

THE INTERRELATIONSHIP BETWEEN REGIONAL ECONOMIC COOPERATION, SECURITY AND STABILITY

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Let me start by giving you a few figures to set the scene. In the Balkans we are talking about 50 million people living in seven countries with a GDP of about US\$100bn. If we compare with the European Union, the number of people in the region is equivalent to some 15% of the EU's population but at some US\$2,000 per capita GDP, they have only some 15/25% of the average European per capita income. That is a pretty big gap. Of course there are large variations even within the region, with Croatia more than double the regional average and edging close to Hungary in per capita wealth while Albania, Bosnia and now FRY have less than half the average and thus the longest way to go. Poverty remains disturbingly widespread in the region. Some observers classify just over 40% of the Romanian population below a commonly used poverty threshold of US\$4.3 a day for example, while new information coming out of FRY indicates similar high levels of poverty in that country. Only Croatia seems to have escaped widespread poverty, with little more than 2% of that population in the category.

Taking the region as a whole it looks as though around 40% of the people should be classified as seriously deprived. This means living in overcrowded poorly maintained dwellings often with rotten walls and leaking roofs, with a diet limited to basic staples such as bread, potatoes and milk. Many people are poorly educated. Unemployment rates among the poor are obviously very high and only a few have savings to buffer their misery. The lucky ones have relatives abroad who send them money. The unlucky, who are in the majority, do not. No wonder then that stirring nationalist speakers have made great headway in the region and found a fertile ground for views which are alien to the ideals of the modern world. The poor want to climb out of their hole and are frustrated because they do not see how to do it. The

blue-collar workers earn too little for a reasonable life and are frustrated because wages seem to go down more often than up. The white-collar workers are impatient. And businessmen can't stand the business climate. This is a pretty sorry situation.

So what are we in the World Bank doing about this? Actually quite a lot. We are working closely with the governments of the Region and with other development partners to try to turn the region around economically. And we are collectively making some encouraging progress. But this is not a zero sum game. Things can go awfully wrong. But they can also go "awfully right." Take the case of Yugoslavia in the mid '80's when things started going badly wrong for that economy and no-one was able to take the tough decisions needed to sort it all out. The GDP of Serbia and Montenegro was probably around US\$30bn in 1985. A healthy growth rate such as that achieved by Poland and Hungary during the nineties could have ratcheted it up to US\$50bn by now. But in fact it is struggling at around US\$10bn. That is one fifth of what it could have been. Of course it is easy to be wise after the event but it does illustrate how quickly things can change. Good policies and good economic management can pay huge dividends and transform a country's prospects. Poland and Hungary come to mind on the positive side. The Western Balkans in particular are still on the other side of the equation. We are trying to help them make things go "awfully right" and put them solidly into a path of high growth.

Our work programs in each of the countries are broad ranging yet well targeted. First we provide financial resources for development projects. But each of these projects is carefully designed to achieve a long-range sustainability objective which allows the money that is lent to build more capital and help the economy grow. And we do not just give the money and go away hoping that everything works out OK. World Bank projects are followed carefully by teams of professionals from start to finish to make sure they deliver on their promise. Indeed we spend as much manpower making our projects succeed as we spend in designing them in the first place. This is an unusual use of manpower by an organisation such as ours but we find it pays off in terms of making our projects successful and helping them achieve the long-term objectives sought.

But lending money is only a small part of our work. Critical to the success of our mission is also the work we do advising governments on how to improve their management of the economy. For example,

the way funds are allocated in a public investment program. These funds are primarily the scarce funds raised from taxes on people who are seldom very well off and who in most cases have important family needs. Bosnia's tax income from its citizens is over US\$1bn a year for example and all of this is spent on various budget items. If you can make this spending twice as effective - certainly possible in most of our countries - the impact can be enormous. It is worth working on. It means accelerating growth rapidly, ensuring better health care, better education, better outcomes all round. That is one example. We are also deeply involved in health and education reform, financial sector reform, civil service reform, private sector development, and anti corruption activities. Indeed, wherever there are priority softspots that need attention and where the government is really prepared to work with us. We spend almost as much on this advisory work as we do handling out investment projects because this work also has a major impact.

Another major area of activity is the mobilisation of financial resources to support the development efforts of the different countries of SE Europe. After the Kosovo crisis of early 1999 the World Bank and the European Commission were given the mandate by the G7 Finance Ministers to mobilise funds for the reconstruction and reform of countries in the Balkans. The two institutions set up a joint office in Brussels to give focus to this work. In the last 18 months or so some Euro6bn has been mobilised for the region in pledges from 25 countries and 10 organisations through donor meetings and conferences. All this has been done in a very transparent way and tracked in the public view of the people of the region through the SEERECON.ORG website, which has 800-1,000 visitors a day indicating a continuing high level of interest and support for Balkan issues. These efforts continue with several new meetings of donors scheduled for 2001.

Where are all these efforts leading? Can we yet point to any successes in work which is by its very nature long term? There is no doubt that the economic climate is at last on the mend after a decade of stagnation. Just two years ago the IMF was recording a continued decline in economic activity of the region partly due to the Kosovo crisis but also because of the lingering effects of the political confusion of the last decade. Things turned sharply better in 2000 and continued growth is foreseen in 2001 and beyond. It is all too slow for the people of the region but progress is certain. The downside risks are still there though. The FRY economy was left in ruins by the

departing regime and while excellent efforts are being made by the current authorities to put things back in order, it is a very tough task. Success, and surely there will be a success, will be a major boost for the region. The other risk is of course the situation in Macedonia. This is no great publicity for foreign investors and we can only hope the situation there stabilises as quickly as possible.

But while all these aggregates start moving up and we begin to celebrate a renewed investor confidence in the Region, we return to the start of this paper and remind ourselves that poverty remains widespread and that this will remain a cause of serious instability in the region. The people of this part of the world are in some ways confounded by their situation. They are on the doorstep of Europe and have high expectations that their lot will improve rapidly in the future. Yet most of them remain woefully distant from the kind of standard of living they expect to have. Therein lies a potentially combustible mixture. The donors and the governments need to redouble their efforts to accelerate the adjustment of these economies in a way that protects the poor and helps them move as quickly as possible from their misery. The World Bank is working hard to try to make this happen.