We support this Country Assistance Strategy for Bulgaria and endorse the proposed strategy to assist the government maintain and enhance its macroeconomic policies and promote structural reforms. The attention given in the CAS to private sector development and to rationalizing and strengthening the role of the state by encouraging reforms of state administration and the judiciary is also welcome. We endorse the proposed lending volume and associated triggers and believe that the proposed mix of lending and non-lending services and of investment and adjustment lending anticipated in the CAS are appropriate.

The Government of Bulgaria has made substantial progress in the last few months despite some slippages in the past. In fact it appears that the ongoing reforms are the deepest since the end of communist rule. The comprehensive economic reform program has led to an impressive macroeconomic performance with inflation reduced to 2 percent per month from 245 percent only a year ago, the fiscal deficit reduced to 2.6 percent in 1997 from 13.4 percent the previous year, the balance of payments position strengthened and foreign reserves enhanced. Notwithstanding this turnaround, Bulgaria's economic recovery is still fragile and implementing the program of continued macroeconomic stability and structural reforms still remains a daunting task. Much also remains to be done to protect the poor and to develop human capital.

The importance of an efficient and well-informed government machinery for sustainable development reform cannot be over-emphasized. Therefore, we consider the focus in the CAS on strengthening the public administration, civil service and the judiciary to be appropriate. We support the pro-active role the Bank is playing in helping the government address the problems of corruption, crime and illegal trade. However, we believe that EDI has a particularly important role to play in these areas, and in assisting the public administration to develop the necessary capacity for providing credible policy advice, and establishing a legal and regulatory environment that will eliminate distortions and rent-seeking activities in the country. EDI can also assist in building institutional capacity for policy analysis and in broadening political
support for economic reforms. We would therefore appreciate staff comment on the role of EDI in building institutional capacity in the various government entities in Bulgaria during the coming years.

On private sector development, we are pleased with the government’s effort to accelerate the privatization process and attract domestic and foreign investment. We are also pleased with the steps that have already been taken in the areas of trade liberalization, agriculture sector reforms and infrastructure improvement, especially telecommunications and energy. We welcome the efforts made in putting in place a fair, predictable legal and administrative environment for private sector development. The emphasis placed on private sector development by allocating approximately one-third of the Bank’s lending program for Bulgaria to this sector over the CAS period is welcome. We also believe that IFC should pursue investment opportunities in Bulgaria in a more proactive way. The country could benefit significantly from IFC’s extended outreach program as well as through technical assistance for its privatization program. However, while we concur that the pace of privatization has been slow, we believe that the proposed privatization schedule is too ambitious, given the country’s limited institutional capacity.

We are concerned that as the country moves from a controlled to a market-based economy, this has meant more people living below the poverty line. We also note that the standard of living in Bulgaria is deteriorating, especially in the health sector, while the gap between “haves” and “have-nots “ is widening. We therefore share the recommendation in the document that the social protection program should be restructured and improved to ensure adequate protection of clearly identified vulnerable groups through improved targeting and the provision of meaningful benefits and quality services. In this connection, we support the proposed Social Protection Adjustment Loan and other Bank assistance proposed to combat poverty and develop human capital in Bulgaria during the CAS period.

We are pleased to note the remarkable improvement in portfolio performance in the last fiscal year, leading to an increase in the disbursement ratio and to a higher number of projects rated satisfactory in terms of meeting development objectives and achieving implementation targets. This achievement has been due to increased supervision and monitoring by the national professional staff in Sofia. We welcome the proposed plan to simplify the design of the Bank’s new loans, to set realistic development objectives for future Bank projects and to ensure that the Bank is not ahead of the government. The importance of government commitment to, and ownership of, programs is essential for good portfolio management. It is imperative that the borrower be involved in all stages of project design, preparation and implementation.

We welcome the Bank’s collaboration with other participants in Bulgaria’s development process, particularly the IMF in its three-year Extended Financing Facility, as well as the EU with its activities relating to the accession of Bulgaria to the European Union. We hope that the Bank will interact with all the development assistance agencies in such a way as to maximize the use of resources and to avoid duplication.
Finally, we commend staff for the extensive public consultation that went into the preparation of this CAS. We also wish the government of Bulgaria success as it deepens its structural reforms and tackles the challenge of transforming its economy into a market economy, to pave the way for the country’s accession to the European Union.