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Report No: 36603

IMPLEMENTATION COMPLETION REPORT
(TF-52681 SCL-47850)

ON A

LOAN

IN THE AMOUNT OF US\$450 MILLION

TO THE REPUBLIC OF

BULGARIA

FOR A

SERIES OF THREE PROGRAMMATIC ADJUSTMENT OPERATIONS

June 26, 2006

CURRENCY EQUIVALENTS

(Exchange Rate Effective April 20, 2006)

Currency Unit = Bulgarian Leva (BGN)

1 BGL = US\$ 0.631672

US\$ 1.441 = SDR 1

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

ALMPs	Active Labor Market Policies
ASAL	Agricultural Sector Adjustment Loan
BEEPS	Business Environment and Enterprise Performance Survey
BGN	Bulgarian Leva
BTC	Bulgarian Telecommunication Company
CAS	Country Assistance Strategy
CBA	Currency Board Arrangement
CCR	CAS Completion Report
CPC	Commission for Protection of Competition
CPS	Country Partnership Strategy
COM	Council of Ministers
CRC	Communications Regulation Commission
DPL	Development Policy Loan
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECA	Europe & Central Asia Region
EPAL	Environmental Protection Adjustment Loan
EU	European Union
FDI	Foreign Direct Investments
FESAL	Finance and Enterprise Sector Adjustment Loan
GDP	Gross Domestic Product
GMI	Guaranteed Minimum Income
GNI	Gross National Income
GOB	Government of Bulgaria
GVA	Gross Value Added
HD	Human Development Network
ICR	Implementation Completion Report
IFIs	International Financial Institutions
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
ISA	International Standards on Auditing
NHIF	National Health Insurance Fund
NSSI	National Social Security Institute

PAL	Programmatic Adjustment Loan
PFSD	Private and Financial Sector Development Network
PPP	Purchasing Power Parity
PREM	Poverty Reduction and Economic Management Network
PSC	Public Service Contract
OECD	Organization for Economic Cooperation and Development
OED	Operations Evaluation Department
SEE	South and Eastern Europe
SERC	State Energy Regulatory Commission
SOEs	State Owned Enterprises
TTL	Task Team Leader
USAID	United States Assistance for International Development
WB	World Bank

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BULGARIA
Programmatic Adjustment Loan (PAL)

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<i>Project ID:</i> P078675	<i>Project Name:</i> Programmatic Adjustment Loan 3 (PAL 3)
<i>Team Leader:</i> Lire Ersado	<i>TL Unit:</i> ECSHD
<i>ICR Type:</i> Intensive Learning Model (ILM) of ICR	<i>Report Date:</i> June 28, 2006

1. Project Data

Name: Programmatic Adjustment Loan 3 (PAL 3) *L/C/TF Number:* TF-52681; SCL-47850
Country/Department: BULGARIA *Region:* Europe and Central Asia Region

Sector/subsector: General public administration sector (45%); General industry and trade sector (22%); General energy sector (11%); General education sector (11%); Health (11%)

Theme: Health system performance (P); Administrative and civil service reform (P); State enterprise/bank restructuring and privatization (P); Social risk mitigation (P); Education for all (P)

KEY DATES

	<i>Original</i>	<i>Revised/Actual</i>
<i>PCD:</i> 07/14/2004	<i>Effective:</i> 11/01/2005	11/01/2005
<i>Appraisal:</i> 03/21/2005	<i>MTR:</i>	
<i>Approval:</i> 06/02/2005	<i>Closing:</i> 03/31/2006	03/31/2006

Borrower/Implementing Agency: REPUBLIC OF BULGARIA/MINISTRY OF FINANCE
Other Partners: Council for State Administration Modernization, Inter-Ministerial Working Group for the Optimization of Regulatory Regimes, Poverty Monitoring Unit, Ministry of Labor and Social Policy Labor Standards Measurement Unit, National Statistical Institute Council for Economic Growth and Tax Council

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2. Principal Performance Ratings

(HS=Highly Satisfactory, S=Satisfactory, U=Unsatisfactory, HL=Highly Likely, L=Likely, UN=Unlikely, HUN=Highly Unlikely, HU=Highly Unsatisfactory, H=High, SU=Substantial, M=Modest, N=Negligible)

Outcome: S
Sustainability: L
Institutional Development Impact: SU
Bank Performance: S
Borrower Performance: S

QAG (if available) *ICR*

Quality at Entry: S S

Project at Risk at Any Time: No

3. Assessment of Development Objective and Design, and of Quality at Entry

3.1 Original Objective:

Introduction

Until 1997, Bulgaria's transition to a market economy was slow. The 1989-97 period was marked by extensive foreign borrowing, slow structural reform, and a turbulent macroeconomic environment. This culminated in a severe economic and financial crisis in 1996-97, with a cumulative GDP decline of 14% and a sharp increase in poverty.

By 1999, when Bulgaria was invited to start negotiations toward EU membership, the macroeconomic situation had stabilized—in part due to establishment of an IMF-endorsed Currency Board Arrangement (CBA) in 1997, wide-ranging structural reforms and tight fiscal policies adopted under the CBA. While growth had been strong and structural reform had quickened, progress was not sufficient to reduce persistently high unemployment, sustain economic growth momentum and attract large foreign direct investment. Also, despite the progress, poverty in 2002 remained higher than in 1995 and was especially high among some segments of the population.

The PAL program was initiated to accelerate the pace of structural reform—especially in the enterprise, financial and utility sectors—and establish a more market-friendly business climate, including a stable legal and regulatory environment and credible judiciary. The enterprise and financial sector segments of the PAL were, in essence, the continuation of policy-based lending in these sectors that had been undertaken under the two Financial and Enterprise Sector Adjustment Loans (FY98 and FY00 respectively). The PAL further focused on improving the allocation of public expenditures and improving public sector governance, while shoring up public policies that were needed to reach vulnerable groups that had not benefited from recent growth. To develop the human capital necessary for a more competitive EU environment, the PAL also supported reforms in the education and health sectors.

The program supported the medium term reform program of the Government of Bulgaria (GOB) that emphasized private initiative as the main engine of economic growth, and empowerment of the population to participate in future growth. The PAL program consisted of three successive operations, as articulated in the 2002 CAS (see Table 1 for timing and size of the operations):

- PAL1 focused primarily on structural, regulatory and institutional reforms in the real and financial sectors to complete Bulgaria's transition to a fully functioning market economy;
- PAL2 initiated broad reforms in the area of public sector governance, while continuing reforms initiated under PAL1; and
- PAL3 continued the unfinished reform agenda of PAL1 and PAL2, while it had a particular focus on social sector reform agenda.

This is the Implementation Completion Report (ICR) for the final operation (PAL3) as well as an evaluation of the overall PAL program. A simplified ICR for PAL1 was completed on June 30, 2004, and received an outcome rating of satisfactory from OED as well as the ICR authors. The ICR for PAL2 was completed on November 4, 2005 and received an outcome rating of satisfactory from the ICR authors, but OED rated it moderately satisfactory. It assesses the overall program objectives against Bulgaria's current development priorities. With regard to the analysis of design, the ICR first reviews the overall PAL program based on the cumulative experience through the third operation, and then addresses the specific design features of PAL3. The Outcome section first reviews the overall outcomes in the areas supported by the five PAL pillars, and then evaluates the outcomes attributable to PAL3. The principal performance

ratings shown above and discussed in later sections only cover PAL3. The lessons learned reflect the experience of the overall PAL program in general and of PAL3 in particular. The Performance Benchmarks Matrix describing a set of desired outcomes and their status in each of the agreed reform areas for the entire PAL program is shown in Annex 1.

Table 1. Timing and size of PAL operations

PAL1	PAL2	PAL3
Concept: Apr 2002		
Approval: Feb 20, 2003	Concept: April 29, 2003	
Closing: Dec 31, 2003	Approval: Jun 10, 2004	Concept: Jul 14, 2004
ICR: Jun 30, 2004	Closing: March 31, 2005	Approval: Jun 2, 2005
	ICR: Sep 30, 2005	Closing: March 31, 2006
		ICR: June 30, 2006
Size (mil. \$): 150	Size (mil. \$): 150	Size (mil. \$): 150

3.1 Original Objectives

The Bulgaria Programmatic Adjustment Loan (PAL) Program had as its objectives: (a) the achievement of 4.5 – 5.0% average annual growth in GDP during 2002-2005; (b) the reduction of poverty by half between 2001 and 2005; (c) the reduction of unemployment from 18.1% in 2001 to 12-14% in 2005; and (d) substantial progress toward accession to the European Union (EU). The strategy to achieve these objectives focused on two main themes: (a) private sector investment and productivity as the engine of growth; and (b) empowerment of the population to ensure social inclusion and wide participation in the anticipated growth.

To achieve these objectives, the program was built around five pillars of structural and institutional reforms that were envisioned in the GOB's medium-term program:

- (1) Sustaining structural reforms in the enterprise and infrastructure sectors;
- (2) Establishing a market-friendly business environment;
- (3) Deepening the financial system;
- (4) Improving public sector governance; and
- (5) Investing in human capital and strengthening social programs.

Each of the three PAL operations focused on specific thematic areas as described in the introduction and as envisioned in the CAS, while at the same supporting reforms which began during the previous PALs, and preparing reforms to be implemented in the succeeding PALs. Each PAL operation was presented separately to the Board, within a common framework developed and agreed to in the first PAL operation (PAL1). As articulated in the CAS, PAL1 focused on structural, regulatory, and institutional reforms in the real and financial sectors that would move Bulgaria towards a functioning market economy (Pillars 1-3). PAL2, in addition to sustaining the reforms under PAL1, advanced reforms in public sector governance, including public administration modernization, judicial reform, and anti-corruption initiatives (Pillar 4). Finally, the main focus area for PAL3 was the long term social sector agenda, in addition to ensuring the sustained implementation of the reform program supported by previous PALs (Pillar 5).

Assessment of Objectives

The PAL program was fundamentally that of the GOB. PAL complemented the government's medium term economic program, and its activities were predominantly driven by the GOB's priorities and timetable.

The program came at an opportune time, with a new leadership in power with a desire to deliver on campaign promises. This, in tandem with Bulgaria's aspiration to join the EU, made the "national mind-set" conducive to reform. The PAL program effectively took advantage of the 'window of opportunity' that existed, while at the same time maintaining a close link with the Bank's country and sectoral assistance strategy and corporate goals. In this regard, PAL represented the centerpiece of Bulgaria's 2002-2005 CAS and was consistent with the country's current development priorities as articulated in its Letter of Development Policy.

PAL objectives were relevant and addressed significant development barriers, and the breadth of the program was necessary for Bulgaria to complete its transition to a fully functioning market economy.

The objectives were well crafted and in accordance with the medium term program of the country, and were appropriate given the Bulgarian context at the time. The operation was a comprehensive effort to support the major pillars of the GOB's medium-term program stated above, focusing on design and implementation of policies and sector reform programs, and the strengthening of markets and institutions. The experiences from other transition countries in the region also suggested the need to move along multiple fronts simultaneously so as to exploit the complementarities and synergies among the reform elements. Although the project's objectives were quite broad, the components were clearly linked to the progress sought under the GOB's program. Bulgarian authorities demanded a comprehensive program of structural and institutional reforms to support the wide range of remaining policy and institutional reforms required to complete the transition to a fully competitive market economy. Key aspects of the reform (including judiciary, anti-corruption, business environment, and public sector competitiveness) were core requirements for EU accession. The program's objectives still remain relevant today as the country prepares for EU membership in 2007. However, the poverty reduction objective was an ambitious one and the program did not ensure appropriate monitoring and evaluation mechanism to assess if this major goal would be achieved.

3.2 Revised Objective:

The program objectives remained unchanged.

3.3 Original Components:

PAL supported economy-wide structural reforms in five strategic pillars:

- 1. Sustaining structural reforms in the enterprise and infrastructure sectors.** Pillar 1 aimed to rationalize the role of the state by privatizing activities that can be better performed by the private sector. It involved continuing privatization in the enterprise sector, and restructuring and privatization of the energy, railway, telecommunications, and water sectors. In conjunction with the business environment (Pillar 2) and public administration (Pillar 4) reforms, the privatization reforms were anticipated to increase the share of the private sector in growth and employment generation.
- 2. Establishing a market-friendly business environment.** This pillar focused on improving the business environment through reducing entry and regulatory costs; improving government service to business; maintaining stable market rules and regulations; achieving greater labor market flexibility; improving efficiency of the insolvency regime; and ensuring an overall competitive environment.
- 3. Deepening the financial system.** Activities in this pillar included measures to increase financial intermediation and to stimulate the development of the financial markets. To achieve this, PAL aimed at completing privatization of financial institutions (begun under earlier Bank operations) and improving prudential and regulatory supervision of financial institutions.

4. Improving public sector governance. The actions in this pillar included modernizing state administration, reforming the judicial system, and fighting corruption, particularly in the areas most affected such as customs, health services, tax administration, higher education, and the courts. Pillar 4 focused on what the EU identified as critical conditions for Bulgaria's accession to the Union, e.g., judicial reform including greater independence of the judiciary.

5. Investing in human capital and strengthening social programs. This pillar was about the empowerment of the population to participate in growth. To achieve this, PAL program aimed to improve the quality of health and education services, equip the population with the skills required in a competitive market economy, enable the disadvantaged to invest in education, and improve the governance and efficiency of health and education services. The program also aimed to empower the disabled and to improve administration and targeting of disability benefits, to reform the pension system, to improve coverage and efficiency of social assistance programs.

3.4 Revised Components:

The program components remained unchanged.

3.5 Quality at Entry:

Quality at Entry of the Overall Program

Quality at entry of the overall PAL program was **satisfactory**. The program design was underpinned by considerable analytic work (Public Expenditure Issues and Directions for Reform (2003); World Bank-IMF Financial Sector Assessment Program (FSAP) of 2002; The Dual Challenges of Transition and EU Accession (2001); Poverty Assessments of 1999 and 2002; European Commission's Regular Report on Bulgaria's Progress towards Accession (annual); Anticorruption in Transition (2000, 2004); Country Financial Accountability Assessment of 2003), and built upon experience and lessons of the then completed and on-going structural reforms in the country financed by Bank (e.g., Social Protection Adjustment Loan, two Finance and Enterprise Sector Adjustment Loans (FESALs) FY98 and FY00, two Agricultural Sector Adjustment Loan (ASAL) FY01, and an Environmental Protection Structural Adjustment Loan (EPSAL) FY00). The two FESALs were particularly relevant in setting the stage for the first three pillars which were focus areas for PAL1. The Bank team utilized broad and relevant international experience in the design and implementation of the program, particularly in the areas of business regulation, privatization, and social sector reforms. Identification and appraisal of PAL involved intense dialogue with the government policy-makers and the IMF. The program complemented and reinforced the IMF program to keep Bulgaria on its macroeconomic stabilization path. It also successfully integrated the results of assistance programs of other donor organizations such as the USAID.

The GOB showed the political will, necessary commitment and competency, and the coordination capacity through its Council of Ministers (COM) to implement a complex program such as the PAL. Coordination role played by the Council for Economic Policy (formerly Council for Structural Policy) under the COM, chaired by Deputy Prime Ministers, was critical by keeping visibility of PAL reforms high, elevating the decision level, bringing "group pressure" on lagging ministries to advance reform agenda. *As a result, despite the complexity of the PAL instrument, the country has successfully managed it.* The PAL dialogue on issues showed resilience even (1) in the environment of coalition government, (2) with a cabinet change and reshuffling in the middle of PAL2 and again during PAL3, and (3) with a change in the government just after the inception of the program. A new parliament ratified PAL3 in October after the 2005 elections. The fact that the key policy anchors continued to be firmly in place beyond the elections, including Bulgaria's 2007 accession to the European Union, the CBA, as well as the ongoing IMF program, were instrumental in making the policy discipline built into the PAL program transcend

national political cycles.

The program components and sequencing of focus areas were well designed and the five pillars strongly complemented each other in supporting the achievement of the program objectives. PAL1 focused on the government's most immediate priorities, i.e. privatization and improving the climate for private investments, while paving the way for reforming public sector governance under PAL2. The mix of conditions under each of the first two operations fittingly emphasized the development of an improved policy and regulatory environment, thus providing a conducive framework for private-led economic growth and productivity. The final operation (PAL3) took up the role of empowering a broader range of the population to participate in the growth by supporting reforms for enhanced investment in human capital and strengthening social protection. In addition, the PAL program had an environmental component to mitigate the potential environmental risks of reforms such as the privatization of large SOEs.

The programmatic approach provided much-needed flexibility in the design of multi-sectoral loan. The PAL program proved flexible in that unfinished conditions of PAL1 were picked up in PAL2 and PAL3 and the built-in triggers assured accountability, thus accommodating uncertainties inherent in sequencing and pace of a multi-sectoral reform program such as this. Moreover, the flexibility of PAL instrument worked well in permitting pursuit of reforms that were feasible, modifying those that were impractical in some manner, and downsizing or dropping those that were not feasible.

Arrangement for task management within the Bank was unusual in that three different sectoral units took turns in the Task Team Leadership (TTL) role. PAL1, with its focus on privatization, business environment and financial reform, was managed by Private and Financial Sector Development (PFSD) sector unit. Public sector governance and administration reform, which was a focus area for PAL2, had a TTL from the Poverty Reduction and Economic Management (PREM) sector unit. Finally, the Human Development (HD) sector unit had the TTL role for PAL3, which had human development and social agenda as its main area of focus. The arrangement was intended to motivate sectoral units, and maximize their participation and “ownership” of respective sectoral reforms. The needed continuity was maintained by keeping the designer of the overall PAL program, who was also the TTL of PAL1, as an integrator throughout the program. It should be noted that the PAL Program TTL arrangement was an effort to overcome *institutional limitations within the Bank*, i.e., the potential lack of sufficient focus by sectors that were not directly managing the program and task budget. *This arrangement was overall successful* (see Bank Performance section to see a more detailed assessment of how well this arrangement worked in practice).

There were some less desirable aspects of the design of the PAL program, however. PAL was very comprehensive in its coverage, conditionality, level of detail and specificity (see Table 2 below and detailed conditions for each pillar are in Annex 1). For example, with triggers and benchmarks combined, there were 68, 93 and 101 conditions in PAL1, PAL2 and PAL3, respectively. The number of conditions increased as the program progressed and as some of the difficult reforms were pushed back to succeeding operations. There were several additional conditions included in PAL2 and PAL3, particularly in pillars 4 and 5, which were not identified during the original PAL design, and as a result, the large matrix of performance benchmarks in the PAL3 project document appears overwhelming (see Annex 1). This gave the impression of an over-designed loan and one that was not aligned with the Bank’s emerging model of support to middle income countries such as Bulgaria. However, the ICR team learned that the GOB demanded a detailed roadmap and specific implementation strategies, and the Bank went ahead with detailed program to meet the client's demand.

Table 2: Number of PAL program triggers and benchmarks increased through the years.

	Year 1	Year 2	Year 3	Total
PAL1 PD	68	72	53	193
Triggers	10	11	10	31
Benchmarks	58	61	43	162
PAL2 PD	69	93	113	275
Triggers	10	12	9	31
Benchmarks	59	81	104	244
PAL3 PD	69	95	101	265
Triggers	10	12	9	31
Benchmarks	59	83	92	234

Source: PAL1, PAL2 and PAL3 Program Documents

There were two design shortcomings in the poverty reduction objective that stipulated reducing poverty by half in 2005 from its level in 2001. The poverty reduction objective, which stipulated halving poverty in 2005 from its level in 2001, was ambitious. But a simulation of the poverty rate using the concept of the growth elasticity of poverty shows that the poverty reduction objective may have not been unreachable (see Section 4.1). Another drawback with respect to the poverty reduction objective was that the program, despite did not ensure an appropriate monitoring and evaluation mechanism to assess the degree to which this major goal would be achieved. Despite the fact that the original PAL design put a condition that demanded appropriate data be collected at the conclusion of the program, the ICR found no efforts that were made to ensure that necessary and comparable data would be made available. An LSMS survey was carried out in 2003 that enabled poverty monitoring, but it was not only incomparable to the 2001 data, but it also came two years too early to be useful for evaluation of the PAL program. The ICR team learned that a conscious decision was made during the 2003 LSMS where comparability to the 2001 survey was sacrificed in favor of an improved survey.

Although the program pillars were coherently packaged and complemented the overall program, the PAL program did not provide sufficient information on the actual (or potential) social impact of some of the main reforms on the poor and vulnerable groups. The PAL program made only partial assessments of the social impact of reforms. This was particularly relevant weakness given that some of the reforms in the first and second operations, (for example, privatization and restructuring/ liquidation of SOEs), had considerable potential for adverse impact on the poor and vulnerable groups. However, there were some measures undertaken by the program to protect the vulnerable groups from the adverse impacts of reforms, including strengthening of the active labor market policies (ALMPs) for displaced workers, and the analysis and subsequent design of energy tariff structure and benefits following the privatization of the energy sector. There was a poverty and social impact assessment (PSIA) of the privatization of bulgatabac on tobacco farmers and a similar one on the railway reforms.

Another design inadequacy was that the political economy aspects of structural and institutional reforms may have been taken too lightly. For instance, too much emphasis was put on the privatization and restructuring/liquidation of bulgatabac. This was the case despite its declining economic and demonstrative significance after successful conclusion of PAL1, difficulties in earlier attempts to privatize the Company, and notwithstanding the risk of the prevailing domestic political environment (e.g., strong Turkish minority party was opposing the privatization of the Company) and adverse market conditions. It

was understandable that the government wanted to send clear and emphatic signal to the markets and investors regarding its willingness to take tough measures to improve the business climate. However, less prominence of bulgatabac would have been more advisable than making the privatization of bulgatabac a key aspect of PAL to extent of instituting a floating second-tranche in PAL2 with privatization of bulgatabac being the sole condition for its release. Splitting PAL2 into two tranches for highlighting the privatization of Bulgatabac might have created a perverse incentive: the Bank may have lost some leverage for pushing for its privatization by doing so.

Quality at entry of PAL3

Quality at entry of PAL3 is rated **satisfactory**. The design of PAL3 was consistent with overall program objectives, and built on the accomplishments of the first two operations while maintaining focus on human development and social sectors as originally formulated. It complemented the priorities identified in the original PAL program and took into account the lessons and stocktaking reviews of previous operations. PAL3 was also informed by a number of analytic works such as a note on labor market flexibility, disability policy note and social assistance effectiveness study, all undertaken as part of the design and implementation of the program. However, some of the contentious activities of the previous PAL operations were pushed to PAL3, increasing its scope and complexity. Moreover, implementation of the social sector agenda coincided with the election cycle in 2005. The incumbent government was hesitant at times to go forward with bold reforms in politically sensitive areas such as the labor market. As some of the reforms advanced in the social sectors did not represent direct EU accession requirements—which largely focused on establishing a functioning market economy, achieving competitiveness, improving the business environment and reforming the public administration—the political will of the government to push forward with difficult reforms appeared to decline during PAL3.

4. Achievement of Objective and Outputs

4.1 Outcome/achievement of objective:

The overall PAL program was highly successful in achieving its desired objectives. This assessment is based on the implementation of specific structural and institutional reforms as well as achievement of the broader stated objectives of private-led growth, poverty and unemployment reduction, and EU accession to which these reforms were expected to contribute. The major impact of the PAL was to play a catalytic role in bolstering private sector confidence through its support of the country's structural and institutional reforms, which it successfully accomplished. Successful implementation of structural reforms, and measures taken to improve the business climate, deepen the financial sector and enhance public sector administration and social services delivery strengthened Bulgaria's ability to sustain growth and led to overall improvements in the standard of living (see Table 3). Reforms achieved by the PAL program helped keep Bulgaria on track for EU accession.

Table 3. Key Economic Indicators

	2001	2002	2003	2004	Estimated 2005
GNI per capita (Atlas method, US\$)	1,630	1,790	2,130	2,690	2846
Real GDP growth (% change)	4.1	4.9	4.5	5.6	5.6
Employment rate ²	38.7	40.3	42.3	43.6	44.7
Unemployment rate (registered) ³	19.7	16.8	12.7	11.8	9.9
Labor force participation rate ⁴	48.1	48.4	48.5	49.4	49.0
Share of long-term unemployment ⁵	63.2	65.8	66.3	60.0	63.1
Inflation	4.8	3.8	5.6	4.0	6.5
Total expenditure & grants (% of GDP) ¹	40	38.7	38.2	39	39
Overall Fiscal Balance (% of GDP) ¹	-0.6	-0.6	0.0	1.7	2.4
Current Account Balance (% of GDP)	-7.2	-5.6	-9.2	-8.5	-14.9
FDI Inflows (% of GDP)	5.9	5.8	10.3	9.2	7.6
External Debt (% of GDP)	78.6	65.1	60.5	63.3	67.7
Public debt to GDP	69.9	56.2	47.8	40.9	32.4
Private sector to GDP	70.0	70.0	75.0	75.0	75.0
Private share of gross value added	71.4	73	76.7	76.5	79.5
Domestic investment growth (%)	20.1	4.4	18.2	14.8	21.2
Export growth (fob, %)	6.0	11.3	32.5	30.6	19.2
Gross capital formation, % GDP	20.7	19.8	21.7	23.5	26.6
gross fixed capital formation, % GDP	18.3	18.3	19.3	20.9	22.3
Growth, gross fixed capital formation	123.3	108.5	113.9	112	117.7

Notes: p refers to preliminary projection; ¹ consolidated general government, national methodology, cash basis; ² employed/population aged 15+; ³ unemployed looking for a job/(employed + unemployed looking for a job); ⁴ (employed + unemployed looking for a job)/population aged 15+; ⁵ unemployed looking for a job for more than one year/unemployed looking for a job. (**Sources:** National Statistical Institute, Bulgarian National Bank, Ministry of Finance, and the World Bank)

Macroeconomic performance was very good during the PAL period (Table 3). The implementation of structural reforms as envisaged in the PAL program contributed to a sustained improvement in macroeconomic performance. Bulgaria showed stronger macroeconomic fundamentals during and following PAL implementation: economic growth remained solid, the private sector share in the economy increased, FDI increased considerably, registered unemployment continued to decline, fiscal accounts are projected to run a surplus of 2% in 2005, gross international reserves increased to US\$4.4 billion (or more than five months of imports), and financial intermediation continued to improve. Bulgaria reached the Maastricht Treaty target of a public debt to GDP ratio of less than 60% in 2002 from 100% in 1997, and the estimated ratio of 32.4% for 2005 is less than half of the 2001 ratio of 69.9%. As a result, per capita income is increasing and the country's creditworthiness indicators improved (see Table 4). Bulgaria had made significant progress in its EU accession program with the European Commission declaring the country as a functioning market economy for four years in a row since 2002.

Owing to macroeconomic stability and an improved business climate, investor confidence improved, both domestically and externally. Bulgaria's long-term foreign and local currency debt was upgraded from speculative to an investment grade rating in the summer of 2004 and the ratings have continued to improve since then (Table 4). Combined foreign and domestic investment reached 23.5% of GDP in 2004, closing the gap with the EU8 average of 25%.

Table 4. Bulgaria debt has received a rating of investment grade during the PAL

Year	S&P		Fitch	
	Foreign currency	Local Currency	Foreign currency	Local Currency
1998	B	B	B+	BB
2000	B+	BB-	B+	BB
2001	BB-	BB	BB-	BB
2002	BB	BB+	BB-	BB+
2003	BB+	BBB-	BB+	BBB-
2004	BBB-	BBB	BBB-	BBB
2005	BBB-	BBB	BBB	BBB+

Source: Ministry of Finance, Republic of Bulgaria. (Investment grade ratings are highlighted in bold.)

However, there are some deficiencies and potential risks in the macroeconomic environment that may affect Bulgaria’s medium term prospects. These include the rapid acceleration of credit to the private sector and increase in current account deficit. A credit boom contributed to a surge in domestic demand that has led to a deterioration of the external current account deficit, which widened to 8.4 % of GDP in 2003 and projected to increase to nearly 15% of GDP in 2005. In part as a result of increase in current account deficit, the external debt ratio climbed up to over 63% of GDP in 2004 after declining to 60.5% in 2003. Moreover, the inflation rate appears high for a country with a CBA, and this could affect Bulgaria’s competitiveness and macroeconomic sustainability in not too distant future.

[Fulfillment of Conditionality:](#) It should be noted that the PAL3 Performance Benchmarks Matrix contains 265 milestones for the overall PAL program, of which 31 were designated as PAL1 Board conditions, or PAL 2 or PAL3 triggers. Of these conditions, which are printed in bold in each of the 3 PAL Performance Benchmarks Matrices, *all were completely fulfilled except those 3 listed in the Table 5 below.* Of the 3, some were modified or downgraded due to changing circumstances or perceptions, or due to political considerations. 📄

Table 5: Core conditions downgraded or not completely fulfilled as formulated

Board Conditions or Triggers	Revisions/ Retentions	Outcome/circumstances
<i>Privatization or liquidation of the large SOEs listed in Annex 6B (Bulgartabak)</i>	Changing market and domestic political conditions made it difficult to complete the privatization of Bulgartabak. The condition substituted by privatization of the Bulgarian Telecommunication Company (BTC).	Bulgartabak remains state-owned; US\$25 million second tranche under PAL2 not disbursed -BTC successfully privatized
Enactment of amendments to the <i>Labor Code</i> to promote flexibility	A thorough review of the Bulgarian <i>Labor Code</i> suggested that the Bulgarian <i>Labor Code</i> is not overly restrictive. In its place, business registration to improve the conditions for entry of new firms was elevated to a Board condition	-Drafted law on the <i>Bulstat Register</i> to introduce single identification number; COM approved a strategy to take out business registration from the courts and judges -Some success was achieved through amendments to the Public Health Law which provide for greater control of misuse of sick leave -Labor force participation rate remains low, in part due to policy that constrains labor market flexibility
Reduction in railway labor force by 20% compared to the level at end of 2001	The trigger was adjusted to focus on the financial position of railways by closing non-economic lines, termination of services, and additional staff reductions	-Cumulative reduction of 13% in railway labor force -Financial position of railways improved substantially: Reduced railways subsidy to 0.2% of GDP and achieved financial working ratio of 100%.

Source: PAL1, PAL2, and PAL3 project documents

Growth Objective

- Achieve 4.5 – 5.0% average annual growth in GDP during 2002-2005

Bulgaria achieved a sustained average annual GDP growth rate of close to 5% between 2002—2005 (4.9% in 2002, 4.5% in 2003, 5.6% in 2004 and 5.8% in 2005) (see Table 3 above). **The achievements in the GDP growth objective has thus met or exceeded the program goal of 4.5-5.0%.** The observed growth has been led by the private sector, which accounted for about 79.5% of gross value added (GVA) in 2005. The private sector share of GDP in Bulgaria has grown fuelled by privatization and improvement in the business climate, and an associated boom in foreign direct investment (FDI). FDI flows increased to about 44% of total investment in 2003 compared to 25% in 1998. Most recently, FDI has more than doubled to about \$2.7 billion in 2005 from its level of \$1.2 billion in 2004 (EBRD), which elicited mention of potential “Balkan Tiger” for Bulgaria by members of foreign business communities (see December 12, 2005 issue of *Business Week Magazine*). Owing to an improved investment climate, the investment share of GDP has reached 23.5% of GDP in 2004, close to the new EU member states’ average of 25%.

However, public and private investment is concentrated in sectors geared to servicing domestic instead of export markets, and much of the FDI boom remains focused on inward-oriented activities. Thus, sustaining growth will require upgrading the skills of labor force and continued improvements in competitiveness and the business environment.

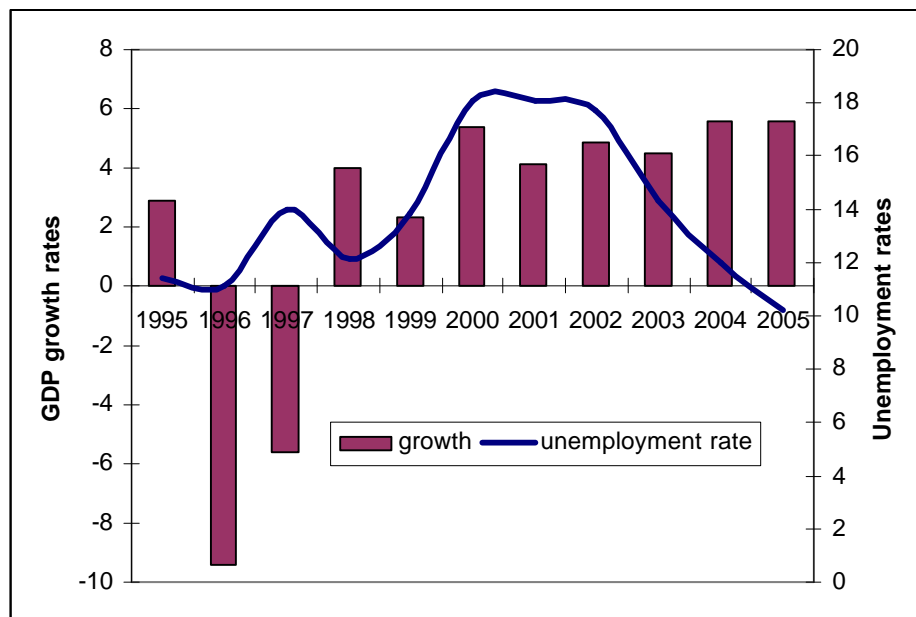
Unemployment Objective

- Reduce unemployment rate from 18.1% in 2001 to 12-14% in 2005

The unemployment rate, which peaked at over 18% in 2000 and 2001 and was one of the highest in the region, declined to 9.2% in the third quarter of 2005 (averaging 10.2 for the first three quarters of 2005). **The achievement in unemployment reduction exceeded the program goal of 12-14%.** The long-term unemployment rate has shown similar tendency to decline, with a corresponding increase in labor force participation. Part of the decline in the unemployment rate has been due to the GOB's active labor market programs. In 2003, active labor market policies (ALMPs) and private sector job creation contributed in equal measure to a total of 5 percentage point reduction in unemployment rate. In 2004, there was a net employment creation by the private sector which contributed to a further reduction in unemployment rate to 11.8% for the year.

Progress in lowering the share of long-term unemployment and increasing the labor force participation rate has been modest, however. Bulgaria's labor force participation rate is still one of the lowest in the region. This is due in part to Bulgaria's labor market policy, which mandates large benefits (e.g., seniority premiums, regardless of relevance of skills to current job) for those with long-term, full-time employment contracts and does not allow for flexible hiring through the use of temporary or part-time contracts. The PAL program made little progress in improving labor market flexibility, despite having "promotion of labor market flexibility" as one of its goals under Pillar 2.

Figure 1. The GOB met its growth and unemployment goals during PAL



Sources: National Statistical Institute, and the World Bank

Poverty Objective

- Reduce poverty by half between 2001 and 2005.

Timely and suitable data are not available to directly assess whether the poverty objective was achieved. The 2002 Poverty Assessment Report by the Bank was based on the 2001 household survey data, which formed the baseline for PAL poverty objective. The most recent Bulgaria household survey was done in 2003; however, it is not comparable to the 2001 data. As the PAL program's goal was to halve poverty in 2005 from its level in 2001, the 2003 survey also came two years too early to use it to assess the poverty objective. As a result, the ICR used an indirect means of evaluation of the poverty goal.

The ICR team *simulated* a poverty headcount index using the 2001 poverty level as a base. For poverty simulation, the concept of elasticity is employed taking advantage of the availability of average household consumption data for all relevant years from the National Statistics Institute of Bulgaria. The degree to which poverty responds to growth is captured in the notion of growth elasticity of poverty which measures the change in poverty for a given change in growth. In general, the growth elasticity of poverty would be negative, as growth and poverty tend to move in opposite directions. For example, if poverty elasticity of growth is 2, then a 1% increase in growth will lead to 2% reduction in poverty. From the simulations in Table 6, assuming that there was 1.5 or higher growth elasticity of poverty, the poverty reduction objective of the PAL could be considered achieved.

From regional experience, the probability that Bulgaria's growth elasticity of poverty was greater than 1.5 is high. During 1998-2003, according to the 2005 ECA regional flagship report, "Growth, Poverty, and Inequality in ECA", average growth elasticity of poverty for Southeastern Europe (SEE) was estimated at 2.5. Assuming the SEE countries (including Romania and Serbia) are good proxies for Bulgaria with regard to poverty and growth linkages, it is reasonable to expect that growth elasticity of poverty in Bulgaria would be at least 1.5. Therefore, although direct measurement of poverty in 2005 is not possible due to lack of comparable data, it is highly likely that PAL achieved its ambitious objective of halving poverty in 2005 from its level in 2001. If in fact the growth elasticity of poverty were higher, say it were to be equal to the SEE average of 2.5, the PAL program would be considered to overachieve its poverty reduction goal by close to 3 percentage points. With the caution that the poverty levels reported below are *simulated approximations*, the poverty reduction objective of the PAL program is rated **satisfactory**.

Table 6. Household consumption expenditures and poverty in Bulgaria, 2001-2005

	2001	2002	2003	2004	2005
Household per capita, expenditures	1492	1710	1853	2068	2250
Growth	2.9	14.6	8.4	11.6	8.8
Poverty (headcount):	12.8				
Growth elasticity of poverty = 1.0		10.9	10.0	8.9	8.2
Growth elasticity of poverty = 1.5		10.0	8.7	7.2	6.4
Growth elasticity of poverty = 2.0		9.1	7.5	5.8	4.9
Growth elasticity of poverty = 2.5		8.1	6.4	4.6	3.7
Growth elasticity of poverty = 3.0		7.2	5.4	3.5	2.7

Source: ICR team estimates based on data from the National Statistics Institute, GOB.

Poverty figures for 2002-2005 are simulated taking the 2001 poverty headcount rate of 12.8, as reported in the original PAL document, as a base.

EU Accession

- *Make substantial progress towards accession to the European Union (EU)*

The PAL program made a significant contribution to the GOB's EU accession and integration agenda

. The program complemented and supported government efforts in building a functioning market economy and the capacity to cope with the competitive pressures and market forces within the EU. In many cases, EU directives did not come with detailed action plans for implementation, so the PAL program and the Bank devised programs, developed approaches and ‘how to’ instruction for Bulgarian authorities to meet the conditions for successful accession. In its Regular Reports in 2002-2005, the European Commission (EC) assessed Bulgaria as a functioning market economy (see Table A in Section 10). The achievement of the PAL program objective of helping to build a competitive market economy through stable macroeconomic performance and private sector-led growth was a critical factor in Bulgaria’s ability to sign the accession treaty. *To a significant extent, as a result of PAL reforms, Bulgaria became eligible to sign the accession treaty in April 2005 to join the EU by the target date of January, 2007.*

Outcome of PAL3

Based on the attribution of many of PAL program achievements to PAL3, the outcome is rated **satisfactory**. PAL3 was overall successful in achieving its intended reforms as well as most unfinished measures “left over” from PAL1 and PAL2. Accomplishments of the previous PALs were sustained and enhanced by PAL3. During PAL3, the momentum of economic growth was maintained, unemployment continued to decline, and Bulgaria signed its EU accession treaty. Although direct measurements are not available, as simulation above showed, poverty continued to decline.

PAL3 supported completion of many reforms started during PALs 1 and 2; for example, in the energy sector, the completion of the privatization of the seven electricity distribution companies and the sale of seven district heating companies, and in the telecom sector, the privatization of the Bulgarian Telecommunications Company (BTC). PAL3 supported the near-completion of the program for divesting non-infrastructure SOEs, and more than 80% of the SOEs in which the government had majority control in 2002 have now been sold or liquidated.

PAL3 supported deregulation, particularly of business entry, and improvement in the delivery of services to businesses. It introduced a strategy for streamlining business registration, and to remove the process from the court system, which would benefit from the reduced burden. In the area of public sector governance, PAL3 advanced reforms initiated under PAL2 to establish a merit based and depoliticized civil service and more efficient judiciary. It helped to jumpstart optimization and rationalization of government structure through completion of functional reviews and surveys to identify reorganization opportunities.

Finally in the social sectors, the main contributions of PAL3 were advancing the pension reform, reform of the disability benefits payments system, and social integration of the minorities. Achievement in the pension area included: greater protection of pension legislation by its placement in *Budget Law* (deemed to be a more durable location) and elimination of “double-dipping” of disability and retirement pension provisions concurrently. With regard to social integration, PAL3 made significant contributions to enhance the opportunities for equal access to education for children from poor families and ethnic minorities.

However, PAL3 was less successful in achieving significant progress in a small number of its core conditions (see Table 5 above). PAL3 was envisioned to achieve a cumulative 20% reduction in railway labor force compared to the level at end of 2001. At the conclusion of PAL3, however, only a cumulative 13% reduction was achieved as the focus shifted to ensuring financial sustainability of the railway sector. Except for anti-discrimination law, no other anticipated significant amendments were made to the *Labor*

Code to promote flexibility as originally envisioned.

4.2 Outputs by components:

This section presents the outputs by components for the entire program as well as for each of its three operations. The key accomplishments of the three PAL operations within each of the 5 pillars are reported in Table B in Section 10.

1. Sustaining Structural Reforms

Objective:

- Rationalize the role of the state by privatizing activities that can be better performed by the private sector
- Increase the share of the private sector in GDP to about 70 - 75% by 2005

Overall structural reform was **satisfactory**. PAL3 supported the completion of privatization and restructuring of SOEs that was initiated by PAL1 and advanced under PAL2. More than 80% of the remaining SOEs in which the government had majority control in 2002 have been sold or liquidated, and most companies in which the government had minority shares have also been divested. PAL3 completed the privatizations of large SOEs in the energy and telecommunications sectors—particularly the seven electricity distribution companies—and the Bulgarian Telecommunications Company (BTC). Bulgaria’s performance in large scale privatization is now on a par with the best performing transition countries. In tandem with complementary reforms in the business climate and financial sectors, this contributed to the expansion of the private sector to a projected 69% of GDP in 2005 compared to about 64% in 2002 (Figure 3). As a result, EBRD upgraded Bulgaria’s transition indicators for large scale privatizations in 2004, infrastructure and banking reform in 2004, and competition policy in 2005 (Table 7).

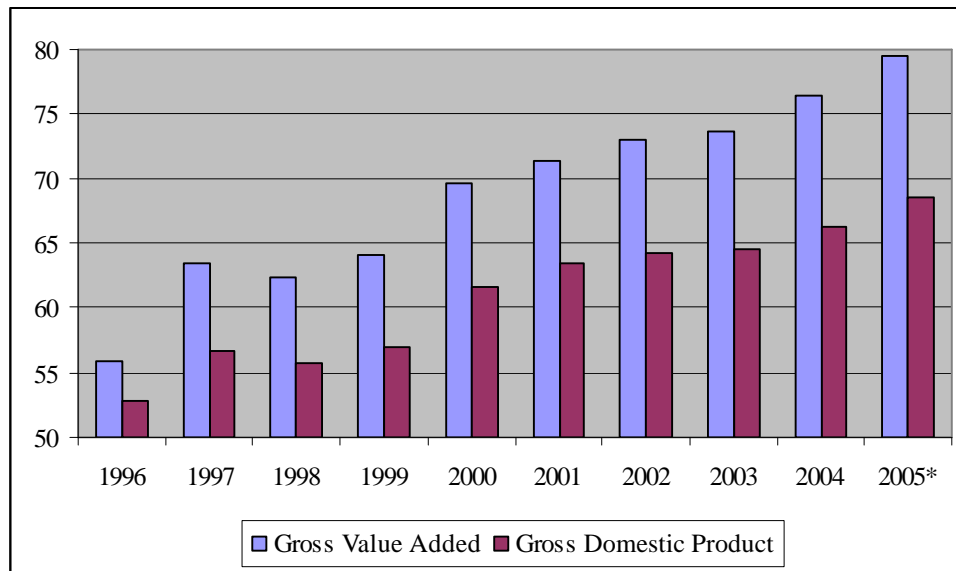
Table 7. Bulgaria’s EBRD transition indicators improved during PAL implementation

	Enterprises			Markets and Trade			Financial Institutions		Infrast ructure
	Large-Scale privatization	Small-scale privatization	Governan ce & enterprise restructuring	Price liberalizat ion	Trade & foreign ex-change system	Competiti on policy	Banking reform & interest rate liberalization	Securities market & non-bank financial institutions	Infrast ructure reform
2002	4-	4-	2+	3	4+	2+	3+	2+	3-
2003	4-	4-	3-*	4+	4+	2+	3+	2+	3-
2004	4?	4-	3-	4+	4+	2+	4-*	2+	3*
2005	4	4-	3-	4+	4+	3-*	4-	2+	3

Source: EBRD, Transition Reports 2002 and 2005. The transition indicators range from 1 to 4+, with 1 representing little or no change from a rigid centrally planned economy and 4+ representing the standards of an industrialized market economy. * reflect areas of upgrade over the previous year.

The main outstanding and unfinished agenda in the PAL program’s large privatization is bulgatabac company. Attempts to press for the privatization of Bulgatabac, including a second tranche condition in PAL2 and extending closing date, failed. Per GOB’s proposal, to which the Bank agreed, PAL2 closed on March 31 2005 without the second tranche disbursing. Lack of progress in the privatization of Bulgatabac, while it reflects poorly on the achievements of the PAL program as set out during its design, had a negligible demonstrative effect on GOB’s seriousness to enhance private sector participation in growth.

Figure 2: Private sector share of Gross Value Added and GDP (%)



Source: National Statistics Institute of Bulgaria; *first three quarters of 2005

Bulgaria's **energy** intensity has been significantly reduced: from 0.397 kg oil equivalent per €2000 PPP in 2001 to 0.357 in 2004 (the 2005 figure is not available yet, which is anticipated to show further reduction)—a 10% reduction. Several reform measures under PAL3 and its predecessors contributed to this outcome including: (1) energy prices have been rationalized, with prices now at cost recovery levels; (2) the legal and regulatory framework has been improved through enactment of a new *Energy Act* consistent with EU energy directives; (4) the institutional capacity of the State Energy Regulatory Commission (SERC) was upgraded; and (5) electricity distribution and generation companies were spun off from the former monopoly electricity company (NEK), and NEK was further restructured by legally separating its transmission business from power trading. PAL3 achieved significant private sector entry in the energy sector, through 100% privatization of electricity distribution with the sale of all seven distribution companies and seven (compared to the target of five) district heating companies.

PAL restructuring of the **railway sector** was successful. The GOB's targets for financial sustainability established for end-2005 had been met by end-2004: operating subsidies (excluding funds for investment) fell from 0.5% of GDP in 2000 to 0.2%; for both operating company and railway infrastructure company, financial working ratios were close to 100% (not including government subsidies). Railway productivity has increased by 12%. PAL achieved this outcome through: (1) establishment of a new railway operating company (BDZ) and a new railway infrastructure state enterprise (NCRI); (2) accounting separation of the freight and passenger operating services; (3) establishing market rules to enable entry of private firms and eventual privatization of the railway operating company; (4) closure of non-economic lines and termination of loss-making passenger services; (5) reduction of the railway labor force by 13% at end-2004 compared to end-2001; (6) increase in cost recovery in inter-city passenger services; and finally (7) regular Public Service Contract (PSC) agreement between the government and the railway operating company BDZ EAD.

In the **telecommunication sector**, by end 2004, substantial progress was made toward PAL benchmarks:

- Digitalization of transfer network, 94% vs. PAL goal of 100%
- Digitalization of transit exchanges, 79% vs. PAL goal of 82%

- Digitalization of fixed subscribers, 33% vs. PAL goal of 46%

Additional progress has been made in each of these areas in 2005. The government's end-2005 target that 94% of households with telecom services have internet access has been met. Telephone connection waiting time was significantly less than one month. This was achieved by fully liberalizing telecom markets consistent with the EU accession agreement. Structural progress was made by establishment of the *Communications Regulation Commission* (CRC) and its institutional upgrading enhanced the legal and regulatory framework substantially. The enactment of a new *Telecommunications Law* in September 2003, consistent with best practice and with EU accession, reinforced CRC independence, transparency, and accountability. And the government completed privatization of BTC and abolished its monopoly over the provision of fixed voice telecom services, leased lines and trans-border voice transmissions.

Efforts to modernize the **water sector** were less successful, in part owing to challenges posed to private sector participation due to difficulties coordinating private sector entry with the flow of EU grant funds to utilities which have concessions or management contracts. This was the primary reason for the delays in developing a public/private model in the water and wastewater utilities in Varna and Shumen. As of November 2004, the operating ratio The ratio of operating costs including depreciation to total revenue. of water companies was 88%, and the GOB scaled back its objective of achieving a reduction in the operating ratios of water companies to 80% by the end of 2005. Under PAL, the GOB adopted a new *Water Sector Strategy*, which emphasized the importance of public/ private partnerships to provide adequate water service for all citizens, to implement wastewater treatment in line with EU directives, and to rehabilitate and construct water and sewerage networks. A new *Water Regulatory Law* was enacted in January, 2005.

2. Establishing a market-friendly business environment

Objectives:

- *Attract FDI at an average annual rate of US\$ 1.0 billion (of which greenfield FDI would be at least 50%) during 2002-05*
- *Increase the share of SMEs in value added and employment to at least 50% by 2005*
- *Increase the private sector share of GDP to 70% by 2005*

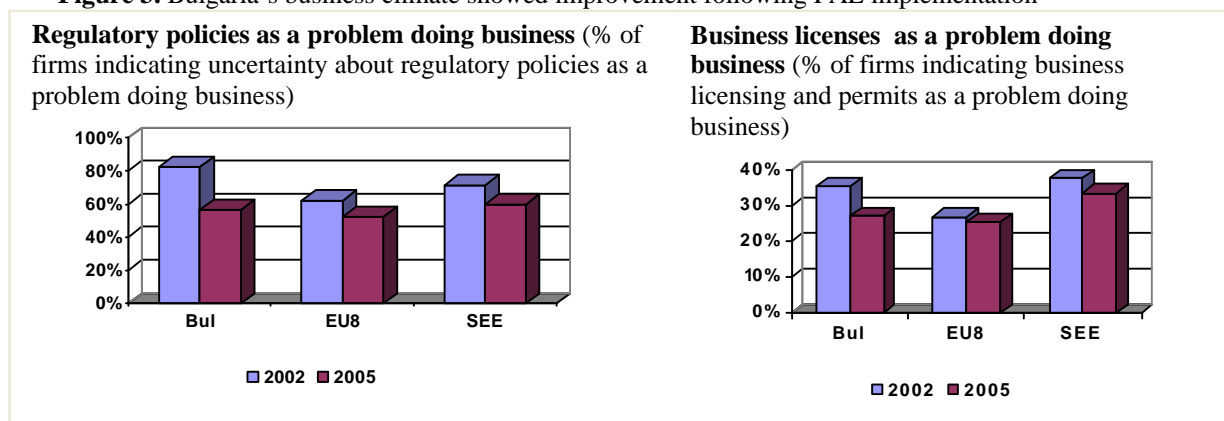
Overall achievement of reforms for establishing business-friendly environment was **satisfactory**. Competition in the domestic market, which was limited by an overly complex regulatory environment and inefficient contract enforcement, has now improved following PAL regulatory and judicial reforms over the last three years. As a result, FDI flows to Bulgaria compare favorably with those in new EU member states. Average annual FDI inflows have been about US\$1.6 billion a year between 2001 and 2004 (60% more than the program target). The SME share of employment increased to 56.7% in 2003 from 50.6% in 2000 and its share of value added increased to 36.2% in 2003 from 29.5% in 2000.

The government streamlined regulatory regimes to reduce private sector transaction costs. Most centrally managed regulatory regimes for licensing, permission and registration were eliminated or modified. At the start of the PAL program the Inter-ministerial Working Group for the Optimization of Regulatory Regimes reviewed 360 centrally-managed regulatory regimes and approved elimination of 71 and modification of 121 of these regimes. An Internet-based public register of all current operative regulatory regimes is in place which is more transparent and accessible. The *Law on Administrative Regulation and Administrative Control on Economic Activities*, enacted under PAL2, now controls the development of future licensing regimes and codifies the principles needed to underpin introduction of new regimes.

The Bank emphasized **business registration** as central, especially as labor market reforms were

de-emphasized. Effective Bank-Fund coordination led to inclusion in the IMF program, as a cross-conditionality, of the adoption by Parliament of the *Bulstat Law*, and approval by government of a strategy to remove business registration from the courts. The enactment of a new *Law on the Bulstat Register* would allow businesses to use the Bulstat number as the single-identification number for registration as well as tax and social security payments. This would free the registration system from relying on the courts, using a non-judicial administrative process, and establishment of a unified national register. In addition, the release of judges from routine administrative procedures would free up their time and, as a result, will reduce delays associated with the resolution of commercial disputes. *Partly* as a result, the % of firms indicating business licensing and permits as a problem of doing business declined substantially, as did the proportion of firms indicating uncertainty of regulatory policies and bribery as problems of doing business (see Figure 3).

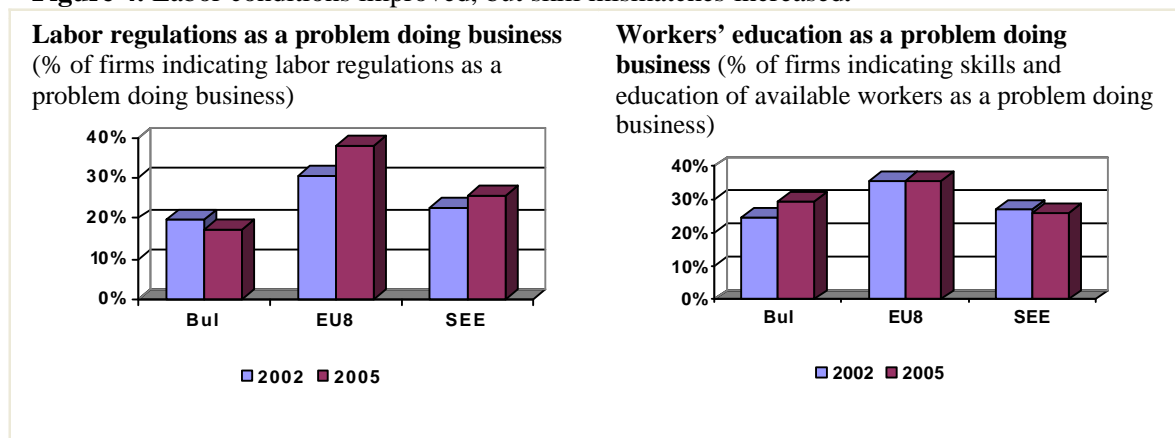
Figure 3. Bulgaria's business climate showed improvement following PAL implementation



Source: BEEPS, 2002 and 2005.

The PAL program initially included as a PAL3 trigger the enactment of amendments to the *Labor Code* to promote labor market flexibility. However, this was later downgraded and replaced with a benchmark that was met, calling for Government consultation with stakeholders on labor market rigidities such as inflexibility of working time and insufficient adaptability of wages, and the elevation of a benchmark regarding business registration reform to a trigger. This change was made due to the political difficulties of implementing labor market reforms in an election year and in light of international comparisons indicating Bulgaria's labor regulations were not overly restrictive. As a result, limited enhancements to labor market flexibility were achieved than initially planned under the PAL program. Bulgaria needs greater flexibility in its labor market in order to be competitive given its Currency Board Arrangement, low employment rate, and aging population. Furthermore, from 2002 to 2005, there is evidence that a mismatch between the skills of available workers and the needs of business developed (Figure 4). This was not a shortcoming of the PAL program or of PAL3, but was in all likelihood more of a by-product of the success in enterprise privatization and restructuring and of the increased efficiency of the insolvency process. Thus, promotion of labor market flexibility, together with a comprehensive reform of the education system, would be crucial for dealing with skills mismatches and for taking advantage of improved business climate through PAL reforms.

Figure 4. Labor conditions improved, but skill mismatches increased.



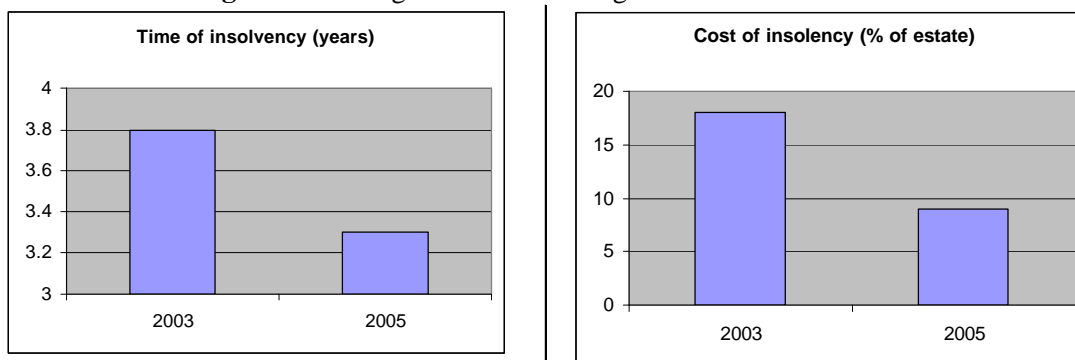
Source: BEEPS 2002 and 2005.

However, notwithstanding the scaled-back activity in reforming the *Labor Code*, achievement in ensuring competition and functioning markets was significant. In the context of EU accession, the GOB strengthened competition policies through its Commission for the Protection of Competition (CPC). The administrative capacity and effectiveness of CPC were enhanced through enactment of amendments to the Law on the Protection of Competition, and the number of antitrust decisions nearly doubled between 2003 and November 2004 (from 64 to 112). Additional achievements in this area included:

- Amendments to the *Labor Code* were enacted in 2004 to strengthen anti-discrimination provisions.
- Amendments to the Health Act, enacted under PAL3, aimed to reduce the incidence of abuse of sick leave provisions.
- Regulatory barriers to the private provision of employment services were removed.

Figure 5 shows that the GOB was successful in accelerating the insolvency process and facilitating the exit of non-viable enterprises. The PAL goal had already been achieved in 2004 in that the average time for resolving insolvency cases fell by six months between 2003 and 2004, close to that found in other advanced transition economies. In this effort, PAL3 supported development of further amendments to the *Commercial Code* to accelerate insolvency procedures, in particular through guaranteeing the rights and independence of trustees, and strengthened protection of the rights of private creditors. More stringent criteria for licensing and dismissal of trustees have been introduced, and their monitoring and control by the Ministry of Justice and the courts has been strengthened. Information and monitoring systems have been introduced in all commercial departments of the courts under PAL3 which should make possible closer monitoring of insolvency cases and timely identification of the main bottlenecks to their resolution.

Figure 5. Closing a business in Bulgaria has become easier



Source: Doing Business 2004 and 2006

3. Deepening the Financial system

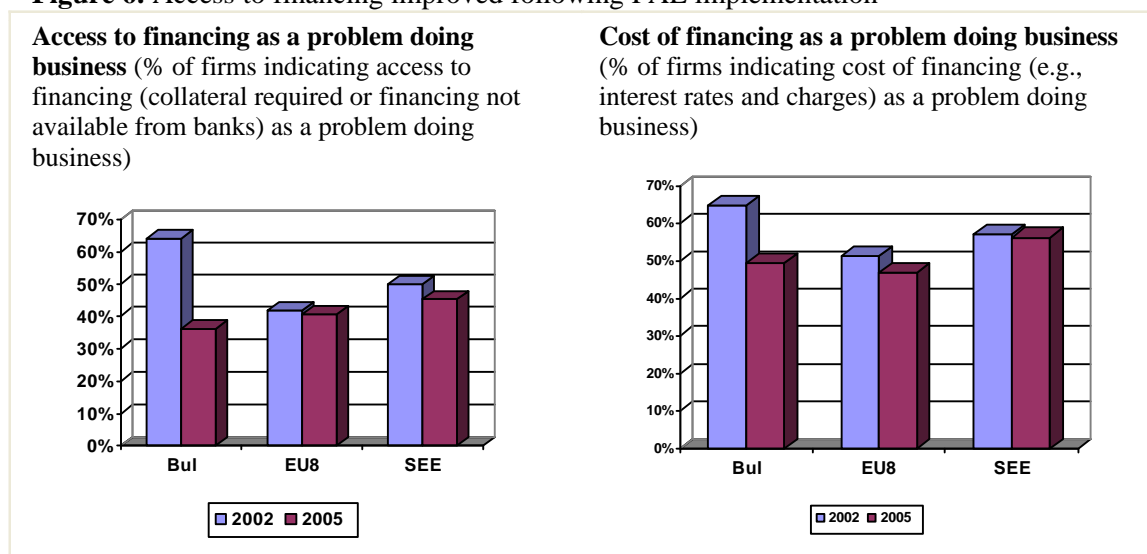
Objectives:

- Increase private sector loans to GDP from 15% at end-2001 to 25% by end-2005, a ratio closer to those of advanced transition economies
- The private sector share of banking assets reaches 98%, while maintaining prudential standards during 2002-05

Overall achievements of PAL in the financial sector reform were **satisfactory**. Since most reforms in the financial sector were completed during PALs 1 and 2, PAL3 did not significantly engage in financial system reforms. As such, this rating is attributed to the overall PAL program, not specifically to PAL3. In accordance with the GOB objectives, the M2/GDP ratio increased to an estimated 53% of GDP in December 2004 from 42% at end-2001, credit to the private sector increased to an estimated 36.9% of GDP in 2004 from 15% in 2001, and real credit to the private sector increased annually by almost 40% in 2003 and 43% in 2004. Some 98% of bank assets have been privatized leading to a well-capitalized, well supervised and profitable banking sector. Also 100% of Bulgaria's insurance sector has been privatized. In addition, the *Law on Measures against Terrorist Financing* was enacted, and the *Law on Measures against Money Laundering* was amended in line with international standards and good practices. The legal framework was amended to introduce global custodianship as well as more flexibility in the investment regime to facilitate the movement of pension fund members among funds. These efforts have been complemented by the pension reform measures undertaken under Pillar 5, particularly the enactment of legislation specifying a stable path of increases in second pillar contributions.

As a result of these improvements, access to and cost of financing has improved and is now on par with the new members of the EU (Figure 6). Time to negotiate a loan also decreased following PAL program implementation. And the EBRD considers Bulgaria's banking legislation compliance with international standards very high (EBRD, 2005). Financial reporting and auditing requirements in Bulgaria are, however, still in transition from compliance with national standards to compliance with International Financial Reporting Standards (IFRS), International Standards on Auditing (ISA), and the EU Directives and Regulations.

Figure 6. Access to financing improved following PAL implementation



Source: BEEPS 2002 and 2005

4. Public Sector Governance

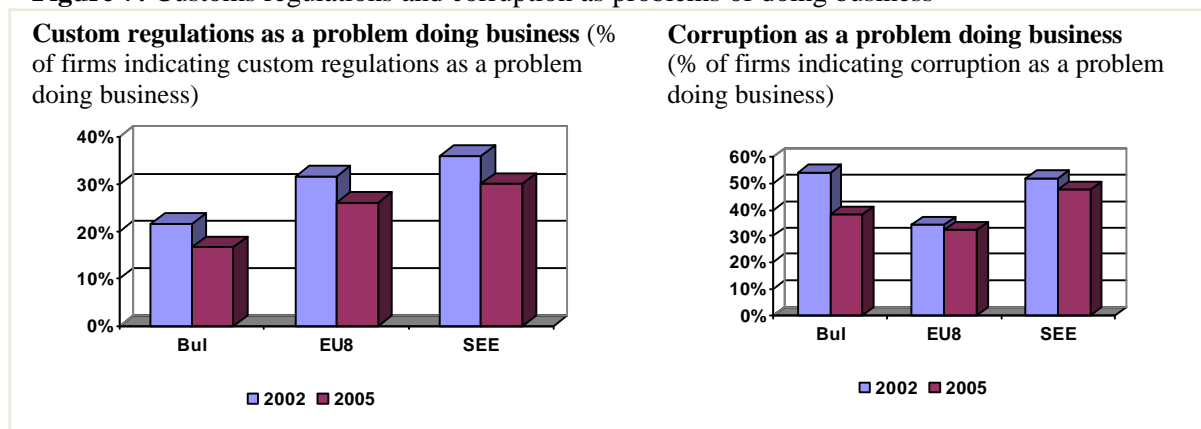
Objectives:

- *Improve the administrative capacity through implementation of an overall system of human resource management and performance appraisal and closing down ineffective and overlapping structures, by end-2005*

Reform in public administration is rated **satisfactory**, especially in the light of its very early stage at the commencement of the PAL program. Key goals in this area included strengthening public administration capacity, enhancing public expenditure management, and increasing the accountability, efficiency and effectiveness of the judicial system. The bulk of public sector reform activities were initiated during the first two operations, particularly under PAL2. Under PAL3, key reforms included development and implementation of anti-corruption strategy, strengthening of capacity of public administration and local governments, depoliticizing the civil service, instituting competitive recruitment of public servants, strengthening reform management, and reforming public administration and the judiciary. In the area of public expenditure management, PAL3 helped increase the allocative efficiency and transparency of budget formulation; strengthen the budget execution system and processes; and enhance the effectiveness of internal and external accountability arrangements as well as the system of intergovernmental finance.

The anti-corruption strategy provided a unifying framework for combating corruption and increasing accountability and transparency. Anti-corruption public councils have been established in 21 (out of 28) regional administrations. There was a 213% increase in applications to government bodies for access to public information in 2003 compared to 2002 from 21, 649 to 67, 712 requests. Independent reviews indicate that issues of public governance have improved, but important challenges remain. As a result, custom tax regulation and corruption as problems of doing business have eased; however, Bulgaria still fares worse than the new member states of EU (Figure 7).

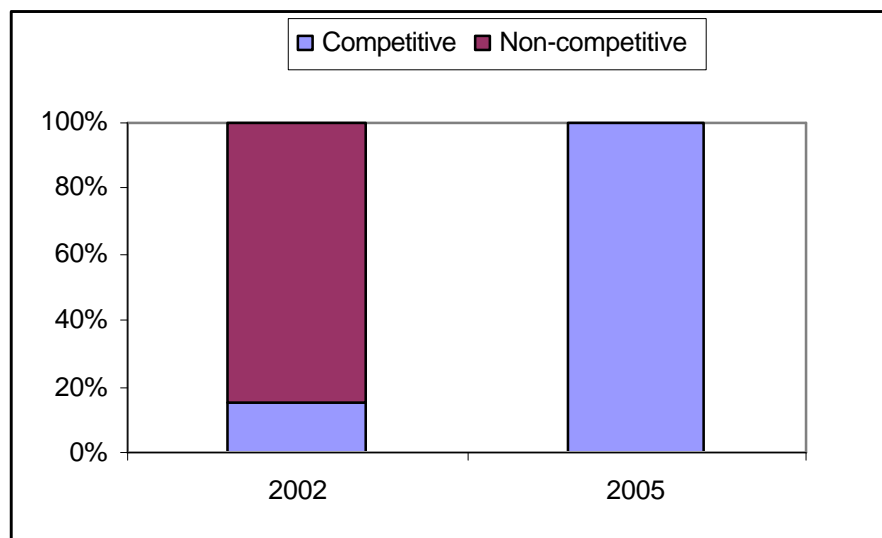
Figure 7: Customs regulations and corruption as problems of doing business



Source: BEEPS 2002 and 2005

PAL3 supported the implementation of major amendments to *the Civil Service Law* which were enacted in 2003 (under PAL2) to provide for mandatory competitive selection for new entrants into the civil service. By 2005, the share of recruitment concluded through competitive procedures reached 100% (Figure 8). All civil service recruitment exercises launched in 2004 and 2005 involved external competitive processes, as required under the improved merit-based provisions. Amendments to the *Law on State Administration* have been submitted to the National Assembly under PAL3, requiring ministries to set strategic objectives (linked to program budgets); to strengthen ministry-level strategic planning and policy development processes; and to provide for depoliticization with respect to the appointment and tenure of senior civil servants. The operation also supported the implementation of public sector pay increases in 2004 that reduced the gap with the private sector.

Figure 8: Civil service recruitment through competitive exercise, 2002 and 2005

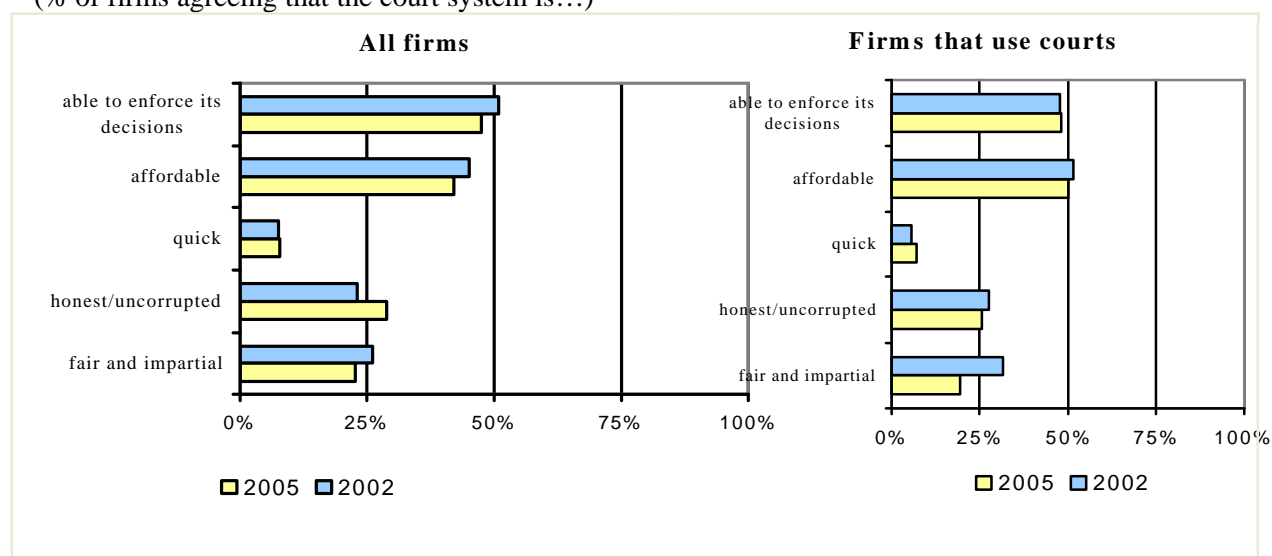


Source: GOB.

Judicial reforms were aimed to enhance the enforceability of contracts and thereby promote private

business activity. Achievements in this area included: (a) simplifying contract enforcement procedures; (b) streamlining licensing regimes; (c) taking business registration out of courts and establishing an independent registry agency under the Ministry of Justice; (d) simplifying documentation required for new business registration; and (e) introducing statutory response time (“silence is consent” rules) for business registration and licensing. PAL3 strengthened the administrative justice system, through submission to the National Assembly of a new Administrative Procedural Code to establish nearly a dozen specialized administrative courts (in addition to the Supreme Administrative Court). However, the effect of these reforms on the business community has been less evident so far (Figure 9). Due to institutional development nature of these changes, it will take some years before the full impact is felt.

Figure 9. Judicial assessments—before and after PAL implementation
(% of firms agreeing that the court system is...)



Source: BEEPS 2002 and 2005

5. Investing in human capital and strengthening social protection

Objectives:

- Increase school attendance for children from poor households by 2005
- Decrease, administrative costs of NHIF to less than 3% of revenues
- Increase effectiveness in and targeting of GMI, child allowance, and energy benefit programs
- Improve health indicators, including life expectancy, incidence of tuberculosis and other infectious diseases, and immunization coverage

This pillar was envisioned to accomplish the *empowerment of the population to participate in growth* component of the GOB’s two-pronged strategy. This was to be done through: (1) developing and implementing programs to improve the efficiency and fiscal sustainability of the education system, improve quality, and maintain equitable access; (2) enhancing the efficiency and fiscal sustainability of the health system; (3) improving the administration and targeting of disability benefits and empowering the disabled to integrate fully in society; (4) ensuring successful implementation of pension reform; (5) improving coverage and efficiency of social assistance programs; and (6) reducing institutionalization of children through helping families and fostering community based alternatives to institutional care.

Progress in this pillar is overall rated **moderately satisfactory**, but with significant variation by area. PAL3 made significant progress in accomplishing activities (3) to (6), however, the gains in reforming the education and health sectors (1 and 2) were relatively modest.

An important start had been made to reducing the misuse of **disability benefits** and fraud in their administration. First, amendments to the *Social Insurance Code* were enacted to prohibit award of disability pensions to individuals above retirement age, bringing the system in line with international practice. Second, the new *Health Act* strengthened the role of the National Social Security Institute (NSSI) in the disability assessment process. Third, the *Integration of People with Disabilities Act* introduced a social assessment in addition to a medical assessment to determine options for rehabilitation and integration. As a result, starting from 2005, no new disability pensions have been awarded to people over retirement age.

With regard to **pension reform**, PAL3 completed the first stage of pension reforms, which were initiated under the earlier PALs, and contributed to the increased stability of the system for old age security. The medium term directions of key pension parameters – contribution rates and benefit indexation rules – have been specified in an amended *Social Insurance Code* in order to avoid the need to revisit these parameters every year within the framework of the *Budget Law*. The Social Insurance Code specified the timetable for the change in the ratio of employer to employee contribution from 70:30 in 2005 to 50:50 in 2009. It is anticipated that this will increase the predictability for beneficiaries, contributors, investors, and budget planners.

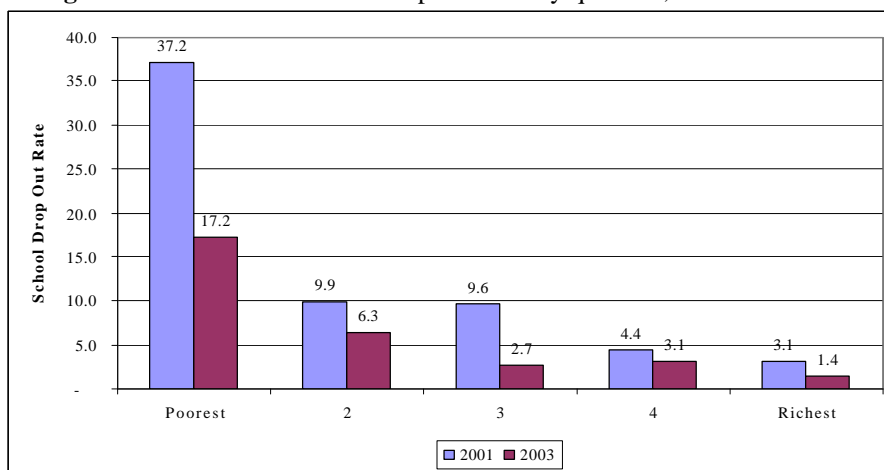
Important changes have been introduced into the administration and design of **social assistance programs**. The adequacy of the GOB's main program for direct income support (the Guaranteed Minimum Income or GMI program) to cover basic needs as well as its targeting to the poorest was improved under PAL-3, particularly for vulnerable groups. Through amendments to the *Social Assistance Act*, financing of most forms of social assistance programs was fully transferred to the state budget from shared municipal and state responsibility. The social assistance local offices became branches of the Social Assistance Agency under PAL2, which allowed full delivery of the commitments to, and increasing the coverage of the poor. The amendments to the *Social Assistance Act* allowed two important provisions: non-state provision of social services by private individuals, companies and nonprofit entities; and non-state provision of training and qualification services to registered unemployed which gave a boost to active labor market policies (ALMPs) and resulted in positive impact on employability. The administration of social assistance benefits was further improved by empowering the Social Assistance Agency to verify eligibility for social assistance programs through spot checks. These changes resulted in substantial improvements in the effectiveness of social assistance programs between 2001 and 2003: the coverage of the poorest quintile by the GMI program increased 2.7 times and the energy benefit to the poorest quintile increased 1.5 times. Share of funds channeled to poorest quintile increased from 60 to 75% for GMI, from 20 to 35% for child allowance, and from 47 to 54% for energy benefit programs. For child allowance program, the share of funds going to the richest quintile fell from 40 to 23%.

In the **education sector**, the main achievements of PAL3 were strengthening policies to increase opportunities for children from poor families and ethnic minorities, and integration of disadvantaged groups (particularly Roma children) into primary and secondary education. The *Public Education Act* and the relevant secondary legislation were amended to allow the integration of children with special education needs into the mainstream schools and kindergartens. Building on efforts under earlier PALs to increase incentives for school attendance for children from poor families, the GOB further strengthened social benefits, including provision of free textbooks to all primary school children, introducing school feeding in primary schools, and providing transportation to enable children from remote rural areas to attend school.

The monthly child allowance benefit was made conditional on school attendance for all eligible school age children, starting from the school year 2002-03. As a result, school non-attendance rates for among 7-18 year olds from the poorest quintile fell by 20 percentage points between 2001 and 2003 (Figure 10).

However, education sector achievements were not sufficient to improve the efficiency and quality of the educational system, particularly at the tertiary level, as envisioned. Public expenditures on education did not show improvement over their 2002 levels (i.e., 4.1% of GDP), despite the GOB's goal to close the gap with the OECD average of 5.6%. Resistance by sectoral management and staff hindered reform. The GOB acknowledges the shortcomings of the system and the need for improvement in preparation for the demands of EU accession.

Figure 10: Reduction in school drop-out rates by quintiles, 2001 versus 2003



Source: MTHS 2003.

Under PAL3, the GOB increased the share of the Ministry of Health's operating budget going to National Health Programs (NHPs) through adoption of legislation to earmark a share of the tobacco excise tax to fund NHPs. It also increased excise tax rates for tobacco resulting in higher prices (and therefore lower consumption). The NHIF administrative costs were kept at or below 3% in 2004, in line with the PAL3 goal. Under PAL3, the GOB completed development of an updated National Health Map (NHM), and adopted legislation to increase tobacco control and regulate consumption in public places. Beyond these, PAL3 achievements in the **health sector** were limited. There are still outstanding issues in the health sector that need to be addressed in order for Bulgaria to attain health care quality and efficiency of EU standard. The country is far behind in dealing with the ownership and management of hospitals, financial sustainability of its health insurance system, defining the role and development of private supplementary health insurance and in identifying the role of social assistance in health care.

While education and health reform fell short of what was envisioned, reforms initiated by PAL3 paved the way for future Bank engagement in the social sectors, particularly addressing quality, access, governance and fiscal sustainability issues in education and health care. The new government has identified continuation of comprehensive policy reforms in health and education as priorities for Bulgaria in the medium term and as possible areas for future Bank assistance.

4.3 Net Present Value/Economic rate of return:

Not applicable

4.4 Financial rate of return:

Not applicable

4.5 Institutional development impact:

The project's institutional development impact is **substantial**. Successful implementation of privatization, establishment of independent regulatory bodies as overseers of various newly privatized non-infrastructure and infrastructure enterprises, improved investor and public confidence in the business and regulatory environment have provided a remarkable impetus to institutional development. The country has become attractive to foreign investors, and a recent *Business Week Magazine* (December 12, 2005) regarded Bulgaria as having the potential to be the 'Balkan Tiger' (analogous to the now famous 'Asian Tigers'). The changes achieved in the policy and regulatory environment are far-reaching both because of the nature of the changes and their potential long-term sustainability. And the reforms were outward looking, embracing international best-practice, the principles of market economy and globalization, and were aimed at achieving harmonization with the EU accession requirements. *Most of the reforms are here to stay because they made Bulgaria a fully functioning market economy and there are no good reasons for the GOB and the public to backtrack.*

The PAL series enabled Bulgaria to successfully implement second generation reforms, where the emphasis was on building institutions involving the establishment or strengthening of market rules and the enforcement capacity, which are likely to be sustainable. For instance, institutional arrangements and structures setup to ensure the successful implementation of PAL reforms such as the Council for Economic Policy, Council for State Administration Modernization and Anti-corruption Coordination Commission, and several newly established independent regulatory agencies and commissions are likely here to stay as effective and active institutions for positive change in the country.

5. Major Factors Affecting Implementation and Outcome

5.1 Factors outside the control of government or implementing agency:

The successful implementation of the overall PAL program and PAL3 is to a large degree attributable to the strong commitment of the GOB to EU accession. The country has made a collective decision to join the community of EU-level nations and attained its membership in NATO in 2004. It knew, therefore, that it had to conform to the rules of this group. The PAL program took advantage of the window of opportunity this presented and successfully integrated the EU directives in its program. The EU requirements were particularly crucial for reforms in PAL1 and PAL2, which included some core conditions pertinent to EU accession. However, it is important to note that some PAL activities, such as modernization of state administration, were not binding requirements for EU accession, but rather represented the GOB's own reform initiative. The GOB was keenly aware that cooperation with the Bank and IMF was beneficial to implementation of EU directives and to Bulgaria's credit standing in international financial markets.

5.2 Factors generally subject to government control:

The favorable macroeconomic climate in the country greatly facilitated reform. The internal political environment during the initiation of the original PAL program was conducive for reform. Public expectations for improved business climate were high with the new government some of whose young and energetic leaders had business background and training in the west. Strong GOB ownership of the program was another essential factor for successful implementation. However, the Bank's support for the GOB reform agenda provided needed visibility and credibility.

Program coordination within the GOB was a critical success factor to program outcomes. The Council for Economic Policy (formerly the Council for Structural Policy) under the COM has been effective in

managing the program and coordinating among different public sector institutions. The Directorate for EU Integration and Relations with International Financial Institutions (IFIs) has performed the secretariat function for the Council very effectively. To manage the expanded public sector governance pillar, the COM established a Council for State Administration Modernization under PAL2. The public administration reforms of PAL2 also helped improve policy and program coordination.

Finally, effective donor coordination, largely coordinated by the government, was critical to the effective implementation of the program. The GOB strengthened donor coordination by transforming the Council for Structural Policy to the Council for Economic Policy by making it a more inclusive inter-ministerial unit and by codifying its lead role in donor coordination. The amendments also established sector working groups under the oversight of the Deputy Prime Ministers. The Fund program was also an effective complement to the PAL. The PAL program supported macroeconomic and financial stability through reforms that rationalized expenditures and advanced structural and institutional reforms.

5.3 Factors generally subject to implementing agency control:
Not applicable.

5.4 Costs and financing:

The Program's financial resources were originally comprised of three one-tranche operations that were disbursed as follows: US\$150 million for PAL1, US\$150 for PAL2, and US\$150 million for PAL3. But a floating second tranche condition of US\$25 million was instituted during PAL2 in order to call for the privatization of the Bulgatabac Company. These funds were used to assist in meeting the government's budgetary needs. The second tranche of US\$25 million in PAL2 was not disbursed as its release condition of the privatization of Bulgartabac did not materialize.

6. Sustainability

6.1 Rationale for sustainability rating:

The sustainability of the achievements is rated as **likely** in light of the positive outcomes to date, continued GOB commitment to Bulgaria's successful integration into the EU, and an improved macroeconomic environment. Reforms in such areas as the investment climate and public sector governance that were needed for EU accession will be sustained. EU membership will be a powerful force inhibiting backtracking and will make the key reforms supporting functioning market economy irreversible. The presence of CBA and Fund programs also boosts the likelihood of sustainability, as does the ongoing EU support to capacity building through the PHARE and twinning arrangements.

There are no political or economic incentives to backtrack on the reforms achieved given that they have enabled the country to achieve a functioning market economy and have benefited nearly all affected groups. The reforms were in the direction the public in general and the business community in particular desired and their participation increases the likelihood that reforms achieved under the PAL program will endure. Furthermore, many PAL reforms are manifested in legislation or institutional change, and for this reason would be difficult to reverse. For instance, institutional arrangements and structures setup to ensure the successful implementation of PAL reforms such as the Council for Economic Policy, Council for State Administration Modernization and Anti-corruption Coordination Commission, and several newly established independent regulatory agencies and commissions are likely to stay as effective agents for positive change in the country.

However, there is some risk to sustainability in few areas, particularly in privatization of state properties. There is a possibility of reversal of some of the accomplishments after the elections. The new government in place is less enthusiastic of some of the PAL reforms advanced by the previous government. It has

already discussed, but has not yet acted upon, a number of measures having the potential to roll back some reforms, e.g., railroad restructuring, electricity prices, targeting of child benefits and other social sector reforms.

6.2 Transition arrangement to regular operations:

Since PAL3 and its predecessors were conceived as single-tranche adjustment policy operations, no transitional arrangements were necessary, as the agreed reforms were implemented prior to approval.

7. Bank and Borrower Performance

Bank

7.1 Lending:

Bank performance in the identification, design and appraisal of PAL3 is rated **satisfactory**. Bank staff worked closely with the GOB in developing and implementing the program, reflecting the comprehensive policy dialogue underlying the loan. The PAL3 team took stock of the accomplishments of the preceding PALs and enriched the program where feasible. The program was designed with significant contributions by country office staff, both in substance (by providing local knowledge) and coordination (both with the government and HQ). A lot of analytic work and cross-sectoral efforts within the Bank went into formulating the program (as discussed in Quality at Entry).

In instances where the EU came with requirements and directives without blueprints on how to achieve them, the Bank's involvement proved essential in preparing the design and the roadmap for multi-sectoral reforms and in providing the guidance and the capacity to coordinate various sectors. The Bank had a disciplinary effect on the government, reminding and pushing it for reform. The Bank helped improve content, focus and coordination of the program with other donors such as USAID, who also provided technical assistance in parallel with the PAL agenda.

The main flaw in design was backloading of politically difficult reforms, thereby delaying them until an un conducive pre-election period. It became evident that government did not consider the implementation of reforms in politically sensitive areas such as the labor market as worth the considerable political capital that would be needed to be spent during an election year. The PAL design was complex in its coverage, conditionality, level of detail and specificity. However, this was in response to the GOB's demand for detailed roadmap and specific implementation strategies. As Bulgaria has progressed immensely in its reform management capacity following PAL implementation, future Bank engagement in the country should give the government more flexibility in project design and implementation. The authorities also felt that the analytic work and data provided by the Bank under the PHRD grant at times were not timely.

7.2 Supervision:

Bank supervision is considered **satisfactory**, with the Bank country office management playing a key role in coordination and sustaining the dialogue with the client. Bank supervision was highly praised by GOB officials, with expertise of sector specialists and overall level of management attention was repeatedly lauded. GOB officials also praised the ability of Bank specialists to bring to bear "lessons of international experience," e.g., in reforming business regulation, privatization, and social sector reform. The country office played an important role in monitoring progress and was seen by authorities as key interlocutor and as an efficient liaison with GOB and Washington.

Bulgarian authorities indicated that the Bank played a key catalytic role and as a "public stimulus" for difficult reforms by applying "soft external pressure". In some cases, the Bank was used by the GOB as a

“scapegoat” for pushing for politically difficult reforms. *Nearly all officials interviewed stated that Bank assistance was timely, highly professional, and was a significant stimulus to progress.* The Bank played a mediation role between the administration and the parliament; it facilitated communication between the government and the parliament through the Parliamentary Commission. The Bank role in donor coordination, particularly with the IMF, was also positive and important.

The cross-sectoral task management arrangement was effective and worked well for the PAL series. It gave more sectoral depth to the reform program than would have been the case with just one sectoral unit taking the task management role throughout the entire program. It also allowed parallel work on the different sectoral issues. However, there were issues of maintaining accountability and smooth handover with the shifting task management arrangement. PAL mitigated this potential downside by keeping the task manager of the original PAL as an integrator throughout the entire program. Finally, while strong coordination has been evident across government ministries, internal coordination among Bank sectoral units was at times a challenge due to *institutional barriers within the Bank that hinder multi-sectoral cooperation.*

7.3 Overall Bank performance:

overall Bank performance is rated **satisfactory**.

Borrower

7.4 Preparation:

Borrower performance in project preparation is **satisfactory**. The Bulgarian authorities actively participated in project preparation and basically owned the program from start to finish. Decisive government support of the PAL program and its adherence to a firm and comprehensive multi-sectoral reform agenda contributed to the smooth process of design and implementation. Council for Economic Policy (represented by all ministries) played key coordination role with Deputy Prime Minister as its chairman and the director of EU Integration and Relations with IFIs as its secretary. The Council was innovative and very effective in communicating messages across line ministries.

7.5 Government implementation performance:

Borrower performance in the implementation of the overall program is considered **satisfactory**. The government performance was outstanding on pillars 1 through 4, and in many aspects it exceeded Bank expectations and could be considered a model for other countries. It has successfully managed complex reform program that constituted a wide range of sectors and some very difficult reforms such as getting the judges out of business registration and reforming the pension system. The major shortcoming in borrower performance was the failure to sell Bugartabac.

7.6 Implementing Agency:

The Council for Economic Policy under the COM, the Council for State Administration Modernization established under PAL2, and the Ministry of Finance were very effective counterparts to implement the reforms under the PAL series. The support from the Directorate for European Integration and Relations with International Financial Institutions and the Directorate for State Administration, both under the COM, were well-organized and instrumental in moving the reforms forward.

7.7 Overall Borrower performance:

Overall Borrower performance is rated **satisfactory**.

8. Lessons Learned

Lesson 1. Task management by three different sectoral units was successful. PAL1 was managed by

PFSD, PAL2 by PREM, and PAL3 by HD. This arrangement was intended to motivate sectoral units and maximize their participation and ownership of respective sectoral reforms, and overcome *institutional limitations within the Bank* to a large, multi-sectoral programmatic operation.

Lesson 2. Ensuring broad-based country ownership of and commitment to the reform program is essential for successful implementation. In such cases, the Bank's role in facilitating and enhancing the visibility and credibility of the reform program is found to be of immense use.

Lesson 3. Successful implementation of programmatic operations with the breadth of PAL demands adequate capacity from the borrower. Complex operations such as the PAL require sophisticated counterparts, and without strong capacity in the client country, would be impossible to implement.

Lesson 4. The drive for EU accession is a powerful impetus for reform. The Bank's value added is to help deepen and improve the quality of the reforms and design a roadmap by playing more of the role of knowledge bank and bringing to bear its wealth of international development experience, rather than as the original catalyst and sole financier. Reforms and actions that are not well aligned or in contradiction with the EU accession requirements, on other hand, tend to be more difficult, particularly when political capacity of the government is limited.

Lesson 5. The use of a broad and an umbrella programmatic adjustment program, despite its complexity, can be an effective instrument to garner leverage to support implementation of difficult reforms. Such comprehensive, highly-visible reform programs can bring together higher level government institutions and command a high degree of commitment for their implementation and coordination across a wide range of line ministries. .

Lesson 6. Having government manage donor coordination role can be very effective.

Lesson 7. Flexibility in reform program allows taking advantage of the "window of opportunity" in an unfolding reform environment. The flexibility of the instrument allowed for replacing problematic conditions with more pragmatic ones as both the opportunities and constraints to reform became more evident during implementation. As there is typically more scope for bolder reform earlier rather than later during the program, the temptation to backload difficult reforms in the programmatic operations should be minimized, however. For instance, backloading Bulgaria's human development agenda within the PAL program, the Bank and the Government postponed much needed reforms, the delay of which may cost Bulgaria time in terms of its readiness for successful EU integration.

Lesson 8. Maintaining strong country presence is vital, in addition to making infrequent missions from Washington, for keeping dialogue alive between Bank and the borrower.

9. Partner Comments

(a) Borrower/implementing agency:

The following evaluation was received from the Council of Ministers (COM), the principal government counterpart for PAL implementation.

Introduction

This Report aims to be an evaluation in brief of the overall PAL program. It assesses the overall program objectives against Bulgaria's current development priorities. With regard to the analysis of design, the

Report first reviews the background and the overall PAL program based on the cumulative experience of the Bulgarian Government and then addresses specific key topics of the implementation. The Overall Assessment section first reviews the overall outcomes in the areas supported by the five PAL pillars, and then tries to highlight the key accomplishments of the Government in the process of implementation. The lessons learned reflect the organizational and administrative experience of the overall PAL program and as a closing the Report underlines the sustainability of the achieved strategic goals.

Background

Following the economic and financial crisis of 1996-97, Bulgaria has achieved macroeconomic stability and started a sound implementation of structural reforms. Macroeconomic stabilization has been successfully maintained over the past years largely due to the Currency Board Arrangement (CBA) and a tight fiscal stance. After a steep decline in 1996-97, output recovered and GDP growth averaged 4.7 percent in 2000-02, and 4.3 percent in 2003, with inflation contained to low levels. There have been major structural changes in the economy, with private sector share of GDP dramatically soaring as a result of a major push in privatization in 1998-99 and continuing efforts thereafter.

Building on the reforms of the previous years, the medium term program between 2002 and 2005 has aimed to sustain economic growth and further reduce poverty while moving Bulgaria towards EU accession. The country is generally meeting the program targets established in PAL-1: the achievement of average annual growth rates of 4.5-5.0 percent during 2002-05, the reduction of the unemployment rate from 18.1 percent in 2001 to 12-14 percent by end-2005, and the reduction of the poverty rate by 50 percent by end-2005 compared to the level at end-2001.

With the support of the PALs, GOB has made substantial progress towards meeting or exceeding the objectives of the medium term structural reform program. The average annual growth rates during 2002-05 were maintained at 5.1 percent and the unemployment was reduced dramatically. Poverty is also falling and living standards are gradually improving. Bulgaria has completed the European Union (EU) accession negotiations and signed the accession treaty on April 25, 2005. The expectations are that Bulgaria will join the Union in 2007, as planned.

The last Country Assistance Strategy (CAS) for Bulgaria was discussed by the World Bank's Executive Directors in June 2002 and covered the period FY03-FY05. The centerpiece of the CAS base case program was the series of three Programmatic Adjustment Loans (PALs) totaling US\$450 million equivalent, designed to support Bulgaria's structural reform agenda and path to EU accession. The PALs supported the Government's comprehensive program, organized around five complementary and mutually reinforcing pillars, each of which was to contribute to achievement of the country goals:

- (i) sustaining structural reforms in the enterprise sector, with emphasis on restructuring of the infrastructure sectors (energy, railways, telecommunications and water);
- (ii) establishing a market-friendly business environment by focusing on entry and exit policies, regulatory costs, delivery of public services, competition, and judicial reform;
- (iii) deepening the financial system by addressing the constraints to increased lending by the banking system and the development of financial markets;
- (iv) improving public sector governance by implementing the anti-corruption strategy, strengthening local governments, and reforming public administration and the judiciary; and
- (v) investing in human capital and strengthening social protection by reforming the education, health, and pension systems and improving social assistance effectiveness.

A policy framework of triggers, Board conditions, and benchmarks organized around the five pillars was

presented in the context of the first PAL and remained in place throughout the PAL series. Within this framework each PAL was to have its own strategic focus as well as continue support for policy measures in areas supported under the previous PAL(s). PAL I would advance structural, regulatory and institutional reform in the real sectors key to reforms, including energy. PAL II would focus on reform in areas taking longer to prepare, such as public administration, the legal and judicial system, and anti-corruption measures. And PAL III would focus on labor market and social sector policies, including long-term sustainability of the social protection system and restructuring of the health and education sectors.

The design of the PAL program was complex and multi-sectoral. Across the three-year program there were 31 triggers, and the number of benchmarks went from 162 in the PAL I Program Document up to 244 in the PAL II Program Document, and down slightly to 234 in the PAL III Program Document.

Overall Assessment

Complemented by several investment loans and a sector adjustment loan, the PAL program as a primary vehicle for the Bank's supporting increased competitiveness and private sector-led growth was the cluster of the first three pillars of the PAL program : Sustaining Structural Reform (Pillar 1), Establishing a Market-Friendly Business Environment (Pillar 2), and Deepening the Financial System (Pillar 3). Bulgaria's successful implementation of reforms in these areas supported by the PAL program contributed to the expansion of the private sector to an estimated 75 percent of GDP in 2005 compared to 70 percent in 2002. As a result, EBRD upgraded Bulgaria's transition indicators for large-scale privatizations in 2004, infrastructure and banking reform in 2004, and competition policy in 2005. This progress is also reflected in Bulgaria's FDI inflows over the period, averaging US\$1.6 billion a year between 2001 and 2004 (60 percent more than the PAL program 's target).

As already mentioned, the PAL Program is based on 5 pillars that represent the foundations of the Program. These pillars are also the interrelation between the cross-cutting themes the PAL Program focuses on. Most of the problems of each of the five pillars were addressed in more than one of the individual PAL installments. Analyzing the achievements by pillar would give an overall picture of the aggregate results of the 3 PALs.

Pillar I: Sustaining Structural Reforms

With PAL-3 the Government has nearly completed the reform agenda for Pillar I and have exceeded many targets, especially in privatization. The Privatization program, focused on infrastructure State Owned Enterprises (SOEs), was nearly completed. The envisioned plans to fundamentally overhaul the energy sector through completing the tariff adjustment program were completed and the targets for private sector entry in the energy and telecommunications sectors have been exceeded. Actions were undertaken to improve the fiscal sustainability of railways.

Pillar II: Establishing a Market-friendly Business Environment

Considerable progress was made under the PAL program in improving the business environment, in particular through deregulation and improvements in the efficiency of front line government services to businesses – including customs offices and services for foreign investors. It is important to note that, under PAL-3, the Government have taken significant steps to improve the conditions for the entry of new firms.

Pillar III: Deepening the Financial System

Bulgaria has achieved significant progress in restructuring the banking system, financial intermediation is increasing, and financial markets are developing. About 98 percent of banking assets are in private ownership, mainly by foreign financial institutions, as a result of an aggressive privatization program in 1999-2001 and the privatization of DSK Bank in 2003 under PAL 2. The Government has now fully developed the institutional framework for the Banking sector, and moving forward, financial sector reforms will focus mainly on non-bank institutions.

Pillar IV: Improving Public Sector Governance

Under PAL 3 begun the implementation of the broad program to improve public sector governance that was developed in the earlier PALs. All newly recruited civil servants (at the national and regional levels) were recruited through external competitive recruitment since 2004. Increased was also the competitiveness of civil service pay and were implemented performance rewards throughout the civil service. In addition, the accountability and transparency in the civil service were improved and under PAL 3 a code of ethics for the civil servants was adopted.

Pillar V: Investing in Human Capital and Strengthening Social Protection

Under PAL 3 was completed the implementation of the Action plan for pension reform defined in PAL 1, and the stability and robustness of the pension system have increased. It is important to note that steps were taken towards continuity of reforms in health and education as well as in addressing social inclusion through reforms in the area of disability and child protection.

The PAL Program is perceived as a complex instrument for strengthening the designing and implementation of policies. At the same time its three individual parts are interrelated and still focus on a different policy sector. The Program is so designed that each of its segments builds upon the accomplishments of the previous. And if through the PAL Program pillars we are able to comprehend the whole picture of a particular policy design and implementation, then scrutinizing the individual PALs gives a better chance to detect and distinguish the specific successfully completed actions.

PAL 1

In each loan of the PAL series, the most important actions completed were either board conditions or triggers for the next PALs:

- Privatization of Biochim and DZI [PAL-1 Board Condition]
- Privatization or liquidation of the large SOEs listed in Attachment C [PAL-2 Trigger]
- Privatization or liquidation of the large SOEs listed in Attachment C [PAL-3 Trigger]
- Privatization or liquidation of 80 percent of the remaining small SOEs as of September 30, 2002 [PAL-3 Trigger]
- Elimination of 40 and modification of 50 regulatory regimes based on program approved by the CoM on June 7, 2002 [PAL-2 Trigger]
- Enactment of amendments to the Mandatory Social Insurance Code and the Voluntary Pension Code strengthening pension fund governance and SISA supervision capacity, introducing more flexibility to the investment regime while maintaining a prudent portfolio, and eliminating inconsistencies [PAL-2 Trigger]
- Regulatory action establishing a legal framework favorable to a national system of alternative dispute resolution [PAL-2 Trigger]

PAL 2

- Privatization of DSK, Shipyard Varna, twenty out of 35 small Hydro Power Plants. Bulgartabak privatization was a Second tranche condition that was not met.
- Establishment of a National Revenue Agency
- Approval of an updated medium term public administration reform strategy and action plan to secure merit and depoliticization; provide incentives for performance and service orientation; lead to optimization of government structures; and strengthen accountability and transparency in service delivery (PAL-2 Board condition)
- Approval by the National Assembly of amendments to Civil Service Law and by CoM of related secondary legislation to take effect from 1 January 2004 to make open competition mandatory for all external recruitment to career civil servant positions; to provide for filling of vacancies to be filled through internal recruitment to be based on credible merit-based procedures; and to establish clear criteria for determining which posts are to be advertised on an internal and external basis, and which only on an internal basis (PAL-2 Board condition)
- Government structure optimized and rationalized through completion of functional reviews for further ten pilot state administration structures (Ministries and regional administrations) [PAL-3 Trigger]
- First annual progress report on implementation of the government's Anticorruption Program approved by Council of Ministers and widely disseminated with partnerships established with business and investor associations and NGOs; Council of Ministers approves Anticorruption Program for period 2004 to 2005, including sectoral anticorruption strategies for education and health [PAL-2 Board Condition]
- Program budgets for pilot ministries (Ministry of Education, Ministry of Transport, Ministry of Environment and Waters, Ministry of Labor and Social Policy, Ministry of Economy Ministry of Energy and Energy Recourses and Ministry of Youth and Sport) and including performance indicators and targets prepared and included in 2005 budget [PAL-3 trigger]
- Adoption of a legal framework governing the accountability framework for judges (immunity, tenure, mandate) [PAL-2 Board Condition]

PAL3

- Privatization of seven electricity distribution companies as well as privatization of the Bulgarian Telecommunications Company (BTC) [PAL-3 Board Condition]
- Government optimization and rationalization under way through completion of 13 functional reviews and surveys, report identifying reorganization opportunities, reorganization action plans to implement functional review recommendations, and evidence of reorganization in pilot areas
- Implementation of actions to promote equitable access to quality education for children from poor households and ethnic minorities, and adoption by the Council for Economic Policy of a National Program for the Modernization of Education, identifying changes needed to improve the quality, structure, management, and financing of the education system
- Improve hospital management, productivity, and efficiency through (i) expansion of output based payment for inpatient care services to cover more than 50% of all hospital expenditures in 2005, providing incentives for the rationalization of services; and (ii) launch of restructuring in Ministry of Health and municipal hospitals and the development of a National Health Map to guide future restructuring
- To ensure stability and robustness of pension system, enactment of amendments to the social insurance code setting out: (i) the benefits indexation formula, including maximum and minimum benefits; and (ii) contribution rates including time-table of establishing a 50/50 split of employer/employee contributions and the timetable of increasing second pillar contributions

Lessons Learned

In the Lessons learned section we would like to highlight the excellent work of the coordination mechanism that made the PAL Program possible and strived to guarantee a mutually agreeable final output, thus securing positive results out of the operation.

In the first place we would like to thank the World Bank team in Sofia as well as in Washington and Zagreb for the determination, hard work and commitment and for the understanding of the specific features of the unique problems posed and solved in the process of realization of the PAL Program. We would like also to acknowledge the huge amount of work they have done to simplify and accustom the adjustment lending mechanism to the specific requirements of Bulgarian PAL Program.

On the other end of the coordination mechanism the Government of Bulgaria was represented at operational decision-making level by the Council for Economic Policy. The CEP was created with Ordinance 58/2002 of the Council of Ministers and is authorized to:

- Formulate priorities of country economic policy;
- Coordinate the actions of line ministries and institutions in regard to the economic policy;
- Set priorities in the implementation of the state policy on private and public investment;
- Coordinate the actions of state institutions on privatization and post-privatization control;
- Coordinate all work regarding donor operations and control the implementation of all projects with international financing;
- Coordinate and control the implementation of all Government commitments to the World Bank and the International Monetary Fund as well as other IFIs.

The Council for Economic Policy reviewed and approved on regular basis the World Bank portfolio, incl. the PAL Program. Each individual loan of the series has also been specifically assessed and approved in order to provide basis for the necessary state guarantee. On a higher level of authority, the final decisions for the PAL Program were taken by the Council of Ministers and ratified by the National Assembly.

The actual field coordination was responsibility of the “European Integration and IFIs” Directorate of the Council of Ministers of the Republic of Bulgaria, acting both as intermediary between the Government and the Bank and between the line ministries and agencies of the Government itself. The “EIRIFI” Directorate also acted as a secretary to the Council for Economic Policy and supported its sessions on administrative and organizational level. The “EIRIFI” Directorate was responsible for monitoring and control on the implementation of the decisions taken by the CEP, respectively for assessing the Ministries’ progress in fulfilling the obligations set in the Loan Agreements in the form of completing concrete actions marked as Board conditions and triggers.

We believe that the coordination mechanism, based on both formal and informal contacts between the parties and the hard work of the Bank and the Government was key in succeeding to align the Bank views with the Government priorities in the PAL Agenda. It does credit to all institutions involved that the necessary decisions were taken in due time and the respective actions were made along the lines of the agreed steps. It is also worth recognition that the main field coordinators – WBSO and the “EIRIFI” Directorate of the Council of Ministers showed great flexibility and swiftness of reaction to smooth the process and iron out all possible problems even before they become a threat to the Program and be able to hinder its satisfactory progress.

Finally, we would like to reiterate that after all necessary assessment and appraisal we believe that the coordination mechanism of the PAL Program is of fundamental importance and constitutes an essential factor for the success of the PAL Program.

Sustainability of Achieved Strategic Goals

The achievements of the PAL Program highlighted above are merely an excerpt and only few out of many achieved with the help of the PAL Program. The fact is that really most of the accomplishments under the series of loans show immense sustainability. The privatization of SOEs is an example of a sector that has no way of going back compromising the achievements of the PAL Program. Also the legislative basis formed under the PALs, though already most of it amended, has succeeded in creating a sound administrative, economic and political framework that continues to be vital for the functioning of the market economy and the civil society in Bulgaria. Thus the PAL Program not only helped the Government in making difficult steps towards better management and EU membership, but it also created a policy framework that will continue to be a basic building block of all new policy measures designed by the Government in the EU environment.

(b) Cofinanciers:

(c) Other partners (NGOs/private sector):

10. Additional Information

Table A: Annual EU Assessments of Bulgaria's Progress towards Accession

Year	General evaluation	Economic requirements for membership	Political requirements for membership	Areas where enhanced efforts are needed
2005	<ul style="list-style-type: none"> •Bulgaria has reached a considerable level of alignment with the <i>acquis</i> in most policy areas to become a member state in 2007. The Treaty of Accession was signed by the 25 Member States and Bulgaria in April 2005 	<ul style="list-style-type: none"> •Bulgaria continues to be a functioning market economy. The continuation of current reform pace should provide ability to cope with competitive EU market forces. •Bulgaria has maintained high degree of macroeconomic stability and growth, relatively low inflation and falling unemployment. 	<p>Bulgaria continues to meet political requirements in compliance with EU demands, with some shortcomings (see column 5)</p>	<ul style="list-style-type: none"> •Improvement in the business climate. •Improved function of the justice system •Further efforts to integrate the Roma minority •Capacity to absorb European funds allocated to it •Ensure a high level of food safety •Pro-active fight against corruption and organized crime.
2004	<ul style="list-style-type: none"> •Bulgaria is a functioning market economy. The continuation of its current reform path should enable Bulgaria to cope with competitive pressure and market forces within the Union. •Bulgaria has made good progress in 	<ul style="list-style-type: none"> •Good improvements made in sustaining macroeconomic stability and in deepening structural reforms •Bulgaria has increased its attractiveness for investment •Evidence of reduction in unemployment, however there still are 	<ul style="list-style-type: none"> •Bulgaria has continued to fulfill the political criteria, and has further consolidated and deepened the stability of its institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of 	<ul style="list-style-type: none"> •Privatizations need to be completed. •Reduce complexity and improve efficiency of the penal structures; need to increase capacity to prosecute organized crime and corruption •Comprehensive legislation on anti-discrimination was

	adopting the <i>acquis</i> and in building up the administrative capacity to implement and enforce the <i>acquis</i> .	some rigidities in the labor market	minorities. •Bulgaria has achieved stability of institutions guaranteeing democracy and the rule of law, and continued to fulfill the political criteria.	adopted but the independent body required by the law has not yet been established.
2003	•Bulgaria made significant progress towards alignment with <i>acquis</i> , and continues to fulfill the Copenhagen political criteria.	•The Bulgarian economy has achieved a high degree of macroeconomic stability due to a good policy-mix brought about by the CBA, a tight fiscal stance and wage moderation.	•Progress in fulfilling the political criteria was made with the adoption of <i>Strategy for Modernization of the State Administration</i> . •Amended the Constitution regarding the status of Magistrates, and strengthened judicial control of decisions of the executive.	•efforts needed to further implement the public administration reform to have efficient civil service •Efforts needed to re-organize the investigative service wing of the judiciary in line with best practice in Member States. •Corruption remains a problem •Flexibility in product and labor markets needs to be further enhanced.
2002	•Bulgaria has met the objectives set in the Laeken European Council Conclusions to open all the negotiation chapters	•Bulgaria has achieved a high degree of macroeconomic stability and market mechanisms are now working sufficiently to allow for a better allocation of resources. •Implementation of structural reforms key for higher levels of private and public investment which are key requirements for sustained growth and sufficient competitiveness within the Union. •Living conditions for the Roma remain extremely poor.	•The political situation has remained stable. The country has pursued the policy of integration with the European Union. The broad political support for EU and NATO accession has been further consolidated. •A strategy for accelerating Bulgaria's negotiations for accession to the EU was adopted in February 2002 by the National Assembly.	•Efforts are needed to improve the flexibility of markets. In particular, the efficiency of the administrative and judicial system to allow economic agents to make decisions in a climate of stability and predictability. •Administrative procedures affecting the enterprise sector, including bankruptcy procedures, must be streamlined. •The level of financial intermediation continues to be low.

Table B. Key Accomplishments of PAL Operations by their Strategic Pillars*

PAL1	PAL2	PAL3
PILLAR 1: SUSTAINING STRUCTURAL REFORMS		
<ul style="list-style-type: none"> •Enactment of a new <i>Law on Privatization and Post Privatization Control</i> •Privatization of Biochim and DZI •Enactment of amendments to the <i>Energy and Energy Efficiency Act (EEEA)</i> •Establishment of electricity distribution, generation and transmission companies as separate legal entities •Implementation of an average price increase of 20 percent for household electricity prices in the second half of 2002 and approval of an indicative timetable for future price increases towards their adjustment to cost-recovery levels •Satisfactory implementation of the district heating (DH) component of the Energy Strategy approved by the COM on May 11, 2002 •Creation of new railway operating company as a joint stock company with autonomous decision making as well as new railway infrastructure company as an independent public agency •Implementation of Chapter 19 (telecommunications) EU accession commitments •Establishment of an independent, transparent, and accountable regulator for the telecommunications sector – the Communications Regulation Commission (CRC) •Issuance and implementation of a privatization strategy for BTC that ensures no extension 	<ul style="list-style-type: none"> •Privatization or liquidation of the large SOEs listed in Annex 6B of PAL2 program document •Enactment of energy legislation consistent with EU Electricity & Gas Directives •Satisfactory implementation of the electricity tariff adjustment program •Adoption by the railway operating company of a long term development strategy and formulation by the infrastructure company of a long term business plan, including termination of 199 km of loss-making railway services •Reduction of railway labor force by around 10 percent compared to the level at end of 2001 •Enactment of <i>New Telecommunications Law</i> •Adoption and satisfactory implementation of CRC institutional development plan, including its financial independence •COM approval of a Water Sector Strategy •Satisfactory implementation of environmental policies on SOEs to be privatized and development and issuance of regulation on Environmental Impact Assessment •Development of a system of issuance and control of Integrated Pollution and Control Permits (IPPC) 	<ul style="list-style-type: none"> •Completed the privatization objective, through the sale or liquidation of 80 percent of SOEs in which the government had majority control in 2002 (30 percent sold in PAL3 alone), and nearly all minority packages (1,225 sold January 2004 to February 28, 2005). •Completed the existing program of the restructuring of the energy sector to increase competition and private sector entry, through: (1) increase in electricity tariffs bringing cumulative increases to 52 percent; (2) An increase in district heating tariffs, bringing cumulative increases to 33 percent •Completed the privatization of the electricity distribution sector, with the sale of all seven companies •Sale of seven (compared to the target of five) district heating companies •Signing of the first annual PSC between the government and the railway operating company to provide financial discipline and incentives for increased efficiency •Adoption and implementation of a government decision to terminate railway services on approximately 250 km of lines, and termination of nearly 120 passenger services. •Completed privatization in the telecommunications sector, through the privatization of BTC •COM approval and submission to National Assembly of <i>Water Regulatory Law</i> to provide appropriate regulatory framework for the water sector

<p><i>of BTC exclusivities</i></p> <ul style="list-style-type: none"> •Submission to Parliament of draft <i>New Telecommunications Law</i> •Submission of amendments to the <i>Water Law</i> supporting the restructuring of the Regional Water Companies •Enactment of a new <i>Environment Protection Act</i> •Enactment of <i>Biodiversity Law</i> 		
<p>PILLAR 2: ESTABLISHING A MARKET-FRIENDLY BUSINESS ENVIRONMENT</p>		
<ul style="list-style-type: none"> •Submission to Parliament of draft <i>Law on Administrative Regulation and Administrative Control on Economic Activities</i> •COM approval of a program for eliminating and restructuring regulatory regimes •Development by a working group of a plan for the integration of the Bulstat, tax, and social security registration of companies •Completion of a baseline Administrative and Regulatory Cost Survey (ARCS). •Establishment of a Tax Council to include representatives from the private sector •Enactment of the <i>Law on State Aid</i> harmonized with EU directives •Submission to Parliament of amendments to the <i>Law on the Protection of Competition</i> to strengthen the enforcement powers of the Commission for the Protection of Competition •Initiation of actions implementing the Social Policy Strategy and Strategic Note on Labor Market Reform adopted by the COM •Submission to Parliament of proposed amendments to Part IV (insolvency) of the <i>Commercial Code</i> 	<ul style="list-style-type: none"> •Enactment of the <i>Law on Administrative Regulation and Administrative Control on Economic Activities</i> •Elimination of 40 and modification of 50 regulatory regimes based on program approved by the COM on June 7, 2002 •Establishment of a comprehensive public registry of regulatory regimes •Drafting of the <i>Law on the Bulstat Register</i>, regulating the uniform registration for the purposes of the National Statistical Institute, the Tax Administration, and the National Social Security Institute •Introduction of measures for simplification of administrative procedures for regulatory regimes in the construction, tourism and food processing sectors •Establishment of a National Revenue Agency •Adoption by the COM of <i>Regulations for Implementation of the Law on State Aid</i> •Enactment of <i>Anti-discrimination Law</i> •Elimination of regulatory and bureaucratic barriers to private provision of employment services through amendment to Employment Promotion Act •Enactment of amendments to Part IV of the <i>Commercial Code</i> to accelerate resolution of insolvency cases •Implementation of a program for 	<ul style="list-style-type: none"> •Streamlining of centrally managed regimes and regulations to reduce transactions costs to the private sector •Enactment of legislation for a single stop shop for business registration •Enactment of legislation and rules instituting one-stop shop for support of new FDI and local administrations to improve service access

	overhauling the <i>Civil Procedure Code</i>	
PILLAR 3: DEEPENING THE FINANCIAL SYSTEM		
<ul style="list-style-type: none"> •Enactment of amendments to the foreclosure provisions of the <i>Civil Procedure Code</i> •Enactment of an <i>Accountancy Act</i> and an <i>Independent Financial Audit Act</i> to adopt international standards in accounting and auditing •Submission to Parliament of a draft <i>Law on Measures Against Terrorist Financing</i> and draft amendments to the <i>Law on Measures Against Money Laundering</i> •Enactment of <i>Bank Bankruptcy Law</i> •Enactment of amendments to the <i>Banking Law</i> providing broader powers to the BNB to investigate and identify direct and indirect ownership of banks •Adoption of an institutional development plan for the State Insurance Supervisory Agency (SISA) and Insurance Supervisory Agency (ISA) •Enactment of the <i>Mortgage Bond Law</i> to enable issuance of mortgage backed securities •Enactment of amendments to the <i>Law on Public Offering of Securities</i> to strengthen minority shareholder rights protection •Enactment of amendments to the <i>Insurance Act</i> to harmonize with EU directives and strengthen ISA •Elimination of monopolies in certain segments of the insurance market 	<ul style="list-style-type: none"> •Enactment of amendments to the <i>Law on Registered Pledges</i> •Implementation of international standards in accounting and auditing •Enactment of the <i>Law on Measures Against Terrorist Financing</i> •Enactment of amendments to the <i>Law on Measures Against Money Laundering</i> •Establishment of mechanism for consultation of the BNB and other financial regulatory agencies with regard to drafts of laws and regulations relevant to the financial sector •Enactment of the Social Security Code consolidating the Mandatory Social Insurance Code and the Voluntary Supplementary Pensions Insurance Act and strengthening of the governance of the private pension funds and the supervision capacity of the Financial Supervision Commission (FSC) and introduction of a general prohibition of related party activities •Unification of supervision of non-bank financial institutions (NBFIs) •Enactment of amendments to the <i>Commercial Code</i> to strengthen corporate governance provisions •Enactment of <i>Law on Financial Supervision Commission</i> 	(No actions under PAL3. All reforms envisioned for Pillar 3 were completed under previous PALs)
PILLAR 4: PUBLIC SECTOR REFORM		
<p><i>Approval of Strategy for State Administration – from Accession to Integration</i></p> <ul style="list-style-type: none"> •Approval of a national training strategy approved by CoM •Development of monitoring indicators to track public 	<ul style="list-style-type: none"> •Approval by the COM of an updated medium term public administration reform strategy and action plan to secure merit and depoliticization; lead to optimization of government structures; and strengthen 	<ul style="list-style-type: none"> •Continued satisfactory progress in implementing the State administration modernization program based on the agreed performance benchmarks and assessment of the agreed performance indicators

administration outcomes

•**Development of an anti-corruption strategy and action plan agreed with the Bank [PAL-1 Condition]**

•Establishment of the Inter-ministerial Committee for Implementing the Anti-corruption Strategy and Action Plan

•**Approval by COM of a program and action plan for judicial reform including a National Anti-Corruption Component for the Judiciary**

•Submission to Parliament of amendments to the *Judicial Act* incorporating adoption of uniform criteria for the selection of magistrates and the evaluation of their performance

accountability and transparency in service delivery

•**Approval by National Assembly of amendments to Civil Service Law and by COM of related secondary legislation**

•Development of amendments to *Law on State Administration* agreed with the Bank to provide for clear specification of the role and function of political cabinets of ministers

•Development and approval of relative pay position for civil service as compared to private sector and for internal pay decompression, with particular emphasis on areas of recruitment and retention difficulty

•Completion of functional reviews of three pilot central state administration structures (Ministries/agencies) to align Ministry/agency structures and staffing with those required to deliver key government work program priorities and to meet requirements of EU accession

•**First annual progress report on implementation of the government's Anticorruption Program approved by COM ; COM approval of Anticorruption Program for period 2004 to 2005, including sectoral anticorruption strategies for education and health and linked to anticorruption program for judiciary approved by Supreme Judicial Council (SJC)**

•Medium-term capital investment targets and prioritized program for EU pre-accession funds agreed and incorporated in 2004 budget

•Internal audit teams delegated to all line ministries, 109 municipalities, the National Social Security Institute and the National Health Insurance Fund and Executive Agencies

•Government reached agreement with National Association of Municipalities to liquidate

•**Implementation of the anti-corruption action plan**

•Adoption of a code of ethics for the civil service

•Implementation of freedom of information legislation, particularly the *Protection of Classified Information Act*

•Adoption of a Mediation Law to promote alternative dispute resolution mechanism for commercial disputes

•Submission to the National Assembly of a new *Administrative Procedural Code* to establish specialized administrative courts (in addition to the Supreme Administrative Court).

•Completion and publication of the second annual report on functioning of public administration

•Roll-out of "one stop shops" based on outcomes of pilot exercises

•Completion of functional reviews of agreed number of ministries/agencies

•Implementation of survey to assess effectiveness and public perception of judicial system

	<p>outstanding arrears</p> <ul style="list-style-type: none"> • <i>Adoption of a legal framework governing the accountability framework for judges (immunity, tenure, mandate)</i> • Establishment of a specialized commercial college at Supreme Court of Cassation and of specialized commercial sections at remaining courts of law (with heaviest commercial case load) • <i>Continued satisfactory progress in implementing the State administration modernization program based on the agreed performance benchmarks and assessment of the agreed performance indicators</i> • <i>Implementation of the anti-corruption action plan</i> • Adoption of a code of ethics for the civil service • Implementation of freedom of information legislation, particularly the <i>Protection of Classified Information Act</i> • Adoption of a Mediation Law to promote alternative dispute resolution mechanism for commercial disputes • Submission to the National Assembly of a new <i>Administrative Procedural Code</i> to establish specialized administrative courts (in addition to the Supreme Administrative Court). • Completion and publication of the second annual report on functioning of public administration • Roll-out of "one stop shops" based on outcomes of pilot exercises • Completion of functional reviews of agreed number of ministries/agencies 	
<p>PILLAR 5: INVESTING IN HUMAN CAPITAL AND STRENGTHENING SOCIAL PROTECTION</p>		
<ul style="list-style-type: none"> • Preparation of a plan for phased staff reduction and other 	<ul style="list-style-type: none"> • <i>Submission to Council for Economic Policy of concept for</i> 	<ul style="list-style-type: none"> • <i>Satisfactory progress in implementation of the action plan to</i>

<p>efficiency measures in the education system agreed with the Bank</p> <ul style="list-style-type: none"> •Introduction of the second pillar of the pension reform with a two percent contribution rate •Adoption of regulations to transfer contributions to private pension funds in a prompt and transparent manner •Initiation of implementation of an action plan to improve and strengthen the pension reform program •Introduction of targeting of child allowances •Adoption of an adjusted energy subsidy program in view of announced tariff increases •Approval by COM of amendments to the <i>Social Assistance Act</i> opening social services provision for private and NGO providers 	<p><i>education reform strategy and initial action plan designed to improve quality of learning and teaching while strengthening equity</i></p> <ul style="list-style-type: none"> •Approval by COM of an <i>Action Plan for Protection Against Discrimination Against Minorities</i> in the education system •Approval by COM of <i>Plan for Integration of Children with Special Educational Needs</i> into mainstream school system and for securing reduction in the number of children in Ministry of Education and Science managed institutions •Design and implementation of a mechanism for funding national health programs (e.g., Tobacco control, Immunization, HIV/AIDS, Tuberculosis) •Submission to National Assembly of <i>Law on Tobacco and Tobacco Products</i> together with proposals for completion of the harmonization of the tobacco control legislation and regulations with the relevant EU Directives •Approval by CoM of a <i>Strategy for Equal Opportunity for the Disabled</i> and a consolidated draft <i>Act on Integration of People with Disabilities</i> •Enactment of a consolidated <i>Social Insurance Code</i> to create a conducive framework for the further development of the multi-pillar pension system •<i>Implementation of measures improve coverage and efficiency of social assistance programs (including Guaranteed Minimum Income, energy benefits and child allowance)</i> •Enactment of the <i>Anti-Discrimination Act</i> •Approval by COM of plan for reducing the number of children in specialized institutions 	<p><i>improve and strengthen the pension reform program</i></p> <ul style="list-style-type: none"> •<i>Implementation of plan agreed with the Bank to improve coverage and increase efficiency of social assistance programs</i> •Adoption of an updated strategy and preparation of action plan to enable the integration of children from ethnic minorities into education •Enactment of an ordinance establishing a fund to support the educational integration of ethnic minorities •Adoption by the National Assembly of a program to increase coverage and reduce the drop-out of children in primary schools in 2005-06 school year •Enactment of legislation to increase tobacco control and regulate consumption in public places. •Expansion of output-based financing mechanisms for inpatient care (to cover more than 50 percent of all hospital payments in 2005), providing incentives for the rationalization of services •Enactment of legal amendments disallowing new claims of disability pensions by people over retirement age •Enactment of legislation to strengthening the role of the National Social Security Institute in the disability assessment process and providing for reprimanding of doctors for abuse/fraud in the medical assessment of disability
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* Triggers and Board conditions are highlighted in ***bold italics***

Annex 1. Key Performance Indicators/Log Frame Matrix

Outcome Indicators for the Overall PAL Program

Goal	Desired Outcomes under PAL Series	Performance
Overall PAL Program		
Sustaining economic growth	Average annual GDP growth rates of 4.5-5.0% during 2002-2005	Surpassed desired outcome: Estimated average annual GDP growth rate of 5.2% during 2002-2005
Reducing poverty	Reduction of the poverty rate by 50% by 2005 compared to 2001	No 2005 data but desired outcome likely met: Poverty rate would decline to 6.4 in 2005 from 12.8 in 2001 if growth elasticity of poverty were 1.5, which is very modest compared to SEE average of 2.5 during 1998-2003.
Creating employment	Reduction of the unemployment rate to 12-14% in 2005 compared to 17.5% in 2001	Surpassed desired outcome: According to the Employment Agency data average unemployment rate declined to 9.2 % in the third quarter of 2005 and averaged 10.2% for the first three quarters of 2005.
Pillar I: Sustaining Structural Reforms		
Rationalized role of the State by privatizing activities that can be performed by the private sector	By end-2005, the only remaining SOEs would be those listed in Annex 6A of PAL III Program Document	Privatization program near completion. Private sector share GDP in 2002: 64.3%; 2003: 64.5%, 2004: 66.3% and first three quarters of 2005: 68.9%; Private sector share GVA in 2002: 73%; 2003: 73.7%, 2004: 76.5% and first three quarters of 2005: 79.5%; Process is under way for most of the few remaining large deals; As of February 2005 there are only 90 unsold enterprises - (majority packages) compared to total number of the enterprises already privatized of 2883; 1225 minority packages sold between January 1 2004 and February 28, 2005.
Improvement in efficiency of energy services and preparation of energy sector for EU accession	In 2005, energy intensity of GDP would reduce by 15% compared to the level in 2001	Energy intensity of GDP fell by 9% between 2001 and 2003; forecasted decline in 2004 is 11%. (in tons of oil equivalent per thousand 1995 US\$).
Improvement in efficiency of the railway sector resulting in a decrease in railway subsidies	By end-2005, decrease in operating subsidies (excluding funds for investment) from 0.5% of GDP in 2000 to 0.2% of GDP Reduce railway labor force by 20% by 2004	Operating subsidies have fallen from 0.5% of GDP in 2000 to 0.2% of GDP in 2004 About 13% reduction in railway labor force achieved by 2005

	<p>By end-2005, increase in overall railway labor productivity by 16% compared to the level at end-2001</p> <p>By end-2005, achievement of financial working ratios of: 95% by the railway freight services; 100% by the railway infrastructure company (without any government subsidies); and 100% by the railway passenger services (including full payment by the government for public service contracts)</p> <p>By end-2005, achievement by the railway freight operating company of a debt service ratio of 1.5 times</p>	<p>Overall railway labor productivity increased by 12% by end-2004 compared to 2001</p> <p>Working ratios as of end 2004: Freight services – 101%; Passenger services -99%; Railway operating company – 100%</p> <p>Debt Service Coverage Ratio for freight services as of end-2004: 2.9 times</p>
Liberalization of the telecommunications market	<p>By end 2005, the degree of digitalization of:</p> <p>Transfer network: 100% Transit exchanges: 82% Fixed telephone network subscribers: 46%</p> <p>% of households with telecommunications services allowing internet access: 94%</p> <p>Telephone connection waiting time will not exceed one month.</p>	<p>In October 2004, degree of digitalization of :</p> <p>Transfer network: 94% Exchanges: International: 100% Transit: 79%</p> <p>Fixed network subscribers 32.74%</p> <p>In 2004, 94 % of households had access to telecommunications services allowing internet access</p> <p>In end-2004, telephone connection waiting time for new applications is about 65 days</p>
Modernization of the water sector	<p>By end-2005, reduction of the operating ratios (operating costs including depreciation to total revenues) of water companies to 86%</p>	<p>In 2004, operating ratio of water companies is 88%, reflecting improved efficiency since 2002 when they were 90% (107 % in 1996)</p>
Mitigation of environmental risks	<p>By end-2005, issuance of 225 integrated environmental permits under the IPPC directive</p> <p>By end-2007, issuance of permits to all enterprises covered by the IPPC directive</p>	<p>20 integrated environmental permits had been issued by end-2005, applications for issuing 90 have been submitted</p>
<i>Pillar 2: Establishing a Market-Friendly Business Environment</i>		
Reduced entry constraints and regulatory costs	<p>During 2002-05, FDI inflows of US\$1.0 billion per year</p>	<p>Average FDI inflows of about US\$1.7 billion a year between 2001-04; estimated at US\$2.8 billion in 2004 and US\$ 2.3 billion in 2005.</p>

	<p>By 2005, increase in share of SMEs in valued added and employment to at least 50%</p> <p>During 2002-05, total factor productivity increase of 2.5% annually</p> <p>By 2005, private sector share of GDP at least 70 %</p> <p>By end-2005, elimination or modification of at least 50% of regulatory regimes (issued by central administration) existing at mid-2002</p> <p>By end-2006, considerable decrease in the number of procedures and time required for business registration from the present 11 procedures and 32 days to 6 procedures and 10 days.</p> <p>By end-2006, reduced time in resolving commercial disputes from 440 days in January 2004, resulting from the freeing of judges time from business registration routines</p> <p>By 2005, significant reduction of regulatory compliance costs as measured by management time spent on regulatory compliance in the annual ARCS (from 25% in 2002)</p>	<p>SME share in employment is increasing continuously: 2000: 50.6% 2001: 51.6% 2002: 53.8% 2003: 56.7%</p> <p>SME share in value added is increasing continuously: 2000: 29.5% 2001: 31.2% 2002: 34.2% 2003: 36.2%</p> <p>Private sector share of GDP has increased from 64.3% in 2001 to 68.9% in first three quarters of 2005</p> <p>By March 2005, approximately 44% of regulatory regimes (issued by central administrations) existing at mid-2002, have been eliminated or modified.</p> <p>Ease of doing business in 2005(Starting a business): Procedure (number): 11, Number of days to start business: 32 Cost (% of income per capita) 9.6; and Minimum capital (% of income per capita): 104.2 (source: Doing Business 2006).</p> <p>Management time spent on regulatory compliance remained at 25% in 2003</p>
Improved business service delivery by government offices	<p>Customs revenue increased by 55% by 2005 in comparison with 2001</p> <p>Reduction of processing time at all participating border crossing points by 20% in 2005</p>	<p>Customs revenue increased by 66% in 2004 compared to 2001 (by 47% in real terms)</p> <p>By 2004, processing time for imports in the 3 pilot sites was reduced by between 26-38% compared to 2001 and for exports by between 2.5-56% (the lower values of 26% and 2.5% are reported for 2003 for Gueshevo which is undergoing construction since 2004).</p>
Ensure competition and functioning markets	By end-2005, BEEPS survey evidence of increased competitiveness in private	Bulgaria closed EU chapter on competition in mid-June 2004

	sector compared to position in 2002	
	State reserves to act in a transparent manner and in the long run to stop interventions in the grain market, with eventual interventions to be carried out only in connection with EU accession requirements through an EU style intervention agency	Amendments to the State Reserves Act and Grain Storage and Trade Act are submitted to Parliament
Promotion of flexibility in the labor market	<p>By end-2005, reduction in: Unemployment</p> <p>Share of long-term unemployed</p> <p>Youth unemployment rate</p> <p>By end-2005, increase in employment rate (based on labor force surveys)</p>	<p>Surpassed desired outcome: According to the Employment Agency data average unemployment rate declined to 9.2 % in the third quarter of 2005 and averaged 10.2% for the first three quarters of 2005</p> <p>Share of long term unemployment reduced from 63.7% in 2001 to 59.3% in 2004 against 43.4 in EU-15 in 2003</p> <p>Youth unemployment rate reduced from 38.4% in June 2001 to 25.8% in 2004, against 14.7% in EU-15 in 2003</p> <p>Employment rate (LFS) increased from 50.9% in September 2001 to 56.6% in January 2005 against 64.8 in EU-15 in 2003. Target for end-2006 set at 58%.</p>
Improved efficiency of the insolvency regime	By end-2005, demonstrated reduction in average time period to reach resolution of insolvency cases from 3.8 years in 2003 towards levels in other advanced transition economies	The average time period to reach resolution of insolvency cases reduced to 3.3 years in 2004
<i>Pillar 3: Deepening the Financial System</i>		
Improved legal framework for lending	<p>By end-2005:</p> <p>Increase in financial intermediation to support private sector investment, while maintaining capital adequacy and liquidity standards;</p> <p>Increase in M2 to GDP from 42% in end-2001 and 43% in 2002</p> <p>Increase in private sector loans to GDP from 15% at end-2001</p> <p>Ensure that the quality of banks' portfolios is preserved in the face of rapid credit expansion.</p>	<p>M2 to GDP increased to 47.7% of GDP in 2003, and to 53.4% of GDP in 2004</p> <p>Real credit to private sector increased annually by close to 40% in 2003 and 43% in 2004</p> <p>Credit to private sector increased from 20% of GDP in 2002, to 27% of GDP in 2003, and 37% of GDP in 2004</p>

Completion of banking reform	By end-2003, private sector share of banking assets reaches about 98%	Private sector share of banking assets at close to 98% by end-2004
Development of financial markets and improved supervision coordination; improved sustainability, regulation, and governance of private pension funds	By end-2004, the value of the combined pension fund portfolio approximates 2% of GDP By end-2005, improved custodianship rules effective	By end-2003, combined pension fund portfolio reached 1.5% of GDP; by end 2004, combined pension fund portfolio reached 2 % of GDP. Improved custody services for pension funds (single custodian) in place.
<i>Pillar 4: Improving Public Sector Governance</i>		
<i>Strengthening public administration capacity through:</i>		
Strengthening public administration reform program management capacity	By end-2006, evidence of improved capacity in COM to develop and manage public administration and civil service policy and reform By end-2006, evidence of progress with public administration and civil service reforms, through development of key policy frameworks, legislation and implementation frameworks – especially related to depoliticization	Extra 84 civil servants in Political Cabinet of Minister responsible for Public Administration and Civil Service and in regional administrations; COM capacity enhanced through training. Key policy frameworks developed for functional reviews and depoliticization and merit. Strategy for Modernizing State Administration developed and being implemented. Merit based recruitment and remuneration being implemented since 2004 with 100% of civil service affected by merit-based policies in some way
Strengthening merit and depoliticization	By end-2006, all recruitment exercises (central government, regional administrations, local governments) filled through competitive/performance-based recruitment or advancement (<i>merit</i>)	100% of new recruitment exercises for civil servants in 2004 were conducted through external recruitment processes, in accordance with new requirements, compared with 10% of such exercises in the previous year.
Increasing competitiveness of civil service pay compared to private sector	By end-2006, evidence of: (i) increases in public sector pay for benchmark grades compared to private sector pay for equivalent positions (ii) increase in decompression ratio (Junior Expert to Secretary General) (Annual) (<i>pay reform</i>)	(i) In July 2004 pay increases across Government averaged 8.5%; exceeding inflation and private sector average—narrowing gap between public and private sector. (ii) 2004 pay increase averages exceeding 10% for higher echelons of civil service
Rationalizing government structures	By end-2006, evidence of adjustments in government structures, functions, staffing levels and skills appropriate for effective delivery of priority government work program objectives and requirements of EU integration	Government adjustments initiated through extended functional reviews in 7 ministries and 6 regional administrations, with implementation action plans for change; survey reviews in all other central administrative structures
Improving service delivery	By end-2006, evidence of increased	Client Charters of various national and 3

	<p>number of e-services delivered to citizens and businesses and in the associated volumes of services/transactions completed/number of hits on key government service websites.</p> <p>By end-2006, evidence of increase on perceptions of civil servants as to degree of performance orientation in civil service.</p> <p>By end-2007, evidence of significant increase in the extent to which administrative services subject to formal competitive processes; and of outsourcing of services and analysis of savings generated</p>	<p>sub-national administrations posted on Internet portal of State Administration.</p> <p>Various service areas (notary publics, construction supervisors, local water and garbage collection) subject to competitive processes, with over another 60 administrative services to be subject to competitive processes before January 2007.</p>
<p>Increasing accountability and transparency</p>	<p>By end-2006, levels of state capture and administrative corruption reduced compared to 2001; and public administration displaying a stronger external accountability and transparency and providing for wide-ranging participation in formation of “rules of the game”, demonstrated through:</p> <p>NGO surveys show decline in number of transactions involving corruption; decline in perceptions of corruption in key areas such as tax, customs and judiciary; BEEPS III (2005) shows decline in perceptions of state capture and of administrative corruption compared to BEEPS II (2002). Repeat Public Officials Survey (2004) shows decline in perceived instances of administrative corruption compared to baseline survey (2001) (<i>reducing corruption</i>)</p> <p>Increase in number of requests by public for official information; monitoring of % provided; % refused; number of appeals when refused; % of appeals successful, % unsuccessful (partly to be based on feedback and analyses to be provided by NGOs) (<i>transparency</i>)</p>	<p>Anticorruption public councils created in 21 (out of 28) regional administrations</p> <p>213% increase in applications to government bodies for access to public information in 2003 compared to 2002 (39% increase from 2001 to 2002) from 21,649 to 67,712 requests. 315 of these requests turned down in 2003 with 38 appeals against refusals</p> <p>Many ministries have declassified documents to be available to public under freedom of information regulations: MoF, MoE, MoFA/MoEUI, MLSP, MoEER, MRDPW, MoA, MoH, MoES, MoC, MoJ, and MoD (champion with 52,298 declassified documents).</p>

	100% compliance by public officials with asset and earnings declaration and disclosure requirements	
<i>Strengthening public expenditure management through:</i>		
Increasing allocative efficiency and transparency in budget formulation	<p>By 2007, evidence of improved performance focus in entire budget, through program orientation across government and publication of all first level spending unit goals and objectives in budget; and accountability for results as reflected in active audits of programs</p> <p>By 2006 (for 2007 budget preparation cycle), public expenditure management system based on medium-term MTFF</p> <p>By 2006, evidence of improved focus on investment expenditures and investment expenditure management, evidenced through improved allocations to investment and maintenance items and more active management of these items.</p>	<p>7 out of 17 FLSUs have program budget documents in appendix to 2005 budget; one audit of program budget sent to Parliament; MOF report on budget includes (for first time) list of all FLSU goals and objectives.</p> <p>2005 budget based on three year fiscal framework.</p> <p>Capital expenditures declined to 3.8% of GDP in 2002 compared to 4.9% in 1999; however since 2003 there has been a trend of continuous increase of these expenditures both in nominal terms and as a percent of GDP (to 3.9% in 2003, 4.2% in 2004 and a preliminary estimate of 5.7% of GDP in 2005).</p>
Strengthening procurement and financial accountability mechanisms	<p>By end-2005, evidence of more robust procurement system including: (i) functional arbitration court for public procurement; (ii) fully functional and complete Public Procurement Register.</p> <p>By end-2005, evidence that PIFCA reports leading to appropriate action by Ministry of Finance (remedial, system and process improvements)</p>	<p>New procurement framework introduced</p> <p>Public Internal Financial Control Agency (PIFCA) had as at September 2004, covered all central and local entities with either delegated audit teams or other internal audit arrangements</p>
Strengthening system of intergovernmental finance and municipal service delivery	Increased predictability and transparency in allocation of Government transfers to municipalities	2005 budget provides for all centrally mandated local government expenditures to be fully funded—according to legislated approach
<i>Increasing the accountability, efficiency, and effectiveness of the judicial system</i>	By end-2005, increase in accountability, efficiency and effectiveness of judicial system demonstrated through : the improved structure and capacity of the SJC, monitoring of case load per judge, and a reduction in complaints and disciplinary measures against judges, and improved perceptions of judges' ethics.	<p>Strategic and policy framework for judicial reform established by Ministry of Justice and Supreme Judicial Council in 2002.</p> <p>Legislative framework to provide for appropriate and strengthened</p>

	<p>By mid-2005, a new and improved legislative framework for providing legal services by attorneys, improved quality of legal services and better enforcement of ethical rules</p> <p>By end-2005, registration/accreditation process for mediators will be in place, and by mid-2006 there will be an increase in the number of cases handled through mediation</p> <p>By end-2006, at least 50% of specialized administrative courts will be operational.</p>	<p>accountability framework for magistrates established in 2003 as well as for their selection, performance appraisal, promotion and demotion with effect from early 2004; setting up of an internal unit (standing commission) within SJC to address issues of corruption within Judiciary according to a national Anti-corruption Strategy and Action Plan approved by the SJC. Anti-corruption hotlink in place since end-2004.</p>
<p><i>Pillar 5: Investing in Human Capital and Strengthening Social Protection</i></p>		
<p>Improving the governance and efficiency of the educational system</p>	<p>By end-2007, continued gradual improvement in student-teacher ratio towards OECD levels particularly in higher education</p> <p>By end-2007, greater autonomy and accountability in management of higher education institutions, in particular through considerable representation of external stakeholders on university governing councils and professionalization of the position of the rector to assure independence from the governing body.</p>	<p>Student-teacher ratio for grades 1-4 was 16.9 in 2002-03 against 17.7 for OECD levels and 16.7 for EU countries average; student-teacher ratio in grades 5-8 was 12.2 in 2002-03 against 15.0 for OECD and 12.6 for EU countries average; student-teacher ratio in grades 9-13 in 2002-03 was 11.0 against 13.9 for OECD and 12.9 for EU countries average; in 2003-04, student, staff ratio in higher education system was about 10:1, compared to average student-staff ratio for the OECD of 16.4:1.</p>
<p>Improving quality and equity of education at all levels</p>	<p>By end-2007, public expenditures on education as a percentage of GDP are closer to OECD levels (5.6%).</p> <p>Reduction in the gap in participation, enrollment, and attendance rates for minorities and families in poverty as</p>	<p>Public expenditures on education: 2002: 4.2% of GDP 2003, 2004 and 2005 (programmed): 4.4%</p> <p>Non-enrollment rates among 7-18 year olds fell between 2001 and 2003, with largest absolute decline (20 percentage</p>

	<p>compared with the general population</p> <p>By end-2007, 40% of Roma students integrated into mainstream schools</p> <p>By end-2007, increase in number of children with special education needs integrated into mainstream kindergartens and schools; and in the number of schools and kindergartens adapted to receive and educate children with special education needs</p> <p>By end-2007, gradual reversal in the present trend of declining performance of the system as measured by national and international assessments.</p>	<p>points) among children from poorest quintile</p> <p>Legal and regulatory changes in place to promote integrated teaching for children with special education needs; 130 resource teachers appointed in 2004-05 school year to tutor 675 children and students with special educational needs. 10 schools for children with special needs started teaching the regular curriculum.</p>
Improving the governance and financial sustainability of the health system	<p>By 2005, NHIF administrative costs kept at less than 3% of total expenditures</p> <p>By 2006, financing of all hospitals becomes the responsibility of the NHIF</p> <p>By 2007, NHIF will have a balanced annual budget between its revenues and expenditures, and will cease to supplement it from its reserve funds</p> <p>By end-2005, completion of new cycle of accreditation of inpatient medical care facilities (will also form new baseline)</p>	<p>Administrative costs in 2004 at 3%, as per NHIF end-year report; budgeted admin costs in 2005 – less than 3% inclusive of capital expenditures.</p> <p>NHIF budget allocated to inpatient care increased by 53% from 2003 to 2004; and by 20% in 2005, accounting for 50% of all inpatient expenditures including reserve. As of January 1, 2006 all general hospitals receive their financing solely from NHIF.</p> <p>Gradual deficit increase was expected in the period 2004-06, before achieving balanced budget in 2007. Deficit in 2003: 0.7%; 2004: planned deficit around 6.7%, but in effect ended up with a small surplus due to improved collection; 2005 – 11% planned deficit</p>
Enhancing access to and quality of healthcare services and promoting multi-sectoral interventions for effective public health actions	<p>By end-2005, the average occupancy ratio in acute care hospitals will reach 85%</p> <p>By the end-2005, the average length of stay (ALOS) in days in acute care hospitals will be reduced from 11.5 in 2000 towards the EU average of 8.2 days</p> <p>By end-2005, there will be a system in place for periodic monitoring and evaluation of immunization, tuberculosis case detection and treatment/cure, HIV prevalence rates</p>	<p>Occupancy rate in acute care hospitals (supervised by MOH) was 66% in 2001, 75% in 2002, 79% in 2003, and 80% in 2004.</p> <p>The ALOS for acute care hospitals (supervised by MH) was 11 days in 2001, 9 days in 2002, 8.8 days in 2003, and 7.3 days in 2004/5.</p> <p>New cases of tuberculosis fell from 48 per 100,000 in 2001 to 42.4 in 2004; polio immunization rate for children under 2 years rose from 94.4 % in 2000 to 96% in 2003, but resorted back to 94.1% in 2004.</p>

	<p>By end-2007, increase in immunization coverage and reduction in the incidence of infectious diseases including tuberculosis.</p> <p>By 2010, gradual increase of excise duty on tobacco products towards harmonization as per the EU directive (to be assessed on a yearly basis)</p>	<p>HIV prevalence monitoring system is in place, with HIV prevalence still very low in 2005.</p> <p>Share of MOH central procurement budget for National Health Programs increased from 18.6% in 2002, to 19% in 2003, 26 % in 2004, and 29% in 2005 (2004 and 2005 figures are budget estimates)</p> <p>2004 budget provided for 1% of the excise tax to be applied to financing tobacco, alcohol and drug control programs. Excise duty on tobacco products is gradually being increased on an annual basis to reach the EU level in 2010.</p>
Improving the administration and targeting of disability benefits and empowering the disabled to integrate fully into society	<p>From 2005, no new disability pensions awarded to people above retirement age</p> <p>Improved control over disability uptake and fraud by end-2006</p> <p>By end-2006, needs (social) assessment regulations are in place and are applied to the disabled</p>	<p>Legislation prohibits awarding disability pension to people already receiving old age pensions.</p> <p>Legislation provides for improved control by NSSI over the disability assessment process</p> <p>Legislation introduces notion of social assessment</p>
Ensuring the successful implementation of pension reform	<p>By 2005, stability achieved in benefit indexation, contribution base dynamics, and contribution rates</p>	<p>The Social Insurance Code:</p> <p>(a) specifies the timetable for the change in the ratio of employer to employee contributions from 70:30 in 2005 to 50:50 in 2009</p> <p>(b) sets benefit indexation at 75% CPI+25% wage growth,</p>
Improving the effectiveness of social assistance programs	<p>Increased effectiveness of GMI</p> <p>Increase in share of poorest quintile among beneficiaries of child allowance program and reduced leakage to richest 2 quintiles.</p> <p>Increased school attendance for children from poor households.</p> <p>Improved targeting of energy benefit payments</p>	<p>Coverage of GMI increased 2.7 times between 2001 and 2003, and of energy benefits 2.5 times.</p> <p>Share of funds channeled to poorest quintile increased from 60% to 75% for GMI, from 20% to 35% for child allowances, from 47% to 54% for energy benefits; share of funds to richest two quintiles fell from 40% to 23% for child allowances program.</p> <p>School drop-out rates fell between 2001 and 2003, with largest absolute decline (20%) among children from poorest quintile</p>
Reducing institutionalization of children through helping	<p>By 2007, decline in number of children in specialized institutions by</p>	<p>The number of institutions has decreased from 316 in 2001 to 305 in</p>

<p>families and fostering community-based alternatives to institutional care</p>	<p>10%</p> <p>By 2007, increase in the number of restructured childcare institutions</p> <p>By 2007, increase in the number of care providers subject to transparent, modern licensing procedures</p> <p>By 2007, increase in number of non-governmental alternative child care providers and in community based child welfare services</p>	<p>2003, or by 3.5%; the number of children placed in all types of residential institutions has decreased from 30,751 in 2001 to 23,688 in 2004, or by 23%; including the number of children placed in institutions under the Child Protection Act has decreased from 12,511 in 2001 to 10,284 in 2004 or by 17.8%.</p> <p>Restructuring plans prepared. Restructuring started on a pilot basis in 2005</p> <p>There were 12 licensed non-governmental child care providers in mid-2004 and 119 by end-January 2006.</p>
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Annex 2. Project Costs and Financing

Not applicable as this is an adjustment operation

Annex 3. Economic Costs and Benefits

Not applicable as this is an adjustment operation

Annex 4. Bank Inputs

(a) Missions:

Stage of Project Cycle	No. of Persons and Specialty (e.g. 2 Economists, 1 FMS, etc.)		Performance Rating	
	Month/Year	Count	Specialty	Implementation Progress
Identification/Preparation 9/28/2004	19	Mission leader (1) Task Team Leader (1) Pub. Admin. & Expenditure Mangmt. (2) Infrastructure & Energy Spec. (2) Education & Training Spec. (1) Social Assistance Specialist (1) Property registration & state reserves (1) Judicial Reform Specialist (1) Health Specialist (2) Lead Economist (1) Financial Sector Specialist (1) Pensions and Disability Spec. (1) Railways Specialist (2) Labor Market Specialist (1) Telecommunications Spec. (1)	S	S
Appraisal/Negotiation 3/21/2005	13	Team Leader (1) Operation Officer (2) Health Specialist (1) Lead Energy Economist (1) Lead Specialist (1) Lead Transport Specialist (1) Sr. Counsell (1) Public Admin. reform Specialist (2) Judicial reform Specialist (1) Lead Economist (1) Economist (1)		
Supervision 3/31/2005	25	Economist (2) Lead Economist (2) Operations Adviser (1) Sr. Counsel (3) Lead Transport Specialist (1) Sr. Financial Management Specialist (2) Lead Energy Economist (1) Sr. Public Health Spec. (1) Senior Economist (1)	S	S

			Lead Specialist (1) Senior Finance Officer (1) Senior Procurement Spec (1) Sr. Private Sector Development Spec. (1) Financial Sector Specialist (1) Operation Officer (1) Public Sector Mgmt. Spec. (3) Program Assistant (2)		
ICR	4/25/2006	3	Economist (1) Consultant (1) Sector Manager (1)	S	S

(b) Staff:

Stage of Project Cycle	Actual/Latest Estimate	
	No. Staff weeks	US\$ ('000)
Identification/Preparation	168.07	705,944
Appraisal/Negotiation	31.23	128,274
Supervision	21.1	89,613
ICR	20	63,750
Total	240.4	950,581

Note: Bank inputs listed here are only for PAL3. See respective interim ICRs for Bank inputs for PAL1 and PAL2

Annex 5. Ratings for Achievement of Objectives/Outputs of Components

(H=High, SU=Substantial, M=Modest, N=Negligible, NA=Not Applicable)

	<u>Rating</u>				
<input type="checkbox"/> <i>Macro policies</i>	<input type="radio"/> H	<input checked="" type="radio"/> SU	<input type="radio"/> M	<input type="radio"/> N	<input type="radio"/> NA
<input type="checkbox"/> <i>Sector Policies</i>	<input type="radio"/> H	<input checked="" type="radio"/> SU	<input type="radio"/> M	<input type="radio"/> N	<input type="radio"/> NA
<input type="checkbox"/> <i>Physical</i>	<input type="radio"/> H	<input type="radio"/> SU	<input type="radio"/> M	<input type="radio"/> N	<input checked="" type="radio"/> NA
<input type="checkbox"/> <i>Financial</i>	<input type="radio"/> H	<input checked="" type="radio"/> SU	<input type="radio"/> M	<input type="radio"/> N	<input type="radio"/> NA
<input type="checkbox"/> <i>Institutional Development</i>	<input type="radio"/> H	<input checked="" type="radio"/> SU	<input type="radio"/> M	<input type="radio"/> N	<input type="radio"/> NA
<input type="checkbox"/> <i>Environmental</i>	<input type="radio"/> H	<input type="radio"/> SU	<input type="radio"/> M	<input type="radio"/> N	<input checked="" type="radio"/> NA

Social

<input type="checkbox"/> <i>Poverty Reduction</i>	<input type="radio"/> H	<input checked="" type="radio"/> SU	<input type="radio"/> M	<input type="radio"/> N	<input type="radio"/> NA
<input type="checkbox"/> <i>Gender</i>	<input type="radio"/> H	<input type="radio"/> SU	<input type="radio"/> M	<input type="radio"/> N	<input checked="" type="radio"/> NA
<input type="checkbox"/> <i>Other (Please specify)</i>	<input type="radio"/> H	<input type="radio"/> SU	<input type="radio"/> M	<input type="radio"/> N	<input checked="" type="radio"/> NA
<input type="checkbox"/> <i>Private sector development</i>	<input type="radio"/> H	<input checked="" type="radio"/> SU	<input type="radio"/> M	<input type="radio"/> N	<input type="radio"/> NA
<input type="checkbox"/> <i>Public sector management</i>	<input type="radio"/> H	<input checked="" type="radio"/> SU	<input type="radio"/> M	<input type="radio"/> N	<input type="radio"/> NA
<input type="checkbox"/> <i>Other (Please specify)</i>	<input type="radio"/> H	<input type="radio"/> SU	<input type="radio"/> M	<input type="radio"/> N	<input checked="" type="radio"/> NA

Annex 6. Ratings of Bank and Borrower Performance

(HS=Highly Satisfactory, S=Satisfactory, U=Unsatisfactory, HU=Highly Unsatisfactory)

6.1 Bank performance

Rating

- | | | | | |
|--------------------------------------|--------------------------|------------------------------------|-------------------------|--------------------------|
| <input type="checkbox"/> Lending | <input type="radio"/> HS | <input checked="" type="radio"/> S | <input type="radio"/> U | <input type="radio"/> HU |
| <input type="checkbox"/> Supervision | <input type="radio"/> HS | <input checked="" type="radio"/> S | <input type="radio"/> U | <input type="radio"/> HU |
| <input type="checkbox"/> Overall | <input type="radio"/> HS | <input checked="" type="radio"/> S | <input type="radio"/> U | <input type="radio"/> HU |

6.2 Borrower performance

Rating

- | | | | | |
|--|--------------------------|------------------------------------|-------------------------|--------------------------|
| <input type="checkbox"/> Preparation | <input type="radio"/> HS | <input checked="" type="radio"/> S | <input type="radio"/> U | <input type="radio"/> HU |
| <input type="checkbox"/> Government implementation performance | <input type="radio"/> HS | <input checked="" type="radio"/> S | <input type="radio"/> U | <input type="radio"/> HU |
| <input type="checkbox"/> Implementation agency performance | <input type="radio"/> HS | <input checked="" type="radio"/> S | <input type="radio"/> U | <input type="radio"/> HU |
| <input type="checkbox"/> Overall | <input type="radio"/> HS | <input checked="" type="radio"/> S | <input type="radio"/> U | <input type="radio"/> HU |

Annex 7. List of Supporting Documents

(A) Project Documents

- o Report and Recommendation of the President of the International Bank for Reconstruction and Development (IBRD) to the Executive Directors on a proposed first Programmatic Adjustment Loan (PAL1) to the Republic of Bulgaria, October 31, 2002
- o Memorandum and Recommendation of the President of the International Bank for Reconstruction and Development (IBRD) to the Executive Directors on a proposed second Programmatic Adjustment Loan (PAL2) to the Republic of Bulgaria, June 8, 2004
- o Memorandum and Recommendation of the President of the International Bank for Reconstruction and Development (IBRD) to the Executive Directors on a proposed third Programmatic Adjustment Loan (PAL3) to the Republic of Bulgaria, May 05, 2005
- o Bulgaria Letter of Development Policy (PAL1, PAL2, PAL3)
- o Loan Agreement (PAL1, PAL2 and PAL3) between Republic of Bulgaria And International Bank for Reconstruction and Development (IBRD)
- o International Bank for Reconstruction and Development Program Document for a proposed first Programmatic Adjustment Loan (PAL1) to the Republic Of Bulgaria
- o International Bank for Reconstruction and Development Program Document for a proposed second Programmatic Adjustment Loan (PAL2) to the Republic Of Bulgaria
- o International Bank for Reconstruction and Development Program Document for a proposed third Programmatic Adjustment Loan (PAL3) to the Republic Of Bulgaria
- o Project Status Report (PAL1, PAL2, and PAL3)

(B) Aide Memoires

- o January 31, 2002 PAL1 Preparation Mission Aide Memoire
- o May 17 - 24, 2002 PAL1 Mission on Business Environment Aide Memoire
- o September 23-27, 2002 PAL Labor Market Component – Preparation Aide Memoire
- o December 2002 PAL2 Preparation Mission Aide-Memoire
- o January 2003 PAL2 Identification Mission Aide-Memoire
- o March 13, 2003 PAL2 Pillar 4 Identification Missions Back-To-Office Report
- o May 2003 PAL2 Preparation Mission Aide-Memoire
- o July 2003 PAL2 Pre-Appraisal/Preparation and PAL3 Identification Mission Aide-Memoire
- o October/November 2003 PAL2 Pre-Appraisal Mission Aide-Memoire
- o January 21, 2004 PAL2 Pre-Appraisal Mission: Back To Office Report
- o February/March 2004 PAL2 Appraisal Mission Aide-Memoire

(C) Regional Operations Committee(ROC) Minutes

- o PAL2 Regional Operations Committee (ROC) Meeting Minutes of December 9, 2003
- o PAL3 Regional Operations Committee (ROC) Meeting Minutes of March 17, 2005

(D) PAL Interim ICRs

- o PAL1 Implementation Completion Report
- o PAL2 Implementation Completion Report

(E) Economic and Sector Work (ESW)

- o Anticorruption in Transition, 2000 and 2004
- o Bulgaria Poverty Assessment Report, 1999 and 2002
- o Bulgaria Public Expenditure and Institution Review, 2001
- o Country Financial Accountability Assessment, 2003

- o EBRD-World Bank Business Environment and Enterprise Performance Survey (BEEPS), 2002 and 2005
- o EBRD Transition Reports, 2002 and 2005
- o Growth, Poverty, and Inequality in ECA,2005
- o Public Expenditure Issues and Directions for Reform, 2003
- o The Dual Challenges of Transition and EU Accession, 2001
- o Third Programmatic Adjustment Loan (PAL3) Issues Paper
- o European Commission's Regular Report on Bulgaria's Progress towards Accession (annual)
- o World Bank-IMF Financial Sector Assessment Program (FSAP), 2002

(F) Related Legislations

- o Law on Privatization and Post Privatization Control
- o Energy and Energy Efficiency Act (EEEA)
- o Telecommunications Law
- o Environment Protection Act
- o Biodiversity Law
- o Law on Administrative Regulation and Administrative Control on Economic Activities
- o Law on State Aid
- o Law on the Protection of Competition
- o Law on Administrative Regulation and Administrative Control on Economic Activities
- o Anti-discrimination Law
- o Bankruptcy Law
- o Law on Public Offering of Securities
- o Law on Measures Against Terrorist Financing
- o Law on Financial Supervision Commission
- o Law on State Administration
- o Social Assistance Act
- o Law on Tobacco and Tobacco Products

Annex 8. Beneficiary Survey Results

Not applicable

Annex 9. Stakeholder Workshop Results

Outcome of the Bulgaria Programmatic Adjustment Loans (PALs)

Intensive Learning Implementation Completion Report (ILI) Workshop

June 20, 2006 at Crystal Palace Hotel, Sofia

The intensive learning ICR (ILI) workshop was attended by representatives of various agencies of the Government of Bulgaria and staff of the World Bank. Participants from government agencies included staff from the Council of Ministers, Ministry of Economy and Energy, Ministry of Education and Science, Ministry of Labor and Social Policy, Ministry of Health, National Health Insurance Fund, National Social Security Institute (NSSI), Ministry of Finance, Ministry of Health, and Ministry of State Administration and Administrative Reform. On the Bank side, participants of the Workshop included the PAL design and implementation team members as well as team members of the current Development Policy Lending (DPL) and the Social Inclusion Project (SIP). The session was co-moderated by Daniel Dulitzky, Co-Task Team Leader (TTL) for the DPL project and Lire Ersado, who was the TTL for the preparation of the ICR. The list of participants and the Workshop agenda are attached below.

The Workshop was comprised of three presentations and ensuing discussions on each of them. The first presentation was on the main findings and the views of the PAL Implementation Completion Report (ICR) team with regard to the design, implementation effectiveness, and the lessons learned of the PAL program. The second one presented GOB's evaluation of the PAL program. The final presentation was on the reflections of the PAL task team leaders, including what worked. The discussions during the workshop were focused around the design of the PAL instrument, the main achievements of the program, what worked and what did not work well, and the lessons for future Bank involvement in Bulgaria.

The key messages from the workshop are outlined below.

9.1. The Overall PAL Program Objectives and Design

(a) PAL addressed key development challenges. The participants of the Workshop have agreed with the finding of the ICR team that the PAL program addressed key development challenges facing the government of Bulgaria. The objectives were well crafted and appropriate given the Bulgaria level of development at the time. The program appropriately supported the medium term reform program of the Government of Bulgaria (GOB) that emphasized private initiative as the main engine of economic growth, and empowerment of the population to participate in future growth. The PAL series with its three successive operations (namely, PAL1, PAL2 and PAL3) was a comprehensive effort of institutional and structural reforms necessary for Bulgaria's complete transition to market economy and to realize Bulgaria's aspirations for EU membership.

(b) GOB ownership of PAL a key success factor. The participants concurred that the ownership of the PAL program by the government of Bulgaria and the Bank's contribution through design and increasing the visibility of the program were the key factors for successful implementation. The participants acknowledged that more than the loan money, the Bank's know-how and its international experience, was the key factor. The participants from government agencies praised the quality of the Bank's analytic work that underpinned the program design and

the broad and relevant international experience that the Bank staff brought to bear in the program supervision.

(c) PAL was too complex in its coverage, conditionality, level of detail and specificity, but participants agreed that that was what was needed at the time. Although PAL appeared over-designed and not well aligned with the Bank's emerging model of support to middle income countries, the GOB demanded a detailed roadmap and specific implementation strategies. As Bulgaria has progressed immensely in its implementation and reform management capacity during PAL, the participants emphasized that future Bank engagement in Bulgaria should give the GOB more flexibility in project design and implementation. This has been a good lesson for the DPL program, which is maintaining a fewer number of core conditions than the PAL series did.

9.2 Achievement of the Development Objectives

There was overall agreement among the participants that the PAL program was successful in achieving its desired objectives. The program implemented most of its specific structural and institutional reforms as well as it achieved the broader stated objectives of private-led growth, poverty and unemployment reduction, and EU accession. However, although Bulgaria maintained its general macroeconomic stability during PAL, some participants of the Workshop pointed out current IMF's concern that there are some deficiencies and potential risks in the macroeconomic environment that may affect Bulgaria's medium term prospects. These included the rapid acceleration of credit to the private sector and increase in current account deficit.

The inability to privatize Bulgartabac was widely discussed during the workshop. Participants felt that too much emphasis was put on Bulgartabac. The participants felt that the lack of progress in the privatization of Bulgartabac, while it may reflect poorly on the achievements of the PAL program, had a negligible demonstrative effect on the GOB's seriousness to enhance private sector participation in growth.

9.3. Major Factors Affecting Implementation

The Workshop participants stressed that the successful implementation of the PAL program is largely attributable to the strong commitment of the GOB to EU accession. And GOB ownership of the program was another essential factor for successful implementation. Program coordination within the GOB was a critical success factor to program outcomes. The Council for Economic Policy (formerly the Council for Structural Policy) under the COM has been effective in managing the program and coordinating among different public sector institutions. Participants also appreciated the usefulness of Bank's know-how and positive influence for advancing multi-sectoral reform efforts.

9.4. Sustainability

The participants agreed with the GOB and Bank findings that the sustainability of the achievements is likely. This was due to continued GOB commitment to successful integration into the EU. Participants emphasized that there are no political or economic incentives to backtrack on the reforms that enabled Bulgaria to become a fully functioning market economy.

9.5. Bank and Borrower Performance

(a) Bank Performance. Staff from government agencies praised Bank team performance in both design and supervision of the PAL program. Bank had a disciplinary effect on the government, reminding and pushing it for reform. GOB officials praised the ability of Bank specialists to bring to bear “lessons of international experience,” e.g., in reforming business regulation, privatization, and social sector reform. Bulgarian authorities indicated that the Bank played a key catalytic role and as a “public stimulus” for difficult reforms by applying “soft external pressure”.

(b) GOB Performance. Workshop discussions pointed out that the decisive government support of the PAL program and its adherence to a firm and comprehensive multi-sectoral reform agenda contributed to the smooth process of design and implementation. The government performance was outstanding particularly on Pillars 1 through 4. The Council for Economic Policy under the COM, the Council for State Administration Modernization established under PAL2, and the Ministry of Finance were very effective in implementing the reforms under the PAL series.

9.6. List of People Met by the PAL ILI Mission

GOVERNMENT OF BULGARIA

H.E. Nikolay Vassilev, Minister of State Admin, former Deputy Prime Minister and Minister of Economy and Minister of Transport

H.E. Ms. Zinaida Veleva, Director, EU Integration and Relations with the International Financial Institutions (IFI) Directorate, and Chief PAL program coordinator

Ms. Snejana Dimitrova, Director, State Administration Directorate

Mr. Dimiter Ivanovski, Deputy Minister, Ministry of Finance, former DM of Labor and Social Policy and Deputy Minister of Energy and Economy

Mr. Lachezar Stefanov, Ministry of Finance

Ms. Svetla Panova, Ministry of Finance

Mr. Petko Salchev, former Deputy Minister of Health

Mr. Valery Apostolov, member of National Audit Office, former DM of Labor and Social Policy

Mr. Milko Kovatchev, former Minister of Energy and Minister of Economy

Ms. Mariana Borissova, Ministry of Education and Science

Ms. Ekaterina Vitkova, Deputy Minister, Directorate, Council of Ministers Office

Ms. Koeva, Director, Directorate, Council of Ministers Office

Ms. Evgenia Nacheva, Director, Financing Directorate, National Health Insurance Fund

Ms. Elka Dimitrova, Director Labor Market Policy Directorate

Mr. Pindjurov, Director, Budget Directorate

K. Palikarski, Secretary, Anti-Corruption Commission and Adviser to the Minister of State Administration

Mr. Nasko Tsanev, former Executive Director of Bulgaria Railways Company

Ms. Maria Tomova, Director, Social Assistance Directorate, Ministry of Labor and Social Policy

Mr. Plamen Nikiforov, Head of water supply and sewage department

Mr. Dragomir Cholakov, Ministry of Justice

Mr. Ivan Neykov, former Minister of Labor and Social Policy, Chair, Balkan Institute for Labor and Social Policy

Mr. Svetlozar Tonev, Executive Director, Registration Agency

WORLD BANK

Anand Seth, Country Director, ECCU5
Arup Banerji, Sector Manager, ECSHD
Oscar de Bruyn Kops, Country Manager, ECCU5/Bulgaria
Albert Martinez, PAL1 Task Team Leader, ECCU5
Neil Parison, PAL2 Task Team Leader, ECSPE
Reema Nayar, PAL3 Co-Task Team Leader, ECSHD
Boryana Gotcheva, PAL3 Co-Task Team Leader, ECSHD
Sandor Sipos, Sector Manager, HDNSP
Lada Strelkova, OPCR
Stella Ilieva, ECSPE
Tony Verheijen, ECSPE
Lalit Raina, ECSPF
Irina Astrakhan, ECSPF
Istvan Dobozi, ECSIE
Sudipto Sarkar, ECSIE
Peter Pojarski, ECSHD
Doncho Barbalov, ECSIE
Henri Kerali, ESCIE
Dominic Haazen, ECSHD
Csaba Feher, ECSHD
David Fretwell, ECSHD
Stefano Scarpetta, HDNSP
Anna Georgieva, ECSSD

INTERNATIONAL AND DONOR AGENCIES

Ms. Maya Koteva, Economist, EU Delegation
Mr. James Roaf, IMF Resident Representative
Mr. Jene Gibson, USAID
Ms. Svetozara Petkova, USAID
Ms. Raina Dimitrova, USAID

NGOS AND CIVIC SOCIETY

Mr. Krassen Stanchev, Executive Director, Institute for Market Economics
Mr. Lachezar Bogdanov, Industry Watch
Mr. Ivo Prokopief, Bulgaria International Business Association (BIBA)
Ms. Sasha Bezuhanova, Bulgaria International Business Association (BIBA)
Ms. Andriana Sukova-Tosheva, Bulgaria International Business Association (BIBA)
Mr. Levon Hamparzumjan, Bulgaria International Business Association (BIBA)
Mr. Ivan Neykov, former Minister of Labor and Social Policy, at present Chairman of the Balkan Institute for Labor and Social Policy

9.6. ICR Workshop Participants

Ms. Svetlana Panova, Head of Department, Ministry of Finance

Ms. Ivet Maymounkova, Council of Ministers
Mr. Peter Pojarski, Operations Officer, World Bank
Ms. Dessislava Lazova, Senior Expert, Ministry of Finance
Ms. Elisaveta Paniovska, Director Directorate, Ministry of Education and Science
Mr. Dragomir Stoynev, Council of Ministers
Mr. Vladimir Nedialkov, Senior Expert, Council of Ministers
Mr. Inna Veder, Ministry of Labor and Social Policy
Ms. Teodora Noncheva, Nacional Social Security Institute
Mr. Mladen Georgiev, Counselor, Council of Ministers
Ms. Detelina Smilnova, Ministry of Economy and Energy
Ms. Irena Nikolova, Expert, Ministry of Economy and Energy
Mr. Christian Bodewig, Economist, World Bank
Mr. Juan Manuel Moreno, TTL, Bulgaria DPL1, Education team
Ms. Boryana Gotcheva, Senior Operations Officer, World Bank
Ms. Kari Hurt, Operations Officer, World Bank
Mr. Daniel Dulitzky, TTL, DPL1, World Bank
Ms. Albena Samsonova, Team Assistant, World Bank

9.7. Agenda for the HSSP ILI Workshop

Crystal Palace Hotel, Sofia

Tuesday June 20, 2006

9:00-9:10	Welcome Remarks and Introduction to Workshop by Chairman of Workshop
9:10-9:20	Keynote Remarks by Official Representative, Government of Bulgaria
9:20-10:50	Implementation Completion Report (ICR)—Main findings and Lessons Learned by PAL ICR TTL
10:50-10:30	Questions and Observations from Stakeholders
10:30-10:45	Coffee/tea break
10:45-11:15	Borrower Evaluation of the PAL by GOB counterpart
11:15-11:45	Reflections from PAL Task Team Leaders
11:45-12:30	Questions and Observations from Stakeholders
12:30-12:45	Wrap-up and Concluding Remarks by Government Official and Chairman of Workshop
12:45-2:00	Lunch
2:00	End of Workshop

