

**MONITORING COUNTRY PROGRESS  
IN EASTERN EUROPE & EURASIA**

**USAID/E&E/PO  
Program Office  
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## ***Highlights***

(1) 2005 progress in ***economic reforms*** in the transition region was comparable to the good pace of reforms in recent years. Eighteen of twenty-nine transition countries advanced in 2005 in at least one economic reform dimension. Serbia made the greatest advancement. In contrast, economic reforms in Russia largely stalled, with backsliding in large-scale privatization. In general, gains in second stage economic reforms exceeded first stage economic reform gains in the transition region. Most of the gains in first stage reforms occurred in Eurasia. Most of the gains in second stage reforms occurred in the Northern Tier CEE countries.

(2) 2005 data show a continuation of the growing ***democratization*** gap between CEE and Eurasia that has been evident since the early transition years. Data from Freedom House's *Nations in Transit* show six Eurasian countries backsliding on democratic reforms in 2005 and only three countries (Ukraine, Georgia, and Moldova) moving forward. In CEE, seven countries advanced in democratization in 2005 and only two countries (Hungary and Poland) regressed. Among the three sub-regions, the broadest gains occurred in the Southern Tier CEE countries, advancing in six of seven democracy areas. The most broad-based gains in democratization occurred in Bulgaria, Albania, and Ukraine; the countries which regressed the most in democratization in 2005 were Uzbekistan, Russia, and Tajikistan.

(3) The twenty nine transition countries generally fall into ***four fairly distinct reform groups***: (a) Northern Tier CEE; (b) Southern Tier CEE; (c) Eurasian reformers; and (d) Eurasian non-reformers (Turkmenistan, Belarus, and Uzbekistan). The two salient outliers are Ukraine which has a reform profile closer to that found in the Southern Tier CEE, and Kosovo where reform progress is comparable to Eurasian norms.

(4) Econometric evidence suggests that ***economic and democratic reforms*** have been mutually reinforcing in the region since the collapse of communism, even in Eurasia (and notwithstanding the general trend of divergence between the two reform dimensions in Eurasia since the early 1990s).

(5) Since 2000, the transition region as a whole has witnessed annual ***economic growth*** rates in excess of global economic growth rates, averaging more than 5% annually. Of the three transition sub-regions, economic growth has been highest in Eurasia, averaging about 7% annually from 2000 to 2005. The evidence suggests that economic growth is driven in much of Eurasia by high and rising prices of key primary product exports (directly from rising prices and indirectly by robust demand in Russia for others' exports). In CEE, economic growth is increasingly driven by economic growth in Western Europe as CEE's share of exports to Western Europe increases.

(6) While poverty rates vary widely across the countries, some common observations regarding the trends between ***poverty and economic growth*** emerge: (a) rising economic growth corresponds to falling poverty; (b) there may be some minimum threshold of growth before poverty responds and declines, perhaps close to 5% annual economic

growth; and (c) in some but not all countries, urban poverty appears to be more responsive to economic growth than rural poverty. The extreme cases in this regard are Georgia and Armenia, where rural poverty rates actually increased in 2003 despite high and increasing economic growth.

(7) *Labor markets* have been adjusting very differently in CEE and Eurasia. In CEE, labor markets have been adjusting along both price and quantity dimensions. In contrast, most all of the labor market adjustments in Eurasia have taken place via the price mechanism; i.e., via real wages, with employment levels changing very little. Highest open unemployment rates are in the Southern Tier CEE countries (where the decrease in employment has been the greatest), while the lowest unemployment rates are in Eurasia (where the fall in employment rates has been the lowest).

A number of transition countries across the three sub-regions are (still) experiencing increasing unemployment rates. This includes Poland, the Czech Republic, and Slovakia in the Northern Tier CEE, Macedonia, Romania, and Serbia & Montenegro in the Southern Tier CEE, and Armenia and Moldova in Eurasia. In this key respect (and others), the transition in the labor markets continues to lag behind other dimensions of the transition.

(8) Of the three levels of *education*, enrollments in secondary schools have generally been the most adversely affected in the transition region in the 1990s. Most of the deterioration in secondary school enrollments has occurred in Eurasia. However, these enrollment trends may have recently bottomed out in most Eurasian countries. Moreover, most of the deterioration in secondary school enrollments in Eurasia has been in vocational and/or technical schools.

Literacy rates as traditionally defined are uniformly high in the transition region by world standards: 98% male adult literacy rates and 94% for females in 2002. However, *“functional” literacy*, or how well students and adults can function in a market economy given their formal and informal education, may be a more relevant measure of the quality of education in the transition region. Drawing from OECD’s PISA surveys, there are roughly three levels of functional literacy in the transition sample (of eleven countries): (a) the five Northern Tier CEE countries are all OECD standard; (b) Russia followed by Bulgaria, Romania, and Serbia & Montenegro perform at a middle level, well below OECD standards, comparable to Thailand; and (c) Macedonia and Albania score much lower still, comparable to Tunisia, Indonesia, and Brazil.

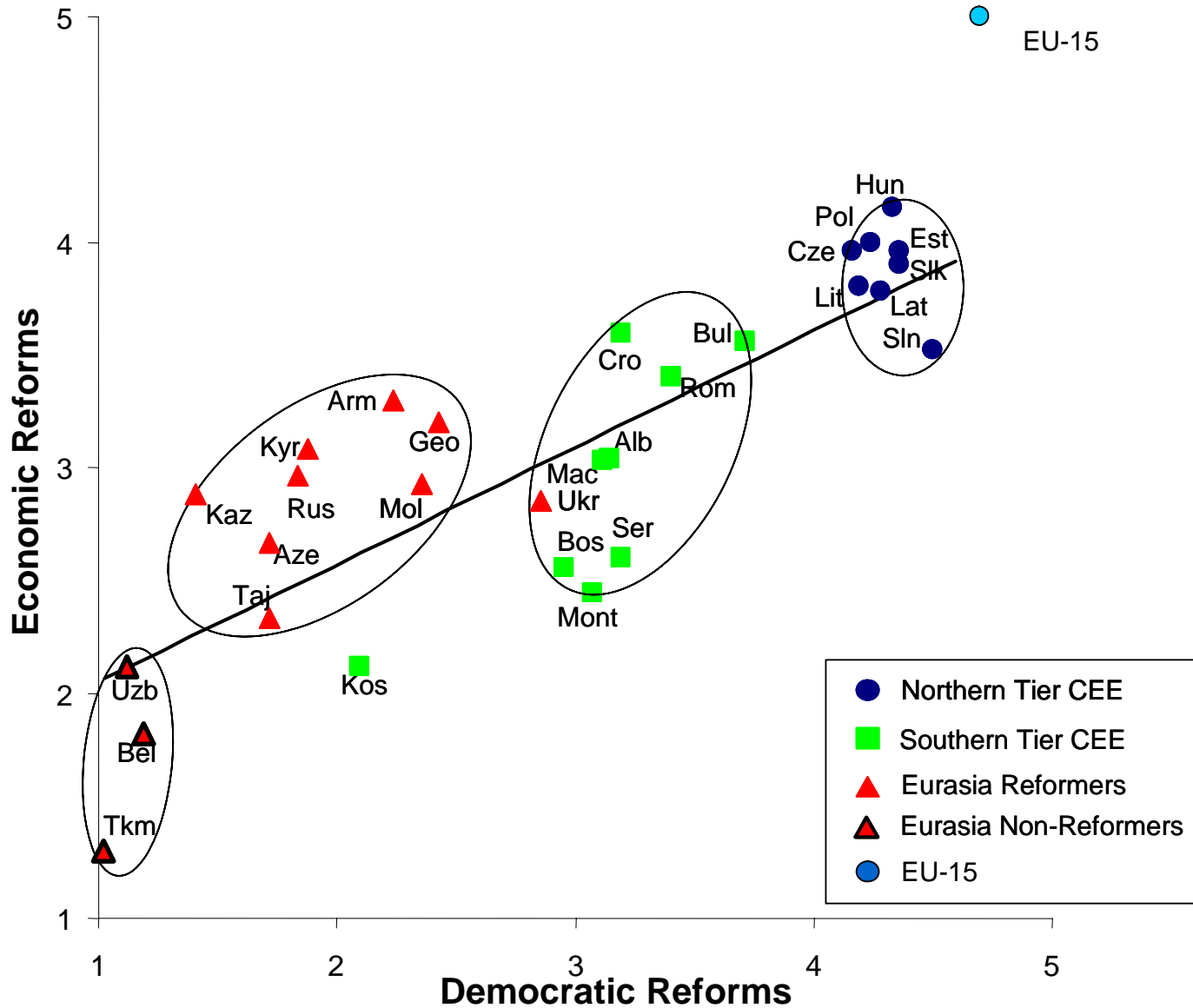
(9) The latest (2004) data on life expectancy suggest that the *health gap* between CEE and Eurasia continues to grow. In addition, the highest life expectancy gender gaps in the world are found in Eastern Europe and Eurasia. Males live eleven years less than females in Belarus, Estonia, Kazakhstan, and Ukraine, twelve years less in Latvia, Lithuania, and Moldova, and thirteen years less in Russia. Moreover, these gender gaps are larger today than they were in 1990.

(10) Key *demographic trends* in Eastern Europe and Eurasia are both unique and troubling. Some transition countries have among the highest crude death rates worldwide along with among the lowest fertility rates (and birth rates) worldwide. Eight countries characterized by both statistics stand out, and span all three sub-regions: Ukraine; Russia; Latvia; Estonia; Bulgaria; Belarus; Romania; and the Czech Republic. Both emigration and a natural decrease in population (i.e., death rates exceeding birth rates) have contributed to an overall contraction in population in Europe and Eurasia each year since 1995. During this time period, all other regions in the world have experienced expanding populations, ranging from a small increase in Western Europe (0.3% average annual) to closer to 2.5% increase in Sub-Saharan Africa.

(11) Assessing *human capital and economic performance* over time reveals three country groupings: (a) those which have made good progress on both dimensions; (b) those which have made good progress in economic performance and little on human capital; and (c) those which have made little progress in either dimension. Six Northern Tier CEE countries (the Czech Republic, Estonia, Poland, Hungary, Slovenia, and Lithuania) and Croatia comprise the first group. Most of the transition countries fall into the second group, Southern Tier CEE and Eurasia. The third group consists of three Eurasian countries: Moldova; Belarus; and Uzbekistan.

# Economic and Democratic Reforms in 2005

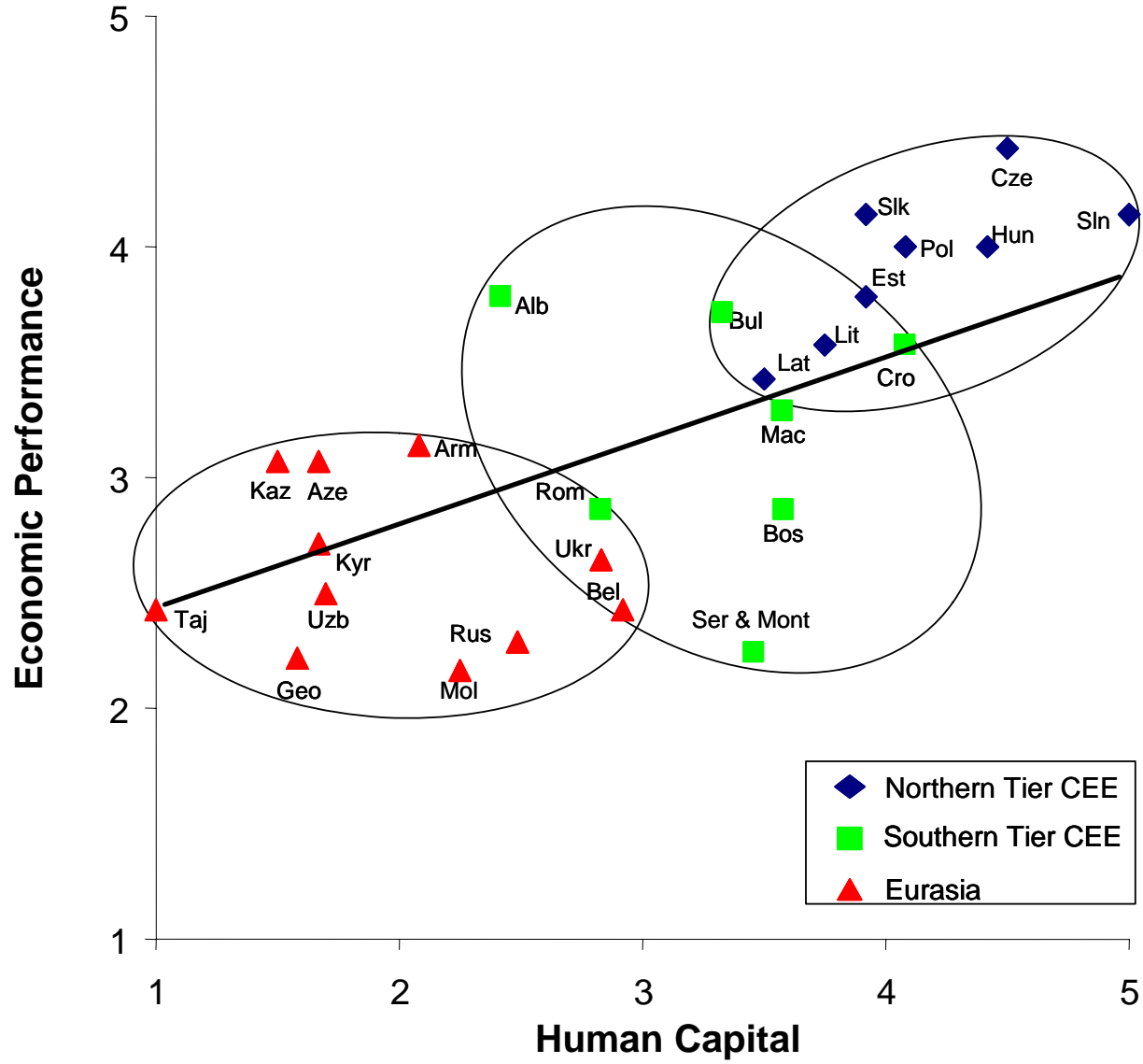
Summary Figure 1



Ratings are based on a 1 to 5 scale, with 5 representing most advanced. Freedom House, *Nations in Transit 2005* (2005), *Freedom in the World 2006* (2005), and EBRD, *Transition Report 2005* (November 2005).

# Economic Performance and Human Capital in 2003-2005

Summary Figure 2



World Bank, *World Development Indicators 2005* (2005); UNICEF, *TransMONEE Database 2005* (December 2005); EBRD, *Transition Report* (November 2005); UNECE, *SME Databank* (2003).

## ***Introduction***

This paper presents USAID/E&E's system for monitoring country progress in the twenty-nine transition country region.<sup>1</sup> It is the ninth update of the original January 1997 report. As in past editions, transition progress is tracked along four primary dimensions: (1) economic reforms; (2) democratization; (3) economic performance (which includes economic structure and macroeconomic conditions); and (4) human capital (or social conditions). An important objective of this report and the *Monitoring Country Progress (MCP)* system is to provide criteria for graduation of transition countries from U.S. government assistance, and, more generally, to provide guidelines in optimizing the allocation of USG resources in the region.<sup>2</sup>

Salient findings for each of the four primary dimensions are articulated in the main body of the report below. Three appendices follow: *Appendix 1* provides elaboration of indicator definitions and sources; *Appendix 2* defines the transition country classification schemes that are used in the report; and *Appendix 3* includes a visual "gap analysis" for each of the twenty-nine countries.

## ***Findings***

### ***Economic reforms***

Progress in economic reforms is measured by the EBRD's transition indicators (*Tables 1 & 2* and *Figure 1*) and the World Bank's *Doing Business* indicators (*Table 3* and *Figure 2*). The former indicators attempt to measure macro policy reforms; the latter group of indicators attempts to address micro business environment reforms.

Nine indicators are drawn from the EBRD and grouped into two stages of reform. The first stage reforms consist of liberalization of prices, external trade and foreign currency reforms, and privatization of small-scale and large-scale units (*Table 1*).<sup>3</sup> The second stage reforms consist of enterprise restructuring (credit and subsidy policy), competition policy, financial sector reforms (including banking and capital markets), and reforms in infrastructure (*Table 2*). In general, whereas much of the first stage reforms focus on liberalizing the economy from government intervention or ownership, second stage reforms concentrate in large part on building a government's capacity to govern; that is, reconstructing a leaner and more efficient government capable of enforcing the rules and providing the public goods needed for a vibrant market economy to work.

Progress in 2005 in economic reforms was comparable to the pace of reforms in recent years. Eighteen of twenty-nine transition countries advanced in 2005 in at least one reform dimension. Serbia made the greatest advancement, moving forward on four indicators: trade liberalization; large-scale privatization; enterprise governance; and bank reform. Armenia advanced in three areas: large-scale privatization; competition policy; and bank reform. Seven other countries advanced in two dimensions.

In contrast, Russia backslid on large-scale privatization (though it also moved forward on banking reform). This was the only measurable backsliding in economic reform throughout the transition region in 2005 by EBRD's count. Nevertheless, given that it occurred in Russia, it is

notable. As stated by the EBRD, “Russia has largely stalled with reform, having once been the standard bearer for the CIS....As a result of increased state interventions in a range of key economic areas, the privatization process in Russia suffered a significant setback over the last year.”<sup>4</sup>

In general, progress in second stage economic reforms exceeded first stage economic reform gains in the transition region, in no small part because first stage reforms are complete or close to being complete in the large majority of transition countries. Most of the forward movement in first stage reforms occurred in Eurasia, much of such gains occurred in large-scale privatization. Most of the gains in second stage reforms occurred in the Northern Tier CEE countries, much of this in enterprise governance and financial sector reforms. Hence, in contrast to trends in recent years, the Southern Tier CEE countries did not lead the three sub-regions in progress in economic reforms in 2005.

*Figure 1* highlights the pace of economic reforms (first and second stage combined) in the three primary transition regions since 1989. It also disaggregates Eurasia into reforming and non-reforming countries.<sup>5</sup> The trends show slower progress in recent years in the Northern Tier CEE and in Eurasia, as compared to the early 1990s. Economic reform progress among the Eurasian non-reformers has stagnated since 1995. Economic reform progress among the Southern Tier CEE countries on average has appeared to be much more linear or stable over time. However, the overall Southern Tier CEE trend masks large individual country variations in the sub-region: some countries moved forward impressively early on only to stall more recently (such as Romania at least through 2003); other countries, in no small part due to wars, did not start the economic reform process until the mid-to-late 1990s (Bosnia-Herzegovina and Serbia & Montenegro are the salient cases).

*Figure 1* also shows that the Northern Tier CEE countries are well out front and have remained well out front of the rest of the countries in progress in economic reforms since the transition began. However, notwithstanding the 2005 trends, the economic reform gap between the Northern Tier and Southern Tier CEE countries is smaller today than it was in the mid 1990s. The Eurasian countries do not seem to be closing the economic reform gap vis-à-vis Central and Eastern Europe.

*Table 3* and *Figure 2* highlight microeconomic reform trends; i.e., indicators which attempt to capture the business environment. Data are from the World Bank’s *Doing Business* (third) annual report, which includes 155 countries and ten aspects of the business environment in 2005: starting a business; dealing with licenses; hiring and firing workers; registering property; getting credit; protecting investors; paying taxes; trading across borders; enforcing contracts; and closing a business.<sup>6</sup> The transition countries’ rank on average is roughly the worldwide average (i.e., seventy-five out of 155 countries). The range of results in the transition region is very large: Lithuania and Estonia have among the most business friendly environments worldwide by these measures (ranking fifteen and sixteen, respectively); enterprises in Uzbekistan confront some of the highest business environment obstacles worldwide (i.e., Uzbekistan ranks 138, close to Egypt, 141, not far from the Congo, 155, characterized by having the worst overall business environment). Five of the top ten reformers worldwide in 2004 (i.e., countries which made the greatest gains across the ten dimensions) are in the transition region.



Serbia & Montenegro ranked first on this score, advancing in eight out of ten areas. Georgia was second alongside Vietnam, advancing in five areas. Slovakia, Romania, and Latvia all advanced in four areas (*Figure 3*).

There is general correspondence between these *Doing Business* micro economic reform results with the macro reform results of the EBRD: the Northern Tier CEE countries are farthest along; most of the Eurasian countries lag behind the CEE countries (*Figure 4*). Croatia is the salient outlier. According to the *Doing Business* scores, of all the transition countries only Uzbekistan and Ukraine rank lower than Croatia on microeconomic reform progress. The EBRD measures, in contrast, show much greater relative economic reform progress for Croatia, ranking eighth out of twenty-nine overall by EBRD's count.

TABLE 1. FIRST STAGE ECONOMIC POLICY REFORMS IN 2005									
	TRADE		SMALL SCALE		LARGE SCALE		PRICE		1ST STAGE
	LIBERALIZATION		PRIVATIZATION		PRIVATIZATION		LIBERALIZATION		AVERAGE
CZECH REPUBLIC	5.0		5.0		4.0		5.0		4.8
ESTONIA	5.0		5.0		4.0		5.0		4.8
HUNGARY	5.0		5.0		4.0		5.0		4.8
LITHUANIA	5.0		5.0		4.0	↑	5.0		4.8
SLOVAK REPUBLIC	5.0		5.0		4.0		5.0		4.8
LATVIA	5.0		5.0		3.7		5.0		4.7
POLAND	5.0		5.0		3.3		5.0		4.6
ARMENIA	5.0		4.0		3.7	↑	5.0		4.4
BULGARIA	5.0		3.7		4.0		5.0		4.4
GEORGIA	5.0		4.0		3.7	↑	5.0		4.4
KYRGYZ REPUBLIC	5.0		4.0		3.7		5.0		4.4
ROMANIA	5.0		3.7		3.7		5.0		4.3
CROATIA	5.0		5.0		3.3		4.0		4.3
ALBANIA	5.0		4.0		3.0		5.0		4.3
SLOVENIA	5.0		5.0		3.0		4.0		4.3
MACEDONIA	5.0		4.0		3.3		4.0		4.1
MOLDOVA	5.0		3.7		3.0		3.7		3.8
KAZAKHSTAN	3.3		4.0		3.0		4.0		3.6
RUSSIA	3.3		4.0		3.0	↓	4.0		3.6
UKRAINE	3.3	↑	4.0		3.0		4.0		3.6
MONTENEGRO	3.7		3.0		3.3	↑	4.0		3.5
SERBIA	3.7	↑	3.3		2.7	↑	4.0		3.4
AZERBAIJAN	4.0	↑	3.7		2.0		4.0		3.4
BOSNIA AND HERZEGOVINA	3.7		3.0		2.7	↑	4.0		3.3
TAJKISTAN	3.3		4.0	↑	2.3		3.7		3.3
KOSOVO	3.7		3.0	↑	1.0		4.0		2.9
UZBEKISTAN	2.0	↑	3.0		2.7		2.7		2.6
BELARUS	2.3		2.3		1.0		2.7		2.1
TURKMENISTAN	1.0		2.0		1.0		2.7		1.7
CEE & EURASIA	4.2		4.0		3.1	↑	4.3		3.9
NORTHERN TIER CEE	5.0		5.0		3.8	↑	4.9		4.7
SOUTHERN TIER CEE	4.6		3.8		3.2	↑	4.4		4.0
EURASIA	3.6	↑	3.6	↑	2.7	↑	3.9		3.4
INDUSTRIAL COUNTRIES	5.0		5.0		5.0		5.0		5.0
ROMANIA & BULGARIA 2002	4.5		3.7		3.5		5.0		4.2
NORTH. TIER CEE AT GRADUATION	4.8		4.9		3.5		4.5		4.4

Ratings are based on a 1 to 5 scale, with 5 being most advanced. A "↑" indicates an advancement from September 2004 to September 2005.

EBRD, *Transition Report 2005* (November 2005).

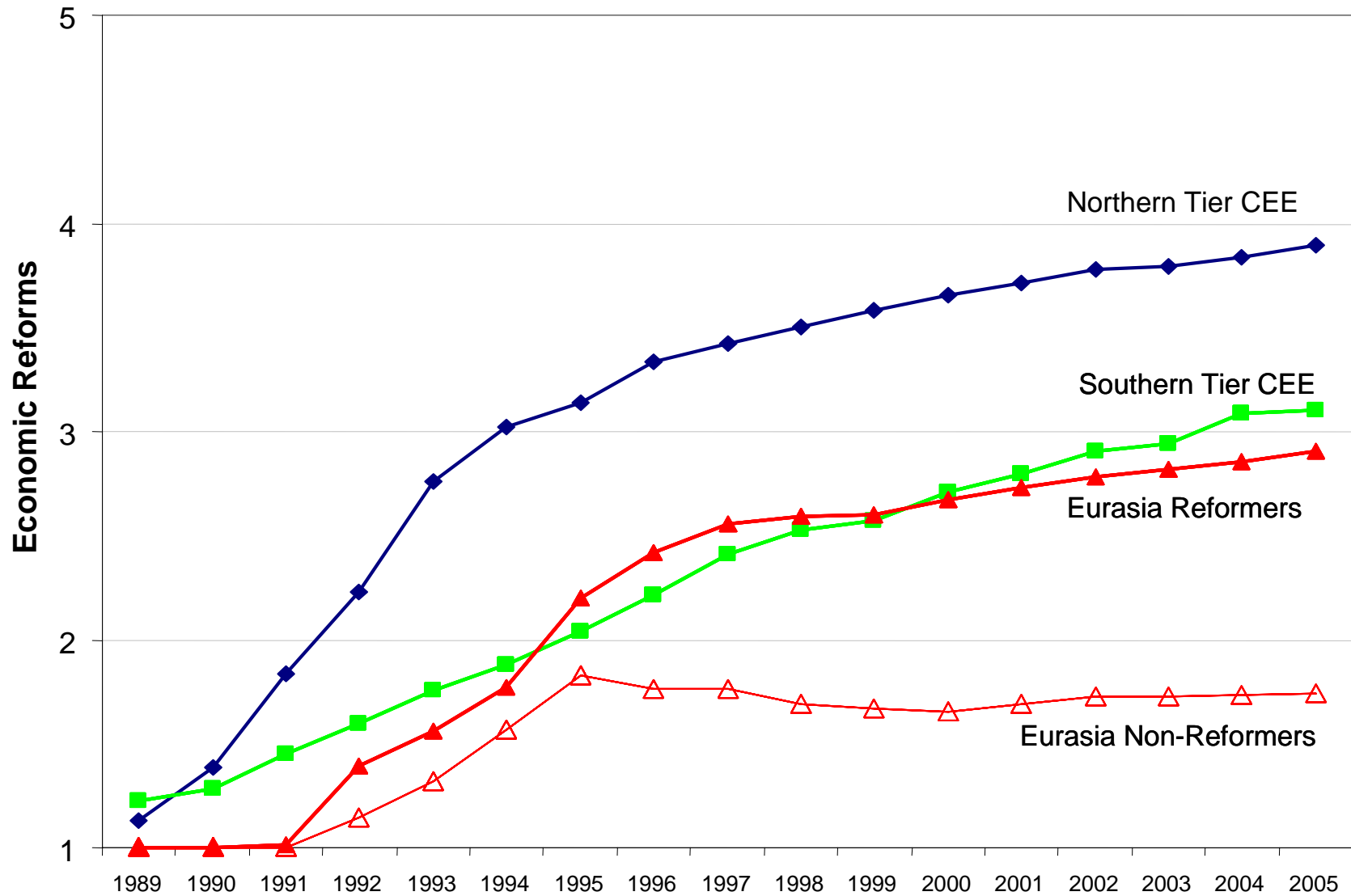
TABLE 2. SECOND STAGE ECONOMIC POLICY REFORMS IN 2005												
	ENTERPRISE		COMPETITION		BANK		CAPITAL		INFRASTRUCTURE		2ND STAGE	
	GOVERNANCE		POLICY		REFORM		MKT. REFORM		REFORM		AVERAGE	
HUNGARY	3.7	↑	3.0		4.0		4.0	↑	3.7		3.7	↑
POLAND	3.7	↑	3.0		3.7	↑	3.7		3.3		3.5	↑
CZECH REPUBLIC	3.3		3.0		4.0	↑	3.7	↑	3.3		3.5	↑
ESTONIA	3.7	↑	2.7		4.0		3.3		3.3		3.4	↑
SLOVAK REPUBLIC	3.7	↑	3.0		3.7		2.7		3.0		3.2	↑
LATVIA	3.0		2.7		3.7		3.0		3.0		3.1	
LITHUANIA	3.0		3.0		3.7	↑	3.0		2.7		3.1	↑
CROATIA	3.0		2.3		4.0		2.7		3.0		3.0	
SLOVENIA	3.0		2.7		3.3		2.7		3.0		2.9	
BULGARIA	2.7		2.7	↑	3.7		2.3		3.0		2.9	↑
ROMANIA	2.3	↑	2.3		3.0		2.0		3.3		2.6	↑
RUSSIA	2.3		2.3		2.3	↑	2.7		2.7		2.5	↑
ARMENIA	2.3		2.3	↑	2.7	↑	2.0		2.3		2.3	↑
KAZAKHSTAN	2.0		2.0		3.0		2.3		2.3		2.3	
UKRAINE	2.0		2.3		2.7	↑	2.3		2.0		2.3	↑
GEORGIA	2.3	↑	2.0		2.7		1.7		2.3		2.2	↑
MOLDOVA	2.0	↑	2.0		2.7		2.0		2.3	↑	2.2	↑
MACEDONIA	2.3		2.0		2.7		2.0		2.0		2.2	
ALBANIA	2.0		2.0		2.7		1.7		2.0		2.1	
AZERBAIJAN	2.3		2.0		2.3		1.7		2.0		2.1	
SERBIA	2.3	↑	1.0		2.7	↑	2.0		2.0		2.0	↑
KYRGYZ REPUBLIC	2.0		2.0		2.3		2.0		1.7		2.0	
BOSNIA AND HERZ.	2.0		1.0		2.7		1.7		2.3		1.9	
UZBEKISTAN	1.7		1.7		1.7		2.0		1.7		1.7	
BELARUS	1.0		2.0		1.7		2.0		1.3		1.6	
MONTENEGRO	2.0		1.0		2.3		1.7		1.0		1.6	
TAJIKISTAN	1.7		1.7		2.0		1.0		1.3		1.5	
KOSOVO	1.7		1.7	↑	2.0		1.0		1.0		1.5	
TURKMENISTAN	1.0		1.0		1.0		1.0		1.0		1.0	
CEE & EURASIA	2.4	↑	2.1		2.9	↑	2.3		2.3		2.4	↑
NORTHERN TIER CEE	3.4	↑	2.9		3.8	↑	3.3	↑	3.2		3.3	↑
SOUTHERN TIER CEE	2.3		1.9	↑	3.0		2.0		2.4		2.3	↑
EURASIA	1.9	↑	1.9		2.3	↑	1.9		1.9		2.0	↑
INDUSTRIAL COUNTRIES	5.0		5.0		5.0		5.0		5.0		5.0	
ROMANIA & BULG. 2002	2.2		2.3		3.0		2.2		2.9		2.5	
NORTHERN TIER CEE AT GRADUATION	2.9		2.6		3.2		2.8		2.7		2.8	

Ratings are based on a 1 to 5 scale, with 5 being most advanced. A "↑" indicates an advancement from September 2004 to September 2005.

EBRD, *Transition Report 2005* (November 2005).

# Economic Reform

Figure 1



Ratings are based on a 1 to 5 scale, with 5 representing most advanced. EBRD, *Transition Report 2005* (November 2005 and earlier editions). Eurasia non-reformers include Uzbekistan, Belarus & Turkmenistan.

**TABLE 3: DOING BUSINESS IN 2005**

	<u>STARTING A BUSINESS</u>		<u>CLOSING A BUSINESS</u>		DIFFICULTY OF HIRING (0-100)**	DIFFICULTY OF FIRING (0-100)**	DOING BUSINESS RANK*
	TIME (DAYS)	COST	TIME (YEARS)	COST			
		(% INCOME PER CAPITA)		(% ESTATE)			
LITHUANIA	26	3	1	7	33	40	15
ESTONIA	35	6	3	9	33	40	16
LATVIA	18	4	1	4	67	70	26
SLOVAKIA	25	5	5	18	17	40	37
CZECH REPUBLIC	40	10	9	14	33	20	41
ARMENIA	25	6	2	4	17	70	46
HUNGARY	38	22	2	14	11	20	52
POLAND	31	22	1	22	11	40	54
BULGARIA	32	10	3	9	61	10	62
SLOVENIA	60	10	4	14	61	50	63
ROMANIA	11	5	5	9	67	50	78
RUSSIA	33	5	4	9	0	30	79
MACEDONIA	48	11	4	28	61	40	81
MOLDOVA	30	17	3	9	33	70	83
KYRGYZ REPUBLIC	21	10	4	4	33	40	84
KAZAKHSTAN	24	9	3	18	0	10	86
BOSNIA & HERZ.	54	41	3	9	56	30	87
SERBIA & MONT	15	6	3	23	44	40	92
AZERBAIJAN	115	13	3	8	33	40	98
GEORGIA	21	14	3	4	0	70	100
BELARUS	79	23	6	22	0	40	106
ALBANIA	41	31	4	38	44	20	117
CROATIA	49	13	3	14	61	50	118
UKRAINE	34	11	3	42	44	80	124
UZBEKISTAN	35	16	4	4	33	30	138
CEE & EURASIA	38	13	3	14	34	42	75
NORTHERN TIER CEE	34	10	3	13	33	40	38
SOUTHERN TIER CEE	36	17	4	19	56	34	91
EURASIA	42	12	3	12	19	48	94

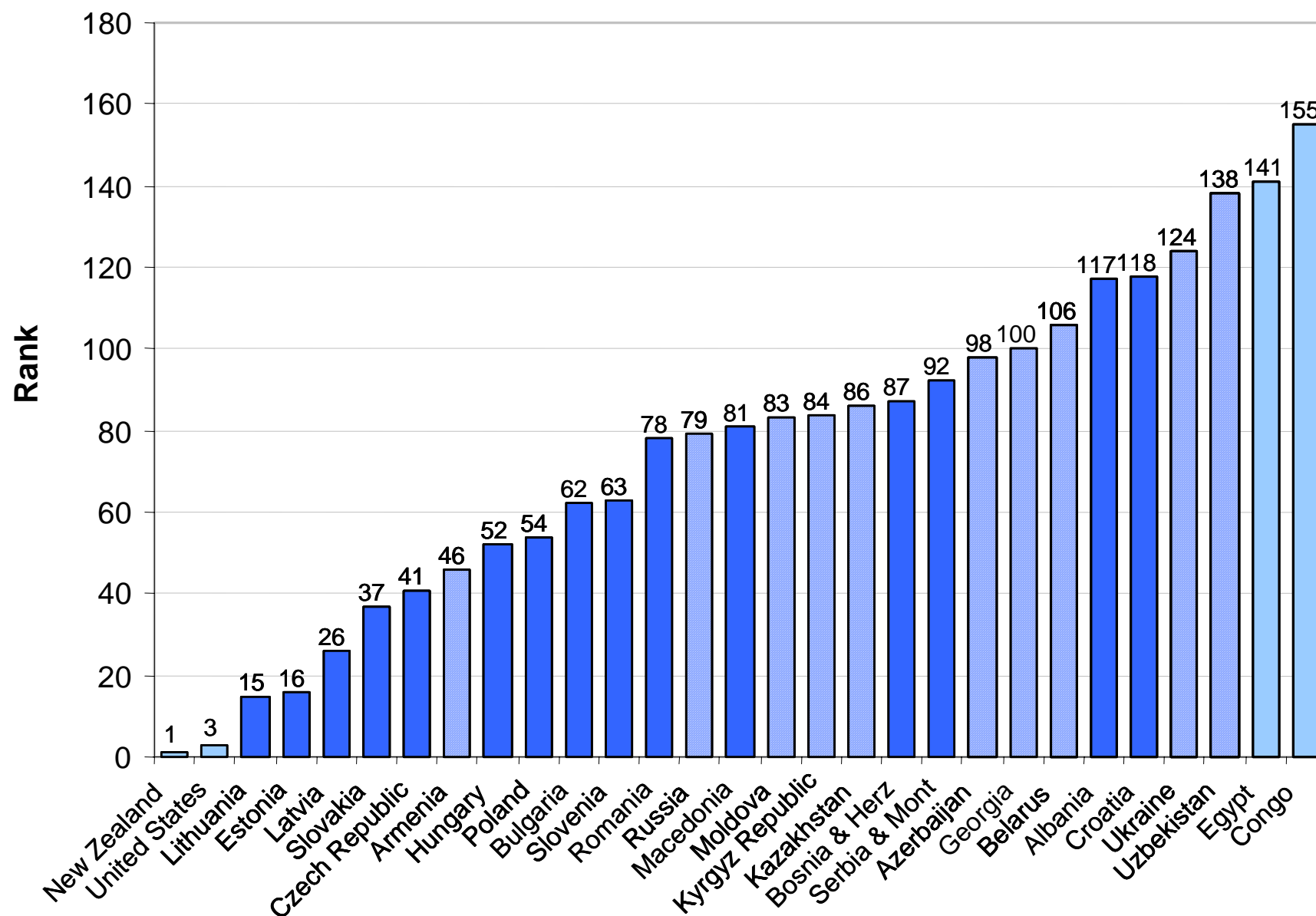
World Bank, *Doing Business in 2006* (September 2005).

\* Worldwide scores range from 1 to 155 and include 10 topics: starting a business, dealing with licenses, hiring and firing workers, registering a property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts, closing a business.

\*\* The higher the score, the more difficult to hire (or fire).

Figure 2

## Business Environment in 2005



World Bank, *Doing Business in 2006* (September 2005). Worldwide scores range from 1 to 155 and include 10 topics: starting a business, dealing with licenses, hiring and firing workers, registering a property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts, closing a business.

Figure 3 **Greatest Reform Progress in Business Environment in 2004**

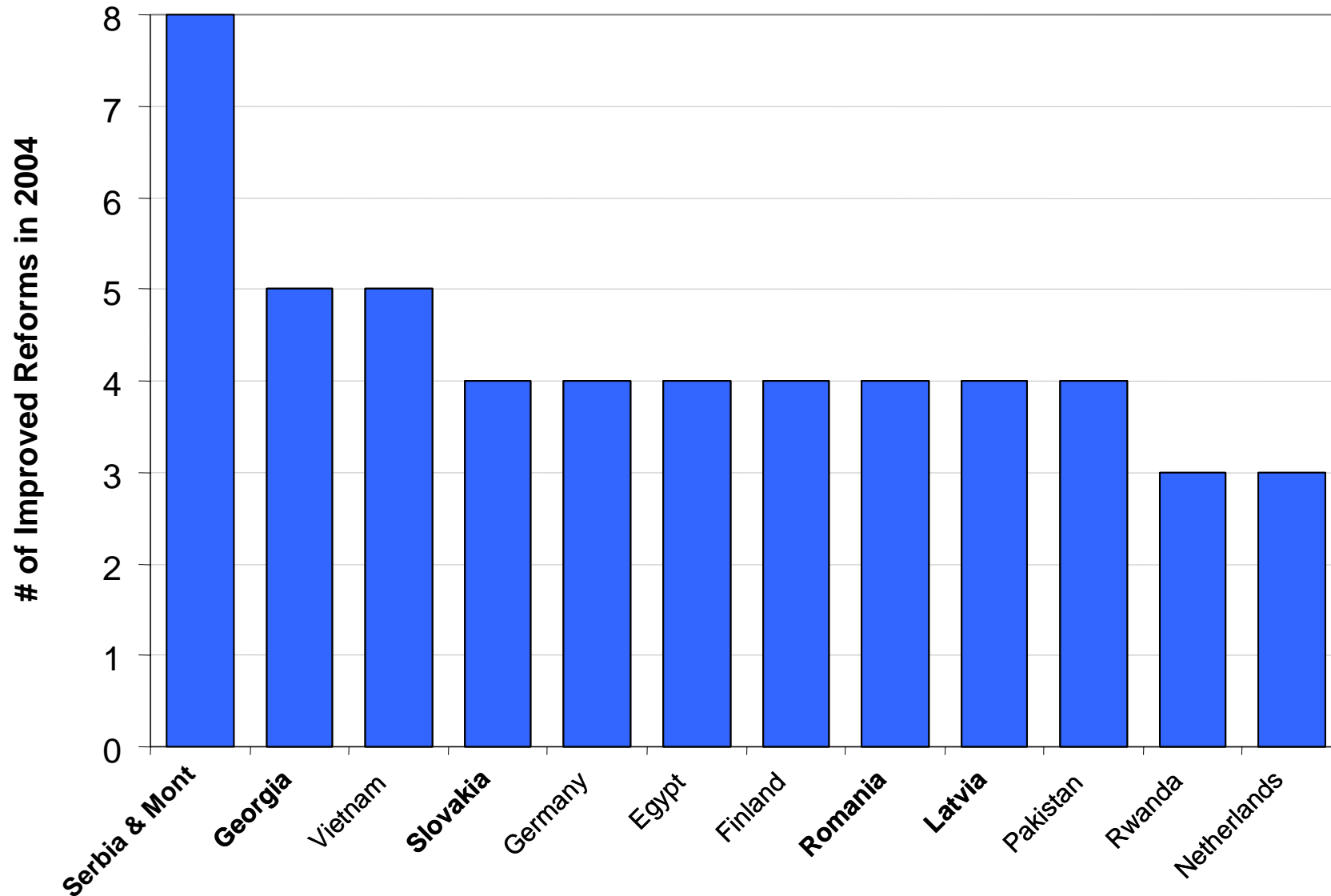
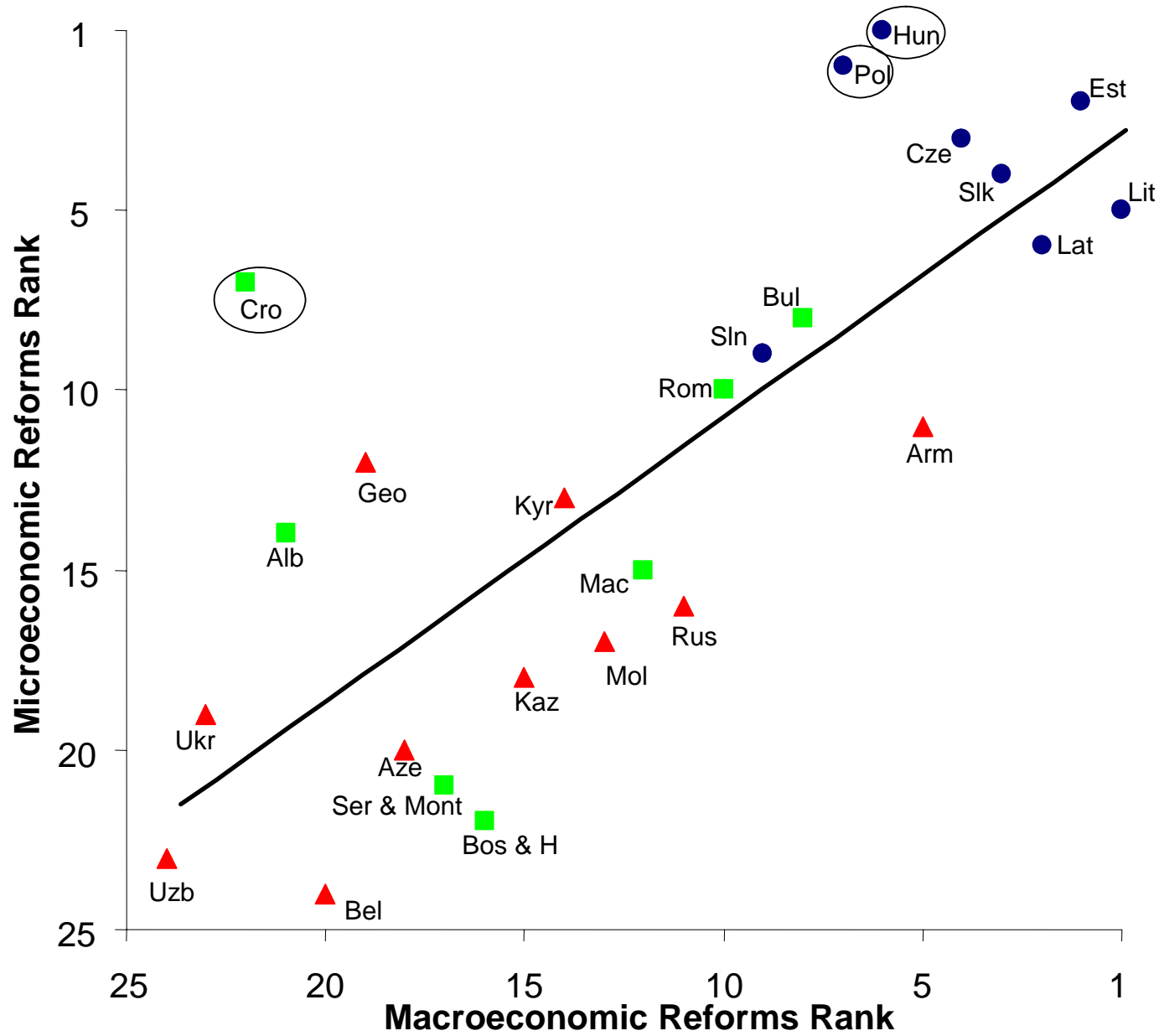


Figure 4

# Economic Reforms Compared



EBRD, *Transition Report* (October 2005); World Bank, *Doing Business in 2006* (2006).



## *Democratization*

Progress towards democracy building is primarily assessed from indicators drawn from Freedom House. *Table 4* shows 2005 democratization data drawn from Freedom House's *Nations in Transit* and disaggregated into seven components: (1) electoral process; (2) civil society; (3) independent media; (4) national governance; (5) local governance; (6) rule of law; and (7) the fight against corruption.<sup>7</sup>

According to these data, the Northern Tier CEE countries remain well out front in democratic reforms (across all sectors), followed by virtually all the Southern Tier CEE countries, followed by Eurasia. Kosovo is the Southern Tier CEE outlier, with democratic reform progress closer to Eurasian standards. Of the Eurasian countries, Ukraine comes closest to democratization standards in CEE.

In general, the 2005 data show a continuation of the growing democratization gap between CEE and Eurasia that has been evident since the early transition years. Freedom House's *Nations in Transit* data show six Eurasian countries backsliding on democratic reforms in 2005 and only three countries (Ukraine, Georgia, and Moldova) moving forward. In CEE, seven countries advanced in democratization in 2005 and only two countries (Hungary and Poland) regressed. Among the three sub-regions, the broadest gains occurred in the Southern Tier CEE countries, advancing in six of seven democracy areas. The most broad-based gains in democratization in 2005 occurred in Bulgaria, Albania, and Ukraine; the countries which regressed the most were Uzbekistan, Russia, and Tajikistan.

*Table 5* includes Freedom House's broader political rights and civil liberties indices. While not as rigorous (or as well-tailored) as the transition region-specific data of *Table 4*, these indices do provide a longer term view of the trends (going back to the 1970s). They also provide a means to compare progress with the rest of the world. These data show that the range in progress in democratization across the transition countries spans the range of possibilities worldwide, from progress in all eight of the Northern Tier CEE countries (which get the best possible score worldwide on Freedom House's two indices, alongside all of the EU-15 countries except Greece), to the absence of virtually any democratic freedoms in Turkmenistan and Uzbekistan (which get the worst possible score worldwide, a distinction shared by only six other countries: Burma; Cuba; North Korea; Libya; Sudan; and Syria).

*Figure 5* combines the two Freedom House data series, using the more rigorous measures from *Nations in Transit* when that series began (in 1997). These data underscore that the Northern Tier CEE countries achieved a level of democratization slightly below Western European standards by the mid-1990s; by 2004 they were on a par with those standards. The Southern Tier CEE countries remain notably behind the Northern Tier CEE countries, though the gap has narrowed significantly since the late 1990s. Democratization trends in Eurasia have been strikingly different than those in Northern and Southern Tier CEE. Specifically, while considerable liberalization of democratic freedoms in Eurasia occurred under Gorbachev leading up to the collapse of the Soviet

Union in 1991, since then, the trend towards democratization has generally been one of steady backsliding among the three Eurasian non-reformers and stagnation in democratization for much of the 1990s in the Eurasian reformers followed more recently by gradual erosion of such reforms.

*Figures 6 and 7* show attempts to measure two democracy sectors in the transition region in greater detail: the NGO sector and media.<sup>8</sup> The *NGO Sustainability Index (Figure 6)* shows that the NGO sectors in the Northern Tier CEE countries are far more advanced than those elsewhere in the transition region, and are the only NGO sectors where “consolidation” has occurred. Nevertheless, most of the gains in the NGO sector from 1998 to 2005 occurred in the Southern Tier CEE countries. Some of the most notable backsliding during that time period occurred in Eurasia; Russia is a salient example.

The *Media Sustainability Index (Figure 7)* assesses trends from 2001 through 2005 in the Southern Tier CEE and Eurasia. By these scores, media is much more advanced in the Southern Tier CEE than in Eurasia (all the Southern Tier CEE countries have higher scores than do all the Eurasian countries). However, only one country, Croatia, has crossed (in 2005) the “sustainable” threshold. Most of the gains from 2001 to 2005 in media occurred in the Southern Tier CEE countries. In 2005, seven Southern Tier CEE countries advanced in media reforms while two regressed (Bosnia-Herzegovina and Bulgaria); in Eurasia, five countries advanced and five regressed. The greatest gains in 2005 occurred in Ukraine, Romania, and Albania.

Finally, on democratization, is the comparison worldwide of perceptions of corruption in 2005 from Transparency International (*Figure 8*). These data suggest that corruption is perceived to be very high by global standards in many transition countries, particularly in Eurasia. In fact, most of the transition countries attain Transparency International’s dubious threshold of “rampant corruption;” in particular, all of the Southern Tier CEE countries except Bulgaria and Croatia (i.e., Romania, Bosnia-Herzegovina, Serbia-Montenegro, Macedonia, and Albania), and all of Eurasia.

**TABLE 4. DEMOCRATIC REFORMS IN 2005**

	ELECTORAL PROCESS	CIVIL SOCIETY	INDEPENDENT MEDIA	NATIONAL GOVERNANCE	LOCAL GOV.	RULE OF LAW	CORRUPTION	AVERAGE
SLOVENIA	4.7	4.5	4.5 ↓	4.3	4.7	4.7	4.2 ↓	4.5
ESTONIA	4.7	4.3	4.7	4.2	4.0	4.7	4.0	4.4
SLOVAK REPUBLIC	4.8	4.8	4.2	4.3	4.3 ↑	4.3	3.7	4.4 ↑
HUNGARY	4.8	4.8	4.0	4.3	4.2	4.5	3.7 ↓	4.3 ↓
LATVIA	4.5	4.5	4.7	4.3 ↑	4.0	4.5	3.5 ↑	4.3 ↑
POLAND	4.5	4.8	4.5 ↓	3.8 ↓	4.3	4.2 ↓	3.5 ↓	4.2 ↓
LITHUANIA	4.5	4.7	4.5	4.0	4.0	4.7 ↑	3.0 ↓	4.2
CZECH REPUBLIC	4.3	4.7	4.3	4.0	4.3	4.2 ↑	3.3	4.2 ↑
BULGARIA	4.5	3.8	3.5 ↑	3.7 ↑↑	3.7 ↑↑	3.7 ↑	3.2 ↑	3.7 ↑
ROMANIA	3.8	4.2	3.0	3.3	3.7	3.0	2.8	3.5
CROATIA	3.5 ↓	3.8 ↑	3.2	3.3	3.2	2.8 ↑	2.5	3.2
SERBIA	3.5	3.8	3.5	3.0	3.2	2.8	2.5 ↑	3.2
MONTENEGRO	3.3 ↓	3.7 ↓	3.5	2.7	3.3	2.8	2.2	3.1
MACEDONIA	3.5 ↓	3.5	2.8	3.2 ↑	3.2 ↑	3.2	2.5 ↑	3.1 ↑
ALBANIA	3.3 ↑	3.7 ↑	3.2 ↑	3.0	3.8 ↑	2.8 ↑	2.2	3.1 ↑
BOSNIA AND HERZ.	3.7 ↑	3.2	3.0	2.5	2.5	3.0 ↑	2.8 ↑	3.0 ↑
UKRAINE	3.5 ↑	3.8 ↑	3.2 ↑↑	2.7 ↑	2.2	2.8	1.8	2.9 ↑
GEORGIA	2.5	3.3	2.8	2.0	1.8 ↑	2.5 ↑	2.0 ↑	2.4 ↑
MOLDOVA	3.2 ↑	3.0	2.3	1.8	1.8	2.7 ↑	1.7 ↑	2.4 ↑
ARMENIA	1.8	3.3	2.0	2.3	2.0	2.3 ↑	1.8	2.2
KOSOVO	2.5	2.8 ↓	2.0	1.8	2.0	1.8	1.7	2.1
KYRGYZ REPUBLIC	1.8 ↑	2.7	1.8	1.7	1.5 ↓	2.0	1.7	1.9
RUSSIA	1.5 ↓	2.3 ↓	1.7	1.7 ↓	1.8	2.2	1.7 ↓	1.8 ↓
TAJKISTAN	1.5 ↓	2.3 ↓	1.5 ↓	1.5 ↓	1.8	1.8	1.5	1.7 ↓
AZERBAIJAN	1.3 ↓	2.3 ↓	1.7	1.7	1.7	1.8	1.5	1.7 ↓
KAZAKHSTAN	1.3	1.8 ↓	1.2 ↓	1.2 ↓	1.5	1.5	1.3	1.4 ↓
BELARUS	1.0	1.2	1.2	1.0 ↓	1.3	1.2	1.5 ↓	1.2 ↓
UZBEKISTAN	1.2	1.0 ↓	1.0 ↓	1.0 ↓	1.2 ↓	1.2 ↓	1.3 ↓	1.1 ↓
TURKMENISTAN	1.0	1.0	1.0	1.0	1.0	1.0	1.2 ↓	1.0
CEE & EURASIA	3.1	3.4	2.9	2.7	2.8	2.9	2.4	2.9
NORTHERN TIER CEE	4.6	4.6	4.4 ↓	4.2	4.2	4.5 ↑	3.6 ↓	4.3
SOUTHERN TIER CEE	3.6	3.7 ↑	3.1 ↑	3.1 ↑	3.3 ↑	3.0 ↑	2.6 ↑	3.2 ↑
EURASIA	1.8	2.3 ↓	1.8	1.6 ↓	1.7 ↓	1.9	1.6	1.8
ROM. & BULG. 2002	4.3	3.5	3.3	3.2	3.2	3.3	2.8	3.4
NORTHERN TIER CEE AT GRADUATION	4.5	4.5	4.5	4.1	4.1	4.4	3.6	4.3

Ratings are based on a scale from 1 to 5, with 1 representing most advanced--or, in the case of corruption, most free.

A "↑" indicates an increase in democratization since 2002; a "↓" signifies a decrease. One arrow represents a change greater than 0.1 and less than 0.5; two arrows represents change 0.5 and greater.

Data depict trends from November 2004 through December 2005.

Freedom House, *Nations in Transit 2006* (2006).

**TABLE 5. POLITICAL RIGHTS AND CIVIL LIBERTIES**

	<u>1990</u>		<u>1999</u>		<u>2000</u>		<u>2002</u>		<u>2003</u>		<u>2004</u>		<u>2005</u>	
	PR	CL	PR	CL	PR	CL	PR	CL	PR	CL	PR	CL	PR	CL
SLOVENIA	5	4	1	2	1	2	1	1	1	1	1	1	1	1
CZECH REPUBLIC	2	2	1	2	1	2	1	2	1	2	1	1	1	1
ESTONIA	5	4	1	2	1	2	1	2	1	2	1	1	1	1
HUNGARY	2	2	1	2	1	2	1	2	1	2	1	1	1	1
POLAND	2	2	1	2	1	2	1	2	1	2	1	1	1	1
SLOVAK REPUBLIC	2	2	1	2	1	2	1	2	1	2	1	1	1	1
LATVIA	5	4	1	2	1	2	1	2	1	2	1	2	1	1 ↑
BULGARIA	3	4	2	3	1	3	1	2	1	2	1	2	1	2
LITHUANIA	5	4	1	2	1	2	1	2	1	2	2	2	1 ↑	1 ↑
CROATIA	5	4	2	3	2	2	2	2	2	2	2	2	2	2
ROMANIA	6	5	2	2	2	2	2	2	2	2	3	2	2 ↑	2
SERBIA & MONT.	5	4	4	4	3	3	3	2	3	2	3	2	3	2
ALBANIA	7	6	4	5	3	4	3	3	3	3	3	3	3	3
MACEDONIA	5	4	4	3	4	4	3	3	3	3	3	3	3	3
UKRAINE	5	4	4	4	4	4	4	4	4	4	4	3	3 ↑	2 ↑
BOSNIA AND HERZ.	5	4	5	4	5	4	4	4	4	4	4	3	4	3
MOLDOVA	5	4	2	4	2	4	3	4	3	4	3	4	3	4
GEORGIA	5	4	4	4	4	4	4	4	4	4	3	4	3	3 ↑
ARMENIA	5	4	4	4	4	4	4	4	4	4	5	4	5	4
RUSSIA	5	4	5	5	5	5	5	5	5	5	6	5	6	5
AZERBAIJAN	5	4	6	5	6	5	6	5	6	5	6	5	6	5
KAZAKHSTAN	5	4	6	5	6	5	6	5	6	5	6	5	6	5
KYRGYZ REPUBLIC	5	4	6	5	6	5	6	5	6	5	6	5	5 ↑	4 ↑
TAJIKISTAN	5	4	6	6	6	6	6	5	6	5	6	5	6	5
KOSOVO					6	6	6	6	5	5	5	5	6	5
BELARUS	5	4	6	6	6	6	6	6	6	6	7	6	7	6
UZBEKISTAN	5	4	7	6	7	6	7	6	7	6	7	6	7	7 ↓
TURKMENISTAN	5	4	7	7	7	7	7	7	7	7	7	7	7	7
CEE & EURASIA	4.6	3.8	3.5	3.7	3.5	3.8	3.4	3.5	3.4	3.5	3.5	3.3	3.4	↑ 3.1 ↑
NORTHERN TIER CEE	3.5	3.0	1.0	2.0	1.0	2.0	1.0	1.9	1.0	1.9	1.1	1.3	1.0	↑ 1.0 ↑
SOUTHERN TIER CEE	5.1	4.4	3.3	3.4	3.1	3.4	2.8	2.9	2.7	2.8	2.9	2.6	2.8	↑ 2.6
EURASIA	5.0	4.0	5.3	5.1	5.3	5.2	5.4	5.1	5.3	5.0	5.5	4.9	5.4	↑ 4.8 ↑
EUROPEAN UNION-15 <sup>1</sup>									1.0	1.1	1.0	1.1	1.0	1.1
OECD <sup>2</sup>									1.1	1.3	1.1	1.2	1.1	1.2
ROMANIA & BULG. 2002							1.5	2.0						
NORTHERN TIER CEE														
AT GRADUATION	1.1	2.0												

Ratings from 1 to 7, with 1 representing greatest development of political rights/civil liberties.

A ↑ (↓) signifies an increase (decrease) in democratization in 2004 as measured by a change in political rights or civil liberties

(1) All 15 EU members score "1" in Political Rights. In Civil Liberties 14 of the 15 members score a "1"; and Greece scores a "2".

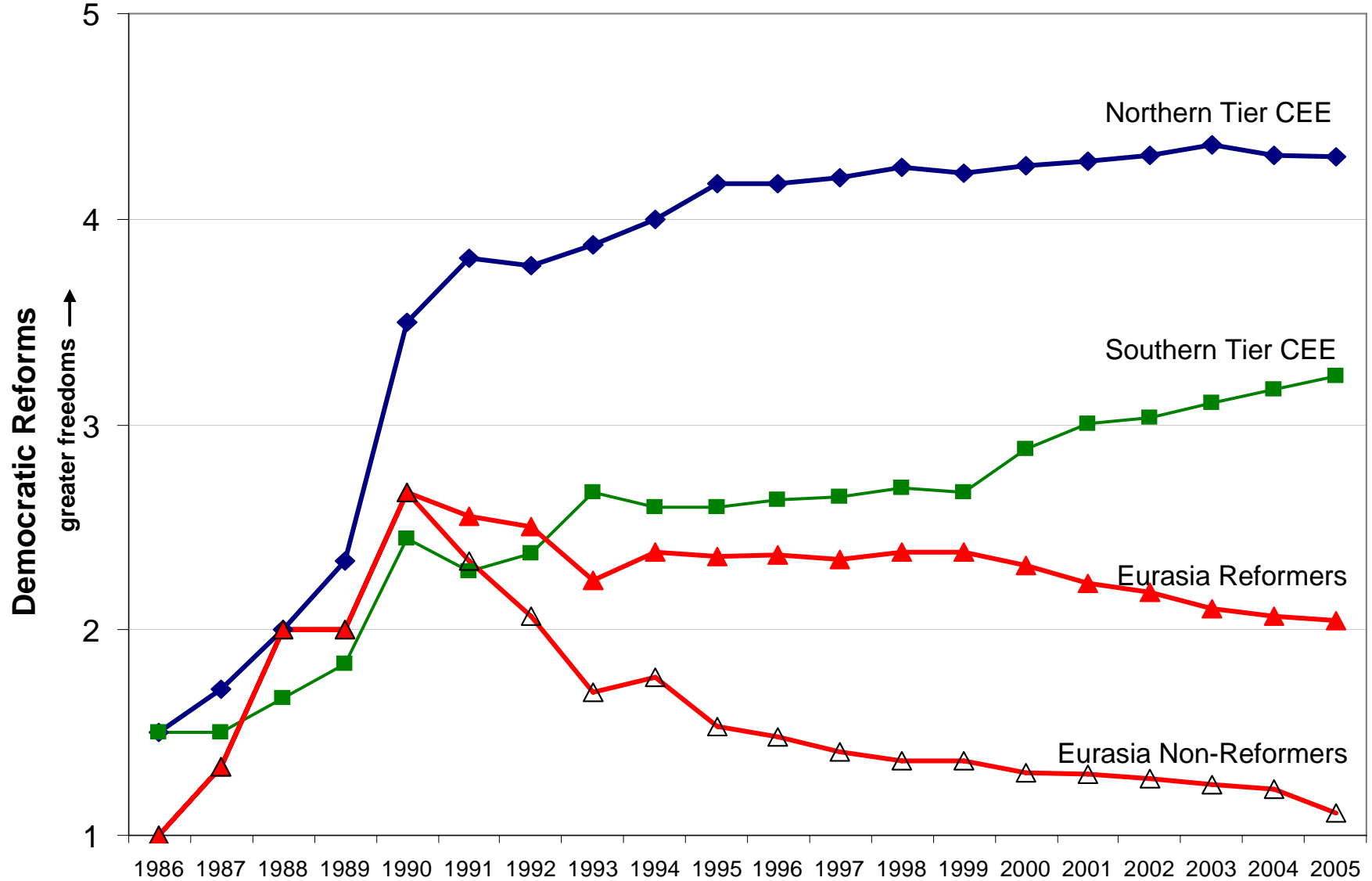
(2) All but two OECD members score a "1" in Political Rights; the exceptions are Turkey ("3") and Mexico ("2").

For Civil Liberties, 24 members score a "1"; 4 score a "2" (Greece, Japan, Mexico and South Korea); and Turkey scores a "3".

Freedom House, *Freedom in the World 2006* (2005) and previous editions.

Figure 5

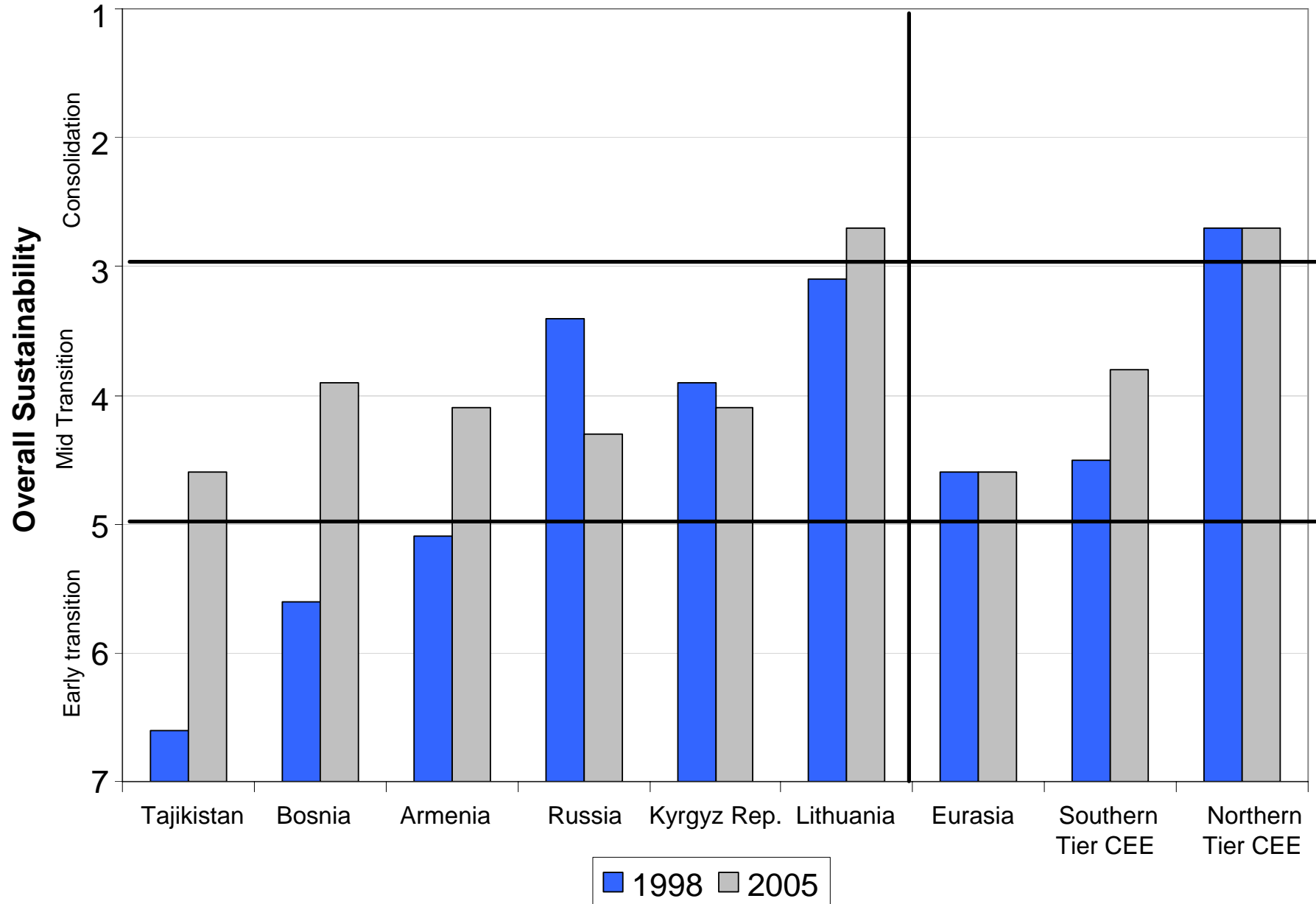
# Democratic Reforms



Ratings from 1 to 5, with 5 representing greatest development of political rights/civil liberties. The data are an aggregation of Freedom House's political rights and civil liberties indices; Freedom House, *Freedom in the World 2005* (2005 and previous editions), *Nations in Transit* (2006). Eurasia non-reformer include Uzbekistan, Belarus & Turkmenistan.

Figure 6

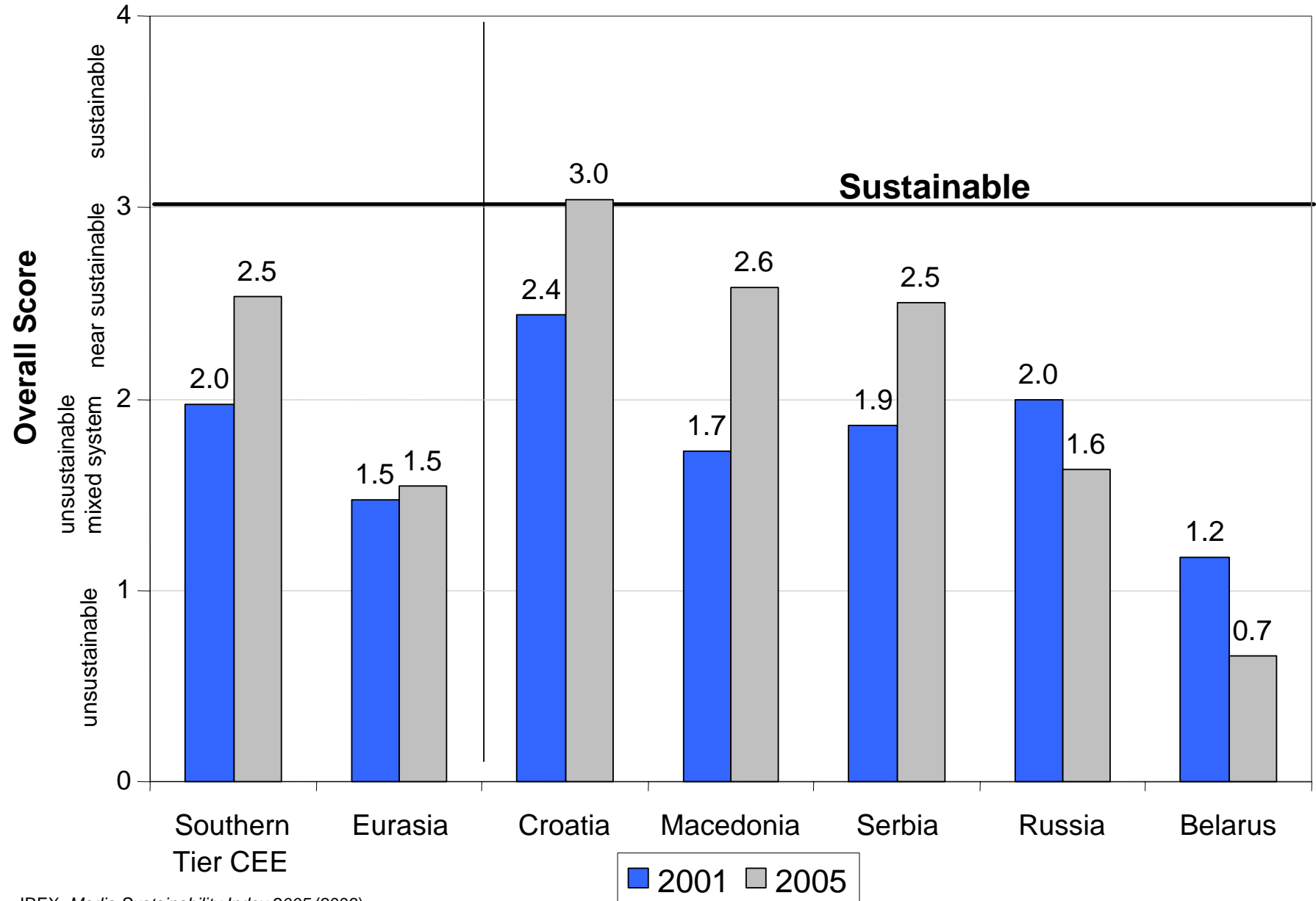
# NGO Sustainability Index



USAID/EE/DGST, *The 2005 NGO Sustainability Index for Central and Eastern Europe and Eurasia* (2006).

Figure 7

# Media Sustainability Index

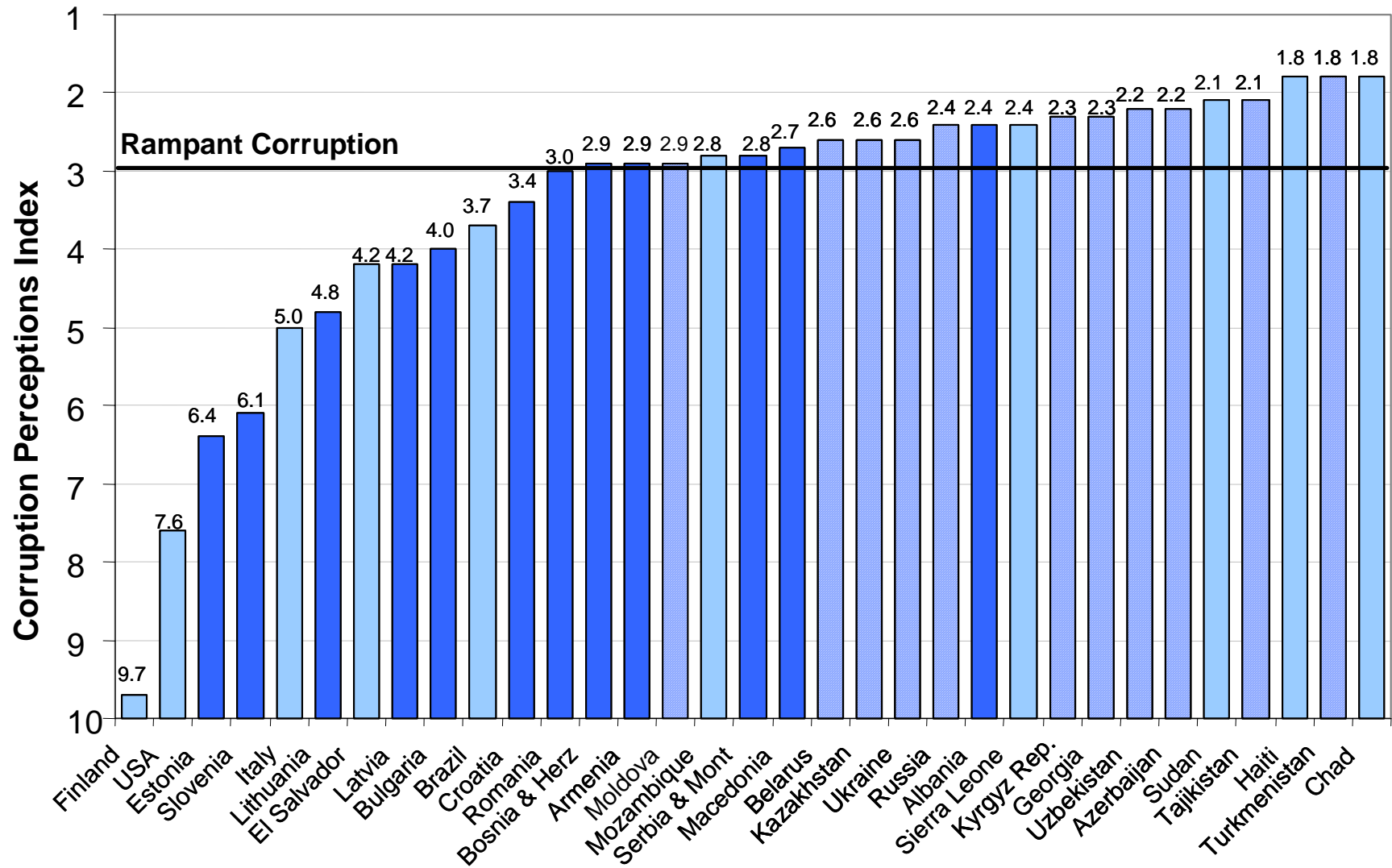


IREX, *Media Sustainability Index 2005* (2006).

Figure 8

# Corruption Perceptions in 2005

(Transparency International)



Transparency International, *Corruption Perceptions Index 2005* (October 2005). Ratings on a 1 to 10, with 10 representing least amount of corruption.



### *Economic and democratic reforms combined*

*Figure 9* provides an overall picture of the status of the economic and democratic reforms in the transition countries in 2005. The economic reform ratings are an equally weighted average of all nine EBRD transition indicators (that is, both stages from *Tables 1* and *2*). The democratic reform ratings are calculated from the average of the seven democratic reform components in 2005 as shown in *Table 4*. *Table 6* tabulates these aggregate economic and democratic reform scores and ranks the countries on both dimensions.

These data show that progress in economic and democratic reforms in the transition region varies greatly, ranging from that found in Hungary, Estonia, and Poland at one end of the reform spectrum to Turkmenistan, Belarus, and Uzbekistan at the other end. The three primary sub-regions have relatively distinct reform profiles, particularly in terms of progress in democratization. Moreover, the data shown in *Figure 9* suggests a further differentiation of countries within Eurasia; the three Eurasian non-reformers lag behind virtually all the other countries on both reform dimensions.

There are two notable geographic outliers: Kosovo's reform progress is closer to Eurasian standards, while Ukraine's is closer to Southern Tier CEE standards. In addition, the cohesiveness or homogeneity of these reform profiles differ among the three sub-regions: the Northern Tier CEE countries are much more clustered (i.e., have a relatively homogeneous reform profile), while the Eurasian countries are much more dispersed than either of the two CEE sub-regions (and in fact arguably consist of two sub-groups).

*Figure 10* shows the reform picture in 1998. It is starkly different than the 2005 picture. The Northern Tier CEE countries were much less homogeneous in 1998, and there was considerably more overlap in the range in reform progress between the Southern Tier CEE countries and Eurasia than exists today. Since 1998, most of the countries across the three sub-regions moved forward on economic reforms, while on democracy, the gap between CEE and Eurasia widened notably.

*Figures 11-18* explore in greater detail the relationship between economic and democratic reforms in the transition region.<sup>9</sup> *Figures 11-13* show times series trends by sub-region, and two distinct patterns. In CEE, economic and democratic reforms are generally advancing together (*Figures 11* and *12*). Democratic reforms have been farther along in both CEE sub-regions, though economic reforms are catching up, and in the case of the Southern Tier CEE, convergence has occurred.

The pattern in Eurasia, however, has been very different (*Figure 13*). Democratic reforms were farther along than economic reforms in the early part of the transition in Eurasia. However, by the mid-1990s economic reform progress matched democratic reform progress and since then economic reforms have continued to advance while democratic reforms have regressed. In other words, divergence between the two reform dimensions has been the salient trend since 1995 in Eurasia.

Reform trends in Ukraine, Georgia, and Kyrgyz Republic are highlighted in *Figures 14-16*

to underscore the reform patterns where democratic “revolutions” have recently taken place. Of the three countries, Ukraine stands out as having had the most reform gains leading up to the (Orange) revolution and thereafter. In Georgia, democratic reform trends were mixed in 2004, the year following the Rose revolution, though good progress was made in both economic and democratic reforms in 2005. Based on the two sets of Freedom House data, recent reform trends in Kyrgyz Republic are not clear. Freedom House’s *Nations in Transit* data show little forward movement in reforms in Kyrgyz Republic since the Tulip Revolution in the spring 2004. In contrast, Freedom House has Kyrgyz Republic advancing in both political rights and civil liberties in 2005 from its global *Freedom in the World* dataset.

Apparent trends between economic and democratic reforms across the region (as shown in *Figures 14-16*) were also compared with results from econometric tests which attempted to take stock of other possible intervening influences as well as direction of causality. *Figures 17 and 18* show some of the key results of a subset of such tests. These tests also tried to assess the relationship between the two reform dimensions and economic growth.<sup>10</sup>

Three basic regressions were developed and tested for four data sets: (1) the full sample of twenty-seven countries<sup>11</sup>; (2) the Northern Tier CEE countries; (3) Southern Tier CEE; and (4) Eurasia. Each data set was a panel design i.e., cross-country observations were combined with annual time series, from 1989-2004.

The model consists of three basic regressions:

- (1) democratic reforms (at time  $t$ ) were regressed on democratic reforms three years prior ( $t-3$ ), economic reforms three years prior, economic growth one year prior, GDP per capita in 1990 (a proxy for “initial conditions”), a dummy variable to account for war years, and a dummy variable for time (a proxy for residual influences on the dependent variable);
- (2) economic reforms (at time  $t$ ) regressed on economic reforms three years prior, democratic reforms three years prior, economic growth one year prior, GDP per capita in 1990, a dummy variable to account for war years, a dummy variable for time; and
- (3) economic growth regressed on democratic reforms three years prior, economic reforms three years prior, GDP per capita 1990, war, time, education (secondary school enrollment), and macro-economic stability (the inflation rate).

*Figures 17 and 18* correspond to the salient results of two of the four samples: the full sample and Eurasia. In these figures, the focus is on the inter-relationships between the three key indicators: economic reforms; democratic reforms; and economic growth. One of four possible outcomes for each relationship for each sample was assessed: either the relationship was positive; negative; not statistically significant; or ambiguous. The finding of ambiguity resulted when test results were inconsistent, though not all statistically insignificant.

Overall, the results (complemented with findings from the empirical literature)<sup>12</sup> provide evidence that: (1) economic and democratic reforms are mutually reinforcing in the transition region; (2) even in Eurasia (despite economic and democratic reform divergence there); (3) economic reforms may have a stronger favorable impact on democratic reforms than the reverse; (4) economic reforms in general favorably affect economic growth (though this relationship is more ambiguous in the case of the Eurasian countries than in CEE); (5) democratic reforms favorably affect economic growth indirectly (via economic reforms) if not directly; and (6) while the feedback effects from economic growth to reforms are more ambiguous, there is some evidence that economic growth may actually stifle democratic reforms, and/or economic contraction may facilitate democratization.<sup>13</sup>

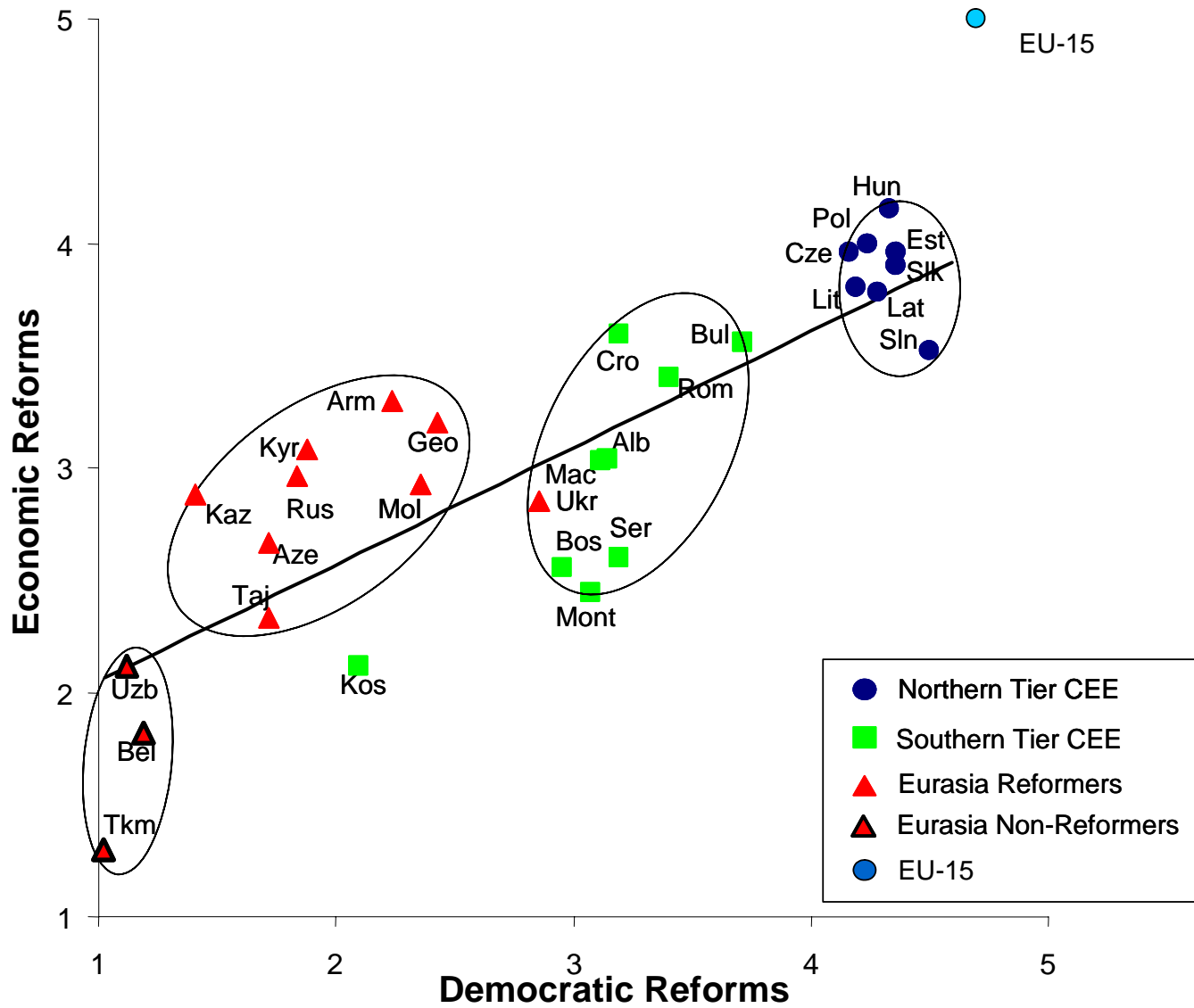
**TABLE 6. ECONOMIC AND DEMOCRATIC REFORMS  
IN CENTRAL AND EASTERN EUROPE AND EURASIA: 2005**

	<u>ECONOMIC REFORMS</u>		<u>DEMOCRATIC REFORMS</u>		
	<u>RATING</u> <u>(1 to 5)</u>	<u>RANKING</u>	<u>RATING</u> <u>(1 to 5)</u>	<u>RANKING</u>	
HUNGARY	4.1	1	SLOVENIA	4.5	1
CZECH REPUBLIC	4.0	2	ESTONIA	4.4	2
ESTONIA	4.0	2	SLOVAK REPUBLIC	4.4	2
POLAND	4.0	2	HUNGARY	4.3	4
SLOVAK REPUBLIC	3.9	5	LATVIA	4.3	4
LITHUANIA	3.8	6	POLAND	4.2	6
LATVIA	3.8	6	LITHUANIA	4.2	6
CROATIA	3.6	8	CZECH REPUBLIC	4.2	6
BULGARIA	3.6	8	BULGARIA	3.7	9
SLOVENIA	3.5	10	ROMANIA	3.5	10
ROMANIA	3.4	11	CROATIA	3.2	11
ARMENIA	3.3	12	SERBIA	3.2	11
GEORGIA	3.2	13	MONTENEGRO	3.1	13
KYRGYZ REPUBLIC	3.1	14	MACEDONIA	3.1	13
ALBANIA	3.0	15	ALBANIA	3.1	13
MACEDONIA	3.0	15	BOSNIA AND HERZEGOVINA	3.0	16
RUSSIA	3.0	15	UKRAINE	2.9	17
MOLDOVA	2.9	18	GEORGIA	2.4	18
KAZAKHSTAN	2.9	18	MOLDOVA	2.4	18
UKRAINE	2.9	18	ARMENIA	2.2	20
AZERBAIJAN	2.7	21	KOSOVO	2.1	21
SERBIA	2.6	22	KYRGYZ REPUBLIC	1.9	22
BOSNIA AND HERZEGOVINA	2.6	22	RUSSIA	1.7	23
MONTENEGRO	2.4	24	TAJIKISTAN	1.7	23
TAJIKISTAN	2.3	25	AZERBAIJAN	1.7	23
UZBEKISTAN	2.1	26	KAZAKHSTAN	1.4	26
KOSOVO	2.1	26	UZBEKISTAN	1.1	27
BELARUS	1.8	28	BELARUS	1.2	28
TURKMENISTAN	1.3	29	TURKMENISTAN	1.0	29
	<b>Rating</b> <b>(1 to 5)</b>		<b>Rating</b> <b>(1 to 5)</b>		
CEE & EURASIA	3.1		2.9		
NORTHERN TIER CEE	3.9		4.3		
SOUTHERN TIER CEE	3.1		3.2		
EURASIA	2.6		1.8		
INDUSTRIAL COUNTRIES	5.0		4.8		
NORTHERN TIER CEE AT GRADUATION	3.5		4.3		
ROMANIA & BULGARIA IN 2002	3.4		3.4		

Ratings are based on a 1 to 5 scale, with 5 representing most advanced.  
USAID calculations drawing from Freedom House, *Nations in Transit 2005 (2006)*  
and EBRD, *Transition Report 2005 (November 2005)*.

# Economic and Democratic Reforms in 2005

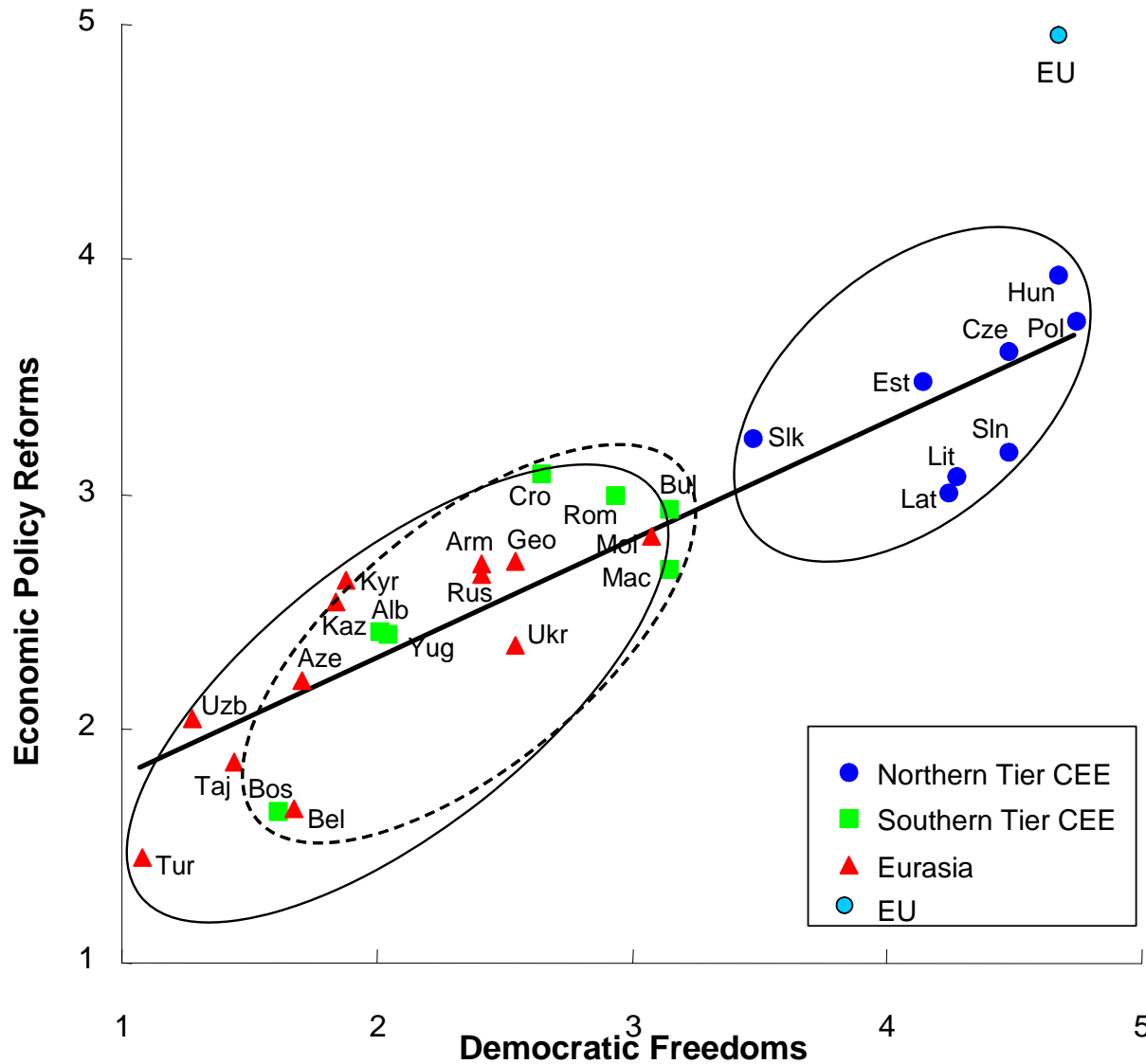
Figure 9



Ratings are based on a 1 to 5 scale, with 5 representing most advanced. Freedom House, *Nations in Transit 2005* (2005), *Freedom in the World 2006* (2005), and EBRD, *Transition Report 2005* (November 2005).

Figure 10

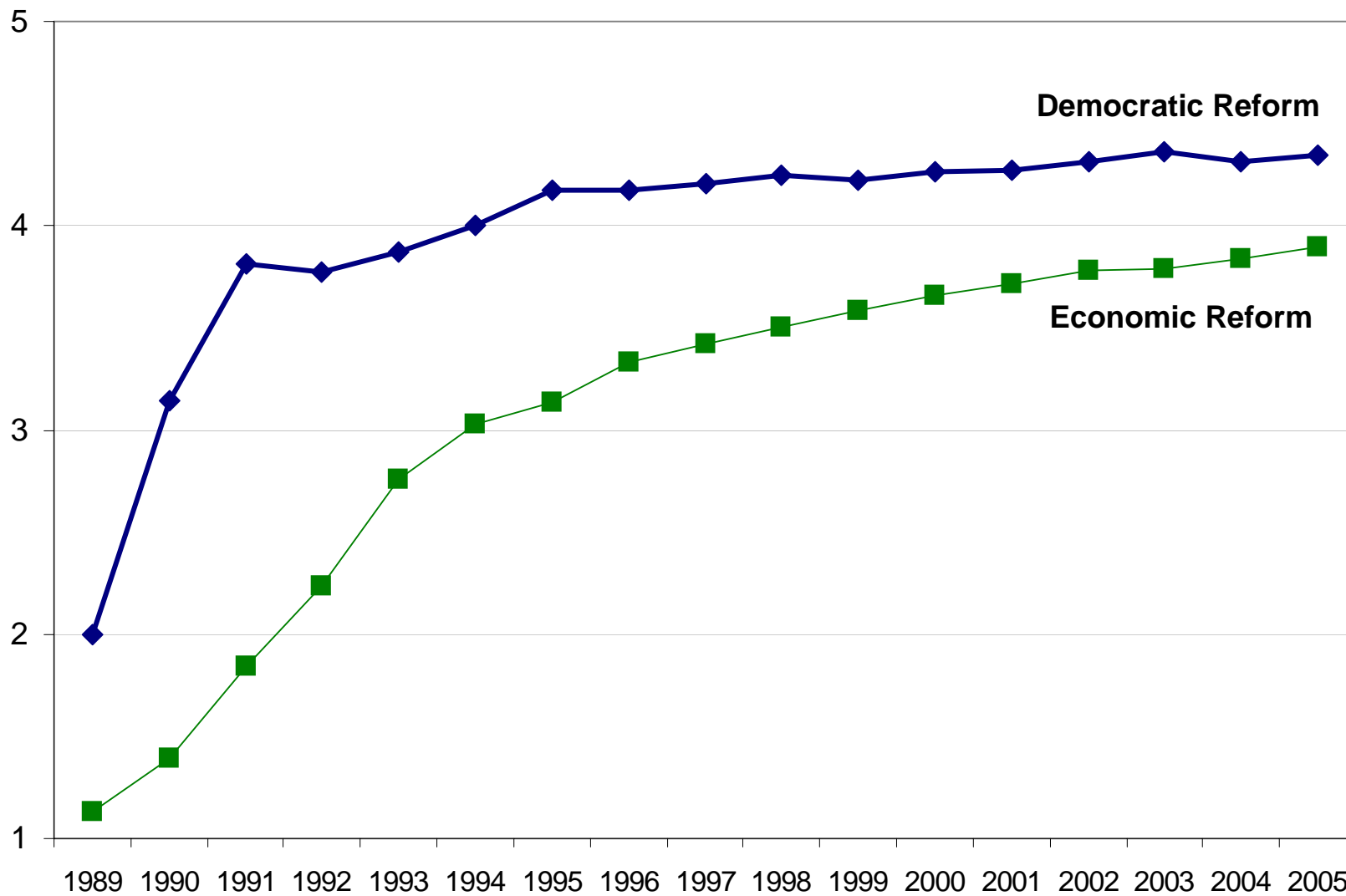
# Economic and Democratic Reforms in 1998



Ratings of democratic freedoms are from Freedom House, *Nations in Transit 1998* (October 1998) and Freedom House, *Freedom in the World 1998-1999* (June 1999), and assess reforms through December 1998. With 1 exception, economic policy reform ratings are from EBRD, *Transition Report 1998* (November 1998), and cover events through early September 1998; economic policy reform rating for Yugoslavia is from Freedom House (October 1998). Ratings are based on a 1 to 5 scale, with 5 representing most advanced.

Figure 11

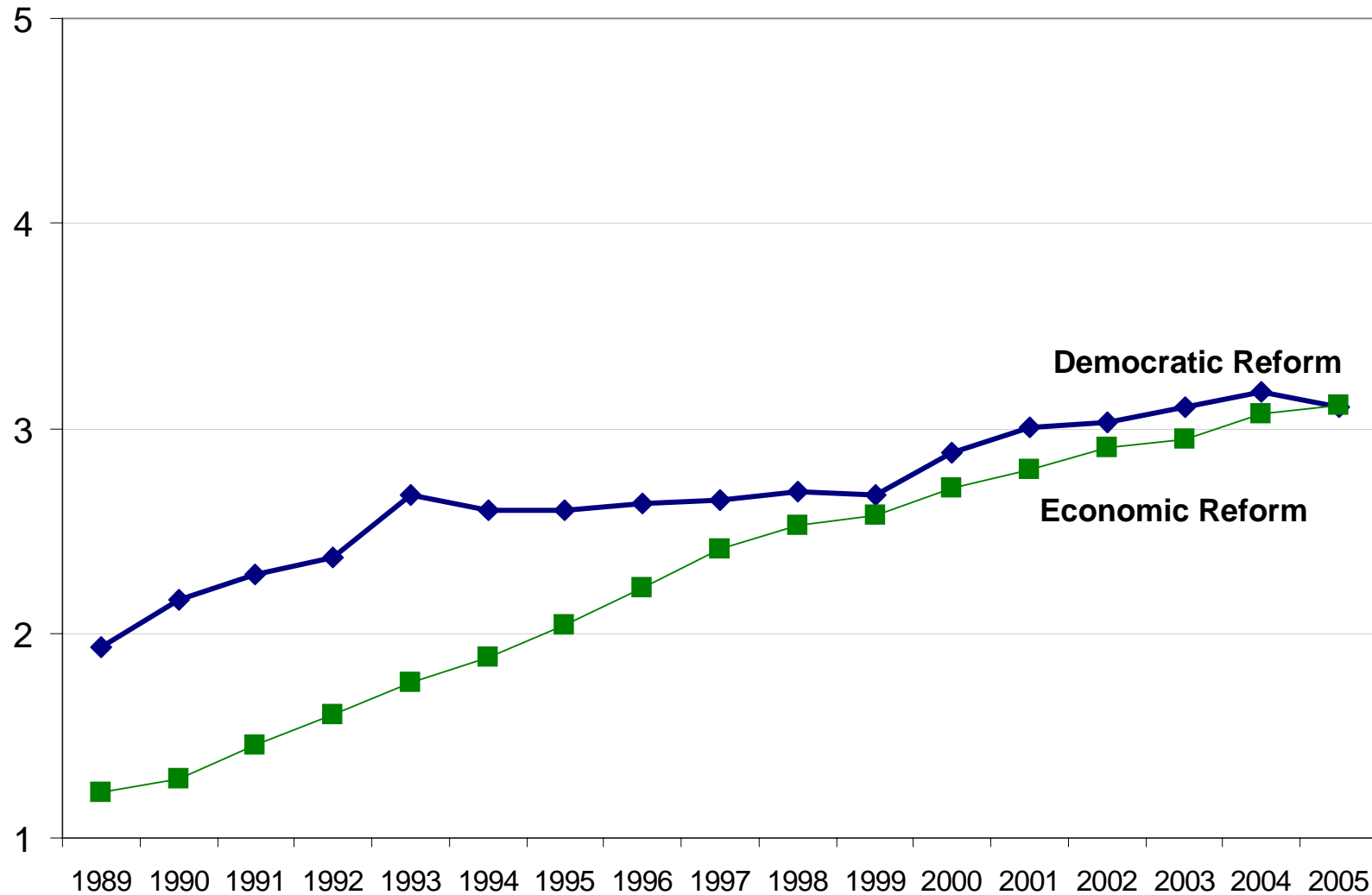
## Economic and Democratic Reforms in the Northern Tier CEE



Ratings are based on a 1 to 5 scale, with 5 representing most advanced. USAID calculations drawing from Freedom House, *Nations in Transit 2006* (2006) and EBRD, *Transition Report 2005* (November 2005).

Figure 12

## Economic and Democratic Reforms in the Southern Tier CEE

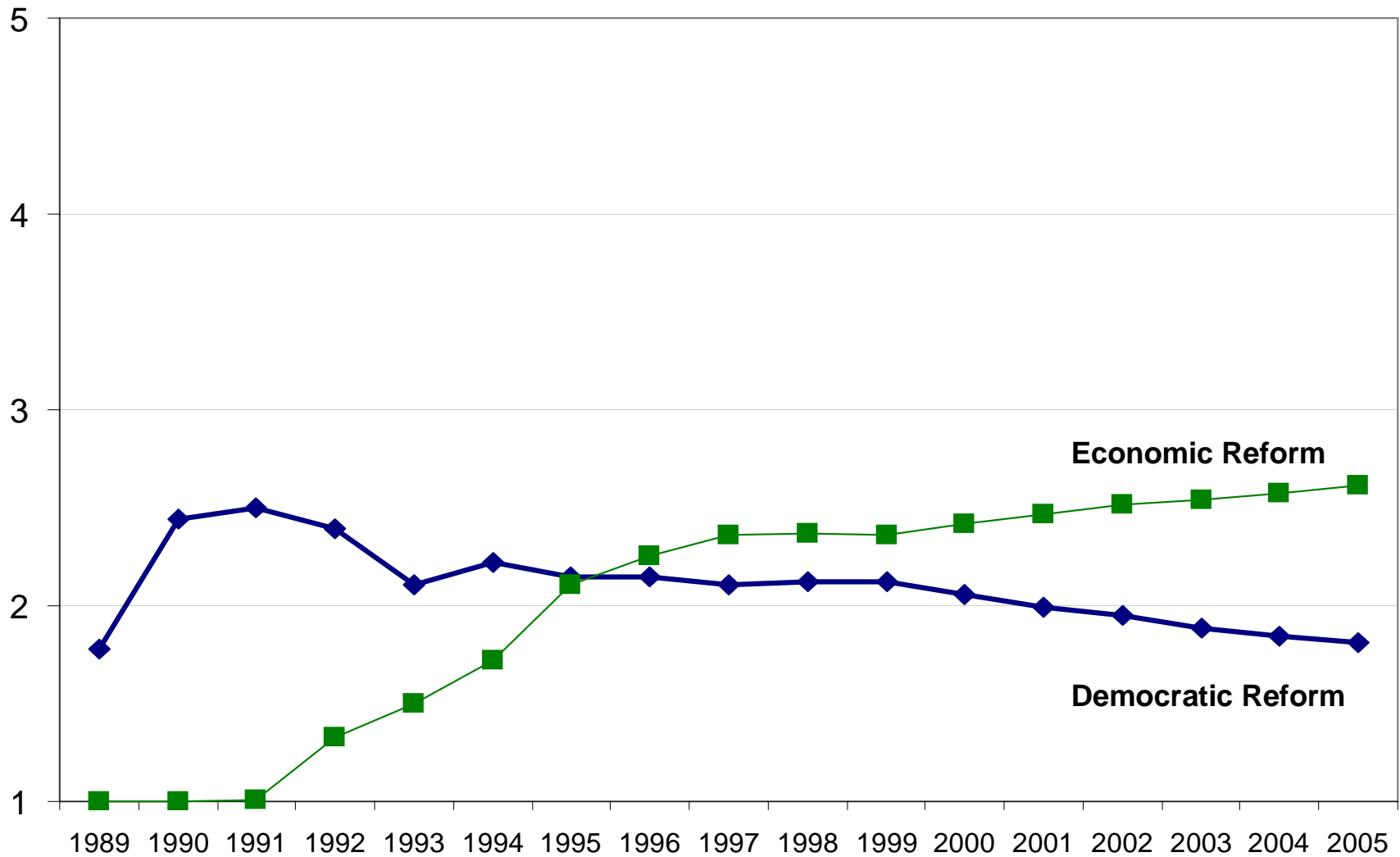


Ratings are based on a 1 to 5 scale, with 5 representing most advanced. USAID calculations drawing from Freedom House, *Nations in Transit 2006 (2006)* and EBRD, *Transition Report 2005 (November 2005)*.



Figure 13

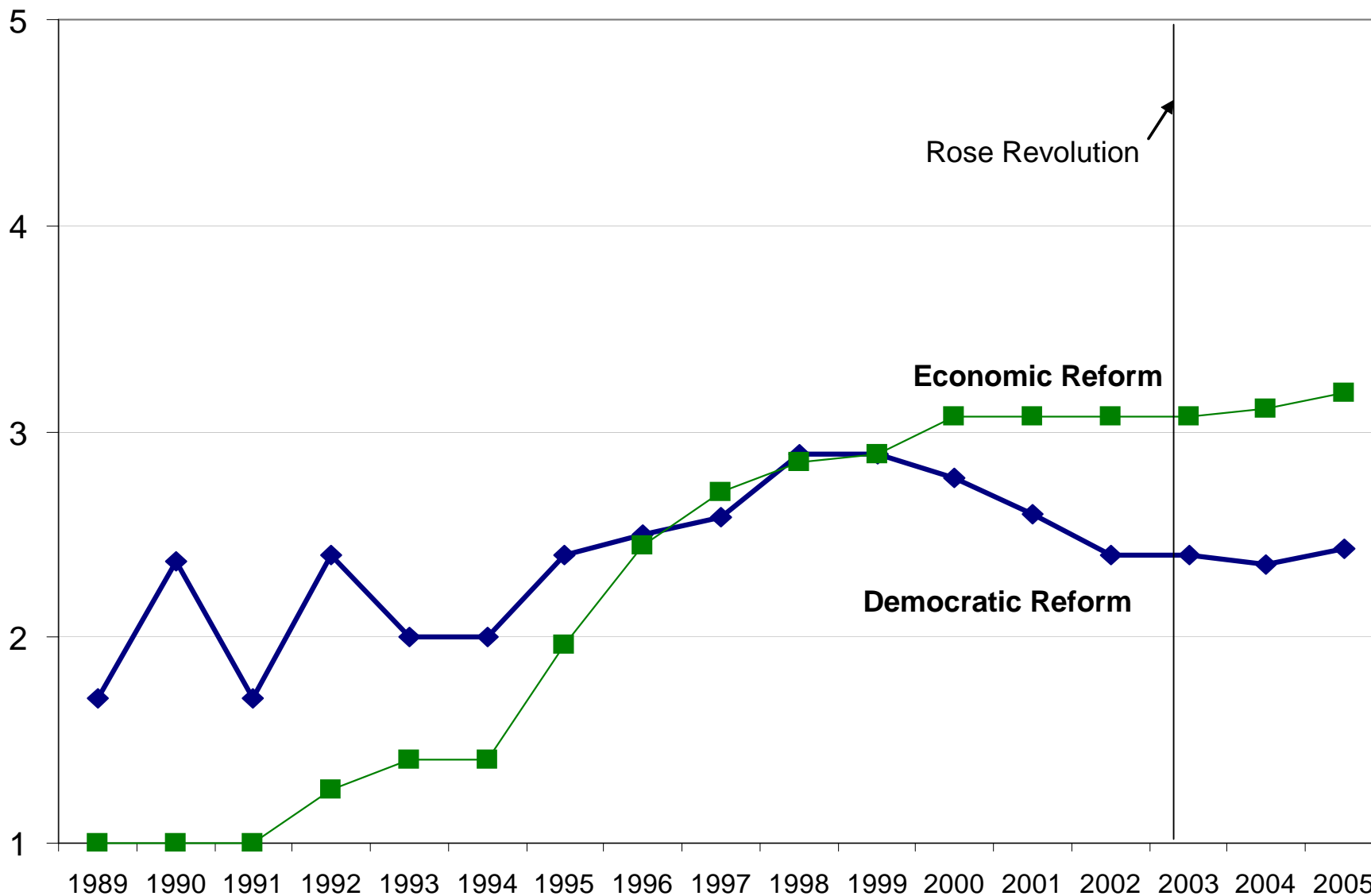
## Economic and Democratic Reforms in Eurasia



Ratings are based on a 1 to 5 scale, with 5 representing most advanced. USAID calculations drawing from Freedom House, *Nations in Transit 2006* (2006) and EBRD, *Transition Report 2005* (November 2005).

Figure 14

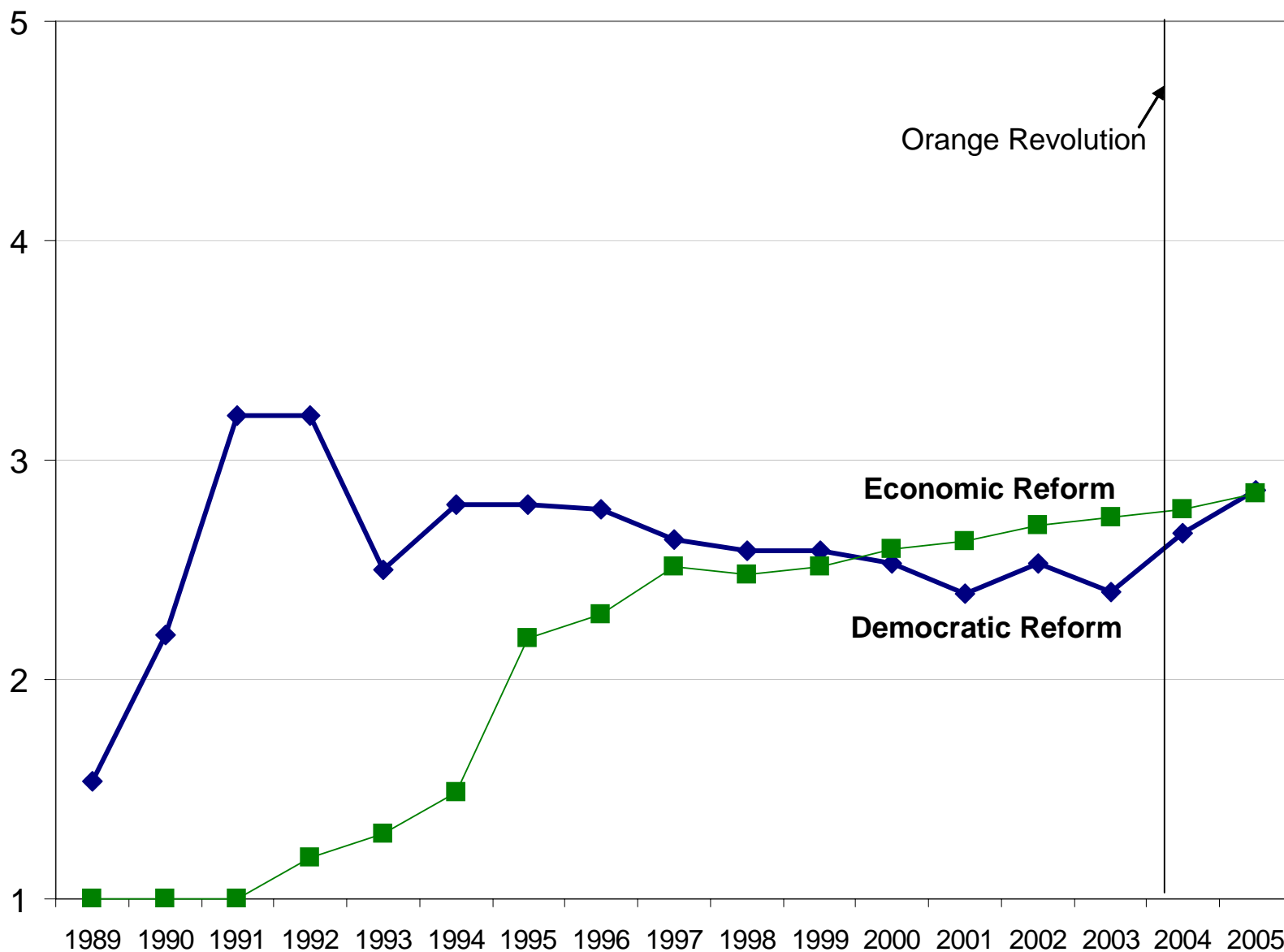
# Economic and Democratic Reforms in Georgia



Ratings are based on a 1 to 5 scale, with 5 representing most advanced. USAID calculations drawing from Freedom House, *Nations in Transit 2006* (2006) and EBRD, *Transition Report 2005* (November 2005).

Figure 15

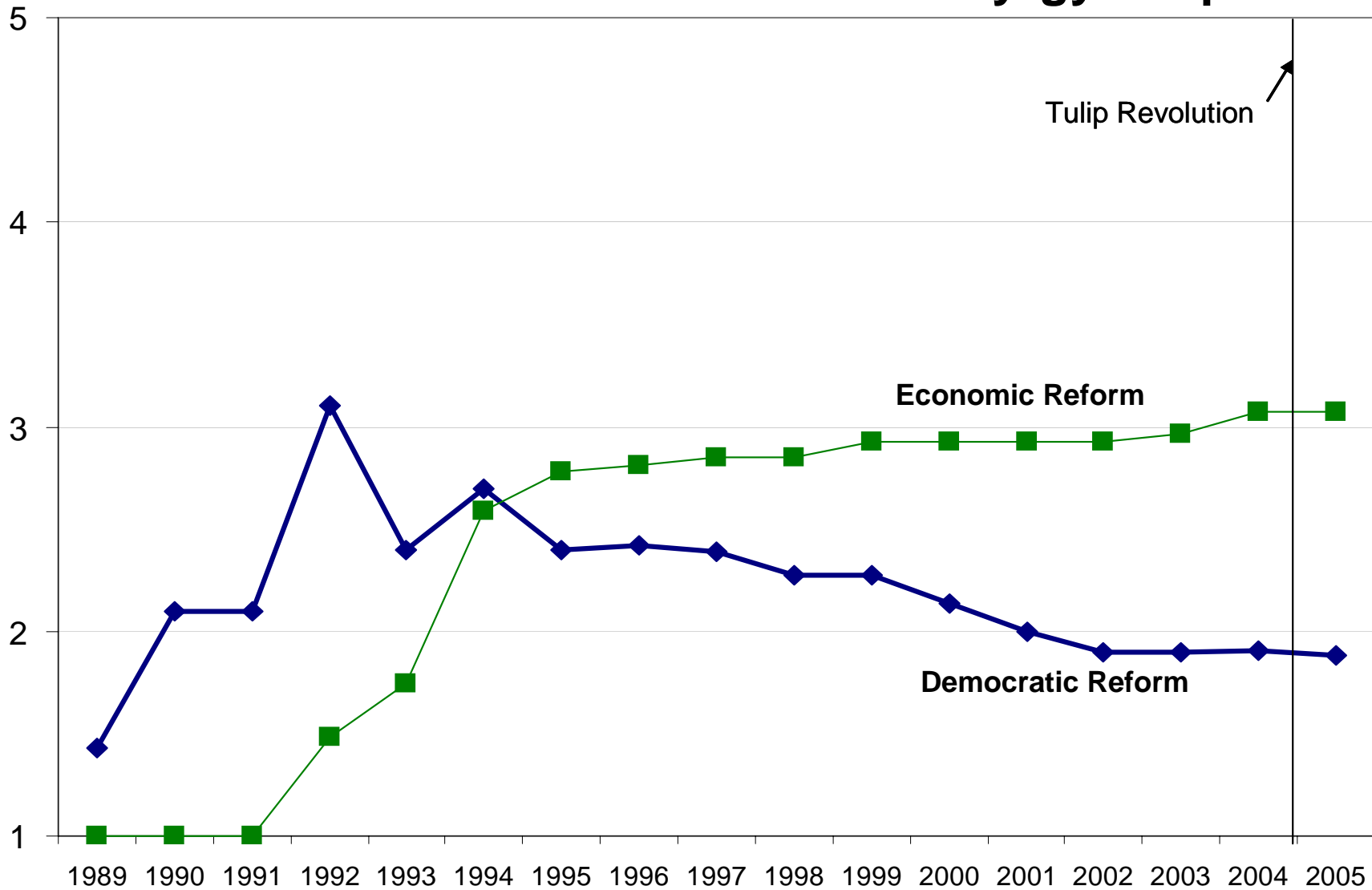
## Economic and Democratic Reforms in Ukraine



Ratings are based on a 1 to 5 scale, with 5 representing most advanced. USAID calculations drawing from Freedom House, *Nations in Transit 2006* (2006) and EBRD, *Transition Report 2005* (November 2005).

Figure 16

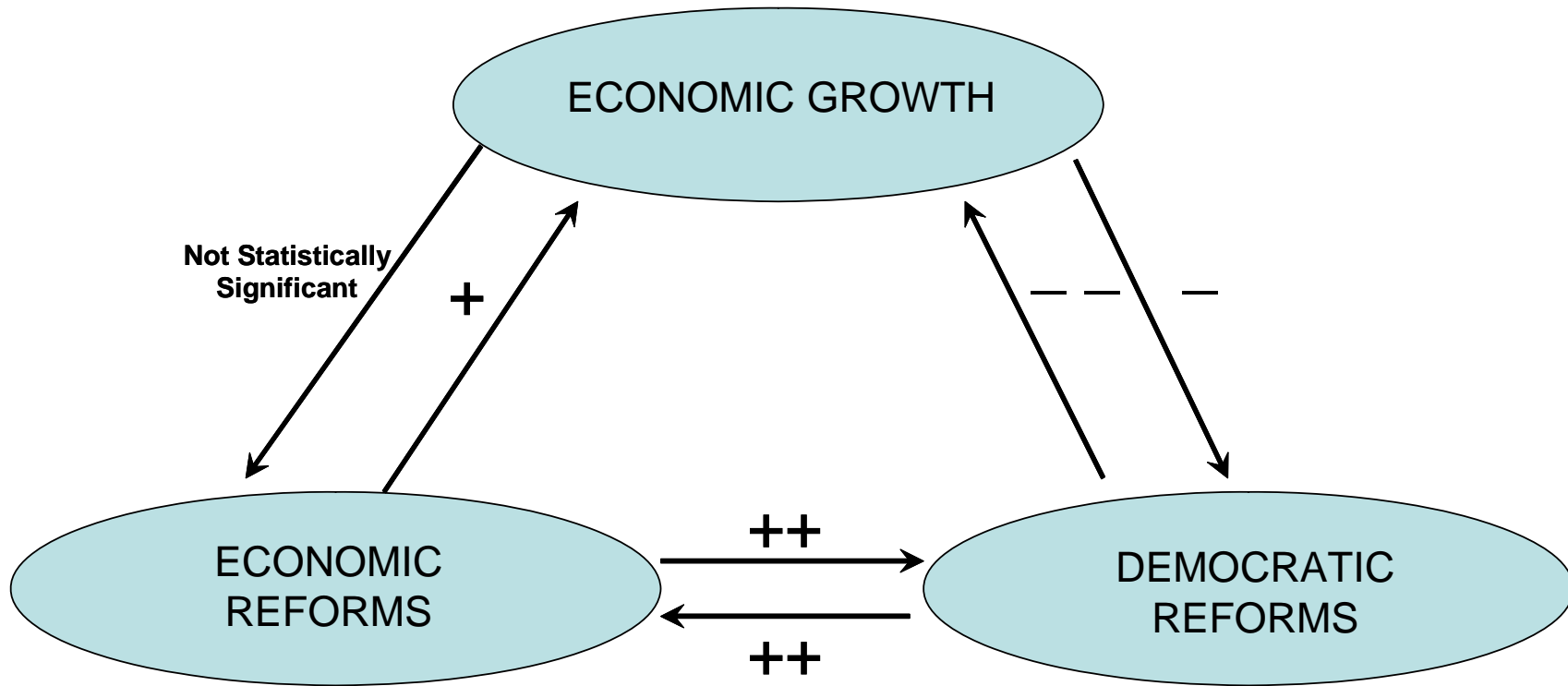
# Economic and Democratic Reforms in Kyrgyz Republic



Ratings are based on a 1 to 5 scale, with 5 representing most advanced. USAID calculations drawing from Freedom House, *Nations in Transit 2006* (2006) and EBRD, *Transition Report 2005* (November 2005).

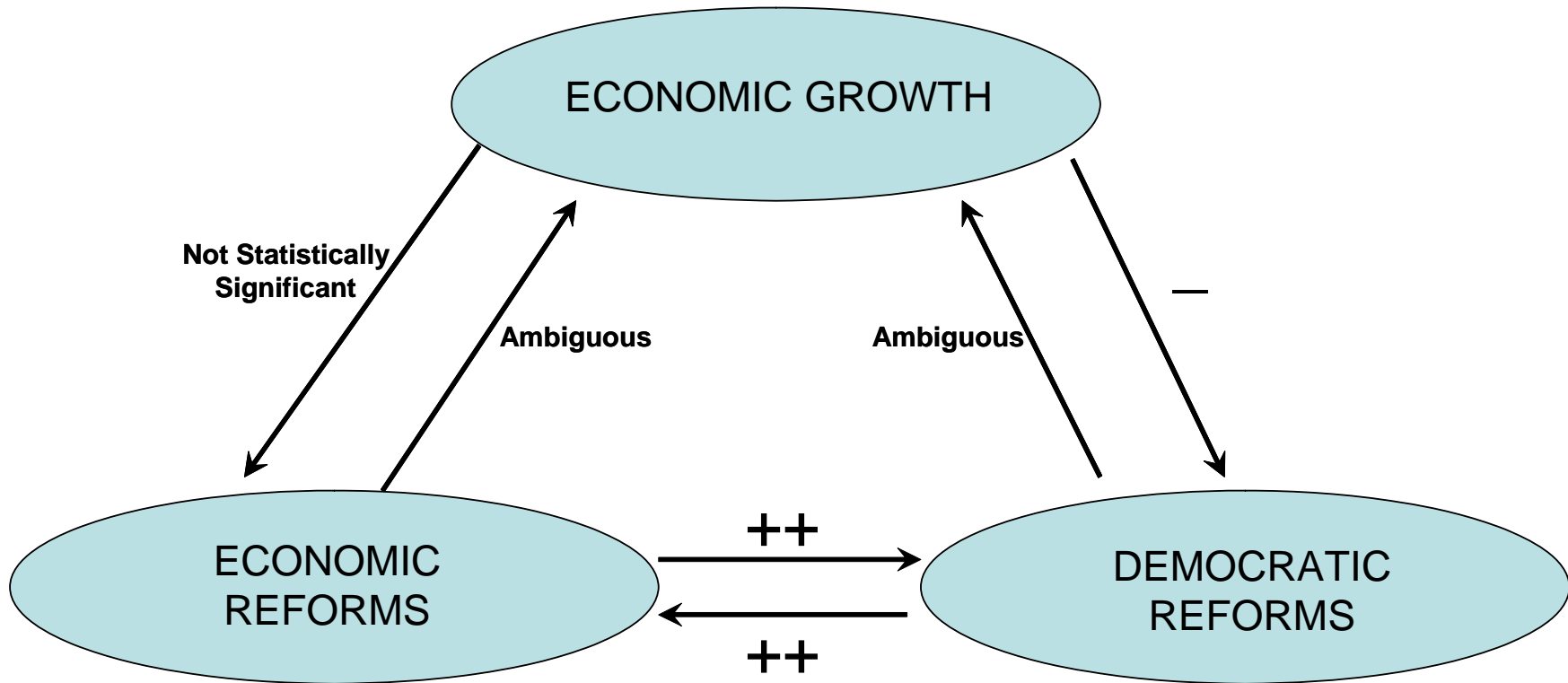
Figure 17

## Economic Reforms, Democracy and Growth in CEE & Eurasia



"+ +" or "- -": all 4 tests show a consistent coefficient sign, and at least 3 are statistically significant at 5% level. "+" or "-": at least 2 of 4 tests are statistically significant at 5% level. Findings are from Tables 4-6 of USAID, *Economic Reforms, Democracy, and Growth in Eastern Europe and Eurasia* (October 2005).

Figure 18 **Economic Reforms, Democracy and Growth in Eurasia**



USAID, Europe and Eurasia Program Office, *Economic Reforms, Democracy, and Growth in Eastern Europe and Eurasia* (November 2005). "+ +" or "- -": both tests show a consistent coefficient sign, and are statistically significant at 10% level. Ambiguous: different coefficient signs, but at least 1 test result is statistically significant. "-": at least 1 of 2 tests are statistically significant at the 5% level. Findings are from Tables 4-6 of USAID, *Economic Reforms, Democracy, and Growth in Eastern Europe and Eurasia* (October 2005).

## *Economic Performance*

For economic and democratic reforms to be sustained, solid macroeconomic performance needs to ensue, namely, macroeconomic stability and robust economic growth. In addition, for these macroeconomic trends to occur (and to be sustained), certain key economic structural changes need to take place in the transition, including increasing the proportion of the private sector share of the economy, and increasing the competitiveness of the economy. Seven primary indicators are tracked to assess progress in economic performance (*Tables 7 and 8*): (1) export share of GDP; (2) employment in the small and medium enterprise sector as a percent of total employment; (3) foreign direct investment; (4) private sector share of GDP; (5) external debt as percent of GDP; (6) inflation; and (7) economic growth.

Overall, macroeconomic performance in recent years has been impressive in a large majority of the transition economies. This can be attributed in no small part because key economic structural changes since the transition began have been significant. By most economic performance measures, the Northern Tier CEE countries continue to outperform the rest of the transition countries.

Economic growth has been impressive among the transition countries in recent years (*Figure 19*). Since 2000, the transition region as a whole has witnessed annual economic growth rates in excess of global economic growth rates, averaging more than 5% annually. Of the three transition sub-regions, economic growth has been highest in Eurasia, averaging about 7% annually from 2000 to 2005.

*Figures 20-22* attempt to address some key determinants of economic growth in the transition region. For much of the Eurasian countries, much of these high growth rates have presumably stemmed in no small part from high and rising prices of key primary product exports (particularly oil and gas, various metals, and cotton). *Figure 20* shows in fact a close correspondence (beginning in 1998) between rising oil prices and high economic growth among the three primary energy exporters in Eurasia: Kazakhstan; Russia; and Azerbaijan. As suggested in *Figure 21*, this positive relationship generally holds between energy prices and economic growth in all of Eurasia, in no small part because favorable economic developments in Russia in particular continue to spill over to many of the Eurasian countries.

In CEE, as suggested in *Figure 22*, economic growth is increasingly driven by economic growth in Western Europe as the CEE's share of exports to Western Europe increases. Moreover, while the fastest growing economies in recent years have been in Eurasia, it has been primarily the economies of the Northern Tier CEE countries that have been able to sustain relatively robust economic growth to the point where they are well above pre-transition income levels (*Figure 23*). The Northern Tier CEE countries today have economies on average 20% larger than pre-transition GDP. The transition depression was not as deep in the case of the Northern Tier CEE countries, and recovery came sooner; it's been twelve years on average since these economies bottomed out. In contrast, official GDP in seven Eurasian economies and four Southern Tier CEE

economies today is still below what it was in 1989. Georgia and Moldova have economies that remain roughly one-half the size of what they were in 1989 (*Table 8*).

However, the Eurasian economies are far from homogenous on economic growth trends. As shown in *Figure 23*, the three Eurasian non-reformers have a very favorable economic growth profile, roughly comparable to that of the Northern Tier CEE. The three Eurasian oil exporters also have an economic growth profile that is very different than the rest of Eurasia. As in much of Eurasia, these three countries had economies which experienced huge output drops in the 1990s, though it has been followed by economic growth rates far in excess than that experienced by most other transition countries.

Impressive economic growth has been accompanied by generally impressive strides towards macroeconomic stability in most of the transition countries. Inflation rates are single-digit in most transition economies. Only one CEE economy had double-digit inflation in 2005: Serbia-Montenegro (16.2% by EBRD's November 2005 estimate). Seven Eurasian economies had double-digit 2005 inflation rates: Ukraine (14.1%); Russia (12.8%); Moldova (12%); Belarus (10.6%); Turkmenistan (10.5%); Azerbaijan (10.4%); and Uzbekistan (10%). Most of these economies with double-digit inflation rates in 2005 had lower inflation rates in 2004. The three year (2003-2005) average annual inflation rate in the Northern Tier CEE countries was only 3.5%; in the Southern Tier CEE: 5.4%; and in Eurasia, 9.5% (*Table 8*).

With a few exceptions, external debt is manageable if not low (*Table 8*). Where it has been high and particularly burdensome in years past (i.e., among the poorest Eurasian countries), it has been falling, including in Kyrgyz Republic (where debt to GDP in 2004 was highest of all the transition countries, at 95.3%, though down from 132% in 1999), Moldova (74% in 2004 vs. 134% in 2000), and Tajikistan (65% in 2004 vs. 125% in 2000). Where external debt has been relatively high and increasing, it has been among the more advanced CEE countries (notably Estonia, Latvia, Hungary, Slovenia, and Croatia) and one high growth Eurasian country (Kazakhstan).

Virtually all the transition countries have seen very significant increases in the private sector share of GDP since the collapse of communism. All but four countries have private sector shares greater than 50% of GDP. The outliers are Belarus (25%), Turkmenistan (25%), Uzbekistan (45%), and Tajikistan (50%). In contrast, the CEE countries on average have private sectors which constitute roughly 70% of GDP, i.e., within OECD range.

Export shares of GDP are generally much larger in the Northern Tier CEE countries than elsewhere in the transition region: 63% of GDP in 2004 in the Northern Tier CEE vs. 46% in Eurasia, and 36% in the Southern Tier CEE. Outward-orientation has increased in most though not all transition countries (*Table 7*).

Data on the size of the small and medium enterprise sectors (SMEs) are hard to come by and remain incomplete and perhaps very tenuous (*Table 7*). There are data missing for



some countries, and trends over time are available in only a small set of the transition countries. The most recent cross-country data are from the UNECE and are for 2001.<sup>14</sup>

Notwithstanding some significant caveats about the data, there are some stark cross-country comparisons apparent. In particular, the SME sectors in the CEE countries (as measured by employment in SMEs as a proportion of total employment) are roughly twice the size of those in Eurasia: on average, 56% in the Northern Tier CEE; 54% in the Southern Tier CEE; and only 27% in Eurasia in 2001. As with export sectors, there is still scope for expansion of the SME sectors in most of the transition countries: SMEs employ 68% of the work force in the EU-15, and 53% in the United States.

Finally, cumulative foreign direct investment per capita continues to be far and away much higher in the Northern Tier CEE countries than elsewhere in the transition region (*Figure 24* and *Table 7*); total cumulative FDI per capita in the Northern Tier CEE is more than three times the amount of what it is in the Southern Tier CEE and closer to six times the volume in Eurasia on average. Moreover, FDI continues to increase at a greater rate in the Northern Tier CEE than in the Southern Tier CEE and Eurasia.

**TABLE 7. INDICATORS OF SUSTAINABILITY: ECONOMIC STRUCTURE**

	EXPORT SHARE		EXPORT SHARE		SME		SME		PRIVATE	
	(% OF GDP)		(% OF GDP)		SHARE OF		SHARE OF		SECTOR SHARE	
	2004		1990		EMPLOYMENT		EMPLOYMENT		OF GDP	
					(%)	(%)	CUMULATIVE	PER CAPITA	(%)	
						1990-94	1989-05			
CZECH REPUBLIC	72	4.5	45	56.2	4.0	25.0	4,930	5.0	80	5.0
ESTONIA	78	5.0	60	55.5	4.0	---	4,867	5.0	80	5.0
HUNGARY	65	4.0	31	49.5	3.5	35.0	3,784	5.0	80	5.0
SLOVAKIA	77	1.5	27	57.7	4.0	---	2,461	5.0	80	5.0
POLAND	39	1.5	29	65.4	5.0	19.0	1,480	4.0	75	4.5
LITHUANIA	54	3.0	52	31.6	2.5	25.0	1,410	4.0	75	4.5
BULGARIA	58	3.5	33	64.7	4.5	---	1,415	4.0	75	4.5
ALBANIA	21	0.5	15	75	5.0	---	547	2.0	75	4.5
ARMENIA	39	1.5	35	25.8	2.0	---	416	2.0	75	4.5
KYRGYZ REPUBLIC	43	2.0	29	59	4.0	---	129	1.0	75	4.5
LATVIA	44	2.0	48	69.9	5.0	40.0	1,968	4.5	70	4.0
ROMANIA	37	1.5	17	20.8	1.5	---	982	3.0	70	4.0
RUSSIA	35	1.0	18	20	1.5	5.0	90	0.5	65	3.5
SLOVENIA	77	5.0	91	64.4	4.5	---	1,741	4.5	65	3.5
KAZAKHSTAN	55	3.0	74	12.9	1.0	12.0	1,605	4.5	65	3.5
MACEDONIA	40	1.5	26	64.3	4.5	---	633	2.5	65	3.5
GEORGIA	31	1.0	40	12	1.0	---	495	2.0	65	3.5
UKRAINE	61	4.0	28	10.8	1.0	4.0	184	1.0	65	3.5
CROATIA	47	2.5	78	67	5.0	---	2,241	5.0	60	3.0
AZERBAIJAN	50	2.5	44	2.7	0.5	---	1,329	4.0	60	3.0
MOLDOVA	51	3.0	48	---	---	---	246	1.5	60	3.0
SERBIA & MONT	24	0.5	---	32.4	2.5	---	618	2.5	55	2.5
BOSNIA & HERZ.	26	1.0	---	53	4.0	---	532	2.0	55	2.5
TAJIKISTAN	46	2.5	28	35.9	3.5	---	80	0.5	50	2.0
UZBEKISTAN	40	1.5	29	49.7	3.5	---	52	0.5	45	1.5
TURKMENISTAN	66	4.5	---	60	4.5	---	463	2.0	25	0.5
BELARUS	68	4.5	46	4.6	0.5	2.0	235	1.5	25	0.5
CEE & EURASIA	49.8	2.5	40.5	43.1	3.2	18.6	1,294	2.9	64	3.5
NORTHERN TIER CEE	63.3	3.3	47.9	56.3	4.1	28.8	2,830	4.6	76	4.6
SOUTHERN TIER CEE	36.1	1.6		53.9	3.9	---	995	3.0	65	3.5
EURASIA	45.5	2.3	39.0	26.7	2.1	5.8	462	1.9	56	2.6
ROM & BULG 2002	44.3	2.0		43.5	3.3		519	2.3	70	4.0
NORTHERN TIER CEE										
AT GRADUATION	53.2	3.0		48.3	3.8		898	2.7	71	4.1

Shaded columns represent ratings based on a 1 to 5 scale, with 5 representing most advanced.

World Bank, World Development Indicators 2005 (2005), EBRD, Transition Report 2005 (November 2005).

SME data for 2001 are from UNECE, SME Databank (2003); 1990 -94 SME data are from World Bank, Transition: The First Ten Years (2002); and Ayyagari, Beck, and Demircug-Kunt, Small and Medium Enterprises across the Globe: A New Database, World Bank Policy Research Working Paper 3127, (August 2003).

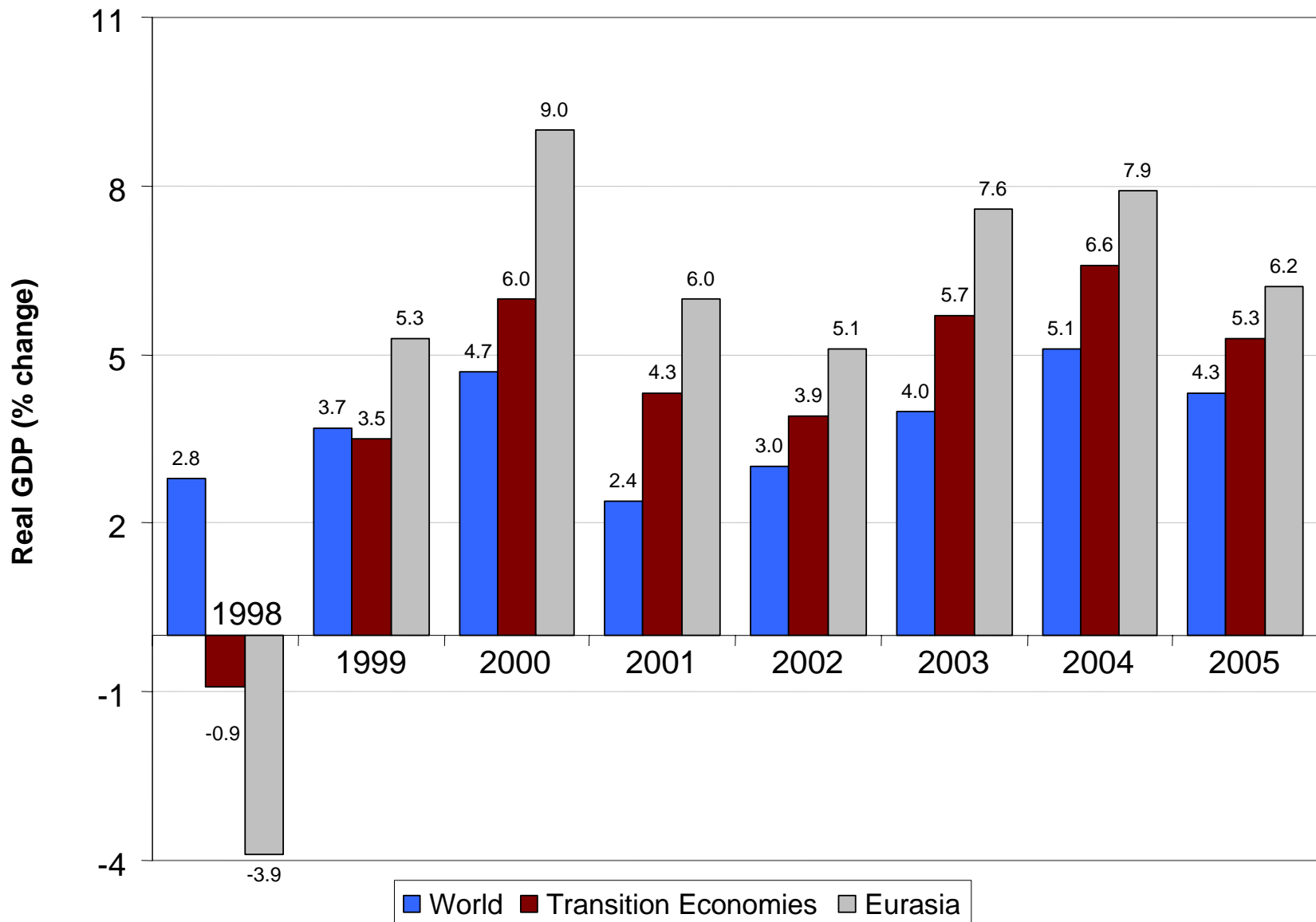
**TABLE 8. INDICATORS OF SUSTAINABILITY: MACRO-ECONOMIC PERFORMANCE**

	ANNUAL AVERAGE								
	EXTERNAL DEBT		YEARS SINCE GDP	GROWTH SINCE GDP	INFLATION 3 YEAR	CONSECUTIVE YEARS		GDP%	
	(% OF GDP)		SINCE GDP	BOTTOMED	AVERAGE	INFLATION		OF 1989	
	2004	2005	BOTTOMED	(%)	(%)	UNDER 15%		GDP	
				2003-2005	2005		2005		
POLAND	52.3	3.0	14	4.3	2.1	5.0	9	147	5.0
ALBANIA	22.0	4.5	13	7.1	2.5	5.0	7	144	5.0
SLOVENIA	65.1	2.0	13	3.9	3.9	4.5	11	134	5.0
SLOVAKIA	57.7	2.5	12	4.5	6.1	4.0	12	127	4.5
HUNGARY	70.4	2.0	12	3.7	5.2	4.0	8	126	4.5
TURKMENISTAN	30.1	4.0	8	11.0	9.0	3.5	6	120	4.5
CZECH REPUBLIC	42.3	3.5	13	2.5	1.7	5.0	12	119	4.0
UZBEKISTAN	36.9	3.5	10	3.5	11.2	3.0	3	118	4.0
BELARUS	5.9	5.0	10	6.5	19.0	2.0	1	118	4.0
ESTONIA	89.1	1.0	11	5.6	2.7	5.0	9	112	4.0
KAZAKHSTAN	78.6	1.5	10	6.3	6.7	4.0	8	112	4.0
ARMENIA	33.3	4.0	12	7.7	4.0	4.5	9	106	3.5
ROMANIA	31.2	4.0	13	2.7	16.6	2.5	2	105	3.5
CROATIA	82.1	1.5	12	4.3	2.3	5.0	11	98	3.0
LATVIA	80.0	1.5	11	5.4	5.2	4.0	9	96	3.0
LITHUANIA	47.0	3.0	11	5.5	0.9	5.0	9	95	3.0
AZERBAIJAN	18.6	4.5	10	9.9	6.5	4.0	9	94	3.0
BULGARIA	69.3	2.0	8	4.4	4.2	4.5	7	93	3.0
RUSSIA	33.2	4.0	7	6.5	12.5	3.0	3	89	2.5
KYRGYZ REPUBLIC	95.3	0.5	10	5.2	4.0	4.5	5	83	2.5
MACEDONIA	44.8	3.5	10	1.9	0.3	5.0	10	82	2.5
TAJIKISTAN	39.7	3.5	9	7.5	10.4	3.0	2	75	2.0
BOSNIA & HERZEGOVINA	31.1	4.0	11	18.0	-0.4	5.0	7	63	1.5
UKRAINE	31.1	4.0	6	8.1	9.4	3.5	5	61	1.5
SERBIA & MONTENEGRO	62.4	2.5	12	3.3	12.3	3.0	0	58	1.0
GEORGIA	39.3	3.5	11	6.1	6.7	4.0	6	48	0.5
MOLDOVA	74.2	2.0	7	5.7	12.0	3.0	5	46	0.5
CEE & EURASIA	50	3.0	11	6.0	6.6	4.0	6.9	99	3.1
NORTHERN TIER CEE	63	2.3	12	4.4	3.5	4.6	9.9	120	4.1
SOUTHERN TIER CEE	49	3.1	11	6.0	5.4	4.3	6.3	92	2.8
EURASIA	40	3.3	9	7.1	9.5	3.5	5.2	89	2.7
ROM & BULG 2002	52	3.0			12.3	3.3		83	2.5
NORTH. TIER CEE AT GRADUATION	45	3.3			67.8	2.0		90	2.8

Shaded columns represent ratings based on a 1 to 5 scale, with 5 representing most advanced. EBRD, *Transition Report 2005* (November 2005).

# Economic Growth Trends Worldwide

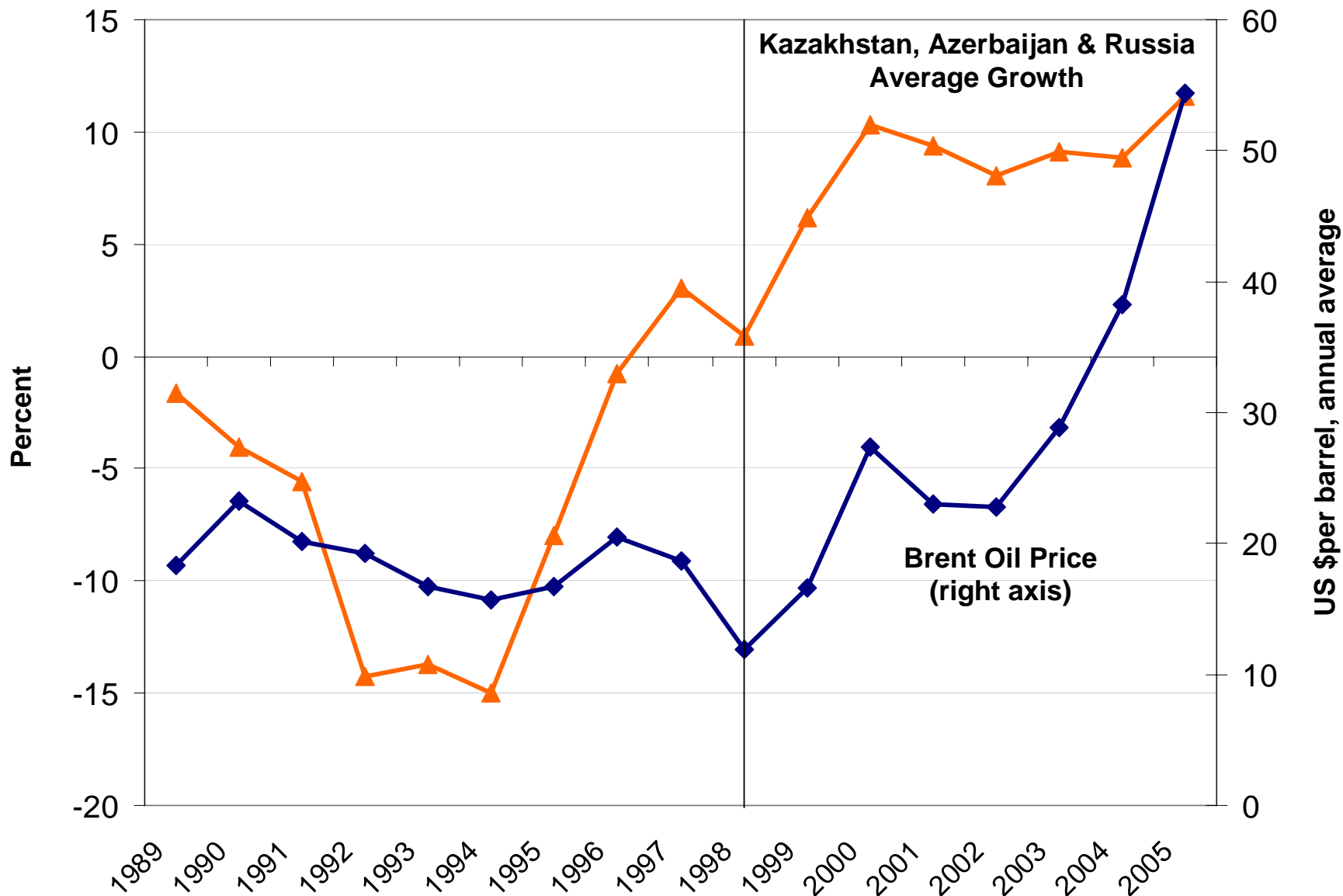
Figure 19



EBRD, *Transition Report 2005* (October 2005); and IMF, *World Economic Outlook* (September 2005).

# Oil Prices and Growth in Eurasia

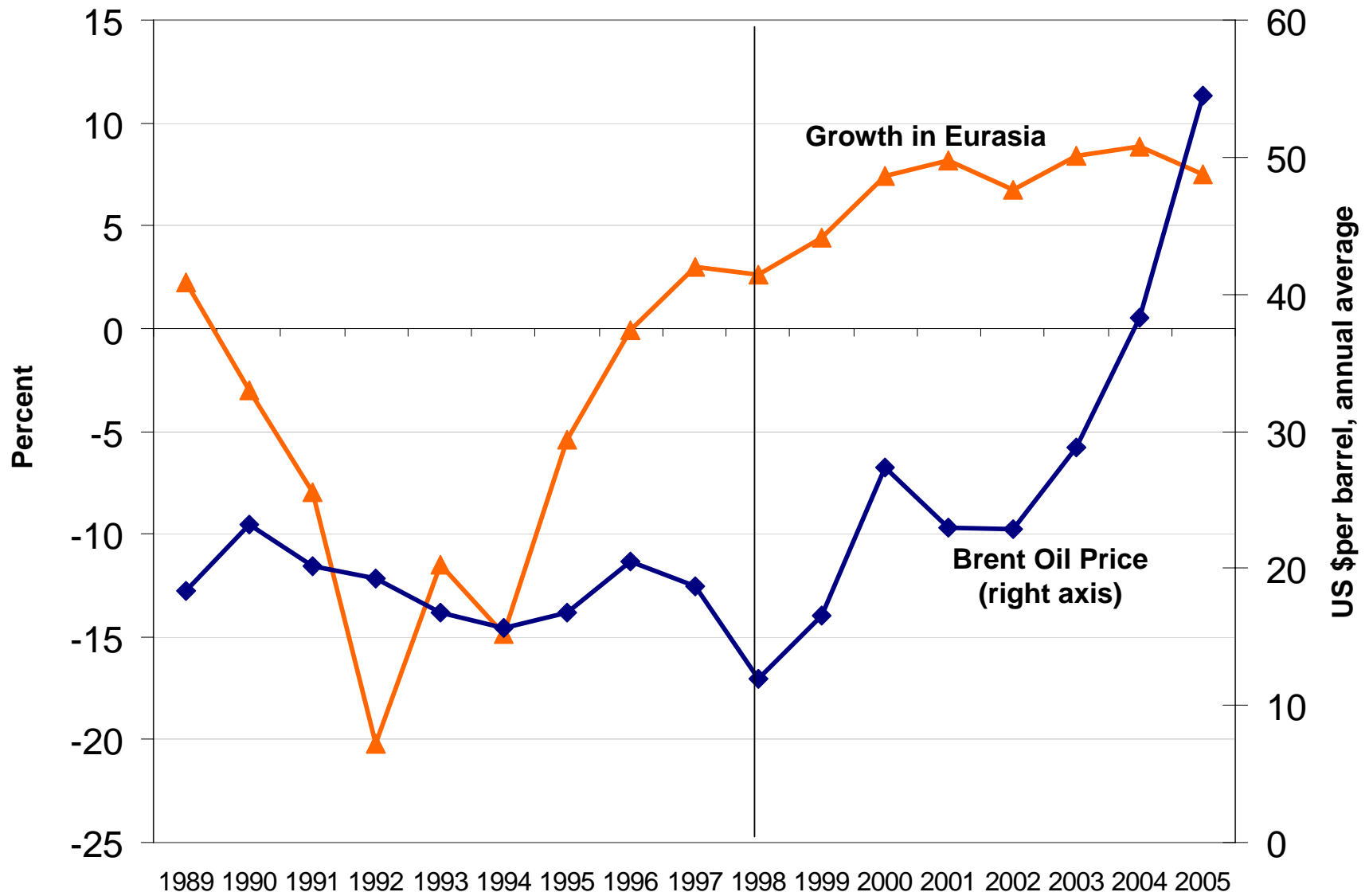
Figure 20



EBRD, *Transition Report 2005* (November 2005); and World Bank, *Commodity Price Data, Pink Sheet* (January 2006).

# Oil Prices and Growth in Eurasia

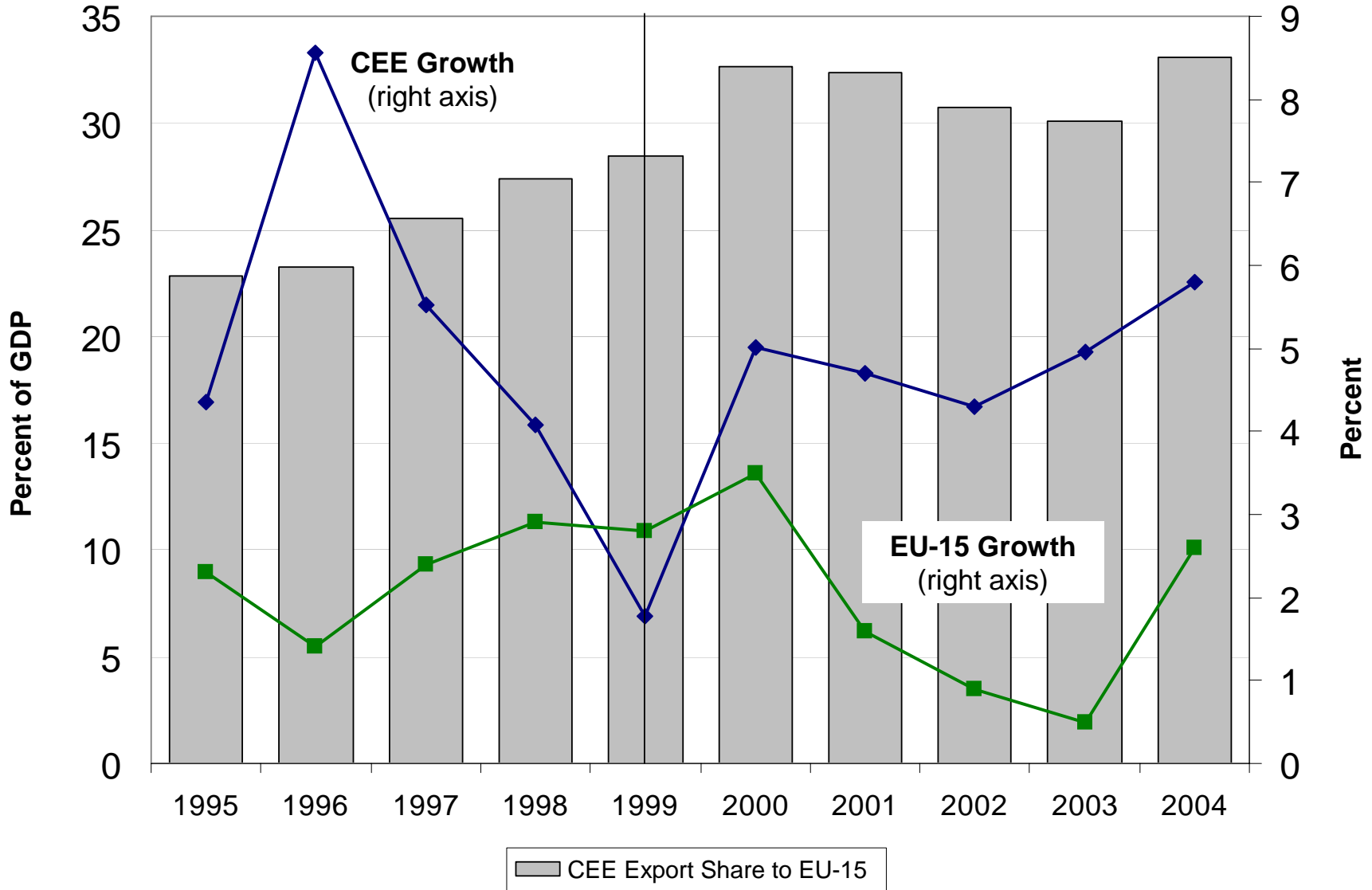
Figure 21



EBRD, *Transition Report 2005* (November 2005); and World Bank, *Commodity Price Data, Pink Sheet* (January 2006).

Figure 22

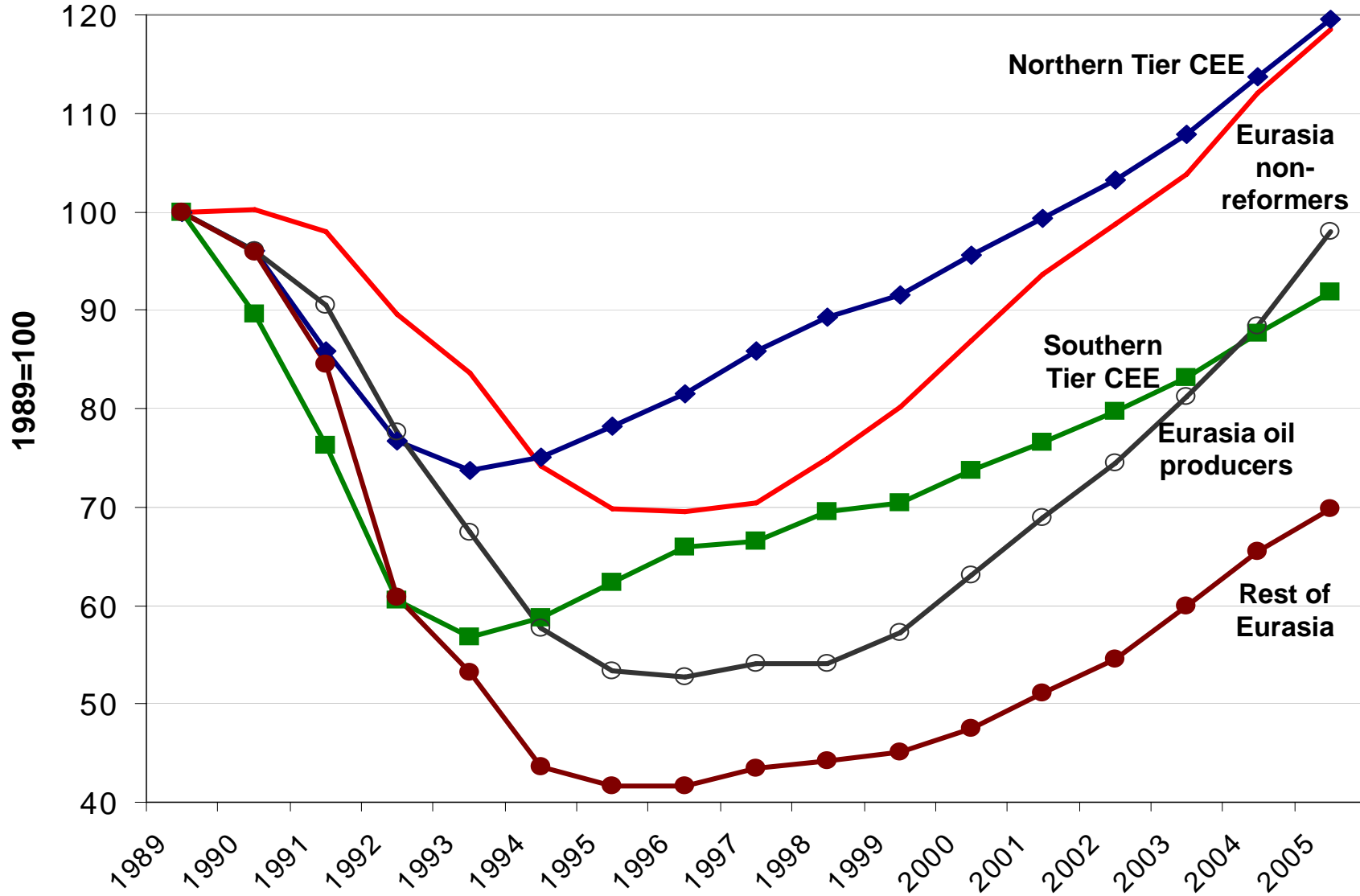
# Trade and Growth in Central and Eastern Europe & EU-15



EBRD, *Transition Report 2005* (November 2005); World Bank, *World Development Indicators 2005* (2005); and IMF, *Direction of Trade Database* (January 2006).

# GDP as % 1989 GDP

Figure 23

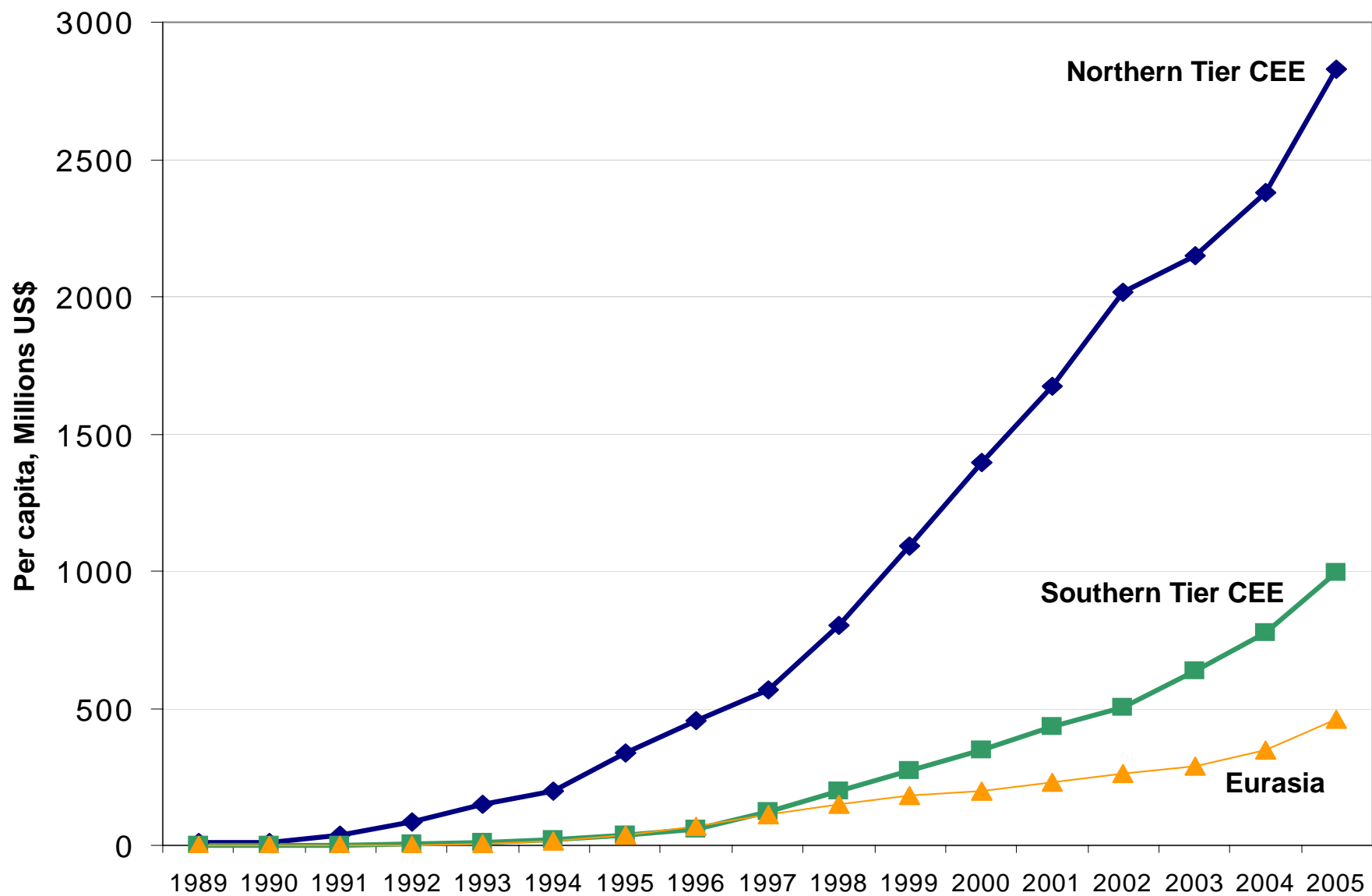


EBRD, *Transition Report 2005* (November 2005). Eurasia non-reformer include Uzbekistan, Belarus & Turkmenistan and Eurasia oil producers include Russia, Kazakhstan and Azerbaijan.



# Cumulative FDI per capita, 1989-2005

Figure 24



EBRD, *Transition Report 2005* (November 2005).

## *Human Capital*

Good macroeconomic performance needs to filter down to favorably affect social conditions. To improve the likelihood that reforms and good economic performance are sustained, economic growth needs to be broad-based and, more broadly, the gains at the macro level shared widely at the micro level. At the very least, from an economic standpoint, the deterioration of human capital (of health and education conditions) needs to stop or be prevented if the gains in other transition spheres are to continue.

*Economic growth and poverty.* Available evidence suggests that the resumption of economic growth in the transition region has had, not surprisingly, some favorable effects on at least certain aspects of human capital. One such apparent affect has been the reduction of poverty. *Figures 25-31* show the latest poverty rate data from the World Bank for a series of transition countries.<sup>15</sup> The poverty rate is defined as the percentage of the population which falls below an absolute poverty line of \$2.15 a day in purchasing power parity terms. Also included in *Figures 25-31* are economic growth time series to facilitate observations regarding the relationship between economic growth and poverty rates.

While poverty rates vary widely across the countries, some common observations regarding the trends over time emerge: (1) poverty rates do appear to be responsive to economic growth across all the countries examined; i.e., there is at least an apparent inverse relationship between the two (not accounting for possible exogenous influences), rising growth corresponds to falling poverty; (2) the time series are consistent with the contention that there may be some minimum threshold of growth before poverty responds and declines, perhaps close to 5% annual economic growth. In other words, if an economy can continue to expand at 5% or more, then the poverty rate is likely to fall; and (3) in some but not all countries, urban poverty appears to be more responsive to economic growth than rural poverty. The extreme cases in this regard are Georgia and Armenia, where rural poverty rates actually increased in 2003 despite high and increasing economic growth.

*Labor markets.*<sup>16</sup> With resumption of economic growth, real wages have been increasing or recovering across the three sub-regions (*Figures 32-34*). Real wages have been increasing in CEE since 1993 and in Eurasia since 1995. They are highest relative to 1989 levels in the Southern Tier CEE (115% of 1989 levels), lowest in Eurasia (75%), and somewhere in between in the Northern Tier CEE (98%). Employment levels are lower today than in 1989 in all three sub-regions. They are lowest in the Southern Tier CEE (roughly 70% of 1989 employment levels), highest in Eurasia (90%), and somewhere in between in the Northern Tier CEE (80%).

Hence, labor markets have been adjusting quite differently in the CEE as compared to Eurasia. In the CEE (both Southern Tier and Northern Tier), these markets have been adjusting along both price and quantity dimensions. The greatest adjustments on both dimensions have occurred in the Southern Tier CEE (with the largest increase in real wages and the largest decrease in employment), but considerable change in both

dimensions has also taken place in the Northern Tier CEE. In contrast, most all of the labor market adjustments in Eurasia have taken place via the price mechanism; i.e., via real wages, with employment levels changing very little.

The regional (labor force survey) unemployment rates are consistent with these employment trends. Highest open unemployment rates are in the Southern Tier CEE countries (where the decrease in employment has been the greatest), while the lowest unemployment rates are in Eurasia (where the fall in employment rates has been the lowest) (*Table 9*). Most labor force survey unemployment rates in Eurasia are single digit figures, including unemployment rates in Uzbekistan, Russia, Kazakhstan, Ukraine, and Moldova. The salient Eurasian exception in this regard is Armenia where the unemployment rate is closer 32%. In contrast to the Eurasian trend, most unemployment rates in the Southern Tier CEE are very high; and highest in Macedonia (37%), Serbia & Montenegro (21%) and Bosnia-Herzegovina (16%). Unemployment rates in two Northern Tier CEE countries have also remained very high: in Poland (19%), and Slovakia (18%).

However, the sub-regions are less distinguishable by different trends over time in the unemployment rates (*Figures 35-39*).<sup>17</sup> Particularly with the resumption of economic growth in the late 1990s, a number of transition countries across the three sub-regions have been experiencing falling unemployment rates. This includes Northern Tier CEE countries (Lithuania, Latvia, and Estonia), Southern Tier CEE (Bulgaria and Croatia), as well as Eurasia (Ukraine, Georgia, Russia, and Kazakhstan). However, there are almost as many countries still witnessing rising unemployment, again including countries across the three sub-regions. In the Northern Tier CEE, this includes Poland, the Czech Republic, and Slovakia. In the Southern Tier CEE: Macedonia, Romania, Serbia & Montenegro; in Eurasia: Armenia and Moldova.

*Education.*<sup>18</sup> High primary school enrollments have been maintained across the sub-regions, and tertiary enrollments have been increasing since the mid-1990s, though much more so in the Northern Tier CEE than in the Southern Tier CEE and Eurasia (*Figure 40*). Of the three levels of education, enrollments in secondary school have generally been the most adversely affected in the transition region in the 1990s. Most of the deterioration in secondary school enrollments has occurred in Eurasia (*Figure 41* and *Table 10*). However, these enrollment trends may have recently bottomed out in Eurasia, by 2001 on average. To contrast, secondary school enrollments recovered much sooner in CEE: in 1992 in the Northern Tier and in 1994 in the Southern Tier. Moreover, the Southern Tier CEE enrollments have seen a particularly strong recovery or upturn more recently, starting in 2001.

Most of the deterioration in secondary school enrollments in Eurasia has been in vocational and/or technical schools (*Figures 42* and *43*). In fact, general secondary enrollment trends across the three sub-regions are quite similar. Given the overspecialization that took place prior to communism's collapse, this distinction in trends between components of secondary school enrollments in Eurasia may mitigate the concern about the drop in total enrollments. In other words, the disproportionate drop in

enrollments in vocational and/or technical schools in Eurasia may be desirable, though this line of thought needs to be further explored.

Literacy rates as traditionally defined are uniformly high in the transition region by world standards. The World Bank reports that male adult literacy rates in the transition region averaged 98% in 2002 and 94% for females.<sup>19</sup> This compares with world averages of 80% male literacy and 73% female; and for low income developing countries of 68% male and 48% female.

However, “functional” literacy, or how well students and adults can function in a market economy given their formal and informal education, may be a more relevant measure of the quality of education in the transition region. The conventional wisdom has been that educational aspects of human capital in the former communist countries were largely an asset going into the transition. It has also been widely perceived that the type of education in the communist countries (with emphases on memorization at the expense of analytical and critical thinking, and perhaps premature specialization if not over-specialization) may be ill-suited for the needs of a market economy.

*Figure 44* shows an effort by the OECD to measure functional literacy in the region and compared to standards worldwide. The Program for International Student Assessment (or PISA) attempts to focus on how well students, aged approximately fifteen, use knowledge in reading, mathematics, and science to meet real-world challenges. The OECD conducts the assessment every three years; two have so far been conducted, in 2000 and 2003. Forty-five countries have participated in at least one of the PISA surveys. Of these, eleven belong to the transition region—five from the Northern Tier CEE, five from the Southern Tier CEE, and Russia.

As shown in *Figure 44*, there are roughly three levels of outcomes in the transition sample: (1) the five Northern Tier CEE countries are all OECD standard; (2) Russia followed by Bulgaria, Romania, and Serbia & Montenegro perform at a middle level, well below OECD standards, comparable to Thailand; and (3) Macedonia and Albania score much lower still, comparable to Tunisia, Indonesia, and Brazil. While Russia is to date the only Eurasian country to take part in the PISA, new countries in the next round in 2006 are to include Azerbaijan, Kazakhstan, and Kyrgyz Republic (as well as Slovenia, Lithuania, Estonia, and Croatia).

The PISA surveys also provide data which help explain why performances across countries vary. For example, close to twenty percent of the students polled in the OECD countries claimed to be hindered either “somewhat” or “a lot” as a result of poor heating or cooling or lighting. In contrast, a much higher percentage of students in Macedonia and particularly in Russia and Albania contend that they are hindered by these constraints, roughly one-half of students in Russia and Albania. The data show that a lack of instruction materials pose a considerably larger constraint than poor heating, cooling, and lighting for students surveyed in the transition countries. A very high percentage of students surveyed in Russia, Albania, Latvia, Romania, and Macedonia

contended that a lack of instruction material was an obstacle towards learning, ranging from 65% in Russia to 46% in Macedonia.

*Health.*<sup>20</sup> Despite largely favorable macroeconomic trends across the three transition sub-regions, and a turnaround in many social conditions in most countries (some of which were noted above), there are not yet signs of improvement in some key health trends, particularly in Eurasia. Perhaps the most basic health indicator, and the most alarming, is life expectancy. *Figure 45* shows the trends over time by the three sub-regions in life expectancy, and highlights what appears to be a growing health gap between CEE and Eurasia. After an initial and slight decline in life expectancy in the CEE countries, life expectancy has been increasing, since 1992 in the Northern Tier and 1994 in the Southern Tier. In contrast, life expectancy in Eurasia fell much more drastically early on in the transition to 1994, recovered some through 1998 and since then, has remained steady at sixty-seven and a half through 2004 (latest year of data available).

Only four of twelve Eurasian countries had a higher life expectancy in 2004 than in 1990: Azerbaijan; Armenia; Georgia; and Tajikistan (*Table 11*). Only one CEE country, Bulgaria with a life expectancy of seventy-two years in 1990 and 2004, did not see an increase in life expectancy during this period.

Why is the health gap growing? Mortality rates among infants and children do not seem to explain the growing health gap. Under five and infant mortality rates are lower today than at the outset of the transition in a large majority of transition countries, CEE and Eurasia (*Figure 46* and *Table 10*). In the Northern Tier CEE countries, infant mortality rates (IMRs) have more than halved since 1990: from fifteen deaths per 1,000 live births in 1990 to seven deaths in 2004. In the Southern Tier CEE, the drop has been from twenty-one deaths in 1990 to fourteen deaths in 2004.

While infant mortality rates are much higher in some of the poorer Eurasian countries, the trend of declining IMRs generally holds in Eurasia as well as in CEE. Only two Eurasian countries did not have lower infant mortality rates in 2004 compared to 1990: Kazakhstan's IMR in 2004 was sixty-three deaths per 1,000 live births vs. fifty-three deaths in 1990; Turkmenistan's IMR in 2004 was what it was in 1990, namely eighty deaths per 1,000 live births. Trends in under five mortality rates mirror very closely infant mortality rates: only two transition countries saw an increase in under five mortality rates from 1990 to 2004: Kazakhstan (from sixty-three deaths per 1,000 children to seventy-three deaths) and Turkmenistan (from ninety-seven deaths to 103 deaths).

Trends in adult mortality rates shed light on the growing CEE-Eurasia health gap (*Table 12*). Nine of twelve Eurasian countries witnessed an increase in both male and female adult mortality rates from 1990 to 2004; only one Eurasian country (Armenia) had a decrease in both male and female adult mortality rates during this period. Ten of thirteen CEE countries witnessed a decrease in adult mortality rates in this period; only one CEE

country (Lithuania) witnessed an increase in both male and female adult mortality rates from 1990 to 2004.

Male adult mortality rates in the transition region are much higher than female adult mortality rates. In fact, the adult mortality rate gender gap in the transition region is the highest worldwide, and within the transition region, it is among the highest in the Northern Former Soviet Union countries (NFSU).<sup>21</sup> In 2002-2004, the male adult mortality rate in the NFSU countries was 353 deaths per 1,000 adults; for females, it was 126 deaths. This means that roughly 35% of 15 year old males in the NFSU countries will die before reaching 60 years of age. Only in Sub-Saharan Africa is the male adult mortality rate higher: 519 deaths per 1,000 in the year 2000.

Similarly, the highest life expectancy gender gaps (*Figure 47*) in the world are found in Eastern Europe and Eurasia, among the NFSU countries where males on average live 12 years less than females. Moreover, this gap is larger today than in 1990. Worldwide trends are in stark contrast with the Eastern Europe and Eurasia experience: females worldwide live only two years more than males in the low-income developing countries, and about five years more in the middle-income developing countries and six years more in high-income economies. The life expectancy gender gaps in other parts of the world have held steady or even declined some since 1990.

Possible explanations for some of the striking mortality trends in the region, and particularly the gender disparities emerge from an examination of trends in: (a) lifestyle conditions; (b) “non-medical” deaths (such as suicides, homicides and accidents); and (c) infectious diseases such as TB and HIV/AIDS.

The lion’s share of deaths in Eastern Europe and Eurasia are due to non-communicable diseases, some of which are due to genetic attributes, though most stem from lifestyle choices (in particular, those related to alcohol, smoking, diet and exercise-related conditions) (*Figures 48-51*). Drawing from the World Health Organization (WHO), 61% deaths in the NFSU countries in 2003 can be attributed directly to lifestyle diseases, vs. 40% in the EU-15. In contrast, only 4% of NFSU country deaths were due to infectious, parasitic, maternal and perinatal conditions, compared to 7% in the EU-15. A broader definition (which includes non-medical deaths including suicides and deaths from accidents and homicides, though also fire and war), increases these proportions to 74% in the NFSU, vs. 45% in the EU-15 countries (and 56% in the U.S.). Obesity and stress-related deaths, which are particularly high in Ukraine, Russia, Latvia, Belarus and Estonia, make up 71-91% of lifestyle deaths. Seventy-one percent of elderly Russian adults were either overweight or obese in 2003, an increase from 59% in 1992.

*Lifestyle conditions.* Data on smoking and drinking underscore some of these concerns. Overall, the proportion of smokers and the amount of cigarettes smoked in the transition region (4.1 cigarettes per person per day) is roughly comparable to Western Europe norms (4.3 to 4.7 cigarettes per person per day for countries for which data are available). However, the gender disparity in smoking is much greater in the transition countries than it is in Western Europe (*Figure 52*). Males in the transition region smoke more than their

Western Europe counterparts, while females in the transition smoke much less than Western European females. In Eastern Europe and Eurasia, 43% of males smoked in 2002-2005 vs. 15% of females. Contrast this with the UK (28% males and 24% females), France (30% and 21%), and Denmark (28% and 23%).

WHO data suggest that citizens of the transition countries actually consume notably less alcohol than most of the citizens in the EU-15 countries, roughly a third less (6.5 liters per person in 2001 in E&E vs. 9.2 in the EU-15).<sup>22</sup> According to the WHO data, persons in the Caucasus and the Central Asian Republics drink much fewer alcoholic beverages (2.5 and 1.4 liters) than the average E&E person, and much fewer still than those in the Northern Tier CEE countries (8.7 liters) and the NFSU countries (7.4 liters).

However, these data do not differentiate between types of alcoholic drinks; nor do these figures include home made liquor or illegal production. When one accounts for these considerations, at least in the case of Russia, the picture changes dramatically. Estimates of consumption of (legal and illegal) alcohol in Russia (and excluding beer which is not considered alcohol according to Russian legislation) are closer to 15 liters per person per year; roughly half of this consumption is from illegally produced alcohol.

Another important aspect that the WHO country averages mask is the differences in alcohol consumption by gender. The Russia Longitudinal Monitoring Survey data underscore this in the case of Russia.<sup>23</sup> Russian males drink far more alcohol than do females. According to the survey, the annual per capita alcohol consumption for Russian males in 2003 was 13.1 liters, while for females it was only 2.1 liters. Earlier years showed even greater differentiation in consumption by gender.

Data on Russia show male life expectancy trends tracking very closely and inversely with per capita alcohol consumption in Russia (*Figure 53*). There is also evidence that suggest that many deaths are indirectly caused by alcohol. Again using data from Russia, there exist a very close correspondence between alcohol consumption in Russia and external causes of death (i.e., from injuries, such as those stemming from automobile accidents, and poisoning, primarily alcohol poisoning) (*Figure 54*).

Suicide rates in the E&E region are more than twice the rates in the EU-15 (*Figure 55*). Within the transition region, they are highest in the NFSU. In fact, the WHO estimates that the six NFSU (for which data are available; i.e., excluding Moldova) in addition to Hungary, Kazakhstan, and Slovenia have the highest suicide rates worldwide; Finland is 10<sup>th</sup>. Suicide rates in E&E are lowest in the Caucasus, and among the Muslim-majority countries. Suicide rates have been falling throughout the transition region since the mid-to-late 1990s.

*Infectious diseases.* According to the WHO, infectious, parasitic, maternal and perinatal diseases were responsible for three to five percent of E&E deaths in 2003; vs. seven percent in the U.S. and the EU-15. Estimates of HIV prevalence in the large majority of transition countries remain low by global standards: twenty out of twenty-six transition countries had rates equal to or less than the EU-15 average in 2005 (of 0.27 percent of the population) (*Table 13*). However, from 1997-2005, HIV rates increased more rapidly in

the E&E than any other region in the world. Yet, only a handful of transition countries have been contributing to this significant increase in recent years; Ukraine, Russia, Estonia, Moldova, and Latvia in particular (*Figure 56*). *Figure 57* puts the global trends in perspective by underscoring how much more problematic HIV has been in Sub-Saharan Africa relative to anywhere else worldwide.

Tuberculosis prevalence is far higher in E&E than it is in the EU-15, and is currently higher in the majority of E&E countries than in 1990 while it has decreased in the EU-15 during this period (*Figure 58*). The incidence of TB was almost seven times greater in 1999-2002 in E&E than in the EU-15 (seventy-five vs. eleven per 100,000 persons). TB is higher in Eurasia than in CEE, and highest in the Central Asian Republics. TB incidences have been falling in CEE since at least the late 1990s. The trend is less clear in Eurasia.

*Demography.* Finally, *Figures 59-61* highlight the rather unique and troubling demographic picture in Eastern Europe and Eurasia. While the range in crude death rates and fertility rates is very large across the transition countries, some transition countries have among the highest crude death rates worldwide along with among the lowest fertility rates worldwide. This combined with emigration in many countries has contributed to the contraction of population (as shown in *Figure 61*).

The range in crude death rates across the transition countries is almost as high as global extremes: the Muslim-majority transition countries have among the lowest crude death rates worldwide, while the NFSU countries have among the highest crude death rates; only such death rates in Sub-Saharan Africa are higher (*Figure 59*). Crude death rates have held steady or fallen in much of the world since 1990, with two regional exceptions: these rates increased in Sub-Saharan Africa and in the transition region.

The fertility rates in the E&E region are well below replacement rate overall and in fact are lowest worldwide (*Figure 60*).<sup>24</sup> In 1999-2004, the average fertility rate in E&E was 1.6 children per woman. As with crude birth rates, only the advanced industrial economies have fertility rates comparably low: 1.7 in the high income economies; 1.5 in the EMU. A notable distinction, however, is that these low fertility rates in the advanced industrial economies have been maintained since at least the 1980s, while the fertility rates in the E&E region have dropped significantly since the 1980s, and particularly with the onset of the collapse of communism.

While fertility rates have been falling across the transition countries, there remains wide variation in the rates between transition countries: they are lowest in CEE and in the NFSU (1.4 children per woman in each country group); and highest among the Muslim-majority countries (2.6 children per woman, which is comparable to fertility rates in parts of the developing world, though nowhere near the rates in Sub-Saharan Africa, 5.4). The Muslim-majority countries are the outliers or exceptions to the general E&E trend, with fertility rates which are much higher than in the rest of the transition countries, even though the rates have been falling even more significantly than in the rest. In fact, the

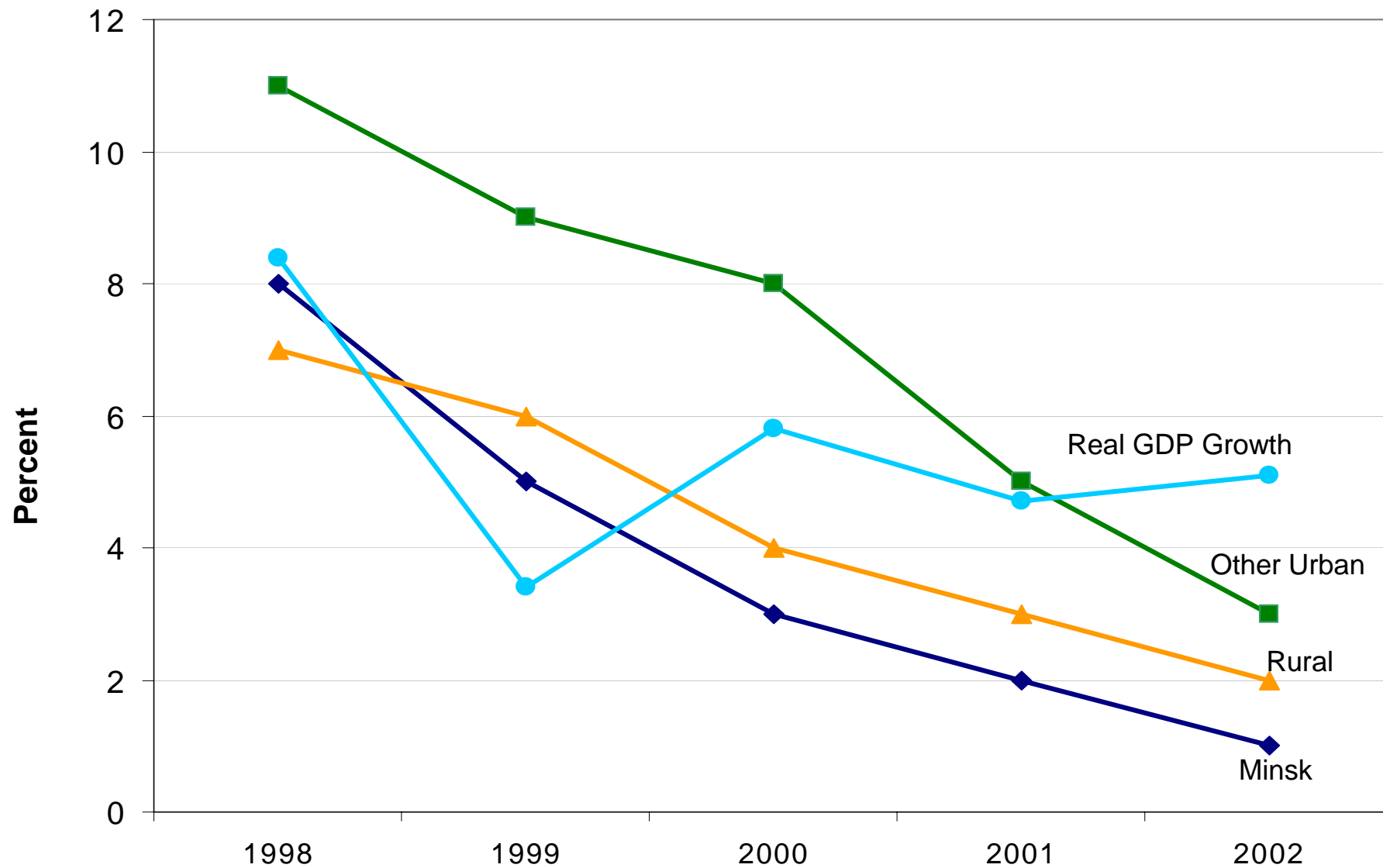


only transition countries which have fertility rates above replacement rates are the six Muslim-majority countries.

Both emigration and a natural decrease in population (i.e., death rates exceeding birth rates) have contributed to an overall contraction in population in Europe and Eurasia each year since 1995 (*Figure 61*). During this time period, all other regions in the world have experienced expanding populations, ranging from a small increase in Western Europe (0.3% average annual) to closer to 2.5% increase in Sub-Saharan Africa. Similarly, E&E is very much a global extreme when compared with the rest of the world differentiated by level of income. Population growth has been falling in low-income, middle-income, and high-income countries worldwide, though all groups have maintained, in contrast to the E&E region, on balance positive population growth.

Figure 25

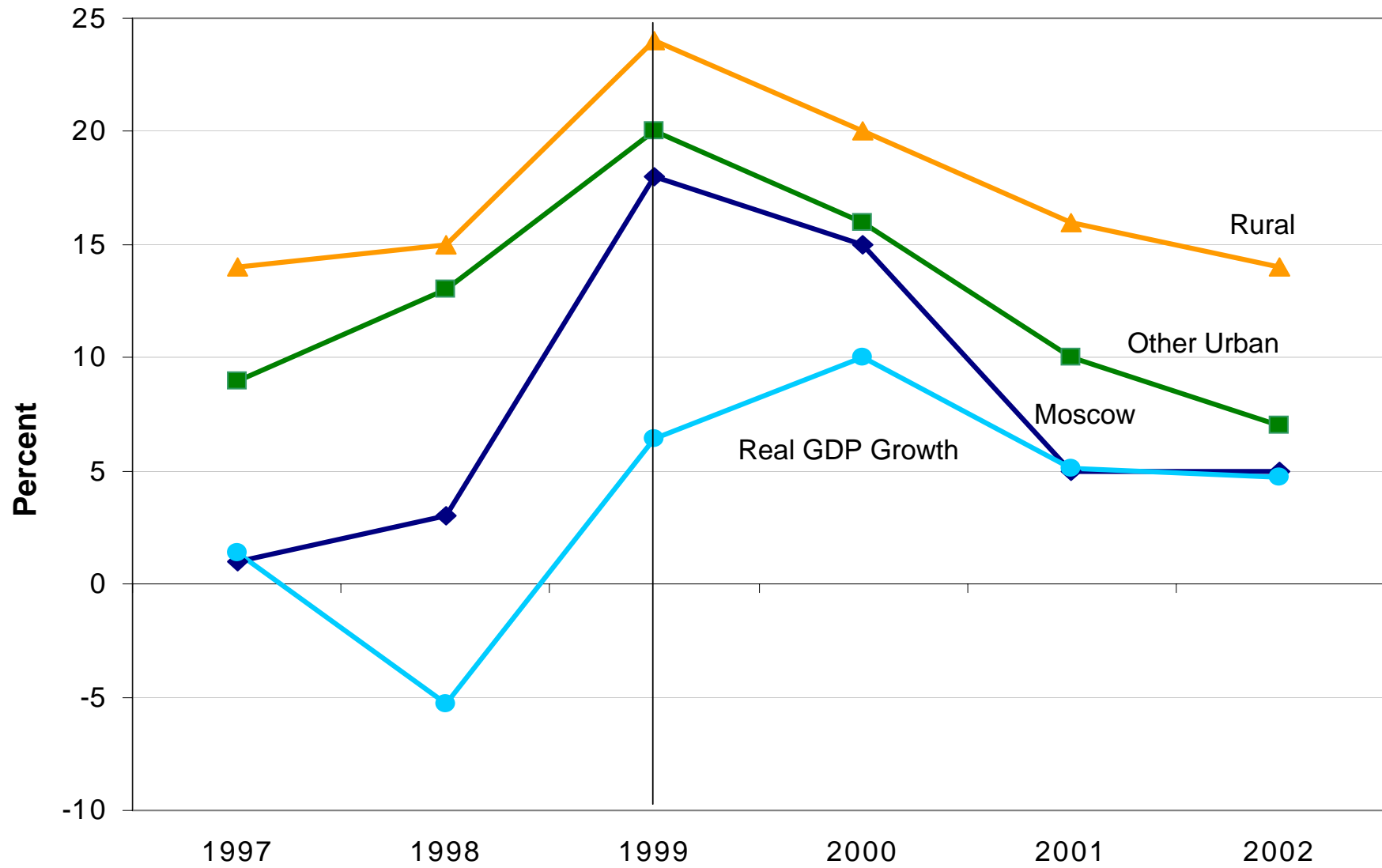
## Poverty & Growth in Belarus



World Bank, *Growth, Poverty, and Inequality: Eastern Europe and the Former Soviet Union* (2005); EBRD, *Transition Report 2005* (November 2005). Poverty data are percent of population. Poverty is defined as share of people living on less than \$2.15 a day in PPP terms.

Figure 26

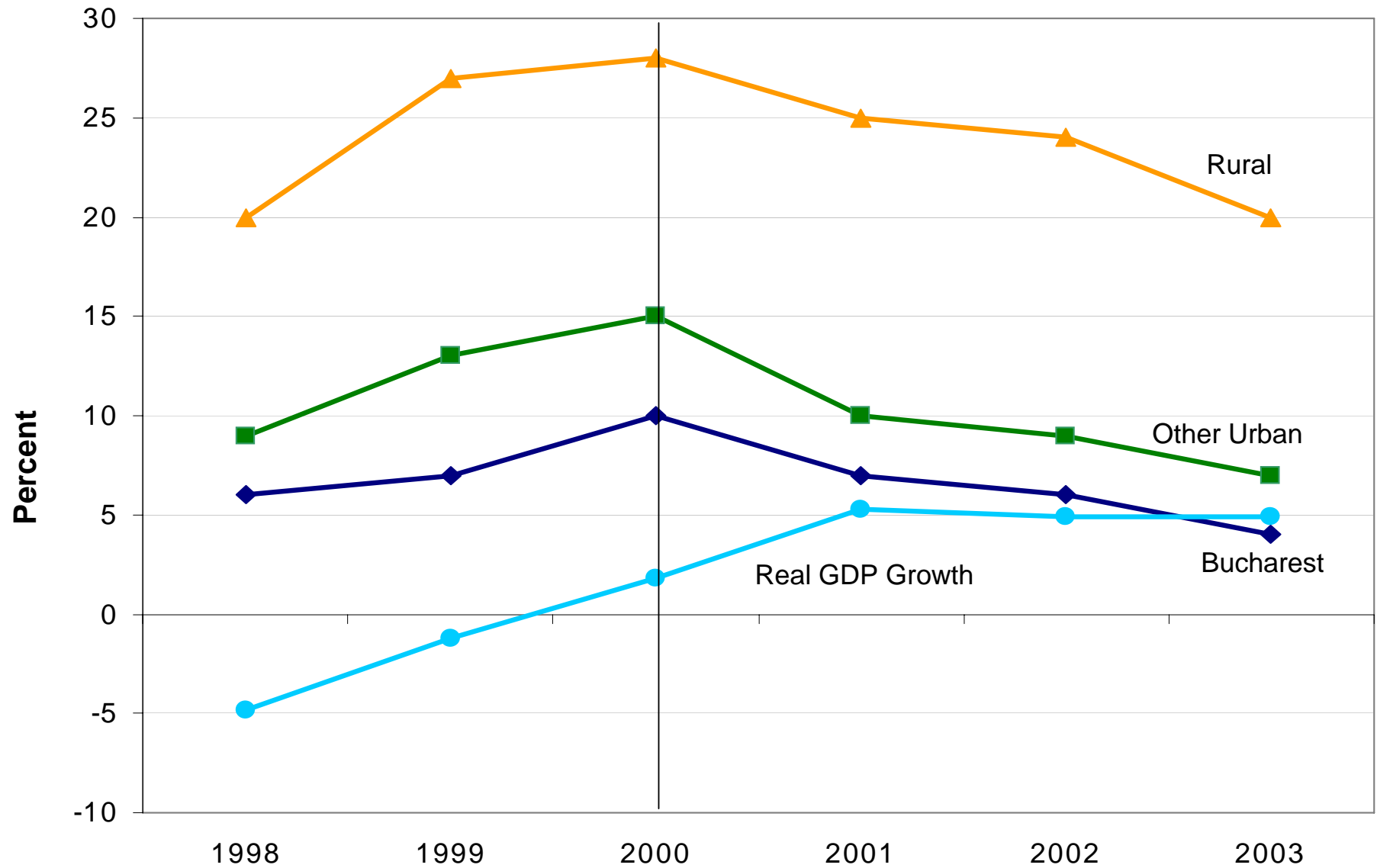
## Poverty & Growth in Russia



World Bank, *Growth, Poverty, and Inequality: Eastern Europe and the Former Soviet Union* (2005); EBRD, *Transition Report 2005* (November 2005). Poverty data are percent of population. Poverty is defined as share of people living on less than \$2.15 a day in PPP terms.

Figure 27

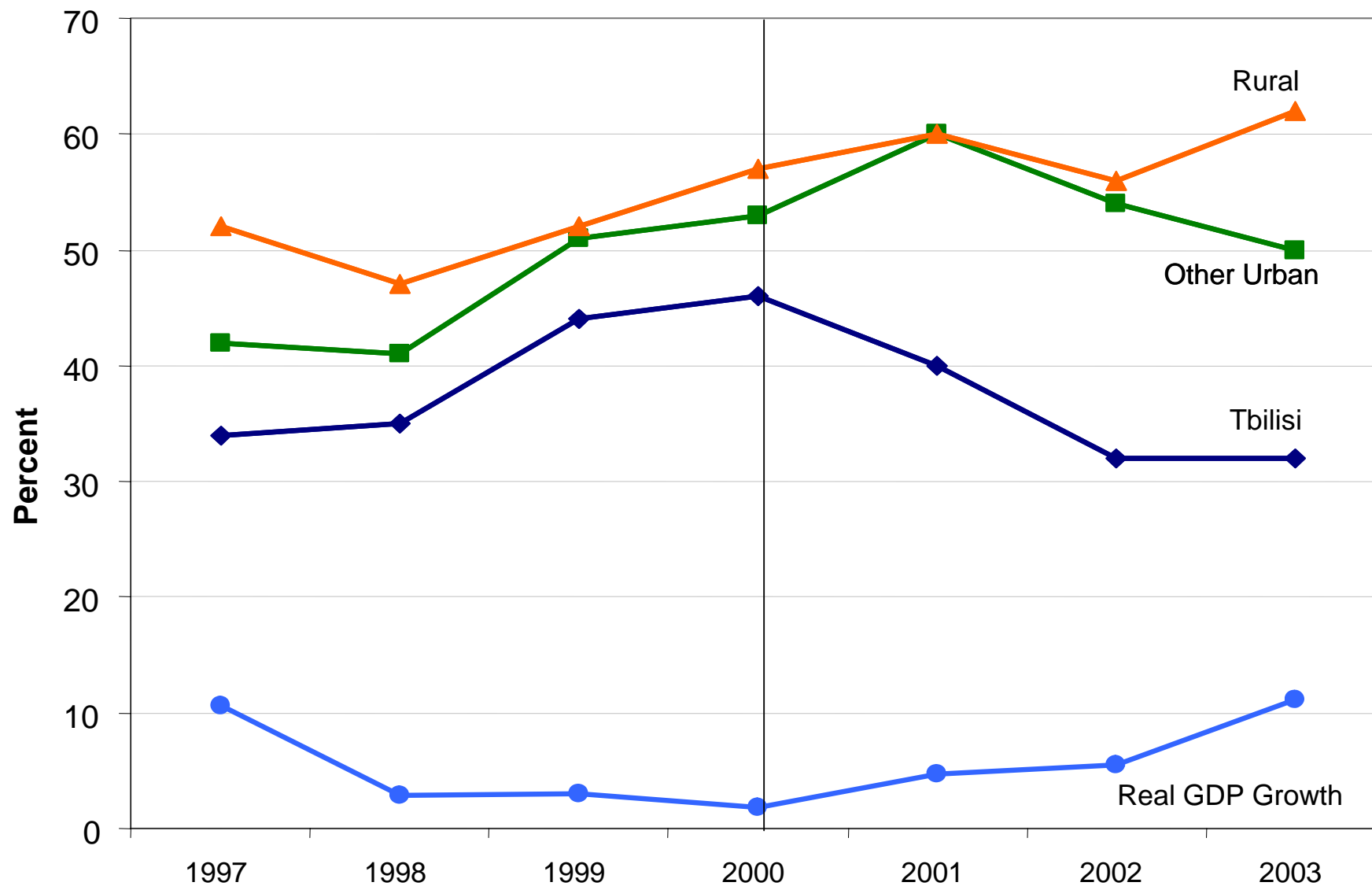
## Poverty & Growth in Romania



World Bank, *Growth, Poverty, and Inequality: Eastern Europe and the Former Soviet Union* (2005); EBRD, *Transition Report 2005* (November 2005). Poverty data are percent of population. Poverty is defined as share of people living on less than \$2.15 a day in PPP terms.

Figure 28

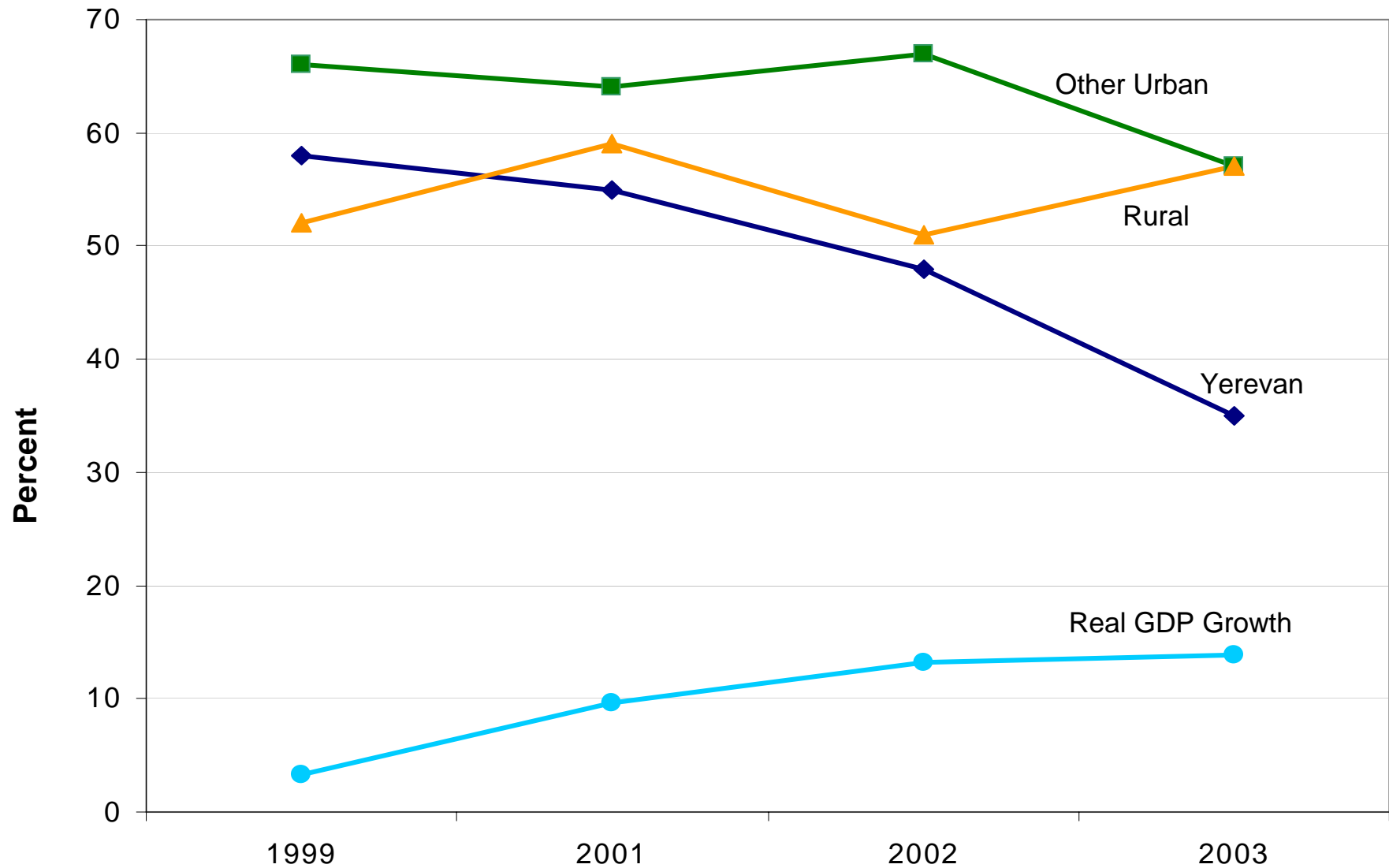
## Poverty & Growth in Georgia



World Bank, *Growth, Poverty, and Inequality: Eastern Europe and the Former Soviet Union* (2005); EBRD, *Transition Report 2005* (November 2005). Poverty data are percent of population. Poverty is defined as share of people living on less than \$2.15 a day in PPP terms.

Figure 29

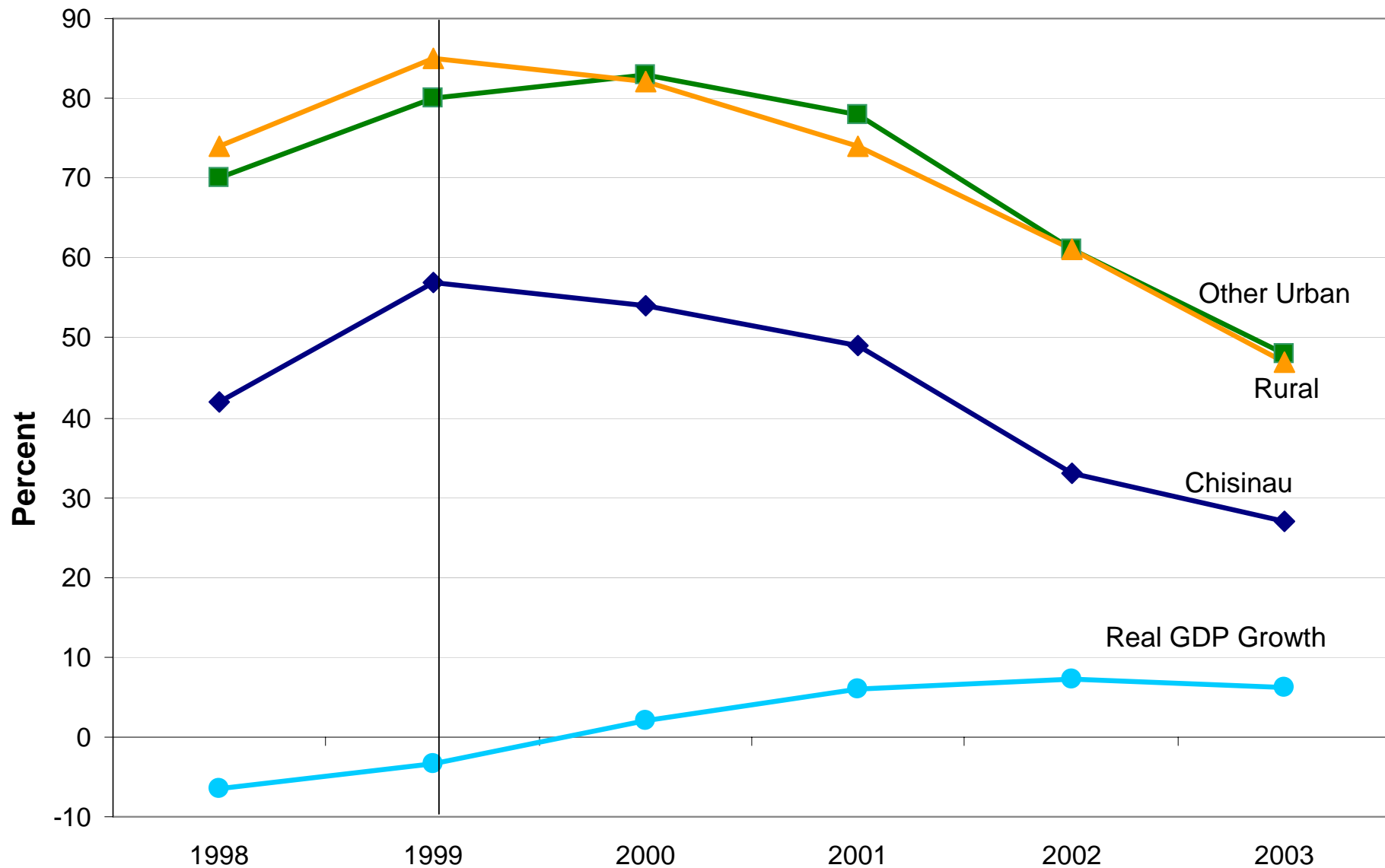
## Poverty & Growth in Armenia



World Bank, *Growth, Poverty, and Inequality: Eastern Europe and the Former Soviet Union* (2005); EBRD, *Transition Report 2005* (November 2005). Poverty data are percent of population. Poverty is defined as share of people living on less than \$2.15 a day in PPP terms.

Figure 30

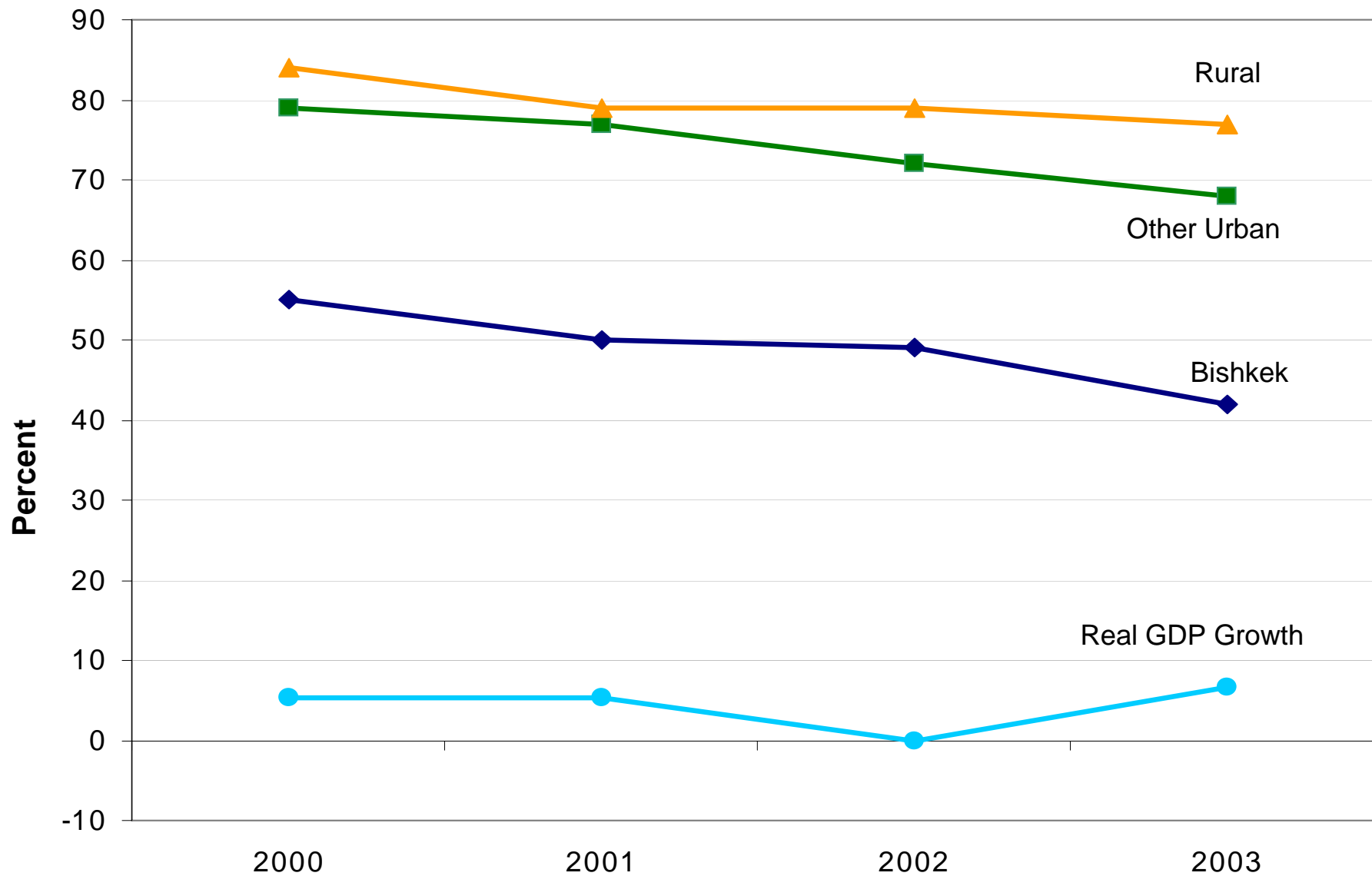
# Poverty & Growth in Moldova



World Bank, *Growth, Poverty, and Inequality: Eastern Europe and the Former Soviet Union* (2005); EBRD, *Transition Report 2005* (November 2005). Poverty data are percent of population. Poverty is defined as share of people living on less than \$2.15 a day in PPP terms.

Figure 31

## Poverty & Growth in Kyrgyz Republic

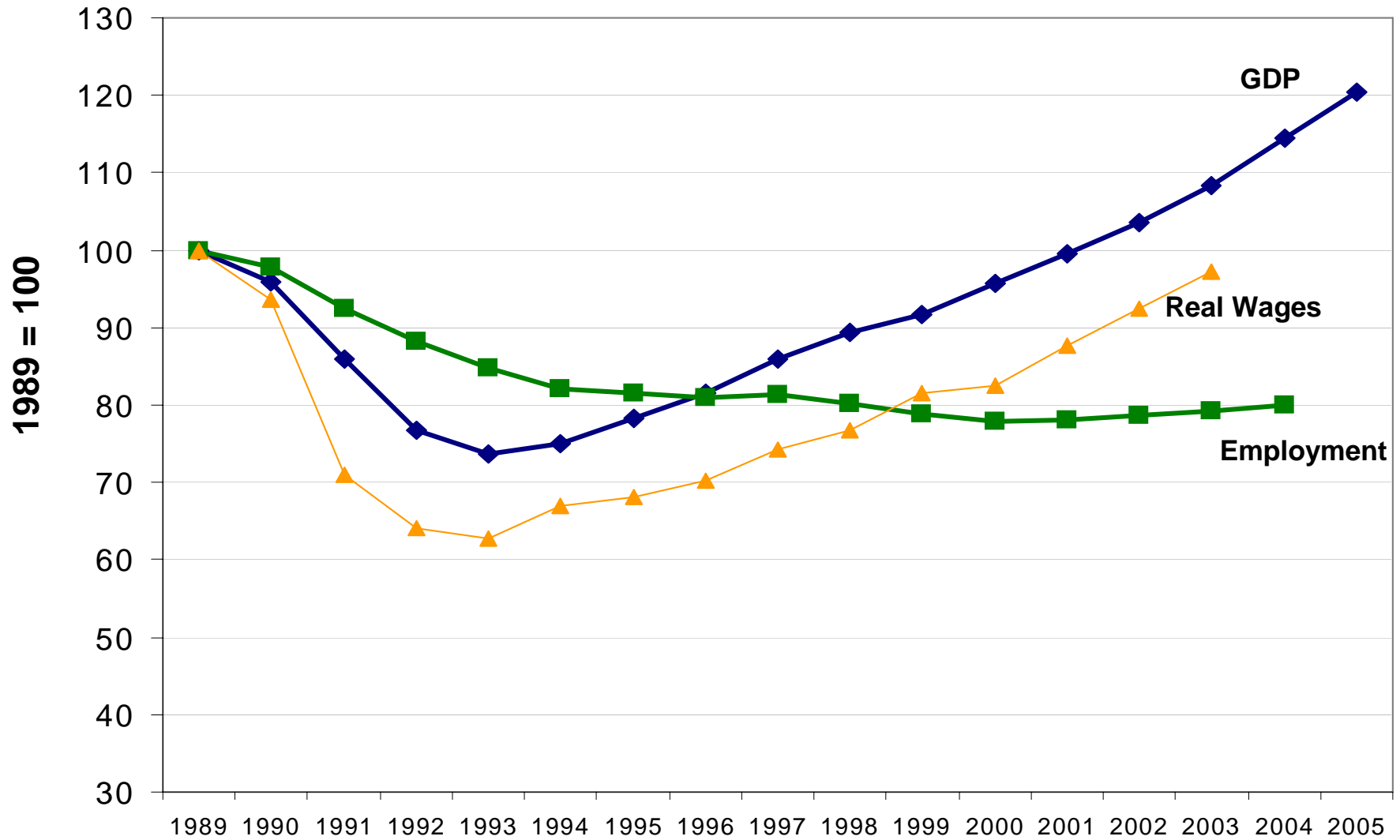


World Bank, *Growth, Poverty, and Inequality: Eastern Europe and the Former Soviet Union* (2005); EBRD, *Transition Report 2005* (November 2005). Poverty data are percent of population. Poverty is defined as share of people living on less than \$2.15 a day in PPP terms.



Figure 32

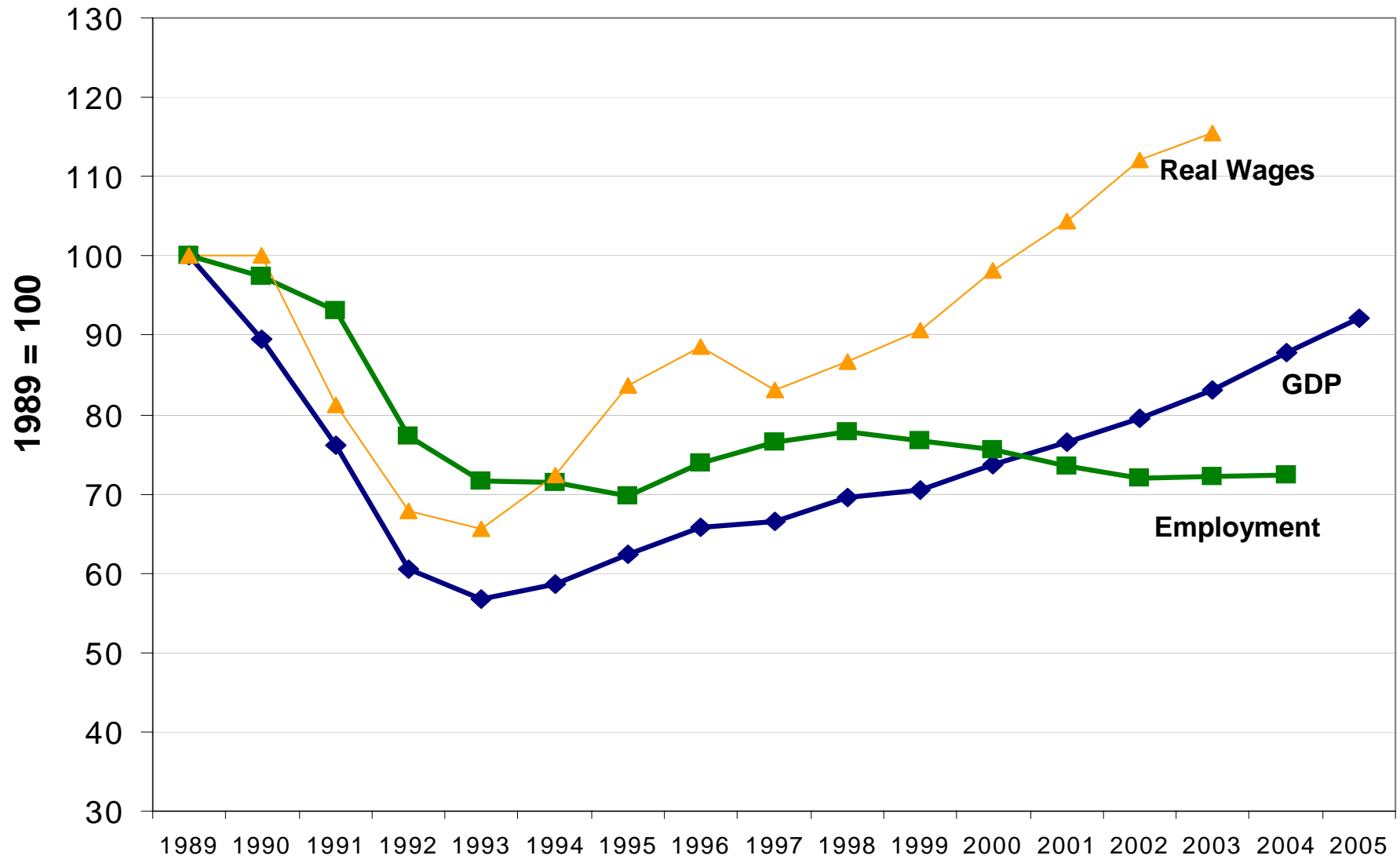
# Output & Employment in Northern Tier CEE (as % 1989)



EBRD, *Transition Report 2005* (November 2005). UNICEF, *TransMONEE Database* (December 2005).

# Output & Employment in Southern Tier CEE (as % 1989)

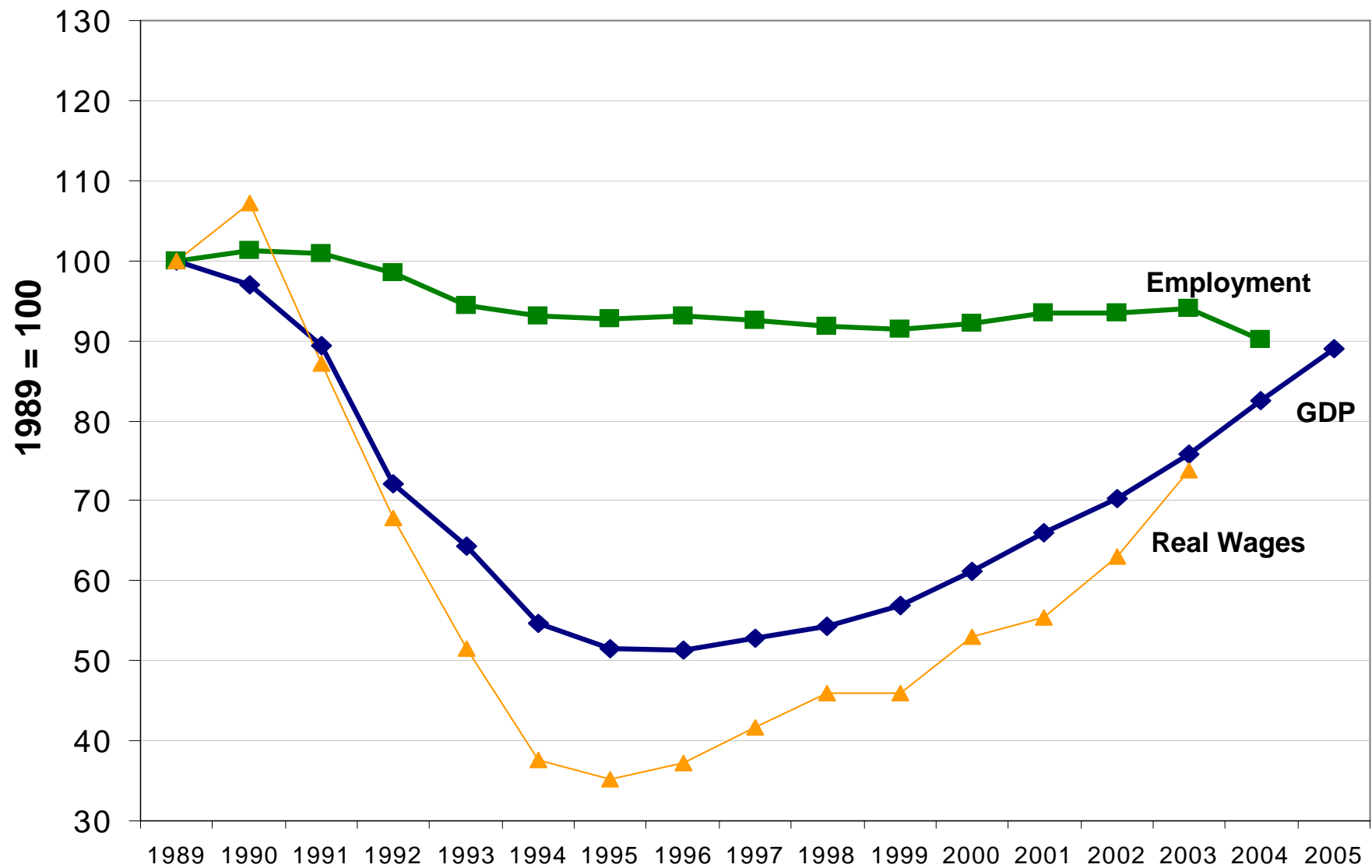
Figure 33



EBRD, *Transition Report 2005* (November 2005). UNICEF, *TransMONEE Database* (December 2005).

# Output & Employment in Eurasia (as % 1989)

Figure 34



EBRD, *Transition Report 2005* (November 2005). UNICEF, *TransMONEE Database* (December 2005).

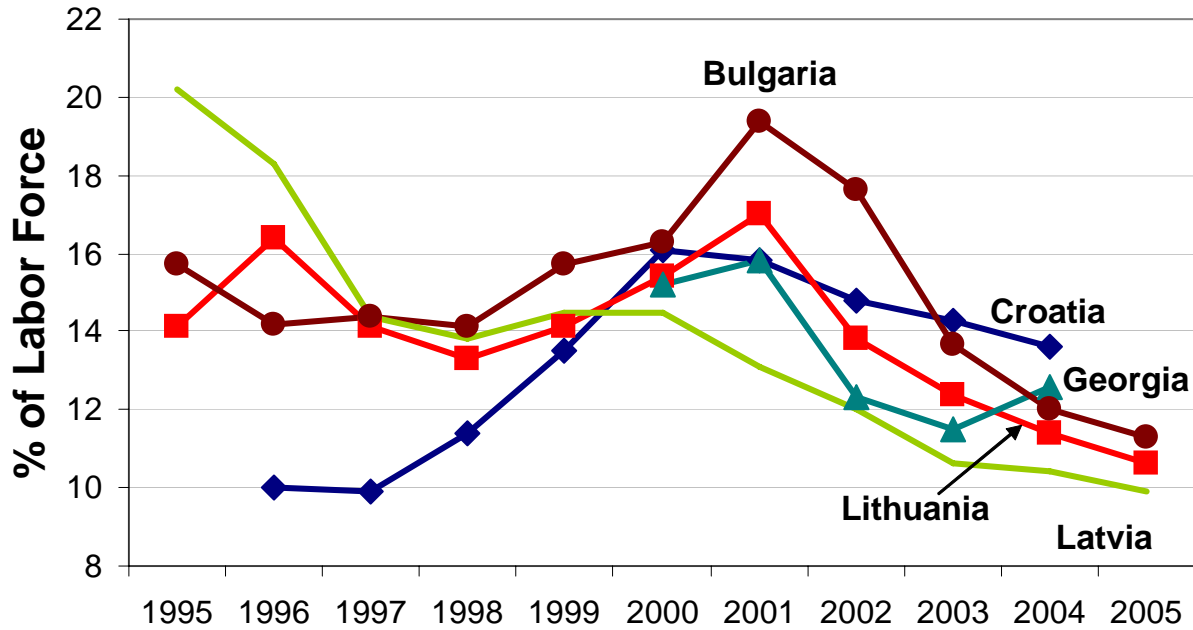
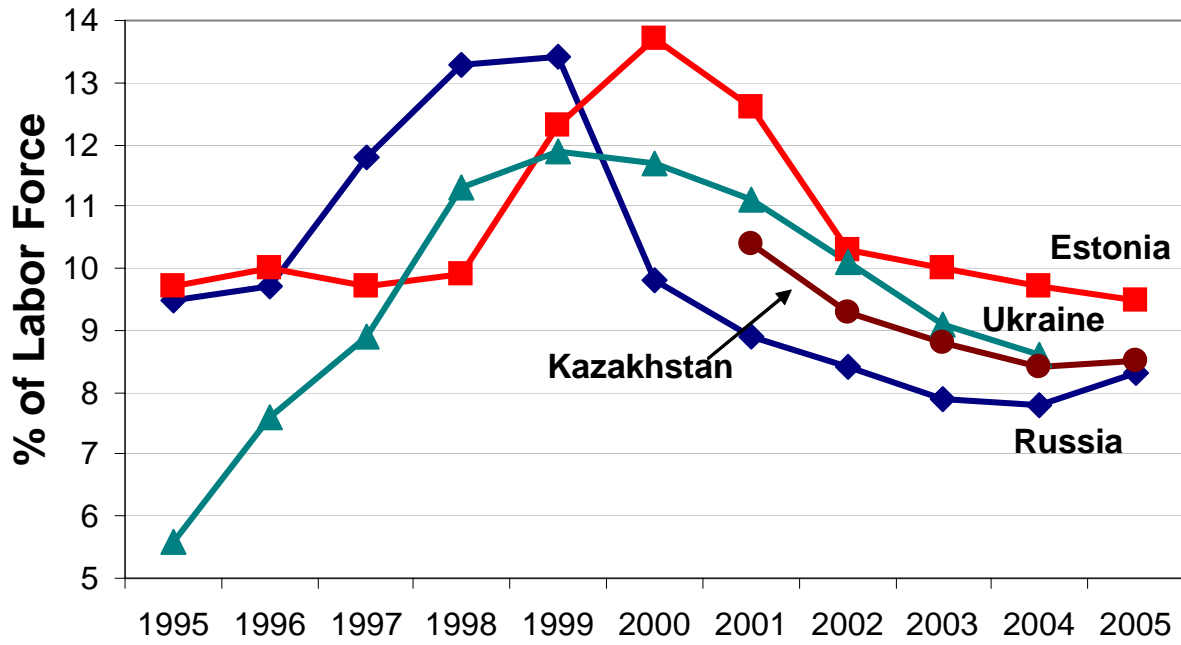
**TABLE 9. LABOR FORCE SURVEY UNEMPLOYMENT RATE (UNEMPLOYED AS % OF LABOR FORCE)**

	1990	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Q1 2005
UZBEKISTAN								6.0				
SLOVENIA	...	7.4	7.3	7.1	7.7	7.4	7.2	5.9	5.9	6.7	6.3	6.9
HUNGARY		10.2	9.9	8.7	7.8	7.0	6.4	5.7	5.8	5.9	6.1	7.1
ROMANIA	1.3	8.0	6.7	6.0	6.3	6.8	7.1	6.6	8.4	7.0	8.0	
RUSSIAN FEDERATION	...	9.5	9.7	11.8	13.3	13.4	9.8	8.9		7.9	7.8	8.3
CZECH REPUBLIC	...	4.0	4.1	5.4	7.3	9.0	8.8	8.1	7.3	7.8	8.3	8.4
KAZAKHSTAN	...							10.4	9.3	8.8	8.4	8.5
UKRAINE	...	5.6	7.6	8.9	11.3	11.9	11.7	11.1	10.1	9.1	8.6	
ESTONIA	0.6	9.7	10.0	9.7	9.9	12.3	13.7	12.6	10.3	10.0	9.7	9.5
MOLDOVA	...					1.1	8.5	7.3	6.8	7.9	8.1	9.6
LATVIA	...	20.2	18.3	14.4	13.8	14.5	14.5	13.1	12.0	10.6	10.4	9.9
KYRGYZ REPUBLIC	...								12.5	9.9		
ALBANIA									10.3			
LITHUANIA	...	14.1	16.4	14.1	13.3	14.1	15.4	17.0	13.8	12.4	11.4	10.6
AZERBAIJAN										10.7		
BULGARIA	21.4	15.7	14.2	14.4	14.1	15.7	16.3	19.4	17.6	13.7	12.0	11.3
TAJIKISTAN						16.0			12.0			
GEORGIA	...						15.2	15.8	12.3	11.5	12.6	
CROATIA	...	...	10.0	9.9	11.4	13.5	16.1	15.8	14.8	14.3	13.6	
BOSNIA-HERZEGOVINA								16.1				
SLOVAKIA	...	13.1	11.3	11.8	12.5	16.2	18.6	19.2	18.5	17.4	18.1	17.5
POLAND	13.5	13.3	12.3	11.2	10.5	13.9	16.1	18.2	19.9	19.6	19.0	18.9
SERBIA & MONTENEGRO		13.4	13.2	13.8	13.7	13.7	12.6	12.8	13.8	20.8		
ARMENIA					27.3	24.4		31.0	29.0	31.2	31.6	
MACEDONIA	...		31.9	36.0	34.5	32.4	32.2	30.5	31.9	36.7	37.2	
BELARUS												
TURKMENISTAN												
CEE & EURASIA		11.1	12.2	12.2	13.4	13.5	13.5	13.9	13.4	13.3	13.2	10.5
NORTHERN TIER CEE		11.5	11.2	10.3	10.4	11.8	12.6	12.5	11.7	11.3	11.2	11.1
ADVANCED ECONOMIES	6.5	7.0	7.1	6.9	6.8	6.4	5.8	5.9	6.4	6.6	6.6	
USA	5.6	5.6	5.4	4.9	4.5	4.2	4	4.8	5.8	6.0	6.0	
EU-15	6.9	9.9	9.8	9.2	8.4	7.6	6.8	6.2	6.5	7.0	7.0	

UNECE, *Trends in Europe and North America 2003 and 2005* (2003 and 2005), ILO LABORSTA (2005), IMF

World Economic Outlook (April 2004) World Bank, Albania Country Economic Memorandum, Sustaining Growth Beyond the Transition (2004).

# Labor Force Survey Falling Unemployment Rates



UNECE, *Trends in Europe and North America* (2003 and 2005); and National Surveys.



Figures 37-39

# Labor Force Survey Rising Unemployment Rates

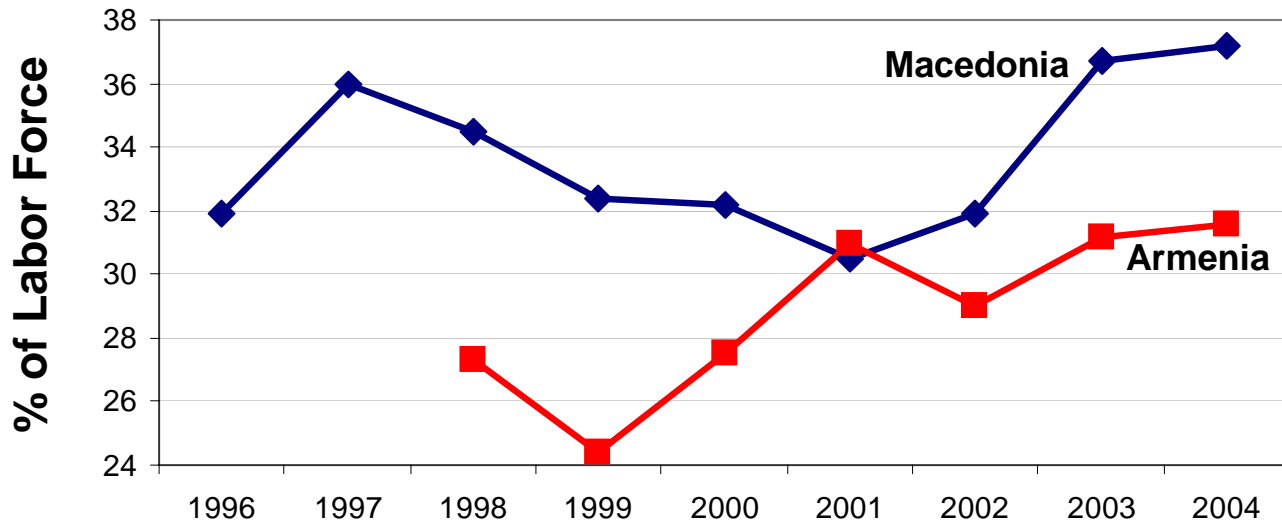
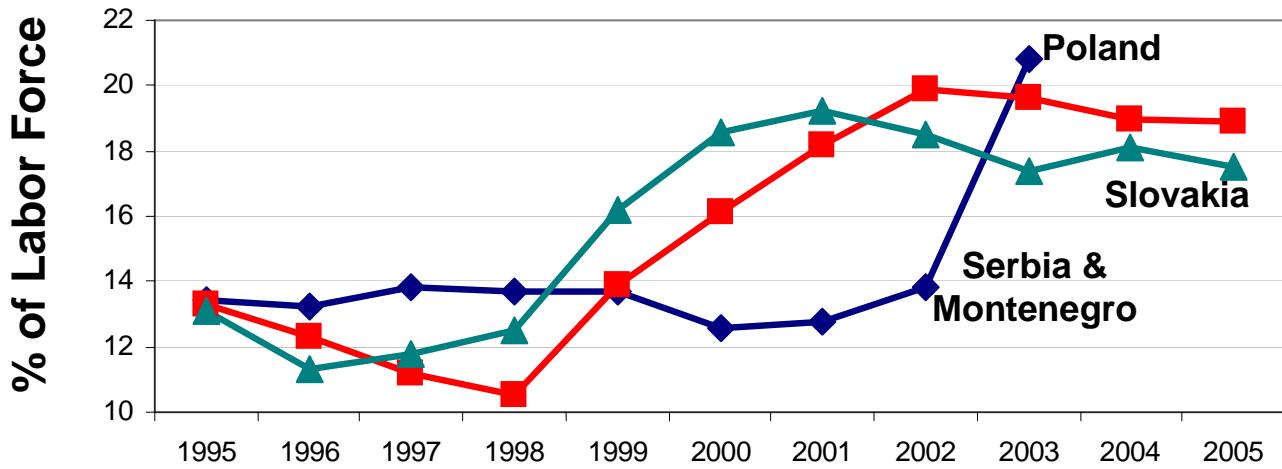
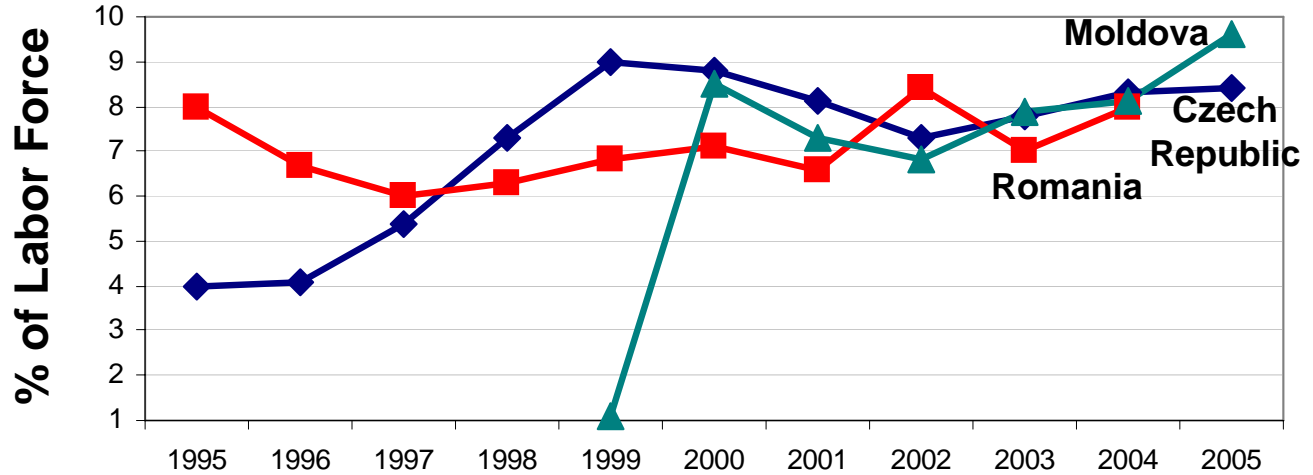
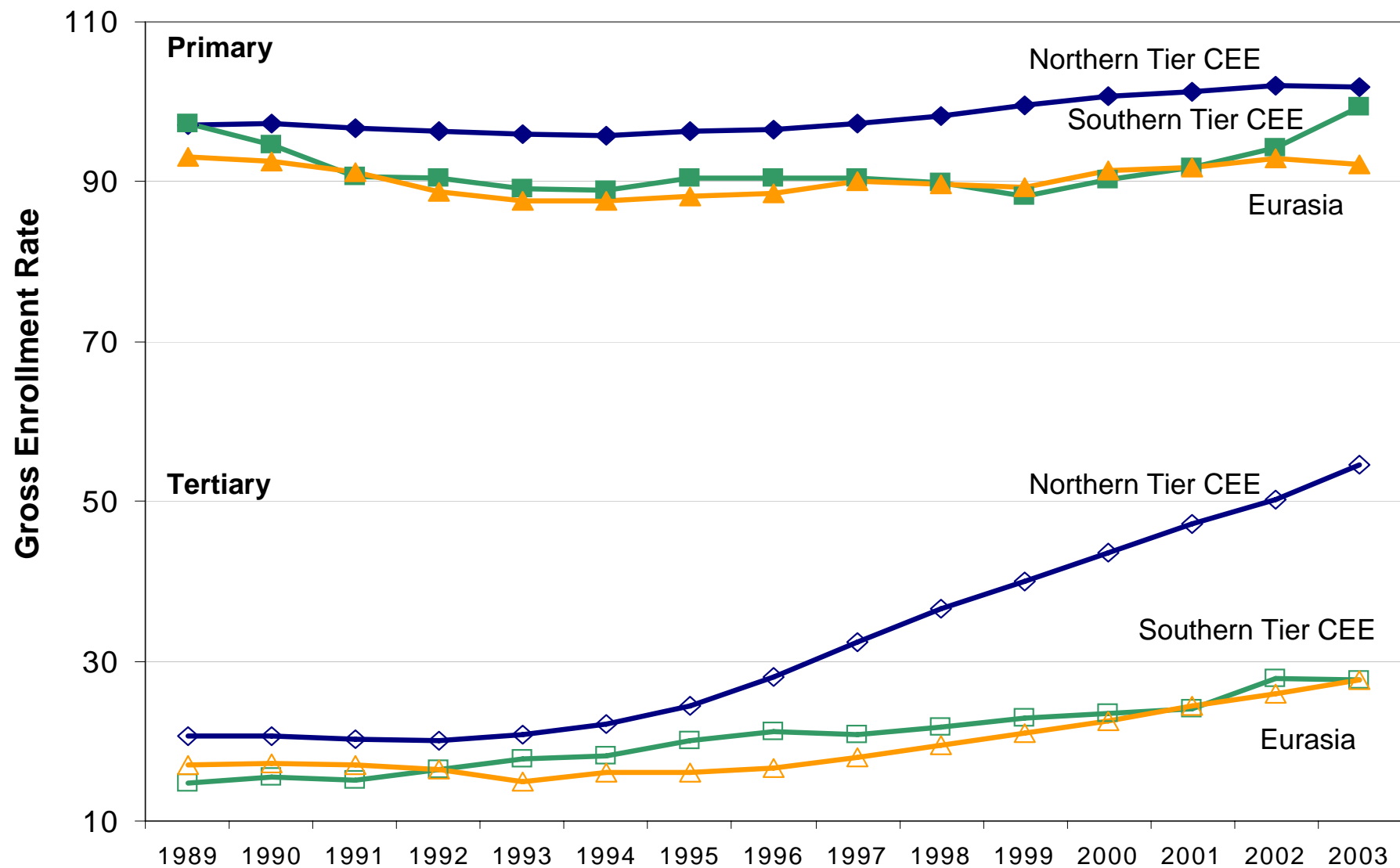


Figure 40

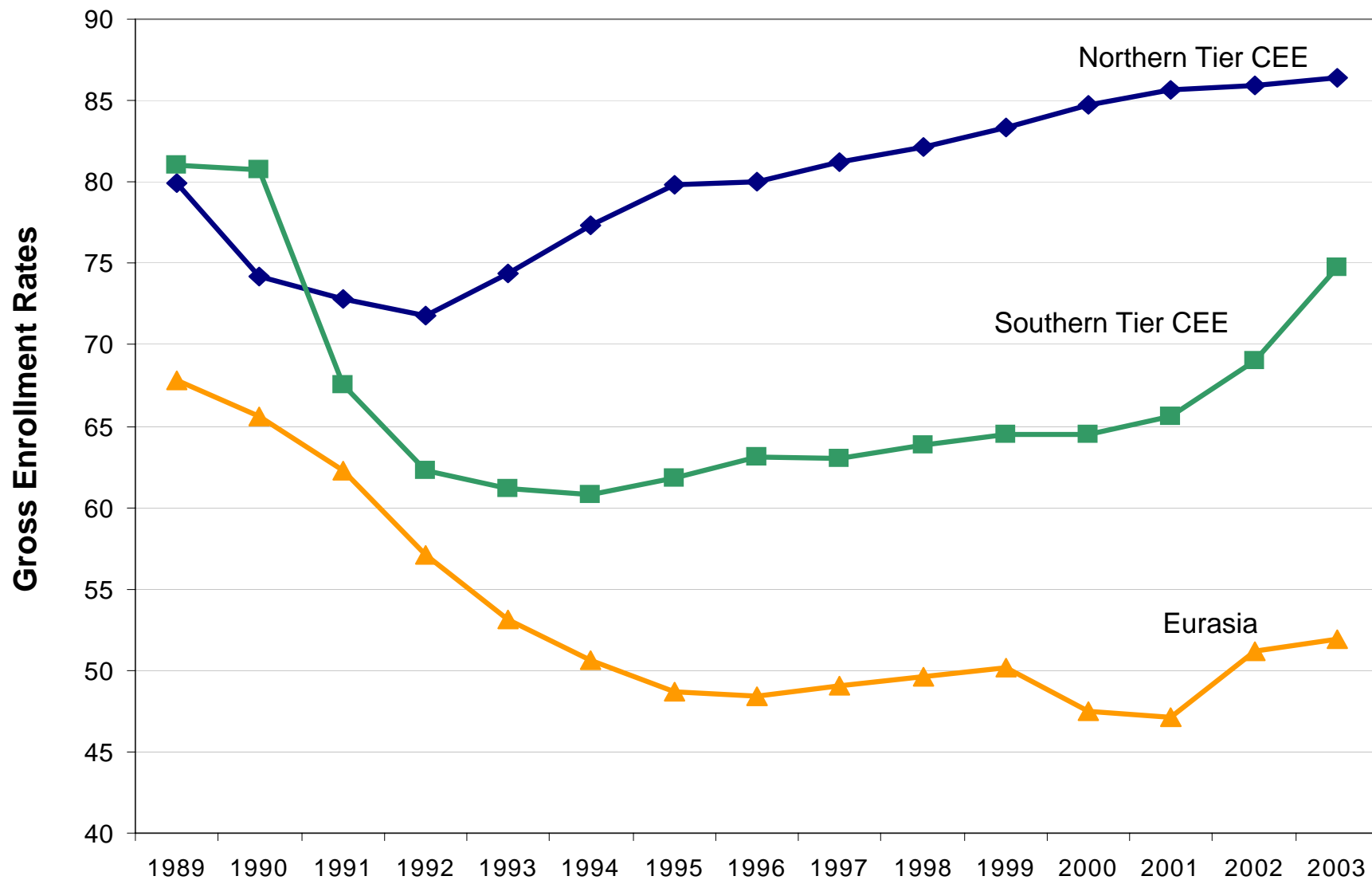
# Primary & Tertiary Enrollment



UNICEF, TransMONEE Database (December 2005).

Figure 41

# Total Secondary Enrollment

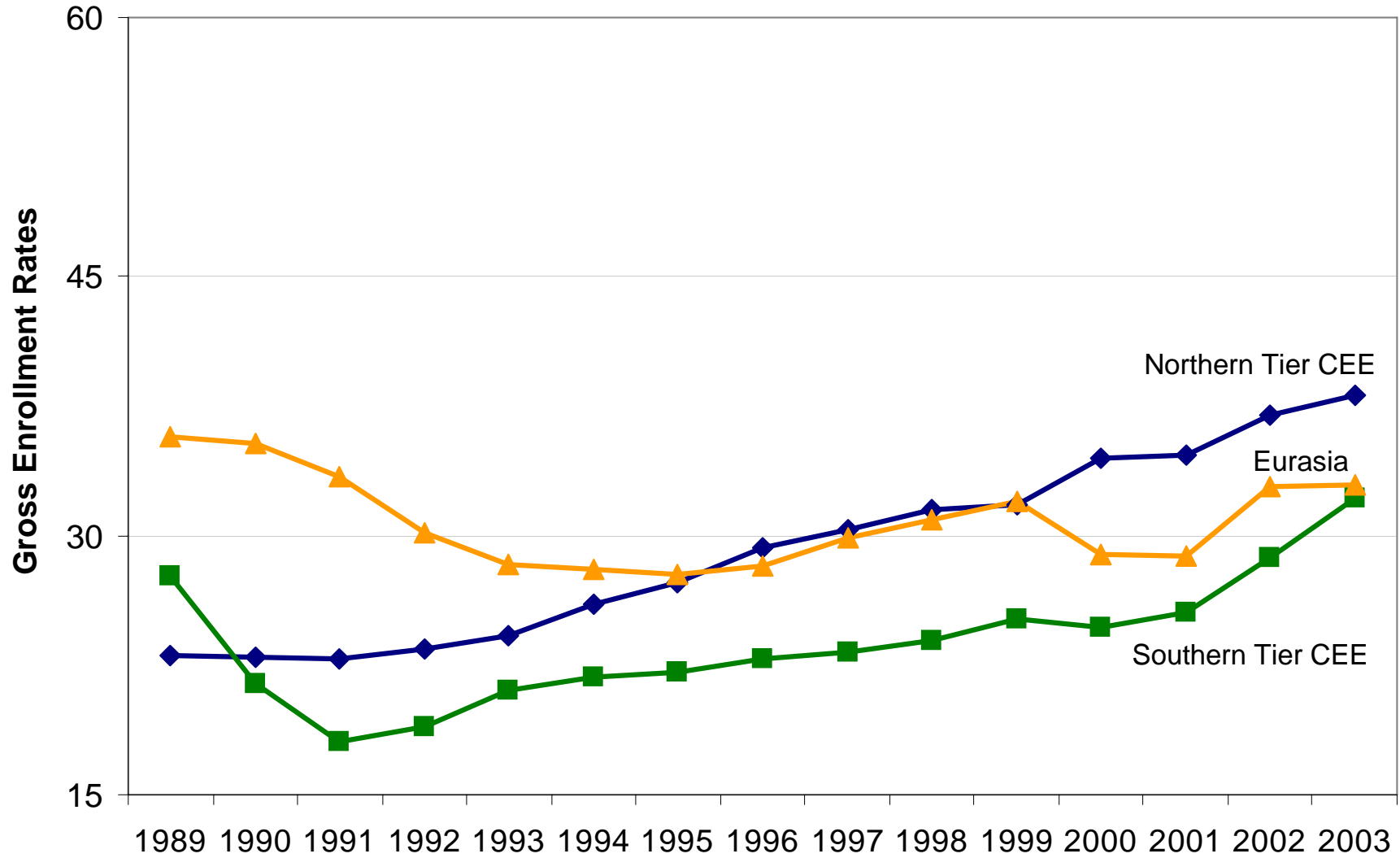


General secondary plus vocational/technical combined. UNICEF, *TransMONEE Database* (December 2005).



Figure 42

# General Secondary Enrollment



UNICEF, *TransMONEE Database* (December 2005).

Figure 43

# Vocational/Technical Enrollment

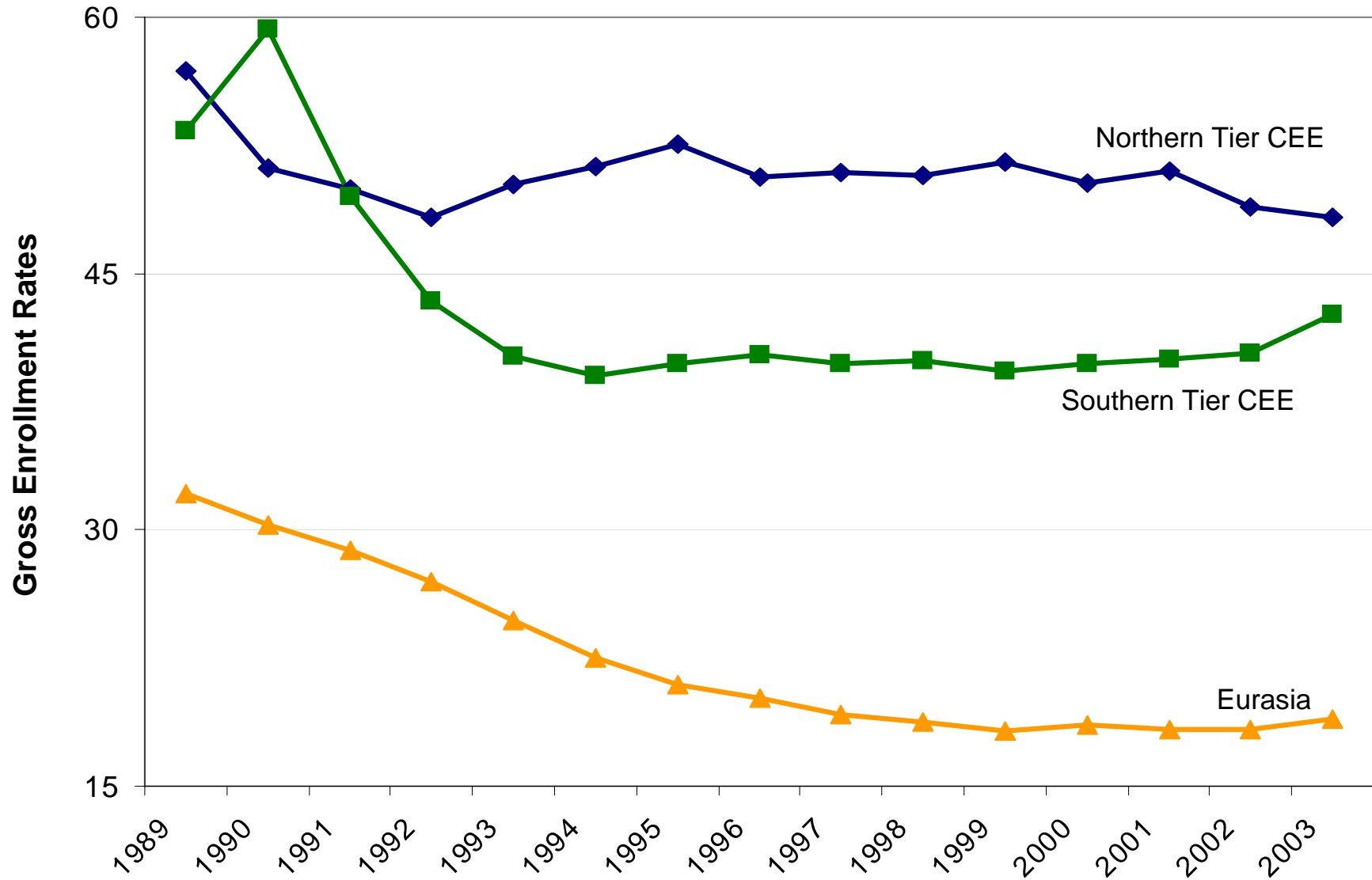
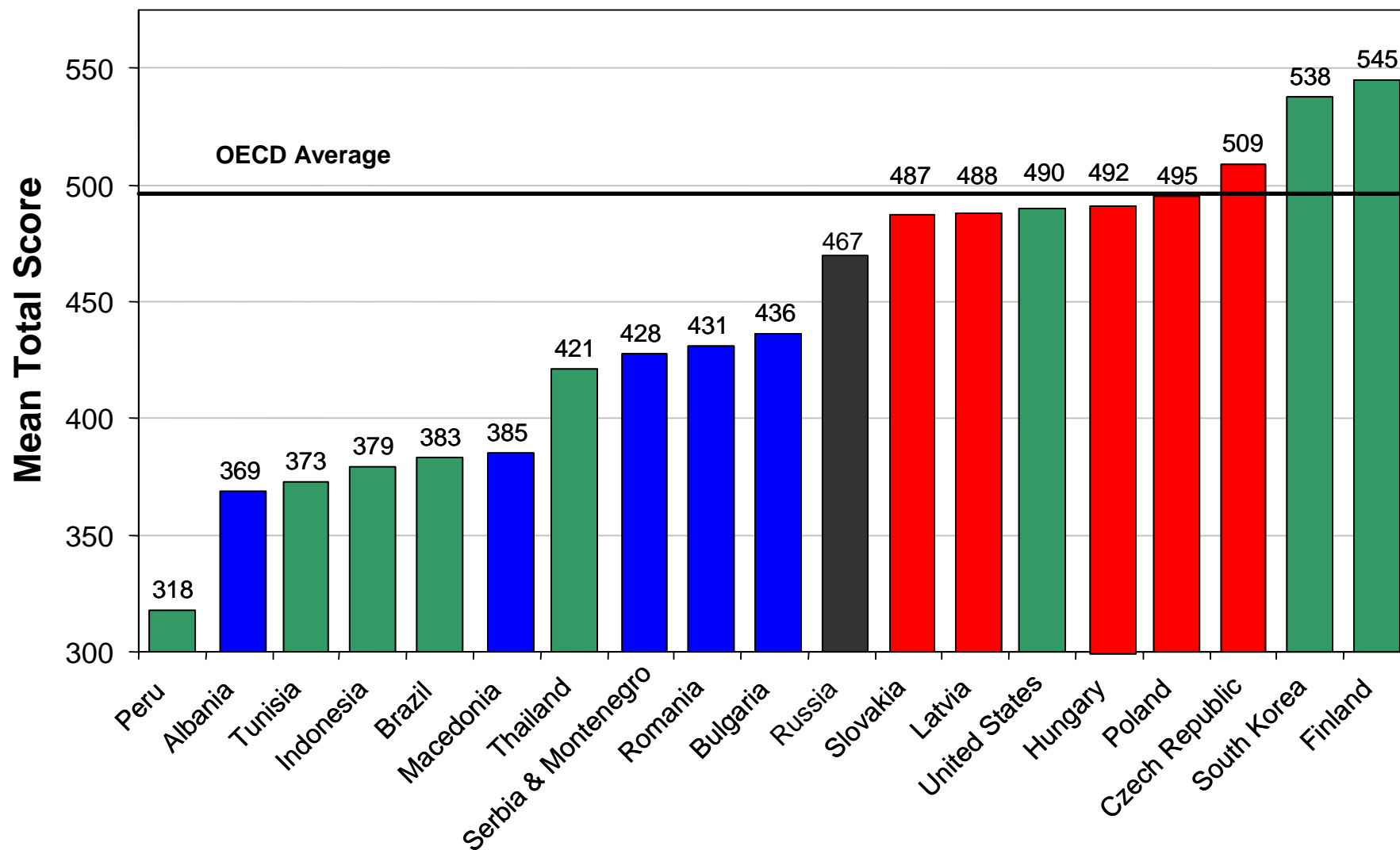


Figure 44

## Functional Literacy (PISA)



Mean total score is the average of the reading, math, and science domains. Results taken from most recently administered assessment available. Albania, Macedonia, Romania, and Bulgaria use PISA 2000; Serbia & Montenegro, Russia, Slovakia, Latvia, Hungary, Poland, Czech Republic, the OECD, and all non-E&E, excepting Peru, countries use PISA 2003. OECD, *Literacy Skills for the World of Tomorrow: Further Results from PISA 2000 (2003)*. OECD, *Learning for Tomorrow's World: First Results from PISA 2003 (2004)*.

Figure 45

# Life Expectancy at Birth

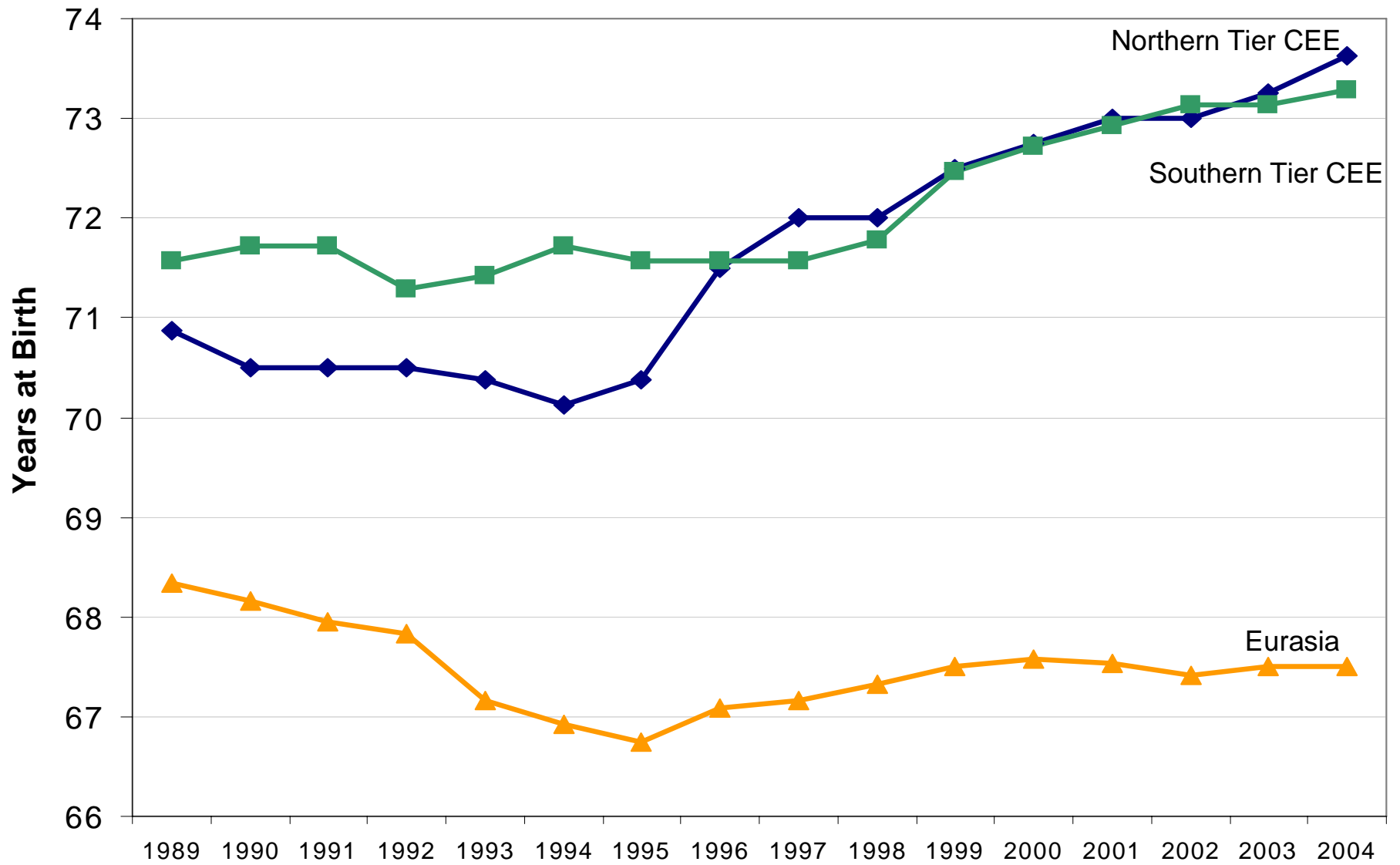
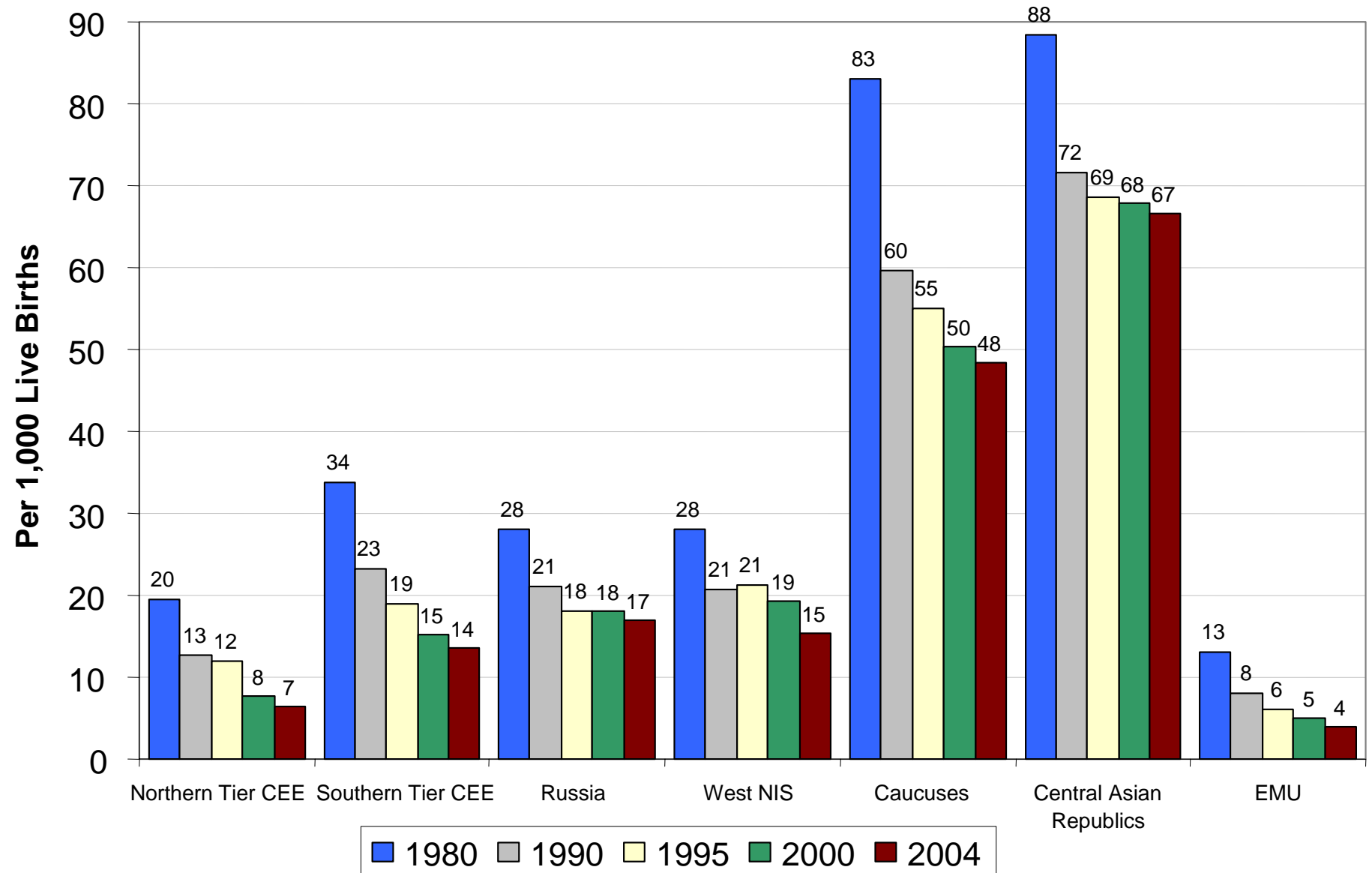


Figure 46

# Infant Mortality Rates



World Bank, *World Development Indicators* (2005). West NIS consists of Belarus, Moldova, and Ukraine.

**TABLE 10. INDICATORS OF SUSTAINABILITY: HUMAN CAPITAL**

	SECONDARY SCHOOL ENROLLMENT		SECONDARY SCHOOL ENROLLMENT		UNDER 5 MORTALITY		PER CAPITA INCOME	
	(gross, % age 15-18)		(gross, % age 15-18)		(per 1,000)		(PPP, \$)	
	2003	2004	1989	2004	1990	2005	2005	2005
SLOVENIA	100.5	5.0	---	4	5.0	10	19,902	5.0
CZECH REPUBLIC	91.7	4.5	79.2	4	5.0	13	16,286	4.5
HUNGARY	99.3	5.0	72.6	8	4.5	17	14,421	4.0
SLOVAKIA	86.0	4.0	79.0	9	4.5	14	14,179	4.0
ESTONIA	79.7	4.0	58.4	8	4.5	16	13,669	4.0
LITHUANIA	68.0	3.0	73.7	8	4.5	13	12,153	3.5
POLAND	102.8	5.0	90.1	8	4.5	18	11,815	3.5
LATVIA	70.5	3.5	70.2	12	4.5	18	11,078	3.5
CROATIA	84.3	4.0	66.7	7	4.5	12	11,013	3.5
RUSSIA	69.9	3.0	77.8	21	4.0	29	9,585	3.0
BULGARIA	89.8	4.5	78.2	15	4.5	19	7,962	2.5
ROMANIA	74.5	3.0	89.9	20	4.0	31	7,733	2.5
MACEDONIA	72.2	3.5	---	14	4.5	38	6,946	2.0
KAZAKHSTAN	64.7	3.0	76.1	73	1.5	63	6,870	2.0
BELARUS	76.6	3.5	77.3	11	4.5	17	6,716	2.0
BOSNIA & HERZEGOVINA	73.0	3.5	---	15	4.5	22	6,606	2.0
TURKMENISTAN	28.8	0.5	66.8	103	0.5	97	6,282	2.0
UKRAINE	62.1	2.5	65.6	18	4.0	26	6,087	2.0
SERBIA & MONTENEGRO	76.0	3.5	---	15	4.5	28	5,227	2.0
ALBANIA	53.0	2.0	79.2	19	4.0	45	4,988	1.8
ARMENIA	49.2	2.0	67.5	32	3.5	60	4,173	1.5
AZERBAIJAN	45.8	1.5	62.8	90	1.0	105	3,736	1.5
GEORGIA	37.2	1.0	58.7	45	3.0	47	2,772	1.0
MOLDOVA	42.1	1.5	67.1	28	3.5	40	1,888	1.0
UZBEKISTAN	70.1	3.0	67.6	69	2.0	79	1,847	1.0
KYRGYZ REPUBLIC	46.9	2.0	65.0	68	2.0	80	1,810	1.0
TAJKISTAN	29.3	0.5	60.1	93	0.5	119	1,150	1.0
CEE & EURASIA	68.3	3.0	71.7	30.3	3.6	39.9	8,033	2.5
NORTHERN TIER CEE	87	4.3	75	8	4.6	15	14,188	4.0
SOUTHERN TIER CEE	75	3.4	79	15	4.4	28	7,211	2.3
EURASIA	52	2.0	68	54	2.5	64	4,410	1.6
ROMANIA & BULGARIA 2002	80.0	3.8		18	4.3		6,760	2.3
NORTHERN TIER CEE								
AT GRADUATION	81.4	3.9		10	4.5		8,949	2.8

Shaded columns represent ratings based on a 1 to 5 scale, with 5 representing most advanced.

World Bank, *World Development Indicators (2005)*; EBRD *Transition Report 2005 (November 2005)*; and UNICEF, *TransMONEE Database (December 2005)*.

**TABLE 11. INDICATORS OF SUSTAINABILITY: HUMAN CAPITAL**

	PUBLIC EXPENDITURE ON HEALTH (% GDP)		PUBLIC EXPENDITURE ON HEALTH (% GDP)		PUBLIC EXPENDITURE ON EDUCATION (% GDP)		PUBLIC EXPENDITURE ON EDUCATION (% GDP)		LIFE EXPECTANCY (Years)	LIFE EXPECTANCY (Years)
	2003		1989		2004		1989		1990	2004
SLOVENIA	6.8	5.0	5.6	6.1	5.0	---	73	77	5.0	
CZECH REP.	6.8	5.0	4.2	4.4	3.0	4.0	71	76	5.0	
CROATIA	6.5	5.0	---	4.5	3.0	---	72	75	4.5	
POLAND	4.5	3.0	4.9	5.6	4.5	4.8	71	74	4.0	
ALBANIA	2.7	1.5	2.9	2.6	1.5	4.0	72	74	4.0	
BOSNIA & HERZ.	4.8	3.5	3.2	5.2	4.0	---	72	74	4.0	
SLOVAKIA	5.2	4.0	5.0	4.4	3.0	5.1	71	74	4.0	
MACEDONIA	6.0	5.0	---	3.5	2.3	---	72	74	4.0	
SERBIA & MONT.	5.4	4.0	3.6	3.6	2.5	---	72	73	4.0	
HUNGARY	6.1	5.0	5.2	5.5	4.0	5.7	69	73	4.0	
LITHUANIA	5.0	3.5	2.8	5.9	4.5	4.5	71	72	3.5	
BULGARIA	4.1	3.0	6.4	3.5	2.0	5.0	72	72	3.5	
AZERBAIJAN	0.9	0.5	3.1	3.2	2.0	6.9	71	72	3.5	
ESTONIA	4.6	3.5	---	5.7	4.5	---	69	72	3.5	
ARMENIA	1.3	0.5	2.4	3.2	2.0	7.5	69	71	3.0	
GEORGIA	0.9	0.5	4.1	2.2	1.0	6.4	70	71	3.0	
LATVIA	3.3	2.0	2.5	5.8	4.5	4.5	69	71	3.0	
ROMANIA	3.8	2.5	2.5	3.5	2.0	2.2	70	71	3.0	
UKRAINE	3.7	2.5	3.3	5.4	4.0	5.3	70	68	2.0	
BELARUS	4.1	3.0	2.7	3.8	2.5	4.6	71	68	2.0	
KYRGYZ REPUBLIC	2.2	1.0	3.2	3.1	2.0	6.0	68	68	2.0	
MOLDOVA	3.9	2.5	4.0	4.9	3.5	7.8	68	68	2.0	
UZBEKISTAN	2.4	1.0	4.6	---	---	---	69	67	1.5	
RUSSIA	3.0	1.5	2.4	3.8	2.5	3.6	69	65	1.0	
KAZAKHSTAN	2.0	0.5	4.3	3.0	1.5	2.1	68	65	1.0	
TAJKISTAN	0.9	0.5	4.5	2.8	1.5	2.4	63	64	0.5	
TURKMENISTAN	2.6	1.5	3.8	2.6	1.5	3.6	63	63	0.5	
CEE & EURASIA	3.8	2.6	3.8	4.1	2.8	4.8	70	71	3.0	
NORTHERN TIER CEE	5.3	3.9	4.3	5.4	4.1	4.8	71	73	3.9	
SOUTHERN TIER CEE	4.8	3.5	3.7	3.8	2.4	3.7	71	73	3.7	
EURASIA	2.3	1.3	3.5	3.5	2.2	5.1	69	68	2.0	
ROM & BULGARIA '02	3.7	2.5		3.8	2.5			71	3.3	
NORTHERN TIER CEE AT GRADUATION	5.4	3.9		5.6	4.2			73	3.8	

Shaded columns represent ratings based on a 1 to 5 scale, with 5 representing most advanced. Data for public expenditure on education and health in 1989 in Eurasia are from 1991. Data for public expenditure on education in 2004 preliminary in Albania, Bosnia & Herzegovina, Serbia & Montenegro, Belarus and Turkmenistan are from 2002, UNICEF, *TransMONEE Database* (2005).

World Bank, *World Development Indicators* (2005).

**TABLE 12. ADULT MORTALITY RATE**

	1990		1997		2000		2002-2004	
	MALE	FEMALE	MALE	FEMALE	MALE	FEMALE	MALE	FEMALE
RUSSIA	298	107	410	146	428	156	431	153
KAZAKHSTAN	306	136			366	201	351	158
UKRAINE	268	105			365	135	421	161
BELARUS	254	98	361	128	381	133	366	131
TURKMENISTAN	250	135	282	159	343	217	311	161
KYRGYZ REPUBLIC	291	143			335	175	273	129
LATVIA	295	108			328	122	294	112
ESTONIA	286	106			316	114	310	101
LITHUANIA	246	92			286	106	294	96
MOLDOVA	269	146			325	165	302	154
TAJIKISTAN	168	106			293	204	223	149
HUNGARY	290	135	295	123	295	123	242	105
UZBEKISTAN	207	109			282	176	252	149
ROMANIA	237	114	257	119	260	117	234	101
AZERBAIJAN	216	96			261	153	230	107
BULGARIA	211	107	222	112	239	103	208	89
GEORGIA	195	90			250	133	219	84
SLOVAKIA	247	100	225	90	216	83	178	71
ARMENIA	216	119			223	106	209	95
POLAND	264	102	238	91	226	88	201	78
MACEDONIA	147	100			160	89	145	84
BOSNIA & HERZEGOVINA	186	109			200	93	159	82
SERBIA & MONTENEGRO	168	101					172	94
CROATIA	207	96	162	119	178	74	173	76
ALBANIA	203	101			209	95	99	56
CZECH REPUBLIC	230	99	181	82	174	75	157	79
SLOVENIA	211	91	179	77	170	76	151	66
CEE & EURASIA	236	109			273	127	245	108
NORTHERN TIER CEE	259	104			251	98	228	89
SOUTHERN TIER CEE	194	104			208	95	170	83
EURASIA	276	109			381	157	299	136
N.FSU	275	103			351	128	353	126
MUSLIM MAJORITY	226	116			288	169	227	120
EUROPEAN MONETARY UNION	145	68	130	61	125	58		
EAST ASIA & PACIFIC	187	152	179	134	184	129		
LATIN AMERICA & CARIB.	198	130			222	125		
MIDDLE EAST & NORTH AFR.	211	183			193	143		
SOUTH ASIA	248	250			252	202		
SUB-SAHARAN AFRICA	448	372			519	461		
LOW-INCOME COUNTRIES	293	267			310	259		
MIDDLE-INCOME COUNTRIES	195	137	205	131	211	128		
HIGH-INCOME COUNTRIES	150	76	130	67	128	66		

World Bank, *World Development Indicators* (2005 and previous editions).

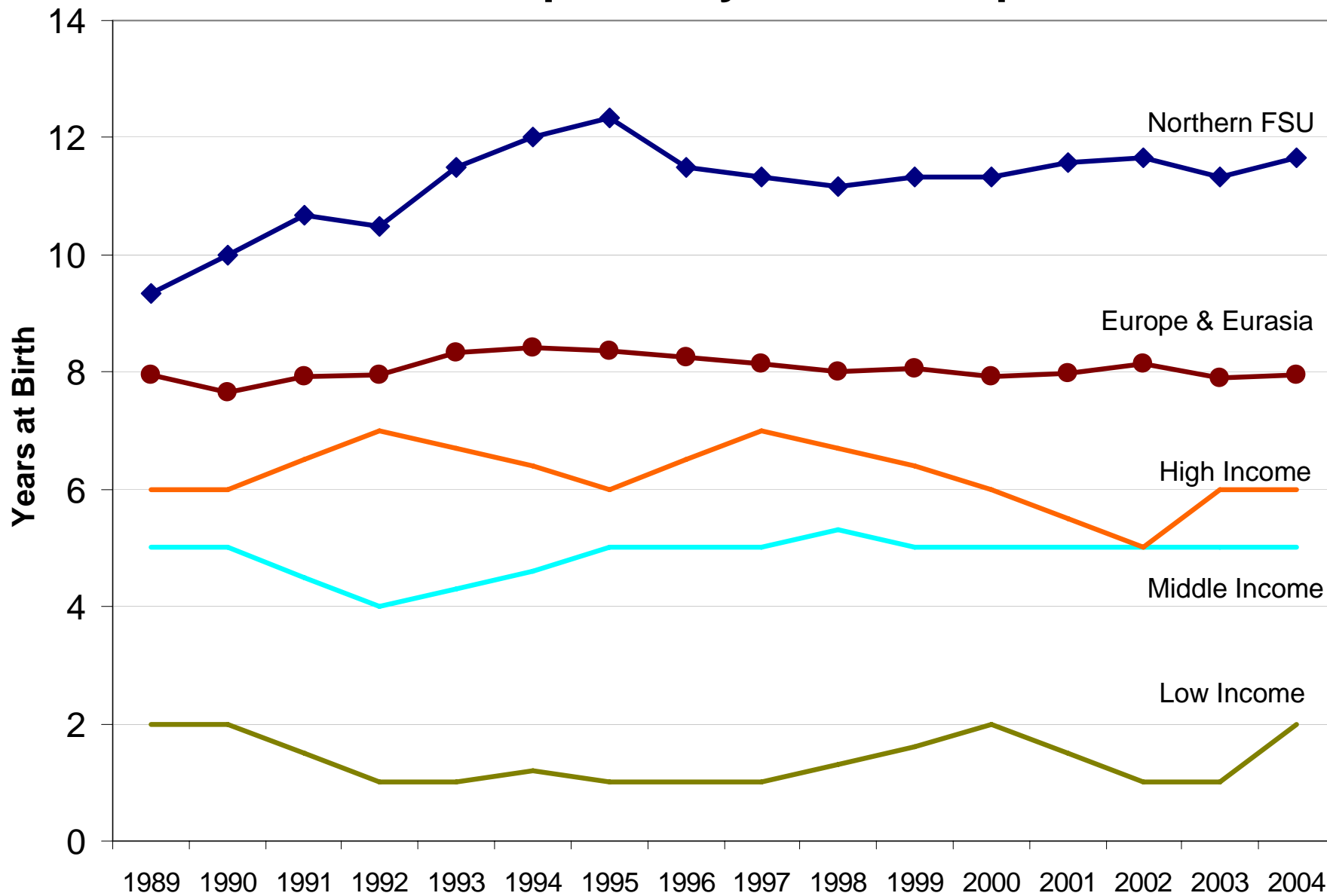


<b>TABLE 13. ADULT HIV PREVALENCE RATE 15-49 (Estimate)</b>							
	<b>1997</b>	<b>1999</b>	<b>2001</b>	<b>2003</b>	<b>2005</b>	<b>Change 1997-05</b>	<b>Change 2003-05</b>
Ukraine	0.43	0.96	1.20	1.40	1.40	224	0
Estonia	0.01	0.04	0.70	1.10	1.30	9525	18
Russia	0.05	0.18	0.70	1.10	1.10	2031	0
Moldova	0.11	0.20	0.20	0.90	1.10	919	22
Latvia	0.01	0.11	0.50	0.60	0.80	9678	33
Belarus	0.17	0.28	0.30		0.30	75	
Georgia	0.01	0.01	0.10	0.10	0.20	3900	100
Lithuania	0.01	0.02	0.10	0.10	0.20	3668	100
Serbia and Montenegro	0.10	0.10	0.20	0.20	0.20	109	0
Uzbekistan	0.01	0.01	0.10	0.10	0.20	3900	100
Kazakhstan	0.03	0.04	0.10	0.20	0.10	257	-50
Armenia	0.01	0.01	0.10	0.10	0.10	1871	0
Azerbaijan	0.01	0.01	0.10	0.10	0.10	1900	0
Bosnia and Herzegovina	0.04	0.04	0.10	0.10	0.10	183	0
Bulgaria	0.01	0.01	0.10	0.10	0.10	1286	0
Croatia	0.01	0.02	0.10	0.10	0.10	654	0
Czech Republic	0.04	0.04	0.10	0.10	0.10	169	0
Hungary	0.04	0.05	0.10	0.10	0.10	155	0
Kyrgyz Republic	0.01	0.01	0.10	0.10	0.10	1900	0
Macedonia	0.01	0.00	0.10	0.10	0.10	1083	0
Poland	0.06	0.07	0.10	0.10	0.10	71	0
Romania	0.01	0.02	0.10	0.10	0.10	1077	0
Slovak Republic	0.01	0.01	0.10	0.10	0.10	1900	0
Slovenia	0.01	0.02	0.10	0.10	0.10	914	0
Tajikistan	0.01	0.01	0.10	0.10	0.10	1900	0
Turkmenistan	0.01	0.01	0.10	0.10	0.10	1900	0
Albania	0.01	0.01					
<b>Europe and Eurasia</b>	<b>0.1</b>	<b>0.1</b>	<b>0.2</b>	<b>0.2</b>	<b>0.6</b>	<b>793</b>	<b>265</b>
<b>Top 4 E&amp;E</b>	<b>0.2</b>	<b>0.4</b>	<b>0.8</b>	<b>1.1</b>	<b>1.2</b>	<b>515</b>	<b>17</b>
<b>Rest of E&amp;E</b>	<b>0.0</b>	<b>0.0</b>	<b>0.1</b>	<b>0.1</b>	<b>0.2</b>	<b>700</b>	<b>45</b>
NT CEE	0.0	0.1	0.1	0.1	0.1	147	-22
ST CEE	0.0	0.0	0.1	0.1	0.1	353	11
N.FSU	0.1	0.4	0.8	1.1	0.7	376	-36
Eurasia	0.1	0.3	0.6	0.8	0.8	577	-6
Eurasia less C. Asia	0.1	0.4	0.8	1.0	1.0	583	-7
Central Asia	0.0	0.0	0.1	0.1	0.2	1153	24
Muslim Group	0.0	0.0	0.1	0.1	0.8	7152	593
Eurasia less Muslim G.	0.1	0.4	0.8	1.1	0.6	319	-43
E&E less Muslim G.	0.1	0.2	0.5	0.7	0.5	335	-37
<b>EU-15</b>	<b>0.2</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>	<b>14</b>	<b>0</b>
<b>East Asia and Pacific</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>	<b>0.4</b>	<b>111</b>	<b>100</b>
<b>Latin America and Carib.</b>	<b>0.7</b>	<b>0.6</b>	<b>0.6</b>	<b>0.7</b>	<b>1.6</b>	<b>122</b>	<b>132</b>
<b>Middle East and North Afr.</b>	<b>0.0</b>	<b>0.0</b>	<b>0.1</b>	<b>0.1</b>	<b>0.2</b>	<b>567</b>	<b>100</b>
<b>South Asia</b>	<b>0.6</b>	<b>0.5</b>	<b>0.6</b>	<b>0.7</b>	<b>0.6</b>	<b>-6</b>	<b>-14</b>
<b>Sub-Saharan Africa</b>	<b>7.1</b>	<b>8.1</b>	<b>7.0</b>	<b>6.2</b>	<b>6.1</b>	<b>-14</b>	<b>-2</b>

UNAIDS, *Global Report on the HIV/AIDS Epidemic* (2006).

Figure 47

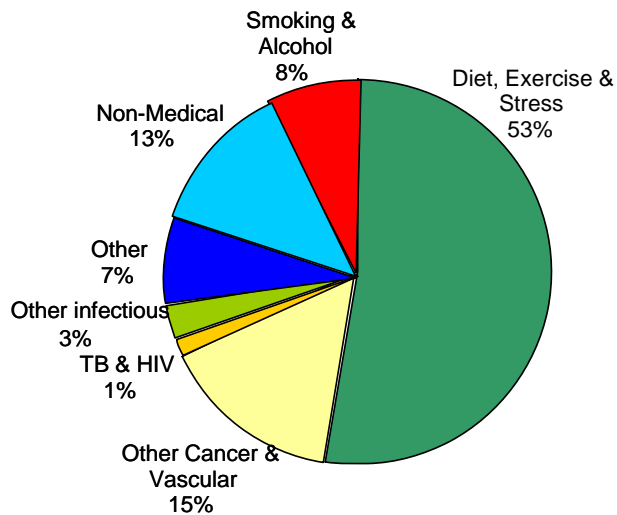
# Life Expectancy Gender Gap



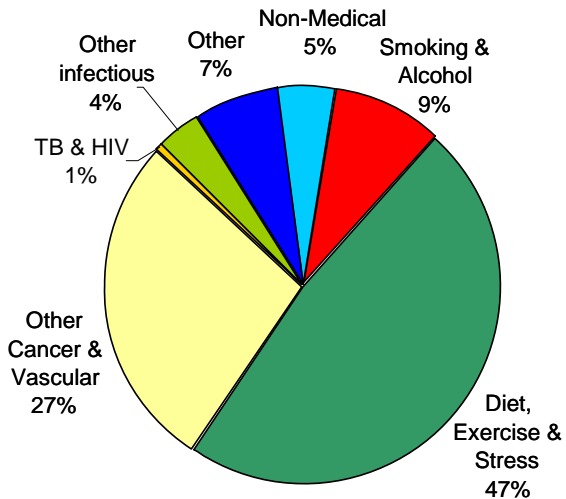
World Bank, *World Development Indicators* (2006). The life expectancy gender gap is female life expectancy minus male life expectancy.

# Causes of Death in 2003 (%)

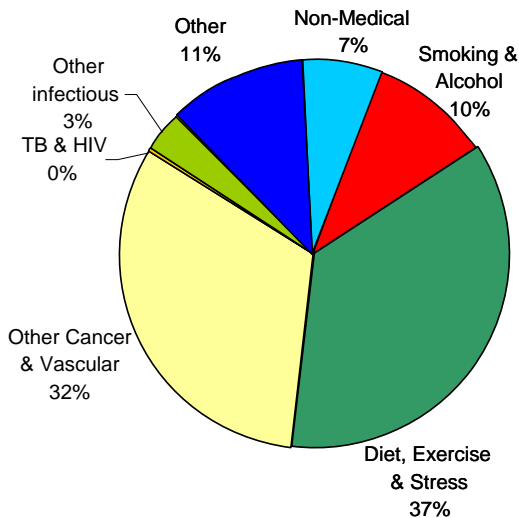
## Northern FSU



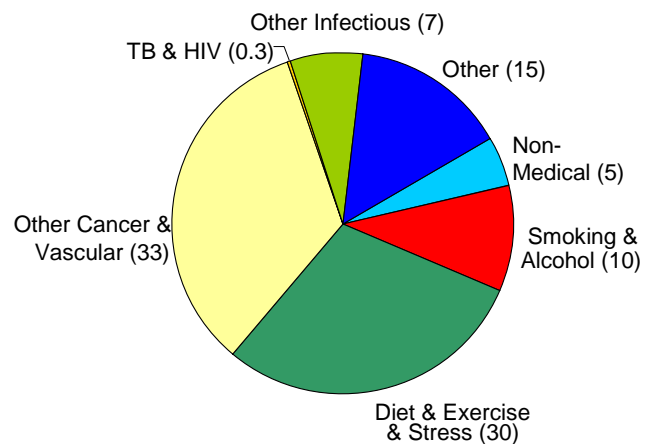
## S. Tier CEE



## N. Tier CEE minus Baltics



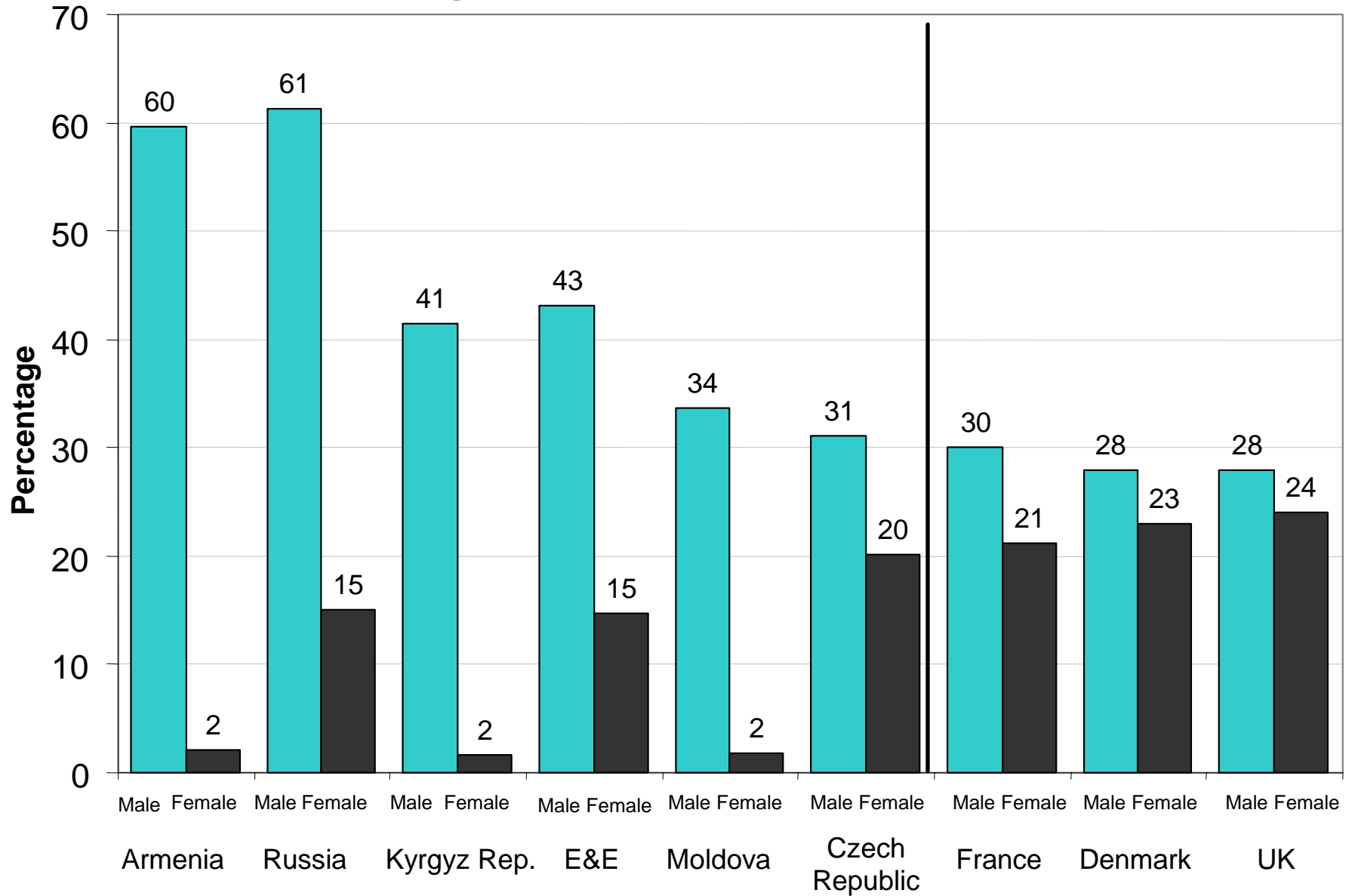
## EU-15



WHO, *Mortality Database* (2004). Diet/exercise/obesity deaths include coronary heart disease, stroke, hypertension, diabetes, and colorectal cancer. (Studies in the *New England Journal of Medicine* estimate that up to 80% of cases of coronary heart disease and up to 90% of type 2 diabetes could be avoided through changing lifestyle factors, and about one-third of cancers could also be prevented by eating healthily, maintaining normal weight, and exercising throughout the life span.) Non-medical causes include accidents, suicides, homicides and disaster. Alcohol deaths include cirrhosis. Smoking deaths include lung cancer and emphysema/COPD. Other Infectious are infectious and parasitic diseases other than TB and HIV. Other Cancer and Vascular includes cancers other than lung and colorectal, and cardiovascular disease other than coronary heart disease, stroke and hypertension. Data for EU-15 are from 2000.

Figure 52

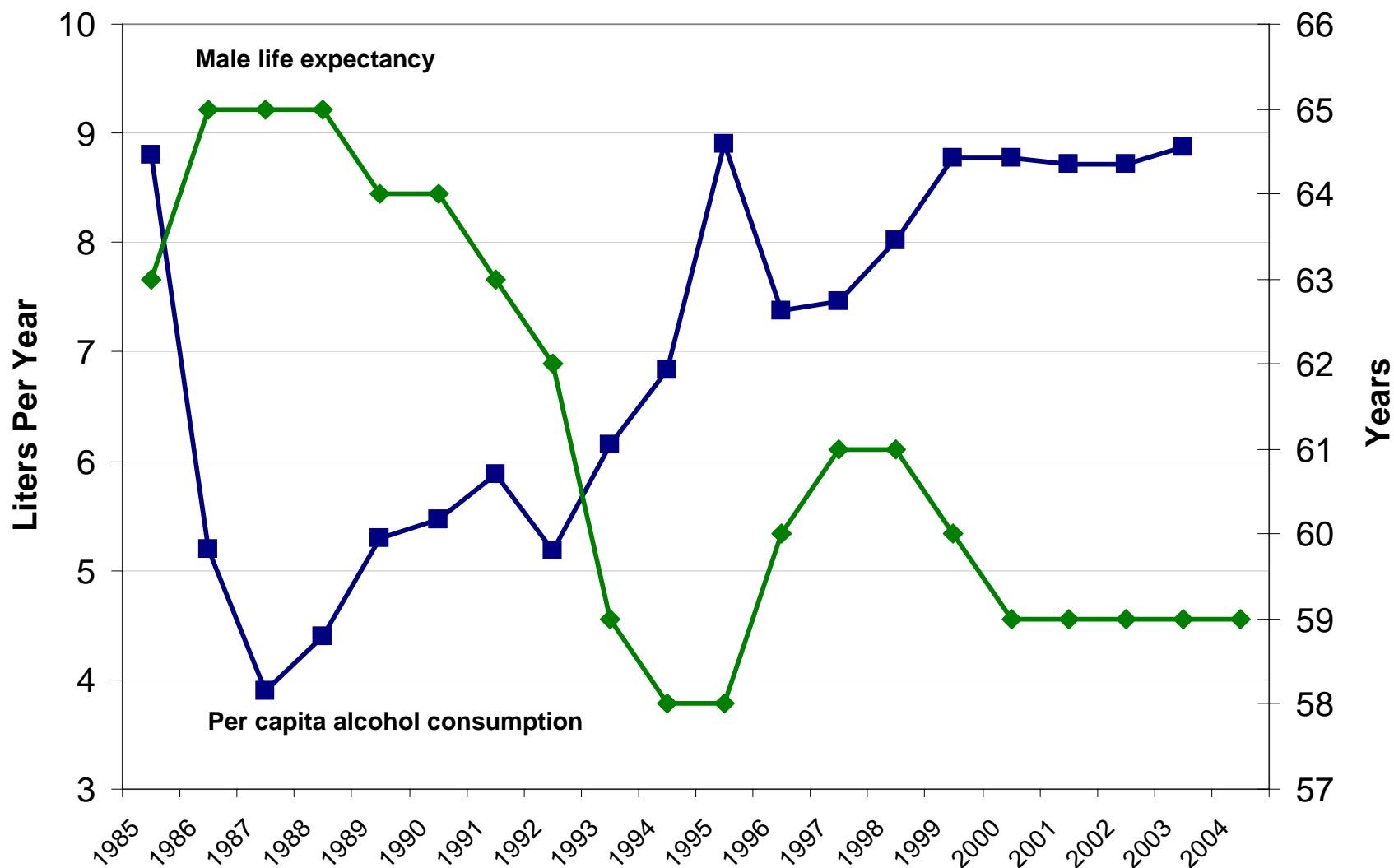
## Smoking Prevalence in Adults in 2002-05



World Health Organization; *Tobacco Control Database 2006*. E&E is a sample of 17 countries.

Figure 53

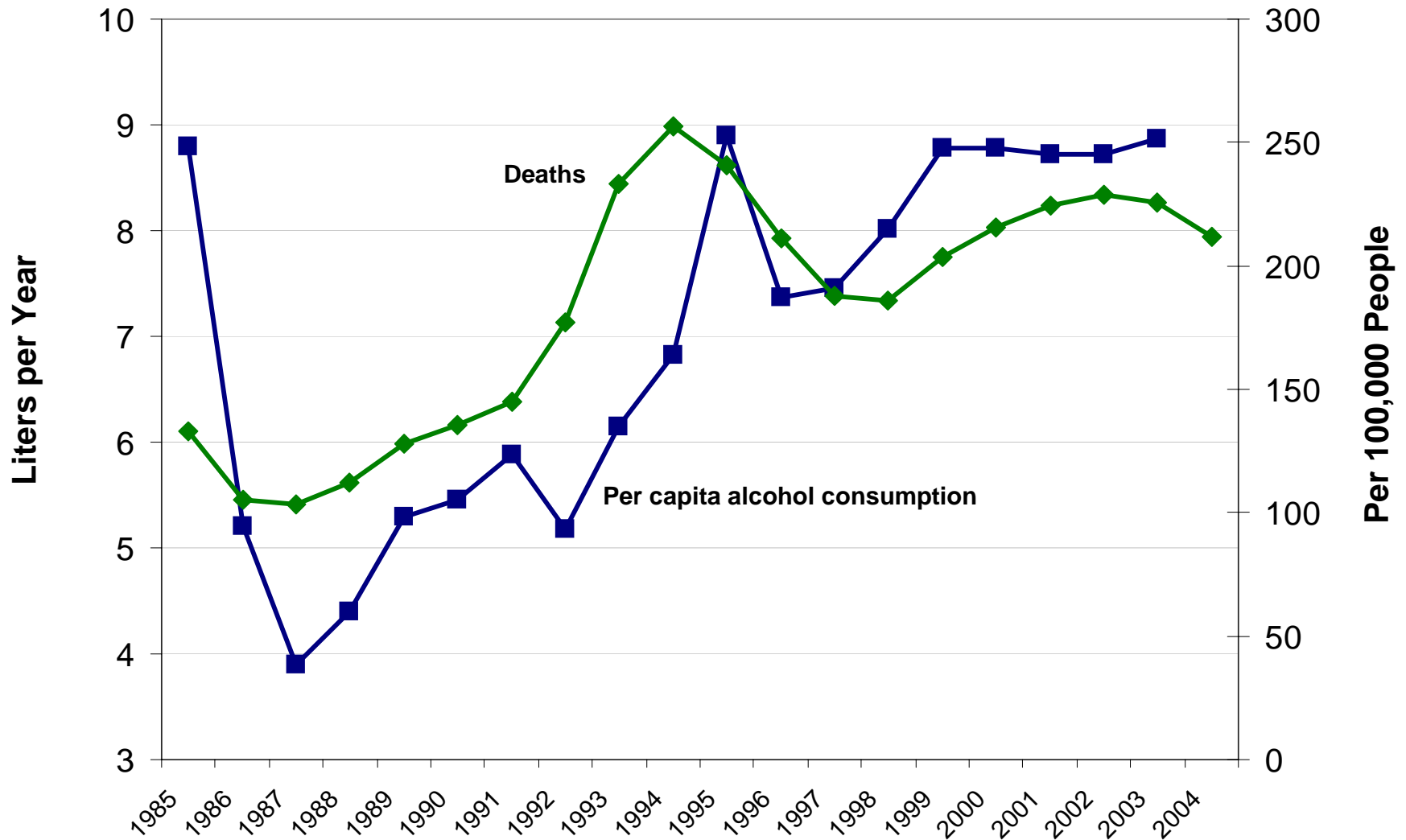
## Total Alcohol Consumption and Male Life Expectancy in Russia



World Health Organization, *European Health for All Database (2006)*.

Figure 54

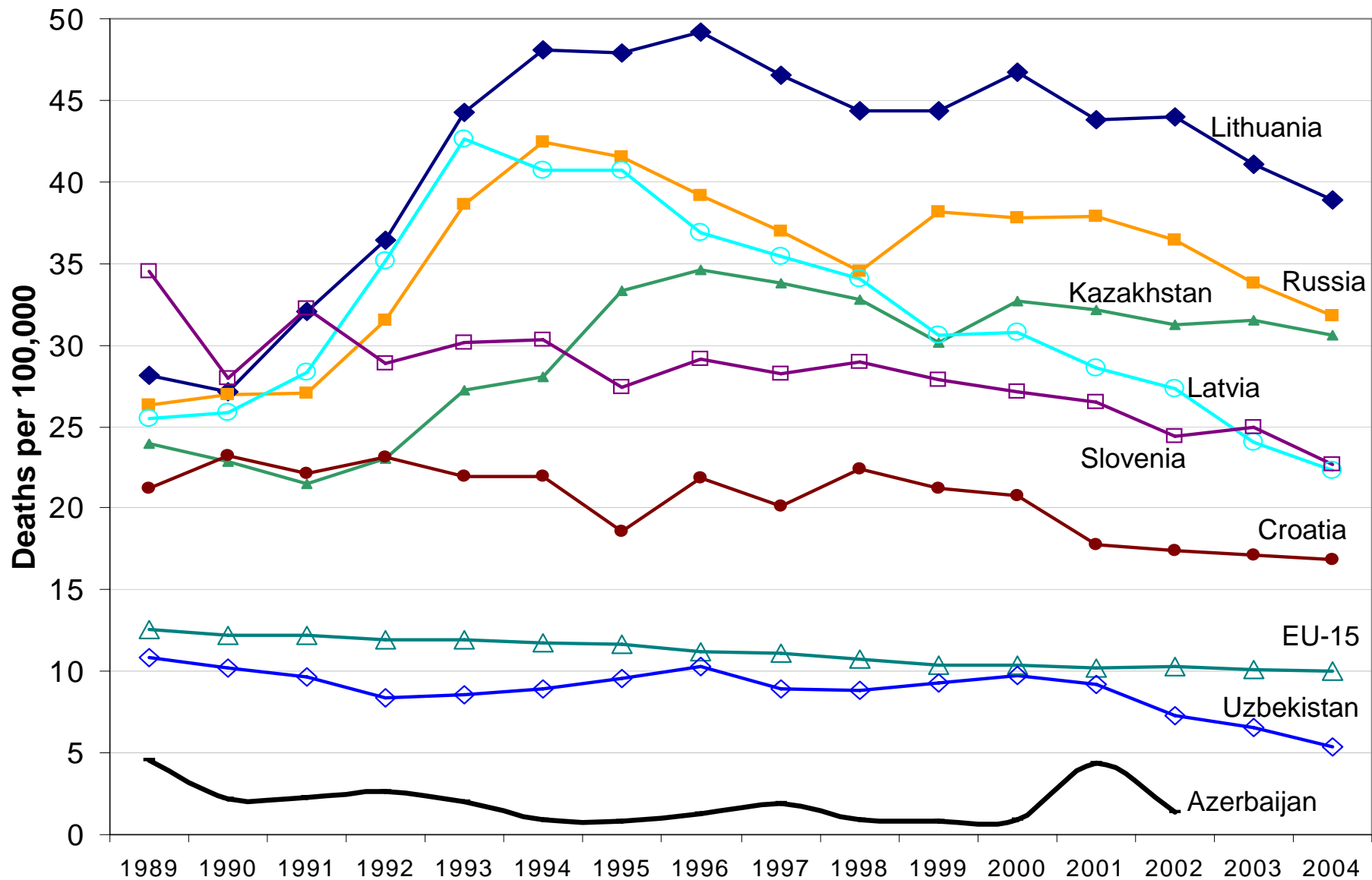
## External Cause Deaths by Injury and Poisoning & Total Alcohol Consumption in Russia



World Health Organization, *European Health for All Database (2006)*.

Figure 55

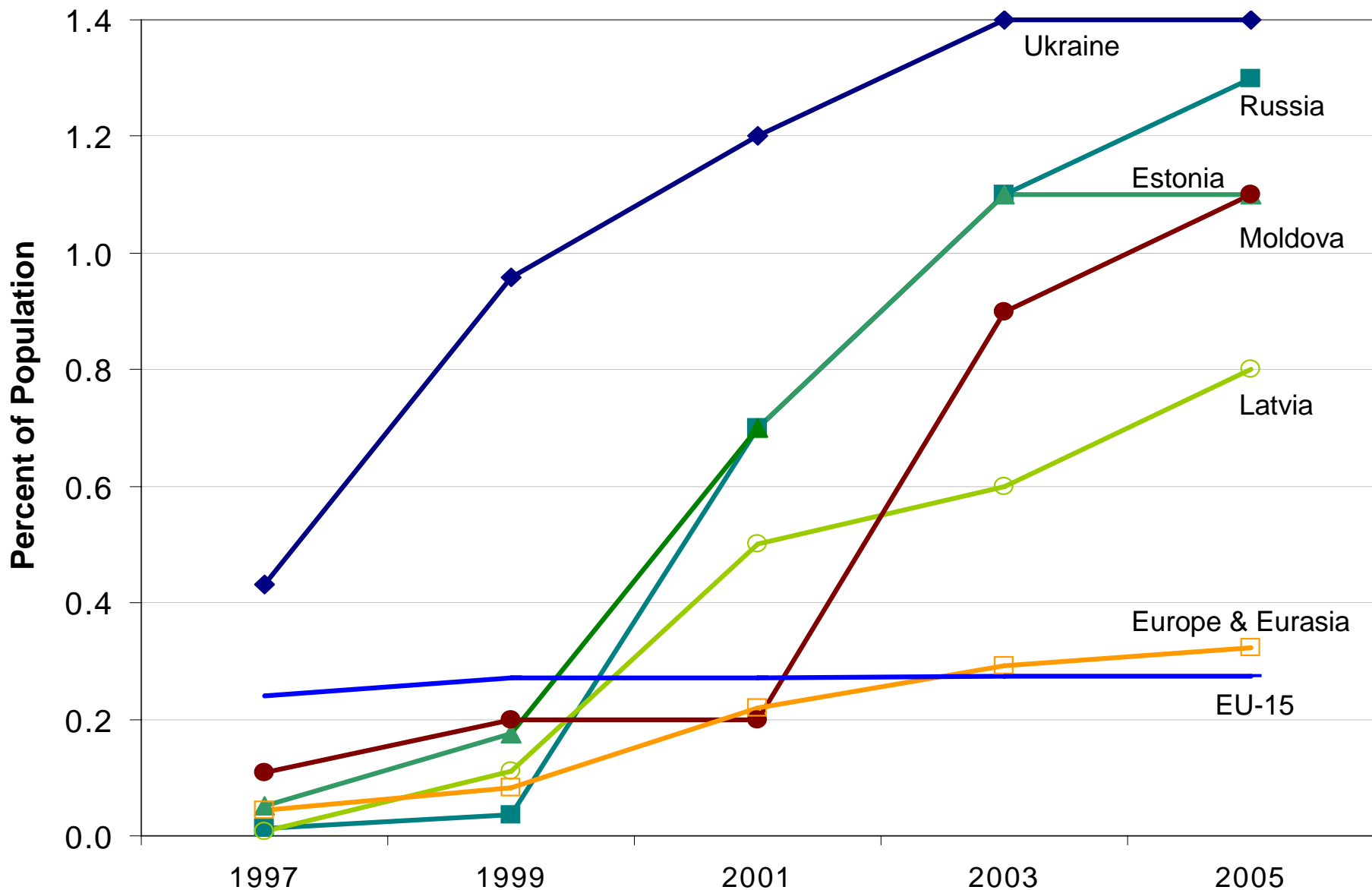
# Suicide Rates for Selected E&E Countries



World Health Organization, *European Health for All Database (2006)*.

Figure 56

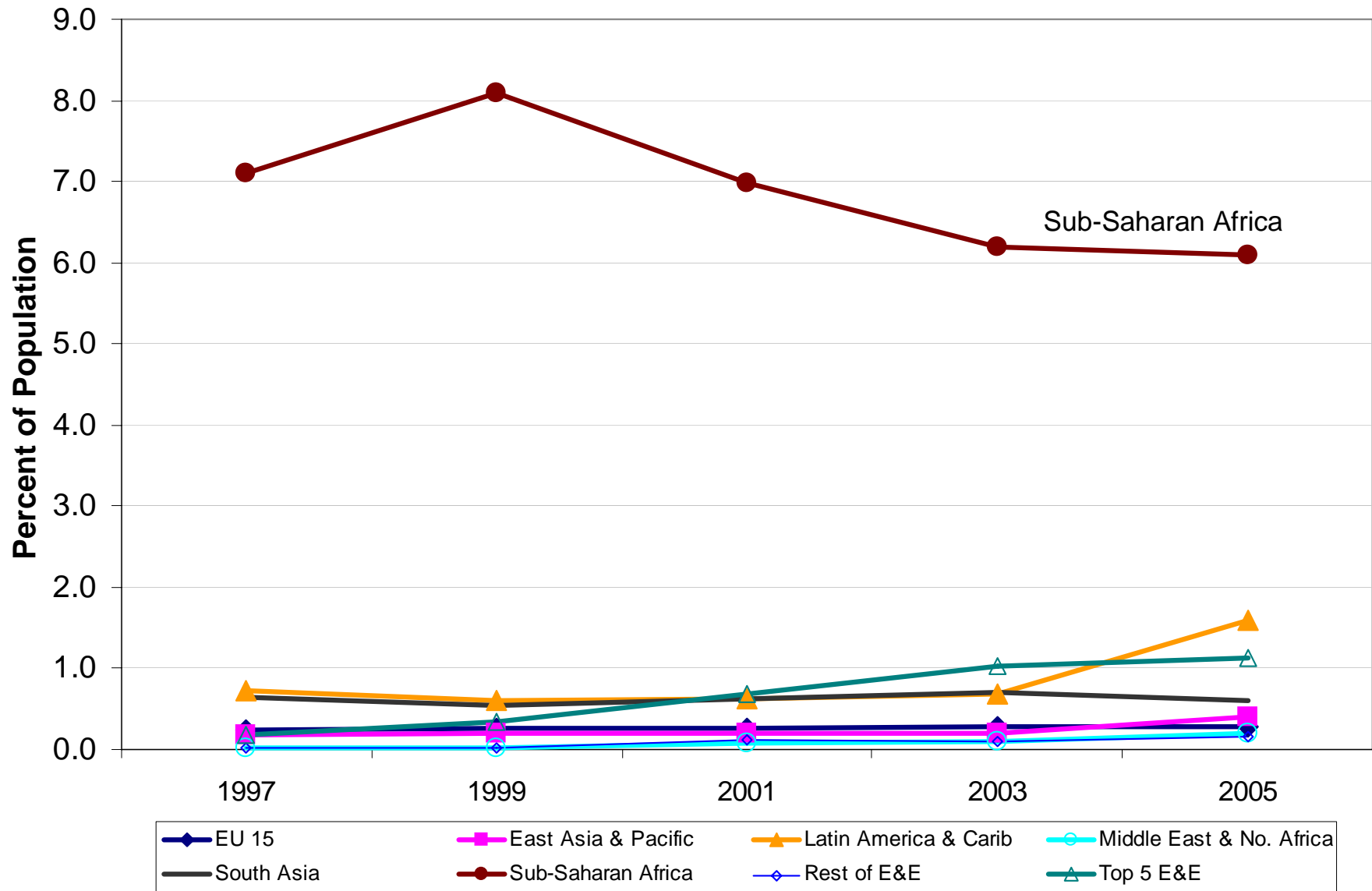
# Adult HIV Prevalence Rate (15-49 yrs) in E&E



UNAIDS, *Global Report on the HIV/AIDS Epidemic* (2006).



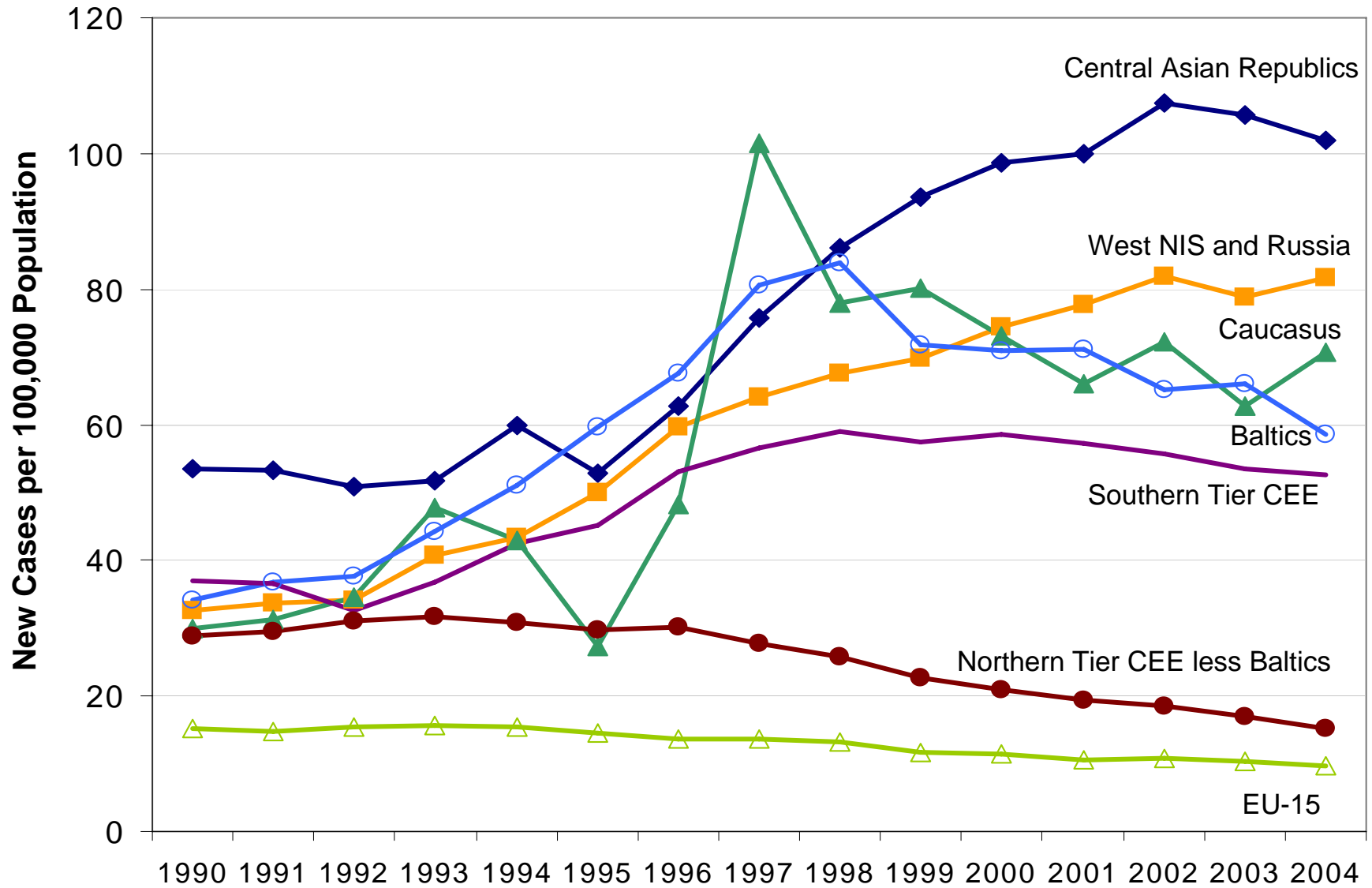
Figure 57 **Adult HIV Prevalence Rate in the World (15-49 yrs)**



UNAIDS, *Global Report on the HIV/AIDS Epidemic* (2006).

Figure 58

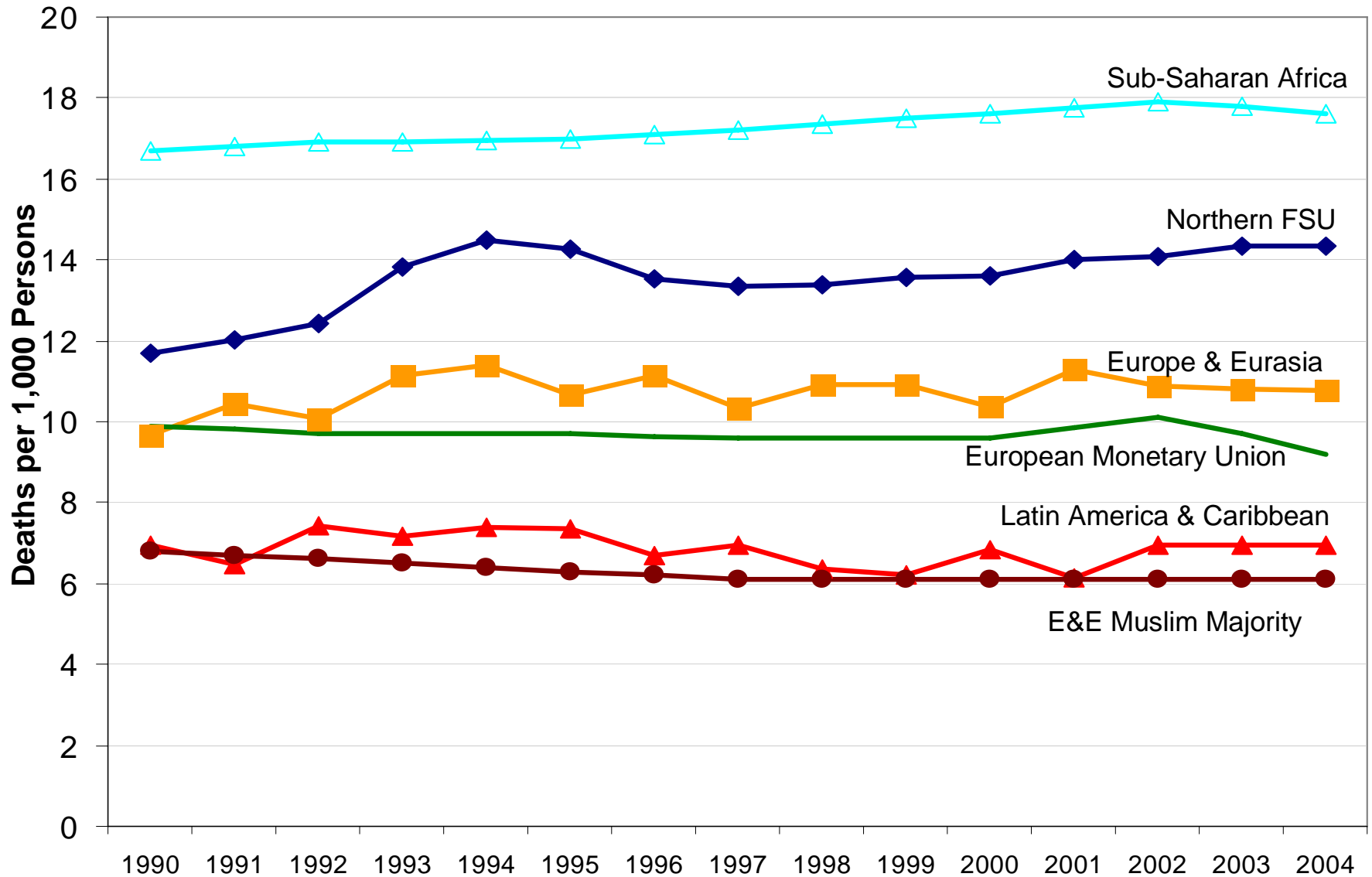
# Tuberculosis Incidence



World Health Organization European Health For All Database (2005).

Figure 59

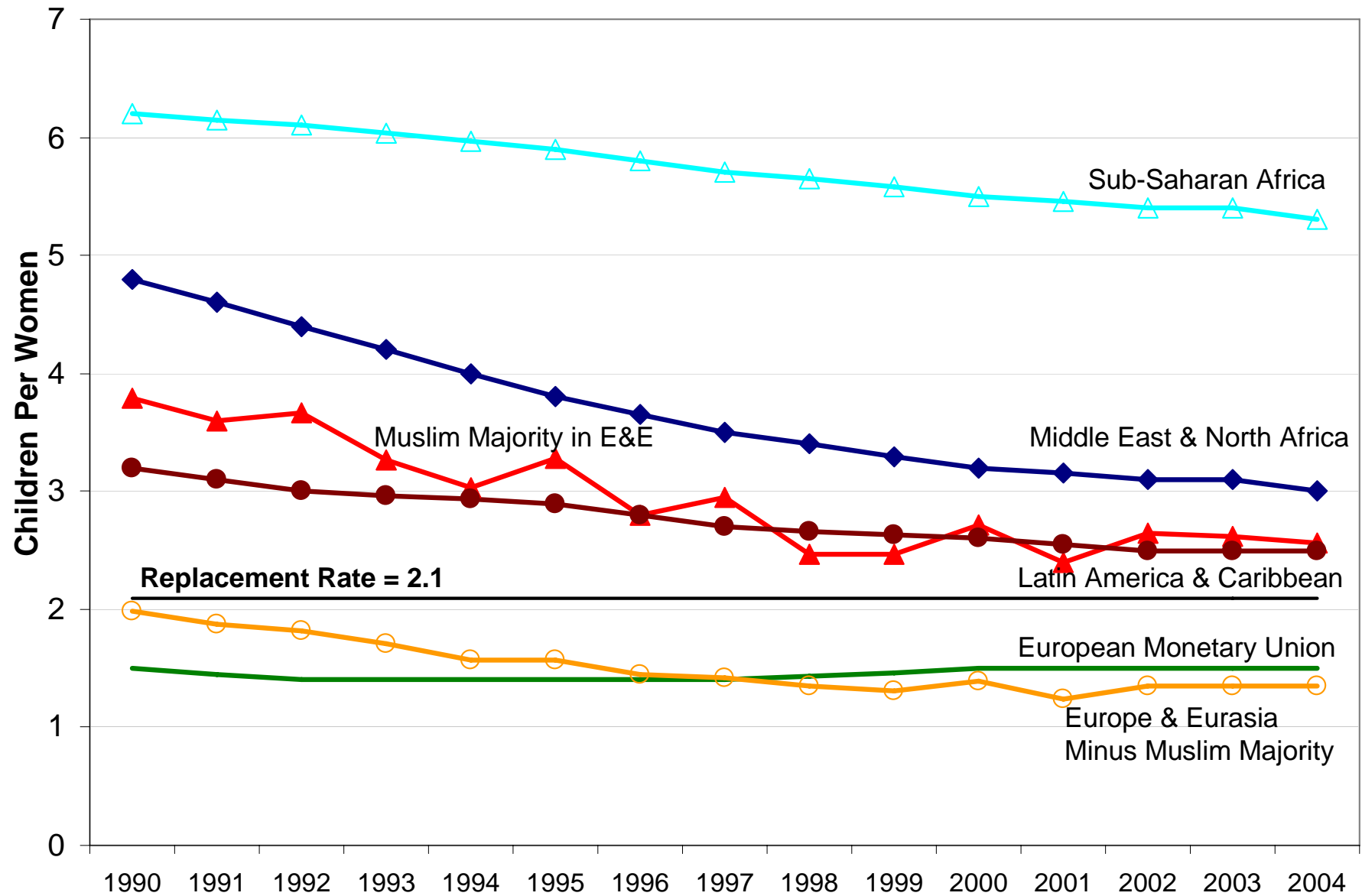
# Crude Death Rates



World Bank, *World Development Indicators* (2006). Missing data were estimated by interpolation.

# Fertility Rates in the World

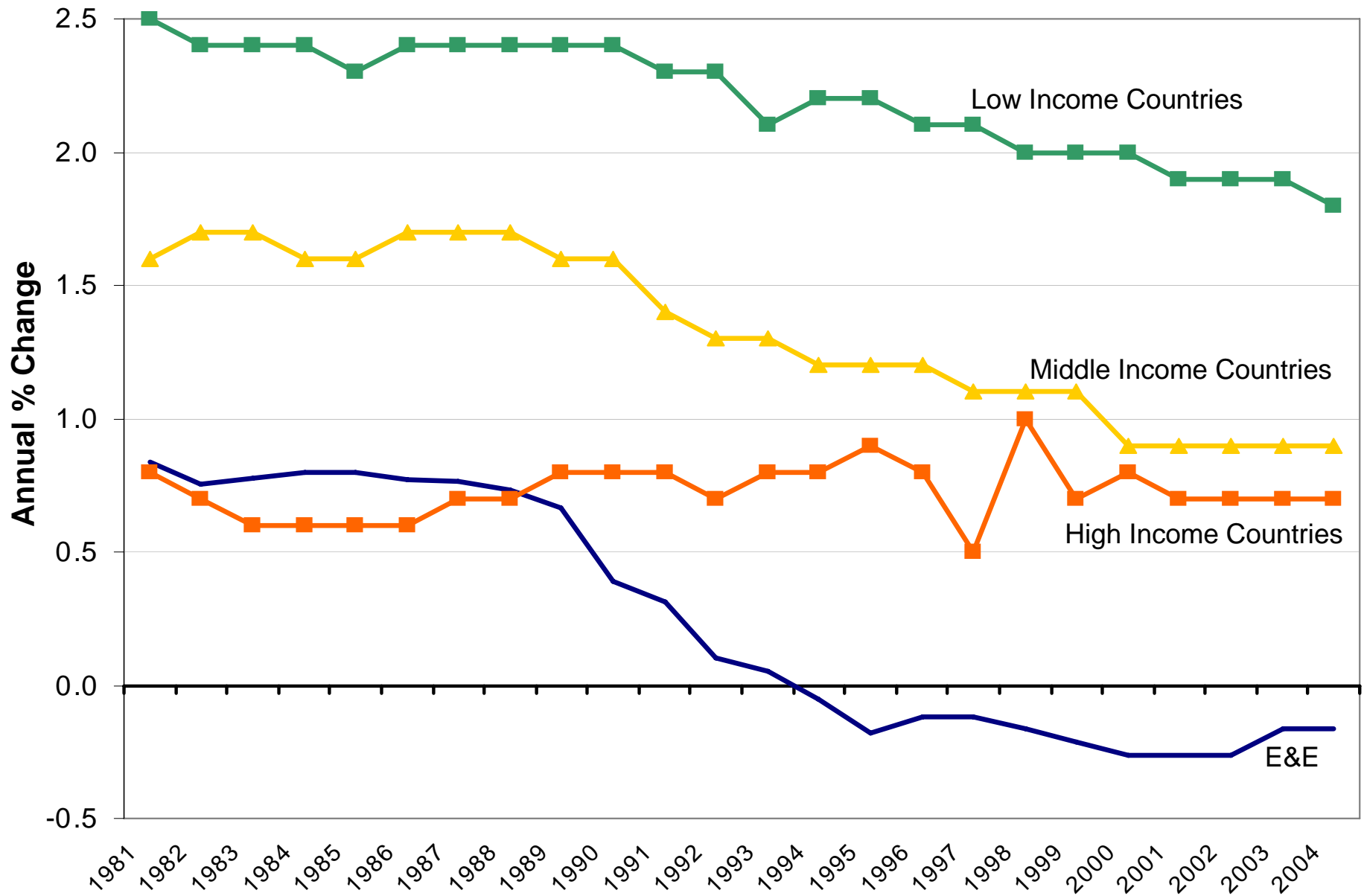
Figure 60



World Bank, *World Development Indicators* (2006). Missing data were estimated by interpolation.

# Population Growth in the World

Figure 61



### *Human capital and economic performance in the aggregate*

For an overall aggregate picture of human capital, the raw data of the six primary indicators (in *Tables 9 and 10*) were converted to 1-5 scale and averaged. The scores of the human capital index are shown in *Table 14*. A similar exercise was done for the seven primary economic performance indicators, and the scores of the economic performance index are also shown in *Table 14*.<sup>25</sup> *Figure 62* plots the two indices. Overall, it shows a picture that resembles that of *Figure 9* of economic and democratic reforms. More specifically, the Northern Tier CEE countries are out front on both dimensions (and relatively more clustered or homogenous as a sub-region than the other two sub-regions); the Eurasian countries generally lag the most on both dimensions of the three sub-regions.

In contrast to the reform picture, however, there is much more overlap in progress between the three sub-regions in terms of economic performance and human capital. Croatia, for example, has a human capital profile comparable to the Northern Tier CEE (ranking fourth alongside Poland), and Albania's profile is closer to Eurasian human capital standards (ranking nineteenth, behind Ukraine and Belarus, comparable to Russia). Serbia & Montenegro has among the lowest economic performance score of all the transition countries. In contrast, Albania ranks sixth (along with Slovakia) and Bulgaria ranks eighth.

*Figure 63* shows economic performance and human capital dimensions for the region in 1997. A comparison between economic performance and human capital in 1997 (*Figure 63*) with that of 2003-05 (*Figure 62*) yields some interesting parallels between the comparison of economic and democratic reforms in 1998 (*Figure 10*) and 2005 (*Figure 9*). Similar to economic and democratic reforms, much change has occurred over these years in the economic performance and human capital dimensions. Moreover, in the late 1990s, there was considerably more overlap in these dimensions between sub-regions, particularly in the range in progress between the Southern Tier CEE countries and Eurasia than exists today. As with economic reforms, good progress was made across the sub-regions in economic performance, while in human capital (as with democracy), the gap between CEE and Eurasia widened notably.

Finally, *Figures 64-91* highlight how human capital and economic performance have varied over time in each of the transition countries.<sup>26</sup> Broadly, there are three groups of countries: (1) those which have made good progress on both dimensions; (2) those which have made good progress on one dimension (and little on the other); and (3) those which have made little progress on both dimensions. Not surprisingly, the first group consists primarily of Northern Tier CEE countries (and includes the Czech Republic, Estonia, Poland, Hungary, Slovenia, Lithuania, and Croatia). Most of the transition countries fall into the second group, whereby good progress has been made in economic performance, though little progress has been made over the transition on balance in human capital. This group includes Latvia in the Northern Tier CEE; Albania, Bulgaria, and Macedonia in the Southern Tier CEE; and Armenia, Russia, Ukraine, Azerbaijan, Kyrgyz Republic, Kazakhstan, Turkmenistan, Tajikistan, and Georgia in Eurasia. The third group of

countries consists of three Eurasian countries which have made little progress on either dimension: Moldova, Belarus, and Uzbekistan.

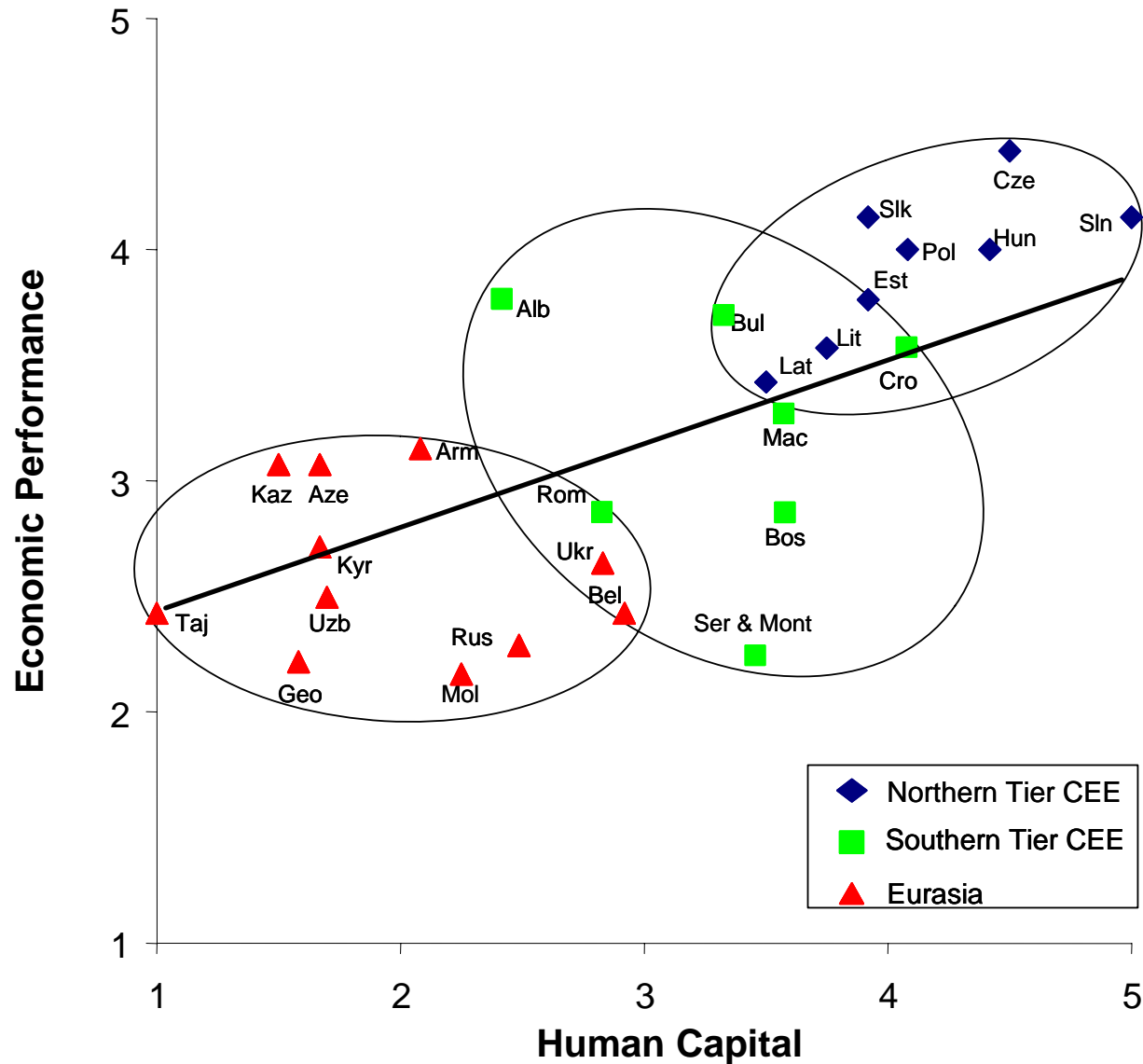
<b>TABLE 14. ECONOMIC PERFORMANCE AND HUMAN CAPITAL IN CENTRAL AND EASTERN EUROPE AND EURASIA: 2003-2005</b>					
	<u>ECONOMIC PERFORMANCE</u>		<u>HUMAN CAPITAL</u>		
	<b>RATING (1 to 5)</b>	<b>RANKING</b>	<b>RATING (1 to 5)</b>	<b>RANKING</b>	
CZECH REPUBLIC	4.4	1	SLOVENIA	5.0	1
ESTONIA	4.1	2	CZECH REPUBLIC	4.5	2
SLOVENIA	4.1	2	HUNGARY	4.4	3
POLAND	4.0	4	CROATIA	4.1	4
HUNGARY	4.0	4	POLAND	4.1	4
ALBANIA	3.8	6	ESTONIA	3.9	6
SLOVAKIA	3.8	6	SLOVAKIA	3.9	6
BULGARIA	3.7	8	LITHUANIA	3.8	8
CROATIA	3.6	9	BOSNIA & HERZEGOVINA	3.6	9
LITHUANIA	3.6	9	MACEDONIA	3.6	9
LATVIA	3.4	11	LATVIA	3.5	11
MACEDONIA	3.3	12	SERBIA & MONTENEGRO	3.4	12
ARMENIA	3.1	13	BULGARIA	3.3	13
AZERBAIJAN	3.1	13	BELARUS	2.9	14
KAZAKHSTAN	3.1	13	ROMANIA	2.8	15
ROMANIA	2.9	16	UKRAINE	2.8	15
BOSNIA & HERZEGOVINA	2.9	16	RUSSIA	2.5	17
KYRGYZ REPUBLIC	2.7	18	ALBANIA	2.4	18
UKRAINE	2.6	19	MOLDOVA	2.3	19
UZBEKISTAN	2.5	20	ARMENIA	2.1	20
BELARUS	2.4	21	UZBEKISTAN	1.7	21
TAJIKISTAN	2.4	21	AZERBAIJAN	1.7	21
RUSSIA	2.3	23	KYRGYZ REPUBLIC	1.7	21
GEORGIA	2.2	24	GEORGIA	1.6	24
MOLDOVA	2.2	24	KAZAKHSTAN	1.5	25
SERBIA & MONTENEGRO	2.2	24	TAJIKISTAN	0.8	26
	<b>Rating (1 to 5)</b>			<b>Rating (1 to 5)</b>	
CEE & EURASIA	3.2			3.0	
NORTHERN TIER CEE	3.9			4.1	
SOUTHERN TIER CEE	3.2			3.3	
EURASIA	2.6			2.1	
EUROPEAN UNION -15	4.7			4.7	
NORTHERN TIER CEE AT GRADUATION	3.2			3.9	
ROMANIA & BULGARIA IN 2002	2.9			3.1	

Ratings are based on a 1 to 5 scale, with 5 representing most advanced.  
 USAID calculations drawing from World Bank, *World Development Indicators 2005* (2004); EBRD, Transition Report (November 2005);  
 UNECE, *SME Databank* (2003); UNICEF, TransMONEE Database (December 2005).



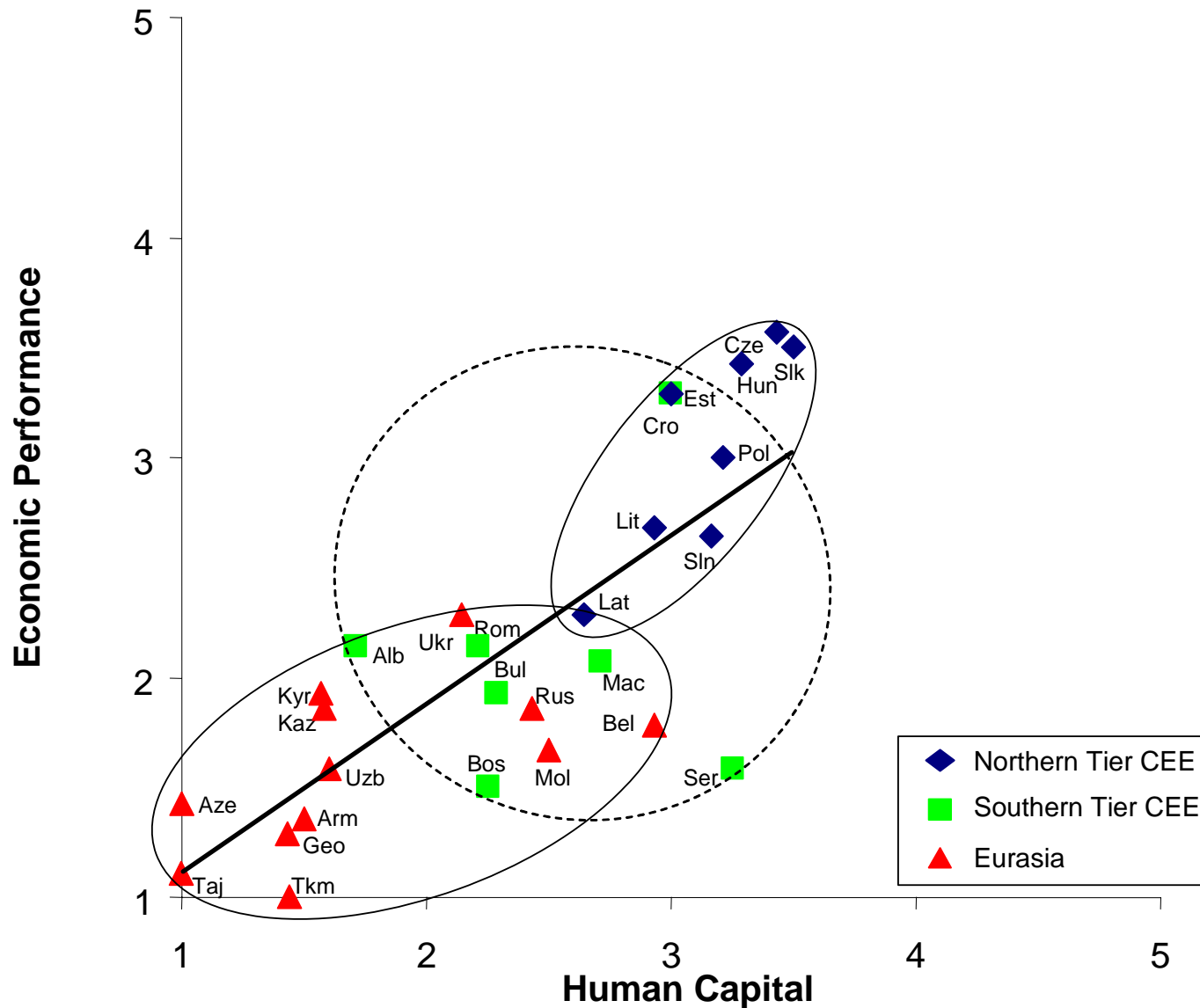
Figure 62

## Economic Performance and Human Capital in 2003-2005



World Bank, *World Development Indicators 2005* (2005); UNICEF, *TransMONEE Database 2005* (December 2005); EBRD, *Transition Report* (November 2005); UNECE, *SME Databank* (2003).

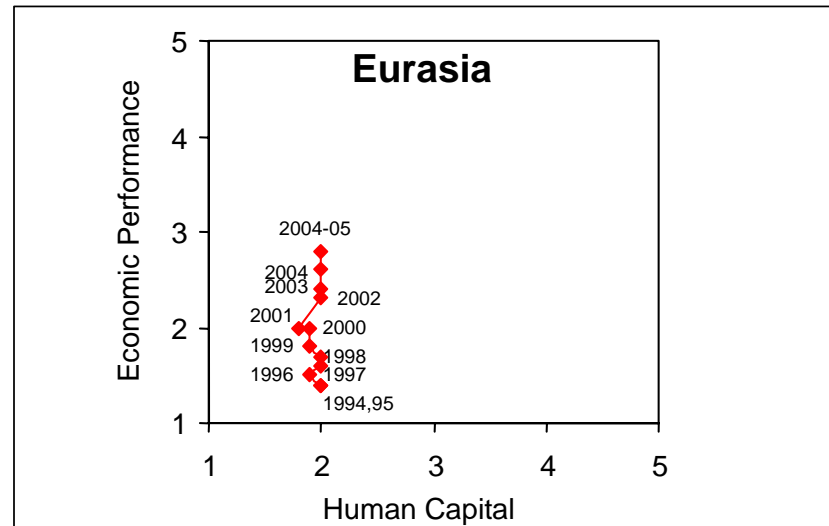
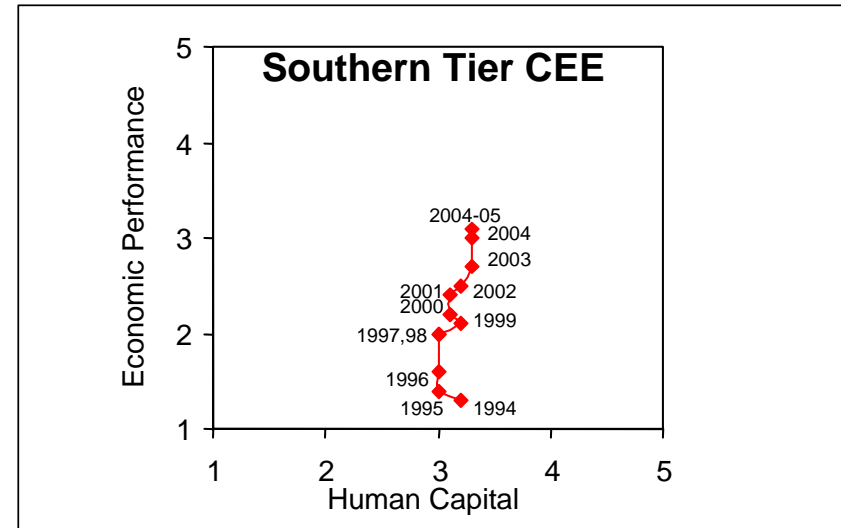
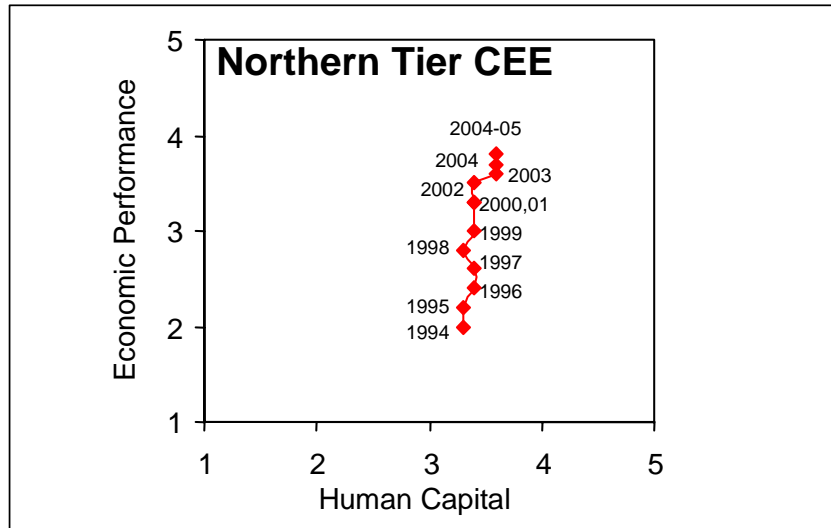
Figure 63 **Economic Performance and Human Capital in 1997**



World Bank, *World Development Indicators 2005* (2005 and earlier versions); UNICEF, *Social Monitor 2004* (2004); EBRD, *Transition Report* (April 2005 and earlier version), TransMONEE Database (2005 and earlier versions); Ayyagari, Beck, and Demircuc-Kunt, *Small and Medium Enterprises across the Globe: A New Database*, World Bank Policy Research Working Paper 3127, (August 2003). SME data are from 1998.

# Economic Performance and Human Capital Over Time

Figures 64-66

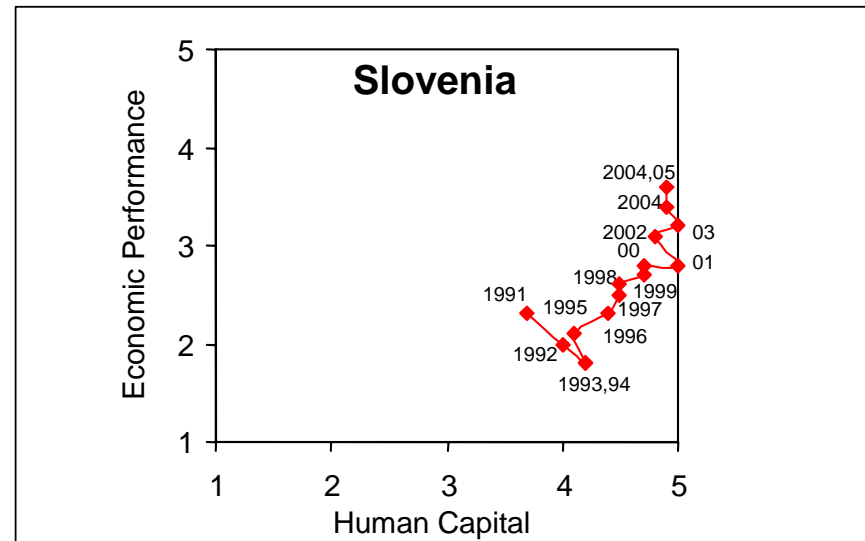
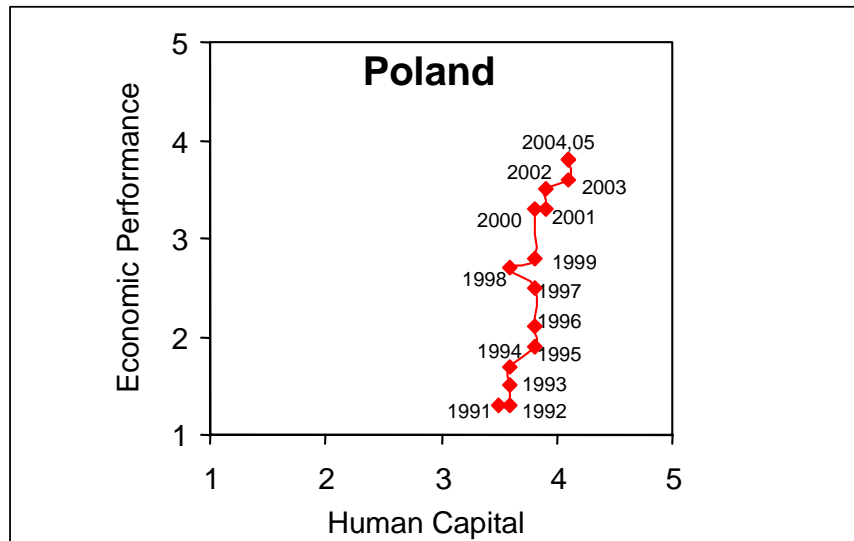
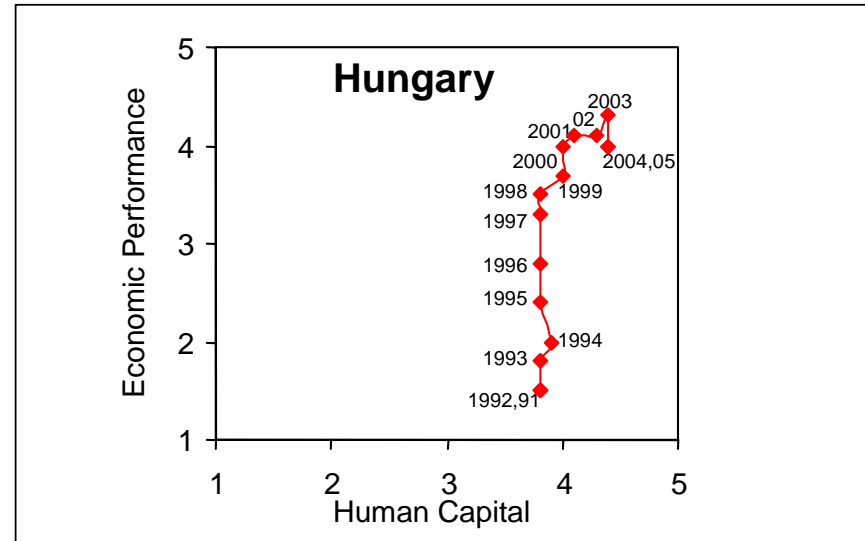
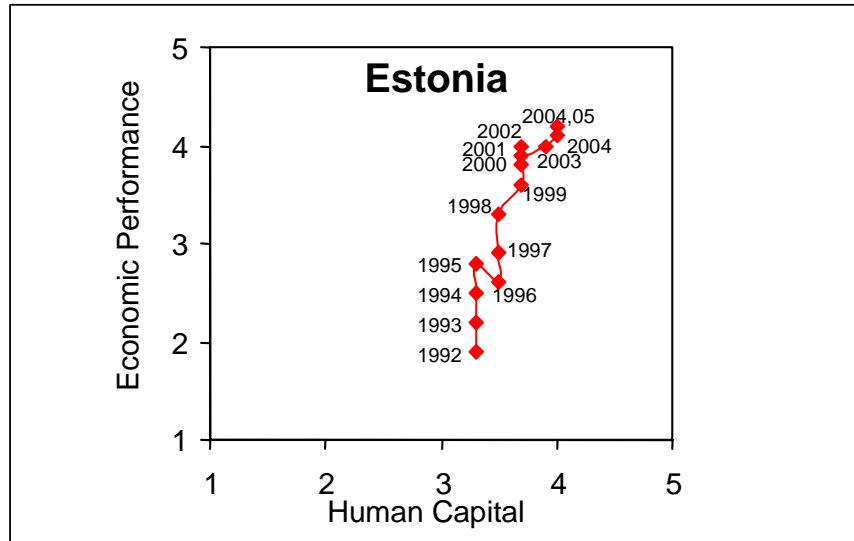


Ratings are based on a scale from 1 to 5, with 5 representing the best score. World Bank, *World Development Indicators* (2005), EBRD, *Transition Report 2005* (November 2005), UNICEF, *TransMONEE Database* (December 2005), and UNECE, *SME Databank* (2003). Missing data were estimated by interpolation. 2004 education and life expectancy data are from 2003. Economic performance index excludes SME data.

# Economic Performance and Human Capital Over Time

## Countries with good progress on both dimensions

Figures 67-70

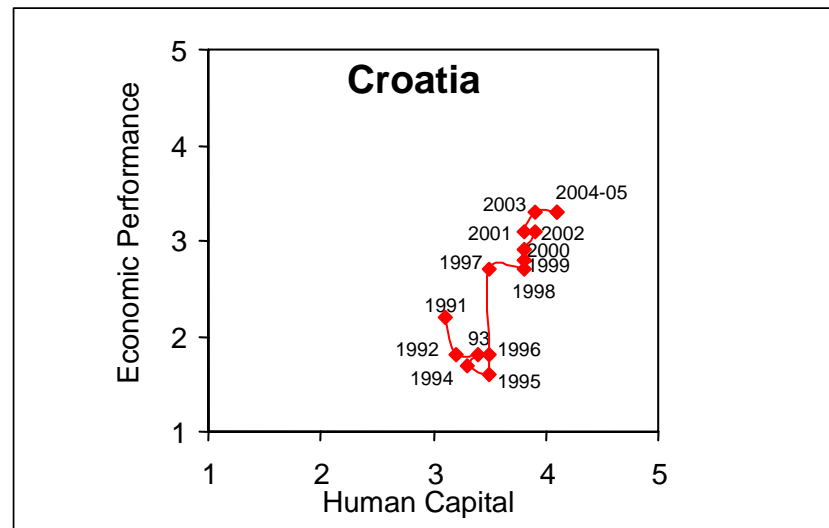
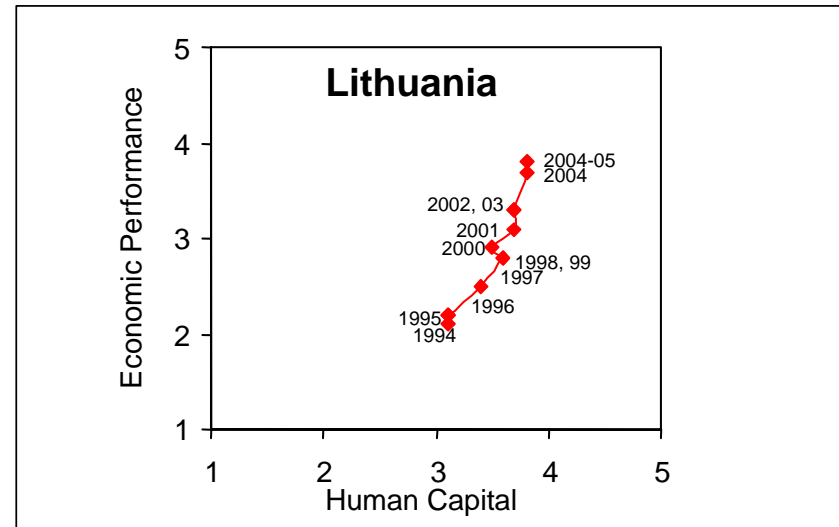
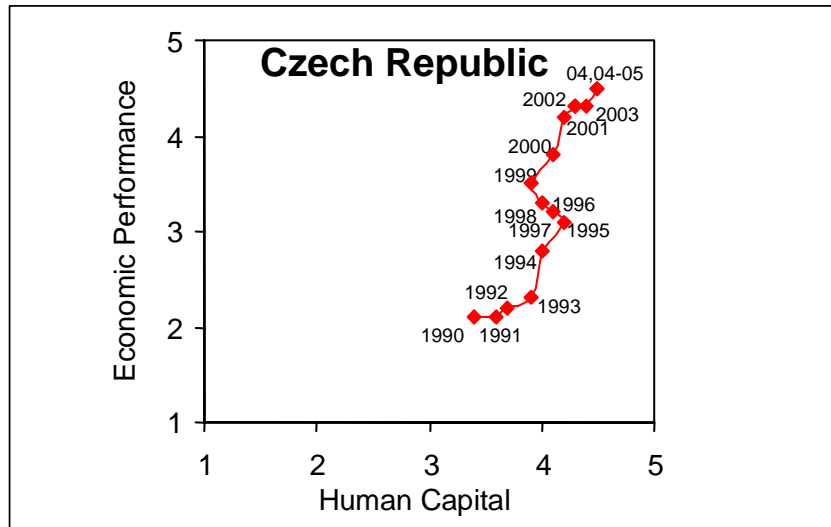


Ratings are based on a scale from 1 to 5, with 5 representing the best score. World Bank, *World Development Indicators* (2005), EBRD, *Transition Report 2005* (November 2005), UNICEF, *TransMONEE Database* (December 2005), and UNECE, *SME Databank* (2003). Missing data were estimated by interpolation. 2004 education and life expectancy data are from 2003. Economic performance index excludes SME data.

# Economic Performance and Human Capital Over Time

Figures 71-73

## Countries with good progress on both dimensions

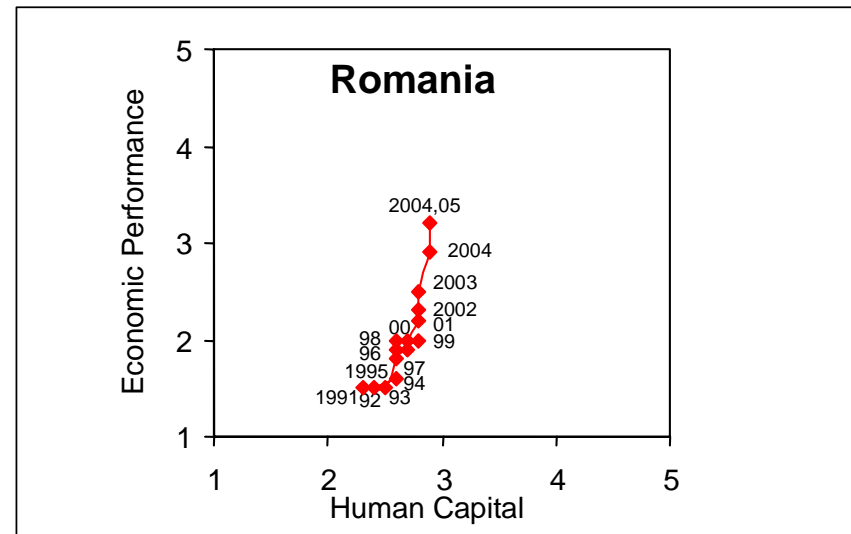
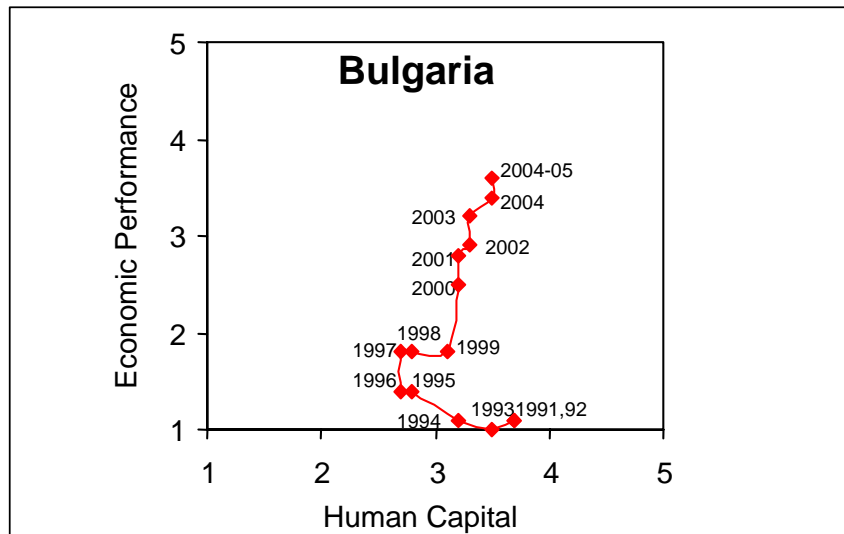
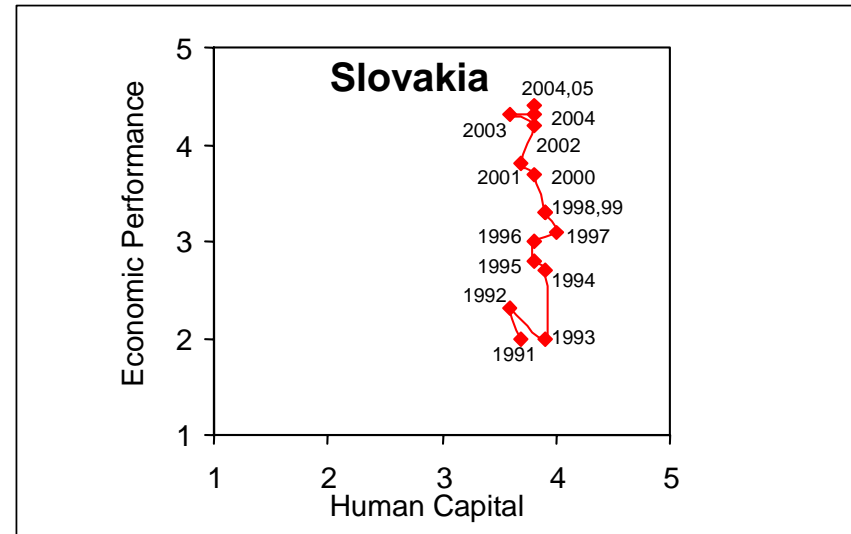
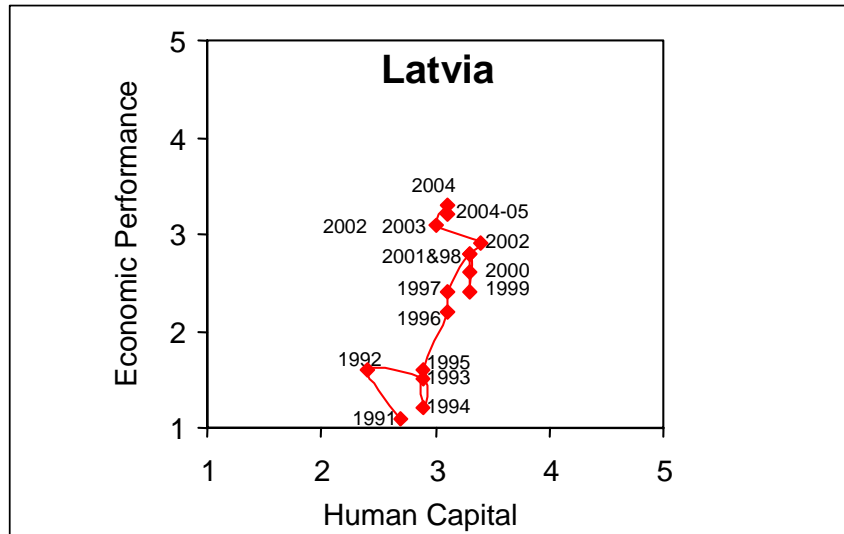


Ratings are based on a scale from 1 to 5, with 5 representing the best score. World Bank, *World Development Indicators* (2005), EBRD, *Transition Report 2005* (November 2005), UNICEF, *TransMONEE Database* (December 2005), and UNECE, *SME Databank* (2003). Missing data were estimated by interpolation. 2004 education and life expectancy data are from 2003. Economic performance index excludes SME data.

# Economic Performance and Human Capital Over Time

Figures 74-77

## Countries with good progress on one dimension

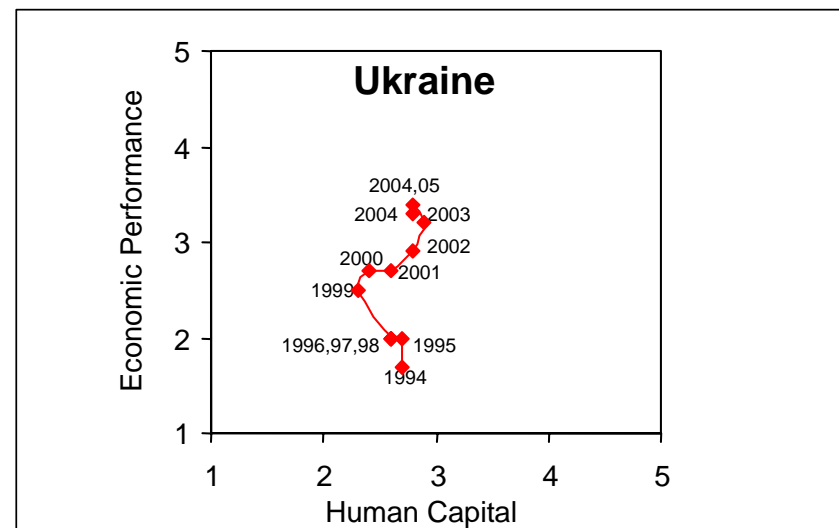
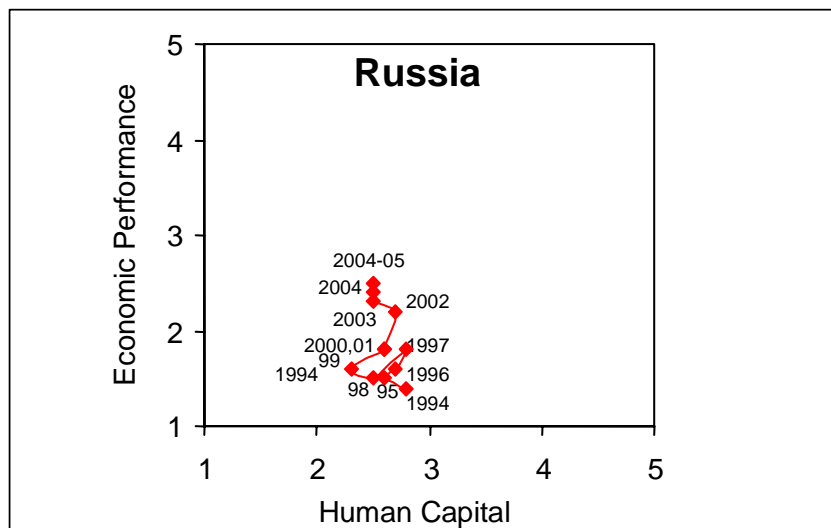
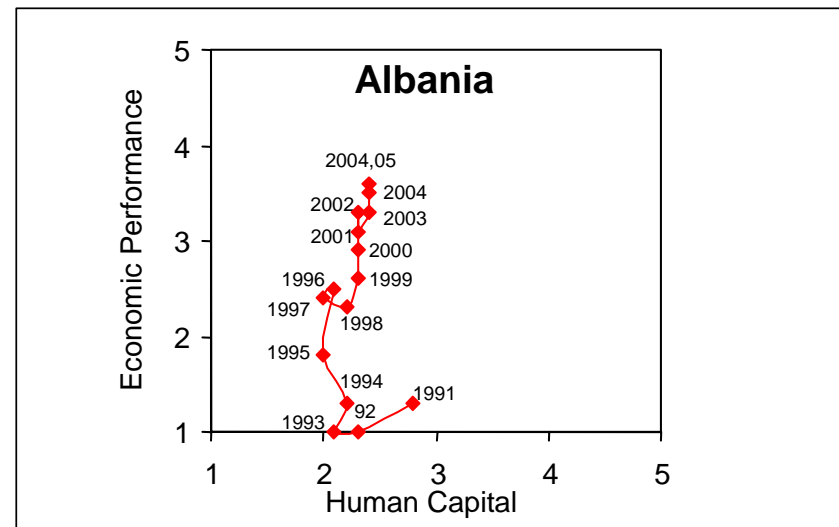
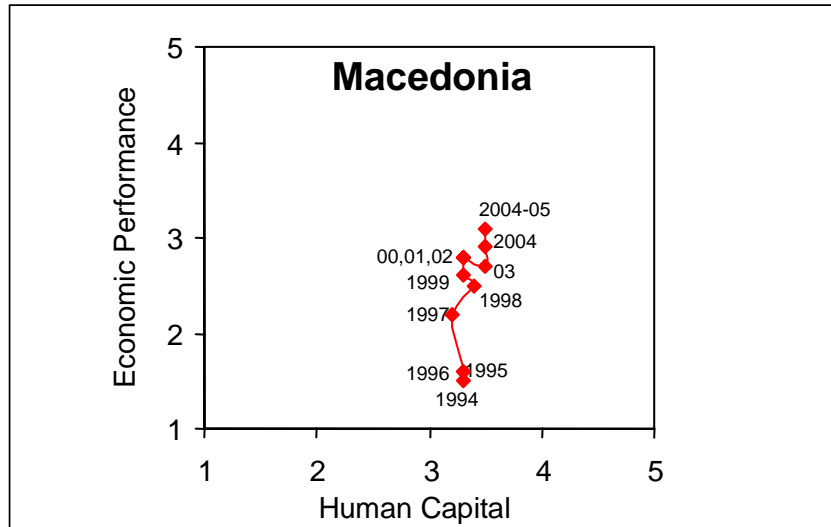


Ratings are based on a scale from 1 to 5, with 5 representing the best score. World Bank, *World Development Indicators* (2005), EBRD, *Transition Report 2005* (November 2005), UNICEF, *TransMONEE Database* (December 2005), and UNECE, *SME Databank* (2003). Missing data were estimated by interpolation. 2004 education and life expectancy data are from 2003. Economic performance index excludes SME data.

# Economic Performance and Human Capital Over Time

Figures 78-81

## Countries with good progress on one dimension

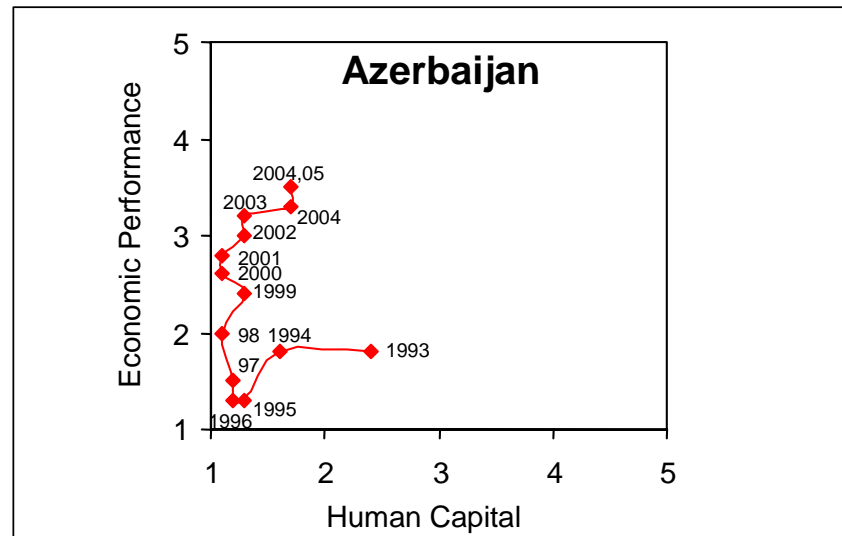
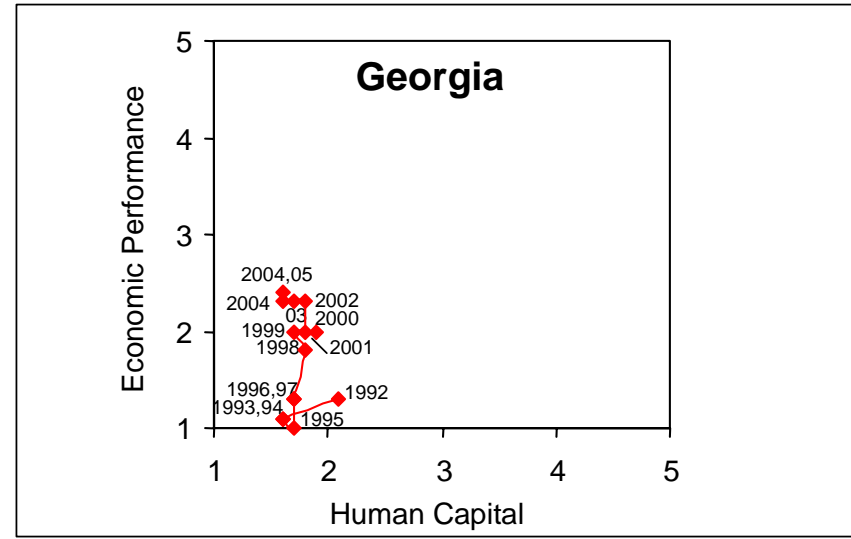
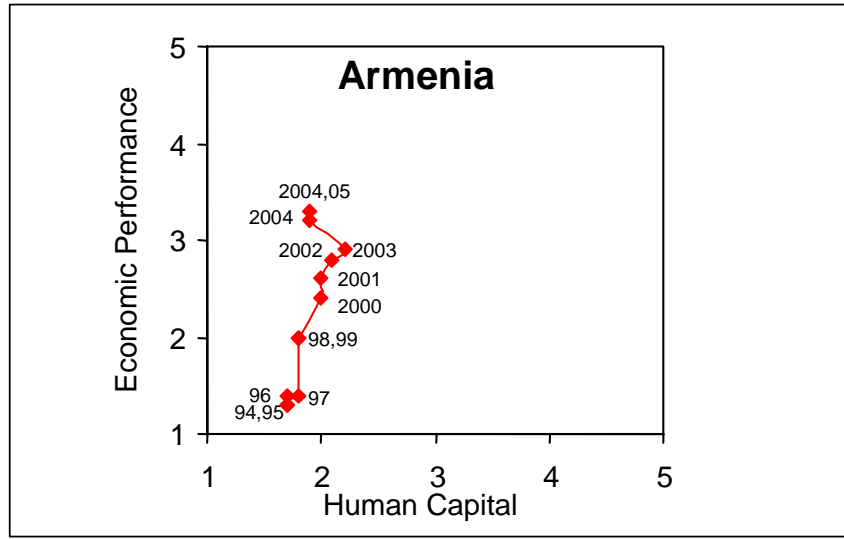


Ratings are based on a scale from 1 to 5, with 5 representing the best score. World Bank, *World Development Indicators* (2005), EBRD, *Transition Report 2005* (November 2005), UNICEF, *TransMONEE Database* (December 2005), and UNECE, *SME Databank* (2003). Missing data were estimated by interpolation. 2004 education and life expectancy data are from 2003. Economic performance index excludes SME data.

# Economic Performance and Human Capital Over Time

Figures 82-84

## Countries with good progress on one dimension



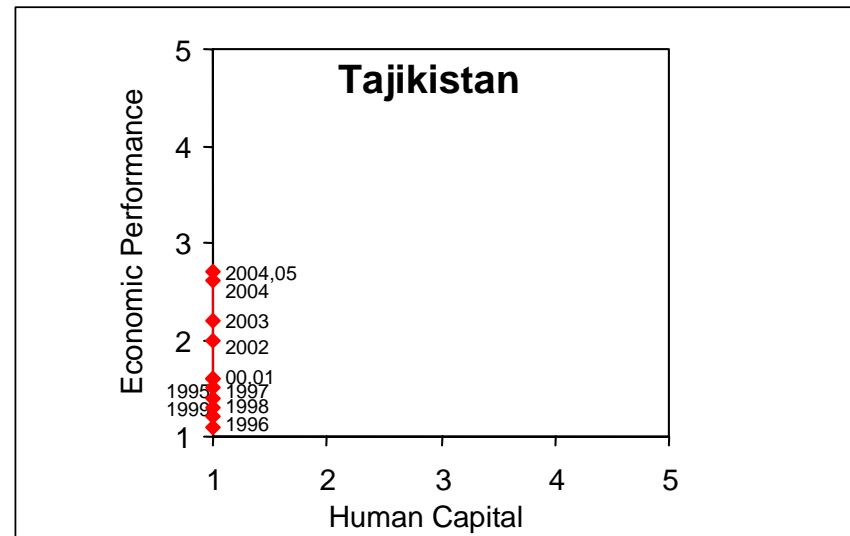
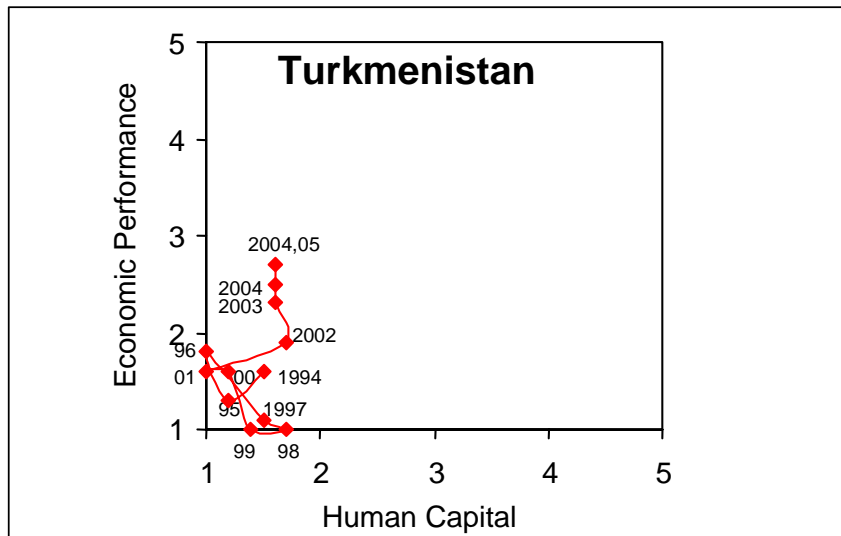
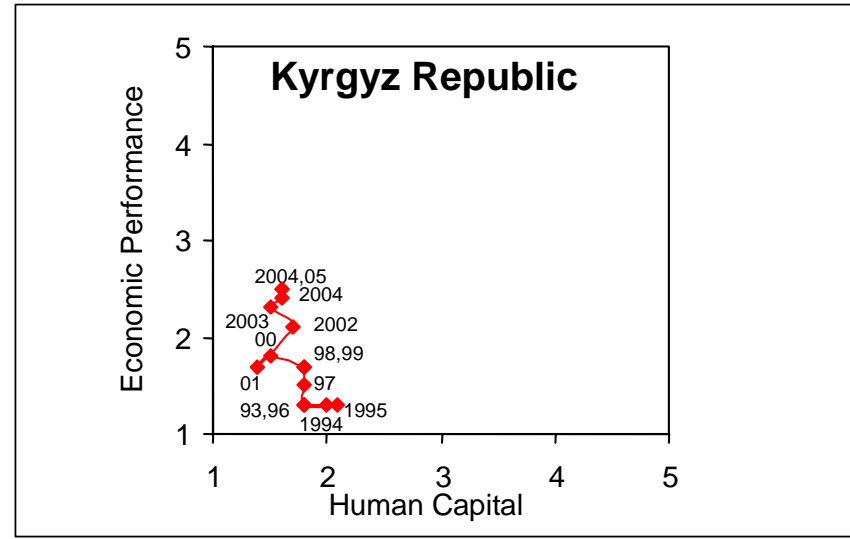
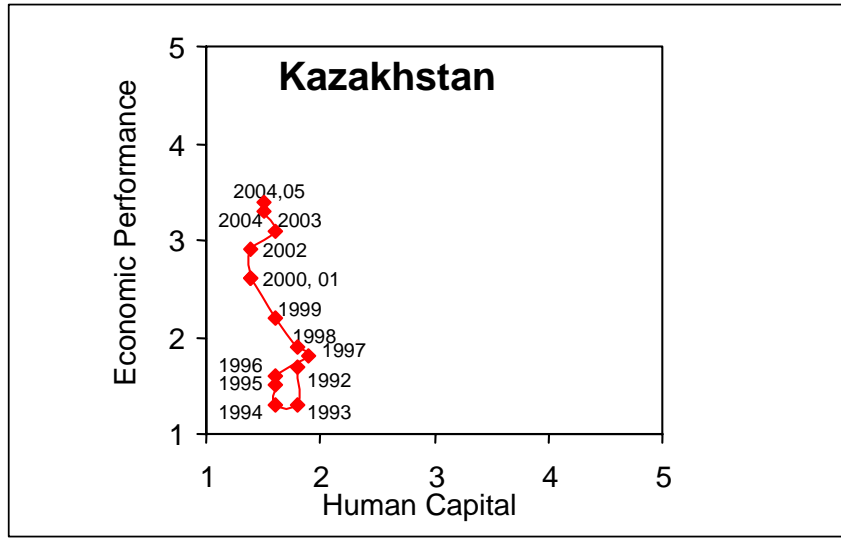
Ratings are based on a scale from 1 to 5, with 5 representing the best score. World Bank, *World Development Indicators* (2005), EBRD, *Transition Report 2005* (November 2005), UNICEF, *TransMONEE Database* (December 2005), and UNECE, *SME Databank* (2003). Missing data were estimated by interpolation. 2004 education and life expectancy data are from 2003. Economic performance index excludes SME data.



# Economic Performance and Human Capital Over Time

Figures 85-88

## Countries with good progress on one dimension

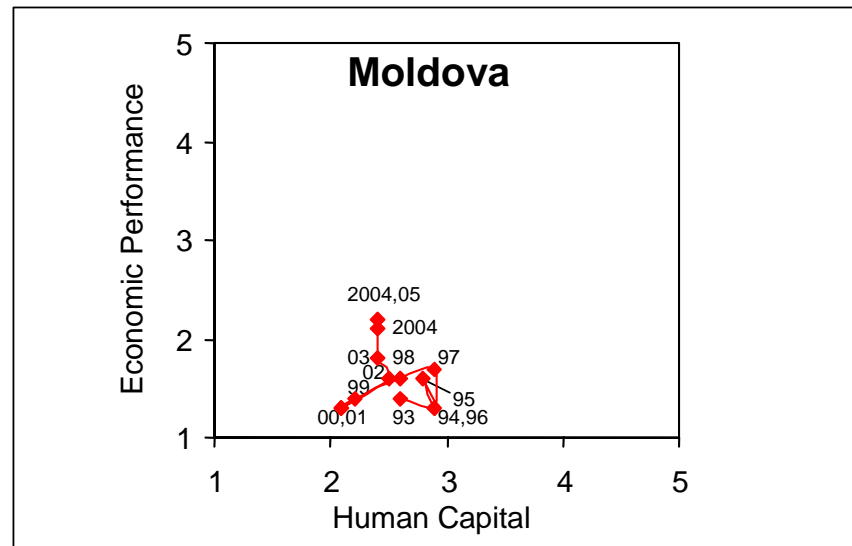
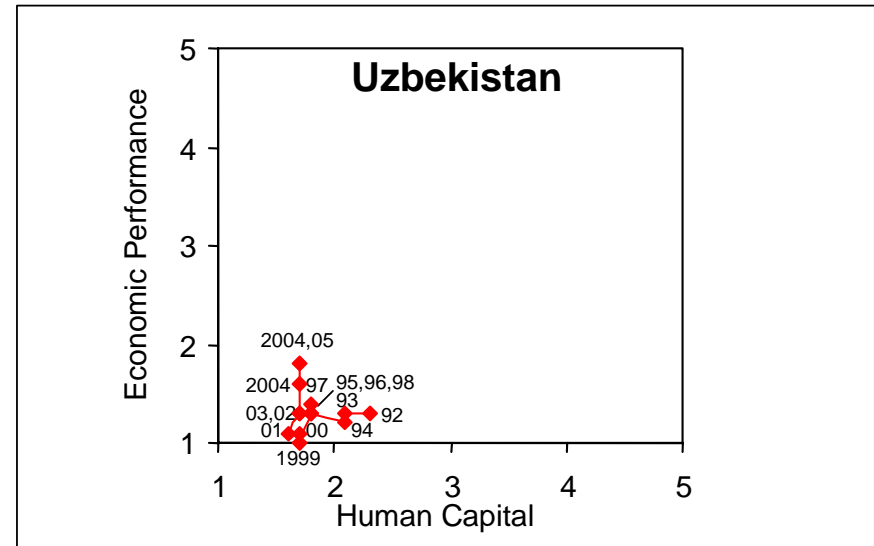
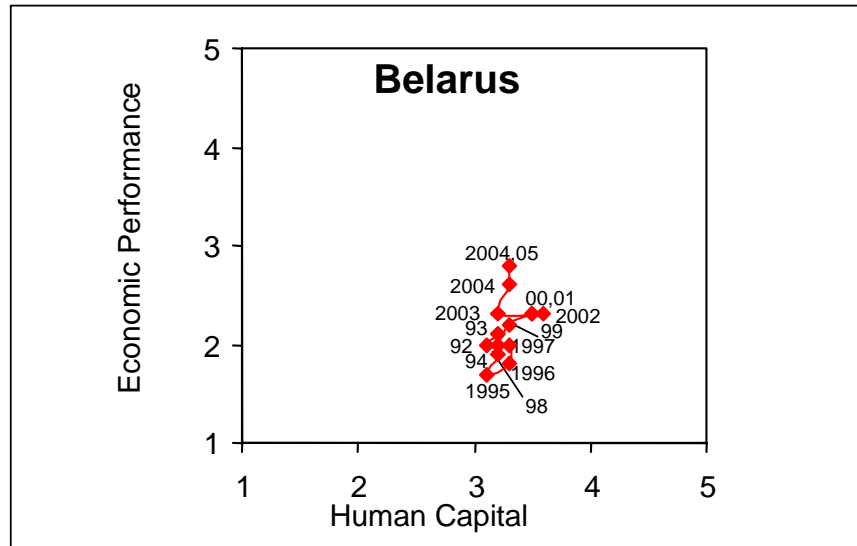


Ratings are based on a scale from 1 to 5, with 5 representing the best score. World Bank, *World Development Indicators* (2005), EBRD, *Transition Report 2005* (November 2005), UNICEF, *TransMONEE Database* (December 2005), and UNECE, *SME Databank* (2003). Missing data were estimated by interpolation. 2004 education and life expectancy data are from 2003. Economic performance index excludes SME data.

# Economic Performance and Human Capital Over Time

## Countries with little progress on either dimension

Figures 89-91



Ratings are based on a scale from 1 to 5, with 5 representing the best score. World Bank, *World Development Indicators* (2005), EBRD, *Transition Report 2005* (November 2005), UNICEF, *TransMONEE Database* (December 2005), and UNECE, *SME Databank* (2003). Missing data were estimated by interpolation. Human Capital for Uzbekistan exclude public expenditure on education data. 2004 education and life expectancy data are from 2003. Economic performance index excludes SME data.

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<sup>1</sup> Where possible (i.e., data permitting), Serbia & Montenegro is disaggregated into its three primary entities: Serbia less Kosovo, Montenegro, and Kosovo. Hence, for simplicity, the reference to 29 countries refers to 28 countries plus Kosovo.

<sup>2</sup> An application of the MCP system to phase-out decisions is provided in *Appendix 3* of the previous MCP report (April 2005 #9), available on USAID/E&E's website. The phase-out reviews took place in the spring 2004 led by the State Department's Office of the Coordinator for the U.S. Assistance for Europe and Eurasia (EUR/ACE).

<sup>3</sup> *Appendix 1* provides elaboration of the indicators.

<sup>4</sup> EBRD, *Transition Report 2005* (November 2005), page 6.

<sup>5</sup> The Eurasian non-reformers are Turkmenistan, Uzbekistan, and Belarus.

<sup>6</sup> The technique employed for each *Doing Business* indicator is to define a specific type of business in a specific type of environment, and to compare the experience of that firm in that setting across the countries. In the days to start a business indicator, e.g., the firm is a limited liability company which operates in the country's most populous city, is 100% domestically owned, has 5 owners with up to 50 employees, etc. This technique allows for a manageable and precise way to measure trends across countries. However, one may not be able to generalize the results across different parts of any one country, perhaps more so in much of the transition region where regional disparities are very large.

<sup>7</sup> The two governance indicators had been aggregated in previous years by Freedom House into one broader "governance and public administration" indicator.

<sup>8</sup> The *NGO Sustainability Index* is produced by MSI; the *Media Sustainability Index* by IREX. Both analyses are USAID-funded.

<sup>9</sup> These data and analysis are drawn from USAID/E&E/PO, *Economic Reforms, Democracy, and Growth in Eastern Europe and Eurasia* (November 2005).

<sup>10</sup> *Ibid.*

<sup>11</sup> In this exercise, Serbia-Montenegro was included as one entity (i.e., Serbia less Kosovo, Kosovo, and Montenegro were not separate observations).

<sup>12</sup> The two primary empirical studies drawn on are Fidrmuc (2003) and Falcetti et. al. (2005).

<sup>13</sup> USAID/E&E/PO, *Economic Reforms, Democracy, and Growth in Eastern Europe and Eurasia* (November 2005) provides elaboration.

<sup>14</sup> 2001 SME data from the UNECE generally conform in order of magnitude to the 1998 data from a World Bank dataset which was used in MCP #9. There are, however, two cases where the figures from the two sources are widely different (calling into question definitional issues). The UNECE estimates that employment in SMEs in Albania was 75% of total employment in 2001; the World Bank estimates that SME employment in Albania in 1998 was only 10% of total employment. The UNECE estimates that SME employment in 2001 in Macedonia was 64% of total employment; the World Bank, only 18% in 1998.

<sup>15</sup> The focus here is on countries where poverty has been relatively high and where time series data are available. The data are from the World Bank, *Growth, Poverty, and Inequality in Eastern Europe and the Former Soviet Union* (2005).

<sup>16</sup> Drawn from USAID/EE/PO *Labor Markets in Transition* (2006 forthcoming).

<sup>17</sup> This analysis is constrained by the lack of sufficient time series data on labor force survey estimates of unemployment, particularly in Eurasia.

<sup>18</sup> Drawn from USAID/EE/PO *Education in Eastern Europe and Eurasia* (October 2005).

<sup>19</sup> World Bank, *World Development Indicators 2005* (2005).

<sup>20</sup> Drawn from USAID/EE/PO *Demography and Health in Europe and Eurasia* (June 2005).

<sup>21</sup> The NFSU countries consist of the three Baltic countries (Estonia, Lithuania, and Latvia), Russia, Ukraine, Belarus, and Moldova.

<sup>22</sup> USAID, *Demography and Health in Eastern Europe and Eurasia* (June 2005), *Table 19*.

<sup>23</sup> Zohoori, N., D. Blanchette, and B. Popkin. *Monitoring Health Conditions in the Russian Federation: The Russian Longitudinal Monitoring Survey, 1992-2003*. University of North Carolina (April 2004).

<sup>24</sup> Fertility is the prime determinate of the crude birth rate. Hence, trends in fertility rates mirror closely the trends in crude birth rates. The fertility rate represents the number of children that would be born to a woman if she were to live to the end of her childbearing years and bear children in accordance with prevailing age-specific fertility rates. For a man and woman to "replace" themselves, the couple must have two or more children; hence, the fertility replacement rate is 2.1 births per woman.

<sup>25</sup> The conversion scales for both the human capital and economic performance indices are provided in *Appendix I*.

<sup>26</sup> There was not sufficient data to include Bosnia-Herzegovina and Serbia-Montenegro.

**MONITORING COUNTRY PROGRESS  
IN CENTRAL AND EASTERN EUROPE  
& EURASIA**

**APPENDIX 1: INDICATORS**

USAID/E&E/PO  
Program Office  
Bureau for Europe & Eurasia  
U.S. Agency for International Development



August 2006  
No. 10

## ***A. Economic Reforms***

The economic reform indicators come from the European Bank for Reconstruction and Development's annual *Transition Report* (November), from the Office of the Chief Economist. The EBRD differentiates and defines 5 main thresholds for the nine indicators (below). It's scoring ranges from a "1" to a "4.3"; we've converted the "4.3" to a "5". The disaggregation into first and second stage reforms is our designation.

### **First Stage Reforms**

#### Small-scale Privatization

- 1 Little progress
- 2 Substantial share privatized
- 3 Comprehensive program almost ready for implementation.
- 4 Complete privatization of small companies with tradable ownership rights
- 5 Standards and performance typical of advanced industrial economies: no state ownership of small enterprises; effective tradability of land

#### Price Liberalization

- 1 Most prices formally controlled by the government
- 2 Some lifting of price administration; state procurement at non-market prices for the majority of product categories
- 3 Significant progress on price liberalization, but state procurement at non-market prices remains substantial
- 4 Comprehensive price liberalization; state procurement at non-market prices largely phased out; only a small number of administered prices remain
- 5 Standards and performance typical of advanced industrial economies: complete price liberalization with no price control outside housing, transport and natural monopolies

#### Trade & Foreign Exchange System

- 1 Widespread import and/or export controls or very limited legitimate access to foreign exchange
- 2 Some liberalization of import and/or export controls; almost full current account convertibility in principle, but with a foreign exchange regime that is not fully transparent (possibly with multiple exchange rates)
- 3 Removal of most quantitative and administrative import and export restrictions; almost full current account convertibility
- 4 Removal of all quantitative and administrative import and export restrictions (apart from agriculture) and all significant export tariffs; insignificant direct involvement in exports and imports by ministries and state-owned trading companies; no major non-uniformity of customs duties for non-agricultural goods and services; full current account convertibility
- 5 Standards and performance norms of advanced industrial economies: removal of most tariff barriers; membership in WTO

## **Second Stage Reforms**

### Large-scale Privatization

- 1 Little private ownership
- 2 Comprehensive scheme almost ready for implementation; some sales completed
- 3 More than 25 percent of large-scale state-owned enterprise assets in private hands or in the process of being privatized (with the process having reached a stage at which the state has effectively ceded its ownership rights), but possibly with major unresolved issues regarding corporate governance
- 4 More than 50 percent of state-owned enterprise and farm assets in private ownership and significant progress on corporate governance of these enterprises
- 5 Standards and performance typical of advanced industrial economies: more than 75 percent of enterprise assets in private ownership with effective corporate governance

### Governance & Enterprise Restructuring

- 1 Soft budget constraints (lax credit and subsidy policies weakening financial discipline at the enterprise level); few other reforms to promote corporate governance
- 2 Moderately tight credit and subsidy policy but weak enforcement of bankruptcy legislation and little action taken to strengthen competition and corporate governance
- 3 Significant and sustained actions to harden budget constraints and to promote corporate governance effectively (e.g., privatization combined with tight credit and subsidy policies and/or enforcement of bankruptcy legislation)
- 4 Substantial improvement in corporate governance and significant new investment at the enterprise level
- 5 Standards and performance typical of advanced industrial economies: effective corporate control exercised through domestic financial institutions and markets, fostering market-driven restructuring

### Competition Policy

- 1 No competition legislation and institutions
- 2 Competition policy legislation and institutions set up; some reduction of entry restrictions or enforcement action on dominant firms
- 3 Some enforcement actions to reduce abuse of market power and to promote a competitive environment, including break-ups of dominant conglomerates; substantial reduction of entry restrictions
- 4 Significant enforcement actions to reduce abuse of market power and to promote a competitive environment
- 5 Standards and performance typical of advanced industrial economies: effective enforcement of competition policy; unrestricted entry to most markets

### Banking Reform

- 1 Little progress beyond establishment of a two-tier system
- 2 Significant liberalization of interest rates and credit allocation; limited use of directed credit or interest rate ceilings



- 3 Substantial progress in establishment of bank solvency and of a framework for prudential supervision and regulation; full interest rate liberalization with little preferential access to cheap refinancing; significant lending to private enterprises and significant presence of private banks
- 4 Significant movement of banking laws and regulations towards BIS standards; well-functioning banking competition and effective prudential supervision; significant term lending to private enterprises; substantial financial deepening
- 5 Standards and performance norms of advanced industrial economies: full convergence of banking laws and regulations with BIS standards; provision of full set of competitive banking services

#### Non-Bank Financial Institutional Reform

- 1 Little progress
- 2 Formation of securities exchanges, market-makers and brokers; some trading in government paper and/or securities; rudimentary legal and regulatory framework for the issuance and trading of securities
- 3 Substantial issuance of securities by private enterprises; establishment of independent share registries, secure clearance and settlement procedures, and some protection of minority shareholders; emergence of non-bank financial institutions (e.g. investment funds, private insurance and pension funds, leasing companies) and associated regulatory framework
- 4 Securities laws and regulations approaching IOSCO standards; substantial market liquidity and capitalization; well-functioning non-bank financial institutions and effective regulation
- 5 Standards and performance norms of advanced industrial economies: full convergence of securities laws and regulations with IOSCO standards; fully developed non-bank intermediation

Infrastructure. This indicator averages EBRD ratings for reform progress in five infrastructure sectors: telecommunications, railways, electric power, roads, and water & waste water.

#### *(a) Telecommunications*

- 1 Little progress in commercialization and regulation, i.e., minimal degree of private sector involvement, strong political interference in management, lack of cost-effective tariff-setting principles and extensive cross-subsidization. Few other institutional reforms to encourage liberalization envisaged, even for mobile phones and value-added services.
- 2 Modest progress in commercialization, i.e., corporatization of the dominant operator and some separation of operation from public sector governance, but tariffs still politically determined.
- 3 Substantial progress in commercialization and regulation. Full separation of telecommunications from postal services, with reduction in the extent of cross subsidization. Some liberalization in the mobile segment and in value-added services.
- 4 Complete commercialization (including the privatization of the dominant operator) and comprehensive regulatory and institutional reforms. Extensive liberalization of entry.
- 5 Implementation of a coherent and effective institutional and regulatory framework (including the operation of an independent regulator) encompassing tariffs, interconnection rules,

licensing, concession fees and spectrum allocation. Existence of a consumer ombudsman function.

*(b) Railways*

- 1 Monolithic organizational structures. State railways still effectively operated as government departments. Few commercial freedoms to determine prices or investments. No private sector involvement. Cross-subsidization of passenger service public service obligations with freight service revenues.
- 2 Laws distancing rail operations from the state, but weak commercial objectives. No budgetary funding of public service obligations in place. Organizational structures still overly based on geographic/functional areas. Separation of ancillary businesses but little divestment. Minimal encouragement of private sector involvement. Initial business planning, but targets general and tentative.
- 3 Laws passed to restructure the railways and introduce commercial orientation. Separation of freight and passenger marketing groups grafted onto tradition structures. Some divestment of ancillary businesses. Some budgetary compensation for passenger services. Design of business plans with clear investment and rehabilitation targets. Business plans designed, but funding unsecured. Some private sector involvement in rehabilitation and/or maintenance.
- 4 Laws passed to fully commercialize railways. Creation of separate internal profit centers for passenger and freight (actual or imminent). Extensive market freedoms to set tariffs and investments. Medium-term business plans under implementation. Ancillary industries divested. Policy development to promote commercial (including private) rail transport operations.
- 5 Railway law exists allowing for separation of infrastructure from operations, and/or freight from passenger operations, and/or private train operations. Private sector participation in ancillary services and track maintenance. Establishment of rail regulator and/or implementation of access pricing and/or plans for a full divestment and transfer of asset ownership, including infrastructure and rolling stock.

*(c) Electric power*

- 1 Power sector operated as a government department; political interference in running the industry. Few commercial freedoms or pressures. Average prices below costs, with external and implicit subsidy and cross-subsidy. Very little institutional reform with monolithic structure and no separation of different parts of the business.
- 2 Power company is distance from government. For example, established as a joint-stock company, though there is still political interference. Some attempt to harden budget constraints, but management incentives for efficient performance are weak. Some degree of subsidy and cross-subsidy. Little institutional reform; monolithic structure with no separation of different parts of the business. Minimal private sector involvement.
- 3 Law passed which provides for full-scale restructuring of the industry, including vertical unbundling through accounting separation, setting up of regulator with some distance from the government, plans for tariff reform if effective tariffs are below cost, possibility of private ownership and industry liberalization. Little or no private sector involvement.

- 4 Law for industry restructuring passed and implemented providing for: separation of the industry into generation, transmission and distribution; setting up of a regulator, with rules for setting cost-reflective tariffs formulated and implemented. Arrangements for network access (negotiated access, single buyer model) developed. Substantial private sector involvement in distribution and/or generation.
- 5 Business separated vertically into generation, transmission and distribution. Existence of an independent regulator with full power to set cost-reflective tariffs. Large-scale private sector involvement. Institutional development covering arrangements for network access and full competition in generation.

*(d) Roads*

- 1 There is minimal degree of decentralization, and no commercialization has taken place. All regulatory, road management and resource allocation functions are centralized at ministerial level. New investments and road maintenance financing are dependent on central budget allocations. Road user charges are based on criteria other than relative costs imposed on the network and road use. Road construction and maintenance are undertaken by public construction units. There is no private sector participation. No public consultation or accountability take place in the preparation of road projects.
- 2 There is a moderate degree of decentralization, and initial steps have been taken in commercialization. A road/highways agency has been created. Initial steps have been undertaken in resource allocation and public procurement methods. Road user charges are based on vehicle and fuel taxes but are only indirectly related to road use. A road fund has been established but it is dependent on central budget allocations. Road construction and maintenance is undertaken primarily by corporatized public entities, with some private sector participation. There is minimal public consultation/participation and accountability in the preparation of road projects.
- 3 There is a fairly large degree of decentralization and commercialization. Regulation, resource allocation, and administrative functions have been clearly separated from maintenance and operations of the public road network. Road user charges are based on vehicle and fuel taxes and fairly directly related to road use. A law has been passed allowing for the provision and operation of public roads by private companies under negotiated commercial contracts. There is private sector participation either in road maintenance works allocated via competitive tendering or through a concession to finance, operate and maintain at least a section of the highway network. There is limited public consultation and/or participation and accountability in the preparation of road projects.

- 4 There is a large degree of decentralization of road administration, decision-making, resource allocation and management according to government responsibility and functional road classification. A transparent methodology is used to allocate road expenditures. A track record has been established in implementing competitive procurement rules for road design, construction, maintenance and operations. There is large-scale private sector participation in construction, operations and maintenance directly and through public-private partnership arrangements. There is substantial public consultation and/or participation and accountability in the preparation of road projects.
- 5 A fully decentralized road administration has been established, with decision-making, resource allocation and management across road networks and different levels of government. Commercialized road maintenance operations are undertaken through open and competitive tendering by private construction companies. Legislation has been passed allowing for road user charges to fully reflect costs of road use and associated factors, such as congestion, accidents and pollution. There is widespread private sector participation in all aspects of road provision directly and through public-private partnership arrangements. Full public consultation is undertaken in the approval process for new road projects.

(e) *Water and Waste water*

- (1) There is a minimal degree of decentralization, and no commercialization has taken place. Water and waste-water services are operated as a vertically integrated natural monopoly by a government ministry through national or regional subsidiaries or by municipal departments. There is no, or little, financial autonomy and/or management capacity at municipal level. Heavily subsidized tariffs still exist, along with a high degree of cross-subsidization.
- (2) There is a moderate degree of decentralization, and initial steps have been taken in commercialization. Water and waste-water services are provided by municipally owned companies, which operate as joint-stock companies. There is some degree of financial autonomy at the municipal level but heavy reliance on central government for grants and income transfers. Partial cost recovery is achieved through tariffs, and initial steps have been taken to reduce cross-subsidies. General public guidelines exist regarding tariff-setting and service quality but these are both still under ministerial control. There is some private sector participation through service or management contracts or competition to provide ancillary services.
- (3) A fairly large degree of decentralization and commercialization has taken place. Water and waste-water utilities operate with managerial and accounting independence from municipalities, using international accounting standards and management information systems. A municipal finance law has been approved. Cost recovery is fully operated through tariffs and there is a minimum level of cross-subsidies. A semi-autonomous regulatory agency has been established to advise on tariffs and service quality but without the power to set either. More detailed rules have been drawn up in contract documents, specifying tariff review formulae and performance standards. There is private sector participation through performance standards. There is private sector participation through the full concession of a major service in at least one city.

- (4) A large degree of decentralization and commercialization has taken place. Water and waste-water utilities are managerially independent, with cash flows—net of municipal budget transfers—that ensure financial viability. A municipal finance law has been implemented, providing municipalities with the opportunity to raise finance. Full cost recovery exists and there are no cross-subsidies. A semi-autonomous regulatory agency has the power to advise and enforce tariffs and service quality. There is substantial private sector participation through build-operate-transfer concessions, management contracts or asset sales to service parts of the network or entire networks. A concession of major services has taken place in a city other than the country's capital.
- (5) Water and waste-water utilities are fully decentralized and commercialized. Large municipalities enjoy financial autonomy and demonstrate the capability to raise finance. Full cost recovery has been achieved and there are no cross-subsidies. A fully autonomous regulator exists with complete authority to review and enforce tariff levels and performance quality standards. There is widespread private sector participation via service management/lease contracts, with high-powered performance incentives and/or full concessions and/or divestiture of water and waste-water services in major urban areas.

## ***B. Democratization: Political Rights and Civil Liberties<sup>1</sup>***

Freedom House annually rates political rights and civil liberties separately on a seven-category scale, 1 representing the most free and 7 the least free. Each country is awarded from 0 to 4 raw points for each of 10 questions grouped into three subcategories in a political rights checklist, and for each of 15 questions grouped into four subcategories in a civil liberties checklist.

<u>Political Rights category number</u>	<u>Raw points</u>
1	36-40
2	30-35
3	24-29
4	18-23
5	12-17
6	6-11
7	0-5

<u>Civil Liberties category number</u>	<u>Raw points</u>
1	53-60
2	44-52
3	35-43
4	26-34
5	17-25
6	8-16
7	0-7

### **Political Rights checklist**

#### **A. Electoral Process**

1. Is the head of state and/or head of government or other chief authority elected through free and fair elections?
2. Are the legislative representatives elected through free and fair elections?
3. Are there fair electoral laws, equal campaigning opportunities, fair polling and honest tabulation of ballots?

#### **B. Political Pluralism and Participation**

1. Do the people have the right to organize in different political parties or other competitive political groupings of their choice, and is the system open to the rise and fall of these competing parties or groupings?

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<sup>1</sup> Drawn from Freedom House's annual report, *Freedom in the World*.

2. Is there a significant opposition vote, de facto opposition power, and a realistic possibility for the opposition to increase its support or gain power through elections?
3. Are the people's political choices free from domination by the military, foreign powers, totalitarian parties, religious hierarchies, economic oligarchies or any other powerful group?
4. Do cultural, ethnic, religious and other minority groups have reasonable self-determination, self-government, autonomy or participation through informal consensus in the decision-making process?

### C. Functioning of Government

1. Do freely elected representative determine the policies of the government?
2. Is the government free from pervasive corruption?
3. Is the government accountable to the electorate between elections, and does it operate with openness and transparency?

Additional discretionary political rights questions:

1. For traditional monarchies that have no parties or electoral process, does the system provide for consultation with the people, encourage discussion of policy, and allow the right to petition the ruler?
2. Is the government or occupying power deliberately changing the ethnic composition of a country or territory so as to destroy a culture or tip the political balance in favor of another group?

### **Civil Liberties checklist**

#### A. Freedom of Expression and Belief

1. Are there free and independent media and other forms of cultural expression? (Note: In cases where the media are state-controlled but offer pluralistic points of view, the survey gives the system credit).
2. Are there free religious institutions, and is there free private and public religious expression?
3. Is there academic freedom, and is the educational system free of extensive political indoctrination?
4. Is there open and free private discussion?

#### B. Associational and Organization Rights

1. Is there freedom of assembly, demonstration, and open public discussion?
2. Is there freedom of political or quasi-political organization? (Note: This includes political parties, civic associations, ad hoc groups and so forth.)
3. Are there free trade unions and peasant organizations or equivalents, and is there effective collective bargaining? Are there free professional and other private organizations?

### C. Rule of Law

1. Is there an independent judiciary?
2. Does the rule of law prevail in civil and criminal matters? Are police under direct civilian control?
3. Is there protection from police terror, unjustified imprisonment, exile or torture, whether by groups that support or oppose the system? Is there freedom from war and insurgencies?
4. Is the population treated equally under the law?

### D. Personal Autonomy and Individual Rights

1. Is there personal autonomy? Does the state control travel, choice of residence, or choice of employment? Is there freedom from indoctrination and excessive dependency on the state?
2. Do citizens have the right to own property and establish private businesses? Is private business activity unduly influenced by government officials, the security forces, or organized crime?
3. Are there personal social freedoms, including gender equality, choice of marriage partners, and size of family?
4. Is there equality of opportunity and the absence of economic exploitation?

## **Political Rights**

- 1 Generally speaking, places rated 1 come closest to the ideals suggested by the checklist questions, beginning with free and fair elections. Those elected rule. There are competitive parties or other competitive political groupings, and the opposition has an important role and power. These entities have self-determination or an extremely high degree of autonomy. Usually, those rated 1 have self-determination for minority groups or their participation in government through informal consensus. With the exception of such entities as tiny island countries, these countries and territories have decentralized political power and free sub-national elections.
- 2 Such factors as gross political corruption, violence, political discrimination against minorities, and foreign or military influence on politics may be present, and weaken the quality of democracy.
- 3 , 4, and 5. The same factors that weaken freedom in category 2 may also undermine political rights in categories 3, 4, and 5. Other damaging conditions may be at work as well, including civil war, very strong military involvement in politics, lingering royal power, unfair elections and one-party dominance. However, states and territories in these categories may still have some elements of political rights such as the freedom to organize nongovernmental parties and quasi-political groups, reasonably free referenda, or other significant means of popular influence on government.
- 6 Typically, such states have systems ruled by military juntas, one-party dictatorships, religious hierarchies and autocrats. These regimes may allow only some minimal manifestation of political rights such as competitive local elections or some degree of representation or autonomy for minorities. Category 6 also contains some countries in the early or aborted



stages of democratic transition. A few states in Category 6 are traditional monarchies that mitigate their relative lack of political rights through the use of consultation with their subjects, toleration of political discussion, and acceptance of petitions from the ruled.

- 7 This includes places where political rights are absent or virtually nonexistent due to the extremely oppressive nature of the regime or extreme oppression in combination with civil war. A country or territory may also join this category when extreme violence and warlordism dominate the people in the absence of an authoritative, functioning central government.

### **Civil Liberties**

- 1 This includes countries and territories that generally have the highest levels of freedoms and opportunities for the individual. Places in this category may still have problems in civil liberties, but they lose partial credit in only a limited number of areas.
- 2 Places in this category, while not as free as those in 1, are still relatively high on the scale. These countries have deficiencies in several aspects of civil liberties, but still receive most available credit.
- 3 , 4, and 5. Places in these categories range from ones that receive at least partial credit on virtually all checklist questions to those that have a mixture of good civil liberties scores in some areas and zero or partial credit in others. As one moves down the scale below category 2, the level of oppression increases, especially in the areas of censorship, political terror and the prevention of free association. There are also many cases in which groups opposed to the state carry out political terror that undermines other freedoms. That means that a poor rating for a country is not necessarily a comment on the intentions of the government. The rating may simply reflect the real restrictions on liberty which can be caused by non-governmental terror.
- 6 Typically, at category 6 in civil liberties, countries and territories have few partial rights. For example, a country might have some religious freedom, some personal social freedoms, some highly restricted private business activity, and relatively free private discussion. In general, people in these states and territories experience severely restricted expression and association. There are almost always political prisoners and other manifestations of political terror.
- 7 At category 7, countries and territories have virtually no freedom. An overwhelming and justified fear of repression characterizes the society.

### *C. Democratization Disaggregated<sup>2</sup>*

Freedom House measures progress towards democratic freedoms by assessing a series of questions in seven categories: (1) electoral process; (2) civil society; (3) independent media; (4) national democratic governance; (5) local democratic governance; (6) rule of law; and (7) corruption. Progress towards each category is rated on a seven-category scale, 1 representing the most advanced and 7 the least advanced. In this MCP report and in the MCP system, these scores are reversed and re-scaled to range from 1 to 5, with 5 being the most advanced.

#### Electoral process

- (1) Is the authority of government based upon universal and equal suffrage and the will of the people as expressed by regular, free, and fair elections conducted by secret ballot?
- (2) Are there fair electoral laws, equal campaigning opportunities, fair polling, and honest tabulation of ballots?
- (3) Is the electoral system free of significant barriers to political organization and registration?
- (4) Is the electoral system multiparty based, with viable political parties, including an opposition party, functioning at all levels of government?
- (5) Is the public engaged in the political life of the country, as evidenced by membership in political parties, voter turnout for elections, or other factors?
- (6) Do ethnic and other minority groups have sufficient openings to participate in the political process?
- (7) Is there opportunity for the effective rotation of power among a range of different political parties representing competing interests and policy options?
- (8) Are the people's choices free from domination by the specific interest of power groups (the military, foreign powers, totalitarian parties, regional hierarchies, and/or economic oligarchies)?
- (9) Were the most recent national legislative elections judged free and fair by domestic and international election-monitoring organizations?
- (10) Were the most recent presidential elections judged free and fair by domestic and international election-monitoring organizations?

#### Civil Society

- (1) Does the state protect the rights of the independent civic sector?
- (2) Is the civil society vibrant? (Consider growth in the number of charitable, nonprofit, and nongovernmental organizations; improvements in the quality of performance of civil society groups; locally led efforts to increase philanthropy and volunteerism; the public's active participation in private voluntary activity; the presence of effective civic and cultural organizations for women and ethnic groups; the participation of religious groups in charitable activity; or other factors)
- (3) Is society free of excessive influence from extremist and intolerant nongovernmental institutions and organizations (such as racists, groups advocating violence or terrorism, xenophobes, private militias and vigilante groups, or other groups whose actions threaten

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<sup>2</sup> Drawn from Freedom House, *Nations in Transit*

political and social stability and the transition to democracy)?

- (4) Is the legal and regulatory environment for civil society groups free of excessive state pressures and bureaucracy (consider ease of registration, legal rights, government regulation, fund-raising, taxation, procurement, and access-to-information issues)?
- (5) Do civil society groups have sufficient organizational capacity to sustain their work (that is, management structures with clearly delineated authority and responsibility; a core of experienced practitioners, trainers, and the like; access to information on NGO management issues in the native language; and so forth)?
- (6) Are civil society groups financially viable, with adequate conditions and opportunities for raising funds that sustain their work (for example, sufficient organizational capacity to raise funds; option of nonprofit tax status; freedom to raise funds from domestic or foreign sources; legal or tax environment that encourages private sector support; ability to compete for government procurement opportunities; ability to earn income or collect cost recovery fees)?
- (7) Is the government receptive to policy advocacy by interest groups, public policy research groups, and other nonprofit organizations? Do government officials engage civil society groups by inviting them to testify, comment on, and influence pending policies or legislation?
- (8) Are the media receptive to civil society groups as independent and reliable sources of information and commentary? Are they positive contributors to the country's civic life?
- (9) Does the state respect the right to form and join free trade unions?
- (10) Is the education system free of political influence and propaganda?

#### Independent Media

- (1) Are there legal protections for press freedoms?
- (2) Are journalists, especially investigative reporters, protected from victimization by powerful state or nonstate actors?
- (3) Does the state oppose onerous libel laws and other excessive legal penalties for "irresponsible" journalism?
- (4) Are the media's editorial independence and new-gathering functions free of interference from the government or private owners?
- (5) Does the public enjoy a diverse selection of print and electronic sources of information that represent a range of political viewpoints?
- (6) Are the majority of print and electronic media privately owned and free of excessive ownership concentration?
- (7) Is the private media's financial viability subject only to market forces (that is, is it free of political or other influences)?
- (8) Is the distribution of newspapers privately controlled?
- (9) Are journalists and media outlets able to form their own viable professional associations?
- (10) Does society enjoy free access to the Internet?

#### National Democratic Governance

- (1) Is the governmental system democratic?
- (2) Is the country's governmental system stable?

- (3) Is the legislature independent, effective, and accountable to the public?
- (4) Is the executive branch independent, effective, and accountable to the public?

#### Local Democratic Governance

- (1) Are the principles of local democratic government enshrined in law and respected in practice?
- (2) Are citizens able to choose local leaders in free and fair elections?
- (3) Are citizens ensured meaningful participation in local government decision-making?
- (4) Do democratically elected local authorities exercise their powers freely and autonomously?
- (5) Do democratically elected local authorities have the resources and capacity needed to fulfill their responsibilities?
- (6) Do democratically elected local authorities operate with transparency and accountability to citizens?

#### Rule of Law

- (1) Is there an effective system of checks and balances among legislative, executive, and judicial authorities?
- (2) Is the legislature the effective rule-making institution?
- (3) Does the constitutional framework provide for human rights (including freedom of expression, religious freedom, freedom of association, and business and property rights), and does the state protect those rights in practice?
- (4) Is there independence and impartiality in the interpretation and enforcement of the constitution?
- (5) Is there equality before the law?
- (6) Has there been effective reform of the criminal code/criminal law? (Consider presumption of innocence until proven guilty, access to a fair and public hearing, introduction of jury trials, access to independent counsel/public defender, independence of prosecutors, and so forth.)
- (7) Are suspects and prisoners protected in practice against arbitrary arrest, detention without trial, searches without warrants, torture and abuse, and excessive delays in the criminal justice system?
- (8) Are judges appointed in a fair and unbiased manner, and do they have adequate legal training before assuming the bench?
- (9) Do judges rule fairly and impartially, and are courts free of political control and influence?
- (10) Do legislative, executive, and other governmental authorities comply with judicial decisions, and are judicial decisions effectively enforced?

#### Corruption

- (1) Has the government implemented effective anticorruption initiatives?
- (2) Is the government free from excessive bureaucratic regulations, registration requirements, and other controls that increase opportunities for corruption?
- (3) Are there significant limitations on the participation of government officials in economic life?
- (4) Are there adequate laws requiring financial disclosure and disallowing conflict of interest?

- (5) Does the state enforce an effective legislative or administrative process—particularly one that is free of prejudice against one’s political opponents—to prevent, investigate, and prosecute the corruption of government officials and civil servants?
- (6) Do executive and legislative bodies operate under effective audit and investigative rules that are free of political influence?
- (7) Do whistle-blowers, anticorruption activists, investigators, and journalists enjoy legal protections that make them feel secure about reporting cases of bribery and corruption?
- (8) Are allegations of corruption given wide and extensive airing in the media?
- (9) Does the public display a high intolerance for official corruption?

## **Democratization Ratings Guidelines**

### **Rating**

- 1** Policy criteria: existence of policies that adhere to basic human rights standards, democratic norms, and the rule of law; Practice criteria: existence of best practices that adhere to basic human rights standards, democratic norms, and the rule of law.
- 2** Policy criteria: existence of policies that adhere to basic human rights standards, democratic norms, and the rule of law; Practice criteria: existence of most practices that adhere to basic human rights standards, democratic norms, and the rule of law
- 3** Policy criteria: existence of many policies that adhere to basic human rights standards, democratic norms, and the rule of law; Practice criteria: existence of many practices that adhere to basic human rights standards, democratic norms, and the rule of law
- 4** Policy criteria: existence of many policies that adhere to basic human rights standards, democratic norms, and the rule of law; Practice criteria: existence of some practices that adhere to basic human rights standards, democratic norms, and the rule of law
- 5** Policy criteria: existence of many policies that adhere to basic human rights standards, democratic norms, and the rule of law; Practice criteria: absence of many practices that adhere to basic human rights standards, democratic norms, and the rule of law
- 6** Policy criteria: existence of some policies that adhere to basic human rights standards, democratic norms, and the rule of law; Practice criteria: absence of most practices that adhere to basic human rights standards, democratic norms, and the rule of law
- 7** Policy criteria: absence of policies that adhere to basic human rights standards, democratic norms, and the rule of law; Practice criteria: absence of practices that adhere to basic human rights standards, democratic norms and the rule of law.

### ***Conversion scales for economic performance and human capital indices:***

The economic performance and human capital indices are derived by converting “raw scores” (such as percentages and growth rates) into scores which range from “1” to “5”. The conversion scales are as follows:

#### ***Economic performance.***

- (1) *Private sector share in GDP* (in % in 2005; EBRD): “0.5”: 25% of GDP or less; “1”: 30-40%; 1.5: 45%; 2: 50%; 2.5: 55%; 3: 60%; 3.5: 65%; 4: 70%; 4.5: 75%; 5: 80% or greater.
- (2) *Employment in SME sector as % of total employment* (2001 or latest year available; UNECE, SME Database). 0.5: 25% or less; 1: >26-35%; 1.5: >36-40%; 2: >41-45%; 2.5: >46-50%; 3: >51-55%; 3.5: >56-60%; 4: >61-65%; 4.5: >66-75%; 5: greater than 75% of total employment.
- (3) *Export sector as percent of GDP* (2004; calculated from World Bank, *World Development Indicators*). 0.5: 5% or less; 1: greater than 5% to 8%; 1.5: >8-11%; 2: >11-14%; 2.5: >14-17%; 3: >17-20%; 3.5: >20-23%; 4: >23-26%; 4.5: >26-29%; 5: greater than 29% of PPP GDP.
- (4) *2005 GDP as % of 1989 GDP* (EBRD). 0.5: 50% or less; 1: greater than 50% to 60%; 1.5: >60-70%; 2: >70-80%; 2.5: >80-90%; 3: >90-100%; 3.5: >100-110%; 4: >110-120%; 4.5: >120-130%; 5: greater than 130% of 1989 GDP.
- (5) *3 year average annual inflation rate* (2003-2005; EBRD). 0.5: >30%; 1: >26-30%; 1.5: >22-26%; 2: >18-22%; 2.5: >14-18%; 3: >10-14%; 3.5: >7-10%; 4: >5-7%; 4.5: >3-5%; 5: 3% inflation rate or less.
- (6) *Foreign direct investment* (per capita, cumulative, 1989-2005, net in \$; EBRD). 0.5: \$100 or less; 1: >\$100-200; 1.5: >\$200-400; 2: >\$400-600; 2.5: >\$600-800; 3: >\$800-1,000; 3.5: >\$1,000-1,200; 4: >\$1,200-1,500; 4.5: >\$1,500-2,000; 5: >\$2,000.
- (7) *external debt as % of GDP* (2004; EBRD). 0.5: >95%; 1: >85% to 95%; 1.5: >75-85%; 2: >65-75%; 2.5: >55-65%; 3: >45-55%; 3.5: >35-45%; 4: >25-35%; 4.5: >10-25%; 5: 10% or less.

#### ***Human capital.***

- (1) *per capita income* (gross national income, 2005, purchasing power parity, World Bank, *World Development Indicators*). 0.5: \$1,000 or less; 1: >\$1,000 to \$3,000; 1.5: >\$3,000-5,000; 2: >\$5,000-7,000; 2.5 >\$7,000-9,000; 3: >\$9,000-11,000; 3.5: >\$11,000-13,000; 4: >\$13,000-15,000; 4.5: >\$15,000-17,000; 5: >\$17,000 per capita.
- (2) *secondary school enrollment* (2003 or latest year available; gross; general secondary plus vocational/technical secondary; UNICEF, *TransMONEE Database*). 0.5: 31% or less; 1: greater than 31% to 39%; 1.5: >39-47%; 2: >47-55%; 2.5: >55-63%; 3: >63-71%; 3.5: >71-79%; 4: >79-87%; 4.5: >87-95%; 5: greater than 95% enrollment.

(3) public expenditure on education as % of GDP (2004, World Bank, *World Development Indicators*). 0.5: 2% or less; 1: >2% to 2.5%; 1.5: >2.5-3%; 2: >3-3.5%; 2.5: >3.5-4%; 3: >4-4.5%; 3.5: >4.5-5%; 4: >5-5.5%; 4.5: >5.5-6%; 5: greater than 6% of GDP.

(4) life expectancy (years, 2004, World Bank, *World Development Indicators*). 0.5: less than 62.5 years; 1: 64 years to <65.5; 1.5: 65.5 to <67; 2: 67 to <68.5; 2.5: 68.5 to <70; 3: 70 to <71.5; 3.5: 71.5 to <73; 4: 73 to <74.5; 4.5: 74.5 to <76; 5: 76 years or greater.

(5) under five years mortality rate (per thousand live births, 2004, World Bank, *World Development Indicators*). 0.5: greater than 93 deaths; 1: >82 to 93; 1.5: >71-82; 2: >60-71; 2.5: >49-60; 3: >38-49; 3.5: >27-38; 4: >16-27; 4.5: >5-16; 5: 5 deaths or less.

(6) public expenditure on health as % of GDP (2003, World Bank, *World Development Indicators*). 0.5: 2% or less; 1: >2% to 2.5%; 1.5: >2.5-3%; 2: >3-3.5%; 2.5: >3.5-4%; 3: >4-4.5%; 3.5: >4.5-5%; 4: >5-5.5%; 4.5: >5.5-6%; 5: greater than 6% of GDP.

## **APPENDIX 2: TRANSITION COUNTRY CLASSIFICATIONS**

***Northern Tier CEE.*** The Czech Republic, Hungary, Poland, Slovakia, Slovenia, Latvia, Lithuania, Estonia.

***Baltics.*** Latvia, Lithuania, Estonia

***Southern Tier CEE.*** Serbia & Montenegro, Bosnia-Herzegovina, Croatia, Macedonia, Albania, Romania, Bulgaria

***Advanced Southern Tier CEE.*** Croatia, Bulgaria, Romania

***Western Balkans CEE.*** Serbia & Montenegro, Bosnia-Herzegovina, Macedonia, Albania

***Eurasia.*** Russia, Ukraine, Belarus, Moldova, Armenia, Georgia, Azerbaijan, Kazakhstan, Kyrgyzstan, Uzbekistan, Turkmenistan, Tajikistan

***Natural Resource Rich Eurasia.*** Russia, Azerbaijan, Kazakhstan

***Natural Resource Poor Eurasia.*** Moldova, Armenia, Georgia, Kyrgyzstan, Tajikistan, Ukraine

***Eurasian Non-Reformers.*** Turkmenistan, Belarus, Uzbekistan

***West NIS.*** Ukraine, Belarus, Moldova

***Caucasus.*** Georgia, Armenia, Azerbaijan

***Central Asian Republics.*** Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan, Turkmenistan

***Northern Former Soviet Union.*** Estonia, Latvia, Lithuania, Russia, Ukraine, Belarus, Moldova

***Muslim-majority.*** Albania, Azerbaijan, Tajikistan, Turkmenistan, Kyrgyzstan, Uzbekistan.



# **MONITORING COUNTRY PROGRESS IN EASTERN EUROPE & EURASIA**

## **APPENDIX 3: GAP ANALYSES**

USAID/E&E/PO  
Program Office  
Bureau for Europe & Eurasia  
U.S. Agency for International Development

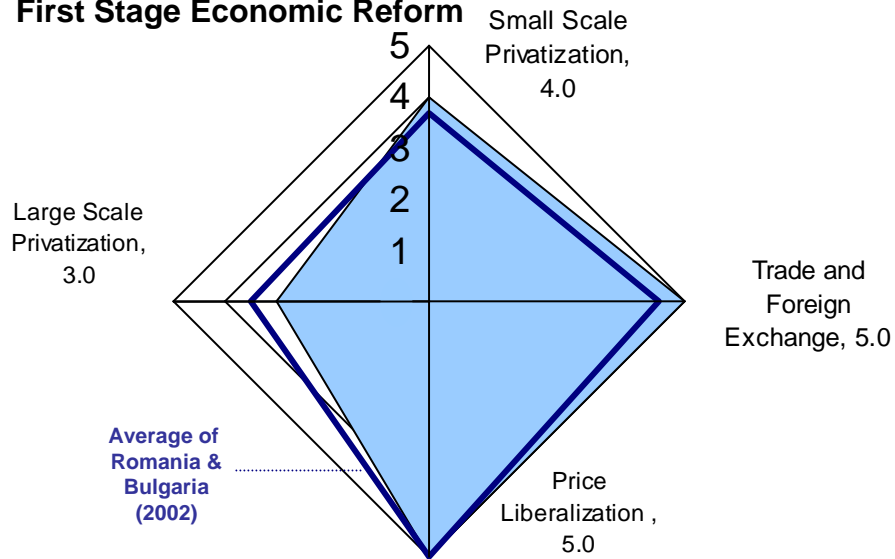
March 2006  
No. 10

Twenty nine sets of charts corresponding to the four MCP indices are provided below for each 29 transition countries. These “web” charts provide a disaggregated look at each of the indices and how each country compares in its transition progress vis-a-vis two standards: (1) relative to the Romania-Bulgaria average in 2002 thresholds; and (2) relative to the progress of the country in the late 1990s. Together, these charts provide a quick look as to where the transition gaps are, and to what extent these gaps are being filled.

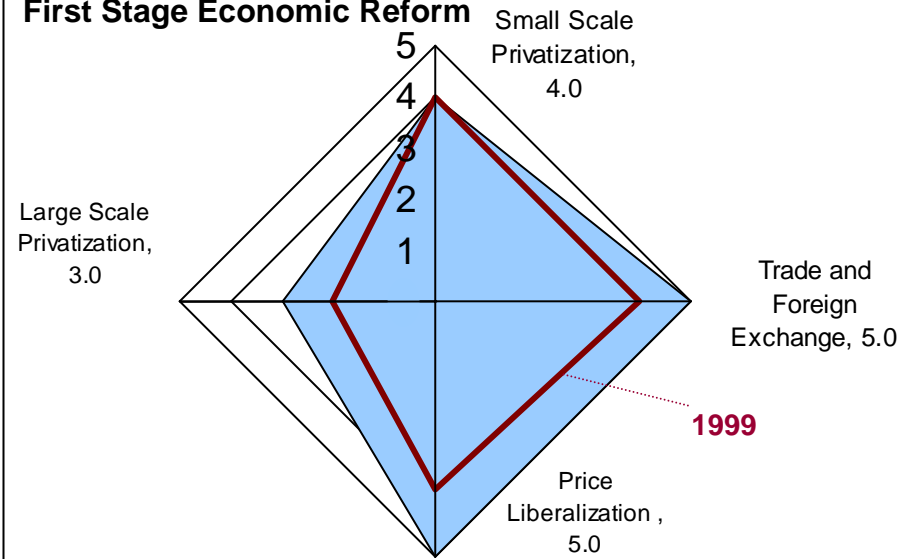
# Economic Reform in Albania in 2005

(versus Romania & Bulgaria in 2002 and Albania in 1999)

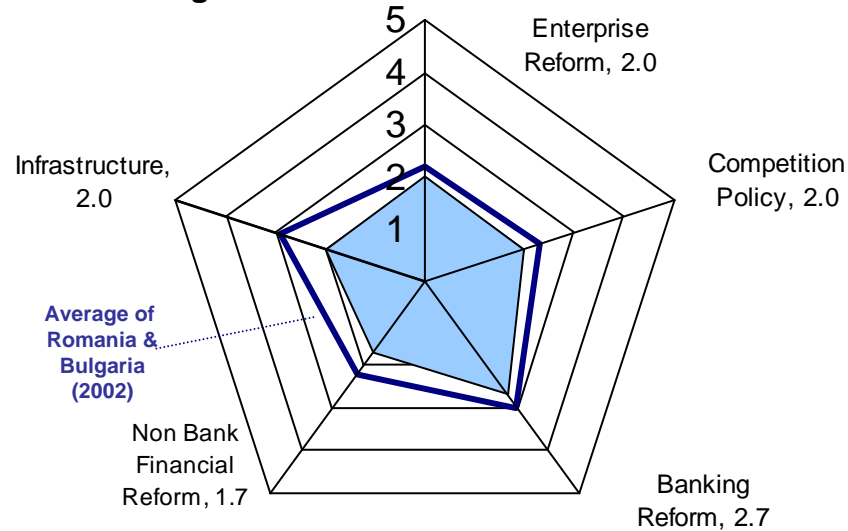
## First Stage Economic Reform



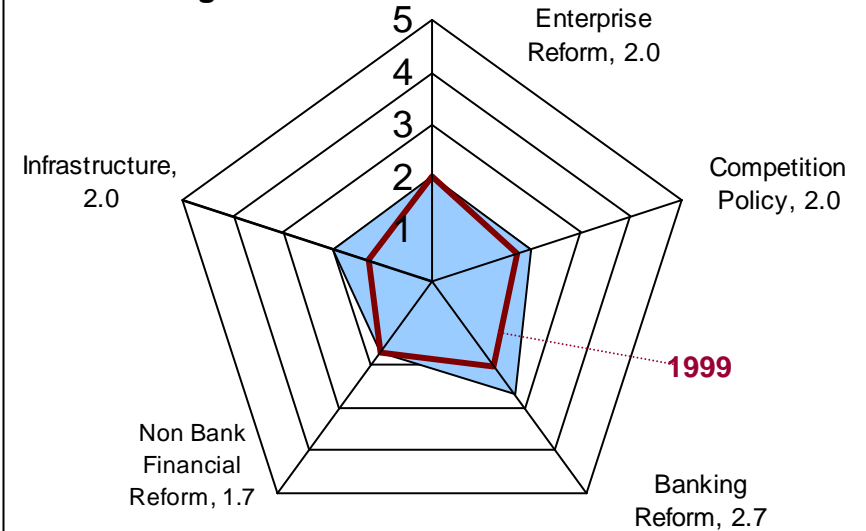
## First Stage Economic Reform



## Second Stage Economic Reform

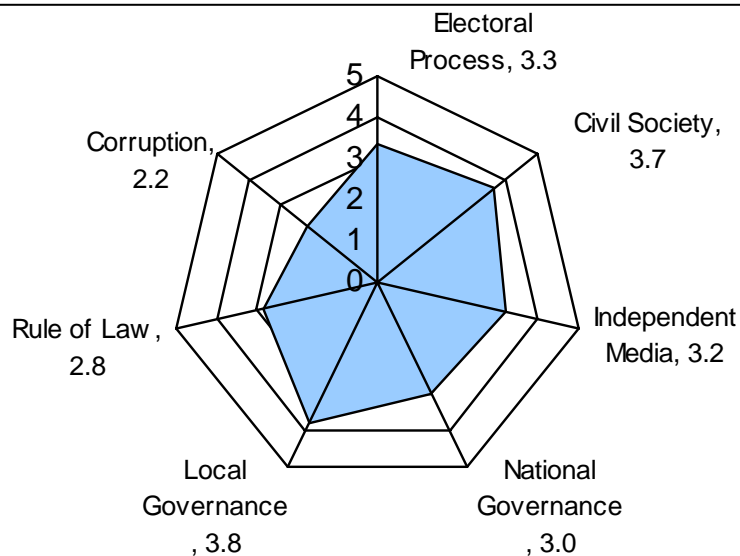
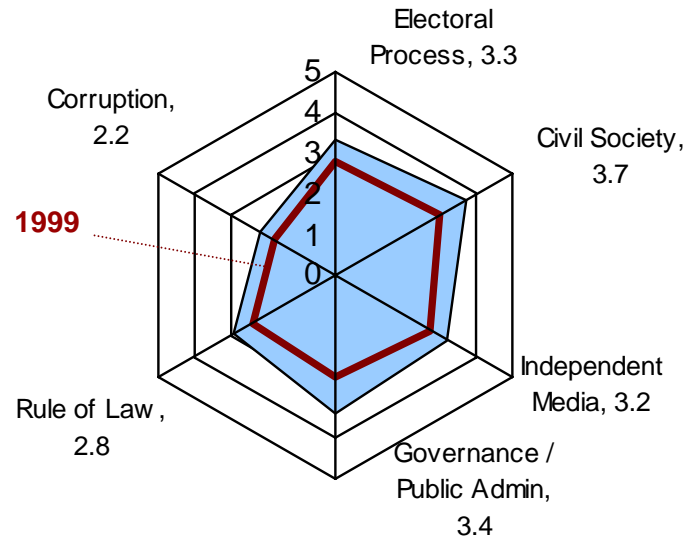
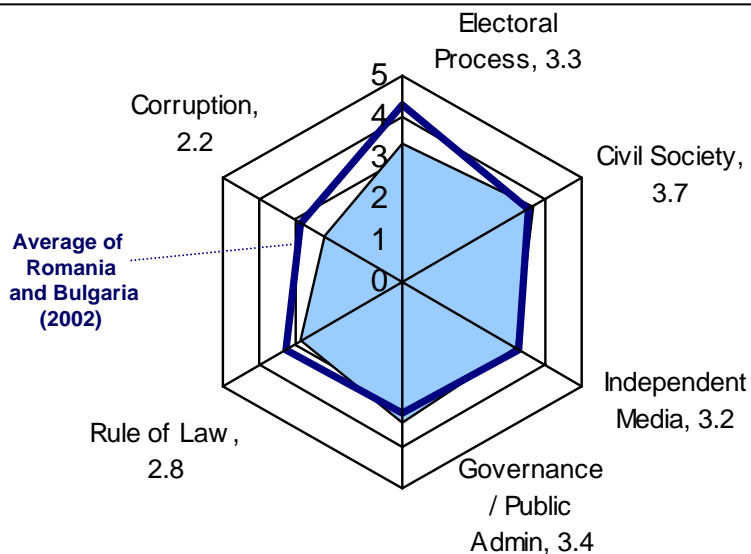


## Second Stage Economic Reform



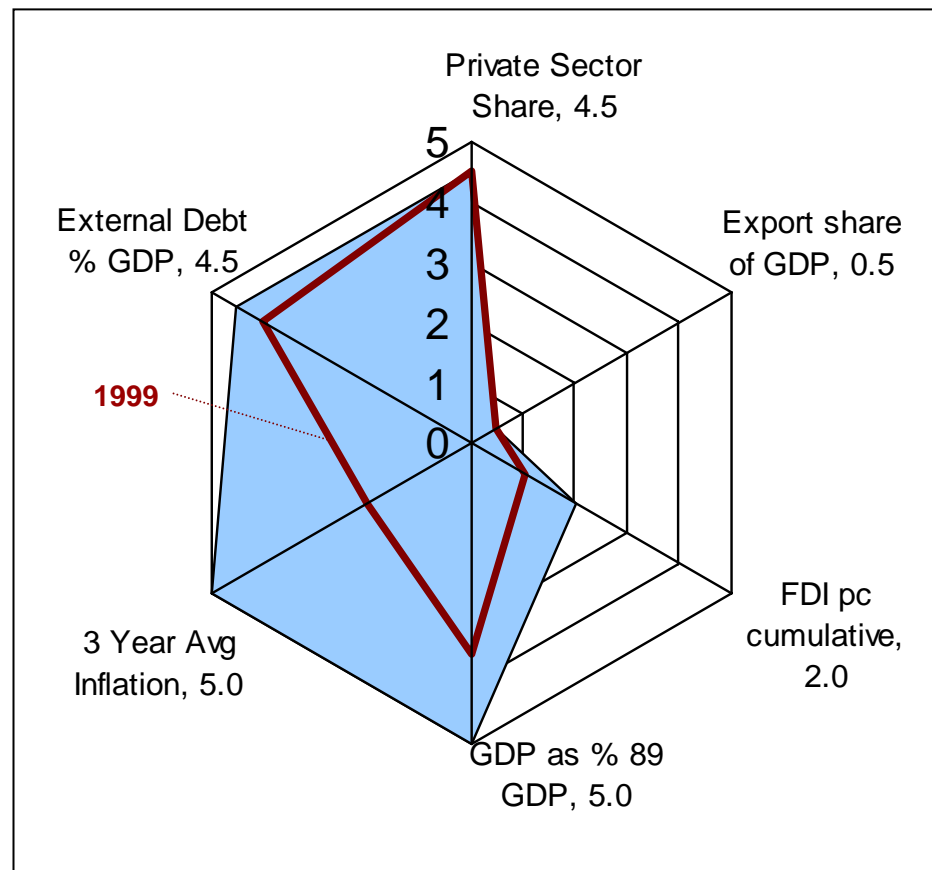
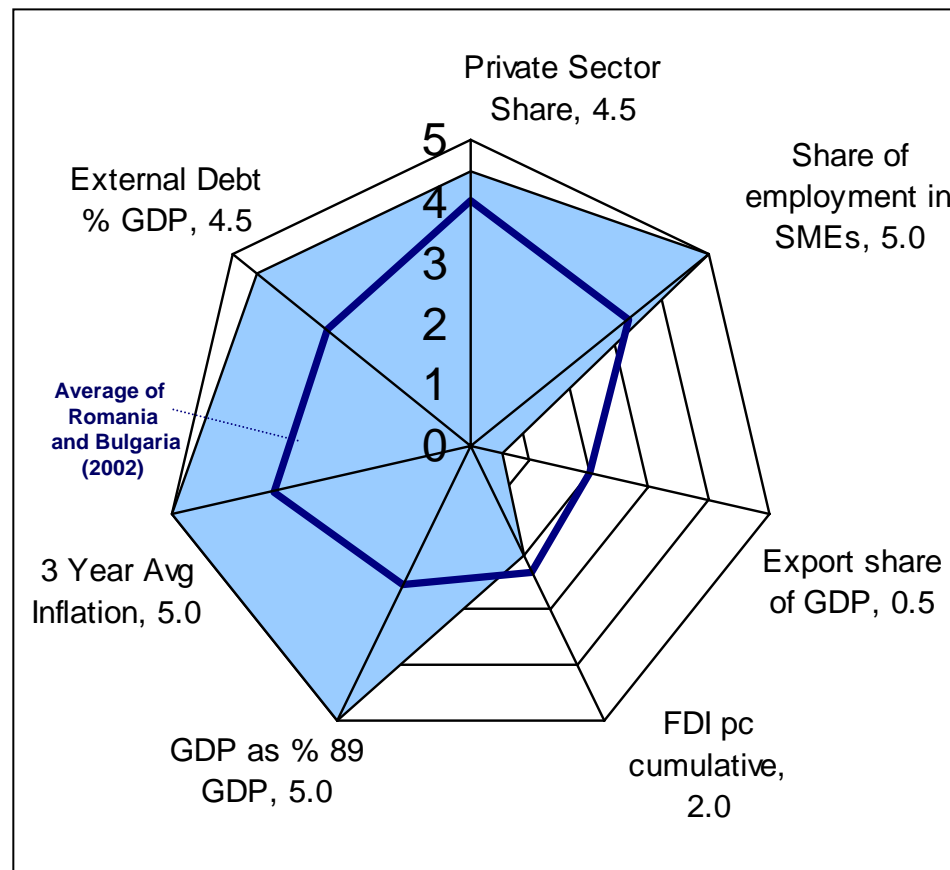
# Democratic Reforms in Albania in 2005

(versus Romania & Bulgaria in 2002 and Albania in 1999)



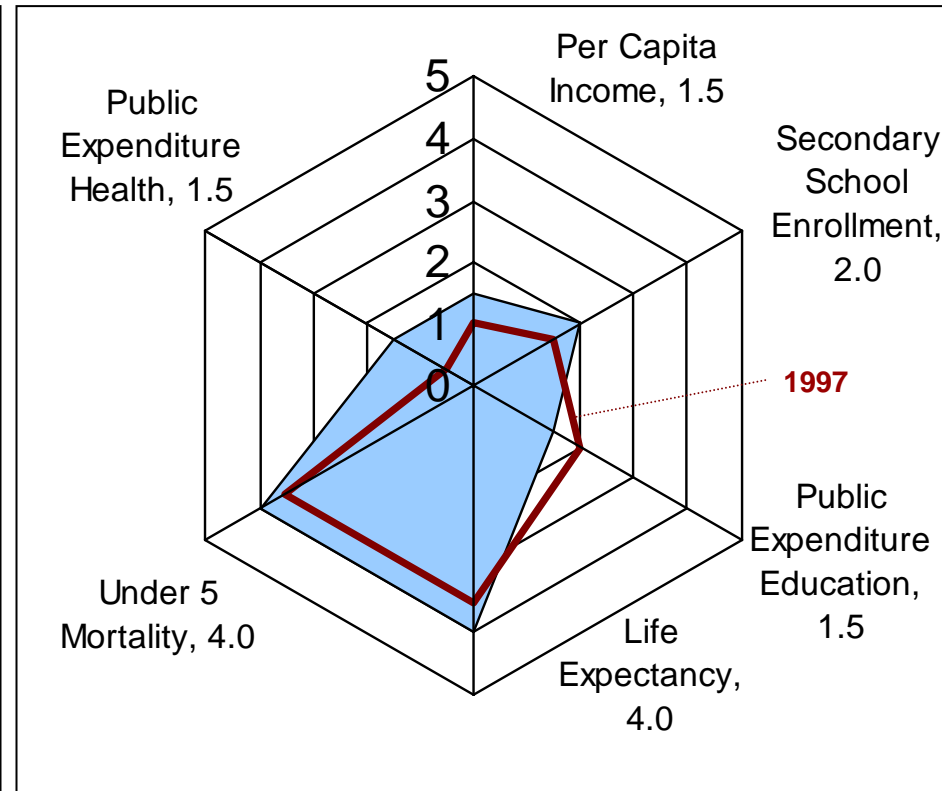
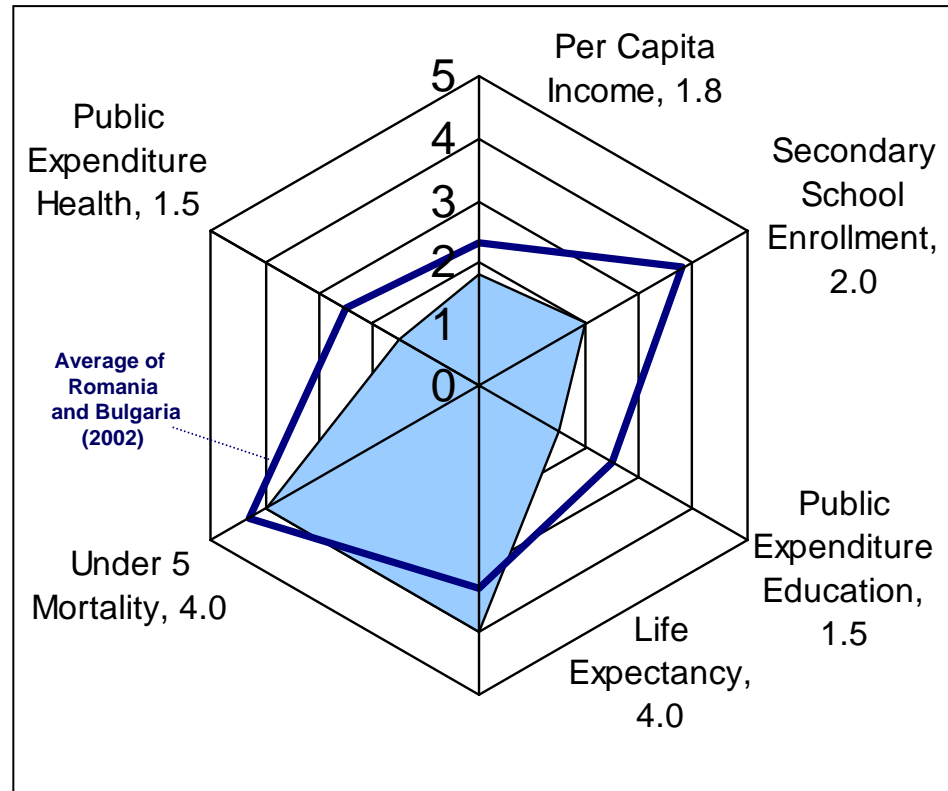
# Economic Performance in Albania in 2004-2005

(versus Romania & Bulgaria in 2002 and Albania in 1999)



# Human Capital Index in Albania in 2003-05

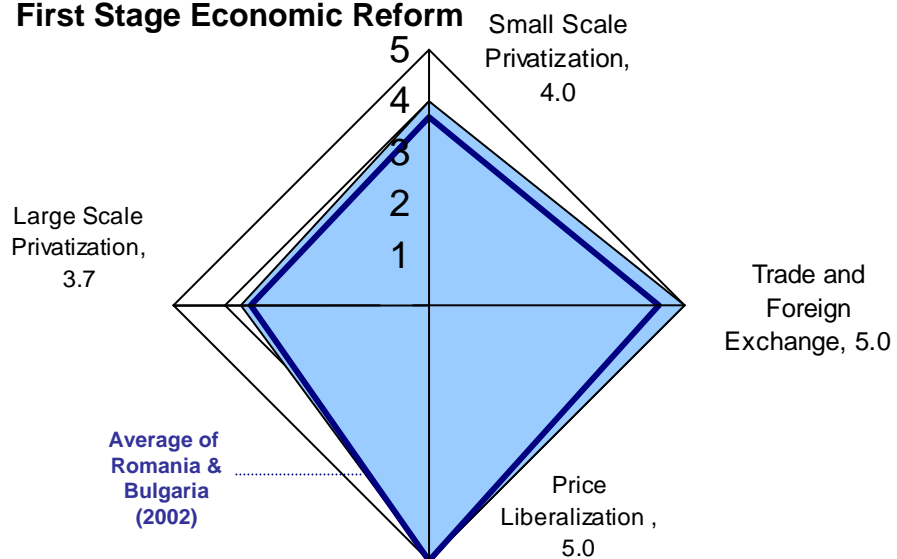
(versus Romania & Bulgaria in 2002 and Albania in 1997)



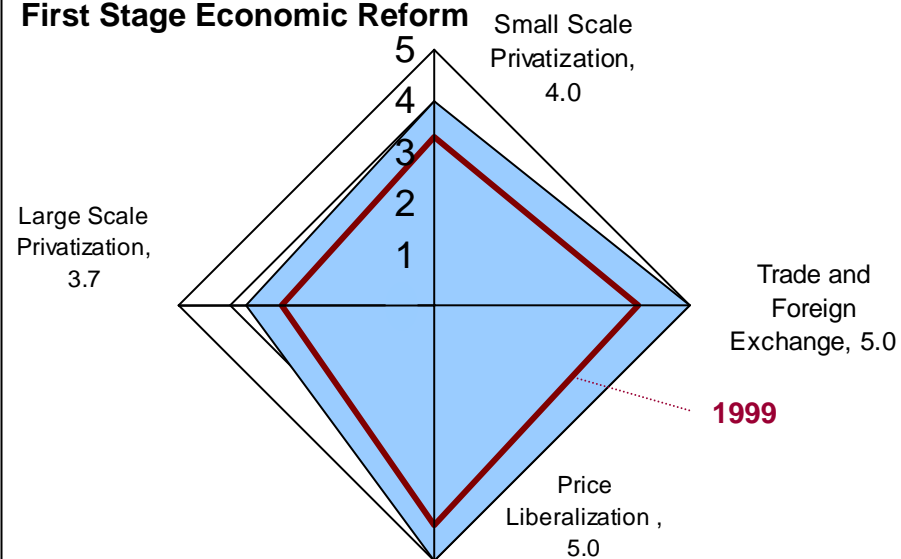
# Economic Reform in Armenia in 2005

(versus Romania & Bulgaria in 2002 and Armenia in 1999)

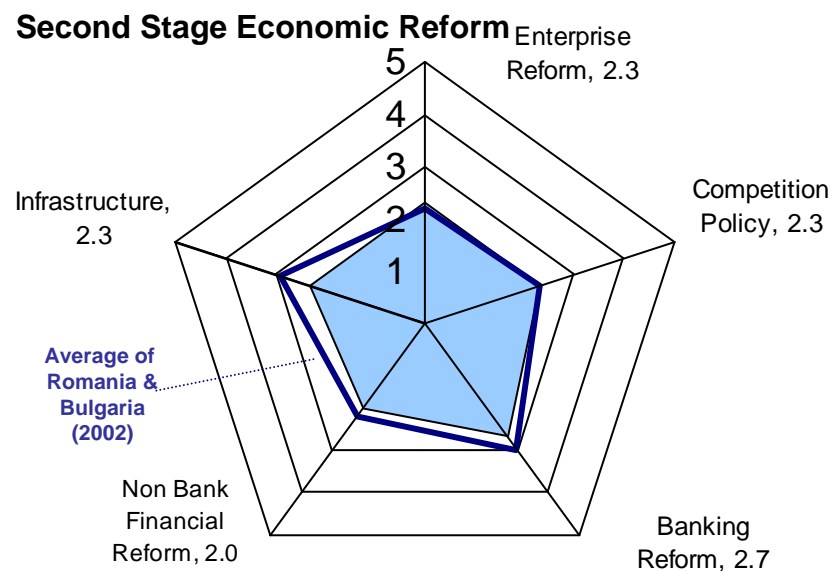
## First Stage Economic Reform



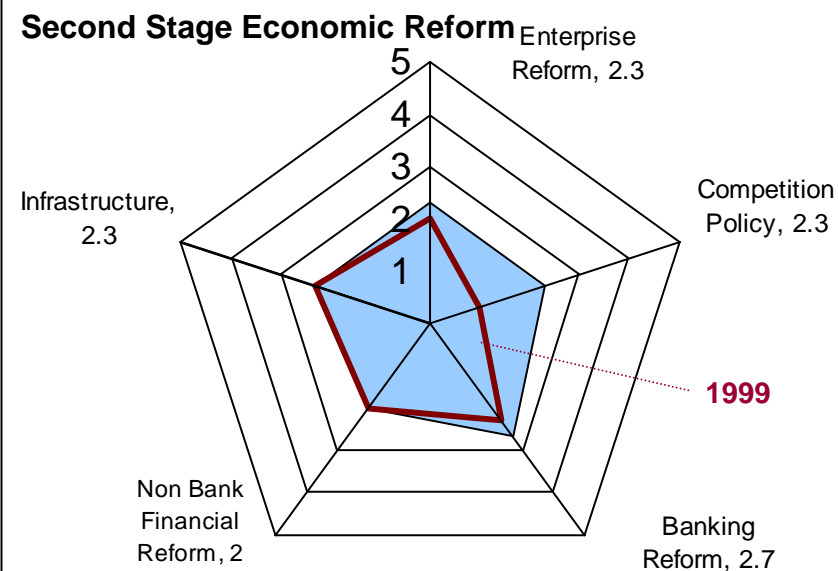
## First Stage Economic Reform



## Second Stage Economic Reform

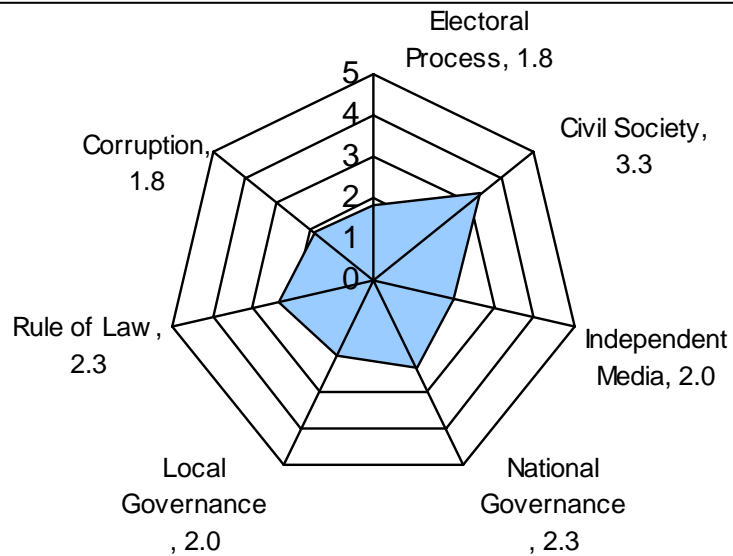
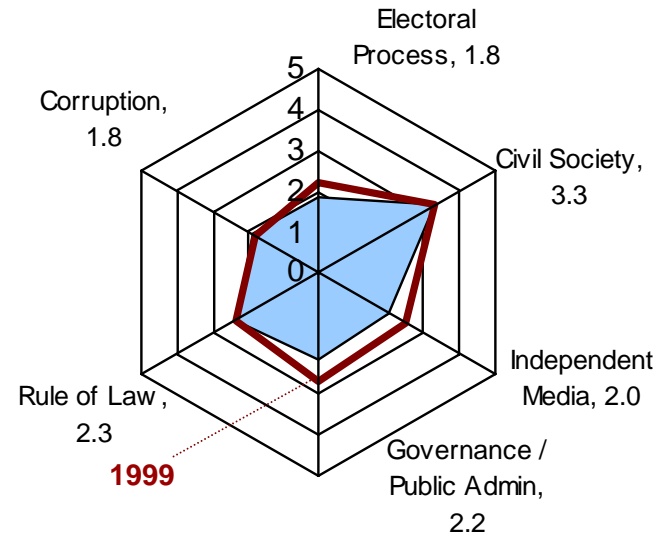
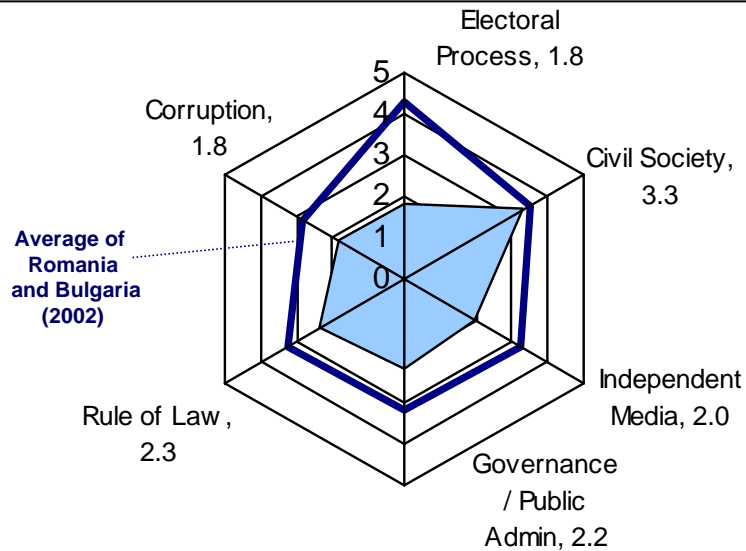


## Second Stage Economic Reform



# Democratic Reforms in Armenia in 2005

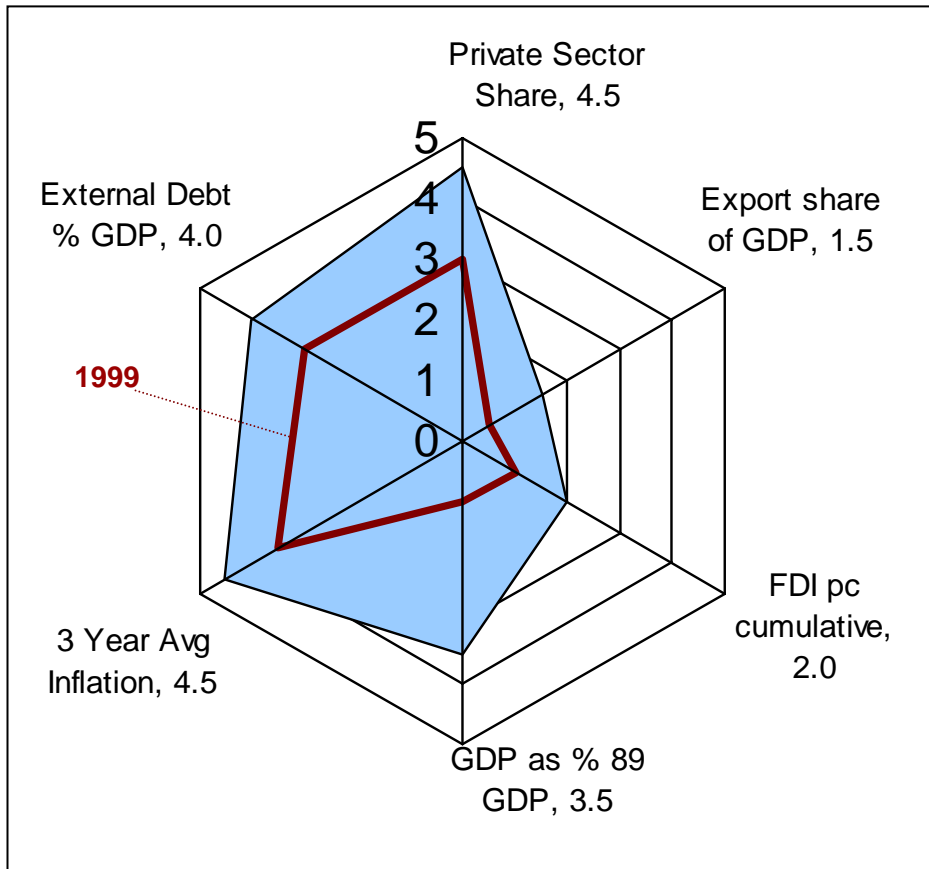
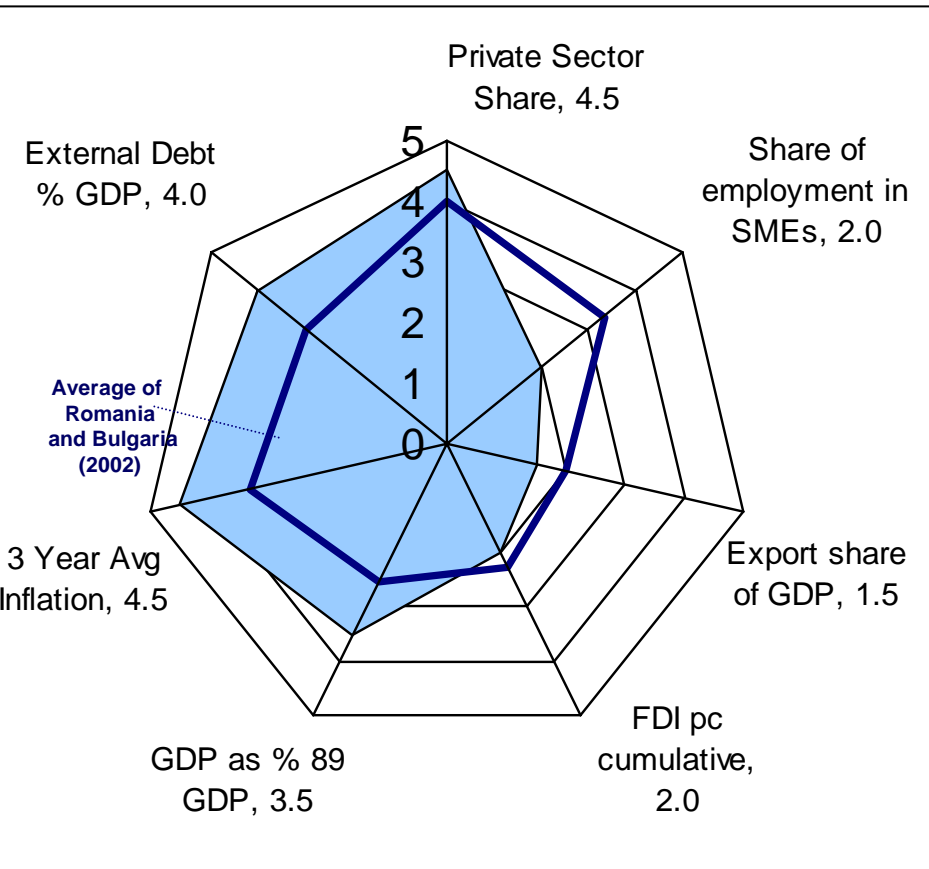
(versus Romania & Bulgaria in 2002 and Armenia in 1999)





# Economic Performance in Armenia in 2004-2005

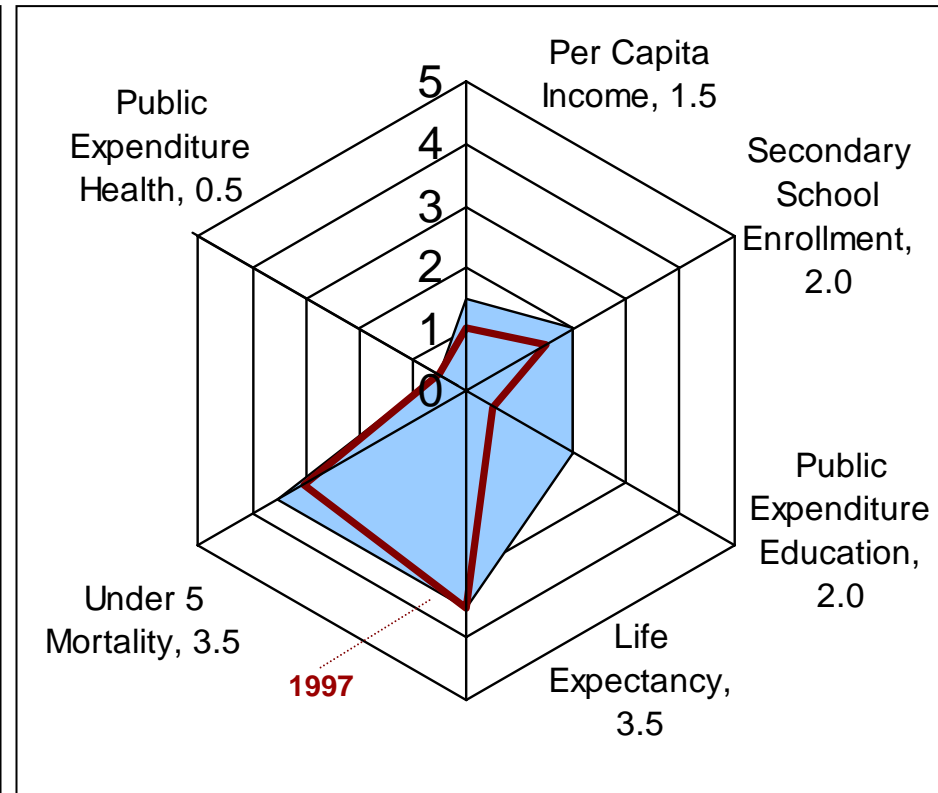
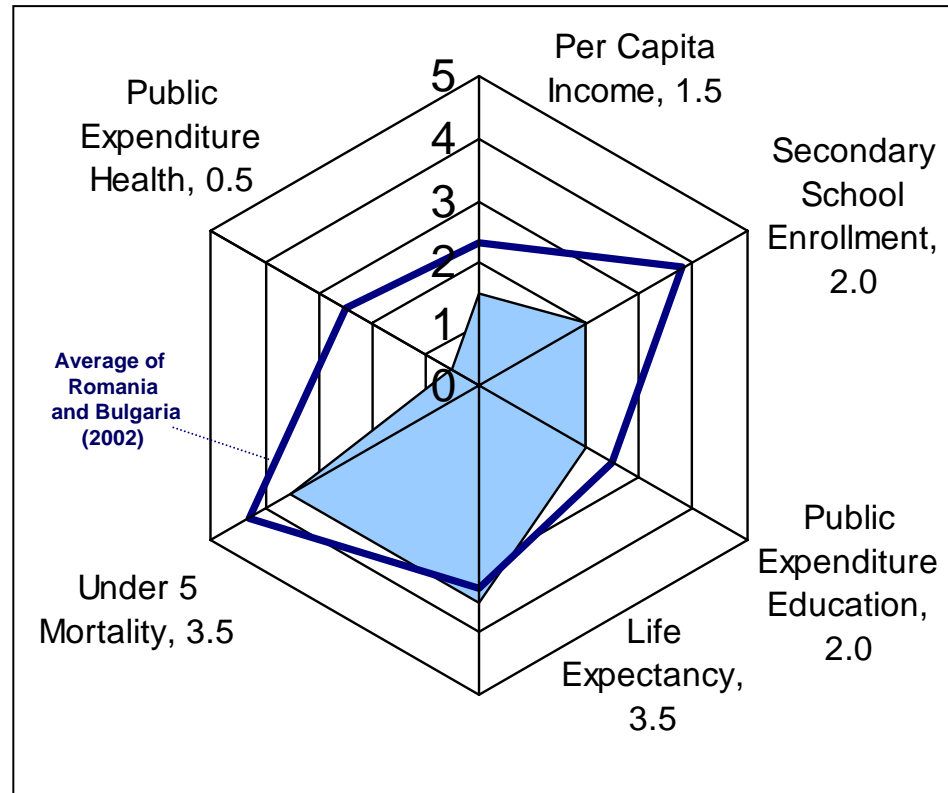
(versus Romania & Bulgaria in 2002 and Armenia in 1999)



Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID, drawing from World Bank, *World Development Indicators 2005* (2005); EBRD, *Transition Report* (November 2005), UNECE, SME Databank (2003).

# Human Capital Index in Armenia in 2003-05

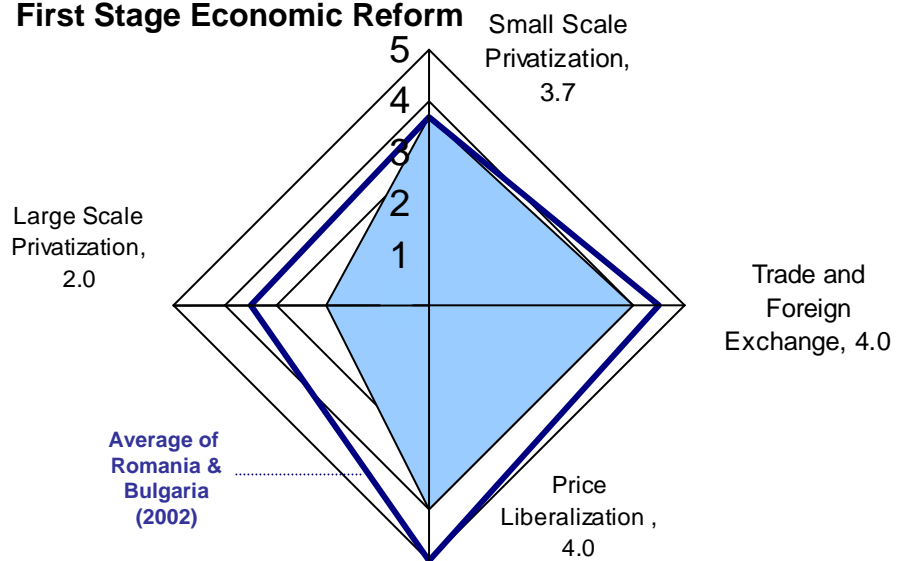
(versus Romania & Bulgaria in 2002 and Armenia in 1997)



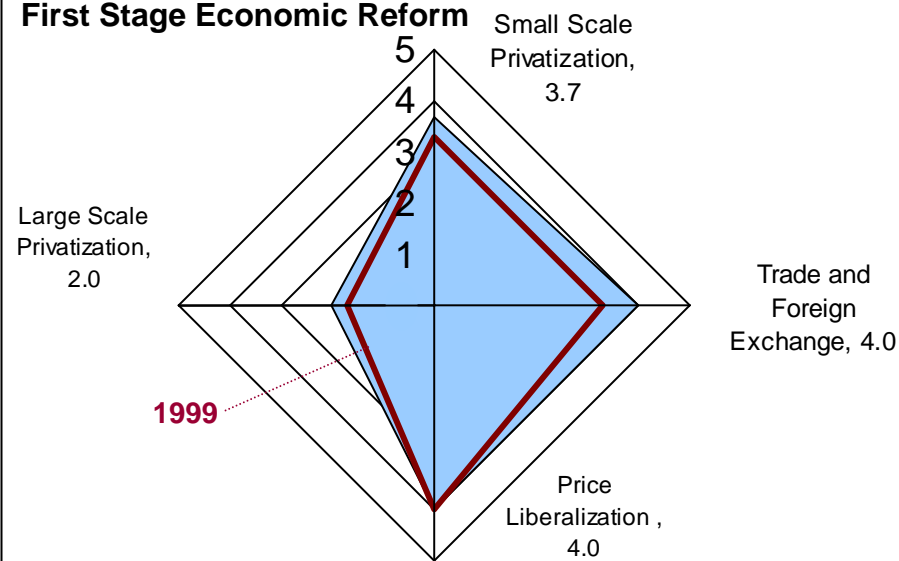
# Economic Reform in Azerbaijan in 2005

(versus Romania & Bulgaria in 2002 and Azerbaijan in 1999)

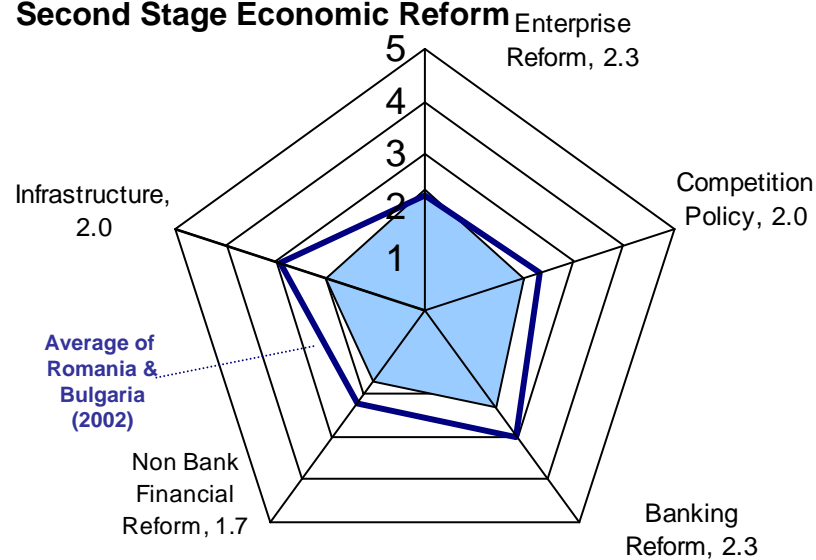
## First Stage Economic Reform



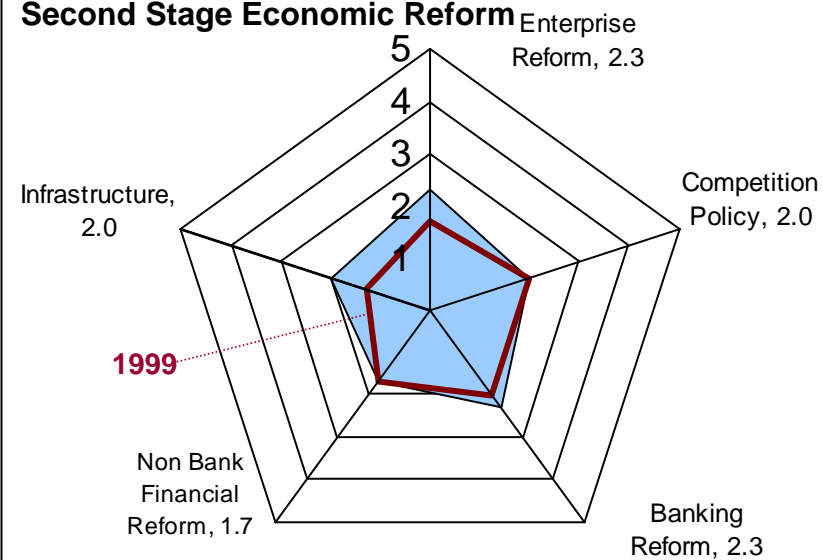
## First Stage Economic Reform



## Second Stage Economic Reform

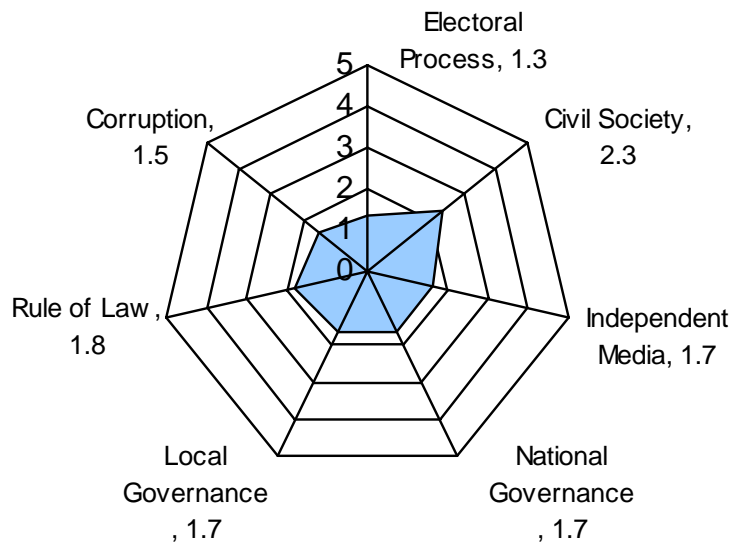
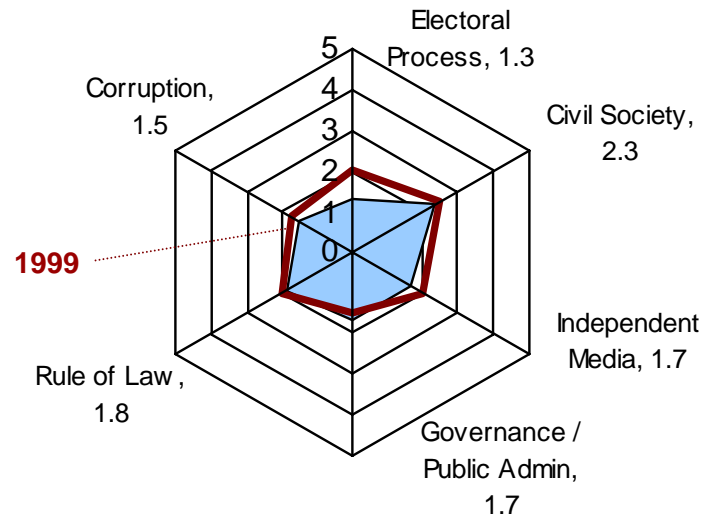
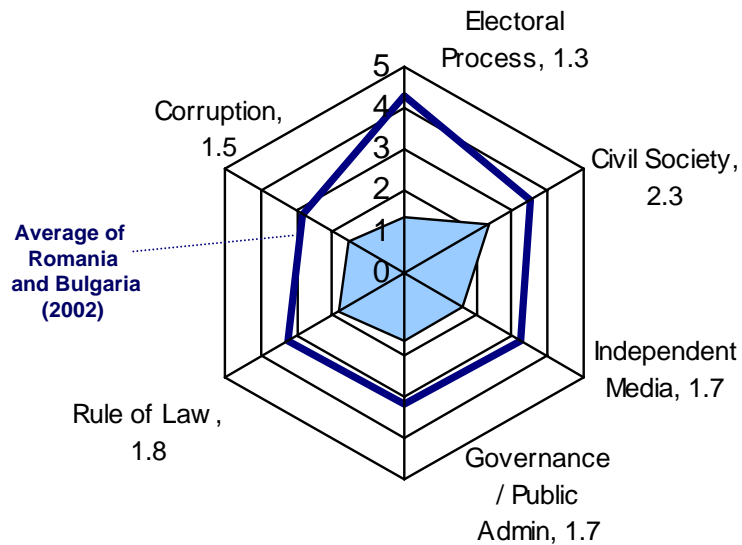


## Second Stage Economic Reform



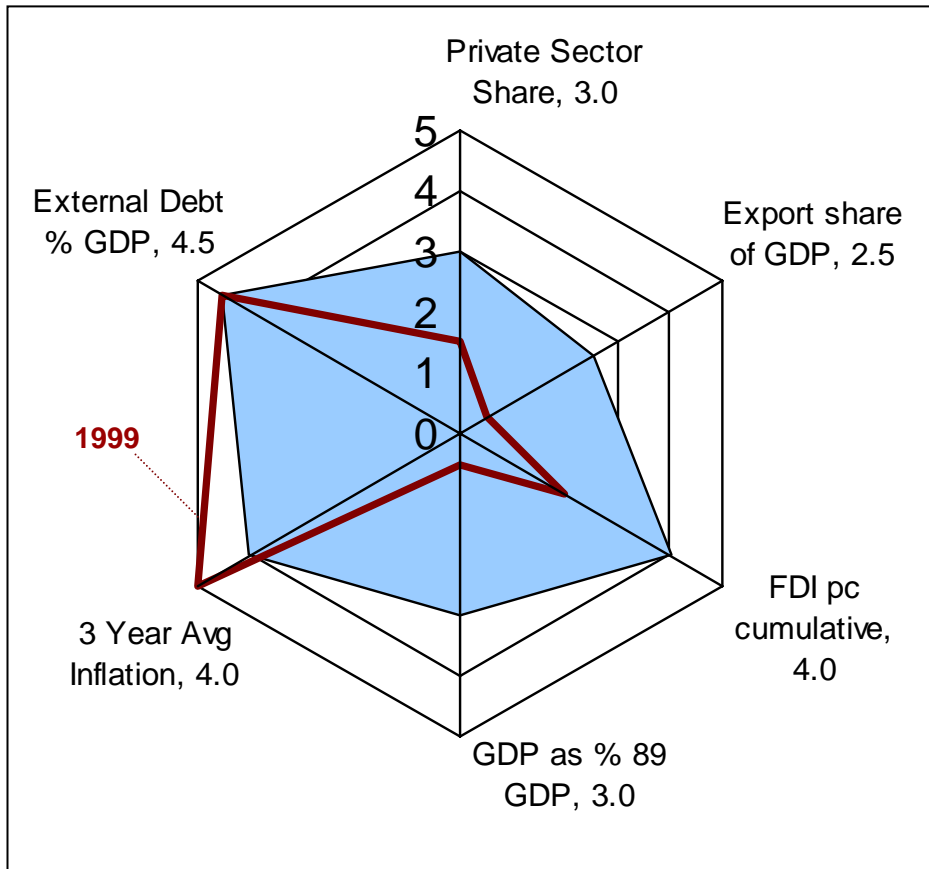
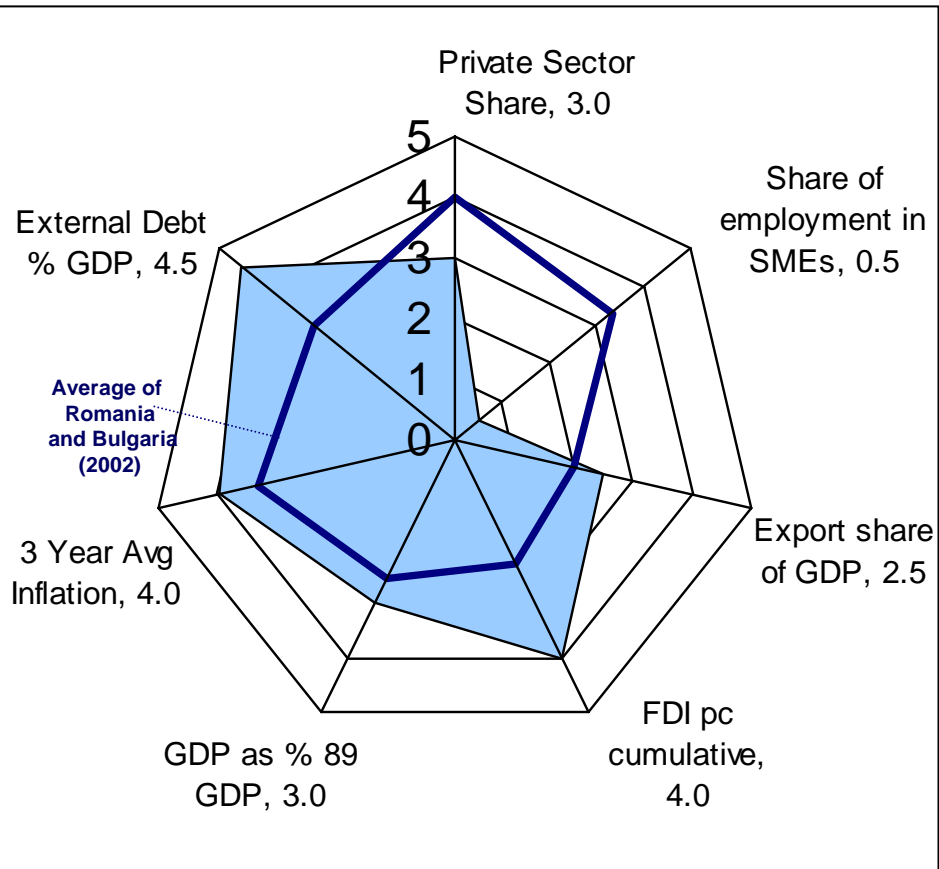
# Democratic Reforms in Azerbaijan in 2005

(versus Romania & Bulgaria in 2002 and Azerbaijan in 1999)



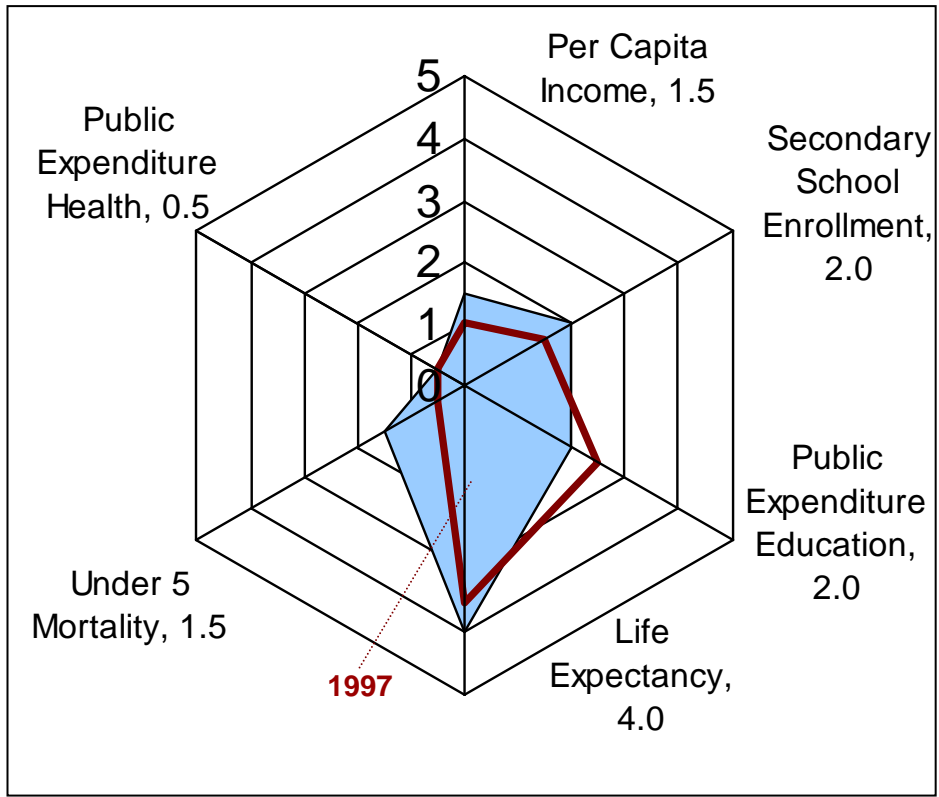
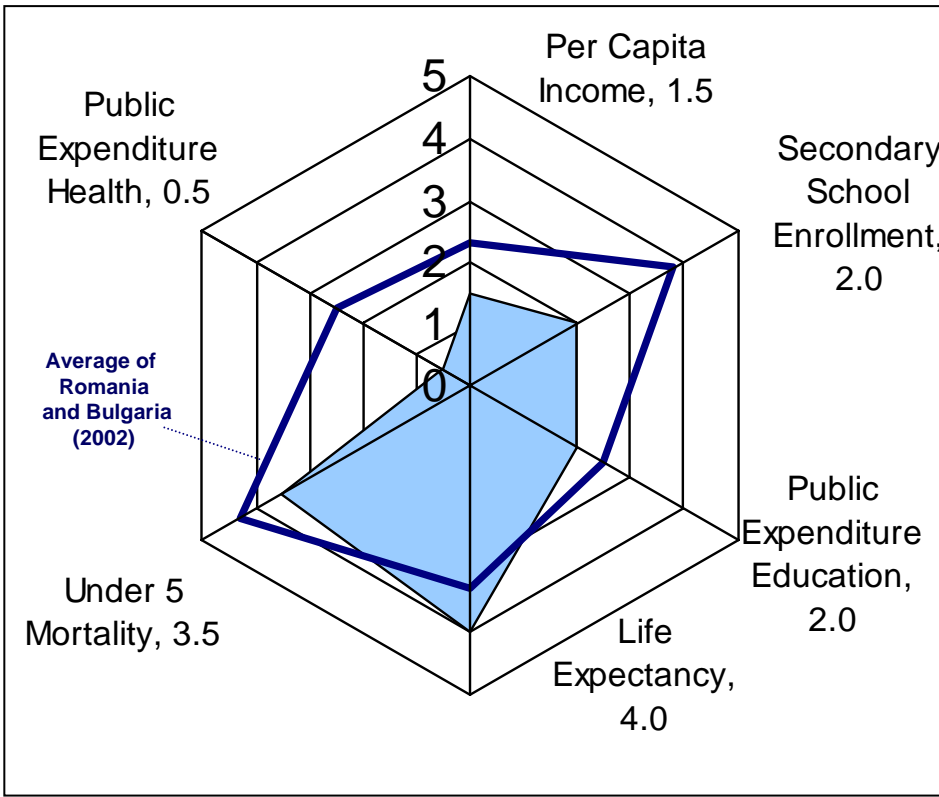
# Economic Performance in Azerbaijan in 2004-2005

(versus Romania & Bulgaria in 2002 and Azerbaijan in 1999)



# Human Capital Index in Azerbaijan in 2003-05

(versus Romania & Bulgaria in 2002 and Azerbaijan in 1997)

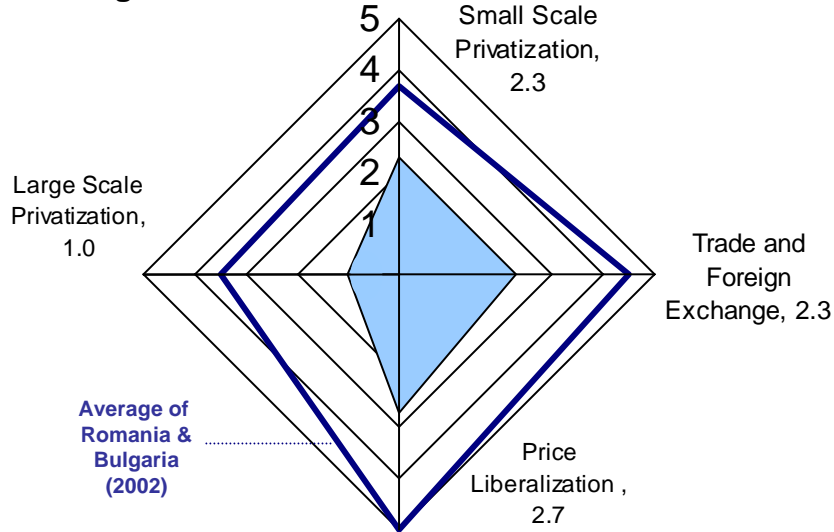


Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID, drawing from World Bank, *World Development Indicators 2005 (2005)*; UNICEF, *TransMONEE Database (December 2005)*; and EBRD *Transition Report 2005 (November 2005)*.

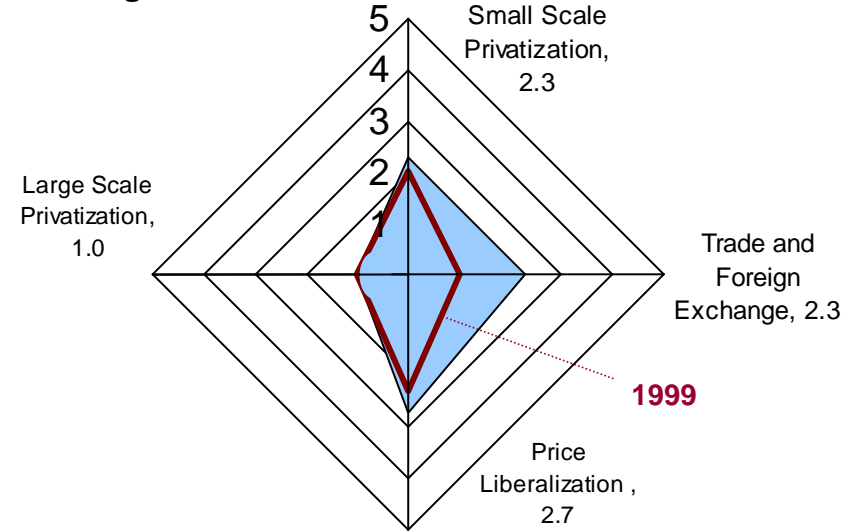
# Economic Reform in Belarus in 2005

(versus Romania & Bulgaria in 2002 and Belarus in 1999)

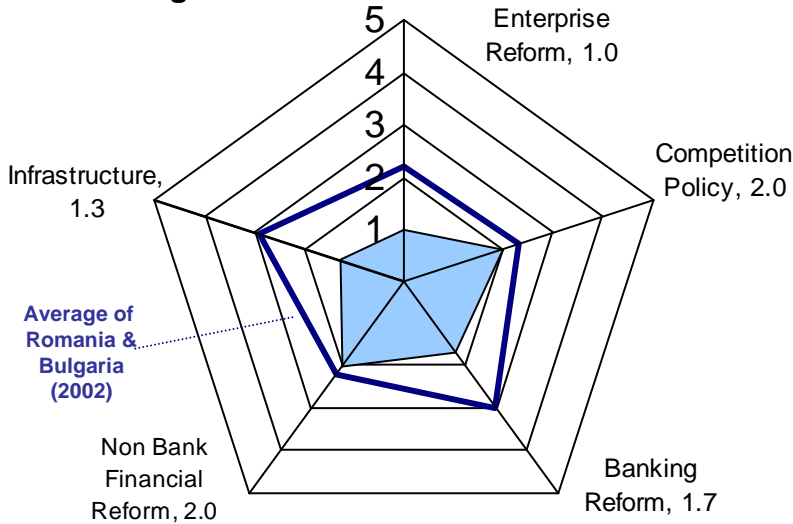
## First Stage Economic Reform



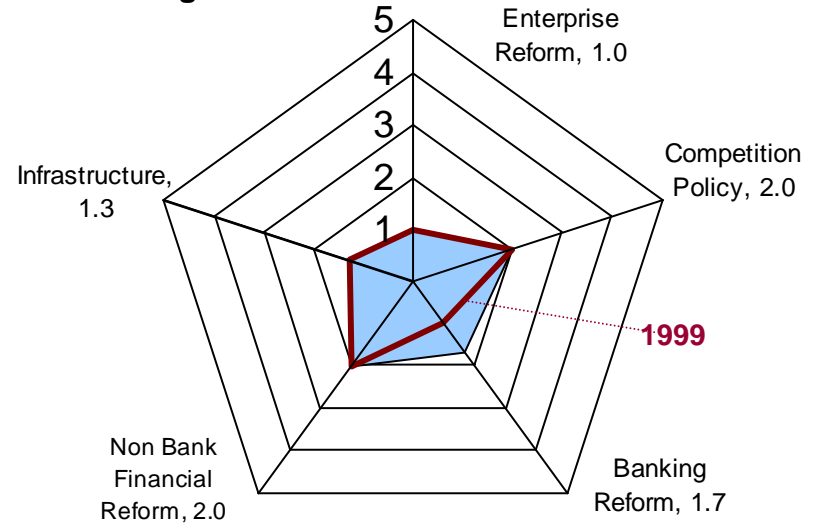
## First Stage Economic Reform



## Second Stage Economic Reform

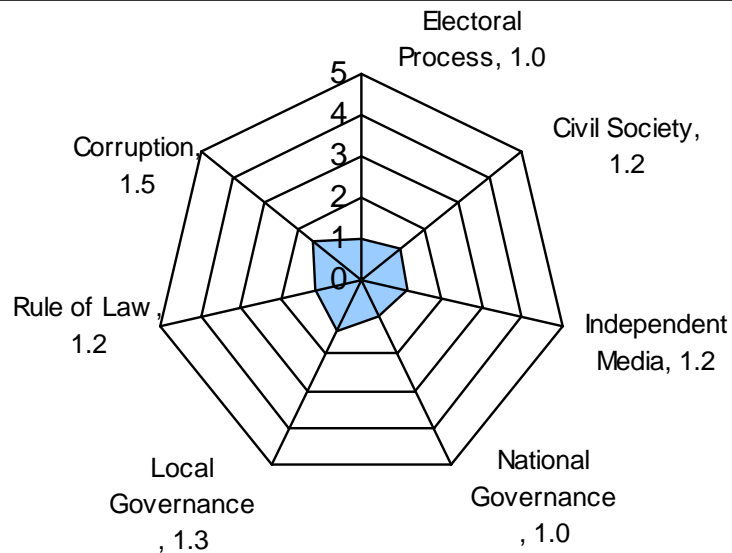
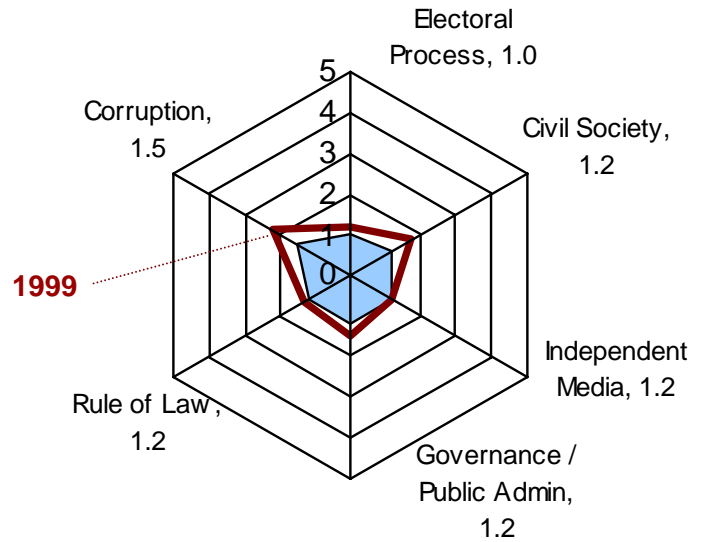
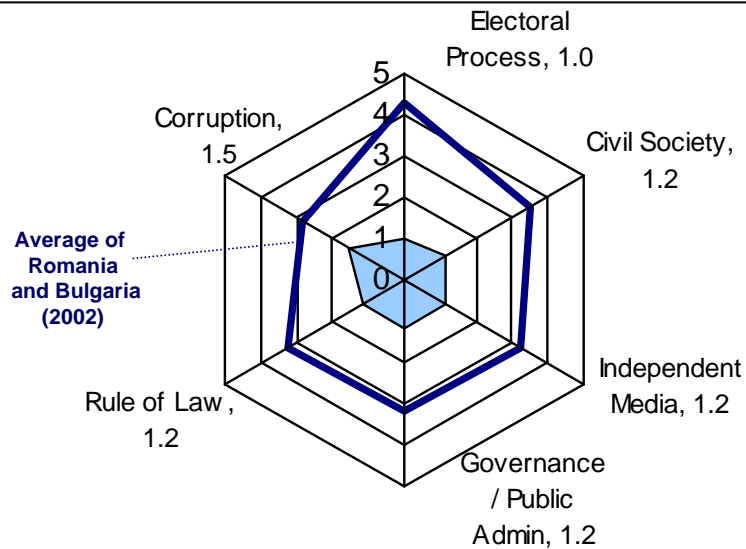


## Second Stage Economic Reform



# Democratic Reforms in Belarus in 2005

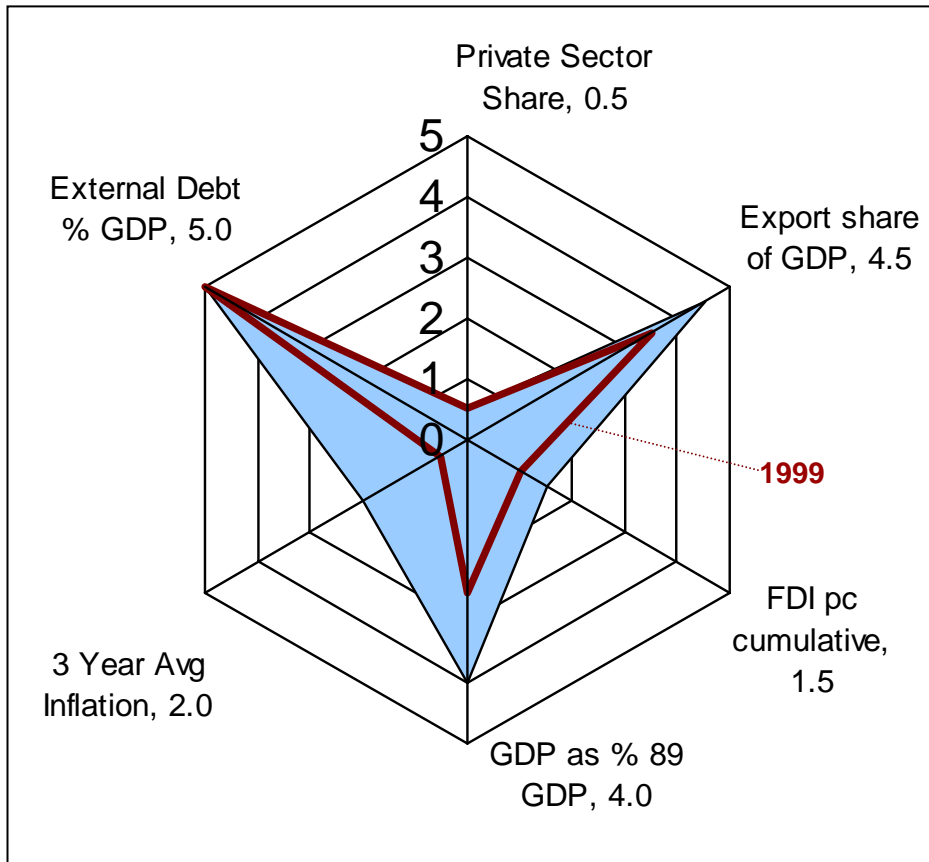
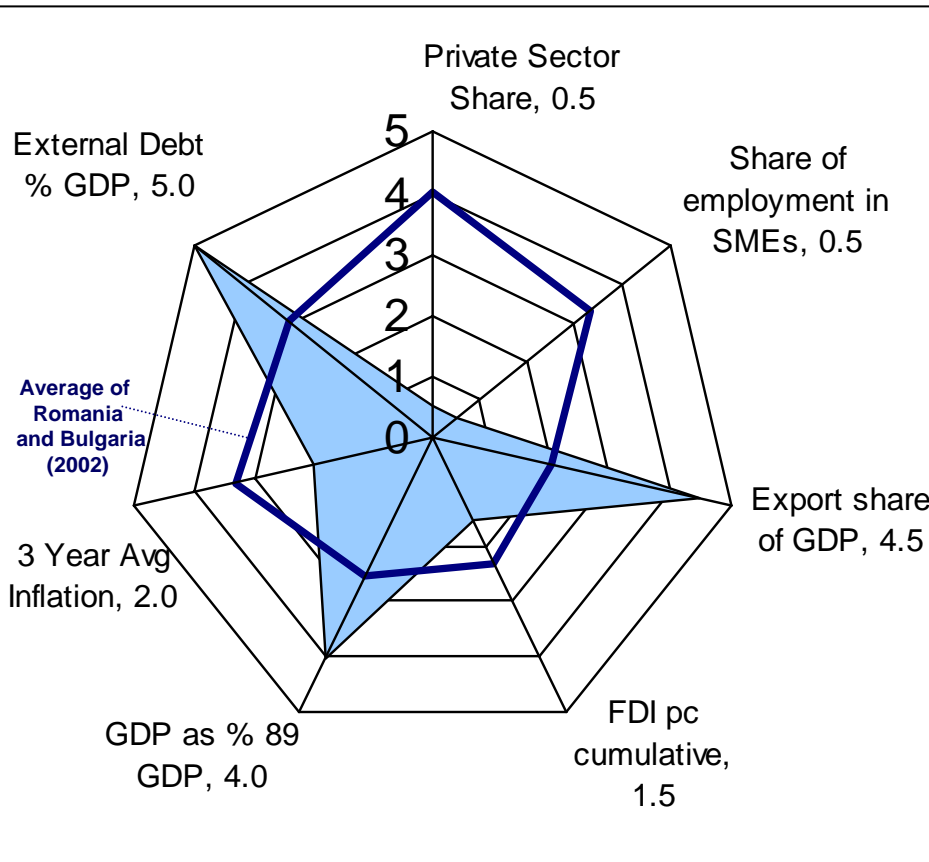
(versus Romania & Bulgaria in 2002 and Belarus in 1999)





# Economic Performance in Belarus in 2004-2005

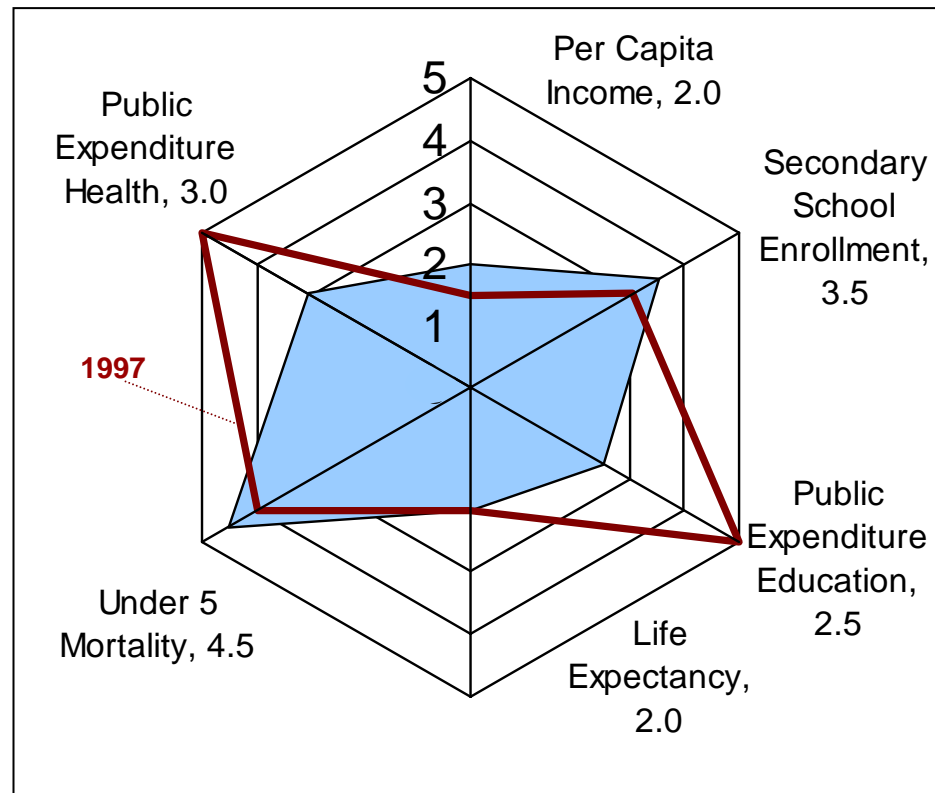
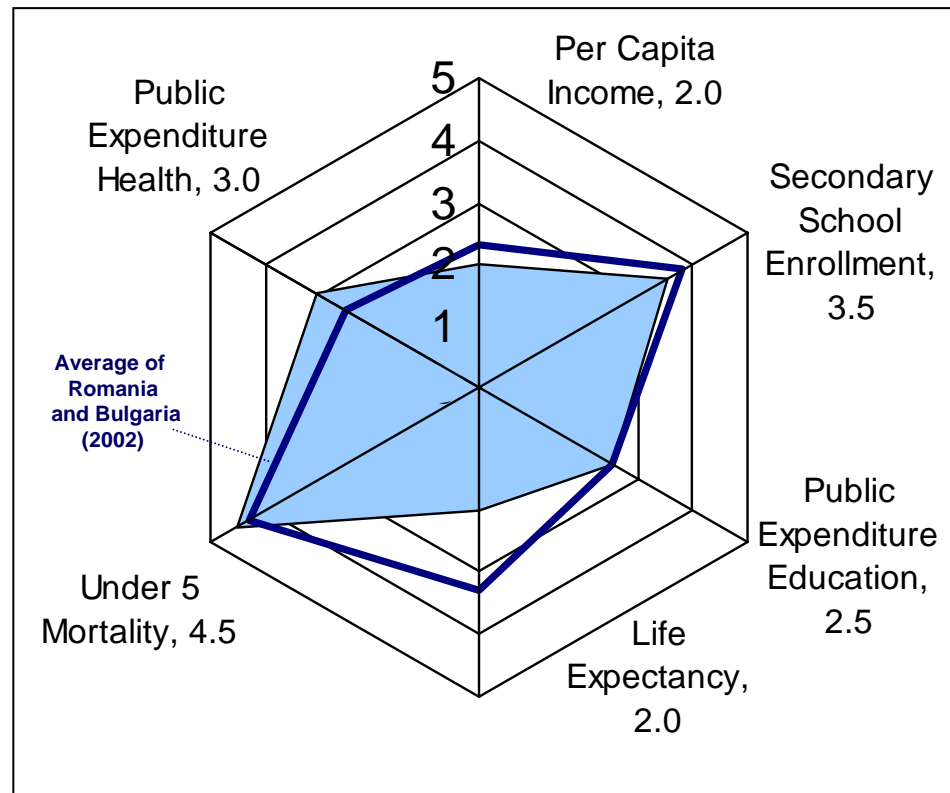
(versus Romania & Bulgaria in 2002 and Belarus in 1999)



Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID, drawing from World Bank, *World Development Indicators 2005* (2005); EBRD, *Transition Report (November 2005)*, UNECE, *SME Databank* (2003).

# Human Capital Index in Belarus in 2003-05

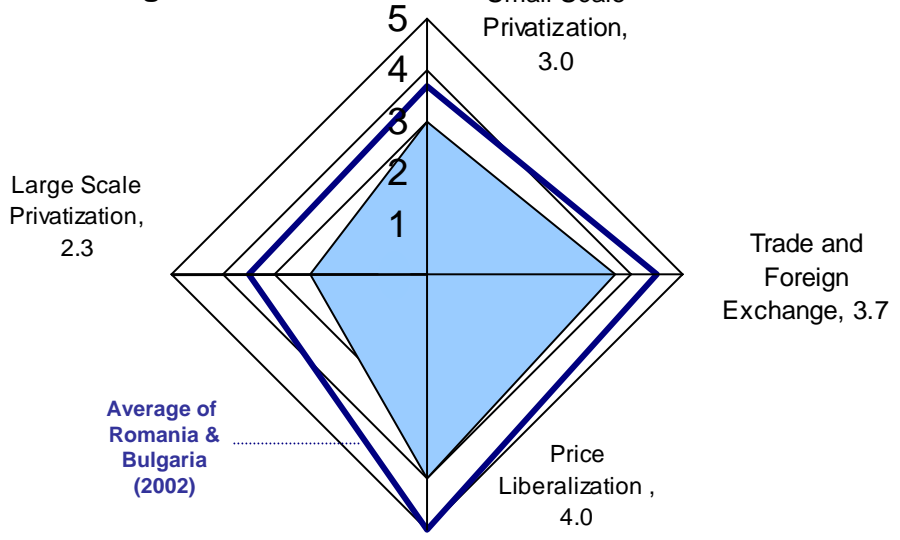
(versus Romania & Bulgaria in 2002 and Belarus in 1997)



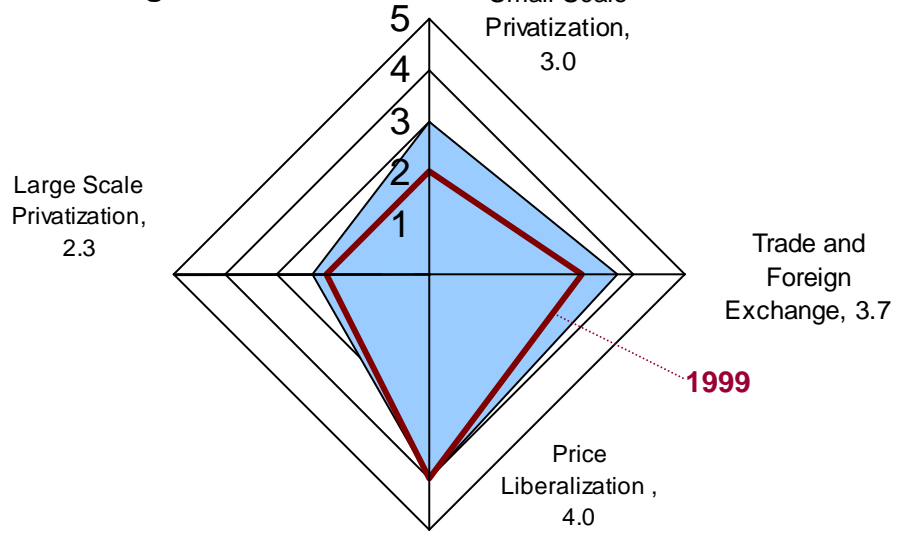
# Economic Reform in Bosnia & Herzegovina in 2005

(versus Romania & Bulgaria in 2002 and Bosnia & Herzegovina in 1999)

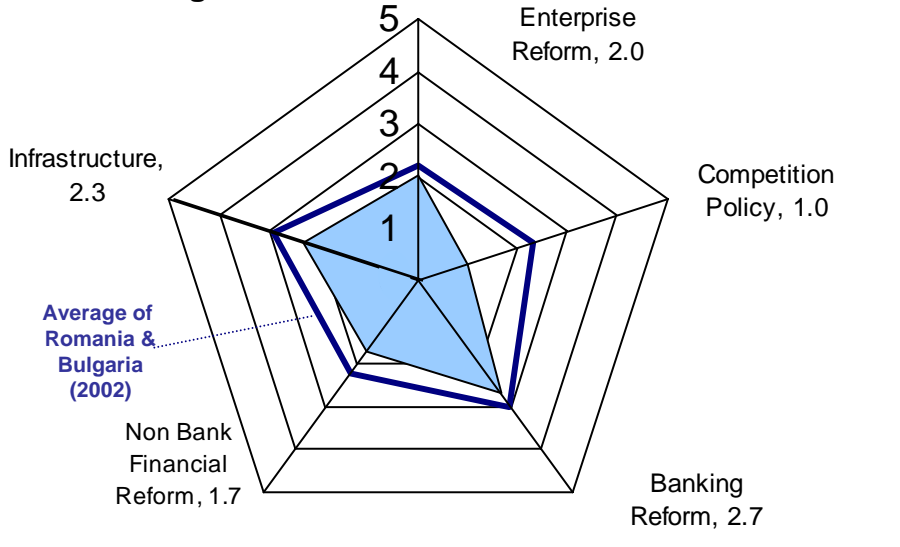
## First Stage Economic Reform



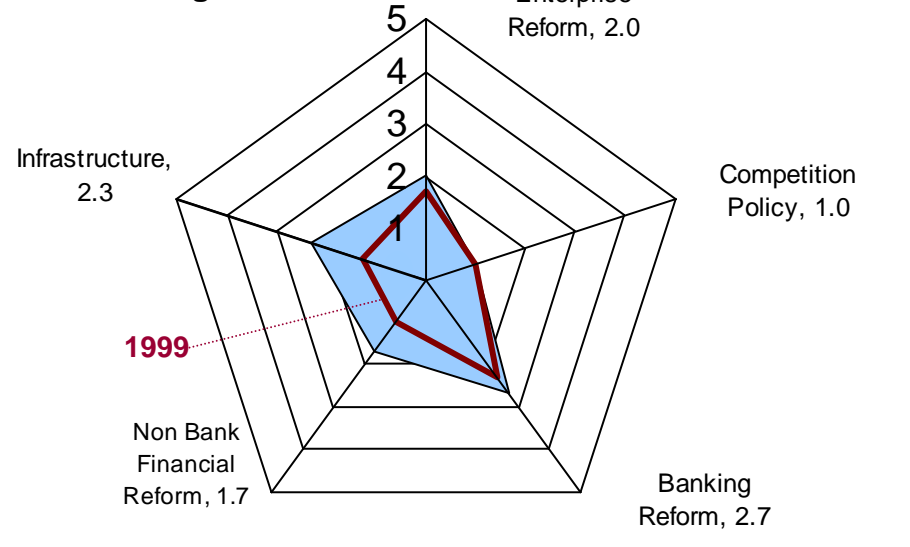
## First Stage Economic Reform



## Second Stage Economic Reform



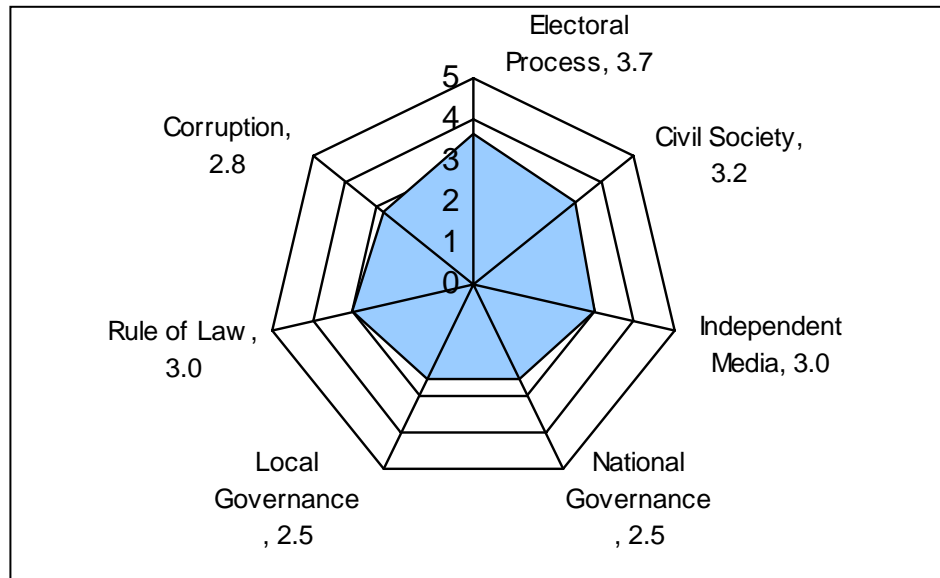
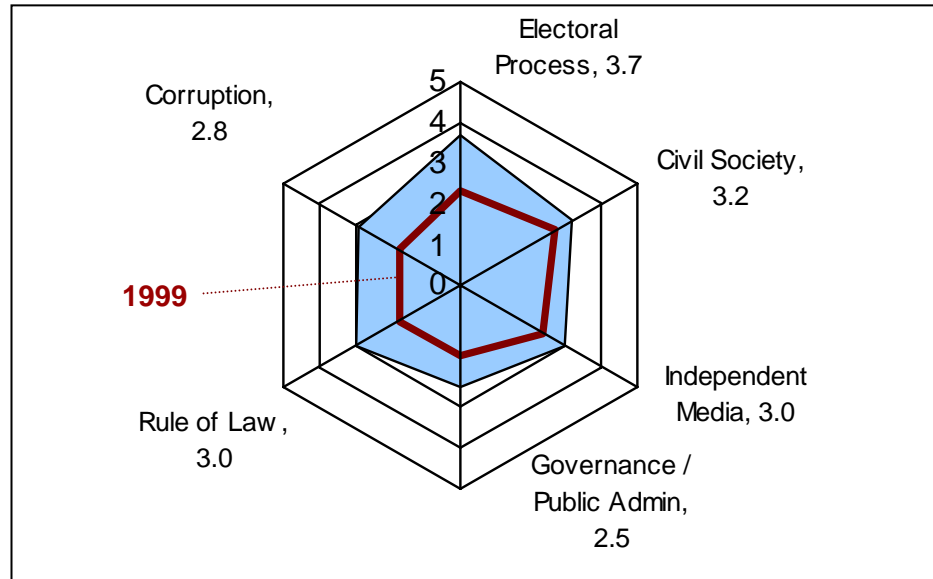
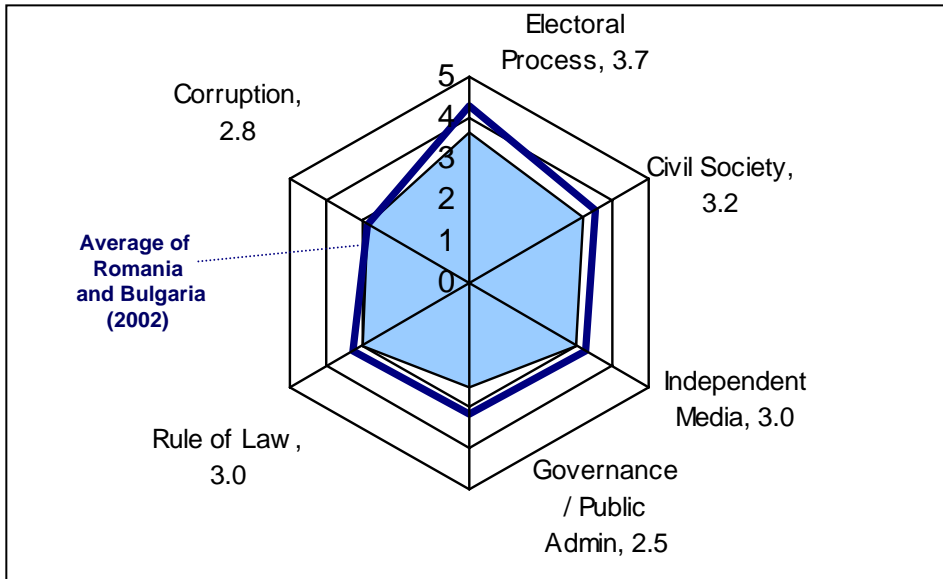
## Second Stage Economic Reform



Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID, drawing from EBRD, *Transition Report 2005 (November 2005)*.

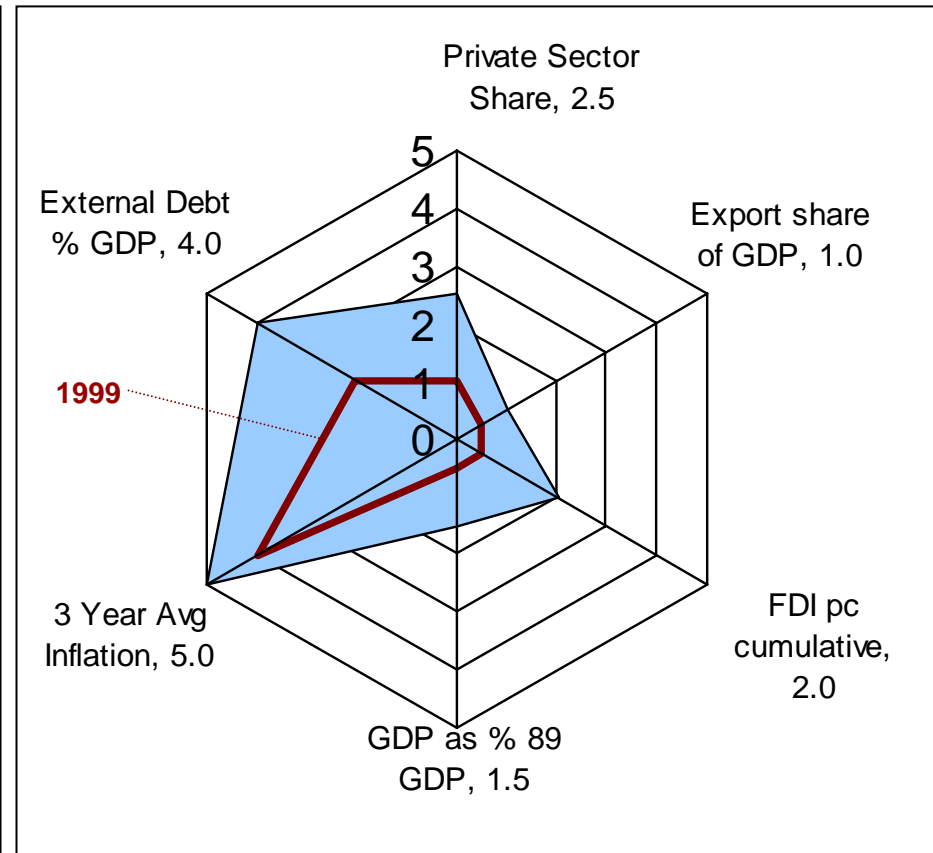
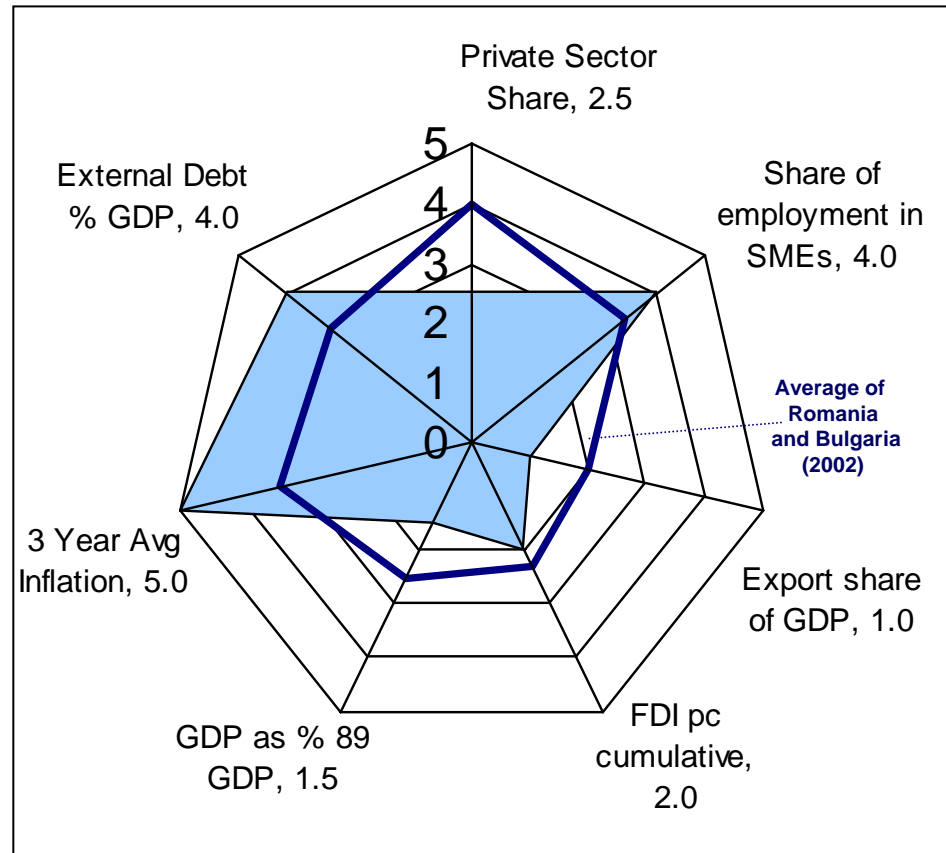
# Democratic Reforms in Bosnia & Herzegovina in 2005

(versus Romania & Bulgaria in 2002 and Bosnia & Herzegovina in 1999)



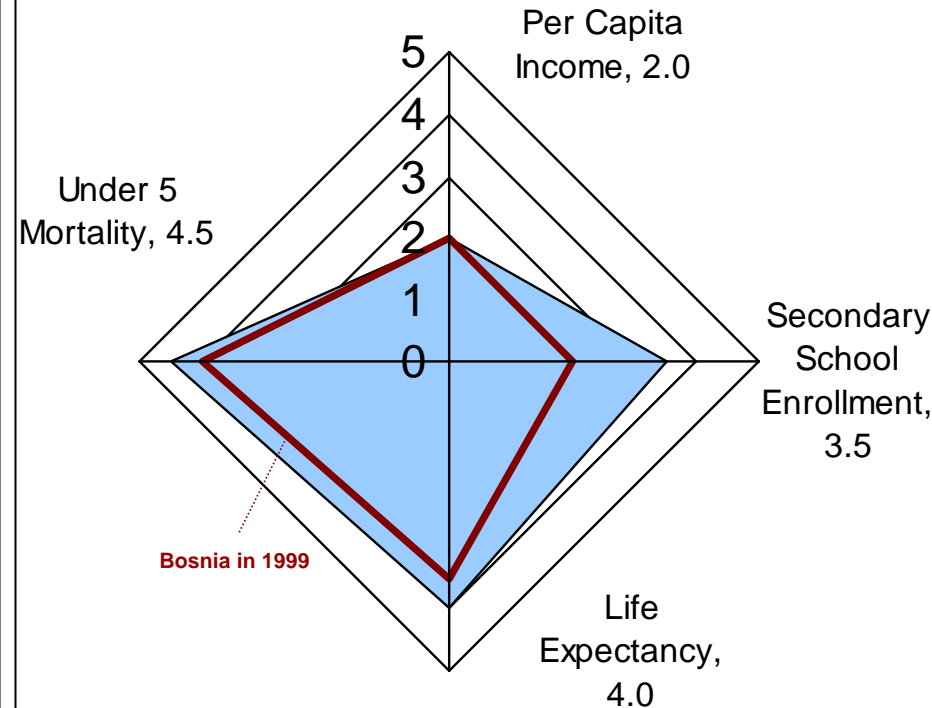
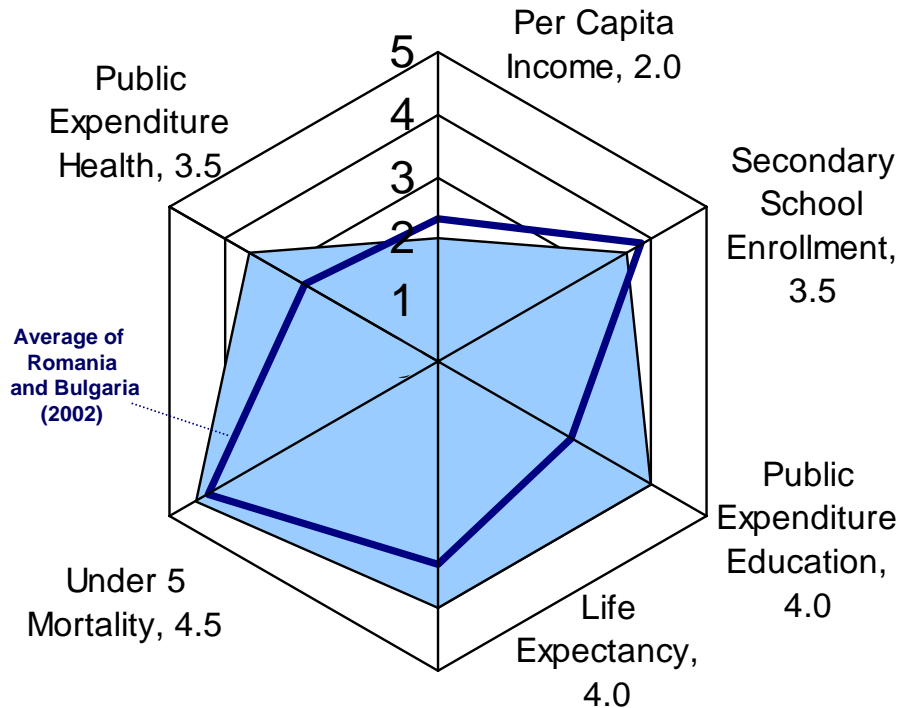
# Economic Performance in Bosnia & Herzegovina in 2004-2005

(versus Romania & Bulgaria in 2002 and Bosnia & Herzegovina in 1999)



# Human Capital Index in Bosnia & Herzegovina in 2003-05

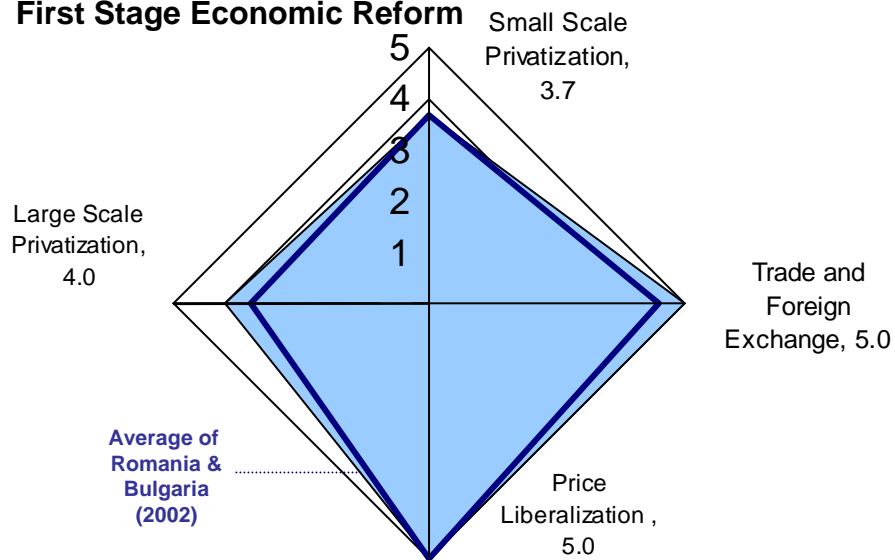
(versus Romania & Bulgaria in 2002 and Bosnia & Herzegovina in 1999)



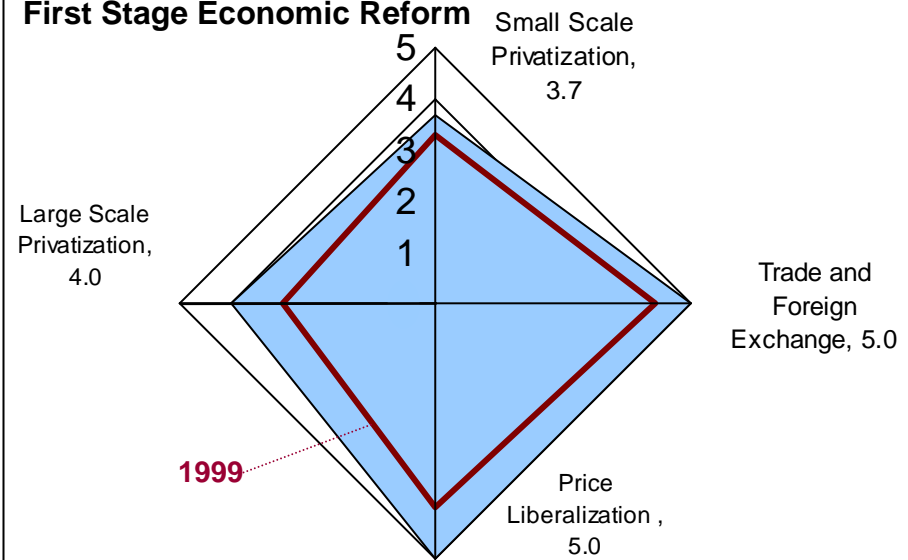
# Economic Reform in Bulgaria in 2005

(versus Romania & Bulgaria in 2002 and Bulgaria in 1999)

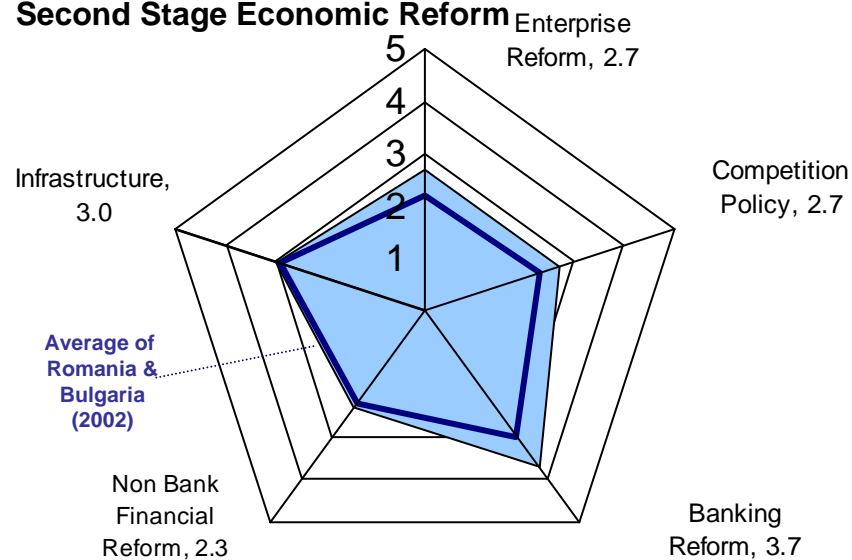
## First Stage Economic Reform



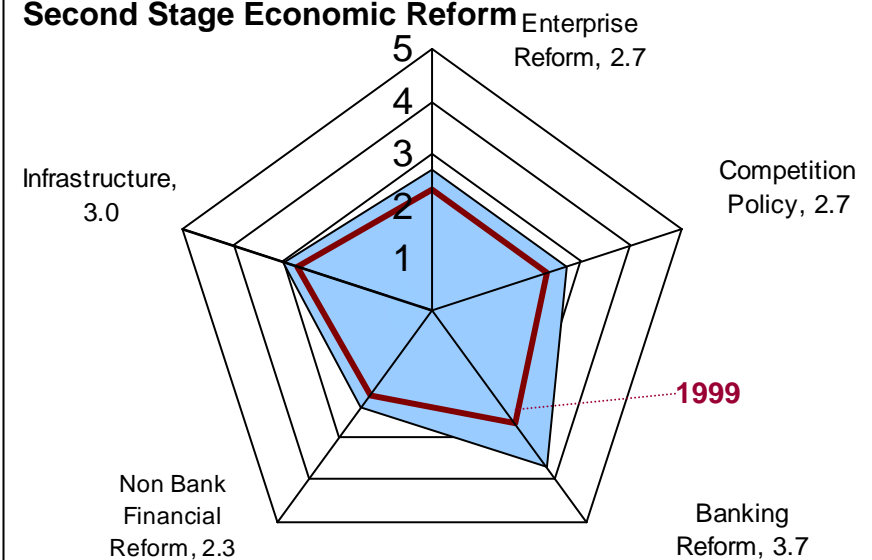
## First Stage Economic Reform



## Second Stage Economic Reform

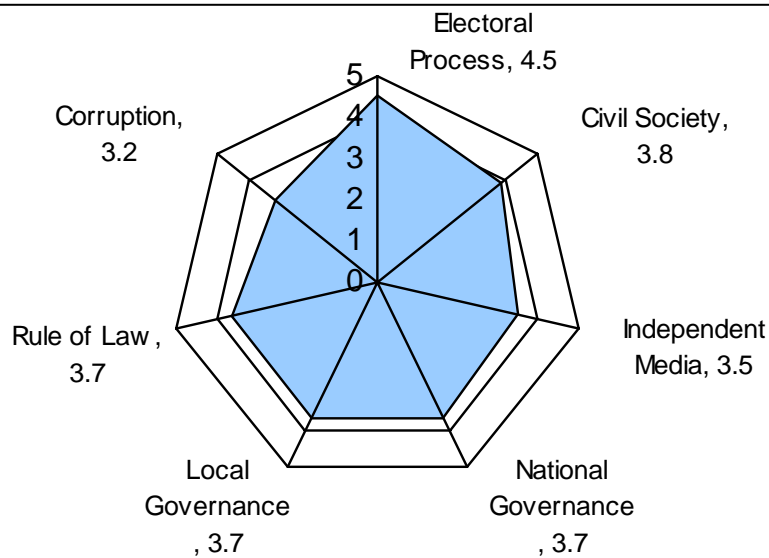
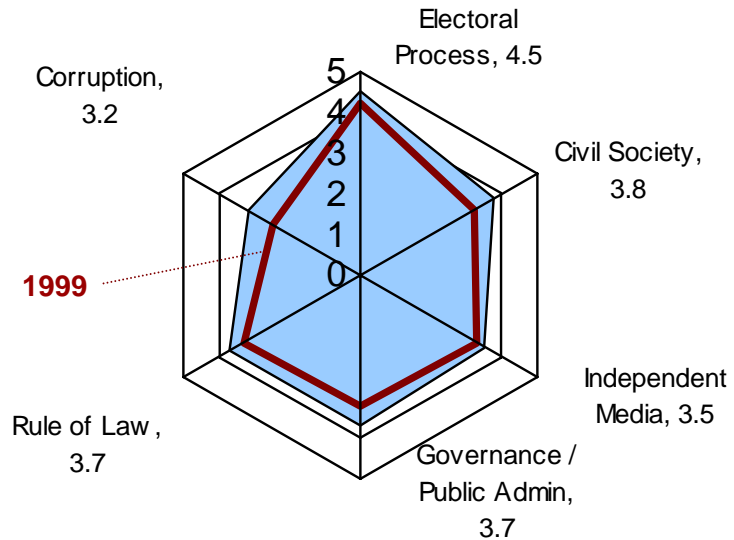
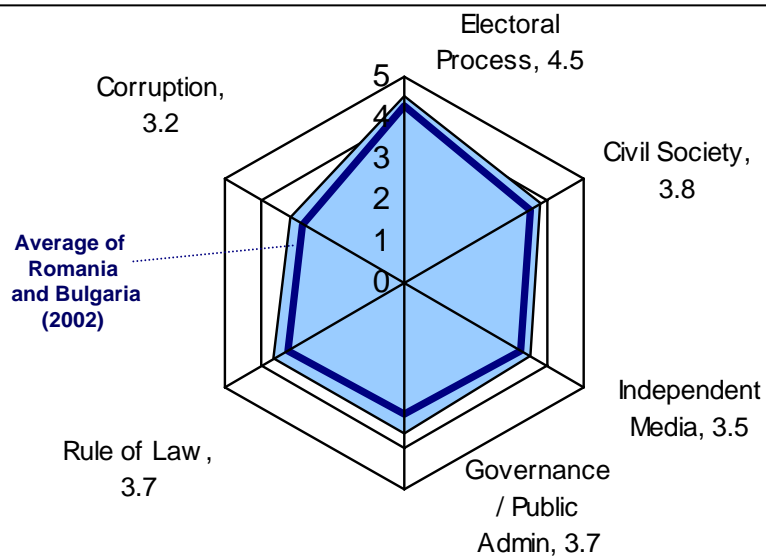


## Second Stage Economic Reform



# Democratic Reforms in Bulgaria in 2005

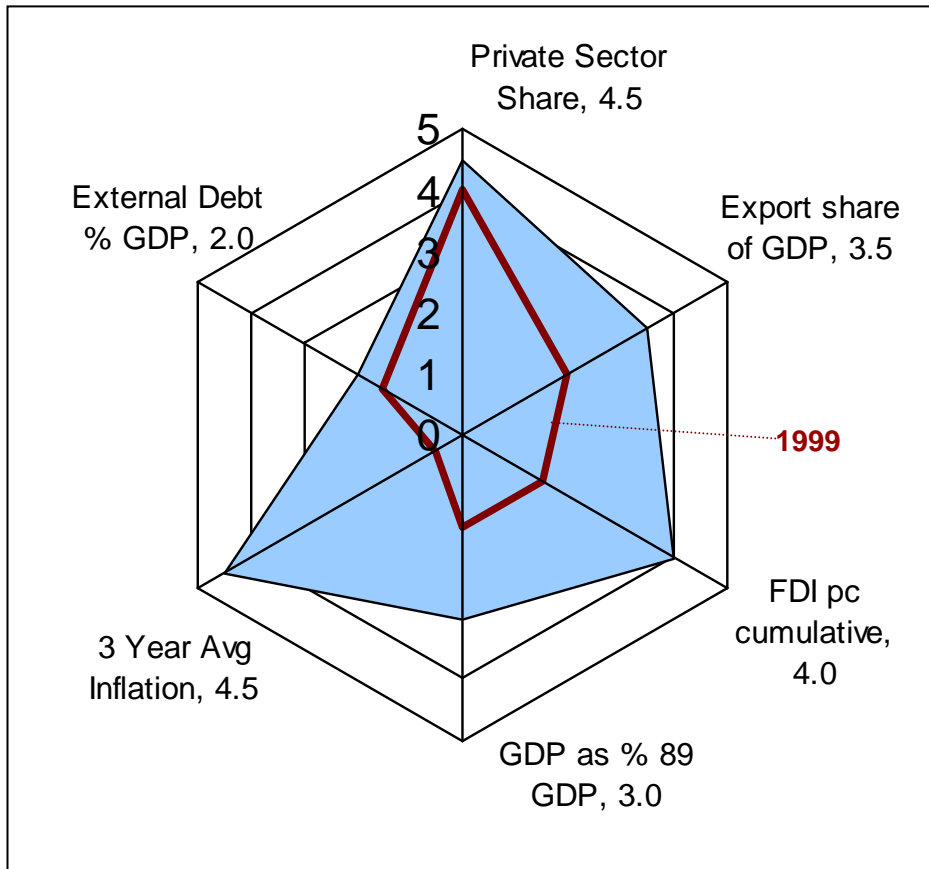
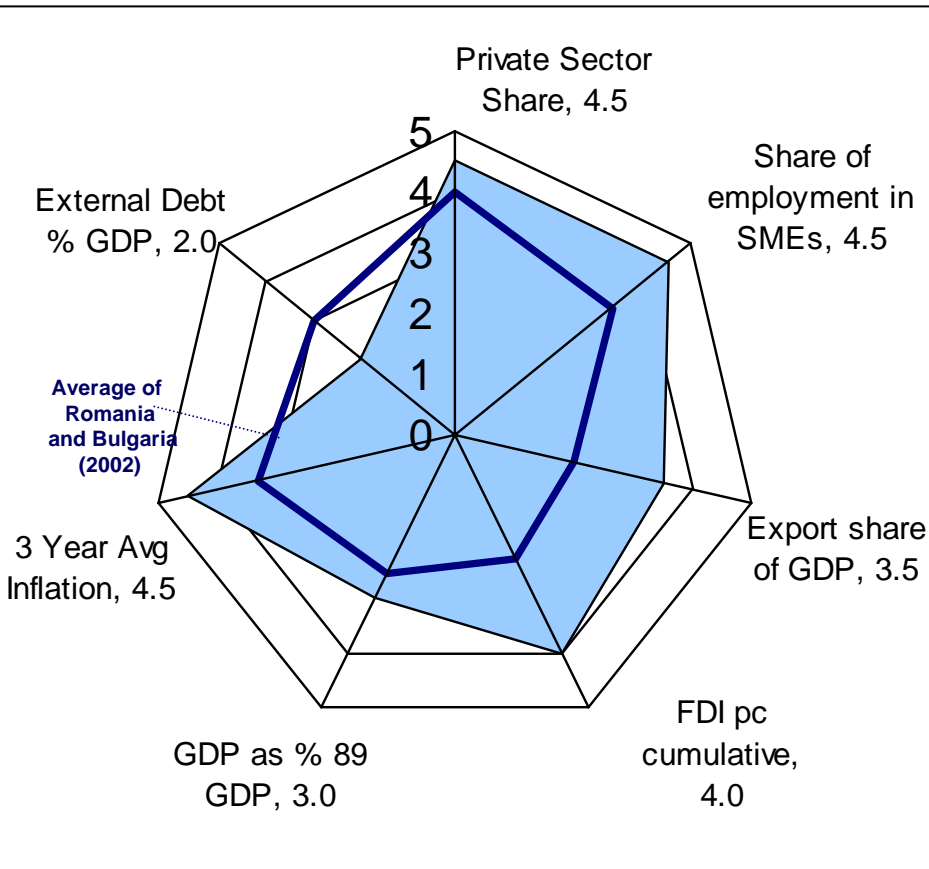
(versus Romania & Bulgaria in 2002 and Bulgaria in 1999)





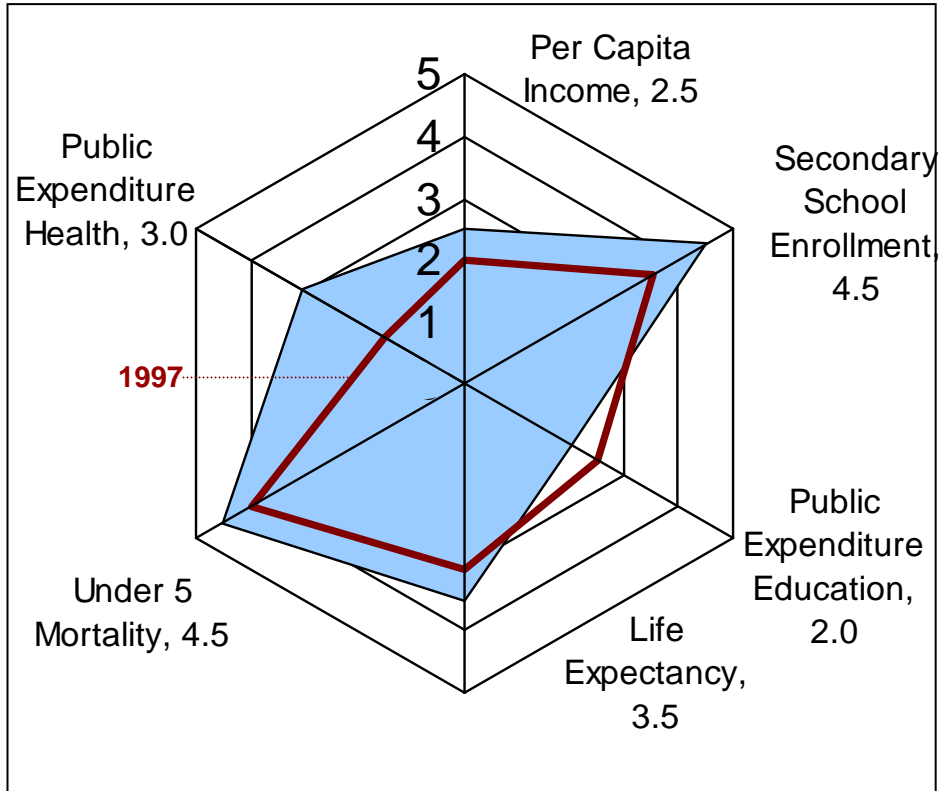
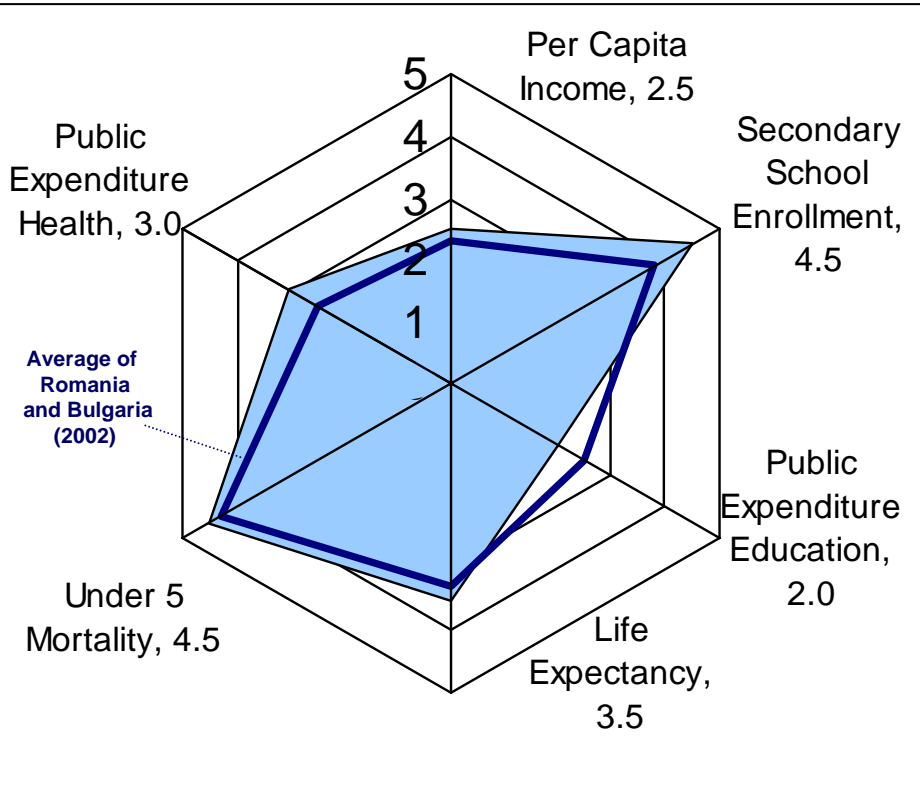
# Economic Performance in Bulgaria in 2004-2005

(versus Romania & Bulgaria in 2002 and Bulgaria in 1999)



# Human Capital Index in Bulgaria in 2003-05

(versus Romania & Bulgaria in 2002 and Bulgaria in 1997)



# Economic Reform in Croatia in 2005

(versus Romania & Bulgaria in 2002 and Croatia in 1999)

## First Stage Economic Reform

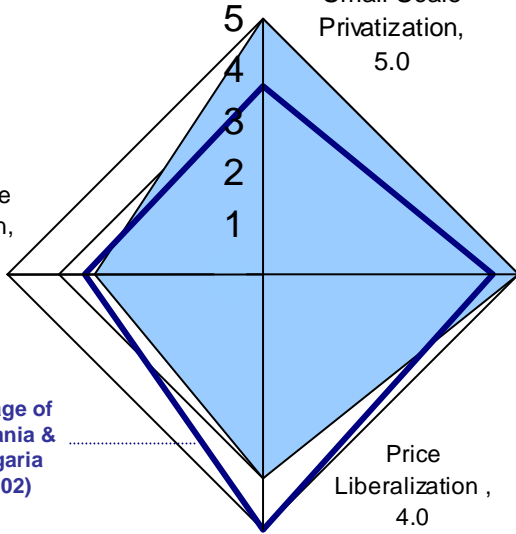
Small Scale Privatization, 5.0

Large Scale Privatization, 3.3

Trade and Foreign Exchange, 5.0

Average of Romania & Bulgaria (2002)

Price Liberalization, 4.0



## First Stage Economic Reform

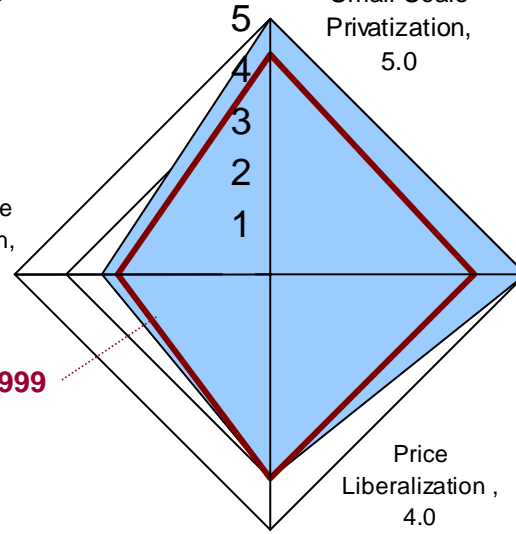
Small Scale Privatization, 5.0

Large Scale Privatization, 3.3

Trade and Foreign Exchange, 5.0

1999

Price Liberalization, 4.0



## Second Stage Economic Reform

Enterprise Reform, 3.0

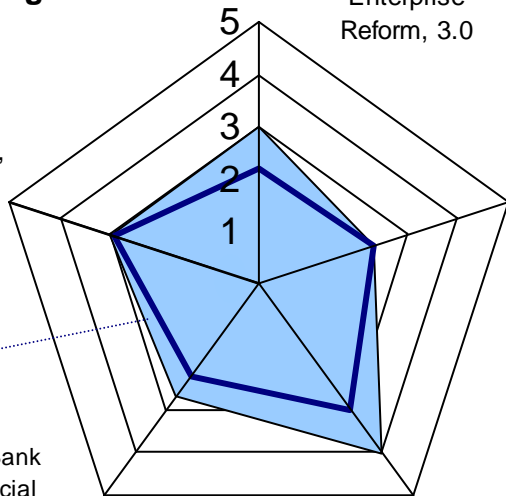
Infrastructure, 3.0

Competition Policy, 2.3

Average of Romania & Bulgaria (2002)

Non Bank Financial Reform, 2.7

Banking Reform, 4.0



## Second Stage Economic Reform

Enterprise Reform, 3.0

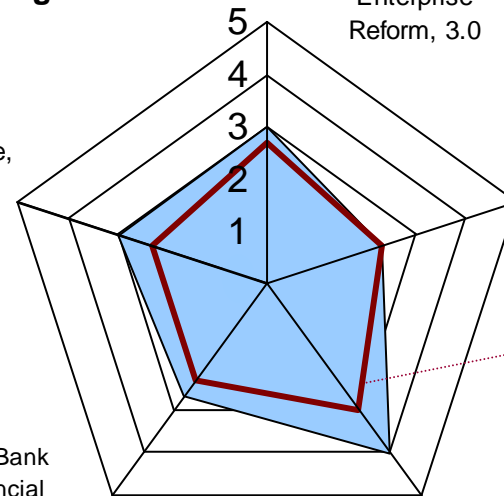
Infrastructure, 3.0

Competition Policy, 2.3

1999

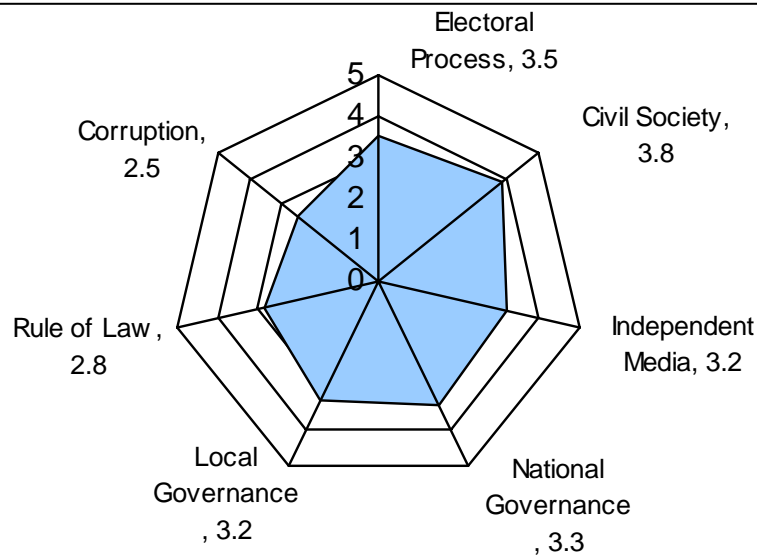
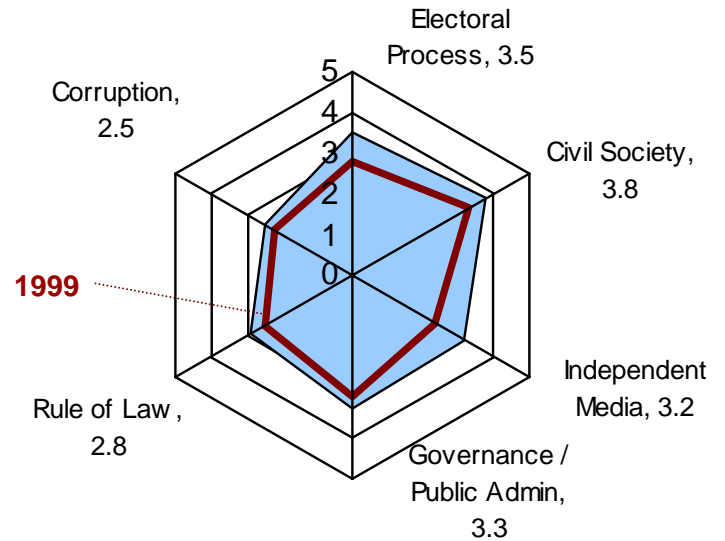
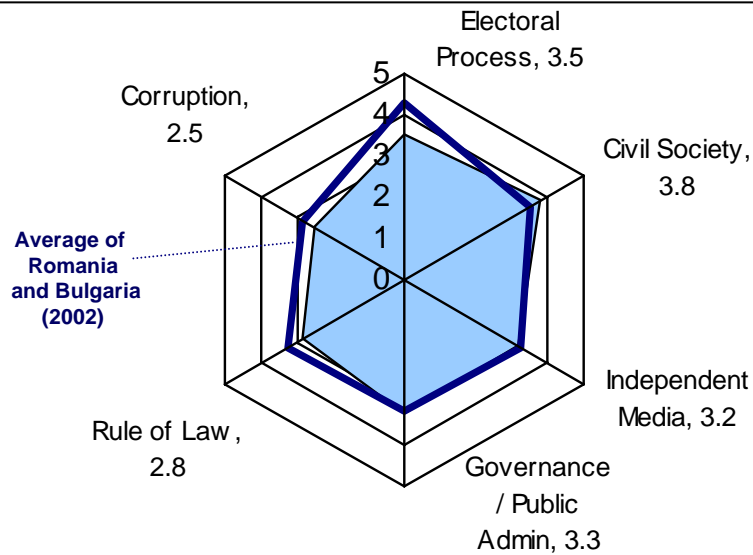
Non Bank Financial Reform, 2.7

Banking Reform, 4.0



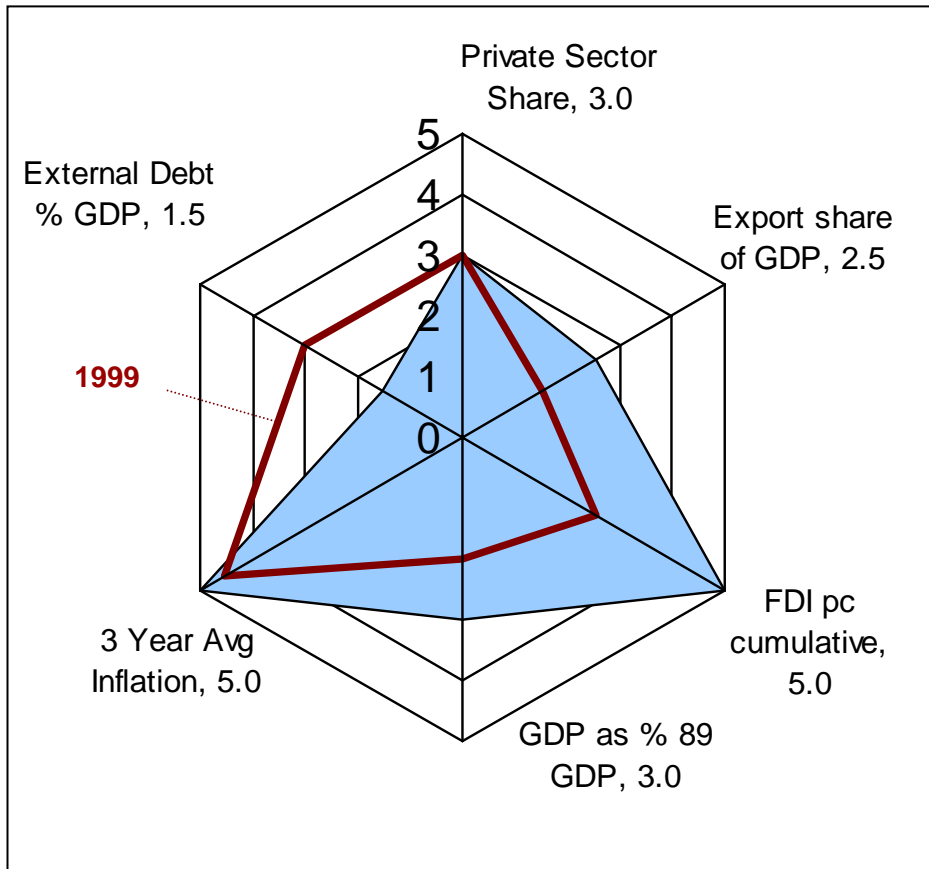
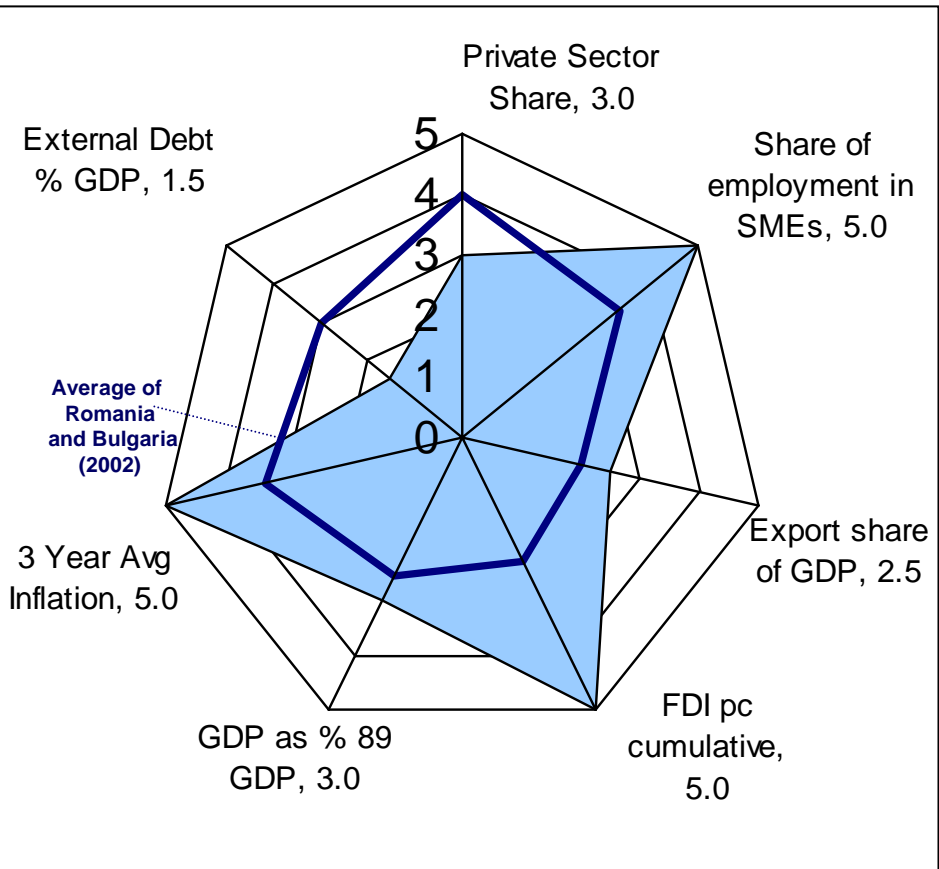
# Democratic Reforms in Croatia in 2005

(versus Romania & Bulgaria in 2002 and Croatia in 1999)



# Economic Performance in Croatia in 2004-2005

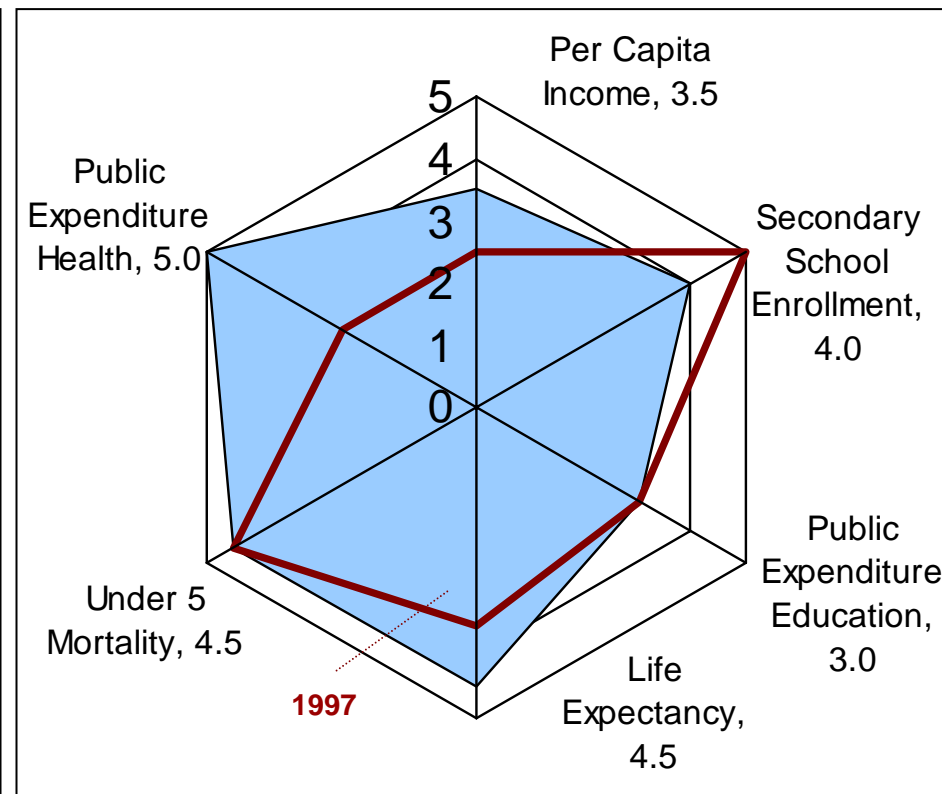
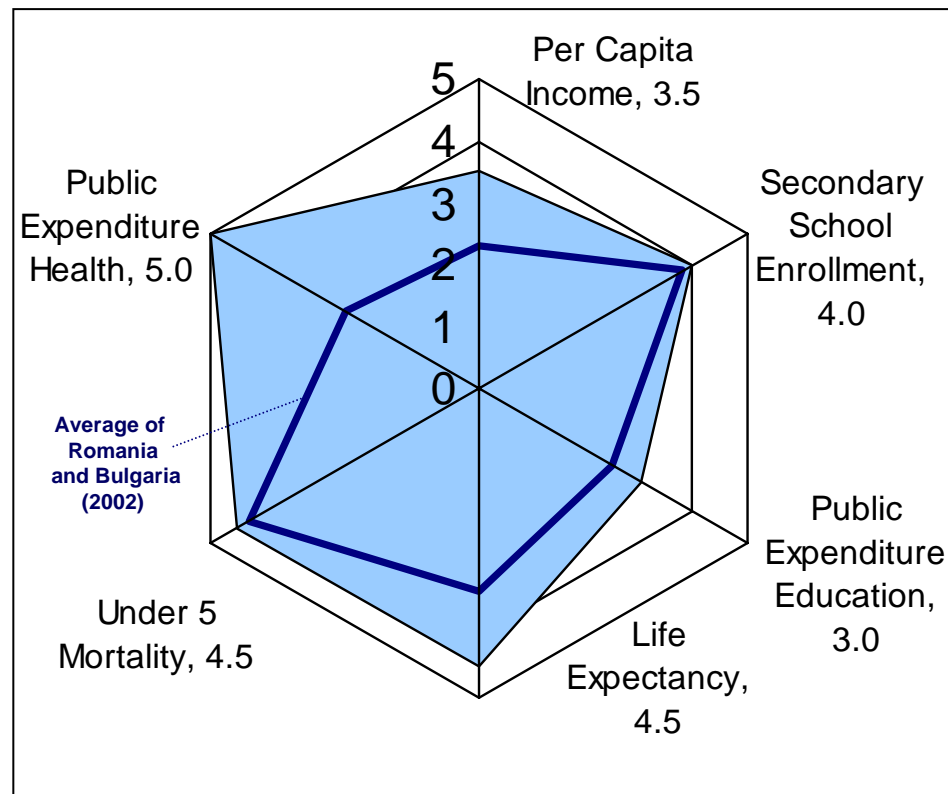
(versus Romania & Bulgaria in 2002 and Croatia in 1999)



Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID, drawing from World Bank, *World Development Indicators 2005* (2005); EBRD, *Transition Report (November 2005)*, UNECE, *SME Databank* (2003).

# Human Capital Index in Croatia in 2003-05

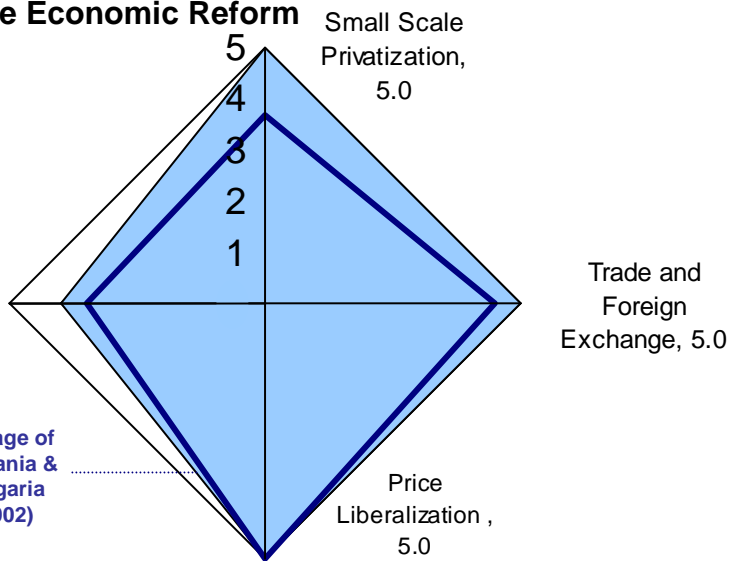
(versus Romania & Bulgaria in 2002 and Croatia in 1997)



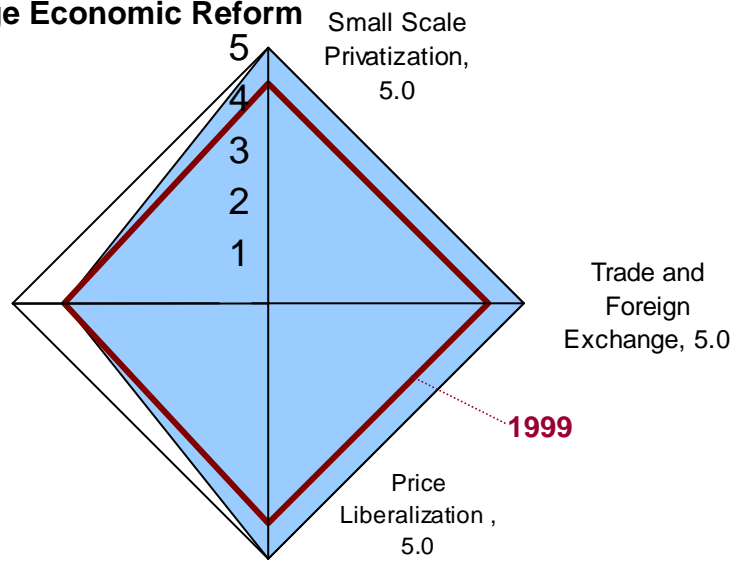
# Economic Reform in Czech Republic in 2005

(versus Romania & Bulgaria in 2002 and Czech Republic in 1999)

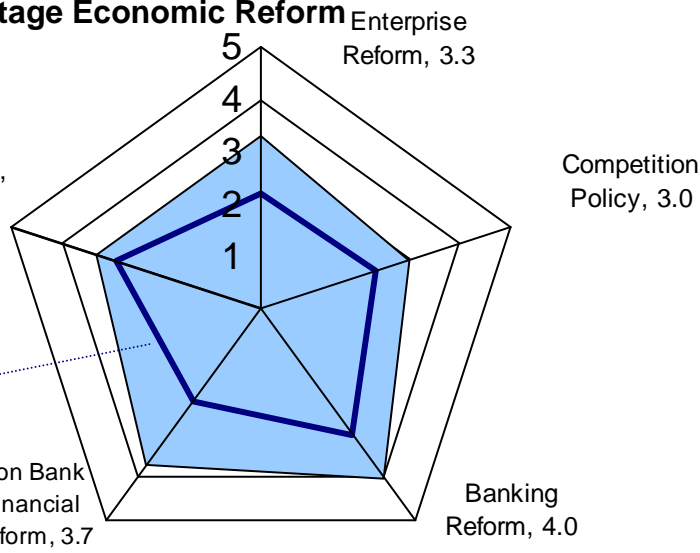
## First Stage Economic Reform



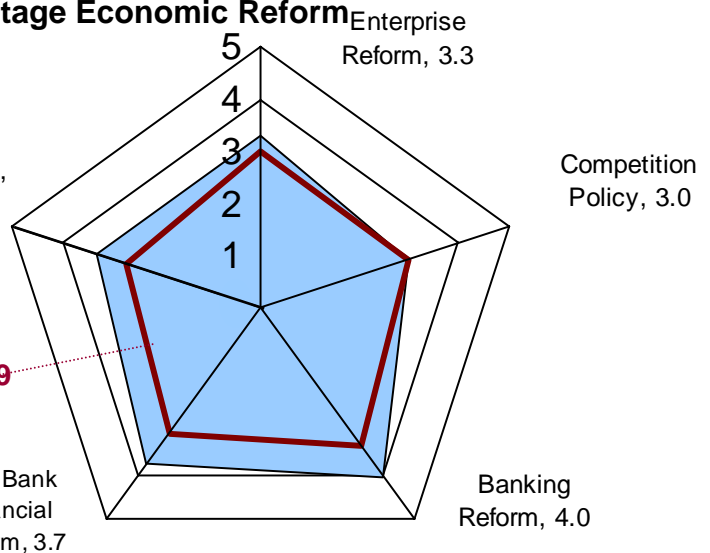
## First Stage Economic Reform



## Second Stage Economic Reform

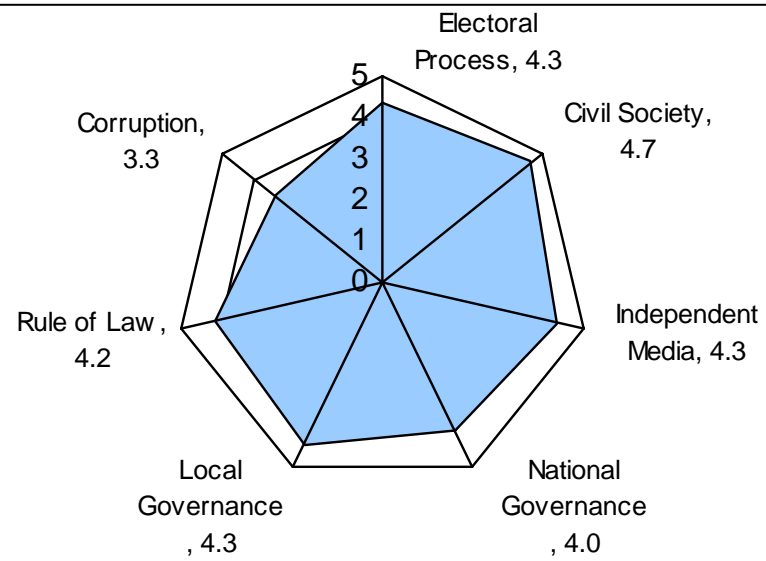
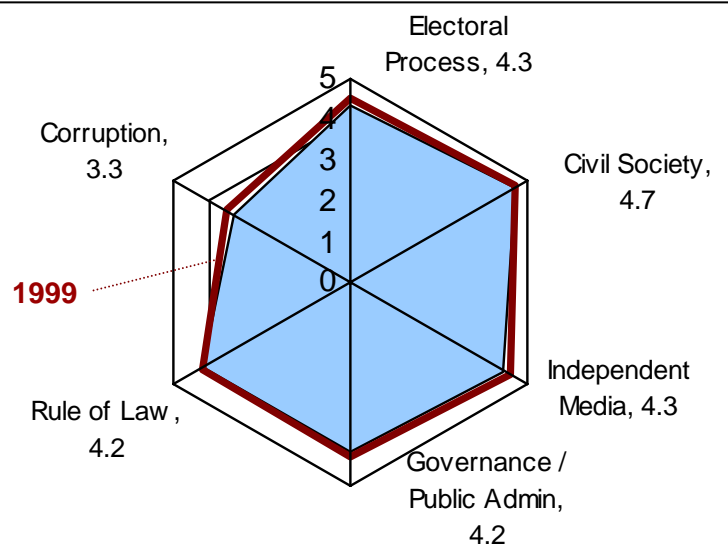
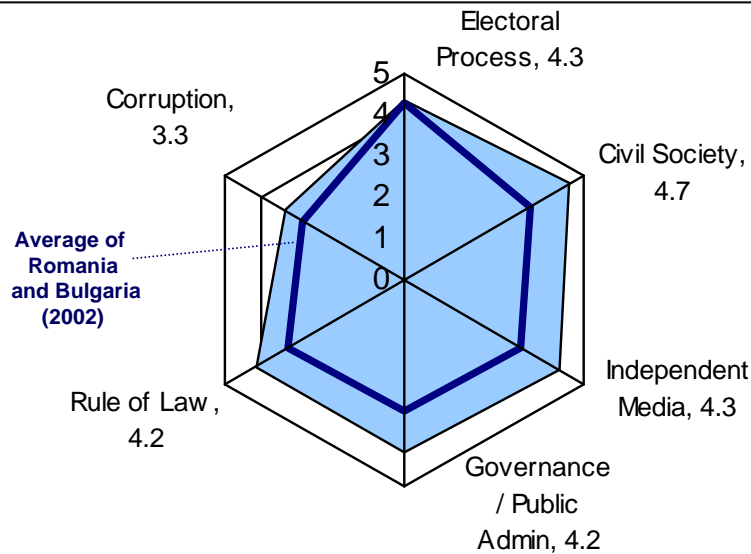


## Second Stage Economic Reform



# Democratic Reforms in Czech Republic in 2005

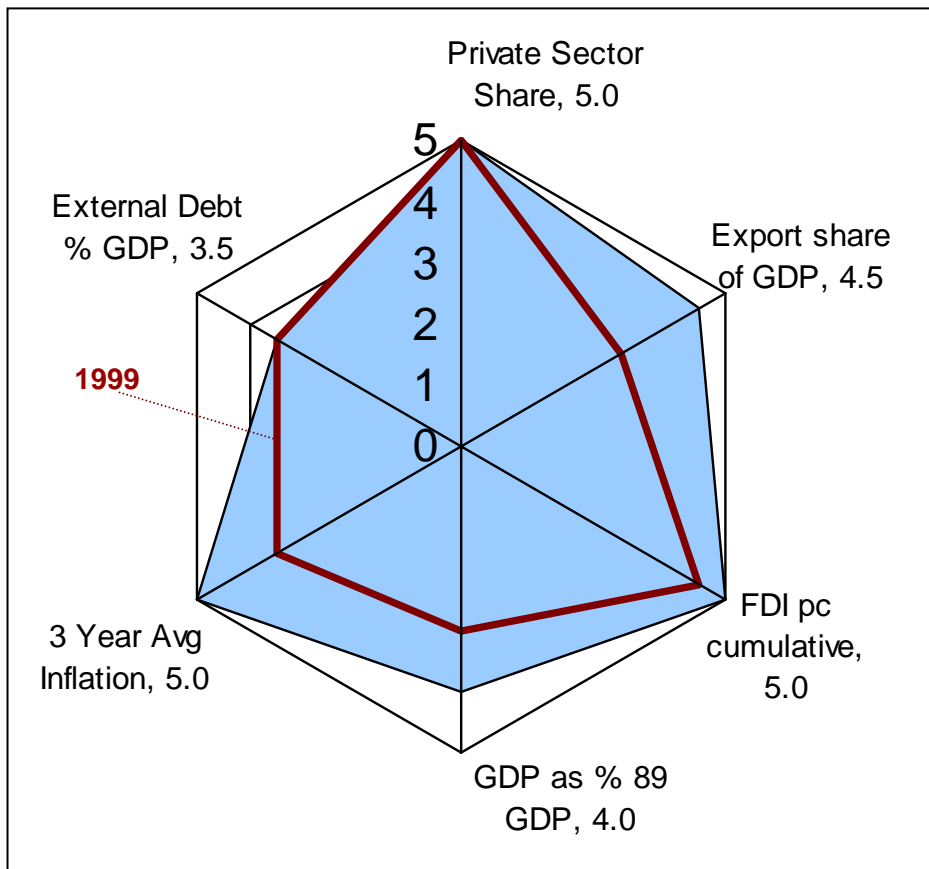
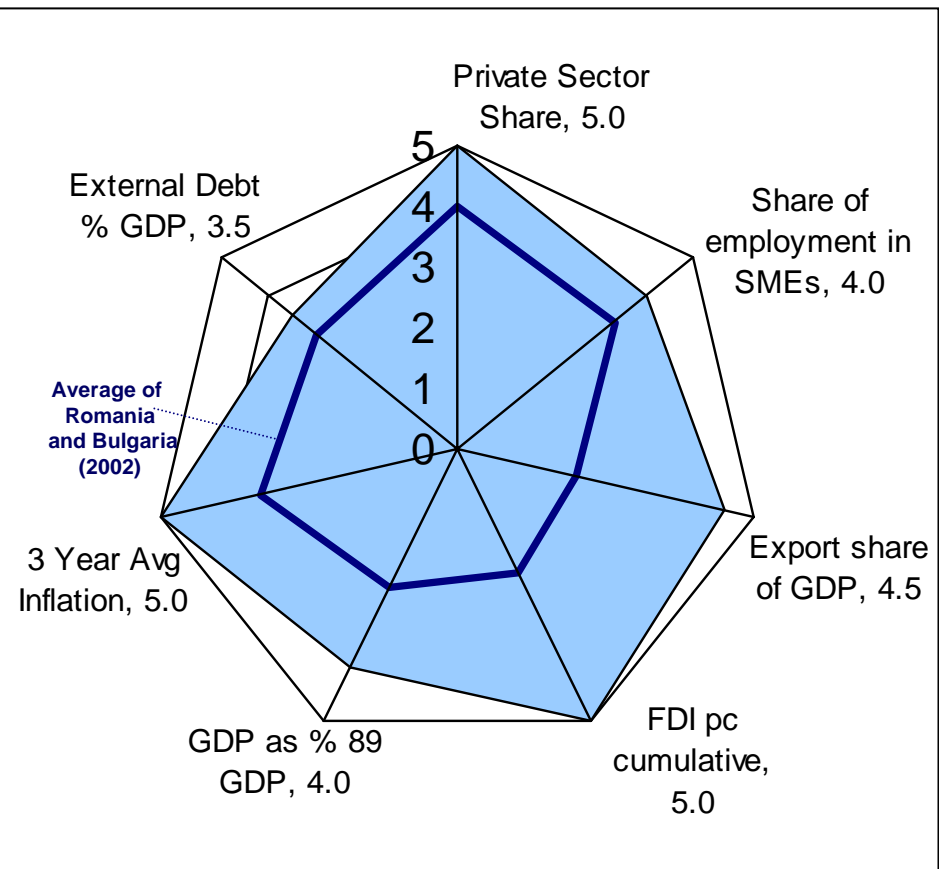
(versus Romania & Bulgaria in 2002 and Czech Republic in 1999)





# Economic Performance in Czech Republic in 2004-2005

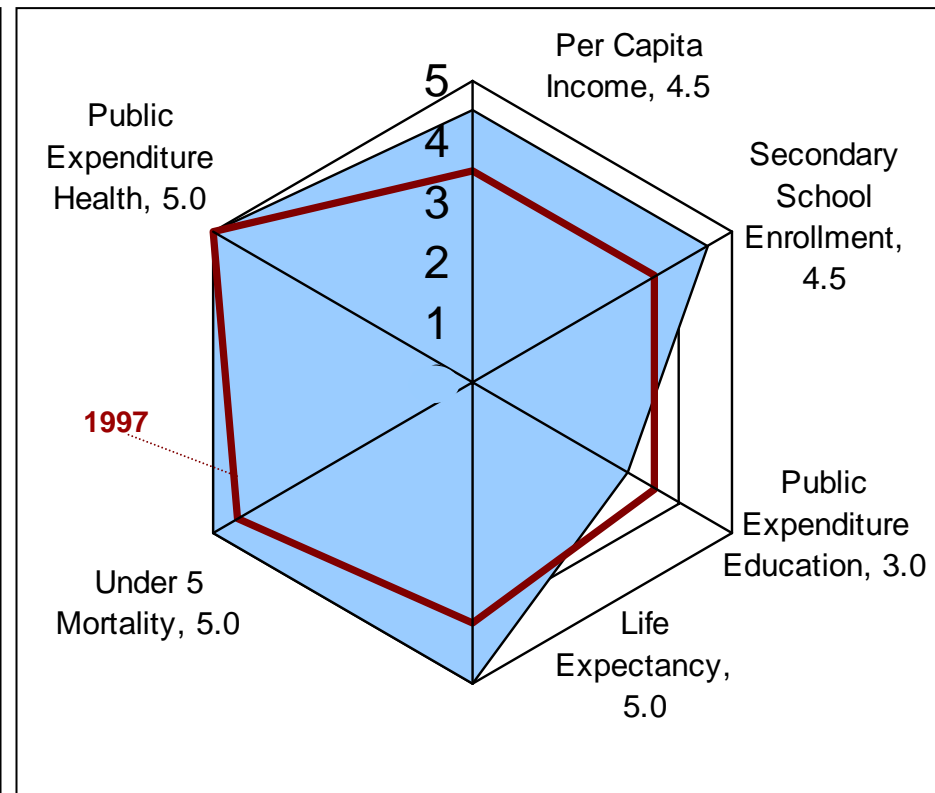
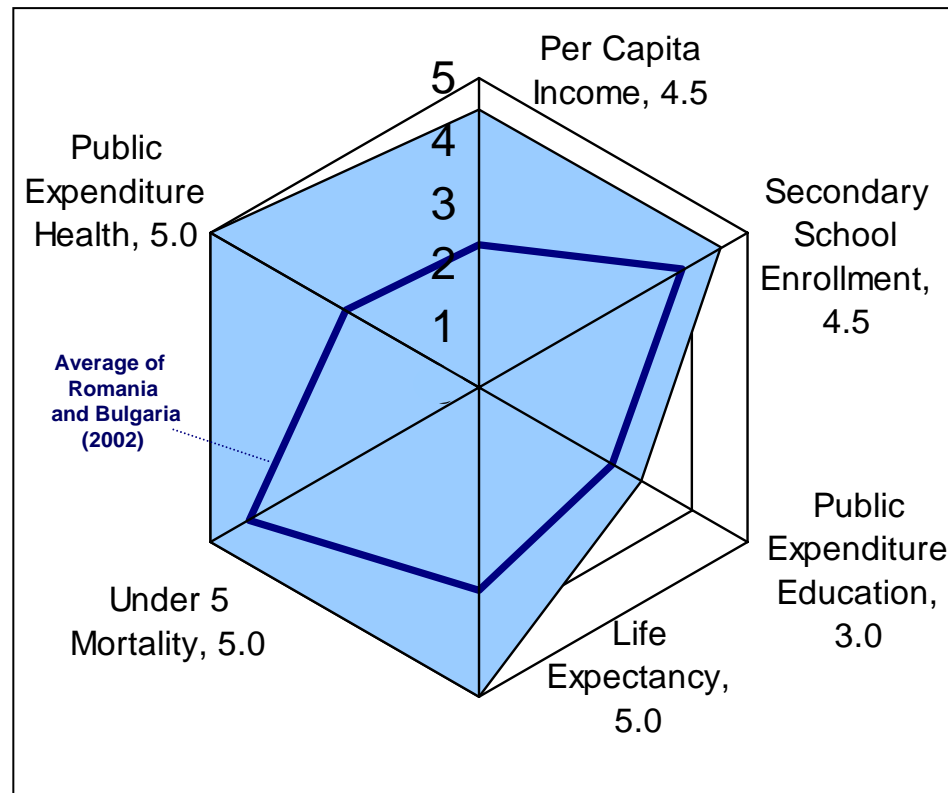
(versus Romania & Bulgaria in 2002 and Czech Republic in 1999)



Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID, drawing from World Bank, *World Development Indicators 2005* (2005); EBRD, *Transition Report (November 2005)*, UNECE, *SME Databank* (2003).

# Human Capital Index in Czech Republic in 2003-05

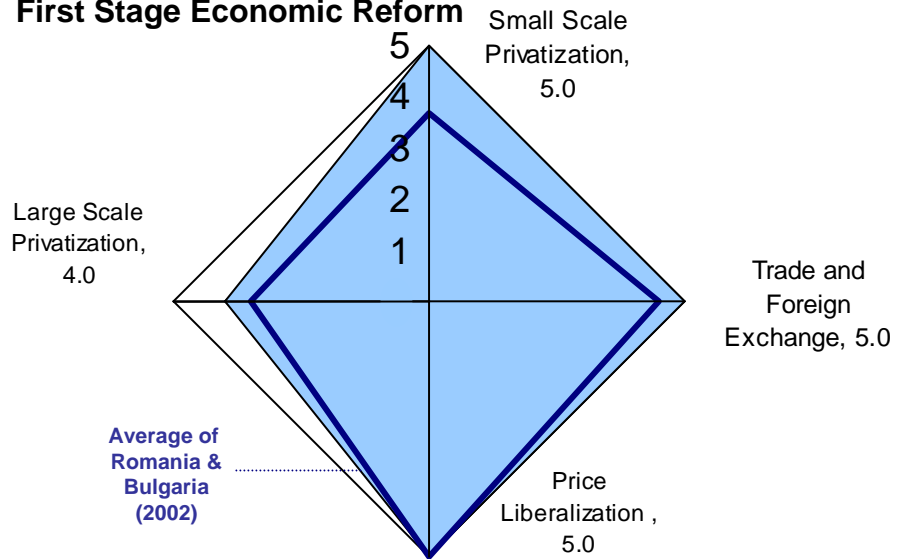
(versus Romania & Bulgaria in 2002 and Czech Republic in 1997)



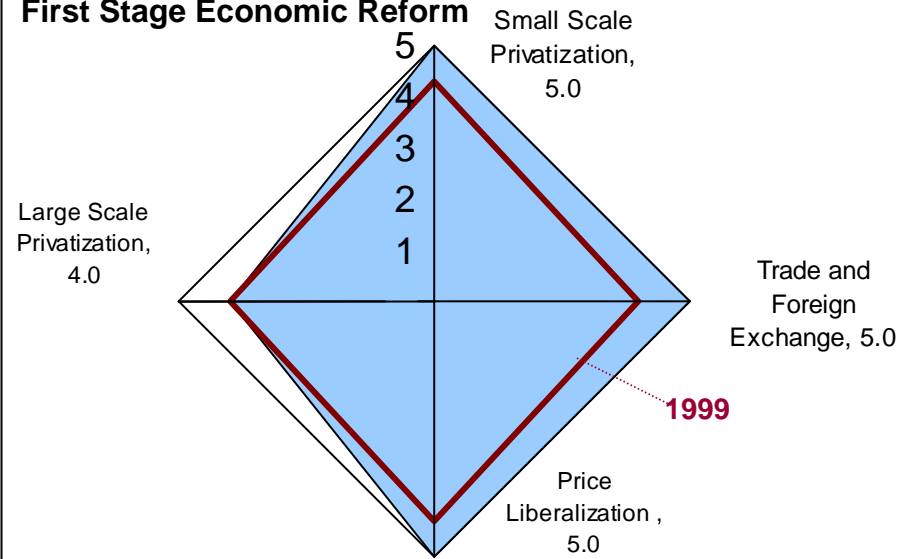
# Economic Reform in Estonia in 2005

(versus Romania & Bulgaria in 2002 and Estonia in 1999)

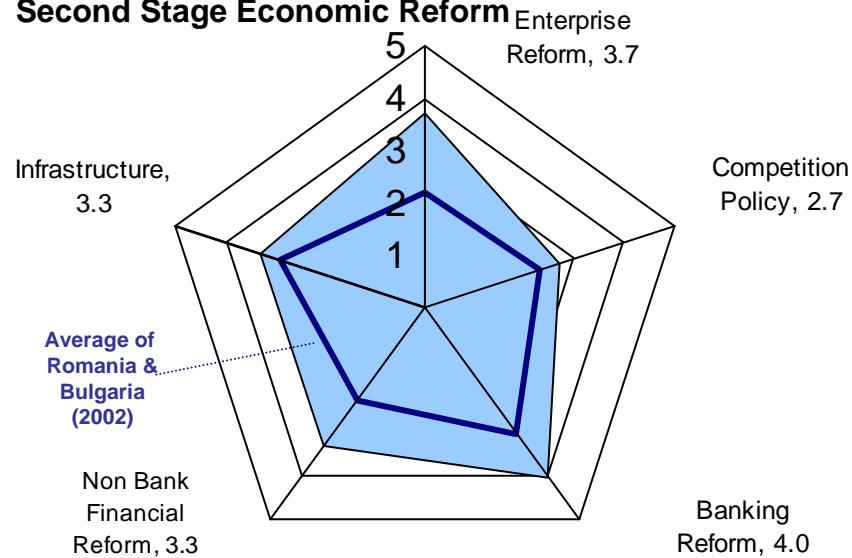
## First Stage Economic Reform



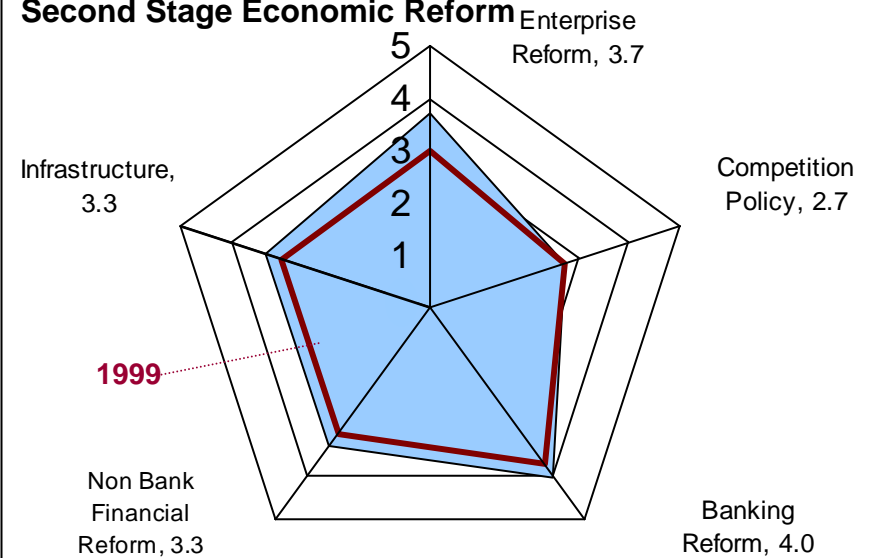
## First Stage Economic Reform



## Second Stage Economic Reform

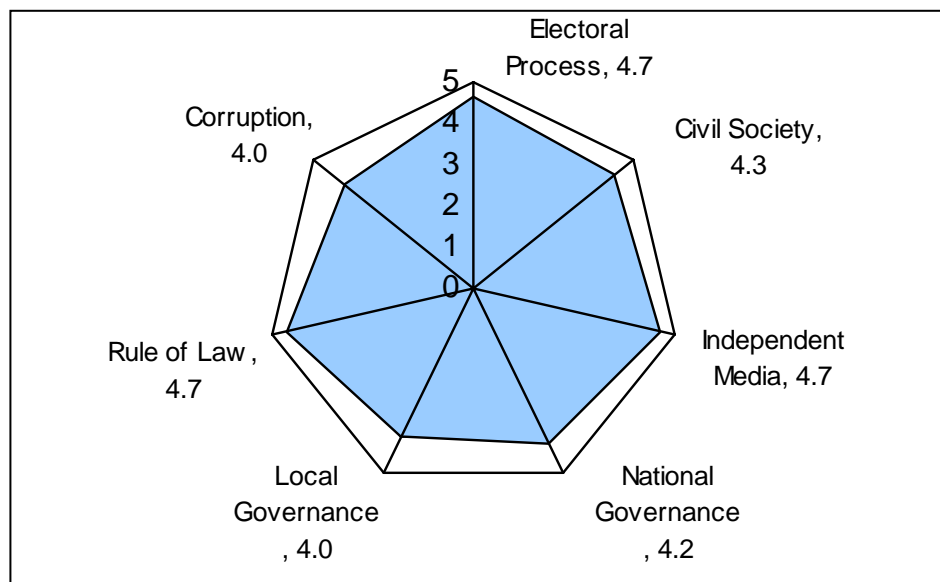
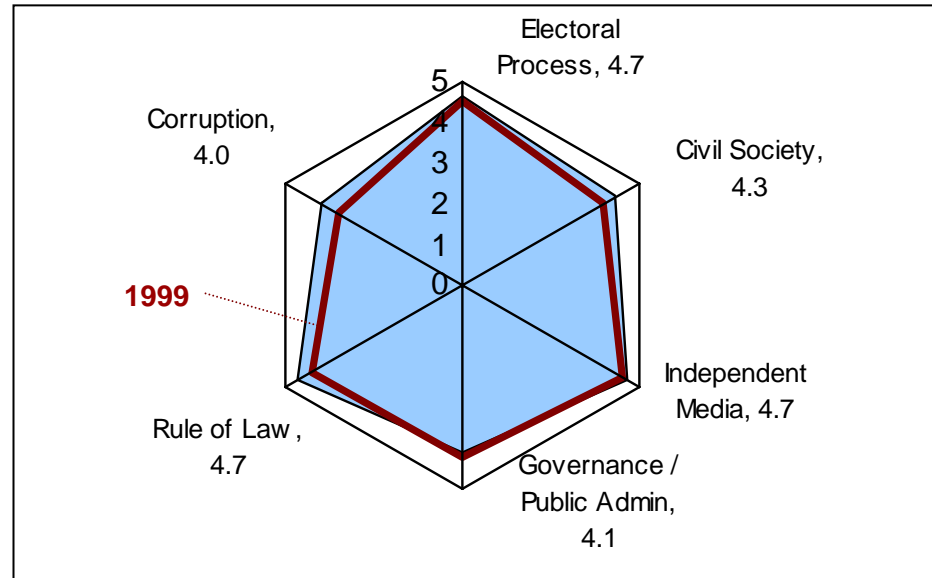
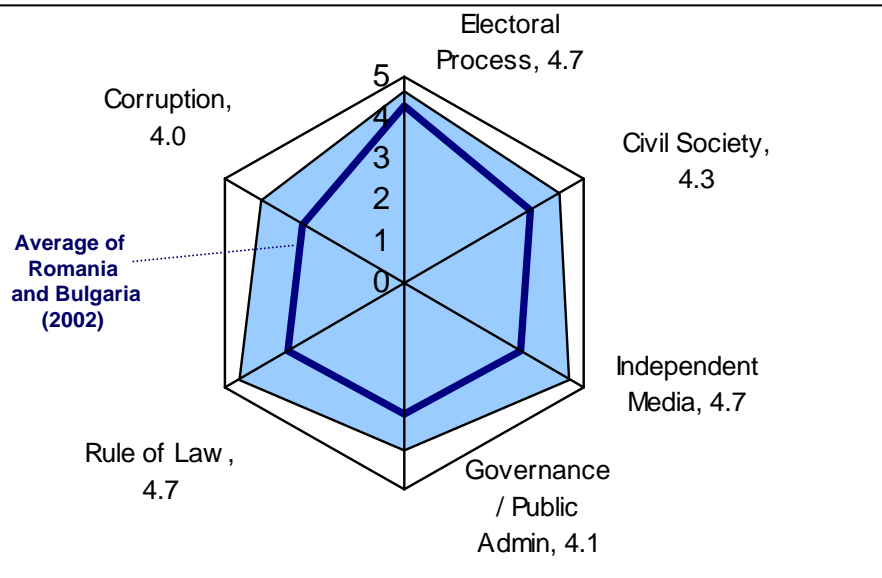


## Second Stage Economic Reform



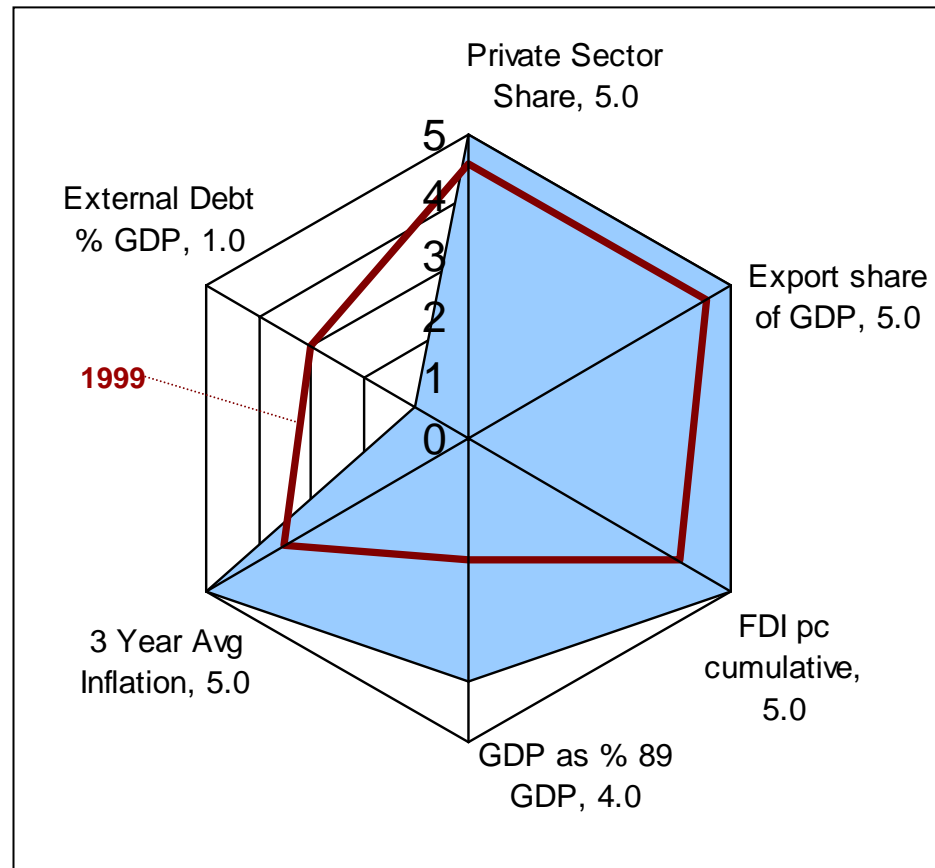
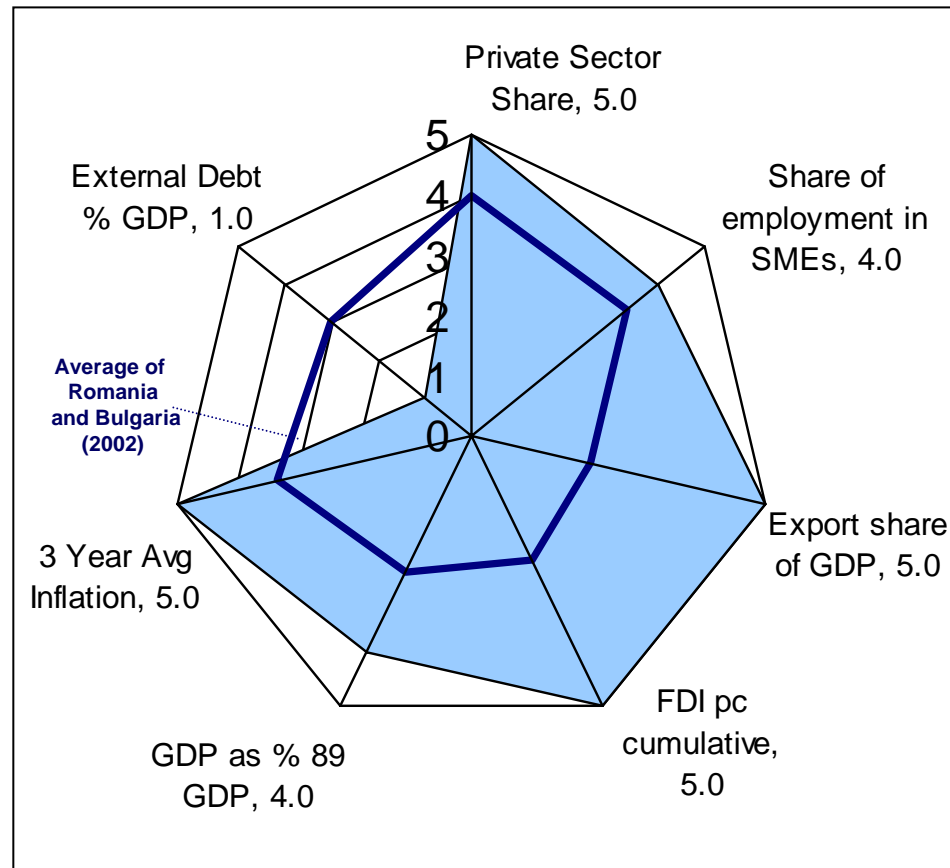
# Democratic Reforms in Estonia in 2005

(versus Romania & Bulgaria in 2002 and Estonia in 1999)



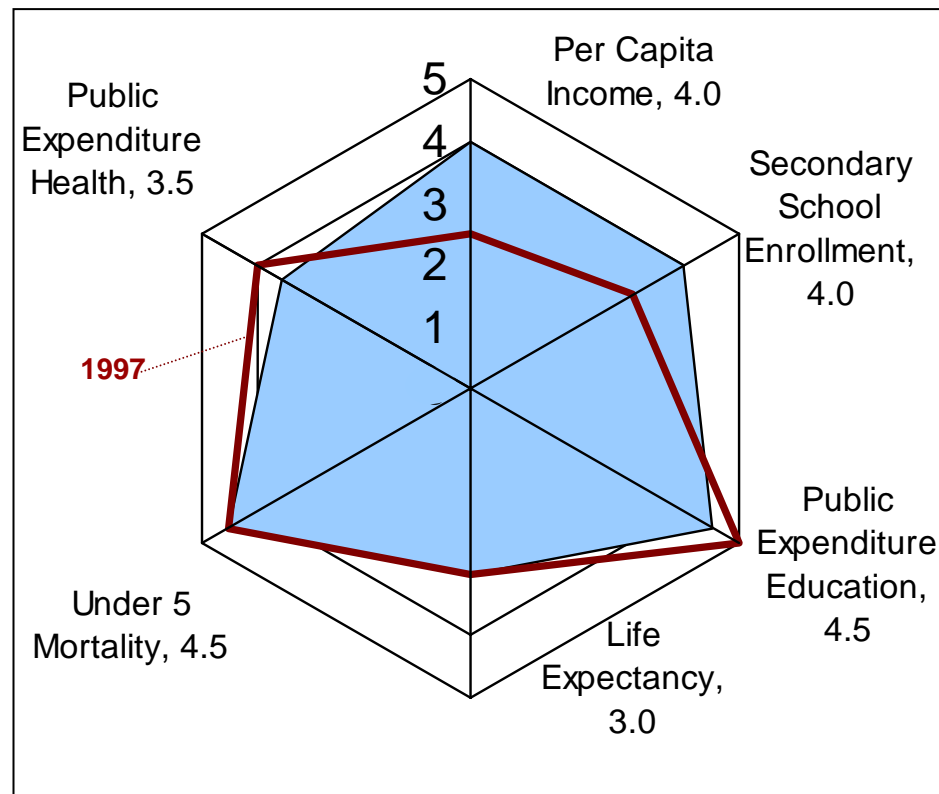
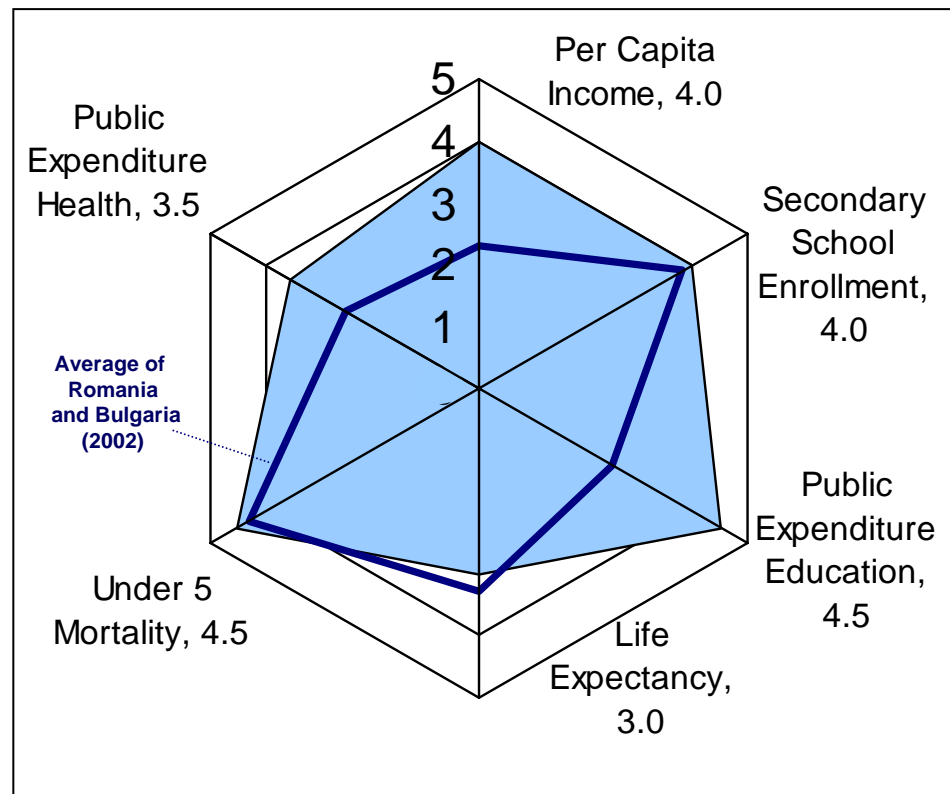
# Economic Performance in Estonia in 2004-2005

(versus Romania & Bulgaria in 2002 and Estonia in 1999)



# Human Capital Index in Estonia in 2003-05

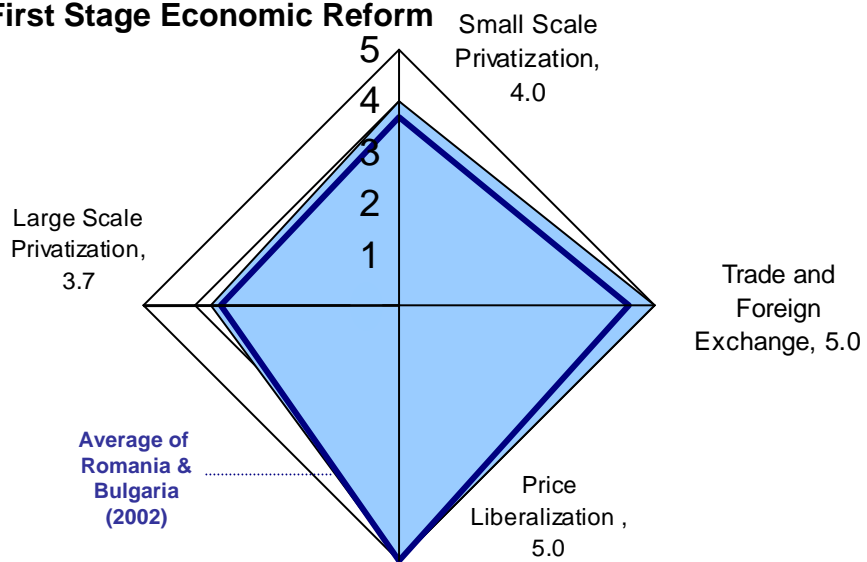
(versus Romania & Bulgaria in 2002 and Estonia in 1997)



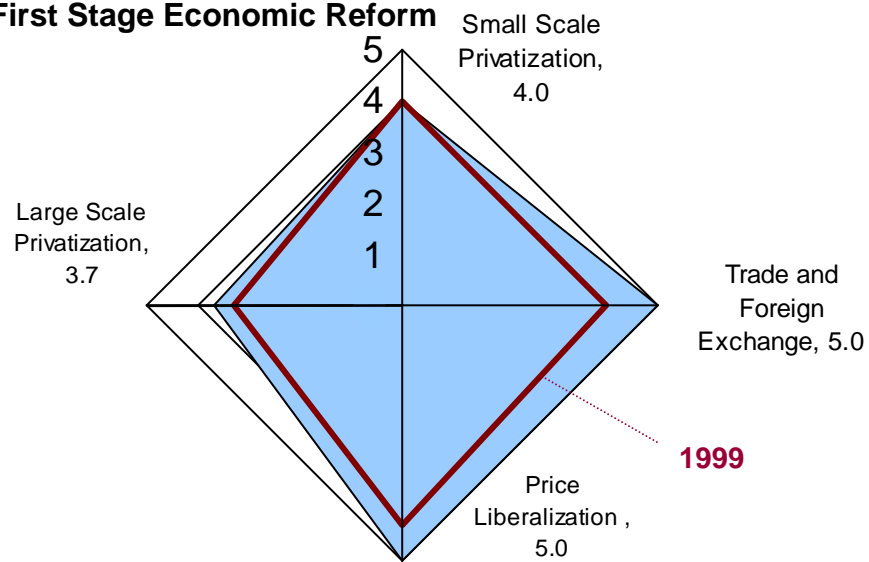
# Economic Reform in Georgia in 2005

(versus Romania & Bulgaria in 2002 and Georgia in 1999)

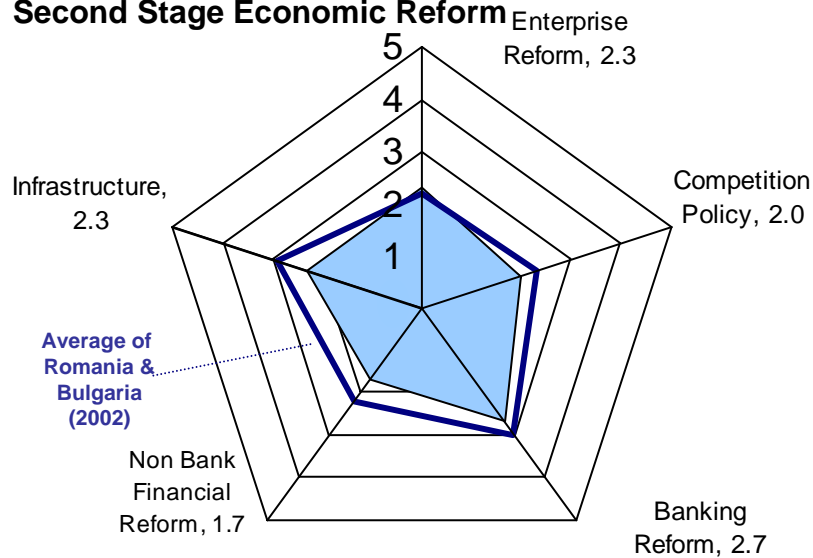
## First Stage Economic Reform



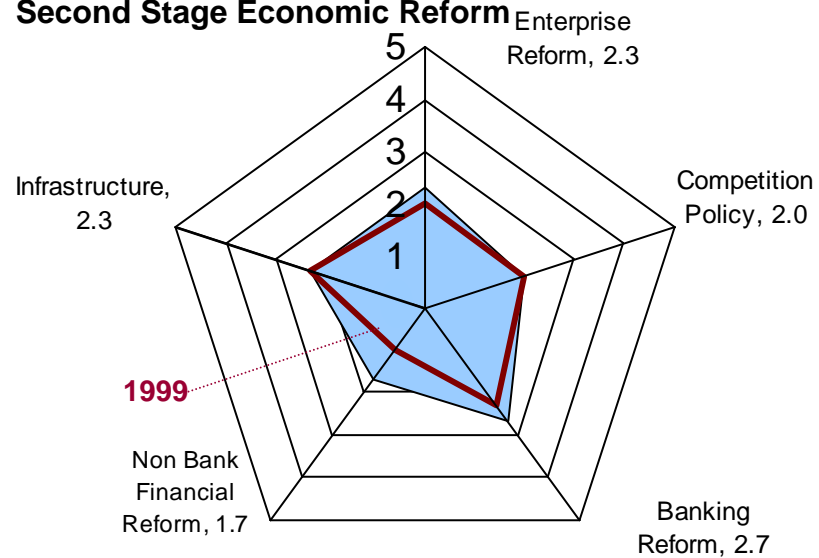
## First Stage Economic Reform



## Second Stage Economic Reform

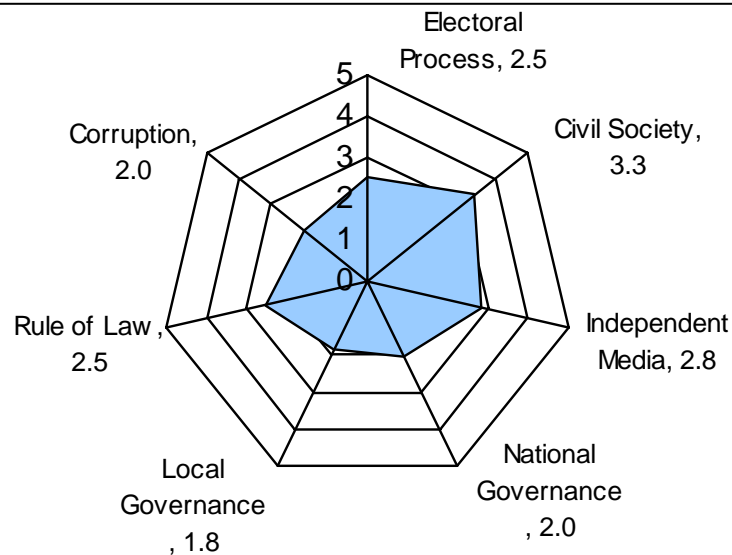
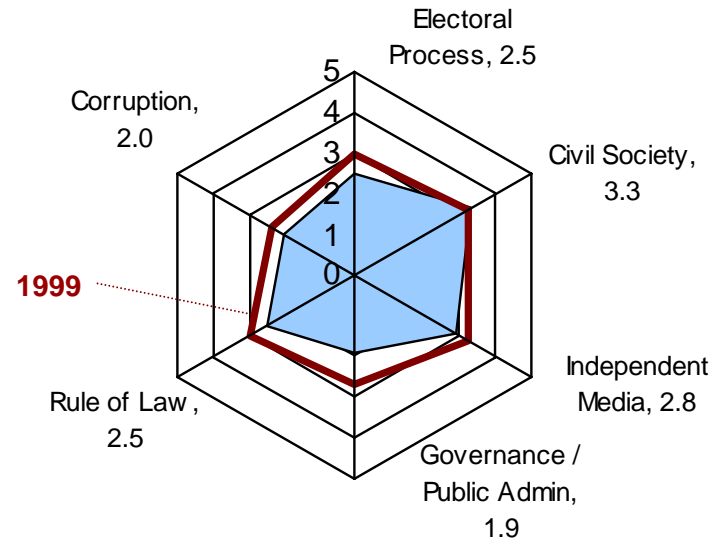
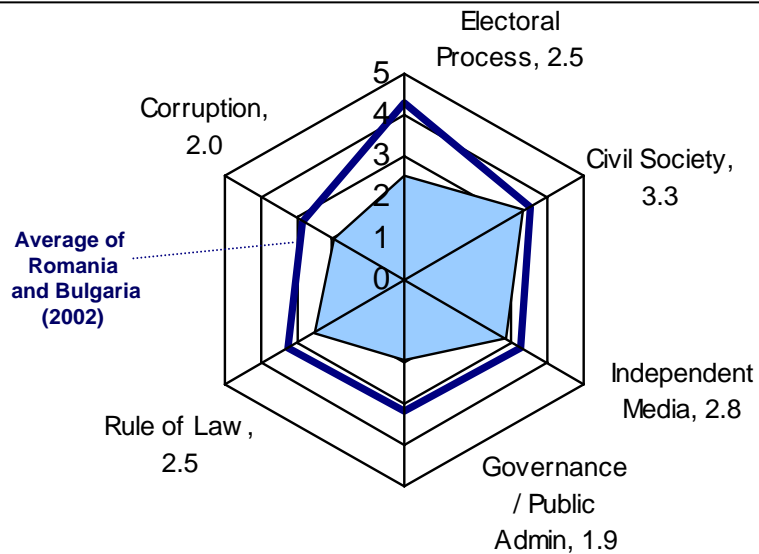


## Second Stage Economic Reform



# Democratic Reforms in Georgia in 2005

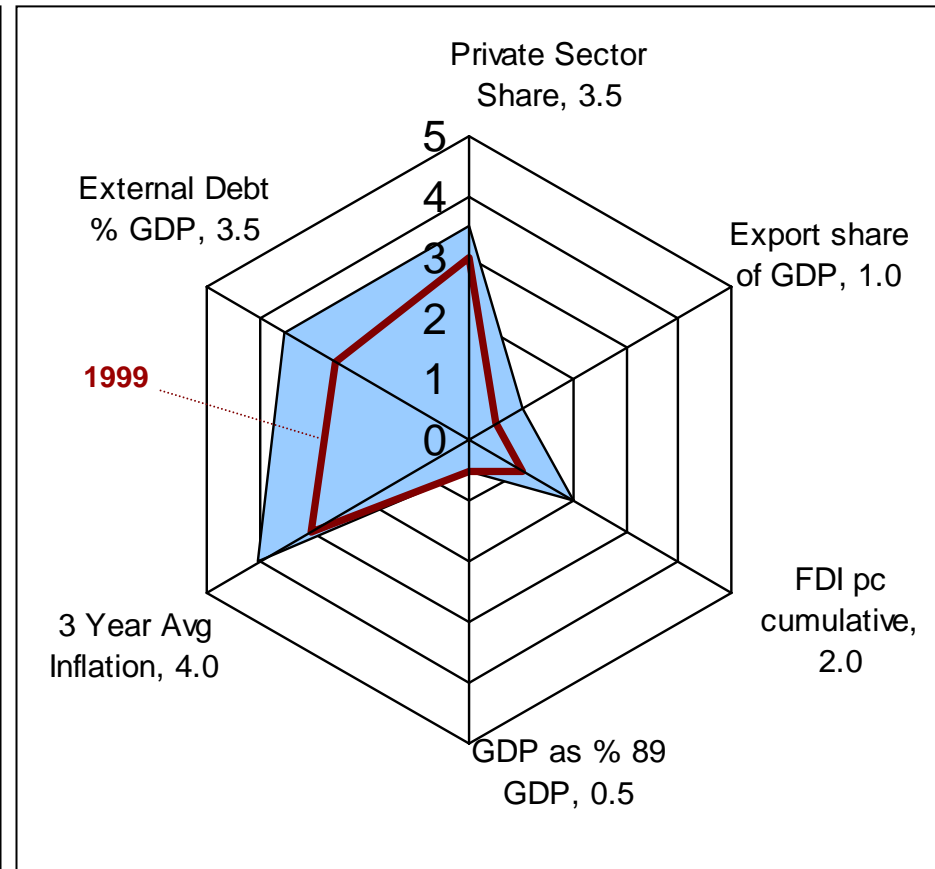
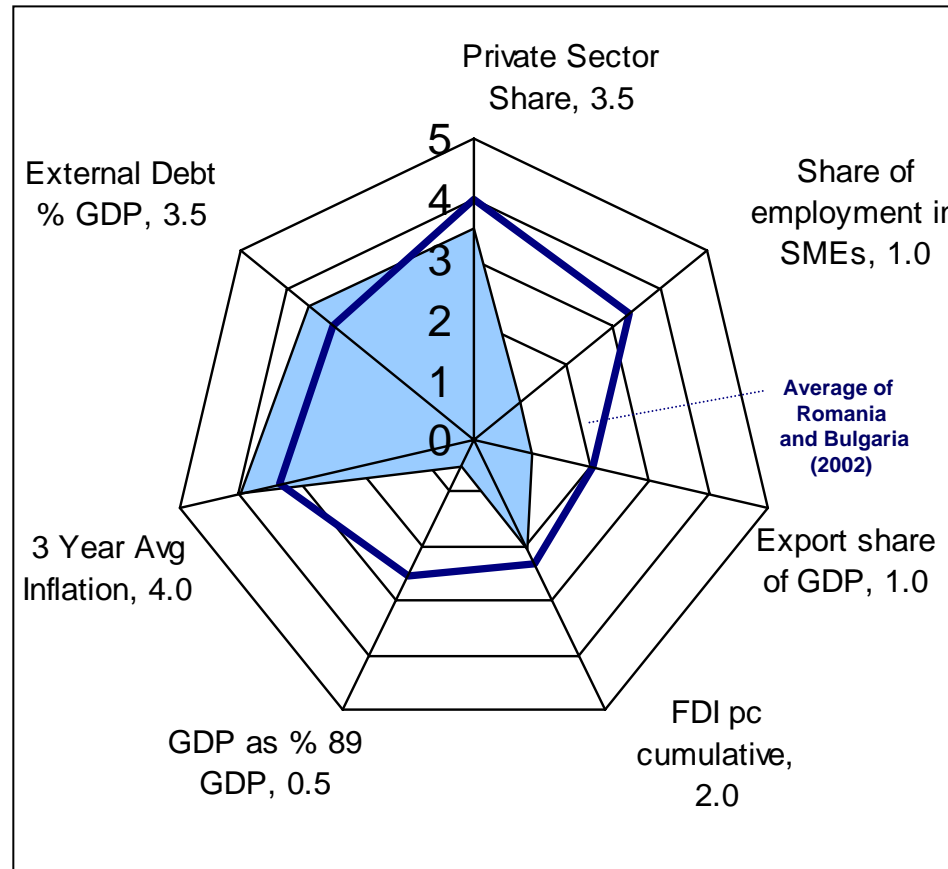
(versus Romania & Bulgaria in 2002 and Georgia in 1999)





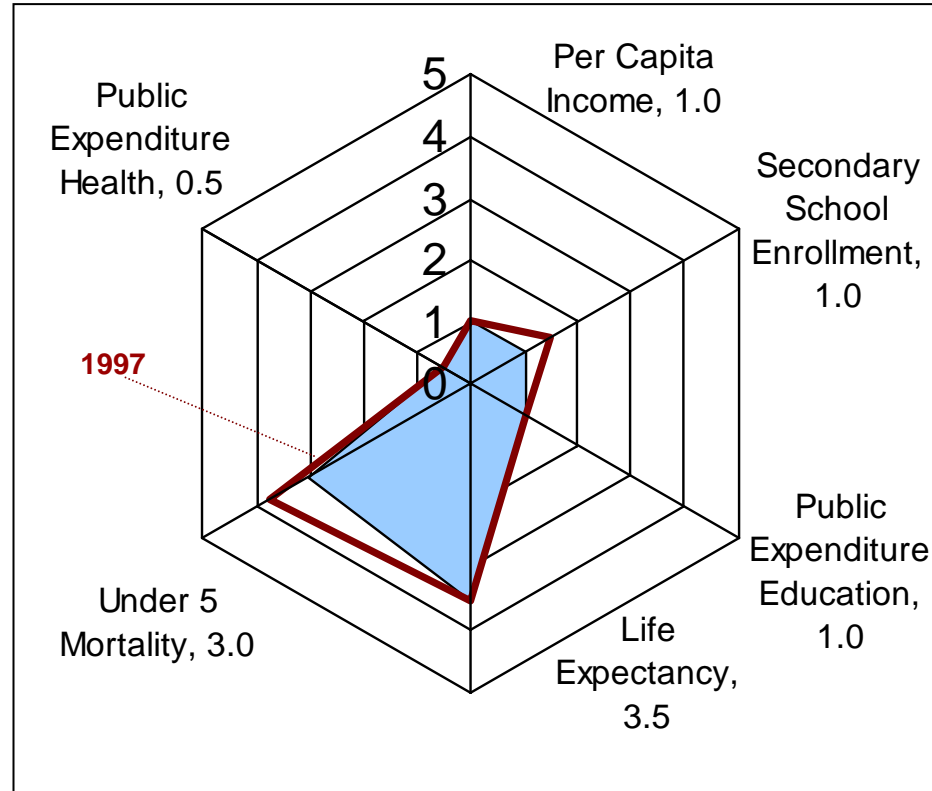
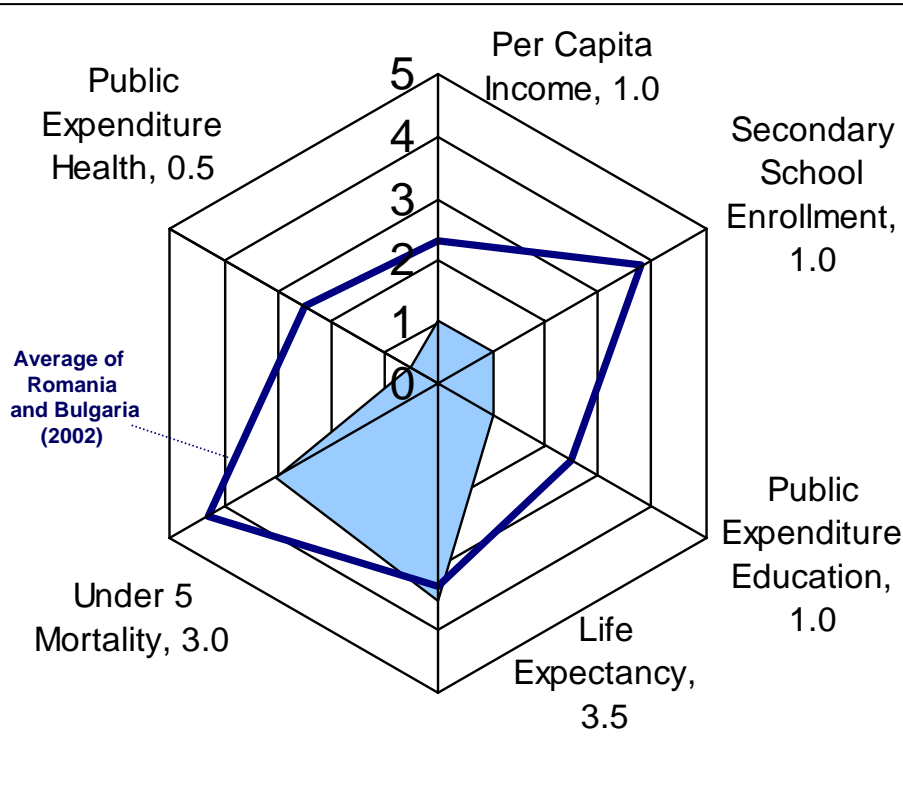
# Economic Performance in Georgia in 2004-2005

(versus Romania & Bulgaria in 2002 and Georgia in 1999)



# Human Capital Index in Georgia in 2003-05

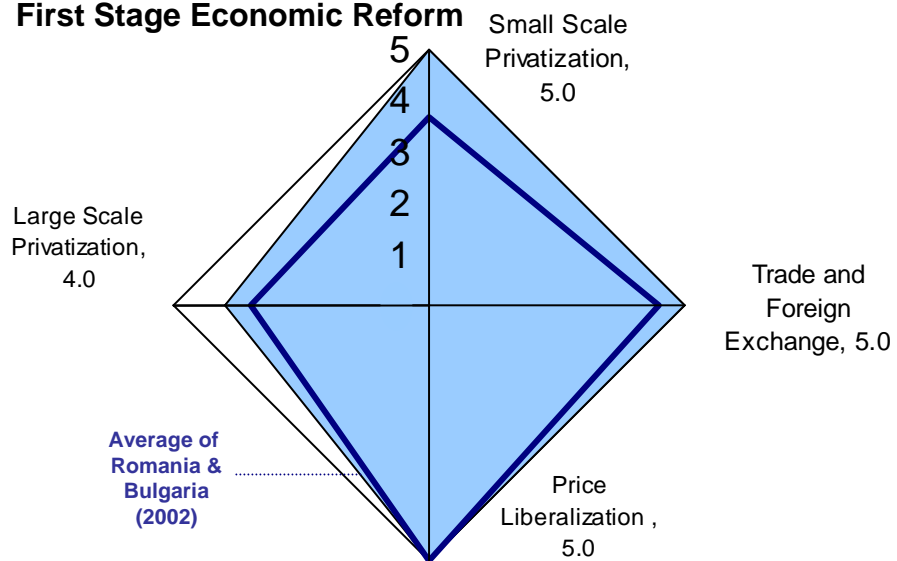
(versus Romania & Bulgaria in 2002 and Georgia in 1997)



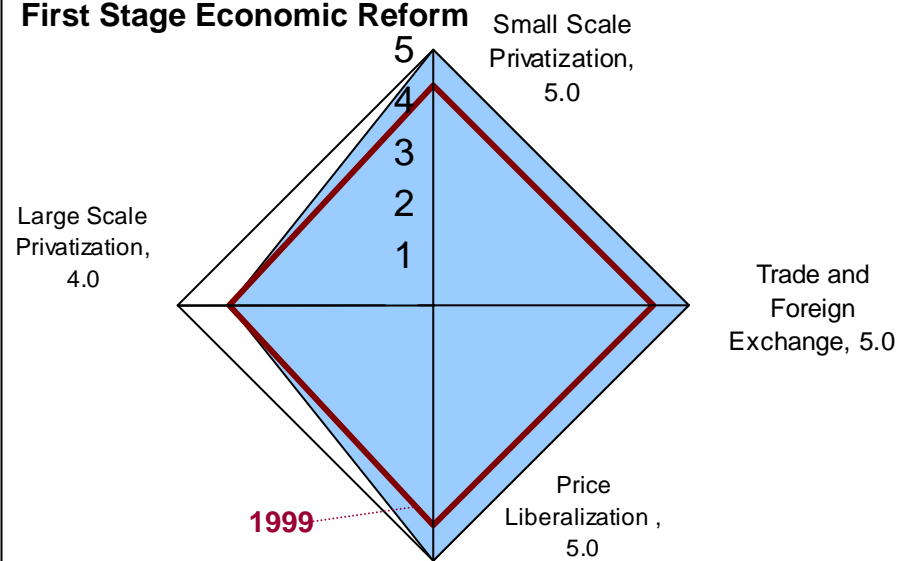
# Economic Reform in Hungary in 2005

(versus Romania & Bulgaria in 2002 and Hungary in 1999)

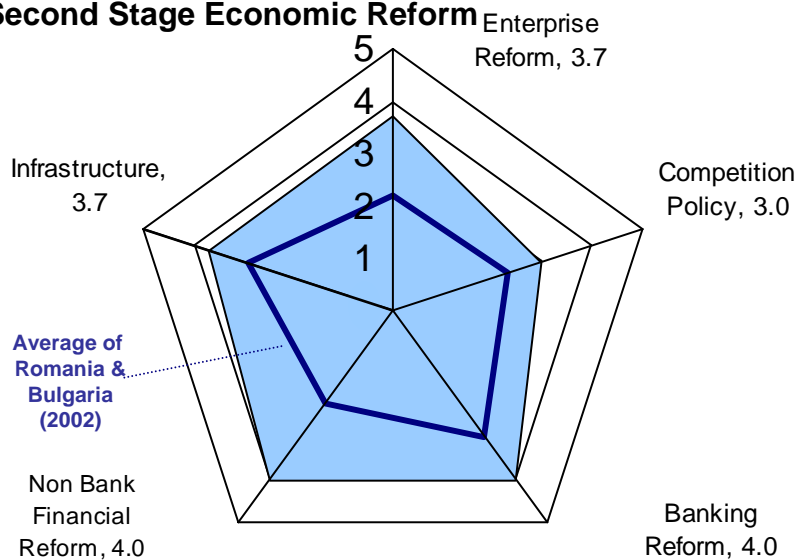
## First Stage Economic Reform



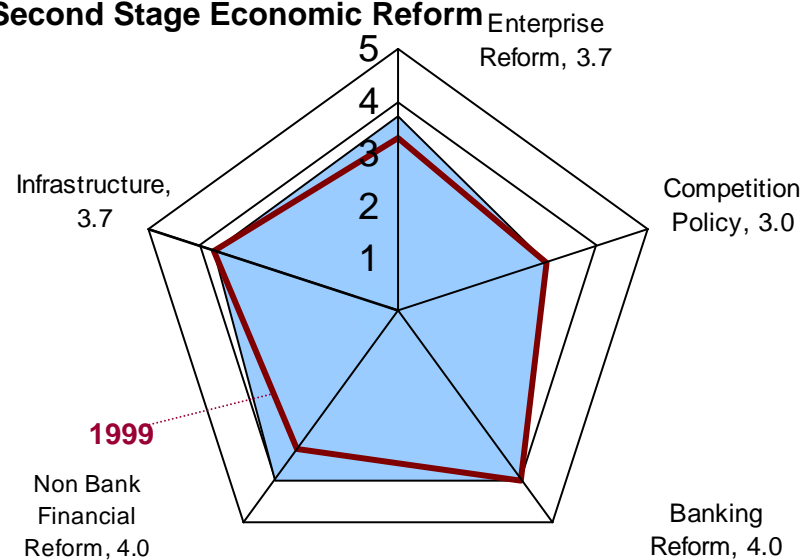
## First Stage Economic Reform



## Second Stage Economic Reform

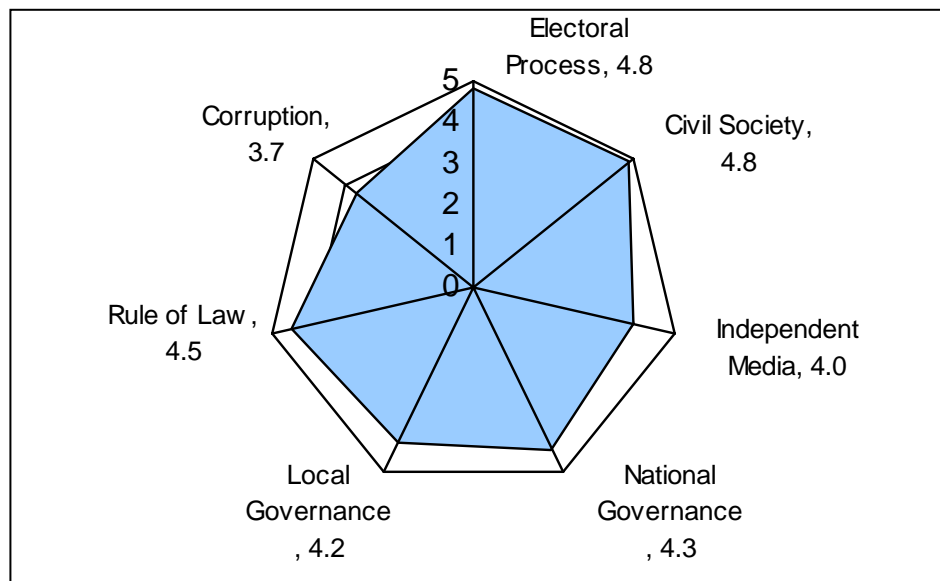
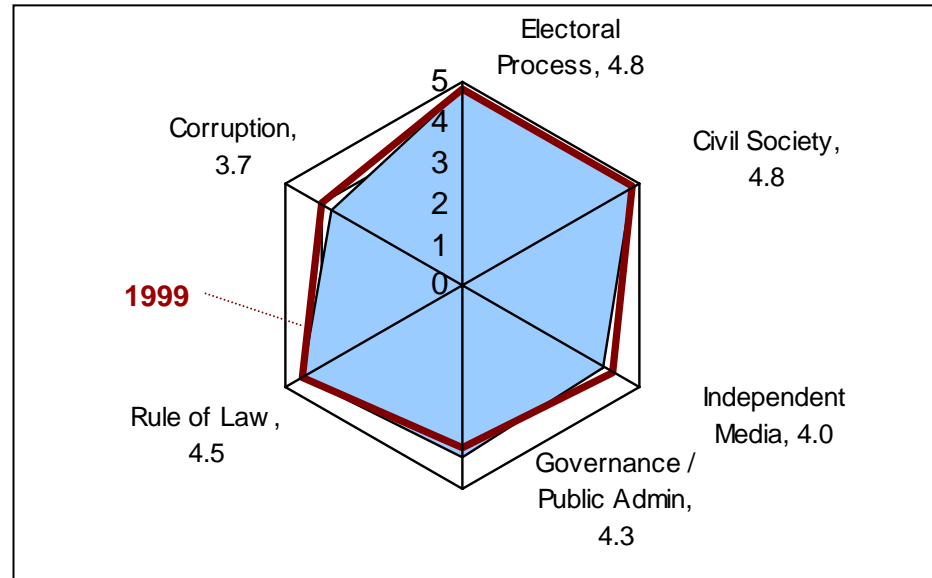
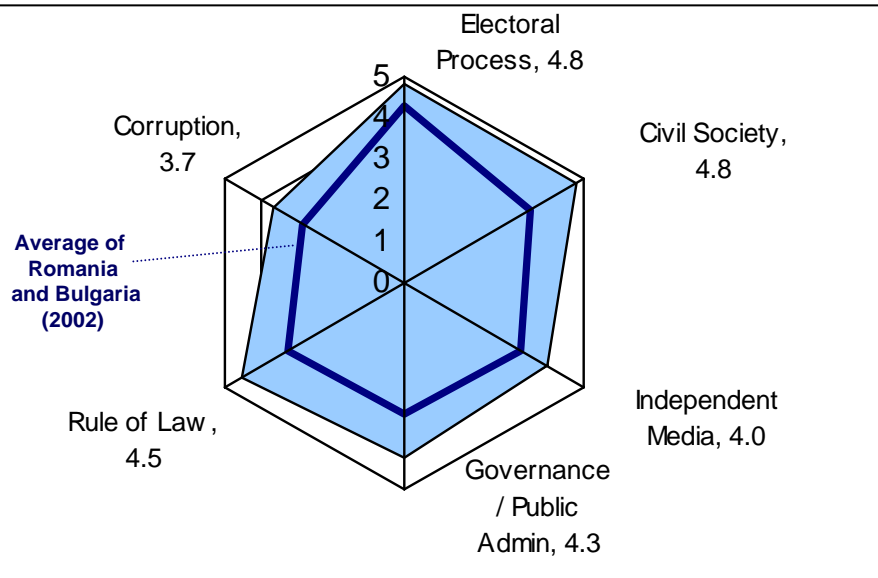


## Second Stage Economic Reform



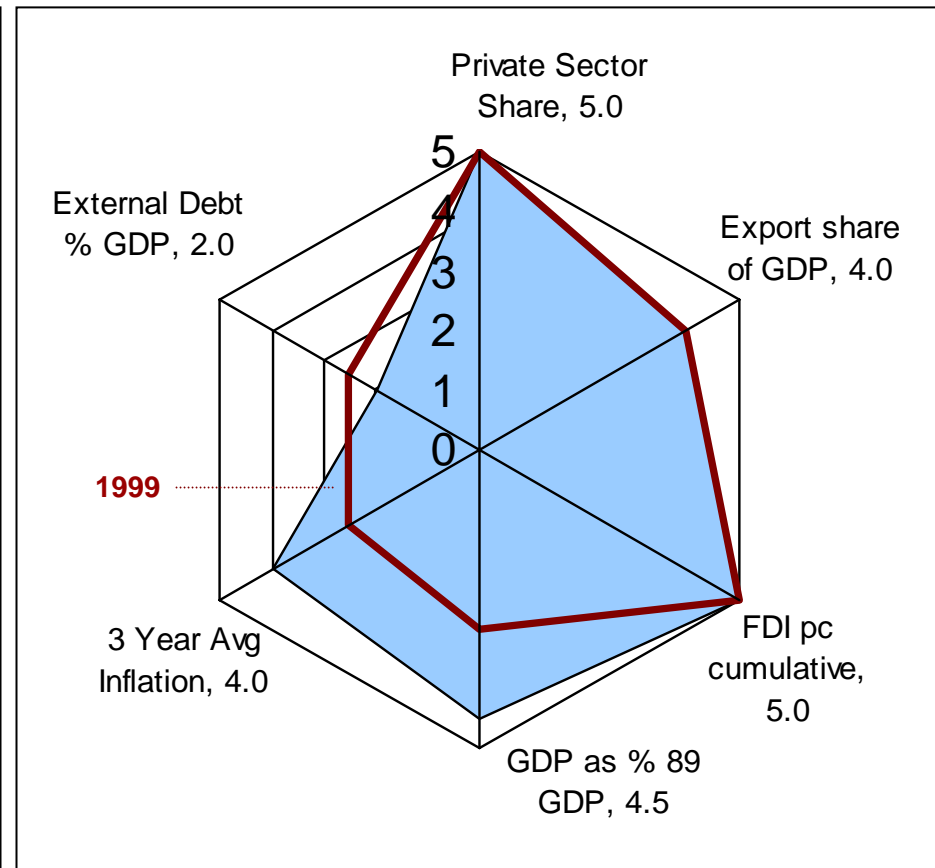
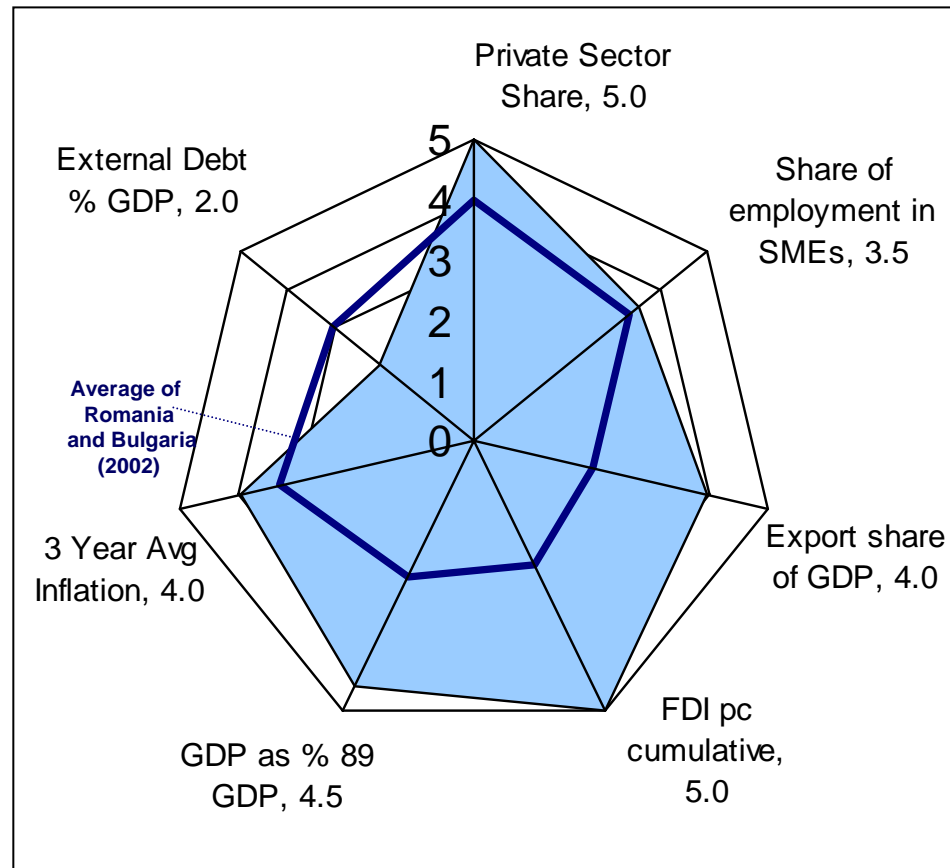
# Democratic Reforms in Hungary in 2005

(versus Romania & Bulgaria in 2002 and Hungary in 1999)



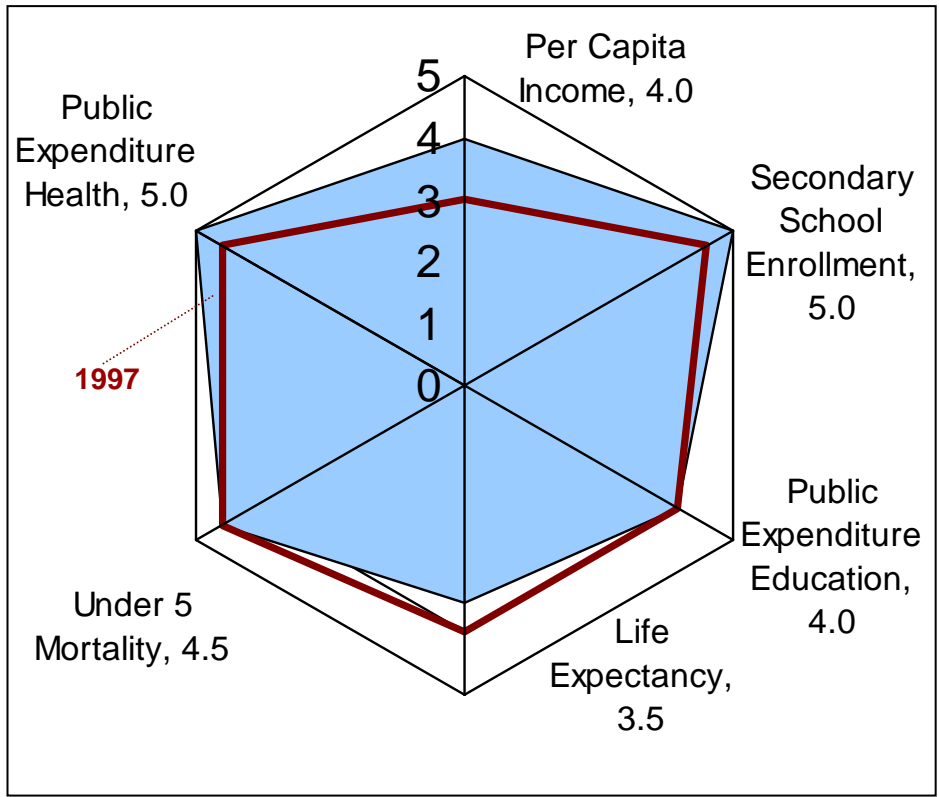
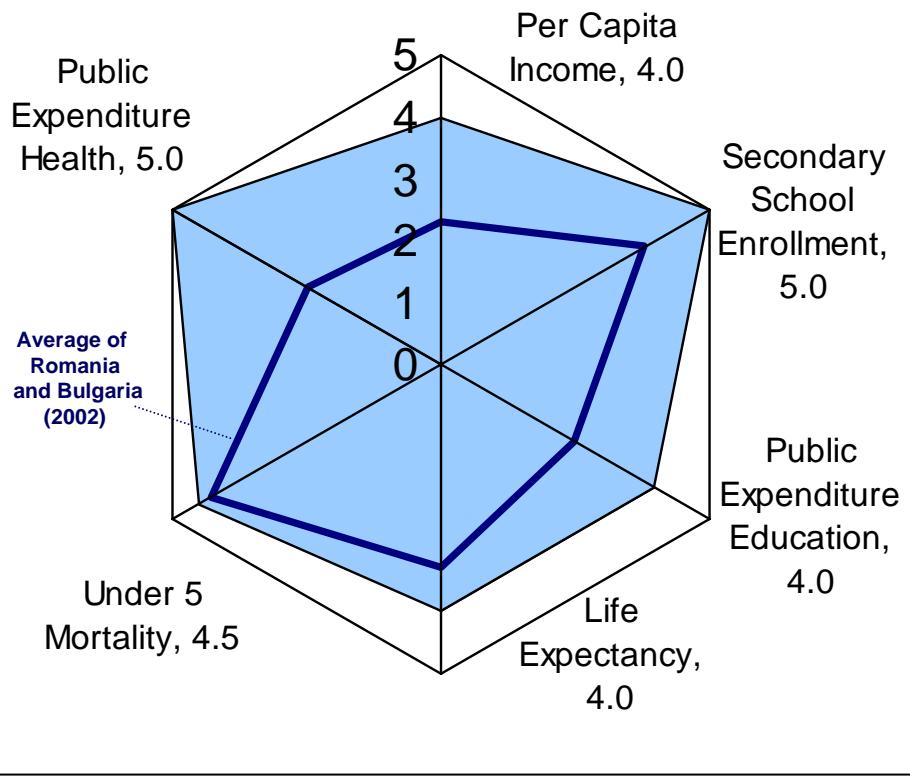
# Economic Performance in Hungary in 2004-2005

(versus Romania & Bulgaria in 2002 and Hungary in 1999)



# Human Capital Index in Hungary in 2003-05

(versus Romania & Bulgaria in 2002 and Hungary in 1997)

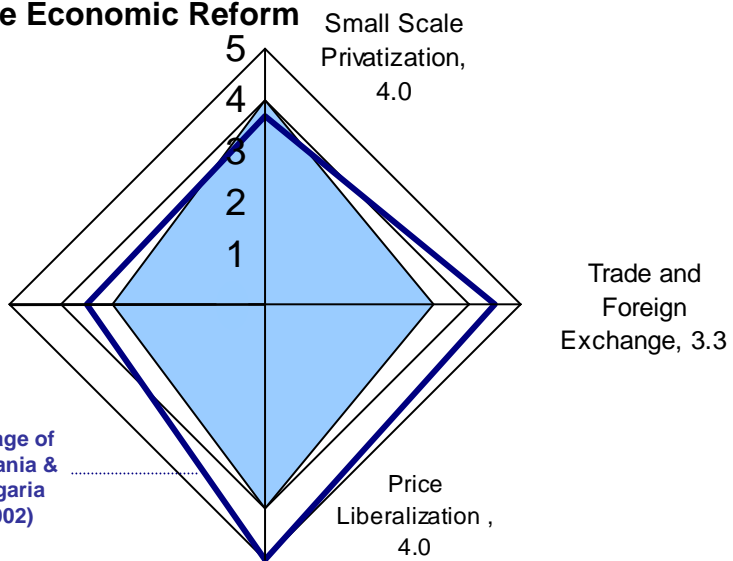


Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID, drawing from World Bank, *World Development Indicators 2005 (2005)*; UNICEF, *TransMONEE Database (December 2005)*; and EBRD *Transition Report 2005 (November 2005)*.

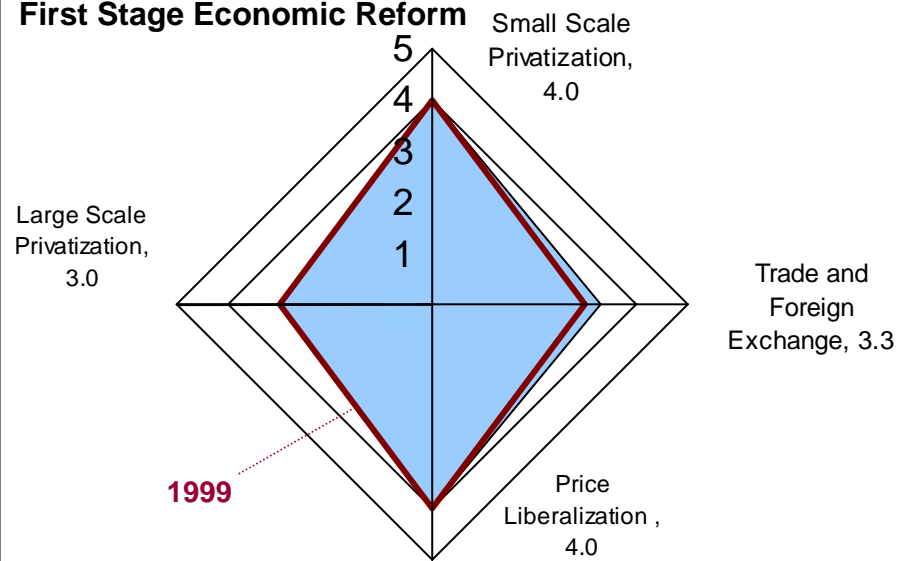
# Economic Reform in Kazakhstan in 2005

(versus Romania & Bulgaria in 2002 and Kazakhstan in 1999)

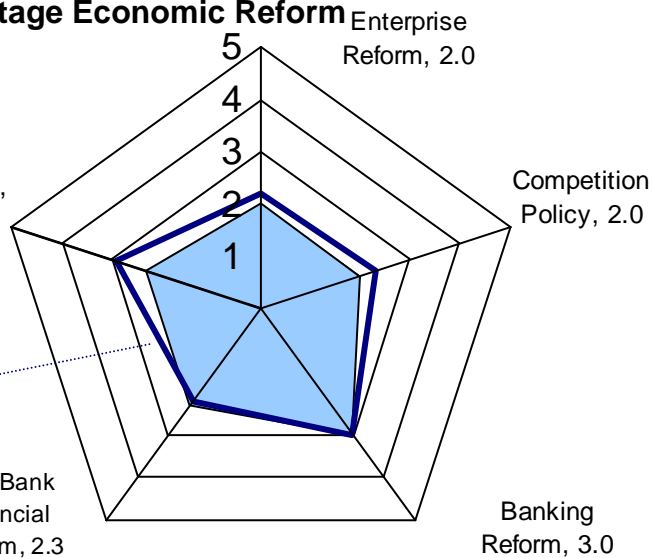
## First Stage Economic Reform



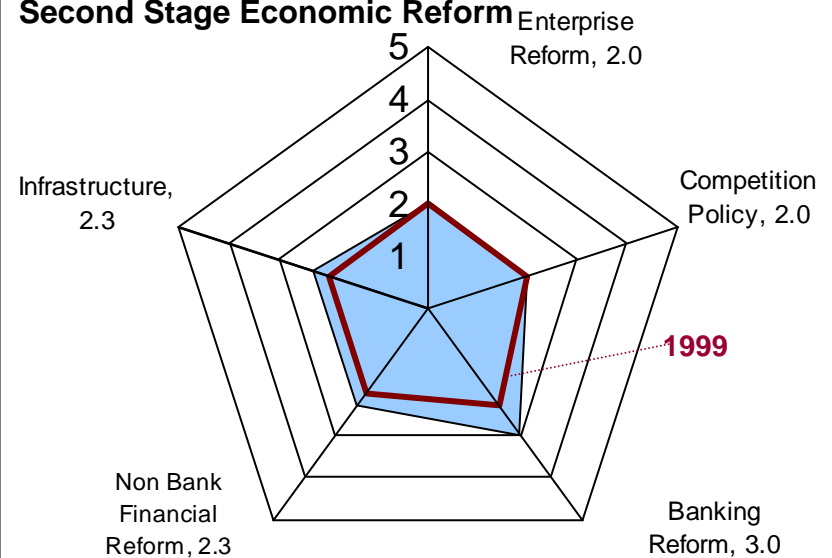
## First Stage Economic Reform



## Second Stage Economic Reform

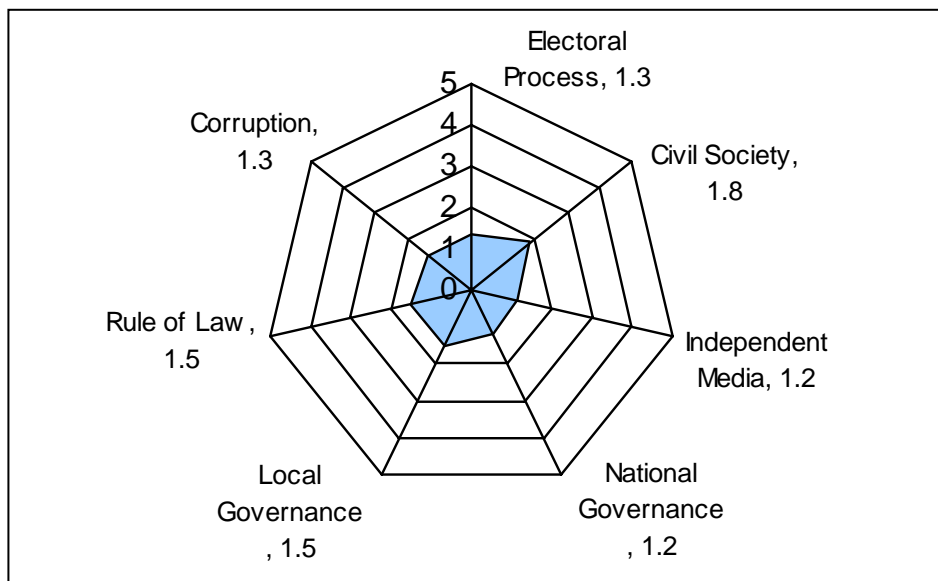
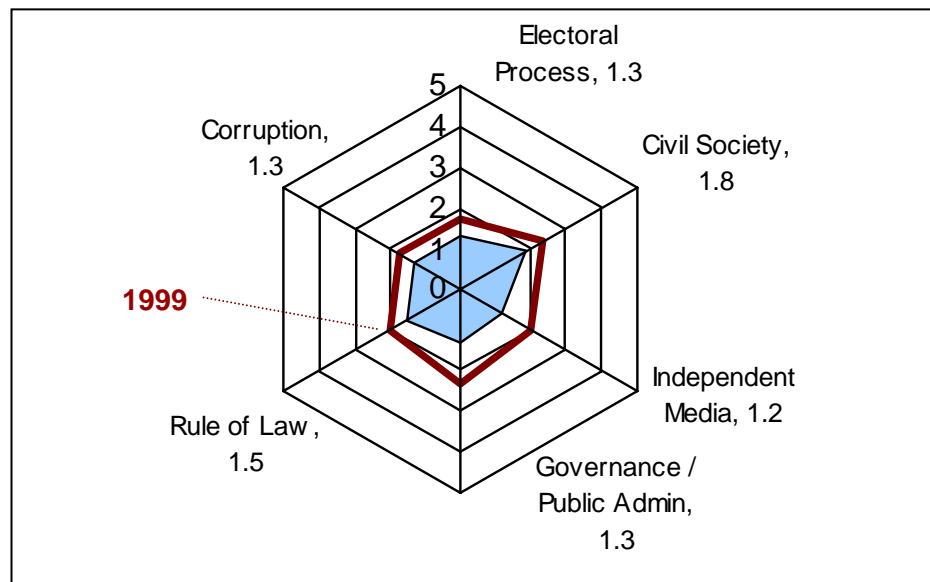
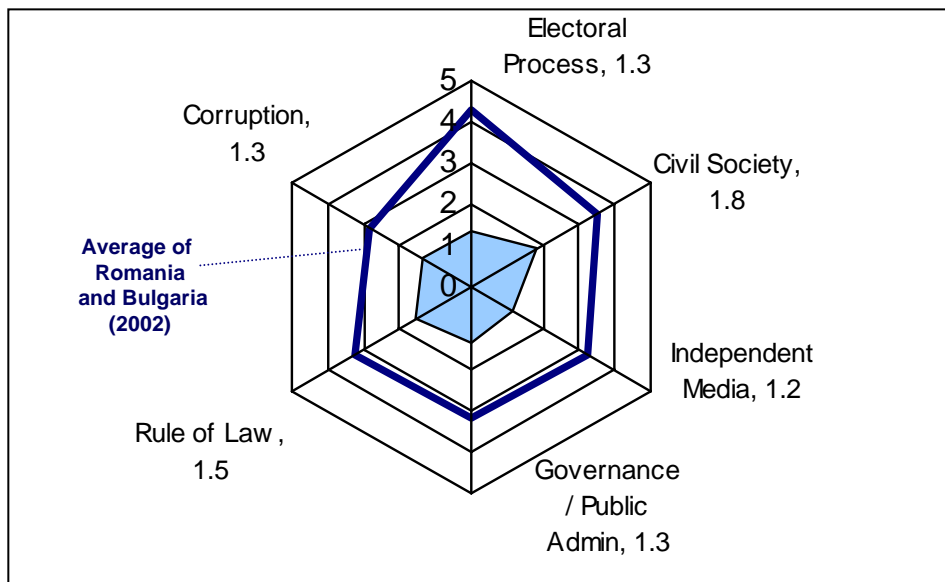


## Second Stage Economic Reform



# Democratic Reforms in Kazakhstan in 2005

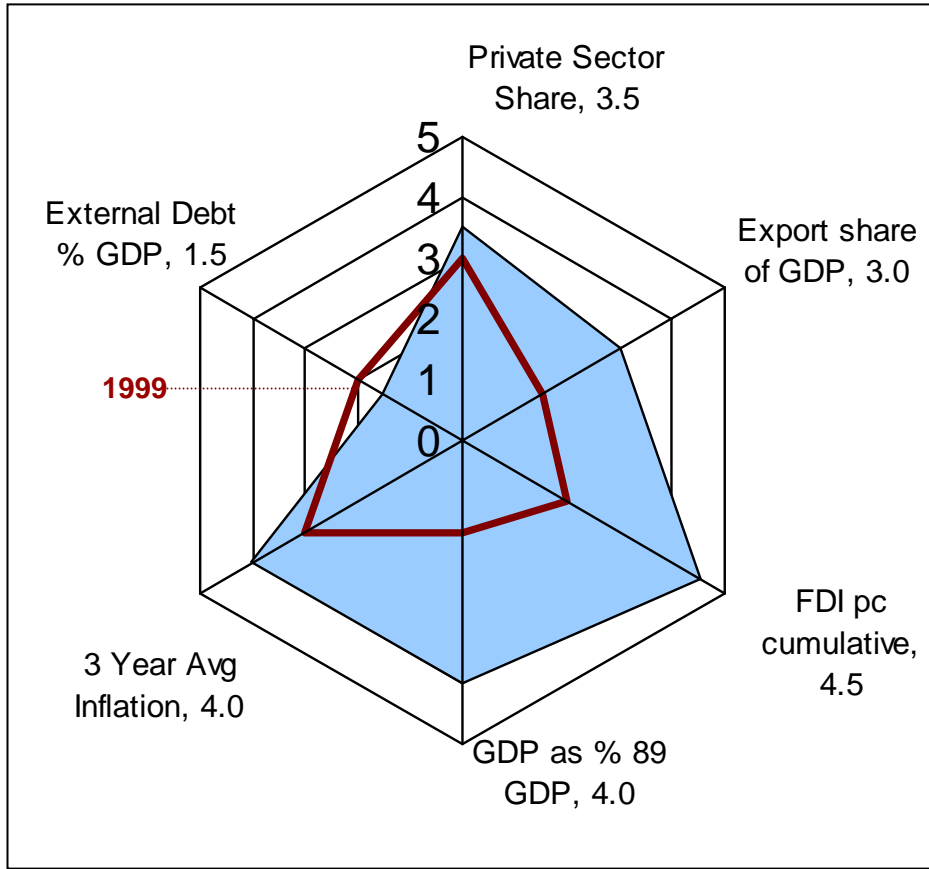
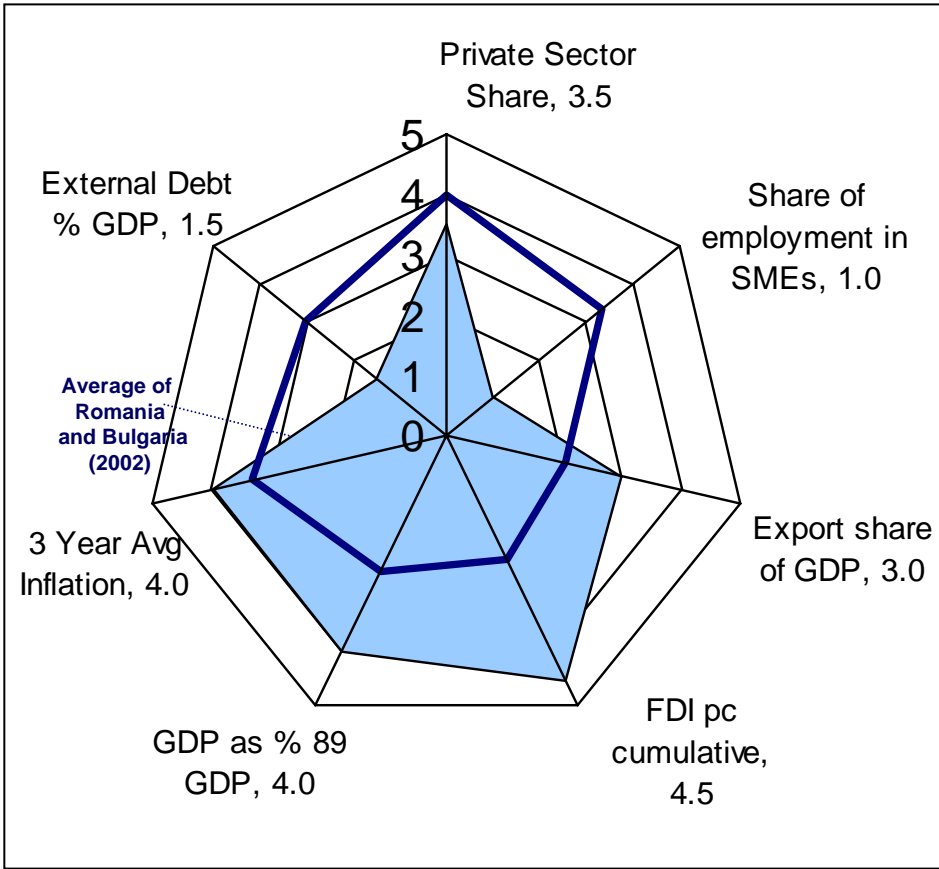
(versus Romania & Bulgaria in 2002 and Kazakhstan in 1999)





# Economic Performance in Kazakhstan in 2004-2005

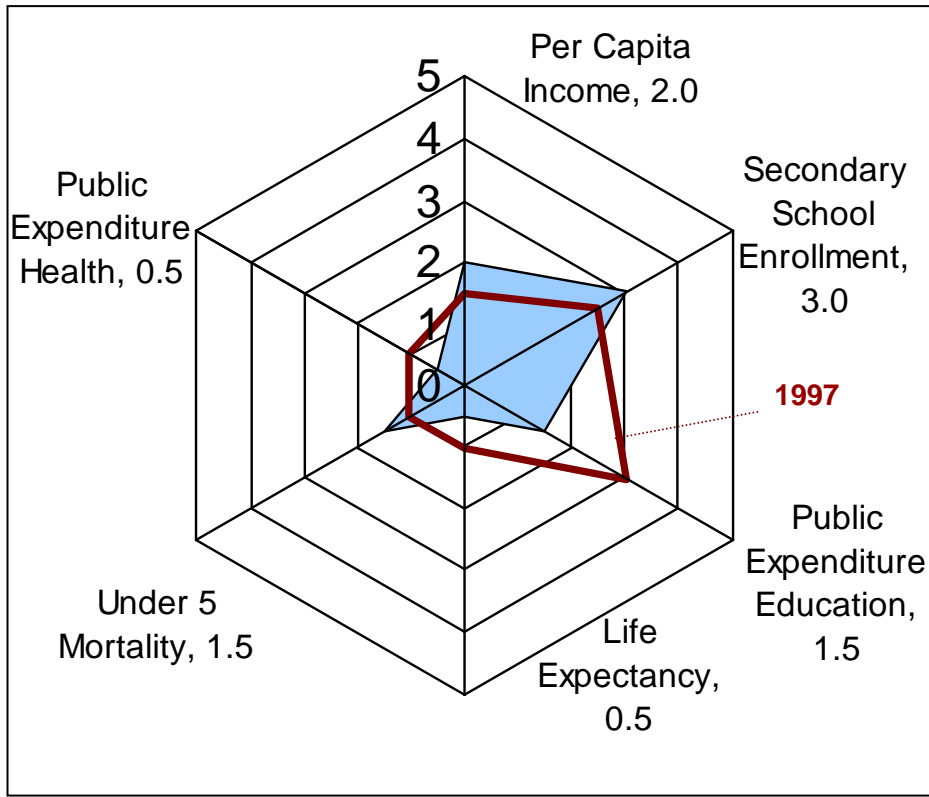
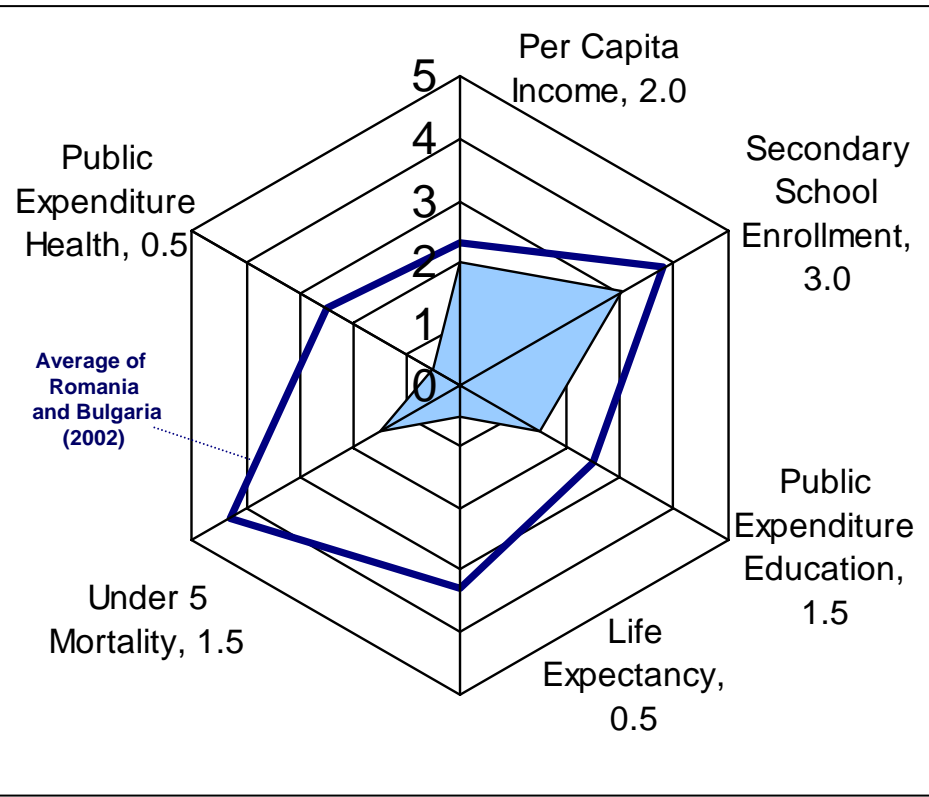
(versus Romania & Bulgaria in 2002 and Kazakhstan in 1999)



Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID, drawing from World Bank, *World Development Indicators 2005* (2005); EBRD, *Transition Report* (November 2005), UNECE, SME Databank (2003).

# Human Capital Index in Kazakhstan in 2003-05

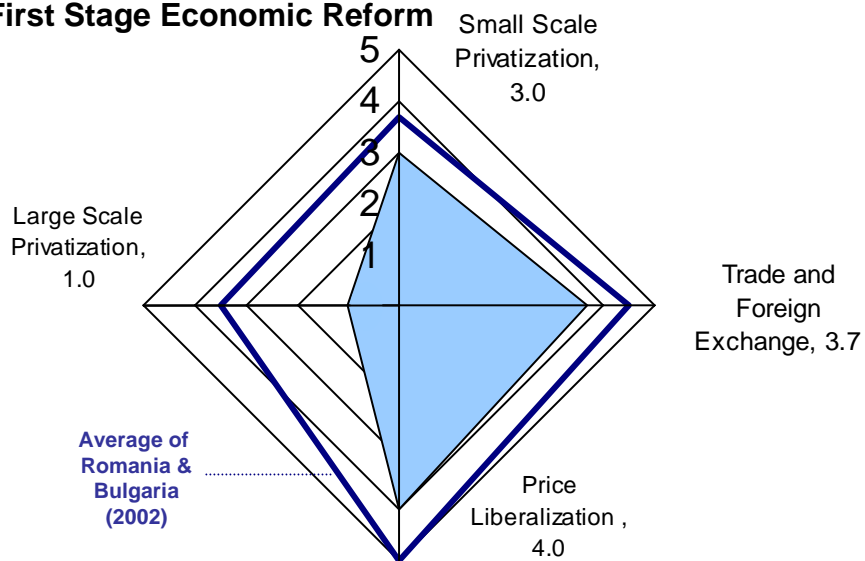
(versus Romania & Bulgaria in 2002 and Kazakhstan in 1997)



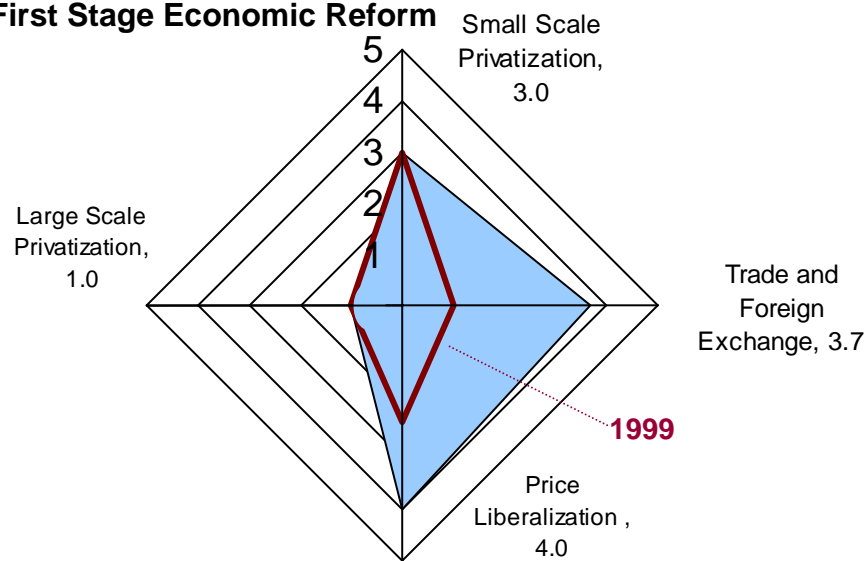
# Economic Reform in Kosovo in 2005

(versus Romania & Bulgaria in 2002 and Serbia & Montenegro in 1999)

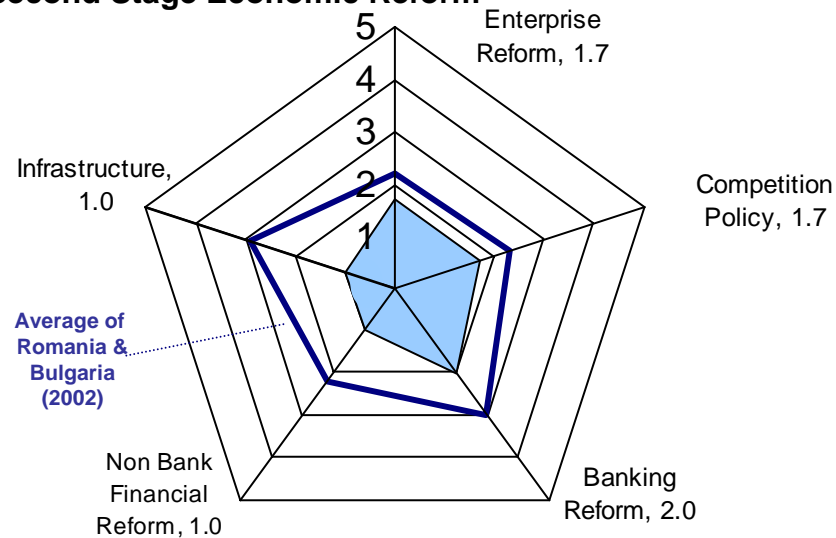
## First Stage Economic Reform



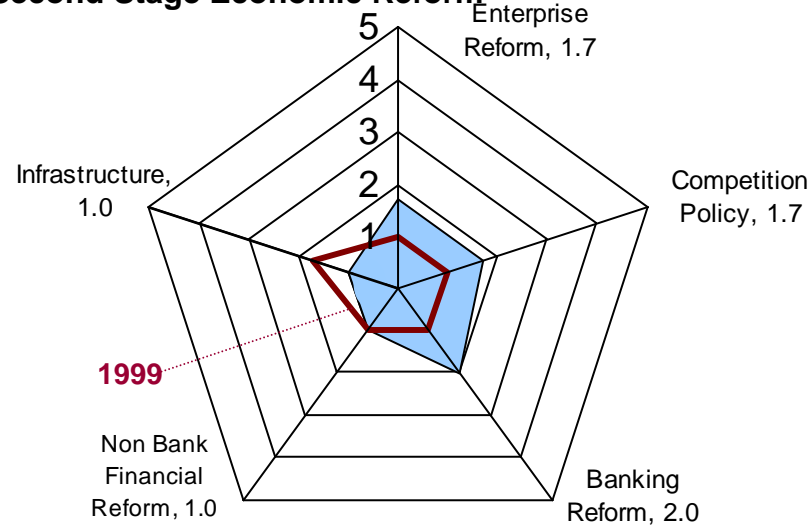
## First Stage Economic Reform



## Second Stage Economic Reform

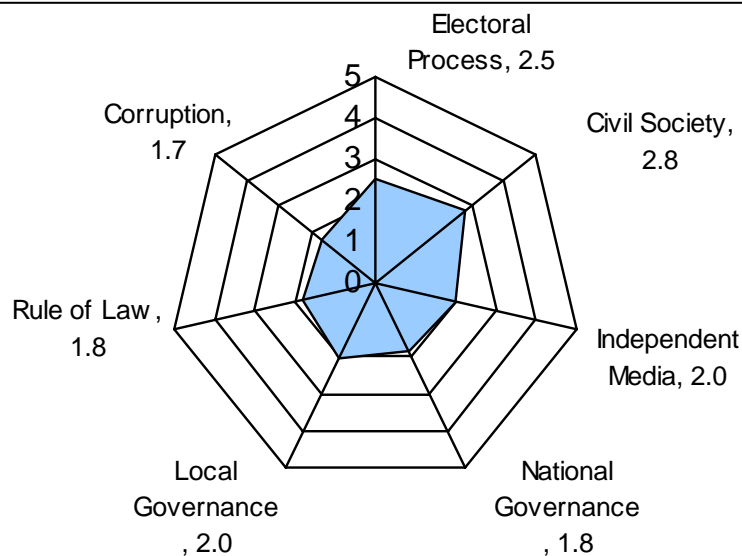
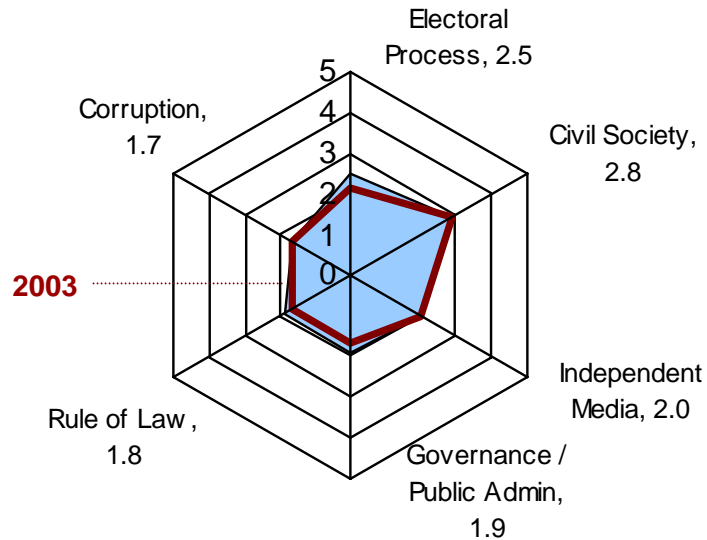
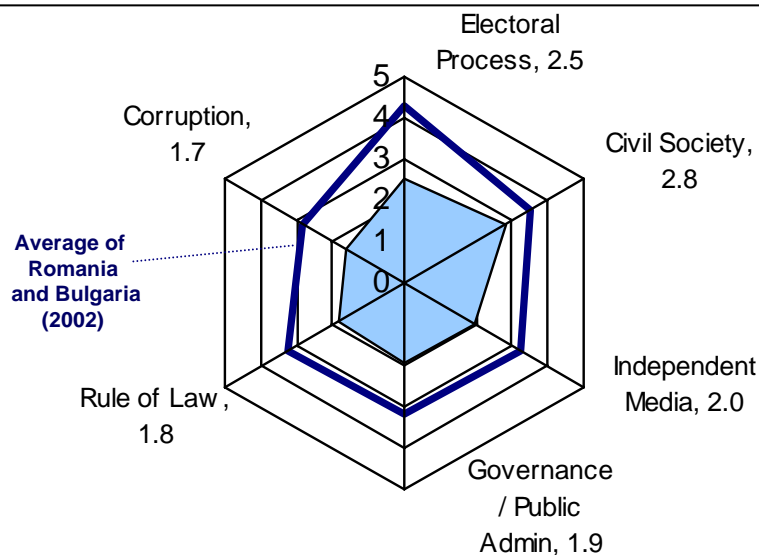


## Second Stage Economic Reform



# Democratic Reforms in Kosovo in 2005

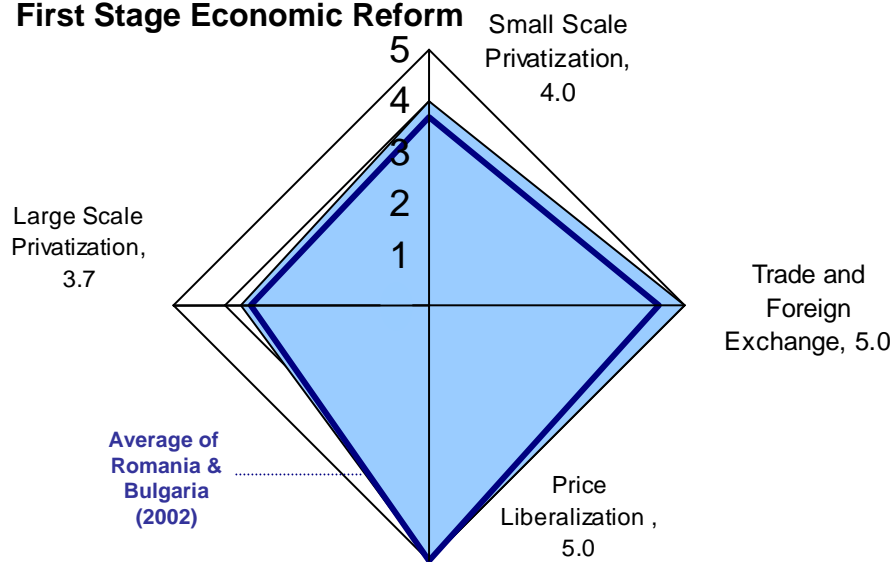
(versus Romania & Bulgaria in 2002 and Kosovo in 1999)



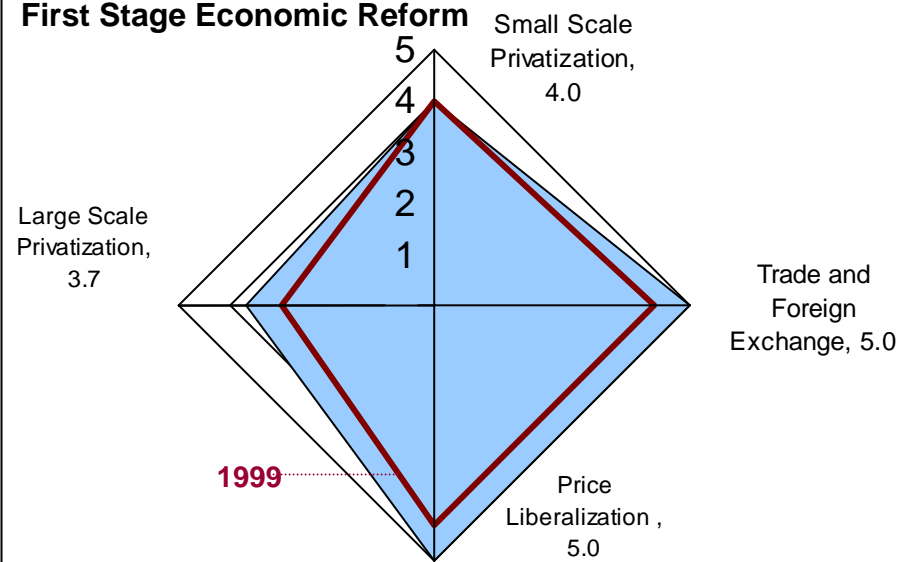
# Economic Reform in Kyrgyzstan in 2005

(versus Romania & Bulgaria in 2002 and Kyrgyzstan in 1999)

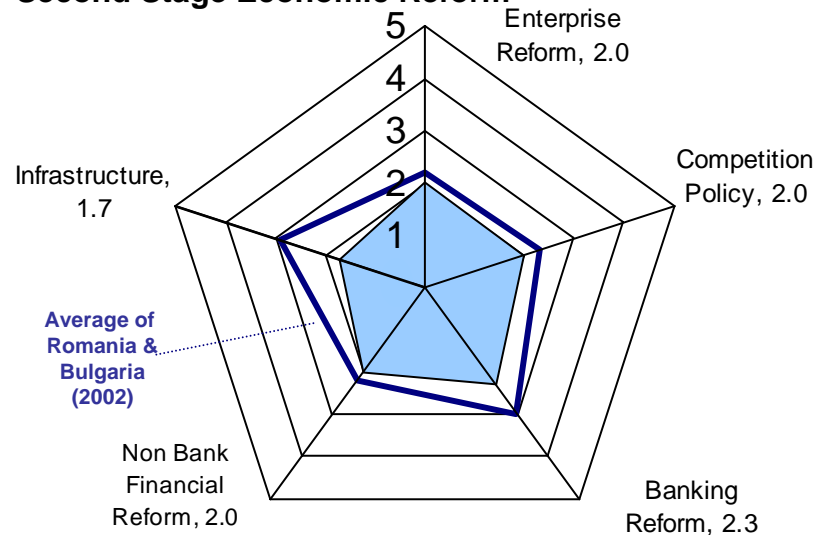
## First Stage Economic Reform



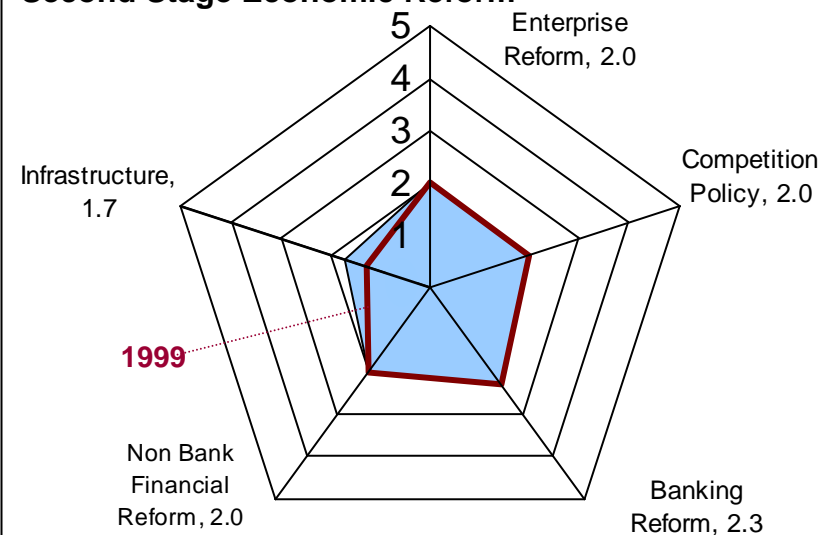
## First Stage Economic Reform



## Second Stage Economic Reform

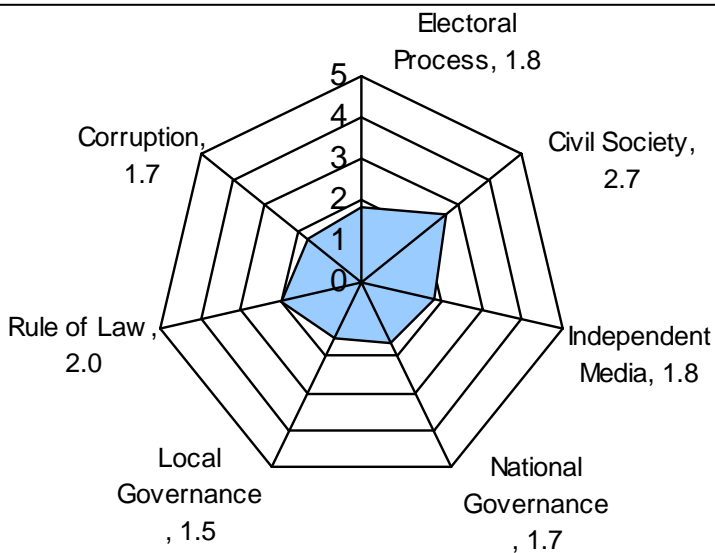
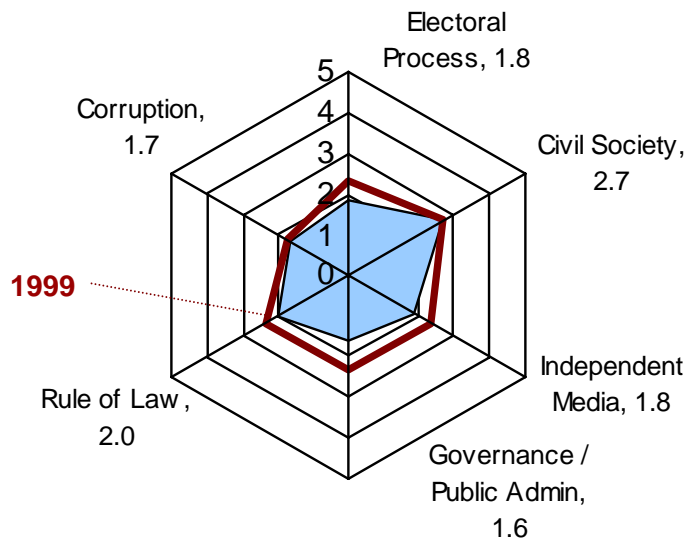
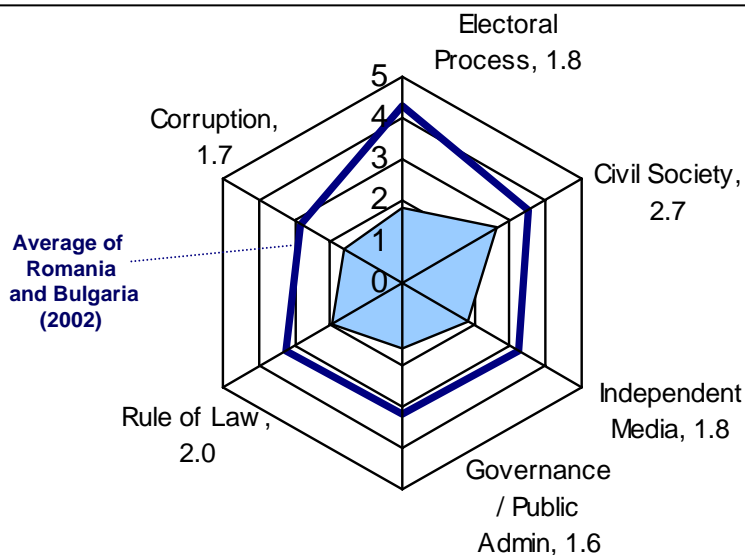


## Second Stage Economic Reform



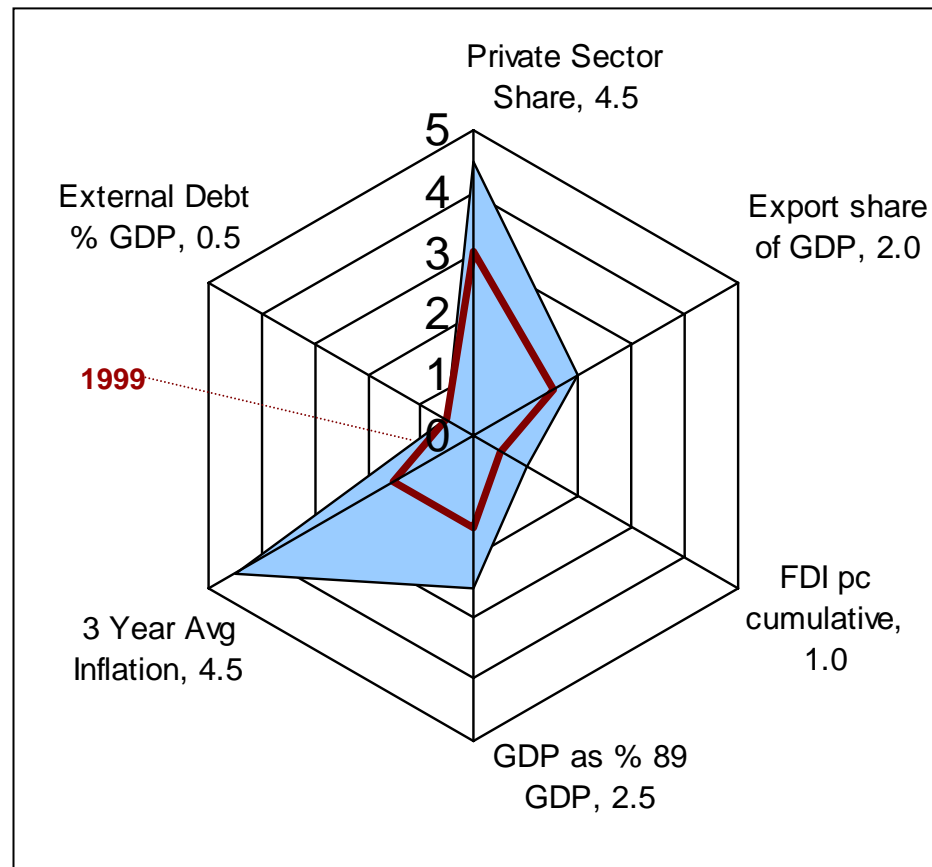
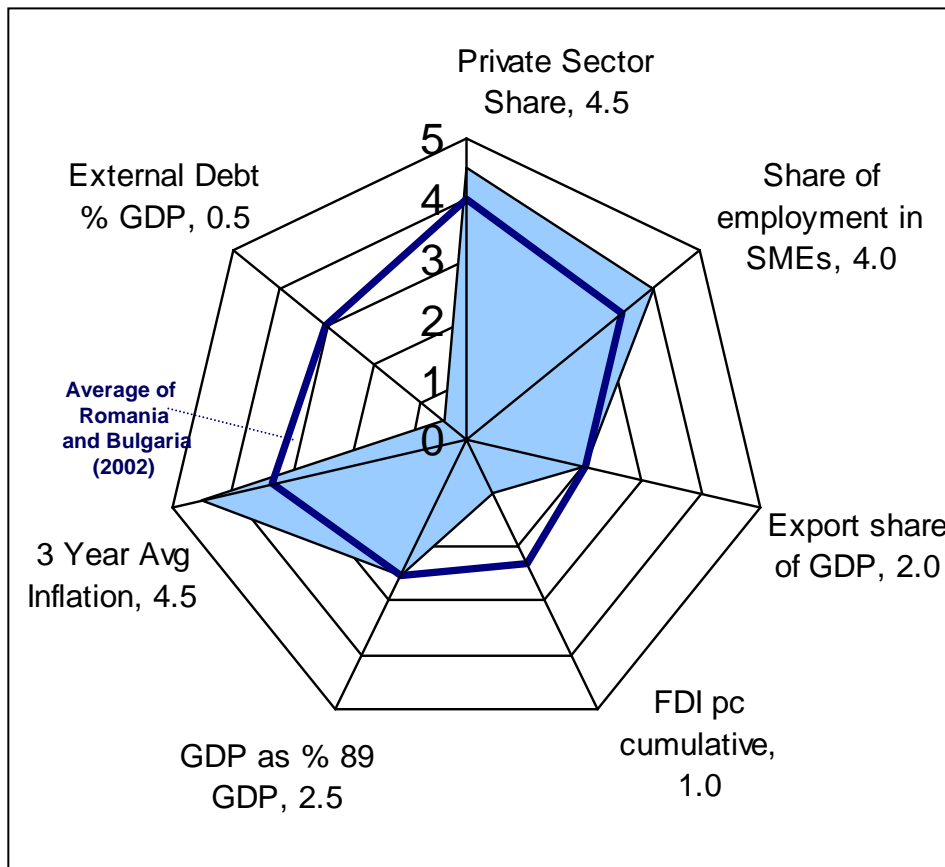
# Democratic Reforms in Kyrgyzstan in 2005

(versus Romania & Bulgaria in 2002 and Kyrgyzstan in 1999)



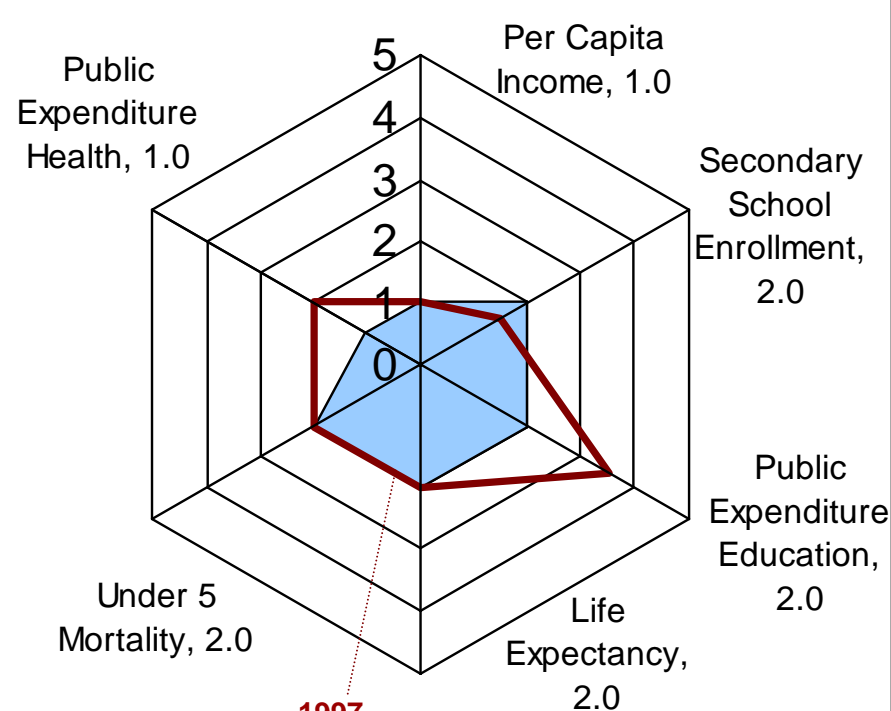
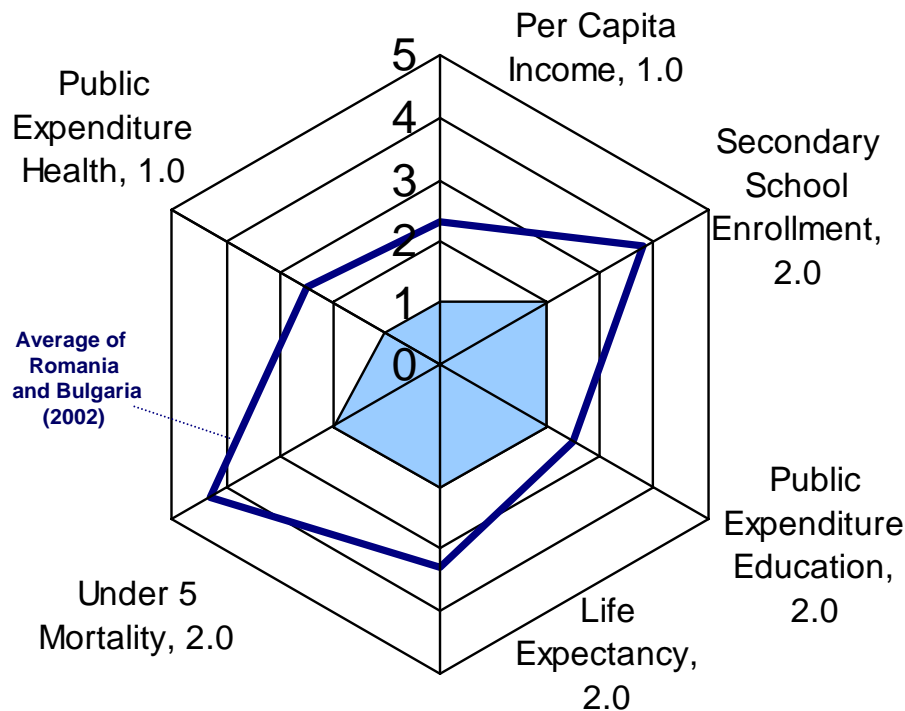
# Economic Performance in Kyrgyzstan in 2004-2005

(versus Romania & Bulgaria in 2002 and Kyrgyzstan in 1999)



# Human Capital Index in Kyrgyzstan in 2003-05

(versus Romania & Bulgaria in 2002 and Kyrgyzstan in 1997)

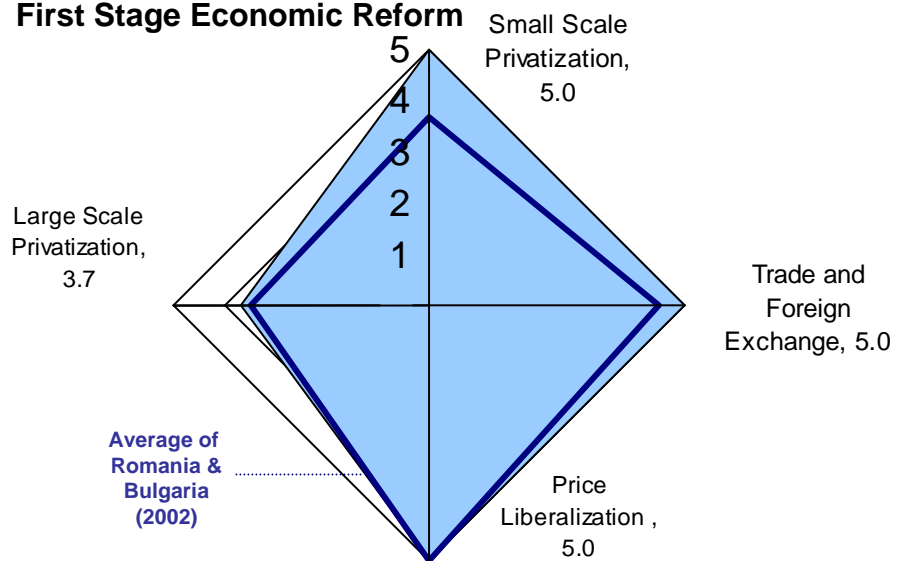




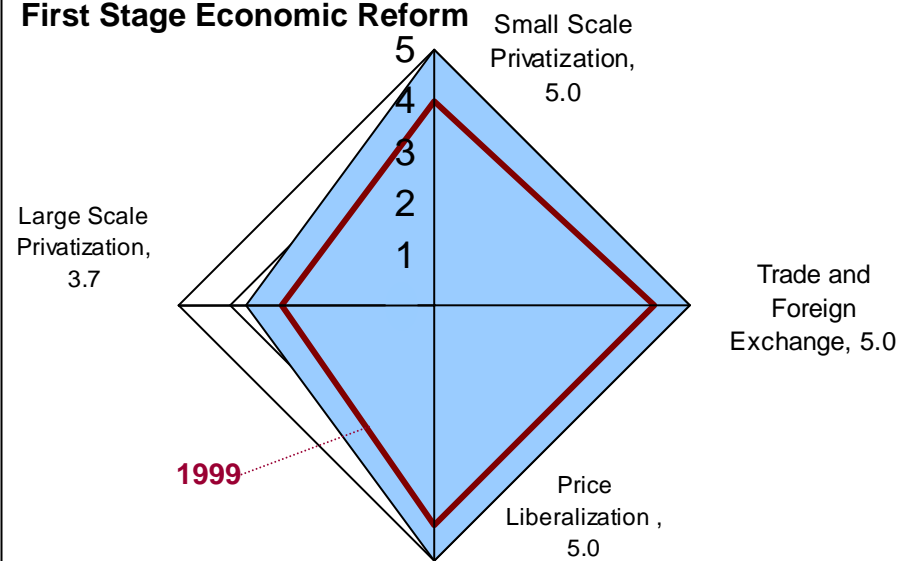
# Economic Reform in Latvia in 2005

(versus Romania & Bulgaria in 2002 and Latvia in 1999)

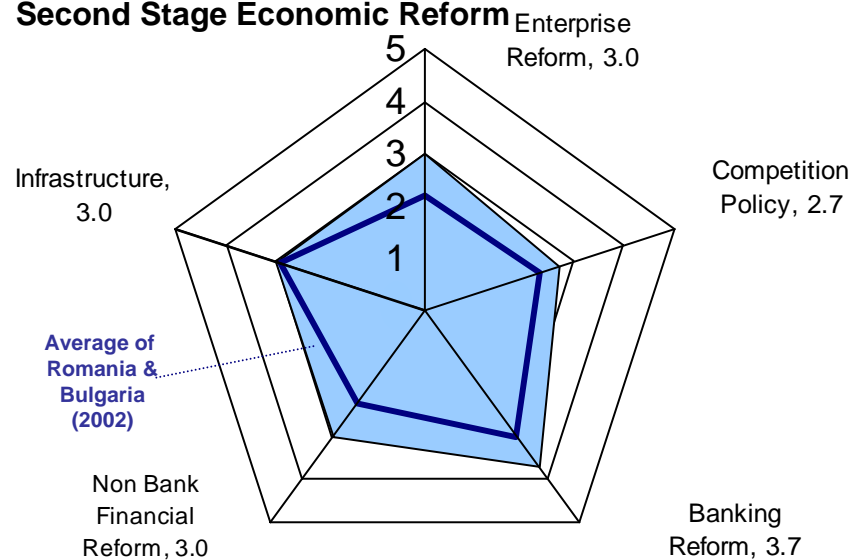
## First Stage Economic Reform



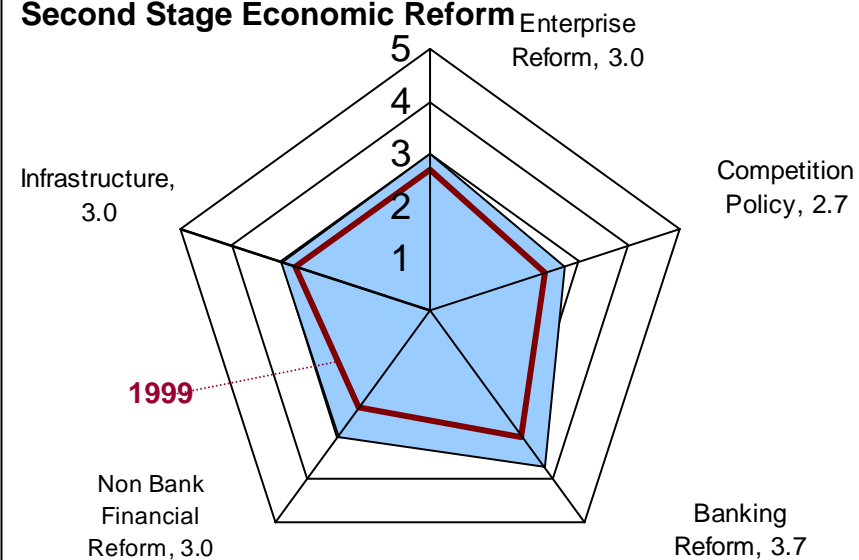
## First Stage Economic Reform



## Second Stage Economic Reform

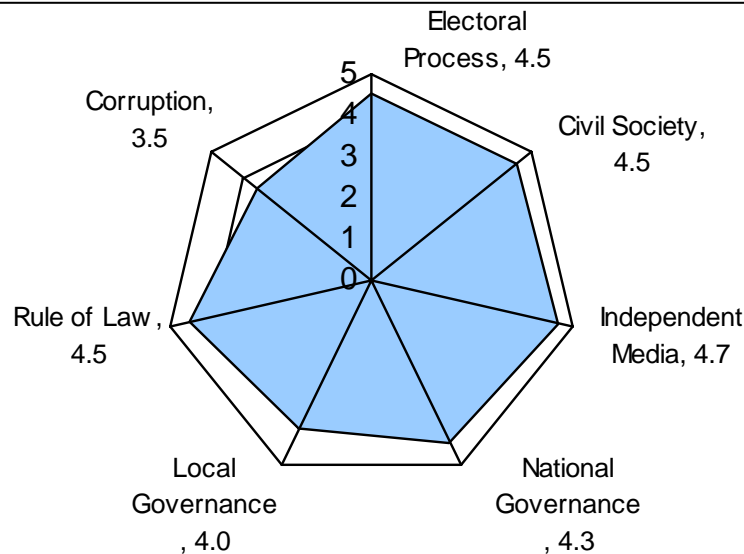
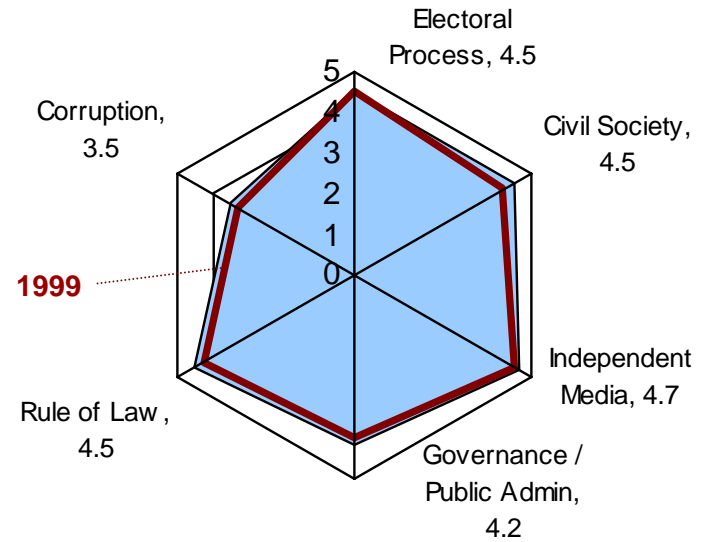
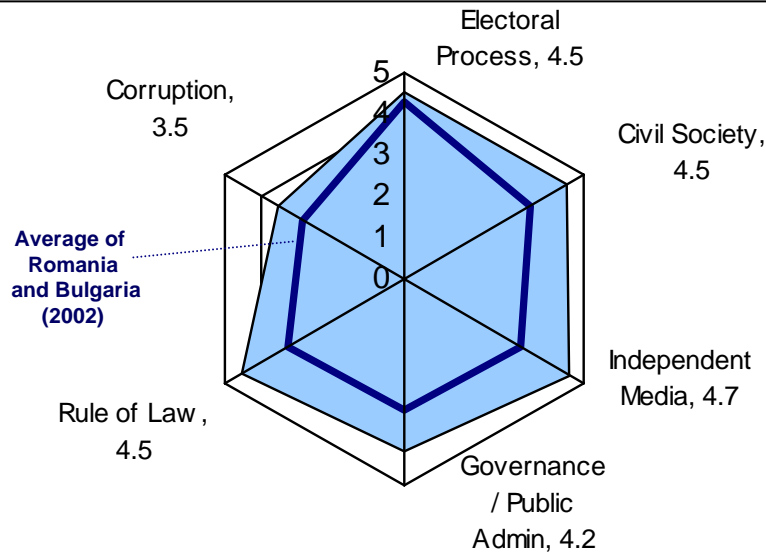


## Second Stage Economic Reform



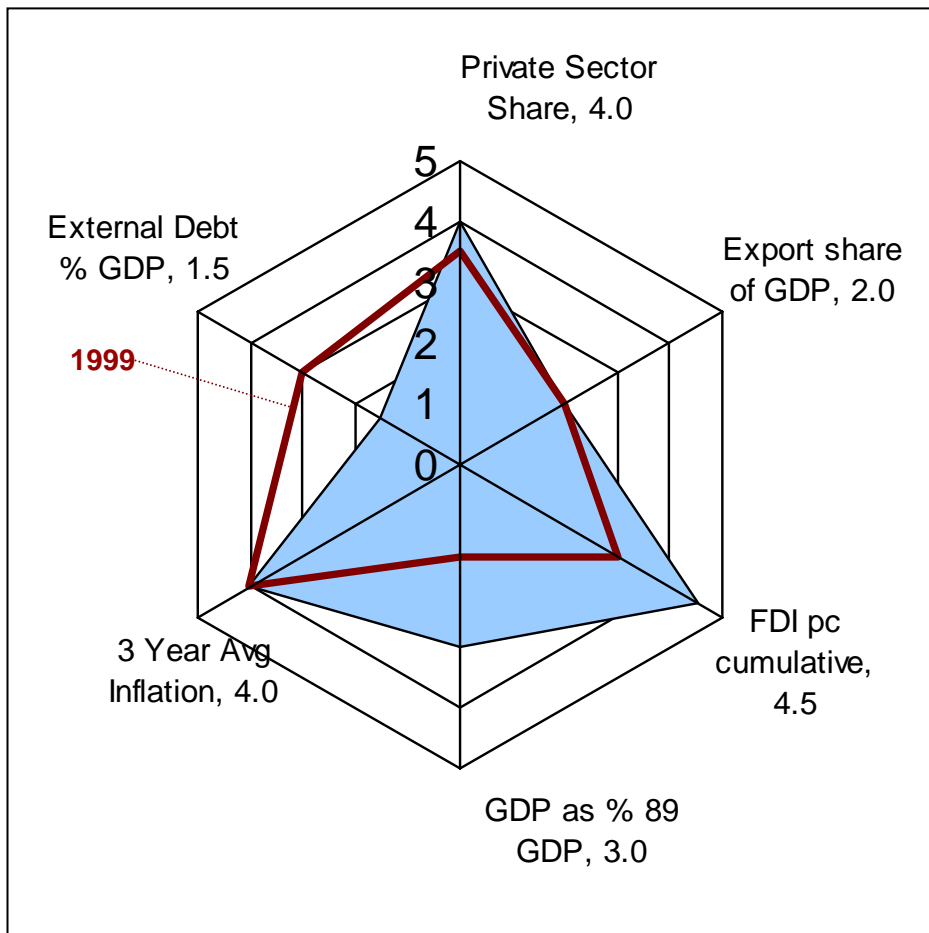
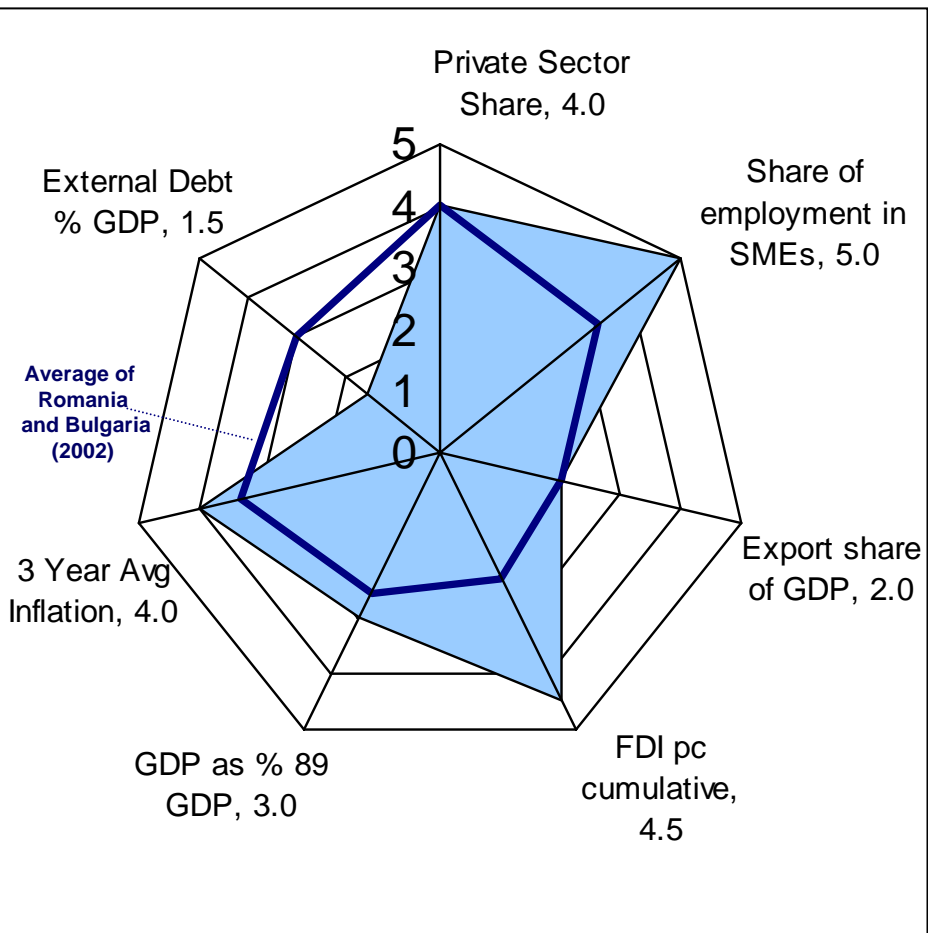
# Democratic Reforms in Latvia in 2005

(versus Romania & Bulgaria in 2002 and Latvia in 1999)



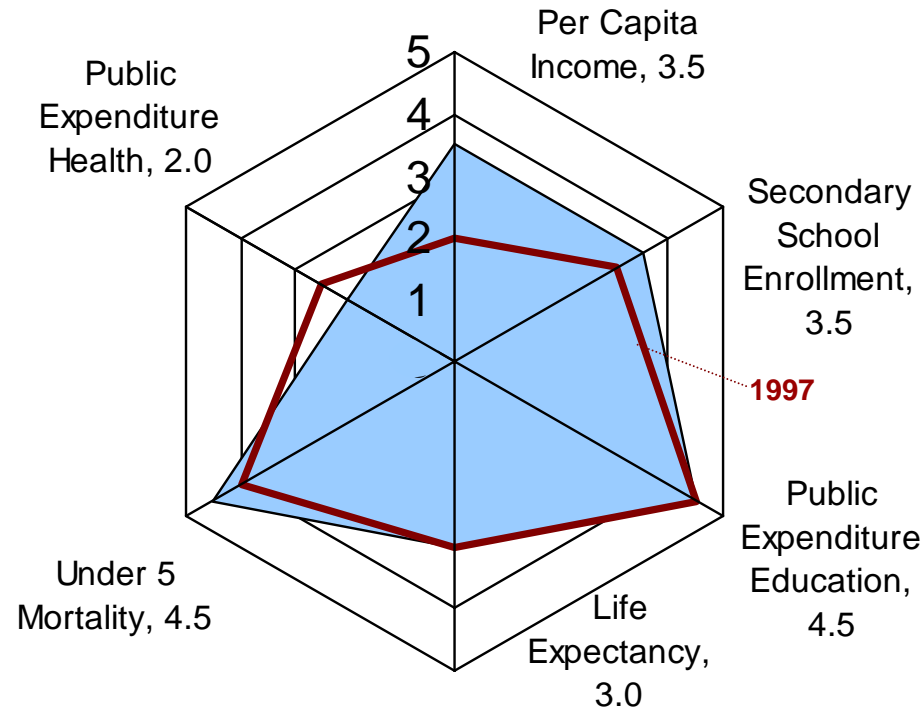
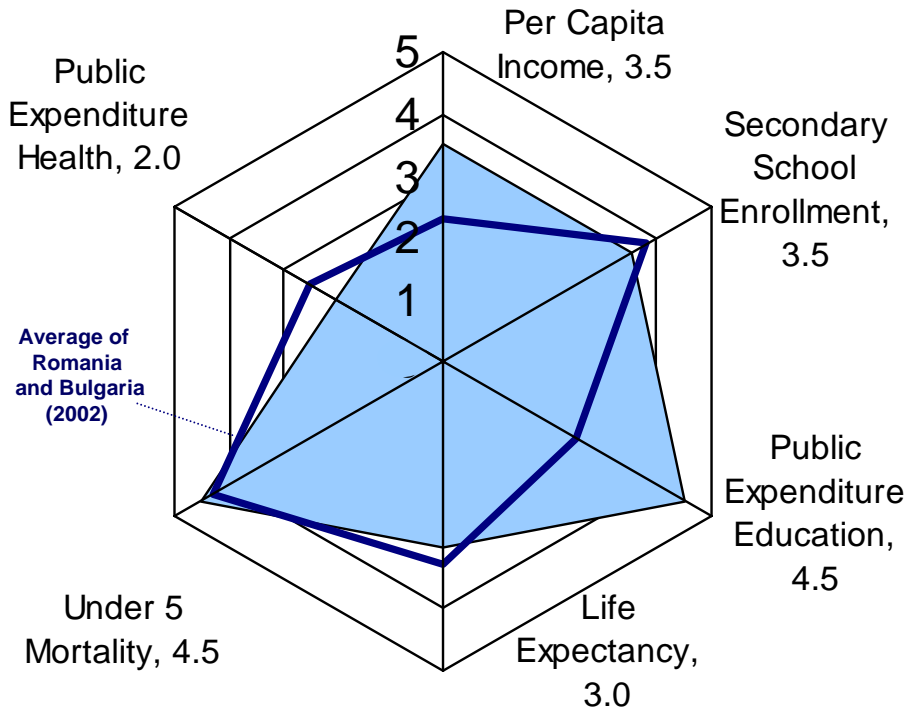
# Economic Performance in Latvia in 2004-2005

(versus Romania & Bulgaria in 2002 and Latvia in 1999)



# Human Capital Index in Latvia in 2003-05

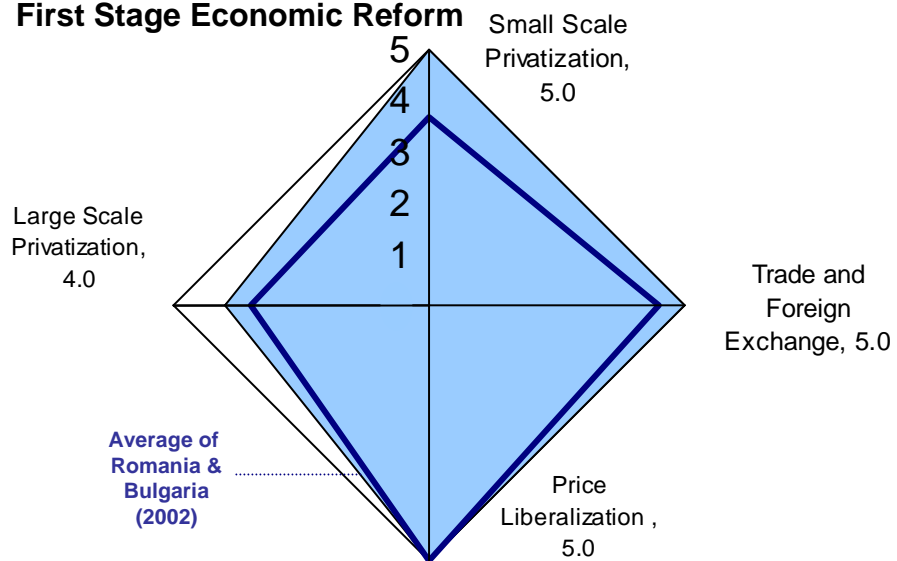
(versus Romania & Bulgaria in 2002 and Latvia in 1997)



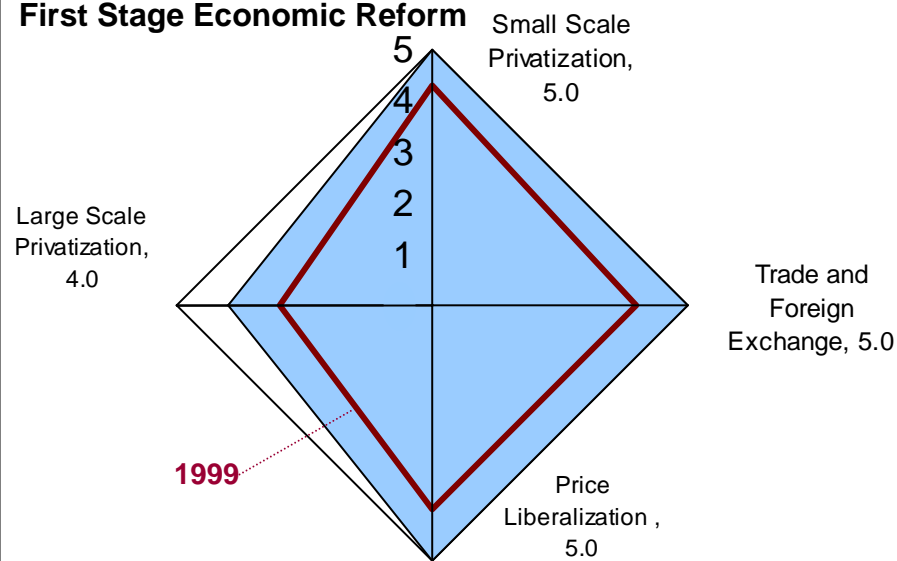
# Economic Reform in Lithuania in 2005

(versus Romania & Bulgaria in 2002 and Lithuania in 1999)

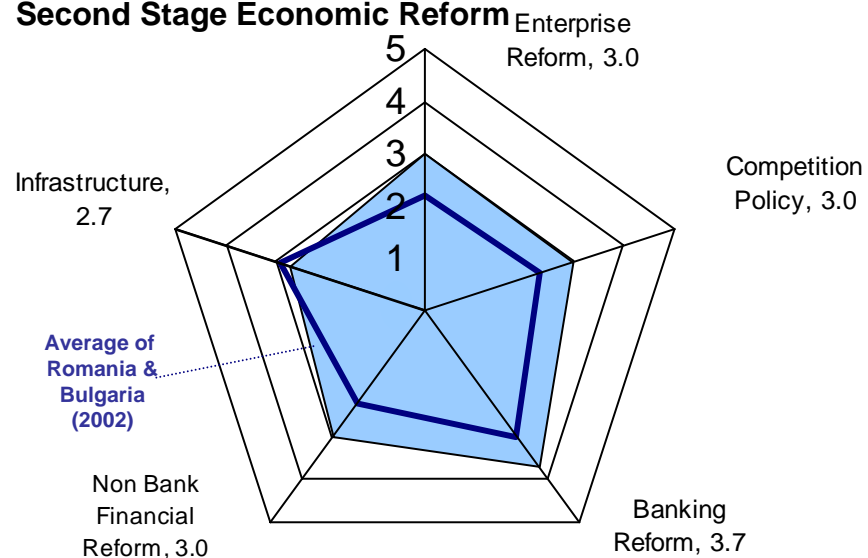
## First Stage Economic Reform



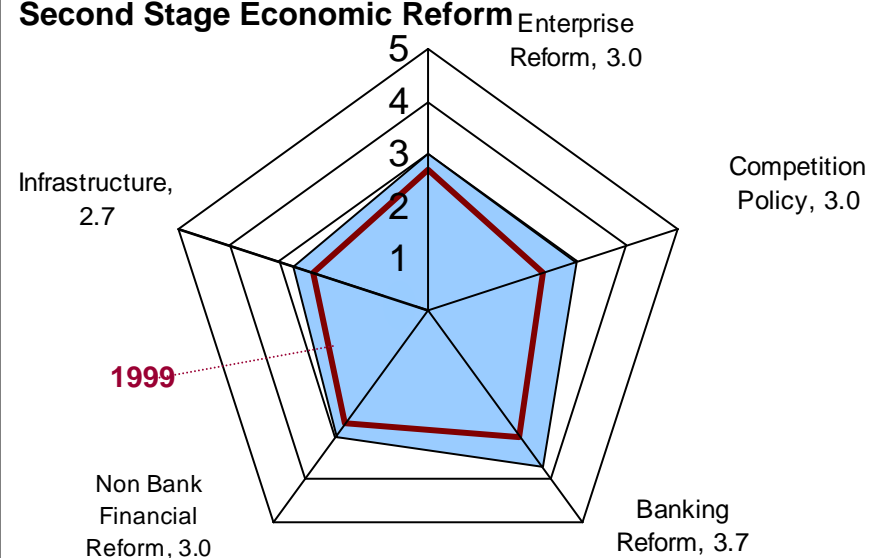
## First Stage Economic Reform



## Second Stage Economic Reform

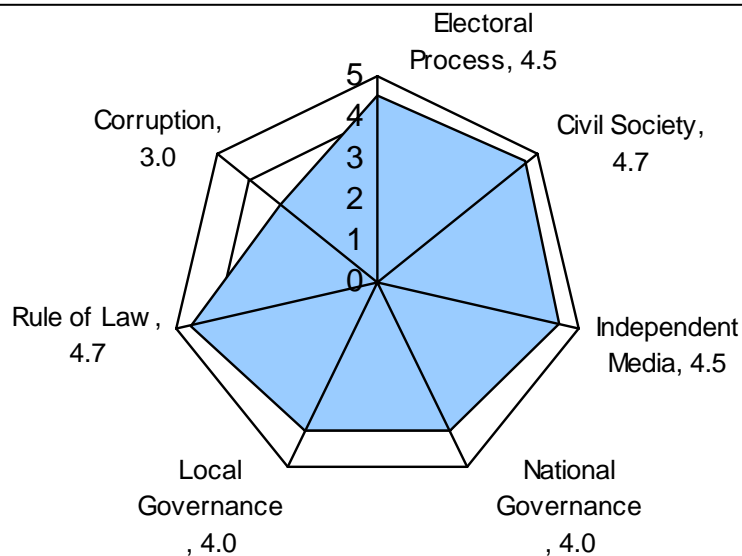
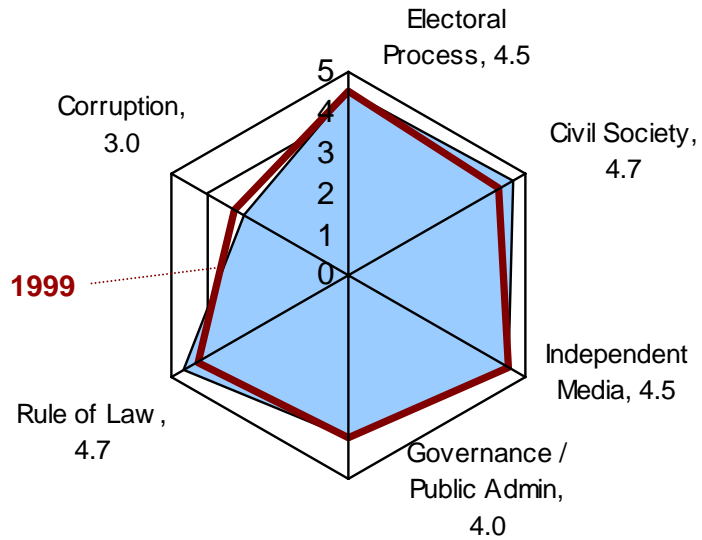
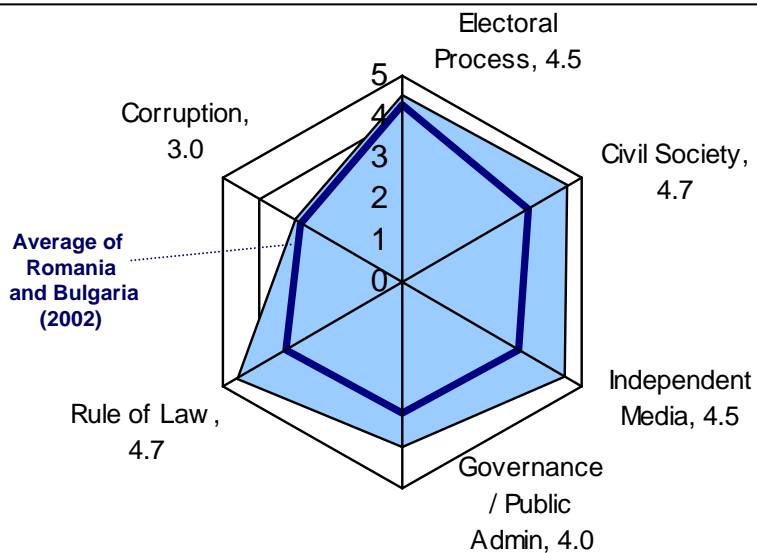


## Second Stage Economic Reform



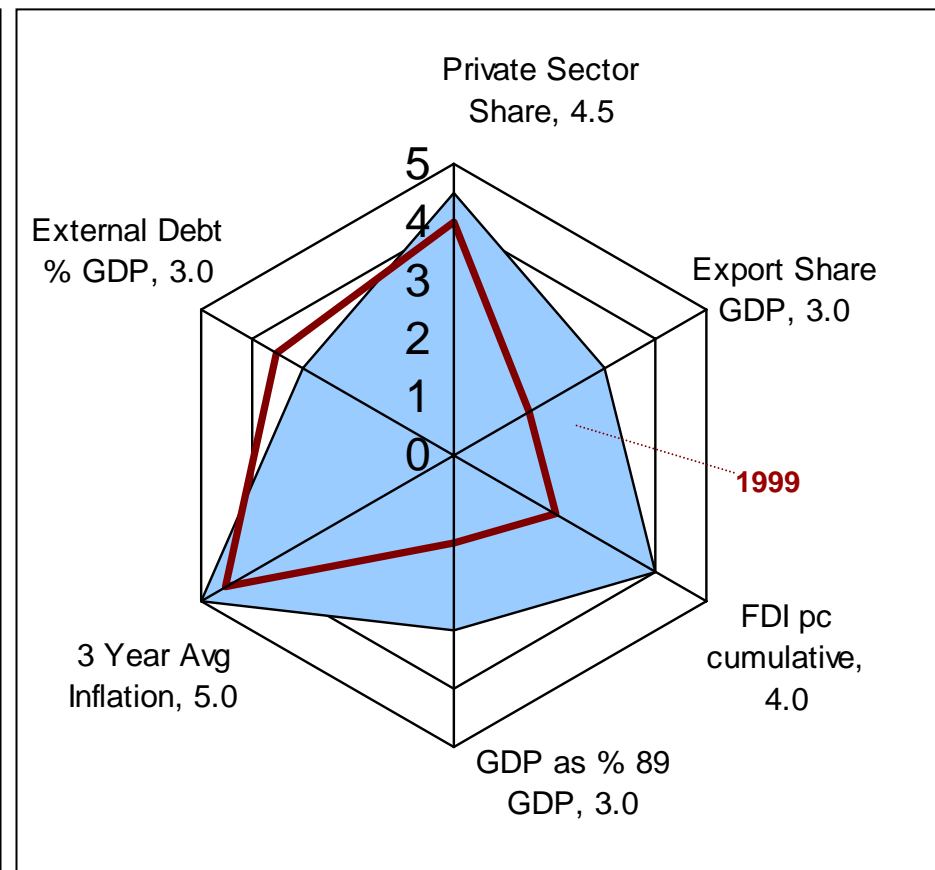
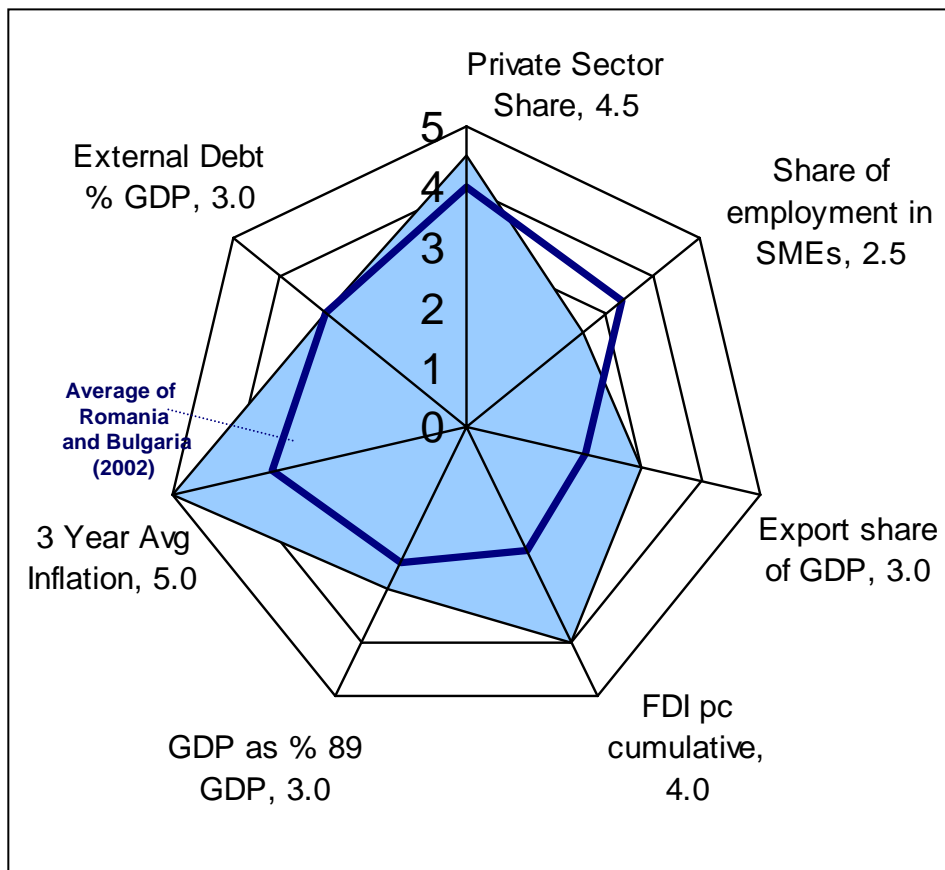
# Democratic Reforms in Lithuania in 2005

(versus Romania & Bulgaria in 2002 and Lithuania in 1999)



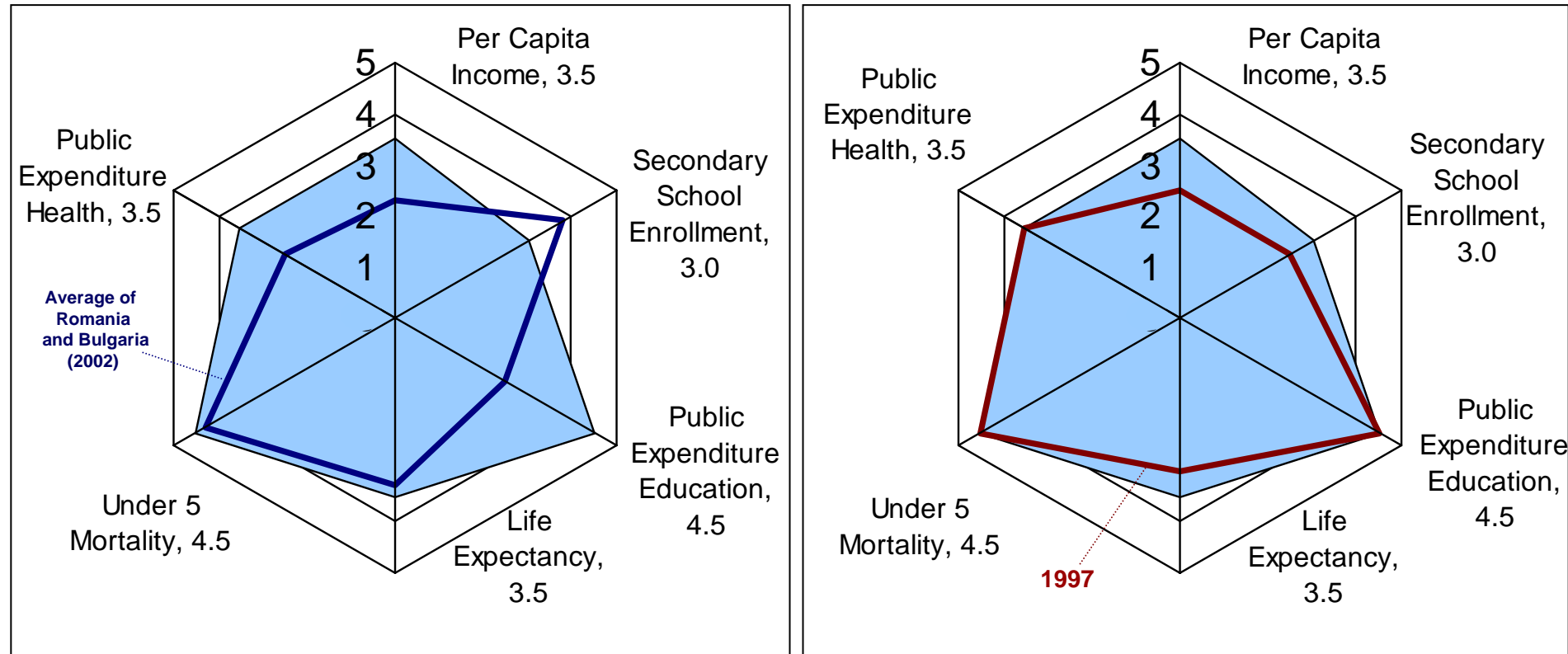
# Economic Performance in Lithuania in 2004-2005

(versus Romania & Bulgaria in 2002 and Lithuania in 1999)



# Human Capital Index in Lithuania in 2003-05

(versus Romania & Bulgaria in 2002 and Lithuania in 1997)

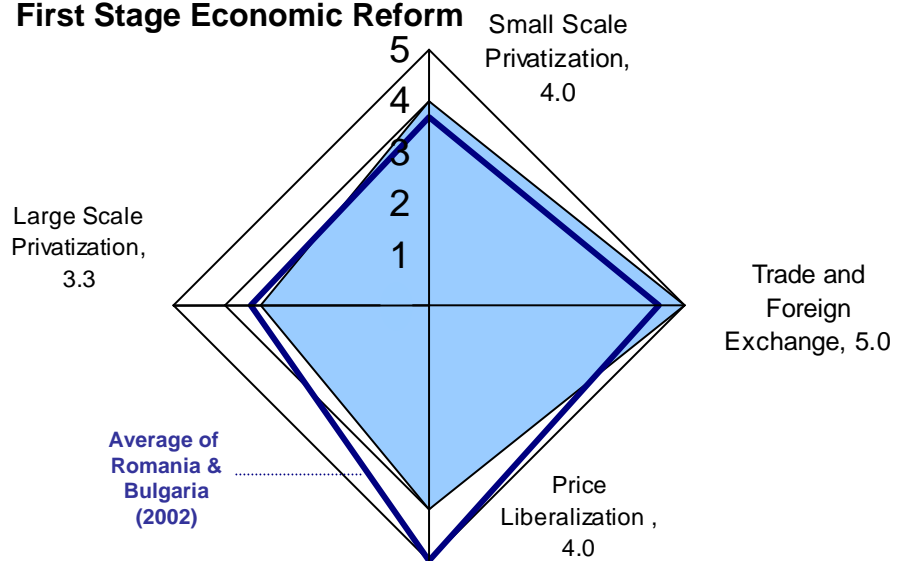




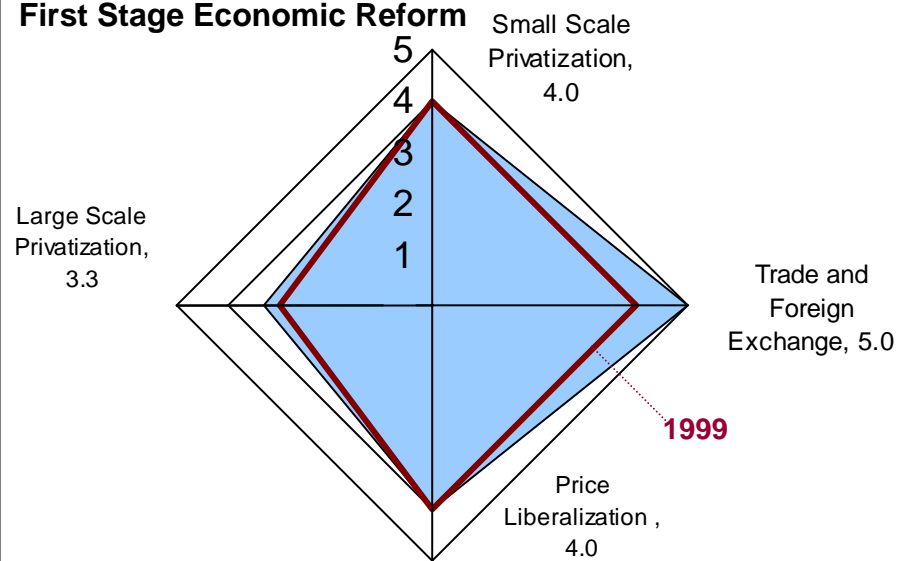
# Economic Reform in Macedonia in 2005

(versus Romania & Bulgaria in 2002 and Macedonia in 1999)

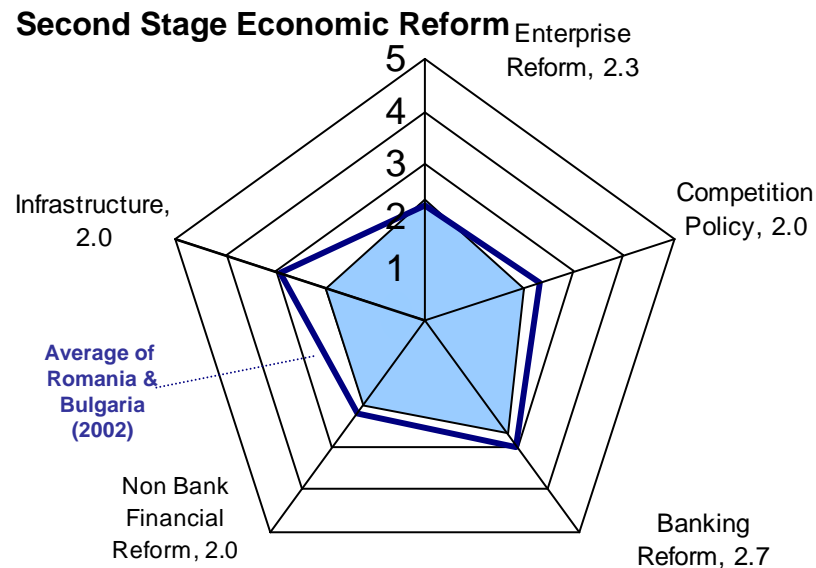
## First Stage Economic Reform



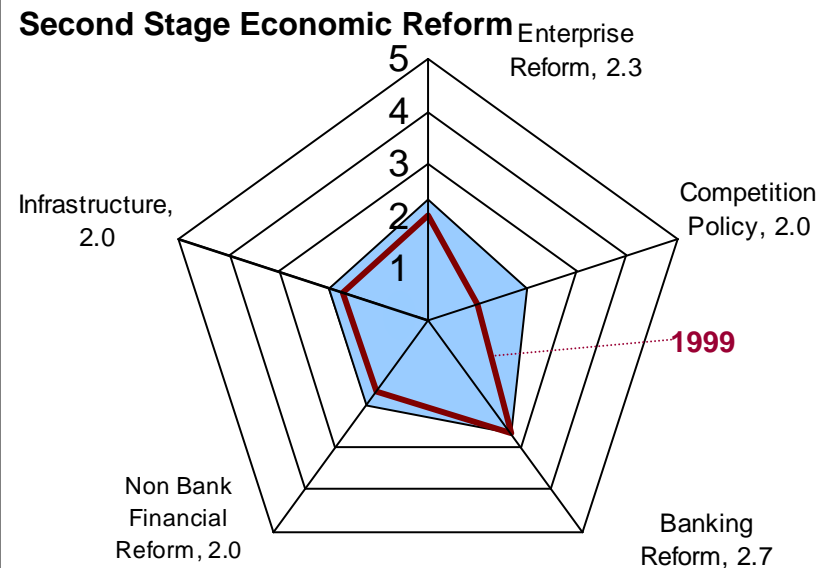
## First Stage Economic Reform



## Second Stage Economic Reform

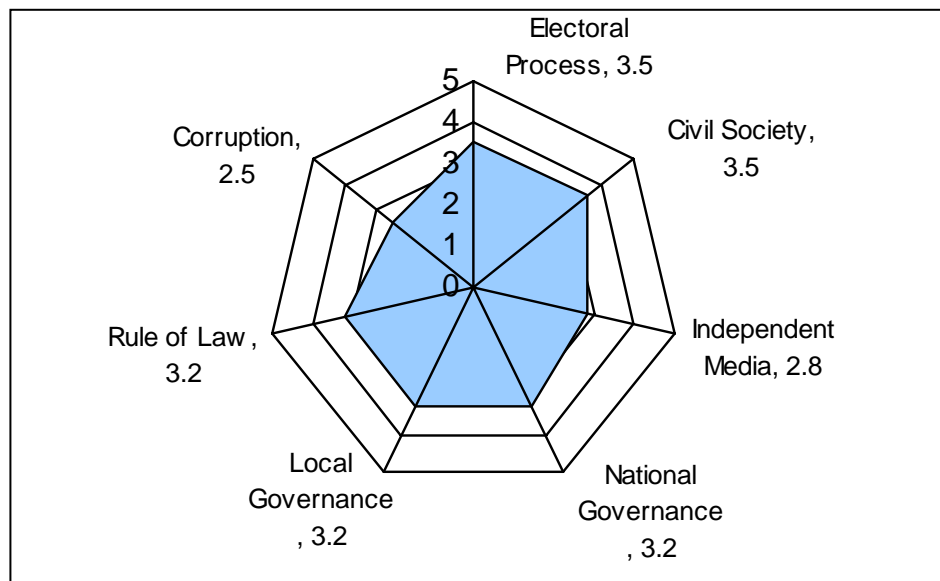
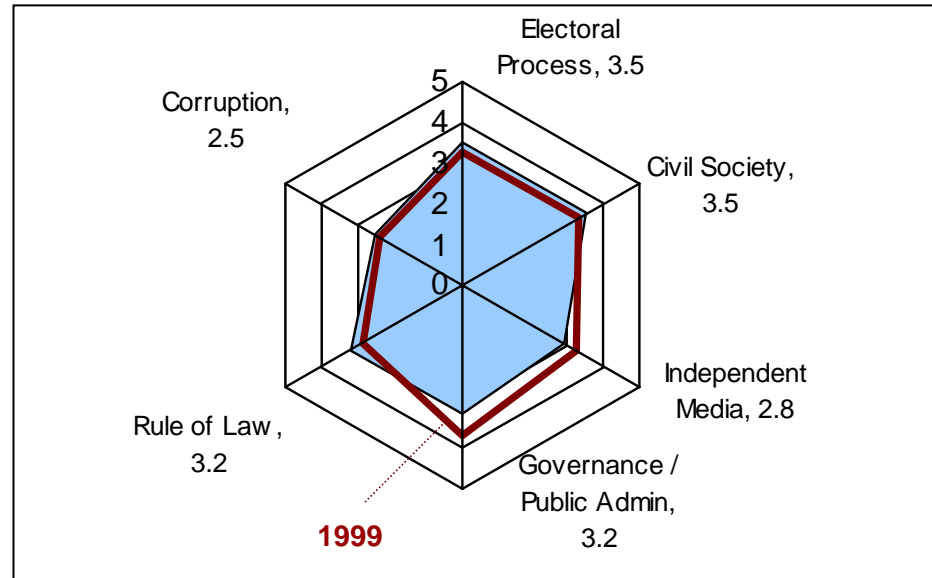
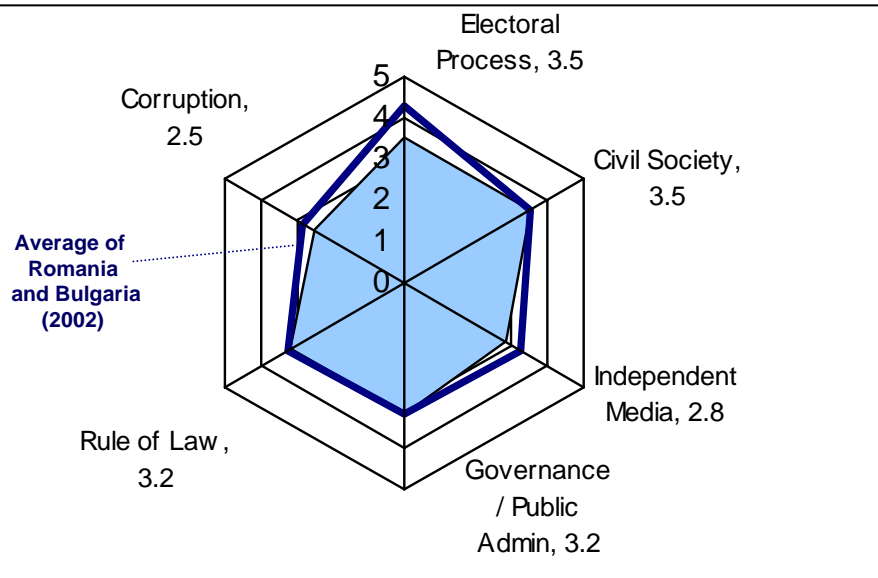


## Second Stage Economic Reform



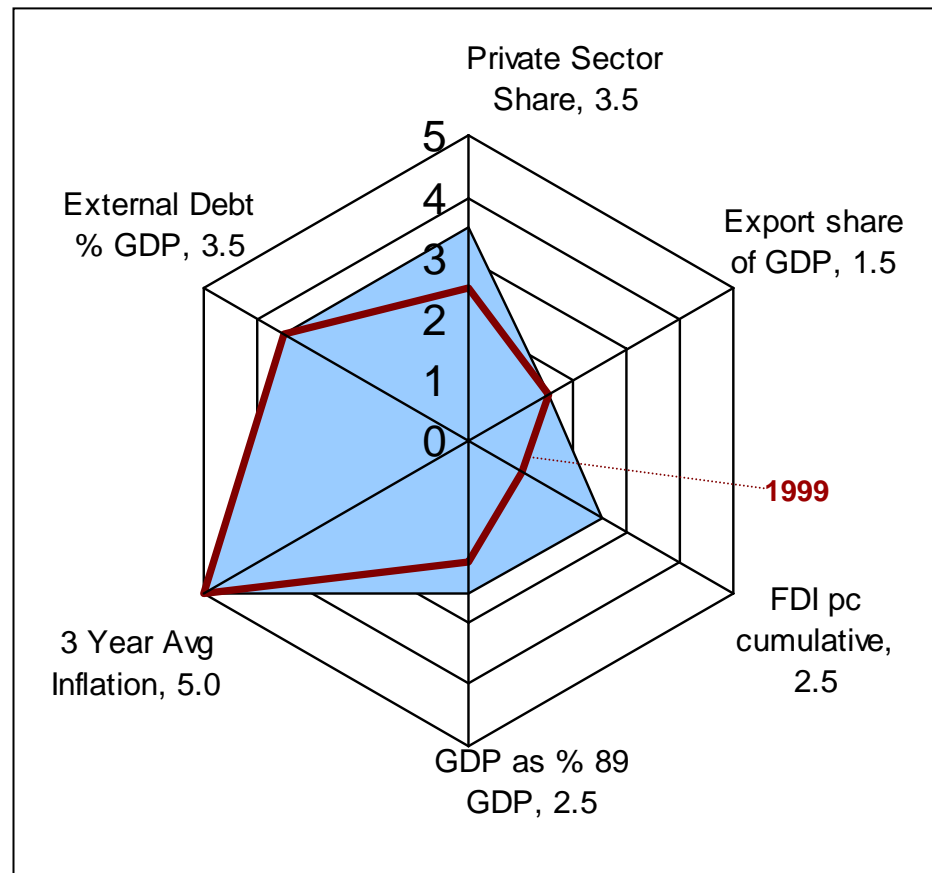
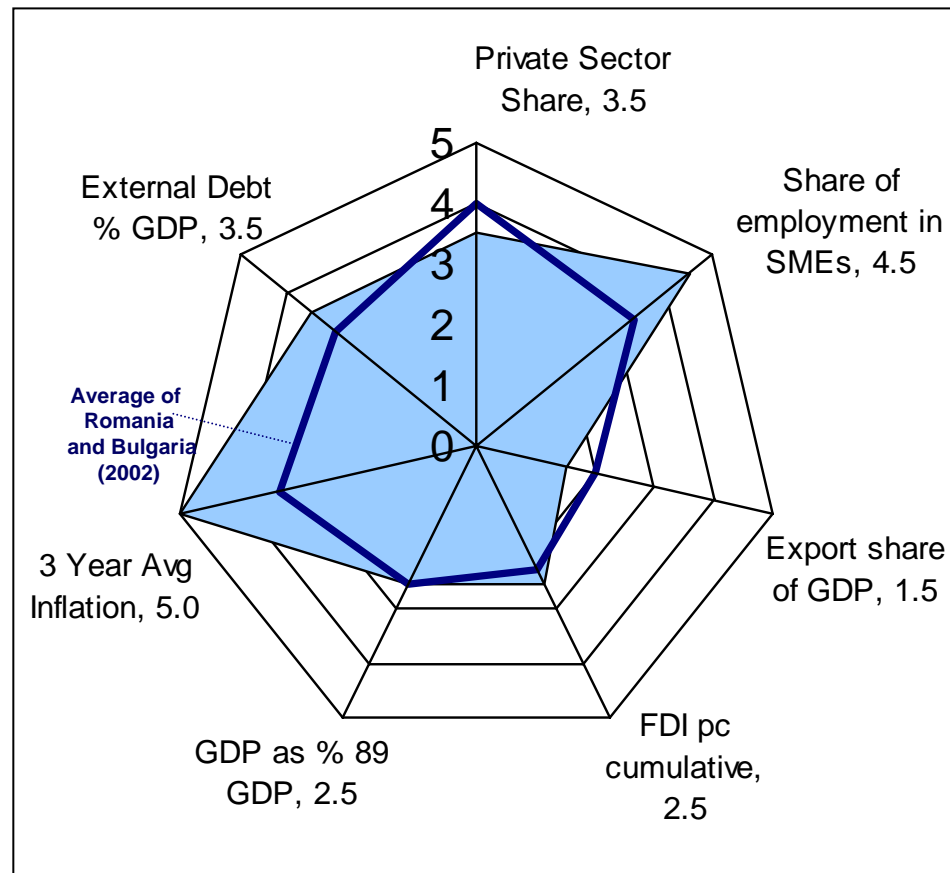
# Democratic Reforms in Macedonia in 2005

(versus Romania & Bulgaria in 2002 and Macedonia in 1999)



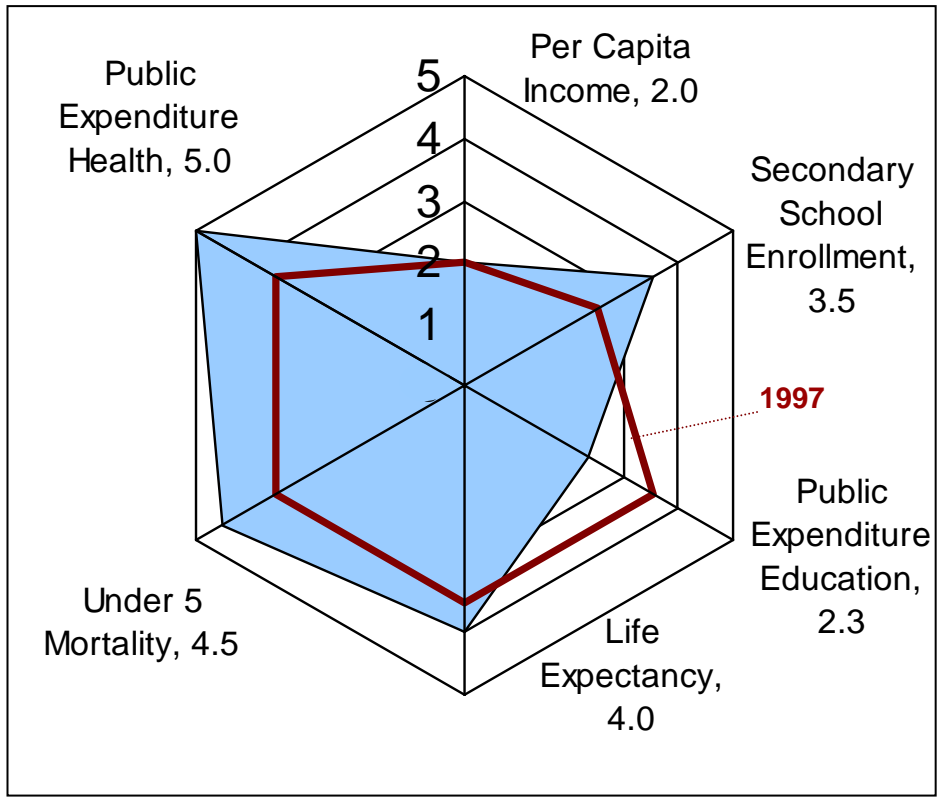
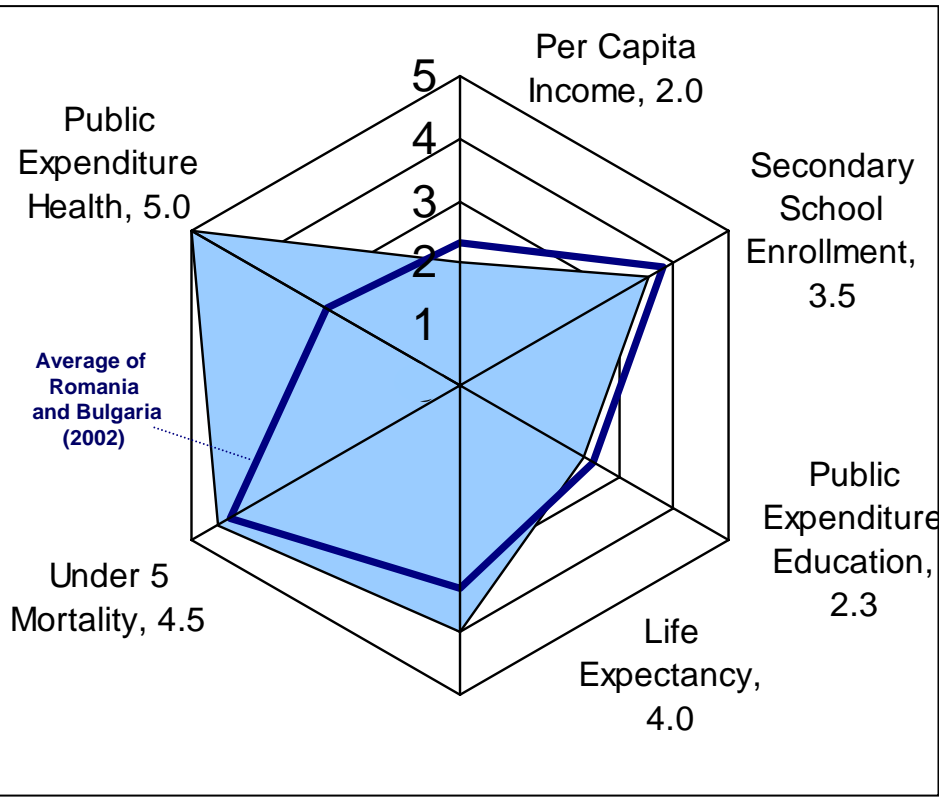
# Economic Performance in Macedonia in 2004-2005

(versus Romania & Bulgaria in 2002 and FYR Macedonia in 1999)



# Human Capital Index in Macedonia in 2003-05

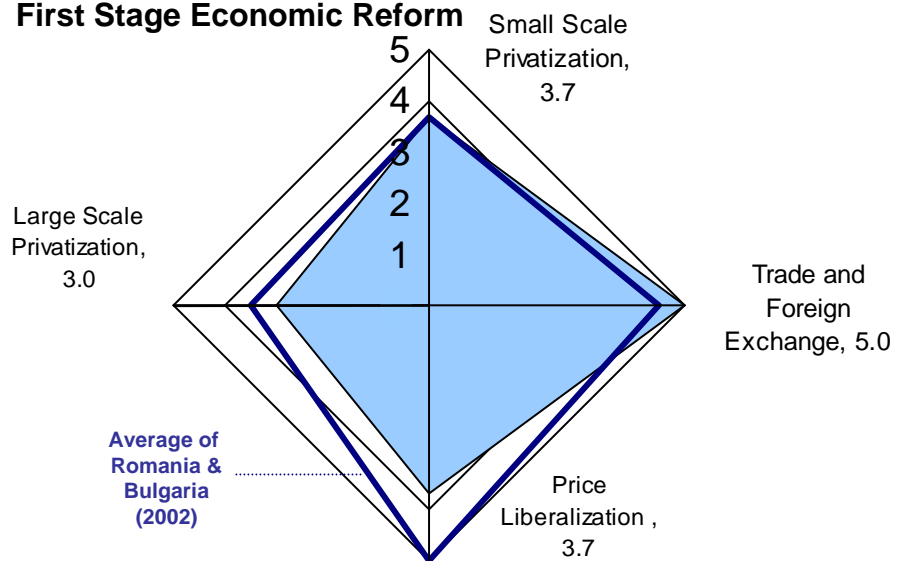
(versus Romania & Bulgaria in 2002 and FYR Macedonia in 1997)



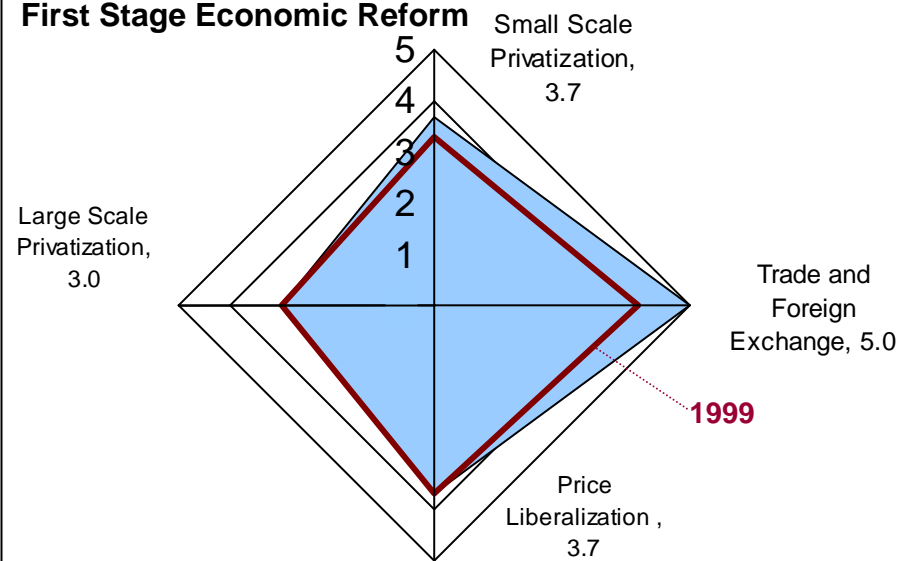
# Economic Reform in Moldova in 2005

(versus Romania & Bulgaria in 2002 and Moldova in 1999)

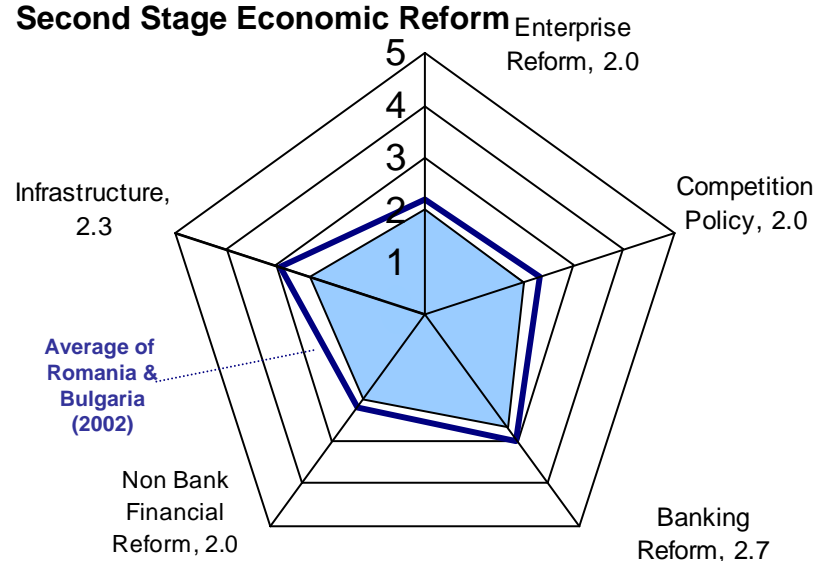
## First Stage Economic Reform



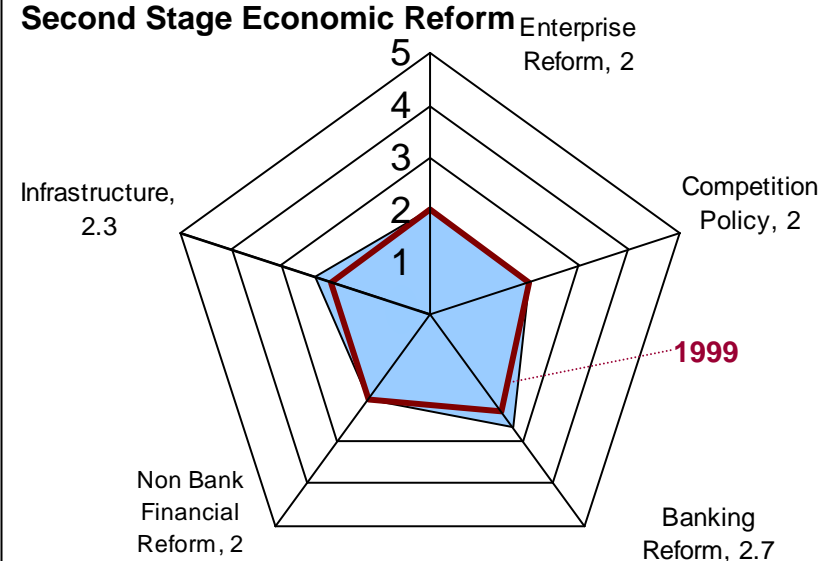
## First Stage Economic Reform



## Second Stage Economic Reform

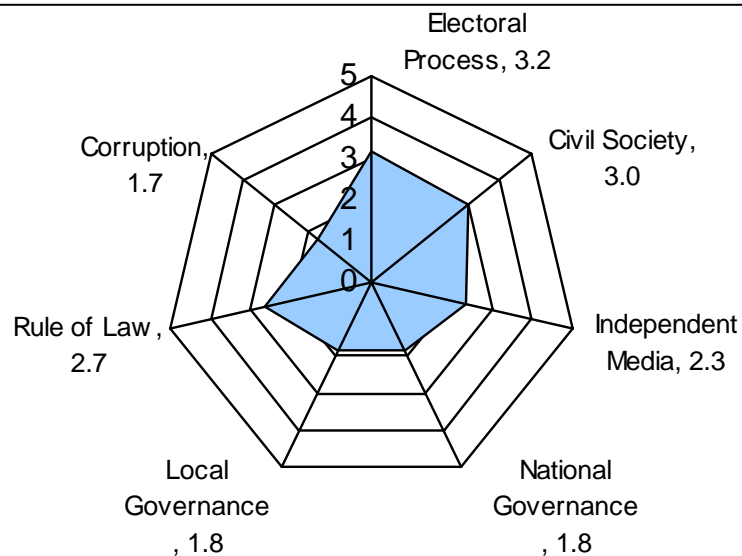
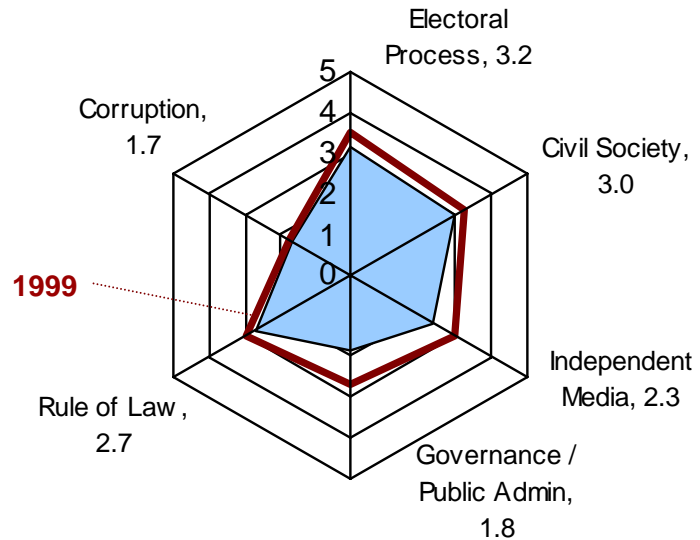
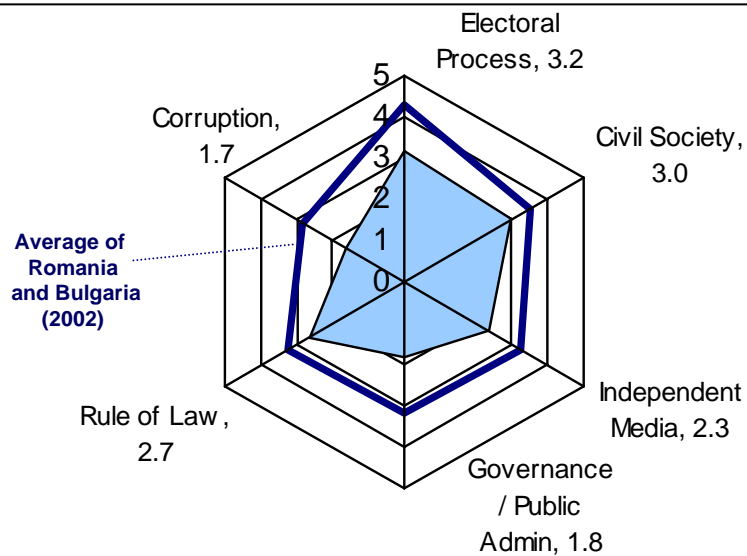


## Second Stage Economic Reform



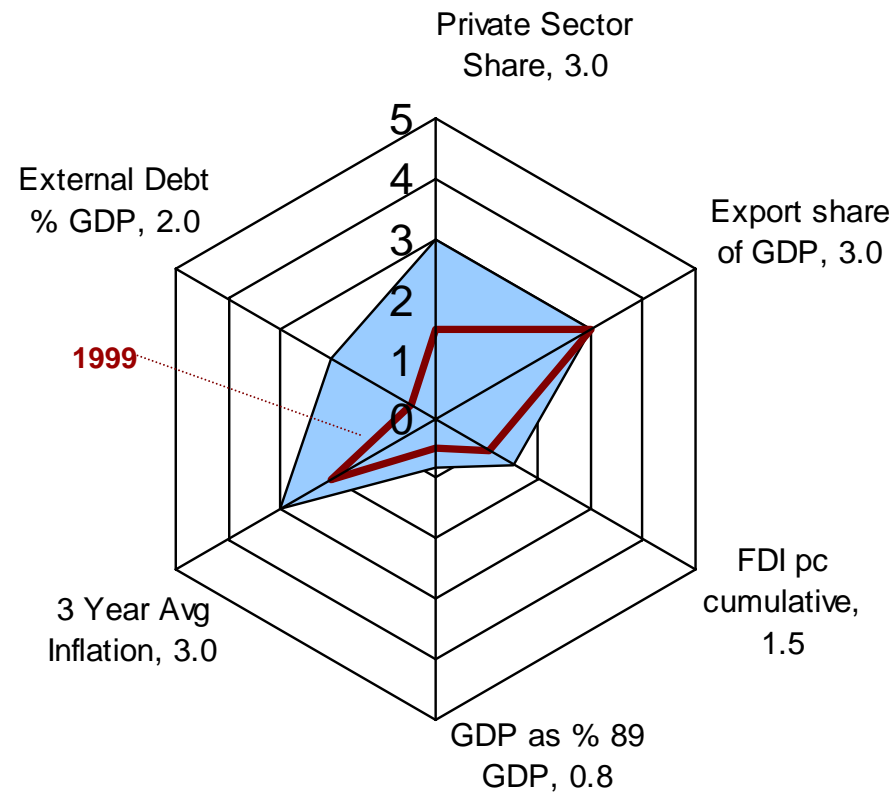
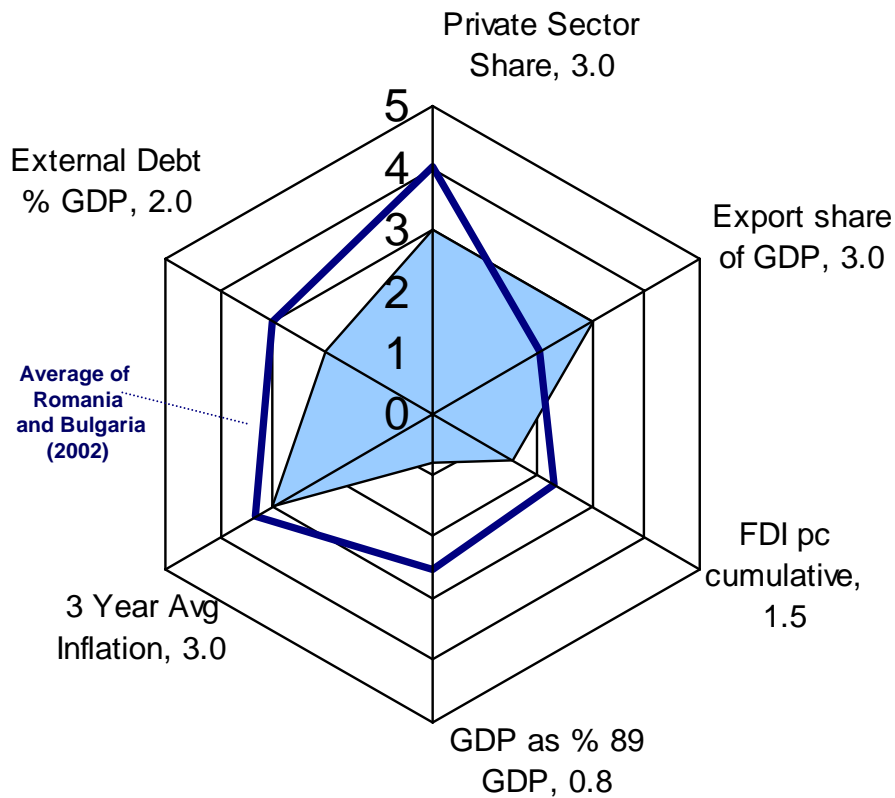
# Democratic Reforms in Moldova in 2005

(versus Romania & Bulgaria in 2002 and Moldova in 1999)



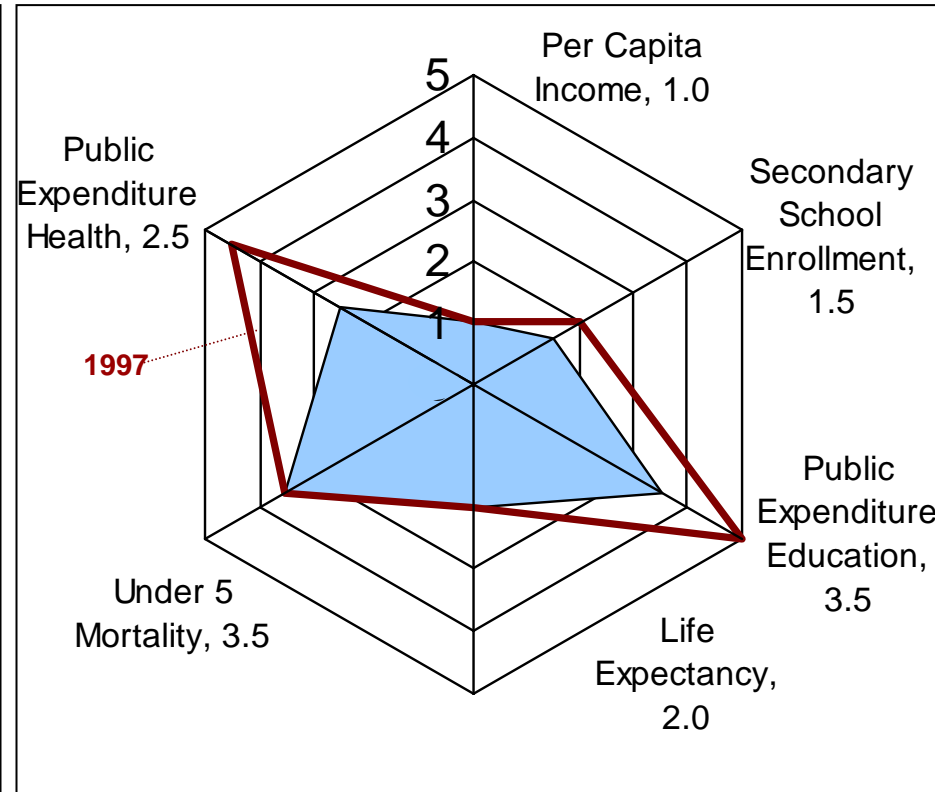
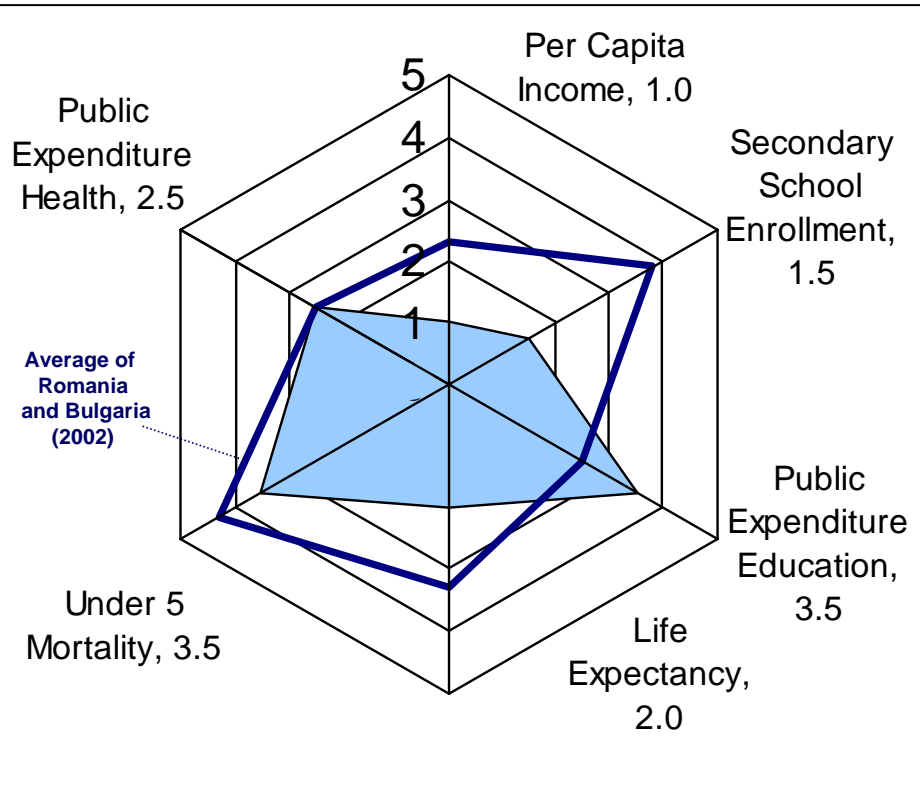
# Economic Performance in Moldova in 2004-2005

(versus Romania & Bulgaria in 2002 and Moldova in 1999)



# Human Capital Index in Moldova in 2003-05

(versus Romania & Bulgaria in 2002 and Moldova in 1997)

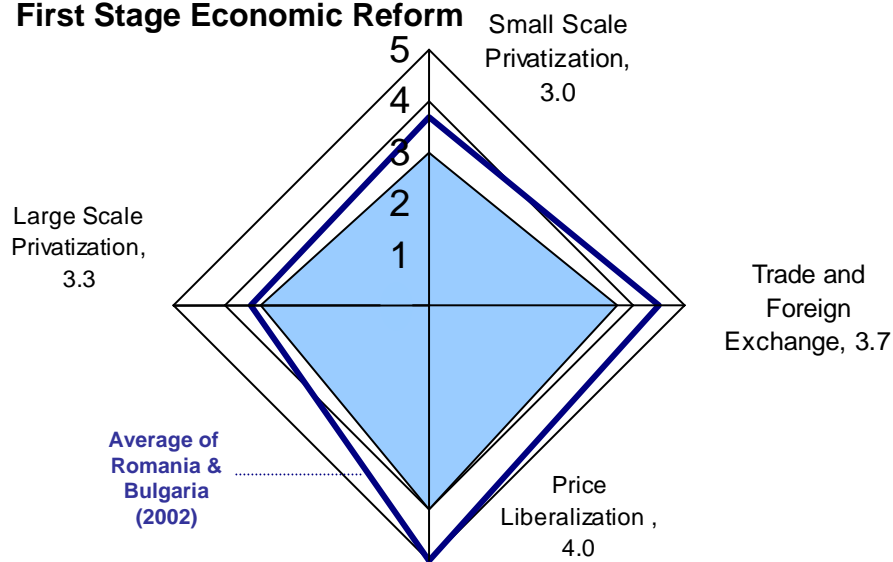




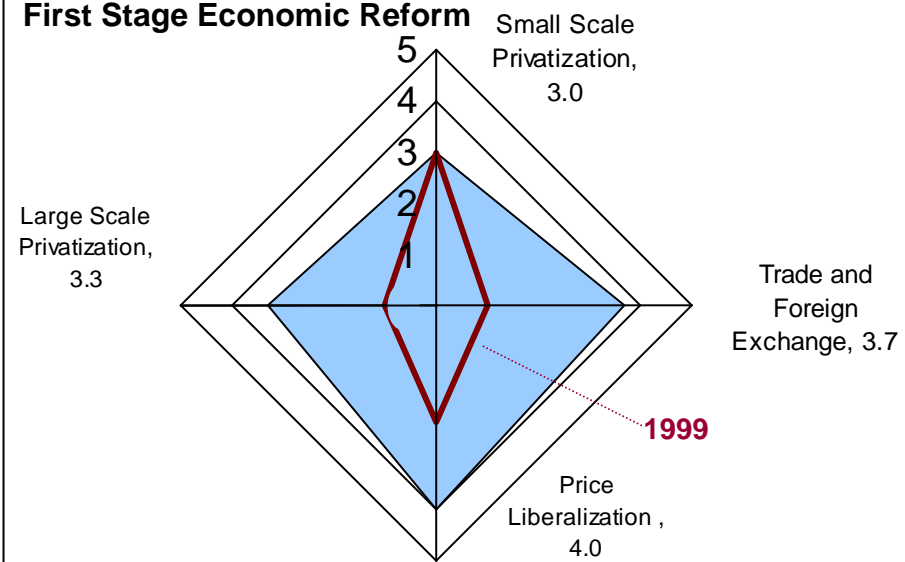
# Economic Reform in Montenegro in 2005

(versus Romania & Bulgaria in 2002 and Serbia & Montenegro in 1999)

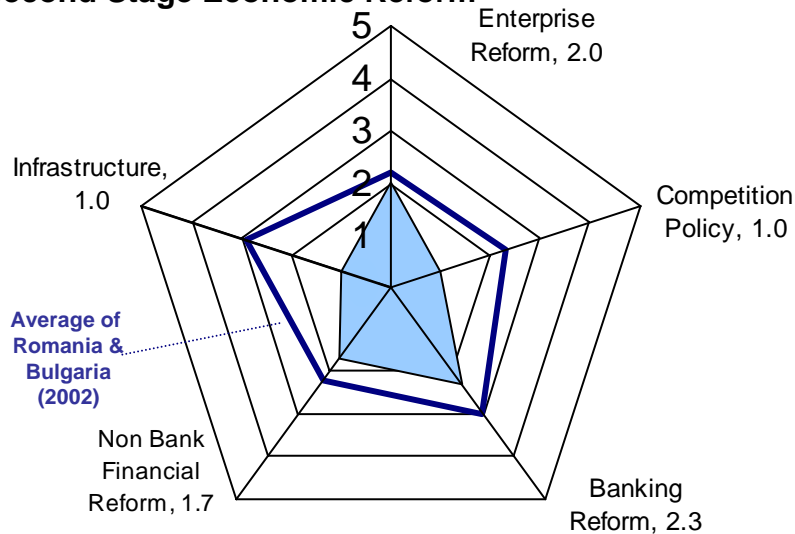
## First Stage Economic Reform



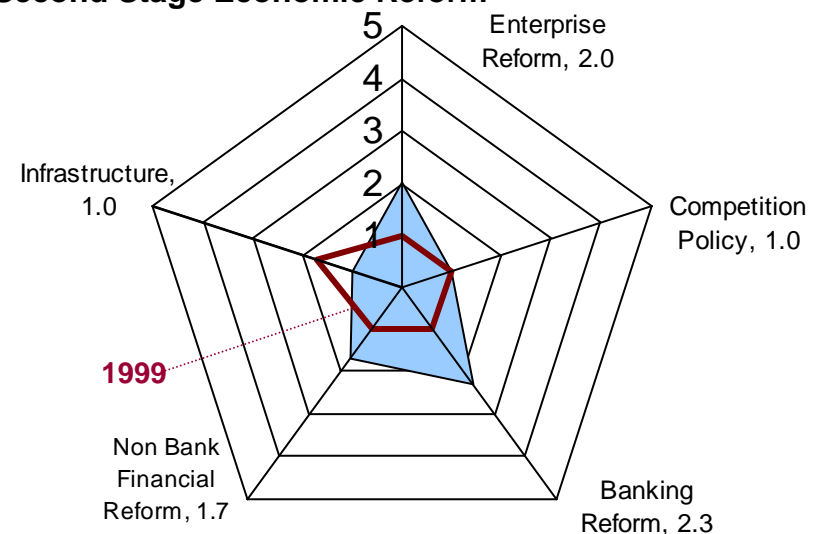
## First Stage Economic Reform



## Second Stage Economic Reform

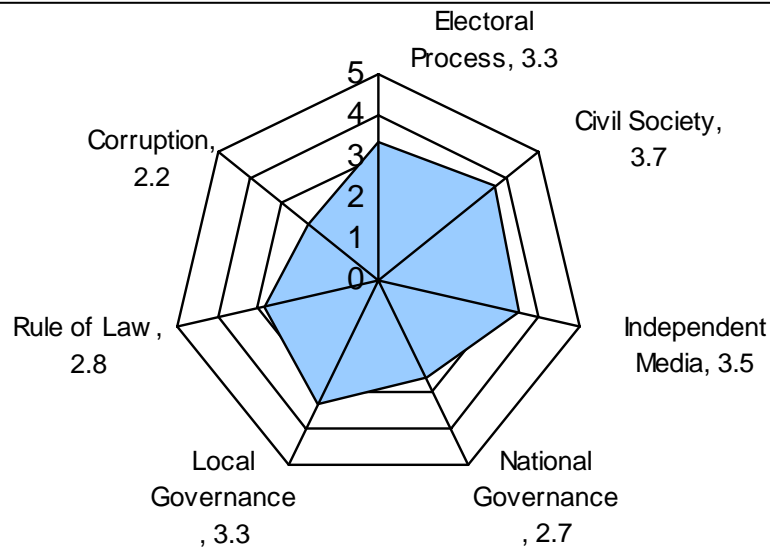
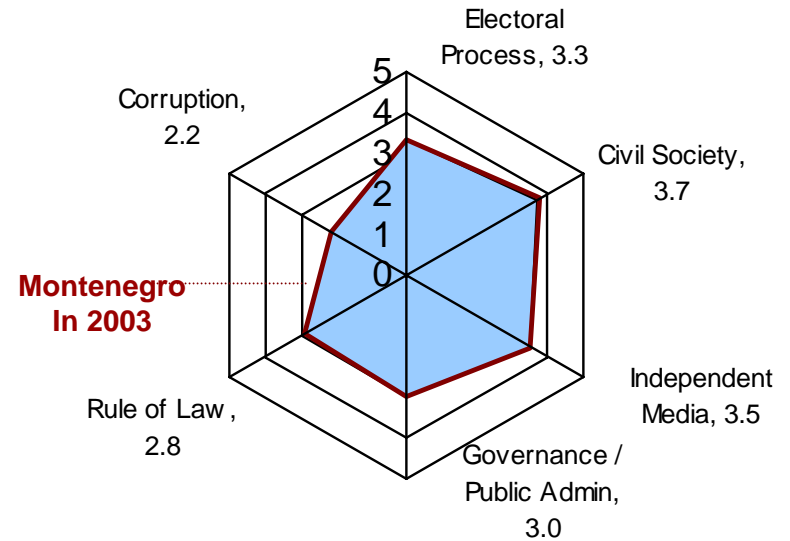
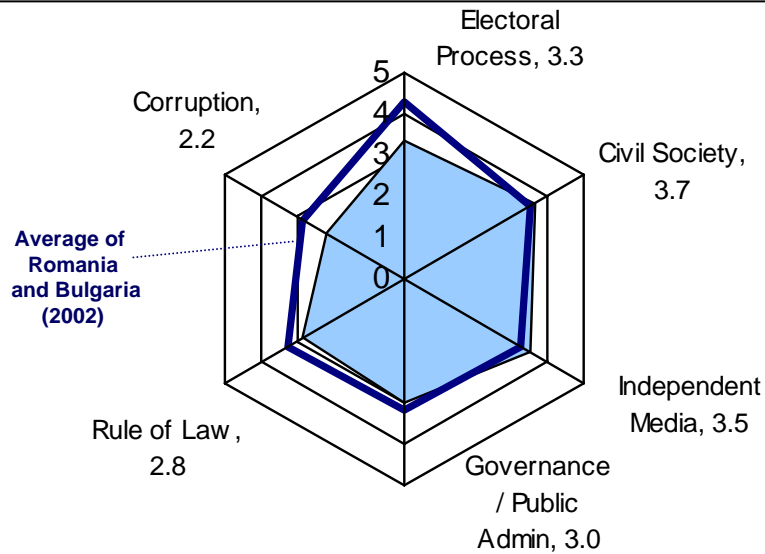


## Second Stage Economic Reform



# Democratic Reforms in Montenegro in 2005

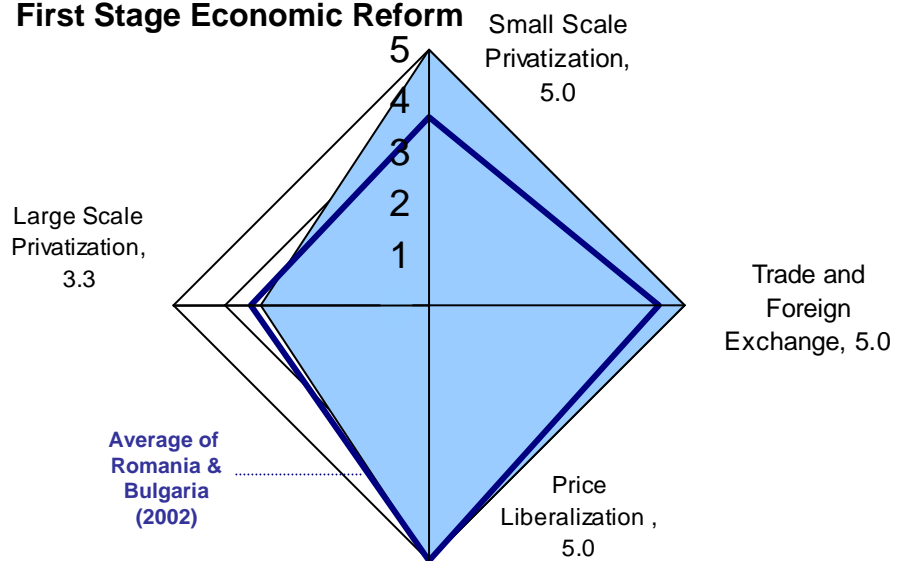
(versus Romania & Bulgaria in 2002 and Montenegro in 2003)



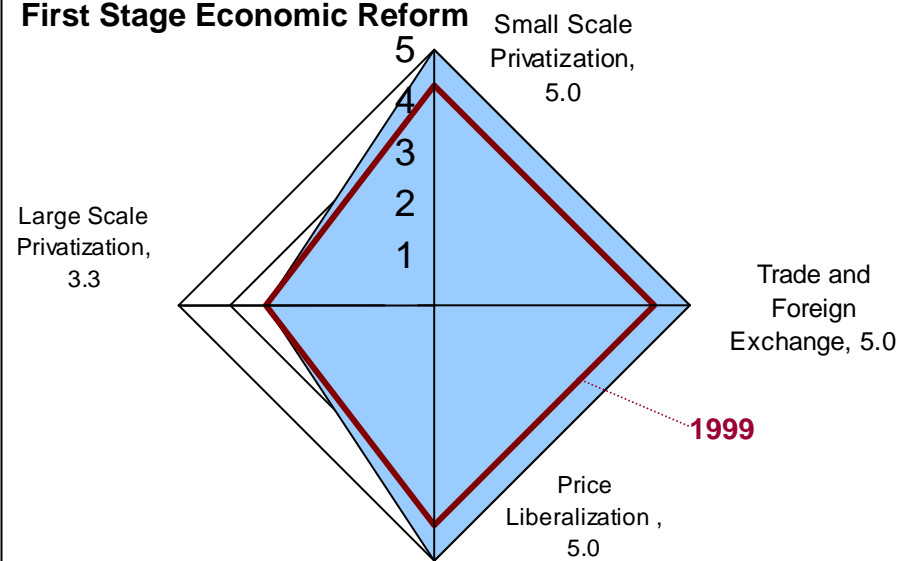
# Economic Reform in Poland in 2005

(versus Romania & Bulgaria in 2002 and Poland in 1999)

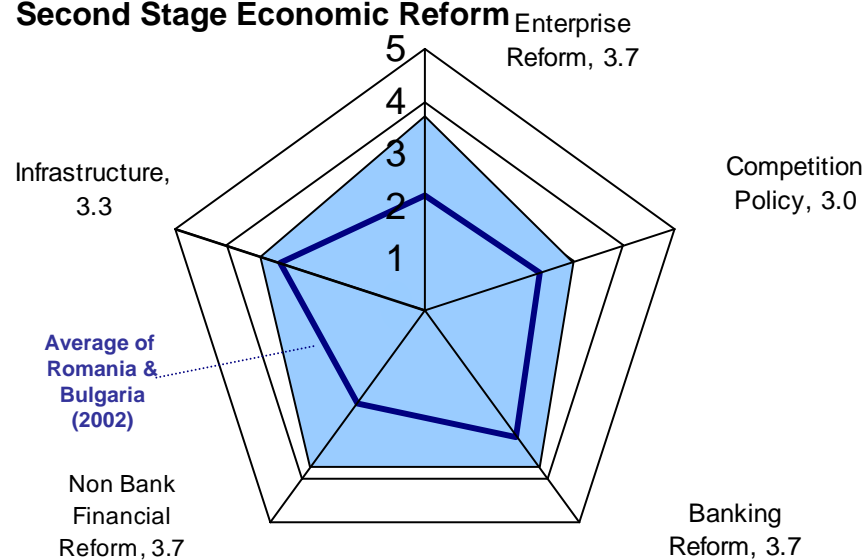
## First Stage Economic Reform



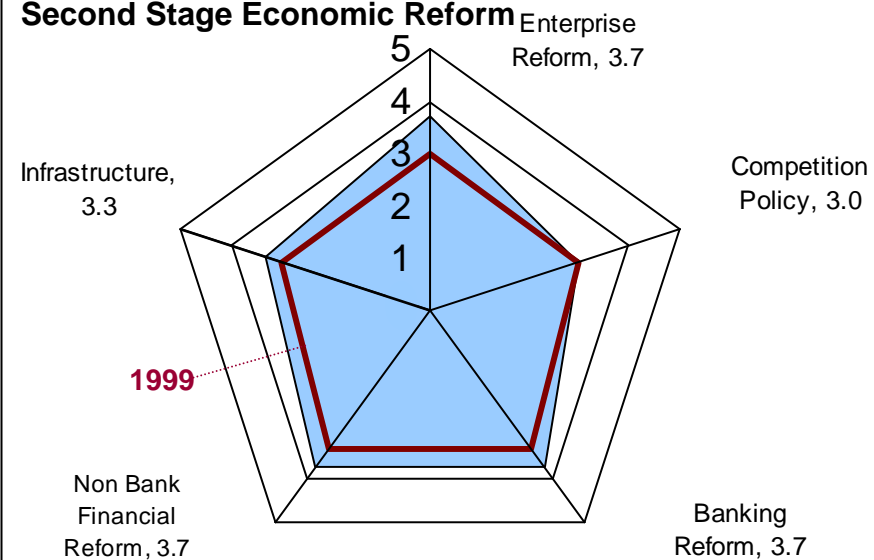
## First Stage Economic Reform



## Second Stage Economic Reform

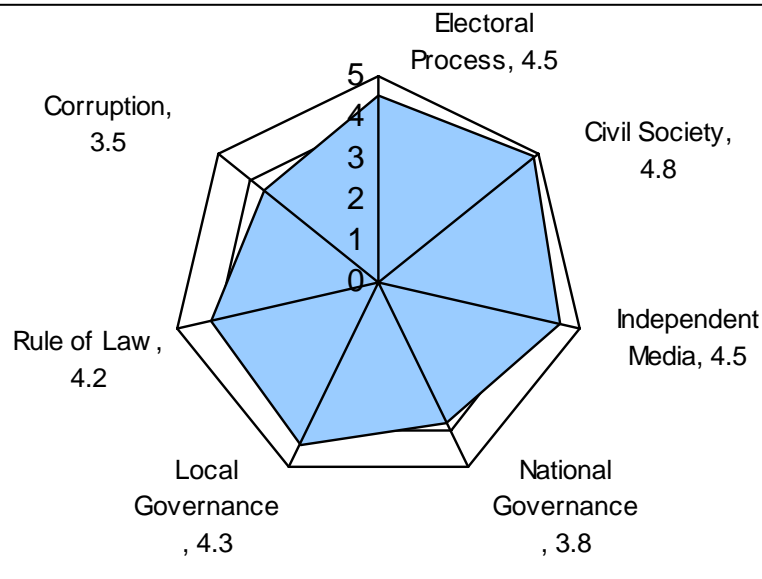
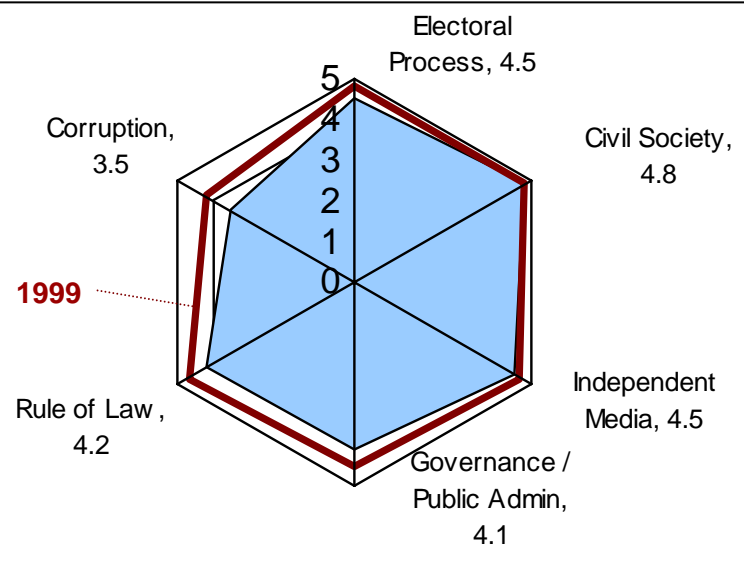
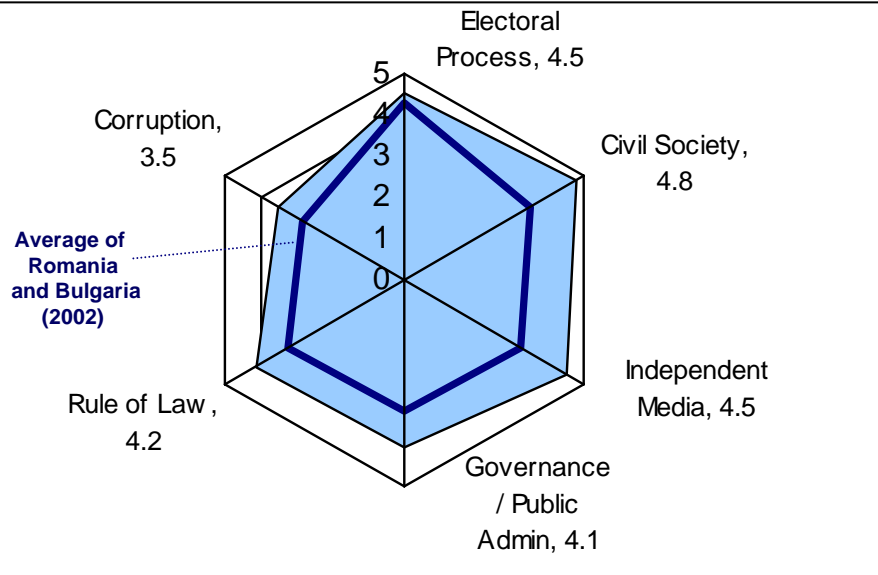


## Second Stage Economic Reform



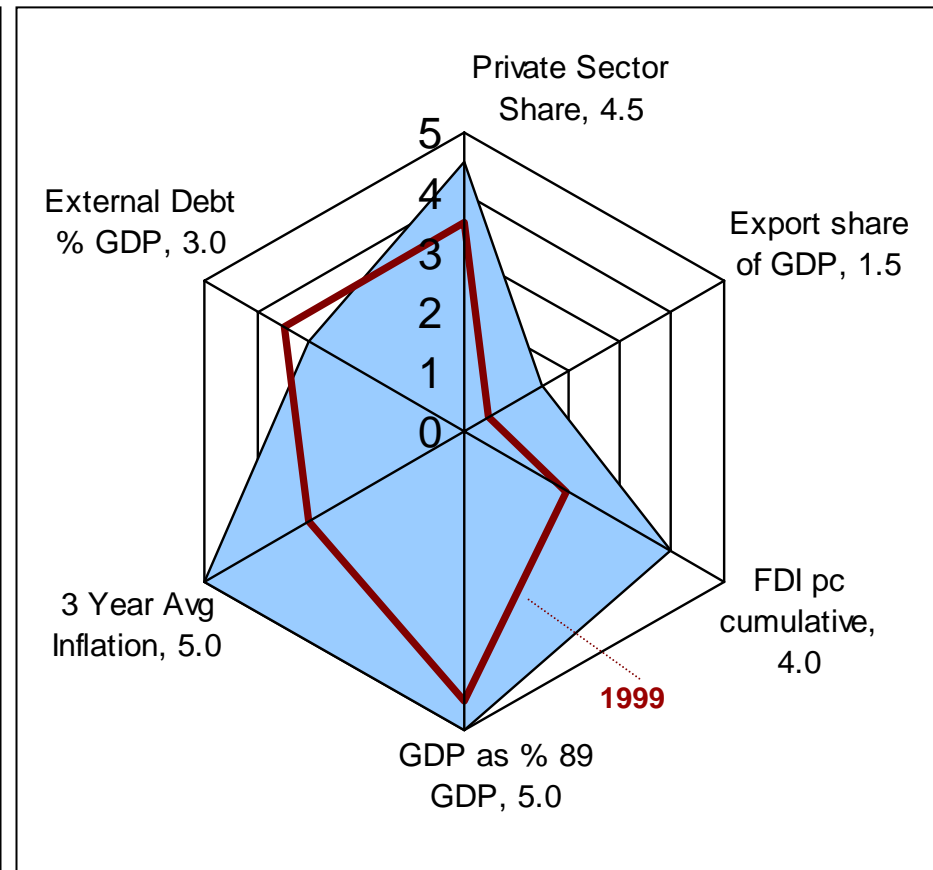
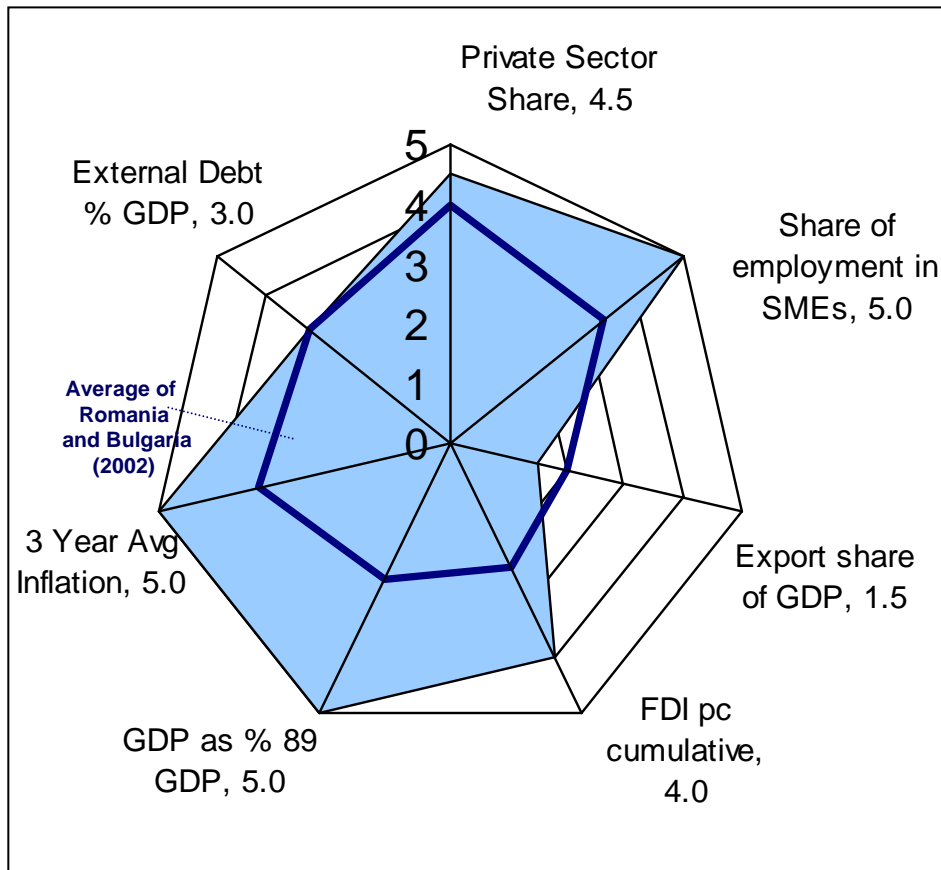
# Democratic Reforms in Poland in 2005

(versus Romania & Bulgaria in 2002 and Poland in 1999)



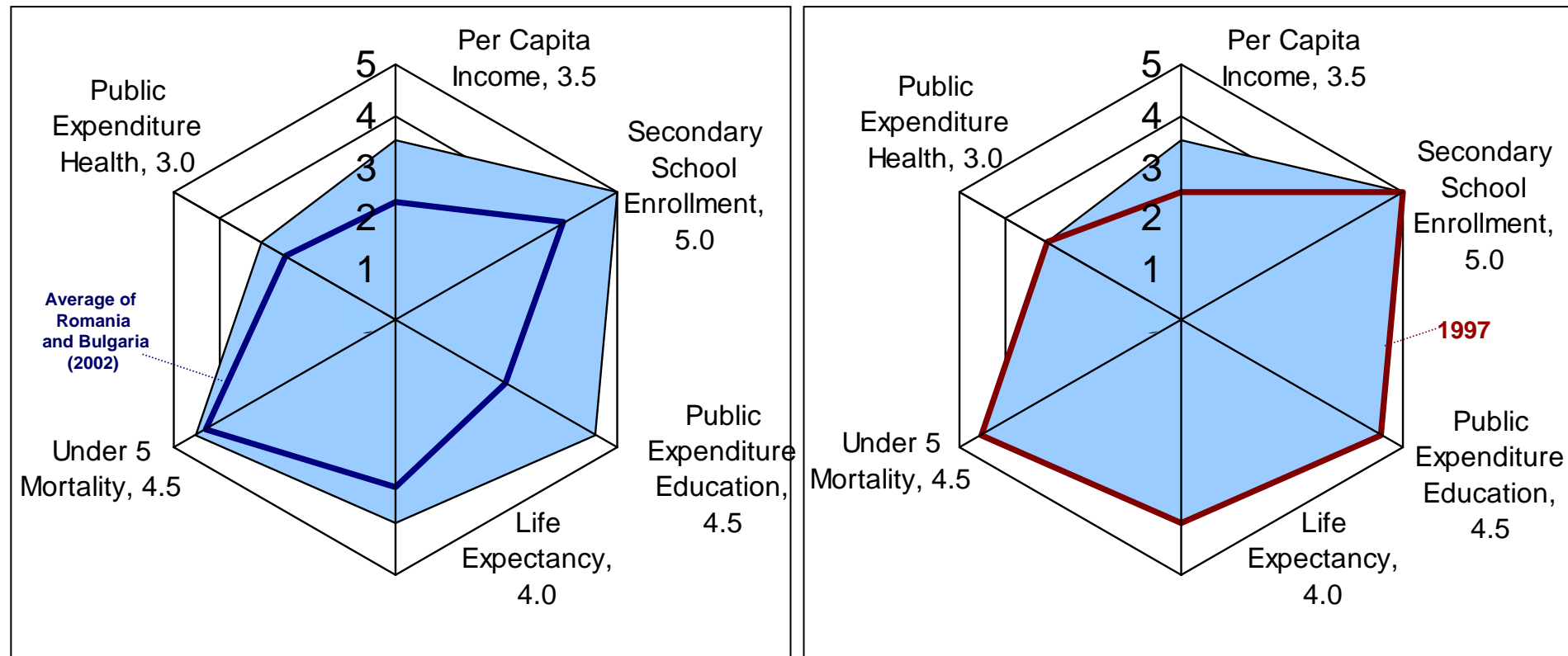
# Economic Performance in Poland in 2004-2005

(versus Romania & Bulgaria in 2002 and Poland in 1999)



# Human Capital Index in Poland in 2003-05

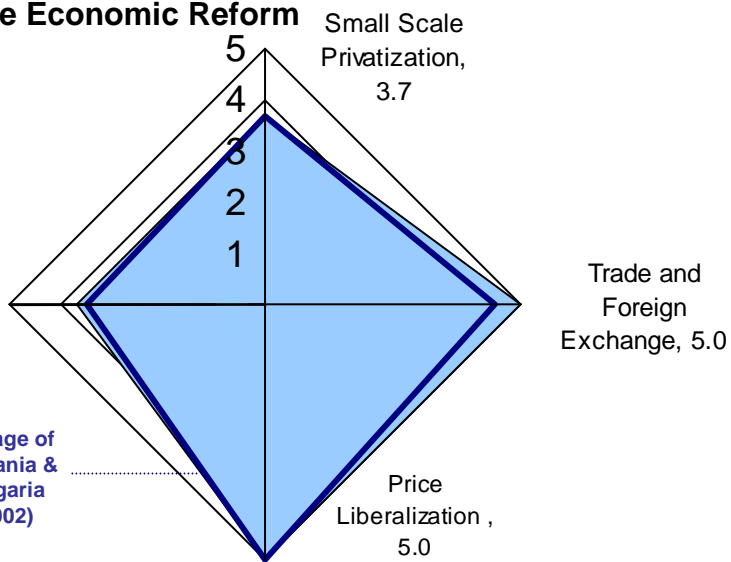
(versus Romania & Bulgaria in 2002 and Poland in 1997)



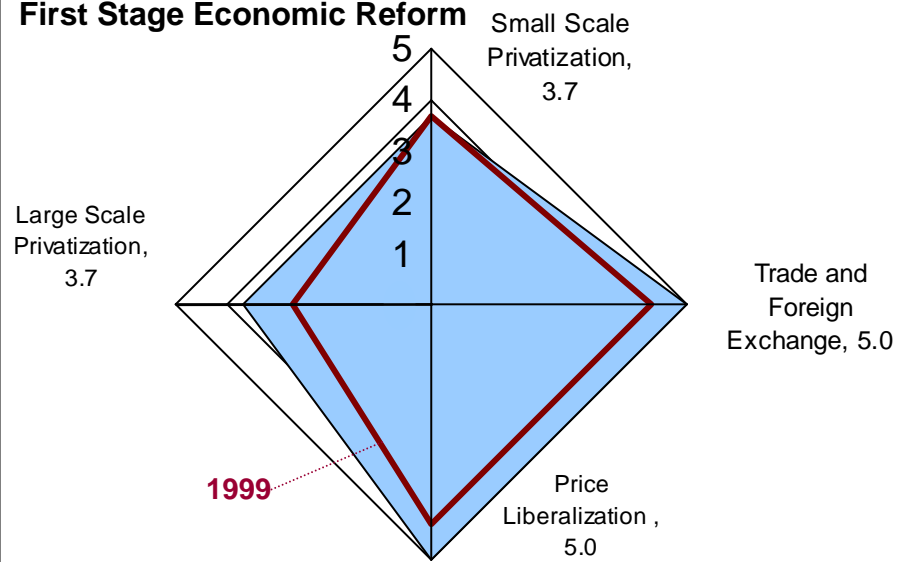
# Economic Reform in Romania in 2005

(versus Romania & Bulgaria in 2002 and Romania in 1999)

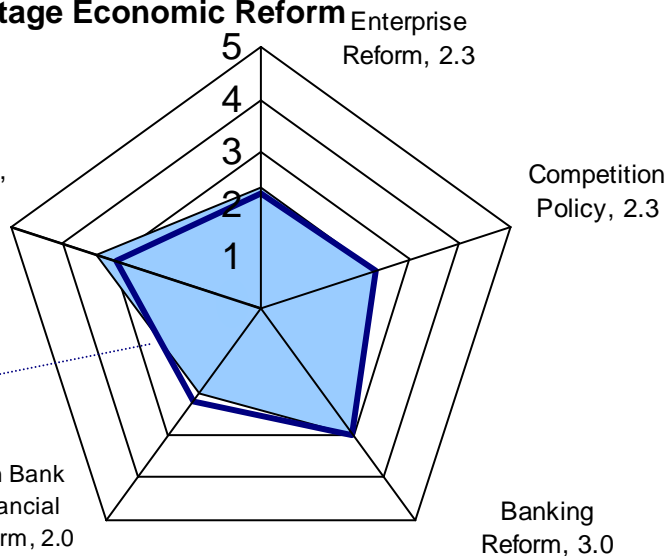
## First Stage Economic Reform



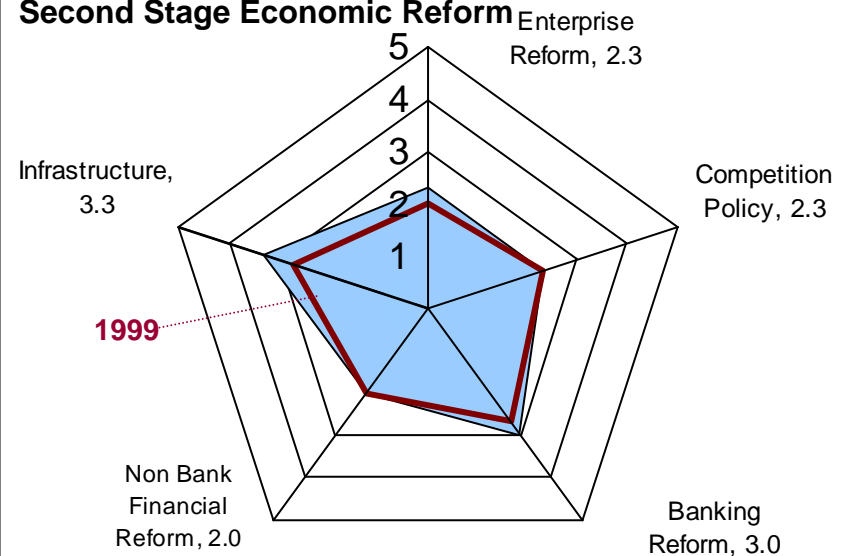
## First Stage Economic Reform



## Second Stage Economic Reform

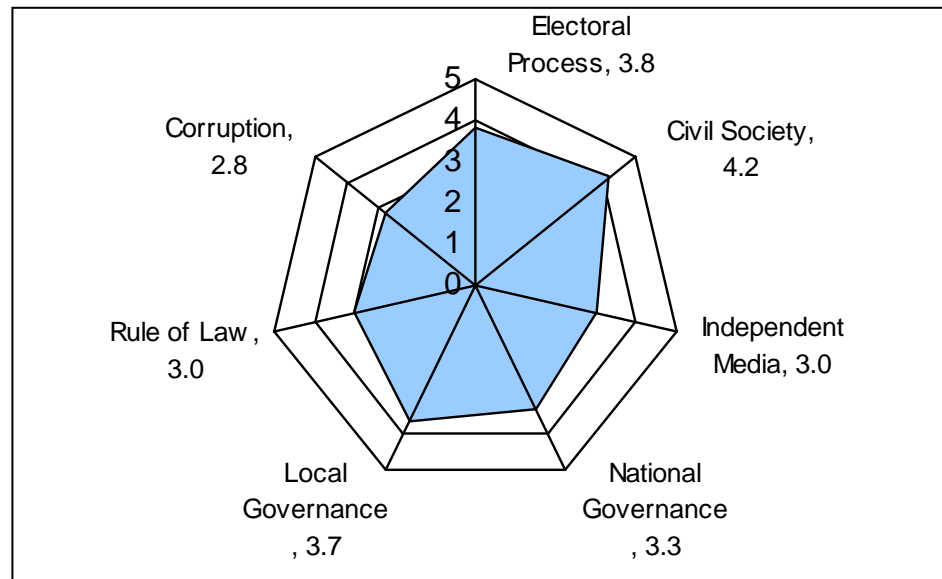
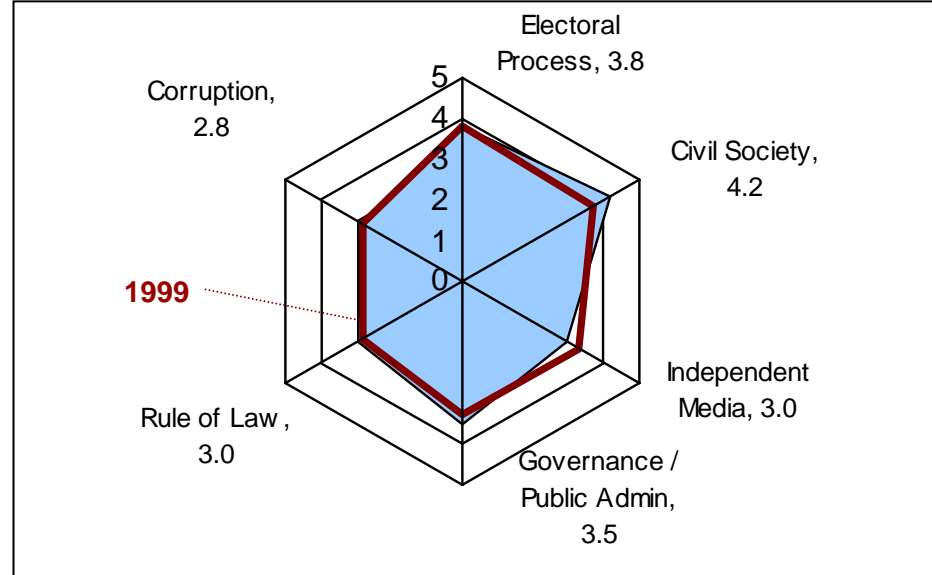
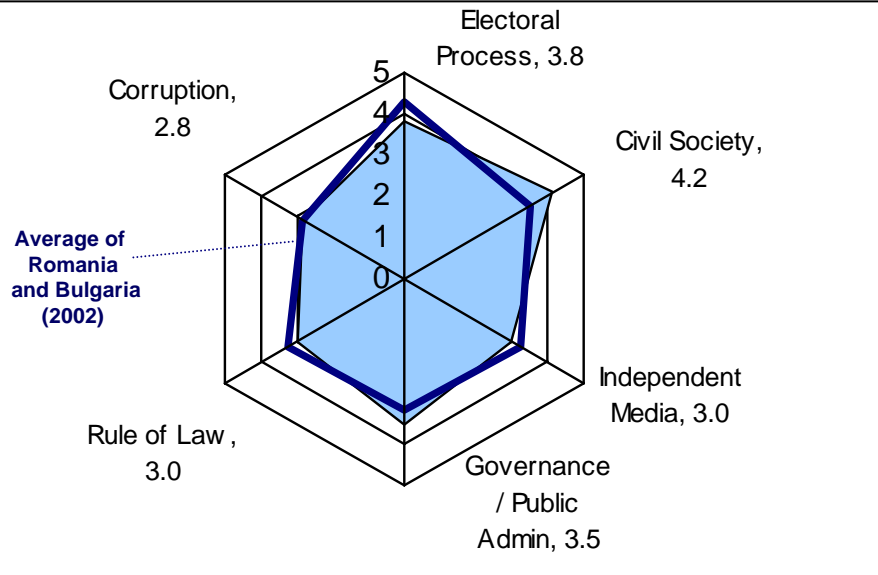


## Second Stage Economic Reform



# Democratic Reforms in Romania in 2005

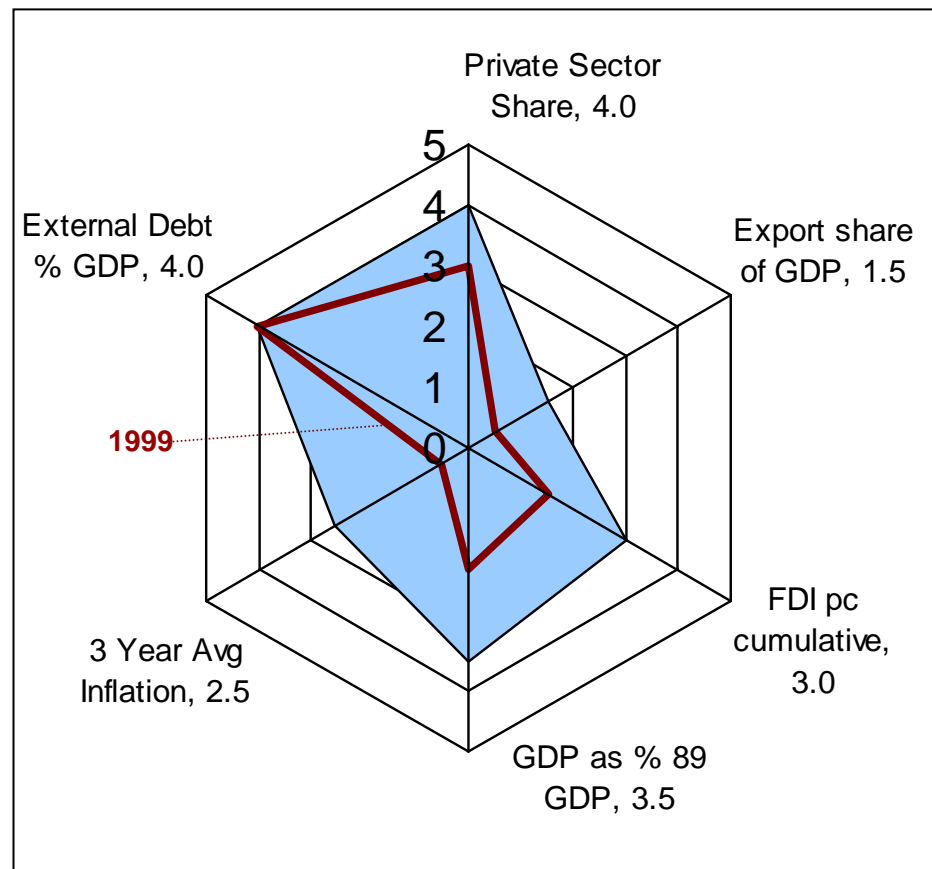
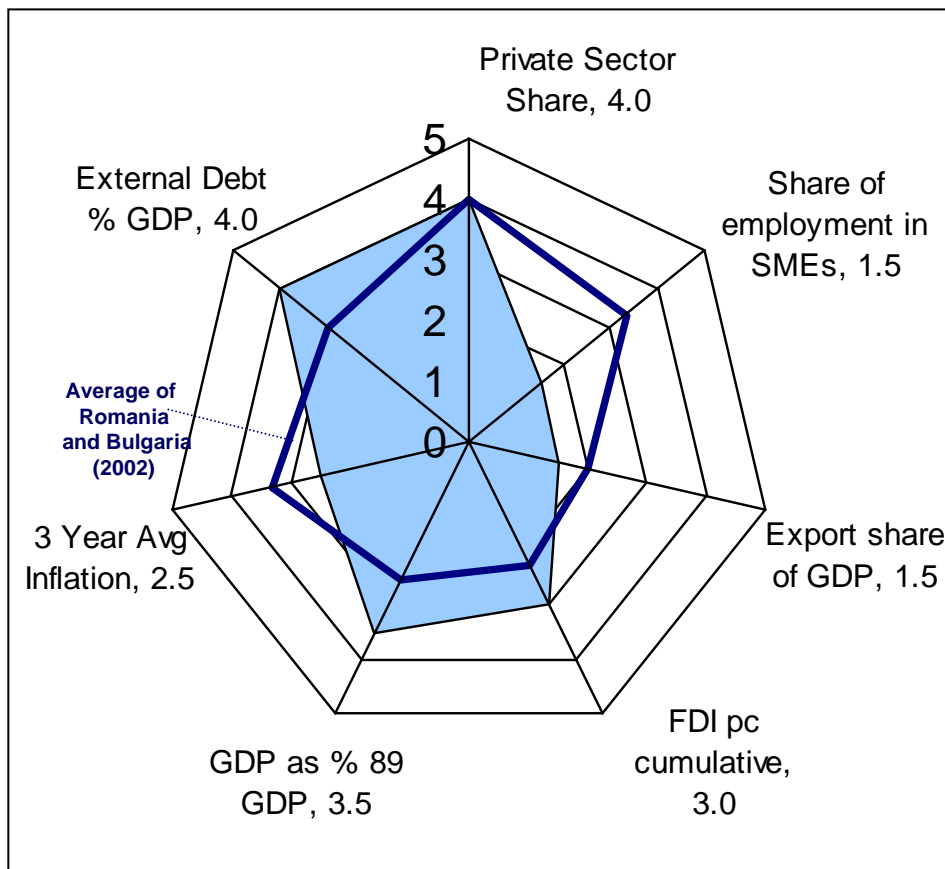
(versus Romania & Bulgaria in 2002 and Romania in 1999)





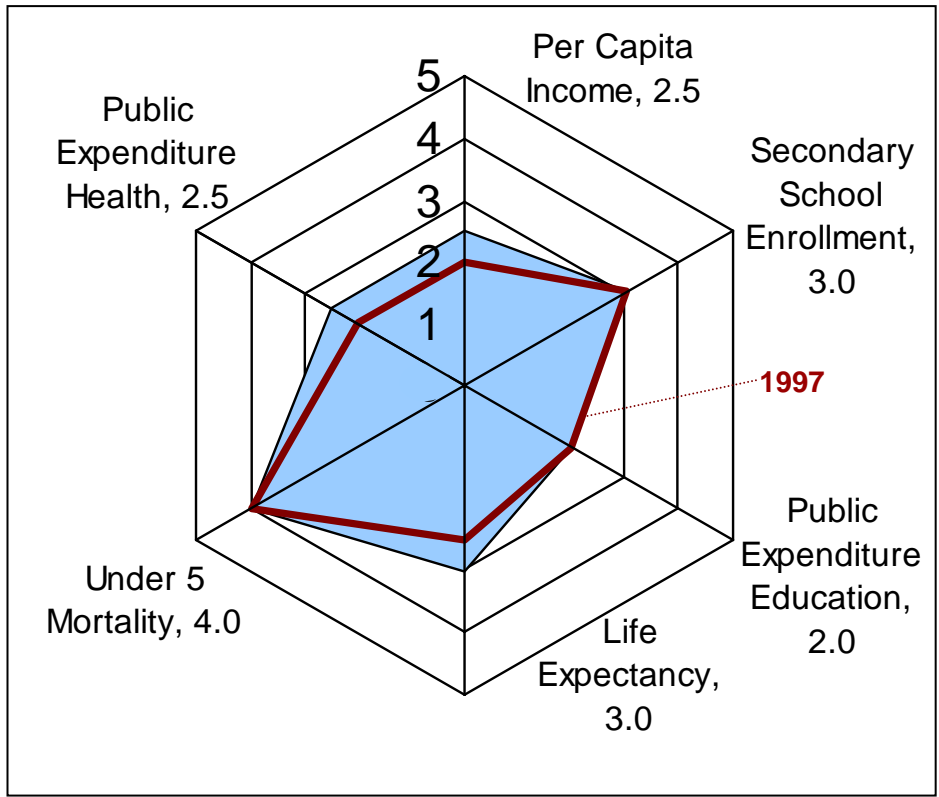
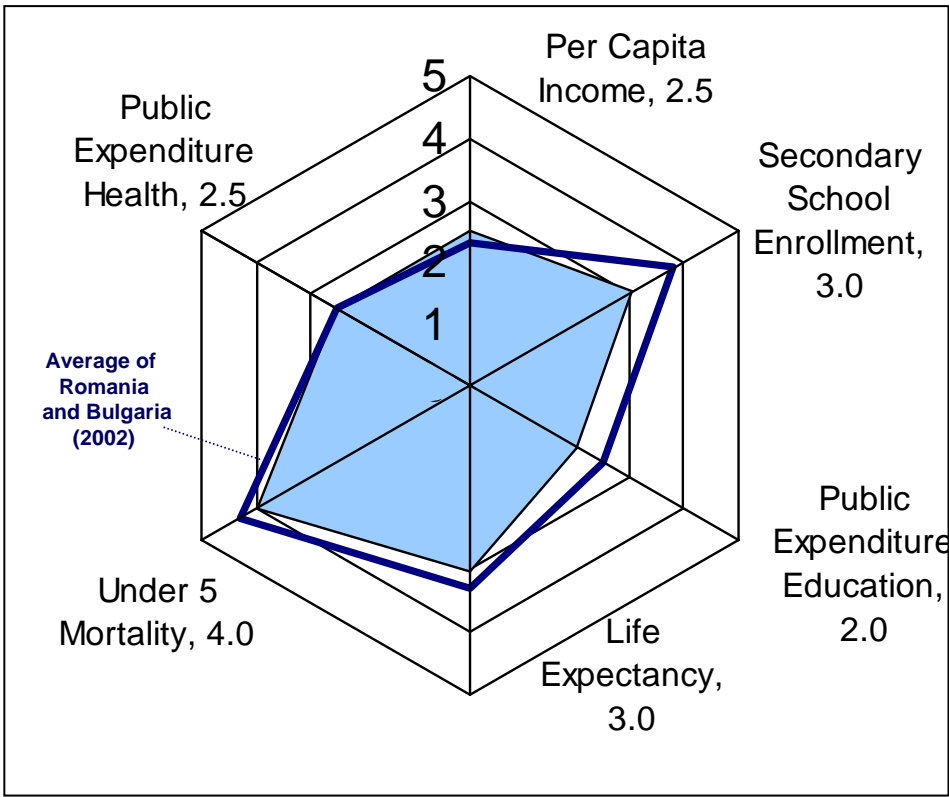
# Economic Performance in Romania in 2004-2005

(versus Romania & Bulgaria in 2002 and Romania in 1999)



# Human Capital Index in Romania in 2003-05

(versus Romania & Bulgaria in 2002 and Romania in 1997)

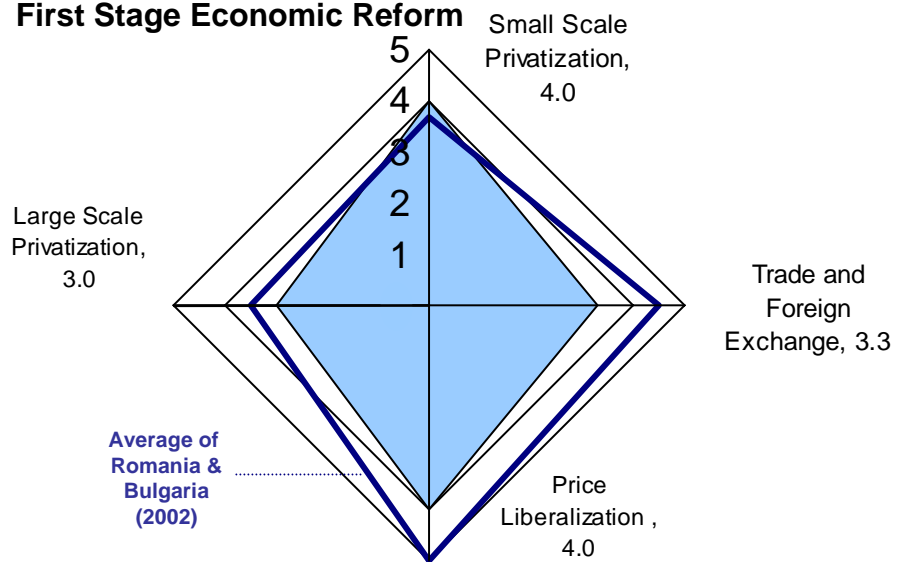


Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID, drawing from World Bank, *World Development Indicators 2005 (2005)*; UNICEF, *TransMONEE Database (December 2005)*; and EBRD *Transition Report 2005 (November 2005)*.

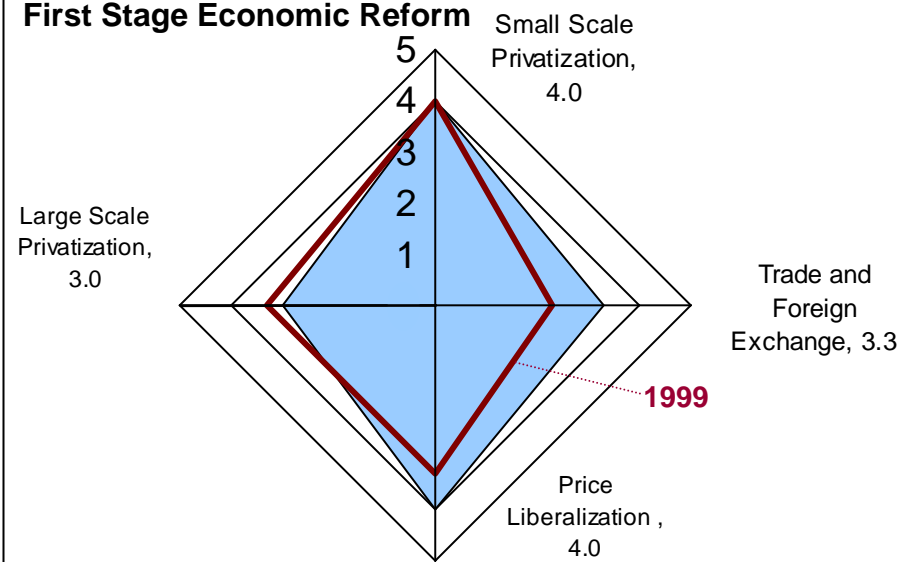
# Economic Reform in Russia in 2005

(versus Romania & Bulgaria in 2002 and Russia in 1999)

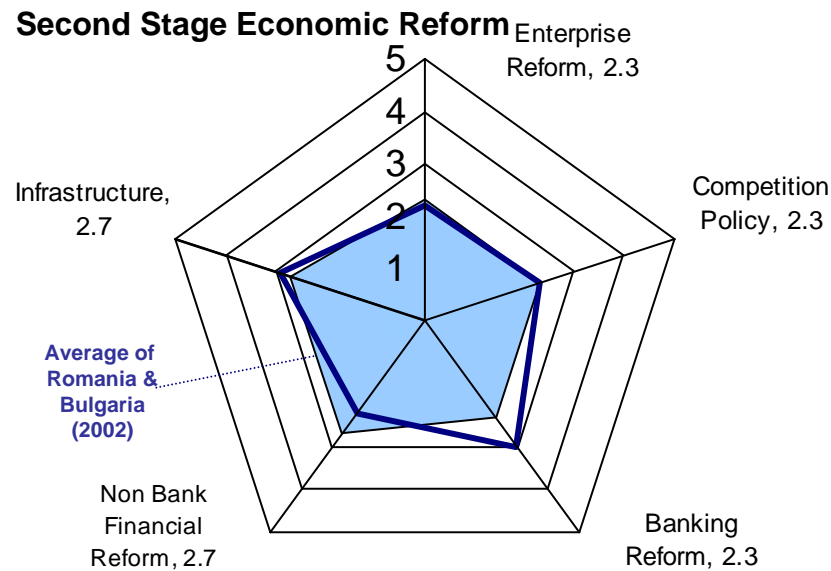
## First Stage Economic Reform



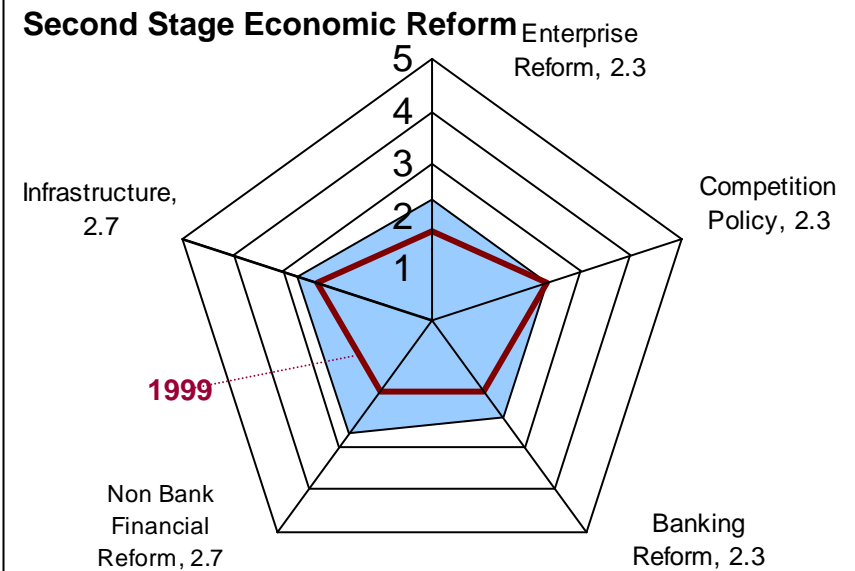
## First Stage Economic Reform



## Second Stage Economic Reform

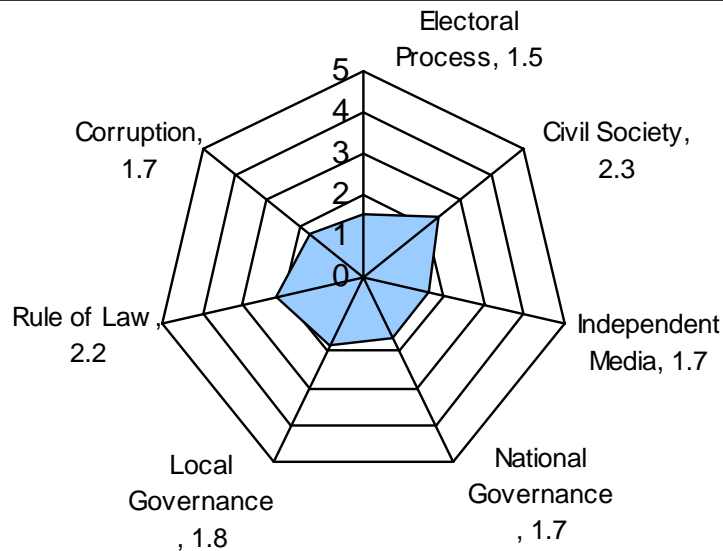
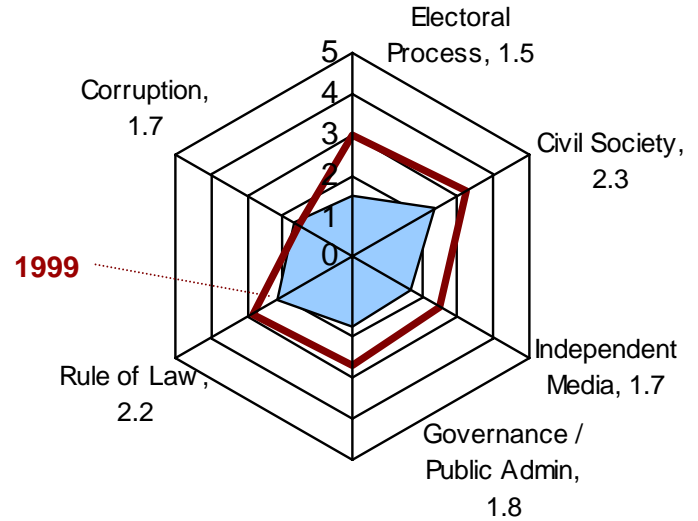
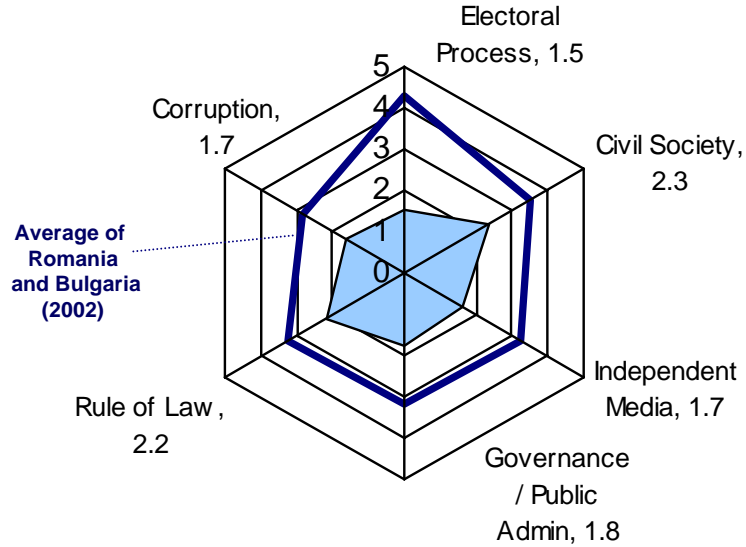


## Second Stage Economic Reform



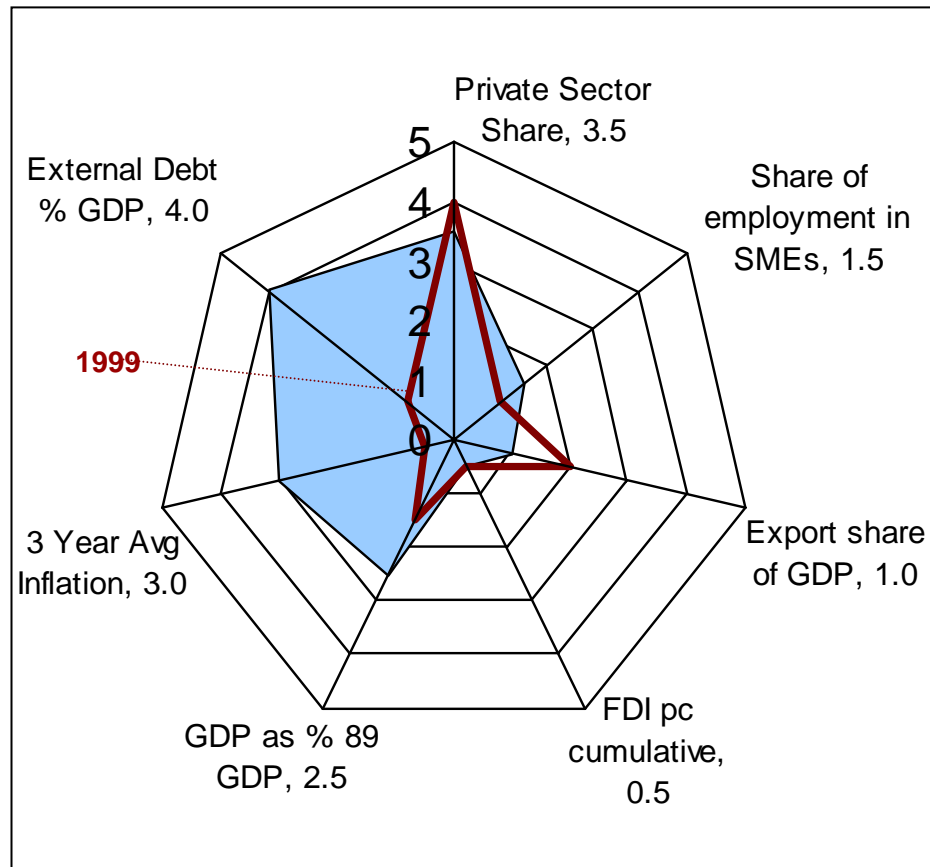
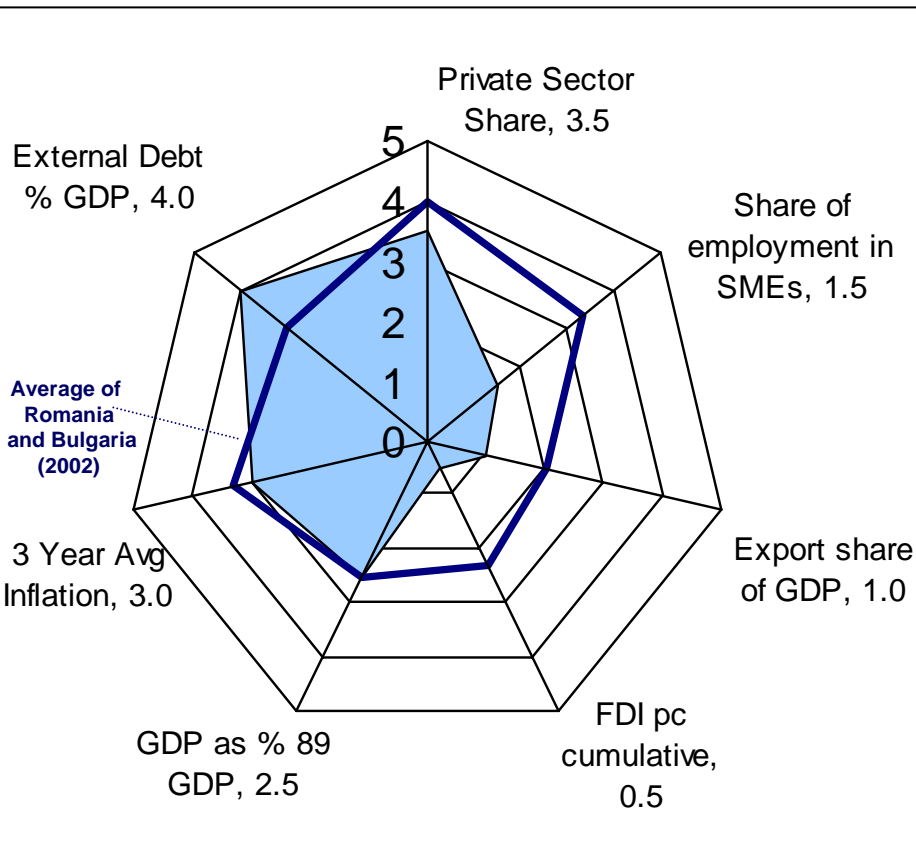
# Democratic Reforms in Russia in 2005

(versus Romania & Bulgaria in 2002 and Russia in 1999)



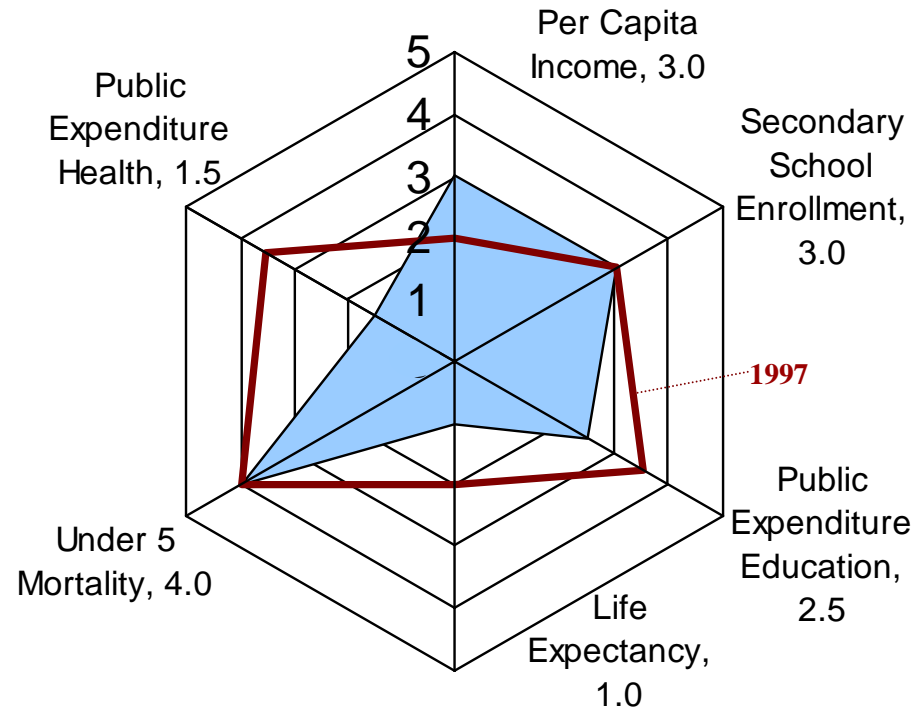
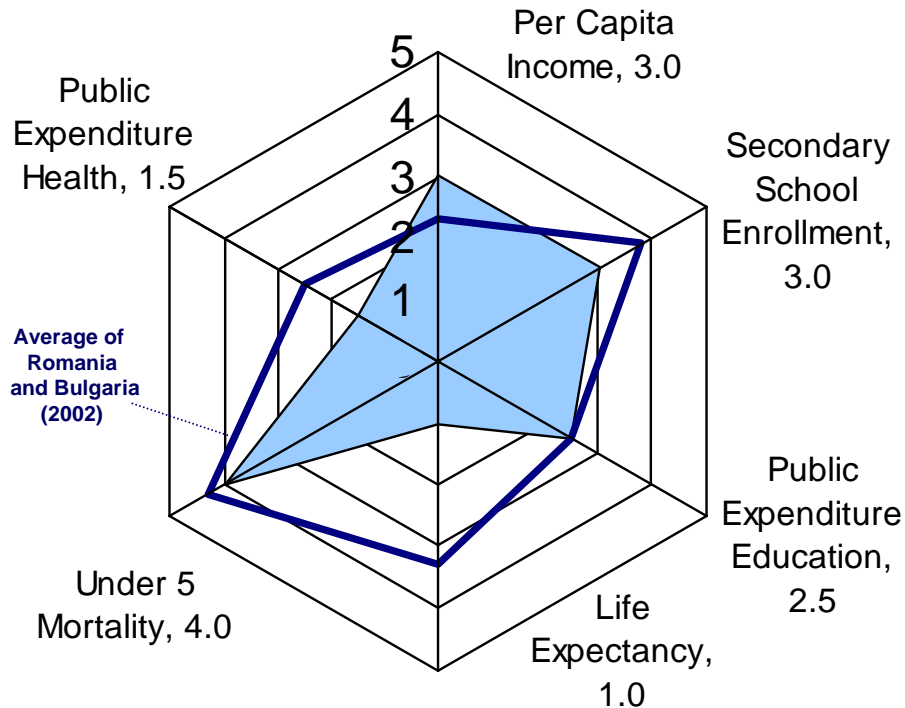
# Economic Performance in Russia in 2004-2005

(versus Romania & Bulgaria in 2002 and Russia in 1999)



# Human Capital Index in Russia in 2003-05

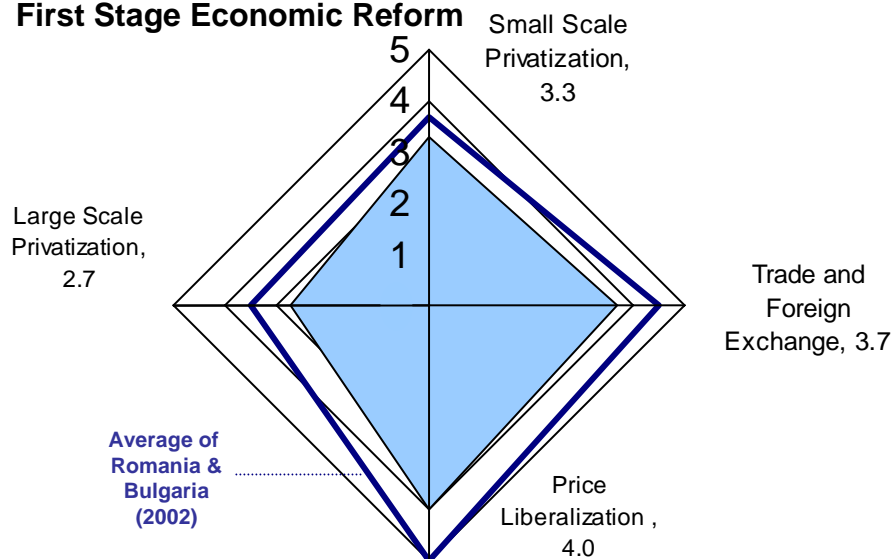
(versus Romania & Bulgaria in 2002 and Russia in 1997)



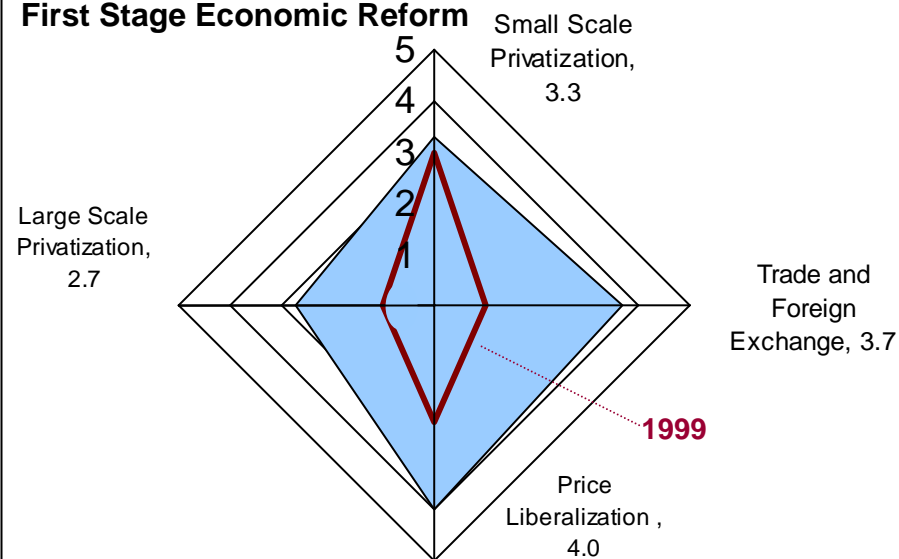
# Economic Reform in Serbia in 2005

(versus Romania & Bulgaria in 2002 and Serbia & Montenegro in 1999)

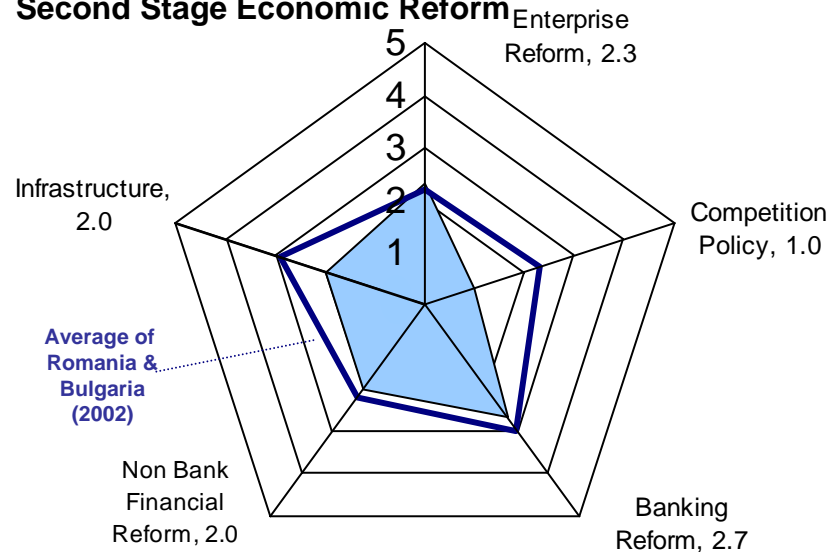
## First Stage Economic Reform



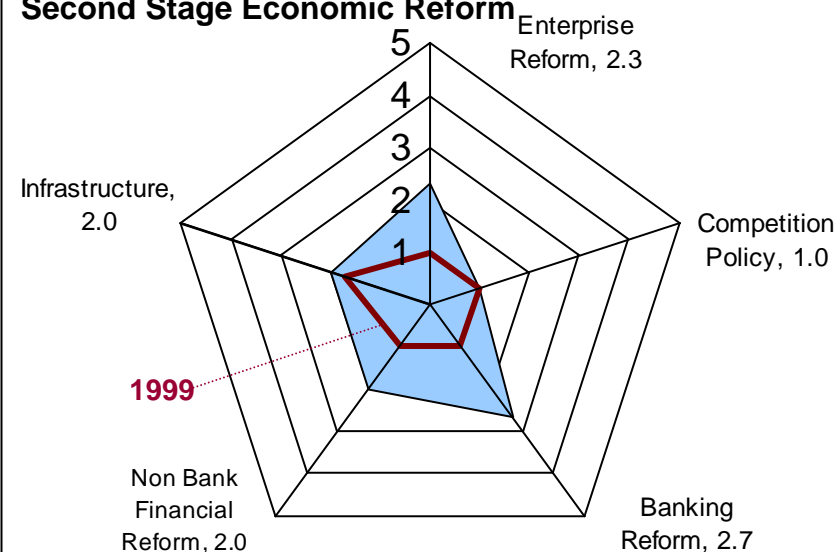
## First Stage Economic Reform



## Second Stage Economic Reform

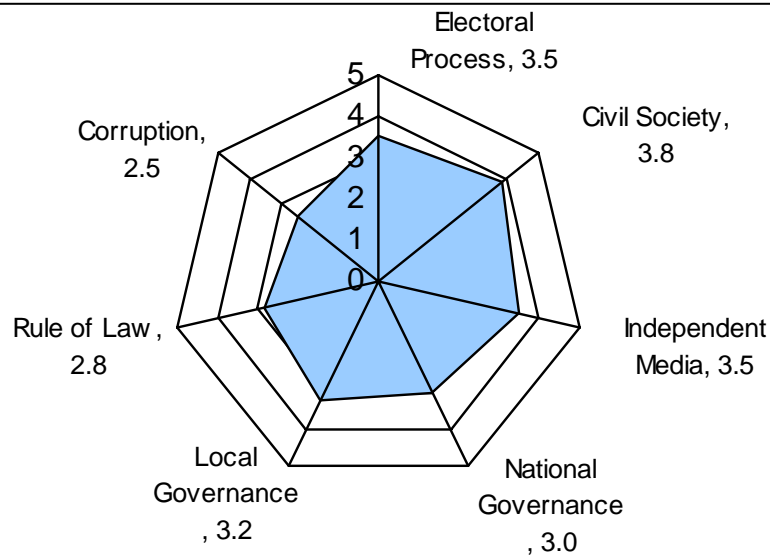
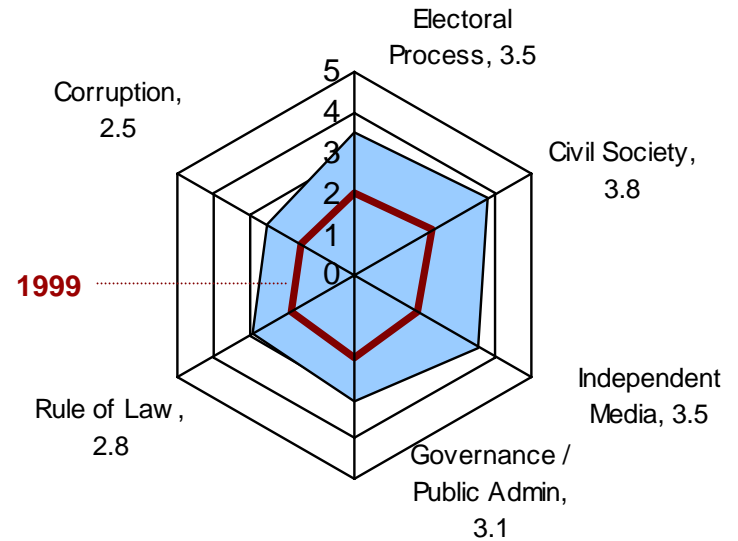
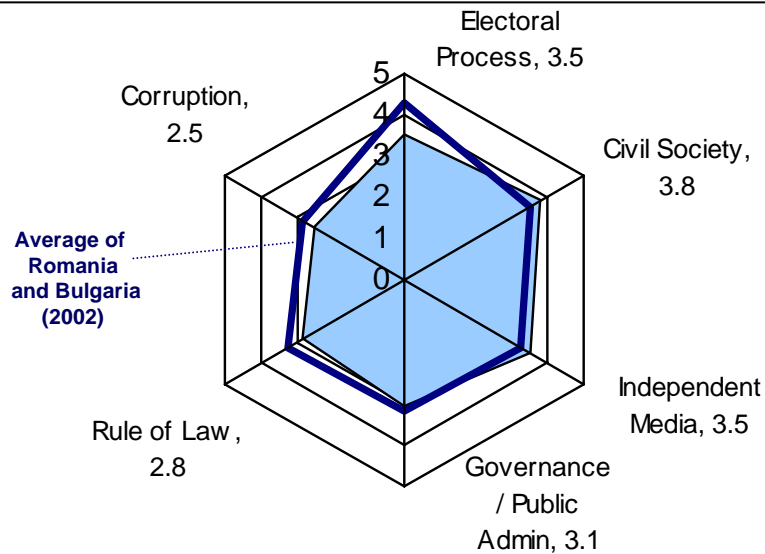


## Second Stage Economic Reform



# Democratic Reforms in Serbia in 2005

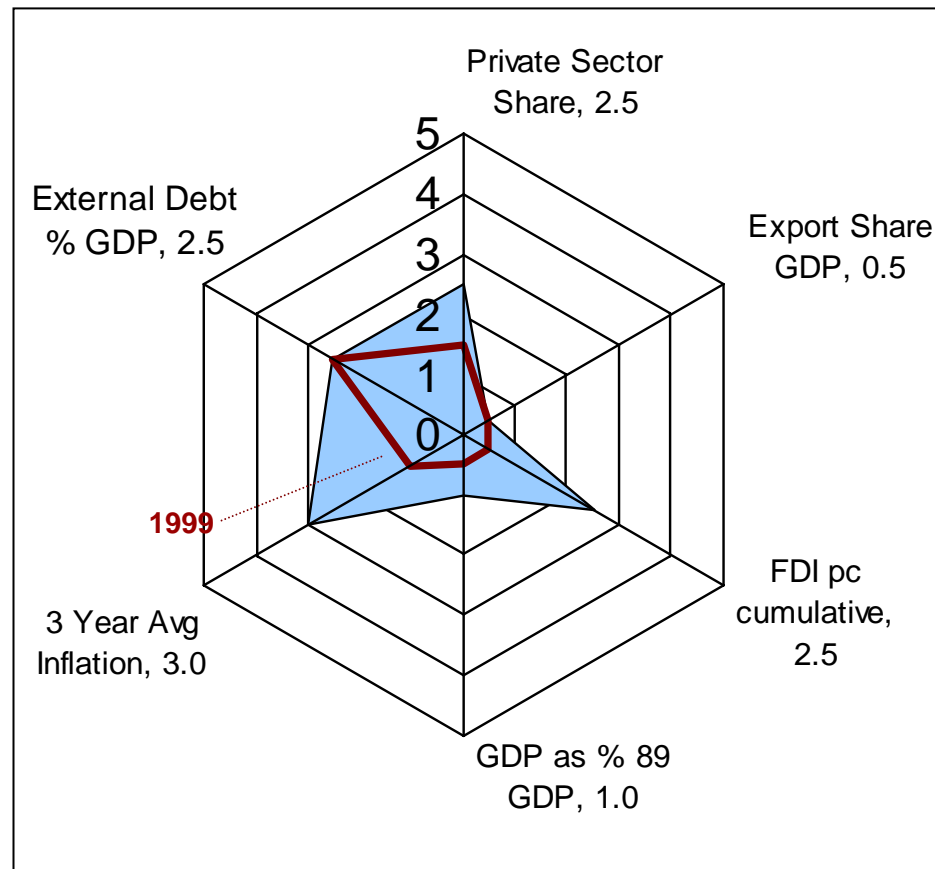
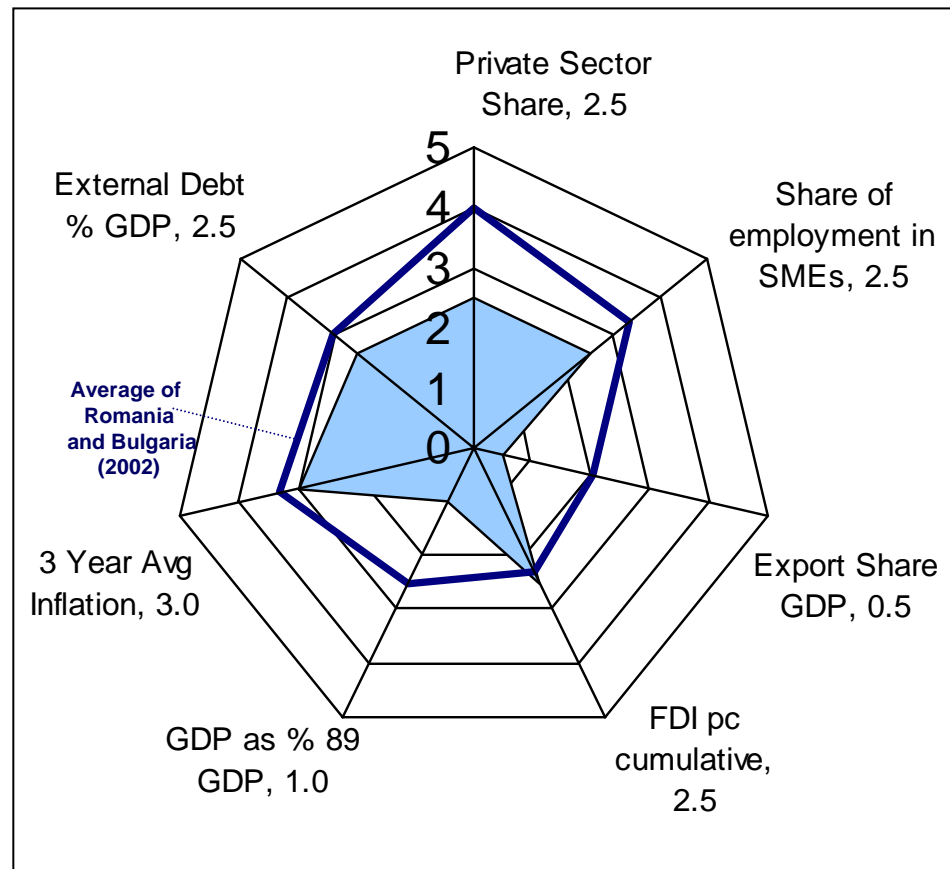
(versus Romania & Bulgaria in 2002 and Serbia in 1999)





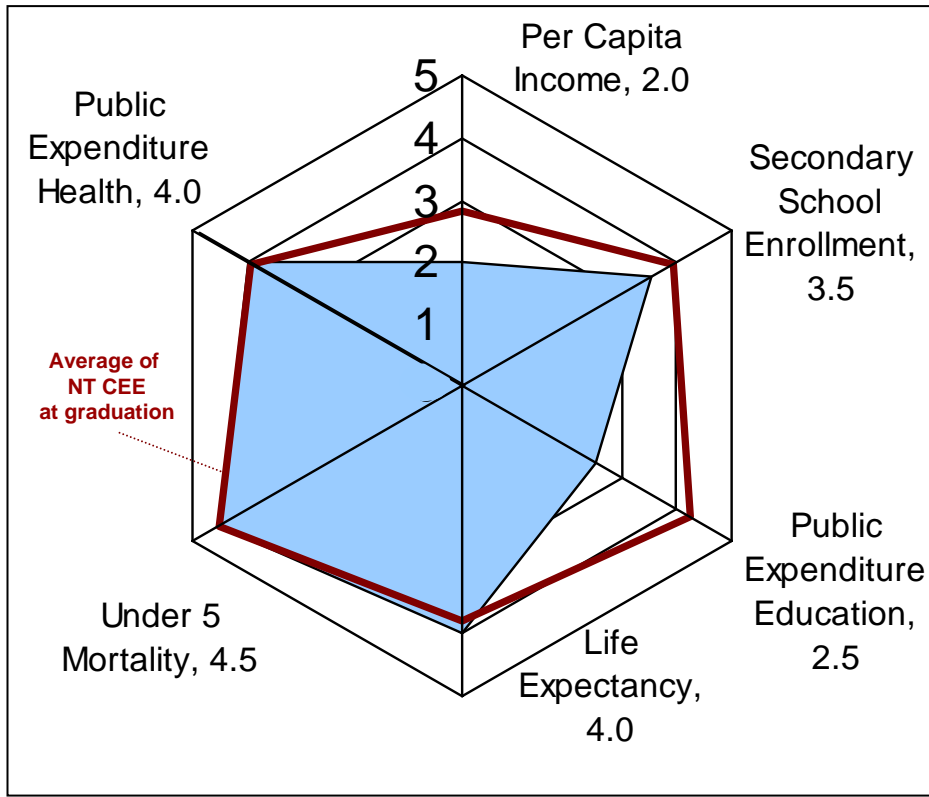
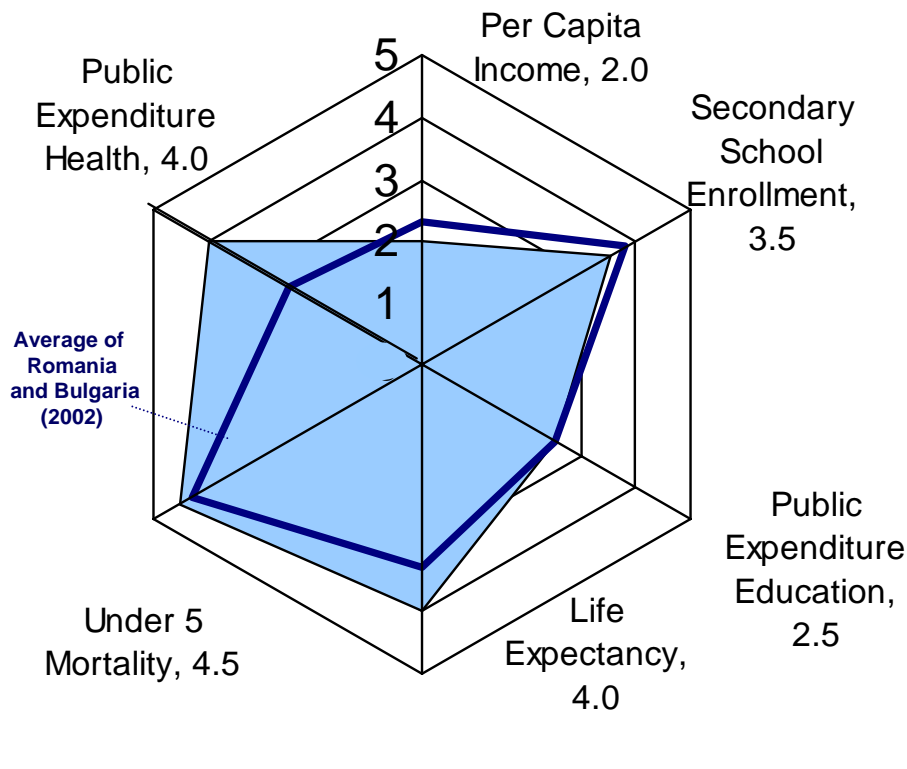
# Economic Performance in Serbia & Montenegro in 2004-2005

(versus Romania & Bulgaria in 2002 and Serbia & Montenegro in 1999)



# Human Capital Index in Serbia & Montenegro in 2003-05

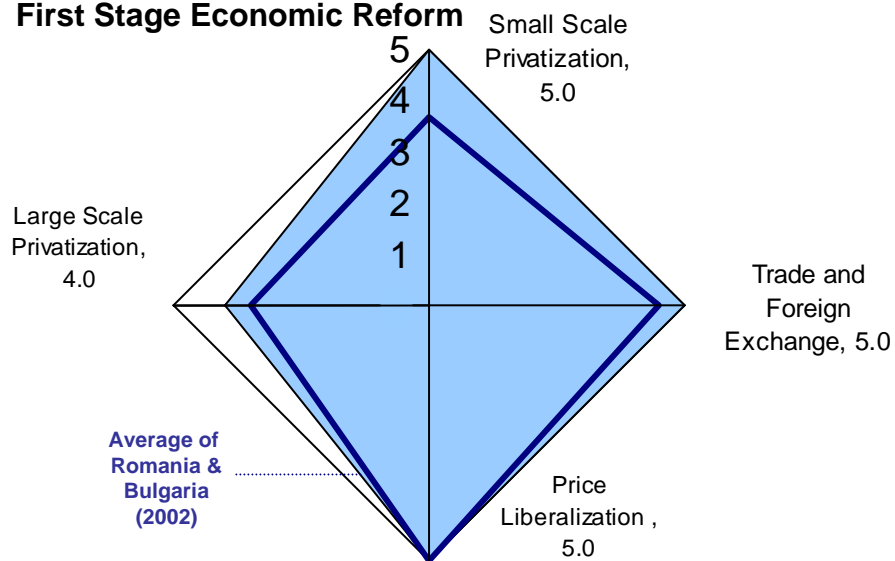
(versus Romania & Bulgaria in 2002 and Northern Tier CEE at Graduation)



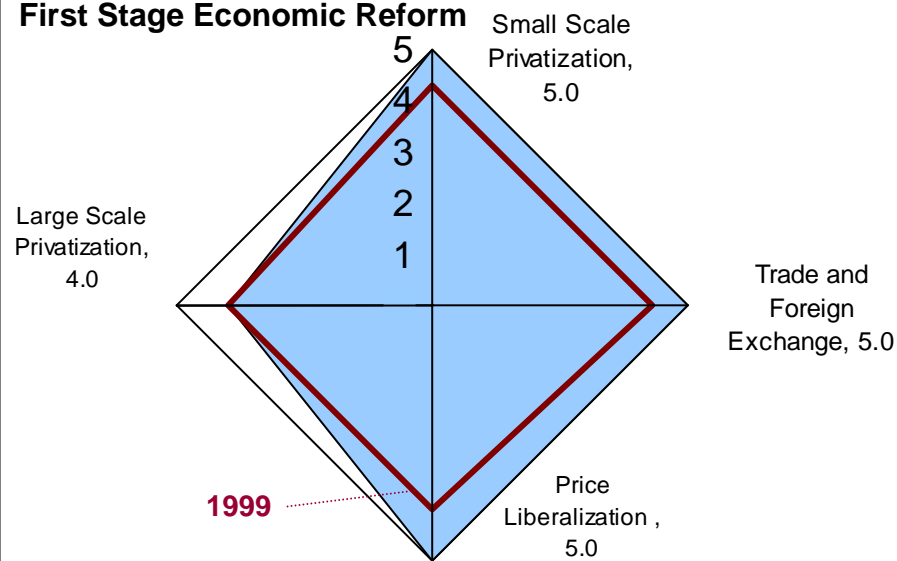
# Economic Reform in Slovakia in 2005

(versus Romania & Bulgaria in 2002 and Slovakia in 1999)

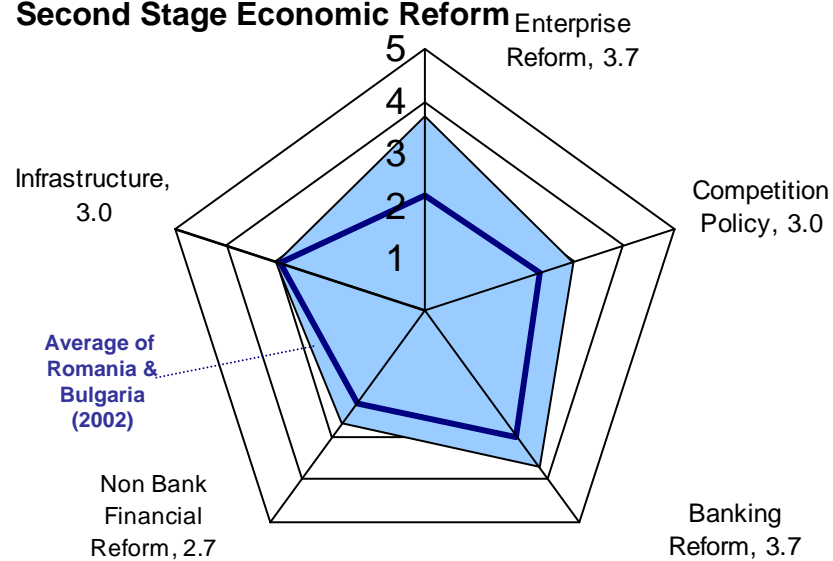
## First Stage Economic Reform



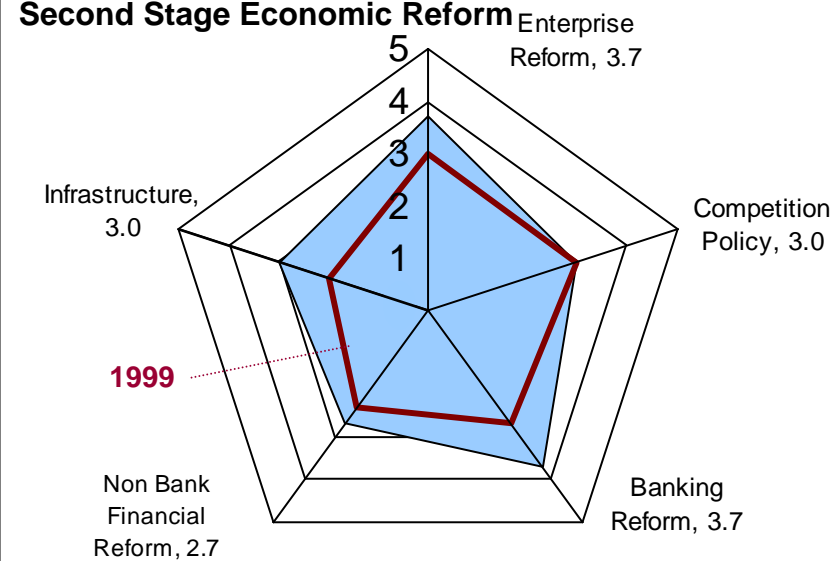
## First Stage Economic Reform



## Second Stage Economic Reform

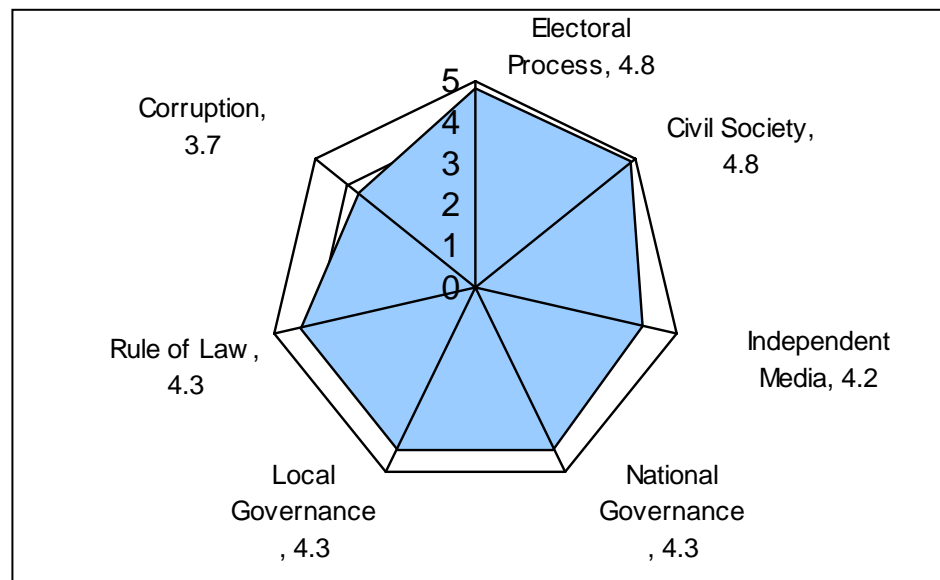
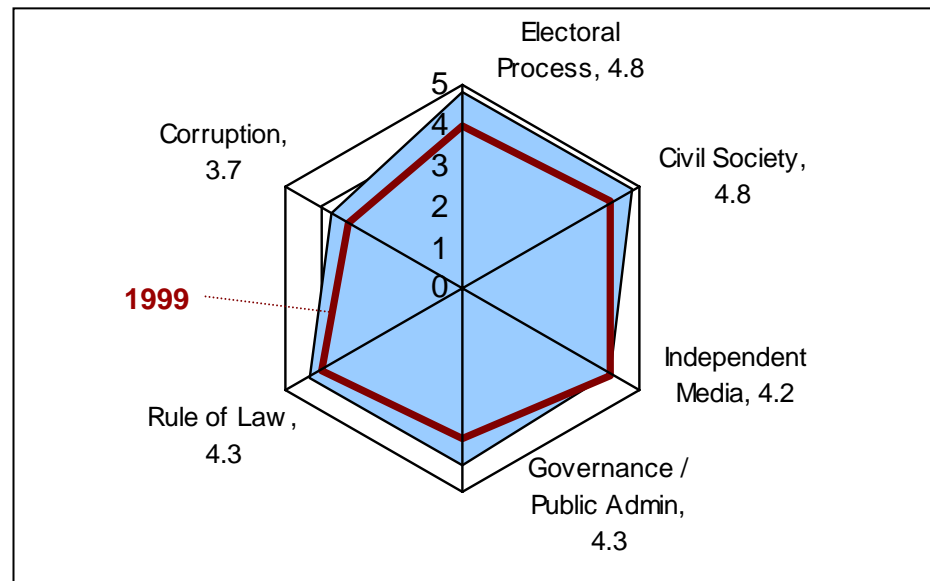
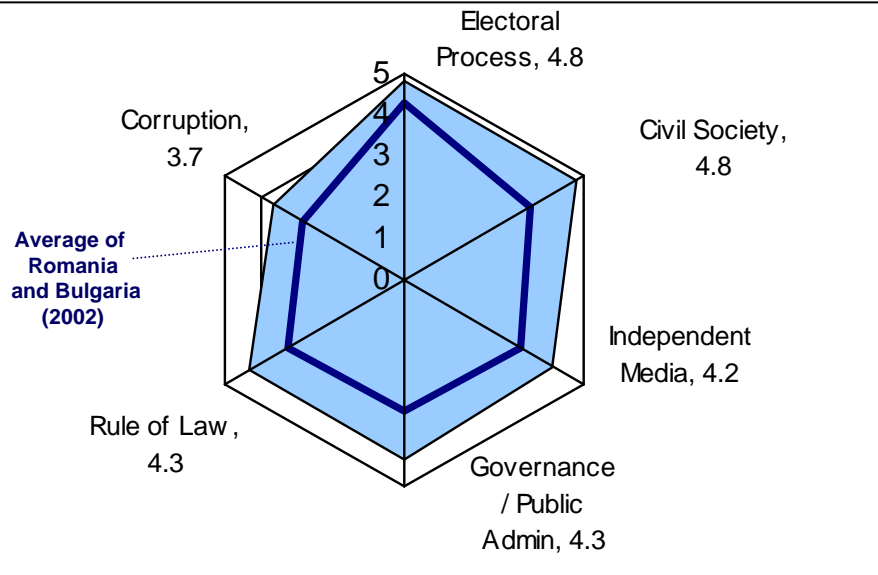


## Second Stage Economic Reform



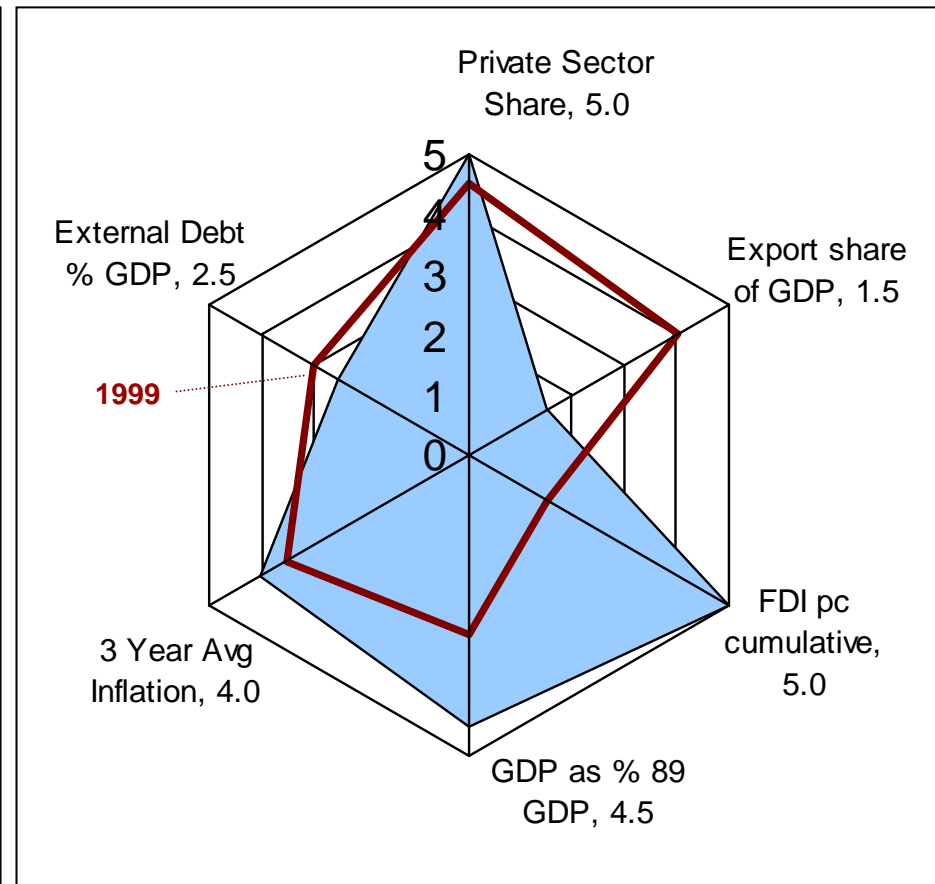
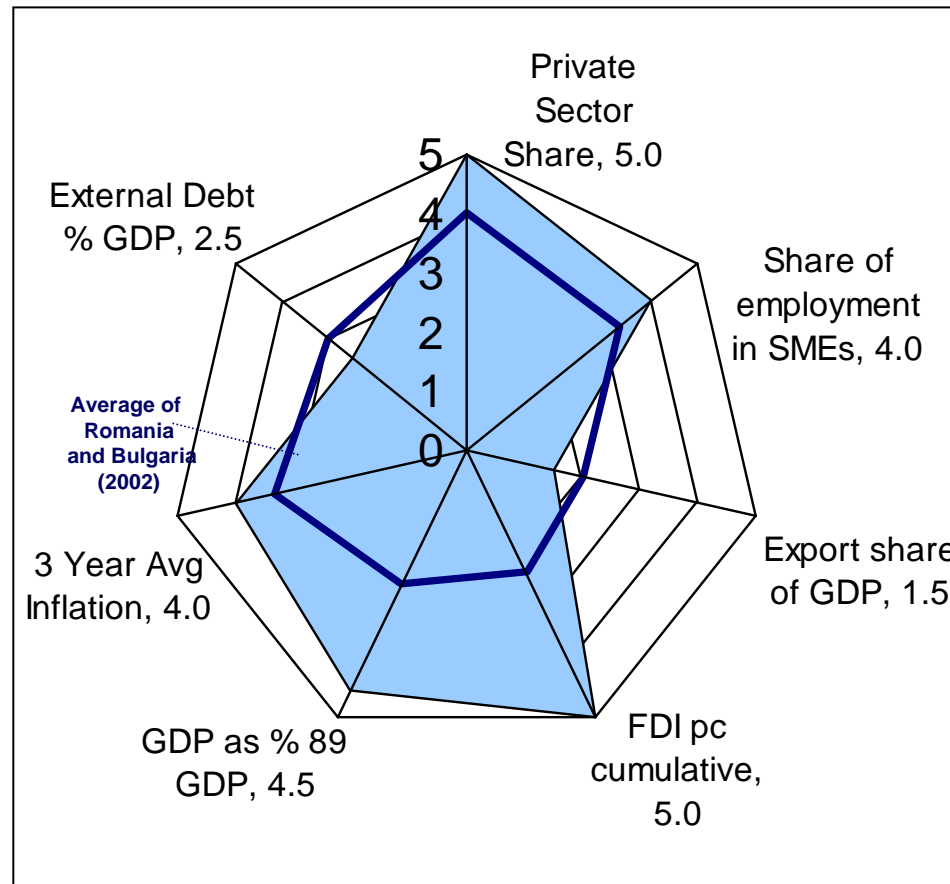
# Democratic Reforms in Slovakia in 2005

(versus Romania & Bulgaria in 2002 and Slovakia in 1999)



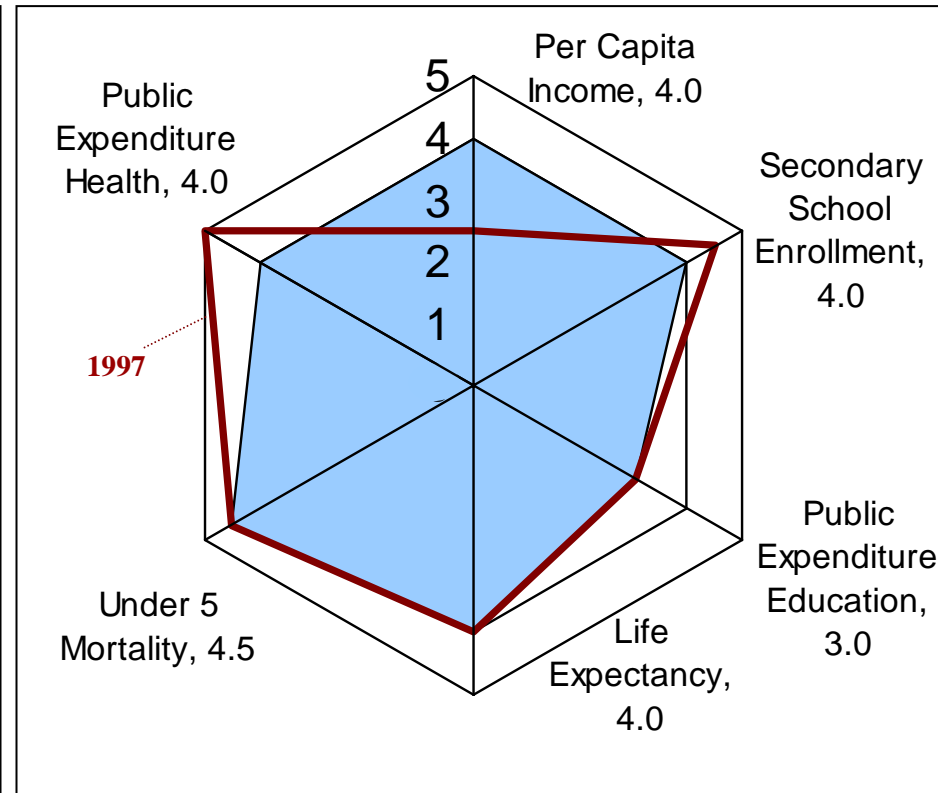
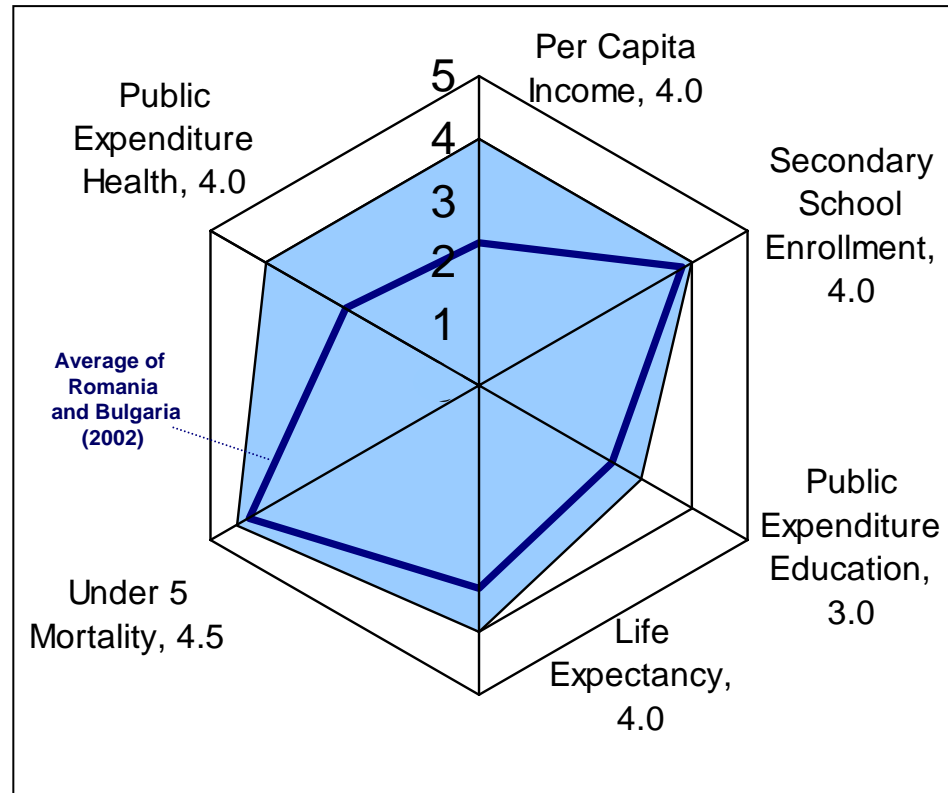
# Economic Performance in Slovakia in 2004-2005

(versus Romania & Bulgaria in 2002 and Slovakia in 1999)



# Human Capital Index in Slovakia in 2003-05

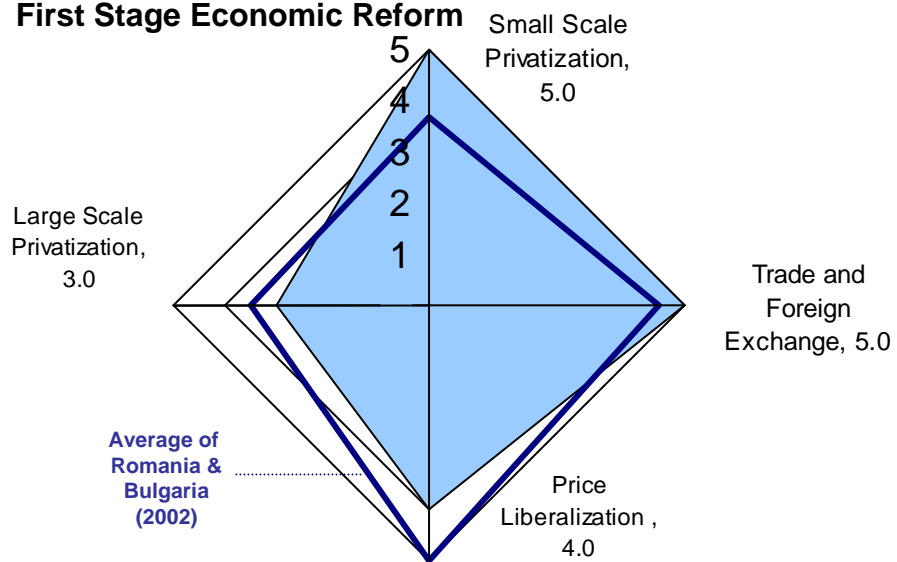
(versus Romania & Bulgaria in 2002 and Slovakia in 1997)



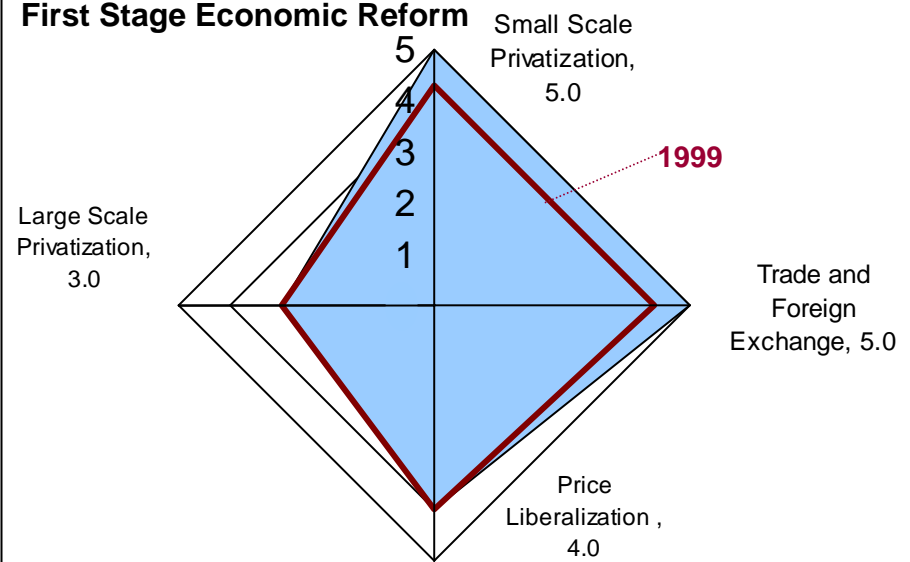
# Economic Reform in Slovenia in 2005

(versus Romania & Bulgaria in 2002 and Slovenia in 1999)

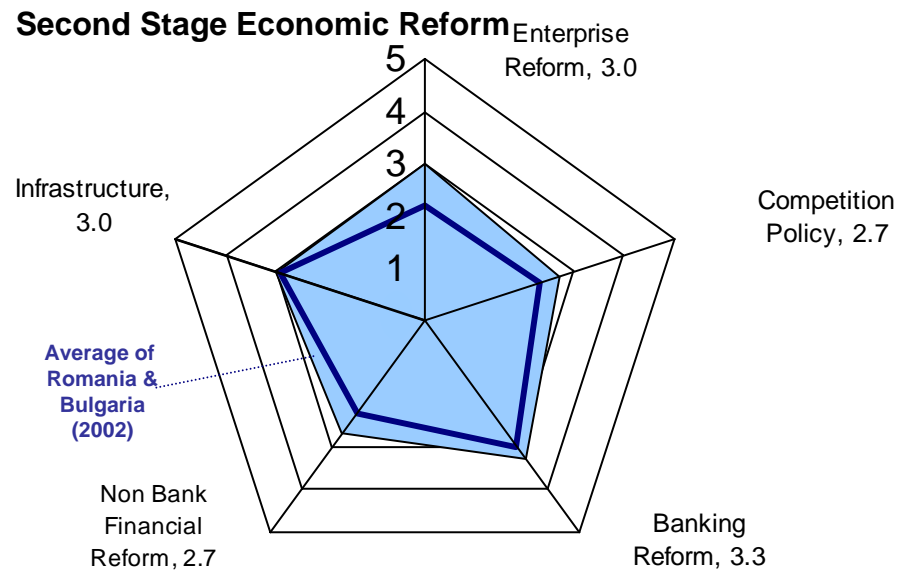
## First Stage Economic Reform



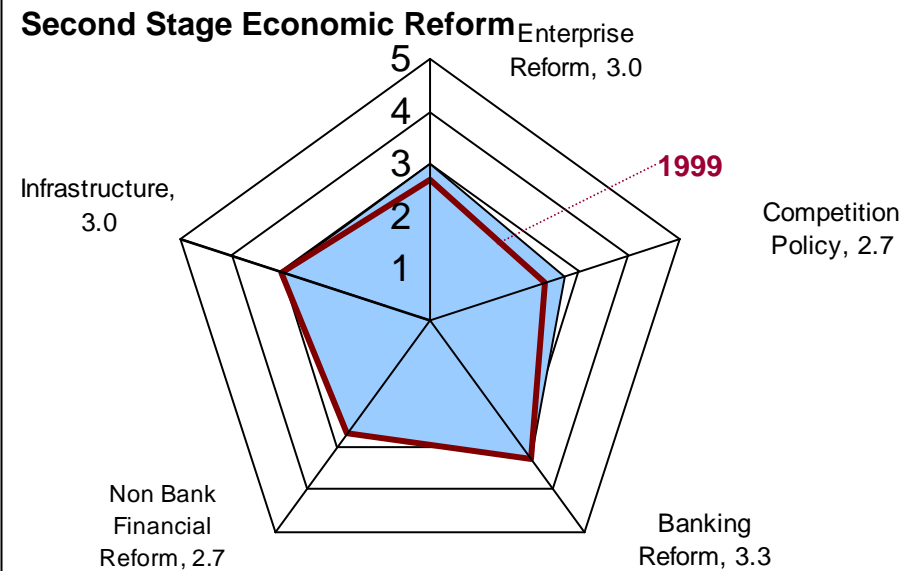
## First Stage Economic Reform



## Second Stage Economic Reform

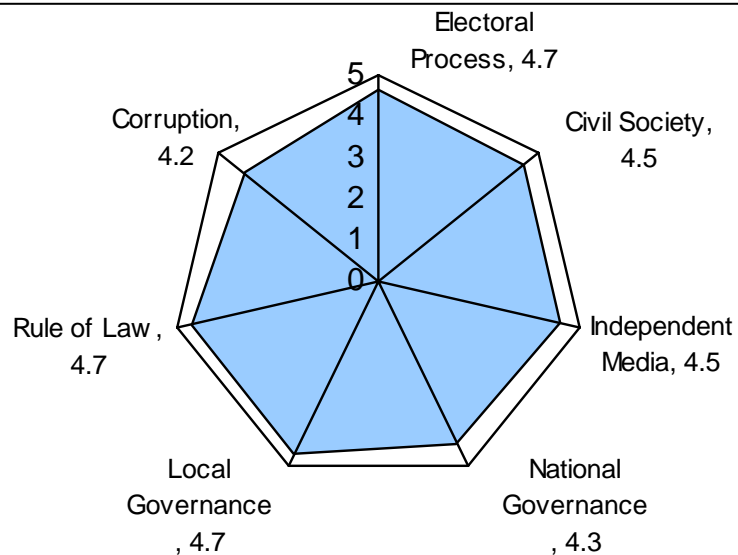
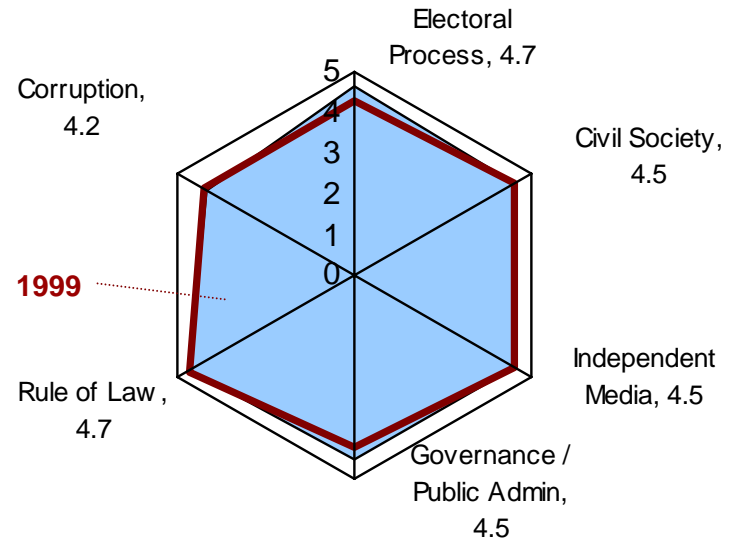
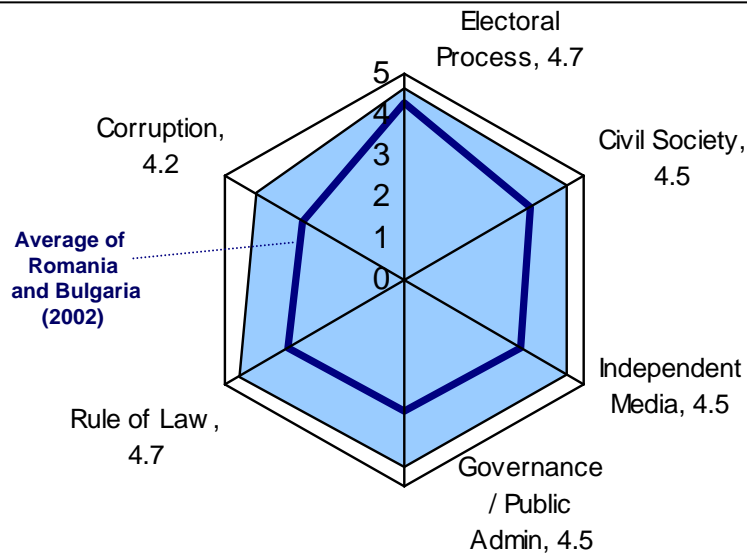


## Second Stage Economic Reform



# Democratic Reforms in Slovenia in 2005

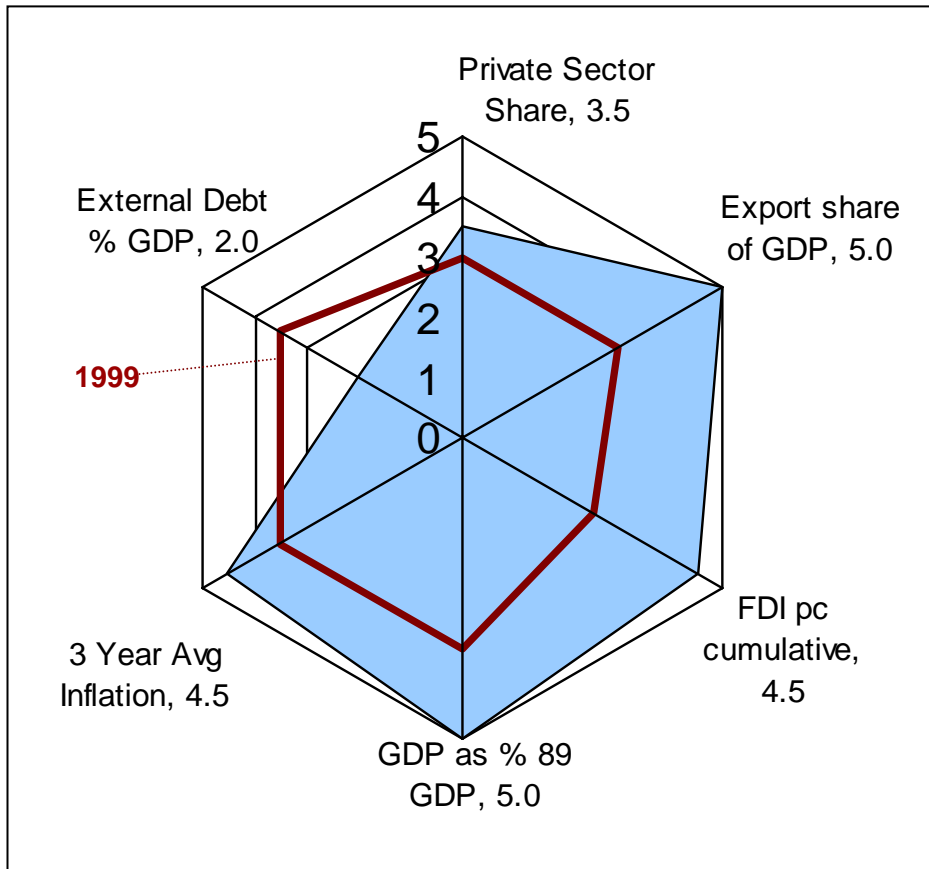
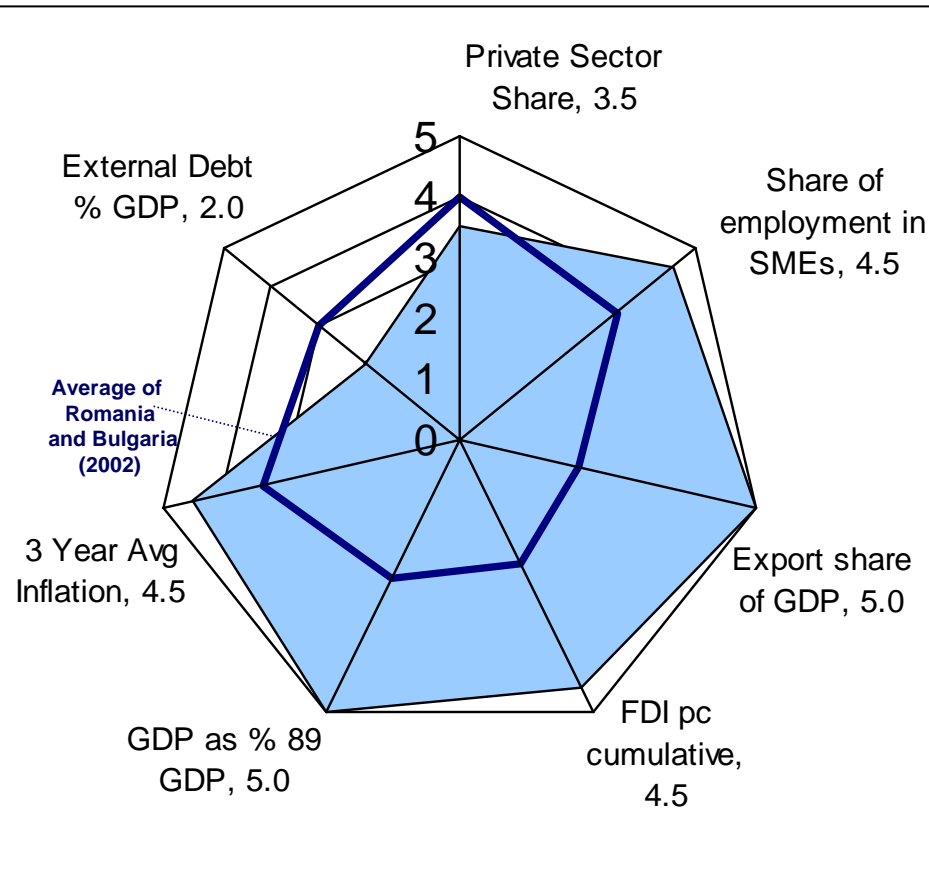
(versus Romania & Bulgaria in 2002 and Slovenia in 1999)





# Economic Performance in Slovenia in 2004-2005

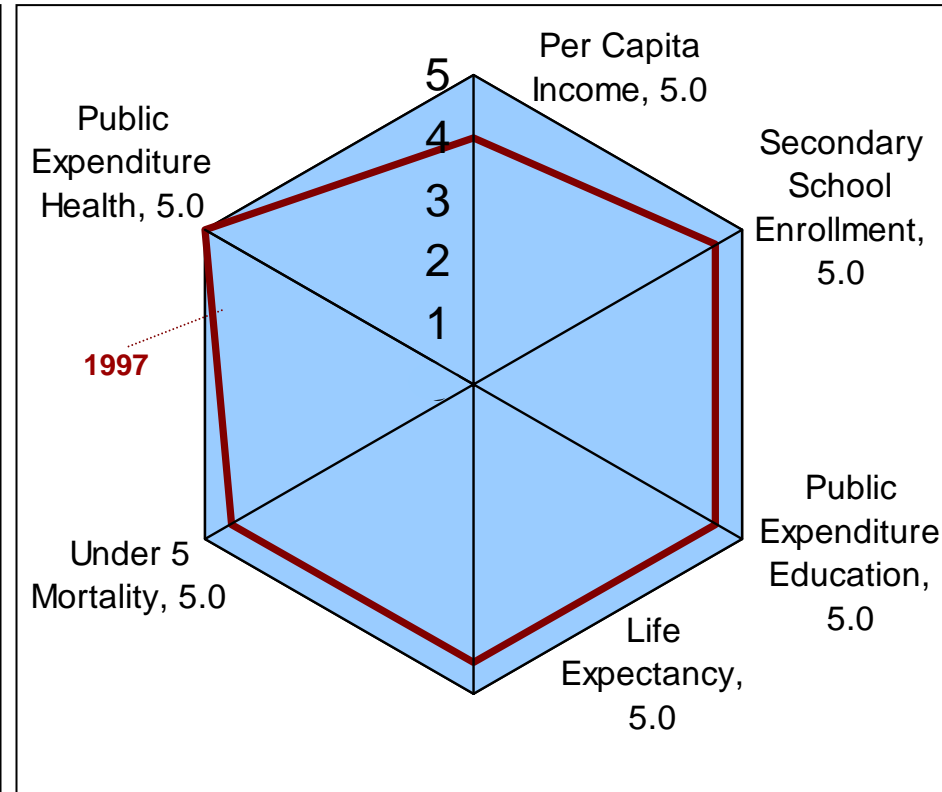
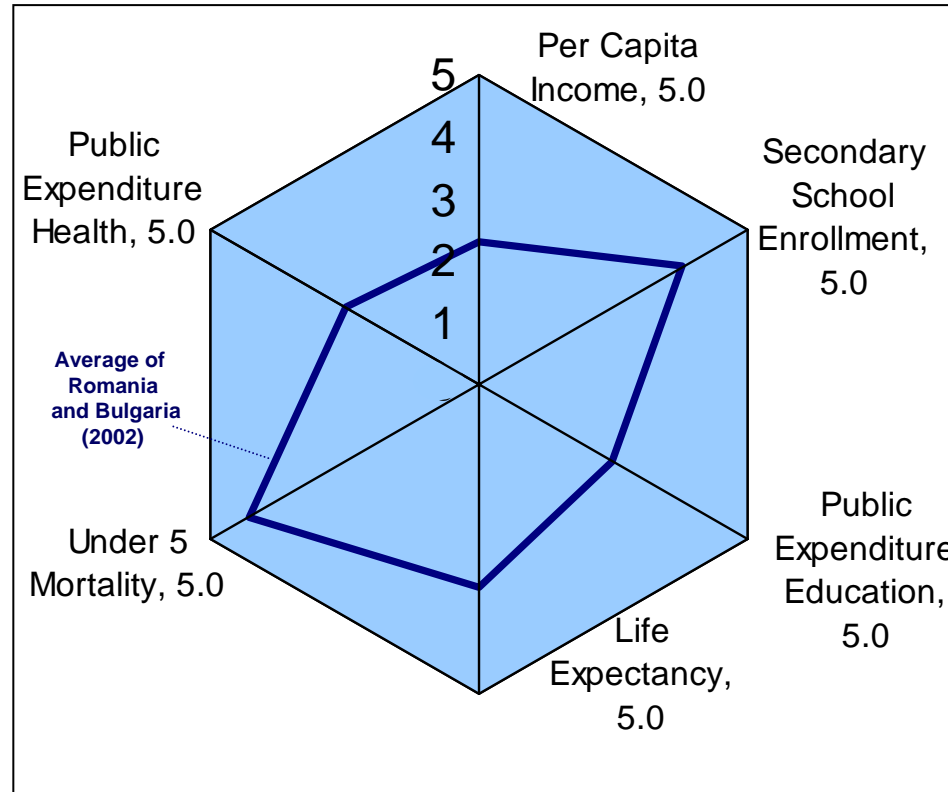
(versus Romania & Bulgaria in 2002 and Slovenia in 1999)



Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID, drawing from World Bank, *World Development Indicators 2005* (2005); EBRD, *Transition Report* (November 2005), UNECE, SME Databank (2003).

# Human Capital Index in Slovenia in 2003-05

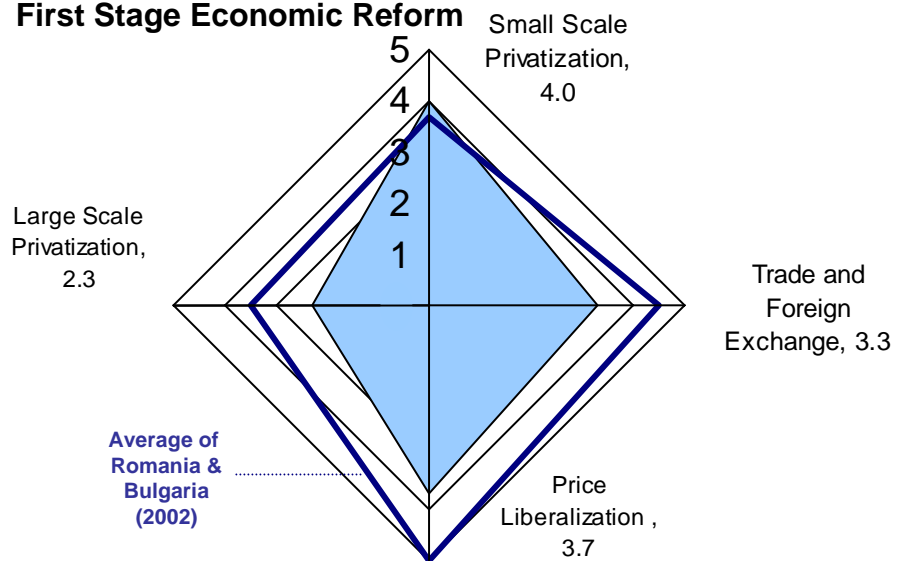
(versus Romania & Bulgaria in 2002 and Slovenia in 1997)



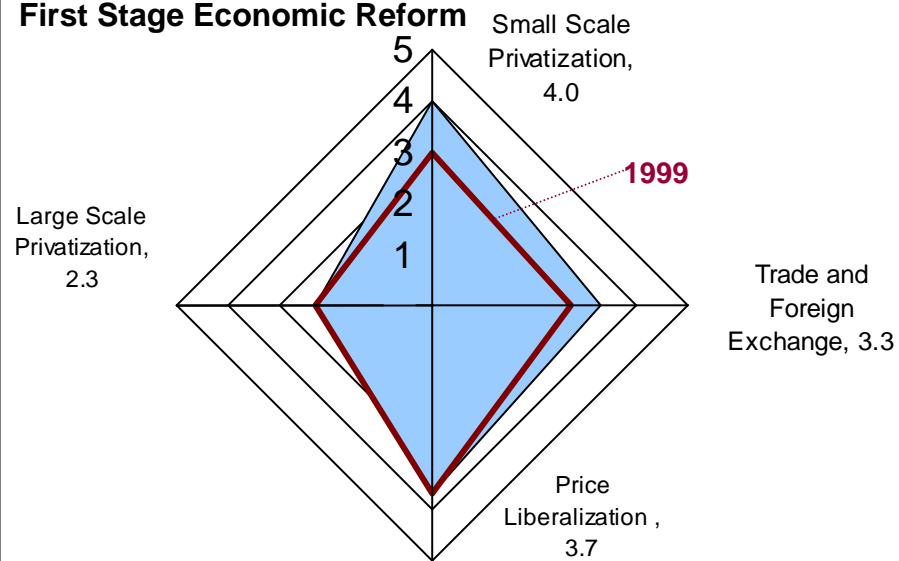
# Economic Reform in Tajikistan in 2005

(versus Romania & Bulgaria in 2002 and Tajikistan in 1999)

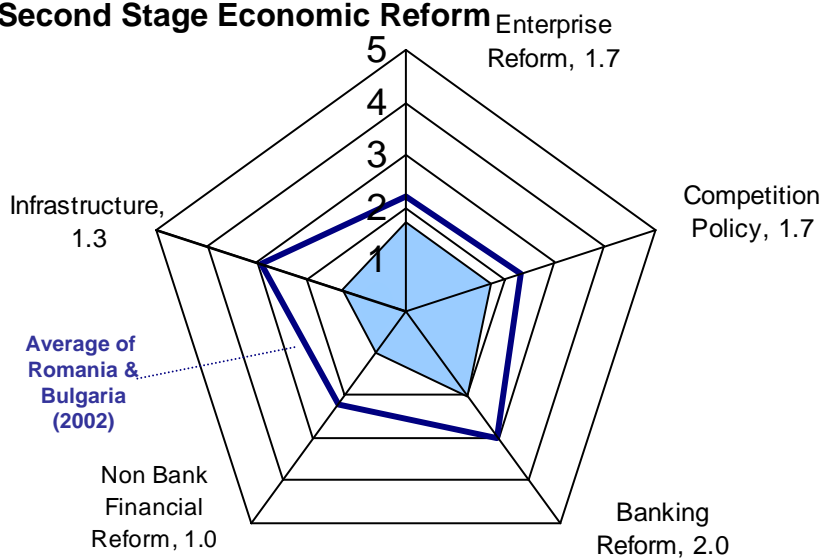
## First Stage Economic Reform



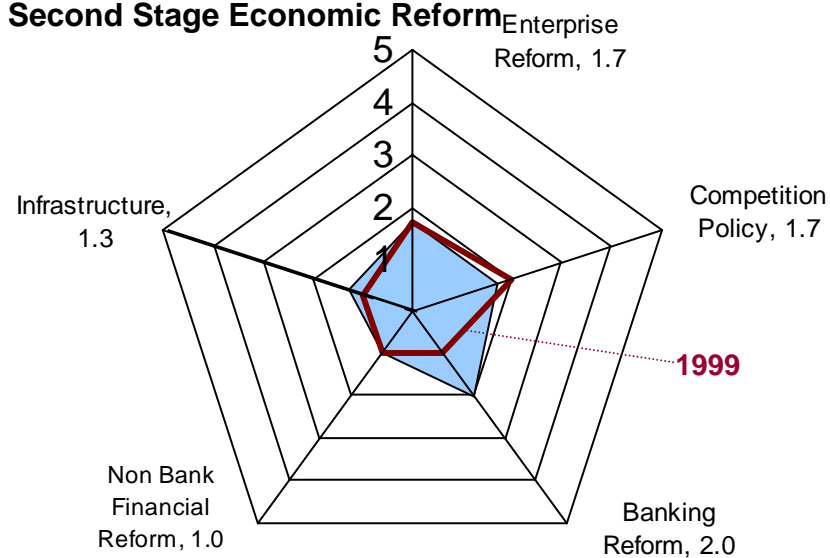
## First Stage Economic Reform



## Second Stage Economic Reform

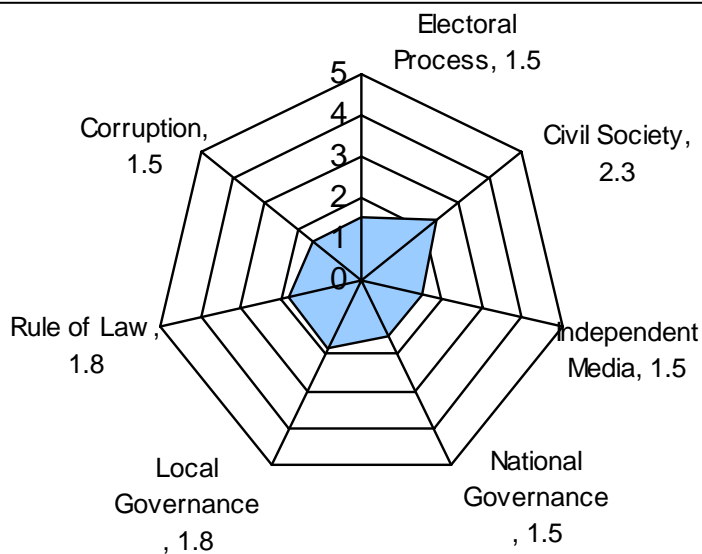
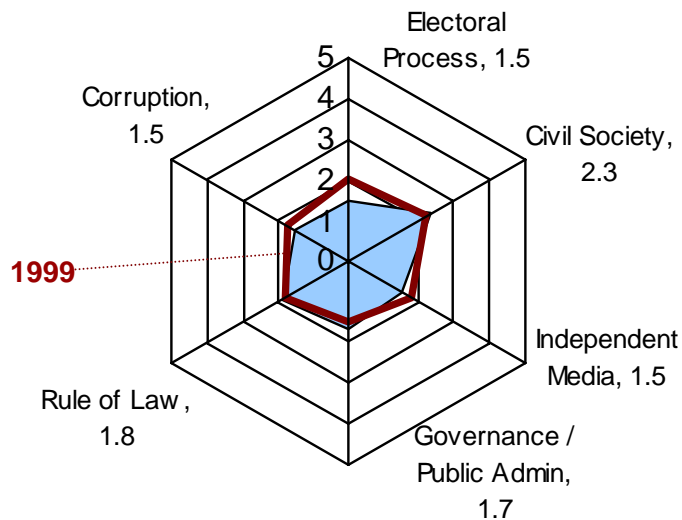
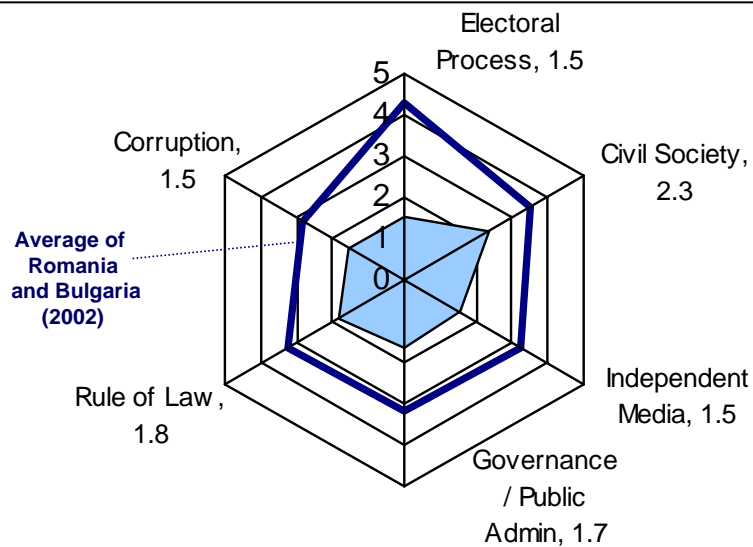


## Second Stage Economic Reform



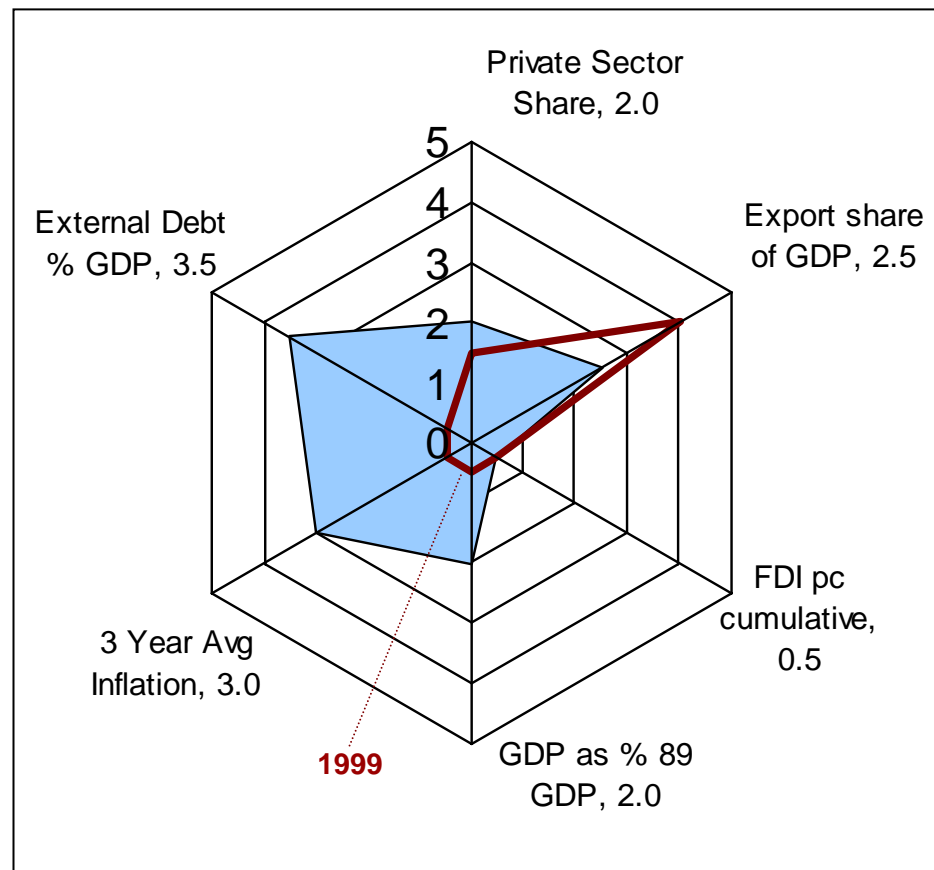
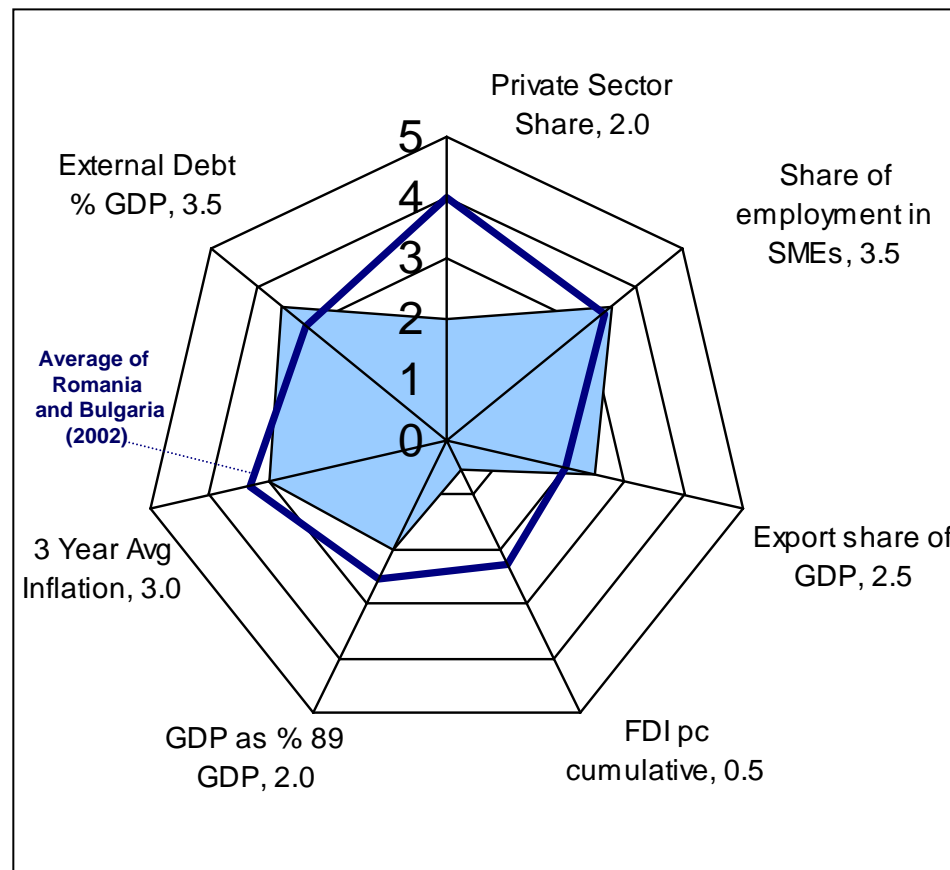
# Democratic Reforms in Tajikistan in 2005

(versus Romania & Bulgaria in 2002 and Tajikistan in 1999)



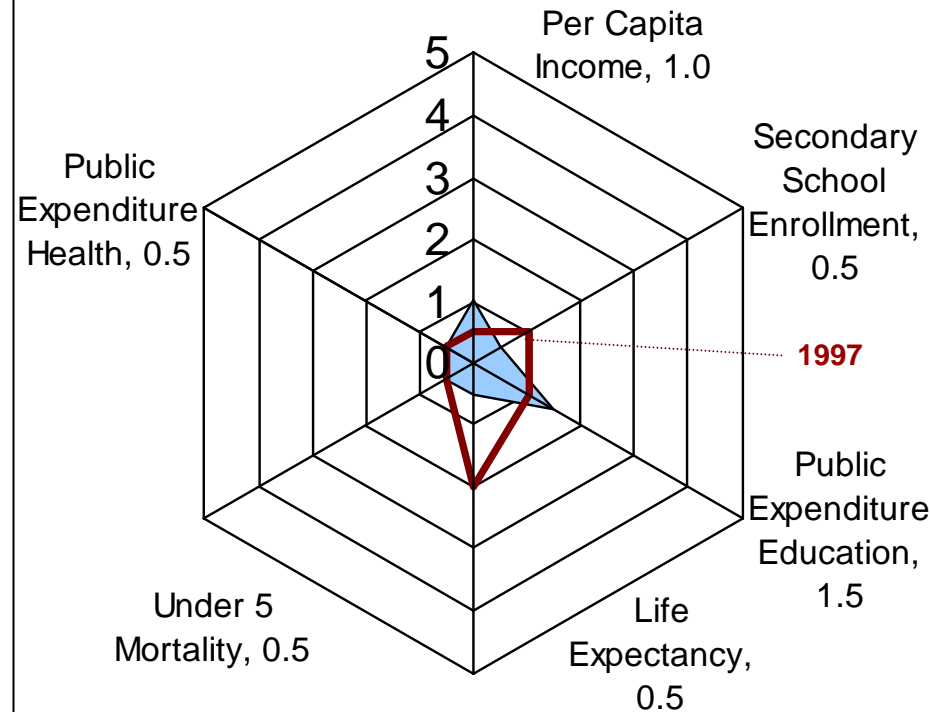
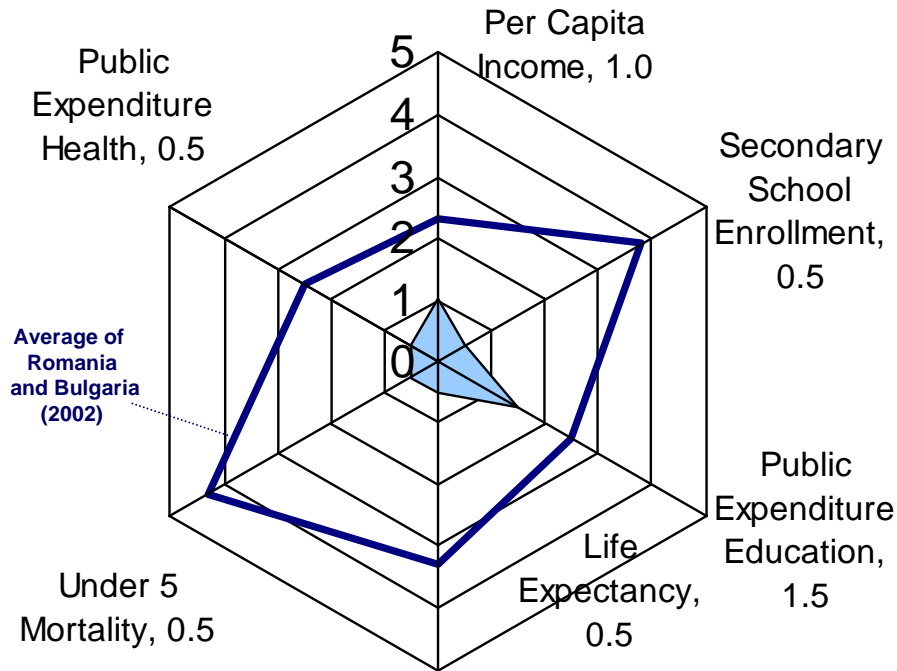
# Economic Performance in Tajikistan in 2004-2005

(versus Romania & Bulgaria in 2002 and Tajikistan in 1999)



# Human Capital Index in Tajikistan in 2003-05

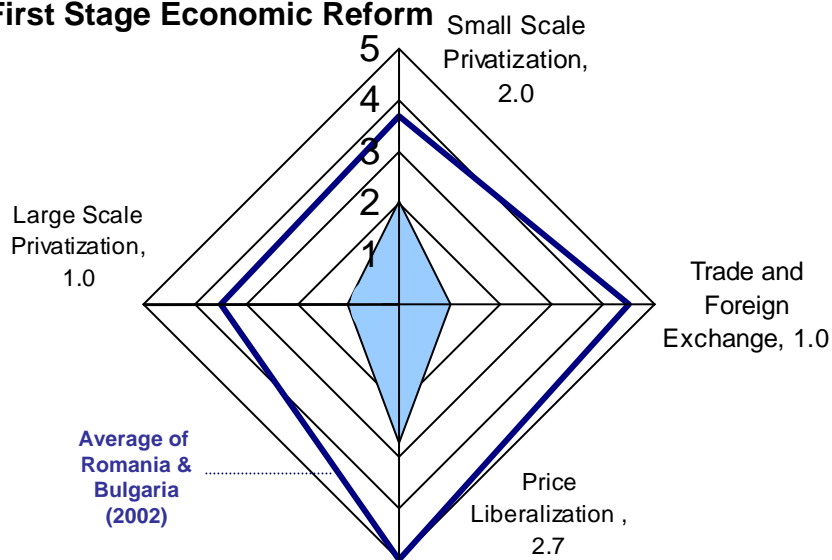
(versus Romania & Bulgaria in 2002 and Tajikistan in 1997)



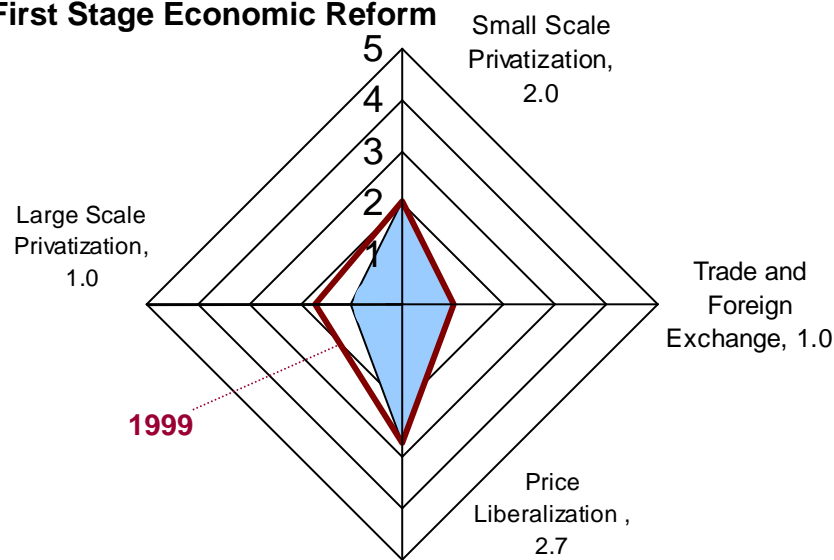
# Economic Reform in Turkmenistan in 2005

(versus Romania & Bulgaria in 2002 and Turkmenistan in 1999)

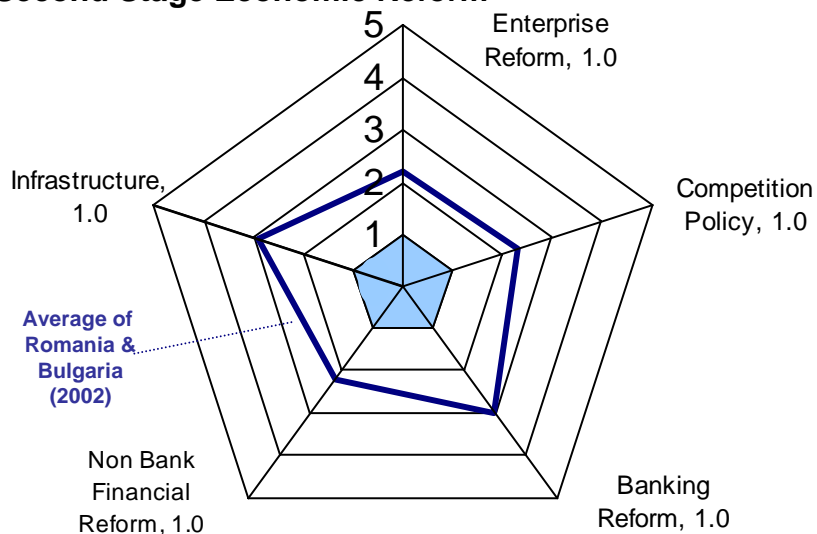
## First Stage Economic Reform



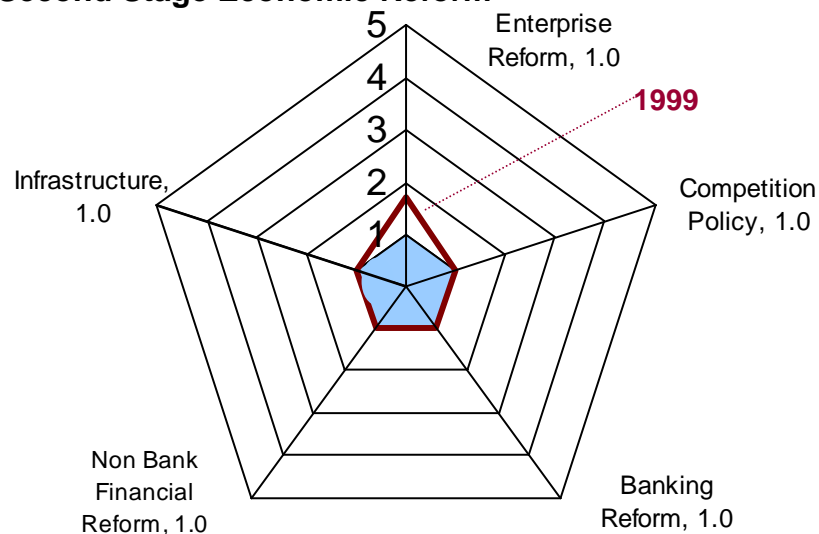
## First Stage Economic Reform



## Second Stage Economic Reform

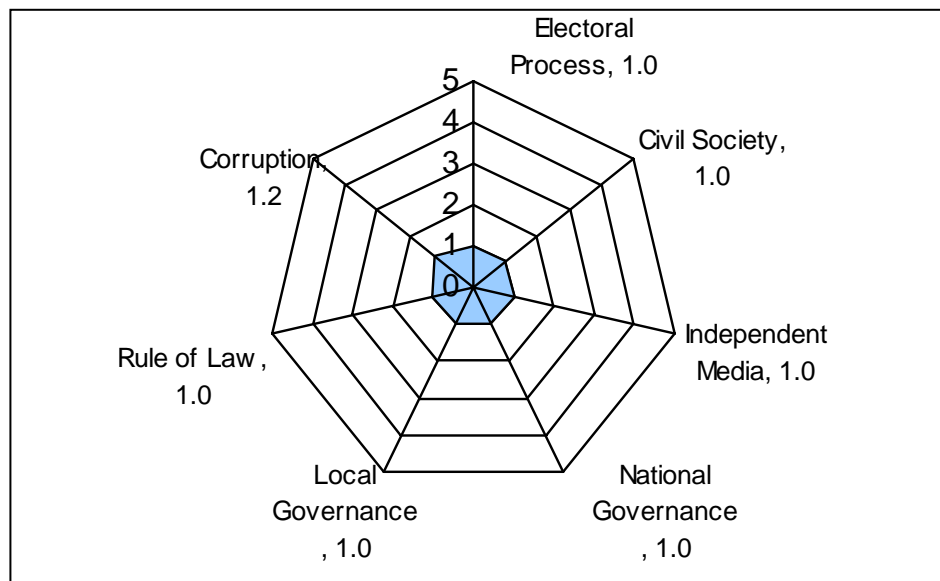
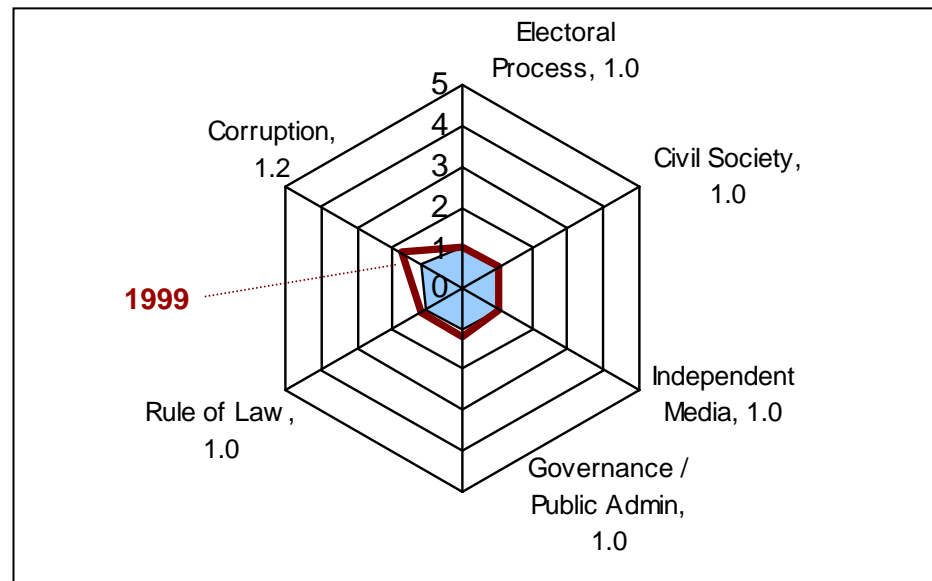
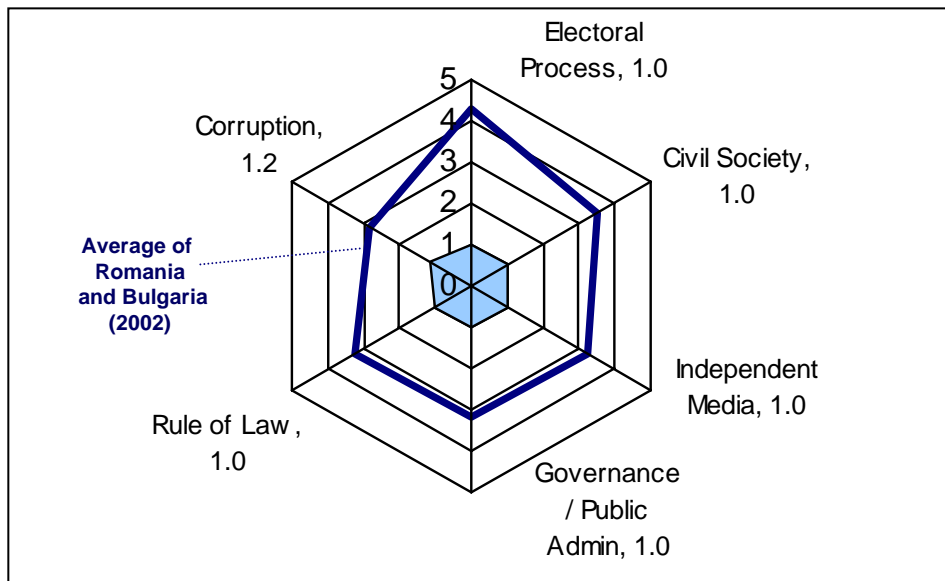


## Second Stage Economic Reform



# Democratic Reforms in Turkmenistan in 2005

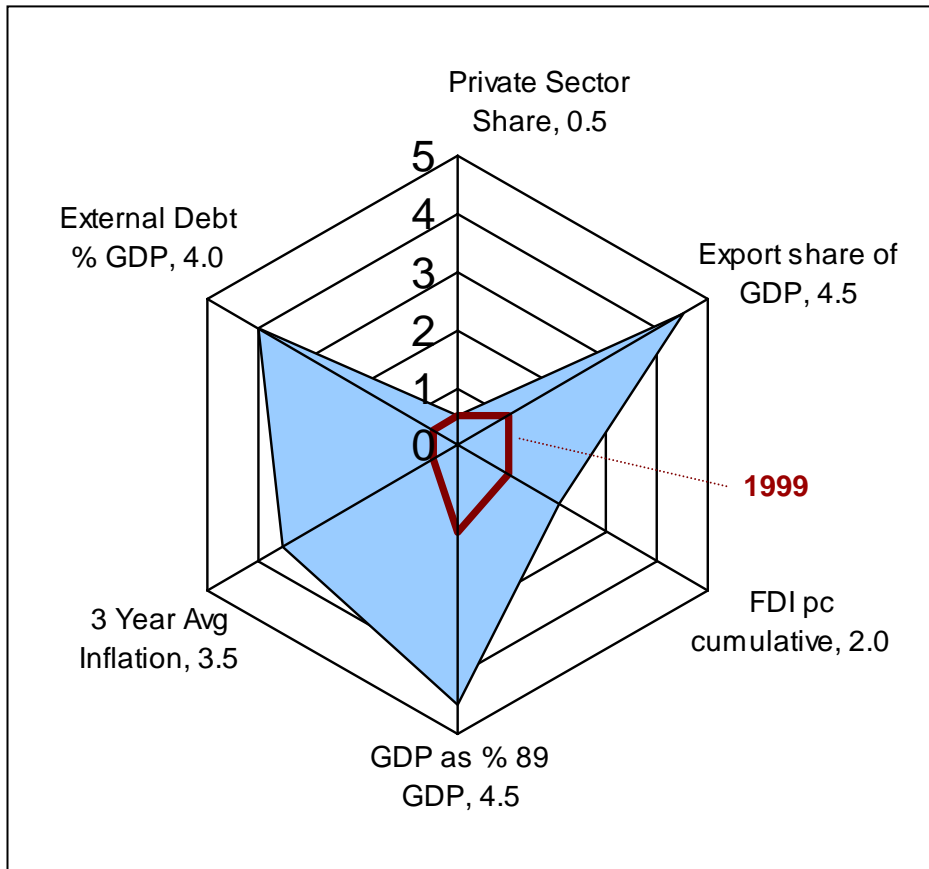
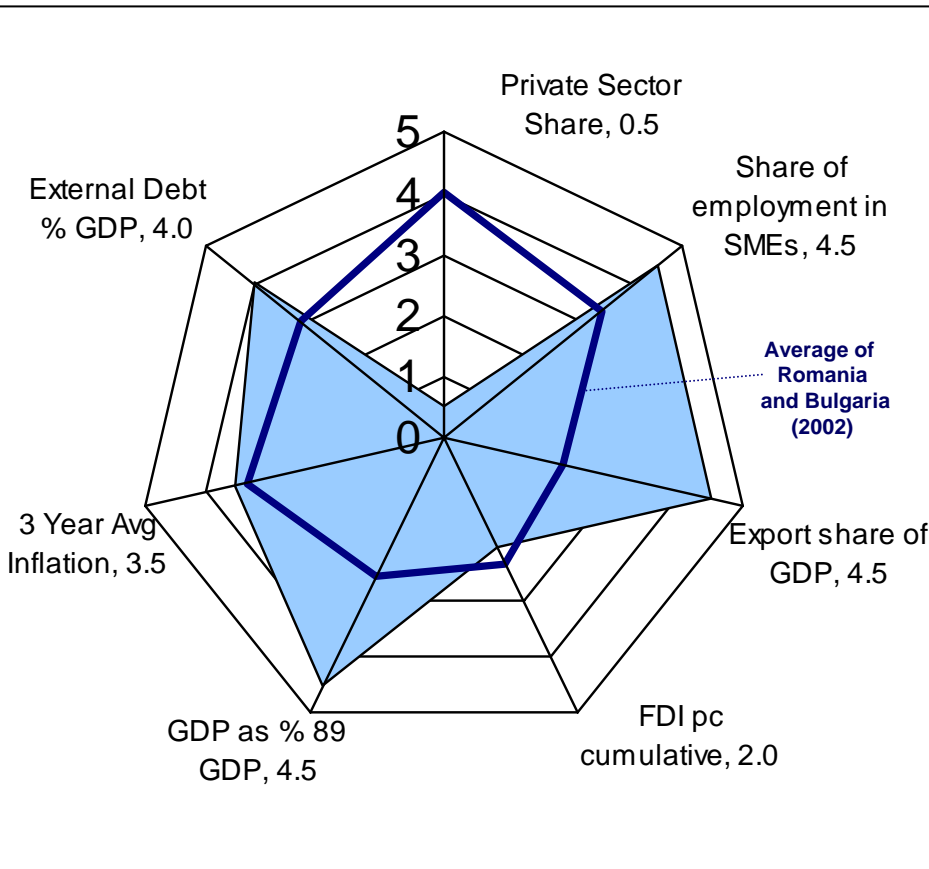
(versus Romania & Bulgaria in 2002 and Turkmenistan in 1999)





# Economic Performance in Turkmenistan in 2004-2005

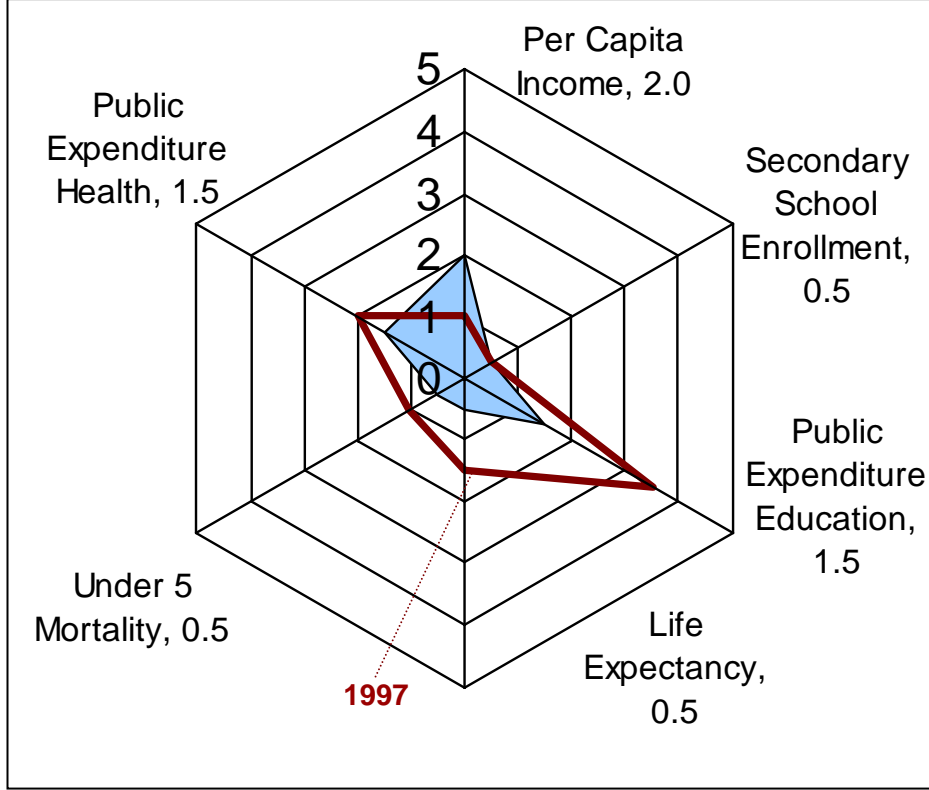
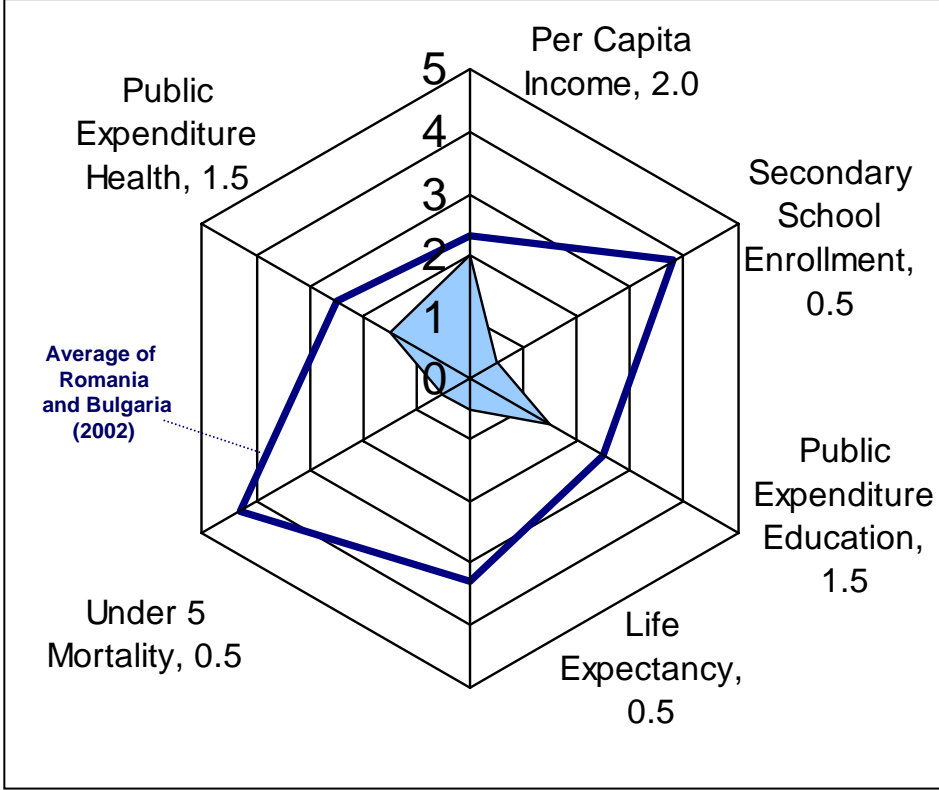
(versus Romania & Bulgaria in 2002 and Turkmenistan in 1999)



Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID, drawing from World Bank, *World Development Indicators 2005* (2005); EBRD, *Transition Report* (November 2005), UNECE, SME Databank (2003).

# Human Capital Index in Turkmenistan in 2003-05

(versus Romania & Bulgaria in 2002 and Turkmenistan in 1997)

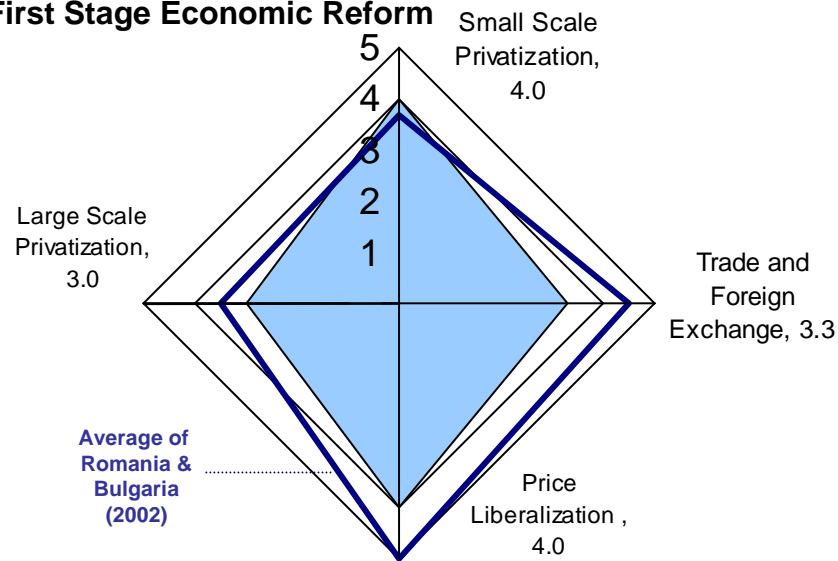


Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID, drawing from World Bank, *World Development Indicators 2005 (2005)*; UNICEF, *TransMONEE Database (December 2005)*; and EBRD *Transition Report 2005 (November 2005)*.

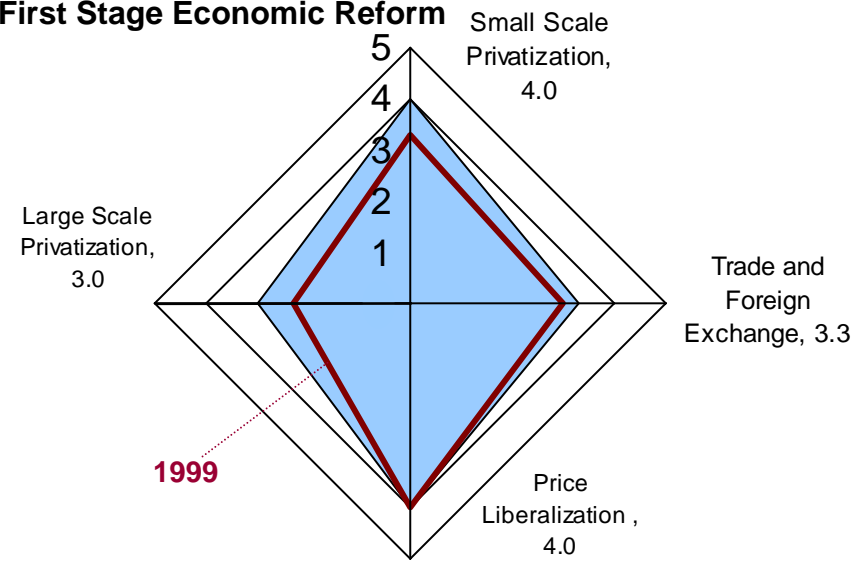
# Economic Reform in Ukraine in 2005

(versus Romania & Bulgaria in 2002 and Ukraine in 1999)

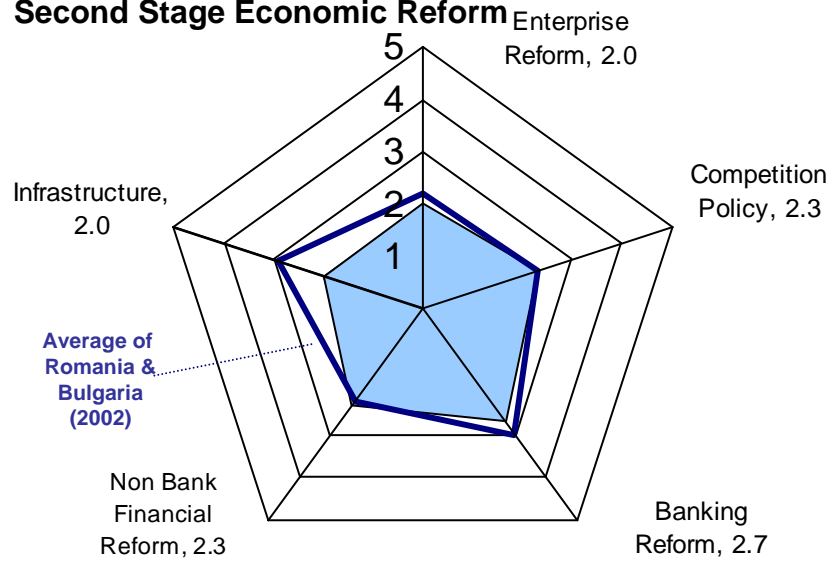
## First Stage Economic Reform



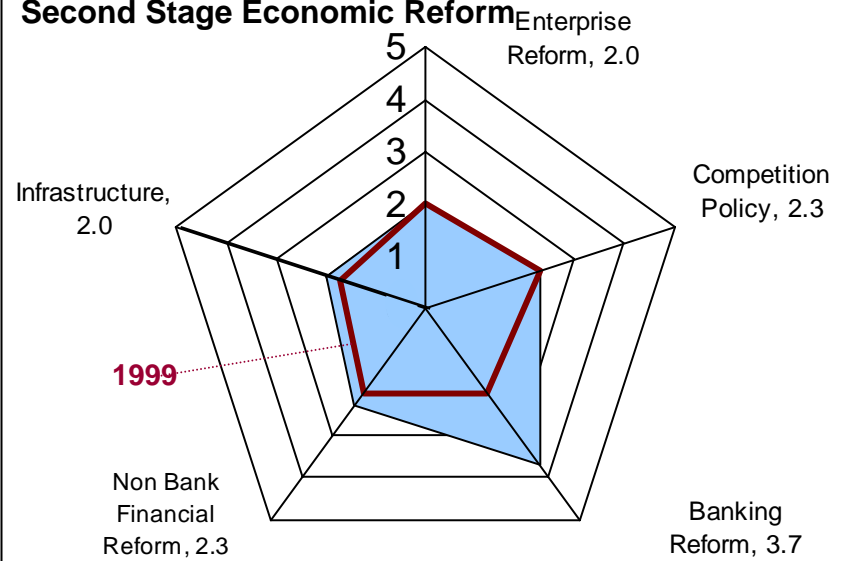
## First Stage Economic Reform



## Second Stage Economic Reform

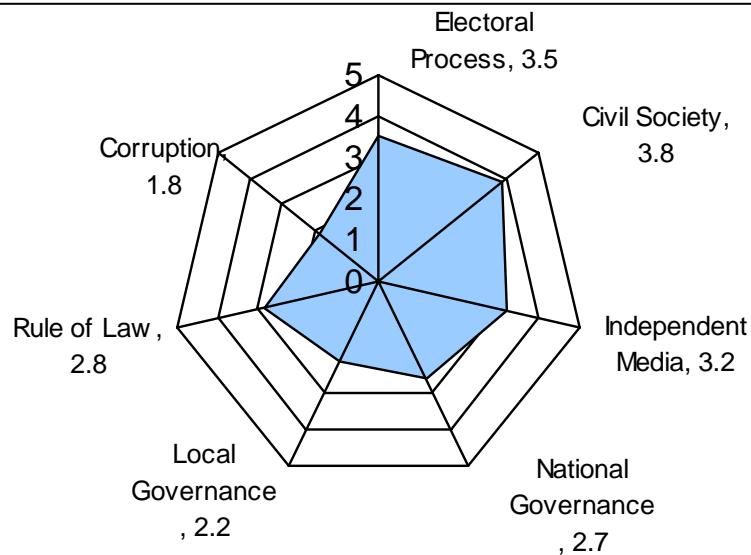
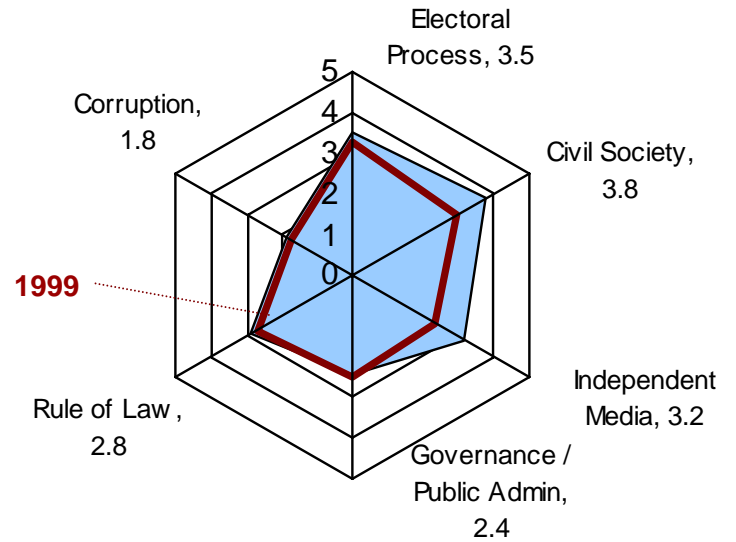
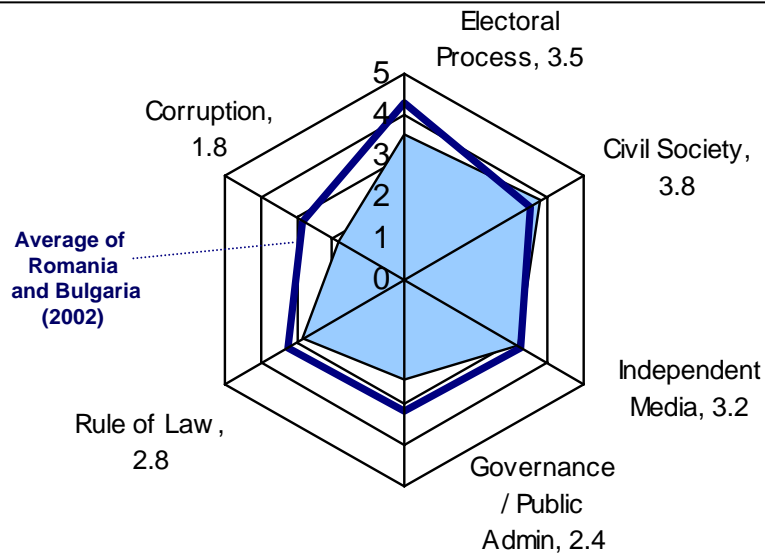


## Second Stage Economic Reform



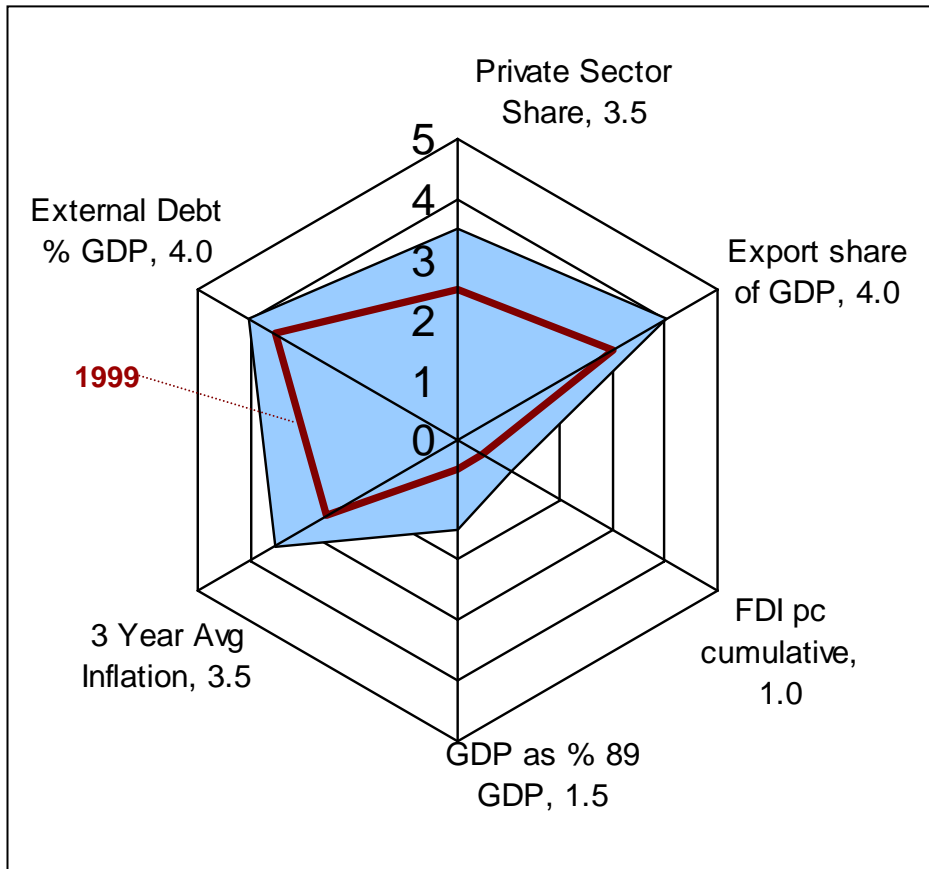
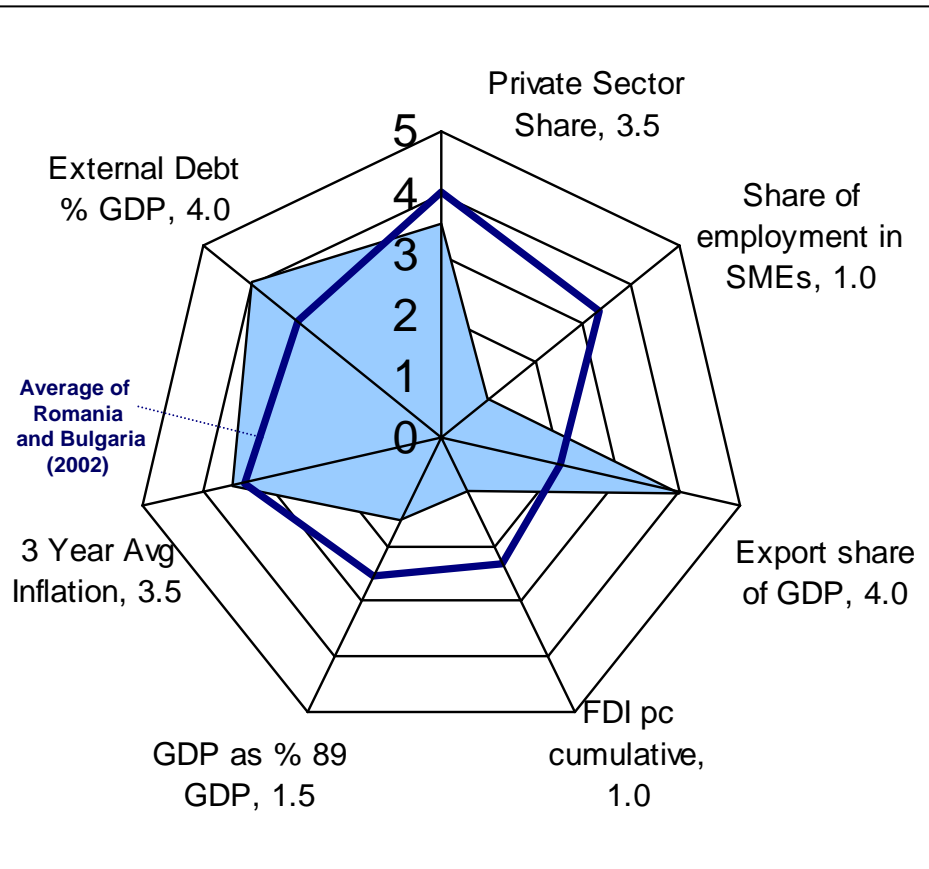
# Democratic Reforms in Ukraine in 2005

(versus Romania & Bulgaria in 2002 and Ukraine in 1999)



# Economic Performance in Ukraine in 2004-2005

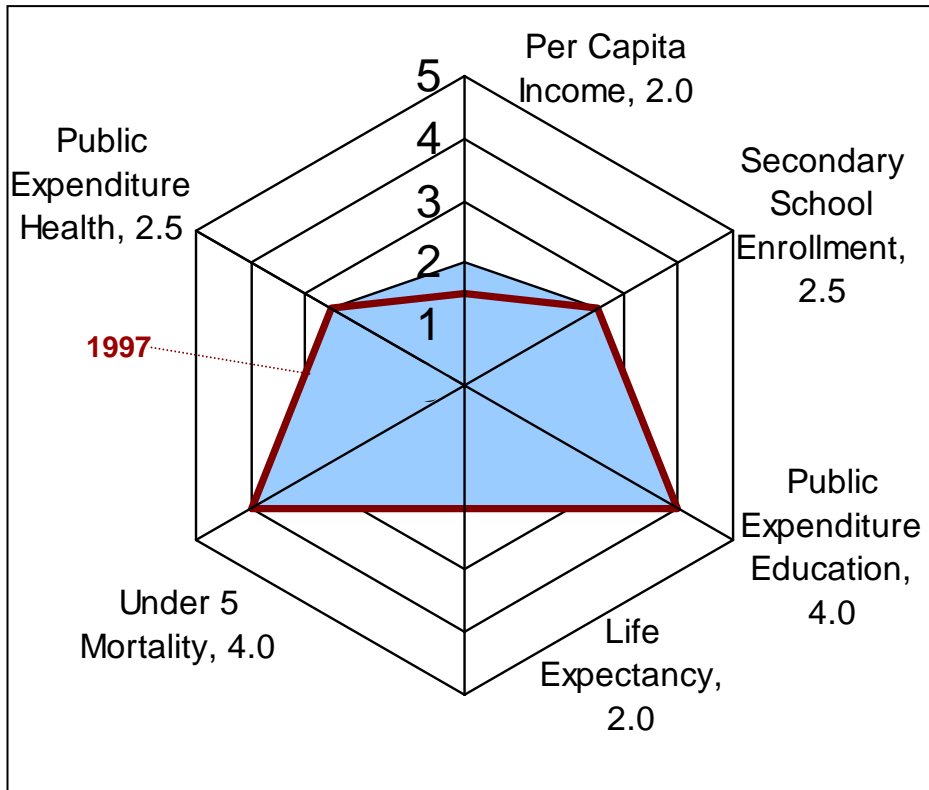
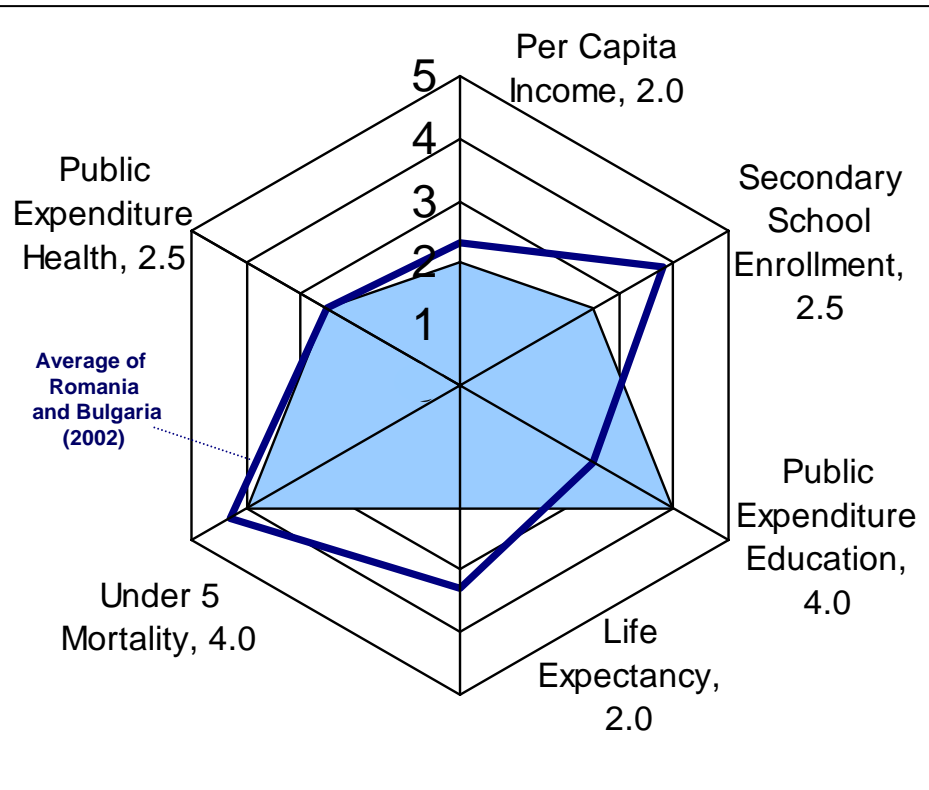
(versus Romania & Bulgaria in 2002 and Ukraine in 1999)



Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID, drawing from World Bank, *World Development Indicators 2005* (2005); EBRD, *Transition Report* (November 2005), UNECE, SME Databank (2003).

# Human Capital Index in Ukraine in 2003-05

(versus Romania & Bulgaria in 2002 and Ukraine in 1997)

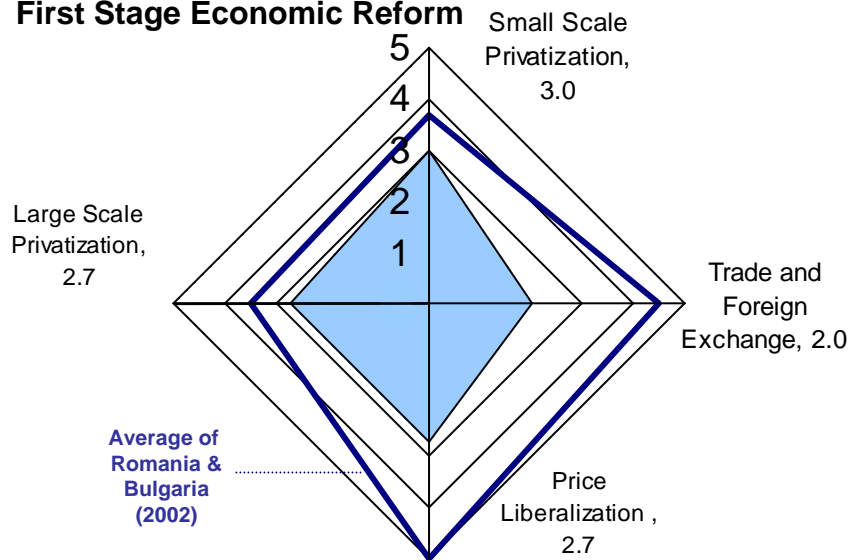


Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID, drawing from World Bank, *World Development Indicators 2005 (2005)*; UNICEF, *TransMONEE Database (December 2005)*; and EBRD *Transition Report 2005 (November 2005)*.

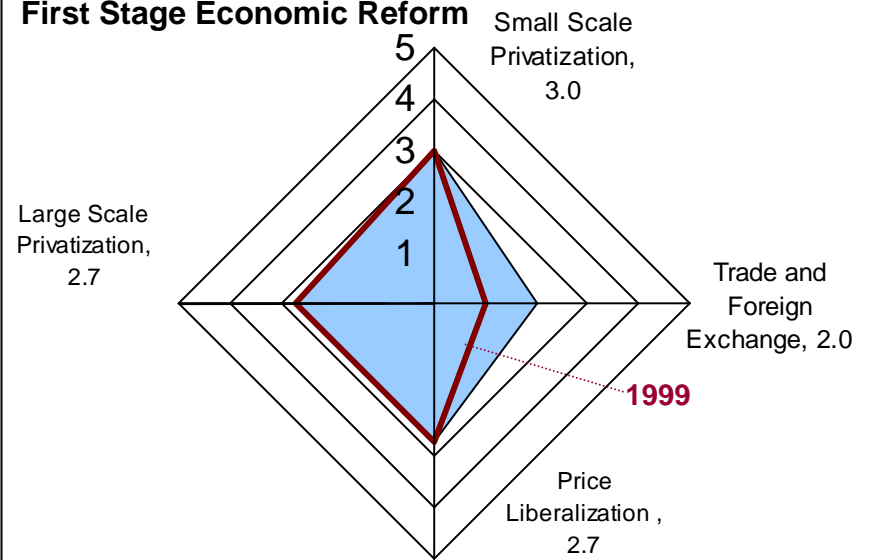
# Economic Reform in Uzbekistan in 2005

(versus Romania & Bulgaria in 2002 and Uzbekistan in 1999)

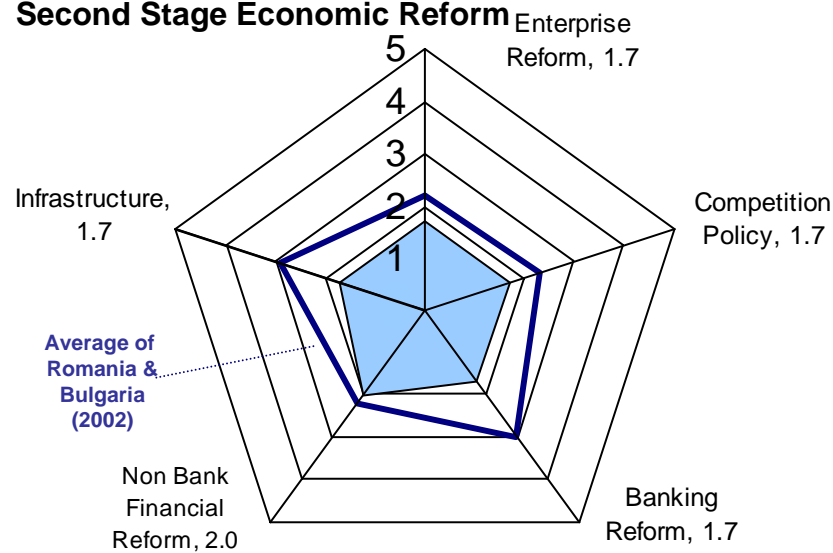
## First Stage Economic Reform



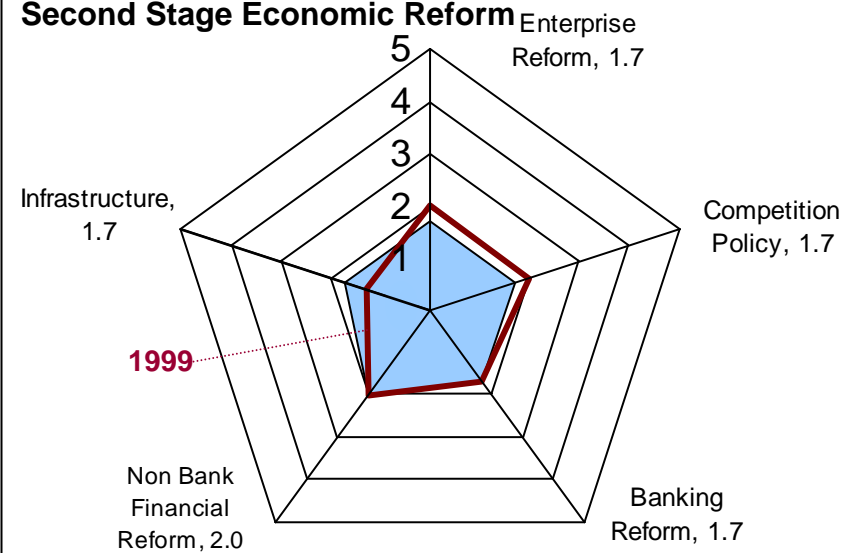
## First Stage Economic Reform



## Second Stage Economic Reform

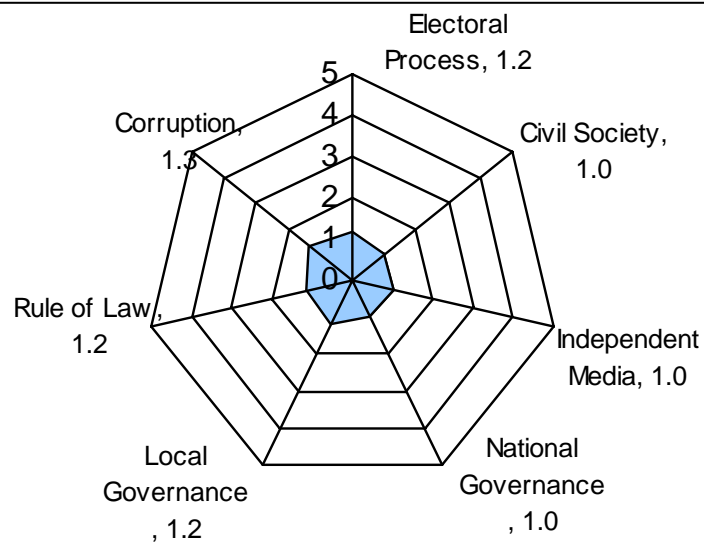
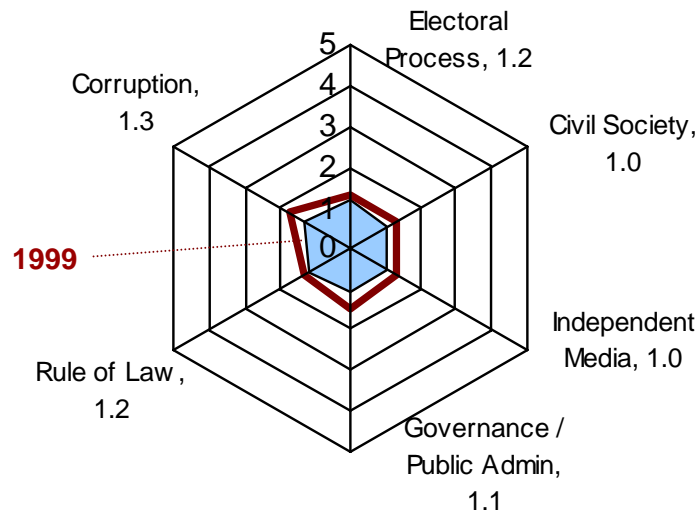
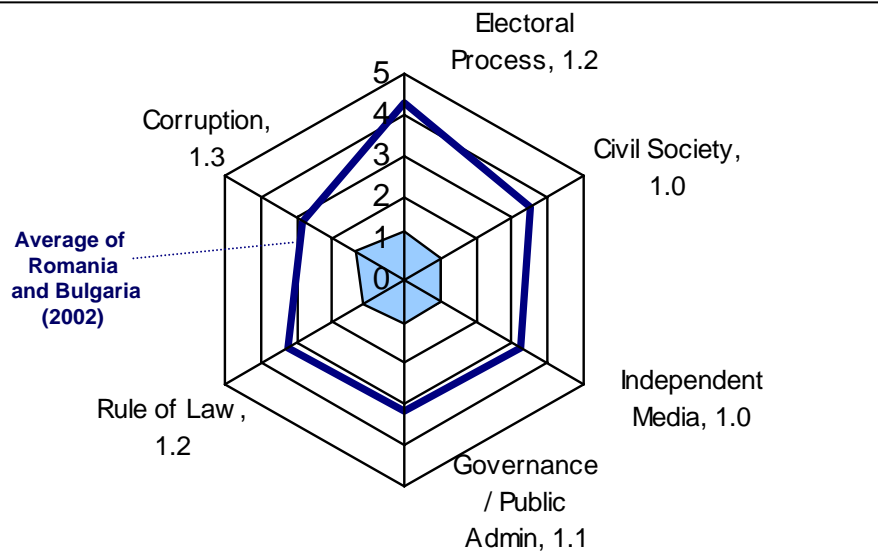


## Second Stage Economic Reform



# Democratic Reforms in Uzbekistan in 2005

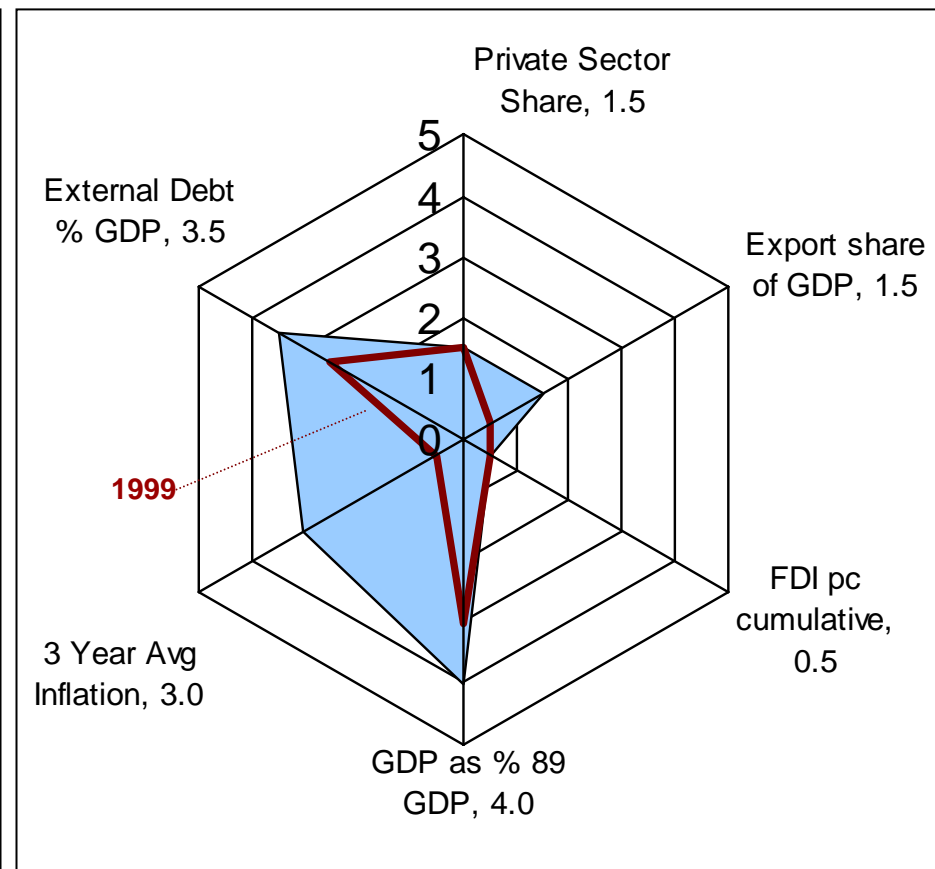
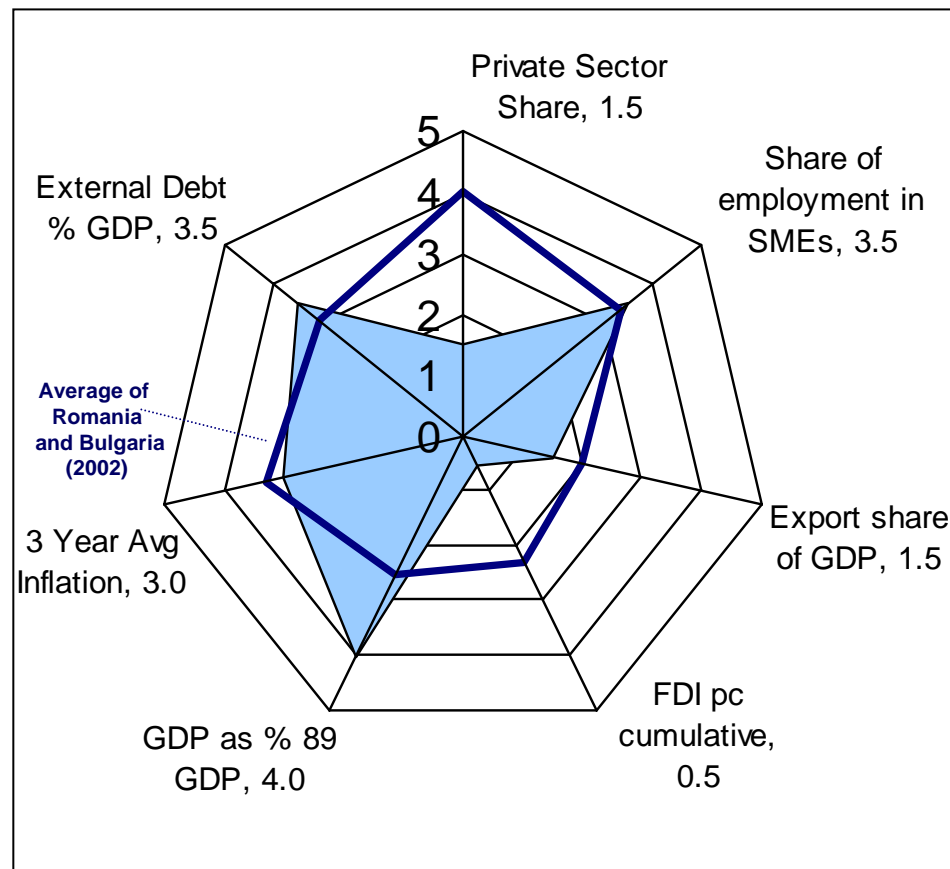
(versus Romania & Bulgaria in 2002 and Uzbekistan in 1999)





# Economic Performance in Uzbekistan in 2004-2005

(versus Romania & Bulgaria in 2002 and Uzbekistan in 1999)



# Human Capital Index in Uzbekistan in 2003-05

(versus Romania & Bulgaria in 2002 and Uzbekistan in 1997)

