General view regarding the recent contribution of the World Bank in Europe and Central Asia

Popescu, Ramona Florina

University of Pitesti, Romania

24 May 2008

GENERAL VIEW REGARDING THE RECENT CONTRIBUTION OF THE WORLD BANK IN EUROPE AND CENTRAL ASIA

The World Bank Structures

The World Bank declares itself as a vital source of financial and technical assistance to developing countries around the world. It is not a bank in the common sense. It consists of two unique development institutions owned by 185 member countries – the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). Each institution plays a different but supportive role in the mission of global poverty reduction and the improvement of living standards. The IBRD focuses on middle income and creditworthy poor countries, while IDA focuses on the poorest countries in the world. Together they provide low-interest loans, interest-free credits and grants to developing countries for education, health, infrastructure, communications and many other purposes.

The World Bank provides analysis, advice and information to member countries in such manner that they can deliver to their people the lasting economic and social improvements needed. World Bank provides economic research on broad issues such as the environment, poverty, trade and globalization and country-specific economic and sector work. The research evaluates the economic prospects of a country by examining its banking systems and financial markets, as well as trade, infrastructure, poverty and social safety net issues. Also, the research is used to educate clients to be better prepared for solving their development problems and promote economic growth.

The World Bank has three affiliated organizations, the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), and the International Centre for Settlement of Investment Disputes (ICSID). The World Bank acts through these organizations that synchronize their activities with the institutions of the World Bank Group but are legally and financially independent.

IDA and IBRD activities in Europe and Central Asia

The World Bank is constantly present in Europe and Central Asia (E&CA), thirty countries from this region receiving loans, grants and assistance. In 2005, the main issues for these regions that concerned the World Bank were state bureaucracy, environmental issues (biodiversity, water, carbon emissions and renewable energy), population health, and climate for investment and social inclusion. [1] In 2006, World Bank has approached new aspects: long – term unemployment, rural poverty, weak local institutions, decaying infrastructure, depressed one-company towns, state owned enterprises in need of reform and environmental degradation. [2] In 2007 the emphasis was on income disparities within countries, aging population, lack of scientific and technical innovation, weak public and corporate governance, human trafficking, natural disasters and, again, environmental degradation. It is obvious that the range of subjects is strongly diversified and different from year to year. [3]

In 2007, the World Bank lent a total amount of $24.7 billion (combined IBRD and IDA lending), the share of Europe and Central Asia being of 15%. *Figure 1* shows the share of each region, as presented in World's Bank Annual report 2007.

The proportions are very different if we compare the shares of IDA or IBRD lending alone. *Figures 2* and *3* illustrate that in IDA lending, Europe and Central Asia benefited of only 4% of the amounts, and it received 26% of the IBRD total lending. The figures prove different objectives of the two organisms, IDA focusing on the poorest countries and IBRD on middle-income ones.

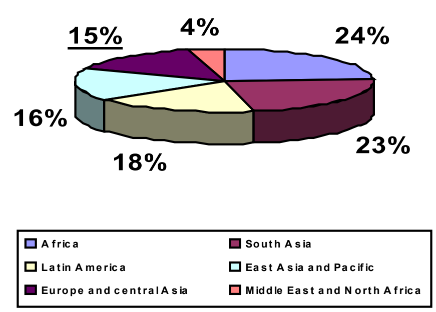

Figure 1
Share of E&CA in combined IBRD and IDA lending

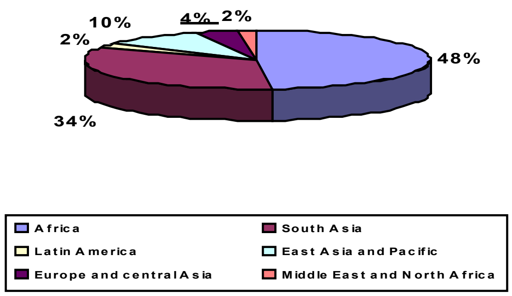

Figure 2
Share of E&CA in IDA lending

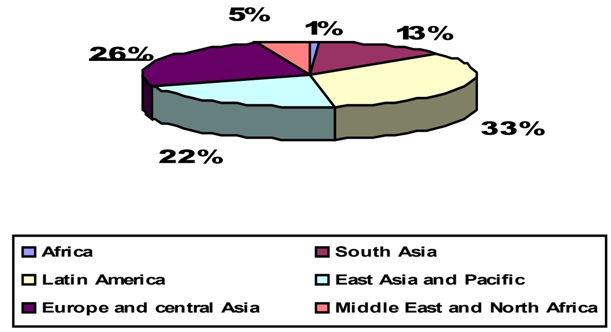

Figure 3
Share of E&CA in IBRD lending

As illustrated in *Figure 5*, after a three years increase, the share allocated for Europe and Central Asia for the last two years slightly decreased for combined IDA and IBRD lending, and for IDA lending.

The amounts confirm the tendency. Referring at the lending activity and its evolution, it can be noticed that it decreases from $4.1 billion in 2005 to $3.8 billion in 2007. The cause, as stated in the Bank's Annual Report 2007, is the political uncertainty in several countries. The evolution is reflected in *Figure 4*, which also stresses that the region beneficiated by a top allocation in 2002, based on IBRD contribution.

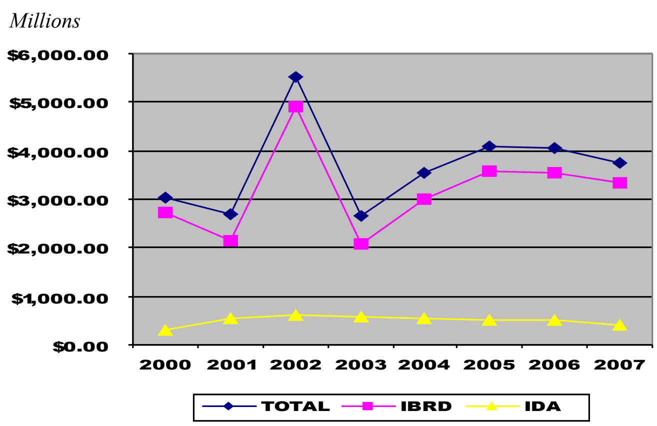

Figure 4
Evolution of IBRD, IDA and combined IBRD and IDA allocations between 2000 and 2007

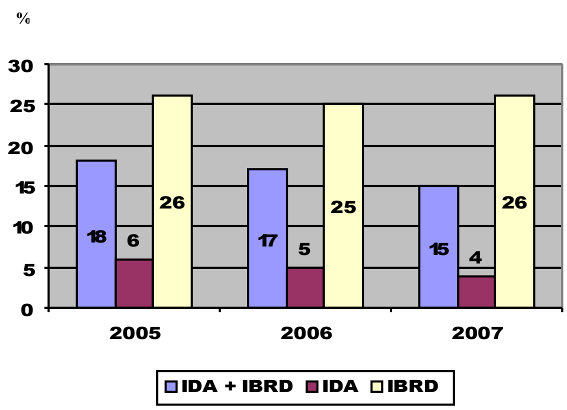

Figure 5
Evolution of E&CA allocations rates between 2005 and 2007

As an exchange, the analytical work did not suffer. In 2005, the Bank delivered 98 pieces of economic and sector work and completed 68 technical assistance assignments. [1] In 2006 the technical assignments were only 58, [2] and in 2007 the Bank delivered 100 economic and sector reports and policy notes and conducted 84 technical assistance activities [3]. Perhaps it's worth it to mention some of the products. For example, in 2005 a great importance presented the Country Assistance Strategies for Bosnia and Herzegovina, Croatia, Moldova, and Serbia and Montenegro, the Country Partnership Strategies for Kazakhstan and Poland, a Country Assistance Strategy Progress Report for Russia, a Poverty Reduction Strategy Papers or updates for Albania, Armenia, Azerbaijan, Georgia, Moldova and Uzbekistan and analytic work on the knowledge economy in Romania. Among lending instruments, considered of great innovative character, were: Poland Road Maintenance and Rehabilitation Project, the program loan for electricity community of South Eastern Europe, the umbrella technical assistance facility for the eight new members of the European Union and the Partial Risk Guarantee operation for Romania.

In 2006 the Bank approved several projects as Georgia Country Partnership Strategy for 2006 to 2009, a new Albania Country Assistance Strategy, Romania Knowledge Economy Project, Croatia Science and Technology Project, Moldova Competitiveness Enhancement Project and the Serbia and Montenegro Programmatic Private and Financial Development Policy Credit (lending projects). Also, the Bank worked out studies as Growth, Poverty, and Inequality: Eastern Europe and the Former Soviet Union, Enhancing Job Opportunities: Eastern Europe and the Former Soviet Union and From Disintegration to Reintegration: Eastern Europe and the Former Soviet Union in International Trade.

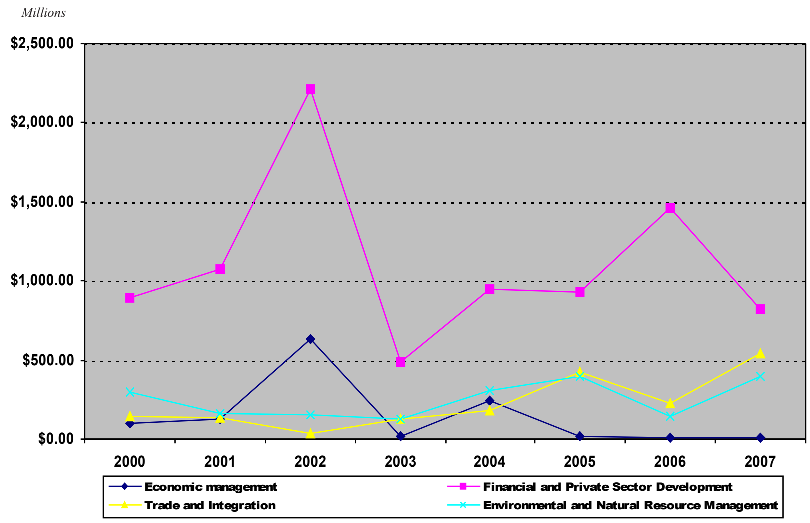

Figure 6
Evolution of World Bank allocations by theme between 2000 and 2007

The most important financing projects in 2007 were the Joint Economic research program with Kazakhstan and the loan granted to Armenia, deeply affected by a severe economic crisis. The analytic work is represented by the Migration and Remittances: Eastern Europe and the Former Soviet Union report or the Anticorruption in Transition 3 report.

If we analyze the evolution of the financial allocations in the last eight years, distributed into eleven themes, (illustrated by *Figure 6*), the clearest patterns noticed are:

- The allocations for Economic Management had decreased in the last three years after reaching a top in 2002;
- Trade and Integration and Environmental and Natural Resources Management beneficiate of a constant allocations increase;
- The most important allocations concentrate in the Financial and Private Sector Development, but they strongly oscillate.

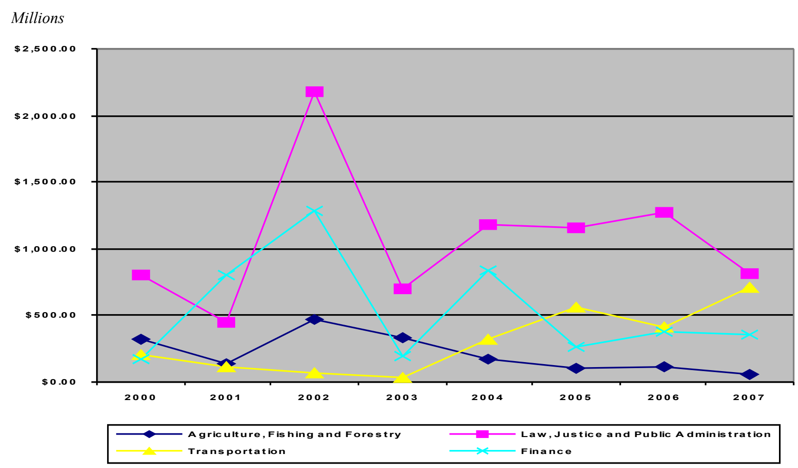

Figure 7
Evolution of World Bank allocations by sector between 2000 and 2007

The allocations are analyzed by sector, too. Among the ten sectors the World Bank considered, the most significant evolution in the last eight years (*Figure 7*) seems to be registered by:

- Law, Justice and Public Administration, which benefits of the largest amounts;
- Finance sector benefits of relatively large amounts, but has a decreasing tendency;
- Agriculture, Fishing and Forestry sector manifests a clear decreasing tendency;
- The allocations for Transportation sector increase slowly, but constantly.

IFC and MIGA presence in Europe and Central Asia

IFC fosters sustainable economic growth in developing countries by financing private sector investments, mobilizing capital in the international financial markets, and providing advisory services to businesses and governments. It helps companies and financial institutions to emerge markets, create jobs, generate tax revenues, improve corporate governance and environmental performance, and to contribute to their local communities. The goal is to improve lives, especially for people who mostly need the benefits of growth.

In Europe and Central Asia, the implication of IFC is of a great importance. The organization is represented in the region by 12 headquarters and 486 field offices. The development impact is of 76%, greater than in any other region. In

2007, it held 28% of the total IFC investment portfolio, with a 22% share of the 2007 investments [8]. Regarding the technical assistance and advisory services, Europe and Central Asia hold a share of 20% in 2007, greater than the 2005 and 2006 shares (around 17%) [6] [4].

The evolution of the commitments' value (total commitments signed through the year and total commitment portfolio) evolved in the last three years as shown in *Figure 8* and *Figure 9*. The conclusion is that the total committed portfolio increased by almost 1 million every year whereas the annual commitments preserved an almost constant value. The increase of the total committed portfolio is based on the increase of the committed portfolio for IFC's account.

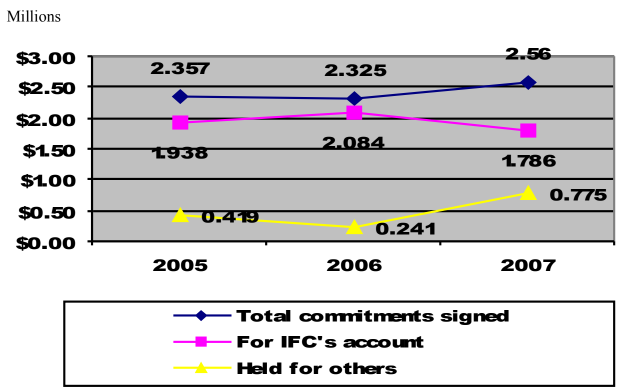

Figure 8
Evolution and structure of IFC commitments signed between 2005 and 2007

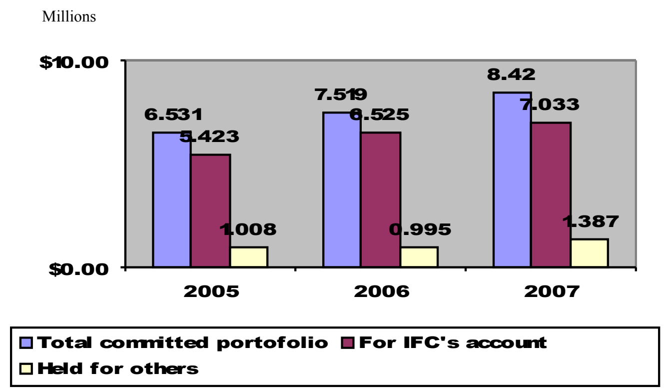

Figure 9
Evolution and structure of IFC committed portfolio between 2005 and 2007

The structure of the committed portfolio for IFC's own account for the year 2007, shows that the largest exposures belong to the Russian Federation, Turkey and Romania [4]. The situation is similar for the years 2005 and 2006 and the amounts indicate an increase of the allocations, as shown in *Figure 10*. The most important growth can be observed in the case of the Russian Federation, country that also has the greatest rate of success, 89%, compared to 76% rate for Turkey and 75% rate for Romania (in 2007).

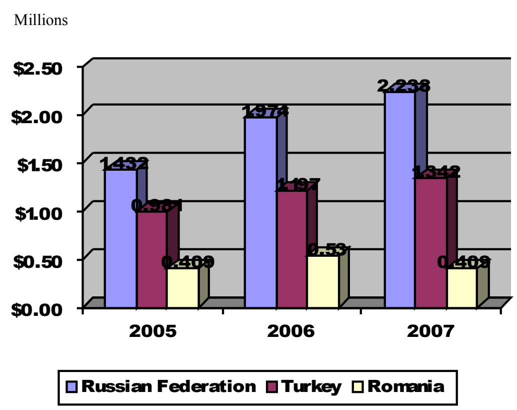

Figure 10
Situation of IDA largest country exposures between 2005 and 2007

As a member of the World Bank Group, MIGA's mission is to promote foreign direct investment (FDI) into developing countries to help support economic growth, reduce poverty, and improve people's lives. MIGA addresses the concerns about investment environments and perceptions of political risk by providing three key services: political risk insurance for foreign investments in developing countries, technical assistance to improve investment climates and promote investment opportunities in developing countries, and provide mediation services for reconciliation of potential conflicts seen as obstacles for future investment.

In Europe and central Asia, during the fiscal year 2007, MIGA guaranteed 4 projects and supported 8 technical assistance projects [11], a slight reduction compared to the 10 guarantees and 8 technical assistance projects in 2006 [10], but an important reduction compared to 2005 (with 22 guarantee projects and 25 technical assistance activities) [9]. The evolution of the gross guarantee exposure indicates a decrease in 2007, at $1.9 billion, from $2.3 billion in 2005 and $2.5 billion in 2006. If we refer to the rate of the region in the agency's portfolio, the reduction is more obvious, at 36.6% in 2007 from 45.2% in 2005 and 46.6% in 2006. Romania benefited in 2005 of four guarantee projects (HVB Bank Romania S.A., Raiffeisen Bank S.A. and Raiffeisen Leasing S.R.L.).

The World Bank and Romania

Romania benefits of the World Bank's support in directions referring mainly to achievement of convergence with the EU; economic integration and social cohesion with the EU, implementation of structural and institutional reforms, completion of the Privatization Program and other structural reforms, upgrade of skills and the reduction of labor taxation, improvement of agricultural productivity; upgrade of environment standards, address of fiscal vulnerability and the modernization of the public sector, improvement of revenue collection and administration, improvement of the absorption of EU funds, modernization of public administration, promotion of research and innovation and disease control.

In October 2007, Romania and World Bank had 21 active projects (IDA and IBRD funds). They refer to social sector development, immigration rehab, rural finance, energy efficiency, rural education, health sector reform, transport restructuring, mine closure, knowledge economy social inclusion and avian flu. Several projects are waiting the approval in 2008.

In 2007 a number of documents containing analysis of different Romanian economical or social aspects were finalized. The most significant are: “Product market regulation in Romania: a comparison with OECD countries 2007”, “Doing business 2008 – Romania: a project benchmarking, the regulatory cost of doing business in 178 economies”, and “Evaluation of the World Bank's assistance to basic education in Romania”.

Few other studies must be mentioned. One of the most important analytical works completed in 2007 that refers especially to Europe and Central Asia is the report “From Red to Gray, the “Third Transition” of Aging Populations in Eastern Europe and the Former Soviet Union”. The report contains important information about Romanian demographic aspects, with projects for the next fifteen years. Another report finalized in 2005 regarding the region’s economical performances is “Enhancing Job Opportunities: Eastern Europe and the Former Soviet Union”. The report confirms the active preoccupation of the World Bank for recent evolutions of countries like Romania. Also, the report “Increasing Inequality in Transition Economies: Is There More to Come?” completed in 2006 shows that Romania is subject of an analysis conducted in the social inequity field. Finally, it is worth mentioning the analysis of the region’s evolutions regarding the international trade, work presented in “From Disintegration to Reintegration: Eastern Europe and The Former Soviet Union in International Trade”, where Romania occupies a central place.

Conclusion

The World Bank is a constant presence in Europe and Central Asia. The figures presented above demonstrate its increasing interest for existing difficulties. Although global and regional conjunctures are of great influence in the assignment of allocations and their destinations, it can be noticed that regions keep their place in the global hierarchy.

Countries of Europe and Central Asia undergo significant changes in their needs, due to changes in their status (i.e. Romania became member of the EU in 2006). Consequently, the World Bank will update its policy and countries that benefit today of significant allocations will soon become important donors.