

Bulgaria

Client Perspectives on Elements of World Bank Support

Working Paper for
Development Results in Middle-Income Countries
An Evaluation of the World Bank's Support



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PREFACE

The Independent Evaluation Group (IEG) of the World Bank has conducted an ‘Evaluation of the World Bank’s Support to Middle-Income Countries’. As a contribution to that evaluation, IEG commissioned national experts in several countries to undertake background research on the topic. The aim was to use a client perspective drawn from in-country consultations—to shed light on the experiences of the Bank with its Middle-Income Country (MIC) partners.

This working paper draws upon responses from a selection of interviews conducted in mid-2006 with in-country stakeholders and a review of the relevant analytical and evaluative material. It provides valuable insights into selected issues faced by many MIC clients, and has been used as a background to the IEG evaluation. As with any research of this type, there may be contrasting views from other commentators, and this report is not intended to be a comprehensive assessment of the Bank’s country program and nor should it be considered as a formal report of the type produced by IEG in its country assistance evaluations.

The findings, interpretations, and conclusions expressed here are those of the authors(s) and do not necessarily represent views of the IEG, or the Board of Executive Directors of the World Bank or the governments they represent.

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SUMMARY

Survey Purpose and Methodology

The purpose of this report is to analyze the client perspectives on the Bank's role throughout the period 2000-2005. Based on evidence from desk and field research the report helps answer: 1) *How relevant and effective have the Bank's country programs been in meeting country's development objectives and reducing poverty?* 2) *To what extent has the Bank tailored its programs to meet these different challenges?* 3) *How effectively does the Bank use knowledge sharing in its engagement with Bulgaria?* 4) *To what extent has the Bank's support to Bulgaria helped it contribute to identified global priorities and initiatives?*

1. Analytical and advisory reports provided a relevant background for analyzing field findings: Country Assistance Strategy (CAS) from 2002 and the accompanying Country Evaluation Report; project reports and policy notes the Bank issued to analyze sector developments; EU Comprehensive Monitoring Report for Bulgaria, 2005; various Bank documents to outline its unique world mission of development supporting and knowledge sharing institution and in-country documents.

2. Field data were gathered through structured interviews with officials and NGO representatives. The interviewee sample consisted of the following main types of respondents:

-Ministers from the 2001-2005 Government. They were responsible for the design of sector programs based on the CAS in 2001 and were expected to be in a capacity to compare actual accomplishments with government and Bank projections.

-Government officials currently in office. This group should not be considered fully independent from the previous, as two parties from the current government coalition were in office in the period 2001-2005. Two ex-ministers from the 1997-2001 government, when the radical shift toward reforms started and reform fundamentals were outlined, were also included in the interviewee sample.

-Representatives of NGO, Academia and Donor sectors who had been directly involved in implementing Bank projects and knowledge sharing.

-Representatives of the Bank's Sofia Mission

Thus, the interviewee sample comprised of fourteen people who have been directly involved in designing and implementing the development policy of the country.

Survey Topics

The main topics included in the survey were:

The Relevance of the Bank.

The Overall Effectiveness of the Bank's Work

The Importance and Impact of Bank Lending

The Coordination of Services across the Bank Group

The Use and Sharing of Knowledge

The Engagement of Bulgaria in Global Programs

The analysis of the above topics has been essentially based on clients' feedback combined with relevant desk evidences.

Findings

3. **The Relevance of the Bank.** The overall role of the Bank was assessed relevant as it has been tailored to address the strategic needs of the country. The Bank proved relevant in instigating national standards and institutions by providing financial resources and knowledge and by providing investment and analytical insight to resolve problems in specific areas. The adjustment loans of the bank were accompanied by conditionality (IMF goal matrix) and this has made them a major driving force of social change in Bulgaria. The anti-poverty strategy of the Bank was based on holistic approaches where anti-poverty effects stemmed from comprehensive improvement of the institutional framework and the investment climate. The antipoverty mission of the Bank encouraged the government to engage more actively in public-private partnerships and national and local poverty targeting programs. Based on its international reputation the Bank has been able to encourage local political elites to adequately schedule and implement reforms and has served as a guarantee of their irreversibility. By changing the format of Bank- Client Relationship the Bank has been able to overcome problems in the dialogue with the government in 2003 – 2004. The Bank has also become more responsive to government identified needs of the country.

4. **The Overall Effectiveness of the Bank's Work.** Based on the level on accomplishment of CAS benchmarks the program effectiveness of the Bank was assessed satisfactory. Effectiveness was assessed based on comparing goal identification, level of restructuring through funding and analytical and advisory work rather than based on quantitative performance indicators. The effectiveness of the Bank in its capacity of a policy making and instituting body is undisputable. The program based on adjustment loans and knowledge dissemination effectively helped the government to stabilize the budget and initiate radical rapid restructuring of the economic and the social sectors. Supporting structural reforms involved setting standards and institutional framework for restructuring social sector and administration, completing privatization and restructuring of energy and mining, and finance intermediation. This has resulted in effective poverty reduction and improvement of the investment climate.

5. Local investment approach based on investment loans to individual line - ministries has been problematic in terms of effectiveness. Doubts have been mainly inspired by the failure of the Health and the Education projects. Both inadequacies of target strategies and shortfalls in consultations with the social partners were pointed out as causes of this failure. On the other hand, poor effectiveness of specific investment, loans which have been in the discretion of individual ministers and ministries, may equally be attributed the revived backlash tendencies. Failures of some projects/loans do not necessarily influence the effectiveness of all investment projects or the consistency of Bank approaches. They just confirm that effectiveness of local transfers should be closely matched with local beneficiaries' needs. Failures are also indicative of another problem of the operations of the Bank - the lack of follow up. The Bank has not been persistent enough in its support to transformations until they reached the stage when backward pressure has been neutralized.

6. **The Importance and Impact of Bank Lending.** Bank lending has been perceived a unique opportunity for a country in transition to effectively meet transition challenges that relate both to budget deficiencies and instability and lacking capacity. In hectic times of budget and institutional instability (1997-1999) the adjustment loan programs such as FESAL, ASAL and, subsequently, PAL had a positive impact on stabilizing budget. Based on conditionality, they helped the governments of the country shape their reformist mindset, schedule the reform agenda and institute the fundamentals of further restructuring of the economic and the social sectors. Investment lending channeled through specific projects to line-ministries made the respective recipients link their local tasks to the general perspective of the country. The steady progress made under the CAS emphasized the instrumental role of Bank lending. Borrowing from the Bank gave the country access the unique knowledge package of world known concepts and practices of the Bank at a reasonable price.

7. **The Coordination of Services Across the Bank Group.** The survey explored perceptions about three of the five arms of the Bank - International Bank for Reconstruction and Development (IBRD); Multilateral Investment Guarantee Agency (MIGA) and International Finance Corporation (IFC). Generally viewed, contacts and working with the IBRD leads to awareness about the whole WB Group. With few exceptions MIGA is virtually unknown. Except of officials who have explicitly been looking for the IFC services, the latter is little known both among experts and the public. Low awareness of IFC and MIGA is due to the fact that they are poorly represented in the country. Bad coordination between the Sofia Office of IBRD and IFC has also been reported and is attributed to the fact that IFC is working with private sector companies where information as a rule is not disclosed easily. In view of private-sector-led economic growth, the role of MIGA and IFC is expected to expand at the expense of the operations of the IBRD.

8. **The Use and Sharing of Knowledge.** This aspect of Bank activities raised minimum criticism. The Knowledge service the provided by the Bank was assessed highly relevant. Knowledge sharing has been perceived a service that best conveys the uniqueness of the Bank as a financial and knowledge institution engaged in world development. Accumulating development standards and patterns the Bank was in a capacity to adequately adapt to country specifics. Thus, it helped the country institute its capacity to identify development needs and pursue strategies to address these needs. Synergy of knowledge

sharing and financial resources lent under strict conditionality secured the Bank's unique role in the Bulgarian transition as a standard setting and reform instigating institution.

9. The Bank has been exclusively perceived as a partner of the government and this has implied some shortfalls in knowledge sharing. However, after 1998 the Bank modified the institutional settings of knowledge sharing opening to NGO experts and social partners in addition to government experts. Numerous examples of true joint expert work and local analyses and surveys commissioned by the Bank have been produced. Yet, knowledge sharing is perceived as too closely linked to lending. Knowledge cost is an explanation in this respect, but nobody would opt for knowledge service declining along with Bank lending. On contrary, the Bank would need to make institutional rearrangements in order to expand knowledge services (at a reasonable price); this expansion should be independent from the dynamics of lending.

10. **The Engagement of Bulgaria in Global Programs.** The country has been engaged too much with its own domestic challenges and has not been able to address global programs. Awareness of Bank supported global programs and engagement of the country in them is rather sporadic. Global programs have remained unknown to experts and the public except of officials who have been directly involved in some of them (Understanding Children's Work; Prevention and Control of HIV/AIDS Project under the Global Fund to Fight AIDS, Tuberculosis and Malaria; Mitigating the effect of global climate change projects). This is related to another problematic issue – the positioning of the Bank in the country. Despite the change of the Bank – Client relationship, the Bank had been for too long been considered an exclusive partner of the government. Therefore, whatever country commitments may be related to the global initiatives of the Bank, they are always running the risk to exclusively remain in the discretion of the government.

Conclusions and Lessons Learned

11. The Bank's role proved extremely relevant for the financial stabilization and setting up the institutional and legal arrangements of sustainable market reforms in the country. Utilizing global knowledge the Bank has successfully tuned development patterns to Bulgarian specifics. Opening to the NGOs and social partners the Bank attempted to overcome the public perception that it is an exclusive partner of the government and has remained relevant to the needs of the country in a changing environment.

12. The effect of implementing the Bank's development strategy has been assessed as satisfactory. Primarily and foremost effects are a result of the impact the programs of the Bank had on the overall restructuring of economic and social sectors. The Bank has timely provided relevant reform patterns combined with budget support resources. The Bank's anti-poverty mission had broader effects than immediate poverty reduction. Using holistic approaches toward poverty reduction, the Bank urged the government to engage in comprehensive improvement of institutional settings and investment climate. The Bank was reckoned more effective in addressing structural issues at the national level than in local

transfers. The Bank lacks follow-up in securing the sustainability of its own investment of funds and knowledge; this has been identified as a topical flaw of its operations. A minimum of 3-year monitoring upon program completion was found necessary to secure program sustainability.

13. There is more to Bank's role than the volume of lending which is being expected to shrink. The Bank's services have been sought primarily to address issues of standards and policy setting. The political influence of the Bank was relied on for shaping a reformist mindset among the political elites and for paving the path to reforms. Lending per se proved instrumental in terms of securing comprehensive and inexpensive knowledge services because a full knowledge program is included in the Bank's activities so long as the country continues to borrow. Bank knowledge services played the decisive role for the government build capacity to further reforms and use alternative sources of funding. Knowledge sharing best epitomizes the uniqueness of the Bank's role as financial and knowledge institution. Knowledge sharing complemented with lending allowed the Bank to become a strategic ally of the country. It has been unanimously stated that in a new and changing environment abandoning the Bank in its capacity of strategic ally would be historically wrong. In this respect alternatives of free stand knowledge sharing have been considered in order to avoid the risk of either depleting or falling short of the knowledge services that declining Bank lending could entail.

14. For the time being, except of experts and officials who had been working with IFC and MIGA, these two Bank's arms stay virtually unknown. The reshaping of the Bank's position in the country would need finding a balance between IBRD, IFC and MIGA operations.

15. Bank supported global programs are sporadically known. The same proved valid for programs the country has actually been involved in. General disinterestedness in global issues has been attributed to overwhelming domestic hardships and the priority of EU accession. It may also be true, that the Bank has not been effective enough in promoting its global commitments in cooperation with the UN.

1. THE RELEVANCE OF THE BANK SITUATION

1. This chapter presents a summary view on Bank country program's relevance for bringing about radical reforms in the economy and social sectors and achieving sustainable institutional arrangement. It attempts to address questions about the correspondence between the Bank's country program and the country's priority development goals and the challenges the Bank is experiencing in view of availability of other sources of support to the country.

Desk-Based Evidence Review

2. In partnership with other country partners (EU, UNDP, EBRD, EIB, IMF, bilateral donors), in 2002 the Bank launched a Country Assistance Strategy (CAS). The CAS aimed at economic recovery and growth that would lead the country to a full-fledged membership in the EU. The strategy was founded on the pillars of 1) Attacking poverty; 2) Building human capital; 3) Creating investment climate encouraging growth.¹

3. From its perspective in 2001 the government outlined a four year political program for development which paralleled in almost identical terms the CAS (2002) strategic goals and main themes. In the Bank's view the 2001 Government Program provides a satisfactory framework to deal with the country's most pressing social problems of poverty and high unemployment.² In view of strategy formulating documents the Bank tailored its country program to address the country's immediate challenges - sustainable growth and meeting the EU accession standards. Desk review shows direct correspondence between goals and strategy as per CAS Program Matrix and the concrete goals outlined in the Action Plan of the government aimed at fulfillment of the recommendations of the European Commission (outlined in its Monitoring Report of May 16, 2006. For example, the Action Plan envisions specific measures aimed at effective countering of corruption in the legislative, executive and judiciary. This fully corresponds to elaborated development objectives, strategies expected and benchmarks referring to Public Administration Reforms.³

Field Evidence

Correspondence between the Bank's Country Strategy and the Country's Challenges

4. The overall role of the Bank was assessed as relevant. Assessment of specific details is however more complicated because of the multi-faceted structure of operations and institutional arrangements of the Bank. Different viewpoints link relevance to expediency to incur immediate and topical needs, to sharing useful knowledge and practices, or to implementing effective policies on national level. The Bank's adjustment loans based on conditionality and the IMF matrix have been acknowledged as a major driving force which

¹ *Country Assistance Strategy*, WB, 2002, p. 3

² *Country Assistance Strategy*, WB, 2002, p. 11

³ Measures for Fulfillment of the Basic Recommendations of the European Commission as identified in its Full Monitoring Report of May 16, 2006, p. 1, 2 *Country Assistance Strategy*, WB, 2002, Annex B9, p. 7

actually changed the state. Both institutions helped Bulgarian politicians to clearly shape their will to radically reform society.

5. A former senior government official: Bulgarian politicians' wish was for change but there was nobody but WB and IMF to clearly shape it.

6. The Bank's role has been assessed relevant as it was tailored to match the strategic challenges of the country. Another senior government official: ...projects had not been imposed on the country; the other way round, to a great extent they had been exacted by the Bulgarian party...As a matter of fact the matrices of individual loans, their goals, and terms helped several governments set up the sequence of reforms....

7. Tailoring its country strategy to country's challenges was paralleled by sound analyses, very substantive reports and that all has been reflected in the adjustment loan programs, PAL programs in particular. However, achieving relevance is a two-way process. It is not realistic to expect the Bank to develop models and approaches unique for Bulgaria. It is rather the adapting of these models to local conditions that makes the difference. Tailoring the Bank's programs depended on the flexibility and expertise of both parties. A former senior government official: The Bank's programs and projects for the country have always been linked to Bank's general vision of world economic development but, in parallel, they implied clear defined national goals...Thus, the Bank brought to the country synergy of its global approaches and their being tailored to local specifics.

Changing Format of Bank-Client Relationships

8. The Bank has always attempted to comply with client's requirements. However, the format of Bank relationships with the country has evolved parallel to country development, specifically pending EU membership and access to alternative sources of financial support. This happened in 2003-2004, i.e. when the previous country strategy was mid-accomplished and the country stepped into PAL 3 Program. The Bank became more responsive to the perceptions of needs of the government. The Bank's country team succeeded in overcoming the difficult moment when the dialogue with the Government was not making progress for about 30 months.⁴ Focusing on partnership the Bank succeeded to remain relevant to the needs of the country; on behalf of the government clear political will was demonstrated to combine EU accession and cooperation with the bank. The Bank integrated compliance with EU acqui as a relevant benchmark of accomplishing its own assistance strategy.

⁴ The dialogue broke down after the 2001 general election when the center-left government took control. This new government sought a more independent relationship with the IMF which resulted in a reconsideration of Bank conditionality related to lending operations. Counterparts suggested that the Washington consensus binds perceptions of the IMF and Bank into a single package. Disagreement with the IMF's budget restrictions can generate critical mindsets regarding the Bank. At the same time, counterparts conveyed that the Bank was not flexible enough in its approach to the partnership either. It did not demonstrate to the new government its superiority in knowledge services (as separate from lending), even though in previous times this business line did move the dialogue forward.

Bank's Role as Intermediary and Instrument of Political Pressure

9. Those frustrated by the lack of access to government policy and decision making were firmly decided to assert the relevance of the Bank's role in its capacity of a powerful international institution of with considerable political impact. Dissatisfied with the pace of reforms through the 15-year transition period they were doubtful whether the political will of local elites would be sufficient to follow the reform path. The dominant perception of this group has been that the only way to further reforms is through outside political pressure.

10. A civil society representative: Macro recommendations, specifically, that the Bank makes by its regular reports have strong impact on the local economic policy, they are heard and taken into account;...on the whole they are relevant, point to the right direction.... Therefore, relevance of the Bank's role has been reiterated with regard of guaranteeing reform irreversibility. This opinion is shared by practically all interviewees. The history of reforms since 1997 confirms it.

11. A former senior government official; As a matter of fact the matrices of individual loans, their goals, terms helped several governments set up the sequence of reforms, ... if matching the today macro indicators with those of 1998 the inference could be just one – the goals have been accomplished, regarding scale of poverty, employment generation and more efficiently targeting the resources for social assistance. Bulgaria's new social model is much more adequate to a young market economy that the old one we took over from.

12. In other words, macro recommendations prove relevant in all spheres where reform pace is stable: 1) improving business climate and attainment of stable private sector led growth; 2) improving governance; 3) reducing poverty and promoting social capital. This is especially valid regarding the establishment of a new social protection and social assistance system.

Targeting poverty emphasizes Bank's Role Relevance

13. Fighting poverty has been found a truly relevant strategic goal associate with the role of Bank. Regardless of the changing situation examples of both shallow and deep poverty of large communities could be found in Bulgaria. Based both on EU and Bank methodology, a large part of the population has been assessed as living below or close to the poverty line. The Bank focused on poverty pockets that threatened large and compound communities with widespread social exclusion. Moreover, the anti-poverty strategy of the Bank is based on holistic approaches where anti-poverty effects are generated by the comprehensive improvement of the institutional arrangements and the investment climate. The Bank's antipoverty mission encouraged the government to engage more actively in public-private partnerships and national and local poverty targeting programs.

14. A senior government official: Poverty reduction goal has been always cutting across the structure reforms. The poverty reduction goal is always relevant. And the approach has proved relevant in different regions of the world. The anti-poverty strategy of the Bank could

only strengthen its role in the country as it is intrinsically related to local capacity building and achieving sustainable growth.

Bank's Relevance as Lending Institution Is Declining

15. In the short-term EU membership will provide alternative sources of financial support. The main channels of EU funds have been elaborated in the membership agreement. Lending per se will be negatively affected by availability of other sources of finance support. It is even expected that EU membership, i.e. membership in the “club of the richest countries in the world” will contradict relationships with the Bank, as it is perceived as development institution; this would eventually mean that the Bank will prepare for leaving the country. Another fact in this respect is that since December 2005 the country has been removed from the OECD development assistance list.

16. The decline of lending has led to the conclusion that it is relevant for the Bank to withdraw from sectors where EU financing will be available. In this respect some political concerns have appeared:

A civil society representative: But the Bank should abandon its leading role, it should be now on considered as one of the donor organizations available,...and be addressed only in cases when that proves to be cost efficient, i.e., when its money is cheaper than any other and...non the least its conditionality should reflect our commitments to the EU.....whatever else motivated by global reasons, global market's requirements is merely irrelevant ...

17. Despite that, even accounting for EU funds, Bank lending for specific sectors would be much cheaper than other alternatives. However, the most valuable advantage of the Bank is its multi-faceted nature of lending institution of last resort and valuable knowledge provider with considerable political impact. Finding a new balance between lending and non-lending instruments would rather strengthen the Bank's position in the country.

2. THE OVERALL EFFECTIVENESS OF THE BANK'S WORK

18. This chapter sheds light on the effects the Bank's country program had on its overall progress toward growth, improvement of living standards and EU accession. The effectiveness of the Bank's program is measured with the level of achievement of the strategic development goals of the country over the reported period. The level of fulfillment of these objectives has been evaluated based on:

- 1) 2002 CAS benchmarks, WB policy notes and 2002 CAS Completion Report;
- 2) 2001-2005 Government Program's benchmarks;
- 3) Performance indicators the EU Commission reckoned relevant for EU accession;
- 4) opinion-leaders' views on strategic development issues.

The analysis of desk research and field findings attempts to present overall perspectives, key strengths and key weaknesses that might have affected the Bank's role and effectiveness.

Desk Work Evidence

19. The medium-term strategy the WB set for the country throughout 2000-2005 was based on steadfast and consistently maintained agenda of structural reforms and strong investment project pipeline. Apart from specific projects which were capitalized through Bank investment loans, the main tools to assist the restructuring of the economy and the setting up administrative arrangements to support private sector's leading role was a series of three programmatic adjustment loans (PAL) totaling up to US\$450 m. The Bank CAS 2002 Completion Report assesses the effects achieved under Attacking Poverty and Improving Investment Climate Pillars as satisfactory. The progress under Human Capital Building Pillar is assessed as moderately satisfactory.

20. An internal IEG review of the Bank's program in Bulgaria found it to be satisfactory overall. The Bank made substantial achievements in the two overall objectives of Poverty reduction and improved living standards and EU accession. Further, it made substantial achievements in the intermediate objectives of Promoting Competitive Private Sector-Led Growth and Strengthening Public Administration and Anti-Corruption Measures, while making only modest achievement towards the intermediate objective of Investing in Human Capital and Strengthening Social Protection. This last finding was due do little or no progress in improving the education system and restructuring the Health Ministry.

Attacking Poverty, Increasing Employment Opportunities and Improving Social Assistance

21. In Bank's view progress in achieving the above goals has been substantial. The average annual growth rate over 2000-2005 has been estimated at 5.1 percent, unemployment declined steadily from 19.8 % in 2001 to 10.6 percent in 2005⁵, and subsequently, poverty fell from 36% in 1997 to 13.4% in 2003⁶. In 2005 FDI almost doubled against 2001 reaching EUR 1 789 m.⁷ GDP per capita in purchasing power standards increased to 30.4% of the EU-25 average in 2004.⁸ Boosted by strong domestic demand and high investment, real GDP grew at 5.6% in 2004 which was its highest rate since the start of transition.⁹ By 2005 the country registered a 72% GVA of GDP generated by the private sector which was indicative for a prevalently private sector-led economic growth.

22. Pockets of poverty evolved among certain groups, particularly unemployed, ethnic minorities (mainly Roma), and large households. Despite consistently carried out poverty surveys through the reported period and WB financial and technical support, official poverty line has not been set and a national policy for its reduction has not been adopted. The Social Protection and Social Inclusion Reforms' thrust was directed toward rationalizing and improving the effectiveness of the social assistance targeting strategy. Establishing a Social Assistance Agency strengthened the institutional and administrative capacity within the social assistance system. The Compulsory Social Security Code that provided the main reform's regulatory arrangements was adopted in 1999. A by-law body comprising Pension Ordinance and Labor Categorization Ordinance was thereafter put into effect. The National Social Security Institute (NSSI) evolved as a basic social security institution being committed to social security reform.

Creating Investment Climate Encouraging Productivity Increase, Employment Generation and Balanced Growth

23. Substantial progress has been reported in strengthening public administration and anticorruption policies. In 2002 a joint Action Plan of Bulgaria and EU to strengthen Bulgaria's administrative and judicial capacity was elaborated. In compliance with the CAS (2002) strategic goals and the country's commitment to the EU acquis a Revenue Administration was put in place as of 2005. Amendments to the Civil Servant Act were implemented aiming at securing high recruitment quality and succession of servants. The underlying principles of the administrative reform were refined in the Strategy for Modernizing Public Administration approved by the Government in 2002.¹⁰ Amendments to the Constitution that target raising transparency and accountability of Judiciary were adopted. A new Penal Procedure Code was adopted as well. Arrangements for sufficient financing of Judiciary were implemented. The Administrative Procedure Code draft was elaborated.

⁵ *Bulgaria 2005 Comprehensive Monitoring Report*, European Commission, 2005, p. 18

⁶ *Poverty Mapping in Bulgaria* Project, 2005, p.77-80

⁷ Source: Bulgarian National Bank

⁸ Source: National Institute of Statistics

⁹ *Bulgaria 2005 Comprehensive Monitoring Report*, European Commission, 2005, p. 18

¹⁰ *Corruption Assessment Report*, Coalition 2000, 2003, p. 18

Privatization and restructuring have been completed in many sectors. The Commercial Code insolvency provisions have already been amended to facilitate bankruptcy. The regulatory regime has been rationalized through the Licensing Optimization Program.

Human Capital Building

24. The authorities have not soundly tackled issues of structural character that the Bank considered topical for making steady progress in education and health. The WB Policy Notes on Education and Health dwell on some frustrating developments that forebode further system failures. It has been found out that in the end of 2005:

- 1) Bulgarian secondary school students are not adequately equipped with the competencies and skills for the knowledge society;
- 2) Participation of 16-18 year olds in higher education is still lower than EU-15 and the New Member State (NMS). This is something unique for Bulgaria;
- 3) In view of dramatic projected fall of years in school, the need to optimize the use of resources is particularly strong;¹¹
- 4) Eight years after the regulatory framework was established health outcomes are beginning to show a reversion in the negative trend observed during the 90s. It becomes apparent that the original plan itself needs additional fine-tuning.¹²

Field Evidence

Overall Effectiveness of Bank Program Assessed Satisfactory

25. On the whole, effectiveness of the Bank's programs, i.e. the extent of goal accomplishment, has been assessed as satisfactory. Such an assessment, according to respondents, would be valid if the role of the Bank is properly separated from the responsibilities of the government. It is crucial to differentiate between effectiveness of the strategy Government, considers relevant to cope with strategic challenges on the one hand, and Bank's effectiveness as a reforms promoter and guarantor of their irreversibility on the other. The government is held responsible for the effects. The effectiveness of the Bank evaluated based on whether it has been able to help the government to properly identify challenges, define the matrix of economic restructuring and implement methods of measuring progress towards establishing a free-market economy. To sum up the effectiveness of the Bank is assessed as satisfactory due to its role of being the driving force of sustainable restructuring of the country.

26. The Bank helped the Government elaborate a relevant Goal Matrix which includes a set of objective benchmarks. The Bank provided lending and non-lending instruments to secure the prompt kick off reforms. Sound analytical work and knowledge sharing preceded overall restructuring of the economy and the reform of institutional arrangements. The

¹¹ Bulgaria – Education and Skills for the Knowledge Economy. A Policy Note, WB, Executive summary

¹² *Improving Health Care in Bulgaria: Options for Reforms*. Policy Note, WB, 2005, p. 1

program of the Bank was designed to address the needs of the country. The Bank and government were on a par during the negotiations about the program. The Program has been backed by explicitly declared political will. That is why it has uniformly been assessed as successful. The positive effect of the Bank program refers to the entire scope and pace of country progress. It is not by chance that the Bank's involvement in the country has been perceived as condition sine qua non for the overall success of reforms.

27. Respondents (the clients) have proposed a dual approach in evaluating the effectiveness of the Bank's program. On the one hand, the effect could be measured through tangible quantitative indicators such as jobs created, children deinstitutionalized, social infrastructure facilities rehabilitated, etc. In this respect, especially when effectiveness is being measured on the national level, the effect could not be expected to be highly satisfactory. The Bank has not been expected to radically sort out all transition problems and put the country on the path of high income prosperity. Merely, that has not been the purpose of any Bank programs and projects. On the other hand, the effectiveness of the Bank should be assessed based on characteristics of its program as comprehensiveness, steadfastness and sustainability of standards and institutional arrangements, and capacity its country program and operations aimed to institute.

Structural vs Local Investment Approach

28. The overall satisfactory assessment of Bank program's performance over the reported period provides some critical insights that could help analyze the Bank's strengths and weaknesses. The Bank's effectiveness as a policy making and instituting body has not been questioned at all unlike its effectiveness as provider of loans for targeted local problems. Through adjustment loans and analytical work the Bank excelled primarily in setting standards and institutional arrangement for macro and sector policy reforms. That is why supporting structural reforms aimed at setting standards and institutional framework for restructuring social sector and administration, completing privatization and restructuring energy, mining, and finance intermediation proved topical to both reducing poverty and improving the investment climate. The Bank's program has been unequivocally acknowledged as producing sustainable and positive impact on the country's engagement in reforms.

29. Matching today macro indicators with those of 1998 confirms the positive effect of the Bank's role. Reducing poverty to a certain extent on the grounds of depleting unemployment and upholding steady and balanced economic growth has been recognized as an unquestionable achievement throughout the period. Speaking numbers, one could assume that the goal of reducing poverty, increasing employment opportunities and improving social assistance has been achieved. But the positive achievements in this respect are due to the impact the Bank program had on restructuring the institutional and legal framework of the economy and the social sector, rather than to individual investment loans/projects designated to tackle specific problems (local poverty pockets, generating short term employment for vulnerable communities, environment protection of specific sites and so on). Providing adjustment loans under clear conditionality the Bank was successful in stimulating private sector-led economic growth.

30. According to NGO economists, the Bank has relevantly switched the focus of its commitment from closer-to-social subsidizing programs to business stimulating-and-investment attracting programs. That shift, both theoretical and practical, of the approach of the Bank was explained with theoretical break-through that must have occurred in the Bank Headquarters. Thus, it allowed the Bank to effectively support public sector reforms.

A civil society representative: ...it is true the Bank was successful in moving the focus of its efforts from closer-to-social subsidizing programs to business stimulating-and-investment drawing programs. Obviously a theoretical break through came about with the colleagues working in Washington, obviously they started understanding better economics.

31. True, the Bank as well supported instituting and building capacity with the NSSI and National Revenue Office (NRO) with ear-marked investment loans. However, the effect of these projects has also contributed to further progress in the social security system, the pension reform in particular, and the fiscal policy. Moreover, they helped the country achieve its specific commitments to the EU acquis. In the social sector the Pension Reform is considered the most relevant example of effective program performance. The Pension Reform is a model of social security structuring that could be beneficial to other countries in the region. A relevant example of institutional impact of a specific project is the Child Welfare Project:

A former senior government official: ...the Child Welfare Project contributed enormously in terms of human resources development going beyond its initially planned goals. It evolved in a sort of focus of the entire legal reform of the child protection system...extremely successful in terms of institutional framework, generation of new practices and sustainable development of those practices.

32. The above examples show that the program of the bank has helped reforming the social model of the country to better match the environment of an emerging market economy. Individual projects themselves have not had a notable impact on living standards but they have contributed to the capacity building of the administration, to reducing the number of reform opponents and increasing the number of Government partners. A development partner: The Bank together with the IMF and the IFC, and European bank and private banks worked consistently in terms of big issues, the broad policies, financial, budgetary policy, broad legal framework of investment.... that is a positive impact. But if you have to translate on local level it [impact] is being very uneven.

33. The effect should be sought mostly in building capacity, setting up relevant institutional and legal framework for radical reforms to be pursued. The Bank had been sought in its capacity of a tough but fair teacher who set the rules (former senior government official). Thus, effectiveness can be more tangibly felt on framework issues than on project level. ASAL 1, ASAL 2, EPSAL, FESAL, PAL programs exemplify the scope and strength of this impact. The Bank's effectiveness as a loan source for projects addressing local problems and operated by line ministries has been assessed as contradictory. Regardless of

some successful social projects (RIF Project, SIEP Project so far, Child Welfare Project), lending for solving individual sector problems has not been unanimously assessed effective. From the larger perspective of the Finance Ministry, the effect of social projects has been considered partial. A senior government official: it is often when money is being given not for problem solving but for saving the status quo. Strange enough but it happens so that poor defend their poverty status.... Presumably, this statement is indirect evidence of the reluctance of the government to engage with investment loans. Without being directly channeled into investment for the economy, the investment loans for the social sectors just add to the social subsidies the poor receive, and so the poor do improve their livelihood but without building capacity to overcome their underclass status and integrate into the growing economy.

Limited Effects of Investment Projects

34. Doubts about the effectiveness of specific investment are often based on the mismatch between the success of projects at the local level and still persisting problems on the national level. Anti-poverty projects were not sufficient for tangible poverty reduction. However, their limited effect clearly showed that the radical solution of the poverty problem depends on sustainable economic growth and competitiveness. Poverty targeting prompted the Government to transfer its competitiveness programs to the local level and to identify niches of local competitiveness potential. Poverty reduction policy had to relate to: 1) creating conditions for poverty alleviation and better economic environment in regional centers; 2) providing more direct social assistance. Thus, the Bank, has effectively played a predominantly policy support role, but has not been able to directly and unilaterally engage poverty reduction.

35. There is a certain criticism that the Bank's program has not resulted in a rapid and sustainable reduction of poverty. However, the extent of effective poverty reduction is quite different issue and rather depends on the performance of the government than on the effectiveness of the Bank. Poverty is a multi-faceted phenomenon of factual and subjective nature. It would be unrealistic to expect a program of the Bank to change the self perceptions of the poor.¹³ A former senior government official: If anybody expected the Bank to sort out the poverty problem, he would have been thoroughly wrong. For example, the 1997-2001 RIF project created 5 436 jobs, of which 3 167 were for long-term and low-skilled unemployed. In terms of man-hours created, employment generated exceeded substantially initially established targets - 607 304 against 200 000 man-hours planned). Despite that, compared to a rate of unemployment of 19.8% (2001), this job generation capacity appeared insignificant at the national level. If the Ministry of Labor and Social Policy had set a target at 100,000 jobs (which might have made a difference on national the national level), the necessary funding would have reached BGN 680 m (USD 340m).¹⁴

36. Effectiveness of the Bank's education and health loans/projects was assessed as not satisfactory. The main causes of their failure (especially the Education Project) are:
1) Inconsistent targeting strategies;

¹³ The matter of poverty measuring methodology is not of direct interest in the present report.

¹⁴ *Final Internal Project Assessment Report*, RIF Project, 2002, p. 5, 13

- 2) Lack of administrative and professional capacity;
- 3) Lack of dynamic adjustment of targets/decisions.

37. Project failures are not only due to bad coordination between parties and alleged arbitrariness in the approach of the Bank. Lack of political will to pursue the reforms has also been an important factor. Evaluating the causes of failure is two-way path. On the one hand, the opinion exists that the Bank's experts who worked on the Health and Education reforms have not taken into account the specifics of the national environment (according to a civil society representative); also that experts have not accommodated global experience to the local approach (according to a development partner). On the other hand, the failure of both projects could be explained with the existence of resilience to reforms and a clear backlash tendency (according to a civil society representative). The lack of political will for reforms has been identified as a major cause of failure. Such a situation still exists and it threatens progress in other sectors too. In this respect it should be noted that experts could not be held accountable for strategy formulation and implementation failures.¹⁵ The principles of health and education reforms elaborated by the Bank are considered relevant and present a good starting point. The Bank has also been successful in supporting the formulation of relevant policy decisions that have helped start the reforms in health and education. If these principles had been steadily administered the present standstill in the education and health sectors would have been avoided.^{16, 17}

38. One of the problematic issues in the program is however the understating of the importance of vocational training. Setting vocational training system as a national priority rather than focusing on education in general would have been more effective.

A former senior government official: Had the Bank had horizon large enough for future operations in Bulgaria it would have given first priority to the setup of a new National Vocational Training System.

39. Not all investment projects could be considered ineffective. The RIF Project did not bring in a tangible reduction of unemployment at the national level. However, the local level transfers of the project have been assessed as highly effective in terms of rehabilitating local infrastructure. At the local level investment created substantial fixed tangible assets:

- 8 1 956 sq.m. of rehabilitated schools, kindergartens, health and social premises
- 7 246 sq.m of town markets with accompanying hygienic facilities, administration offices, stalls, etc.
- 75 075 m of water supply piping in 21 villages complete with pumps and water treatment facilities
- 19 841 m of sewerage systems and 4 189 sq.m of sanitary landfills
- 23 027 m of new and rehabilitated roads
- 2 new bridges constructed and another two extensively rehabilitated

¹⁵ While some interviews asserted that the government is responsible for project implementation, others (as discussed in paragraphs 45-46) indicated that this responsibility lies with the Bank, and that it is indeed responsible for following through to ensure that projects meet their objectives in implementation. They add that the Bank's failure to follow through in some instances has resulted in poor project outcomes.

¹⁶ Project failures in health and education occurred during the breakdown in dialogue between the Bank and new government, and the present standstill can be traced to this time.

¹⁷ See: *Bulgaria – Education and Skills for the Knowledge Economy*. A Policy Note, WB, 2005; *Improving Health Care in Bulgaria: Options for Reforms*. Policy Note, WB, 2005

- 3 000 m of rehabilitated irrigation canals
- 1 389 m supporting walls in erosion-prone areas
- 3 608 m of telephone networks in two villages

40. The RIF helped local authorities rehabilitate infrastructure which otherwise would have stayed unheeded by larger investors, budget inclusive. This infrastructure was reckoned a prerequisite for future local economic and employment growth.¹⁸ Therefore effectiveness of local transfers under the form of investment loans should be gauged against a consistent target strategy that implies taking primarily into account local direct beneficiaries' needs.

Bank Performance Flaws

Primary vs Secondary Labor Market Approach

41. The Trade Union representative raised a relevant point. After 1998 the reduction of unemployment had not been followed by a corresponding rise of employment (see Annex – Basic Data, Goal 2 Effectiveness, p. 8.). The employment generation approach of the Bank failed because it has been targeting primarily the secondary labor market—subsidizing employment through active labor market measures under a variety of social projects (e.g. RIF, SIEP, From Social Assistance toward Employment, etc.)—rather than growing employment without direct interventions into labor markets. All IBRD financed projects, which as a rule were carried out by the government institutions were designed to reduce unemployment through active labor market measures. In the best case such an approach leads to generating short term employment with contractors being mainly construction companies and NGOs. The RIF, SIEP, Child Welfare Reform Projects are a relevant example in this respect. These projects were followed by a package of government active labor market programs which have widened the gap between unemployment rate and employment rate. The way the Bank strategy for the country related to employment generation in private sector has remained unclear. This an issue related to the structure of Bank's portfolio and operation, and to the balance between the activities of IBRD and IFC. The private sector which generates more than 72% of GVA has practically been neglected by the programs of the Bank in the country. According to some experts, the Bank has already started redirecting its anti-poverty and employment generation strategy toward stronger support to businesses and raising investment and administrative effectiveness.

Effectiveness proves conditional on relevancy

42. In cases when programs and projects of the Bank have been linked to relevant domestic needs and consulted with all stakeholders (especially outside the Government) their effect was evaluated as clearly satisfactory. The Trade Unions pointed to the need of effective and not perfunctory consultations that have to precede any project elaboration. Project failures are associated with the lack of consultations with NGOs prior to reaching formal agreements. In some cases stakeholders were just briefed on the results of negotiations that had just been completed. While poverty reducing strategy has been

¹⁸ *Final Internal Project Assessment Report, RIF Project, 2002, p.7*

unanimously accepted as still relevant regardless of pending EU accession, the means of its implementation could still be considered subject of discussion and critical recommendations.

The Bank lacks follow-through

43. The Bank is not persistent in its support of transformations it has recommended and initiated through its lending and non-lending instruments. After launching a reform duly supported by individual projects and programs, the Bank acts as if it has lost interest in pursuing it till a sort of B/E point is reached. Presumably, from Bank's perspective individual projects' success had been wrongly assumed as a success of the whole reform. Even the otherwise successful pension reform could be associated with recently observed back-lash trends:

A former government official: Pension reform is a relevant example in this respect. Upon adopting the legal framework and building National Insurance Institute's capacity the Bank in fact got disinterested in the reform process. In the last 4-5 years that resulted in eroding pension model and reversing to outdated pension system elements.

44. Sustainability of achieved effects and specifically the capacity built turns out to be the main concern for stakeholders that have been involved in the implementation of the Bank's program. Bank involvement through projects was likened to drop-irrigation system in the desert. Life (effect) persists until water (funds and expertise) is dropping. It has been unanimously confirmed that the withdrawal of Bank monitoring and operational control may instigate "adjustments" irrelevant to the original reform strategy. Thereby, society's commitment to a given reform and Bank's effectiveness might be jeopardized. To prevent this would mean active involvement of the Bank in political and economic matters rather than merely providing technical expertise. Bulgarian policymakers seem to lack initiative and vision about how to sustain effects using the capacity already generated. Instituting a 3-year post program completion monitoring has been found worthwhile and should be considered.¹⁹

45. The design of small projects has not taken into account the specific risk associated with change of governments (when a project is initiated by one government and completed by the next government). Investment loans operated by individual line-ministries could easily be modified by a new government and new ministers due to change in priorities and this could often lead to drawbacks in project implementation. The "Water Loan" which has been repeatedly relocated to different sectors is a relevant example in this respect. The other way round, the RIF Project which was implemented during the term of a single government fully complied with Loan Agreement provisions. Shorter project duration has been proposed in order to account for this risk.²⁰

¹⁹ Interview with I. Neikov, Ex-Labor Minister (1996-2001)

²⁰ Interview with Al. Bozkov, Ex-Industry Minister (1997-1999)

3. THE IMPORTANCE AND IMPACT OF BANK LENDING

46. This chapter sums up and analyzes opinion leaders' view on the impact and importance of Bank lending in the new situation the country is living through. Answering questions about Bank lending perspectives in view of increasing competitiveness of lending environment has been sought.

Field Evidence

Importance of Bank Lending for Country Reforms

47. From a general perspective Bank lending has been perceived a unique opportunity for a country in transition to effectively meet transition challenges. In addition to direct transition tasks the country had to cope with the legacy of staggering quasi-reforms. That is why adjustment loans like FESAL, ASAL and, subsequently, PAL have both reinforced budget stability and helped governments institute adequate structural reforms in the economy, financial and social sectors. Investment lending channeled through specific projects with the line-ministries made the respective authorities relate their local tasks to the general country perspective. Throughout 1997-2000 by both volume and conditionality, lending helped the country stabilize its budget and set the legal and institutional foundations of further steadfast reforms. A former government official: *... the targets and goals the Bank put in its lending package had no analogue with the commercial banks ... one should acknowledge that for a long period the terms of the Bank's lending to Bulgaria had been of the most favorable ones long grace period, long maturity period.* Bank lending assistance combined with knowledge sharing has helped the country change and enter a new development process. The peak of Bank lending (in the form of adjustment loans - USD 450m over 2000-2005) points to a watershed between two stages of country's development. Says the former official: *... both Bulgaria and the Bank should consider the moment where the country is getting out from the primary school of capitalism passing to the next grade.*

Instrumental Role of Lending

48. There is more to the Bank's role than the volume of lending. In terms of standards and policy setting procedures, the Bank provides unique expertise. Institutions like the IMF and the World Bank are invaluable in this respect. The most cost-efficient way to access them was borrowing, since the relative cost of knowledge is too high for Bulgarian standard. A development partner: Bank's experience is very, very relevant and the way the Bank has structured that experience comes best through some lending arrangements. Combination of financing and TA and expertise proves to be the competitive advantage of the Bank. Opting for a full range of facilities to be provided under the new Country Partnership Strategy reiterates the position to preserve the role of the Bank in the country.

49. Experts and officials have always perceived the Bank as an institution which provides much more than banking/lending services. The very lending activity of the Bank in the country has had positive political implications despite the fact that lending volume has gradually declined. Bank lending has sent positive signals to credit rating institutions and thus indirectly contributed to the improvement of the country's credit rating. For example,

the PAL program has been successfully completed without enacting its safeguard clauses and this has enhanced the credit rating of the country. Lending allowed the Bank to effectively show its worldwide acknowledged political role of standard (economic, social, political, humanitarian) setting institution. The money it has provided might not be crucial - it could be available on private markets or through the EBRD; however, the level of supervision and input the Bank has brought in is unique. A development partner: *Money can not be as crucial because you can raise that money on the private markets, from EBRD, but the level of supervision and input the Bank brings is higher than in those institutions, especially in development.* People from business relied on Bank's intermediary role to improve communication with capital markets and transnational corporations (TNC).

New Opportunities Arose

50. The declining importance and impact of Bank lending per se has been raised as a controversial issue. In view of availability of other lending sources and prospective EU membership, the lending importance of the Bank is about to decline. Still more, due to the financial policy the country has followed since the Currency Board Arrangements (CBA), a budget surplus rather than deficit is has been maintained. From a budget viewpoint, the country did not need borrowing to finance its immediate programs. The funds that to be made available to the country as an EU member state surpass the amount of funds made available through the Bank. It is inevitable for the Bank to lose its advantage in providing funds under favorable terms. The Bank's specific condition to request state guarantees might also substantially impede its lending competitiveness. Transformation of Bank's role in Bulgaria is taking shape. The new situation generated new opportunities to the involvement of the Bank in the country.

Local Level Rather Than National Level Lending Approach

51. The Bank could continue to intensively assist the country's development through lending and non-lending instruments based on a radical change of its strategic approach. Concentrating expertise and funds in specific niches rather than in nationwide programs has been found by some counterparts to be a relevant approach in the present situation This recommendation comes with an eye to full-fledged EU membership after which Bulgaria will rely on EU funds to buttress broad-based reforms. The Bank could then act locally in specific niches not covered by the EU, even though the Bank has in the recent past been less successful at the local level. The Bank would in this way engage in some specific projects without taking part in setting the priorities of the country.

52. IBRD's sway is about to decline which does not necessarily imply decline of the WB Group's involvement in the country. However, restructuring of the approaches and the portfolio of the Bank is needed. As a national priority the antipoverty strategy has various repercussions. Deeper poverty (according to a development partner) that persists and erodes communal life at the local level can be a relevant target of a new approach of the Bank. The latter refers to any challenge that eventually would be left uncovered by EU funds and the national budget. Regional and municipal level is unfathomed territory of critical needs. Co-financing regional and rural development programs is emerging as a possible Bank financing

niche. Considered separately the local financial niches are apparently small. However, as a whole they total a huge resource to be requested. Moreover, regarding sheer lending terms the Bank continues to have a competitive edge over other lending sources. Its lending activity could be artificially cut just by non-market means, e.g. if a political decision is taken to trim Bank borrowing in view of specific country-image considerations.

Strengthening the Role of the Bank as a Political Safeguard of Reforms

53. Since reforms are still not completed and backlash tendencies repeatedly reoccur, the Bank's role as financial body with internationally acknowledged political impact has to be maintained and further expanded. Bank regulations and the capacity to institute them are perceived as a sort of "political board arrangement" which promotes further pro-free-market reforms. A civil society representative: The truth is that the Bank is not relied on for capital; primarily it is relied on for exerting political pressure. On the operational level the Bank's technical and institutional arrangements are largely renowned for their transparency and objectivity. Aligning local procedures and operations to the Bank's regulations is needed as an effective safeguard against administrative and legal inadequacy.

Higher Value Added and Risk Hedging Sought

54. Loans are of course not comparable to grants. But some arrangements of EU grants (possible delay, reimbursement provisions, co-financing requested, and eligibility assessment) add to indirect costs and generate risks. A higher value added and risk hedging may be sought in combining non-Bank funds (mainly EU structure funds) with Bank participation in 1) creating local administrative absorption capacity; 2) providing buffer funding to balance reimbursement risks, 3) providing large TA of reasonable price. Joint operations of the Bank and EU financing institutions might yield invaluable synergy: 1) of lending and non-lending instruments; 2) of specific banking portfolio including the entire variety of investment niches nationwide and locally.

4. THE COORDINATION OF SERVICES ACROSS THE BANK GROUP

55. This chapter sums up and analyzes views on coordination of services provided by the WB Group's arms in the country. Out of five arms the focus fell on the International Bank for Reconstruction and Development (IBRD), Multilateral Investment Guarantee Agency (MIGA) and International Finance Corporation (IFC). Information has been sought of the extent of coordination the three arms had achieved in their country operations in general and for private sector, infrastructure and trade development, in particular.

Poor Record of IFC and MIGA Activity in the Country

56. Apart from IBRD, the operation of IFC is little known in the country. With a tiny few exceptions MIGA is virtually unknown. The very fact the Bank comprises a group of independent bodies is little known to the public as well. Generally, officials and experts know the WB arms, but they can only evaluate IBRD operations. The way Bank's institutions are represented in the country is considered extremely important to their performance. Most probably low awareness of the IFC and MIGA are due to the way they have been represented in the country - for instance IFC's closest regional office is in Turkey, specifically those in charge of energy sector.

57. Business and NGO representatives can list individual projects that have become known to them through their operation, but without knowing which of the Bank's arms has been in charge. In their view the Bank's structure and operations are scarcely known to the public and business organizations. They were not able to differentiate between IBRD's and IFC's or MIGA's support to private business, infrastructure and trade development. Except those directly involved in specific projects, few companies and experts have a comprehensive idea of them. The IFC has been sporadically reported by experts working for the private sector and Government officials as provider of relevant expertise for a significant privatization project. In line with IBRD and IMF, IFC should have had its own role in setting free-market standards but this role could hardly compare with IBRD's role. According to a former senior government official: In the period when the country desperately needed private sector crediting, IFC had no representative at all.

58. Cooperation between IBRD and IFC has been evaluated as vague. The perception about it is that the Bank's arms do not know each other's operations. Lack of coordination and effective communication may be attributed to the fact that IFC works with private sector companies who rarely share information with each other. For IFC and MIGA good coordination between Bank's arms would lead to utilization of the huge capacity of IBRD to process comprehensive country information and link it to the loans extended. IFC and MIGA have not profited from IBRD's involvement in the country. A former senior government official: Jointly existing under one roof makes sense when IBRD's capacity to assess the environment in a country, support government, extend loans and thus getting comprehensive information about the country is being used by IFC. IFC did not use this information ... They did not notice Bulgaria had meanwhile become a safer place for investors. IFC's insufficient

physical presence has been an obstacle to timely contacts with Bulgarian companies which badly needed its support.

59. In contrast, the physical presence of IBRD has been important, allowing for direct contact, securing direct access to Bank standards of transparency and objectivity, accumulated knowledge and a world development perspective, and gaining momentum in engaging in global programs. This presence will continue to be important when EU accession is complete.

Changing Country Priorities calls for IFC and MIGA Coming to Fore

60. The restructuring of the operations of the WB Group appears a necessity in view of the leading role of the private sector in economic growth, the accession of the country to the EU and the availability of new alternative sources of financial support. Direct lending to the government will gradually be phased out leaving room for direct business financing (including infrastructure projects). The roles of MIGA and IFC are expected to expand in an active business environment. They will most probably gain greater importance by providing elaborated instruments to support business through lending and risk hedging.

61. Risk is a major concern for investors in transition countries and MIGA will assume a much more active stand. Hedging political risks makes capital price go down and this will most probably lead to improved investment efficiency. A former Minister emphasized that MIGA's participation in significant privatization projects contributed to comforting both investors and Bulgarian stakeholders. The investors felt safe with their investment protected; Bulgarian stakeholders felt protected knowing that the investors proposed by MIGA would be under control.

62. IFC and MIGA are expected to take over the leading role from IBRD. Using the extensive expertise of IBRD, they will most probably engage in direct support to private business through public-private partnerships and by boosting innovation and entrepreneurship. For countries entering new market positions and relying on private-sector-led-economic growth, the shift from state guaranteed financing to IFC financing (which is truly flexible and market oriented) seems to be the rational option. Such a change would better utilize the commercial nature of IFC and MIGA. The active involvement of IFC and MIGA would help improve the accurate identification of business environment needs and facilitate the setup of effective partnerships. With this respect it has been found quite opportune the now existing Bank's activity structure being consumed 99% by IBRD's activity be changed on the account of IFC's and MIGA's expansion. In the new context they are expected to match IBRD with 50-60% of the entire Bank's operation in the country.

5. THE USE AND SHARING OF KNOWLEDGE

63. Taking stock of officials' and experts' views this chapter sheds light on the impact knowledge services by the Bank had had on the country's progress, in general and local capacity building, in particular. Knowledge impact has been analyzed in terms of 1) effectiveness of knowledge dissemination; 2) effectiveness of knowledge sharing and coordination with local officials and experts; 3) relevance and scale of knowledge services. The inferences have been illustrated by examples of effective and deficient knowledge sharing.

Desk Evidence

64. In pursuing the CAS 2002 goals the Bank proposed as the main instrument the series of three Programmatic Adjustment Loans (PAL), and offered an analytical and advisory activities (AAA) program to provide knowledge support mainly linked to the PAL. In addition to four ongoing tasks then expected to be completed in FY02, the AAA program called for 12 studies or TA interventions, for a total estimated cost of about USD 1.6 m. The share of AAA direct costs for country services to Bulgaria increased from 17 percent in 2001 to 31 percent in 2003 before dropping back to 20 percent in 2004 for a total of 2.96 million.²¹

Field Evidence

High Relevance of Bank's Knowledge Services

65. 1) All the interviewees assessed the knowledge service the Bank has been providing as highly relevant. This aspect of the Bank's operation in the country generates minimum criticism. Knowledge sharing has been unequivocally perceived a service that best characterizes the uniqueness of Bank's role as financial and knowledge institution of a considerable influence at the global level. The information flows the Bank concentrates and the expertise it draws from many countries have allowed it to adequately identify and meet the transition needs of Bulgaria. Moreover, the Bank has contributed invaluable knowledge and professional expertise that helped the country build and institute its own capacity. Capacity built so far has been believed a relevant and tangible asset acquired to further reforms.

66. Knowledge sharing substantiated the Bank's role as a standard setting and administrative arrangements instituting body. The banking sector restructured and performed in an efficient way so that the Bank's and EU standards have been met. The same effectiveness of Bank knowledge should be followed up in the set up of relevant social models for the social protection and system. In this respect, special emphasis should be put on a more effectively targeted social assistance system and child welfare reform. The effectiveness and the relevance of the programs of the Bank should not be assessed separately from their knowledge component. Knowledge services under the form of diagnostics or advisory services preceded any financing. Moreover, co-mingled with

²¹ Country AAA Assessment, p.6

financing they have helped both beneficiaries and the lending party to objectively evaluate program progress on a continuous basis. Thus, the synergy of knowledge sharing and financing under strict conditionality have contributed to the unique role of the Bank in Bulgaria. Even largely acknowledged shortfalls of Bank programs such as elaborating cadastre and titling register, health and education confirm Bank knowledge effectiveness in an indirect way. Wherever the Bank's knowledge services are neglected—due to broader considerations or plain oversight—the results achieved have been far from satisfactory. Education and Health reforms are notorious with their failure. On the other hand, the principles and concepts the Bank set as foundations of reforms in these sectors are still relevant. Failures are not due to intrinsic flaws or inadequacy but rather to deviations from the basic principles.

67. In the early period of its operations in Bulgaria the Bank was recognized an exclusive partner of the government. This led to some obvious shortfalls in its operation effectiveness. Specifically, knowledge has been perceived esoteric and restricted to officials only and hence, without immediate practical value to the public. But after 1998 this situation has changed. The experts pointed to the change of the institutional settings of knowledge sharing: the Bank started working both NGO experts and social partners and the government. Presumably, cooperating and coordinating its approaches with local government and NGOs helped the Bank to improve the quality of its expertise. The joint elaboration of a permanent monitoring scheme based on the unanimously accepted Goal Matrix and Key Performance Indicators and carried out by joint teams, have been examples of good collaboration with government officials and other stakeholders. Effective collaboration with local experts of different theoretical background prevented the Bank from artificially imposing global approaches to the local environment.

Effective Dissemination of Bank Knowledge

68. Present and former representatives of the executive recognize Bank experts' flexibility. The flexibility of the Bank's teams was assessed as a sign of unbiased and open approach. The Analytical Directorates with the Finance Ministry feel on the same board with Bank experts regarding public sector reforms. Knowledge sharing proved to be a two-way process where both parties were providing expertise to each other. In the period 1992 - 1995 when the Bank's teams assumed a tough position which was unacceptable for the country. However, since 1997, the Bulgarian party, including social partners, has witnessed a sound partnership approach by Bank's representatives.

69. The Bank has been always perceived a reliable source of knowledge that directly supports specific transition issues in Bulgaria. The information and analytical work of the Bank have been largely credited as a reliable starting point for surveys, consulting services and local level diagnostics. Assuming this position has allowed the Bank to better present its mission in the country and gain allies for its strategy. In writing its own reports on education and health the Finance Ministry followed the path of Bank's teams had traced. Finance Ministry's reports are based on a close cooperation with Bank's experts. For example, following the Bank's path resulted in sharing Bank's recommendations and concerns about

reforming the health and the education sectors. The reports of the Bank and the Finance Ministry show a shared assessment of needs the state and the budget in these sectors.

70. According to a senior government official, the most recent reports of the Bank (Country Economic memorandum, 2005; Path toward Successful Integration to EU – Political Agendum, 2005) could be considered true joint work of the teams of the Finance Ministry and the Bank. The analyses and surveys listed below, utilize the knowledge products the Bank disseminated in the period 1998-2005 in order to analyze and propose solutions to topical transition issues.

Bank *Country Economic memorandum, 2005* issued by the Finance Ministry including an analysis of labor market flexibility.

Economy of Knowledge, 2005, issued by Industry Watch and Arc Fund, is based on the theoretical framework of the economy of knowledge of the Bank.

The “institution of knowledge” policy of the Bank laid the grounds for knowledge sharing and networking projects such as:

- Bulgarian Development Gateway Project implemented by Arc Fund
- e-Bulgaria Annual Report Project implemented by Arc Fund
- Global Distanced Learning Network (GDLN) Project implemented by the Center for the Study of Democracy. It proves an effective tool of directly promoting Bank expertise.
- Flexibility and Security in the Labor Market. Bulgaria’s experience Report, 2005 by ILO elaborates on labor market flexibility theme the Bank raised in its Country Economic memorandum, 2005.

Labor Markets and Poverty in Bulgaria, 1999; Why is Unemployment so High in Bulgaria, 2003: These are reports of the WB which have served as starting point for the analyses and surveys of labor market. Through the reported period the Institute for Social and Trade Union Studies carried out:

- Labor Market in the Country – Early Warning, 2002
- Working poor in Bulgaria and EU Countries, 2003
- Economic Development and its Social Dimension. Challenges for the Trade Unions, 2002
- Social Finance for Support to Self-Employment, 2004
- Poverty in Bulgaria – Trade Union Assessments and Positions in the Framework of Social Dialogue, 2002
- Productivity, Wages and Working Time, 2002
- Deregulation of Working Time in the Trade – Consequences and Challenges, 2005

The policy paper of the Bank - *Improving Health care in Bulgaria: Options for Reform*

- provided relevant insight for the study by the Institute for Social and Trade Union Studies on health care reforms (*Health Care Reforms and Privatization in Bulgaria, 2006*).

Bank research on poverty of the Roma population²² gave relevant background insights to further explore Roma living conditions and propose blueprints for their improvement:

- *Background Survey on Urbanization and Housing in Roma Neighborhoods, Bulgaria*, Phare Program, FRAMEWORK CONTRACT: AMS/451 LOT NO.8ACT: AMS/451 LOT NO.8, 2003
- Support to the formulation of a National Program for Improving the Living Conditions of Disadvantaged Ethnic Minorities on Urban Areas, UNDP, 2005

The above surveys contributed clear-cut insights and recommendations for improving Roma living conditions. They complemented the government program - *National Program for Improving Living Conditions of Roma in the Republic of Bulgaria*, which was adopted on March 22, 2006.

71. A civil society representative specifically acknowledged the Bank's contribution to the adoption of the Program for Financial Decentralization of the government. The Program has been based on the conclusions of the Public Expenditures Survey, financed and carried out in 2003 by the Bank. The municipalities obtained some effective powers leading to a greater autonomy. They were empowered to set their own local tariffs which resulted in supplementing local budgets by over BGN 60m.²³

Knowledge Dissemination's Flaws

Local Capacity Building Deficiencies

72. Providing knowledge services has not always been matched with adequate local capacity building. Bank missions often show unwillingness to openly disseminate their findings or to include local experts in analytical work. Officials who have been working for long with the Bank are inclined to perceive this situation as an understandable instinct for securing knowledge monopoly. However, warnings have been voiced that keeping knowledge un-disseminated or scarcely disseminated among government officials and outside experts could inhibit the continuity of the operations of the Bank. Thus, effectiveness and efficiency of Bank programs, projects and strategies administered in the country could decline. Yet, before taking the Bank-knowledge-monopoly position for granted, the strains the under which the Bank operates should be assessed realistically. The Bank is primarily an inter-government organization which is obliged to work with the government. The Bank should therefore not be blamed for not releasing information which government bodies are reluctant to disseminate.

²² *Sociological and Beneficiary Assessment of Potential Low-Income Housing Micro-Projects, 2001*

²³ Source: Association of the Municipalities in Bulgaria

73. In this respect ex-officials and NGO representatives find it highly relevant that a local capacity building module be instituted with each project and program of the Bank. This will necessarily entail expansion of knowledge services. The above situation has been reported to be rare. Some NGOs have not been thoroughly included in knowledge elaboration and subsequent dissemination. Criticism was raised by social partners. A civil society representative: Knowledge sharing does not merely mean preparation and dissemination of ready-made consulting services and expertise.

74. The unwillingness of Bank experts to cooperate with Bulgarian experts on equal footing from the very beginning of analytical work has brought in some concerns. In such cases our interviewees referred to Bulgarian exceptionalism, which does not allow for the implementation of ready-made abstract schemes. The abstract and biased theoretical approach combined with the unwillingness of Bank experts to adopt different analytic/evaluation positions could reduce the effectiveness of the Bank's analytical and advisory activities. If the local Bank teams working on Bank's Policy Notes (they envisaged Education and Health Policy Notes) had been selected more accurately taking into account different theoretical standpoints (neo-liberal, social, pro-European and so on) some misperceptions would have been avoided. The position of the Independent Trade Unions is to balance different concepts in order to more comprehensively take into account the national experience and the commitments to the EU. To their understanding, situations when outside experts of different standpoints (e.g. non-neo-liberal) have presented something already finalized, do not contribute to any effective knowledge sharing. These shortcomings in knowledge dissemination toward non-official stakeholders confirm the established perception of the Bank as a primarily Government partner. The positions of the predominant part of our interviewees practically reject this perception of the Bank; however, in public opinion, such a perception still seems to predominate.

75. This perception persists because Government policies have been unambiguously directed to market liberalization for the last 10-15 years, abating Government's commitments to social security and social assistance systems and ruling out as irrelevant a full-employment-labor policy. This per se liberal approach has been instituted with the Bank's and IMF's concurrence, and the Governments' strategy had not been and, currently, is not shared by a variety of non-government sectors and non-parliamentary politicians. When the Bank is exclusively perceived as a Government partner it restricts its own contacts with non-government bodies which could bring in alternative standpoints, and can thwart knowledge dissemination as well. It could also prevent the Bank from heading some major public initiatives, especially those directed to dealing with global challenges (pollution, carbon emission, AIDS, poverty etc.). Practically speaking, it could prevent the Bank from relating to future elites and bodies of political sway. Finally, this perception may prove detrimental in terms of private sector cooperation.

76. Yet, knowledge sharing implies capacity reciprocity as well. It is a two-way process. Institutions being poorly prepared in terms of needs identification, administrative capacity and development vision happen to send wrong signals to the Bank. In such cases the demand side could also (even unconsciously) impede knowledge sharing effectiveness. Problems

could emerge when technical failures coincide with the lack of political will to comply with the commitments made.

Knowledge Sharing Too Much Conditional on Lending

77. The role of the Bank has obviously evolved over the reported period. In the tumultuous time of 1996-1999, the government had no alternative to the Bank in its capacity of last resort. Bank funding, both by volume and conditionality, really contributed to budget stability and economic performance. Knowledge sharing has been viewed as a complementary part to lending. The changing role of the Bank in the country implies a change of focus towards sharing and expanding knowledge services. An inverse relationship exists between lending and knowledge services. The less a country needs the Bank in its lending capacity, the more important becomes Bank knowledge. Expanding the knowledge service should balance its depleting role as fund provider of last resort. The latter is especially true for Bulgaria in view of its financial stability after CBA and pending EU accession. Having worked with East European countries the Bank acquired a unique expertise bringing in world development patterns and knowledge of transition. NGO representatives, according to a former senior government official, in particular expected this knowledge to be autonomously used by the country in the form of free stand technical assistance and diagnostics.

78. In view of the declining lending activity in the country, the Bank was expected to change the priority of the services provided. It was expected to make knowledge sharing less conditional on lending. Project failures mentioned above were due to the lack of effective knowledge sharing and corresponding institutional enforcement mechanisms rather than to lending terms and volume. The strategic change has been perceived as transformation of the Bank Office into an information and knowledge disseminating center. It is not by accident that this issue has been raised by NGO and business sector representatives who feel a practical need of Bank's free stand knowledge in their everyday work. The Bank was expected to become more open to the public. Therefore, knowledge sharing depends both on the volume of information shared and the relevance of institutional arrangements. Knowledge sharing effectiveness is a two-way process too. It also depends on the capacity of the demand side. Beneficiaries could thoroughly explore expertise the Bank is providing worldwide and use it only if they are genuinely interested. Nationally this is closely related to government policies.

79. As a separate Bank service, knowledge sharing could often be neglected because when separated from lending, it could become too expensive for Bulgarians to afford. Knowledge sharing is expensive when it is provided by short term consultants in the form of freestanding outsourced analysis or TA. In this respect, the Bank Sofia Office with its unchallenged analytical and technical capacity, especially when actively involved in knowledge sharing, has been an effective means of cost reduction. The cost of knowledge sharing was explicitly pointed out as a serious possible impediment by two respondents. Many interviewees feel uncertain about the Bank's near-term future in the country. Nobody expects the Bank will shut down, but it is unanimously expected the Bank will trim the scope of operations in view of EU funds ascendancy. Provided knowledge sharing is organically bound to lending, knowledge sharing is expected too to shrink. The last Country Partnership

Strategy binds again knowledge services with lending under the form of PAL 4. Thus counterparts have said Bank expertise has been provided for free, but this would not be the case if knowledge sharing had been separated from lending. If separately calculated, would the price of Bank knowledge sharing be affordable to the country? This is the problem a development partner representative explicitly pointed to. In any case failure of communication by the Bank must have occurred.

80. A development partner: ...the way the Bank works... it does that in framework of some type of loan, rather than in freestanding analysis or TA, so, if there is a scope for increased transfer in certain areas provided that that can be done in a way that results in a sustainable capacity...otherwise ...it is too expensive. By binding diagnostics and advisory work with terms and conditions of lending and covering its cost as indirect lending cost, and increasing transfer of local capacity the Bank was in a capacity to maintain the efficiency of knowledge sharing. The only way to overcome the restrictions of the knowledge-lending-package was to increase the value added through transfer of local capacity. Relevant examples in this respect are provided by the Regional Initiatives Fund (RIF) [1997-2001] and Social Investment and Employment Promotion Projects (SIEP) [effective 2003]. The RIF Project operated at the local level and was the first to prompt local authorities to start setting up Local Project Development Teams (LPDT). The latter used RIF Project regulations in project cycle management and preparation of project documentation. Instituting that capacity building practice municipalities such as Dalgopol, Provadia, Nikolaevo, Kubrat, Lesichovo, Kaloianovo, Sungurlare, Satovcha, Borino, Vidin, Momchilgrad, Stambolovo, Medkovetz and many other were in a capacity to smoothly accommodate to other international development projects, SIEP project in particular, in the RIF's aftermath. Subsequently the capacity built has been effectively used in applying for funding by EU Pre-Accession Funds.

81. A former senior government official expected the Bank to restructure its knowledge service. Even when complementing single loan projects its cost is fairly high and knowledge sharing proves of lower cost efficiency. The radical way of restructuring knowledge sharing implies that it is addressed in a specific way. After 1999, it has been found relevant for the Bank to separate "general knowledge" (under the form of regional standardized concepts and practices, case studies, diagnostics, etc.) from "specific-project-requested-knowledge". It is not mandatory for "general knowledge" to be necessarily bound to lending. The Bank has accumulated a huge stock of knowledge under the form of professional expertise, standards, development patterns, risk management patterns and so on. Restructuring institutional and legal settings could lead to "economy of scale" in the area of knowledge sharing. Mechanisms in this respect could be: 1) implementing more cost efficient patterns of providing expert and technical assistance; 2) standardizing local and regional patterns of development; 3) setting up multilateral teams of operations.

Hedging Against Possible Risks

82. The Bank will sustain its competitive advantage in the form of a single package of lending combined with knowledge sharing. Furthermore, the client has opted for a new Country Partnership Strategy to be capitalized with USD 300m adjustment loan, which is based on the full range of facilities comprising both lending and non-lending instruments.

This will maintain lower costs of knowledge. Risks might emerge in the long term. Given that lending is expected to decline, the knowledge service could decline as well. This is a risk that the promoters of “more knowledge sharing on the account of lending” have strongly recommended to prevent. On the one hand, the country will be shifting towards EU financing which is cheaper and more important in volume. On the other hand, the need of resources for building capacity to more efficiently absorb EU funds will be expanding. Therefore, risks could be leveraged by a greater value added of Bank knowledge transferred locally. Keeping lending volume at constant or declining levels, value added could be incrementally generated only by instituting effective and efficient knowledge processing local structures. Therefore, the above risk of ineffective knowledge sharing is primarily linked with the demand side.

6. THE ENGAGEMENT OF BULGARIA IN GLOBAL PROGRAMS

83. The present chapter dwells on the country's involvement in global programs. Based on officials' and experts' opinion it seeks answering questions about relevance of global programs to the country's needs; Bank's effectiveness in helping the country get involved in global programs; Bank's role in helping the country identify global priorities.

Desk Work Evidence

84. The World Bank is currently supporting 70 global programs that treat an increasing number of development issues necessitating global cooperation. Desk evidence shows that the engagement of the country in global programs is limited. In 2005 through Prototype Carbon Fund (PCF) the Bank committed USD 3.64 m investment loan under the Wood Residue to Energy Project. It aims at reducing greenhouse gas emissions generated at Svilosa Company, by substituting coal with residual wood as a fuel for power, and heat generation, and, through savings of methane emissions from residual wood waste, stockpiled at the plant.²⁴ Apparently the largest country involvement in a global program is the Prevention and Control of HIV/AIDS Project capitalized with USD 15,711,885 by the Global Fund to Fight AIDS, Tuberculosis and Malaria.²⁵ The country got involved in USAID supported projects that contribute to mitigating the effect of global climate change and reducing Bulgaria's vulnerability to climate change, but we found no evidence the country is involved in any Bank supported climate change programs.

85. Energy Regulatory Development Project. Central to the power system reform effort is the creation of a regulatory environment that will attract rehabilitation and environment investments. The project supported the development of the modern energy law and is assisting the State Energy Regulatory Commission in the development of a competitive electricity market, economic tariffs for electricity, gas, and district heating, licensing and regulatory reporting and sector monitoring.

86. Biodiversity Conservation and Economic Growth Project. The Project addresses climate change and specifically contributes to participation in the United Nations Framework Convention on Climate Change. It represents Europe's first national biological diversity conservation strategy and country's commitment to the Convention of Biological Diversity from 1992, Rio de Janeiro. The Bulgarian Government's commitment was augmented with a pledge of \$6.25 million over the next five years as matching funds to other donor contributions. The World Bank has also made a pledge for a USD 2 million Global Environment Facility grant.

87. Municipal Energy Efficiency Program. This is the second major USAID environmental program addressing climate change in Bulgaria. As of February 2004, 24

²⁴ Source: World Bank

²⁵ Source: Ministry of Health of Bulgaria

municipalities and eight private companies in Bulgaria were receiving technical assistance (USD13 million in project costs and USD 9 million in debt financing) in developing proposals for energy efficiency projects under the Program.

Field Evidence

Sporadic Knowledge of Global Programs and MDG

88. Acquaintance with Bank supported global programs and country's engagement in them is rather sporadic. On the whole the Bank is not known as a powerful promoter of global programs. This conclusion refers to those interviewed and to the general public as well. The general impression shared is that the country had attempted to more effectively propagate global programs throughout 2003-2005. In general all the respondents were aware of some of the largest Bank supported global programs in the areas of Environment and Agriculture, Health, Nutrition and Population, Infrastructure and Private Sector Development, Social Development and Protection. Environment and energy issues have been quoted as a good example of cooperation between Bulgaria, UNDP and the WB. Programs were referred to only in general terms. Details about names, partners, and capitalization are generally unknown.

89. Out of 14 interviewees, four were able to elaborate on specific programs - Joint United Nations Program on HIV/AIDS, Global Environment facilities and Carbon Finance Programs, Roll Back Malaria, Stop TB Partnership and Understanding Children's Work. For instance, Bank's help for the country to get involved in the Children Labor issue along with ILO was specifically acknowledged by a civil society representative. Due to their professional position, representatives of the Bank in the Sofia Office elaborated on their role in assisting the activities of the Health Ministry under the grant by the Global Fund for Fighting AIDS, Tuberculosis and Malaria.

90. From a broader perspective, it could be admitted that the country has indirectly engaged in global issues through the country assistance strategy of the Bank, as the latter is also a means of achieving global development goals. Actually, there is no global issue that is not linked to the development of the country and EU accession. A civil society representative: Yes, the Bank helps the country identify global development goals although we are not in Africa...global goals are concomitant to our priority of EU membership, they differ just in value. In principle, the involvement of the country in global issues and programs is linked to its major priority - EU accession. Bulgaria's EU accession strategy actually addresses all global issue commitments. Difference comes to price and means of its fulfillment. The most relevant example in this respect is poverty reduction. Pursuing its global anti-poverty mission, the Bank helped the country include poverty reduction in its development strategy. The Bank has as well specifically helped the country create capacity and contribute to other identified global priorities such as carbon emission reduction.

91. The general perception is that expert and public interest in global programs is dependent on the extent to which these programs bring in financing and expertise. Specific awareness of programs is closely linked to the formal status and immediate subject of activity

of experts. Otherwise, according to interviewees, knowledge about the involvement of the country in global programs remains esoteric to the public. A former senior government official: Except a very restricted group of specialists dealing with global programs I reckon the latter are absolutely unknown to the country, Executive, in particular.

92. Line ministries and experts in charge of specific commitments of the country to specific global issues are much better informed. Experts from the Health Ministry are fully aware of the progress of Prevention and Control of HIV/AIDS Project funded by the Global Fund to Fight AIDS, Tuberculosis and Malaria grant. The same is valid for environment and water experts who are in charge of the Bank financed Wood Residue to Energy Project.

93. Respondents have explored some of the possible causes that might have lead to the relatively low level of involvement (if not self isolation) in global issues.

Focusing on Domestic Issues

94. The shock the country has experienced over the last 15-16 years does not provide for an open minded approach toward global problems. On the contrary, political and economic hardships made the country focus primarily on its own immediate needs and everyday life challenges. A former senior government official: The shock the country experienced throughout the last 15-16 years made people be inwardly oriented society's attention has concentrated in domestic problems We still perceive the global programs just as a resource to be drawn to the country. Commitments to the EU acqui that stemmed from the EU Association Agreement overwhelmingly consumed all the energies and initiatives in the country. A development partner: Bulgaria has been so focused on meeting the European conditions that it actually missed out...the global involvement it is not involved globally and there is more that could be done.

95. The above opinion is commonly shared. Involvement in global problems, if any, is still perceived quite pragmatically just as an opportunity for obtaining additional funds. Even EU orientation is rather perceived as a priority of domestic policy than as a broader development commitment. The latter could prove shortsighted and counter productive since being engaged in global issues would help to better understand EU policies and vice versa a former senior government official: it [country's focusing on domestic issues] should not justify country's aloofness because the EU policies are being based on the MDGs too. Therefore, when knowing more about global development elements you would better know the European regulations and practices... When gazing down out of fear to not topple in our EU path we could pretty well miss the EU goal out.

Bank's Exclusive Role as Government's Partner

96. What follows as a general explanation sheds some more light on a topical feature of Bank operations that impedes its effectiveness in general. Public neglect and disinterestedness in global issues and programs represents a specific elitist stand society has developed. The common perception is that attitudes and policies related to strategic issues

and global challenges are primarily the responsibility of the government. People feel committed to global development challenges to the extent their government has been formally engaged in their solution. In this sense the public has developed an elitist mindset toward Bank supported global programs: A former senior government official: The reasoning is the following: you the Bank point to global problems, OK, here you are the Government, deal with them...do not bother us, we, as social partners, organizations of disabled, or business and so on, do not have a relations with the WB.

97. Even when carried out in other countries, global programs generate expertise relevant to Bulgaria. The Bank has been always keen to share it. However, being an exclusive government partner entails some inevitable restrictions to broader knowledge sharing. From this view point, the Bank has been losing capacity and has not provided effective support to the country to get involved in global programs implementation. Still more, as a senior government official notes, the Bank has been known primarily as source of resources rather than as promoter of global programs. Besides, stimulating engagement and disseminating knowledge about global programs has been often been perceived as the role of the UN. For example, UNDP Bulgaria explicitly defines its mission (www.undp.bg) as providing network links and coordinating global and national efforts to reach the Millennium Development Goals, including the overarching goal of cutting poverty in half by 2015. One respondent noted: ...regarding country's engagement in global programs I feel that the UN and UNDP, in particular, are more active ...as if they were more active in disseminating information.

98. Awareness of Bank supported global programs would at least help the country develop its own international development policy. A civil society representative: Country's engagement in global programs implies need to develop our own international development policy which is absent for the time being. The above could be considered a failure. Being perceived exclusively as a partner of the government and specifically of the Minister of Finance, the Bank has not stimulated other institutions and NGOs to participate in elaborating the country's international development policy. However, involvement in global programs is a controversial issue. The Bank's situation is delicate enough. On the one hand, it is not in a capacity to directly prompt the Bulgarian Government to share initiatives with the public. It is the government that should have the leading role in this respect. On the other hand, the government is hesitant to share initiatives with NGOs.

7. CONCLUSIONS AND LESSONS LEARNED

1. The Bank's role has been unequivocally assessed relevant. In a tumultuous time of 1997-1999 the Bank's program helped the country stabilize its budget and set the institutional and legal arrangements to start and further reforms in a sustainable way. In the aftermath of financial stability achieved the Bank put up a Country Assistance Strategy (CAS) which was based on relevant development objectives. Private sector – led economic growth had to result in reducing poverty and unemployment. The CAS was fully in line with the Government's Program. EU accession was relevantly outlined as a strategic goal that substantiated both CAS and Government Program. Tailoring global approaches to individual country's needs the Bank had responded adequately to changing environment and put up a relevant new format of its country strategy. The new Country Partnership Strategy based on a full range of facilities offered shows that the Bank has succeeded in its attempts to stay relevant for the country.
2. The Bank program's overall effectiveness has been assessed satisfactory. The positive effect of the Bank program bears on the entire scope and pace of country progress. Bank's effectiveness has been assessed satisfactory to the effect the Bank had timely provided relevant knowledge and resources to secure sustainable country restructuring. The high extent of CAS goal accomplishment that had been noted was attributed to the impact the Bank exerted on the Government and social partners. Since the Bank's anti-poverty mission implied using holistic approaches it urged the Government to engage in comprehensive improvement of institutional settings and investment climate. Outstanding in their underperformance are education and health areas where poor results could be explained by overlooking Bank underlying principles of reforming rather than ineffectiveness of Bank approaches themselves.
3. Measuring impact on topical developments the Bank was reckoned more effective on the scale of structural approaches that bear on the entire economic and social setting than on the scale of local transfers. This finding relates circumstantially to Government's reluctance to underwrite investment loans that it showed over the reported period. On the other hand, the effect of local transfers may not be unquestionably negligible. Effectiveness of local transfers under the form of investment loans should be gauged against a consistent target strategy that takes primarily into account local direct beneficiaries' needs.
4. Bank's lack of follow-through when pursuing its own goals and recommendations was tracked down. Upon launching a reform duly supported by individual projects and programs the Bank behaves as if it had lost interest in tracking it till sustainability is secured. It could turn counter productive and prone to nourishing backlash trends.
5. In view of availability of other lending sources and country acceding to full-fledged EU membership in particular, Bank lending importance is about to decline. The funds

that would be channeled to the country as an EU member are much cheaper and go many times beyond the Bank total so far. In parallel, some niches of local transfers such as improving housing, fighting poverty pockets, co-financing regional and rural development programs will stay open to Bank lending.

There is more to Bank's role than volume of lending. On the standard and policy setting scale the Bank will for long ahead keep its unique stand of world body which delivers the best world known concepts and practices. It would be historically wrong and absolutely misplaced to abandon the Bank in its capacity of strategic ally and last resort fund and expertise provider. Nobody opted for this alternative.

6. It turns out knowledge about World Bank Group has been tantamount to knowledge about IBRD. Save from experts and officials who had been explicitly addressed by or looked for services by other Bank's arms IFC and MIGA's operation has stayed virtually unknown to the public and Executive. Restructuring lending itself on the account of IFC's ascent and increasing private sector's weight as beneficiary is looming relevant in the present situation.
7. Knowledge service the Bank had been providing was assessed highly relevant. Knowledge sharing has been unequivocally perceived a service that best epitomizes the uniqueness of Bank's role as financial and knowledge institution of a considerable sway on world development. Capacity built so far has been believed a relevant and tangible asset acquired to further reforms and take on alternative sources. Flexibility in adjusting views to national specifics the Bank's teams have shown was assessed as a mark of unbiased and open approach. However social partners expressed their discontent to not have been always consulted about programs and projects on even-handed grounds. Discontent of Bank theoretical neo-liberal bias that proved inadequate from the EU perspective was expressed too.
8. Except from a tiny few experts, Bank Sofia Mission and UNDP Resident Representative inclusive, Bank supported global programs are sporadically known. To the best, they have been perceived by the public a funding opportunity to the country. Knowledge about them stays confined with line ministries and respective teams (*Prevention and Control of HIV/AIDS* Project capitalized with USD 15,711,885 by the Global Fund to Fight AIDS, Tuberculosis and Malaria and run by the Health Ministry is a relevant example). General disinterestedness in global issues has been attributed to overwhelming domestic hardships. Along with that an elitist approach toward them developed. Therefore, they have been viewed an exclusive discretion of state's initiative. Bank being perceived exclusively Government's and precisely its Finance Minister's partner does not stimulate other Government and Non-Government bodies to share its global commitments.

ANNEX I. BASIC DATA - THE RELEVANCE OF THE BANK SITUATION

Overarching Objectives: In partnership with other country's partners, EU, UNDP, EBRD, EIB, IMF, number of bilateral donors inclusive, in 2002 the Bank set a strategy of economic recovery and growth that should lead the country to a full-fledged membership in the EU. The strategy had the country strive for reaching:

- 1) Reduction of poverty
- 2) Rise of living standards²⁶

The strategy of poverty reduction evolves in specific main themes that the Bank defines as:

- 1) Promoting competitive private sector-led growth
2. Strengthening public administration and anti-corruption initiatives
- 3) Mitigating the social impact of restructuring and delivering social services more effectively

Attaining these objectives implied setting up policy and technical arrangements to be conducive to a rapid and radical reshuffle of social fabric. Changes cut across the paths of mobilizing, producing, using and delivering benefits to all swathes of population. A balance between targeting the most vulnerable threatened by being shed off the social life and promoting competitive private sector-led growth was strongly sought. Thus, creating new growth oriented investment climate made sense only if it helped mitigate the harsh impacts for the poor of the transition and invest in human capital.

Being instruments for tailoring society to the model of democratic high income societies in the long run the main themes broke down to goals that entailed specific actions on policy and operation levels. In the CAS from 2002 they were defined as three pillars of:

- 1) Attacking poverty, increasing employment opportunities and improving social assistance
- 2) Building human capital
- 3) Creating investment climate encouraging productivity increase, employment generation and balanced growth.²⁷

The evaluation of the Bank program's relevance to the country's challenges requested answering the following questions:

1. *How relevant and effective has been the Bank's country policy in helping Bulgaria identify its development objectives?*
2. *To what extent has the Bank tailored its programs to meet the country development objectives?*

²⁶ *Country Assistance Strategy*, WB, 2002, p. 16

²⁷ *Ibid*, p. 3

3. *Have its programs been planned on a consistent bi-lateral basis?*

Desk analysis has been based on a parallel between the CAS (2002) strategic goals and main themes, and Government Program's priorities (2001). The CAS structure of strategic goals and main themes is used as a principal goal matrix against which the Government Program's priorities have been allocated. Divergence or concurrence has been sought.

Strategic CAS Goals	Main Themes	Strategic Government Program's Goals	Main Themes of Government Program
1. Attacking poverty, increasing employment opportunities and improving social assistance	1.1. Maintaining Balanced Growth and Slowing down Poverty and Unemployment Trends 1.2. Social Protection and Social Inclusion	1. Maintaining macroeconomic stability. It is being viewed as a key condition for rapid economic growth aimed at the creation of employment and increase of incomes. The Program calls for preserving macroeconomic stability through the maintenance of the fixed BGN/EUR exchange rate till accession to the European Economic and Monetary Union ²⁸	1.1. Retaining tight fiscal stance and low inflation 1.2. Reform public expenditure management in order to secure L/T stability and fiscal viability 1.3. Based on the above securing growth oriented economic framework 1.4. Pursuing employment generation policy 1.5. Pursuing steady income growing policy
2. Building human capital	2.1. Optimizing education system 2.2. Optimizing health service	2. Raising living standards and social capital developing. The Program states "the efforts will continue toward protection children rights, the securing and maintenance of gender equality, shielding minorities, protecting the disabled and the protection of consumers" ²⁹	2.1. Optimizing social system which comprises: - improving quality of social services and protection; - pursuing social security system reform 2.2. Securing education of high quality and open access 2.3. Optimizing health service which comprises: - restructuring public health management - improving the methodology of health system financing 2.4. Environment protection

²⁸ *Country Assistance Strategy*, WB, 2002, p. 10

²⁹ *Country Assistance Strategy*, WB, 2002, p. 10

			<p>2.5. Pursuing Youth Policy which aims at bringing up responsible and healthy young generations</p> <p>2.6. Elaboration of Culture Development Strategy</p> <p>2.7. Pursuing Minority Integration Policy</p>
<p>3. Creating investment climate encouraging productivity increase, employment generation and balanced growth</p>	<p>3.1. Public administration</p> <p>3.2. Local Government</p> <p>3.3. Privatization and Improving Business Climate</p> <p>3.4. Finance Intermediation</p> <p>3.5. Energy sector</p> <p>3.6. Territorial Arrangement</p> <p>3.7. Toward sustainable environmental development</p>	<p>3. Improving business climate based on sustainable economic development. The Program call for elaboration and implementing a national economic policy being in tune with globalization and world trade liberalization</p>	<p>3.1. Developing technical infrastructure which necessitates:</p> <ul style="list-style-type: none"> - improving territorial arrangements and cadastre - increasing construction sector competitiveness <p>3.2. Efficiently using public investment and EU Pre-accession funds</p> <p>3.3. Implementing new housing policy</p> <p>3.4. Encouraging decentralization and local autonomy</p> <p>3.5. Developing competitive energy sector based on energy efficiency, privatization of generation and distribution facilities and investment drawing</p> <p>3.6. Liberalizing transport market through opening transport sectors to private competition</p> <p>3.7. Developing IT sector and creating competitive export oriented software industry</p> <p>3.8. Creating an efficient, transparent and predictable in its operations state administration</p> <p>3.8. Administering sustainable environment protection policy in compliance with EU standards</p>

			3.9. Creating conditions of land consolidation and developing land market
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To be sure the Government Program extended beyond the formulation of immediate strategic goals concerning steadfast development toward poverty reduction and rapid living standard improvement. Being a political program of development over a period of 4 years it covered all the sectors of state rule. What is worth focusing on for the sake of compliance with the present survey's purposes is that the Government strategy was founded on three basic pillars of policies and practical activities which are:

1. Sustaining macroeconomic stability and income increase
2. Improving living standards and human capital developing
3. Improving business climate based on infrastructure development, privatization and restructuring of natural monopolies and drawing foreign investment

Actually, the basic strategic directions of the country's development follow in almost identical terms the CAS (2002) strategic goals and main themes. In Bank's view the essence of the Government Program could be boiled down to the following main themes:

1. Modernize the business environment, in order to attract FDI as well as domestic investors at a level that significantly increases Bulgaria's export capacity and allows for:
 - continuous economic growth and maintenance of external balance
 - reducing the stock of public debt to around 60 percent of GDP
 - completing privatization
 - adjusting the regulatory framework
 - building up infrastructure
 - reforming the energy sector
 - tackling agriculture and environmental sector issues.
2. Transform the public administration into a modern and efficient system which will enable the Government to design and promptly implement the necessary second generation structural reforms, including major new initiatives in the energy sector, and set up institutions being in charge of competition policy and enforcement
3. Reform public expenditure management, in order to ensure long-term stability and fiscal viability, which will underpin a growth oriented framework
4. Provide social assistance to the most vulnerable segment of the population and finance human capital development, focusing on insurance based health care, equal health and education opportunities for all the citizens regardless of gender, social and ethnic conditions³⁰

³⁰ *Country Assistance Strategy*, WB, 2002, p. 12

The whole Government Program served the ultimate goal of a full-fledged membership to the EU and thus, met the terms of the Association Agreement with the EU and National Program for the Adoption of the Acquis from 2001. Meeting the acquis standards had been largely accepted by the Bank as a relevant benchmark of fathoming the country's progress in CAS (2002) accomplishment. The Program related to globalization priorities and WTO general agreements in terms of trade liberalization, investment, employment and investment growth.³¹

The poverty combating principle of designing, structuring and administrating the Government Program had not been quite explicitly set off. Poverty reduction term was missing in the Program's text. Most probably, it had been assumed that sustaining economic growth and income inflating strategy would automatically result in poverty reduction. One could just speculate that poverty reduction approach not being laid down as social policy keystone prevented the Government from elaborating a clear-scheduled Poverty Reduction National Policy in the long run. It could be true especially taking into account that the Bank Project of *Poverty and Inequality Mapping in Bulgaria* (2003) and ensuing *Poverty Challenges Survey* (2005) by a joint Bulgarian team provided relevant insights regarding poverty trends.

In the Bank's view ***the Government Program from 2001 provided a satisfactory framework to tackle the country's most pressing social problems of poverty and high unemployment.*** It outlined measures for poverty reducing and improving business environment, without which *sustained economic growth* could not be secured and poverty and high unemployment would continue to persist.³²

³¹ See Uruguay Round Agreement, Marrakesh Declaration of 15 April 1994; **WTO NEWS: SPEECHES** — DG PASCAL LAMY, Brussels, 23 March 2006

³² *Country Assistance Strategy*, WB, 2002, p. 11

ANNEX II. BASIC DATA - THE OVERALL EFFECTIVENESS OF THE BANK'S WORK

Matching results achieved with what had been planned as relevant in the areas the Bank's Country Assistance Strategy (CAS) from 2002 deemed topical to country progress provides desk evidences of Bank's effectiveness. In parallel with that a short description of supporting Bank programs and projects has been presented.

EU accession was set off as a national strategy of first precedence. Compliance with the EU acqui was accepted by the Bank as a topical benchmark of gauging progress under the Country Assistance Strategy (CAS) from 2002. That is why the EU Comprehensive Monitoring Report from 2005 was used as a source of relevant information of progress achieved under the three pillars of development the CAS was founded on.

Bank Overall Assistance

The medium-term strategy the WB set for the country for the period 2002-2005 was based on a steadfast and consistently maintained agenda of structural reforms and strong investment project pipeline. Apart from specific projects having been capitalized through WB's investment loans the main tool to assist restructuring economy and setting up administrative arrangements to support private sector's leading stand was a series of three programmatic adjustment loans (PAL) totaling up to US\$450 million. The PAL Program targets five strategic development goals defined as five pillars of reform:

- 1) Sustaining structural reforms in the enterprise sector with emphasis on the completion of privatization and restructuring of the energy, railway, telecommunications, and water sectors;
- 2) Establishing a market-friendly business environment, focusing on reducing entry constraints, accelerating exits, securing deregulation and reducing regulatory costs, improving the delivery of public services to business, improving the competitive environment, and improving labor market policies;
- 3) Deepening the Financial sector addressing the constraints to increased lending, improving the legal framework for lending, completing banking reform, and developing financial markets;
- 4) Improving public sector governance, strengthening public administration capacity, improving service delivery, reducing corruption, strengthening accountability and transparency, strengthening public expenditure management, and increasing the efficiency and effectiveness of the judicial system;
- 5) Investing in human capital and strengthening social programs, improving service delivery in education and health, continuing pension reforms, increasing social assistance effectiveness, providing for better integration of the disabled and reducing the institutionalization of children.

In Bank's view progress in achieving the above goals has been impressive: the average annual growth rate during 2002-2005 has been estimated at 5.1 percent against projected 4.5-5%, unemployment has declined steadily from 19.8 % in 2001 to 10.6 percent in 2005 against projected 12-14%, and poverty continued to fall from 36% in 1997 to 13.4% in 2005.

Attacking poverty, increasing employment opportunities and improving social assistance

Goals to be Achieved (2002)	Achievements (2005)
<p>Economic Growth. The mid-90s bestowed to the 1997-2001 Government two topical tasks. It had to take on for long delayed radical structural reforms in economy, social security and administration, and in parallel with that, cope with the immediate damages in terms of living standard slumps and pervasive institutional crisis.</p> <p>Over the period throughout 1990 - 1998 the country had been maintaining a negative GDP growth of -3.9% as just for the first quarter of 1996 the country lost 11.7% of its GDP. The GDP slump was indicative for real sector output and individual consumption shrinking. Non-cost based expenditures spelled for unbalanced budget and resulted in high budget deficit that went over 6.5% in 1996.³³ Over 500% booming inflation in 1996 coupled with de-capitalized banking sector heading to bust ruined population savings and festered the investment climate.</p> <p>The country badly needed a radical and rapid restructuring of real and finance sectors what should lay grounds for stability, opening to competition and private sector led growth.</p> <p>That is why in 2002 the CAS defined maintaining macro stability and accelerating growth as an overall strategic goal of first</p>	<p>Economic Growth. Country's economic recovery began with designing a macro stability program based on instituting Currency Board Arrangements (CBA). The choice derived from the immediate need to overcome unleashed hyperinflation and redress financial institutions' credit with population. As early as Spring 1998 the country attained fiscal consolidation. Positive trends were noted in real and fiscal sectors, finance and external sectors.</p> <p>Real GDP growth averaged 3 percent per year in 1998-1999, and 5 percent in 2000-2001. Hyperinflation levels were brought down to single digits in 1999-2001. The budget has remained broadly balanced, registering a surplus of 1 percent of GDP in 1998 and a deficit of just below 1 percent of GDP over the three following years, but maintaining a primary surplus throughout. This prudent fiscal policy succeeded in reducing total public debt by more than 30 percentage points of GDP from above 100 percent in 1997 to around 69 percent in 2001.</p> <p>Throughout 2001 - 2005 the country maintained high degree of macroeconomic stability with strong economic growth, relatively low inflation and falling unemployment. Private consumption growth averaged 5.3% per year over 2002 - 2005 growing at 6.6% in 2005. Gross fixed capital formation grew most strongly at 13.4% in 2005, whereas the highest contribution to growth came from domestic consumption. In 2005 FDI almost doubled against 2001 reaching EUR 1 789 m. GDP per capita in purchasing power standards increased to 30.4% of the EU-25 average in 2004. Boosted by strong domestic demand and high investment, real GDP grew at 5.6% in 2004 which was the highest rate since the start of transition. Inflation averaged 6.1% in 2004 and declined to 4.4% until August 2005. With 71.9% of GVA in 2004 the private sector set off its bell-wether position in country's economic growth (Table 1)</p>

³³ Government Progress Report on Government Program Accomplishment 21/05/97 – 21/05/98

<p>precedence gauged by broadly balanced budget, reduced current account deficit and higher growth.</p>	<p>But the trends of current account deficit diverged from what had been benchmarked in the CAS (2002). What raises most concern is that in 2005 FDI do not fully cover it rather than its absolute growth. After 2001 with an intermission of 3 years the coverage rate has fallen again below 100%. Since 2003 FDI share of GDP has been plummeting to 6.4%</p>
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<p>Slowing down Poverty and Unemployment Trends. The economic crisis in 1997 seriously affected living standards, and poverty escalated to 36% of the population.³⁴ Society had not yet recovered and responded accordingly to the obliteration of the pre-democratic full employment and income security system. In early 2000 unemployment rate was among the highest in the SEE when unemployment headed to over 19%. Some of the reasons that caused high unemployment (low skills and regional mismatches, slow growth of new enterprises, skills gaps, and labor market rigidities) still persist.</p>	<p>Slowing down Poverty and Unemployment Trends. Increasing employment opportunities is a basic pillar of the anti-poverty strategy. Reducing unemployment based on private sector-led growth will require a better business climate for the creation of jobs, improved skills among the population through education and training, increased labor-market flexibility, and the implementation of well- targeted employment services.</p> <p>The recent poverty profile shows varying poverty trends in terms of poverty line, poor population and poverty regional and community break down. Since 1997 when poverty rate hit its highest of 36%, poverty rate has been declining and reached 12% in 2001 as consumption levels have recovered from the crisis. In 2005 the poverty line was set at BGN 102 which made up 13.4% poverty rate affecting 1 104 000 people. The BGN 102 makes up 68% of 2005 minimum salary.</p> <p>From its highest value of 31% in 1997 Gini coefficient declined to 29.5 percent in 2001, and 24% in 2003. While more or less evenly spread across the population in mid-90s poverty, in early 2000 poverty structure changed by deepening unevenness in welfare distribution across the population. Pockets of poverty evolved among certain groups, particularly the unemployed, ethnic minorities (mainly the Roma), and large households. Considerable scope exists to reduce poverty further through the development of targeted poverty interventions, such as for the Roma, and improvements in the targeting of social assistance, especially to mitigate the impact of reforms. Poverty acquired regional dimensions seriously affecting rural, i.e., depopulated and de-industrialized areas.</p> <p>Despite consistently carried out poverty surveys through 2005 and WB financial and technical support</p>
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³⁴ The poverty line is based on per capita consumption. It is at two thirds median consumption

	<p>an official poverty line has not been set and a national policy for its reduction adopted.</p> <p>Based on the 2003 Bank supported Poverty Mapping Project a Pilot Program of Poverty Overhauling was designed by the Ministry of Labor and Social Policy. The Program sets as its priority objective encouraging employment in the poorest municipalities in Bulgaria which have been numbered 13 (the survey in question identifies 13 out of 264 municipalities as the poorest of poor of 30% beyond poverty rate. Enrolling unemployed in literacy and training courses, providing subsidized employment and self-employment opportunities have been anticipated as relevant tools of poverty combating by the Labor Ministry. The Labor Ministry responded within the ambit of its current employment generation programs. The thrust was directed toward articulating the most vulnerable unemployed swathes – long term (L/T) unemployed, unskilled unemployed, unskilled minorities – in the labor market through improving their labor force quality. The Program comprised three modules which are Literacy; Vocational Training; Employment of total worth of BGN 1 998 870 for 2005. It is project-based and implemented by the Employment Agency.</p> <p>Unfortunately the first pilot step by the Labor Ministry did not phase in preparing a nation wide Poverty Overhauling Strategy comprising the tri-partite partners. One can not help thinking that a patchy rather than all-out integrated approach had been adopted. Primarily it is at the Government's discretion to take the lead in setting up regulatory, technical and methodological arrangements of such a strategy.</p> <p>Since 2001 the labor market and real sector responded favorably to the Government's endeavor to maintain a consistent employment encouraging policy and unemployment rate had been steadily going down to 10.1% in 2005³⁵.</p> <p>Since 1997 when comprehensive structural reforms were initiated through 2005 both poverty and unemployment rate had been declining. Large-scale programs for subsidized job creation were implemented in 2002 and 2003, which created</p>
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³⁵ Source: NIS

³⁶ *Bulgaria 2010: The Economic Challenges*, Report for the President of the Republic of Bulgaria, p. 75

³⁷ Zhelyazkova A. *Minorities' Rights and Protection – the Situation in the Roma Community in Bulgaria*, 2000

	<p>temporary employment for about 100 000 persons. Since 2002 employment rate has been gradually growing yet lagging far behind the EU benchmark of 64.4% for 2003. This sort of employment substantially contributed decreasing the unemployment rate but was not related to real job growth in the primary labor market (with enterprises and institutions). The latter casts some light why the employment rate stands on its lowest among the 12 acceding countries.³⁶</p> <p>Wages noted a steady annual growth too. New opportunities of increasing wages and employment and, thus, further combating poverty could be substantiated through further labor market liberalization.</p> <p>Unemployment structure raises concerns. Yet noting decline so far the L/T unemployed comprised more than half of their total number. Registered unemployed up to age 29 showed a steady decline from 28.6% of total unemployed in 2002 to 24.5% in 2005. Poverty unemployment alike varies in terms of region and community adherence. Roma community weathers striking heights of unemployment rate that goes over 56% heading to 80%.³⁷</p>
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Bank Specific Assistance - Slowing down Poverty and Unemployment Trends

The Bank contributed four (1995, 1997, 2001, 2003) poverty and living standards surveys to elaborating consistent poverty reduction policy in the country. The last *Poverty and Inequality Mapping in Bulgaria* survey from 2003 was an essential stepping stone toward poverty mapping. It provided valuable methodological background to the *Poverty Challenges Survey* a joint team of Bulgarian Academy of Science, National Institute of Statistics and University for National and World Economy completed in 2005.

Bank projects that targeted poverty/unemployment pockets were of real avail to local authority in their attempt to allay the unemployment burden with most vulnerable communities. The pilot joint Bank and Ministry of Labor and Social Policy project of *Regional Initiatives Fund* (1998-2001) proved an efficient tool of short term (S/T) job generation and improving access to social infrastructure of vulnerable communities. Capitalized initially with USD 5 m provided by the Bank under the form of Learning and Innovation Loan the project succeeded in drawing supplementary funds by other stakeholders (UNDP, USAID, and Government of Bulgaria). It laid grounds to the EUR 66.7 m³⁸ capitalized *Social Investment and Employment Promotion* Project (2003 – 2007) and thus, to the institutionalization of the Bulgarian Social Investment Fund. Under this project as per mid-May 2005 317 local infrastructure sub-projects and 43 community based sub-projects had been contracted; 43 community based organization had been set up.³⁹ Pursuant to the

³⁸ The Bank's share amounts to EUR 50 m investment loan.

³⁹ Source: BSIF MIS

Bank's policy of directly approaching vulnerable communities the BSIF started building capacity of community direct financing through the implementation of Community Based Sub-Projects.

In Bank's view the project's progress follows a staggering pace due to a variety of reasons. Failures in due budget commitment by the GOB proved a serious setback in project implementation. While as of May 2005 the project is ranked as Satisfactory for Development Objectives, project management as Highly Satisfactory, overall project Implementation Progress is assessed as only Moderately Satisfactory.

Social Protection and Social Inclusion. The safety net system, let apart its being permanently under funded, was not yet instrumental for generating social inclusion on a larger scale. The CAS (2002) pointed to its inefficient financing mechanism that caused delay in payments or deficiency of funds for the poorest municipalities of greatest need. The outdated Birth Promotion Act from 1968 hadn't yet been substituted by a relevant and financially affordable Family Support Law. Benefit levels were too low to successfully impact poverty. Increasing child support for the most needed families should be paralleled with better targeting through different mechanisms.⁴⁰

Social Protection and Social Inclusion. The thrust was directed toward rationalizing and improving effectiveness of social assistance target strategy. Based on strengthened and consolidated means-tested social benefits precedence was given to poor of poorest households. Institutional and administrative capacity within the social assistance system was strengthened. Establishing a Social Assistance Agency further centralized the social assistance system. The Family Support Act from 2002 superseded the outdated Birth Promotion Decree from 1968. Amendments to the Protection, Rehabilitation and Social Integration of Disabled People Act were adopted in the end of 2001. Family Income Tax arrangements were put in place starting from 2005. Child benefits and allowances for poor were increased. Instituting in-kind benefits and making them conditional on school attendance secured well targeting the poorest of poor where many-children Roma minority households prevail. In 2002/03, to provide incentives to low-income children to attend school, the monthly child benefit program was made conditional on attendance in school. Partly as a result of this, attendance rates of children in the lowest income quintile increased by 20% between 2001 and 2003.⁴¹

Licensing requirements, contractual and funding transfer arrangements and minimum standards for delivery of social care services by NGOs and the private sector were specified. As a new policy initiative should be considered a Ministry of Labor and Social Policy's project From Social Assistance toward Employment which has been implemented since 2003. The project aims at closer binding social

⁴⁰ *Country Assistance Strategy*, WB, 2002, p. 4

⁴¹ *Bulgaria – Education and Skills for the Knowledge Economy. A Policy Note*, WB, p. 4

	<p>assistance to labor market policy through stirring up new active labor market measures and investment initiatives with local authorities.</p> <p>Better synchronization of different social support schemes and improving access to clients has been requested as an immediate task to the Social Assistance System.⁴²</p>
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Bank Specific Assistance _ Social Protection and Social Inclusion

The Bank committed USD 8 m investment loan to a joint Ministry of Labor and Social Policy and World Bank *Child Welfare Reform* Project. It was technically finalized in the end of 2005. Its target strategy comprised improving child welfare through preventing abandonment and institutionalization of children, building capacity of child de-institutionalization in residential care and improving quality of residential care. To Child Welfare Reform the project contributed alternative community-based services such as community support centers for family counseling, parental education, foster care services, staff training, counseling services for young offenders, and community development activities as well as temporary shelter for young, single mothers and their babies, and small group homes.

<p>Social Security System Reform. In 2002 the WB outlined a batch of pending problems that requested solution over short run - pension indexing, disability claims, effectiveness and reconciliation of contributions, accounting and valuation procedures, and building a strong supervisory agency). The outdated pay-as-you-go pension system had to be diversified into a multi-pillar system allowing for creating pension market based on non-banking financial institutions' operation.</p>	<p>Social Security System Reform. The social security reform started in 2000. The problems that requested solution over short run were successfully overtaken.</p> <p>The National Social Security Institute (NSSI) evolved as a basic social security institution being committed to social security reform. A NSSI development strategy was elaborated. Currently the NSSI administers eight out of nine insurance risks the ILO 102 Convention comprises. The Compulsory Social Security Code that provided the main reform's regulatory arrangements was adopted in 1999. A by-law body comprising Pension Ordinance, Labor Categorization Ordinance etc. had thereafter been put into effect.</p> <p>Without shedding off the old pay-as-you go pension system, the latter was integrated to a diversified multi-pillar system based on private pension fund involvement. As of 2000 a compulsory second pillar of private pension security was instituted. Apart from compulsory pension payments the private pension funds supported the third pillar under the form of</p>
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⁴² *Bulgaria 2005 Comprehensive Monitoring Report*, European Commission, 2005, p. 49

	<p>voluntarily private pension plans. A pension budget and pension fund was created thoroughly dispatched from the state budget transfers. As per Bank's recommendation (CAS 2002) and Government's commitment to further labor market liberalization the then high payroll taxation had been reduced by 5.5% average stimulating hereby investment and job generation. Regulation for private pension funds has been secured by the Commission for Financial Supervision that is in charge of all non-banking financial institutions.</p> <p>Currently the pension system leads in drawing strategic investors. But they could be easily discouraged and eventually shed off in case the undue tendency of state involvement in the pension business continues.⁴³ Provided the deepening demographic crisis which would result in dependency rate⁴⁴ too high strengthening private pension market's value generation capacity sets off as a first precedence challenge in the long run. Increasing the system's exposure to capital market would create attractive fund placement perspectives and rate of return.⁴⁵</p>
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Bank Specific Assistance- Social Security System Reform

The NSSI institutional build-up was secured by Bank involvement through an investment loan of USD 24.3 m.

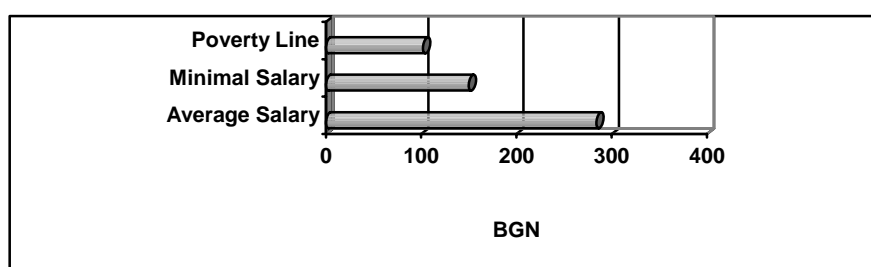
⁴³ Interview of ex-Labor Minister I. Neikov to Balkan News Agency, 2002

⁴⁴ The number of Bulgarian citizens up to 16 and over 64 is steadily going up heading to 47.3% of those employed in 2030 and 73.7% in 2050. Source: Interview of ex-Labor Minister I. Neikov to Balkan News Agency, 2002

⁴⁵ *Country Assistance Strategy*, WB, 2002, p. 4

Table 1 - Bulgaria – Main Economic Trends

Indicators	2000	2001	2002	2003	2004	2005 ⁴⁶
Private consumption (ann. %ch) ⁴⁷	4.9	4.6	3.4	7.1	4.8	6.6
Investment (GFCF) (ann.%ch) ⁴⁸	15.4	23.3	8.5	13.9	12.0	13.4
FDI (EUR m) ⁴⁹		903.4	980.0	1850.5	2727.5	1789.0
FDI/CA Deficit (%) ⁵⁰		82.0	105.9	113.5	241.1	70.7
Current Account Balance (sh/GDP) ⁵¹	-5.6	-7.3	-5.6	-9.2	-7.4	-9.6
GVA, Private Sector (sh/GDP, cup, %) ⁵²		63.4	64.3	64.5	71.9	
GDP (ann %ch) ⁵³	5.4	4.1	4.9	4.5	5.6	6.2
GDP (cup, USD m) ⁵⁴		13557	15563	19858	24131	
Real GDP per capita (vi, EU-25=100, %) ⁵⁵		28.00	28.30	29.80	30.40	
Inflation (CPI-100) (m, (Dec py)=100, %)		4.8	3.8	5.6	4.0	

Chart 1 - Poverty Line, Minimal and Average Salary as per 2005

Source: Poverty Challenges Survey, 2005

Table 2 - Bulgaria – Main Labor Market Trends

Indicators	2000	2001	2002	2003	2004	2005 ⁵⁶
Unemployment (%) ⁵⁷	16.9	19.8	17.8	13.7	12.0	10.6 ⁵⁸
L/T unemployed Growth (ann. %ch) ⁵⁹	n/a	n/a	-7.7	-12.6	-7.4	-9.8 ⁶⁰
Employment Growth (ann. %ch)	n/a	-3.4	1.5	3.5	3.1	1.3 ⁶¹
Employment Total (LFS 2003, avp, %) ⁶²	n/a	n/a	n/a	42.4	43.7	44.7
Wages (ann. %ch) ⁶³	12.8	8.3	6.6	6.2	7.0	9.4

⁴⁶ Data for 2005 refer for first half

⁴⁷ *Bulgaria 2005 Comprehensive Monitoring Report*, European Commission, 2005, p. 18

⁴⁸ *Bulgaria 2005 Comprehensive Monitoring Report*, European Commission, 2005, p. 18

⁴⁹ Source: Bulgarian National Bank

⁵⁰ Source: Bulgarian National Bank

⁵¹ *Bulgaria 2005 Comprehensive Monitoring Report*, European Commission, 2005, p. 18

⁵² Source: National Institute of Statistics

⁵³ *Bulgaria 2005 Comprehensive Monitoring Report*, European Commission, 2005, p. 18

⁵⁴ Source: National Institute of Statistics

⁵⁵ Source: National Institute of Statistics

⁵⁶ Data for 2005 refer for its first half

⁵⁷ *Bulgaria 2005 Comprehensive Monitoring Report*, European Commission, 2005, p. 18

⁵⁸ First half

⁵⁹ Source: NIS

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⁶¹ First half

⁶² Source: NIS

⁶³ *Bulgaria 2005 Comprehensive Monitoring Report*, European Commission, 2005, p. 18

Building Human Capital

Goals to be Achieved (2002)	Achievements (2005)
<p>Optimizing education system. CAS (2002) put to fore widening discrepancies between the old education system that had been bestowed from 1960s and today challenges to education that need its urgent restructuring. Since then and late 90s in particular, radical changes in society had been occurring that met the system's incapacity to adequately tackle them. 1) Due to demographic crisis and deep economic reshuffle that affected rural regions in particular total enrollment declined almost a half; 2) In parallel with that the number of schools, teachers and classes has not been adjusted accordingly to real need of education; 3) As being subject of vehement contentions and accounting for a substantial share of the central budget as school personnel salaries do, they have not been adjusted to education quality requirements; 4) The system is not in a capacity by restructuring itself to secure funds for adequate maintenance and equipment spending; 5) Based on outdated curricula quality of education had been on many occasions reported poor and, thus, it contributes to a significant skills gap and unemployment pocket generation; 6) Performance evaluation and recruitment standards proved outdated too; 6) Ongoing decentralization had not been completed in education. The overall effect of the system's challenges</p>	<p>Optimizing education system. Presumably the education system is an area that has been less affected by rapid and steadfast reforms over the last 5-year period. That is threatening with insidious effects that are developing and will continue to develop in the long run. The Bank's Policy Note on Education dwells on some frustrating developments that forebode a further education system's failure. In the end of 2005 it has been found out that:</p> <p>1) Bulgarian secondary school students are not adequately equipped with the competencies and skills for the knowledge society. There is evidence of decline in the acquisition of key skills over time. There is not a comprehensive strategy to enhance teacher quality. The quality and relevance of skills provided in higher education institutions does not meet labor market needs which is indicative for widening skill gap and generating unemployment pockets. It is encouraging that a progressive policy framework for quality assurance by the National Evaluation and Accreditation Agency (NEAA) is in place.</p> <p>2) Although Bulgaria has made impressive progress in increasing participation especially in upper secondary, participation among 16-18 year olds is still lower than EU-15 and the NMS. Bulgaria is unique in its decline in higher education participation. Completion of basic education and progression to upper secondary is lower than desired, reflecting to a large extent drop-out among low income, rural and ethnic minority children. Participation in higher education has stagnated and is now on the low end compared to EU-15 and NMS which raises justified concerns about country's competitiveness. Children from low income families, rural areas, and disadvantaged populations have unacceptably low participation rates.</p> <p>3) In view of dramatic projected fall on school age the need to optimize the use of resources is particularly strong. The latter implies slacking off overcapacity in terms of staffing and facilities both in secondary and higher school.⁶⁴</p>

⁶⁴ Bulgaria – Education and Skills for the Knowledge Economy. A Policy Note, WB, Executive summary

<p>unmet boiled down to a limited access to modern education for an increasing number of Bulgarian children.</p> <p>The effect of limited access was still more frustrating as it contributed to poverty pocket generation.</p>	<p>The Bank's findings were of avail to laying out the education system's restructuring strategy:</p> <ol style="list-style-type: none"> 1) Base education policy on a sound cost efficient management implying staff and facility optimization 2) Place the education system strategy in the poverty eradicating perspective that would imply improving access to service for vulnerable communities 3) Implementing integrated performance and recruitment standards in parallel with pursuing decentralization of service delivery <p>They are thoroughly in line with the overall Government's goal of changing the educational model from resource oriented towards results oriented; binding the expenditure level with the quality of the educational product; decentralization and autonomy of schools; optimization of the school network.⁶⁵</p>
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Bank Specific Assistance - Optimizing education system

As of 2001 the Bank committed USD 14.39 m adaptable program loan to an Education Modernization Project in Bulgaria (closed). Its purpose was to improve resource management, and the quality of teaching, and learning in the country's general primary, and secondary education, as well as that of higher education institutions, aiming at maintaining the high levels of access to education, and, at improving equity in higher education.

<p>Modernizing Health Services. Just the legal arrangements of an overall reform of the health sector had been made by 2000. In 1998 a Mandatory Health insurance Act was passed. Beginning 2000 in the Bank's view the strategic objective to the sector was stopping deterioration of the health status of the population and phasing in EU standards. That translated into tackling the problems of 1) uncertain financing and unequal access to health services; 2) lack of management capacity resulting in poor efficiency; 3) poor catchment area planning resulting in uneven distribution of health</p>	<p>Modernizing Health Services. The Bank <i>Health Policy Note</i> reports unfavorable overall development of Health Sector reform. The Bank states that eight years after the regulatory framework was established health outcomes are beginning to show a reversion in the negative trend observed during the 90s. In parallel, it becomes apparent that the original plan itself needs additional fine-tuning.⁶⁷ Pursuant to Health Sector Reform strategy and its commitments the country introduced a publicly administered national health insurance system based on the 1998 Mandatory Health Insurance Act. A single insurer, the National Health Insurance Fund (NHIF) was set up. Starting from outpatient service it phased in incurring all health delivery. After setting up the out-patient care arrangement the second phase of health system reforming was initiated. Beginning 2006 as a sole</p>
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⁶⁵ *Political Priorities of the Government*, August 2005, p.6.

<p>services; 4) excess staff and facility capacity; 5) deterioration of physical plant and equipment.⁶⁶</p>	<p>purchaser of health services the NHIF stretched its operation toward incurring inpatient delivery too. But short of regulatory framework, the main problems of slow progress in improving management efficiency and securing even-handed medical treatment for either patient persist. They boil down to: 1) deteriorating financial stability of the system; 2) bias in spending toward inefficient inpatient care sector; 3) oversupply in terms of hospital infrastructure and medical staff.⁶⁸</p>
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Bank Specific Assistance - Modernizing health services

As of 2000 the Bank committed USD 63.3 m investment loan to a Health Sector Reform Project. The Project supported the Government of Bulgaria in implementing a fundamental reform of its health sector that was designed to improve access, especially for disadvantaged populations and those in remote areas, to quality health services and to ensure financial and operational sustainability. Four of the seven projects components have been financed by the World Bank.

⁶⁶ *Country Assistance Strategy*, WB, 2002, p. 5, Annex B9, p.11

⁶⁷ *Improving Health Care in Bulgaria: Options for Reforms*. Policy Note, WB, 2005, p. 1

⁶⁸ *Improving Health Care in Bulgaria: Options for Reforms*. Policy Note, WB, 2005, p. 2-5

Creating investment climate encouraging productivity increase, employment generation and balanced growth

Goals to be Achieved (2002)	Achievements (2005)
<p align="center">Improving Governance</p>	
<p>Public Administration. The CAS (2002) stated that although having been launched the public administration reform fell short in implementation. Implementation continued to be weak, reforms lagged and thus affected the implementation of Bank supported adjustment operations. The main weaknesses concerned the administration's efficiency in delivering public services and therefore related to deficiencies in the Administration Act and Civil Servant Act design and implementation. The administration faced inadequate compensation systems, difficulties in retaining qualified staff, inadequate budgets of ministries and agencies in face of the reform agenda and EU accession, poor monitoring and evaluation systems, inadequate service delivery standards, and limited modern information and communications technology. The highest structural levels of administration strived to blur the divide between political and career based appointments.</p> <p>In 2002 accountability and transparency mechanisms were reckoned poor. Persistent perception of corruption and patronage induced strong public criticism of the political establishment. The country had been identified as having high state capture and medium</p>	<p>Public Administration. In 2002 a joint Action Plan of Bulgaria and EU to strengthen Bulgaria's administrative and judicial capacity was elaborated. In compliance with the CAS strategic goals and country's commitments to EU accession process a Revenue Administration was put in place as of 2005. Amendments to the Civil Servant Act were implemented aiming at securing high recruitment quality and steadfast succession of servants. However, the envisaged amendments to the Administration Act have still not been adopted. The underlying principles of administrative reform were refined in the Strategy for Modernizing Public Administration approved by the Government in 2002. The Strategy strived for bringing the administration into line with the principles of:</p> <ul style="list-style-type: none"> - rule of law - market economy and respect of human rights - efficiency in planning, coordinating and implementing policies and practice to pursue the country's pre-accession and anti-corruption commitments⁶⁹ <p>The Government has responded to widespread public concerns by clearly stating its "zero tolerance" for corruption. A number of policies and legal instruments designed to set a corruption-hostile regulatory framework have been put in place. They were put together under the National Anti-Corruption Strategy which was adopted in the end of 2001 and subsequently complemented with a Program of its implementation. The Program provided for instituting legislative, organizational and social prerequisites facilitating the implementation of internationally accepted anti-corruption principle and practices. An Anti-Corruption Coordination Commission, chaired by the Justice Minister was set up as of 2002.⁷⁰</p> <p>The process of formulating the strategic goals of the</p>

⁶⁹ *Corruption Assessment Report*, Coalition 2000, 2003, p. 18

⁷⁰ *Corruption Assessment Report*, Coalition 2000, 2003, p. 17

administrative corruption.	<p>administrative reform was finalized in 2002. The main body of legislative instruments and measures was approved. The administrative structures were completely restructured as early as in 2001. But what keeps posing concerns is reform concept due implementation. Since 2001 numerous deviations from the adopted administrative model and its intrinsic anti-corruption potential have been coming into effect.⁷¹</p> <p>According to the EU 2005 Comprehensive Monitoring Report although public administration reform remained a government priority during the reporting period, Bulgaria has made only very limited progress with regard to relevant legislative developments.⁷²</p>
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Bank Specific Assistance - Public Administration

As of 2003 by the **Revenue Administration Reform Project** the Bank committed USD 34.15 m investment loan to the administrative reform in the country. The Project objective was implementing a sustainable revenue collection system for Bulgaria through the establishment of an economically efficient public revenue collection system to facilitate private sector development and comply with requirements for EU accession.

<p>Local Government. It constituted the weakest branch of the service delivery system both to poor under the form of social services and business community under the form of infrastructure services. Municipalities weathered serious constraints related to: poor financing relying essentially on state budget transfers; too much centralized tax system not allowing for finance autonomy; unattractive business environment for private sector provision of infrastructure services. Lack of financial and administrative autonomy resulted in declining public service quality, poor infrastructure maintenance, and weak human and administrative capacity.</p>	<p>Local Government. The country made tangible progress in tackling the challenges as defines in the CAS. Formally viewed the official policy does not diverge with the requested strategy by the WB. The thrust has been directed toward administrative and financial autonomy of municipalities. In 2003 the Government approved a Program for Financial Decentralization. By virtue of this program the municipalities acquired some effective powers leading to a greater autonomy. They were empowered to set their own local tariffs which resulted, for instance, in inflating local budgets by over BGN 60 m.⁷³ That allowed them to improve public service delivering, specifically day care enrollment and maintenance. The above program set favorable regulatory premises autonomy regarding local tax administration. Based on the Local Tax and Tariff Act in 2005 Local Tax Offices were open in more than half of the Bulgarian municipalities.</p> <p>Through the central budget the state committed to</p>
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⁷¹ *Corruption Assessment Report*, Coalition 2000, 2003, p. 19

⁷² *Bulgaria 2005 Comprehensive Monitoring Report*, European Commission, 2005, p. 7

⁷³ Source: Interview with Ms Ginka Chavdarova, Secretary to the Association of the Municipalities in Bulgaria

	<p>incrementally mobilizing resources ear-marked for municipality co-sharing under international development projects. Only poor municipality, i.e. of own revenues under 20% of municipal budget, have been targeted. The co-sharing fund started with BGN 1m in 2004 while a target of BGN 8 m had been projected.</p> <p>The Municipality Debt Act was approved. It sets up the regulations of accessing the credit market by municipalities.</p> <p>The National Association of Municipalities in Bulgaria through its Secretary Ms Ginka Chavdarova specifically acknowledged the Bank's contribution to the adoption of the Program for Financial Decentralization by the Government. The Program had taken stock from the Public Expenditures Survey's conclusions the Bank financed and carried out in 2003. The Bank's Health and Education Service Surveys had positive implications on local policy making in terms of restructuring health and education facilities. But on the other hand, according to municipal officials the surveys' recommendations could hardly be automatically implemented in all the locations. In some instances the recommendation of restructuring health and education facilities, including widening up schools and health facilities and transpiration to compound ones, is not relevant for small location. The Bank specialists did not take into account the fact that many of them were practically cut off from the municipal road network because of its deteriorating state. Therefore, access to education and health service was heavily encumbered for many children and citizens.</p> <p>Local authorities rely on the WB involvement in financing infrastructure facilities, primarily local roads that comprise 60% round of the national network. Regardless of its slightly different Target Strategy and funding rather limited a good example with regard is Social Investment and Employment Promotion Project.</p> <p>The WB involvement in solving local authorities' problem is being commended for introducing as mandatory transparent and unequivocal procurement regulations.</p>
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<p>Legal and Judicial. The legal system's inefficiency had long been identified a topical impediment to transparent public relations with practical implications to business environment and public support for rapid reforms. From the public perspective lagging cases against obvious criminals, or just denying suit them, slowing conflict resolution, bankruptcies and commercial court cases was concomitant to promoting vested interests and corruption-driven legal practice. Capacity to implement and enforce new laws was lacking, and contract enforcement was weak. Sufficient resources are not available for proper functioning of the legal system which was overburdened by a sharply rising number of court cases Property registry and titling were outdated. Progress in the reform of the pre-trial phase remained limited and the justice system continued to suffer from a lack of accountability. The procedures for administering justice remained cumbersome and slow.⁷⁴ By the end of the reported period the EU Comprehensive Monitoring Report (2005) stated that regardless of the important legislative steps that had been taken in relation to the judiciary serious flaws were still persistent within it.</p>	<p>Legal and Judicial. In 2004 and 2005 the country showed a strong commitment to rapid and overall changes along with the recommendations of the WB and EU. Important legislative steps have been taken in relation to the judiciary. Amendments to the Constitution that targeted improving transparency and accountability of the justice system were adopted by the Parliament. A new Penal Procedure Code was adopted which came into effect on April 29, 2006. The new Code is expected to better regulate the pre-trial procedures. Arrangements for sufficient financing of the legal system had been made. The Administrative Procedure Code draft was elaborated. The existent Civil Procedure Act has been subjected to a sound discussion as the purpose is to speed up the processing of civil cases. A Private Bailiff Act came to force. The latter is relied on to optimize the claim and collection procedures. But generally viewed, the procedures for administering justice remain cumbersome and slow.</p>
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<p>Privatization and Improving Business Climate. The Bank recommended removal of administrative barriers to private investment by enhancing the flexibility of labor markets,</p>	<p>Privatization and Improving Business Climate. Privatization has been completed in many sectors. Restructuring the mining sector is about to be completed with the privatization of two remaining still state owned mines. In coal mining three more coal pits were privatized during the reporting period and</p>
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⁷⁴ *Bulgaria 2005 Comprehensive Monitoring Report*, European Commission, 2005, p. 16

<p>ensuring competition, and improving public services such as customs, the tax office, and regulators. The scope for improvement was illustrated by the fact that company registration still involved a dozen procedures, several institutions and excessive administrative costs. Building permits are unduly complex and take long time to be issued. Government owned shares in already privatized SOEs needed to be sold.</p>	<p>preparations for the privatization of one of the two remaining state-owned mines are under way. State aid for operating mines was phased out completely in 2005. A National Steel Industry Restructuring Program had been implemented. It resulted in winding up some steel mills, staff reductions and drawing more investment.</p> <p>The Commercial Code insolvency provisions have already been amended to facilitate bankruptcy. The regulatory regime has been rationalized through the Licensing Optimization Program. The number of documents requested for starting business has been reduced to 10 which is around the average in the region. However, both market entry and exit is still burdened with costly and time consuming procedures.</p>
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<p>Finance Intermediation. In 2002 the WB stated that banking regulations were not yet harmonized with EU directives, and the institutional mechanism for dealing with insolvent banks was weak. Privatizing still state owned Biochim Bank and State Saving Bank was ahead. Selling out the Government's share in the Bank Consolidation Company was strongly recommended. Lack of a special Bank Bankruptcy Act was viewed as a premise of not sufficiently comprehensive oversight by the Central Bank. In view of the pension funds' expansion being a second pillar of the pension system the Bank urged the elaboration of the regulatory framework for non-banking financial institutions. The insurance sector was still not thoroughly privatized.</p>	<p>Finance Intermediation. By the end of 2005 radical changes occurred in the banking sector. The private sector accounted for more than 90% of total assets. There are remaining public just two banks as in one of them (Municipal Bank) the majority stakeholder which is the Sofia Municipality has taken steps to unbundling its package. The State Saving Bank and Biochim Bank were sold to foreign investors. The insurance sector has been virtually fully unbundled. Winding up procedure was launched for the Bank Consolidation Company since it was reckoned not effectively performing.</p> <p>The regulatory framework was considerably improved. The regular EU statements confirm it has been fully harmonized with the EU directives. The Bank Bankruptcy Act came into effect in 2002. It provided for a Deposit Insurance Fund be set up. A new regulation on the capital adequacy of banks entered into force in July 2005. Through the establishment of the Commission for Financial Supervision the regulatory framework for non-banking financial institutions was set up too.</p> <p>The role of the non-banking sector in financial intermediation remains limited but continues to increase.</p>
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Bank Specific Assistance - Finance Intermediation

As of 1999 the Bank committed USD 50 m to the **Second Financial and Enterprise Sector Project** (closed). Under the Project the Bank supported 1) privatization or liquidation of SOEs; 2) banking reform including the privatization of the public sector banks (PSBs); 3) strengthening financial discipline on the remaining SOEs.

Goals to be Achieved (2002)	Achievements (2005)
Improving Infrastructure	

Bank Specific Assistance - Land Registration and Regulation System

As of 2001 the Bank committed an investment loan of USD 30 m worth to improving the land registration and regulation system which was unanimously accepted as a premise of effective investment policy. The objective of the Registration and Cadastre Project for Bulgaria was to improve the coverage, completeness, accuracy and responsiveness of the cadastre and real property registration systems and thus contribute to the development of secure tenure of real property and an efficient real property market. The Cadastre system development component would help the Cadastre Agency to design and implement a unified national cadastre system including office renovations, archives creation, equipment, and technical assistance.

Energy Sector. The CAS stated that the country had the highest energy intensity among EU accession countries due to lagging sector reforms. Adequate sequencing of regulatory reforms and investment was crucial to the success of energy sector restructuring. Transparent regulations with a clear time schedule for opening the domestic energy market to competition were not yet in place. Massive cross subsidies in electricity and heat tariffs persisted, and the State Energy Regulatory Commission was not in a capacity to adequately enforce true competition oriented rules. Energy efficiency should be addressed as a matter of urgency. The Bank pointed to electric power generation, transmission and distribution still remaining in state ownership; district heating (DH) remaining a drain on the budget of about two-thirds of one percent of GDP per year.⁷⁵

Energy Sector. Steady progress was made in the energy sector, where power delivering companies were privatized. Regulations have been adopted and specific steps taken to open the energy sector to competition and draw investment such as separate ownership, unbundle the National Electricity Company (NEK) and restructure the Bulgargaz company. Power stations of important share of the country energy balance (Varna, Bobov dol, Rousse) were privatized. The power distributing companies were acquired by foreign investors. Prices for energy and gas have been fully aligned with costs. Concerning District Heating, a comprehensive strategy aiming at efficient management, private capital drawing, decentralization of tariffs setting was put into effect started 2000. The separation of accounting systems for different units was a step toward selling the National Electricity Company. Some cross-subsidization still exists with regard to electricity and heating energy for households, but should be phased out in 2006. The Energy Efficiency Act outlined the regulatory framework in the area of energy efficiency. It is worth stressing the Bank's role in instituting an Energy Efficiency Fund based on the Energy Efficiency Act's provisions. The Bank committed methodological assistance for the elaboration of the Energy Efficiency

⁷⁵ *Country Assistance Strategy*, WB, 2002, p. 8

	Fund provisions to the Energy Efficiency Act and funds for its capitalization.
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Bank Specific Assistance - Energy sector

As of 2005 by the **Energy Efficiency GEF Project** the Bank committed USD 10 m investment loan to the capitalization of Bulgarian Energy Efficiency Fund. The Energy Efficiency Project for Bulgaria aims at supporting a large increase in Energy Efficiency (EE) investments in Bulgaria through development of self-sustaining, market-based financing mechanisms.

As of 2003 the Bank committed USD 34.2 m investment loan to the **District Heating Project for Bulgaria**. It aims to assist the Sofia and Pernik District Heating Companies (DHC) to: (i) improve the quality of their services; (ii) improve their financial viability; and (iii) increase environmentally friendly operations through energy conservation and pollution reduction measures.

Improving Transport Efficiency.

The challenges to the sector which the WB had been focusing on comprised 1) improving the efficiency of road transport services through proper maintenance expenditures; 2) start concession procedures for ports and air field; and in a broader perspective 3) attract private capital for transport investment; 4) harmonize the transport regulations with the EU requirements.⁷⁶

Improving Transport Efficiency. Restructuring the network industries began by market liberalization and company privatization. The still state owned BDZ company has taken steps to improve efficiency including major reductions in personnel and divestiture of most ancillary activities. Following tariff increases for rail passenger services, the gap to full cost recovery levels has been reduced. Further progress should be made with ensuring its management independence from the state. The road transport industry has been fully privatized and a proper regulatory framework is in place. Concession arrangements had been put into effect for ports and air transport.

Bank Specific Assistance - Improving Transport Efficiency

As of 2000 the Bank committed USD 7.4 m investment loan to improving trade and transport arrangements in South East Europe. The **Bulgaria Trade and Transport Facilitation in Southeast Europe Project** (closed) aimed at reducing non-tariff costs to trade and transport; and to reduce smuggling and corruption at border crossings. The Project formed part of a regional program for the Trade and Transport Facilitation in Southeast Europe, which aims to strengthen and modernize the customs administrations and other border control agencies in Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the former Yugoslav Republic of Macedonia, and Romania.

Increasing Water Companies' Efficiency. The WB warned that without urgent action on the reforms, there would be parts of the

Increasing Water Companies' Efficiency. From the perspective of late 2005 the Bank team inferred the reforms in the water and wastewater sector had not been finished. But, on the other hand, relevant policies

⁷⁶ *Country Assistance Strategy*, WB, 2002, p. 8

<p>country that would not receive 24-hour water service, wastewater treatment would not be in line with EU directives, and Bulgaria may not be able to fully absorb the proposed EU grants. The water and wastewater sector has suffered from under investment over the last 15 years. Throughout the transition period, the central government budget could not support the rehabilitation of the sector. Still more the operation income raised from payments by the population did not allow for maintaining a sound investment policy.</p> <p>Given the economic difficulties that mostly affected the population's purchasing power over the last fifteen years, the water utilities were not able to allocate sufficient resources towards O&M expenses. These expenses were minimized and repairs often postponed due to paucity of funds in the utilities. Currently, the O&M expenses have been around €0.30/m³. The unaccounted for water (UFW) losses, both physical and commercial, contributed to additionally de-capitalizing water sector, while, on the other hand, the collection rate averaged 75% per year.⁷⁷</p> <p>The overall goal defined in early-2002 was restructuring the water sector that would allow for its financial viability and better servicing the consumers. It had been stated that virtually 100% public ownership on assets did not contribute to opening the sector to competition and private sector. On</p>	<p>had been put into effect to this end, still more the country concluded its negotiations under the <i>acquis communautaire</i>, and made a commitment to meet the EU directives on water and wastewater. In line with the WB recommendations the Government of Bulgaria in March 2004 endorsed the Strategy for Water Supply and Sewerage Management, which identified the issues for the sector and presented a broad financing plan to address investment and rehabilitation needs. The strategy provided for radically restructuring water companies (ViK). The Government's strategy addressed the core problem of financing the sector focusing on establishing public private partnerships.</p> <p>1) In 2005 a law on regulating water supply and sewerage services came into effect. The water regulatory functions were added to the existing Energy Regulatory Commission which was renamed as State Energy and Water Regulatory Commission (SEWRC).</p> <p>2) A new Water Act has been drafted and submitted to Parliament. It provides for:</p> <ul style="list-style-type: none"> - Municipalities will be given more autonomy to raise local revenues - Utilities should be allowed to increase tariffs to support higher costs of Operations and Maintenance - Restructuring asset ownership with a steady decline of public (state and municipality) share will lay grounds for establishing Public Private Partnerships (PPP) - The above would lead to viable asset and operation management clearing path to private sector through instituting Operating Companies (OC) for all water companies <p>3) Various options have been considered:</p> <ul style="list-style-type: none"> - Concession: the OC, with private involvement, will be given the responsibility to provide services and invest in the network <p>Management Contract: a part of the OC or the entire portion could be controlled by the private sector:</p> <ul style="list-style-type: none"> - Service Contract: OC could contract the
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⁷⁷ BULGARIA FINANCING THE WATER AND WASTEWATER SECTOR, WB, 2005, p. 5

⁷⁸ BULGARIA FINANCING THE WATER AND WASTEWATER SECTOR, WB, 2005, p. 14

<p>the contrary, as cash-strapped as the state natural monopoly was, not restructuring through diminishing public share of it would lead to further de-capitalization and incapacity to draw investment. Still more, it was generally accepted that the costs of providing good quality water service for all and upgrading the sewerage and wastewater treatment services were large.</p> <p>Improving service to consumers stood for yielding value from efficiently run investment. The private sector was largely recognized as an efficient manager.</p>	<p>private sector for part of the services such as billing and collection, maintenance etc.⁷⁸</p> <p>Since the issue of efficient running the water natural monopoly has been raised worldwide the above options are not unique for Bulgaria. Concessions are being largely recognized as a relevant means of letting the private sector in.</p> <p>But, provided world economy dynamics comprising ups and downs, on regional level especially, police concession contracts should be considered of first precedence.</p>
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<p>Liberalizing Telecommunication. The CAS (2002) focused on improving legal regulatory environment and, thus, enhancing competition. The main challenges ahead had been identified as including adoption of WTO's basic telecommunications agreements; adoption of new telecommunication law; instituting an independent regulator; unbundling the state owned telecommunications company (BTC); liberalization of the sector.⁷⁹</p>	<p>Liberalizing Telecommunication. Liberalizing the telecommunications services and therefore meeting the WTO's basic telecommunications agreements and EU 1998 acquis's provisions was a driving policy goal over the reported period. Prices for telecommunication have been fully aligned with costs. The national telecommunications monopoly has been successfully unbundled and acquired by a private investor. Remaining shares in the incumbent operator have been sold by the state on the local stock market. Reforms aimed at enhanced liberalization have significantly progressed by adopting the new Telecommunications Act in 2003 which superseded the old one from 1998. Progress has been made in terms of implementation of secondary legislation which has established the conditions for opening the market. Important decisions have been taken in areas such as interconnection offers and carrier pre-selection, the attribution of a third mobile telephony license and attribution of UMTS licenses.</p> <p>The Telecommunications Act upgraded the autonomous position of the National Regulatory Authority</p> <p>The regulatory authority still needs to be given power to resolve commercial disputes as required by the acquis. Sustained arrangements are necessary for the</p>
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⁷⁹ *Country Assistance Strategy*, WB, 2002, p. 8; CAS Annex 9, p. 3

	provision of universal service, in particular to ensure affordability and the monitoring of the financing scheme. An updated telecommunications sector policy lays down directions and deadlines for implementing the EU 2002 acquis.
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<p>Toward sustainable environmental development. The CAS (2002) identified specific problems whose reduction would contribute to environment improvement: 1) forest fires; 2) logging and loss of forest cover; 3) poor carbon storage capacity. Developing sector plans for industries, energy and agriculture under UNFCCC. The above should be comprised in a strategy for sustainable implementation of EU environmental acquis approved.</p>	<p>Toward sustainable environmental development. The EU 2005 Monitoring Report stated that the regulatory framework was largely in place and was in line with the EU acquis, with the recent adoption of the amendments to the Framework Environmental Protection Act. The relevant administrative capacities have been strengthened through additional recruitment of staff and the training of staff at all levels, but further strengthening is needed, particularly at regional and local levels, given the amount and variety of tasks needed to enforce the requirements of the Directive. In addition, linkages to other permitting procedures such as Integrated Pollution Prevention and Control (IPPC) require better coordination and integration. For both the Environmental Impact Assessment (EIA) and the Strategic Environmental Assessment (SEA), specific training is still essential. So far, standard formats and maps for 581 potential NATURA 2000 sites have been prepared. Application of the precautionary principle in EIA and SEA procedures, especially regarding potential Natura 2000 sites, should also be strengthened.⁸⁰</p>
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Bank Specific Assistance - Toward sustainable environmental development

As of 2005 the Bank committed USD .86 m investment loan to **Lake Pomorie Conservation, Restoration and Sustainable Management Project**. The Project will build and refurbish administration facilities in protected areas and restore existing infrastructure. Mitigation measures include: abiding by the Bulgarian regulations on environmental impact assessment; designation of location for placement of waste; prevention of accidental spillage; proper disposal of construction waste and unacceptable construction materials; re-vegetating earthen banks with grasses and shrubs; regulating the development of tourism as well as providing training for local tourism providers.

In 2005 through PCF (Prototyped Carbon Fund) the Bank committed USD 3.64 m investment loan under the **Wood Residue to Energy Project**. It aims at reducing greenhouse gas emissions generated at Svilosa company, by substituting coal with residual wood as a fuel for power, and heat generation, and, through savings of methane emissions from residual wood waste, stockpiled at the plant.

⁸⁰ Bulgaria 2005 Comprehensive Monitoring Report, EC, 2005, p. 60

As of 2002 under the **Wetlands Restoration & Pollution Reduction GEF Project** the Bank committed USD 7.5 m investment loan to sustainable environment development. The development objective of the Project for Bulgaria was that local communities and local authorities in the Persian Nature Park and Kalimok/Brushlen Protected Site areas adopt sustainable natural resource management practices.

As of 2000 the Bank committed USD 50 m adjustment loan to an **Environmental and Privatization Support Project**. It supported instituting four major factors that proved topical to succeed in privatizing environmental sustainability: 1) Government commitments to foster inclusion of environmental considerations in sales negotiations and agreement; 2) appropriate legal and regulatory framework; 3) sufficient institutional capacity and commitment for environmental enforcement; 4) commitments by new owners to sustainable environmental management.

In Bank view the project outcome was satisfactory, sustainability highly likely, and institutional development impacts are substantial.

ANNEX III. CLIENT INTERVIEW SAMPLING

This field assessment conducted interviews with development practitioners across a spectrum of in-country institutions. Most of the counterparts were at a senior level—typically playing a significant role in the organization’s management team. The sample also includes some counterparts with practical operational roles. The interviews were drawn from the following diverse range:

- Ministry of Finance
- Ministry of Industry
- Ministry of Labor
- Ministry of Regional Development and Public Works
- Ministry of Energy
- Ministry of Economy
- Ministry of Foreign Affairs
- Sofia Chamber of Commerce and Industry
- Independent Trade Unions in Bulgaria
- Industry Watch Think Tank
- United Nations Development Programme
- Individuals from Academia
- World Bank Staff

On occasion, the references in the working paper appropriately are associated with particular institutional vantage points, which allow the reader to see the richness of the debate. Noting this, the appendix does therefore not identify respondents by name.