

**CAUCASUS AND CENTRAL ASIA (CCA)
THE TRANSITION JOURNEY AND THE ROAD
AHEAD**

Growth and Sectoral Reforms

World Bank

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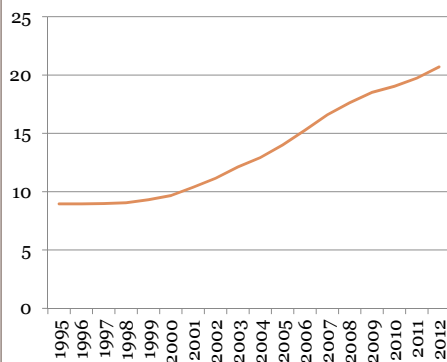
1. Development Outcomes

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Gap has been narrowing in Caucasus and Central Asia

GDP per capita, PPP, international dollars,
EU average = 100,

Poverty Rates,
\$5 per day



Country	1999-2002	2007-2008
Armenia	95	79
Azerbaijan	86	39
Georgia	89	84
Kazakhstan	79	46
Kyrgyz Republic	98	74
Tajikistan	98	87

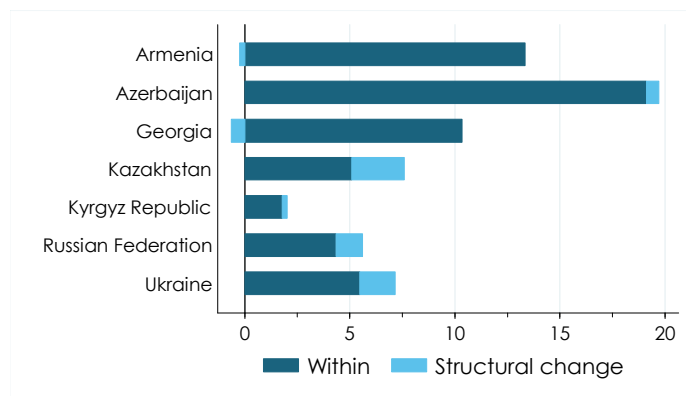
Source: World Bank staff calculations based on IMF WEO database

Source: World Bank

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Productivity growth in Eurasia mostly takes place within individual sectors

(decomposition of labor productivity growth, percent, 2002–07)

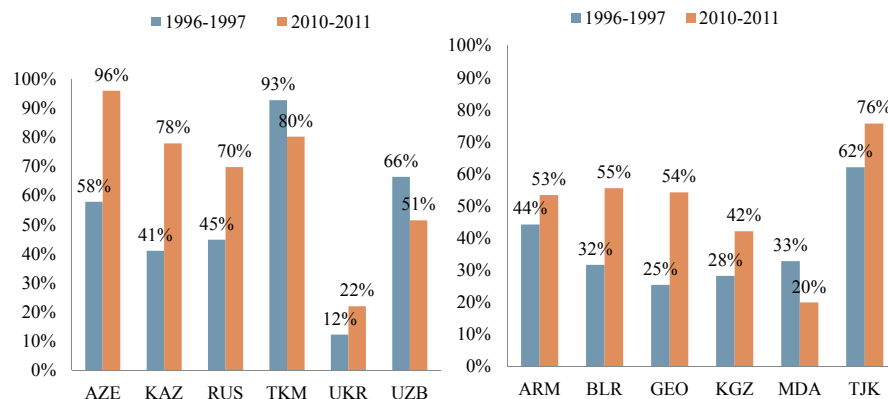


Note: "Within" refers to productivity growth within individual sectors and "structural change" captures the reallocations of labor across different sectors.

Source: World Bank staff calculations based on data from the United Nations and ILO.

Export concentration has increased

Share of Top 5 Exports, 2002-03 v. 2010-11 for Resource-Rich (left) and Resource-Poor (right) Countries



The share of Intra-Eurasia trade has declined a lot since Soviet times

	1989	1995-96	2010-11
Kyrgyz Republic	98%	35%	45%
Uzbekistan	84%	23%	40%
Ukraine	84%	35%	35%
Moldova	95%	58%	32%
Belarus	90%	15%	31%
Armenia	97%	36%	25%
Tajikistan	86%	19%	19%
Georgia	94%	33%	14%
Turkmenistan	91%	73%	13%
Russia	68%	8%	13%
Azerbaijan	94%	56%	7%
Kazakhstan	90%	55%	7%

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2. Growth through “diversification”

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Growth through “diversification”

Three dimensions of diversification:

- diversification of products and services;
- diversification of economic partners;
- and diversification of endowments.

Diversification of the economy in the form of a larger and more diverse basket of products and services produced and more diverse pool of trade partners should be the outcome of the structural transformation.

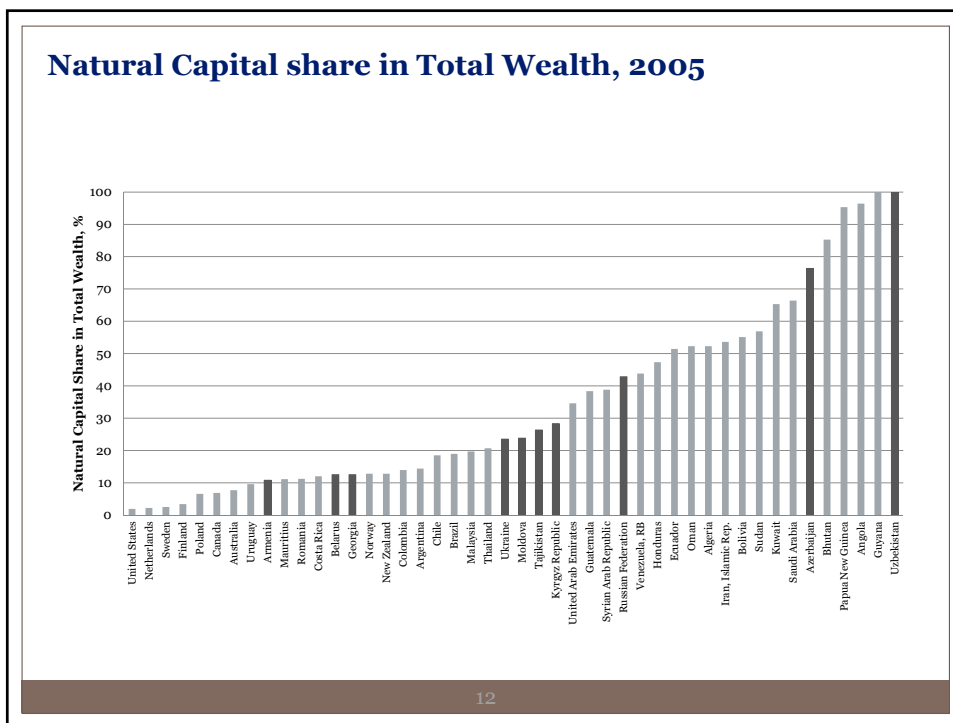
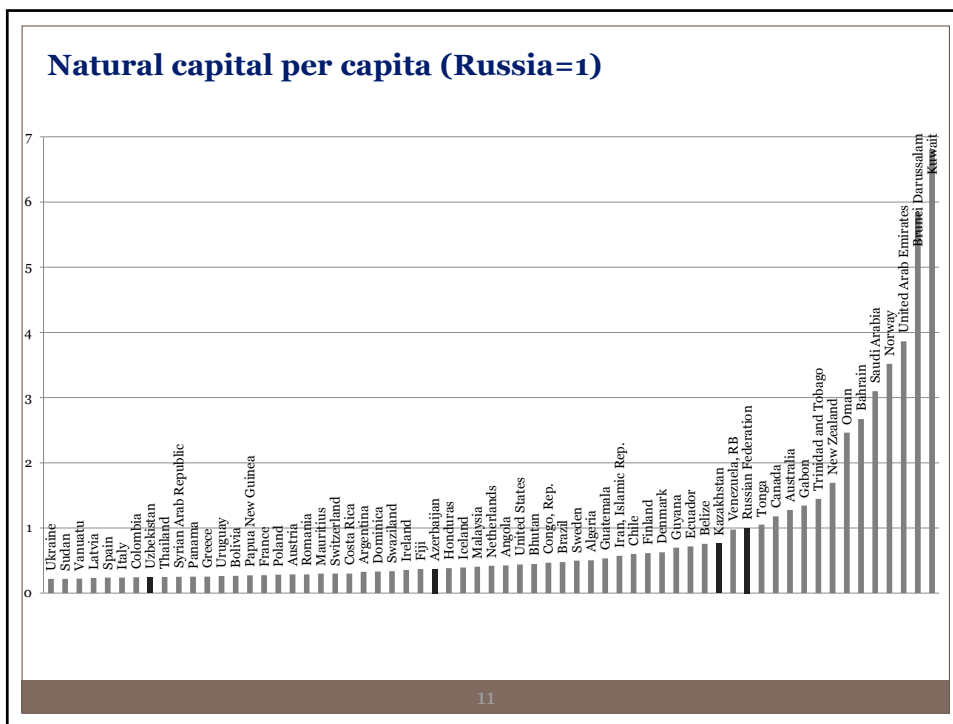
Objectives of policy should focus on “endowments”:

(a) endowments that the country already has, such as natural capital;

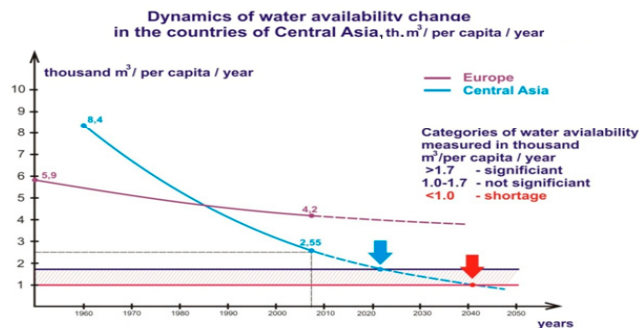
(b) and endowments that can be created and further developed, such as:

- physical capital;
- human capital; and
- institutional capital.

Endowment 1: Natural Resources



Example - Prospects for water



- Over the past 40 years water supply in Central Asia declined from 8.4 th. m³/person/year to 2.5 th. m³/person/year and tends to reduce further.
- At the current rate of population growth in Central Asia, by 2030 this reduction will reach a critical value of less than 1.7 th. m³/year.
- And it is still necessary to annually provide additional 500-700 million m³ of water to sustain the population of Central Asia at even very low levels of consumption.

Source: EC-IFAS

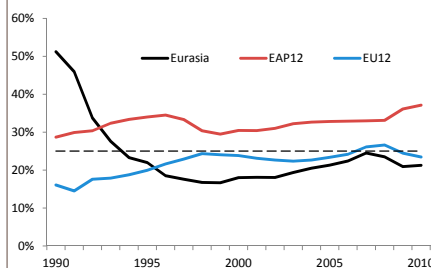
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Endowment 2: Capital

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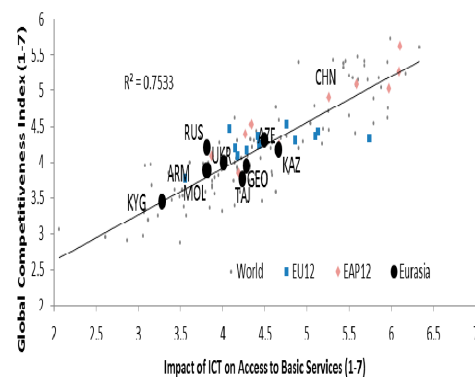
Investments in physical capital

Total Investment in Capital
(as a share of GDP)



Source: World Development Indicators, World Bank
Note: estimated by gross fixed capital formation. Includes land improvements; plant, machinery, and equipment purchases; and the construction of roads, railways, and the like, including schools, offices, hospitals, private residential dwellings, and commercial and industrial buildings.

Figure 4 - Global Competitiveness is correlated with the availability of second-generation infrastructure



Source: World Economic Forum Network Readiness Index
Based on WEF's Executive Opinion Survey 2010 and 2011

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Transport

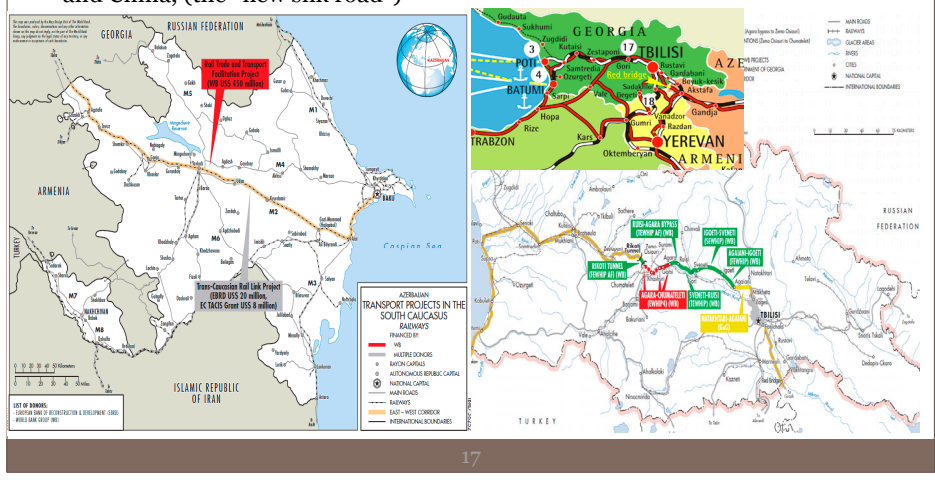
- Long distances and low density requires efficient and well-maintained infrastructure to improve connectivity
- Main corridors are being upgraded though some bottlenecks still exist:
 - “Unreliability” of corridors is emerging as a top constraint
- Lifeline roads are a priority network of rural roads connecting rural communities to an interstate road
 - About 50% of these roads are still in poor condition and capacity to maintain the road network is limited by institutional weaknesses and lack of funding
 - Rural population remain very dependent on lifeline roads for access to services and markets
 - Improve access for rural communities to markets and services through upgrading of selected lifeline roads and to strengthen the capacity of the Ministries of Transport to manage the lifeline road network

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Transport (cont'd)

Improved connectivity to facilitate trade, transit and growth

- Rehabilitation of East-West Highway Corridors in Azerbaijan and Georgia
- East-West and South-West highway through Kazakhstan connecting Europe and China, (the “new silk road“)



Energy

The potential for energy trade

- Collectively well endowed with energy resources but unevenly distributed
 - Caucasus: Hydro (Georgia), hydrocarbons (Azerbaijan)
 - Central Asia: Hydro (Kyrgyz Republic and Tajikistan), fossil fuels (Uzbekistan, Turkmenistan, and Kazakhstan).
- Strong historic links for energy trade: systems were designed to support energy trade but countries' strategies shifted to energy self-sufficiency
- Looming/Persistent energy crisis (winter shortages in CA, 30% of total supply in Kyrgyz Republic), seasonal mismatches, and potential surplus in other countries (11-17 TWh within the next 5 years in the Caucasus)
- => Substantial benefits from increased intra-regional and inter-regional trade

Water supply and sanitation

Central Asia: alarming sector stagnation

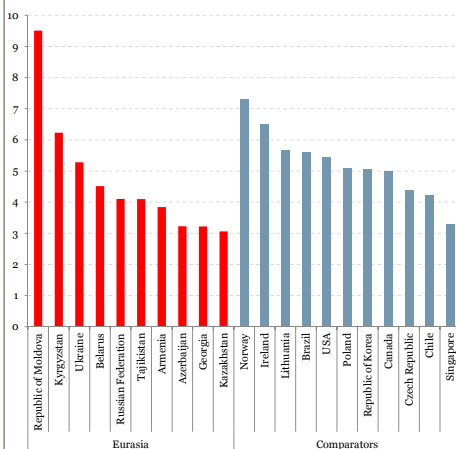
- The region is generally not on track for the Water MDGs.
- Result of two decades of chronic underinvestment, in the face of demographic growth and accelerated degradation of infrastructure base.
- WSS utilities typically operate very inefficiently with extremely low tariffs, delivering low quality and discontinuous service.
- Sector development is impaired by systemic weaknesses in institutional framework, governance and capacity.

Caucasus: some progress

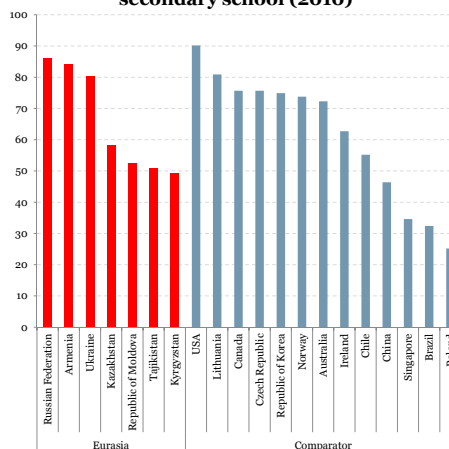
- Proactive investment programs, coupled with WSS sector reforms, have ensured high levels of access to service and improved service quality.
 - PPP in Armenia, capacity building to utilities in Azerbaijan and Georgia).
- Service efficiencies (e.g. non revenue water), wastewater treatment and rural sanitation remain the main sector challenges, causing environment hazard and health risks.

Public spending on education varies a lot and enrollment rates are not low

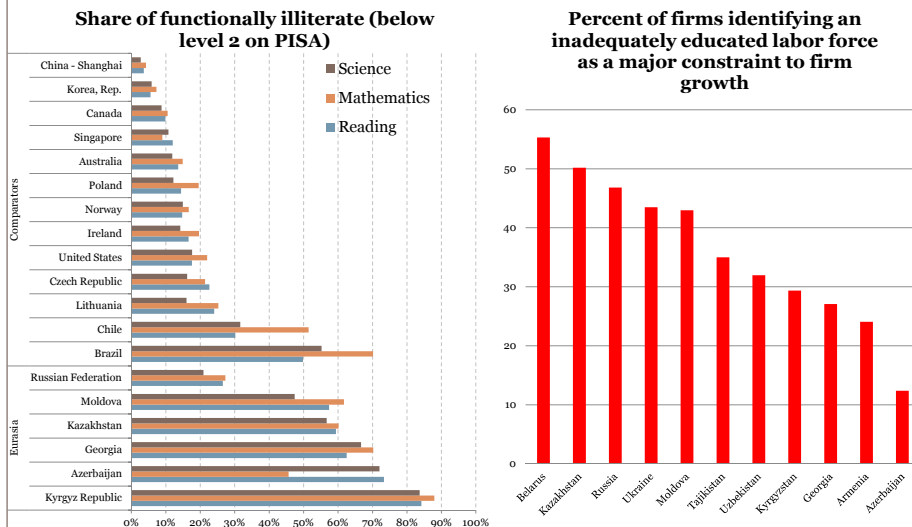
Public Expenditure on Education as % of GDP (2009)



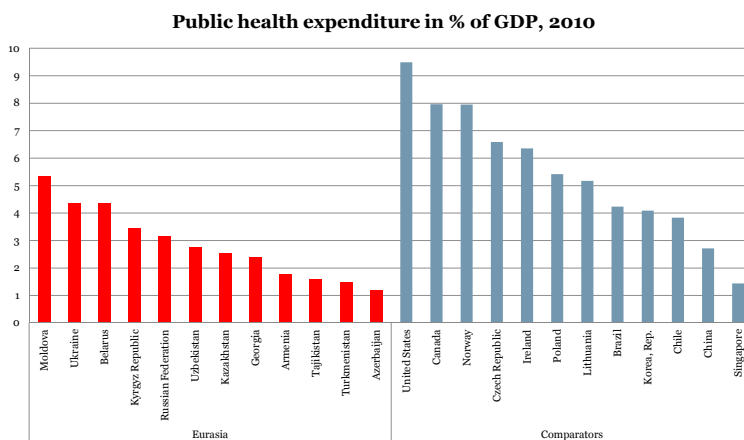
Percentage of population 25 and over who have completed at least secondary school (2010)



But outcomes are poor



Public spending on health also varies a lot



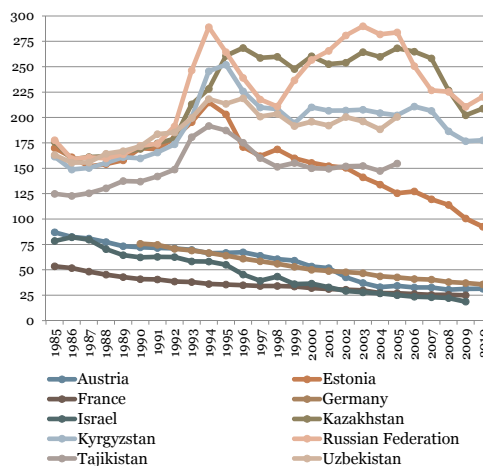
While health outcomes are poor

MDRTB High burden countries
(top 15 countries in Europe and Central Asia)

Country	New cases (%)	Re-treated (%)
Azerbaijan	22.3	55.8
Moldova	19.4	50.8
Tajikistan	16.5	61.6
Ukraine	16.0	44.3
Russian Federation	15.8	42.4
Estonia	15.4	42.7
Kazakhstan	14.2	56.4
Uzbekistan	14.2	49.8
Kyrgyz Republic	12.5	42.1
Belarus	12.5	42.1
Bulgaria	12.5	42.1
Latvia	12.1	37.9
Armenia	9.4	43.2
Lithuania	9.0	47.5
Georgia	6.8	27.4

Source: WHO EURO 2011

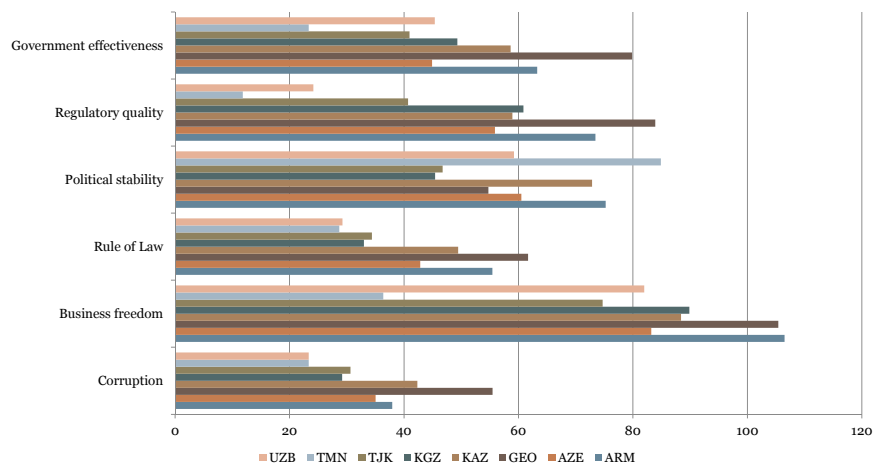
SDR, Diseases of circulatory system
0-64, per 100,000



Endowment 3: Institutions

Eurasia needs to make regulatory environments more efficient

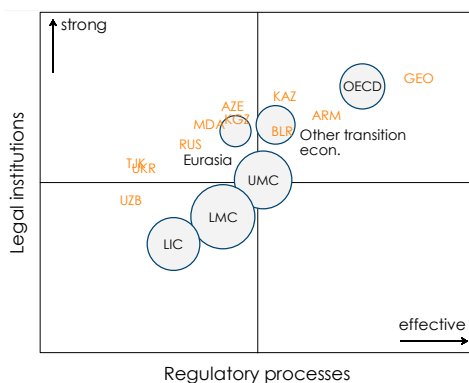
(Selected indicators of institutional quality, OECD = 100)



Source: Heritage Foundation for Business freedom and Corruption and World Bank Worldwide Governance Indicators for Government effectiveness, regulatory quality, political stability and rule of law.

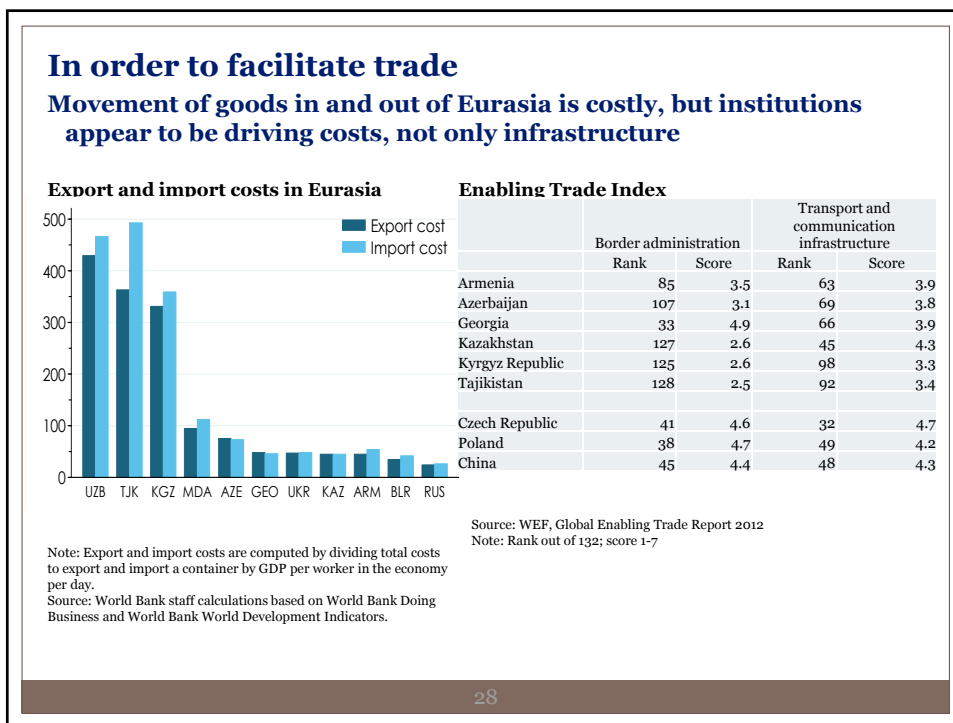
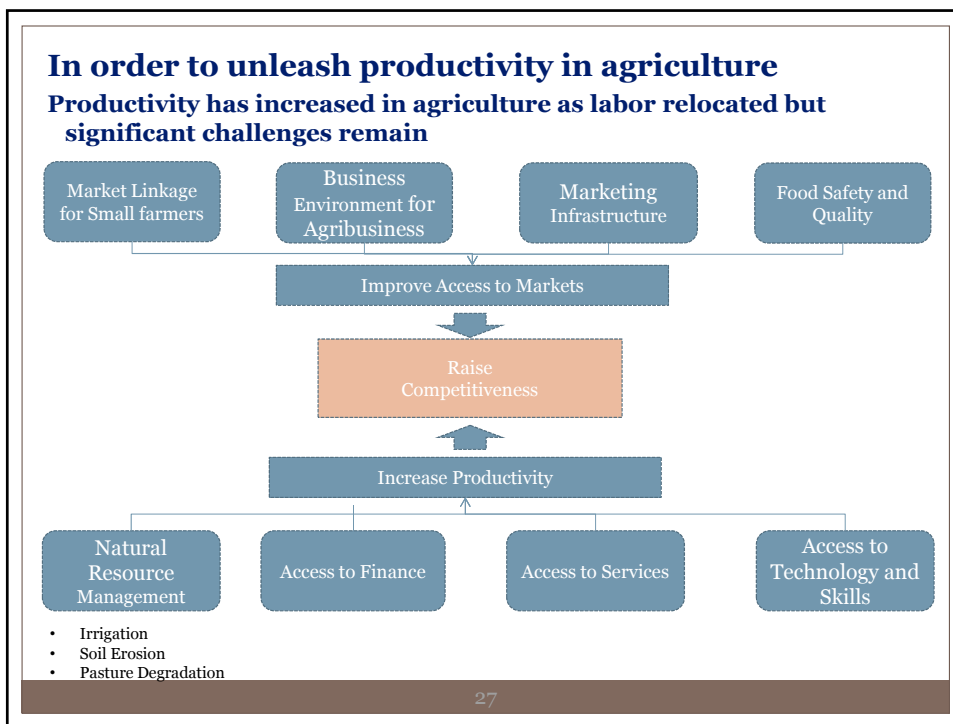
Eurasia needs to make regulatory environments more efficient (cont'd)

(average ranking on sets of *Doing Business* indicators, 2012)

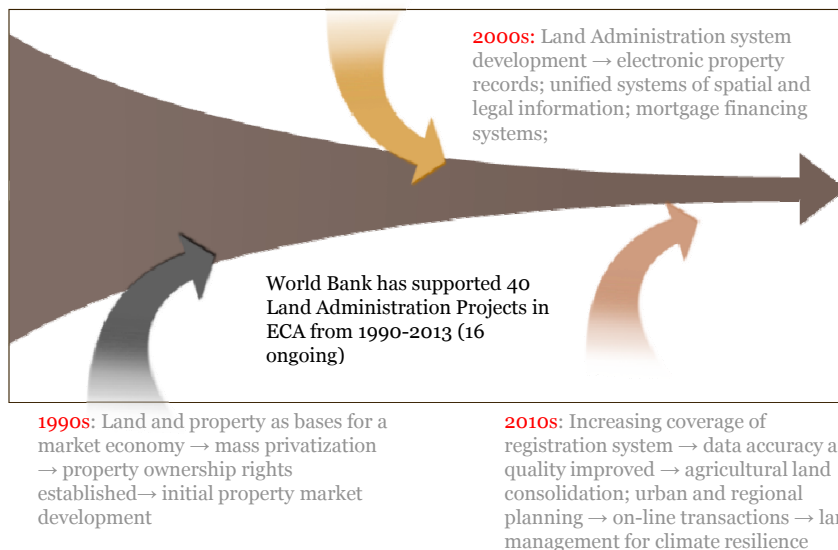


Note: Strength of legal institutions refers to the average ranking on getting credit, protecting investors, enforcing contracts and resolving insolvency, while complexity and cost of regulatory processes does the average ranking on starting a business, dealing with construction permits, getting electricity, registering property, paying taxes and trading across borders.

Source: World Bank staff calculations based on World Bank Doing Business 2013.



In order to develop land and property markets Into a third decade of reforms in ECA



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In order to engage Citizens effectively

Trends and Progress

- **Outreach** to civil society organizations and citizens through consultations on government development priorities, strategies and programs.
 - Several countries in the region have expanded stakeholder consultation and public outreach for development programs and policy dialogue.
- **Participatory natural resource management** has expanded a citizen-led approach on critical resources (especially water, pastures/land).
- **Community-Driven Development**
 - Extensive presence of development programs led and/or implemented by communities in social, urban, rural/agriculture, and environment sectors.

Priorities Looking Forward

- Promoting **Transparency/ Information** (as the key pillar of any effective citizen engagement approach)
- More systematic integration of **Citizen Assessment** and **Citizen Satisfaction** into the delivery of services and infrastructure.
- Strengthening formal integration of citizen transparency, participation and accountability into **local government**.
- Using **Information Technology** to expand platforms for citizen feedback.

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3. Climate change

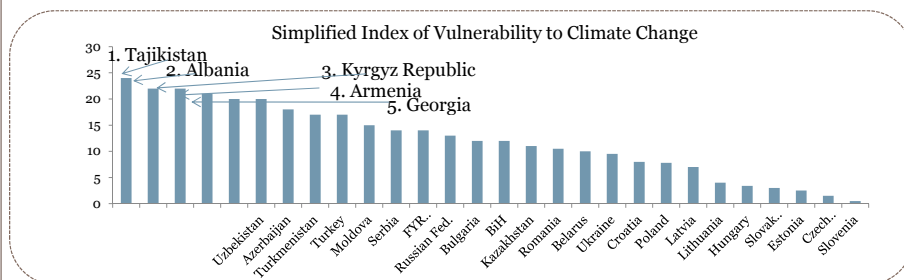
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Climate Change

Preparing for a 4° C World

- **Re-balance:** Mitigation & Adaptation
- **Adaptation & Resilience:** in Cities, Agriculture & Natural Resources, especially water, and in most vulnerable countries (CA, South Caucasus);
- **Deepen & diversify energy efficiency:** power, industry, cities --urban transport, residential, heating and buildings;
- **Scale-up mitigation:** from sustainable agriculture and natural resources management (forestry, pasture/grassland)

Vulnerability of ECA countries



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Conclusions

- Major gains achieved over the last decade
- The decades ahead could profoundly change the region
 - For that to happen, countries need to focus on the “diversification” of their endowments;
 - Countries should seek to improve quality of infrastructure, education, and institutions;
 - Improve efficiency and transparency in managing public resources (budgets, natural resources and physical assets) and much improved accountability;
 - A lot has been accomplished but the remaining agenda remains significant
 - Address emerging priorities, such as climate change
 - The World Bank remains committed to continue to assist the countries of Caucasus and Central Asia in addressing these structural issues.