermediaries not only had a hard time finding creditworthy borrowers, they also lacked experience managing and supervising long-term investment projects (a task handled in the past by the planning agency or line ministries). Developing this expertise was costly, and there was a lack of qualified and skilled banking personnel. Finally, although most of these difficulties were probably known to the Bank, remedial actions to expedite disbursements were often slow to come.

Aid coordination: changing dynamics of donor operations[20]

4.20 Aid coordination, important for maximizing the impact of donor assistance, has not always been good and on occasion has contributed to implementation problems. In some cases where donors acted together effectively and in full agreement, results were excellent, as in putting together the US$1 billion stabilization package in support of the currency convertibility program, debt relief operations under the Paris and London Clubs, and the original task force for agriculture.[21] But in other cases where there were problems of competition among donors, the result was wasteful duplication of efforts, conflicting advice to the government, and some undermining of the conditionality of other donors.

4.21 The Bank took a leadership role early on to ensure good coordination among donors.[22] The Bank's 1992 country economic memorandum was used by the Ministry of Finance as a means for coordinating the activities of the World Bank, OECD, EC-PHARE, USAID, and the Council of Europe. Seminars, workshops, and symposia on generic problems of the economic transition organized by the Bank were another important vehicle for dissemination and coordination of policies. But aid coordination was sometimes frustrated by the Polish government's inability to reach consensus on the appropriate institutional framework for aid coordination. This further complicated the Bank's assistance effort since the government was not clear about which organizations would fulfill which tasks.

4.22 Internal rivalries among Polish ministries led in 1993 to complaints that Bank staff sometimes discussed new projects directly with sector ministries, without the knowledge of the Ministry of Finance. Steps were proposed for creating a new coordinating mechanism. The government would systematically prioritize requests for assistance, and the Bank would ensure that information on the main elements of proposed projects was sent to the Ministry of Finance at

[20] See Annex 2, Volume II ("Donor assistance to Poland") for a listing of major donors in Poland.

[21] Other good examples of donor coordination are the ASAL and the Forestry Projects. In both cases the Bank's assessment of the TA needs was shared with the donors, and the close coordination through the project cycle ensured strong donor interest, which was later translated into specific grants to finance the majority of the TA components envisaged under the projects. In the environmental area, the Bank helped establish the capacity of the Ministry of the Environment to coordinate and manage effectively some 200 project proposals from different donors. Coordination between the Bank and the Fund has generally been very good. Until late 1995 the Fund normally took the lead in macroeconomic and fiscal policy issues. The future role of the IMF, however is not clear.

[22] In an effort to deal with the emerging donor coordination problems, in November 1989 the President of Bank wrote to a senior US government official reinforcing the perceived need for better coordination among multilateral, bilaterals, commercial banks and creditors. Bank staff also proposed a variety of measures to better coordinate donor assistance. One suggestion was to establish a systematic record of technical assistance and aid offered to Poland, to facilitate a more coordinated approach. No such system was created.

an early stage of preparation, with a request for a formal response. The kick-off meeting for preappraisal missions would take place in the Ministry of Finance.[23] Recently, the Polish government has undertaken a major reorganization of its own aid coordination role, establishing a committee to take on this function.

4.23 The Bank has continued to search for effective coordination mechanisms, both at a general level and in the context of specific sectors and projects.[24] It has continued to participate in donor coordination meetings with USAID, the EU, and the government of Poland. At these meetings it was recognized that the coordination mechanisms now in place (particularly the G24 format) had not been effective, that more informal ways of preventing duplication of effort were needed. The Bank's Resident Mission has been exploring options for new mechanisms.

4.24 Technical assistance is another area that needed better coordination. A large market for technical assistance emerged following the launching of Poland's Economic Transformation Program, but there was no effective mechanism to help the government choose among the sources of advice being offered. The government lacked the institutional capacity to coordinate or assess the quality of foreign experts, and the advice they gave was sometimes useless or conflicting.

4.25 It is not clear how much the Bank or other donors actually did in this area. The World Bank, with its extensive experience working with consulting firms, would have been well qualified to help the government create a filtering mechanism for assisting it to make rational and effective selections. The Bank could have helped improve the quality and impact of advice by creating a register of consultants or by funding an independent assessment of the quality of each consulting firm. The Bank could have held training seminars for international consultants to improve their effectiveness, as the Bank is now doing in Moscow, and as a vehicle for consultant coordination. The Bank might also have helped build institutional capacities within an appropriate Polish ministry, to help the government coordinate and effectively use the large volume of consultants.

4.26 Thus the record on donor coordination is mixed. There have been successes but also waste and duplication of effort. The primary responsibility for ensuring coherence in donor efforts rests with the Polish government. Donor countries can help to ensure that conditionalities of foreign assistance are consistent both through their own bilateral aid programs and through their role as governors of the various multilateral institutions. The Bank could perhaps play a more effective role by strengthening its presence on the ground.

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[23] Donor coordination is generally handled by the Polish government's Council of Ministers' Foreign Aid Office. However, donors often bypass this office and deal directly with the relevant ministries, or rely on organizations outside the government of Poland to implement their programs. For example, most US assistance programs have been implemented either directly with the private sector recipients or through contractors and non-governmental organizations with little direct involvement on the part of the government of Poland.

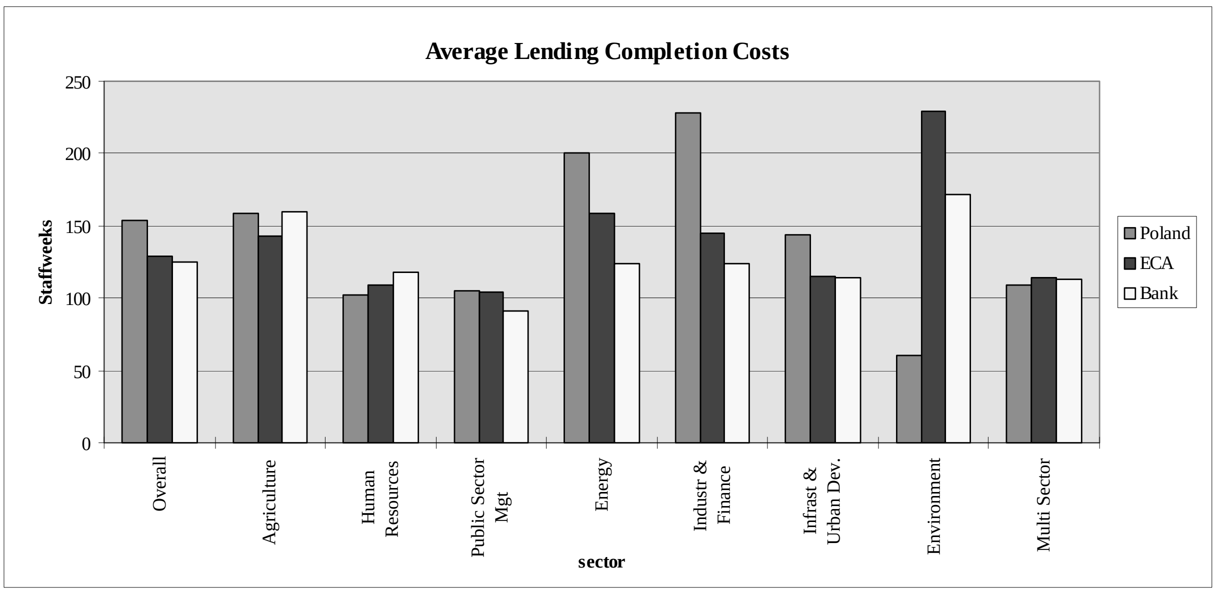
[24] For example, a major accomplishment of the environment project has been the strengthening of the foreign aid coordination and management capabilities of the relevant Ministry.

Cost effectiveness: room for improvement

4.27 A comparative study of the cost of Bank activities in nine countries[25] found the Poland program to be more costly than the programs in the other countries.[26] Specifically, it found:

- All-in and total direct costs are higher than for most comparators.
- Lending completion costs are relatively high, as are the resources spent on projects that were ultimately dropped (see annexes 5 and 6, Volume II, for a list of dropped lending and economic and sector work projects).
- The Poland field office has the highest cost in dollars per staffyear among comparator countries, while the direct contribution of local staff to the program is relatively low.

Figure 4.1: Average lending completion costs by sector for projects approved between FY90 and FY96



4.28 The study also found that the time to prepare projects is higher in Poland than the Bank average and than for all comparator countries other than Turkey. The long time between the Initial Executive Project Summary and appraisal accounted for much of the difference.

[25] In addition to Poland the analysis included four countries that share some program characteristics with Poland (Hungary, Turkey, Philippines and Bolivia), called here "group A," and four "new borrowers" in the ECA Region (Albania, Bulgaria, Russia and Ukraine), called "group B."

[26] The cost study on which this section is based was carried out by PBD at the request of OED for inclusion in the present CAR.

Table 4.1: Average elapsed time (in months) for loan approvals

	FY90	FY91	FY92	FY93	FY94	FY95	FY96	Average FY 90-96
Poland	**30.5**	**27.8**	**22.2**	**21.5**	**22.3**	**23.9**	**44.1**	**27.7**
Group A								
Hungary	**18.2**	**19.6**	**46.4**	**28.5**	**25.5**	**38.7**	**-**	**25.9**
Turkey	**31.9**	**24.5**	**30.0**	**21.9**	**5.3**	**58.0**	**18.5**	**27.9**
Bolivia	**25.9**	**23.7**	**27.9**	**11.3**	**25.7**	**26.3**	**32.9**	**26.1**
Philippines	**19.7**	**14.8**	**30.8**	**21.7**	**40.6**	**36.5**	**30.0**	**24.3**
Group B								
Albania	**-**	**-**	**5.2**	**8.1**	**16.4**	**19.7**	**22.4**	**16.8**
Bulgaria	**-**	**8.1**	**4.2**	**13.2**	**32.5**	**24.0**	**31.7**	**20.4**
Russia	**-**	**-**	**-**	**7.6**	**13.8**	**21.9**	**15.8**	**16.1**
Ukraine	**-**	**-**	**-**	**8.4**	**-**	**12.0**	**16.0**	**13.2**
All Bank	**25.0**	**21.4**	**26.5**	**16.9**	**21.7**	**24.6**	**24.6**	**22.6**

4.29 The large amount of lending that was subsequently canceled raises questions about the quality of the loans made and the Polish government's commitment to them—was the Bank spending resources on preparing projects the government of Poland did not want or did not need? Of the US$2.61 billion committed for Poland in FY90-92, 17 percent (US$446.8 million) has subsequently been canceled. Of the 15 projects approved during FY90-92, 9 have been partially canceled; 61 percent of FY92 commitments were subsequently canceled. Only Turkey of the comparator countries had a higher cancellation rate during this period.

4.30 In addition to the approved loans that were later canceled, numerous Bank activities (possible new loans, economic and sector studies) were initiated but later "dropped," after having absorbed considerable Bank resources. Fifteen projects were dropped in FY95-96, after having invested in them at least 710 staffweeks (sws) at a cost of US$2.3 million (these are direct cost figures; they do not include overhead/management costs or the direct time spent on certain projects that was reclassified as ESW). For the period FY93-96 the direct recorded cost of dropped projects on Poland was equivalent to four fifths of the total direct cost of lending activities. This ratio compares to 49 percent for EC2, 18 percent for ECA and 28 percent Bank-wide. Dropping projects as soon as it is realized that they are not likely to succeed is a necessary management tool. However, the direct cost of projects for Poland has been much higher than for other countries. In FY93-96 it was 53 sws, compared to 29 for ED2, 26 for ECA and 33 Bank-wide. This suggests that the Bank allowed those projects to drag on too long before deciding to scrap them (see tables 4.2 and 4.3).

Table 4.2: Cost of dropped lending activities (staffweeks)

FY	93	94	95	96	Total 93-96
Bank-wide					
Cost of dropped lending	6156	6229	11288	9461	33134
Total lending cost	28202	29640	29392	30356	117590
%	22%	21%	38%	31%	28%
Average cost of dropped projects	31	42	24	36	33
ECA					
Cost of dropped lending	506	206	1620	1848	4180
Total lending cost	2498	5385	7243	7587	22713
%	20%	4%	22%	24%	18%
Average cost of dropped projects	20	23	25	36	26
EC2					
Cost of dropped lending	429	39	1281	384	2133
Total lending cost	886	1133	1105	1205	4329
%	48%	3%	116%	32%	49%
Average cost of dropped projects	27	13	29	48	29
Poland					
Cost of dropped lending	51	0	351	359	761
Total lending cost	452	125	94	294	965
%	11%	0%	373%	122%	79%
Average cost of dropped projects	51	0	35	72	53
Number of dropped projects	1	1	10	5	17

Table 4.3: Poland: Cost of dropped lending activities (US$000)

FY	**93**	**94**	**95**	**96**	Total 93-96
Bank-wide					
Cost of dropped lending	80.5	108.5	59.4	101.8	350.2
Total lending cost	304.3	362.6	352	366	1384.9
%	26%	30%	17%	28%	25%
Average cost of dropped projects	81	109	59	102	88
ECA					
Cost of dropped lending	1501	659	4596	5832	12588
Total lending cost	7427	16559	22056	23512	69554
%	20%	4%	21%	25%	18%
Average cost of dropped projects	60	73	71	114	80
EC2					
Cost of dropped lending	1278	124	3528	1280	6210
Total lending cost	2770	3609	3360	3775	13514
%	46%	3%	105%	34%	46%
Average cost of dropped projects	80	41	80	160	90
Poland					
Cost of dropped lending	169	0	1116	1173	2458
Total lending cost	1387	357	285	980	3009
%	12%	0%	392%	120%	82%
Average cost of dropped projects	169	0	112	235	172
Number of dropped projects	1	1	10	5	17

5. Findings and Recommendations

5.1 Since Poland launched its Economic Transformation Program in 1989, the Bank's strategy has been to support the country's market-oriented reforms. Initially, this open-ended strategy of supporting government reform initiatives was accompanied by careful monitoring of progress to determine when to start formal loan negotiations. This strategy allowed the Bank considerable flexibility and was highly relevant to the needs and priorities of the country. Specifically, the objectives of the Bank's strategy were: to secure stable macroeconomic management and thus to strengthen Poland's creditworthiness; to support enterprise reform, restructuring and privatization, and private sector growth; to upgrade the physical and financial infrastructure in support of a market economy, including modernization and eventual privatization of the banking system; to protect the environment; and to strengthen the country's social safety net. After the first few years, implementation difficulties began to emerge, especially with credit-line projects. Some projects were too large and complicated, institution building lagged in some sectors, loan documents failed to specify conditions clearly enough, and the changing social and political situation, especially the many changes in government, further impeded implementation. And after the first few years, the attention of some managers and senior staff shifted from Poland to other countries in the region. Overall, however, tangible progress was achieved on most of the Bank's early objectives, and nearly all the sectors in which the Bank has been involved have benefited from its advice and intellectual contributions—perhaps more so than from its traditional lending operations.

Outcome

5.2 Tangible progress has been achieved on most of the Bank's early objectives. Poland has made great strides toward macroeconomic stability (table 5.1). Bank support was pivotal in securing exceptional levels of debt reduction and in restoring creditworthiness. Private sector growth has been spectacular, although it originated more from the spontaneous establishment of new firms than from the hoped-for restructuring and privatization of state-owned enterprises. Thanks to early and careful planning and to remarkable staff continuity, the Bank has been instrumental in assisting to upgrade the country's infrastructure in power, transport, and in telecommunications. Financial sector reforms are under way. Environmental issues have been addressed decisively in most sectors. In the social sectors the Bank warned early on about many of the worrisome problems now facing the country, such as the explosion of pension funds, but the government did not fully address these issues owing to their political sensitivity. However, intensive ongoing dialogue on public sector reforms, decentralization, education, health, and other social policies are expected to yield positive results in the near future.

5.3 Nearly all the sectors in which the Bank was involved have benefited from its advice and intellectual contributions. In transport and power the Bank helped to introduce new ideas, technology, and production methods, as well as opening the door for private sector participation. For example, the privatization of bus and truck transport was well supported by the Bank, though without a direct financing program. In agriculture the Bank's leadership helped to coordinate the efforts of different donors. Together with the IFC, the Bank helped to set up twinning arrangements that proved valuable in modernizing several Polish banks; bad loans have declined sharply. Cutting across sectors, the Bank's involvement has helped put in place good management practices, transparent public procurement procedures, and strong environmental protection measures. Bank research and economic and sector work, complemented by the dissemination activities of the Economic Development Institute, have been influential in bringing about a better understanding and acceptance of Poland's market-oriented policies.

Table 5.1: Poland—Economic recovery

	1990	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*
GDP growth % (per year)	-11.6	-7.0	2.6	3.8	5.2	7.0	6.2 (est.)
Real sector activity							
Industrial production index (1994=100)	91.7	80.8	83.9	89.2	100	109.4	119.2 (July)
Employment							
Unemployment rate (%)	6.5	12.2	14.3	16.4	16.0	14.9	13.2(Nov.)
Prices and wages							
CPI inflation (% per year)	585.8	70.3	43.0	35.3	32.2	27.8	19.7 (est.)
Real wages index (1994=100)	105.6	105.3	102.5	99.5	100	104.5	110.9 (July)
Unit labor costs in US$ index (1991=100)	54.8	100	117.1	150.0	182.6	221.0	
External accounts (US$ million)							
Exports of goods	10,863	12,760	13,997	13,585	16,950	22,878	24,692 (est.)
Imports of goods	8,649	12,709	13,485	15,878	17,786	24,705	31,992 (est.)
Trade balance	2,214	51	512	-2,293	-836	-1,827	-7,300 (est.)
Current account balance[a]	716	-1,359	-270	-2,287	-944	5,455	-524 (est.)
Foreign direct investment(net)	11	117	284	580	542	1,134	2,138 (est.)
Change in official reserves	-2,177	866	-473	6	-1,748	-8,935	-3.,070
Change in international reserves (- increase)	-4,942	995	-1,614.5	-634	-2,534	-9,147	1,231
Real effective exchange rate (1990=100)	100.0	155.7	166.0	178.6	180.0	193.2	189.5

a. Current Account Balance in 1995 and 1996 includes US$7,754 million and US$7,153 million respectively of estimated net unrecorded trade (before included in short term capital).

Source: Bank staff and National Bank of Poland estimates.

5.4 On balance Poland's transition performance has been excellent both in comparison with other transition economies and in its own right. Among the key indicators reflecting this remarkable performance are that Poland has experienced the highest average GDP growth rate in the period 1990-95 compared with other transition economies, and by mid-1995 its private sector activity accounted for 60 percent of GDP (see table 5.2). Also in 1995 Poland became a member of OECD, and its prospects for early accession into the EU are good. In EBRD's *1995 Transition Report* Poland ranked among the top performers in an analysis of the progress of transition economies, in particular in the areas of small-scale privatization, trade and foreign exchange reforms, and on setting-up a regulatory environment conducive to private investment (see table 5.3). On the other hand inflation and unemployment remain high. While poverty also remains relatively high, it should be noted that it is declining, and that the majority of poverty in Poland is classified as "shallow," and is therefore expected to improve substantially with sustained economic growth.

5.5 Those achievements are remarkable, even if they fall short of the original Bank expectations. In many areas, however, there is still an unfinished agenda of important reforms that must be carried out to ensure the sustainability of Poland's transformation:

- The restructuring and privatization of unprofitable state enterprises and state-owned commercial banks need to be accelerated (public enterprises still account for three-fifths of industrial employment). Heavy industry (coal, steel, oil and gas) needs particular attention. So do the large state-owned specialized banks (housing, rural finance), which account for one-third of the assets and liabilities of the banking system, are in precarious financial shape, and impose a heavy burden on the budget.

- Reform of the social safety net is another urgent task. Programs should be targeted to the most needy and should address the special problems of women and children. Failure to reform the pension system will lead to unmanageable public sector deficits.

- The legal foundations for a smooth-working market economy need to be strengthened by implementing the unfinished agenda: enforcing the collateral law and registry of liens, regulating leasing activities, strengthening bank supervision, and developing more fully the institutions of capitalism and commercial law to facilitate private investment in infrastructure and the development of capital markets more generally.

- Agriculture needs to be modernized and opened up more to market forces, not only to permit its fuller development, but also to begin to meet the requirements of eventual accession to the European Union.

- Critical reforms, including a regulatory regime aimed at encouraging private investment, need to be completed in railroads, motorways, energy and telecommunications.

Table 5.2: Macroeconomic performance: Indicators for selected transition countries

	Poverty	**Gross domestic product**		**Inflation**	**Government finance**	**Balance of Payments**	**Reserves**	**Labor**			**Foreign Direct Investment**
Country	Poverty: headcount index expressed as % of population	Average annual % growth 1990-95	Export value (average annual % growth) 1990-1995	Consumer prices (% change) in 1995	Overall surplus/deficit in 1995 (% of GDP)	Current account balance (% of GDP 1993-95)	Gross international reserves months of import coverage 1993-1995	Unemployment (%) in 1993	Dollar wage in industry (average % change) in 1994	Unit labor cost in industry in US$ (average % change) in 1994	(US$ million) in 1994
Poland	24 (b)	2.4	9.2	27.8	-1.8	-4.4	3.2	16.4	11	-6.3	542
Czech Republic	na	-2.6	na	9.1	0.6	-0.4	4.6	3.5	17.8	13.1	850
Estonia	8.9 (c)	-9.2	57.9	28.8	-0.8	-2.9	2.8	1.9 (a)	na	na	253
FYR Macedonia	na	na	4	16	-1.1	na	na	na	na	na	5
Hungary	25 (b)	-1	3.6	28.2	-4.1	-8.9	5.6	12.1	5.2	-2.6	1146
Latvia	na	-13.7	na	25	-3.4	3.5	4.3	5.8	na	na	155*
Moldova	na	na	na	30.6	-5.5	na	na	0.7 (a)	na	na	23*
Romania	21.5 (c)	-1.4	7.3	32	-2.6	-3.3	3.6	10.6 (a)	7.3	-5.3	428
Russian Federation	31 (c)	-9.8	na	189.2	-4.8	2.1	1.9	1.1 (a)	na	na	1000*
Slovak Republic	na	-2.8	na	9.9	0.6	1.4	2.9	12.7	13	5.3	187
Slovenia	na	na	16.7	12.6	0	1.7	1.9	na	na	na	88
Ukraine	32 (d)	-14.3	na	376	-4.7	na	na	na	na	na	91

Note: * = 1994 estimated (source EBRD Transition Report 1995)

a = Official unemployment rate. Registered unemployment only.

b = survey year 1993

c = survey year 1994

d = survey year 1995

Table 5.3 Progress in transition: Ratings for selected countries

Country	Private sector	Enterprises			Markets and Trade			Financial Institutions		Legal Reform
	% share of GDP, mid-95	Large-scale privatization	Small-scale privatization	Enterprise restructuring	Price liberalization	Trade & foreign exchange system	Competition policy	Banking reform & interest rate liberalization	Securities markets & non-bank financial institutions	Extensiveness & effectiveness of legal rules on investment
Poland	**60**	**3**	**4***	**3**	**3**	**4***	**3**	**3**	**3**	**4**
Czech Republic	**70**	**4**	**4***	**3**	**3**	**4***	**3**	**3**	**3**	**4**
Estonia	**65**	**4**	**4**	**3**	**3**	**4**	**3**	**3**	**2**	**3**
FYR Macedonia	**40**	**2**	**4**	**2**	**3**	**4**	**1**	**3**	**1**	**2**
Hungary	**60**	**4**	**4***	**3**	**3**	**4***	**3**	**3**	**3**	**4**
Latvia	**60**	**2**	**4**	**2**	**3**	**4**	**2**	**3**	**2**	**2**
Moldova	**30**	**3**	**3**	**2**	**3**	**4**	**2**	**2**	**2**	**2**
Romania	**40**	**2**	**3**	**2**	**3**	**4***	**1**	**3**	**2**	**2**
Russian Federation	**55**	**3**	**4**	**2**	**3**	**3**	**2**	**2**	**2**	**2**
Slovak Republic	**60**	**3**	**4***	**3**	**3**	**4***	**3**	**3**	**3**	**3**
Slovenia	**45**	**3**	**4***	**3**	**3**	**4***	**2**	**3**	**3**	**3**
Ukraine	**35**	**2**	**2**	**2**	**3**	**3**	**2**	**2**	**2**	**2**

Source: EBRD *Transition Report 1995.*

Note: EBRD estimates. Except for the first column, the ratings range from 1 (least advanced) to 4* (most advanced). The majority of advanced industrialized economies would qualify for the 4* ratings for almost all categories.

Assessment of Bank assistance[27]

5.6 Overall, the Bank's **strategy was highly relevant** to support Poland's needs at a most critical time in its history. The **efficacy** of the Bank's support varied over time and among sectors. It was perhaps **high** in the case of **adjustment loans** that dealt with the central authorities and in loans to strong, highly technical sectors. On the other hand, in those sectors that were more subject to frequent political changes, a stronger Bank presence could have yielded better results. On balance, however, the **efficacy** of the Bank's assistance is rated as **satisfactory**. When compared to other comparable borrower countries in the ECA region and elsewhere, the Bank carried out its assistance program at a relative high cost in terms of staff and financial resources; its efficiency can, at best, only be rated as **marginally satisfactory**. But, in assessing the **Bank's and the Borrower's performance**, it is necessary to keep in mind that this was a completely new, unprecedented experience for both. And although mistakes were made on all sides, the overall evaluation is that both were **satisfactory**. The **institutional development impact** of the Bank's assistance was **substantial**, and the **sustainability** of the benefits is **likely**.

Major findings for Poland

5.7 The Bank's efforts had a strong impact in many ways in the important area of institution building. Public sector management practices, such as procurement, prioritization of public expenditures, foreign-debt management, and opening up to private sector participation in transport, clearly benefited from the Bank's involvement. The modernization of commercial banks also reflects successful Bank support for institutional development. But progress has been disappointing in other areas of institution building, such as ending the dependence of major enterprises on fiscal subsidies, bringing down inflation, rationalizing the management of specialized banks, and sustaining the pace of privatization.

5.8 Despite a generally positive outcome in many areas, several factors diminished the efficacy of the Bank's assistance. During 1989-91, the Bank clearly established support to the unprecedented reforms through high levels of lending as the main objective for the Poland assistance strategy. Initially, the only available operations were credit lines that had been previously appraised and set aside. These were quickly approved, without due consideration to their adequacy as a vehicle for resource transfer under the complex change of circumstances. As some had predicted, the credit lines failed to achieve their objectives, and became in the end a major hindrance on Bank-Poland relations. At the same time, several other projects were developed, addressing more directly the difficult problems of the transition in several areas. With all the difficulties connected to designing policy changes in t his unprecedented environment, it is here that the Bank gave its best contribution to Poland's agenda. Other problems during the early period of assistance included the frequent changes in government and in government commitment to reform, creating bureaucratic gridlock and disrupting policy dialogue and program implementation. Competition to lend to Poland from several donors, some with different

[27] Commenting on an earlier draft of this CAR, the Ministry of Finance has stated: "To sum up, it should be said that—apart from the issues dealt with above—the report accurately analyses the successes and failures in the cooperation of the World Bank and Poland, although in several parts it excessively points out the causative role of the World Bank. In the process of transformation of the Polish economy the Bank has played a very important role, among other things by supporting the reconstruction of the institutional system, but in most cases its actions were supplementary and authenticating the economic programs taken up and carried out by the Polish authorities." (Cf. letter from the Vice Director of Foreign Department to OED, dated April 7, 1997, Attachment 1, Volume II.)

policy objectives, reduced Poland's receptivity to Bank advice. And changing priorities within the Bank sometimes resulted in less continuity and sustainability of effort than were needed to carry out the ambitious reform agenda. Partly as a result of these problems, the cost-effectiveness of the Bank's country assistance program was relatively low.

5.9 The difficulties were aggravated by the lack of flexible instruments for assistance. Early pressure to lend resulted in poor quality at entry for many projects, notably those that relied on credit lines for disbursement. Loan conditionality was not always clearly spelled out, in part because the Bank's lawyers were not involved at the project design stage. The Bank's heavy reliance on quick-disbursing adjustment loans (55 percent of disbursements in fiscal 1990-96) limited its ability to influence sector policies and institution building at the project level. The problem was compounded by excessive Bank centralization of decisionmaking, by ambiguity in the conditionality of certain loans, by weak enforcement of conditionality, and by loan cancellations before all conditions had been carried out. Inadequate coordination with other donors also weakened policy reforms and contributed to wasted technical assistance funds.

5.10 There is clearly a useful role for the Bank in helping Poland address much of its unfinished agenda. But Poland's transformation has come a long way, and its need for Bank assistance is much less than it was. It has abundant foreign exchange, first-class development experts of international caliber, and easy access to international capital markets and to European financial institutions, which are eager to provide technical and financial assistance. The Bank, on the other hand, must take the needs of its other member countries—many of them in the ECA Region—into account as well, particularly the countries that are just beginning the transformation process and for which Bank help is vital. Therefore, in formulating the Bank's role in Poland, selectivity should be the guiding principle.

5.11 The focus of future Bank assistance should be policy formulation and institution building rather than the transfer of resources. Assistance could still be directed toward sectors such as transport, energy, and telecommunications, provided that there is a full commitment to carry out the remaining reforms and to open up the sectors to private participation. In agriculture and the social sectors a precondition for additional Bank support should be an unequivocal commitment to needed reforms by all the ministries involved. More generally, the Bank's emphasis should be on encouraging private sector participation, cofinancing with other international financial institutions, and cooperating closely with the IFC. It is also important not to neglect the monitoring of macroeconomic and fiscal management, particularly in the absence of any IMF conditional assistance programs. Conventional medium-term creditworthiness analysis should continue, notwithstanding Poland's comfortable foreign-exchange position. If it is decided that future Bank assistance should consist largely of nonlending services, such as special studies, technical assistance, or guarantee arrangements for private sector investment, the Bank could consider charging Poland for the cost of such services.

Findings for transition countries

5.12 The Bank's experience in Poland also has implications for its assistance programs in other transition countries.

Strategy

- The Bank needs flexible instruments to support a government's reform program other than through rapid approval of new loans. In Poland, although the Bank's loan disbursements helped to strengthen the country's external position in the early years, its technical inputs, advice, and intellectual support were more valuable than its financial assistance. The Bank provided valuable support for Poland's home-grown reform program through advice, technical backing, dissemination of market-oriented ideas, and endorsement of Poland's debt relief proposals to other creditors.

- Relatedly, staff should not be pressured to rush projects to the Board for approval when that means sacrificing quality at entry. The first two years of lending to Poland were more intensive than expected. The last strategy paper (1987) prior to the onset of lending in 1990 had proposed a small trial portfolio. When instructed to prepare a portfolio much larger than anticipated, the country team did not have the time to fully prepare new projects or to modify existing project proposals to suit the new environment.

- The Bank's budget allocation for work on individual countries should not be rigidly linked to the amount of its lending there, to avoid building in perverse incentives for lending.

- Frequent monitoring and self-evaluation of progress on meeting strategy objectives are essential. Completion reports should be prepared without delay, so as not to miss opportunities of learning from experience.

Design

- Major stakeholders should participate fully in project design, and the Bank should ensure that there is consensus and ownership within the government at early stages of project preparation. In some loans to Poland, loan documents had failed to spell out clearly what actions the borrower was required to take, having relied instead on general understandings reached with officials who were no longer in office.

- In a fast changing and uncertain environment, Bank staff should be ready to modify projects as the environment changes. Risk analysis and flexibility should be built into project design. Similarly, projects should allow for easy changes in implementation in light of new developments.
- Project design should incorporate gender and poverty targeting whenever feasible. In the case of Poland's Structural Adjustment Loan some of the Bank's executive directors expressed concern that its conditionality was too general, particularly on subsidy reductions and the pace of privatization. Although they strongly endorsed the loan, their concern proved warranted since subsidy reductions remained a sticking point and privatization proceeded more slowly than anticipated. Similarly, some executive directors called for more decisive action to protect vulnerable groups during stabilization. Again, more could have been done. When subsidies were reduced and state enterprises cut back on free social services, the cost of living rose and real wages fell sharply. Women suffered a dual blow from the loss of daycare facilities and higher than average unemployment.

- Loans such as the SAL can be an important vehicle for Bank-government dialogue on issues such as environmental management. By including conditionality on environmental policy, Poland's SAL helped bring environmental issues to the center of Bank-government economic dialogue.

- The need for flexibility in an uncertain environment makes it risky to start projects that are difficult to modify as the environment changes. Small, simple projects are better than complex projects involving several implementation agencies.

Implementation and resident missions

- The Bank should make sure that sufficient staff are committed to ensure successful implementation. If the project is pursuing difficult policy changes, the Bank should be prepared to station seasoned staff members in the field until the project is well under way.

- High staff turnover may disrupt the continuity of projects and lead to a loss of institutional memory. Continuity of project staff is particularly important when there are frequent changes on the borrower's side.

- Implementation decisions should be delegated as much as possible to the staff who are working on the ground, subject to clearly formulated project objectives and monitorable indicators of performance.

Institutional and legal issues

- The Bank should give early attention to the creation of a legal and institutional framework for a market economy. Legal experts should be involved early and more fully in program design, playing a substantive role.
- Institutional development and capacity must be carefully assessed. Much of the initial lending to Poland was through financial intermediaries that were expected to onlend to beneficiaries. But the Bank did not first ascertain whether Polish banks had the institutional capacity to perform this pivotal onlending role, and subsequent developments showed that they did not. There was little if any disbursement from Bank projects involving credit lines, a consequence of lack of demand, slow and cumbersome Bank procedures, and emerging competition in credit lines from donors offering more flexible procedures and better terms than the Bank.

Maximizing combined donor impact

- Aid coordination must be monitored to ensure consistency of policy advice and to avoid duplication of effort.

- Donor coordination can be crucial to success. The joint efforts of the Bank, the Fund, and other major donors were essential in putting together a debt and debt-service reduction package on Poland's massive debt to private banks, which had been in default. The Bank's support—financial and technical—for the successful London Club arrangement reached in

March 1994, was pivotal. Poland received exceptional amounts of debt relief and was able to restore its creditworthiness and access to international financial markets.

Dissemination

- The Bank should make a greater efforts to disseminate its studies and intellectual products in the client countries, including the translation into the local language of at least the summaries of its economic and sector studies.

Table 5.4 Summary of strengths and weaknesses of the Bank's country assistance to Poland

	Strengths	*Weaknesses*
Design of strategy	Bank provided timely help with substantial commitments ($2.6 billion) to support reform. Bank has recently decided to be more selective.	Bank commitment to Poland grew partly in reaction to increasing pressure and limelight, but fell away with diminishing pressure and limelight.
Aid coordination	Bank's endorsement of and active participation in reforms mobilized others to get involved in Poland.	The deluge of donor assistance in Poland was not well coordinated, putting a strain on the absorptive capacity of the Polish government.
	Bank was involved in all key areas of reform.	The Bank's ambitious program should have been backed up with larger administrative resources. There was also sometimes a lack of the big strategy picture in project dialogue.
	The Bank was instrumental in bringing about renegotiation of Poland's debt and reestablishment of creditworthiness.	Since creditworthiness has been restored in Poland, there is a danger that the Bank has become complacent in monitoring this important concern.
Implementation	The Bank recently restructured its portfolio in Poland to increase its relevance to assistance needs in Poland and weed out the poor performers.	The Bank was too slow in restructuring poor performing projects. Many of the Bank's activities have been dropped.
	Bank strategy papers were sufficiently broad to allow the Bank flexibility in its program. The quality of the 1994 strategy paper was notably better than that of its predecessors, perhaps reflecting that strategy papers are now reviewed by the Board.	Lack of continuity among strategy papers, making it difficult to monitor the Bank's evolving strategy and progress in achieving program goals. Strategy papers did not give sufficient guidance on how to implement the proposed strategies.
	The Bank Resident Mission played an important role in project identification, preparation, and implementation.	Insufficient staff in the Resident Mission. Need staff in field who can handle frequent implementation obstacles: disbursements, legal, and procurement issues. Staff in field should have sufficient autonomy to resolve issues in the field and speak for the Bank. Need more resources in Resident Mission to facilitate effective dissemination of reports and conduct public relations work.
Economic sector work	Bank Economic Sector Work was an important input into the formulation of a number of sector reform strategies in Poland and helped fill the Bank's own information gap. Strategy Investment Review, Poverty Assessment, Social Expenditure Review, Reorienting Investments in Human Capital, Poland at the Crossroads are some examples of best practices.	The findings of ESW reports were not always incorporated into the country policy dialogue or into Bank operations. ESW was relatively costly, with poor utilization and dissemination of results. A notable omission was an early and comprehensive review of the financial sector.
	The Bank correctly emphasized the importance of building institutional capacity before implementing projects.	In some cases the Bank went ahead with project implementation before institutional capacities were adequate to facilitate effective implementation.
	The Bank offered many creative solutions to problems facing Poland.	Sometimes the Bank was too doctrinaire in offering solutions, applying solutions without sufficiently taking into account local conditions.
	In the early period the Bank's work was made easier by high-level dialogue.	In not all cases was it most effective, or most appropriate, to conduct dialogue with high-level officials.
	The Bank was able to influence policy and encourage macroeconomic discipline, and tough but necessary reforms through policy based lending. EDI produced important research inputs.	The Bank has lost a lot of leverage in recent years, because of the increasing volumes of alternative assistance now available from other donors, the changing composition of the Bank's portfolio away from policy-based lending, and the growing independence of the Polish government in its dialogue with the Bank.
Supervision	Bank supervision was intensive at the beginning of the lending program.	In recent years supervision has been less intensive, reflecting shifting Bank interests and resources away from Poland. The Bank has been slow to produce completion reports, thereby not systematically learning from its mistakes.

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Poland
Country Assistance Review
(In Two Volumes)   Volume II: Supporting Documents

April 14, 1997

Operations Evaluation Department

Document of the World Bank

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Volume II

Contents (cont.)

Attachments—Letters[*] from:

[*] English translation of letters received in Polish.

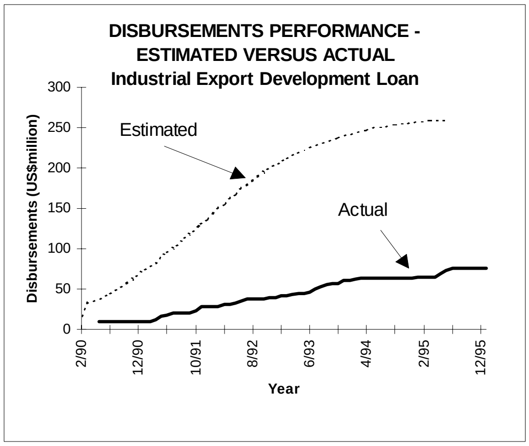
Bank's Loan Portfolio to Poland as of March 1, 1997 and Project Summaries

Statement of Bank's loan portfolio to Poland as of March 1, 1997
(in millions of US$)

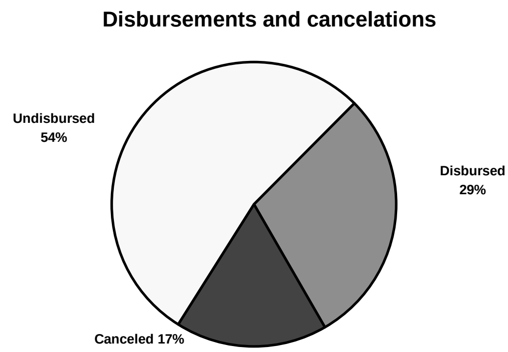
Project summary sheet number	Project ID	Loan Number	Project Name	DATES			LOAN AMOUNT				Project Status	ICR Produced? (2)
				Approval	Effectiveness	Closing (1)	Approved	Disbursed	Canceled	Undisbursed		
1	8569	L3166	Industrial export development **	2/6/1990	5/8/1990	6/30/1997	260.0	75.9	45.0	139.1	Active	
2	8565	L3167	Agro-industrial exports **	2/6/1990	5/7/1990	12/31/1994	100.0	71.6	28.4	0.0	Completed	YES
3	8586	L3190	Environmental Management	4/24/1990	7/24/1990	12/31/1996	18.0	18.0	0.0	0.0	Active	
4	8567	L3193	Transport - General	5/1/1990	9/11/1990	12/31/1996	8.0	4.7	3.3	0.0	Active	
5	8567	L3194	Transport - Railways	5/1/1990	9/11/1990	12/31/1996	145.0	142.2	0.0	2.8	Active	
6	8568	L3215	Energy Resource Development	6/5/1990	11/14/1990	6/30/1997	250.0	198.7	0.0	51.3	Active	
7	8588	L3247	Structural Adjustment Loan I *	7/31/1990	10/1/1990	12/31/1991	300.0	300.0	0.0	0.0	Completed	YES
8	8574	L3319	Telecommunications I	4/23/1991	12/9/1991	6/30/1997	120.0	81.4	25.0	13.6	Active	
9	8582	L3338	Employment Promotion	6/4/1991	9/30/1991	12/31/1997	100.0	26.1	20.0	53.9	Active	
10	8564	L3343	Agricultural development **	6/11/1991	3/4/1992	7/31/1995	100.0	25.2	74.8	0.0	Fully disbursed	YES
11	8571	L3342	Privatization and Restructuring **	6/11/1991	11/7/1991	6/30/1998	280.0	143.9	47.3	88.8	Active	
12	8585	L3341	Financial Institutions Development *	6/11/1991	1/14/1992	6/30/1998	200.0	178.5	0.0	21.5	Active	
13	8576	L3377	Energy Sector Adjustment Loan	6/26/1991	5/21/1992	3/31/1994	75.0	37.5	37.5	0.0	Fully disbursed	NO
14	8576	L3378	Heat Supply Restructuring	6/26/1991	5/21/1992	6/30/1997	40.0	25.3	0.0	14.7	Active	
15	8576	L3379	Heat Supply Restructuring	6/26/1991	2/24/1992	6/30/1997	25.0	16.6	0.0	8.4	Active	
16	8576	L3380	Heat Supply Restructuring	6/26/1991		6/30/1997	55.0	0.0	55.0	0.0	Canceled	NO
17	8576	L3381	Heat Supply Restructuring	6/26/1991	2/27/1992	6/30/1998	25.0	19.2	0.0	5.8	Active	
18	8576	L3382	Heat Supply Restructuring	6/26/1991	2/19/1992	6/30/1997	100.0	47.5	0.0	52.5	Active	
19	8576	L3383	Heat Supply Restructuring **	6/26/1991	2/18/1992	6/30/1997	20.0	0.0	20.0	0.0	Fully disbursed	NO
20	8584	L3467	Private Enterprise Development **	5/7/1992	12/18/1992	6/30/1999	60.0	2.0	58.0	0.0	Fully disbursed	NO
21	8587	L3466	Health	5/7/1992	1/15/1993	6/30/1999	130.0	37.2	30.0	62.8	Active	
22	8590	L3499	Housing **	6/25/1992	5/6/1993	12/31/1998	200.0	2.5	180.0	17.5	Active	
23	8599	L3564	Roads	3/9/1993	9/30/1993	6/30/1999	150.0	93.9	0.0	56.1	Active	
24	8583	L3600	Agriculture Sector Adjustment Loan *	5/4/1993	9/29/1993	3/31/1996	300.0	300.0	0.0	0.0	Fully disbursed	NO
25	8589	L3599	Enterprise and Financial Sector Adjustment Loan *	5/4/1993	1/6/1994	6/30/1996	450.0	324.9	125.1	0.0	Active	
26	8610	L3641	Forestry development	7/29/1993	11/29/1993	6/30/2000	146.0	89.9	42.0	14.1	Active	
27	8609	L3804	Debt and Debt Service Reduction *	10/25/1994	11/15/1994	6/30/1995	170.0	170.0	0.0	0.0	Completed	YES
28	8614	L3809	Katowice heat supply	11/17/1994	12/19/1994	6/30/2000	45.0	8.4	0.0	36.6	Active	
29	8604	L3959	Power Transmission	11/28/1995	3/8/1996	12/31/2001	160.0	11.6	0.0	148.4	Active	
30	8595	L4032	Bielsko-Biala water	6/4/1996	1/16/1997	6/30/2003	21.1	0.0	0.0	21.1	Active	
31	36061	L4080	Port access and management	8/1/1996	12/6/1996	6/30/2002	67.0	0.0	0.0	67.0	Active	
						Total:	**4120.1**	**2452.7**	**791.4**	**876.0**		

(1) Latest date available.
(2) For fully disbursed loans.
* Policy based loans (including Hybrids)
** Credit Lines component

PROJECT SUMMARY 1 - INDUSTRIAL EXPORTS DEVELOPMENT (L3166)



Basic data:
- Approval 2/6/90
- Effectiveness 5/8/90
- Closing 6/30/97
- Approved $260m
- Disbursed $75.9m
- Canceled $45m
- Undisbursed $139.1m
- Project Status Active



Objectives

The main objectives of the project were to: a) improve the convertible currency trade balance of Poland by increasing the volume, quality and value-added of industrial exports to convertible currency markets; b) improve the project financing and other capabilities of selected banks; b) identify restructuring needs and prepare restructuring programs in industry; and iv) support development of the private sector.

Description

NBP borrowed Bank resources and coordinated the overall project activities for the two components: financing of export oriented investments and technical assistance. NBP refinanced loans ($245 million was allocated for this purpose, but only a fraction of this actually disbursed) made by selected participating banks to enterprises which were undertaking high priority and high return investments to expand exports to convertible currency markets. Loan proceeds were intended to finance direct foreign exchange costs of the needed physical improvements to production facilities, including machinery, equipment and spare parts, permanent working capital. technology transfer and technical assistance and training at the enterprise level.

Evaluation

This project was originally designed before launching of the ETP, when the Polish economy was subject to foreign exchange shortages, rationing and controls. By the time the loan was approved, the economic situation of Poland had begun to change radically, and the project's design was much less relevant. The credit line suffered from problems experienced by most of the Bank's credit lines in Poland with disbursements falling well below expectations. The low demand for the funds was caused by their high cost (relative to other sources of credit), the relatively complex procedures for applying for funding, and the preference of banks for short term lending over medium to long term lending. Only one quarter of funds have disbursed through the five on-lending banks to 23 subprojects. Attempts were made to increase demand for the funds, including simplifying application procedures, but in mid 1995 the five on-lending banks gave up on trying to utilize the funds and the project is currently being restructured.

The project's technical assistance component was increased in 1992 at the request of the Government to give additional support to the mass privatization program and institutional support for modernization of the banking sector. For this purpose $30 million was reallocated from the credit component together with an additional $7 million of previously unallocated funds. This increased the TA component from $6 million to $45 million. The expanded TA component helped define restructuring needs of specific industries, provided support for designing and implementing the Mass Privatization program, and helped banking institutional development, especially automation.

Since the credit component has remained unutilized the project has not been as successful as hoped in achieving its goal of increasing industrial exports. However, the reallocated credit line funds are now having a positive impact on development of banking institutions.

Supervision - Form 590 Ratings

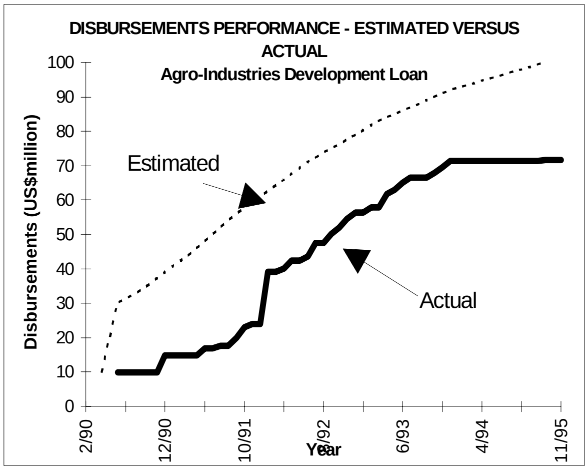
Date	6/30/90	6/30/91	5/22/92	6/30/92	6/30/93	3/1/94	6/30/94	5/23/95	6/18/96
Implementation Progress	NR	2	2	2	3	3	U	U	S
Development Objectives	NR	1	1	1	3	3	U	U	U

03/01/97

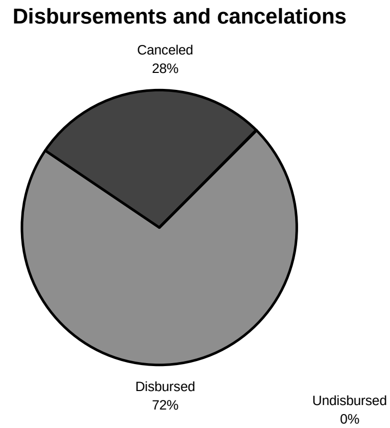
Explanation of rating abbreviations for Project Summary Sheets:

HS or 1 = Highly satisfactory
S or 2 = Satisfactory
U or 3 = Unsatisfactory
HU or 4 = Highly unsatisfactory
NR = Not rated

PROJECT SUMMARY 2 - AGROINDUSTRIAL EXPORTS (L3167)



Basic data:
Approval: 2/6/90
Effectiveness: 5/7/90
Closing: 12/31/94
Approved: $100m
Disbursed : $71.6m
Canceled: $28.4m
Undisbursed: $0m
Project status: Completed



Objectives

- Facilitate export of processed agricultural products to convertible currency countries; and
- Help maintaining input supply for livestock industry to sustain meat exports.

Evaluation summary

The project was prepared by the GOP with the assistance of the Food and Agriculture Organization (FAO/CP) in 1987, and appraised in the same year, but was not approved by the Board until February 1990. The project became effective in May 1990; it was closed at the original closing date in December 1994 with 28 percent of the original loan of US$100 million canceled.The project aimed at facilitating the export of processed agricultural goods to hard currency markets of the former East Bloc countries, and at helping maintaining animal feed supplies to sustain meat exports. To this end, it provided credit for agroprocessing and finance for the import of animal feed. The benefits expected included an increase in the production and exports of processed agricultural goods, employment and improved management of participating agro-industries.

The project design continued to be based on the prereform situation in Poland, and it did not attempt to pursue, to any significant degree, the policy and institution building objectives of the Bank's postreform assistance strategy. Many of the conditions underlying the institutional and financial viability of the project were changing rapidly following the reform in 1990. Particularly relevant for the project were the changes in relative factor and product prices; the effective demand for investment credit at real interest rates in an uncertain financial situation of the participating enterprises; the uncertainty about the ownership of the participating state-owned industries; the uncertain market prospects with the dissolution of the CMEA; and the enhanced role, but limited capacity, of the financial intermediaries for re-evaluating pre-identified and new beneficiaries in the changed environment. Obviously, the project risk had increased substantially.In the light of these difficulties, it is remarkable that the project did perform as well as it did. Compliance with covenants has been generally good, except for meeting the only institution building elements of the project, the audit requirements by the Bank of Food Economy (BFE) as the principal financial intermediary and the preparation of a restructuring plan for this bank. Some 36 subloans have been made under the project and about half of them were to private enterprises.

An ICR has been prepared. It rates the outcome unsatisfactory as the project has not met its development objectives and prospects for the future are uncertain. Without any significant sector policy and institutional objectives, the project relied heavily on the achievement of its financial objectives. Despite a few notable successes, the financial objectives in respect of incremental exports to CC markets or significant increases in operating efficiency have not been met as many of the subborrowers, including the larger ones, are facing serious financial problems, and their future depends upon the outcome of the workout and restructuring plans being discussed with their creditors, including BGZ and the other PBs. In regard to BGZ, the outcome depends crucially upon the Government's ability to undertake a satisfactory resolution under the ongoing restructuring program for the Polish rural finance system.

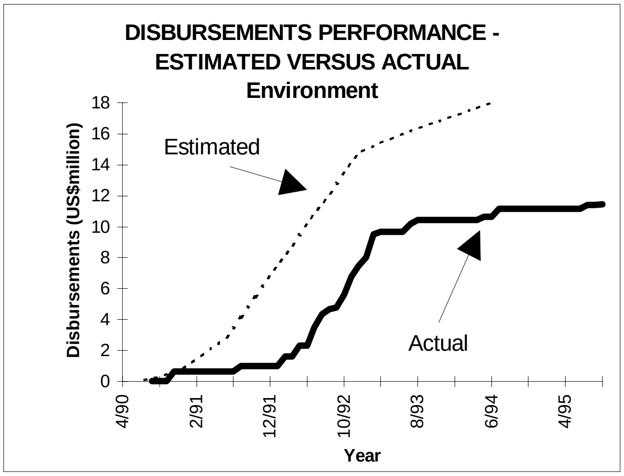
Lessons noted in the ICR include: i) credit lines are inappropriate instruments in the absence of strong financial instermediaries and in environments of significant monetary instability characterized by high inflation and interest rates; ii) successful restructuring of medium to large state-owned enterprises cannot be accomplished without sweeping reforms that address questions of enterprise ownership and governance; iii) the need for Bank projects to have strong institutional components to complement the provision of funds; and iv) the danger of emphasizing disbursements, as a measure of performance, as they are not necessarily correlated to results on the ground.

Supervision - Form 590 Ratings

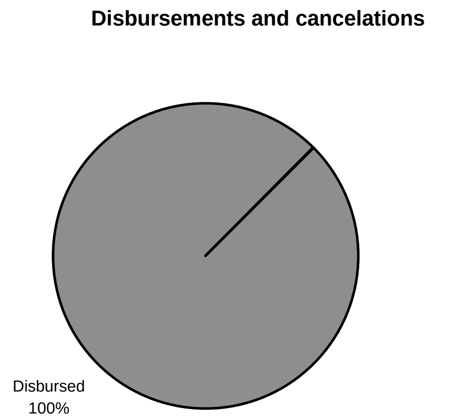
Date	4/2/90	6/30/90	1/3/91	6/30/91	10/17/91	7/20/92	1/4/93	6/15/93	6/30/93	12/6/93	4/5/94	6/30/94	6/15/95
Implementation Progress	1	1	2	2	2	2	2	2	2	2	2	S	S
Development Objectives	1	1	1	1	1	1	1	1	1	1	1	S	S

03/01/97

PROJECT SUMMARY 3 - ENVIRONMENTAL MANAGEMENT PROJECT (L3190)



Basic data:
Approval 4/24/90
Effectiveness 7/24/90
Closing 12/31/96
Approved $18m
Disbursed $18m
Canceled $0m
Undisbursed $0m
Project Status Active



Objectives

The purpose of the project was to provide an umbrella framework for addressing the highest priority environmental concerns in Poland and for moving toward a decentralized system of environmental management. The project aimed at serving as a catalyst by strengthening environmental management and helping to establish the institutional, regulatory, and informational basis for immediate corrective actions and longer-term extensive investments supported through bilateral and multilateral assistance. It also aimed at reducing health risks, decreasing economic costs from environmental degradation, and improving environmental quality.

Evaluation summary

Institutional and regulatory issues were addressed through the *Environmental Management Project (Loan 3190 - POL).* This $18 million technical assistance project, approved in April 1990, was designed as the umbrella framework for addressing the highest priority environmental concerns. As discussed in the MOP, the project aimed to strengthen environmental management and help to establish the institutional, regulatory and informational basis for short-term corrective actions and longer term investment.[1] It also aimed to reduce health risks, decrease economic costs from environmental degradation, and improve environmental quality. The implementation experience of the project appears to reflect both the strengths and the weaknesses of the government's environmental protection efforts. While the project has not yet been completed, indications are that the project was successful in strengthening the environmental policy analysis and project management capabilities of the Ministry of Environmental Protection, Natural Resources and Forestry, supporting the development of Regional Water Authorities and air and water quality monitoring networks in the most polluted Southern region, and carrying out efficiency and environmental reviews at some 23 of the most polluting industrial plants in the country. In relation to its original objectives, the project appears to have been weakest in developing effective economic instruments for environmental management, improving the collection and analysis of environmental health data, and implementing a strategy for municipal and hazardous solid waste management.

A major accomplishment of the project has been the strengthening of the foreign aid coordination and management capabilities of the Ministry. In 1990, at the start of the project, the establishment of the Project Implementation Unit (PIU) led a large number of other multilateral and bilateral programs to channel their environmental assistance through this unit, and the PIU was being overwhelmed. By 1992, the initial management problems had been overcome and the PIU was implementing project components supported by nine separate multilateral and bilateral donors. Some of this international assistance was used to overcome a series of shortfalls in local funding that would otherwise have disrupted the implementation of projects coordinated by the PIU. A particular success with the PIU was the development of skills in international procurement for goods and services. Polish experts became proficient in the preparation of terms of reference and technical specifications, review of proposals and bid evaluations, and the negotiation of contracts. This experience allowed for major cost savings under the Bank funded project and other activities undertaken by the Ministry of Environment and cooperating agencies. This success with Poland's environmental PIU also served as a model for similar units established in other countries in Central and Eastern Europe. With encouragement from the Bank, the PIU hosted a number of specialists from other countries for short-term study programs and staff from the PIU visited other countries to provide advice on program and project management and procurement.

Another accomplishment of the Project was the support for the development of a decentralized approach to environmental management, through the establishment of Local Implementation Units in three cities in southern Poland, and the development of two Regional Water Authorities. This allowed local authorities to more effectively target project supported activities to on-site conditions, permitted greater efficiency in the use of funds, increased interest in design, operation and maintenance issues, and significantly increased local ownership. The Project also supported the development of cooperative interministerial agreements between the Ministry of the Environment and the Ministries of Health and of Industry. These agreements allowed for the joint design and implementation of major project activities concerning environmental health and industrial pollution. They provided a formal mechanism for cooperation and transfer of resources, and resulted in full and active participation of ministries with direct responsibility for these aspects of environmental management.

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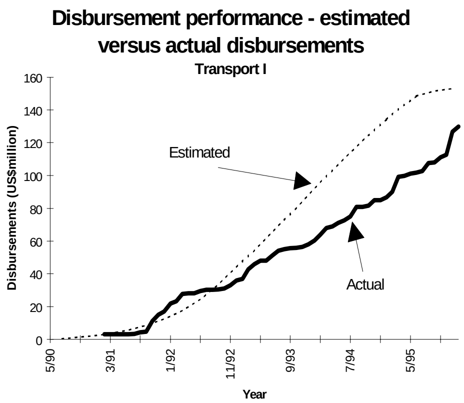
Date	6/30/90	8/21/90	10/9/90	6/30/91	6/30/92	2/16/93	6/30/93	6/30/94	5/31/95	6/1/95	6/28/96
Implementation Progress	NR	1	1	1	2	2	2	S	S	S	S
Development Objectives	NR	1	1	1	1	1	1	HS	HS	HS	HS

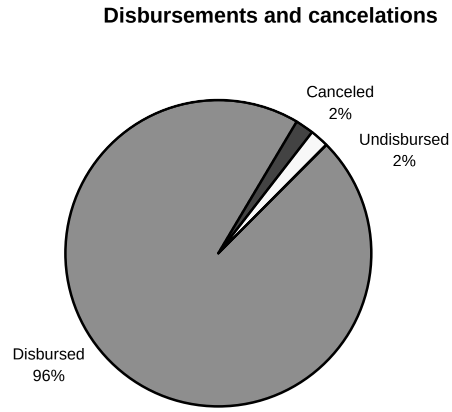
03/01/97

[1] Poland: Environment Management Project - Memorandum of the President, World Bank report No. P-5256-POL, April 2, 1990.

PROJECT SUMMARIES 4 AND 5 - TRANSPORT I PROJECT - GENERAL AND RAILWAYS (L3193 AND L3194)



Basic data:
Approval: 5/1/90
Effectiveness: 9/11/90
Closing: 12/31/96
Approved: $153m
Disbursed: $146.9m
Canceled: $3.3m
Undisbursed: $2.8m
Project Status: Active



Objectives

The Board approved *two separate loans* in May 1990: one for $8 million for Highways (General Directorate of Public Roads) and Sector Reform (Ministry of Transport and Maritime Economy), and another for $145 million for the State Railways. *Loan conditions* were addressed mainly at: (i) sector policies: a much increased selection of economically sound projects with the transport sector program; improved financial obectives for PKP and major associated suppliers, and (ii) greater efficiencies within PKP: operating objectives and reduction in uneconomic lines/stations. Moreover, through a series of studies, PKP was to investigate closer some the the long-term activities and practices. During implementation, *the two projects have been supervised jointly*.

Evaluation summary

The SAR anticipated little change in freight traffic levels during this period though it projected a long-term decline. The domestic recessionary and the impending collapse of COMECON had not been fully foreseen by either the Bank or the Borrower.

This dramatic change had two important results: (i) PKP took the opportunity to *reduce staffing* from 435,000 (including affiliated enterprises) at the time of appraisal to about 240,000, and (ii) accelerated the program of *closing uneconomic lines* and stations: in a system of about 27,000 km of lines, 3000 km have been closed since 1990, as against 1000 km covenanted under the Loan, and another 2000 km are scheduled to be closed under PKP's present program.

On the negative side, the collapse in traffic made it much more difficult for PKP to achieve the financial viability objectives agreed under the Loan. PKP's tariffs were adjusted periodically. While in freight traffic the railways were able to cover all or most of the costs, depending on freight categories, the same was not true for passenger traffic: by now, freight traffic is estimated to generate a profit of about US$600 million, but passenger traffic shows a loss of almost US$1 billion per year in the period 1991-1995.

The *Bank* recognized the new reality and agreed to a much less ambitious operating ratio than had been covenanted under the Loan. Even the revised target was not achieved fully by 1994. The new ratio, while more realistic, has reduced the pressure on PKP to perform as originally agreed, and prospects remain for large government subsidies to the railways. Under a new railway law of November 1995 (on which the Bank had various opportunities to comment) PKP is to be guided by periodic performance contracts with the government. In principle, this should offer opportunities for a closer scrutiny of PKP's performance, including reliance on government subsidies.

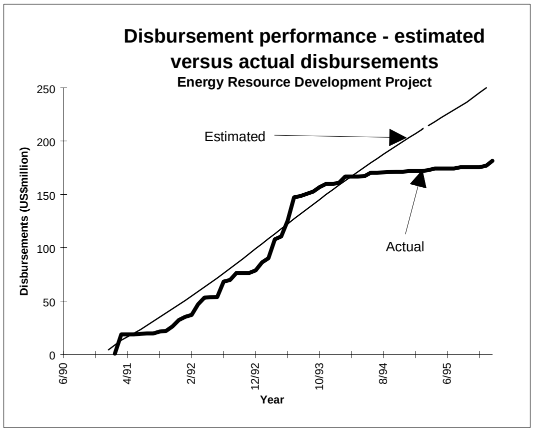
While railway traffic declined sharply, road traffic continued to increase in the early 90s. With the post-1989 reforms taking hold, there was, inter alia, a *marked shift in traffic from railways to roads* (The Road Project appraisal had to rely on rather inadequate road traffic counts, typical for socialist countries. Poland has since then developed greatly improved traffic data). Private ownership in the trucking industry became important and private passenger traffic also grew. Thus, and as a consequence of preparation work done in Poland, a road project was ready for appraisal in mid-1992. The Task Manager in charge of the 1988 Transport Sector Memorandum also led the appraisal mission for the First Transport Project. Indeed, he has remained Task Manager for the project throughout its implementation and still is, thus ensuring *exceptional continuity*.

Supervision - Form 590 Ratings

	1990				1991			1992			1993				1994			1995	
Date	5/11	6/7	6/30	12/21	6/30	7/1	10/25	3/13	6/30	12/15	2/11	4/9	6/30	12/10	2/7	6/30	12/21	5/31	7/20
Implementation Progress	NR	1	1	1	2	2	2	2	2	2	2	2	2	2	2	HS	HS	HS	HS
Development Objectives	NR	1	1	1	1	1	1	1	1	1	1	1	1	1	1	HS	HS	HS	HS

03/01/97

PROJECT SUMMARY 6 - ENERGY RESOURCE DEVELOPMENT PROJECT (L3215)



Basic data:

Approval: 6/5/90

Effectiveness: 11/14/90

Closing: 6/30/97

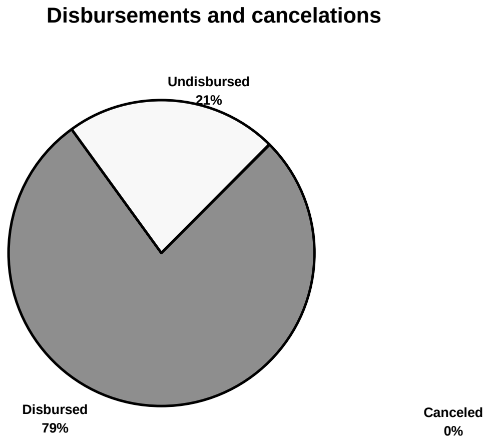
Approved: $250m

Disbursed: $198.7m

Canceled: $0m

Undisbursed: $51.3m

Project Status: Active



Objectives

The project's objectives were to (a) improve the energy- related convertible currency earnings of Poland by (i) increase domestic production of natural gas and (ii) encourage energy conservation for all forms of energy and fuel substitution through supporting energy price reform, (b) contribute to a reduction of environmental pollution related to energy use, and (c) improve the competitive, regulatory, and financial framework of the sector entities by supporting the implementation of appropriate restructuring programs for the coal, gas, power, and heat sectors. The European Investment Bank cofinanced the project with a US$ 60 million loan.

Components

The project comprised of the following major components: (a) Investments in equipment and materials to increase the production of natural gas. The project intended to cover the development and rehabilitation of existing gas fields, gas compression, and delineation and evaluation of gas fields discovered in recent years; expansion of transmission and storage facilities to transport the additional gas and respond to load fluctuations; and gas treatment and desulfurization facilities and technologies; and (b) Technical assistance through consultancy services, staff training, and studies to enhance management and production efficiency within the gas sector.

Evaluation summary

The project provided assistance for increasing the production and distribution of natural gas as a substitute for hard coal, encouraging energy conservation and efficiency through assistance for appropriate energy pricing and development and implementation of energy sector restructuring programs, and assistance in developing a framework for private sector participation in the oil and gas sector.

Implementation of the project was arrested by various unexpected difficulties: i) PGN, the project’s implementation agency, has not been able to resolve emerging operational difficulties in an effective fashion, ii) the government delayed carrying out the restructuring of the gas sector, which they were committed to do, and iii) the company’s management was reluctant to use new technologies and to define the policy regarding the closure of uneconomic wells.

Nevertheless, following a recent extension of the closing date and intensive monitoring efforts by Bank staff, project implementation has improved considerably.

Supervision - Form 590 Ratings

Date	6/30/90	12/13/90	6/30/91	6/2/92	6/30/92	12/22/92	4/16/93	6/30/93	12/7/93	5/25/94	6/30/94	11/10/94	5/31/95	6/28/96	11/12/96
Implementation Progress	1	1	2	2	2	2	2	2	2	2	S	S	S	U	S
Development Objectives	1	1	2	1	1	2	2	2	2	2	S	S	S	U	S

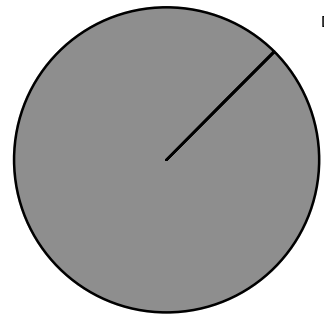
03/01/97

PROJECT SUMMARY 7- SAL (L3247)

Disbursed in two tranches. Fully disbursed by January 1992.

Basic data:
Approval 7/31/90
Effectiveness 10/1/90
Closing 12/31/91
Approved $300m
Disbursed $300m
Canceled $0m
Undisbursed $0m
Project Status Completed

Disbursements and cancelations



Objectives

One of the earliest and more visible forms of Bank support for Poland’s Economic Transformation Program (ETP) was the US$300 million structural adjustment loan (SAL), approved in July 1990 (project summary 7). It was put together quickly, taking advantage of the “window of opportunity” offered by the unique political situation, which gave strong support for the radical transformation of the economy. The loan's main objective was to bolster the ETP, by demonstrating the Bank's belief in the program’s technical soundness and viability and by providing foreign exchange to boost the country's foreign reserves and add credibility to the stabilization program. Detailed objectives for the financial system, state-owned enterprises, social sectors, agriculture, and infrastructure were left to be tackled through future planned sector adjustment and investment loans. The SAL did, however, include some conditions on environmental policy, which helped bring environmental policy issues to the attention of the top economic authorities.

Components

Some Executive Directors expressed serious concern about the lack of precise conditionality regarding the speed of privatization and other structural reforms. No detailed conditionality was included in the loan agreement regarding the macroeconomic framework other than a general statement requiring satisfactory macroeconomic management. The implicit understanding was that the Fund would monitor the macroeconomic conditionality, but there was no provision for monitoring in case the Fund program ceased to be active. Although the Bank recognized that implementation of the planned institutional reforms would require intensive technical assistance, the loan included no resources for this purpose, in part because of government reluctance to accept loans for technical assistance on conventional terms. The Resident Mission closely monitored economic developments. It reported monthly on the deteriorating fiscal situation, particularly when it became clear that the Fund program had gone off track in mid-1991. But the lack of precise conditionality made it difficult to press for corrective actions. Formal supervision missions from Headquarters gave general good marks for implementation, although there were questions of interpretation regarding some conditionality.

Evaluation summary

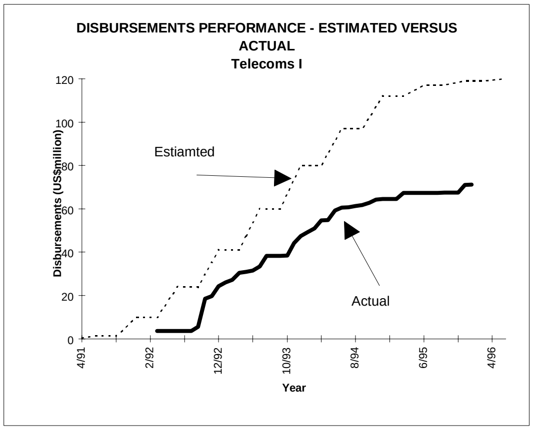
At loan closing, progress on planned institutional reforms was disappointing. Restructuring and privatizing of the larger state enterprises had stalled, largely because of insufficient support in Parliament. The mounting losses and arrears of the enterprises weakened the quality of banks' portfolios, pushing many of them into virtual bankruptcy and delaying planned reforms. Institutional weaknesses delayed adoption of good accounting and auditing standards, supervision practices, and prudential regulation. With the benefit of hindsight, it would seem that the Bank should have pressed more decisively for faster implementation of the main structural reforms while political support was still strong. Despite the mixed results, the loan's specific objective of providing strong and early support to the ETP was clearly relevant to Poland’s needs at that time. Although early expectations regarding economic growth and the pace of institutional reforms were not fulfilled, the loan was efficacious in providing the desired technical, moral, and financial support.

Supervision - Form 590 Ratings

Date	11/7/90	2/26/91	6/30/91	6/30/92
Implementation Progress		2	2	2
Development Objectives	1	2	2	2

03/01/97

PROJECT SUMMARY 8 - TELECOMS I (L3319)



Basic data:

Approval 4/23/91

Effectiveness 12/9/91

Closing 6/30/97

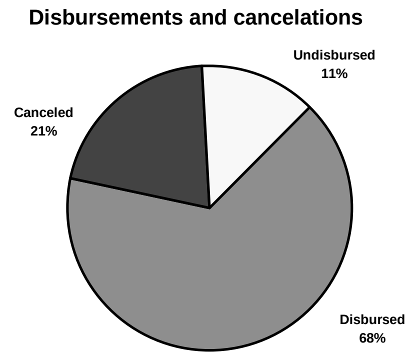
Approved $120m

Disbursed $81.4m

Canceled $25m

Undisbursed $13.6m

Project Status Active



Objectives

The project intended to emphasize and support: (a) strengthening and expansion of the national trunk network and selected improvements in the international network and in local networks in order to rapidly decongest the network and improve telecommunications (TC) services for business, (especially export-related business), (b) increased efficiency in TC operations, and (c) improved quality of service.

Components

The project consisted of: (a) investments in an overlay digital long-distance network connecting 17 major urban nodes plus expansion of international connections and selected investment in local networks and (b) technical assistance and training. The latter intended to focus on improving the accounting and MIS systems, traffic engineering, software development and maintenance, human resource development, and training.

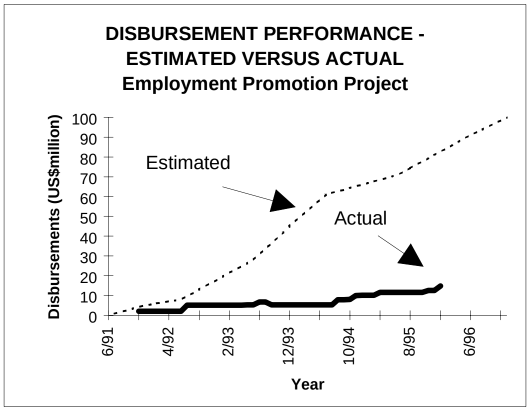
Evaluation summary

The first loan from international finance institutions came just after the 1990 Post and Telecommunications Act transformed the telecommunications activities of the state-owned Polish Post, Telephone and Telegraph into a joint stock company, Polish Telecommunications Company (TPSA), and lifted restrictions on private ownership of public switched telephone networks. Because of this timing, the Bank's knowledge of the sector and the effectiveness of dialogue with the responsible ministry had not reached the depth achieved in other infrastructure sectors. The sector was in the midst of a major institutional reform when the loan was extended, and commitment to the changes in the sector was mixed. After initial procurement delays, physical implementation moved ahead well. Unexpected savings, made possible by the adoption of international competitive bidding procedures, allowed more purchases than had been planned, leading to further extension of the disbursement schedule. Discontinuities in management occurred on both sides. The project had three Bank task managers between 1991 and 1995, and project supervision was less intensive than for other infrastructure projects. In financial terms, the project was highly successful. The appraisal for the second telecommunications project found TPSA to be one of Poland's most profitable companies. However, some concerns remained with the incomplete separation of operations from regulatory and policy functions, the legal setting of the regulatory regime, and the introduction of alternative suppliers of services and competition. The unfinished business at the enterprise and network level included the need to modernize at a faster pace, to increase commercialization and possibly to privatize TPSA (after 1997), and to prepare for a multi-operator environment. TPSA did not feel ready to negotiate a loan for the appraised second telecommunications project during FY95. Ostensibly, TPSA's board wanted to see the first loan drawn down more (less than half of the US$120 million had been disbursed at the time). However, there remained a sense on the Polish side that dialogue on critical institutional issues had not advanced to the point of readiness for formal negotiations and that the Bank strategy in the sector did not fully match the Polish position. The availability of EIB funds with less onerous conditionality also dampened interest in a second loan from the Bank.

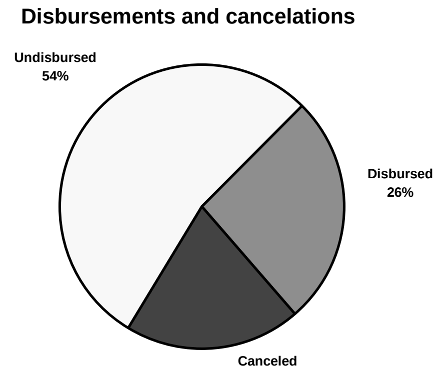
Supervision - Form 590 Ratings

Date	5/30/91	6/30/91	6/30/92	2/10/93	6/30/93	12/13/93	6/30/94	5/31/95	2/29/96
Implementation Progress	NR	1	1	1	1	1	HS	HS	S
Development Objectives	NR	1	1	1	1	1	HS	HS	S

PROJECT SUMMARY 9 - EMPLOYMENT PROMOTION PROJECT (L3338)



Basic data:
Approval 6/4/91
Effectiveness 9/30/91
Closing 12/31/97
Approved $100m
Disbursed $26.1m
Canceled $20m
Undisbursed $53.9m
Project Status Active



Objectives

The objectives of the EPSP were to improve the cost-effectiveness of existing employment and social welfare programs; improve occupational, sectoral and geographic mobility of the labor force; and increase productivity of the labor force, promote investment and test mechanisms for job creation for the unemployed through micro-enterprise development. The project had five components and was to be implemented by December 1996.

Evaluation summary

The Employment Promotion and Service Project, providing a $100 million ($80 million after restructuring) World Bank loan is representative of the Bank's concentration on important policy issues. Given the structural nature of unemployment, it is essential that employment programs emphasize not only income support and employment services but also retraining of workers for emerging industries and jobs. This was a key concern of the Labor Ministry. The Bank demonstrated responsiveness during the project restructuring process in accepting GOP emphasis on small business development, despite a difference of opinion on technical grounds (The Bank regarded the MOLSP shift in priorities to have more to do with the Ministry's return to being a job creator than with adopting a more "modern" role). The restructuring resulted in the reduction of the adult training component and the tripling of the micro-enterprise component, reflecting the government's priority for employment generation. In December 1994, the Project was restructured. At the request of the Ministry of Labor and Social Policy the loan amount was reduced to US$80 million and the closing date was extended to end-1997. The EPSP was less relevant in addressing short-term implications then in developing employment policies and programs required for a smoothly functioning market economy. The Bank properly identified the need for action on three fronts: i) legislation and policies; ii) technical leadership; iii) supporting materials and techniques. The sectoral papers were highly appreciated by Polish decision-makers and were used as the basis for design and implementation of policy reforms. The WB focuses not only on lending but concentrates also on important policy issues through the ESW programme and through the provision of TA. In terms of fitting with its overall Bank strategy for Poland, the Bank paid attention that the Social Safety Net (with unemployment measures as the key element) should be cautiously designed and selectively targeted in order to avoid giving perverse incentives and to limit the fiscal costs to levels consistent with budgetary constraints. The Employment Project was particularly well designed to provide a policy framework for changing the role of Ministry, providing a vision with practical prioritization of components, provided the basis for support to the unemployed and contributed to the Polish thinking and learning about labor market matters, regardless of political affiliation. The TM had a sense of direction and was/is a seasoned professional in both technical and Bank procedure and policy matters. The pace of project preparation was steady and the TM could be credited with foresight for initially scaling the Project at a level to which it ultimately was restructured. Most of the problems of implementation could be attributed to: i) changes in Government, high level management and turn over of project related staff; ii) inexperience in management in general and in carrying out the Project; and iii) poor definition of roles and responsibilities within the PCU and between the PCU and technical units. One of the main benefits of World Bank assistance to Poland is the quality and impact of policy dialogue on core policies of the social sector reform agenda. The World Bank not only contributed to the shaping of core policies of the GOP but has also provided a continuity of presence and dialogue that has lessened the disruptions caused by political instability (particularly in 1991). The mix of policy analysis, joint preparation of economic reform, and of financial support together with the mobilization of other donor resources for the social sectors (mainly USAID) were important elements of support to the reform process. The major policy reform priority for Poland in the second stage of transition is the reform and modernization of the bankrupt Polish pension system. Government subsidies have placed substantive pressure on public finance. Building a multipilar pension system will imply, however, heavy short-term budgetary burden during the transition preriod. The Bank should consider both technical assistance and a lending program in this area as well as advocate pension reform in Poland. Almost since the beginning of the ETP the Bank reminded the GOP that dealing with large loss-makers (steel, coal, railroad) will have consequences for the branches that employ some 700-800.000 workers and which are regionally concentrated. There will be a need for adequate severance payment, retraining and stimulation of local initiatives for micro-job creation. The recently signed "Contract for Silesia" aims at restructuring of the Polish coal-mining. There seem to be linkages with the EPSP and an opportunity for WB involvement at a large scale.

The Ministry of Labor and Social Policy expressed dissatisfaction with the Bank’s under utilization of local expertise. According to the Ministry, the usefulness of foreign consultants was often limited by their lack of understanding of the Polish situation and the high cost of these experts compared with local experts. The quality of advice would have been better had consulting teams consisted of a greater number of local experts. The Ministry of Labor and Social Policy also noted that while the project was of some importance, it was one among many Government actions in this area, and so its importance should not be overstated. (Cf. letter from the Ministry of Labor and Social Policy, dated March 11, 1997, Attachment 8.)

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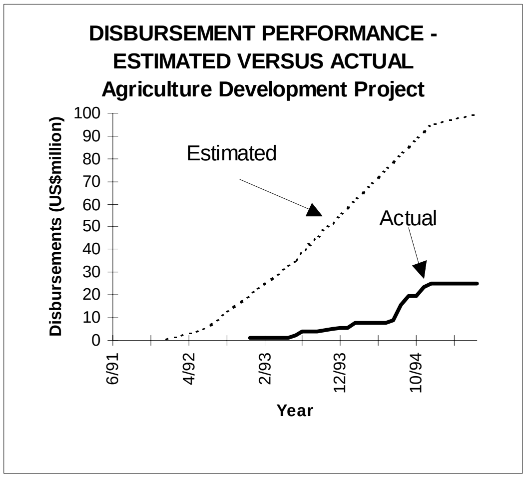
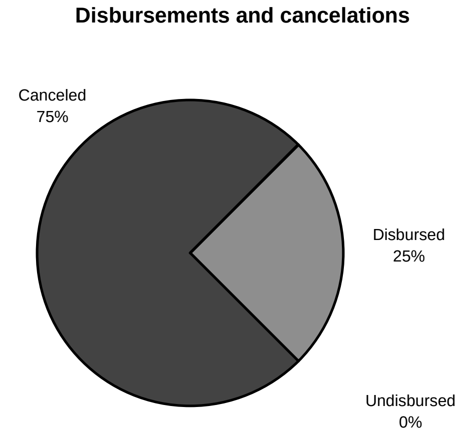
Date	6/30/91	10/25/91	1/31/92	6/30/92	2/16/93	6/4/93	6/30/93	5/20/94	6/30/94	4/6/95	5/31/95	1/2/96
Implementation Progress	1	1	2	2	2	1	1	2	U	S	S	S
Development Objectives	1	1	1	1	1	1	1	1	S	S	S	S

PROJECT SUMMARY 10 - AGRICULTURAL DEVELOPMENT PROJECT (L3343)



Basic data:
Approval 6/11/91
Effectiveness 3/4/92
Closing 7/31/95
Approved $100m
Disbursed $25.2m
Canceled $74.8m
Undisbursed $0m
Project Status Fully disbursed



Objectives

- Promoting the development of the rural economy through transforming the rural cooperative system;
- Providing investment funds for private and privatizing rural enterprises and communities.

The project was designed to support private farmers and promote other private sector activities in rural areas, primarily through the restructuring of high-priority rural cooperatives (e.g., cooperative banks and marketing, dairy, and horticulture cooperatives). More specifically, the project aimed to start transforming existing rural cooperatives from social sector organizations to member-controlled, market-oriented business enterprises; help develop rural commercial enterprises by improving access to credit; and provide investment funds for business and institutional development in rural communities.

Project Description

- Technical assistance to strengthen rural cooperative system.
- Technical assistance for the development of cooperative banking system.
- Credit line for investments in agriculture, agro-industry, and other rural activities.

Evaluation summary

After one extension of the closing date by one month, the loan was closed in July 1995. Upon closing the account in October 1995, 75 percent (US$74.8 million) of the original loan amount was canceled, because of lack of effective credit demand, competing low-interest credit lines and institutional weakness of financial intermediaries. Reasonable progress, however, was made in strengthening the rural cooperatives and, to a lesser extent, the cooperative banking system. An ICR was produced rating the project's outcome unsatisfactory. The project was closed in July 1995, one month after the original closing date, after 75 percent of the original loan amount of US$100 million had been canceled. The project aimed at assisting agriculture, agroprocessing, and rural communities through financing of a credit line for private or privatizing enterprises and at revitalizing the rural cooperative system through technical assistance. The benefits of the project included a strengthened rural cooperative system, an improved competitive rural economy and a positive supply response to the agricultural policy reforms.

The design of the project was more tuned to postreform assistance strategy and the GOP's reform agenda than to the first agricultural operation. Most importantly, by providing technical assistance for the rehabilitation of the cooperative systems, the project provided for the first tangible Bank support for rebuilding Poland's agricultural institutions. Given the lack of a well functioning financial intermediary and the continuing financial and market uncertainties of rural enterprises on one side and the availability of credit funds under the agro-industries loan on the other, the need and justification for another credit line under the ADP was anything but compelling. Concentrating under this project exclusively on the rehabilitation of the rural cooperative system and the cooperative banking system would have been a sensible and timely alternative. The design problems of the project referred to above are reflected in the poor implementation performance of the credit component. Other reasons such as the impractical arrangements of charging nominal interest rates for term lending in an environment of high inflation and the availability of alternative sources of credit funds at lower cost contributed to the low level of effective demand for the project's credit funds. The institution building component, on the other side, performed satisfactorily and substantial progress has been made in rehabilitating the rural cooperative system and a good start was made in the restructuring of the cooperative banking system by establishing those regional cooperative banks. At loan closing in July 1995, only about 25 percent of the total loan of US$100 million was disbursed. The disbursement delay was exclusively due to the poor performance of the credit component which constituted about three quarters of the project cost.

An ICR was completed on January 17, 1997. The lessons notes in the ICR include: i) it is essential to agree upon, at the outset, a clear strategy for the overall development of the rural finance sector, including the respective roles of the key intermediaries (in this case BGZ and the cooperative banks); ii) strong and sustained Government commitment is required to ensure timely actions to improve key aspects of the enabling environment (in this case, the cooperative law and the law on cooperative banks and BGZ); and iii) credit lines are inappropriate instruments in the absence of strong financial intermediaries, and in environments of significant monetary instability characterized by high inflation and interest rates.

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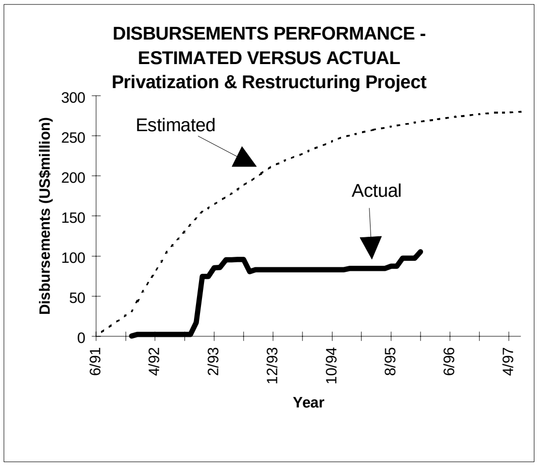
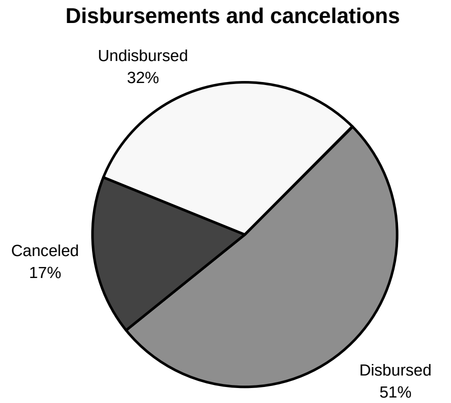
Date	6/30/91	10/31/91	2/21/92	6/30/92	1/4/93	6/15/93	6/30/93	12/6/93	3/29/94	6/30/94	5/25/95
Implementation Progress	NR	2	2	2	2	3	3	3	3	U	U
Development Objectives	NR	1	1	1	1	2	2	2	2	U	S

03/01/97

PROJECT SUMMARY 11 - PRIVATIZATION AND RESTRUCTURING PROJECT (L3342)



Basic data:
Approval 6/11/91
Effectiveness 11/7/91
Closing 6/30/98
Approved $280m
Disbursed $143.9m
Canceled $47.3m
Undisbursed $88m
Project Status Active



Objectives

The project's objectives were to provide support to Poland's efforts to develop and implement an effective enterprise privatization program and to implement restructuring across a major share of its industry by (a) assisting with the design of the necessary policies, the establishment and strengthening of the institutional framework, and the implementation of the privatization program; (b) providing finance in ways which will mobilize additional resources for privatization, in support of the Government's objective of privatizing half of the state-owned assets within 3 years; and (c) providing finance for enterprise restructuring programs in those cases where investments were warranted and enterprises were private, joint-stock, or limited liability companies with a privatization strategy.

Components

The scope of the project included: (a) A Policy Component (US$75 million) to support the Government's program for enterprise transformation and privatization, specifically, the implementation of the necessary policy and institutional conditions facilitating privatization. Up to US$50 million of this component was proposed to be used for a Debt and Debt Service Reduction (DDSR) plan meeting the requirements for Bank support. (b) A Technical Assistance Component (US$65 million), principally to support the key agencies involved in the privatization and restructuring process. (c) An Investment Component (US$140 million) for privatization/ restructuring, which would be channeled through the PDB and through eligible banks to finance the direct foreign exchange investment costs, including physical improvements to production facilities, permanent working capital, interest during construction, licenses or other types of technology transfer, as well as software, technical assistance, and training at the enterprise level.

Evaluation

Project implementation suffered because of the frequent government changes and the consequent drop in official support for privatization. The credit component was also prejudiced by the same factors that affected other Bank credit line operations in Poland: over-optimistic projections of demand for credit, competition from other credit sources, weak domestic banking institutions, reluctance to comply with cumbersome Bank procedures, etc. Altogether, the project stagnated and fell far short of achieving its objectives. After many delays and false starts, however, it would seem that the Mass Privatization Program is finally going forward, and the Bank's efforts to support privatization may begin to pay off.
The technical assistance component of the loan has contributed to the recent improvements, in spite of original concerns that this component was too large. In retrospect the size of the component was appropriate given the complex nature of the privatizations.

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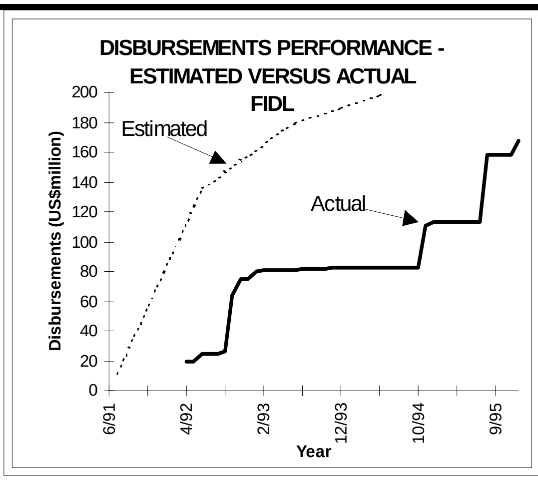
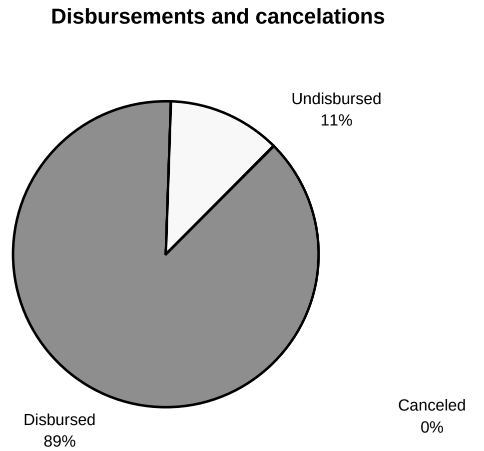
Date	**6/30/91**	**6/15/92**	**6/30/92**	**2/16/93**	**4/14/93**	**6/30/93**	**1/18/94**	**6/30/94**	**5/22/95**	**3/27/96**
Implementation Progress	NR	2	2	2	2	2	2	U	U	U
Development Objectives	NR	1	1	1	1	2	2	S	S	S

03/01/97

PROJECT SUMMARY 12 - FINANCIAL INSTITUTIONS DEVELOPMENT LOAN (L3341)



Basic data:
Approval 6/11/91
Effectiveness 1/14/92
Closing 6/30/98
Approved $200m
Disbursed $178.5m
Canceled $0m
Undisbursed $21.5m
Project Status Active



Objectives

The loan's main objective were to support financial sector development as a key element of the Government's Economic Transformation Program through (a) actions on the policy, regulatory, and institutional fronts and (b) modernization and ultimate privatization of existing banks. Description. The loan included two components: (a) a quick-disbursing policy component (US$150 million and (b) an institutional development component (US$50 million).

Components

The major policy reforms that were urgently needed to permit a rapid transition toward a modern market-oriented, mostly private, financial system needed to be accompanied by significant, concerted efforts to develop efficient institutions and skilled staff. There was consequently a strong interrelation between the two components, and the success of the reform program was anticipated to be closely dependent on their timely joint implementation. The policy component was articulated around four elements: (a) improvements of financial policies, (b) modernization of banking legislation, (c) bank restructuring, and (d) development of financial markets. The core of the institutional development component related to a comprehensive program of technical assistance and automation programs for banks aimed at their institutional strengthening and privatization.

Evaluation summary

An important component of the Bank's early assistance program was the Financial Institutions Development Loan (FIDL). This US$200 million loan included both policy and institutional development components. The former aimed at improving financial sector policies (removing interest rate subsidies, reducing directed credit, modernizing banking legislation by, *inter alia,* introducing a law on collateral security, a deposit insurance mechanism, and revising bankruptcy laws, helping develop capital markets) and at restructuring the state-owned commercial banks (SOCBs), with the ultimate goal of their privatization. To achieve the latter objective the Bank conceived, in close cooperation with IFC, an innovative "twinning" program by means of which selected foreign banks would provide one-to-one technical assistance (for a fee) to seven of the nine SOCBs. The twinning arrangement provided a mechanism for foreign banks to explore the Polish market without risk, taking an option to participate as investors in the domestic twin upon privatization. It also helped to establish long-term commercial banking relations between the domestic banks and their foreign twins. In spite of its merits, some design features of the FIDL had a negative effect on the effectiveness of the program. First, the domestic twin banks did not fully participate in the program design or in the selection of foreign twins. Second, the fee-based contracts did not provide financial performance incentives to the foreign twins. Third, the legal documents did not fully and clearly spell out the conditionality that was intended by the parties (for example, some Bank staff believed that adoption of a law on collateral security was a condition for tranche release, but this was not reflected in the loan agreements).

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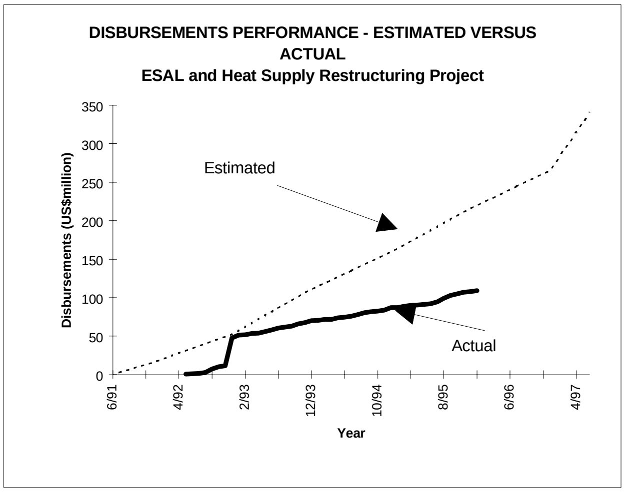
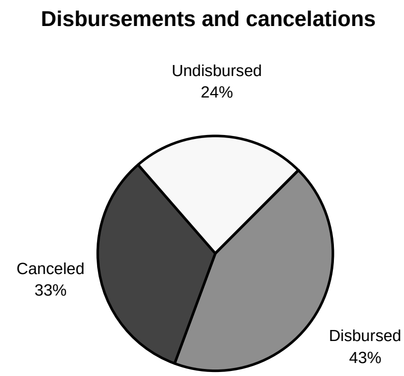
Date	**6/30/91**	**1/22/92**	**6/30/92**	**2/16/93**	**6/30/93**	**3/14/94**	**6/30/94**	**5/23/95**	**3/27/96**
Implementation Progress	NR	1	1	1	1	1	S	S	S
Development Objectives	NR	1	1	1	1	1	HS	HS	HS

03/01/97

PROJECT SUMMARIES 13,14,15,16,17,18 AND 19 HEAT SUPPLY RESTRUCTURING PROJECT AND ENERGY SECTOR ADJUSTMENT LOAN[1]



Project ID 8576
Loan number L3377, L3378, L3379, L3380, L3381, L3382, L3383.
Approval 6/26/91
Effectiveness Various
Closing Various
Approved $340m
Disbursed $146.1m
Canceled $112.5m
Undisbursed $81.4m
Project Status Various.



Objectives

The project's objectives were to (a) support implementation of comprehensive energy sector restructuring, commercialization and privatization of restructured enterprises and of petroleum exploration and production activities, introduction of a consistent regulatory framework between network subsectors, and achieve significant further improvement in energy pricing policies; (b) extend the life of existing district heating assets through rehabilitation and introduction of modern technologies and materials, thereby significantly reducing capital expenditures; (c) enhance energy conservation in the district heating sector through financing appropriate investments; and (d) reduce environmental pollution through investments in energy-efficient equipment and systems as well as by supporting programs to replace small coal-fired boilers by gas-fired boilers.

Components

The project comprised of the following major components: (a) An investment component (US$265 million) consisting of (i) investments in equipment and materials. Funds for appraised project components that were to be channeled directly to the five appraised District Heating Enterprise (DHE) borrowers (Gdansk, Gdynia, Katowice, Krakow, and Warsaw). WBK was to channel funds for investments by other enterprises through the credit line and would be responsible for appraising subprojects based on agreed eligibility criteria; and (ii) technical assistance through consultancy services, studies, and staff training to optimize system development and to enhance management and staff efficiency and capabilities within the district heat sector. (b) A sector policy component (US$75 million) to provide quick- disbursing balance of payments support needed to deal with the increased energy prices resulting from the switch of CMEA trade from barter to hard currency trading arrangements at world market prices and declining export revenues as a result of the collapse of the CMEA market.

Evaluation Summary

The SAL confirmed liberalization of coal prices and forthcoming price adjustments for power, oil, gas and district heating. However, the main vehicle for a systematic reform and strengthening of the sector was a $75 million Energy Sector Loan (ESAL) which was approved by the Board in June 1991 as part of a package of seven loans (the other five supported heat supply companies and one credit line for similar investments). The ESAL, through an ambitious program of action, operationalized the Bank's strategy in the sector. Implementation of the program started out well with a high credibility of the program having been assured by steps taken during preparation of the ESAL and as part of the implementation of the Energy Resource Development project and the SAL. A good understanding of the ESAL was facilitated further by a two-days seminar held in Poland with the principal affected agencies/people in spring 1991. The Bank considered progress as generally sufficient in three out of the above four areas - the exception being the regulatory system - in 1993 it indicated to the Government that it was prepared to accept the submission of a new Energy Law (containing provisions for regulations) to Parliament, as meeting the requirements for release of the second tranche. However, in the light of differing views within the Government, the latter indicated that it was not ready to submit the proposed law to Parliament. The second tranche ($37.5 million or one-half of the loan) of the ESAL was therefore canceled. The energy sector has been resistant to change not only in coal with its large and unionized labor force, but perhaps even more in the most monopolized areas, gas/oil and, minimally in power.

Turning to Bank financed investment projects, the $250 million loan to PGNG approved in June 1990, was followed in June 1991 by five loans for District Heating Enterprises (DHE) in: Gdansk - $40 million, Gdynia - $25 million, Katowice - $55 million, Krakow - $25 million, and Warsaw - $100 million, and a $20 million credit line to the Bank of Poznan for onlending to smaller DHEs (supplemented by a $50 million loan from EBRD); in November 1994 by a loan of $45 million for the DHE in Katowice (the earlier loan had not been signed because the system area had been redistricted); and in November 1995 by a $160 million loan to the Polish Power Grid Company (PPGC). All investment operations had been fitted into the sector strategy and linked to the ESAL regarding sector conditionality. In turn, each of these operations addressed internal aspects to the borrowing entity, designed mainly to improve their institutional/ organizational, technical and financial situations.

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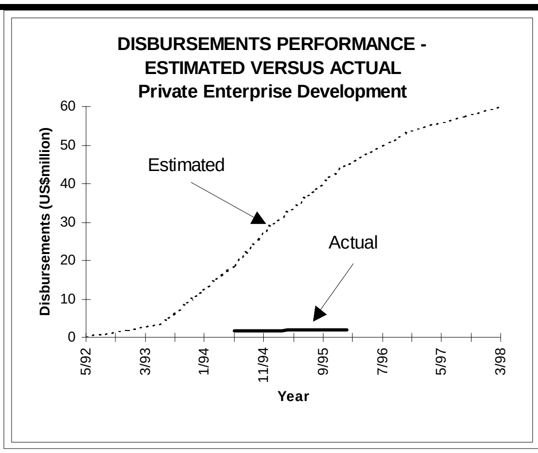
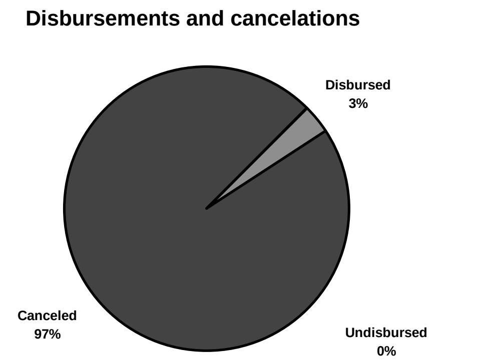
Date	6/30/91	6/30/92	2/17/93	6/30/93	6/30/94	5/31/95	6/1/95
Implementation Progress	NR	1	1	1	S	S	S
Development Objectives	NR	1	1	1	S	HS	HS

[1] It is not practical to present separate project summary sheets for each of these projects because the Bank’s database treats them as one consolidated operation (Project ID 8576)

PROJECT SUMMARY 20 - PRIVATE ENTERPRISE DEVELOPMENT(L3467)



Basic data:
Approval 5/7/92
Effectiveness 12/18/92
Closing 6/30/99
Approved $60m
Disbursed $2m
Canceled $58m
Undisbursed $0m
Project Status Fully disbursed



Objectives

The principal objective of the project was to support the creation of new private businesses, which emerged as one of the centerpieces of the Government's program to transform the Polish economy. To meet this objective, the project provided financing for efficient investment in private enterprises, particularly in Small- and Medium-Size Enterprises (SMEs), and for a program aimed at overcoming deficiencies of business practices and building support services for private enterprise development.

Components

The project included two related components: (i) investment financing, under which PDB acted as the second-tier institution responsible for channeling Bank resources through participating banks to a wide range of SMEs; and (ii) institutional strengthening of the Office of the Undersecretary for Business Promotion, the Project Support Unit of the Cooperation Fund (PSU), and local business promotion agencies.

Evaluation summary

The Bank's major contribution to the emergence of Poland’s market economy has been its support of the macroeconomic reforms, price liberalization, and international trade liberalization. The Bank tried to assist the nascent private sector by helping to create an environment favorable to bank lending to SME and by channeling Bank funds through the commercial banks to SME, and by facilitating the acquisition of business skills and the start-up of new businesses through business support centers and business training programs.

After preliminary analysis of the problems, the Bank formulated the Private Enterprise Development Project (US$60 million). The project had two components: US$58 million for investment financing, and $2 million for institution building. The investment financing component was intended to be onlent by the Polish Development Bank (PDB) to participating banks, and through these, onto enterprises at the prevailing market interest rates. The principal objective of the project was to support the creation of new private businesses. To meet this objective, the project provides financing for efficient investment in private enterprises, particularly in Small- and Medium-Size Enterprises (SMEs), and for a program aimed at overcoming deficiencies of business practices and building support services for private enterprise development. The second component targeted institutional strengthening of the Office of the Undersecretary for Business Promotion, the Project Support Unit of the Cooperation Fund (PSU), and local business promotion agencies.

At the time the project was conceived in 1991, Poland was very short of foreign exchange and of funds for medium term lending. However, by the time of implementation in 1993 there were other sources of funds, both from other donors with less stringent conditionality, and from Polish domestic savings. The project suffered from the fact that the apex lender PDB was not well suited to the task envisaged for it. The loan disbursed very little and the technical assistance in the project was not utilized. The objectives of the project were in fact being supported by other donors who were willing to provide grant support for business training and start-up centers. Despite the good economic analyses, the project itself accomplished very little. At the time it was conceived, the project made sense, but Poland's economic transformation proceeded faster than anticipated (making more domestic funds available for bank lending) and other donors jumped into the type of lending envisaged for the project. Other donors also provided on a grant basis the technical assistance visualized in the project. The Bank's efforts were not well coordinated with those of other donors, but given that the Bank's loan funds did not disburse and that the Bank's technical assistance funds were not utilized, there was little opportunity for the Bank to take the lead in donor coordination.

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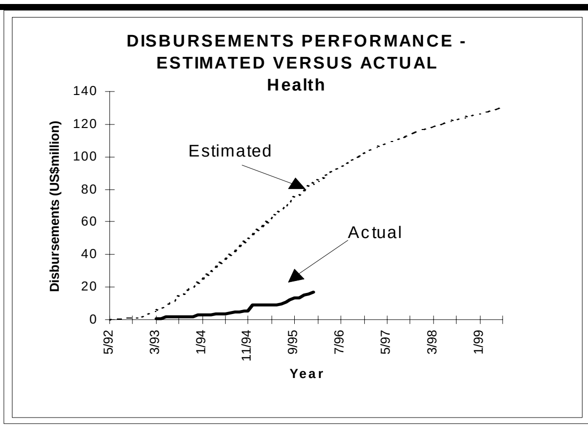
Date	6/30/92	2/16/93	6/30/93	3/1/94	6/30/94	5/22/95	3/27/96
Implementation Progress	NR	2	3	3	HU	HU	HU
Development Objectives	NR	2	3	3	U	U	U

PROJECT SUMMARY 21 - HEALTH (L3466)



Basic data:

Approval 5/7/92

Effectiveness 1/15/93

Closing 6/30/99

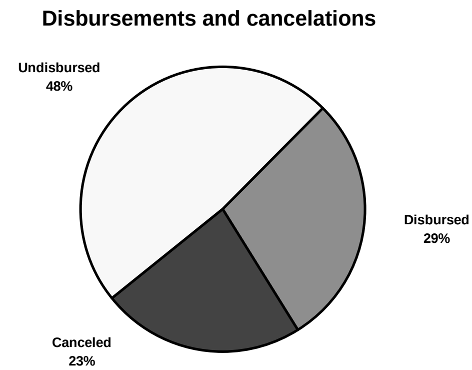
Approved $130m

Disbursed $37.2m

Canceled $30m

Undisbursed $62.8m

Project Status Active



Objectives

The Health Services Development Project's objectives were: improving health (through the introduction of two new services: health promotion and primary health care), strengthening the health sector's contribution to the social safety net (through capacity building in policy making, planning, management and evaluation and access to improved information systems), and containing upward pressure from the health sector on the state budget (through decentralization in three pilot regions and better cost control). The project (HSDP) had four components and 15 sub-components and a duration of seven years. Bank support was for $130 million, which was reduced, to $100 million, after restructuring (Closing date: 12/31/1997).

Evaluation summary

In the health sector the Bank undertook an ambitious program aimed at arresting a twenty-year decline in the health status of the population and at ameliorating the adverse effects of the economic crisis. The Bank's health sector specialists felt under pressure to expedite preparation of a project, whereas the Polish counterparts, located under four separate ministries, were not ready to define their priorities. As a result, the US$130 million project was put together without full participation -and ownership- of the stakeholders, giving little attention to gender issues and missing opportunities for donor coordination, especially regarding the provision of grant-based technical assistance. The project attempted to do too much and in too complex a manner, over-estimating both the local administrative capacity and the leverage that the project would provide as incentive for reform. In spite of several reductions in scope and restructurings, it never really took off the ground.

Too much and in too complex a manner was attempted in one operation. No pipeline approach was considered and sector and project work were combined (HSDP sector paper and SAR, January 1992). The Bank overestimated the leverage the project would provide as incentive for reform, especially when considering GOP annual outlays. The HRD self-assessment notes that in health, there was insufficient time for project design, specifically regarding institutional capacity assessment and insufficient exploration of alternatives.

Nor was sufficient attention given to assessing institutional capacity, developing performance criteria and ensuring cross-linkages within and outside the sector. The complexity and expectations of the project design posed extraordinary difficulties. As the Poles were unfamiliar with the project concept, they had little understanding of or capacity in the basics of Bank financed project implementation. It took far more time than expected to mount, train and operationalize project teams and support systems. These factors contributed significantly to a loss in momentum at project level, especially as at sector level each ministry was in the grip of transformation.

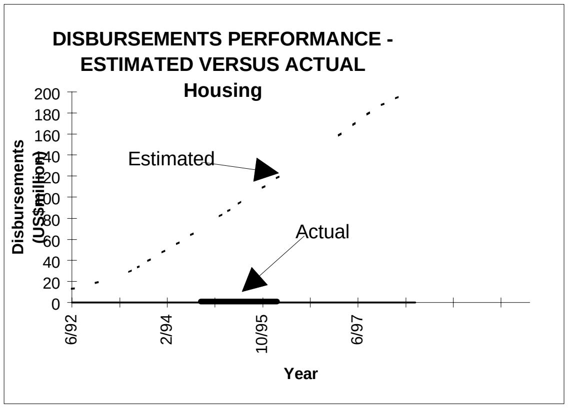
The components also had institutional weaknesses such as the introduction of an anglo-saxon community nursing model requiring retraining/training of a new cadre of professionals without a clear indication of where such training capacity would be provided. The project also made no mention of the role of private practice. A major weakness common to both Borrower and the Bank was the absence of successful attemps to consolidate an overall picture of all the donor resources available to the MOHSW and the continuing monitoring of these resources to optimize their use. In June 1994 the project was significantly restructured and the project implementation unit strengthened. This led to an improvement in implementation performance.

The Ministry of Health and Social Welfare expressed dissatisfaction at the irregularity of Bank communications, which suggests to them wavering Bank commitment to the project. The Ministry provides the example of when the loan was reduced from US$130 million to US$100 million, they say "the rescheduling did not arrive from Washington for over one year, in spite of seven letters from the Polish party and WB commitment to send it in several days". While communications with the Resident Mission have improved following the appointment of a liaison officer, the Resident Mission still lacks the authority to act as anything but a transmitter of information. The Ministry believes that if the Bank could provide a continuous counterpart in the Bank and if the Resident Mission were empowered with greater decisions making authority, this could significantly improve the performance of project implementation.

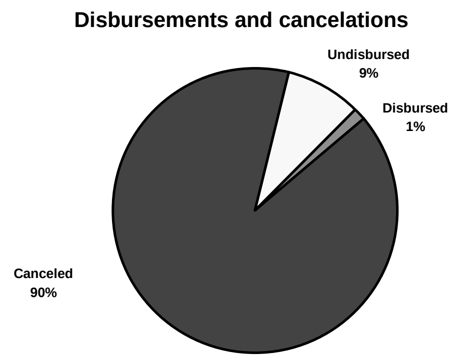
Form 590 Ratings

Date	**6/8/92**	**8/4/92**	**8/25/92**	**12/9/92**	**2/10/93**	**4/6/93**	**6/18/93**	**6/30/93**	**6/16/94**	**6/30/94**	**5/31/95**	**6/28/96**
Implementation Progress	NR	2	3	3	3	3	3	3	U	U	S	S
Development Objectives	NR	1	1	2	2	3	3	3	U	U	S	S

PROJECT SUMMARY 22 - HOUSING (L3499**)**



Basic data:
Approval 6/25/92
Effectiveness 5/6/93
Closing 12/31/98
Approved $200m
Disbursed $2.5m
Canceled $180m
Undisbursed $17.5m
Project Status Active



Objectives

The project aimed at supporting the transition from heavily subsidized, centrally controlled housing production to more efficient, market-based supply through private initiative. Its objectives were: (a) the creation of banking services to finance mortgages, (b) a greater private sector role in housing production, (c) incentives to split existing cooperatives into smaller home-builder associations, (d) competitive bidding for construction contracts, (e) pricing of land as part of housing costs, (f) the removal of legal and regulatory constraints to private initiative, and (g) greater efficiency in the use of scarce local Government resources.

Components

The project included the following components: A Line of Credit for Mortgages: To alleviate the risks of long-term lending when inflation is high and volatile, the mortgage instrument was designed to charge a variable market rate of interest while regularly adjusting payments to changes in nominal wages (a Dual Index Mortgage or DIM). When payments were less than amortization due, the unpaid part would be added to the loan balance to be paid off over the lifetime of the loan. It was hoped that the onlending banks would therefore be able to bridge the resulting liquidity gap. The special credit program supported by the proposed loan would finance some 27,000 dual index mortgages. A Line of Credit for Construction: A line of credit (up to three years) was targeted at financing the construction of about 15,000 new dwelling units in projects carried out by developers. Anticipated costs included civil works, land, smaller infrastructure, and working capital. A first-year pipeline of sample subprojects was identified in 14 cities throughout the country with an estimated aggregate cost of US$210 million. Technical Assistance: The principal recipients of Technical Assistance were (a) the Mortgage Fund, (b) the Project Unit within the Ministry of Spatial Economy and Construction, “the Bureau for the Project to Finance Housing Construction” (c) participating banks willing to engage in mortgage lending, and (d) municipalities undertaking reform of land use practices, financial management, and urban infrastructure planning.

Evaluation summary

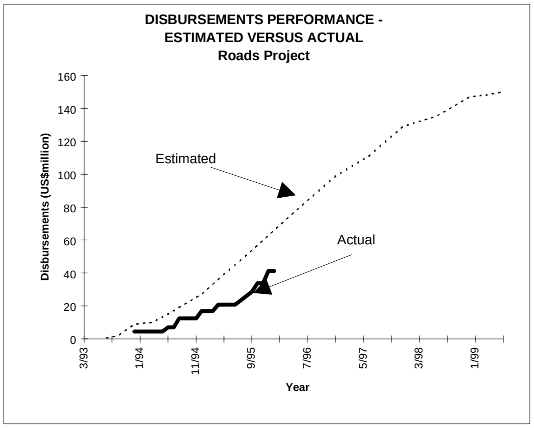
Responding to a direct request by the Polish government to the Bank President in February 1990, staff were instructed to expedite preparation of a *housing* project. A US$200 million loan was approved in June 1992. The project attempted to support the government's movement away from heavily subsidized housing production to a market-based system which eliminated subsidies for new housing. The objective was that the most needy rather than the purchasers of new homes, who tend to be middle and upper income families, would receive subsidies. It also attempted to replace existing subsidies with finance, with the finance modeled on a successful series of housing finance projects in Mexico

From a loan disbursement perspective, this project clearly did not work. In an economy undergoing major restructuring of production and ownership rights, and simultaneously experiencing a severe recession, it is reasonable to expect housing investment to contract sharply—all the more so considering that housing was one of the most highly subsidized and publicly controlled goods under central planning. However, to argue that the project had a basic design flaw or that the lack of disbursement is evidence that the project should have been renegotiated is contradicted by what occurred in the sector. Now, five years after loan approval, many of the aspirations of the project are in place: interest rate subsidies for new housing have been eliminated, and unsubsidized finance has developed.

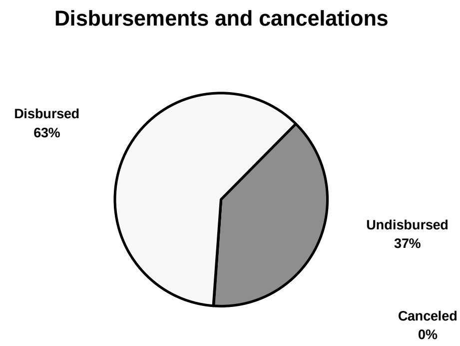
Form 590 Ratings

Date	6/30/92	2/4/93	6/30/93	3/15/94	6/30/94	5/25/95	3/26/96
Implementation Progress	NR	1	2	3	U	U	U
Development Objectives	NR	1	2	3	U	S	S

PROJECT SUMMARY 23 - ROADS PROJECT (L3564)



Basic data:
Approval 3/9/93
Effectiveness 9/30/93
Closing 6/30/99
Approved 150
Disbursed 93.9
Canceled 0
Undisbursed 56.1
Project Status Active



Objectives

The main objective of the project was to support and speed up the modernization and transformation of the transport sector with special emphasis on the national road network and its administration, the General Directorate of Public Roads (GDDP). In particular, the project intended to help improve the road network, continue the Bank's support started in the First Transport Project for the development of modern management tools in GDDP, introduce competitive bidding for road works, improve the road safety situation, and initiate the development of modern combined transport systems.

Description

(a) Policy and Institutions. It was intended that the Government would develop and implement policies covering adequate maintenance and strengthening of high-priority roads, including bridges, planning and project evaluation techniques, competitive bidding procedures for carrying out of works, and road safety. (b) Investments. A portion of GDDP's 1993-95 investment program in the following areas would be financed from the loan: rehabilitation, upgrading, realignment and/or resurfacing of priority road sections, emergency bridge reconstruction and repair, road safety measures, technical assistance (TA), studies and training of highway staff, and a pilot project for the development of combined transports.

Evaluation summary

As the post-1989 reforms took hold, there was a marked shift in traffic from railways to roads. Following preparation work done in Poland, a road project was ready for appraisal in mid-1992, and a loan of US$150 million was approved in May 1993. It addressed institutional issues in the MTME and GDPR; policies on maintenance of highways, planning and project evaluation techniques, competitive procurement procedures, and road safety; and rehabilitation and modernization of roads within the 1993-95 investment program.

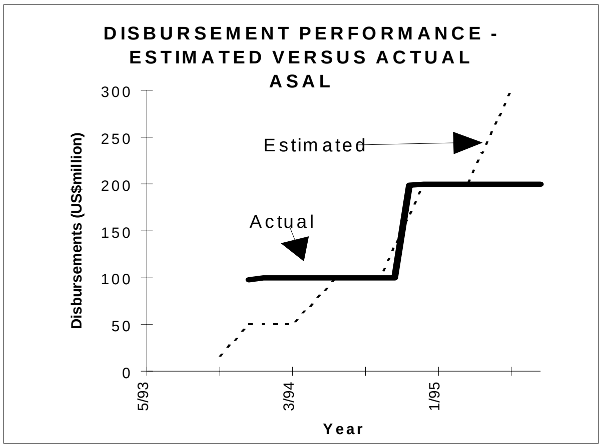
With the exception of some legal problems early on about the interpretation of clauses in Poland’s new Provisional Constitution, which delayed project effectiveness and the start of road construction, implementation has generally moved ahead well. Cooperation between the Bank and the borrower has been good, having started well before negotiations. This was the first infrastructure project implemented almost entirely under construction contracts rather than purchases of foreign equipment. The project helped GDPR learn to use new sound contracting procedures and offered excellent opportunities for Polish contractors, mostly commercialized public companies and a number of private companies. Forty of an expected 48 contracts were signed (only five with foreign firms) at the beginning of 1996, without any major problems. An internationally recruited consulting firm with extensive experience in supervising contract work provided technical assistance to Polish contractors.

Because of the government's reluctance to use loan funds when it could set grant funds, the loan for highways and sector reform was reduced early on from US$8 million to US$4.75 million. The GDPR also expressed some concern about the US$9 million limit set for the revolving fund established under the loan, fearing that difficulties in paying contractors could arise because of the abbreviated period for highway construction in Poland, between June and August. No payment problems have surfaced so far, but the subject should be kept under review.

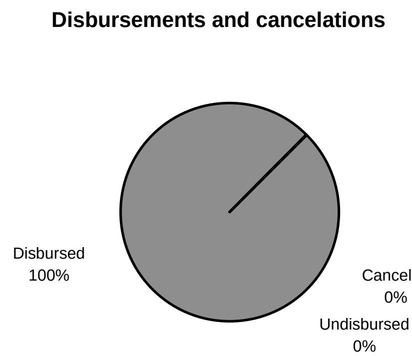
Supervision - Form 590 Ratings

Date	**6/30/93**	**3/25/94**	**6/30/94**	**5/31/95**	**1/4/96**
Implementation Progress	1	1	S	S	S
Development Objectives	1	1	HS	HS	HS

PROJECT SUMMARY 24 - Agriculture Sector Adjustment Loan (L3600)



Basic data:
Approval 5/4/93
Effectiveness 9/29/93
Closing 3/31/96
Approved 300
Disbursed 300
Canceled 0
Undisbursed 0
Project Status Fully disbursed



Objectives

The loan sought to support the Medium-Term Sector Adjustment Program (MTSAP) undertaken by the Government of Poland. It was part of the continuing strategy of the World Bank to support the overall Economic Transformation Program. The loan was designed to support implementation of policy actions over a period of 18 months. These policy actions were included in the three-year MTSAP developed by the Government in collaboration with the Bank.

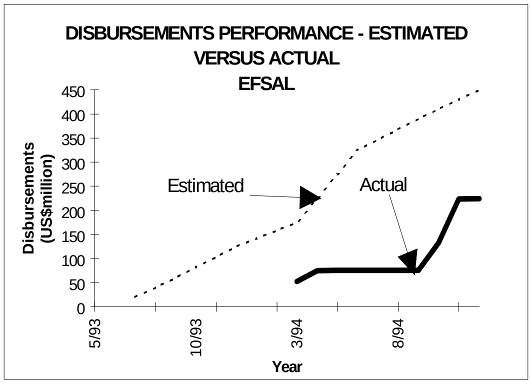
Evaluation summary

The ASAL was an example of careful preparatory work and Bank-government cooperation. Following two earlier Bank loans for agriculture which had been rushed to Board approval without adequate preparation, the Bank organized an agricultural task force jointly with the Government and the EC. This task force produced an important document, the Agricultural Strategy for Poland, which would become the framework for government action and for aid coordination by bilateral and multilateral donors. From this participatory framework emerged the ASAL, which embraced almost the full range of policy elements needed for the transition of Polish agriculture. It was exceptionally comprehensive and offered the opportunity for productive dialogue on most sector issues. It was exceptionally comprehensive and offered the opportunity for productive dialogue on most sector issues. The loan’s emphasis was to accelerate the privatization and restructuring of SOEs and state farms, to formulate a long-term land policy that would facilitate the expansion of the private market for farmland, and to implement institutional reforms aimed at facilitating private sector development in agriculture. During implementation, however, this ambitious and complex loan fell short of its potential usefulness because it lacked the permanent presence in the field of a project officer with full supervision authority to encourage lasting institution building and inter-agency coordination. The project supported the implementation of a wide range of agricultural policy measures which were part of the MTSAP. developed by the GOP in collaboration with the Bank in the context of the preparation for the ASAL. The objectives and benefits of this adjustment operation are summarized in Annex B. The issues addressed and the action program proposed under ASAL comprise the lion's share of the recommendations made in the *Agricultural Strategy for Poland* and, as such, were fully consistent with the Bank's assistance strategy in the sector. The design of the ASAL has particular features which go a long way to explaining this operation's accomplishments and shortcomings: First, it had as a basis a mutually agreed strategy for the transformation of agriculture and was an integral part of a GOP adjustment program (MTSAP). Both aspects ensured that the ASAL action program was consistent with government policy, solidly anchored into the government program and actively supported for the immediate future. Second, the scope of the ASAL action program was exceptionally broad. (In fact, it was one of the first ASALs addressing the agricultural transition policy issues in such comprehensive way.) The rationale for this wide scope was that the reform program was by nature broad and it was in the interest of the Bank to "institutionalize" as much as possible of that program in order to avoid backsliding on the reforms by subsequent administrations. The downside of the broad approach is the danger of diluting the efforts on too many subprograms at the expense of carrying through all of them in the desirable depth. The Bank's opting for the broad approach would have been justified if it had been prepared to sustain an extraordinary supervision and maintainence effort. In the event, it did not and realistically could not have expected to supervise effectively the 78 monitorable actions and 33 technical assistance studies and projects included in the loan. It is difficult to judge if the advantages of the broad approach would have compensated for the associated disadvantages. With the experience of the somewhat uneven performance of the project, it is suggested that the action to be carried out under the ASAL should have been confined to those which realistically could have been expected to be resolved within the project's two-year implementation period. The resolution of more complex agricultural transition issues with gestation periods exceeding the project life, should have been "projectized," i.e., become subject of freestanding technical assistance and/or investment projects. Issues which clearly belong to the second category include state farm divestiture, land market development and small farm consolidation, and the reorganization of the agricultural research, education and extension system. Such an approach would have allowed a more detailed and structured way of addressing these complex issues and if initiated in time would have avoided backtracking by subsequent administration. Third, earmarking part of local currency generated by the loan for the development of rural infrastructure provided a strong incentive for the MAFE for supporting the policy agenda which was not altogether in the short-term interest of the agriculture sector and its political representation. Fourth, the implementation of the ASAL program was supported by intensive technical assistance mostly financed and supplied by bilateral donors. The difficulties for the Bank to supervise some 37 technical assistance projects allowed some of these to deviate from agreed strategies and brought about a situation in which the Bank was not always fully aware of their performance and recommendations. Although slower than expected and to some extent uneven, the overall performance of the Borrower in carrying out the ASAL program has been satisfactory

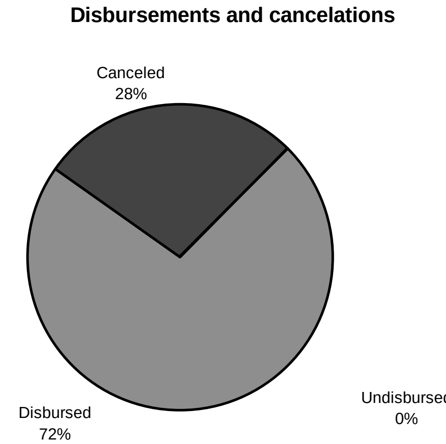
Supervision - Form 590 Ratings

Date	**6/30/93**	**6/30/94**	**5/25/95**
Implementation Progress	NR	S	S
Development Objectives	NR	S	S

PROJECT SUMMARY 25 - Enterprise and Financial Sector Adjustment Loan (L3599)



Basic data:
Approval 5/4/93
Effectiveness 1/6/94
Closing 6/30/96
Approved $450m
Disbursed $325m
Canceled $125m
Undisbursed $0m
Project Status Active



Objectives

The loan gave support to the Government's Enterprise and Bank Restructuring (EBRP) Program. The EBRP Program was an integrated attempt at (a) dealing simultaneously with the debt overhang of state-owned enterprises (SOEs) and the portfolio problem in the banking system and (b) resolving the root cause of the SOE crisis, i.e., the unclear structure of enterprise ownership and governance. In addition, the loan also sought to support a comprehensive program to strengthen bank supervision, to allow more rapid bank privatization.

Description

Because of the public finances crisis, mounting pressure on the balance of payments, and the continued need to support a strong program of policy reforms, the loan was designed to be entirely quick- disbursing with, however, US$100 million set aside to support the Debt and Debt Service Reduction (DDSR) package with London Club creditors. The other US$350 million was desinged to be disbursed in three tranches, as implementation of most of the measures supported by the loan was expected to take place over a two- to three-year period. A first tranche of US$125 million, supporting the adoption of key legislation needed for the EBRP Program, would be made available following effectiveness. The second tranche of US$100 million would support initial progress on implementation, particularly with respect to bank-managed enterprise restructurings. The third tranche of US$125 million would support further implementation, particularly that of restructurings and liquidations supported by Government interventions.

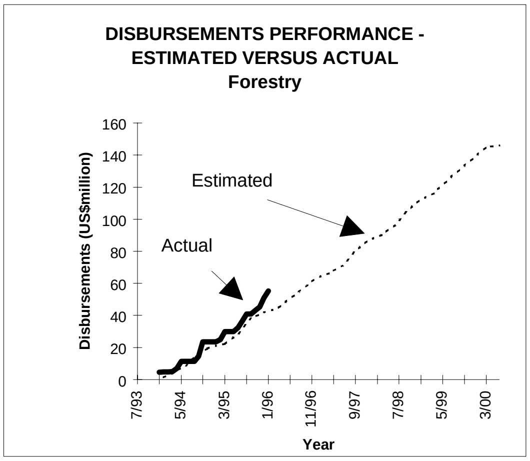
Evaluation summary

The EFSAL was a pathbreaking loan, which was the result of original ideas by a small group of Polish officials, developed in full cooperation with Bank staff. It had dual objectives: (a) to deal simultaneously with the debt overhang of SOEs and the portfolio problem in the banking system; and, (b) to resolve a root cause of the SOE crisis, i.e., the unclear structure of enterprise ownership and governance. The loan, which also aimed at allowing faster bank privatization by strengthening bank supervision, stimulated the banks to play a central role in restructuring enterprises through mandatory conciliation agreements and provided the SOEs with new opportunities to succeed in their reorganization efforts. Taking into account that fast liquidation or restructuring of sensitive enterprises could be socially too painful, or politically costly, the Bank agreed to finance the creation of a special Intervention Fund designed as a social shock absorber to mitigate the consequences of downsizing and liquidation of some large SOEs. But the loan’s design suffered from insufficient previous economic work in the financial sector and from limited information about the situation of the enterprises. The loan’s intended conditionality was also weakened by lack of precision in the legal documents, which did not give the Bank a clear mandate to monitor the agreed pace of privatizatin or to supervise the operations of the Intervention Fund. Indeed, serious concerns are being raised now about the operations of the Fund, which may have been diverted to subsidize non-viable enterprises. In early FY97 the third tranche was canceled in the amount of $125m at the government’s request. This decision may weaken the Bank’s review of Intervention Fund operations. Notwithstanding these limitations, EFSAL was most effective in proposing an innovative decentralized approach to the recovery and restructuring of banks’ portfolios, isolating them from political influences and enhancing their autonomy.

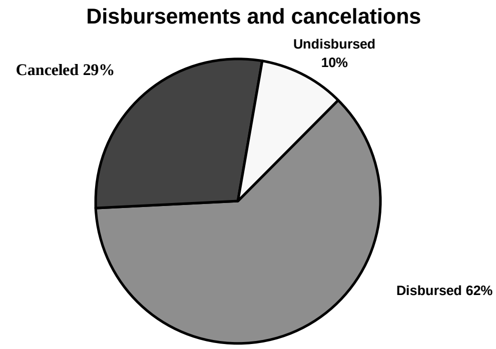
Supervision - Form 590 Ratings

Date	**6/30/93**	**3/25/94**	**6/30/94**	**5/24/95**	**4/4/96**
Implementation Progress	NR	1	S	S	HS
Development Objectives	NR	1	S	HS	HS

PROJECT SUMMARY 26 - FORESTRY DEVELOPMENT PROJECT (L3641)



Basic data:
Approval 7/29/93
Effectiveness 11/29/93
Closing 6/30/00
Approved $146m
Disbursed $89.9m
Canceled $42m
Undisbursed $14.1m
Project Status Active



Objectives

The overall objective of the project is to assist the Government in executing its Program of the Development of selected forestry Branches and Protection of Ecosystems in National Parks for 1993- 1997, thereby ensuring the protection of Poland's forest ecological capital, providing for social benefits, and accommodating sustainable forestry. Description.

Description

The project had seven components that were grouped into four categories: (i) Environmental Forest Management. The project funded activities to increase the vitality of forest stands and their ability to overcome the effects of present and future levels of air pollution and other stress factors. Funds were provided for: labor- intensive activities such as tending and thinning; restoration of air pollution damaged forests to protect delicate watersheds and prevent soil erosion; afforestation of land moving out of agriculture; and a genetic conservation and improvement program to ensure the availability of high quality seed; (ii) Modernization of Harvesting, Skidding, and Transport Equipment. Modern and efficient harvesting, skidding, and transport equipment that aimed at reducing the negative environmental impact of current practices were financed under the project. The General Directorate of State Forests (GDSF) were charged with developing a privatization plan for harvesting, skidding, and transportation operations by June 30, 1994; (iii) Ecosystem Conservation in National Parks. The project provided funding for the core component of a program to conserve Poland's ecosystems located in the core component of a program to conserve Poland's ecosystems located in the national park system. Management activities within all national parks followed the plans of national park protection developed as a result of the project; (iv) Institutional Development.

Evaluation summary

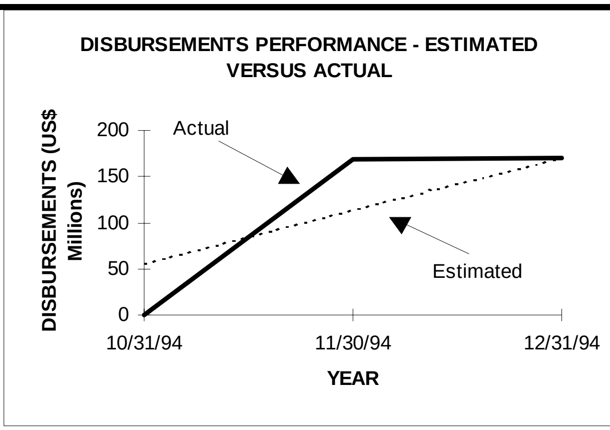
The **Forestry Development Support Project** was identified in the context of the preparation of the GEF-funded Forest Biodiversity Protection Project (briefly described in Annex B). Prepared by the Ministry of Environment with Bank assistance, the project was appraised in June 1993, approved by the Board in July 1993, and became effective in November of the same year. It is expected to be completed in June 2000.
The project's objectives are to assist in developing selected forestry branches and ecosystem protection in national parks. The project is consistent with the Bank's forestry policy and supports the country assistance strategy by aiming at structural reforms in forestry, and efficiency gains and growth in the wood industry sector. The emphasis of this project is clearly on supporting efficiency, growth and on the Bank's operational emphasis on environmental sustainable systems of natural resource management. Although primarily technically oriented, the project provides for a framework for the privatization of forestry services and wood harvesting operations as well as for the preparation of a forest policy paper. To this limited extend, the project supports changes in the public sector's role in forestry.
The project is well designed to meet its overall objectives of improving the efficiency and environmental sustainability of the forestry system. The project design does not include tangible elements to reduce the public sector's role in forest utilization.
The project has been effective for over two years and implementation progress is being rated as **satisfactory**. All other performance ratings are **highly satisfactory** or **one.** Disbursements are actually 20 percent ahead of schedule.

Bank supervision has been heavy during the first two years (excluding 30 staff week per year), but declined to a more reasonable level of below 20 staff week in FY96. About half of the SPN time was spent in the field. Total direct accumulated supervision cost so far are about US$340,000, of which some 20 percent is trust-funded. The continuity and qualification of supervising staff has been good.

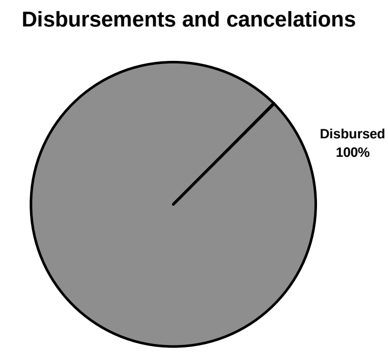
Form 590 Ratings

Date	**8/9/93**	**6/30/94**	**12/23/94**	**5/15/95**
Implementation Progress	1	S	S	S
Development Objectives	1	HS	HS	HS

PROJECT SUMMARY 27 - Debt and Debt Service Reduction (3804)



Basic data:
Approval 10/25/94
Effectiveness 11/15/94
Closing 6/30/95
Approved 170
Disbursed 170
Canceled 0
Undisbursed 0
Project Status Completed



Objectives

The loan accompanied the release of US$230 million equivalent that were set aside under an adjustment operations under implementation (US$30 million from the Financial Institutions Development Loan (FIDL 3341- POL US $100 million from the Agriculture Sector Adjustment Loan (ASAL 3600-POL), and US $100 million from the Enterprise and Financial Sector Adjustment loan (EFSAL 3359-POL)). The loan and the Set-Asides, for a total of US$400 million equivalent, planned to reimburse the Government of Poland for part of the amount expected to be incurred in connection with the implementation of the Debt and Debt Serv ice Reduction (DDSR) Program pursuant to the 1994 Financing Plan. The program includes a reduction of the approximately US$14.3 billion debt and past due.

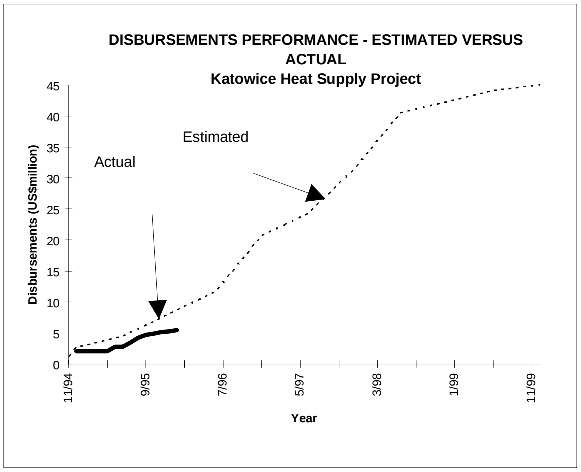
Evaluation summary

A joint effort of the Bank, the Fund and other major donors helped put together a debt and debt-service reduction package on Poland's massive debt to private banks, which had been in default. A successful London Club arrangement was reached in March 1994, which the Bank supported with US$400 million (US$170 million from the DDSR loan and US$230 million from "set-aside" funds (funds that had been reserved) from three previously approved adjustment loans. Poland used these funds to buy back a part of its outstanding debt. The Bank's support --financial, technical, coordinating-- for this important operation was pivotal. The deal provided Poland with exceptional amounts of debt relief, and helped to restore its creditworthiness and immediate access to international financial markets. The London Club agreement of 1994 represented a milestone towards the restoration of Poland's creditworthiness. In financial terms, the amount of debt-relief provided by this operation far exceeded the total value of disbursements on loans and grants from all sources received by the country in the five-year period 1990-94. The Bank assisted Poland to arrive at this agreement in several ways: with advice and technical assistance, with moral support vis-à-vis other donors, and with direct financial assistance, primarily through Loan 3804. Loan 3804-POL for US$170 million was approved in October 1994. In an excellent show of donor coordination, the IMF provided cofinancing for a similar amount. Two technical assistance projects financed by the Japanese Trust Fund and other technical assistance provided by the US Treasury enabled the Borrower to prepare and implement the operation. The Bank loan was fully disbursed within two months of Board approval. The DDSR operation aimed at assisting the Polish government to arrive at a definitive settlement of its overdue indebtedness with commercial creditors, and thus restore Poland's full creditworthiness and access to international financial markets. To this end, the Bank provided additional finance by releasing set aside funds from three ongoing adjustment loans: US$30 million from the Financial Institutions Development Loan (Loan 3341-POL approved in FY91), US$100 million from the Enterprise and Financial Sector Adjustment Loan (Loan 3599-POL approved in FY93), and US$100 million from the Agriculture Sector Adjustment Loan (Loan 3600-POL also approved in FY93). The funds from the Bank loans were used to reimburse the Government of Poland for part of the debt buy back costs incurred in connection with implementing the London Club agreement of March 10, 1994. The Bank also granted a partial waiver of negative pledge clauses in the amount of US$623.4 million, to allow for the collateralization of newly issued Polish bonds. Implementation of the operation was smooth and timely, thanks to the careful preparatory work that had been carried out by the Government, with strong support from the Bank, the Fund and bilateral donors. The Government's determination to put together a sound financial program was facilitated by an earlier commitment to the Paris Club that it would seek from private creditors DDSR terms comparable to those of the Paris Club, and that it would comply with the conditionality of an ongoing IMF extended facility program. The operation resulted in a debt-reduction equivalent of US$8.6 billion, or 60 percent of the total eligible debt, an amount and percentage higher than for most other similar cases. A key lesson of the experience confirms earlier OED findings: that DDSR operations are more likely to succeed when they follow, rather than precede, successful stabilization and structural reform efforts. Another valuable lesson is that the earlier requirements of the Paris Club that private creditors should grant comparable terms and that Poland should comply with IMF conditionality turned out to be instrumental in bringing about the positive results achieved by this operation.

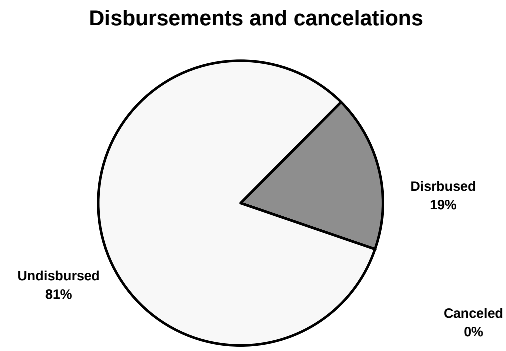
Form 590 Ratings

Date	**6/14/95**
Implementation Progress	HS
Development Objectives	HS

PROJECT SUMMARY 28 - KATOWICE HEAT SUPPLY PROJECT (L3809)



Basic data:
Approval 11/17/94
Effectiveness 12/19/94
Closing 6/30/00
Approved $45m
Disbursed $8.4m
Canceled $0m
Undisbursed $36.6m
Project Status Active



Objectives

The project's objectives were to: (a) enhance energy conservation and efficiency in the district heating sector; (b) extend the life of existing district heating assets through rehabilitation and introduction of modern technologies, thereby significantly reducing capital expenditures and operating and maintenance costs; and (c) reduce environmental pollution through investments in energy- efficient equipment and systems as well as by supporting a program to eliminate coal-fired heat-only boilers. The project intended to support implementation of the Government's ongoing energy sector restructuring program.

Description

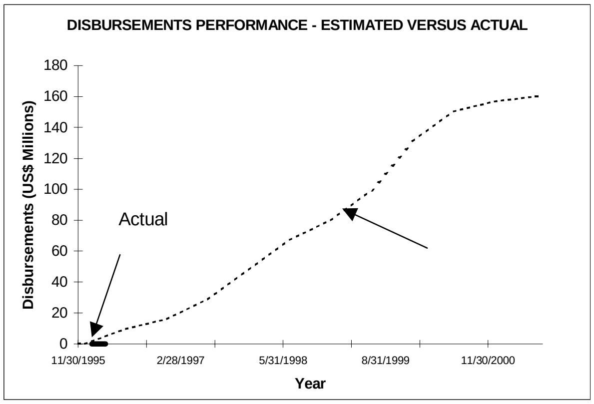
The project comprised of: (a) an investment cormonent consisting of investments in equipment to optimize the existing district heating system; and (b) technical assistance through consultancy services, studies and staff training to enhance management and staff efficiency and capabilities.

Form 590 Ratings

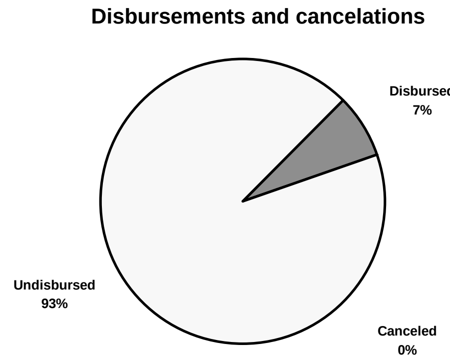
Date	**5/31/95**
Implementation Progress	HS
Development Objectives	HS

No interim evaluation is available for this project.

PROJECT SUMMARY 29 - POWER TRANSMISSION PROJECT (L3959)



Basic data:
Approval 11/28/95
Effectiveness 3/8/96
Closing 12/31/01
Approved $160m
Disbursed $11.6m
Canceled $0m
Undisbursed $148.4m
Project Status Active



Objectives

The project's objectives were to: (a) improve the reliability of the existing high voltage grid through rehabilitation and reinforcement; (b) enhance security of power supply in Poland by interconnecting the Polish power grid with that of Western Europe, thus improving Poland's power trade and wheeling capability; (c) improve the network's operational performance and control through transmission loss reduction and improved dispatching, thereby enhancing energy conservation and efficiency; (d) reduce environmental pollution; and (e) enhance PPGC's institutional capabilities. The project took place within the framework of a continuing policy dialogue with the Government regarding the energy sector restructuring program, particularly as it related to achieving further improvement in energy pricing policies and introduction of a sound regulatory framework.

Description

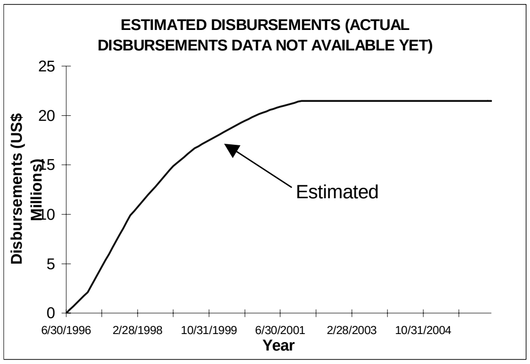
The project, supported by a US$160 million Bank loan, comprised of the following major components: the substation modernization program, consisting of: (i) the modernization of strategic substations in the Western and Central-Western regions of Poland (including a complete upgrading and modernization of the major substation Mikulowa) to meet the design performance levels required for system reliability and international interconnections; and (ii) shunt reactive compensation at specific substations, to ensure steady voltage control and avoid having to switch off 400 kV lines under light load conditions; the 220 kV line modernization program, consisting of urgently needed rehabilitation and upgrading of 220 kV lines to achieve satisfactory overall system performance levels and interconnect major substations for dispatching purposes; and technical assistance in selected areas of project and financial management, integrated resource planning and training, as required.

Form 590 Ratings

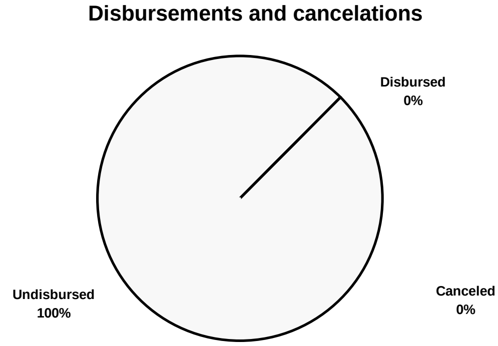
Date	**6/28/96**
Implementation Progress	HS
Development Objectives	HS

No interim evaluation is available for this project.

PROJECT SUMMARY 30 - BIELSKO-BIALA WATER (L4032)



Basic data:
Approval 6/4/96
Effectiveness
Closing 6/30/03
Approved $21.1m
Disbursed $0m
Canceled $0m
Undisbursed $21.1m
Project Status Active



Objectives

The overall objective of the project was to strengthen the management and operations of AQUA, upgrade water supply and wastewater collection services to improve the living standard and protect the health of the people of Bielsko-Biala and expand wastewater treatment to contribute to the clean up of the regions's water resources. Specific objectives included: Regarding water supply improve the safety, reliability and quality of water supply services to the people of Bielsko-Biala by upgrading the functioning of water treatment plants and the water transmission and distribution network; improve the efficiency of water production, transmission and distribution systems, thereby lowering operating costs through programs of plant and facility rehabilitation and repair, operational improvements, unaccounted- for water control (present unaccounted -for water is an unacceptably high 37 percent) and reduction of leakage from pipe networks and demand management; Regarding wastewater collection and treatment improve the safety, reliability and efficiency of the sewer system (pipe networks and pumping stations) by initiating programs of system rehabilitation and replacement and inflow/infiltration reduction; reduce pollution of local surface water by initiating a program of combined sewer overflow reduction; reduce pollutant emissions into the Biala River by providing full biological treatment to all wastewater generated in the AQUA service area. Regarding utility management and operation assist AQUA to improve its management and operations and strengthen its financial capacity and commercial orientation through a program of technical assistance and training

Description

The project components supported by the Loan constituted the least-cost 1996-2002 investment program, as follows: A. Water Supply A.1 Expand/improve service to Zlote Lany area A.2 Upgrade existing Wapienica, Szczyrk and Sola water treatment plants A.3 Undertake a program of rehabilitating and improving efficiency of transmission- pumping-storage-distribution system including programs of leak detection and repair and water main rehabilitation/replacement B. Wastewater B.1 Expand Wapienica and Industrial wastewater collectors B.2 Expand Komorowice capacity by 30,000 m3/day and complete Wapienica (8,000 m3/day capacity) wastewater treatment plants to provide primary and secondary treatment B.3 Undertake a program of rehabilitating and improving the efficiency of sewer system, including programs for: sewer rehabilitation/replacement, infiltration/inflow reduction, pumping station refurbishment and energy savings and combined sewer overflow reduction

Ratings

Form 590 date	6/10/96
ImplementationProgress	S
Development Objectives	S

No interim evaluation is available for this project.

03/01/97

ANNEXES

A company town

Introduction

1. Under the old regime, central planners pursued goals of regional equity, in the belief that all regions in the country should enjoy similar standards of living and economic growth rates. To achieve these goals it was the planners' task to intervene in the economy, redistributing resources from prosperous to depressed regions. Under this policy of substantial investment in depressed regions many company towns were established throughout Poland. Planners identified towns often in economically isolated or depressed regions, and created a company in those towns. Once established the company would provide for the economic and social livelihood of the town. The company would be owned and run by the State, with production and organizational make-up being determined remotely through planners' quotas and directives. Such directives would include a commitment to full employment in the community. The company was used by the State as an intermediary to establish deep rooted economic, social, and ideological links between citizens in these isolated communities and the parent like State. The company was involved in all aspects of the town's life, providing social services such as housing, health care, education, catering, retail, and also was the center of all social and cultural events.

2. It is against this background that in 1955 the government of Poland created the STAR truck factory in the small isolated city of Starachowice, formerly involved in metal, mining and steelworks production in a depressed region in the south of Poland. During the 40 years of the SOE’s existence, the community grew around STAR to become dependent upon it. With the financial backing of the State, STAR became Poland's biggest producer of utility trucks.

3. During the four decades that the State looked after STAR it remained economically viable. But crisis hit STAR following the economic liberalization and restructuring that took place in Poland in the early 1990’s. Suddenly both the company and the town were forced to survive in a new less protected environment. To support the GOP program to restructure former State-Owned Enterprises and Banks (EBRP), that one component of the Bank’s EFSAL provided financing to viable commercialized enterprises which faced a financing gap in their restructuring programs.

World Bank Assistance

4. The Industrial Development Agency (IDA) was charged with evaluating the pool of enterprises applying for these EFSAL funds. One of the first applicants to be approved for EFSAL funding was the STAR company of Starachowice, a company which is now considered by IDA to be one of the success stories of the program.

5. The STAR truck company met all the eligibility criteria for EFSAL funding. This former SOE had been commercialized, a restructuring plan existed that provided for the divestiture of all of STAR’s nonproductive assets, an agreement had been reached between management and the company’s trade unions on the number of and compensation for laid off workers, the wage levels for retained workers had been agreed upon, the ownership rights to the enterprise’s land and buildings had been clearly delineated, and there was sufficient evidence that the EFSAL funds would not be used to pay off other creditors’ claims.

6. The Bank had previous dealings with STAR between 1989-1990, when the Bank and IDA had supervised a comprehensive restructuring study of STAR carried out by Coopers and Lybrand, and financed by a Japanese grant. This strengthened STAR's case. STAR was seen as having a reasonable chance of survival, if it could be deeply restructured. It had already demonstrated its commitment to restructuring having carried out many of the recommendations of the Coopers and Lybrand study, including: producing better trucks (larger and with western engines), and substantially reducing the size of its labor force.

7. There were positive potential benefits in helping STAR restructure, including the potential to save 3,000 jobs and enterprises dependent on STAR. Also the local town would benefit greatly by the continued operation of STAR, since the town was still dependent on the company for local income generation.

8. The key to assisting STAR seemed to be through financing redundancies over a period agreed upon between management and trade unions. Between 1992 and 1994 STAR shed 2,500 employees. EFSAL funds were used to finance these redundancy payments equivalent to 3 months pay for each worker. Thus STAR was one of the first companies to benefit from the EFSAL funds.

9. While the financing provided by EFSAL funds was most welcomed by STAR, the application procedures for the funds were overly complex and poorly understood by applicants. STAR had gone ahead with redundancy of workers as planned, assuming that they would receive the full amount promised in a timely fashion, but fund disbursements were delayed for unexplained reasons leading the company to face a temporary financing crisis, and forcing it to take money from other key areas of the its activities until the EFSAL funds arrived. It was only *after* it completed the redundancy program that the funds arrived. But when the funds did arrive the total amount was only 80% of what had been expected.

10. Other SOEs that considered restructuring with support from IDA credit lines also felt that they were kept in the dark over the selection procedures for determining which enterprises would receive funding. In several cases, including that of STAR, SOEs were unclear as to whether they had been approved to receive funding or not. There were no avenues apparent to the SOEs through which they could redress their concerns as they arose, and the fund managers remained at arms length throughout the process of evaluating and disbursing funds.

11. While the Bank funds did provide the financing of a critical component of STAR's restructuring program, following this the enterprise's additional restructuring and modernization efforts were held back by a lack of additional funding. While the Bank was useful in assisting STAR to make an important step forward in restructuring the company through financing its redundancy program, the terms of EFSAL funds stipulated that each enterprise could only receive funds once.

12. In the absence of additional funding and technical assistance, since the completion of STAR's redundancy program it has been actively looking for a strategic investor to take it over, a move which might bring with it much needed technological transfers, marketing know-how, distribution networking, additional financing for production and promotion, and strategic experience, all of which are greatly needed by STAR.

Findings

- The STAR President estimated that 90% of impetus to restructure was motivated by desire to avoid bankruptcy. The remaining 10% of the impetus to restructure was motivated by strategic development, i.e. desire to improve future prospects, growth, etc.

- When SOE's overcame the threat of bankruptcy, then much of the incentive to continue restructuring efforts subsided.

- The company's relative success at restructuring was helped by cooperation between managers and trade unions throughout the restructuring process. Getting trade unions on-board prior to restructuring allowed managers to make necessary efficiency cuts in labor with minimal resistance.

- There was insufficient follow-up to see if STAR had other financing or technical assistance needs after the initial financial support.

- Cooperation between the management of STAR and the local city council was important in implementing the restructuring program. The city gave the company a tax break for a period of a few years, allowing the company a breathing space at a time of severe financial difficulty. The city took over social and other responsibilities formerly held by the company, freeing the company of these responsibilities so that it could focus on profit oriented activities.

- IDA's provision of funds to STAR acted as an endorsement of the company, which encouraged private investor interest in STAR.

- The three areas where additional Bank assistance would have been valuable to STAR were: additional financing to complete restructuring, technical assistance, and relaying information to STAR on how it can find alternative consulting and financing services.

Evaluation and recommendations

13. More could have been done to assist STAR and other enterprises to restructure, including: i) provide additional financing, beyond one time financing of the redundancy program, to meet other financing needs of the restructuring program; ii) provide business advice, for example through IFC's business advisory service; iii) in the absence of additional financing from the Bank, IDA could have done more to provide the company with information on alternative sources of financing and consulting; and iv) IFC could have encouraged twinning arrangements between Polish and western enterprises as it did with the bank twinning arrangement as part of the FIDL, an arrangement which led to the transfer of know-how and other synergy benefits on both sides.

14. While in the past towns like Starachowice have been isolated from events in urban centers, recent innovations in information technology now makes it possible to link companies like STAR to national and international financing and consulting services, as well as allow them to seek out and pursue strategic investors. The Bank might encourage other donors to productively exploit these recent advances in computer-based communications to assist restructuring SOE's. At zero marginal cost the Bank itself could disseminate lessons and best practices from its experience with restructuring SOE's through the internet to provide remote

micro level assistance to thousands of restructuring SOE's in Poland as well as Central and Eastern Europe. The Bank might encourage donor financing of such a scheme for the purchase and installation of computers with internet capabilities in target SOE's. In addition to disseminating World Bank lessons from experience, the Bank or IFC could provide an on-line menu of international and domestic financing and consulting services open to restructuring SOE's.

Donor assistance in Poland Annex 2

Donor	*Commitment in billions of US$*[i]	*% of total*	*Assistance to Poland*	*Areas of coordination and/or competition with World Bank*	*Objectives and interests in Poland*	*Future cooperation*
Germany	5.5	15		Areas of cofinancing include: Private Enterprise Development Project ($3m).	Geographical proximity. Historical links. Prospect that Poland will soon join EU. Strategic relations. Commercial interests.	
USA	5.5	15	USA provides the largest proportion of assistance to CEE's in grant form. It has provided humanitarian and emergency aid. Political leadership.	Worked closely with the Bank on a number of programs, including housing, agriculture, stabilization fund and other areas. Has looked to the Bank for intellectual leadership.	Large Polish electorate in the US. Commercial interests in geopolitical stability and sustainability of reforms.	The USAID is planning to graduate Poland.
IMF	4.3	12	Short term credits for balance of payments support. Stand-By arrangement. EFF.	A $2.5 b package, including a three-year extended arrangement for about $1.7 b, $220 m for higher cost of oil, and $600 m for contingencies covered under the CCFF, was approved in April 1991. This followed an earlier stand-by arrangement providing $700 m negotiated in early 1990. Of the latter amount, $500 m was disbursed before the program went off track, owing to wage settlements and credit growth higher than programmed. Poland received the equivalent of about $325 m from the IMF during 1991.	Stabilization to facilitate growth and development.. Extensive technical assistance	Now that Poland's foreign exchange position is strong, there is less need for financial assistance from the IMF.
France	4.2	12				
The World Bank	3.9	11	Broad assistance program, involved in all key areas of transformation program. Policy based lending for structural adjustment. Investment projects. Technical assistance. Projects are medium to long term.		Support transformation efforts towards market economy, encouraging restructuring, liberalization, and macroeconomic discipline towards growth and development. Alleviating poverty and protecting most vulnerable from negative impacts of transformation.	
Japan	1.7	5		Japanese grant for housing: JPY 119 million.		
EU	1.6	5	EU-PHARE provides technical assistance, investment support, and funds from other donors through studies, grants, guarantees, credit lines, and direct investment. EU has the largest grant program of assistance to economies in the region. PHARE has earmarked $1.31 billion for Poland from 1995 to 1999 to support transition and preparation for membership.	While there are close similarities between the project objectives of Bank and EU funded projects, the EU's mandate in Poland is different from the Bank's. Areas of cofinancing include: Assistance for Eastern Economies - Private Enterprise Dev ($14m); European Development Fund - ADP ($20.2m), Health ($25m), Privatization & Restructuring ($69).	The EU PHARE program supports Poland's transformation to a market economy and helps Poland meet accession conditions. The EU has close political and economic ties as Poland seeks accession into EU, this includes a maturing trade relationship.	In formulating its future program strategy in Poland it is crucial that the Bank fully consider the movements of Poland towards accession into the EU.
Canada	1.5	4				

EIB	1.2	3	Largest projects include: modernization and expansion of telecommunications network; global loans to Polish Development Bank for financing small and medium-scale projects in industry, tourism, environmental protection and energy saving schemes; expansion of gas production and distribution; modernization of railways.	There is competition with the World Bank. EIB is perceived to be a threat the Bank's infrastructure pipeline. EIB loans carry little conditionality, simpler procurement procedures, loans are generally cheaper. Cofinancing includes: ASAL ($17m), Energy Resource Development ($60), Forestry Development ($16m), Privatization and Restructuring ($100m), Telecoms I ($90m), Transport I ($20m).	EIB is an EU institution established in 1958 to provide long-term financing supporting capital investment projects that further European integration. EIB financing in Poland is aimed at preparing Poland for accession in to the EU.	The Bank should improve its relations with EIB through better high level coordination, without compromise its own standards.
Other EU countries	1.2	3				
Others	1.1	3				
UK	0.9	3				
Italy	0.8	2				
EBRD	0.8	2	Broad support including: Support for private sector through participation in major privatization's, assisting government's mass privatization and enterprise restructuring programs. Support for financial sector through support for restructuring and privatization of the state banking sector as well as support for the private banking sector. Support for infrastructure, particularly telecommunications, transport and energy.	Competition between EBRD and Bank notably in the social sectors, energy and water. Friction's in the early program as EBRD and the World Bank both looked for assistance niches. EBRD filling a gap between IBRD and IFC activities. Cofinancing includes: Heat supply restructuring ($50m), Privatization and Restructuring ($10m), and Telecoms.	EBRD's mandate is "to foster the transition towards open market oriented economies and to promote private and the entrepreneurial initiative". EBRD has placed increasing emphasis on Poland's economic integration with western Europe. EBRD is seeking to graduate Poland in near future.	
Switzerland	0.8	2			Operating within the G24 framework.	
Sweden	0.8	2			Operating within the G24 framework.	
Total	35.8	100	Combined donor assistance is comprehensive, including: Economic transformation assistance, debt forgiveness, private sector investment, infrastructure, export credits, investment guaranties, etc.	Coordination between Bank and other donors was particularly poor in the early years of lending, despite the Bank's strategy papers statements.		

[i] Billions of US dollars ($) committed between January 1990 and December 1994.

Source: Commitment figures taken from the 1995 US General Accounting Office publication, "*Poland: Economic Restructuring and Donor Assistance*". This table is based on available data and may not include all relevant assistance.

Bank assessment of successive reform programs

Annex 3

Period	*Government*	*Reform program*	*Assessment of reform program*	*Actions of World Bank*
1986 to June 1987	Communist led government	Five Year Reform Plan. Objectives: reform the centrally planned economic management system to more market-oriented principles. restructure out of date production base, regularize relations with current creditors.	While the reform plan was sufficient for gaining Poland reentry into the World Bank and IMF, the Bank did not consider the reform program sufficiently credible to initiate lending to Poland. The Bank's two main criticisms were: it did not provide an acceptable path to restore creditworthiness, and it would not facilitate long-term growth. During period VP for Region: Mr Wapenhans and Director for Country: Mr Lari	IMF and Bank accept Polish re-entry. Some major shareholders of Bank were opposed to Poland's re-entry on grounds of lack of creditworthiness and the volatile political situation in Poland. Bank launches major ESW and starts preparation.
June 1987 to late 1989	Communist led government	'Medium Term Scenario' (MTS) replaces Five Year Plan. The new reform program was more ambitious. Objectives: improve the productivity and efficiency of the economy, enable growth, and improve socioeconomic conditions, as well as support market oriented policies the Government intended to adopt to achieve the above. MTS saw financial and technical assistance from the Bank and IMF was critical.	Officially Bank fully backs MTS as feasible and in CAS 1987 Bank proposes to begin lending in 1988 if certain pre-lending conditions are met. However, there were divisions within the Bank on when and how to begin lending.. The Bank demands several pre-lending conditions: i) more work done on clarifying how the strategy would be implemented; ii) how the economy would be restructured; iii) how creditworthiness would be restored; iv) Bank insisted that target date for a current account balance should be 1990. During period VP for Region: Mr Thalwitz and Director for Country: Mr Lari.	Bank carefully monitored progress on reforms to determine timing for Bank initiation of formal loan negotiations, to ensure that progress was satisfactory and financing plans remained viable. IMF decides Poland is not ready for a Stand-By Arrangement.
Late 1989 to mid-1991	Prime Minister: Mazowiecki (09/89-1/91). Finance Minister: Balcerowicz Prime Minister: Bielecki (1/91-12/91). Finance Minister: Balcerowicz	The ETP is implemented, the main components of which are: macroeconomic stabilization, market liberalization, removal of price controls, removal of international trade barriers, establishment of a legal environment to support private sector activity, privatization, a suitable social safety net, particularly to address unemployment, and mobilization of international assistance. The ETP included a medium-term macroeconomic framework and external financing strategy. Bielecki government also pursue radical reforms. From mid-1991 the Bielecki government was unable to push key economic and political reforms through Parliament.	Bank strongly supports reform program and a democratically elected government was committed to a radical reforms agenda.. The reform program was suitably radical to exploit the opportunities the environment presented. Some critics at the time within the Bank and elsewhere argued that the tough macroeconomic policies should be accompanied by microeconomic policies that would have given vulnerable enterprises greater support during the period of tough macroeconomic policy which involved sudden exposure to international competition, believing that more enterprises would go bankrupt than was necessary. Others thought that a slower adjustment program would have brought fewer casualties. During period VP for Region: Mr Wapenhans and Director for Country: E. Lari	Bank launches US$2.6 billion assistance package, consisting of quick-disbursing loans aimed at increasing foreign currency exports, and structural adjustment loans. Bank perceives establishment of creditworthiness and stabilization to be the first two concerns. US$1 billion Stabilization Fund established by western donors. IMF encourages Poland to maintain strong macroeconomic policies through its EFF Arrangement.
Mid-1991 to 1992	Prime Minister: Olszewski (12/91-6/92). Finance Ministers: Lutkowski & Olechowski	Political leadership becomes weaker when the October 1991 elections split the Sejm into 29 parties, with no clear coalition or majority. A fragmented parliament with no dominant party allowed for former communists to win a substantial number of seats. Several months followed of political paralysis, with a change of government in December 23, 1991, swinging to the political left.	Conflicts within the ruling coalitions were reflected in inter-ministerial disputes, since ministries tended to be headed by different factions of the coalition government. Bank is concerned over the new government's commitment to market reforms. When the government adopted a new program "Economic Assumptions" in February 1992, the Bank had mixed feelings about the package fearing that if implemented it could lead to a further deterioration of Poland's macroeconomic performance. During period VP for Region: Mr Thalwitz and Director for Country: Mr Dervis.	In late 1991 IMF suspends its three year adjustment loan (US$1.6 billion) for failing to meet targets. In April 1991, official creditors of the Paris Club grant Poland a 50% reduction of outstanding Polish debt (1st phase). European Association Agreement (EAA) signed with the European Union in late 1991 and which became effective in March, 1992.

1992 to 1993	Prime Minister: Suchocka (7/92-10/93). Finance Minister: Osiatynski	In May, 1992, Olszewski resigns when Sejm ignores his appeal for fiscal prudence. In June, 1992, Waldemar Pawlak becomes PM (only lasts for one month), resigned after failing to form a coalition. In July 1992 PM Suchocka forms coalition government lacking a strong majority, but survived wave of strikes in late-1992, the biggest since early 1980's. In May 1993 vote of no confidence led to new elections.	Bank introduces Country Strategy Implementation Review (CSIR) process to improve on implementation performance of portfolio, in light of poor performance of several projects. During period VP for Region: Mr Thalwitz and Director for Country: Mr Dervis.	EIB increases activity in Poland to help finance reforms necessary towards Poland's accession into EU. In late-1992 the IMF program breaks down for several months, privatization is moving slow, and criticism of reforms & social discontent is rising.
1993 to 1994	Prime Minister: Pawlak (10/93-3/95). Finance Ministers: Borowski and Kolodko.	Between May and September 1993 there was a political crisis as no government could be formed. Then in September the Pawlak government successfully formed a majority government with a coalition of former communists. With the growing expectations, the tide of political support had swung left. In spite of this political swing left, and in spite of other obstacles, the Pawlak government is continued with reforms, but with an increased emphasis on social issues.	The Bank is experiencing difficulty as there is lack of political direction in Poland. The Government is lacking a clearly defined borrowing strategy *vis-à -vis* the Bank. It is unclear where the Government stands with respect to Bank lending to social sectors. Bank projects are held up as questions are raised over the Government's planned guarantee authority limit. At beginning of 1994 Bank agrees with Poland that a period of consolidation of the Bank's assistance program. This would be addressed in the Spring 1994 CSIR. During period VP for Region: Mr Thalwitz and Director for Country: Mr Dervis.	Bank is focusing on improving the implementation performance of existing projects in light of CSIR 1992. The Bank is seeking to provide donor leadership, in part through Economic and Sector Work which will provide an intellectual framework for integrating international assistance to Poland into a coherent country assistance strategy.
1994 to 1995	Prime Minister: Pawlak (10/93-3/95). Finance Ministers: Borowski and Kolodko.	The Polish Government was coalition based, and lacked political direction. Dissent within the ruling coalition was leading to the slow down of important reforms, such as, increasing energy prices, privatization, agriculture protection removal, and social security reform Government medium-term economic program issued "Strategy for Poland". Objectives: pursue EU integration, maintain macroeconomic policies that would facilitate 5% GDP growth per year, reduce inflation to below 10% by 1997, and gradually reduce unemployment.	The Bank is concerned that reform implementation is being carried out in a stop and go fashion, mostly because of divergent agendas within the coalition government. Bank sees challenge facing Poland is to maintain momentum of reforms, widen the benefits of the new market-driven growth process and start rebuilding productive assets and infrastructure throughout the economy with as much participation of private capital as possible. The main danger the reform presents is not of reform reversal or macroeconomic instability (although the Bank is unhappy about the pace of inflation reduction), instead the danger that the Government is unable to push forward with important reform agenda proposed. During period VP for Region: Mr. Thalwitz and Director for Country: Mr. Dervis.	In March 1994 the London Club of commercial banks reached a debt accord which reduced Poland's US$13.2 billion debt by approximately 49%, with strong support from Bank and IMF Restructuring takes place with Paris Club creditors. Field office intensifies Bank - Country dialogue.
1995 to 1996	Prime Minister: Oleksy (3/95-1/96). Finance Minister: Kolodko	The Government is made up of socialists turned social democrats of the Democratic Left Alliance. In January, 1996 PM resigns following accusations of spying for Moscow.	Bank trying to encourage commitment to politically difficult reforms. During period VP for Region: Mr. Thalwitz and Director for Country: Mr. Dervis.	Major restructuring of the Bank's portfolio.
1996 to present	Prime Minister: Cimoszewicz (2/96-present). Finance Minister: Belka	Aleksander Kwasniewski beat Lech Walesa in the November 1995 Presidential elections. As a young communist, Aleksander Kwasniewski, was minister of Sports. Now at 41, in democratic Poland, he is a Social Democrat. He is a "born again" former communist President who wants to join OECD, NATO and European Union.	Bank trying encourage GOP commitment to politically difficult reforms. Bank sees need for important reforms in social sectors. New Country Assistance Strategy recommends selectivity in Bank's assistance program. During period VP for Region: Mr. Linn and Director for Country: Mr Severino.	Poland becomes a member of OECD in 1996. Poland continues to make progress in its bid for accession into the EU. Bank prepares CEM focusing on EU accession. Bank prepares sector strategies as inputs for CAS 1997.

Evolving Bank's agenda, objectives and what remains to be done Annex 4

Original objectives and initial problems	*1990*	*1991*	*1992*	*1993*	*1994*	*1995*	*Current status*
Secure a stable macro-economic framework *Prior to 1990 Poland suffered from hyperinflation, had heavily controlled markets and conducted almost all of its trade within the COMECON arrangement.*	Tough macroeconomic policies are implemented aimed at stabilization and liberalization. Output drops significantly. Hyperinflation is brought under control.	Poland is hit by the collapse of the CMEA, and is forced to reorient its trade away from traditional partners in the east to new ones in the west. The economy is beginning to recover, with positive growth and falling inflation.	Poland experiences the second fastest growth rate in Central and Eastern Europe. The Bank advocates that Poland now needs to consolidate its position towards sustainable medium term growth.	The emerging private sector has driving growth, and now accounts for more than half of GNP. The Bank advises Poland that public finance reform and continuance of disciplined macroeconomic policies are key to future economic growth.	An explosive trend in social transfers and the continuance of large loss-making enterprises are heavy burdens on the government's budget and are a threat to future economic growth.	The Bank advises that a prerequisite for sustaining the high level of economic growth is that Poland addresses its remaining important structural issues.	Poland cannot afford to be complacent about maintaining macroeconomic discipline.
Strengthen Poland's underlying creditworthiness *When the Bank started its lending program Poland had one of the highest debt-service ratios in the world.*	Full implementation of debt workouts with Paris and London Clubs is seen as a precondition for restoring creditworthiness.	Most Paris Club creditors agree to reduce Polish official debt by 50 percent over period 1991-1994, provided Poland maintains an adequate macroeconomic framework and completes negotiations with London Club on $12 billion commercial debt.	A major burden to restoration of creditworthiness is the continued high level of external debt at roughly US$47 billion or 55 percent of GDP.	Agreement is reached with the Paris Club on official debt restructuring. This important step led to Poland's improved access to international financing, and an acceleration of foreign direct investment in Poland.	Implementation of the second phase of Paris Club DDSR takes place. The London Club reduction agreement is reached to reduce Poland's commercial debt by 40 percent-50 percent. A new IMF stand-by arrangement approved.	Relative to other countries in the region FDI flows had been fairly limited. By beginning of 1994, US$4.6 billion in FDI had been committed, with disbursements reaching US$3 billion.	Poland is widely regarded as creditworthy, but continued monitoring of Poland's macroeconomic management is important, particularly in the coming years when the grace period on many loans will end.
Enterprise reform, restructuring and privatization *Prior to Poland's economic transformation, planners owned and managed most factors of production. State-owned enterprises were typically overmanned, and used out of date technology and processes making production less competitive than western production.*	Government adopts a policy of privatization and hard budget constraints to encourage reform of the State enterprise sector.	Results indicate that state-owned enterprises suffered more under the transformation than was anticipated. The issue of SOE restructuring becomes increasingly politicized and hotly debated.	The private sector emerges as the driver of economic recovery and not privatized and restructured State-owned enterprises. Many state enterprises lack the dynamism of their private sector counterparts to be competitive in the new environment.	The pace of privatization and liquidation is slower in 1993 than in 1992 at 331 this year versus 618 last year. The main reason for this is that the most attractive and easiest State enterprise transformations have already taken place, leaving the more difficult ones to tackle.	The Bank is seeking to encourage an acceleration of privatization since program implementation is not proceeding as quickly as anticipated.	With the implementation of the Mass Privatization Program privatization pushes forward. The Bank encourages Poland to complete politically difficult restructurings of large loss-making state enterprises.	The Bank continues to encourage the government to push forward on privatization of large loss-making enterprises in coal, mining and steel industries.
Growth of the private sector *For decades private enterprise and initiative were discouraged. The ETP sought to dismantle the monolithic industrial structures created under central planning and encourage private sector activity in Poland.*	The initial steps are to create an environment and framework conducive to private sector activity, and provide a mechanism for resource allocation and investment in private ventures.	The Bank makes available several credit lines to support private investment. IFC investments and MIGA guarantees contribute to the Bank Group's support for private sector growth.	By 1992 the Bank has approved seven credit lines (total commitments of US$1 billion) to support private enterprise development. Growth in the economy is led by the private sector, consisting mainly of large numbers of small and medium sized businesses.	By 1993 the Bank has committed US$2 billion in loans which support private sector development.	With growing foreign and domestic activity in Poland's private sector, the government is increasingly seeking to involve the private sector in the financing of remaining reforms in Poland.	The Bank has sought to encourage greater involvement of the private sector in reforms. In so doing the Bank is diminishing its own financing role in remaining reforms.	

Upgrade financial sector infrastructure *Under central planning financial resources in the economy were allocated through central directives, this led to a narrow concentration of investments in selected fields of production..*	As Poland's market economy emerges there is a need for a modern financial sector which will efficiently allocate resources within the economy, guided by the market.	The Bank approves the Financial Institutions Development Loan (US$200m) to support the development Poland's financial system. An innovative approach is taken by the Bank with the Bank Twinning Arrangement component of the FIDL.		The Bank approves the Enterprise and Financial Sector Adjustment Loan (US$450m) to support enterprise and financial sector restructuring.		Two treasury-owned commercial banks (TOCBs) are privatized. The Bank expresses serious concerns over the proposed consolidation of two large stated-owned banks (PKO SA and Bank Handlowy).	A total of four out of the nine TOCBs have now been privatized. Remaining issues include: restructuring of specialized banks (especially agriculture credit and housing finance), and the continued privatization of commercial banks.
Upgrade physical infrastructure. *While there was significant investment in Poland's physical infrastructure under planners, in recent years with economic hardships investment in infrastructure had declined.*	Poland needs to reorient its infrastructure to accommodate needs of a market economy which will trade increasingly with the West replacing COMECON trade.	Bank approves the Energy Resource Development Loan and Transport I Loan (total commitments of US$403m).	Bank approves a series of Heat Supply Restructuring projects, an Energy Sector Adjustment Loan and a Telecommunications Loan (total commitments of US$460m).	In addition to committing its own investment loans to upgrade Poland's physical infrastructure, the Bank is seeking to encourage private investment in infrastructure. The Bank approves the Roads Project (US$150m).	The Bank approves the Katowice Heat Supply Restructuring Project (US$45m).	The Bank approves the Power Transmission Project (US$160m).	The Bank approves the Bielsko-Biala Water Supply Project (US$22m) and the Port Access and Management Project (US$64m).
Enhance environmental amelioration in all sectors of economic activity *Under central planning, Poland became one of the most polluted countries in Europe. A very inefficient, energy-intensive and geographically concentrated industrial sector, mainly based on coal, couple with lax pollution controls, inadequate wastewater treatment, and neglect of maintenance, rehabilitation and modernization had resulted in very high levels of air and water pollution, and large quantities of solid and hazardous wastes.*	Bank develops a comprehensive assistance program built around the Environmental Management Project (US$18 million in TA) to strengthen environmental management. The SAL included an environmental policy component .	Energy Sector Adjustment Loan (US$75 million) and five Heat Supply Restructuring Projects (US$265 million) include components that address major sources of pollution based on the replacement of coal by natural gas.	Environment formally listed among the "five basic objectives" in the Bank's 1992 country strategy paper. Bank finalized sector report Poland: Environmental Strategy, but its impact is less than expected, since it arrived too late to be reflected in the GOP's National Environmental Policy, issued in late 1990. However, some discussion already took place after the main mission in 1989.	As a result of institutional capacity developed under the Bank's TA project, GOP Ministry of Environment is able to manage and coordinate 236 bilateral and multilateral TA projects, totaling US$230 million. Rapid decline in air and water pollution observed, mainly as a result of the contraction of economic activity and the restructuring of the industrial and energy sectors, but also a result of environmental policies adopted and implemented.	1994 Country Assistance Strategy is first to outline an explicit Bank strategy for the environment, including the integration of GEF-financed projects.	A year of no significant activity for the Bank on environmental aspects.	Major sources of environmental pollution remain in the coal mining, industrial, water supply and wastewater, and solid waste management sectors. While continuation of the Economic Transformation Process will continue to yield reductions in pollution levels, there is a continuing need to address specific pollution issues through more sharply focused interventions, such as specific investment projects and sectoral adjustment loans, such as the proposed Coal Restructuring Project.
Strengthen social safety net in order to help the country sustain the social impact of its systemic transformation *Prior to the ETP Poland's system of social welfare was comprehensive.*	The Bank seeks to negate the social impact the of the transformation process. Government expenditure on welfare provision declines.	The Bank approves the Employment Promotion Loan (US$100m). Women are becoming unemployed at a faster rate than men.	The Bank approves the Health Loan (US$130m).	The Bank's Poverty Assessment report estimates that 14.4% of Poland's population (or 5.5 million people) are below the poverty line by 1994. However high growth rates are expected to pull many out of "shallow poverty".	The unemployment rate peaks at 16%.		The unemployment rate remains high at 15%.

Annex 5

Implementation of financial audits

Project Name	*Last Form 590 Date*	*No. of Overdue Financial Statements*	*No. of Overdue SOE audits*	*No. of Overdue RF audits*	*No. of unsatisfactory audits*
Agriculture Development	5/25/95	0	0	0	2
ASAL	5/25/95	0	0	0	0
Agro-industries Export Development	6/15/95	0	0	0	3
DDSR	6/14/95	0	0	0	0
EFSAL	5/24/95	0	0	0	0
Employment Promotion	1/2/96	0	0	0	0
Energy Resource Development	5/31/95	0	0	0	3
Environmental Management	6/1/95	0	0	0	0
FIDL	5/23/95	0	0	0	0
Forestry Development	5/15/95	0	0	0	0
Health	5/31/95	0	0	0	0
Heat Supply Restructuring	6/1/95	0	0	2	4
Housing	5/25/95	0	0	0	3
Industrial Export Development	5/23/95	1	1	1	2
Katowice Heating Supply	5/31/95	0	0	0	0
Private Enterprise Development	5/22/95	0	0	0	0
Privatization & Restructuring	5/22/95	0	0	0	0
Roads	1/4/96	0	0	0	0
Telecoms I	2/29/96	0	0	0	0
Transport I	7/20/95	1	0	0	0

Source: MIS data from the Operations Information System (OIS).

Annex 6

High cost of dropped activities

Project ID	*Project name*	*FY IEPS*	*Proposed loan amount $ millions*	*Staff time spent SW's*[1]
Dropped Projects				
8566	Industrial Policy	n/a	150	n/a
8570	Financial Restructuring	n/a	150	133
8572	Industrial Restructuring II	1996	150	134
8573	Energy	n/a	200	12
8575	Energy Conservation	1994	175	18
8577	Technology Development	n/a	100	n/a
8578	Agriculture primary production	1989	100	n/a
8579	Coal Restructuring Project	1991	220	115.4
8580	Transport	1996	175	50.7
8581	Agroindustrial project II	n/a	100	n/a
8591	State Farm Privatization	1995	100	3.3
8592	Telecommunications II	1992	150	1
8594	Transport III	1993	200	n/a
8596	Industrial Services	1994	100	n/a
8597	Rural Infrastructure	n/a	2	61[2]
8601	Education Restructuring	1992	90	129.4
8602	Financial Sector II	1992	150	n/a
8605	SAL III	n/a	400	115
8606	Cogeneration Privatization	1992	120	10
8613	Industrial Restructuring	1993	150	16.8
8617	Railway Restructuring	1993	200	13
8618	Power Restructuring	1995	200	80
34183	Fiscal	1996	200	1
36008	Rural Finance	1994	49	n/a
38140	State Farm Privatization	1994	20	40[3]
43140	Bydgoszcz Water	1996	30	181[4]
Totals:	**26 projects**		**$3681 million**	**1114.6**[5]

[1] Staff time spent SW's= Trust Funds + Bank budget
[2] Includes 10 SW's from trust funds
[3] Includes 37 SW's from trust funds
[4] Includes 13 SW's from trust funds
[5] Includes 72 SW's from trust funds

Annex 6

Project ID	*Project Name*	*FY IM*	*SWs*
Dropped Sector Reports			
18961	Manpower training and retraining	n/a	
19063	Agriculture (unidentified)		
19065	Livestock Sector Study		
18969	Expt. incentive framework		
19061	Agriculture Investment	88	0
19114	Energy Conservation		
18965	DES/REV SEL SUBS RES	89	8.4
18968	Industrial Sector Strategy	89	4.6
19062	Agriculture (Livestock)	89	0.6
19199	Higher Education and Training		
19118	Coal Restructuring		
20807	Housing		
18971	Technology Policy	91	0
19070	Research and Extension	91	0
19201	Labor market study		
18973	Industry Strategy	92	0.7
19120	Energy Sector Review	92	6.5
18967	Financial Sector Strategy	93	51
19119	Environment		
19205	Labor market study	91	54.2
19206	Poverty Monitoring	94	0.3
36443	Rural Finance	95	95.3
37106	Privatized Enterprise Behavior	95	0
Dropped Economic Reports			
18935	CEM (NO.2)	89	17.2
18945	Reform Review	n/a	n/a
18944	Macromonitoring	90	0
18946	Saving and Investment	91	1.2
18951	Enterprise Behavior	91	0.8
18954	Trade	93	0
18957	Public Investment in Private Sector	94	0.3
18958	DDSR Creditworthiness	n/a	n/a
	Total cost		**241 SWs**

Annex 7

Average lending completion costs (staffweeks)

	FY90	FY91	FY92	FY93	FY94	FY95	FY96	Average FY 90-96
Poland	192	150	164	151	125	82	147	154
Group A								
Hungary	166	122	183	75	123	150	-	127
Turkey	81	159	94	101	204	197	177	132
Bolivia	119	67	111	81	121	94	135	108
Philippines	80	110	111	91	130	199	94	103
Group B								
Albania	-	-	63	34	78	105	93	81
Bulgaria	-	94	132	112	189	51	214	142
Russia	-	-	-	98	219	189	197	185
Ukraine	-	-	-	92	-	95	121	108
ECA	175	146	121	83	129	128	137	129
All Bank	117	132	124	117	133	130	125	125

ATTACHMENTS[1]

[1] The following comments have been taken into account throughout the report.

Attachment 1

The Republic of Poland
Ministry of Finance

Warsaw, 7 April 1997

Mr. Luis Landau
Lead Evaluation Officer
Country Policy, Industry and Finance
The World Bank

Dear Mr. Landau,

In reference to the draft report "Country Assistance Review" presented to the Ministry of Finance, I would like to express my remarks on the opinions, evaluations and conclusions presented therein. First of all I would like to emphasize that the report is an extensive and accurate study of the course of cooperation between Poland and the World Bank over the past ten years. It contains a broad scale of facts which makes it possible to make an in-depth analysis of the effectiveness of the Bank's activity in Poland. According to the Ministry of Finance, the report aptly reflects the initiatives and achievements of both sides in the process of economic transformation in Poland. At the same time it gives a good description of the lack of success of some actions and programs, taken up especially in 1992, in the area of the "soft sectors" and linked with making credit lines available.

Because of the broad scope of the report (embracing the years 1986-1996) and the multitude of both detailed and macroeonomic data, the Ministry of Finance suggests standardization of the manner of presentation of data and adoption of the date of 30 June 1996 as the borderline date for presenting all ultimate data (not as estimates). Currently, in the individual chapters the draft report refers numerical data to various time cross-sections, which may make it difficult to formulate conclusions on their basis.

In the part devoted to projects, please adjust the data concerning the amounts of credits, the changes in categories (e.g. L3342, L3641), the dates of annulment of amounts and the reasons for this (e.g. L3343 and L3599). With regard to credits of the energy sector, it appears advisable to formulate a clearer description illustrating above all the specific nature of the sector and projects.

As regards credit for housing construction purposes, the Ministry of Finance would like to observe that the authors of the report have placed the blame for the project's failure on the Polish side, while it seems that the most important reasons for this was the adoption of incorrect assumptions by the World Bank as regards the need for credit resources of this type, with the known cost of this, which was high in Polish conditions in the given period. The application of other lending forms for housing by the state (which was very limited anyway) was of secondary significance. Since 1989 the state has been consistently withdrawing from preferential terms of granting housing loans that are competitive for the Mortgage Fund. In practice the credit preferences in this area were already marginal, and therefore cannot be regarded as the reason for the low interest in loans granted from World Bank resources. The basic reason for the low absorption of loans should be sought in the high "price" of these resources for the end recipients and the complicated procedures of application for such credit, not adjusted to the Polish conditions, and also in the social and technical requirements of the World Bank. At the same time, it should be emphasized that the program of the Mortgage Fund has unquestionably fulfilled a useful role in the promotion of mortgage loans as the basic instrument of financing housing construction.

In the part of the report concerning EFSAL, please adjust the information on the planned request for annulment of the third tranche. Such a request took place in June 1996. At the same time I would like to inform that in the annex describing assistance from EFSAL resources to the STAR automobile plant there are certain inaccuracies. The correct name of the agency making an assessment of the economic condition of the enterprise is: Industrial Development Agency (and not: Investment Development Agency). The Ministry of Finance made no promise by telephone to assign resources of the credit referred to (pt 10 of the Annex), since assistance from EFSAL resources could be assigned only after fulfilling closely specified procedural requirements, evaluation of the justification of the application for funds and passing a suitable resolution by the Council of Ministers, or in the case of smaller sums a decision by the Minister of Finance.

In the opinion of the Ministry of Finance, the information concerning the Employment Promotion Project (L3466) credit should be supplemented with issues concerning reduction of the credit amount to US$ 80 million and shifting - at the request of the Ministry of Labor and Social Policy - the Closing Date to the end of 1997.

With regard to the Health loan (L3466), one cannot speak of "promotion of financing of regional health are by consortia", because in the system of financing health protection in Poland this activity is carried out by the voivods, the Minister of Health and gminas with city status. World Bank funds appropriated for consortia are mostly spent on the purchase and replacement of medical equipment and training staff, and are a small portion of the state budget amounts appropriated for health care.

To sum up, it should be said that - apart from the issues dealt with above - the report accurately analyses the successes and failures in the cooperation of the World Bank and Poland, although in several parts it excessively points out the causative role of the World Bank. In the process of transformation of the Polish economy the Bank has played a very important role, among other things by supporting the reconstruction of the institutional system, but in most cases its actions were supplementary and authenticating the economic programs taken up and carried out by the Polish authorities.

The Ministry of Finance is enclosing the adjusted values in the table “Poland at a glance” (pp. 5 and 6).

Sincerely,
(-)
Andrzej Chmiel
Vice Director of Foreign Department

Copy to: Mr. Paul Knotter
Head of the World Bank Mission
Warsaw

Attachment 2

NBP

NATIONAL BANK OF POLAND

Vice-President
Krzysztof Barburski

MIF/III/759/97
Warsaw, 1997-03-14

Mrs. Halina Wasilewska-Trekner
Under Secretary of State
Ministry of Finance
Warsaw

In answer to your letter of 25 February this year, ref. ZG/BM-83/97, we are including the following remarks to the draft report of the World Bank *Poland: Country Assistance Review*:

1. The statistics contained in the table on pages 6 and 64 should revised (attached);

2. In chapter 1"How the Bank's Assistance Strategy Changed Over Time" has exposed political changes, and overlooked to a lesser degree the changes in the system and structure in Poland, which was the main element in the changes in the strategy of assistance of the World Bank to our country;

3. It is also necessary to make a few corrections in the information on the subject of loans made by NBP (pp. 75 and 76 of the document):

The draft of *Rozwoju przemys³u* (Industrial Exports Development - the term closing the loans was extended to 30.06.1997. To the end of 1996 the loans were reduced by USD 20 million, and on 22.01.1997 by a further USD 20 million. For use remains still USD 160 million, and not as stated USD 184 million. These funds from lines of credit were not pre-transferred to the loans *Financial Institutions Development Project*, however, they could be used as a further means within the framework of this project. The Project *Agro-industrial Export* - up to the present time has financed 36 undertakings from the loans undertaken, and not 50 as was erroneously given in the report.

Sincerely
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Page 6

	million USD			
	1975	1985	1994	1995
TRADE	-	-	17,047	23,463
Total exports (fob)				
BALANCE OF PAYMENTS*	-	5,677	19,050	26,068
Exports of goods and non-factor services				
Imports of goods and non-factor services	-	4,615	19,829	27,745
Current account balance, before official transfers	-	-1,382	-2,860	-2,305
EXTERNAL DEBT			42,174	
Total debt outstanding and disbursed				
IBRD			1,736	

Page 64

	USD million						
	1990	1991	1992	1993	1994	1995	1996
EXTERNAL ACCOUNTS*							
Export of goods	10,863	12,760					
Import of goods	8,649	12,709					
Trade balance	2,214	51					
Current account balance	716	-1,359					
Change in official reserves	-2,177	866	-473	6	-1,748	-8,935	-3,070
Change in net international reserves						-9,147	1,231

Current Account Balance in 1995 and 1996 includes USD 7,754 million and USD 7,153 million respectively of estimated net unrecorded trade (before included in the short term capital).

*Source: balance of payments of Poland

Attachment 3

MINISTRY OF AGRICULTURE
AND FOOD ECONOMY
UNDERSECRETARY OF STATE

13 March, 1997

IEiWZ-bs-1/6/97

Dr Halina Wasilewska-Trenker
Undersecretary of State
Ministry of Finance

With reference to your letter of 25 February 1997, ref. ZG/BM-83/97 please be informed that the Ministry of Agriculture and Food Economy received from the World Bank Residence in Warsaw a draft Review of World Bank Assistance for Poland in 1986-1996 as late as on 6 March 1997.

Please find enclosed below our comments to the above mentioned World Bank report.

Yours sincerely,

Ryszard Smolarek

1. Enclosure

COMMENTS
of the Ministry of Agriculture and Food Economy
to
the Review of the World Bank Assistance for Poland
in 1986-1996

1. The World Bank report was being elaborated during several months and it was based on, among others, the reports prepared by borrowers, for each loan separately, in the earlier period.

2. In assessments prepared by the Ministry of Agriculture and Food Economy (the copy of which were sent, for information, to the Ministry of Finance) there were presented the reasons for not utilising the WB loans for the development of agri-food processing and production for export. Therefore we cannot agree with the WB suggestion that one of the main reasons was absence of the permanent World Bank Residence in Warsaw in that period. The main reason was too expensive WB credit, which currently demonstrate borrowers' difficulties in repayment of loan instalments, caused mainly by a significant increase in the US dollar exchange rate.

   The other reason was too cumbersome procedure of obtaining a loan, though it was simplified at the MAFE's request.

3. As regards objections pertaining the ASAL loan, it must be admitted that it has always been Undersecretary of State at MAFE who was responsible for the coordination of activities of the interested ministries and institutions, but there were three changes in this post. A permanent WB representative with the right to carry out control would not accelerate the processes of structural transformations and privatisation in the agricultural sector.

4. The objections of the Government of the Republic of Poland as to the way of calculating commitment fees are right. The principle of calculating them from the whole loan amount significantly raises its costs.

5. The WB observation that there has been a decreasing interest in WB expensive credit on the part of agriculture, and an increasing interest in access to cheaper EBRD and Polish bank loans - is right. At present we are interested in WB participation in financing the formation of agricultural wholesale markets.

6. As has been signalled by WB, its participation in financing rural infrastructure development via the Agency for Restructuring and Modernisation of Agriculture as an apex bank, is doubtful. The Bank offered its assistance like in 'recommendations', page 75 in the form of a guarantee.

7. The World Bank declaration concerning its participation in organising training, efforts to obtain technical assistance from other international institutions imply that this is how the Bank perceives its participation in reform implementation in Poland.

8. The WB statement that the Polish government attention was dispersed on implementing too many programmes connected with the ASAL loan - is right. Conclusions must be drawn from it, and should we ever take an adjustment loan, we cannot agree to such expanded conditions of starting its particular instalments, especially if these conditions were of a political character

instead of formulating solutions that show a way of a rational use of financial resources in the existing conditions in Poland.

9. We cannot agree with the statement that ‘almost exclusive priority given to the agri-food industry at the very beginning significantly delayed the activities aimed at solving serious problems pertaining to the state-owned farm sector and small private farms as well as services that agriculture needed so much’ (page 47). This priority given to agri-food industry is expressed in about 50 loans of the total value of approximately 70 million USD.

10. Information provided in par. 3.21 ‘Arrangements’ that there was prepared only one report concerning the completion of the agri-food industry development project - is not accurate. In 1996 the report concerning the ASAL and ADP projects was prepared.

11. Limited funds obtainable from WB were not able to significantly help in solving problems resulting from the necessity to introduce transformations in Polish agriculture and the agri-food industry. This should be the final conclusion of the report as regards Polish agriculture.

Prepared by:

Zbigniew Kurpiñski
Consultant

Accepted by:

J.T. Krzy¿anowski
Director of the Department

Approved by:

Ryszard Smolarek
Undersecretary of State

Attachment 4

Warsaw 07.03.1997

Under Secretary of State in the
Ministry for Environmental Protection,
Natural Resources and Forestry

DEok/355/97

Ms. Halina Wasilewska-Trenker
Under Secretary in the
Ministry of Finance

Dear Madame Minister,

In answer to your letter of 25.02.1997, ref. ZG/BM-83/97, I would like to inform you, that the Ministry for Environmental Protection, Natural Resources and Forestry has no remarks to the presented draft of the report *Poland: Country Assistance Review* produced by the International Bank for Reconstruction and Development.

Sincerely,
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Attachment 5

Minister of Health and Social Welfare

Warsaw, 10.03.1997

Ministry of Finance

Under-secretary of State

Dr Halina Wasilewska-Trenkner

Madam Minister,

Please, find below our remarks to the report entitled ‘Poland: Country Assistance Review’ prepared by the World Bank, enclosed to your letter of 25 February 1997, ref. no ZG/BM-83/97.

The project for the national health service, funded with the World Bank’s loan, is included in the above report as the project no 21.

In December 1995 (letter no BPZ/6310/95 of 21.12.1997) we submitted the answer of *Biuro ds. Zagranicznych Programów Pomocy w Ochronie Zdrowia* (Office for Foreign Assistance Projects in the Health Protection Sector) in charge of the project implementation, to a set of questions regarding various aspects of co-operation with the World Bank and its Mission in Warsaw as regards the health protection development project. According to our assessment, the answer has not been taken into consideration in the draft report. Please, find enclosed a copy of that answer.

We believe that the report is based mostly on the Bantk’s own judgement. The report contains a major inconsistency with regards to our project: subparagraph 1.32, pages 10-11 (of its Polish version) reads that the health service project “has never been started”, while subsequently (subparagraphs 2.49-2.54, pages 31-32) the report comprises the Bank’s comments on the project implementation.

According to the Introduction, the report relates to the years 1985-1996. This allows us to state that at the end of 1996 the project was well advanced:

- the prevalent majority of medical equipment for the three regions was purchased and supplied; most of it for the treatment of heart diseases and tumours;
- family doctors in the three regions were supplied with medical equipment; a national scale tender for the purchase of medical equipment for family doctors was being prepared;
- supply of computers for hospitals all over Poland with capacities exceeding 200 hospital-beds, was reaching its final phase;
- projects for the promotion of heath, including prevention of smoking, promotion of appropriate nutrition, healthy education of school-children, promotion of health at work and prevention of accidents at home, were prepared for approval.

The total amount of US $ 51.920.56 was contracted at the end of 1996.

We submit these fragmentary remarks only as we believe that Mrs Krystyna Milewska - WB representative, has all relevant information on this subject, due to her day-to-day working contacts with the Office for Foreign Assistance Projects in the Health Protection Sector.

With best regards

Sincerely,

Krzysztof Kuszewski

Under-secretary of State

on the behalf of

the Minister of Health and Social Welfare

Office for Foreign Assistance Projects in the Health Protection Sector

ul. D³uga 38/40, 00-238 Warszawa

tel. 635 26 20, 635 73 84, 31 42 81 int. 222, fax 635 32 39, 635 08 39

Ref. no BPZ/6310/95 Warsaw, 21.12. 1995

Mr Andrzej Chmiel

Deputy Director

Foreign Department

Ministry of Finance

Dear Mr Director,

Referring to your letter ZG/BM-645/95 of 7 December 1995, I am sending you our opinion regarding various aspects of co-operation between the Ministry of Health and the World Bank, including its Mission in Warsaw, as regards implementation of current and negotiated projects co-financed with credit resources granted by the World Bank.

With best regards

Sincerely,

A. The Concept and the Structure of the Project

1. Applying for the loan, the Government had three basic general objectives:

- improvement of health of the society;
- enhancement of the role of the health service sector in the social welfare system;
- reduction of costs of health services.

The original project accepted by the World Bank was extensive and detailed. The above objectives were to be implemented in 4 basic fields divided into 15 components. In 1993, due to the very low rate of disbursement, the total amount of the loan was diminished by US $ 30 million and the structure simplified to 2 fields and 6 components. Due to changes in the health sector, following the relevant reform, these fields were modified once again in the middle of 1995 to implement the above mentioned general objectives in accordance with the reform. The World Bank via its Task Manager commented the new version of the project and restricted the utilisation of one part of funds to a group of tasks determined by the Bank.

2. The Ministry of Finance deals with the loan repayment. The Ministry of Heath is in charge of contracting. The World Bank comments on tasks proposed to be implemented, and subsequently accepts or not the project description and its preliminary budget. The unit that directly implements the project has a key role as regards the preparation of changes complying with the reform of health services and the preparation of the entire project documentation, starting from the project description till the contract with the supplier of services or goods. Considering all changes since the beginning of the project, it is impossible to establish the role of the above mentioned entities in the preparatory works.

3. The Minister of Health is the addressee of the World Bank's letters, including WB reports and Aide Memoires. All these documents are of great importance as they express WB opinion on implemented tasks.

4. The project implementation during the initial two years was very unsatisfactory. It was due to the lack of institutional arrangements and the fact that the project was implemented by foreign consultants. Such requirement was made in the preparatory documents, however it did not facilitated the disbursement of the loan. There were no clear relations between contracting institutions and the implementing unit. The unit was not developed sufficiently enough to allow an appropriate rate of the project implementation. The implementing unit was based mostly on foreign consultants. Inefficient functioning of the project was due mostly to the wrong implementation of institutional and legal arrangements.

5. The concept of the project was corresponding to the governmental strategy for the sector. Following its change, the project had to change as well.

B. Monitoring and Implementation

The World Bank's flexibility as regards conditions and goals of the project is considered good in relation to smaller changes which do not exceed arrangements made in the preliminary phase of the project. The Bank is flexible as regards changes in the value of contracts and as how supplies of services and goods are carried out. From the other hand, the Bank is not flexible with regards to other proposals. The Register of Medical Services is a good example. Polish legislation provides possibilities for the introduction of so called 'ksi¹¿eczki' (booklets) for receipts. The World Bank's assessment of the relevant proposal was definitely negative, and although the Bank expressed its willingness to co-finance the Register, the approval was limited exclusively to technical assistance and computerised systems with the software. The assessment by the World Bank had impact on EU/Phare decision regarding decrease of the financing for 'ksi¹¿eczki'. A clear approval by the World Bank could have increased the share of Phare in the Register financing.

7. Co-ordination between departments of the Ministry of Health and the implementing unit is very diversified. Some departments commit many tasks and see to their implementation but there are also some departments that - in spite of offers made by the implementing unit - are not interested in the financing. Co-ordination of activities by the World Bank is also very diversified in time. On some days the project enjoys big interest, while some other time we wait for the Bank "no objection" for months. Contacts between representatives of the World Bank and Polish institutions follow similar pattern. Co-operation is very irregular.

8. Institutional problems took place during first years of the project. Currently, the implementing unit is based on the local team and shall hopefully make up for delays and accomplish the project according to the time schedule. The main problem was to set up a good and numerous team divided into sections in charge of specific fields and components of the project.

9. Initially, the team set up under an organisational unit of the Ministry of Health, was based on foreign consultants. Currently, the team is set up as an independent organisational unit and has highly skilled staff, well trained and experienced enough to be able to carry out subsequent projects after the completion of this one.

10. The role of departments in the project management was mentioned in subparagraph 8. Their role comes out of their share in the management. Some departments consider the project management as equal to their other tasks and thanks to the financing from the project, they implement more complex management of their tasks. Some departments still do not utilise the funding.

11. Technically our communication with the World Bank in Washington is poor. E-mail connection is often not reliable. No reaction follows letters that are submitted. After the loan reduction from US $ 130 million to US $ 100 million, the rescheduling did not arrive from Washington for over one year, in spite of seven letters from the Polish party and WB commitment to send it in several days. Our contacts with the Mission in Warsaw were limited until the nomination of the liason officer (Mrs Milewska). Currently, these contacts are very frequent, although due to lack of the decision power, they have often purely informative nature. Elimination of such communication problems (technical problems plus delegation of powers within the Bank) could significantly improve the project implementation.

12. This question does not pertain to the implementing unit.

13. Project officers are not capable of answering this question.

C. Assessment

14. Project is still implementing its objectives and constitutes an important factor supporting the heath sector reform. It favours the decentralisation of the health sector, supports basic health services and better management of the health sector. From the point of view of its general objectives it is difficult to assess today to what extend these are implemented (e.g. lower costs or better availability of health services). Specific objectives are implemented as planned and are considered satisfactory by the project beneficiaries.

15. Project officers are not capable of answering this question.

D. Final Remarks

16. In the preparatory phase the Bank should have obligated the Borrower to set up a strong team and should have arranged with the implementing unit to have more influence on the project. The Bank should delegate more powers to the Mission in the country where the project is implemented and guarantee that Mission staff is better available. The Bank should utilise information collected by the Mission and be more flexible towards changes or even initiate them. Strict application of the Loan Agreement stipulated five years ago in a country undergoing fast economic transformation is not the best option.

E. WB Mission in Warsaw

17. We do not know anything about the role of the Mission in the initial phase. We may assess the start up and implementation phase of the project. The role of the Mission depends on its powers. It is but an information centre, and not a decision-making centre. Therefore, the role of the Mission is restricted to the transfer of information, collecting of data, organisation of training, clarifying of doubts via contacts with concrete people in Washington.

18. It could be far more useful with different scope of activities. With the current scope of activities the Mission is only an organiser and an intermediary in the information flow.

Attachment 6

President of the
Office for Housing and
Urban Development

Barbara Blida

Warsaw 1997.03.11
FI-4/3123-17/97-602

Mrs Halina Wasilewska-Trenkner
Under Secretary of State
Ministry of Finance

Madame Minister

In connection with your letter no. ZG/BM-83/97 of 25 February this year, I should like to present you with the following comments to the draft report *Poland: Country Assistance Review*, produced by the International Bank for Reconstruction and Development.

The loans of the World Bank for use in the Program to Finance the Building of Residences described in chapters 3.24 to 3.30. The authors of the report also make mention of it in chapters 1.31 and 1.33.

In not questioning the written description of the Project in the draft report in the part describing the Program, I cannot agree with the part concerning notes and judgements, based on subjective values and opinions of the authors of the report.

In particular I can not agree with the accusation about the lack of policy by the government in the are of creating a useful climate for housing investments. The role of the state in a market economy is to create a legal framework guaranteeing freedom of action for businesses with the aim of effectively using the resources of production. Those legal frameworks have been created, and its basis is the Law on Construction passed by the Sejm in 1994 and the law on the economic use of land, or the law concerning supporting certain forms supporting housing construction, passed in 1995.

Housing construction is a specific branch of the national economy, and in a large way dependent on the macroeconomic conditions. It is difficult to speak about creating an investment climate in a country which has an inflation rate of over 30%, and averages at 20% annually.

I agree with the authors, that activities called The Program for Financing House Building were ambitious, maybe too ambitious for the conditions in which they were to be realised. But this does not change the fact, that it was actually the representative of the World Bank who did not accept, presented by Poland, the proposition to change the condition of the Project, having as its aim to fit into the surrounding macro- and microeconomic conditions.

The state and structure of housing resources in Poland as well as the scale of subsidising housing construction before 1989 did not permit for a retreat from the temporary purchase by the state of interest on housing credits granted before 1992. The role of the state is to help citizens in situations, where high inflation is particularly damaging reflected on the size of the debts contracted by these credits.

Besides this I should like to refer to certain statements included in the report.

Re paragraph 3.26

1. The proper name of the group of advisors nominated by the Ministry of Planning and Construction was: The Bureau of the Project to Finance Housing Construction. Consultants in that Bureau were Polish specialists.
2. In the last paragraph of that chapter it states that a sum of USD 10 million of non-repayable grants was dispersed in connection with realising this programme. The main granter USAID never informed me of the actual size of the technical assistance given the Program, that is why, on purpose, there is a hesitation in this place to give the source of technical assistance.

Re paragraph 3.27

The conclusion contained in the last sentence of this paragraph, that Poland informed the World Bank, that it is no longer interested in assistance for the housing sector is not precise. In June 1996, Mr Minister Kalicki informed the Bank that, the Government is not interested in other loans earmarked for the housing sector.

Re annex 2

1. The Office of Housing and Municipal Development has no information concerning that Germany granted non-repayable assistance to the sum of USD 10 million for the purpose of constructing housing. Assistance within the sphere of the Program for the Financing of Housing Construction comes from USAID, EBRD, and IBRD, controlling the Japanese grant, that is the money given by the Japanese government of JPY 119 million. This assistance is not mentioned in Annex 2.
2. The sum of USD 67 million which was described as co-financing by EBRD, as a gift, non-repayable assistance for housing construction, to the amount of the loan granted by EBRD for the Program for Financing Housing Construction, which was in its entirety repaid by the Polish government.

Re annex 5

As far as I know, Bud-Bank did not receive information from the World Bank, that it was not satisfied with what ever type of audit was conducted.

Re the conclusion of the project no. 22

1. The actual sum of the loan was USD 20 million.
2. The actual name of the unit called into being by the Ministry of Planning and Construction was called the Bureau for the Project to Finance Housing Construction.

I have hope, the presented observations will be positively accepted by the representative of the World bank and will be of assistance in preparing the final version of the report, concerning the views of the activities of the assistance granted Poland.

Sincerely
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President
Barbara Blida

Attachment 7

The Republic of Poland
Ministry of Justice
Secretary of State

Warsaw, 17 March 1997.

WM 4842/1/95

Mrs. Halina Wasilewska-Trenkner
Under Secretary of State
Ministry of Finance

In response to to your letter of 25.02.1997 (no. ZG/BM-83/97) the Ministry of Justice wishes to inform that the report *Poland: Country Assistance Review* in parts concerns areas of activity concerning the Ministry of Justice, in particular the regulations concerning the regulations on registering pledges and the register of pledges (part 2 3-2.6) is in a large measure unclear and not understandable. It is probable their exists a misunderstanding concerning the differences the institutions: registering pledges and the register of pledges. Similarly in Part 2.5 inaccurate information is given concerning the subject of the state of work on the Law concerning the registered pledges. The Law was passed on 6 December 1996 and published in the Daily Gazette *DZ.U. Nr. 149, poz. 703*. Next the Law was translated into English by IRIS which closely works with the World Bank.

Sincerely,

(signature)

Dr Grzegorz Ciecierski

Attachment 8

MINISTRY OF LABOUR
AND SOCIAL POLICY

Secretary of State
Warsaw, 11 March 1997

Halina Wasilewska-Trenkner

Under Secretary of State

Ministry of Finance

Dear Madam,

In reply to your letter of 25 February 1997 (ref. No ZG/BM-83/97) I enclose herewith comments on the World Bank Draft Report: „Poland; Country Assistance Review".

These comments have been developed by the Project Co-ordination Unit staff dealing with the Employment and Employment Services Development Promotion Project.

Yours sincerely

THE MINISTRY OF LABOUR AND SOCIAL POLICY
02-924 Warszawa, ul. Limanowskiego 23
EMPLOYMENT AND EMPLOYMENT SERVICES DEVELOPMENT PROMOTION PROJECT CO-ORDINATION UNIT
tel./fax 642 62 22, 642 75 57
tel. 651 59 35 ext. 403/404

WZ/IV/532/97
Warsaw, 10 March 1997

COMMENTS ON THE WORLD BANK DRAFT REPORT „POLAND: COUNTRY ASSISTANCE REVIEW" - RELATED TO PARTS DEVOTED TO THE EMPLOYMENT AND EMPLOYMENT SERVICES DEVELOPMENT PROMOTION PROJECT

The World Bank Draft Report „Poland: Country Assistance Review" discusses the Bank's policy towards Poland and contains a description of all the loans granted to the Government of the Republic of Poland.

On the turn of 1989 the labour market noted dramatic changes. Neither the society nor the employment services were prepared to face a situation changing almost every day. In 1990 the labour market was largely unknown and there was a lack of a comprehensive diagnosis and forecast. It was necessary to introduce the methods and principles of market survey compliant with international standards and allowing to make a comparison with the market economies. It was also necessary to establish a social security system for the unemployed and to address the unemployment issues through active counteraction. It was considered necessary to establish urgently professional employment services, well organised, equipped with necessary instruments, methods and procedures for action. It became evident that a large part of the unemployed will need to change their professional qualification. Therefore, it was considered necessary to consolidate the market of training institutions in Poland which so far were not oriented towards conducting training of adults on a broad scale. It was considered necessary to promote mechanism and institutions facilitating creation of jobs, including self-employment and establishing of small firms.

To address these issues the Polish Government decided to accept the World Bank loan to implement the project named „Employment and employment services development promotion".

The loan agreement was signed on 3 July 1991. Originally, it amounted to 100,000,000 US$, within the following breakdown: 76,000,000 US$ for equipment, 13,500,000 US$ for consulting services, 1,000,000 US$ for credits, 9,000,000 US$ undistributed. The Project was mainly concerned with developing modern training programmes and conducting training, increasing mobility of the workforce and thus reducing the unemployment rate. Therefore, a large portion of the funds was designed for the *Adult Training* component.

At the end of 1994 the Ministry of Labour and Social Policy Management, considering the current situation of the state and as a result of a substantive discussion with the World Bank, decided to negotiate the loan agreement again, reducing the loan by 20,000,000 US$ and adopted the following breakdown: 58,571,000 US$ for equipment, 12,248,000 US$ for consulting services, 7,200,000 US$ for credits, 1,800,000 undistributed. On 20 January 1995 this change was approved by the World Bank. Part of the amount originally designed for foreign technical assistance in all components was reduced and the *Adult Training* component was largely reduced (from 51 million US$ to 6.5 million US$). This decision was supported by the fact that a very rapid spread of different training institutions was noted at that time and, while taking into consideration an unstable situation of the country, it was unjustified to appropriate such large sums for this component, without being certain whether such an investment would improve the situation.

Such a large reduction of funds for this component was made possible through decreasing the number of vocational training programmes, delivering funds only for the development of model programmes and elimination of two from among five model programmes envisaged in the original version of the agreement. As a result of these savings, the small enterprises component was considerably increased (from 3,067,000 US$ to 13,034,000 US$) along with the funds appropriated for information technology equipment in Labour Offices and Social Assistance Centres.

At present the Employment and Employment Services Development Programme reached its final, the most decisive stage. The implementation of contracts for the provision of consulting services and training has been completed or is to be completed very soon and, based on the prepared materials, implementation of programmes and training of Labour Offices and Social Assistance Centres staff has been commenced. Up till now about 22,5 million US$ has been spent, while the Ministry's of Labour and Social Policy liabilities due to the signed contracts, advancement of negotiations or priorities set by the Ministry's Management in relation to the use of funds, amount to about 51.5 million US$.

Considering the fact that now the project has reached the most difficult and decisive implementation stage which is the provision of information technology equipment to Labour Offices and Social Assistance Centres, on 9 May 1996 a consent of the World Bank was obtained to prolong the Project's closing date till the end of 1997 and a new breakdown of funds was adopted, namely: 62,317,000 US$ for the equipment, 12,483,000 US$ for consulting services, 5,200,000 US$ for credits.

While commenting on the World Bank Draft Report I wish to refer to the following expressions:

Poles participating in the project noted a lack of ownership and understanding of the Project's idea. Besides a vague character of this statement (who noted lack of understanding - the Bank, contractors or budgetary entities ?) the meaning of the expression *lack of ownership* is unknown.

One may agree with the Bank's statement that as a result of public criticism of the Project in 1994 a decision had been taken to negotiate once again the agreement conditions and to decrease the amount of the loan, but the sentence saying that: *the Polish side has not understood properly what the use of technical assistance consists in* - is unclear. Experience gathered in 1991-1994 on the utilisation of foreign experts assistance proved its little usefulness due to a lack of knowledge of the Polish situation, and very high, giving ground to objections, experts' remuneration, which in many cases exceeded that in their own companies. It was the remuneration that caused public criticism and to a large extent influenced public perception of the Ministry of Labour and Social Policy work on the Project's implementation. Our experience has shown that the best results are obtained with teams consisting of both foreign and the Polish experts. Such an approach to the substantive tasks implementation has not been taken into consideration by the World Bank at the beginning of the Project.
In the Project Draft also implementation problems are mentioned, attributing a sole responsibility to the Polish side, i.e. changes in the Government, frequent changes of the Project's staff and

lack of experience, poor definition of the roles and responsibilities within the Project Co-ordination Unit, as well as between the PCU and technical units. While arguing with this statement it should be pointed out that despite these obstacles, they did not have a decisive influence on the Project's tasks implementation and the Project implemented by the Ministry of Labour and Social Policy was the first undertaking on such a broad scale realised with little substantive advice on the part of the World Bank and the Bank's Mission as well as with the staff who were gathering their experience during the Project's implementation. The World Bank stressed on many occasions that the Project is a complex one and relates to many broad issues which may potentially cause implementation problems. At the same time the Bank used to point out that an implementation of such tasks in the public sector is very difficult, among other things due to the fact that the number of the staff is very limited and the remuneration level s well below that in the private sector. It should also be pointed out that an innovatory character of the Project also determined the Bank's approach which also was gathering new experience.

Part of the Report is devoted to donors and funds they transferred. This statement is incomprehensible, as the funds for the Project's implementation are the Bank's loan which earns interests and fees for readiness. Also a large contribution of the Polish side should be borne in mind, which appropriated large government funds for the Project. At the same time the donors' funds are not found in the Project.

While summing up the Report's fragment on „Employment and Employment Services Development Project" one should point to its too general character, absence of examples and references and incomprehensibility *(... little attention has been paid to participation questions...?*).

The Employment and Employment Services Development Project is also referred to in the Annex - the chapter „Project Summary No9 - Employment Promotion" (L3319).

The text contained in the Annex raises basically the same objections. The Project Summary focuses on the Bank's priorities while granting this type of loans and not on the Project itself, e.g. it draws attention to a need to carefully design a social security system, makes references to an assistance of other institutions such as the USAID (which was not in the Project), points to a necessity to modernise the old age and retirement pensions system (which is not dealt by the Project). Also the task implementation problems have been repeated.

The day for which the data on the loan disbursement were obtained is unknown. As stated in the Annex, the loan has been disbursed in 19%, whereas at the end of 1996 the disbursement amounted to 24% (19.5 million US$), and the funds involved amounted to about 40 million US$.

Also it would be advisable if the Bank defined its role and possibly revised the sentence saying that: *One of the major advantages of the World Bank assistance for Poland has been the level and influence of political dialogue on the most important questions of the social reforms programme. The World Bank not only contributed to the formulation of the Republic of Poland Government's policy but also provided for a continuation of the dialogue which relieved the effects of political instability*. It should be stressed that the Project has a supplementary character to the State activities in the scope of social policy and it is not the only Government action, however very important.
The Project Draft (both in the main text and in the Annex) relates mainly to the components *Adult Training* and *Small Enterprises*. These components constitute only elements of the Project which also includes other elements, such as: *Establishing an information management system for*

the labour market and increasing the effectiveness of the implemented labour market programmes, Development of a statistical information system for the labour market, Improving the social benefits programme, Employment services functioning during industrial transformation, Improvement of Employment Services functioning, and the most important task to be implemented till the end of 1997 is to provide information technology equipment for Labour Offices and Social Assistance Centres.

Taking into account future actions it seems justified to define interrelations between the decisions made by the Ministry of Labour and Social Policy Management, acting on behalf of the Government of the Republic of Poland and the position presented by the World Bank officials. Such a solution would make it possible to eliminate those decisions by the World Bank which in order to secure a purity of bank procedures do not consider the borrower interests.

Attachment 9

The Republic of Poland
Ministry of Transport and Maritime Economy
Minister TE-MIF-084-57/97

Warsaw, March 6, 1997

Ms Halina Wasilewska-Trenker
Under-secretary of State,
Ministry of Finance

Dear Madam:

Let me thank you very much for the Draft Report on the assistance provided to Poland by the World Bank for ten years now.

As for the co-operation between our Ministry and the World Bank, we can only think of positive sides of that co-operation, which results from the fact that we have met a team of excellent experts working for the Infrastructure Division in the Central Europe Department. Moreover, these people have not changed, and, to give an example, Task Manager of the First Transport Project co-operated with us from the identification stage to the loan project implementation.

In the Draft Report, the World Bank presents honest and critical evaluation of co-operation in the last decade, and, which is important, provides critical assessment of its own personnel as well.

Our co-operation with the World Bank has been very good. On 9 September, 1990, we launched the implementation of First Transport Project (Loan No. 3193-0 for $ 4,75 million and No. 3194-0 for $ 145 million). On 30 September, 1993, we launched the implementation of the Road Project (Loan No. 3564-0 for $ 150 million). On 6 December, 1996 we launched the implementation of the Port Access and Management Project (Loan No. 4080-0 for $ 33.5 million and Loan No. 4080-1 for $ 49.5 million). Total borrowing amounts to $366.75 million.

On 31 December, 1996, First Transport Project implementation was finalised. We envisage that the implementation of the Road Project is going to be completed on 31 December, 1998, in line with the Loan agreement. As for current co-operation with the World Bank this year, our mainstream activities will be focused on the assessment and negotiation of the Second Road Project. Preparations before Port Modernisation Project have been slowed down due to the enactment of the new Seaports Law and the fact that the borrowers will be new economic entities - Zarz¹dy Morskich Portów (Seaports Boards).

Considering the fact that we have found some inaccuracy instances on the pages concerning transport, which, in our opinion, should be either clarified or explained, we have prepared also some comments on the Draft Report.

Let me kindly request you, Madam, to have the authors provided with a relevant copy of „Poland: Country Assistance Review".

Sincerely Yours,
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Bogdan Fr¹ckowiak
Undersecretary of State

[comments from MoT is being sent by pouch]