

Belgian Technical Cooperation Training Session

The World Bank Structure and Projects, based on cooperation between the World Bank and the Countries of Central and Southeast Europe

Brussels, June 17, 2005

Franz Kaps

World Bank Special Representative for Southeast Europe, Brussels

EM: fkaps@worldbank.org

*Some basic facts about the World Bank and
its role in the EU Enlargement Process*

What is the World Bank?

- Founded in 1944 – i.e. 60 years ago –, the Bank is the largest source of development assistance
- Owned by 184 member countries
- Operates in more than 100 country offices and counts approximately 11,000 employees

What Does the World Bank Do?

- Attempts to help countries implement programs to raise quality of people's lives. Bank's mission statement: "To fight poverty with passion and professionalism for lasting results"
- Works in partnership to design assistance strategies tailored to the needs of each country
- Offers a mix of money and knowledge to implement these strategies
- \$20 billion - \$11 billion IBRD and \$9 billion IDA, of which the Europe and Central Asia region's (ECA) share was \$3 billion IBRD and \$550 million IDA - in new lending commitments in FY2004

World Bank Group Composition

- International Bank for Reconstruction and Development (IBRD)
- International Development Association (IDA)
- International Finance Corporation (IFC)
- Multilateral Investment Guarantee Agency (MIGA)
- International Center for Settlement of Investment Disputes (ICSID)

World Bank Compared to Others

- World Bank provides long term development assistance with global perspective
- IMF provides short term (ST) support for macroeconomic stabilization
- Regional development banks provide assistance at regional level

World Bank's Business Products

- **Lending Products**
 - Investment Loans and Credits
 - Adjustment Loans
 - Programmatic Loans
- **Analytic and Advisory Activities (AAA)**
 - Economic and Sector Work
 - Non-lending Technical Assistance
 - Donor Coordination
 - Fee-based Advisory Services

Source of Funds for Bank Loans and Credits

- IBRD has a AAA bond rating and raises funds on capital markets at competitive rates
- IDA credits to the world's poorest countries are funded largely from donor contributions, with additional funds from IBRD profits and credit repayments

World Bank Country Assistance Strategy

- A work plan to guide World Bank Group assistance to respective country
- Diagnoses countries economic problems
- Evaluates government policies and strategies
- Evaluates past Bank assistance
- Identifies priority areas for future Bank action

World Bank Country Assistance Strategy *(continued)*

- Proposes specific products for Bank assistance
- Provides a framework for monitoring and evaluating performance (of Bank and Borrower)
- A result of a consultation process with partner countries, civil society representatives and partner organizations such as European Commission, EBRD, EIB, bilateral partners, etc.
- Produced every three to four years

How does World Bank support fit with EU accession agenda?

- CAS lays out how World Bank analytical support – i.e. Bulgaria and Romania “country economic memoranda” (CEM) – as well as lending support, including through advisory services, can assist both countries in their drive towards EU
- World Bank very conscious that *acquis communautaire* sets overall EU accession agenda. Thus, the countries and European Commission in the driver’s seat
- Still, World Bank and European Commission as well as other partner institutions, such as IMF, EIB, EBRD, in close consultation with partner countries, cooperating closely to align their analysis, policy advise and “conditionality” and financial support to help facilitate EU accession

How does World Bank support fit with EU accession agenda? *(continued)*

- Example: each year, European Commission consults World Bank and other IFIs on draft economic chapter of Annual Regular Report (RR) to ensure that there is convergence of views and avoid confronting EU accession countries with conflicting analysis and policy advice. Most recent RR took place in Brussels in July 2004 in preparation of publication of 2004 RR on October 6, 2004

How does World Bank support fit with EU accession agenda? *(continued)*

- Among key items on remaining EU accession agenda on which EC, concerned countries and World Bank cooperate:
 - ability of public administration as well as legal and judiciary system to apply and enforce *acquis communautaire*. Particular challenge: regional and municipal administration which have had little exposure to EU accession agenda and to Brussels
 - overall good governance agenda, i.e. fight against corruption
 - creating/reinforcing enabling environment for private sector development, apply and enforce EU compatible competition policies as well as attracting FDI, accompanied by improvement of respective infrastructure
 - World Bank addressing these issues under Programmatic Adjustment Loans (PAL) as well as targeted investment loans, content and timing of which closely coordinated with EC

How does World Bank support fit with EU accession agenda? *(continued)*

- not to forget the whole “human development and social agenda”:
 - in line with EU’s “subsidiarity” principles, this area not directly covered by *acquis communautaire* and thus not subject to accession negotiations
 - therefore, World Bank paying particular attention to assist accession countries in reforming education, health and social security systems. These also weigh heavily on public finance and thus have impact on compliance with “Maastricht” criteria
 - “social agenda” also addresses the issue of “social inclusion” which is at heart of World Bank’s “poverty agenda”. In this context, the plight of Roma of key concern to the World Bank: note Roma Decade of Social Inclusion 2005-2015 and Roma Education Fund

How does World Bank support fit with EU accession agenda? *(continued)*

- World Bank also cooperating with accession countries and EC to assist in meeting objectives of “Lisbon Agenda”: Aim: “European Union to become by 2010 the most competitive and knowledge based economy in the world”
- Since 2002, World Bank organized, in cooperation with EC, OECD and other partners, “Knowledge Economy Fora” in Paris, Helsinki, Budapest and Istanbul, during which prospects and challenges of putting in place policies and reforms to meet Lisbon agenda were discussed. March 2004 Budapest Knowledge Forum III focused on “Improving Competitiveness through Knowledge-based Economy”. April 2005 Knowledge Forum IV took place in Istanbul and focused on “ Business Environment and Knowledge for Private Sector Growth”

What's Next?

- World Bank of view that its support to EU accession countries not necessarily comes to close with these countries joining EU. They still face great challenges to “converge” with EU
- Remember: while on May 1, 2004 enlarged EU increased in population by 20% and surface by 23%, its GDP increased by only 4.8% and average GDP decreased even by 12.4%. Numbers likely to decline further with Bulgaria and Romania joining EU in 2007
- In consultation with EC, World Bank thus offered new EU member countries continued support, including to help through technical assistance and capacity building enhancement of their absorptive capacity with respect to timely and efficient use of EU structural funds
- World Bank also prepared to assist new EU member countries in their role as emerging donors; examples: Slovenia Center of EU Accession Support as outreach vis-à-vis Western Balkans; Hungary Regional Center of Excellence for Property Rights and Land Market Development; several new EU member countries efforts to put in place “development cooperation” strategies and structures

What's Next? *(continued)*

- World Bank stands ready to assist Turkey in its EU accession. In close consultation with EC, currently preparing Turkey Country Economic Memorandum (CEM) which focuses on key issues and requirements related to *acquis communautaire*. Similarly, support is being provided to Croatia
- Lessons learned from EU accession process of great relevance to “Western Balkans” in their drive towards “EU integration”
- In this regard, EC and World Bank cooperating together in “Joint Office for South East Europe”, which I co-chair

Conclusion

- While EC and, to a lesser extent, World Bank can assist EU accession countries in their drive towards EU, the people of these countries have to be at forefront
- Tremendous burden falls upon public administration in EU accession and new member countries in “digesting” *acquis communautaire* and to implement it
- Well educated and informed media are critical to inform the public about EU accession opportunities and challenges
- Also, civil society in both EU member and candidate countries to be fully engaged in EU accession debate

For More Information:

www.worldbank.org/eca/europeanintegration.nsf

World Bank's Role in the Western Balkans

- EU 2003 summit in Thessaloniki confirmed Western Balkans' (Albania, Bosnia and Herzegovina, Croatia, Macedonia, Serbia and Montenegro, including Kosovo) EU integration perspective
- Croatia received EU candidate status in 2004. Negotiations had been expected to start in March 2005. However, start of negotiations now subject to Croatia's full compliance with ICTY
- Macedonia's EU membership application under review by EC. Recommendation by EC and endorsement by EU Council expected by end-2005
- Stabilization and Association Agreement (SAA) being negotiated with Albania; expected conclusion: end 2005
- EC will start SAA negotiations with Serbia and Montenegro in near future
- In case of Bosnia and Herzegovina, country still needs to meet number of conditions before SAA negotiations can start

World Bank's Role in the Western Balkans (cont.)

- While Western Balkans on clear EU accession path, timing much dependent upon them demonstrating to EU determined effort to follow through with macroeconomic and sectoral reforms and growth policies
- Countries also need to demonstrate continued commitment for regional cooperation
- EC and World Bank closely cooperating in context of Joint Office for Southeast Europe
- Joint Office website: <http://www.SEERECON.org>

ENP and the World Bank

European Neighbourhood Policy (ENP)

- ENP was first outlined by European Commission in March 2003 in its “Communication on Wider Europe”
- In May 2004 Commission presented the ENP Strategy Paper and Country Reports
- On the basis of the Strategy Paper and Country Reports Commission presented first set of Action Plans (AP) in December 2004, including AP for Moldova and Ukraine
- Council endorsed APs in December 2004
- In February the EU-Ukraine and the EU-Moldova Cooperation Council signed the respective APs

ENP Geographical Coverage

- Neighbors to the East: Belarus, Ukraine, Moldova
- Southern Caucasus: Georgia, Armenia, Azerbaijan
- ENP does not cover countries that are candidates for EU membership, nor Western Balkans states which are potential candidates
- ENP also covers eight countries around Mediterranean which are part of “Barcelona process”
- Russia specifically rejected its inclusion into ENP. Instead, EU’s Strategic Partnership with Russia will be developed through *four common spaces*, i.e. economic; freedom, security and justice; external security; research and education
- EU aware of Russia’s sensitivities concerning “rapprochement” of ECA ENP countries to EU. World Bank and other partners have to take this into account

ENP: Rationale – Objective - Incentive

- **Rationale:** prevent emergence of new dividing lines on European continent after May 1, 2004 EU enlargement
- **Objective:** establish privileged relationships with neighbors that currently do not have EU membership perspective
- **Incentive:** ENP offers perspective of moving towards significant degree of integration, including stake in EU's Internal Market if sufficient reform progress is made
- Participation in EU Internal Market would include removing barriers to 4 “freedoms”: of capital, goods, services, people
- However, in sensitive areas such as free movement of people, removal of barriers is far down the line. More immediate steps: introduction of more effective visa regimes and improving avenues for legal migration

ENP: Added Value

- ENP builds on existing contractual relations but goes beyond traditional cooperation governed thus far by *Partnership and Cooperation Agreement (PCA)*
- ENP sets out how neighbors can progressively participate in key aspects of EU policies and programs, including Single Market
- ENP includes political aspects (building and consolidating democratic societies; enhancing reach of rule of law) and security aspects (e.g. possible NATO membership). While WB would not be party to such discussions, it needs to be aware
- ENP provides, among other, TA ('twinning' schemes) and financial support for those neighbors that wish to meet EU norms and standards

ENP Financing Instrument

- TACIS and MEDA programs will continue to operate until the end of 2006
- From 2007 onwards – start of 2007-2013 EU financial framework - support for ENP countries and Russia will be provided through single European Neighbourhood and Partnership Instrument (ENPI)
- ENPI will include component catering for specific needs of cross-border cooperation at EU's external borders
- Commission proposed substantial increase in assistance to 14.9 bn Euros for 2007-2013 as compared to 8.5 bn Euros for 2000-2006 under TACIS and MEDA

ENP and EU Membership

- Possible EU membership for ENP countries currently not in sight
- Key constraining factors: *absorption capacity* of EU and *effectiveness of the ENP*
- At present, absorption capacity of EU appears to reach limits due to 2004 enlargement, further enlargement (Bulgaria, Romania) in 2007, opening of accession talks with Croatia and Turkey in 2005 and next in line candidates, i.e. Western Balkans (Macedonia's application currently being evaluated)
- Of course, recent developments in Ukraine put pressure on EU to treat country different from other ENP countries
- Some ENP countries might choose to remain within more flexible ENP structure compared to formalized legal and regulatory framework of *acquis communautaire*

ENP and the Role of the World Bank

- As in case of EU accession countries, ENP represents key development agenda for concerned countries
- Key question: How can WB use its analytical and financial instruments in complementary way to EU efforts?
- Experience from the EU8 shows that countries usually lack human resources and implementation capacities to realize ambitious reform agenda
- WB should use its comparative advantages in capacity building and technical assistance
- Experience from past enlargement shows that WB could provide added value especially in:
- Public Sector Reform
 - Human Development Agenda
 - Convening Power

ENP and the World Bank: *Public Sector Reform*

- Commission recognizes that WB has comparative advantage in Public Sector Reform and sees WB as key partner
- Knowledge transfer from new Member States to ENP countries, and from more advanced ENP countries (e.g. Ukraine) to less reformed ENP countries (Southern Caucasus)

ENP and the World Bank: *Human Development Agenda*

- Human development agenda is not directly governed by *acquis communautaire* but weighs heavily on public finance
- WB has comparative advantage in assisting ENP countries in education, health sector and pension reforms
- WB also has best knowledge and strategies in poverty alleviation programs; ECA 2005 flagship report “Growth, Poverty and Inequality in Eastern Europe” provides important background

Millennium Development Goals
(MDGs)

Millennium Development Goals (MDGs)

Goal 1: Wipe out extreme poverty and hunger

Goal 2: Get all children a primary school education

Goal 3: Help women get equal rights and empower them.

Goal 4: Reduce death rate of young children

Goal 5: Improve the health of mothers

Goal 6: Combat HIV/AIDS, malaria, and other diseases

Goal 7: Help countries protect their environments.

Goal 8: Promote a global partnership for development

The Development Challenge

Poorest fifth: 3 % of world expenditures

Richest fifth: 75% of world expenditures

Developed countries spend:

\$600 billion a year on defense

\$300 billion a year in agricultural subsidies

\$ 56 billion in aid to developing countries

Population growth over the next 25 years

50 million in rich countries

1.5 billion in poor countries

Half of the population is under 25

Progress on MDGs Mixed in ECA

• If growth rates are sustained, most countries are expected to reach poverty and education MDGs by 2015

• However, many countries are unlikely to meet the goals for child and maternal mortality, as well as for HIV/AIDS

• While access to water is improving, water quality remains a serious issue

	MDG1 poverty	MDG2 school enrollment	MDG3 equality in school	MDG4 child mortality	MDG5 maternal mortality	MDG6 HIV/AIDS & TB incidence	MDG7 water Access
Albania	Grey	Yellow	Green	Yellow	Red	Red	Yellow
Armenia	Grey	Yellow	Green	Yellow	Yellow	Red	Grey
Azerbaijan	Grey	Yellow	Green	Yellow	Yellow	Red	Grey
Belarus	Green	Yellow	Green	Green	Green	Red	Green
Bosnia & Herzegovina	Grey	Green	Green	Green	Green	Green	Green
Bulgaria	Green	Green	Green	Green	Yellow	Yellow	Green
Croatia	Green	Green	Green	Green	Green	Green	Green
Georgia	Red	Yellow	Green	Red	Red	Red	Grey
Kazakhstan	Grey	Yellow	Green	Red	Red	Red	Yellow
Kyrgyz Republic	Yellow	Yellow	Green	Red	Red	Red	Grey
Macedonia, FYR	Yellow	Yellow	Yellow	Green	Green	Green	Grey
Moldova	Red	Yellow	Green	Red	Yellow	Red	Red
Romania	Green	Green	Green	Green	Green	Yellow	Red
Russian Federation	Green	Green	Green	Red	Green	Red	Yellow
Serbia & Montenegro	Grey	Green	Green	Green	Green	Yellow	Green
Tajikistan	Red	Yellow	Red	Red	Red	Red	Red
Turkey	Yellow	Yellow	Red	Green	Red	Yellow	Yellow
Ukraine	Yellow	Green	Green	Green	Green	Red	Yellow
Uzbekistan	Grey	Yellow	Green	Yellow	Yellow	Red	Yellow

Key

Likely

Maybe

Unlikely

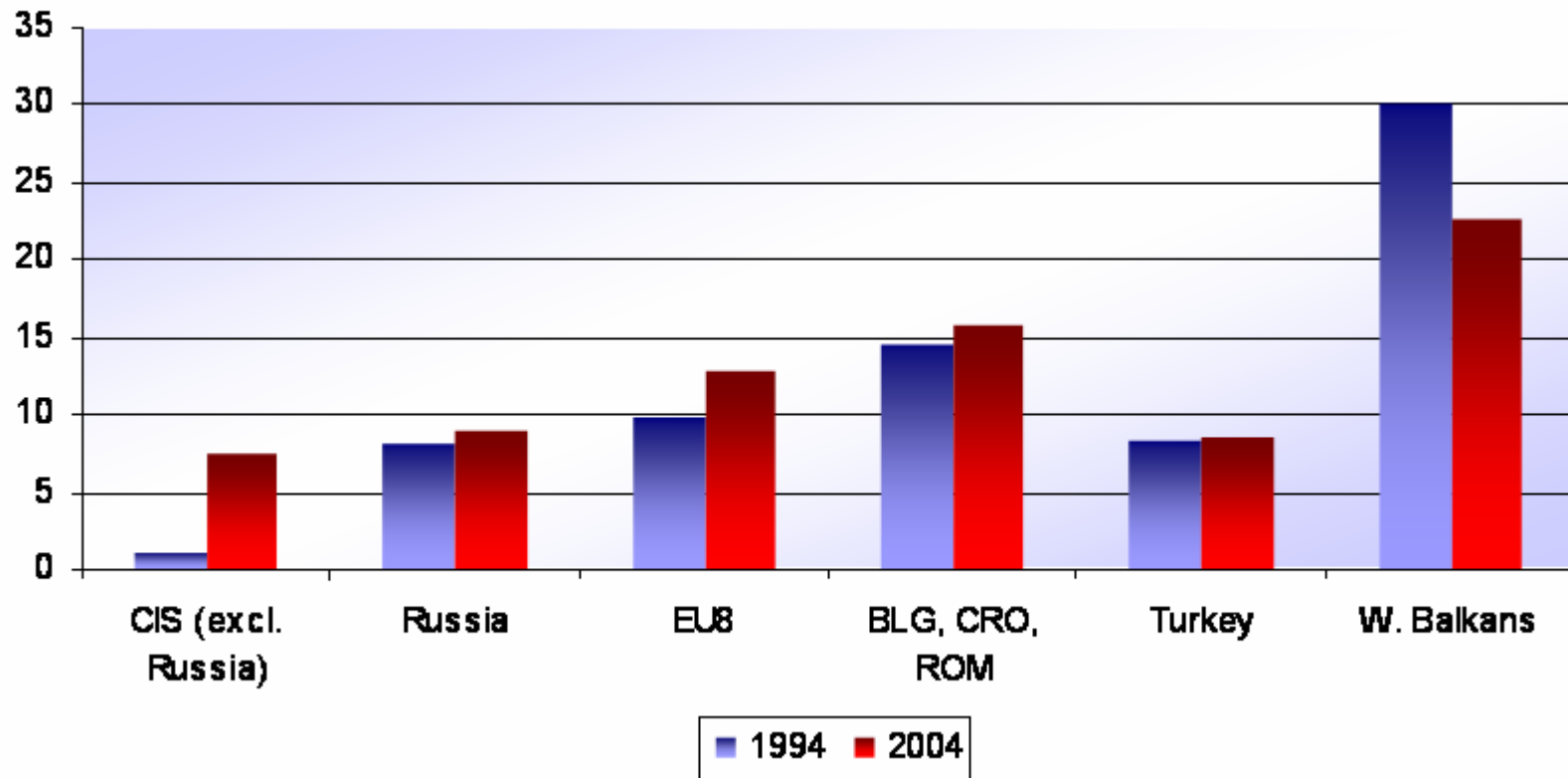
No data

Source: *Achieving the Human Development MDGs in ECA*, World Bank, 2004.

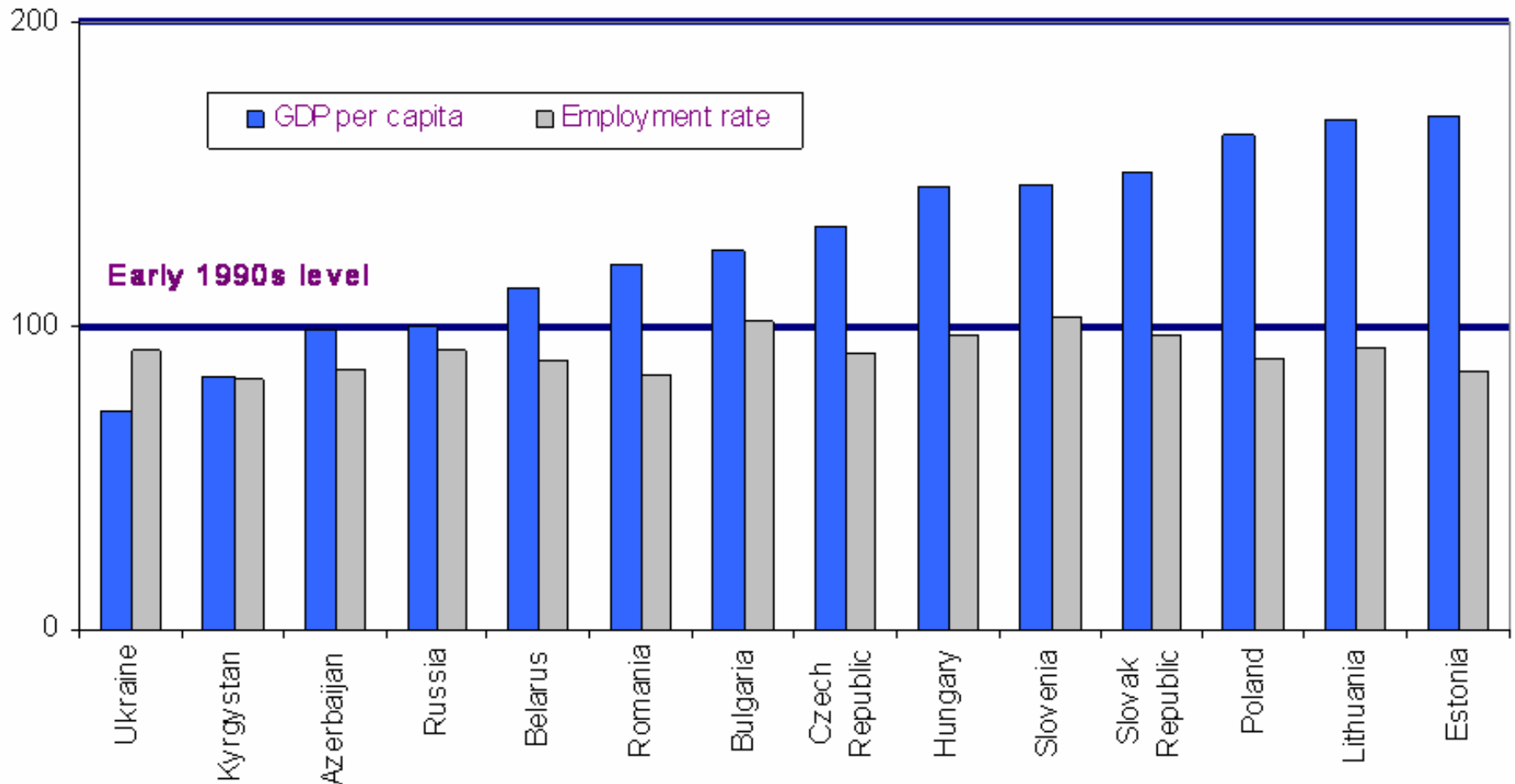
Notes: 1. These assessments represent the best estimate of staff at the time of publication.

2. For countries that already have attained very high levels in those categories, measuring by percentage, improving by 50% may simply not be attainable; hence, those particular MDGs may need to be revisited

Unemployment in ECA (1994 and 2001)

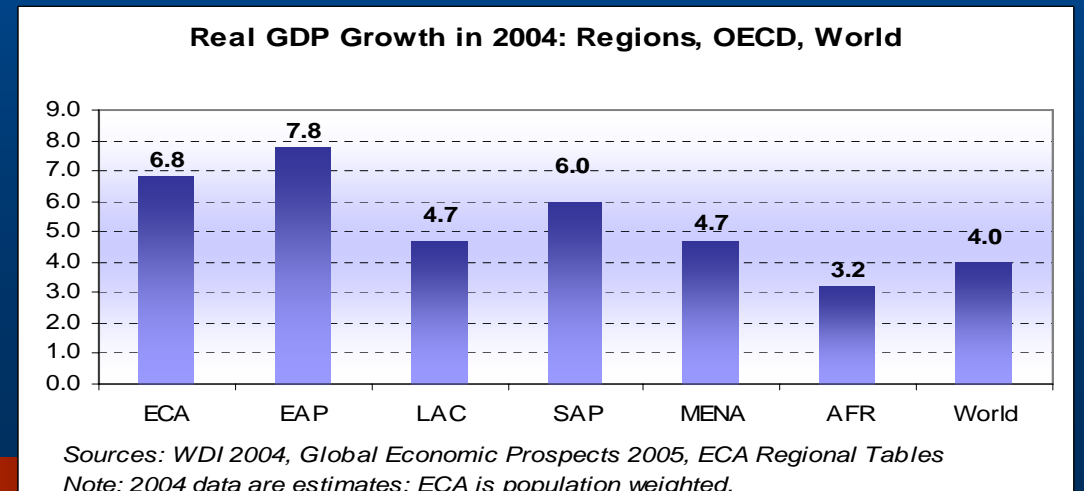
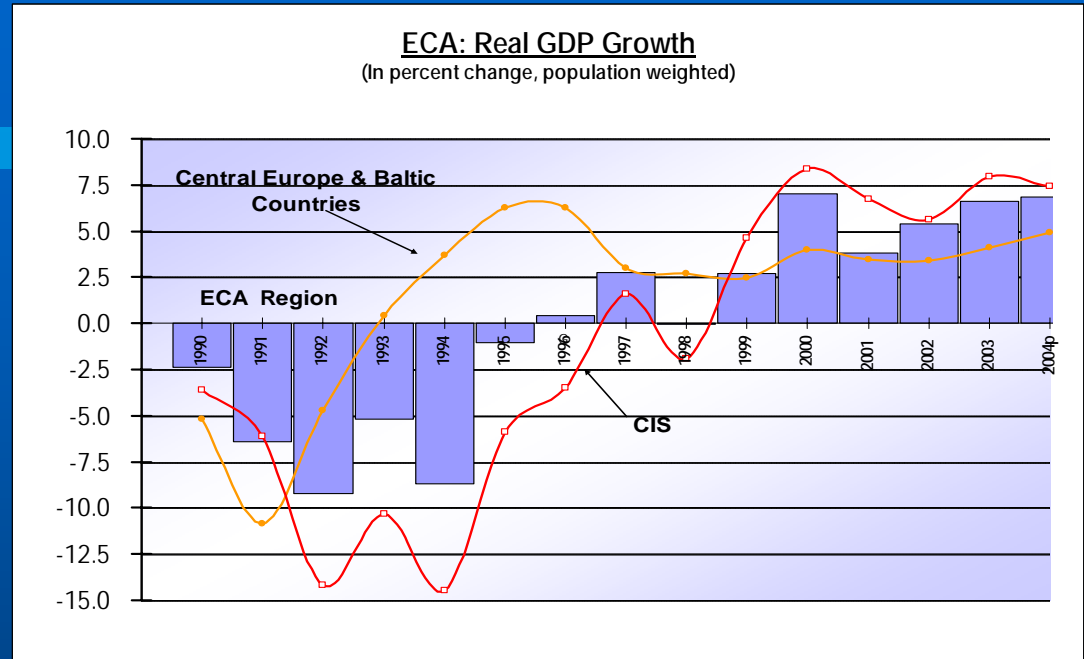


Growth in ECA Has Recovered, but Employment Has Not



2004 ECA Growth Performance

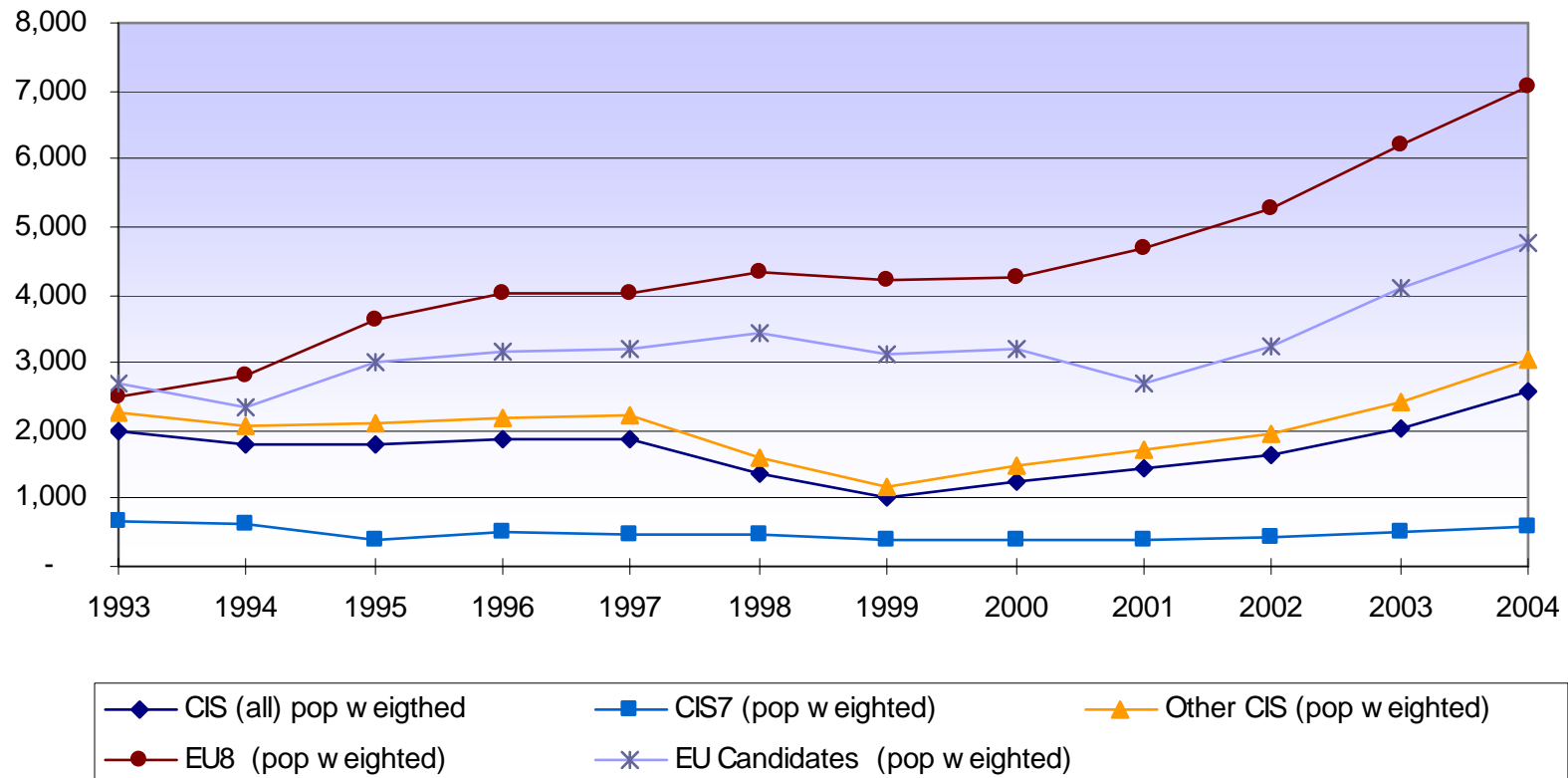
- In 2004, the ECA region grew by an average of 6.8% compared to 6.6% in 2003
- CIS collectively had an average growth rate of 7.9% compared with 4.9% for the rest of ECA
- Aggregate GDP for ECA in 2004 has exceeded 1990 levels
- Overall ECA is the 2nd fastest growing region in the World



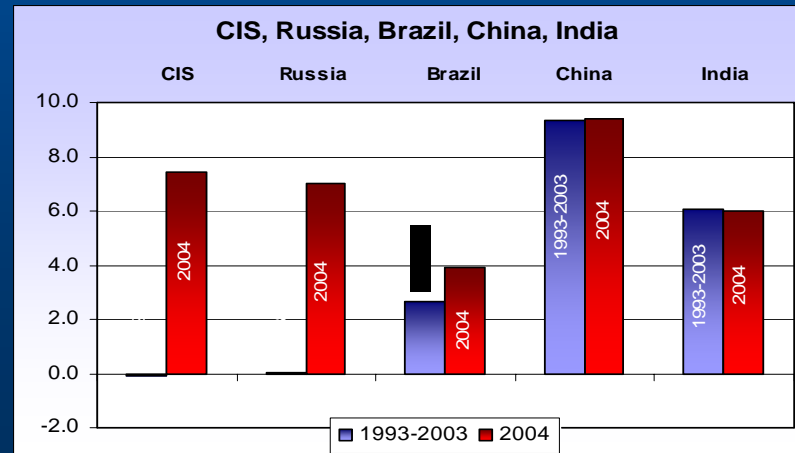
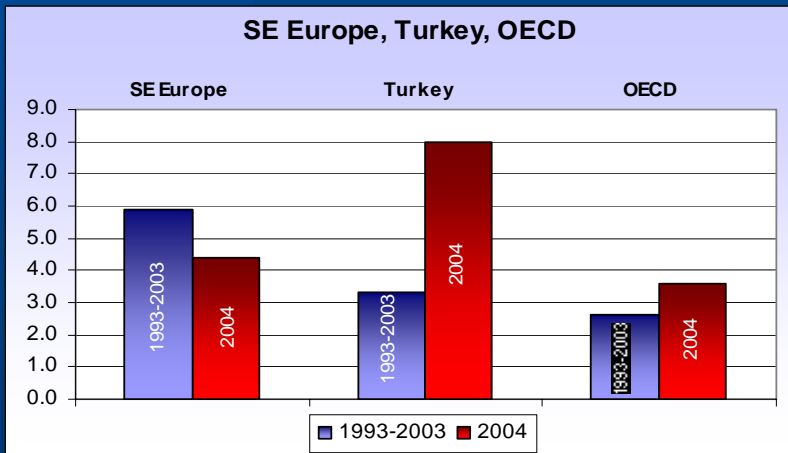
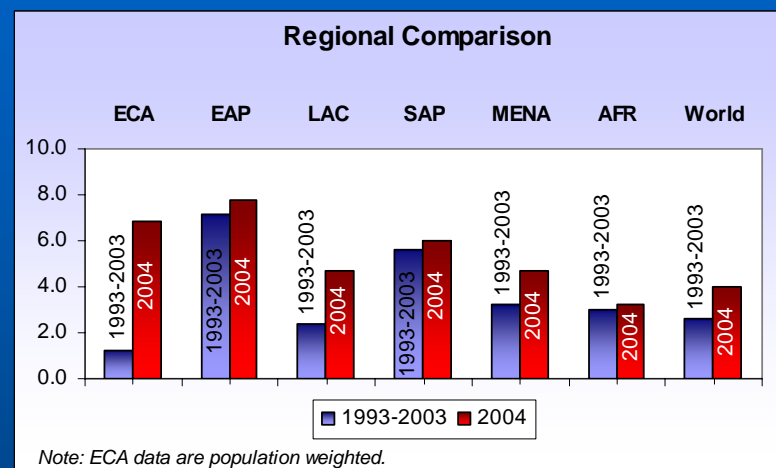
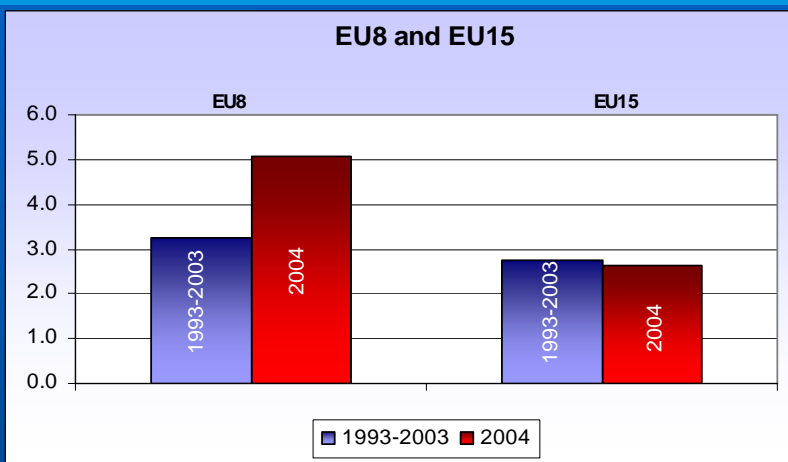
ECA Regional Growth Performance

- An Income Perspective -

GDP per Capita (current \$US)



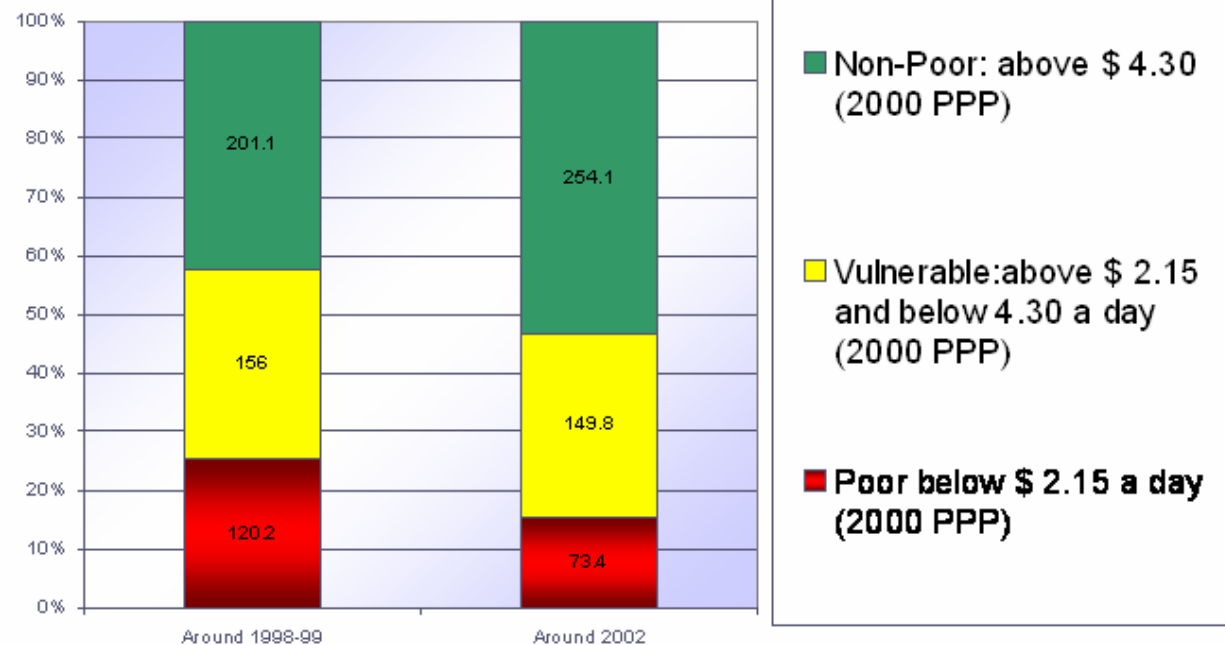
ECA Regional Growth Performance - A Benchmarking Exercise -



Poverty is Falling in ECA

- Growth worked to reduce poverty
- 47 million moved out of poverty between 1998 and 2002
- Poverty rate fell from 25% to around 15%
- Progress in non-income dimensions of poverty mixed
- Vulnerability remains a significant concern

Population of ECA by poverty status 1998-2002
(mln.)

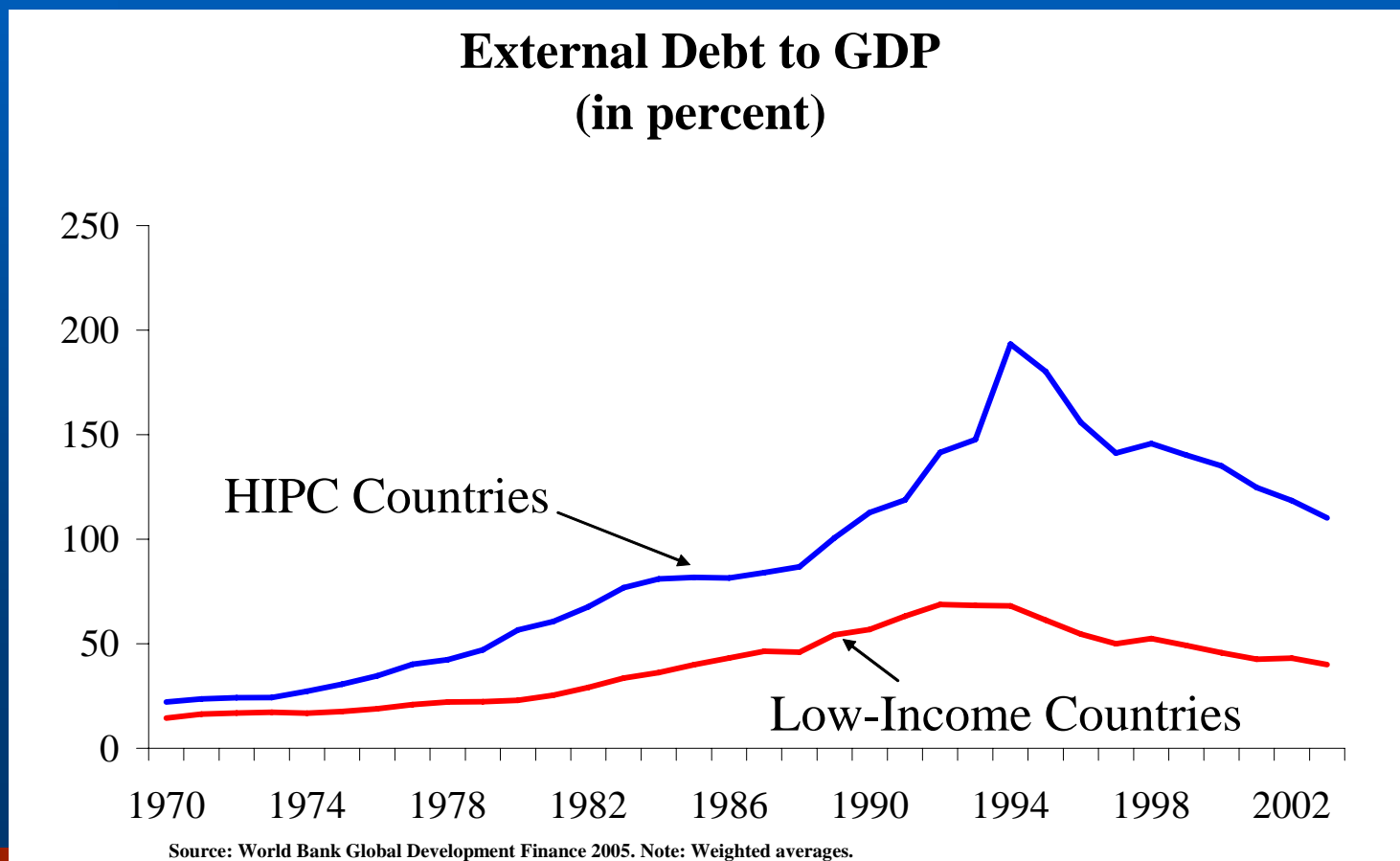


Note: The 1\$/day line has to be adjusted in ECA countries for climatic reason (heating and clothing) - \$2.15/day is the appropriate line.

Debt Relief and MDGs

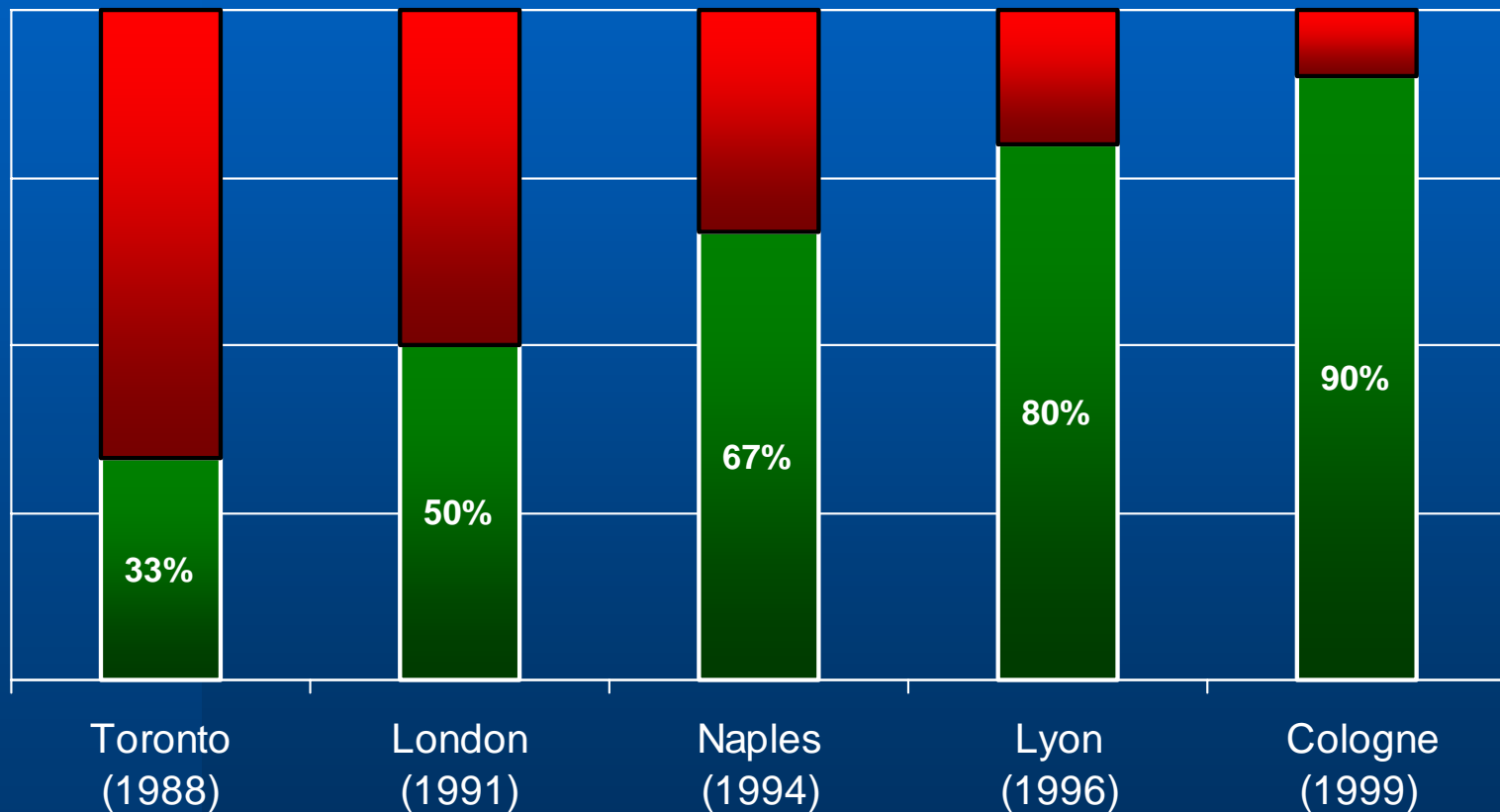
Debt Build Up in Low-Income Countries

The overall debt burden in low-income countries rose significantly in the 1980s and 1990s.



Bilateral Creditors Have Through the Paris Club Provided Increasing Debt Relief

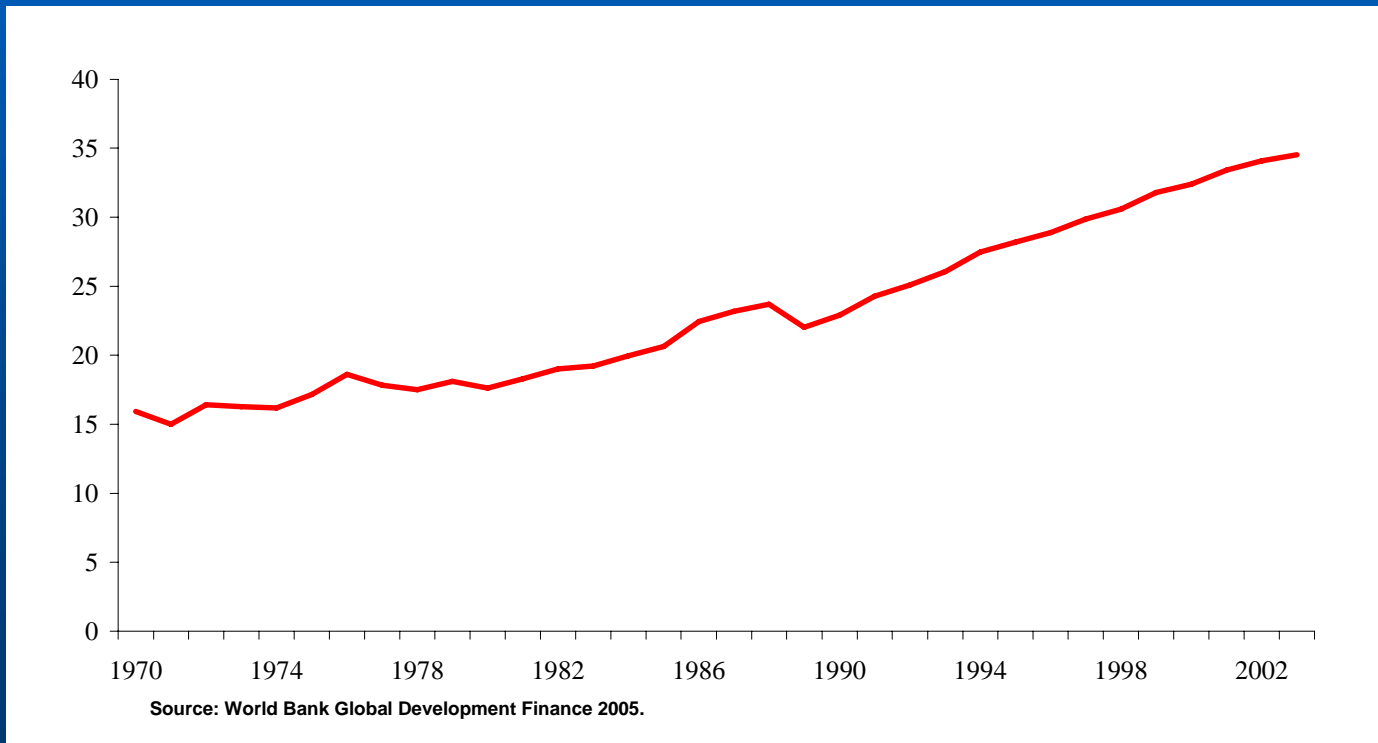
Debts Forgiven¹ by Paris Club Members²



1) The forgiveness listed is the reduction in the Net Present Value of the rescheduled debts owed to the Paris Club members. 2) "The Paris Club is an informal group of official creditors whose role is to find coordinated and sustainable solutions to the payment difficulties experienced by debtor nations. Paris Club creditors agree to rescheduling debts due to them. Rescheduling is a means of providing a country with debt relief through a postponement and, in the case of concessional rescheduling, a reduction in debt service obligations." See www.clubdeparis.org.

Share of Multilateral Debt in Total External Debt (%)

Traditional debt relief mechanisms reduced bilateral and commercial debt, but not debt to multilateral organizations



A History of Debt Relief

- Original HIPC Initiative 1996
- Enhanced HIPC Initiative 1999

To be eligible for the HIPC Initiative, a country must be:

- poor (IDA-only and PRGF eligible)
- heavily indebted (NPV of debt to exports > 150)
- and must have a track record of reform (I-PRSP, satisfactory performance under PRGF).

Status of Implementation of the HIPC Initiative

Completion Point: 18 countries

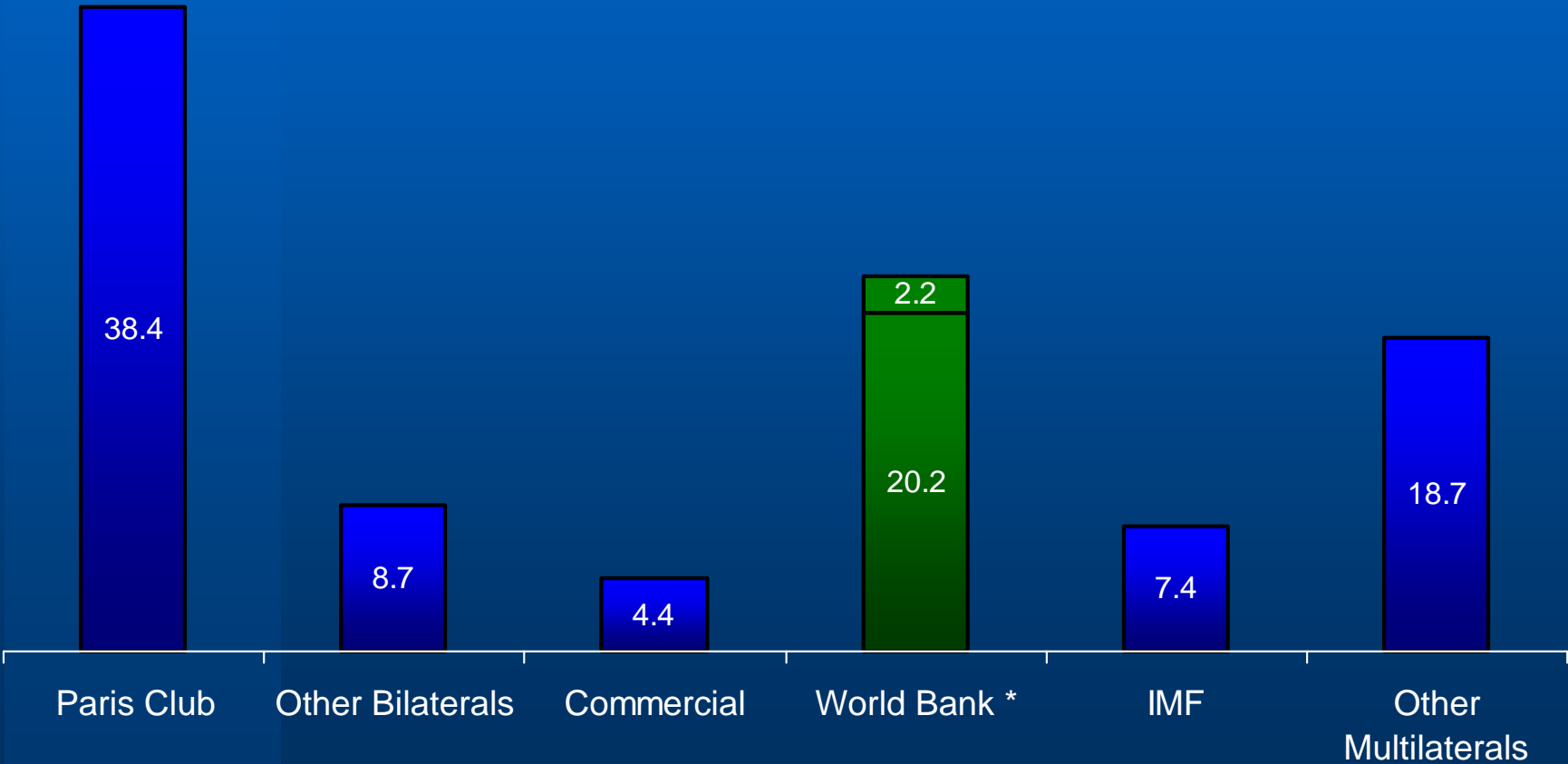
Decision Point: 9 countries

Pre-Decision Point: 11 countries

A total of 27 countries have reached decision point. They have been committed about \$ 54 billion in debt relief.

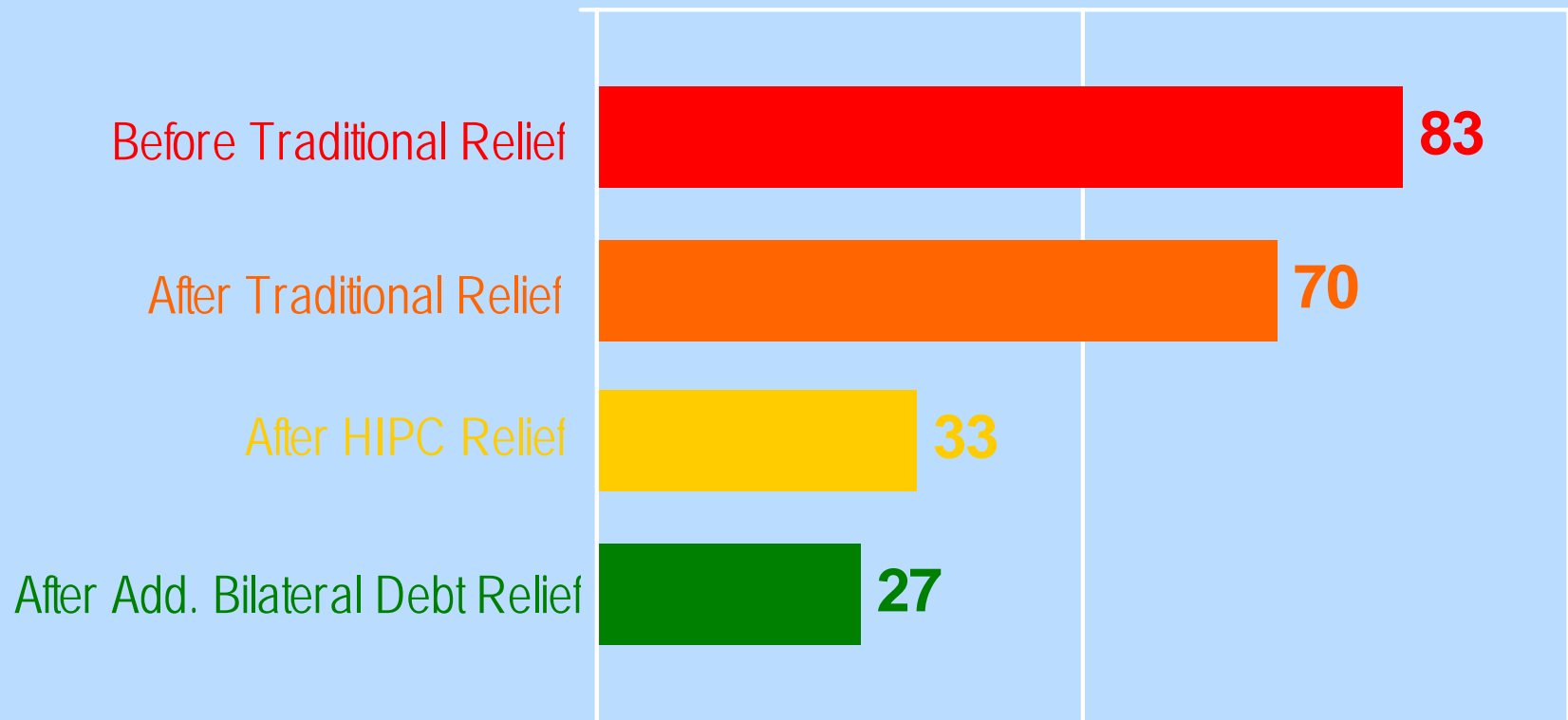
Multilateral Institutions Have Now Provided About Half of All Debt Relief

Debts Forgiven by Bilaterals and Multilaterals (USD bn) (Year???)



*) Amounts include contributions from IBRD (smaller amount) and IDA.

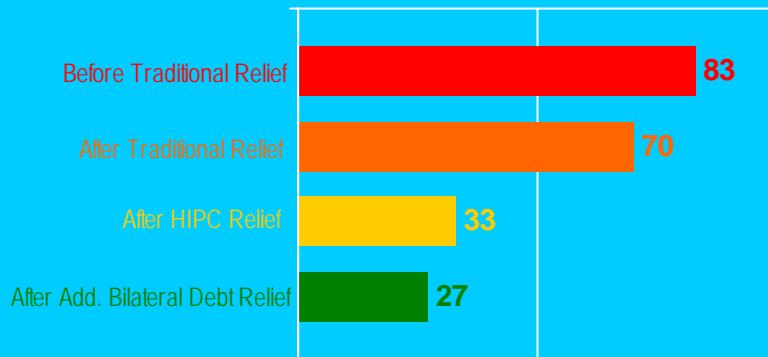
Debt Stocks of HIPC's reduced by two-thirds



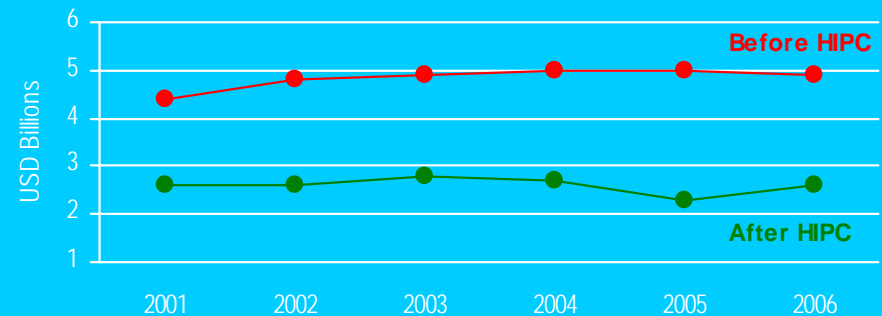
1) Debt stocks of 27 decision point countries, USD billion 2004 NPV terms. 2) Projected debt service obligations of 27 decision point countries. 3) Debt service to government revenue for 27 decision point countries. 4) Ratio of poverty-reducing expenditures to government revenue.

HIPC Has Substantially Reduced Debts and Strengthened Pro-Poor Spending

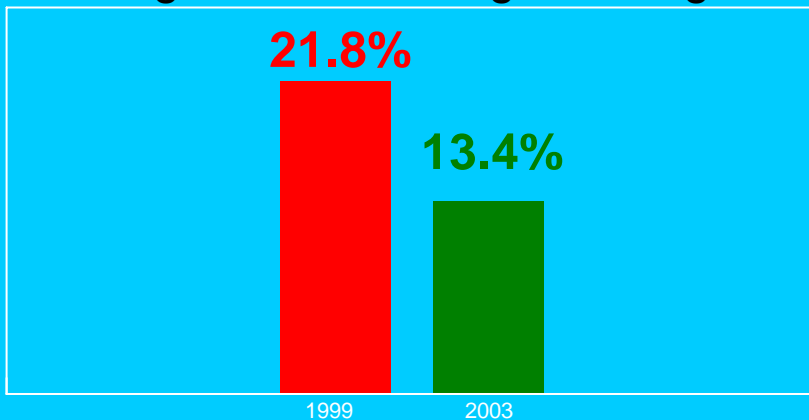
Debts have been reduced¹...



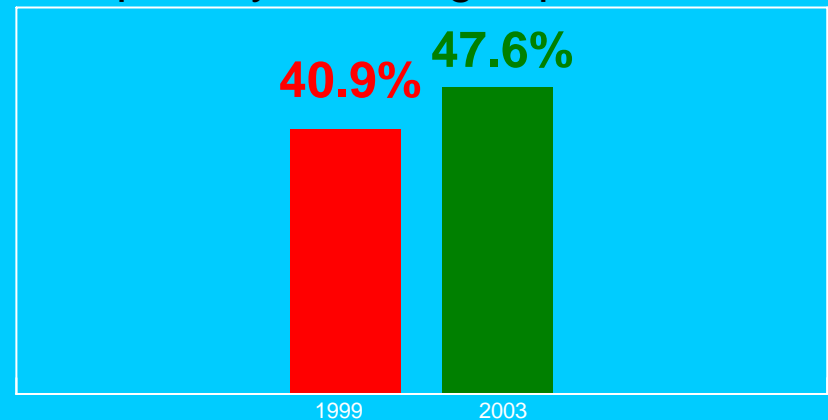
and so have payments to creditors²...



making more room in gov't budgets³...



for poverty-reducing expenditures⁴.



1) Debt stocks of 27 decision point countries, USD billion 2004 NPV terms. 2) Projected debt service obligations of 27 decision point countries. 3) Debt service to government revenue for 27 decision point countries. 4) Ratio of poverty-reducing expenditures to government revenue.

Additional Debt Relief

- Debt relief alone is not a sufficient condition to ensure long-term debt sustainability.
- Bank-Fund have introduced a new debt sustainability framework that will ensure that terms of new lending to IDA countries reflects their risk of debt distress
- In IDA-14 over 40 IDA-only countries will receive either 100 percent or 50 percent of their IDA assistance in the form of grants.
- There are proposals, however, for additional multilateral debt relief, that are currently being discussed by G7 members and other donors.

Additional debt relief – key objectives

- Provide additional resources from donor countries in pursuit of the millennium development goals.
- Reduce debt overhang in low-income countries, that may be an impediment to growth
- Help mitigate the impact of shocks, which often are the source of debt problems.

Additional debt relief – Next Steps

- Essentially a decision for the G7
- An agreement may be reached at the Gleneagles summit in July or by the Annual meetings of the Bank-Fund in September