

## EUROPE AND CENTRAL ASIA



The Europe and Central Asia region enjoyed another good year, with economic growth of 7.2 percent in 2004, reflecting strong growth in several countries. The Russian Federation grew 7.2 percent, Turkey grew 8.9 percent, and Ukraine grew 12.1 percent. As another mark of progress, the Czech Republic announced its intention to transition from being a recipient of Bank financial and technical assistance to being an important partner and provider of development assistance.

Most countries in the region have put in place the basic institutions and framework of open market economies. Poverty has declined significantly—40 million people moved out of poverty between 1999 and 2003—but it remains widespread in Central Asia and the South Caucasus, where many countries confront development challenges similar to those faced by poor countries in Africa.

At the other end of the spectrum, the middle-income countries in the region face the same challenge as such countries everywhere—convergence with rich countries.

Per capita income in the eight newest members of the European Union is 40–60 percent that of the countries they joined, and convergence is expected to take 20–30 years. Middle-income countries such as Azerbaijan, Kazakhstan, and Russia struggle with policy issues similar to those faced by other resource-rich countries, including the need to ensure good governance of oil revenues and reduce economic dependence on extractive industries.

Although countries are in various stages of transition, the legacy of central planning remains. On the positive side, human development indicators in education and health are relatively good. On the negative side, many towns are located in far-flung and unviable locations, especially in Russia; state bureaucracies are bloated and overextended; and serious environmental issues remain. Less than full recovery from the recession at the onset of transition and the emergence of new challenges mean that countries in the region face an uphill task in meeting the Millennium Development Goals, especially those related to health and the environment.

### EUROPE AND CENTRAL ASIA FAST FACTS

Total population:	0.5 billion
Population growth:	0.1%
Life expectancy at birth:	68 years
Infant mortality per 1,000 births:	29
Female youth literacy:	99%
2004 GNI per capita:	\$3,290
Number of people living with HIV/AIDS:	1.3 million

### TOTAL FISCAL 2005

<b>New Commitments</b>
IBRD \$3,588.6 million
IDA \$504.9 million

### TOTAL FISCAL 2005

<b>Disbursements</b>
IBRD \$2,748.1 million
IDA \$617.4 million

Portfolio of projects under implementation as of June 30, 2005: \$15.8 billion

**Note:** Life expectancy at birth and infant mortality rate per 1,000 births are for 2003; female youth literacy is for the most recent year available from 2000 to 2002; HIV/AIDS data are from the June 2004 UNAIDS Report on the Global AIDS Epidemic; other indicators are for 2004 from the World Development Indicators Database.

**COUNTRIES ELIGIBLE FOR WORLD BANK BORROWING** This section also reports on Kosovo, Serbia and Montenegro.

Albania	Bulgaria	Kazakhstan	Moldova	Slovak Republic	Uzbekistan
Armenia	Croatia	Kyrgyz Republic	Poland	Tajikistan	
Azerbaijan	Estonia	Latvia	Romania	Turkey	
Belarus	Georgia	Lithuania	Russian Federation	Turkmenistan	
Bosnia and Herzegovina	Hungary	Macedonia, former Yugoslav Republic of	Serbia and Montenegro	Ukraine	The Czech Republic graduated from borrower status in fiscal 2005.

Particularly worrisome is the rapid spread of tuberculosis and HIV/AIDS: the region has one of the fastest-growing epidemics in the world.

The Bank's Country Assistance Strategies, tailored to meet the needs of each subregion, are organized around two broad themes: fostering growth and competitiveness by building a climate for investment, and fostering social inclusion. The Bank is also addressing global issues, such as HIV/AIDS—which goes hand in hand with youth issues in Europe and Central Asia—and key environmental challenges associated with biodiversity, water, carbon emissions, and renewable energy.

**WORLD BANK ASSISTANCE**

Lending approved during fiscal 2005 reached \$4.1 billion, including IBRD lending and guarantees of \$3.6 billion and IDA commitments of \$0.5 billion. The Bank delivered 98 pieces of economic and sector work and completed 68 technical assistance assignments. The Board was presented with Country Assistance Strategies for Bosnia and Herzegovina, Croatia, Moldova, and Serbia and Montenegro; Country Partnership Strategies for Kazakhstan and Poland; a Country Assistance Strategy Progress Report for Russia; and Poverty Reduction Strategy Papers or updates for Albania, Armenia, Azerbaijan, Georgia, Moldova, and Uzbekistan.

These products and services incorporate many innovative and cutting-edge features. Examples of innovative lending instruments are the sectorwide Poland Road Maintenance and Rehabilitation Project, which relies on country fiduciary systems; multicountry operations, such as the adaptable program loan for the electricity community of South Eastern Europe and the umbrella technical assistance facility for the eight new members of the European Union; and the Partial Risk Guarantee operation for Romania, which will reduce the regulatory risk of privatizing electricity. In nonlending services, the Joint Economic Research Program with Kazakhstan is proving to be a promising model for shared analytic work in middle-income countries where demand outstrips Bank resources.

(See also the IFC and MIGA annual reports.)

**BUILDING THE CLIMATE FOR INVESTMENT**

The climate for investment is improving in the region, albeit gradually and unevenly. *Doing Business in 2005* ranked Lithuania and the Slovak Republic among the top 10 reformers in the world. But other countries in the region featured among the 10 worst in the world in the number of procedures required to start a business.

To support improvements in the investment climate, the Bank is focusing on the reform of policies and the development of institutions to maintain macroeconomic stability, promote competition and trade, improve private and public sector governance, reduce corruption, enhance financial intermediation, and improve physical infrastructure. A Poverty Reduction Support Credit to Armenia focuses on improving competition by liberalizing trade in air and rail services and enhancing the regulatory framework for utilities. In Poland the First Hard Coal Mine Closure Project is helping improve the efficiency of the sector by shutting down uneconomic mines and dealing with postclosure environmental issues.

Nonlending activities are also supporting the investment climate. The Bank completed investment climate assessments of the Kyrgyz Republic, Lithuania, Tajikistan, and Turkey. In Serbia and Montenegro, establishment of a registration agency outside of the court system, which the Bank recommended, has reduced waiting times and procedures for starting a business. The Bank also undertook analytic work on the knowledge economy in Romania and cohosted the fourth Knowledge Economy Forum in Turkey.

**FOSTERING PARTICIPATION IN DEVELOPMENT**

To foster participation in the development process, Bank operations emphasize improving access to and the quality of public services and increasing the economic and social integration of vulnerable groups.

The Azerbaijan Pilot Reconstruction Credit has helped reconstruct transport, energy, and other infrastructure in post-conflict areas of the Upper Garabagh region and has financed 190 microprojects designed to improve the livelihoods of 160,000 beneficiaries. A follow-on project, the Azerbaijan Internally Displaced Persons Economic Development Support

FIGURE 2.7

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IBRD AND IDA LENDING BY THEME | FISCAL 2005  
SHARE OF TOTAL OF \$4.1 BILLION

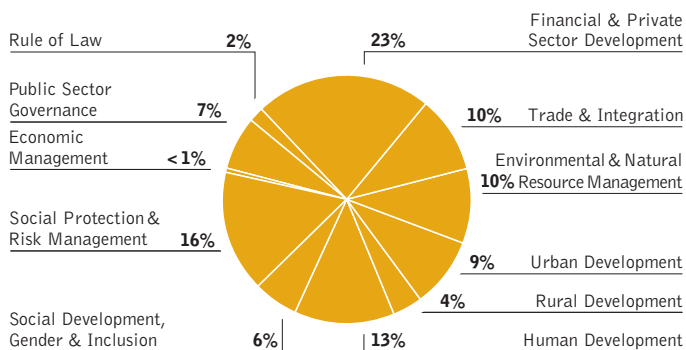
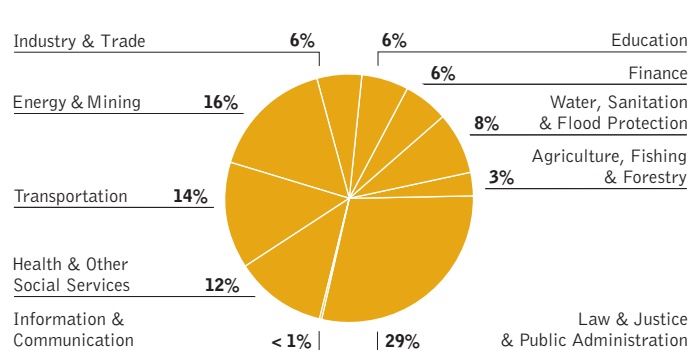


FIGURE 2.8

**E ROPE AND CENTRAL A IA**

IBRD AND IDA LENDING BY SECTOR | FISCAL 2005  
SHARE OF TOTAL OF \$4.1 BILLION



Project, will improve the living conditions of displaced people and enhance their economic opportunities and prospects for social integration. The Kyrgyz Rural Education Project will improve incentives for teacher performance and provide textbooks and other learning materials. The Second Health Project in Uzbekistan, an expansion of the pilot reforms supported under the First Health Project, is designed to increase access to and the quality of primary health care in eight regions. The Bank has also helped to raise awareness of poverty and human development issues of the Roma population and has secured the long-term commitment of various actors to improving opportunities for them (see box 2.3).



Small and medium enterprises are key to growth in the Europe and Central Asia region.

**BOX 2.3**

**LAUNCH OF THE DECADE OF ROMA INCLUSION**

A groundbreaking initiative to end centuries of isolation and discrimination against Europe’s Roma population was launched on February 2, 2005, when government leaders from eight countries in Europe and Central Asia pledged to include the Roma as full and equal citizens of Europe. The Open Society Institute and the World Bank were the two principal sponsoring organizations of the initiative.

Roma, once known as gypsies, are one of the largest, poorest, and fastest-growing minorities in Europe. The Decade of Roma Inclusion Initiative aims to improve the economic and social status of the 7–9 million Roma in the region by improving their education, health care, housing, and job opportunities. Under the

initiative, each government will implement a national action plan for improvement that includes precise targets to be met by 2015. The initiative also provides a mechanism for annually monitoring the implementation of the action plans.

Before the launch of the Roma Decade, donors, including the World Bank, pledged \$42 million toward the Roma Education Fund, which aims to help countries improve education outcomes for the Roma.

For more information on the World Bank’s work on the Roma, please visit [www.worldbank.org/roma](http://www.worldbank.org/roma). The Web site of the Decade of Roma Inclusion is [www.romadecade.org](http://www.romadecade.org).

TABLE 2.4

**WORLD BANK LENDING TO BORROWERS IN EUROPE AND CENTRAL ASIA** BY THEME AND SECTOR | FISCAL 2000–2005  
 MILLIONS OF DOLLARS

<b>THEME</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
Economic Management	98.6	127.4	636.1	19.5	242.0	17.4
Environmental and Natural Resource Management	301.7	161.3	157.5	122.7	309.4	394.4
Financial and Private Sector Development	890.7	1,074.0	2,210.8	483.3	950.2	933.9
Human Development	278.9	51.1	138.3	550.4	297.1	539.4
Public Sector Governance	227.8	95.6	1,313.7	317.7	895.1	272.3
Rule of Law	160.2	77.4	106.6	289.8	132.3	66.8
Rural Development	213.4	137.6	309.9	194.9	117.4	161.5
Social Development, Gender, and Inclusion	43.6	65.1	188.8	55.9	33.9	246.6
Social Protection and Risk Management	530.1	381.2	363.9	288.5	305.3	668.8
Trade and Integration	143.5	138.4	32.5	130.6	182.6	424.4
Urban Development	153.6	383.9	65.4	216.7	93.6	368.0
<b>Theme Total</b>	<b>3,042.2</b>	<b>2,693.1</b>	<b>5,523.6</b>	<b>2,670.0</b>	<b>3,559.1</b>	<b>4,093.5</b>
<b>SECTOR</b>						
Agriculture, Fishing, and Forestry	317.8	139.0	470.4	335.4	168.6	107.0
Education	22.7	62.5	83.2	395.0	164.0	263.8
Energy and Mining	398.6	336.6	218.0	262.9	352.2	657.9
Finance	175.8	802.3	1,284.9	195.8	836.9	259.1
Health and Other Social Services	277.8	281.9	524.7	415.3	244.3	484.9
Industry and Trade	604.7	296.5	552.1	269.0	126.3	253.5
Information and Communication	151.9	8.7	9.6	1.0	7.0	10.9
Law and Justice and Public Administration	797.2	446.4	2,181.9	698.9	1,176.8	1,160.6
Transportation	207.1	118.3	67.1	30.6	321.2	557.9
Water, Sanitation, and Flood Protection	88.5	200.7	131.7	66.3	162.0	337.9
<b>Sector Total</b>	<b>3,042.2</b>	<b>2,693.1</b>	<b>5,523.6</b>	<b>2,670.0</b>	<b>3,559.1</b>	<b>4,093.5</b>
Of which IBRD	2,733.1	2,154.0	4,894.7	2,089.2	3,012.9	3,588.6
Of which IDA	309.1	539.0	628.9	580.8	546.2	504.9

Note: Fiscal 2005 includes Guarantees and Guarantee Facilities. Numbers may not add to totals due to rounding.