Our Mission

To fight poverty in ECA countries with passion and professionalism, for lasting results.

To promote the recovery of equitable growth, cushion the impact of reforms, and stem environmental damage in ECA countries.

To help people in ECA help themselves and their environment by providing resources, sharing knowledge, building capacity, and forging partnerships in the public and private sectors.
# The World Bank in Europe & Central Asia 2002

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Ten Years On: Regional Challenges in Perspective

Over the past decade, central planning has largely disappeared in the countries of Europe and Central Asia (ECA). The challenge today is to build up the market institutions that are replacing the moribund state bureaucracies and make them work effectively—so that they offer better lives and new opportunities to the 500 million people who inhabit this vast region.

For the majority of the people in ECA’s 28 countries, the 10-year transition from central planning to the market has been traumatic. History provided few pointers about how to manage such momentous changes across such a diversity of cultures and circumstances. Ten years on, differences within the region have become more pronounced. Income ranges from $10,070 per person in Slovenia to $170 in Tajikistan. Russia’s continental breadth dwarfs the region’s smaller nations whose societies range from the heavily urbanized countries of Central Europe to the largely rural ones of Central Asia. Although many countries, especially those in Central Europe, are firmly set on the path toward both European and global integration, others struggle with the legacies of long-simmering tensions in the Balkans, the South Caucasus and Central Asia.

Whatever the speed of the transition to the market economy, most nations face major challenges in building the institutions and implementing the policies that are necessary for success. The economic convulsions experienced in recent years in Russia, Ukraine, Turkey, as well as in the Balkans, Central Asia and the Caucasus, reflect these challenges, which are compounded by a widespread lack of bureaucratic and management capacity.

Many of the countries of the region have seen a drastic decline in economic activity and trade, and in the well-being of their populations. As a result poverty has become more widespread and, region-wide, has risen faster than anywhere else in the world. Health and other social indicators bear out this trend. Worst affected are parts of the Balkans, the Commonwealth of Independent States (CIS) and Turkey. In a growing number of countries, especially Russia and Ukraine, the spread of HIV/AIDS and tuberculosis is an additional concern.
Nevertheless, there are signs that the transition recession, which temporarily gripped the formerly centrally planned countries, is now largely a matter of the past. With the exception of Turkey—which has been hit by a major earthquake and a serious financial crisis—all ECA countries have shown positive growth over the past two years. In Central Europe the economic recovery started in the mid-1990s. Over the last two years the Balkans, Russia and Ukraine have also experienced strong growth. Economic performance in Russia and the states of the Caspian basin have been bolstered by huge energy and mineral resources. The prospect of accession to the European Union in the near or distant future has served as an important anchor for reforms in the better performing states of Central Europe and, more recently, has acted as a spur to peace and reconciliation in the Balkans.

The region is blessed with abundant natural resources, including energy, water and forests, although ensuring their sustainability is a major environmental challenge that requires careful stewardship. Water is increasingly scarce in Central Asia and the preservation of unique marine and terrestrial ecosystems in and around the region’s seas and waterways has become a major issue. Finally, many governments have to struggle with a legacy of industrial pollution and nuclear waste, and now with heavy air pollution in ECA’s vehicle-clogged cities.

The World Bank’s Changing Role

What is the World Bank doing to help meet these challenges? Our objective is to fight rising poverty by helping ECA countries grow in a way that benefits all members of their societies through rising employment, improved social services and safety nets, and the empowerment of people previously left out.

Our early focus on getting government out of the business of running industries, agriculture and commercial enterprises remains, but it is tempered by the recognition that privatization and price liberalization need to be complemented by a stronger focus on assuring an effective government, regulatory framework and judicial system that are essential to attract and nurture private investment and enterprise. We have also reinforced our commitment to improving social services and safety nets, environmental protection and participatory approaches to policy and project design and implementation.

We have provided project and budget finance through our loans and credits totaling $3 billion to $5 billion in new commitments each year. We have also extended advisory and technical assistance funded from our own budgetary resources and from donor trust funds (about $300 million per year). We have set up offices in most of the 28 countries in the region, and about half of our 1,000 staff now work and live permanently in the countries they serve.

In all our activities, we work in close partnership with a wide array of official and civil society groups and institutions, from the European Union and the United Nations to nongovernmental organizations, private businesses and foundations.
The World Bank’s approach is built on three main pillars:

- A vibrant private sector underpinned by an efficient and focused public sector;
- Social development, protection and consultation; and
- Attention to global issues that affect the region and other parts of the world.

**A vibrant private sector and efficient public administration**

The private sector will only thrive if essential preconditions exist in terms of basic physical and institutional infrastructure and rule of law. Roads, power and the rest of the physical and social infrastructure remain essential for economic development of any kind. But it is equally important to provide the conditions for competition through transparent regulatory and licensing arrangements. Legal and judicial systems must provide recourse for business people who fall foul of each other or the state. The private sector also needs financial institutions that work, land markets that provide security of ownership, sound labor policies, access for new firms, and bankruptcy procedures for enterprises whose plans fail.

In addition, private endeavor requires an accountable and efficient government able to provide a range of services from fair tax systems to budget management and actions to root out corruption. Central government cannot do this on its own. Also important for a well-functioning market economy are effective administrative services at the regional and local levels.

Countries also must manage their macroeconomic finances and national debt effectively if they are to sustain growth and improve the lives of their citizens. The IMF takes the lead on macroeconomic management advice and finance, but we in the World Bank are working with the IMF and other concerned partners to find ways of supporting the poorest, highly indebted ECA countries—all of them in the CIS—to find sustainable paths to manage both their debt and their future development.

**Social development, protection and consultation**

Education and health are the human building blocks of a modern society. In education, the focus is on universal provision of schooling—with special emphasis on education for girls. ECA countries also need assistance in taking advantage of the new knowledge economy spawned by the rapid growth in electronic communications and other advances. In health, the focus is on access to potable water, clean air and sanitation as well as maternal and child health.

Reform of the pension system is a major goal in countries across the region as previous systems of state provision are overhauled and many people reach retirement age. Social safety nets are a priority for vulnerable groups like children and the elderly, and others affected by economic reforms. Particular efforts are being made to address the problems of inclusion faced by the Roma, other minority groups and women, whose lot has, in many instances, become harder in ECA’s post-communist societies.
Everywhere, engagement with civil society and the participation of a broader cross-section of the population is seen as crucial in attaining national ownership of the development agenda. Only genuine two-way communication will allow the people of ECA to assist in designing workable and enduring programs. This is certainly the case in countries emerging from conflict or natural disasters, where the World Bank is deeply engaged in both prevention and reconstruction.

**Globalization and global public goods**

The impact of globalization has become central as the region becomes more integrated into the world economy. This is true not only for economic relations but also for forests and energy consumption, which can affect climate change, and for communicable diseases like HIV/AIDS and tuberculosis, both of which are growing scourges in parts of the ECA region.

Acting on global issues while maintaining the focus on the priorities of each country means finding an alignment between country and broader global priorities. Meanwhile, an array of regional linkages—from EU accession to stability in Southeast Europe, from energy supplies in the South Caucasus to regional water management in Central Asia—require more attention.

Another challenge with a global dimension is to bring member countries into the knowledge economy through initiatives that range from distance learning to support for agricultural research, and from e-commerce to computerization of governmental functions. The Global Gateway initiative, which is designed to help close the digital divide, has made strides in the ECA region with the establishment of a number of Country Gateways that provide electronic access to country-specific information and services (such as e-procurement) in a global context.

**Looking to the Future**

In the early 1990s, the countries of ECA broke new ground when they began transforming themselves from state-controlled economies to open markets with democratic political systems. So did the World Bank. From little exposure a decade ago, the Bank has committed $43.5 billion over the last 10 years for projects and programs throughout the region. Future annual commitments are likely to be somewhere between $2.5 billion and $4 billion for 50 to 60 projects.

Where will the money and the attention go? As the Central European countries join the EU, we will gradually shift our emphasis to the countries of the CIS, where we expect a continued need for our financial and advisory support for some years to come. In terms of our focus on issues, the three priorities laid out above are the key areas of support for our client countries. But for each country the assistance program will vary depending on the country’s resources, needs and performance, as well as the aid available from other donors and development partners. Our Country Assistance Strategies, which are updated every two to three years, help define our country-specific approaches in close consultation with our clients, other donors and stakeholders from civil society. Experience has demonstrated that the fight against poverty is a complex and long-term challenge. We at the World Bank stand ready to assist countries in the ECA region and their people in meeting this challenge.
Environmental conditions in the countries of Europe and Central Asia were bad well before the start of the transition from planned to market economies. Air pollution in the industrial areas of Central Europe and the former Soviet Union were widespread, while the rural areas of Central Europe suffered large-scale land degradation due to poorly conceived irrigation and inadequate drainage. Throughout the region water pollution and poor sanitation affected the lives of millions of people. Manmade and natural environmental disasters compounded these problems. The accident at Chernobyl in 1986 became a symbol of the Soviet Union’s disregard for the environmental consequences of its industrial policies. The 2000 earthquake in Turkey was natural in cause—but thousands suffered unnecessarily because buildings were flimsy, and the country did not have adequate emergency mechanisms in place.

The negative effects of environmental problems and natural disasters are borne disproportionately by the poor. Few can afford to buy filtered water or move away from degraded farmland. Meanwhile, the cost of building earthquake-resistant housing or moving out of residential areas affected by unhealthy air is beyond the means of the majority of the population.

To better protect the most vulnerable people in society, the World Bank is working to limit the negative environmental consequences of development projects and to support programs that directly improve the environment. It is also incorporating environmental concerns into other development projects and programs.

A newly adopted environmental strategy for the ECA regions focuses on activities that will lead to improved health and livelihoods and protect the poor from environmental disasters. In Kosovo and Russia, water and wastewater projects aim to ensure the availability of water and sanitation services to urban populations. In Turkey, a project to assist recovery from the Marmara earthquake includes support for earthquake planning.

The Bank also advises on environmental policy, institutions and regulatory reform. For example, it supports Bulgaria’s efforts to help newly privatized companies com-
ply with environmental laws. Throughout the region, the Bank promotes efforts to reduce subsidies, encourage more efficient use of energy and reduce dependence on coal.

Air pollution is still a problem in many cities, although it declined significantly as GDP fell during the 1990s. It is being further mitigated by energy pricing and other structural reforms that reduce energy intensity. Privatization and restructuring of the industrial sector has also played a part as the new private owners begin to invest in cleaner technology. Additionally, older vehicles are being replaced by modern ones with cleaner engines and greater fuel efficiency.

The Bank is also assisting ECA countries to improve the global environment. This is mostly financed with funds from the GEF, which the Bank co-manages with UNDP and UNEP. In Poland, Belarus and Russia it supports projects to end the use of ozone depleting substances so these countries can fulfill their international obligations to protect the ozone layer.

Programs to address pollution and other environmental concerns in the Aral Sea, the Caspian, the Black Sea and the Baltic are also underway—in close cooperation with the riparian states and several international partner agencies, including the United Nations.

Environmental strategy cannot be considered in isolation—environmental changes and projects are affected by and have effects on other areas of development. “Social, rural and environmental agendas are interrelated and must be addressed together,” says Kevin Cleaver, Director for Rural Development.
New Beginnings in the Danube Delta

The Danube Delta is enjoying an ecological revival. One of the greatest wetlands in the world, it is home to 5,200 types of plants and animals, 325 bird species including the White Pelican and Little Egret, and many of Europe’s freshwater fish species. As such, it acts as a natural gene bank of incalculable value for future generations.

The Delta, which covers 500,000 hectares spread across Romania and Ukraine, is also home to some 15,000 people—with another 100,000 in the hinterland. The vast majority of the Delta’s inhabitants are poor. There are few schools or medical facilities. Unemployment is high, and the main source of revenue is provided by fast depleting fish stocks.

For centuries, lack of communication and transport links meant limited access. That changed in the 1960s, when former Romanian President Nicolai Ceausescu began altering and damming water courses and channels. About one-quarter of the Delta was converted to low productivity agriculture. Similar land conversion was undertaken on the Ukrainian side, where population density in the Delta is much higher.

When political change eventually came, only the ruins of a natural paradise remained. In 1990 the Danube Delta was declared a Biosphere Reserve and admitted by UNESCO to the international network of biosphere reserves. A year later the Danube Delta was included on the list of “wetlands of international interest.” Three years later the Romanian Parliament passed a law protecting the newly created biosphere reserve. The Danube Delta was finally recognized as part of a dynamic ecological system.

But recovery required more than bureaucratic decisions. With funding from the Global Environment Facility (GEF), in 1994, the World Bank provided US$4.5 million for Romania and US$1.5 million for Ukraine. The grants were made to increase the institutional capacity needed to manage the complex ecosystem and to pay for wardens with boats and sophisticated communications equipment. Research and planning conducted by the Danube Delta National Institute was also funded and soon became a top-class scientific center for wetlands research.
The GEF grant provided for the introduction of a new licensing system for fishing, which allowed fishermen to get a decent price for their catch. A rural tourism project was also developed to provide an alternative source of income for the Delta’s people and reduce the demand for fish.

With support from international and local environmental organizations, the project developed a public awareness program targeting the local communities through NGOs involved in environmental protection. For the first time there was public debate on difficult issues such as pollution, exploitation of natural resources and poverty.

The projects have encouraged cross-border cooperation between Romania and Ukraine, first on technical and research support and later on ecosystem management. The results have also encouraged the participation of the Worldwide Fund for Nature, Birdlife, the Netherlands Rijkswaterstaat and other organizations in Delta activities.

Much remains to be done to achieve a sustainable equilibrium. The restructuring and shutdown of industries near the Delta led to high unemployment rates and increasing economic dependency on the illegal use of Danube Delta resources.

“After five years, the Danube Delta is on its way to becoming a model biosphere reservation providing for both the protection of biodiversity and economic development,” said Virgil Munteanu, Governor of the Danube Delta Biosphere Reserve Authority.
Fishermen living in the Caspian region say that bread can be white or brown, but caviar must be black—“chornaya ikra.”

Ninety percent of the world’s sturgeon and black caviar comes from the Caspian Sea. In recent years, however, loss of spawning grounds, over-fishing and increased poaching have depleted fish stocks. Today all Caspian sturgeon species are close to extinction.

The sharp increase in poaching in the countries around the Caspian is linked to rising poverty and a breakdown in law and order in recent years. A sturgeon can carry as much as $500 worth of caviar—making it hard for poachers to resist while providing the mafia with an opportunity to reap huge returns. Russia’s legal sturgeon harvest was 500 tons in 2000. It is estimated that poachers took close to 8,000 tons.

The World Bank is participating, with UNDP and UNEP, in a GEF-financed program to provide a framework for countries bordering the Caspian Sea to study threats to the ecosystem and its sturgeon stocks and develop measures to address them. This effort includes a program to design potential investment projects.

The Urgent Environmental Investment Project launched in Azerbaijan in 1997 provides for a self-sustainable sturgeon hatchery. The critical state of Caspian sturgeon is illustrated by the difficulties of finding sufficient brood stock for the hatchery because of the dramatic depletion of sturgeon of reproductive age, especially in the southern Caspian.

Fighting pollution is another approach being tested with the Bank’s assistance in Kazakhstan. Water quality in the Caspian is affected by the sewage and industrial waste that finds its way into the Ural River before it flows into the Caspian Sea. A project to improve the water and sewerage infrastructure in the city of Atyau—through which the Ural flows—should help to improve the quality of both the breeding grounds in the river and surrounding ponds as well as the sea itself. Cleaning up industrial pollution presents greater challenges yet to be addressed.

The Bank’s involvement in the Caspian program includes a small grants program that finances small investments with local populations as the beneficiaries. Eligible activities include projects to encourage sturgeon breeding and protect spawning grounds.
Forty years ago, the town of Muynak in Uzbekistan was a busy fishing port. The waters of the Aral Sea lapped up against its shoreline. Today there is no water anywhere near Muynak, and much of the Aral Sea is desert.

Irrigation has been part of Central Asian society and civilization for millennia. However, when the Soviet Union doubled the area of land under irrigation, the flow of the Amu Darya and Syr Darya rivers into the Aral Sea was drastically reduced. While irrigated agriculture and cotton exports helped provide livelihoods for 35 million people in the Aral Sea Basin, the large-scale diversions created an ecological and human disaster for the people living near the Aral Sea. Local fishing industries disappeared as the sea retreated, and gradually saline soil and groundwater reduced agricultural productivity and led to the pollution of drinking water. Incidence of respiratory and kidney diseases increased as a result of salt dust blown by the wind and saline drinking water.

The situation has further deteriorated since the break-up of the Soviet Union. Funds to maintain irrigation, drainage and water supply systems have been sharply reduced. Low incomes and unreliable water supply make it difficult to pass on these costs to consumers without better water delivery. In years past the rivers were managed by storing water in the winter and releasing it in the summer for irrigation. Following the break-up of the Soviet Union, the upstream countries—faced with increasing prices for fossil fuel energy and growing financial constraints—began to release water to generate electricity during winter, when it cannot be used for agriculture. This led to water shortages during summer for the downstream countries, and to large quantities of water being spilled into the desert.

The World Bank has been involved in the Aral Sea basin since 1982. It supports a program designed to address the environmental and health catastrophe around the sea and provide a technical framework for cooperation among riparian countries.

The Bank has also supported water and sanitation projects to improve the quality of drinking water for the people living near the Aral Sea in Uzbekistan and Turkmenistan. It is assisting in the restoration of the Northern Aral Sea and im-
proved management of the Syr Darya in Kazakhstan. A GEF project has supported dam safety and improved the monitoring and restoration of water flow and improved energy management strategies in the area around Lake Sudochi in the Amu Darya delta.

Improved water resource management in the individual countries is key to poverty reduction and to stabilizing the level of the Aral Sea. Improved irrigation and drainage management are key because irrigation accounts for over 90 percent of water use. The Bank is supporting the rehabilitation of irrigation systems in Kazakhstan, Kyrgyzstan and Tajikistan and is now preparing projects in Uzbekistan—which accounts for half the irrigated area of the basin. There is more to be done, however, especially in Uzbekistan, Tajikistan and Turkmenistan.

Improved trans-boundary cooperation is most likely to be successful within an individual river basin. Technical cooperation over water-monitoring and dam safety is also a useful vehicle for cooperation, as are investments in new river regulations or electricity generation. Visiting the region in October 2001, Johannes Linn, Vice President for Europe and Central Asia, stressed that greater cooperation among the countries of Central Asia on energy and water will contribute to economic growth and political stability.
Rural Entrepreneurs Revive Latvia’s Countryside

Agris Smelteris employs 28 people in a small business that makes plastic window frames. He also runs a café and two shops. What makes him unusual is that he lives in the Latvian countryside, where he is one of a growing number of farmers and other rural people whose entrepreneurial flair is changing the way of life for people in rural areas.

As the last vestiges of the former state system crumbled in the early 1990s, a new rural economy began to emerge, characterized by small-holder agriculture and a rural population cut loose from the formal state sector. It soon became clear that the government, which had fostered these changes, lacked the know-how and institutional capacity to revitalize the sector and help create new jobs outside farming.

Over the last nine years, two bold projects financed by the World Bank have assisted in nurturing the newly emerging rural economy: the Agricultural Development Project (ADP), approved in 1994, and the Rural Development Project (RDP) that followed in 1997.

When the ADP was being prepared in 1993, there were no commercial banks in Latvia with the interest or capacity needed to serve a widely dispersed community of small-scale private farmers. In the absence of any private sector interest, the Agricultural Finance Company (AFC) was set up as the linchpin of the project. Its flying squad of credit officers took financial services to the farmers rather than waiting for them to come to it—an approach that helped overcome farmers’ lack of transportation.

The success of the AFC was impressive. In its first 5 years, with just 42 staff, it approved some 2,860 loans for a total of $43 million. Repayment performance was high and remains at over 90 percent despite relatively high real interest rates averaging 15 percent.

The roving credit officers of the AFC played a crucial role in helping develop business proposals and demystify the idea of borrowing. “There was a lot of suspicion at first, but the advice provided by the loan officers helped provide the little push that inexperienced borrowers need,” said Inesis Feiferis, manager at the Mortgage and Land Bank (MLB), which took over from the AFC in 1997.

The AFC helped establish a rural financial system based on commercial lending terms and conditions that were later adopted by commercial banks. Not only did it
enable borrowers like Agris Smelteris to establish the necessary discipline and understanding of banking practices, it helped make the broader reform process possible by supporting the land titling that gave farmers and small-scale entrepreneurs the collateral needed to set against their borrowing. The project also created a cadre of experienced people, both credit providers and borrowers, who nurtured business growth.

The Rural Development Project, approved in 1997, takes the initiative a stage further, by broadening finance and helping build the government’s rural policy making capacity and, in the second stage, offering Latvia support in preparing its rural sector for EU membership.

A particular innovation under the RDP is a special credit line to subsidize small farmers and entrepreneurs that are borrowing for the first time. It allows them to write off the last third of their repayments after the first two-thirds have been repaid. To date, some 1,300 of these small loans, which cannot exceed the equivalent of $4,000, have been made. About half have gone to hairdressers, doctors and other service providers, with only 20 percent going to farmers.

In addition to government commitment to rural development and sound macroeconomic management, the swift introduction of land reform seems to have been crucial in the success of these projects—by providing borrowers and creditors with the collateral necessary to expand the lending program. Registration of land and property, which began in 1993, was completed in 1999. Registration of legal ownership is also progressing well, with rights on some 610,000 properties registered in the Landbook by the end of 2001. This has fostered a vibrant market and the rapid consolidation of land holdings.

Another factor contributing to the success of the projects is that responsibility for rural development and agriculture, which used to be the sole domain of the Ministry of Agriculture, now includes other key ministries such as economic development, environment, finance and regional development.

Latvia is not a one-of-a-kind experiment. Similar projects have been developed successfully in the Kyrgyz Republic and Moldova. “What the Latvia experience shows is that innovation and risk taking can lead to rewarding results, especially in transition countries where text book prescriptions do not always work,” said Laura Tuck, Task Manager for Rural Development in the World Bank’s ECA region.
Institutions and Freedom

The rapid economic and political changes in the ECA region have drastically transformed formal and informal institutions, leading to social dislocation but also creating new opportunities and freedoms.

Despite democratization and the emergence of market economies many of the old legal and administrative arrangements may have lost legitimacy, but they continue to function, often in camouflaged form. Inadequate legal, administrative and commercial systems remain juxtaposed with the increased accountability of political life. In this environment there is little room for real social development. Corruption flourishes, conflicts go unresolved and the climate for private investment is poor. Without the institutions to mediate social tensions, crime and conflict increase.

The impact on individuals can be seen in the dramatic rise in alcoholism and drug abuse. Discrimination against minorities has increased. Trafficking in women is on the rise and the number of children living on the streets is up. In the most extreme cases there has been outright war.

To reverse these trends and increase the material prosperity and social well-being of the population, the Bank’s social development strategy for the region calls for equitable and transparent institutions, good governance, and reduced corruption. It also promotes vibrant civil societies and helps governments and institutions respond to the needs of the poor and vulnerable. Reducing incentives for conflict and assisting countries emerging from conflict are also central to the Bank’s approach.

The Bank supports improved governance through a range of public sector reform projects and encourages the empowerment of local governments. It is working hard to improve the environment for civil society organizations, in some cases by establishing direct partnerships with NGOs to increase citizen participation in development.

In post-conflict countries, Bank projects support the social and economic reintegration of groups most affected by conflict. The Bank also encourages civil society
initiatives to improve local living standards and repair ruptured social relationships. Community-driven development, which promotes cohesive communities that can act on their own behalf, is an important aspect of the strategy. Successful examples include social investment funds managed by local communities, irrigation projects managed by water users, and education projects that engage parent-teacher associations in local school management.

Already, there has been increased participation by civil society organizations in political life with many taking an active role in the design and functioning of new, transparent institutions. Nongovernmental groups of concerned and active citizens are emerging, and the concept of governmental accountability is taking root. This process has been most successful in Turkey and the countries of Central and Eastern Europe. Now the focus is shifting increasingly to countries further south and east.
State Capture and Other Vices

Effective governments must have the trust and confidence of the people they serve. Corruption undermines that trust and is a roadblock to development because it taxes poor people by diverting public resources from those who need them most. In many ECA countries corruption and its counterpart, poor governance, are now recognized as critical obstacles to growth and good governance.

The transition economies inherited ineffectual institutions and inadequate judicial systems, which hampered the transformation of the former command economies into market-driven democracies. Overall, there was a desperate lack of predictability and openness in the financial and political systems. Civil services required reform. Proper tax regimes and administrations had to be set up. Central banks had to take on the functions of indirect monetary control and bank supervision.

World Bank research on the factors that undermine efforts to achieve good governance and transparency indicates that the main obstacle to reforms aimed at good governance is not a lack of understanding about the institutions and policies needed to create openness. Rather, it is a lack of power to challenge the vested interests that have a stake in the status quo and in systemic corruption.

This form of systemic corruption has come to be known as “state capture.” It is a particular problem for ECA countries where oligarchs and insiders manipulate policy formulation for their own—often very substantial—benefit. At a practical level, state capture means that firms and other vested interests work to shape their countries’ laws, policies and regulations by providing illicit private gains to public officials. Quite literally, these interests have captured parts of the state.

They make it difficult to reduce corruption by blocking policy reforms that might eliminate their own advantages. The Bank, in partnership with the European Bank for Reconstruction and Development, has undertaken a study of state capture and its effects based on analysis of nearly 4,000 firms in 22 transition countries.

The problem is widespread, but the study shows that countries with the highest incidence of state capture are those which have done least to reform themselves politically and economically. By recognizing the dynamics of state capture, we get
a clearer understanding of the persistence of corruption as well as a deeper appreciation of the need for reforms across different spheres—economic, political, social and regional. This recognition has had a profound influence on the World Bank’s approach to the problem.

In Albania and Latvia two innovative programs have been designed to strengthen public sector management. These address the roles and responsibilities of government bodies, develop legislation to deal with issues of conflict of interest and asset disclosure and also work to enhance the judicial system.

The Bank has made fiscal transparency a key goal of its operations. In Russia, for example, it is focusing on the development of a treasury system that will provide timely audits of fiscal accounts. In Albania the Bank is supporting a more open process of budget formulation, which makes government policies and their link to proposed budget expenditure more open to public scrutiny and puts corruption under the spotlight.

In Turkey, the Bank has supported the Turkish government’s ambitious efforts to implement structural and institutional reforms. In addition to modernizing the economy, these reforms are designed to help improve the quality of governance.

Alongside institutional reforms, the Bank is tackling the plague of corruption head-on. Eleven countries in the region—Albania, Bosnia and Herzegovina, Georgia, Kazakhstan, the Kyrgyz Republic, Latvia, Poland, Romania, Russia, the Slovak Republic, and Turkey—have received assistance in diagnosing problems of corruption and developing reform strategies to combat them.

Implementing reforms to create good governance and reduce corruption brings the World Bank into the arena of politics, and there are constraints on what it can do in this field. But good governance and corruption are also important economic issues with very real effects on the region’s poorest people. The World Bank is working within the bounds of its statutes to help governments install more open and effective institutions. Without becoming involved in the domestic politics of any individual country, there is much the Bank can do, along with its partners, to promote good, honest governance and to reduce corruption.
Growth, Protection and the Law

Transparent legal systems are essential for investment and growth and for protecting human rights and democracy. Under communism the law was subservient to the needs of the Communist Party and lawyers were cogs in a system designed to support the party’s goals. Officials dictated important decisions to judges through surreptitious telephone calls (hence the term “telephone justice”).

Legal reform seeks to supplant that autocratic system 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.

Ten years ago the critical importance of the legal reform process was not fully appreciated. There were so many other urgent things that needed to be done. There was also a belief that the rapid development of private ownership would itself create the demand for a transparent judicial system.

But today there is also a much clearer understanding of the obstacles to legal reform. 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 supply of new laws increased dramatically, there was not a 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 the capacity of countries already struggling with a substantial reform agenda.

The absence of guaranteed, honest law enforcement discourages both investment and entrepreneurship. World Bank research indicates that the countries which have succeeded in establishing a solid rule of law have created 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.
In Russia, a Bank loan has been instrumental in developing textbooks and educating the public about the rule of law. In Bulgaria, Kazakhstan and Croatia the Bank has been involved in assisting new judiciaries, and in Central and Eastern Europe it is supporting a program to give law students practical experience.

Under a World Bank project launched in 1999, Georgia has initiated a judicial reform program that has set in motion a variety of practical changes. It is establishing a new court administration system which enables the judicial branch to better organize itself. Funds are also being provided to improve judges’ training and upgrade the country’s dilapidated court houses. The project includes a public awareness program aimed at educating the citizens of Georgia about their rights under the law and how to protect them.

In July 2001 the World Bank convened a forum in St. Petersburg to discuss issues of legal and judicial reform. The session recognized that the most fundamental legal challenge for many ECA countries is to convert the law from policy documents into a reality for all citizens. This sounds simple but requires a huge effort supported by political leaders.

Legal reform is a complex process and the Bank is engaged with its client countries for the long haul. It is unrealistic to expect instant results, but it is important to work toward making the law more than just words on a page. The law must provide true protection for fundamental human and economic rights, for all people, rich or poor.
Building the New Old Bridge

One of the oldest and most beautiful bridges in Bosnia is being rebuilt to boost reconciliation in the war-divided country

Braving the scorching mid-July sun in Mostar, Rusmir Cisic, who is a Bosnian Muslim, and his deputy, Tihomir Rusic, who is a Croat, stood side by side on the bank of the river surveying the reconstruction work.

“This is one of the largest cultural projects in southeastern Europe, maybe in the whole of Europe,” said Cisic. “We must have a lot of luck and good health.” They watch as townspeople and tourists lean over a temporary bridge and look down nervously at construction laborers hanging by support cables working among the ruins.

The bridge in question is the Mostar bridge. Built in 1566 by the Ottoman architect Mimar Hajrudin, it spanned the magical green Neretva River in a small town which at the time was an outpost of the Ottoman Empire in southern Bosnia. On the day of the bridge’s official unveiling, after five long years of planning and construction, legend says that Hajrudin fled into the hills fearing the magnificent arch would not hold.

But it survived and eventually came to be known as “Stari Most,” or Old Bridge. The Turkish outpost grew into a city and was named after the bridge—Mostar, or “keeper of the bridge.”

The bridge and surrounding cobble-stoned old town changed very little even after two world wars had raged through the Balkans. That is until November 9, 1993, when the world watched in horror as one of Bosnia’s greatest cultural treasures and historic monuments was brazenly destroyed by artillery and tanks during the war.

Although the body of the bridge was destroyed, its soul remained. The Stari Most, with its magnificent arch resembling a crescent moon, is still pictured fully intact in postcards of the city and featured in travel brochures.

It was not only the symbol of the city, which is divided between Croats and Bosnians, but also a symbol of Bosnia’s historic tolerance for diversity among its peoples for hundreds of years.
Now the city, through a $15.4 million dollar project, aims to help reconstruct the Old Bridge and restore that tolerance by preserving the character of Mostar's historic old town. The project is based on the belief that reconciliation among the people of the town is a prerequisite for economic revitalization and social cohesion.

A $4 million loan from the International Development Association (the soft loan window of the World Bank) will be supplemented by grant money from other donors. The governments of Italy, the Netherlands, Turkey, Croatia and France, the Council of Europe Development Bank, the City of Mostar itself, UNESCO, the World Monuments Fund (WMF) and the Aga Khan Trust for Culture are partners with the World Bank in supporting the project.

The reconstruction works, already in full swing, are being coordinated by the city's Project Coordination Unit, led by Rusmir Cisic. It will not be easy to reconstruct an exact replica of the 16th-century bridge and its 27-meter span. But the builders are doing their best. The desire to build a new Old Bridge identical to the original one was so strong that local authorities initially arranged for the remaining original building blocks to be plucked out of the Neretva River. However, UNESCO experts decided to use new replicas because they would be safer and more secure.

The 30 or so blocks that were hauled from the riverbed are all that remain, and will likely be displayed in a simple outdoor museum on the river banks.

The unique “tenelija” stones for the new bridge come from a town 5 kilometers south of Mostar. They are made of the same material, from the same quarry used to build the original bridge.

It's hard to hear Cisic and Rusic through the drilling sounds all around, but it's easy to read their delight at the progress made. They say there's been a positive response by citizens from both sides of town who've given their full support to the project.

“It's a very important component in breaking down barriers between two peoples; Croats and Bosnians,” Cisic says. “Citizens of the city of Mostar only realized what this bridge meant to them when it disappeared into the river.” However, the Old Bridge is not only important for the people of Mostar. Its fame, beauty and symbolism reach far beyond the city's limits to all of Bosnia-Herzegovina. Many people from throughout the country stop in Mostar on their way to and from the Adriatic coast to see the ruins and witness reconstruction works. “I'm glad to see the reconstruction going on. That's exactly why I came,” said 49-year old tourist Ibou Kapetanovic while sipping a cold drink at a café. He is determined to come back to Mostar when the bridge is completed.
Tough Times for the Roma

Nevzia got married in her early teens and looks much older than her 35 years. She lives in Zabrauti, a slum neighborhood on the outskirts of Bucharest, with her husband and five of their nine children. Three of the children are in state care because the family can’t afford to keep them. Another is HIV-positive and lives at a special hospital. Neither parent has a proper job, although Nevzia’s husband earns some money as a musician in the streets of the Romanian capital.

Nevzia’s marginal existence is extreme but not, sadly, atypical of the Roma, or “gypsies,” who are one of the poorest ethnic minorities in Central and Eastern Europe. In its concern for their plight, which is echoed by governments in the region and the EU, the World Bank has become increasingly involved in analyzing their situation and working with the authorities to do something about it.

While living standards have declined for all population groups during the transition to a market economy, conditions for the Roma have deteriorated more severely than for others. Their poverty relative to other groups is due to poor health and education, limited chances in the labor market, discrimination and exclusion.

Despite increasing anecdotal evidence about the plight of Roma in the region, limited information is available about their living conditions, the challenges they face in accessing public services—such as education and health care—and the types of policy interventions needed to improve their situation. To address these gaps, the Bank has supported a number of country studies and evaluations, including a regional paper on the Roma presented at the Bank’s 2000 Annual Meetings in Prague, and, most recently, a sociological study of conditions in Roma settlements in the Slovak Republic.

The Bank has also been working to support the efforts of governments to become more effective in meeting the needs of the Roma, by assisting with policy and strategy development, and building institutional capacity. Grants to Bulgaria and the Slovak Republic support the governments’ new offices for ethnic minorities and include mechanisms for monitoring projects and policies, referral services and coordination with NGOs.
The needs of Roma communities are diverse and range from upgrading of housing and public infrastructure, such as roads and schools, to initiatives that boost school attendance and improve health conditions. Social development funds financed by the World Bank in Bulgaria and Romania support projects designed and implemented by Roma community organizations.

Child Welfare projects in Romania and Bulgaria support the transition from institutions to community-based child care through measures such as preschool and language training, which aim to ensure that children do not end up in institutions. These projects include many Roma beneficiaries, because of the large number of Roma children—such as Nevzia’s—who live in child welfare institutions.

Local NGOs in Central and Eastern Europe have been increasingly active in Roma issues. The Bank, through its Small Grants Program, supports a number of Roma projects directly with between $2,000 and $5,000 per project. In Hungary small grants have gone to education and employment projects. In the Slovak Republic a housing project is underway.

On a larger scale, through its Development Grant Facility, the Bank has supported the work of the Pakiv Fund run by the the Autonomia Foundation, a Hungary-based NGO. The Pakiv Fund provides grants and interest-free loans to poor Roma communities in Hungary to develop employment and income-generating projects. This approach will be extended to communities in the Slovak Republic, Bulgaria and Romania.
Russia's Far North offers some of the harshest living conditions on earth. Snow covers the ground from September to mid-June. There is no sunshine for 6 months of the year. And permafrost makes vegetation sparse. Yet, during Soviet times its huge reserves of oil, natural gas, diamonds, nickel, gold and coal attracted thousands of people to towns like Vorkuta and Norilsk, where they benefited from government-funded incentives such as access to scarce consumer products and housing. They also received high wages, early retirement, transportation grants and long annual holidays.

“The origin of big, fully-fledged settlements in the region is largely artificial, and its cost astronomical,” says Andrei Markov, a member of the World Bank team working on the resettlement project. The heating season in the area lasts up to 320 days a year and distances for shipping fuel are long. Permafrost requires special construction techniques and maintenance costs are high. Nothing grows, so all food must be brought in from elsewhere.

In the 1990’s the government began to reduce federal subsidies that were estimated at about 6 percent of GDP. With the incentives gone, most people with the means to do so left the ice and snow and headed south in search of places where life is less grueling. Many of those left behind are poor and vulnerable, and the disproportionate number of pensioners and poor families with many children has increased significantly.

These demographics have hit the finances of Russia’s Far Northern regions hard. Local budgets are crippled by the social support payments paid to those who cannot support themselves. According to Norilsk’s mayor, Oleg Budargin, the city spends approximately $72 million a year on support for pensioners. If current trends were to continue, he says, the number of people drawing pensions would double by 2005, consuming almost half the city’s budget.

For several years the region has done its best to resettle unemployed people, mostly pensioners, to Russia’s southern regions. But the scheme has been hampered by lack of funds. A new US$80 million World Bank loan will pilot a more comprehensive approach. It will facilitate the departure of inhabitants of the remote towns of Vorkuta, Norilsk and Susuman while improving things for those who want to stay and work in the region’s slowly-reviving extractive industries.
The Bank project is expected to support the migration of up to 6,000 people in the Susuman district, up to 15,000 people in the city of Norilsk and up to 6,500 people in the Vorkuta area. “Only those who want to move to other regions of Russia will do so, the rest can stay,” says Markov. Most of the World Bank loan will be used for housing certificates and transportation grants. All members of a household are eligible so that entire families can migrate if they wish.

An information system will help people find out about everything from real estate prices to job opportunities, education and weather conditions in the recipient regions. “Freedom of choice based on sound information is one of the fundamental principles of the project,” says Markov.

The project will also finance activities in the northern towns themselves. These will include the demolition of abandoned houses and the reorganization of local municipalities. Plans range from improving budget management to restructuring public transportation. This will lead to savings in municipal budgets and improvements in the quality of communal services.

Helping the North’s most vulnerable citizens migrate to the warmer climes of southern Russia will not only give them a chance for better lives in more hospitable environments but also improve the quality of life for those who stay behind in the Northern municipalities.
The role of civil society organizations (CSOs) in World Bank projects and initiatives has increased dramatically over the last five years. They are not only involved in the design and evaluation of Bank operations but are also carrying out Bank-commissioned social and institutional analysis, environmental assessments and programs financed by Institutional Development Grants.

For example, the Bank is currently working with civic organizations in preparing projects to stop the spread of TB and HIV/AIDS in Ukraine and Belarus and to reform the coal sector in Poland, Romania and Russia. In Latvia, NGOs are being consulted in the preparation of projects that address solid waste management, housing and pension reform. Also, the National Biodiversity Strategy and Action Plan for Georgia was developed with feedback and ideas from local NGOs.

Similarly, the region’s project portfolio currently contains 20 Social Investment Fund (SIF) operations that directly assist community-based organizations implement their own initiatives to improve the delivery of social services to the most vulnerable.

In the area of policy dialogue, meetings and Internet-based discussions are taking place during the preparation of Country Assistance Strategies. In designing the CAS for Belarus for example, public consultations attended by more than 1,000 civil society representatives were held in all oblast capitals. In Romania, the CAS was designed in the context of the Comprehensive Development Framework and included consultations with a wide range of CSOs across the country. Public consultations were also held during the preparation of Bank assistance strategies in Latvia, Bulgaria and Albania.

Since 1983, the Bank has also provided direct funding to CSOs through its Small Grants Program. These grants assist organizations implement projects focused on poverty reduction, environmental protection, and the development of human capital. This year 22 World Bank Country Offices in the ECA region provided grants for 244 local initiatives for a total amount of US$888,000.

The Bank has also intensified its dialogue with civic organizations at the regional level with the launch of an ECA NGO Working Group. The nine-member Working Group meets regularly with the Bank’s counterparts to discuss cross-country issues such as the alleviation of poverty, good governance and anti-corruption, and NGO capacity building.
The Bank’s Ukraine Country Team is traveling uncharted waters in trying to assist the government in delivering on its commitment to bring economic welfare to its citizens and help the public give voice to its demands for tangible results.

“Ukraine’s development challenge is about changing the attitudes of both the public sector and the general public,” explains Luca Barbone, Country Director for Ukraine and Belarus. “Effective institutions cannot be decreed by the government without the active support of civil society.”

The Ukraine Country Assistance Strategy (CAS), approved by the Board in September 2000, outlines a three-year program to help the public and the government implement a reform process in the country.

The CAS itself was prepared in a novel way. A draft version, complete with proposed policies and lending scenarios, was disseminated to people from all walks of life, across the country, with requests for feedback. This approach—which was supported by the Ukrainian government—took the Bank team to several cities where they heard the ideas of more than 200 NGOs, community organizations, business people and other interest groups.

“It has been a process of intensive learning for our team,” says Gregory Jedrzejczak, World Bank Country Manager for Ukraine. “We have scrutinized everything we do to see whether or not it will help civil society and advance the legitimacy of new institutions.” Once implementation of the CAS began, a group of NGO representatives was set up to advise the country team as the process progressed.

The so-called People’s Voice Project is also contributing to a change in the relationship between citizens and local officials. The project, funded by Canadian trust fund grants, has commissioned a series of surveys on public perceptions of municipal services. This information about what the public thinks is working and what is not is then given to the local media and NGO networks to draw the attention of local leaders. The program also provides municipal agencies with technical assistance to help them become more responsive.
"The goal is to improve delivery of municipal services in participating cities while increasing the participation of ordinary citizens in the decision-making process," says Lilia Burunciuc, Bank team leader for the initiative.

At Ternopil, in Western Ukraine, the People's Voice Project has already brought results. "One-stop shops," where all municipal services can be paid at the same time, were set up after public opinion surveys identified this as a priority.

In Ivano-Frankivsk, also in Western Ukraine, citizens identified education as their most urgent problem. Now NGOs, parents, and education officials are developing a proposal to improve the local education system.

But this is not the only way in which the Bank team is helping to get the citizens of Ukraine involved in finding solutions to their country's problems. The Ukrainian Innovation Day, held in Kiev in June 2001, featured projects designed by citizens and local groups addressing development problems in their communities.

More than 460 ideas were presented to the jury made up of members of the international donor community, and 15 winners were selected from a pool of 42 finalists. Winning projects included one to use the Internet to provide information about the spread of TB. Another will create a Children's Cultural and Education Center to involve a new generation in building a vision for the country.

"Innovation Day gave us the opportunity to know more about the development problems facing our country," says Vitaliy Turov, Program Coordinator for the Children's Cultural and Educational Center. "Even those NGOs that didn't win left with a lot of new contacts, knowledge and presentation skills."
The number of people living with HIV/AIDS in Eastern Europe and Central Asia has risen dramatically over the past decade. Alarmingly, much of that rise has occurred in the last few years. At the same time, the region is witnessing new outbreaks of tuberculosis (TB), a disease considered close to eradication until quite recently.

HIV/AIDS and TB usually form a lethal combination, fueling the spread of both. In ECA, the two still remain largely separate epidemics. The only exemption to this is the prison systems of many of the countries in the region, where each disease is speeding the other’s progress.

There are now 700,000 people living with HIV/AIDS in Europe and Central Asia. Although this is relatively low by worldwide standards, one quarter of infections are believed to have occurred in the past three years. Particularly high rates of infection have been found among people who engage in high-risk behaviors, especially intravenous drug users.

Currently, more people become infected with HIV in Russia than in any other country in the world. Registered new infections in 2000 were close to 50,000, compared to 29,000 between 1987 and 1999.

Until 1995, ECA escaped the worst ravages of this global epidemic. The total number of people infected with HIV was thought to be just 30,000, out of a total population of 500 million. “Even though the overall infection rates remain low in ECA, given the socioeconomic conditions, increases in other sexually transmitted infections, and other worrisome coinciding trends, the region is ripe for a devastating epidemic,” said Armin Fidler, Health Sector Manager in ECA.

From 1995 onwards, HIV began spreading among IV drug users in several countries of the former Soviet Union. Today, most HIV/AIDS cases are still found in those groups and in those countries. The prevalence of the disease among sex workers remains low throughout the region.

“To prevent an epidemic among the general population there is a pressing need to curb HIV transmission among the highest-risk groups. Limiting the demand and
supply of drugs is also important, but this needs to be accompanied by large-scale programs to prevent HIV transmission among drug users and prevent the spread of the disease from them to the general population,” said Fidler.

The challenge for ECA governments is to implement policies that will facilitate the effective implementation of these programs. They also need to put in place preventive interventions such as peer education, safe blood transfusions and early detection and treatment of sexually transmitted infections.

**Spread of Tuberculosis**

Fueled by poverty, alcoholism, crowded prisons and outdated diagnostic methods, new outbreaks of the disease have occurred in Eastern Europe. After almost 40 years of steady decline, TB deaths are now increasing.

Until 50 years ago there were no drugs to cure TB. In a frightening return to the past, new strains of the disease are developing that are resistant to all major anti-TB medicines. Drug-resistant TB is caused by inconsistent or partial treatment. From a public health perspective, poorly supervised or incomplete treatment of TB is worse than no treatment at all.

The World Bank is preparing strategies to combat these diseases. It is working on projects that focus on HIV/AIDS and TB in some of the most seriously affected countries of the region, including the Russian Federation, Ukraine and Belarus. Several existing health projects already include activities to combat HIV/AIDS.
Financial reform is increasingly seen as key to creating a fully functioning market economy that enables enterprises large and small, but especially the small, to emerge, prosper and grow. And it is that growth which will be the most effective weapon in the fight against poverty over time.

The advanced economies of Central Europe have more than restored the decline in output seen after the fall of Socialism and are now moving towards EU accession. They have achieved—and sustained—macroeconomic stability, liberalized trade and prices and privatized state holdings, all based on a new legal and institutional framework required for a market economy. And each of them has radically reformed its financial system to support its new economic system. Perhaps most impressively, despite these demanding reforms, they have managed to limit poverty and social deprivation, largely by creating new jobs through sustainable growth of the private sector.

It is clear that without financial reforms and a more efficient and modern banking system, they would not have made such impressive progress. Mature financial institutions provide the life blood for both large and small businesses as well as 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. Not doing so is expensive and delays private sector development. For example, Bulgaria, the Czech Republic, Croatia and the Slovak Republic all delayed the sale and privatization of their leading banks, which later required expensive state intervention.

But the restructuring of the financial sector is not enough. It must be accompanied by the restructuring and privatization of the enterprise sector. This ensures that banks have a quality asset base, that is, quality customers and low-risk investment opportunities. There also needs to be a favorable investment climate for new firms, including small- and medium-sized businesses.

These lessons are relevant throughout the ECA region, especially in Russia and Ukraine. All of the CIS countries are well behind even the least advanced of the
Central European nations, both in terms of financial sector and enterprise reform. Financial and capital markets are very thin. There are too many banks, and too many of them are weak. And there is poor regulation and supervision of banks and other financial institutions, which has permitted too many imprudent and at times corrupt activities.

In addition, the investment climate can be hostile and old firms are often kept alive by informal soft budget constraints. While old firms slip off the hook of restructuring by exploiting their political connections, new ones face many hurdles in trying to enter the market.

A telling statistic is that small and medium businesses provide 50 percent of total employment in the more advanced Central European countries, but only 20 percent in the CIS countries. This is a clear signal not only that the environment for creating new businesses is still poor, but 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 through further support for old businesses.

This is no time for complacency anywhere in the region. Even the most advanced economies of Central Europe still have much work to do to meet the competitive pressures of operating inside the EU. For example, Poland must privatize its remaining state banks and insurance institutions. The legal and tax systems for banking need improving, as do reporting and disclosure practices. And there needs to be better coordination among regulatory authorities.
Many of ECA’s economic problems cannot be solved by individual countries working in isolation. The problems are regional in nature and demand regional solutions. Unfortunately, there is often little cooperation between neighboring countries—making it hard to implement solutions.

This is particularly true for the countries of Southeast Europe whose economic growth is linked to trade but whose transport systems and trade procedures show few signs of coordination. Such constraints limit regional stability, defer investment and complicate the implementation of poverty alleviation programs.

The Trade and Transport Facilitation in Southeast Europe (TTFSE) Program addresses this problem. Its objectives are to lower non-tariff costs to trade and transport and to reduce smuggling and corruption at border crossings. Complicated customs procedures, limited cooperation between customs and other border agencies, and inadequate customs infrastructure mean that trucks often have excessive waits at border crossings. The longer the wait, the higher the delivery costs. In the end it is the users who pay.

But TTFSE supports customs reform and strengthens cooperation between border control agencies. It finances infrastructure and equipment at selected border crossings and helps the implementation of an integrated set of new customs procedures, information technology, and human resource management techniques at pilot sites along selected Pan-European corridors.

The trade facilitation component of the program not only provides transparent information to users through a regional Web site but also offers, in cooperation with the International Road Union and other lead organizations, a Distance Learning Initiative for road transport operators. The majority of trucking and bus companies in Southeast Europe are recently established, owner-driver operated enterprises that would find it difficult to attend conventional training courses. However, these courses are essential for them to acquire the professional certification that will enable them to have access to the EU road transport markets in the future.
To ensure a regional approach, the TTFSE Program encouraged the participating countries to agree on a Memorandum of Understanding that laid down the principles of their cooperation. They also set up a Regional Steering Committee that oversees Program implementation. This committee serves as a regular forum for the countries, where authorities and business representatives exchange information on trade and transport matters.

The TTFSE is based on donor partnership as well as regional collaboration. There are close links between European Union assistance and the Bank/IDA-funded Program. The United States’ assistance to customs administrations in the region is also harmonized with the TTFSE Program, and the U.S. funds most of its technical assistance components. Other assistance is provided by France, the Netherlands, Austria, and Norway.

*Participating countries, eligible on the basis of their applying for credits or loans for trade facilitation from the World Bank, include: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, FYR Macedonia, Moldova, Romania, and the FR Yugoslavia.*
ECA’s Energy Woes (and How to Solve Them)

The countries of ECA possess about 10 percent of the world’s oil, almost 40 percent of its gas and 5 percent of its coal reserves. Many others are completely dependent on outside supplies. ECA’s energy sector is of enormous regional importance—in terms of production and consumption—but it is also a sector with many problems.

Energy is one of the industries that has been most affected by the transition process, as massive state-owned organizations have dealt with the switch to streamlined market economies. In coming years the World Bank’s approach to regional energy will undergo a considerable shift as it focuses on alternative energies and energy efficiency.

But the energy sector is burdened by huge inefficiencies, and taking energy production and distribution out of state control has proved fraught with difficulties. Those most affected by these shifts are the poor, who have suffered job losses and community upheaval from mine closures and privatization.

Traditionally the energy sectors of countries in ECA were structured as huge, publicly owned monopolies. Prices were not related to costs, and investment decisions were made without economic justification. In most cases energy companies relied heavily on public funds, consumer service was unsatisfactory and production plants were poorly maintained. There was no incentive for the public to consume energy efficiently, and because people were unwilling to pay for their energy there were negative effects for ECA economies overall.

As countries in the region moved to market-based systems, the traditional structure of the energy sector became increasingly unsustainable. Governments could no longer afford these huge loss-making industries—but transferring ownership to private hands caused severe social hardship.

So far progress towards commercialization has been uneven. There is considerable foreign and domestic interest in some energy sectors in the region, but most private investors are not willing to risk investing in an area where the regulatory
environment is still dubious. Moreover, the willingness of regional governments to embrace the private sector varies significantly from country to country. In response, the World Bank has developed a strategy that supports ECA’s energy transition by pushing for reform but mitigating the negative social impact of restructuring.

The immediate costs of reform are most evident in the region’s coal mining industry. Mining communities throughout ECA have been hit hard by the need to restructure. Thousands of miners have lost their jobs and many have not found alternative employment. When mines close families lose their incomes as well as the basic services such as health clinics and kindergartens that were provided by the mines.

Even the best efforts cannot eradicate all of the negative social consequences of mine closures. Governments cannot mass produce alternative work in other sectors, and offering each redundant miner a new job is unrealistic. So far few coal regions have succeeded in attracting new, non-coal-related investments.

The World Bank has been actively involved in helping ECA countries deal with the social and financial burden of reforming the coal industries. In Russia, the Bank is helping the government reduce subsidies to the coal industry while providing a social safety for affected mining families.

Many countries have not closed down unprofitable mines or reduced subsidies to the sector. A large part of the region’s coal industry is still uneconomic and eats up state budgets. When prices are higher than those of energy imports, coal consumers pay the cost of inefficiencies.

The oil and gas sectors represent some of the hopes of ECA’s energy industry. Several countries in the region are particularly well-endowed with hydrocarbon resources and some now enjoy the benefits of having created a dynamic business environment. In other countries however, inadequate regulatory frameworks impede injections of foreign capital and know-how, and these countries have not yet realized the full potential of their gas resources.
The World Bank is supporting efforts to improve the oil and gas sectors by overhauling supply systems and pushing ahead with regulatory reform. In Azerbaijan a gas system rehabilitation program supports reforms and helps rehabilitate the country’s dilapidated transmission and distribution system.

The World Bank’s focus on ECA’s energy industry is set to shift in the next few years—with investment directed toward improving existing systems rather than generating new energy capacity. Over the next five years, more World Bank funds will be directed at energy efficiency and alternative energies. In Turkey, the Bank is discussing a US$200 million credit for a renewable energy program. And in Moldova the Bank is looking at an innovative biofuel program to encourage use of biodiesel based on agricultural products, such as rape seed and biogas from municipal waste.

The Bank is currently preparing about 15 projects that focus on increasing energy efficiency, plus 5 Global Environment Facility (GEF) and 7 Prototype Carbon Fund (PCF) projects that focus on alternative energy sources and energy efficiency. In particular, the Bank aims to encourage private infrastructure financing and promote energy conservation.

ECA’s energy industry inherited a host of environmental concerns from the Soviet era—many with global impact. The Bank is supporting programs to clean up ECA’s energy industries and make them comply with international environmental standards. And the Bank is committed to analyzing the environmental impact of all its new investments to ensure that they do not cause a deterioration of existing environmental conditions.
## Country and Client Data

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** September 14, 2001: The Board gave FYR Macedonia exceptional access to IDA in FY02 under modified terms (20 years maturity, 10 years grace, no acceleration clause.)
### GDP Growth

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*Consequent upon the split of the former Czechoslovakia in January 1993, IBRD loan 3374-0, which was approved in FY1991 for $450m to that country has been split into two loans—US$300m to the Czech Republic and US$150m to the Slovak Republic.

## Net Disbursements, IBRD and IDA
### (US$ Millions)

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ECA Vice President Front Office

**Johannes F. Linn**  
*Regional Vice President*

Johannes Linn joined the Bank in 1973. His extensive experience at the Bank began with nine years in the research wing on urban development policy issues. In 1978, Mr. Linn served as Country Economist and Senior Economic Advisor in the East Asia Region. In 1988, he became Director of one of the World Bank’s flagship publications, *World Development Report*, which dealt principally with issues of public finance in development. He subsequently served as Senior Economic Advisor in the Bank’s Development Economics Department, then as Director of the International Economics Department, and later as Director of the Country Economics Department. In 1991, Mr. Linn was appointed Vice President for Financial Policy and Resource Mobilization, and since January 1996, he has held the position of the Bank’s Vice President for ECA.

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קה (1-202) 522-2758  
✉ jlinn@worldbank.org

**Shigeo Katsu**  
*Director, Regional Operations and Renewal*

Shigeo Katsu joined the Bank as a Young Professional in 1979, and he soon moved to the Western Africa Projects Department as an economist, first in the Energy, Water, and Telecom Division, and later in the Water Supply and Urban Division. In 1985 he was appointed the Bank’s Resident Representative in Benin until fall 1989. Between fall 1989 and the end of 1991, Mr. Katsu was seconded to the Export-Import Bank of Japan as Deputy Director, Country Economic Policy Analysis Department. Between 1992 and 1995, Mr. Katsu served as Principal Operations Officer for the Industry and Energy Operations Division, China Department, East Asia and Pacific Region, and subsequently was appointed Chief, and then Country Director, of the Bank’s Regional Mission in Abidjan, Côte d’Ivoire. Mr. Katsu assumed his current position in 1999. His responsibilities broadly consist of assisting in the management of the ECA Region’s operations, and serving as the regional liaison with the corporate center.

📞 (1-202) 458-8152  
קה (1-202) 522-2758  
✉ skatsu@worldbank.org
Pradeep Mitra
Chief Economist

Mr. Pradeep Mitra joined the Bank as a Young Professional in 1978. He has worked as an economist in Country Policy and Country Economics Departments, in addition to being a member of the core group of the World Development Report. In 1995, he became Division Chief of South Asia’s Population and Human Resources Operations Division before moving to head Russia, Country Operations. From 1997 to 2002, Mr. Mitra was the Director of Poverty Reduction and Economic Management in ECA. He assumed his current position in 2002.

☎ (1-202) 458-0419
⃣ (1-202) 522-2758
✉ pmitra@worldbank.org

Franz Kaps
Senior Advisor, Aid Coordination and Partnership

Franz Kaps joined the Bank in 1970 as Assistant Staff Officer, General Operations. He then worked as Staff Officer in the Development Services Department, and as Assistant to the Executive Secretary in the Consultative Group for International Agricultural Research Secretariat. Mr. Kaps, who is German, was also a Loan Officer in both the LAC and MENA Regions until he became Resident Representative in Senegal in 1984. Later, he served as Principal Country Officer, Country Operations Division, in the Africa Department; as Operations Adviser, Office of the Director, West Central Africa Department, and as Technical Manager in Africa Technical Families. He later became an Operations Adviser in the former ECA Central European Department, and Senior Partnership Advisor in 1997. Since 2000, Mr. Kaps has represented the Bank in the ECA NGO Working Group. He has been based in the Bank’s Resident Office in Budapest, Hungary since October 2000.

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⃣ (1-202) 522-2758
✉ fkaps@worldbank.org
Nick van Praag  
*External Affairs Advisor*


Mr. van Praag joined the Bank from the Secretariat of HH the Aga Khan. Previously, he had served in the Office of the UN High Commissioner for Refugees and the European Commission.

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✉ nvanpraag@worldbank.org

Kate McCollom  
*Chief Administrative Officer*

Kate McCollom joined the Bank in 1977 in the East Asia and Pacific region, where she worked as a research assistant in the Industrial Development and Finance Division. She was appointed Operations Officer in that division in 1983 and specialized in development banking and small-scale industry projects until she moved to the Asia Technical Department in 1987. From 1993-96 she worked as Senior Corporate Planning Officer in the Planning and Budgeting Department. Ms. McCollom joined ECA in 1996 and worked as the Senior Country Officer for Poland and Country Coordinator for ECC07 (Hungary, Czech Republic, Slovenia, the Slovak Republic and Moldova) and briefly for Turkey. In April 2001, she was appointed CAO for the ECA Region.

☎ (1-202) 458-1309  
✉ kmccollom@worldbank.org
Country Directors

Luca Barbone  
*Belarus, Ukraine*

Luca Barbone joined the Bank in 1988 as Economist for Argentina and Ecuador. In 1991, he transferred to ECA as Senior Country Economist for Poland, and subsequently was promoted to Principal and then Lead Economist for Central and South Eastern Europe. In 1991, he was selected Manager of the Macroeconomics III Unit of the Africa Technical Families, and appointed to the Public Sector Board of the Bank’s Poverty Reduction and Economic Network. In January 2000, Mr. Barbone became Country Director for Belarus and Ukraine.

📞 (1-202) 473-2556  
☎ (1-202) 477-3288  
✉ Lbarbone@worldbank.org

Michael Carter  
*Estonia, Latvia, Lithuania, Poland*

Michael Carter joined the Bank in June 1972 as a Young Professional. He served in Morocco, Mali and the Bank’s European Office. Upon his return to headquarters in 1987, he became Division Chief in the International Economic Relations Division of the External Affairs Department in 1990, Mr. Carter transferred to the Country Operations Division, Eastern Africa Department. In 1995, he became Resident Representative in Moscow, Russian Federation, and was appointed Russia Country Director in 1997. He became the Country Director for the Baltics and Poland in January 2001, and is based in Warsaw, Poland.

📞 (48-22) 520-80-00  
☎ (48-22) 520-80-01  
✉ mcarter1@worldbank.org

Ajay Chhibber  
*Turkey*

Ajay Chhibber joined the Bank in 1983 as a Young Professional. Mr. Chhibber worked extensively in Europe, the Middle East and North Africa until he transferred to East Asia, Country Department III as Division Chief in 1994. He served as Staff Director for the 1997 World Development Report, after which he was appointed Country Director for FYR Macedonia and Turkey. Since 2000, Mr. Chhibber has been based in Ankara, Turkey.

📞 (90-312) 446-38-24  
☎ (90-312) 446-24-42  
✉ achhibber@worldbank.org
Dennis de Tray
Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan, Uzbekistan

Dennis de Tray joined the World Bank in 1983 as the Chief of the Living Standards Unit in the Development Research Department. In 1991, he became the Senior Economic Advisor for the Development Economics Vice President. In April 1994, he joined the East Asia and Pacific Region where he was the Director for the Country Office Staff in Indonesia until July 1997, when he was appointed Country Director for Indonesia. He remained in that post until March 1999. Mr. de Tray was asked to join the IMF to serve as its Senior Resident Representative in Hanoi, Vietnam from September 1999 to August 2001. In October, 2001, Mr. de Tray became Country Director for the Central Asia Country Unit, which includes Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan. He will be based in Almaty, Kazakhstan beginning in the spring of 2002.

☎ (7-3272) 980-580
✉ ddetray@worldbank.org

Roger Grawe
Czech Republic, Hungary, Moldova, Slovak Republic, Slovenia

Roger Grawe joined the Bank in 1975 as a Young Professional. In 1976, he transferred to the South Asia Country Programs Department as Economist, and in 1981 moved to the Bank's Resident Mission in India. From 1985, he worked as Principal Economist in the Eastern & Southern Africa Country Program, Department I, and as Lead Economist and Division Chief (Population and Human Resources) of the Africa Country Department. In 1996, Mr. Grawe served as Technical Manager, Macroeconomics II for Eastern Africa, and in 1997 became Country Director for the Czech Republic, Hungary, Moldova, the Slovak Republic and Slovenia. Mr. Grawe is based in Budapest, Hungary.

☎ (36-1) 374-95-00
✉ rgrawe@worldbank.org

Judy O’Connor
Armenia, Azerbaijan, Georgia

Judy O’Connor joined the Bank in 1976 as a Young Professional. Her broad experience in the Bank includes Operations Officer in the Eastern Africa Projects Department, Urban Affairs Officer in the Urban Projects Department, Personnel Policy Specialist in Personnel Management, Senior Loan Officer in the West Africa Country Programs Department, and Principal Country Officer in Africa Country Department IV. She served as Projects Advisor in ECA from 1994 to 1997, when she became Country Director for Armenia and Georgia, and since March 2000, for Azerbaijan as well.

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Christiaan Poortman
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Christiaan Poortman joined the Bank in 1976 as a Young Professional. Mr. Poortman worked extensively in the East Asia and Pacific Country Programs Department as Economist, and West Africa Country Department as
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Julian Schweitzer joined the Bank in 1984, working on or managing programs in the Middle East, South Asia, North Africa, and ECA. Between 1991–98, he held various management positions in the Bank’s Latin America and Caribbean region, including Director, Human Development Department. He also led the reform of the Bank’s internal human resources management framework. From May 1998 to January 2001, he was Director of Strategy and Operations for the East Asia and Pacific region. Mr. Schweitzer became Country Director for Russia in January 2001, and is based in Moscow.

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Annette Dixon joined the Bank as Health Sector Manager for ECA in March 1999. Previously, Ms. Dixon worked for the Government of New Zealand as Chief Executive of the Ministry of Youth Affairs. She also served as General Manager, Sector Policy; Deputy Director-General in the Ministry of Health; Director of Health Policy, Department of the Prime Minister; and Manager, Policy Division, Ministry of Women’s Affairs. In November 1999, Ms. Dixon was appointed Director of the Human Development in ECA, where she is responsible for Regional activities in Education, Health, and Social Protection.

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