MONITORING COUNTRY PROGRESS IN CENTRAL AND EASTERN EUROPE & EURASIA

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Summary

Introduction

This paper presents USAID/E&E's system for monitoring country progress in the twenty-seven transition country region of Eastern Europe and the former Soviet Union. These countries are those which have received assistance under the SEED and FSA Acts.[1] As in past *Monitoring Country Progress* (*MCP*) reports, transition progress is tracked along four primary dimensions: (1) economic reforms; (2) democratization; (3) economic performance (which includes economic structure and macroeconomic conditions); and (4) human capital (or social conditions). An important objective of this report and the *MCP* system is to provide criteria for graduation or phase-out of transition countries from U.S. Government assistance, and to provide guidelines in optimizing the allocation of USG resources in the region.[2]

Findings

Economic Reforms. First stage economic reforms are complete or close to being complete in the large majority of transition countries. First stage reforms focus on liberalizing the economy from government intervention and ownership. Virtually all the transition countries are much farther behind in second stage reforms than first stage reforms, and much farther behind standards in advanced industrial economies. Second stage economic reforms concentrate in large part on building a government's institutional capacity to govern, through reforms in the financial sector, infrastructure, and economic governance. In general, the most progress in second stage reforms has been made in banking reforms. The least progress has occurred in competition policy followed by non-bank financial institutions, and infrastructure reform.

Good progress was made in economic reforms in 2004 across much of the region. Fifteen of the twenty-seven countries advanced in at least one dimension of second stage reforms. Seven countries made gains in 2004 in first stage reforms. No country regressed in either stage reforms in 2004. The greatest gains occurred in the Southern Tier CEE countries, and particularly in the three Southern Tier CEE leaders (Croatia, Bulgaria, and Romania), where the pull of EU accession has been the strongest.

The Northern Tier CEE countries are well out front and have remained well out front of the rest of the countries in progress in economic reforms since the transition began. Nevertheless, the Southern Tier CEE countries have been slowly closing the gap vis-à-vis the Northern Tier CEE countries (since perhaps 1999). The Eurasian countries, in contrast, do not seem to be closing the economic reform gap.

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[1] Eight of the 27 countries have graduated from USG (SEED Act) assistance. These are the Northern Tier Central and Eastern Europe (CEE) countries of Estonia (which graduated in 1996), the Czech Republic and Slovenia (in 1997), Latvia and Hungary (in 1999), and Slovakia, Lithuania, and Poland (in 2000).

[2] An application of the *MCP* system to phase-out decisions is provided in *Appendix 3*. This process took place in the spring 2004 with overall supervision from and collaboration with the State Department's Office of the Coordinator for the U.S. Assistance for Europe and Eurasia (EUR/ACE).

Democratization. The Northern Tier CEE countries are much more advanced on democratic reforms (across all sub-sectors) than are the rest of the transition countries. The Eurasian countries lag the most. The range in progress in democratization across the transition countries spans the range of possibilities worldwide. By Freedom House measures, democratic reform progress in six Northern Tier CEE countries is comparable to EU standards. Turkmenistan, in contrast, is characterized by an absence of democratic freedoms and distinguished by receiving Freedom House's worst possible score worldwide, a distinction shared by only seven other countries: Burma; Cuba; North Korea; Libya; Saudi Arabia; Sudan; and Syria.

The 2004 democratization trends are largely a continuation of a pattern of a widening democratization gap between CEE and Eurasia that emerged as early as the early 1990s. Most of the advances in 2004 occurred in CEE (six of eight countries that moved forward were in CEE) and most of the backsliding occurred in Eurasia (three of five countries that regressed were in Eurasia). The 2004 exceptions to the growing CEE-Eurasia democratization gap on the CEE side were Lithuania and Romania. In Eurasia, only two countries advanced in democratic freedoms in 2004: Ukraine and Georgia.

Economic and democratic reforms combined. *Summary Figure 1* provides an overall picture of the status of the economic and democratic reforms in the transition countries in 2004. These data show that progress in economic and democratic reforms in the transition region varies greatly, ranging from that found in Hungary, Estonia, and Poland at one end of the reform spectrum to Turkmenistan, Belarus, and Uzbekistan at the other end. The three primary sub-regions have relatively distinct reform profiles, particularly in terms of progress in democratization: that is, all the Northern Tier CEE countries are farther along in democratization than the rest; and all the Southern Tier CEE countries (except the province of Kosovo) are farther along in democratic reforms than all the Eurasian countries. In addition, the cohesiveness or homogeneity of these reform profiles differ among the three sub-regions: the Northern Tier CEE countries are much more clustered (i.e., have a relatively homogeneous reform profile), while the Eurasian countries are much more dispersed than either of the two CEE sub-regions.

Economic Performance. Overall, macro-economic performance in recent years has been impressive in a large majority of the transition economies. By most economic performance measures, the Northern Tier CEE countries continue to outperform the rest of the transition countries.

Since 2000, the transition region as a whole has witnessed annual economic growth rates of roughly 5% or higher. These rates (from 2000-2004) have exceeded the global economic growth rates. Economic growth has been particularly high in Eurasia, averaging about 8% in 2003-2004.

Impressive economic growth has been accompanied by generally impressive strides towards macro-economic stability in most of the transition countries. Inflation rates are

now single-digit in all but a handful of economies in the region. With a few exceptions, external debt is manageable, if not low.

Virtually all the transition countries have seen very significant increases in the private sector share of GDP since the collapse of communism. Private sector shares are largest in the Northern Tier CEE countries (76% in 2004), though most other transition countries have private sector shares that are approaching this level.

The composition of these private sectors appears to vary widely across the region. The SME sectors in the CEE countries are much larger than those in Eurasia. Roughly 45% of employment in the Northern Tier CEE countries comes from SMEs. This compares to 37% in the Southern Tier CEE countries and only 12% in Eurasia.[3] A larger SME sector allows for more broad-based and hence sustainable economic growth.

Export shares of GDP are much larger in the Northern Tier CEE countries than elsewhere in the transition region; at least twice as large on average as compared to the Southern Tier CEE countries and Eurasia by one measure. Outward-orientation has increased significantly in CEE since 1990. The trend is ambiguous in the case of Eurasia.

Cumulative foreign direct investment per capita continues to be far and away much higher in the Northern Tier CEE countries than elsewhere in the transition region: total cumulative FDI per capita in the Northern Tier CEE is more than three times the amount in the Southern Tier CEE and closer to six times the volume in Eurasia.

Human capital.
a. Evidence of some improvement in social conditions. Available evidence suggests that the resumption of economic growth in the transition region has had some favorable effects on some social conditions. Poverty rates have fallen as economic growth has resumed. Real wages have bottomed out in all of the transition economies and have been increasing for some years now.

Infant mortality rates (IMRs) are lower today than at the outset of the transition in a large majority of transition countries. In the Northern Tier CEE countries, these rates have been almost halved since 1990: from 15 deaths per 1,000 live births in 1990 to 8 deaths in 2002. In the Southern Tier CEE, the drop has been from 21 deaths in 1990 to 16 deaths in 2002. While infant mortality rates are much higher in some of the poorer Eurasian countries, the trend of declining IMRs generally holds in Eurasia as well as in CEE. Nine of the twelve Eurasian countries had lower IMRs in 2002 as compared to 1990.

The deterioration in secondary school enrollments has been greatest in Eurasia. In 2002, secondary school enrollment rates were 89% in the Northern Tier CEE, 71% in the Southern Tier CEE, and only 51% in Eurasia. However, for most countries, these enrollment trends appear to have reached a minimum in earlier years. For all the CEE

[3] These data come primarily from a World Bank dataset of SMEs' worldwide, and come with a significant lag as well as likely measurement errors or inconsistencies. A key priority for the next MCP report is to update and build on this dataset.

countries for which data are available (except Croatia), secondary school enrollment rates have been rising since at least 1995. Eurasian trends are much more mixed. At least one half of the Eurasian countries have been experiencing a rise in secondary school enrollments in recent years. However, in the case of six countries, the trends in recent years are ambiguous as to whether enrollments have bottomed out (in the case of Moldova, Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, and Turkmenistan).

b. Evidence of a growing health gap. Despite largely favorable macroeconomic trends across the three transition sub-regions, and a turnaround in some social conditions in most countries (as noted above), there are not yet signs of improvement in some key health trends in much of the former Soviet Union.

After an initial and slight decline in life expectancy in the CEE countries, life expectancy has been increasing, since 1994-1995. Twelve of thirteen CEE countries had life expectancies higher in 2002 than in 1989. In contrast, life expectancy in Eurasia fell much more drastically early on in the transition to 1994, recovered some through 1998 and since then, has fallen more to a new low. Nine of twelve Eurasian countries had life expectancies lower in 2002 than in 1989.

The rate of increase in the incidences of HIV and TB in some countries in the transition region is very high. Compared to only a slight increase in the percent of the population with HIV in EU-15[4] from 1997 to 2003, increases in Ukraine, Estonia, Russia, and Latvia, in particular, have been very large.

All nine of the transition countries which witnessed a decrease in tuberculosis incidences from 1989 to 2002 are CEE countries; all the countries of the former Soviet Union (i.e. the Eurasian countries plus the Baltics), as well as Bulgaria and Romania have witnessed an increase in TB. TB incidence is highest and has increased the most in Kazakhstan, Kyrgyzstan, Romania, Georgia, and Russia.

The lion's share of deaths has been due to non-communicable diseases in the transition region, mostly due to poor diet and lack of exercise, and excess smoking and alcohol. Of the transition region, countries of the northern Former Soviet Union had the highest proportion of deaths attributed to these "lifestyle diseases" in 2000: 57%.[5] This compares to 40% in the EU-15. "Non-medical" deaths are also relatively high in the northern Former Soviet Union. These deaths include suicides and homicides, and perhaps can also be indirectly tied to lifestyle issues.

In some of the countries of the northern Former Soviet Union, the life expectancy gender gap (i.e., the number of years that females out live males) is among the highest worldwide. Overall, 45% of males in transition countries smoke, yet only 16% of females smoke.

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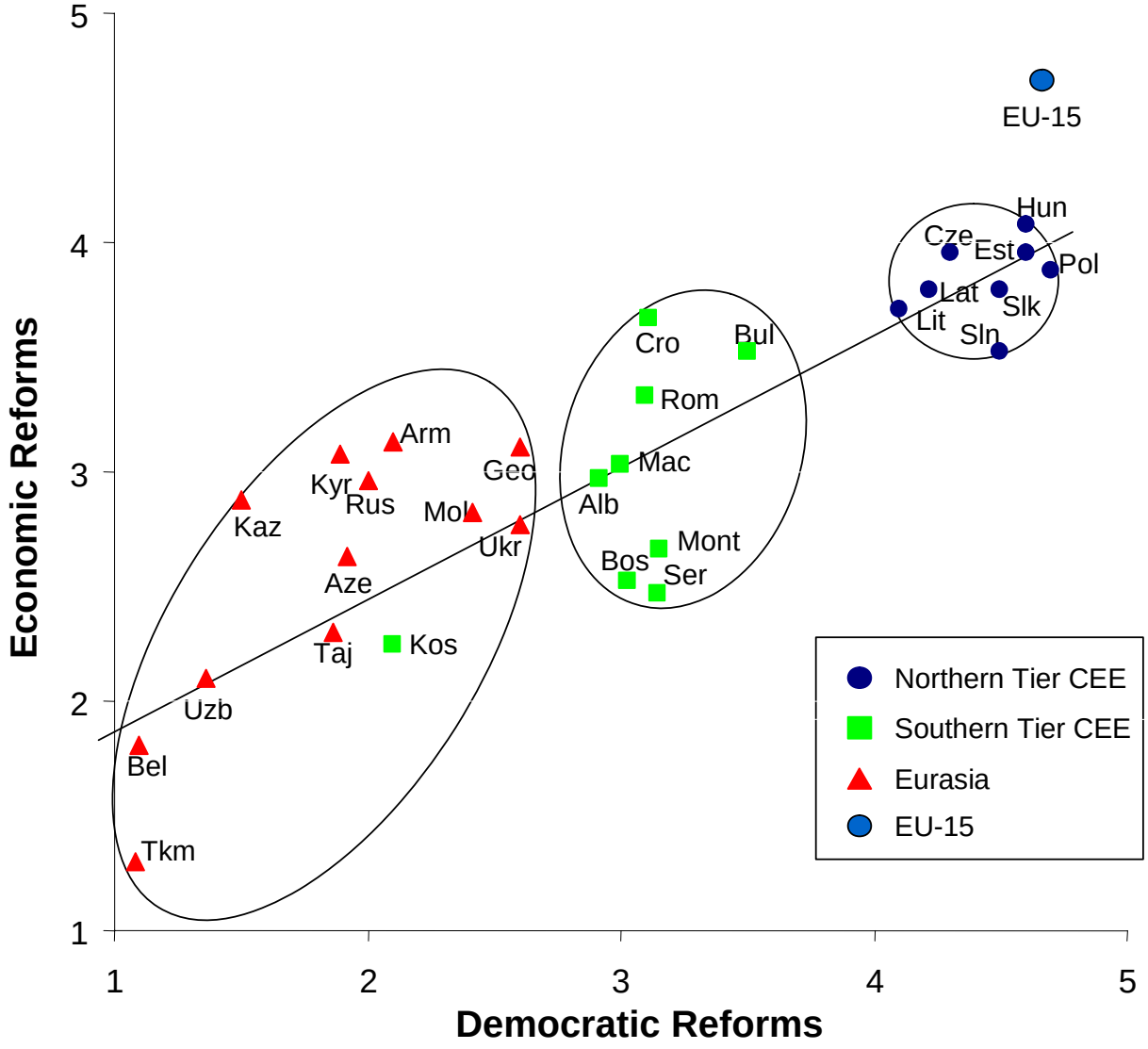
[4] The EU-15 consists of the original 15 countries of the European Union.
[5] The northern Former Soviet Union countries are Russia, Ukraine, Moldova, Lithuania, Latvia, and Estonia.

Economic performance and human capital combined. *Summary Figure 2* provides an overall picture of the status of economic performance and human capital in the transition countries in 2002-2004 (most recent data available). Overall, it shows a picture that is quite similar to that of *Summary Figure 1* of economic and democratic reforms. In particular, the Northern Tier CEE countries are out front on both dimensions (and relatively more clustered or homogenous as a sub-region than the other two); the Eurasian countries generally lag the most on both dimensions of the three sub-regions. In contrast to the reform picture, however, there is much more overlap in performance between the three sub-regions in terms of economic performance and human capital. Croatia, for example, has a human capital profile comparable to the Northern Tier CEE, and Albania's is closer to Eurasian human capital standards. Belarus' human capital profile more closely resembles CEE norms. Bosnia-Herzegovina's economic performance ranks among the poorest Eurasian performers; Azerbaijan's is comparable to the Southern Tier CEE norms.

In general, this overlapping picture more closely resembles the economic and democratic reform chart of the late 1990s. One might expect that indicators of macro-economic performance and human capital would change with a lag as a result of changes in economic and democratic reforms. Hence, "today's" reform picture may more closely resemble "tomorrow's" economic performance and human capital picture.

Summary Figure 1

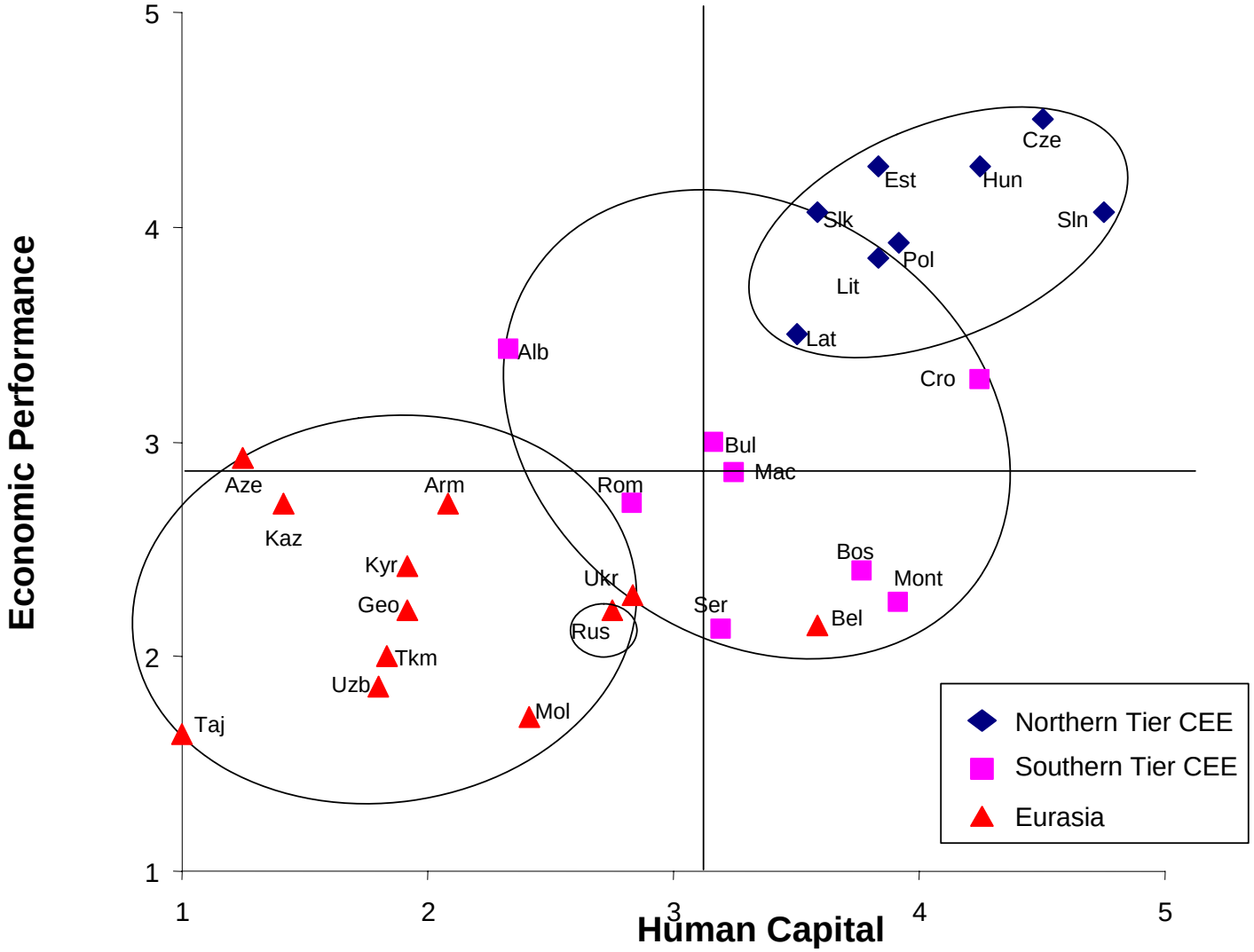
Economic and Democratic Reforms in 2004



Ratings are based on a 1 to 5 scale, with 5 representing most advanced. USAID drawing from Freedom House, *Nations in Transit 2004* (2004), and EBRD, *Transition Report 2004* (November 2004).

Summary Figure 2

Economic Performance and Human Capital in 2002-2004



USAID, MCP#9 (2005) drawing from World Bank, *World Development Indicators 2004* (2004); UNICEF, *Social Monitor 2004* (2004); EBRD, *Transition Report* (November 2004); Ayyagari, Beck, and Demirguc-Kunt, *Small and Medium Enterprises across the Globe: A New Database*, World Bank Policy Research Working Paper 3127, (August 2003).

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Introduction

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

Salient findings for each of the four primary dimensions are articulated in the main body of the report below. Four appendices follow: *Appendix 1* provides elaboration of indicator definitions and sources; *Appendix 2* defines the transition country classification schemes that are used in the report. *Appendix 3* provides an application of the *MCP* system to decisions regarding country and sector phase-out from USG assistance. Finally, as reference, *Appendix 4* includes a "gap analysis" for each of the 27 countries.

Findings

Economic reforms

Progress in economic reforms is documented in *Tables 1* & *2*, and *Figure 1*. Nine indicators are drawn from the EBRD and grouped into two stages of reform. The first stage reforms consist of liberalization of prices, external trade and foreign currency reforms, and privatization of small-scale and large-scale units (*Table 1*). The second stage reforms consist of enterprise restructuring (credit and subsidy policy), competition policy, financial sector reforms (including banking and capital markets), and reforms in infrastructure (*Table 2*).[6] In general, whereas much of the first stage reforms focus on liberalizing the economy from government intervention or ownership, second stage reforms concentrate in large part on building a government's capacity to govern; that is, reconstructing a leaner and more efficient government capable of enforcing the rules and providing the public goods needed for a vibrant market economy to work.

First stage economic reforms are complete or close to being complete in the large majority of transition countries (*Table 1*). It is only in the three Eurasian slow-reformers (Turkmenistan, Belarus, and Uzbekistan) where the first stage economic reforms lag considerably. Virtually all the transition countries are much farther behind in second stage reforms than first stage reforms (though the Eurasian slow-reformers much less so), and much farther behind standards in advanced industrial economies (*Table 2*). In general (though again with the exception of the Eurasian slow-reformers where second stage reform progress is uniformly slow-to-insignificant across the five indicators), the most progress in second stage reforms has been made in banking reforms. The least

[6] *Appendix 1* provides elaboration of the indicators.

progress has occurred in competition policy (i.e., legislation and institutions to reduce the abuse of market power and promote competitive markets), followed by non-bank financial institutions, and infrastructure reform.

Good progress was made in economic reforms in 2004 across much of the region. Fifteen of the twenty-seven countries advanced in at least one dimension of second stage reforms. Seven countries made gains in 2004 in first stage reforms. No country regressed in either stage reforms in 2004.[7] The greatest gains occurred in the Southern Tier CEE countries, and particularly in the three Southern Tier CEE leaders (Croatia, Bulgaria, and Romania), where the pull of EU accession has been the strongest.[8] More modest gains occurred in Eurasia and in the Northern Tier CEE. Six of the twelve Eurasian countries advanced in economic reforms in 2004, though only Kyrgyzstan and Tajikistan advanced in more than one dimension. As noted by the EBRD in its *Transition Report 2004*, most of the Northern Tier CEE countries took a "reform breather" in 2004 for the most part, likely a consequence in part of having recently succeeded in joining the EU.

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

Figure 1 also shows that the Northern Tier CEE countries are well out front and have remained well out front of the rest of the countries in progress in economic reforms since the transition began. Nevertheless, the Southern Tier CEE countries have been slowly closing the gap vis-à-vis the Northern Tier CEE countries (since perhaps 1999). The Eurasian countries, in contrast, do not seem to be closing the economic reform gap.

[7] This compares quite favorably to 2003 trends in which 9 countries moved forward in at least one dimension of second stage reforms and two regressed (Moldova and Uzbekistan); 8 countries advanced in first stage reforms and none regressed.

[8] *Appendix 2* defines the country classifications of the various transition country groups used throughout this report.

Table 1. First Stage Economic Policy Reforms

	Trade Liberalization	Small Scale Privatization	Large Scale Privatization	Price Liberalization	1st stage average
Czech Republic	5.0	5.0	4.0	5.0	4.8
Estonia	5.0	5.0	4.0	5.0	4.8
Hungary	5.0	5.0	4.0	5.0	4.8
Slovakia	5.0	5.0	4.0	5.0	4.8
Latvia	5.0	5.0	3.7	5.0	4.7
Lithuania	5.0	5.0	3.7	5.0	4.7
Poland	5.0	5.0	3.3	5.0	4.6
Kyrgyzstan	5.0	4.0	3.7 ↑	5.0	4.4 ↑
Bulgaria	5.0	3.7	4.0 ↑	5.0	4.4 ↑
Romania	5.0	3.7	3.7 ↑	5.0	4.4 ↑
Croatia	5.0	5.0	3.3 ↑	4.0	4.3 ↑
Armenia	5.0	4.0 ↑	3.3	5.0	4.3 ↑
Georgia	5.0	4.0	3.3	5.0	4.3
Slovenia	5.0	5.0	3.0	4.0	4.3
Albania	5.0	4.0	2.3	5.0	4.1
FYR Macedonia	5.0	4.0	3.3 ↑	4.0	4.1 ↑
Moldova	5.0	3.3	3.0	3.7	3.8
Russia	3.3	4.0	3.3	4.0	3.7
Kazakhstan	3.3	4.0	3.0	4.0	3.6
Ukraine	3.0	4.0	3.0	4.0	3.5
Azerbaijan	3.7	3.7	2.0	4.0	3.4
Bosnia-Herzegovina	3.7	3.0	2.3	4.0	3.3
Tajikistan	3.3	3.7	2.3	3.7	3.3
Serbia & Montenegro	3.3	3.3 ↑	2.3	4.0	3.2 ↑
Uzbekistan	1.7	3.0	2.7	2.7	2.5
Belarus	2.3	2.3	1.0	2.7	2.1
Turkmenistan	1.0	2.0	1.0	2.7	1.7
CEE & Eurasia	4.2	4.0	3.1	4.3	3.9
Northern Tier CEE	5.0	5.0	3.7	4.9	4.6
Southern Tier CEE	4.6	3.8	3.1 ↑	4.4	4.0 ↑
Eurasia	3.5	3.5	2.6	3.9	3.4
Industrial Countries	5.0	5.0	5.0	5.0	5.0
Northern Tier CEE at Graduation	4.8	4.9	3.5	4.5	4.4
Romania & Bulgaria 2002	4.5	3.7	3.5	5.0	4.2

Ratings are based on a 1 to 5 scale, with 5 being most advanced. A "↑" indicates an advancement from September 2003 to September 2004.

EBRD, *Transition Report 2004* (November 2004).

Table 2. Second Stage Economic Policy Reforms

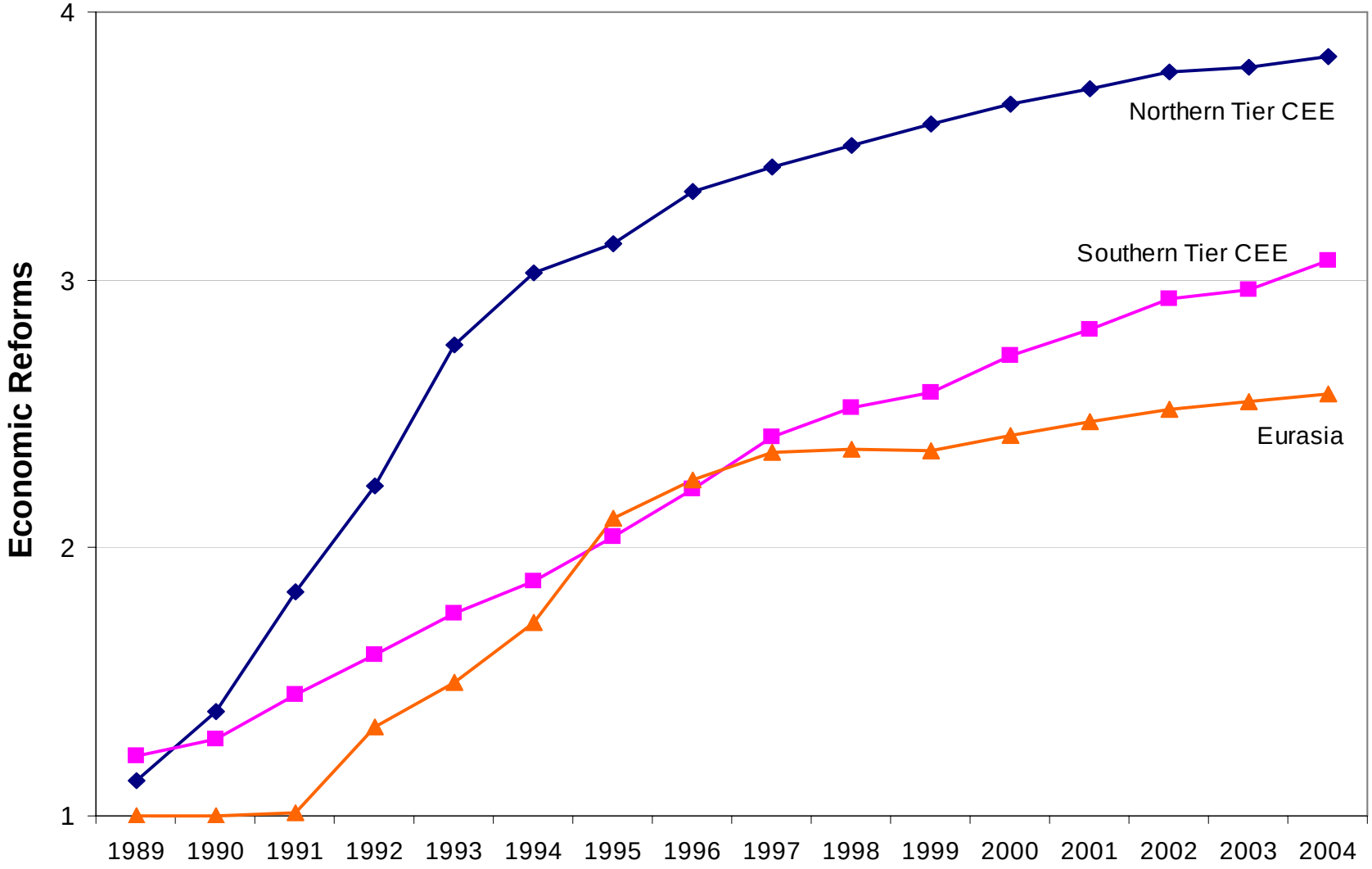
	Enterprise Governance	Competition Policy	Banking Reform	Capital Mkt. Reform	Infrastructure Reform	2nd Stage Average
Hungary	3.3	3.0	4.0	3.7	3.7	3.5
Czech Republic	3.3	3.0	3.7	3.3 ↑	3.3	3.3
Estonia	3.3	2.7	4.0 ↑	3.3	3.3	3.3
Poland	3.3	3.0	3.3	3.7	3.3	3.3
Latvia	3.0	2.7	3.7	3.0	3.0	3.1
Slovakia	3.0	3.0	3.7 ↑	2.7	2.7	3.0 ↑
Croatia	3.0 ↑	2.3	4.0 ↑	2.7	3.0 ↑	3.0 ↑
Slovenia	3.0	2.7	3.3	2.7	3.0	2.9
Lithuania	3.0	3.0	3.0	3.0	2.7	2.9
Bulgaria	2.7	2.3	3.7 ↑	2.3	3.0 ↑	2.8 ↑
Romania	2.0	2.3	3.0 ↑	2.0	3.3 ↑	2.5 ↑
Russia	2.3	2.3	2.0	2.7	2.7 ↑	2.4 ↑
Kazakhstan	2.0	2.0	3.0	2.3	2.3	2.3
FYR Macedonia	2.3	2.0	2.7	2.0 ↑	2.0	2.2 ↑
Armenia	2.3	2.0	2.3	2.0	2.3	2.2
Ukraine	2.0	2.3	2.3	2.3 ↑	2.0	2.2 ↑
Georgia	2.0	2.0	2.7 ↑	1.7	2.3	2.1
Albania	2.0	2.0 ↑	2.7 ↑	1.7	2.0	2.1 ↑
Moldova	1.7	2.0	2.7 ↑	2.0	2.0	2.1 ↑
Azerbaijan	2.3	2.0	2.3	1.7	2.0	2.1
Kyrgyzstan	2.0	2.0	2.3	2.0	1.7 ↑	2.0 ↑
Bosnia-Herzegovina	2.0	1.0	2.7 ↑	1.7	2.3	1.9
Serbia & Montenegro	2.0	1.0	2.3	2.0	2.0	1.9
Uzbekistan	1.7	1.7	1.7	2.0	1.7	1.8
Belarus	1.0	2.0	1.7	2.0	1.3	1.6
Tajikistan	1.7	1.7	2.0 ↑	1.0	1.3 ↑	1.5 ↑
Turkmenistan	1.0	1.0	1.0	1.0	1.0	1.0
CEE & Eurasia	2.3	2.2	2.8	2.3	2.4	2.4
Northern Tier CEE	3.2	2.9	3.6 ↑	3.2 ↑	3.1	3.1
Southern Tier CEE	2.3	1.8	3.0 ↑	2.1 ↑	2.5 ↑	2.5 ↑
Eurasia	1.8	1.9	2.2 ↑	1.9	1.9 ↑	1.9
Industrial Countries	5.0	5.0	5.0	5.0	5.0	5.0
Northern Tier CEE at Graduation	2.9	2.6	3.2	2.8	2.7	2.8
Romania & Bulgaria 2002	2.2	2.3	3.0	2.2	2.9	2.5

Ratings are based on a 1 to 5 scale, with 5 being most advanced. A "↑" indicates an advancement from September 2003 to September 2004.

EBRD, *Transition Report 2004* (November 2004).

Figure 1

Economic Reform



Ratings are based on a 1 to 5 scale, with 5 representing most advanced. EBRD, *Transition Report 2004* (November 2004 and earlier editions).

Democratization

Progress towards democracy building is primarily assessed from indicators drawn from Freedom House. *Table 3* shows 2003 democratization data drawn from Freedom House's *Nations in Transit* and disaggregated into six components: (1) electoral process; (2) civil society; (3) independent media; (4) governance and public administration; (5) rule of law; and (6) corruption. According to these data, the Northern Tier CEE countries are much more advanced on democratic reforms (across all sectors), than are the rest of the transition countries. The Eurasian countries lag the most. In 2003, five countries made measurable gains in democratization on balance; all CEE countries. Eight countries witnessed backsliding; all of these countries are in Eurasia.

Table 4 includes Freedom House's broader political rights and civil liberties indices. While not as rigorous (or as well-tailored) as the transition region-specific data of *Table 3*, these indices do provide a longer term (and more recent) view of the trends, from pre-transition years through 2004. They also provide a means to compare progress with the rest of the world. These data show that the range in progress in democratization across the transition countries spans the range of possibilities worldwide, from progress in six Northern Tier CEE countries (which get the best possible score worldwide on Freedom House's two indices, alongside all of the EU-15 except Greece), to the absence of democratic freedoms in Turkmenistan (which gets the worst possible score worldwide, a distinction shared by only seven other countries: Burma; Cuba; North Korea; Libya; Saudi Arabia; Sudan; and Syria).

Table 4 also takes the democratization trends up to date, to December 2004. The 2004 trends are largely a continuation of a pattern that emerged as early as the early 1990s; that is, most of the advances in 2004 occurred in CEE (six of eight countries that moved forward were in CEE) and most of the backsliding occurred in Eurasia (three of five countries that regressed were in Eurasia). The 2004 exceptions to the growing CEE-Eurasia democratization gap on the CEE side were Lithuania (where, according to Freedom House, political rights "suffered a modest setback" stemming primarily from the impeachment of the president due to his affiliations with a foreign security service and organized crime) and Romania (where political rights deteriorated as a result of flawed presidential and parliamentary election processes). In Eurasia, only two countries advanced in democratic freedoms in 2004: Ukraine (where a "surge in civic activism and a major improvement in press freedom emerged during the country's presidential campaign and the protest movement that ignited in the wake of widespread ballot fraud") and Georgia (where Mikhail Saakashvili was elected president in January 2004 in "honest and professionally conducted" elections following the removal of Shevardnadze).

Figure 2 shows the trends in democratic freedoms in the three main transition sub-regions since 1986. It underscores the growing divide in democratization between CEE and Eurasia. By these scores, the Northern Tier CEE countries achieved a level of democratization slightly below Western European standards by the mid-1990s; by 2004 they were on a par with those standards. The Southern Tier CEE countries remain notably behind the Northern Tier CEE countries, though the gap has narrowed

significantly since the mid to late 1990s. Democratization trends in Eurasia have been strikingly different than those in Northern and Southern Tier CEE. Specifically, while considerable liberalization of democratic freedoms in Eurasia occurred under Gorbachev leading up to the collapse of the Soviet Union in 1991, since then, the trend towards democratization has been stagnation at best.

Figure 3 shows the disaggregated trends in democratization in Eurasia since 1996, the first year for which these data are available. The deterioration in democratic reforms in Eurasia has been almost across the board, though most salient in the electoral process, the development of independent media, and governance and public administration. Civil society reforms, largely NGO development, remain the farthest along of the democratization components in Eurasia, and, in contrast to the other democracy reforms, have not been backsliding.

Figures 4 and *5* show attempts from sources other than Freedom House to measure two democracy sectors in greater detail: the NGO sector and media.[9] Though there are country exceptions to the sub-region trends, these data support the broad trends that surface from an analysis of the Freedom House scores: (1) the CEE countries, particularly the Northern Tier CEE countries, are much farther along in democratization than are the Eurasian countries; and (2) most of the forward movement is taking place in CEE, particularly in the Southern Tier CEE in recent years, while virtually all of the backsliding has been occurring in Eurasia.

[9] The *NGO Sustainability Index* is produced by EE/USAID. The *Media Sustainability Index* is a USAID financed effort by IREX.

Table 3. Democratization Disaggregated in 2003

	Electoral Process	Civil Society	Independent Media	Governance	Rule of Law	Corruption	Average
Slovenia	4.7	4.7	4.5	4.3 ⇧	4.5	4.3	4.5
Poland	4.7	4.8	4.5	4.3	4.7	4.0	4.5
Estonia	4.7 ⇧	4.3	4.7 ⇧	4.2	4.5	4.0	4.4 ⇧
Hungary	4.8	4.8	4.2	4.0	4.5	3.8	4.4
Slovakia	4.7	4.8	4.2 ⇩	4.2	4.3	3.5	4.3
Lithuania	4.5	4.7	4.5	4.0	4.5	3.3	4.3
Latvia	4.5	4.3	4.7 ⇧	4.2	4.3 ⇧	3.3	4.2 ⇧
Czech Rep.	4.3	4.7	4.2	4.2	4.0	3.3	4.1
Bulgaria	4.5 ⇧	3.7 ⇧	3.3	3.2	3.5 ⇧	2.8	3.5 ⇧
Romania	3.8	4.0 ⇧	3.2	3.2	2.8	2.7	3.3
Croatia	3.5	3.7	3.2	3.2	2.7 ⇩	2.5	3.1
Montenegro	3.3 ⇧	3.8	3.5	3.0 ⇧	2.8	2.2	3.1
Serbia	3.3 ⇧	3.8	3.3 ⇩	3.0 ⇧	2.8	2.3	3.1
FYR Macedonia	3.3	3.5 ⇧	2.8 ⇩	3.0 ⇧	3.0 ⇧	2.3 ⇧	3.0 ⇧
Albania	3.2	3.3 ⇧	3.2 ⇧	2.8	2.8	2.2 ⇩	2.9
Bosnia-Herzegovina	3.3 ⇧	3.2 ⇧	2.8	2.3 ⇧	2.7 ⇧	2.5 ⇧	2.8 ⇧
Georgia	2.2	3.3 ⇧	3.0	1.8 ⇩	2.7	1.7 ⇩	2.4
Ukraine	2.8 ⇩	3.2 ⇩	2.0	2.2 ⇩	2.5 ⇩	1.8	2.4 ⇩
Moldova	3.0 ⇩	3.0 ⇩	2.3 ⇩	2.0 ⇩	2.7	1.5	2.4 ⇩
Armenia	1.8 ⇩	3.3	2.2 ⇩	2.5	2.3	1.8	2.3 ⇩
Russia	2.0 ⇩⇩	2.7 ⇩	1.8 ⇩	2.2 ⇩	2.5 ⇩	1.8	2.2 ⇩
Kosovo	2.2	2.8	2.0	1.7	1.7	1.7	2.0
Azerbaijan	1.7 ⇩	2.7 ⇩	1.8 ⇩	1.8	2.0 ⇩	1.5	1.9 ⇩
Kyrgyzstan	1.7	2.7	1.7	1.7	2.0	1.7	1.9
Tajikistan	1.8 ⇩⇩	2.3	1.8	1.8 ⇧	1.8	1.5 ⇩	1.9 ⇩
Kazakhstan	1.3	2.0	1.3 ⇩	1.5	1.5	1.3 ⇩	1.5 ⇩
Uzbekistan	1.2	1.3	1.2	1.5	1.3	1.7	1.4
Belarus	1.2	1.2 ⇩	1.2	1.3	1.2	1.8 ⇩	1.3 ⇩
Turkmenistan	1.0	1.0	1.0	1.0 ⇩	1.0	1.5	1.1
CEE & Eurasia	3.1	3.4	2.9	2.8	2.9 ⇩	2.4	2.9
Northern Tier CEE	4.6 ⇧	4.6 ⇧	4.4 ⇧	4.2 ⇧	4.4 ⇧	3.7	4.3 ⇧
Southern Tier CEE	3.5 ⇧	3.6 ⇧	3.2 ⇩	3.0 ⇩	2.9 ⇩	2.4 ⇩	3.1
Eurasia	1.8 ⇩	2.4 ⇩	1.8 ⇩	1.8 ⇩	2.0 ⇩	1.6 ⇩	1.9 ⇩
Northern Tier CEE at Graduation	4.5	4.5	4.5	4.1	4.4	3.6	4.3
Romania & Bulgaria 2002	4.1	3.7	3.3	3.2	3.1	2.8	3.4

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

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

Data depict trends from November 2002 through December 2003.

Freedom House, *Nations in Transit 2004* (2004).

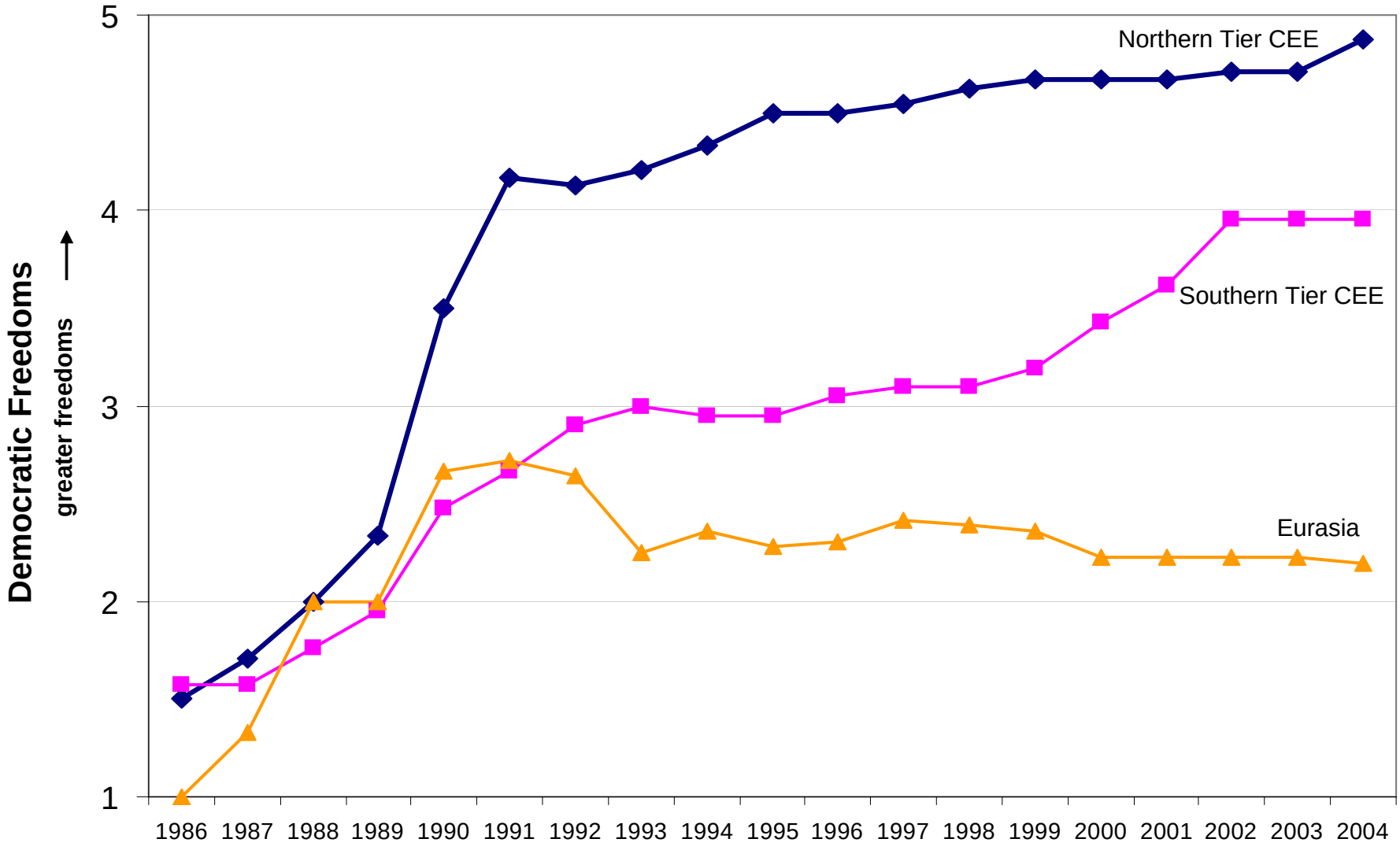
Table 4. Political Rights and Civil Liberties[1]

	1990[2]		1999		2000		2001		2002		2003		2004[3]		
	PR	CL	PR	CL	PR	CL	PR	CL	PR	CL	PR	CL	PR		CL	
Slovenia	5	4	1	2	1	2	1	1	1	1	1	1	1		1	
Czech Republic	2	2	1	2	1	2	1	2	1	2	1	2	1		1	↑
Estonia	5	4	1	2	1	2	1	2	1	2	1	2	1		1	↑
Hungary	2	2	1	2	1	2	1	2	1	2	1	2	1		1	↑
Poland	2	2	1	2	1	2	1	2	1	2	1	2	1		1	↑
Slovakia	2	2	1	2	1	2	1	2	1	2	1	2	1		1	↑
Latvia	5	4	1	2	1	2	1	2	1	2	1	2	1		2	
Bulgaria	3	4	2	3	1	3	1	2	1	2	1	2	1		2	
Lithuania	5	4	1	2	1	2	1	2	1	2	1	2	2	↓	2	
Croatia	5	4	2	3	2	2	2	2	2	2	2	2	2		2	
Romania	6	5	2	2	2	2	2	2	2	2	2	2	3	↓	2	
Serbia & Montenegro	5	4	4	4	3	3	3	2	3	2	3	2	3		2	
Albania	7	6	4	5	3	4	3	3	3	3	3	3	3		3	
FYR Macedonia	5	4	4	3	4	4	3	3	3	3	3	3	3		3	
Ukraine	5	4	4	4	4	4	4	4	4	4	4	4	4		3	↑
Bosnia-Herzegovina	5	4	5	4	5	4	4	4	4	4	4	4	4		3	↑
Moldova	5	4	2	4	2	4	2	4	3	4	3	4	3		4	
Georgia	5	4	4	4	4	4	4	4	4	4	4	4	3	↑	4	
Armenia	5	4	4	4	4	4	4	4	4	4	4	4	5	↓	4	
Russia	5	4	5	5	5	5	5	5	5	5	5	5	6	↓	5	
Azerbaijan	5	4	6	5	6	5	6	5	6	5	6	5	6		5	
Kazakhstan	5	4	6	5	6	5	6	5	6	5	6	5	6		5	
Kyrgyzstan	5	4	6	5	6	5	6	5	6	5	6	5	6		5	
Tajikistan	5	4	6	6	6	6	6	5	6	5	6	5	6		5	
Belarus	5	4	6	6	6	6	6	6	6	6	6	6	7	↓	6	
Uzbekistan	5	4	7	6	7	6	7	6	7	6	7	6	7		6	
Turkmenistan	5	4	7	7	7	7	7	7	7	7	7	7	7		7	
CEE & Eurasia	4.6	3.8	3.5	3.7	3.4	3.7	3.3	3.4	3.3	3.4	3.3	3.4	3.5	↓	3.2	↑
Northern Tier CEE	3.5	3.0	1.0	2.0	1.0	2.0	1.0	1.9	1.0	1.9	1.0	1.9	1.1	↓	1.3	↑
Southern Tier CEE	5.1	4.4	3.3	3.4	2.9	3.1	2.6	2.6	2.6	2.6	2.6	2.6	2.7	↓	2.4	↑
Eurasia	5.0	4.0	5.3	5.1	5.3	5.1	5.3	5.0	5.3	5.0	5.3	5.0	5.5	↓	4.9	↑
European Union-15[4]											1.0	1.1	1.0		1.1	
OECD[5]											1.1	1.3	1.1		1.2	↑
Northern Tier CEE at Graduation			1.1	2.0												
Romania & Bulgaria 2002			1.5	2.0												

(1) Ratings from 1 to 7, with 1 representing greatest development of political rights/civil liberties.
(2) The 1989 scores for the Soviet Union, Czech and Serbia & Montenegro are used for the countries that were part of these larger entities in 1989.
(3) A ↑ (↓) signifies an increase (decrease) in democratization in 2004 as measured by a change in political rights or civil liberties score.
(4) All 15 EU members score "1" in Political Rights. In Civil Liberties 14 of the 15 members score a "1"; and Greece scores a "3".
(5) All but two OECD members score a "1" in Political Rights; the exceptions are Turkey ("3") and Mexico ("2").
For Civil Liberties, 24 members score a "1"; 4 score a "2" (Greece, Japan, Mexico and South Korea); and Turkey scores a "3".
Freedom House, *Freedom in the World 2005* (2005) and previous editions.

Figure 2

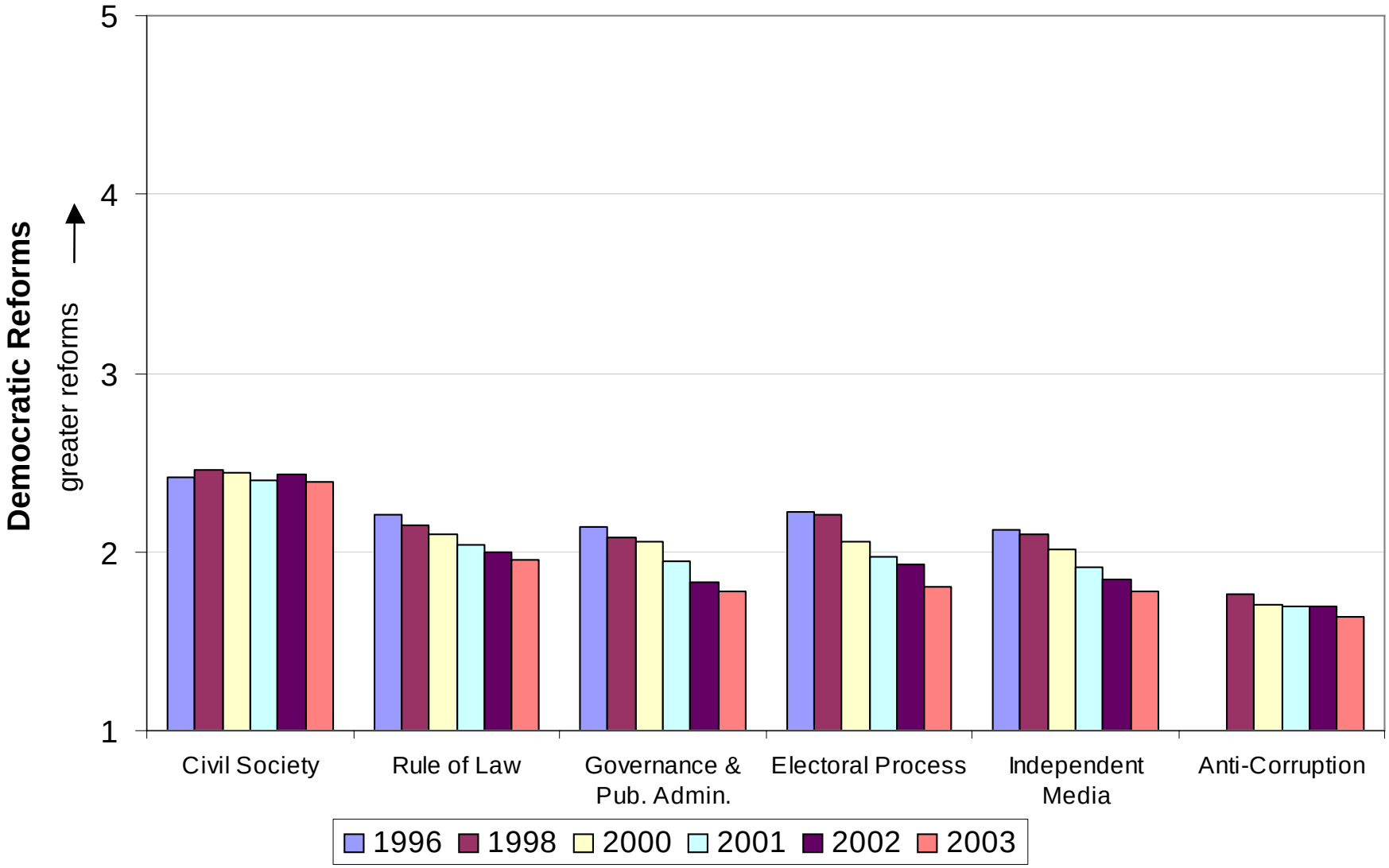
Democratic Freedoms



Ratings from 1 to 5, with 5 representing greatest development of political rights/civil liberties. The data are an aggregation of Freedom House's political rights and civil liberties indices; Freedom House, *Freedom in the World 2005* (2005 and previous editions).

Figure 3

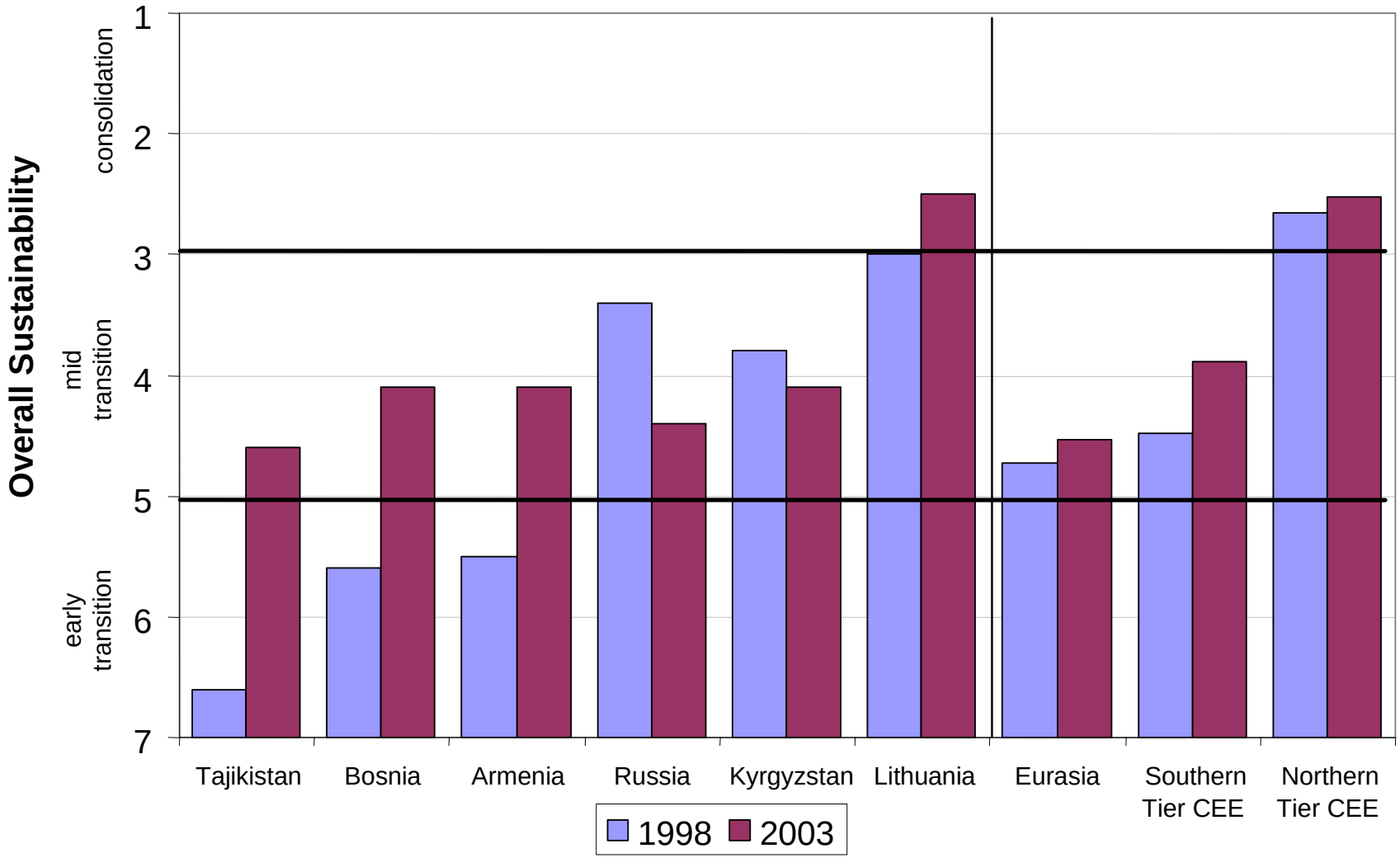
Democratic Reforms in Eurasia



Freedom House, *Nations in Transit 2004* (2004); Ratings from 1 to 5, with 5 representing greatest progress in democratic reforms.

Figure 4

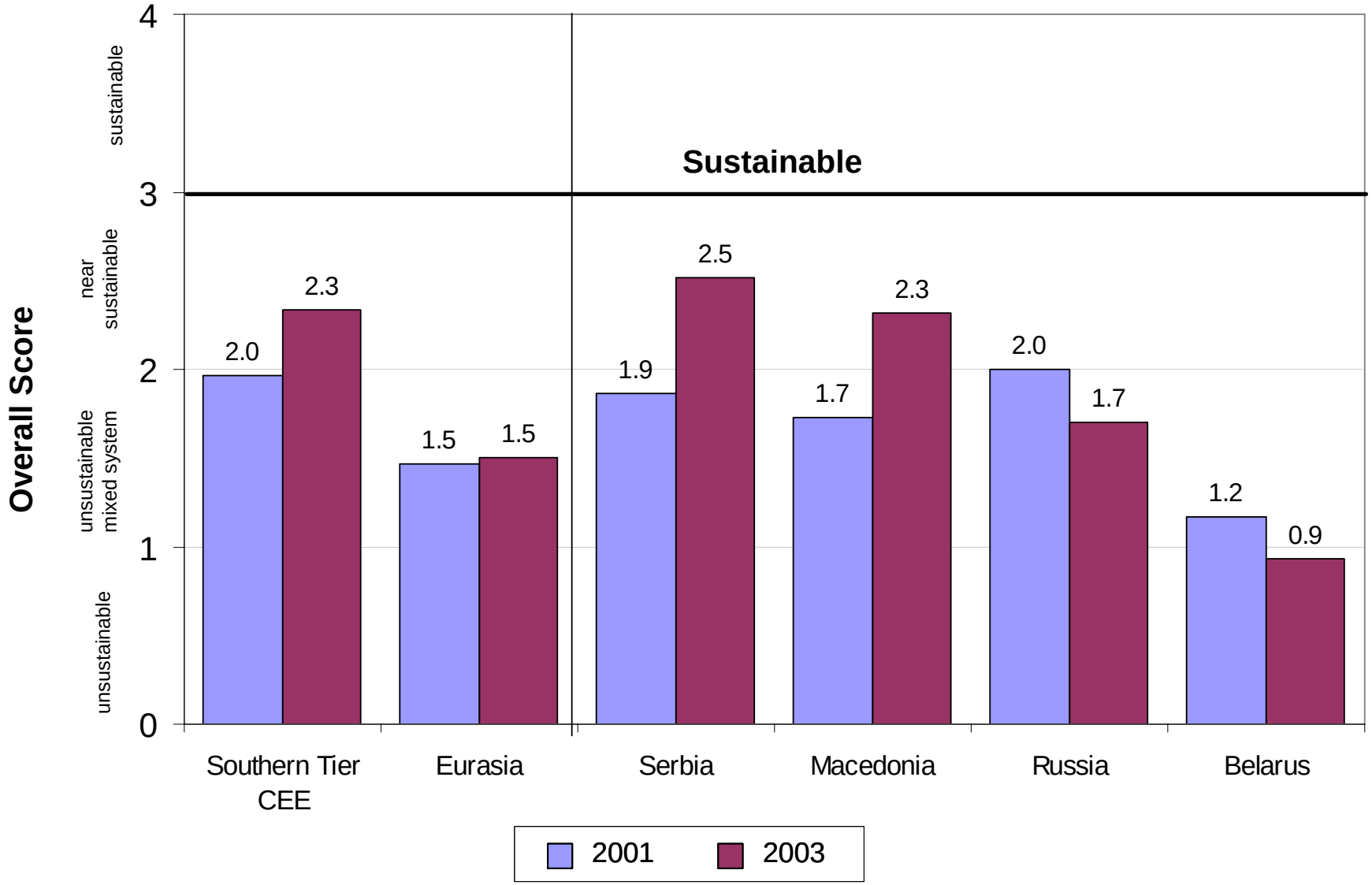
NGO Sustainability Index



USAID/EE/DGST, *The 2003 NGO Sustainability Index for Central and Eastern Europe and Eurasia* (2004).

Figure 5

Media Sustainability Index



IREX, *Media Sustainability Index 2003* (2004).

Summary of economic and democratic reforms

Figure 6 provides an overall picture of the status of the economic and democratic reforms in the transition countries in 2004. The economic reform ratings are an equally weighted average of all nine EBRD transition indicators (that is, both stages from *Tables 1* and *2*). The democratic reform ratings are calculated from the average of the six democratic reform components corresponding to 2003 as shown in *Table 3* and taken forward to 2004 with the 2004 trends from Freedom House's political rights and civil liberties as shown in *Table 4*.[10] *Table 5* tabulates these aggregate economic and democratic reform scores and ranks the countries on both dimensions.

These data show that progress in economic and democratic reforms in the transition region varies greatly, ranging from that found in Hungary, Estonia, and Poland at one end of the reform spectrum to Turkmenistan, Belarus, and Uzbekistan at the other end. The three primary sub-regions have relatively distinct reform profiles, particularly in terms of progress in democratization: that is, all the Northern Tier CEE countries are farther along in democratization than the rest; and all the Southern Tier CEE countries (except the province of Kosovo) are farther along in democratic reforms than all the Eurasian countries. In addition, the cohesiveness or homogeneity of these reform profiles differ among the three sub-regions: the Northern Tier CEE countries are much more clustered (i.e., have a relatively homogeneous reform profile), while the Eurasian countries are much more dispersed than either of the two CEE sub-regions.

Figures 7-14 highlight two basic reform patterns over time. In the CEE countries (as shown in *Figures 7-10* in the cases of Estonia, Bulgaria, Romania, and Serbia & Montenegro), economic and democratic reforms have moved forward together over the medium-term if not year by year. In Eurasia (*Figures 11-14*), in contrast, reasonably good economic reform progress in most countries has been accompanied by stagnation if not backsliding in the large majority of them since 1991 in democratization. Moldova (*Figure 13*) and Armenia have done the best to withstand the general backsliding trend in democratization in Eurasia.

[10] Country scores from *Table 3* were increased by 0.1 if 2004 democracy trends shown in *Table 4* improved (as was the case in the Czech Republic, Estonia, Hungary, Poland, Slovakia, Ukraine, Bosnia-Herzegovina, and Georgia), and decreased by 0.1 if the 2004 trends were negative (as occurred in Lithuania, Romania, Armenia, Russia, and Belarus).

Table 5. Economic Policy Reforms and Democratic Freedoms in Central and Eastern Europe and Eurasia: 2004

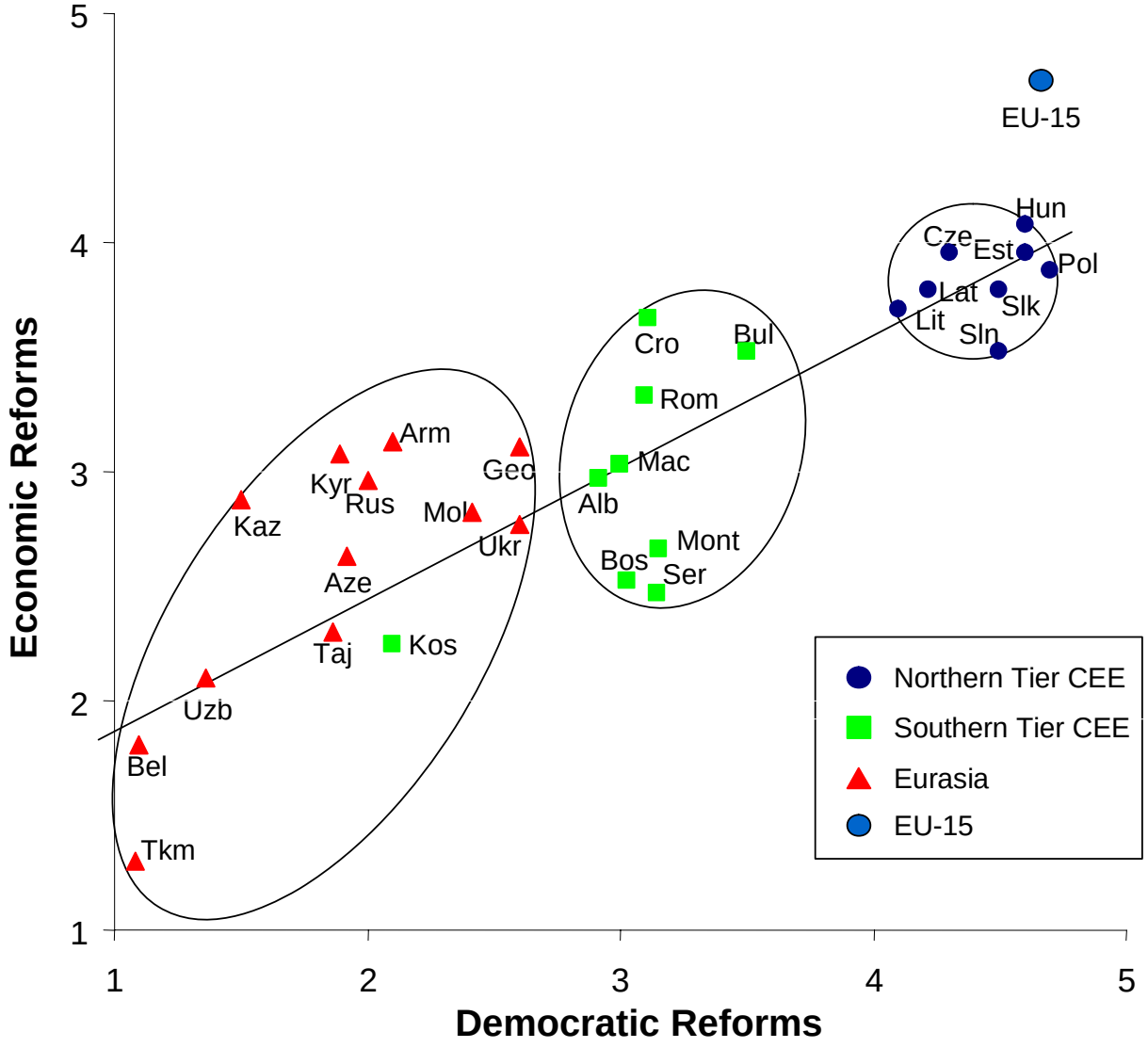
	Economic Policy		Democratic Freedoms		
	Rating (1 to 5)	Ranking		Rating (1 to 5)	Ranking
Hungary	4.1	1	Poland	4.6	1
Czech Republic	4.0	2	Estonia	4.5	2
Estonia	4.0	2	Hungary	4.5	2
Poland	3.9	4	Slovenia	4.5	2
Slovakia	3.8	5	Slovakia	4.4	5
Latvia	3.8	5	Czech Republic	4.2	6
Lithuania	3.7	7	Latvia	4.2	6
Croatia	3.7	7	Lithuania	4.2	6
Bulgaria	3.5	9	Bulgaria	3.5	9
Slovenia	3.5	9	Serbia	3.2	10
Romania	3.3	11	Romania	3.2	10
Armenia	3.1	12	Croatia	3.1	12
Georgia	3.1	12	FYR Macedonia	3.0	13
Kyrgyzstan	3.1	12	Montenegro	3.0	13
FYR Macedonia	3.0	15	Bosnia-Herzegovina	2.9	15
Albania	3.0	15	Albania	2.9	15
Russia	3.0	15	Georgia	2.5	17
Kazakhstan	2.9	18	Ukraine	2.5	17
Moldova	2.8	19	Moldova	2.4	19
Ukraine	2.8	19	Armenia	2.2	20
Azerbaijan	2.6	21	Kosovo	2.1	21
Serbia	2.5	22	Russia	2.1	21
Bosnia-Herzegovina	2.5	23	Azerbaijan	1.9	23
Montenegro	2.5	23	Kyrgyzstan	1.9	23
Tajikistan	2.3	25	Tajikistan	1.9	23
Kosovo	2.3	25	Kazakhstan	1.5	26
Uzbekistan	2.1	27	Uzbekistan	1.4	27
Belarus	1.8	28	Belarus	1.2	28
Turkmenistan	1.3	29	Turkmenistan	1.1	29
	Rating (1 to 5)			Rating (1 to 5)	
CEE & Eurasia	3.0			2.9	
Northern Tier CEE	3.9			4.4	
Southern Tier CEE	3.1			3.0	
Eurasia	2.4			1.9	
Industrial Countries	5.0			4.8	
Northern Tier CEE at Graduation	3.5			4.3	
Romania & Bulgaria 2002	3.4			3.4	

Ratings are based on a 1 to 5 scale, with 5 representing most advanced. Kosovo and Montenegro scores on economic policy are authors estimates.

USAID, drawing from Freedom House, *Nations in Transit 2004 (2004)* & *Freedom in the World 2005*; and EBRD, *Transition Report 2004* (November 2004).

Figure 6

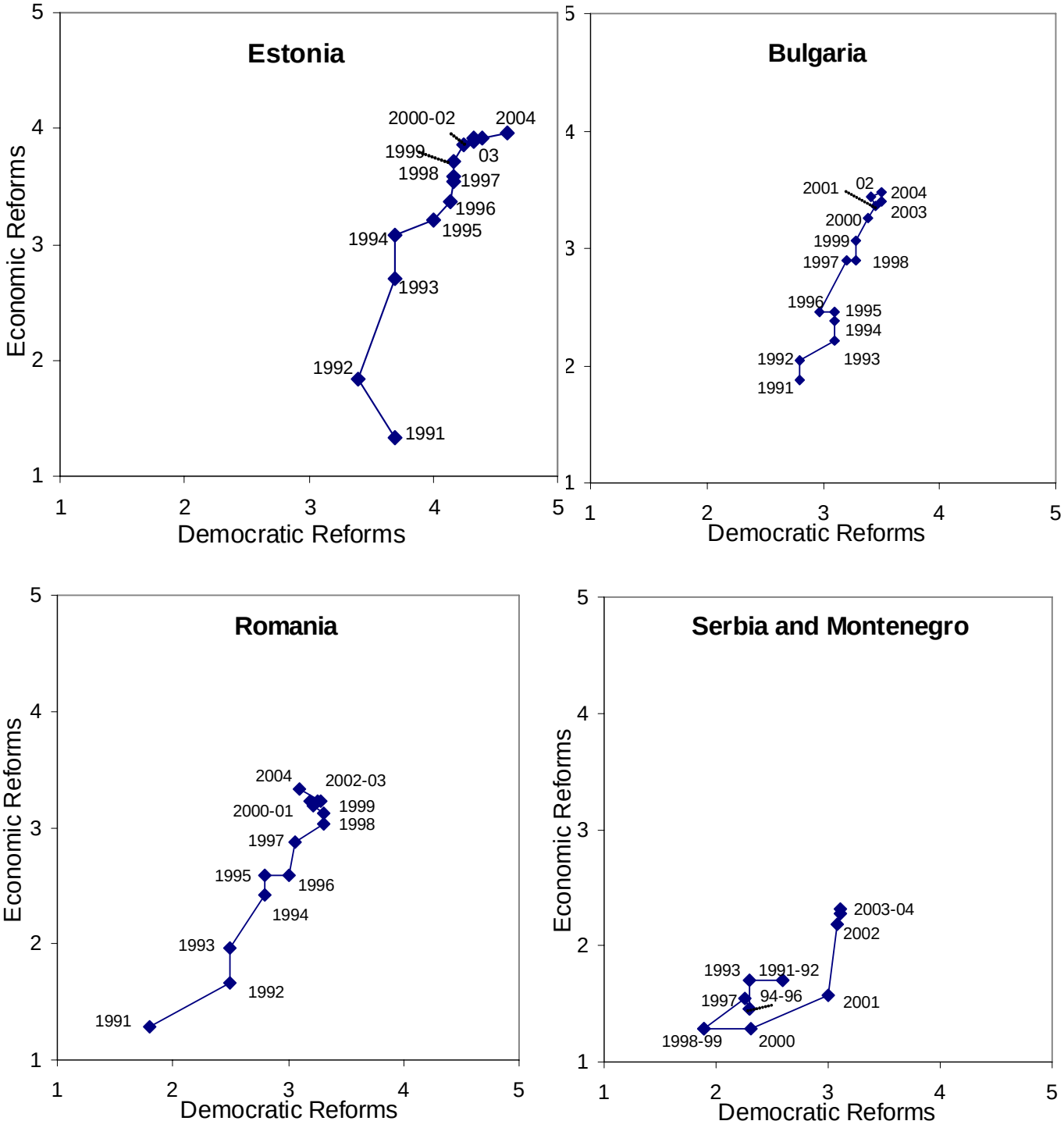
Economic and Democratic Reforms in 2004



Ratings are based on a 1 to 5 scale, with 5 representing most advanced. USAID drawing from Freedom House, *Nations in Transit 2004* (2004), and EBRD, *Transition Report 2004* (November 2004).

Figures 7-10

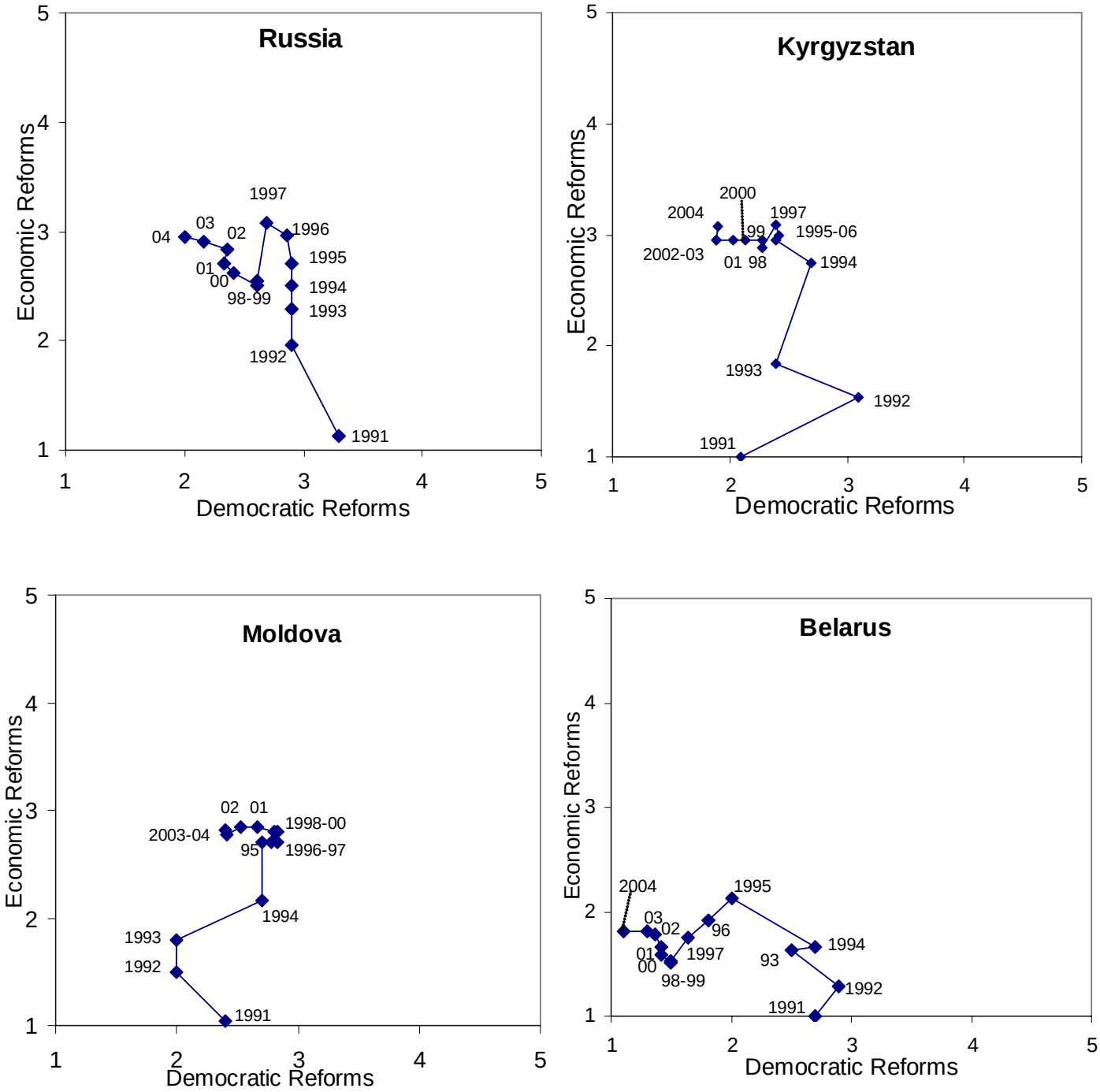
Economic and Democratic Reforms



Ratings are based on a 1 to 5 scale, with 5 representing the most advanced. USAID, drawing from EBRD, *Transition Report 2004* (November 2004) & Freedom House, NIT (2004).

Figures 11-14

Economic and Democratic Reforms



Ratings are based on a 1 to 5 scale, with 5 representing the most advanced. USAID drawing from EBRD, *Transition Report 2004* (November 2004) & Freedom House, NIT (2004).

Economic Performance

For economic and democratic reforms to be sustained, solid macro-economic performance needs to ensue, namely, macroeconomic stability and robust economic growth. In addition, for these macro-economic trends to occur (and to be sustained), certain key economic structural changes need to take place, including increasing the proportion of the private sector share of the economy and increasing the competitiveness of the economy. Seven primary indicators are tracked to assess progress in economic performance (*Tables 6* and *7*; *Figures 15-19*): (1) export share of GDP; (2) employment in the small and medium enterprise sector as a percent of total employment; (3) foreign direct investment; (4) private sector share of GDP; (5) external debt as percent of GDP; (6) inflation; and (7) economic growth.

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

Economic growth has been impressive among the transition countries in recent years (*Figure 15*). Since 2000, the transition region as a whole has witnessed annual economic growth rates of roughly 5% or higher. These rates (from 2000-2004) have exceeded the global economic growth rates, though the difference has been narrowing. Economic growth has been particularly high in Eurasia, averaging about 8% in 2003-2004.

For much of the Eurasian countries, much of these high growth rates have stemmed in no small part from high and rising prices of key primary product exports (particularly oil and gas, various metals, and cotton). Another contributing factor, however, has been the very significant drops in output through most of the 1990s. Recent surges in economic growth, in other words, have been a response in part to earlier collapses in output. *Figure 16* shows that on average, official GDP in Eurasia today is still only roughly 80% of what it was in 1989. It is not much higher in the Southern Tier CEE countries on average (87%). Hence, while the fastest growing economies in recent years have been in Eurasia, it has been primarily the economies of the Northern Tier CEE countries that have been able to sustain relatively robust economic growth over a long period to the point where they are well above pre-transition income levels.[11]

Impressive economic growth has been accompanied by generally impressive strides towards macro-economic stability in most of the transition countries. Inflation rates are now single-digit in all but a handful of economies in the region: Belarus (2004 estimate

[11] There are several exceptions to this trend, perhaps anomalous at least at first examination: the three Eurasian slow-reformers all have current GDP in excess of 1989 GDP (Turkmenistan: 113%; Uzbekistan: 109%; and Belarus: 106%), and Albania (139%). In the case of Uzbekistan and Belarus, however, these figures are largely a reflection that, unlike across all the other transition economies in Eurasia, Uzbekistan and Belarus have not experienced a dramatic drop in output during the transition. Turkmenistan has benefited from high economic growth rates due to primary product exports (gas and cotton).

of 19%); Uzbekistan (12%); Romania (12%): Russia (11%) and Moldova (10%). The three year inflation rate average (2001-2003) in the Northern Tier CEE countries was only 3.5%; in the Southern Tier CEE: 6.1%; and in Eurasia 10.1% (*Table 7*).

With a few exceptions, external debt is manageable if not low (*Table 7*). Where it has been high and particularly burdensome (i.e., among the poorest Eurasian countries), it has been falling, including in Kyrgyzstan (where debt to GDP in 2003 was highest of all the transition countries, 103%), Moldova (89%), and Tajikistan (65%). Where external debt has been relatively high and increasing, it has been among the more advanced CEE countries (notably Estonia, Latvia, and Croatia) and high growth Eurasian countries (Kazakhstan).

Virtually all the transition countries have seen very significant increases in the private sector share of GDP (*Figure 17*) since the collapse of communism. However, the competitiveness and, similarly, the composition of these private sectors appear to vary widely.

Private sector shares are largest, not surprisingly, in the Northern Tier CEE countries (76% in 2004). However, most other transition countries have private sector shares that are approaching this level. The striking exceptions are the three Eurasian slow-reformers: Belarus and Turkmenistan have private sectors that are only 25% of official GDP; Uzbekistan, 45%.

Export shares of GDP are much larger in the Northern Tier CEE countries than elsewhere in the transition region (*Figure 18*); at least twice as large on average as compared to the Southern Tier CEE countries and Eurasia by one measure of export share.[12] Outward-orientation has increased significantly in CEE since 1990. The trend is ambiguous in the case of Eurasia: one export share measure (exports as % of PPP GDP) shows relatively little change since 1990; while the other (exports as % of US$ GDP) shows a notable increase in outward-orientation since the mid-1990s.

Data on the size of the small and medium enterprise sectors (SMEs) are hard to come by and remain incomplete (*Table 6*). There are data missing for some countries, and trends over time are available in only a small set of the transition countries. Nevertheless, there are some stark cross-country comparisons that can be made from the available data. In particular, the SME sectors in the CEE countries (as measured by employment in SMEs as a proportion of total employment) are much larger than those in Eurasia. Roughly 45% of employment in the Northern Tier CEE countries comes from SMEs. This compares to 37% in the Southern Tier CEE countries and only 12% in Eurasia.[13] As with export sectors, there is still scope for expansion of the SME sectors even in the CEE countries: SMEs employ 68% of the work force in the EU-15, and 53% in the United States.

[12] This indicator is measured by using GDP in purchasing power parity terms in the denominator.
[13] These differences would likely be substantially reduced if informal employment figures were included.

Cumulative foreign direct investment per capita continues to be far and away much higher in the Northern Tier CEE countries than elsewhere in the transition region (*Figure 19* and *Table 6*); total cumulative FDI per capita in the Northern Tier CEE is more than three times the amount in the Southern Tier CEE and closer to six times the volume in Eurasia. Moreover, FDI continues to increase at a greater rate in the Northern Tier CEE than in the Southern Tier CEE and Eurasia.

Table 6. Indicators of Sustainability: Economic Structure

	Export Share of GDP (2002)		% PPP GDP Export Share of GDP (1990-91)	SME Share of Employment (1998)		SME Share of Employment (1990-94)	FDI Cumulative per capita (1989-04)		Private Sector Share of GDP (2004)	
Czech Republic	28.1	4.5	16.4	42.0	3.5	25.0	4,126	5.0	80	5.0
Estonia	32.9	5.0	29.4	---		---	2,920	5.0	80	5.0
Hungary	31.2	5.0	11.9	50.0	4.0	35.0	2,510	5.0	80	5.0
Slovakia	25.0	4.0	10.0	---		---	2,165	5.0	80	5.0
Poland	13.0	2.0	8.2	42.0	3.5	19.0	1,228	3.5	75	4.5
Lithuania	20.8	3.5	11.9	40.0	3.5	25.0	1,210	4.0	75	4.5
Bulgaria	14.5	2.5	10.6	50.0	4.0	---	980	3.0	75	4.5
Albania	6.0	1.0	2.5	9.5	0.5	---	485	2.0	75	4.5
Armenia	7.3	1.0	12.0	---		---	318	1.5	75	4.5
Kyrgyzstan	7.8	1.0	4.6	63.2	4.5	---	102	1.0	75	4.5
Latvia	17.7	3.0	22.6	50.0	4.0	40.0	1,635	4.5	70	4.0
Romania	11.1	2.0	5.0	37.2	3.5	---	572	2.0	70	4.0
Russia	10.1	1.5	7.5	13.0	1.0	5.0	36	0.5	70	4.0
Slovenia	34.9	5.0	35.9	---		---	1,647	4.5	65	3.5
Kazakhstan	13.3	2.0	---	12.9	1.0	12.0	1,270	4.0	65	3.5
FYR Macedonia	10.9	1.5	10.1	18.0	1.0	---	601	2.5	65	3.5
Georgia	8.0	1.5	13.8	7.3	0.5	---	327	1.5	65	3.5
Ukraine	9.8	1.5	6.7	5.4	0.5	4.0	155	1.5	65	3.5
Croatia	22.6	3.5	22.7	62.0	4.5	---	2,202	5.0	60	3.0
Azerbaijan	10.2	1.5	---	5.3	0.5	---	1,268	4.0	60	3.0
Serbia & Mont.	8.0	1.3	---	29.0	2.0	---	426	2.0	50	2.0
Bosnia & Herzegovina	8.0	1.3	---	---		---	392	1.5	50	2.0
Moldova	13.9	2.0	23.9	---		---	223	1.5	50	2.0
Tajikistan	11.6	2.0	9.1	35.9	3.5	---	35	0.5	50	2.0
Uzbekistan	7.1	1.0	---	---		---	46	0.5	45	1.5
Turkmenistan	---		---	---		---	283	1.5	25	0.5
Belarus	18.2	3.0	21.6	4.6	0.5	2.0	211	1.5	25	0.5
CEE & Eurasia	15.5	2.4	14.1	30.4	2.4	18.6	1014	2.7	64	3.4
Northern Tier CEE	25.5	4.0	18.3	44.8	3.7	28.8	2180	4.6	76	4.6
Southern Tier CEE	11.6	1.9	10.2	34.3	2.6	---	808	2.6	64	3.4
Eurasia	10.9	1.7	13.5	12.1	1.1	5.8	379	1.7	54	2.6
Northern Tier CEE at Graduation	24.1	3.8		48.3	3.8		898	2.8	71	4.1
Romania & Bulgaria 2002	12.0	1.8		43.5	3.3		519	2.3	70	4.0

Shaded columns represent ratings based on a 1 to 5 scale, with 5 representing most advanced.
World Bank, *World Development Indicators 2004* (2004), World Bank, *Transition: The First Ten Years* (2002); EBRD, *Transition Report 2004* (November 2004), EBRD, and Ayyagari, Beck, and Demirguc-Kunt, *Small and Medium Enterprises across the Globe: A New Database* , World Bank Policy Research Working Paper 3127, (August 2003).

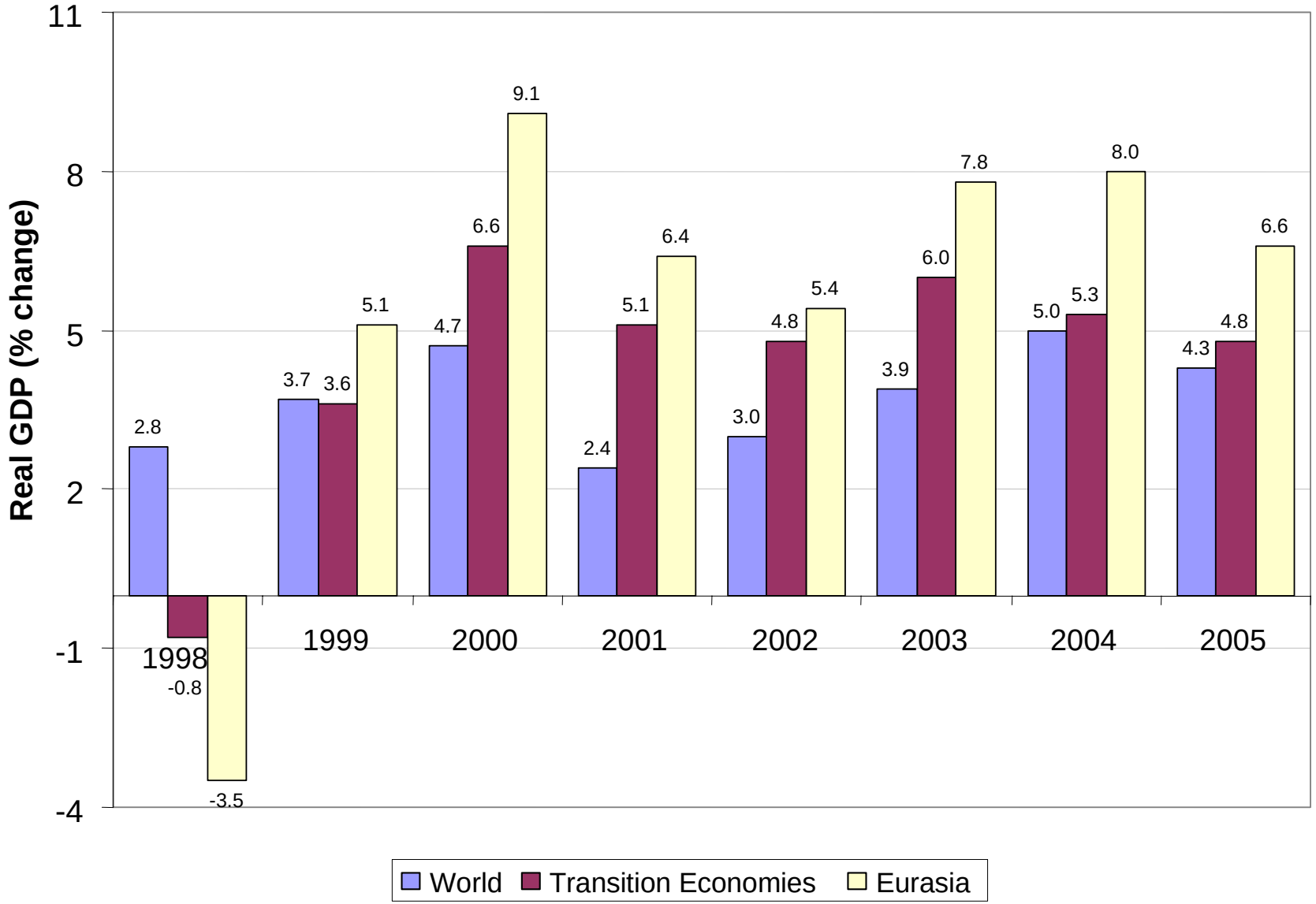
Table 7. Indicators of Sustainability: Macro-Economic Performance

	Debt as % of GDP		Years Since GDP Bottomed	Annual Average Growth Since GDP Bottomed	Inflation 3 Year Average		Consecutive Years Inflation Under 15%	GDP % of 1989 GDP	
	(2003)		(2004)	(2004)	(2001-03)		(2003)	(2004)	
Poland	50.2	3.0	13	4.2	2.0	5.0	6	142	5.0
Albania	23.1	4.5	7	7.5	3.7	4.5	6	139	5.0
Slovenia	53.0	3.0	8	3.8	5.6	4.0	5	129	4.5
Hungary	62.3	2.5	11	3.5	5.4	4.0	5	120	4.0
Slovakia	56.3	2.5	11	4.3	6.4	4.0	5	120	4.0
Turkmenistan	34.8	4.0	7	11.2	8.6	3.5	5	113	4.0
Czech Republic	33.4	4.0	6	2.7	1.7	5.0	6	112	4.0
Uzbekistan	49.4	3.0	9	3.2	16.6	2.5	1	109	3.5
Belarus	8.2	5.0	9	5.8	30.1	0.5	0	106	3.5
Estonia	70.5	2.0	5	6.0	2.8	5.0	8	106	3.5
Kazakhstan	76.8	1.5	6	8.7	6.3	4.0	5	102	3.5
Romania	34.6	4.0	5	4.4	16.6	2.5	0	97	3.0
Armenia	38.0	3.5	11	7.4	4.5	4.5	6	96	3.0
Croatia	81.8	1.5	5	4.0	2.2	5.0	6	94	3.0
Lithuania	40.6	3.5	5	6.5	0.2	5.0	6	89	2.5
Latvia	82.6	1.5	9	6.0	3.7	4.5	6	89	2.5
Bulgaria	65.6	2.0	7	4.3	4.7	4.5	6	88	2.5
Russia	42.1	3.5	6	6.5	13.3	3.0	0	85	2.5
FYR Macedonia	38.7	3.5	3	2.2	2.1	5.0	6	80	2.5
Kyrgyzstan	102.9	1.0	9	4.9	3.8	4.5	6	79	2.0
Azerbaijan	21.1	4.5	9	8.6	3.4	4.5	6	79	2.0
Tajikistan	64.8	2.5	8	6.8	11.6	3.0	0	68	1.5
Bosnia & Herzegovina	34.9	4.0	11	17.4	-0.4	5.0	6	59	1.0
Ukraine	29.7	4.0	5	7.0	4.7	4.5	6	57	1.0
Serbia & Mont.	68.9	2.0	5	3.7	13.7	3.0	0	55	1.0
Georgia	49.5	3.0	10	5.4	5.5	4.0	5	44	0.5
Moldova	89.2	1.0	5	5.4	9.0	3.5	5	44	0.5
CEE & Eurasia	52	3.0	8	6.0	7.0	4.0	4.0	93	2.8
Northern Tier CEE	56	2.8	9	4.6	3.5	4.6	5.8	113	3.8
Southern Tier CEE	50	3.1	6	6.2	6.1	4.2	4.1	87	2.6
Eurasia	48	3.2	8	6.6	10.1	3.5	3.4	80	2.2
Northern Tier CEE at Graduation	45	3.3			67.8	2.0		90	2.8
Romania & Bulgaria 2002	52	3.0			12.3	3.3		83	2.5

Shaded columns represent ratings based on a 1 to 5 scale, with 5 representing most advanced.
EBRD, *Transition Report 2004* (November 2004).

Figure 15

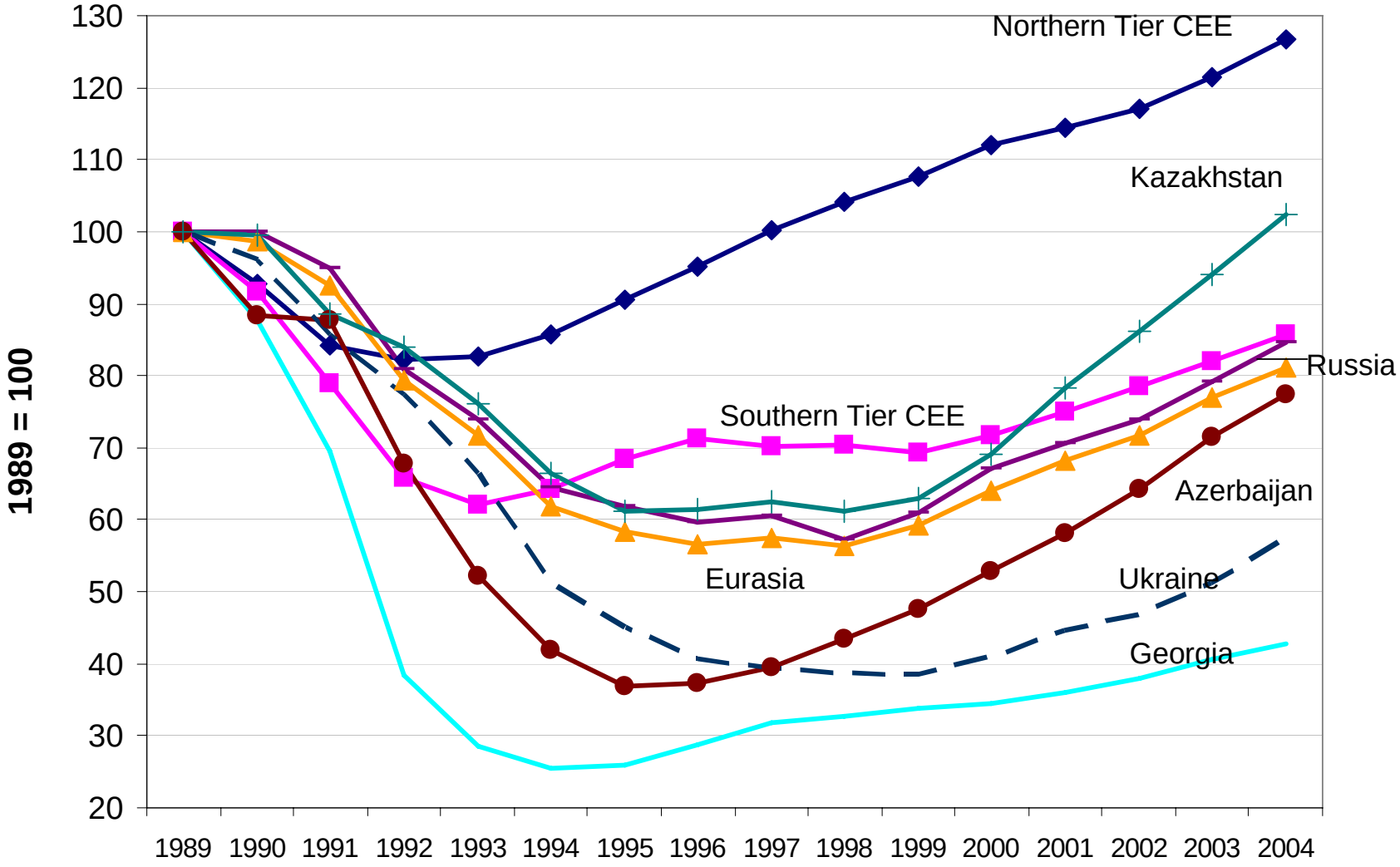
Economic Growth Trends Worldwide



USAID; and IMF, *World Economic Outlook* (September 2004).

Figure 16

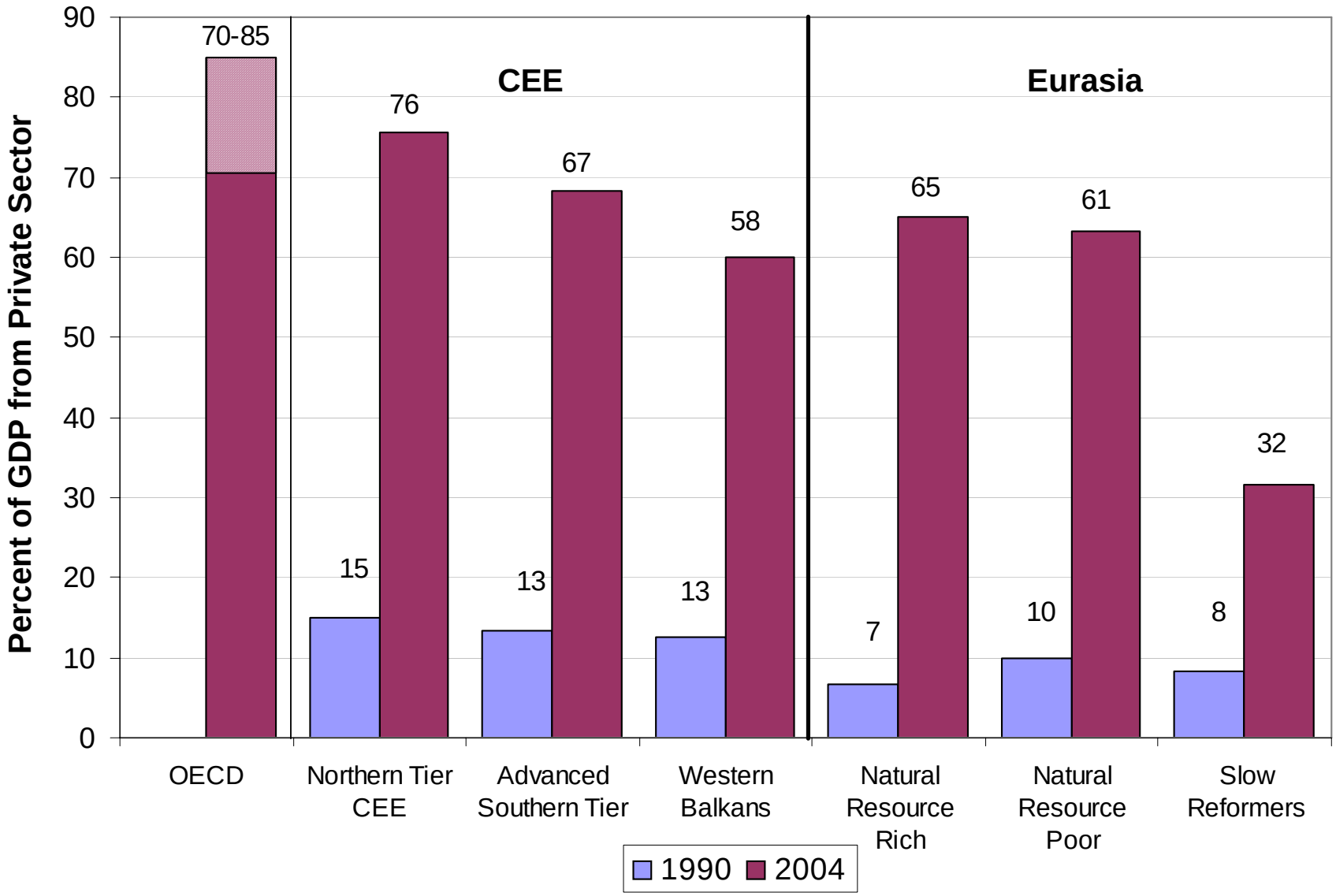
Real GDP as % of 1989 GDP



EBRD, *Transition Report 2004* (November 2004).

Figure 17

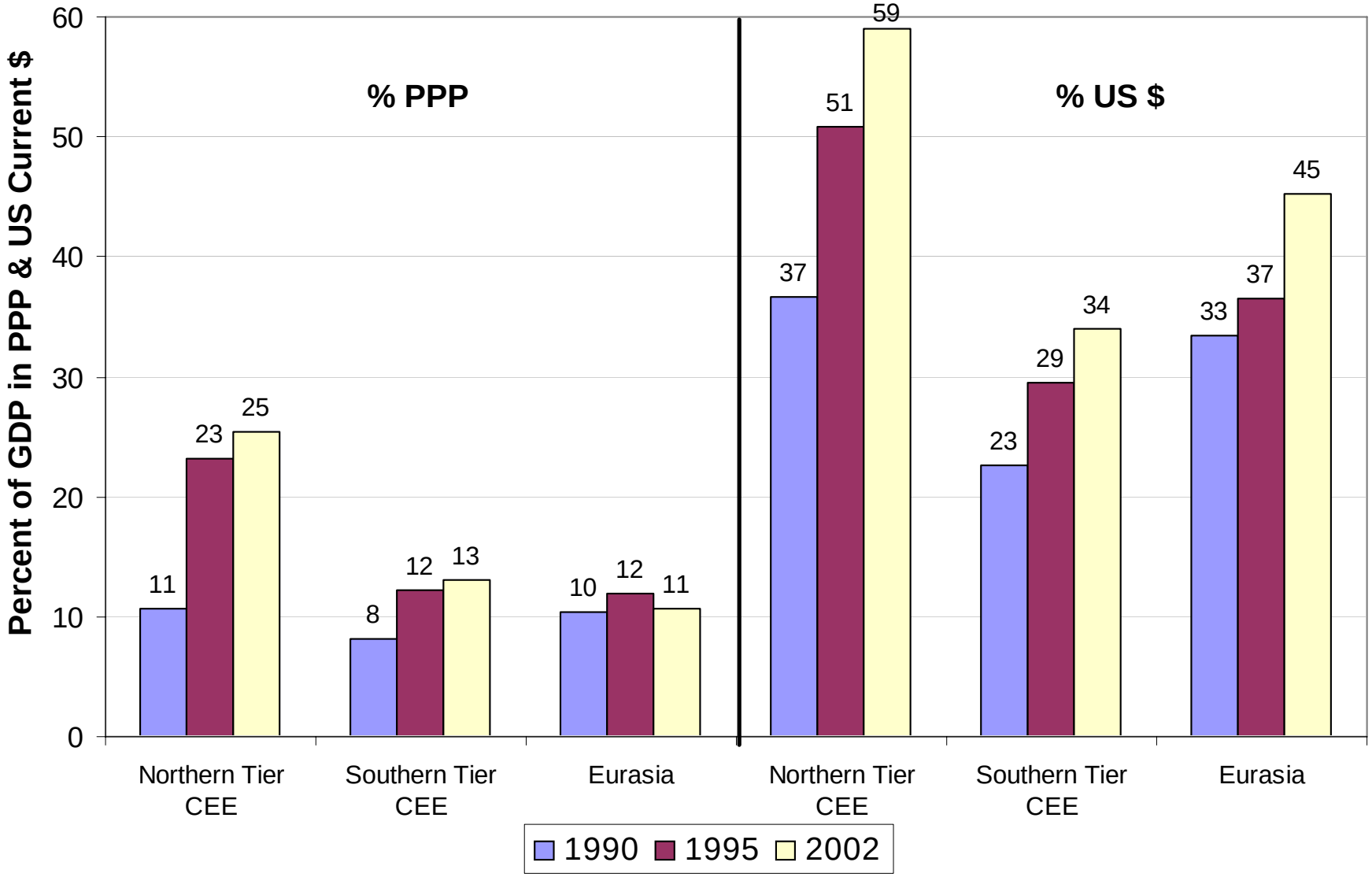
Private Sector Share of GDP in 1990 & 2004



EBRD, *Transition Report 2004* (November 2004 and earlier editions).

Figure 18

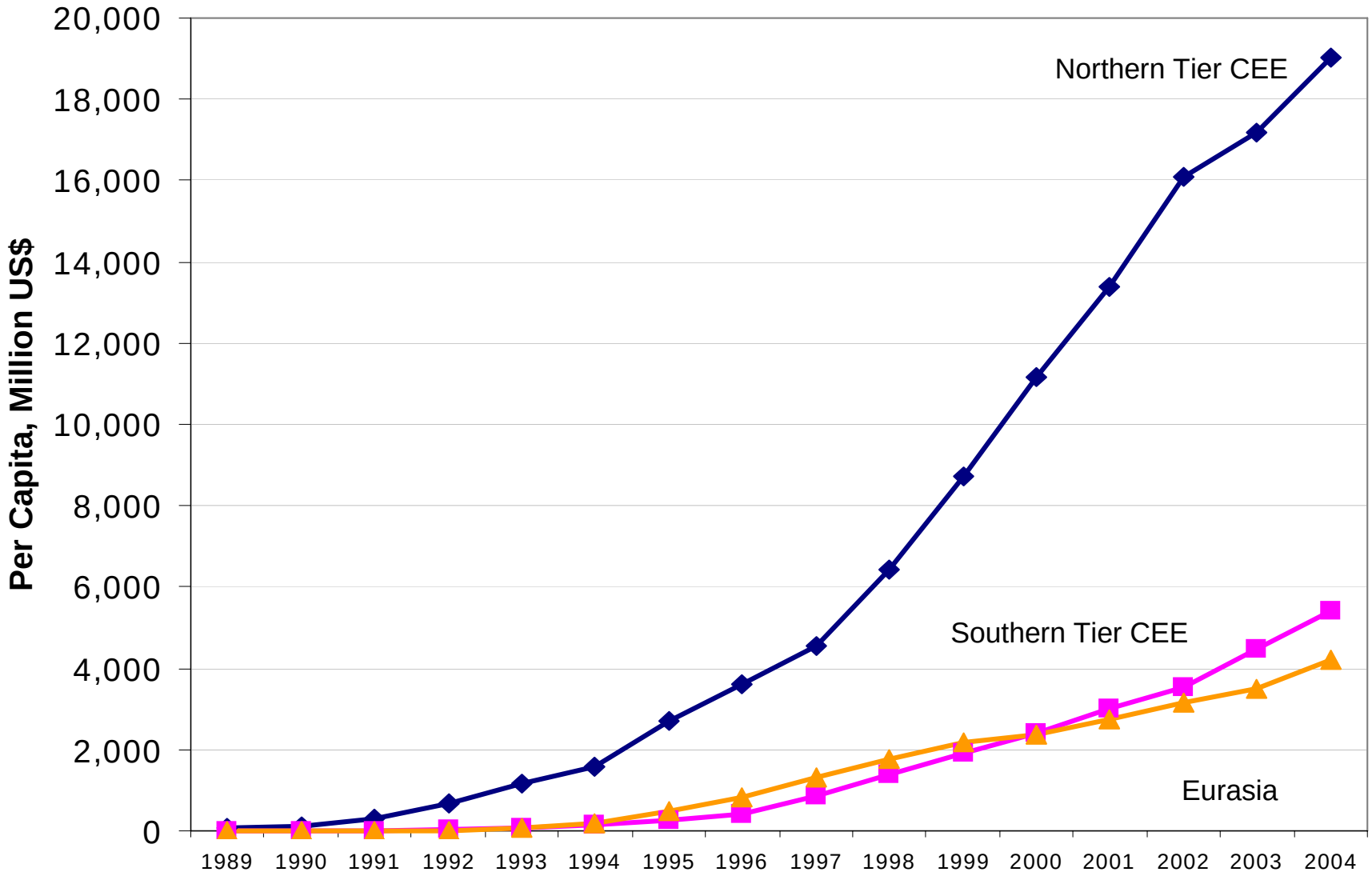
Export Sector Share of GDP



USAID drawing from World Bank, *World Development Indicators* (2004).

Figure 19

Cumulative FDI per capita, 1989-2004



EBRD, *Transition Report* (November 2004).

Human Capital

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

Six primary indicators are used to track human capital (*Tables 8* and *9*): per capita income; secondary school enrollment; under five mortality rates; life expectancy; public expenditure in health; and public expenditure in education. These six indicators are used to create an overall human capital index (analyzed in the next section below). Additional social indicators are also analyzed and are included in some of the *Figures 29-38*. These figures are sorted roughly into two groups: those that show evidence that social conditions are improving broadly across most of the transition countries (*Figures 29-32*); and those that suggest cross-country human capital disparities may still be growing (*Figures 33-38*).

Table 8. Indicators of Sustainability: Human Capital

	Secondary School Enrollment 2002		Secondary School Enrollment 1989	Under 5 mortality 2002		Under 5 Mortality 1990	PPP Per Capita Income 2003	
Slovenia	100.5	5.0	---	5	5.0	9	18,905	5.0
Czech Republic	90.6	4.5	79.2	5	5.0	11	15,353	4.5
Hungary	107.6	5.0	72.6	9	4.5	16	14,194	4.0
Slovakia	83.8	4.0	79.0	9	4.5	15	13,119	4.0
Estonia	79.7	4.0	58.4	12	4.5	17	12,180	3.5
Lithuania	66.7	3.0	73.7	9	4.5	13	10,954	3.0
Poland	111.8	5.0	90.1	9	4.5	19	10,847	3.0
Croatia	83.1	4.0	66.7	8	4.5	13	10,420	3.0
Latvia	71.8	3.5	70.2	21	4.0	20	9,806	3.0
Russia	71.5	3.5	77.8	21	4.0	21	8,670	2.5
Bulgaria	85.5	4.0	78.2	16	4.0	16	7,332	2.5
FYR Macedonia	62.8	2.5	---	26	4.0	41	6,995	2.0
Romania	73.6	3.5	89.9	21	4.0	32	6,808	2.0
Belarus	71.6	3.5	77.3	20	4.0	21	5,874	2.0
Kazakhstan	62.0	2.5	76.1	99	0.5	52	5,793	2.0
Albania	---		79.2	24	4.0	42	5,258	2.0
Ukraine	60.8	2.5	65.6	20	4.0	22	5,251	2.0
Turkmenistan	27.4	0.5	66.8	86	1.0	98	5,148	2.0
Serbia & Montenegro	76.0	3.5	---	19	4.0	30	4,876	1.5
Armenia	49.1	2.0	67.5	35	3.5	60	3,679	1.5
Azerbaijan	42.5	1.5	62.8	96	0.5	106	3,347	1.5
Bosnia & Herzegovina	73.0	3.5	---	18	4.0	22	3,064	1.5
Georgia	45.2	1.5	58.7	29	3.5	29	2,334	1.0
Kyrgyzstan	47.5	2.0	65.0	61	2.0	83	1,704	1.0
Moldova	40.1	1.5	67.1	32	3.5	37	1,701	1.0
Uzbekistan	68.4	3.0	67.6	65	2.0	65	1,656	1.0
Tajikistan	26.9	0.5	60.1	116	0.5	127	1,025	1.0
CEE & Eurasia	68.4	3.1	71.7	33	3.5	38	7,270	2.3
Northern Tier CEE	89	4.3	63.6	10	4.6	67	13,170	3.8
Southern Tier CEE	76	3.5	65.0	19	4.1	63	6,393	2.1
Eurasia	51	2.0	64.9	57	2.4	63	3,848	1.5
Northern Tier CEE at Graduation	81.4	3.9		10	4.5		8,949	2.8
Romania & Bulgaria 2002	80.0	3.8		18	4.3		6,760	2.3

Shaded columns represent ratings based on a 1 to 5 scale, with 5 representing most advanced.
UNICEF, *Social Monitor 2004* (2004), World Bank, *World Development Indicators 2004* (2004) and *EBRD Transition Report 2004* (November 2004).

Table 9. Indicators of Sustainability: Human Capital

	Public Expenditure on Health 2002		Public Expenditure on Health 1989	Public Expenditure on Education 2002		Public Expenditure on Education 1989	Life Expectancy 1989	Life Expectancy 2002	
Slovenia	5.8	4.5	5.6	5.7	4.5	---	73	76	5.0
Czech Republic	6.4	5.0	4.2	6.3	5.0	4.0	72	75	4.5
Armenia	1.1	0.5	2.4	5.1	4.0	7.5	72	75	4.5
Poland	4.6	3.5	4.9	5.4	4.0	4.8	71	74	4.0
Croatia	7.3	5.0	---	7.1	5.0	---	72	74	4.0
Albania	---		2.9	2.6	1.5	4.0	72	74	4.0
Bosnia & Herzegovina	7.9	5.0	3.2	5.2	4.0	---	---	74	4.0
Slovakia	5.1	4.0	5.0	2.2	1.0	5.1	71	73	4.0
Lithuania	3.6	2.5	2.8	6.1	5.0	4.5	71	73	4.0
FYR Macedonia	5.1	4.0	---	3.7	2.5	---	---	73	4.0
Serbia & Montenegro	6.5	5.0	3.6	3.6	2.3	---	71	73	4.0
Georgia	5.1	4.0	4.1	2.5	1.5	6.4	72	73	4.0
Hungary	0.8	0.5	5.2	2.6	1.5	5.7	69	72	3.5
Bulgaria	3.1	2.0	6.4	6.8	5.0	5.0	72	72	3.5
Estonia	4.2	3.0	---	4.2	3.0	---	70	71	3.0
Latvia	3.2	2.0	2.5	3.7	2.0	4.5	70	70	3.0
Romania	5.2	4.0	2.5	5.6	4.5	2.2	70	70	3.0
Ukraine	3.4	2.0	3.3	5.8	4.5	5.3	71	68	2.0
Belarus	6.2	5.0	2.7	3.8	2.5	4.6	72	68	2.0
Moldova	3.2	2.0	4.0	5.8	4.5	7.8	69	67	2.0
Tajikistan	0.8	0.5	4.5	4.5	3.5	2.4	68	67	2.0
Uzbekistan	2.4	1.0	4.6	---	---	---	69	67	2.0
Russia	4.1	1.5	2.4	1.9	1.0	3.6	69	66	1.5
Azerbaijan	2.4	1.0	3.1	5.3	4.0	6.9	70	65	1.0
Kyrgyzstan	1.8	0.5	3.2	3.1	2.0	6.0	68	65	1.0
Turkmenistan	3.0	2.0	3.8	2.6	1.5	3.6	65	65	1.0
Kazakhstan	1.9	0.5	4.3	4.4	3.0	2.1	68	62	0.5
CEE & Eurasia	4.0	2.7	3.8	4.4	3.2	4.8	70	70	3.0
Northern Tier CEE	4.2	3.1	4.3	4.5	3.3	4.8	71	73	3.9
Southern Tier CEE	5.9	4.2	3.7	4.9	3.5	3.7	71	73	3.8
Eurasia	3.0	1.7	3.5	4.1	2.9	5.1	69	67	2.0
Northern Tier CEE at Graduation	5.4	3.9		5.6	4.2			73	3.8
Romania & Bulgaria 2002	3.7	2.5		3.8	2.5			71	3.3

Shaded columns represent ratings based on a 1 to 5 scale, with 5 representing most advanced. Data for Public Expenditure on Education and Health in 1989 in Eurasia are from 1991.

UNICEF, *Social Monitor 2004* (2004), and World Bank, *World Development Indicators 2004* (2004).

Human capital and economic performance in the aggregate

For an overall aggregate picture of human capital, the raw data of the six primary indicators (in *Tables 8* and *9*) were converted to a 1-5 scale and averaged. The scores of the human capital index are shown in *Table 10*. A similar exercise was done for the seven primary economic performance indicators, and the scores of the economic performance index are also shown in *Table 10*.[14] *Figure 20* plots the two indices. Overall, it shows a picture that is quite similar to that of *Figure 6* of economic and democratic reforms. More specifically, the Northern Tier CEE countries are out front on both dimensions (and relatively more clustered or homogenous as a sub-region than the other two); the Eurasian countries generally lag the most on both dimensions of the three sub-regions. In contrast to the reform picture, however, there is much more overlap in performance between the three sub-regions in terms of economic performance and human capital. Croatia, for example, has a human capital profile comparable to the Northern Tier CEE, and Albania's is closer to Eurasian human capital standards. Belarus' human capital profile more closely resembles CEE norms. Bosnia-Herzegovina's economic performance ranks among the poorest Eurasian performers; Azerbaijan's is comparable to the Southern Tier CEE norms.

In general, this overlapping picture more closely resembles the economic and democratic reform chart of the late 1990s. One might expect that indicators of macro-economic performance and human capital would change with a lag as a result of changes in economic and democratic reforms. Hence, "today's" reform picture may more closely resemble "tomorrow's" economic performance and human capital picture.

Figures 21-28 attempt to illustrate, as a first approximation, some of the dynamics of human capital and economic performance in the region. The UNDP's human development index (HDI) is substituted for the human capital index for all but Bosnia-Herzegovina in these charts.[15] As a rough proxy for the seven indicator economic performance index, one of the component indicators of that index (private sector share of GDP) is used.[16]

Figures 21-24 show patterns typical of CEE countries. As shown in the case of the Czech Republic, Lithuania, and to a lesser extent Bulgaria, there was relatively good progress early on in the transition in economic performance in much of CEE, particularly in the Northern Tier CEE. There was also some backsliding early on in the CEE countries in social conditions (in the Baltics, e.g. as shown here in Lithuania, and in some countries in the Southern Tier CEE, such as Bosnia-Herzegovina). However, with

[14] The conversion scales for both the human capital and economic performance indices are provided in *Appendix 1*.
[15] The HDI is not available for Bosnia-Herzegovina.
[16] Time permitting, observations over time of the human capital index will be calculated and substituted for the HDI values. The human capital index is arguably better tailored to the social conditions of the transition region, and hence is more sensitive to key changes over time across countries than is the HDI (which includes adult literacy rates, combined enrollment rates for all three levels of school, as well as life expectancy and GDP per capita). Similarly, the private sector share indicator will be replaced with observations over time of the economic performance index.

perhaps the exception of Serbia & Montenegro, the levels of human development or human capital that existed in the early 1990s have been restored and in most cases have been exceeded in recent years in the CEE countries.

Figures 25-28 show four Eurasian countries, and a somewhat contrasting pattern with that found in CEE. The salient difference is the degree to which human development has deteriorated in Eurasia. In particular, most Eurasian countries have yet to restore the level of human capital that was prevalent prior to the collapse of communism. Armenia and Belarus may be the key exceptions.

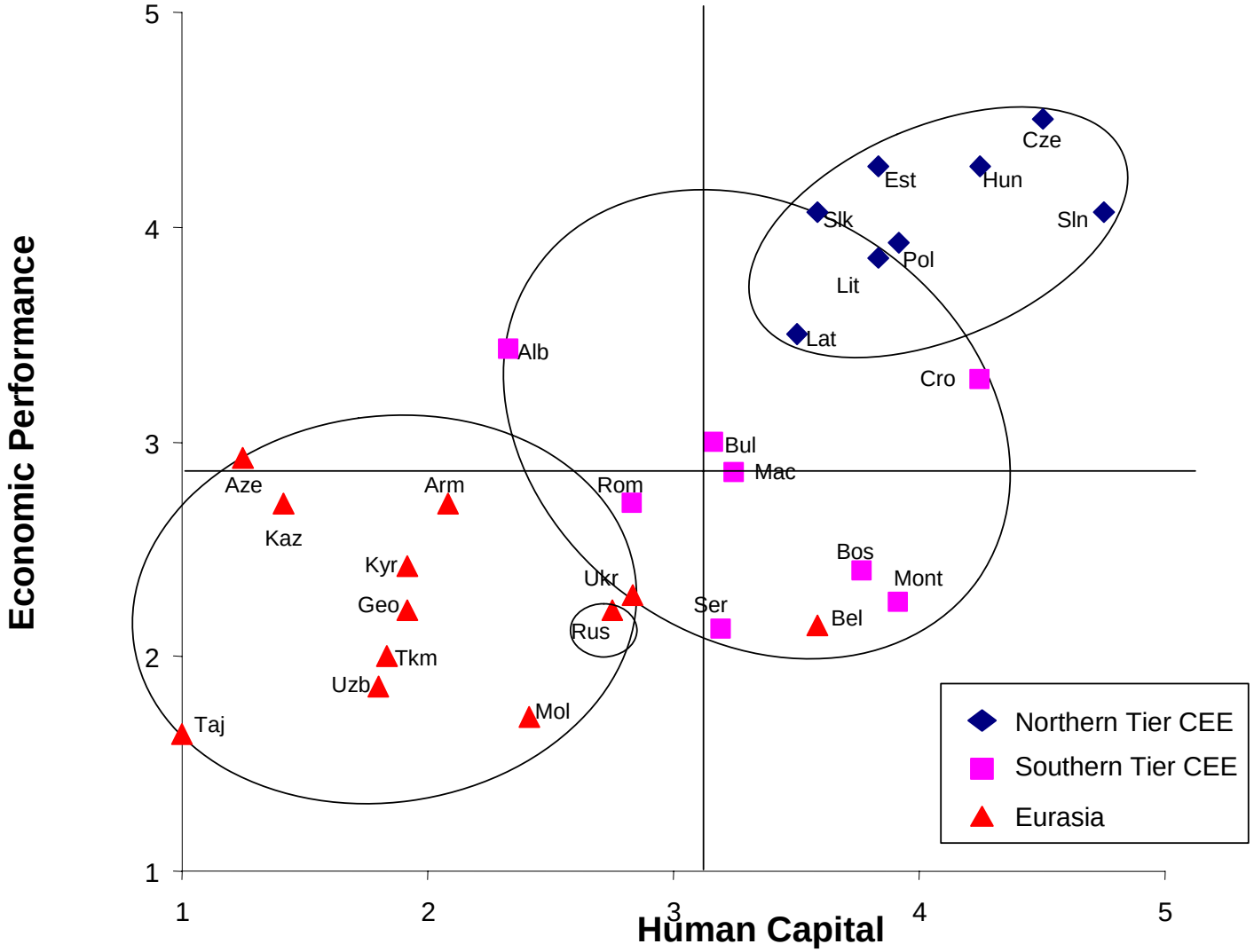
Table 10. Economic Performance and Human Capital in Central and Eastern Europe and Eurasia: 2002- 2004

	Economic Performance		Human Capital		
	Rating (1 to 5)	Ranking		Rating (1 to 5)	Ranking
Czech Republic	4.5	1	Slovenia	4.8	1
Estonia	4.3	2	Czech Republic	4.5	2
Hungary	4.3	2	Croatia	4.3	3
Slovakia	4.1	4	Hungary	4.3	3
Slovenia	4.1	4	Montenegro	3.9	5
Poland	3.9	6	Poland	3.9	5
Lithuania	3.9	6	Estonia	3.8	7
Latvia	3.5	8	Lithuania	3.8	7
Albania	3.4	9	Slovakia	3.6	9
Croatia	3.3	10	Belarus	3.6	9
Bulgaria	3.0	11	Latvia	3.5	11
Azerbaijan	2.9	12	Serbia	3.4	12
FYR Macedonia	2.9	12	FYR Macedonia	3.3	13
Romania	2.7	14	Bulgaria	3.2	14
Armenia	2.7	14	Russia	2.8	15
Kazakhstan	2.7	14	Romania	2.8	15
Bosnia-Herzegovina	2.4	17	Ukraine	2.8	15
Turkmenistan	2.4	17	Bosnia-Herzegovina	2.9	18
Montenegro	2.5	19	Moldova	2.4	19
Ukraine	2.3	20	Albania	2.3	20
Georgia	2.2	21	Armenia	2.1	21
Russia	2.2	21	Georgia	1.9	22
Belarus	2.1	23	Turkmenistan	1.9	22
Serbia	2.0	24	Kyrgyzstan	1.8	24
Kyrgyzstan	2.0	24	Uzbekistan	1.8	24
Uzbekistan	1.9	26	Kazakhstan	1.4	26
Moldova	1.7	27	Azerbaijan	1.3	27
Tajikistan	1.6	28	Tajikistan	1.0	28
	Rating (1 to 5)			**Rating (1 to 5)**	
CEE & Eurasia	2.9			3.0	
Northern Tier CEE	4.1			4.0	
Southern Tier CEE	2.8			3.1	
Eurasia	2.2			2.1	
European Union-15	4.7			4.7	
Northern Tier CEE at Graduation	3.2			3.9	
Romania & Bulgaria 2002	2.9			3.1	

Ratings are based on a 1 to 5 scale, with 5 representing most advanced.
USAID, drawing from World Bank, *World Development Indicators 2004* (2004); UNICEF, *Social Monitor 2004*; EBRD, *Transition Report* (November 2004); Ayyagari, Beck, and Demirguc-Kunt, *Small and Medium Enterprises across the Globe: A New Database,* World Bank Policy Research Working Paper 3127, (August 2003).

Figure 20

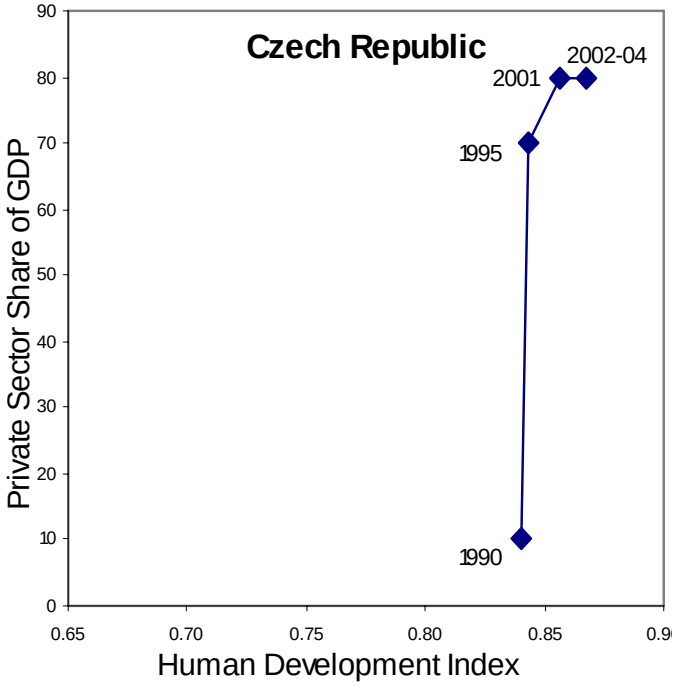
Economic Performance and Human Capital in 2002-2004

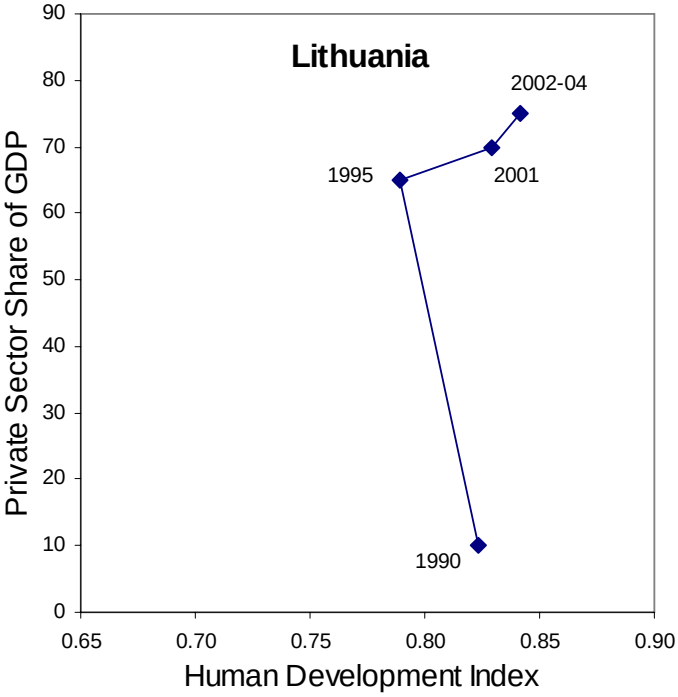


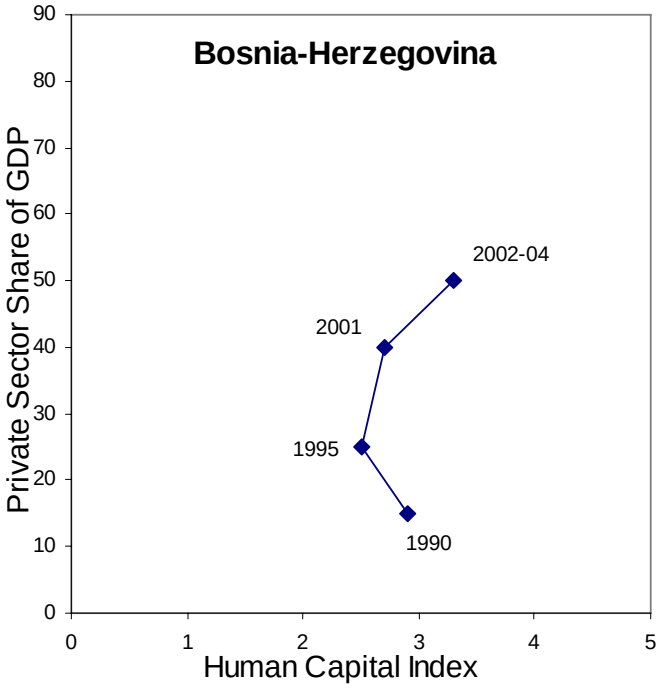
USAID, MCP#9 (2005) drawing from World Bank, *World Development Indicators 2004* (2004); UNICEF, *Social Monitor 2004* (2004); EBRD, *Transition Report* (November 2004); Ayyagari, Beck, and Demirguc-Kunt, *Small and Medium Enterprises across the Globe: A New Database*, World Bank Policy Research Working Paper 3127, (August 2003).

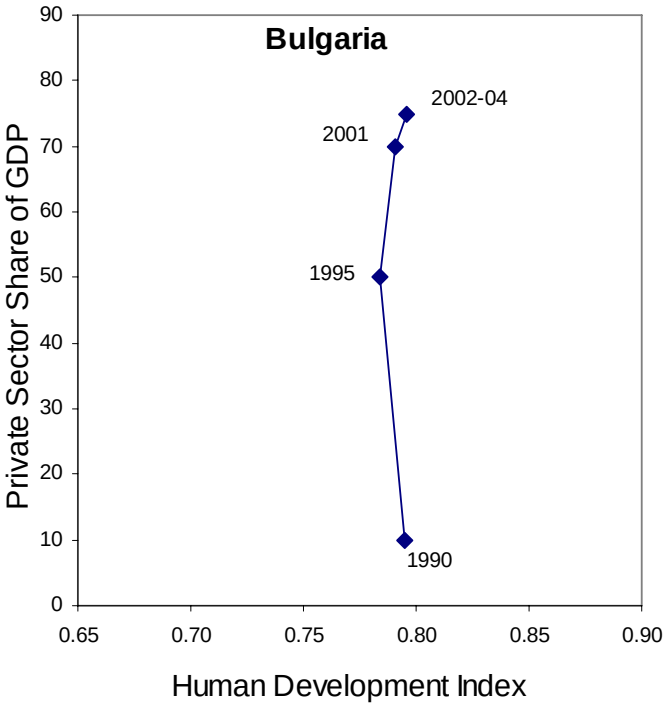
Figures 21-24

Economic Structure and Human Development





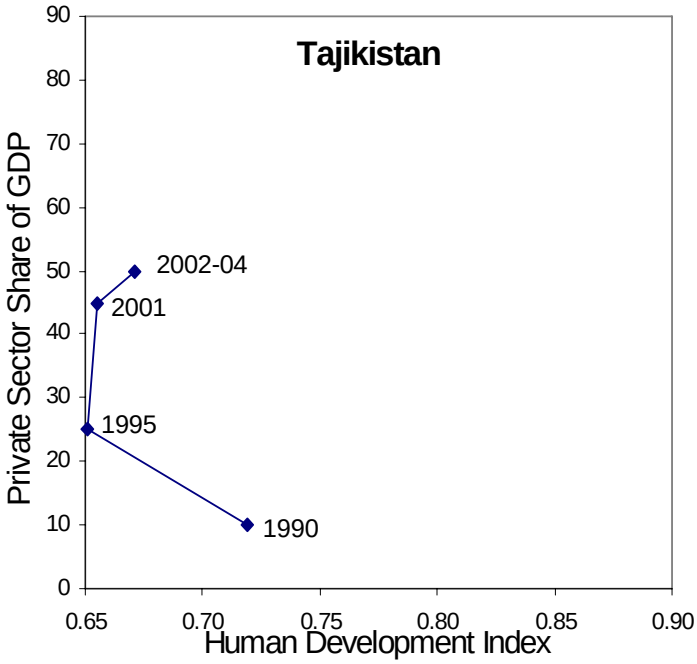


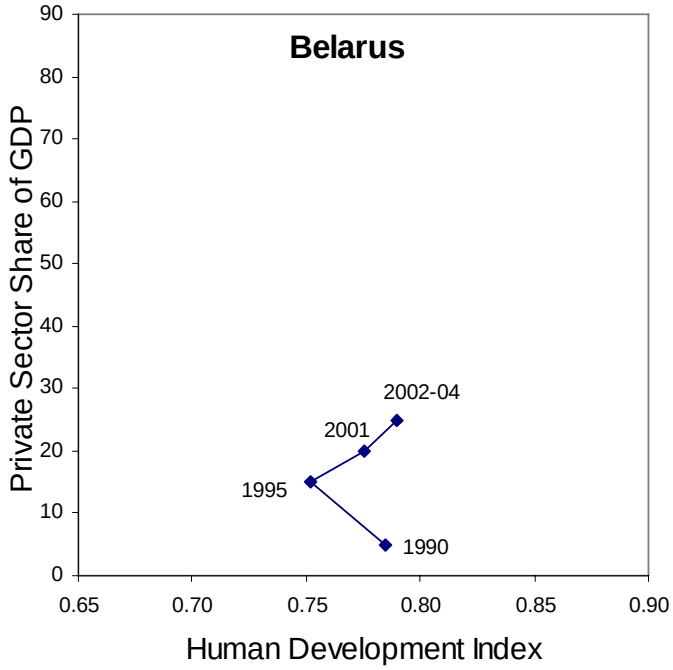


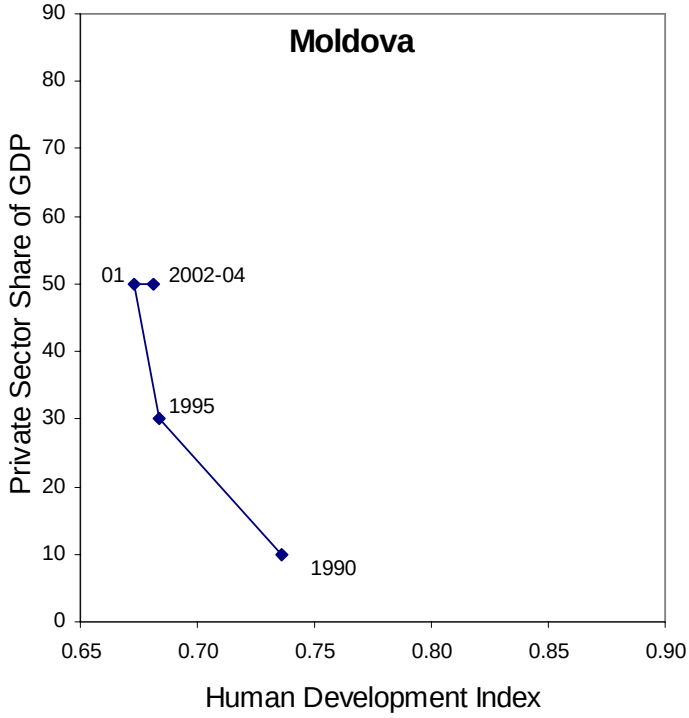
Ratings are based on a 1 to 5 scale, with 5 representing the most advanced. USAID, drawing from EBRD, *Transition Report 2004* (November 2004) ; UNDP, *Human Development Report* (2004); World Bank, *World Development Indicators 2004* (2004); and UNICEF, *Social Monitor 2004* (2004).

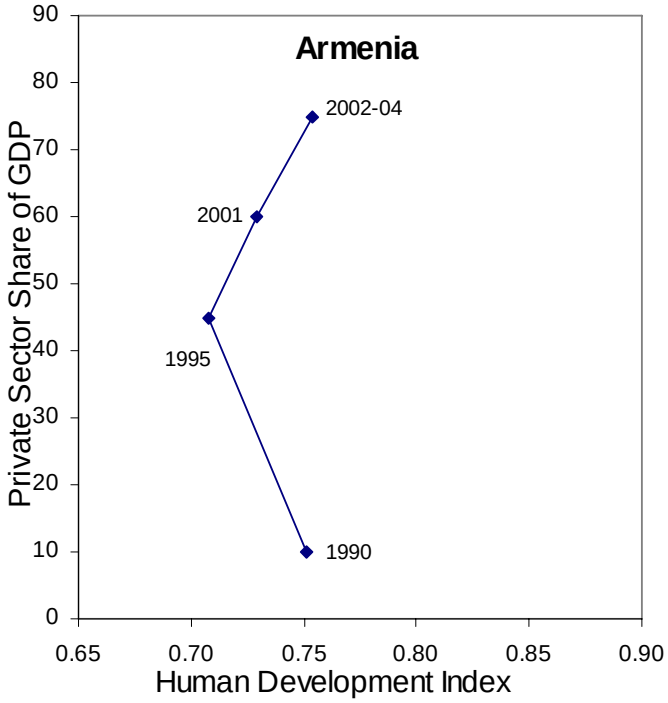
Figures 25-28

Economic Structure and Human Development









Ratings are based on a 1 to 5 scale, with 5 representing the most advanced. USAID, drawing from EBRD, *Transition Report 2004* (November 2004) & UNDP, *Human Development Report* (2004).

Human capital disaggregated: evidence of improving social conditions.

Available evidence suggests that the resumption of economic growth in the transition region has had, not surprisingly, some favorable effects on at least certain aspects of human capital. *Figure 29*, for example, shows a very close inverse relationship between the trend in economic output and poverty rates over time in Russia. With the collapse of output from 1991 to 1998 in Russia, poverty rates increased substantially; when economic growth resumed after the financial crisis, poverty rates fell dramatically. This pattern has emerged consistently in at least a handful of other transition countries where time series data on poverty are available (including Serbia-Montenegro, Romania, Moldova, and Kyrgyzstan).[17] Sometimes, though not in all cases, the decline in poverty rates has come with a lag after the resumption of economic growth.

Trends in real wages have varied widely across the transition countries (*Figure 30*). In rough terms, the cross-country real wage patterns mirror the GDP patterns (of *Figure 16*): the drop in real wages has been the greatest in Eurasia, and the smallest in the Northern Tier CEE. Moreover, as with GDP trends, real wages have bottomed out in all of the transition economies and have been increasing for some years now (since 1991-1993 in all but Hungary in the Northern Tier CEE; since 1996 in Bulgaria and 1998 in Romania; and since 1993-1999 in Eurasia).[18] This provides some evidence that some of the gains of economic growth are filtering down. Still, some of the drops in real wages (such as in Uzbekistan and Tajikistan as shown in *Figure 30*) have far exceeded even the substantial drops in economic output.

Infant mortality rates (IMRs) are lower today than at the outset of the transition in a large majority of transition countries (*Figure 31*). In the Northern Tier CEE countries, these rates have been almost halved since 1990: from 15 deaths per 1,000 live births in 1990 to 8 deaths in 2002. In the Southern Tier CEE, the drop has been from 21 deaths in 1990 to 16 deaths in 2002. In most of the CEE countries the drop has been fairly steady, suggesting that the trend will continue. In only two CEE countries is the 2002 IMR not lower than 1990 rates: in Latvia (which had 16 deaths in 1990, 19 deaths in 1995, and 17 deaths in 2000 and 2002) and in Bulgaria (which had 14 deaths in 1990, 16 deaths in 1995, 15 deaths in 2000, and 14 deaths in 2002).

While infant mortality rates are much higher in some of the poorer Eurasian countries, the trend of declining IMRs generally holds in Eurasia as well as in CEE. Nine of the twelve Eurasian countries had lower IMRs in 2002 as compared to 1990. The exceptions are Armenia (26 deaths in 1990, 25 deaths in 1995 and 2000, and 30 deaths in 2002), Uzbekistan (55 deaths in 1990, 56 deaths in 1995, and 55 in 2000 and 2002), and, most strikingly, Kazakhstan (41 deaths in 1990, 52 in 1995, 71 in 2000, and 76 in 2002). These measures in Eurasia have been subject to substantial revisions in the past several years, as the methodologies have improved (and consistencies have increased).

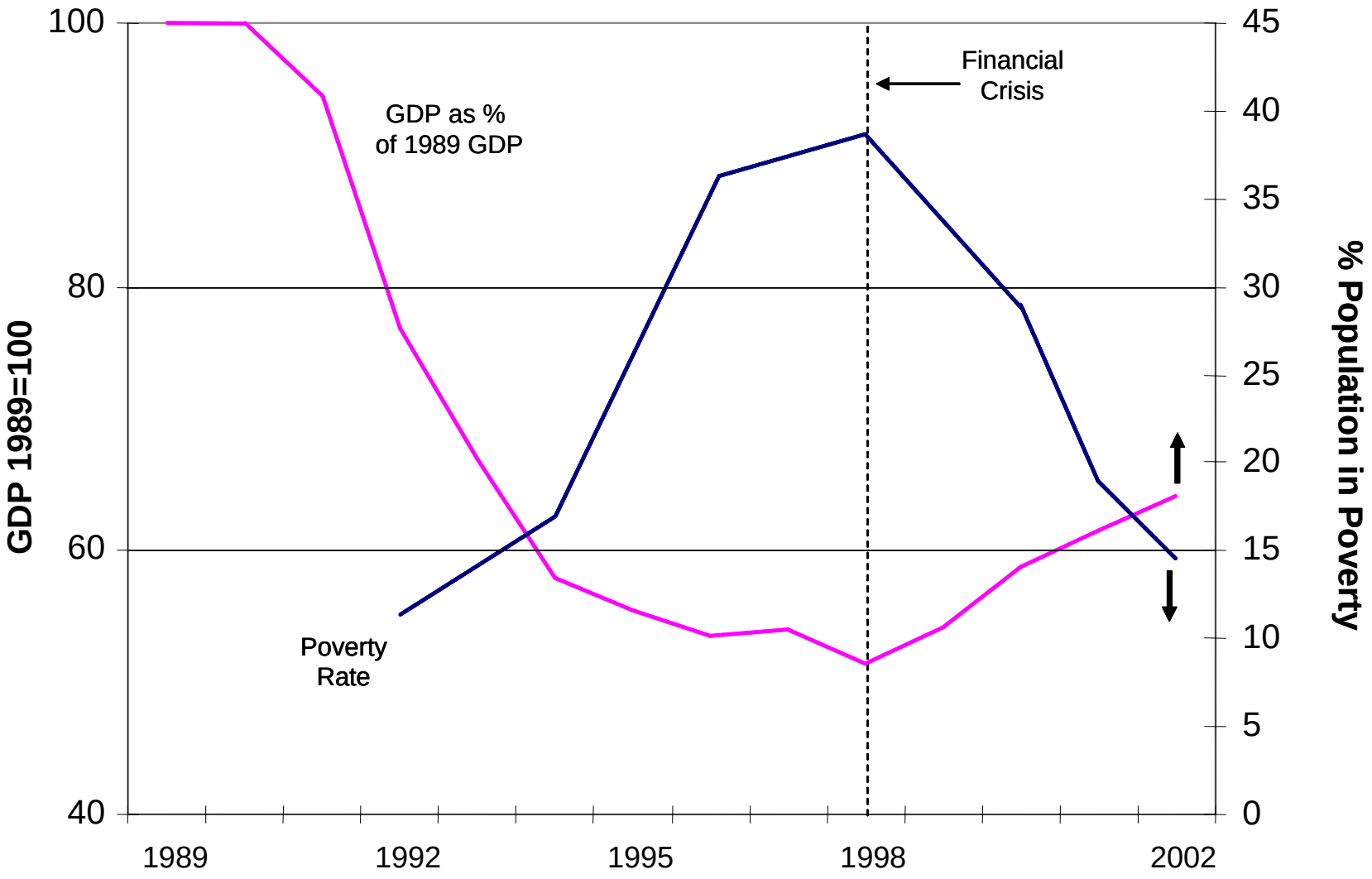
[17] From MCP country presentations, available upon request.
[18] Complete time series data on real wages are not available (from UNICEF, *Social Monitor 2004*) in many of the Southern Tier CEE countries.

Of the three levels of education, enrollments in secondary school have generally been the most adversely affected in the transition region in the 1990s. *Figure 32* shows the range of changes in secondary school enrollments across the transition countries during the transition. As with other social indicators, the deterioration in secondary school enrollments has been greatest in Eurasia. In 2002, secondary school enrollment rates were 89% in the Northern Tier CEE, 71% in the Southern Tier CEE, and only 51% in Eurasia (*Table 8*). For most countries, these enrollment trends appear to have reached a minimum in earlier years. For all the CEE countries for which data are available (except Croatia), secondary school enrollment rates have been rising since at least 1995.[19] Eurasian trends are much more mixed. At least one half of the Eurasian countries have been experiencing a rise in secondary school enrollments in recent years. However, in the case of six countries, the trends in recent years are ambiguous as to whether enrollments have bottomed out (in the case of Moldova, Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, and Turkmenistan).

[19] Sufficient time series data are not available (from UNICEF, *Social Monitor 2004*) for Bosnia-Herzegovina and Serbia & Montenegro. As shown in the data of *Figure 32*, Croatia's secondary school enrollment rates in 2002 are higher than in the early 1990s, though they have presumably been falling since 1996; a very unusual pattern which may suggest unreliable data.

Figure 29

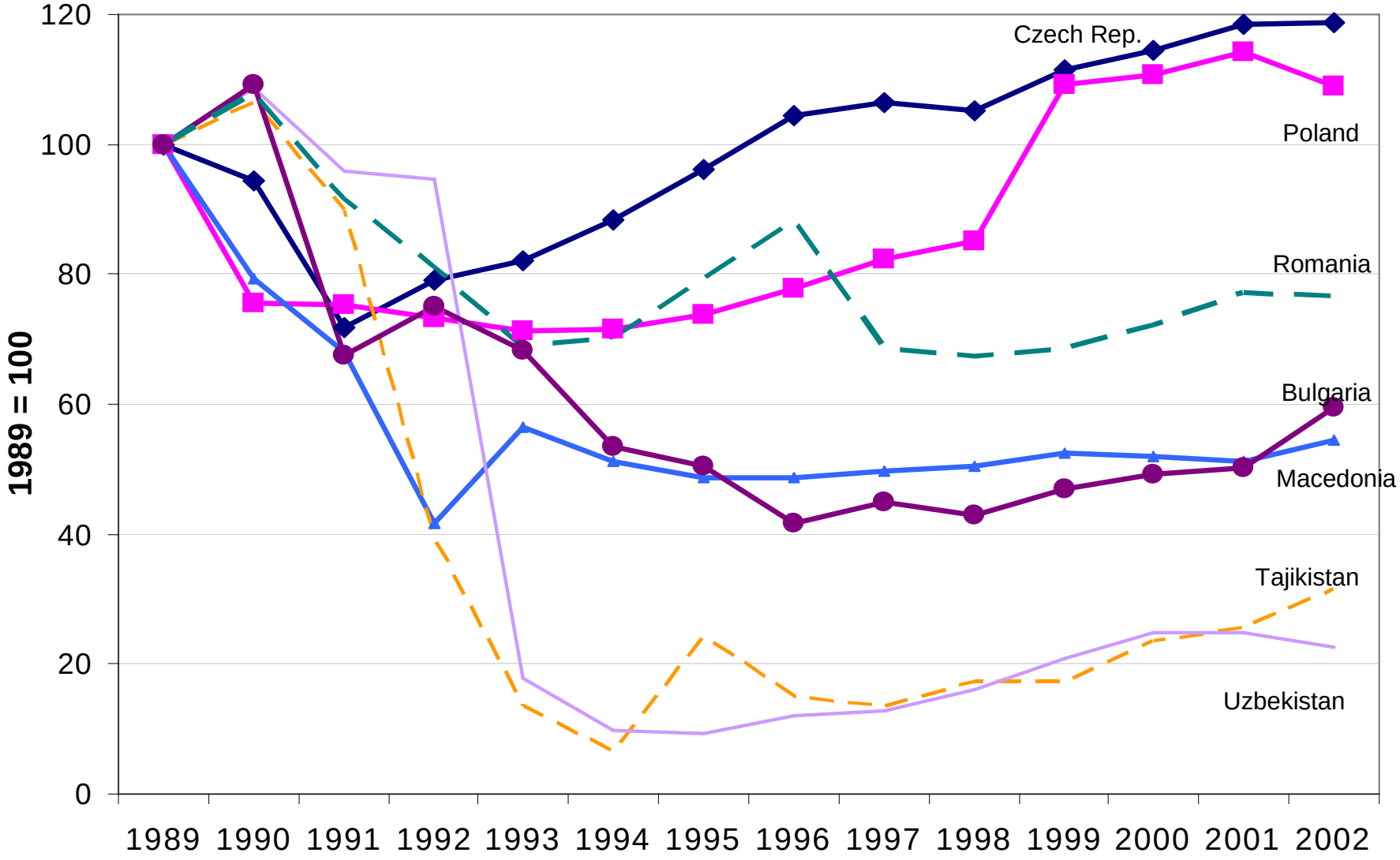
Economic Growth and Poverty in Russia



B. Popkin, *Monitoring Economic Conditions in the Russian Federation: The Russia Longitudinal Monitoring Survey 1992-2002* (April 2003); IMF, *World Economic Outlook* (April 2003), and EBRD, *Transition Report 2002* (November 2002).

Figure 30

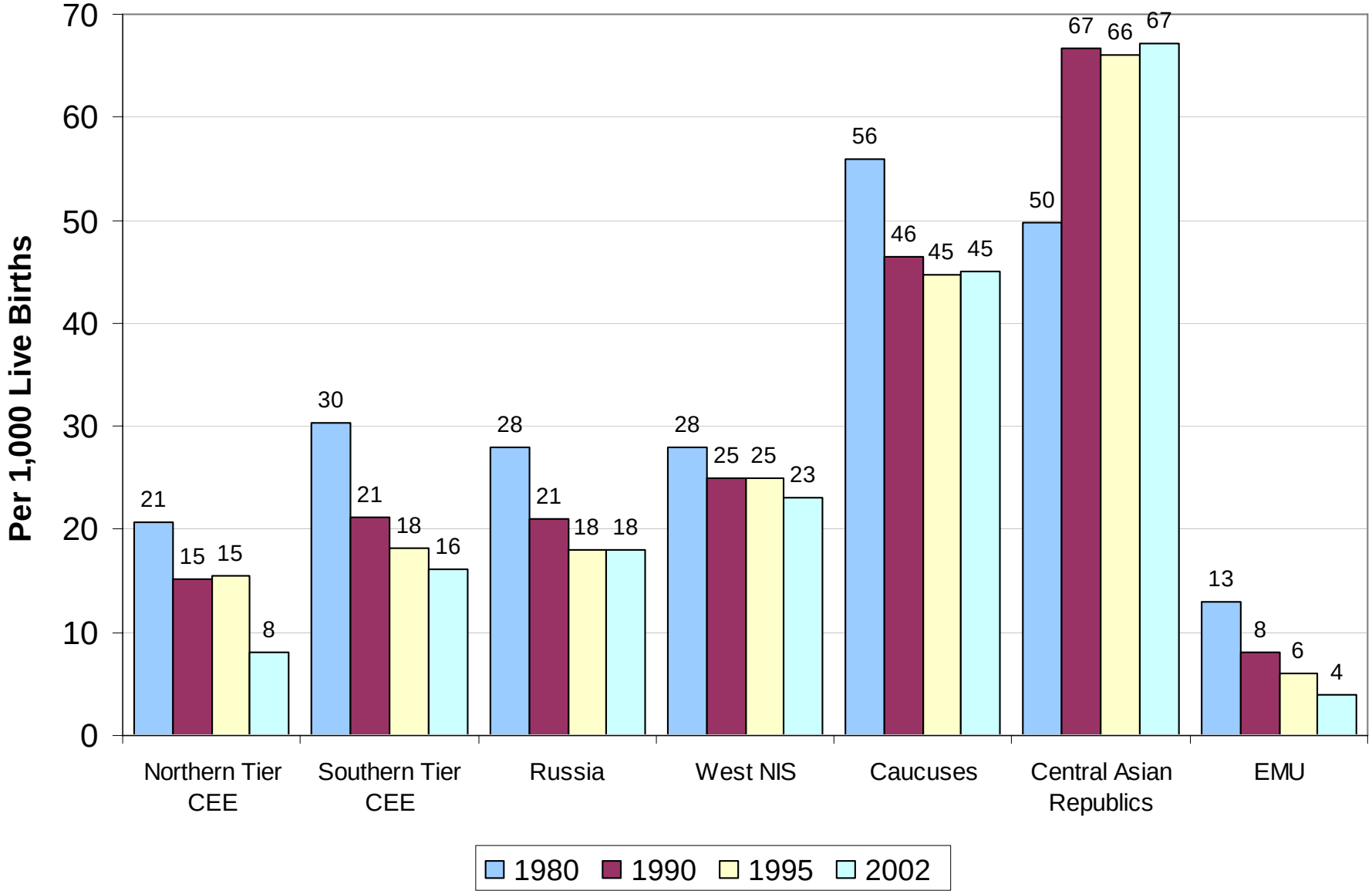
Real Wages as % of 1989 Wages



UNICEF, *Social Monitor 2004* (2004).

Figure 31

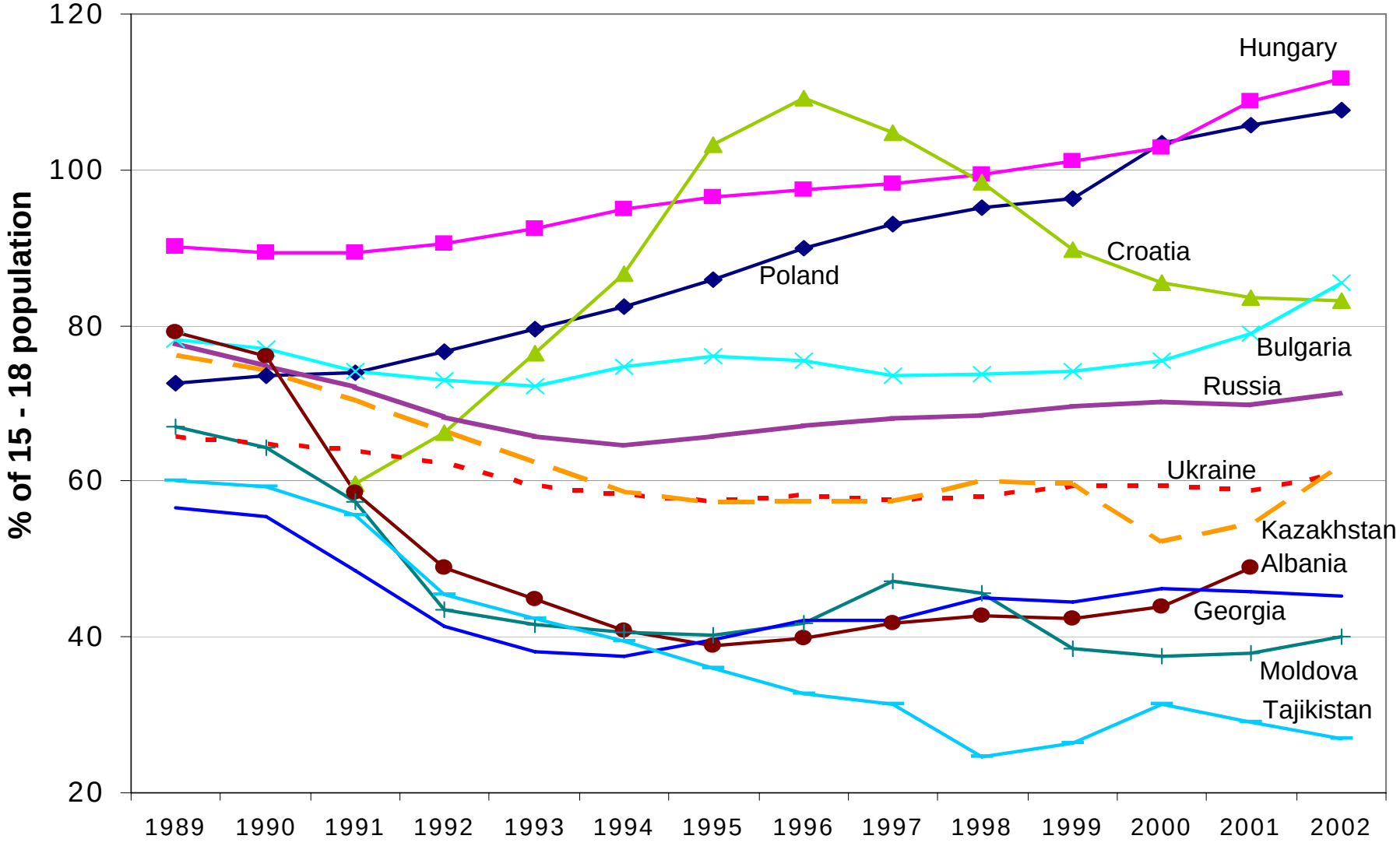
Infant Mortality Rates



World Bank, *World Development Indicators 2004* (April 2004). West NIS consists of Belarus, Moldova, and Ukraine.

Figure 32

Secondary School Enrollment



Gross rates; general secondary plus vocational/technical secondary combined. UNICEF, *Social Monitor* (2004).

Human capital disaggregated: evidence of a growing health gap

Despite largely favorable macroeconomic trends across the three transition sub-regions, and a turnaround in many of social conditions in most countries (as noted above), there are not yet signs of improvement in some key health trends in much of Eurasia in particular. Perhaps the most basic health indicator, and the most alarming, is life expectancy. *Figure 33* shows the trends over time by the three sub-regions in life expectancy, and highlights what appears to be a growing health gap between CEE and Eurasia. After an initial and slight decline in life expectancy in the CEE countries, life expectancy has been increasing, since 1994-1995. In contrast, life expectancy in Eurasia fell much more drastically early on in the transition to 1994, recovered some through 1998 and since then, has fallen more to a new low.

Nine of twelve Eurasian countries had life expectancies lower in 2002 than in 1989 (the three exceptions were Turkmenistan, where life expectancy was 65 years in 1989 and in 2002; Armenia, where it increased from 72 to 75; in Georgia from 72 to 73). Twelve of thirteen CEE countries had life expectancies higher in 2002 than in 1989 (the exception was Romania where life expectancy was 70 years in 1989 and 70 years in 2002).

Figure 34 shows estimates on the causes of death in 2000 in transition region overall vs. the EU-15 countries. It may also provide some initial insights into the widening gap in life expectancies. Causes of death can be grouped into three broad categories: communicable diseases (or infectious diseases), non-communicable diseases (or "lifestyle" diseases) and non-medical factors (accidents, suicides, homicides, war, and natural disasters).

Infectious diseases, according to WHO estimates (of *Figure 34*), remain a relatively insignificant factor in deaths overall in the transition region. In 2000, it is estimated that only 1.2% of deaths were attributable to TB and HIV, and 5.2% attributable to a wider definition of infectious diseases. The proportion of deaths due to HIV and TB in the EU-15 is estimated to be smaller still (0.3%), though the percent of deaths due to the broader definition of infectious diseases in the EU-15 was somewhat higher: 7.3%.

Nevertheless, the rate of increase in the incidences of HIV and TB in some countries in the transition region is very high. *Figure 35* shows this in the case of adult HIV prevalence rates. Compared to only a slight increase in the percent of the population with HIV in EU-15 from 1997 to 2003, increases in Ukraine, Estonia, Russia, and Latvia, in particular have been very large.

The increase in the incidences of tuberculosis in the transition region is more widespread (*Figure 36*). Again, however, a growing CEE-Eurasia gap is prevalent. According to UNICEF, all nine of the transition countries which witnessed a decrease in TB incidences from 1989 to 2002 are CEE countries; all the countries of the former Soviet Union (i.e. the Eurasian countries plus the Baltics), as well as Bulgaria and Romania have witnessed an increase in TB. TB incidence is highest and has increased the most in Kazakhstan (from 74 new cases per 100,000 population in 1989 to 165 new cases in 2002),

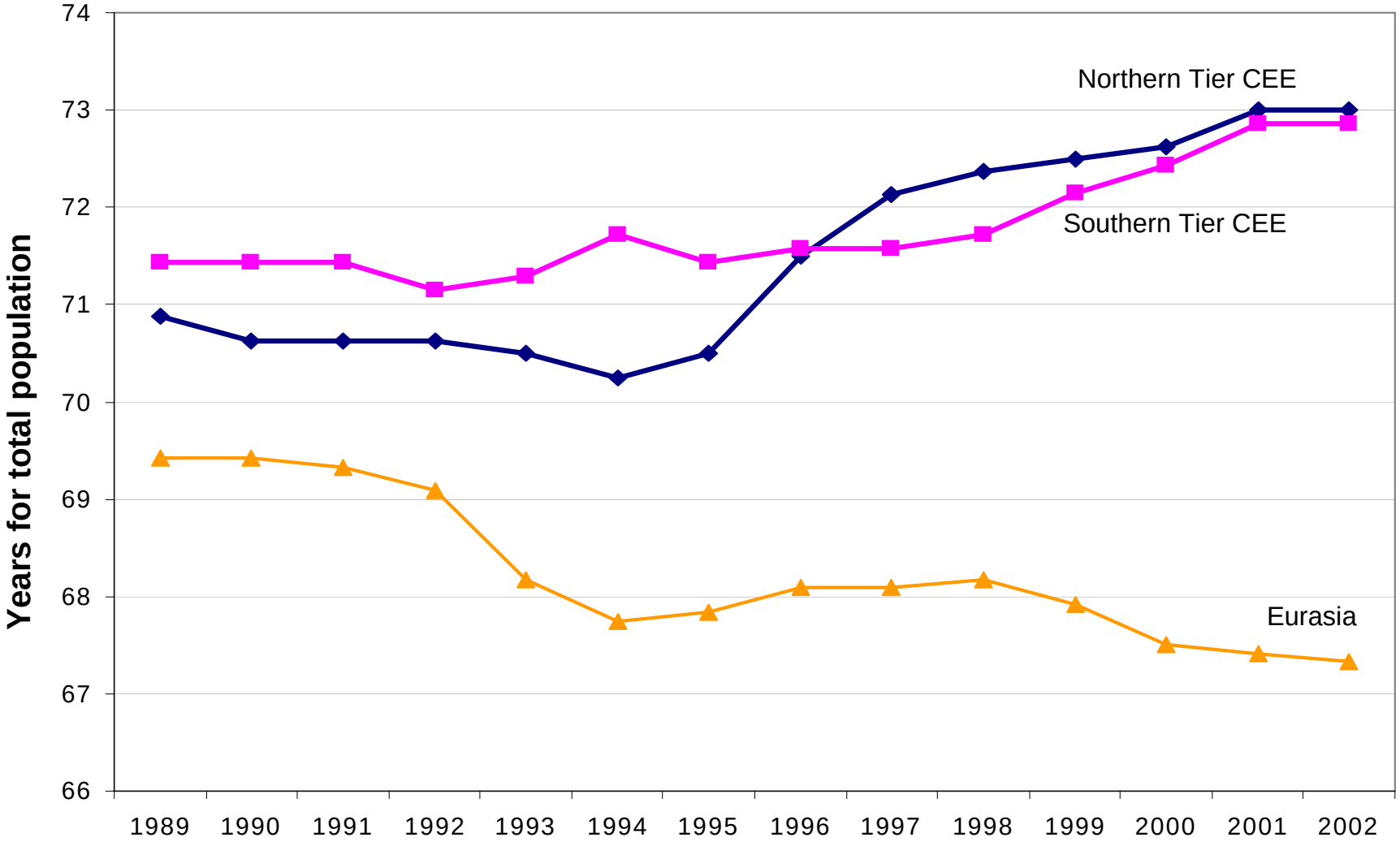
Kyrgyzstan (from 50 cases in 1989 to 127 cases in 2002), Romania (58 in 1989 to 122 in 2002), Georgia (28 in 1989 to 97 in 2002), followed by Russia (38 in 1989 to 86 in 2002).

The lion's share of deaths, according to WHO's calculations in *Figure 34*, have been "lifestyle" diseases in the transition region, mostly due to (poor) diet and (lack of) exercise, and (excess) smoking and alcohol. Of the transition region, countries of the northern Former Soviet Union (N.FSU) had the highest proportion of deaths attributed to lifestyle diseases in 2000: 57% (adding considerations of poor diet, lack of exercise, stress, and smoking and alcohol). This compares to 40% in the EU-15. "Non-medical" deaths are also relatively high in the N.FSU. These deaths include suicides and homicides, and perhaps can also be indirectly tied to lifestyle issues.

Figure 38 disaggregates life expectancy by gender in a handful of transition countries. In some of the countries of the N.FSU (including Russia, Belarus, and Ukraine), the life expectancy gender gap (i.e., the number of years that females out live males) is among the highest worldwide. This gender disparity supports the anecdotal observations that the majority of poor lifestyle choices in parts of the transition countries are made by males. *Figure 39* provides further support. Cigarette smoking is high in Western Europe for both males and females. In many transition countries, however, it is higher still among males, though low among females, relative to males in the region and relative to females in Western Europe. Overall, 45% of males in transition countries smoke, yet only 16% of females smoke.

Figure 33

Life Expectancy at Birth

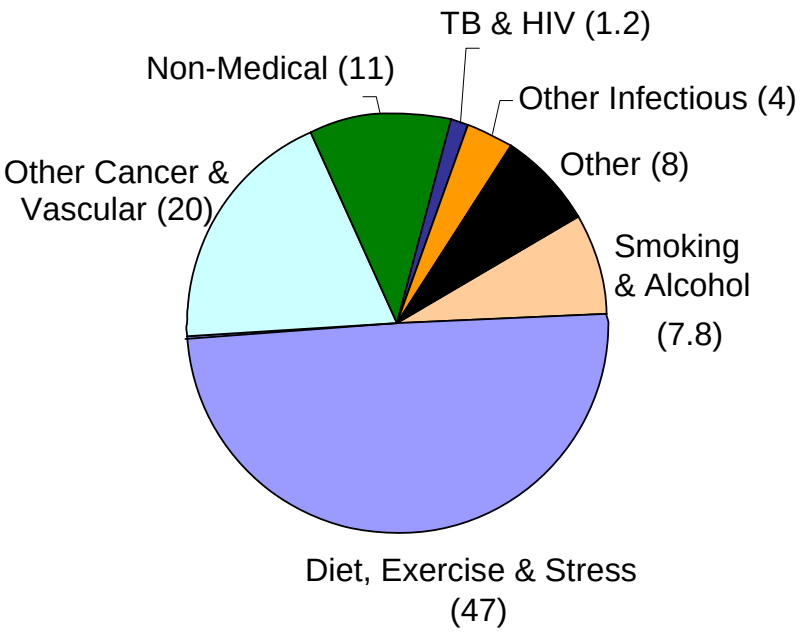


World Bank, *World Development Indicators 2004* (April 2004).

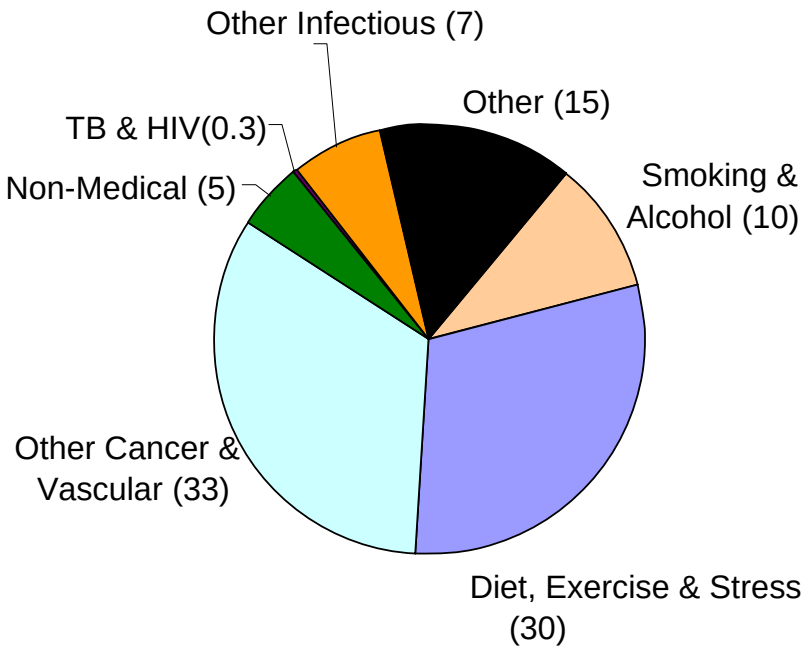
Figure 34

Causes of Death in 2000 (%)

E&E



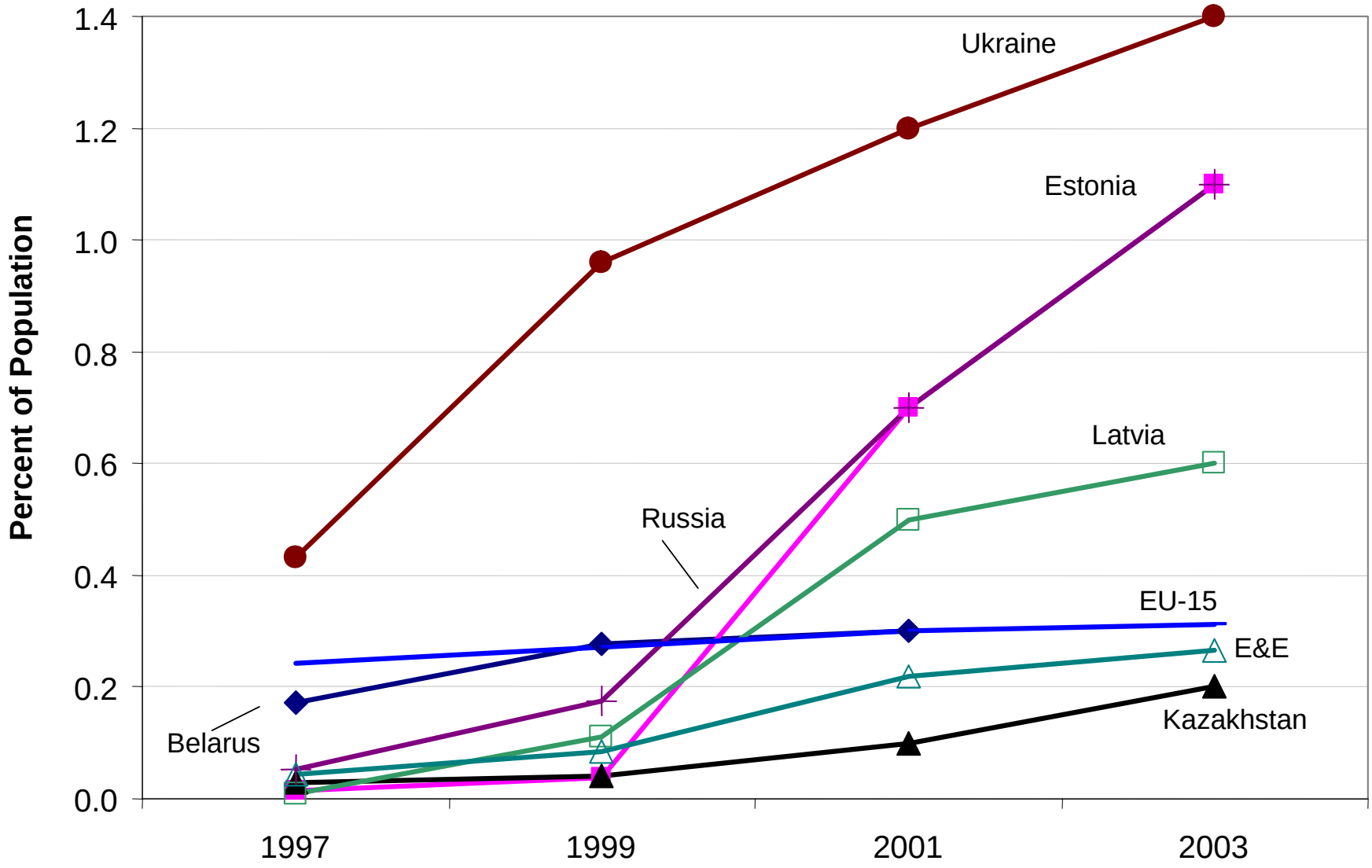
EU-15



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

Figure 35

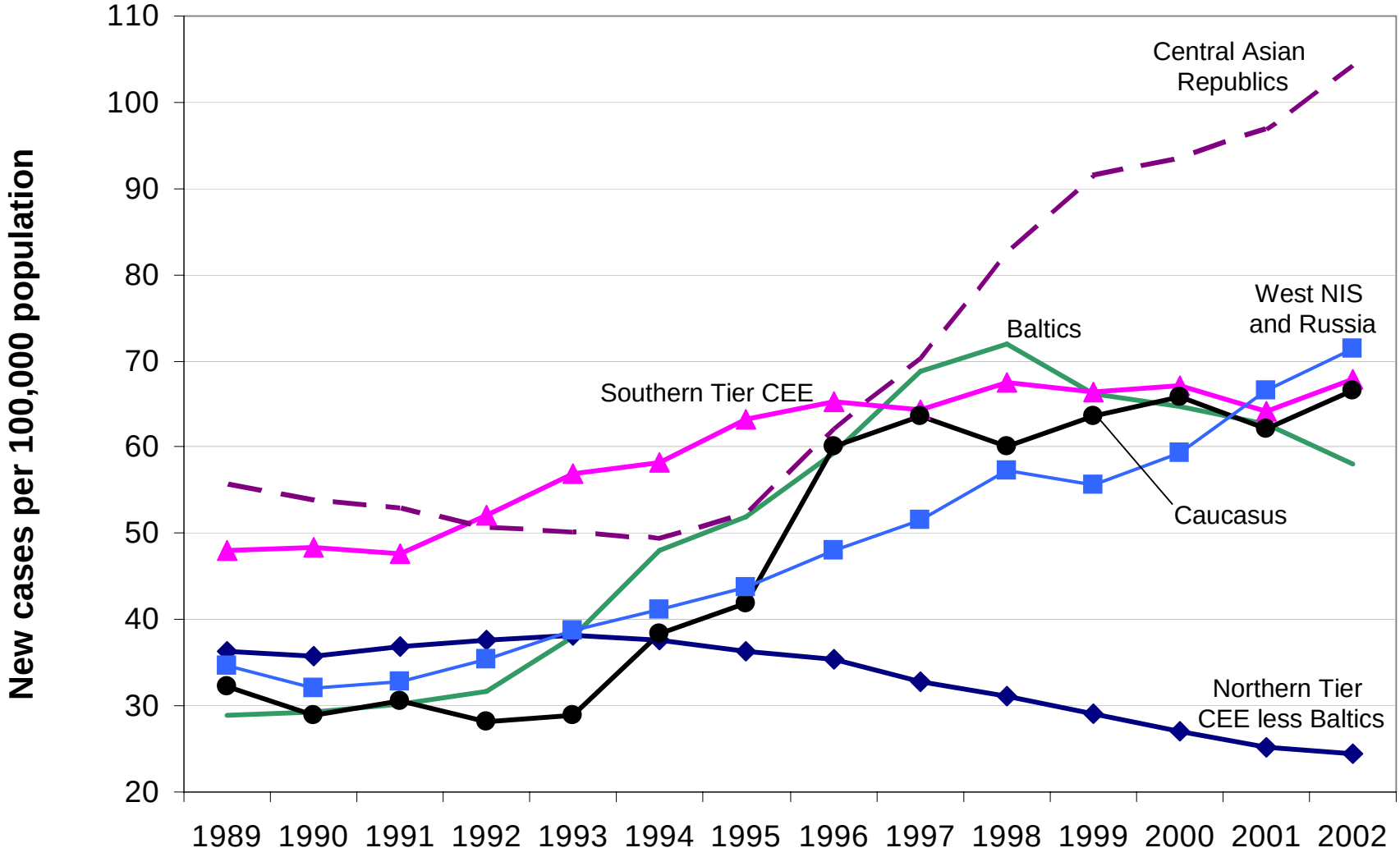
Adult HIV Prevalence Rate (15-49 yrs) in E&E



UNAIDS, *Global Report on the HIV/AIDS Epidemic* (2004).

Figure 36

Tuberculosis Incidence

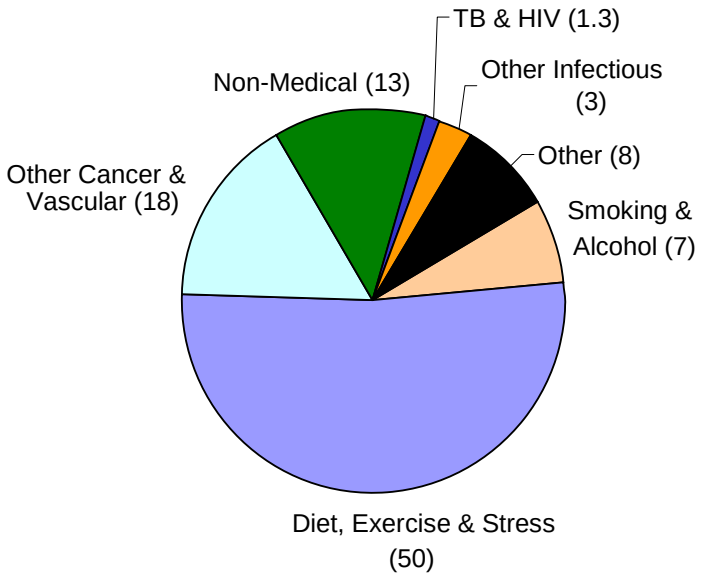


UNICEF, *Social Monitor 2004* (2004). Bosnia-Herzegovina is not included in the Southern Tier CEE average. Missing data were estimated by interpolation. 2001 trends are from World Health Organization, *Global Tuberculosis Control: Surveillance, Planning, Financing. WHO Report 2004* (2004). The EU average is 12 new cases per 100,000 population.

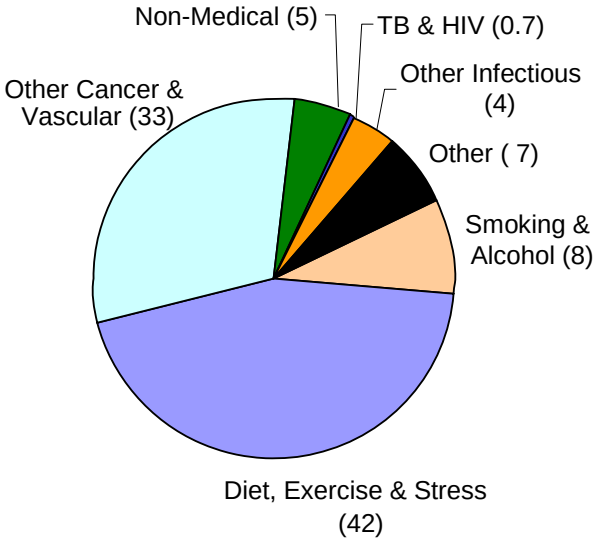
Figure 37

Causes of Death in 2000 (%)

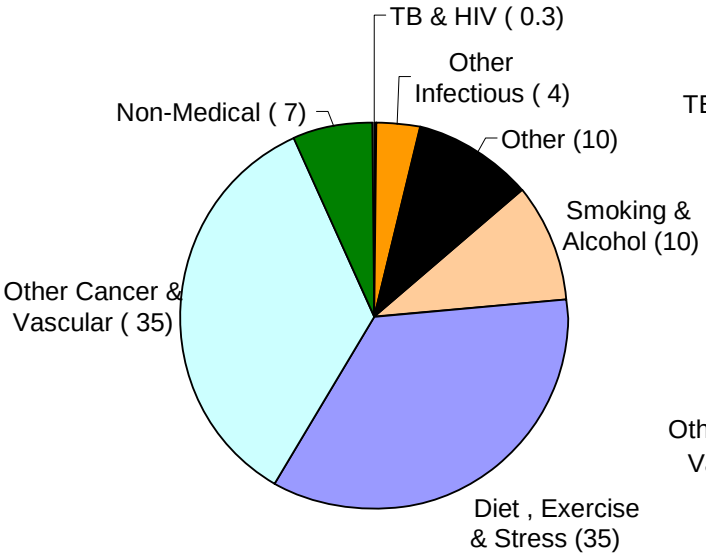
N. FSU



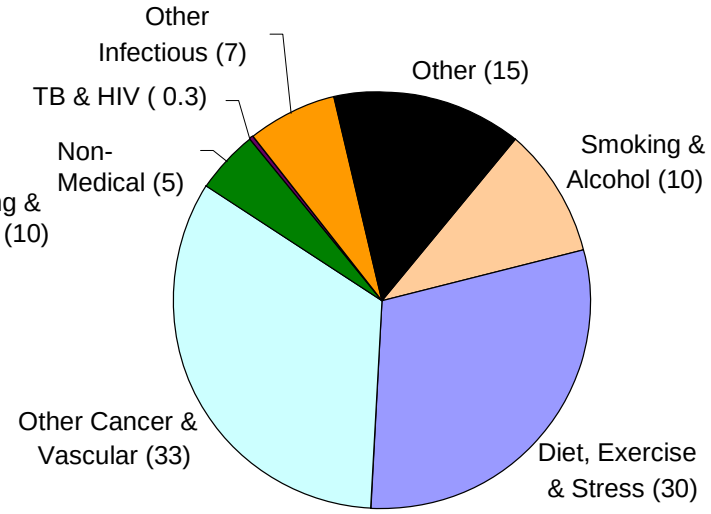
S. Tier CEE



N. Tier CEE less Baltics



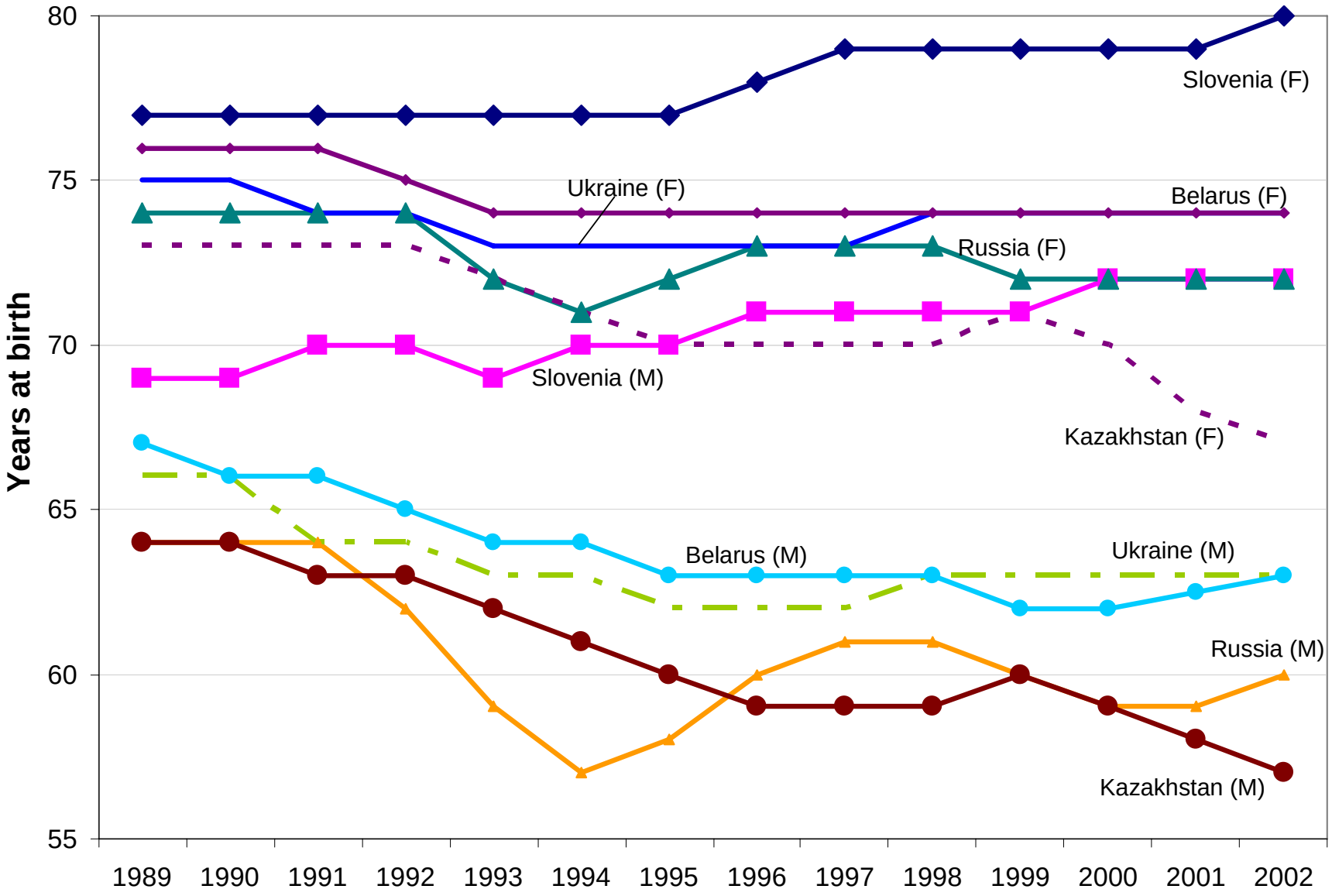
EU-15



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

Figure 38

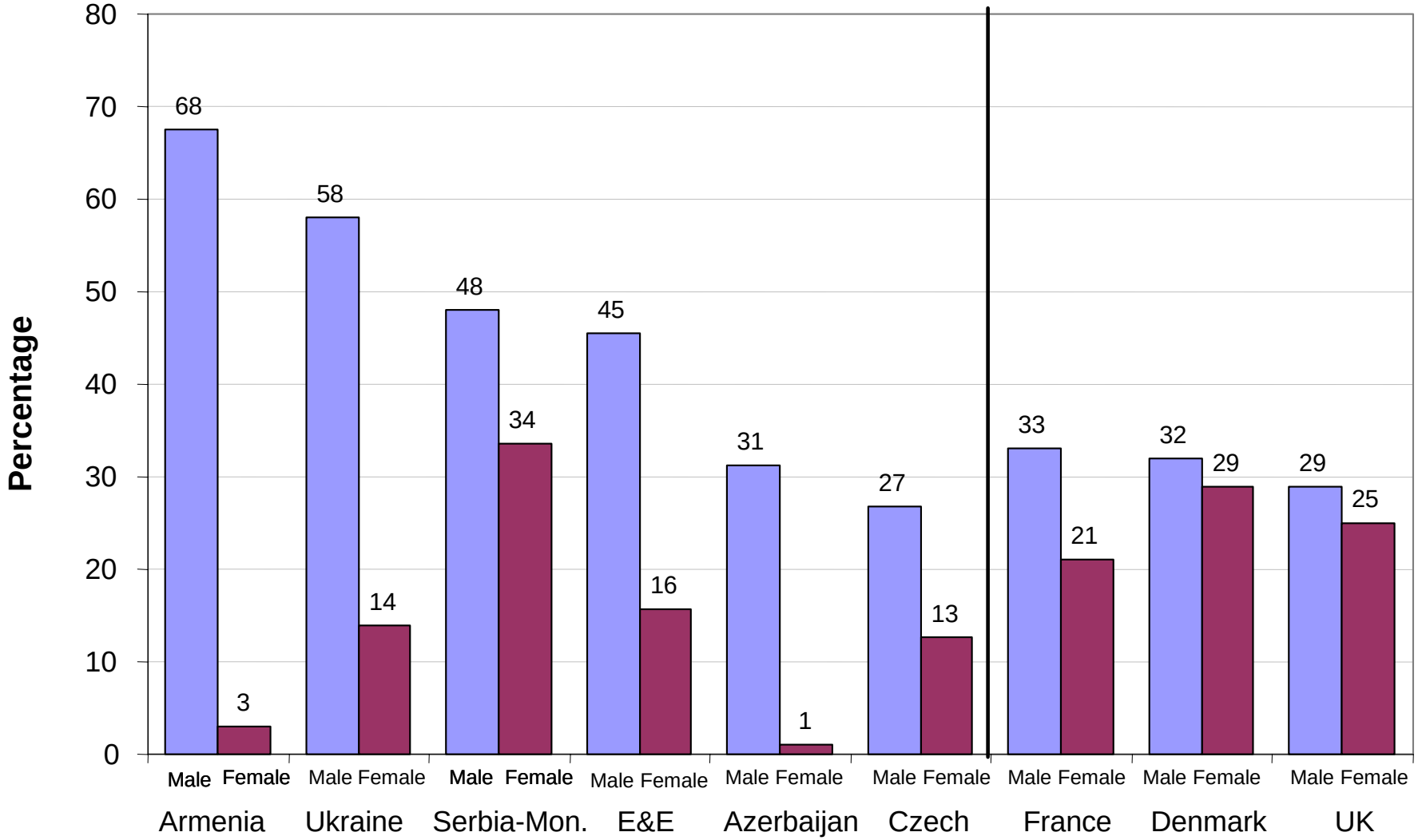
Male and Female Life Expectancy



World Bank, *World Development Indicators 2004* (April 2004). Missing data were estimated by interpolation.

Figure 39

Smoking Prevalence in Adults in 1999-01



World Health Organization; *Tobacco Control Database 2004.* E&E is a sample of 19 countries.

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MONITORING COUNTRY PROGRESS
IN CENTRAL AND EASTERN EUROPE
& EURASIA

APPENDIX 1: INDICATORS

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

April 2005
No. 9

A. Economic Reforms

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

First Stage Reforms

Small-scale Privatization

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

Price Liberalization

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

Trade & Foreign Exchange System

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

Second Stage Reforms

Large-scale Privatization

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

Governance & Enterprise Restructuring

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

Competition Policy

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

Banking Reform

1 Little progress beyond establishment of a two-tier system
2 Significant liberalization of interest rates and credit allocation; limited use of directed credit or interest rate ceilings
3 Substantial progress in establishment of bank solvency and of a framework for prudential

supervision and regulation; full interest rate liberalization with little preferential access to cheap refinancing; significant lending to private enterprises and significant presence of private banks

4 Significant movement of banking laws and regulations towards BIS standards; well-functioning banking competition and effective prudential supervision; significant term lending to private enterprises; substantial financial deepening

5 Standards and performance norms of advanced industrial economies: full convergence of banking laws and regulations with BIS standards; provision of full set of competitive banking services

Non-Bank Financial Institutional Reform

1 Little progress

2 Formation of securities exchanges, market-makers and brokers; some trading in government paper and/or securities; rudimentary legal and regulatory framework for the issuance and trading of securities

3 Substantial issuance of securities by private enterprises; establishment of independent share registries, secure clearance and settlement procedures, and some protection of minority shareholders; emergence of non-bank financial institutions (e.g. investment funds, private insurance and pension funds, leasing companies) and associated regulatory framework

4 Securities laws and regulations approaching IOSCO standards; substantial market liquidity and capitalization; well-functioning non-bank financial institutions and effective regulation

5 Standards and performance norms of advanced industrial economies: full convergence of securities laws and regulations with IOSCO standards; fully developed non-bank intermediation

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

(a) Telecommunications

1 Little progress in commercialization and regulation, i.e., minimal degree of private sector involvement, strong political interference in management, lack of cost-effective tariff-setting principles and extensive cross-subsidization. Few other institutional reforms to encourage liberalization envisaged, even for mobile phones and value-added services.

2 Modest progress in commercialization, i.e., corporatization of the dominant operator and some separation of operation from public sector governance, but tariffs still politically determined.

3 Substantial progress in commercialization and regulation. Full separation of telecommunications from postal services, with reduction in the extent of cross subsidization. Some liberalization in the mobile segment and in value-added services.

4 Complete commercialization (including the privatization of the dominant operator) and comprehensive regulatory and institutional reforms. Extensive liberalization of entry.

5 Implementation of a coherent and effective institutional and regulatory framework (including the operation of an independent regulator) encompassing tariffs, interconnection rules, licensing, concession fees and spectrum allocation. Existence of a consumer ombudsman

function.

(b) Railways

1 Monolithic organizational structures. State railways still effectively operated as government departments. Few commercial freedoms to determine prices or investments. No private sector involvement. Cross-subsidization of passenger service public service obligations with freight service revenues.

2 Laws distancing rail operations from the state, but weak commercial objectives. No budgetary funding of public service obligations in place. Organizational structures still overly based on geographic/functional areas. Separation of ancillary businesses but little divestment. Minimal encouragement of private sector involvement. Initial business planning, but targets general and tentative.

3 Laws passed to restructure the railways and introduce commercial orientation. Separation of freight and passenger marketing groups grafted onto tradition structures. Some divestment of ancillary businesses. Some budgetary compensation for passenger services. Design of business plans with clear investment and rehabilitation targets. Business plans designed, but funding unsecured. Some private sector involvement in rehabilitation and/or maintenance.

4 Laws passed to fully commercialize railways. Creation of separate internal profit centers for passenger and freight (actual or imminent). Extensive market freedoms to set tariffs and investments. Medium-term business plans under implementation. Ancillary industries divested. Policy development to promote commercial (including private) rail transport operations.

5 Railway law exists allowing for separation of infrastructure from operations, and/or freight from passenger operations, and/or private train operations. Private sector participation in ancillary services and track maintenance. Establishment of rail regulator and/or implementation of access pricing and/or plans for a full divestment and transfer of asset ownership, including infrastructure and rolling stock.

(c) Electric power

1 Power sector operated as a government department; political interference in running the industry. Few commercial freedoms or pressures. Average prices below costs, with external and implicit subsidy and cross-subsidy. Very little institutional reform with monolithic structure and no separation of different parts of the business.

2 Power company is distance from government. For example, established as a joint-stock company, though there is still political interference. Some attempt to harden budget constraints, but management incentives for efficient performance are weak. Some degree of subsidy and cross-subsidy. Little institutional reform; monolithic structure with no separation of different parts of the business. Minimal private sector involvement.

3 Law passed which provides for full-scale restructuring of the industry, including vertical unbundling through accounting separation, setting up of regulator with some distance from the government, plans for tariff reform if effective tariffs are below cost, possibility of private ownership and industry liberalization. Little or no private sector involvement.

4 Law for industry restructuring passed and implemented providing for: separation of the

industry into generation, transmission and distribution; setting up of a regulator, with rules for setting cost-reflective tariffs formulated and implemented. Arrangements for network access (negotiated access, single buyer model) developed. Substantial private sector involvement in distribution and/or generation.

5 Business separated vertically into generation, transmission and distribution. Existence of an independent regulator with full power to set cost-reflective tariffs. Large-scale private sector involvement. Institutional development covering arrangements for network access and full competition in generation.

(d) Roads

1 There is minimal degree of decentralization, and no commercialization has taken place. All regulatory, road management and resource allocation functions are centralized at ministerial level. New investments and road maintenance financing are dependent on central budget allocations. Road user charges are based on criteria other than relative costs imposed on the network and road use. Road construction and maintenance are undertaken by public construction units. There is no private sector participation. No public consultation or accountability take place in the preparation of road projects.

2 There is a moderate degree of decentralization, and initial steps have been taken in commercialization. A road/highways agency has been created. Initial steps have been undertaken in resource allocation and public procurement methods. Road user charges are based on vehicle and fuel taxes but are only indirectly related to road use. A road fund has been established but it is dependent on central budget allocations. Road construction and maintenance is undertaken primarily by corporatized public entities, with some private sector participation. There is minimal public consultation/participation and accountability in the preparation of road projects.

3 There is a fairly large degree of decentralization and commercialization. Regulation, resource allocation, and administrative functions have been clearly separated from maintenance and operations of the public road network. Road user charges are based on vehicle and fuel taxes and fairly directly related to road use. A law has been passed allowing for the provision and operation of public roads by private companies under negotiated commercial contracts. There is private sector participation either in road maintenance works allocated via competitive tendering or through a concession to finance, operate and maintain at least a section of the highway network. There is limited public consultation and/or participation and accountability in the preparation of road projects.

4 There is a large degree of decentralization of road administration, decision-making, resource allocation and management according to government responsibility and functional road classification. A transparent methodology is used to allocate road expenditures. A track record has been established in implementing competitive procurement rules for road design, construction, maintenance and operations. There is large-scale private sector participation in construction, operations and maintenance directly and through public-private partnership arrangements. There is substantial public consultation and/or participation and accountability in the preparation of road projects.

5 A fully decentralized road administration has been established, with decision-making, resource allocation and management across road networks and different levels of

government. Commercialized road maintenance operations are undertaken through open and competitive tendering by private construction companies. Legislation has been passed allowing for road user charges to fully reflect costs of road use and associated factors, such as congestion, accidents and pollution. There is widespread private sector participation in all aspects of road provision directly and through public-private partnership arrangements. Full public consultation is undertaken in the approval process for new road projects.

(e) Water and Waste water

1 There is a minimal degree of decentralization, and no commercialization has taken place. Water and 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 moderate degree of decentralization, and initial steps have been taken in commercialization. Water and waste-water services are provided by municipally owned companies, which operate as joint-stock companies. There is some degree of financial autonomy at the municipal level but heavy reliance on central government for grants and income transfers. Partial cost recovery is achieved through tariffs, and initial steps have been taken to reduce cross-subsidies. General public guidelines exist regarding tariff-setting and service quality but these are both still under ministerial control. There is some private sector participation through service or management contracts or competition to provide ancillary services.

3 A fairly large degree of decentralization and commercialization has taken place. Water and waste-water utilities operate with managerial and accounting independence from municipalities, using international accounting standards and management information systems. A municipal finance law has been approved. Cost recovery is fully operated through tariffs and there is a minimum level of cross-subsidies. A semi-autonomous regulatory agency has been established to advise on tariffs and service quality but without the power to set either. More detailed rules have been drawn up in contract documents, specifying tariff review formulae and performance standards. There is private sector participation through performance standards. There is private sector participation through the full concession of a major service in at least one city.

4 A large degree of decentralization and commercialization has taken place. Water and waste-water utilities are managerially independent, with cash flows—net of municipal budget transfers—that ensure financial viability. A municipal finance law has been implemented, providing municipalities with the opportunity to raise finance. Full cost recovery exists and there are no cross-subsidies. A semi-autonomous regulatory agency has the power to advise and enforce tariffs and service quality. There is substantial private sector participation through build-operate-transfer concessions, management contracts or asset sales to service parts of the network or entire networks. A concession of major services has taken place in a city other than the country’s capital.

5 Water and waste-water utilities are fully decentralized and commercialized. Large municipalities enjoy financial autonomy and demonstrate the capability to raise finance. Full cost recovery has been achieved and there are no cross-subsidies. A fully autonomous

regulator exists with complete authority to review and enforce tariff levels and performance quality standards. There is widespread private sector participation via service management/lease contracts, with high-powered performance incentives and/or full concessions and/or divestiture of water and waste-water services in major urban areas.

B. Democratization: Political Rights and Civil Liberties[1]

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

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

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

Political Rights checklist

A. Electoral Process

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

[1] Drawn from Freedom House's annual report, *Freedom in the World*.

B. Political Pluralism and Participation

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

C. Functioning of Government

1. Do freely elected representative determine the policies of the government?

2. Is the government free from pervasive corruption?

3. Is the government accountable to the electorate between elections, and does it operate with openness and transparency?

Additional discretionary political rights questions:

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

Civil Liberties checklist

A. Freedom of Expression and Belief

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

B. Associational and Organization Rights

1. Is there freedom of assembly, demonstration, and open public discussion?
2. Is there freedom of political or quasi-political organization? (Note: This includes political parties, civic associations, ad hoc groups and so forth.)

3. Are there free trade unions and peasant organizations or equivalents, and is there effective collective bargaining? Are there free professional and other private organizations?

C. Rule of Law

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

D. Personal Autonomy and Individual Rights

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

Political Rights

1 Generally speaking, places rated 1 come closest to the ideals suggested by the checklist questions, beginning with free and fair elections. Those elected rule. There are competitive parties or other competitive political groupings, and the opposition has an important role and power. These entities have self-determination or an extremely high degree of autonomy. Usually, those rated 1 have self-determination for minority groups or their participation in government through informal consensus. With the exception of such entities as tiny island countries, these countries and territories have decentralized political power and free sub-national elections.

2 Such factors as gross political corruption, violence, political discrimination against minorities, and foreign or military influence on politics may be present, and weaken the quality of democracy.

3 , 4, and 5. The same factors that weaken freedom in category 2 may also undermine political rights in categories 3, 4, and 5. Other damaging conditions may be at work as well, including civil war, very strong military involvement in politics, lingering royal power, unfair elections and one-party dominance. However, states and territories in these categories may still have some elements of political rights such as the freedom to organize nongovernmental

parties and quasi-political groups, reasonably free referenda, or other significant means of popular influence on government.

6 Typically, such states have systems ruled by military juntas, one-party dictatorships, religious hierarchies and autocrats. These regimes may allow only some minimal manifestation of political rights such as competitive local elections or some degree of representation or autonomy for minorities. Category 6 also contains some countries in the early or aborted stages of democratic transition. A few states in Category 6 are traditional monarchies that mitigate their relative lack of political rights through the use of consultation with their subjects, toleration of political discussion, and acceptance of petitions from the ruled.

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

Civil Liberties

1 This includes countries and territories that generally have the highest levels of freedoms and opportunities for the individual. Places in this category may still have problems in civil liberties, but they lose partial credit in only a limited number of areas.

2 Places in this category, while not as free as those in 1, are still relatively high on the scale. These countries have deficiencies in several aspects of civil liberties, but still receive most available credit.

3, 4, and 5. Places in these categories range from ones that receive at least partial credit on virtually all checklist questions to those that have a mixture of good civil liberties scores in some areas and zero or partial credit in others. As one moves down the scale below category 2, the level of oppression increases, especially in the areas of censorship, political terror and the prevention of free association. There are also many cases in which groups opposed to the state carry out political terror that undermines other freedoms. That means that a poor rating for a country is not necessarily a comment on the intentions of the government. The rating may simply reflect the real restrictions on liberty which can be caused by non-governmental terror.

6 Typically, at category 6 in civil liberties, countries and territories have few partial rights. For example, a country might have some religious freedom, some personal social freedoms, some highly restricted private business activity, and relatively free private discussion. In general, people in these states and territories experience severely restricted expression and association. There are almost always political prisoners and other manifestations of political terror.

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

C. Democratization Disaggregated[2]

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. In this MCP report and in the MCP system, these scores are reversed and re-scaled to range from 1 to 5, with 5 being the most advanced.

Electoral process

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

Civil Society

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

[2] Drawn from Freedom House, *Nations in Transit*

xenophobes, private militias and vigilante groups, or other groups whose actions threaten political and social stability and the transition to democracy)?

(4) Is the legal and regulatory environment for civil society groups free of excessive state pressures and bureaucracy (consider ease of registration, legal rights, government regulation, fund-raising, taxation, procurement, and access-to-information issues)?

(5) Do civil society groups have sufficient organizational capacity to sustain their work (that is, management structures with clearly delineated authority and responsibility; a core of experienced practitioners, trainers, and the like; access to information on NGO management issues in the native language; and so forth)?

(6) Are civil society groups financially viable, with adequate conditions and opportunities for raising funds that sustain their work (for example, sufficient organizational capacity to raise funds; option of nonprofit tax status; freedom to raise funds from domestic or foreign sources; legal or tax environment that encourages private sector support; ability to compete for government procurement opportunities; ability to earn income or collect cost recovery fees)?

(7) Is the government receptive to policy advocacy by interest groups, public policy research groups, and other nonprofit organizations? Do government officials engage civil society groups by inviting them to testify, comment on, and influence pending policies or legislation?

(8) Are the media receptive to civil society groups as independent and reliable sources of information and commentary? Are they positive contributors to the country's civic life?

(9) Does the state respect the right to form and join free trade unions?

(10) Is the education system free of political influence and propaganda?

Independent Media

(1) Are there legal protections for press freedoms?

(2) Are journalists, especially investigative reporters, protected from victimization by powerful state or nonstate actors?

(3) Does the state oppose onerous libel laws and other excessive legal penalties for "irresponsible" journalism?

(4) Are the media's editorial independence and new-gathering functions free of interference from the government or private owners?

(5) Does the public enjoy a diverse selection of print and electronic sources of information that represent a range of political viewpoints?

(6) Are the majority of print and electronic media privately owned and free of excessive ownership concentration?

(7) Is the private media's financial viability subject only to market forces (that is, is it free of political or other influences)?

(8) Is the distribution of newspapers privately controlled?

(9) Are journalists and media outlets able to form their own viable professional associations?

(10) Does society enjoy free access to the Internet?

Governance and Public Administration

(1) Is the governmental system stable? (What are the major indicators of stability?)

(2) Do executive and legislative bodies operate openly and with transparency (consider budget-making processes, accounting of expenditures, awarding of government contracts, and the like)?
(3) Do the media and the public enjoy adequate access to draft legislation and other types of government information, as guaranteed in a "freedom of Information Act" or similar legislation?
(4) Does the legislature have the resources it needs to fulfill its lawmaking and investigative responsibilities?
(5) Is substantial power decentralized to subnational levels of government (regional, local, other)?
(6) Are subnational officials chosen in free and fair elections?
(7) Do subnational governments have sufficient revenues and control over their budgets to carry out their duties?
(8) Has there been significant reform of the civil service and the creation of a cadre of civil servants at the national and local levels that are selected on the basis of open competition and merit?
(9) Is the civil service free of excessive political interference and corruption?

Rule of Law

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

Corruption

(1) Has the government implemented effective anticorruption initiatives?

(2) Is the government free from excessive bureaucratic regulations, registration requirements, and other controls that increase opportunities for corruption?
(3) Are there significant limitations on the participation of government officials in economic life?
(4) Are there adequate laws requiring financial disclosure and disallowing conflict of interest?
(5) Does the state enforce an effective legislative or administrative process—particularly on e that is free of prejudice against one's political opponents—to prevent, investigate, and prosecute the corruption of government officials and civil servants?
(6) Do executive and legislative bodies operate under effective audit and investigative rules that are free of political influence?
(7) Do whistle-blowers, anticorruption activist, investigators, and journalists enjoy legal protections that make them feel secure about reporting cases of bribery and corruption?
(8) Are allegations of corruption given wide and extensive airing in the media?
(9) Does the public display a high intolerance for official corruption?

Democratization Ratings Guidelines

Rating

1 Policy criteria: existence of policies that adhere to basic human rights standards, democratic norms, and the rule of law; Practice criteria: existence of best practices that adhere to basic human rights standards, democratic norms, and the rule of law.

2 Policy criteria: existence of policies that adhere to basic human rights standards, democratic norms, and the rule of law; Practice criteria: existence of most practices that adhere to basic human rights standards, democratic norms, and the rule of law

3 Policy criteria: existence of many polices that adhere to basic human rights standards, democratic norms, and the rule of law; Practice criteria: existence of many practices that adhere to basic human rights standards, democratic norms, and the rule of law

4 Policy criteria: existence of many policies that adhere to basic human rights standards, democratic norms, and the rule of law; Practice criteria: existence of some practices that adhere to basic human rights standards, democratic norms, and the rule of law

5 Policy criteria: existence of many policies that adhere to basic human rights standards, democratic norms, and the rule of law; Practice criteria: absence of many practices that adhere to basic human rights standards, democratic norms, and the rule of law

6 Policy criteria: existence of some policies that adhere to basic human rights standards, democratic norms, and the rule of law; Practice criteria: absence of most practices that adhere to basic human rights standards, democratic norms, and the rule of law

7 Policy criteria: absence of policies that adhere to basic human rights standards, democratic norms, and the rule of law; Practice criteria: absence of practices that

adhere to basic human rights standards, democratic norms and the rule of law.

Conversion scales for economic performance and human capital indices:

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

Economic performance

(1) *Private sector share in GDP* (in % in 2002; EBRD): "0.5": 25% of GDP or less; "1": 30-40%; 1.5: 45%; 2: 50%; 2.5: 55%; 3: 60%; 3.5: 65%; 4: 70%; 4.5: 75%; 5: 80% or greater.

(2) *Employment in SME sector as % of total employment* (1998 or latest year available; Ayyagari, Beck, and Demirguc-Kunt, *SMEs across the Globe*, World Bank Policy Research paper, August 2003; and World Bank, *Transition: the First Ten Years*, 2002). 0.5: 10% or less; 1: >10-20%; 1.5: >20-25%; 2: >25-30%; 2.5: >30-35%; 3: >35-40%; 3.5: >40-50%; 4: >50-60%; 4.5: >60-65%; 5: greater than 65% of total employment.

(3) *Export sector as percent of (purchasing power parity) GDP* (2001; calculated from World Bank, *World Development Indicators*). 0.5: 5% or less; 1: greater than 5% to 8%; 1.5: >8-11%; 2: >11-14; 2.5: >14-17; 3: >17-20; 3.5: >20-23; 4: >23-26; 4.5: >26-29; 5: greater than 29% of PPP GDP.

(4) *2003 GDP as % of 1989 GDP* (EBRD). 0.5: 50% or less; 1: greater than 50% to 60%; 1.5: >60-70%; 2: >70-80%; 2.5: >80-90%; 3: >90-100%; 3.5: >100-110%; 4: >110-120%; 4.5: >120-130%; 5: greater than 130% of 1989 GDP.

(5) *3 year average annual inflation rate* (2001-2003; EBRD). 0.5: >30%; 1: >26-30%; 1.5: >22-26%; 2: >18-22%; 2.5: >14-18%; 3: >10-14%; 3.5: >7-10%; 4: >5-7%; 4.5: >3-5%; 5: 3% inflation rate or less.

(6) *Foreign direct investment* (per capita, cumulative, 1989-2003, net in $; EBRD). 0.5: $100 or less; 1: >$100-200; 1.5: >$200-400; 2: >$400-600; 2.5: >$600-800; 3: >$800-1,000; 3.5: >$1,000-1,200; 4: >$1,200-1,500; 4.5: >$1,500-2,000; 5: >$2,000.

(7) *External debt as % of GDP* (2003; EBRD). 0.5: >95%; 1: >85% to 95%; 1.5: >75-85%; 2: >65-75%; 2.5: >55-65%; 3: >45-55%; 3.5: >35-45%; 4: >25-35%; 4.5: >10-25%; 5: 10% or less.

Human capital

(1) per capita income (gross national income, 2002, purchasing power parity, World Bank, *World Development Indicators*). 0.5: $1,000 or less; 1: >$1,000 to $3,000; 1.5: >$3,000-5,000;

2: >$5,000-7,000; 2.5 >$7,000-9,000; 3: >$9,000-11,000; 3.5: >$11,000-13,000; 4: >$13,000-15,000; 4.5: >$15,000-17,000; 5: >$17,000 per capita.

(2) secondary school enrollment (2001; gross; general secondary plus vocational/technical secondary; UNICEF, *Social Monitor*). 0.5: 31% or less; 1: greater than 31% to 39%; 1.5: >39-47%; 2: >47-55%; 2.5: >55-63%; 3: >63-71%; 3.5: >71-79%; 4: >79-87%; 4.5: >87-95%; 5: greater than 95% enrollment.

(3) public expenditure on education as % of GDP (2001, UNICEF, *Social Monitor*). 0.5: 2% or less; 1: >2% to 2.5%; 1.5: >2.5-3%; 2: >3-3.5%; 2.5: >3.5-4%; 3: >4-4.5%; 3.5: >4.5-5%; 4: >5-5.5%; 4.5: >5.5-6%; 5: greater than 6% of GDP.

(4) life expectancy (years, 2002, World Bank, *World Development Indicators*). 0.5: less than 62.5 years; 1: 64 years to <65.5; 1.5: 65.5 to <67; 2: 67 to <68.5; 2.5: 68.5 to <70; 3: 70 to < 71.5; 3.5: 71.5 to <73; 4: 73 to < 74.5; 4.5: 74.5 to < 76; 5: 76 years or greater.

(5) under five years mortality rate (per thousand live births, 2002, World Bank, *World Development Indicators*). 0.5: greater than 93 deaths; 1: >82 to 93; 1.5: >71-82; 2: >60-71; 2.5: >49-60; 3: >38-49; 3.5: >27-38; 4: >16-27; 4.5: >5-16; 5: 5 deaths or less.

(6) public expenditure on health as % of GDP (2001, UNICEF, *Social Monitor*). 0.5: 2% or less; 1: >2% to 2.5%; 1.5: >2.5-3%; 2: >3-3.5%; 2.5: >3.5-4%; 3: >4-4.5%; 3.5: >4.5-5%; 4: >5-5.5%; 4.5: >5.5-6%; 5: greater than 6% of GDP.

APPENDIX 2: TRANSITION COUNTRY CLASSIFICATIONS

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

Baltics. Latvia, Lithuania, Estonia

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

Advanced Southern Tier CEE. Croatia, Bulgaria, Romania

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

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

Natural Resource Rich Eurasia. Russia, Azerbaijan, Kazakhstan

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

Eurasian Slow Reformers. Turkmenistan, Belarus, Uzbekistan

West NIS. Ukraine, Belarus, Moldova

Caucasus. Georgia, Armenia, Azerbaijan

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

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

MONITORING COUNTRY PROGRESS
IN CENTRAL AND EASTERN EUROPE
& EURASIA

APPENDIX 3: PHASE-OUT APPLICATION

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

April 2005
No. 9

Introduction

On January 13, 2004, the Executive Committee of State/USAID Joint Policy Council approved the use of a methodology to help determine the timeframe for the phase out of SEED and FSA assistance programs. This methodology uses the four *MCP* indices (of economic reforms, democratic reforms, economic performance, and human capital) to help determine when countries are likely to achieve benchmark standards based on the average of the scores that Romania and Bulgaria achieved in 2002. This degree of progress was sufficient for those two countries to earn NATO membership and receive positive indications from Western Europe that EU accession was likely. These standards are intended to be proxies for when the path to political and economic reform has become irreversible.

In EUR/ACE-chaired inter-agency reviews, target phase-out timeframes were estimated drawing from the empirical evidence. The four indices provided a basic framework of analysis; a basis to begin discussion. Oftentimes other key empirical evidence supplied by USAID missions and/or participants from other agencies entered into the decisions as well. Additional criteria often entered into the decision making process as well, including: (1) the strategic importance of the country to the United States; (2) the importance of the recipient country to U.S. citizens; and (3) effectiveness of particular assistance activities.

The Case of Russia

The charts below highlight the sequence of logic used in analyzing the MCP data to help determine phase-out dates for Russia. The starting point is to determine where Russia is in its progress in economic and democratic reforms vis-à-vis the economic and democratic reform thresholds as determined by the 2002 average progress of Romania and Bulgaria (*Figure 1*). Russia lags on both dimensions, though more so on democratization.

Figure 2 is intended to provide a basis to begin discussion as to how long it might take Russia to cross both reform thresholds. It does so by estimating how long it took Romania and Bulgaria to progress from where Russia is currently (roughly) on economic and democratic reforms to where Romania and Bulgaria were in 2002. It took Bulgaria, for example, roughly 12 years to move from the level of democratic reforms in Russia as of end-2003 to the level of democratic reforms in Bulgaria in 2002; and six years in the case of economic reforms. The working hypothesis is that however long it took Romania and Bulgaria, it is likely that Russia (and all countries lagging behind the thresholds) will take longer.

Figures 3 and *4* disaggregate the economic and democratic reform indices, and show Russia's progress by indicator vis-à-vis the Romania and Bulgaria threshold as well as compared to Russia's progress on these dimensions in the late 1990s. These figures allow us to see the gaps disaggregated by the components of the indices. They also give us a sense of the degree to which Russia is closing those gaps. Good progress has been

made in Russia on economic reforms and the key economic reform gaps do look to be closing (*Figure 3*). In contrast, backsliding in democratization has been the trend in Russia, and the democratization gaps are widening (*Figure 4*).

Figure 5 shows how Russia compares to the economic performance and human capital thresholds. Russia's progress trails behind both thresholds, and shares a similar profile to that of Ukraine's on these dimensions. *Figure 5* also shows that Russia lags more on economic performance than on human capital relative to the thresholds. However, as suggested in *Figure 6*, a lower score does not necessarily translate into more time needed to cross the threshold.

Figure 6 shows how long it took Romania and Bulgaria to "travel" from where Russia currently is on economic performance and human capital to where Romania and Bulgaria were in 2002. In both Bulgaria and Romania, the rate of progress in economic performance exceeded that of human capital. It took 5 years, for example, for Bulgaria to cross the economic performance threshold and more than 14 years to cross the human capital threshold, even though the economic performance gap was larger. It is also instructive to note that the rate of change has varied widely between Romania and Bulgaria. Bulgaria moved forward, e.g., on economic performance at a far faster clip than did Romania. These observations underscore the precariousness of trying to estimate how many years it might take a country to progress on a transition dimension on the basis of past experience in other countries, or on the basis of the size of a particular transition gap (e.g., in economic performance) relative to that of another (such as human capital).

Figures 7 and *8* disaggregate the economic performance and human capital indices, and show Russia's progress by indicator vis-à-vis the Romania and Bulgaria threshold as well as compared to Russia's progress on these dimensions in the late 1990s. Russia's economic performance is skewed (*Figure 7*). Its economy is performing well in terms of macro-economic stability (low inflation and debt) and economic growth, but largely without key structural changes that are arguably needed to sustain the high growth. While its private sector is large, the SME sector remains small. Moreover, Russia's economy remains poorly integrated into the world economy, as evidenced by a small export sector and low foreign direct investment, despite the significance of oil to the economy. Since 1999, improvements in economic performance have occurred almost exclusively in macro-economic stability and growth indicators, to the exclusion of the economic structure indicators. Key economic structure gaps, in other words, remain. Sustaining the macro-economic gains may be difficult in the continued presence of such gaps.

The most significant human capital gap is in life expectancy (*Figure 8*). Further examination of this gap leads to at least two key observations: (1) the life expectancy gender gap is likely larger in Russia than anywhere else worldwide (i.e., Russian females live at least 12 years longer than do males); and (2) adult mortality rates in Russia are very high and, to date, have been primarily attributed to non-communicable diseases. *Figure 8* also reveals that the life expectancy gap has grown, as have public expenditures

on health and education.

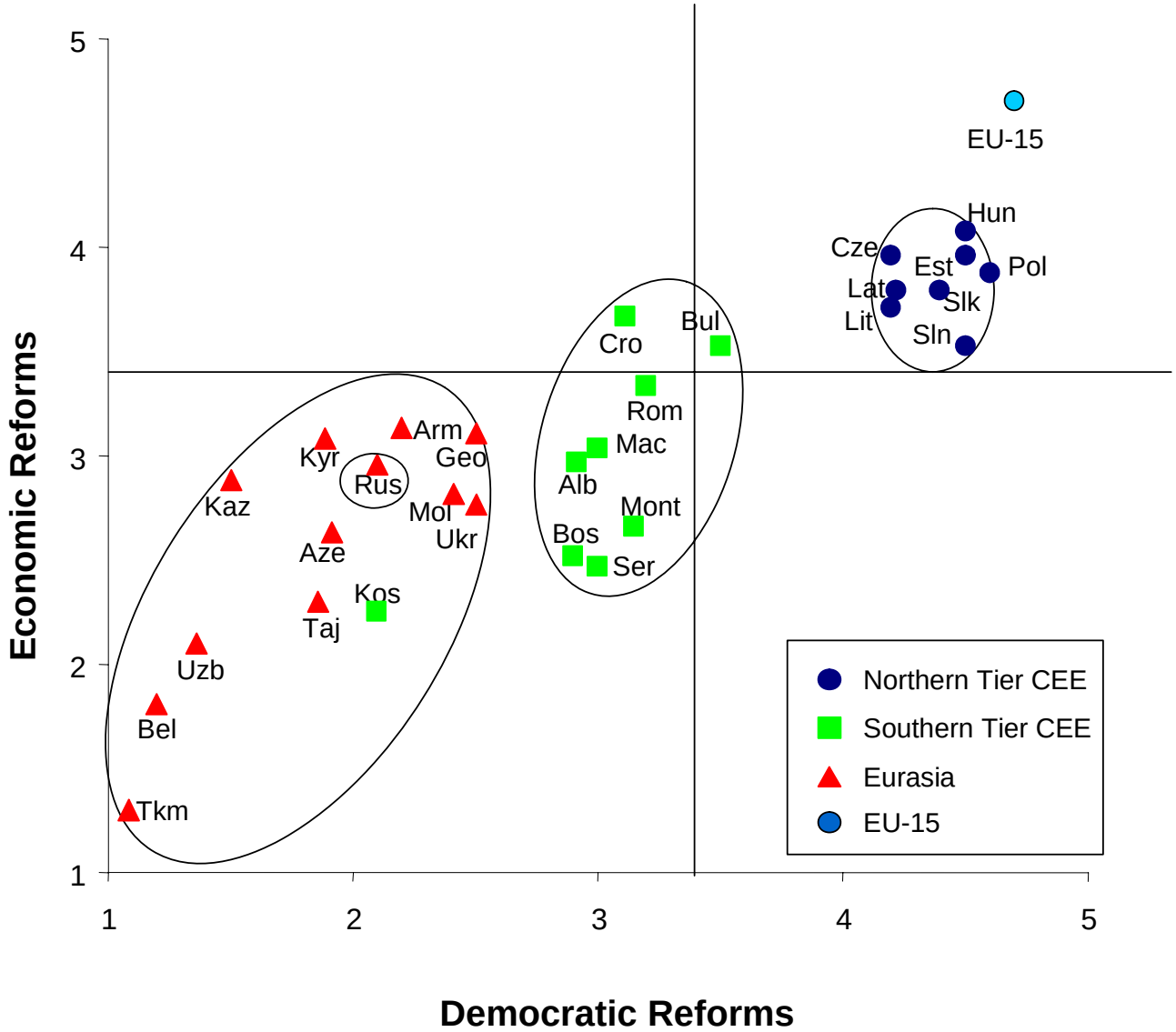
As noted above, other empirical evidence is needed to supplement the basic MCP framework. For example, in the case of Russia, an additional key consideration (that is not captured in the human capital index) is the explosive growth of infectious diseases (HIV AIDS and TB in particular). Another important consideration for probably all the transition economies are various disparities, including by geographic sub-regions, by ethnic groups, and by age groups. *Figure 9*, for example, highlights how significant income disparities are between oblasts within Russia, ranging in magnitude in 1999 from $1,660 (in Ingushetia) to $22,780 (in Tuymen). This range is comparable to the difference between per capita income in Sub-Saharan Africa ($1,750) and the European Monetary Union ($23,800)

Finally, *Figure 10* shows the outcome of the discussions in the spring 2004 review in terms of the years to phase-out in Russia by the three sectors, and compares it to the outcome from similar reviews for Armenia, Moldova, and Tajikistan.[1] Consistent with the data and analysis, assistance to the economic sector in Russia is to be phased-out first, and democratization last. Overall, the years to phase out across the three sectors in Russia are fewer than in the three other Eurasian countries. This reflects a combination of considerations, including the empirical evidence (the years to phase-out in Tajikistan, e.g., are the greatest, reflecting that it is the poorest country in Eurasia and is among a handful of countries which have the farthest to go in the transition), as well as political considerations.

[1] A fourth "sector", namely law enforcement, was also part of the deliberations. Estimates of years to phase-out from assistance in law enforcement were also made, though without the benefit of an empirical framework.

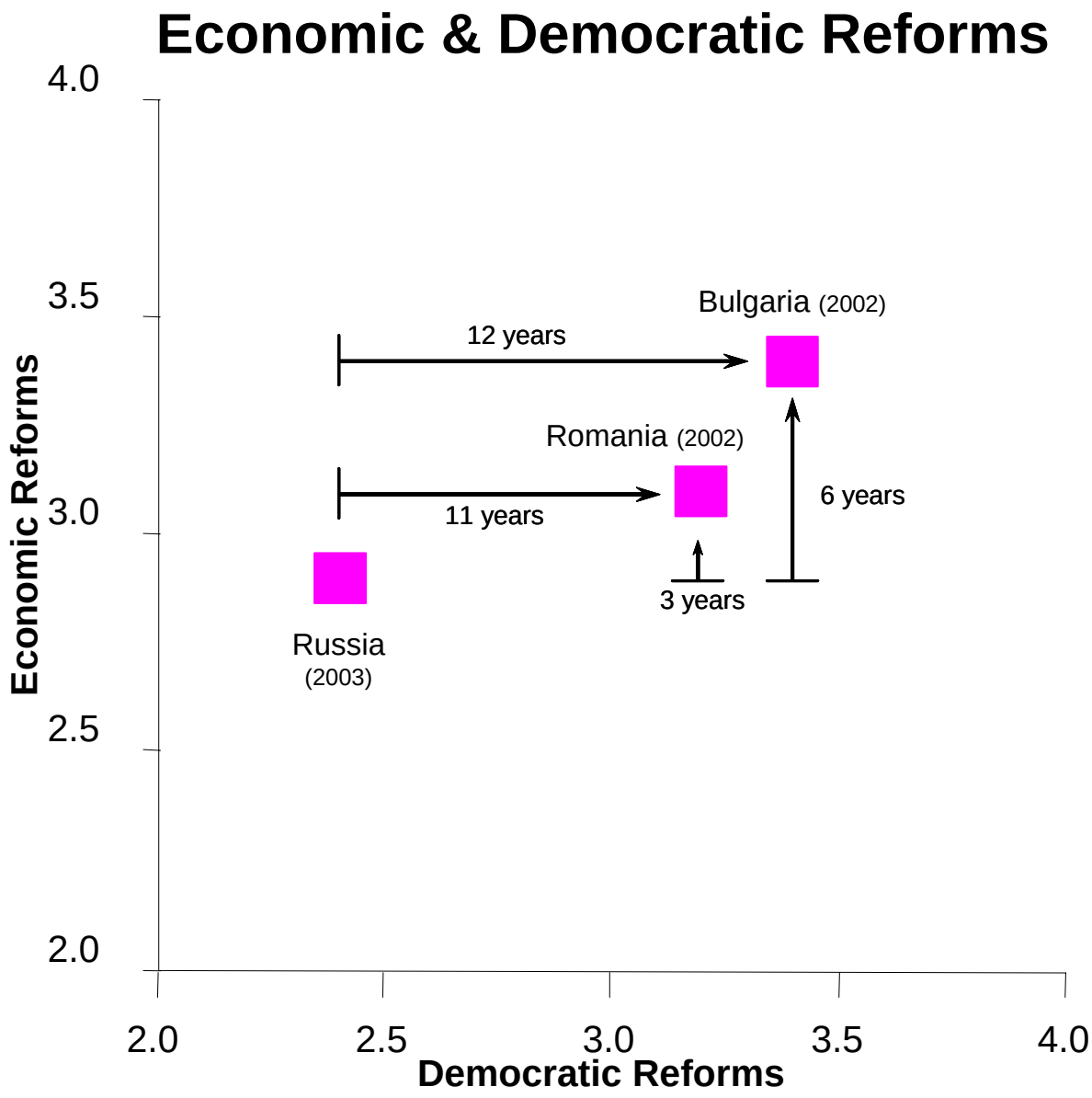
Figure 1

Economic and Democratic Reforms in 2004



Ratings are based on a 1 to 5 scale, with 5 representing most advanced. USAID drawing from Freedom House, *Nations in Transit 2004* (2004), and EBRD, *Transition Report 2004* (November 2004). 2004 democratic reforms from Freedom House, *Freedom in the World* (December 2004) include forward movement in Bosnia, Czech Republic, Estonia, Georgia, Hungary, Poland, Slovakia and Ukraine; and backwards movement in Armenia, Belarus, Lithuania, Romania, and Russia.

Figure 2

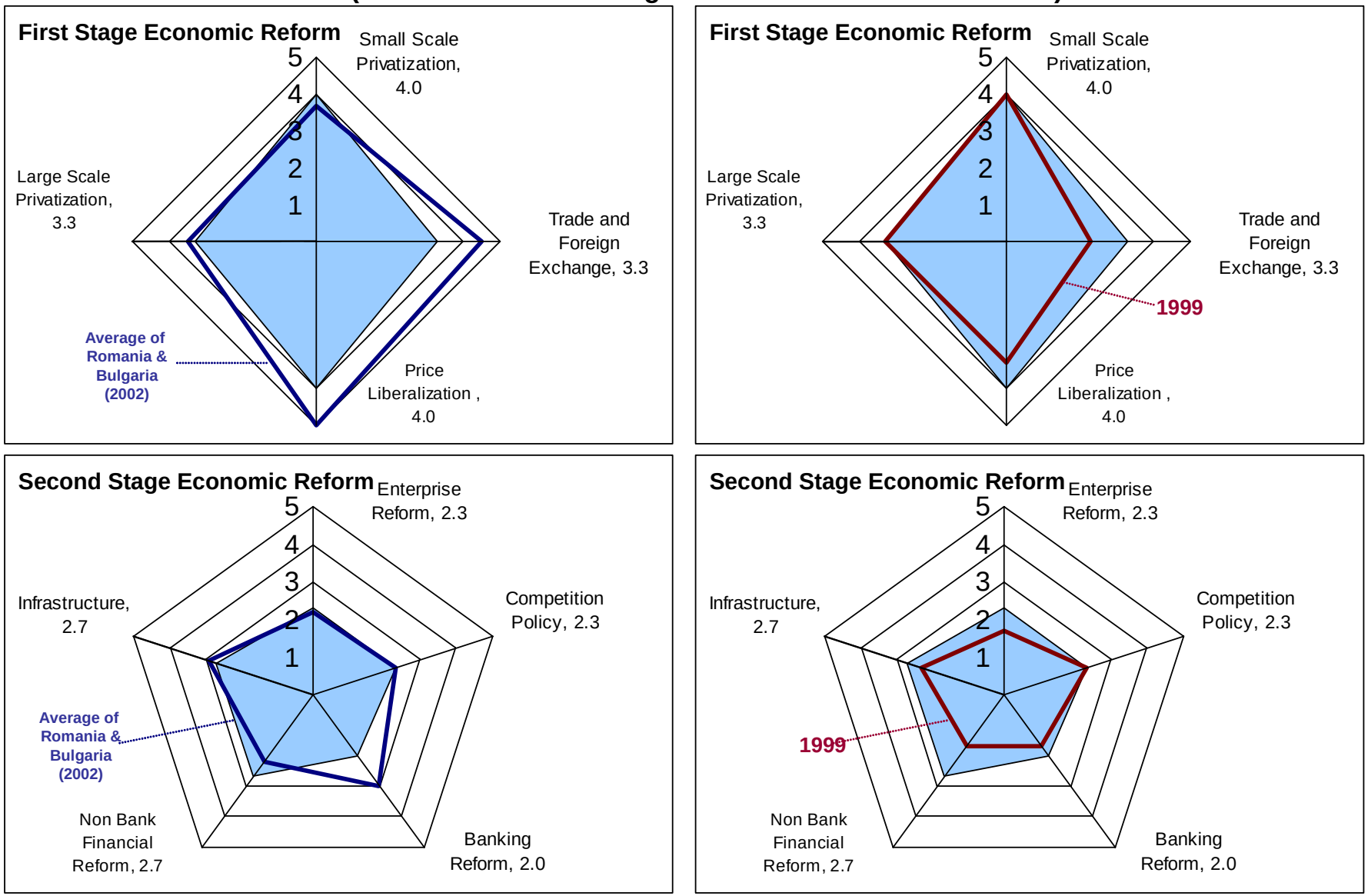


It took roughly 3 years for Romania to go from "where" Russia is today on economic reforms to where Romania was in 2002, and 11 years in democratic reforms. Ratings based on 1-5 scale with 5 representing most advanced. Source: Freedom House, *Nations in Transit 2003* (2003); EBRD, *Transition Report 2003* (Nov. 2003); and previous editions.

Figure 3

Economic Reform in Russia in 2004

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

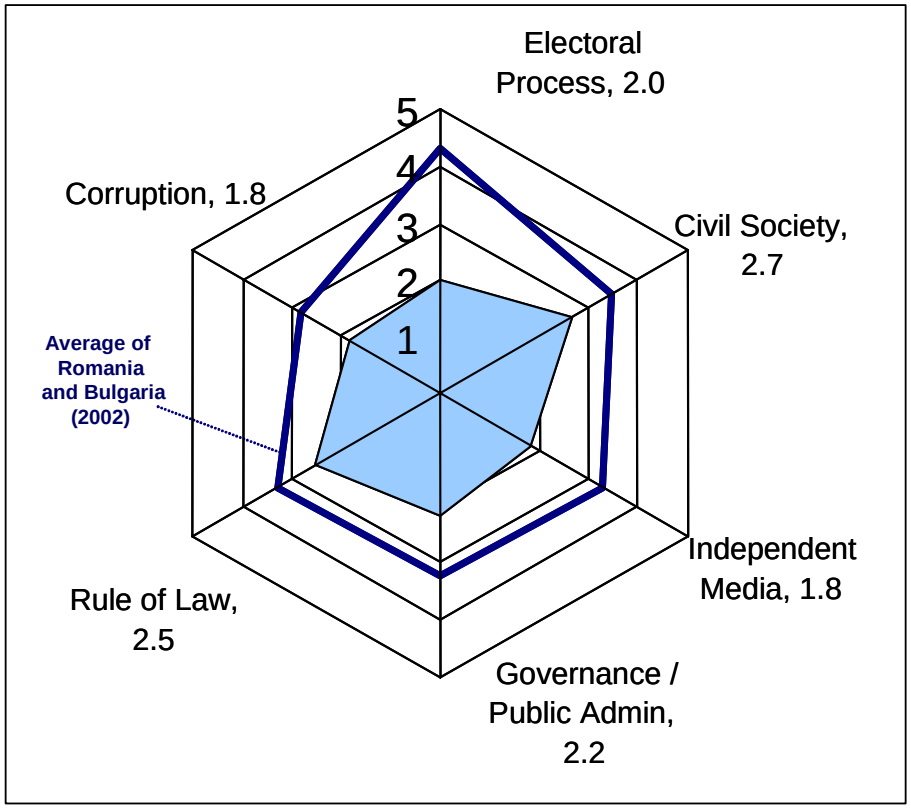


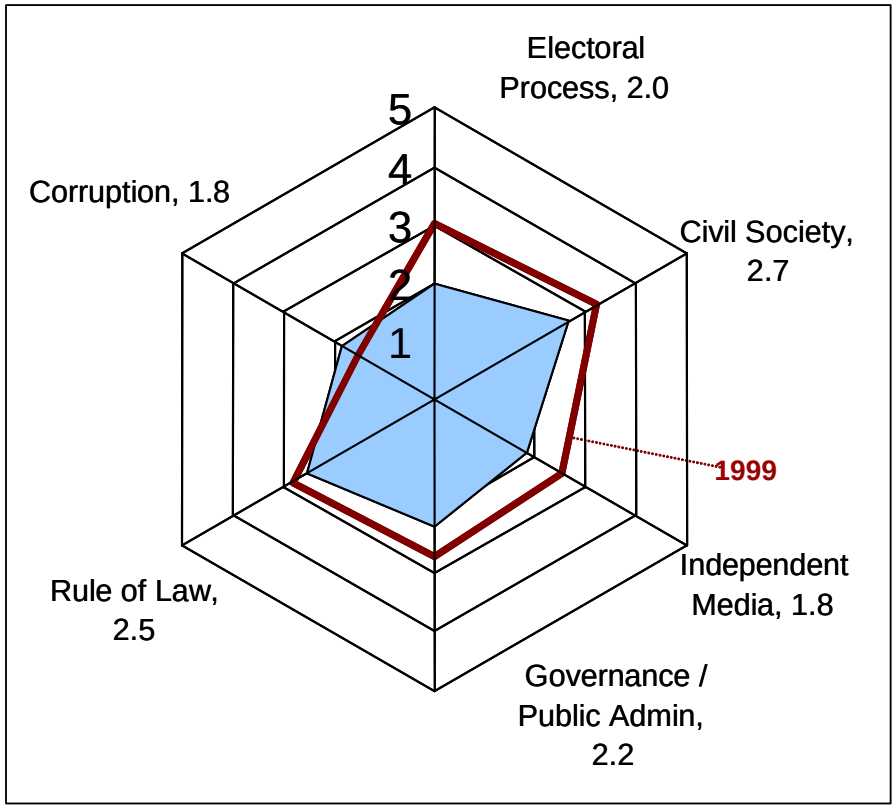
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID, *Monitoring Country Progress in CEE & Eurasia #9* (2005) drawing from EBRD, *Transition Report 2004* (November 2004).

Figure 4

Democratic Reforms in Russia in 2003

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

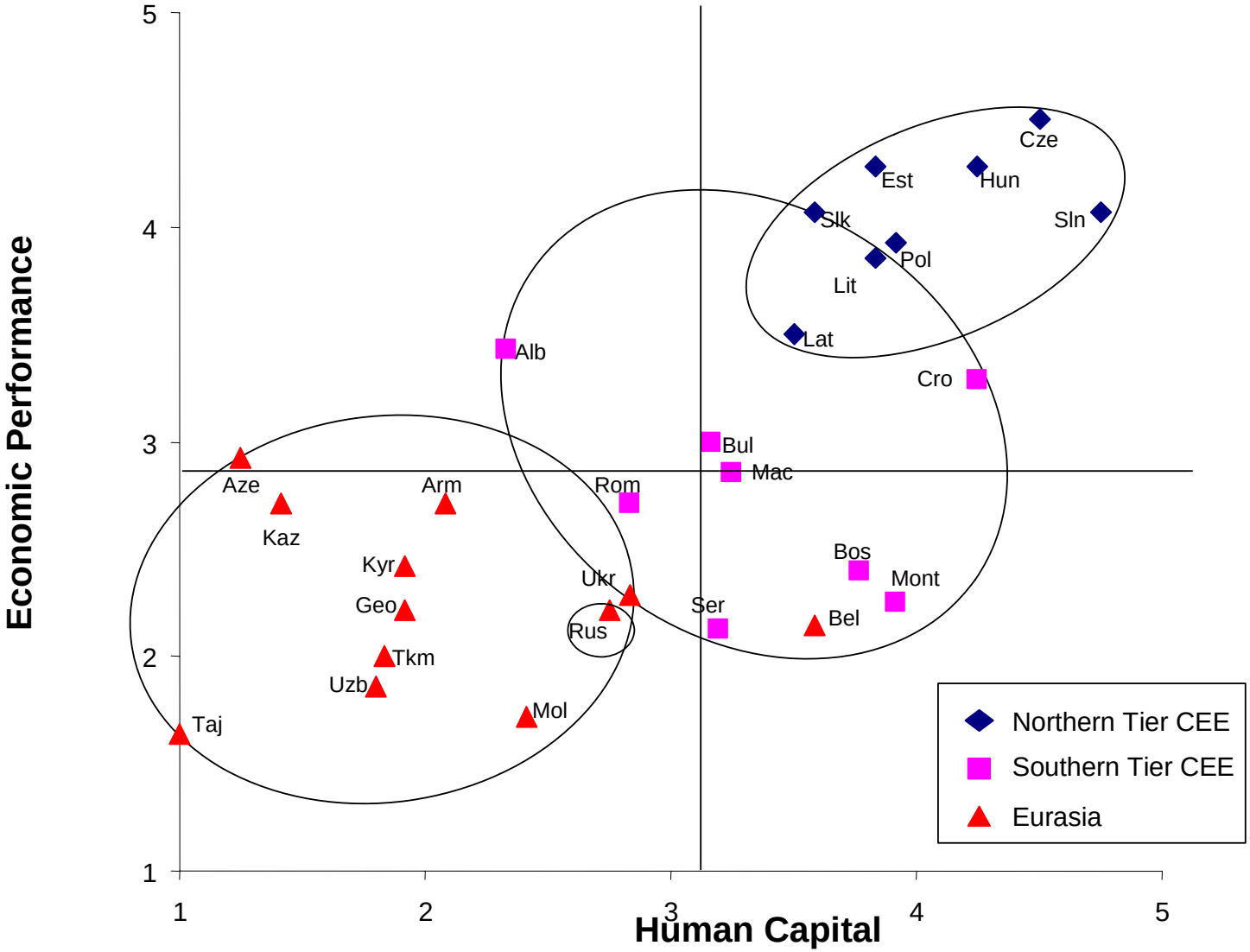




Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID, *Monitoring Country Progress in CEE & Eurasia #9 (2005)* drawing from Freedom House, *Nations in Transit 2004.*

Figure 5

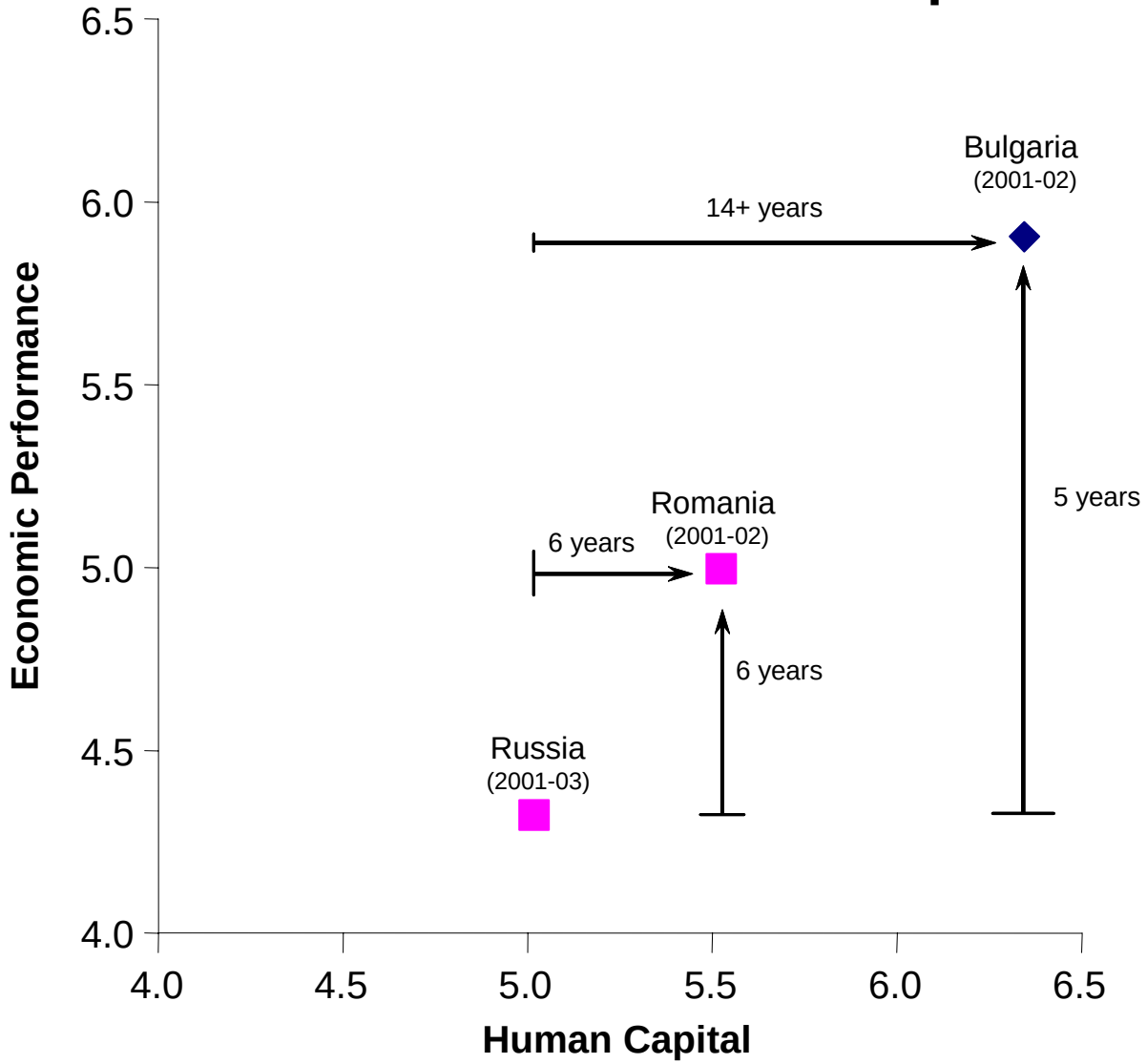
Economic Performance and Human Capital in 2002-2004



USAID, MCP#9 (2005) drawing from World Bank, *World Development Indicators 2004* (2004); UNICEF, *Social Monitor 2004* (2004); EBRD, *Transition Report* (November 2004); Ayyagari, Beck, and Demirguc-Kunt, *Small and Medium Enterprises across the Globe: A New Database*, World Bank Policy Research Working Paper 3127, (August 2003).

Figure 6

Economic Performance & Human Capital in Russia

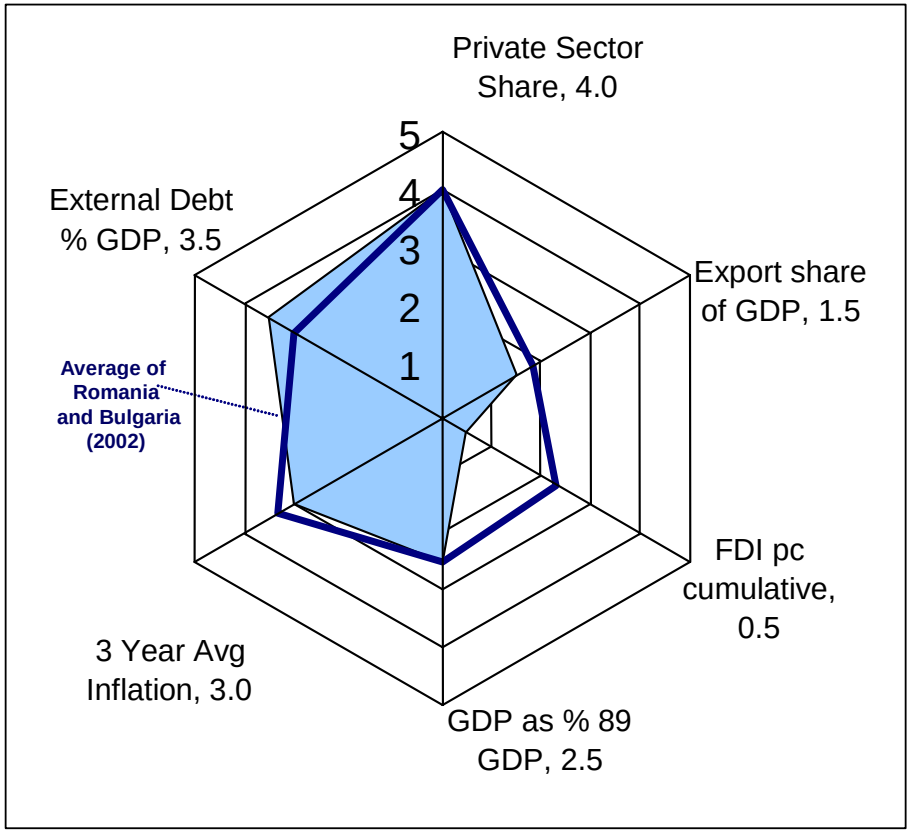


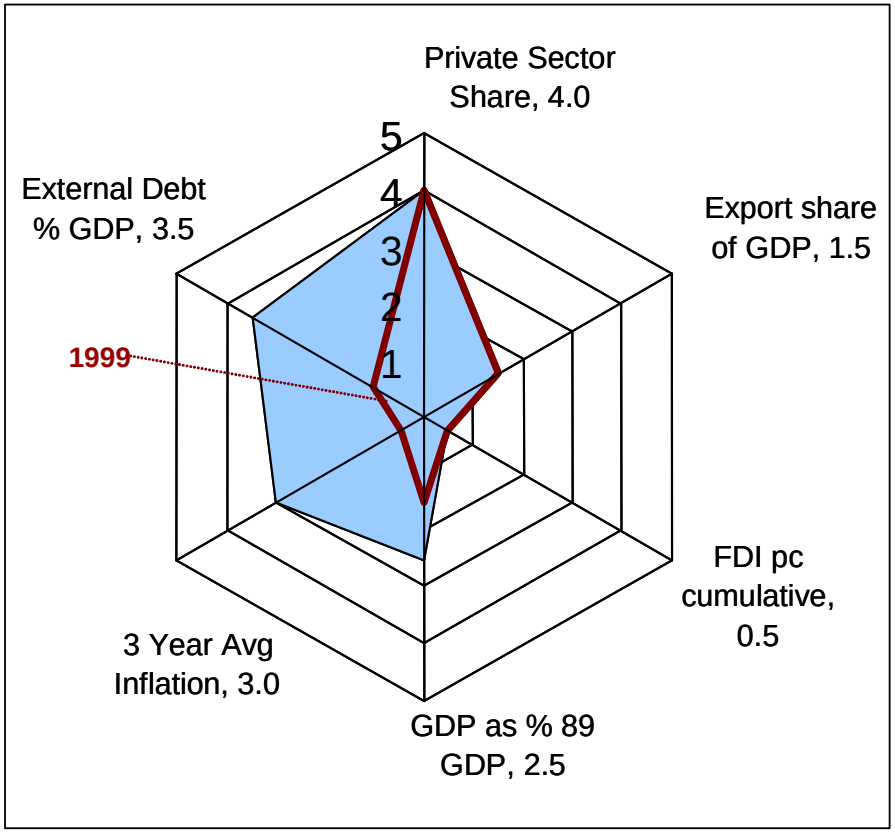
It took roughly 5 years for Bulgaria to go from "where" Ukraine is today on economic performance to where Bulgaria was in 2002, and more than 14 years in human capital.
World Bank, *World Development Indicators 2003* (2003); UNICEF, *Social Monitor 2003* (2003); EBRD, *Transition Report* (Nov. 2003); Ayyagari, Beck, and Demirguc-Kunt, *Small and Medium Enterprises across the Globe: A New Database*, World Bank Policy Research Working Paper 3127, (August 2003), and UNDP, *Human Development Report 2003* (July 2003).

Figure 7

Economic Performance Index in Russia in 2002 – 2004

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



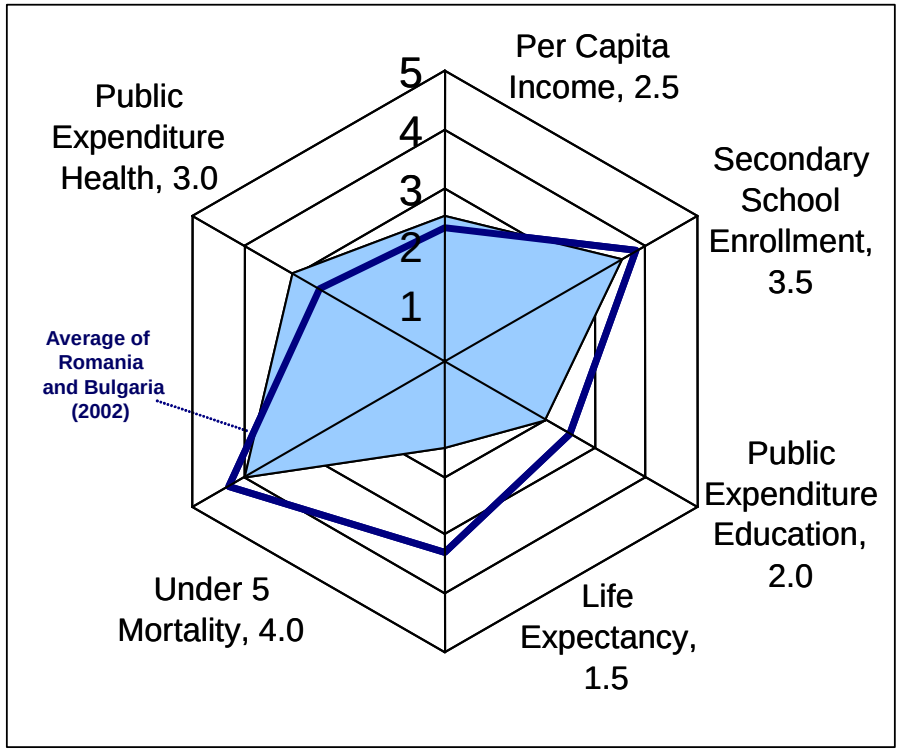


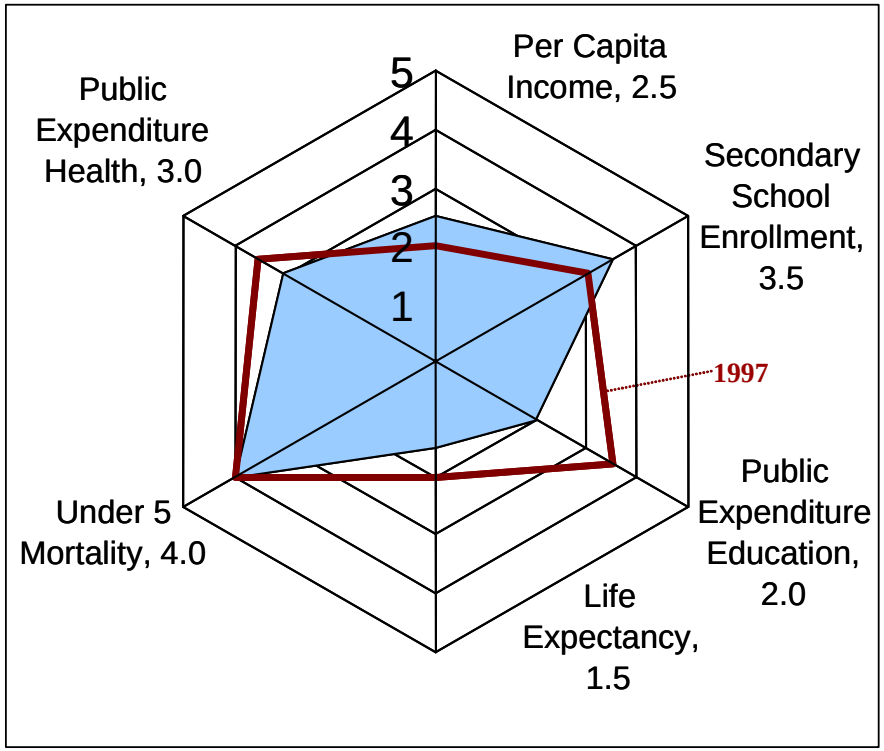
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID, *Monitoring Country Progress in CEE & Eurasia #9* (2004) drawing from World Bank, *World Development Indicators 2004* (2004); EBRD, *Transition Report* (November 2004), M. Ayyagari, T. Beck, and A. Demirguc-Kunt, *Small and Medium Enterprises across the Globe*: World Bank Policy Research Working Paper 3127, August 2003. SME data no later than 1998.

Figure 8

Human Capital Index in Russia

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

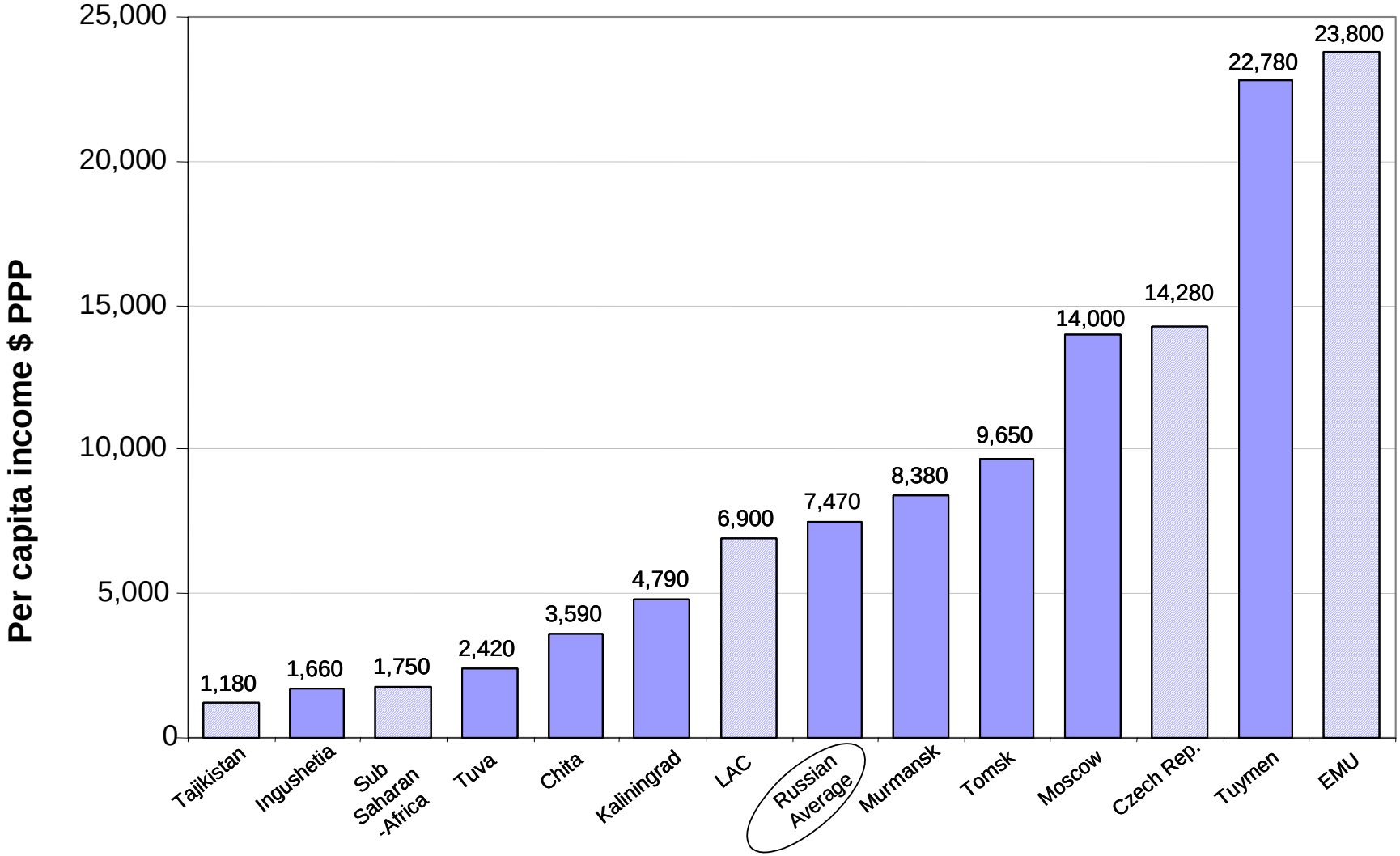




Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID, *Monitoring Country Progress in CEE & Eurasia #9 (2005)* drawing from World Bank, *World Development Indicators 2004* (2004); UNICEF, *Social Monitor 2004* (2004).

Figure 9

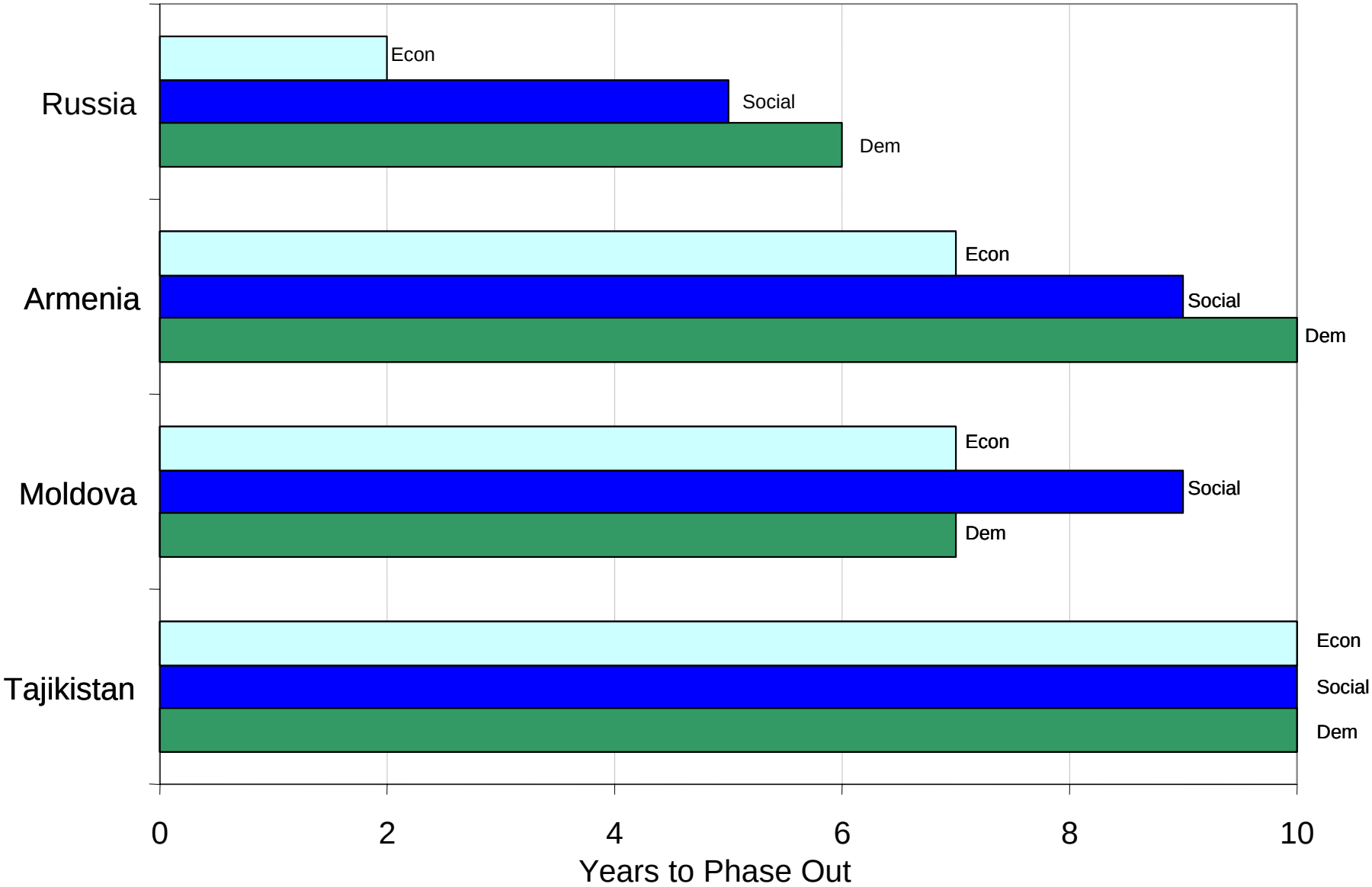
Per Capita Income in Russia in 1999



UNDP, *National Human Development Report 2001 for the Russian Federation* (2001), and World Bank, *World Development Indicators* 2003 (2003).

Figure 10

Years to Phase-out in Eurasia



A score of 10 indicates phase out will begin in 10 or more years. FY05 is considered the first year in estimating phase-out dates. ACE estimated years to phase out.

MONITORING COUNTRY PROGRESS
IN CENTRAL AND EASTERN EUROPE
& EURASIA

APPENDIX 4: GAP ANALYSES

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

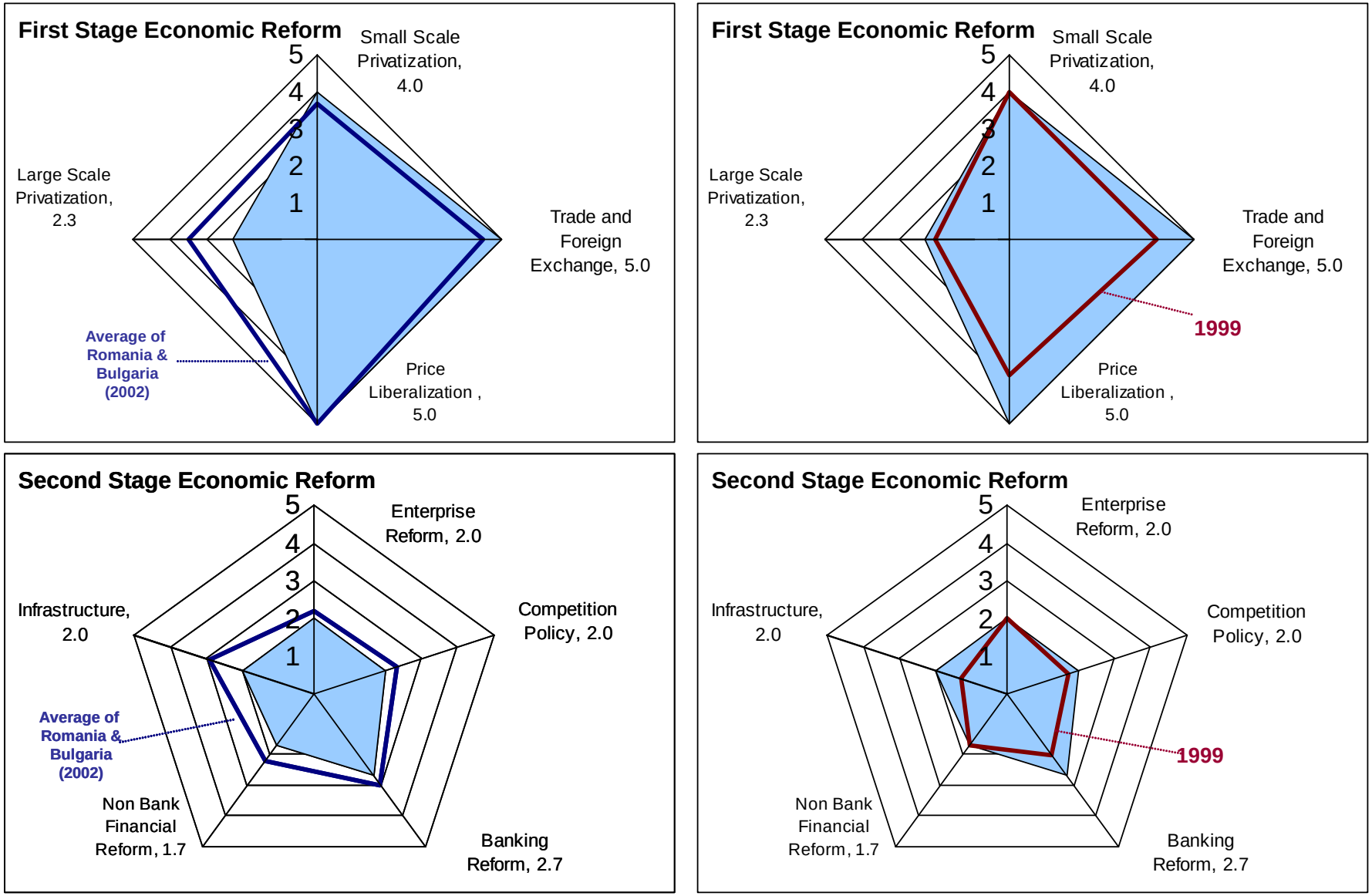
April 2005
No. 9

Four sets of charts corresponding to the four MCP indices are provided below for each of the 27 transition countries (plus Kosovo and Montenegro). These "web" charts provide a disaggregated look at each of the indices, and how each country compares in its transition progress vis-à-vis two standards: (1) relative to the Romania-Bulgaria average in 2002 thresholds; and (2) relative to the progress of the country in the late 1990s. Together, these charts provide a quick look as to where the transition gaps are, and two what extent these gaps are being filled.

Figure 1

Economic Reform in Albania in 2004

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

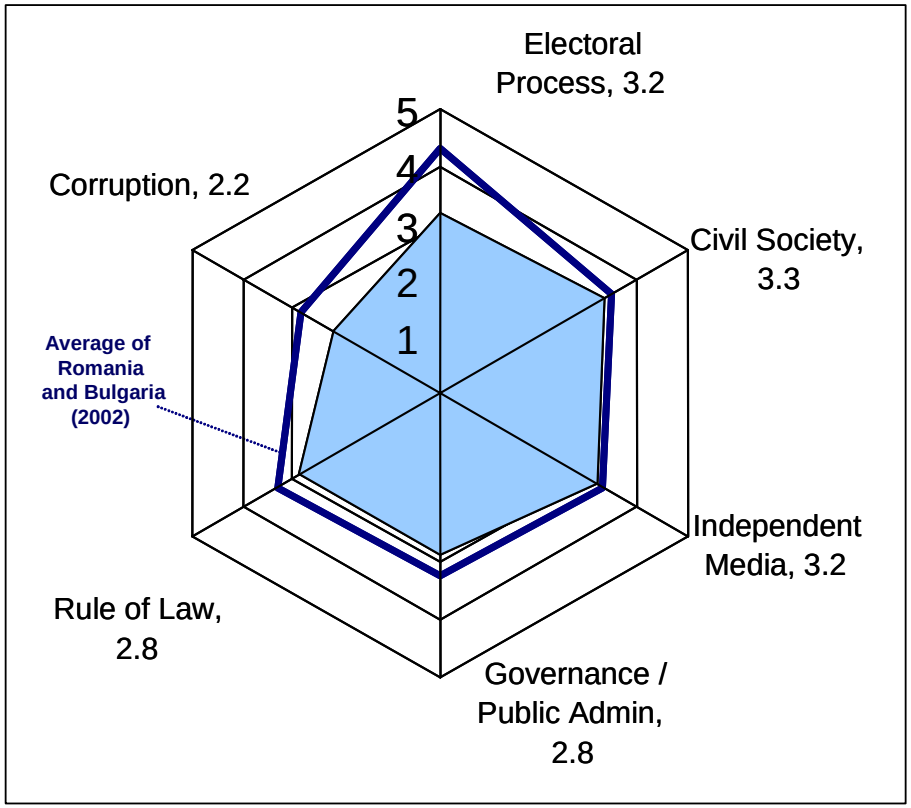


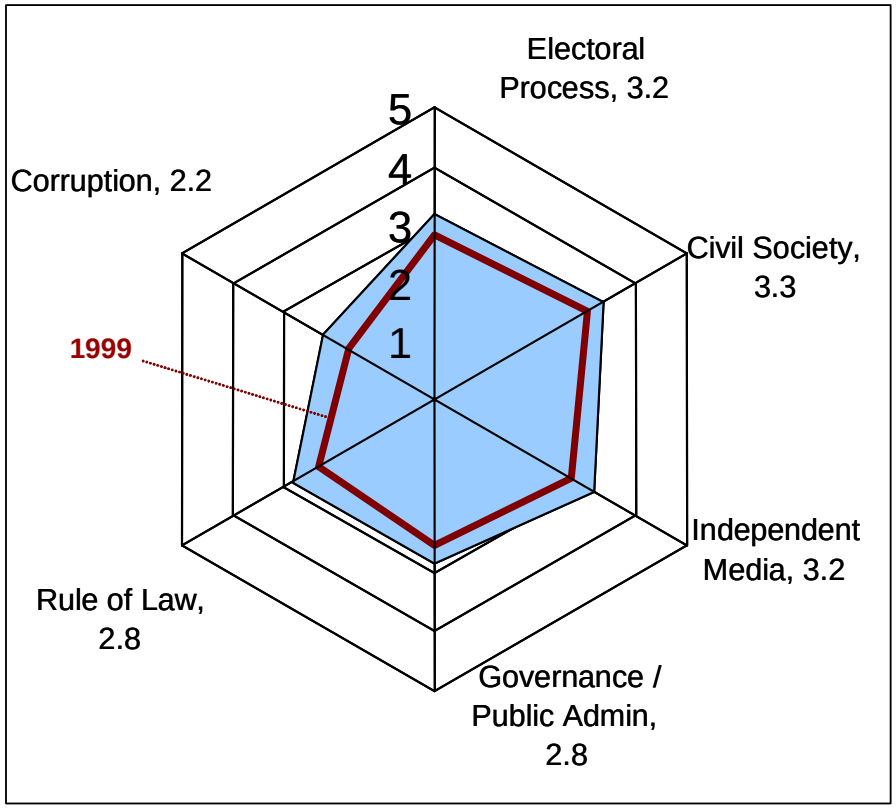
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from EBRD, *Transition Report 2004* (November 2004).

Figure 2

Democratic Reforms in Albania in 2003

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



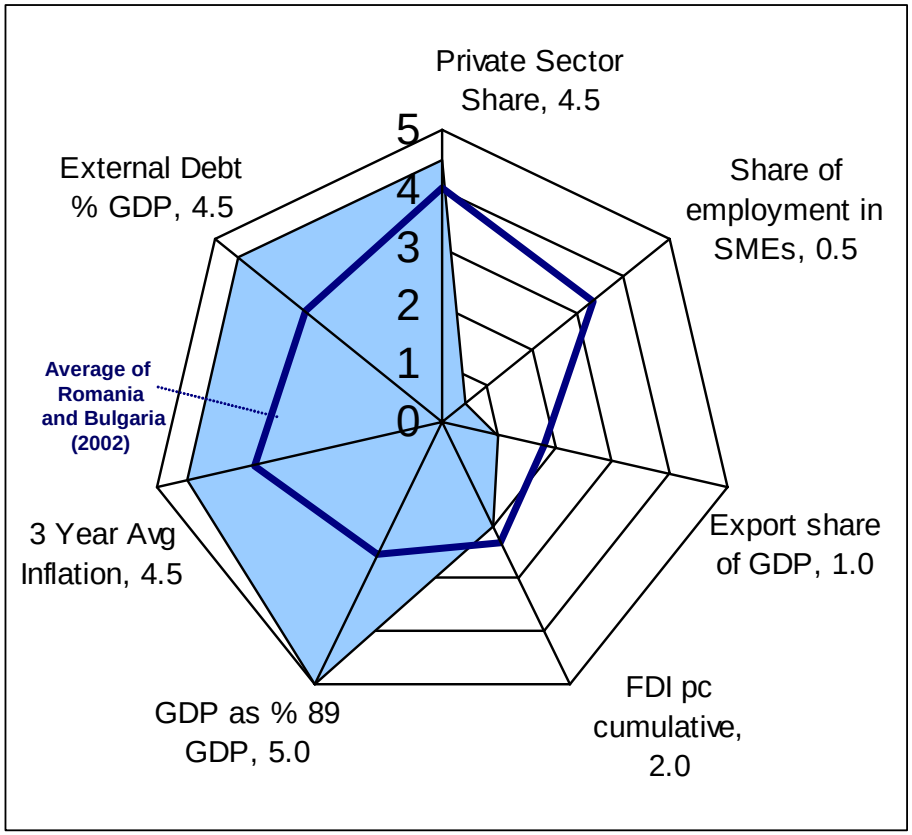


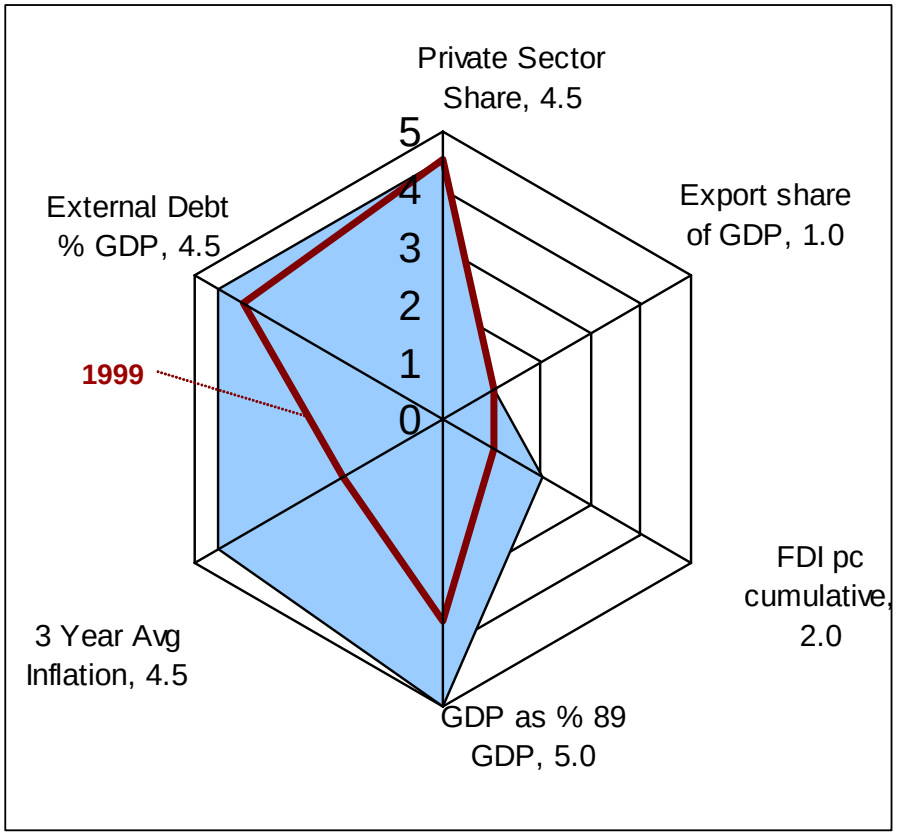
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from Freedom House, *Nations in Transit 2004.*

Figure 3

Economic Performance Index in Albania in 2002 - 2004

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



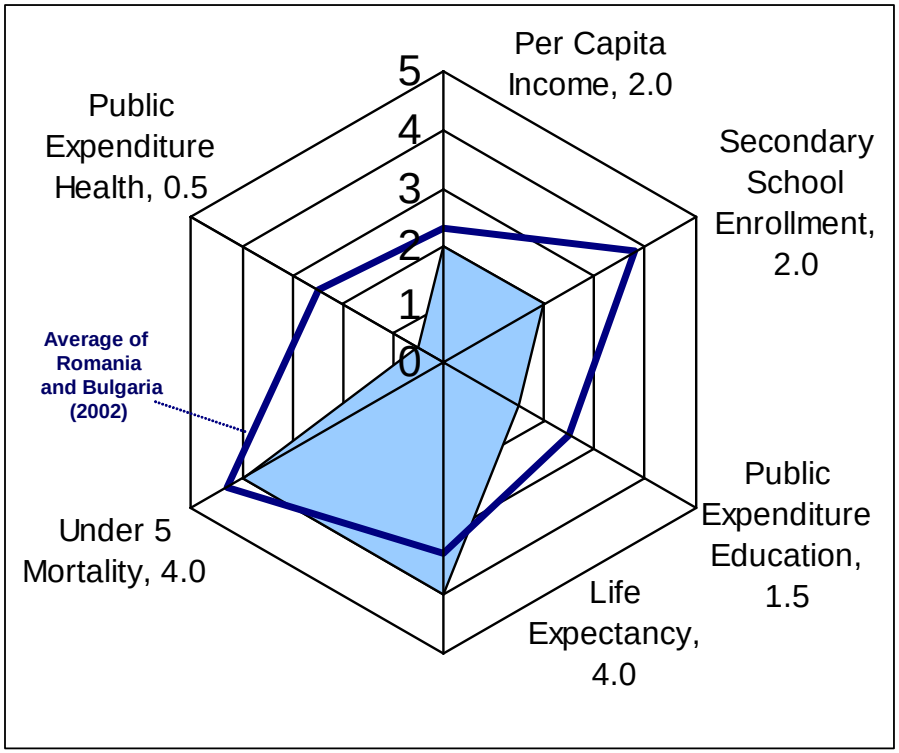


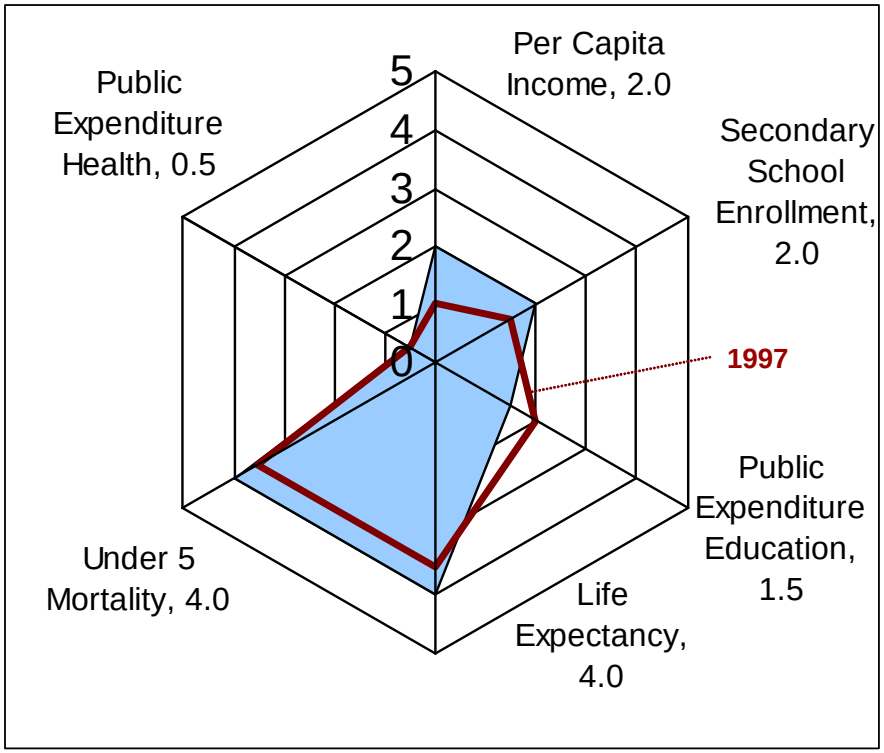
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from World Bank, *World Development Indicators 2004* (2004); EBRD, *Transition Report* (November 2004), M. Ayyagari, T. Beck, and A. Demirguc-Kunt, *Small and Medium Enterprises across the Globe*: World Bank Policy Research Working Paper 3127, August 2003. SME data no later than 1998.

Figure 4

Human Capital Index in Albania

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



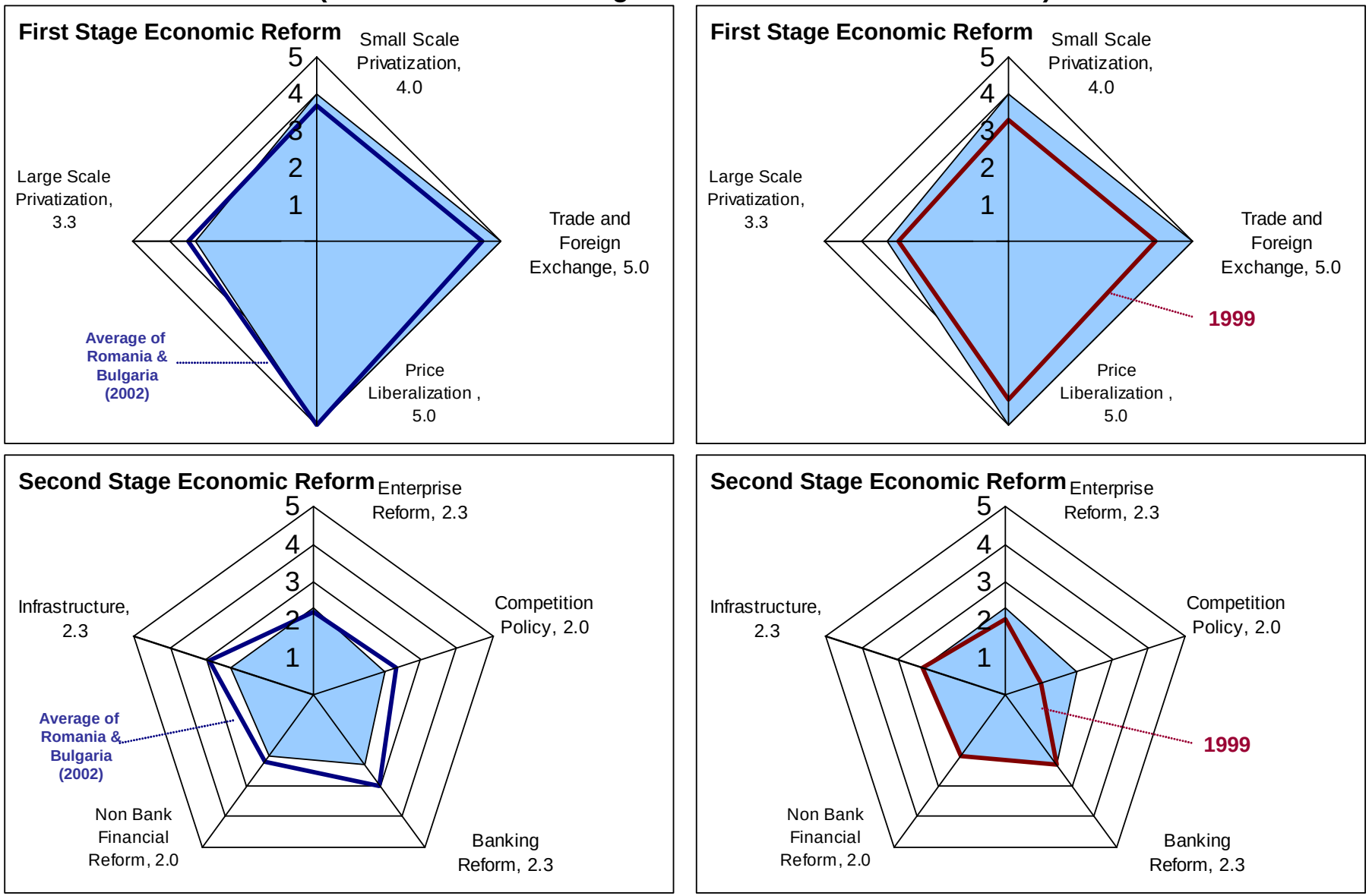


Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from World Bank, *World Development Indicators 2004* (2004); UNICEF, *Social Monitor 2004* (2004).

Figure 5

Economic Reform in Armenia in 2004

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

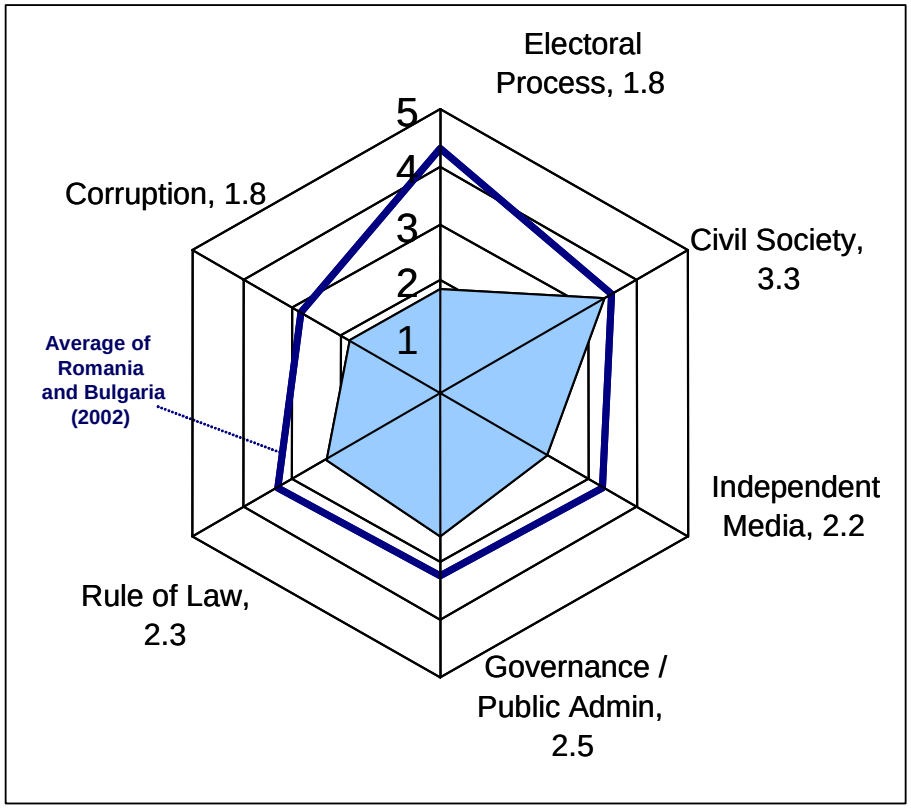


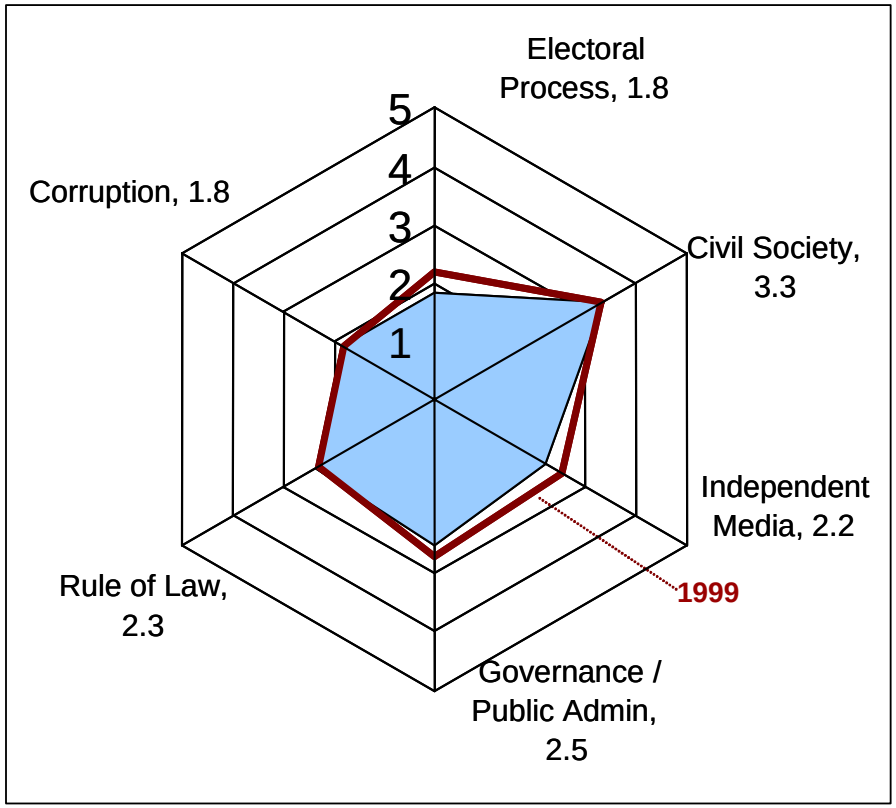
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from EBRD, *Transition Report 2004* (November 2004).

Figure 6

Democratic Reforms in Armenia in 2003

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



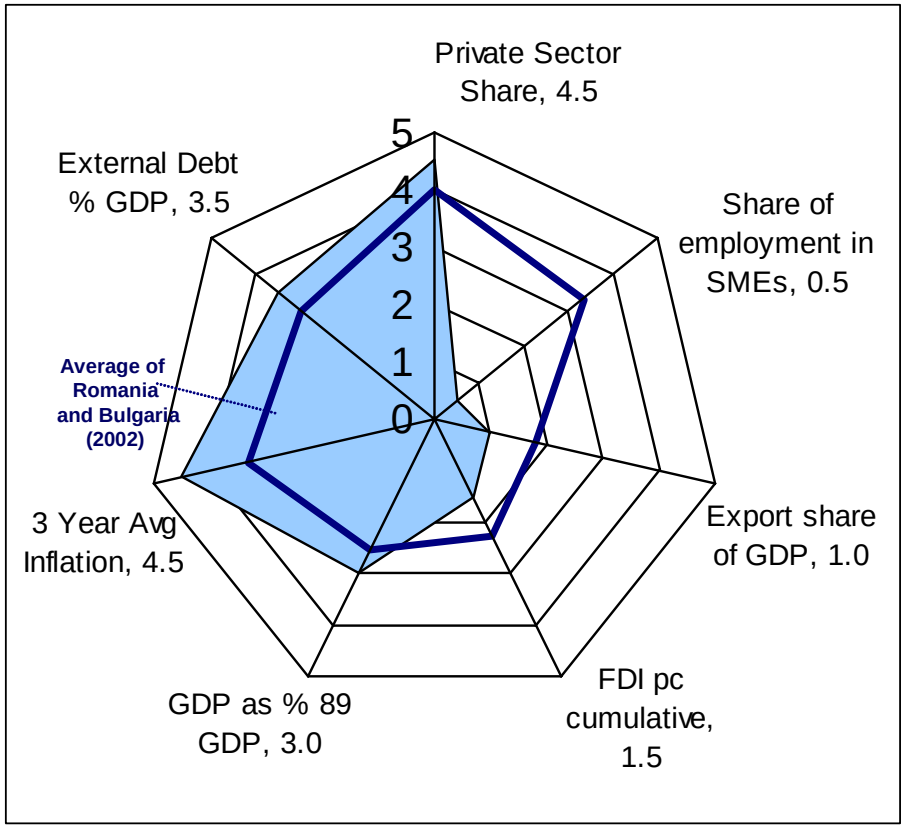


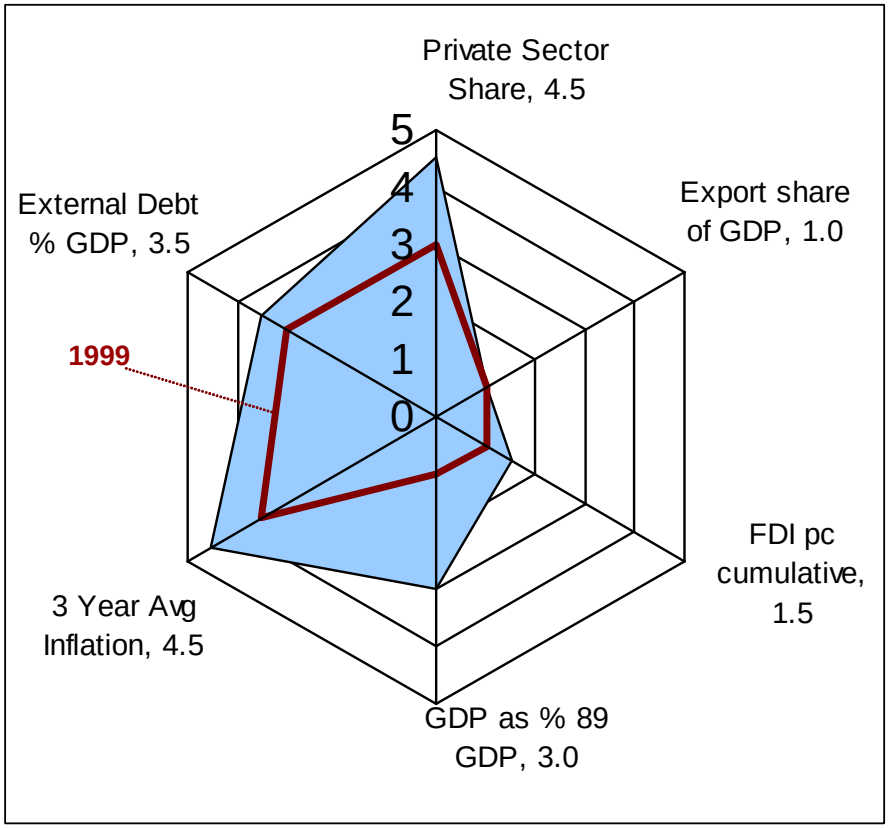
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from Freedom House, *Nations in Transit 2004.*

Figure 7

Economic Performance Index in Armenia in 2002 - 2004

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



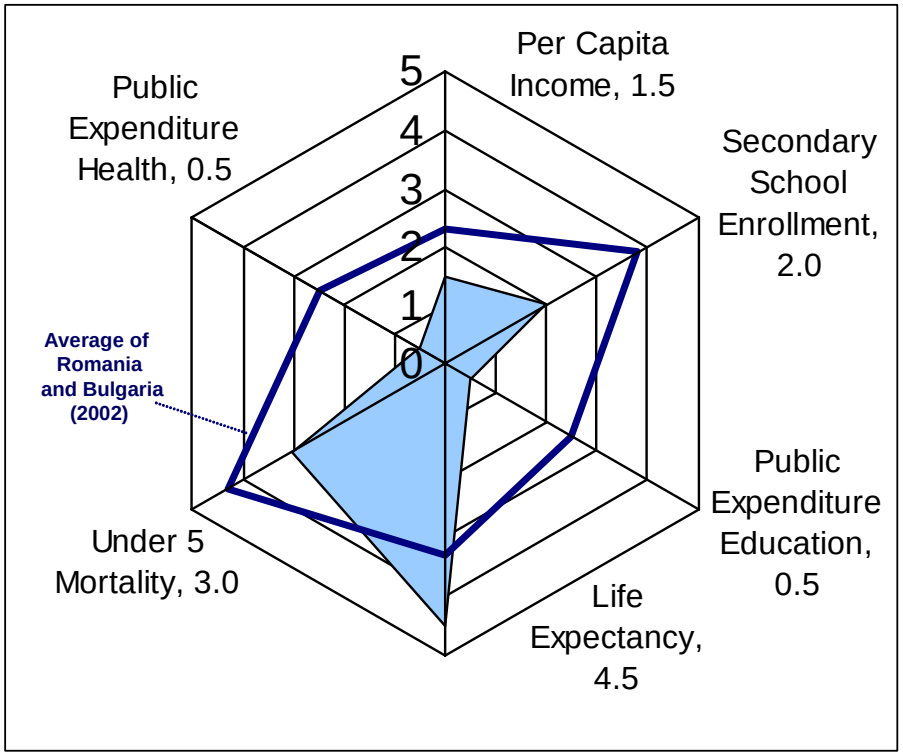


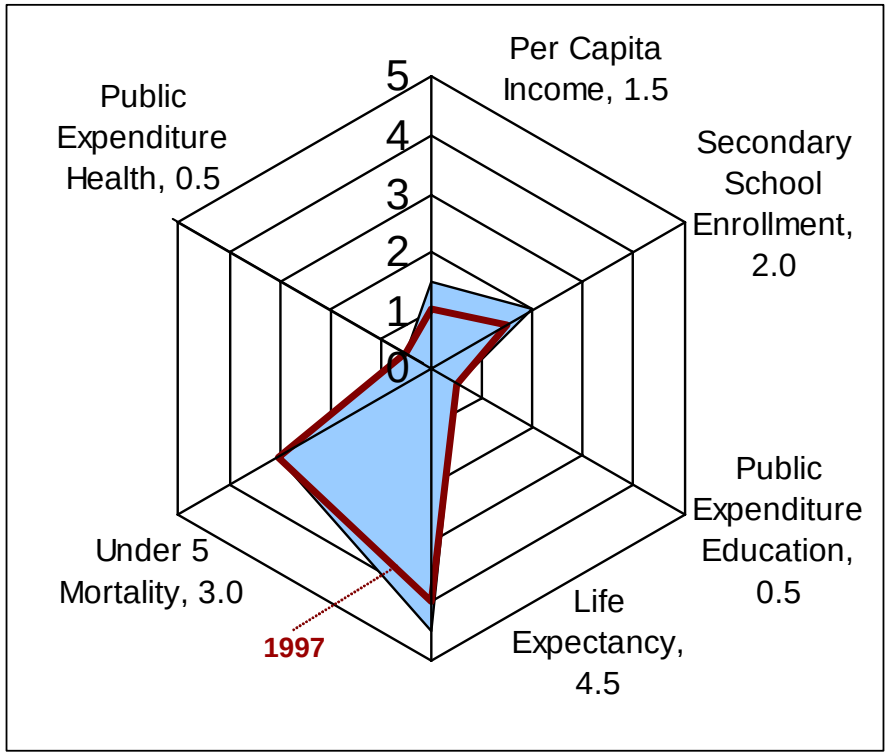
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from World Bank, *World Development Indicators 2004* (2004); EBRD, *Transition Report* (November 2004), M. Ayyagari, T. Beck, and A. Demirguc-Kunt, *Small and Medium Enterprises across the Globe*: World Bank Policy Research Working Paper 3127, August 2003. SME data no later than 1998.

Figure 8

Human Capital Index in Armenia

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



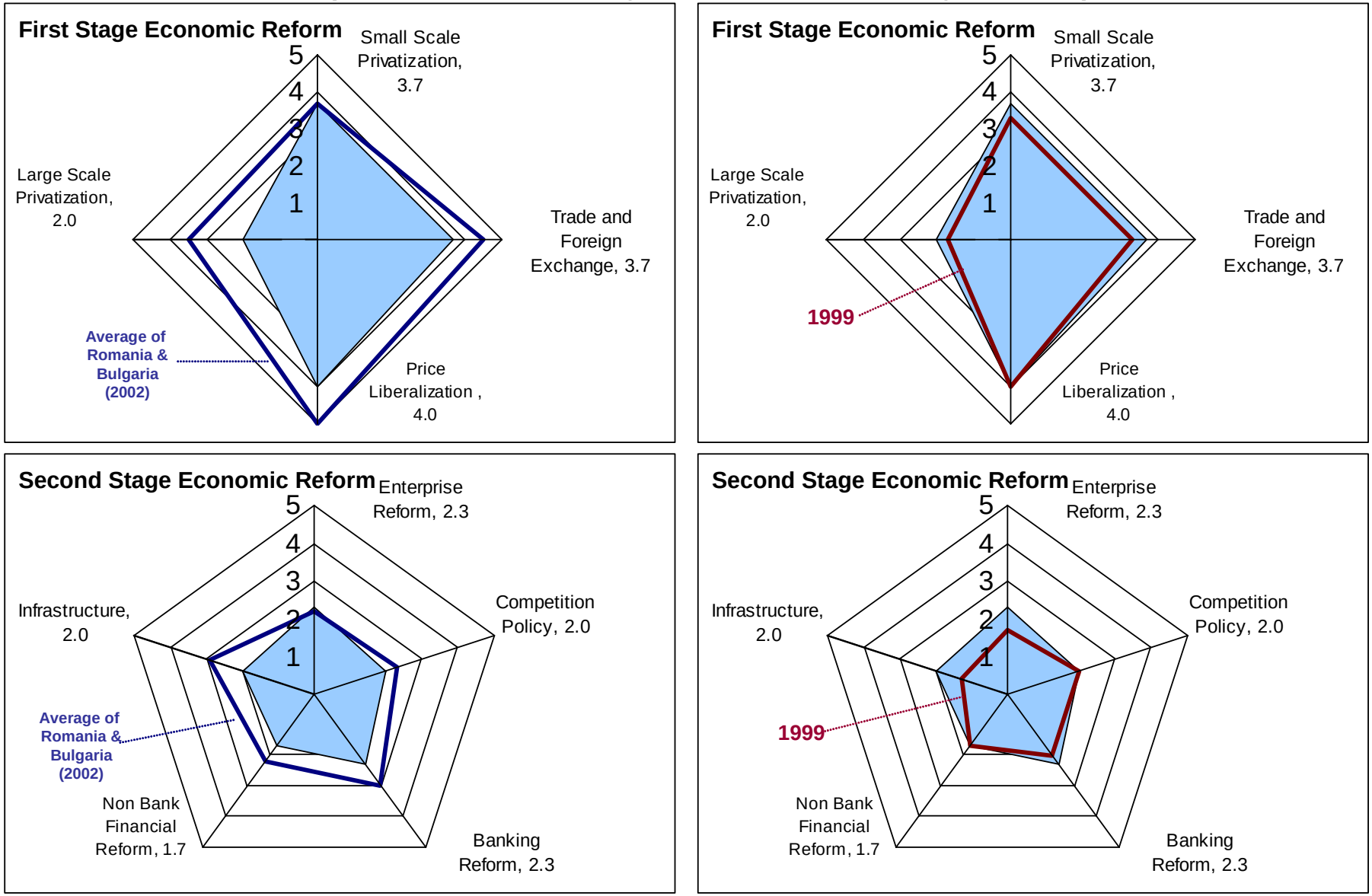


Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from World Bank, *World Development Indicators 2004* (2004); UNICEF, *Social Monitor 2004* (2004).

Figure 9

Economic Reform in Azerbaijan in 2004

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

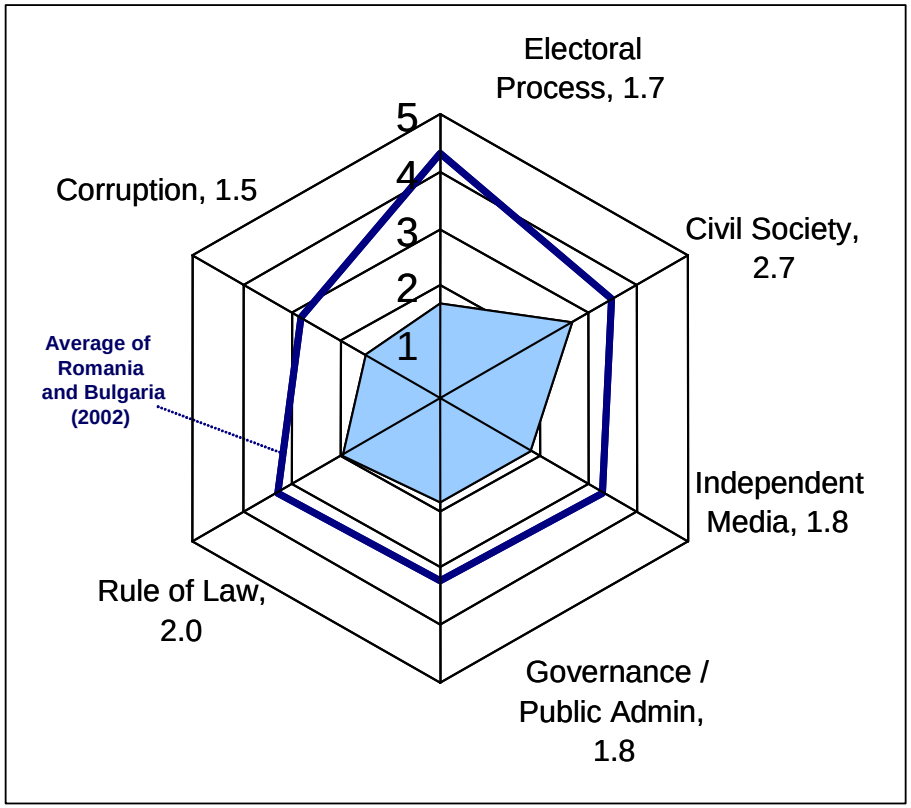


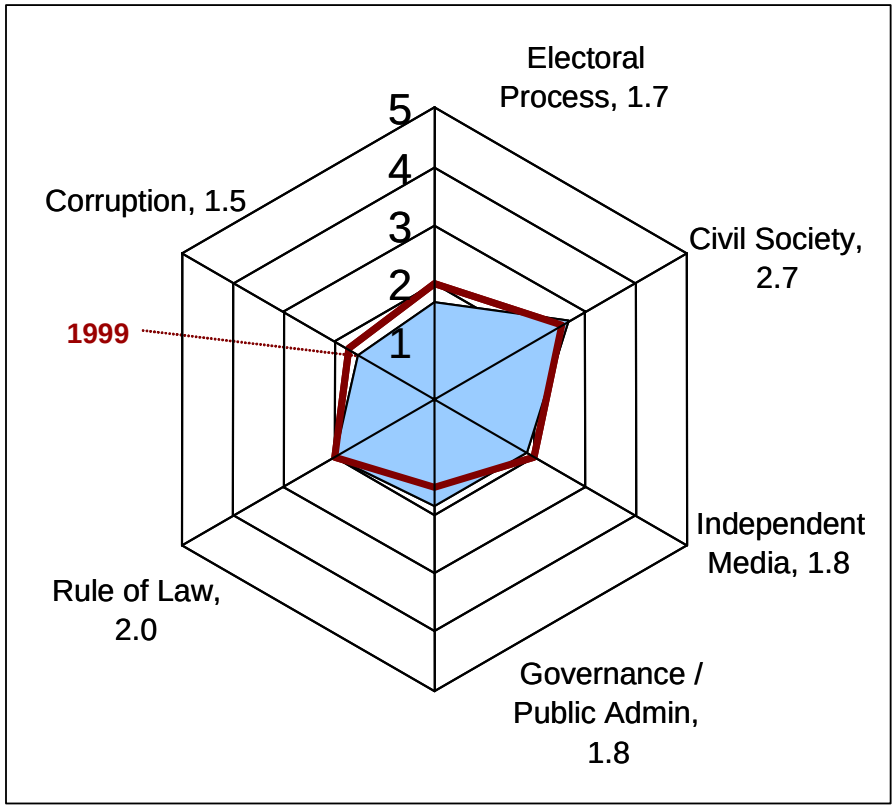
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from EBRD, *Transition Report 2004* (November 2004).

Figure 10

Democratic Reforms in Azerbaijan in 2003

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



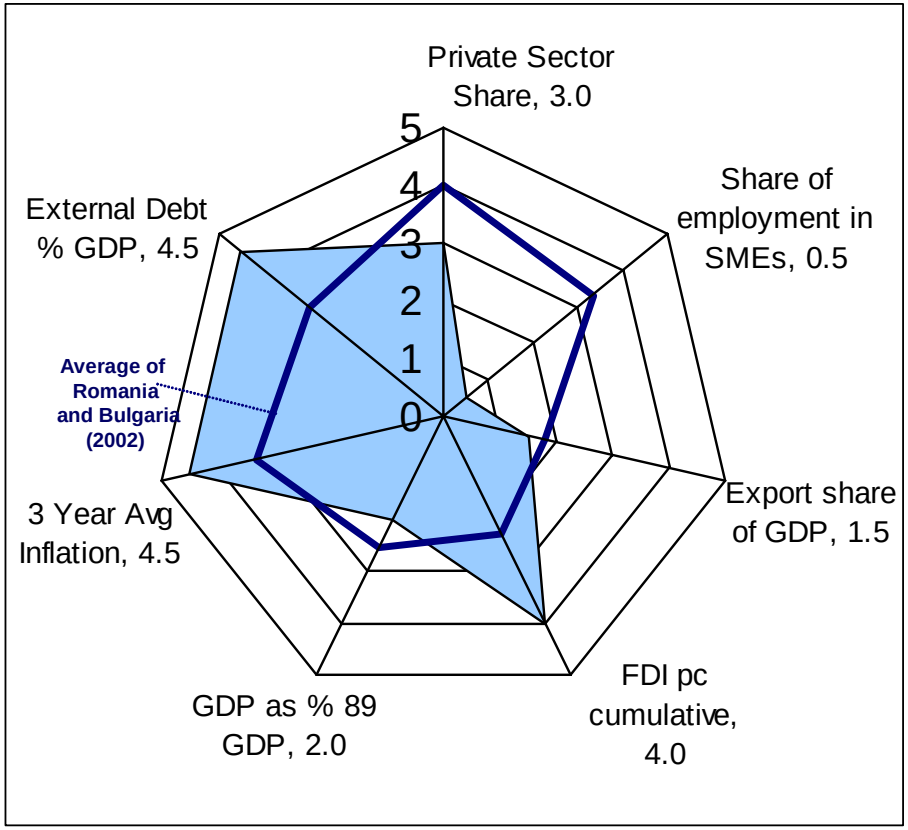


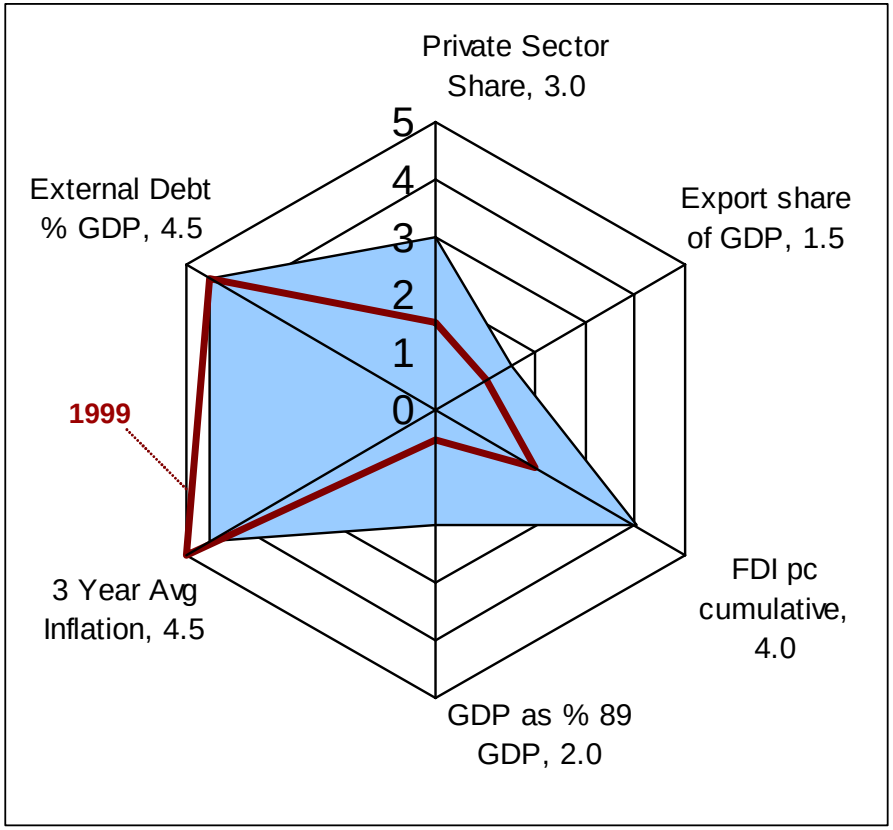
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from Freedom House, *Nations in Transit 2004.*

Figure 11

Economic Performance Index in Azerbaijan in 2002 - 2004

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



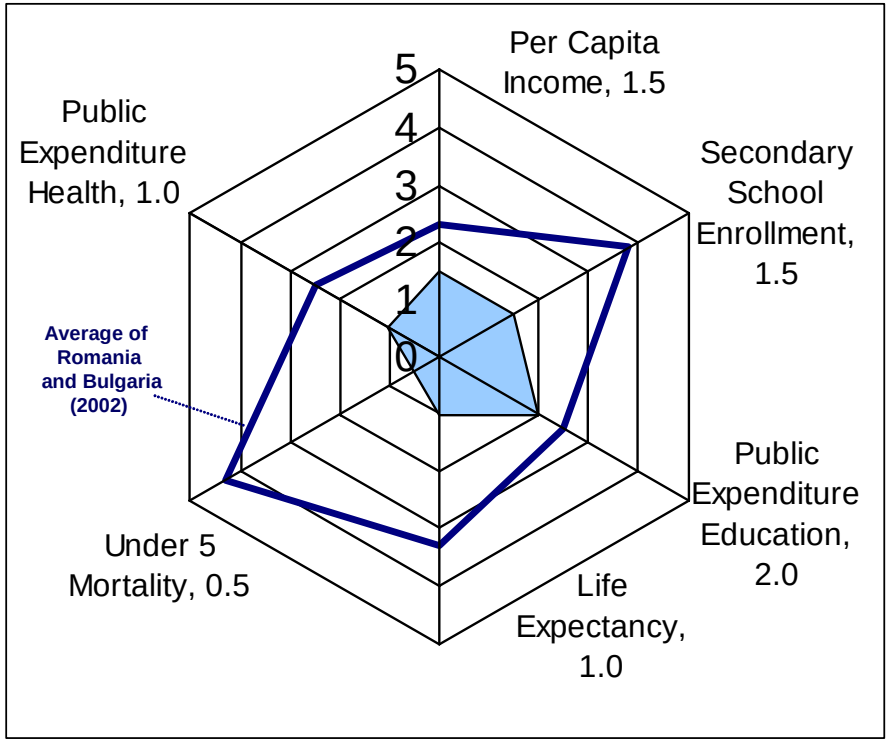


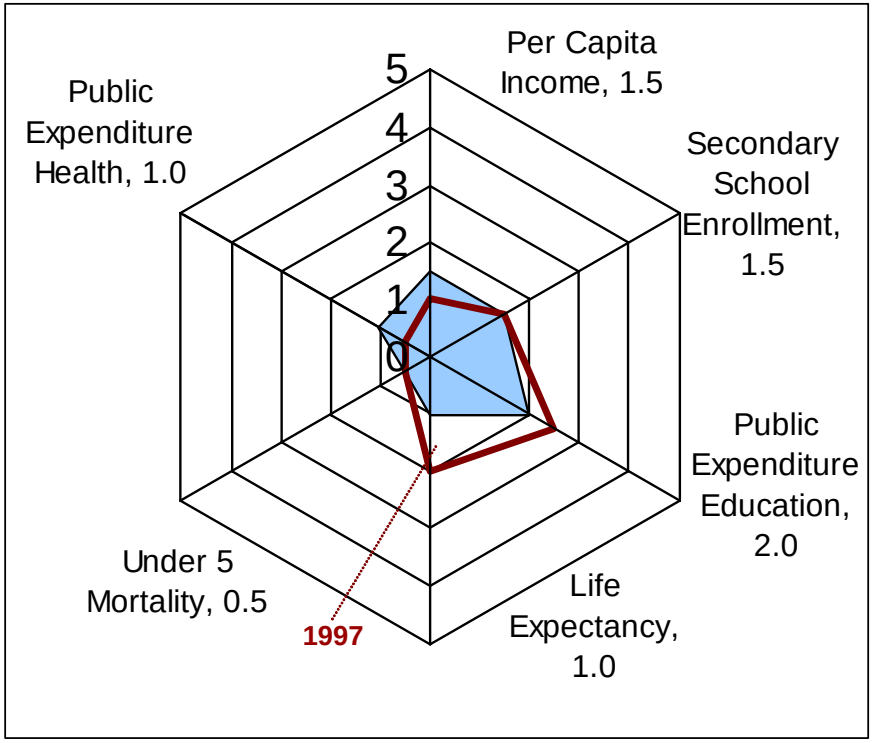
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from World Bank, *World Development Indicators 2004* (2004); EBRD, *Transition Report* (November 2004), M. Ayyagari, T. Beck, and A. Demirguc-Kunt, *Small and Medium Enterprises across the Globe*: World Bank Policy Research Working Paper 3127, August 2003. SME data no later than 1998.

Figure 12

Human Capital Index in Azerbaijan

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



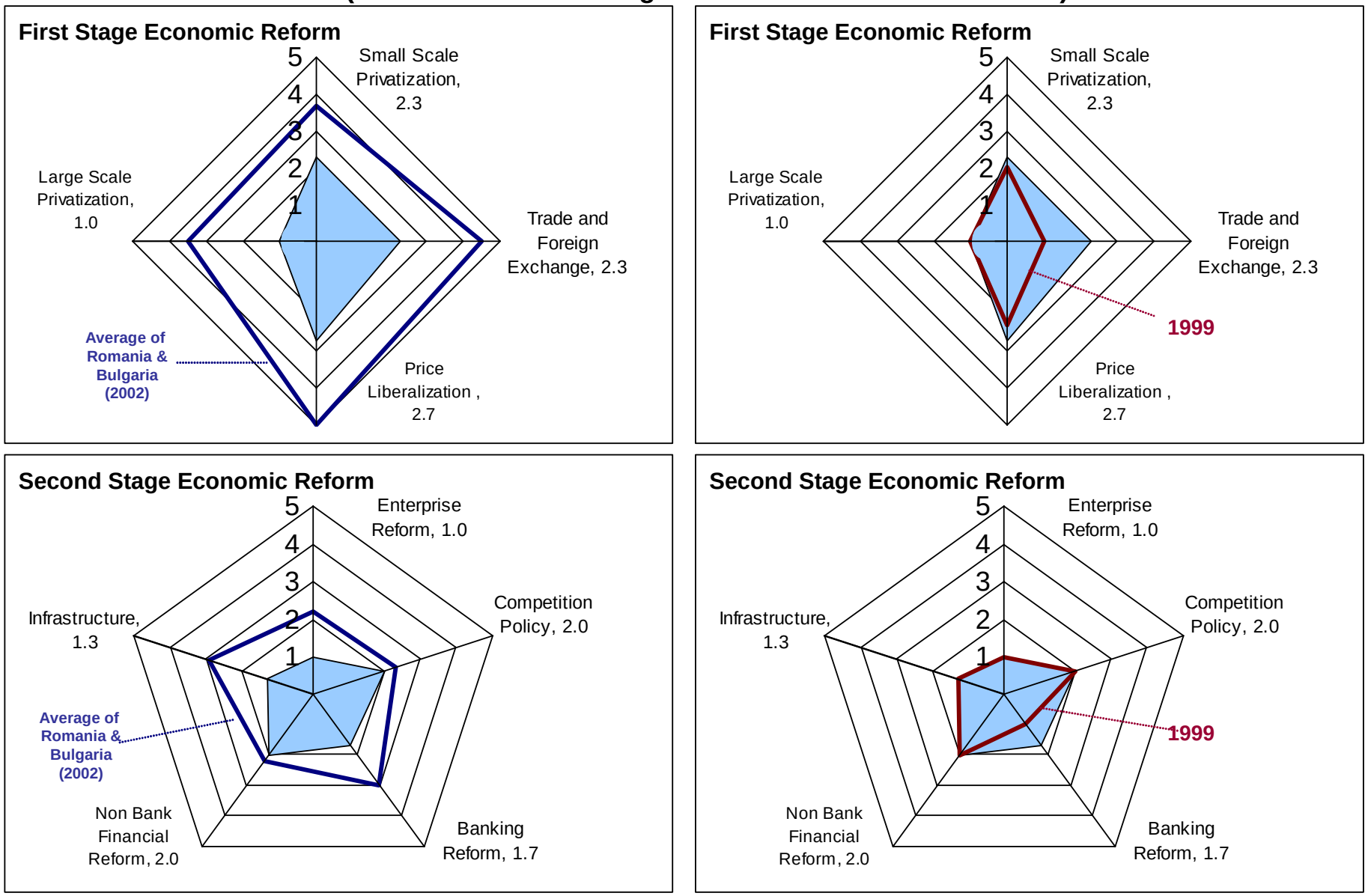


Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from World Bank, *World Development Indicators 2004* (2004); UNICEF, *Social Monitor 2004* (2004).

Figure 13

Economic Reform in Belarus in 2004

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

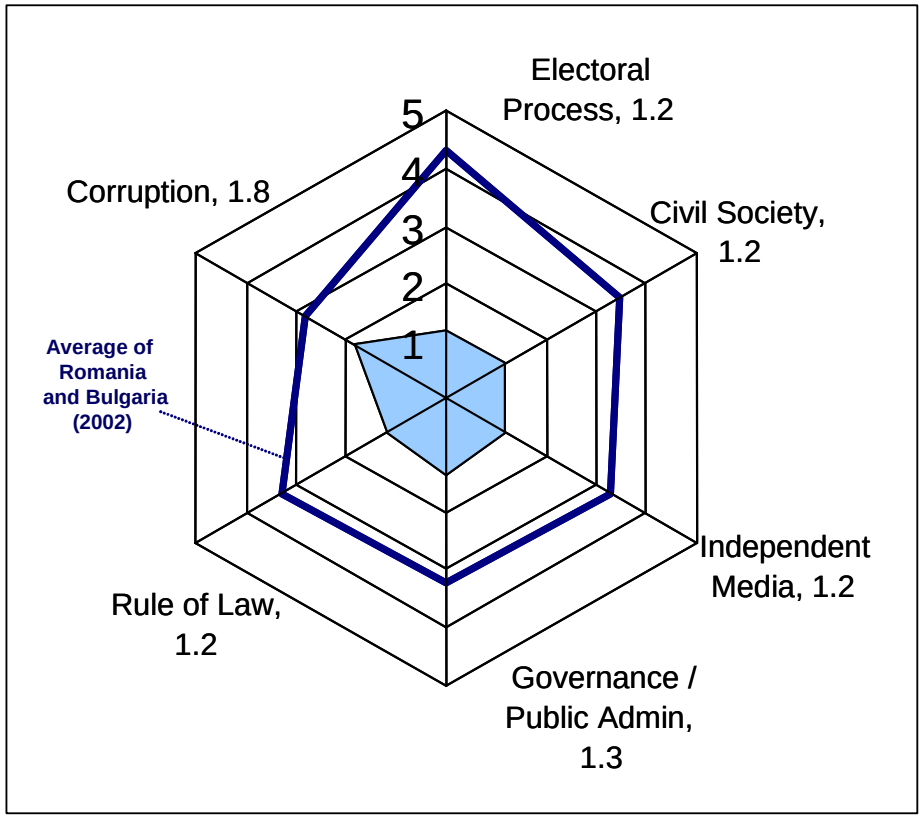


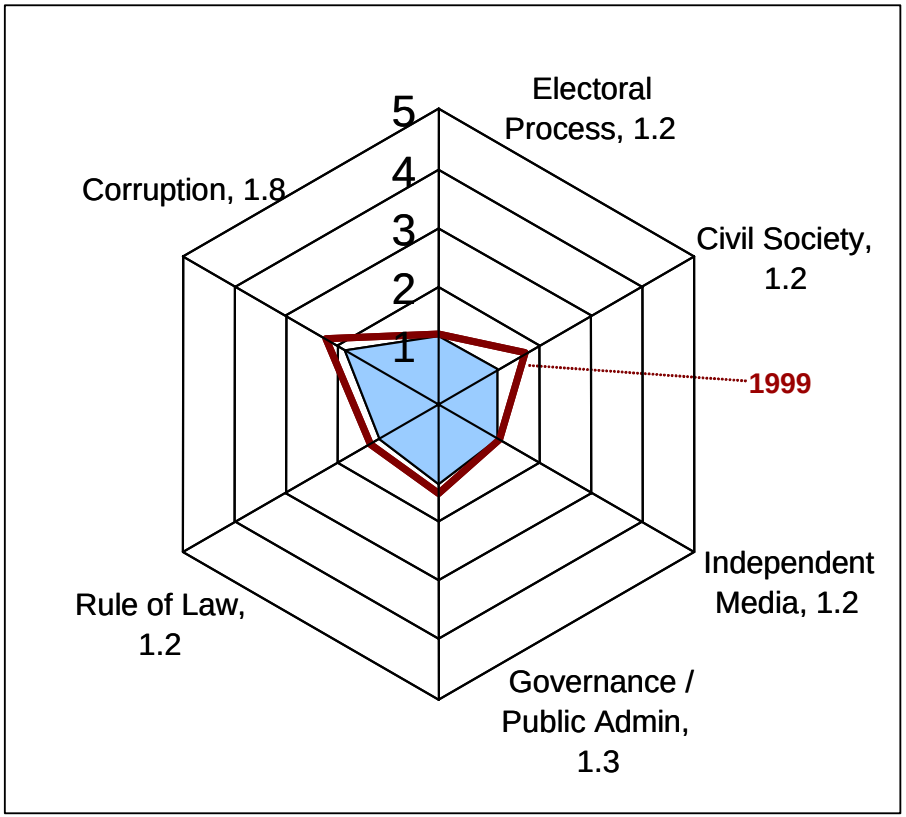
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from EBRD, *Transition Report 2004* (November 2004).

Figure 14

Democratic Reforms in Belarus in 2003

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



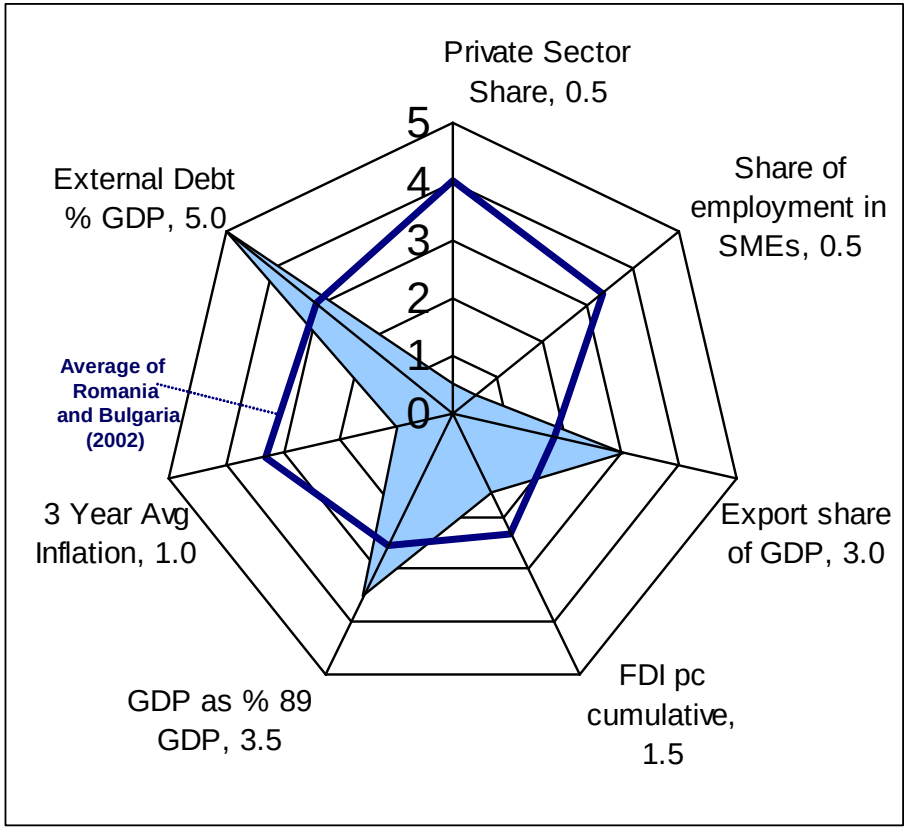


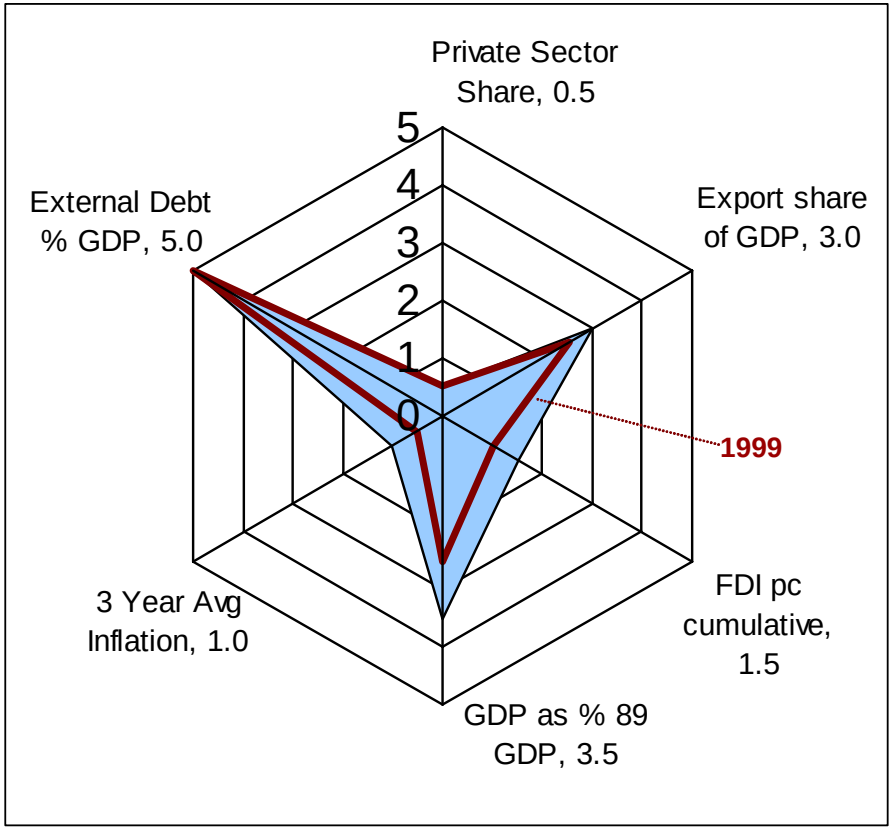
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from Freedom House, *Nations in Transit 2004.*

Figure 15

Economic Performance Index in Belarus in 2002 - 2004

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



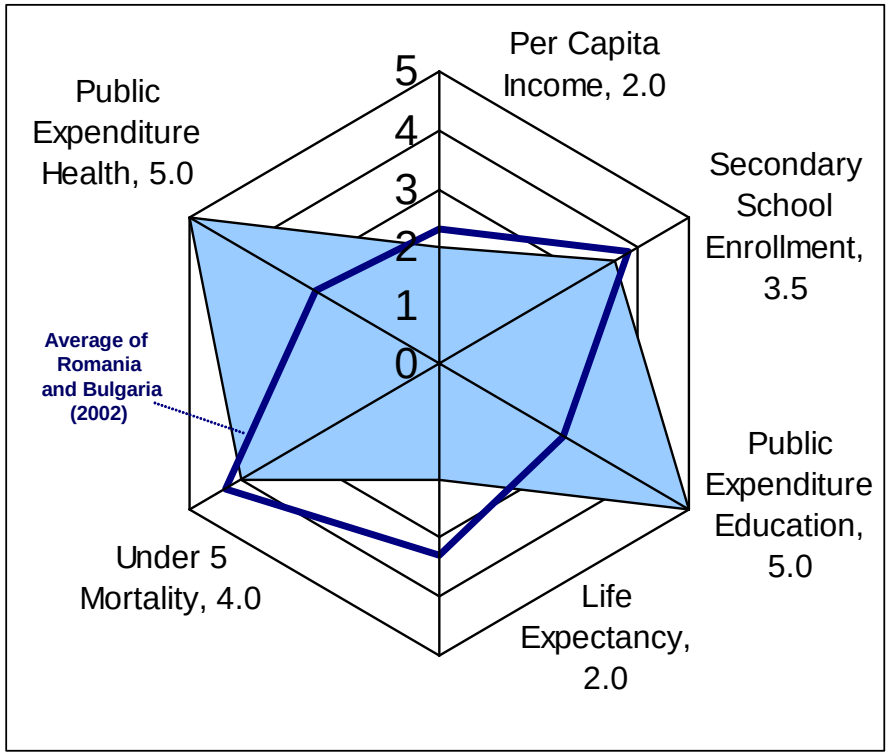


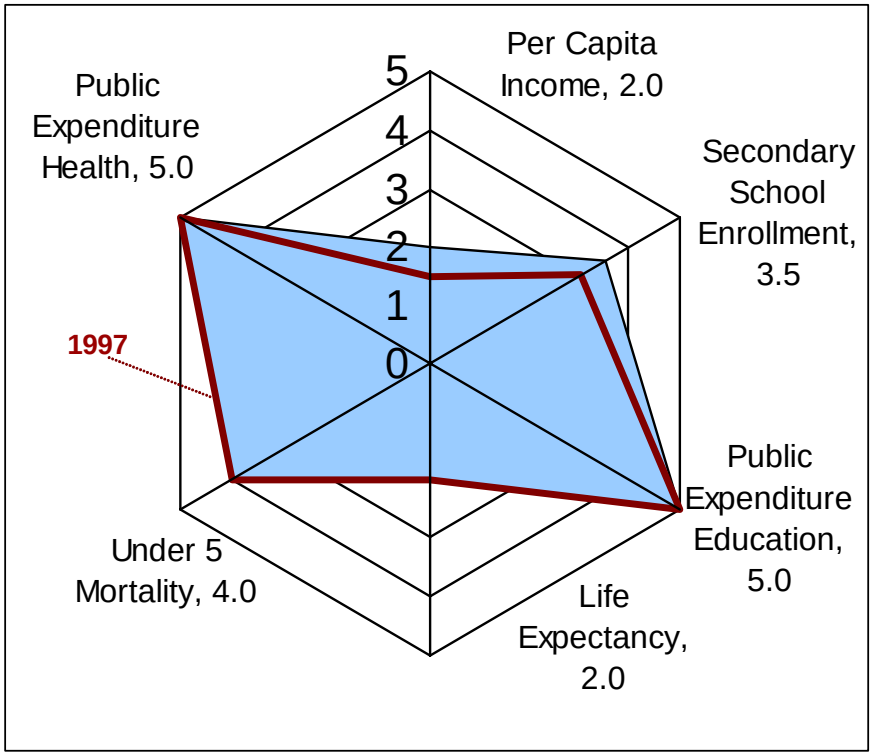
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from World Bank, *World Development Indicators 2004* (2004); EBRD, *Transition Report* (November 2004), M. Ayyagari, T. Beck, and A. Demirguc-Kunt, *Small and Medium Enterprises across the Globe*: World Bank Policy Research Working Paper 3127, August 2003. SME data no later than 1998.

Figure 16

Human Capital Index in Belarus

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



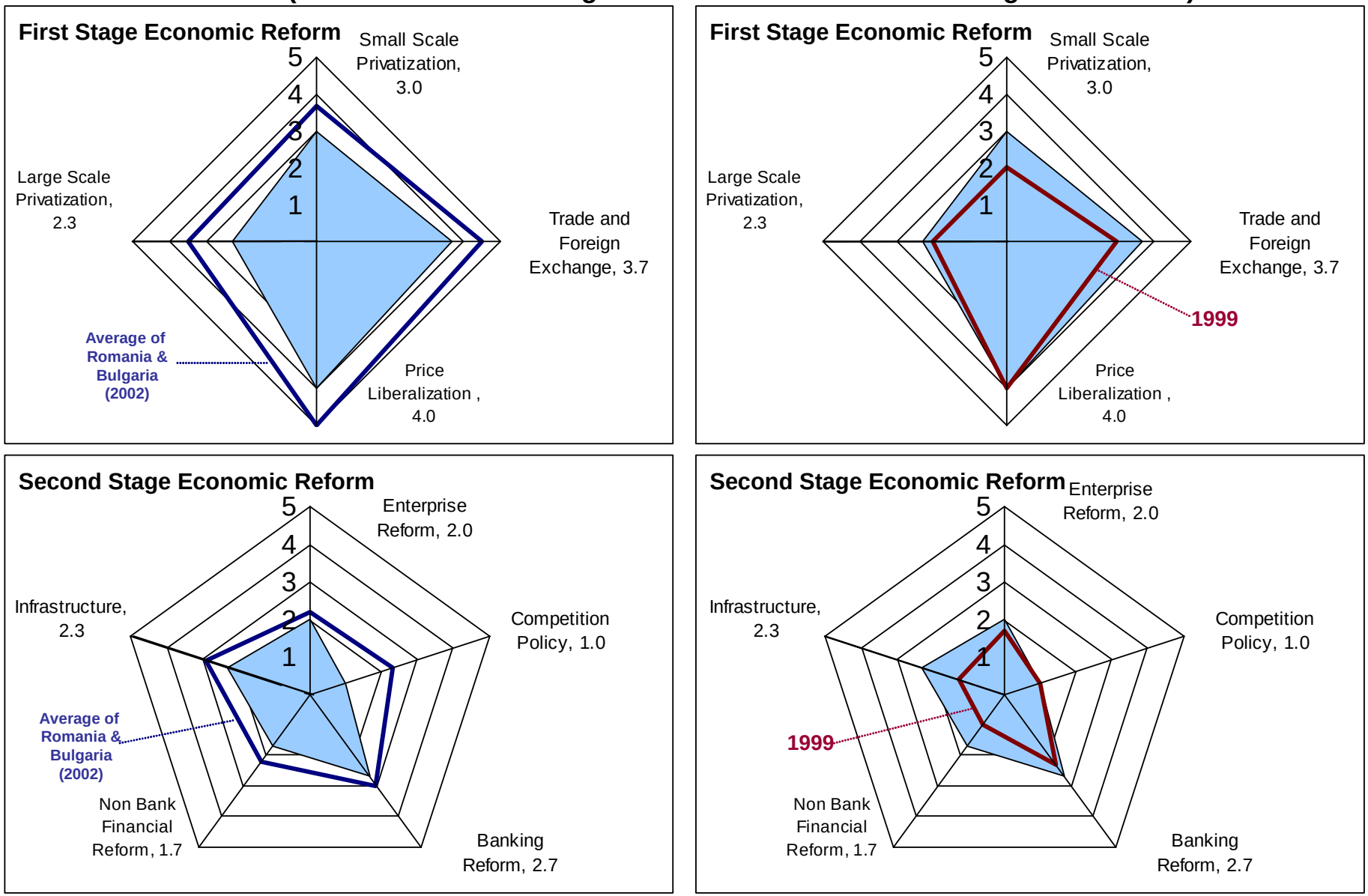


Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from World Bank, *World Development Indicators 2004* (2004); UNICEF, *Social Monitor 2004* (2004).

Figure 17

Economic Reform in Bosnia & Herzegovina in 2004

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

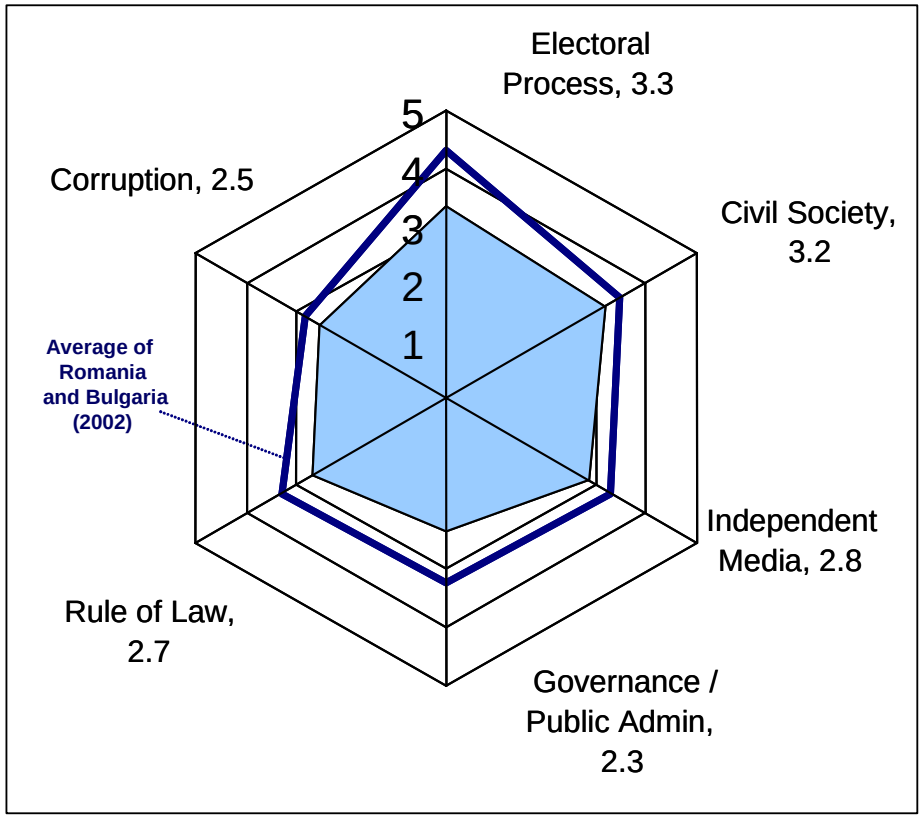


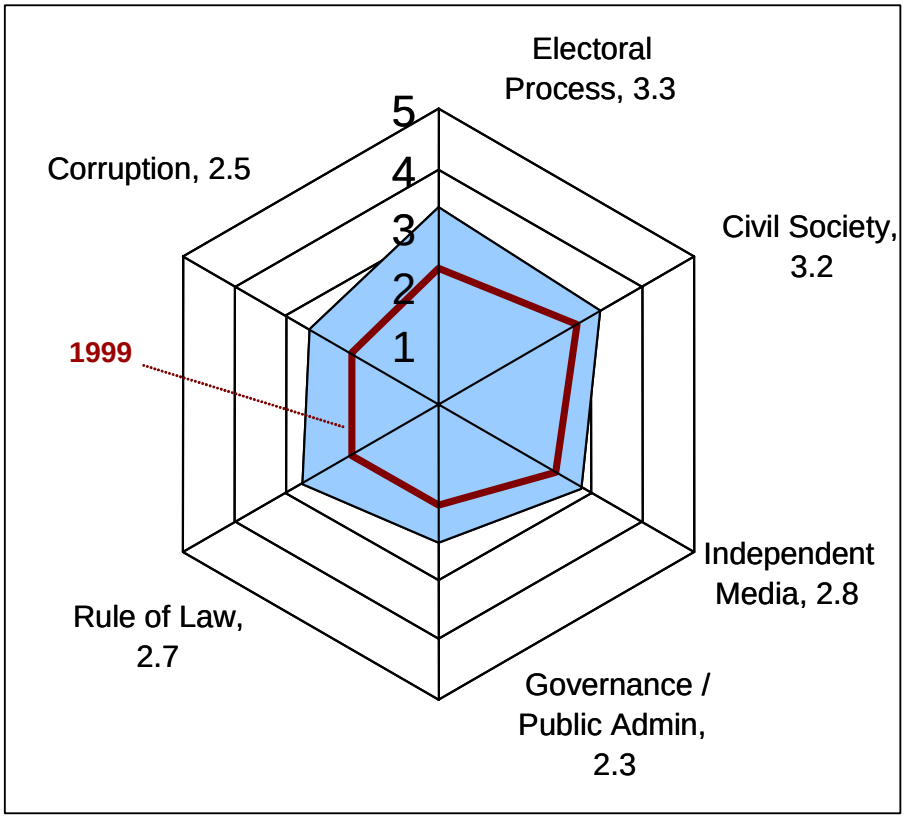
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from EBRD, *Transition Report 2004* (November 2004).

Figure 18

Democratic Reforms in Bosnia and Herzegovina in 2003

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



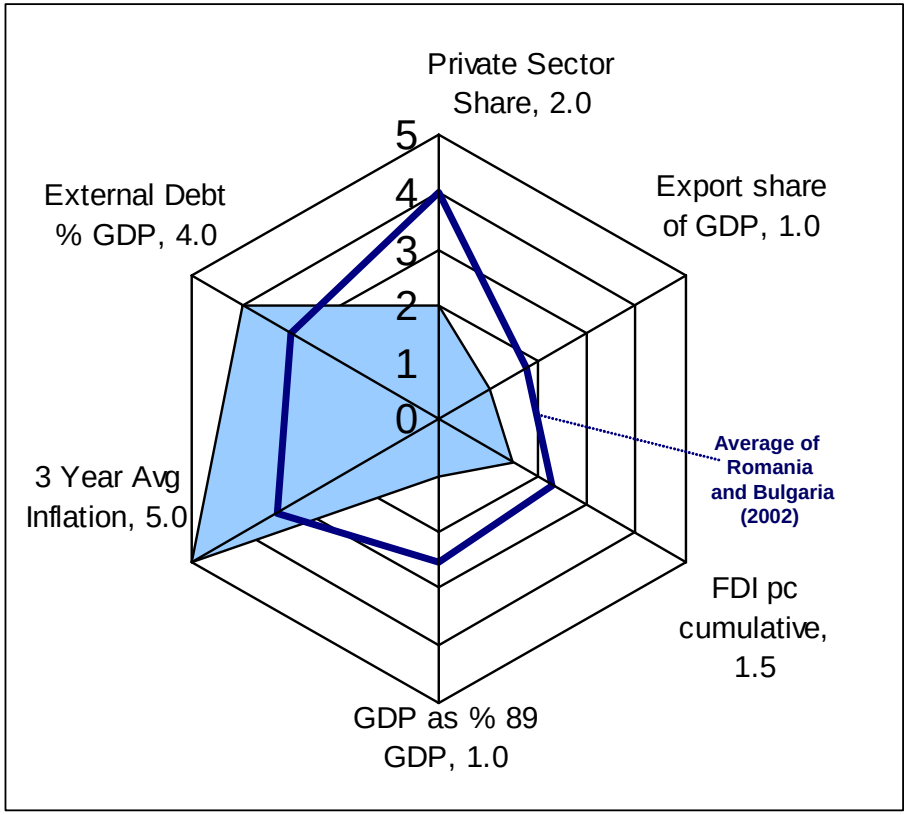


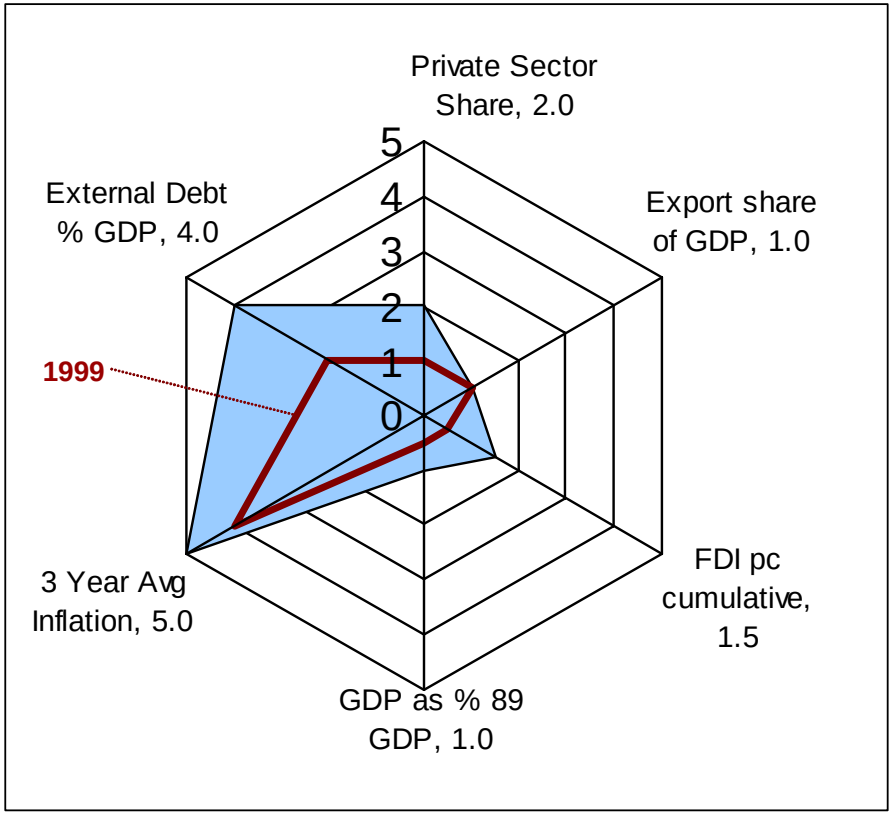
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from Freedom House, *Nations in Transit 2004.*

Figure 19

Economic Performance Index in Bosnia & Herzegovina in 2002 - 2004

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



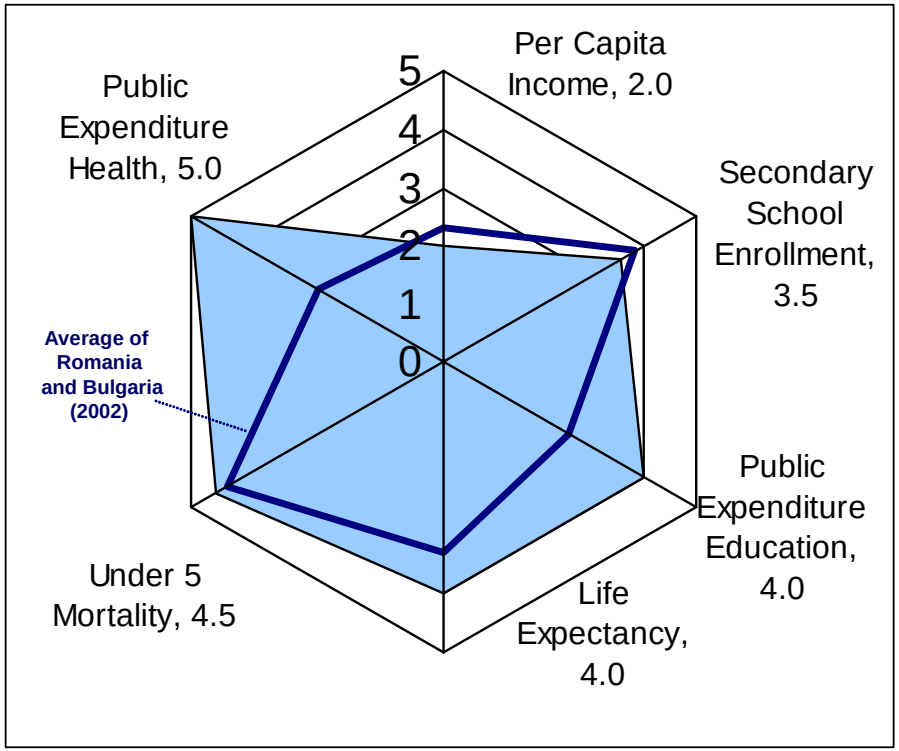


Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from World Bank, *World Development Indicators 2004* (2004); EBRD, *Transition Report* (November 2004), M. Ayyagari, T. Beck, and A. Demirguc-Kunt, *Small and Medium Enterprises across the Globe*: World Bank Policy Research Working Paper 3127, August 2003. SME data no later than 1998.

Figure 20

Human Capital Index in Bosnia & Herzegovina

(versus Romania & Bulgaria in 2002)

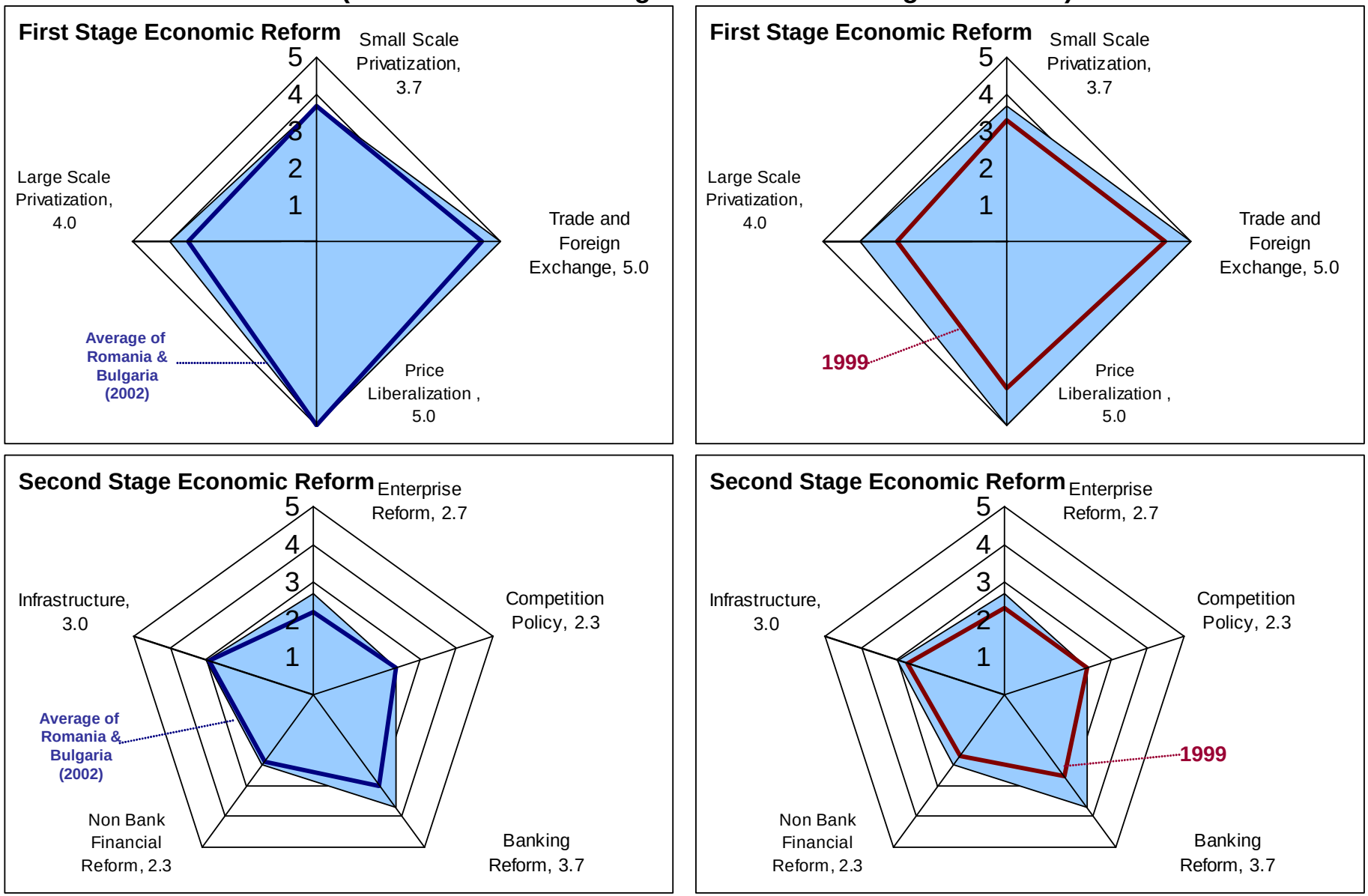


Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from World Bank, *World Development Indicators 2004* (2004); UNICEF, *Social Monitor 2004* (2004).

Figure 21

Economic Reform in Bulgaria in 2004

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

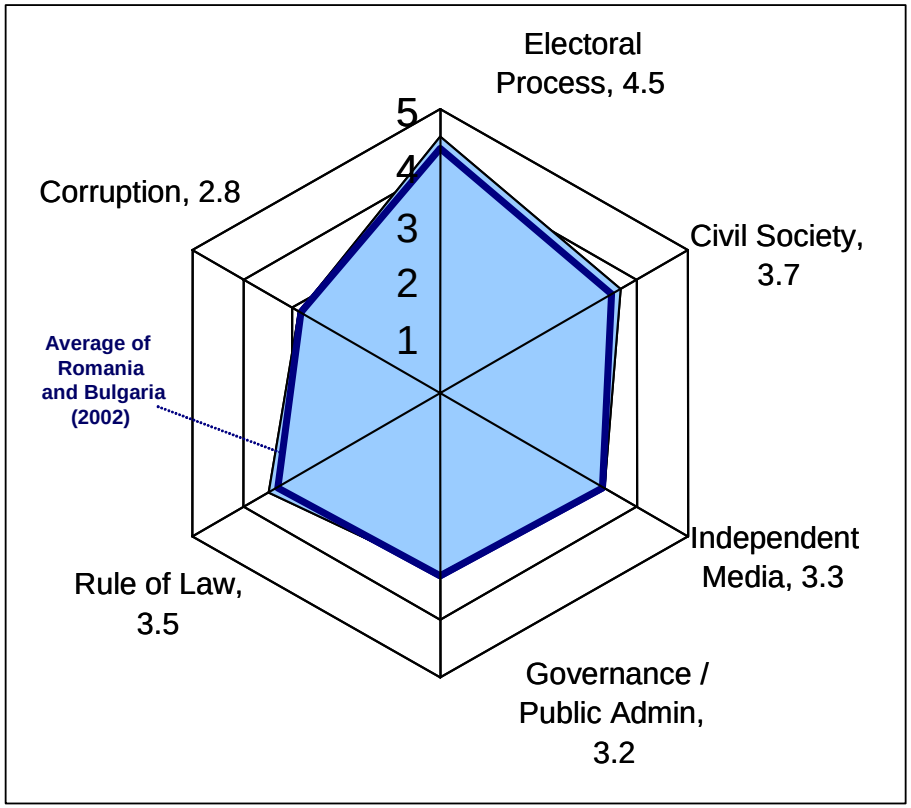


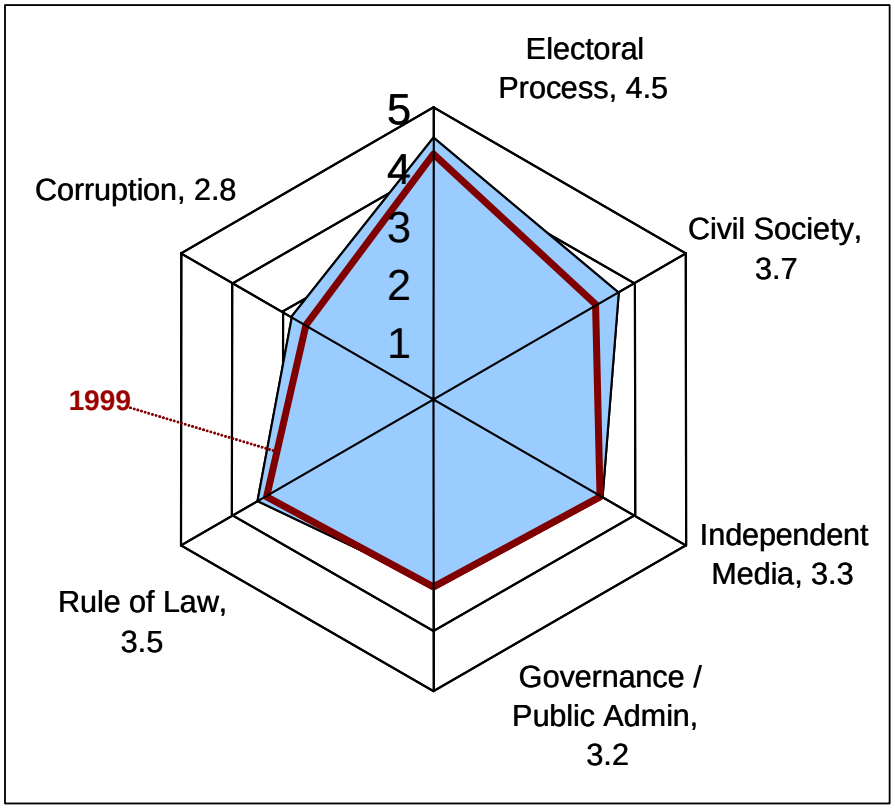
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from EBRD, *Transition Report 2004* (November 2004).

Figure 22

Democratic Reforms in Bulgaria in 2003

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



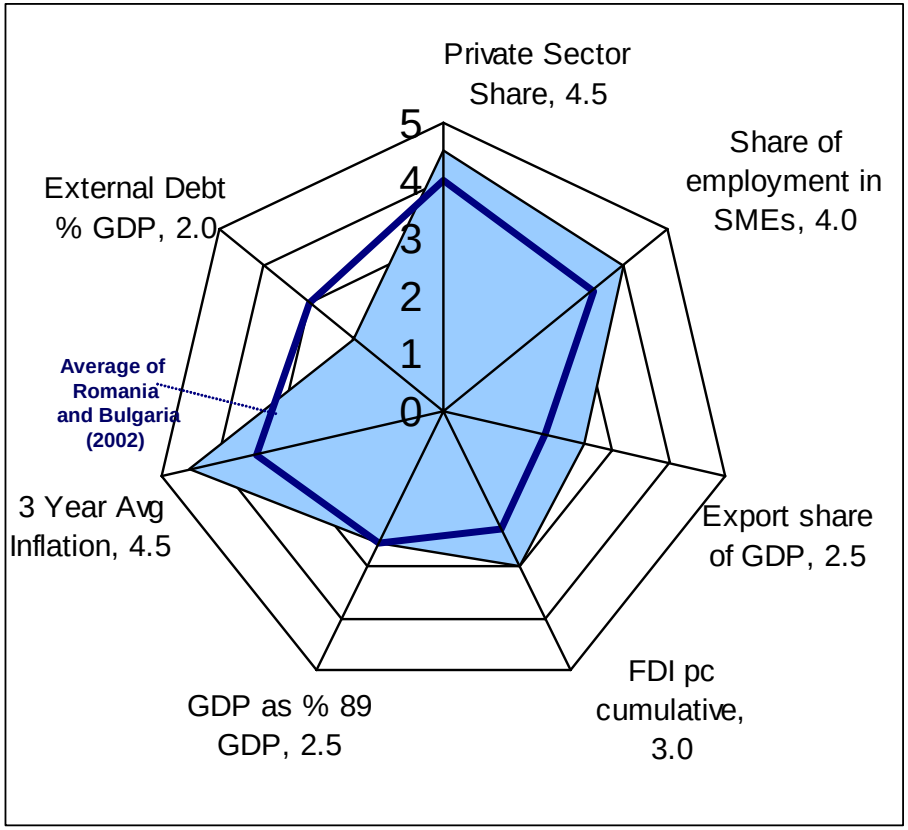


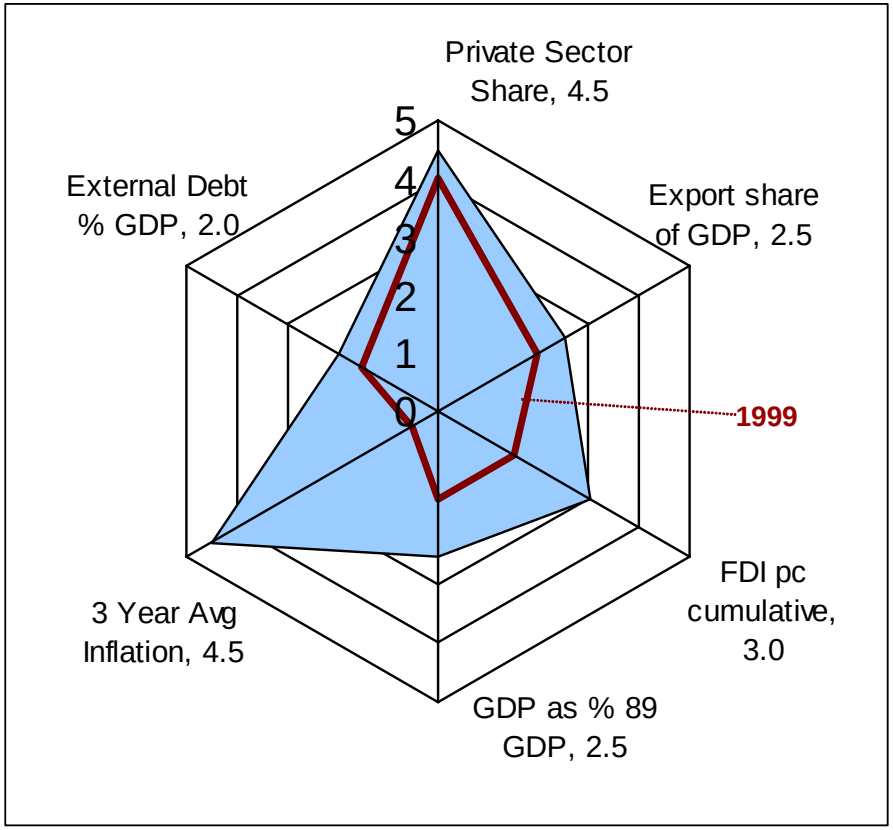
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from Freedom House, *Nations in Transit 2004.*

Figure 23

Economic Performance Index in Bulgaria in 2002 - 2004

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



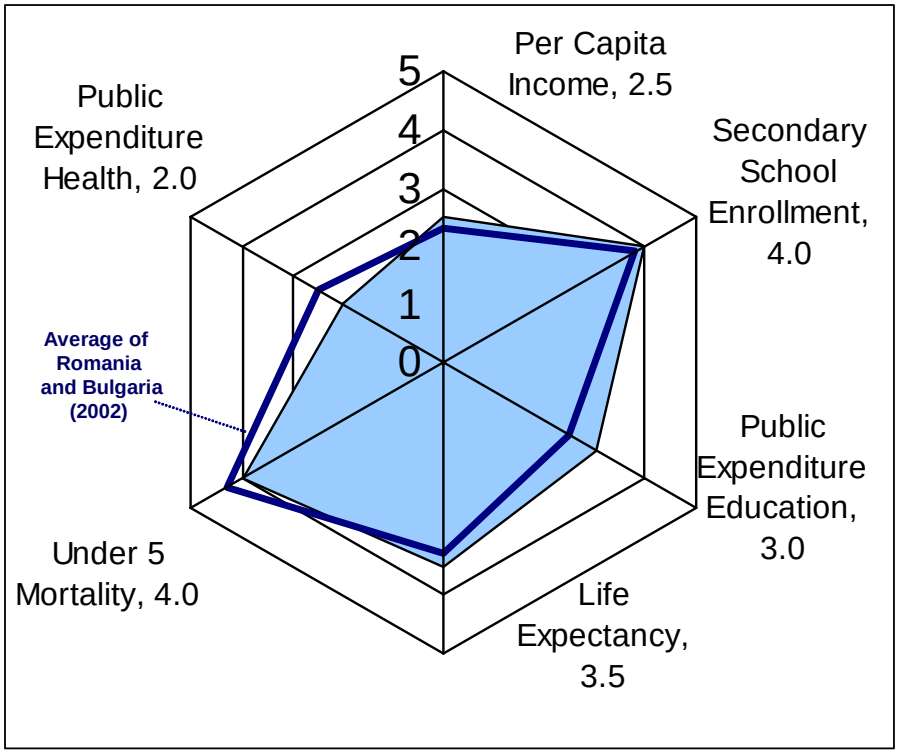


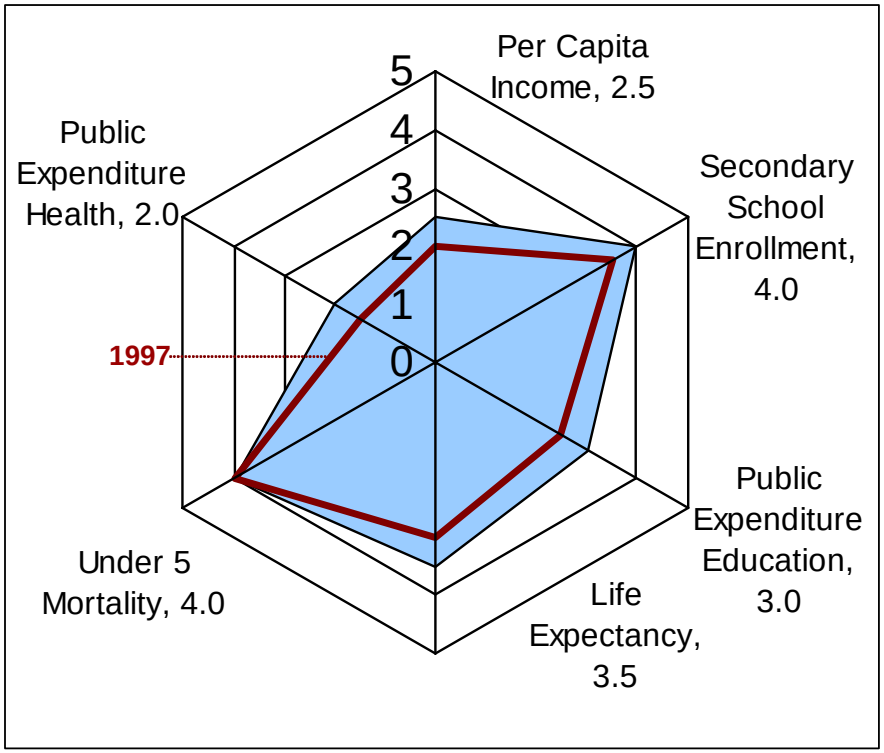
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from World Bank, *World Development Indicators 2004* (2004); EBRD, *Transition Report* (November 2004), M. Ayyagari, T. Beck, and A. Demirguc-Kunt, *Small and Medium Enterprises across the Globe*: World Bank Policy Research Working Paper 3127, August 2003. SME data no later than 1998.

Figure 24

Human Capital Index in Bulgaria

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



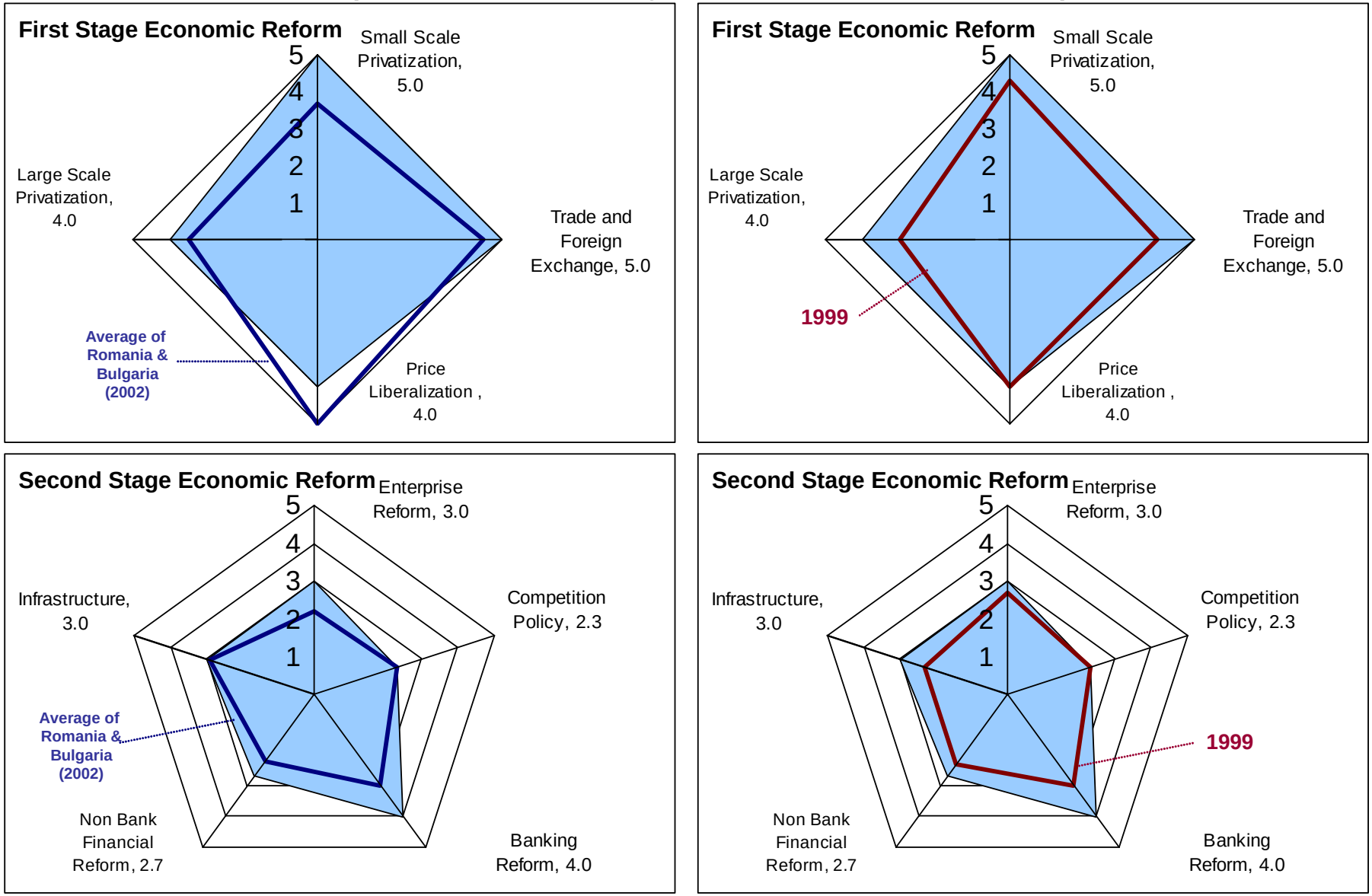


Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from World Bank, *World Development Indicators 2004* (2004); UNICEF, *Social Monitor 2004* (2004).

Figure 25

Economic Reform in Croatia in 2004

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

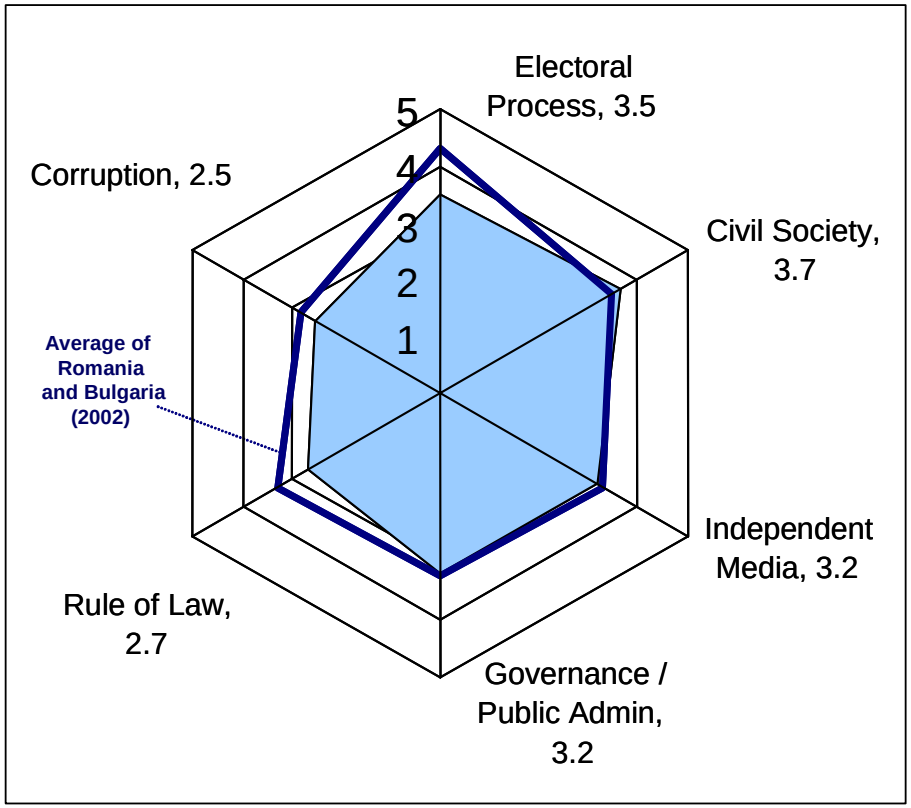


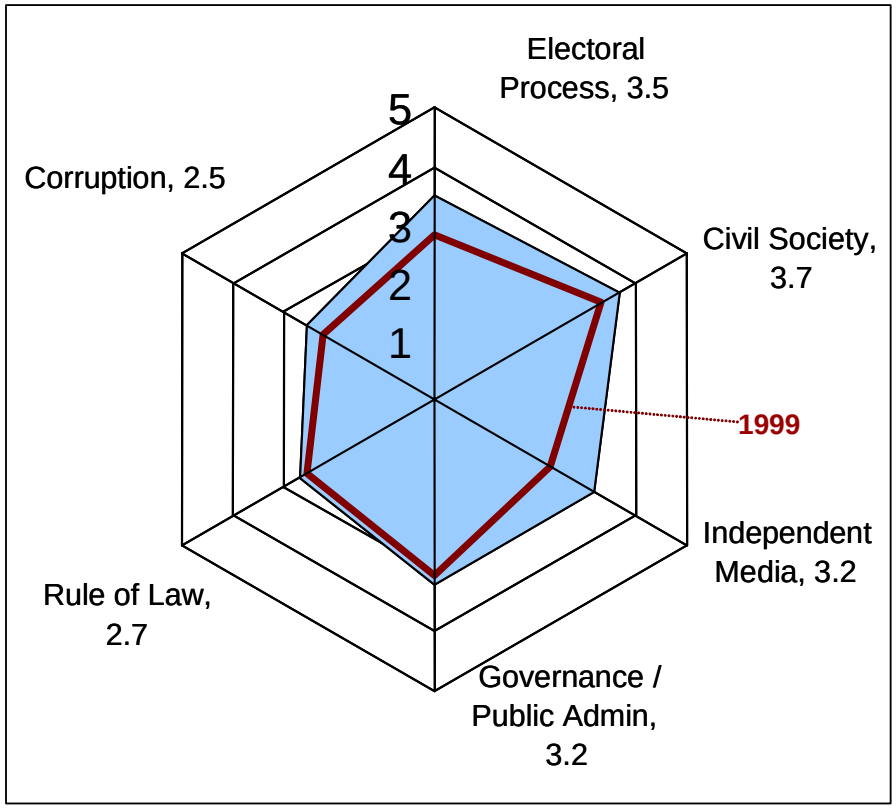
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from EBRD, *Transition Report 2004* (November 2004).

Figure 26

Democratic Reforms in Croatia in 2003

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



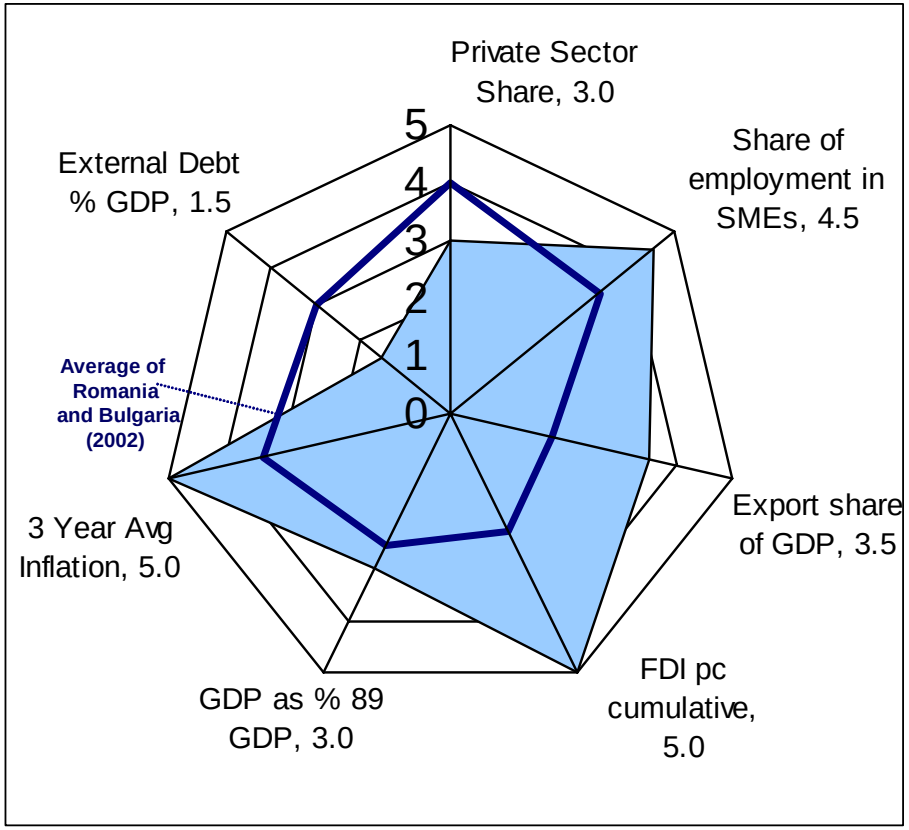


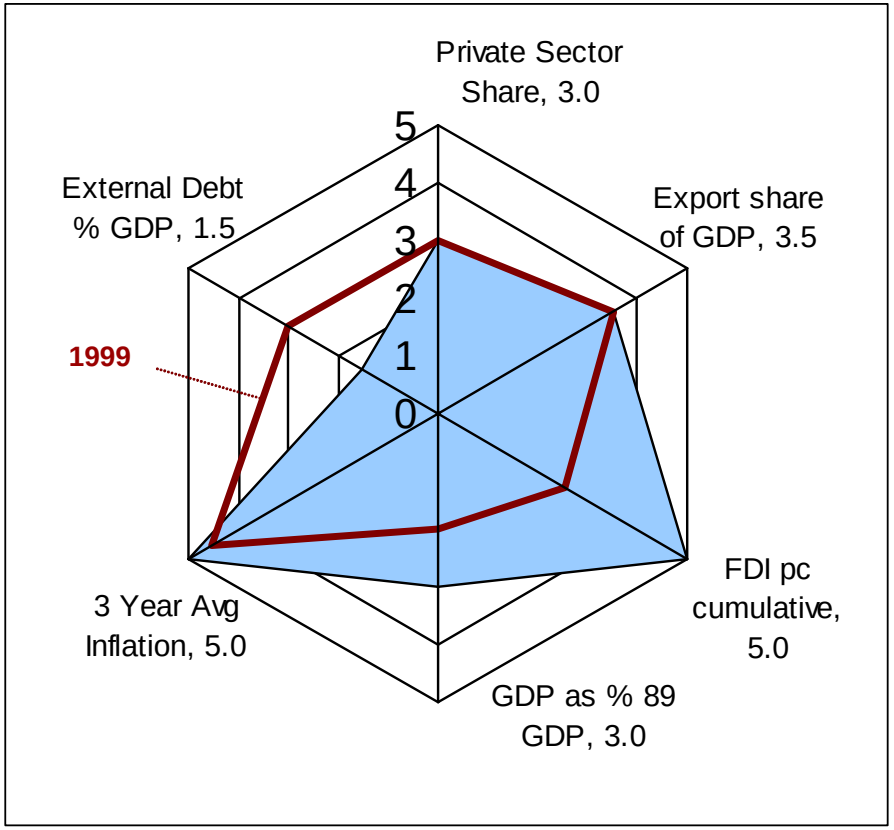
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from Freedom House, *Nations in Transit 2004.*

Figure 27

Economic Performance Index in Croatia in 2002 - 2004

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



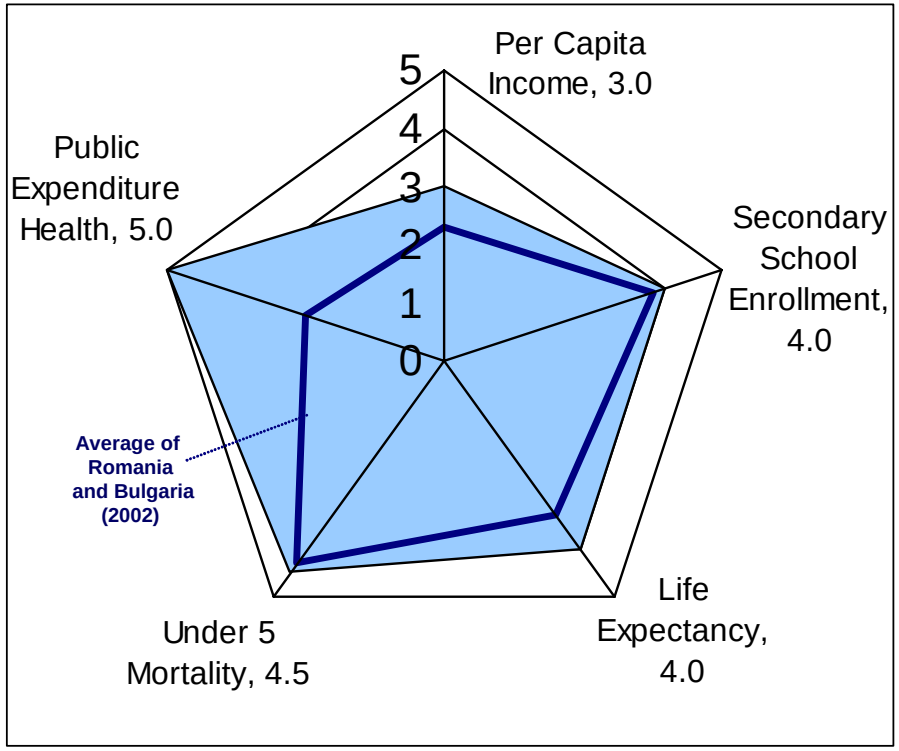


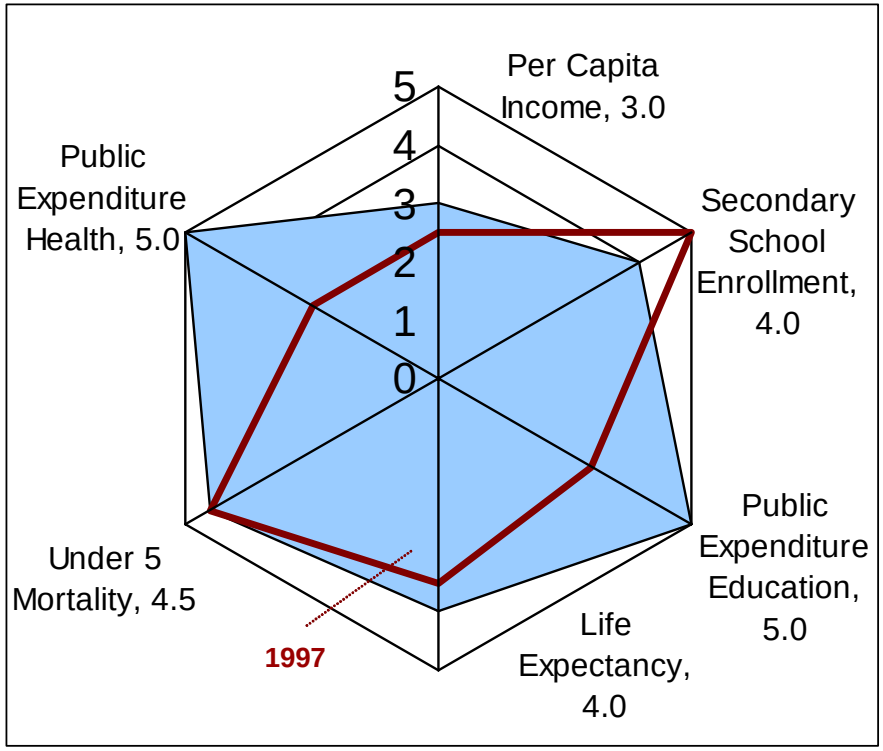
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from World Bank, *World Development Indicators 2004* (2004); EBRD, *Transition Report* (November 2004), M. Ayyagari, T. Beck, and A. Demirguc-Kunt, *Small and Medium Enterprises across the Globe*: World Bank Policy Research Working Paper 3127, August 2003. SME data no later than 1998.

Figure 28

Human Capital Index in Croatia

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



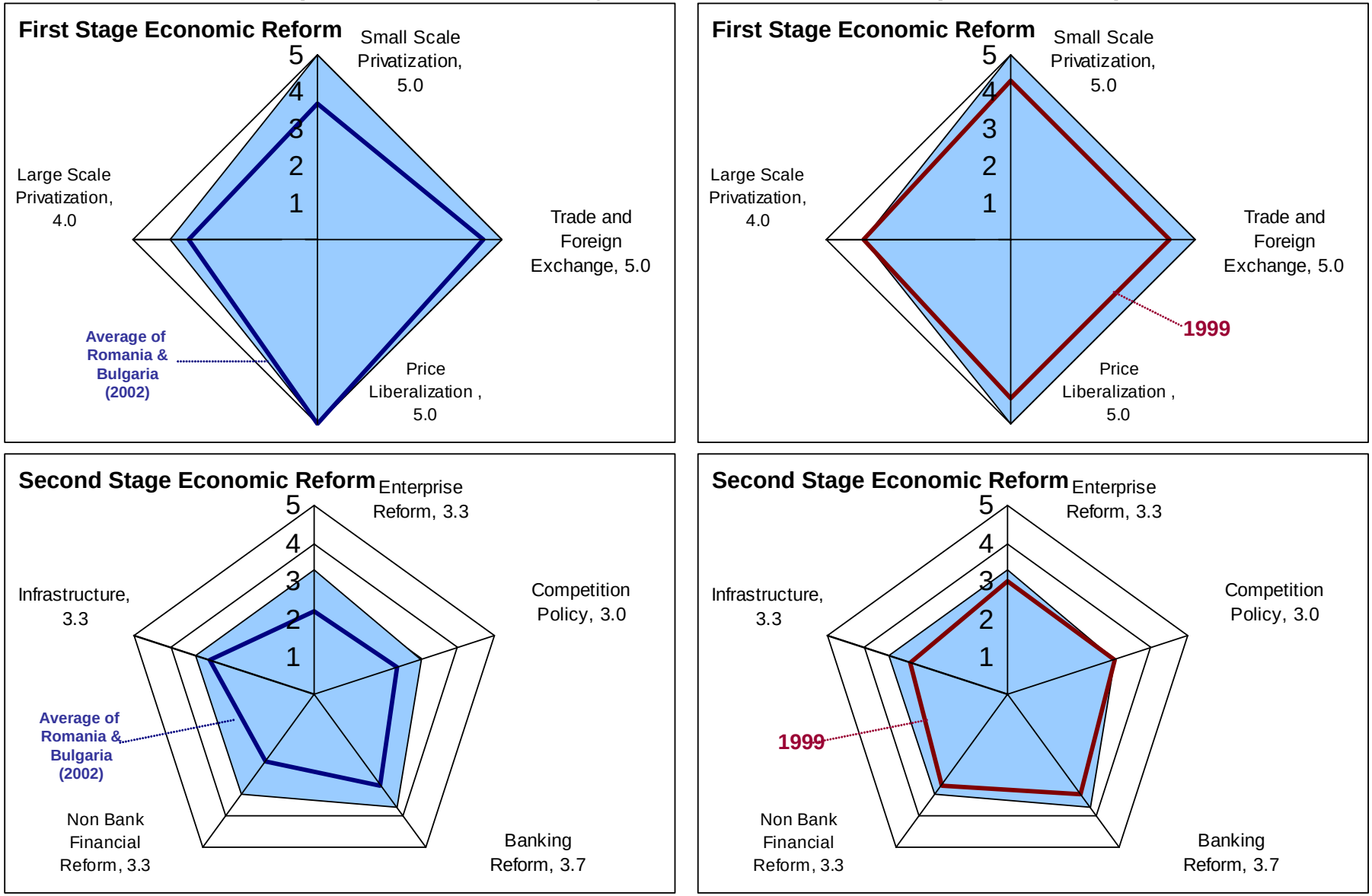


Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from World Bank, *World Development Indicators 2004* (2004); UNICEF, *Social Monitor 2004* (2004).

Figure 29

Economic Reform in Czech Republic in 2004

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

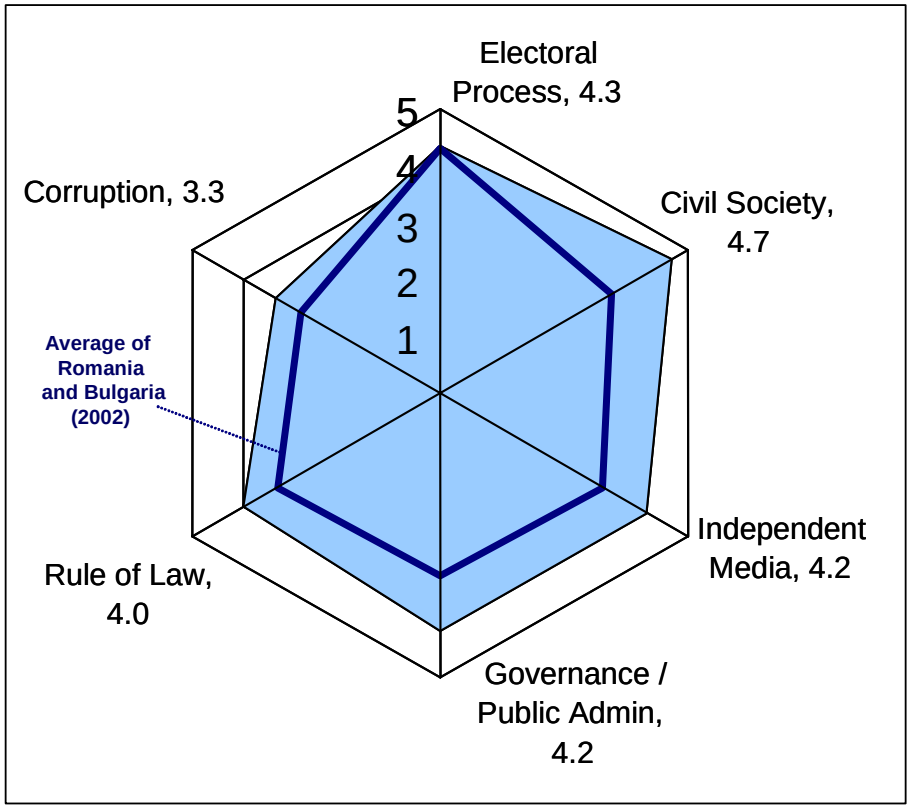


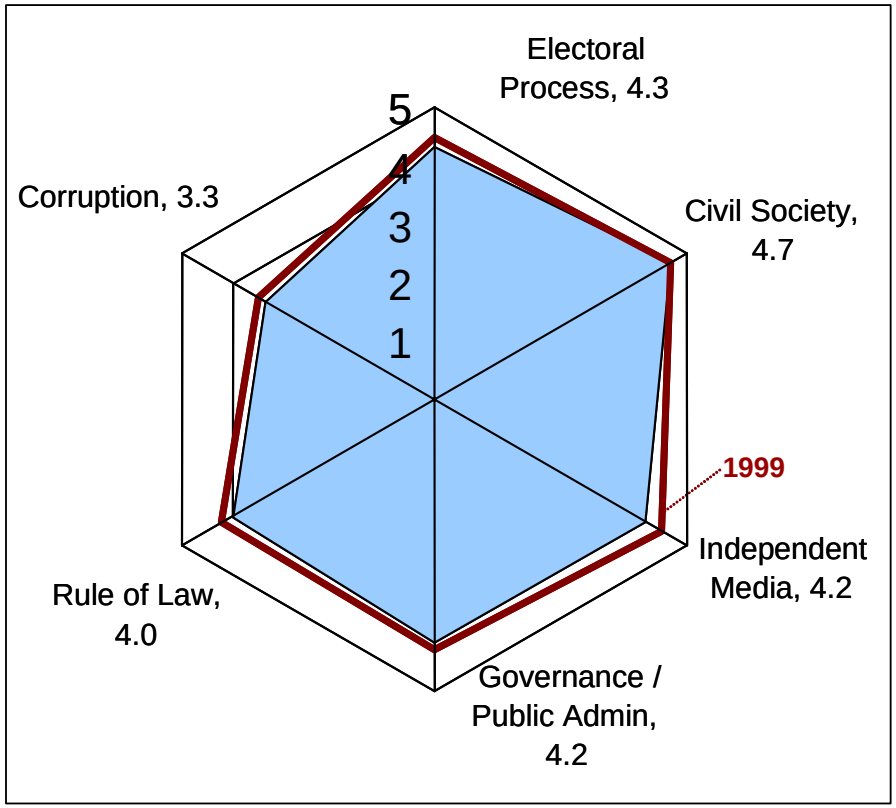
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from EBRD, *Transition Report 2004* (November 2004).

Figure 30

Democratic Reforms in Czech Republic in 2003

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



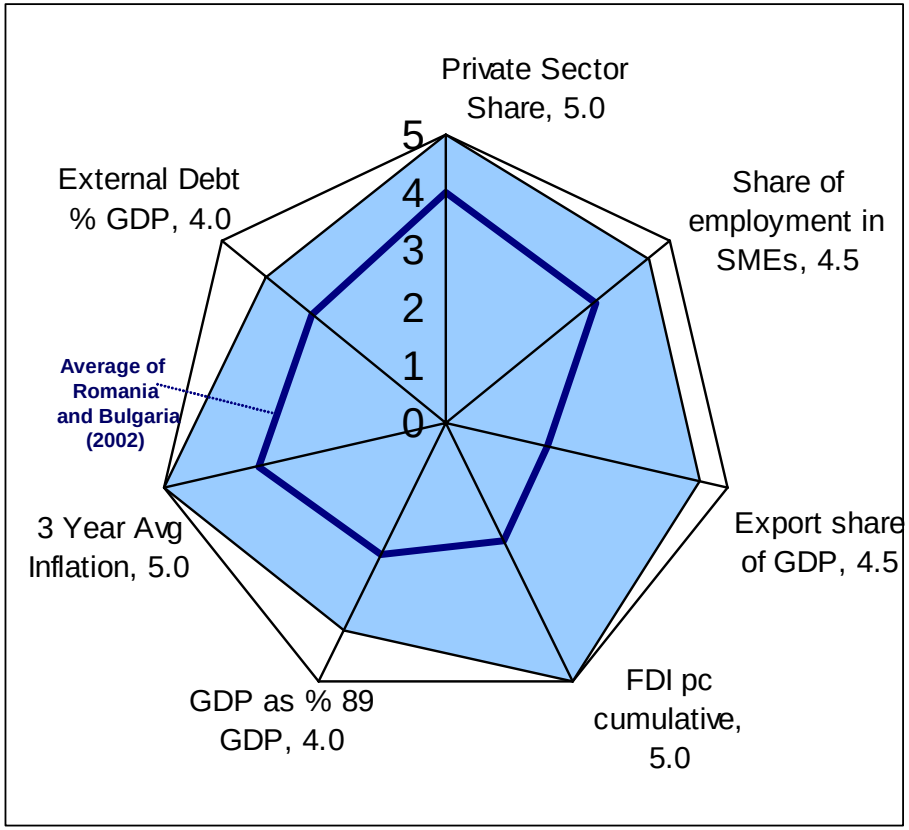


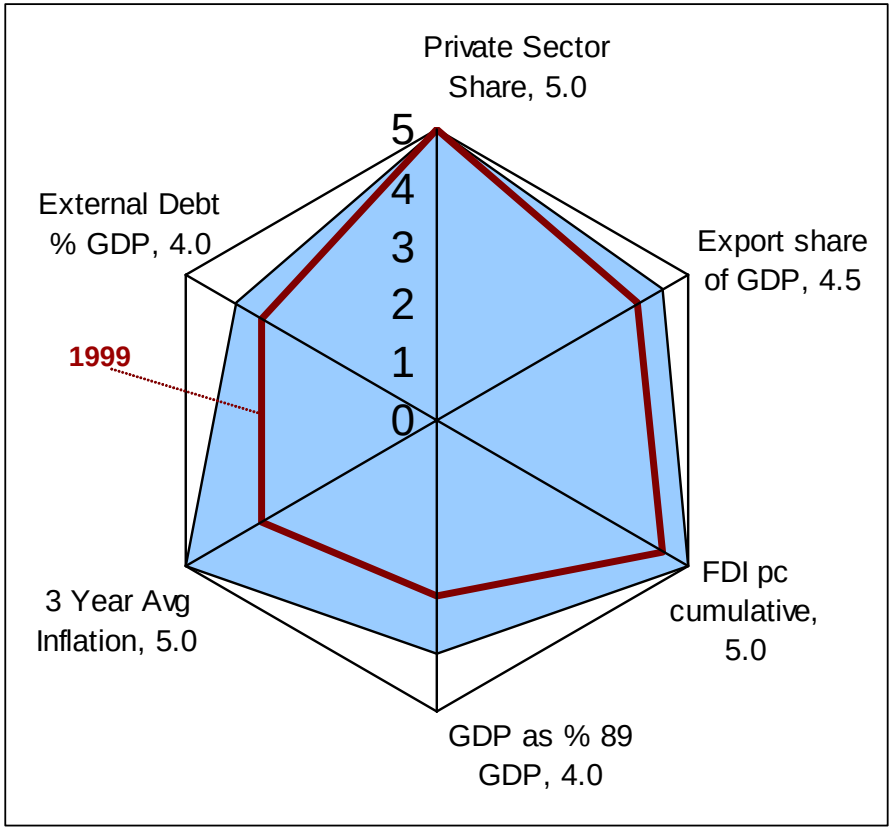
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from Freedom House, *Nations in Transit 2004.*

Figure 31

Economic Performance Index in Czech Republic in 2002 - 2004

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



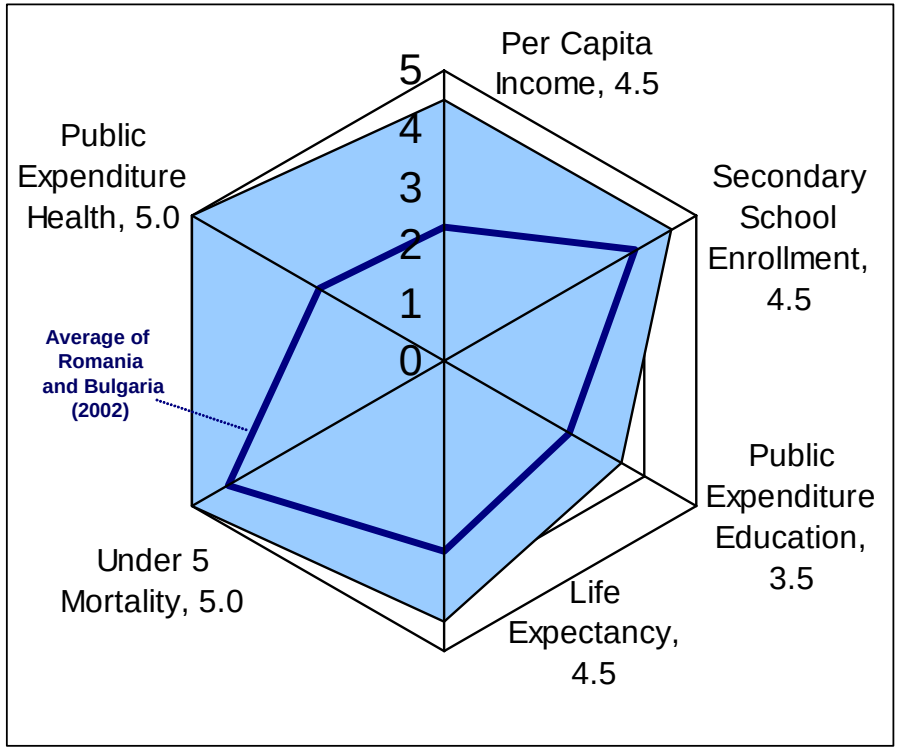


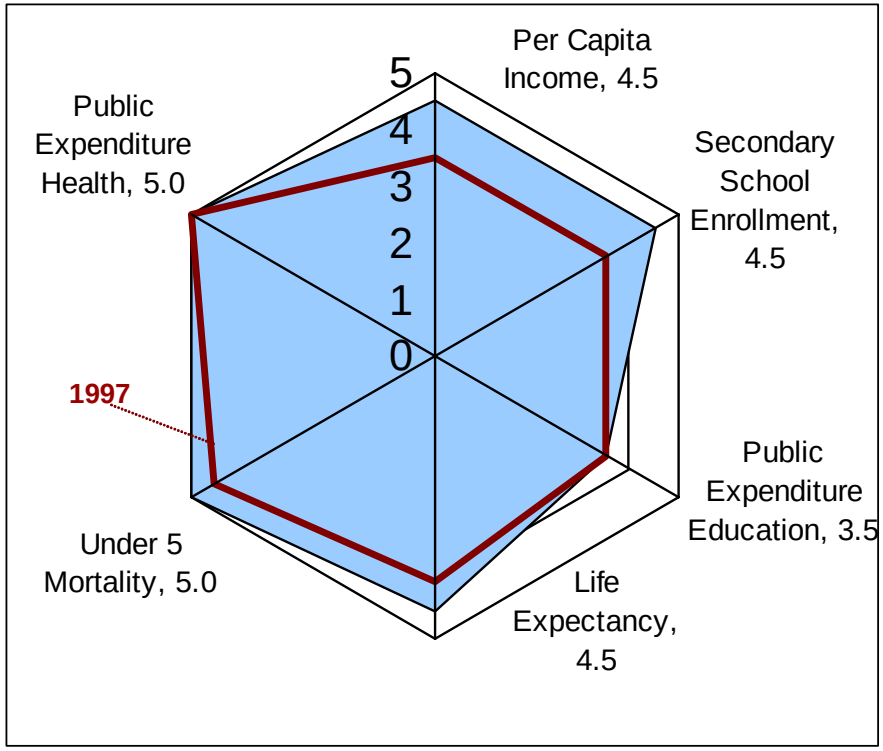
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from World Bank, *World Development Indicators 2004* (2004); EBRD, *Transition Report* (November 2004), M. Ayyagari, T. Beck, and A. Demirguc-Kunt, *Small and Medium Enterprises across the Globe*: World Bank Policy Research Working Paper 3127, August 2003. SME data no later than 1998.

Figure 32

Human Capital Index in Czech Republic

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



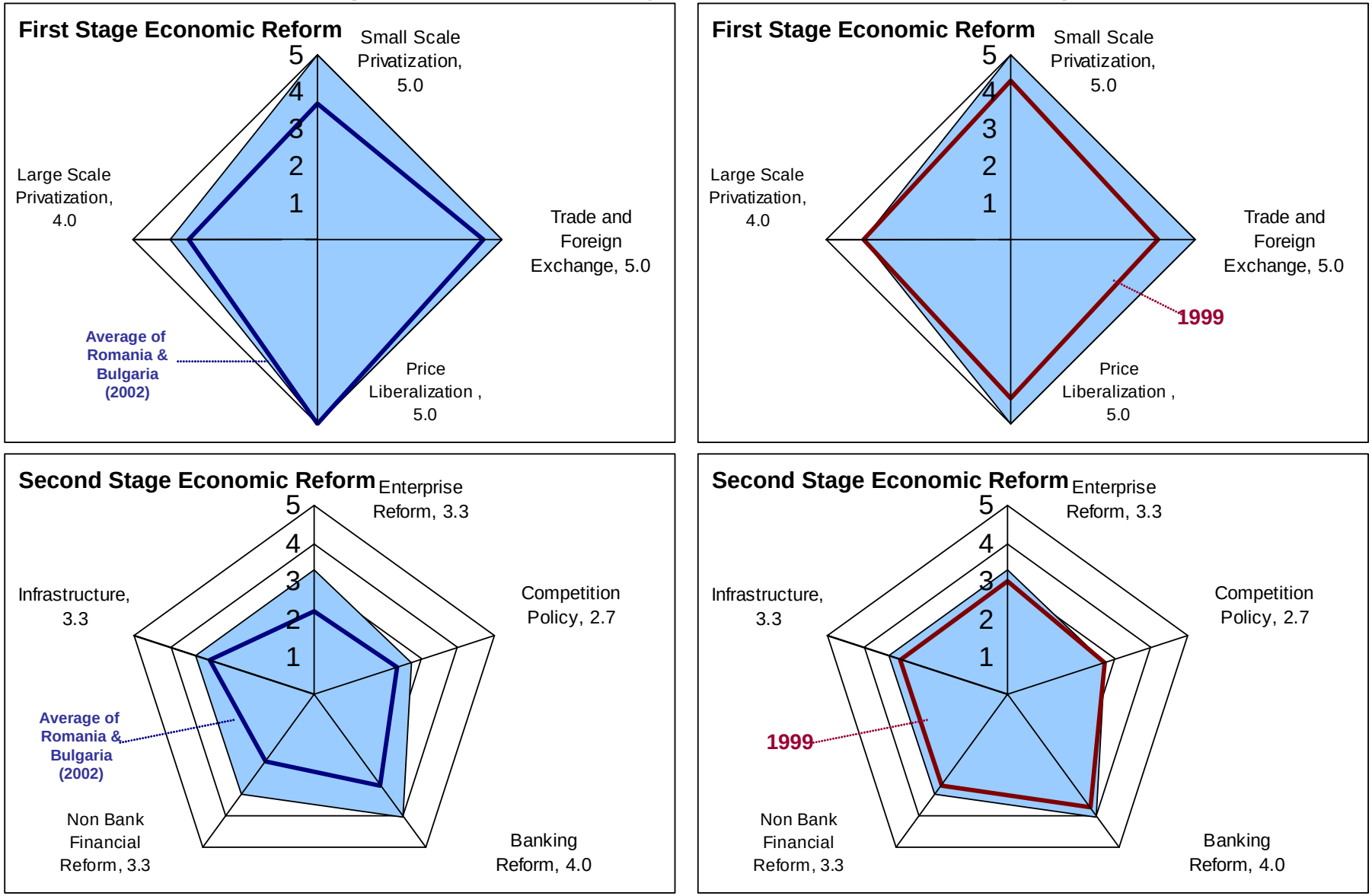


Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from World Bank, *World Development Indicators 2004* (2004); UNICEF, *Social Monitor 2004* (2004).

Figure 33

Economic Reform in Estonia in 2004

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

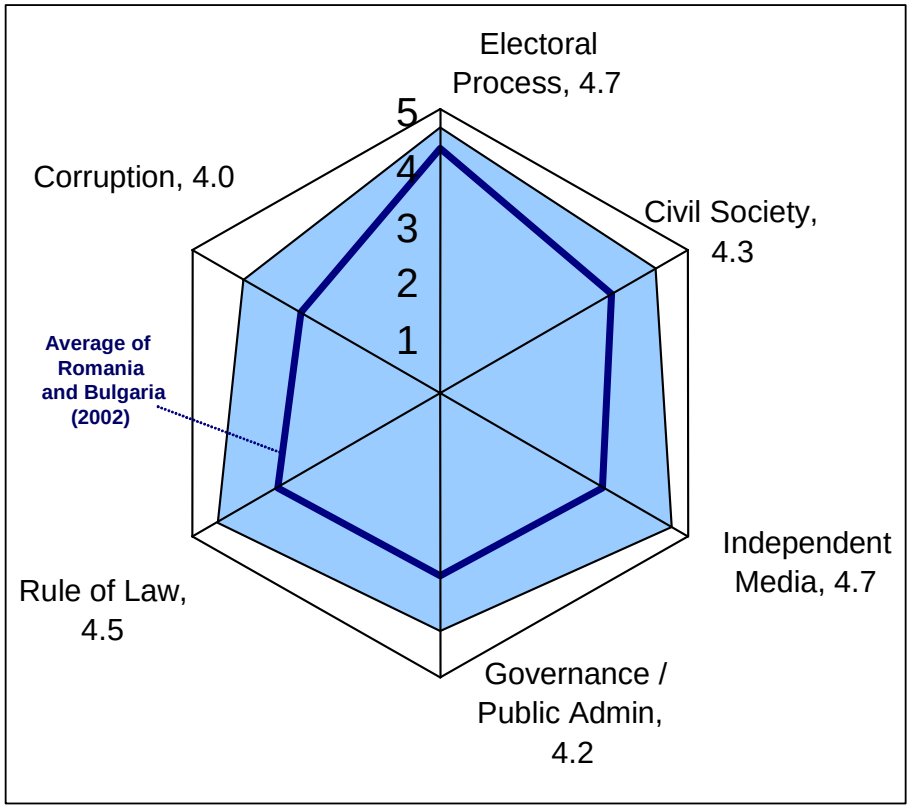


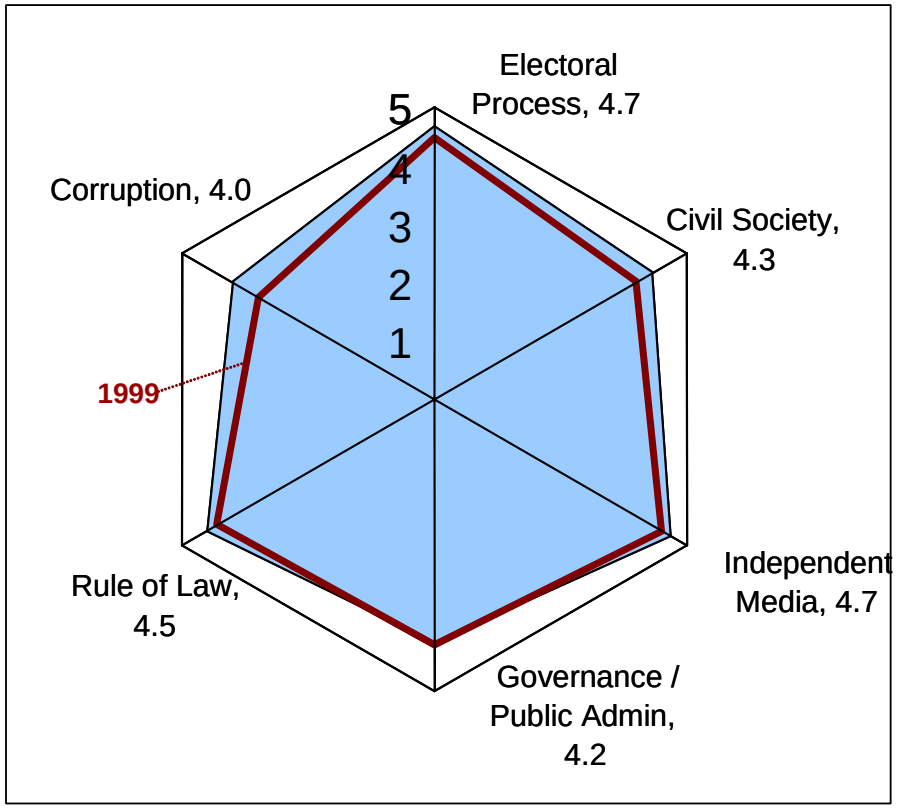
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from EBRD, *Transition Report 2004* (November 2004).

Figure 34

Democratic Reforms in Estonia in 2003

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



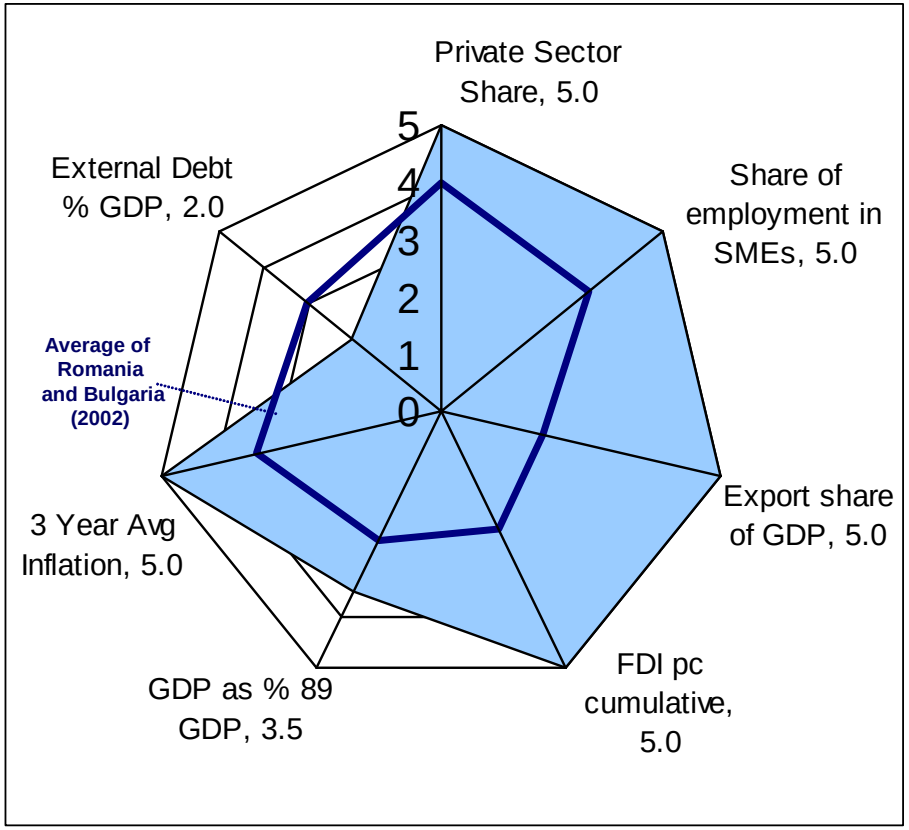


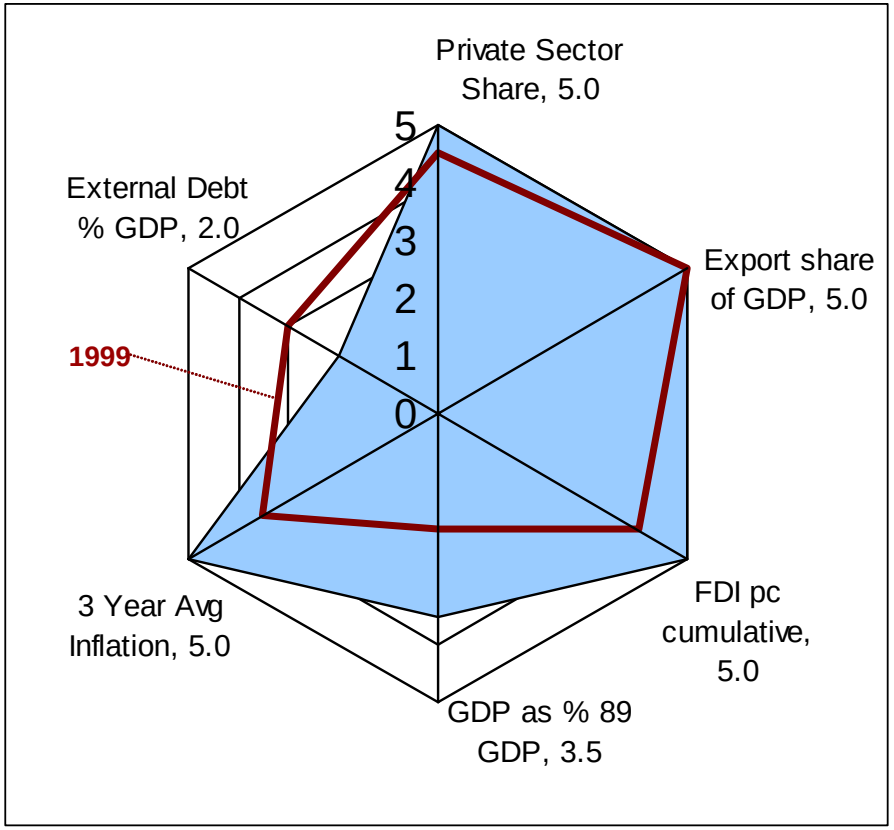
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from Freedom House, *Nations in Transit 2004.*

Figure 35

Economic Performance Index in Estonia in 2002 - 2004

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



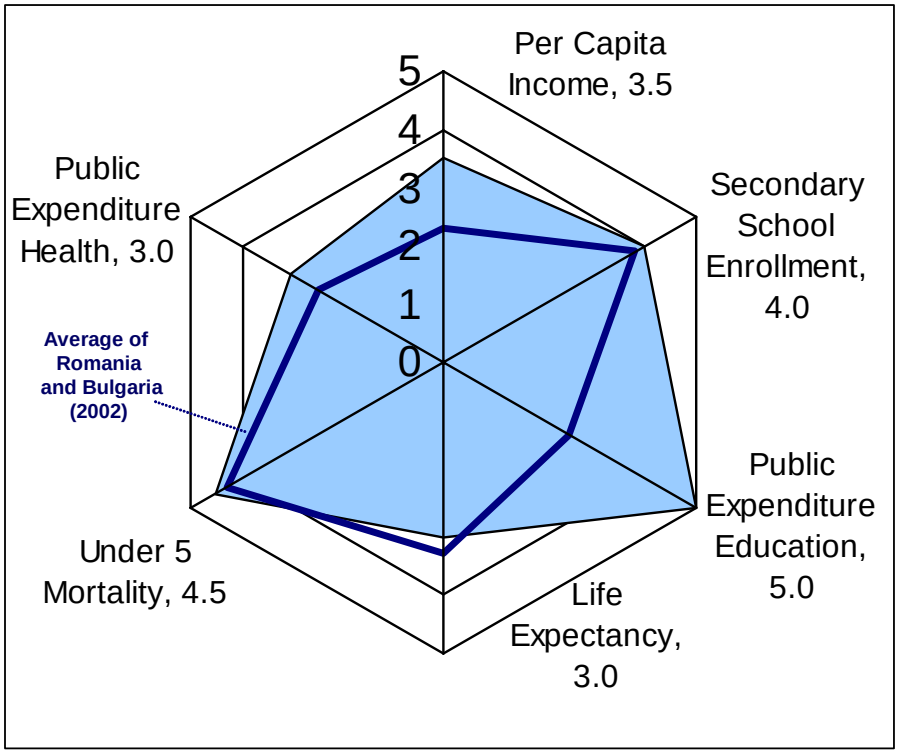


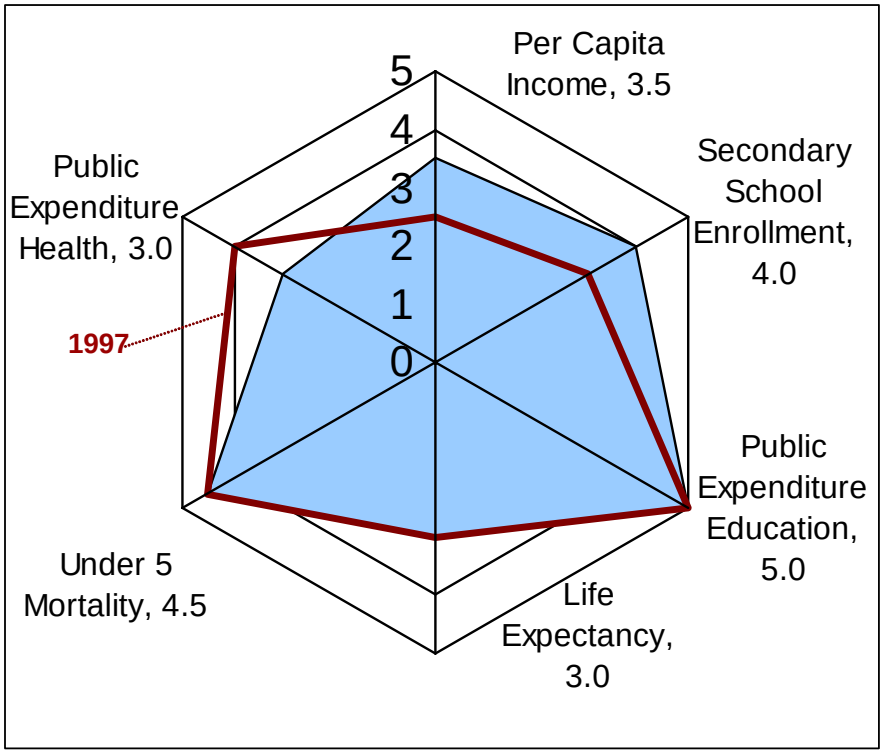
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from World Bank, *World Development Indicators 2004* (2004); EBRD, *Transition Report* (November 2004), M. Ayyagari, T. Beck, and A. Demirguc-Kunt, *Small and Medium Enterprises across the Globe*: World Bank Policy Research Working Paper 3127, August 2003. SME data no later than 1998.

Figure 36

Human Capital Index in Estonia

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



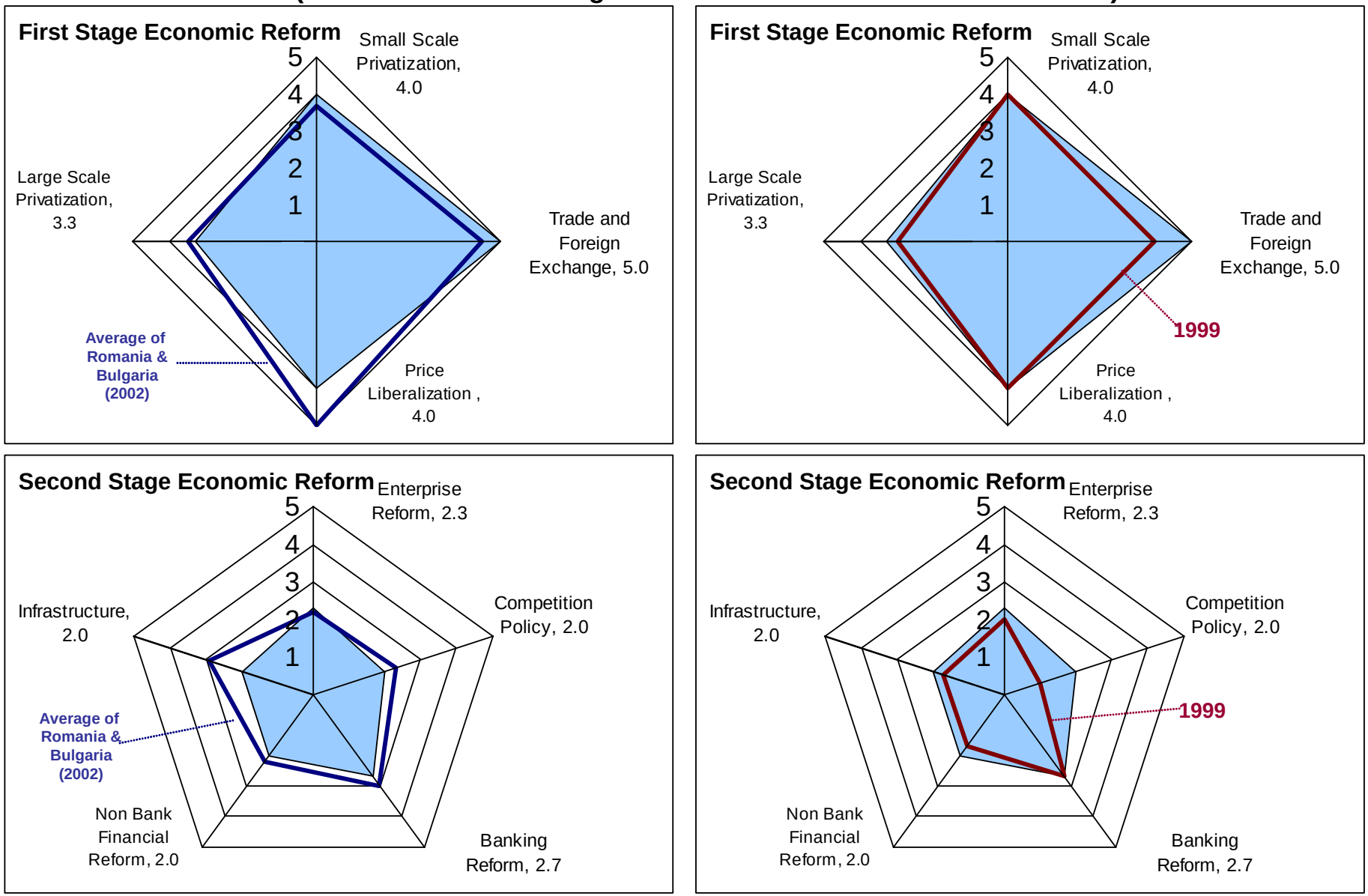


Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from World Bank, *World Development Indicators 2004* (2004); UNICEF, *Social Monitor 2004* (2004).

Figure 37

Economic Reform in FYR Macedonia in 2004

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

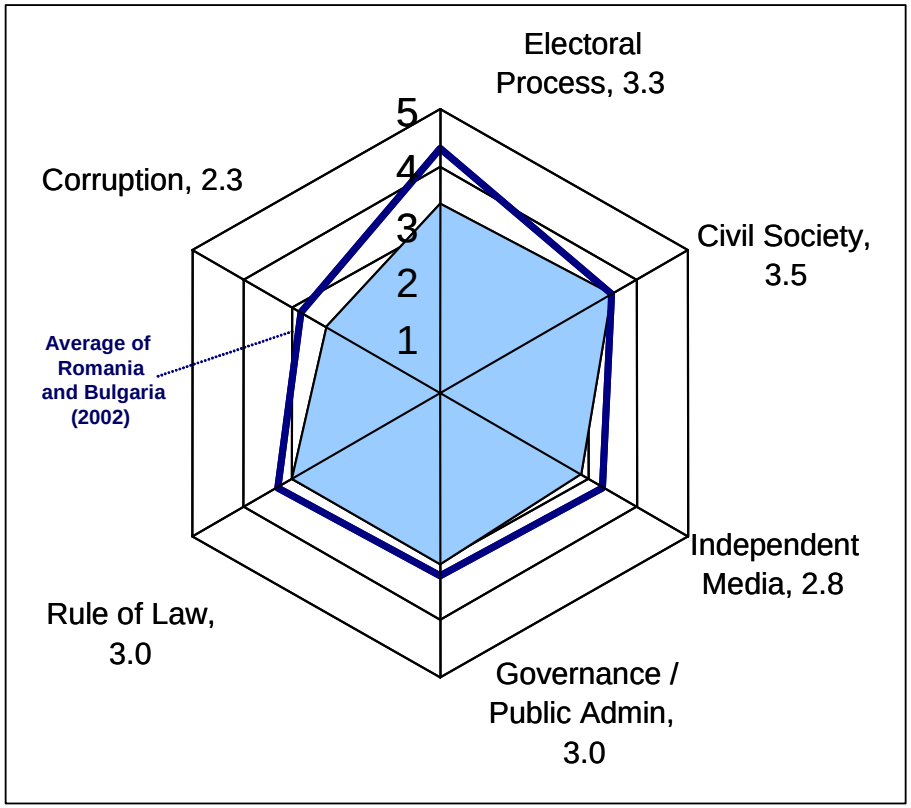


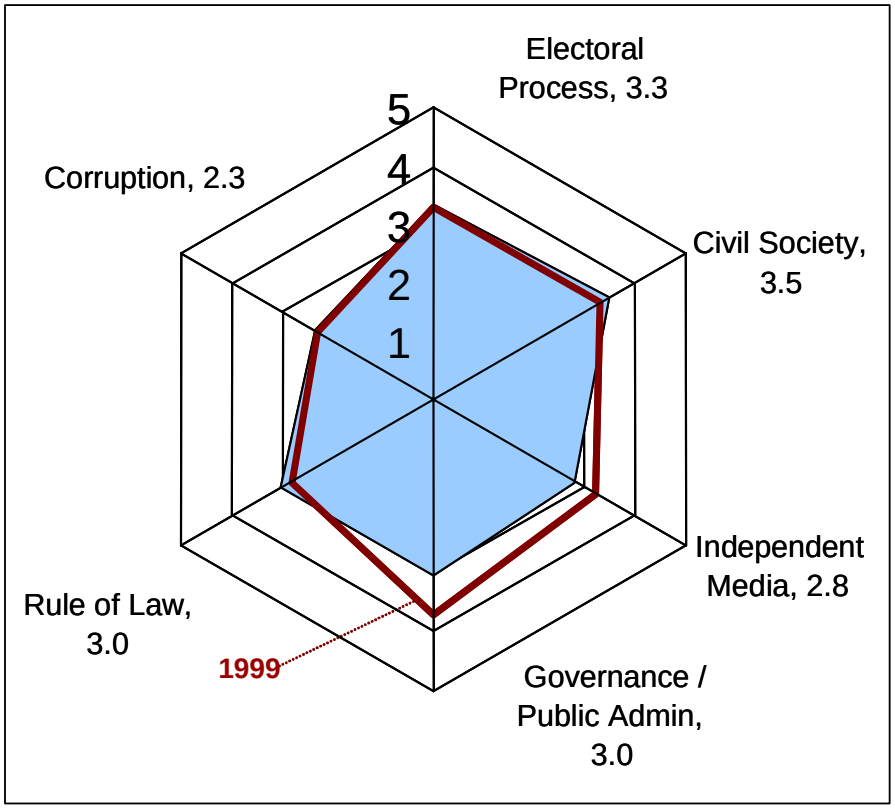
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from EBRD, *Transition Report 2004* (November 2004).

Figure 38

Democratic Reforms in FYR Macedonia in 2003

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



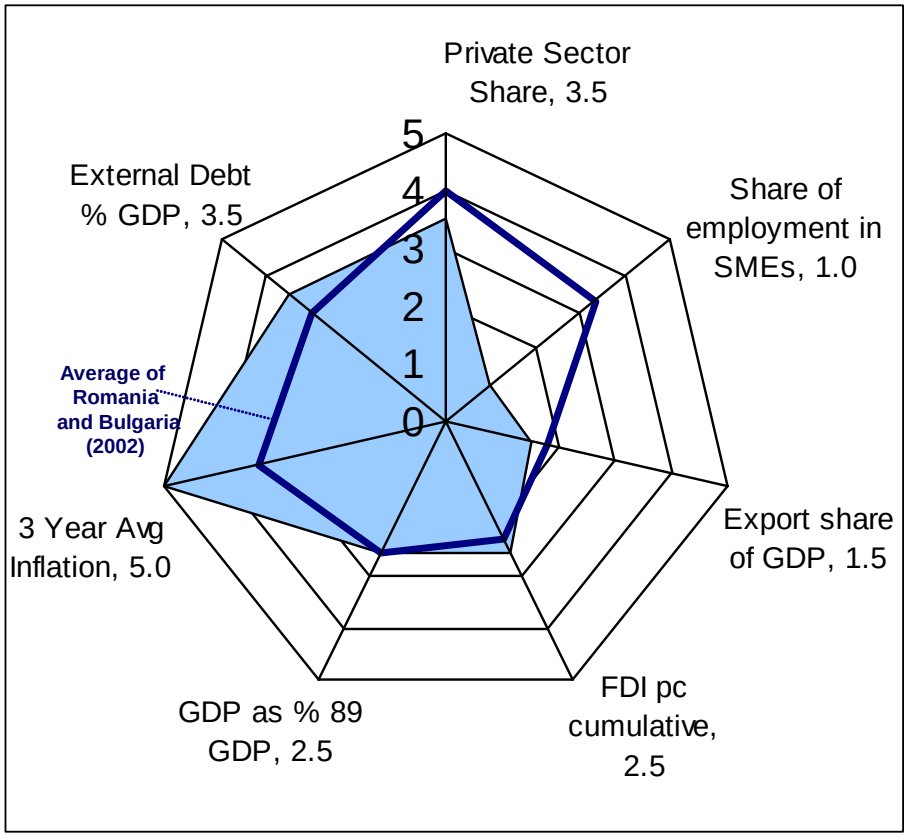


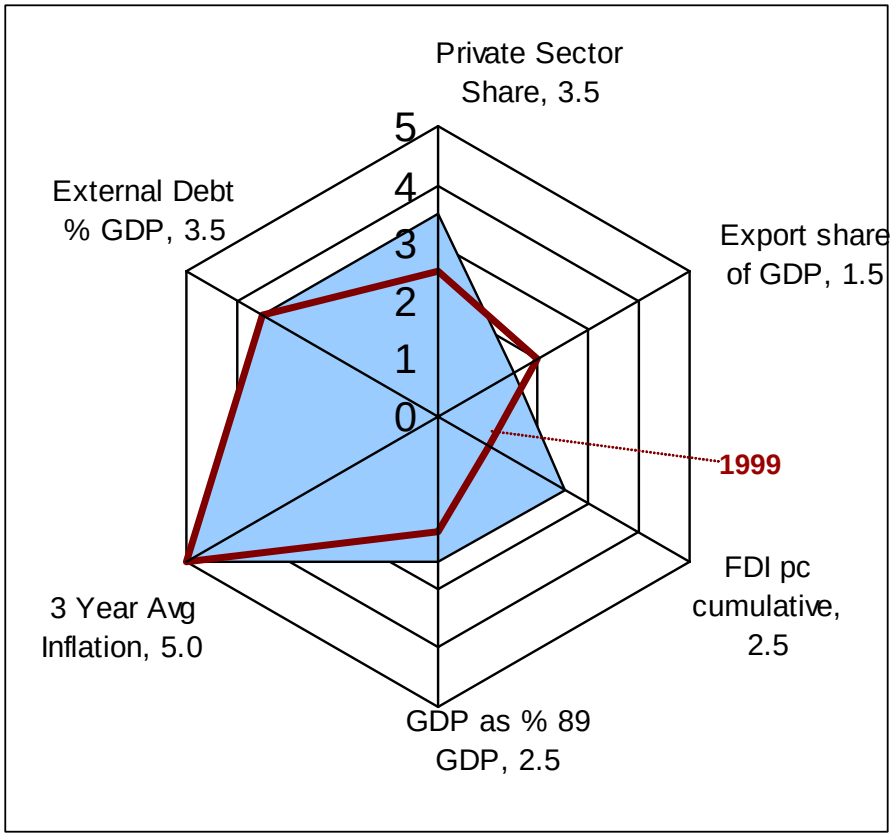
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from Freedom House, *Nations in Transit 2004.*

Figure 39

Economic Performance Index in FYR Macedonia in 2002 - 2004

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



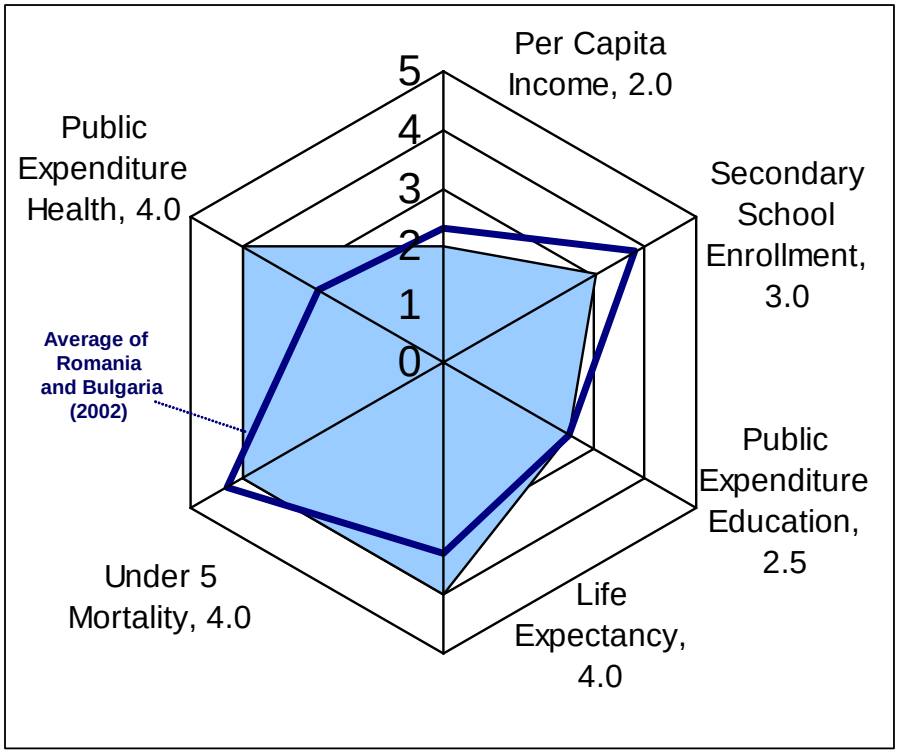


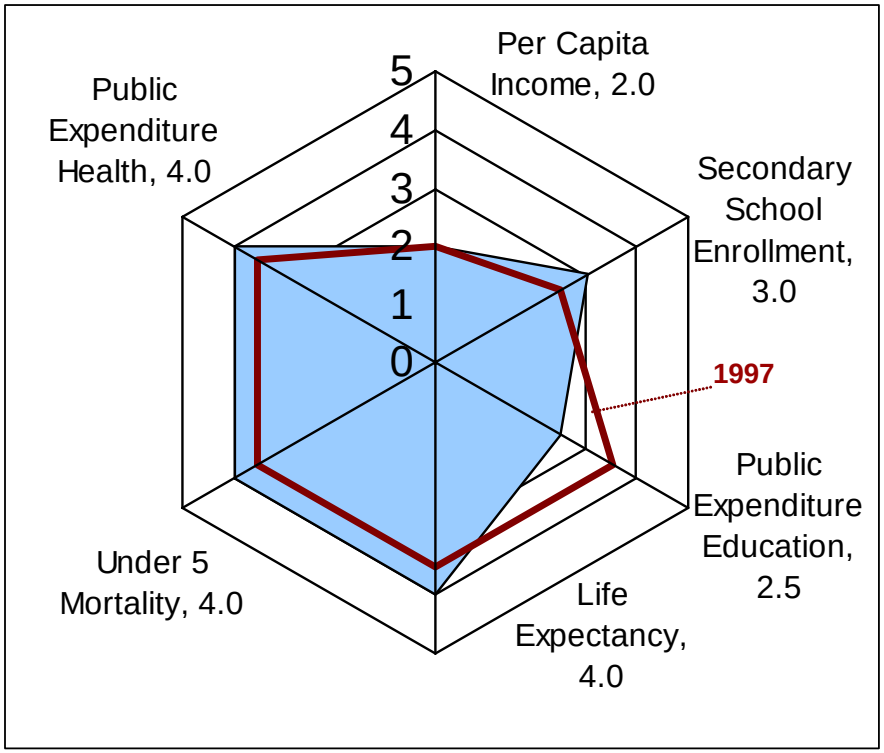
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from World Bank, *World Development Indicators 2004* (2004); EBRD, *Transition Report* (November 2004), M. Ayyagari, T. Beck, and A. Demirguc-Kunt, *Small and Medium Enterprises across the Globe*: World Bank Policy Research Working Paper 3127, August 2003. SME data no later than 1998.

Figure 40

Human Capital Index in FYR Macedonia

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



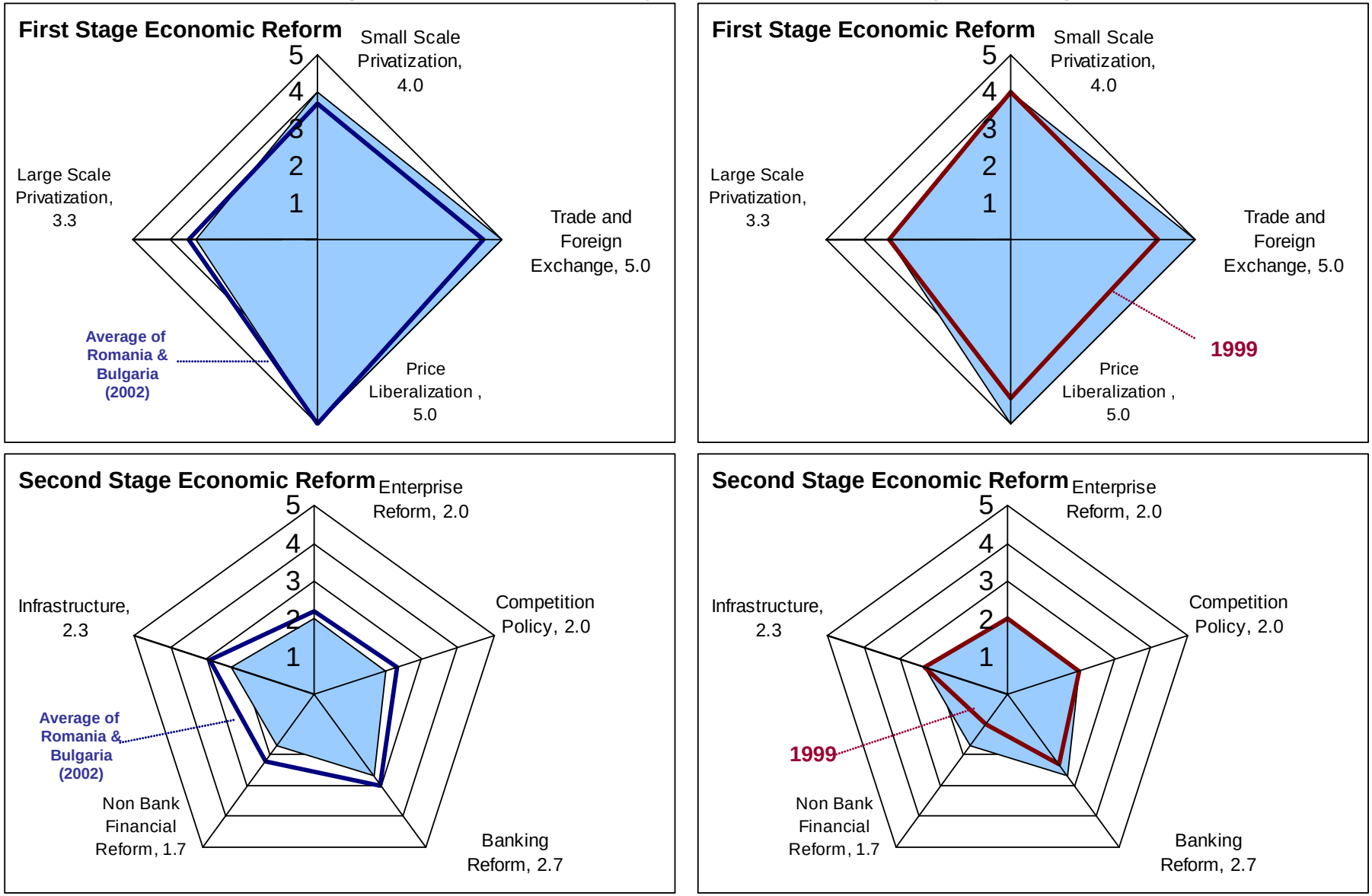


Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from World Bank, *World Development Indicators 2004* (2004); UNICEF, *Social Monitor 2004* (2004).

Figure 41

Economic Reform in Georgia in 2004

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

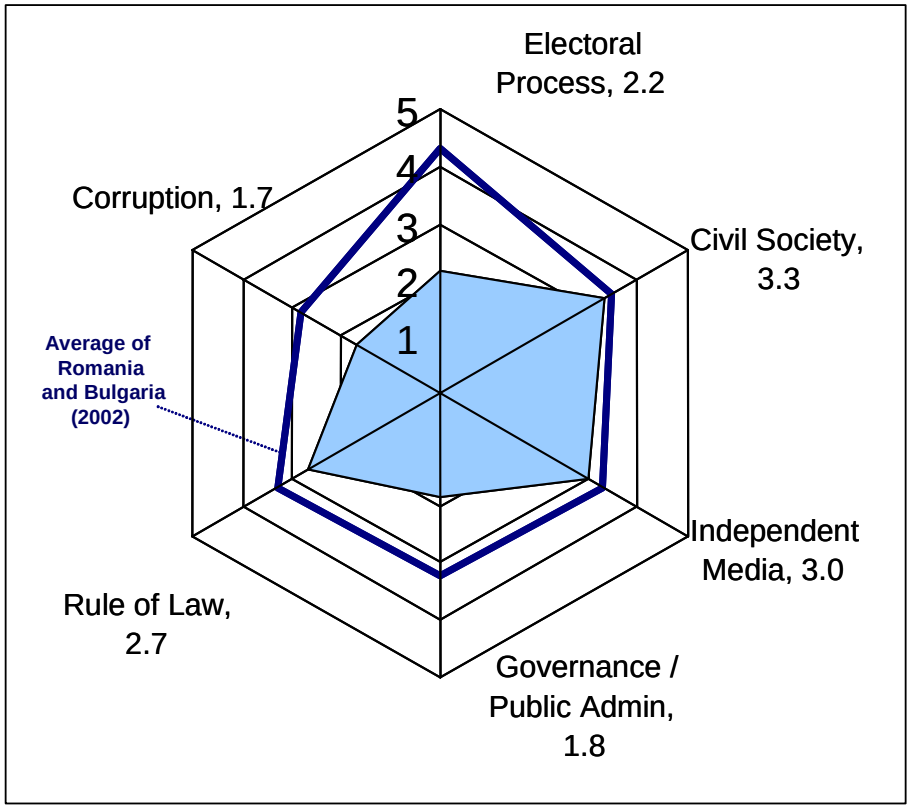


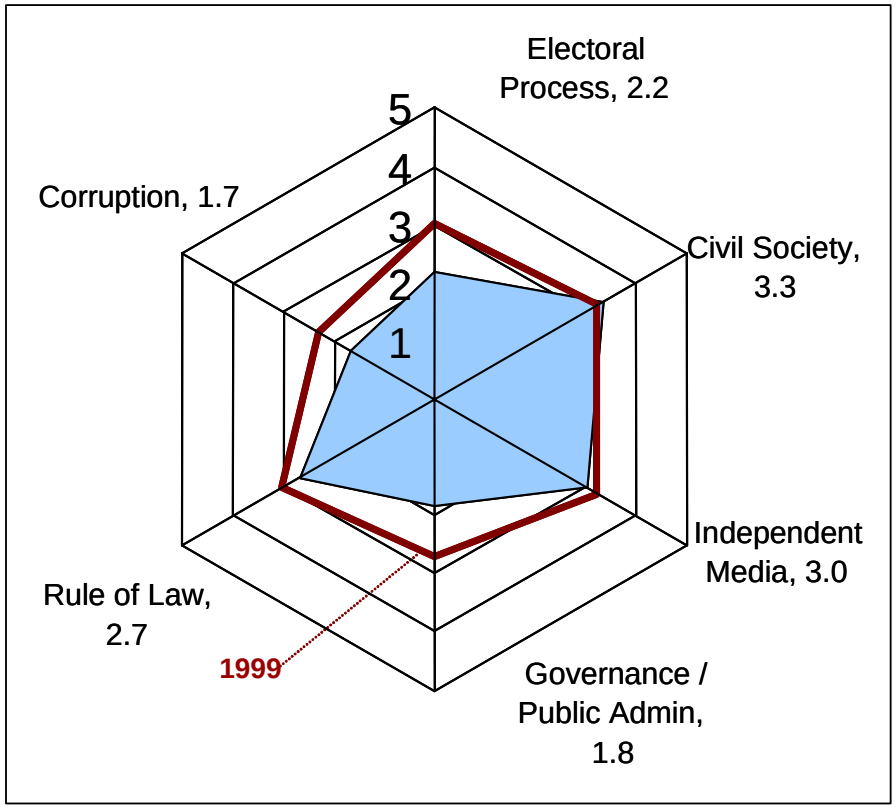
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from EBRD, *Transition Report 2004* (November 2004).

Figure 42

Democratic Reforms in Georgia in 2003

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



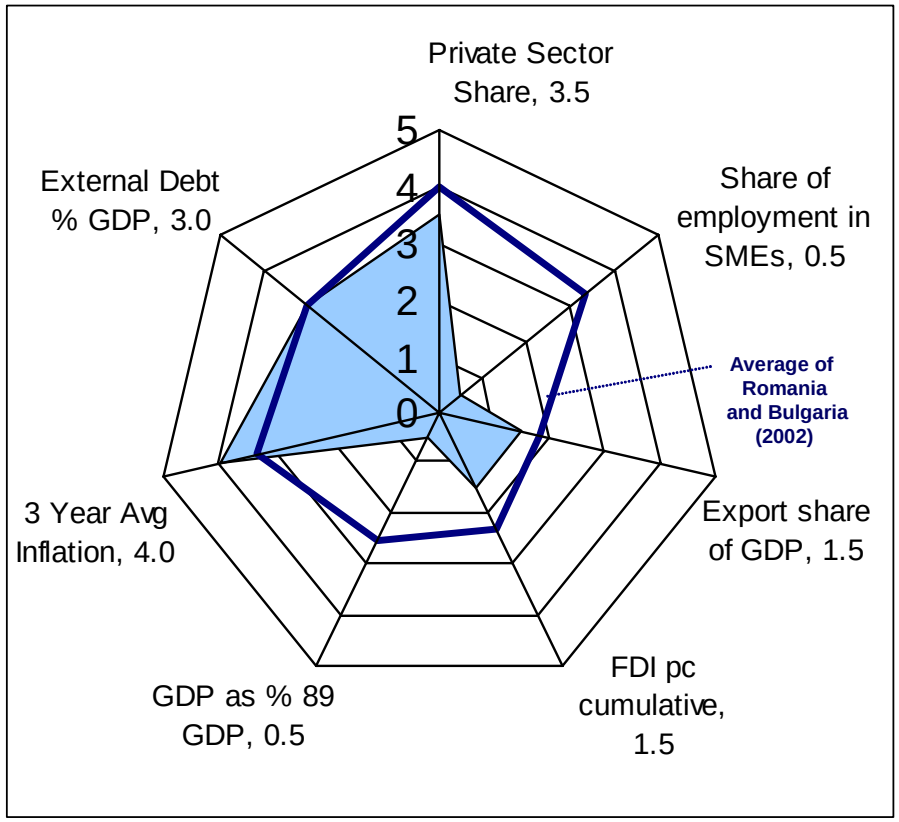


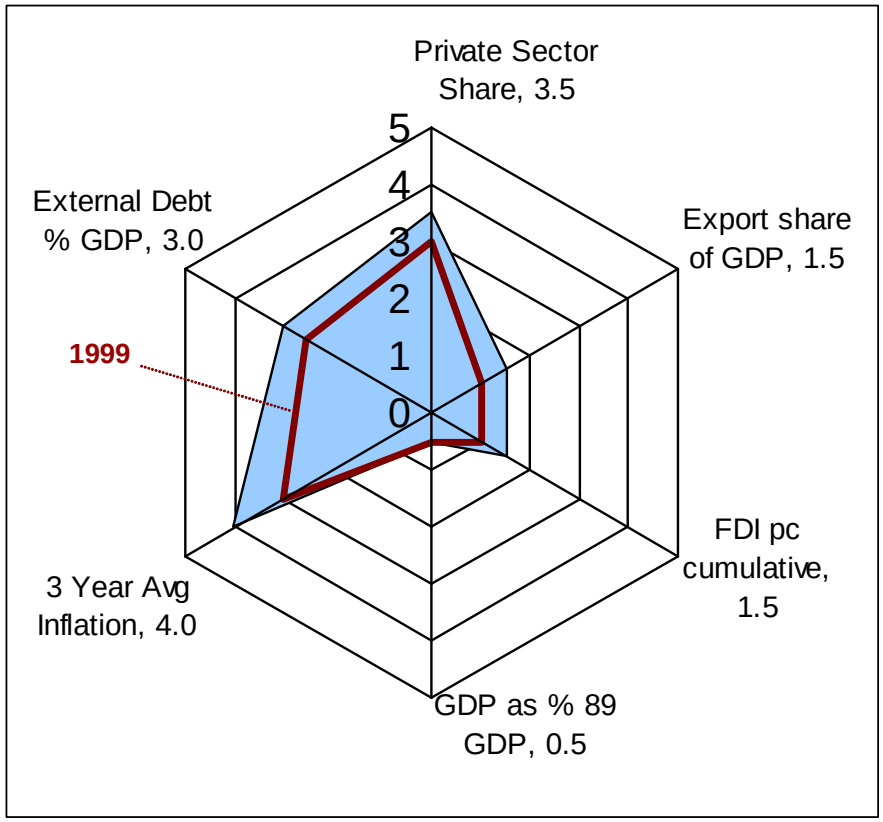
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from Freedom House, *Nations in Transit 2004.*

Figure 43

Economic Performance Index in Georgia in 2002 - 2004

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



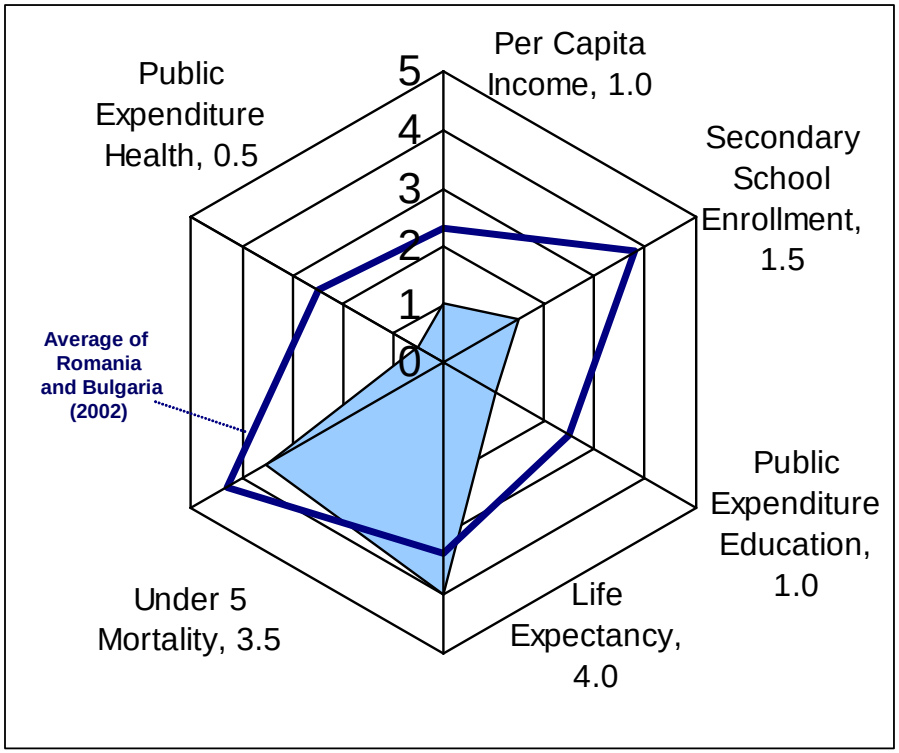


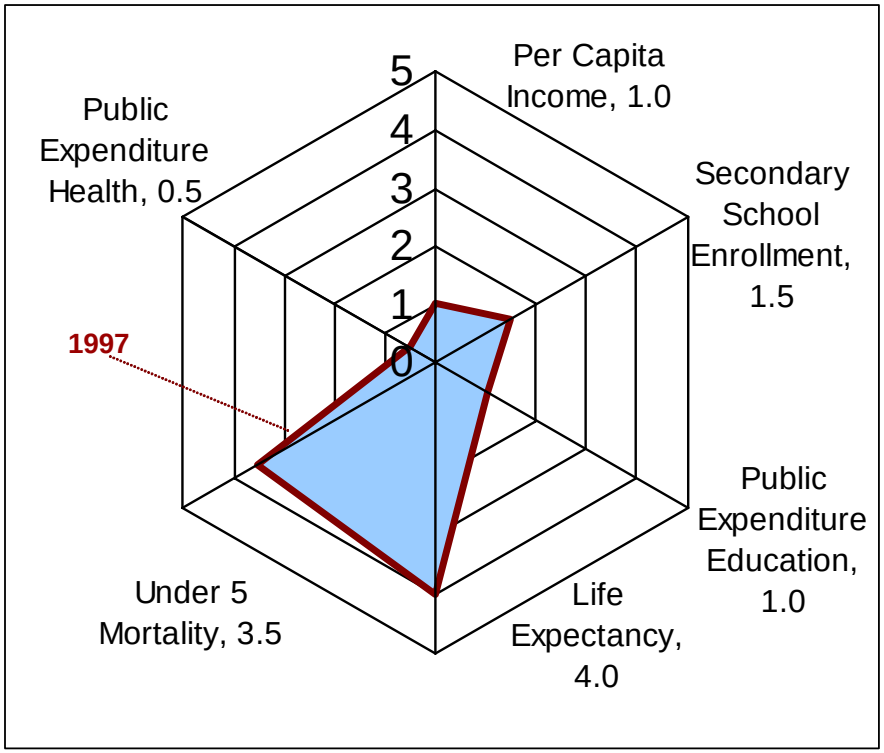
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from World Bank, *World Development Indicators 2004* (2004); EBRD, *Transition Report* (November 2004), M. Ayyagari, T. Beck, and A. Demirguc-Kunt, *Small and Medium Enterprises across the Globe*: World Bank Policy Research Working Paper 3127, August 2003. SME data no later than 1998.

Figure 44

Human Capital Index in Georgia

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



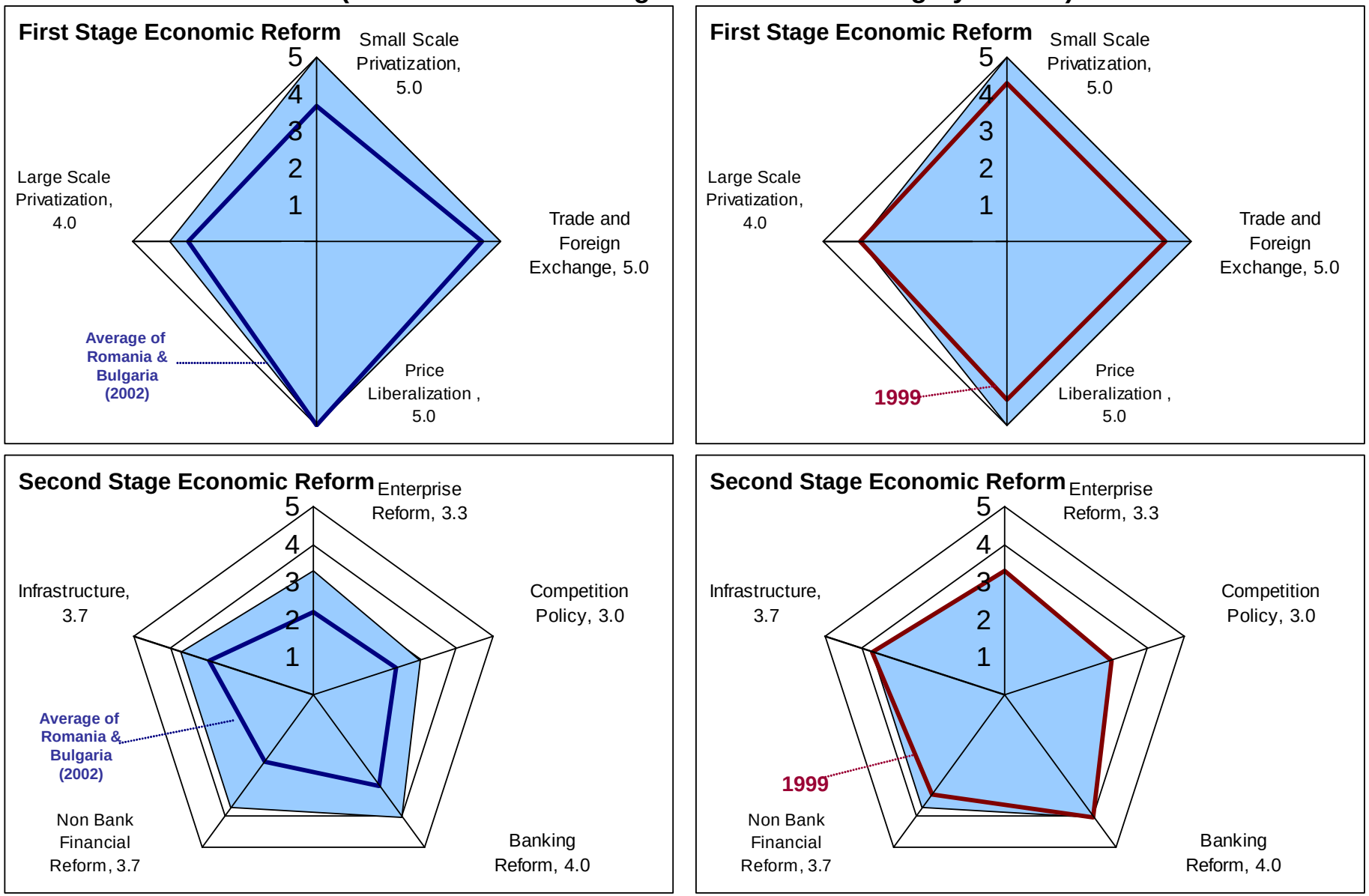


Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from World Bank, *World Development Indicators 2004* (2004); UNICEF, *Social Monitor 2004* (2004).

Figure 45

Economic Reform in Hungary in 2004

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

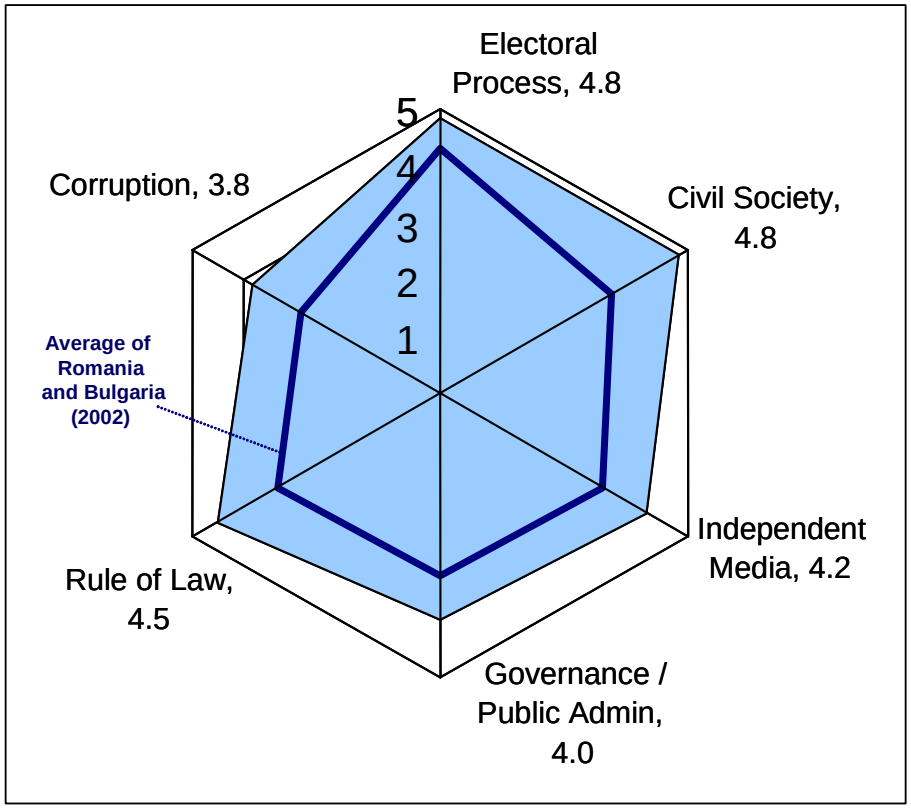


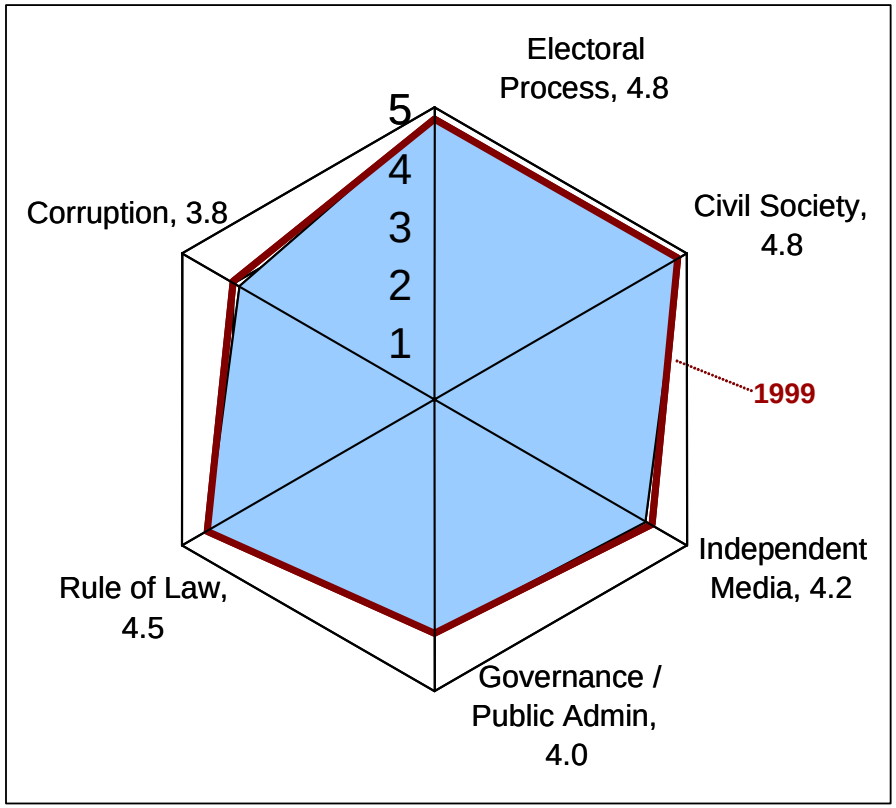
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from EBRD, *Transition Report 2004* (November 2004).

Figure 46

Democratic Reforms in Hungary in 2003

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



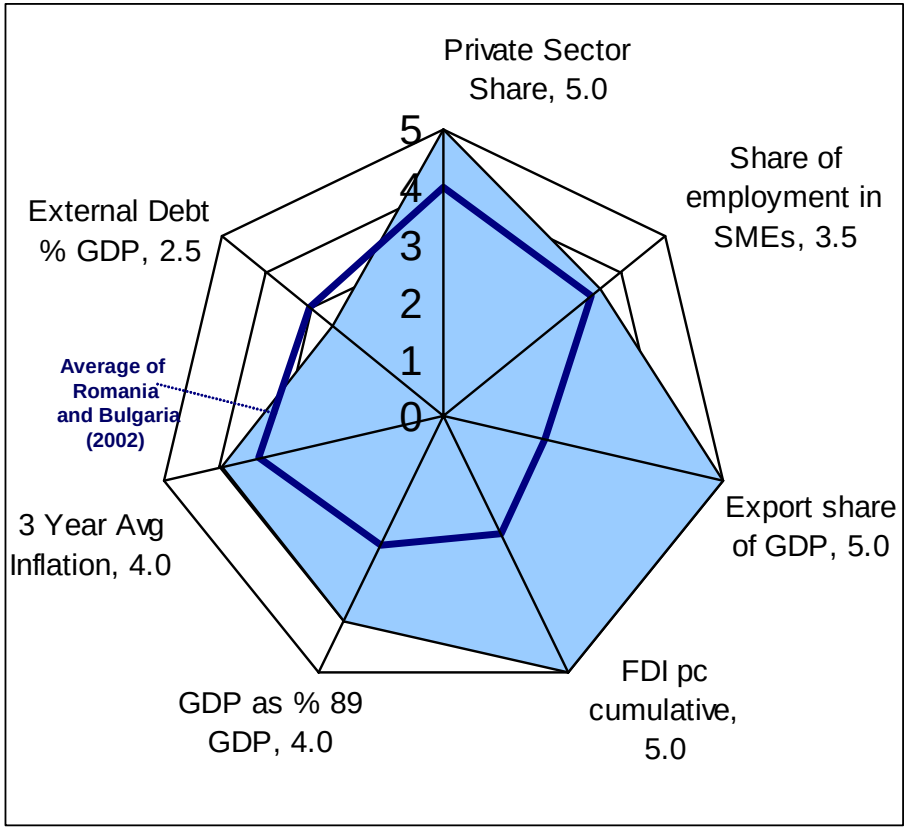


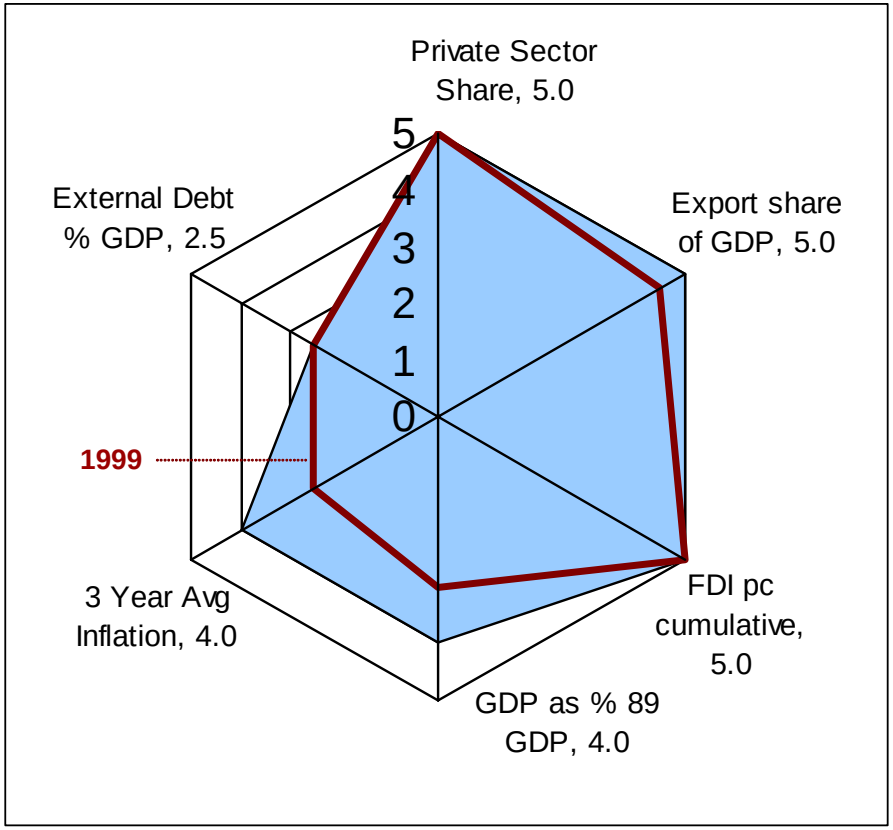
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from Freedom House, *Nations in Transit 2004.*

Figure 47

Economic Performance Index in Hungary in 2002 - 2004

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



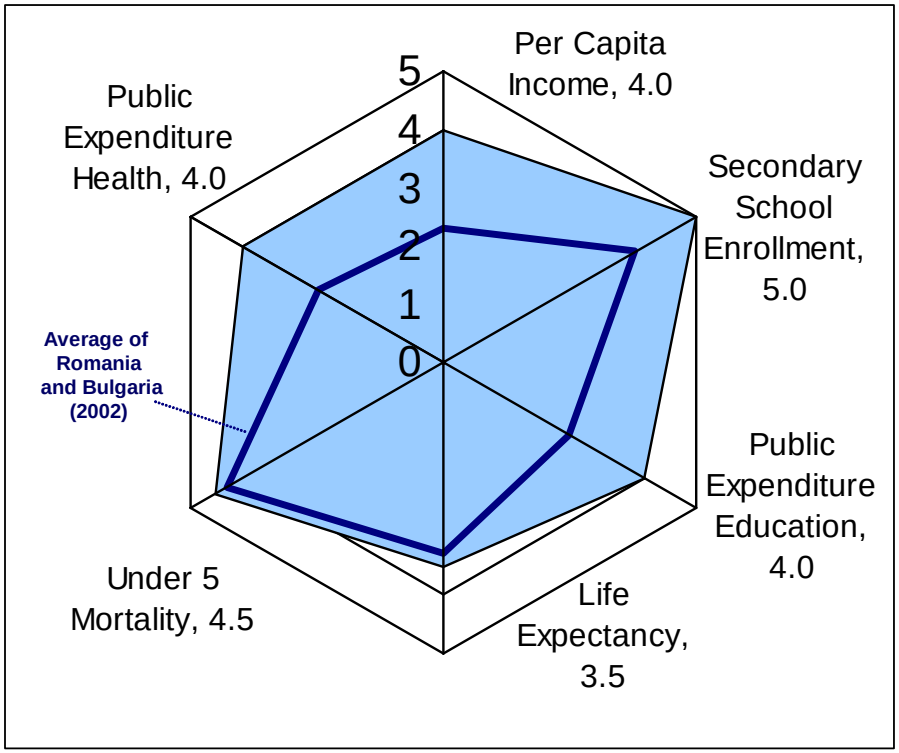


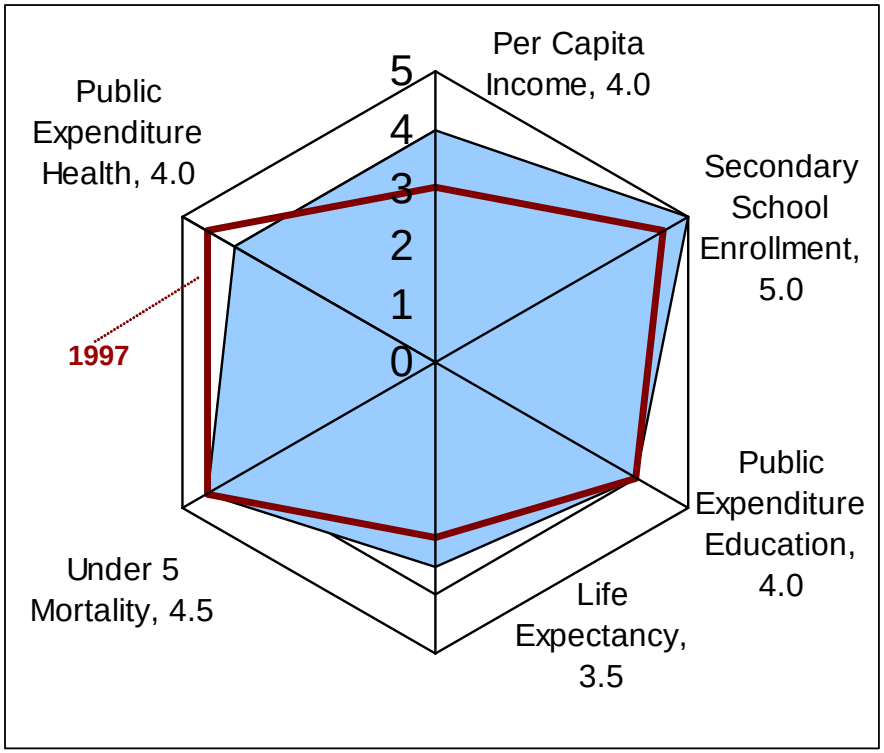
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from World Bank, *World Development Indicators 2004* (2004); EBRD, *Transition Report* (November 2004), M. Ayyagari, T. Beck, and A. Demirguc-Kunt, *Small and Medium Enterprises across the Globe*: World Bank Policy Research Working Paper 3127, August 2003. SME data no later than 1998.

Figure 48

Human Capital Index in Hungary

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



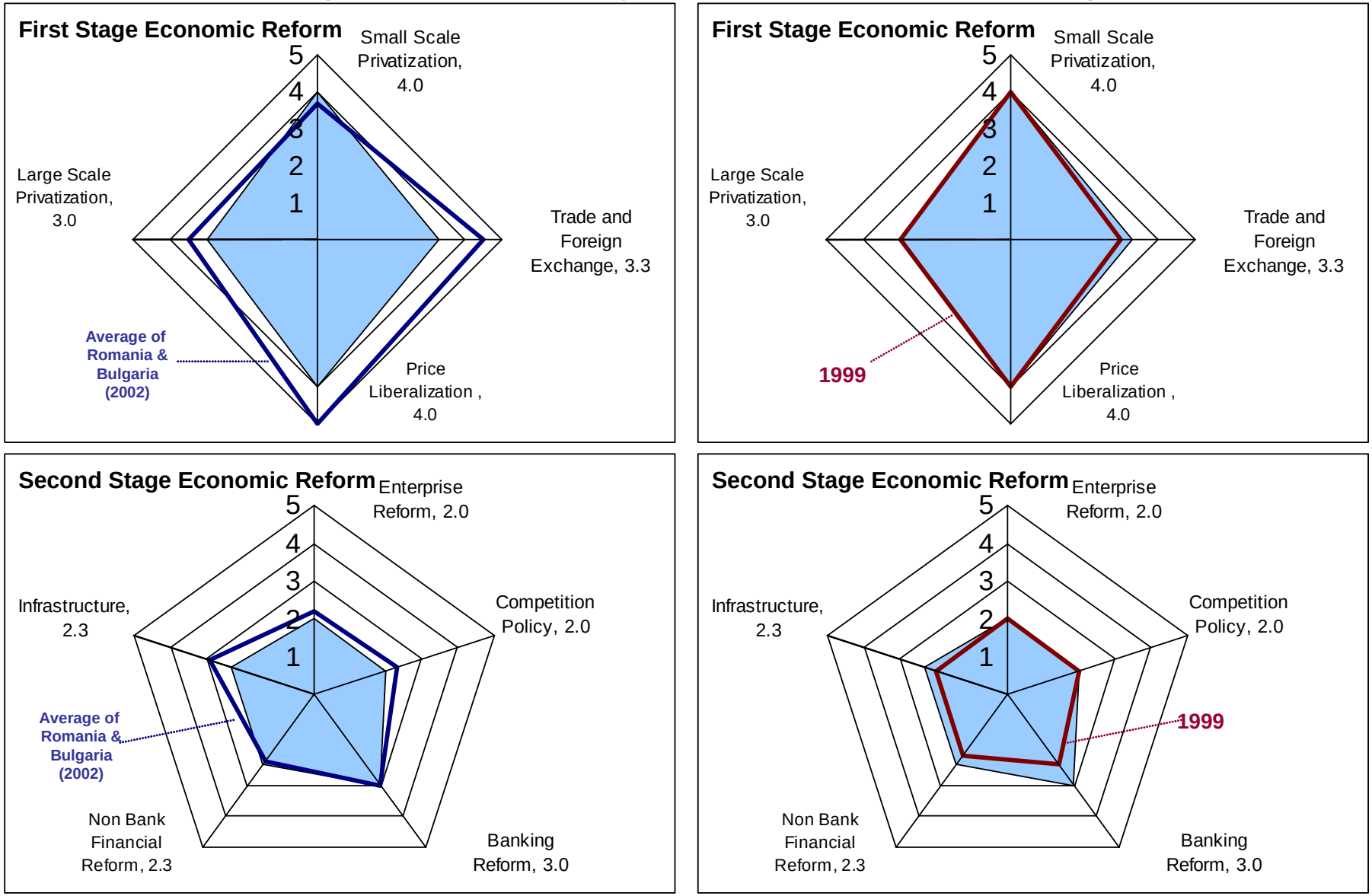


Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from World Bank, *World Development Indicators 2004* (2004); UNICEF, *Social Monitor 2004* (2004).

Figure 49

Economic Reform in Kazakhstan in 2004

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

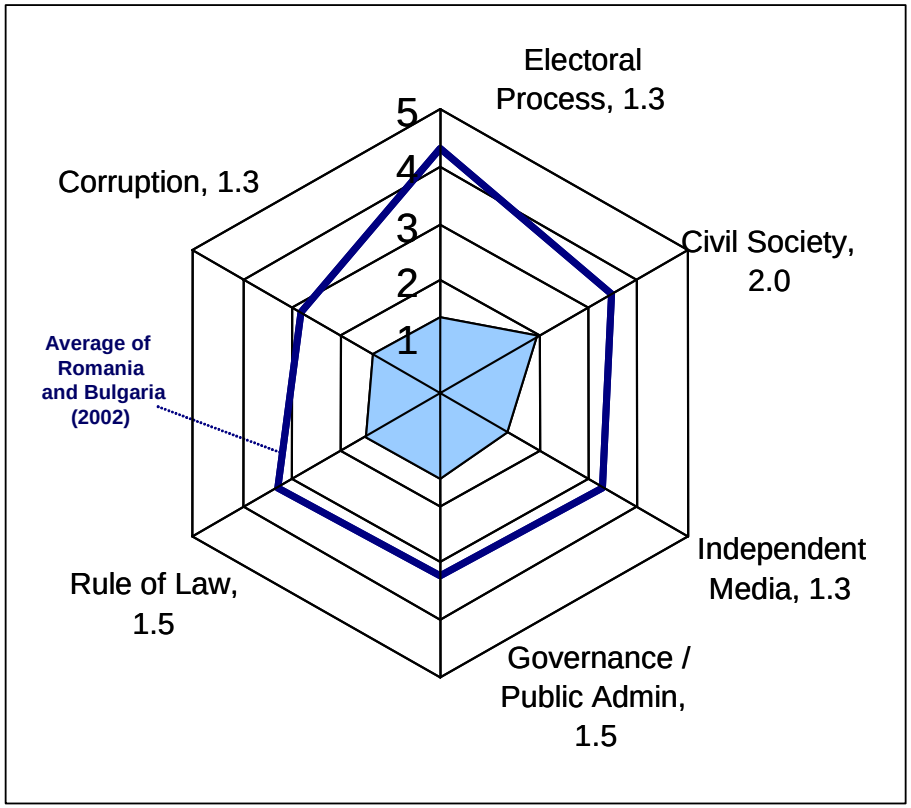


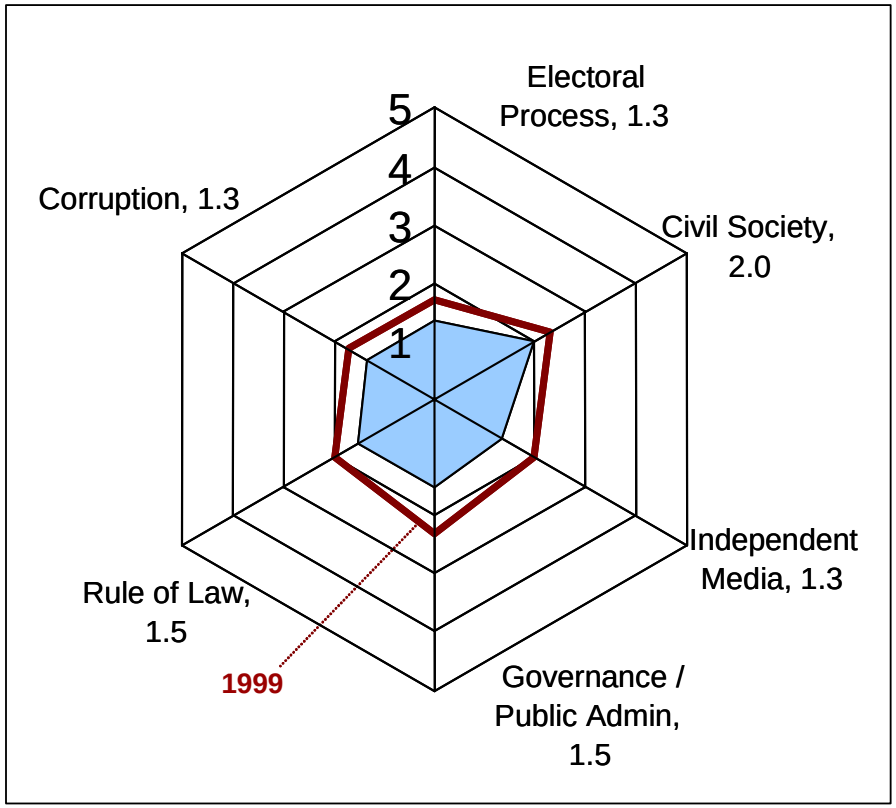
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from EBRD, *Transition Report 2004* (November 2004).

Figure 50

Democratic Reforms in Kazakhstan in 2003

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



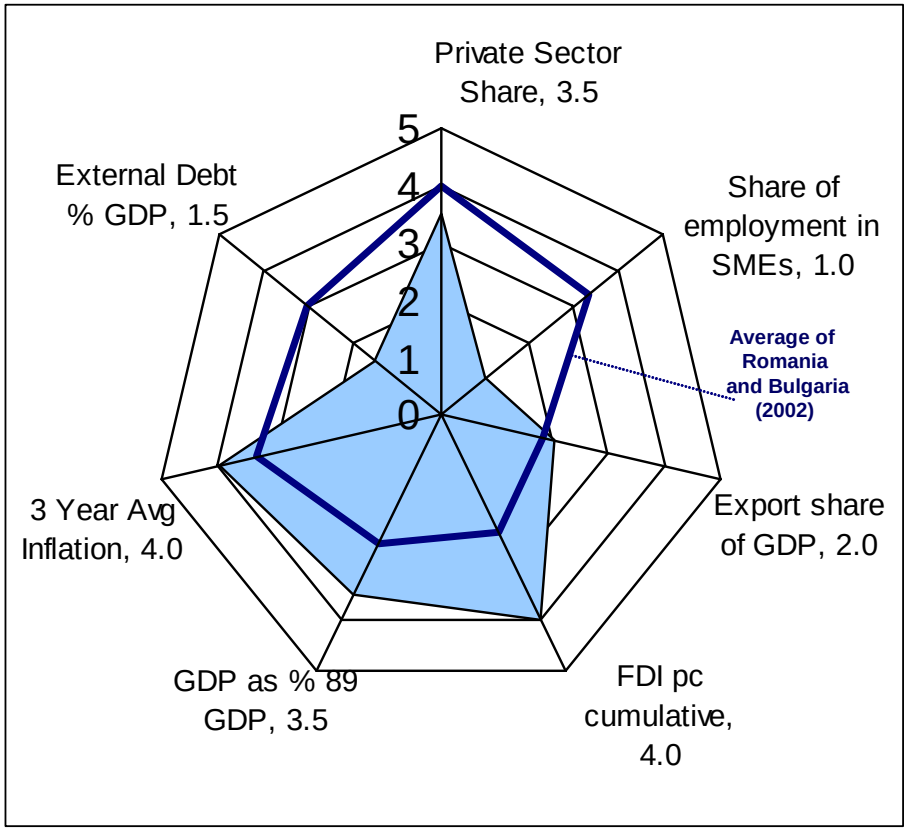


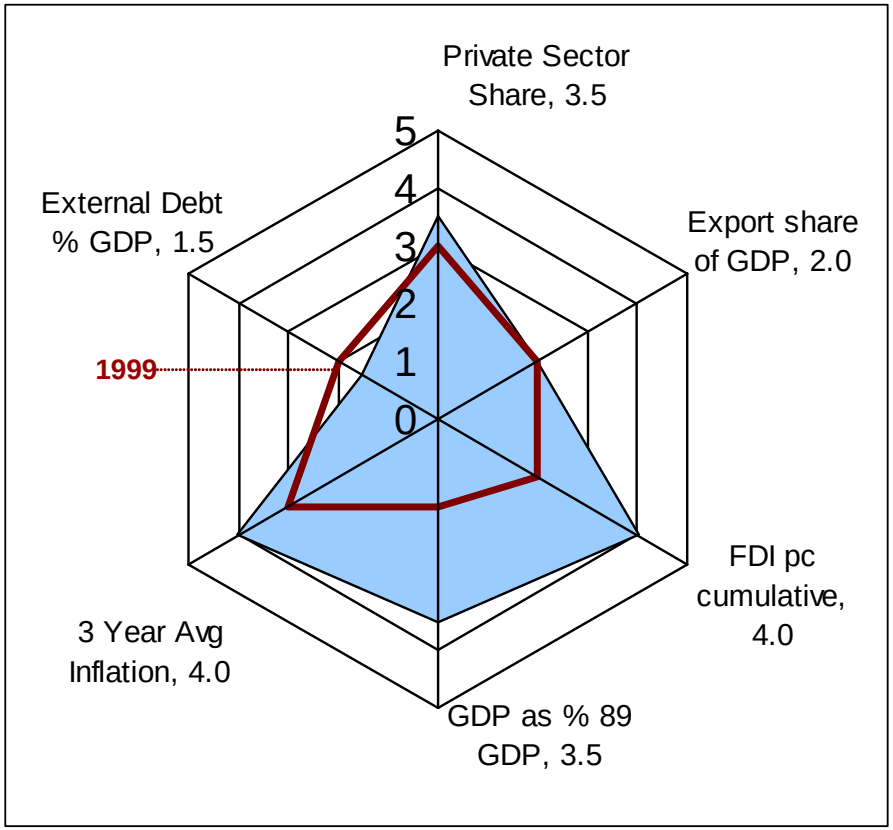
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from Freedom House, *Nations in Transit 2004.*

Figure 51

Economic Performance Index in Kazakhstan in 2002 - 2004

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



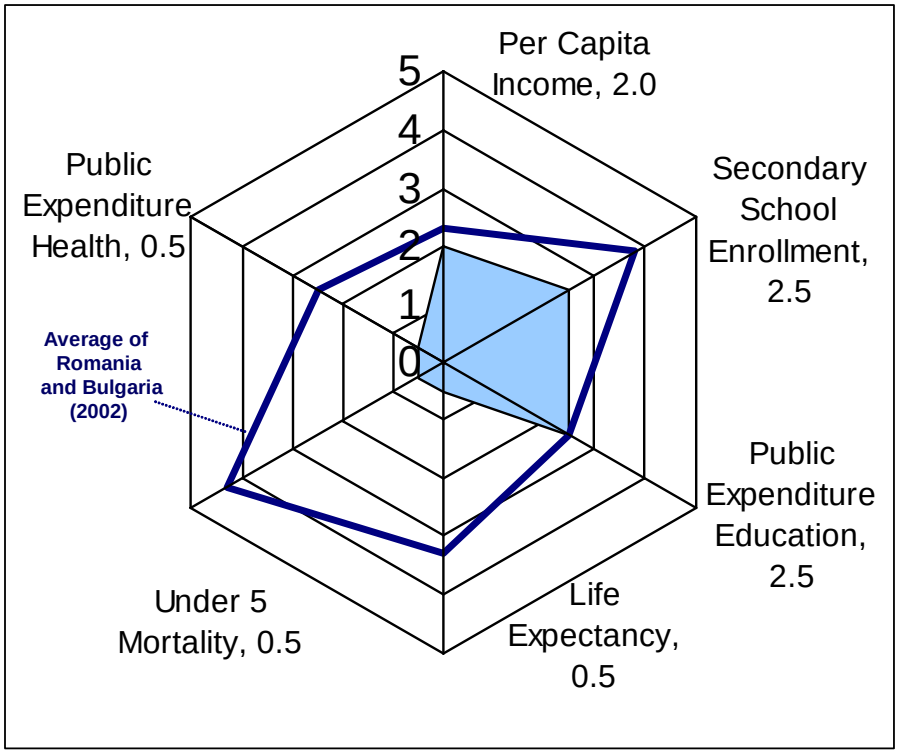


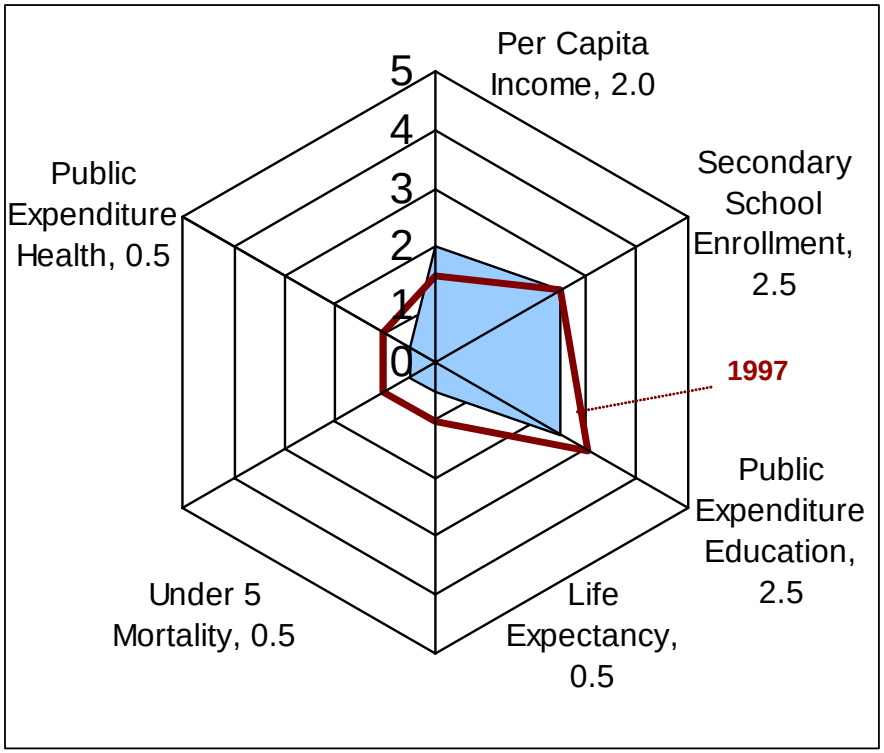
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from World Bank, *World Development Indicators 2004* (2004); EBRD, *Transition Report* (November 2004), M. Ayyagari, T. Beck, and A. Demirguc-Kunt, *Small and Medium Enterprises across the Globe*: World Bank Policy Research Working Paper 3127, August 2003. SME data no later than 1998.

Figure 52

Human Capital Index in Kazakhstan

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



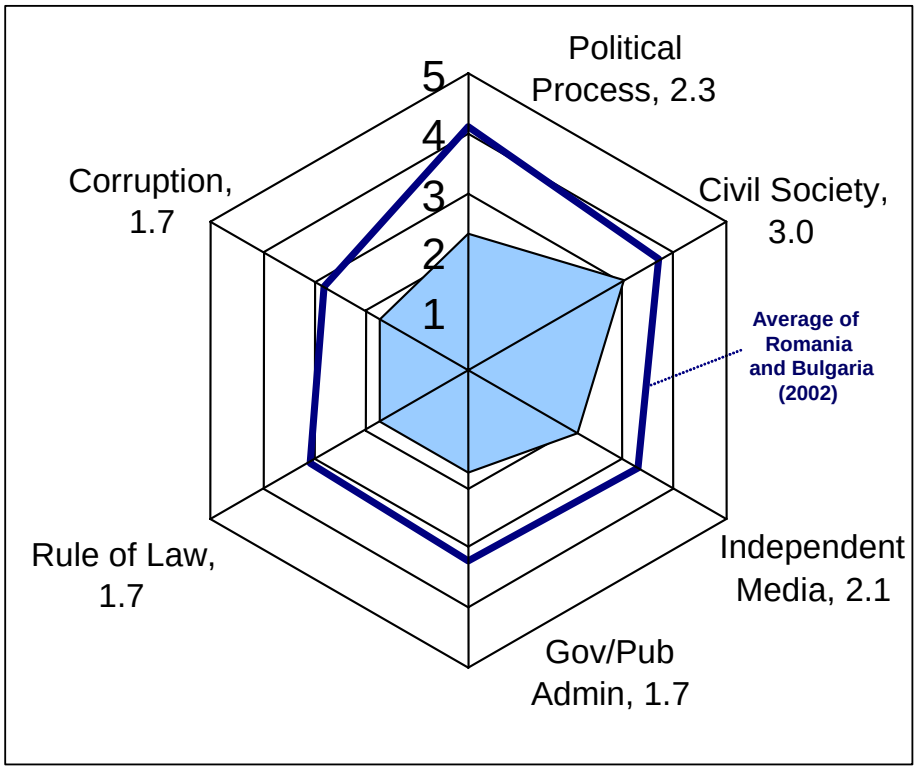


Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from World Bank, *World Development Indicators 2004* (2004); UNICEF, *Social Monitor 2004* (2004).

Figure 53

Democratic Reforms in Kosovo in 2003

(versus Romania & Bulgaria in 2002)

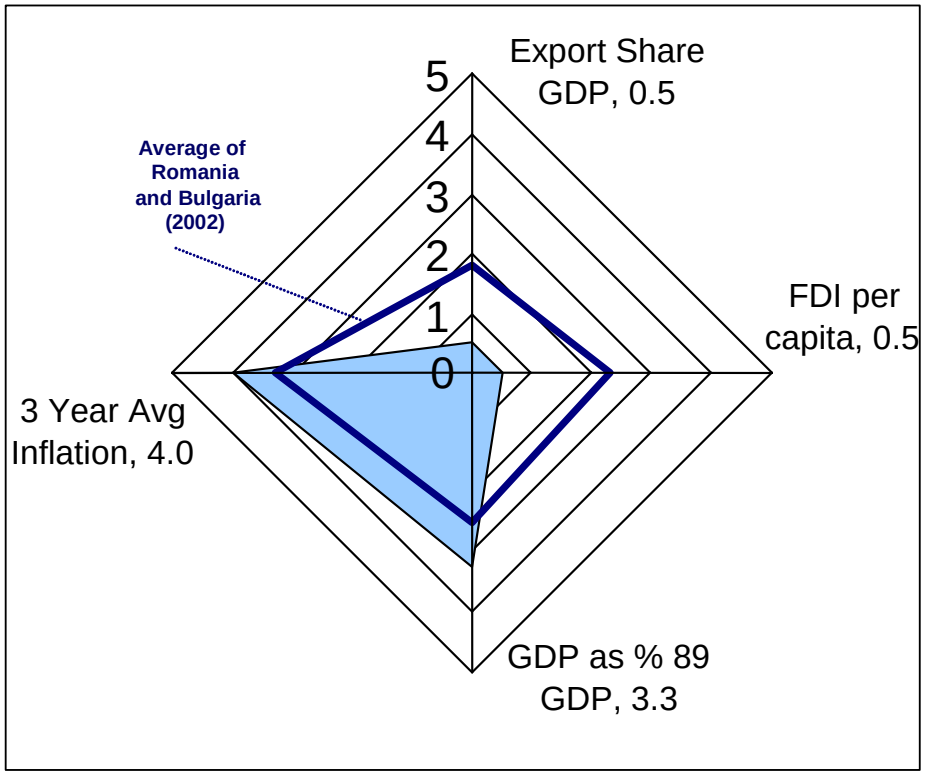


Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from Freedom House, *Nations in Transit 2004* (2004).

Figure 54

Economic Performance Index in Kosovo in 2002 – 2004

(versus Romania & Bulgaria in 2002)

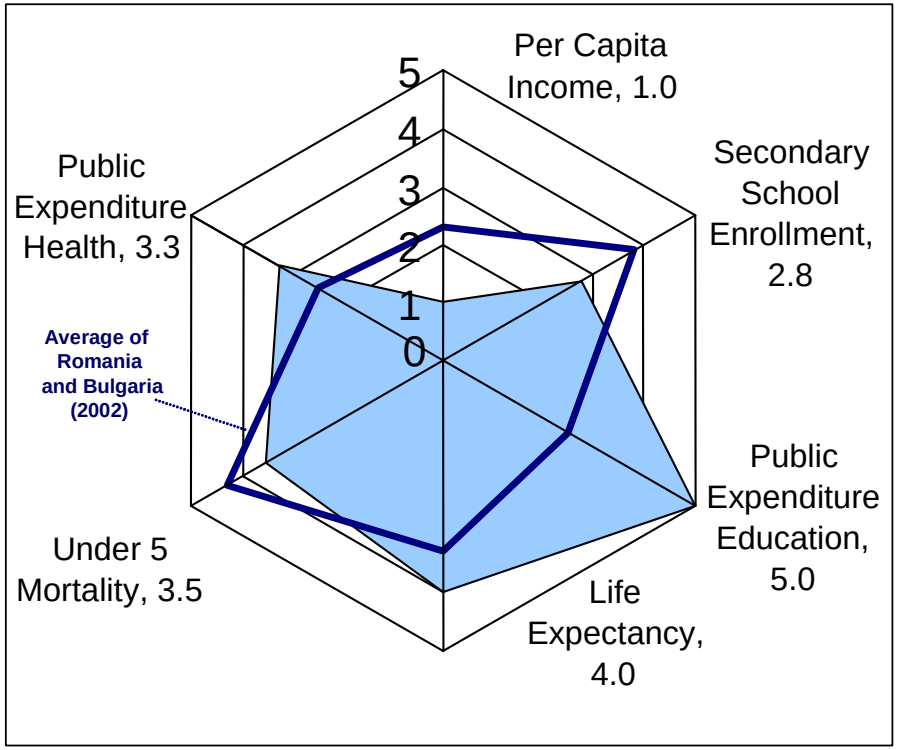


Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from World Bank, *World Development Indicators 2004* (2004); EBRD, *Transition Report* (November 2004).

Figure 55

Human Capital Index in Kosovo in 2002-03

(versus Romania & Bulgaria in 2002)

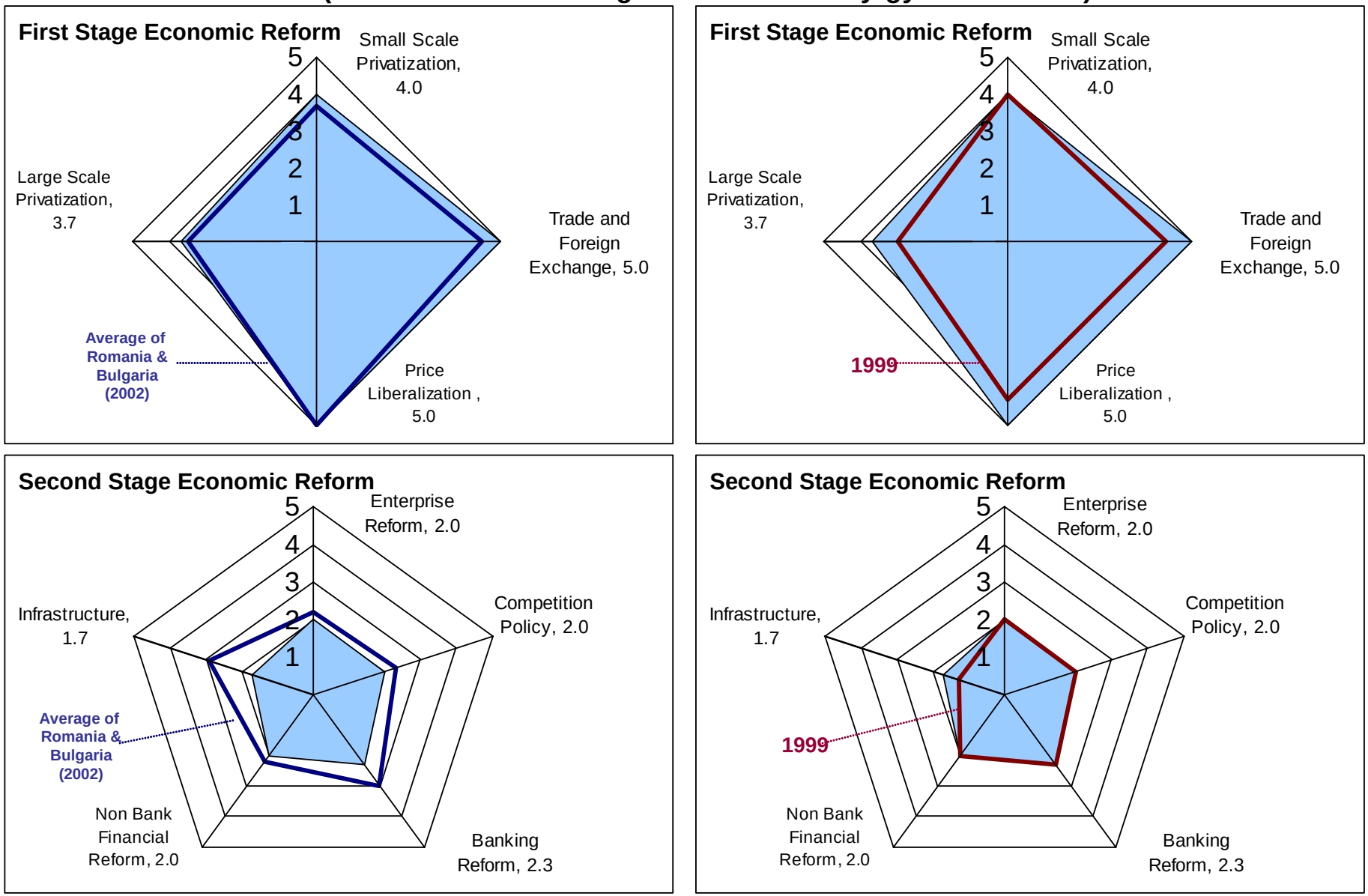


Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from World Bank, *World Development Indicators 2004* (2004); UNICEF, *Social Monitor 2004* (2004).

Figure 56

Economic Reform in Kyrgyzstan in 2004

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

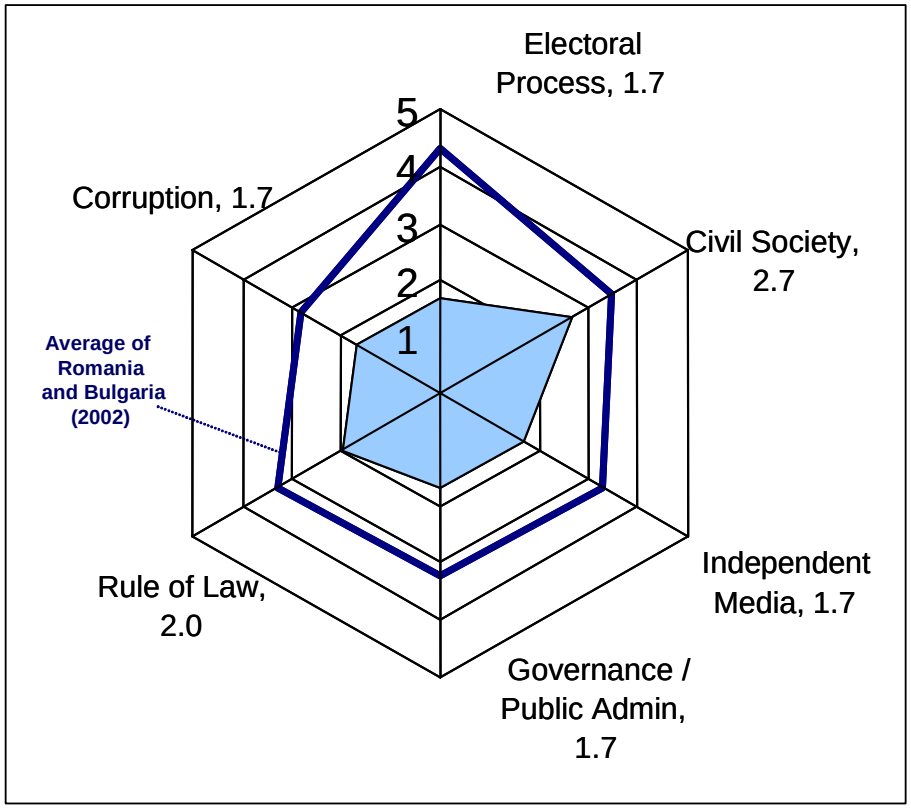


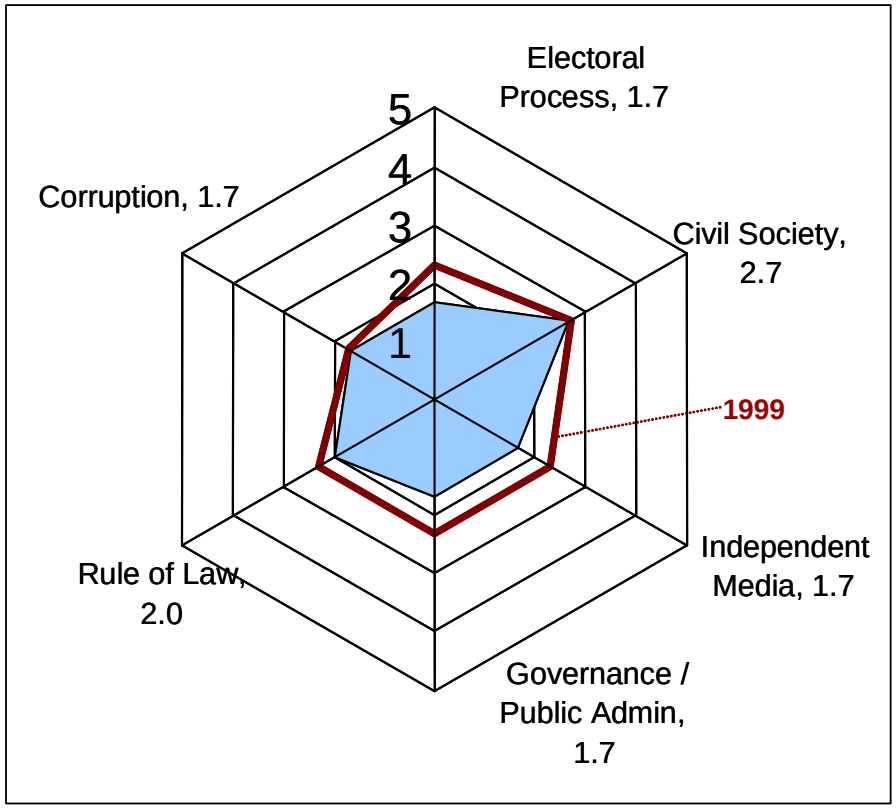
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from EBRD, *Transition Report 2004* (November 2004).

Figure 57

Democratic Reforms in Kyrgyzstan in 2003

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



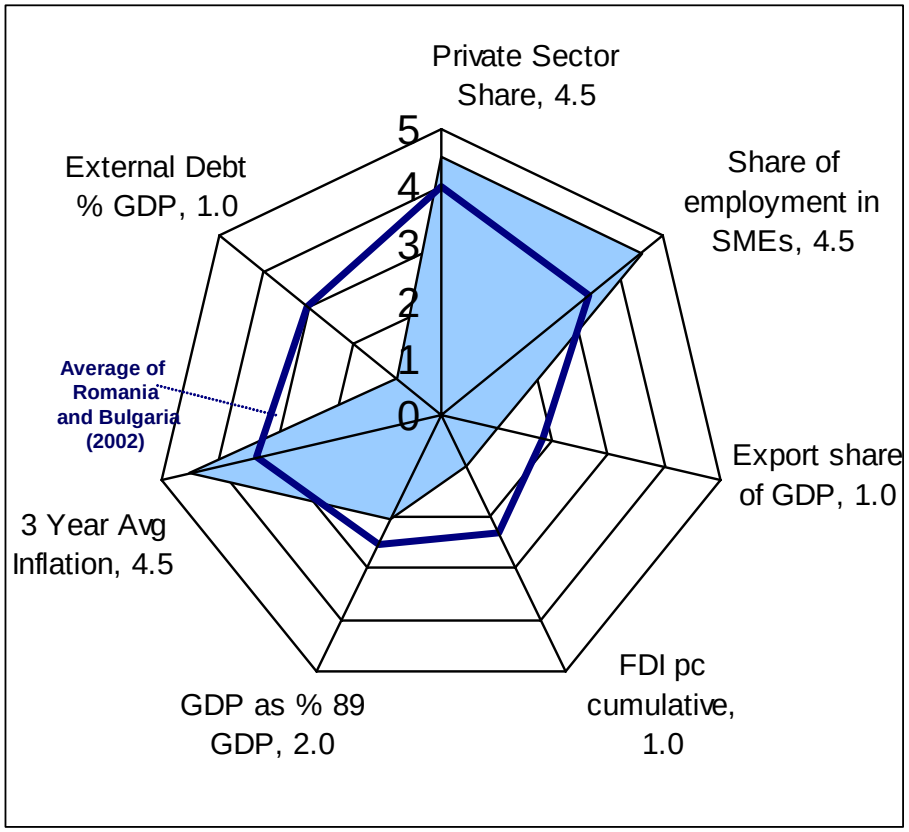


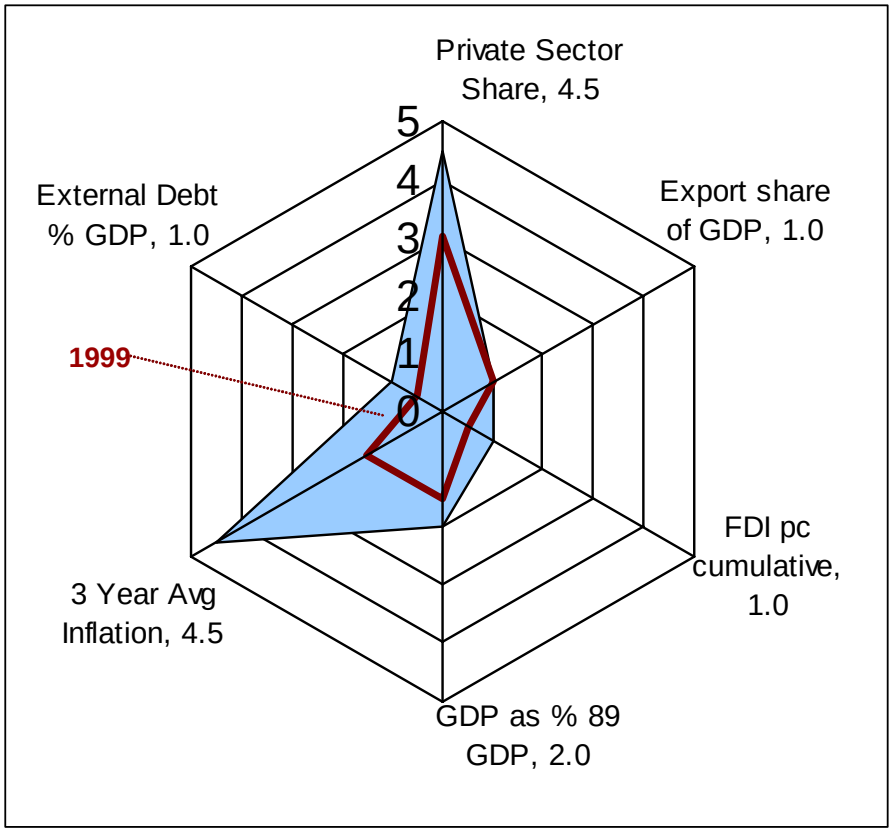
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from Freedom House, *Nations in Transit 2004.*

Figure 58

Economic Performance Index in Kyrgyzstan in 2002 - 2004

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



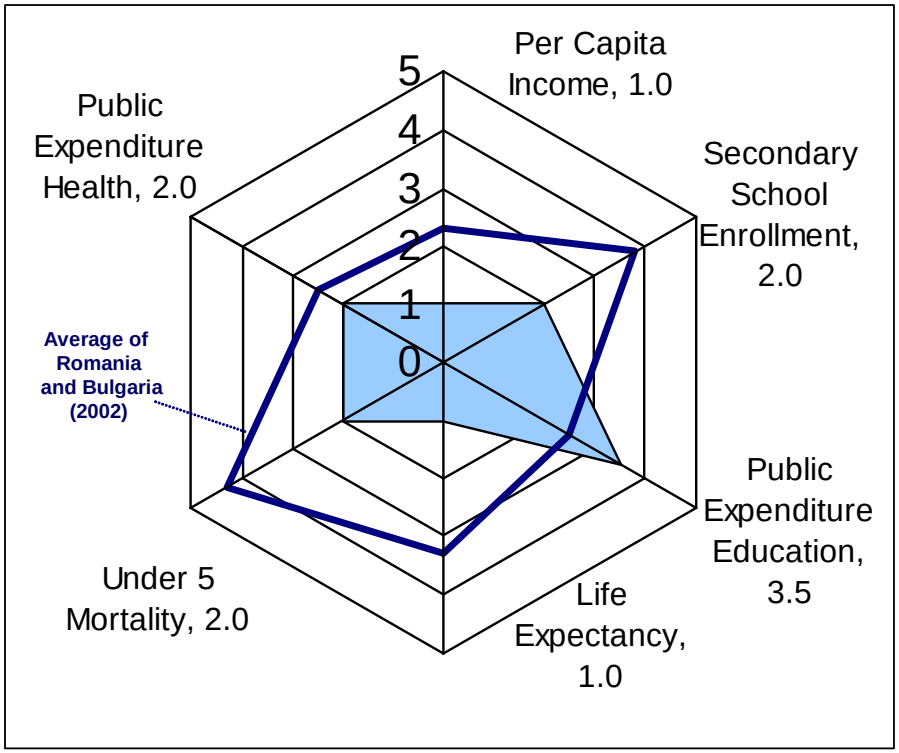


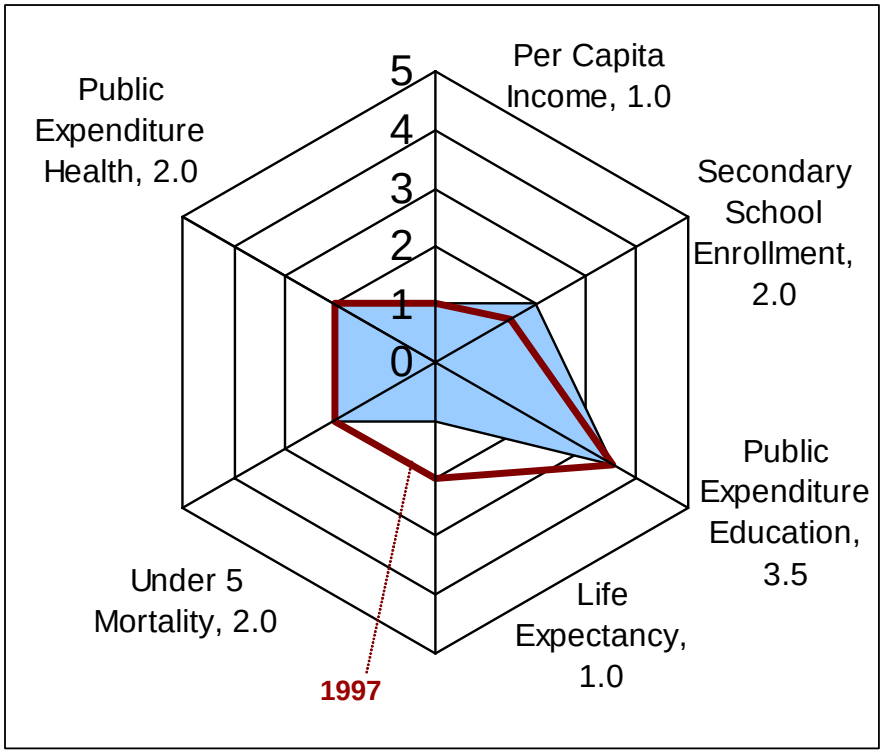
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from World Bank, *World Development Indicators 2004* (2004); EBRD, *Transition Report* (November 2004), M. Ayyagari, T. Beck, and A. Demirguc-Kunt, *Small and Medium Enterprises across the Globe*: World Bank Policy Research Working Paper 3127, August 2003. SME data no later than 1998.

Figure 59

Human Capital Index in Kyrgyzstan

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



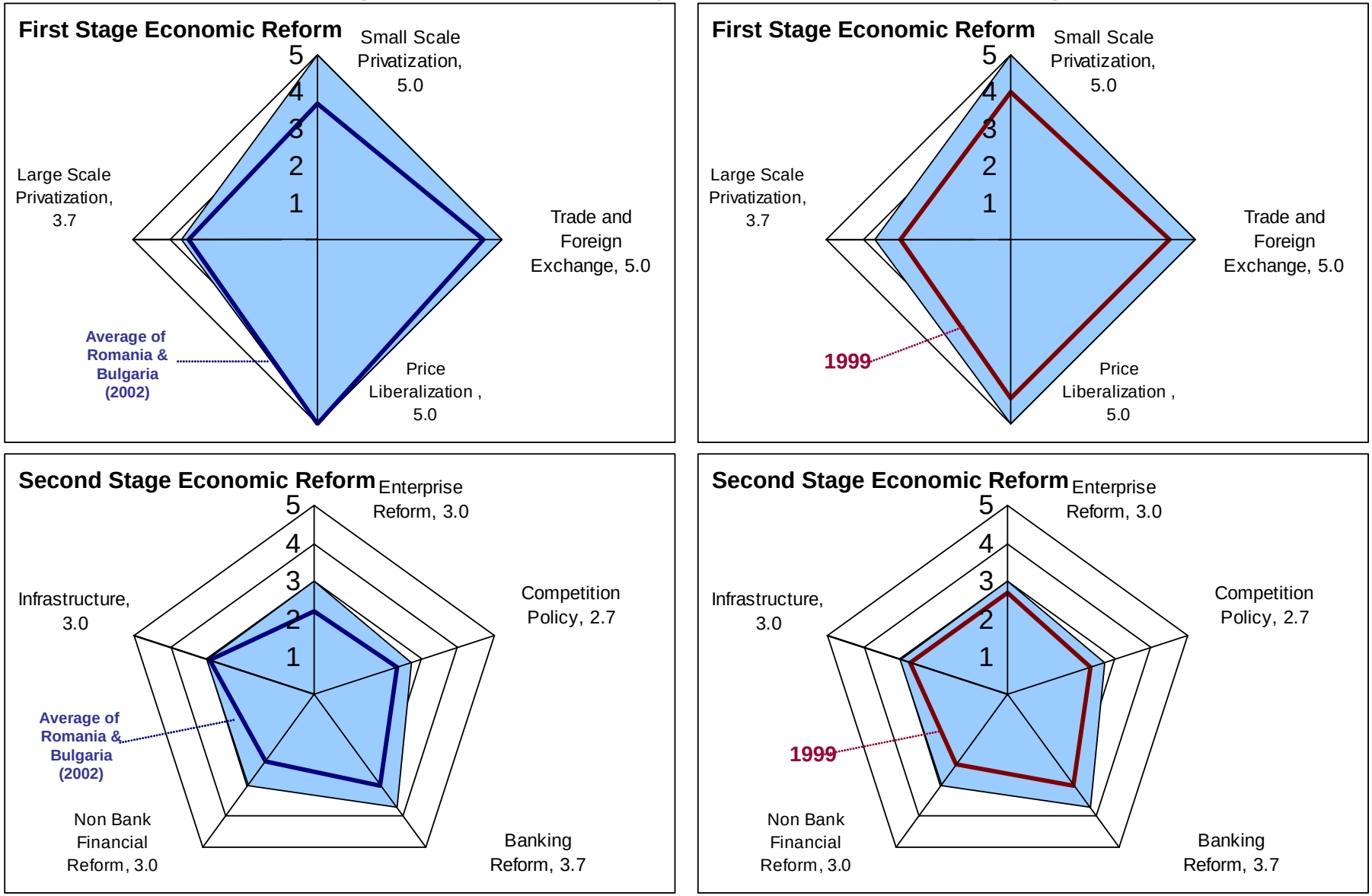


Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from World Bank, *World Development Indicators 2004* (2004); UNICEF, *Social Monitor 2004* (2004).

Figure 60

Economic Reform in Latvia in 2004

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

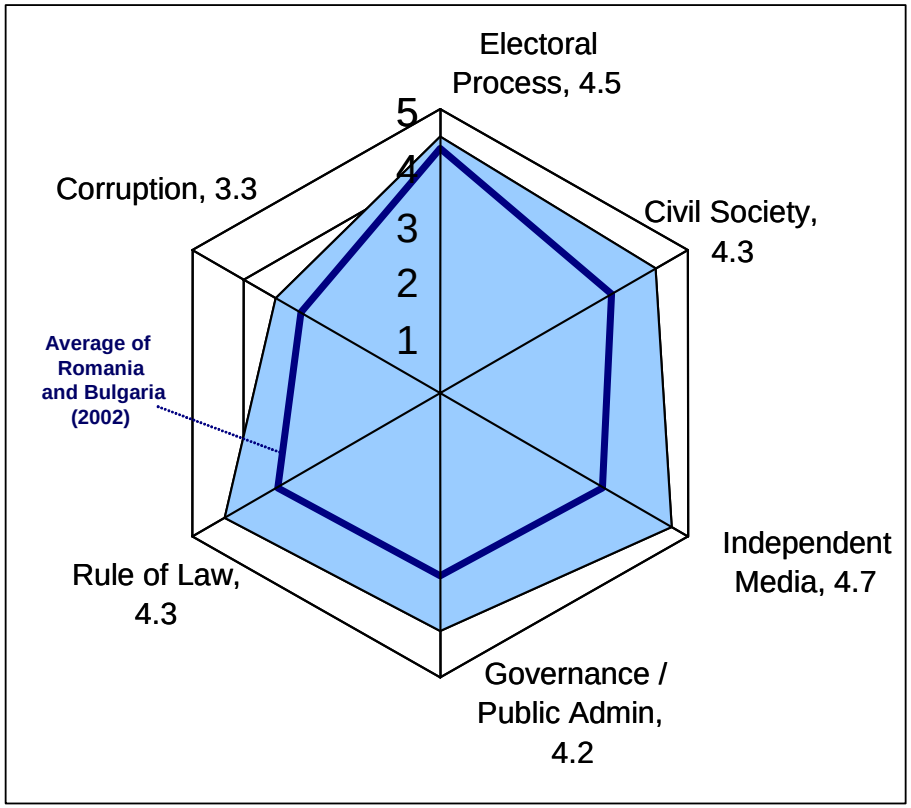


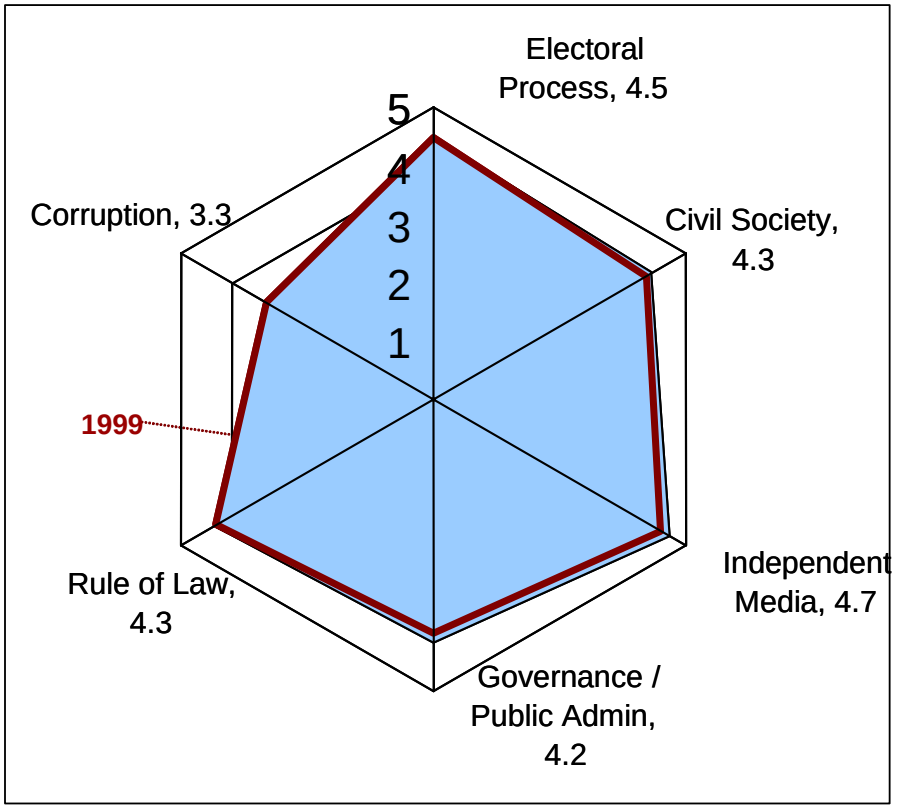
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from EBRD, *Transition Report 2004* (November 2004).

Figure 61

Democratic Reforms in Latvia in 2003

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



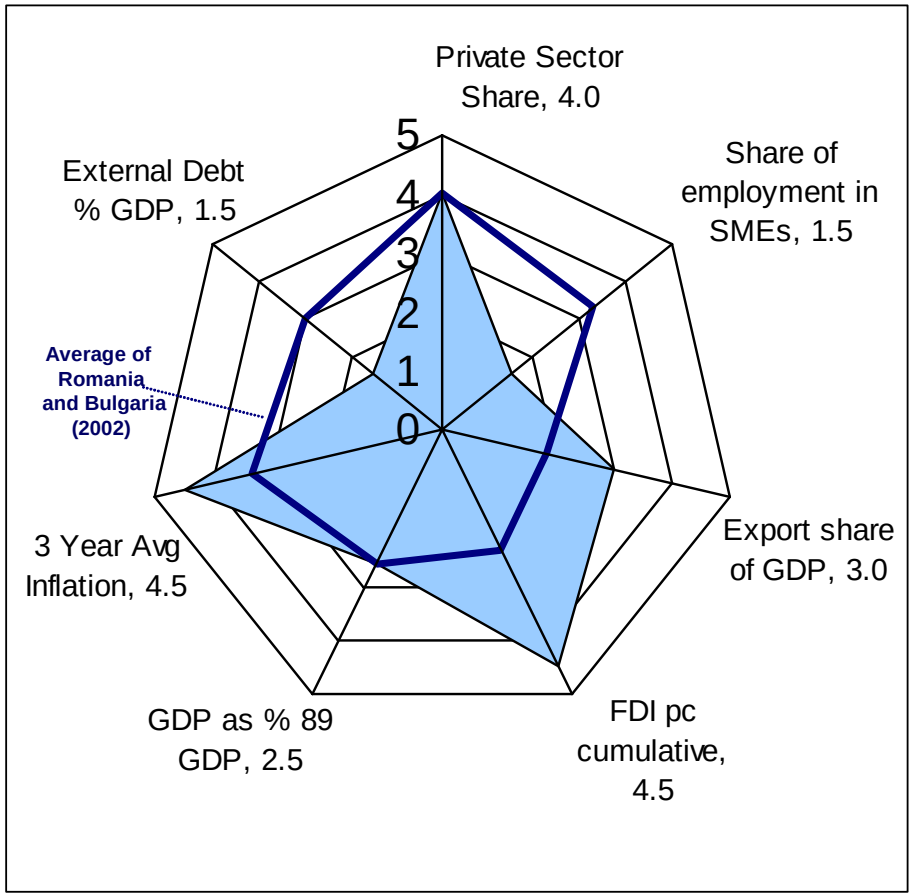


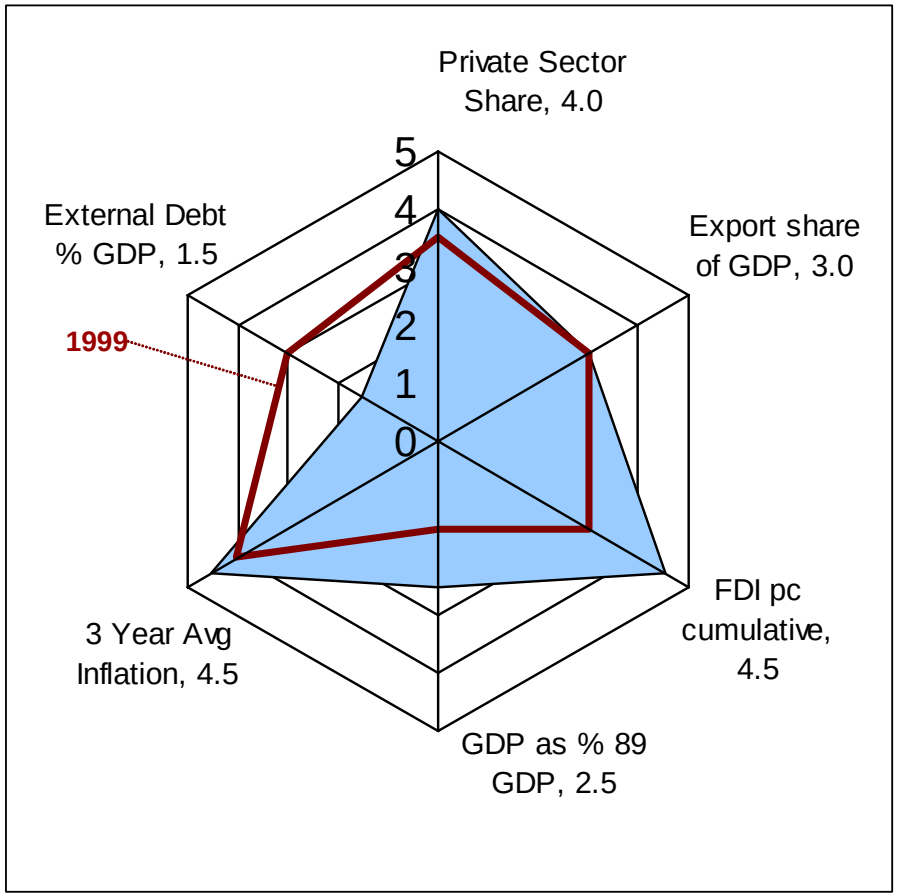
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from Freedom House, *Nations in Transit 2004.*

Figure 62

Economic Performance Index in Latvia in 2002 - 2004

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



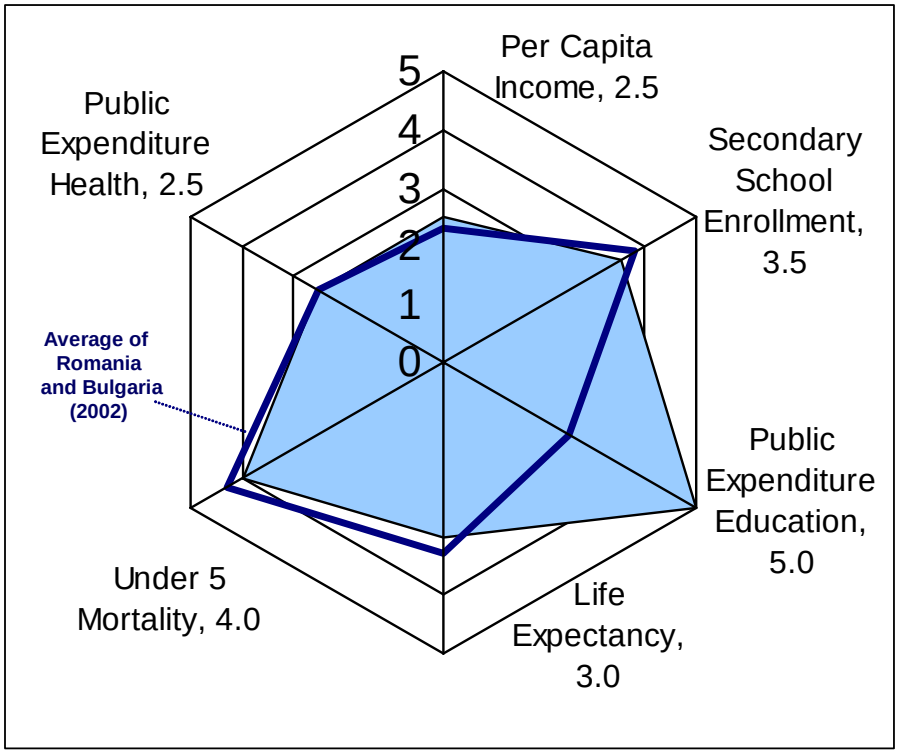


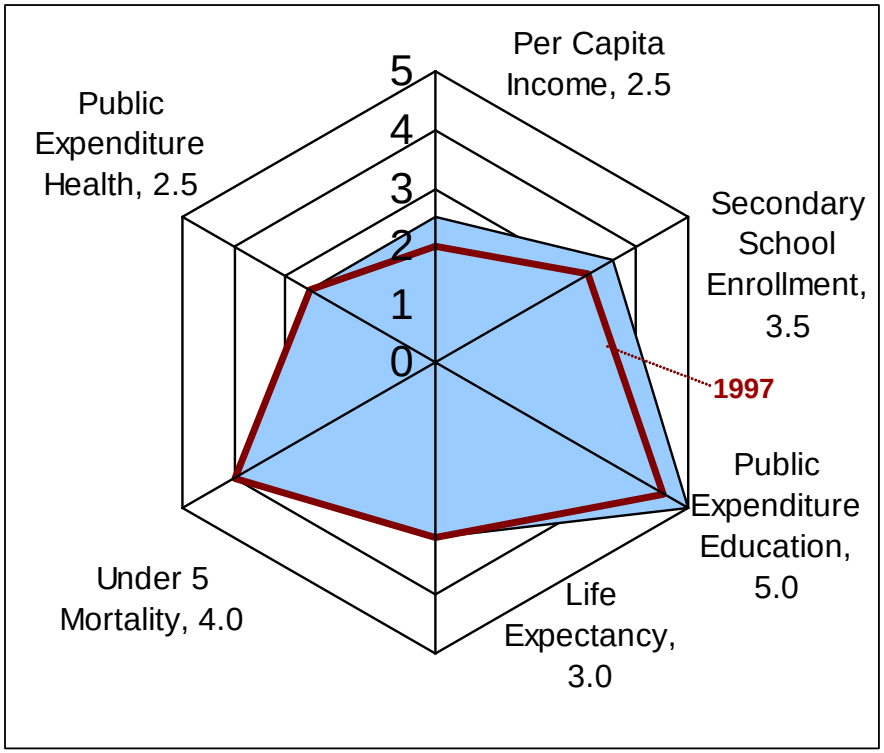
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from World Bank, *World Development Indicators 2004* (2004); EBRD, *Transition Report* (November 2004), M. Ayyagari, T. Beck, and A. Demirguc-Kunt, *Small and Medium Enterprises across the Globe*: World Bank Policy Research Working Paper 3127, August 2003. SME data no later than 1998.

Figure 63

Human Capital Index in Latvia

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



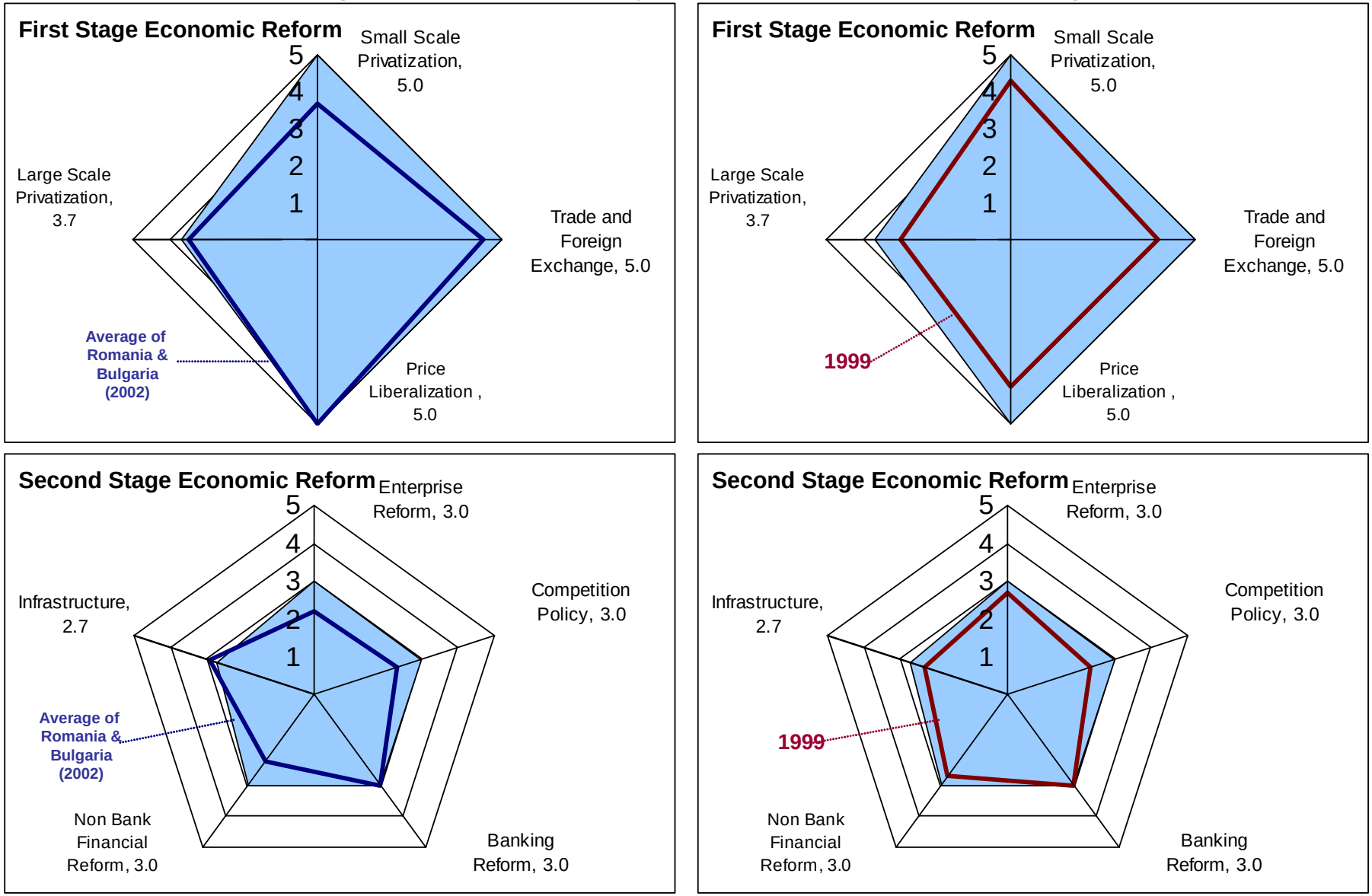


Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from World Bank, *World Development Indicators 2004* (2004); UNICEF, *Social Monitor 2004* (2004).

Figure 64

Economic Reform in Lithuania in 2004

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

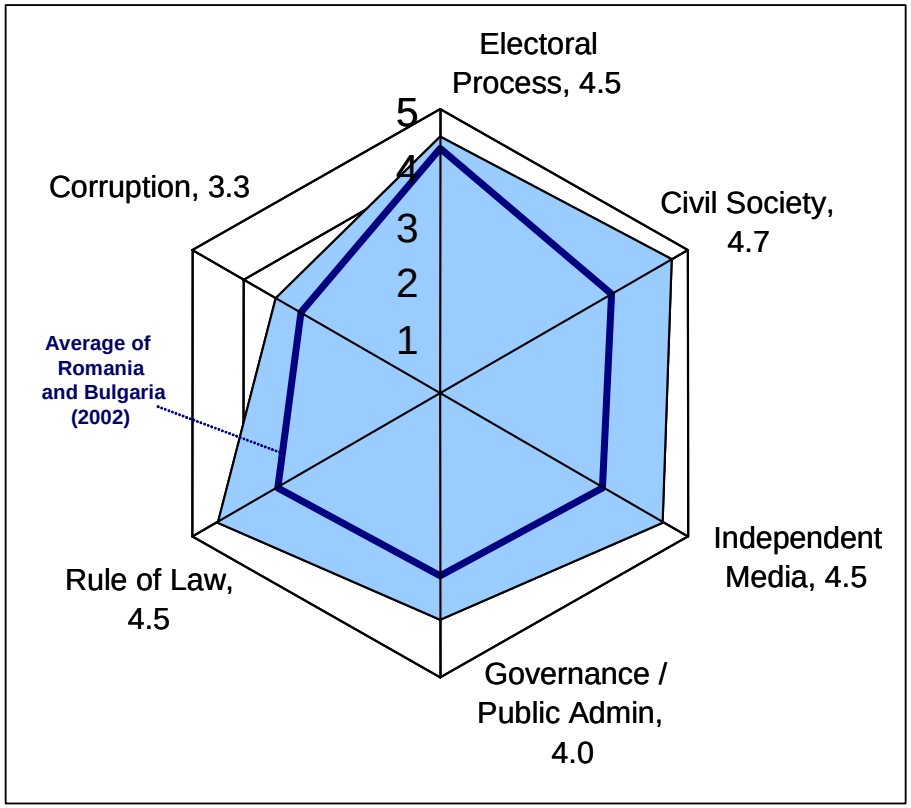


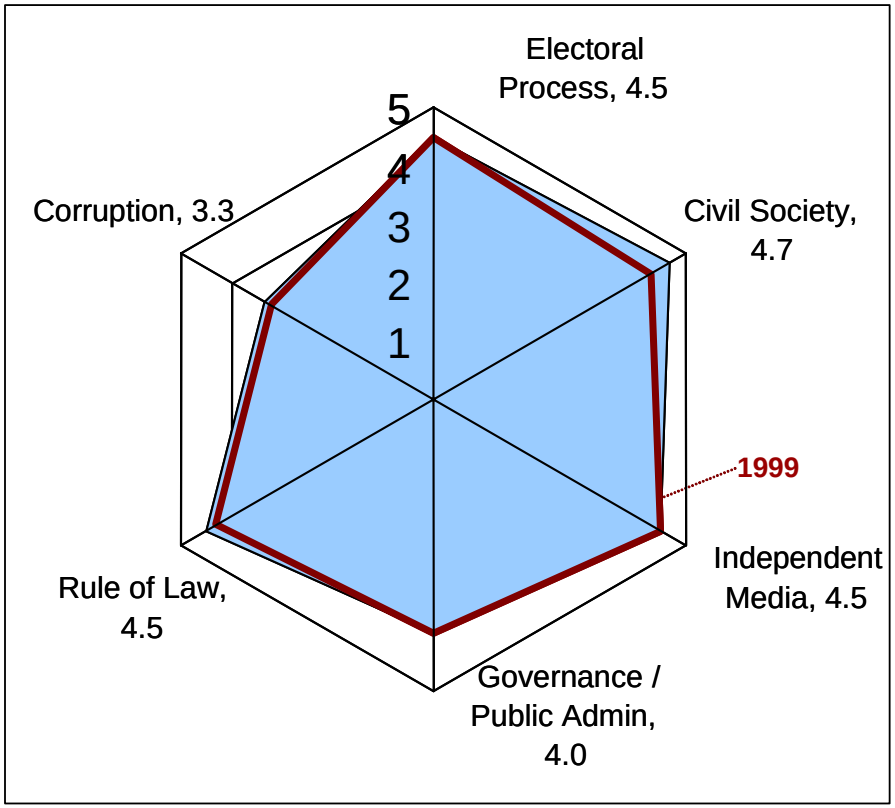
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from EBRD, *Transition Report 2004* (November 2004).

Figure 65

Democratic Reforms in Lithuania in 2003

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



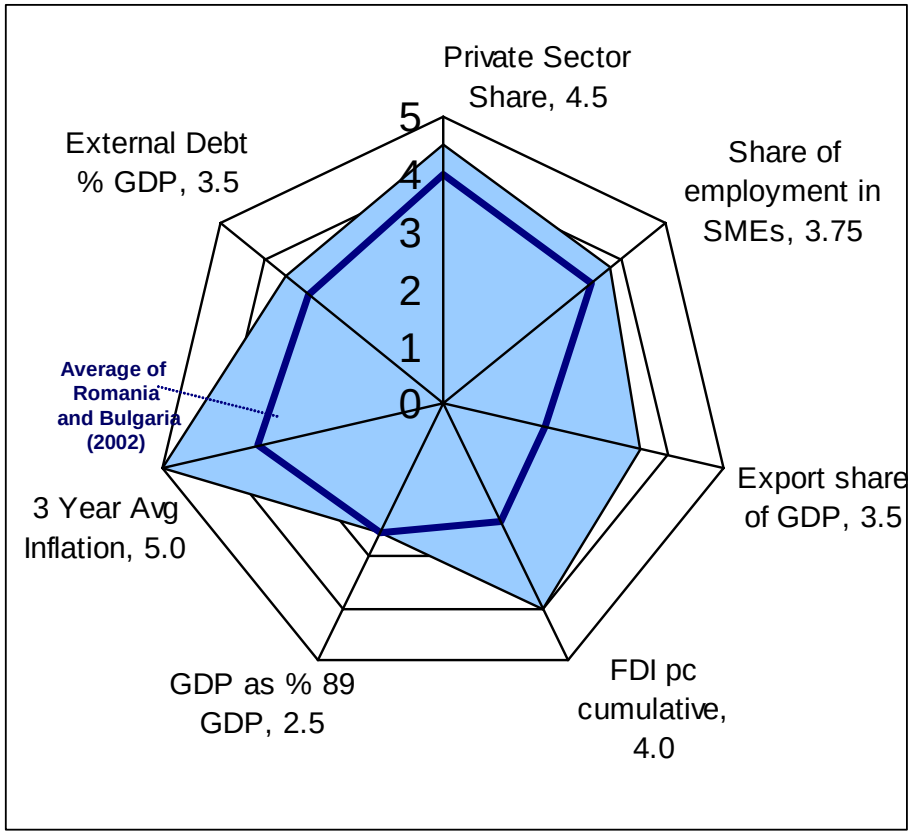


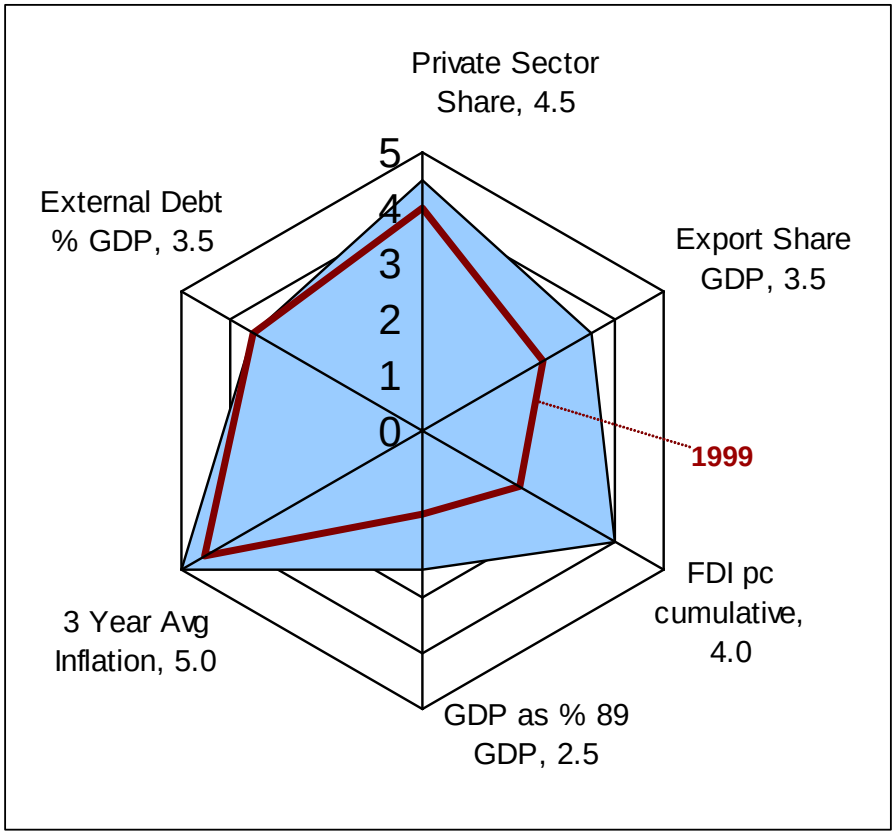
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from Freedom House, *Nations in Transit 2004.*

Figure 66

Economic Performance Index in Lithuania in 2002 - 2004

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



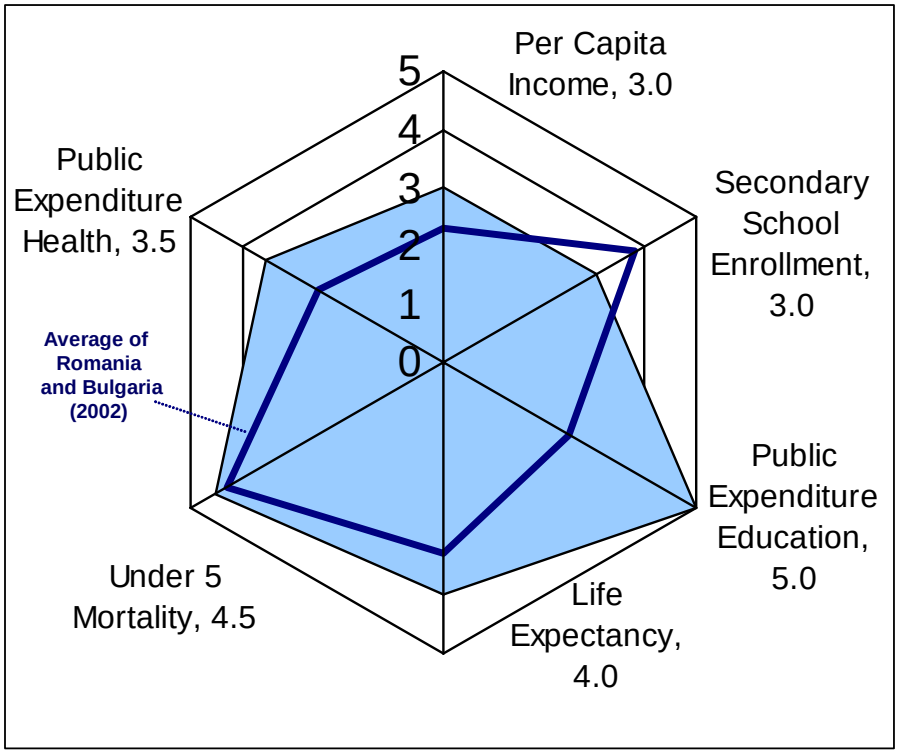


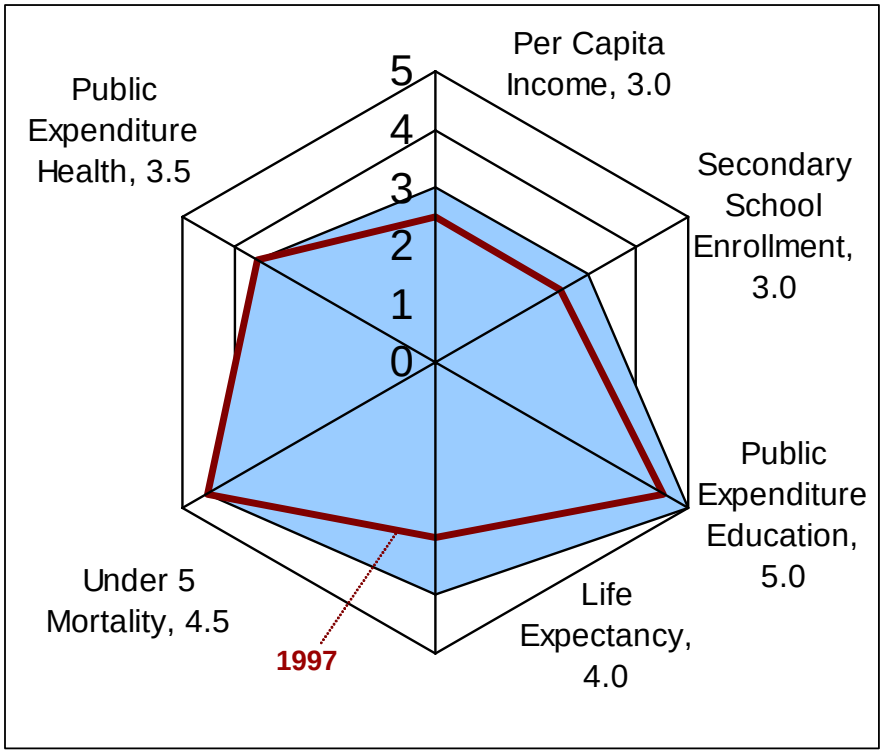
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from World Bank, *World Development Indicators 2004* (2004); EBRD, *Transition Report* (November 2004), M. Ayyagari, T. Beck, and A. Demirguc-Kunt, *Small and Medium Enterprises across the Globe*: World Bank Policy Research Working Paper 3127, August 2003. SME data no later than 1998.

Figure 67

Human Capital Index in Lithuania

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



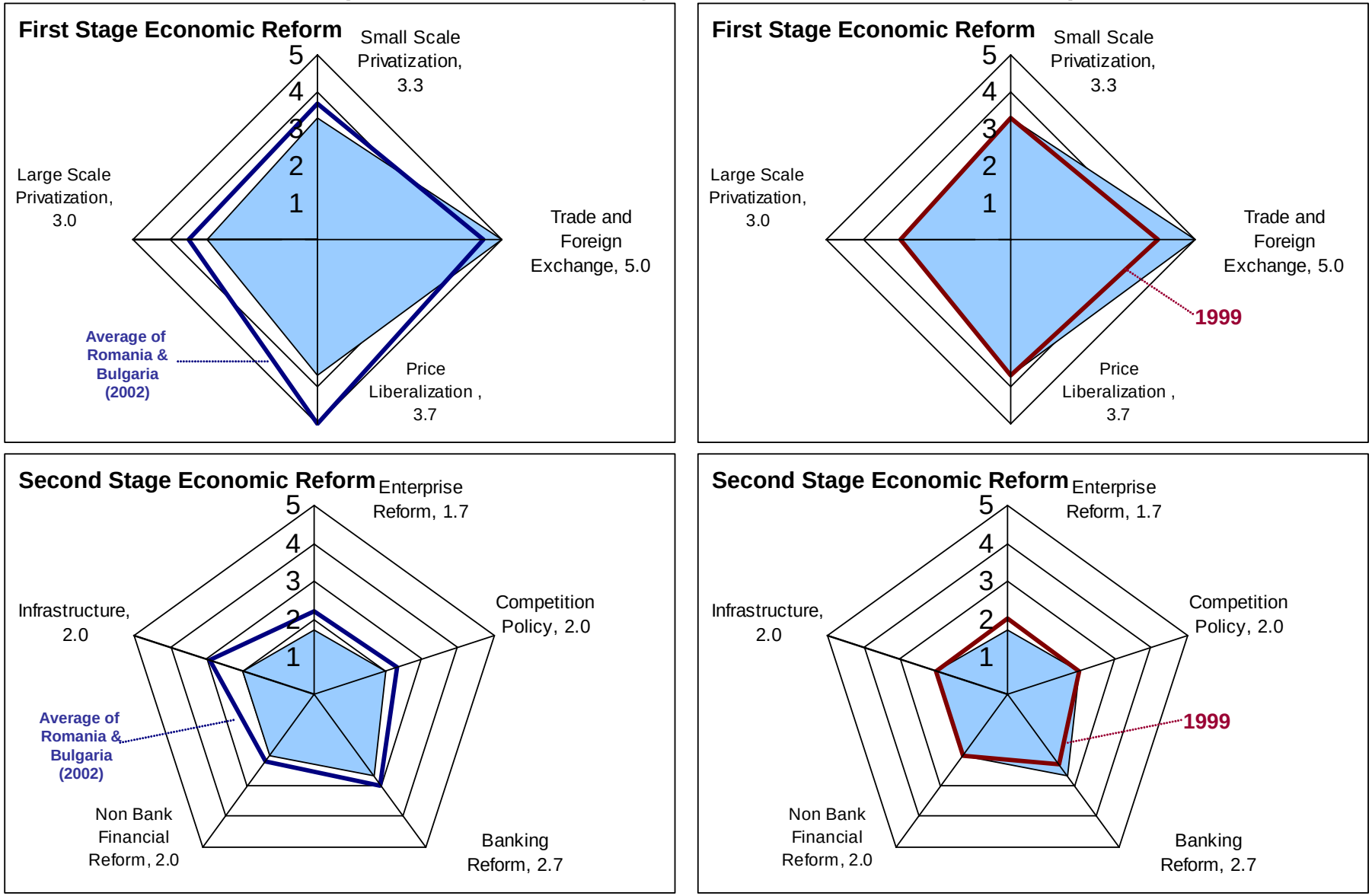


Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from World Bank, *World Development Indicators 2004* (2004); UNICEF, *Social Monitor 2004* (2004).

Figure 68

Economic Reform in Moldova in 2004

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

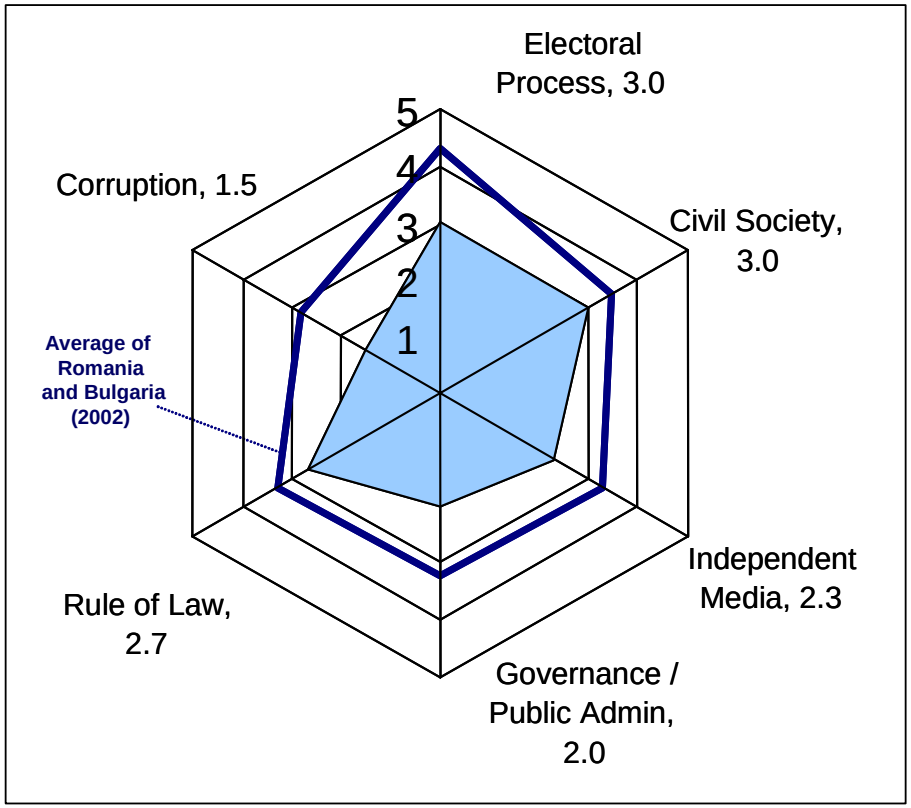


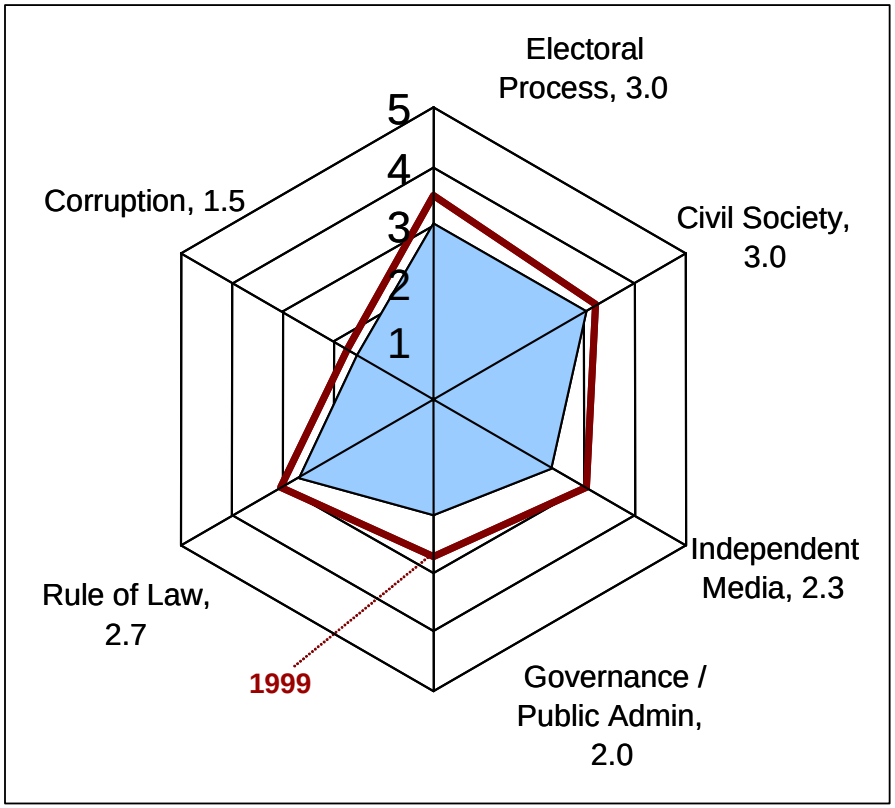
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from EBRD, *Transition Report 2004* (November 2004).

Figure 69

Democratic Reforms in Moldova in 2003

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



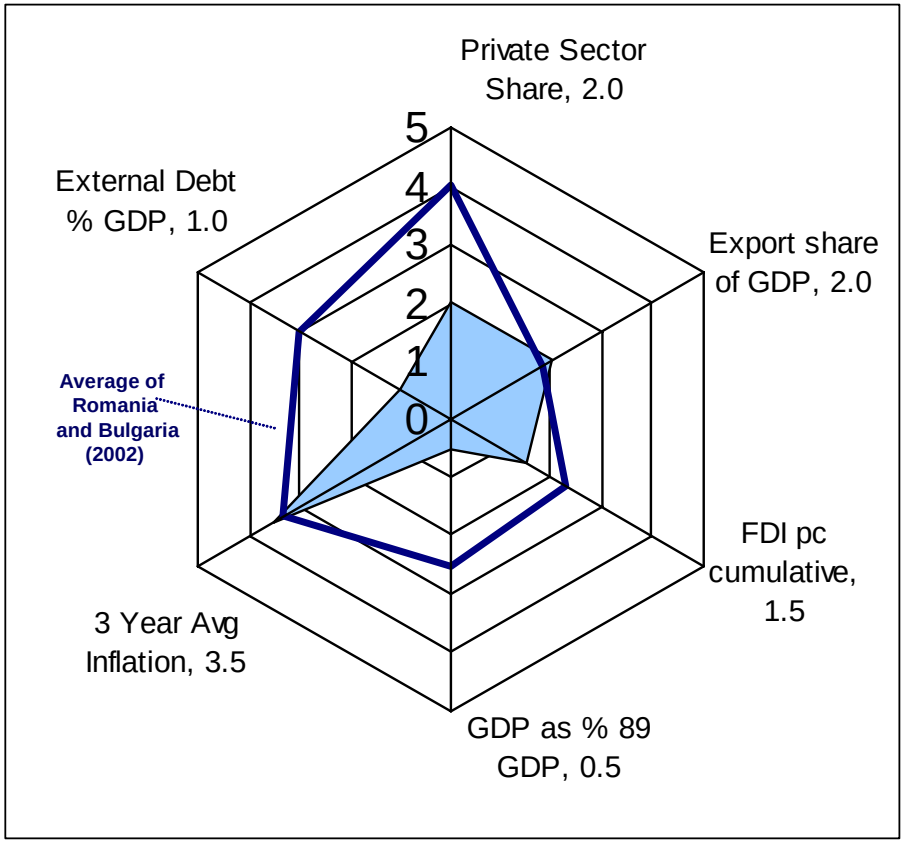


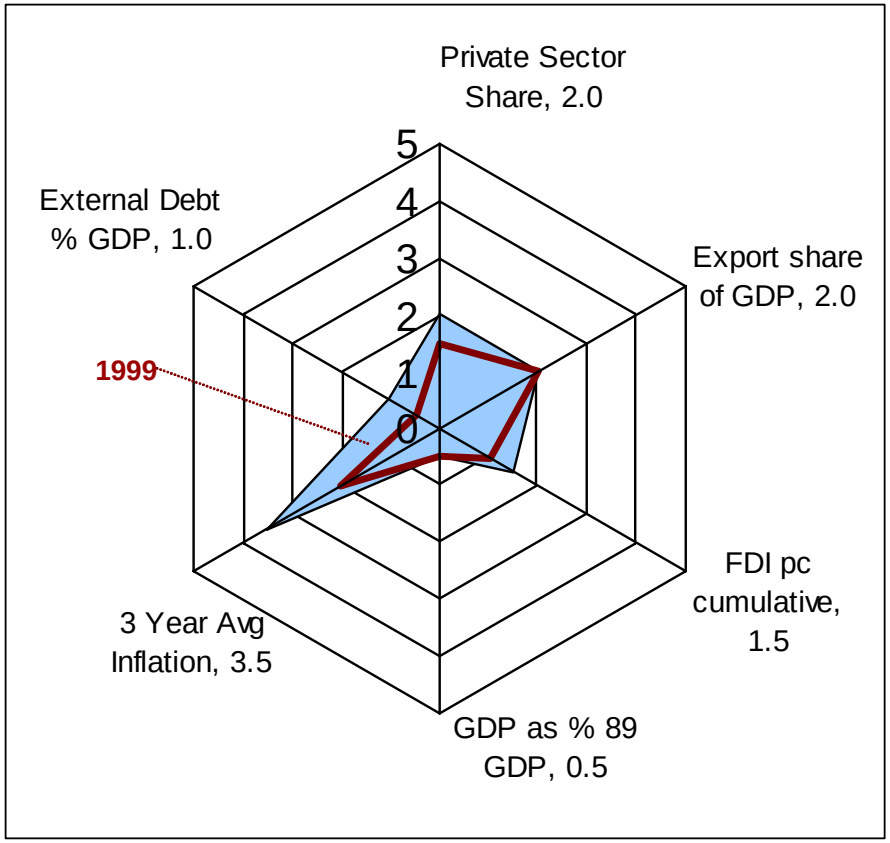
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from Freedom House, *Nations in Transit 2004.*

Figure 70

Economic Performance Index in Moldova in 2002 - 2004

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



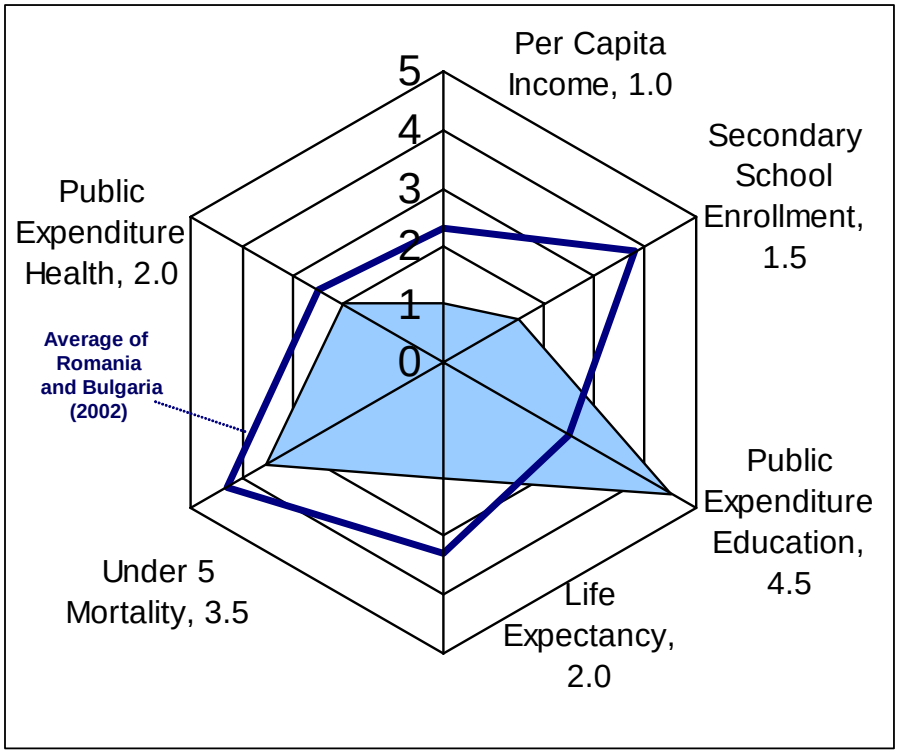


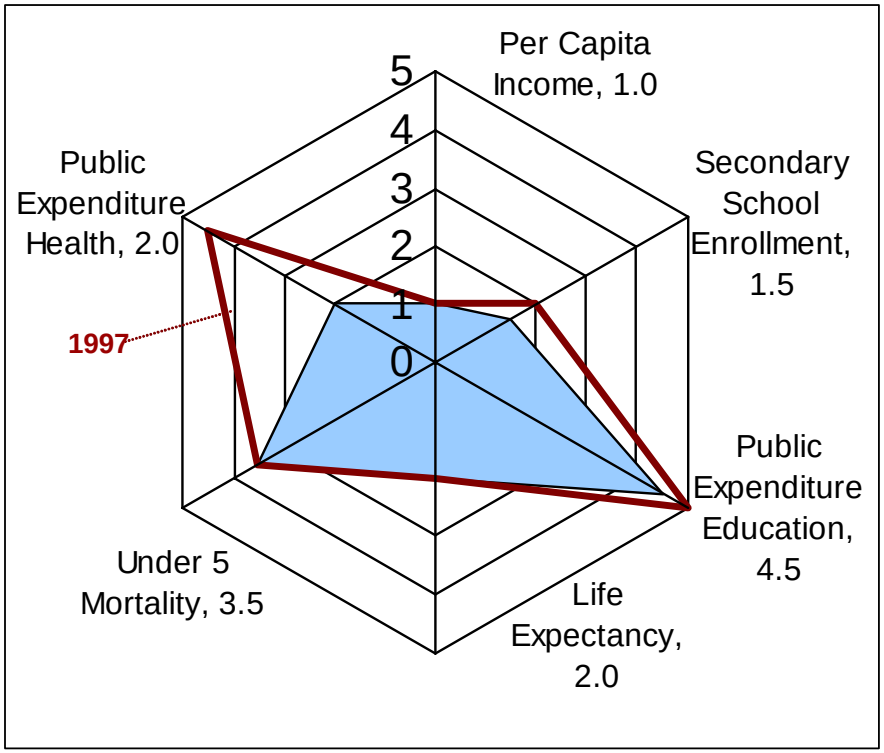
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from World Bank, *World Development Indicators 2004* (2004); EBRD, *Transition Report* (November 2004), M. Ayyagari, T. Beck, and A. Demirguc-Kunt, *Small and Medium Enterprises across the Globe*: World Bank Policy Research Working Paper 3127, August 2003. SME data no later than 1998.

Figure 71

Human Capital Index in Moldova

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



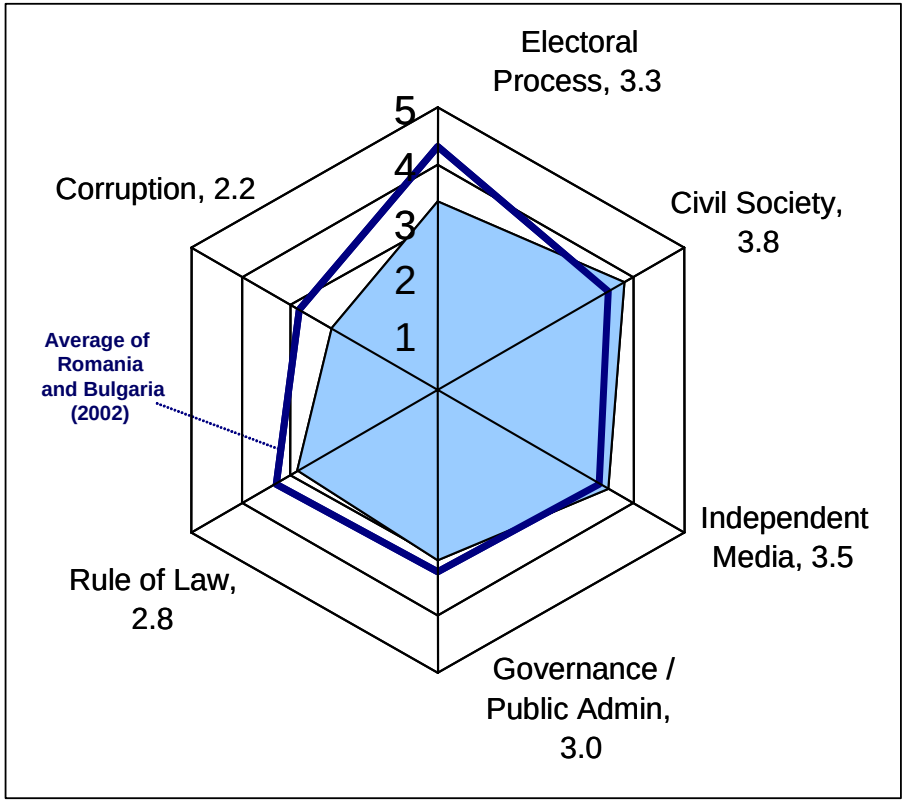


Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from World Bank, *World Development Indicators 2004* (2004); UNICEF, *Social Monitor 2004* (2004).

Figure 72

Democratic Reforms in Montenegro in 2003

(versus Romania & Bulgaria in 2002)

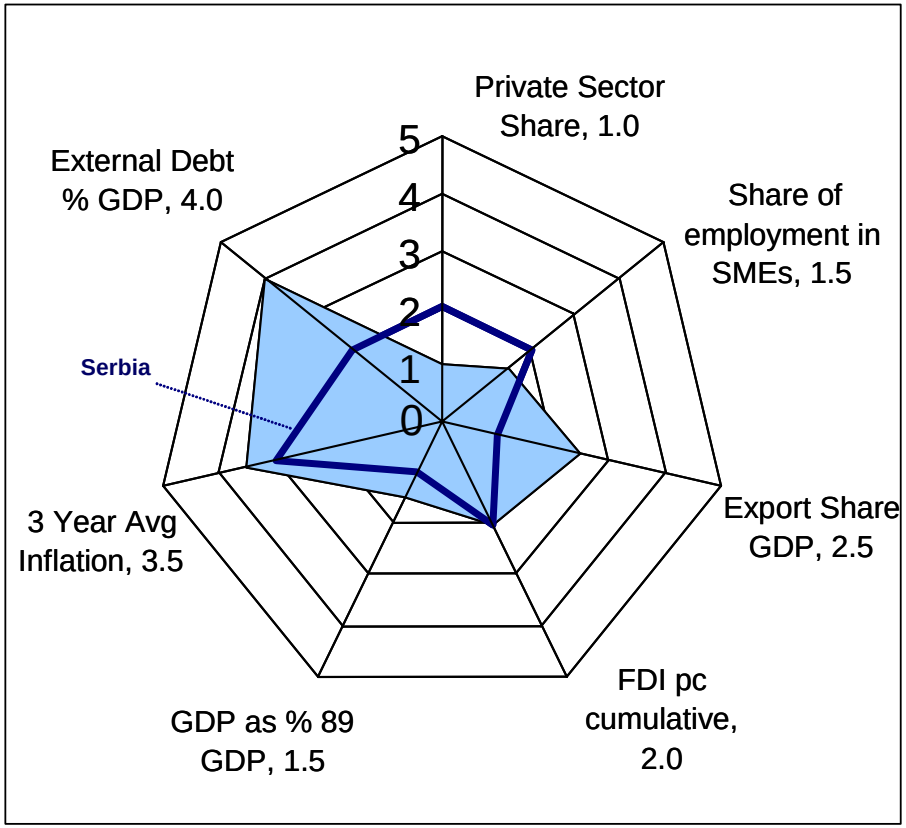


Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from Freedom House, *Nations in Transit 2004.*

Figure 73

Economic Performance Index in Montenegro in 2002 – 2004

(versus Romania & Bulgaria in 2002)

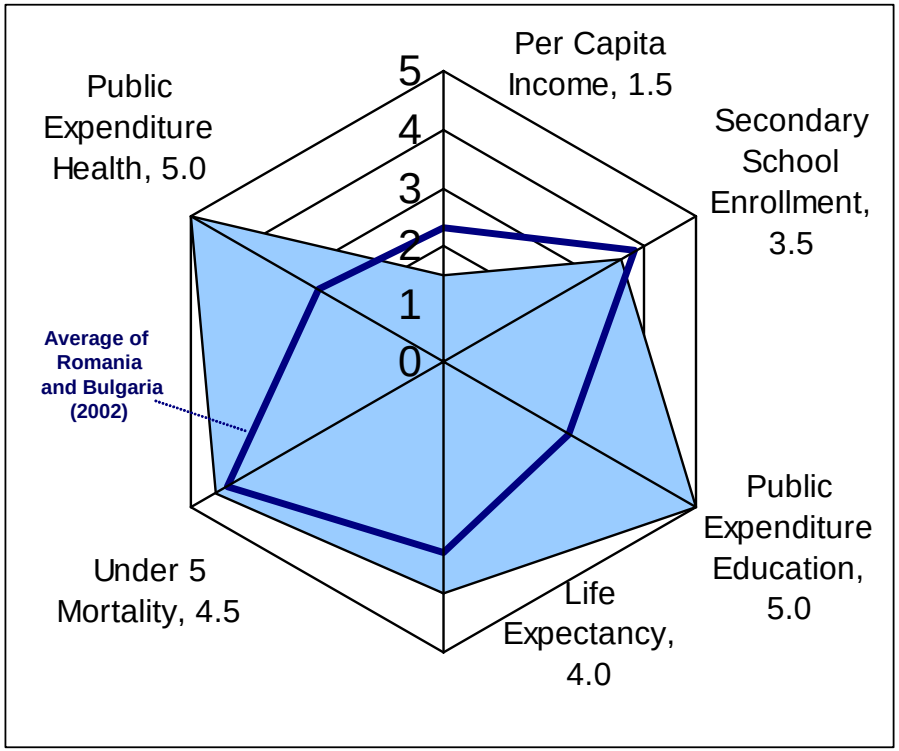


Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID, *Monitoring Country Progress in CEE & Eurasia #9* (2004) drawing from World Bank, *World Development Indicators 2004* (2004); EBRD, *Transition Report* (November 2004), M. Ayyagari, T. Beck, and A. Demirguc-Kunt, *Small and Medium Enterprises across the Globe*: World Bank Policy Research Working Paper 3127, August 2003. SME data no later than 1998.

Figure 74

Human Capital Index in Montenegro

(versus Romania & Bulgaria in 2002)

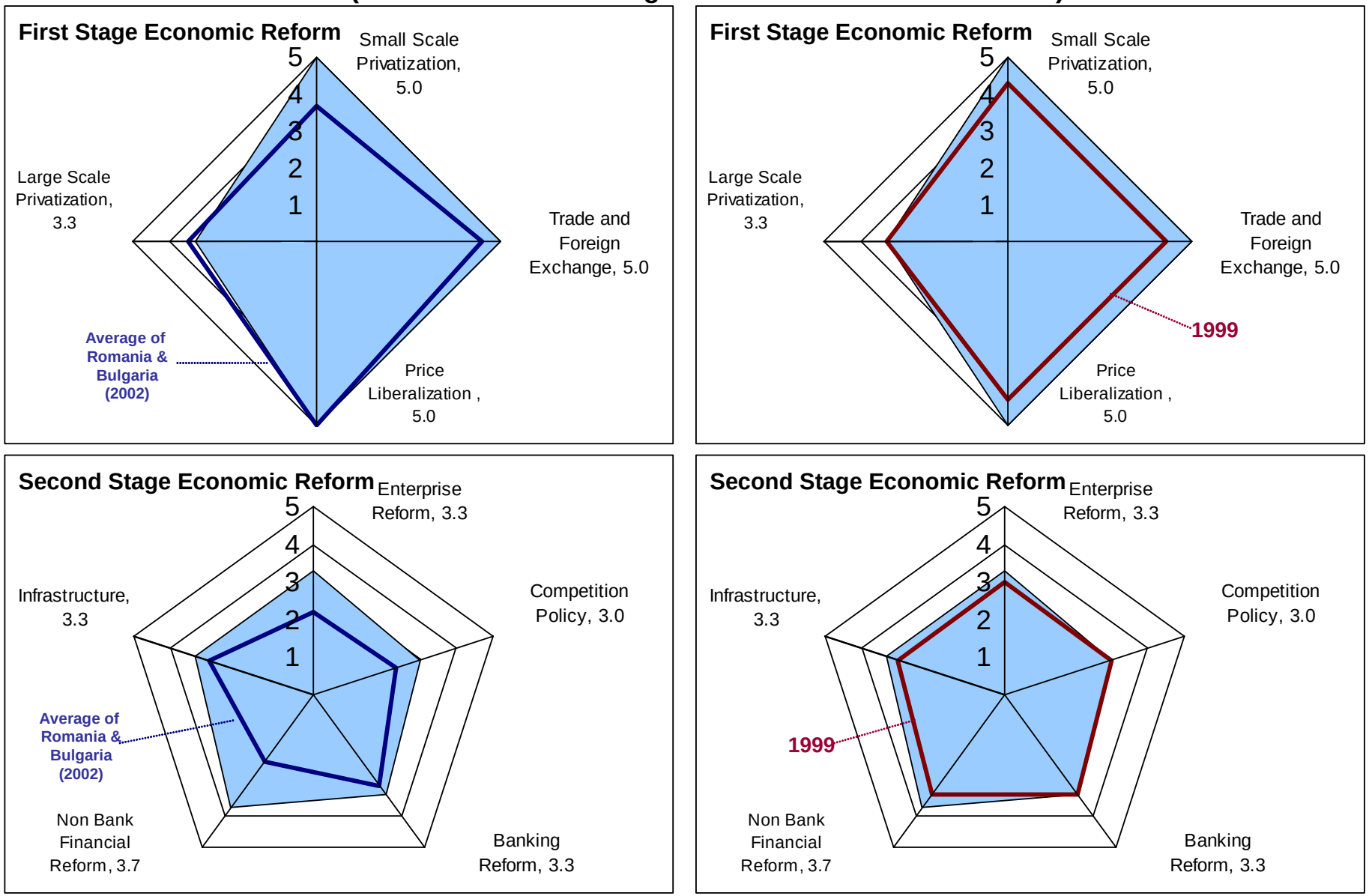


Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from World Bank, *World Development Indicators 2004* (2004); UNICEF, *Social Monitor 2004* (2004).

Figure 75

Economic Reform in Poland in 2004

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

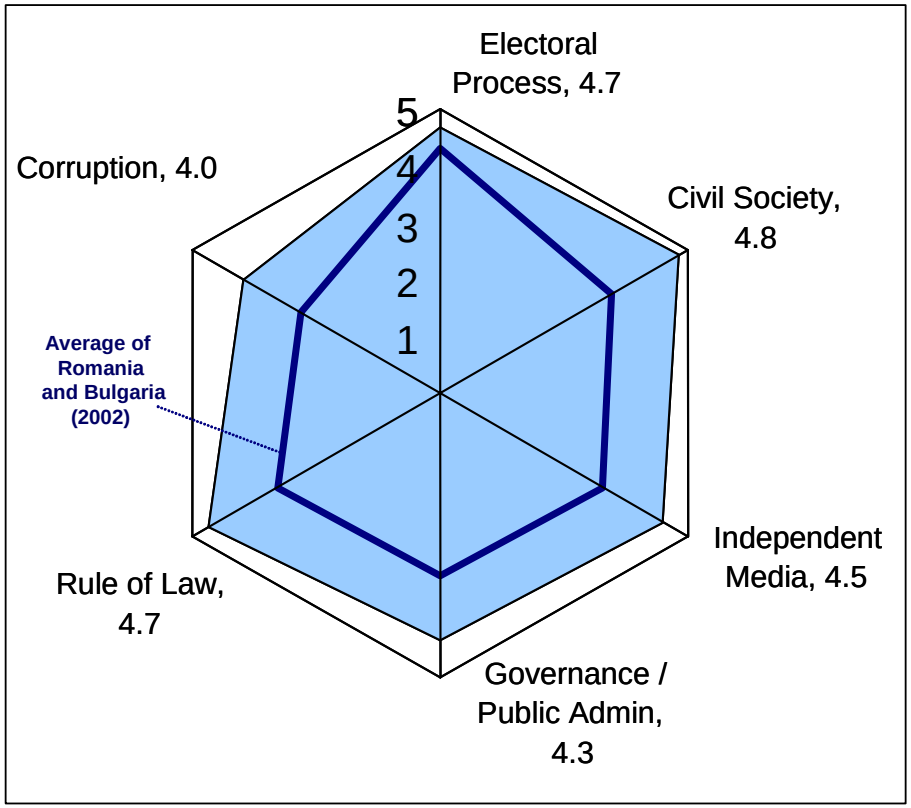


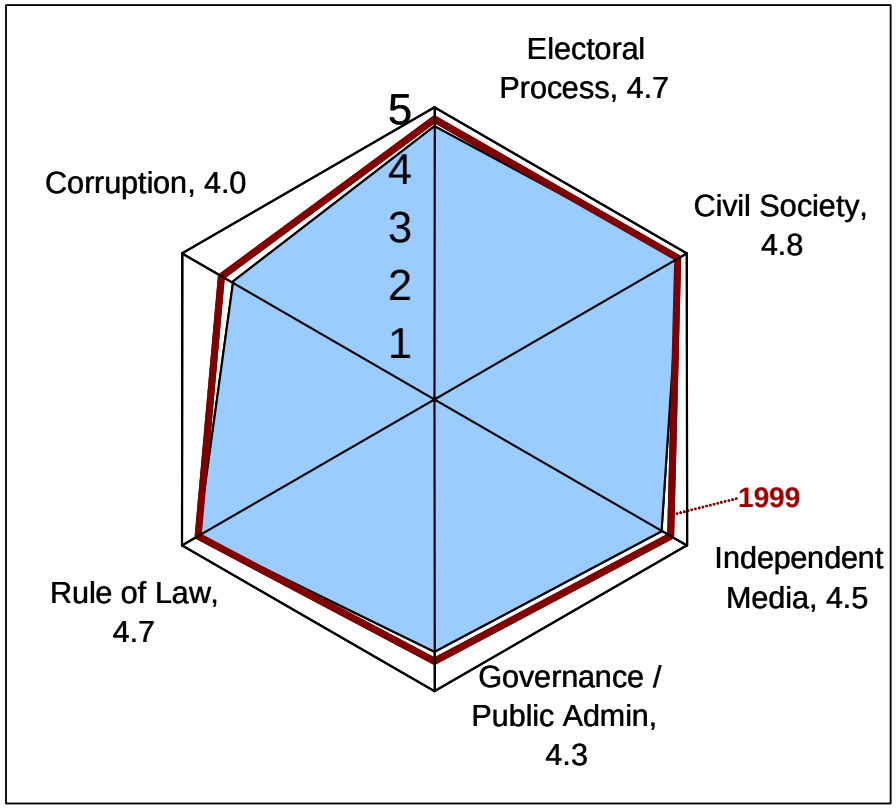
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from EBRD, *Transition Report 2004* (November 2004).

Figure 76

Democratic Reforms in Poland in 2003

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



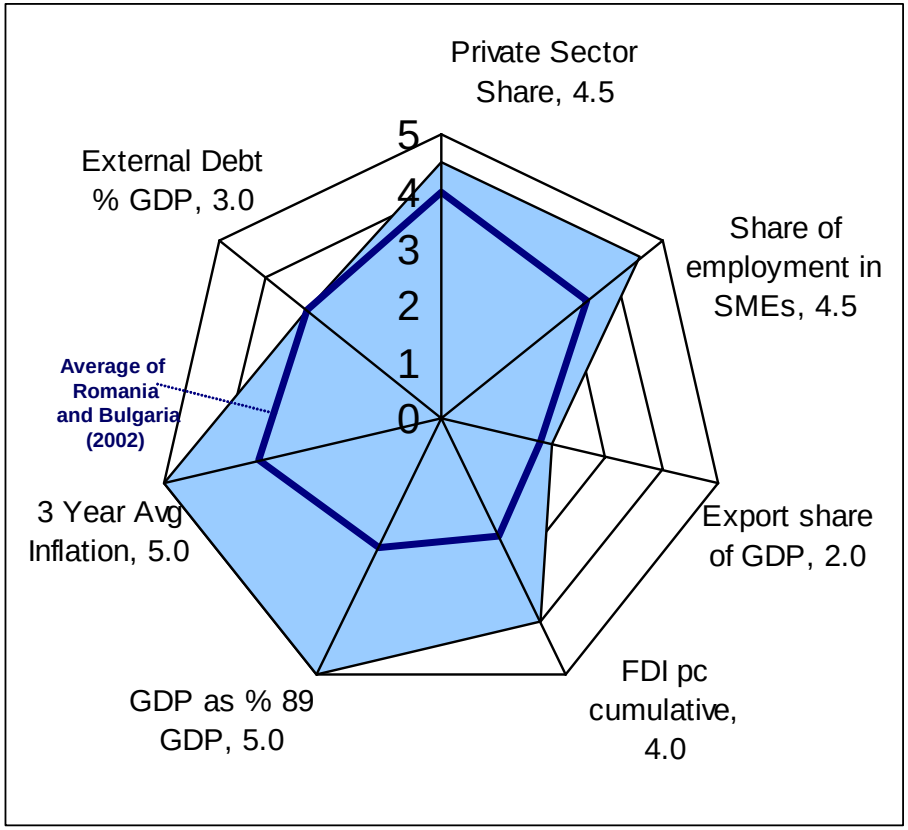


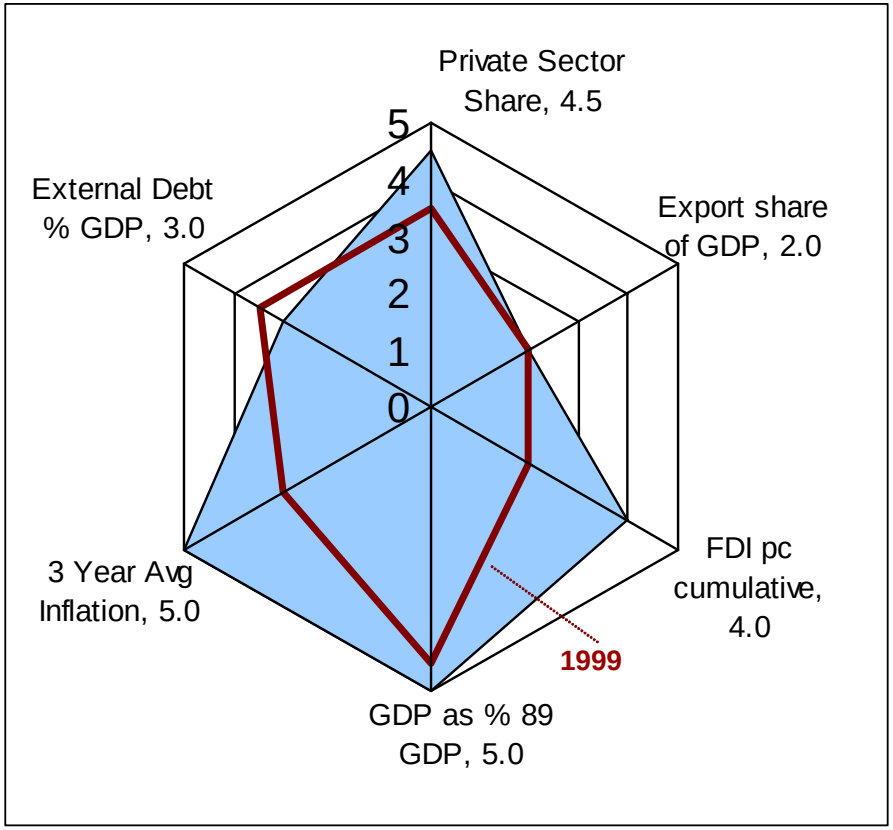
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from Freedom House, *Nations in Transit 2004.*

Figure 77

Economic Performance Index in Poland in 2002 - 2004

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



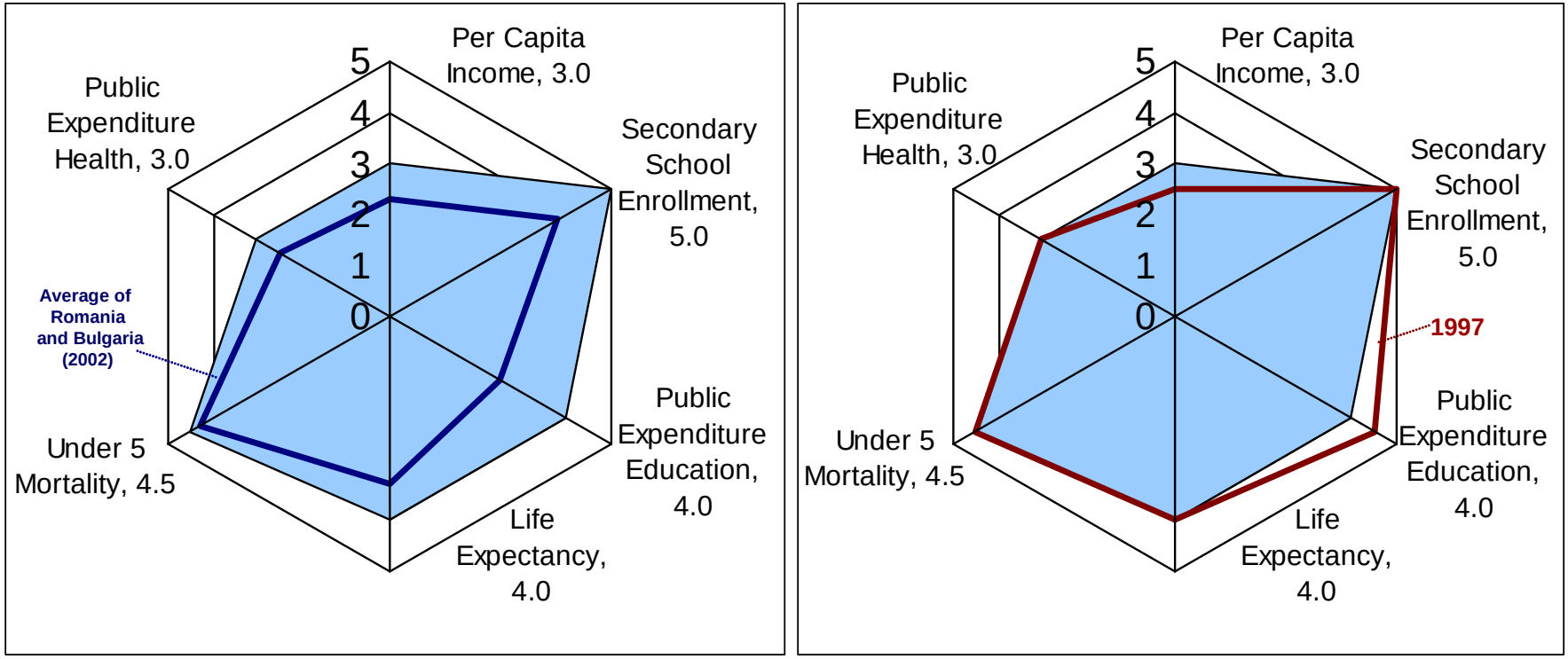


Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from World Bank, *World Development Indicators 2004* (2004); EBRD, *Transition Report* (November 2004), M. Ayyagari, T. Beck, and A. Demirguc-Kunt, *Small and Medium Enterprises across the Globe*: World Bank Policy Research Working Paper 3127, August 2003. SME data no later than 1998.

Figure 78

Human Capital Index in Poland

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

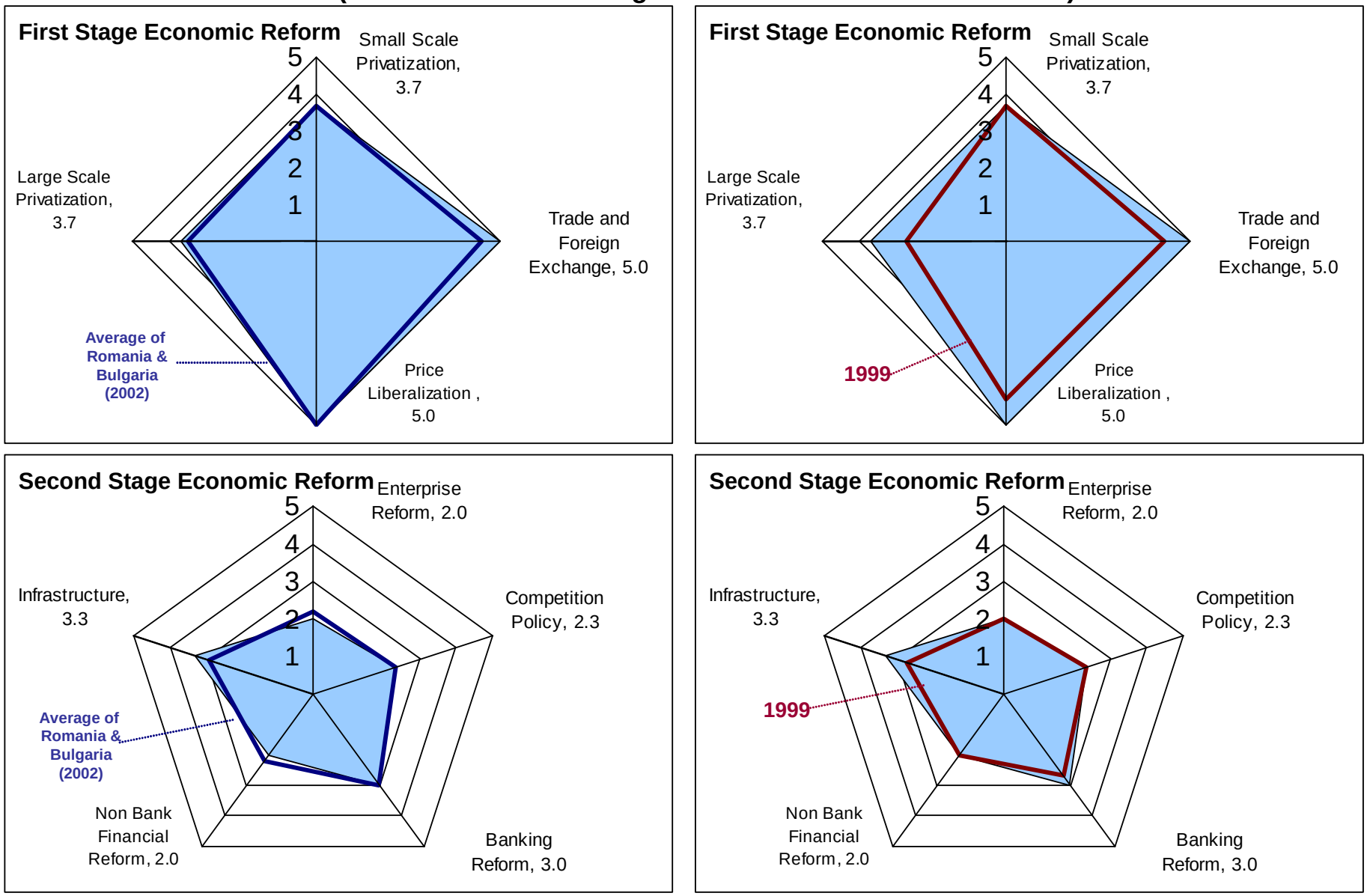


Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from World Bank, *World Development Indicators 2004* (2004); UNICEF, *Social Monitor 2004* (2004).

Figure 79

Economic Reform in Romania in 2004

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

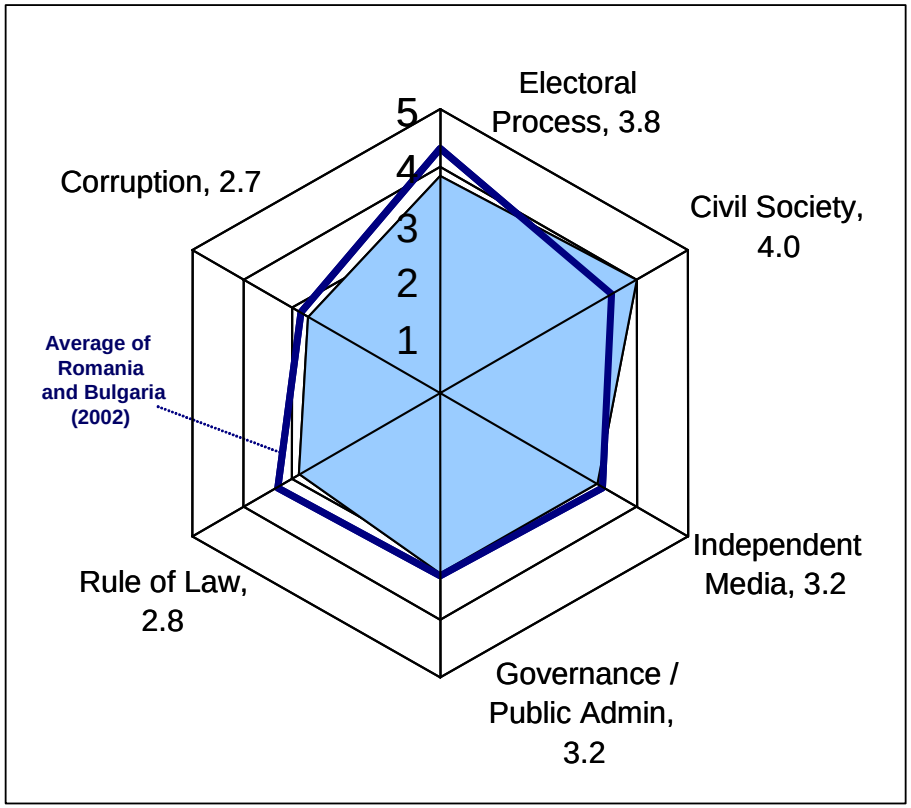


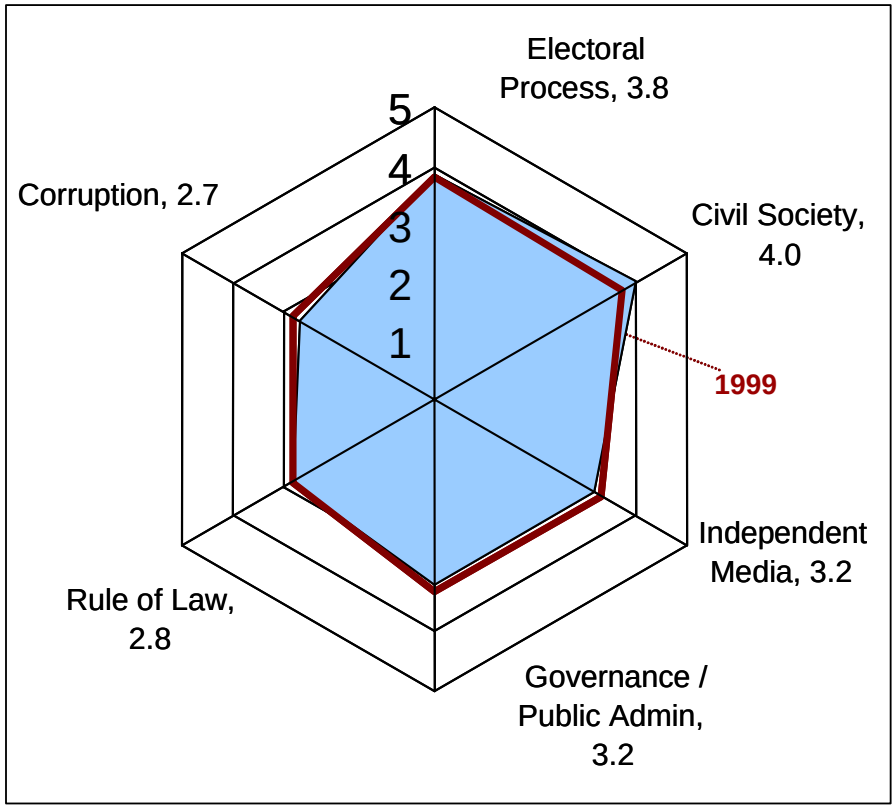
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from EBRD, *Transition Report 2004* (November 2004).

Figure 80

Democratic Reforms in Romania in 2003

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



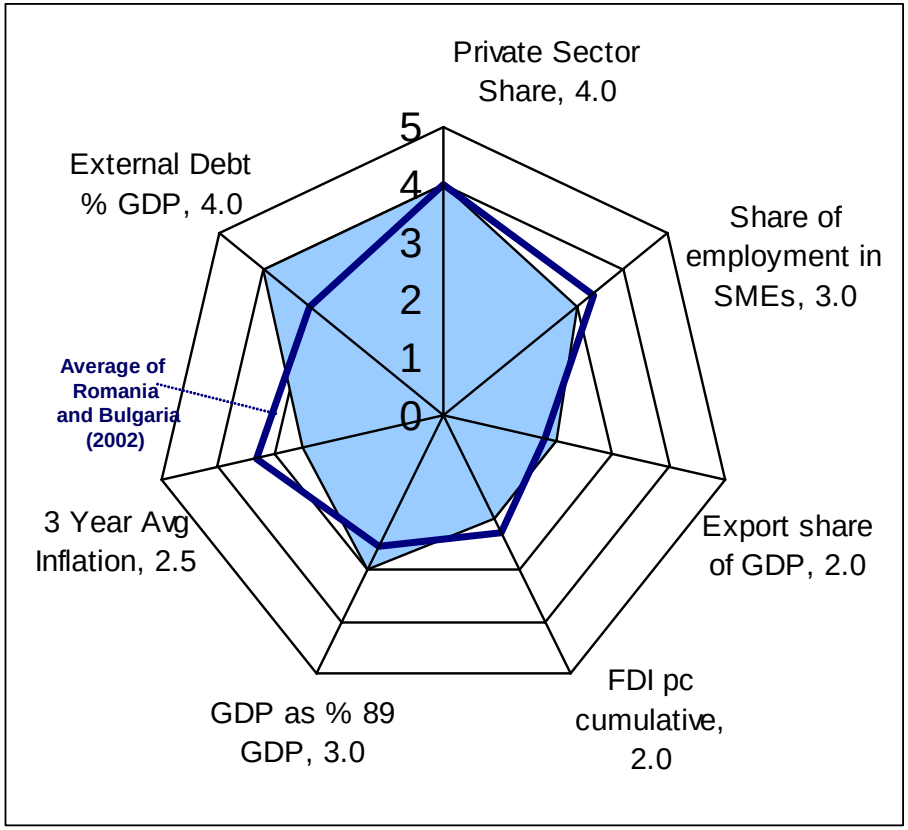


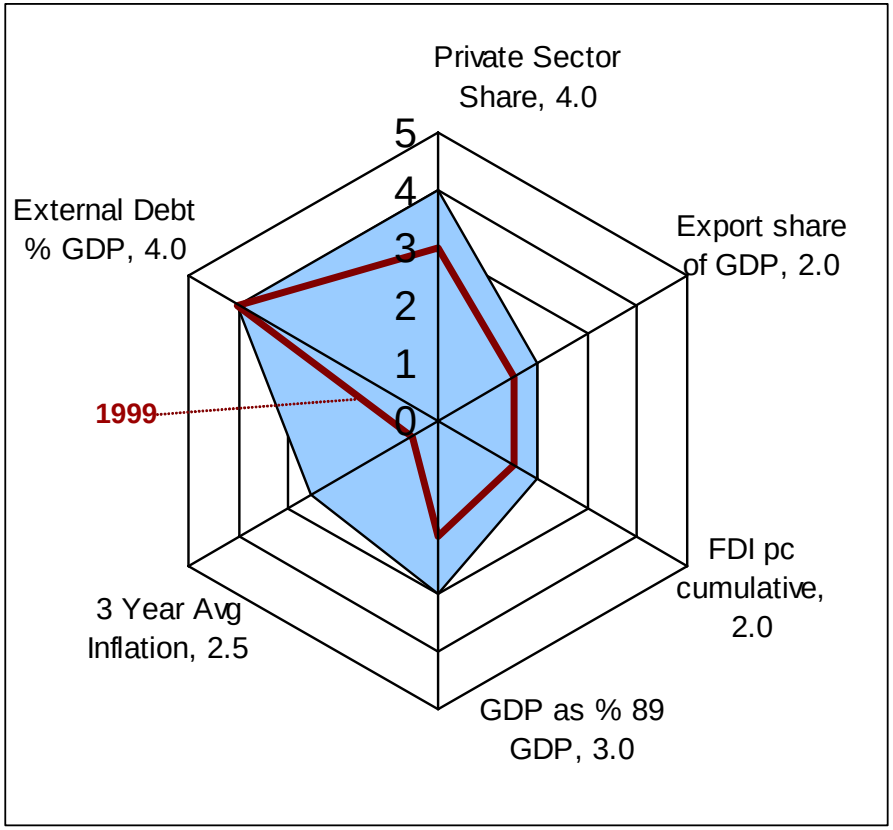
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from Freedom House, *Nations in Transit 2004.*

Figure 81

Economic Performance Index in Romania in 2002 - 2004

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



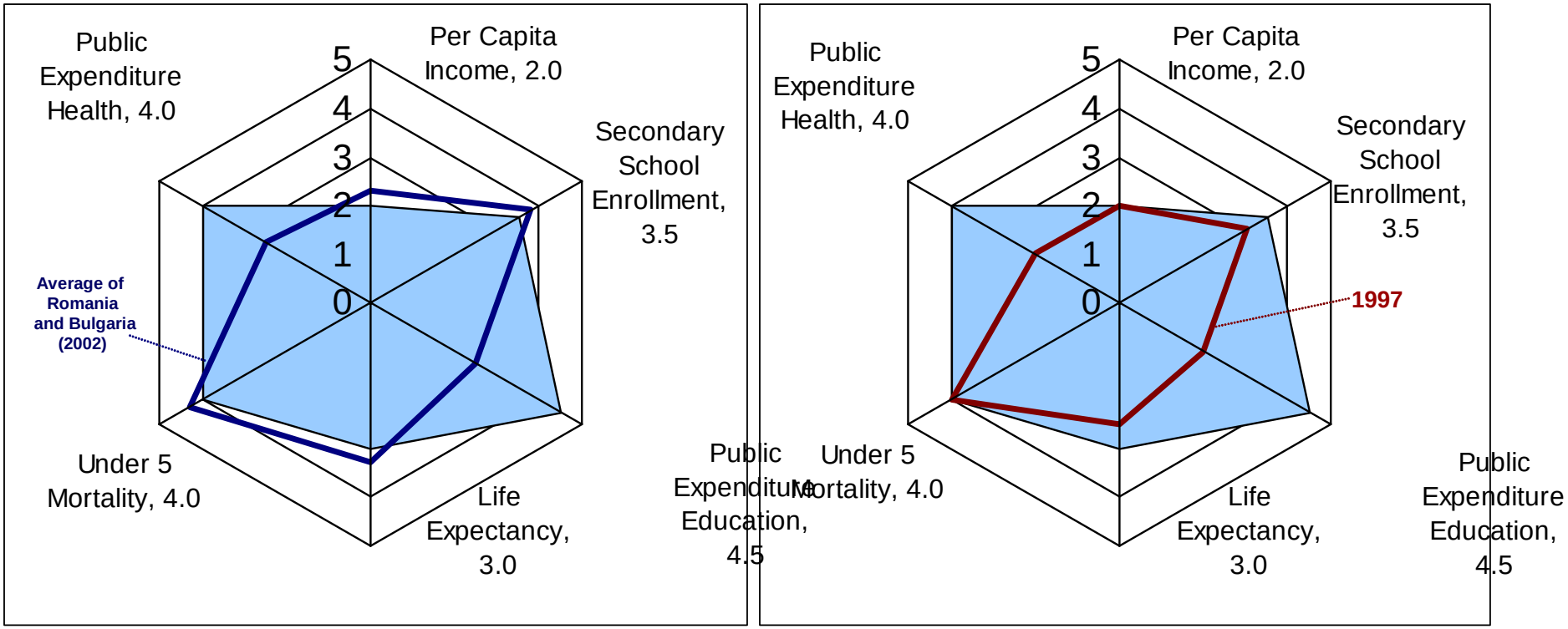


Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from World Bank, *World Development Indicators 2004* (2004); EBRD, *Transition Report* (November 2004), M. Ayyagari, T. Beck, and A. Demirguc-Kunt, *Small and Medium Enterprises across the Globe*: World Bank Policy Research Working Paper 3127, August 2003. SME data no later than 1998.

Figure 82

Human Capital Index in Romania

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

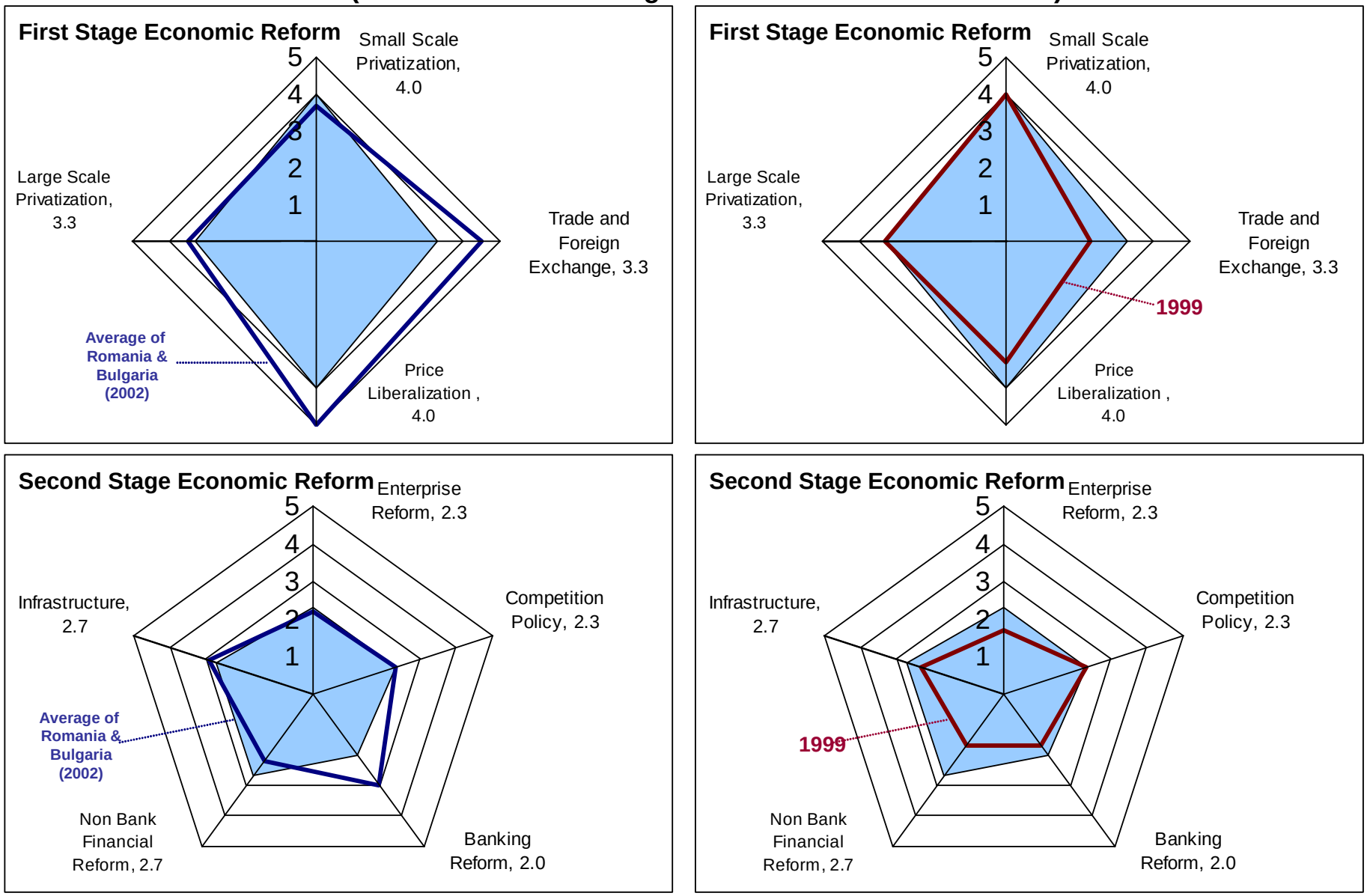


Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from World Bank, *World Development Indicators 2004* (2004); UNICEF, *Social Monitor 2004* (2004).

Figure 83

Economic Reform in Russia in 2004

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

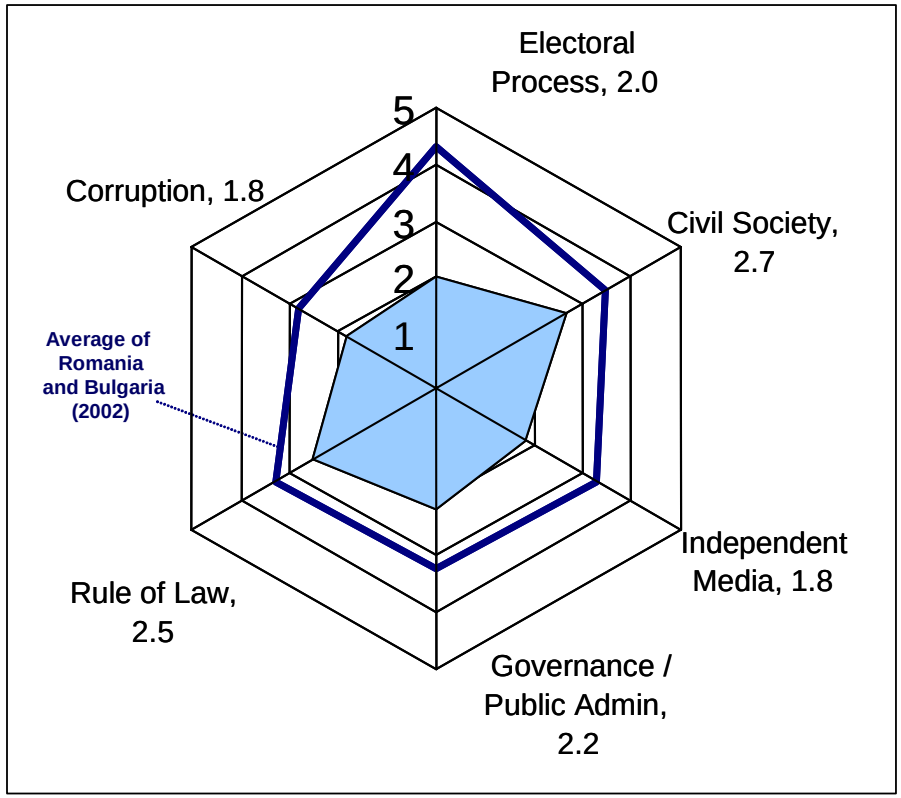


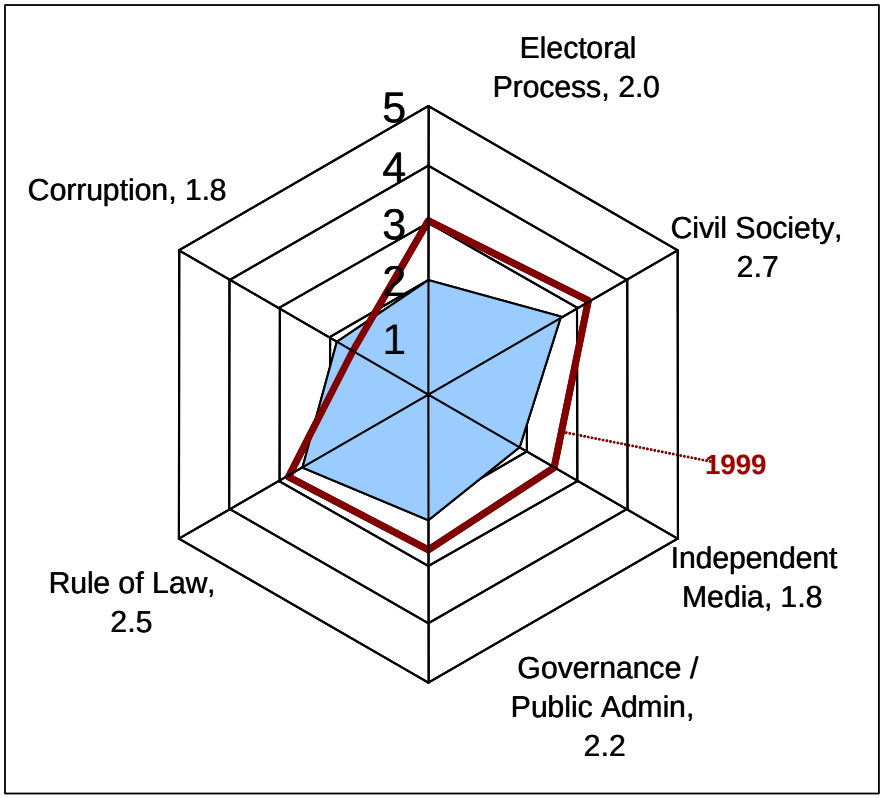
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from EBRD, *Transition Report 2004* (November 2004).

Figure 84

Democratic Reforms in Russia in 2003

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



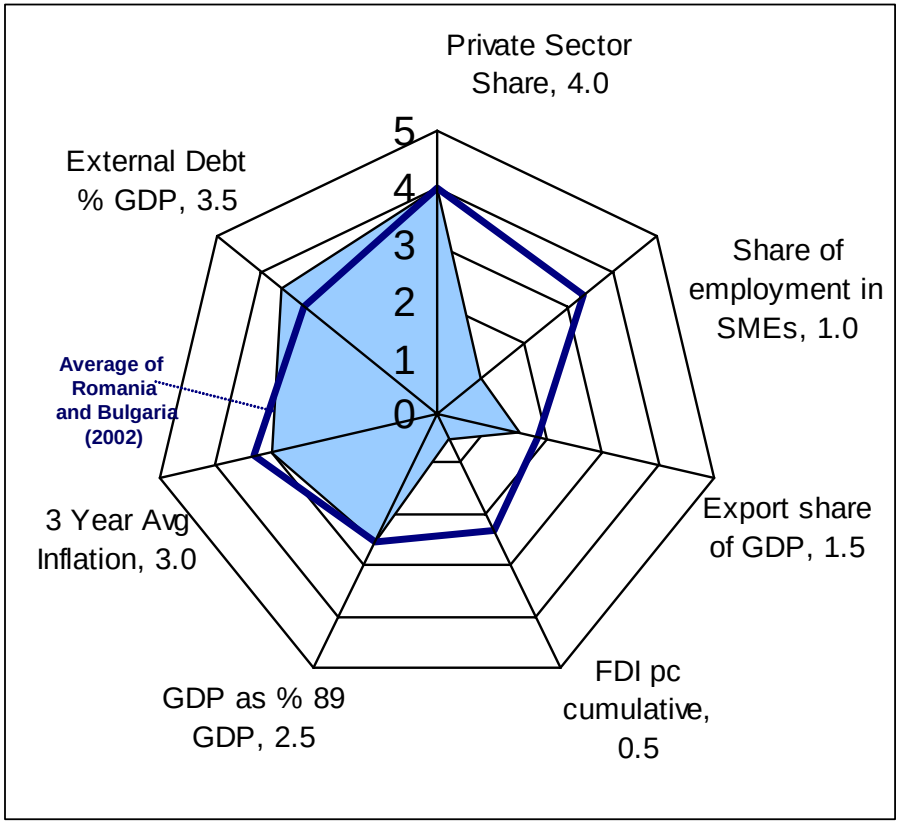


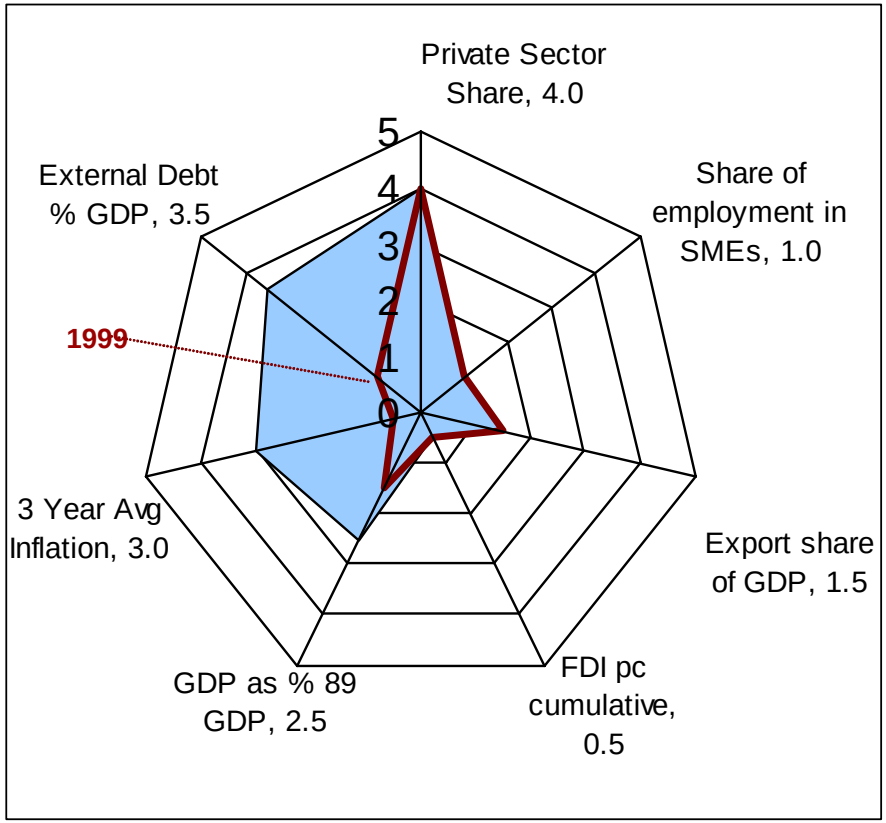
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from Freedom House, *Nations in Transit 2004.*

Figure 85

Economic Performance Index in Russia in 2002 - 2004

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



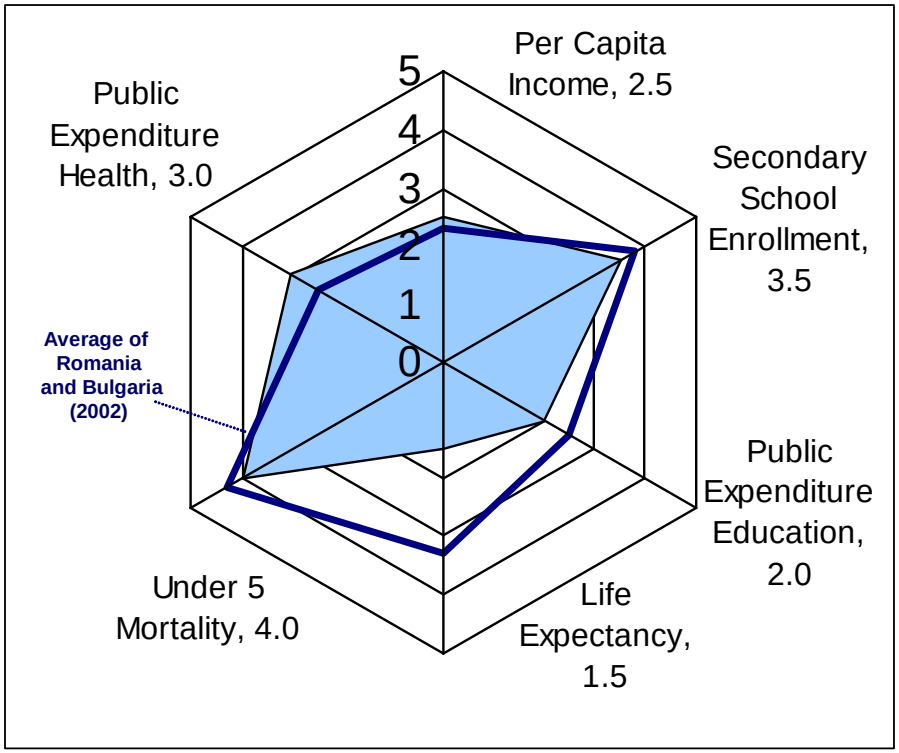


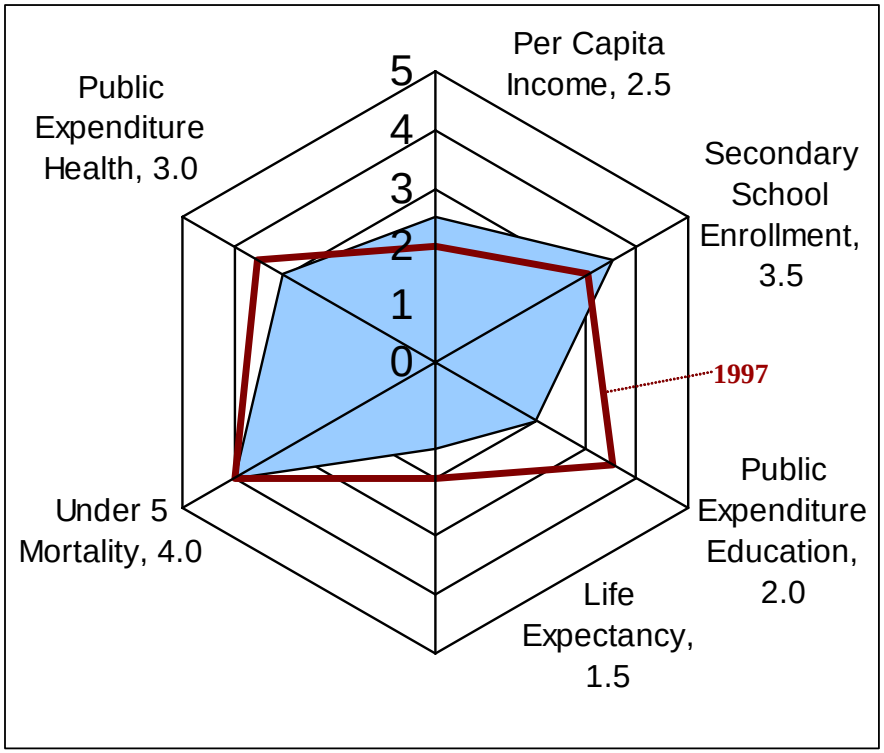
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from World Bank, *World Development Indicators 2004* (2004); EBRD, *Transition Report* (November 2004), M. Ayyagari, T. Beck, and A. Demirguc-Kunt, *Small and Medium Enterprises across the Globe*: World Bank Policy Research Working Paper 3127, August 2003. SME data no later than 1998.

Figure 86

Human Capital Index in Russia

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

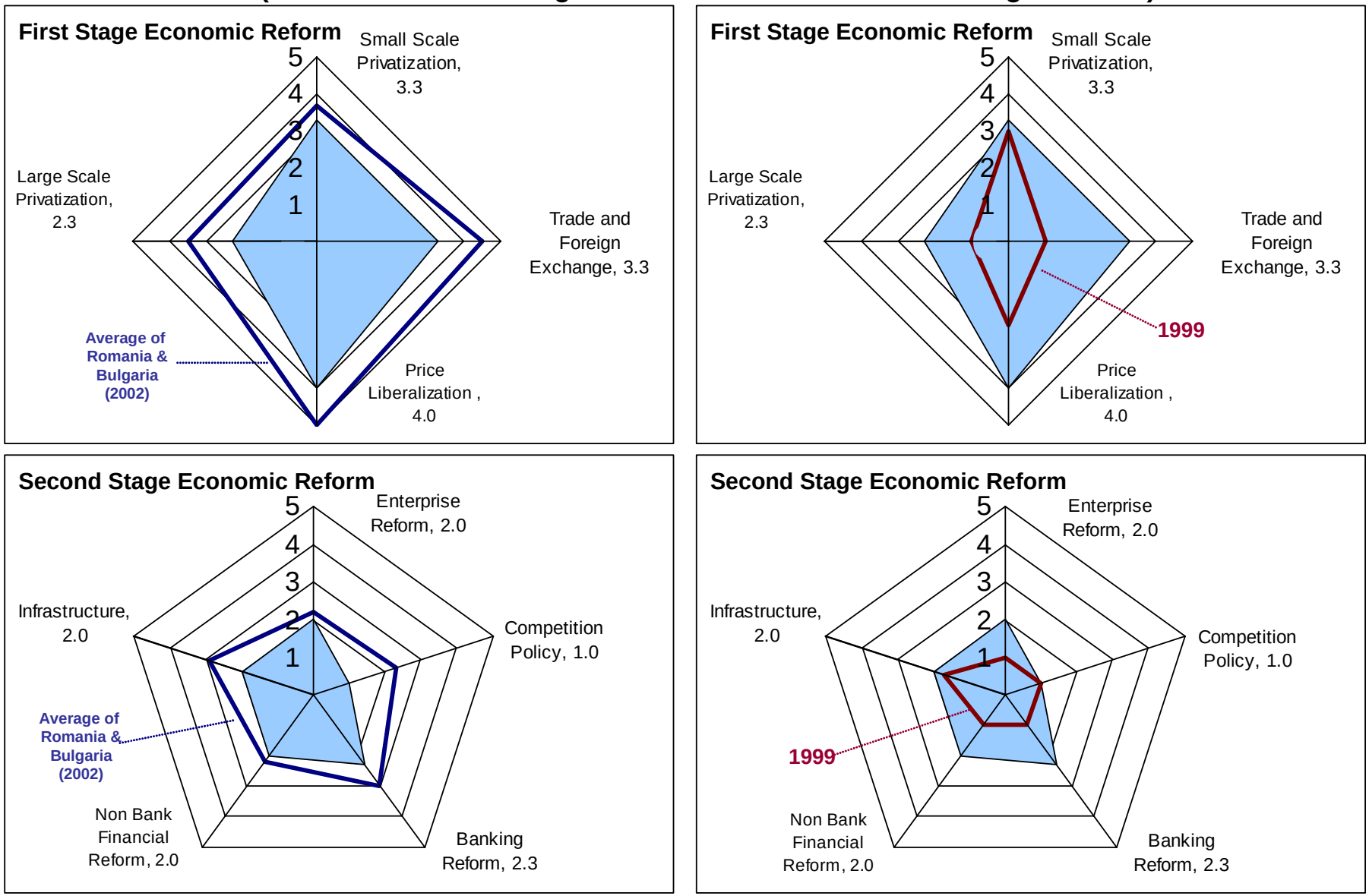




Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from World Bank, *World Development Indicators 2004* (2004); UNICEF, *Social Monitor 2004* (2004).

Figure 87 Economic Reform in Serbia & Montenegro in 2004

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

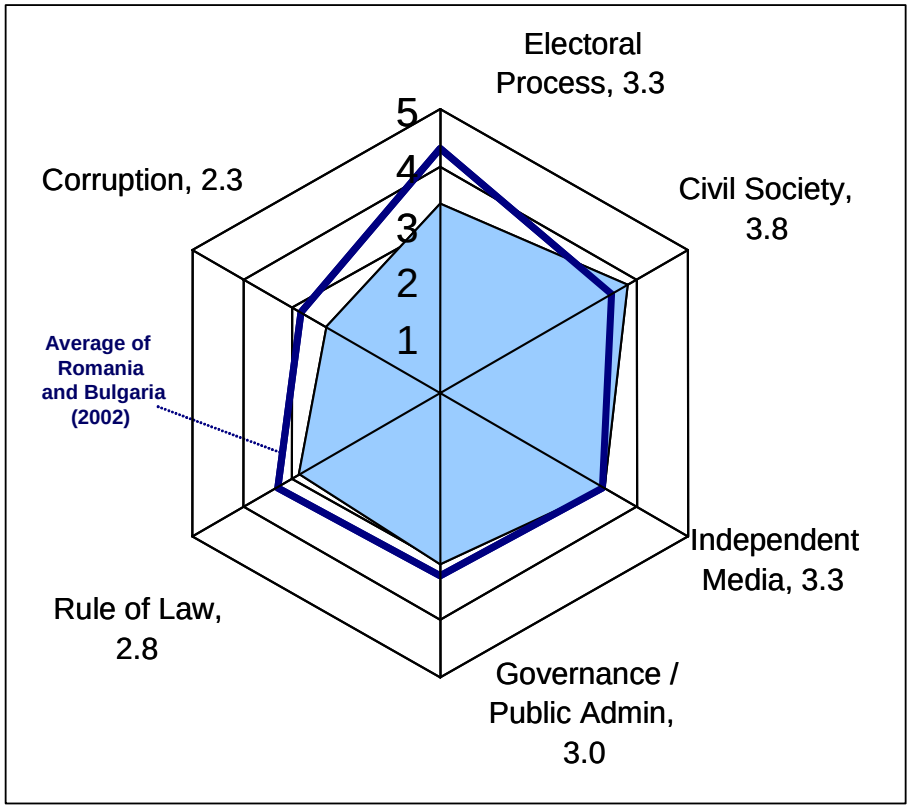


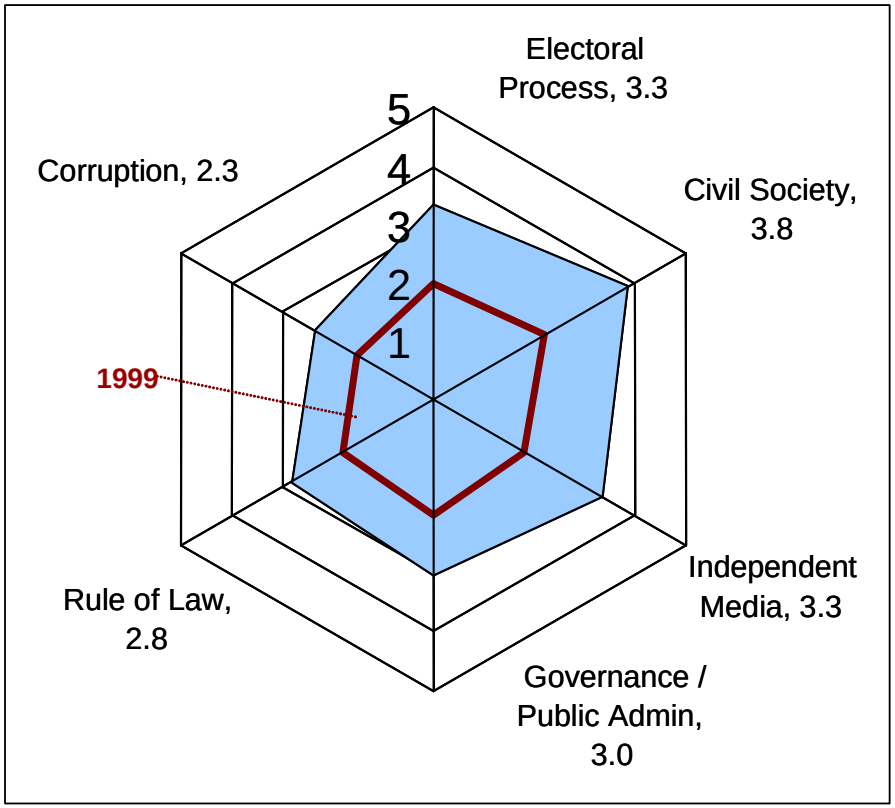
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from EBRD, *Transition Report 2004* (November 2004).

Figure 88

Democratic Reforms in Serbia and Montenegro in 2003

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



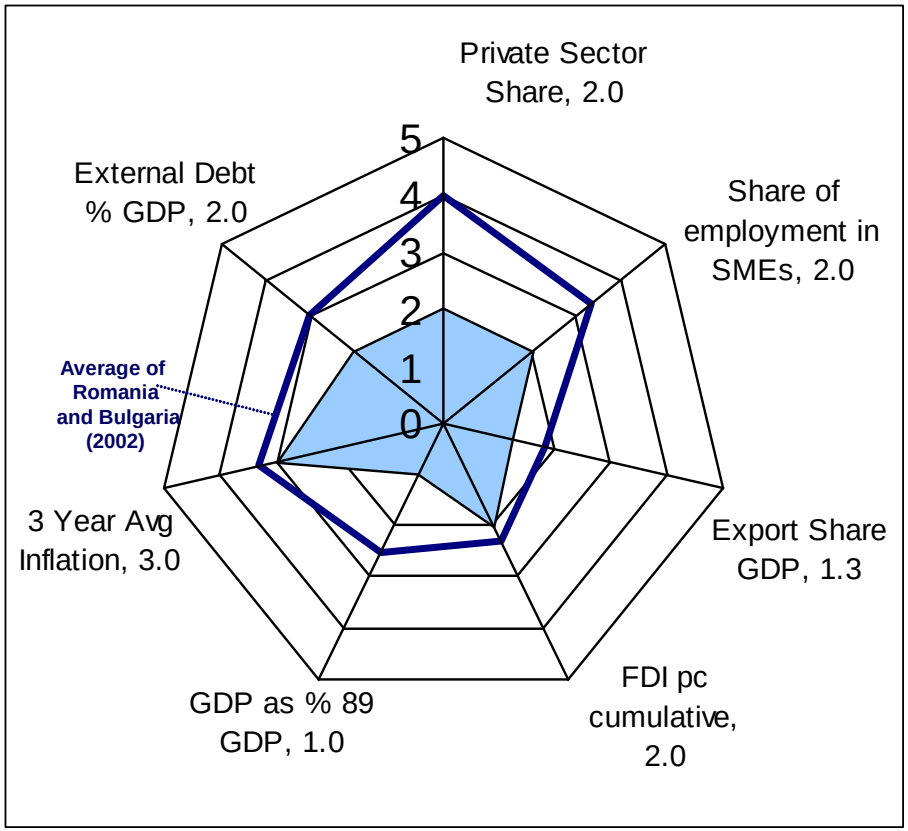


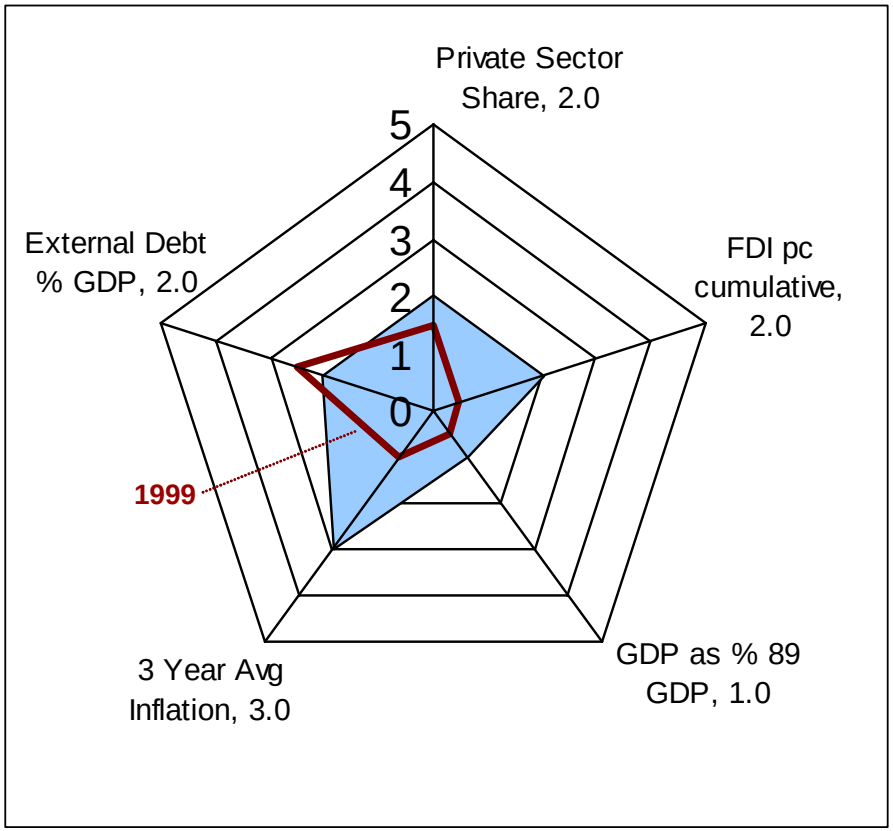
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from Freedom House, *Nations in Transit 2004.*

Figure 89

Economic Performance Index in Serbia & Montenegro in 2002 - 2004

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



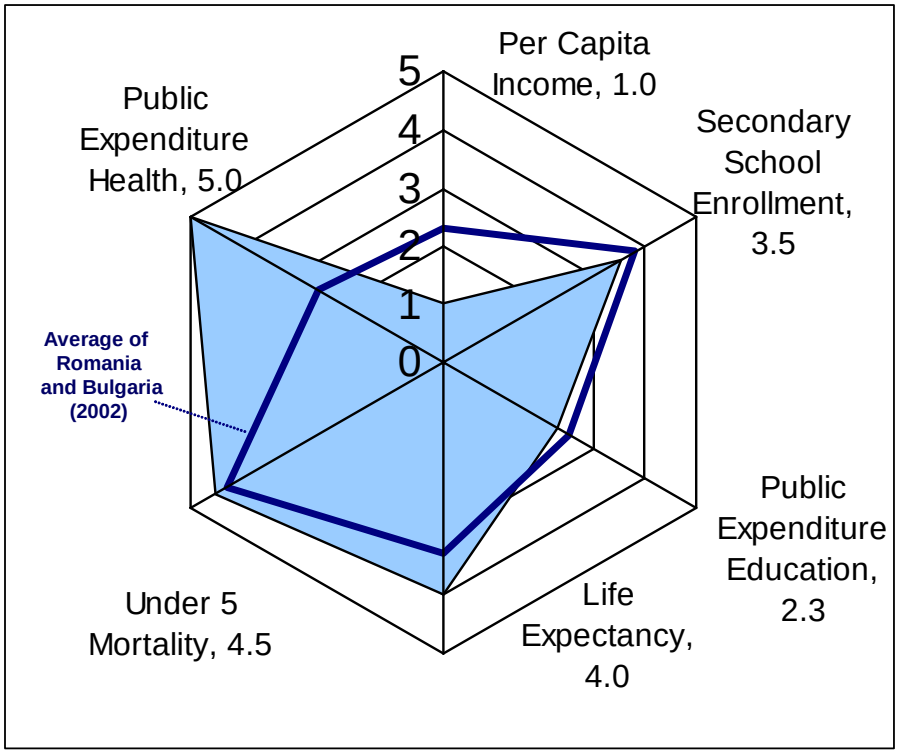


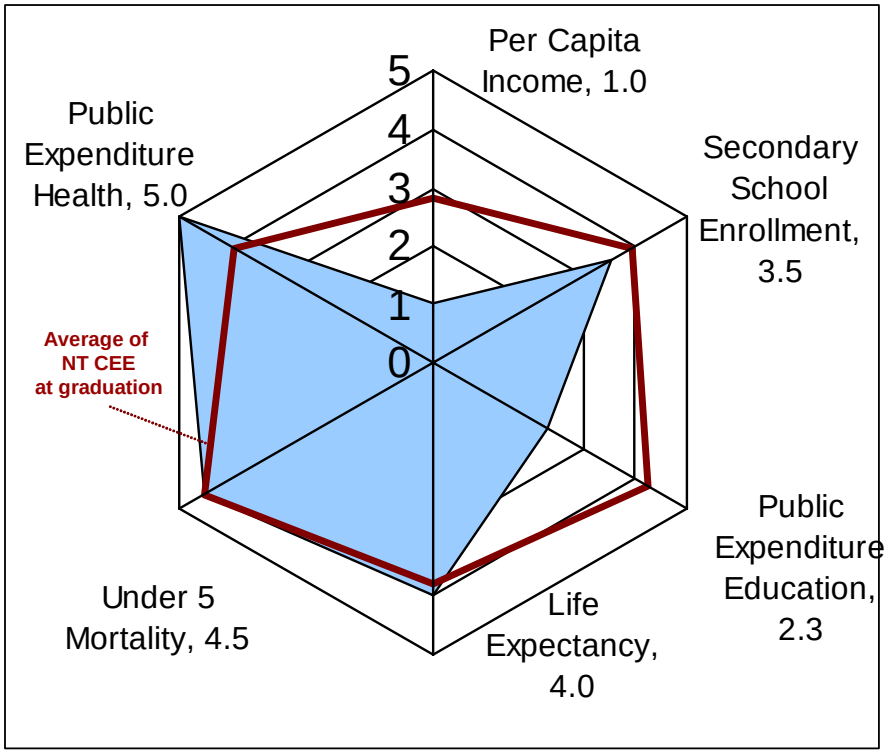
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from World Bank, *World Development Indicators 2004* (2004); EBRD, *Transition Report* (November 2004), M. Ayyagari, T. Beck, and A. Demirguc-Kunt, *Small and Medium Enterprises across the Globe*: World Bank Policy Research Working Paper 3127, August 2003. SME data no later than 1998.

Figure 90

Human Capital Index in Serbia & Montenegro

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



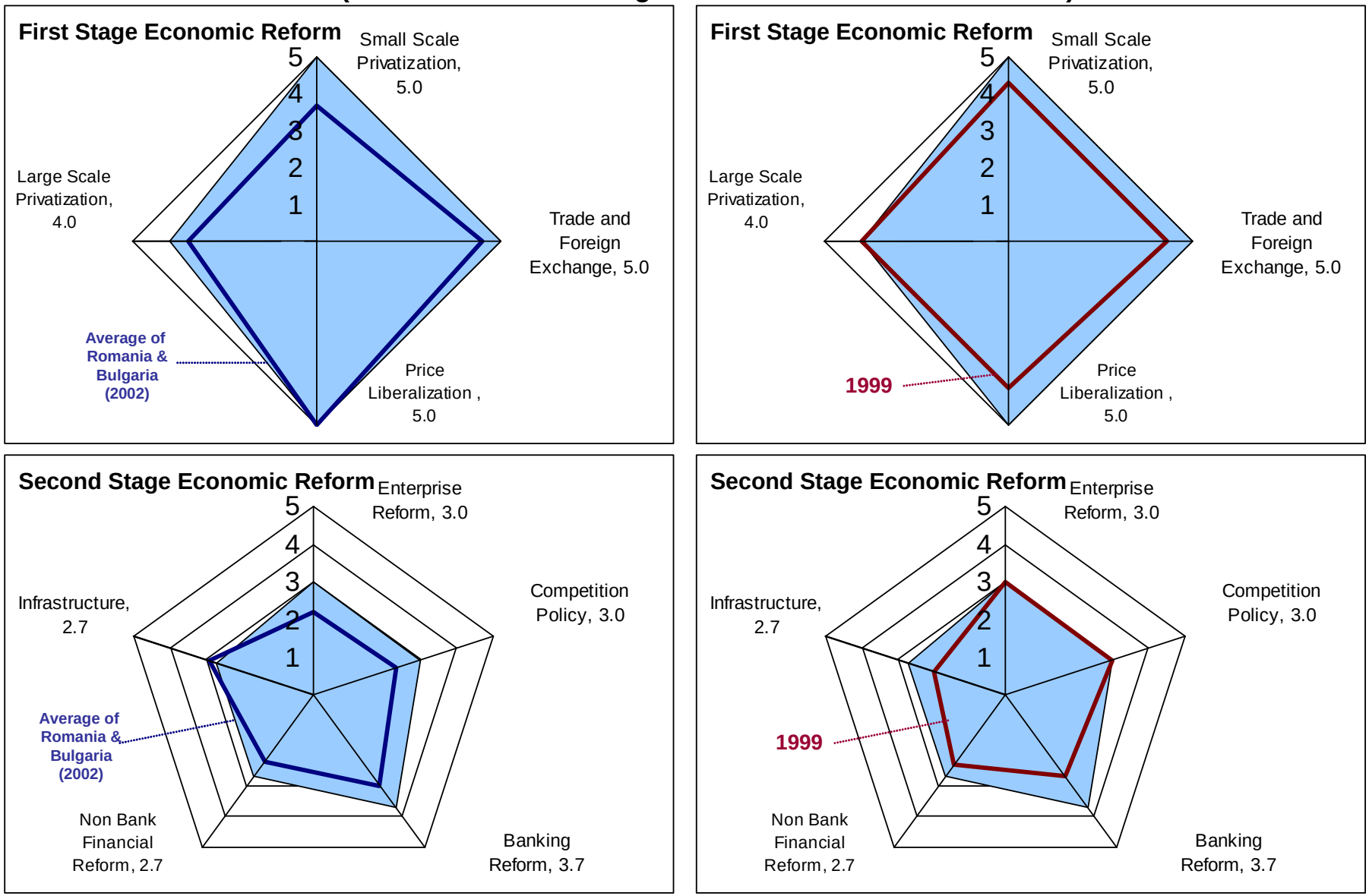


Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from World Bank, *World Development Indicators 2004* (2004); UNICEF, *Social Monitor 2004* (2004).

Figure 91

Economic Reform in Slovakia in 2004

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

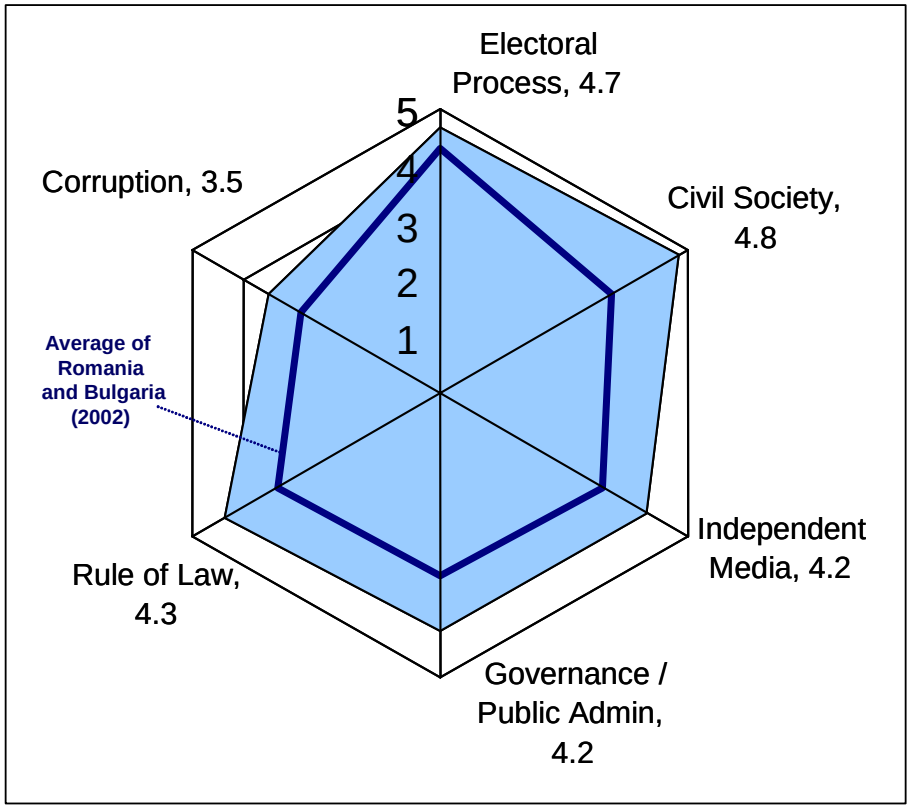


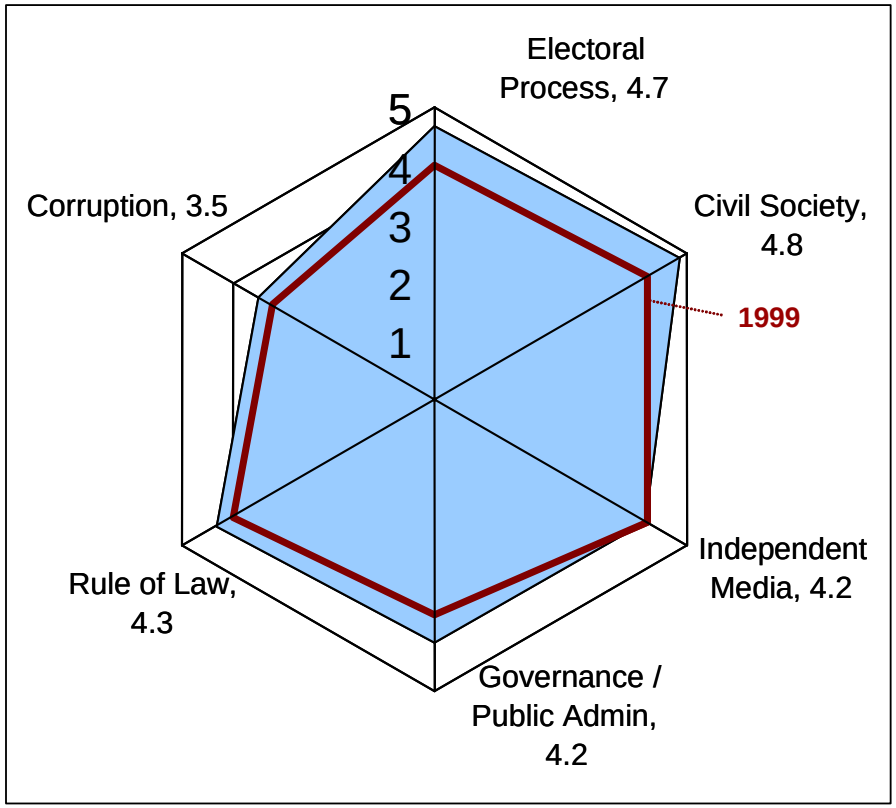
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from EBRD, *Transition Report 2004* (November 2004).

Figure 92

Democratic Reforms in Slovakia in 2003

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



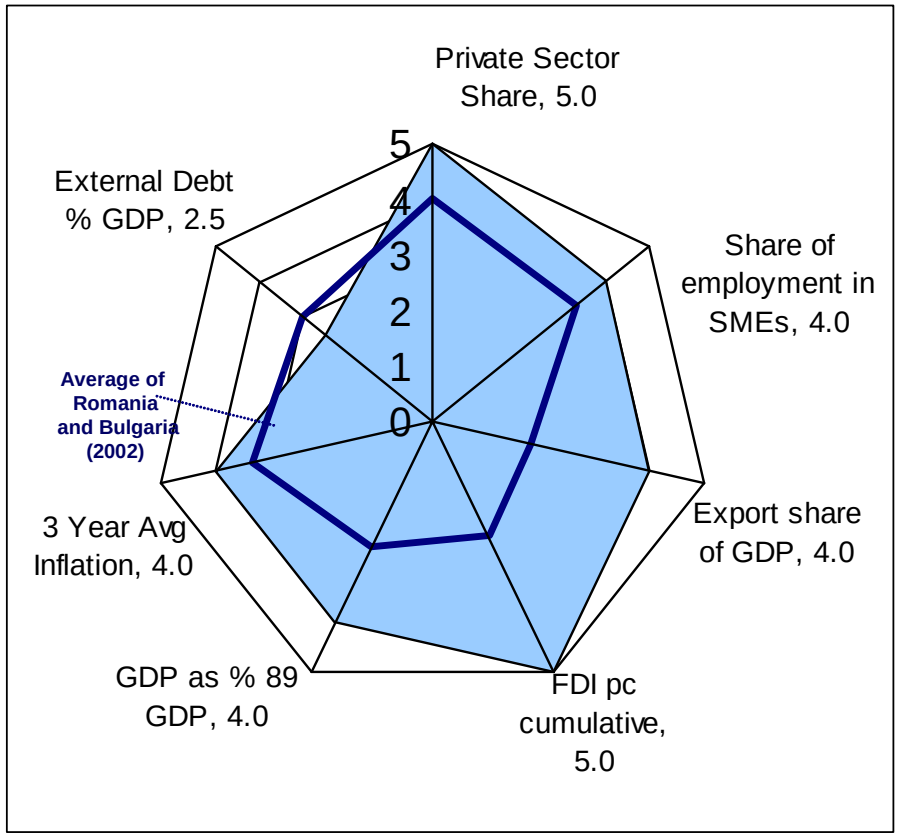


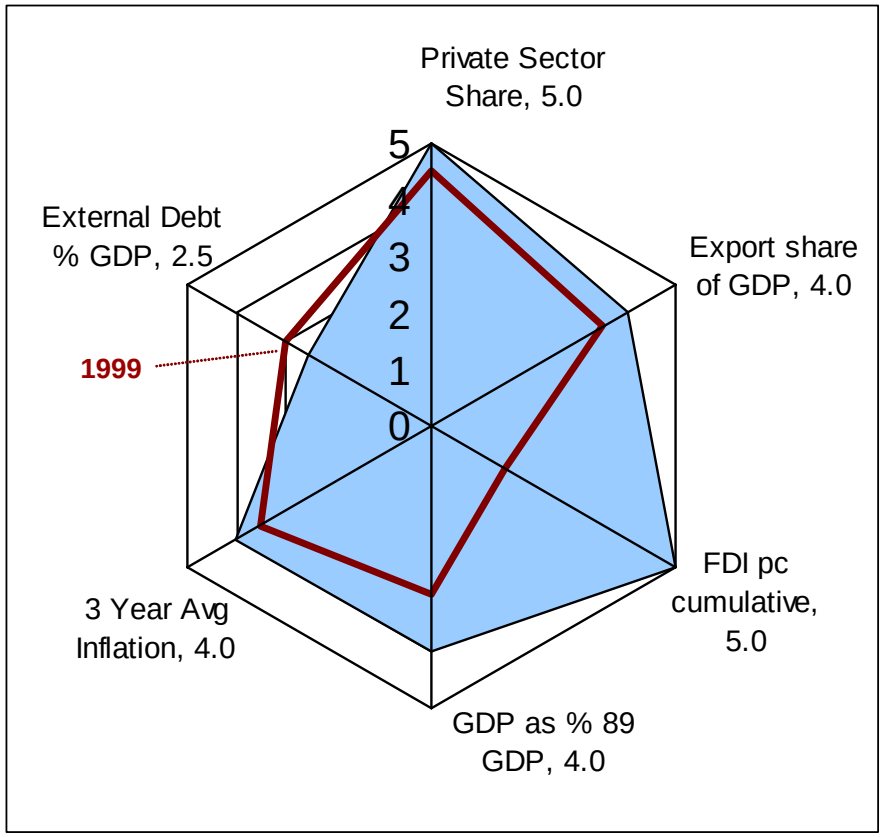
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from Freedom House, *Nations in Transit 2004.*

Figure 93

Economic Performance Index in Slovakia in 2002 - 2004

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



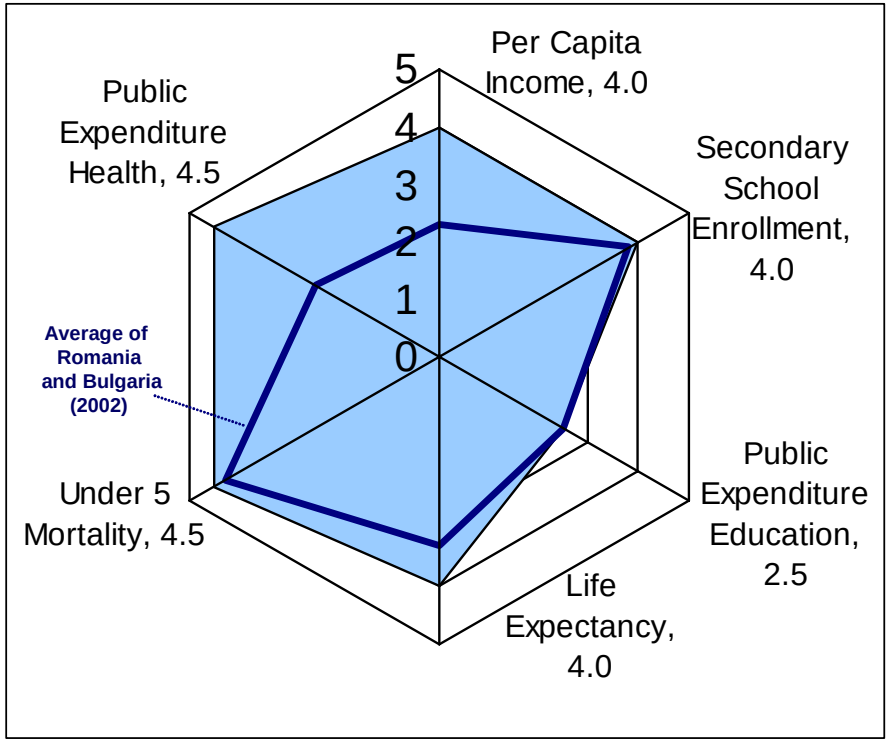


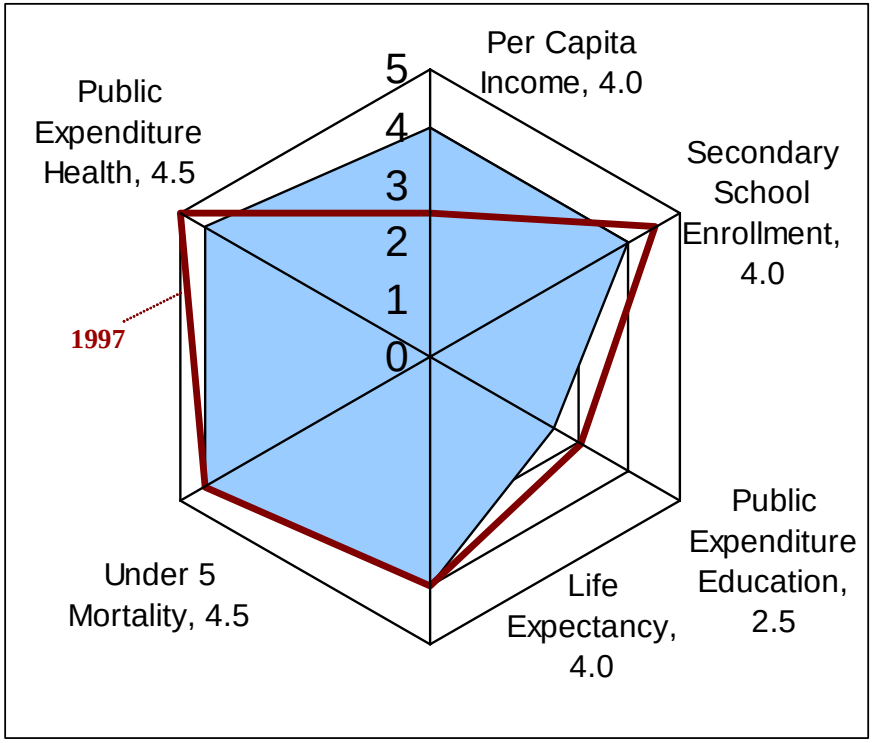
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from World Bank, *World Development Indicators 2004* (2004); EBRD, *Transition Report* (November 2004), M. Ayyagari, T. Beck, and A. Demirguc-Kunt, *Small and Medium Enterprises across the Globe*: World Bank Policy Research Working Paper 3127, August 2003. SME data no later than 1998.

Figure 94

Human Capital Index in Slovakia

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



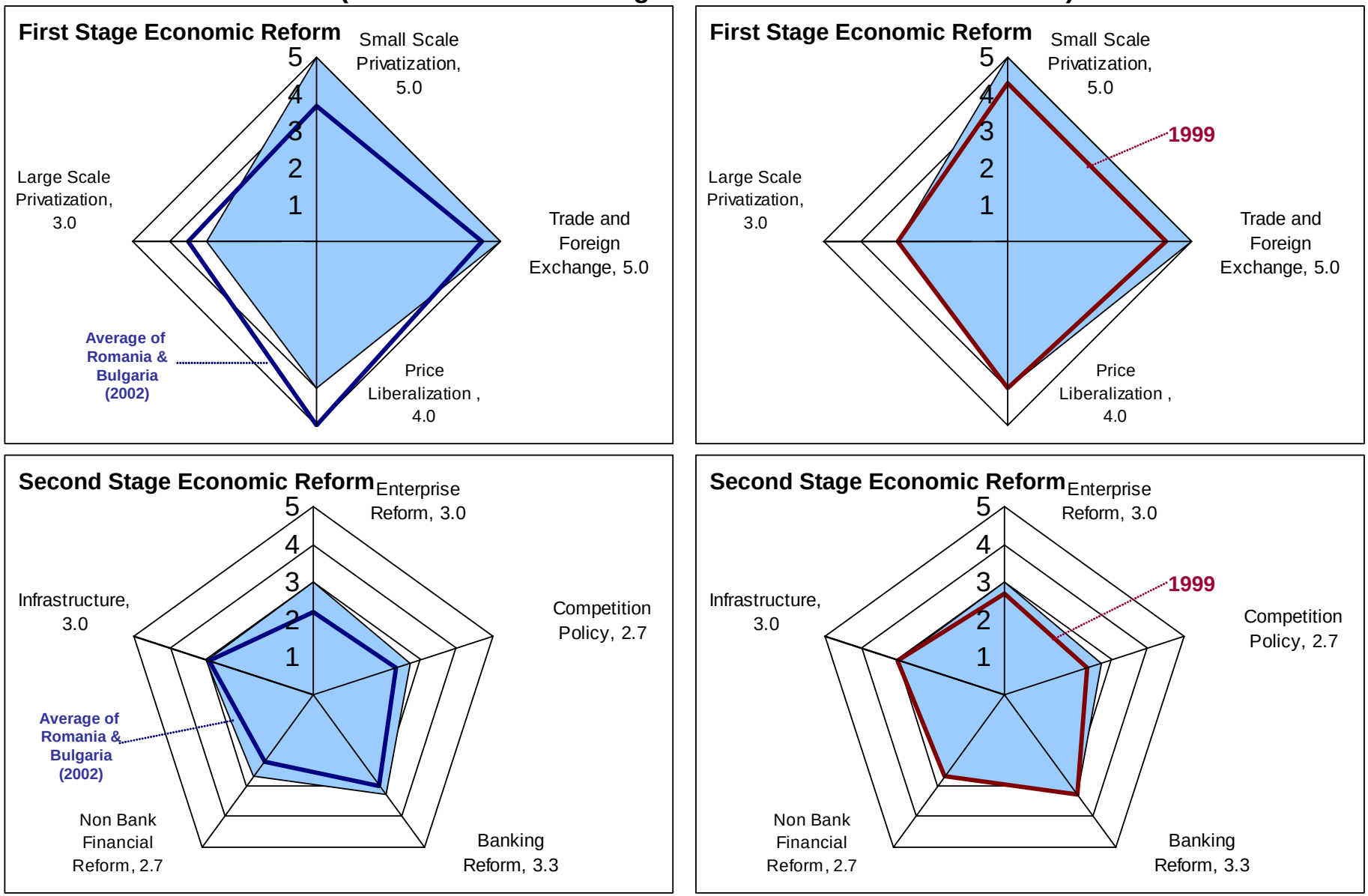


Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from World Bank, *World Development Indicators 2004* (2004); UNICEF, *Social Monitor 2004* (2004).

Figure 95

Economic Reform in Slovenia in 2004

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

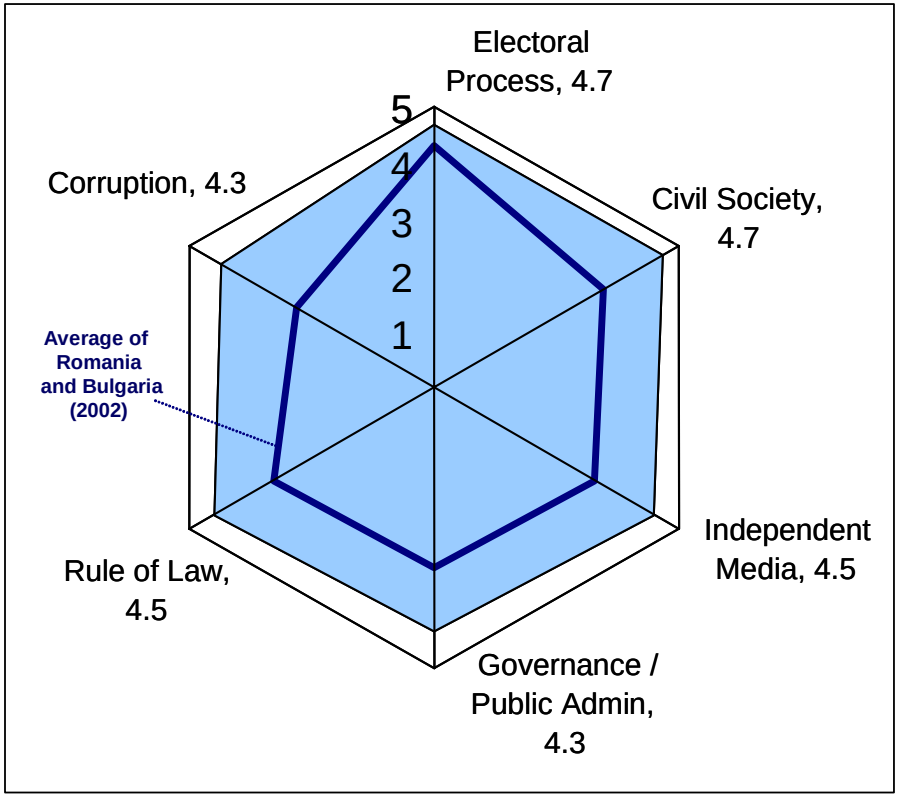


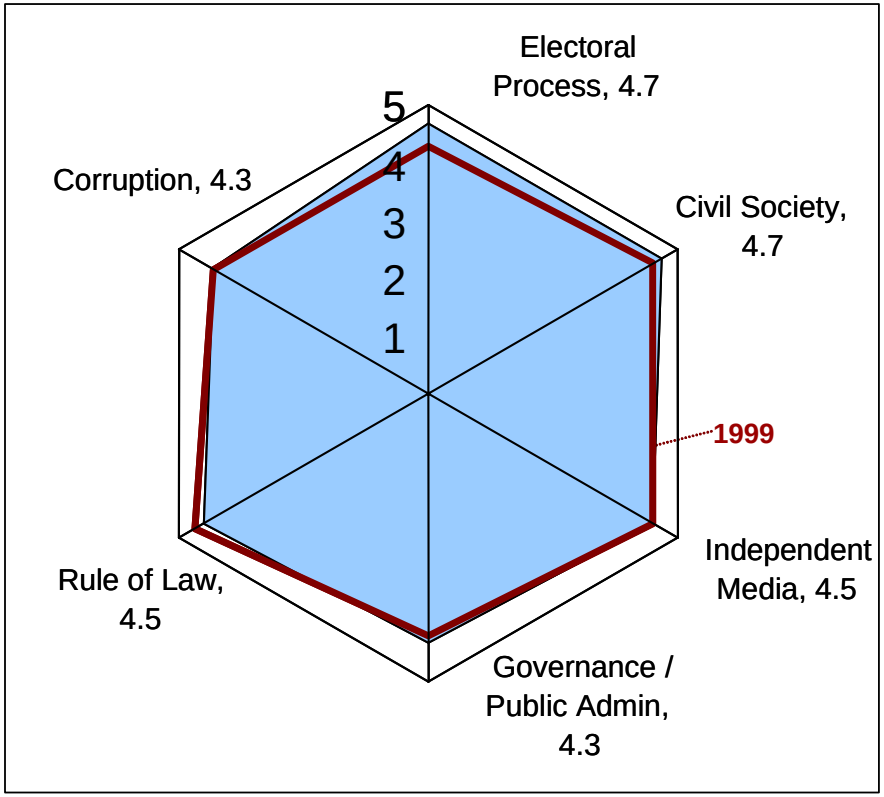
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from EBRD, *Transition Report 2004* (November 2004).

Figure 96

Democratic Reforms in Slovenia in 2003

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



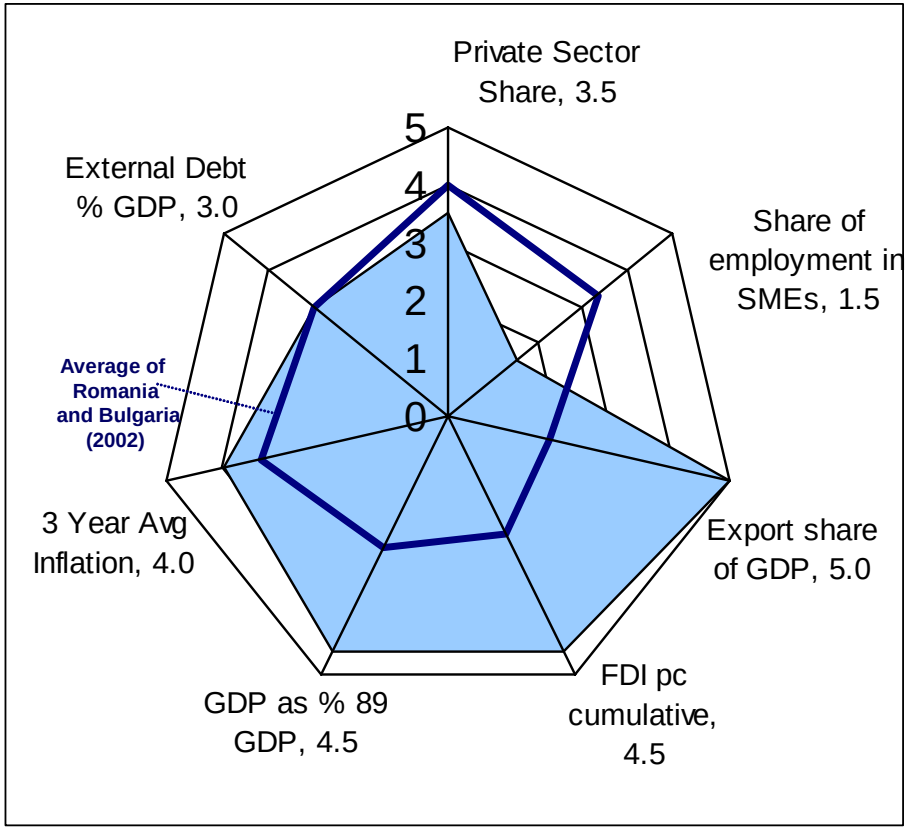


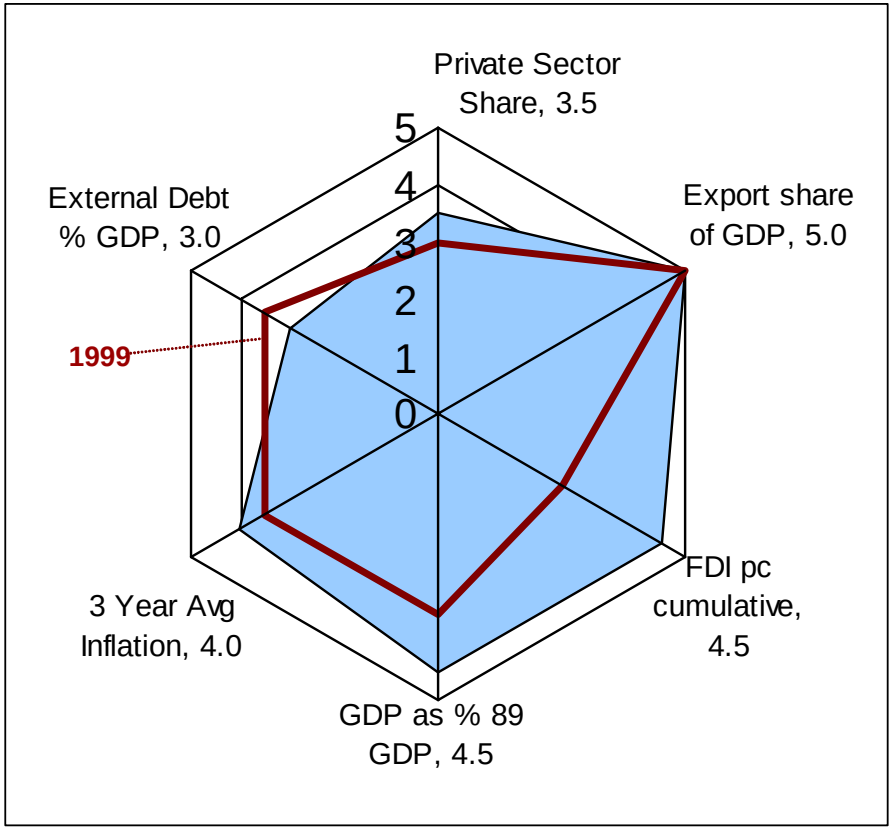
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from Freedom House, *Nations in Transit 2004.*

Figure 97

Economic Performance Index in Slovenia in 2002 - 2004

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



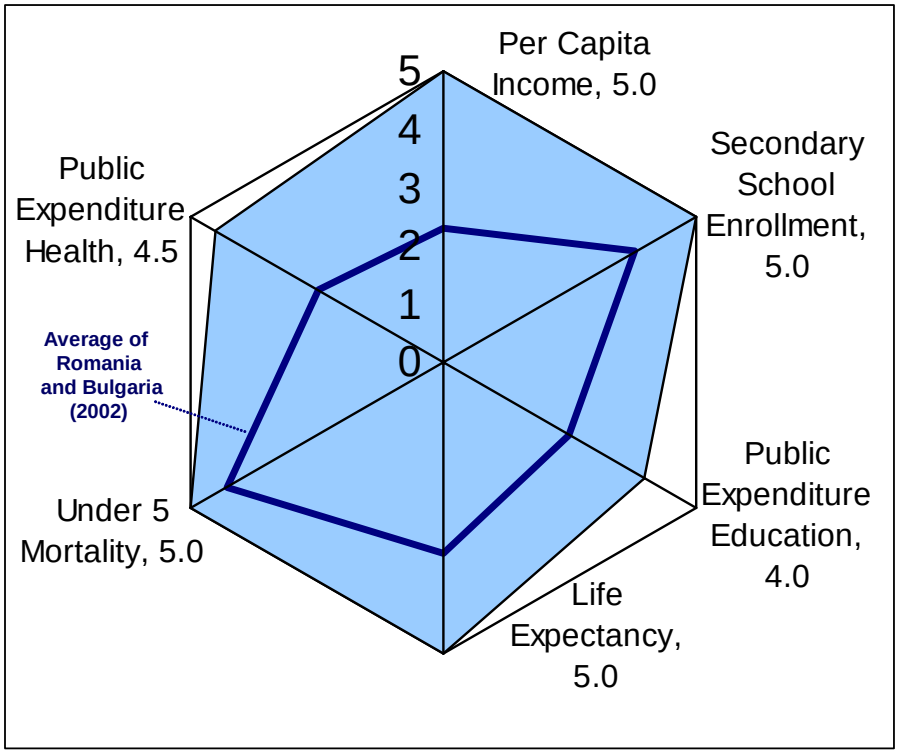


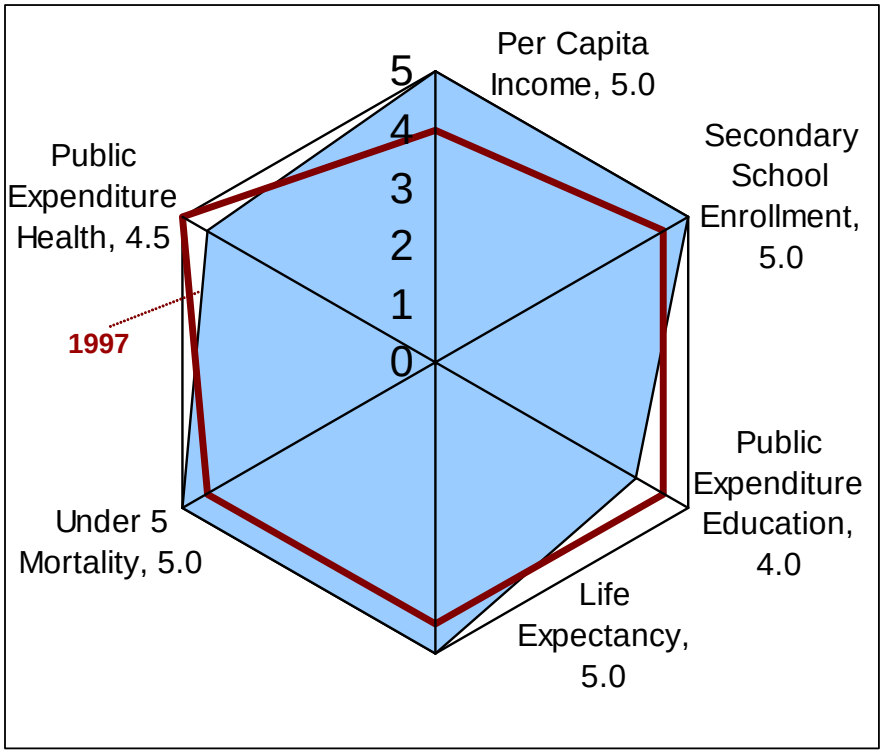
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from World Bank, *World Development Indicators 2004* (2004); EBRD, *Transition Report* (November 2004), M. Ayyagari, T. Beck, and A. Demirguc-Kunt, *Small and Medium Enterprises across the Globe*: World Bank Policy Research Working Paper 3127, August 2003. SME data no later than 1998.

Figure 98

Human Capital Index in Slovenia

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



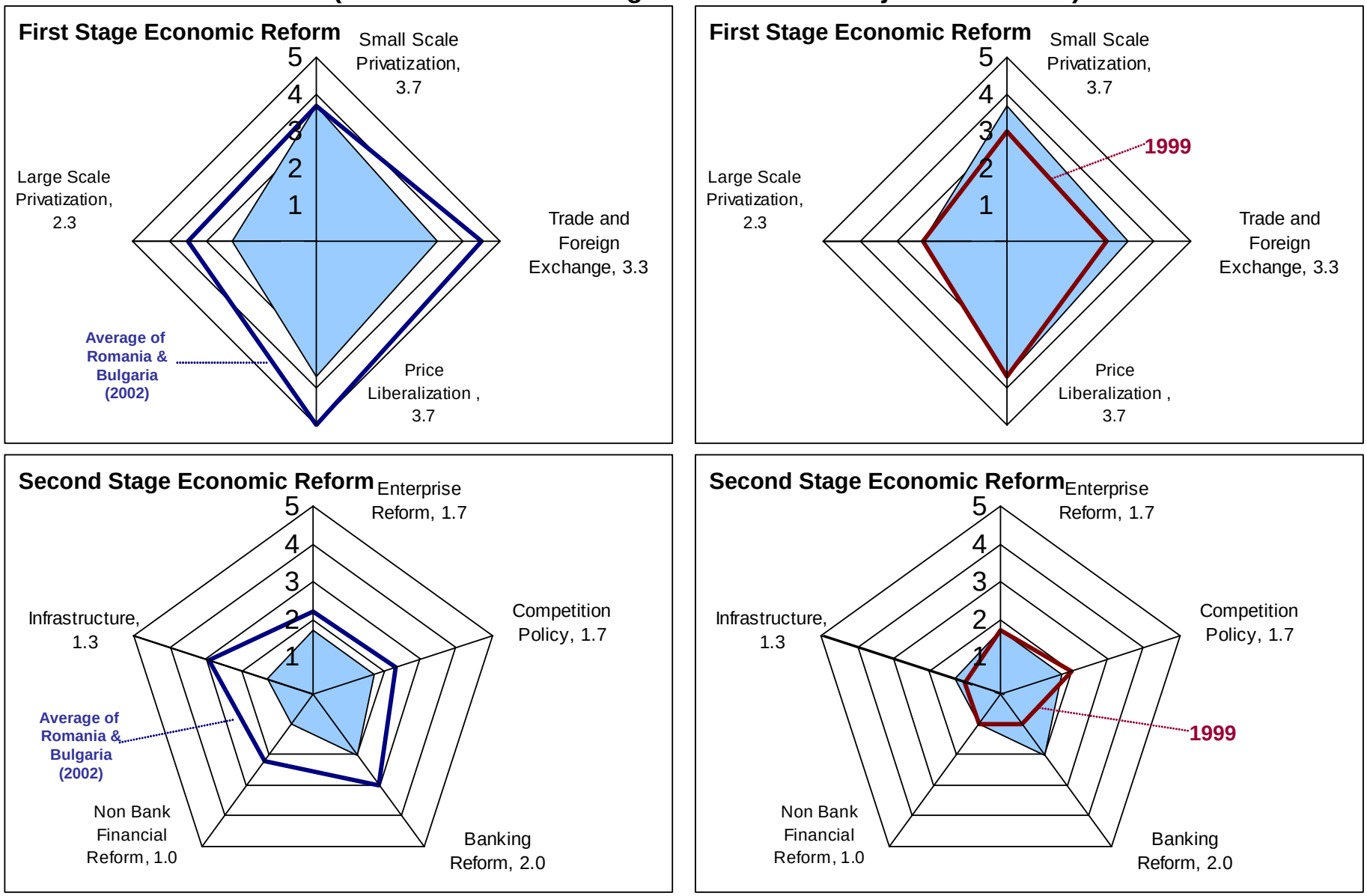


Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from World Bank, *World Development Indicators 2004* (2004); UNICEF, *Social Monitor 2004* (2004).

Figure 99

Economic Reform in Tajikistan in 2004

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

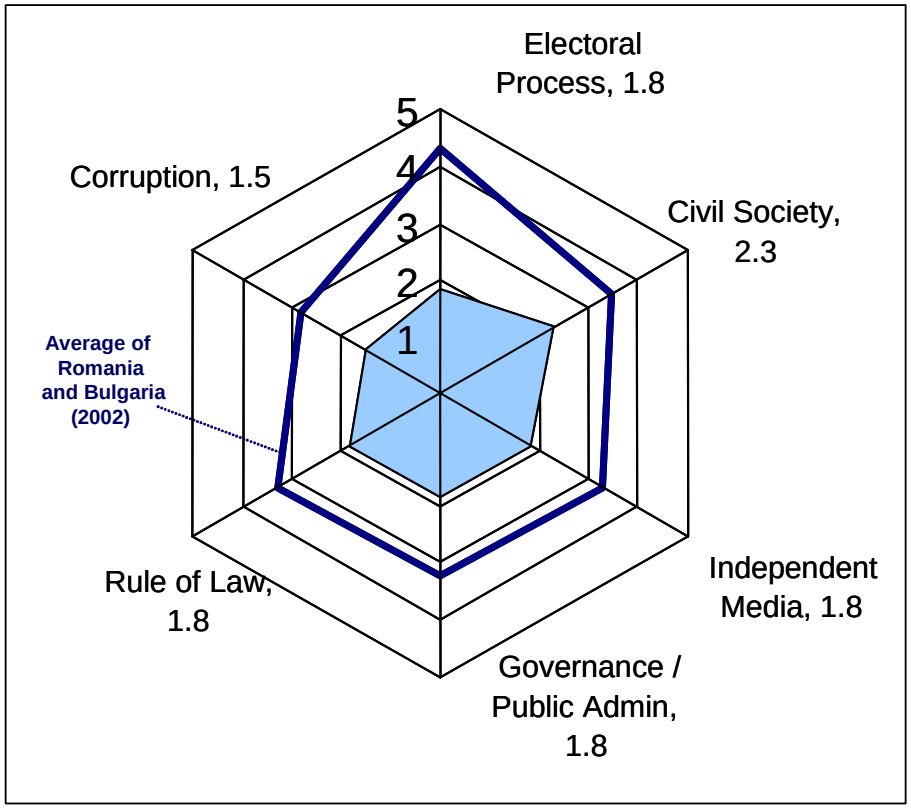


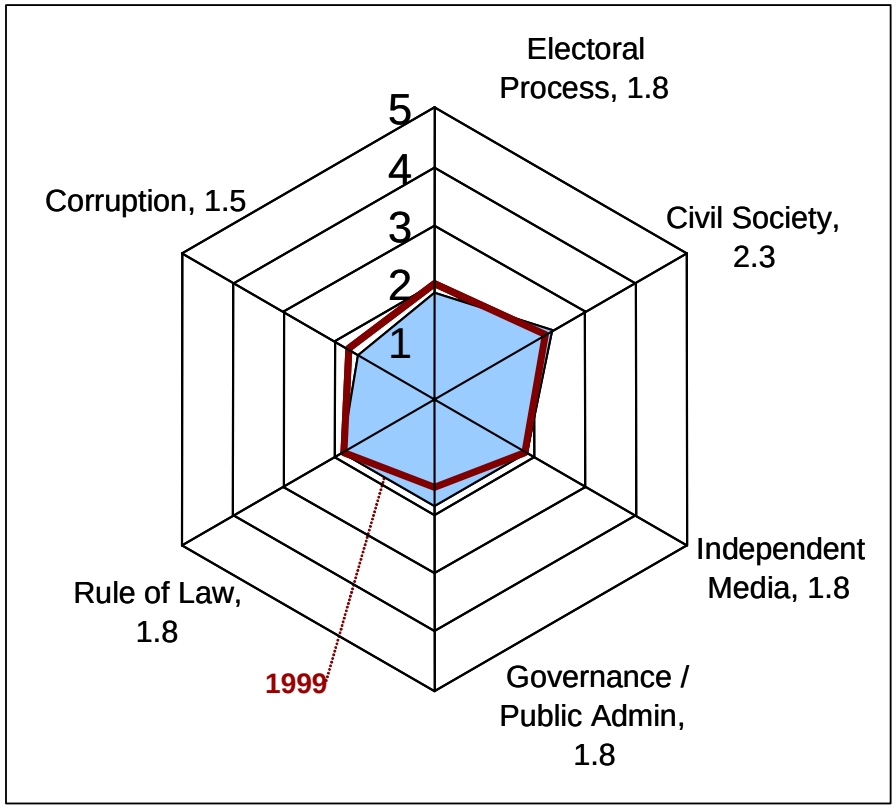
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from EBRD, *Transition Report 2004* (November 2004).

Figure 100

Democratic Reforms in Tajikistan in 2003

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



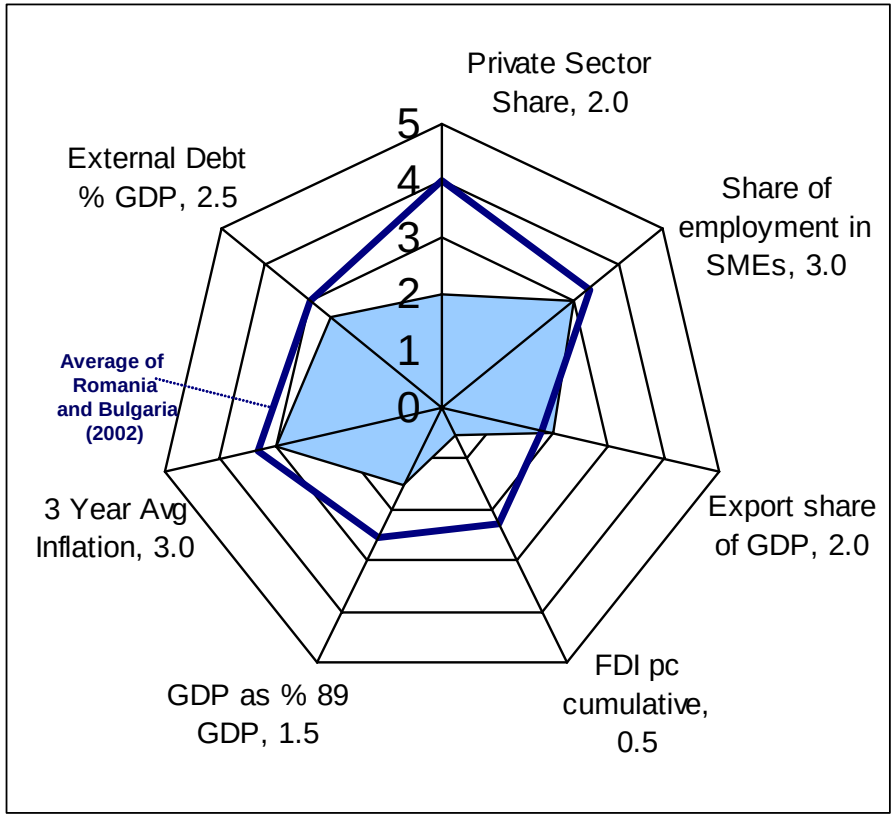


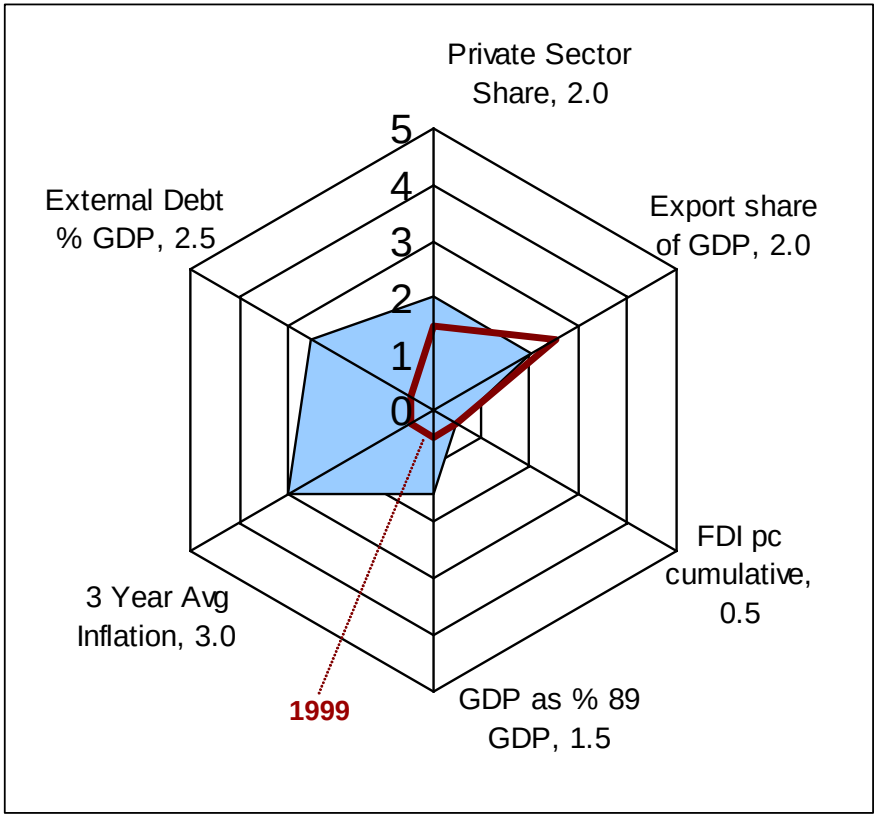
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from Freedom House, *Nations in Transit 2004.*

Figure 101

Economic Performance Index in Tajikistan in 2002 - 2004

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



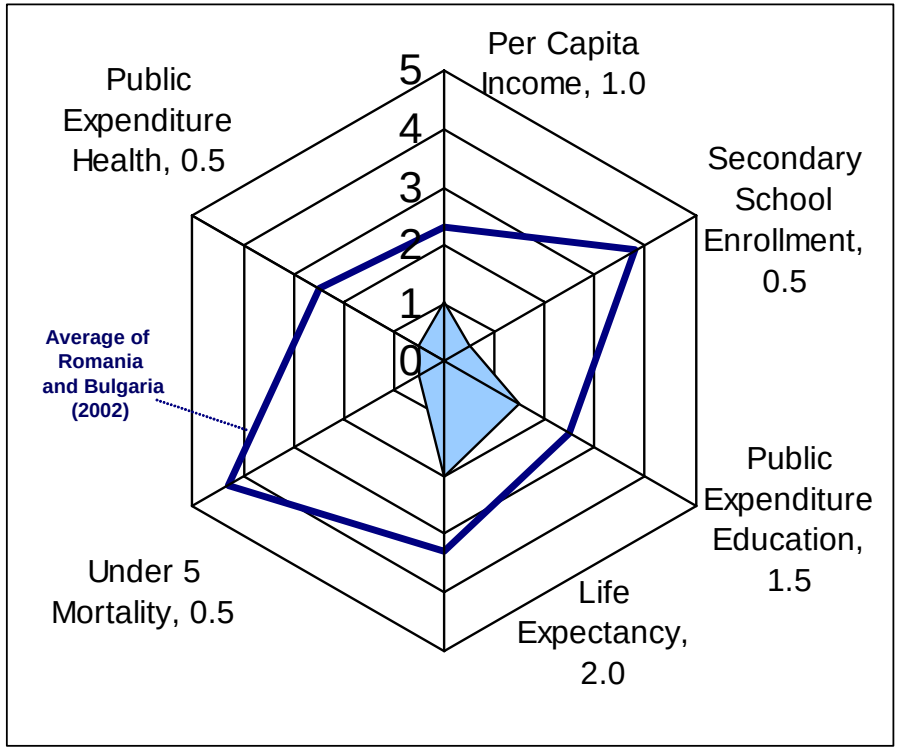


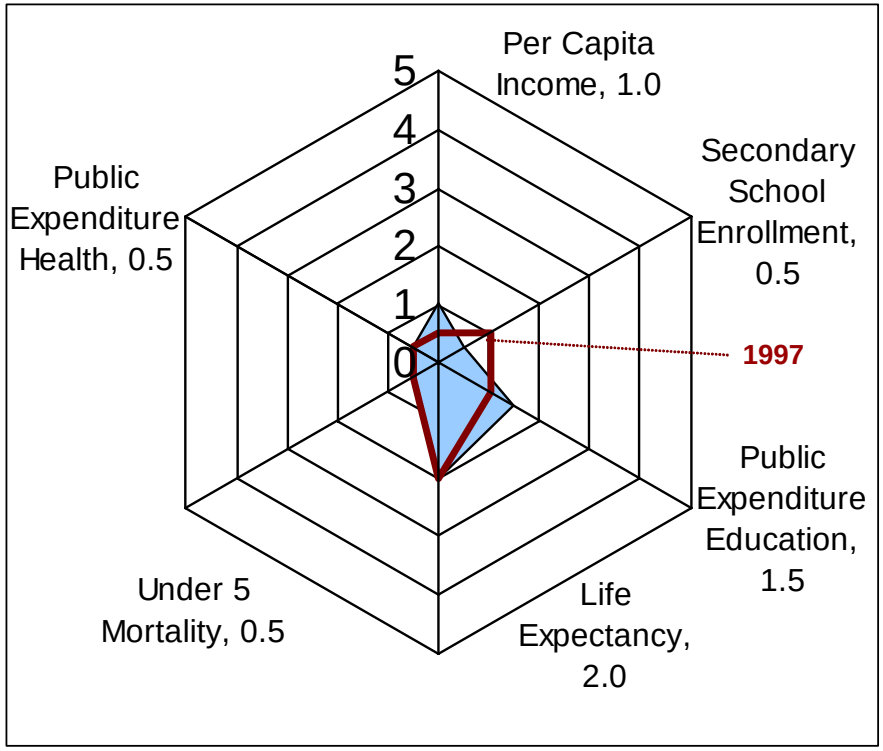
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from World Bank, *World Development Indicators 2004* (2004); EBRD, *Transition Report* (November 2004), M. Ayyagari, T. Beck, and A. Demirguc-Kunt, *Small and Medium Enterprises across the Globe*: World Bank Policy Research Working Paper 3127, August 2003. SME data no later than 1998.

Figure 102

Human Capital Index in Tajikistan

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



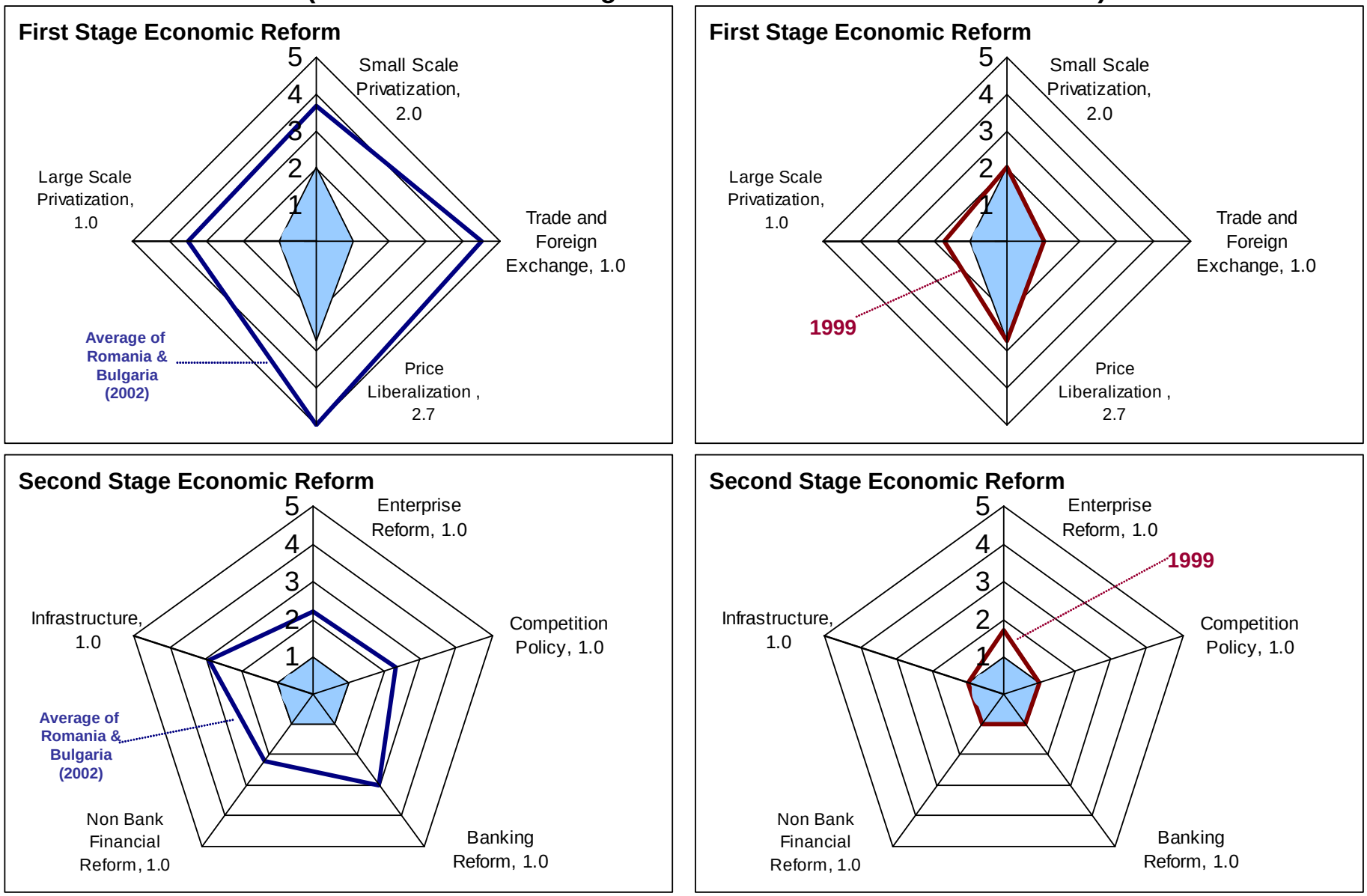


Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from World Bank, *World Development Indicators 2004* (2004); UNICEF, *Social Monitor 2004* (2004).

Figure 103

Economic Reform in Turkmenistan in 2004

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

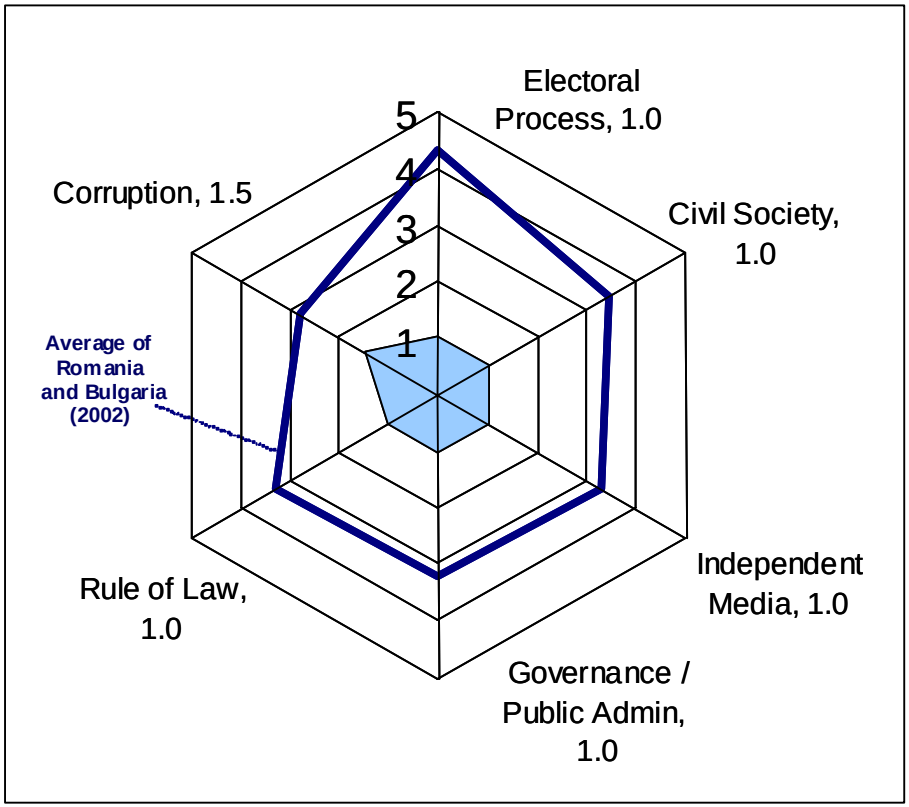


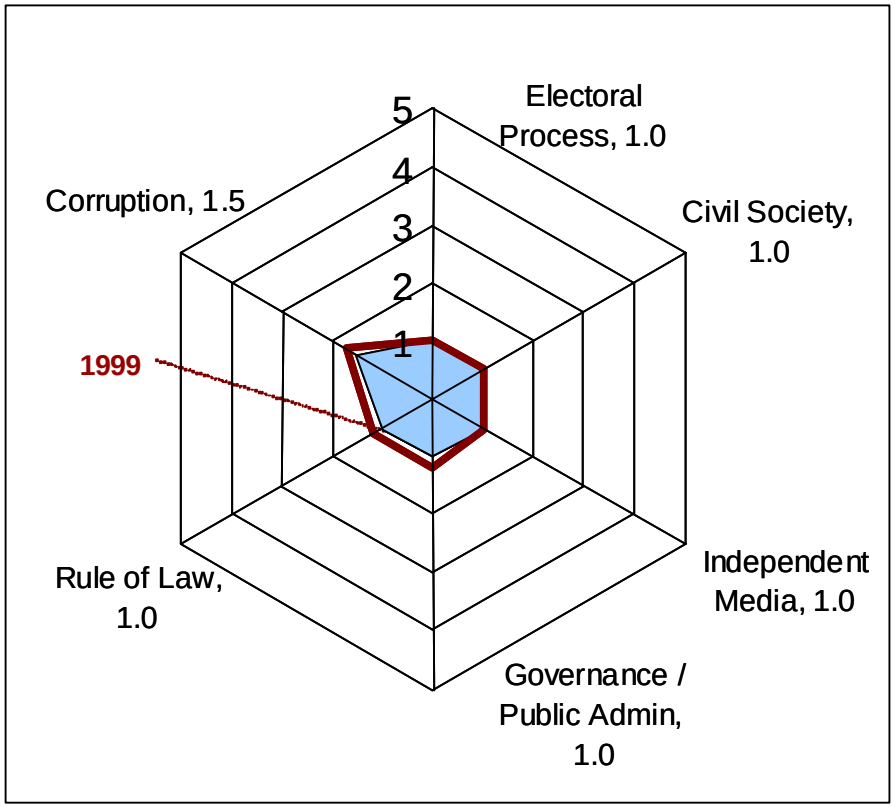
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from EBRD, *Transition Report 2004* (November 2004).

Figure 104

Democratic Reforms in Turkmenistan in 2003

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



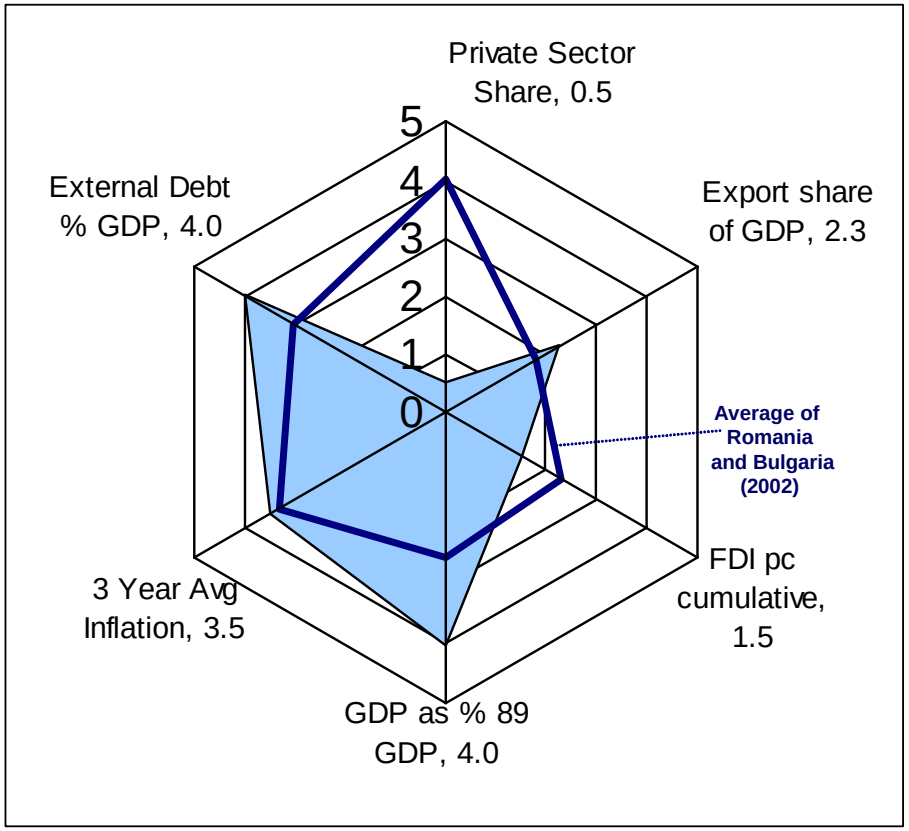


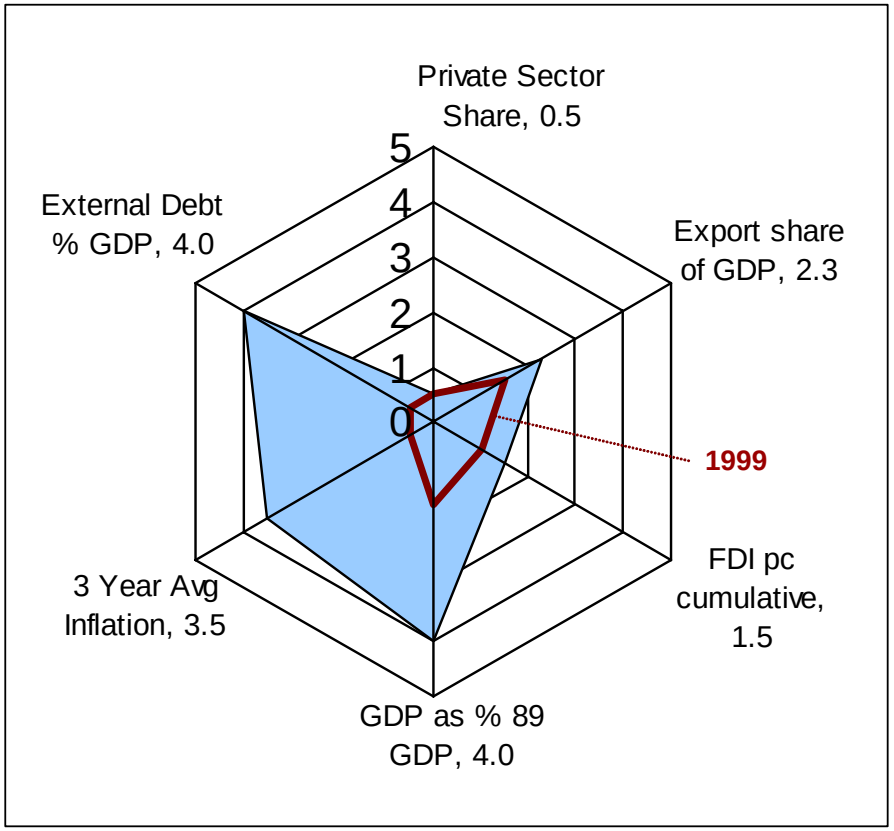
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID, *Monitoring Country Progress in CEE & Eurasia #9 (2005)* drawing from Freedom House, *Nations in Transit 2004.*

Figure 105

Economic Performance Index in Turkmenistan in 2002 - 2004

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



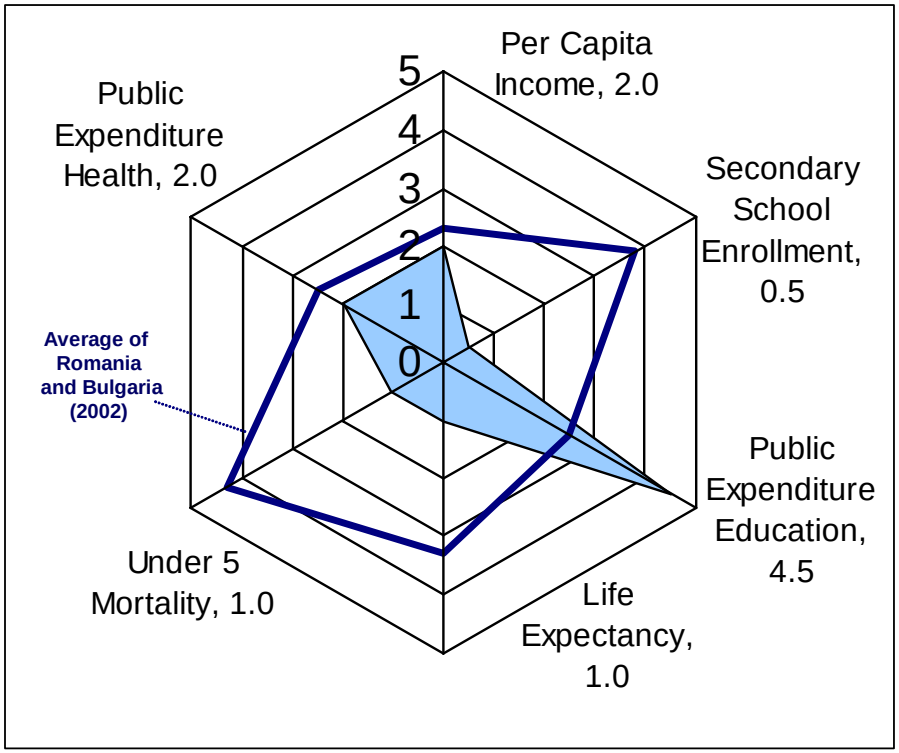


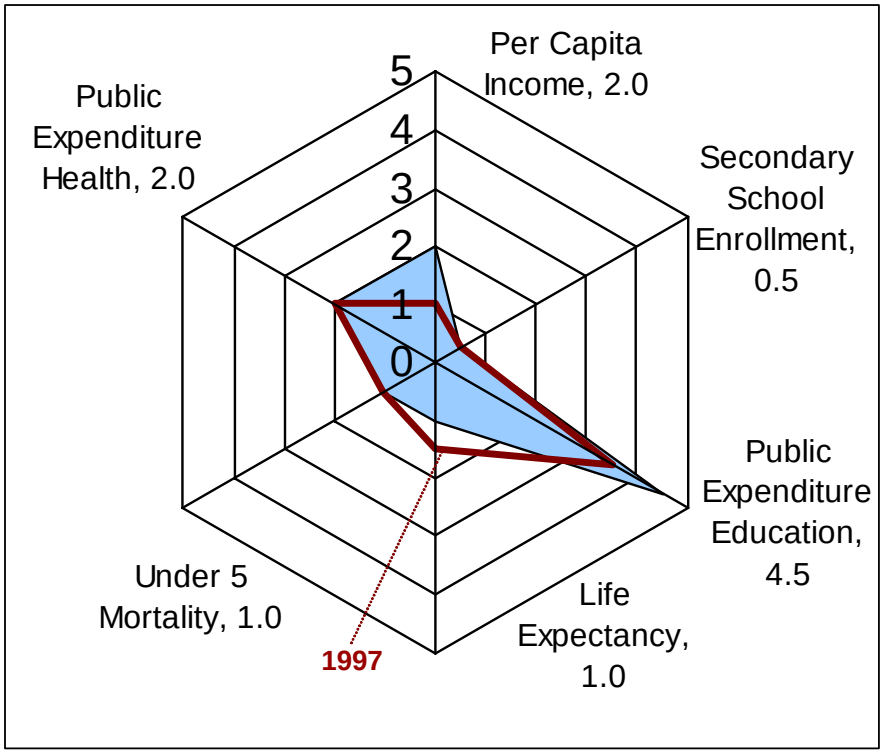
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from World Bank, *World Development Indicators 2004* (2004); EBRD, *Transition Report* (November 2004), M. Ayyagari, T. Beck, and A. Demirguc-Kunt, *Small and Medium Enterprises across the Globe*: World Bank Policy Research Working Paper 3127, August 2003. SME data no later than 1998.

Figure 106

Human Capital Index in Turkmenistan

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



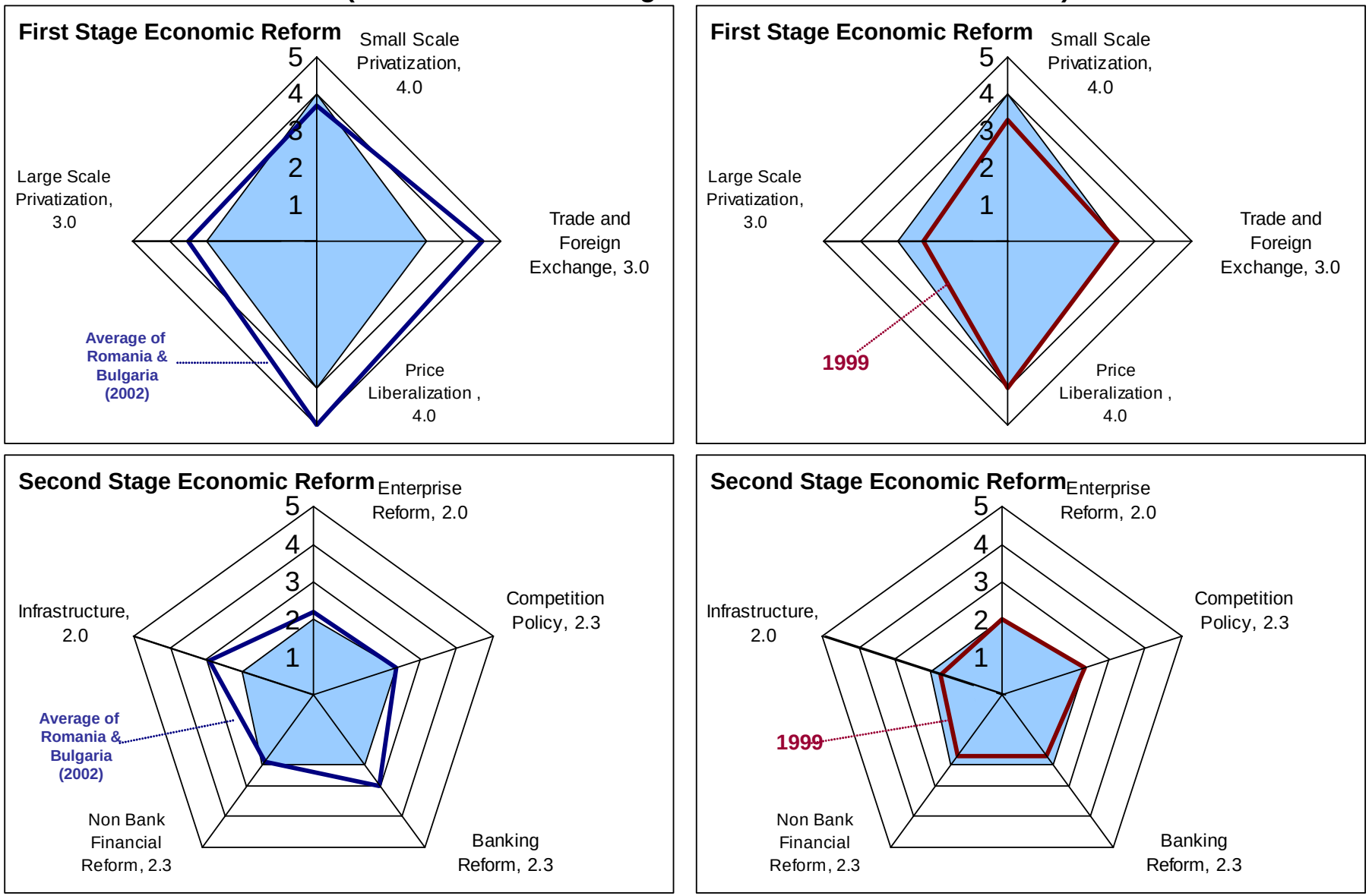


Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from World Bank, *World Development Indicators 2004* (2004); UNICEF, *Social Monitor 2004* (2004).

Figure 107

Economic Reform in Ukraine in 2004

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

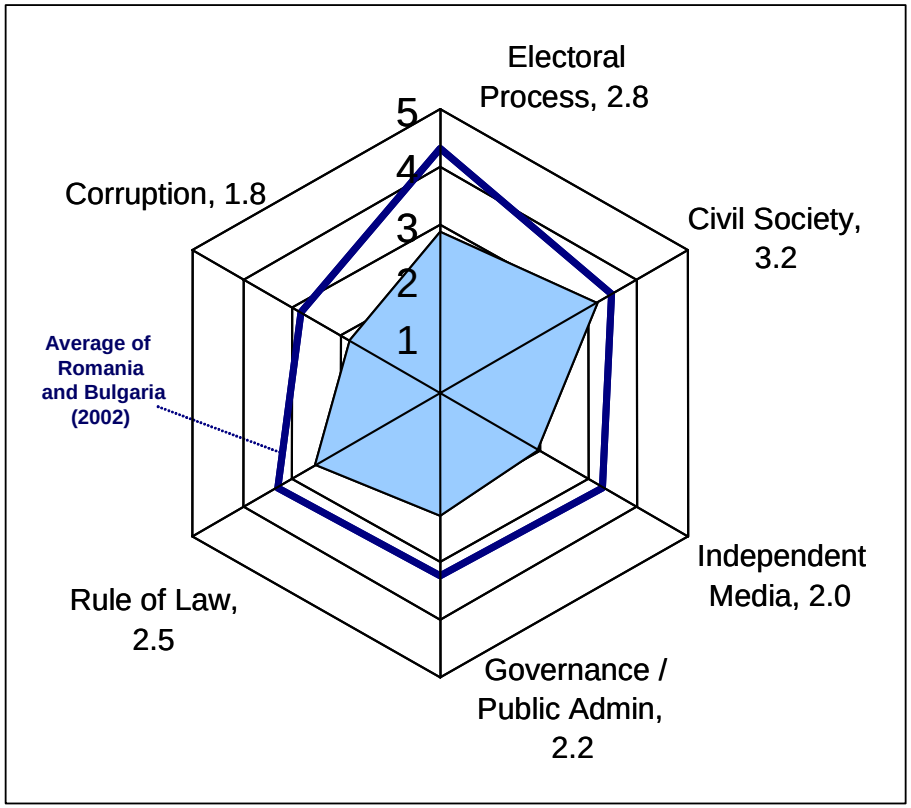


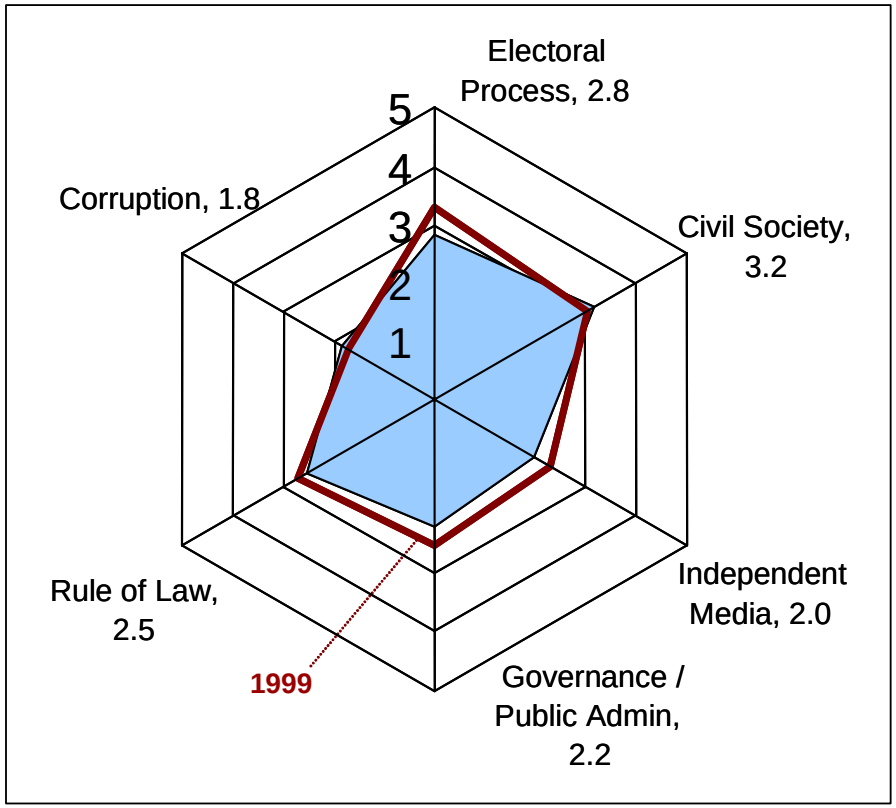
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from EBRD, *Transition Report 2004* (November 2004).

Figure 108

Democratic Reforms in Ukraine in 2003

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



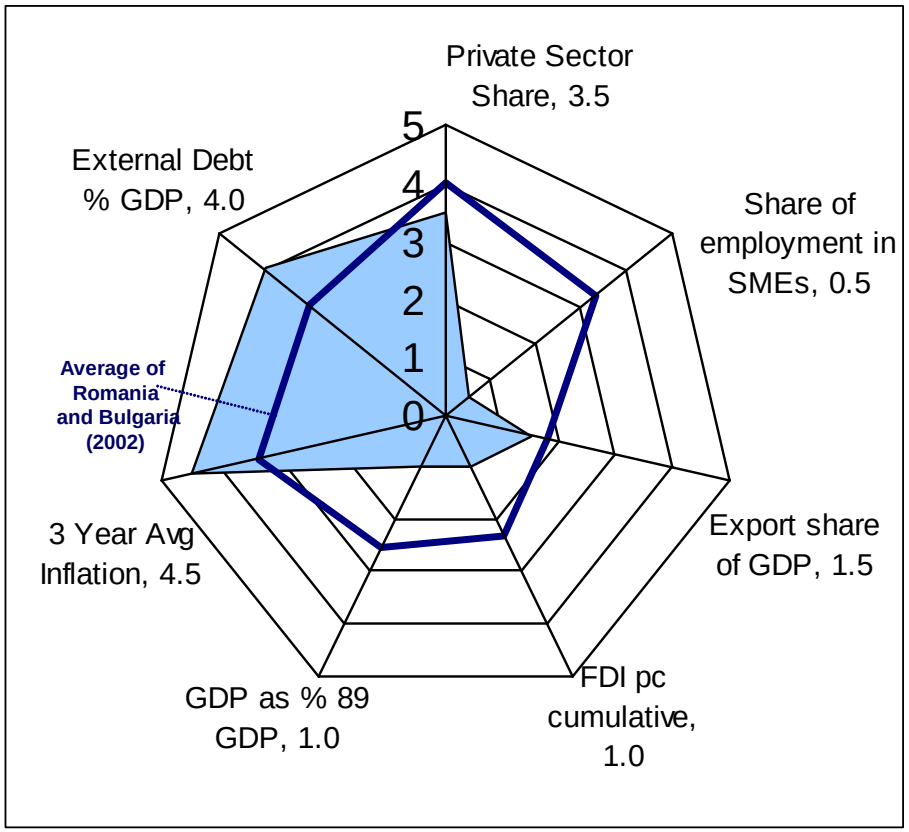


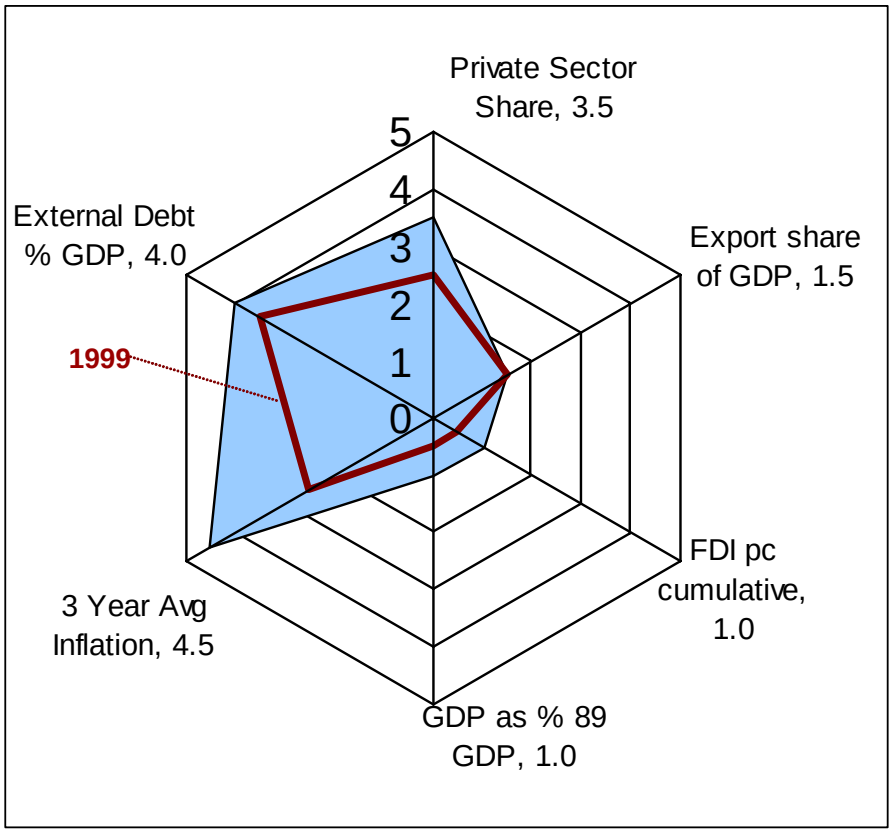
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from Freedom House, *Nations in Transit 2004.*

Figure 109

Economic Performance Index in Ukraine in 2002 - 2004

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



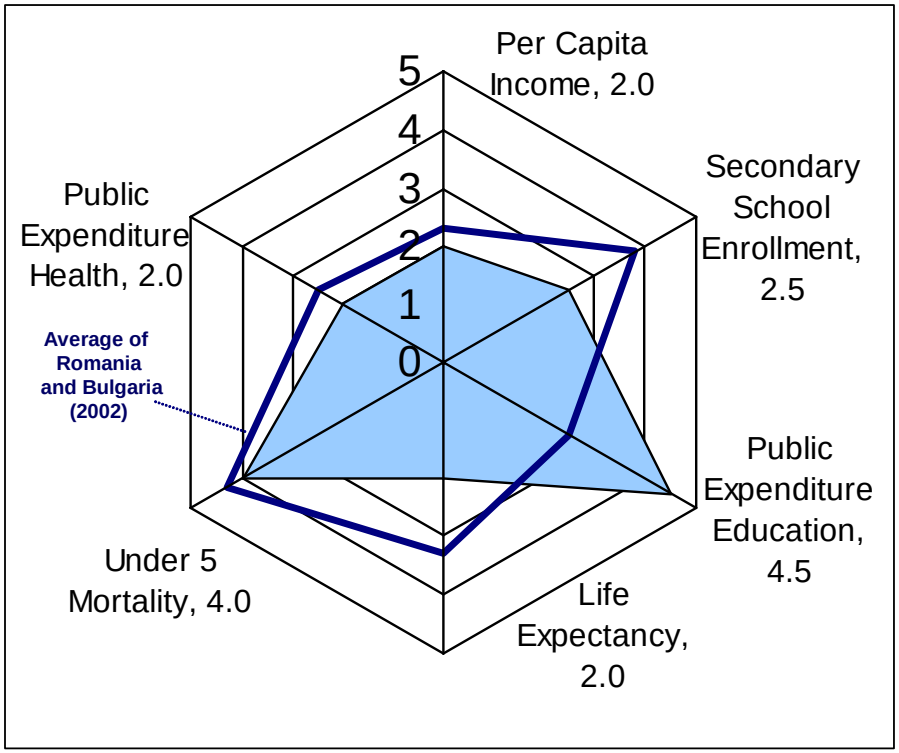


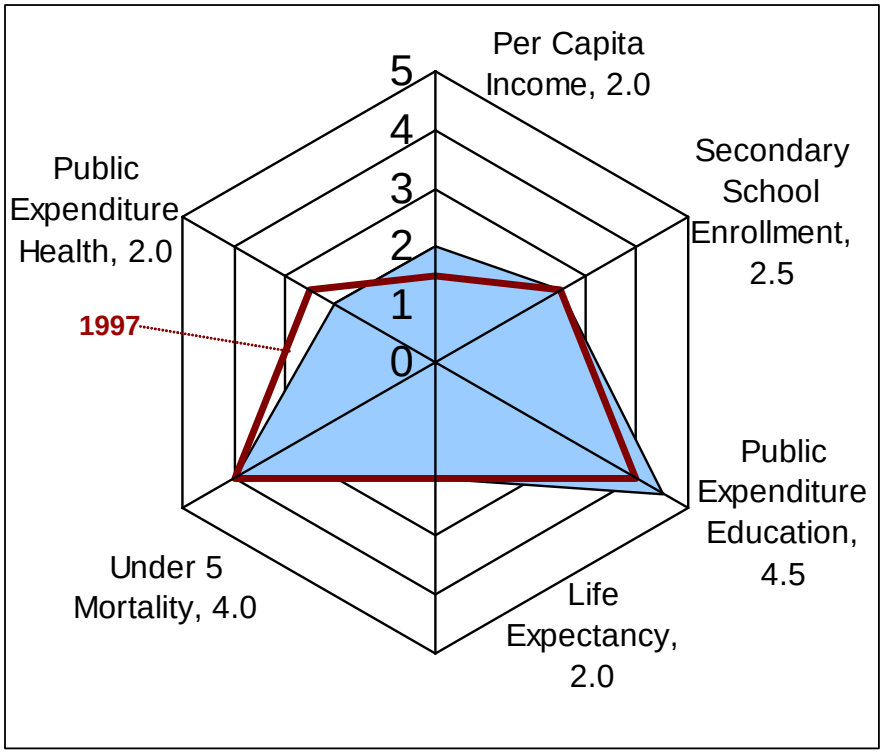
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from World Bank, *World Development Indicators 2004* (2004); EBRD, *Transition Report* (November 2004), M. Ayyagari, T. Beck, and A. Demirguc-Kunt, *Small and Medium Enterprises across the Globe*: World Bank Policy Research Working Paper 3127, August 2003. SME data no later than 1998.

Figure 110

Human Capital Index in Ukraine

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



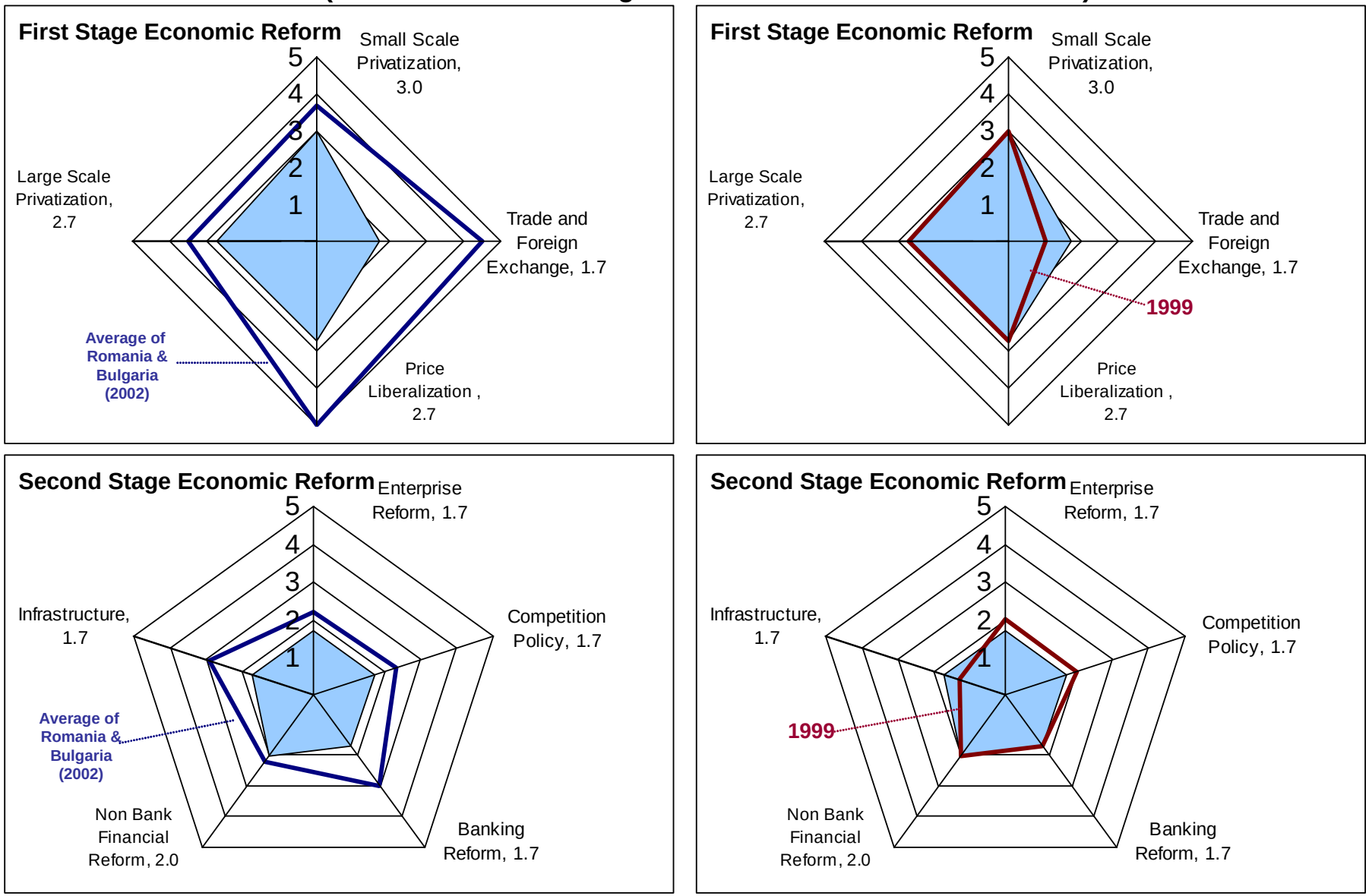


Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from World Bank, *World Development Indicators 2004* (2004); UNICEF, *Social Monitor 2004* (2004).

Figure 111

Economic Reform in Uzbekistan in 2004

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

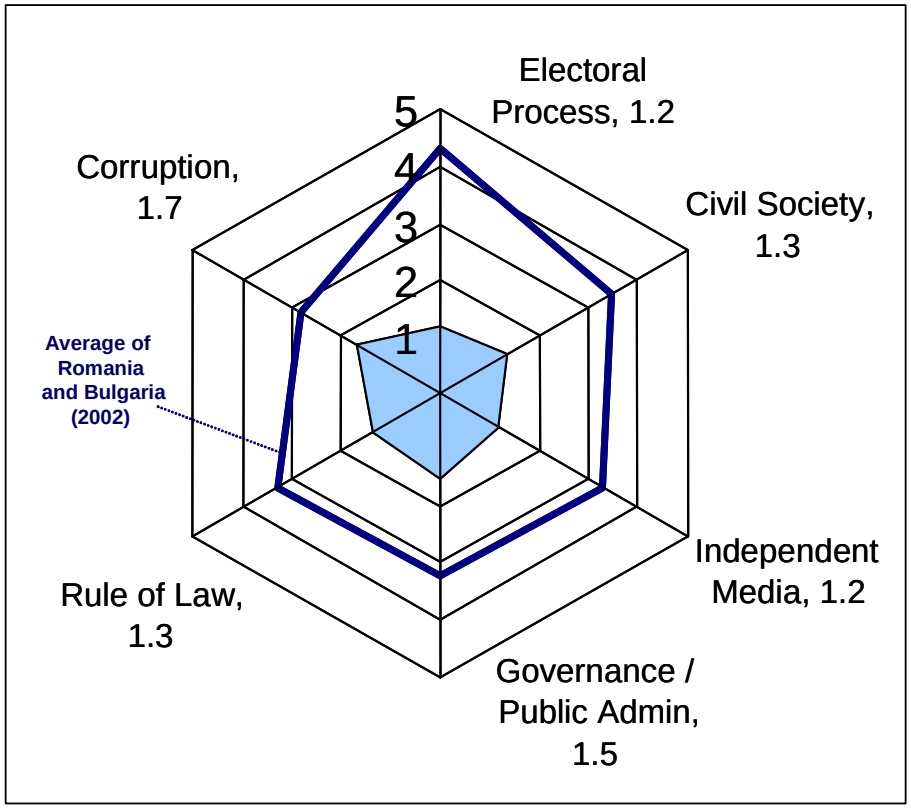


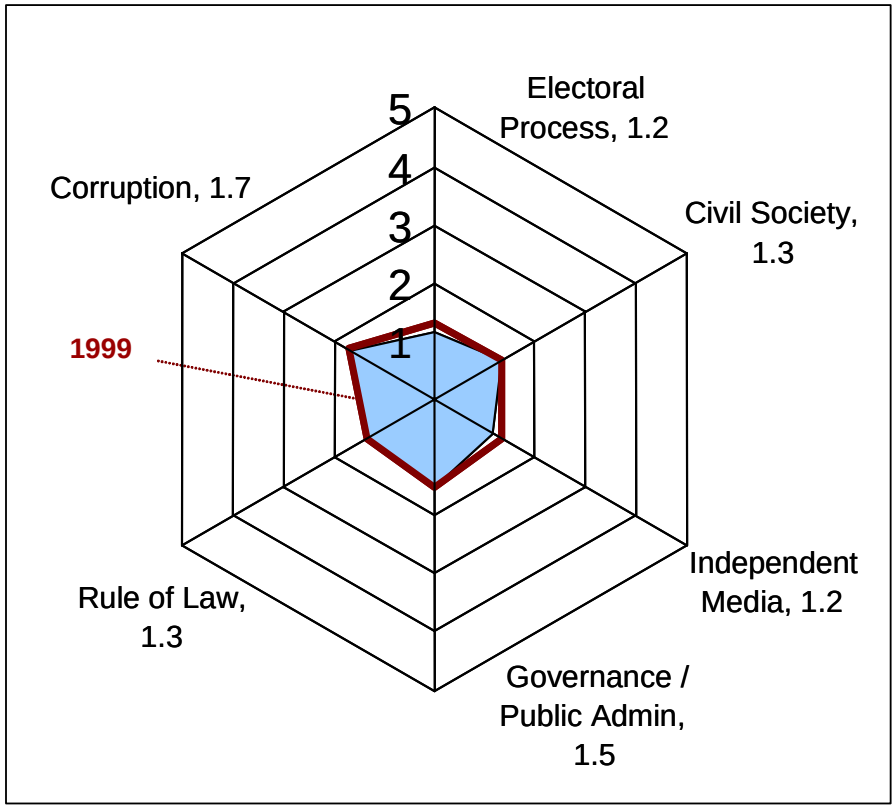
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from EBRD, *Transition Report 2004* (November 2004).

Figure 112

Democratic Reforms in Uzbekistan in 2003

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



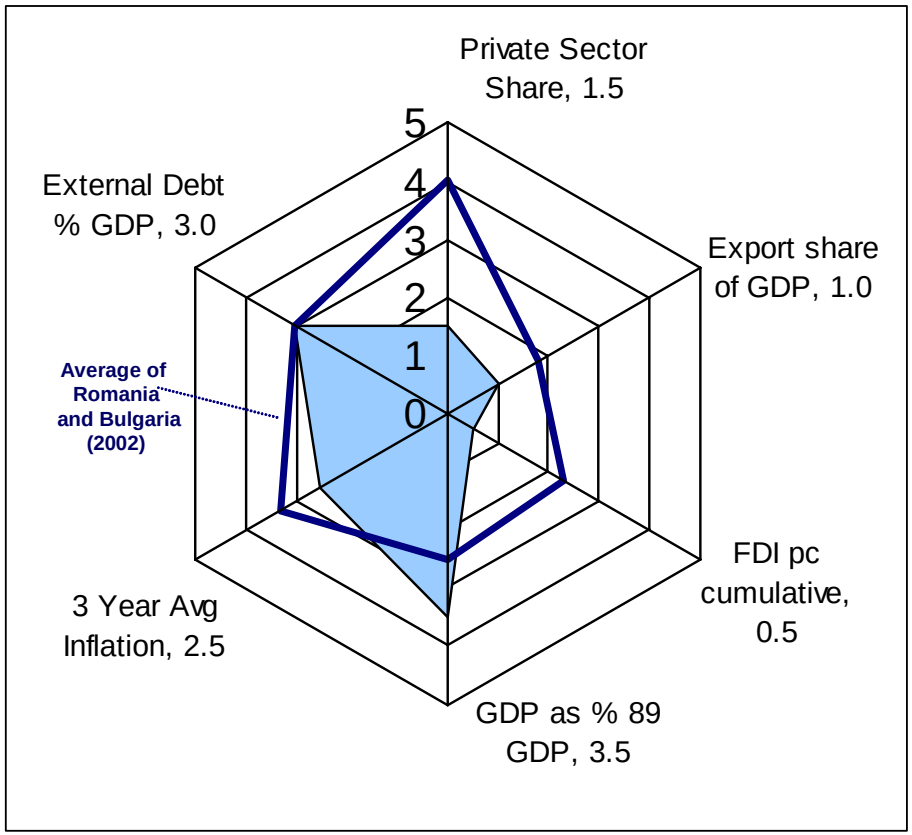


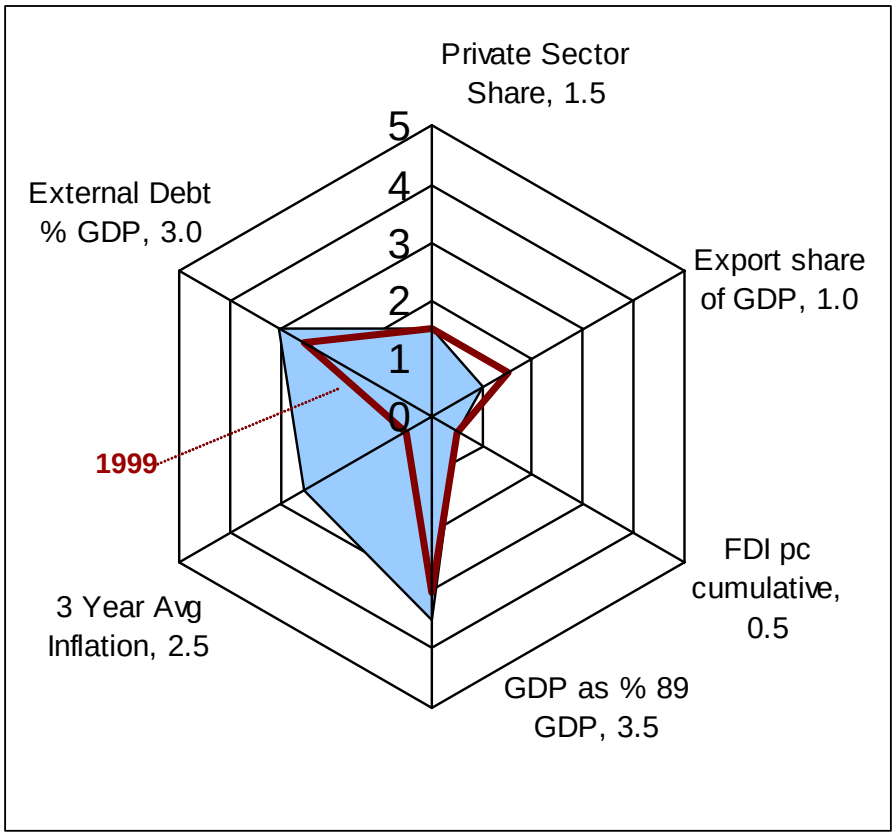
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from Freedom House, *Nations in Transit 2004.*

Figure 113

Economic Performance Index in Uzbekistan in 2002 - 2004

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



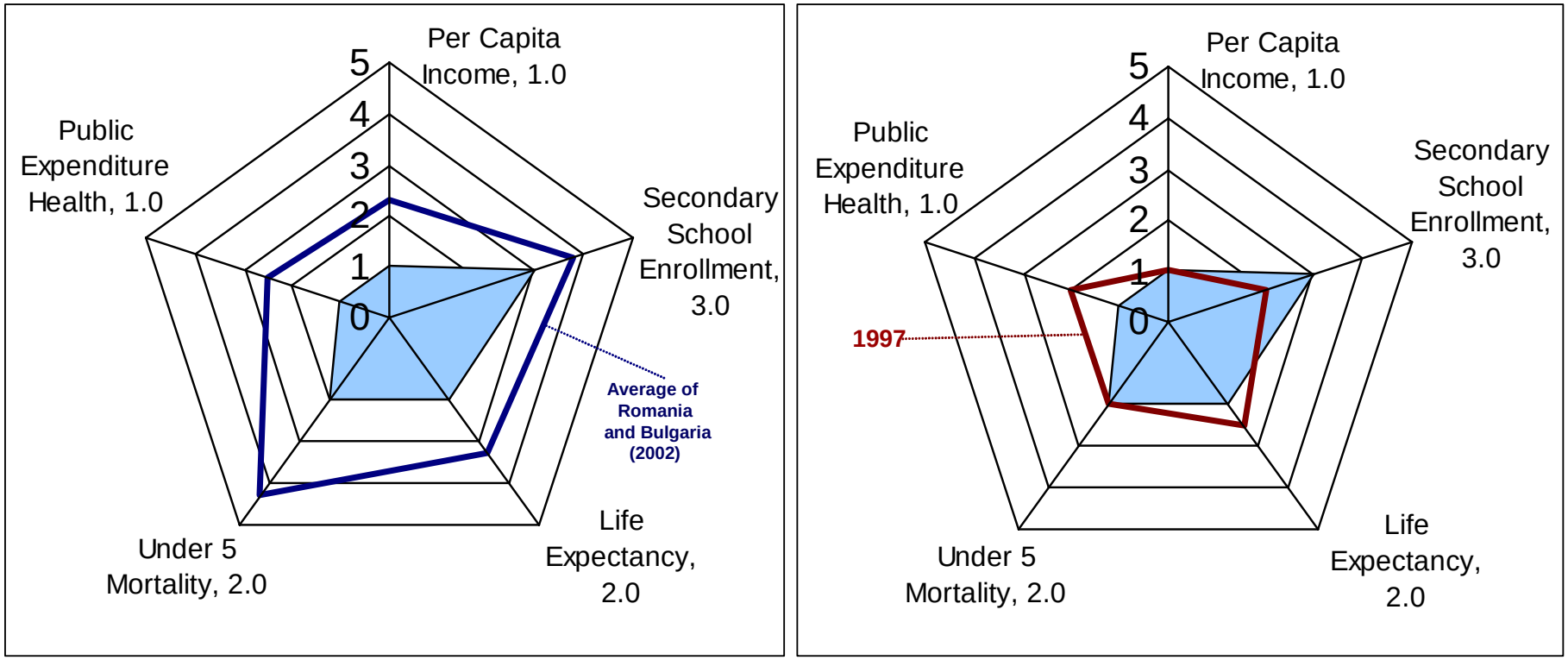


Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from World Bank, *World Development Indicators 2004* (2004); EBRD, *Transition Report* (November 2004), M. Ayyagari, T. Beck, and A. Demirguc-Kunt, *Small and Medium Enterprises across the Globe*: World Bank Policy Research Working Paper 3127, August 2003. SME data no later than 1998.

Figure 114

Human Capital Index in Uzbekistan

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



Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID drawing from World Bank, *World Development Indicators 2004* (2004); UNICEF, *Social Monitor 2004* (2004).