

Good Governance Helps Fiscal Policy Spur Economic Growth

Well-run governments get better results out of their budget resources, according to *Fiscal Policy and Economic Growth: Lessons for Eastern Europe and Central Asia*, released July 2 by the World Bank. The study draws on quantitative analysis and case studies to confirm that more productive public spending, lower fiscal deficits, and greater reliance on non-distorting taxes can spur economic growth. The report reviews trends in public spending and taxation in Eastern Europe, Turkey, and Central Asia (ECA) since the 1990s and how they compare to trends in high-growth countries elsewhere in the world. Middle-income countries in Eastern Europe typically have bigger governments than comparator countries in Asia or Latin America because of large social transfers. Primary public spending in Croatia is more than double the size of that in Thailand, and the eight Eastern European countries that joined the EU in 2004 spend on average three times as much on social transfers as Korea. The lower-income countries in ECA have smaller governments, closer in size to the high-growth comparators. Once public spending exceeds about one-third of GDP, higher spending is associated with lower growth in countries with weak governance, but no such relationship exists in well-governed countries. The biggest challenge in most countries in ECA is to increase the efficiency of public spending, particularly to enhance growth prospects and ensure that populations benefit from expenditures in health, education, pensions, and infrastructure. The full report can be found at <http://www.worldbank.org/ecalfiscal>

Balkan Poverty Reduction Strategies Forum Focuses on Poverty and Energy Issues

The Fourth Poverty Reduction Strategy Forum, held in Athens on June 26-27, facilitated an exchange of experiences among the countries of the Western Balkans on how best to implement and execute national development strategies focused on poverty reduction and higher living standards. The Forum focused on the objectives of strengthening integration with Europe as a driver of economic growth, promoting greater social inclusion and poverty reduction, and designing and implementing power sector reforms to promote growth. The Forum was organized and co-sponsored by the Greek Government, the World Bank, the International Monetary Fund, and the U.K.'s Department for International Development. It brought together over 150 participants from Albania, Bosnia and Herzegovina, the Former Yugoslav Republic of Macedonia, Montenegro, Serbia, and UNMIK/Kosovo, as well as representatives from donor countries and civil society. The Forum recognized the importance of energy sector efficiency investments and growth. The most important trends in the energy markets of Western Europe and their impact in Southeast Europe were discussed. Participants noted that energy market potential is best maximized through a sub-regional approach based upon the development of a common energy market and the attraction of the private sector. This requires a comprehensive and coherent approach with careful sequencing of reforms and investment, supported with

an adequate and targeted social assistance program, and an effective communication strategy.

DecadeWatch Monitoring Report Notes Significant Progress on Roma Inclusion Policies

Nine Central and Southeast European countries have made progress in advancing Roma inclusion since the launch of the Decade of Roma Inclusion in 2005, according to the DecadeWatch monitoring report prepared by teams of Roma civil society leaders and released June 11. However, countries must move from sporadic measures based on pilot projects to integrated policies and programs. DecadeWatch assesses governments' actions on introducing measures on the four Decade priority areas of education, employment, health, and housing, as well as institutional arrangements and anti-discrimination legislation. Country reports were prepared by Roma civil society alliances, and then countries were ranked on indicators on a scale from 0 to 4, with 0 capturing no action and 4 best practice. The report looks at government inputs, not outcomes, as the Decade was only launched in 2005. The country rankings not only track progress but also identify areas where countries can benefit from one another's experience. Hungary is the most advanced country in terms of institutional arrangements and policies, but each country excels in a particular area, for instance Romania with its health mediators program and Macedonia's employment data collection. The World Bank and the Open Society Institute supported DecadeWatch through assistance with training and methodology. The full report can be found at <http://www.romadecade.org/>

Inflationary Pressures and Growth Slowdown Predicted in Most New EU Member States

Output growth gained further pace across the 10 new European Union member states in 2006, but is likely to slow down in 2007, according to the latest World Bank EU8+2 Regular Economic Report, released May 31. Growth accelerated in Estonia, Latvia, Poland, Slovakia, Slovenia, and Romania, while it remained largely unchanged in the Czech Republic, Lithuania, and Bulgaria. Only Hungary experienced a slowdown on the back of its fiscal austerity program. The region's overall strong performance reflected the favorable external environment of robust global growth, low interest rates, and positive emerging market sentiment. In some countries, however, booming domestic demand is leading to an overheating of the economy, and current growth rates are unlikely to be sustainable. Growth is expected to slow across the region in 2007, with the exception of Poland, Slovakia, and Bulgaria. The report's Special Topic reviews the impact of EU integration and the Common Agricultural Policy, which have led to substantial increases in agricultural income. The variation in income growth is as pronounced as the diversity in agricultural structures across the region. With the relative dominance of (semi) subsistence farming in many new member states, labor productivity lags far behind the EU15 average. The full report can be found at <http://www.worldbank.org/ecal/eu10rer>

International Youth Conference Focuses on Employment and Citizenship

The World Bank, in cooperation with the Development Cooperation Office of the Italian Ministry of Foreign Affairs and the ILO, hosted the conference "Young People in Eastern Europe and Central Asia: From Policy to Action," from May 21-24. Participants included representatives at the governmental and non-governmental levels from 29 countries from the ECA region, as well as international organizations and civil society. The Rome meeting marked an important stage of the "Development and the Next Generation" program, initiated by the World Bank to alert political leaders around the globe to the need to invest in young people so that they play an active role in their countries' development. The conference aims to elaborate upon suitable policy strategies that favor the transition of the younger generations to the world of work and active citizenship. Despite the improving economic situation, poverty, unemployment, and social exclusion among young people in these countries is increasingly widespread. Without employment and social inclusion, young people are facing rising marginalization, threatened by crime and drug abuse, and are under pressure to emigrate. Migration is already a major policy issue for the region and for Europe, which may face difficulties managing the migratory pressures along its borders.

Parliamentarians from Across Europe Share Lessons for Transition

A group of 30 parliamentarians from across Southeast, Central, and Eastern Europe met in Slovenia on May 17 and agreed to expand the Southeast Europe Chapter of the Parliamentary Network on the World Bank (PNoWB) to include the countries of Central and Eastern Europe. The gathering followed the founding of the Southeast Europe PNoWB Chapter in Greece in September 2006. Meeting in Bled, the PNoWB held its annual conference of parliamentarians from the ECA region. Organized under the theme of "Sharing Lessons for Transition," this year's regional meeting discussed four common themes — migration, social and spatial inequality and the role of regional policy, judicial reform, and public-private partnerships for infrastructure. The parliamentarians shared their lessons and experiences of transition and European Union integration.

This part has been provided courtesy of Merrell Tuck and Christina Lakatos, Europe and Central Asia External Affairs

Tajikistan Development Forum Outlines the Roadmap for Future

Representatives of the Tajik government, international development agencies, bilateral donors, civil society and private sector came together in Dushanbe on June, 2 for the Tajikistan Development Forum that took stock of the country's development efforts to date, defined further priorities and the way forward. The Forum was organized by Tajik government with the support of the World Bank and other development partners. The discussions focused on the challenges for future

development and determining the role each partner can play in contributing to the government's development vision. The forum provided an opportunity to assess the implementation of the Tajikistan first Poverty Reduction Strategy, discuss the implementation of the country's National Development Strategy and the second Poverty Reduction Strategy recently adopted by the government, as well as energy sector development strategy, development of the country's human potential, rural programs and resolution of cotton farm debt, investment climate improvement and public administration reforms. For more information about the Forum and World Bank in Tajikistan, please visit: <http://www.worldbank.org/tj>

Basic Health Care Expanded to 98% of Kyrgyz Republic Population

The 1998 regional financial crisis resulted in a 43% depreciation of the real exchange rate in the Kyrgyz Republic. As unemployment became more rampant and social systems collapsed, poverty grew and health indicators deteriorated. Today, thanks to the intervention of the World Bank's International Development Association (IDA), fully 98% of the population is registered for a package that entitles them to basic primary care services. The introduction of the "Outpatient Drug Benefit" package has reduced out-of-pocket payments for outpatient drugs. The share of the health budget allocated to primary health care increased from 10.2% in 2000/2001 to 25.1% in 2004/2005. Improvements in health that are probably connected to these reforms included a 60% decline in infant mortality from respiratory infections between 1996 and 2004, falling from 123 per 10,000 live births to 48. In addition, critical institutional changes have been accomplished: the Ministry of Health was reorganized at all levels, from being a service provider to a more modern institution, engaged in policy making, priority setting, resource mobilization, and budget formulation, monitoring and evaluation. IDA resources were critical to the scaling up of this very successful health reform program which began under the First Health Reform Project.

Socioeconomic Impact of HIV/AIDS in Ukraine

The HIV/AIDS epidemic in Ukraine started in 1987 and has accelerated dramatically since then. At present, the epidemic in the country is among the fastest growing in Europe, with officially registered new HIV cases having doubled over 2000-2004. Data suggest Ukraine may be on the brink of the generalized epidemic phase. The epidemic is shifting from high-risk groups to the general population. The data indicate that in 2006 every fifth HIV-infected person was in the 18-24 age group. The share of women among the new cases reached 42%. The study "Socioeconomic Impact of HIV/AIDS in Ukraine" forecasts that in the medium term HIV/AIDS will have a significant impact on economic growth, investment and social welfare, life expectancy, and population growth. The longer-term impact could be even more devastating. Prevention and treatment programs must target as a priority young people, women, and the worst-infected regions of Ukraine. The full text can be found at: <http://go.worldbank.org/JW4JCA2EE0BT>