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Country Assistance Evaluation

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Abbreviations and Acronyms

ASAL	Agriculture Sector Adjustment Loan
BTC	Bulgaria Telecommunications Company
CAS	Country Assistance Strategy
CAE	Country Assistance Evaluation
CBA	Currency Board Arrangement
CEM	Country Economic Memorandum
CMEA	Council of Mutual Economic Assistance
CWRP	Child Welfare Reform Project
DDSR	Debt and Debt Service Reduction
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EFF	Extended Fund Facility
ESW	Economic and Sector Work
EU	European Union
FIAS	Foreign Investment Advisory Service
FESAL	Financial Enterprise Structural Adjustment Loan
GDP	Gross Domestic Product
GEF	Global Environment Facility
GOB	Government of Bulgaria
IFC	International Finance Corporation
IMF	International Monetary Fund
LSMS	Living Standards Measurement Survey
MEBO	Management Employee Buyouts
MIGA	Multilateral Investment Guarantee Agency
MOEW	Ministry of Environment and Water
MOF	Ministry of Finance
NEK	National Electric Company
NHIF	National Health Insurance Fund
NSSI	National Social Security Institute
OED	Operations Evaluation Department of The World Bank
OEG	Operations Evaluation Group of IFC
PA	Poverty Assessment
PER	Public Expenditure Review
RIF	Regional Initiative Fund
SAL	Structural Adjustment Loan
SBA	Stand-By Arrangement
SAEER	State Agency for Energy and Energy Resources
SERC	State Energy Regulatory Commission
SIAP	Social Insurance Administration Project
SIF	Social Investment Fund
SOEs	State-Owned Enterprises
SPAL	Social Protection Adjustment Loan
TAL	Technical Assistance Loan
USAID	United States Agency for International Development
UNDP	United Nations Development Program

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MEMORANDUM TO THE EXECUTIVE DIRECTORS AND THE PRESIDENT

Subject: Bulgaria Country Assistance Evaluation

Bulgaria's transition to a market economy has been relatively difficult. Unfavorable initial conditions (such as a high external debt and loss of external markets) combined with reckless lending by state banks to state enterprises precipitated a financial crisis in 1994 and again in 1996. As a result, real GDP in early 1997 was a third lower than its 1989 level and poverty had increased.

Outcomes only improved in mid-1997 following a successful stabilization program supported by the IMF and the World Bank. On July 1 of that year a newly elected Government adopted a Currency Board Arrangement and committed to structural reforms. Economic growth revived and poverty declined. Real GDP grew by 3.0 percent in 1998 and in 1999, rising to 5 percent in 2000. In 1999, per capita income was estimated at US$1390.

The Bank started its activities in Bulgaria in 1990, shortly before Bulgaria became a member in September of that year. Throughout the 1990s, the Bank focused on supporting Bulgaria's transition to a market economy, with particular focus on stabilization and growth, private sector development, and poverty alleviation. To date, the Bank has approved US$1.5 billion in loans. Early assistance took the form of a Structural Adjustment Loan (SAL) in FY92, a debt reduction operation shortly after, and selected investment operations. But the frequent change in governments (ten since 1989), combined with a flagging interest in reforms on the part of successive governments, and expectations of financial crises, led the Bank to take an appropriately cautious approach in its own assistance during the mid-1990s, which translated into a modest lending program, focused on investments and keeping on hold a major adjustment loan. The Bank's strategy during 1990-97 could not achieve the desired outcomes; however, the Bank appropriately adjusted its activities to reflect the lack of government responsiveness.

After 1997, once the new Government adopted a Currency Board and began implementing reforms, the Bank adopted a prudent stance and only gradually launched a full lending program. During this time, the Bank partnered effectively with the IMF by providing advice on structural reforms in a wide number of sectors on which it had been conducting policy dialogue in 1990-97. With growing evidence of government commitment and the achievement of macroeconomic stabilization, the Bank began to support a broad reform program through a series of sectoral adjustment loans addressing enterprise, banking, agricultural, social protection, and energy sector reforms. IFC investments increased from only four approvals in FY94 to FY98 to ten in FY99 through FY01 while MIGA's program remained modest. Progress in all areas supported by the Bank Group has been substantial, in spite of some weaknesses. Most of the objectives of the Bank assistance over this later period have been substantially met, and the overall outcomes of the Bank's strategy since 1997 to the present are considered satisfactory.

Many institutional development issues remain outstanding, in particular with respect to reforms needed for Bulgaria's accession to the European Union (EU), the country's top priority. Among the structural and social constraints are shortcomings in privatization that hamper effective restructuring of formerly state owned enterprises, a difficult environment for private banks and enterprises, fragile social safety nets and poorly targeted poverty reduction programs. Most important is the lagging public sector reform, which is a key priority for EU accession and which was planned in the FY98 CAS, but could not be carried out in the absence of Government commitment. A public financial accountability assessment would be an important contribution in this area. The institutional development impact of Bank assistance throughout the period under review is rated as modest.

The sustainability of reforms is enhanced by the public consensus favoring EU accession, which would be threatened by any significant backtracking. On the other hand, discontent with unemployment, low assistance benefits to the poor, and perceptions of corruption constitute significant risks. Still, on balance, OED rates the sustainability of the outcomes of reforms as likely.

The challenges for the Bank over the next few years are to foster ownership of structural reforms with the new Government. Stronger World Bank leadership will be needed as the IMF will focus only on those conditions critical for macroeconomic stability. Specifically, the Bank should focus on areas which are important for EU accession and where it has a clear comparative advantage:

(i) *Public Sector*. Complete the ongoing public expenditure review in partnership with the Government. This should help build capacity to prioritize public investments. Assess with other stakeholders the steps that have been taken to strengthen public financial accountability institutions.

(ii) *Poverty Alleviation*. Complete a poverty assessment update integrating qualitative and quantitative inputs, which could establish the basis for targeting of social assistance. The poverty update should build government capacity for regular monitoring of poverty and its findings should inform strategy and policy design.

(iii) *Energy*. Reinforce the sustainability of recent institutional reforms by clarifying the mandate and functions of different regulatory bodies (e.g., the State Energy Regulatory Commission).

Robert Picciotto
by Gregory K. Ingram

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Preface

This evaluation provides an independent assessment of the role of World Bank assistance to the Republic of Bulgaria during 1991–2000. It covers activities that comprise 93 percent of total lending in this period. The evaluation includes assessments of the role of IFC and MIGA assistance to Bulgaria. IFC's evaluation group conducted a desk review of IFC assistance and MIGA's evaluation group desk reviewed MIGA assistance.

The building blocks of the CAE are OED project assessments, sectoral reviews and interviews with Government officials, IBRD and IMF staff at headquarters and in Bulgaria. Assessments have been conducted of eight completed loans. Seven of the eight have been prepared in parallel with the CAE. In addition, brief reviews were prepared for agriculture, social protection, health, energy, environment, and public financial accountability. An OED mission visited Bulgaria from March 20th to March 30th, 2001, and met as well with staff of EU in Brussels and EBRD in London. The draft report was also reviewed by the Government of Bulgaria. The comments from the region and those received from the Government have been reflected in the report. The evaluation was discussed by CODE on February 4, 2002 and a report of that discussion is included as Annex J.

1. Country Background

Description

1.1 Bulgaria is a part of the Balkan peninsula in South Eastern Europe. It borders with Romania to the north, Serbia and Macedonia to the west, Greece and Turkey to the south and the Black Sea to the east. Its population is 8.2 million, about 6.5 percent of which are Roma (gypsies). By 1999, per capita income was estimated $1390.

Initial Conditions

1.2 Bulgaria's economic transition to a market economy began in November 1989 under relatively difficult conditions. It had a high external debt (150 percent of GDP in 1990, most of which was commercial), potentially unsafe nuclear generated power sources[1] and a relatively high level of distortions in the economy in part because of its heavy dependence on Council of Mutual Economic Assistance (CMEA) markets. Also, Bulgaria's exposure to market institutions, which was important in other Central and Eastern Europe (CEE) countries such as Hungary and Poland in promoting domestic reforms, had been limited.

1.3 Thus, Bulgaria's challenges included: stabilizing the economy; developing conditions for private sector led growth; and dealing with the environmental challenges of nuclear safety, as well as water contamination and air pollution. To alleviate poverty and reduce the social impact of the transition on the poor, Bulgaria needed to establish the foundation for agricultural growth, shift emphasis from hospital to primary care, and target public assistance to the neediest.

1.4 The task of addressing these challenges was complicated by a lack of strong external and internal support for reforms. Bulgaria was not a priority for donors because of its limited geopolitical importance. Internally, while many Bulgarians supported market reforms, socialism retained substantial acceptance. Many Bulgarians had traditionally seen Russia (and the Soviet Union) as an ally, dating back to Russia's key role in assisting Bulgaria in 1878 to attain independence from 400 years of rule by the Ottoman Empire. This ambivalence led to a delicate balance between non-socialist and socialist parties, which alternated in power through the 1990s, resulting in ten governments since the fall of communism in 1989.

Economic and Social Progress: 1989–2000

1.5 Bulgaria's progress can be divided into two distinct phases. In the first, 1989–97, Bulgaria was unable to stabilize the economy, leading to a severe economic and social deterioration. In the second, starting with the adoption of a Currency Board Arrangement (CBA) on July 1, 1997 and through 2000, considerable economic progress was made.

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[1] About 42 percent of electricity production came from the Kozloduy Nuclear Power Plant. Four of the six units of this plant did not have internationally mandated safety standards.

1.6 *First Phase:* As a result of two financial crises, first in 1994 and again in 1996, cumulative GDP declined by almost 38 percent between 1989 and 1997 and inflation in 1997 had reached 579 percent per year. In both crises, the backdrop was a progressive swelling of fiscal and quasi-fiscal imbalances and a pervasive concern about Bulgaria's ability to service its external obligations. The 1994 crisis led to the adoption of a tight fiscal and incomes policy, supported by external donors. But structural problems in the banking and enterprise sectors were not tackled. State-owned enterprises (SOEs) continued to run losses, financed by increasing arrears and by borrowing from state-owned banks, which in turn were refinanced by the Central Bank, while private banks channeled resources to insiders or corporate conglomerates. Confidence in the banking system collapsed following a widespread perception that many banks were insolvent and another financial crisis ensued.

1.7 In parallel with economic decline, social indicators deteriorated. Income inequality almost doubled in 1989-97 and poverty increased. Life expectancy at birth declined, while it increased in most other countries in CEE. Abortion rates continued to exceed live births by almost 40 percent, but educational attainment indicators remained broadly unchanged.

1.8 *The Second Phase*: Against this background of unstable policies, a newly elected Government adopted a CBA on July 1, 1997 to reinforce financial discipline. The Government also began implementing a credible reform program that accelerated in 1999.

1.9 These reforms stabilized the economy, revived economic growth, and reduced poverty. Inflation declined to only 7 percent per year by end-2000 (Table 1.1). With careful debt management, the Government reduced Bulgaria's external debt to GDP from 98 percent in 1996 to about 85 percent at end-2000. The GDP grew by 3.0 percent in 1998–99 rising to 5 percent in 2000. Based on a new survey in 2001, the poverty rate was 11.7 percent, compared to 36 percent at the height of the crisis, but still almost double the pre-crisis rate of 5.5 percent.

Table 1.1: Trends in Selected Economic Indicators

Indicator	**1991**	**1996**	**1997**	**1998**	**1999**	**2000**
GDP Growth	-11.7	-10.9	-6.9	3.5	2.5	5.0
Inflation (CPI end of the period)	338.7	310.8	579	1.0	6.2	7.0
Overall Balance (General Government as percent of GDP)	-14.7	-15.4	2.1	2.7	1.5	0.4
External Debt as % of GDP	150	98	96	84	83	85
Unemployment rate (percent)	-	12.5	13.7	12.2	16.0	17.9

Source: IMF Reports

1.10 Air pollution levels have dropped with a decline in industrial carbon dioxide emissions although this may be largely due to a fall in industrial activity after the crisis. According to a 2000 UNDP report, water pollution remains high. Nuclear safety concerns also remain.

2. World Bank Products and Services

Strategy and Policy Advice

2.1 The Bank's main strategic objective in Bulgaria has remained unchanged over the last decade. The objective has been to facilitate Bulgaria's transition to a market-based economy, by: (a) supporting macroeconomic stabilization and sustainable growth; (b) facilitating the expansion of private sector activity; and (c) addressing poverty by establishing a financially viable and effective social protection system, and other social sector programs.

2.2 The earliest strategies in FY91 and FY93 embedded in project documents were summary statements of lending and proposed non-lending activities. The strategies focused on policy advice, the large external debt problem and assisting Bulgaria to reschedule it. The FY93 strategy proposed a five year program of US$300 million per year with roughly 40 percent in adjustment lending, of which an enterprise and financial sector reform loan (FESAL I), was a key element.

2.3 By the time of the full CAS in *March 1996*, it was clear that progress on reforms had been slower than anticipated. The FESAL had been put on hold and the Bank considered that the Bulgarian banking system was vulnerable to crisis; the debt rescheduling had not had the anticipated effect of bringing down the debt burden and implementation of investment projects was going poorly. A rethinking of the scope of assistance was called for. The FY96 CAS proposed a core lending program of only four projects for US$125 million during FY97-99 focused in the social sectors and environment. These lending volumes were much more modest, less than half the investment lending of the previous three years. ESW in poverty, agriculture and an assessment of public expenditures were to be completed.

2.4 The *April 1998 CAS* represented another important shift. By then, the Government that had taken over in mid 1997 had successfully brought down inflation, set the stage for economic growth and showed signs of renewed commitment to reforms. As a result, the FY98 CAS focused again on substantial support for SOE reforms, banking, energy, agriculture and social protection. In addition, the CAS proposed a broadened agenda to include reforms in state administration, civil service and judiciary and support for compliance with EU environmental standards. The proposed lending amounts for FY99-01 were US$700 million, about the same as US$790 million in the high case in the previous CAS.

2.5 *Evaluation of strategies*: The strategies were relevant to addressing Bulgaria's constraints. In the early years, the priority was on establishing the foundations for macroeconomic stability and transforming Bulgaria to a market economy; the emphasis on enterprise reform, financial, and energy sector was appropriate. The focus on debt restructuring was also appropriate. The cautious lending approach in the FY96 CAS, the warning of an impending crisis unless reforms in financial and enterprise sectors were decisively tackled, and continuation of ESW was the right strategy for Bulgaria at that time. After 1997, the increased focus in the FY98 CAS on reforms was also relevant both for poverty alleviation and sustainable growth. However, the strategy would have been stronger if it had linked strengthening public administration to private sector development and to helping Bulgaria accede to the EU (Box 2.1). [2]

Box 2.1 EU Views of Bank Assistance

In March 2001, OED met with EU officials in Brussels that explained that Bulgaria needs to make significant progress in building confidence among the EU on its public administration and in particular in its systems of financial accountability. They appreciate strong Bank policy orientation in these areas as well as on issues related to poverty reduction, gender, education and health. These officials mentioned specific institutional development priorities: (i) financial sector, legal system and functioning land markets (ii) civil society involvement in monitoring project and government performance. They emphasized that underlying all these should be an understanding by the Bulgarians of the appropriate role of the state. They welcomed the Country Economic Memorandum and would like the Bank to use the analysis in the report to set priorities, in particular for donor coordination. They strongly recommended a PER.

EU officials believed that in the past a common World Bank and IMF message helped Bulgarians move forward in their reforms. They hoped for a continuation of a coordinated donor stance on important issues.

Implementation of Strategies: Lending

2.6 Lending did not materialize as planned (Table 2.1). In the earlier period, lending volumes fell because reforms faltered; adjustment lending was appropriately delayed (para 2.8). Even in FY98-99 lending was only 65 percent of proposed levels; it took longer than expected to re-establish a policy dialogue with the Government elected in 1997, due in part to the Bank's relatively low profile in the year preceding 1997. This was compounded by the Bank's internal reorganization which led to staff turnover and discontinuity in policy dialogue.

Table 2.1: Planned and Actual Lending (US $ million), FY91-01

	FY93-97		**FY97-99**		**FY98**		**FY99**		**FY00**		**FY01**	
	P	A	P	A	P	A	P	A	P	A	P	A
CAS93	1,200	541										
CAS96 (range)			125-760	371								
CAS98					204	116	230	161	225	220.7	245	102.4

Source: Various CASes. The first column excludes the debt and debt reduction loan for US$125 million.

2.7 Even after adjustment lending started again in FY00, total annual commitments fell below anticipated amounts because the Government proved reluctant to borrow for the investment loans identified in the FY98 CAS (see Box 2.2 on Government views). In FY99-01, of the eleven investment loans proposed in the FY98 CAS only four were approved. (Two more were not in the CAS program, Annex A, Table 1).

2.8 Between FY93 and FY97, the Bank expected 40 percent of its lending would be in the form of adjustment. In fact, only 10.5 percent of lending was in fast disbursing loans, the rest in investments. Although initially the SAL (FY92, US$250 million) was relatively successfully implemented, commitment on reforms slowed down as popular

[2] The EU accession reports have identified the need to strengthen government institutional capabilities (for reliability, transparency, predictability, accountability and efficiency), to accelerate civil service reform and to increase capacity to use the financial assistance extended to Bulgaria both now and after joining the EU.

support waned and Governments changed. The Bank approved only two small adjustment loans, a Rehabilitation Loan for US$30 million and a Critical Imports Rehabilitation Loan for US$40 million, both in FY97, largely to support an IMF program. By contrast, when the Government changed and there was renewed and serious commitment to reforms, there was a high concentration of adjustment lending: 76 percent of lending in the FY98-01 period compared to 59 percent expected (Table 2.2).

Box 2.2: Views of Government Officials Involved in Bank Assistance[3]

1. Analytical work, in particular the 2001 Country Economic Memorandum, was appreciated. The Ministry of Finance (MOF) has frank discussions on all topics with Bank staff.

2. Sector ministries value the Bank's investment and sector adjustment loans. MOF's main concern, on the other hand, is bringing down their indebtedness to the IFIs, and they see the Bank's engagement with line ministries as leading to demands for projects that undermine this goal. Also, MOF officials were concerned about the quality of some investment loans (in particular, water supply restructuring) and TA. Officials were concerned about the potential for overlap between Bank loans and projects supported by EU grants. Adjustment lending, on the other hand, was seen as useful in facilitating policy reforms and improving the business climate and considered a comparative advantage of the Bank.

3. MOF would like Bank's help to improve the investment climate for the private sector rather than support for public investment by line ministries. In any case, within the government's limited absorptive capacity, MOF sees a role for investment lending but called for greater attention to its design and clearer criteria for measuring its results.

Source: Discussions in Bulgaria and in Washington in March and May, 2001. Structured questionnaires were sent two weeks in advance of the OED mission in March, 2001 to the resident mission in Sofia. During interviews, the officials in the central ministries chose to raise issues summarized in this box. The questionnaires and list of people interviewed are Annex G of the report.

2.9 The six adjustment loans approved in FY98-01 for US$456 million covered reforms in financial and enterprise sectors, energy, agriculture, environment and in social protection. Many benchmarks in four of the six adjustment loans were similar to and reinforced the IMF Extended Fund Facility, approved in September 1998. The FESAL I became effective in January 1998; the Social Protection Adjustment loan (SPAL) in December 1998; the first agricultural sector adjustment loan (ASAL I) in September 1999 and FESAL II in December 1999. The following paragraphs discuss the lending program by themes: private sector development, poverty alleviation and environment in the period FY91-01.

2.10 *Private Sector Development*: Adjustment and investment lending has supported private sector development. The two early loans to Bulgaria, the FY91 Technical Assistance Loan (TAL) and the FY92 SAL, were designed to build capacity and support policy reforms critical for achieving private sector led growth (such as privatization, legal reform, agricultural reforms and bank restructuring/supervision). Investment lending in energy and infrastructure was followed by adjustment lending (critical imports rehabilitation loan and two FESALs) to address privatization of SOEs and banks and reforms in the energy sector. In addition, adjustment lending in agriculture (ASAL I and ASAL II) has supported reforms in international trade and price policy, land policy, rural finance, privatization, and food security and cereals marketing policy. ASAL II also emphasizes irrigation and forest management

[3] These represent the views of officials form the previous administration that was in office from April, 1997 and until June, 2001, including the period of the OED mission.

Table 2.2: IBRD Commitments by Sector and CAS Period, FY91-01

FY	***1991-92***		***1993-97***		***1998-01***		***Total***	
	US$m	***%***	***US$m***	***%***	***US$m***	***%***	***US$m***	***%***
Agriculture			50.0	7.5	155.8	26	205.8	13.4
Economic policy[a/]	267	100	250	37.5	200	33.3	717	46.8
Human Development	-	-	50.3	7.5	170.7	28.5	221	14.4
HPN	-	-	26	3.9	63.3	10.6	89.3	5.8
Education	-	-	-	-	14.4	2.4	14.4	0.9
Social Protection	-	-	24.3	3.6	93	15.5	117.3	7.7
Public Sector	-	-	-	-	-	-	-	-
Energy	-	-	93	14.0	-	-	93	6.1
Infrastructure	-	-	223	33.5	7.4	1.2	230.4	15
Environment	-	-	-	-	66	11	66	4.3
Total	267	-	666.3	100.0	600	100	1,533.2	100
Memo Items:								
Adjustment[b/]	250	93.6	70	10.5	455.8	76	775.8	55.1
Commitments Per Year	133.5		133		150			

a/ SAL, technical assistance, debt reduction loan and financial and enterprise loans
b/ Adjustment excludes the debt reduction loan in FY95
Source: World Bank Business Warehouse

2.11 *Poverty Alleviation*: This was addressed through loans in agriculture, social protection, health and education.

2.12 Social protection was a major objective in a social insurance administration project (SIAP), FY97, and later in the SPAL (FY99). The SIAP dealt with weaknesses in institutional and administrative capacity to implement pension reforms. The SPAL built on the SAL objectives; reforms included legislation to reform the pensions system, labor market policies, social assistance, and child and maternity benefits. Support to the social assistance measures was also provided by an IDF grant.

2.13 Two additional small loans were approved in FY99-01 to address employment creation and protection of child welfare. The Regional Initiative Fund (RIF), piloted the use of micro-projects, financed through a social fund mechanism, as a means to transfer income to the poor through temporary employment creation in infrastructure improvement. An autonomous agency has been created to oversee an even bigger social investment fund (currently being appraised). A Child Welfare Reform Project (FY01) is designed to improve child welfare and protect children's rights through promoting community-based child welfare approaches such as de-institutionalization, abandonment prevention, and street children services.

2.14 Two health projects have been approved, one in FY96 and the other in FY00. The second project in FY00 was appropriately focused on financing and structure of the health system, and primary health care. It also included indicators related to the poor and ethnic minorities and a social assessment outlined the expected impact on the poor and vulnerable groups. The National Health Insurance Fund was designed so insurance premiums would be tied to income levels, but services would be available to all.

2.15 *Environment*: In the early years, lending did not directly support the environment but important environmental issues were addressed through operations in energy and water supply and sanitation. An Environmental Remediation Pilot was approved in FY98 to address liability issues and respond to concerns of strategic investors of Copper Smelter, one of the worst polluting enterprises in Bulgaria. The pilot led to the Environmental Privatization SAL (FY00). The Bank also provided assistance through a GEF sponsored project. Another GEF project (for Wetlands) is under preparation.

2.16 ***OED ratings***: As of August 31, 2001, OED had rated 14 projects. The outcome was satisfactory in 95 percent of evaluated net commitments. Institutional development was substantial in 45 percent and sustainability was likely in 81 percent of rated commitments. Outcome and sustainability ratings are better than Bank-wide averages.

2.17 Although the outcome ratings on closed projects are high, even for those operations approved and essentially implemented during the early period up to 1997, there are some important caveats about these ratings. First, they include two lines of credit, the Private Investment and Export Finance Project and the Agricultural Development Project, both approved in FY94 in an inappropriate macroeconomic and sectoral context. Both projects ran into considerable problems from the outset; most of the loan amounts were eventually canceled for both projects: $41 m out of an original commitment of $55 million for the Private Investment project and the total amount of $50 million for the Agricultural Development Project. As a result, the unsatisfactory outcome ratings on these two operations relate to only the $14 million of net disbursed amounts, and have a relatively small weight in the ratings on closed projects.[4]

2.18 Second, in retrospect, the FY92 SAL, a $250 million loan, turned out to be less satisfactory than envisioned in OED's evaluation. Substantial progress was made on trade liberalization, price decontrol, fiscal adjustment and the introduction of a body of laws necessary for private sector development. Progress on two aspects, however, was weak: SOE reform and banking reform. The importance of these weaknesses increased over time, and caused major financial crises that had economy-wide repercussions and plunged as much as one third of the population into poverty. The agricultural component improved the trade regime for agricultural inputs and marketing, and supported the Government's program of land restitution to develop a private market for land. Nevertheless, over time, it has resulted in serious land fragmentation, which in turn has had implications for the maintenance of on-farm investments in large-scale infrastructure (such as irrigation).

2.19 For on-going projects, Quality Assurance Group's data indicated that the percent of problem projects (by number) declined from 37.5 percent in FY98 to 0 percent in FY99 and FY00; as of June 30th, 2001 no project was either a problem project or at risk. One project (FESAL I) evaluated for quality at entry was rated satisfactory. However, there are issues with the relevance and design of on-going projects, particularly for the investment projects. For instance, financing ambulances should have been lower priority in the first health project (FY96) given the relatively poor indicators of maternal and

[4] The percent satisfactory by number of projects, for the FY91-97 approval period, is only 70 percent. In the case of Bulgaria, this may be a better reflection of outcome ratings than by net committed amounts.

reproductive health. The water supply project, (FY94), has been fraught with design difficulties; it has now been restructured. [5]

2.20 In some areas where the Bank assistance supported successful programs, it was not able to address some priority issues. For example, the Bank supported social protection policies through the SPAL (FY99) and supported a good investment project (considered best practice by OED, see Box 2.3) that should strengthen the institutional framework in this area. But the Bank has been unable to reach agreement in the area of poverty targeting. This would likely result in greater benefits for the Roma population, which has an unusually high concentration of poor, and could lead to greater social cohesion, one of the important factors for EU accession. As explained in the next section, analytical work has not been able to address the issue of social assistance policies satisfactorily. As other examples, neither the RIF (FY99) nor the Child Welfare Reform Project (FY01) is geared to ensuring continuity of dialogue, monitoring, or analysis of social assistance policy issues.[6] Finally, lending to foster public administration reform did not take place– despite its prominence in the FY98-01 CAS – because the Government has been unwilling to consider an investment loan for this purpose.

Analytical and Advisory Services

2.21 Bank missions started in March 1990, even before Bulgaria became a member of the Bank in September 1990. The analysis in the FY91 Country Economic Memorandum (CEM) and the establishment of the Resident Mission in 1992 formed a good basis for policy dialogue.

2.22 Early analytical and advisory work in environment and in the energy sectors also proved useful. The Environmental Strategy in FY92 and an update in FY95 allowed the Bank to maintain its policy dialogue in this sector and informed the Environmental Remediation Pilot of FY98 and forestry issues in ASAL II (FY01).[7] Informal energy work in FY95 helped devise an energy benefits program for the poor. This and earlier work (FY92 and FY93) helped to structure the conditions in both the IMF's program in 1998 and FESAL II (FY00). The Bank consciously withdrew from nuclear power issues, but the FY93 energy study's recommendations on alternative scenarios for phase-out of nuclear power units should be useful now that Bulgaria has reached agreement with the EU on the early closure of some units of the Kozloduy Nuclear Power Plant.

2.23 ESW was not maintained when conditions in Bulgaria deteriorated. Work on a poverty assessment that started in 1994-95 was not continued in 1996. It might have been better to maintain the poverty dialogue and analytical support through the 1996 crisis by completing the poverty assessment, despite the difficult political environment. In the event, a new survey was carried out in 1997 under exceptional conditions, at the

[5] The project sought to build capacity for water and sewerage treatment in regional water companies but potential for conflict between the Ministry of Public Works and the regions (each with 50 percent ownership) was not considered in design.

[6] According to the Region, both these projects made essential contributions to assist the vulnerable and to reduce poverty.

[7] See Annex A, Table 2 for timing of lending and sectoral ESW.

Box 2.3: Best Practice Social Insurance Administration Project (FY97)

The SIAP was prepared at a time of political and economic instability in Bulgaria, when the Government was committed to the principles of pension reform but agreement could not be reached on an implementation strategy to fit prevailing conditions in Bulgaria. The project did not include a policy component but aimed simply to strengthen capacity of the National Social Security Institute (NSSI) in administration and policy analysis. A Bank pre-condition was the passage of legislation making the NSSI an independent institution to ensure managerial responsibility and transparency for balancing the financial flows for contributions and payments. The separation of functions also gave the NSSI autonomy in staff selection, personnel and budget management, under a tri-partite board, chaired by the Minister of Labor and Social Security, with government, union and business representatives.

The project has established substantial administrative capacity in the NSSI. Effective operational procedures were introduced for the control, monitoring and projections of the flow of funds, for calculation of benefits on the basis of actual contributions, and for improved services to clients, through creation of an integrated social insurance information system. These reforms increased collection rates. At the same time, without waiting for agreement on policy changes, institutional capacity was strengthened in the new functions of policy analysis, actuarial forecasting, public information, and personnel management. An actuarial model was developed that made it possible to test the implications of any proposed policy change. Through its technical capacity, combined with public information and transparency of operations, the NSSI developed policies that were technically sound and publicly acceptable, allowing quick passage through parliament of legislation to support the introduction of second and third pillars in the pension system.

The experience provides a model for pension reform elsewhere in the region and for further public sector reform in Bulgaria. The success of the project is attributed to:

(i) Establishment of administrative and analytical capacity and public information systems before trying to implement complex reforms.

(ii) Anticipating the constraints, complexities, and implementation requirements for pension reform.

(iii) The quality and commitment of NSSI staff, and their excellent coordination from the outset with related national agencies, public and private sector stakeholders, and donors.

(iv) Intensive, high quality technical assistance, through two permanent advisers, that was available to the NSSI for one week in every month.

Source: Interviews with Bank staff and others in Bulgaria.

height of the crisis and the assessment was not completed until 1999. Other proposed work in the FY96 CAS (for instance, an agricultural update and a public expenditure review) also became low priority with signs of a financial crisis.

2.24 In 1997, the Bank resumed ESW and work in agriculture and social sectors was completed. A report on the emergency wheat reserve was followed by an agricultural sector review in September 1997. The findings formed the basis for the ASALs and agricultural reform benchmarks in the IMF's Extended Fund Facility (EFF). Although a review of the health sector was not undertaken, [8] papers for social assessment were prepared in 1997-98 and a poverty assessment (PA) and a participatory poverty assessment were published in 1999.

2.25 However, the social assessment and participatory research came too late to inform the 1997 survey for the PA, and were not integrated in the analysis of poverty in the PA. Timely qualitative input could have framed survey questions, and also strengthened

[8] The lack of formal ESW in health was part of a general Bank-wide trend of declining ESW in the Health Nutrition and Population network.

social protection policy by providing information lacking in the report: for example, on the impact of poverty; coping strategies of the poor; their experience as clients of social protection programs and institutional constraints to reform. Findings of both the social assessment and participatory work remained fragmented, and fell short of providing a significant basis for policy analysis.

2.26 The timeliness and relevance of the PA was also modest for three other reasons. First, the 1997 survey on which the PA drew was not representative of the poverty situation since it was done at the peak of the crisis and conditions of hyper inflation would be expected to have a large and immediate impact on poverty. Second, the PA came too late to fully benefit the preparation of the SPAL (FY99). Even if it had been in time for the SPAL, it would not have been useful because of its inaccurate picture of poverty and lack of guidance on the scope for improved targeting. Third, the Bank could not build domestic capacity to carry out living standard measurement surveys (LSMS). Although the National Statistical Institute and Ministry of Labor and Social Protection were consulted at the survey preparation stage, the survey was contracted to Gallup at the request of the National Statistical Institute.

2.27 After a study on public finance (FY96), deficiencies in civil service management were diagnosed in informal work and a Country Procurement Assessment Review (FY98) was also undertaken. But the public finance study did not assess expenditure priorities, civil service reform has not yet started and deficiencies in procurement appear to persist. Other donors have identified capacity gaps in public financial accountability institutions [9] The Bank could follow up by assessing the steps undertaken to fill these capacity gaps, prioritizing the steps for strengthening those institutions that continue to pose a risk to the effective use of public resources and highlighting areas where the risks of mismanagement of resources remains high. Further, a public expenditure review (PER) had to be postponed from FY99 to FY02 as the authorities requested that instead the Bank prepare a CEM.

2.28 ***Dissemination***: The Bank's dissemination has improved over time. In 1998-2000, the Bank disseminated its findings on agriculture and the FY01CEM. The impact of agricultural work and the CEM has been substantial on the Government. Poverty work was also disseminated but it was of low relevance and had a relatively modest impact.

Resource Mobilization and Aid Coordination

2.29 The Bank mobilized resources to support Bulgaria's reform program and to help reschedule its commercial debt. The early FY92 SAL was followed by a debt service reduction loan in FY95. About US$8.1 billion of commercial debt was restructured and by end-1994, the commercial debt was reduced by US$3.8 billion.

2.30 The Bank worked particularly closely with the IMF. In the period (mid-1997 to early 1998) when the Bank took a low profile in the country, Bank staff had significant

[9] See a 1999 report on Bulgaria's institutions of financial accountability – a joint initiative of the OECD and the EU. And a 2000 IMF report on the Observance of Standards and Codes.

input into the IMF program (in enterprise reform, energy, railway sector, social protection and agriculture).

2.31 Currently in 2001, the Bank has excellent relations with donors and NGOs. It has set up separate tables/committees on specialized topics (some chaired by other donors) which work effectively. It also regularly briefs ambassadors, heads of missions and NGOs. Despite a good record, however, there are some areas where donor disagree. For instance, the Bank and the EBRD disagree on whether additional capacity in the energy sector is needed in Bulgaria (see also para. 3.15).[10]

2.32 However, the Government does not yet see its own leadership in donor coordination a priority. Interviews suggested that the Bank could be more direct in encouraging the Government to coordinate donors.

3. Assessment of the Development Impact of Country Assistance

3.1 This chapter assesses the impact of the country assistance strategy program in achieving the objectives set out in country assistance strategy documents (para 2.1). These were: (a) supporting macroeconomic stabilization and sustainable growth by accelerating structural reforms; (b) facilitating the expansion of private sector activity; and (c) addressing poverty by establishing a financially viable and effective social protection system, and other social sector programs.

Macroeconomic Stabilization and Sustainable Growth

3.2 Until 1997, Bank strategy was clearly unable to help the country to stabilize or grow. Inflation ranged from 33 to 579 percent, and growth averaged –5 percent per year between 1990 and 1997. Successive financial crises took their toll throughout the economy; real per capita incomes declined by a third between 1990 and 1997. Bulgaria's external debt remained large and its structure became more inflexible.[11] And its debt service burden reached US$1 billion annually, or about 17 percent of exports in 1996.

3.3 Between 1998 to present, with the introduction of the Currency Board, good control of fiscal policy, and substantial reforms in the financial and real sectors, stabilization was achieved, with inflation brought down to 7 percent by 2000. Growth resumed, with the economy growing by 3 to 5 percent per year since 1998. External debt was reduced to 85 percent of GDP in end-2000, and debt service to 15 percent of exports.

3.4 These achievements are considerable, given the earlier difficulties. Nevertheless the period of reforms since 1997 has been too short to enable Bulgaria to regain the ground lost in the initial transition years. Growth rates of 3 to 5 percent will be insufficient to allow Bulgaria to reach a per capita income even close to other EU

[10] Discussions with EBRD in March 2001.
[11] Brady bonds accounted for 52 percent of external debt; international financial institutions and the EU for 18 percent, and bilateral creditors for 12 percent.

countries in the foreseeable future.[12] And despite the turnaround, foundations for sustained growth are not yet fully in place. Aggregate demand growth in the last three years has been driven mainly by the rebound from the 1996-97 crisis. On the supply side, recent growth still reflects an ongoing recovery from output contractions during 1990-97 rather than the beginning of a new phase of more self-sustained growth. Aggregate labor productivity in 2000 was no higher than at the onset of the transition and land productivity has declined since both irrigation and fertilizer use have declined substantially since 1989.

Private Sector Development

3.5 Private sector activity accelerated after 1997, its share in GDP increased from 55 percent to 80 percent in 2000, and foreign direct investment from US$100 million to US$817 million in 2000.[13] The investment climate has facilitated IFC operations (Box 3.1 and Annex B). MIGA also successfully adapted its products and services to address specific investor requests although there has been little MIGA guarantee activity since the end of the financial and economic crisis (Box 3.2 and Annex C).

3.6 Nevertheless, the business climate continues to suffer from significant shortcomings. A number of reports point out in some detail the administrative obstacles to doing business and weak enforcement of laws and regulations. Bulgaria lagged most other EU candidate countries in a number of areas related to the business climate. It also ranked low in the World Bank Institute's index of government effectiveness.

3.7 *Privatization of SOEs*: Between 1990-97, on a countrywide basis, reforms did not go far enough and were not sufficient in critical areas to prevent financial crises. At the end of 1996, less than 6 percent of fixed assets of SOEs had been privatized and not a single large loss-making SOE had been declared bankrupt.

3.8 After 1997, with active Bank support to the reformist Government and successful implementation of a series of adjustment loans in the financial and enterprise sector, privatization was vigorously pursued. About 78 percent of all non-infrastructure assets were divested by the end of 2000. Taking infrastructure and non-infrastructure together, 51 percent of all assets have been divested. These reforms broke the link between SOEs and state banks that had led to rising quasi-fiscal deficits in the past; the Bank's adjustment loans were thus successful in helping restore macroeconomic stability.

3.9 Between 1998-2000, other more specific constraints to private sector development were also addressed with Bank support. In October 2000, Parliament approved amendments to the Commercial Code to simplify and accelerate bankruptcy procedures.

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[12] Even if Bulgaria averaged per capita real GDP growth rate of 5 percent per annum, it would take Bulgaria 50 years to converge in per capita income to the EU average (on purchasing power parity terms),assuming EU average per capita real growth is 2 percent per year. Of the ten EU accession candidate countries in the Central and Eastern Europe and the Baltics, Bulgaria's per capita income in 2000 was the lowest.

[13] Data on the share of private sector in GDP are not available prior to 1997.

Box 3.1: Overview of IFC Operations

IFC Investment Portfolio: Between May 1994 and March 2001, IFC approved 14 investments to 13 companies in Bulgaria, totaling $241 million in financing (including four B loans; $169 million for IFC's own account), contributing to $829 million in total project financing. The investment program began gradually with only four investments approved from FY94 to FY98; but, it has accelerated since then, with 10 investments approved in FY99 through FY01.

Portfolio Performance Overview: Of the 14 IFC investments in Bulgaria, three are yet to be committed and disbursed; of the remaining 11 investments, most have not reached early operating maturity and only one has been evaluated so far. That project had less than *satisfactory* development and IFC investment outcome due to difficult macroeconomic conditions. Of the remaining 10 investments, eight seem to be progressing well, based on judgments in the Project Supervision Reports and information gathered during discussions with Investment Department staff. The overall turnaround of the Bulgarian economy in the past three years seems to be the main driver of this encouraging project performance.

IFC's non-investment activities: From April 1998 to November 2000, seven Technical Assistance Trust Funds projects were done in Bulgaria. All the projects related to privatization and restructuring of companies and some featured IFC investments. In December 1998, FIAS initiated a major study on administrative barriers to investment in Bulgaria, upon a request from the Bulgarian Foreign Investment Agency. Though the FIAS study made a number of important recommendations, the follow-up and implementation have been hampered by changes in the Bulgarian counterparts behind the study.

IFC record in relation to the 1998 CAS: In relation to the strategy in the 1998 CAS, IFC has done well with regard to the goals of small business investment and post-privatization modernization. On the other hand, progress has been slow with regard to private power generation and agricultural infrastructure. There are significant challenges remaining in infrastructure, evidenced by the slow pace of privatization.

Views of IFC Investment Department Staff: Because the investment climate in Bulgaria has been excellent for the past three years or so, the future prospects for IFC activities appear bright, especially in the financial sector. The small size of the Bulgarian economy and its transitional state has led to relatively small-sized transactions. This is a major constraint facing IFC investments. Overall, IFC's presence is regarded as very valuable, both as an honest broker and as a catalyst for bringing in global private capital.

Source: *Operations Evaluation Group of IFC: Desk Review and Discussions with IFC Department Staff.*

Judges were trained to some extent in bankruptcy procedures and a modern bankruptcy law was passed by the Parliament in late 2000.

3.10 However, private sector development has been impeded by weaknesses in the privatization program. First, Management Employee Buyouts (MEBOs) and local investors were the main buyers of large enterprises with only a small share acquired by strategic investors. Restructuring in MEBOs has lagged that in enterprises acquired by strategic investors, and in some cases significant asset stripping has taken place. The data also show MEBOs have retained the same management team and that they ranked behind domestic and foreign strategic investors in terms of average investment commitments. Second, privatization deals incorporated investment commitments, employment arrangements and obligations to pay off debt provisions, which could slow restructuring as privatized companies seek to amend them in the post privatization period.

3.11 *Banking sector*: Reforms have strengthened the financial sector after 1997. At end 1996, about 70 percent of all outstanding loans were classified as nonperforming-compared to a typical 3–5 percent in OECD countries-and 25 percent of loans were uncollectible. Since 1997, five of the six state-owned banks targeted for divestiture have been sold to private banks and supervision was strengthened, all with Bank support.

Box: 3.2 Overview of MIGA Operations (FY93-01)

Activities: As of June 30, 2001, MIGA had issued nine guarantees, supporting $87.8 million in FDI in six projects, mainly in the financial sector. MIGA's maximum aggregate liability is $50.0 million. MIGA has not received nor paid any claims in Bulgaria.

MIGA's advisory services undertook an institutional needs assessment of the Bulgarian Foreign Investment Agency in June 2000. In November 2000, MIGA published a special profile on Bulgaria on its Investment Promotion Network Web site –IPAnet.

Assessment: Insofar as MIGA did not suffer any claim losses during the 1996–97 economic crisis, it appears to have made prudent underwriting decisions. MIGA successfully adapted its products to address specific investor requests. Investment marketing and advisory services offered were specific to the needs of the country and have been effective. However, there has been very little guarantee activity since the end of the financial and economic crisis, when FDI soared, in part due to a mass privatization program. The Agency has played no contributory role in the reform and privatization of the banking sector (1999) and has not actively pursued any projects in collaboration with other development institutions. MIGA's leverage ratio of facilitated FDI to coverage issued has been low.

Recommendations: MIGA needs to increase its activities; it has not fulfilled its potential. It should send a fact-finding mission to Bulgaria, re-evaluate the political situation, offer a fuller range of its products, and increase cooperation with IFC and other development institutions so as to deploy MIGA's specialized products more efficiently. MIGA should play a role in supporting follow-up investments in privatized enterprises and in sectors where it has expertise. Given the possibility of spillovers from conflicts in neighboring countries, MIGA management will need to continue to manage its portfolio prudently. MIGA advisory services should assist in specific areas as requested by Bulgarian investment intermediaries.

Source: Operations Evaluation Unit of MIGA: Desk Review and Discussions with MIGA Staff.

Eighty percent of bank assets are now privately owned. A central credit registry accessible to all banks was also made fully operational in March 2001.

3.12 But the banks have not developed new lines of business, and their outreach to the private sector is still limited for several reasons. Banks have inadequate information about potential private businesses and they have difficulties seizing collateral. Bankruptcy and liquidation procedures remain fraught with ambiguity and can be easily delayed by debtors; they are entirely controlled by the courts which are overloaded. The Ministry of Justice maintains a list of trustees for bankruptcy cases, but training and supervision are inadequate, so trustee practices vary widely and often lack the required professionalism. In addition, the Commercial Code does not indicate order of priority for payment of creditors. Some of these issues are addressed by a recent amendment to the Commercial Code, but the changes have to be implemented.

3.13 *Energy*: A wide range of reforms important for macroeconomic stabilization, private sector development, and the environment have been implemented with Bank support. Before 1997, energy prices were raised, although they did not reach intermediate cost recovery or the long-term goal of marginal cost pricing. A storage facility to restore peak load capacity, critical for reducing import dependence and improving power system efficiency, was built. And control and information systems were designed to enable unbundling of the National Electricity Company (NEK). After 1997, reforms include: (a) the passage of an Energy and Energy Efficiency Act in 1999 providing for a competitive energy market and private investment; (b) the establishment of the State Agency for Energy and Energy Resources (SAEER), the State Energy Regulatory Commission (SERC) and the State Energy Efficiency Agency to rationalize policy and regulatory functions; and (c) unbundling of NEK into independent generation, transmission and distribution companies with eventual privatization of some of the components.

3.14 However, further actions and reforms are needed. For instance, even though the enabling legal and institutional structure is mostly in place, the only element of competition envisaged in Bulgaria's electricity market is for new capacity. Another issue is the need for a comprehensive and transparent regulatory framework, a key requirement to attract strategic investors, before separation of NEK. Currently, SERC has not been sufficiently strengthened to allow it to oversee the various natural monopolies in the sector effectively. It is handicapped by lack of sufficient financial independence and inability to attract qualified personnel. And as things stood in March 2001, SERC would also have little say in tariff setting until January 2002.

3.15 There is also a serious debate about how and whether to address the issue of providing incremental capacity which is part of the broader issue on the appropriate role of the Government and on how to improve the efficiency of public investments. In the absence of an investment review, it is difficult to assess whether new investments are needed in the energy sector or whether requirements can be addressed much more efficiently by enhancing existing capacity.

3.16 *Telecom*: There were significant improvements in physical access and quality, corporate management of Bulgaria Telecommunication Corporation (BTC), its financial performance, and policy and regulatory frameworks. The subscriber waiting lists were reduced and the average call completion rates increased. BTC's revenues and profits remained healthy and it was able to finance the local costs of the investment program. In addition, after the liberalization of all non-basic telecommunication services in 1992, the private sector gradually expanded its role and BTC participated in several of the activities through joint ventures. A sector and a telecommunication tariff policy, and an appropriate regulatory framework were also adopted. OED's assessment of the Telecommunications Project provided lessons of relevance to country assistance strategy and for Bank involvement in privatization and regulation of infrastructure (Annex D).

Poverty Alleviation

3.17 Poverty rates jumped dramatically with the extreme instability of the economy over the 1993 to 1997 period but declined since then. Poverty continues to have a strong regional and ethnic dimension; the Roma ethnic group remains 8-10 times more likely to be poor than others. Poverty also has a rural dimension—poverty rates are higher and the depth and severity of poverty are greater in rural than in urban areas. Using the absolute poverty line of $2.15 per day, poverty in Bulgaria in 2001 was 6.4 percent, close to that of Romania and Latvia which – like Bulgaria – are in the second wave of countries scheduled for EU accession. This remained significantly higher than in the first-tier EU countries such as Hungary and Poland.

3.18 Social indicators show mixed results. Although infant mortality has fallen slightly over the transition from 14.8 in 1990 to 14.4 in 1998, the decline in infant mortality has been less than for other countries in the region. The household survey data for 1997 and 2001 indicate that while enrollments in basic education have increased slightly for the country at large, enrollment rates for poor children have fallen ten percentage points, from 84 percent in 1997 to 74 percent in 2001.

3.19 A salient feature of the Bulgarian population is the dependency ratio. By 1996 the dependency ratio reached 27.4 percent (compared to 20.4 in CEE and FSU countries). The fiscal sustainability of the pension system depends to a large degree on maintaining high employment rates. After 1997, while poverty rate has fallen, unemployment has increased from 12 percent in 1996 to 18 percent in 2000.

3.20 The problems of the unemployed are exacerbated by low eligibility for unemployment benefits and very low benefits. Of the registered 630,000 unemployed in early 2001, only 186,000 were entitled to benefits, which averages US$42 per month. The following paragraphs assess progress in social insurance, social assistance, agriculture, health and education to reduce poverty.

3.21 *Social Insurance*: Capacity was developed in the National Social Security Institute for collection of unemployment and health insurance contributions and pensions; this greatly improved payroll contributions and institutional capacity for policy analysis, actuarial forecasting, public information, and personnel management. A legislative basis for rationalizing the pension system was established. A new Social Insurance Code was approved by the Parliament, reducing benefits by reducing accrual rates for pension rights and increasing retirement age, restoring a closer link between contributions and benefits, and introducing a mandatory funded supplemental pension scheme. Incentives for employment were improved, reinforcing the insurance basis, excluding non-contributors, and reducing overly generous unemployment benefit levels. Amendments to the Labor Code were made to improve labor flexibility. The Bank played an important role in supporting these changes.

3.22 *Social assistance*: Although progress on reforming social assistance has been notable since 1998, many outstanding issues remain. The 1998 Social Welfare Act was an important legislation that defined the institutional framework for social assistance. The Ministry of Labor and Social Protection (MOLSP) also undertook substantial reforms of program design (administrative consolidation of the Guaranteed Minimum Income program and energy benefits) and administrative reform (effectively centralizing institutional responsibilities to improve accountability). However, social assistance benefits are not paid fully or regularly, especially by poorer municipalities who lack the administrative capacity and incentives to deliver. Financial allocations for social assistance also continue to be insufficient (treated as a residual item in the budget) and poorly targeted. Targeting of poorer children (which in particular would benefit the Roma) has not yet been done and targeting of benefits to the disabled was also not achieved. And the MOLSP benefit eligibility thresholds for the Guaranteed Minimum Income and the Minimum Social Pension are driven by budgetary considerations and do not reflect suitable consumption needs. In March 2001, about 26–28 percent of pensioners were getting just $20–$28 per month.[14]

3.23 *Social Services*: There was substantial institutional progress in the health sector. National Health Insurance Fund (NHIF) is in a financially sound position. All primary health care services are paid for by the NHIF. Most primary rural health care practices have recently been filled with general practitioners. Mortality while under emergency medical care dropped from 6.2/1000 before 1998 to 2.3/1000 in 1999. Also, 100 percent of blood donations meet international standards and hepatitis B cases have fallen. Legislation for further health sector restructuring and reform has been promulgated. The Bank's two health projects have supported the improvements.

3.24 In education, the impact on the poor has been modest because the efficient, competitive procurement system of textbooks successfully introduced under the TAL has not been followed up by the Government, and no provision has been made to finance new books for children whose families cannot afford the market price.

3.25 *Agriculture*: In 1997, agricultural production in Bulgaria was 55 percent of its 1989 level, according to official FAO data. Notwithstanding this decline, the agriculture sector increased its share in the overall economy in the early 1990s, in terms of both output (to about 18 percent in 1998) and employment (to about 25 percent), since the economy declined more than the agricultural sector and since the agriculture sector has served as a safety net to absorb some of the labor released from other sectors. Gains in agricultural productivity in the last two years cannot be ascertained because of lack of data and the impact of reforms that accelerated in 1999-2000 is not yet evident.

3.26 Agricultural reforms targeted by the Bank were not achieved in 1991-97. By 1997, 60 percent of the land was restituted and 15 percent titled. Only 18 percent of the long-term assets in the sector had been privatized. The state-owned cereal agency, the State Fund Agriculture, and an emergency food reserve continued to stifle the development of private grain marketing in Bulgaria. Efforts to restructure and rehabilitate the irrigation subsector never got off the ground. At its peak, Bulgaria had 1.3 million hectares (about 25 percent of the cultivated land) with irrigation facilities but by 1997, less than 30,000 hectares were being irrigated.

3.27 After 1997, substantial progress was made. The quantitative restrictions on international trade and all taxes on agricultural exports were removed. Numerous laws to foster private ownership of land and other productive assets and competitive markets for agricultural inputs and outputs were also passed. However, in order to realize the pay-off, reforms that have been achieved in international trade, pricing, and domestic marketing of agricultural commodities will have to be followed with reforms in other areas.[15]

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[14] A new poverty update will analyze the effectiveness of social protection programs in meeting their objectives, including, coverage, targeting, benefit adequacy and cost-effectiveness.

[15] These reforms include: farm consolidation; further development of the land market based upon a unified system of registration and cadastre; the restructuring of the irrigation subsector; the orderly transfer of irrigation assets to water users' associations; post-privatization restructuring and consolidation in the agro-

Environment

3.28 Environmental progress has been slow for several reasons. First, 40 percent of energy is generated from local lignite that is highly damaging to the environment but diversifying sources of energy is proving to be difficult.[16] Second, certain units of the Kozloduy nuclear plant (deemed unsafe by the EU) have not yet been closed. Third, water pollution from nitrate occurrence in groundwater resulting from excessive use of nitrogenous fertilizers has not yet been monitored. Fourth, there is fragmentation of environmental responsibilities among government agencies. While water supply and sewerage are under the Ministry of Public Works, water resource management is under MOEW. Even though agriculture is the biggest user of water and water pollution levels remain high, the Ministry of Agriculture does not appear to coordinate with MOEW or other ministries. And fifth, within MOEW, although the capacity to formulate environmental policy and enforce legislation and taxation has improved since 1995, its capacity to analyze and evaluate results remains weak.

Outcome of the Country Assistance Program

3.29 Outcome ratings measure the extent by which the program made progress toward all major relevant objectives. They are based on the relevance, efficacy, and efficiency of the Bank's country assistance.

3.30 *Relevance*: As noted earlier (para.2.5), the Bank's strategy throughout the period under review is considered relevant. The Bank appropriately focused in the earlier period on stabilization and debt reduction. When reforms stalled in the earlier 1990s, the Bank then supported institutional changes and specific sectoral needs through investment lending. The strategy to put on hold the adjustment loan FESAL for five years until a more appropriate environment existed for reforms was highly relevant. In the post 1997 period, the strategy to scale up assistance and focus more intensely on adjustment lending once a new Government had shown its ownership and ability to reform, was also relevant.

3.31 *Efficacy*: In the first phase up to 1997, the objectives of the Bank's strategy of supporting macroeconomic stabilization and growth, private sector development and poverty alleviation were not met. After 1997, these objectives were met to a large extent as major reforms were addressed. While important issues still confront Bulgaria– private sector development is still impeded in a number of important ways, poverty alleviation could go farther through better targeting, and badly needed reforms of the public sector have been slow to materialize– accomplishments of the past four years are considerable. This is especially the case when taking into account initial conditions, the various internal and external negative forces and shocks, and the difficulties of the early years in trying and failing to transition to a market economy.

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processing sector; recapitalization of the agricultural sector; and improvement in processing VAT rebates, which reduce tax evasion and encourage more efficient grain marketing policies.

[16] It could get electricity (for example, hydro) from neighboring countries but there are geo-political issues that prevent this.

3.32 *Efficiency*: The cost per US$ 1,000 of commitment in FY91-01 (US$16) was average compared with Bank wide, ECA and EU accession countries. Costs per US$1,000 of commitments for satisfactory and nonrisky projects in the same period was (US$17); lower than Bank wide (US$19) and ECA (US$18) but same as EU accession countries.

3.33 *Summary rating of the Country Assistance Development Impact*: Unsatisfactory until 1997 and satisfactory between mid-1997 and 2000.

Institutional Development Impact

3.34 Between 1991-97, with Bank assistance, a basis for privatization was laid, a new commercial banking law was promulgated and the Central Bank made efforts to improve supervision. Capacity to deal with environmental issues and pension reform was enhanced. In the energy sector, a pumped storage facility increased power sector efficiency. But the financial system remained fragile and lack of progress in privatization hindered the development of the private sector.

3.35 Between 1998-00, laws and regulations for private sector activity, legal and institutional basis for health insurance and social protection reform and foundations for more efficient labor markets have been established. Nationwide practices on blood transfusion meet international standards. The social insurance administration reform was a major achievement. The unbundling of the vertically integrated electric company and the passage of an Energy and Energy Efficiency Act in 1999 have set the stage for competition and privatization.

3.36 However, institutional development continues to lag in critical areas. Domestic capacity to prioritize public investments and to monitor poverty has not been developed. Local governments lack the capacity and incentives to deliver social assistance to targeted groups. The Government does not lead donor coordination. The newly privatized banks operating in the absence of an adequate judicial and legal framework are not yet engaging in lending to the private sector. The development of private capital markets is lagging, complicating policy for pension fund investment. Fragmentation in government agencies responsible for the environment is reducing environmental effectiveness.

3.37 *Summary Rating of Institutional Development Impact*: The institutional development throughout the decade was modest as the assistance program had only a modest contribution to the ability of the client to make more efficient, equitable, and sustainable use of human, financial, social and environmental resources.

Sustainability

3.38 Risks to sustainability remain. These stem from Bulgaria's worsening demographics (aging population and low birth rates); insufficient development of the private sector in the absence of complementary reforms; a lack of depth in energy sector reforms and inadequate targeted assistance for low-income population groups. Social discontent with small pensions, insufficient and poorly targeted social assistance, high unemployment and perceived corruption could lead to a renewal of political instability.

Many Bulgarians accept in principle a market economy, but they are disillusioned by the failure of new opportunities to materialize, rising crime rates, and widespread corruption.

3.39 These economic, social and political risks are mitigated by a consensus in the country that any deviation from the reform path could exclude Bulgaria from the EU accession. The Government elected in July 2001 has committed to continue with reforms. The push by some EU members for a firmer timetable for accession will also contribute to strengthening the momentum of reforms. Reforms in the financial and enterprise sector, energy, social protection, health, agriculture, telecommunication and environment are unlikely to be reversed. Therefore, on balance, sustainability is rated as likely.

3.40 *Summary rating of sustainability: Before* 1997, sustainability is rated unlikely. *After 1997*, the benefits of the country assistance program are likely to be sustained.

Counterfactual

3.41 In the earlier period up to 1997, it is unlikely that the Bank could have done anything differently that would have helped the economy to stabilize or to avoid the two major financial crises. In the face of rapidly changing governments and lack of an environment conducive to carrying out reforms, there was little the Bank could have done to help the country to stabilize, grow, or reduce poverty during these early years. On the other hand, without the Bank's presence in Bulgaria, the Bank would not have been prepared to respond to the 1997 Government's priorities for reform. Post-1997, progress would probably have been slower if the Bank had not been engaging in policy dialogue across a wide number of sectors – SOE reforms; banking; social protection; health; energy; and the environment.

3.42 In the post-1997 period, Bank staff input into reforms supported by the IMF and its own adjustment lending was key to moving the policy reforms forward. On the other hand, had the Bank succeeded in persuading the Government to focus on public sector reforms earlier in the post-1997 period, some of the existing constraints to future growth and poverty alleviation might be smaller today.

4. Contributions to Outcomes

World Bank Performance

4.1 Throughout the transition period, there were many positive aspects to Bank performance and some weaknesses. Early in the transition, the Bank exhibited professional quality by grounding the strategy in ESW, fielding missions even before Bulgaria became a Bank member, and explaining to the Government the impact of delaying reforms. But the Bank overestimated client ownership of the assistance program, and client capacity to implement projects.[17] It also did not invest sufficiently in

[17] Government officials are of the view that "the need for thorough and comprehensive ESW and studies and their proper dissemination and targeting before or in the process of initiating a lending operation was

reaching broad segments of the population with lessons of development to promote a common understanding of the needs for reform. When it was clear in 1996 that the Government would not deliver on its commitment to follow through with financial and enterprise reforms, the Bank was prudent in delaying the processing of the FESAL. Policy dialogue in 1990-97 may have suffered from the high staff turnover (for instance, five task managers for FESAL I and four country directors).

4.2 *After 1997*, Bank performance was satisfactory in many respects. The lending incorporated lessons learned[18]; loan covenants were enforced; the portfolio was managed effectively and as of June 2001 no project was either a problem project or at risk. The strategy included monitorable indicators; of the more than 100 benchmarks in the program matrix of the FY98 CAS, 72 percent were monitorable. In particular, the Bank partnered effectively with the IMF – providing the IMF with structural benchmarks which they appreciated and supported structural reforms with its own adjustment loans.[19] Once the new Government adopted a Currency Board and began implementing reforms, the Bank adopted an appropriately cautious stance in launching a full lending program. In part this was because of the need to ensure that authorities were going to be able to implement their proposed reforms; it wasn't until April 1998, some 14 months after the interim Government came into power, that the Bank decided to scale up support for reform. People interviewed for the CAE noted that part of the Bank delay was also due to a focus on internal reorganization.[20]

4.3 One shortcoming has been the inability to address public sector management as expected mainly because of a lack of Government commitment. The Bank proposed an investment loan in this area but the Government was not interested. A public expenditure review was also needed, but instead the authorities requested a CEM and the Bank appropriately agreed.

4.4 The Bank should have followed up more strongly on weaknesses identified by other donors in public financial accountability institutions, especially in view of the shift towards adjustment lending in FY98-01. As explained above (paras 2.25-2.26) the ESW in social sectors was of modest relevance. Some MOF officials question the effectiveness of the Bank's policy dialogue, as they saw the IMF as their main

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initially underestimated in the early 1990s. The transition …had seriously distorted and diminished country's coordination and the country's absorptive capacity and, given the stringent Bank rules and not always carefully agreed project designs, as well as frequent changes in the governments in the early 1990s, this resulted in heavy loan volumes with distinct tendency of cancellation of parts of the loans, sometimes rather substantial." (see Annex I on Government views).

[18] Government officials feel that "even though the Bank has further built on the need for a comprehensive ESW and smaller pilot projects to precede larger investments, …difficulties with projects over estimation and design still persist. It is now vital to further incorporate the concepts of ownership and direct benefits to the population in the project design of the investment operations."

[19] Officials of the previous administration were of the view that the Bank could have had a stronger presence on the structural reform agenda and that this will become more important now in the context of streamlined conditionality of the Fund's program.

[20] The Region doesnot think that internal reorganization played a role in delaying Bank assistance to Bulgaria.

counterpart even on structural reforms. They also questioned the usefulness of CAS consultations ahead of the recent elections.[21]

Client Country Performance

4.5 Until 1997, the Government was unable to generate consensus among the population in support of the program and could not follow through on a number of fronts. The phased liberalization introduced in February, 1991 was not followed through by a new Government in early1992 since real wages declined and unemployment increased. Another Government in December 1992 could not decisively implement economic reforms throughout 1993. In the agricultural sector, it worked on the difficult process of land restitution, and was not able to focus on the creation of a market for land nor on agricultural prices and trade liberalization. Inaction in the financial and enterprise sector triggered a crisis in early 1994 and a full-blown one in 1996 in which real wages fell by 30 percent accompanied by severe shortages of food, medicines, and energy.

4.6 Since 1997 the Government has stabilized the economy and moved quickly to address structural problems at the root of past instability. It has undertaken reforms in the financial, enterprise and energy sectors, and in pension, unemployment and health systems. But poverty and vulnerability still tend to be regarded as short-term evils to be quickly eradicated, rather than inherent risks that demand on-going monitoring and action. Finally, they have not yet deepened public administration reform, led donor coordination, or prioritized public investments.

Aid Partner Performance

4.7 The *IMF* has supported stabilization and structural reforms through out the period under review. Before 1996 it tried to stabilize the economy and took the lead in the financial sector (such as in prudential regulation and supervision). Policy slippages prevented completion of the first review of the 1996 program, and no funds were withdrawn after those provided at the time of Board approval. During the 1996 crisis, the IMF maintained its dialogue with the Government and helped it to establish a Currency Board Arrangement in July 1997 that successfully managed to bring down inflation and stabilize the economy. Between 1997-2000, the IMF also supported the Government with a Standby Arrangement and an EFF (together more than US$1 billion).

4.8 Once the Bank became re-engaged in supporting structural reforms in 1997, it worked closely with the IMF to coordinate the structural benchmarks of the EFF and the adjustment loans of the Bank (FESAL I, FESAL II, ASAL I). The programs supported under the various instruments were mutually reinforcing. However, donors and the Government were of the view that without the IMF, progress in structural reforms might have been slower because the IMF program with clearly specified time-tables generated a common understanding among officials of the required reforms and their timing. The

[21] The Region thinks that the early and widely held consultations were helpful in formulating the upcoming CAS, and that the additional round of discussions with the newly elected officials went smoothly because of having involved many stakeholders early on.

strict enforcement of conditions in the EFF also ensured discipline (for example, in the energy sector).

4.9 Bilateral partners were slow in supporting Bulgaria. For instance, actual bilateral financial support in 1991-93 was US$200 million against projected support of US$2 billion.[22]

4.10 After 1997, with a committed Government, the partner role was important in implementing the country assistance strategy. IFC supported 7 technical assistance projects related to privatization and restructuring. EU financed privatization advisors to support the FESALs and small and medium enterprise development (Annex E). USAID activities in banking privatization, banking supervision, banker training, bankruptcy and pension legislation complemented Bank assistance. USAID and EBRD provided technical assistance for private grain marketing. UNDP and the Bank united to promote social strategies and actions for employment generation and social protection. The start up for the Bank financed Regional Initiative Fund received a UNDP contribution. Later on, USAID and the Government provided substantial financial input, which enabled the project to expand to cover an increased number of poor municipalities (Annex F). The EU and others were active with the Bank in environment and health.

Impact of Exogenous Factors

4.11 The external environment for implementation of the country strategy program has been unfavorable for most of the transition period. Early in the decade, the disintegration of CMEA trade and payments arrangements as well as the breakup of Yugoslavia and Romania's a difficult environment, dealt serious blows to Bulgaria's exports and disrupted the supply of vital imported inputs, particularly oil from the Former Soviet Union. Even as Bulgaria tried to establish economic ties with western European and other countries, by the late 1990s, it encountered a decline in world commodity prices, the crisis in Russia, and a war in Kosovo.

5. Recommendations

5.1 The Bank should focus on areas where development impact has lagged and which are important for EU accession and where the Bank has a comparative advantage, for example, in public sector management and poverty alleviation. In addition, the Bank should broaden its partnerships with others to engender greater Government commitment in these areas.[23]

5.2 Specifically, the Bank should focus on:

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[22] See President's Report SALI, Table 3, pg 43 and OED, Performance Audit Report, Bulgaria- Structural Adjustment Loan (Loan 3397-BUL).

[23] Government officials endorse "comprehensive and coordinated interaction and Bank assistance for analyzing and formulating the priorities, developing capacity for domestic public investment design and implementation and progressing with financial accountability issues as well as channeling and proceeding with an effective donor coordination."

(i) *Public Sector*. Complete the ongoing public expenditure review in partnership with the Government. This should help build capacity to prioritize public investments. Assess with other stakeholders the steps that have been taken to strengthen public financial accountability institutions.

(ii) *Aid Coordination*: The Bank should foster Government leadership of the aid coordination process.

(iii) *Poverty Alleviation*. Complete a poverty assessment update integrating qualitative and quantitative inputs, which could establish the basis for targeting of social assistance. The poverty update should build government capacity for regular monitoring of poverty and its findings should inform strategy and policy design.

(iv) *Energy*. Reinforce the sustainability of recent institutional reforms by clarifying the mandate and functions of different regulatory bodies (e.g., the State Energy Regulatory Commission).

(v) Despite the adoption of the necessary legislation and progress in developing the regulatory framework, bankruptcy and liquidation procedures remain an important constraint to *Private Sector Development.* The Bank could help in this area by disseminating its relevant ESW and working with the EU to provide technical assistance.

5.3 The IMF has been a critical partner in structural reforms. The IMF's three year Extended Fund Facility has ended in September 2001 and it will focus only on those structural conditions considered critical for macroeconomic stability.[24] The Bank should work closely, in particular, with the EU, whose role as a donor is likely to become increasingly important in the near future.

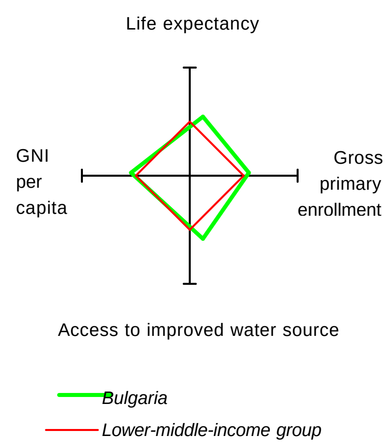
[24] Officials of the previous administration, while accepting the recommendations in the CAE, would have liked to also have seen included a recommendation to strengthen Bank conditionality—both in design and application. In their view, the public expenditure review should focus mainly on rationalizing public expenditures.

Table R.1: Bulgaria at a glance

9/5/01

POVERTY and SOCIAL	Bulgaria	Europe & Central Asia	Lower-middle-income
2000			
Population, mid-year *(millions)*	8.2	475	2,046
GNI per capita *(Atlas method, US$)*	1,520	2,010	1,140
GNI *(Atlas method, US$ billions)*	12.4	956	2,327
Average annual growth, 1994-00			
Population *(%)*	-0.5	0.1	1.0
Labor force *(%)*	-0.5	0.6	1.3
Most recent estimate (latest year available, 1994-00)			
Poverty *(% of population below national poverty line)*	..	..	..
Urban population *(% of total population)*	70	67	42
Life expectancy at birth *(years)*	71	69	69
Infant mortality *(per 1,000 live births)*	15	21	32
Child malnutrition *(% of children under 5)*	..	..	11
Access to an improved water source *(% of population)*	98	90	80
Illiteracy *(% of population age 15+)*	2	3	15
Gross primary enrollment *(% of school-age population)*	99	100	114
Male	100	101	116
Female	98	99	114

Development diamond*

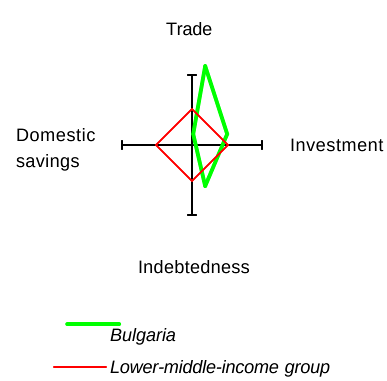


KEY ECONOMIC RATIOS and LONG-TERM TRENDS

	1980	1990	1999	2000
GDP *(US$ billions)*	20.0	20.7	12.4	12.0
Gross domestic investment/GDP	34.0	25.6	19.0	16.6
Exports of goods and services/GDP	35.7	33.1	44.1	58.5
Gross domestic savings/GDP	39.0	22.0	11.3	11.0
Gross national savings/GDP	..	..	12.2	10.7
Current account balance/GDP	4.8	-5.9	-5.3	-5.9
Interest payments/GDP	..	2.2	2.7	3.7
Total debt/GDP	..	52.4	79.6	86.5
Total debt service/exports	..	15.1	19.1	13.5
Present value of debt/GDP	..	..	76.7	..
Present value of debt/exports	..	..	156.9	..

	1980-90	1990-00	1999	2000	2000-04
(average annual growth)					
GDP	3.4	-2.1	2.4	5.8	4.6
GDP per capita	3.4	-1.5	3.0	6.3	5.3
Exports of goods and services	-3.5	2.2	-5.2	24.2	1.6

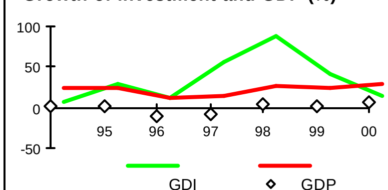
Economic ratios*



STRUCTURE of the ECONOMY

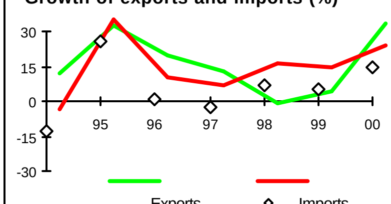
	1980	1990	1999	2000
(% of GDP)				
Agriculture	14.4	17.7	15.1	12.8
Industry	53.8	51.3	23.4	24.6
Manufacturing	..	..	14.5	15.4
Services	31.8	31.0	61.5	62.6
Private consumption	55.3	59.8	72.8	71.4
General government consumption	5.6	18.2	15.9	17.7
Imports of goods and services	30.7	36.7	51.9	64.1

Growth of investment and GDP (%)



	1980-90	1990-00	1999	2000
(average annual growth)				
Agriculture	-2.1	0.4	0.6	-10.1
Industry	5.2	-3.7	-4.4	15.3
Manufacturing	..	..	..	..
Services	4.5	-1.3	11.8	5.6
Private consumption	2.5	-5.2	-4.9	11.7
General government consumption	9.1	-9.4	2.0	9.8
Gross domestic investment	2.4	3.3	18.7	-7.7
Imports of goods and services	-3.3	0.5	5.1	14.6

Growth of exports and imports (%)

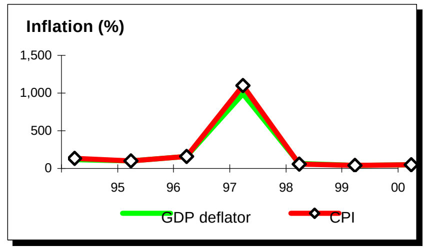


Note: 2000 data are preliminary estimates.

* 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.

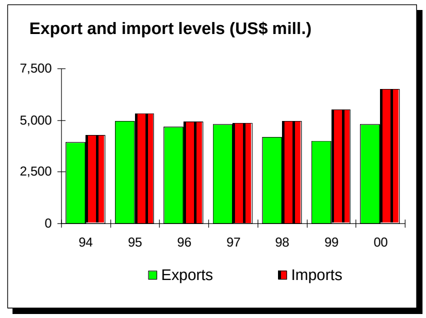
PRICES and GOVERNMENT FINANCE

	1980	1990	1999	2000
Domestic prices				
(% change)				
Consumer prices	..	64.0	2.6	10.3
Implicit GDP deflator	..	26.2	3.1	5.6
Government finance				
(% of GDP, includes current grants)				
Current revenue	..	56.9	41.2	42.1
Current budget balance	..	-3.2	5.0	3.5
Overall surplus/deficit	..	-7.7	1.5	0.4



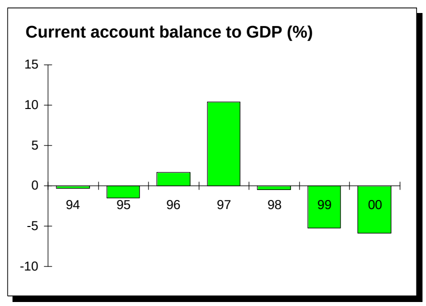
TRADE

	1980	1990	1999	2000
(US$ millions)				
Total exports (fob)	..	3,743	4,006	4,812
Consumer goods	..	1,380	1,343	1,437
Capital goods	..	890	214	215
Manufactures	..	..	660	655
Total imports (cif)	..	4,660	5,515	6,494
Food	..	150	165	175
Fuel and energy	..	1,392	1,235	1,768
Capital goods	..	1,706	1,492	1,590
Export price index *(1995=100)*	..	54	102	109
Import price index *(1995=100)*	..	28	101	113
Terms of trade *(1995=100)*	..	198	101	97



BALANCE of PAYMENTS

	1980	1990	1999	2000
(US$ millions)				
Exports of goods and services	9,302	8,980	5,795	6,987
Imports of goods and services	7,995	5,165	6,561	7,657
Resource balance	1,308	3,815	-767	-670
Net income	-412	-613	-185	-321
Net current transfers	58	..	300	290
Current account balance	953	-1,231	-652	-701
Financing items (net)	-718	820	1,017	975
Changes in net reserves	-235	411	-365	-273
Memo:				
Reserves including gold *(US$ millions)*	..	..	3,222	3,460
Conversion rate *(DEC, local/US$)*	0.0013	0.0022	1.84	2.12



EXTERNAL DEBT and RESOURCE FLOWS

	1980	1990	1999	2000
(US$ millions)				
Total debt outstanding and disbursed	..	10,865	9,872	10,364
IBRD	..	0	829	823
IDA	..	0	0	0
Total debt service	..	1,374	1,156	989
IBRD	..	0	64	75
IDA	..	0	0	0
Composition of net resource flows				
Official grants	..	4	80	74
Official creditors	..	57	199	12
Private creditors	..	-71	204	171
Foreign direct investment	..	..	802	1,003
Portfolio equity	..	0	-199	-179
World Bank program				
Commitments	..	0	176	135
Disbursements	..	0	221	71
Principal repayments	..	0	22	27
Net flows	..	0	199	44
Interest payments	..	0	42	49
Net transfers	..	0	157	-5

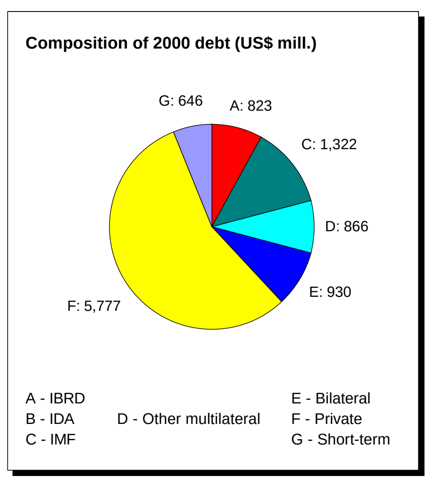


Table R. 2: Bulgaria: Key Economic and Social Indicators, 1991-1999

Indicator	1991	1992	1993	1994	1995	1996	1997	1998	1999
GDP growth (annual %)	-8.4	-7.3	-1.5	1.8	2.9	-10.1	-7.0	3.5	2.4
GNP per capita growth (annual %)	-9.6	2.6	-0.8	1.9	2.2	-10.3	-6.1	5.3	3.5
GNI per capita, Atlas method (current US$)	1,620	1,430	1,250	1,250	1,370	1,200	1,170	1,230	1,390
GNI per capita, PPP (current international $)	5,060	4,910	4,960	5,170	5,510	5,040	4,710	4,850	5,070
Agriculture, value added (% of GDP)	15.5	11.7	10.0	11.6	12.7	14.5	23.8	18.7	15.1
Manufacturing, value added (% of GDP)	..	..	..	..	..	19.8	16.8	17.0	14.5
Services, etc., value added (% of GDP)	37.9	43.3	50.9	50.7	56.4	57.0	50.9	55.7	61.5
Exports of goods and services (% of GDP)	43.5	47.1	38.2	45.1	44.7	62.9	61.9	45.2	44.1
Imports of goods and services (% of GDP)	39.2	52.9	45.8	45.7	46.3	59.8	56.4	46.3	51.9
Current account balance (% of GDP)	-0.7	-3.5	-10.1	-0.3	-0.2	0.2	4.2	-0.5	-5.5
Total debt service (% of exports of goods and services)	6.6	8.7	6.6	13.0	16.5	19.4	15.0	20.6	19.1
Gross international reserves in months of imports	1.9	2.7	2.1	3.1	2.8	1.6	4.9	5.7	5.8
Gross domesti investment (% of GDP)	22.6	19.9	15.3	9.4	15.7	8.4	11.4	14.7	19.0
Gross domestic savings (% of GDP)	26.9	14.1	7.7	8.8	14.1	11.5	16.9	13.7	11.3
Inflation, consumer prices (annual %)	338.4	91.3	72.9	96.1	62.1	121.6	1,058.4	18.7	2.5
Current revenue, excluding grants (% of GDP)	36.4	35.6	33.3	39.0	35.5	32.5	32.1	33.9	34.6
Expenditure, total (% of GDP)	40.2	40.6	44.8	44.9	41.0	48.1	33.6	33.5	35.7
Overall budget deficit, including grants (% of GDP)	-4.5	-4.9	-12.1	-4.6	-5.2	-15.4	2.1	2.8	1.5
Population, total	8.6	8.5	8.5	8.4	8.4	8.4	8.3	8.3	8.2
Population growth (annual %)	-1.0	-1.1	-0.8	-0.4	-0.4	-0.5	-0.5	-0.7	-0.6
Urban population (% of total)	66.8	67.1	67.4	67.7	68.0	68.3	68.6	69.0	69.3
Illiteracy rate, adult total (% of people ages 15 and above)	2.7	2.5	2.4	2.3	2.1	2.0	1.9	1.8	1.7
School enrollment, primary (% gross)	95.2	92.3	88.6	88.9	96.8	98.9	..	..	..
Immunization, DPT (% of children under 12 months)	99.0	98.0	98.0	93.0	96.0	95.0	94.0	96.0	..
Improved water source (% of population with access)	..	..	..	..	..	..	..	..	..
Sanitation (% of population with access)	..	..	..	..	..	..	..	..	..
Life expectancy at birth, total (years)	71.3	71.2	71.1	71.0	70.9	70.8	70.7	70.9	71.1
Mortality rate, infant (per 1,000 live births)	16.9	15.9	15.5	16.3	14.8	15.6	17.5	14.4	14.3

Source: WDI database, as of 09/17/2001.

Table R.3: World Bank Assistance to Bulgaria

A. World Bank Commitments by Sectors for FY991-01, (US$ million)

Sector Group \ Fiscal year	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	91-97	98-01	91-01	91-97 %	98-01 %	91-01 %
Agriculture				50.0					75.8		80.0	50.0	155.8	205.8	5.4	26.0	13.4
Economic Policy	17.0	250.0			125.0		70.0					462.0	0.0	462.0	49.5	0.0	30.1
Education											14.4	0.0	14.4	14.4	0.0	2.4	0.9
Electric Pwr & Engy.			93.0									93.0	0.0	93.0	10.0	0.0	6.1
Environment								16.0		50.0		0.0	66.0	66.0	0.0	11.0	4.3
Finance*			55.0					100.0		100.0		55.0	200.0	255.0	5.9	33.3	16.6
Hlth, Nutn & Popultn						26.0				63.3		26.0	63.3	89.3	2.8	10.6	5.8
Social Protection							24.3		85.0		8.0	24.3	93.0	117.3	2.6	15.5	7.7
Telecommunications			30.0									30.0	0.0	30.0	3.2	0.0	2.0
Transportation						95.0				7.4		95.0	7.4	102.4	10.2	1.2	6.7
Water Supply & Santn				98.0								98.0	0.0	98.0	10.5	0.0	6.4
Total	*17.0*	*250.0*	*178.0*	*148.0*	*125.0*	*121.0*	*94.3*	*116.0*	*160.8*	*220.7*	*102.4*	*933.3*	*599.9*	*1,533.2*	*100.0*	*100.0*	*100.0*

*Finance is reclassified under "Finance"

B. World Bank Commitments by Lending Instrument Type for FY91-01, (US$ million)

Proj ID	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	91-97	98-01	91-01	91-97 %	98-01 %	91-01 %
Adjustment		250.0					70.0	100.0	155.8	150.0	50.0	320.0	455.8	775.8	39.6	76.0	55.1
Investment	17.0		178.0	148.0		121.0	24.3	16.0	5.0	70.7	52.4	488.3	144.1	632.4	60.4	24.0	44.9
Total	*17.0*	*250.0*	*178.0*	*148.0*	*0.0*	*121.0*	*94.3*	*116.0*	*160.8*	*220.7*	*102.4*	*808.3*	*599.9*	*1408.2*	*100.0*	*100.0*	*100.0*

*FY95 Debt and Debt Service Reduction Loan of $125M is excluded from the adjustment lending category.

Source: WB BusinessWarehouse as of September 17, 2001.

Table R.4: Formal ESW and CAS List for Bulgaria, 1980-1999

	Report title	Date	Report #	Type
1	Bulgaria - Crisis and transition to a market economy (Vol.1)	1/23/1991	9046	Economic Report
2	Bulgaria - Crisis and transition to a market economy (Vol.2)	1/23/1991	9046	Economic Report
3	Bulgaria - Environment strategy study (Vol.1)	3/17/1992	10142	Sector Report
4	Bulgaria - Energy strategy study (Vol.1)	4/30/1992	10143	Sector Report
5	Bulgaria - Power demand and supply options (Vol.1)	6/22/1993	11610	Sector Report
6	Bulgaria - Public finance reforms in the transition (Vol.1)	2/23/1994	12273	Economic Report
7	Bulgaria - Environmental strategy study update and follow-up (Vol.1)	12/30/1994	13493	Sector Report
8	Bulgaria - Country assistance strategy (Vol.1)	3/15/1996	15423	Country Assistance Strategy Document
9	Bulgaria - Private sector assessment (Vol.1)	6/28/1996	14546	Sector Report
10	Bulgaria - natural gas policies and issues (Vol.1)	9/1/1996	ESM188	ESMAP Paper
11	Bulgaria - Country Assistance Strategy (Vol.1)	4/9/1998	17655	Country Assistance Strategy Document
12	Bulgaria - Poverty during the transition (Vol.1)	6/7/1999	18411	Sector Report
13	Increasing the efficiency of heating systems in Central and Eastern Europe and the former Soviet Union (Vol.1)	8/1/2000	ESM234	ESMAP Paper

Source: Imagebank.

Table R. 5: OED and QAG ratings for Bulgaria and comparator countries

Table A: OED Ratings, 1991-1999

Country	Total Evaluated $m	o/w Adjustment $m	Outcome		Inst. Devel. Imp.		Sustainability	
			% Satisfactory	% Satisfactory Adj	% Substantial	% Substantial Adj.	% Likely	% Likely Adj
Bank-wide	101,441	50,282	83	85	47	47	70	73
ECA	19,832	13,456	74	73	43	43	76	82
EU Accession	7,824	5,240	88	90	59	58	85	91
Bulgaria	**909**	**765**	**95**	**96**	**45**	**34**	**81**	**80**
Croatia	181	…	100	…	24	…	95	…
Czech Republic	666	450	100	100	98	100	100	100
Estonia	100	29	100	100	71	0	100	100
Hungary	1,283	750	94	100	86	100	90	100
Latvia	200	102	100	100	67	59	100	100
Lithuania	183	139	100	100	54	58	100	100
Moldova	216	190	72	68	12	0	18	0
Poland	2,311	1,584	99	100	60	62	94	100
Romania	1,911	1,261	60	59	27	24	61	75
Slovak Republic	133	80	100	100	100	100	98	100
Slovenia	129	80	100	100	100	100	100	100

Note: all percentages are based on net commitments

Table B: OED Rating as of August 31, 2001

Project Description	**Outcome**	**Sustainability**	**Institutional Dev Impact**	**Commitments**	**Net Commitments**
TA REFORM	Satisfactory	Likely	Substantial	17	12
SAL 1	Satisfactory	Likely	Modest	250	250
Private Investment & Export Finance	Highly Unsatisfactory	Unlikely	Negligible	55	14
ENERGY I	Satisfactory	Likely	High	93	78
Telecommunications	Satisfactory	Likely	High	30	29
Agricultural Development	Highly Unsatisfactory	Unlikely	Negligible	50	0
Debt & Debt Service Reduct.	Satisfactory	Unlikely	Not Rated	125	125
Bulgaria Ozone Depleting Substances Project	Satisfactory	Highly Likely	Substantial	11	10
Rehabilitation	Unsatisfactory	Unlikely	Negligible	30	30
Critical Imp. Rehab.	Satisfactory	Likely	Modest	40	40
FESAL	Satisfactory	Likely	Substantial	100	100
Social Protection Adjustment Loan	Satisfactory	Likely	Substantial	80	45
Bulgaria Agriculture Sector Adjustment Loan	Satisfactory	Likely	Substantial	76	76
Financial Enterprise Sector Adjustment Loan II	Moderately Satisfactory	Likely	Modest	100	100
Total				1,056	909

Source: OED rating database as of 08/31/2000.

Table C: QAG Ratings

Country	# Proj	Net Comm Amt	% At Risk	% Commit at Risk
Bank	1,595	106,783	13	12
ECA	319	16,201	11	12
EU Accession	76	3,818	7	8
Bulgaria	**12**	**441**	**0**	**0**
Croatia	12	516	8	20
Estonia	2	40	0	0
Hungary	3	107	0	0
Latvia	9	155	22	28
Lithuania	9	245	11	2
Moldova	8	123	38	28
Poland	16	1,514	0	0
Romania	22	1,113	9	23
Slovak Republic	1	177	0	0
Slovenia	2	25	0	0

Source: WB BusinessWarehouse as of 09/17/2001.

Table R.6: Costs of Bank Programs for Bulgaria and Comparator Countries, FY91-01.

Regions/ Countries	*Total costs, $m*	*Lending completion costs, $m*	*Supervision costs, $m*	*completion costs, $m*
Bank	3,478	1243	1151	1084
ECA	601	277	179	145
EU Accession	181	89	54	38
Bulgaria	**23**	**12**	**6**	**5**
Czech Republic	4	1	1	2
Estonia	8	4	2	2
Croatia	15	9	4	2
Hungary	25	11	9	5
Lithuania	13	7	4	2
Latvia	15	7	5	3
Moldova	15	9	4	2
Poland	45	22	14	9
Romania	39	19	12	7
Slovenia	4	2	1	1
Slovak Republic	7	4	1	2
Percentages				
Bank	100	36	33	31
ECA	100	46	30	24
EU Accession	100	49	30	21
Bulgaria	**100**	**52**	**25**	**23**
Czech Republic	100	22	30	48
Estonia	100	44	27	28
Croatia	100	58	28	13
Hungary	100	45	35	20
Lithuania	100	51	30	19
Latvia	100	49	31	19
Moldova	100	58	25	16
Poland	100	49	32	20
Romania	100	50	32	18
Slovenia	100	61	20	19
Slovak Republic	100	65	8	27

Efficiency Table

Regions/ Countries	*Total costs, $m*	*Number of projects approved in 1991-2001*	*Net commitment, $m*	*Net commitment for satisfactory and nonrisky projects, $m*	*Average costs per approved project, $1000*	*Average costs $ per $1000 of commitment*	*Average costs $ per $1000 of commitment for satisfactory and nonrisky projects*	*Memo Average project size, $m*
Bank	3,478	2,671	218,763	193,566	1,302	16	18	82
ECA	601	535	36,649	32,361	1,123	16	19	69
EU Accession	181	156	11,487	10,729	1,161	16	17	74
Bulgaria	**23**	**26**	**1,380**	**1,336**	**867**	**16**	**17**	**53**
Czech Republic	4	3	662	662	1,175	5	5	221
Estonia	8	8	142	142	990	56	56	18
Croatia	15	17	779	641	897	20	24	46
Hungary	25	18	1,468	1,392	1,401	17	18	82
Lithuania	13	15	437	431	866	30	30	29
Latvia	15	17	390	346	863	38	42	23
Moldova	15	16	359	273	938	42	55	22
Poland	45	31	3,706	3,704	1,447	12	12	120
Romania	39	31	3,043	2,458	1,248	13	16	98
Slovenia	4	5	128	128	772	30	30	26
Slovak Republic	7	2	130	130	3,384	52	52	65

Source: World Bank Business Warehouse, Resource Management, Report 2.3. Direct Costs by Service Across Fiscal Years, as of August, 2001.

* The amount of total costs includes lending completion, supervision, and ESW costs.

** Lending, supervision, and ESW costs are actual costs for active, closed, dropped, and all other projects in Bank's operations in FY 1991-2001.

Table R.7: Bulgaria: Bank's Senior Management, 1991-2000

Year	Vice President	Country Director	Chief/Resident Representative
1991	Willi A. Wapenhans	Eugenio F. Lari	
1992	Wilfried Thalwitz	Michael H. Wiehen	
1993	Wilfried Thalwitz	Michael H. Wiehen	John Wilton
1994	Wilfried Thalwitz	Michael H. Wiehen	John Wilton
1995	Wilfried Thalwitz	Rachel Lomax	John Wilton
1996	Johannes F. Linn	Kenneth Lay	Alberto Roque Musalem
1997	Johannes F. Linn	Kenneth Lay	Alberto Roque Musalem
1998	Johannes F. Linn	Kenneth Lay/Andrew Vorkink	Elaine Patterson/Thomas O'Brien
1999	Johannes F. Linn	Andrew Vorkink	Thomas O'Brien
2000	Johannes F. Linn	Andrew Vorkink	Thomas O'Brien

Source: World Bank Directories

Table R.8: International Development Goals

Goal	Indicator	1990	1994	1997	Latest Available: Bulgaria	Czech Rep.	Poland	Slovenia	Lower middle income	EU Accession
1. Reduce the proportion of people living in extreme poverty by half between 1990 and 2015	Incidence of poverty: people living on less than $2.15 a day (%)	…	…	…	6.4	0	1.2	0		
2. Enroll all children in primary school by 2015	School enrollment, primary (% net)	86.3	91.4	97.9	94.9	99.9	96.7	94.5	97.5	96.7
3. Make progress towards gender equality and empowering women, by eliminating gender disparities in primary and secondary education by	a. Ratio of girls to boys in primary and secondary school	0.94	0.94	…	…	…	…	…	…	1.0
	b. Ratio of literate females to literate males (15-24 year olds)	1.0	1.0	1.0	1.0	…	1.0	1.0	1.0	1.0
4. Reduce infant and child mortality rates by two-thirds between 1990 and 2015	Mortality rate, infant (per 1,000 live births)	14.8	16.3	17.5	15.6	6.0	12.2	4.8	…	11.8
5. Reduce maternal mortality ratios by three-quarters between 1990 and 2015	Maternal mortality ratio (per 100,000 live births)	..	15.0	..	…	…	8.0	11.0	…	12.3
6. Provide access for all who need reproductive health services by 2015	Contraceptive prevalence (% of women 15-49)	..	..	..	…	…	…	…	56.8	…
7. Implement national strategies for sustainable development by 2005 so as to reverse the loss of environmental resources by 2015	a. Biodiversity: protected land area	..	..	..	4.4	15.8	9.6	5.5	4.8	10.3
	b. Energy efficiency: GDP per unit of energy use	1.7	2.1	1.9	1.9	3.3	2.5	4.4	…	2.9
	c. CO2 emissions, industrial (kg per PPP$ of GDP)	1.6	1.5	..	1.3	0.9	1.3	0.5	0.9	0.9

Source: World Bank SIMA database and country reports.

Annex A

Table 1: Approved, Proposed and Dropped Projects (1998 CAS)

	Notional Lending for FY99-01	***Not Proposed Lending***
APPROVED	1. FESAL II (FY99) 2. ASAL I (FY99) 3. Health Sector Reform (FY00) 4. Env/Priv/ Supt SAL (FY00) 5. Education MOD (APL#1) (FY01) 6. Cadastre and Land Registration (FY01) 7. ASAL II (FY00)	1. Trade & Trans. Fac. (FY01) 2. Child Welfare Reform Project (FY01)
NOT APPROVED	1. Government Administration Modern. (FY99) 2. Irrigation (FY00) 3. District Heating (FY00) 4. FESAL III (FY01) 5. Social Fund II (FY01) 6. Agriculture Marketing (FY01) 7. Guarantee (Energy) (FY01)	
DROPPED	1. Sofia Integrated Urban Dev. (FY00)	

Note: Four adjustment loans and eleven investment loans were in the notional lending program. The environmental remediation pilot (one of the 11) was approved as the environmental privatization SAL.

Table 2: Timing of Lending and Sectoral ESW in grey cover (excludes CEMs, CASs, technical papers and working papers). Other analytical and advisory services shared with OED are noted as "other".

Sectoral ESW	*FY*	*Related Lending*	*FY*
Environment: Environmental Strategy Study Environmental Strategy Study Update and Follow Up Forestry Review (***other***)	 FY92 FY95 FY96,FY00	SAL Water Co. Restructuring (WCR) Environmental Remediation Pilot FESAL I ASAL I FESAL II, EPSAL	FY92 FY94 FY98 FY98 FY99 FY00
Energy: Energy Strategy Study Power Demand and Supply Options Electricity Pricing: Economic and Social Issues for Bulgaria (***other***)	 FY92 FY93 FY95 FY95	 SAL Energy Development Loan FESAL II District Heating component of (WCR)	 FY92 FY93 FY00 FY94
Public Sector Management: Public Finance Reforms in Transition Judicial Assessment (***other***)	 FY94 FY99	None	
Private Sector: Private Sector Assessment Assessment of Auditing and Accounting; Country Assessment of Corporate Governance; The Social Impact of Restructuring and Privatization (***other***) Review of Bulgarian Privatization of Large Enterprises (***other***)	 FY96 FY00 FY01	 FESAL I FESAL II	 FY98 FY00
Poverty: Poverty During the Transition Social Assessments (other) Participatory poverty assessment as part of World Development Report 2000 (***other)***	 FY99 FY98-99 FY99	 Health Restructuring Project Social Protection Adj. Loan Regional Initiative Fund Health Sector Reform	 FY96 FY99 FY99 FY00
Agriculture: Agriculture Policy Notes (***other***) Bulgarian Banking in the Agr. Sector (***other)*** Equipment Leasing in Bulgaria (***other***) Mortgage in the Agricultural Sector (***other***) Survey of Farmers, Agribusinesses and Machine Owners (***other***) Strategic Grain Reserve Management (***other***)	 FY98 FY99 FY99 FY99 FY99 FY00	 SAL Agricultural Development Loan ASAL I	 FY92 FY94 FY99
Health and Education: None		Health Restructuring Project Health Sector Reform Education Modernization Project	FY96 FY00 FY01

Annex B

Bulgaria Country Assistance Evaluation(CAE) – Overview of IFC Operations[25]

Bulgaria is a small country in transition, with a GNP of $11.4 billion and population of 8.2 million in 1999. Its per capita GNP of $1390 in 1999 makes it a lower middle-income country; this is a little higher than the $1200 per capita GNP for all lower middle income countries in 1999, but substantially lower than the $2150 per capita GNP for Europe and Central Asia in 1999.

Based on the current (March 2001) Institutional Investor Risk Group category, Bulgaria will be termed as a medium risk country; till 1999, it was a high-risk country. In contrast, Bulgaria's neighbor, Romania, has remained a high-risk country during this time. Bulgaria joined the World Bank Group in 1990.

Since IFC made its first investment in Bulgaria in 1994, GDP declined at an average annual rate of 4.5% during the 1994–97 period. There has been a turnaround in performance after 1997, with the average annual growth rate of GDP for the 1998–00 period being 3.6%; the (World Bank) forecast of average annual GDP growth rate for the 2001-03 period is 5.0%. For the entire 1989-00 period, IMF reports that the cumulative decline in GDP was about 30%.

IFC Investment Portfolio

Between May 1994 and March 2001, IFC approved 14 investments to 13 companies in Bulgaria, totaling $241 million in financing (including four B loans; $169 million for IFC's own account), contributing to $829 million in total project financing. The investment program began gradually with only four investments approved from FY94 to FY98; but, it has accelerated since then, with 10 investments approved in FY99 through FY01. Five of the 14 investments are in the financial sector; two are in the services sector; and the remaining seven investments are in manufacturing, ranging from cement to paper products (See Attachments 1 and 2 for more details of IFC investments in Bulgaria).

The average size of IFC investment in Bulgaria is $12.0 million, about the same as the $12.3 million for the Corporation as a whole, during this time; the range was from $3 million to $45 million.

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[25] This summary has been prepared by Cherian Samuel, Operations Evaluation Officer, Operations Evaluation Group, IFC, based on a desk review and discussions with IFC Investment Department Staff.

Portfolio Performance Overview

Of the 14 investments that IFC has made in Bulgaria, three are yet to be committed and disbursed; of the remaining 11 investments, most have not reached early operating maturity and only one has been evaluated so far. That project had *less than satisfactory* development and IFC investment outcome due to difficult macroeconomic conditions.

Of the remaining 10 investments, eight seem to be progressing well, based on judgments in the Project Supervision Reports (PSRs) and information gathered during discussions with Investment Department Staff. The overall turnaround of the Bulgarian economy in the past three years seems to be the main driver of this encouraging project performance. Two investments are not doing well, primarily due to management problems. Both have undergone recent changes in ownership, and seem to be on the recovery path.

IFC's non-investment activities

From April 1998 to November 2000, seven Technical Assistance Trust Funds (TATF) projects were done in Bulgaria (See Attachment 3 for more details). Four of these seven projects related to a company called RADOMIR for privatization and restructuring; engineering and environmental assessment; and revamping of the accounting system. This was privatized as a management buyout, though IFC has not yet made an investment. Two other TATF projects related to the privatization of banks, HEBROS BANK, and BAC BANK. Both banks have been privatized, with IFC investing in BAC BANK. The last TATF project relates to an ongoing agribusiness study of Bulgarian apricot and peach farming prospects. This project is a follow-up to IFC's investment in FLORINA, the juice and beverages manufacturer and is geared to establishing the feasibility of commercial apricot and peach farming in Bulgaria.

In December 1998, FIAS initiated a major study on administrative barriers to investment in Bulgaria, upon a request from the Bulgarian Foreign Investment Agency (BFIA). This project was co-financed by the British Government through the Department for International Development (DfID). Under the new Government, the country had initiated a series of policy and legal reforms, to a large extent driven by the intent to accede to the EU.

The FIAS study made a number of important recommendations to: facilitate the employment of Bulgarian workers; simplify the business registration process; and reform tax administration. There were also suggestions regarding access to land, site development, customs, financial flows, and statistical reporting. However, the follow-up and implementation have been hampered by changes in the Bulgarian counterparts behind the study.

Views of IFC Investment Department Staff

Investment climate in Bulgaria has been excellent for the past three years or so. Economic growth has been steady and macroeconomic stability remarkable, with good political ownership and support of the reform process. Prospects for IFC operations in Bulgaria appear bright, especially in the financial sector, in areas like pension funds, insurance, local currency credit lines to Small and Medium Enterprises (SMEs), and micro-finance.

The recent war in Kosovo has had a negative effect, since it has affected transportation to Western Europe and added to shipping costs. The significant improvements in the enabling environment have facilitated more IFC approvals in Bulgaria in the past three years. The involvement of IFC's specialist departments in the portfolio is marginal at the moment. This is where significant opportunities may exist for IFC, especially in the infrastructure sector.

Infrastructure privatization is a major opportunity awaiting IFC. There are four projects being pursued at the moment: the airline privatization, two water projects, and a logistics/warehousing company. Progress so far though has been disappointing. In the telecom sector, the environment has been difficult in that the major company remains state-owned, despite nearly two years of negotiations. In the cellular sub-sector, working with the foreign, state-owned operator has proved to be difficult so far. The power generation sector currently is in a surplus situation. The power distribution sector is still state-owned and hence there are no opportunities for IFC.

The situation is similar in the Oil, Gas, and Petrochemicals sector. The industry is in a bad shape, with small plant-sizes and few viable enterprises. Most companies are still state-owned. In the mining sector, there are no major private mines. The recent privatization of a smelter has been funded by EBRD, with no need for IFC involvement.

Most of the IFC investment in the general manufacturing sector has been by way of post-privatization modernization. In the financial sector, five of the seven state-owned banks have been privatized and IFC has played an important role in the privatization process. Future banking products could include: SME lending through local currency credit lines, mortgage finance, pension funds, and insurance.

Along with Russia, Bulgaria is a focus country for the Agribusiness Department. Bulgaria's location on the Black Sea, along the Danube river, gives it natural advantages for trading in grains and oilseeds with the rest of Europe. However, there has been a distinct attempt by the State to protect the agriculture sector that could hurt the sector in the long-run. After the collapse of the collective-style agricultural system, there have been significant problems in fruit-growing, since the institutional set-up no longer exists. Paucity of working capital finance has been a key problem for Bulgarian farmers. Resolution of land tenures and splitting up of land holdings too remain an issue.

In collaboration with the Small Enterprise Development Unit (PSDSE) of the World Bank, IFC has established a new Project Development Facility (PDF) for Southern Europe—Southeast Europe Enterprise Development (SEED)—to strengthen SMEs. SEED began operations in July 2000, covering Albania, Bosnia and Herzegovina, FYR Macedonia, and Kosovo. Though Bulgaria is not within the scope of SEED at the moment, that may change in the future. IFC's SME strategy for Bulgaria is part of its overall strategy for Southern Europe, and consists of providing direct financing through the Small Enterprise Fund (SEF) program as well as indirect financing to financial intermediaries, including credit lines.

In May 2001, IFC, along with EBRD, became shareholders in a specialized micro-finance institution in Bulgaria. The micro-finance institution is expected to benefit from two years of institution building efforts through a micro and small-scale lending program that was funded by KfW, the German Government's development bank. IPC, the German-based technical partner and sponsor of the project, has a global relationship with IFC. IPC has a solid track record in managing micro-finance programs in developing and transition countries.

Given the small size of the Bulgarian economy and its transitional state, the relatively small size of transactions is a major constraint facing IFC investments and reflect the limited absorptive capacity of the Bulgarian economy. Overall, IFC's presence is regarded as very valuable, both as an honest broker and as a catalyst for bringing in global private capital.

IFC's Strategy

In the 1998 CAS, the emphasis for the World Bank Group was on promoting structural reform and private sector development in Bulgaria by: accelerating the divestiture of SOEs through privatization, with emphasis on sales to strategic investors, management employee buyouts, voucher privatizations, along with the closure of non-viable enterprises; completing the privatization and restructuring of public sector banks; and implementing institutional and policy reforms in the utility sector to inject professional management and private sector incentives into their operations.

Key areas in which IFC was expected to take the lead included private power generation, small business investment, agricultural infrastructure, and the privatization process. The Bank, IFC, and MIGA would provide complementary support to foster private investment through policy advice, technical assistance and investments. Assistance would include direct long-term loan and equity financing from IFC, which were expected to help attract foreign and domestic investors; political risk guarantees from MIGA; contractual compliance guarantees from IFC and the Bank to mobilize private finance; and analytical support on policy and institutional issues from the Bank and IFC.

IFC record in relation to the 1998 CAS

In relation to the strategy articulated in the 1998 CAS, IFC has done well with regard to the goals of small business investment and post-privatization modernization. On the other hand, progress has been slow with regard to private power generation and agricultural infrastructure. The investment climate has definitely improved in the past three years or so. The financial system too has been bolstered recently with good prospects for future investments. There are significant challenges remaining in infrastructure, evidenced by the slow pace of privatization.

Attachment 1: Details of IFC Investments in Bulgaria

- IFC invested in a venture capital fund to support the creation of a private equity finance industry in Bulgaria and Romania and attract international investors. Through equity investments, greenfield SME projects were expected to be created, with strong know-how and expertise from Greek partners.
- IFC invested in a leasing company to establish the first joint-venture leasing company in Bulgaria. The venture was expected to provide full pay-out leases to the mid-size corporate market.
- IFC's support for a hotel was aimed at bringing in an international quality business hotel to the capital city, where demand was expected to grow steadily.
- IFC's investment in a cement project was to allow an inefficient and environmentally unsound plant to be privatized, modernized and upgraded. The project was export-oriented.
- IFC's support of a commercial bank was expected to channel long-term IFC funds through the Bank to SMEs in Bulgaria for their expansion and modernization. IFC would support the Bank's strategy of graduating from a US-Government sponsored program to an independent, commercially viable private bank in Bulgaria.
- IFC's investment in a paper mill was to facilitate privatization, rehabilitate existing facilities, improve the mill's environmental status, and increase its cost competitiveness. The project was export-oriented.
- IFC's investment in a wood products manufacturer was to expand and modernize operations of the Bulgarian wood panel sector, as well as upgrade environmental standards. The project was primarily export-oriented.
- IFC's investment in a juice producer was to establish an integrated fruit juice and carbonated drinks company.
- IFC's equity investment in a commercial bank—with the largest branch net work in Bulgaria—was to assist the strategic investors in undertaking an extensive recapitalization and restructuring of the Bank's operations.
- IFC's support for an industrial hoist producer was to: complete privatization; restructure, streamline existing operations; and adopt international environmental standards and policies. The investment was intended to sustain a key employer in the region, spawn new business opportunities, increase fiscal revenue, and enhance country's technical capabilities.
- IFC invested in an integrated distribution system for home improvement and repairs, with the flagship store located in Sofia. About five additional stores were expected to open up around the country to serve the customers better.
- IFC supported the modernization and expansion of an electronic assembly manufacturer. The project was expected to broaden the technical scope and product range of the existing facilities.
- IFC's equity investment in Bulgaria's largest commercial bank was to increase its lending to Bulgaria's underserved business and retail sectors. This investment has been a follow-up to the key role that IFC played in the successful and transparent privatization of the bank.

Attachment 2: Bulgaria, Statement Of IFC Held and Disbursed Portfolio As of April 30, 2001 (In US $ Millions)

		IFC Held				*IFC Disbursed*			
FY Approval	**Company**	**Loan**	**Equity**	**Quasi - equity**	**Particip ants**	**Loan**	**Equity**	**Quasi - equity**	**Particip ants**
1999	BAC Bank	0.00	0.00	5.00	0.00	0.00	0.00	5.00	0.00
2001	Bulbank	0.00	17.47	0.00	0.00	0.00	17.47	0.00	0.00
1999	Celhart	13.90	1.50	0.00	0.00	13.90	1.50	0.00	0.00
1998	Devnya Cement	26.65	0.00	0.00	0.00	26.65	0.00	0.00	0.00
2001	Doverie	2.75	0.00	1.61	0.00	0.92	0.00	0.46	0.00
1994	Euromerchant FND	0.00	5.00	0.00	0.00	0.00	5.00	0.00	0.00
2000	Florina	3.77	0.00	0.00	0.00	2.47	0.00	0.00	0.00
1996	Interlease Inc.	2.64	0.30	0.00	0.00	1.14	0.30	0.00	0.00
2000/01	Kronospan Group	17.50	0.00	0.00	10.77	17.50	0.00	0.00	10.77
1997	Sofia Hilton	10.80	0.00	2.00	9.50	10.80	0.00	2.00	9.50
	Total Portfolio	**78.01**	**24.27**	**8.61**	**20.27**	**73.37**	**24.26**	**7.46**	**20.27**

		Approvals Pending Commitment			
FY Approval	**Company**	**Loan**	**Equity**	**Quasi - equity**	**Particip ants**
1999	BPBank	10.00	12.40	0.00	0.00
2001	EPIQ/ELEX	7.98	0.00	0.00	0.00
2000	Podem	3.10	0.00	2.00	0.00
	Total Pending	**21.08**	**12.40**	**2.00**	**0.00**

Source: DataWarehouse, IFC

Attachment 3: IFC's Technical Assistance Trust Funds Projects in Bulgaria

#	*Approval date*	*Assignment*	*Description*	*Amount ($)*
1	4/27/1998	Privatization and restructuring of a Machinery Plant RADOMIR-Phase I	TA and advisory services for the restructuring of a forge, foundry and heavy machining/fabrication plant.	67,000
2	4/27/1998	Privatization and restructuring of RADOMIR-Phase II	TA focuses on conducting a full-scale environmental audit of RADOMIR's plant and assessing the prospects for increased market penetration of Western Europe.	13,000
3	4/27/1998	Privatization and restructuring of RADOMIR-Phase II	TA focuses on conducting a full-scale environmental audit of RADOMIR's plant and assessing the prospects for increased market penetration of Western Europe.	60,000
4	2/17/1999	Privatization of HEBROS BANK	TA consists of doing a due diligence on HEBROS BANK, which would enable IFC to make fair representations to potential strategic investors.	100,000
5	3/22/1999	RADOMIR-Phase III Market Assessment	TA to evaluate the market prospects for RADOMIR, to facilitate decisions of investors.	61,000
6	4/10/2000	TA on Treasury Operations of the Bulgarian American Credit Bank (BACB)	TA would support BACB, focused on SMEs and residential mortgages. BACB seeks to "graduate" to a free standing independent SME bank.	86,000
7	11/1/2000	Horticultural Development of Deciduous Fruit Farming	TA to determine the nature and level of assistance required by Bulgarian apricot and fruit farmers.	55,000

Annex C

Country Assistance Evaluation for Bulgaria 2001-Overview of MIGA Operations [26]

MIGA activities
The mandate of the Multilateral Investment Guarantee Agency (MIGA) is to encourage foreign investment in developing and transition countries through a number of activities. First, MIGA offers insurance to foreign investors against certain political risks (expropriation, transfer restriction, breach of contract, and war and civil disturbance). Second, MIGA provides advisory and technical assistance services, such as information on investment opportunities, privatization, and business environment; capacity building activities to strengthen developing countries' effectiveness in formulating investment promotion strategies; and investment facilitation services in the mining and tourism sectors.

MIGA Guarantee Activities
Bulgaria joined MIGA on September 23, 1992. Initial demand for MIGA guarantees was low, with the first two contracts of guarantee for a small project being issued in June 1994. MIGA became more active in Bulgaria during FY95-97, when a total of six guarantees, relating to four projects, were signed. After that, MIGA guarantee volume has stagnated; the most recent guarantee was issued in June 1999.

Overall, nine contracts of guarantee were issued as of June 30 2001, supporting six projects linked to estimated foreign direct investments of $87.8 million. MIGA's maximum aggregate liability resulting from all contracts of guarantee *issued* amounts to $50.0 million. This is equivalent to 0.55% of all liability assumed by MIGA between FY90 and June 30, 2001.

Of these nine contracts, two remain active as of June, 2001. MIGA's outstanding portfolio on June 30, 2001 in the country was $1.6 million. (MIGA did not re-insure any portions of its Bulgarian portfolio.) This was equivalent to 0.03% of MIGA's total outstanding gross exposure on that date.

MIGA has not received nor paid any claims in Bulgaria.

MIGA-supported projects have been concentrated in the Financial Services sector (four projects). The remaining projects were in the manufacturing and services sector. Typical projects were establishments and expansions of local subsidiaries of major international banks. Projects also included a car assembly factory and a heavy-equipment dealership. (For a complete list of MIGA guarantee projects, please refer to Attachment A.)

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[26] This summary has been prepared by Mr. Stephan Wegner, Evaluation Officer, Operations Evaluation Unit, MIGA, based on a desk review and discussions with staff from MIGA's Guarantees and Investment Marketing Services Department.

MIGA Investment Marketing Activities

MIGA's Investment Marketing Services division has worked closely with the Bulgarian Foreign Investment Agency (BFIA) since the mid-1990's. Bulgaria is a leading player among the investment promotion agencies in the region and has been active in the regional support program for countries of the Former Soviet Union and Eastern Europe, which MIGA and other agencies support through the Private Sector Center, based in Istanbul.

In June 2000, MIGA undertook an institutional needs assessment of the BFIA, the results of which formed the basis of the capacity building program currently being offered to Bulgaria's investment promotion intermediaries with the support of the European Union. Bulgaria has also participated in a number of workshops which MIGA has held for investment promotion agencies in the region, taking a leading role in a workshop held in September 2000 on using the internet for investment promotion, an aspect where Bulgaria is very successful.

In November 2000, MIGA published a special profile on Bulgaria on its Investment Promotion Network Web site – IPAnet, that was also distributed through the Web site's electronic newsletter that reaches some 20,000 readers. Information on investment opportunities stemming from privatization in Bulgaria is being disseminated through MIGA's PrivatizationLink site.

Assessment of MIGA Activities in Bulgaria

During the severe economic and financial crisis in 1996-7, MIGA did not suffer any claim losses, although it had built up its exposure in the country significantly before the outbreak of the crisis. MIGA's Guarantees Department appears to have made prudent underwriting decisions based on good country risk assessments. MIGA was correct in not offering convertibility insurance, while covering only transfer risks.

MIGA adapted its products to address specific investor concerns to cover retained earnings. MIGA's flexibility was instrumental in allowing the investment to go forward.

Investment marketing and advisory services offered in the country were specific to the needs of the country, effectively complementing and building upon local strengths.

However, OEU has found that, overall, MIGA has not fulfilled its potential in Bulgaria during the past four years. There has been very little guarantee activity since the end of the financial and economic crisis. During this time FDI soared, in part due to a mass privatization program.[27] The Agency also failed to play any contributory role in the reform and privatization of the banking system (1999), despite heavy involvement of the IFC. Moreover, it is noteworthy that MIGA has not actively pursued projects in collaboration with other development institutions, such as the IFC or EBRD, in the

[27] Annual FDI is expected to reach $900 million in 2000, compared with just $137 million in 1996.

country. Finally, the implicit leverage ratio of FDI facilitated compared to MAL issued (1.75) is very low.

One reason for MIGA's lack of involvement seems to stem from excessive risk aversion on the part of the Agency. While investors perceive the political risk as having decreased to more manageable levels, compared with the period before 1997, MIGA's posture toward Bulgaria does not seem to reflect improved political and economic stability[1]. Moreover, coverage against certain risks (inconvertibility) was not offered at all.

Recommendations

MIGA clearly needs to increase its activities in the country. It should send a fact-finding mission to the country to re-evaluate the political risks associated with investments. At the same time, relationships with the host country government and potential investors should be intensified to raise awareness of MIGA and its products and services. MIGA should consider offering its full range of products, including coverage against inconvertibility, given the smooth functioning of the currency board since its introduction in mid-1997.

MIGA should also increase its cooperation with IFC and other development institutions to reap synergies and deploy MIGA's specialized products more efficiently.

After the completion of large-scale privatizations, MIGA can potentially play a pivotal role in supporting greenfield investments which are expected to increase as Bulgaria embarks on a modernization drive to fulfill pre-conditions of EU membership. MIGA involvement in sectors crucial to enhancing Bulgaria's ability to withstand competitive pressures within the single market (agribusiness, manufacturing) will also lead to a more diversified guarantee portfolio. Additionally, MIGA should support projects in areas in which it has expertise, such as the development of private mortgage facilities, tourism, and privatization of remaining state-owned enterprises (energy generation and distribution companies, telecommunications, mining).

MIGA management will also face the continuing challenge of managing its portfolio prudently in terms of size and tenor, given the possibility of spill-overs from conflicts in neighboring countries. It should seek to simultaneously maximize the amount of FDI facilitated while minimizing its net exposure in Bulgaria.

Furthermore, given that Bulgaria has one of the stronger investment promotion agencies in its region, MIGA advisory services should only assist in specific areas as requested by BFIA or other intermediaries. The regional program will provide many opportunities to cooperate on issues relating to investment promotion in the country, which MIGA should utilize.

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[1] The total debt/GDP ratio fell from 289% to 79% in 2000, while gross reserves in terms of months of exports rose from 1.5 to 5.

Attachment
MIGA Guarantees in Bulgaria FY 92-FY01
(as of June 30, 2001)

No.	Investor	Investor Country	Project Enterprise	Project Description	Sector	Effective Date	Coverage	Maximum Aggregate Liability (US$)	FDI (US$)	Status on 6/30/01
1	Barlows Tractor International Limited	United Kingdom	Ekko Limited	Establishment of heavy-equipment dealership in Bulgaria	Other Services	6/6/1994	ABC	378,000	370,000	Active
2	Barlows Tractor International Limited	United Kingdom				6/6/1994	ABC	270,000	0	
3	Banque Nationale de Paris	France	BNP-Dresdner Bank (Bulgaria) AD	Establishment of BNP-Dresdner Bank (Bulgaria) A.D.	Financial Services	6/28/1995	ABC	2,700,000	13,500,000	
4	Rover Exports Limited	United Kingdom	Rodacar AD	Establishment of an auto assembly factory	Manufacturing	11/29/1995	ABC	1,192,482	0	
5	Rover Overseas Holdings Limited	United Kingdom				11/29/1995	ABC	3,076,604	15,880,694	
6	Rover Overseas Holdings Ltd.	United Kingdom				12/28/1995	ABC	699,747	0	
7	ING Bank, N.V.	Netherlands	ING Bank, N.V. Sofia	Shareholder loan for the expansion of ING Bank Sofia	Financial Services	3/4/1996	AB	24,000,000	26,666,666	
8	Commercial Bank of Greece, S.A.	Greece	Bulgarian Investment Bank PLC	Expansion of existing investment bank	Financial Services	5/19/1997	ABC	3,658,500	1,355,000	Active
9	Banque Nationale de Paris	France	BNP-Dresdner Bank (Bulgaria) AD	Expansion of BNP-Dresdner's banking operations in Bulgaria, with a special focus on increasing medium to long-term financing to private enterprises in Bulgaria	Financial Services	6/30/1999	A,B	14,029,875	30,000,000	
	Total Issued **Total Active on 6/30/01**	**Contracts: 9** **Contracts: 2**	**Projects: 6** **Projects: 2**					**50,005,207**	**87,772,360**	

Types of Coverage:

A - Currency Inconvertibility
B - Expropriation
C - War and Civil Disturbance

Annex D

Lessons from Telecom Project

1. Privatization of major infrastructure such as telecommunications is technically and politically complex and the process can be unpredictable. Hence, privatization transactions should be designed for maximum flexibility (options) to respond to market shifts and unanticipated events, which needs to be balanced with specificity that is required for ensuring transparency in evaluation.

2. There is a need for clearer and more specific guidance to Bank staff—in the form of Bank-wide guidelines and/or operational policies—to enable them to respond flexibly, yet consistently across sectors and countries, to governments' requests for advice during the structuring and negotiation of complex infrastructure privatizations.

3. Adequate capacity and coordination among the key parts of the Government is essential to handle the challenges of complex transactions and political consensus building. Government should make extra efforts in identifying appropriate supervisory and decisions making structures for supporting complex privatization transactions and ensuring consensus at all levels.

4. An appropriately prepared investment loan, combined with technical assistance, can be an effective vehicle for broad sector policy and institutional reforms, as well as targeted investments and capacity building. Such an investment loan, tied to policy and institutional reforms, was highly effective in the case of Bulgaria. This lending instrument provided a longer time horizon and more in-depth sectoral expertise than is likely to be possible under single-tranche, multi-sectoral programmatic loans.

5. A strong local champion and project design that matches local implementation capacity were key success factors. Additional factors were the in-depth support by a seasoned Bank expert who gained client confidence and provided good sector work prior to Bank lending.

6. Coordination with development partners is critical, particularly when dealing with large infrastructure investments and sensitive policy reforms. Success in persuading the Bulgarian authorities to conform to an agreed tariff formula was achieved mainly because of effective and combined influence for reform. .

7. Establishing effective regulatory policies and institutions in the infrastructure sectors (network utilities) is a long-term process that requires continuous improvement and sustained support. The Bank should take a long-term view in supporting this process.

This audit also suggests the following key implications for Bank and country strategies:

9. Lending and advisory instruments should match the demands for in-depth and timely advisory assistance and institutional development that are required for successful privatization of key infrastructures. Future privatization and regulation challenges of network infrastructure are unlikely to be met with instruments that emphasize the short-term, broad-brush assistance.

10. The GOB and the Bank may take a fresh look at the information and communication sector in Bulgaria in view of the recent termination of the BTC sale, EU accession requirements, a growing digital divide, and Bulgaria's great potential to build a knowledge-based economy. This project should be viewed as a first step in modernizing the sector and developing a knowledge economy.

Source: Performance Audit Report: Bulgaria Telecommunications Project (Loan 3592-BU). May 18, 2001.

Annex E

Bulgaria: Lessons from External Evaluations: The European Commission

1. An evaluation of PHARE financed SME Support in Bulgaria over the period 1990–1998 found that overall performance of financial support schemes was rather poor, except for equity schemes. Performance problems were mainly related to the lack of additionality in financing, displacement of ordinary bank financing through subsidized interest rates and inappropriate credit risk allocation, and the lack of evidence of any demonstration effect in terms of enhanced bank lending to SMEs. Micro-credit schemes were important tools for stimulating self employment but proved to be costly in terms of subsidy needs. Equity schemes were found to have the highest economic impact. The Phare program took the lead in setting up Business Support centers and networks. These turned out to be heavily dependent on Phare and other donor financing, with very little financial support from local or national government authorities. As a result these centers shifted from their original focus on public service mission to commercial consultancy services.

2. The Evaluation report found that the modest Phare contribution had an important leveraging effect in the business support services community in facilitating coordination and support of a network of 300 associate consultants. However the evaluation could not summarize the actual outputs delivered by the Associates as a result of the Phare financial support because it was difficult to disentangle Phare support. The Report indicated that the program was relevant to Bulgaria's need for a comprehensive institutional support structure relating to SME development.

3. However, overall Phare SME support programs achieved little. The main reason for underperformance lay with the incomplete nature of the transition in Bulgaria. The government did not provide resources or attention to the SMEs, because they were considered as able to take care of themselves. Phare's attempt to support SMEs through developing commercial banking was also a failure as commercial banks were uninterested in working with them. Their interest was only present if high interest rates were charged. The business support centers supported by Phare were also problematic, sustainability had become a major issue and they could not maintain themselves without compromising on their original mission for being set up.

4. In another evaluation of the Phare Banking Programs of Lithuania, Poland, Hungary and Bulgaria, the Report found that efficiency of delivery of technical assistance was reasonably good, program effectiveness and impact were greatly enhanced when Phare adhered to national strategies that were also endorsed by International Financial institutions. Phare financed technical assistance was involved in banking reforms at various levels, in central banks, commercial and bank training institutions. Overall the report found that Phare banking sector projects focusing on introduction of risk-based credit management and supervision systems in central and commercial banks were good and responded to real reform needs. These were embedded in specific banking sector reform

strategies to which governments showed varying degrees of commitment. Efficiency and effectiveness were reasonably good, but impact and sustainability were rated at a lower level. The quality of technical assistance provided was similar to that provided by other donors. The Report also found that the effective use of outputs and the impact of the latter in the performance of beneficiary banks was beyond the direct reach and responsibility of Phare project management and was the domain of the beneficiary governments and banks.

Source: Evaluation of Phare-financed SME Support Programs: Bulgaria Country Evaluation; Evaluation of the Phare Banking Programs: Evaluation Unit of the Common Service for External Relation of the European Commission. 1999.

Annex F

UNDP Contribution– Balancing Protection and Opportunity

1. The transition to a market economy has created an unprecedented challenge for Bulgaria. The average living standards have declined and poverty and unemployment have increased. Bulgarians have to deal with income uncertainty and other social risks on their own. To address these issues, UNDP and the World Bank have united their efforts to promote social strategies and actions that focus on employment generation and social protection. Innovative approaches to alleviate poverty in the country, such as the establishment of a Social Investment Fund (SIF), has been a priority in the institutions' joint activities.

2. The successful collaboration between UNDP and the World Bank dates back to 1997 when the two came together to promote the SIF as an effective mechanism to support the poor and vulnerable during the transition. After a series of discussions with government counterparts on finalizing a sound conceptual framework, the Regional Initiatives Fund (RIF) project was launched as a pilot phase of the SIF. The start up was financed by the World Bank under the LIL facility, and received a UNDP contribution. Later on, USAID and the Bulgarian Government provided substantial financial input, which enabled the project to expand so as to cover an increased number of poor municipalities and to provide a sufficient platform as a testing ground for the future SIF operation.

3. The RIF's chief goal is to demonstrate the feasibility and the impact of a social fund mechanism and to establish a national capacity for its management. The RIF also aims at alleviating the adverse impact of the on-going structural reforms through job creation, improvement of the social and economic infrastructure, and fostering private sector growth. It enables the Government to respond directly to the needs of the local communities by providing grant financing for small projects. So far, more than 130 public works have been implemented in deprived communities and employment has been provided to more than 3,000 people.

4. UNDP, the World Bank and MOLSP were successful in creating an institutional framework for the SIF. The joint advocacy initiatives resulted in the adoption of a SIF-enabling law and the forthcoming elaboration of the necessary bylaws. A local capacity has been built at the national and the local level to support the SIF operations.

Building Partnerships to Fight Poverty

5. The successful RIF/SIF experience accompanied further common policy interventions in the field of social development and poverty reduction. In 1999–2000, the two institutions conducted a joint assessment of the childcare system in Bulgaria and provided technical assistance to the child care reform. This resulted in the adoption of a law with special emphasis on vulnerable children, and helped

initiate institutional reforms, supported by a World Bank loan. The Government assigned priority to child protection and began considering the relevant policies.

6. UNDP and the Bank have been advocating for the creation and implementation of a governmental poverty alleviation strategy. Poverty and social impact assessments preceding the adoption of strategies and policies are needed to ensure that the impact of the new measures on poverty is calculated and recognized. UNDP has developed specific social assessment' guidelines and trained government officials in social assessment. UNDP and the Bank piloted a social assessment on childcare in Bulgaria that provided a valuable input to policy formulation.

7. Poverty as a multi-dimensional phenomenon is broadly defined as denial of opportunities and choices most basic to human development. This understanding of human poverty has been incorporated into the Strategic Framework for Anti-poverty Actions which is a document jointly developed by UNDP and the Bulgarian Government. An essential objective of the Framework is to address the multi-dimensional nature of poverty by using interventions not only directly targeted at income poverty, but also by complementary actions supporting the enabling environment and the realization of human rights through employment, education, health and social protection. The Framework encourages the active mobilization of political will and resources in support of national efforts to eradicate poverty, which can only be done through a concerted effort among all partners, including civil society and the private sector.

8. The role and importance of social capital and building strong partnerships for poverty reduction and effective development strategies was further addressed during training sessions delivered in the year 2000 by UNDP and WB experts to representatives of government and non-government institutions.

Source: UNDP mission in Bulgaria.

Annex G

Questionnaire to Government Officials, NGOs, Donors and Others

Questions for Council of Ministers/Ministry of Finance

1. Prior to 1997/98, how well did the Bank make the case for an accelerated reform and how effectively did the Bank present its views on the costs of delayed reform/adjustment in terms of dialoguing with political leaders as well as presenting the case for reform/adjustment broadly to the population in as convincing manner as possible? Could the Bank have done more with other development partners to assist Bulgarians in moving more quickly on reforms? Did the Bank adequately take into account the difficult external environment for Bulgaria in its assistance strategy? Did it advise properly concerning key reforms such as the need for privatization, banking reform, and the dangers of the proliferation of substandard private banks in the early 1990s?

2. What additionality did the Bank's FESALs and ASAL I bring to the program which was already being supported by the Fund's EFF? What role did the Bank's Rehabilitation and Import loans play aside from providing funding?

3. Did the Bank use the right tools to support reform/adjustment - in terms of both ESW and lending (emphasizing one tranche adjustment loans over investment lending)? Did the adjustment lending reform agenda contribute to progress in agriculture, and energy sector reforms vis-à-vis project lending? Can long-term efforts like privatization and regulatory reform be handled through one-tranche adjustment lending instruments?

4. Did the Bank coordinate appropriately with other development partners in mobilizing TA?

5. Did the Bank take into consideration gender issues and access to critical social services by the poor in the design of its programs ? Were its programs effective? Did it monitor the impact on poverty, unemployment and social indicators during the transition? Were income inequality, regional and ethnic differences properly addressed by the Bank? Did it consult adequately with stakeholders?

6. Did the Bank focus adequately on enhancing the performance of the public sector through administration reform, capacity in the public sector to monitor and evaluate public investment programs and on practices that promote transparency in the use of public resources? Should the Bank have done a review of public expenditures earlier in the transition to show how expenditure composition could be improved and what role could the state play in the development of Bulgaria?.

7. How well did Bank assistance strategies and interventions incorporate lessons from experience? Are there adequate monitoring and evaluation systems to facilitate learning?

8. In terms of the overall program of IBRD's assistance to Bulgaria, including investment and adjustment lending, economic and sector work, formal and informal policy discussion, workshops, grants, donor coordination:

- Has IBRD focused on the right issues? Did it contribute to structural and policy reforms?
- Has IBRD had an impact on promoting economic growth, reducing poverty, improving social indicators?
- Could IBRD have done things differently that might have had a greater impact?

9. Do you thing IBRD has been focusing on the right sectors (a list of all loans is in Attachment1)? And within sectors on the right projects? Where their design realistic? Do you think IBRD should have been focusing efforts in other areas and if so, which ones? On other projects, and on different designs?

10. What is your view of the quality of the Bank's analytical work ?(a list of reports since 1990 is in Attachment 2),? Are there any that stand out for having been useful, practical, timely?

11. Do you have any comments on other aspects of IBRD's assistance, such as grants (PHRD, IDF), training activities, technical assistance in the form of informal policy discussions and advise, information dissemination?

12. Have IBRD's guidelines and policies been beneficial in improving public sector performance ? What is your view of the extent to which World Bank staff have been helpful in implementing these policies.

13. If you are familiar with World Bank Group activities (including World Bank, IFC and MIGA), do you think they have been focusing in the right areas?

Questions related to the Agriculture Sector

The Agriculture Sector Adjustment Loan (Loan 44990) was approved on June 22, 1999, became effective on December 10, 1999, and closed on July 31, 2000. It provided balance of payments support for agricultural policy reforms in five areas.

1. In your opinion, in which area was the most progress achieved? In which area, was the least progress achieved? Please rank the five areas from "most progress achieved" to "least progress achieved", and give your reasons for your ranking.

- Liberalization of agricultural trade and prices

- Land market development
- Rural finance
- Privatization of agricultural enterprises
- Food security and cereals marketing

2. In contrast with other ASALs in Central and Eastern Europe, the Bulgarian ASAL was a one-tranche loan. Why was this a one-tranche loan? Was this appropriate under the circumstances? Was it effective in supporting the reforms, increasing agricultural productivity and agricultural exports?

3 Based on your observations of IBRD's assistance to date, what do you think are the most important lessons for the past that should be incorporated into future strategy and assistance in the agricultural/rural sector?.

Questions related to social protection

Bank lending to support policy reforms: The Bank has supported reforms in Bulgaria's social projection policy through the *Social Protection Adjustment Loan* (supporting the government's reform program for improving (i) sustainability and equity of the pension system, and (ii) labor market flexibility, work incentives, and protection of laid-off workers), the *Social Insurance Administration Project* (to support the social insurance reform program by strengthening operational efficiency and institutional capacity), and the *Child Welfare Reform Project* (with the objective of improving child welfare and protecting children's rights through promotion of community-based child welfare approaches).

1. What concrete achievements can be attributed so far to any of these interventions? Have the program/project objectives matched the real priorities for the sector in Bulgaria? Have they been fully realistic? Are there any important complementary actions that have been neglected? Has program/project design taken adequate account of country-specific conditions – including the particular institutional conditions, constraints and opportunities in Bulgaria?

2. Although the actual employment impact on the poor has been less than predicted in the Regional Initiatives Fund, it appears that the project is viewed by many in Bulgaria as highly successful. Why is this?

3. What impacts, if any, has the RIF had on the capacity or practices of (i) central ministries, (ii) local authorities, (iii) community-based organizations, or (iv) NGOs?

4. Are you in favor of future large scale support to the proposed Social Investment Fund through Bank lending? If so, why? (What do you consider would be the most important *long term* benefits?) If not, why not?

5. Has the Bank's assistance program helped, directly or indirectly, to improve public support for reforms of social protection programs, labor market policies, or reform of

education finance/governance? If so, how? Could, or should, the Bank have done more in this respect?

6. Does lack of public support continue to be a constraint to implementing proposed reforms of social protection programs or labor market policies? If so, what are the particular changes to which opposition is strongest, and what measures are being -- or could be -- taken to improve public support?

7. Was the Poverty Assessment directly useful to the government in formulating policies for poverty reduction and social protection? If so, how exactly? Are there specific ways that this kind of exercise could be made more directly useful in the future?

8. What are the most significant changes that have occurred in the poverty profile in Bulgaria since the last survey in 1997? What have been the trends in school drop out rates and unemployment rates by region, rural/urban, gender and ethnic group?

9. What mechanisms are in place for regular on-going monitoring of poverty in the country? Are these adequate for program evaluation and policymaking purposes? Where are the most significant weaknesses in current understanding of the incidence, determinants or dynamics of poverty in Bulgaria?

Questions related to the Health Sector

The World Bank has two on-going health projects, *Health Sector Restructuring* from fiscal year 1996 and *Health Sector Reform* from fiscal year 2000.

1. Do you think the projects address **access** to critical health services by the poor, in particular the groups at a disadvantage (for example the lower income groups and the Roma)? Do you think the projects reflect the needs of women (for example access to reproductive health services)? Do you think the projects are or will be effective in meeting their objectives?
Health Reform Project

2. What indicators will you use to measure the Health Reform projects' **impacts**? The key baselines for the system were labeled "TBA" (i.e to be announced) in the Project Appraisal. Are you monitoring for example, the number of physicians and the number of hospitals in the system, % population within an hour of services, % of Roma with satisfactory access and treatment? Are you tracking any other indicators?

3. Regarding the shifting of financing of health services to NHIF, what is the status with regard to revenues, to coverage of the population for PHC services, and for hospital care (scheduled to begin 7/01). Are <u>all PHC services</u> now paid for via NHIF?

4. At the system level (access, equity, quality) and at the population level (better service utilization or health status), what are the project's measurable indicators and achievements (**outcomes, not process outputs**) to date? (None were indicated at appraisal).

5. What was the rationale for the presence and scope of emergency medical services (EMS) Component? Given the goal to restructure the health sector and to concentrate on primary health care, and given the MOH's own stated priorities to reduce cardiovascular disease, reduce infant mortality and protect the health of reproductive aged women, why did 1/3 of the entire Project's costs get allocated to EMS? What were the results of this EMS assistance in terms of the larger Project goals? (Overall, only 7% of the Project went for human resource development training and the like, i.e., the "software," whereas over 80% went for "hardware"—vehicles, equipment, other goods and works.).

Questions Related to the Energy Sector

The World Bank approved an energy project in fiscal year 1993, and produced two analytical pieces, one an energy sector study in 1992 and the other a study on power demand and supply options 1993. Until early 1998 there was relatively little progress in this key sector in Bulgaria. The Government developed a medium-term energy strategy and began to implement it in September 1998. The World Bank's direct involvement in the energy sector after 1993 has been through the FESAL II of November 1999 which includes five conditions on energy sector restructuring.

1. How would you rank the important issues facing the Energy sector in Bulgaria?

2. Do you think the World Bank could have assisted the Government to move faster on energy sector reforms earlier in the transition? If so, how?

3. Did the World Bank play a role in helping the Government to develop the energy strategy and a framework for its implementation?

4. Did the World Bank assist the Government to design appropriate measures to alleviate the social costs of higher energy prices on vulnerable groups?

5. Statistics indicate that Bulgaria has some of the highest energy intensity levels in Eastern Europe. Could the World Bank have done more in coordination with other donors to help Bulgaria become less energy intensive?

6. Have World Bank interventions been successful in helping the country diversify its sources of economic and environmentally-friendly energy?

7. Do you think a quick disbursing budget support loan is an appropriate instrument to address a transparent and stable legal and regulatory framework, and privatization issues in the energy sector.
Has the World Bank coordinated adequately with the European Union in assisting Bulgaria to deal with issues in the Energy Sector?

Questions Related to the Environment

The Bank with other stakeholders have completed two environmental assessments, approved an environmental remediation pilot and most recently an environment and privatization support SAL.

1. Have IBRD activities helped the government to make environment a priority and to formulate an effective strategy and action plan to protect the environment?

2. Has the relative importance of environmental issues facing Bulgaria changed between 1990 and today? How would you rank the important environmental issues today? Do you think that both brown and green issues should be addressed by IBRD?

3. What kind of assistance from the World Bank would be most valuable to Bulgaria in dealing with the important environmental problems being faced today? Was SAL the right instrument to support Bulgaria?

4. Given the large environmental agenda and resources required to meet EU Accession requirements, is the IBRD coordinating adequately with other donors to assist Bulgaria ?

5. Given the need for public support has the Bank given adequate emphasis to public consultation?

6. Are there monitoring and evaluation systems in place to monitor and evaluate the impact of environmental interventions?

Questions for the Private Sector

1. How would you rank the following indicators of investment climate? Please use the following scale. 1= no obstacle and 4=major obstacle.

- Macroeconomic environment

- Nature of taxation (level and administration)
- Business regulation (licensing)
- Corruption
- Private provision of essential business services
  (a) finance
  (b) accounting
  © auditing
- Provision of public goods
  (a) judiciary
  (b) law and order
  (c) public infrastructure

2. How well has IBRD performed in identifying and suggesting reforms to constraints to private sector development through advisory work (e.g., the creation of Private Sector bodies), economic and sector work or specific investment activities? Did you find the Bank's 1995 private sector assessment useful?

3. If you are familiar with the work of FIAS (Foreign Investment Advisory Service, a joint service of IFC and the Bank), has it made a useful contribution to making relevant recommendations?

4. Could the World Bank have encouraged quicker progress on privatization and reform of the banking system? If so, how?

Questions for Donors

1. Based on your observations of World Bank assistance in the recent past (including loans and other types of assistance, such as analytic work and seminars), what are your main impressions: Has the Bank focused on the right issues? Has the Bank been effective in contributing to Government's efforts at structural reform, promoting growth, reducing poverty, improving social indicators? Could the Bank have done things differently to have had a greater, more positive impact?

2. How do you view the quality of transparency and accountability by the Government, and how important do you think the Bank's role has been in improving them?

3. What is your view of the framework for donor coordination and what is your view of the Bank's role in enhancing the effectiveness of this framework?

4. Has donor coordination led to identification of areas of donor comparative advantage?

List of Officials and others Interviewed

Government Officials

Mr. Plamen Oresharski
Deputy Minister
Ministry of Finance

Ms. Juliana Nikolova
Director European Integration
and Relations with IFIs
Council of Ministers

Mr. Martin Zaimov
Deputy Governor
Issue Department
Bulgarian National Bank

Mr. Mladen Georgiev
Adviser
European Integration and Relations
with IFI Directorate
Council of Ministers

Mr. Georgi Georgiev
Government Expert
Council of Ministers
Department Relations with
International Financial Institutions

Mr. Dimitar Matev
Head of International Relations
Ministry of Labor and Social Policy

Dr. Ilko Semerdjiev
Minister
Ministry of Health

Ms. Denitsa Sacheva
Head of Minister's Cabinet
Ministry of Health

Dr. Boyko Penkov
Director
National Health Insurance Fund

Dr. Dimitar Illiev
Deputy Director
National Health Insurance Fund

Dr. Neno Dimov
Deputy Minister
Ministry of Environment and Waters

Ms. Vania Grigorova
Director
Ministry of Environment and Water

Ms. Ekaterina Stefanova
Head of Department
Corporate Finance Department
National Electric Company

Ms. Nelly Stanimirova
Expert
International Cooperation and Public
Relations Department
National Electric Company

Ms. Radka Yaramova
Head of Division
Economic and Finance Division
National Electric Company

Ms. Ludmila Vitanova
Expert
Investment Division
National Electric Company

Mr. Slavtcho Neykov
Member of the Commission
State Energy Regulatory Commission

Mr. Toma Giortcheve
Member of the Commission
State Energy Regulatory Commission

Ms. Iva Georgieva
Chief Expert “Foreign Relations and European Integration”
State Energy Regulatory Commission

Mr. Nikodim Stamov
Vice Chairman
State Energy Regulatory Commission

Mr. Bogdan Bogdanov
Head of Division
Household Statistics
National Statistical Institute

Mr. Stoyan Baev
Head of Division
Social Statistics
National Statistical Institute

Mr. Marin Bogdanov
Chief
WB/IMF Division
Ministry of Finance

Ms. Teodora Noncheva
Director
International Activity Department
National Social Security Institute

Ms. Hristina Mitreva
Chief Actuary and General Director
Analysis, Planning and Projections
General Directorate
National Social Security Institute

Mr. Roumen Iontchev
Vice Executive Director
State Fund - Agriculture

Mr. Roumen Poroganov
Head
Department of Agricultural & Forestry Trade & Services
Ministry of Finance

Mr. Boyan Velkov
Director
National Grain Service

Ms. Vesseka Disheva
Director
Land Deparatment
Ministry of Agriculture and Forestry

Mr. Kalin Adreev
Chief Expert
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Ex-Government Officials/Academicians/NGOs/Private Sector

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Annex H

Bulgaria Country Assistance Evaluation

MANAGEMENT ACTION RECORD

Recommendations	*Management Response*
(i) *Public Sector.* Complete the ongoing public expenditure review in partnership with the Government. This should help build capacity to prioritize public investments. Assess with other stakeholders the steps that have been taken to strengthen public financial accountability institutions.	(i) The *Public Expenditure Review (PER)* is scheduled for completion in FY02 and will provide recommendations for improving the public investment management system, including adoption of economic criteria, procedures and an action plan for implementation. Already close coordination with the IMF and EU is expected to be intensified on the basis of early positive results in helping the Government tackle major public financing issues, including effective operation of the single treasury account, and preparations for a single revenue agency.
(ii) *Poverty Alleviation*. Complete a poverty assessment update integrating qualitative and quantitative inputs, which could establish the basis for targeting of social assistance. The poverty update should build government capacity for regular monitoring of poverty and its findings should inform strategy and policy design.	(ii) Following receipt of the results of the 2001 household survey, the Bank is completing the *Poverty Assessment Update* in FY02. Based on recent data, the *Update* will assess the current situation and record the main changes in poverty and vulnerability, provide to the Government recommendations on further improvements in targeting social assistance spending and focus on effective monitoring arrangements. Institutional reforms/improvements, once implemented, are expected to enable the Government to develop timely inputs for strategy and policy design to alleviate poverty.
(iii) *Energy*. Reinforce the sustainability of recent institutional reforms by clarifying the mandate and functions of different regulatory bodies (e.g., the State Energy Regulatory Commission).	(iii) As shown in the CAS, the energy sector requires major interventions to rationalize energy use. The proposed PALs will lay the basis of a policy framework that can address the major sector issues. To fine tune the implementation of a broad blue print for regulatory reform that has been adopted by the Government in 2001, an *Energy Efficiency Strategy Overview* will be prepared (FY03). Of paramount importance will be close cooperation with the EU, to ensure that an EU Integration/Energy TA program can accomplish the desired objectives of establishing effectively functioning regulatory bodies for energy.

REPUBLIC OF BULGARIA COUNCIL OF MINISTERS

January 8, 2002

02,17-3 /10.01.2002

Mr. **Ruben Lamdany Manager**
Country Evaluation and Regional Relations
Operations Evaluation Department
The World Bank

Re: Bulgaria: **Country Assistance Evaluation**

Dear Sir:

We would like hereby to thank you for the comprehensive draft OED report entitled 'Bulgaria: Country Assistance Evaluation" providing an independent assessment of the role of World Bank assistance to Bulgaria over the last decade as well as evaluations of the IFC's and MIGA's assistance to the country.

As it is mentioned in this evaluation Bulgaria's early transition was characterized by stop-and-go policies and lack of structural reform The Bulgarian economy has moved from an agonizing period of contraction and high inflation to impressive growth and stability. After a disappointing performance during the early years of transition, Bulgaria has introduced the CBA in mid-1997 and the authorities have followed prudent stabilization policies. However, a series of exogenous shocks (the Russian crisis, the Kosovo crisis and rising global energy prices) postponed the emergence of the growth dividends. The long-awaited recovery is now underway and the country assistance strategy program implementation has continued on track, making the near-term outlook promising.

At the present stage of implementation of significant financial and economic reforms undertaken by the Government of Bulgaria we look upon our close cooperation with the World Bank and its assistance as particularly important for us.

We are strongly committed to push forward our reform program, securing macroeconomic stabilization and making progress in many areas. The Government will continue to follow the CBA-based adjustment strategy, which is increasingly showing positive results. Hence, we will implement prudent fiscal and incomes policies to underpin the CBA and preserve competitiveness, and vigorous structural reforms to promote private sector initiative and investment.

The Bulgarian Government remains fully committed to sound economic policies in the framework of its reform program which is designed to ensure that the recovery

becomes self -sustaining and foster a fully functioning market economy that will lead to lower unemployment and faster convergence to European living standards.

We thank the mission staff from Operations Evaluation Department of the World Bank for the well-written document on Bulgaria. However, we will appreciate if you could take into account the following views and comments on the above report.

The critical analysis and tone of the report is extremely useful for fully understanding the* -deficiencies and build on them in our future relations with the World Bank and hence please consider certain comments on the World Bank - Bulgarian interaction during the aforementioned period of the 90-s.

1. **The World Bank has pursued a pro -active policy in Bulgaria with a serious emphasis on lending, modest but valuable achievements in the Economic and Sector Work and studies and moderate and rather precautious activity of the IFC and MIGA. As a result - as rightly mentioned in the tables to your evaluation - Bulgaria has one of the biggest loan exposures to the World Bank amounting to about 1,5 billion dollars in effective lending per today.**

2. **The need for thorough and comprehensive ESW and studies and their proper dissemination and targeting before or in the process of initiating a lending operation was initially underestimated in the early. 1990s. The transition to a new kind of economy started in that period and the ongoing restructuring had seriously distorted and diminished country's coordination and absorptive capacity and, given the stringent Bank rules and not always carefully agreed project designs, as well as frequent changes in governments in the early 1990s, this resulted in heavy loan volumes with a distinct tendency of cancellation of parts of the loans, some times rather substantial. This was partly due to the application of western cost and expenditure design models to the projects and the lower profile of local levels of prices, wages, utilities and other costs, and partly to the not enough good dialogue between the country officials and the Bank and changing priorities at both sides. Even though the Bank has further built on the need for a more comprehensive ESW and smaller pilot projects to precede bigger investments and more closely adhere to the current environment and conditionalities, certain difficulties with projects over estimation and design still persist. It is now vital to further incorporate the concepts of ownership and direct benefits to the population in the project design of the investment operations.**

3. **It might be also worth mentioning here that there are some factual mistakes in the figures counted on in the evaluation and the background information is somewhat fragmented and not enough comprehensive. Also there are minor mismatches in economic indicators cited. Since the relevance and data in the attached Tables R8 is rather not updated with the most recent developments we would appreciate you not including or updating the data in the above in the final CAE report to be published.**

4. Finally, we appreciate the Bank assistance and guidance through the years of restructuring and challenge and value high the continued Bank support especially in the years of crises and serious deterioration in the access to foreign capital. It is our **believe that further comprehensive and coordinated interaction and Bank assistance for analyzing and formulating the priorities, developing capacity for domestic public investment design and implementation and progressing with the financial accountability issues as well as channeling and proceeding with an effective donor coordination would be very helpful for us.**

Sincerely

Nikolay Vassilev
Deputy Prime Minister and
Minister of Economy

March 4, 2002 CODE2002-0012

Report from CODE

COMMITTEE ON DEVELOPMENT EFFECTIVENESS

Informal Subcommittee's Report on Bulgaria Country Assistance Evaluation

1. The Informal Subcommittee (SC) of the Committee on Development Effectiveness met on February 4, 2002 to discuss the Country Assistance Evaluation (CAE) for Bulgaria (CODE2002-0001). The SC welcomed the CAE and commended OED for the quality of the report.

2. OED remarked that diffic

3. ult initial conditions combined with flagging interest in reforms led Bulgaria into a serious financial crisis in 1997. Thus, largely due to Borrower performance, the outcomes of Bank assistance were unsatisfactory. After 1997, the Bulgarian Government began implementing reforms and the Bank gradually launched a full lending program partnering effectively with the IMF. OED noted that most of the objectives of Bank assistance post-1997 had been met and the overall outcomes of the Bank's strategy from 1997 to the present were rated Satisfactory. However, OED stressed that many institutional development issues remained outstanding, particularly with regard to privatization, banking reform, the social safety net, and public sector reform. OED suggested that priority areas for Bank support should include completing the public expenditure review with a view to build capacity to prioritize public investments, strengthening public financial accountability, and a poverty assessment update. In the energy sector, the mandate and functions of different regulatory bodies needed clarification.

4. Management welcomed the CAE and noted their agreement with OED with regard to further work needed in the areas of public sector management, poverty alleviation, and energy sector reform. They also added that work was necessary on improving the investment climate as an avenue for promoting growth and meeting EU accession requirements. Management questioned the appropriateness of including Table R8 on PREM/DEC Indicators in the CAE noting that these numbers were always shifting and could misrepresent the current situation in the country. Management further remarked that they had incorporated the lessons from the CAE in the CAS being prepared for Spring 2002 and stressed that the two themes of the CAS would be improving living standards to reduce poverty and improving the investment climate. They agreed with OED with regard to the importance of ESW and cited the completion of the poverty assessment, the PER, and ESW in the energy sector in the upcoming CAS as examples.

5. The Chair representing Bulgaria thanked OED for a comprehensive and independent assessment of the Bank's program in Bulgaria. He emphasized that his authorities welcomed close cooperation with the World Bank and were generally very appreciative of the work done by the Bank. He stressed the importance of country ownership, and welcomed the poverty assessment and PER for addressing key issues. He noted that his authorities generally felt there was inadequate attention given to ESW and more work was needed in this area. He also commented on the limited country budget for Bulgaria and suggested that the Bank would have been able to be more responsive to client needs had more resources been allocated for Bulgaria.

6. The SC broadly supported the findings of the CAE and suggested there was general consensus on the improvement in Bulgaria and the Bank's program after 1997. Among the specific issues raised by the Subcommittee were:

7. **Conditionality.** The Subcommittee discussed the interface between World Bank and IMF conditionality, the move towards streamlining and simplifying conditionality, the importance of Government ownership, and the lessons learned from the Bulgaria case. Members suggested these aspects could have been more deeply analyzed in the CAE. OED responded that they had identified the antecedents of government commitment in a working paper and that they were studying the methodological issues surrounding conditionality separately. Management informed the Subcommittee that there would be a Technical Briefing in March to discuss many of the generic issues relating to conditionality.

8. **Role of IFC and MIGA.** Members questioned the roles of IFC and MIGA and the extent to which there was coordination between them. They noted that FIAS and MIGA had worked with the same Bulgarian counterpart during the same time period with very different outcomes and asked why this was the case. Overall, the Subcommittee stressed the importance of greater coordination in the Bank's private sector related activities in client countries. OEG responded that the FIAS and MIGA assignments were undertaken at different times and had entirely different TORs. They also emphasized that there was now greater coordination overall in Bank Group PSD advisory activities since the creation of the Private Sector Advisory Services Department, and this group was also making efforts at improving coordination with MIGA.

9. **Donor Coordination.** The Subcommittee emphasized the importance of donor coordination, particularly mentioning the IMF. Members questioned the division of labor between the Bank and the IMF and stressed the need to avoid duplication. Members also suggested that the Bank needed to take a stronger lead in assisting the Government with donor coordination, particularly as the IMF was scaling back its involvement in Bulgaria. They noted that the Bank had been very active in Bulgaria and had prepared six adjustment operations after 1997.

10. **Turning Point.** There was discussion about how the Bank identified turning points in a country and some members considered that the Bank had failed to do so in the case of Bulgaria and thus, had not been supportive enough of a new Government that was inclined towards reform. Management responded that it had been appropriate for the IMF to take the lead following Bulgaria's financial collapse in 1996-97 to stabilize the economy and then for the Bank, once the reform credentials of the new government were demonstrated, to provide assistance on structural issues. OED reiterated its view that Management had acted prudently given Bulgaria's track record.

11. **ESW.** The Subcommittee stressed the critical importance of ESW and noted the Government had also highlighted it as a priority. In this regard, members stressed that the PER and poverty assessment needed to be completed without delay and also emphasized the importance of ESW in building ownership, institutions, and a conducive investment climate in Bulgaria. The Subcommittee also discussed the Bank's role in privatization and agricultural reform. Management acknowledged the importance of ESW but pointed out that budget constraints required the Bank to decide on priorities among the various activities that could be done in a country

Rosemary Stevenson
Acting Chairperson, CODE
Subcommittee

<u>Distribution</u>
Executive Directors and Alternates
President
Bank Group Senior Management
Vice Presidents, Bank, IFC and MIGA