

The Europe and Central Asia region is progressing steadily beyond the transition phase, which began in 1989 with the fall of the Berlin Wall. Markets in most of the region's 28 countries have responded favorably to reforms, and political change in some of the Commonwealth of Independent States (CIS) has improved performance. Regional economic growth eased to 5.7 percent in 2005, down from 8 percent in 2004. Sustained expansion of the financial sector is boosting demand, but it is also increasing risks.

Political developments continued apace during the fiscal year. The European Union opened accession negotiations with Turkey and Croatia; it also signed a pre-membership agreement with Albania. Following a referendum in May 2006, Montenegro declared its independence from the union of Serbia and Montenegro.

While membership in the European Union has spurred many countries to move ahead with complex reforms that are owned by countries themselves, challenges remain across the region. Long-term unemployment and an inability to shift jobs to the formal sector remain nagging problems. Bulgaria, the Russian Federation, and other countries are faced with a range of prob-

lems including rural poverty, weak local institutions, decaying infrastructure, depressed one-company towns, state-owned enterprises in need of reform, and environmental degradation (see box 2.3). Legacies of central planning, these problems are compounded in some countries by shrinking populations.

WORLD BANK ASSISTANCE

Assistance during fiscal 2006 reached \$4 billion, including \$3.5 billion in IBRD loans and guarantees and \$500 million in IDA commitments. The Bank delivered 98 pieces of economic and sector work and completed 59 technical assistance activities.

Increasingly, Bank partnerships that involve representatives from various levels of government are the preferred mode of business with low- and middle-income countries in the region. This new approach responds to increased decentralization and recognition by governments that results at the local level often spur broader reforms. Examples include the Georgia Country Partnership Strategy for 2006 to 2009 and a new Albania Country Assistance Strategy, both discussed by the Board in fiscal 2006. Because governance and corruption are top concerns, the region is focusing on projects to reform public

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:	28
Female youth literacy:	98%
2005 GNI per capita:	\$4,110
Number of people living with HIV/AIDS:	1.5 million

Note: Life expectancy at birth, infant mortality rate per 1,000 live births, and female youth literacy are for 2004; HIV/AIDS data are from the UNAIDS 2006 Report on the Global AIDS Epidemic; other indicators are for 2005 from the World Development Indicators Database.

TOTAL FISCAL 2006

New Commitments

IBRD \$3,531.9 million
IDA \$512.8 million

TOTAL FISCAL 2006

Disbursements

IBRD \$2,550 million
IDA \$457 million

Portfolio of projects under implementation as of June 30, 2006: \$16.5 billion

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

Albania	Bulgaria	Kazakhstan	Moldova	Tajikistan	* Estonia is scheduled to graduate at the 2006 Annual Meetings. † Following its referendum on independence in May 2006, Montenegro declared its independence from the union of Serbia and Montenegro.
Armenia	Croatia	Kyrgyz Republic	Poland	Turkey	
Azerbaijan	Estonia*	Latvia	Romania	Turkmenistan	
Belarus	Georgia	Lithuania	Russian Federation	Ukraine	
Bosnia and Herzegovina	Hungary	Macedonia, former Yugoslav Republic of	Serbia and Montenegro†	Uzbekistan	
			Slovak Republic		

finances and modernize courts. Bank experts continue to use enterprise surveys to gauge perceptions about corruption.

The Bank responded quickly to requests for support in preempting an avian flu health crisis. Assistance was approved for Albania, Armenia, Azerbaijan (loan reallocation), Georgia, Moldova, the Kyrgyz Republic, and Turkey, and similar operations are under development for other countries. These operations deal primarily with animal and human health, public awareness and information, monitoring and evaluation, and emergency imports.

Several innovative projects were launched during fiscal 2006 in line with the particular technology needs of countries poised to join the European Union. They included the Romania Knowledge Economy Project and the Croatia Science and Technology Project. The Romania project will help remote and poorly connected communities participate more actively in the country's knowledge-based society, raise digital literacy, develop e-government services, and support small business innovation. The Croatia initiative aims to improve the ability of research and development institutions to promote applied research and arm businesses with the skills they need to effectively apply technology for commercial uses.

Through in-depth studies and advisory activities focused on such crucial issues as employment, trade, poverty and inequality, and the economic cost of HIV/AIDS, the Bank was able to increase knowledge and spark debate on high-priority development topics. At the regional level, three flagship reports were produced in fiscal 2006: *Growth, Poverty, and Inequality: Eastern Europe and the Former Soviet Union*; *Enhancing Job Opportunities: Eastern Europe and the Former Soviet Union*; and *From Disintegration to Reintegration: Eastern Europe and the Former Soviet Union in International Trade*. Other major studies—on regional labor migration, demographic trends, and productivity growth—are under way. The periodic *Russian Economic Report* and the *EU-8 Quarterly Economic Report* allow journalists, economists, and policy makers to track macroeconomic trends in key countries.

BUILDING THE CLIMATE FOR INVESTMENT

Eastern European and Baltic countries are aggressively courting entrepreneurs with far-reaching reforms that streamline business regulations and taxes. According to the

Bank Group's annual *Doing Business* report, every country in Eastern Europe improved at least one aspect of its business environment in 2005—the highest rate of reform of any region. Serbia and Montenegro, the Slovak Republic, Romania, and Latvia topped the global rankings for most reforms enacted.

To boost the investment climate, the Bank is helping governments enhance enterprise competitiveness and improve the judicial system and other institutions that bring discipline to key economic sectors. Examples include the Moldova Competitiveness Enhancement Project and the Serbia and Montenegro Programmatic Private and Financial Development Policy Credit. On the policy side, a 2006 Country Economic Memorandum for Turkey focused on promoting sustained growth and convergence



FIGURE 2.7

EUROPE AND CENTRAL ASIA

IBRD AND IDA LENDING BY THEME | FISCAL 2006
SHARE OF TOTAL OF \$4 BILLION

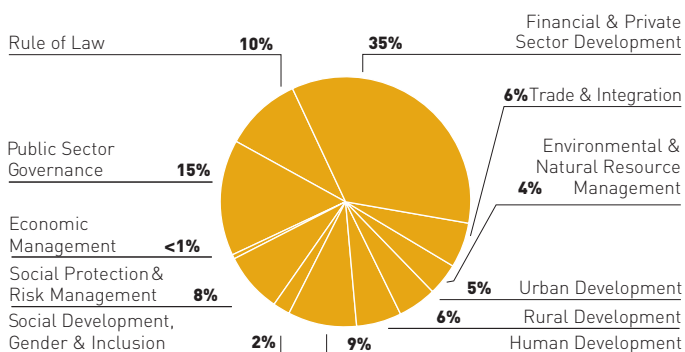
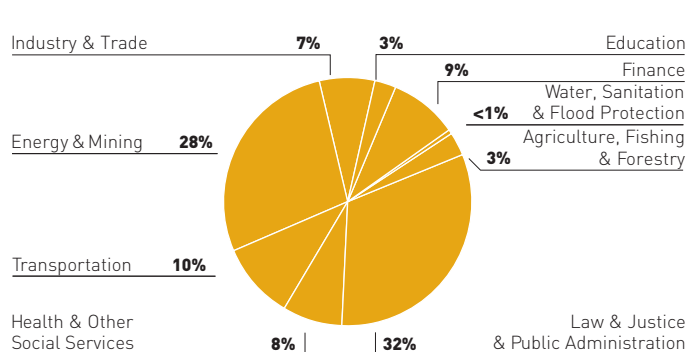


FIGURE 2.8

EUROPE AND CENTRAL ASIA

IBRD AND IDA LENDING BY SECTOR | FISCAL 2006
SHARE OF TOTAL OF \$4 BILLION



with the European Union. And because businesses need recourse to well-run courts, the Bank is also supporting judicial reform in Armenia by upgrading courthouses and making the judicial process more efficient and transparent.

In Russia, the development of real estate markets is being supported through a Bank-assisted Cadastre Project. Along with other Bank activities supporting access to land and real estate reforms, the project aims to improve Russia's investment climate as well as provide a predictable source of income from land taxes for local authorities.

FOSTERING PARTICIPATION IN DEVELOPMENT

To ensure benefits to a broad section of society and to encourage participatory development, Bank operations emphasize improvement of public services and inclusion of vulnerable groups in innovative projects and research initiatives. A Poland Post-Accession Rural Support Project is targeting underdeveloped villages by helping local governments implement social protection strategies,

supporting a farm insurance fund, and executing a social inclusion strategy that will help small-scale farmers and their communities. In Albania, people overlooked by the existing health system will become eligible for basic health services. Health care improvements being rolled out across the country, as part of the Health System Modernization Project, will also enable poor people to choose their own primary-care doctor.

The Bank is supporting nonlending initiatives in the region. Development Marketplace programs encourage civil society organizations to compete for microgrants. A multidonor Roma Education Fund is boosting school opportunities for Europe's largest minority. A study of Russian youth in North Caucasus is shedding light on a segment of the population that faces high unemployment, social insecurity, and marginalization. And the report *Dying Too Young* brought the attention of policy makers to Russia's crisis in mortality and morbidity relative to other countries at similar income levels. (See www.worldbank.org/eca.)

BOX 2.3

REVIVING THE NORTHERN ARAL SEA

By early 2005, the surface of the Northern Aral Sea had shrunk to half its original size as a result of overirrigation and ecological mismanagement. A dike completed in August helped to partly refill the sea, lifting the hopes of the region's people. The Aral Sea is shared by Kazakhstan and Uzbekistan, but its basin also encompasses Afghanistan, the Kyrgyz Republic, Tajikistan, and Turkmenistan. Shrinkage began in the 1960s, when massive diversions of water for cotton cultivation drained the two rivers that feed into the sea. As a result, by 1996 the volume of the Aral Sea had declined by 75 percent, devastating the surrounding environment and ruining the traditional fishing economy of the bordering villages. By the late 1990s, the Aral Sea had been split into three parts, two in the south and one in the north.

An \$85.8 million project for the improvement of waterworks along the Syr Darya River and for construction of the 13-kilometer-long Kok-Aral dike between the Northern and Southern Aral Seas was implemented jointly by the government of Kazakhstan and the Bank, with the Bank providing a loan of \$65 million. The Syr Darya Control and Northern Aral Sea Project built and restored waterworks along the river to revive opportunities for fishing, farming, and hydroelectric power generation. Already, fish stocks are growing and freshwater bird species are returning to the Northern Aral Sea and surrounding lakes. In addition to spurring an ecological revival, the project helps reduce tensions between upstream countries using water for hydropower generation during the winter and downstream countries drawing on water for irrigation during the summer.

TABLE 2.4

WORLD BANK LENDING TO BORROWERS IN EUROPE AND CENTRAL ASIA BY THEME AND SECTOR | FISCAL 2001–2006
 MILLIONS OF DOLLARS

THEME	2001	2002	2003	2004	2005	2006
Economic Management	127.4	636.1	19.5	242.0	17.4	4.6
Environmental and Natural Resource Management	161.3	157.5	122.7	309.4	394.4	148.8
Financial and Private Sector Development	1,074.0	2,210.8	483.3	950.2	933.9	1,461.1
Human Development	51.1	138.3	550.4	297.1	539.4	360.3
Public Sector Governance	95.6	1,313.7	317.7	895.1	272.3	589.1
Rule of Law	77.4	106.6	289.8	132.3	66.8	401.6
Rural Development	137.6	309.9	194.9	117.4	161.5	238.5
Social Development, Gender, and Inclusion	65.1	188.8	55.9	33.9	246.6	95.1
Social Protection and Risk Management	381.2	363.9	288.5	305.3	668.8	335.9
Trade and Integration	138.4	32.5	130.6	182.6	424.4	226.6
Urban Development	383.9	65.4	216.7	93.6	368.0	183.0
Theme Total	2,693.1	5,523.6	2,670.0	3,559.1	4,093.5	4,044.7
SECTOR						
Agriculture, Fishing, and Forestry	139.0	470.4	335.4	168.6	107.0	117.9
Education	62.5	83.2	395.0	164.0	263.8	126.7
Energy and Mining	336.6	218.0	262.9	352.2	657.9	1,108.3
Finance	802.3	1,284.9	195.8	836.9	259.1	374.5
Health and Other Social Services	281.9	524.7	415.3	244.3	484.9	339.9
Industry and Trade	296.5	552.1	269.0	126.3	253.5	274.8
Information and Communication	8.7	9.6	1.0	7.0	10.9	0.0
Law and Justice and Public Administration	446.4	2,181.9	698.9	1,176.8	1,160.6	1,271.7
Transportation	118.3	67.1	30.6	321.2	557.9	416.7
Water, Sanitation, and Flood Protection	200.7	131.7	66.3	162.0	337.9	14.2
Sector Total	2,693.1	5,523.6	2,670.0	3,559.1	4,093.5	4,044.7
Of which IBRD	2,154.0	4,894.7	2,089.2	3,012.9	3,588.6	3,531.9
Of which IDA	539.0	628.9	580.8	546.2	504.9	512.8

Note: Includes all adjustment, development policy, and investment loans. Effective fiscal 2005, lending includes guarantees and guarantee facilities. Numbers may not add to totals due to rounding.