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

Growth and Sectoral Reforms

World Bank
Ahmed Eiweida and Evgenij Najdov

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1. Development Outcomes

Gap has been narrowing in Caucasus and Central Asia

GDP per capita, PPP, international dollars, EU average = 100,
Poverty Rates, $5 per day

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Armenia</td>
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<tr>
<td>Tajikistan</td>
<td>98</td>
<td>87</td>
</tr>
</tbody>
</table>

Source: World Bank staff calculations based on IMF WEO database
Source: World Bank
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

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Kyrgyz Republic</td>
<td>98%</td>
<td>35%</td>
<td>45%</td>
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<tr>
<td>Uzbekistan</td>
<td>84%</td>
<td>23%</td>
<td>40%</td>
</tr>
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<td>Ukraine</td>
<td>84%</td>
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<td>35%</td>
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<td>Moldova</td>
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<td>58%</td>
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<td>15%</td>
<td>31%</td>
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<td>97%</td>
<td>36%</td>
<td>25%</td>
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<tr>
<td>Tajikistan</td>
<td>86%</td>
<td>19%</td>
<td>19%</td>
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<tr>
<td>Georgia</td>
<td>94%</td>
<td>33%</td>
<td>14%</td>
</tr>
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<td>Turkmenistan</td>
<td>91%</td>
<td>73%</td>
<td>13%</td>
</tr>
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<td>Russia</td>
<td>68%</td>
<td>8%</td>
<td>13%</td>
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<td>Azerbaijan</td>
<td>94%</td>
<td>56%</td>
<td>7%</td>
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<tr>
<td>Kazakhstan</td>
<td>90%</td>
<td>55%</td>
<td>7%</td>
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2. Growth through “diversification”
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. m$^3$/person/year to 2.5 th. m$^3$/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. m$^3$/year.
- And it is still necessary to annually provide additional 500-700 million m$^3$ of water to sustain the population of Central Asia at even very low levels of consumption.

Source: EC-IFAS

Endowment 2: Capital
Investments in physical capital

<table>
<thead>
<tr>
<th>Year</th>
<th>Eurasia</th>
<th>EAP12</th>
<th>EU12</th>
</tr>
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<tbody>
<tr>
<td>1990</td>
<td>10%</td>
<td>20%</td>
<td>30%</td>
</tr>
<tr>
<td>1995</td>
<td>15%</td>
<td>25%</td>
<td>35%</td>
</tr>
<tr>
<td>2000</td>
<td>20%</td>
<td>30%</td>
<td>40%</td>
</tr>
<tr>
<td>2005</td>
<td>25%</td>
<td>35%</td>
<td>45%</td>
</tr>
<tr>
<td>2010</td>
<td>30%</td>
<td>40%</td>
<td>50%</td>
</tr>
</tbody>
</table>

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.

Transport

- Long distances and low density require 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
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)
But outcomes are poor

Share of functionally illiterate (below level 2 on PISA)

Percent of firms identifying an inadequately educated labor force as a major constraint to firm growth

Public spending on health also varies a lot

Public health expenditure in % of GDP, 2010
While health outcomes are poor

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

<table>
<thead>
<tr>
<th>Country</th>
<th>New cases (%)</th>
<th>Re-treated (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Azerbaijan</td>
<td>22.3</td>
<td>55.8</td>
</tr>
<tr>
<td>Moldova</td>
<td>19.4</td>
<td>50.8</td>
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<tr>
<td>Tajikistan</td>
<td>16.5</td>
<td>61.6</td>
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<td>Ukraine</td>
<td>16.0</td>
<td>44.3</td>
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<tr>
<td>Russian Federation</td>
<td>15.8</td>
<td>42.4</td>
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<td>Estonia</td>
<td>15.4</td>
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<td>Kazakhstan</td>
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<td>Armenia</td>
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<td>Lithuania</td>
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<tr>
<td>Georgia</td>
<td>6.8</td>
<td>27.4</td>
</tr>
</tbody>
</table>

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)

Government effectiveness
Regulatory quality
Political stability
Rule of Law
Business freedom
Corruption


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

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

Legal institutions

Regulatory processes

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.

In order to unleash productivity in agriculture
Productivity has increased in agriculture as labor relocated but significant challenges remain

- Market Linkage for Small farmers
- Business Environment for Agribusiness
- Marketing Infrastructure
- Food Safety and Quality

Improve Access to Markets

- Raise Competitiveness

Increase Productivity

- Natural Resource Management
- Access to Finance
- Access to Services
- Access to Technology and Skills

- Irrigation
- Soil Erosion
- Pasture Degradation

In order to facilitate trade
Movement of goods in and out of Eurasia is costly, but institutions appear to be driving costs, not only infrastructure

Export and import costs in Eurasia

<table>
<thead>
<tr>
<th>Export and import costs in Eurasia</th>
<th>Enabling Trade Index</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Border administration</td>
</tr>
<tr>
<td></td>
<td>Rank</td>
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<tr>
<td>Armenia</td>
<td>85</td>
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<tr>
<td>Azerbaijan</td>
<td>107</td>
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<tr>
<td>Georgia</td>
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<td>Kazakhstan</td>
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<td>Czech Republic</td>
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<tr>
<td>Poland</td>
<td>38</td>
</tr>
<tr>
<td>China</td>
<td>45</td>
</tr>
</tbody>
</table>

Note: Export and import costs are computed by dividing total costs to export and import a container by GDP per worker in the economy per day.
Source: World Bank staff calculations based on World Bank Doing Business and World Bank World Development Indicators.

Source: WEF, Global Enabling Trade Report 2012
Note: Rank out of 132; score 1-7
In order to develop land and property markets
Into a third decade of reforms in ECA

1990s: Land and property as bases for a market economy → mass privatization → property ownership rights established → initial property market development

2000s: Land Administration system development → electronic property records; unified systems of spatial and legal information; mortgage financing systems;

2010s: Increasing coverage of registration system → data accuracy and quality improved → agricultural land consolidation; urban and regional planning → on-line transactions → land management for climate resilience

World Bank has supported 40 Land Administration Projects in ECA from 1990-2013 (16 ongoing)

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.
3. Climate change

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**

<table>
<thead>
<tr>
<th>Country</th>
<th>Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tajikistan</td>
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<td>Albania</td>
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<td>Armenia</td>
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<tr>
<td>Georgia</td>
<td>15</td>
</tr>
<tr>
<td>Others</td>
<td></td>
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</tbody>
</table>
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.