EUROPE AND CENTRAL ASIA

CONTEXT:

World Bank operations in Europe and Central Asia (ECA) cover 23 countries, most of which have undergone a modest economic recovery since 2010 following the global economic crisis. However, this has been a multi-speed recovery as the GDP of Central and Southeastern Europe (CSEE) by end-2013 is expected to be only 92 percent of what it was in 2008, whereas the combined GDP of the Commonwealth of Independent States (CIS) economies is expected to be 129 percent of its pre-crisis level; in the case of Turkey, it is likely to be 110 percent to what it was in 2008.

The ECA region as a whole experienced a significant economic slowdown in 2012, when economic growth fell to 2.4 percent, compared to 4.9 percent in 2011. The economic slowdown was more severe in CSEE than among CIS economies.

International factors will generate increasing differentiation between CSEE and CIS economies in 2013. Even though the risk of a serious Euro Area crisis has diminished, the performance of CSEE countries will remain more sensitive to the recovery in high-income Europe than CIS economies.

At the same time, several domestic factors will generate increasing differentiation within countries of each sub-region. Monetary policy remains accommodative in most countries of CSEE, but less so in some CIS economies. The pace of fiscal consolidation has eased in some CSEE countries, reducing the drag on overall growth, but major fiscal adjustments are still needed in several others. The improvement in agricultural production is expected to benefit some countries of both CIS and CSEE. However, the recent fall in prices of certain commodities is a source of uncertainty for commodity exporters in the region.

This year, CSEE countries are expected to grow by just 0.9 percent on average, while average growth for Turkey and CIS economies is projected at 2.7 percent. High unemployment continues to be a challenge in the ECA region, where unemployment rates are still in excess of 10 percent in several countries of CSEE.

STRATEGY:

In order to reach the World Bank Group’s twin goals of ending extreme poverty within a generation and boosting shared prosperity, the Europe and Central Asia region’s strategy is focusing on three main areas of intervention: (i) competitiveness, (ii) reforming social sectors, and (iii) climate change.
• **Competitiveness to increase growth and reduce poverty**

Increasing competitiveness requires improving governance and the investment climate, providing stable and effective financial intermediation, upgrading the skills of the labor force, building and maintaining energy and transport infrastructure, and increasing the efficiency of public spending.

To achieve these ends, the Bank has helped modernize tax administration in Armenia and Romania; improve roads in Armenia and Serbia; strengthen the business environment and policies conducive to innovation in Croatia, Georgia, and the Russian Federation; increase access to finance for small and medium enterprises in Turkey; and stabilize public finances and strengthen financial sector regulations in the former Yugoslav Republic of Macedonia.

Findings of the regional report *Eurasian Cities: New Realities along the Silk Road* show that the cities of Eurasia need to reorganize in order to be competitive in a market economy. Policy makers can support this transformation through better urban planning, faster transport and communication connections, integrated public services, and more efficient financing – areas where some cities in the region have already started to take actions.

• **Social services to ensure that disadvantaged groups share the prosperity that is being created through economic growth**

The Bank is working with countries in the region to ensure equal access of various population groups, including the poor, vulnerable or otherwise disadvantaged, to economic opportunities and quality public services.

This is done by increasing access to better health and education services, supporting community-driven development, improving workers’ skills and creating new job opportunities, enhancing the efficiency and targeting of the countries’ social safety nets, and improving governance so that citizens’ voices are heard in designing social policies and improving public services. There is a strong focus on improving social systems to ensure a comprehensive and enduring response to inclusion issues.

The Bank continues to support Roma inclusion efforts through advocacy and evidence-based analysis in such initiatives as the Decade of Roma Inclusion and Roma Education Fund. In the Russian Federation, Armenia, and Tajikistan, Bank-supported projects are helping engage rural communities in participatory and transparent decision-making and project implementation at the local level.

• **Dealing with climate change to ensure growth is sustainable**

Climate change is putting stress on the land, water, and energy resources in the region, which decades of environmental mismanagement have left highly vulnerable to climate variability.

To deal with the risks, the Bank is acting on a number of fronts to support both mitigation and adaptation measures. It is financing disaster risk and climate change mitigation in Moldova, supporting reforms to provide incentives for efficient energy use in Turkey, investing in sustainable agriculture and climate change mitigation in Uzbekistan, and improving weather forecasting and climate change monitoring in Central Asia and Russia.

The Bank’s ECA region recently published four new studies on climate change. *Growing Green: The Economic Benefits of Climate Action* provides practical policy options for achieving a greener growth path by prioritizing investments in energy efficiency, expanding the use of cleaner energy, and improving natural resources management. *Energy Efficiency: Lessons Learned from Success Stories* analyzes the policies of countries in the European Union that have improved energy efficiency the most or achieved a low level of energy intensity. *Balancing Act: Cutting Energy Subsidies While Protecting Affordability* demonstrates how to ensure that climate action supports social inclusion by addressing the household impacts of higher energy prices. *Looking Beyond the Horizon: How Climate Change Impacts and Adaptation Responses Will Reshape Agriculture in Eastern Europe and Central Asia* shows that priority measures for adapting to climate change can increase agricultural productivity and contribute to development goals.
The World Bank Group provided $10.2 billion in funding to governments in ECA during fiscal year 2013, aimed at fostering growth for shared prosperity and poverty reduction.

Over the past fiscal year, IBRD/IDA approved 42 project and policy loans totaling $5.3 billion for ECA, comprising of $4.6 billion and $0.7 billion in IBRD and IDA commitments respectively. The IFC provided $4.4 billion and MIGA $0.54 billion in financing. In addition to its financial products and technical assistance, the Bank Group produced important research about critical issues in the region this past fiscal year, such as the Growing Green report.

Middle-income countries requiring services that cannot be fully funded by the Bank’s own resources are increasingly using Reimbursable Advisory Services (RAS). Under RAS programs, the Bank works with countries at their request and provides reimbursable technical advice. ECA has been engaged in 122 RAS programs since 2006, including 35 new RAS agreements signed in fiscal year 2013. Countries that have signed RAS agreements include: Albania, Bulgaria, Bosnia and Herzegovina, the Czech Republic, Georgia, Kazakhstan, Latvia, Poland, Romania, Russian Federation, Slovakia, and Slovenia.

RESULTS:

**Increasing Competitiveness:**

Better competitiveness is a key pillar for growth in the ECA region, and through lending operations and advisory support the World Bank has helped many countries in the region in various areas.

One important achievement in this area is the improvement of the roads network in countries such as Kazakhstan, Ukraine, the Kyrgyz Republic, Georgia, Armenia, and Belarus.

The [Kazakhstan East-West Roads Project](#), for example, aims to provide an efficient way of transportation from Almaty – a major economic hub in Central Asia – to Khorgos, which is the primary road border crossing point between Kazakhstan and China. In Kazakhstan, for example, the project will improve road transport movement for about 7.9 million of people, about half of Kazakhstan’s population. The new road will be 13 percent shorter than the existing one (305 km instead of 351 km), and will reduce vehicle operating costs by 13 percent. In Azerbaijan, travel time has already been reduced by about 33 percent and 42 percent respectively along the project road sections thanks to the First and Second Highway Projects. And in Georgia, operating costs have been cut from $0.76 to $0.71 per km and $0.20 to $0.18 per km because of World Bank projects along the East West Highway.

**Supporting Social Sector Reforms:**

ECA countries that already had effective social safety nets in place before the 2009 global financial crisis were best able to protect their citizens during the crisis. However, social spending in some ECA countries remains inefficient and poorly targeted.

To prepare countries to weather the effects of the current Eurozone crisis and any future crises, promote employability, and deal with population aging, the Bank is working with ECA countries to strengthen their social safety nets.

Beyond the crisis, increasing employment and access to quality public services in health and education remain key areas of the Bank’s support for ECA countries’ efforts to ensure shared prosperity.

The [Health Services and Social Assistance Project](#) in Moldova is one such project. Its overall objective is to increase access to quality and efficient health services and decrease premature mortality, among other objectives. The project has created a new network of rural primary health care centres (PHC), directly contracted by the national insurance company. So far, 38 PHCs have been built or rebuilt, and at the end of the project (end of August 2014) that number will reach 77. The strengthening of primary care in rural areas has led to some significant improvements in basic health services coverage. For example, there has been a reduction in the cases of neoplasms (cancers) detected in a very advanced phase, and there are improvements in the detection of high blood pressure and testing for cervical cancer. The project has also supported the passage of legislation and the initial rollout of the new targeted social assistance system in the country. The system aims to improve
targeting of social transfers and services to the poor and is providing free health insurance to its beneficiaries. Currently 30,000 families in need of state support are benefiting from cash-transfers and access to healthcare under the new system.

**Climate Action for Sustainable Growth:**

ECA faces significant challenges related to climate change, with a number of serious risks already in evidence. The Bank supports evidence-based policy reforms aimed at effective climate action through cutting-edge analytical work as well as through policy dialogue and investment lending.

Like many countries, FYR Macedonia faces the dual-challenge of achieving long-term economic growth while simultaneously reducing its contribution to climate change. To support the country in its pursuit of these goals, the World Bank and the Governments of Norway and Sweden are funding the Green Growth and Climate Change Analytical and Advisory Support Program. Launched in 2011, the Program focuses on job creation, inclusive growth, adaptation to climate change, mitigation of greenhouse gas emissions, and policy reforms and public investments. Building on the Macedonian National Strategy for Sustainable Development (formally adopted in 2010) and commitments towards EU accession, the Green Growth Program is a wide-scale effort that includes studies, analyses, technical assistance, and training. It is a program with long-term goals, evidenced by expected changes in the primary and secondary legislation – inspired by the Bank’s technical assistance – that would create an enabling environment for the promotion of green growth.

**PARTNERS:**

**European Union, European Commission, and other institutions**

The World Bank’s ECA region has a strategic partnership with the European Union (EU), and is working with the European Commission (EC) and European international financial institutions (IFIs) to improve the capacity of ECA’s EU-member clients to absorb EU funds.

The Bank works closely together with EU institutions, European IFIs (European Investment Bank [EIB] and the European Bank for Reconstruction and Development [EBRD]), and the International Monetary Fund (IMF) as part of the second Vienna Initiative, which aims to improve banking systems and coordination among banking regulators in EU and non-EU countries.

Against the background of weak growth and even economic contraction in Central and South Eastern European (CSEE) countries, the World Bank Group, the EBRD, and the EIB Group came together in November 2012 for a new Joint International Financial Institution (IFI) Action Plan, pledging to invest a total of €30 billion in the region over the two years 2013/14 to stimulate economic growth in CSEE.

ECA works on Roma inclusion across the region in collaboration with various partners, including the European Commission, the Roma Education Fund, and a variety of national Roma agencies.

The Bank is also working with the EurAsian Economic Community’s (EURASEC) Anti-Crisis Fund and with the Eurasian Development Bank to provide parallel financing for low-income ECA countries.

**Bilateral partnerships**

The Bank’s ECA region has developed a strategic partnership with the Russian Federation, which is an increasingly important donor in the region. Russian-financed trust funds support education, public finance management, project preparation capacity, official statistics, and global public goods in the ECA region and worldwide.

In addition, ECA has bilateral partnerships with countries, including Austria, Germany, Japan, The Netherlands, Sweden, Switzerland, the United Kingdom, and the United States.
ANALYTICAL WORK HIGHLIGHTS:

In addition to the analytical work mentioned above, the World Bank’s ECA region ensures timely monitoring of economic trends and prospects in the region through its Regular Economic Reports for the EU11, Russian Federation, South Eastern Europe, Tajikistan, Turkey, and Ukraine.

Follow-up reports on ECA’s 2012 regional flagship report, Golden Growth: Restoring the Lustre of the European Economic Model, focusing on the growth model for Bulgaria and Romania are being finalized.

Other recent World Bank knowledge products for the ECA region include:

- **Mitigating the Economic Impact of an Aging Population: Options for Bulgaria**, which looks at how policy reform and strategic action in several key areas can help lessen the impacts brought on by ongoing demographic shifts and help steer the country toward a more inclusive future that provides for young and old Bulgarians alike.
- **Belarus Country Economic Memorandum, Economic Transformation for Growth**, which analyzes the sources of growth, assesses the needed economic and structural rebalancing, and identifies the untapped potential for the medium-term economic development of the country.

ECA COUNTRIES

World Bank operations in Europe and Central Asia region cover 23 countries. Individual Country Program Snapshots are updated twice a year, and include analyses of the economy, sectors, and the World Bank’s activities in country. They also include Project Briefs, which detail the projects’ objectives, results, and financing.

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