



***Framework for World Bank Group
Support to EU Accession Candidate
Countries of Central and Eastern Europe***

***Prepared by the Europe and Central Asia Region
World Bank***

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Acronyms

CAS	Country Assistance Strategy
CEE	Central and Eastern Europe
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECA	Europe and Central Asia Region of the World Bank
EIB	European Investment Bank
ESW	Economic and Sector Work
EU	European Union
FSAP	Financial Sector Assessment Program
FY	Fiscal Year
IFC	International Finance Corporation
IMF	International Monetary Fund
JEP	Joint Environment Programme
LIBOR	London Inter Bank Offered Rate
MICs	Middle Income Countries
MIGA	Multilateral Investment Guarantee Agency
OECD	Organization for Economic Cooperation and Development
PEP	Pre-Accession Economic Programme
SAL	Structural Adjustment Loan
SME	Small and Medium Enterprises
TA	Technical Assistance

This paper was originally drafted on September 14, 2001. This revision reflects updates and comments which were received from external partners.

SUMMARY

This paper provides a framework for the World Bank's formulation of individual country strategies for the eight Central and Eastern European EU candidate countries which are closest to meeting EU accession requirements: Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovak Republic, and Slovenia. It notes that, while uncertainty remains about exact timing, there is a prospect that these countries will join the EU within the next 3-4 years. In this context, the main conclusions of the paper are:

- nothing in World Bank policy precludes an operational relationship with these countries following EU accession. Thus the configuration of lending and advisory services in these countries should be determined, inter alia, by reference to the World Bank's existing graduation policy, rather than by the timing of EU accession.

- with the exception of Slovenia, none of these countries has yet reached the per capita income threshold for initiating the graduation process. Given their improving access to funds on competitive market terms, the key determinant for levels of World Bank lending to these countries prior to graduation is likely to be their interest in borrowing from the World Bank. In the event that a particular country de facto ends World Bank borrowing before it would have been agreed under the graduation policy, the World Bank would be prepared to consider responding favorably to a subsequent request to resume lending, in response to a significant regression in country circumstances.

- The International Finance Corporation plans for its involvement to be determined by the market. The Multilateral Investment Guarantee Agency's guarantee activity as well as capacity building, information dissemination and investment promotion services to these countries will also be driven by demand.

- in the event that a particular country wishes to access substantial technical assistance from the World Bank above a threshold to be determined in individual country strategies, it would need to pay (either directly, or indirectly, for example through requesting allocations of EU funds) for at least a part of costs.

- relative priorities in the World Bank's regional and global mandate mean that administrative budget resources for these countries are likely to be highly constrained. Hence World Bank activities in these countries will need to be highly selective, focusing on areas where: (i) significant policy issues remain; (ii) the World Bank has a comparative advantage; and (iii) the World Bank is not duplicating the efforts of other partners.

- development areas not explicitly covered by the EU *acquis communautaire* may well be a major focus for World Bank activity; and in these areas – notably education, health, poverty, social development and protection, some aspects of good governance and public administration, labor market and knowledge economy issues – the World Bank would be prepared to take a lead partner role if the Government concerned so wished.

- while the formulation of individual country strategies will be guided by the recent report of the World Bank's Task Force on Middle Income Countries (MIC), there will be variation in the applicability of specific recommendations to individual countries. Thus, for example, Letters of Development Strategy might not be used as they could

significantly duplicate the EU-mandated Pre-Accession Economic Programmes. While there is currently little expressed interest among candidate countries in contingent borrowing, this option would remain open should circumstances change. In addition, there may be cases where programmatic Structural Adjustment Lending and integrative development policy reviews might be helpful and of interest to some countries. Relative to its work in other MICs, the World Bank will draw more extensively on the work of other institutions, notably the EC and OECD, in undertaking core integrative economic and sector work.

Framework for World Bank Group Support to EU Accession Candidate Countries of Central and Eastern Europe

I. Introduction

1. This note addresses some key considerations for the design of future World Bank assistance strategies in the eight Central and Eastern European EU candidate countries which are closest to meeting EU accession requirements (the “Accession Countries”): Estonia, Latvia, Lithuania, Poland, Czech Republic, Slovakia, Hungary and Slovenia.¹ It describes some of the common issues the eight countries face and is designed to provide a framework for the development of country-specific Country Assistance Strategies (CASs), some of which may set out the arrangements for the final phase of operational relationships with the World Bank.
2. This note also takes account of the World Bank’s Strategic Directions as well as the findings and recommendations of the Task Force on Middle Income Countries (MICs). Some aspects of the Strategic Directions and MIC analyses relevant in various degrees to the Accession Countries include:
 - The World Bank’s prime objective is to promote (through dialogue and lending) good policies and strong institutions as the main drivers of poverty reduction;
 - World Bank lending to MICs still provides additionality (even if for a short period) to market finance (though countries may decide themselves to end borrowing from the Bank if they find cheaper sources of financing or find our transaction costs to be too high relative to perceived benefits);
 - World Bank MIC involvement should also continue because of cross-country and global issues (including global public goods), including trade integration, environmental protection, communicable diseases, financial architecture;
 - World Bank involvement in the advanced Central and Eastern European MICs permits the harvesting of important empirical lessons of transition and development for the benefit of a broader audience (akin to a global public good);
 - The World Bank’s capacity to deliver relevant, objective diagnostic analysis is a significant institutional strength.

II. Background data

3. The following table provides basic information related to the candidate countries:
 - Population, per capita income
 - the World Bank’s recent and future lending, and loan portfolio
 - Timetables for Country Assistance Strategies

¹ Although this note does not cover Bulgaria, Romania or Turkey because their negotiations for accession are at earlier stages, the World Bank would be guided by the same framework as they move closer to accession. The note also does not cover Cyprus or Malta where the World Bank does not have active programs.

Candidate Country Basic Data

	Population	GNI per capita	GDP	Next CAS
	<i>million (2000)</i>	<i>\$ (2000)</i>	<i>\$ billion (2000)</i>	
Estonia	1.4	3,410	5.0	-
Latvia	2.4	2,860	7.2	Mar-02
Lithuania	3.7	2,900	11.2	Dec-02
Poland	38.7	4,200	158.8	May-02
Czech Rep.	10.3	4,920	49.5	-
Hungary	10.1	4,740	45.7	Mar-02
Slovak Rep.	5.4	3,700	19.2	(Jan-01)
Slovenia	2.0	10,070	18.2	(May-00)
Total	74.0		314.8	

World Bank Lending	\$ million (planned)					
	FY98	FY99	FY00	FY01	FY02	FY03
Estonia	0.0	0.0	25.0	0.0	21.0	0.0
Latvia	8.0	58.6	40.4	38.4	30.0	30.0
Lithuania	0.0	20.0	56.6	98.5	75.0	40.0
Poland	522.0	327.0	160.7	154.5	100.0	160.0
Czech Rep.	0.0	0.0	0.0	0.0	0.0	0.0
Hungary	336.4	0.0	31.6	0.0	0.0	0.0
Slovak Rep.	0.0	0.0	0.0	0.0	225.0	60.0
Slovenia	0.0	15.1	9.5	0.0	0.0	0.0
Total	866.4	420.7	323.8	291.4	451.0	290.0

No. of World Bank Lending Operations	FY98	FY99	FY00	FY01	FY02	FY03
Estonia	0	0	1	0	1	0
Latvia	1	4	1	2	1	1
Lithuania	0	1	2	1	2	2
Poland	3	3	3	3	1	2
Czech Rep.	0	0	0	0	0	0
Hungary	3	0	1	0	0	0
Slovak Rep.	0	0	0	0	3	2
Slovenia	0	1	1	0	0	0
Total	7	9	9	6	8	7

Portfolio (# of on-going projects)	FY98	FY99	FY00	FY01	FY02	FY03
Estonia	5	4		2	3	1
Latvia	9	10	11	12	9	8
Lithuania	9	9	10	13	10	8
Poland	19	19	19	18	17	10
Czech Rep.	1	0	0	0	0	0
Hungary	12	11	8	6	2	1
Slovak Rep.	1	1	1	0	3	5
Slovenia	2	3	3	3	2	2
Total	58	57	52	54	46	35

III. EU accession prospects

4. The institutional reforms agreed at the December 2000 Nice summit opened the way for EU enlargement to take place. Although no specific target dates were established – candidate countries have been advised that accession depends on progress made by each of them in their respective negotiations process – several senior EU member country and EC officials have since suggested that the first candidates could join by early 2004. This indicative schedule was reaffirmed by the Gotheborg summit in June 2001. It is based on the assumption that negotiations of the 31 chapters would be concluded around the end of 2002 and that during 2003 parliaments would ratify the new memberships. This seems to be the most optimistic scenario: considerable uncertainty remains about the actual timing of accession, whether there will be a "big bang" – i.e., all Accession Countries joining at the same time – or whether some candidates will join prior to others. This uncertainty was compounded by the negative result of the Irish referendum on the Nice Treaty and is likely to persist at least until the fall of 2002 (following elections in some key EU member and candidate countries). **Uncertainty over the timing of accession will be an important factor to take account of in framing individual Accession Country CASs.**

IV. World Bank Operational Policy in Accession Countries

Graduation

5. The World Bank's graduation policy provides that when a borrowing country reaches a per capita income threshold (currently \$5,225 in 2000 prices), the World Bank reviews the country's overall economic situation to examine the capacity to sustain a long term development program without further financial support from the Bank. This review takes into account volatility of income, access to capital markets and volatility of capital flows, persistence of poverty despite high per capita income, the unfinished agenda for institutional reform, and spillover benefits to other countries and to the World Bank of continued support. In the event that such a review concludes graduation is justified, the World Bank should develop a flexible program to phase out lending within up to five years.² Of the Accession Countries, currently only Slovenia has per capita income (\$10,070, expressed in 2000 prices) that exceeds the graduation threshold. The Czech Republic and Hungary are close at \$4,920 and \$4,740, respectively, and could reach the threshold in 2003. The other countries are not as close to the graduation threshold, nor are they likely to be within the likely time horizon of accession: Poland \$4,200, Slovakia \$3,700, Estonia \$3,410, Lithuania \$2,900, Latvia \$2,860 (See Table 1).
6. No direct link exists between EU accession and graduation in World Bank policy or practice. Nor does there appear to be any basis for such a link. **Thus the future configuration of lending and advisory services in these countries should be determined, inter alia, by reference to the World Bank's graduation policy, rather than by the timing of EU accession.** This would be consistent with the approach for earlier World Bank borrowers that joined the EU: Italy, the Netherlands,

² The policy appears to be silent on whether the phase out of World Bank lending should be accompanied by a phase out of analytic support from the World Bank, but in practice this would seem to be the case.

Ireland and Portugal continued to borrow after their EU membership.³ In addition, the Bank continued to prepare economic and sector work (ESW) on Italy, the Netherlands and Portugal after accession.⁴ Generally, per capita incomes in these countries were closer to the EU average at the time of their accession than those of almost all of the Accession Countries are likely to be. As the cases of Slovenia and other countries outside the Europe and Central Asia Region illustrate, a full service World Bank program may be appropriate under specified conditions for a limited period for countries having income levels much in excess of the graduation threshold.⁵

Lending

7. **Over the next several years, a more important determinant of levels of possible World Bank lending to the Accession Countries than our graduation policy is likely to be the interest of the countries concerned in borrowing.** Among the higher income Accession Countries, there has definitely been a recent fall off in such interest. No lending is currently foreseen for Slovenia, the Czech Republic, Hungary and (other than one project in FY03) Estonia. Poland and Slovenia have recently accessed the bond market at 27 and 30 basis points above LIBOR, respectively, which is very competitive to or even slightly cheaper than borrowing from the Bank. Estonia, Hungary and the Czech Republic also regularly access the Eurobond market at rates cheaper than borrowing from the World Bank. Indeed in the cases of Hungary and Poland, MoF officials regard the World Bank as an expensive alternative, given the non-financial “transaction costs” of working with the World Bank. For these countries the decision to borrow is (or has been) related to the value they place on the technical and advisory package that accompanies a World Bank loan. In the other four countries World Bank borrowing remains financially attractive, although this may change too as these countries benefit from approximation to EU economic policies and enjoy improved access to the bond market. In the event that an individual Accession Country decides to end World Bank borrowing before it would be necessary under the graduation policy, the World Bank would be prepared to consider resuming lending at a later date, provided this would be in accordance with the Bank’s graduation policy, and in response to a significant regression in country circumstances, for example due to an adverse economic shock. **Upcoming CASs are clearly the appropriate vehicle for agreeing with individual countries on future lending scenarios.**
8. The **International Finance Corporation (IFC)** recognizes that prospective EU accession will impose a time limit on its activities in the ECA Region. It plans for its involvement in projects to be determined by the market and has already begun

³ Italy became a founding member of the European Community on March 25, 1957, after which it borrowed \$235 million in 4 projects, the last loan approved in June 1965. Netherlands became a founding member of the European Community on March 25, 1957, and borrowed \$15 million in May 1957. Ireland acceded on January 1, 1973, after which it borrowed \$80 million in 3 projects, the last in August 1975. Portugal acceded on January 1, 1986, after which it borrowed \$232 million in 4 projects, the last in April 1989.

⁴ The final formal economic and sector work took place in 1964 for Italy, 1957 for the Netherlands and 1989 for Portugal, roughly coinciding with the last lending operations in these countries.

⁵ Slovenia’s per capita income is currently above the upper limit for middle income countries, which the MIC Report suggested should be the cut-off for World Bank operational activity. Given the modest residual Bank activity in Slovenia in accordance with the pre-graduation CAS, whose consideration predates the MIC Report, it is not proposed to modify plans for World Bank work in Slovenia set out in the CAS.

withdrawing from business where the private sector has demonstrated a readiness to take over. In the coming years IFC anticipates providing project finance and advisory services to help with difficult privatizations; to help companies in Accession Countries engage in intra-regional, especially eastward, investments; and to help bring financial institutions, techniques and instruments in Accession Countries to EU standards. **The Multilateral Investment Guarantee Agency (MIGA)** will continue to offer investment guarantees against non-commercial risks to foreign investors in the Accession Countries, as well as capacity building, information dissemination and investment promotion services to these countries, in line with demand for such products. MIGA will also offer its products to Accession Countries' investors in other member countries, especially for South-South investments.

9. The **EBRD** has a mandate to foster transition towards open market-oriented economies and promote private and entrepreneurial initiative. Its policies envisage graduation as a natural consequence of applying principles of transition impact, sound banking and additionality. On this basis the market will determine the rate at which activity in these countries is reduced, with individual country strategies as the main vehicle for monitoring and reporting on this process. Hence the Bank Group's and EBRD's policies toward graduation are much the same in that the market will likely be the main force determining the timing of ending of lending. For the time being, EBRD envisages continued business in all of EU candidate countries totaling EUR 1 billion annually for the next few years, though possibly with additional demand for its financing in the near term in view of current economic developments. **EIB** as the EU's "in-house bank" will continue to be the largest donor in the candidate countries and most likely will increase its exposure further after their EU membership. The EIB's programs are linked to the EU's policies and priorities and to helping Accession Countries comply with the *acquis communautaire*. The EIB expects the bulk of its lending in the coming 3-4 years to be in environment, water, rail and roads, with the objective of linking Accession Countries into EU infrastructure

Portfolio/ESW/Technical Assistance Services

10. Even if World Bank support in some of the Accession Countries has or would come to an end in terms of new **lending**, the World Bank would maintain its implementation support for the existing portfolio. In addition, at least some of the Accession Countries may be interested in continued World Bank **non-lending** assistance, and these services may be emphasized in individual country CASs. The question then arises as to the level of such assistance that the World Bank can continue to offer without charge as in the past, and to what degree these countries would consider assistance beyond this level of such high value that they would be prepared to pay for all or part of the World Bank's costs either directly or indirectly (the latter, for example, through allocating EU funds, such as in the national PHARE programs). Identifying the relevant threshold, the composition of support both above and below the threshold and appropriate cost-sharing arrangements would thus be an objective of the forthcoming individual country CASs. These CASs would also need to determine the appropriate level of fiduciary and due-diligence work that the World Bank considers necessary to undertake using its own budget resources, taking into account the availability of relevant EU and, in some cases, OECD, assessments.

11. **In sum we believe that, subject to the constraints of the World Bank’s administrative budget and fiduciary requirements, the basic design of the World Bank’s strategies should respond to the Accession Countries’ specific demands for future World Bank support, which is likely to differ from one country to the other.**

V. **Setting Priorities for World Bank Operations in Accession Countries**

12. The driving force of the EU accession process is for EU candidate countries to demonstrate to the EU that they are able to comply with the EU’s *acquis communautaire*. This is what the EU membership negotiations and the EU’s pre-accession financial assistance are all about. In a way, the *acquis* constitutes a large part of a **comprehensive development framework** for the EU candidate countries, to which all its partners, including the World Bank, can subscribe. Adoption and implementation of the *acquis*, implementation of complementary reforms in education, health, social services and social protection, including dealing with issues of minorities (e.g., the Roma), which is of importance to some of the countries, and efforts to support knowledge development and application together form the basic elements of a comprehensive effort to **reduce poverty** in these countries.
13. In setting priorities for World Bank activities in the Accession Countries, the following principles are relevant:
- a) Relative priorities within the World Bank’s global mandate dictate that administrative budget resources used to underpin World Bank activity in these countries are likely to continue to be highly constrained. This means that World Bank activities in these countries will need to be highly selective, focusing on areas where (i) significant policy issues remain, (ii) the World Bank has a comparative advantage, and (iii) the World Bank is not duplicating the efforts of other partners. As noted above, to the extent that the countries concerned wish to receive analytic and advisory services beyond levels that can be financed from the World Bank’s own administrative budget, they would need to mobilize additional funding (from their own resources or from other partners) for this purpose.
 - b) The World Bank will work with individual Accession Countries to mesh its own global and corporate priorities with country priorities just as with all other clients. All are of potential relevance to the formulation of World Bank strategies for the Accession Countries (see Table 2); however, given the need for selectivity, it will not be possible to address all these priorities in each Accession Country. The selection of the most relevant ones for individual countries would be addressed in individual CASs.
 - c) While the Government concerned remains the main partner for the formulation of specific CASs, other key partners supporting the accession process (e.g. EC, EIB, EBRD) will be consulted during CAS formulation.
 - d) Those areas not covered by the *acquis* may well be the main focus for World Bank activity, and in these areas, the World Bank would be prepared to take a lead partner role if the country so wishes. This applies especially to human development, poverty, social protection including the social aspects of enterprise restructuring, economic participation of minorities, some aspects of governance and public administration, labor market and knowledge economy issues. The EC

has expressed interest in the World Bank's taking on these issues and its readiness to cooperate with the World Bank in some of these areas.

- e) In those areas covered in the *acquis*, World Bank activities would be sharply focussed, guided by World Bank comparative advantage, value-added and, if appropriate, financial additionality (no crowding out of other sources), as well as by coordination efforts, to ensure full complementarity to the activities of other partners.
- f) In the course of preparing and discussing CASs with the Accession Countries and determining on a country basis the Bank's potential effectiveness and comparative advantages once accession has occurred, due consideration will be given to continuing needs and preferences of the individual countries and whether as a result of accession other institutions have become better placed to take on the role of the World Bank in the areas included in paragraph 13 (d) and (e) above.
- g) Broad economy-wide assessments are being undertaken by the countries themselves, the EC, or other partners such as OECD (in addition to the IMF Article IV consultation and the joint IMF/World Bank Financial Sector Assessment Program (FSAP)). However the World Bank would be prepared to complement these efforts, for example by undertaking focussed reviews of the agenda of key development policy issues. It would not be appropriate for the World Bank to involve itself directly in the preparation of documents required as a part of the EU accession process, such as the Pre-Accession Economic Programmes (PEPs), or to comment on them to the EC, unless also requested by the country. However, these documents would be one input to the World Bank's own assessments of developments and economic performance by the countries concerned; and the World Bank's policy dialogue on selected topics may well be helpful to governments as they formulate PEPs and sequence economic reforms. The World Bank's continued involvement in analytic work would also enable it to draw lessons for other transition economies.
- h) To the extent that Accession Countries continue to borrow, World Bank resources would be concentrated first on meeting fiduciary and due diligence requirements (i.e. Country Financial Assessments, Country Procurement Assessment Reports), and ensuring that that the World Bank can adequately assess economic management performance. For countries that decide to end World Bank borrowing ahead of formal graduation, the extent of continued monitoring of economic developments and economic management performance by the Bank would be a matter for agreement with the country concerned; clearly, the implementation of such monitoring could facilitate the timely resumption of lending in the case that it is subsequently desired in the event of a regression in economic circumstances. In either case, the World Bank would draw as much as possible on documents such as EU Regular Reviews and the Pre-Accession Financial Surveillance Reports to facilitate economic monitoring.
- i) Within its resource constraints, the World Bank would make available, on request, senior staff for focused TA and policy notes.
- j) Within these constraints the World Bank would also be ready to partner with candidate countries in establishing regional centers of excellence for disseminating transition experience, and to help ensure that candidate countries remain at the cutting edge of development experience (e.g. the knowledge economy). The World Bank would also pursue establishment of post-graduation instruments with the Accession Countries, such as consultant trust funds.

k) While the formulation of individual CASs will be guided by the recent report of the Task Force on Middle Income Countries, there will be variation in the applicability of specific recommendations to individual countries. Thus, for example, Letters of Development Strategy might not be used as they could significantly duplicate the EU-mandated PEPs. While there is currently little expressed interest among candidate countries in contingent borrowing, this option would of course remain open should circumstances change. In addition, there may be countries where programmatic Structural Adjustment Lending (e.g. Latvia) and integrative development policy reviews might be helpful and of interest.

14. The application of these principles will leave considerable scope for individual country programs to evolve uniquely even in the context of pre-graduation strategies. Especially given limited administrative budget resources, the World Bank will need to be sure neither to attempt to press on governments an agenda of World Bank activity well beyond their interest, nor to disengage faster than the countries would wish. Careful listening to the Governments concerned will therefore be especially important. The forthcoming CASs will be the key instrument for ensuring that individual country activity programs reflect the interests of the governments concerned, as well as a realistic view of World Bank resource availability and appropriate coordination with partners.

Division of Labour with EIB, EBRD

15. Given EIB's and EBRD's respective mandates, there is a fairly obvious division of labor between the World Bank Group and

- EIB, which for example is the prime lender for the so-called "Trans European Networks", i.e. investment financing for highways, railways, telecommunications, large water supply and sanitation investments as well as other "global loan" investment programs;
- EBRD, which is the prime lender for private sector financing and municipal infrastructure, especially through lending to municipalities. EBRD is also a lender to and shareholder in financial sector institutions and engaged in SME support.

VI. Selected Strategic Issues/Topics

16. As mentioned above, an important focus of World Bank activity programs in individual Accession Countries may well be on key development areas not covered directly by the *acquis*, without precluding sharply focussed World Bank support on key aspects of areas covered by the *acquis* where the World Bank may have a particular comparative advantage. The following paragraphs outline what appear to be particularly likely areas for activity in these two categories, to provide an illustration, but not necessarily an exhaustive presentation, of the possible composition of such support. In any event, given the continued major resource constraints likely to be faced for work in the Accession Countries, strong selectivity will be necessary when defining activity programmes in individual countries through forthcoming CASs; in no country is the World Bank's work likely to encompass all the areas outlined below.

Social Issues

17. A major area of focus of the Bank's work in the Accession Countries— in line with para. 13 (d) above – is likely to be the social sectors, where focus could include (i) education, with a special emphasis on improved efficiency of resource use, financing reform, improving education quality and access, and modernization of programs and facilities; (ii) health, with an emphasis on improving the efficiency of resource use and access, modernization of health-care methods, health financing reforms and a potential focus on the emerging problem of communicable diseases such as TB and AIDS; (iii) pension reform, to attain long-term sustainability, increase savings and deepen capital markets, improve management and transparency, reduce costs to budgets and to enterprises, and to strengthen this aspect of the social safety net; and (iv) other elements of the social safety net, for example relating to the social aspect of enterprise restructuring, the problems of minorities and access to social services.

Knowledge Economy

18. The **knowledge economy**, with all its dimensions – E-Europe, E-Government, E-Commerce – could become a focus of future Bank activity in selected Accession Countries, as one area unrelated to accession negotiations where the Bank may be able to provide support (paragraph 13 (d) above). A draft “*Preliminary Strategy to Develop a Knowledge Economy in European Union Accession Countries*” is currently being shared with the Accession Countries, the EC and other interested parties. The strategy lists a large number of knowledge economy topics of possible interest to EU candidate countries. Preliminary discussions with the EC indicate that there is room for cooperation as the EU's *e-Europe +2003 Action Plan*, endorsed at the June 2001 EU Summit (in which the EU Accession Countries participated) in Gotheborg, addresses many issues covered by the Bank's draft knowledge economy strategy. The World Bank will host a first Knowledge Economy Forum, which will assemble a group of EU candidate countries, staff from international institutions such as the EC, EBRD, EIB and OECD, and private sector representatives, in Paris in February 2002. Following that, each participating EU candidate country could work with the Bank to prepare a knowledge assessment, and, on that basis, prepare a draft country knowledge economy strategy. These strategies will be presented and reviewed during a second knowledge economy forum, which will be scheduled. This activity would build on experience with other major MIC clients (e.g. Korea, China, India, Brazil). To date ten countries (Hungary, Czech Republic, Slovakia, Lithuania, Latvia, Estonia, Poland, Slovenia, Romania and Bulgaria) have expressed interest in attending this forum.

Public Administration and Good Governance

19. For all EU candidate countries one of the key constraints to implementing the *acquis* and absorb EU structural and cohesion funds is the **weakness of public administration** especially at the regional and municipal level. While capacity to implement the *acquis* through strengthened public administration is at the heart of the EU accession process, the EC's “twinning programs” address only part of the administration capacity building problem. As one area potentially covered in para 13(e) above, the World Bank could offer EU candidate countries, and make available to the EC, analytical support similar to (i) the programmatic SAL in Latvia with its

emphasis on public management reforms or the investment approach to building public administrative capacity as envisaged in Slovakia, and (ii) the study “Hungary - Modernizing the Sub-national Government System” or less extensive notes prepared or planned on sub-national government and financing in Lithuania or the Czech Republic. Based on its analytical work, the World Bank could also help Accession Countries address **good governance** issues generally, in particular corruption – topics highlighted in the EU Regular Reports – thus facilitating EU accession. For instance, legal and judicial reforms might also be assisted either through lending or non-lending support.

Energy market liberalization, agricultural competition, environment investments

20. EU candidate countries have found the World Bank’s support in bringing candidate countries' **electricity and gas market** regulators up to speed with EU competitiveness, efficiency, and environmental cleanliness rules extremely useful. Some EU candidate countries and the EC have expressed interest in continued Bank involvement as an independent party, possibly including managing the work of consultants largely financed by the EC. Within the context of paragraph 13(e) above, this could provide a model for work in other sectors related to implementing the *acquis*.
21. The **agriculture** sector remains one of the most difficult issues in the accession process and requires further restructuring in all EU candidate countries. Here, too, past World Bank support to cross country exchanges and networking concerning lessons for “EU Accession in the Rural Sector” as regards (i) Regional and International Trade Policy, (ii) Structural Change in the Farming Sector, and (iii) the Challenge of Rural Development for EU candidate countries, generated a lot of interest among the EU candidate countries and from the EC. With increased concerns in EU candidate countries over their ability to comply with EU agricultural standards and their need to put in place protective measures against diseases such as BSE and foot & mouth disease, the World Bank’s expertise might be sought (also in the context of paragraph 13(e) above); the Poland Agriculture Competitiveness project might serve as an example. The challenge here and elsewhere is to define actions to be supported which complement rather than crowd out EU funding; World Bank involvement thus must be well-coordinated with the governments involved and with the EC. A further example of where synergies can be developed is the Poland Rural Development Project, which uses the same institutional setup as is planned to be used for EU structural funds. By providing the funds early, institutions learn by doing, so that EU funding can be used effectively and quickly once it becomes available.
22. The **environment** is the sector presenting the greatest financial challenge to the EU candidate countries. The World Bank has done a lot of work in this area, including the management of "least cost studies" which some of the EU candidate countries as well as the EC considered extremely useful. Within the context of paragraph 13 (e) above, further work in this area could follow the example of the energy work cited above in leveraging the use of World Bank staff to manage but not execute follow up analyses. Also, the EC may be interested in extending the successful experience under the Joint Environment Programme (JEP) in the context of the TACIS program to the EU candidate countries. Under the JEP, the EC and the World Bank have identified environment programs included in CASs which benefit from JEP financing of

feasibility studies and related TA and for which investment financing would be provided by the World Bank.

23. The World Bank is also exploring the possibility of providing limited institutional capacity to EU candidate countries to serve as **regional centers of excellence**, as per the proposed Hungary Land Administration and Property Rights program. Such support takes account of the possible interest on the part of some accession countries to interact with other countries in the sub-region who want to learn from the formers' transition experience.
24. An important part of the World Bank's knowledge-related EU accession strategy are two ongoing networks set up with Germany's Bertelsmann Foundation: the "**Towards EU Integration**" network of CEE research institutes and think tanks as well as the "**Cities of Change**" network. Both are seen by the EU candidate countries and increasingly by the EC as a major tool to discuss major EU accession policy issues within a "civil society" environment. They also offer a forum for some of the knowledge economy activities referred to above .

Table 1: World Bank Graduation Threshold

	GNI per capita in 2000 (\$, in 2000 prices, estimated ¹)	Estimated Year in which Graduation Threshold will be Exceeded ²
Estonia	3,410	2007
Latvia	2,860	2010
Lithuania	2,900	2009
Poland	4,200	2006
Czech Rep.	4,920	2003
Hungary	4,740	2003
Slovak Rep.	3,700	2006
Slovenia	10,070	Exceeded
IBRD Graduation Threshold	5,225	

¹ Year 2000 gross national income (GNI) per capita deflated by the SDR deflator.

² Based on estimates of growth, inflation, exchange rate movements, population growth and the SDR deflator.

Table 2: World Bank Corporate Advocacy Priorities

Building the Climate for Investment, Jobs & Sustainable Growth	Empowering Poor People to participate in Development and Investing in Them
<p>Investment Climate</p> <ul style="list-style-type: none"> • Support for urban and rural development • Infrastructure services to support private sector development; • Regulatory reform and competition policy; • Financial sector reform <p>Public Sector Governance</p> <ul style="list-style-type: none"> • Rule of Law (incl. anti-corruption); • Public administration and civil service reform (incl. public expenditure accountability); • Access to and administration of justice (judicial reform) 	<p>Empowerment, Security & Social Inclusion</p> <ul style="list-style-type: none"> • Gender mainstreaming; civic engagement and participation; • Social Risk Management (incl. risk mitigation) <p>Education</p> <ul style="list-style-type: none"> • Education for All - with emphasis on Girls' Education; • Building human capacity for the knowledge economy <p>Health</p> <ul style="list-style-type: none"> • Access to clean water, air and sanitation by poor people; • Maternal and child healthcare

Table 3: Global Public Goods Priorities and World Bank Business Lines

<p>Communicable Diseases</p> <ul style="list-style-type: none"> • HIV/AIDS, tuberculosis, malaria and childhood diseases, incl. the relevant link to education • Vaccines and drug development for major communicable diseases in developing countries 	<p>Information & Knowledge</p> <ul style="list-style-type: none"> • Redressing the Digital Divide and equipping countries with the capacity to access knowledge; • Understanding development and poverty reduction
<p>Environmental Commons</p> <ul style="list-style-type: none"> • Climate change; water; forests; • Biodiversity, ozone depletion and land degradation; 	<p>International Financial Architecture</p> <ul style="list-style-type: none"> • Development of international standards • Financial stability (incl. sound public debt management);
<p>Trade and Integration</p> <ul style="list-style-type: none"> • Market access; • Intellectual property rights and standards 	