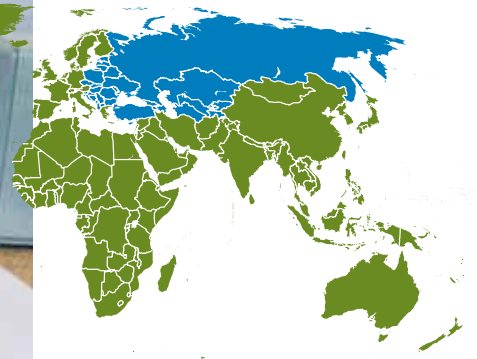


# EUROPE AND CENTRAL ASIA



The Europe and Central Asia region has largely succeeded in overcoming the early challenges of transition. In 2006, most countries experienced solid economic growth, with the region as a whole growing by a robust 7.3 percent. Oil revenues were a major driver of growth in Azerbaijan (34.5 percent) and Kazakhstan (10.6 percent), while Armenia grew 13.4 percent thanks to the implementation of an ambitious reform agenda.

Structural reforms in most countries have driven the region's continuing success. According to the 2007 *Doing Business* survey, Europe and Central Asia was the best-reforming region in the world for the third consecutive year, and three of its countries—Croatia, Georgia, and Romania—were among the top 10 performers (box 2.4). Integration with the European Union (EU) has been key to the reform process in many of the region's countries. Bulgaria and Romania joined the EU in January 2007, bringing the number of member countries to 27. Slovenia joined the Euro Area as the bloc's 13th member state, and reforms motivated by integration led Estonia, Hungary, Latvia, and Lithuania to graduate from IBRD in fiscal 2007, meaning that these countries have grown from

being beneficiaries of international assistance to becoming active partners in development cooperation.

Despite strong growth the region faces difficult challenges, including large income disparities within countries; rapidly aging and declining populations; persistent youth unemployment; lack of scientific and technical innovation; and weak public and corporate governance, especially in low-income countries. Rapid growth is increasing vulnerability to macro-economic imbalances. Driven to different degrees by soaring private demand and credit expansion, higher oil prices, and buoyant capital flows, current account deficits in a number of countries have increased those countries' vulnerability to sudden reversals in market sentiment. Several regional currencies have appreciated as a result of the large influx of external funds (including remittances) and banking system borrowing. This appreciation, if not accompanied by productivity growth, will reduce competitiveness. Countries must also work to mitigate the threats posed by HIV/AIDS, drug addiction, human trafficking, natural disasters, and environmental degradation.

## EUROPE AND CENTRAL ASIA FAST FACTS

Total population:	0.5 billion
Population growth:	0%
Life expectancy at birth:	69 years
Infant mortality per 1,000 births:	27
Female youth literacy:	99%
2006 GNI per capita:	\$4,796
Number of people living with HIV/AIDS:	1.5 million

### TOTAL FISCAL 2007

<b>New Commitments</b>
IBRD \$3,340 million
IDA \$422 million

### TOTAL FISCAL 2007

<b>Disbursements</b>
IBRD \$2,457 million
IDA \$480 million

Portfolio of projects under implementation as of June 30, 2007: \$16.7 billion

**Note:** Life expectancy at birth, infant mortality rate per 1,000 live births, and female youth literacy are for 2005; HIV/AIDS data are from the May UNAIDS 2006 *Report on the Global AIDS Epidemic*; other indicators are for 2006 from the World Development Indicators Database.

**COUNTRIES ELIGIBLE FOR WORLD BANK BORROWING** This section also reports on Kosovo.

Albania	Bulgaria	Latvia*	Poland	Turkey	* Hungary and Latvia graduated at the 2007 Spring Meetings.
Armenia	Croatia	Lithuania**	Romania	Turkmenistan	
Azerbaijan	Georgia	Macedonia, former	Russian Federation	Ukraine	** Lithuania graduated in September 2006.
Belarus	Hungary*	Yugoslav Republic of	Serbia	Uzbekistan	
Bosnia and Herzegovina	Kazakhstan	Moldova	Slovak Republic		
	Kyrgyz Republic	Montenegro	Tajikistan		

**WORLD BANK ASSISTANCE**

The World Bank delivered \$3.8 billion in lending in fiscal 2007 (\$3.3 billion from IBRD and \$422 million from IDA). Lending is down slightly from fiscal 2006 levels because of political uncertainty in several countries. In addition, a significant number of advisory and analytic products were delivered: 100 economic and sector reports and policy notes and a further 84 technical assistance activities.

A substantial amount of World Bank assistance is channeled through policy-based lending, technical assistance, and sector programs on regional core issues—migration and remittances, demography, labor mobility, governance, and innovation and technology absorption. The World Bank is also engaged in supporting the transition of countries such as the Russian Federation and the new EU members from being recipients of World Bank assistance to becoming donors.

In order to work across this diverse set of countries, the Bank offers both traditional and innovative product lines. In IDA countries, the Bank continues to be a vital development partner. The \$1,012.5 million it has provided to Armenia since 1991 was crucial in propelling the country out of severe economic paralysis after Soviet rule. Extraordinarily rapid growth—of about 10 percent a year over the past decade—has helped Armenia reduce the number of poor people from more than 55 percent at the beginning of the transition to about 30 percent today. In Bosnia and Herzegovina, IDA worked with the European Commission and other donors to mobilize unprecedented levels of assistance for the war-torn country. IDA supported the country’s reconstruction with about \$1 billion in investments. It also acted as a catalyst and facilitator, bringing together different local parties for joint projects and endeavors. In this way, IDA has contributed not only to the implementation of specific projects but also more generally to social reconciliation within the country.

In middle-income countries, the Bank Group is providing integrated product lines based on client demand, as many of these countries are increasingly moving from borrower to donor status and from knowledge receiver to knowledge provider. A Joint Economic Research Program with Kazakhstan, for example, has been expanded to include project preparation support on a cost-sharing basis. In Russia, the World Bank provided technical assistance on

a fee-for-service basis to a public-private partnership that collaborated on a tolled motorway project in St. Petersburg. Meanwhile, the Bank’s engagement in subsovereign lending in the country has drawn strong support from federal and regional authorities for strengthening the capacity of regional and municipal actors to manage their financial affairs and promote private sector development.

**TACKLING CORE ISSUES**

The Bank’s analytic work is increasing knowledge and sparking debate on high-priority development topics through in-depth studies and advisory activities on such crucial issues as employment, trade, regional labor migration, and corruption. The most recent flagship report, *Migration and Remittances: Eastern Europe and the Former Soviet Union*, shows that migration within and from the transition economies of Europe and Central Asia has been significant and will likely continue to increase. The report, which focuses on circular migration patterns, also looks at migration policies in the region and makes recommendations for improving them.

Governance and corruption continue to be top concerns in the region. To help policy makers address these problems, World Bank experts conduct enterprise surveys to gauge perceptions of corruption. What they have found is encouraging. The report *Anticorruption in Transition 3: Who is Succeeding... and Why* reveals that extensive reforms are reducing the opportunities for corruption and are showing real results in many countries, with firms reporting a reduction in both the size of bribes and the frequency of bribery. Still, corruption is not receding in all countries or across all sectors, and even the most successful reformers tend to have higher levels of corruption than exist in Western Europe. The Bank supports regional governments in reinforcing and accelerating the reform process within the framework of its governance and anticorruption strategy.

The Bank’s annual Knowledge Economy Forum is supporting countries in Europe and Central Asia in their transition to becoming increasingly knowledge-based. Improving knowledge, innovation, and technology absorption is vital if the region is to reduce the competitive gap with Western Europe, the United States, and South and East Asia. While the region benefits from a strong science and technology tradition that

FIGURE 2.7

**EUROPE AND CENTRAL ASIA**

IBRD AND IDA LENDING BY THEME | FISCAL 2007  
SHARE OF TOTAL OF \$3.8 BILLION

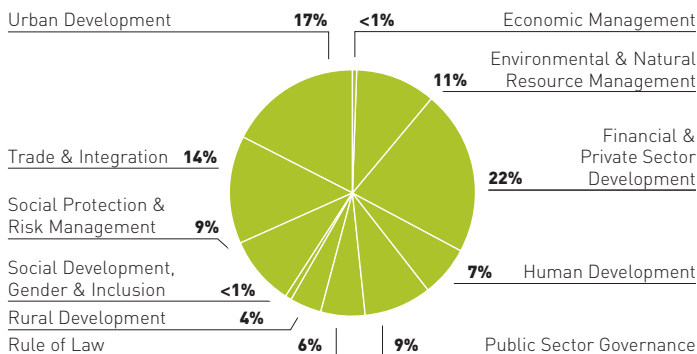
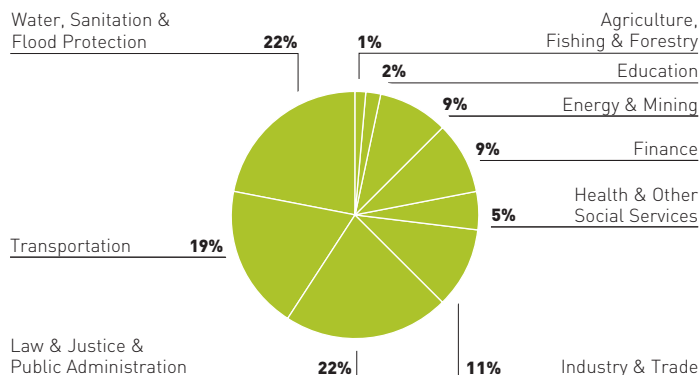


FIGURE 2.8

**EUROPE AND CENTRAL ASIA**

IBRD AND IDA LENDING BY SECTOR | FISCAL 2007  
SHARE OF TOTAL OF \$3.8 BILLION



should offer a key comparative advantage, that capacity does not translate into innovation. With average spending on research and development under 1 percent of GDP in most of the region—well below the European Union’s target of 3 percent—the existing innovation infrastructure is inefficient and underused and is not targeting private sector needs.

**THE WAY FORWARD**

Looking ahead, countries in the region still face challenging development agendas, and the World Bank will provide assistance in a number of areas. The Bank’s support to new and candidate EU countries is expected to focus on the convergence agenda against the backdrop of demographic

changes (aging, youth employment, and migration) as well as issues associated with productivity growth and financial sustainability. In the rest of the region, the Bank will focus broadly on helping move the poorer countries to middle-income status and on supporting countries that are no longer eligible for IDA financing but lack the necessary creditworthiness to borrow at nonconcessional terms (gap countries). It will also help countries face the unique challenges of resource wealth (such as “Dutch Disease”). At the regional level, the Bank will focus on financial systems, climate change, and communicable diseases, and it will help societies take advantage of globalization. (See [www.worldbank.org/eca](http://www.worldbank.org/eca).)

**BOX 2.4 DOING BUSINESS IN GEORGIA AND ROMANIA BECOMES EASIER**

According to *Doing Business 2007: How to Reform*, Georgia was the world’s number one reformer in 2006. It reduced the minimum capital required to start a new business from about \$850 to about \$85, it increased business registrations by 20 percent, it simplified border procedures, and it reduced the number of days needed to meet all administrative requirements for export from 54 days in 2004 to 13 in 2006.

Romania, the runner-up, simplified the procedures for obtaining building permits, set up a single office to process applications, reduced the time required to obtain construction documents by 49 days, adopted new labor regulations allowing term contracts to extend up to six years, and eased trade across borders.

TABLE 2.4

**WORLD BANK LENDING TO BORROWERS IN EUROPE AND CENTRAL ASIA** BY THEME AND SECTOR | FISCAL 2002–2007  
 MILLIONS OF DOLLARS

<b>THEME</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Economic Management	636.1	19.5	242.0	17.4	4.6	5.7
Environmental and Natural Resource Management	157.5	122.7	309.4	394.4	148.8	397.6
Financial and Private Sector Development	2,210.8	483.3	950.2	933.9	1,461.1	823.6
Human Development	138.3	550.4	297.1	539.4	360.3	258.3
Public Sector Governance	1,313.7	317.7	895.1	272.3	589.1	328.8
Rule of Law	106.6	289.8	132.3	66.8	401.6	230.4
Rural Development	309.9	194.9	117.4	161.5	238.5	150.1
Social Development, Gender, and Inclusion	188.8	55.9	33.9	246.6	95.1	23.2
Social Protection and Risk Management	363.9	288.5	305.3	668.8	335.9	346.7
Trade and Integration	32.5	130.6	182.6	424.4	226.6	539.5
Urban Development	65.4	216.7	93.6	368.0	183.0	658.2
<b>Theme Total</b>	<b>5,523.6</b>	<b>2,670.0</b>	<b>3,559.1</b>	<b>4,093.5</b>	<b>4,044.6</b>	<b>3,762.2</b>
<b>SECTOR</b>						
Agriculture, Fishing, and Forestry	470.4	335.4	168.6	107.0	117.9	53.4
Education	83.2	395.0	164.0	263.8	126.7	81.9
Energy and Mining	218.0	262.9	352.2	657.9	1,108.3	337.6
Finance	1,284.9	195.8	836.9	259.1	374.5	353.5
Health and Other Social Services	524.7	415.3	244.3	484.9	339.9	192.9
Industry and Trade	552.1	269.0	126.3	253.5	274.8	395.5
Information and Communication	9.6	1.0	7.0	10.9	0.0	0.0
Law and Justice and Public Administration	2,181.9	698.9	1,176.8	1,160.6	1,271.7	812.6
Transportation	67.1	30.6	321.2	557.9	416.7	712.3
Water, Sanitation, and Flood Protection	131.7	66.3	162.0	337.9	14.2	822.4
<b>Sector Total</b>	<b>5,523.6</b>	<b>2,670.0</b>	<b>3,559.1</b>	<b>4,093.5</b>	<b>4,044.6</b>	<b>3,762.2</b>
Of which IBRD	4,894.7	2,089.2	3,012.9	3,588.6	3,531.9	3,340.1
Of which IDA	628.9	580.8	546.2	504.9	512.8	422.1

**Note:** Effective fiscal 2005, lending includes guarantees and guarantee facilities.