The Europe and Central Asia region’s 28 countries* face diverse challenges ranging from meeting EU accession requirements to establishing viable public institutions and rebuilding shattered societies after wars and natural disasters. The World Bank is working with each of these countries as a partner in advancing their development.

The World Bank is committed to pursuing the Millennium Development Goals agreed at the UN General Assembly in September 2000. The most important of these goals is to eradicate extreme poverty and hunger, which is crucial in a region that has gone through traumatic changes over the past decade.

With a focus on achieving concrete results, the World Bank is concentrating on three broad areas:

- Building the climate for investment and growth
- Promoting an efficient and accountable public sector
- Ensuring social and environmental sustainability

The ECA region encompasses both middle- and low-income nations whose shared experience of the transition from plan to market sets them apart from other regions. While there has been remarkable progress in many countries, poverty, inequality and unemployment remain high, making the World Bank’s poverty reduction mission critically important.

*As defined by the World Bank, the ECA region includes: Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Georgia, Hungary, Kazakhstan, Kyrgyz Republic, Latvia, Lithuania, Macedonia, Moldova, Poland, Romania, Russian Federation, Serbia and Montenegro, Slovak Republic, Slovenia, Tajikistan, Turkey, Turkmenistan, Ukraine, Uzbekistan. Slovenia moved from borrower to donor status on March 17, 2004. The World Bank maintains a separate assistance program in the Province of Kosovo (Serbia and Montenegro), which is under temporary administration by the United Nations according to UNSC 1244.
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About the World Bank Group

Founded in 1944 the World Bank Group* is one of the world’s largest sources of development assistance, providing $18.5 billion in loans to its client countries in fiscal 2003, running from July 2002 to June 2003. The World Bank Group works in more than 100 developing economies and is owned by 184 member countries whose views and interests are represented by a Board of Governors and a Washington-based Board of Directors.

Together known as the World Bank, the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA) provide loans and development assistance to middle-income countries and less creditworthy poorer countries. The IBRD raises money for its development program by tapping the world’s capital markets, and IDA—through contributions from wealthier member governments.

* The World Bank Group has five parts, of which three are distinct affiliates—the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA) and the International Centre for the Settlement of Investment Disputes (ICSID). IFC, MIGA and ICSID are affiliates.

From the Crimean coast of Ukraine (pictured here) to the Danube wetlands of Romania, the region has rich natural ecosystems, many of which the World Bank and its partners are helping to protect.
The World Bank in Europe and Central Asia

New European Union (EU) member states: The World Bank has updated a partnership framework to provide support during the initial phase of EU membership to the eight new member states of the ECA region (Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia).

EU candidate countries: World Bank assistance increasingly focuses on assisting them in meeting the requirements of the EU *acquis communautaire*[^1] as well as addressing broader development needs (Bulgaria, Croatia[^2], Romania and Turkey).

Western Balkans: The strategy has evolved from post-conflict stabilization and reconstruction to structural reform, institutional development and integration into Europe (Albania, Bosnia and Herzegovina, Macedonia and Serbia and Montenegro).

Kazakhstan, Russian Federation and Ukraine: With the deepening of reforms in the larger economies of the Commonwealth of Independent States, the World Bank is providing advisory and, selectively, financial assistance for improving the business environment, boosting public sector reform and mitigating social and environmental risks.

Other CIS countries: The World Bank is working with the international community to accelerate growth and reduce poverty by providing advice and financial support for sustainable recovery and stability (Armenia, Azerbaijan, Belarus, Georgia, the Kyrgyz Republic, Moldova, Tajikistan, Turkmenistan and Uzbekistan).

[^1]: *The acquis* are the laws, rules and regulations governing the EU.
[^2]: **To be confirmed by EU Council in June 2004.**
Challenges over the first 15 years

Emerging from the transition recession

The ECA region has undergone dramatic economic, social and political change over the past 15 years. For most of the 480 million people in the region’s 28 countries, the transition from central planning to open market has been protracted and at times painful. Many countries saw sharp declines in economic activity and trade—and in the well-being of their people.

Nevertheless, all of the region’s economies grew between 2002 and 2004. Economic performance in Russia and the Caspian basin has been bolstered by huge reserves of energy and mineral resources. The prospect of joining the European Union was an anchor for reforms in the better performing states of Central Europe. And the promise of integration has fostered peace and reconciliation in Southeast Europe.

Inequality has increased sharply since 1990. Rising poverty and unemployment have taken a toll, with Southeast Europe and the CIS countries among those hardest hit. In Russia and Ukraine, Southeast Europe, and Central Asia the spread of HIV/AIDS and TB is a major concern. Yet spending on health and education has dropped. And the environment requires attention, with the legacy of natural resource exploitation and polluting industries left over from central planning still evident.

The low-income CIS countries were profoundly affected by the breakup of both the Soviet Union and its common economic space. They have the highest incidence of poverty, the deepest institutional weaknesses, and the greatest debt burdens of all the ECA countries. They also have the potential to gain significantly from regional cooperation and natural resource development.
Support from the World Bank

Over the past decade and a half the World Bank has committed $53.4 billion for programs and projects, leveraged by $10 billion in co-financing. With 318 active projects, the current portfolio is $15 billion, roughly 20 percent of the World Bank’s global portfolio. The World Bank conducts a wide range of analytical and advisory activities in the region, from regional studies of HIV/AIDS to firm level surveys measuring progress in the fight against corruption.

The break-up of the Soviet bloc and the economic and social transition has been painful for many countries. However, the mostly peaceful nature of the transition and the now broad recovery gives hope for the future.

By helping governments follow through with second phase reforms, the World Bank can help ensure better opportunities for future generations.
Millennium Development Goals*

1. **Reduce extreme poverty and hunger**—Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day (or, in the ECA region, under $2.15 a day)

2. **Achieve universal primary education**—Ensure that, by 2015, children everywhere will be able to complete a full course of primary school

3. **Promote gender equality and empower women**—Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education no later than 2015

4. **Reduce child mortality**—cut by two-thirds, between 1990 and 2015, the under-five mortality rate

5. **Improve maternal health**—reduce, by three-quarters, between 1990 and 2015, the maternal mortality ratio

6. **Combat HIV/AIDS, TB, malaria, and other diseases**—Have halted, by 2015, and begun to reverse, the spread of HIV/AIDS

7. **Ensure environmental sustainability**—Integrate the principles of sustainable development into country policies and reverse the loss of environmental resources; halve, by 2015 the proportion of people without sustainable access to safe drinking water; and, by 2015 achieve a significant improvement in the lives of at least 100 million slum dwellers

8. **Develop a global partnership for development**

* From the United Nations Millennium Declaration, endorsed by Heads of State and Governments in the U.N. General Assembly on September 8, 2000.
The ECA region has a large unfinished development agenda—from sustaining the recovery that began over the past three years to reducing poverty, to building strong institutions and promoting honest government, to taking steps to meet the Millennium Development Goals (see box). Promoting the sustainable management of global public goods—especially water, forestry, energy, health and stability—are integral to this agenda and will be the focus of World Bank support in the medium term. Across this diverse region, achieving these objectives will require steady progress in tackling individual country and sub-regional needs.

Integration with the regional and global environment is central for successful medium term growth. Cooperation among the smaller countries of Central Asia, the South Caucasus and the Balkans on trade, water, energy, environment and health is central to this process. Tackling HIV/AIDS and tuberculosis is also vital. Open trade and cross-border relations are key both within the region, as well as with China, Iran and Turkey.

Global integration for countries of the ECA region requires accession to the World Trade Organization to facilitate fair and equal treatment by international trading partners, including immediate neighbors. It also means integration with the EU (EU accession for Central Europe, EU Stabilization and Association Agreements for the countries of Southeast Europe, or the adoption of EU standards as the basis for EU market access).

Other challenges relate to the extent to which accession countries can restructure their national economies and raise their competitiveness. The new EU member countries face considerable long term human capital and social development needs including how to reduce social exclusion, particularly as relates to Roma people, who are a large and growing minority in Central and Eastern Europe. Prospects for EU candidate countries such as Bulgaria, Croatia, Romania and Turkey are another part of the puzzle.

Sustained international support is essential in advancing peaceful political change in Southeast Europe and in the region more broadly.
Incentives for the creation of small and medium-sized enterprises and reforms to promote competitive private sector banks are key building blocks for regional prosperity.
Improving the climate for investment and growth

ECA transition countries have become more dynamic marketplaces with rising purchasing power. Some key measures of progress are:

- Net inflows of foreign direct investment leapt from $6.8 billion in 1993 to an estimated $30 billion in 2003—more than a fourfold jump.
- Real GDP growth averaged 4.15 percent between 2000–03, compared with an average of -1.5 percent from 1990–2000.
- Exports increased by 650 percent between 1990 and 2002, from $63.7 billion to $474.2 billion.
- Average bank deposits per capita increased from $395 in 1995 to $705 in 2002.
- Lending to the private sector more than tripled, from $58 billion in 1992 to $200 billion in 2002.

Despite these signs of progress, the climate for investment, growth and poverty reduction remains difficult in some countries. The most serious constraints are policies and institutions that distort the framework for economic decision-making. This is apparent in poor ratings of the business environments in some countries of Southeast Europe, the South Caucasus and Central Asia.

The investment climate is further clouded in countries where, as a legacy of central planning, old firms are kept on life support through the public budget. This inhibits new ones trying to gain entry and delays the evolution of competitive firms.

Small and medium-size businesses provide half the employment in the more advanced Central European countries, but only a fifth in the CIS countries. This is a clear signal that the environment for creating new businesses is still poor in the CIS countries—and that old, oversized firms from the socialist days still need to be restructured and downsized. Too
often, CIS governments have been reluctant to make these tough decisions, preferring to postpone the political costs by continuing the support for old businesses.

The World Bank is tackling these constraints by supporting macro-economic stability, the rule of law, and corporate governance. Sectoral reforms are improving utility regulation and prices and promoting the workings of labor and financial markets. There are also selective investments in infrastructure and industrial restructuring.

**Accelerating private sector development**

Since 1992 the World Bank has provided more than $4.5 billion in loans, grants, guarantees, and technical assistance to support private and financial sector development. In fiscal 2003 World Bank commitments for finance and private sector development for the region totaled around $500 million, approximately 20 percent of the portfolio.

The World Bank continues to support the privatization and liquidation of state-owned enterprises across the region to increase efficiency, jumpstart economic growth, and attract strategic foreign investment. Recent World Bank-led assistance for Serbia’s privatization efforts was instrumental in helping the government embark on a reform program to facilitate the transition to a market economy—and re-establish links with the international community.

*With the privatization of state owned industries, opportunities for female employment in the formal labor market are declining and gender discrimination in pay is increasing in the ECA region.*
Reforming the financial sector

Financial reform is the key to creating a functioning market economy that enables new enterprises to emerge, prosper, and grow. Such entrepreneurial growth is essential for achieving sustainable growth and improving the investment climate.

Without financial reforms and a more efficient banking system, the advanced economies of Central Europe and the Baltics would not have made such impressive progress toward joining the European Union. Mature financial institutions provide the life blood for businesses and private households by offering them secure means to save and to borrow.

Another lesson is the importance of providing a modern system of banking supervision and free market regulation early on in the reform process so that state owned banks can be restructured quickly and efficiently. Not doing so is expensive and delays private sector development.

These lessons are relevant throughout the region. They are especially important in the CIS countries, which lag behind in both financial and enterprise reform. Capital markets are very thin. There are too many banks, especially in Russia and Ukraine, and too many of them are weak. The regulation and supervision of banks and other financial institutions are poor, permitting imprudent and at times corrupt activities.
Banking privatization, particularly when driven by strategic, prime-rated investors from abroad, has helped catalyze economic modernization and competitiveness. The World Bank’s privatization work has improved the legal, regulatory, and institutional framework to make the market more conducive to entry and competitiveness. World Bank operations in Estonia, Hungary, and Poland have reduced non-performing assets, lowered fiscal deficits, and introduced better governance and stricter standards of credit risk management, all helping to generate better earnings and performance.

Setting up checks and balances to assess and monitor the quality of financial systems is also essential to ensuring that reforms are sustained. One vehicle for this is the Financial Sector Assessment Program, or FSAP, supported by the World Bank and the International Monetary Fund. Assessments have been completed in 16 countries of the region to date: Bulgaria, Croatia, Czech Republic, Estonia, Georgia, Hungary, Kyrgyz Republic, Macedonia, Latvia, Lithuania, Poland, Romania, Russian Federation, Slovakia, Slovenia and Ukraine and a regional conference on Anti-Money Laundering was held in late 2002.
Increasing rural productivity and incomes

Agriculture has become an important social safety net as industry has contracted and people have returned to the land. Today agriculture contributes an important share of GDP in most of the region’s countries, especially the poorer ones, but its performance remains below its economic potential. In the northern and western parts of ECA, agriculture contributes 10 percent or less to the GDP, even though rural population accounts for 25 to 40 percent of the total. In most countries in Central Asia, as well as in Albania, Armenia and Moldova, agriculture accounts for 25 percent or more of GDP and most people live in rural areas.

Increasing agricultural productivity is a critical medium-term priority. But this must be done carefully. When countries grow wealthier, the share of agriculture in the economies usually declines. This natural progression is complicated for many ECA countries, because prior to the transition, they often artificially supported their farm sectors with unsustainable subsidies. Given these regional conditions, even the absolute size of the sector may need to shrink.

In 1993 no commercial bank in Latvia had the interest or capacity to serve a widely dispersed community of small farmers. The Agricultural Finance Company was set up with World Bank support to fill this gap. Its flying squad of credit officers took financial services to the farmers—an approach that helped overcome the lack of transportation. In the company’s first five years, 2,860 loans were approved totaling $43 million. Repayment performance remains above 90 percent.
The goal of the World Bank’s rural sector activities is to foster agricultural growth through policy and land reform—and to help in raising the efficiency of farms, financial services, and agricultural services. Off-farm development also supports agro-industry, marketing, rural finance, rural infrastructure, and rural education and health services. The emphasis on poverty alleviation is shifting the World Bank’s programs toward greater support for the Caucasus and Central Asian countries, and more reliance on community-driven approaches.

Supporting technology and the knowledge economy

Global economic integration creates great opportunities and poses vast challenges for all countries as they strive to compete in the global economy. Awareness of the key role of knowledge in economic growth is on the rise and is reflected in the World Bank’s technical assistance and advisory services. It is also seen in the drive by knowledge-based enterprises to align scientific and technological development with the needs of the business community.

Knowledge—and the ability to create, access, share and use it effectively—has long been a tool of innovation, competition and economic success. It is also a key driver of economic and social development more

In Lithuania a comprehensive knowledge economy assessment set the stage for the country’s new knowledge strategy covering infrastructure, information and communications technology, the upgrading of skills, and a national innovation system. Collaboration with all the major stakeholders has established a model that may serve other countries in the region.
broadly. Dramatic changes in recent years have increased the importance of knowledge, and the competitive edge that it gives to those who harness it quickly and effectively.

The World Bank has initiated a dialogue with the new EU member countries to help them develop strategies to increase their international competitiveness through more effective use of knowledge and technology in both public and private sectors. A knowledge economy assessment was completed for Lithuania, Russia, and Turkey, and several more are underway for other countries, including Latvia and Poland.

In March 2004, the World Bank and the Hungarian government co-sponsored a Knowledge Economy Forum. This was the third in a series. The focus was on the competitiveness agenda and on how a more dynamic, knowledge-intensive economic context can support innovation and economic growth. Delegates representing 22 European and Central Asian governments, international organizations, the private sector, civil society and academia convened to discuss the new economic environment, in which innovation and knowledge are replacing capital labor as the primary wealth-creating assets.

The World Bank has begun to implement a broad-based program for the establishment of a Global Development Learning Network. In addition to distance learning centers established in Bosnia and Herzegovina, Bulgaria, Lithuania, Poland, Romania, Russia, Serbia and Montenegro, Turkey and Ukraine, plans are underway to open a center in Croatia.
Enhancing opportunities for trade

Many of Europe and Central Asia’s economic challenges cannot be solved by individual countries working in isolation. Some problems are regional and demand regional solutions. But the lack of cooperation between neighboring countries makes it hard to implement solutions. This is true in Southeast Europe where economic growth is linked to trade but the transport system and trade procedures show few signs of coordination. Such constraints limit regional stability, deter investment, and complicate poverty alleviation programs.

In Southeast Europe, a Trade and Transport Facilitation Program has lowered transport costs by streamlining procedures and reducing the “fees” paid to border and customs guards. In fiscal 2003, the program extended $24.8 million in loans to Bosnia and Herzegovina and $8.1 million in loans to Albania. Border crossings now take hours rather than days.
The World Bank’s subregional approach to trade includes programs to reduce transport costs, fight corruption, and help customs administrations gradually align their procedures with EU standards. Under the World Bank’s subregional Trade and Transport Facilitation in Southeast Europe (TTFSE) program, projects have been tailored to suit the initial conditions and needs of each country. Participating countries—Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia, Moldova, Romania, and Serbia and Montenegro—meet periodically in a forum to discuss and resolve common problems and compare experiences. To date, World Bank support for TTFSE has totaled around $125 million.

The World Bank is providing support to EU-accession candidates on numerous subregional activities, including transportation, environment, energy, and knowledge economy strategies. Analytical work on trade issues has also been undertaken for the countries of Southeast Europe. In Russia and Ukraine, World Bank support for trade integration is focusing on technical assistance for WTO membership.

In the CIS-7 countries, studies of trade, micro-credit, transportation, and telecommunications have been carried out by the World Bank. Such research helps client governments understand what ‘hardware’ is needed to build stronger free market societies.
The transition to market-oriented representative institutions takes time and requires profound political and economic change. The scale of the task of setting up the institutions and policies to create modern market economies was compounded by the power of vested interests determined to protect their stake in the status quo.

Strengthening governance and fighting corruption have been at the core of the reform agenda. The World Bank has been working to enhance the capacities of the region’s institutions, particularly in fiscal management, public administration, and the legal, judicial, and regulatory systems.

World Bank programs in this case area support the following reform principles:

- Encouraging voice, transparency, and accountability through decentralization in Russia, Ukraine, and Central and Southeast Europe.
- Enhancing participation and competition in public service delivery and more quantitative outcome monitoring, as with expenditure-tracking surveys in Albania and Macedonia.

Reducing corruption and establishing clear rules of the game are essential to attracting foreign direct investment in the region.
Promoting new technologies to support e-government, for example in Russia and Ukraine.

Supporting anti-corruption programs.

ECA’s broad focus on long-term institutional reforms and promoting good governance are linked to World Bank-supported anti-corruption efforts which gained momentum in the late 1990s. Assistance takes the form of adjustment lending, analytic and advisory services, capacity building and work in such areas as deregulation and de-licensing. Anti-corruption measures are woven into World Bank-supported efforts in all of these areas.
Fighting corruption

In 1997 the World Bank adopted a formal strategy—*Helping Countries Combat Corruption: The Role of The World Bank*—and a range of new activities were developed to focus on measuring and tackling corruption. The ECA region helped pioneer the use of diagnostic surveys, starting in Albania and Georgia in 1998. Since then, diagnostic surveys, national anti-corruption strategies, and anti-corruption commissions or bureaus have proliferated across the region. To date, World Bank-supported diagnostic surveys have been carried out or are underway in 15 ECA countries.

As a follow-up to the diagnostic surveys, starting in 1998 the World Bank began to provide support to governments for the design and implementation of anti-corruption strategies. Albania, Georgia and Latvia were the first ECA countries to receive World Bank assistance in developing their strategies. Since 1998, the World Bank has also helped Armenia, Bosnia and Herzegovina, Bulgaria, Poland, Romania, Slovak Republic, Turkey, and Ukraine.

In recent years, some 19 ECA governments have produced anti-corruption strategies or comprehensive anti-corruption laws, often with support and assistance from international donors. In at least 16 ECA countries, special inter-ministerial government or legislative commissions have been established to draft the strategy and/or to monitor implementation.

*Anticorruption in Transition—A Contribution to the Policy Debate* broke new ground when it was published in 2000 in the quest to understand corruption and why it is so persistent in transition countries. A new report, titled *Anticorruption in Transition 2—Corruption in Enterprise-State Interactions in Europe and Central Asia 1999–2002* continues the tradition of bringing empirical evidence to bear one on this question.
Lending Operations to Support Anti-Corruption. The World Bank-wide anti-corruption strategy assumed that diagnostic surveys, coalition-building and development of government anti-corruption programs would in turn be supported by World Bank investment and adjustment operations. In Albania, analytical work on anti-corruption coupled with the Government’s own priorities as set out in its anti-corruption program led to the development of a strategy for promoting institutional reforms and improving governance that was incorporated into the Country Assistance Strategy. This laid the foundation for a Structural Adjustment Credit in 2000 and two technical assistance operations supporting reform of the public administration and legal-judicial systems.

Numerous countries in the region, including Bulgaria, the Kyrgyz Republic, Romania and Turkey, are currently preparing projects with the assistance of the World Bank that will tackle the issues identified in the anti-corruption diagnostics and in government anti-corruption programs. In the Slovak Republic, an investment project is being readied to improve management of the court system in response to chronic problems identified in the anti-corruption diagnostics.

ECA’s Poverty Reduction and Economic Management Department is stepping up efforts to mainstream anti-corruption concerns into a broader range of World Bank operations to increase effectiveness of World Bank projects.

Reforming the public sector

Greater transparency and accountability in public expenditure management contributes to efforts to reduce corruption and raise government efficiency. The World Bank works with countries to conduct public expenditure reviews (PERs) to understand the specific procedures governing policymaking. In several countries, these reviews have been widely publicized to ensure that the public and other key stakeholders understand why reforms are needed. Good budgetary planning and execution are essential for ensuring that public money goes to poverty-reducing activities rather than being squandered elsewhere.

In the public sector, the World Bank has focused on strengthening budget management, promoting a meritocratic and decently paid civil services, strengthening procedures and IT systems in tax and customs
Budget preparation and execution systems have been greatly improved in Albania, Hungary, Kazakhstan, Turkey, and Ukraine. And in Russia, tax information centers are shortening response times from two weeks to 1–4 days.

administrations, and promoting decentralization of service delivery with increased accountability.

In Turkey, with World Bank assistance, new legislation on public debt management, public procurement, and a special consumption tax were enacted in 2002. These laws are the first steps in a public sector reform strategy designed to transform public expenditure management.

New sector-specific policy planning tools have been developed and introduced in a number of line ministries and agencies. For example, the medium-term pension policy model developed by the World Bank has been adapted by many client countries to develop and assess the longer term fiscal and social impacts of pension reforms. Moldova has begun to develop similar tools for medium-term planning.

Reforming judicial systems

Transparent legal systems are essential for investment and growth—and for protecting human rights and democracy. Under communism lawyers were cogs in a system designed to support the Communist Party’s goals.
Legal reform seeks to supplant autocratic systems with a legal system that operates objectively and predictably. This requires a big shift in the way laws are drafted, in how lawyers, judges, and prosecutors use the law, and in how the public views the law and the institutions associated with it.

In the first years of transition it was assumed that demand for an open legal system would lead to reform and just law enforcement. Instead, although the passage of new laws increased dramatically, there was no corresponding increase in the capacity to enforce them. Moreover, the sheer magnitude of writing and approving new laws, improving the selection and appointment of judges, and enhancing law enforcement mechanisms overwhelmed countries already struggling with substantial economic and social reform agendas.

World Bank research shows that the countries establishing a solid rule of law have generally been successful at creating a virtuous circle in which the transparent investment environment encourages entrepreneurs and new firms. This in turn promotes economic growth and job creation and reduces poverty and inequality.

Georgia initiated a judicial reform program that has set in motion an array of practical changes under a World Bank project launched in 1999. It is establishing a new court administration system and extended funds for judges’ training and renovating dilapidated court houses. The $13.4 million World Bank credit in support of the project includes a public awareness program. An early result has been a jump in the number of court cases.
Giving voice to civil society

Empowerment presents a special challenge in much of Europe and Central Asia region, yet with the emergence of groups of concerned citizens since the early 1990s, the concept of accountable government is taking root.

The World Bank supports public sector reform by empowering local institutions and by improving the environment for civil society organizations (CSOs). As part of this, the World Bank supports civil society initiatives to improve local living standards and repair ruptured social relationships. Already, civil society organizations in ECA are becoming more active in political life and in fostering transparent institutions. This kind of involvement gives people more voice in their own affairs and contributes to more efficient local government and sustainable reforms.

The People’s Voice project in Ukraine, with support from the World Bank, is building the capacity of citizen groups in four cities and encouraging them to use survey data and other information to push for better services and greater participation in decisions about local spending and service delivery.
Involving civil society—development for citizens, with citizens

Civic organizations are steadily moving to the forefront in the battle against poverty. The fall of communism and subsequent political and economic transition have opened up unprecedented space for citizen action. But lack of government transparency and government mistrust of citizen action persist in many countries. Civil society organizations have become stronger, but they still have limited technical capacity.

In most EU accession countries governments now recognize the value of inclusive policy-making and civic engagement is rapidly intensifying. Where civil society is only now emerging, in countries such as Belarus and Kazakhstan, there is also an increase in citizen involvement. Civil society organizations are becoming increasingly involved in social service delivery at the community level, working closely with local and municipal authorities.

In many ECA countries the World Bank has been thrust into the unique role of bringing governments and citizens to the same table. The World Bank has several program and policy mechanisms in which citizens can engage. These include community-driven development projects, Country Assistance Strategies, sector strategies and policy dialogue. And in 2003, the World Bank’s Small Grants Program financed operations in 25 of the region’s countries, totaling $950,000.

The ECA NGO Working Group, which serves as a forum for dialogue for civil society groups from across the region, has held two assemblies.

Poverty Reduction Strategy Papers

In ECA’s poorest countries, governments are taking the lead in the preparation of Poverty Reduction Strategy Papers (PRSPs). The Bank supports this process, which places poverty reduction at the center of the countries’ development agenda and promotes an intense dialogue between the government and civil society. To date, eight countries have completed full PRSPs and are implementing them: Albania, Armenia, Azerbaijan, Bosnia and Hersegovina, Georgia, Kyrgyz Republic, Serbia and Montenegro, and Tajikistan. Moldova is presently working on finalizing its PRSP.
The session in Belgrade in June 2002 was the largest gathering of ECA-based NGOs ever held with some 248 organizations taking part. The World Bank supports the networking efforts of the Working Group and helped fund the assemblies as a way of fostering the growth of an independent civil society in the region. Focal areas for the Working Group include governance, capacity building, gender, TB and HIV/AIDS, information disclosure, and natural resource management.

The Central Asia Country Innovation Day (CID) and the Knowledge Forum held in Bishkek, Kyrgyz Republic, in May 2003 was the sixth community level event organized by the World Bank and its development partners. The aim of these “days” is to promote innovative development ideas by bringing visionaries and entrepreneurs together in a competition where they present their ideas to potential donor groups.
Ensuring human development and environmental sustainability

The goal of the World Bank’s human development program in ECA is to improve the quality, sustainability and access to education, health and other social services. The program also aims to improve the efficiency and effectiveness of each country’s social insurance and pension system, as well as social safety net programs. Reversing decades of environmental damage is another major focus of the World Bank’s work in the region.

The internationally-agreed Millennium Development Goals (MDGs) are at the core of the World Bank’s work in the region. Described in the box on page 6 of this booklet, they consist of eight objectives that aim to reduce poverty, strengthen human capital, and ensure environmental sustainability, with each goal to be achieved by 2015. In partnership with the United Nations, the World Bank has been supporting many of its clients.

In Russia, men tend to die earlier than women. Indeed, females now outlive males by 12.5 years, as compared to a world-wide average of four years.

In the Slavic countries of the former Soviet Union, the Baltic States, and Kazakhstan, the difference now is an average of ten years.
in ECA to adapt the MDGs to regional and local priorities, to identify appropriate MDG strategies and action plans, and to establish reliable and verifiable MDG monitoring and evaluation plans.

In many ECA countries, at the start of the transition decade, social indicators appeared better than in countries with similar incomes in other regions. However, ECA’s severe transition recession meant that many countries could no longer afford to support an extensive infrastructure of schools, clinics, crèches, sanatoriums and hospitals that existed under socialism. In many cases, rural areas have been particularly hit hard.

The stress of transition resulted in reversals in many social indicators. Of particular concern are rising infant mortality rates in some countries and declining school enrollments. Also worrying is a widening health gender gap, with female life expectancy improving slightly while male life expectancy is flat, or, in some countries, further deteriorating.

Income poverty rose significantly in many ECA countries, especially over the early phase of the transition. HIV/AIDS infection rates are high and present a major public health threat to the region. In fact, the ECA region has the fastest growing prevalence of any developing region in the world.

**Promoting access and quality in education**

While most ECA countries inherited extensive public school systems strong in science and technology, today education represents a core development challenge. Even in ECA countries that are relatively well off, under-funded education systems often do not fit current skill and knowledge requirements needed to adapt to a market economy.

In the region’s poorest countries, there are signs of declining enrollment, especially affecting the poor and vulnerable. This is worrying, given the strong link between education and poverty reduction—less educated people usually have lower earning potential, mothers with little schooling are often under-equipped to raise healthy children, and so on.

These trends urgently need to be reversed. The challenge for the World Bank is to support government programs that tackle inefficiency and fiscal unsustainability in school systems. To lay the groundwork for this, the
World Bank is fostering reforms in public sector management, budgeting and taxation.

Whether for school rehabilitation in Romania or the supply of textbooks in Armenia, most World Bank-supported education projects include measures for institutional reforms to improve run down or inefficient school systems. Reforms range from targeted cash stipends for school expenses for poor students—as was done under Turkey’s Social Risk Mitigation Project—to developing and enforcing standards of accountability. In addition, two earlier projects in Turkey, both in the education sector, targeted improved quality of basic education and provided support for in-service training for school managers.

Education reforms have improved the quality and availability of textbooks in Russia. Better outreach channels allow for the distribution of 20 million copies of 75 different textbooks throughout the country. Some 260 new training courses were developed for higher education with the $80 million Education Innovation Project.
Improving health and health care

Many ECA countries need help in assessing and intensifying health sector reforms. Bloated health ministries need to be rationalized and programs must be better targeted at the poor, elderly or very young. In many rural and urban areas, good quality public health care is no longer available.

From building hospitals and retraining doctors to serve as rural physicians in Armenia to improved primary health care in Ukraine and the Kyrgyz Republic, the World Bank is helping to raise the level of basic care for poor people.

The Bank’s efforts are also focused on health system reform, rationalizing medical insurance, improving the quality of care and modernizing overall national approaches to public health.

Tackling HIV/AIDS and tuberculosis. The number of people living with HIV/AIDS in the region has increased dramatically to 1.5 million over the past decade, with one-quarter of infections occurring in the past three years. Tuberculosis is also on the rise, with about 250,000 new cases each year. Because of the links between the two diseases, the World Bank is providing technical and financial support for projects in Moldova, Russia, and Ukraine. The World Bank will also provide support to tuberculosis and HIV/AIDS activities in Central Asia and other countries of the region.
Supporting community-driven development

The World Bank has helped countries in the region prepare strategies for scaling up community-driven development, which puts the resources and decision-making for local projects in the hands of local communities. The strategies seek to integrate community-driven development into state institutional reforms for decentralization. Pilot programs were launched for Albania, Armenia, and Romania, along with a subregional strategy for Central Asia, covering Kazakhstan, Kyrgyz Republic, Tajikistan and Uzbekistan.

Several new projects support community-based rural credit, with collective guarantee mechanisms and local management of credit and saving funds. There are also social funds, for which local microproject committees manage infrastructure construction and training. Particularly successful are water users’ associations managing irrigation. Even in such social services as health and education, experiments are under way to decentralize management and investment decisions to schools and clinics. For housing and district heating projects, the World Bank has in various countries supported condominium associations.

The Kyrgyz Sheep Breeder’s Association was set up as part of a Sheep Development Project supported by a $11.6 million World Bank credit. This livestock cooperative has helped change the economy from barter to cash. Over 500 herders received training, sheep producers acquired technical skills and local producers were tutored in marketing.
Providing social protection

Social protection reforms have focused on three building blocks:

• labor market reform;
• pension reform, addressing financing problems by introducing private provisions;
• social assistance and poverty alleviation, introducing unemployment insurance and targeted social assistance.

Poverty assessments are an important basis for developing a policy dialogue for social assistance. The World Bank has supported measures to improve targeting of cash-only assistance in Kyrgyz Republic, Latvia, Moldova and Turkey. Community social services have been set up to respond to the needs of specific at-risk groups, such as orphans, homeless children, victims of domestic violence, and substance abusers.

In addition, the World Bank has strengthened the quality of employment services in Hungary, Macedonia, Poland, Romania and Turkey. And interventions to improve the administration of social benefits have been supported in Bulgaria, Kyrgyz Republic, Latvia and Moldova.
Social and Community Support for Roma people

Roma people are among the most persistently poor sub-groups in the ECA region, even though many of them live in the middle-income countries of Central and Eastern Europe. While governments rarely borrowed specifically for Roma issues, the World Bank is reaching Roma communities mostly through Social Development Funds. In the summer of 2003, the World Bank, together with the Open Society Institute and the European Commission, convened a conference supporting Roma integration. This event, which was hosted by the Hungarian Government, brought together an unprecedented range of top government representatives, senior officials from international organizations, and leaders from the Roma community and civil society. Two initiatives were launched: the Roma Decade of Inclusion 2005–2015 includes targets related to poverty reduction, health, school enrollment and employment; and the Roma Education Fund which is intended to raise the educational status and performance of Roma Children.
Protecting the vulnerable in crises

Ensuring that social assistance effectively targets those hit hardest by transition or other shocks is vitally important. This applies particularly when grappling with the needs of extremely vulnerable or socially excluded groups, including institutionalized children, single elderly, and ethnic minorities.

In its lending and analytical work, the World Bank supports reforms that increase protection for old people, promote intergenerational equity, and ensure that pension systems move to a sound fiscal and financial footing. Equally important is informing the public of the need for reform. Change in such a politically charged area requires public consultation.

In the Czech Republic and Slovenia, the development of voluntary pension funds beyond the mandatory social security system is promoted...
through tax advantages, organizational assistance and other means of public information facilitation. In Bulgaria, Hungary, Latvia and Poland, efforts are under way to introduce a mandatory funded pension pillar that expands opportunities for voluntary retirement saving and individual accounts.

A $70 million post-conflict Water, Sanitation and Solid Waste operation in Bosnia and Herzegovina restored water supply services to over 800,000 people in war-afflicted areas and reintegrated ethnically divided utilities. The utility companies have now become professional commercial enterprises.
Helping post-conflict countries

For ECA countries still recovering from conflicts, World Bank assistance ranges from transitional support strategies for economic reform in countries where war no longer dominates the agenda, to post-conflict fund grants for nations still rebuilding from the ground up.

Post-conflict assistance includes direct poverty reduction lending focused on improving the risk management capability of the poor, exploring regional railway or transport initiatives to re-knit sub-regions, restor-
ing water distribution and waste collection in ravaged towns, and building a single economic space across two entities, as in Bosnia and Herzegovina.

**Southeast Europe.** ECA’s most intensive post-conflict efforts have focused on Southeast Europe—Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia, Romania, and Serbia and Montenegro.

The European Commission and the World Bank jointly oversee the coordination of all bilateral and multilateral aid to the Balkans. This was formalized in 1999 with the adoption of the Stability Pact for the Region. Support has ranged from rebuilding schools, roads and water supply systems to preparation of a Southeast Europe regional strategy in March 2000, as well as post-conflict strategies in Bosnia and Herzegovina and Kosovo. These strategies provide governments and donors with a framework for supporting the countries’ reconstruction and economic, social, and institutional reform.

The World Bank continues its separate program of support to Kosovo in line with a Transition Support Strategy approved by the World Bank’s Board of Directors in November 1999. Ten social, economic and infrastructure projects are underway with special grant financing of about $45 million.

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**In Bosnia and Herzegovina, the 16th century Old Mostar Bridge, or ‘Stari Most’, has been rebuilt as part of a $13.5 million Pilot Cultural Heritage Project. This effort brings together financial and technical support and expertise from the Croatian, Dutch, French, Italian and Turkish governments, as well as UNESCO, the World Monuments Fund, the Aga Khan Trust for Culture, the Council of Europe Development Bank and the World Bank. The aim is not just to restore the arched bridge but to re-knit Mostar’s multicultural heritage and revitalize economic and social cohesion in the wake of war.**
Managing and developing cities

Cities in the region are beset by chronic under-maintenance of infrastructure and housing due to the failure to recover the costs for housing maintenance, electricity, transportation, heat, and water. Restoring urban services often requires tariff increases to reflect actual costs and to allow for proper maintenance. However, real income declines in the 1990s raised sensitive issues about affordability, making reforms difficult to carry out. To cushion the poor, price increases are being accompanied by better-targeted social protection, as well as systems that allow for more efficient energy and water use.

World Bank-supported municipal development projects often spur local government reform by linking institutional improvements and credit enhancements to finance capital expenditures. A municipal credit facility fills the gap between sector-specific, single-utility operations, and community-level projects. Examples include projects in Bosnia and Herzegovina, Georgia, and Lithuania.

A $10 million World Bank-financed Urban Land Management project in Albania is using community participation to provide essential urban infrastructure—roads, water supply, drainage, sewerage, electricity, street lights, and waste collection—to informal settlements on the outskirts of Tirana. Access to clean water and sewerage has increased by 18 percent and electricity connections have grown by 44 percent. Overall, some 7,800 households have benefited from the project.
Developing housing markets, including housing finance, is a key challenge for many countries. Projects supported by the World Bank deal with deficiencies in the housing finance system, focusing on needs of poorer residents who took ownership of housing units but are unable to renovate and maintain their units and buildings. Even though the housing stock has largely been privatized, management and maintenance of buildings and apartments remain poor.

**Water for life**

ECA’s water-related projects focus on a wide range of priorities. These include water rehabilitation and reform, clean water supply and sanitation in rural areas, water use efficiency, and coastal zone management. The World Bank also supports regional efforts to clean-up and protect the Baltic, Black, Caspian, and Aral Seas, and the Danube River.

From the Aral Sea Water and Environmental Management Program, to an Armenia Dam Safety project, to a Municipal Water and Wastewater project in Russia, World Bank support for water-related projects responds to diverse country needs. Other ECA projects run the gamut from emergency flood recovery in Poland to a risk mitigation project for Lake Sarez, Tajikistan. Lake Sarez was created from a landslide in 1911 that submerged the town of Sarez and formed a natural but unstable dam; a disaster mitigation plan and monitoring system was set up to protect villagers living directly below the lake.

**Water for People.** Before transition, water and sanitation services in many countries in the region were provided by state-owned, centrally managed public utilities, which relied heavily on state subsidies for meeting their maintenance costs. After 1991, central government subsidies to water utilities reduced significantly. With the shortfall in finances, the maintenance of existing infrastructure deteriorated drastically, albeit to a varying extent in different countries.

Provision of water and sanitation services is strikingly different among countries in the region. A host of factors account for these differences—scope of reforms undertaken so far, macro-economic performance of countries, household income levels, and availability of donor assistance.
Although official data for the region indicate relatively high coverage of services—up to 90 percent—the reliability and quality of these services has deteriorated alarmingly in the past decade. Since 1991, the World Bank has committed $1.9 billion for 48 projects to assist governments in their efforts to rehabilitate and enhance the maintenance of existing water networks and place the sector on a viable financial footing. Countries in Central Asia and the Caucasus face a particular challenge—water service provision has declined dramatically in provincial areas and the ability to mobilize resources for the sector is severely limited by the governments’ budget constraints.

In Moldova, Russia and Ukraine deteriorating systems in secondary cities and rural communities call for aggressive sector reforms to enable utilities to generate internal cash for renewal. Improved investment environment can bring significant financing from the private sector, so modern methods of management have to be adopted. In the post-conflict Balkan states, World Bank assistance focuses on streamlining policy reform and fostering institution and capacity building.

Safe drinking water has been brought to some 2 million people living in the rural areas of western Uzbekistan—Karakalpakstan and Khorezm—thanks to a $75 million World Bank loan which financed trunk water mains and household connections.
Protecting the environment

The region’s environmental challenges depend on progress made by countries in moving to a market economy as well as differences in topography, geology, climate, natural resource availability, and per capita income. Under central planning, pollution and excessive exploitation of natural resources were common. Opportunity costs of resource depletion or environmental degradation were undervalued.

After the transition, public officials accustomed to the old mindset were faced with the new concept of sustainable development, where environmental costs are counted in gauging the rate of return of development projects. Governments in the region have worked hard to adopt National Environmental Action Plans (NEAPs), repair past environmental dam-

A $15 million project to rehabilitate drinking water supply and sanitation facilities in the Kyrgyz Republic provides access to safe and affordable drinking water and improves hygiene, sanitation, and water-related practices in rural areas. Earlier World Bank-supported water projects in the country helped restore 200,000 hectares of irrigated farm land.
age and carry out win-win projects that both protect the environment and generate positive returns for current and future generations.

The region faces a diverse array of environmental pressures—from agricultural pollution in the Black Sea Basin to dilapidated irrigation infrastructure and wasteful farming practices that contribute to pressures on water resources in Central Asia. These challenges are tackled through collaborative efforts that often involve sub-regional initiatives and multi-donor partnerships.

One example is the Global Environment Facility Strategic Partnership on the Black Sea/Danube Basin. The $95 million, six year initiative deals with the root causes of Black Sea/Danube environmental degradation, including nutrient pollution in municipalities, industry and agriculture as well as over-fishing. The partnership, which involves the United Nations Development Programme, the UN Environment Programme and other bilateral financiers, aims to promote investments and capacity building to return the Black Sea/Danube Basin environment to its 1960s condition.

Between 1998 and 2003 the World Bank has supported a range of environmental efforts—both on “green” issues such as reducing global
warming and in the area of environmental management and expenditure. Projects in Croatia, Romania, and Ukraine were added to the World Bank’s GEF portfolio over the past five years, and a forestry project was approved for Romania in December 2002. Support was provided to establish effective public-private partnerships for improved environmental performance in Bulgaria and to use economic instruments and manage public finances for enhanced environmental protection in Serbia and Montenegro and Ukraine. A Turkey Biodiversity and Natural Resources Management project was approved in June 2000 and is targeting sustainable management of protected areas and natural resources at four selected biodiversity conservation sites.

The World Bank has been closely involved in the Environment for Europe, or EfE, process. At the third EfE conference in Sofia in 1995, the World Bank began helping countries prepare NEAPs, as mentioned earli-
er. NEAPs have played a vital role in ensuring that environmental investments are directed to those areas where they are needed the most.

**Global Perspective.** At the Johannesburg World Summit for Sustainable Development, several new targets were added to the list of Millennium Development Goals, all of which have implications for ECA’s future strategy. These relate to adding sanitation to the goal of halving by 2015 the number of people without access to safe drinking water; reversing the loss of biodiversity by 2010; restoring collapsed fish stocks by 2015 and phasing out chemicals that pose a detrimental risk to our health.

Water issues are high on the global agenda, as evidenced at the Kyoto World Water Forum in March 2003, where thousands of water experts,

Core environmental targets relate to forest cover, biodiversity, energy efficiency, and per capita carbon dioxide emissions.
donors and environmentalists focused on issues related to water security for the 21st century and the need to garner support for developing countries who promise to better develop and manage their water resources and water services.

A global World Bank position paper, *Water—A Priority for Responsible Growth and Poverty Reduction: An Agenda for Investment and Policy Change*, was launched in Kyoto and estimated that investments in water in developing countries will need to double from the current level of about $75 billion per year to $180 billion per year.

To put this in perspective, the ECA region has a water sector portfolio of about $1.8 billion, which is less per capita than any other region. Of this, about 65 percent is for urban water and sanitation and for flood management. Other operations are for irrigation and drainage, dam safety, and water resource management.

An Armenia Natural Resources Management Project, co-financed by GEF and IDA, supports an integrated approach to land management in the mountain, forest, and grassland ecosystems of the Southern Caucasus.
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BUSINESS OPPORTUNITIES

The average annual lending commitments for IBRD and IDA investment projects are used by recipient countries to purchase goods and equipment, construct civil works, and obtain consulting services needed to implement projects. Each project can involve many separate contracts and business opportunities for suppliers, contractors, and consultants worldwide.

For World Bank-financed projects, the implementing agency in the recipient country is responsible for procurement and all contracts are between the government borrower and the supplier, contractor or consultant. The World Bank provides extensive due diligence through processes described in the institution’s procurement guidelines, procedures and bidding/consulting documents. For comprehensive guidance, please refer to the World Bank’s procurement website at: http://www.worldbank.org/procure.

Businesses can identify potential opportunities by accessing project information on the World Bank’s project database at http://www4.worldbank.org/sprojects. World Bank borrowers are also required to submit timely notification of actual bidding opportunities and advertise these opportunities and expressions of interest. The following websites contain invitations to bid or express interest for contracts:


- The United Nations produces *UN Development Business*, which provides information on business opportunities generated through the World Bank, regional development banks, and other development agencies. *UN Development Business* is available either in print or online at http://www.devbusiness.com. For information, contact the Development Business Liaison Office at Tel: (1-202) 458-2397; Fax: (1-202) 522-3316; or E-mail: dbusiness@worldbank.org.

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The region at a glance

The 28 countries of Europe and Central Asia (ECA) vary greatly in their economic progress and in their integration with the global economy. Per capita incomes range from $9,810 in Slovenia to $180 in Tajikistan. Region-wide, the number of people living in poverty rose from 44 million in 1990 to 100 million a decade later. While most countries in Central Europe and the Baltics are headed toward integration into the European Union, many others still struggle with tensions and the constraints of geography.

- **Total population:** 480 million
- **Population growth:** 0.1% a year
- **Life expectancy at birth:** 69 years
- **Infant mortality:** 31 per 1,000 live births
- **Gross national income:** $2,160 per person
- **People living with HIV/AIDS:** 1.5 million

The World Bank’s mission in Europe and Central Asia

To fight poverty for lasting results.

To promote the recovery of equitable growth, to advance the reform agenda and to stem environmental damage.

To help people help themselves by providing resources, sharing knowledge, building capacity, and forging partnerships in the public and private sectors.

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April 2004