MONITORING COUNTRY PROGRESS IN CENTRAL AND EASTERN EUROPE & EURASIA

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SUMMARY

1. Introduction

This paper presents USAID/E&E's system for monitoring country progress in the 27 transition country region. It is the seventh 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) macroeconomic performance; and (4) social conditions. An important objective of this report is to provide criteria for graduation of transition countries from USAID assistance, and, more generally, to provide guidelines in optimizing the allocation of USAID resources in the region.

2. Findings

Widespread diversity among the 27 transition countries continues to characterize progress towards market-oriented democracies. This is a primary theme across several transition dimensions, including: (1) economic and democratic reforms; (2) macroeconomic performance and global integration; and (3) social conditions.

(1) Economic and democratic reforms. Two key observations emerge from *Summary Figure 1*. First, the Northern Tier CEE countries remain significantly out front of the rest of the transition countries in progress towards economic and democratic reforms. There are broadly two groups of transition countries differentiated by reform progress, a "well-defined" or closely clustered Northern Tier CEE group and the rest (which are characterized by very large differences in reform progress among them). Second, the range in progress across countries is significantly greater in democratic reforms than in economic reforms. The reform leaders have democratic freedoms roughly on a par with some Western democracies, while the democratic laggard, Turkmenistan, scores among the least democratic countries worldwide. However, even the Northern Tier CEE countries continue to lag considerably behind the EU in economic reforms, particularly evident in the second stage reforms (which focus in large part on building a government's capacity to govern).

2001-2002 reform trends. Notable economic reform progress has been made in 2001-2002, largely a continuation of significant gains made in 2000. Roughly two-thirds of the transition countries measurably advanced in economic reforms in 2001-2002, many of these in both economic reform stages. In fact, in 2002, most of the economic reform gains were second stage (structural or institutional) reforms, all the more impressive given the context of a sluggish world economy (which contributed, among other ways, to a diminished supply of interested international investors in the region). Countries that have made the greatest advances in economic reforms since 2000 include Yugoslavia, Croatia, Bulgaria, Slovakia, Lithuania, Russia, and Kazakhstan. Yugoslavia has made far and away the greatest economic reform gains in 2002, followed by Russia, then Bosnia-Herzegovina and Latvia.

The most recent efforts to measure democratic reforms show: (1) four of the Southern Tier CEE countries advancing in democratization in 2001 (Yugoslavia, Bosnia-Herzegovina, Bulgaria, and Albania), with only one backslider, Macedonia; (2) six Eurasian countries backsliding (Georgia, Moldova, Ukraine, Russia, Kyrgyzstan, and Kazakhstan), while only one Eurasian country moved forward (Azerbaijan); and (3) relatively little change in the Northern Tier CEE countries (with Slovakia and Estonia advancing and the Czech Republic slipping).

Qualitative and anecdotal evidence suggest that the trend towards a growing democratization gap between the transition leaders and laggards has continued in 2002. In particular, most of the developments on political reforms in Eurasia in 2002 have underscored further backsliding. This includes adverse democratization trends in Armenia (media), Kazakhstan (media and electoral reforms), Kyrgyzstan (media), Moldova (political freedom), Russia (constitution and media), Tajikistan (civil liberties towards minority groups), and Uzbekistan.

Medium term reform trends. Of the three sub-regions, the Southern Tier CEE countries have made the greatest reform gains since 1997; overall, they are catching the Northern Tier CEE countries in reform progress, and are pulling away from many of the Eurasian countries. In 1998, the Southern Tier CEE countries had a range of reform progress across countries roughly similar to that found among "reformers" in Eurasia. Since then, the reform profiles between the Southern Tier CEE and Eurasian countries have become increasingly distinct. In addition, since 1997, the reform profiles among the Northern Tier CEE countries have become increasingly similar; since 1998, Slovakia has joined the "fold", and, more generally, the differences in reform progress between the eight Northern Tier CEE countries have decreased, and have become relatively insignificant. Overall reform progress in the three or four Northern Tier CEE leaders has been modest in recent years, partly reflecting approaching "ceilings" in reforms (particularly in democratization), and partly reflecting that second stage transition reforms (particularly in economic reforms) are more difficult than those typically done in early transition years.

Reform paths. Most transition countries have exhibited at least temporary backsliding and/or progress in "fits and starts" at best since the transition began. Nevertheless, there has been a key distinction between reform paths in the CEE and Eurasian countries. While most of the CEE countries have experienced some temporary reform backsliding and/or stalling, all (with the possible exception of Bosnia-Herzegovina) have moved forward in both reform dimensions since the transition began. Progress in both economic and democratic reforms, in other words, is consistent in this group, and apparently mutually reinforcing. In contrast, while all of the Eurasian countries have witnessed gains in economic reforms since 1991, for most, this has been accompanied with regression in democratic freedoms on balance. In an important respect, a decisively different reform path has so far emerged in Eurasia, some forward progress in economic reforms alongside backsliding in democratization.

(2) Macroeconomic performance and integration into the world economy. Overall macroeconomic performance since 2000 has been impressive in the transition region, characterized by strong economic growth across the three sub-regions, and low and/or falling inflation throughout the sub-regions. Moreover, the transition countries have generally exhibited greater resilience to the global downturn than other emerging markets.

Overall economic growth in the transition region in 2001 was 5.6%, higher than all other transition years but the previous one; in 2000, the region expanded by 6.4%. The transition economies are currently estimated to grow on average by 3.4% in 2002; highest in Eurasia at 4.4%, followed by 3.6% in the Southern Tier CEE, and 2.3% in the Northern Tier CEE. By contrast, the EU economies are likely to expand only by roughly 1% in 2002. Of all the 27 transition countries, only Macedonia had a contracting economy in 2001. All transition countries are on track towards experiencing economic growth in 2002. Inflation has fallen to the single-digit range in all but a handful of transition economies. Nevertheless, fiscal deficits remain too high in roughly one-half of these economies.

Global integration. While macroeconomic performance has been impressive across the sub-regions, some of the bases underlying the strong performances continue to differ between CEE and Eurasia, in large part stemming from significant differences in how (and to what extent) the countries are integrated into the global economy. Overall, economic growth may be more sustainable in CEE than in Eurasia.

The Eurasian countries are much more "inward-oriented" (or autarkic) than the CEE countries, with export and foreign direct investment (FDI) shares of GDP comparable to the relatively inward-oriented, poorer economies of South Asia and Sub-Saharan Africa. The Northern Tier CEE countries have the largest export and FDI shares of GDP of the three transition sub-regions, though even among these countries, the data suggest there is considerable scope for greater trade with the West.

The Eurasian countries are much more dependent on natural resource exports (energy, metals, and agricultural raw materials such as cotton) than are the CEE countries. Almost one-half of Eurasian exports are of this kind. In CEE, these primary product exports constitute only 15% of total exports. The CEE countries have substantially restructured and diversified trade flows as well; their economic links to Western Europe are significant and continue to grow. In contrast, Russia continues to dominate economic links within Eurasia, though this dominance is declining.

In addition, institutional integration with the advanced economies remains largely a process confined to the transition countries in CEE. The significance of this, both for the CEE countries and Eurasia, can hardly be overstated. For the CEE countries, membership into the EU and other Western institutions (such as NATO) provide a strong incentive as well as a key means for advancement. However, particularly in the case of the EU expansion, the gains accrued to new members are to some extent offset by the cost of exclusion to those countries left on the "sidelines," or, in this case, Eurasia.

(3) Social conditions. There continue to be significant differences in social conditions across the transition region. Conditions are generally much worse in Eurasia than in CEE, and there is evidence that health and education challenges in parts of Eurasia are growing. Nevertheless, there may be emerging some favorable trends in Eurasia as well, at least in Russia, that suggest that the macroeconomic gains are beginning to filter down to at least some of the population.

Labor markets. Highest unemployment rates are in the Southern Tier CEE, ranging from roughly 9% in Romania, to 15-19% in Croatia, Bulgaria, and Albania, to closer to 30-40% in Yugoslavia, Macedonia, and Bosnia-Herzegovina. Youth unemployment rates are much higher still in the Southern Tier CEE. Unemployment is also high in the Northern Tier CEE countries, 15% on average; in contrast to trends in Western Europe, these rates have been increasing since 1997. There are at least two key reasons why official unemployment rates in Eurasia are generally lower than in CEE. First, the unemployment data in Eurasia remain less reliable and/or are not directly comparable to those in CEE. Second, labor markets have adjusted differently in Eurasia, partly a reflection that enterprise restructuring continues to lag in much of Eurasia vis-à-vis CEE. In lieu of labor shedding by Eurasian enterprises, price adjustments (i.e., falling real wages), and/or wage arrears, and hidden unemployment or more broadly underemployment have tended to characterize many Eurasian labor markets.

Income and poverty. Per capita income (at $6,900 in purchasing power parity terms) for the transition region overall is only one-fourth the average of the advanced economies ($28,550). However, this average masks wide variation. Four Northern Tier CEE countries have average income greater than $10,000 (Slovenia, the Czech Republic, Hungary, and Slovakia), while three Eurasian countries have average income levels closer to $2,000 (Uzbekistan, Moldova, and Tajikistan). Moreover, income is much more evenly distributed in the Northern Tier CEE, comparable now to inequality found in the EU. In contrast, income inequality in a handful of Eurasian countries, most notably Armenia, followed by Russia, Tajikistan, and Kyrgyzstan, may approach those levels found among the most unequal economies worldwide, in Latin America and Sub-Saharan Africa. Poverty rates are also much higher in Eurasia than in CEE, though cross-country estimates vary widely according to different poverty thresholds.

Nevertheless, household survey data of poverty and living standards in Russia (from the Russian Longitudinal Monitoring Survey) provide evidence that the recent gains in Russia accrued at the macroeconomic level have been filtering down quite substantially. What is striking in these data is how closely the trends in poverty rates map with macroeconomic trends. Specifically, the poverty rate in Russia continued to rise while the economy contracted, i.e., through 1998. However, once economic growth got underway, the poverty rate started falling dramatically, from 39% of the population in 1998 to 29% in 2000 to 19% in 2001. Moreover, extreme poverty as a proportion of total poverty has also been falling in Russia. In addition, RLMS data show, with one exception, that regional poverty rates within Russia diverge relatively little from the national mean. Five of the six regions assessed had poverty rates in 2000 that varied by

six percentage points or less around the national poverty rate of 29%; the Moscow and St. Petersburg region had a poverty rate of 15%.

Human capital. Life expectancy is now higher today in a large majority of the transition countries than at the outset of the transition. For most countries, this has meant a temporary decline followed by a more than proportionate increase in life expectancy. However, there are at least four notable exceptions: Russia, Belarus, Kazakhstan, and Ukraine all had lower life expectancy in 2000 (the latest year available) than in 1989. All four countries have seen a decline in life expectancy in both males and females. The most alarming trends are in Russia, where after stabilizing for several years, life expectancy has resumed a downward trend (and despite the encouraging income and poverty trends noted from the RLMS data above). In addition, with few exceptions, the gender gap in life expectancy (that is, female minus male life expectancy) is very high in the transition region; generally much higher than in other parts of the world.

From 1990 to 2000, infant and child mortality rates fell in all three sub-regions, by about 20% for the transition regional overall. However, infant and child mortality rates on average in the Southern Tier CEE and in Eurasia are at least twice the Northern Tier CEE rates, depending on data sources.

World Bank data show a small decline in primary and secondary school enrollments in the transition region from 1989/90 to 1997/98 from relatively high enrollment levels. However, differences between sub-regions are significant, particularly in regards to secondary school enrollment; more recent UNICEF data show large drops in enrollments have occurred in some of the poorer transition countries, including Tajikistan, Georgia, Moldova, and Albania.

Social capital (and reform fatigue). Finally, in addition to humanitarian considerations and concerns about human capital deterioration, social conditions matter because without adequate support from the general population, moving forward on transition reforms may be very difficult. In this context, household survey data show that trust in institutions (a rough proxy for social capital) is very low. This applies to public institutions from the parliament, the courts, and civil servants more broadly, as well as to private institutions, including the press and private enterprise. Nor are many people pleased with their own household economic situation. This applies even in the Northern Tier CEE: in 2001, 72% of Slovakians claimed to be unsatisfied with their economic conditions; 70% in Poland; 49% in the Czech Republic; and 37% in Slovenia. Dissatisfaction is highest in Russia (the only Eurasian country included in this sampling of seven countries); 85% of the Russians sampled were dissatisfied. Dissatisfaction in household economic conditions has been very high in Bulgaria as well: 82% in 2001

Finally, how many people want to return to communism? While not nearly as large as the proportion of those who are dissatisfied with their economic conditions, the percentage of those who maintain that they want to go back to communism is significant, and in many cases, continues to increase. It is highest in the three Eurasian countries sampled: 51% in Ukraine (in 1998); 47% in Russia (in 2001) and 33% in Belarus (in

1998). However, it is also close to 20% of the population in Hungary, Romania, Slovenia, Poland, and Bulgaria. It is lowest in the Baltics (9% in 2001).

3. Concluding Remarks

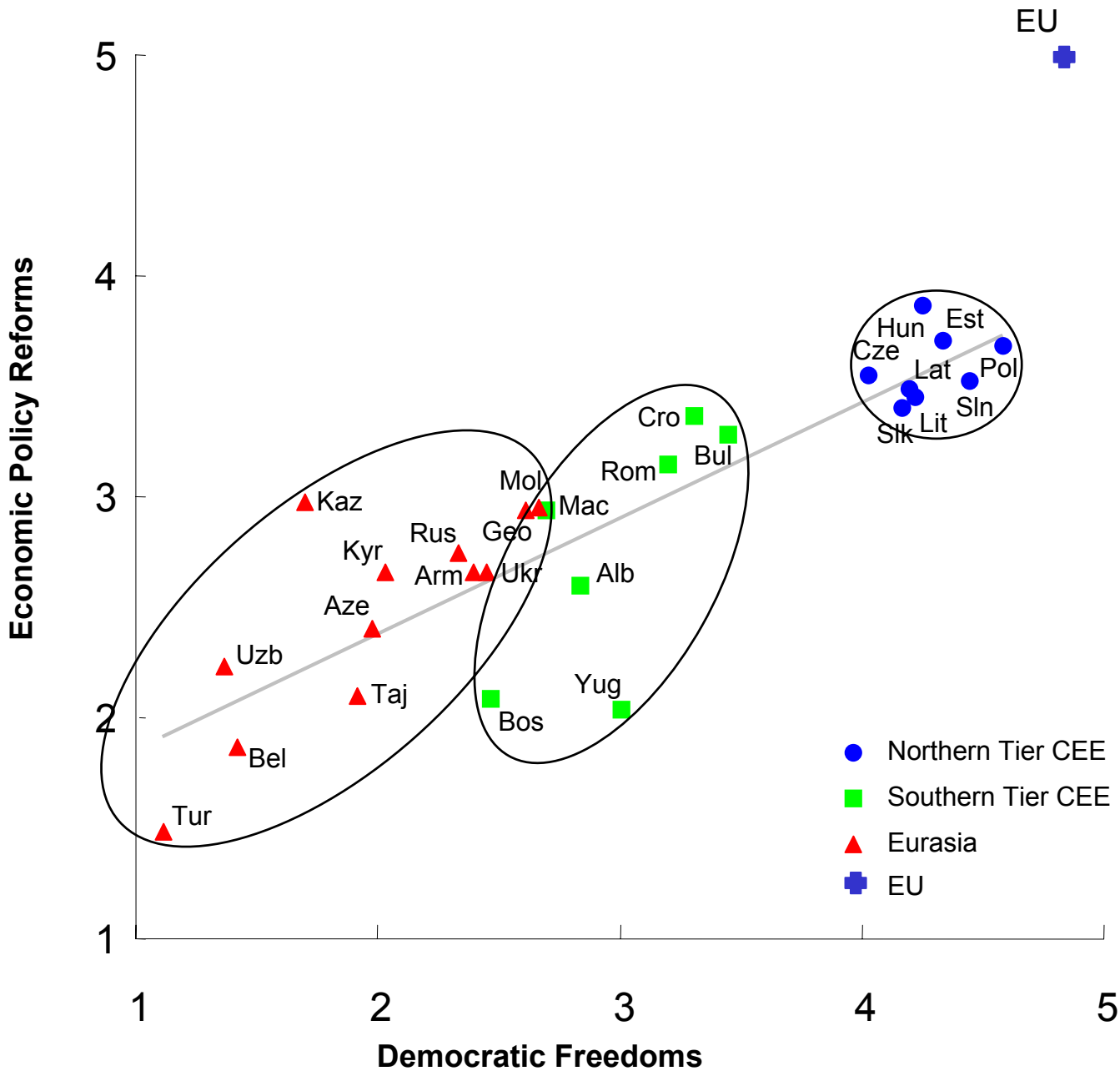
Decisions on the magnitude and duration of U.S. assistance to the transition region are made on the basis of several factors: (1) progress the country has made towards a sustainable transition to a market-based democracy; (2) strategic importance of the country to the United States; (3) importance of the recipient country to U.S. citizens; and (4) effectiveness of particular assistance activities.

This paper provides the basis to analyze the first factor. An application of the *Monitoring Country Progress* data set for this purpose of facilitating USAID graduation decisions is done in a sequence of steps. First, progress in both economic and democratic reforms need to attain certain thresholds before graduation from USAID assistance can be considered (*Summary Figure 1*). Reform benchmarks are provided in the tables that accompany this paper. Second, trends in macroeconomic and social conditions need to be sufficiently favorable so that reform gains can be sustained. At the least, macroeconomic stability and broad-based economic growth need to be achieved and maintained, while key social conditions advance towards Western Europe standards.

Summary Figure 2 provides a summary snapshot of the progress of the transition countries along these latter two dimensions tracked in this paper. Macroeconomic performance is measured by GDP trends since 1989; social conditions are measured by the UNDP's human development index. As shown, the majority of transition countries remain in the quadrant characterized by economies that have not yet attained pre-transition output levels and by societies that are defined by the UNDP as having "medium" human development (*Quadrant 4*). The quadrant characterized by current GDP exceeding pre-transition income and "high" human development (*Quadrant 1*) would seem to be a credible "location" for countries ready for graduation from USAID assistance. It is also important that the trends over time at the least do not show notable deterioration in social and macroeconomic indicators.

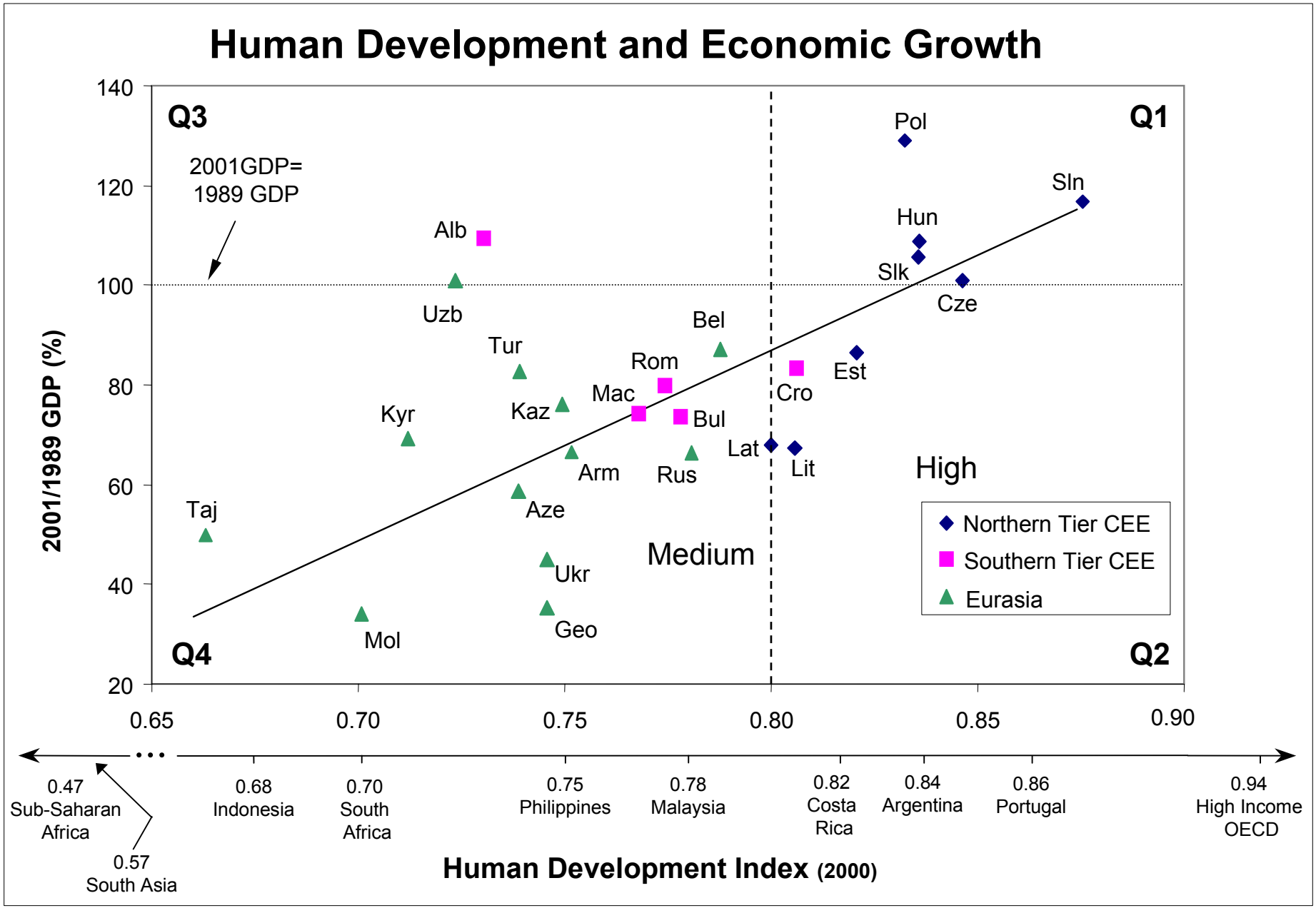
Summary Figure 1

Economic Policy Reforms and Democratic Freedoms in Central & Eastern Europe and Eurasia: 2001



Ratings of democratic freedoms are from Freedom House, *Nations in Transit 2002* (2002), and cover events through December 31, 2001. Economic policy reform ratings are from EBRD, *Transition Report 2001* (November 2001), and cover events through September 2001. Economic policy reforms include price liberalization, trade and foreign exchange, privatization, legal, banking and capital markets, enterprise restructuring (credit and subsidy policy), and infrastructure reforms. Democratic freedoms include political rights (free and fair elections; openness of the political system to competing political parties and to minority group representation; governance and public administration) and civil liberties (free media and judiciary; freedom to develop NGOs and trade unions; equality of opportunity and freedom from corruption). Ratings are based on a 1 to 5 scale, with 5 representing most advanced.

Summary Figure 2



Albania and Uzbekistan are not included in the trend-line calculation.
The Human Development Index (HDI) is based on three indicators using 2000 data: longevity, as measured by life expectancy; educational attainment, as measured by a combination of adult literacy and combined primary, secondary and tertiary enrollment ratios; and standard of living, as measured by real per capita GDP ($PPP). The HDI ranges from 0 to 1, with higher values representing greater human development. UNDP, *Human Development Report 2002* (July 2002); EBRD, *Transition Report 2001* (November 2001).

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1. Introduction

This paper presents USAID/E&E's system for monitoring country progress in the twenty-seven transition country region. It is the seventh 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) macroeconomic performance; and (4) social conditions. An important objective of this report is to provide criteria for graduation of transition countries from USAID assistance, and, more generally, to provide guidelines in optimizing the allocation of USAID resources in the region.[1]

2. Economic reforms

Eleven economic reform indicators are drawn from the EBRD and grouped into two stages of reform.[2] The first stage reforms consist of liberalization of prices, external trade and foreign currency reforms, privatization of small-scale units, and the establishment of key commercial laws (*Table 1*). The second stage reforms consist of large-scale privatization, enterprise restructuring (credit and subsidy policy), competition policy, financial sector reforms (including banking and capital markets), reforms in infrastructure, and the effectiveness of key commercial laws (*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 the 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.

Tables 1 and *2* provide a snapshot of progress in these economic reforms areas as of September 2001. Several highlights are worth noting. First, progress in first stage economic reforms remain considerably further advanced than progress in second stage reforms. In fact, most of the CEE countries have largely completed the first stage reforms; Bosnia-Herzegovina and Yugoslavia are the salient exceptions. In contrast, even the Northern Tier CEE reform leaders continue to lag considerably behind the EU in progress in second stage reforms. Overall, the greatest economic reform gains are found in first stage reforms of small-scale privatization, and trade and foreign exchange liberalization, while the fewest gains remain in the second stage reforms of enterprise restructuring, competition policy, and financial reforms, particularly non-bank financial reforms.

Second, the economic reform leaders are all Northern Tier CEE countries. Hungary, Estonia, and Poland are out front, followed closely by the five other Northern Tier CEE countries. Economic reform progress in the Southern Tier CEE and Eurasian countries

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[1] Earlier editions provide elaboration of the application of graduation criteria as well theoretical justification of the indicators tracked in this report. See, e.g., *Monitoring Country Progress* No. 7 (October 2001). See also: USAID/E&E/PCS*, Considerations Regarding Exit Strategies for the Countries of the Southern Tier* (January 2002).

[2] The appendix provides elaboration of the economic reform indicators.

lags considerably overall, though variation in progress in these two regions is also much greater than it is in the Northern Tier CEE countries. Economic reform progress in the Southern Tier CEE countries ranges from that of Croatia and Bulgaria, where progress approaches Northern Tier CEE standards, to Bosnia-Herzegovina and Yugoslavia, where progress is closer to some of the Eurasian laggards, Tajikistan most notably. Kazakhstan, Moldova, and Georgia lead the Eurasian countries in economic reforms, with progress comparable to that found in Macedonia. Turkmenistan lags considerably behind all the transition countries in economic reform progress. It has not even started the reform process in seven of the eleven economic reform areas. The economic reform gap between Belarus and the rest is also large.

Third, notable economic reform progress was made in 2001. All but perhaps five countries made measurable net gains in economic reforms from September 2000 to September 2001; eleven countries made gains in both first and second stage reforms. This impressive progress is largely a continuation of significant gains during 2000; both years' progress represent notably better progress than gains in recent years past. Three of the five countries which did not show measurable net gains in 2001 are Northern Tier CEE leaders (Hungary, Poland, and the Czech Republic), where first stage reforms are largely complete and where the second stage reforms to be completed are much more difficult; hence, slow progress is expected. The other two (of five) countries where economic reform progress did not register in 2001 are in Eurasia: Kyrgyzstan and Turkmenistan.

Economic reform trends since mid-2001.[3] Economic reform progress since mid 2001 has not been as robust as it was in the two preceding years. Roughly two-thirds of the transition countries measurably advanced in economic reforms on an annual basis from September 1999 through September 2001; since then, about one-half have made notable gains. A significant part of this slowdown is due to the deterioration in the global economy. For example, a number of key strategic privatizations have been delayed and/or put on hold due to an absence of interested international investors. However, some of this slower reform progress is also attributed to domestic factors, including diminished government commitment and transparency.

Economic reform backsliding since mid-2001 has occurred among countries at both ends of the reform spectrum. At one end is Turkmenistan (where state control of the financial sector and of foreign investment increased), and Tajikistan (which has had its IMF program suspended due to noncompliance of some key performance criteria). However, some reforms have also sputtered among the Northern Tier CEE leaders, particularly in Hungary, Poland, and the Czech Republic, where the commitment to privatization has at times waned, concerns about the fiscal transparency and independence of central banks have surfaced, and even efforts to re-nationalize enterprises have taken place.

[3] This summary is drawn from qualitative assessments from the EBRD's *Transition Report Update* (May 2002), and more recent country reports and regional assessments from the IMF, the World Bank, and the Economist Intelligence Unit.

Of the three sub-regions, the greatest gains since mid-2001 have been made in the Southern Tier CEE. This represents a continuation of a medium term trend (discussed further below). Of all the transition countries, the strongest, broadest-based gains since mid 2001 are most evident in three Southern Tier CEE countries, Yugoslavia, Bulgaria, and Croatia, as well as in Lithuania and Russia.

The qualitative evidence suggests that some of the greatest gains in economic reforms in 2001-2002 have occurred in the second stage reforms in the financial sector, infrastructure reforms, and enterprise restructuring. Less progress and/or more backsliding has occurred in privatization, and first stage reforms of stabilization and liberalization; this is partly due to the global economy slowdown.

Medium term trends in economic reforms. *Table 3* and *Figure 1* show 1998-2001 trends in economic reforms, for eight indicators drawn from the EBRD.[4] Of the three sub-regions, economic reform progress since 1998 has been greatest in the Southern Tier CEE, with Bulgaria and Yugoslavia making the most significant gains within the sub-region. Economic reform progress in the Southern Tier CEE has been broad-based, across most of the first and second stage reforms, though most notably in trade and foreign exchange liberalization.

More modest economic reform progress has been made during this period in the Northern Tier CEE countries. The Southern Tier CEE countries, in other words, have been catching up to the transition leaders of the Northern Tier in this domain. The eight Northern Tier CEE countries, in turn, continue to "cluster" among themselves; as Lithuania, Latvia, and Slovakia move towards catching the leaders, the Czech Republic, Slovenia, and Hungary.

Within Eurasia, in contrast, economic reform progress has proved to be more highly variable and volatile over the medium term, with some backsliding on balance in a handful of countries (particularly Russia, Turkmenistan, and Uzbekistan) and notable gains in a couple others (Tajikistan and Azerbaijan). The data show that the greatest economic reform backsliding since 1997 has occurred in Russia. However, this masks an impressive rebound in reform gains in Russia beginning in 2001 which followed significant reform deterioration in the months surrounding the August 1998 financial crisis.

Overall, the greatest gains in economic policy reforms since at least the mid-90s have occurred among some of the "middle-tier" or moderate reformers. Key characteristics of this group include sufficient political will, significant "room" for further reform progress, and a strong pull towards memberships into Western institutions, the EU most prominently.

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[4] Excluded in *Table 3* and *Figure 1* are three indicators used in *Tables 1* and *2* since: (1) data are not available for infrastructure reform in earlier years; and (2) results on the extensiveness and effectiveness of legal reforms (which are derived from surveys, in contrast to all the other EBRD indicators) are highly variable over the medium term, which in turn skew the averages.

Economic reform gap. *Figure 2* shows trends in the economic reform gap between the Northern Tier CEE countries and Eurasia in 1992, 1996, and 2001. From 1992-2001, progress in economic reforms in the Northern Tier outstripped that in Eurasia in seven of the eight indicators tracked, all but price liberalization. The Eurasian countries appeared to be catching the Northern Tier CEE countries in first stage economic reform gains through the mid-1990s, though this has since been largely reversed. In contrast, the economic reform gap between the reform leaders and laggards in second stage reforms has been steadily increasing since 1992. Of both first and second stage measures, the gap is greatest in trade and foreign exchange reforms, followed by small-scale privatization and banking reform.

Private sector share of the economy. The private sector share of GDP (*Table 4* and *Figure 3*) is a rough proxy of the extent of economic restructuring and progress in economic reforms. An economy's private sector share rises as production is transferred from the public sector to the private sector, and as new private sector firms are nurtured in a business friendly environment.

Private sector shares have increased impressively throughout most of the transition region since communism's collapse. In 1990, roughly 12% of the transition countries' economic output was in private sector hands; today it is closer to 60%. Most OECD economies have private sectors that range from 70-85% of GDP.

The data show a good fit between progress in economic reforms and the size of the private sector. The largest private sector shares are found primarily in the reform leaders; most notably, in Hungary, the Czech Republic, and Slovakia, all with 80% of GDP in the private sector. Moreover, all of the six transition countries with private sector shares less than 50% of GDP cluster at the bottom of economic reform ranking (aggregated in *Table 9* below). Smallest private sectors are found in Belarus (20% of GDP; 26th of 27 countries in economic reform progress), and Turkmenistan (25% of GDP; 27th in reform progress). The most significant "outlier" in this relationship is Albania, which has 75% of its economy in the private sector, and yet ranks well down in economic reform progress (18th).

Table 1. First Stage of Economic Policy Reforms

	Small Scale Privatization	Trade and Foreign Exchange	Price Liberalization	Legal Reforms (Extensiveness)	1st Stage Average
Hungary	5.0	5.0	3.3	3.7 ↓	4.2 ↓
Poland	5.0	5.0	3.3	3.7	4.2
Slovenia	5.0	5.0	3.3	3.7 ↓	4.2 ↓
Croatia	5.0	5.0	3.0	3.7 ↓	4.2 ↓
Latvia	5.0	5.0	3.0	3.7 ↓	4.2 ↓
Lithuania	5.0	5.0 ↑	3.0	3.7 ↓	4.2 ↑
Estonia	5.0	5.0	3.0	3.3 ↓	4.1 ↓
Slovakia	5.0	5.0	3.0	3.3 ↑	4.1 ↑
Czech Republic	5.0	5.0	3.0	3.0	4.0
Bulgaria	3.7	5.0	3.0	4.0	3.9
Georgia	4.0	5.0	3.3	3.0	3.8
Romania	3.7	4.0	3.3 ↑	4.0 ↑	3.8 ↑
Moldova	3.3	5.0 ↑	3.3	3.3 ↑	3.7 ↑
Kyrgyzstan	4.0	4.0	3.0	…	3.7
FYR Macedonia	4.0	4.0	3.0	3.3	3.6
Albania	4.0	5.0	3.0	2.3 ↓	3.6 ↓
Kazakhstan	4.0	3.3	3.0	4.0	3.6
Armenia	3.7 ↑	4.0	3.0	2.7 ↓	3.3 ↓
Russia	4.0	2.7 ↑	3.0	3.0 ↓	3.2
Ukraine	3.3	3.0	3.0	3.3	3.2
Azerbaijan	3.3	3.3	3.0	3.0	3.2
Yugoslavia	3.0	3.0 ↑	3.0 ↑	3.3	3.1 ↑
Tajikistan	3.7 ↑	3.3	3.0	2.0	3.0 ↑
Bosnia-Herzegovina	2.7 ↑	3.0	3.0	1.7 ↓	2.6 ↓
Uzbekistan	3.0	1.7 ↑	2.0	3.0	2.4 ↑
Belarus	2.0	2.0 ↑	2.0 ↑	3.0 ↑	2.3 ↑
Turkmenistan	2.0	1.0	2.0	2.0	1.8
CEE & Eurasia	3.9	4.0 ↑	3.0 ↑	3.2 ↓	3.5
Northern Tier CEE	5.0	5.0	3.1	3.5 ↓	4.2
Southern Tier CEE	3.7	4.1	3.0 ↑	3.2 ↑	3.5 ↑
Eurasia	3.4 ↑	3.2 ↑	2.8	2.9 ↓	3.1
Industrial Countries	5.0	5.0	5.0	5.0	5.0
Benchmarks	4.0	4.0	3.0	4.0	3.8

Note: On a 1 to 5 scale, with 5 being most advanced. A "↑" indicates an advancement from September 2000 to September 2001.

EBRD, *Transition Report 2001* (November 2001).

Table 2. Second Stage of Economic Policy Reforms

	Large Scale Privatization	Enterprise Restruct.	Competition Policy	Banking Sector	Capital Markets	Legal Reform (effectiveness)	Infra-structure	2nd Stage Average
Hungary	4.0	3.3	3.0	4.0	3.7	3.7	3.7	3.6
Estonia	4.0	3.3 ↑	2.7	3.7	3.0	4.0 ↑	3.7 ↓	3.5 ↑
Poland	3.3	3.3 ↑	3.0	3.3	3.7	3.0 ↓	3.7	3.3 ↓
Czech Republic	4.0	3.3	3.0	3.7 ↑	3.0	3.0 ↓	2.9	3.3
Slovenia	3.0	2.7	2.7	3.3	2.7	4.0 ↑	3.3 ↑	3.1 ↑
Lithuania	3.3 ↑	2.7	3.0 ↑	3.0	3.0	3.7 ↑	2.9	3.1 ↑
Slovakia	4.0	3.0	3.0	3.3 ↑	2.3	3.3 ↑	2.5 ↑	3.1 ↑
Latvia	3.0	2.7	2.3	3.3 ↑	2.3	4.0 ↑	3.0 ↑	3.0 ↑
Bulgaria	3.7	2.3	2.3	3.0	2.0	3.7 ↑	2.9	2.8 ↑
Croatia	3.0	2.7	2.3	3.3	2.3	3.7 ↑	2.9 ↑	2.9 ↑
Romania	3.3 ↑	2.0	2.3	2.7	2.0	4.0 ↑	3.2	2.8 ↑
Kazakhstan	3.0	2.0	2.0	2.7 ↑	2.3	4.0 ↑	2.3 ↑	2.6 ↑
FYR Macedonia	3.0	2.3	2.0	3.0	1.7	3.7 ↑	2.1 ↑	2.5 ↑
Russia	3.3	2.3 ↑	2.3	1.7	1.7	3.7 ↑	2.3	2.5 ↑
Moldova	3.0	2.0	2.0	2.3	2.0	3.7 ↑	2.3	2.5 ↑
Georgia	3.3	2.0	2.0	2.3	1.7	3.0 ↑	2.5 ↓	2.4 ↑
Ukraine	3.0 ↑	2.0	2.3	2.0	2.0	3.0 ↑	2.1	2.4 ↑
Armenia	3.0	2.0	2.0 ↑	2.3	2.0	2.0	2.4	2.2 ↑
Kyrgyzstan	3.0	2.0	2.0	2.3	2.0	…	1.5 ↓	2.1 ↓
Uzbekistan	2.7	1.7	2.0	1.7	2.0	3.0 ↑	1.8 ↑	2.1 ↑
Albania	2.3 ↑	2.0	1.7	2.3	1.7	2.0 ↑	2.1 ↓	2.0 ↑
Azerbaijan	2.0 ↑	2.0	2.0	2.3 ↑	1.7	2.0	1.7 ↓	2.0 ↑
Bosnia-Herzegovina	2.3 ↑	1.7	1.0	2.3	1.0	2.0 ↑	2.1	1.8 ↑
Belarus	1.0	1.0	2.0	1.0	2.0	3.0 ↑	1.4	1.6 ↑
Tajikistan	2.3	1.7	1.7	1.0	1.0	2.0 ↑	1.3 ↑	1.6 ↑
Yugoslavia	1.0	1.0	1.0	1.0	1.0	3.0	2.0 ↑	1.4 ↑
Turkmenistan	1.0 ↓	1.0	1.0	1.0	1.0	3.0	1.1	1.3 ↓
CEE & Eurasia	2.9 ↑	2.2 ↑	2.2	2.5 ↑	2.1	3.2 ↑	2.4 ↑	2.5 ↑
Northern Tier CEE	3.6 ↑	3.0 ↑	2.8	3.5	3.0	3.6 ↓	3.2	3.2
Southern Tier CEE	2.7 ↑	2.0	1.8	2.5	1.7	3.1 ↑	2.5	2.3 ↑
Eurasia	2.6	1.8	1.9	1.9 ↑	1.8	2.9 ↑	1.9	2.1 ↑
Industrial Countries	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Benchmarks	4.0	3.0	4.0	3.0	4.0	4.0	3.0	3.6

Note: On a 1 to 5 scale, with 5 being most advanced. A "↑" indicates an advancement from September 2000 to September 2001.

EBRD, *Transition Report 2001* (November 2001).

Table 3. Change in Economic Policy Reforms: 1998-2001

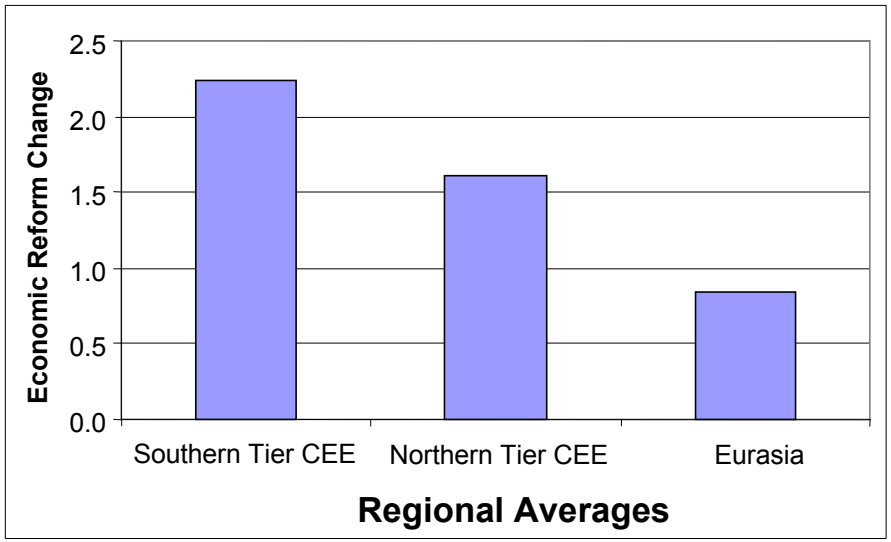
	1st Stage			2nd Stage					Total
	SSP	PL	TFE	LSP	ER	CP	BR	CM	Change
Tajikistan	1.4	0.3	1.3	0.3	0.7	0.7	0.0	0.0	4.7
Lithuania	1.0	0.0	1.0	0.3	0.0	0.7	0.0	0.7	3.7
Azerbaijan	0.3	0.0	1.0	0.0	0.0	1.0	0.3	0.7	3.3
Bulgaria	0.7	0.0	1.0	0.7	0.0	0.3	0.3	0.0	3.0
Yugoslavia	0.0	1.0	2.0	0.0	0.0	0.0	0.0	0.0	3.0
Bosnia-Herzegovina	0.7	0.0	1.0	0.3	0.0	0.0	0.3	0.0	2.3
FYR Macedonia	0.0	0.0	0.0	0.0	0.3	1.0	0.0	0.7	2.0
Romania	0.7	0.3	0.0	0.7	0.0	0.3	0.0	0.0	2.0
Latvia	1.0	0.0	1.0	0.0	0.0	-0.3	0.3	0.0	2.0
Slovakia	0.0	0.0	1.0	0.0	0.3	0.0	0.7	0.0	2.0
Croatia	0.0	0.0	1.0	0.0	0.0	0.3	0.7	0.0	2.0
Georgia	0.0	0.3	1.0	0.0	0.0	0.0	0.0	0.7	2.0
Moldova	0.3	0.3	1.0	0.0	0.0	0.0	0.3	0.0	2.0
Estonia	0.0	0.0	1.0	0.0	0.3	0.0	0.3	0.0	1.7
Armenia	0.7	0.0	0.0	0.0	0.0	0.0	0.0	1.0	1.7
Albania	0.0	0.0	1.0	0.3	0.0	-0.3	0.3	0.0	1.3
Poland	0.0	0.3	0.0	0.0	0.3	0.0	0.3	0.3	1.3
Czech Republic	0.0	0.0	0.0	0.0	0.3	0.0	0.7	0.0	1.0
Ukraine	0.0	0.0	0.0	0.7	0.0	0.3	0.0	0.0	1.0
Slovenia	0.0	0.3	0.0	-0.3	0.0	0.7	0.3	-0.3	0.7
Hungary	0.0	0.0	0.0	0.0	0.3	0.0	0.0	0.3	0.7
Kazakhstan	0.7	0.0	-0.7	0.0	0.0	0.0	0.3	0.3	0.7
Belarus	0.0	-1.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0
Kyrgyzstan	0.0	0.0	0.0	0.0	0.0	0.0	-0.3	0.0	-0.3
Uzbekistan	0.0	-0.7	0.0	0.0	-0.3	0.0	0.0	0.0	-1.0
Turkmenistan	0.0	0.0	0.0	-1.0	-0.7	0.0	0.0	0.0	-1.7
Russia	0.0	0.0	-1.3	0.0	0.3	0.0	-0.7	-1.3	-3.0
Average Change									
CEE & Eurasia	0.27	0.05	0.49	0.07	0.07	0.17	0.16	0.11	1.41
Northern Tier CEE	0.25	0.08	0.50	0.00	0.21	0.13	0.33	0.13	1.62
Southern Tier CEE	0.29	0.19	0.86	0.28	0.05	0.24	0.24	0.10	2.24
Eurasia	0.28	-0.06	0.28	0.00	0.00	0.17	0.00	0.11	0.78
Benchmark									0 or greater

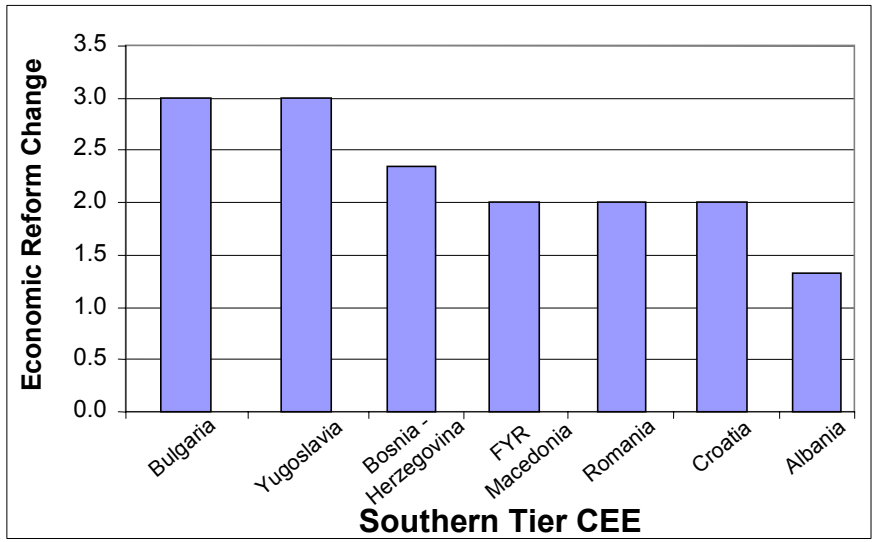
Note: The sub-headings refer to the following economic reforms: (SSP) small-scale privatization; (PL) price liberalization; (TFE) trade and foreign exchange reforms;(LSP) large-scale privatization; (ER) enterprise restructuring; (CP) competition policy; (BR) bank reforms; and (CM) capital market reforms. The change is based on a rating from 1 to 5, e.g., Tajikistan advanced "1.3" in TFE reforms, from a "2" to a "3.3" from 1998 to 2001. Environment policy, legal reforms and infrastructure reform are exclude

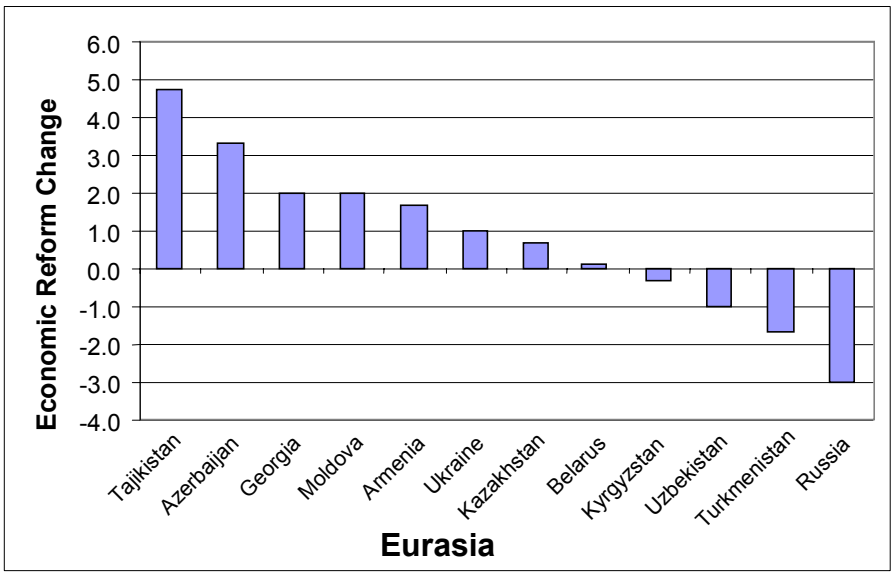
EBRD, *Transition Report 2001* (November 2001), and previous editions of the EBRD report.

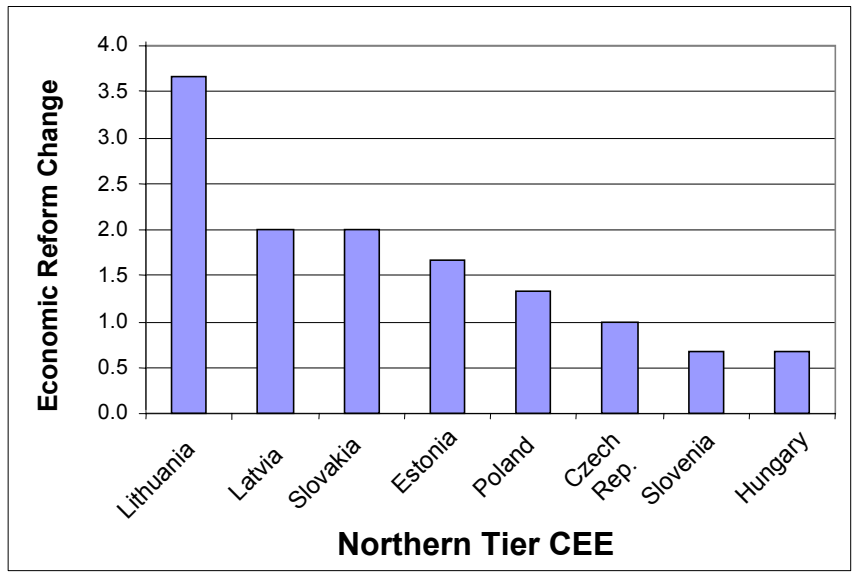
Figure 1

Progress and Backsliding in Economic Reforms, 1998 - 2001



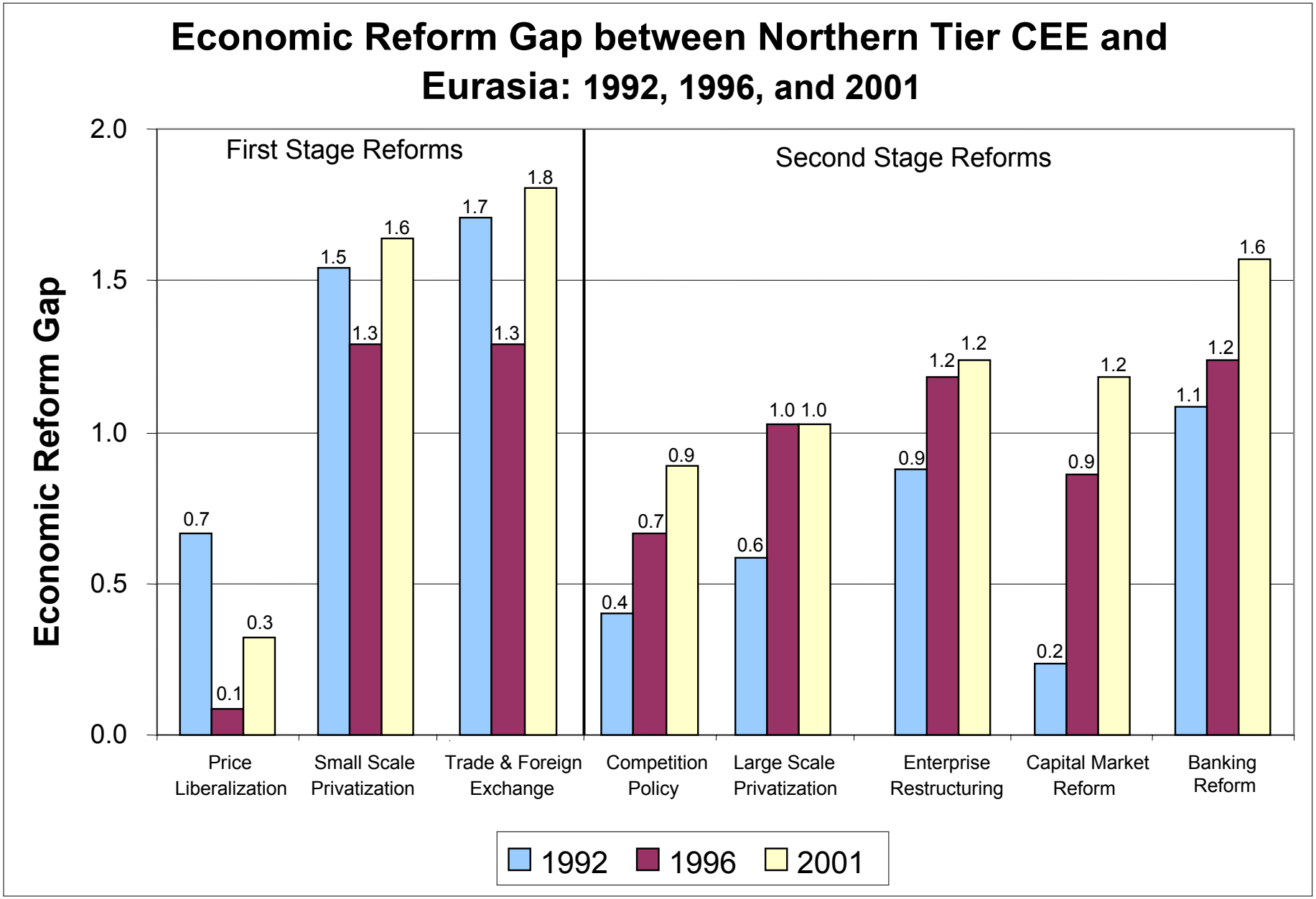






EBRD Transition Report 2001 (November 2001) and previous editions.

Figure 2



Economic Reform gap is the Northern Tier CEE economic reform score minus the Eurasia score.
Tables 1 and 2, drawing from EBRD, *Transition Report 2001* (November 2001).

Table 4. Private Sector Share of GDP

Country	1990	1994	1996	1998	2001
Hungary	25	55	70	80	80
Czech Republic	10	65	75	75	80
Slovakia	10	55	70	75	80
Albania	5	50	75	75	75
Estonia	10	55	70	70	75
Poland	30	55	60	65	75
Russia	5	50	60	70	70
Lithuania	10	50	70	70	70
Bulgaria	10	40	55	65	70
Latvia	10	55	60	60	65
Romania	15	35	60	60	65
Slovenia	15	30	45	55	65
Kyrgyzstan	5	30	50	60	60
Armenia	10	40	50	60	60
Georgia	15	20	50	60	60
Kazakhstan	5	20	40	55	60
Ukraine	10	30	50	55	60
Croatia	15	40	50	55	60
FYR Macedonia	15	35	50	55	60
Azerbaijan	10	20	25	45	60
Moldova	10	20	40	45	50
Uzbekistan	10	20	40	45	45
Tajikistan	10	15	20	30	45
Bosnia-Herzegovina	15	(20)	(25)	(30)	40
Yugoslavia	15	(20)	(25)	(30)	40
Turkmenistan	10	15	20	25	25
Belarus	5	15	15	20	20

REGIONAL AVERAGES (unweighted)

	1990	1994	1996	1998	2001
CEE & Eurasia	12	35	49	55	60
Northern Tier CEE	15	53	65	69	74
Southern Tier CEE	13	34	49	53	59
Eurasia	9	25	38	48	51
OECD					70-85
Benchmark				More than 70%	

EBRD, *Transition Report 2001* and *Transition Report* 1999 (November 1999).
Numbers in parentheses are estimates based largely on interpolation.

Figure 3

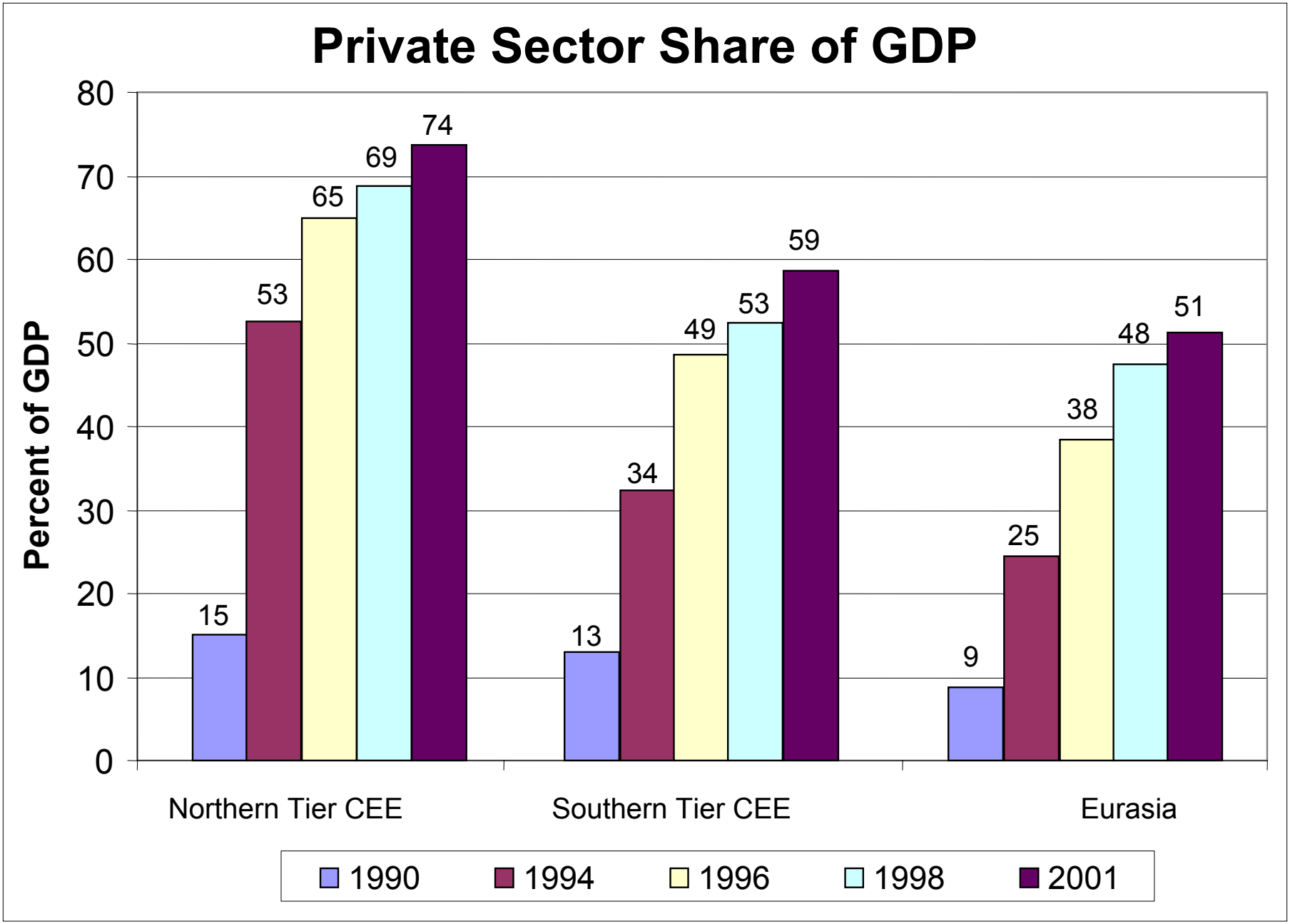


Table 4, drawing from EBRD, *Transition Report 2001* (November 2001) and *Transition Report 1999* (November 1999).

3. Democratization

Progress towards democracy building is primarily assessed from indicators drawn from Freedom House. *Table 5* highlights Freedom House's attempt to measure political rights and civil liberties in the transition region from 1989 through 2001.[5] The range in progress in democratization across the countries is great. At one extreme, are the eight Northern Tier CEE countries where political rights and civil liberties are roughly comparable to those found in many countries of Western Europe (such as France, Germany, Italy, and the UK). Three of these transition countries--the Czech Republic, Hungary, and Slovenia--have maintained this level of freedom since at least 1993. Poland and Lithuania achieved this level in 1995, Estonia in 1996, Latvia in 1997, and Slovakia in 1999. Of these eight countries, only Latvia, Estonia, and Slovakia experienced a temporary relapse in democratic freedoms since 1989 as so measured.

Among these leaders, democracy and freedom prevail. Elections are free and fair, at the national and sub-national levels. Those elected rule. There are competitive political parties, and the opposition has an important role and power. By and large, minority groups have self-determination.[6] In general, there remain deficiencies in some aspects of civil liberties, though most such freedoms exist. The media are generally free. The judiciary is generally independent and nondiscriminatory. NGOs and trade unions are free and able to exist. Personal social freedoms exist, as does freedom from significant government corruption and/or apathy.

In contrast, Turkmenistan is among a handful of countries worldwide rated by Freedom House to have the fewest political rights and civil liberties in 2001; one of only ten (down from thirteen countries in 1999) out of 192 countries to receive the poorest score.

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[5] Political freedoms include: (1) the extent to which elections for head of government and for legislative representatives are free and fair; (2) the ability of voters to endow their freely elected representatives with real power; (3) the openness of the system to competing political parties; (4) the freedom of citizens from domination by the military, foreign powers, totalitarian parties, and other powerful groups; and (5) the extent to which minority groups have reasonable self-determination and self-government.

Civil liberties include: (1) freedom of media, literature, and other cultural expressions; (2) existence of open public discussion and free private discussion including religious expression; (3) freedom of assembly and demonstration; (4) freedom of political or quasi-political organization (which includes political parties, civic associations, and ad hoc issue groups); (5) equality of citizens under law with access to independent, nondiscriminatory judiciary; (6) protection from political terror and freedom from war or insurgency situations; (7) existence of free trade unions, professional organizations, businesses or cooperatives, and religious institutions; (8) existence of personal social freedoms, which include gender equality, property rights, freedom of movement, choice of residence, and choice of marriage and size of family; (9) equality of opportunity; and (10) freedom from extreme government indifference and corruption. The appendix elaborates.

[6] Valerie Bunce of Cornell University argues at least implicitly that "electoral inclusion" of minority groups is not adequately captured in the Freedom House scores and hence concludes that "full-scale democracies" (those that are both fully inclusive and fully free) are fewer than the group of eight scored by Freedom House. In particular, this presumably more rigorous standard would exclude Estonia and possibly Latvia. See V. Bunce, "The Political Economy of Post-Socialism," *Slavic Review*, Vol. 58, No. 4 (Winter 1999), pp. 756-793.

Democratic freedoms in Uzbekistan, Tajikistan, and Belarus are not much greater than those in Turkmenistan.

In Turkmenistan and Uzbekistan, basic political rights are nonexistent. In the other democratic laggards, the regimes may allow some minimal manifestation of political rights such as competitive local elections or some sort of representation or partial autonomy for minorities. An independent civic life, including a free media, is effectively suppressed in Turkmenistan. In the other lagging countries, citizens are severely restricted in expression and association.

The Democratization gap. The data from *Table 5* also show that the large gap in democratic freedoms between the CEE and Eurasian countries continues to grow. This is evident whether one looks at the most recent trends in 2001, or a medium-term timeframe (from 1998-2000, i.e., since the Russian financial crisis), or trends since communism's collapse.

In 2001 (as in 2000), all measurable gains in the transition region in political rights and/or civil liberties occurred among the Southern Tier CEE countries. Yugoslavia and Albania advanced in both political rights and civil liberties scores, Bulgaria moved forward in political rights, and Croatia advanced in civil liberties. Of all the 27 transition countries, only Macedonia witnessed a measurable decrease in 2001 in democratic freedoms by these aggregate measures, a decrease in civil liberties. However, Freedom House also identifies general trends in freedoms that are not sufficient in magnitude to change a country's score. Among the transition countries, there were three such trends in 2001, all declines in democratization, all in Eurasia (Azerbaijan, Belarus, and Ukraine).

Figures 4 and *5* draw from the data of *Table 5* to highlight the growing democratization gap. Over the medium-term (i.e., since 1998), the sub-region which has witnessed the greatest gains in democratization has been the Southern Tier CEE (*Figure 4*). Within the Southern Tier CEE, Yugoslavia and Croatia have advanced the most on this score. Much fewer measurable gains in democratic reforms since 1998 have occurred in the Northern Tier CEE countries in large part because, with one salient exception, these countries had already attained a level of freedom roughly comparable to that found in most Western democracies; i.e., there has been relatively little "room" for gain. Slovakia is the exception, and since 1998, catalyzed by the ousting of Vladimir Meciar in 1999, it has joined the rest of the Northern Tier countries in its level of political rights and civil liberties.

Finally, *Figure 4* reveals that democratic freedoms in Eurasia on balance were fewer at end-2001 than in 1998. Only two of the twelve countries have registered an increase in democratic freedoms since 1998 (Armenia and Moldova), while five have experienced a decrease in such freedoms, Russia and Kyrgyzstan most notably, Uzbekistan, Georgia, and Ukraine to a lesser extent.

Figure 5 further underscores the democratization gap in the region. It reveals that since the collapse of communism (i.e., since 1989 in the CEE countries and 1991 in Eurasia),

substantial, if not historic, gains in democratic freedoms have been registered in virtually all the CEE countries, particularly in the Northern Tier CEE countries. It also reveals, in striking contrast, that all but three of the Eurasian countries have regressed in democratization since the breakup of the Soviet Union. Of the twelve Eurasian countries, only Georgia, Moldova, and Armenia had greater democratic freedoms by end-year 2001 than at the time of the Soviet collapse (in 1991).

How can nine of the twelve Eurasian countries have fewer democratic freedoms today than in 1991? *Figure 6* is an attempt to address this question by examining trends in democratic freedoms further back in time, to the mid-1980s. Such an effort uncovers that the transition towards democracy, particularly in Eurasia, and to a lesser extent in the Northern Tier CEE countries, began in the mid-1980s. Progress in democratic reforms in Eurasia began during Gorbachev's "glasnost" reforms, well before the collapse of the Soviet Union. Restated, despite the deterioration in democratization in much of Eurasia since 1991, democratic freedoms today in the sub-region are greater than they were at height of the cold war period.

Figure 6 also reveals that the liberalization of democratic reforms in the Northern Tier CEE countries was significant prior to the fall of the Berlin wall in 1989, and particularly rapid after the fall of the wall. In the Southern Tier CEE countries, in contrast, there was only modest progress in democratization through the mid-1980s, but since then, relatively steady gains in both political rights and civil liberties.

Democratization disaggregated. Freedom House annually rates six components of democratization among the transition countries in its *Nations in Transit*: (1) electoral process; (2) civil society; (3) independent media; (4) governance and public administration; (5) rule of law; and (6) corruption.[7] *Table 6* shows the most recent results, which represent events through December 2001. The *Nations in Transit* analyses target exclusively the transition region, and hence presumably provide a more complete and accurate picture of the various aspects of democratization in the transition than do the political rights and civil liberties scores of *Table 5* (which are tracked worldwide).

As expected, general trends between the two Freedom House rating schemes (i.e., results between *Table 5* and *6*) coincide. The country rankings are very similar between the two schemes. In each, the Northern Tier CEE countries are all out in front in democratization, while the Central Asian Republics alongside Belarus and Azerbaijan remain the laggards.

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[7] The electoral process focuses on the extent to which elections are free, fair, competitive, and participatory. Civil society assess the status of non-governmental organization; the number and nature of NGOs, and the degree of participation. Independent media attempts to measure freedom from government control (such as legal protection, editorial independence, and the extent of privation) and the financial viability of private media. Governance and public administration focuses on legislative and executive effectiveness, and on government decentralization, including the independence and effectiveness of local and regional government. Rule of law examines constitutional reforms, the development and independence of the judiciary, and the rights of ethnic minorities. Finally, the scope of corruption (official corruption in civil service; public-private sector links; anti-corruption laws and decrees adopted and enforced) is also assessed. The appendix elaborates.

In addition, the growing gap in democratic reform progress is further reinforced in the disaggregated ratings, more evident in fact than the trends in the aggregate indices. In particular, the latest *Nations in Transit* scores show: (1) four of the Southern Tier CEE countries advancing in democratization in 2001 (Yugoslavia, Bosnia-Herzegovina, Bulgaria, and Albania), with only one backslider, Macedonia; (2) six Eurasian countries backsliding (Georgia, Moldova, Ukraine, Russia, Kyrgyzstan, and Kazakhstan), while only one country moved forward (Azerbaijan); and (3) relatively little change in the Northern Tier CEE countries (with Slovakia and Estonia advancing and the Czech Republic slipping).

For the transition region as a whole (as well as for each of the three sub-regions), the greatest progress through 2001 has occurred in NGO development, followed closely by electoral reforms. The least progress has been in efforts to reduce corruption. *Figure 7*, which compares data from the first *Nations in Transit* (1997) with the most recent one (2002), shows that the democratization gap between the Northern Tier CEE countries and Eurasia has increased in all the democratic sectors between 1996 and 2001. The gap is largest in the advancement of the electoral process and a free media.

Democratization in 2002. Qualitative and anecdotal evidence suggest that the trend towards a growing democratic divide between the transition leaders and laggards has continued in 2002. In particular, most of the developments on political reforms in Eurasia in 2002 have underscored further backsliding.[8] This includes adverse democratization trends in Armenia (media), Kazakhstan (media and electoral reforms), Kyrgyzstan (media), Moldova (political freedom), Russia (constitution and media), Tajikistan (civil liberties towards minority groups), and Uzbekistan.

Corruption. *Tables 7* and *8*, and *Figures 8* and *9* attempt to shed additional light on the scope and nature of corruption in the region. *Table 7* examines perceptions of corruption, drawing from Transparency International's *2002 Corruption Perceptions Index* (*CPI*).[9] One hundred and two countries are included in the worldwide sample, twenty of which are from the transition region. As shown in *Table 7*, corruption in a handful of Eurasian countries is perceived to be among the highest worldwide. In fact, drawing from Transparency International's full data set, one finds that on average corruption is perceived to be higher in Eurasia than in all other regions of the world (*Figure 8*). By this measure, corruption in the Southern Tier CEE is roughly the same as that found in Latin America, and somewhat less than that in Sub-Saharan Africa. Corruption in the Northern Tier CEE countries is lower still, though nevertheless much higher than that found in OECD countries.

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[8] Sources include World Bank, IMF, EBRD, and Economist Intelligence Unit reports, as well as media articles.

[9] The index scores countries in terms of the degree to which corruption is perceived to exist among public officials and politicians. It is a composite index, drawing on fifteen different polls and surveys from nine independent institutions (including the World Bank, the Wall Street Journal, and Freedom House) carried out among business people, the general public, and country analysts. Scores can range from ten (highly clean) to zero (highly corrupt).

Transparency International's measures of corruption are not particularly robust for individual countries from year to year. Moreover, the 2002 sample sizes for the Southern Tier CEE countries and Eurasia are limited, four and eight, respectively. Nevertheless, it is significant to note that the relative orders of magnitude of corruption by these measures are broadly consistent with an earlier worldwide survey undertaken by the World Bank and the EBRD, cited in the World Bank's *World Development Report 1997,* and replicated in *Figure 8*. In particular the World Bank/EBRD survey found that dissatisfaction with corruption among businesses was highest in Eurasia, followed by Sub-Saharan Africa, CEE, Latin American and the Caribbean, and much lower in the high income members of the OECD than all elsewhere.

Table 8 attempts to examine more rigorously efforts to measure corruption by doing two things. First, it draws from a recent World Bank/EBRD study by Hellman, Jones, and Kaufmann (September 2000) that attempts to unbundle or differentiate types of corruption.[10] Secondly, it compares results from this study with those from Transparency International and Freedom House to get a better feel for the robustness of the corruption measures.

Two types of corruption from Hellman, Jones, and Kaufmann (2000) are included in *Table 8*. Administrative corruption refers to petty forms of bribery, and is defined as private payments to public officials to distort the prescribed implementation of official rules and policies. State capture, in contrast, refers to efforts on the part of enterprises to purchase advantages directly from the state, and is defined as actually shaping the formation of the basic rules of the game (i.e., laws, rules, decrees, and regulations) through illicit and non-transparent private payments to public officials. "Captor" firms tend to be new-start firms trying to compete against influential incumbents in an environment of a weak state (i.e., where public goods are under-provided and the "playing field" for the private sector is highly uneven).[11]

The beneficiaries from administrative corruption are primarily corrupt public officials, and the cost to the economy is essentially a tax, which decreases efficiency and distorts the allocation of resources. It is the firms that are influencing the state (and shaping the rules) which stand to gain the most from state capture, though corrupt public officials benefit as well. State capture is undertaken because the rules of the game are not fair and/or clear. Yet, this contributes to a further erosion of the rule of law. Hence, state capture is likely more intractable and much costlier economy-wide than is administrative corruption.[12]

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[10] J. Hellman, G. Jones, and D. Kaufmann, *Seize the State, Seize the Day: State Capture, Corruption, and Influence in Transition*, Policy Research Working Paper 2444, World Bank and EBRD (September 2000).
[11] Hellman et.al. (2000) also examines the relationship between these influential incumbent firms and the state. In this relationship, influence refers to a firm's ability to shape the formation of basic rules of the game *without* recourse to private payments to public officials. "Influential" firms, hence, are generally distinct from "captor" firms, and tend to be large, "pre-existing," and often with ownership ties to the state.
[12] The data used to calculate administrative corruption and state capture are from the 1999 Business Environment and Enterprise Performance Survey (BEEPS). The BEEPS is the first stage of a world-wide survey of firms on the obstacles in the business environment conducted by the World Bank in co-operation with the EBRD, the Inter-American Development Bank, and the Harvard Institute for International

Some of the general trends highlighted by these two measures of corruption are predictable and consistent with the measures drawn from Transparency International and Freedom House. Corruption is considerably lower in the Northern Tier CEE countries on balance, and highest in Eurasia. This is particularly evident in the case of state capture. Roughly 12% of the firms surveyed in the Northern Tier CEE countries are significantly affected by state capture. It is closer to 27% in Eurasia. However, as with other corruption scores, the range across the countries is very significant as well (and averages can mask substantial diversity). The percentage of firms significantly affected by state capture ranges from 6% to 7% in Uzbekistan, Armenia, Hungary, and Slovenia to approximately 49% in Azerbaijan and Moldova. Illicit payments as a percent of firm revenues (i.e., administrative corruption) range from around 1% in Croatia, Belarus, Latvia, and Slovenia to more than 5% in Azerbaijan and Kyrgyzstan.

To facilitate broad comparisons of the four measures of corruption, results of each were grouped into three ordinal categories: low; medium; and high corruption (*Table 8*). These groupings show that of the twenty-two countries for which data are available, there is consistency in the corruption measures for a handful of countries where corruption is determined to be among the lowest (specifically, in Slovenia, Estonia, Poland, and Hungary), as well as where corruption is measured to be among the highest (specifically, Azerbaijan, Kyrgyzstan, Ukraine, and Moldova). Results for all other countries are mixed. The most striking comparisons between corruption measures are in the cases of Latvia, Uzbekistan, and Armenia where different corruption measures for the same country range from low to high.

Part of the explanation as to why there is not greater consistency no doubt stems from different definitions and different types of corruption being measured. Hence, unbundling types of corruption can shed light. In particular (and with exceptions;

Development. Some of the data from the BEEPS were first published in the EBRD's *Transition Report* (November 1999). (For elaboration of the survey's methodology and main results, see Hellman, Jones, Kaufmann, and Schankerman, *Measuring Governance and State Capture: The Role of Bureaucrats and Firms in Shaping the Business Environment* World Bank Working Paper 2312 (2000).)

For administrative corruption, firms were asked, on average, what percent of revenues do firms like yours typically pay per annum in unofficial payments to public officials: 0%; less than 1 percent; 1-1.99 percent; 2-9.99 percent; 10-12 percent; 13-25 percent; or over 25 percent. The categories were imputed at 0 percent; 1 percent; 2 percent; 6 percent; 11 percent; 19 percent; or 25 percent and the mean calculated.

The state capture measure is an index calculated as the unweighted average of six component indices. Specifically, firms were asked to assess the extent to which six types of activities have had a direct impact on their business: (1) the sale of parliamentary votes on laws to private interests; (2) the sale of presidential decrees to private interests; (3) central bank mishandling of funds; (4) the sale of court decisions in criminal cases; (5) the sale of court decisions in commercial cases; and (6) illicit contributions paid by private interests to political parties and campaigns. Firms were asked whether corruption in each of these six dimensions had no impact; minor impact; significant impact; or very significant impact on their business. *Table 8* reports the proportion of firms claiming significant or very significant impact of state capture.

corruption in Belarus is the salient one), administrative corruption seems to correlate well with progress in transition reforms: the reform leaders generally have (relatively) low administrative corruption; many "middle tier" or "partial" reformers (primarily in the Southern Tier), have medium-range corruption; the reform laggards have high administrative corruption. This inverse linear relationship is given some support in *Figure 9*.

However, as suggested by Hellman, et. al. (2000), an inverted "U" shape or nonlinear relationship may better describe the relationship between reform progress and state capture. Specifically, state capture is relatively low among the reform leaders of the Northern Tier (except Latvia); ranges from medium to high among the middle-tier or partial reformers; but is also low among some of the laggards (Uzbekistan and Belarus are the salient cases).[13] *Figure 9* suggests that the available evidence may support this nonlinear relationship. Low state capture among the laggards might be explained by the dominance of authoritarian political regimes over relatively small private sectors. Given this imbalance of power, there is little scope (and few available firms) to "capture" the state.

[13] More data would shed more light on this working hypothesis: state capture scores do not exist for other reform laggards, Turkmenistan, Tajikistan, Bosnia-Herzegovina, and Yugoslavia.

Table 5. Political Rights and Civil Liberties[1]

	1989[2]		1997		1998		1999		2000		2001[3]		1999-01[4] Change		1990-01 Change	
	PR	CL	PR	CL	PR	CL	PR	CL	PR	CL	PR	CL	PR	CL	PR	CL
Czech Republic	6	6	1	2	1	2	1	2	1	2	1	2	0	0	+ 5	+ 4
Estonia	6	5	1	2	1	2	1	2	1	2	1	2	0	0	+ 5	+ 3
Hungary	4	3	1	2	1	2	1	2	1	2	1	2	0	0	+ 3	+ 1
Latvia	6	5	1	2	1	2	1	2	1	2	1	2	0	0	+ 5	+ 3
Lithuania	6	5	1	2	1	2	1	2	1	2	1	2	0	0	+ 5	+ 3
Poland	4	3	1	2	1	2	1	2	1	2	1	2	0	0	+ 3	+ 1
Slovakia	6	6	2	4	2	2	1	2	1	2	1	2	+ 1	0	+ 5	+ 4
Slovenia	5	4	1	2	1	2	1	2	1	2	1	2	0	0	+ 4	+ 2
Bulgaria	6	5	2	3	2	3	2	3	2	3	1 ↑	3	+ 1	0	+ 5	+ 2
Romania	6	5	2	2	2	2	2	2	2	2	2	2	0	0	+ 4	+ 3
Croatia	5	4	4	4	4	4	4	4	2	3	2	2 ↑	+ 2	+ 2	+ 3	+ 2
Moldova	6	5	3	4	2	4	2	4	2	4	2	4	0	0	+ 4	+ 1
Yugoslavia	5	4	6	6	6	6	5	5	4	4	3 ↑	3 ↑	+ 3	+ 3	+ 2	+ 1
Albania	6	5	4	4	4	5	4	5	4	5	3 ↑	4 ↑	+ 1	+ 1	+ 3	+ 1
FYR Macedonia	5	4	4	3	3	3	3	3	4	3	4	4 ↓	– 1	– 1	+ 1	0
Armenia	6	5	5	4	4	4	4	4	4	4	4	4	0	0	+ 2	+ 1
Georgia	6	5	3	4	3	4	3	4	4	4	4	4	– 1	0	+ 2	+ 1
Ukraine	6	5	3	4	3	4	3	4	4	4	4	4	– 1	0	+ 2	+ 1
Bosnia-Herzegovina	5	4	5	5	5	5	5	5	5	4	5	4	0	+ 1	0	0
Russia	6	5	3	4	4	4	4	5	5	5	5	5	– 1	– 1	+ 1	0
Azerbaijan	6	5	6	4	6	4	6	4	6	5	6	5	0	– 1	0	0
Kazakhstan	6	5	6	5	6	5	6	5	6	5	6	5	0	0	0	0
Kyrgyzstan	6	5	4	4	5	5	5	5	6	5	6	5	– 1	0	0	0
Belarus	6	5	6	6	6	6	6	6	6	6	6	6	0	0	0	– 1
Tajikistan	6	5	6	6	6	6	6	6	6	6	6	6	0	0	0	– 1
Uzbekistan	6	5	7	6	7	6	7	6	7	6	7	6	0	0	– 1	– 1
Turkmenistan	6	5	7	7	7	7	7	7	7	7	7	7	0	0	– 1	– 2

	1989		1997		1998		1999		2000		2001[3]		1999-01[4] Change		1990-01 Change	
	PR	CL	PR	CL	PR	CL	PR	CL	PR	CL	PR	CL	PR	CL	PR	CL
CEE & Eurasia	5.8	5.0	3.5	3.8	3.5	3.8	3.4	3.7	3.5	3.7	3.4	3.7	0.1	+ 0.1	+ 2.4	+ 1.3
Northern Tier CEE	5.4	4.6	1.1	2.3	1.1	2.0	1.1	1.8	1.0	2.0	1.0	2.0	+ 0.1	0.0	+ 4.4	+ 2.6
Southern Tier CEE	5.9	5.3	3.9	3.9	3.7	4.0	3.6	3.9	3.3	3.4	2.9	3.1	+ 0.9	+ 0.9	+ 3.0	+ 2.1
Eurasia	6.0	5.0	4.9	4.8	4.9	4.9	4.9	5.0	5.3	5.1	5.3	5.1	– 0.3	– 0.2	+ 0.8	– 0.1

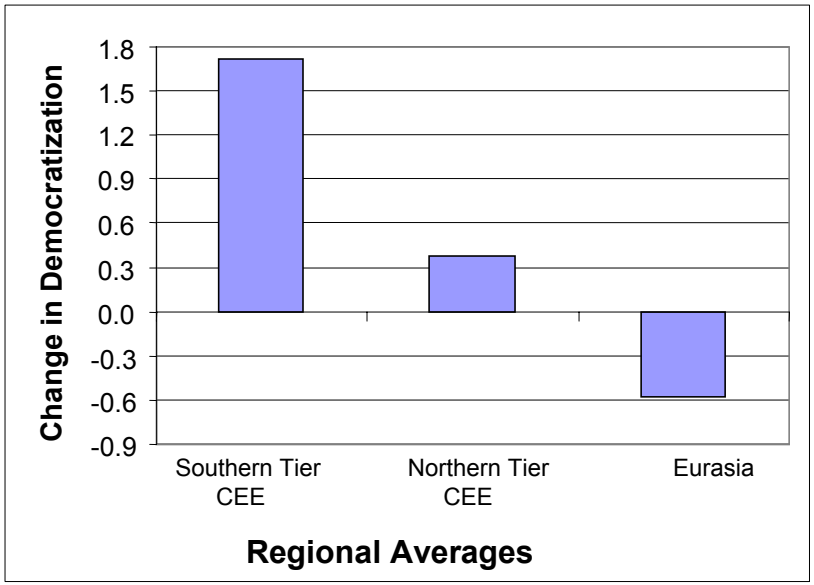
European Union[5]	1.0	1.5		
OECD[6]	1.2	1.7		
Benchmarks	1.0	2.0	≥ 0.0	≥ 0.0

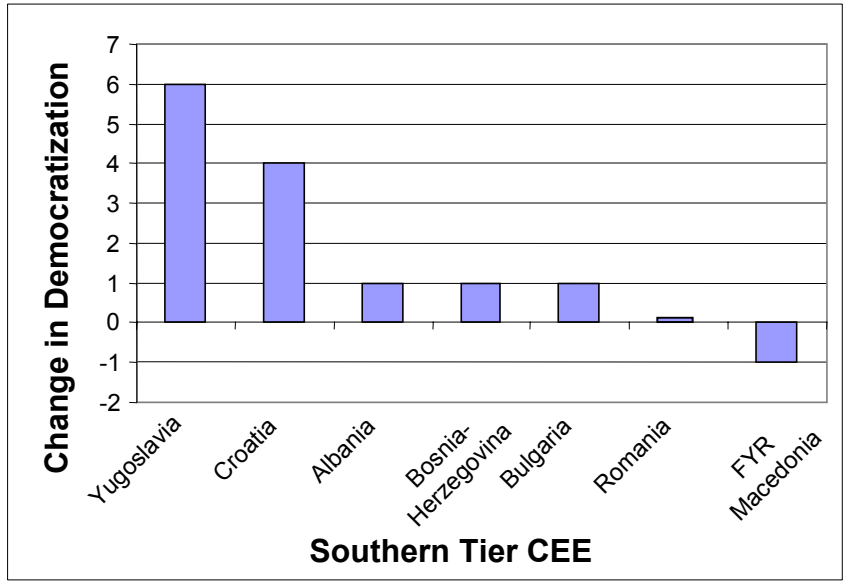
Notes: (1) Ratings from 1 to 7, with 1 representing greatest development of political rights/civil liberties. (2) The 1989 scores for the Soviet Union, Czechoslovakia and communist Yugoslavia are used for the countries that were part of these larger entities in 1989. (3) An ↑ (↓) indicates an increase(decrease) in democratization in 2001 as measured by a change in a political rights or civil liberties score. (4) A "+ (-)" refers to an increase(decrease) in freedoms. (5) All 15 EU members score "1" in Political Rights. In Civil Liberties 8 of the 15 members score a "1"; 6 score a "2" (Belgium, France, Germany, Italy, Spain and the UK); and Greece scores a "3". (6) All but three OECD members score a "1" in Political Rights; the exceptions are Turkey ("4"), Mexico ("2"), and Korea ("2"). For Civil Liberties, 15 members score a "1"; 11 score a "2" (Belgium, Czech Republic, France, Germany, Hungary, Italy, Japan, Korea, Poland, Spain, and the UK); Greece and Mexico score a "3"; Turkey scores a "5".

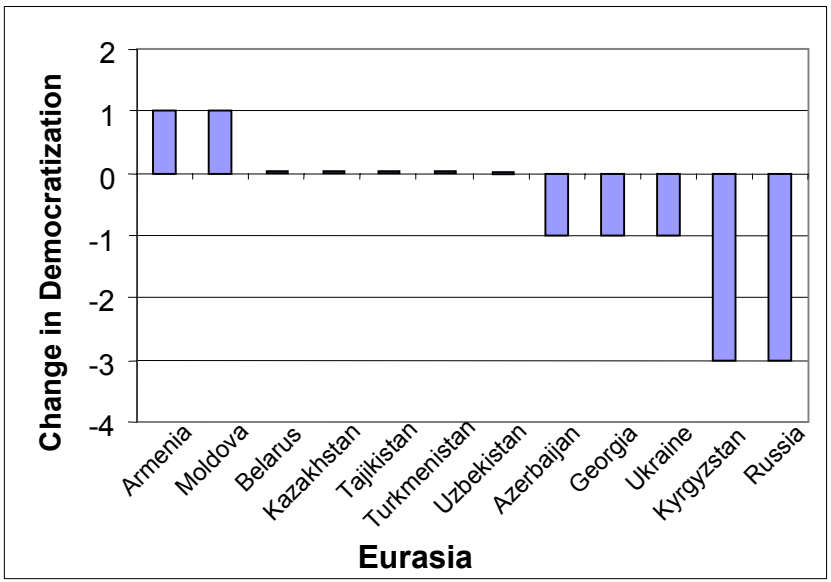
Freedom House, *Freedom in the World 2002* (and previous editions).

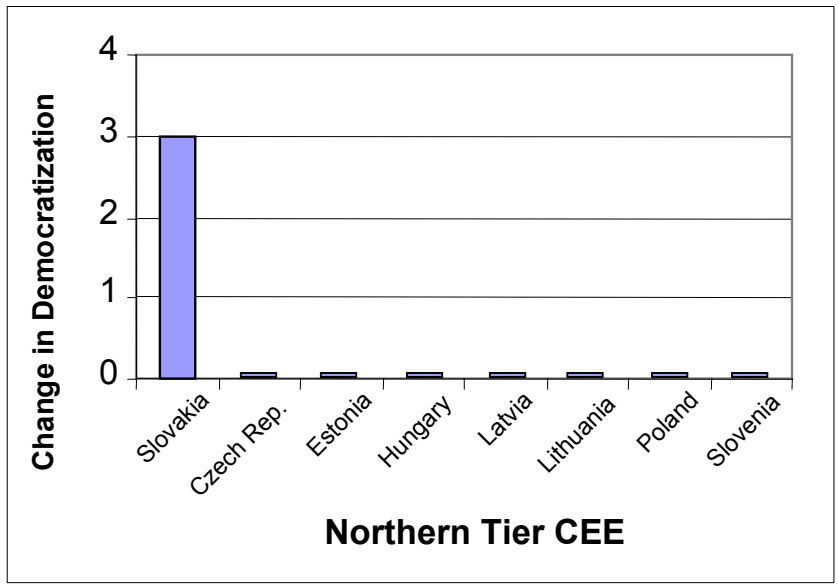
Figure 4

Progress and Backsliding in Democratization, 1998 - 2001





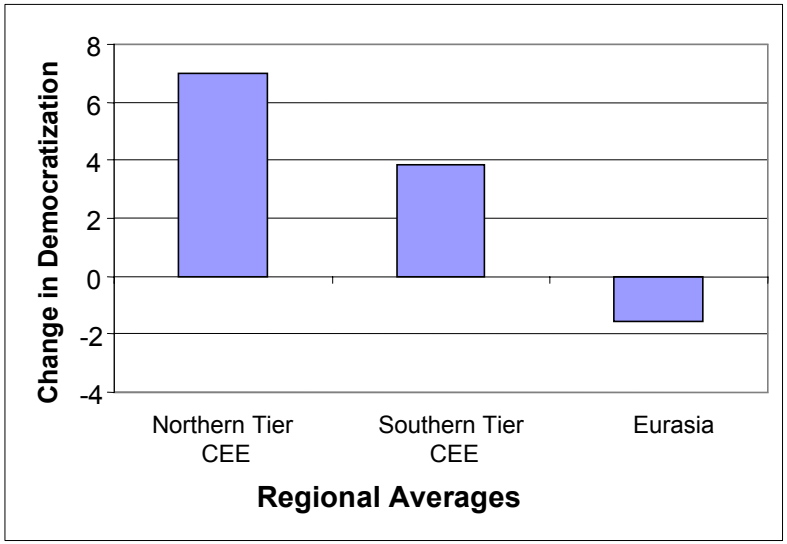


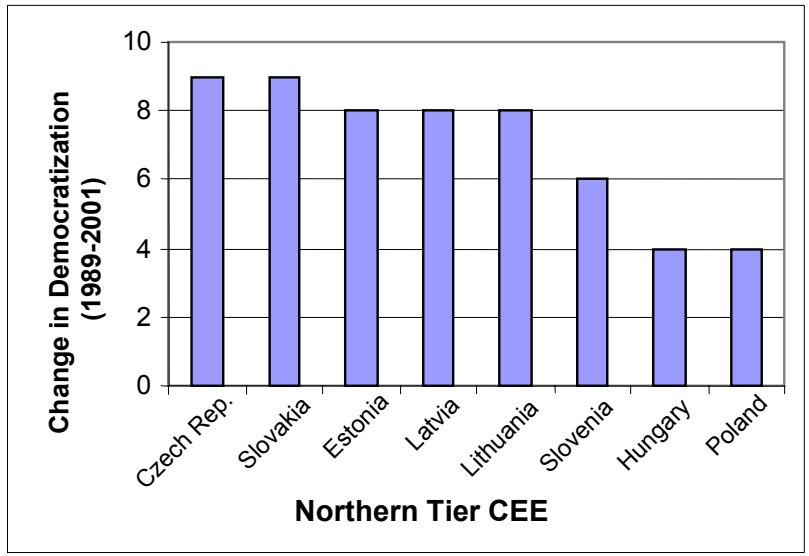


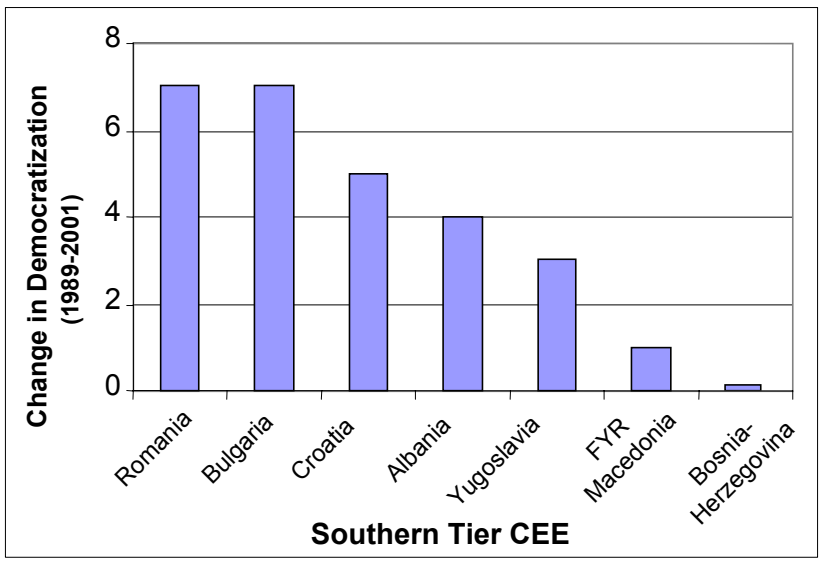
Freedom House, *Freedom in the World 2002* (2002), and previous editions.

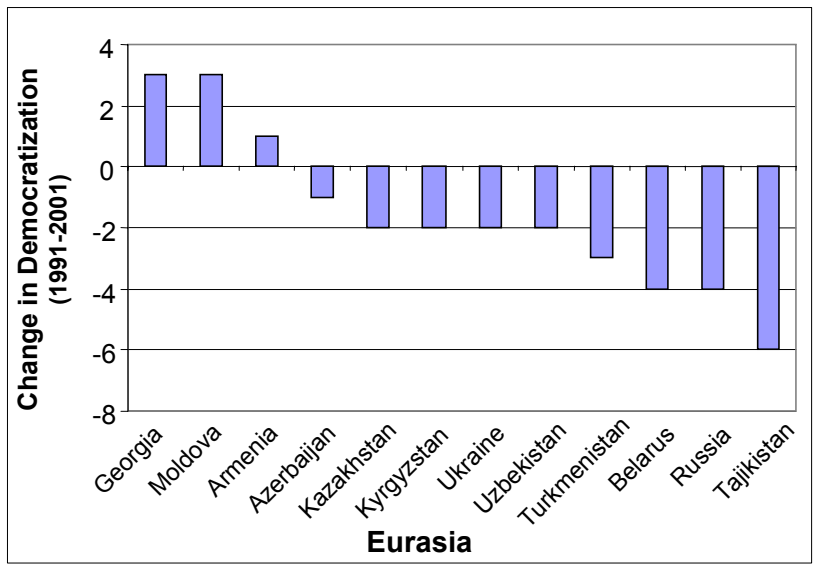
Figure 5

Change in Democratization Since Communism's Collapse





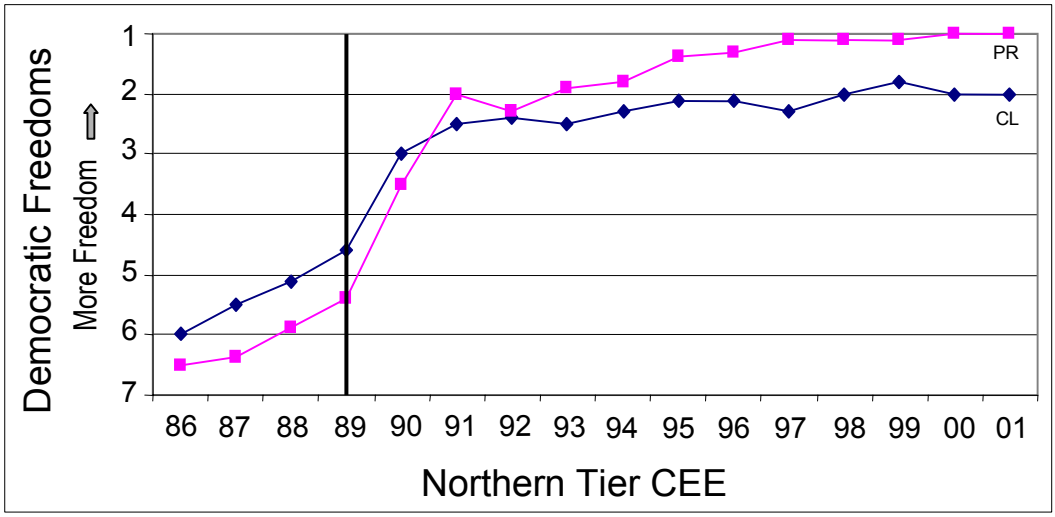


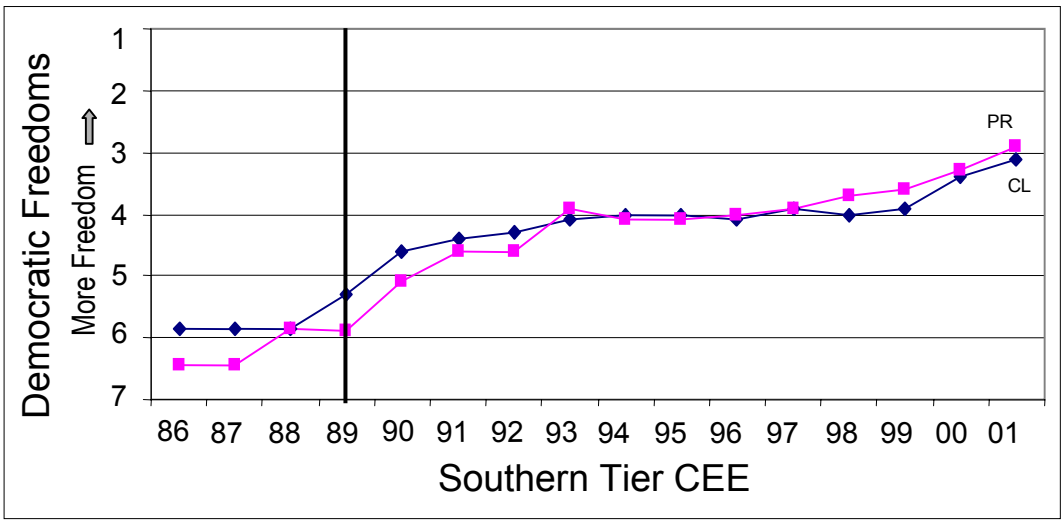


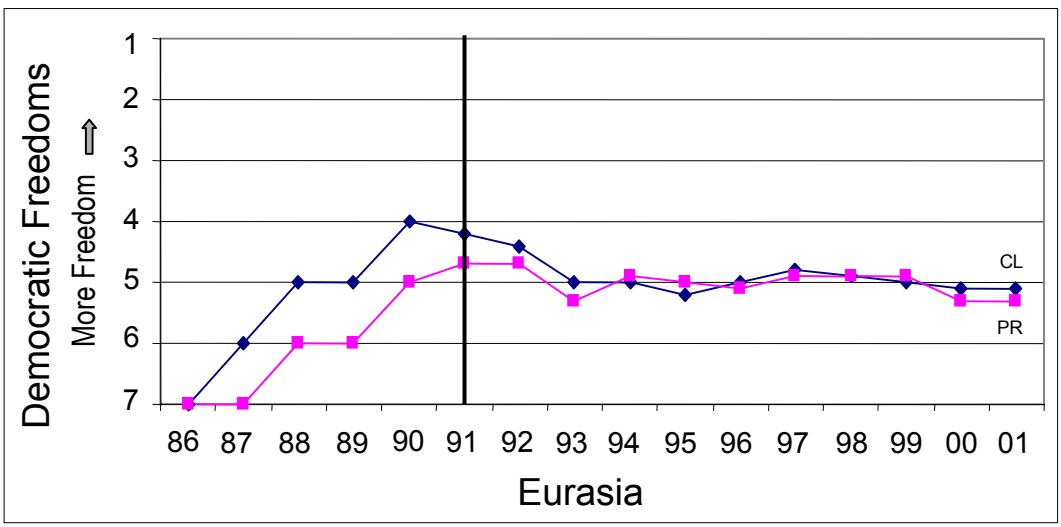
Freedom House, *Freedom in the World 2002* (2002), and previous editions.

Figure 6

Democratic Freedoms Over Time







Political Rights (PR) and Civil Liberties (CL) data come from Freedom House, *Freedom in the World 2002* (2002); (and previous editions). Ratings from 1 to 7, with 1 representing greatest development of political rights/civil liberties.

Table 6. Democratization Disaggregated in 2001

Country	Electoral Process	Civil Society	Independent Media	Gov./Public Administration	Rule of Law	Corruption	Average	Change (2000-01)
Poland	1.3	1.3	1.5	2.0 ⇩	1.5	2.3	1.6	…
Slovenia	1.8	1.5 ⇧	1.8	2.3 ⇧	1.8 ⇩	2.0	1.8	…
Estonia	1.8	2.0 ⇧	1.8	2.3	1.8 ⇧	2.5 ⇧	2.0	⇧
Hungary	1.3	1.3	2.3	3.0	2.0	3.0	2.1	…
Slovakia	1.8 ⇧⇧	1.8 ⇧	2.0	2.3 ⇧⇧	2.0 ⇧	3.3 ⇧⇧	2.2	⇧
Lithuania	1.8	1.5 ⇧	1.8	2.5	2.0 ⇩	3.8	2.2	…
Latvia	1.8	2.0	1.8	2.3	2.0	3.8 ⇩	2.3	…
Czech Republic	2.0 ⇩	1.8 ⇩	2.5 ⇩⇩	2.3 ⇩	2.5	3.8	2.5	⇩
Bulgaria	2.0	3.3 ⇧	3.3	3.5 ⇧	3.5	4.5 ⇧	3.3	⇧
Croatia	3.3	2.8	3.5	3.5	3.8	4.5	3.5	…
Romania	3.0	3.0	3.5	3.8	4.3	4.8 ⇩	3.7	…
Yugoslavia	3.8 ⇧⇧	3.0 ⇧⇧	3.5 ⇧⇧	4.3 ⇧⇧	4.3 ⇧⇧	5.3 ⇧⇧	4.0	⇧⇧
Albania	3.8 ⇧	3.8 ⇧	4.0 ⇧	4.3	4.5	5.3 ⇧	4.3	⇧
FYR Macedonia	4.5 ⇩⇩	4.0 ⇩	3.8	4.3 ⇩⇩	4.8 ⇩⇩	5.5 ⇩⇩	4.5	⇩
Moldova	3.5 ⇩	4.0 ⇩	4.5 ⇩	4.8 ⇩	4.0	6.3 ⇩	4.5	⇩
Georgia	5.0 ⇩	4.0	3.8 ⇩	5.0 ⇩	4.3 ⇩	5.5 ⇩	4.6	⇩
Bosnia-Herzegovina	4.3 ⇩⇩	4.3 ⇧	4.3 ⇧	5.5 ⇧⇧	5.3 ⇧	5.5 ⇧	4.8	⇧
Armenia	5.5	3.5	4.8	4.5	5.0	5.8	4.8	…
Ukraine	4.5 ⇩⇩	3.8	5.5 ⇩	5.0 ⇩	4.8 ⇩	6.0	4.9	⇩
Russia	4.5 ⇩	4.0	5.5 ⇩	5.3 ⇩	4.8 ⇩	6.0 ⇧	5.0	⇩
Kyrgyzstan	5.8	4.5	5.8 ⇩⇩	5.5 ⇩	5.3	6.0	5.5	⇩
Azerbaijan	5.8	4.5	5.5 ⇧	6.0 ⇧	5.3	6.3	5.5	⇧
Tajikistan	5.3	5.0	5.8 ⇩	6.0	5.8	6.0	5.6	…
Kazakhstan	6.3	5.5 ⇩⇩	6.0	5.8 ⇩⇩	6.0 ⇩	6.3	6.0	⇩
Belarus	6.8	6.3 ⇧	6.8	6.5 ⇩	6.8	5.3	6.4	…
Uzbekistan	6.8	6.8 ⇩	6.8	6.0	6.5	6.0	6.5	…
Turkmenistan	7.0	7.0	7.0	6.8	7.0	6.3	6.8	…
	Electoral Process	**Civil Society**	**Independent Media**	**Gov./Public Administration**	**Rule of Law**	**Corruption**	**Average**	**Change (2000-01)**
CEE & Eurasia	3.9 ⇩	3.5	4.0 ⇩	4.3 ⇩	4.1 ⇩	4.9 ⇩	4.1	⇩
Northern Tier CEE	1.7	1.6	1.9 ⇩	2.3 ⇧	1.9	3.0 ⇩	2.1	…
Southern Tier CEE	3.5 ⇧	3.4 ⇧	3.7 ⇧⇧	4.1 ⇩	4.3 ⇧	5.0 ⇧	4.0	⇧
Eurasia	5.5 ⇩	4.9 ⇩	5.6 ⇩	5.6 ⇩	5.4 ⇩	6.0	5.5	⇩

Note: On a scale from 1 to 7, with 1 representing most advanced--or, in the case of corruption, most free.

A "↑" indicates an increase in democratization since 2000; a↓" signifies a decrease. One arrow represents a change greater than 0.1 and less than 0.5; two arrows represents change greater than 0.5.

Data depict trends from November 2000 through December 2001.

Freedom House, *Nations in Transit 2002* (2002).

Figure 7

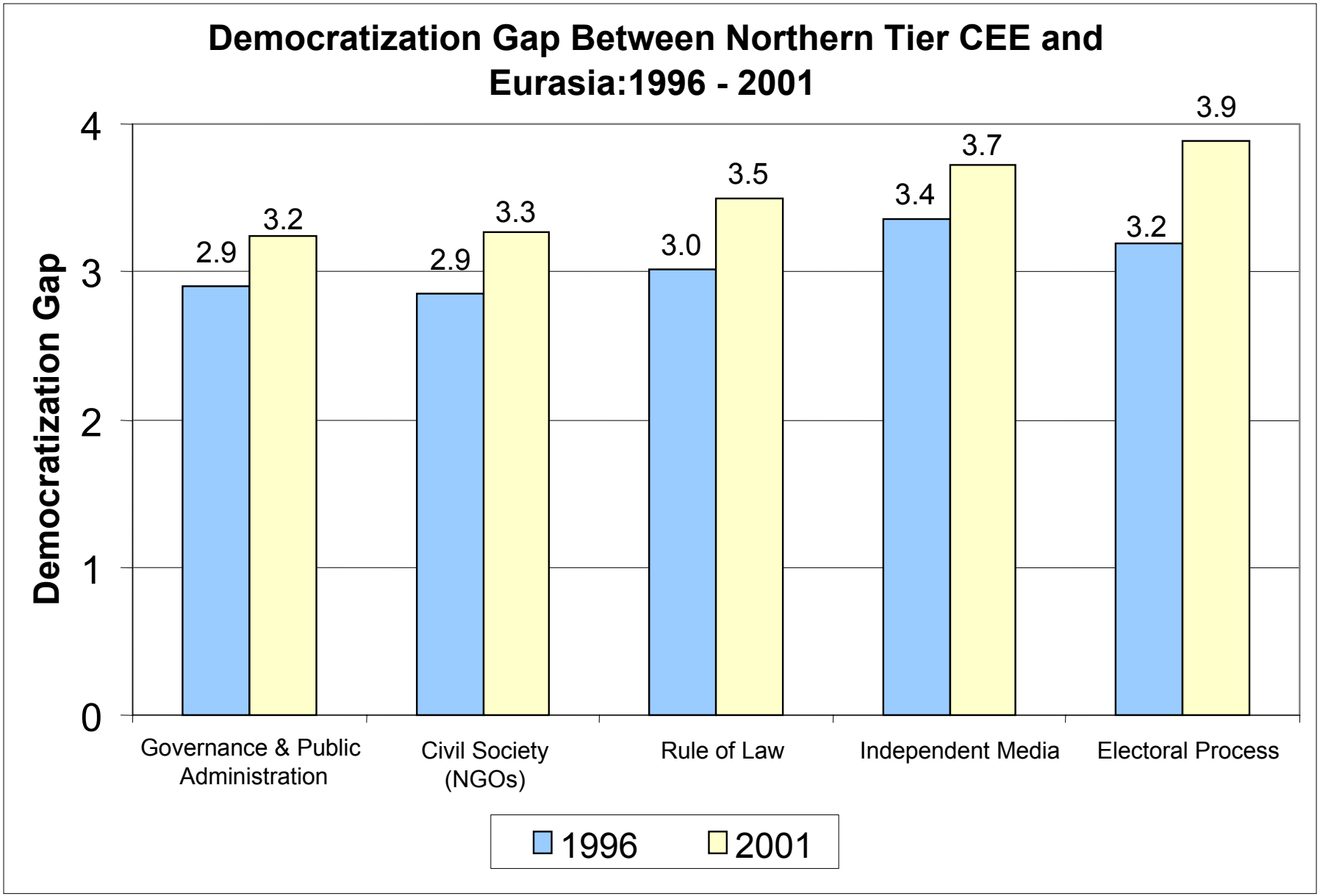


Table 6, and Table 8, *Monitoring Country Progress* #2 (September 1997), drawing from *Nations in Transit 2002* (2002); and *Nations in Transit 1997*. Democratization gap is the Eurasia democratic freedom score minus the Northern Tier CEE score.

Table 7. Transparency International's 2002 Corruption Perceptions Index

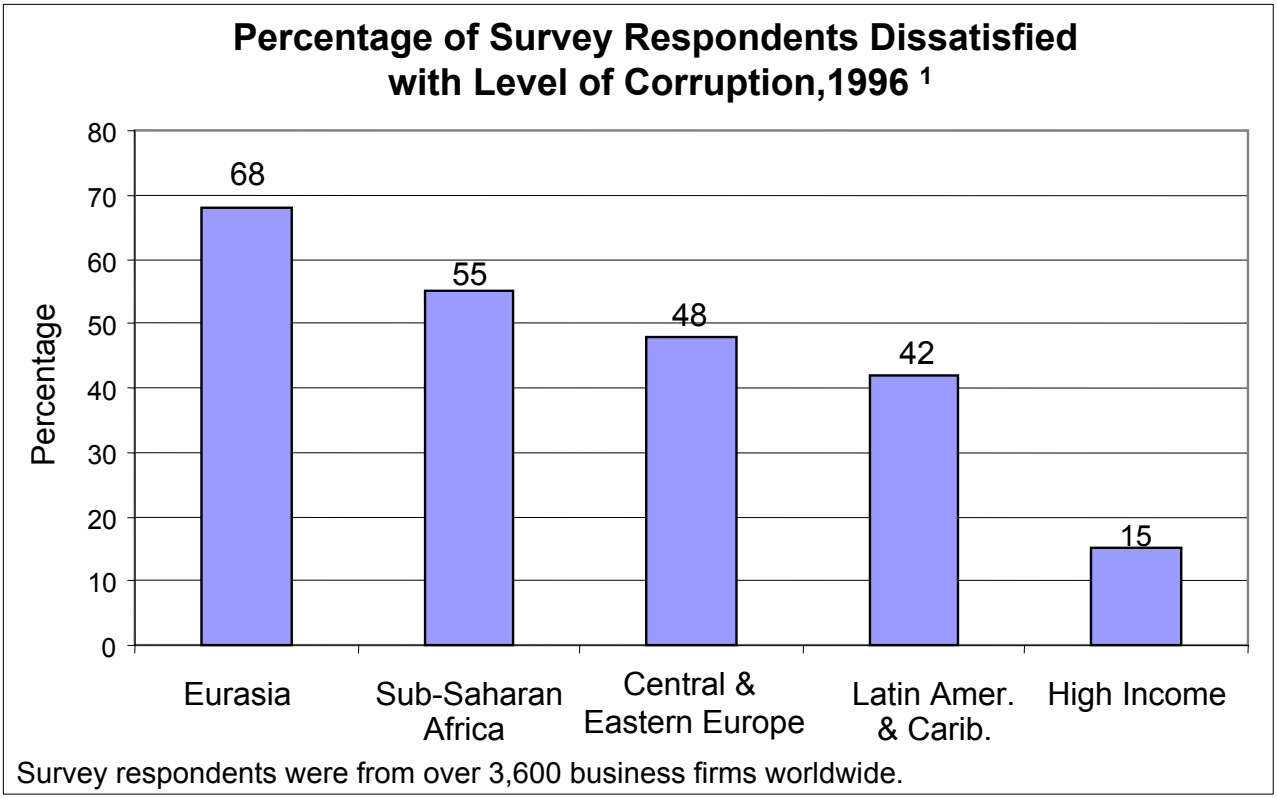
	Score	Worldwide Rank		Score	Worldwide Rank
Slovenia	6.0	27	Finland	9.7	1
Estonia	5.6	29	USA	7.7	16
Hungary	4.9	33	Germany	7.3	18
Belarus	4.8	36	Botswana	6.4	24
Lithuania	4.8	36	Taiwan	5.6	29
Bulgaria	4.0	45	Italy	5.2	31
Poland	4.0	45	Uruguay	5.1	32
Croatia	3.8	51	Greece	4.2	44
Czech Republic	3.7	52	Mexico	3.6	57
Latvia	3.7	52	China	3.5	59
Slovak Republic	3.7	52	Senegal	3.1	66
Uzbekistan	2.9	68	India	2.7	71
Russia	2.7	71	Vietnam	2.4	85
Romania	2.6	77	Uganda	2.1	93
Albania	2.5	81	Indonesia	1.9	96
Georgia	2.4	85	Bangladesh	1.2	102
Ukraine	2.4	85			
Kazakhstan	2.3	88	OECD	6.9	
Moldova	2.1	93	Latin Amer. & Carib	3.4	
Azerbaijan	2.0	95	Sub-Saharan Africa	3.2	
CEE & Eurasia (n=20)	3.6				
N.Tier CEE (n=8)	5.1				
S.Tier CEE (n=4)	3.2				
Eurasia (n=8)	2.7				

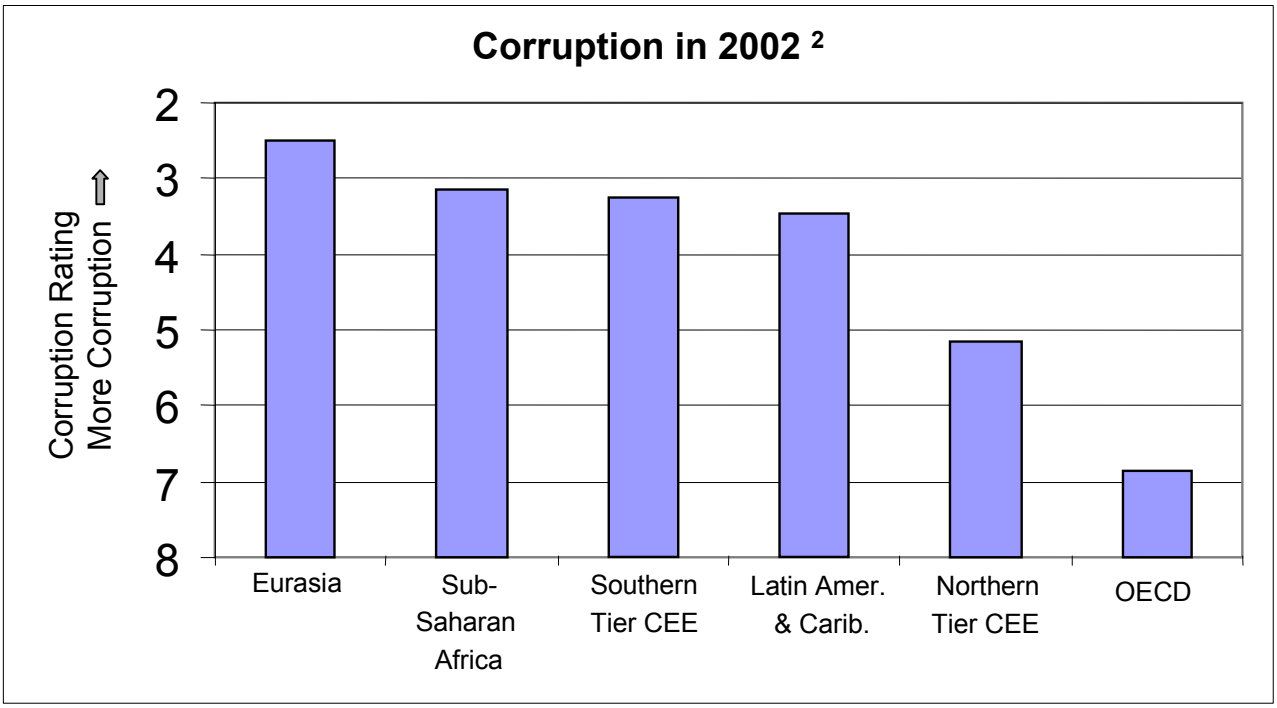
The TI Corruption Perceptions Index (CPI) scores countries in terms of the degree to which corruption is perceived to exist among business people, academics and risk analysts. The 2002 CPI ranks 102 countries. It is a composite index, drawing on 15 different polls and surveys from 9 independent institutions and at least three surveys were required for a county to be included. Scores can range from 10 (highly clean) to 0 (highly corrupt).

Transparency International,*2002 Corruption Perceptions Index* (August 2002).

Figure 8

Corruption Worldwide





1. World Bank, *World Development Report* (1997)
2. Transparency International, *2002 Corruption Perceptions Index* (August 2002). The TI Corruption Perceptions Index (CPI) scores countries in terms of the degree to which corruption is perceived to exist among public officials and politicians. Scores can range from 10 (highly clean) to 0 (highly corrupt).

Table 8. Corruption Unbundled (and Measures Compared)

Country	Administrative Corruption (Payments)	(Rank)	State Capture (%)	(Rank)	Admin. Corruption	State Capture	TI's CPI	Freedom House
	(payments as % of revenue)		(% of firms affected)					
Slovenia	1.4	3	7	2	Low	Low	Low	Low
Estonia	1.6	5	10	6	Low	Low	Low	Low
Poland	1.6	5	12	9	Low	Low	Low	Low
Hungary	1.7	7	7	2	Low	Low	Low	Low
Belarus	1.3	2	8	5	Low	Low	Low	Medium
Czech Republic	2.5	9	11	7	Medium	Low	Low	Low
Lithuania	2.8	11	11	7	Medium	Low	Low	Low
Croatia	1.1	1	27	15	Low	Medium	Medium	Low
Kazakhstan	3.1	13	12	9	Medium	Low	Medium	High
Latvia	1.4	3	30	18	Low	High	Medium	Low
Uzbekistan	4.4	18	6	1	High	Low	High	High
Armenia	4.6	20	7	2	High	Low	High	Medium
Romania	3.2	14	21	12	Medium	Medium	Medium	Low
Slovakia	2.5	9	24	13	Medium	Medium	Medium	Low
Bulgaria	2.1	8	28	16	Medium	High	Medium	Medium
Russia	2.8	11	32	19	Medium	High	High	High
Albania	4.0	15	16	11	High	Medium	-----	Medium
Georgia	4.3	17	24	13	High	Medium	-----	Medium
Moldova	4.0	15	37	21	High	High	High	High
Ukraine	4.4	18	32	19	High	High	High	High
Kyrgyzstan	5.3	21	29	17	High	High	-----	High
Azerbaijan	5.7	22	41	22	High	High	High	High
Yugoslavia	-----	-----	-----	-----	-----	-----	High	High
FYR Macedonia	-----	-----	-----	-----	-----	-----	-----	Medium
Bosnia-Herzegovina	-----	-----	-----	-----	-----	-----	-----	Medium
Turkmenistan	-----	-----	-----	-----	-----	-----	-----	High
Tajikistan	-----	-----	-----	-----	-----	-----	-----	High
CEE & Eurasia	3.0		24.0					
Northern Tier CEE	1.9		12.4					
Southern Tier CEE	2.8		22.7					
Eurasia	3.4		27.4					

Administrative corruption is defined as private payments to public officials to distort the prescribed implementation of official rules and policies, I.e., petty forms of bribery. For administrative corruption, firms were asked, on average, what percent of revenues do firms like yours typically pay per annum in unofficial payments to public officials: 0%; less than 1%; 1 - 1.99%; 2 - 9.99%; 10 - 12%; 13 - 25%; over 25%. The categories were imputed at 0%; 1%; 2%; 6%; 11%; 19%; 25% and the mean calculated.

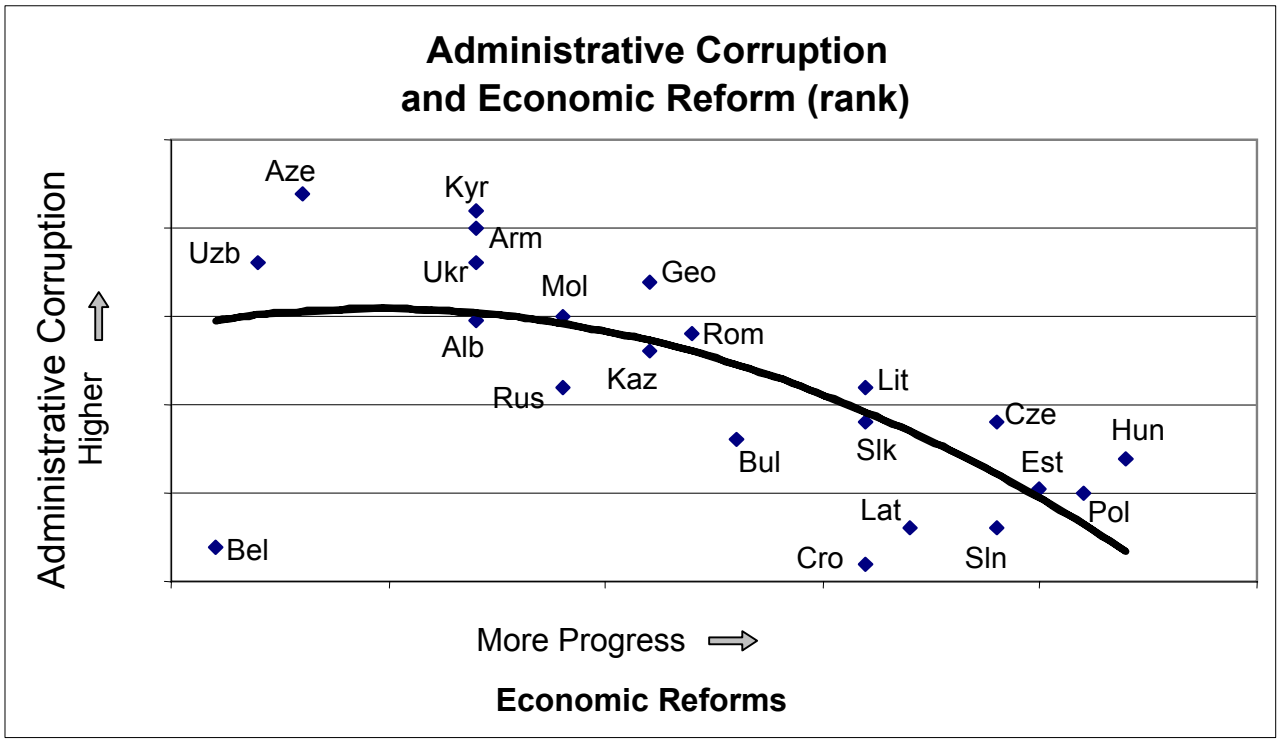
State capture is defined as shaping the formation of the basic rules of the game (i.e., laws, rules, decrees, and regulations) through illicit and non-transparent private payments to public officials. The state capture measure is an index calculated as the unweighted average of six component indices. Specifically, firms were asked to assess the extent to which six types of activities have had a direct impact on their business: (1) the sale of Parliamentary votes on laws to private interests; (2) the sale of Presidential decrees to private interests; (3) Central Bank mishandling of funds; (4) the sale of court decisions in criminal cases; (5) the sale of court decisions in commercial cases; and (6) illicit contributions paid by private interests to political parties and campaigns.

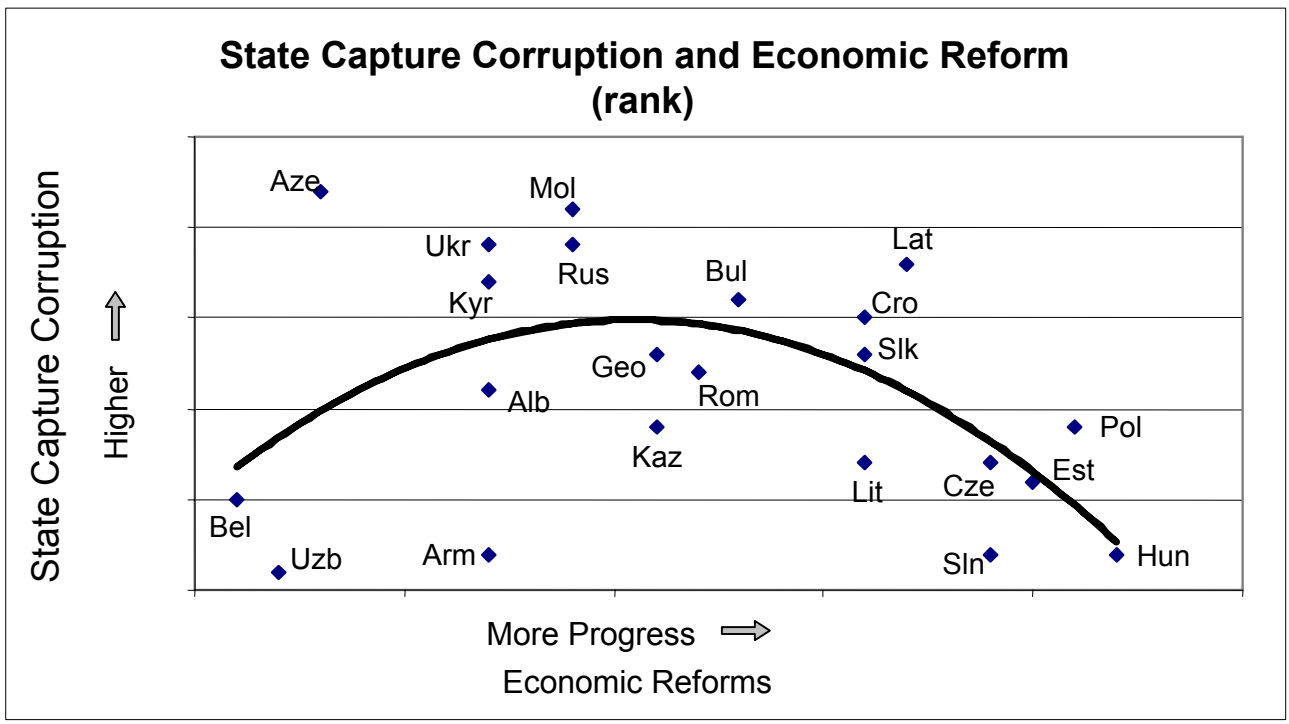
Firms were asked whether corruption in each of these six dimensions had no impact; minor impact; significant impact; very significant impact on their business. The table reports the proportion of firms reporting significant or very significant impact of state capture. The data used to calculate administrative corruption and state capture are from the 1999 Business Environment and Enterprise Performance Survey, a firm-level survey commissioned jointly by the EBRD and the World Bank.

J. Hellman, G. Jones, and D. Kaufmann, *Seize the State, Seize the Day: State Capture, Corruption, and Influence in Transition*, Policy Research Working Paper 2444, World Bank and EBRD (September 2000), Transparency International, *2000 CPI* (September 2000), and Freedom House, *Nations in Transit 2000-2001* (2001).

Figure 9

Corruption Unbundled





Tables 8 and 9, drawing from J. Hellman, G. Jones, and D. Kaufmann, *Seize the State, Seize the Day: State Capture, Corruption, and Influence in Transition*, World Bank Policy Research Working Paper 2444, and EBRD *Transition Report 2000* (November 2000).

4. Summary of economic and democratic reforms

Table 9 and *Figure 10* provide an overall picture of the status of the economic and democratic reforms in the transition countries in 2001. The economic reform ratings represent an equally weighted average of all eleven EBRD transition indicators (that is, from both stages, *Tables 1* and *2*). The democratic reform ratings are calculated from Freedom House's scores shown in *Table 6*. The six democratization components of *Table 6* are averaged for each country, and then compressed into a one-to-five scale with five representing the most advanced (or most free) to better align with the economic reform scale.

Two key observations emerge. First, the Northern Tier CEE countries remain distinctly out front of the rest of the transition countries in progress towards economic and democratic reforms. *Figure 10* suggests that there are broadly two groups of transition countries differentiated by reform progress, a "well-defined" or closely clustered Northern Tier CEE group and the rest (which are characterized by very large differences in reform progress among them). While reform progress in the Southern Tier CEE countries is generally more advanced than that in Eurasia, there are exceptions. Bosnia-Herzegovina and in some respects Yugoslavia have reform profiles closer to Eurasian norms than those of the Southern Tier CEE countries; reform progress in Georgia and Moldova more closely resembles Southern Tier CEE standards than Eurasian. Of the three subregions, the variation in reform progress is greatest in Eurasia, and least in the Northern Tier CEE region.

Second, *Table 9* shows that while the average ratings of economic reforms and democratic freedoms are virtually the same for the transition region as a whole ("2.8" for economic reforms vs. "2.7" for democratization), the range in progress is significantly greater in the case of democratic reforms. The reform leaders have democratic freedoms roughly on a par with some Western democracies, while the democratic laggard, Turkmenistan, scores among the least democratic countries worldwide. However, even the Northern Tier CEE countries continue to lag considerably behind the EU in economic reforms. This is particularly evident in the second stage economic reforms.

Reform trends in the medium term. Comparing the status of transition reforms in 1998 (*Figure 11*) with the most recent "snapshot" (*Figure 10*) highlights several broad trends over time. First, the reform profiles of the Northern Tier CEE countries have become increasingly similar; since 1998, Slovakia has joined the "fold", and, more generally, the differences in reform progress between the eight Northern Tier CEE countries have decreased, and have become relatively insignificant. Overall reform progress in the three or four Northern Tier CEE leaders has been modest in these four years, partly reflecting approaching "ceilings" in reforms (particularly in democratization), and partly reflecting that second stage transition reforms (particularly in economic reforms) are more difficult than those typically done in early transition years.

Second, of the three sub-regions, the Southern Tier CEE countries have made the greatest reform gains since 1997; overall, they are catching the Northern Tier CEE countries in

reform progress, and are pulling away from many of the Eurasian countries. In 1998, the Southern Tier CEE countries had a range of reform progress roughly similar to that found among the "reformers" in Eurasia. Since then, the reform profiles between the Southern Tier CEE and Eurasian countries have become increasingly distinct. The final observation follows: of the three sub-regions, reform progress since 1997 has been least evident in Eurasia, particularly in democratization.

Reform paths. *Figures 12*, *13*, and *14* shed light on transition reform paths since 1991.[14] As shown, progress in transition reforms has generally been far from linear and steady; progress anything but a "straight line." The closest to an exception may be Poland, where reforms have moved forward steadily albeit at a declining pace. Most countries have exhibited at least temporary backsliding and/or progress in "fits and starts" at best. Slovakia is an interesting case in point. It started the transition in the early 1990s in roughly the same reform "position" as Poland's, and is today at a level close to Poland's.[15] However, its route was much more circuitous, with notable (albeit temporary) backsliding in democratization on two occasions.

Nevertheless, a key distinction between reform paths in CEE and Eurasian countries follows. While most of the CEE countries have experienced some temporary reform backsliding and/or stalling, all (with one possible exception)[16] have moved forward in both reform dimensions since the transition began. Progress in both economic and democratic reforms, in other words, is consistent in this group, and apparently mutually reinforcing. In contrast, while all of the Eurasian countries have witnessed gains in economic reforms since 1991, for most, this has been accompanied by regression in democratic freedoms on balance. In an important respect, a decisively different reform path has so far emerged in Eurasia, some forward progress in economic reforms alongside backsliding in democratization.

[14] The method to measure reform progress in *Figures 12-14* was, out of necessity, simplified from that of *Figure 10* to capture estimates of earlier years. Democratic freedoms were calculated solely from Freedom House's civil liberties and political rights indices (*Table 5*). Fewer economic reforms indicators were used to calculate the overall rating since some (in particular, legal reforms, infrastructure, and environmental reforms) are not available from the EBRD for earlier years.

[15] If 1989 is the starting point, the gains in democratization for both Slovakia and Poland are much more impressive, particularly for Slovakia.

[16] While Bosnia-Herzegovina has advanced in economic reforms since the transition began, democratic freedoms are today on a par with those found in Bosnia in 1991, according to Freedom House calculations.

Table 9. Economic Policy Reforms and Democratic Freedoms in Central & Eastern Europe and Eurasia: 2001

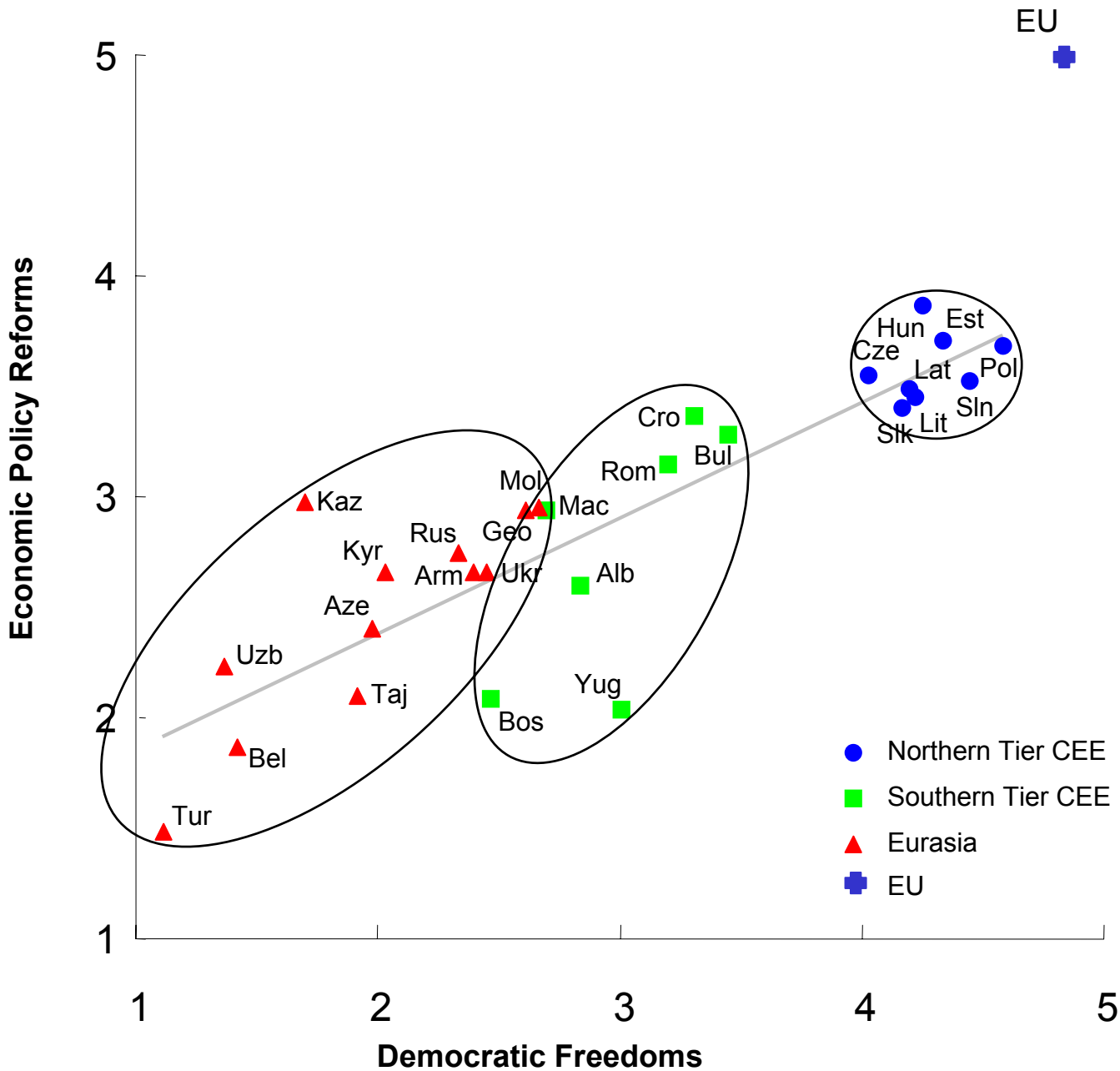
Economic Policy			Democratic Freedoms		
Country	Rating (1 to 5)	Ranking	Country	Rating (1 to 5)	Ranking
Hungary	3.9	1	Poland	4.6	1
Estonia	3.7	2	Slovenia	4.4	2
Poland	3.7	2	Estonia	4.3	3
Czech Republic	3.5	4	Hungary	4.3	3
Lithuania	3.5	4	Slovakia	4.2	5
Slovenia	3.5	4	Lithuania	4.2	5
Croatia	3.4	7	Latvia	4.2	5
Latvia	3.4	7	Czech Republic	4.0	8
Slovakia	3.4	7	Bulgaria	3.4	9
Bulgaria	3.3	10	Croatia	3.3	10
Romania	3.1	11	Romania	3.2	11
Kazakhstan	3.0	12	Yugoslavia	3.0	12
Georgia	2.9	13	Albania	2.8	13
FYR Macedonia	2.9	13	FYR Macedonia	2.7	14
Moldova	2.9	13	Moldova	2.7	14
Kyrgyzstan	2.7	16	Georgia	2.6	16
Russia	2.7	16	Armenia	2.4	17
Albania	2.6	18	Bosnia-Herzegovina	2.4	17
Armenia	2.6	18	Ukraine	2.4	17
Ukraine	2.6	18	Russia	2.3	20
Azerbaijan	2.4	21	Kyrgyzstan	2.0	21
Uzbekistan	2.2	22	Azerbaijan	2.0	21
Bosnia-Herzegovina	2.1	23	Tajikistan	1.9	23
Tajikistan	2.1	23	Kazakhstan	1.7	24
Yugoslavia	2.0	25	Belarus	1.4	25
Belarus	1.9	26	Uzbekistan	1.4	25
Turkmenistan	1.5	27	Turkmenistan	1.1	27

	Rating (1 to 5)	Rating (1 to 5)
CEE & Eurasia	2.8	2.7
Northern Tier CEE	3.6	4.4
Southern Tier CEE	2.8	3.1
Eurasia	2.6	2.2
European Union	5.0	4.8
OECD	--	4.6

Ratings of democratic freedoms are from Freedom House, *Nations in Transit 2002* (2002), and assess reforms through December 2001. Economic policy reform ratings are from EBRD, *Transition Report 2001* (November 2001), and cover events through September 2001; Ratings are based on a 1 to 5 scale, with 5 representing most advanced.

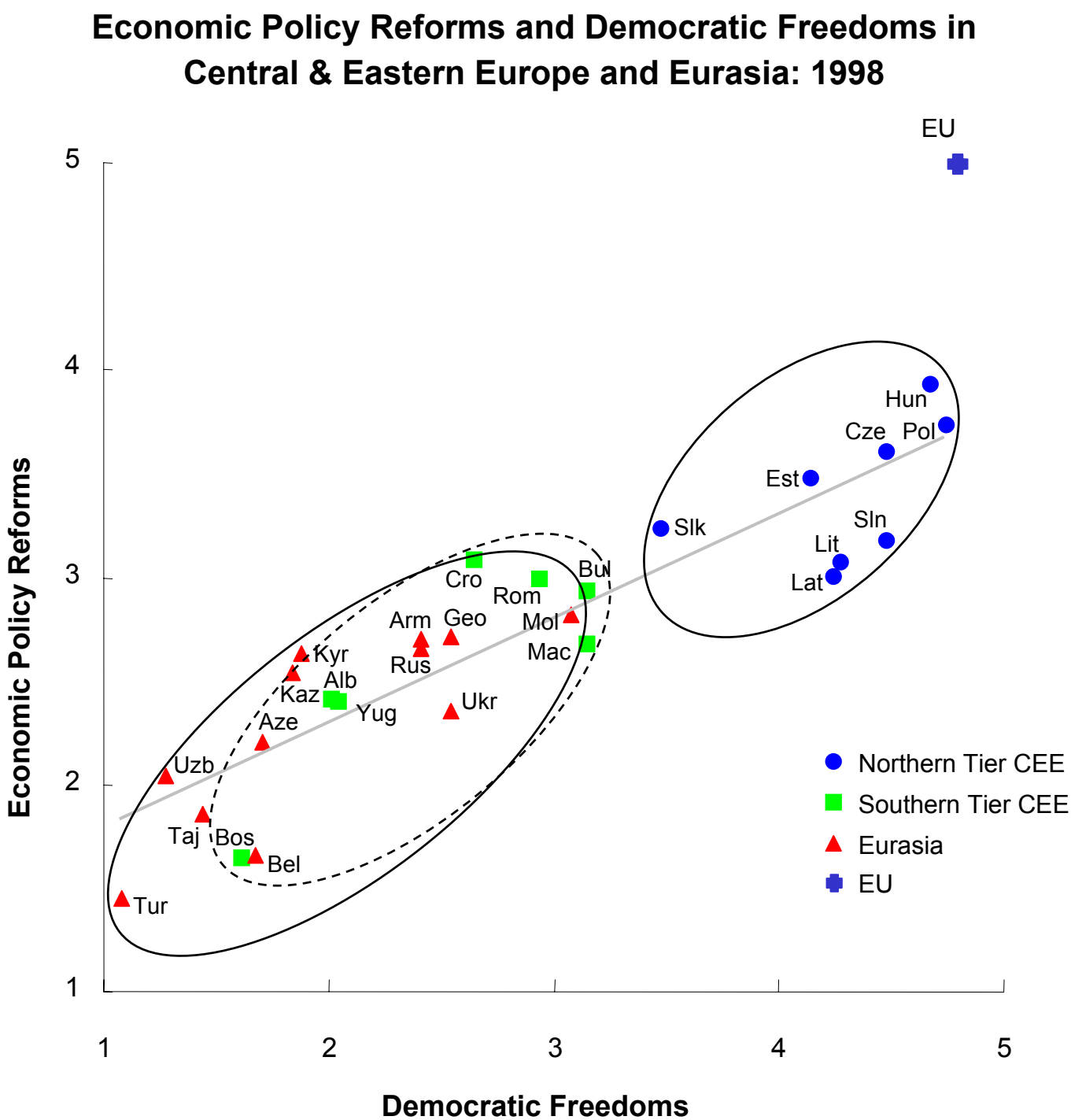
Figure 10

Economic Policy Reforms and Democratic Freedoms in Central & Eastern Europe and Eurasia: 2001



Ratings of democratic freedoms are from Freedom House, *Nations in Transit 2002* (2002), and cover events through December 31, 2001. Economic policy reform ratings are from EBRD, *Transition Report 2001* (November 2001), and cover events through September 2001. Economic policy reforms include price liberalization, trade and foreign exchange, privatization, legal, banking and capital markets, enterprise restructuring (credit and subsidy policy), and infrastructure reforms. Democratic freedoms include political rights (free and fair elections; openness of the political system to competing political parties and to minority group representation; governance and public administration) and civil liberties (free media and judiciary; freedom to develop NGOs and trade unions; equality of opportunity and freedom from corruption). Ratings are based on a 1 to 5 scale, with 5 representing most advanced.

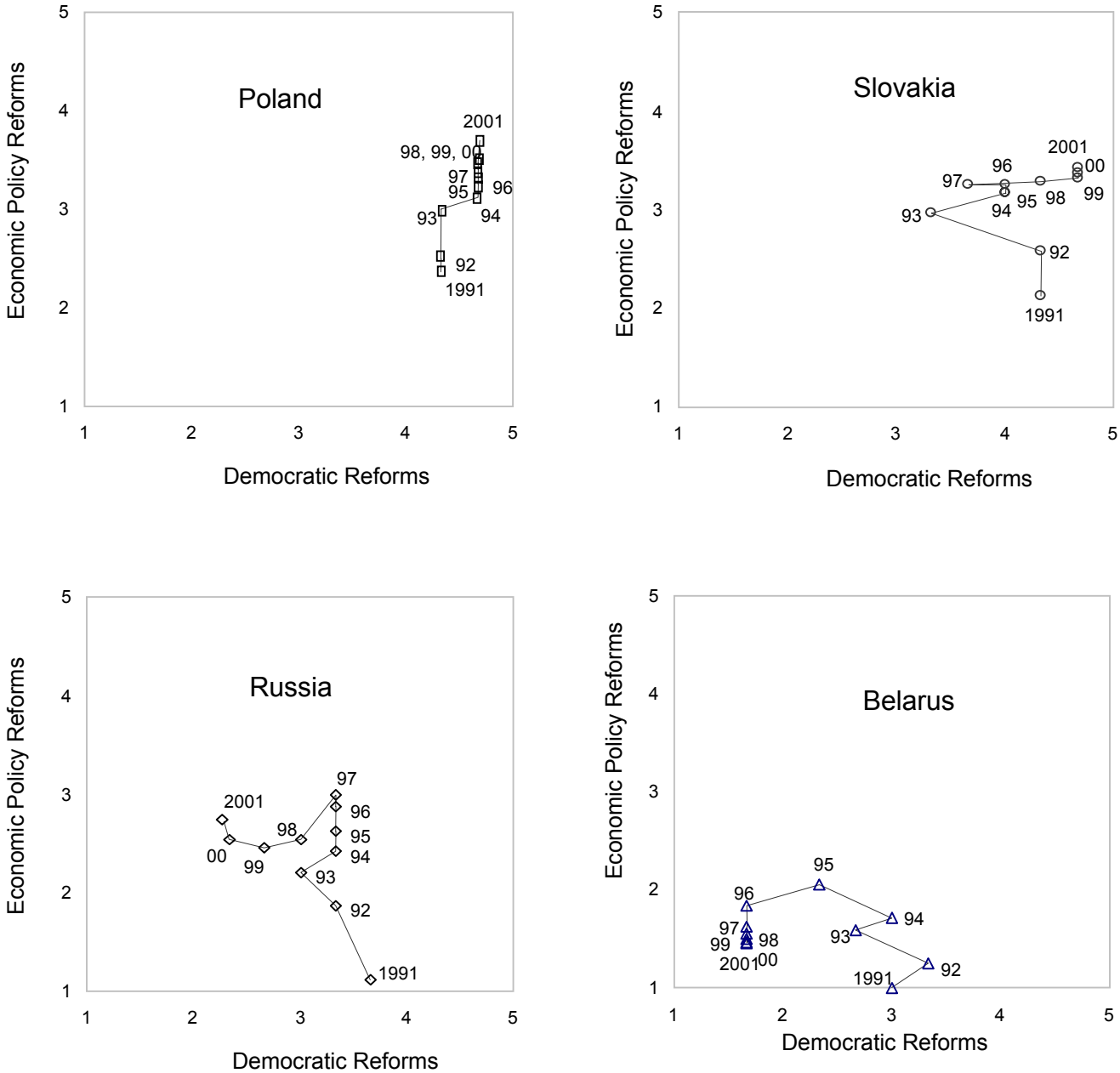
Figure 11



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 12

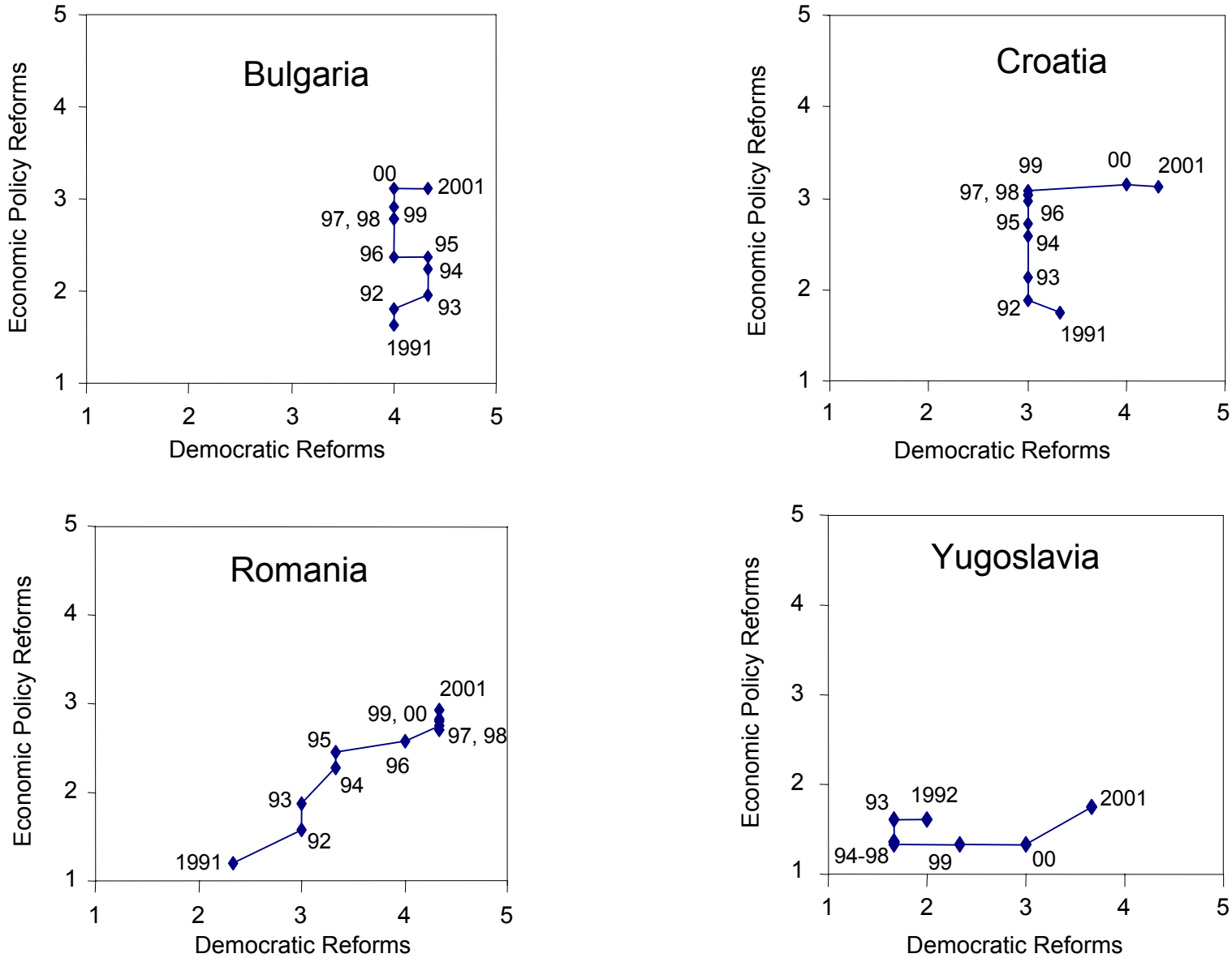
Economic Policy Reforms and Democratic Freedoms in Central & Eastern Europe and Eurasia: Selected Countries, 1991 to 2001



Ratings based on a 1 to 5 scale, with 5 representing the most advanced. EBRD, *Transition Report 2001* (November 2001); Freedom House, *Freedom in the World 2002* (2002);and (various years).
Not directly comparable to *Figure 10* due to differences in methodology and data.

Figure 13

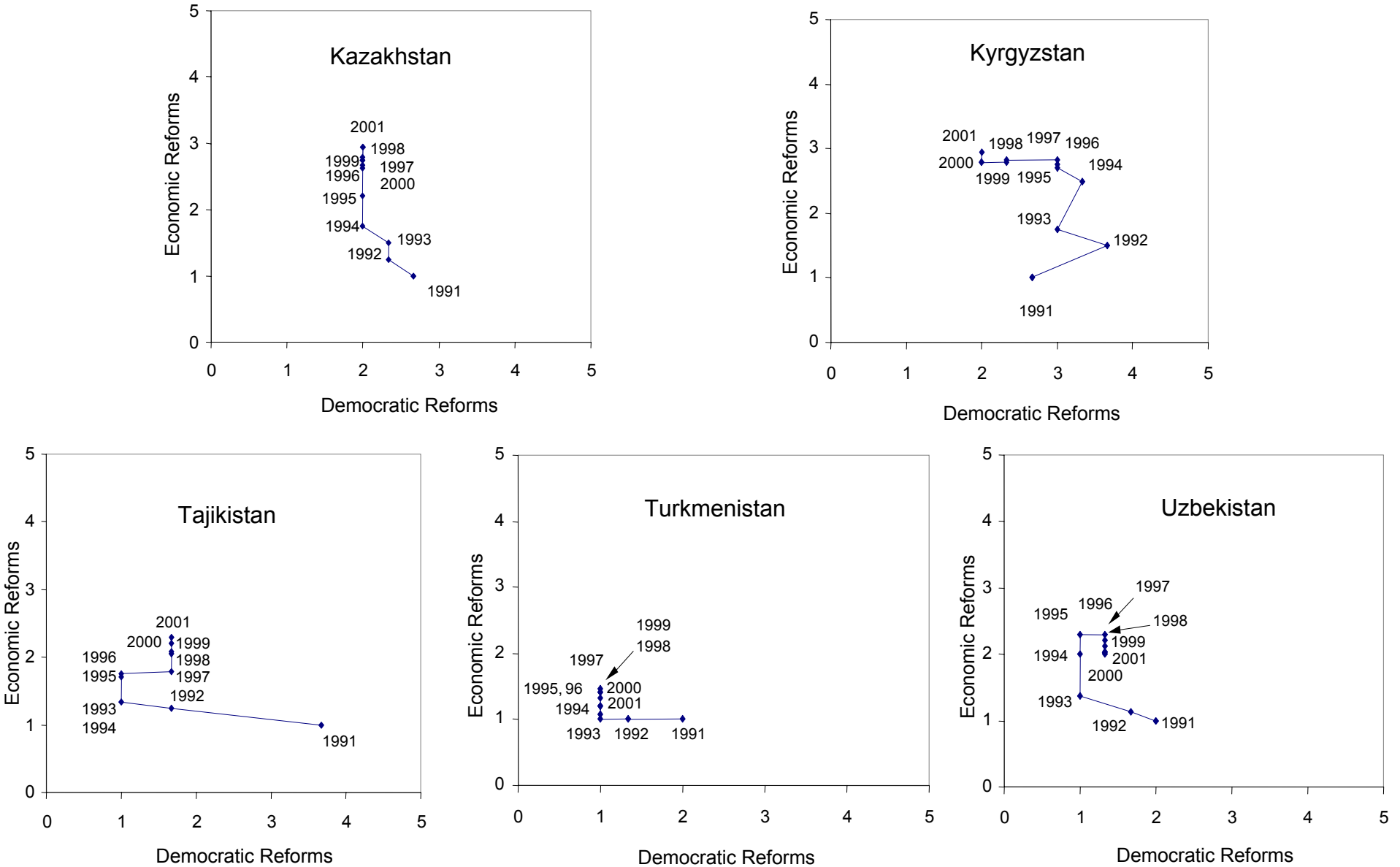
Reform Trends in the Southern Tier CEE, 1991 - 2001



Ratings based on a 1 to 5 scale with 5 representing the most advanced.
Sources: EBRD, *Transition Report 2001* (November 2001); Freedom House, *Freedom in the World 2002* (2002); and (various years).
Not directly comparable to Figure 10 due to differences in methodology and data.

Figure 14

Reform Trends In the Central Asian Republics, 1991-2001



Ratings based on a 1 to 5 scale with 5 representing the most advanced.
Sources: EBRD, *Transition Report 2001* (November 2001); Freedom House, *Freedom in the World 2002* (2002); and (various years).
Not directly comparable to *Figure 10* due to differences in methodology and data.

5. Macroeconomic performance

Overall, the transition economies performed remarkably well in 2001, particularly in the context of a struggling global economy. Worldwide economic growth was 2.2% in 2001, the lowest rate since 1993. Economic growth in the EU in 2001 was only 1.6%, one-half its growth rate in 2000. World trade in 2001 contracted slightly, a significant contrast from the robust growth of 12.4% in 2000. Most commodity prices fell in 2001, reversing a trend in 1999-2000 of rising prices in many key primary products; this was particularly harmful to many Eurasian countries.

Yet, the transition economies showed impressive resilience to this global downturn, generally more so than other emerging markets. Overall economic growth in the transition region in 2001 was 5.6%, higher than all other transition years but the previous one; in 2000, the region expanded by 6.4% (*Table 10*). Macedonia was the only transition country in 2001 to experience a contracting economy.

Of the three sub-regions, the Eurasian economies expanded the most in 2001, by 6.5%. Russia's relatively robust growth of 5% actually brought down the sub-regional average. The Southern Tier CEE countries grew by almost 5% in 2001; recovery in Romania (5.3% growth) contributed significantly. Northern Tier CEE growth in 2001 was more modest (2.5%), the only sub-region of the three to witness a slowing of economic growth from the previous year; Poland's lackluster performance (1.1% growth in 2001) had much to do with this outcome.

Economic growth projections for 2002 show a continuation of modest growth in the Northern Tier CEE countries (2.6%), and continued strong growth (albeit lower than 2001 performances) in the Southern Tier CEE and Eurasian countries (both 4%). All transition countries have been experiencing expanding economies in 2002.

A key engine of growth has been strong domestic demand. In the CEE countries, all three domestic demand components have played a role; i.e., domestic investment, consumption, and fiscal expansion (or government expenditure). In Eurasia, the growth in domestic demand has stemmed from a sharp rebound in real wages, and strong growth in the agricultural sector.

Nevertheless, 2001 trends in exports and foreign direct investment (FDI) in the CEE countries remained relatively favorable. According to EBRD calculations, Northern Tier CEE exports grew by 8.6% in 2001 (though down from 14.3% in 2000), while Southern Tier CEE exports grew by 6%. Eurasia has been harder hit by the global economy, where export growth was only 1.5% in 2001, far down from 36.6% in 2000. This reflects a continuation of dependence on primary product exports, which in turn have been characterized by unusually large swings in market prices in recent years. In 2000, crude oil prices rose by close to 60%, metals and cotton (two additional key exports in some Eurasian countries) by more than 10%. In 2001, the average price of crude oil declined by 14%; metals and cotton declined from 7% to 9%.

Most of the countries with the highest economic growth rates in recent years are among the economic reform laggards. The salient example is Turkmenistan, which ranks dead last in economic reform progress (*Table 9*) and yet has by far the highest three-year economic growth rate of all the transition countries; 15.2% from 1999-2001 (*Table 10*). In fact, seven of the ten countries which lag the most in economic reform progress are found among the top ten economic growth performers from 1999-2001. In addition to Turkmenistan, this includes Bosnia-Herzegovina and Tajikistan (both 23rd in economic reform progress), Azerbaijan (21st), and Armenia, Albania, and Ukraine (all 18th). Of the eight Northern Tier CEE reform leaders, only Latvia is found in the top ten economic growth performers.

However, if there is a link between high growth and slow reform progress, it may very well be that high growth has enabled these countries to avoid moving forward on reforms, and has occurred despite little reform progress because of the existence of some other (arguably less sustainable) contributing factors. In 1999-2000, the stimulus from energy exports in a bull market played prominently. Perhaps even more important has been the rebound from collapse in economic output. *Figure 15* sheds some light on this trend. The most significant collapses in output as communism dissolved were in Eurasia (particularly in the Caucasus, Turkmenistan, Tajikistan, Ukraine and Moldova; i.e., in most of the countries where economic growth has been most rapid in recent years). Similarly, the 1998 Russian financial crisis created in its wake at least temporary momentum for notable economic growth in Eurasia, stemming from the increase in competitiveness due to currency devaluations and growth in demand from a significant economic partner (in Russia).

The longer term trend evident in *Figure 15* shows that the Northern Tier CEE economies have far outperformed the rest since the transition began. Compared to the Southern Tier and Eurasia, the drop in economic output in the Northern Tier was much more modest (though still significant) at the outset of communism's collapse (less than 20%); the turnaround occurred much sooner (by 1993); and since then, economic activity has grown at a much more sustained and impressive clip overall. From 1994-2001, economic growth in the Northern Tier CEE countries averaged 4%, and did not drop below 2.5%. This rate surpassed economic growth (of 2.5%) in the EU.

Sustained economic growth has not yet occurred in the Southern Tier CEE as a group, though recent tends are promising. From 1994-2001, Southern Tier CEE economies experienced moderate growth on average, though this average widely masks significant volatility over the years, from 8.1% growth in 1996 to a 3% contraction in 1999. In Eurasia, economic growth has been robust since the 1998 financial crisis in Russia (i.e., 6% from 1999-2001). However, prior to that time, the sub-region witnessed a collapse in (officially recorded) economic output from 1989 to 1998 of more than 40% by most estimates.

Coinciding with sustainable economic growth in the Northern Tier CEE since 1993, has been impressive growth (particularly since 1993) in small and medium enterprises (SMEs). *Figure 16* underscores this by comparing trends in the share of economy-wide

employment in small enterprises in five Northern Tier CEE countries with a limited sample in Eurasia (Russia, Ukraine, Belarus, and Kazakhstan). By 1997, the share of employment in SMEs in the Northern Tier CEE countries was above 50%, comparable to OECD standards, and much higher than that proportion found in Eurasia, which is closer to 20% in the limited sample. Most of the SMEs are likely new-start firms; and there have been an ample number of studies that have demonstrated that new starts have notably outperformed privatized and public sector firms in the transition region. Hence, even though the private sector share of GDP in some Eurasian countries (such as Russia) may not be far behind private sector shares in CEE, the composition and competitiveness of these private sectors no doubt vary widely.

Figures 17 and *18* highlight another important difference in the private sectors of the transition sub-regions: the size of the unofficial or informal economy. This "sector" consists of both monetary economic activity outside the formal economy as well as barter activity. It is widely recognized that unofficial economic activity is very significant in virtually all the transition countries, and that unofficial income has likely greatly offset official income losses. Measuring the informal economy is by definition very difficult, though there are a variety of ways to get at rough orders of magnitude. Some stem from analyzing household survey data, which is done in some detail in *Appendix II* of *Monitoring Country Progress, No.* 6 (May 2000).[17]

An increasingly common "back-of-the-envelope" technique to measure unofficial economic activity is to compare officially measured economic activity with electricity consumption.[18] From this approach, one finds evidence that many of those countries that have experienced a particularly large decrease in official economic activity have also seen relatively large increases in unofficial economic activity.[19]

Figures 17 and *18* attempt to account for this informal economic activity by combining estimates of the unofficial economy with the officially recorded GDP figures.[20] As

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[17] It's also worthy to note that official income statistics are continually being revised, and efforts are often made to include informal economic activity into these figures.

[18] This technique uses aggregate electricity consumption as a proxy for total economic activity (official and unofficial). The difference between the change in electricity consumption and the change in official GDP estimates in any given year is the extent of unofficial economic activity.

[19] Drawing from estimates by Johnson, Kaufmann, and Shleifer (1997), for example, one finds that unofficial economic activity in Eurasia is almost twice as large relative to official GDP as it is in CEE. In Eurasia, it was almost 40% of official GDP on average in 1995 (and still rising); in the CEE, it was closer to 20% (and falling). S. Johnson, D. Kaufmann, and A. Shleifer, "Politics and Entrepreneurship in Transition Economies," *Working Paper Series*, No. 57, The William Davidson Institute, University of Michigan (1997).

[20] Estimates of the size of the informal economy as a percent of official GDP for seventeen countries from 1989 to 1995 were taken from Johnson et. al. These estimates were then combined with official GDP figures to get total economic activity trends through 1995. Next, these trends were updated to 2000 by extrapolating the generally observed inverse relationship between changes in the official economy with changes in the informal sector. For example, an expansion of 15% of official GDP from 1996-2000 would translate into a contraction of 15% in the informal economy; a contraction in the official economy means an expansion of the unofficial economy by an equal proportion. While obviously very rudimentary in technique, the end-result hopefully provides a more complete picture of more current overall economic activity in relation to pre-transition activity (and more realistic implications regarding the scope of

evident in *Figure 17*, adding informal economic activity to official GDP statistics narrows the spread in performance across the countries. The Northern Tier CEE countries are slightly less advanced in economic activity over the transition when this broader measure of economic activity is used; the contraction in informal economic activity started early in the transition for these countries and has slightly outweighed the growth in the formal economy. More striking are the trends in Eurasia where, on balance, economic activity is notably greater when the informal economy is combined with official GDP trends. On average, officially recorded GDP in 2000 is 61% of 1989 GDP; this increases (albeit in a smaller sample) to 71% with the informal sector included. The drop in official GDP has been mitigated the most by the informal economy in Russia, followed by Ukraine, Azerbaijan, Georgia, and Kazakhstan. The informal economy has offset official income drops to a lesser extent in Bulgaria, Moldova, and Latvia. Only two countries in Eurasia show a greater drop in output when the informal economy is included: Uzbekistan and Belarus. In other words, the relatively impressive performance of these two economies vis-à-vis other Eurasian countries is downgraded some by this score.[21]

Consistent with good economic growth performances are very favorable inflation trends (*Table 11*). The average annual inflation rate in 2001 for the transition region as a whole was 19%, lower than in any of the previous transition years. Inflation rates are forecast to be lower still in 2002, across the three sub-regions. Inflation rates have been single-digit in the Northern Tier CEE countries since 1999, and continue to converge towards EU rates; in 2001, 6% vs. 3%, respectively. Only ten transition countries had a 1999-2001 average annual inflation rate greater than 10%; two Southern Tier CEE countries (Romania and Yugoslavia); and eight Eurasian countries.

Fiscal performances have varied widely (*Table 12*), and so too fiscal concerns. Some of the best fiscal performances in recent years have been in the energy-producing Eurasian countries, in particular, Russia, Turkmenistan, Azerbaijan, and to a lesser extent, Kazakhstan. Though prices of oil and many other commodities may have peaked in 2000 (for now), these countries have been able to maintain very favorable fiscal balances, even surpluses in 2001 in the case of Russia, Turkmenistan, and Azerbaijan. At least in the case of Russia, this reflects significant fiscal policy reform.

Of the three sub-regions, fiscal deficits are highest in the Northern Tier CEE. Moreover, 2001 saw a significant increase in the fiscal deficits in the Czech Republic and Poland. Both countries witnessed a fiscal deficit of close to 6% of GDP in 2001. Five of the ten

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hardships). *Table 20* of *Monitoring Country Progress* No. 7 (October 2001) provides the individual country estimates.

[21] Anders Aslund makes further adjustments from official figures to assess economic activity trends through 1995. In addition to including the informal sector, he attempts to account for the significant overestimation of GDP prior to communism's collapse from two sources: (1) those that stemmed from unsalable output (primarily manufacture production that essentially detracted value); and (2) those that derived from implicit trade subsidies in energy within the communist bloc. As expected, the resulting revisions further mitigate the declines in economic output across the transition region through the mid-1990s. Aslund, *The Myth of Output Collapse after Communism*, Carnegie Endowment for International Peace Working Paper, Number 18 (March 2001).

CEE accession countries had fiscal deficits in excess of 3% of GDP (the Czech Republic, Poland, Slovakia, Hungary, and Romania), thus failing to meet a key Maastricht financial criterion for joining the EU.

Some countries (in the Southern Tier CEE and Eurasia) have seemingly unsustainably high fiscal deficits, particularly in the context of high current account imbalances and growing public debt. This group includes Bosnia-Herzegovina (1999-2001 fiscal deficit of 18.4% of GDP), Albania (9.9%), Kyrgyzstan (9.5%), Armenia (6%), Moldova (4.4%), and Georgia (4.3%). Croatia's fiscal deficit is also very high (though falling): 6.4% of GDP from 1999-2001.

Integration into the world economy. How and to what extent these economies integrate into the world economy figure prominently into the type of their transition path and its sustainability. *Tables 13* and *14*, and *Figures 19* through *23* highlight some key aspects of this integration: "institutional integration" (or participation and/or memberships in multinational institutions); export growth and openness to trade; composition and direction of trade; foreign direct investment; current account balances; and external debt.

Institutional integration with the advanced economies remains largely a process confined to the transition countries in CEE. The importance and significance of this, both for the CEE countries and Eurasia, can hardly be overstated. For the CEE countries, membership into the EU and other Western institutions provide a strong incentive as well as a key means for advancement. However, particularly in the case of the EU expansion, the gains accrued to new members are to some extent offset by the cost of exclusion to those countries left on the "sidelines," or, in this case, Eurasia. In a relatively narrow economic sense, this occurs because trade and investment flows are often diverted (to economic union members and away from nonmembers). More broadly, there tend to be host of externalities, positive and negative, that reinforce and augment the trade and investment impacts.

The Czech Republic, Hungary, and Poland continue to have the closest institutional ties with the West (*Table 13*). All three countries are members of the OECD, NATO, and the World Trade Organization (WTO), and all three have made significant progress towards joining the EU.

A total of ten CEE countries have been invited to join the EU, eight countries of the Northern Tier CEE, and Bulgaria and Romania. All but Bulgaria and Romania have "closed" at least twenty-five of the thirty "chapters" in the negotiations towards accession into the EU. As of July 2002, Bulgaria had completed twenty-one chapters, and Romania only thirteen.

Fifteen of the twenty-seven transition countries are now members of the WTO. Only three CEE countries are not yet members: Macedonia; Bosnia-Herzegovina; and Yugoslavia. The only Eurasian countries that *are* members are Kyrgyzstan, Moldova, and Georgia.

By various trade and foreign direct investment measures, the Northern Tier CEE countries are generally much more integrated into the world economy than are the other transition countries (*Tables 13* and *14*, and *Figure 19*). However, as compared to Western Europe and the East Asian industrialized countries, even the Northern Tier CEE countries have considerable scope for expansion of trade and FDI. Of the three transition sub-regions, Eurasia is the least integrated into the world economy, and closer on some measures to the global integration profile of Sub-Saharan Africa.

Exports constitute 18% of GDP (measured in purchasing power parity terms) in the Northern Tier CEE; it's closer to 11% in the Southern Tier CEE countries and only 9% in Eurasia (*Figure 19*). These proportions in the Southern Tier CEE and Eurasian countries are comparable to those found in the relatively inward-oriented countries of Latin America and the Caribbean (10% of GDP) and Sub-Saharan Africa (9% of GDP). Exports as a share of GDP in the EU is about 32%, significantly higher than even in the Northern Tier CEE countries. This suggests that even though the Northern Tier CEE countries have substantially redirected exports to Western Europe since the transition began, there remains significant scope for expansion of the export sectors in the Northern Tier CEE, and, by extension, considerable scope for expansion of trade between Western Europe and the Northern Tier CEE countries.

Comparisons of FDI as a percent of GDP across the globe yield very similar results to the export share comparisons (*Figure 19*). Specifically, FDI as a share of GDP is much higher in the Northern Tier CEE countries than it is elsewhere in the transition region, particularly in Eurasia. FDI share in Eurasia is roughly comparable to that found in Sub-Saharan Africa, though, as with trade share, larger than in South Asia. FDI share in the EU and the East Asian industrialized countries is notably larger than in the transition countries, even in the Northern Tier CEE.

How countries are integrated into the world economy in terms of the composition of exports and trading partners (or the "quality" of global integration) is certainly at least as important as the extent to which countries are integrated (or the "quantity" of integration). *Figures 20* and *21* highlight fundamental differences in this regard between Eurasia and CEE.

More than 70% of exports from the CEE countries now go to the advanced economies, mostly to Western Europe (*Figure 20*). This represents a significant increase from the early transition years; in 1992-1993 roughly 40% of CEE exports went to Western Europe. The share of Eurasian exports to the advanced economies has also increased since the transition began. However, the share was much smaller as the transition began (20% in 1992-1993) and the increase has been very modest (to 30% by 1998-1999).

The Eurasian countries are much more dependent on primary product exports than are the CEE countries (*Figure 21*). Almost one-half of Eurasian exports consist of fuels (oil or gas), metals (including gold, aluminum, copper, and zinc), and/or agricultural raw materials (particularly cotton). This compares to roughly 15% of total exports in CEE. Almost 90% of Turkmenistan's exports are fuels or cotton; roughly 80% of Azerbaijan

exports are fuels; between 60-70% of exports from Kazakhstan and Russia are primary products. Prices of these goods continue to be volatile, particularly fuels. Oil prices fell by 32% in 1998, rose 38% in 1999 and 57% in 2000, and fell 11% in 2001. They've resumed their increase in 2002, most recently in no small part because of concerns about a war with Iraq. Price trends of metals and cotton have been similar, though the fluctuations have been more moderate.

Trends in current account balances differ widely across the transition region (*Table 14*). On the one hand, several Eurasian countries have benefited from high energy prices and/or depreciated currencies that in turn have contributed to favorable current account balances. Most notable is Russia, which has incurred current account surpluses ranging from 11-18% of GDP from 1999-2001.

To some extent, as the economies climb out of the "transition trough" and incur robust economic growth, current account deficits can be expected, and may reflect positive developments. Such deficits may be temporary if much of the imports are capital goods that in turn spur an increase in competitiveness and exports. This is certainly part of the story in some CEE countries, in the Northern Tier CEE in particular. In addition, current account deficits are less burdensome if, as is the case in many Northern Tier CEE countries, they can be financed in large part by FDI inflows.

Nevertheless, macroeconomic stability can be at significant risk in the presence of large current account deficits, particularly if they are sustained over several years. Similarly, financing the deficit can contribute to unsustainable debt burdens if alternative sources (such as FDI) are not forthcoming. In this context, there remain many transition countries across the three sub-regions with current account deficits that are too high. In the Northern Tier CEE countries, current account deficits have averaged 8-9% of GDP since 1996 in the three Baltic countries and Slovakia, though are now closer to 6-7% of GDP in Estonia and Lithuania. Of the three sub-regions, current account deficits are highest in the Southern Tier CEE, 7.8% of GDP on average in 2001, and are estimated to be slightly higher in 2002. Only Croatia of this group had a current account deficit of less than 6% of GDP in 2001. In Eurasia, current account deficits are highest in the countries with the highest debt burdens: Armenia (10.3% of GDP in 2001); Moldova (9.0%); Tajikistan (7.2%); Georgia (6.7%); and Kyrgyzstan (5.8%).

Trends in external debt have also varied widely in the transition region (*Table 14*). Overall levels, while increasing, remain below those found in most developing countries. Total debt was roughly 142% of exports in the transition region in 2001; in the developing countries in 2000, it was 173%. Some transition countries have successfully reduced debt burdens. Most notable recently has been the cancellation in November 2001 of roughly 67% of Yugoslavia's debt owed to the Paris Club. Other countries that have succeeded in reducing what were once heavy debt burdens in the beginning of the transition include Bosnia-Herzegovina, Bulgaria, and Poland. Russia and Ukraine have also reduced debt burdens in 2001.

Nevertheless, external debt remains an issue even for some of the more advanced transition countries. Four of the ten CEE countries on the EU accession track exceeded the Maastricht debt ceiling of 60% of GDP in 2001: Bulgaria (76%); Latvia (71%); Hungary (69%); and Estonia (61%). Of greatest concern, however, are high debt burdens of five relatively poor Eurasian countries: Kyrgyzstan; Georgia; Tajikistan; Armenia; and Moldova. Kyrgyzstan's debt burden is highest (2001 external debt is 288% of exports; debt service is 29% of exports). Debt service is also high in Tajikistan (22%) and Moldova (20%). Total external debt as a percent of exports in Georgia and Armenia is close to levels in Kyrgyzstan.

Figures 22 and *23* highlight several relationships stemming from global integration. *Figure 22* shows a close fit between progress in economic reforms in the transition region and FDI. The more progress a country makes in economic reforms, other factors being equal, the greater will be the FDI inflows. To some extent, however, foreign investors are willing to make an exception to this trend if a country is resource-rich, energy-abundant in particular. This explains why Turkmenistan and Azerbaijan fall far outside the trend line in *Figure 22*.

Figure 23 provides some support to the beneficial impacts of economic integration. In particular, it shows that the economies that are most open and/or integrated into the world economy are also the wealthiest; the poorest countries are the most autarchic or inward-oriented. With one exception (Albania), all of these relatively poor and autarchic economies are in Eurasia. There are "outliers" to the relationship implied in this graph as well. The Polish and Russian economies are relatively large and hence are not as dependent on foreign trade (and do not need to be as dependent) as other economies. In contrast, Estonia's economy is relatively small and is hence much more dependent on foreign trade to derive its wealth.

Table 10. Growth in Real GDP (%)

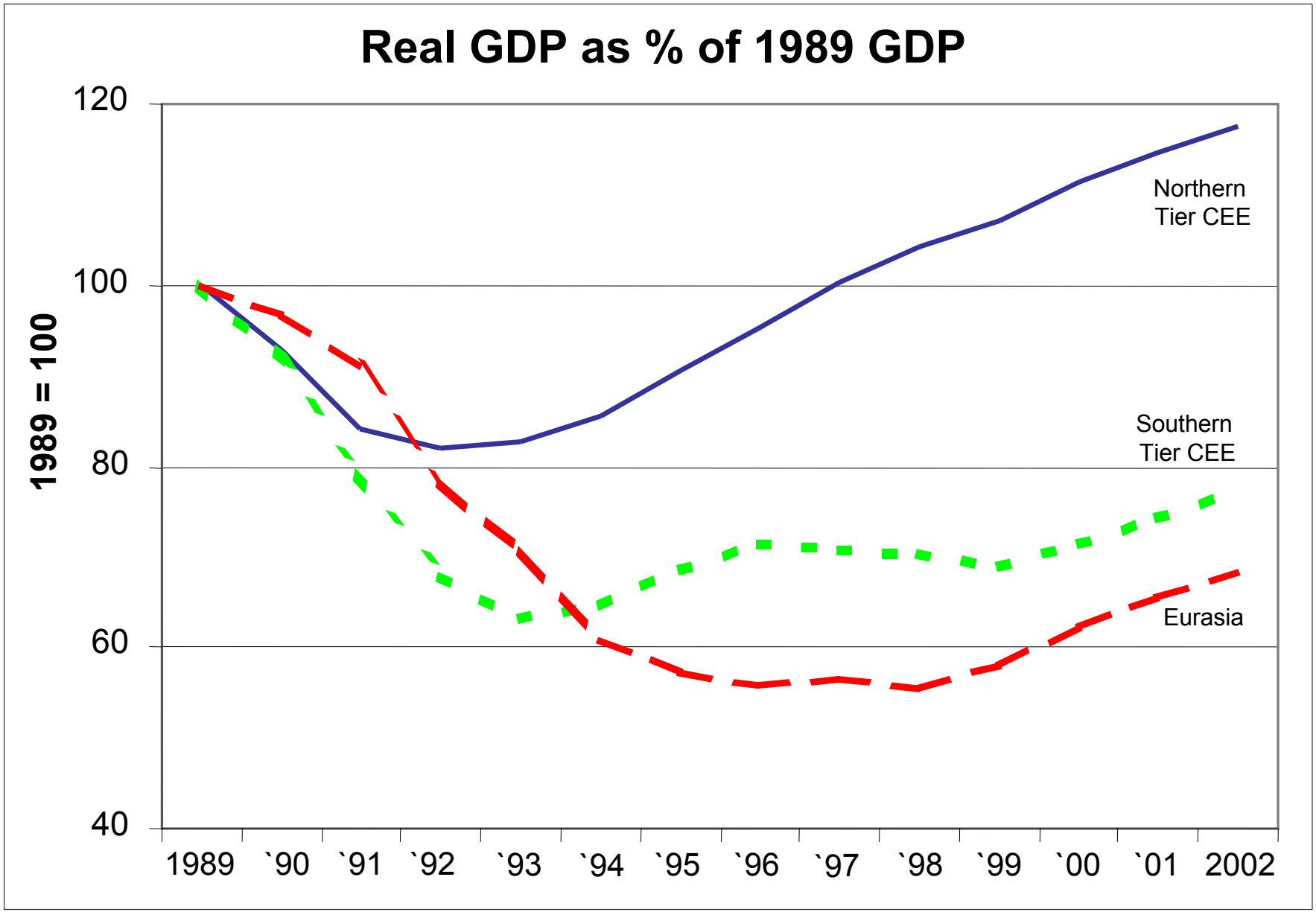
	1994	1995	1996	1997	1998	1999	2000	2001	2002	1999-2001 average
Turkmenistan	-17.3	-7.2	-6.7	-11.3	5.0	16.0	17.6	12.0	8.0	15.2
Azerbaijan	-19.7	-11.8	1.3	5.8	10.0	7.4	11.1	9.9	8.5	9.5
Kazakhstan	-12.6	-8.2	0.5	1.7	-1.9	2.7	9.6	13.2	7.6	8.5
Albania	8.3	13.3	9.1	-7.0	8.0	7.3	7.8	7.3	6.0	7.5
Tajikistan	-18.9	-12.5	-4.4	1.7	5.3	3.7	8.3	10.2	6.0	7.4
Bosnia-Herzegovina	-40.0	20.8	86.0	37.0	10.0	10.0	5.9	5.6	5.0	7.2
Armenia	5.4	6.9	5.9	3.3	7.3	3.3	6.0	9.6	6.5	6.3
Russia	-13.5	-4.2	-3.4	0.9	-4.9	5.4	8.3	5.0	3.5	6.2
Latvia	0.6	-0.8	3.3	8.6	3.9	1.1	6.6	7.6	5.0	5.1
Ukraine	-22.9	-12.2	-10.0	-3.0	-1.9	-0.2	5.9	9.1	4.0	4.9
Kyrgyzstan	-20.1	-5.4	7.1	9.9	2.1	3.7	5.1	5.3	5.0	4.7
Hungary	2.9	1.5	1.3	4.6	4.9	4.2	5.2	3.8	4.0	4.4
Slovenia	5.3	4.1	3.5	4.6	3.8	5.2	4.6	3.0	3.0	4.3
Bulgaria	1.8	2.1	-10.9	-6.9	3.5	2.4	5.8	4.5	3.5	4.2
Uzbekistan	-4.2	-0.9	1.6	2.5	4.4	4.1	4.0	4.5	2.0	4.2
Belarus	-12.6	-10.4	2.8	11.4	8.4	3.4	5.8	3.0	2.0	4.1
Estonia	-2.0	4.6	4.0	10.4	5.0	-0.7	6.9	5.4	4.0	3.9
Georgia	-11.4	2.4	10.5	10.8	2.9	3.0	2.0	4.5	3.0	3.2
Poland	5.2	7.0	6.0	6.8	4.8	4.1	4.0	1.1	1.5	3.1
Croatia	5.9	6.8	6.0	6.5	2.5	-0.4	3.7	4.1	3.5	2.5
Slovakia	4.9	6.7	6.2	6.2	4.1	1.9	2.2	3.3	3.5	2.5
Czech Republic	2.2	5.9	4.8	-1.0	-2.2	-0.4	2.9	3.6	3.5	2.0
Lithuania	-9.8	3.3	4.7	7.3	5.1	-3.9	3.9	5.7	3.5	1.9
FYR Macedonia	-1.8	-1.2	1.2	1.4	3.4	4.3	4.6	-4.6	3.0	1.4
Romania	3.9	7.1	3.9	-6.1	-5.4	-3.2	1.8	5.3	3.5	1.3
Moldova	-31.2	-1.4	-5.9	1.6	-6.5	-3.4	2.1	4.5	3.5	1.1
Yugoslavia	2.5	6.1	7.8	10.1	1.9	-15.7	5.0	5.5	5.0	-1.7

Regional Averages	1994	1995	1996	1997	1998	1999	2000	2001	2002	1999-2001 average
CEE & Eurasia	-9.4	-2.2	-0.2	1.9	-0.5	2.9	6.4	5.6	3.7	4.9
Northern Tier CEE	3.4	5.5	4.9	5.5	3.8	2.8	4.0	2.5	2.6	3.1
Southern Tier CEE	0.8	7.1	8.1	1.1	0.2	-2.9	3.9	4.9	4.0	2.0
Eurasia	-14.7	-6.0	-3.1	1.1	-1.8	4.0	7.4	6.5	4.0	6.0
European Union	2.8	2.4	1.7	2.6	2.7	2.6	3.4	1.6	1.1	2.5
Advanced Countries	3.3	2.7	3.0	3.4	2.7	3.3	3.9	0.8	1.7	2.7
Developing Countries	6.7	6.1	6.5	5.8	3.5	3.9	5.7	4.0	4.3	4.5

Benchmarks (a) 3 years positive economic growth, (b) 3 year average growth rate of 2% or more

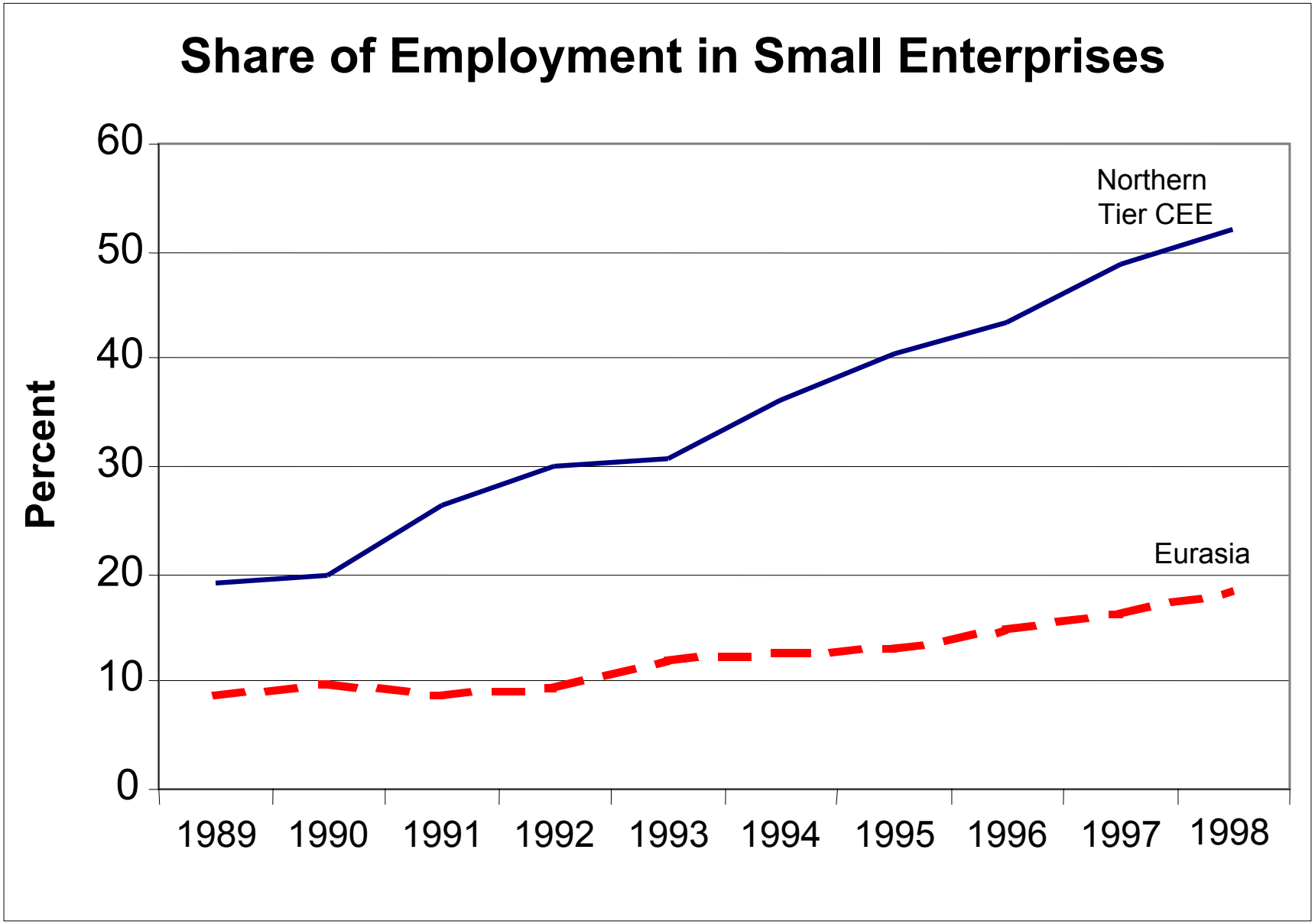
These figures should be interpreted only as indicative of broad orders of magnitude in large part because the growth of output of new private enterprises of the informal economy is not fully reflected, particularly in recent years. IMF,*World Economic Outlook* (September 2002); EBRD, *Transition Report Update* (May 2002). 2002 data are projections.

Figure 15



EBRD, *Transition Report Update* (May 2002).

Figure 16



The World Bank, *Transition: The First Ten Years; Analysis and Lessons for Eastern Europe and the Former Soviet Union* (2002) . The averages are unweighted. Countries in Northern Tier CEE include Hungary, Czech Rep., Poland, Lithuania, and Latvia. Countries in Eurasia include Russia, Ukraine, Belarus and Kazakhstan.

Figure 17

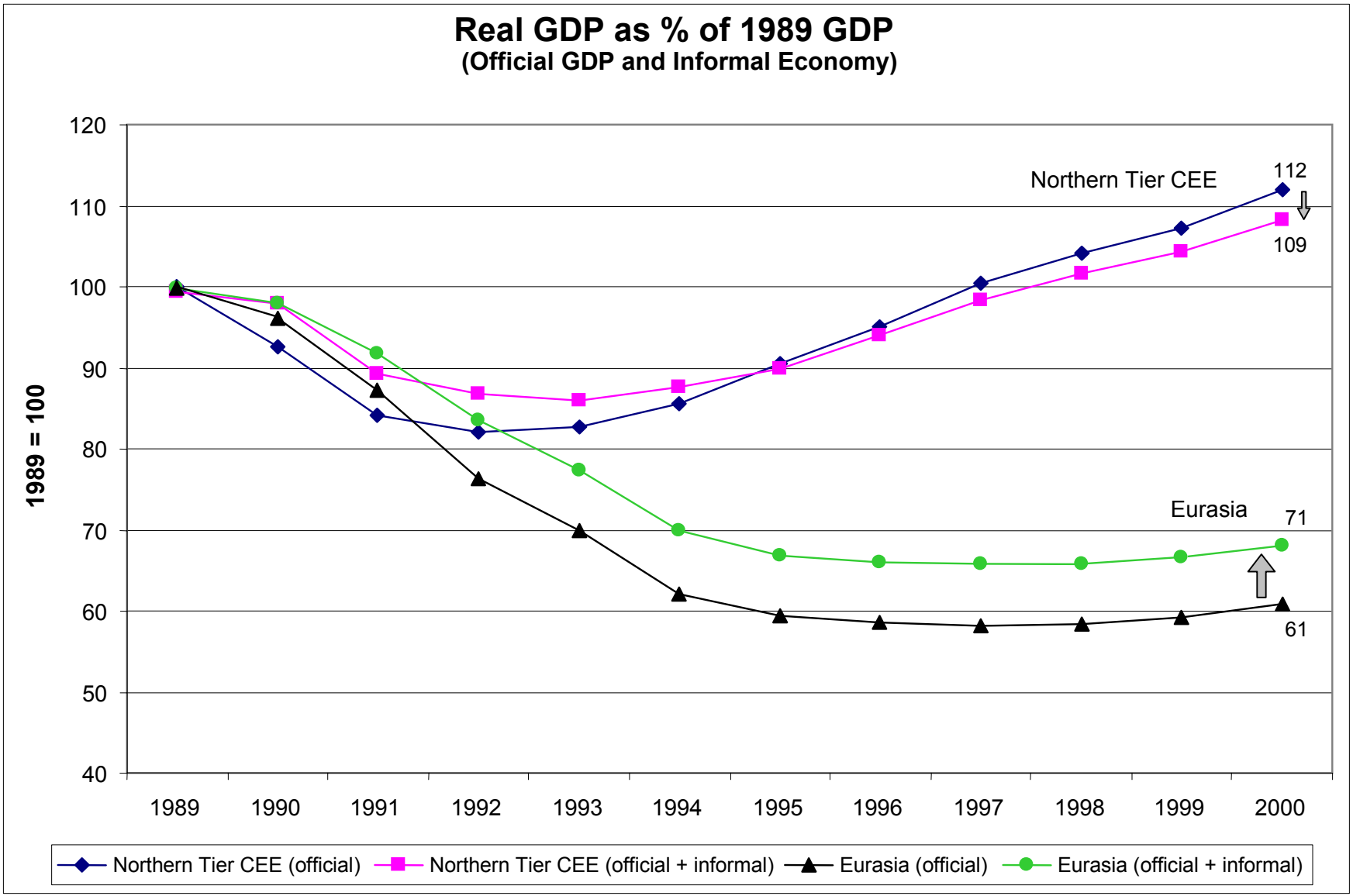
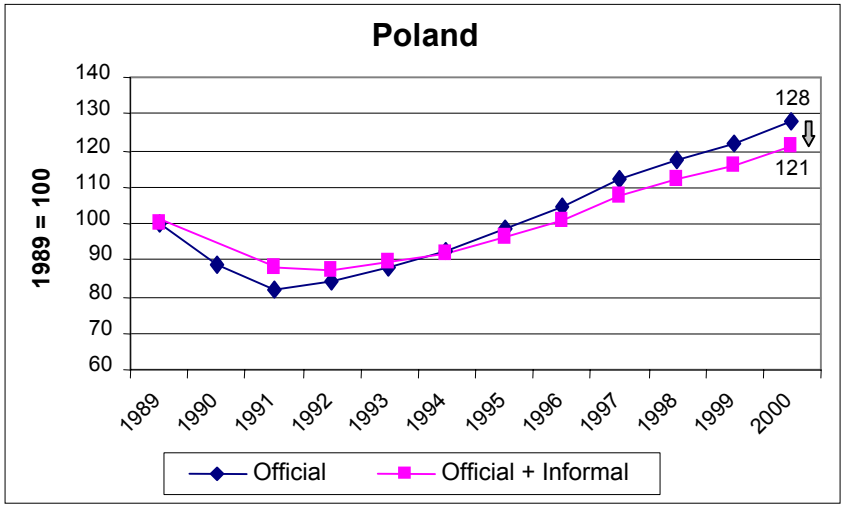
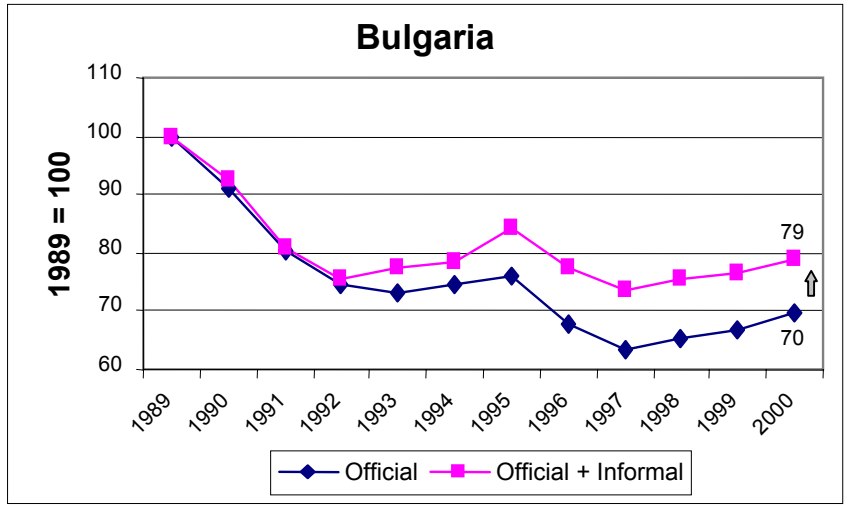


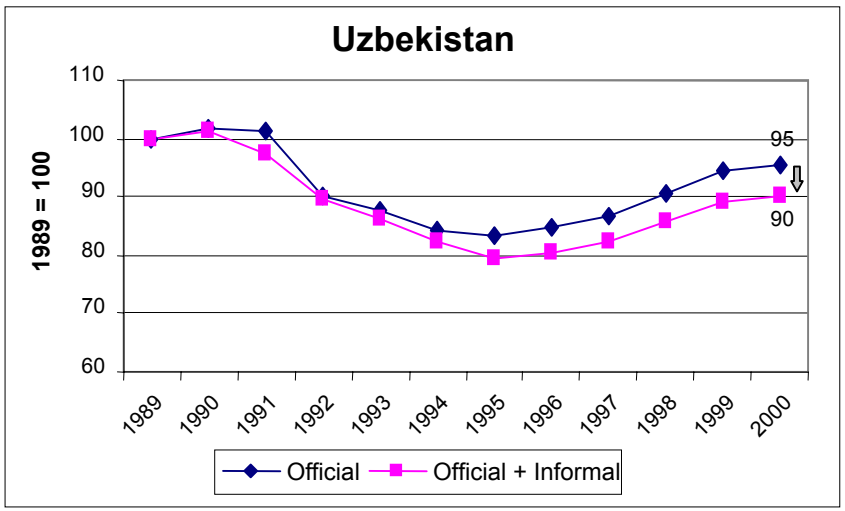
Table 20, *Monitoring Country Progress No. 7* (October 2001), drawing from EBRD, *Transition Report Update* (April 2001); A. Aslund, The Myth of Output Collapse after Communism, Working Paper No. 18, Carnegie Endowment for the International Peace (March 2001), S. Johnson, D. Kaufmann, and A Shleifer, *Politics and Entrepreneurship in Transition Economies*, Working Paper Series, No. 57, The William Davidson Institute, University of Michigan (1997).

Figure 18

Real GDP as % of 1989 GDP
(Official GDP and Informal Economy)







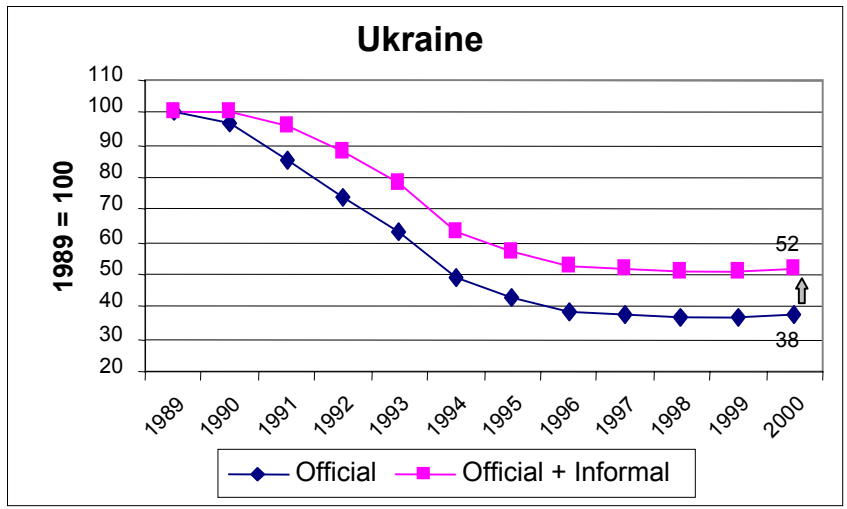


Table 20, *Monitoring Country Progress No. 7* (October 2001), drawing from EBRD, *Transition Report Update* (April 2001); A. Aslund, The Myth of Output Collapse after Communism, Working Paper No. 18, Carnegie Endowment for the International Peace (March 2001), S. Johnson, D. Kaufmann, and A Shleifer, *Politics and Entrepreneurship in Transition Economies,* Working Paper Series, No. 57, The William Davidson Institute, University of Michigan (1997).

Table 11. Inflation

	1995	1996	1997	1998	1999	2000	2001	2002	2000-01	1999-01
Azerbaijan	412	20	4	-1	-9	2	2	3	2	-2
Lithuania	40	25	9	5	1	1	1	1	1	1
Armenia	176	19	14	9	1	-1	3	3	1	1
Albania	8	13	33	21	0	0	3	4	2	1
Bosnia-Herzegovina	-4	-25	14	5	0	2	3	2	3	2
Latvia	25	18	8	5	2	3	2	4	3	3
FYR Macedonia	16	3	1	2	-1	7	5	4	6	3
Czech Republic	9	9	9	11	2	4	5	3	4	4
Estonia	29	23	11	8	3	4	6	3	5	4
Croatia	2	4	4	6	4	6	5	3	6	5
Bulgaria	62	123	1,082	22	1	10	7	8	9	6
Poland	28	20	15	12	7	10	6	3	8	8
Slovenia	14	10	8	8	6	9	8	7	9	8
Georgia	163	39	7	4	19	4	5	5	4	9
Hungary	28	24	18	14	10	10	9	6	9	10
Slovakia	10	6	6	7	11	12	7	4	10	10
Kazakhstan	176	39	17	7	8	13	8	5	11	10
Turkmenistan	1,005	992	84	17	24	8	12	14	10	15
Kyrgyzstan	41	31	26	12	36	19	7	7	13	21
Ukraine	377	80	16	11	23	28	12	5	20	21
Uzbekistan	305	54	59	18	29	24	26	31	25	27
Moldova	30	24	12	8	39	31	10	10	21	27
Tajikistan	609	418	88	43	28	33	39	14	36	33
Romania	32	39	155	59	46	46	35	24	40	42
Russia	198	48	15	28	86	21	22	17	21	43
Yugoslavia	79	94	21	30	37	60	91	24	76	63
Belarus	709	53	64	73	294	169	61	43	115	175

REGIONAL AVERAGES	1995	1996	1997	1998	1999	2000	2001	2002	2000-01	1999-01
CEE & Eurasia	200	61	50	22	49	24	19	13	22	31
Northern Tier CEE	24	18	13	11	7	9	6	4	7	7
Southern Tier CEE	39	53	284	35	26	33	35	16	34	31
Eurasia	277	74	23	22	64	26	20	15	23	37
European Union	2.9	2.5	1.8	1.5	1.4	2.3	2.6	2.0	2.5	2.1
Advanced Countries	2.6	2.4	2.1	1.5	1.4	2.3	2.2	1.3	2.3	2.0
Developing Countries	23.2	15.4	10.0	10.6	6.9	6.1	5.7	5.8	5.9	6.2
Benchmarks									< 10.0	< 15.0

Retail/consumer prices, annual average.

IMF, *World Economic Outlook* (April 2002); EBRD, *Transition Report Update* (May 2002). 2002 data are projections.

Table 12. Fiscal Balance as Percent of GDP

	1994	1995	1996	1997	1998	1999	2000	2001	2002	1999-01 average
Russia	-10.4	-6.1	-8.9	-8.0	-7.9	-3.3	3.0	2.9	0.0	0.9
Turkmenistan	-2.3	-2.6	0.3	0.0	-2.6	0.0	0.4	0.8	-1.0	0.4
Bulgaria	-3.9	-5.7	-10.4	-2.1	0.9	-1.0	-1.1	-0.9	-0.8	-1.0
Belarus	-3.5	-2.7	-1.8	-1.2	-0.5	-1.7	0.3	-1.8	-0.7	-1.1
Slovenia	-0.2	-0.3	-0.2	-1.7	-1.4	-0.9	-1.3	-1.2	-2.9	-1.1
FYR Macedonia	-2.7	-1.0	-1.4	-0.4	-1.7	0.0	2.5	-6.0	-3.4	-1.2
Azerbaijan	-12.1	-4.9	-2.8	-1.6	-3.9	-4.7	-0.6	1.5	-0.1	-1.3
Tajikistan	-4.6	-3.3	-5.8	-3.3	-3.8	-3.1	-0.6	-0.1	-1.0	-1.3
Estonia	1.4	-0.6	-1.9	2.2	-0.3	-4.6	-0.7	0.4	-1.0	-1.6
Uzbekistan	-6.1	-4.1	-7.3	-2.4	-3.0	-2.7	-1.2	-1.0	-2.5	-1.6
Ukraine	-8.7	-6.1	-3.2	-5.4	-2.8	-2.4	-1.3	-1.6	-2.0	-1.8
Kazakhstan	-7.7	-3.4	-5.3	-7.0	-8.0	-5.2	-1.0	-1.1	-2.0	-2.4
Yugoslavia	…	-4.3	-3.8	-7.6	-5.4	…	-0.8	-1.9	-5.6	-2.8
Latvia	-4.4	-3.9	-1.8	0.3	-0.8	-3.9	-3.3	-1.8	-2.5	-3.0
Hungary	-7.5	-6.7	-5.0	-4.8	-4.8	-3.4	-3.4	-3.3	-3.1	-3.4
Romania	-2.2	-2.5	-3.9	-4.6	-5.0	-3.5	-3.7	-3.5	-3.0	-3.6
Slovakia	-1.5	0.4	-1.3	-5.2	-5.0	-3.6	-3.6	-3.9	-3.5	-3.7
Georgia	-7.4	-5.3	-7.3	-6.7	-5.4	-6.7	-4.1	-2.0	-1.9	-4.3
Lithuania	-4.8	-4.5	-4.5	-1.8	-5.9	-8.5	-2.7	-1.7	-1.5	-4.3
Poland	-2.2	-3.1	-3.3	-3.1	-3.2	-3.7	-3.2	-6.0	-5.0	-4.3
Moldova	-19.2	-13.1	-15.2	-14.1	-5.7	-5.4	-4.0	-3.9	…	-4.4
Czech Republic	-1.1	-1.4	-0.9	-1.7	-2.0	-3.3	-4.8	-5.7	-8.0	-4.6
Armenia	-16.5	-9.0	-8.5	-5.8	-4.9	-7.4	-6.3	-4.3	-3.6	-6.0
Croatia	1.2	-1.4	-1.0	-1.9	-1.0	-6.5	-6.9	-5.7	-4.3	-6.4
Kyrgyzstan	-5.2	-4.5	-8.8	-8.8	-11.2	-12.8	-9.6	-6.0	-4.9	-9.5
Albania	-12.6	-10.1	-12.1	-12.6	-10.4	-11.4	-9.1	-9.2	-8.6	-9.9
Bosnia-Herzegovina	…	-0.3	-4.4	-0.5	-19.3	-22.0	-20.4	-12.8	-3.7	-18.4

REGIONAL AVERAGES	1994	1995	1996	1997	1998	1999	2000	2001	2002	1999-01 average
CEE & Eurasia	-7.4	-4.9	-6.0	-5.6	-5.4	-3.7	-0.6	-0.8	-2.0	-1.7
Northern Tier CEE	-2.8	-3.1	-3.0	-3.0	-3.3	-3.8	-3.4	-4.8	-4.7	-4.0
Southern Tier CEE	-3.0	-3.7	-5.1	-5.0	-5.0	-5.3	-4.2	-4.0	-3.7	-4.5
Eurasia	-9.2	-5.6	-7.0	-6.4	-6.0	-3.4	0.8	0.8	-0.9	-0.6
European Union	-5.6	-5.3	-4.3	-2.4	-1.6	-0.7	0.9	-0.8	-1.3	-0.2
Advanced Countries	-4.1	-3.9	-3.1	-1.7	-1.4	-1.0	0.0	-1.2	-2.0	-0.7
Developing Countries	-3.7	-3.2	-3.3	-3.5	-4.9	-5.3	-4.1	-4.8	-4.8	-4.7
European Union Target										-3.0
Benchmark										-3.0

Data for 2002 are projections. Yugoslavia's three year aveage is for 2000-2002.
Fiscal balance is overall general balance (i.e. all levels of government).
EBRD, *Transition Report Update* (May 2002); IMF, *World Economic Outlook: Recessions and Recoveries* (April 2002).

Table 13. Integration into the World Economy: Trade and Institutional Integration

Country	Real Export Growth (% Change) 2000	2001	Growth in Real Trade less GDP growth 1990-00	Openness to Trade[1] (Exports % of PPP GDP) 1993-94	1996-97	1999-00	Institutional[2] Integration 2002
Czech Republic	17.1	12.0	9.8	17	22	25	(1) (2) (3) (4) (5)
Hungary	21.8	9.1	8.8	12	19	22	(1) (2) (3) (4) (5)
Poland	17.5	8.0	8.4	9	12	12	(1) (2) (3) (4) (5)
Slovakia	15.9	6.5	9.3	20	22	22	(1) (2) (4) (6)
Estonia	…	…	9.9	32	30	32	(2) (4) (5)
Slovenia	12.7	6.2	0.5	33	37	32	(2) (4) (5)
Bulgaria	24.2	12.5	3.3	10	15	14	(2) (4) (6)
Latvia	12.8	6.5	5.3	26	20	19	(2) (4) (6)
Lithuania	12.9	10.2	10.0	20	20	18	(2) (4) (6)
Romania	23.9	10.6	7.9	5	7	8	(2) (4) (6)
Kyrgyzstan	…	…	-1.8	12	9	4	(2)
Croatia	8.7	9.0	4.5	25	26	24	(2)
Georgia	…	…	24.7	10	5	7	(2)
Albania	…	…	7.7	3	3	6	(2)
Moldova	7.5	16.4	12.1	13	10	7	(2)
FYR Macedonia	19.2	…	7.2	15	15	16	(4)
Belarus	…	…	-5.8	27	21	25	
Tajikistan	…	…	…	11	12	11	
Turkmenistan	…	…	2.4	14	10	11	
Kazakhstan	23.9	-3.0	-4.3	11	11	11	
Ukraine	11.7	10.2	6.3	8	12	10	
Russia	6.0	4.0	0.7	10	10	9	
Azerbaijan	17.8	16.4	13.2	13	6	8	
Uzbekistan	-5.6	1.5	0.5	12	8	6	
Armenia	20.1	14.1	-12.7	15	4	4	
Bosnia-Herzegovina	…	…	-1.0	…	…	…	
Yugoslavia	15.3	…	…	…	…	…	
CEE & Eurasia	11.3	6.5	3.6	11	12	11	
Northern Tier CEE	17.4	8.6	9.6	14	17	18	
Southern Tier CEE	20.4	10.8	5.9	9	11	11	
Eurasia	7.8	5.3	1.9	11	10	9	
Europe EMU						32	
High Income Countries						…	
Latin America and the Caribbean						10	
Sub-Saharan Africa						9	

1. Openness to trade is exports of goods and services expressed as a percentage of PPP GDP.
2. Institutional integration refers to membership or participation in (1) OECD, (2) WTO, (3) NATO; (4) Europe Agreements with EU; (5) invited to participate in the next round of negotiations toward EU membership (July 16, 1997); (6) invited to participate in next round of negotiations toward EU membership.

EBRD, *Transition Report Update* (May 2002); World Bank, *World Development Indicators 2002* (2002). Data for 2002 are projections.

Table 14. Integration into the World Economy: FDI, Debt and Current Account Balance

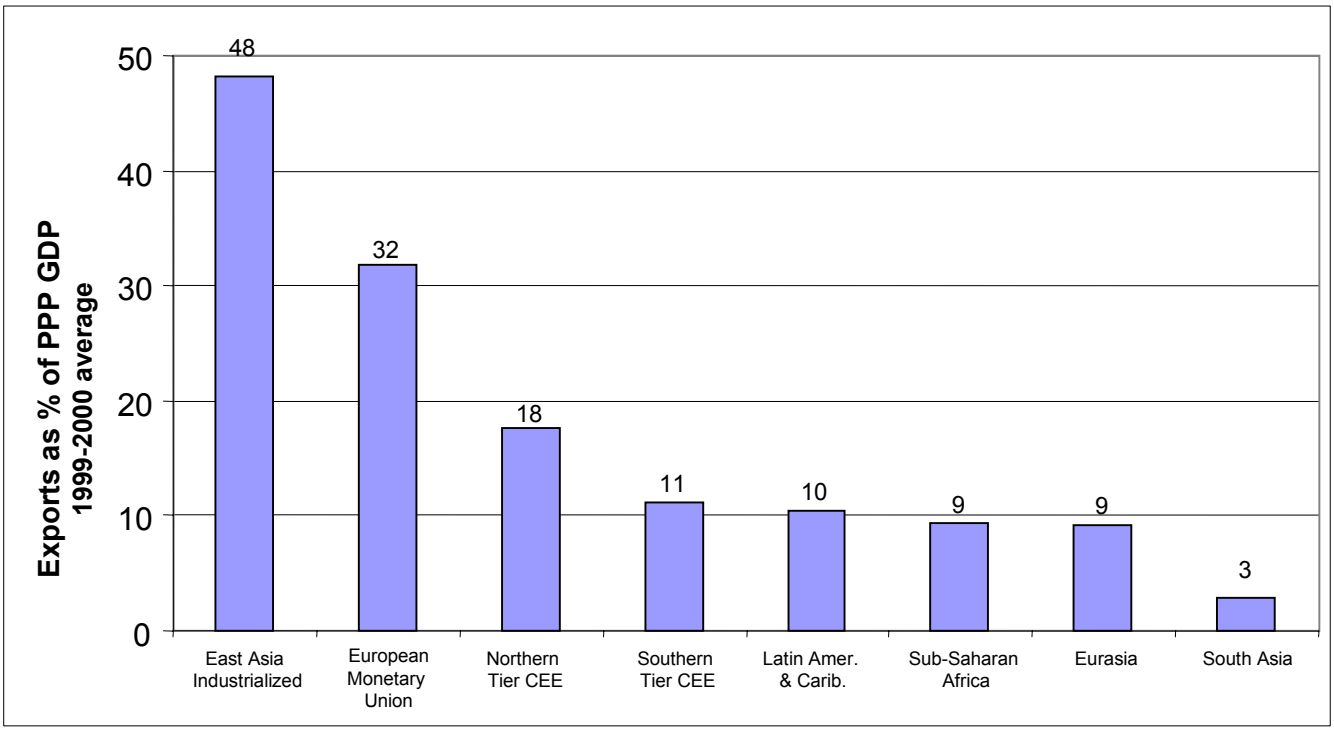
Country	Foreign Direct Investment (net inflows in U.S. $ per capita) 1989-2001	2001	Gross FDI as a % of PPP GDP Average 1999-00	Current Account Balance (% of GDP) 1998-00	2001	2002	External Debt (% of exports) Debt 1997	2001	Debt Service 1997	2001
Czech Republic	2,570	468	3.6	-3.2	-4.7	-4.5	68	52	15	6
Hungary	2,177	219	1.9	-4.0	-2.3	-1.7	96	95	38	15
Poland	890	168	2.8	-6.1	-3.9	-3.7	160	204	7	8
Slovakia	1,050	278	2.6	-6.3	-8.9	-5.1	84	75	12	19
Estonia	1,637	243	3.6	-6.8	-6.5	-6.8	71	66	4	7
Slovenia	925	169	0.7	-2.5	-0.4	-0.9	39	60	8	14
Bulgaria	491	79	2.1	-3.9	-6.7	-6.3	156	132	14	16
Latvia	1,200	129	2.4	-9.1	-10.0	-8.6	96	156	11	15
Lithuania	771	122	2.1	-9.8	-5.8	-6.4	63	90	11	28
Romania	356	52	0.8	-4.8	-6.1	-6.1	95	89	20	21
Kyrgyzstan	101	8	0.4	-14.3	-5.8	…	201	288	12	29
Croatia	1,065	105	3.9	-5.4	-2.9	-2.0	91	115	10	19
Georgia	157	19	0.8	-7.7	-6.7	-5.8	228	275	5	15
Albania	241	65	0.8	-6.7	-7.4	-6.0	328	---	6	5
Moldova	116	14	1.0	-9.0	-9.0	-9.1	130	217	14	20
FYR Macedonia	444	223	1.0	-5.5	-9.9	-9.0	86	99	9	19
Belarus	132	8	0.2	-3.2	1.8	-0.4	13	---	2	3
Tajikistan	24	1	…	-6.3	-7.2	-6.1	218	139	15	22
Turkmenistan	189	24	0.9	-15.1	-1.6	-1.4	132	85	28	42
Kazakhstan	741	162	1.9	-0.8	-7.8	-6.3	117	136	25	12
Ukraine	79	11	0.3	2.3	3.7	1.0	49	55	8	6
Russia	67	14	0.5	10.3	11.1	5.2	160	148	11	12
Azerbaijan	501	39	1.4	-15.4	-2.4	-22.5	52	61	7	6
Uzbekistan	30	3	…	0.1	-0.5	0.6	64	159	9	30
Armenia	213	30	2.6	-17.8	-10.3	-10.5	206	268	14	12
Bosnia-Herzegovina	117	38	…	-20.4	-17.9	-18.3	407	234	38	14
Yugoslavia	130	14	…	-6.4	-10.2	-12.6	330	405	3	2
CEE & Eurasia	380	63	1.1	0.9	1.7	-0.8	131	142	12	13
Northern Tier CEE	1,332	223	2.7	-5.6	-4.4	-3.9	121	144	13	11
Southern Tier CEE	423	59	1.4	-6.3	-7.8	-8.0	183	174	15	15
Eurasia	126	22	0.6	4.0	5.2	1.4	124	135	11	13
Europe EMU			10.2							
Advanced Economies										
Sub-Saharan Africa			0.6							14
Latin America and the Caribbean			2.7							42
Less Developed Countries			1.2							21
Benchmarks								Debt service less than 20%		

Note: Foreign direct investment figures for 1989-2001 are cumulative.

EBRD, *Transition Report Update* (May 2002); World Bank, *World Development Indicators 2002* (2002).

Figure 19

Integration Into the World Economy



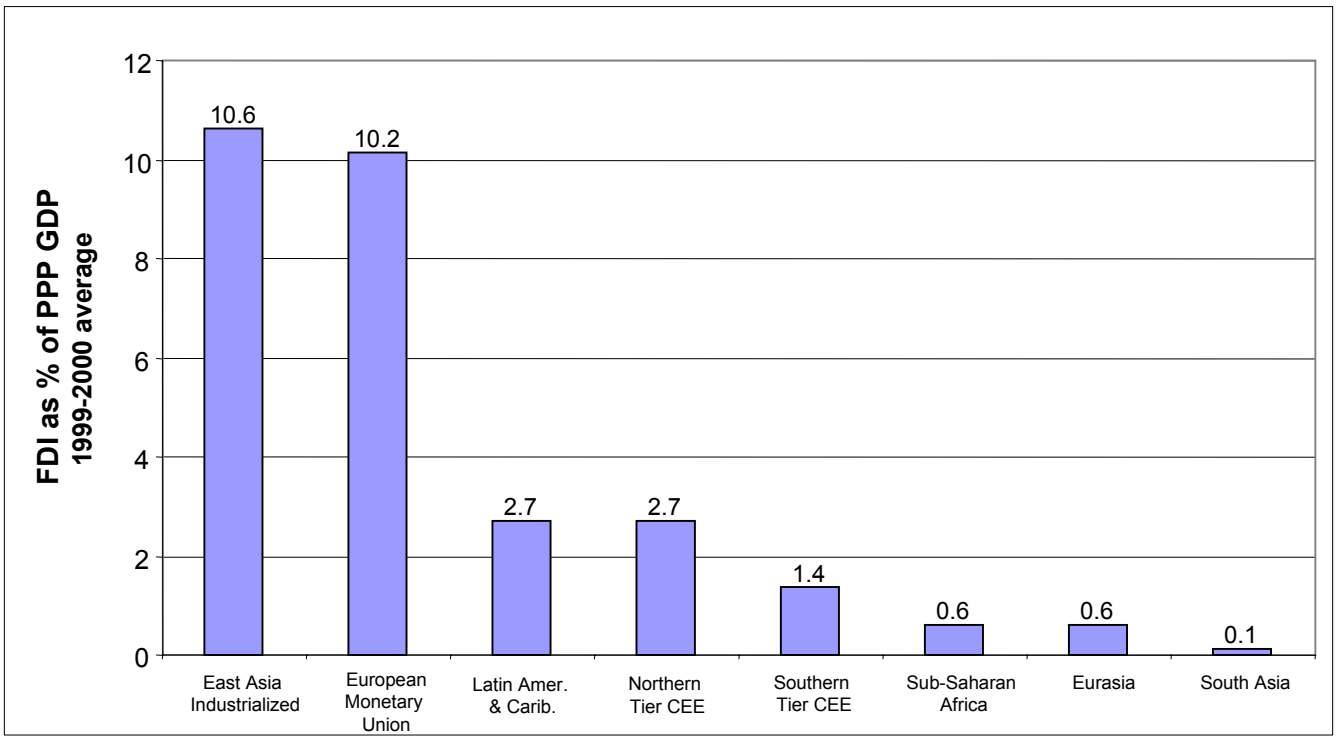
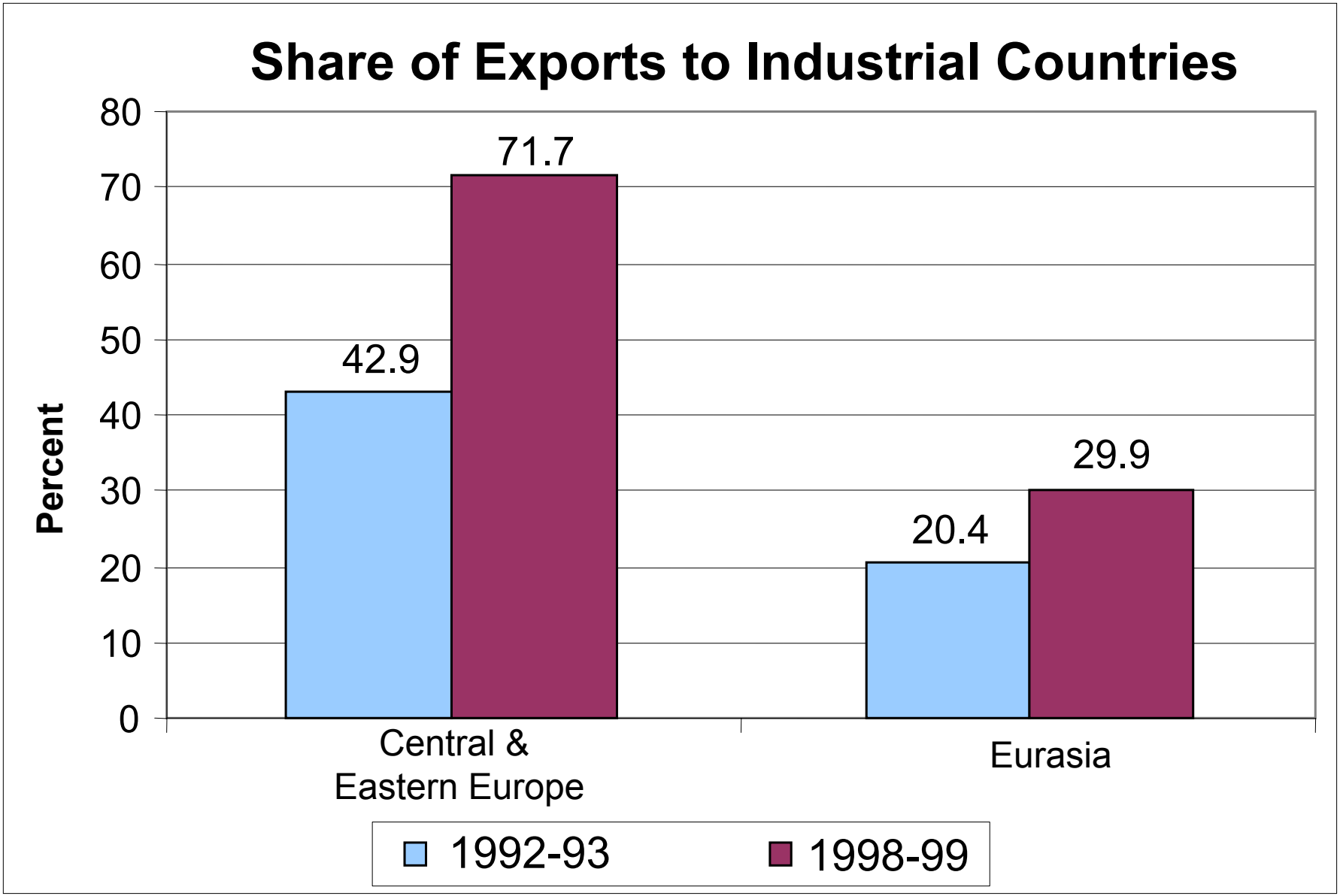


Table 13 and Table 14 drawing from World Bank, *World Development Indicators 2002* (2002). East Asia Industrialized countries are Hong Kong, South Korea and Singapore.

Figure 20

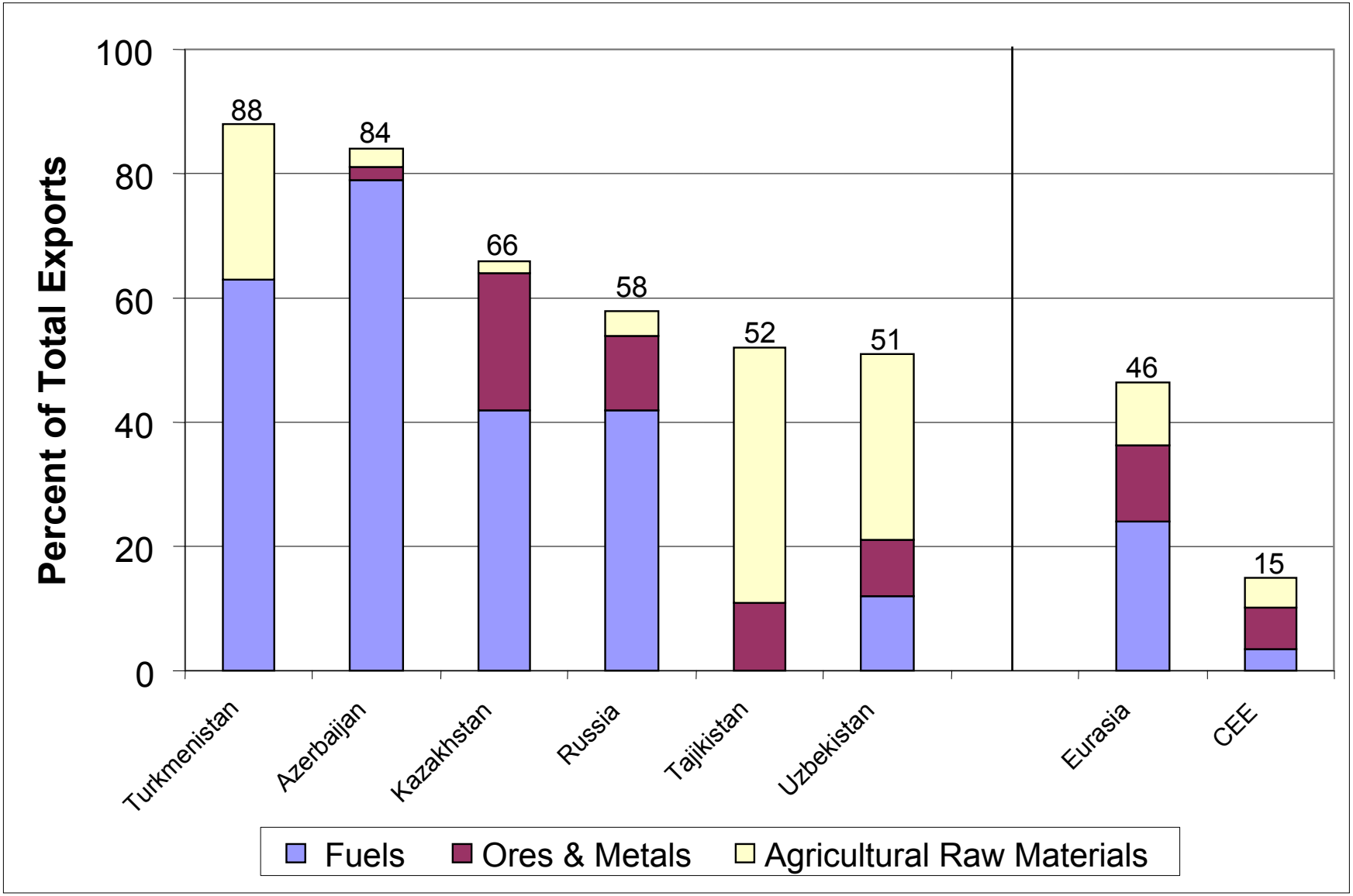


The World Bank, *Transition: The First Ten Years; Analysis and Lessons for Eastern Europe and the Former Soviet Union* (2002) .

Figure 21

Share of Primary Product Exports

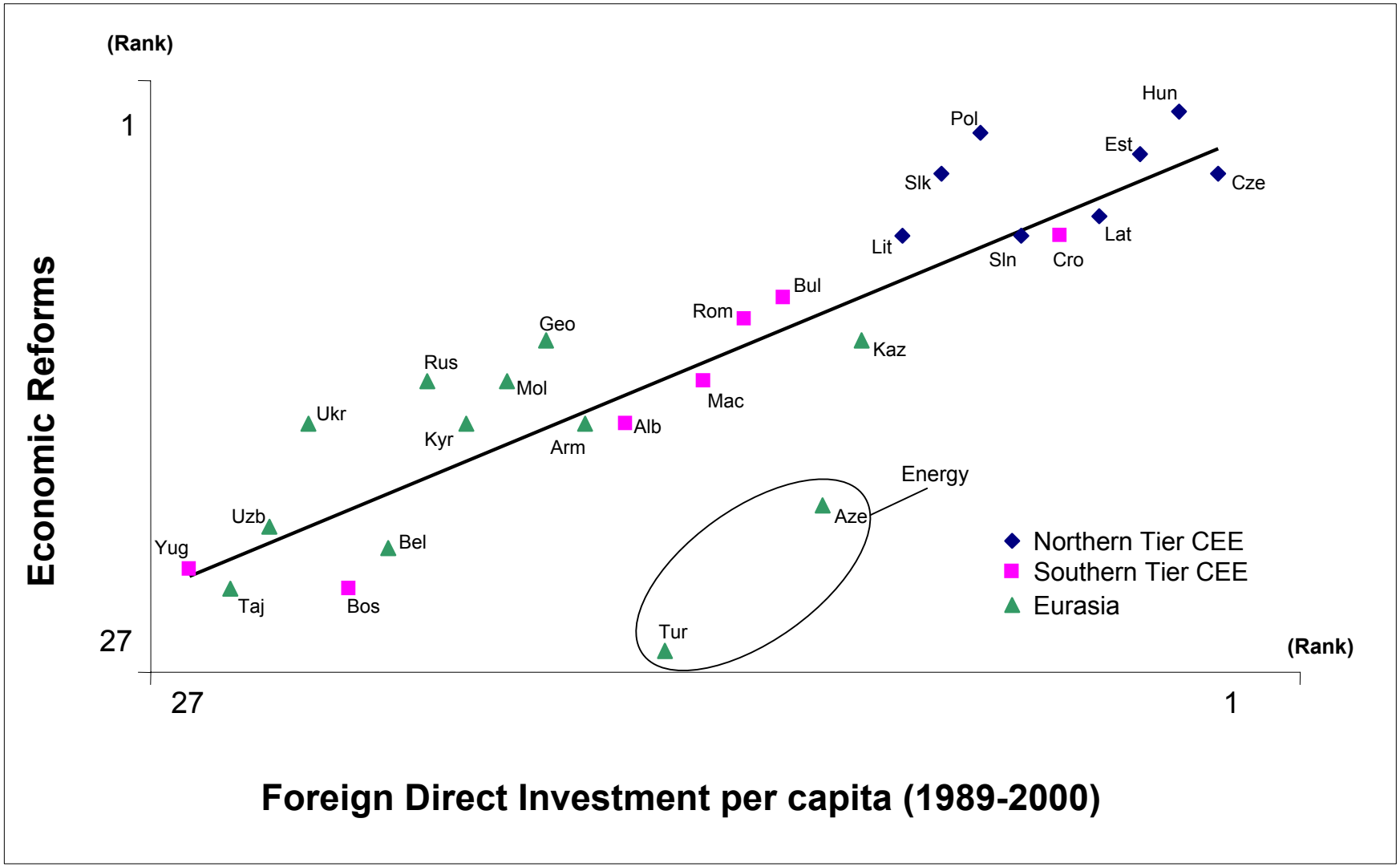
(2000 or latest year available)



EBRD, *Transition Report 2001 (November 2001)*; World Bank, *World Development Indicators* (2002); U.S. Dept of Commerce, International Trade Data Base (1999).

Figure 22

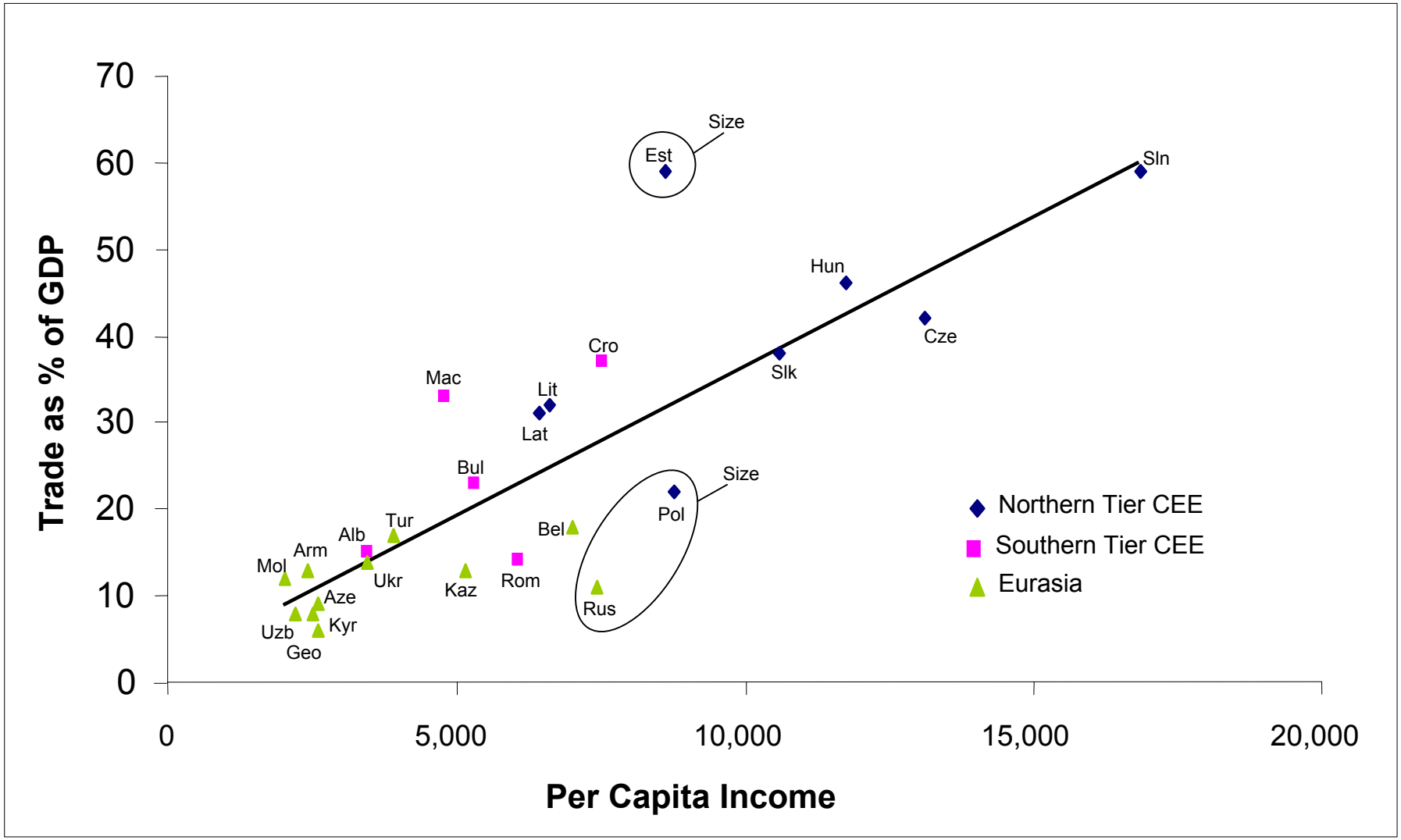
Economic Reforms and Integration Into the World Economy



Tables 8 and 15, *Monitoring Country Progress No. 7* (October 2001), drawing from EBRD, *Transition Report Update* (April 2001), and EBRD, *Transition Report 2000* (November 2000).

Figure 23

Integration into the World Economy and Per Capita Income



Tables 14 and 19, *Monitoring Country Progress No. 7* (October 2001), drawing from EBRD, *Transition Report Update* (April 2001); World Bank, *World Development Indicators* (2001). Openness to trade is the sum of merchandise exports plus imports expressed as a percentage of purchasing power parity GDP. Per capita income is measured in purchasing power parity (PPP) dollars, using 1999 World Bank estimates and updating to 2000 with 2000 per capita economic growth rates.

6. Social Conditions

Ultimately, the sustainability of transition progress hinges on the well being of the individual and a reasonably fair distribution of the gains and costs from the transition. The links between living standards, popular expectations, and the level of public support for economic and political reforms need to be closely watched, particularly in Eurasia, though no doubt in parts of CEE, too. In settings of sustained deterioration of social conditions, the links between human capital and macroeconomic performance appear to be growing in importance as well.

Labor markets. Unemployment remains very high in CEE. It is close to 18% on average in the Southern Tier CEE countries and 15% in the Northern Tier CEE (*Table 15* and *Figure 24*). It is striking that unemployment rates (in 2001) are as high as they have been since the transition began in at least three Northern Tier CEE countries: Slovakia (19.8%); Poland (17.3%); and Lithuania (17.0%). Northern Tier CEE unemployment rates on average have been increasing since 1997. This contrasts with trends in Western Europe, where unemployment rates on average have been falling since 1994, and are now below 8%.

Highest unemployment rates in the transition region are in the Southern Tier CEE, ranging from roughly 9% in Romania to 15-19% in Croatia, Bulgaria, and Albania, to closer to 30-40% in Yugoslavia, Macedonia, and Bosnia-Herzegovina.

Many of these unemployed persons in CEE have been out of work for more than a year; i.e., are long-term unemployed (*Table 16* and *Figure 25*). Latest data available (1998-2000) show that the long-term unemployed are close to 50% of total unemployment or more in Croatia (61%), Bulgaria (59%), Latvia (52%), the Czech Republic (49%), Estonia (47%), and Slovakia (46%). Estimates of the long-term unemployed in Macedonia from 1992 through 1996 show that at least four out of five unemployed Macedonians are long-term unemployed.

Nevertheless, these high proportions of long-term unemployed are not solely confined to the transition countries. The long-term unemployed consist of 52% of total unemployment in Germany, 47% in Spain, and 43% in France. The U.S. labor market is the salient exception to the trend; closer to 5% of the unemployed in the U.S. is unemployed for more than one year.

As evident in *Figure 26*, youth unemployment rates are generally much higher than national averages in advanced economies and transition economies alike (and in all three transition sub-regions). However, the differential is considerably larger in the Southern Tier CEE countries. Youth unemployment rates are roughly two times the national rates in the advanced economies as well as in the Northern Tier CEE countries and in a limited sample of (five) Eurasian countries. In the Southern Tier CEE (in a sample of five countries), youth unemployment rates are closer to three times national averages. This translates into 71% youth unemployment rate in Macedonia and 61% in Yugoslavia.

Official unemployment rates are generally much lower in Eurasia than in CEE, ranging from 7-8% in recent years on average (*Table 15*). There are at least two key reasons for this. First, the unemployment data in Eurasia remain less reliable and/or are not directly comparable to those in CEE. Second, labor markets are adjusting differently in Eurasia, partly a reflection that enterprise restructuring continues to lag in much of Eurasia vis-à-vis CEE.

In a handful of Eurasian countries, registered unemployment figures are reported in lieu of survey estimates. The former technique tends to underestimate actual unemployment rates, particularly where there is little incentive to register one's unemployment (i.e., where unemployment compensation is minimal or insignificant). Registered unemployment rates are used in Uzbekistan, Moldova, Belarus, Tajikistan, and Kyrgyzstan, where, by these measures, unemployment ranges from 0.6% in Uzbekistan to 5.6% in Kyrgyzstan.

Unofficial estimates, however, indicate substantially higher rates in, for example, Kyrgyzstan (around 20%) and Tajikistan (30%). Armenia's official unemployment figures (9.6% in 2001) are also registered unemployed, though again, unofficial estimates indicate that substantially higher unemployment rates exist there as well. In Turkmenistan, unemployment does not officially exist since every citizen is "guaranteed" employment. However, a household survey found urban unemployment there to be 19% in 1998. The EBRD revised (without explanation) its series of annual unemployment rates in Azerbaijan from double-digit levels to rates ranging from 0.6% in 1994 to 1.3% in 2001.

In some Eurasian countries, official unemployment rates are high, and closer to CEE norms: 11% in Kazakhstan (2001); 10.3% in Georgia (2000); 9.6% in Armenia (2001) and 9% in Russia (2001).

No doubt part of the reason why official, open unemployment estimates in Eurasia are lower than in CEE is because Eurasian labor markets are adjusting differently and, similarly, less transparently.

The tendency in many firms in Eurasia has often been to avoid labor shedding (or making "quantity adjustments") when demand for labor falls or shifts, and this has put greater pressure on "price adjustments" in the labor markets, that is, on reducing real wages. At least early on in the transition, real wages dropped much more significantly in Eurasia than in CEE. From 1990 to 1995, real wages fell by more than 80% on average in the six Eurasian countries for which data are available, recovering to close to 40% by 1998.[22] In contrast, real wages in the Northern Tier CEE countries never fell below 35% of 1990 levels, and by 1998 were roughly 10% less than 1990 real wages.[23]

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[22] The six Eurasian countries are Moldova, Russia, Azerbaijan, Georgia, Kazakhstan, and Kyrgyzstan. *Figure 3* of *Monitoring Country Progress* #7 (Oct. 2001), drawing from EBRD *Transition Report 2000* and UNICEF, *Young People in Changing Societies* (2000).

[23] UNICEF's recently published *Social Monitor 2002* (September 2002) shows more promising recent real wage trends. In 2000, the latest year for which data are available, real wages increased in a large majority of the transition economies; in fact, only falling in four economies: Slovakia; Moldova; Ukraine; and Kyrgyzstan.

Other distinguishing labor market adjustments have characterized Eurasia for which cross-country data are not readily available. These include wage arrears and hidden unemployment or, more broadly, substantial underemployment. Many workers in much of Eurasia have remained officially employed, but have often gone without pay for periods or have been put on involuntary leave and/or have been given fewer hours to work.[24] In short, labor market adjustments in much of Eurasia may be just as significant and tumultuous (if not more so) than those in CEE, though they have manifest in a variety of different often less transparent ways.

Income and poverty. *Table 17* and *Figure 27* look at per capita income and how it is distributed. Income on average in the transition economies remains significantly below that in the advanced economies. In purchasing power parity (PPP) terms, per capita income (at $6,910) for the transition region overall is only one-fourth the average of the advanced economies ($28,550). It is considerably lower when market exchange rates are used to calculate average income. Furthermore, the transition economy average masks wide variation. The Northern Tier CEE per capita income average is almost twice that found in the Southern Tier CEE and Eurasia in PPP terms. Four Northern Tier CEE countries have average income greater than $10,000 (Slovenia, $17,800; the Czech Republic, $14,280; Hungary, $12,490; and Slovakia, $11,370), while three Eurasian countries have average income levels closer to $2,000 (Uzbekistan, $2,420; Moldova, $2,330; and Tajikistan, $1,180).

What may be more important for our purposes is how the income levels have changed during the transition, and how it has been distributed within countries. Other factors being equal, the greater the income disparities and collapse in incomes, the more pronounced are the hardships and the greater is the likelihood of "reform fatigue."

Several observations on inequality stand out. First, income inequality has increased dramatically overall in the transition region. In little more than a decade (from 1987 to 1999), income inequality, as measured by gini coefficients, increased for the transition region as a whole by 50%. This likely represents a change of unprecedented magnitude in the given time period. To compare, income inequality increased by 2% in the EU from 1986 to 1993.

Virtually all the transition economies had relatively equal income distributions prior to communism's collapse, generally more equal than those found in the developed market economies.[25] Since the transition began, however, income inequality trends have differed significantly between the sub-regions. Income inequality has increased far more in Eurasia (by over 60%) than it has in the Northern Tier CEE countries (14%) and the

[24] According to Pinto, Drebentsov, and Morosov (2000), wage arrears in the public sector alone at end 1999 were equivalent to roughly 1% of GDP in Georgia, 1.6% in Moldova, and 2.7% in Armenia. More broadly, wage arrears in Russia in four sectors of the economy (industry, agriculture, transport, and construction) equaled 2.9% of GDP in 1998. B. Pinto, V. Drebentsov, and A. Morozov, "Dismantling Russia's Nonpayments System: Creating the Conditions for Growth," World Bank (2000).

[25] It is probable, however, that the gini estimates of pre-transition income distribution, particularly in Eurasia, underestimate income inequality. Typically, pre-transition surveys excluded many of the poorer segments of society.

Southern Tier CEE (36%). For the Northern Tier CEE countries, income inequality is now on a par with that found in the EU, and slightly lower than all of the advanced economies on average. To a large extent, the increase in inequality in these advanced transition economies is an expected byproduct of developing a market-oriented economy, that the growing spread in wages, salaries, and returns on investments better reflect the differences in the productivity of labor and capital inputs as market forces mature.

In contrast, income inequality in a handful of Eurasian countries, most notably Armenia, followed by Russia, Tajikistan, and Kyrgyzstan, may approach those levels found among the most unequal economies worldwide, found in Latin America and Sub-Saharan Africa. The income distribution estimates of a handful of comparator countries in *Table 17* provide a rough basis for comparison.[26] Income inequality is among the highest worldwide in Brazil, Guatemala, and South Africa where gini coefficient estimates range from 0.59 in South Africa to 0.60 in both Brazil and Guatemala. Of the transition countries, income inequality in Armenia comes closest (with a gini coefficient estimate of 0.58). The gini coefficients for Russia and Tajikistan are 0.47; for Kyrgyzstan, 0.44. It is also worth noting, however, that income inequality in the United States (gini = 0.41) is not much lower than that found in the above-mentioned countries and in the overall Eurasian average (0.44).

Most of the increase in income inequality in the transition region appears to have taken place relatively early on in the transition, by the mid 1990s. The most recent changes in income inequality for which data are available show considerable slowing of the increase in inequality overall, and even a notable decrease in at least two countries, Slovenia and Kyrgyzstan. Since the mid-1990s, income inequality increased by only 2% on average for the sixteen transition countries for which data are available; i.e., comparable to the recent trend in the EU.

The inequality gap between sub-regions is narrower if the distribution of consumption (rather than income) is used to measure inequality (*Table 17*). In general, consumption measures of inequality are superior to income measures since they better capture informal economic activities, self-employment, and nonwage earnings, and may be more likely to reflect underlying, longer-term (or "permanent") income trends. The distinction between the two inequality measures may be particularly key in the case of Eurasia where wages reportedly represent less than 40% of household incomes, and in some countries, such as Armenia and Georgia, perhaps less than 15%. In CEE, wages account for 60-80% of household incomes.[27] As shown in *Table 17*, consumption measures of inequality are lower than income measures on average in Eurasia and, to a lesser extent, in the Southern Tier CEE, while slightly higher in the Northern Tier CEE. Consumption inequality is considerably lower than income inequality in Tajikistan, Armenia, Kyrgyzstan, Georgia, and Bulgaria. These findings are consistent with existing cross-country estimates of

[26] The gini estimates of the comparator countries in *Table 17* are drawn from a different source from within the World Bank (its *World Development Indicators*), and hence are likely derived somewhat differently than the transition country estimates in the table.
[27] World Bank, *Making Transition Work for Everyone* (September 2000). p. 143.

informal economic activity that show that these five countries have among the largest informal economies (as a share of official GDP) of all the transition countries.[28]

Figure 28 looks at average income alongside income inequality in the transition countries and elsewhere. It shows that some of the most unequal economies in the transition region are also some of the poorest ones. This includes Armenia, Kyrgyzstan, Azerbaijan, Georgia, and Moldova. There appears to be a closer fit to this income-inequality relationship among the transition economies than among the economies in other parts of the world.

Estimates of absolute poverty rates are provided in *Table 18* and *Figure 29*.[29] The most recent cross-country estimates (primarily 1998-1999) from the World Bank are included alongside two earlier series (1987-1998 and 1993-1995). Poverty rates vary widely both by country as well as by poverty threshold. Roughly four out of ten persons in the transition region are found to be in poverty at the higher poverty threshold of $4.30 per day. However, the range in poverty rates between countries is enormous, from 1% in Slovenia and the Czech Republic to 96% in Tajikistan. The sub-regional differences are large as well, from 15% in the Northern Tier CEE to 46% in Eurasia. The regional averages of poverty at $4.30 per day are very similar to the earlier (1993-1995) estimates of poverty at $4 per day, though some individual country estimates vary widely between the two series.

Poverty rates are much lower as expected when the poverty threshold is lowered to $2.15 per day. By this measure, only 1% of persons in the Northern Tier CEE is poor, 6% is living in poverty in the Southern Tier CEE (vs. 36% with a $4.30 per day threshold), and 17% in Eurasia. The differences between countries and sub-regions remain very large, and the country ranking is very similar, though not identical, with that of the higher threshold. However, poverty overall in the region is "reduced" by more than a multiple of three (from 39% to 12%) when the lower poverty threshold is used.

A very rough comparison of poverty in the transition region with that found among the developing countries can be made by using the World Bank's estimates of poverty at $2 a day in the developing world (*Figure 29*).[30] Overall, poverty appears to be much lower in the transition region than it is in the developing world. The poverty rate in Latin America and the Caribbean (32% at $2/day) is about 50% higher than in the transition region

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[28] For estimates of the size of informal economies, see S. Johnson, D. Kaufmann, and A. Shleifer, "Politics and Entrepreneurship in Transition Economies," *Working Paper Series*, No. 57, The William Davidson Institute, University of Michigan (1997); and F. Schneider and D. Enste, "Shadow Economies: Size, Causes, and Consequences, " *The Journal of Economic Literature* 38 (March 2000), pp. 77-114.

[29] The most recent estimates of poverty are taken from the World Bank (September 2000). Two international poverty lines are used in calculating absolute poverty (or the headcount index): $4.30 and $2.15 per person per day. To derive a poverty headcount or the percentage of those who are poor, the U.S. dollar poverty line is first converted into national currency using 1996 purchasing power parity (PPP) exchange rates (the most recent ones available). Next, the poverty line is adjusted for inflation to yield an absolute poverty line for the year in which the data are collected.

[30] World Bank, *Global Economic Prospects and the Developing Countries 2001* (2001), p. 37.

overall (21% at $2/day).[31] The magnitude of poverty is much higher still in Sub-Saharan Africa (78%) and South Asia (84%) at this $2 per day threshold.

There is much, of course, that these relatively favorable comparisons for the transition countries of absolute poverty rates do not capture. In important respects, as ably articulated in World Bank's *Making Transition Work for Everyone* (September 2000), the transition country poor and their situation are very different than in other parts of the world, better in some ways, but clearly worse in others. In contrast to the majority of poor people in developing countries, most of the poor in the transition countries are literate, many are well educated, and before communism's collapse, had secure employment. The drop into poverty was sudden and chaotic, and the magnitude of the increase in the poverty rate has probably been without parallel. Estimates from Milanovic (1998) show that the poverty rate at $4 per day increased from roughly 4% in 1987-88 to 40% by 1993-1995 for the transition region overall. Moreover, these changes have occurred in the context of tumultuous change across the board in the economic, political and social domains, as well as in the context of an important legacy of the (Communist) past that associated poverty with individual failings or deviancy. Many of the mental and physical illnesses that have emerged during the transition are likely better understood in this context.

Is any one poverty line more meaningful than the others? The World Bank (September 2000) has suggested that the $2.15 poverty line may be the most appropriate for the transition countries. This poverty line is roughly equal to the lowest absolute poverty lines that are used by many governments in the transition countries, and are based on a nationally determined minimum food basket plus an allowance for nonfood expenditures.

Figure 30 is an attempt to provide a more intuitive reality check by comparing absolute poverty rate estimates with a rough proxy of poverty from survey data. Specifically, poverty rates at $4.30 per day are compared to 1998 household self-assessments of the frequency of being deprived of food during the month prior to being queried in ten transition countries. If often being deprived of food is a reasonable proxy for poverty, then one would expect the two measures in *Figure 30* to line up close to the 45% line. This is generally the case (and much more so than at the lower poverty rate threshold of $2.15 per day). Two countries, however, are salient exceptions to the trend: Russia and Romania. At $4.30 per day, 50% of Russians were poor in 1998, yet only 19% of those surveyed declared that their households were often without food. Forty-five percent of Romanians in 1998 were estimated to be below the $4.30 per day poverty line, yet only 4% surveyed claimed that their household was often without food. Both instances suggest that the poverty rate at $4.30 per day widely over estimates hardship in these countries.

The relative poverty burden of various segments of the transition population in the Northern Tier CEE and Eurasian countries is assessed in *Figure 31*, drawing from the same surveys used to measure the absolute poverty rates from the World Bank (shown in

[31] The World Bank's country classification of the transition region includes Turkey (which has a poverty rate of 18% at $2/day).

Table 18).[32] In this analysis, persons below the relative poverty line of 50% of median income, adjusted for household economies of scale, are defined as poor.[33] The relative poverty burden is calculated by dividing the share of total poverty of a particular segment of the population (e.g., children or elderly, male or female) by that segment's share of the total population. Hence, a relative poverty burden in excess of "1" represents a disproportionate share (or burden) of the nation's poverty. Similarly, persons in groups that score higher than "1" are more at risk to being poor; those in groups with a score less than "1" are less at risk. The populations are segmented by age (children vs. elderly), education (with primary education only vs. higher education), location (rural vs. urban), and household head (employed vs. not employed).[34]

The data highlighted in *Figure 31* suggest the following. First, while children are disproportionately at risk to being poor across the transition region, they are much more at risk in the CEE, and particularly in the Northern Tier CEE. On the other hand, the elderly in the Northern Tier CEE countries have a lower poverty risk than the national averages of these countries, while the elderly in Eurasia are more at risk; they are disproportionately poor. Part of the distinction likely stems from the tendency for the elderly in the Northern Tier countries to be better protected and supported by government safety nets, and pensions in particular.

Second, while education appears to be a significant determinant to financial well being across the transition countries, it is more significant in the Northern Tier CEE. In other words, the chances of being poor in the Northern Tier are much greater if one has a primary education only and much less with advanced education. This tendency is less evident in Eurasia where apparently the returns to education are lower (and presumably the importance of political or personal connections and corruption towards securing a job are greater). These findings are consistent with the many anecdotal reports that well-educated persons in Eurasia are unable to find employment commensurate with their educational background.

Third, other things equal, rural populations are much more at risk than urban populations to being poor in CEE. The urban areas in CEE are presumably where most of the jobs and economic opportunities are. In Eurasia, in contrast, location matters less to poverty risks. There is less advantage to living in an urban setting in Eurasia presumably because of the absence of sufficient jobs and adequate economic infrastructure. There may be

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[32] *Figure 31* summarizes a more extensive analysis (of all three transition sub-regions) shown *in Monitoring Country Progress* #7 (October 2001).

[33] Adjusting to household economies of scale refers to estimating equivalent household income or expenditure needs among households that vary in size and composition (in terms of the number of adults and children). Clearly, a one-person household living on $200 per month is materially better off than a four-person household living on $200 a month. The simplest adjustment to estimate equivalent household needs would be to divide by the number of persons in the household. However, because there exist economies of scale (or cost savings due to size) among the family of four, $200 for them represents greater welfare than $50 for the one-person household. The equivalence scale used in this analysis weighs the number of family members, and gives slightly less weight to children (since their consumption needs are generally less than adults).

[34] "Not employed" includes the unemployed and all those, including retirees, who are not in the labor force.

little to gain by living in rural areas in Eurasia as well, though farming the lands at least provides a means to cope and perhaps avert deep and/or sustained poverty.

Finally, being employed, or living in a household in which the head of the household is employed, reduces one's chances of being poor across the transition countries. However, being employed confers more of a benefit in the Northern Tier CEE countries than elsewhere in the transition region. Similarly, not being employed carries more of a penalty in the Northern Tier CEE; i.e., it increases the risk of being poor. These findings are consistent with our earlier observations on the distinctions in labor market trends between CEE and Eurasia. In Eurasia, where wage arrears often prevail and where real wages have fallen further, there is less of a guarantee that being employed will keep a person out of poverty. Moreover, given the greater prevalence of the informal economy in Eurasia, there is a weaker link between being officially unemployed (in the formal economy) and being poor.[35]

Figures 32 through *34* provide more recent evidence of poverty and living standards in Russia from the Russia Longitudinal Monitoring Survey.[36] Overall, these data provide evidence that the recent gains in Russia accrued at the macroeconomic level have been filtering down quite substantially. According to RLMS estimates (*Figure 32*), Russia's poverty rate peaked in 1998, shortly after its financial crisis came to a head. Since then, however, poverty in Russia has dramatically dropped, from 39% of the population in 1998 to 29% in 2000 to 19% in 2001. Moreover, extreme poverty as a proportion of total poverty has also been falling (from a high of 56% in 1996 to 37% in 2001). While poverty rates remain disproportionately high for children in Russia, the percentage of children who are poor is also falling; so too, the proportion of elderly.

What is striking (in *Figure 33*) is how closely the trends in poverty rates map with macroeconomic trends. Specifically, the poverty rate in Russia continued to rise while the economy contracted, i.e. through 1998. However, once economic growth got underway, the poverty rate started falling dramatically.

Figure 34 provides further evidence that the gains from the transition are being more widely shared in Russia. The percentage of Russians owning various durable goods including color TVs, VCRs, and automobiles has risen fairly steadily from 1992 to 2001. Roughly one-half of the population owed a color TV in 1992; today it is closer to 80%. Only 3% of the population had a VCR in 1992; by 2001, more than a third of population had one. The ownership of black and white TVs declined, as color TV ownership rose.

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[35] *Table 21* of *Monitoring Country Progress* #7 (October 2001) highlights another trend: there seems to be a stronger link between gender and poverty in the Southern Tier CEE and Eurasia than in the Northern Tier CEE. In particular, women tend to be much more at risk to finding themselves in poverty than men in most of Eurasia and in the Southern Tier CEE countries. In contrast, in the Northern Tier CEE countries, gender seems to be much less of a determinant of poverty. This suggests that discrimination and the importance of connections are less significant in the Northern Tier CEE and market forces are more important.

[36] The Russian Longitudinal Monitoring Survey is coordinated by a University of North Carolina team led by Barry Popkin and has had two phases of a total of eight survey rounds since 1992. See *Monitoring Country Progress* #6 (May 2000), *Appendix II* and/or RLMS' web site: http://www.cpc.unc.edu/projects/rlms/ for elaboration.

It is somewhat striking how relatively immune these trends seem to be to the turmoil of the transition in Russia; there is no hint in these data, for example, that a financial crisis even took place in 1998 in Russia.

Human capital. These data attempt to address trends in health and education. Life expectancy is now likely higher today in a large majority of the transition countries than at the outset of the transition (*Table 19* and *Figure 35*). For most countries, this has meant a temporary decline followed by a more than proportionate increase in life expectancy. Latest available year trends (in 2000) are encouraging: seven countries experienced an increase in life expectancy in 2000, and only one (Russia) experienced a decrease.

Life expectancy in the Northern Tier CEE is now 73 years, still well below EU average of 78. In the Southern Tier CEE, it is 71 years, closer to the average of 70 in Latin America and the Caribbean. In Eurasia, life expectancy is 67 years, or not far from the overall average in the developing countries of 64 years.

Four countries have experienced a notable decline in life expectancy from 1989 to 2000 (and have significantly skewed downward the Eurasian average). In order of magnitude, they are Russia, Belarus, Kazakhstan, and Ukraine. All four countries have seen a decline in life expectancy in both males and females. The most alarming trends are in Russia, where after stabilizing for several years, life expectancy has resumed a downward trend (and despite the encouraging income and poverty trends noted from the RLMS data above). Male life expectancy in Russia at 59 years is once again below the 60 years threshold. To compare, the average male life expectancy in the developing countries is 63, or four years higher than in Russia. The developing country average, however, widely masks differences in parts of the world: male life expectancy in Sub-Saharan Africa, for example, is only 46 years.

With few exceptions, the gender gap in life expectancy (that is, female minus male life expectancy) is very high in the transition region; generally much higher than in other parts of the world. Females on average live eight years longer than males in CEE, and 12 years in Eurasia (ranging widely from six in Armenia, Uzbekistan and Tajikistan to 13 in Russia). This contrasts with a gender difference of six years in the advanced economies and only three years in the developing countries (ranging from seven in Latin America and the Caribbean to one in Sub-Saharan Africa).

Table 20 and *Figures 36* through *39* examine infant, child, and youth mortality rates. The source of these data is an important issue because there are considerable discrepancies in some of the country estimates between the different sources. UNICEF estimates generally show infant and child mortality rates to be higher than World Bank measures in many countries of the former Soviet Union and in the Southern Tier CEE. Estimates from USAID-financed demographic and health surveys in half dozen transition countries

(in the Caucasus, Central Asian Republics, and in Romania) show even higher mortality rates in most cases.[37]

However, all the data sets are reasonably consistent in regards to how mortality rates are changing over time. Here, the results are striking and very encouraging. From *Table 20* and *Figures 36* and *37*, we see that infant and child mortality rates have fallen in all three sub-regions over the transition, by about 20% for the transition region overall. According the World Bank, only two countries, Ukraine and Georgia, have not experienced a drop in infant mortality rates from 1990-2000.

The decrease in infant mortality rates in the 1990s is consistent with significantly falling rates in the 1980s. However, the overall dramatic drop over the past 20 years has not been a linear one, at least for most of the Southern Tier CEE countries and for countries of the former Soviet Union where infant mortality rates increased in the early transition years.

The Northern Tier CEE trends have been the most favorable: infant and child mortality rates were the lowest in the Northern Tier CEE at the outset of the transition and have fallen the most there during the transition, by almost one half. Most Northern Tier CEE rates exceed EU rates, but the gap has been closing (and two countries, the Czech Republic and Slovenia now have infant mortality rates on par with the EU average).

Infant and child mortality rates on average in the Southern Tier CEE and in Eurasia are at least twice the Northern Tier CEE rates, depending on data sources. *Figure 38* highlights the range in estimates of infant mortality rates. The greatest discrepancies in estimates are found in the Central Asian Republics and in the Caucasus.

Figure 39 shows select trends in youth mortality rates, differentiated by males and females. Trends vary widely according to gender and geography. Female youth mortality rates (in Russia, Kazakhstan, Armenia, Croatia, and the Czech Republic) are much lower than their male counterparts, and are much more stable over time. Male youth mortality trends differ significantly according to country. They are highest (and rising at least through 1998) in Russia and Kazakhstan. Of the five countries sampled, male youth mortality rates are far lower and have changed little during the transition in the Czech Republic. Male youth mortality rates have been among the most volatile during the transition in Croatia and Armenia, presumably largely a consequence of wars.

Trends in education enrollments and public expenditure are highlighted in *Table 21* and *Figures 40-43*. As with infant and child mortality rates, estimates of education

[37] According UNICEF, *Social Monitor 2002* (September 2002), there may be two primary reasons why discrepancies in these mortality rates prevail. One, officially-provided infant and child mortality rates may underestimate the true rate because many people may not be registering births (due to birth registration fees); and, if an infant's birth is not registered, then his or her death may not be registered either. Second, the definition of a "live birth" may differ between estimates. In particular, premature and low-birth weight infants who survived only 7 days or less may not be included in official infant mortality statistics in parts of the former Soviet Union. This "Soviet" definition differs from the more common international convention recommended by the World Health Organization.

enrollment sometime vary significantly by source, in particular, between the World Bank and UNICEF estimates.

Overall, the data (of *Table 21*) show a small decline in primary and secondary school enrolments in the transition region from 1989/90 to 1997/98 from relatively high enrollment levels. However, differences between sub-regions are significant, particularly in regards to secondary school enrollment. As evident in *Figure 40*, drawing from the World Bank, secondary school enrollment increased from 84% in 1990 to close to 97% by 1997 in the Northern Tier CEE. By contrast, it fell in both the Southern Tier CEE and Eurasian regions, and is lowest in the Southern Tier CEE. These general trends between sub-regions hold in regards to primary school enrollments as well (*Figure 41*).

Figure 42 draws from UNICEF estimates of secondary school enrollments from 1989-2000 for a handful of transition countries. As with the World Bank estimates, these data show large differences in enrollment levels and trends between transition countries and sub-regions: highest and increasing in two Northern Tier CEE countries (Hungary and Poland); and large drops in enrollments in some of the poorer transition countries, including Tajikistan, Georgia, Moldova, and Albania. However, it may be significant to note, as suggestive in *Figure 42*, that secondary school enrollments may have "bottomed out" in many of the countries which have suffered from substantial drops in enrollments during 1990s.[38]

The amount of public expenditure on education varies widely among the transition countries as well. *Figure 43* illustrates the range by showing such expenditure patterns in four transition countries, and compares them with OECD and developing countries' averages. OECD governments spend roughly between 5-6% of GDP on education; Poland's government does as well. Developing country governments spend roughly 3.5-4.5% of GDP on average on education; Romania's government public expenditure on education is slightly lower than that. Education expenditure levels (as a percent of GDP) in both Romania and Poland have been relatively constant throughout the transition. Georgia and Armenia represent the other extreme, where education expenditure plummeted from roughly 6-9% of GDP to about 1-3% of GDP in two years early on in the transition. By 1999, both governments of Georgia and Armenia were spending close 2% of GDP on education. This represents an increase for Georgia since 1994, and a slight increase for Armenia since 1997. More systematic analysis of UNICEF's data (and how it compares with World Bank's data) on education expenditure as well as on school enrollments is needed.

Table 22 provides data from the UNDP that attempt to gauge trends in human development in the transition countries. The UNDP's Human Development Index (HDI) is based on three indicators: longevity, as measured by life expectancy; educational

[38] Completion rates, though harder to come by, may be as equally revealing as enrollment rates, particularly in the poorer countries and areas. Kosovo is a good example. While primary school enrollment in Kosovo is relatively high (over 90%), only 73% of Kosovar children finish the third grade. Secondary school enrollment in Kosovo is much lower: 54% for females, and 65% for males. Yet, only 45% of these enrolled high school students in Kosovo finish secondary school. UNDP, *Human Development Report: Kosovo* (2002).

attainment, as measured by a combination of adult literacy (two-thirds weight), and combined primary, secondary, and tertiary enrollment ratios (one-third weight); and standard of living, as measured by real GDP per capita (PPP$). The HDI ranges from zero to one; the higher is the value, presumably the greater is the human development. The UNDP classifies 173 countries into three categories in the *Human Development Report 2002*: high; medium; and low human development.

Nine transition countries, in addition to 44 other countries, are now considered by the UNDP to have reached "high human development:" all eight Northern Tier CEE countries plus Croatia. Last year, this list included only six transition countries; that is, Lithuania, Latvia, and Croatia were all in the "medium" human development category. Slovenia ranks the highest, 29th out of the 173 worldwide sample. The Eurasian countries have the lowest HDI rating of the three sub-regions on average, though the differences in scores among the Eurasian countries are large, ranging from Belarus (ranked 56th) to Tajikistan (ranked 112th). From 1990-2000, 11 countries backslid on their HDI scores, while only seven increased their scores (five Northern Tier CEE countries in addition to Croatia and Albania).

Child malnutrition is high in some countries, though more data are needed to fill in the picture further (*Figure 44*). Results from the RLMS show about one in three children in Russia in 2000 was either wasted (i.e. characterized by low height for age due to chronic malnutrition) or stunted (characterized by low weight for age due to acute malnutrition). While high, this nevertheless represents a decrease from earlier in the transition (1992-1994). Child malnutrition is also high in the Central Asian Republics, the Caucasus, and Albania. It may be highest in Tajikistan where almost two out of three children were malnourished in 1998. In all cases, the proportion of children suffering from chronic malnutrition (i.e. stunted) is greater than the proportion of children suffering from acute malnutrition (wasted).

Social capital (and reform fatigue). This section briefly explores one reason, beyond humanitarian concerns and human capital concerns, why social conditions may matter. In particular, without adequate support from the general population, moving forward on transition reforms may be very difficult. In this context, *Figures 45* through *47* attempt to address household perceptions and/or attitudes.[39] Trust in institutions (a rough proxy for social capital) was very low in a sample of households in 12 countries in 1998. This applies to public institutions from the parliament, the courts, and civil servants more broadly, as well as to private institutions, including the press and private enterprise more broadly. In most all institutions, with the exception of the church, only 30% or fewer of the population had trust.[40]

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[39] Data are from household surveys by the Center for the Study of Public Policy (CSPP) at the University of Strathclyde in Glasgow in collaboration with the Paul Lazarsfeld Society in Vienna. Richard Rose is the director of the CSPP. *Appendix II* of *Monitoring Country Progress* #6 (May 2000) provides elaboration on the methodology and results of earlier CSPP surveys.

[40] An updated 2001 survey in Russia found very similar results: 23% of the population had trust in the courts; 7% in parliament; 30% in churches; and 7% in private enterprise. However, trust was much higher for the president (if not the presidency): 50%.

Nor are many people pleased with their own household economic situation (*Figure 46*). This applies even in the Northern Tier: in 2001, 72% of Slovakians claimed to be unsatisfied with their economic conditions; 70% in Poland; 49% in the Czech Republic; and 37% in Slovenia. Dissatisfaction is highest in Russia (the only Eurasian country included in this sampling of seven countries); 85% of the Russians sampled were dissatisfied. Dissatisfaction in household economic conditions has been very high in Bulgaria as well: 82% in 2001. A more meaningful barometer may be those who have been "very unsatisfied"; this proportion is significantly smaller in all seven countries, though particularly in the case of Slovenia, the Czech Republic, and Romania. Still, dissatisfaction levels, however defined, have increased in four of these countries from 1998-2001: Russia, as well as three Northern Tier CEE countries; Slovakia; Poland; and slightly in the Czech Republic.[41]

Finally, how many people want to return to communism (*Figure 47*)? While not nearly as large as the proportion of those who are dissatisfied with their economic conditions, the percentage of those who maintain that they want to go back to communism is significant, and in many cases, continues to increase. It is highest in the three Eurasian countries sampled: 51% in Ukraine (in 1998); 47% in Russia (in 2001) and 33% in Belarus (in 1998). However, it is also close to 20% of the population in Hungary, Romania, Slovenia, Poland, and Bulgaria. It is lowest in the Baltics (9% in 2001). As with perceptions of economic conditions, it may be more meaningful to disaggregate the response, differentiating between those who "strongly agree" with those who "rather agree." Those who strongly agree that a return to communism is a good idea are a much smaller group in all the CEE countries, except Bulgaria. In Russia, 25% of the population sampled in 2001 "strongly agreed" that returning to communism was a good idea. No data are available in the case of Belarus and Ukraine.

[41] These CSPP data run counter to RLMS results in regards to trends over time in household economic satisfaction levels in Russia; i.e., the RLMS data reveal satisfaction levels increasing in Russia from 1998 to 2000.

Table 15. Unemployment Rate

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	1999-2001[1] (average)
CEE											
Slovenia	8.3	9.1	***9.1***	7.4	7.3	7.1	7.6	7.4	7.2	5.9	6.8
Czech Republic	2.6	3.5	3.2	2.9	3.5	5.2	7.5	***9.4***	8.8	8.9	9.0
Hungary	9.3	***14.5***	12.4	12.1	11.8	11.6	10.1	9.9	9.1	8.4	9.1
Romania	8.2	10.4	10.9	9.5	6.6	8.9	10.3	***11.8***	10.5	8.6	10.3
Estonia	…	6.5	7.6	9.8	10.0	9.7	9.9	12.4	***13.8***	12.7	13.0
Latvia	3.9	8.7	16.7	18.1	***19.4***	14.8	14.0	13.5	13.2	13.1	13.3
Croatia	13.2	14.8	14.5	14.5	10.0	9.9	11.4	13.6	***16.1***	15.3	15.0
Poland	14.3	16.4	16.0	14.9	13.2	8.6	10.4	13.0	15.1	***17.3***	15.1
Lithuania	1.3	4.4	3.8	17.5	16.4	14.1	13.3	14.1	15.4	***17.0***	15.5
Bulgaria	15.3	16.4	12.8	11.1	12.5	13.7	12.2	16.0	***17.9***	17.4	17.1
Albania	***27.9***	24.8	16.1	13.9	9.3	14.9	17.8	18.0	16.8	19.0	17.9
Slovakia	10.4	14.4	14.6	13.1	12.8	12.5	15.6	19.2	17.9	***19.8***	19.0
Yugoslavia	…	23.1	23.1	24.6	25.8	25.8	25.1	26.5	***27.3***	…	26.3
FYR Macedonia	27.8	28.3	31.4	***37.7***	31.9	36.0	34.5	32.4	32.1	30.5	31.7
Bosnia-Herzegovina	…	…	…	…	…	37.0	38.0	40.0	***40.1***	…	39.4
Eurasia											
Uzbekistan	0.1	0.3	0.4	0.4	0.4	0.4	0.5	0.5	***0.6***	…	0.5
Azerbaijan	***…***	…	0.6	0.7	0.8	1.0	1.1	1.2	1.2	1.3	1.2
Moldova	0.7	0.7	1.1	1.4	1.8	1.5	1.9	***2.3***	2.1	…	2.1
Belarus	0.5	1.4	2.1	2.7	***3.9***	2.8	2.3	2.2	2.1	2.2	2.2
Tajikistan	0.3	1.2	1.7	2.0	2.6	2.8	***2.9***	2.8	2.5	2.5	2.6
Ukraine	0.2	0.3	0.3	0.3	1.3	2.3	3.7	***4.3***	4.2	3.7	4.1
Kyrgyzstan	…	…	3.1	4.4	***6.0***	4.3	4.3	5.4	5.6	…	5.1
Kazakhstan	0.4	0.6	8.1	***13.0***	8.6	7.3	6.6	6.3	12.2	11.0	9.8
Russia	5.3	6.0	7.8	8.5	9.6	10.8	11.9	***12.6***	10.5	9.0	10.7
Armenia	3.5	6.3	6.6	6.7	9.3	10.8	9.4	11.2	***11.7***	9.6	10.8
Georgia	5.4	9.1	3.6	3.1	2.8	7.7	12.3	***12.7***	10.3	…	11.8
Turkmenistan	…	…	…	…	…	…	…	…	…	…	…
CEE & Eurasia	5.6	7.1	7.7	8.2	8.2	8.7	9.2	***10.5***	10.2	9.6	10.1
Northern Tier CEE	10.5	13.0	12.7	12.6	11.8	9.3	10.5	12.4	13.3	***14.5***	13.4
Southern Tier CEE	12.8	16.1	15.3	14.9	13.2	14.9	12.6	***18.5***	***18.5***	17.7	16.6
Eurasia	3.2	3.8	5.0	5.7	6.3	7.5	8.3	***8.5***	7.7	6.7	8.0
Advanced Economies	7.2	***7.6***	7.4	7.0	7.1	6.8	6.7	6.4	5.9	6.0	6.1
USA	***7.5***	6.9	6.1	5.6	5.4	4.9	4.5	4.2	4.0	4.8	4.3
EU	9.4	10.7	***11.1***	10.7	10.7	10.4	9.7	9.1	8.2	7.7	8.2
Benchmarks											< 10.0

1 Average for Bosnia-Herzegovina, Georgia, Kyrgyzstan, Moldova, Uzbekistan, and Yugoslavia are from 1998-2000. Some of the estimates, most notably for Eurasia, remain registered unemployment figures that typically underestimate the true unemployment rate. This includes figures for Armenia, Belarus, Kyrgyzstan, Moldova, Tajikistan, and Uzbekistan. In Tajikistan, the World Bank estimates the unemployment rate in 1998 at about 30%. In Turkmenistan, unemployment does not officially exist since every citizen is guaranteed employment. However, a household survey found urban unemployment at 19% in 1998. Unofficial estimates in Armenia indicate substantially higher unemployment. The figures for Yugoslavia exclude workers that are on "forced holidays" (or about 20-25% of the labor force). The figures for Albania do not account for emigrant workers abroad (about 18% of the labor force in 1995). Peak years are in bold print.

EBRD, *Transition Report Update* (May 2002) and *Transition Report 2000* (November 2000); IMF, *World Economic Outlook* (April 2002).

Figure 24

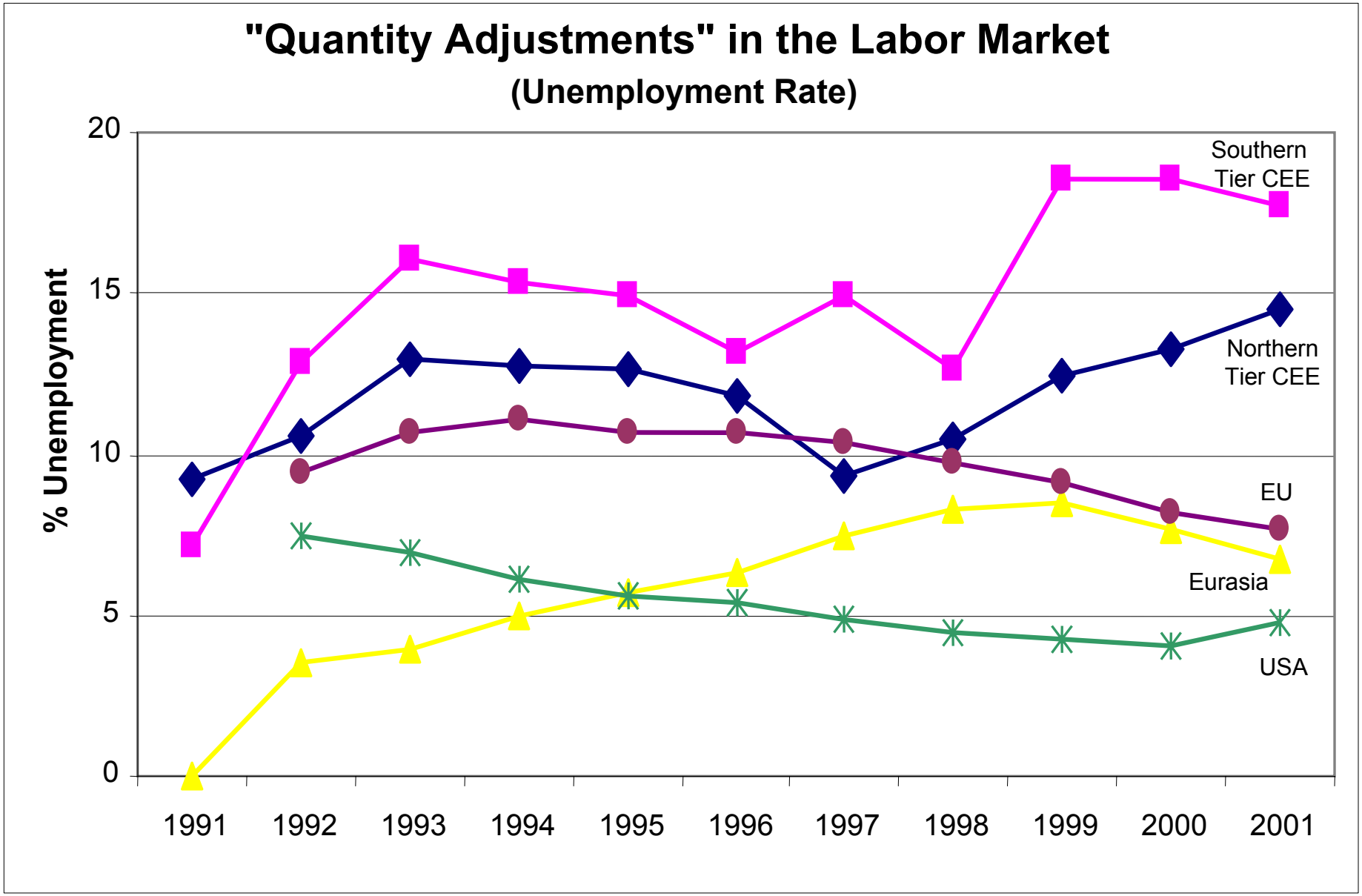


Table 15, *Monitoring Country Progress* (October 2002), drawing from EBRD, *Transition Report Update* (April 2001) and previous editions; IMF, *World Economic Outlook* (April 2002).

Table 16. Long-Term Unemployment in CEE
(% of Total Unemployed)

Country	1992	1993	1994	1995	1996	1996 - 98	1998 - 00	% Change: 1992 -00[1]
Albania	…	65	…	…	...	…	…	...
Bulgaria	…	53	59	***66***	64	60	59	11
Croatia	58	58	55	…	...	…	***61***	5
Czech Republic	14	19	22	31	33	31	***49***	249
Estonia	…	…	…	…	…	…	47	…
Hungary	18	33	41	48	***52***	51	44	146
Latvia	…	…	…	…	...	***63***	52	...
Lithuania	…	…	…	…	…	…	22	…
FYR Macedonia	86	87	***88***	82	81	…	…	-5
Poland	24	36	38	***42***	38	38	38	58
Romania	21	…	45	47	42	***47***	44	110
Slovakia	…	33	43	54	***56***	50	46	40
Slovenia	46	55	***57***	53	53	55	41	-12
Northern Tier CEE	22	33	37	***43***	41	41	41	85
Southern Tier CEE	31	***60***	52	54	50	51	48	53
CEE Overall	25	39	42	***46***	44	44	44	74
France	36	34	38	40	38	41	***43***	18
Germany	33	36	38	40	...	48	***52***	57
Spain	47	50	56	***57***	...	56	47	0
Sweden	8	11	17	16	17	***30***	***30***	276
UK	30	38	***40***	38	36	39	30	-1
US	...	...	...	...	...	9	6	...

1 Percentage change for FYR Macedonia 1992-96.

The long-term unemployed are those who are unemployed for more than one year. Peak years are in bold print.

World Bank, *World Development Indicators 2002* (2002); C. Allison and D. Ringold, *Labor Markets in Transition in Central and Eastern Europe: 1989-1995*; World Bank, *Social Challenges of Transition Series* (December 1996); and Bureau of the Census, *Populations at Risk in CEE: Labor Markets, No. 2*, prepared for USAID/ENI/PCS (February 1995).

Figure 25

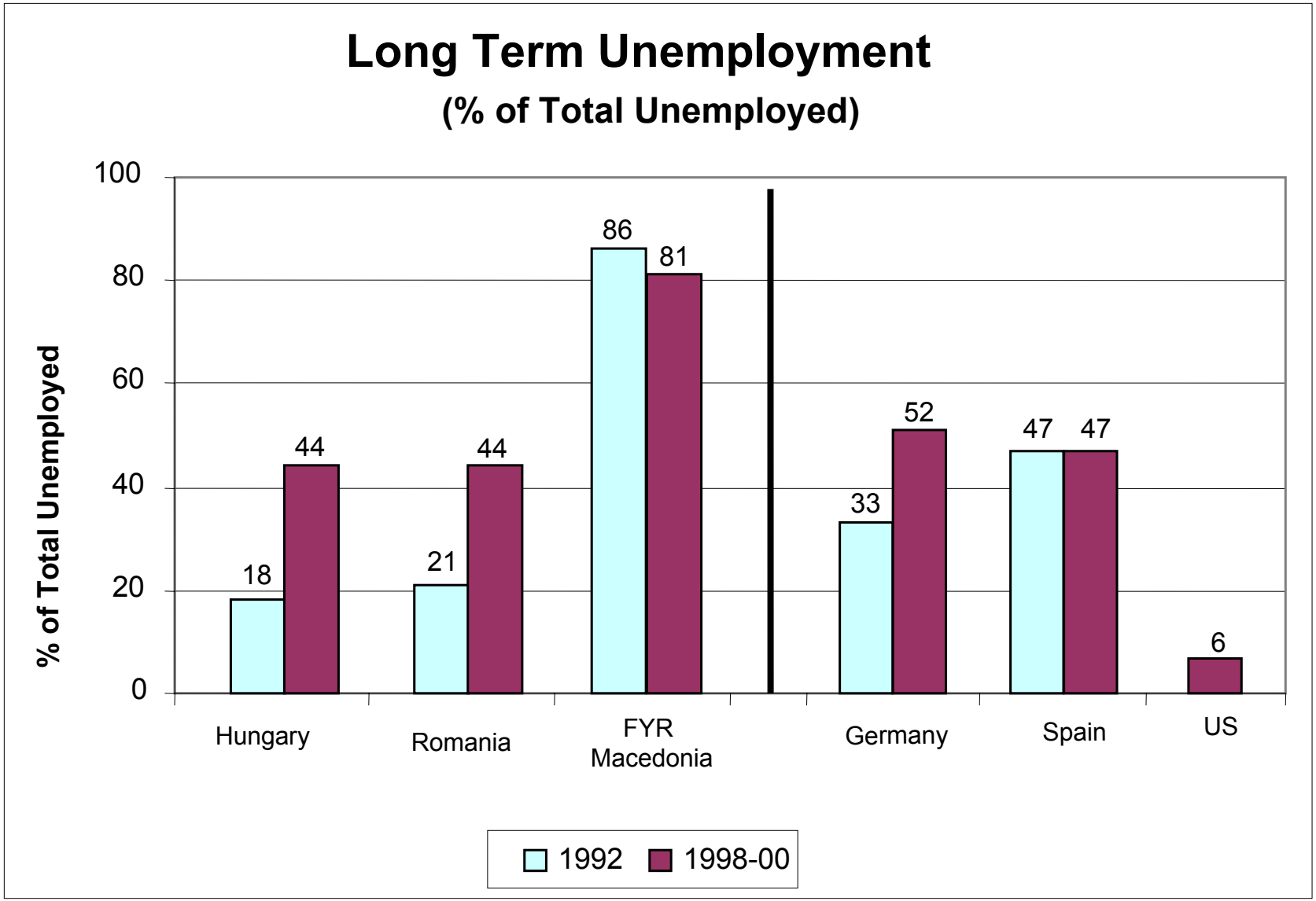
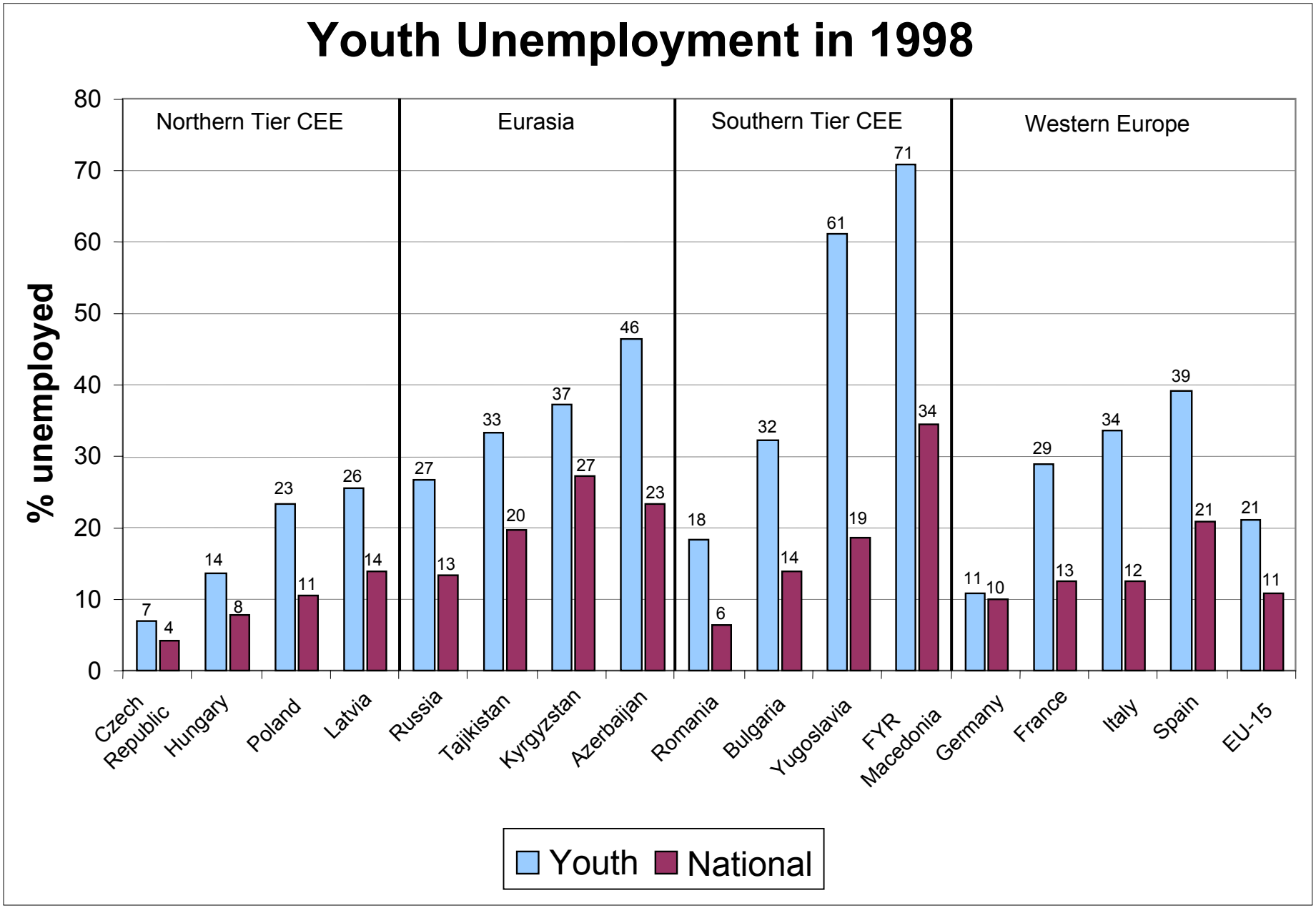


Table 16, drawing from World Bank, *World Development Indicators 2002* (2002); C. Allison and D. Ringold, *Labor Markets in Transition in Central and Eastern Europe: 1989-1995*; World Bank, *Social Challenges of Transition Series* (December 1996); and Bureau of the Census, *Populations at Risk in CEE: Labor Markets*, No. 2, prepared for USAID/ENI/PCS (February 1995). The long-term unemployed are those who are unemployed for more than one year. Latest year long term unemployment rate for Macedonia (81%) is 1996.

Figure 26



Youth are from 15-24 years of age.
UNICEF, Regional Monitoring Report No. 7, *Young People in Changing Societies* (2000).

Table 17. Per Capita Income and Distribution of Income and Consumption

	Distribution of Income[1]				% change		Distribution of Consumption 1997-99[3]	2001 Average Income	
	87/90	93/94	95/96	97/99	1987-99	Most Recent[2]		US$	PPP$
Slovenia	22	29	…	25	14	-14	27	10,800	17,800
Czech Republic	19	23	24	…	26	4	24	5,440	14,280
Hungary	21	23	…	24	14	4	27	4,910	12,490
Slovakia	…	20	…	…	…	…	…	3,810	11,370
Estonia	24	35	…	36	50	3	37	3,790	9,890
Poland	28	28	…	30	7	7	31	4,220	9,070
Russia	26	48	…	47	81	-2	46	1,740	8,400
Croatia	36	…	…	35	-3	…	30	4,820	8,310
Belarus	23	…	25	25	9	0	30	2,960	7,770
Latvia	24	…	31	32	33	3	32	3,160	7,640
Lithuania	23	33	…	33	43	0	32	3,090	7,350
Romania	23	29	…	30	30	3	…	1,760	6,700
Kazakhstan	30	33	34	…	13	3	…	1,430	6,220
Bulgaria	23	38	40	…	74	5	27	1,600	5,840
FYR Macedonia	…	…	36	…	…	…	32	1,730	4,770
Turkmenistan	28	36	…	39	39	8	…	820	4,150
Ukraine	24	…	27	31	29	15	32	770	4,050
Bosnia-Herzegovina	…	…	…	…	…	…	…	1,310	3,930
Albania	…	…	25	…	…	…	…	1,190	3,820
Azerbaijan	28	43	…	42	50	-2	…	660	2,980
Georgia	29	…	…	41	41	…	35	660	2,810
Armenia	27	…	…	58	115	…	31	570	2,810
Yugoslavia	…	…	…	…	…	…	…	990	2,760
Kyrgyzstan	31	55	…	44	42	-20	39	290	2,640
Uzbekistan	…	33	…	40	…	21	…	370	2,420
Moldova	27	…	…	41	52	…	40	420	2,330
Tajikistan	28	…	…	47	68	…	31	200	1,180
CEE & Eurasia	26	40	…	40	50	3	38	1,960	6,910
Northern Tier CEE	24	24	…	28	14	5	29	4,530	10,540
Southern Tier CEE	25	31	…	31	36	4	29	1,760	5,480
Eurasia	26	47	…	44	61	3	41	1,320	6,350
Advanced Economies		32			3			28,455	28,548
EU		28			2			22,404	24,332
United States				41					
Italy			27						
Germany		30							
Austria	23								
Sweden		25							
Brazil			60						
Guatemala	60								
South Africa		59							

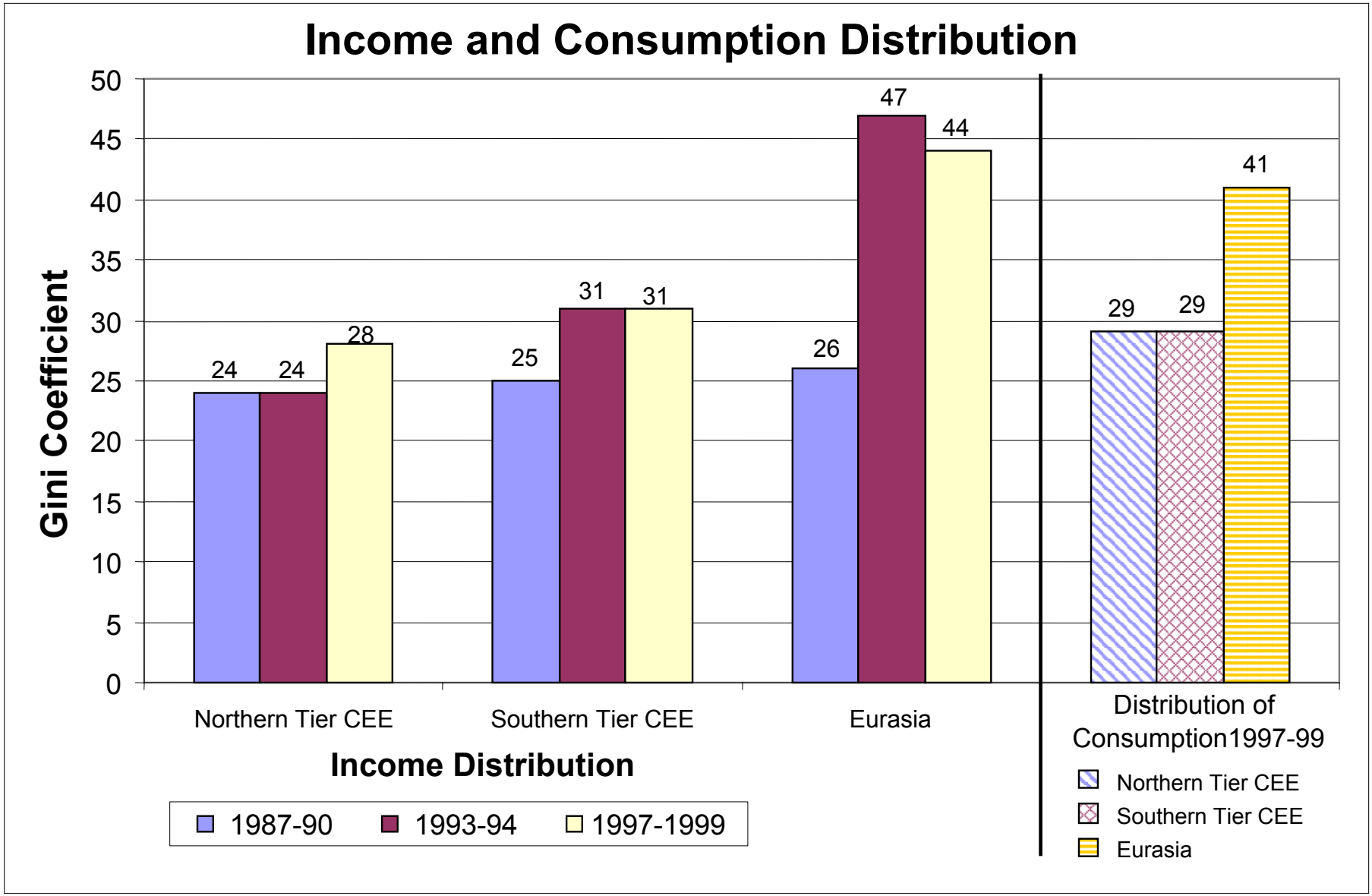
Note: Average (or per capita) income is measured in US$ converting through official exchange rates, and through purchasing power parity (PPP) figures, using 2000 World Bank figures and updating to 2001 with 2001 per capita economic growth rates. The distribution of income and consumption are measured by the gini coefficient, which ranges from 0 to 100; the higher the figure, the greater the inequality. Most gini coefficient estimates, particularly the later years, are adjusted for household economies of scale (theta = 0.75). For the Advanced Economies and the EU, percent change in income distribution is roughly from 1986 to 1993.

1 A consumption gini coefficient was used in lieu of income due to insufficient income data in the case of Azerbaijan (in 1993-94 and 1997-99), Albania (1995-96), Kazakhstan (1995-96), Ukraine (1995-96), Romania (1997-99) and Turkmenistan (1997-99

2 From 1995/96 to 1997/99 if available; otherwise from 1993/94 to 1997/99 or 1993/94 to 1995/96. 3 Data for Bulgaria, Czech Republic and FYR Macedonia are for 1995-96

World Bank, *World Development Indicators* (2002), World Bank, *Poverty Reduction, Growth and Debt Sustainability in Low Income CIS Countries* (February 2002); IMF, *World Economic Outlook* (May 2001), World Bank, *Making Transition Work for Everyone* (September 2000); P. Gottschalk and T. Smeeding, "Cross-National Comparisons of Earnings and Income Inequality,"*Journal of Economic Literature* 35 (June 1997), pp. 633-687.

Figure 27



The distribution of income and consumption are measured by the Gini coefficient, which ranges from 0 to 100; the higher the figure, the greater the inequality. Most Gini coefficient estimates, particularly the later years, are adjusted for household economies of scale (theta = 0.75).

Table 19, *Monitoring Country Progress No. 7* (October 2001), and World Bank, *World Development Indicators 2002* (2002); World Bank, *Making Transition Work for Everyone: Poverty and Inequality in Europe and Central Asia* (September 2000).

Figure 28

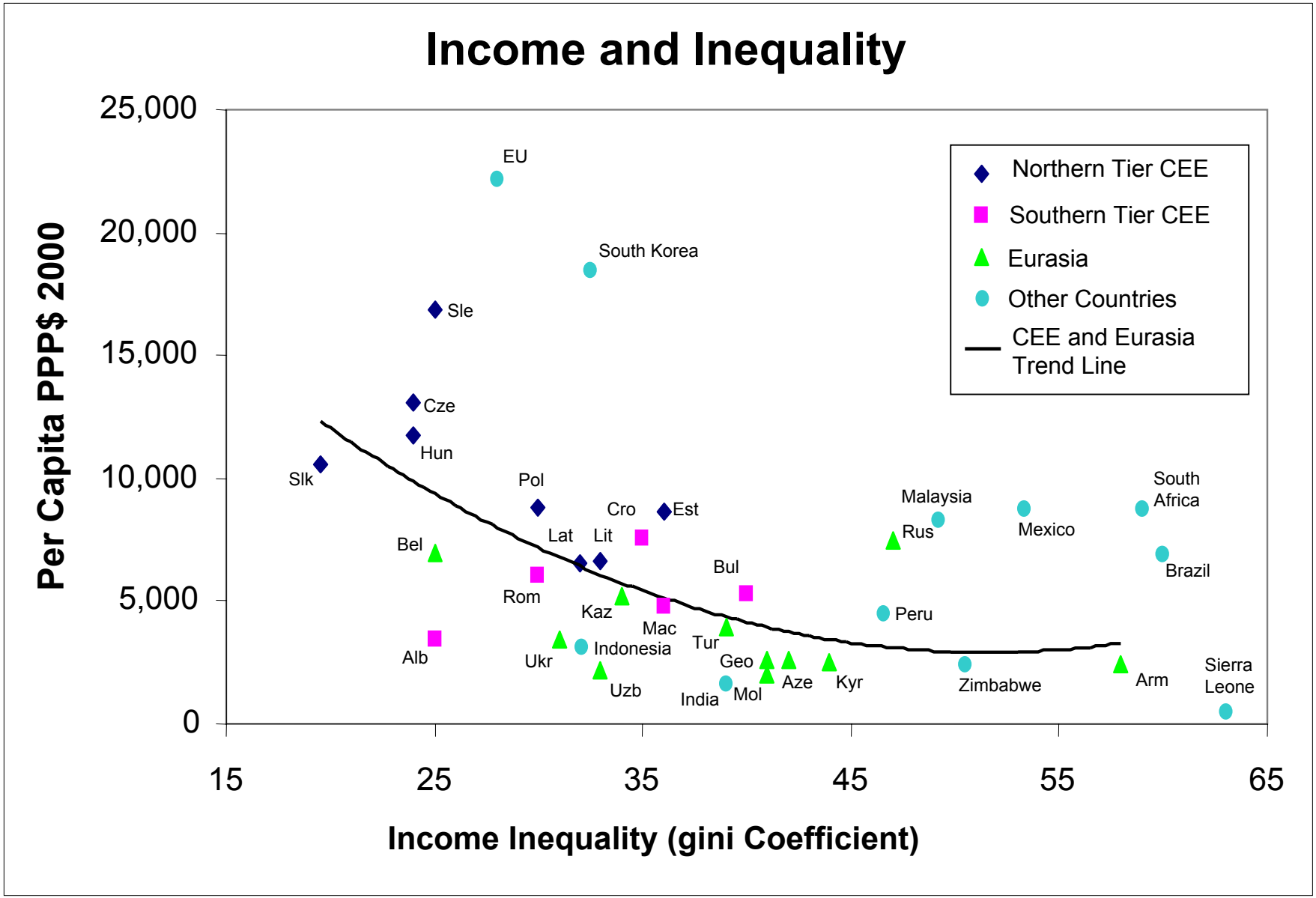


Table 17, drawing from World Bank, *World Development Indicators 2002 (2002);* World Bank, *Making Transition Work for Everyone: Poverty and Inequality in Europe and Central Asia* (September 2000).

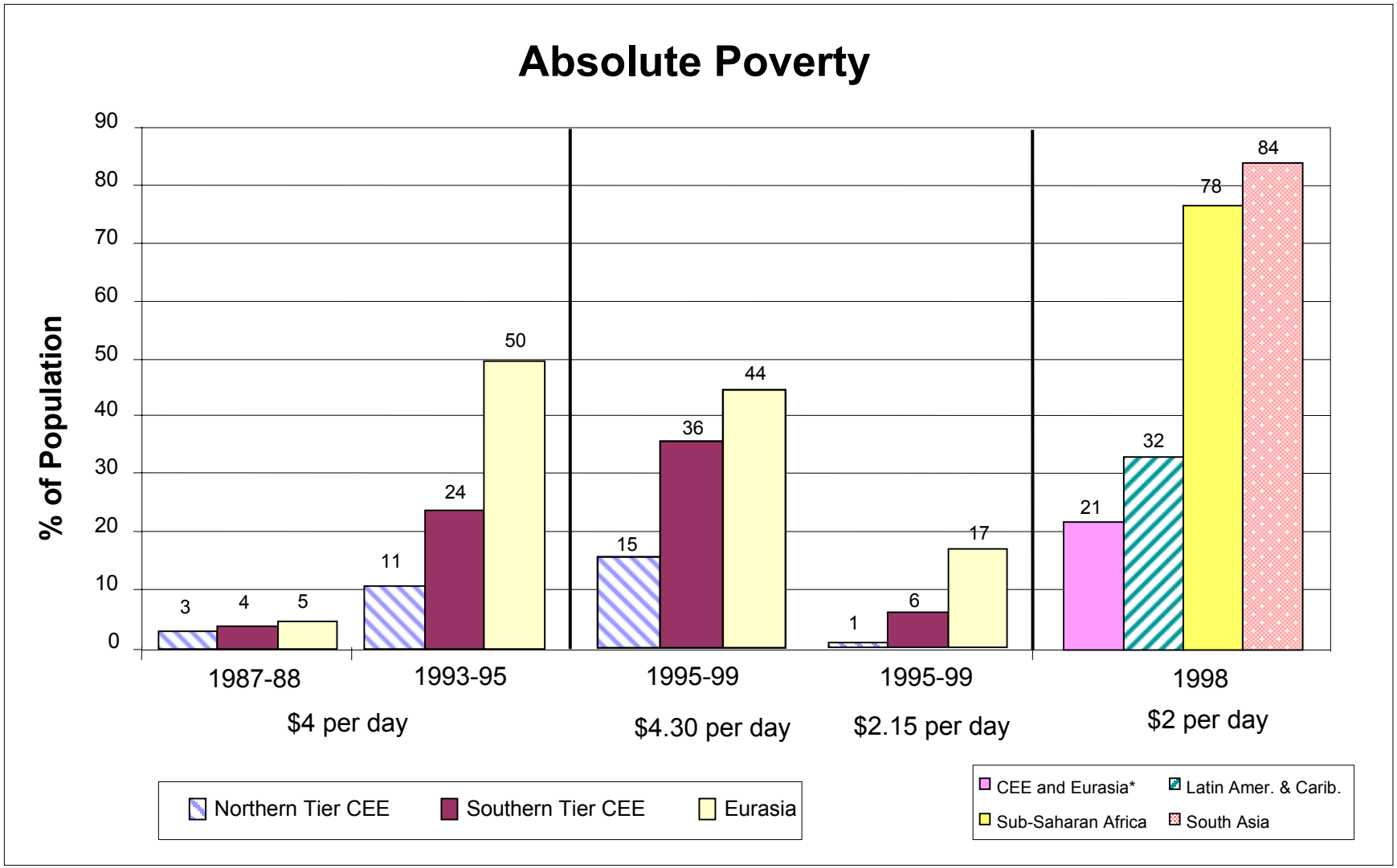
Table 18. Absolute Poverty

	$4 a day		Survey	$2.15/day	$4.30/day
	1987-1988	1993-1995	Year		
Slovenia	0	1	1997/98	0	1
Czech Republic	0	1	1996	0	1
Croatia	…	…	1998	0	4
Slovakia	0	1	1997	3	9
Belarus	1	22	1999	1	10
Hungary	1	2	1997	1	15
Bulgaria	2	15	1995	3	18
Poland	6	14	1998	1	18
Estonia	…	37	1998	2	19
Uzbekistan	24	39	1999	…	22
Lithuania	1	30	1999	3	23
Ukraine	2	63	1999	3	29
Kazakhstan	5	62	1996	6	31
Turkmenistan	12	57	1998	7	34
Latvia	1	22	1998	7	35
FYR Macedonia	…	…	1996	7	44
Romania	6	28	1998	7	45
Russia	2	44	1998	19	50
Georgia	…	40	1999	19	54
Albania	…	…	1996	12	59
Azerbaijan	…	50	1999	24	64
Kyrgyzstan	12	86	1998	49	84
Moldova	4	66	1999	55	85
Armenia	…	40	1999	44	86
Tajikistan	…	100	1999	68	96
Yugoslavia	…	…	…	…	…
CEE & Eurasia	4	40		12	39
Northern Tier CEE	3	11		1	15
Southern Tier CEE	5	24		6	36
Eurasia	4	50		17	44
UK	1				
Turkey	31				
Malaysia	15				
Brazil	33				
Latin Amer. & Carib.*				32	
South Asia*				84	
Sub-Saharan Africa*				78	

Branko Milanovic, *Income, Inequality, and Poverty during the Transition from Planned to Market Economy* (World Bank, 1998); World Bank, *Making Transition Work for Everyone* (September 2000); World Bank, *Poverty Reduction, Growth and Debt Sustainability in Low Income CIS Countries* (February 2002); and World Bank, *Global Economic Prospects* (2001).

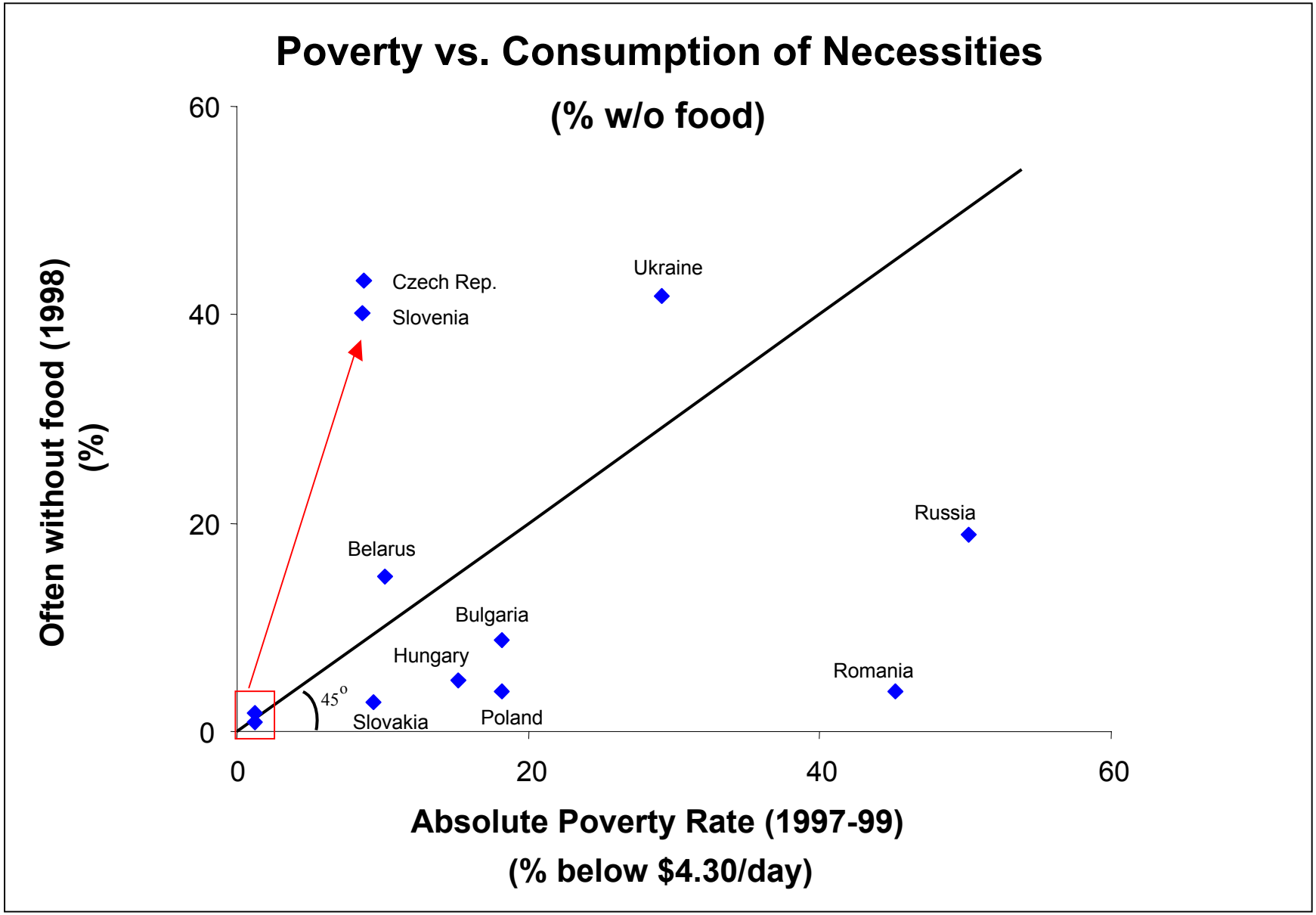
* Poverty at $2 dollars a day

Figure 29



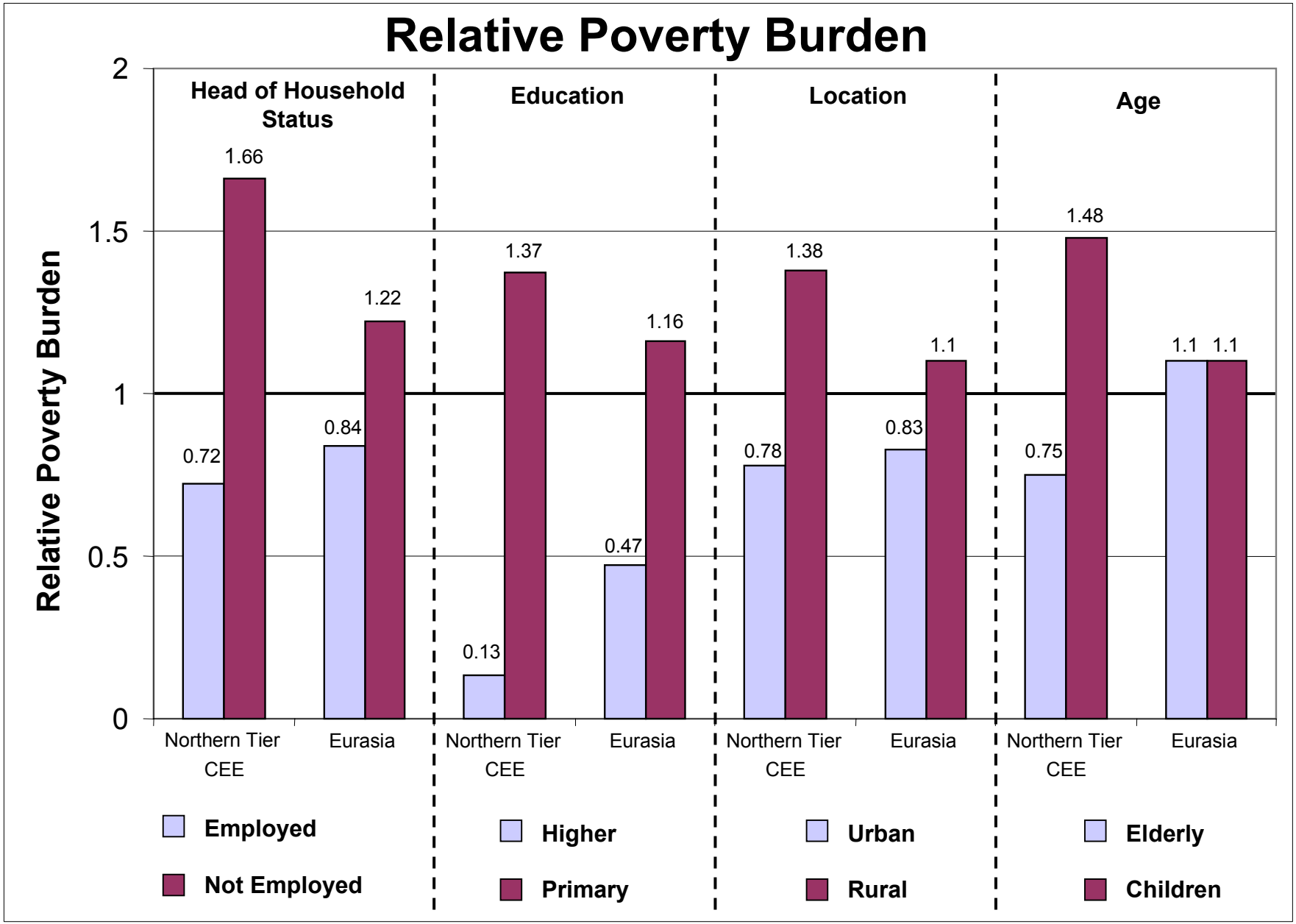
Branko Milanovic, *Income, Inequality, and Poverty during the Transition from Planned to Market Economy* (World Bank, 1998); World Bank, *Making Transition Work for Everyone* (September 2000); World Bank, *Global Economic Prospects* (2001).
* Turkey is included in the World Bank's classification of CEE and Eurasia.

Figure 30



Data on the percentage of households in 1998 having to often do without food are from two household surveys: R. Rose & C. Haerpfer, *New Democracies Barometer V: A 12 Nation Survey*, CSPP, #306 (1998); and Rose, *New Russia Barometer Trends Since 1992*, CSPP, #320 (1999).
Poverty rates measure the percent of population below a poverty line of $4.30 per day, and are drawn from World Bank, *Making Transition Work for Everyone* (September 2000).

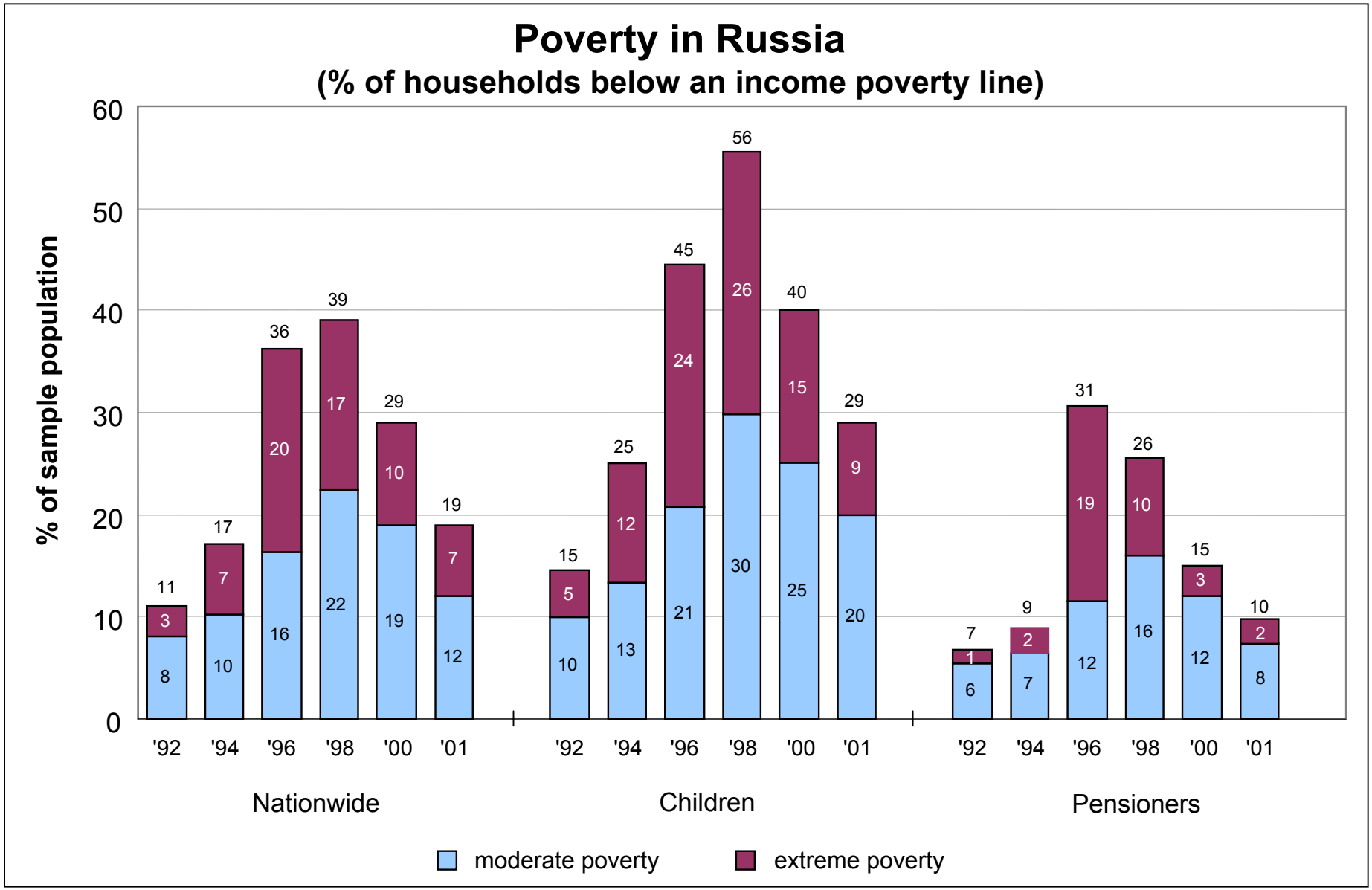
Figure 31



Relative poverty burden is calculated by dividing a particular population segment's share of total poverty in the country by its share of the total population. Anything over "1" represents a disproportionate share (or burden) of the nation's poverty. The relative poverty line used is 50% of the median income.

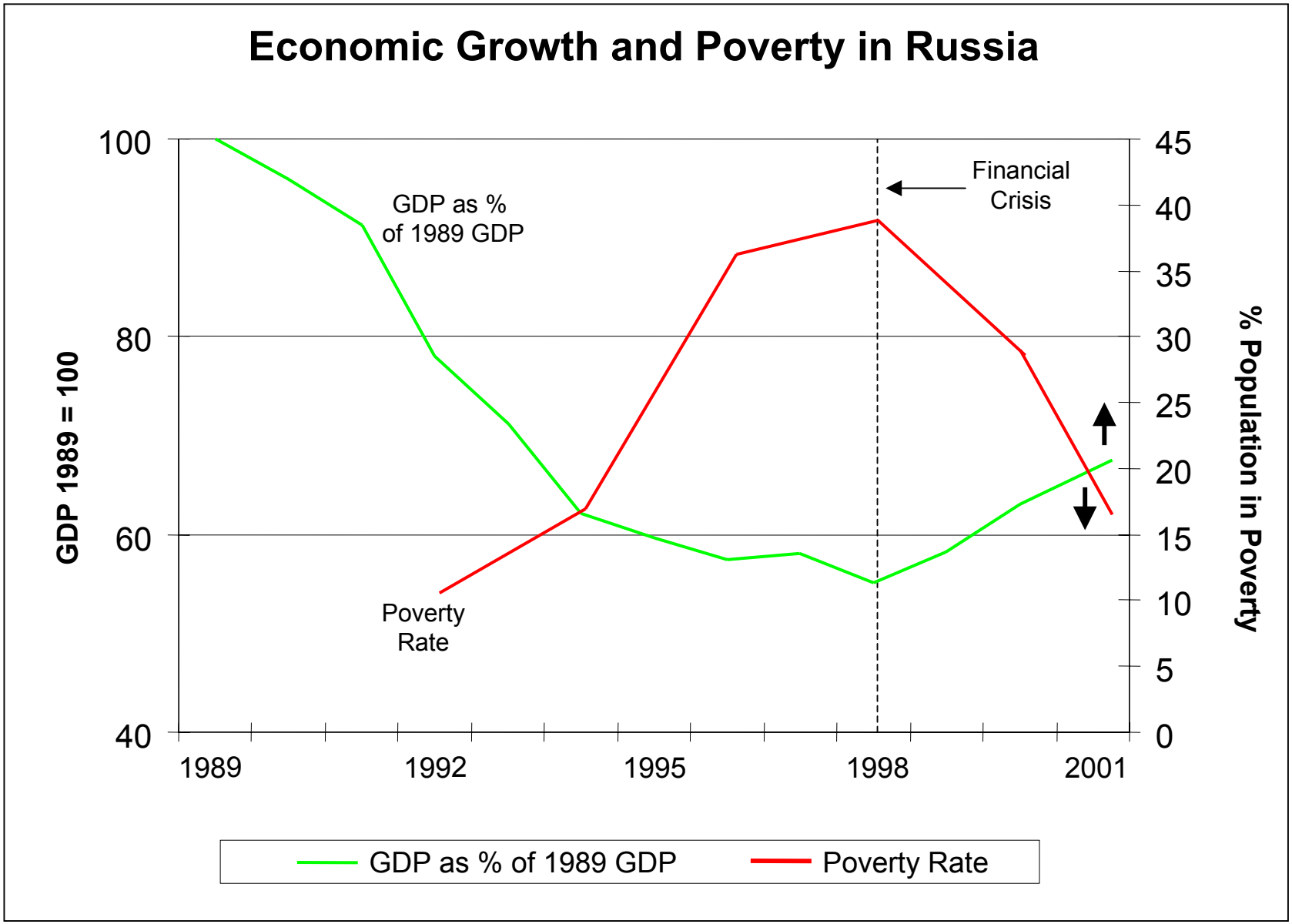
Table 21, *Monitoring Country Progress No. 7* (October 2001), drawing from World Bank, *Making Transition Work for Everyone: Poverty and Inequality in Europe and Central Asia* (September 2000).

Figure 32



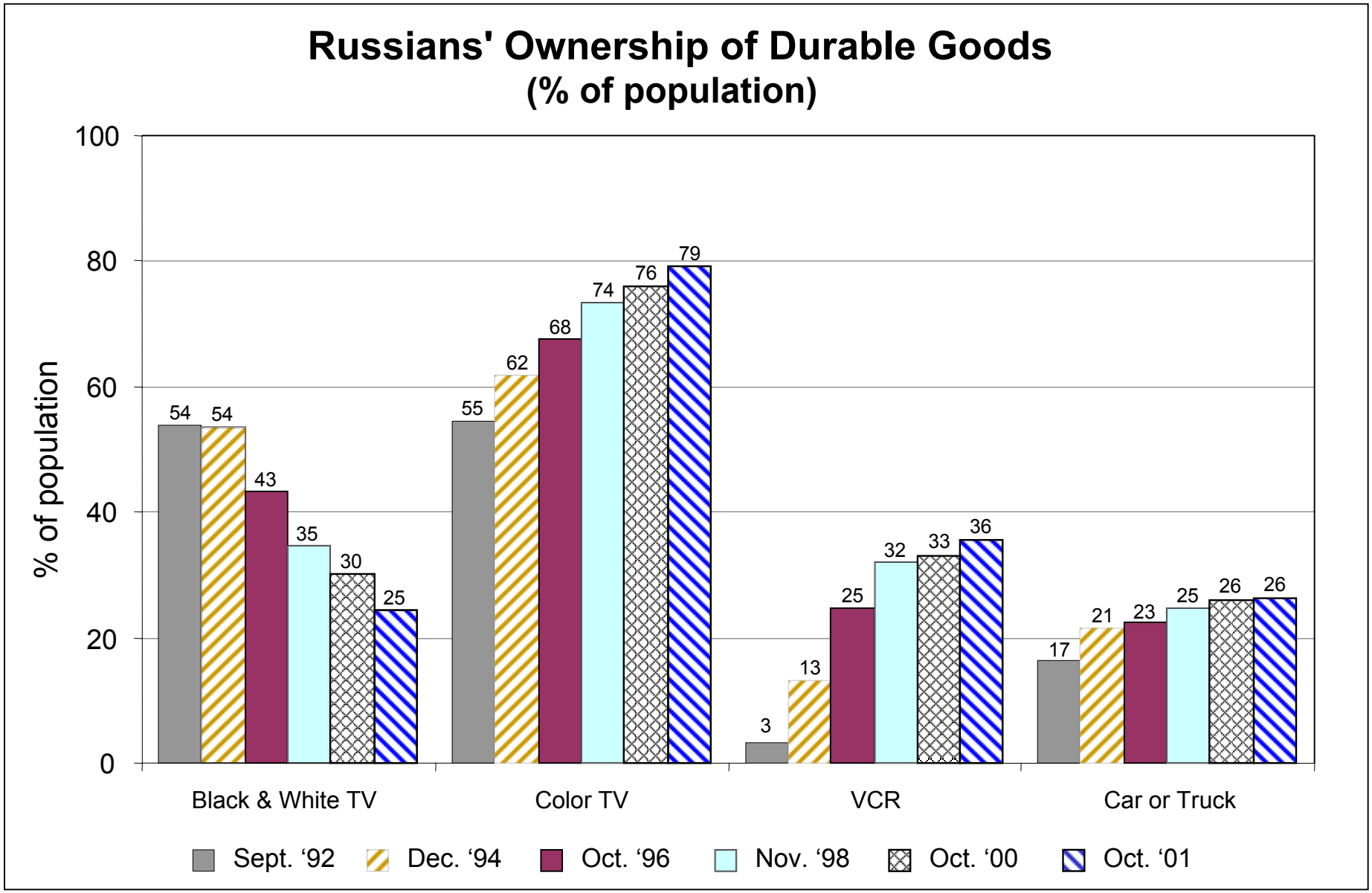
The poverty measures use a poverty line based on adjustments for economies of scale, oblast-level prices, and regional food baskets. Extreme poverty is income less than 50% of the poverty line. Mroz, Mancini, & Popkin, *Monitoring Economic Conditions in the Russian Federation: The Russia Longitudinal Monitoring Survey 1992-2000* (2001), and Popkin presentation for USAID/Washington (March 2002). Extreme poverty has ranged from 27% of total poverty (in 1992), to 41% ('94), 56% ('96), 47% ('98), 34% ('00), and 37% ('01).

Figure 33



EBRD, *Transition Report 2001* (November 2001), Mroz, Mancini, & Popkin, *Monitoring Economic Conditions in the Russian Federation: The Russia Longitudinal Monitoring Survey 1992-2000* (2001), and Popkin presentation for USAID/Washington (March 2002).

Figure 34



Appendix II. Table 17 *Monitoring Country Progress No. 6* (May 2000), and Mroz, Mancini, & Popkin, *Monitoring Economic Conditions in the Russian Federation: The Russia Longitudinal Monitoring Survey 1992-2000* (2001).

Table 19. Life Expectancy at Birth
(Years)

	Male			Female			Total Population				% change	% change
	1989	2000	% change	1989	2000	% change	1980	1989-92	1999	2000	1980-00	1989-00
Slovenia	69	72	4.7	77	79	3.0	70	73	75	75	7.5	3.1
Czech Republic	68	72	5.7	75	78	3.4	70	72	75	75	6.9	3.9
Albania	70	72	3.4	76	76	0.7	69	72	72	74	7.2	2.8
Armenia	69	71	2.9	75	77	3.1	73	70	74	74	0.9	5.2
Bosnia-Herzegovina	69	71	3.0	74	76	2.6	70	71	73	73	4.8	3.3
Poland	67	69	3.3	76	78	3.3	70	72	73	73	4.7	1.8
Croatia	68	69	1.2	76	78	3.2	70	73	73	73	4.7	0.4
Slovakia	67	69	3.1	75	77	2.1	70	71	73	73	4.4	2.9
Georgia	68	69	1.3	76	77	1.7	71	72	73	73	2.9	1.4
FYR Macedonia	70	71	0.0	74	75	1.9	72	72	73	73	1.1	1.1
Lithuania	67	68	0.0	76	78	2.2	71	71	72	73	2.3	2.3
Yugoslavia	69	70	1.9	74	75	1.6	70	72	72	72	3.5	0.6
Azerbaijan	66	68	2.4	74	75	1.1	68	71	71	72	5.5	1.1
Bulgaria	69	68	-0.9	75	75	0.0	71	72	71	72	0.8	-0.6
Hungary	65	67	2.4	74	76	3.0	70	71	71	71	1.8	0.3
Estonia	66	65	-1.1	75	76	0.0	69	70	71	71	2.3	0.9
Latvia	65	65	-0.5	75	76	1.1	69	69	70	70	2.0	2.0
Romania	67	66	-0.9	73	74	0.0	69	71	69	70	1.2	-1.6
Uzbekistan	66	67	0.0	72	73	1.2	67	69	70	70	4.1	1.1
Tajikistan	66	66	0.0	71	72	0.0	66	69	69	69	4.2	-0.3
Ukraine	66	63	-4.7	75	74	-1.6	69	70	67	68	-1.0	-2.4
Belarus	67	62	-7.6	76	74	-3.0	71	71	68	68	-4.1	-4.1
Moldova	66	64	-2.3	72	72	-0.4	66	68	67	68	2.7	-0.4
Kyrgyzstan	64	63	-1.9	72	72	0.3	65	66	67	67	3.5	2.0
Turkmenistan	62	63	1.9	68	70	2.3	64	66	66	66	3.7	0.5
Kazakhstan	64	60	-6.1	73	71	-2.6	67	68	65	65	-2.3	-3.7
Russia	64	59	-8.1	75	72	-3.4	67	69	66	65	-2.5	-5.3
CEE & Eurasia	66	63	-3.5	74	74	0.0	68	70	69	69	0.5	-2.0
Northern Tier CEE	67	69	3.2	75	77	2.8	70	72	73	73	4.4	2.1
Southern Tier CEE	68	67	-0.8	74	75	0.0	70	72	71	71	2.6	-0.2
Eurasia	65	61	-5.4	74	73	-2.0	68	69	67	67	-1.0	-3.3
LDCs		63			66		60		64	64		
Latin Amer. & Carib.		67			74		65		70	70		
Sub-Saharan Africa		46			47		48		47	47		
High Income		75			81		74		78	78		
Europe EMU		75			81		74		78	78		
Benchmarks			no decline			no decline						

World Bank, *World Development Indicators 2002* (2002)

Figure 35

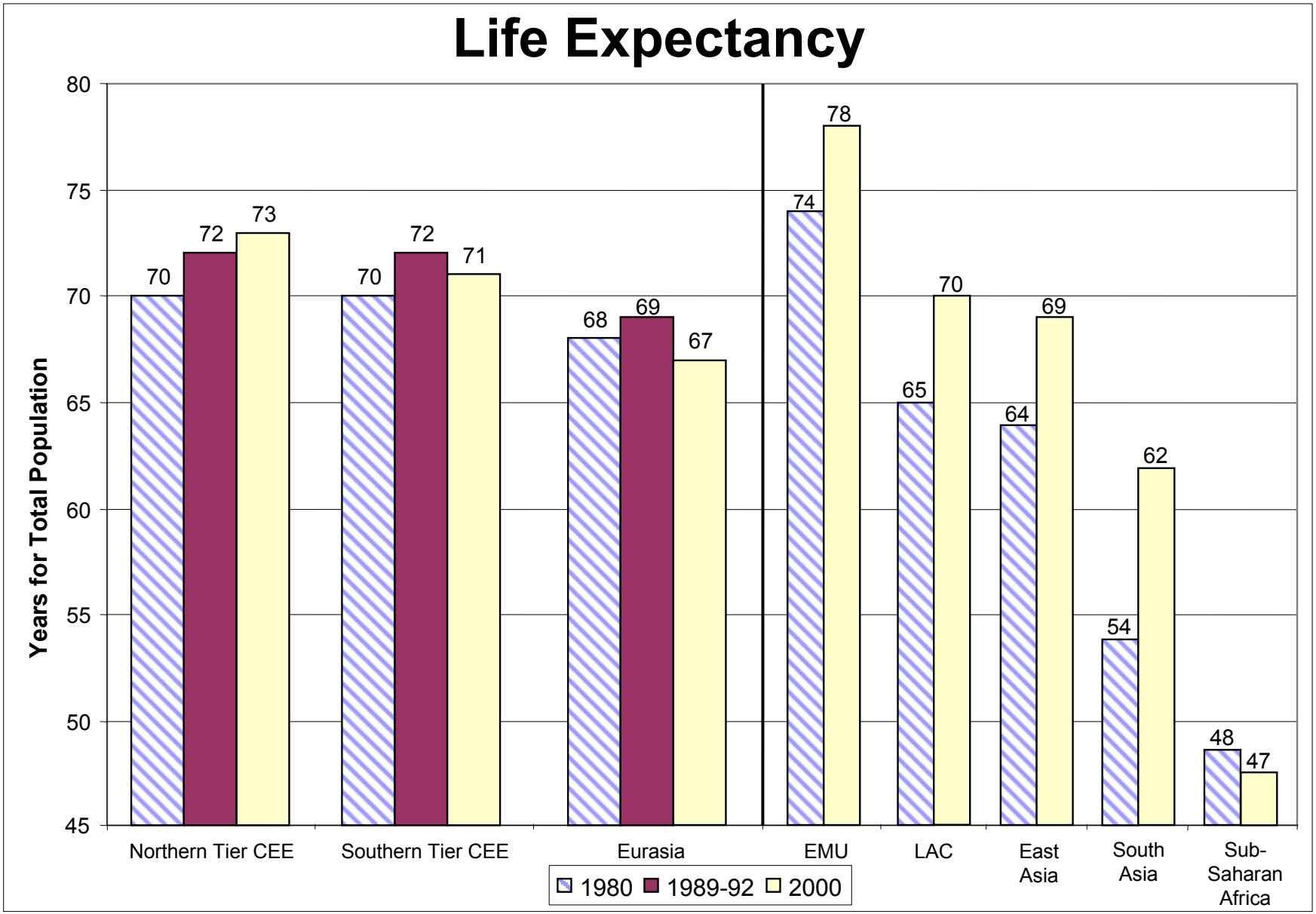


Table 19, drawing from World Bank, *World Development Indicators 2002* (2002); and World Bank, *World Development Report 2000-2001* (September 2000).

Table 20. Infant and Child Mortality

	Infant Mortality (per 1,000 live births)					% Change	Under 5 Yrs. mortality rates			% Change
	1980	1990	1993	1999	2000	1990-00	1990	1999	2000	1990-00
Czech Republic	16	11	9	5	4	-64	12	5	7	-45
Slovenia	15	8	7	5	5	-38	10	6	7	-35
Croatia	21	11	10	8	8	-27	13	9	9	-28
Slovakia	21	12	11	8	8	-33	14	10	10	-30
Estonia	17	12	16	10	8	-33	17	12	11	-33
Poland	26	19	16	9	9	-53	22	10	11	-52
Hungary	23	15	13	8	9	-40	17	10	11	-37
Lithuania	20	10	16	9	9	-10	14	12	11	-19
Latvia	20	14	16	14	10	-29	18	18	17	-4
Belarus	16	12	13	11	11	-8	16	14	14	-13
Yugoslavia	33	23	22	12	13	-43	26	16	15	-40
Ukraine	17	13	15	14	13	0	…	17	16	…
Bosnia-Herzegovina	…	15	23	13	13	-13	21	18	18	-14
Azerbaijan	30	23	28	16	13	-43	…	21	21	…
Bulgaria	20	15	16	14	14	-7	19	17	16	-17
FYR Macedonia	54	32	24	16	14	-56	33	17	17	-49
Armenia	26	19	17	14	15	-21	24	18	17	-29
Russia	22	17	20	16	16	-6	21	20	19	-9
Georgia	25	16	18	15	17	6	…	20	21	…
Moldova	35	19	22	17	18	-5	25	22	22	-12
Romania	29	27	23	20	19	-30	36	24	23	-36
Albania	47	28	33	24	20	-29	42	35	..	…
Kazakhstan	33	26	28	22	21	-19	34	28	28	-19
Tajikistan	58	41	47	20	21	-49	…	34	30	…
Uzbekistan	47	35	32	22	22	-37	…	29	27	…
Kyrgyzstan	43	30	32	26	23	-23	41	38	35	-16
Turkmenistan	54	45	46	33	27	-40	…	45	43	…
CEE & Eurasia	26	19	20	15	15	-20	23	19	18	-22
Northern Tier CEE	23	16	14	8	8	-47	18	10	10	-43
Southern Tier CEE	30	23	21	16	16	-29	29	19	19	-32
Eurasia	26	20	22	17	16	-11	23	22	21	-11
LDCs		66		59	58	-12	91	85	84	-8
Latin Amer. & Carib.		41		30	29	-29	49	38	37	-24
Sub-Saharan Africa		101		92	91	-10	155	161	162	5
High Income Countries		8		6	6	-25	9	6	7	-22
Europe EMU		8		5	5	-38	9	5	6	-33
Benchmarks						no worsening				

World Bank, *World Development Indicators 2002* (2002). For 1999 under 5 mortality in Albania: UNICEF, *State of the World's Children 2001* (December 2000).

Figure 36

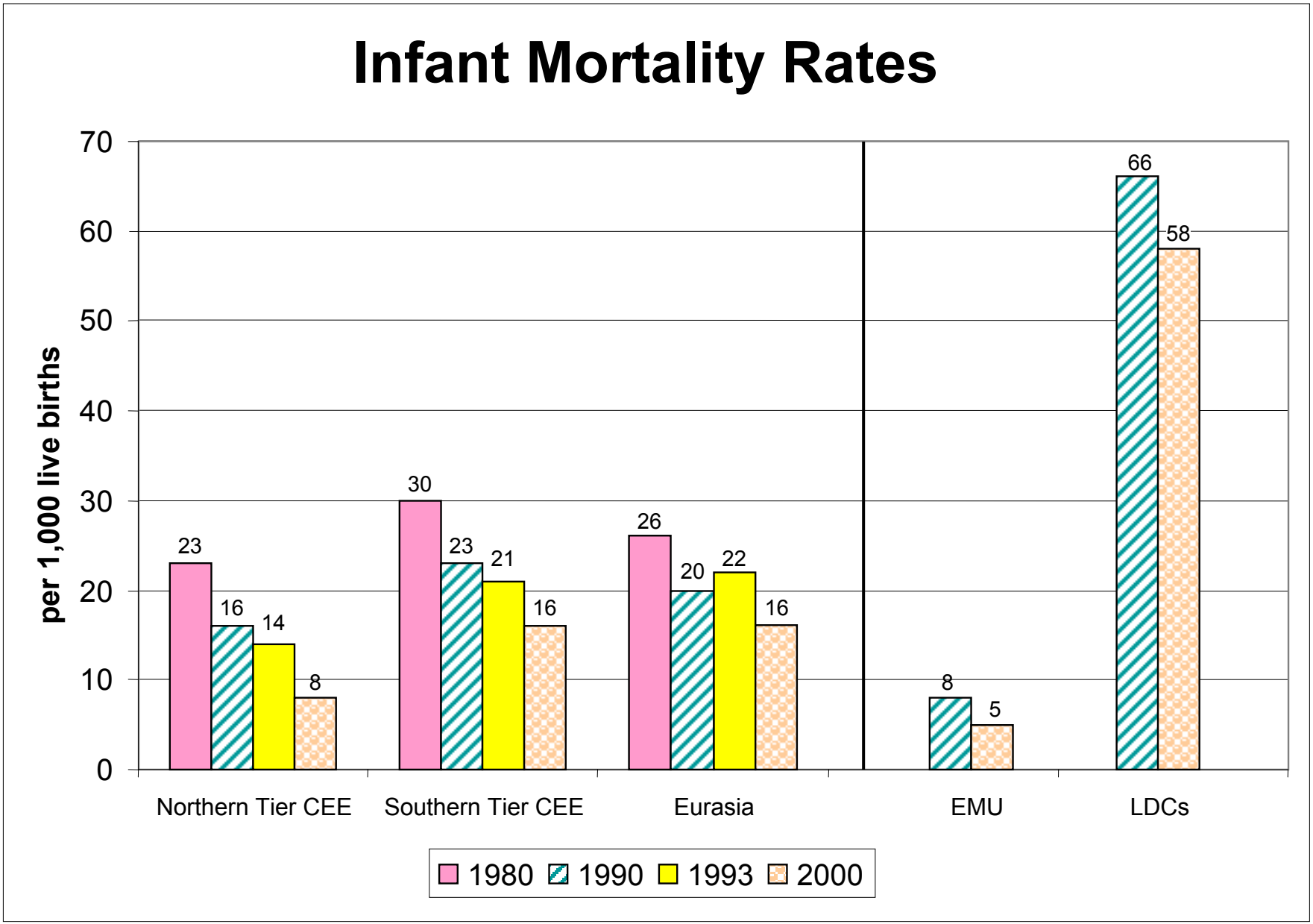
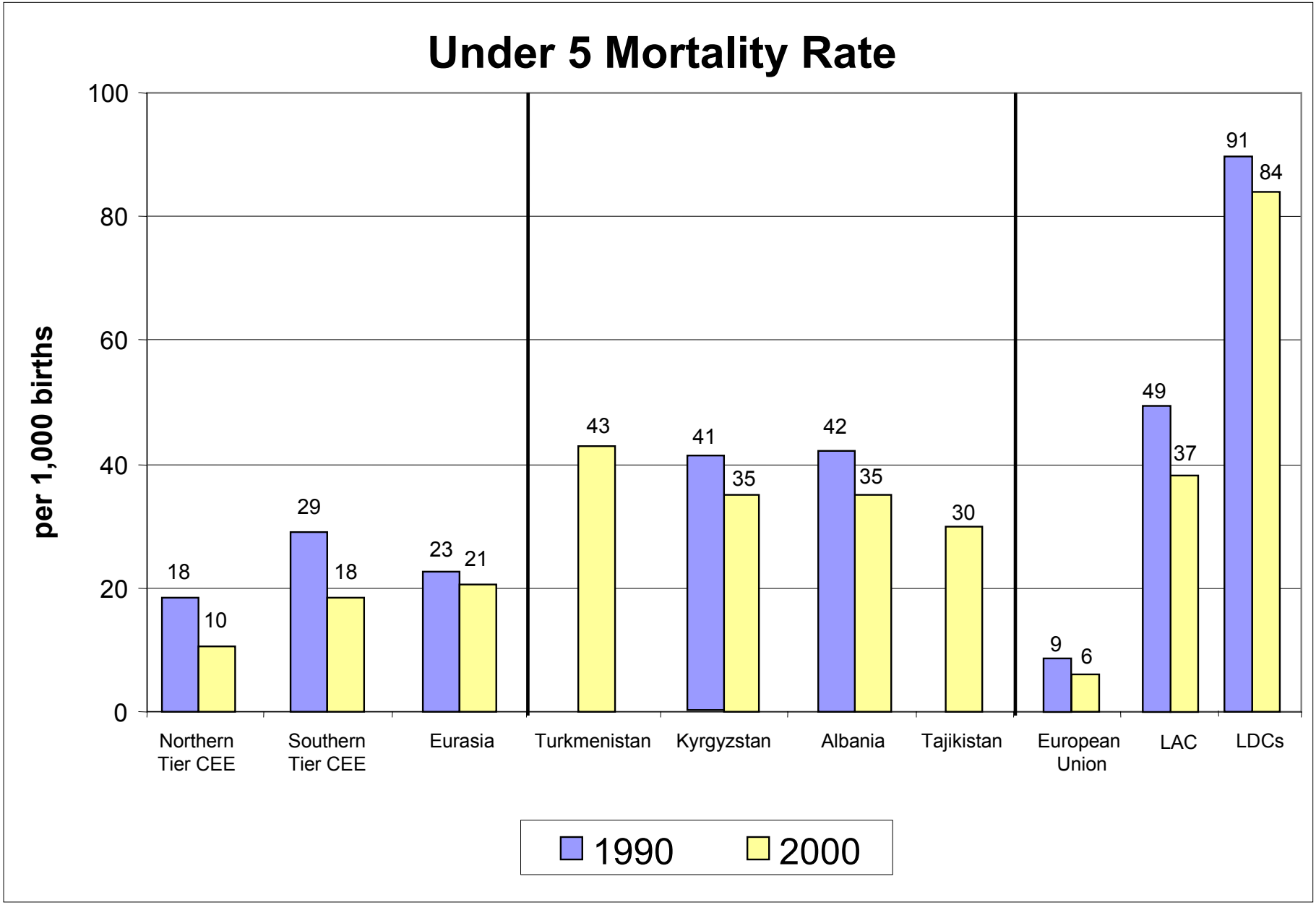


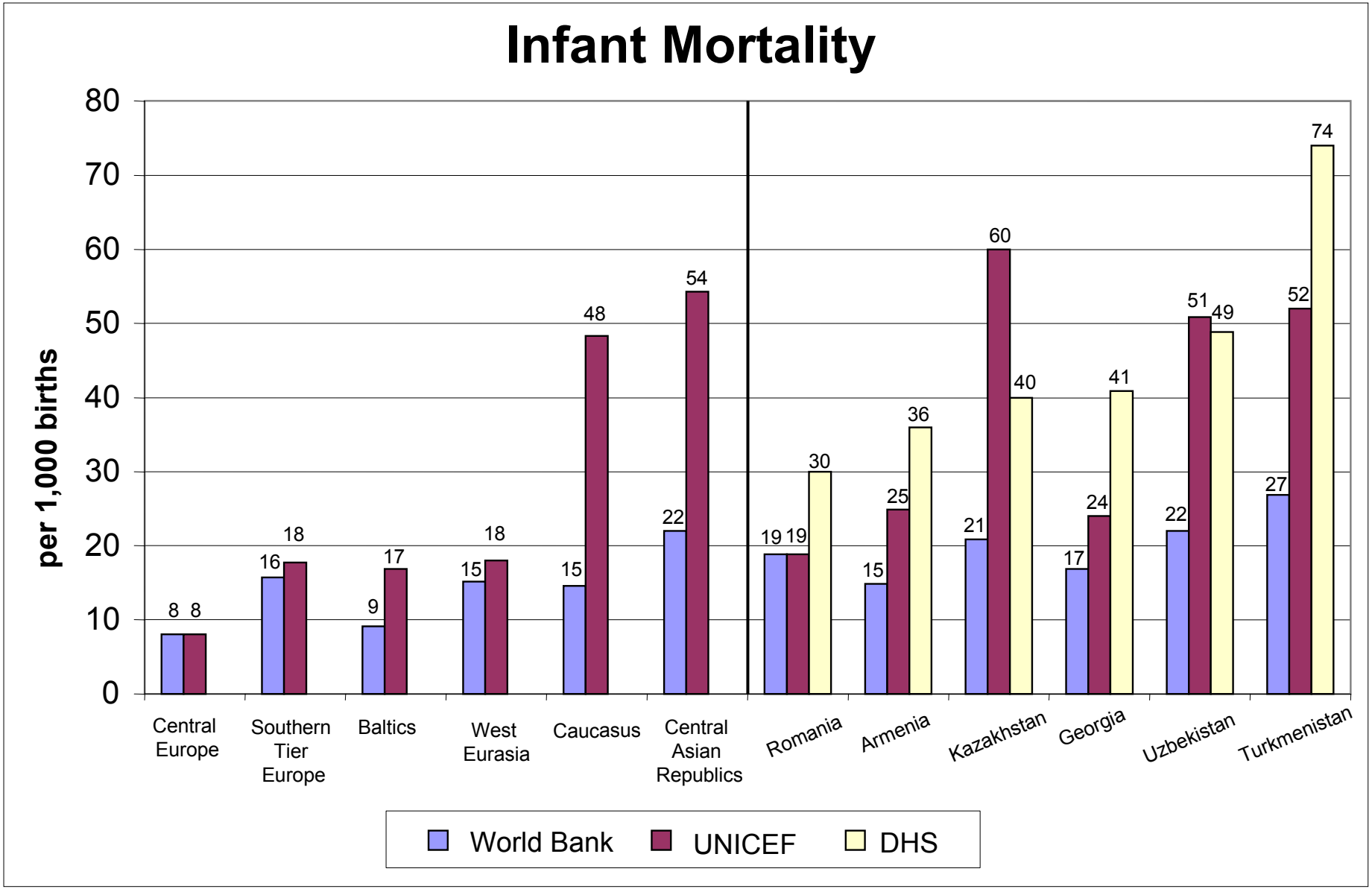
Table 20, drawing from World Bank, *World Development Indicators 2002* (2002).

Figure 37



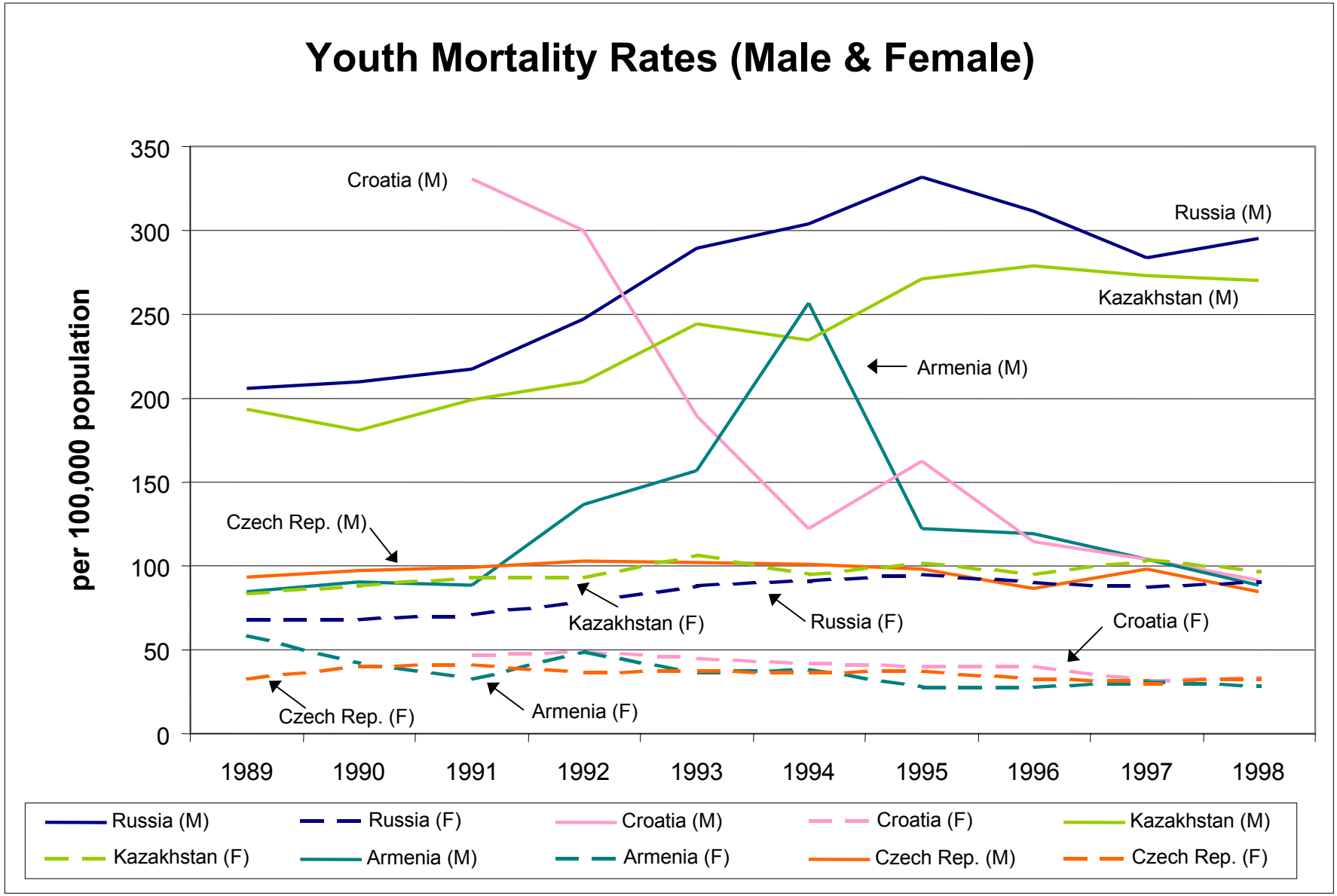
Most recent data available for Albania are 1999.
Table 20, drawing from World Bank, *World Development Indicators 2002* (2002).

Figure 38



Central Europe consists of Czech Rep., Hungary, Poland, Slovakia and Slovenia. The Baltics are Estonia, Latvia and Lithuania. Southern Tier Europe consists of Albania, Bosnia-Herzegovina, Bulgaria, Croatia, Macedonia and Yugoslavia. West Eurasia consists of Belarus, Moldova, Russia and Ukraine. The Caucasus are Armenia, Azerbaijan and Georgia. The Central Asian Republics are Kazakhstan, Kyrgyzstan, Uzbekistan, Tajikistan and Turkmenistan.
World Bank, *World Development Indicators 2002* (2002); UNICEF, *Social Monitor* (2002), and Macro International Inc., *Demographic and Health Surveys*.

Figure 39



Youth are from 15-24 years of age.
UNICEF, Regional Monitoring Report No. 7, *Young People in Changing Societies* (2000).

Table 21. Education

(Secondary and Primary School Enrollment)

Country	Secondary School Enrollment[1] (% of age group) 1990	1993	1997	1998	% change 1990-98[2]	Primary School Enrollment[1] 1989	1993	1998	% change 1989-98
Hungary	78.6	94.3	97.8	98	24.7	99.0	99.1	99.2	0.2
Slovenia	91.1	90.3	91.7	99	0.7	96.1	97.8	98.2	2.2
Poland	81.5	93.9	97.6	…	19.8	97.9	97.2	98.1	0.2
Czech Republic	91.2	91.8	98.7	82	-10.1	97.6	99.1	97.6	0.0
Romania	92.0	79.4	78.4	80	-13.0	93.6	90.3	97.0	3.6
Belarus	93.0	90.9	92.9	…	-0.1	95.6	93.3	96.5	0.9
Lithuania	91.9	80.9	86.3	90	-2.1	94.6	91.6	96.1	1.6
Estonia	101.9	93.9	103.8	104	2.1	96.5	91.4	95.0	-1.6
Croatia	76.2	82.8	81.8	…	7.3	94.0	89.0	94.3	0.3
Bulgaria	75.2	70.1	76.8	87	15.7	98.4	94.0	94.3	-4.2
Slovakia	…	88.6	94.0	86	-2.9	96.0	94.9	93.9	-2.2
Kazakhstan	98.0	92.0	87.0	87	-11.2	94.7	94.0	93.2	-1.6
Moldova	80.0	84.0	80.5	…	0.6	95.0	79.1	92.5	-2.6
Azerbaijan	90.0	87.0	77.0	84	-6.7	88.4	89.2	91.6	3.6
Latvia	92.7	87.0	83.7	87	-6.1	95.4	89.1	90.9	-4.7
Uzbekistan	99.0	94.0	94.0	…	-5.1	92.2	87.9	89.7	-2.7
Kyrgyzstan	100.0	90.0	79.0	86	-14.0	92.5	89.7	89.7	-3.0
Russia	93.3	87.0	…	…	-6.8	90.8	88.3	89.1	-1.9
Ukraine	92.8	91.2	…	…	-1.7	93.0	91.0	89.0	-4.3
Tajikistan	102.0	82.0	78.0	…	-23.5	95.6	87.1	87.8	-8.2
Albania	78.3	41.2	37.5	…	-52.1	90.8	86.6	87.6	-3.5
FYR Macedonia	55.7	57.3	62.9	83	49.0	89.4	86.2	86.9	-2.8
Armenia	…	88.0	90.0	…	2.3	93.7	84.6	83.2	-11.2
Turkmenistan	…	…	…	…	…	94.3	92.0	83.1	-11.9
Georgia	95.0	77.0	77.0	79	-16.8	94.4	82.3	81.8	-13.3
Yugoslavia	…	…	62.0	…	…	95.0	72.5	69.2	-27.2
CEE & Eurasia	91.2	87.7	86.5	85.8	-2.6	93.3	90.2	90.9	-2.6
Northern Tier CEE	84.2	92.3	96.5	90.2	12.1	97.6	96.9	97.5	-0.1
Southern Tier CEE	83.9	73.7	71.7	82.0	-5.0	94.4	86.5	89.3	-5.3
Eurasia	94.0	88.5	86.9	85.0	-6.2	92.0	89.0	89.5	-2.7
European Union	96.7	108.4	108.4	…	12.1				
Benchmark		no decline in enrollment							

1. Gross rates, % of relevant populations. 2. Change is for most recent year.

Source: World Bank, *World Development Indicators 2002* (2002); UNICEF, *Young People in Changing Societies*, Regional Monitoring Report No. 7 (2000).

Figure 40

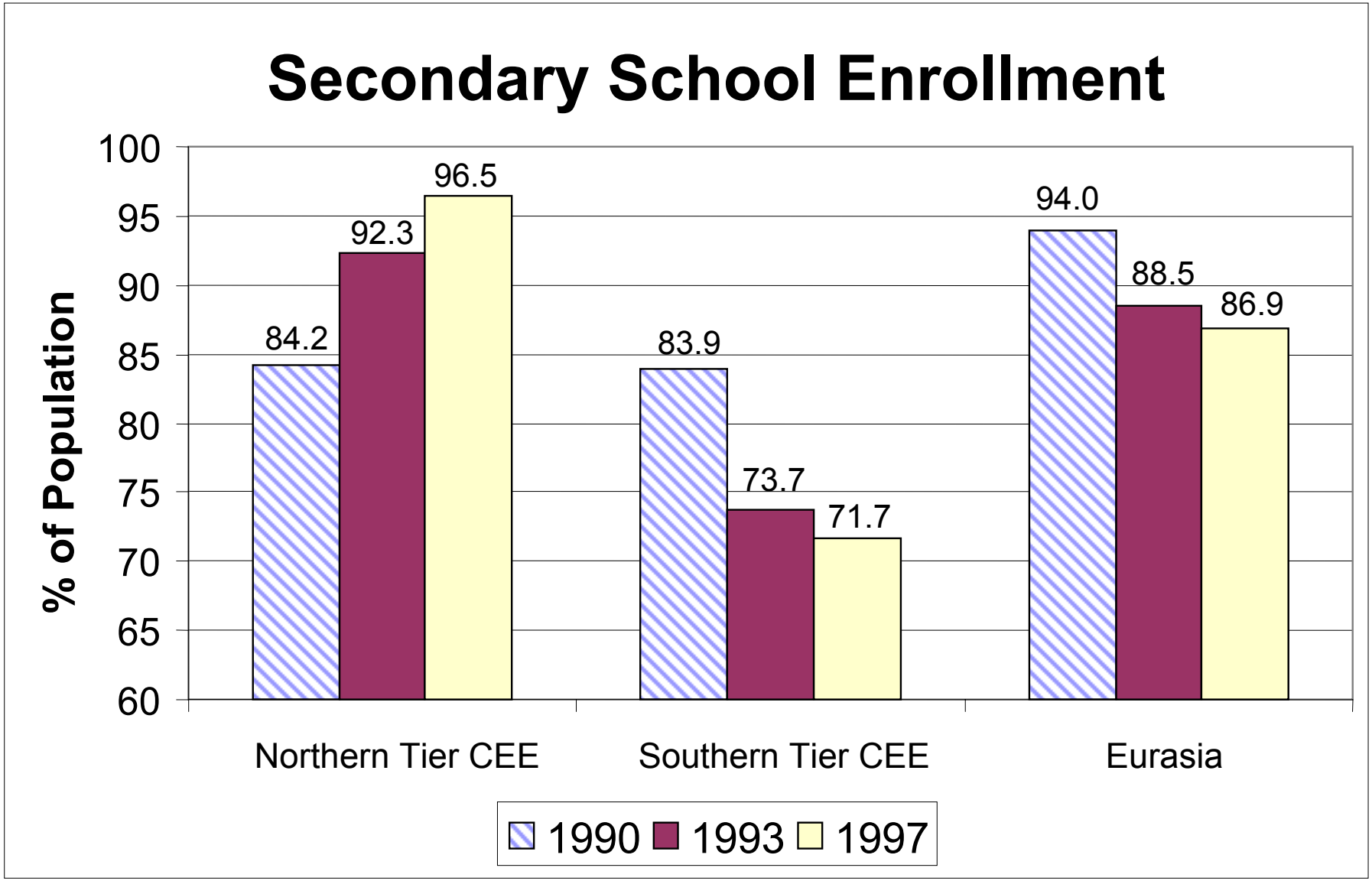


Table 21, drawing from World Bank, *World Development Indicators 2002* (2002).
Gross secondary school enrollment ratios in 1997 for LDCs were 56, LAC (42), South Asia (47), and Sub-Saharan Africa (26).

Figure 41

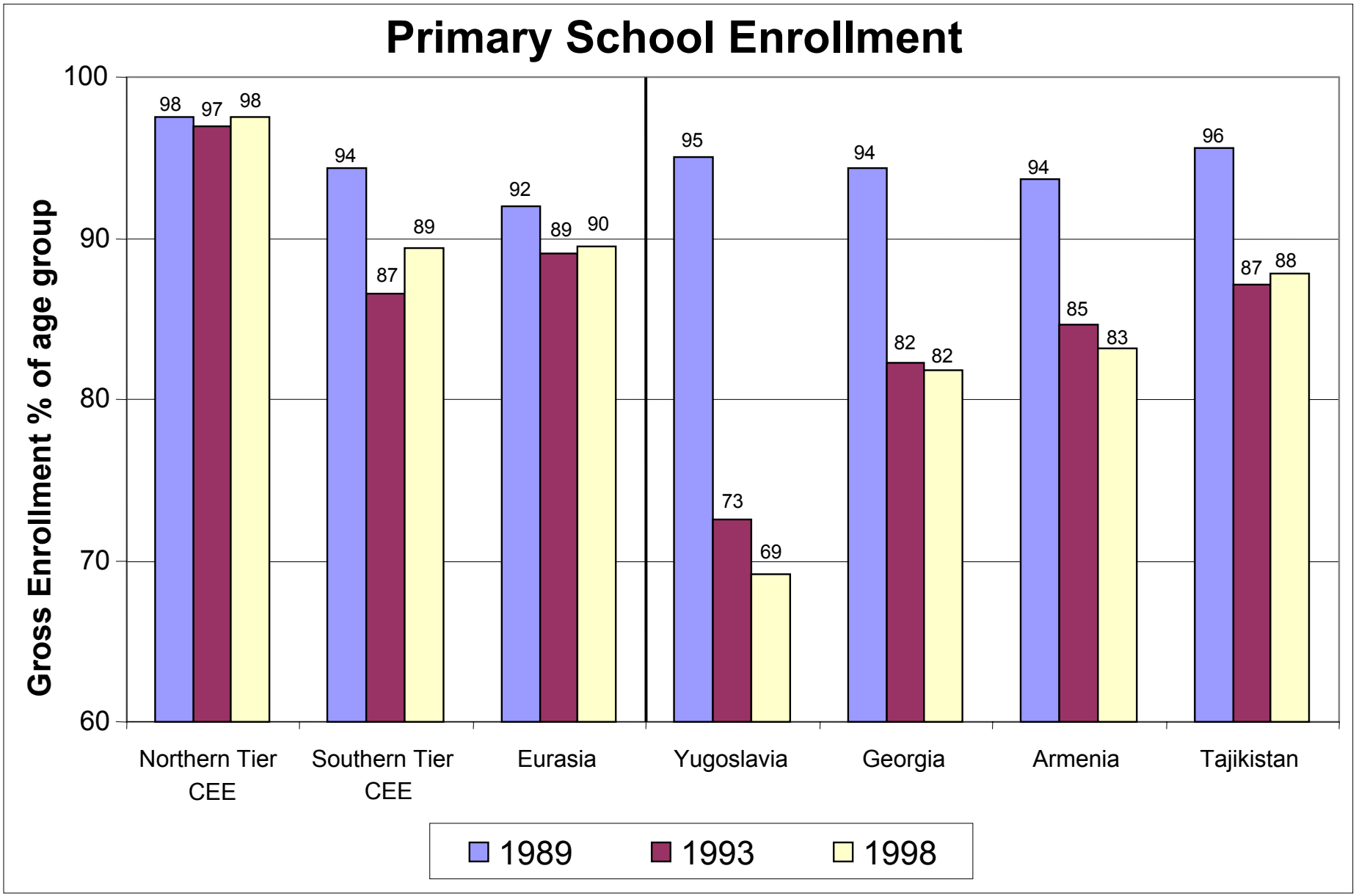
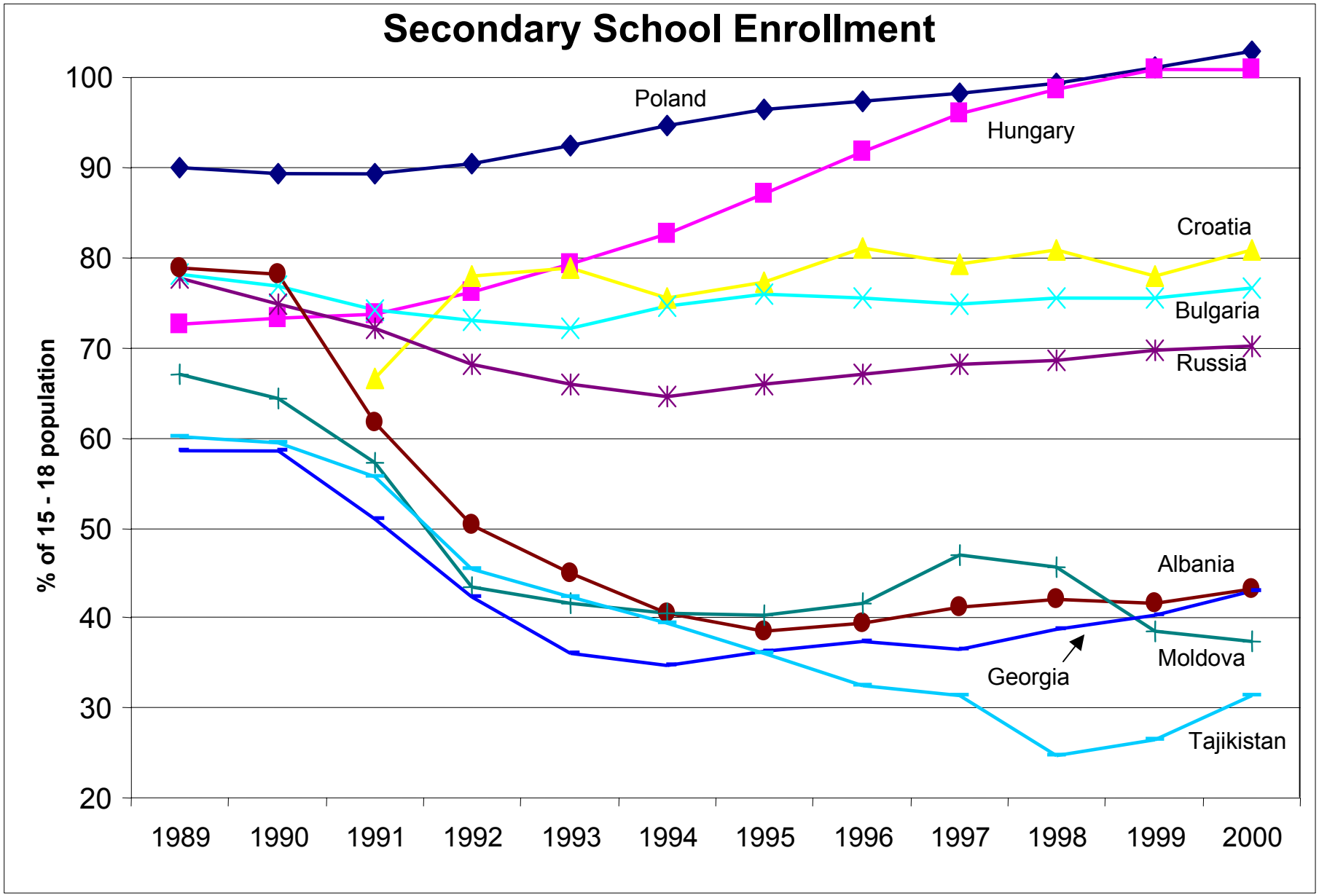


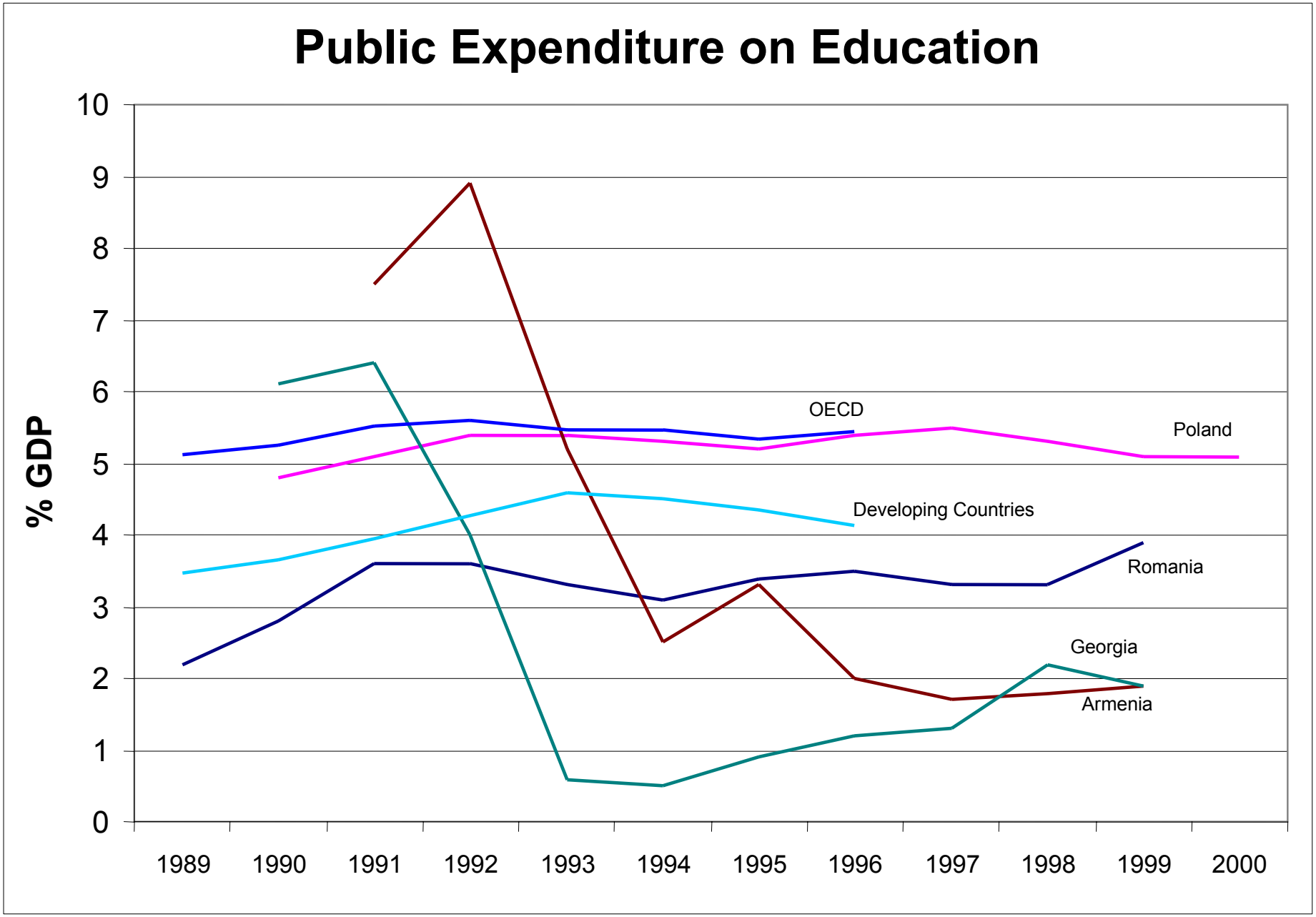
Table 21, drawing from UNICEF, *Young People in Changing Societies, Regional Monitoring Report, No. 7 (2000).*
World Bank data form 1997 for Europe and Central Asia, including Turkey, has a gross enrollment ratio of 102, while LDCs have an enrollment ratio of 105, LAC (116), South Asia (95) and Sub-Saharan Africa (74). World Bank, *World Development Indicators 2002* (2002).

Figure 42



Gross rates; general secondary plus vocational/technical secondary combined.
UNICEF, *Social Monitor* (2002).

Figure 43



UNICEF, *Social Monitor* (2002).

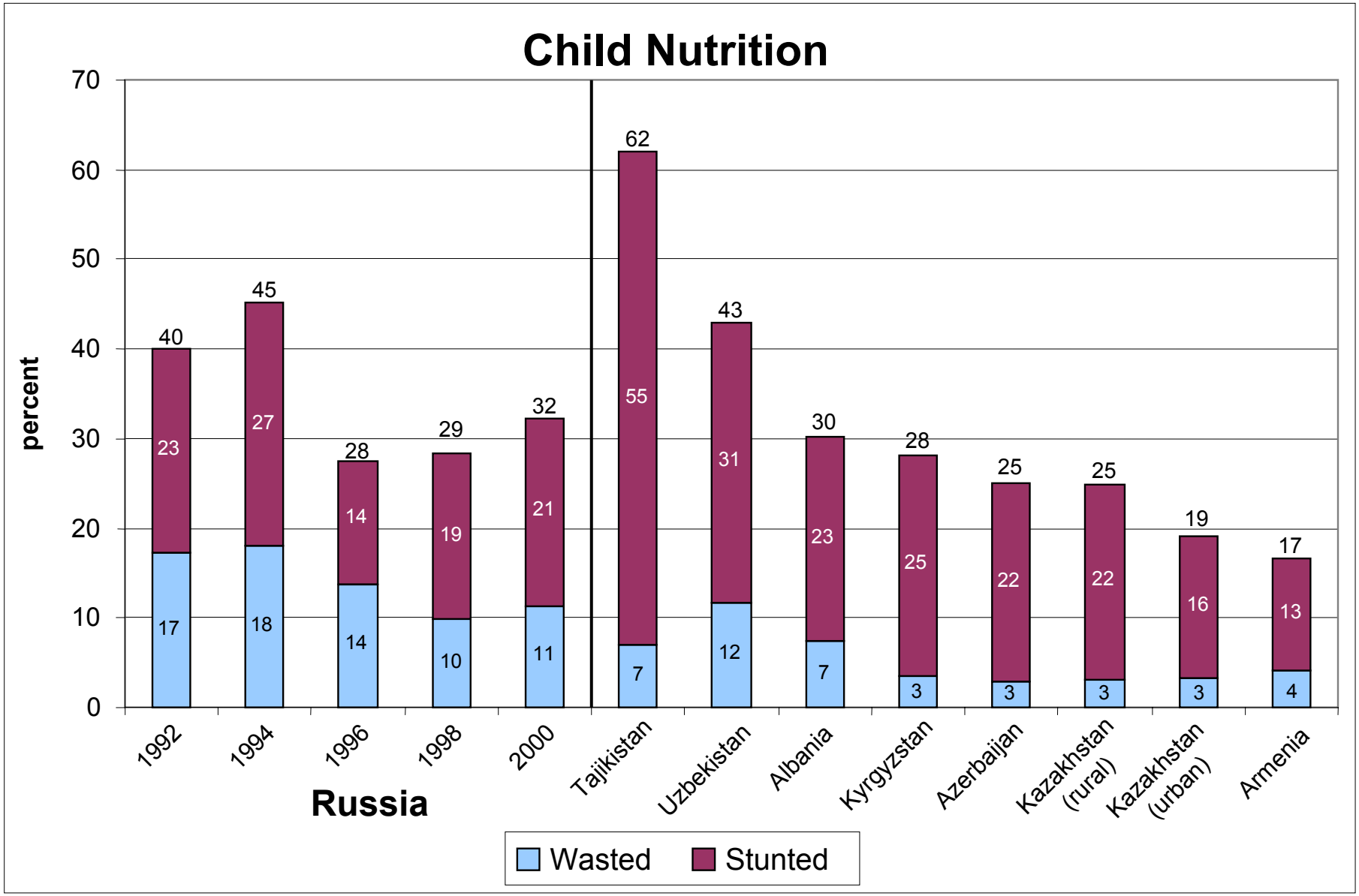
Table 22. Human Development
(Human Development Index)

Country	1990 Score	2000 Score	2000 Rank	1990-00 % Change
Slovenia	0.845	0.879	29	4.0
Czech Republic	0.835	0.849	33	1.7
Hungary	0.804	0.835	35	3.9
Slovakia	0.820	0.835	36	1.8
Poland	0.792	0.833	37	5.2
Estonia	…	0.826	42	…
Croatia	0.797	0.809	48	1.5
Lithuania	0.816	0.808	49	-1.0
Latvia	0.804	0.800	53	-0.5
Belarus	0.809	0.788	56	-2.6
Russia	0.824	0.781	60	-5.2
Bulgaria	0.786	0.779	62	-0.9
Romania	0.777	0.775	63	-0.3
FYR Macedonia	…	0.772	65	…
Armenia	0.759	0.754	76	-0.7
Kazakhstan	…	0.750	79	…
Ukraine	0.795	0.748	80	-5.9
Georgia	…	0.748	81	…
Turkmenistan	…	0.741	87	…
Azerbaijan	…	0.741	88	…
Albania	0.702	0.733	92	4.4
Uzbekistan	0.731	0.727	95	-0.5
Kyrgyzstan	…	0.712	102	…
Moldova	0.759	0.701	105	-7.6
Tajikistan	0.740	0.667	112	-9.9
CEE & Eurasia	0.789	0.776		-0.7
Northern Tier CEE	0.817	0.833		2.2
Southern Tier CEE	0.766	0.774		1.2
Eurasia	0.774	0.738		-4.6
OECD		0.905		
Latin Amer. & Carib.		0.767		
South Asia		0.570		
Sub-Saharan Africa		0.471		

The HDI is based on three indicators: longevity, as measured by life expectancy; educational attainment, as measured by a combination of adult literacy (two-thirds weight), and combined primary, secondary and tertiary enrollment ratios (one-third weight); and standard of living, as measured by real GDP per capita (PPP$). The HDI ranges from zero to one; the higher is the value, presumably the greater is the human development.

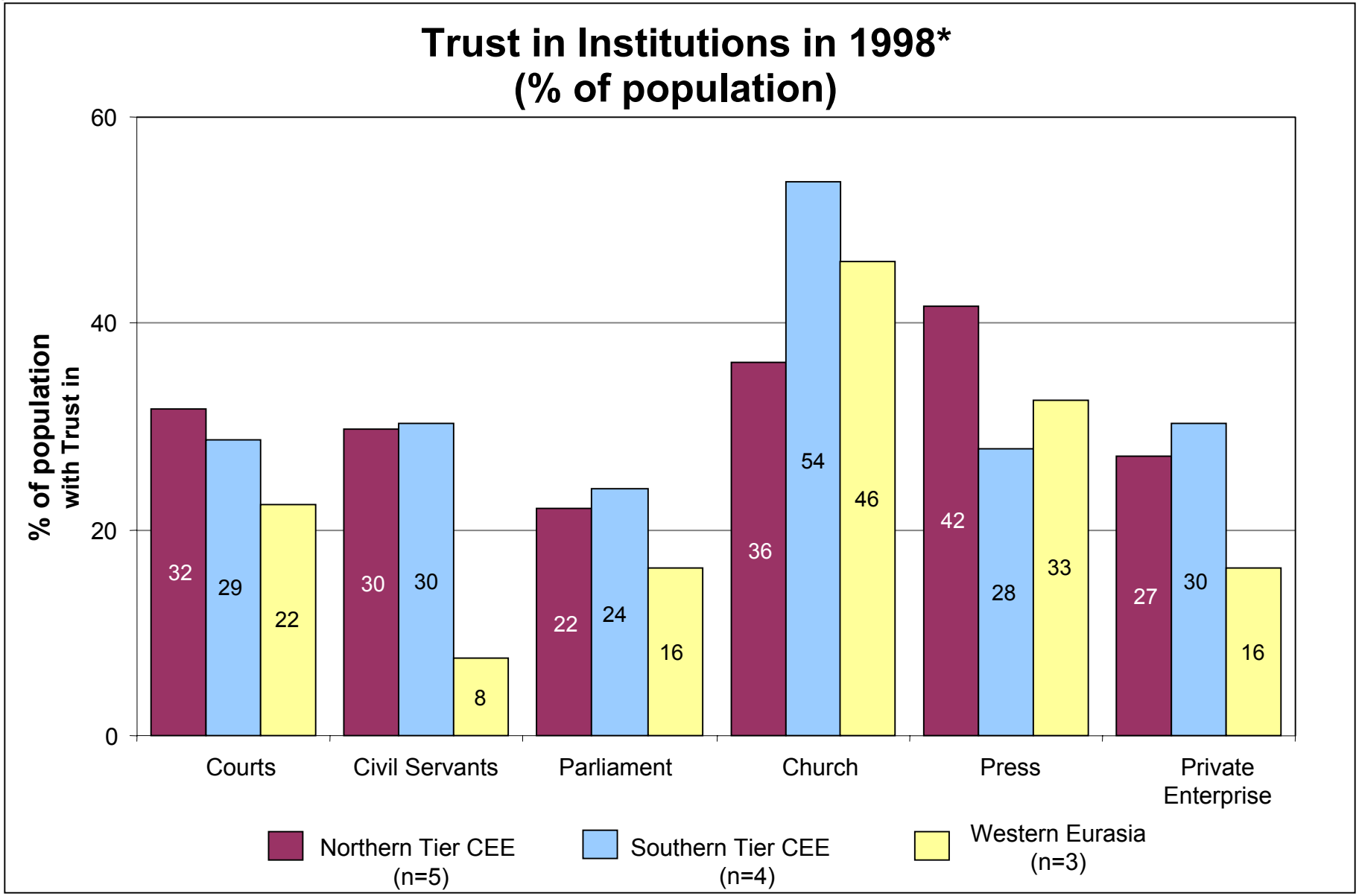
UNDP, *Human Development Report 2002* (2002).

Figure 44



Stunting is low height-for-age due to chronic malnutrition; wasting is low weight-for-age due to acute malnutrition.
Data are for children from 0-6 years of age in Russia, 0-5 years of age in Azerbaijan and Albania, 6 months - 5 years in Tajikistan, and 0-3 yeas if age in Kazakhstan, Kyrgyzstan and Uzbekistan. Data are from 1995 for Kazakhstan, 1996 for Azerbaijan and Uzbekistan, 1997 for Albania and Kyrgyzstan, and 1998 for Armenia and Tajikistan.
Zohoori, Gleiter, & Popkin, *Monitoring Health Conditions in the Russian Federation: The Russia Longitudinal Monitoring Survey 1992-2000* (2001), and World Bank, *Making Transition Work for Everyone* (September 2000).

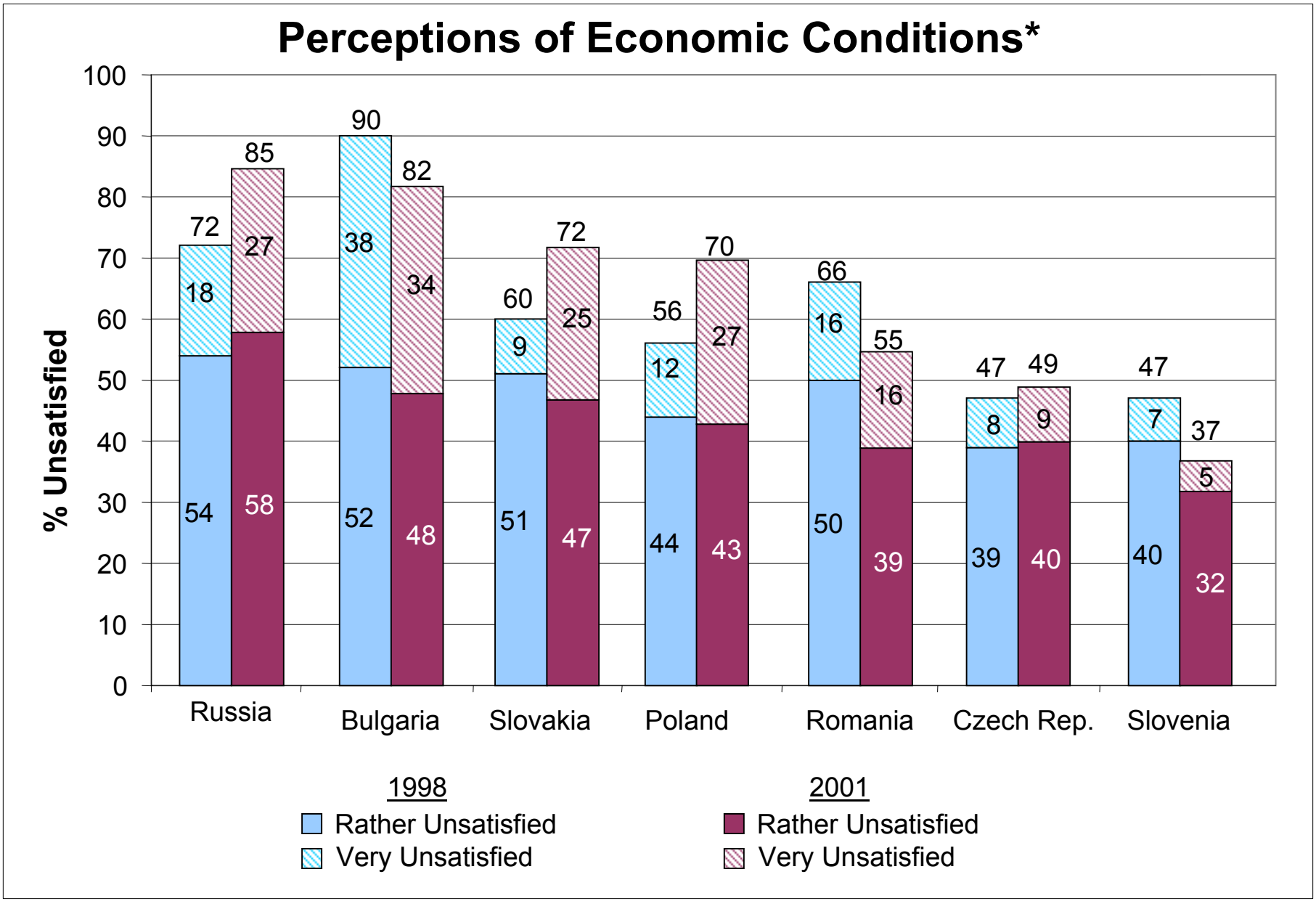
Figure 45



Data are from two household surveys: R. Rose & C. Haerpfer, *New Democracies Barometer V: A 12-Nation Survey*, CSPP, #306 (1998); and Rose, *New Russia Barometer Trends Since 1992*, CSPP, #320 (1999). Northern Tier CEE countries are the Czech Republic, Poland, Slovenia, Slovakia, and Hungary; Southern Tier CEE countries are Romania, Bulgaria, Croatia, and Yugoslavia; and Western Eurasia countries are Russia, Belarus, and Ukraine. An updated 2001 survey in Russia found: 23% trust in courts; 7% in parliament; 39% in churches; 7% in private enterprise and 50% in the president.

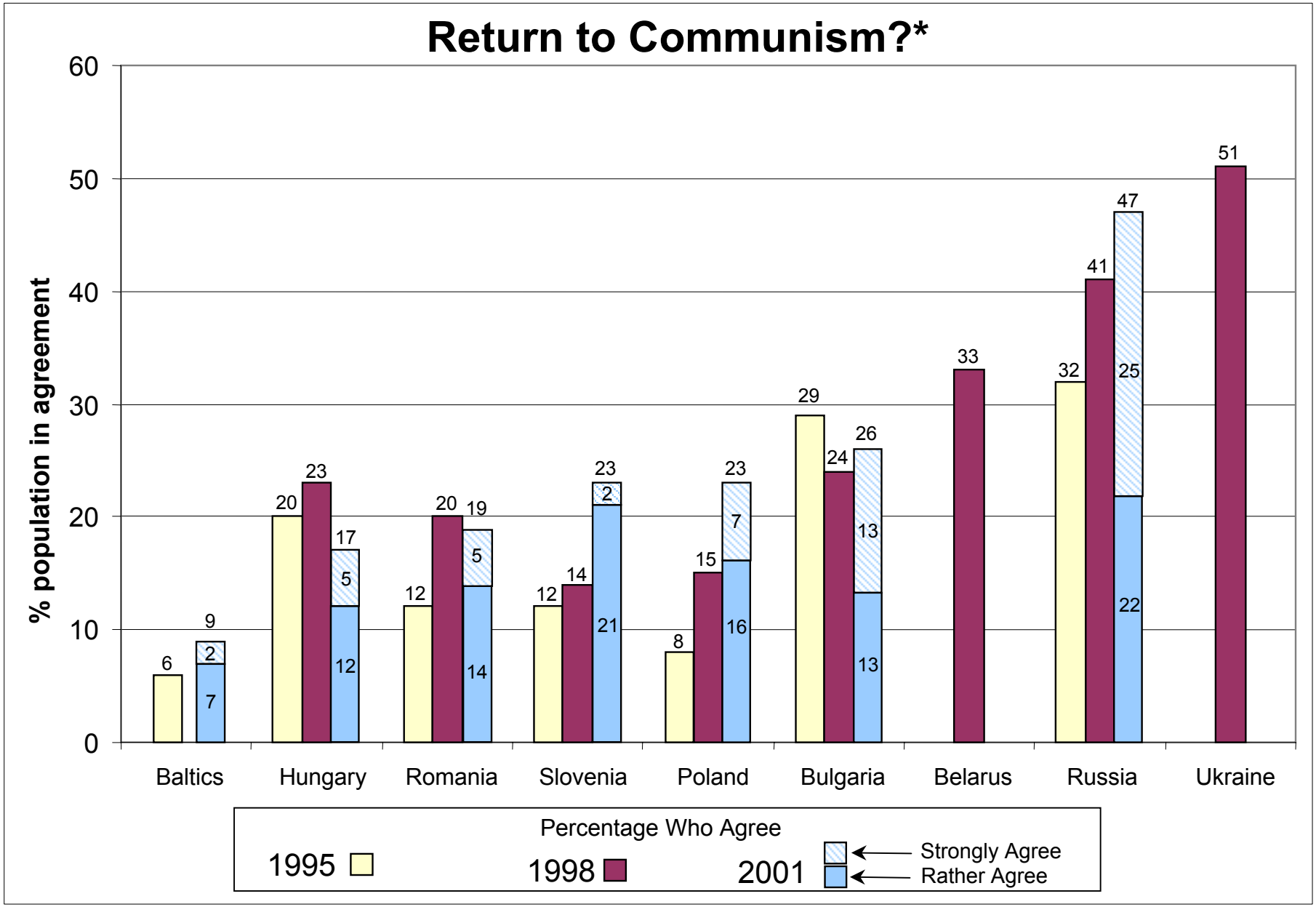
*Respondents were trusting if their answer was in the top 3 categories of a 7 point-scale, where 1 represents no trust and 7 great trust.

Figure 46



Rose, R. *A Bottom Up Evaluation of Enlargement Countries: New Europe Barometer I* (2002), and *Russia Under Putin: New Russia Barometer 10*,CSPP #350 (2001).
*How do you rate your household's economic situation today?

Figure 47



Rose, R. *A Bottom Up Evaluation of Enlargement Countries: New Europe Barometer I,* (2002), and *Russia Under Putin: New Russia Barometer 10,*CSPP #350(2001).
* To what extent do you agree it would be better to restore the Communist system?

7. Concluding Remarks

Decisions on the magnitude and duration of U.S. assistance to the transition region are made on the basis of several factors: (1) progress the country has made towards a sustainable transition to a market-based democracy; (2) strategic importance of the country to the United States; (3) importance of the recipient country to U.S. citizens; and (4) effectiveness of particular assistance activities.

This paper provides the basis to analyze the first factor. The second and third are not as readily quantifiable but are matters of judgment that are regularly considered, along with the first, in making country-level budget decisions. The fourth factor, based on both regular reporting against strategic objective targets and on occasional field-based evaluations, is used primarily to inform the allocation of country budget levels among strategic objectives but is also a basis for determining whether a country assistance program is having enough impact to warrant continuation.

An application of the *Monitoring Country Progress* data set for the purpose of facilitating USAID graduation decisions is done in a sequence of steps. First, progress in both economic and democratic reforms need to attain certain thresholds before graduation from USAID assistance can be considered. Second, trends in macroeconomic and social conditions need to be sufficiently favorable so that reform gains can be sustained. At the least, macroeconomic stability and broad-based economic growth need to be achieved and maintained, while key social conditions advance towards Western Europe standards.

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MONITORING COUNTRY PROGRESS IN CENTRAL AND EASTERN EUROPE & EURASIA

APPENDIX: REFORM INDICATORS

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

October 2002

A. Economic Policy Reforms: Indicators & Description of EBRD's Rating Categories

First Stage Reforms

Small-scale Privatization

1 Little progress
2 Substantial share privatized
3 Nearly comprehensive program implemented, but design or lack of government supervision leaves important issues unresolved (e.g. lack of tradability of ownership rights)
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 Price controls for several important product categories, including key infrastructure products such as utilities and energy; state procurement at non-market prices remains substantial
3 Substantial progress on price liberalization including for energy prices; state procurement at non-market prices largely phased out
4 Comprehensive price liberalization; utility pricing ensuring cost recovery
5 Standards and performance typical of advanced industrial economies: comprehensive price liberalization; efficiency-enhancing regulation of utility pricing

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 (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.
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
5 Standards and performance norms of advanced industrial economies: removal of most tariff barriers; membership in WTO

Extensiveness of Legal Reform for Investment:

1 Legal rules concerning pledge, bankruptcy and company law are very limited in scope. Laws impose substantial constraints on the creation, registration and enforcement of security over movable assets, and may impose significant notarization fees on pledges. Company laws do not ensure adequate corporate governance or protect shareholders' rights. Bankruptcy laws

do not provide for certainty or clarity with respect to the definition of an insolvent debtor, the scope of reorganization proceedings or the priority of distribution to creditors following liquidation. Laws in these substantive areas often have not been amended to approximate those of more developed countries and the laws that have been amended contain ambiguities or inconsistencies.

2 Legal rules concerning pledge, bankruptcy and company law are limited in scope and are subject to conflicting interpretations. Legislation may have been amended but new laws do not necessarily approximate those of more developed countries. Specifically, the registration and enforcement of security over movable assets has not been adequately addressed, leading to uncertainty with respect to the registration and enforcement of pledges. Pledge laws may impose significant notarization fees on pledges. Company laws do not ensure adequate corporate governance or protect shareholders' rights. Laws may contain inconsistencies or ambiguities concerning, inter alia, the scope of reorganization proceedings and/or the priority of secured creditors in bankruptcy.

3 New or amended legislation has recently been enacted in at least two of the three areas that were the focus of this survey--pledge, bankruptcy or company law--but could benefit from further refinement and clarification. Legal rules permit a non-possessory pledge over most types of movable assets. However, the mechanisms for registration of the security interest are still rudimentary and do not provide parties with adequate protection. There is scope for enforcement of pledges without court assistance. Company laws may contain limited provisions for corporate governance and the protection of shareholders' rights. Bankruptcy legislation contains provisions for both reorganization and liquidation but may place claims of other creditors in priority to those of secured creditors in liquidation.

4 Comprehensive legislation exists in a least two of the three areas of commercial law that were the focus of this survey--pledge, bankruptcy and company law. Pledge law allows parties to take non-possessory pledges in a wide variety of movable property and contains mechanisms for enforcement of pledges without court assistance. The legal infrastructure, however, is not fully developed to include a centralized or comprehensive mechanism for registering pledges. Company laws contain provisions for corporate governance and the protection of shareholders' rights. Director and officer duties are defined. Bankruptcy law includes detailed provisions for reorganization and liquidation. Liquidators possess a wide variety of powers to deal with the property and affairs of a bankrupt.

5 Comprehensive legislation exists in all three areas of commercial law--pledge, bankruptcy and company law. Legal rules closely approach those more developed countries. These legal systems have a uniform (i.e., centralized registration) system for the taking and enforcement of a security interest in movable assets and also provide for adequate corporate governance and protect shareholders' rights. In particular the rights of minority shareholders are protected in the event of the acquisition by third parties of less than all of the shares of a widely held company. Bankruptcy law provides in a comprehensive manner for both reorganization and liquidation. Liquidators possess a wide variety of powers and duties to deal with the property and affairs of a bankrupt, including wide powers of investigation of pre-bankruptcy transactions carried out by the debtor. There are specialized courts that handle bankruptcy proceedings. Liquidators must possess certain minimum qualifications

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 privatized or in the process of being sold, but possibly with major unresolved issues regarding corporate governance
4 More than 50 percent of state-owned enterprise assets privatized in a scheme that has generated substantial outsider ownership
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 break up dominant firms
3 Significant and sustained actions to harden budget constraints and to promote corporate governance effectively (e.g. through privatization combined with tight credit and subsidy policies and/or enforcement of bankruptcy legislation)
4 Strong financial discipline at the enterprise level; substantial improvement in corporate governance through government restructuring program or an active corporate control market; significant action to break up dominant firms; 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; widespread entry restrictions
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

Effectiveness of Legal Rules for Investment

1 Commercial legal rules are usually very unclear and sometimes contradictory. The administration and judicial support for the law is rudimentary. The cost of transactions, such as creating a pledge over a movable asset is prohibitive so as to render a potentially extensive law ineffective. There are no meaningful procedures in place in order to make commercial laws fully operational and enforceable. There are significant disincentives for creditors to seek the commencement of bankruptcy proceedings in respect of insolvent debtors.
2 Commercial legal rules are generally unclear and sometimes contradictory. There are few, if any meaningful procedures in place in order to make commercial laws operational and enforceable.
3 While commercial legal rules are reasonably clear, administration or judicial support of the law is often inadequate or inconsistent so as to create a degree of uncertainty (e.g., substantial discretion in the administration of laws, few up-to-date registries for pledges).
4 Commercial laws are reasonably clear and administrative and judicial support of the law is reasonably adequate. Specialized courts, administrative bodies or independent agencies may exist for the liquidation of insolvent companies, the registration of publicly traded shares or the registration of pledges.

5 Commercial laws are clear and readily ascertainable. Commercial law is well supported administratively and judicially, particularly regarding the efficient functioning of courts, liquidation proceedings, the registration of shares and the orderly and timely registration of security interests.

Infrastructure. This indicator averages EBRD ratings for reform progress in five infrastructure sectors: telecommunications, railways, electric power, roads, and water & waste water. The component scores are provided in *Table 1* below:

(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 waster-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 low level of cash collection. Central or regional government controls tariffs and investment levels. No explicit rules exist in public documents regarding tariffs or quality of service. There is no, or insignificant, private sector participation.

(3) 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.

(4) 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.

(5) 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.

(6) 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.

Appendix. Table 1. Infrastructure

	Telecom	Power	Rail	Roads	Water/Waste	Average
Hungary	4.0	4.0	3.3	3.3	4.0	**3.7**
Estonia	4.0	4.0	4.0	2.3	4.0	**3.7**
Poland	4.0	3.0	4.0	3.3	4.0	**3.7**
Slovenia	3.0	3.0	3.3	3.0	4.0	**3.3**
Romania	3.0	3.0	4.0	3.0	3.0	**3.2**
Czech Republic	4.0	3.0	2.3	2.3	4.0	**3.1**
Latvia	3.0	3.0	3.3	2.3	3.3	**3.0**
Bulgaria	3.0	3.3	3.0	2.3	3.0	**2.9**
Croatia	3.3	3.0	2.3	2.3	3.3	**2.9**
Lithuania	3.3	3.0	2.3	2.3	3.3	**2.9**
Georgia	2.3	3.3	3.0	2.0	2.0	**2.5**
Slovakia	2.3	3.0	2.3	2.3	2.3	**2.5**
Armenia	2.3	3.3	2.0	2.3	2.0	**2.4**
Moldova	2.3	3.3	2.0	2.0	2.0	**2.3**
Russia	3.0	2.0	2.3	2.0	2.3	**2.3**
Kazakhstan	2.3	3.0	3.0	2.0	1.0	**2.3**
Albania	3.3	2.3	2.0	2.0	1.0	**2.1**
Bosnia-Herzegovina	3.3	2.0	2.3	2.0	1.0	**2.1**
FYR Macedonia	2.0	2.3	2.0	2.3	2.0	**2.1**
Ukraine	2.3	3.3	2.0	2.0	1.0	**2.1**
Yugoslavia	2.0	2.0	2.0	2.0	2.0	**2.0**
Uzbekistan	2.0	2.0	3.0	1.0	1.0	**1.8**
Azerbaijan	1.0	2.0	2.3	1.0	2.0	**1.7**
Kyrgyzstan	2.3	2.3	1.0	1.0	1.0	**1.5**
Belarus	2.0	1.0	1.0	2.0	1.0	**1.4**
Tajikistan	2.3	1.0	1.0	1.0	1.0	**1.3**
Turkmenistan	1.0	1.0	1.0	1.0	1.0	**1.0**
CEE & Eurasia						**2.4**
Northern Tier CEE						**3.2**
Southern Tier CEE						**2.5**
Eurasia						**1.9**

Note: On a 1 to 5 scale, with 5 being most advanced.

EBRD, *Transition Report 2001* (November 2001).

B. Democratic Freedoms: Elaboration of Freedom House's Rating Scheme of Political Rights and Civil Liberties

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. The 1999-2000 Survey included 192 countries and/or territories. The 1-to-7 rating is derived by country teams awarding from 0 to 4 raw points per checklist item (shown below). The highest possible score for political rights is 32 points, based on up to 4 points for each of eight questions. The highest possible score for civil liberties is 52 points, based on up to 4 points for each of thirteen questions. Under the methodology, raw points correspond to category numbers as follows:

Political Rights category number	Raw points
1	28-32
2	23-27
3	19-22
4	14-18
5	10-13
6	5-9
7	0-4

Civil Liberties category number	Raw points
1	45-52
2	38-44
3	30-37
4	23-29
5	15-22
6	8-14
7	0-7

Political Rights checklist

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?
4. Are the voters able to endow their freely elected representatives with real power?
5. 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?

6. 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?
7. Are the people free from domination by the military, foreign powers, totalitarian parties, religious hierarchies, economic oligarchies or any other powerful group?
8. 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?

Civil Liberties checklist

1. Are there free and independent media, literature and other cultural expressions? (Note: In cases where the media are state-controlled but offer pluralistic points of view, the Survey gives the system credit).
2. Is there open public discussion and free private discussion?
3. Is there freedom of assembly and demonstration?
4. Is there freedom of political or quasi-political organization? (Note: This includes political parties, civic associations, ad hoc groups and so forth.)
5. Are citizens equal under the law, with access to an independent, nondiscriminatory judiciary, and are they respected by the security forces?
6. Is there protection from political terror, and from unjustified imprisonment, exile or torture, whether by groups that support or oppose the system, and freedom from war or insurgency situations? (Note: Freedom from war and insurgency situations enhances the liberties in a free society, but the absence of wars and insurgencies does not in itself make an unfree society free.)
7. Are there free trade unions and peasant organizations or equivalents, and is there effective collective bargaining?
8. Are there free professional and other private organizations?
9. Are there free businesses or cooperatives?
10. Are there free religious institutions and free private and public religious expressions?
11. Are there personal social freedoms, which include such aspects as gender equality, property rights, freedom of movement, choice of residence, and choice of marriage and size of family?
12. Is there equality of opportunity, which includes freedom from exploitation by or dependency on landlords, employers, union leaders, bureaucrats or any other type of denigrating obstacle to a share of legitimate economic gains?
13. Is there freedom from extreme government indifference and corruption?

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.

8 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.

9 At category 7, countries and territories have virtually no freedom. An overwhelming and justified fear of repression characterizes the society.

C. Democratization Disaggregated

In its *Nations in Transit 2002*, Freedom House measures progress towards democratic freedoms by assessing a series of questions in six categories: (1) electoral process; (2) civil society; (3) independent media; (4) governance and public administration; (5) rule of law; and (6) corruption. Progress towards each category is rated on a seven-category scale, 1 representing the most advanced and 7 the least advanced.

Electoral process

(1) When did national legislative elections occur? Were they free and fair? How were they judged by domestic and international election monitoring organizations? Who composes the government?
(2) When did presidential elections occur? Were they free and fair?
(3) Is the electoral system multiparty-based? Are there at least two viable political parties functioning at all levels of government?
(4) How many parties have been legalized? Are any particular parties illegal?
(5) What proportion of the population belongs to political parties?
(6) What has been the trend of voter turnout at the municipal, provincial and national levels in recent years?

Civil Society

(1) How many nongovernmental organizations have come into existence since 1988? How many charitable/nonprofit organizations? How many were there last year? Are they financially viable?
(2) What forms of interest group participation in politics are legal? Which interest groups are active politically?
(3) Are there free trade unions? How many workers belong to these unions? Is the number of workers belonging to trade unions growing or decreasing?
(4) What is the numerical/proportional membership of farmers' groups, small business associations, etc?

Independent Media

(1) Are there legal protections for press freedoms?
(2) Are there legal penalties for libeling officials? Are there legal penalties for "irresponsible" journalism? Have these laws been enforced to harass journalists?
(3) What proportion of the media is privatized? What are the major private newspapers, television stations, and radio stations?

(4) Are the private media financially viable?
(5) Are the media editorially independent? Are the media's news gathering functions affected by interference from government or private owners?
(6) Is the distribution system for newspapers privately or governmentally controlled?
(7) What proportion of the population is connected to the Internet? Are there any restrictions on Internet access to private citizens?
(8) What has been the trend in press freedom as measured by Freedom House's *Survey of Press Freedom*?

Governance and Public Administration

(1) Is the legislature the effective rule-making institution?
(2) Is substantial power decentralized to subnational levels of government? What specific authority do subnational levels have?
(3) Are subnational officials chosen in free and fair elections?
(4) Do the executive and legislative bodies operate openly and with transparency? Is draft legislation easily accessible to the media and the public?
(5) Do municipal governments have sufficient revenues to carry out their duties? Do municipal governments have control of their own local budgets? Do they raise revenues autonomously or from the central state budget?
(6) Do the elected local leaders and local civil servants know how to manage municipal governments effectively?
(7) When did the constitutional/legislative changes on local power come into effect? Has there been a reform of the civil service code/system? Are local civil servants employees of the local or central government?

Rule of Law

(1) Is there a post-Communist constitution? How does the judicial system interpret and enforce the constitution? Are there specific examples of judicial enforcement of the constitution in the last year?
(2) Does the constitutional framework provide for human rights? Do the human rights include business and property rights?
(3) Has there been basic reform of the criminal code/criminal law? Who authorizes searches and issues warrants? Are suspects and prisoners beaten or abused? Are there excessive delays in the criminal justice system?
(4) Do most judges rule fairly and impartially? Do many remain from the Communist era?
(5) Are the courts free of political control and influence? Are the courts linked directly to the Ministry of Justice or any other executive body?
(6) What proportion of lawyers is in private practice? How does this compare with the previous year?
(7) Does the state provide public defenders?
(8) Are there effective antibias/discrimination laws, including protection of ethnic minorities?

Corruption

(1) What is the magnitude of official corruption in the civil service? Must an average citizen pay

a bribe to a bureaucrat in order to receive a service? What services are subject to bribe requests--for example, university entrance, hospital admission, telephone installation, obtaining a license to operate a business, applying for a passport or other official documents? What is the average salary of civil servants at various levels?

(2) Do top policy makers (the president, ministers, vice-ministers, top court justices, and heads of agencies and commissions) have direct ties to businesses? How strong are such connections and what kinds of businesses are these?

(3) Do laws requiring financial disclosure and disallowing conflict of interest exist? Have publicized anticorruption cases been pursued? To what conclusion?

(4) What major anticorruption initiatives have been implemented? How often are anticorruption laws and decrees adopted?

(5) How do major corruption-ranking organizations like Transparency International rate this country?