



“In Poland I turned to the World Bank with which we had already established a good working relationship through the transition years. Because it is independent, the Bank can help give a credible start to anticorruption initiatives. It helped us with the analytical work and advised us on the policy and technical reforms that can help to minimize corruption.”

Leszek Balcerowicz, op-ed in *Segodnya* (Russian Federation newspaper). September 2000.

Countries Eligible for World Bank Borrowing:

Albania
Armenia
Azerbaijan
Belarus
Bosnia and Herzegovina
Bulgaria
Croatia
Czech Republic
Estonia
Georgia
Hungary
Kazakhstan
Kyrgyz Republic
Latvia
Lithuania
Macedonia, former Yugoslav Republic of
Moldova
Poland
Romania
Russian Federation
Slovak Republic
Slovenia
Tajikistan
Turkey
Turkmenistan
Ukraine
Uzbekistan
Yugoslavia, Federal Republic of

This section also reports on Kosovo.

Europe and Central Asia

REGIONAL CONTEXT: GROWING ECONOMIES, NEED FOR STRONGER BUSINESS CLIMATE

The year 2000 marks the first year in the past decade when all transition countries experienced positive growth. Growth in Central Europe and the Baltics averaged 4 percent, the highest during the last five years. The Baltic countries, Croatia, the Czech Republic, and Romania started to grow again after having stabilized their economies in the previous year. Overall, growth in the Commonwealth of Independent States (CIS) countries reached a record high of 7.4 percent, led by the Russian Federation's strong economic recovery fueled by higher energy prices and the post-1998 currency depreciation.

Barring a sharp decline in growth in Western Europe, economic growth is expected to remain strong in most of the region into 2001. Many of the new administrations in Central Europe and the Baltics are accelerating reforms, and the European Union (EU) accession process has become an important catalyst. Continued growth in the Russian Federation and Ukraine will depend crucially on improving the environment for business and private investment. Such improvement could not only raise the present low levels of domestic and foreign direct investment but also spur growth of new small- and medium-size firms—a major factor in the growth of the Baltics and Central Europe.

Major developments have occurred in Turkey and the Federal Republic of Yugoslavia. In late 2000, the new administration of the Federal Republic of Yugoslavia embarked upon a reform program to facilitate the transition to a market economy, and re-established links with the international community.

In Turkey, the macroeconomic stabilization program suffered a major setback in February 2001, and output is expected to decline this year. The currency depreciated sharply and major losses occurred in the banking sector. A comprehensive structural reform of the public and financial sectors accelerated in the spring, alongside implementation of agricultural reform.

WORLD BANK ASSISTANCE: CREATING JOBS, PROTECTING THE VULNERABLE, FIGHTING CORRUPTION

Poverty has increased substantially in the Europe and Central Asia (ECA) region over the last decade, resulting from the deep economic recessions initiated by the transition process. **Helping countries to move to a sustainable growth path**—and to ensure that growth translates into jobs and improved living standards—continues to be a major component of the Bank's poverty reduction strategy, with efforts to help **improve the business climate**. A second component is **support for realigning public expenditures** to protect extensive achievements in education and health, and improving the targeting of social protection programs toward the most vulnerable. **Improving governance and institutional structures** to serve the broader public interest, with a strong focus on anticorruption and community-driven development, marks a third component of the Bank's strategy. This strategy incorporates lessons learned from the past decade of transition experience (see <http://www.worldbank.org/eca/publications>).

The Bank continues to play a key role in supporting peace and economic recovery in South East Europe. With other partners, it has helped the new government of the Federal Republic of Yugoslavia prepare an Economic Recovery and Transition

Program, and cosponsored a donor conference to raise funds for this Program. The Federal Republic of Yugoslavia became a member of the World Bank in May, after agreement was reached on a plan to resolve its arrears to the IBRD. The Bank prepared a Transitional Support Strategy, and start-up activities are being financed by a \$30 million trust fund. The Bank is also helping Kosovo rebuild its economy and is continuing its support for regional initiatives in South East Europe, including the Trade and Transport Facilitation Program. Under this program, Bank-financed projects in six South East European countries will help reduce nontariff transport costs and reduce smuggling and corruption at border crossings by supporting reforms and financing critical infrastructure and equipment needs.

The Bank moved rapidly to support the new economic program of Turkey by preparing a series of adjustment loans to accelerate structural reform and mitigate social risks. A loan supporting the initial phase of financial sector reforms was approved in December 2000.

Table 4.4 shows the value and sectoral distribution of total Bank lending to the Europe and Central Asia region in the fiscal 1992–2001 period. Table 8.5 (see About the World Bank) compares commitments, disbursements, and net transfers to the region for fiscal 1996–2001, and table 8.11 (see About the World Bank) shows operations approved in fiscal 2001, by country. Figure 4.4 shows IBRD and IDA lending by sector.

Launching the Poverty Reduction Strategy process

The Poverty Reduction Strategy process was launched in all nine IDA countries in the ECA region during fiscal 2000. Albania presented its Interim Poverty Reduction Strategy Paper (I-PRSP) to the Bank and the IMF Boards in fiscal 2000; Armenia, Georgia, the former Yugoslav Republic of Macedonia, Moldova, and Tajikistan presented their I-PRSPs in fiscal 2001; and Azerbaijan, Bosnia and Herzegovina, and the Kyrgyz Republic are expected to present theirs in early fiscal 2002. Extensive consultations are under way in Albania and the Kyrgyz Republic and will take place in other countries as they prepare full-fledged PRSPs. The newly established ECA Nongovernmental Organization (NGO) Working Group—an external advisory group of

Europe and Central Asia Fast Facts

Total population: 0.5 billion
 Population growth: 0.1%
 Life expectancy at birth: 69 years
 Infant mortality per 1,000 births: 21
 Female youth illiteracy: 2%
 2000 GNI per capita: \$2,010
Number of persons living with HIV/AIDS: 0.7 million

Note: Life expectancy at birth and infant mortality rate per 1,000 births are for 1999, other indicators are for 2000, from the World Development Indicators database. The term gross national income (GNI) is now used instead of gross national product (GNP).

Total FY01 New Commitments

IBRD \$2,154.1 million
 IDA \$539.0 million

Total FY01 Disbursements

IBRD \$2,368.0 million
 IDA \$342.0 million

Portfolio of projects under implementation as of June 30, 2001:
 \$15.8 billion



Water user associations are one of many civil society groups in Armenia helping the World Bank to formulate its Country Assistance Strategy.

NGOs from Europe and Central Asia—is providing feedback on the process.

The external debt situation of some of the region's poorest countries is of growing concern. In fiscal 2001 the Bank and the IMF produced a joint paper analyzing the magnitude and severity of the problem across IDA-only CIS countries. Additional work is under way to identify country-specific options for ensuring that debt servicing does not crowd out poverty-oriented public spending.

Improving the business climate

Growth and job creation have been much stronger in countries experiencing rapid growth of new small and medium enterprises (SMEs). Improving the business climate, especially for SMEs, has become a key focus of adjustment operations. The Armenia Fourth Structural Adjustment Credit, for example, aims to improve the business climate by rationalizing the system of business inspections, streamlining business registration and licensing procedures, and reforming the tax and customs administration as well as the public procurement system, to create a level playing field, especially for new businesses. Armenia, the Russian Federation, and Ukraine are initiating a series of regular business surveys to monitor progress on efforts to reduce public interference in business activity.

Ensuring essential social services

The Bank continues to help countries reform their safety nets to ensure greater financial sustainability and better targeting. For example, a new IDA credit to Bosnia and Herzegovina supports pension reform, while an IBRD loan will help Turkey finance severance payments and labor redeployment services as the economy restructures. Loans to Azerbaijan, Bulgaria, Georgia, and Moldova are helping governments undertake major restructuring in their health and education sectors, to improve service and reduce informal payments that households are forced to make. The Moldova project will help the government develop tuberculosis (TB) and HIV/AIDS strategies. The Bank is also preparing operations to help Belarus, the Russian Federation, and Ukraine fight these diseases. In FYR Macedonia, a Learning and Innovation Credit will test community-based approaches to support youth at risk, while in Bulgaria a Bank-financed project addresses the problems of children at risk (see box 4.7).

Improving governance and increasing community involvement

The Bank is supporting a multipronged strategy for combating corruption, combining economic policy reform; public administration reform; legal and judi-

Box 4.7 Promoting Community-Based Services for Vulnerable Children

Today nearly a million children live “lives of quiet desperation” in institutions across the region, according to a report of the joint United Nations Children’s Fund–World Bank project “Changing Minds, Policies and Lives.” The project aims to promote systemic change in the region from reliance on state institutions to strengthened family and community-based services for vulnerable children. Over the past three years the Bank has supported efforts in Armenia, Bulgaria, Lithuania, Moldova, and Romania to establish viable alternatives to institutionalization.

Romania has pioneered community-based alternatives to institutionalization with the help of a \$5 million Learning and Innovation Loan as part of a larger \$29 million program supported also by the EU, U.S. Agency for International Development, Council of Europe Development Bank, and some international NGOs. This support has enabled the government to close down large institutions, prevent abandonment, and move children to family-friendly environments. Bulgaria’s Child Welfare Reform Project follows a similar approach, benefiting 40,000 institutionalized children. Partnering with police, who are usually the first to come into contact with problematic family situations, marks an innovative feature of the project. Preventive actions include working with disadvantaged ethnic communities (such as the Roma who account for the majority of institutionalized children) to improve basic preschool education and day care.

cial reform; and building public oversight, transparency, and accountability in the use of public resources. In the past year the Bank has assisted Bosnia and Herzegovina, Kazakhstan, the Kyrgyz Republic, Romania, and the Russian Federation in carrying out corruption surveys, which provide the basis for devising country-specific anticorruption strategies. Support to Ukraine has helped the government take steps to eliminate nontransparent netting operations between government entities, streamline licensing procedures, and reduce the number of inspections, while promoting the adoption of improved accounting standards and disclosure procedures, as well as civil society involvement, in the budget process. Projects under development in FYR Macedonia and Latvia aim to improve the credibility of public expenditure policies and accountability to citizens, while support for institutional reform in

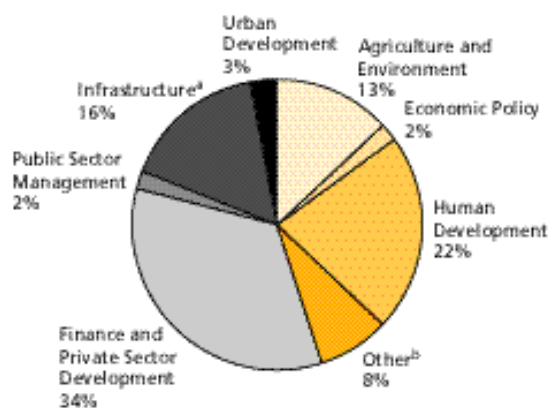


A renovated school in a poor, rural Moldovan community is one of several subprojects financed by the Moldova Social Investment Fund, with support from the Bank.

Croatia attacks corruption by introducing transparent working procedures in commercial courts and increasing the accountability of judges and other officials.

Also to reduce poverty, the Bank is scaling up efforts to help develop effective community organizations and provide them with resources to address their own development priorities. Project experience—for example, with the Moldova and Romania Social Investment Fund Projects—shows that community organizations are often in the best position to manage local public initiatives. Projects approved this fiscal year with Community-Driven Development components will help Albania, Bulgaria, FYR Macedonia, and Turkey.

Figure 4.4 Europe and Central Asia: IBRD and IDA Lending by Sector, Fiscal 2001
Share of total of \$2.7 billion



Note: Sector classification is on a loan component basis. See table 1.1, page 26.
a. Includes transportation, telecommunications, and water supply and sanitation.
b. Includes multisector, electric power and other energy, and oil and gas.

Table 4.4 **World Bank Lending to Borrowers in Europe and Central Asia, by Sector, Fiscal 1992–2001**
(millions of dollars)

Sector	Classified on a Loan-by-Loan Basis				Classified on a Loan Component Basis	
	FY92–97 <i>Annual average</i>	FY98–99 <i>Annual average</i>	FY00	FY01	FY00	FY01
Agriculture	393.1	183.5	160.6	234.5	130.6	243.3
Economic policy	1,002.2	1,452.3	764.6	183.5	635.0	57.9
Education	40.4	316.8	22.6	90.3	22.6	94.8
Electric power and other energy	299.3	295.5	196.5	164.4	177.4	165.9
Environment	27.2	60.4	62.4	32.2	151.8	93.5
Finance	281.7	372.0	359.0	853.5	309.0	817.3
Mining	140.1	550.0	44.5	-	10.0	-
Multisector	4.0	25.0	252.5	5.0	222.5	5.0
Oil and gas	278.9	5.0	-	9.6	-	54.0
Health, nutrition, and population	172.9	60.8	168.4	30.0	168.4	34.5
Private sector development	232.8	326.3	-	19.8	-	84.1
Public sector management	109.7	329.0	87.9	66.4	47.5	61.0
Social protection	203.8	308.6	35.0	439.0	295.0	468.1
Telecommunications	30.5	15.0	-	-	-	7.5
Transportation	416.5	495.7	207.5	303.8	207.5	306.3
Urban development	162.4	373.8	507.0	85.0	507.0	85.0
Water supply and sanitation	120.2	85.5	173.6	176.1	157.8	114.9
Total	3,915.7	5,255.2	3,042.1	2,693.1^a	3,042.1	2,693.1^a
Of which						
IBRD	3,606.7	4,406.3	2,733.0	2,154.1		
IDA	309.0	848.9	309.1	539.0		

Note: See table 1.1, page 26. Numbers may not add to totals because of rounding.

a. Does not include special financing of \$35.1 million provided by the Trust Fund for Kosovo, and \$12 million provided by the Trust Fund for the Federal Republic of Yugoslavia.