ICR Review
Operations Evaluation Department

Report Number : ICRR11068

1. Project Data:		Date Posted :	07/24/2001	
PROJ ID:	P051151		Appraisal	Actual
Project Name :	Social Protection Adjustment Loan	Project Costs (US$M)	80	40
Country:	Bulgaria	Loan/Credit (US$M)	80	40
Sector(s):	Board: SP - Compulsory pension and unemployment insurance (45%), Health insurance (25%), Other social services (25%), Non-compulsory pensions insurance and contractual (5%)	Cofinancing (US$M)	0	0
L/C Number:	L4409			
		Board Approval (FY)		99
Partners involved :	none	Closing Date	12/30/1999	06/30/2000
Prepared by :	Reviewed by :	Group Manager :	Group:	
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2. Project Objectives and Components

a. Objectives

The establishment of a viable policy framework for systemic reform in the social protection area (pensions, labor and unemployment, social assistance e.g., sickness and maternity benefits, social assistance /child allowances and health care financing).

b. Components

The Social Protection Adjustment Loan (SPAL) had four main components. (a) *Pension reform*: It involved a move away from over-reliance on a pay-as-you-go (PAYG) public pension scheme towards a three-tier system involving the public and private sectors, a significant reduction in long-term payroll taxes used to finance mandatory pension programs and an increase in the fairness of the public pension system across occupations and gender. (b) *Labor and unemployment*: This involved increasing the flexibility of the labor market through improvements in the Labor Code, lowering unemployment insurance contributions, reevaluating country's existing active labor market programs, including training, retraining, public employment programs and wage subsidies. (c) *Social Assistance*: This component sought to improve the efficiency and adequacy of the system by strengthening and consolidating means-tested benefits to improve coverage of the most vulnerable households, reduce or eliminate duplicative in-kind benefits and untargeted, universal cash benefits. *Health insurance*: A key element here was the development of financing mechanisms to provide incentives for cost containment and quality care with a view to introducing a national health insurance scheme.

c. Comments on Project Cost, Financing and Dates

There were no revisions in projects components. The loan was to be released in two equal tranches of $40 million. In May-June 2000, the Bank made a final review of SPAL implementation progress, assessed the prospects for fulfillment of the pending conditions, and upon request of the Government cancelled the disbursement of the second tranche.

3. Achievement of Relevant Objectives:

Pensions: A plan was developed and law enacted for systemic reform of the PAYG system. A new Social Insurance Code was approved by the Parliament, reducing benefits by reducing accrual rates for pension rights and increasing retirement age, restoring a closer link between contributions and benefits, unifying the system, and introducing a mandatory funded supplemental pension scheme. A law on voluntary pension funds was enacted and the State Insurance Supervision Agency was established and is operational. But privatization of National Social Security Institute (NSSI) assets was partially fulfilled. Sales of its spa and recreation homes and hotels is still continuing. The expectation in the SPAL President's Report (PR) was the "gradual diversion of at least 5 percentage points to funded (or capitalized) accounts". This has not occurred. In addition, the objective in the PR was to lower the very high contribution rates. They remain high. 52% for category 1, 47% for category 2 and 37% for general although the latter has gone down to 32.7%.

Labor/Employment: The Labor Code was amended to make labor market more flexible and consistent with market economy and was approved by the Parliament in March 2001. The amendments to the Unemployment Security and Employment Promotion Act is still pending. Paid leave for maternity and childcare was reduced marginally. Sick pay regulations were reformed to improve efficiency. The evaluation of active labor market programs was delayed, partly because of delay in implementing the Regional Initiative Fund loan which funded the evaluation but has since been completed and an Employment Action Plan was finalized in April 2001. The Law on Social Investment Fund was enacted in April 2001. A reduction in payroll tax to 3% could not be achieved. This proposal was based on overly optimistic forecasts of growth and employment, so could not be implemented without undermining financial viability of the unemployment fund so the task team recommended a waiver.

Social Assistance: The in-kind portion of the utility income support program was replaced with a cash benefit for the heating season, and improvements were implemented in targeting and aggregation of installments. Monthly co-financing of basic minimum income benefits from central government was implemented. Revised regulations were adopted on Social Care, specifying licensing requirements, contractual and funding arrangements, and standards for service delivery by NGOs and the private sector. With support of the IDF grant, Territorial Social Welfare Offices were set up and staffed, organization models defined for territorial and municipal offices, operational manuals developed, and social workers trained. Amendments of the Law on protection, rehabilitation and social integration of disabled was reviewed by the Bank and found to be satisfactory.

However, outstanding issues remain. The Basic minimum income (BMI) benefits (based on a survival basket of food requirements) were not paid fully or regularly, especially by the poorer municipalities, and the incentives proposed under the SPAL to improve this were not implemented although penalties were increased for the ones that delayed social payments. Management Information System needs of the social assistance system were not adequately addressed (this is included in the new Child Welfare Reform Project). The most important outstanding issue – which was primarily responsible for cancellation of the 2nd tranche – was poverty targeting of child allowances. The Bank team proposed keeping the broad coverage, but taxing it back from the better-off, and paying a supplemental benefit to the 20% poorest (through the same targeting mechanism as the BMI program). This issue remains unresolved.

Health: The Government has enacted a Health Insurance Act.

4. Significant Outcomes/Impacts:

In pension reform, significant benefits included the establishment of a legislative basis for rationalization of the existing PAYG system and the introduction of second and third pillars. In labor market/employment, incentives for employment were improved, reinforcing the insurance basis, excluding non-contributors, and reducing overly generous benefit levels. Resources were shifted to active labor market policies (to more than half the amount spent on unemployment compensation schemes in 1998). Amendments to the Labor Code are expected to improve labor flexibility. In social assistance, the institutional framework for social assistance was defined. Accompanying regulation allowed for administrative consolidation of two separate income support programs (guaranteed minimum income and energy benefits) and for increases in benefits for vulnerable groups. The financial and administrative capacity of local governments to deliver social assistance was improved somewhat through matching grants from the central treasury, training, and reinstatement of regional social assistance offices to support municipalities.

5. Significant Shortcomings (including non-compliance with safeguard policies):

Although recent progress has been remarkable, sustained efforts will be needed to resolve complex implementation issues and consolidate these gains. Fiscal sustainability of the pension system is not yet consolidated. Implementation issues still have to be resolved for introduction of the second and third pillars, including the policy for pension fund investment in the absence of developed private capital markets in the country. Although legal and regulatory constraints to mobility have been largely resolved (with the exception of high payroll taxes), important structural problems include lack of housing to facilitate labor mobility, and inappropriate skills mix.

· Most importantly, in the area of social assistance, financial allocations continue to be insufficient (treated as a residual item in the budget) and poorly targeted. The traditionally generous, universal child and maternity allowances have declined drastically in value; they are not poverty targeted and are regarded more as a matter of demographic policy than protection against poverty. Local governments still lack the financial and administrative capacity and incentives to deliver. Finally, the SPAL pushed to create a legally autonomous implementing agency for a social investment fund. It is not clear, however, how the proposed agency would relate with the mainstream public sector agencies accountable for public investment. Considering that a significant concern of the Bank is to help the government achieve more proactive coordination and prioritization of public investment and recurrent expenditure (a role that cannot easily be played by other donors), the implications of channeling a large share of lending through the SIF should have been explicitly addressed before the inclusion of the legislation in the SPAL.

In addition, the government has yet to assume responsibility or develop capacity for on -going monitoring of poverty and of social impacts of policies and programs, including ethnic and gender impacts . No threshold for benefit eligibility has been defined. Also the scale of the informal sector, estimated to account for at least 40% of the total and including much of the agricultural sector could lead to potential fragmentation of society resulting from exclusion of the informal sector from social and health insurance .

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Satisfactory	
Institutional Dev .:	Substantial	Substantial	
Sustainability :	Highly Likely	Likely	See section 5.
Bank Performance :	Satisfactory	Satisfactory	
Borrower Perf .:	Satisfactory	Satisfactory	
Quality of ICR :		Satisfactory	

NOTE: ICR rating values flagged with ' * ' don't comply with OP/BP 13.55, but are listed for completeness.

7. Lessons of Broad Applicability:

First, the SPAL agenda was ambitious but was largely fulfilled because (a) Government's demonstrated commitment; (b) The Ministry of Labor and Social Protection was progressive; (c) Civil society was involved in pension reform. The Ministry of Labor and Social Protection worked with a "Working Group for Pension Reform" supported by USAID and included participation comprising academia, business, and experts . As a result pension legislation was passed by the Parliament in record time. Second, the Social Insurance Administration Project (SIAP) that preceded the SPAL was critical in building capacity for pension reform undertaken in the SPAL . An IDF grant was not as successful an instrument to build capacity for social assistance reform . Third, the focus in the SPAL was on appropriate legislation to underpin social protection reforms which was an essential first step but close monitoring of implementation is desirable, particularly in the context of EU Accession and the SPAL should be followed up with instruments that would allow regular monitoring. Fourth, analytical work on poverty should be sequenced so as to inform a social protection loan. In Bulgaria's case, the poverty assessment was somewhat ambivalent in its conclusions on the practical scope for improved targeting, pointing to the need for further analysis .

8. Assessment Recommended? ○ Yes ● No

9. Comments on Quality of ICR:

The ICR is of good quality. The main shortcoming was that some of the lessons were not fully convincing . For example, the ICR mentions that timely parallel operations such as the financial and enterprise structural adjustment loan (FESAL II) and the Agricultural Sectoral Adjustment Loan (ASAL I) prevented overloading the SPAL and optimized linkages. However, these operations were not linked and could not have been a part of the SPAL . Finally, the focus in the ICR is mainly on whether legislation was amended /passed. The President's Report envisaged monitoring of social assistance, specialized surveys of selected municipalities to allow determination of participation and changes in participation in the BMI program. It is unclear if these were done and if they were what were the outcomes. Outcomes of studies of active labor market programs that the ICR says have been conducted have also not been reported. The ICR could have reported on the extent to which social assistance is targeted to the poor, the size of pension deficits, trends in contribution rates to NSSI, indicators of labor market flexibility and contributions being shifted to the second pillar of the pension system .