

IEG

ICR Review

Independent Evaluation Group

1. Project Data:		Date Posted :	07/25/2006	
PROJ ID:	P078675		Appraisal	Actual
Project Name:	Programmatic Adjustment Loan 3 (pal 3)	Project Costs (US\$M)	150	150
Country:	Bulgaria	Loan/Credit (US\$M)	150	150
Sector(s):	Board: SDV - General public administration sector (45%), General industry and trade sector (22%), General energy sector (11%), Health (11%), General education sector (11%)	Cofinancing (US\$M)		
L/C Number:	L4785			
		Board Approval (FY)		05
Partners involved :		Closing Date	03/31/2006	03/31/2006
Evaluator :	Panel Reviewer :	Division Manager :	Division :	
Michael R. Lav	Lily L. Chu	Kyle Peters	EGCR	

2. Project Objectives and Components

a. Objectives

The objectives of the PAL program, of which PAL 3 is the third component, were to:

1. achieve annual GDP growth rates of 4.5-5.0 percent during 2002-2005,
2. halve the poverty rate by 2005 compared to 2001,
3. reduce the unemployment rate from 18.1 percent in 2001 to 12-14 percent in 2005, and
4. achieve substantial progress towards European Union (EU) accession.

b. Components (or Key Conditions in the case of Adjustment Loans) :

1. Sustain structural reforms in the enterprise sector (especially, completion of privatization and the restructuring of the energy, railway, telecommunications and water sectors).
2. Establish a market-friendly business environment (reduce entry constraints, accelerate exits, secure deregulation and reduce regulatory costs, improve the delivery of public services to business, improve the competitive environment, and improve labor market policies)
3. Deepen the financial sector (improve the legal framework for lending, complete banking reform, and develop financial markets)
4. Improve public sector governance (strengthen public sector administration capacity, improve service delivery, reduce corruption, strengthen accountability and transparency, strengthen public expenditure management, increase the efficiency and effectiveness of the judicial system)
5. Invest in human capital and strengthen social programs (improve service delivery in education and health, continue pension reforms, increase social assistance effectiveness, provide for better integration of the disabled and reduce the institutionalization of children)

c. Comments on Project Cost, Financing, Borrower Contribution, and Dates

The project cost US\$ 150 million financed by an IBRD loan in that amount. The project was appraised in March, 2005, approved by the Board on June 2, 2005, made effective on November 1, 2005, and closed on schedule on March 31, 2006.

3. Relevance of Objectives & Design :

The program supported the medium term reform program of the Government of Bulgaria and was articulated in the 2002 CAS. In so doing, it was tailored to support Bulgaria's accession to the EU. The objectives and design of PAL III were fully relevant.

4. Achievement of Objectives (Efficacy) :

Achievement of the project's objectives was substantial in each case :

1. GDP growth rates averaged 5.2 percent per year during 2002-2005.
2. The poverty rate was reduced from 12.8 percent in 2001 to a conservatively estimated 6.4 percent in 2005.
3. The unemployment rate declined from 18.1 percent in 2001 to 9.9 percent in 2005

4. Bulgaria achieved substantial progress towards European Union (EU) accession and signed the accession treaty in April 2005 to join the EU by the target date of January, 2007.

Virtually all of the components were implemented as planned and almost all of the 9 triggers and 92 benchmarks were met. Among the few exceptions:

1. Poverty monitoring was to have been upgraded, but planned improvements in data availability from a LSMS did not materialize. Hence, for the ICR, poverty rates are estimated rather than measured.
2. Concerning structural reforms, water sector restructuring was less successful because of delays in developing a public/private sector model.
3. Implementation of health and education sector reforms fell short of expectations. Public sector expenditures on education did not improve over 2002 levels (4.1% of GDP, compared to OECD average of 5.6% of GDP). Reforms are needed in the ownership and management of hospitals to improve efficiency.
4. The labor force participation rate is still one of the lowest in the region, due in part to Bulgaria's policy of mandating large benefits for those with long-term, full-time employment contracts without allowing for flexible hiring through the use of temporary or part-time contracts. The PAL program made little progress in improving labor market flexibility.

5. Efficiency :

IEG does not evaluate the efficiency of adjustment operations .

6. M&E Design, Implementation, & Utilization:

The poverty monitoring and evaluation program was not implemented as foreseen, although this shortcoming was addressed to a large extent by careful analytical work presented in the ICR . All other aspects of this complex program were monitored through a large supervision missions, the work of the resident mission, and an ICR mission .

7. Other (Safeguards, Fiduciary, Unintended Impacts--Positive & Negative):

No special issues are raised concerning safeguards or fiduciary matters .

8. Ratings :	ICR	ICR Review	Reason for Disagreement /Comments
Outcome :	Satisfactory	Satisfactory	
Institutional Dev .:	Substantial	Substantial	
Sustainability :	Likely	Likely	
Bank Performance :	Satisfactory	Satisfactory	
Borrower Perf .:	Satisfactory	Satisfactory	
Quality of ICR :		Exemplary	

NOTES:

- When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.
- ICR rating values flagged with ' * ' don't comply with OP/BP 13.55, but are listed for completeness.

9. Lessons:

1. A strong country presence is important for successful implementation of complex adjustment programs . In addition, high level effective coordinating mechanism by government are essential . Complex operations such as PAL 3 should only be initiated with firm support from governments with substantial capacity . 2. Each PAL in this series was managed by a different team with expertise in the most important area of focus . The lesson is consideration should be given to allowing teams with different sectoral leadership and competence manage PALs depending on the focus of the PAL . 3.

10. Assessment Recommended? Yes No

Why? PAL 1, PAL 2, and PAL 3 should be assessed together as they constitute an important set of interventions to support Bulgaria's accession to the EU . There may well be important lessons to be learned and applied to reform efforts in other countries .

11. Comments on Quality of ICR:

The ICR presents this complex array of material with care and precision . A number of indicators are brought to bear to firm up judgements on progress (although some basic health indicators are lacking) . For the few shortfalls in implementation the ICR shows what went wrong and why, and how to evaluate the effects . The lessons are carefully developed. The Borrowers contribution is both substantial and thoughtful, adding credibility to the statements that the PAL program was indeed the government, though effectively supported by the Bank . The ICR is long at 36 pages, but more than 5 pages of that are Borrower's comments, and given the quantity of material needed to be

covered for the wide spectrum of reforms addressed by PAL 3, the presentation is very efficient.