

The World Bank Group and Bulgaria – An Evaluation of Twenty Years of Partnership

Executive Summary

The World Bank Group has helped Bulgaria to navigate three major economic transformations: the difficult transition period from 1990 to 1997, when hesitant economic reforms led to a severe economic crisis; the bold reforms of 1998 to 2007 that helped prepare for full European Union membership; and, from 2008 to the present, the treacherous aftermath of the global financial crisis. The partnership evolved throughout that time. In the early years, the Bank Group lacked influence and the reform direction was not always clear. But in preparing for EU accession, the Bank Group was a major partner, contributing both finance and advice. Since accession, the role of the Bank Group has transitioned towards provision of knowledge services as the EU has become the main financier.

Bulgaria's successful management of the economy since 1997 paved the way to its EU membership. The support of the World Bank was important to that success. Results overall have been good in primary and secondary education, labor market reform, budget management, and the business regulatory environment. But some of these successes have been partial. In general education, for example, achievements have been concentrated in financing and school management, while education quality and student performance still lag behind European standards. Similarly, while the regulatory framework of labor markets has improved, skills gaps persist and labor force participation remains weak. Overall, the partnership has been productive and demonstrated the importance of ownership to make financial support and advice successful. When ownership of difficult reforms was lagging, results remained elusive.

The International Finance Corporation has facilitated private investment, particularly since 1997, when private investors were interested in Bulgaria but risk assessment was difficult and highly uncertain. The Multilateral Investment Guarantee Agency helped mitigate those perceived country risks and has since rolled back its presence as private insurance companies demonstrated their willingness to cover country risk. After the 2008 financial crisis, the IFC mobilized resources to pump new energy into the financial sector.

Today, the relationship between Bulgaria and the World Bank is a knowledge-based partnership. In the past, the World Bank's knowledge services—and their results—were closely linked with lending operations. In the future, the World Bank's challenge will be to foster development results independently of lending, through knowledge services that support Bulgaria to converge with EU standards through the implementation of the Europe 2020 strategy. The World Bank can meet this challenge by acting in three areas. First, provide focused, practical, and operational advice in the various areas of engagement. Second, continue to raise awareness about issues that are important for Bulgaria's medium-term development and help build broad consensus around the reform agenda through objective advice, dialogue with civil society, and by facilitating

participation. Third, emphasize advisory services for strengthening institutions and capacity for policy formulation and implementation.

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