

Foreword

The EBRD was established after the fall of the Berlin Wall to support the transition of countries in emerging Europe and Central Asia to well-functioning market economies that are competitive, well governed, inclusive, green, resilient and integrated. In 2025, the EBRD expanded its remit to Benin, Côte d'Ivoire, Iraq, Kenya, Nigeria and Senegal and is expected to start working in Ghana in the near future.

This brief report outlines the challenges of economic development in these new countries of operation, highlighting the differences and similarities to those faced by the economies of emerging Europe and Central Asia in the 1990s, as well as today.

The report builds on a unique representative household survey that the EBRD has conducted in more than 45 economies since 2006, covering economies where the Bank invests and a number of comparators. It is the fifth in the series of EBRD special reports that draw on the results of the *Life in Transition Survey*.

In the first wave of the survey, per capita incomes in Central Asia and the Caucasus had just surpassed the average values of per capita income in sub-Saharan Africa (SSA) today. Since then, Central Asia and the Caucasus have seen considerable income convergence towards the living standards of advanced economies, while income convergence in SSA has been minimal.

Notwithstanding some similarities, the challenges of building sustainable market economies in the two regions are quite distinct.

As observed in the EBRD's *Transition Reports* over the last 30 years, the economies of emerging Europe and Central Asia emerged from central planning with strong endowments of skills and physical capital. In the absence of a vibrant private sector, however, these factors of production were used inefficiently. The key challenge was to introduce markets and privatise inefficient, oversized public enterprises.

Over subsequent decades, as markets developed, the efficiency with which capital and labour were combined improved considerably. Economies in the region experienced rapid convergence towards the income levels of G7 economies, but the speed of this convergence eventually slowed, in part owing to the

fact that progress in the area of governance has been somewhat modest.

In contrast, development in SSA is largely held back by the poor quality of skills and infrastructure, and persistently high levels of informality, both in subsistence agriculture and the services sector. The key challenge in these economies is to provide quality jobs for rapidly growing workforces with limited education and build formal financial markets, as well as markets for goods and services, in economies with very large informal sectors.

The experience of emerging Europe and Central Asia shows that if obstacles to building well-functioning markets can be overcome, income convergence can be rapid. Yet overcoming those obstacles is by no means easy. As the EBRD starts to invest in SSA, this report will inform the Bank's early work in its new countries of operation.

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