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Central and Eastern Europe Prosperity Report

The Lived Experience

2019

CREATING THE PATHWAYS FROM POVERTY TO PROSPERITY

About the Legatum Institute

The Legatum Institute is a London-based think tank with a global vision: to see all people lifted out of poverty. Our mission is to create the pathways from poverty to prosperity, by fostering Open Economies, Inclusive Societies and Empowered People.

We do this in three ways:

Our **Centre for Metrics**, which creates indexes and datasets to measure and explain how poverty and prosperity are changing.

Our **Research Programmes**, which analyse the many complex drivers of poverty and prosperity at the local, national and global level.

Our **Practical Programmes**, which identify the actions required to enable transformational change.

About the authors

Dr. Stephen Brien is Director of Policy at the Legatum Institute.

Bianca Swalem is a Research Analyst at the Legatum Institute.

Freelance journalist **Andrew MacDowall** contributed the lived experience stories.

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Erste Group Bank is the largest banking group in Central and Eastern Europe with EUR 243bln in assets and serving more than 16 million customers in Austria, Czechia, Slovakia, Romania, Hungary, Croatia, and Serbia. The group's commitment to spreading prosperity across the region is rooted in its 200-year old founding history as a savings bank for the unbanked. Erste champions financial literacy and sustainable growth in the region through its Social Banking programme that is providing traditionally unbanked groups with loans, money advice, business training and mentoring. Since launching the Social Banking programme in 2016, Erste has financed more than 3,000 early stage entrepreneurs, 400 non-profits and social enterprises and 6,5000 small farmers, creating more than 14,000 new jobs across the region.

Learn more about Erste Group at: www.erstegroup.com

Learn more about the Legatum Foundation at: www.legatum.org.

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Foreword

Central and Eastern Europe (CEE) has come a long way in two decades to become more like Western Europe in many regards. In 1995, output per capita of the formerly communist CEE countries, in purchasing power terms, stood at less than 30 percent of the Western European average. By 2017, it had risen to more than 50 percent. After stagnating between 2009 and 2014, prosperity in the region, as measured by the broader economic and social wellbeing criteria of the Legatum Prosperity Index™, has risen continuously whilst the prosperity differential between CEE and Western Europe has continued to shrink. This year's CEE Prosperity Report focuses on living conditions, health and education, diagnosing the challenges that are developing as the region becomes more like the West.

The legacies of the past continue to be felt both in the significant productivity and prosperity differentials that persist between countries and in the areas where they persist. Almost all of the formerly communist and authoritarian Central-Eastern and South-Eastern European countries continue to underperform the Western European average with respect to their business environment (except Czechia and Estonia), their governance (except Estonia) and particularly their social capital (except Slovenia) as measured by trust levels, civic participation, and the willingness to help others.

Previous CEE prosperity reports focused on these historically-rooted challenges, and how they could be overcome. The 2016 inaugural report emphasized the relationship between social capital and the resulting quality of governance and business environment, focusing on reforms that would both improve and build trust in government, such as enhancing independent auditing and opening institutions to the media and public scrutiny. Last year's report laid out a broad vision for developing the region's competitive strengths: integration into EU supply chains, strengthening the "entrepreneurial sea" in the Baltic region, and the agriculture and agribusiness hub in the Balkans.

This year's CEE Prosperity Report focuses on living conditions, health and education, diagnosing the challenges that are developing as the region becomes more like the West. For most countries in the region, prosperity is higher than could have been predicted based on purchasing power-adjusted GDP alone. And while large prosperity differences remain with the region – the least prosperous CEE country in the index is further away from the most prosperous countries in Western Europe on average – that gap has also been shrinking. However, the historically-rooted differences remain important because they help explain the unique obstacles and opportunities in the region's convergence with Western Europe.

One positive outcome of this convergence is the disappearance of the region's "happiness gap" with the West, as documented in the EBRD's 2016-17 Transition Report. In the 2006 and 2010 rounds of the EBRD's Life in Transition Survey, differences in life satisfaction with respect to Western Europe comparator countries were larger than, and not wholly explained by, differences in income and other household characteristics. However, since hitting a low in 2010 – a year marked by the global financial crisis which had a deep and traumatic impact on the region – life satisfaction has not only recovered but recovered more quickly than income. In almost all CEE countries, it now exceeds the levels observed in the initial 2006 survey round.

Yet the rise in both income and life satisfaction since 2010 has not necessarily translated into greater optimism about the future, particularly among young adults. Compared to their counterparts in previous survey rounds, most CEE respondents aged between 18 and 39 were less confident that their children would have a better future than themselves. The report documents rises in income inequality (with notable exceptions, including Poland and Czechia), higher in-work poverty, sharp increases in the cost of living and housing and, compared to Western European peers, a relatively high risk of mid-skilled jobs being lost to automation, all contributing to a growing sense of vulnerability. In short, young labour-force participants appear to be feeling less optimistic about the future for many of the same reasons as their counterparts in Western countries both in Western Europe and the United States. People may be satisfied with their lives today, but they are increasingly worried about the future, and particularly about the lives of their children.

How should policy makers react to this growing pessimism about the future, some of which may indeed be justified by fears of disruptive changes to employment and economic insecurity? The report focuses on solutions in two areas of first order relevance: health and education.

First, the state must ensure access to good quality healthcare. Some CEE countries do well in this respect, but many do not, particularly in the Balkans and relatively prosperous countries such as Latvia and Lithuania. Dissatisfaction with

healthcare remains widespread with access to healthcare restricted by long waiting times, geography, and in some countries, affordability. Changing this may require greater investment and a shift of focus in specific areas. Healthcare systems in the region remain far too focused on secondary and hospital-based care, rather than prevention and primary care. And surveys show that people across CEE identify healthcare as the highest (or second highest) priority for additional government spending.

Second, people must be equipped with the right education and skills. With ageing populations and still relatively low wage levels in most CEE countries, job shortages are less likely to be a problem than a mismatch of skills. Several CEE countries, particularly those that have been successful in attracting FDI, are projecting large shortfalls in science and engineering workers. With their traditional focus on mathematics and sciences, and in some cases well-performing secondary school systems, CEE countries are well-positioned to rise to this challenge – providing they raise the quality of tertiary education, which generally remains poor, and ensure that students learn interpretative skills rather than just lexical, or formal, knowledge. This will require increased investment in education. And with the outflow of recent qualified CEE graduates to the West slowing and even reversing in recent years, these investments will, over time, pay for themselves as more young people stay and contribute to their own nation's economy. This should incentivise governments to make the necessary increases in investment in both education and health because investing in the next generation will not only help the young succeed in the coming decades, it will also safeguard national and regional prosperity too.



Jeromin Zettelmeyer
Dennis Weatherstone Senior Fellow
Peterson Institute for International Economics

Executive Summary

This is the third in a series of reports that Legatum Institute has developed in partnership with Erste Group. The goal of these reports is to analyse the nature of prosperity among countries in Central and Eastern Europe (CEE), and specifically to look at the extent to which economic gains over the last three decades have translated into a rise in prosperity of people from all income groups.

The reports use The Legatum Prosperity Index™, the world's most comprehensive measure of human flourishing, to provide a 360-degree analysis of prosperity, considering the institutional, economic and social dimensions.

The Index demonstrates the remarkable rise in prosperity across CEE in the three decades since the fall of communism and the convergence in living standards with Western Europe. However, just as salaries and wages have risen, so too have people's expectations and the cost of living, meaning that rises in incomes have not always matched with rises in people's satisfaction with living standards. This can be clearly seen among young people who, unlike their parents, are not looking back at how life has improved since the end of communism and are instead looking globally and, in particular to their Western European peers, to make their comparisons.

While this report shows that the future in CEE looks positive, it also shows that the middle class is feeling vulnerable, the outlook for young people is challenging, and people in low-income jobs are at risk from in-work poverty, with income inequality on the rise in many CEE countries.

This report looks at these challenges in-depth and examines the opportunities over the next decades for people to fulfil their potential across the region, through improvements both to the education and health systems and the wider factors that are driving living standards, to ensure people right across CEE live more prosperous lives.

Living Conditions

A true understanding of prosperity and wellbeing requires an examination of people's lived experiences. This includes how incomes translate into families being able to make ends meet, quality of work and access to high quality and affordable housing.

Living conditions have improved significantly, but unevenly

Living conditions have seen improvements across all CEE countries over the past 30 years, and inequality is falling, but not uniformly. Czechia is one of the most equal countries in Europe, matching Scandinavian levels, followed by Austria and Hungary.¹ But countries such as Lithuania and Bulgaria have levels of inequality seen in low-income and developing countries.²

In-work poverty is on the rise

Employment and wages have risen across the region. However, average wages are still only around 25-40% of those seen in Germany.³ The impact of this is easily seen in the relatively high incidence of in-work poverty. For example, one in five (18.9%) people employed in Romania are judged to be in relative low-income poverty,* the highest of all EU Member States.⁴

The significant shadow economy across CEE plays a role in both driving the extent, and mitigating the impacts, of in-work poverty. Together this has led to a feeling that people cannot succeed through hard work alone. For example, findings from the World Bank show that just 24% of people in Eastern European countries believe the poor can help themselves to improve their situation, whereas in Western Europe, 40% believe that poor people have a chance to escape poverty on their own.⁵

The rise in the cost of living is impacting on satisfaction with living standards

Significant rises in the cost of living have been seen across the whole of CEE. For example, between 2000 and 2017, the prices of goods and services rose by 257% in Romania, 98% in Hungary and 87% in Latvia, compared to average price rises in the EU of 36%.⁶ In addition, up to 40% of people in some CEE countries report that they are unable to keep their homes adequately warm.

* A relative income measure is used here to allow for comparison with other European countries. However, defining poverty using a simple measure of relative poverty does not adequately capture all its dimensions such as the depth and lived experience of poverty. For more information on this, see the Social Metrics Commission (www.socialmetricscommission.org.uk)

Together, these pressures on the cost of living present a significant challenge to prosperity. According to a 2018 Gallup poll, only 15% of respondents in CEE reported that they live comfortably on their present income. The result is dissatisfaction with living standards, especially among the young who have a more global perspective and draw comparisons with Western European peers, rather than looking to progress made since the end of communism.

Polarisation of the labour market is increasing middle-class vulnerability

Work insecurity, inequality of opportunity and the disappearance of traditionally mid-skilled jobs are contributing to an increased level of vulnerability among the middle classes. A particular challenge is the polarisation of the labour market, which is already underway in the region. This has seen mid-skilled workers who cannot upskill – and secure higher-skilled jobs – having to seek lower-skilled jobs and this impacts on their ability to fulfil their economic expectations.⁷

These challenges look set to continue with the arrival of the Fourth Industrial Revolution, which presents particular risks for mid-skilled workers, with automation a bigger risk to CEE labour markets than those in Western Europe.⁸

These concerns are already felt by people living in CEE, with the most recent European Bank for Reconstruction and Development (EBRD) survey showing a marked decline in the confidence of respondents from the region about the likelihood of a better future for young people.^{9,10}

However, while these challenges are very real, there are also opportunities to harness the growing demand for technical skills that underpin the “good jobs” of the future. This should provide optimism particularly for young people with the qualifications and skills in sectors and professions where demand is likely to grow.

Education

A high-quality education system from pre-primary all the way up to the tertiary level develops the skills and knowledge to help individuals and societies fulfil their potential. Businesses need access to a talented and skilled workforce to innovate and grow.

CEE countries have a strong tradition in technical education

In this respect, it is positive that the CEE region has a strong tradition in providing technical education. A technically skilled workforce, especially graduates that excel in STEM subjects, has been a competitive advantage, attracting foreign investment in goods and services.

The last 30 years has seen a significant increase in demand for tertiary education

There has been a significant increase in the demand for tertiary education in CEE. Different countries have met this increased demand in different ways; while some countries in CEE have increased public sector education provision, others (e.g. Poland) have seen a dramatic expansion of private institutions. Funding for higher education in CEE still hovers at 30-40% of Western European levels.

The quality of tertiary education has not kept pace with the expansion in places

Increased enrolment levels in tertiary education have not been matched with increased quality. As a result, CEE universities do not rank highly on global education quality indices.

Graduate skills and expectations do not match the needs of the labour market.

Despite high demand for tertiary education in the region and high demand for STEM graduates from employers, a skills mismatch is developing with businesses failing to find sufficient numbers of graduates with the right technical skills. For example, some countries are expecting a shortfall of 250,000 ICT employees by 2030.

Part of the problem is that graduates are finding that their acquired skills and salary expectations do not match those of the labour market. For example, while 74% of education providers were confident that their graduates were prepared for work, only 38% of young people and 35% of employers agreed.¹¹ Employers also complain that many CEE students lack the ability to apply technical skills to real life problems.¹² One driver of this is likely to be the fact that a strong emphasis is placed on learning based on memorising facts, rather than developing critical thinking.

Demand for skilled workers in CEE is outstripping supply

Rising demand for technically trained graduates means that employers are struggling to recruit the high numbers of skilled workers that they require. Some countries are expecting to have a shortfall of 250,000 ICT employees by 2030.

Health

Good mental and physical health outcomes are central to ensuring individual and national prosperity. In turn, outcomes are, at least in part, reliant on the extent of access to and the quality of healthcare systems.

Health outcomes have improved since the end of communism

The differences in health outcomes between countries in CEE and those in Western Europe have narrowed over the past 30 years, with self-assessed health outcomes for people in Montenegro, Albania and North Macedonia now comparable to those in Germany.¹³ A higher proportion of people in Bulgaria, Poland, Serbia, Czechia and Slovenia report positive health outcomes than the EU average.¹⁴

Healthcare performance is mixed and satisfaction with care has not improved

Seven countries in the region rank below 70th globally in the aggregate health ranking and average satisfaction levels with healthcare remain low at 57%, representing only a three-percentage point increase from a decade ago.¹⁵ Citizens across the region report dissatisfaction with their health services, from long waiting-times, to rising costs of out-of-pocket expenses, high absenteeism among doctors and insufficient funds for medication and basic public vaccination programmes.

Increased reliance on payment from patients is reducing access

Faced with the need to fund more and better-quality healthcare services, many countries have tried to shift the financial burden to patients themselves. This has taken a number of forms including insurance schemes linked to employment and patients needing to make out-of-pocket payments.

Together, health insurance typically linked to employment and direct payments is reducing healthcare affordability and limiting access to healthcare for the worst-off in the population. Access to primary care is also particularly poor in rural communities, due to the cost of provision and the ability of doctors to earn more in urban areas.¹⁶

Increasing investment in health is a priority for the public

Government expenditure on healthcare in CEE countries falls below the EU average of 10% of GDP. It may come as no surprise, then, that respondents across CEE identify healthcare as the highest (or second highest) priority for additional government spending.

Structures within healthcare services also need reform

Issues with quality and accessibility of healthcare services are not just a matter of underfunding. In particular, CEE countries remain over-reliant on hospital-based care, with some countries holding double the number of hospital beds for every 1,000 people compared to the UK or Canada. This leads to hospitals being overstretched as a result of treating patients that would be better catered for elsewhere and a focus on treating disease, rather than earlier interventions to prevent health problems and improve overall health.

Improvements have already begun in many health systems

While there is still progress to be made, Governments across CEE have begun to realise that the existing approach is unsustainable. This has led to positive steps forward, including an increasing number of interventions being undertaken on an outpatient basis,¹⁷ and efforts to make use of family doctors as gatekeepers to specialist and hospital care.¹⁸ A number of countries are also seeing more primary care services, therapy services and ambulatory care are being offered by the private sector, which is reducing the reliance on hospitals.

The Legatum Prosperity Index™

The mission at the Legatum Institute is to create the pathways from poverty to prosperity, by fostering open economies, inclusive societies and empowered people. The Legatum Prosperity Index™ aims to measure and illustrate the full richness of prosperity. It re-defines the way we measure national success, beyond standard measures like GDP to capture economic, institutional and social wellbeing, ranging from Governance and Business Environment to Social Capital, Security and Safety Health and Education. This makes the Index a more comprehensive measure of human flourishing, to offer a unique insight into how prosperity is changing across the world.

This is the third in a series of CEE Prosperity reports, which are framed within the Legatum Prosperity Index™.

Our most recent Legatum Prosperity Index™ demonstrates that the global prosperity ranking of the nations of CEE ranged from 15th (Austria) to 64th (Albania). This represents a significant improvement over time and the fourth consecutive year of convergence with Western Europe.

However, results are not consistently positive with **Czechia, Latvia, and Austria** experiencing falling prosperity and a wide variety of performance across each of the pillars of prosperity by country. This is proof that the improvements seen to date are not universal nor are they yet delivering for a number of segments of society.

The 9 Pillars of Prosperity



The Economic Quality pillar measures countries on the standard of living afforded by an economy, economic inclusiveness, anti-monopoly policy, labour force participation, trade competitiveness and openness to trade.



The Business Environment pillar measures a country's entrepreneurial environment, its business infrastructure, access to credit, investor protections and labour market flexibility.



The Governance pillar measures a country's performance in four areas: the rule of law, integrity of government, government performance and political participation.



The Personal Freedom pillar measures national progress towards basic legal rights, individual liberties and social tolerance.



The Social Capital pillar measures the strength of personal and social relationships, social norms and civic participation in a country.



The Safety & Security pillar measures countries based on national security, personal safety and the security of living conditions in that country.



The Education pillar measures countries on access to education, quality of education and human capital.



The Health pillar measures a country's performance in three areas: health outcomes (in physical and mental health), health systems, and illness and risk factors.



The Natural Environment pillar measures a country's performance in three areas: the quality of the natural environment, environmental pressures and preservation efforts.

PROSPERITY RANKING TABLE

COUNTRY	PROSPERITY INDEX SCORE RANK	SUB-INDICES								
		BUSINESS ENVIRONMENT RANK	ECONOMIC QUALITY RANK	GOVERNANCE RANK	SOCIAL CAPITAL RANK	PERSONAL FREEDOM RANK	SAFETY & SECURITY RANK	HEALTH RANK	EDUCATION RANK	NATURAL ENVIRONMENT RANK
Austria	15	21	17	15	17	25	8	6	19	9
Slovenia	18	41	31	32	20	20	18	34	7	1
Estonia	26	25	33	20	69	34	38	44	11	6
Czechia	27	26	25	33	71	30	21	28	14	24
Slovakia	32	62	37	45	59	41	26	36	26	34
Poland	33	47	38	38	76	54	23	41	24	47
Lithuania	36	58	56	35	98	37	39	72	30	18
Latvia	40	55	54	46	113	45	41	77	28	16
Croatia	41	104	64	55	109	36	33	60	34	15
Hungary	42	46	44	57	77	57	34	43	32	65
Romania	45	39	60	60	83	59	37	81	39	51
Bulgaria	47	86	76	62	85	64	40	76	38	31
N. Macedonia	55	38	101	72	121	68	44	78	49	62
Serbia	56	81	95	68	91	66	35	86	33	107
Moldova	98	83	90	110	118	93	67	104	56	133
Germany	14	12	11	10	16	19	16	24	20	13
France	20	17	30	21	34	28	31	15	29	7
Spain	25	31	49	31	26	17	19	22	36	20
Italy	34	68	48	44	41	32	27	39	35	64

Note: The regional ranking is based on the Overall Prosperity Index Score, and ranges from from 1st to 149th. Please see the Methodology section of this report for an explanation of the sub-indices and how they are constructed.

While the 2017 and 2018 reports had a macro focus, as 2019 marks 30 years from the fall of communism, it is an opportune moment to focus on how the transformation of region has matched the hopes and expectations of improving lives, assessed through three critical drivers of lived experience: education, health and living conditions.

As such, **the main question this report addresses is to what extent has the rise in GDP lifted prosperity, across all income bands in all CEE countries, and what are the prospects and policies for driving prosperity, and the lived experience across the region in the coming decades.**

Statistics, however, only tell one part of the story. In order to bring the analysis to life, this year's report highlights a collection of five stories, which illustrate the day-to-day lived experience of people from across CEE.

An interview with Andeas Treichl, who has been at the helm of the Erste Group for 22 years and led the bank through much of the transition period, focuses on the role that the bank should play in establishing well-functioning, healthy and wealthy societies. He reflects on how far countries have come in generating steady and sustained growth which has enabled a middle-class to flourish, but also highlights the challenges in developing the institutions and infrastructure needed for true convergence with Western Europe. Treichl concludes by calling on policy makers, business and civil society to create "a fantastic region...All the opportunities are here!"

Lukas Krovacka sees a "shift in attitude now that Slovakia is a more prosperous, secure society", saying this is necessary in the face of cuts to public health and changing government priorities, which has provided opportunities for individuals and NGOs to support those who are disabled or less fortunate. He describes how those returning to Slovakia from Western countries are "bringing skills, capital and building networks on which the social sector depends... They are making the choice of coming back and fighting for development."

Răzvan Creangă says that "This is the perfect time in history to innovate, and to change Romania...There are people who can drive change." Departing from the difficulties of the past, Razvan gives insights into the success that Romanian tech start-ups enjoy in global hubs such as London and Silicon Valley. He highlights the need for those entrepreneurs to transfer learning from abroad to create the networks and ecosystems needed to ensure that Romanian entrepreneurs are a force for positive social and economic impact globally, but also at home.

The interview with Charlotte Symmons starts with acknowledging the "increasing economic disparity and cultural polarisation between urban and rural areas." She describes how it is possible to build a globally successful business in a rural area that would otherwise be left behind saying: "In Budapest, an extra dollar doesn't mean that much...if we create jobs and pay taxes here, it can have a much bigger impact...We can teach people the skills they need for the 21st century, believe in themselves and build a better future."

Zdenek Sljeska notes that "insufficient information about how education can be" is behind the deteriorating standards in school teaching in Czechia. He points to the importance of "education that goes beyond schools, into communities... and links with schools across the globe to teach nuanced topics," as key to developing critical thinking. "Without improved education", he writes, "Czechia faces a rapidly changing world in which it risks being left behind."

Living Conditions

Summary of key points

- Living conditions have improved across all CEE countries over the past 30 years, and convergence with Western Europe has continued.
- Employment and wages have risen across the region. However, average wages are still approximately only 25-40% of those seen in Germany.
- In-work poverty is rising (for example in Romania, Hungary and Latvia up to 19% of working people are in poverty). Governments are starting to act, but social transfers address symptoms of in-work poverty, rather than its causes.
- The rise in the cost of living is also exerting pressure on prosperity. Between 2000 and 2017, the prices of goods and services rose by 257% in Romania, 98% in Hungary and 87% in Latvia, compared to average price rises in the EU of 36%.
- The result is a dissatisfaction with living standards, especially among the young who, compared to their parents are more likely to draw comparison with their Western European peers, than be satisfied with progress made since the end of communism.
- Only 15% of CEE respondents reported that they live comfortably on their present income in 2018.
- Automation is a bigger risk to CEE countries compared to Western Europe. Forecasts show that a median worker in Slovakia has a 62% chance of their job being automated, compared to 40% in Norway and 42% in the UK.
- In-work poverty, the polarisation of the labour market and a relatively high risk of automation in CEE labour markets contributes to an increased vulnerability of the middle classes.



Living Conditions

Work and earnings determine economic success. However, a true understanding of prosperity and wellbeing should take account of people's lived experiences, including:

- How incomes translate into the ability to make ends meet for individuals, families and society;
- The quality of work (in terms of its security and as a pathway from poverty to prosperity);
- Access to high quality affordable housing.

This section assesses broader measures of living conditions, including employment rates and earnings, the rising cost of living, and the strain placed on individuals, communities, and nations to make ends meet across the region and within specific countries.

Living conditions have seen improvements across all CEE countries over the past 30 years, with Lithuania, Albania, Estonia and Romania seeing the biggest improvements in rankings on the Legatum Prosperity Index™. In Lithuania, the security of living conditions has improved from 69th to

35th place in the past five years, and the standard of living from 124th to 97th.

However, while the living conditions have undoubtedly improved and wages and employment levels risen, people in CEE do not always feel like their standard of living is improving. A significant driver of this is that the cost of living in CEE has risen far faster than the rest of Europe. While this is a natural part of the rapid development seen in CEE, this still presents challenges for those looking to turn increased earnings into increases in living standards that they can actually feel. For example, the Legatum Prosperity Index™ highlights that on both the 'feelings about household income' and 'satisfied with the standard of living' metrics, some countries in CEE rank below 100th place on the global scale.

Changing perceptions and expectations also play a part, with younger people more likely than their parents to look to their Western European peers to form expectations and make comparisons. This has led to dissatisfaction that things are not better. For example, while wages have risen significantly over three decades, on average they do not exceed 25-40% of German levels.¹⁹ Equally, for the technically-educated young, who can seek employment abroad (since accession to the EU), the benchmark for wages is that of Western Europe and other developed economies, meaning that their expectations are set much higher.



Of course, these expectations are justified. There is much scope for optimism for this generation, especially for those with the technical skills to thrive and prosper in a knowledge economy, as the world enters a new global digital revolution. There is some variation in the region, but nearly all countries have risen in rankings for the Legatum Prosperity Index™ indicator 'technical skills in the workforce'. The challenge for CEE is the possibility that this Fourth Industrial Revolution, driven by technology, innovation and AI will result in fewer mid-skilled, mid-income employment opportunities. This should sharpen Government's focus on training and education policy to not only find pathways for more people into high skilled jobs, pushing them up the value chain, but also ensuring that those in low-skill jobs can earn adequate wages.

Inequality between CEE and Western Europe is falling, but at different rates

As incomes and living standards rise, the issue of inequality, and income inequality in particular, becomes increasingly important in understanding people's perceptions of their quality of life and prosperity.²⁰

The good news is that societies across Europe (East and West) are considered to be some of the most equal in the world. In Poland, inequality has been falling since 2004, marking a path to what the World Bank described as 'inclusive growth across all income levels.' Czechia is also one of the most equal countries in Europe, matching Scandinavian levels, followed by Austria and Hungary.²¹

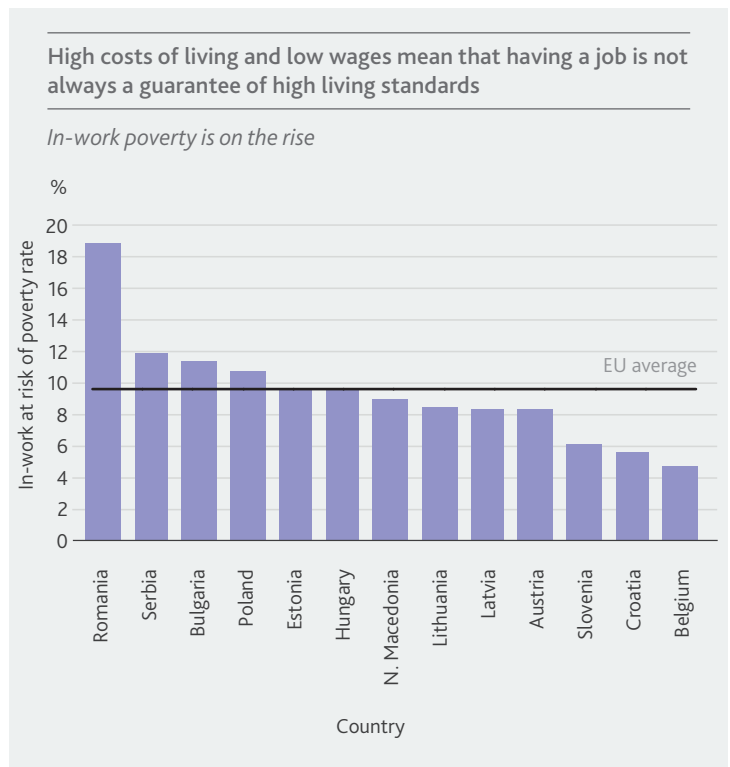
However, not all of the region fares so well. For example, during the 1980s, Baltic countries and other Eastern European nations experienced very low rates of relative poverty; three decades later, these differences have been reversed in many countries.

This is particularly notable in the Baltic States, where a divergence of top and bottom income groups has driven a rise in inequality that is the highest in the EU. The emergence of a super-rich economic elite is in line with the rest of Europe, where between 1980 and 2017 the average income of the top 0.001% rose on average more than ten times faster than that of the bottom 50%.²²

Beyond the Baltics, this growing disparity between the wealthy and the poor can also be seen, albeit with less of the extreme wealth. Romania, Bulgaria and Balkan countries now stand out as the countries with the highest inequality and poverty rates.²³ In Bulgaria, levels of inequality are consistent with those of low-income developing countries.

In-work poverty on the rise

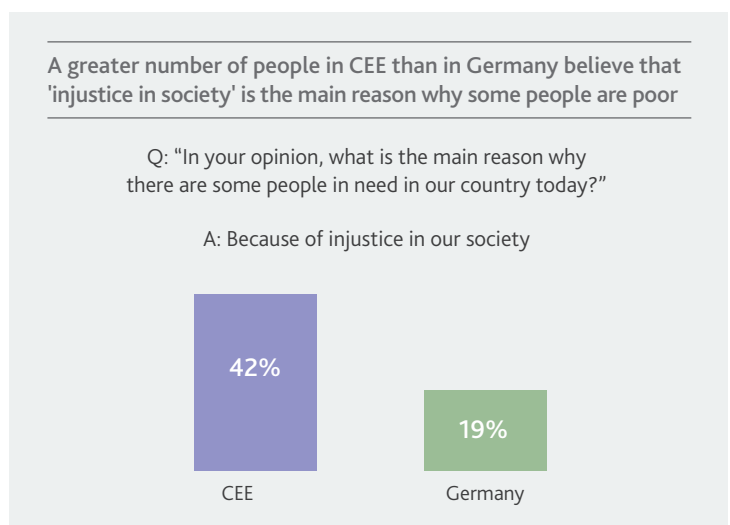
The consequences of this rise in inequality in some CEE countries are clearly visible in the rising levels of in-work poverty. This occurs when a person is employed but earns significantly less than the average person in society, meaning that they are less likely to be able to make ends meet.²⁴ One in five (18.9%) people employed in Romania are judged to be in relative low-income poverty; the highest of all EU Member States.²⁵ Between 2010 and 2016, in-work poverty rates rose



Source: "In-work at risk of poverty rate," EU – SILC survey (Accessed May 2019)

by 4.3 percentage points in Hungary, 3.7 percentage points in Bulgaria and 3.1 percentage points in Estonia. In contrast, where income inequality is lowest in Czechia, only 3.8% of people in work are in poverty, the second lowest in the EU after Finland (3.1%).²⁶

Driven by rising living costs, inequality and mistrust in government institutions,²⁷ the significant shadow economy in CEE may also play a role in explaining measured in-work poverty.²⁸ The reasoning here is that official measures of hours and earnings are based on formal employment. This means that, if someone is working in the shadow economy,



Source: "Life in Transition Survey," EBRD (Accessed May 2019)

the hours and earnings reported in official statistics will be an under-measurement of the true picture and make it more likely that they will be regarded as being in poverty. Estimates show that across the EU, around 12% of those working in the private sector do so informally. In Poland, Lithuania, Romania, Latvia, Bulgaria, Hungary and Estonia this can rise to 25% of total labour input being generated through undeclared work in the private sector.²⁹

Whatever the cause, it is likely that those experiencing in-work poverty are less likely to be able to sustainably and securely make ends meet. This has an impact on prosperity. For example, a recent survey shows that when asked to place their household on a 10-step income ladder – with the bottom step representing the poorest 10% of the population and the top step the richest 10% – it is individuals not in stable, full-time employment that underestimate their actual standing and report that they feel poor.³⁰

As well as these direct impacts, the situation of individuals experiencing in-work poverty could also be contributing to a widespread feeling that people cannot succeed through hard work alone. For example, World Bank research shows that just 24% of people in Eastern European countries believe the poor can help themselves to improve their situation, whereas in the United States and in Western Europe, 70% and 40% of people respectively believe this is the case.³¹

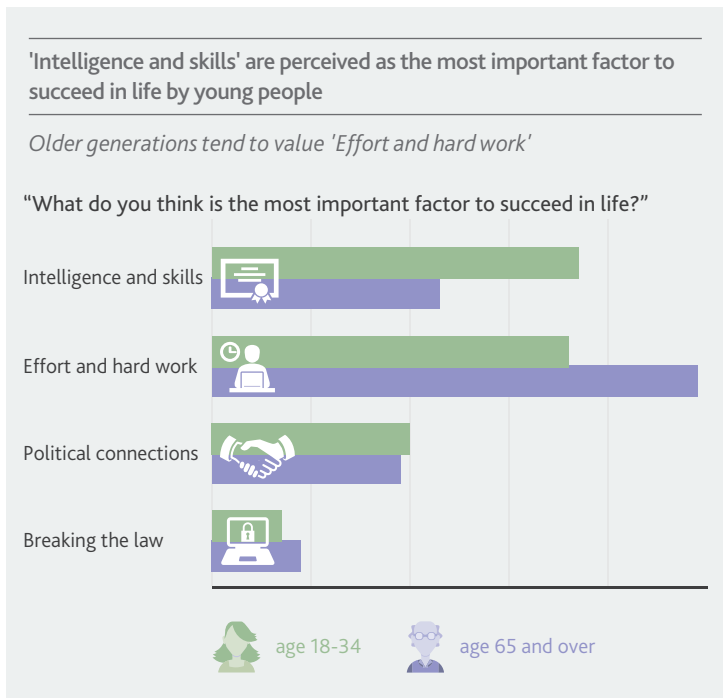
Governments have responded to this issue across a number of policy dimensions, including increases in social transfers, which have achieved short-term success in reducing the number of people at risk of poverty by 46% in Hungary, 38% in Poland and 29% in Slovakia.³² The EBRD Life in Transition Poll suggests that transfers to families with children are favoured by the public.³³ However, these programmes can be expensive. For example, the 500+ programme cost the Polish taxpayer €7 billion per year. It has also been argued that such increases in government expenditure are unsustainable as they aim to address the symptoms rather than the cause of the problem,³⁴ and divert funds away from investment in healthcare and education that risk longer-term impacts on living standards and prosperity.³⁵

The rise in cost of living is also exerting pressure on prosperity

In addition to measuring relative income poverty, it is important to assess the extent to which individuals and households are able to make ends meet. This is primarily a question of how the cost of living is rising compared to incomes, and the extent to which this differs for people at different levels of the income distribution.

Overall, significant rises in the cost of living can be seen across the whole of CEE. For example, between 2000 and 2017, the prices of goods and services rose by 257% in Romania, 98% in Hungary and 87% in Latvia, compared to average price rises in the EU of 36%.³⁶

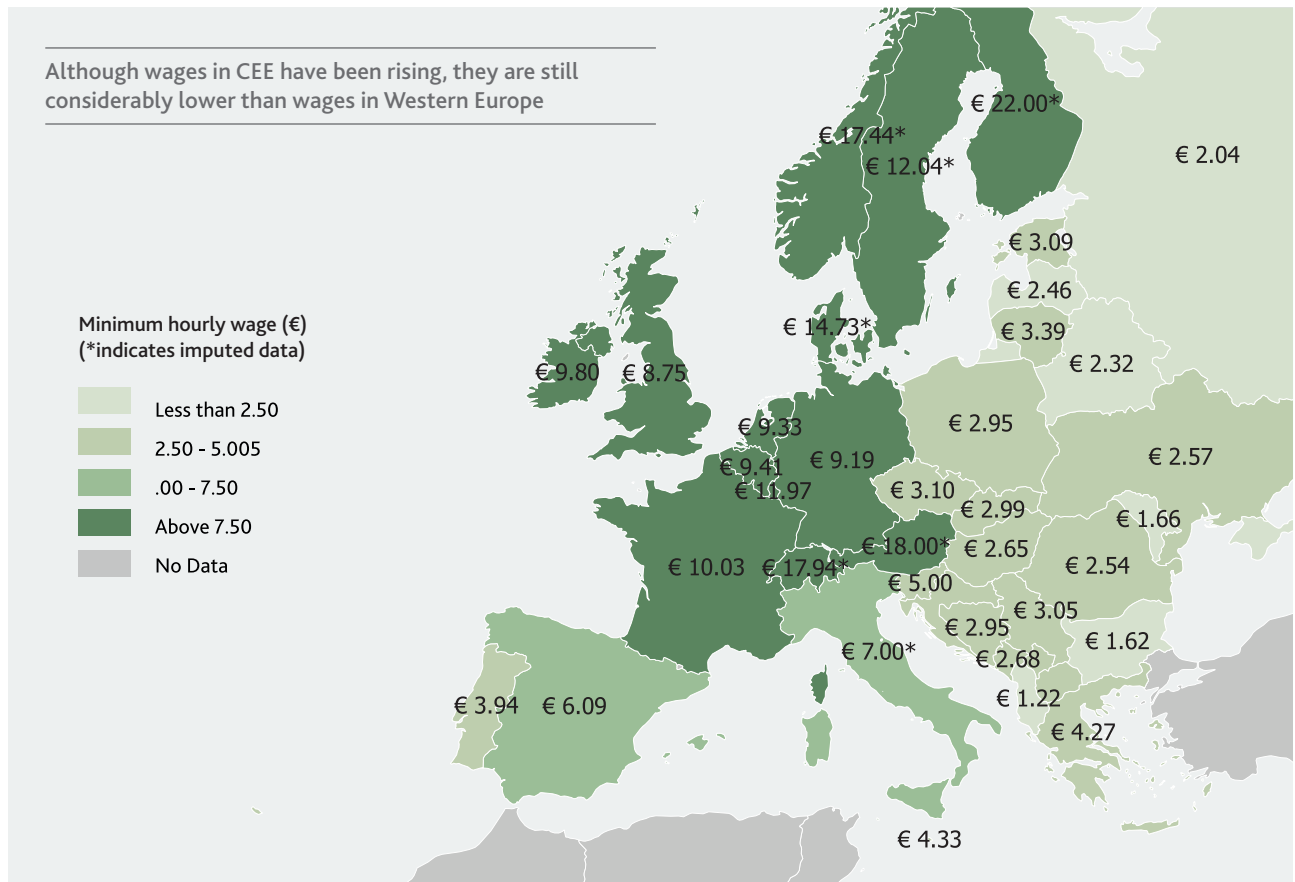
Where wages do not keep pace, as we have seen across CEE, rising costs of living can present a significant challenge to prosperity. This is clearly seen in a 2018 Gallup poll that found that, despite a doubling of wages since 2008, only



15% of CEE respondents reported that they live comfortably on their present income. A more specific example is that the cost of living in Poland rose by 61% in the three years to 2018, while median wages rose by 23% in the same time period.³⁷ Given this, it is little surprise that 70% of Poles consider life to be 'very expensive', going up to 80% for those with lower levels of education and people relying on government benefits.³⁸

A similar story can be seen in other countries. For instance, one recent report has estimated that, to keep the same purchasing power over the last decade, Latvians would have had to double their income from \$22 to \$44 per day, while Bulgarians would have needed to increase theirs from \$14 to \$34.³⁹





Source: Wage indicator.org and imputed data

Governments across the region have attempted to address this issue by increasing minimum wages.⁴⁰ However, as they are starting from a low base, statutory minimums are still relatively low. For example, despite minimum wages in Bulgaria increasing by 83% in the past decade,⁴¹ the minimum hourly wage is still only €1.62,⁴² while the increases in Croatia, Czechia, Estonia, Romania and Slovakia have still not exceeded €3 per hour,⁴³ compared to €10 in France.⁴⁴ Another way of viewing this is through a comparison of what hourly wages can buy, where recent work has demonstrated that an office worker in Prague would have to work for over two hours to afford a local bistro lunch, while her colleague in Paris, can afford it by working half the time, suggesting that in relative terms it is twice as expensive in Prague.⁴⁵

compared to 40% in Norway and 42% in the UK.⁵⁵ The risk is that a rise in automation and digital interconnectedness has the potential to reduce further the income security of many in the middle classes.

The polarisation of the labour market can already be seen in the region. Many mid-skilled workers are either seeking a higher-skilled job if they can, or being forced to take a lower-skilled one, thereby leaving them less likely to fulfil their own expectations of wages or society's expectations of semi-skilled employment and, as a result, leading to reduced perceptions of wellbeing.⁵⁶

The vulnerability of the middle classes

The combination of in-work poverty, the rising costs of living and housing cost pressures have all contributed significantly to a growing sense of vulnerability among the middle classes. The arrival of the Fourth Industrial Revolution presents both a risk and an opportunity as with many countries in Western Europe and across the developed world.⁵² Globally, one in six middle-skilled jobs are at risk from automation.⁵³ Automation is a bigger risk to CEE countries compared to Western Europe,⁵⁴ with forecasts that a median worker in Slovakia has a 62% chance of their job being automated,



This link with wellbeing is confirmed by other surveys that have shown that finding a good job is culturally important in CEE countries,⁵⁷ and that work insecurity and the disappearance of traditionally mid-skilled jobs are already contributing to a higher increased level of vulnerability among the middle classes. However, it is not all bad news. The middle classes have responded to previous industrial revolutions by gaining new skills, diversifying and innovating, ultimately enjoying higher levels of prosperity. Time after time, new technologies have improved quality of life, by automating household tasks,⁵⁸ improving safety and creating new opportunities for services, including social care.⁵⁹

What next?

This section has outlined challenges, including rising inequality, shifts in the nature of work and pressures from the costs of living and housing that people living in CEE are currently facing. It has also highlighted the risk that all of these challenges may increase in years to come.

These concerns are also shared by people living in CEE. For example, compared to similar surveys in 2006 and 2010, the most recent EBRD Survey shows a marked decline in

the confidence of respondents from the region about the likelihood of a better future for the young. Across the region, those aged between 18 and 39 were less optimistic than their counterparts in earlier surveys.⁶⁰

This section has also shown that there are choices to be made that will determine whether the challenges identified can be translated into opportunities. In particular, while the Fourth Industrial Revolution presents a significant challenge, the development of economic clusters across the region and growing role of collaboration between industry and universities (see below), provides an opportunity to take advantage of this. Harnessing the growing demand for skills, technology and innovation could be central to delivering the 'good jobs' of the future and providing optimism for both the middle classes and young.

This highlights that the actions needed are not confined to governments. For example, while the need for a strong social safety net is clear, industry will also have a central role in creating the good jobs for the future, encouraging young graduates to remain in the region and ensuring that investments in human capital accumulation are rewarded with more secure, better paid work and less likelihood of in-work poverty.

Country variation in automability

Chance of a median-skilled worker losing their job to automation.

COUNTRY	RISK OF JOB AUTOMATABILITY %	COUNTRY	RISK OF JOB AUTOMATABILITY %
New Zealand	39	Austria	49
Norway	40	Russia	49
Finland	41	Czechia	49
USA	41	France	51
N. Ireland	42	Italy	52
England	42	Cyprus	52
Sweden	43	Poland	52
Netherlands	44	Japan	53
Denmark	44	Slovenia	53
Canada	45	Spain	54
Ireland	45	Germany	54
Singapore	45	Chile	55
Belgium	46	Turkey	55
Israel	46	Greece	57
Estonia	47	Lithuania	57
Korea	47	Slovak Rep.	62
		All countries	0.48

Source: "Will robots really steal our jobs? An international analysis of the potential long term impact of automation?," PWC (Accessed May 2019)

Affordability of housing is also contributing to cost of living pressures

Rates of outright home ownership (without a mortgage) are very high in the region. The transfer of deeds at favourable prices to residents at the end of communism means a significant proportion of people in the region live in housing that is owned outright by either themselves or their family. Outright home ownership is over 90% in Romania, over 80% in Croatia, Bulgaria, North Macedonia and Serbia and over 70% in Lithuania, Slovakia, Poland, Latvia and Hungary. In the UK it stands at 27%.

However, these high rates of home ownership hide deeper housing challenges across CEE, because homes are typically passed down as inheritance, and extended families often live together, with the result that properties quickly become overcrowded. Over 40% of Hungarians, Slovaks, Bulgarians and Romanians live in overcrowded conditions compared with 5% in Belgium, Cyprus and Malta.⁴⁶

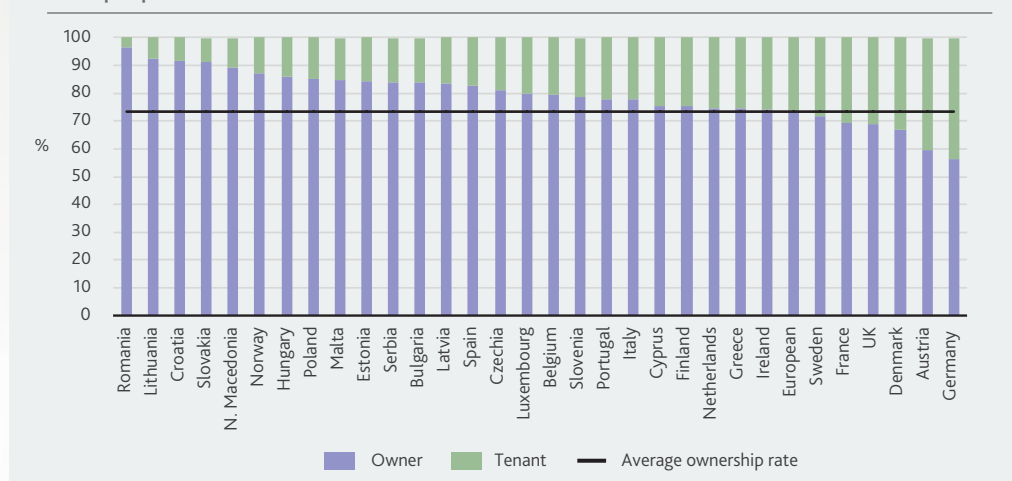
Evidence suggests that homeowners frequently experience economic hardship, taking on debt to finance repairs and to keep up with utility payments including heating.⁴⁷ Some 39% of homeowners in Bulgaria and 29% in Lithuania were unable to keep their homes adequately warm.⁴⁸

Young people today are accumulating wealth less quickly than their parents did in the two decades post 1989 and therefore inheritance is likely to be especially important to the living standards of today's young people and of future generations. Those lucky enough to have wealthy parents can expect to get a substantial boost to their lifetime wealth, but those less fortunate may struggle to meet any home ownership expectations.⁴⁹

Governments are aware of the problems surrounding housing affordability, especially for young people who aspire to purchase their first home. Many have started to offer support for first-time buyers through help to buy schemes,⁵⁰ as well as increasing expenditure on social housing, often targeted at families with children.

The highest expenditure on social housing and community amenities as a percentage of GDP is in Bulgaria (2.1%), Romania (1.5%) and Hungary (1.1%), compared to the EU average of 0.6%. Latvia and Hungary have also increased expenditure on social housing.⁵¹ However, these measures are only likely to provide small relief to the housing issues faced, and it seems likely that housing affordability will remain a challenge in the region.

Most people in CEE own their own home



Source: "Distribution of population by tenure status, type of household and income group," – EU-SILC survey (Accessed May 2019)

Education

Summary of key points

- Education has been a strength of CEE countries, producing technically skilled graduates who attract foreign investment to the region and start up their own businesses.
- There has been a significant increase in the demand for tertiary education, but government funding for higher education in CEE hovers at 30-40% of Western European levels.
- Enrolment in tertiary education has increased by up to 168% since 1990, but quantity of students has not been matched with quality of teaching, and CEE universities do not rank highly on global quality indices.
- Only 38% of young people and 35% of employers agree that graduates are prepared for work, as the emphasis on technical learning leaves students unprepared to apply skills to real life problems.
- Graduates are finding that their acquired skills and salary expectations do not match those of the labour market.
- Rising demand for technically trained graduates means that employers are struggling to recruit the level of skills they require, which is creating a mismatch in the jobs market, with some countries expecting a shortfall of 250,000 ICT employees by 2030.
- The migration of graduates to Western Europe in search of higher wages has also intensified the STEM mismatch in the labour market, with some countries losing up to 20% of their working population since 2004.





Education

A high-quality education system helps people develop the skills and knowledge needed to fulfil their potential and provides businesses with a talented and skilled workforce to innovate and grow.

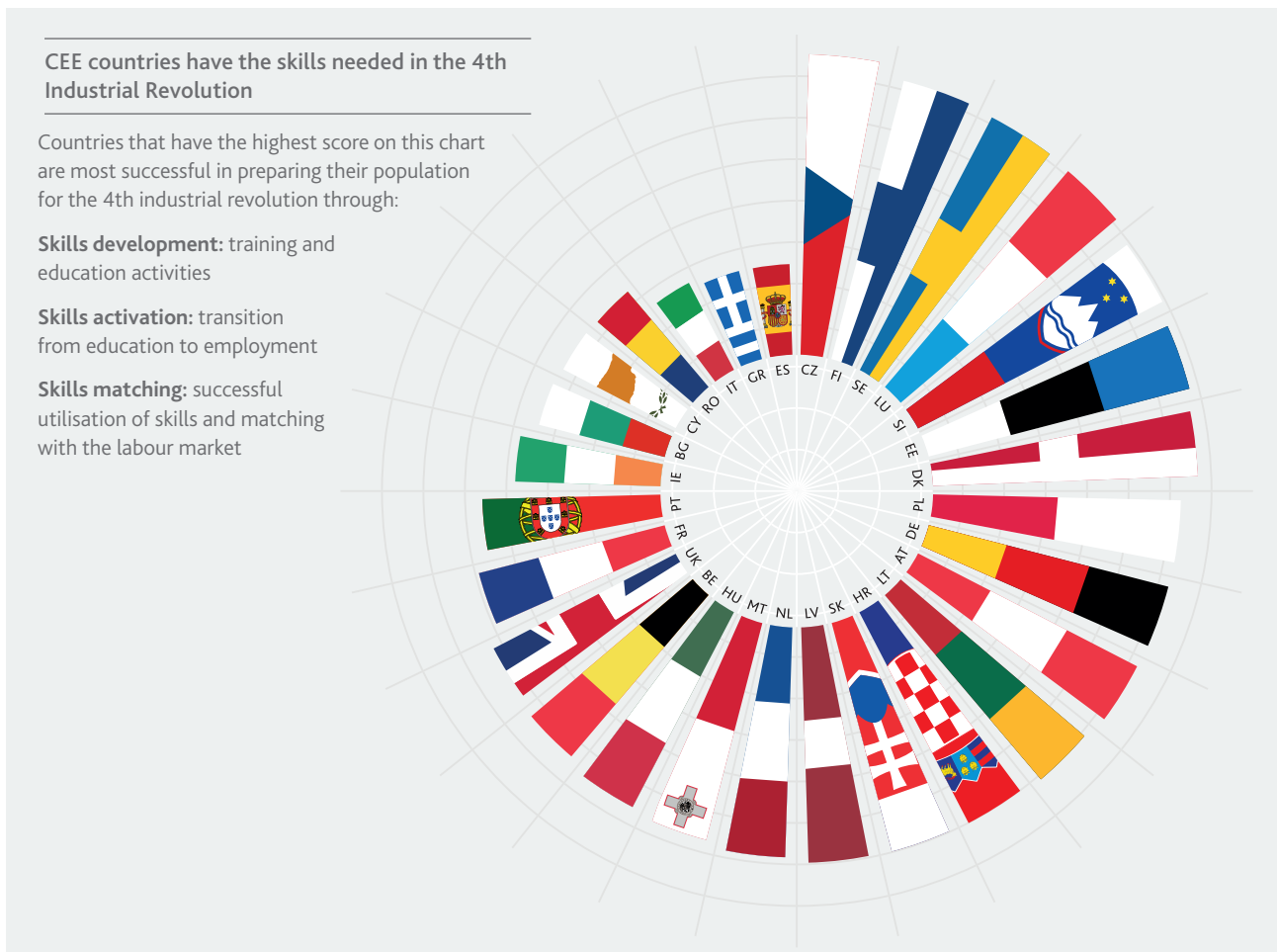
A number of countries in CEE perform well for Education on a global scale and compared to their peers in Western Europe. Slovenia scores 7th out of 149 countries on education in the Legatum Prosperity Index™. In Estonia and Lithuania, state education ranks among the best in the world, with students scoring particularly highly in STEM subjects. More than seven in ten people are satisfied with the education system in Czechia (71%), Poland (72%) and Slovenia (79%), and of those people living in Slovakia and Serbia, 91% and 70% respectively think that all children have the opportunity to learn and grow.

However, satisfaction is not universal, as nearly 40% of 18 to 34 year olds across the region say that they would be willing to pay more taxes, if the money was used to improve public education.⁶¹

Since the end of communism, access to tertiary education has improved markedly. Yet it also faces new challenges and opportunities in terms of its quality and affordability and balancing its supply of skills with demand from the labour market.

Increasing demand and the development of a mixed market in tertiary education

The last 30 years have seen a dramatic increase in the demand for tertiary education in the region,⁶² driven in part by people’s desire to raise their earning potential. Estonia experienced the highest increase in enrolment in tertiary education among OECD countries with a 168% increase between 1994 and 2005,⁶³ and when Poland lifted the university enrolment cap in 1990, there was a shift from ‘elite to mass higher education’.⁶⁴ In fact, all across CEE there was a significant increase in the demand for tertiary education.⁶⁵



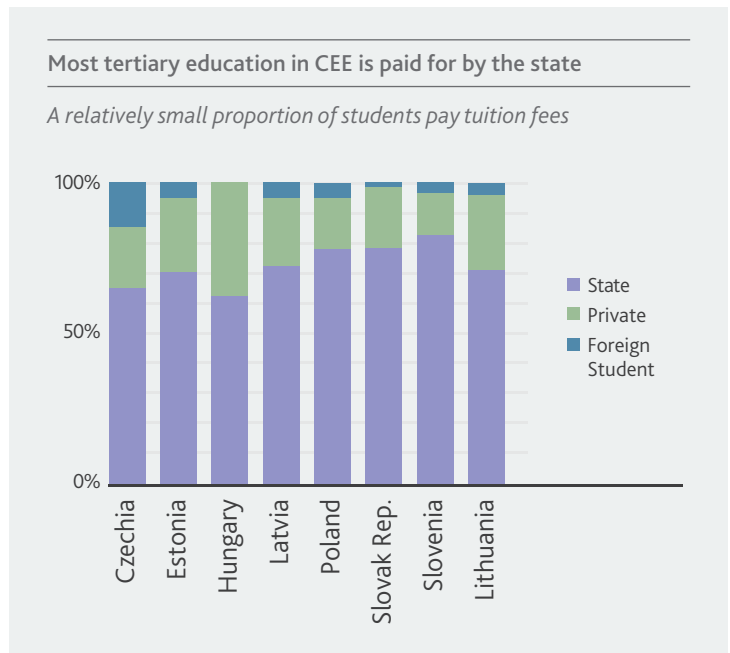
Source: “European Skills Index,” CEDEFOP (Accessed May 2019)

The challenge for students who have chosen to invest time and money in developing their skills through higher education is accessing high-quality institutions and well-taught courses in an increasingly competitive market. The challenge for countries has been in providing the scale and quality of courses needed and the response has differed across CEE. For example, Romania, Moldova, Latvia, Lithuania, Hungary and Bulgaria saw a significant rise in enrolment during that time, and accommodated it mostly with public sector provision.⁶⁶

However, given evidence showing that funding for higher education in CEE hovers at 30-40% of Western European levels, accommodating this significant increase within existing budgets is challenging.⁶⁷ As a result, in countries where state provision cannot satisfy demand, entrepreneurs have stepped in, which has led to a mushrooming of private institutions. Poland, the most populous country in the region, saw an increase from just three private institutions in 1990 to 280 in 2004.⁶⁸

Quality not keeping pace with increase in provision of tertiary education

There have also been challenges with maintaining quality in tertiary education, where strong demand from students, and difficulty meeting demand with current staff, has contributed to the dilution of the quality of teaching. The Legatum Prosperity Index™ finds that all countries across the region have far weaker scores on the 'quality of education' metric than on the 'access to education' metric. Additionally, relatively light-touch licensing and regulation of certificates given by private institutions has meant that the value of degrees obtained in the private sector decreased and has a lower value in the employment market than that of state universities.



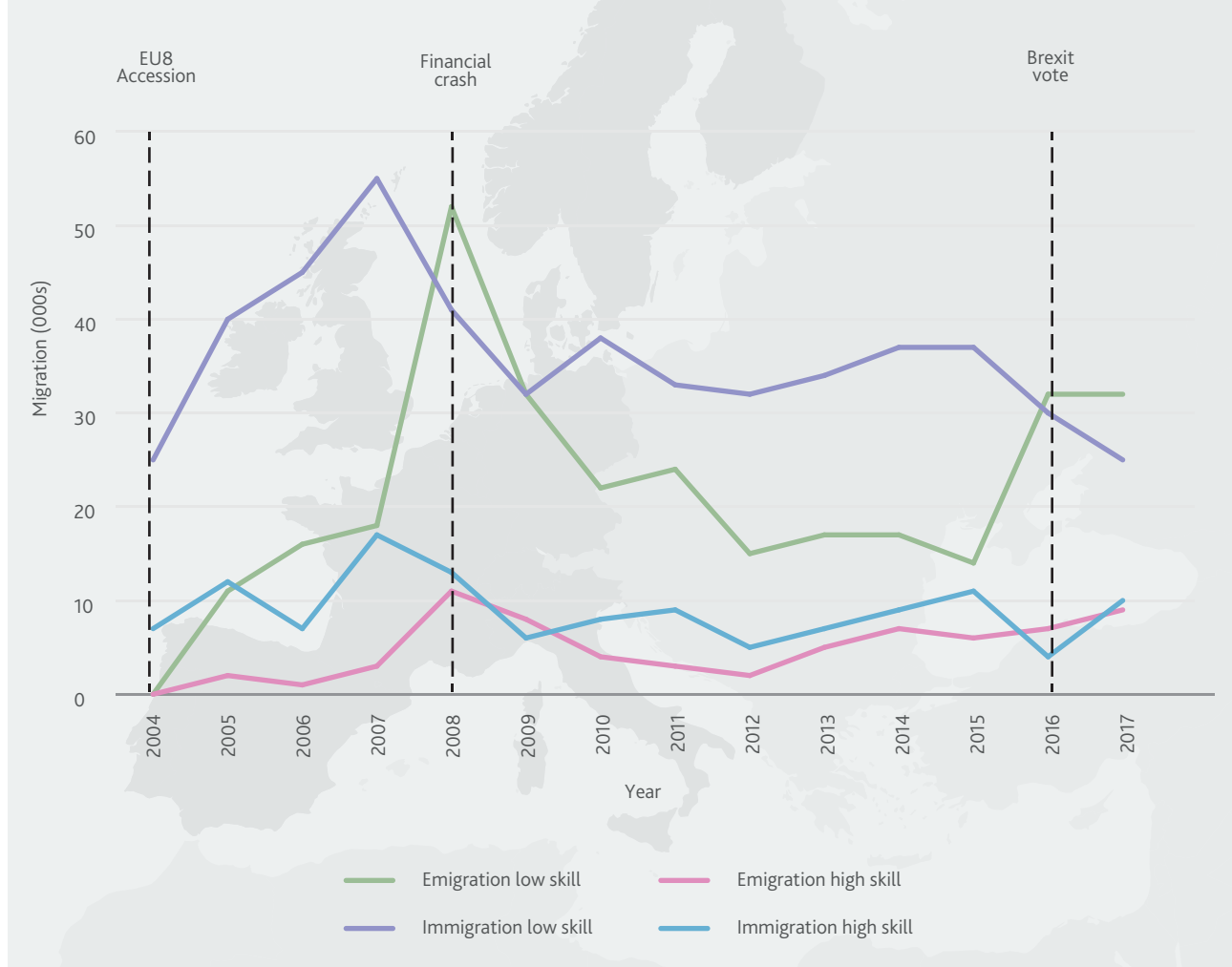
Source: "Distribution of expenditure on tertiary education," Eurostat (Accessed May 2019)

However, even state-sponsored universities have not been immune from challenges in maintaining the quality of teaching.⁶⁹ In some countries, there is undoubtedly a gap between enrolment figures and the quality of education.⁷⁰ Unlike the UK or US, the financing of higher education does not incentivise competition for fee-paying students. Low performance in university ranking tables may also result from the failure to attract the most talented academics, researchers and teachers, which puts students at a disadvantage compared to Western European Peers.⁷¹



High skill and low skill migration from CEE countries

The flow of high skill and low skill workers out of CEE countries to W. Europe is slowing



Source: "Migration statistics, Quarterly report February 2019," ONS (Accessed May 2019)

As a result, graduates are finding that their acquired skills and salary expectations do not match those of the labour market. At the same time, employers are struggling to recruit the level of skills they require, which is creating a mismatch in the jobs market. While 74% of education providers were confident that their graduates were prepared for work, only 38% of young people and 35% of employers agreed.⁷²

The main complaint registered by employers, and reflected in the OECD Programme for International Student Assessment (PISA) tests, is that CEE students lack the ability to apply technical skills to real life problems. In part, this is likely to reflect the disproportionate emphasis that primary, secondary and tertiary education places on teaching based on memorising facts, rather than developing critical thinking.⁷³

Demand for skills is still outstripping supply – particularly in STEM subjects

Out of 27 countries in the EBRD survey, the countries scoring highest on the knowledge economy index are all in CEE, with Estonia, Slovenia and Lithuania leading the index.⁷⁴ However, despite strength in developing graduates with valuable ICT and technical skills, private sector demand for skilled graduates in CEE, especially those with technical and ICT skills, still outstrips supply,⁷⁵ similar to countries across Europe.

The scale of some of these mismatches is significant. For example, Czechia predicts that it will have a shortfall of over 250,000 workers in science and engineering positions between 2016 and 2030, while Lithuania projects growth in employment for ICT professionals of over 30%, which on current trends is unlikely to be met by the supply of



suitably qualified graduates.⁷⁶ This mismatch of skills across the region has been driven by both employer demand and lack of supply.

The high demand, particularly for STEM graduates, reflects the success countries have enjoyed in attracting foreign direct investment from major firms including IBM, Google and Oracle looking to take advantage of relatively low wages and a reasonably skilled workforce to outsource parts of their operations to the region. The region remains in the global top three most attractive destinations to establish business operations.

As the region continues to transition from a low-cost outsourcing and manufacturing base to a knowledge economy and takes advantage of the fourth industrial revolution, so demand for skilled graduates will increase further. There are many clusters developing in the region, based on collaboration between industry, universities and investors. Examples include:

- Lithuania, which has a national Artificial Intelligence strategy led by the University of Vilnius;⁷⁷
- Poland, which is collaborating with French counterparts on the Internet of Things, machine learning and electric vehicle development that secured €1 billion in government investment in 2018, and is now home to one in three of CEE tech start-ups; and
- Croatia, where the University of Zagreb is developing 3D printing with counterparts in Austria, Sweden and the UK.

As well as increasing demand, it is also clear that the supply of suitably qualified graduates has not kept pace. One key

issue here is affordability; STEM subjects tend to be among the most expensive to study and, as a result, the cost of tuition fees is likely to have contributed to the significant take up of humanities subjects. The stratification of fees also means that those least able to pay are also least likely to be able to take up the courses that provide them with better opportunities in the future.

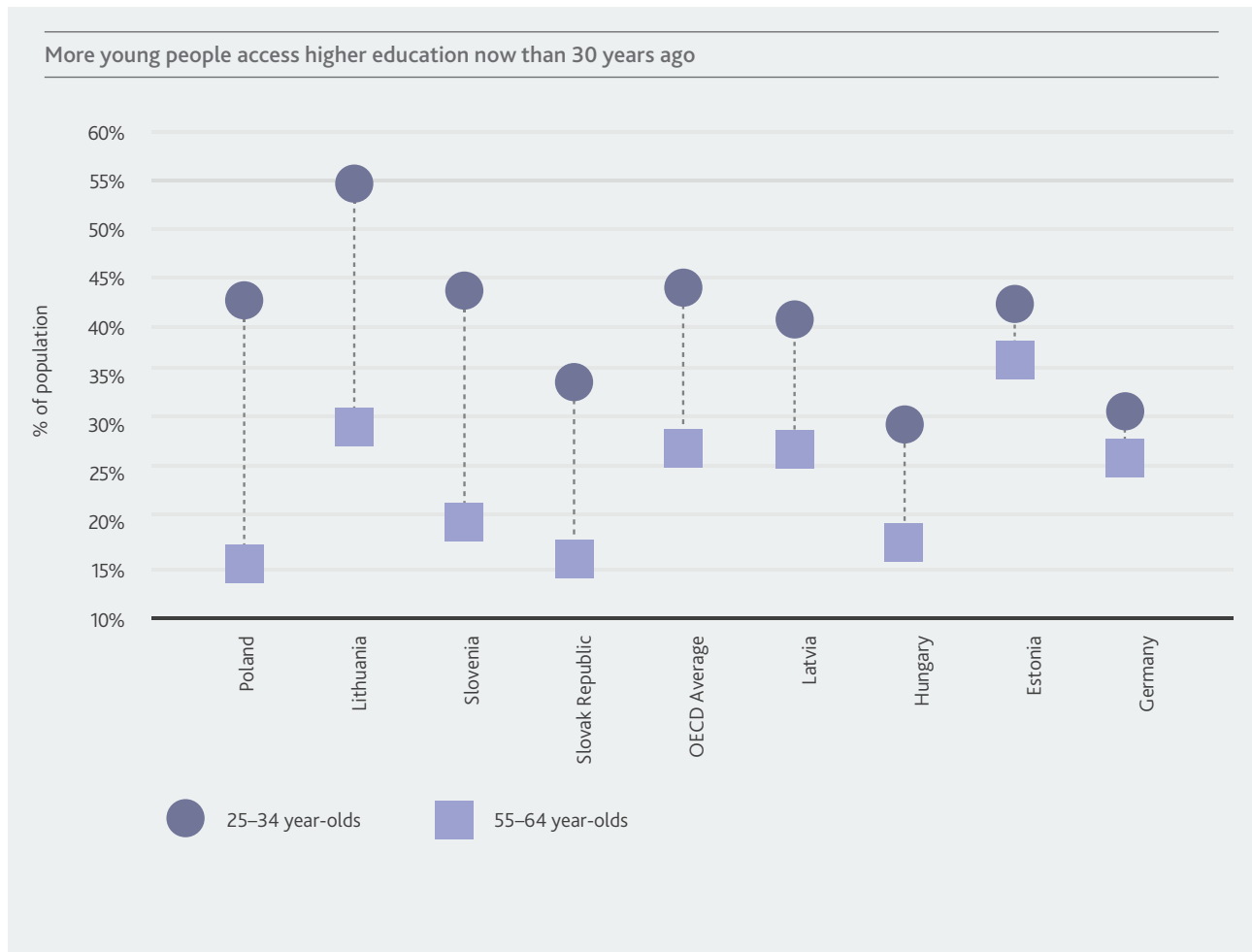
Migration of graduates also driving STEM mismatch

The skills mismatch is also attributable to the high rate of migration of graduates to Western Europe, after the EU expansion of 2004. 18 million migrants have left the region since the collapse of communism,⁷⁸ and close to 20% of Romania's working population has emigrated since 2004. Both skilled and unskilled people have left looking for employment, although those with higher education levels have migrated more frequently and stayed abroad for longer.⁷⁹

What next?

With increased rates of start-ups in the digital economy,⁸⁰ and rates of employment in high-tech sectors now higher than the EU28 average,⁸¹ there is real potential for the knowledge economy to be the next growth engine for CEE. This will put further pressure on the existing skills gap as demand for skilled graduates increases.

The right education and training can play a lead role in meeting this demand and delivering broader access to



Source: "Percentage of population with higher education, by age group," OECD (Accessed May 2019)

education, particularly for STEM subjects.⁸² This will require long-term strategy and policy action from Governments and collaboration with the private sector.

There are also opportunities in the fact that rising wages for high-skilled roles in CEE are reversing the migration flow to Western Europe and encouraging leavers to return home.^{82a} This should incentivise Governments to increase funding in tertiary education after their reluctance to fund graduates who leave upon graduating, especially in subjects like medicine. In addition to simply increasing state-funded university places, there is an opportunity to level out university fees across subjects, in order to encourage students from less privileged backgrounds, boost participation and tackle inequalities. The education

systems' emphasis on formal knowledge, often based on memorising facts, should also be balanced with more interpretative and critical thinking, to ensure technical skills can be applied into real-life work situations to drive productivity, innovation and leadership.

More generally, young people should be supported to make the right choices in the education and career paths. Whilst this is important in all countries, this is particularly true in CEE, where young people attending university may be the first generation to do so in many families. As such, independent career advice at secondary level could be provided to ensure that young people from all family backgrounds make informed decisions about what to study and which careers to choose.

Health

Summary of key points

- Gaps in life expectancy have narrowed, and self-assessed health outcomes for people in many CEE countries are on a par with Western Europe.
- Government investment on healthcare is in many cases half of the EU average of 10% of GDP.
- Average satisfaction with availability of quality healthcare has not improved noticeably (at 57%, just a three-percentage point increase from a decade ago).
- Increased direct patient payment is reducing healthcare affordability and limiting access to healthcare, with up to 22% of the least well off not accessing care due to cost.
- Access to care is also restricted by long waiting times and geography as patients can wait six times longer for operations than the OECD average and rural populations remain underserved.
- CEE countries remain over-reliant on hospital-based care, with some countries holding double the number of hospital beds for every 1,000 people compared to the UK or Canada.
- Increased life expectancy and the rise in long term conditions, frequently driven by lifestyle factors such as smoking and excessive alcohol consumption, will put further pressure on health services in future.
- People across CEE identify healthcare as the highest (or second highest) priority for additional government spending.
- As well as increased funding, the health system in CEE also needs to focus more on primary care, to promote healthier lifestyles and prevent illness and disease as well as treating it.



Health

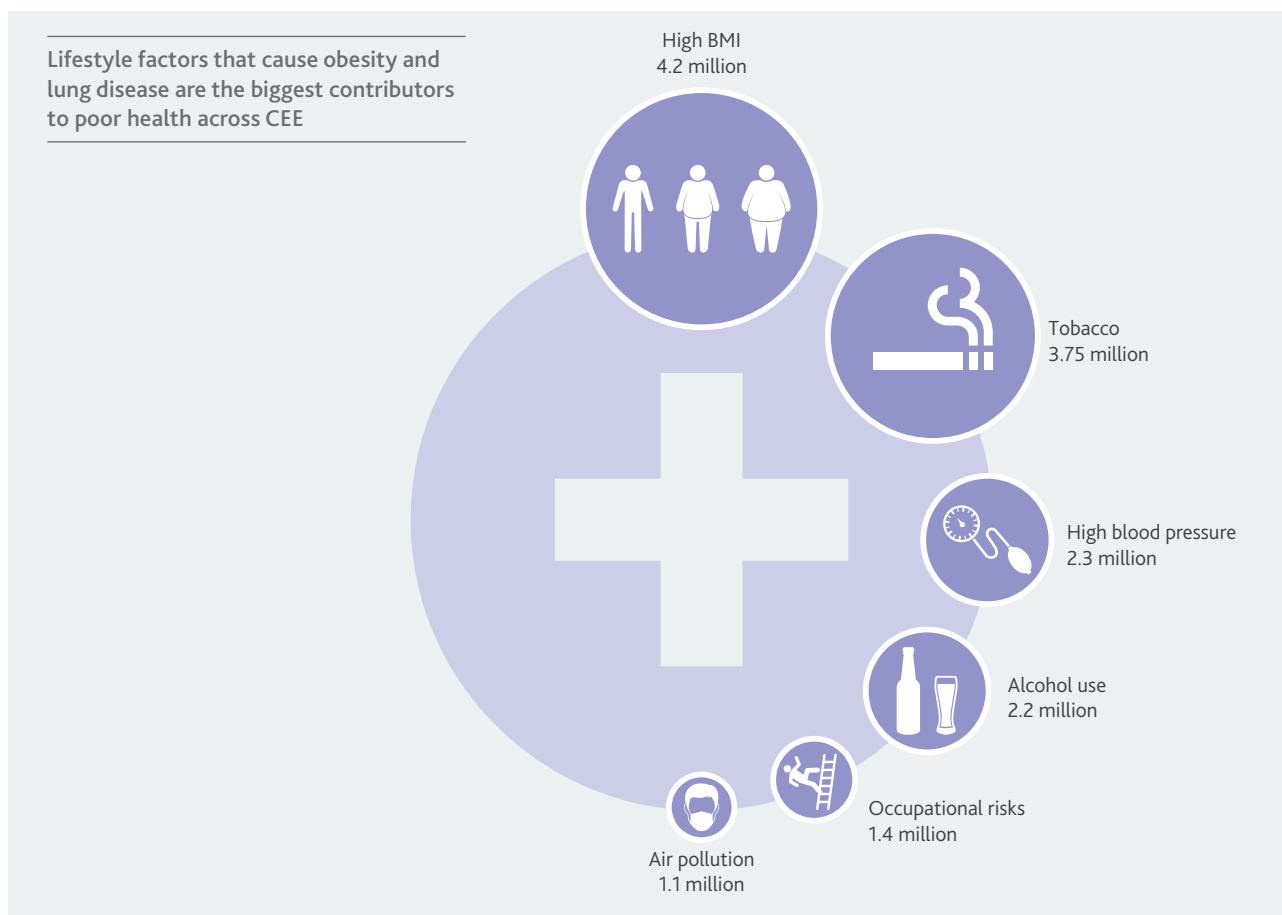
Good mental and physical health outcomes rely on access to high quality healthcare systems and this is central to ensuring individual and national prosperity. Throughout CEE, barriers to accessing healthcare persist, putting a substantial drag on reported life satisfaction and perceptions of government effectiveness.

The differences in health outcomes between CEE and Western European countries have narrowed over the past 30 years, with some countries increasing life expectancy at birth by nearly seven years, nearing the EU average of 83.6 years for women and 78.2 years for men.⁸³ Significant improvements can also be seen in individual countries, with Montenegro rising from 53rd to 44th in life expectancy at birth.⁸⁴

Key indicators like mortality, and the probability of those in CEE suffering a restrictive health problem, have also fallen to or below Western European levels. Self-assessed health outcomes for people in Montenegro, Albania and North Macedonia are now comparable to those in Germany and people in Bulgaria, Poland, Serbia, Czechia and Slovenia report positive health outcomes at higher rates than the EU average.

However, other CEE countries do not fare so well. For example, just four in ten (40%) people in Latvia report positive health outcomes and 43% in Estonia (a three-percentage point decline since 2010) and Lithuania (falling to 12% for those aged over 60). Seven countries in the region also rank below 70th globally in the aggregate health ranking and, when assessing the prevalence of reported health problems among the population, Romania ranks 144th out of 145 countries, Serbia 127th and Estonia 130th.⁸⁵

Taking a closer look at these and other countries in the region reveals that many people who live longer do so with an illness that significantly reduces their quality of life. These include long-term mental and physical health conditions, such as depression, Alzheimer's and musculoskeletal



Source: "Global burden of disease visualisation, Central and Eastern Europe," Institute for Health Metrics and Evaluation (Accessed May 2019)



problems, as well as diseases associated with behavioural risk factors,⁸⁶ such as diabetes, for which Serbia ranks 144th. The WHO found that Czechia has the fourth-highest obesity rate in the world (ranking 118th in the Legatum Prosperity Index™), with nearly one in four adults (24%) considered obese, while the number of obese 15-year old boys has doubled over the past 15 years, due to poor diet and a lack of sporting activities.^{87, 88, 89} Montenegro scores poorly for vaccines, ranking 148th for measles. Romania also scores poorly, ranking 102nd for diphtheria.

As in other EU countries, many behavioural risk factors are more common among groups that are disadvantaged through education level or income. In Austria, the least educated population groups are 83% more likely to smoke than the highest educated. In Latvia, only 34% of people on low incomes assess their health as good, compared to 75% in the highest income quintile; this is the highest gap of any EU nation.⁹⁰

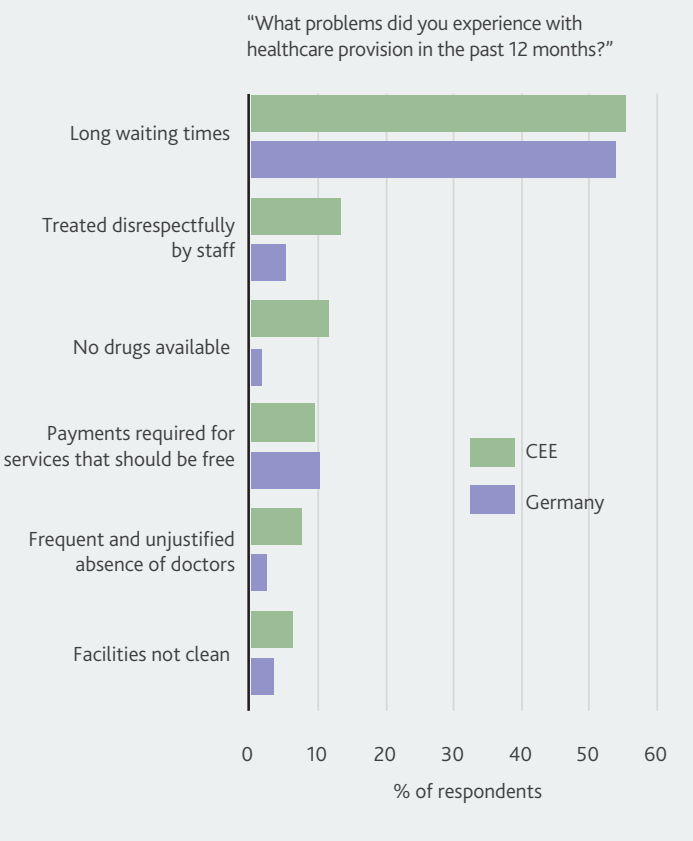
Some increases in satisfaction with care systems, but people want more progress

Despite the high incidence of health problems in many CEE countries, some countries have seen a significant increase in satisfaction with healthcare systems over the last decade. For example, Estonia has seen an increase in satisfaction with availability of quality healthcare from 36% in 2006 to 61% in 2018. However, these results are not echoed across the whole region, with Latvia ranking 99th in the Legatum Prosperity Index™ for 'satisfaction in healthcare', with average satisfaction on this measure now standing at 57%, just a three-percentage point increase from a decade ago.⁹¹

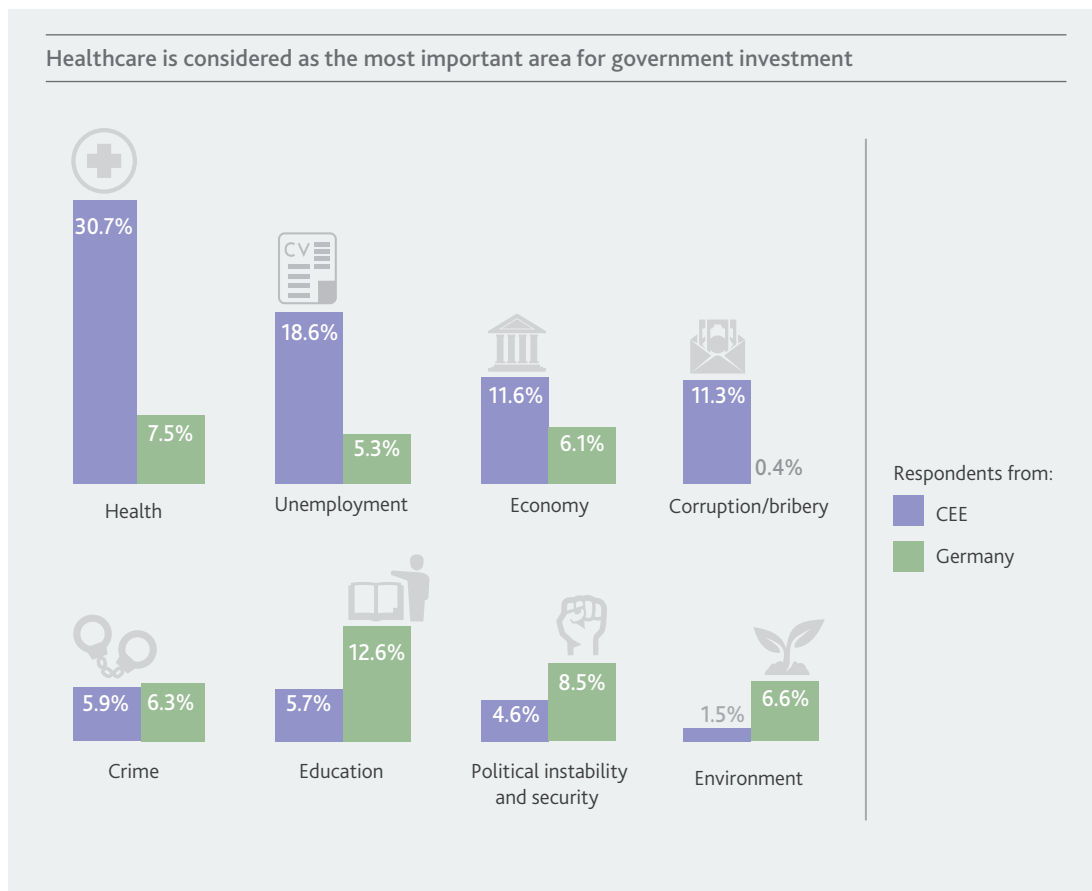
Reflecting this slow pace of change, the EBRD Life in Transition (LIT) surveys show that people across CEE identify healthcare as the highest (or second highest) priority for additional government spending.

Patients frequently reported problems with healthcare provision

Long waiting times is by far the most frequently reported complaint in CEE countries and Germany



Source: "Life in Transition Survey," EBRD (Accessed May 2019)



Source: "Life in Transition Survey," EBRD (Accessed May 2019)

Given the relatively low existing levels of investment, this should not come as a surprise. For example, government spending typically lags behind the EU28 average of 10% of GDP, with Latvia spending 5.7%, Romania 5.9% and Poland 6.3% in 2018. In terms of healthcare spending per capita, this translates to \$940 in Latvia, \$1,079 in Romania and \$1,570 in Poland, which is far below the \$5,551 Germany spends. The low levels of satisfaction are unlikely to shift until real change happens.⁹²

An over-reliance on hospital-based care is limiting progress

Of course, quality of healthcare services is not just about the amount of money spent. It is also about the effectiveness of the systems in place, and here, an overarching observation of the entire health system in the CEE is that it remains over-reliant on secondary (i.e. hospital-based) care.

This over-reliance on hospital-based care is a relic from communist times, when the 'Schemanko model' viewed the healthcare system as a means of treating disease, rather than preventing health problems and improving health overall.⁹³

This has impacted on the shape of provision across CEE, with some countries holding double the number of hospital beds for every 1,000 people compared to the UK or Canada. Lithuania

and Hungary have 7 beds, for every 2.6 in the UK,⁹⁴ and initiatives to reduce those numbers have had little impact.⁹⁵ The number of hospital beds per capita is the highest in the OECD, as are 'avoidable admissions' and 'length of stay metrics'.⁹⁶

Many of the patients coming to hospital would be better treated elsewhere. Long-term conditions such as asthma, diabetes and congestive heart failure are conditions identified by the WHO as causing the most frequent avoidable hospital admissions. Lithuania, Hungary, Poland, the Slovak Republic, and Czechia all score above the EU average for these sorts of avoidable hospital admissions.⁹⁷

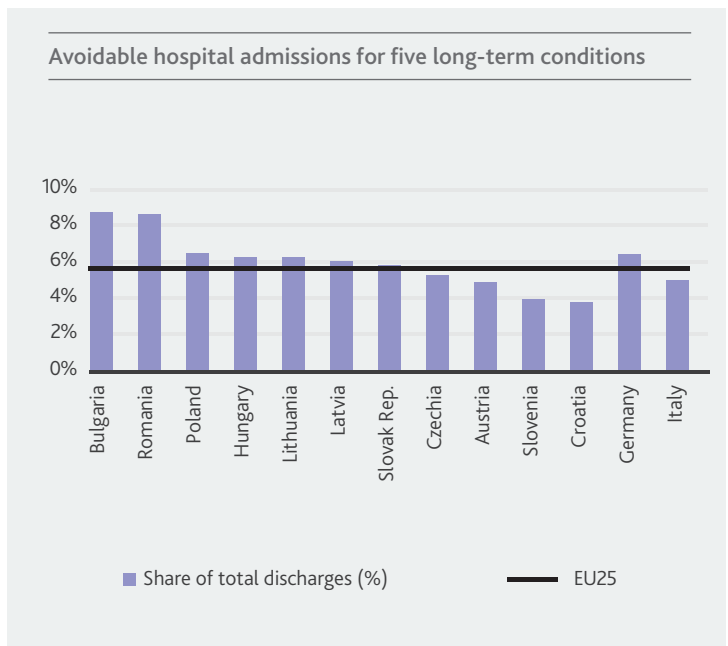
This points to the need for earlier-stage interventions, such as preventative check-ups with general physicians and educational public health campaigns that are accessible to everyone in society. However, change is not easy, as prioritisation of hospital care over primary care is ingrained in both government funding and public attitudes to how they would like to receive care, with patients having a preference for treatment by specialists rather than a family doctor.⁹⁸

This means that, if real progress is to be made in dealing with the rise in chronic illness and age-related diseases, then a cultural shift is needed towards more primary care, to prevent illness through better health education and the promotion of healthier lifestyles.

Increased reliance on direct patient payments is reducing affordability and access

Confronted by people demanding better healthcare and greater investment, and faced with challenges raising taxes to fund it, Governments have increasingly shifted the financial burden from the tax base to patients themselves.⁹⁹ This takes a number of forms, including private insurance systems linked to employment, public insurance schemes and patients having to make out-of-pocket payments. In Bulgaria, for example, out-of-pocket payments amounted to 48% of total healthcare spending in 2015 and 42% in Latvia.¹⁰⁰ Payment for medication in the region, both in terms of co-payment for prescription drugs and self-treatment through over-the-counter medication, is the highest in OECD countries (barring US) and continues to rise.¹⁰¹ Consequently, CEE public spending on healthcare lags the EU28 average of 10% of GDP.

This type of payment structure can present a challenge for lower-income families who do not have high levels of disposable income. It has been suggested, for example, that healthcare systems requiring out-of-pocket payments limit access to healthcare for the worst-off in the population. One study in Poland found that out-of-pocket payments contributed to an increase in poverty rates over a 10-year period.¹⁰² Another study, comparing Germany and Poland, found that over one-fifth of Polish households spent over 10% of their total household income on healthcare between 2000 and 2010.¹⁰³ In German households, that figure is 1% which helps to illustrate the differences between CEE and Western Europe.



Source: "Avoidable hospital admissions," OECD (Accessed May 2019)

Measles outbreaks are caused by low rates of vaccination

Recent measles outbreaks, particularly in Bulgaria, Serbia and Romania are caused by lower rates of vaccination, in part due to lack of funding and insufficient public health awareness campaigns leading to misinformation.

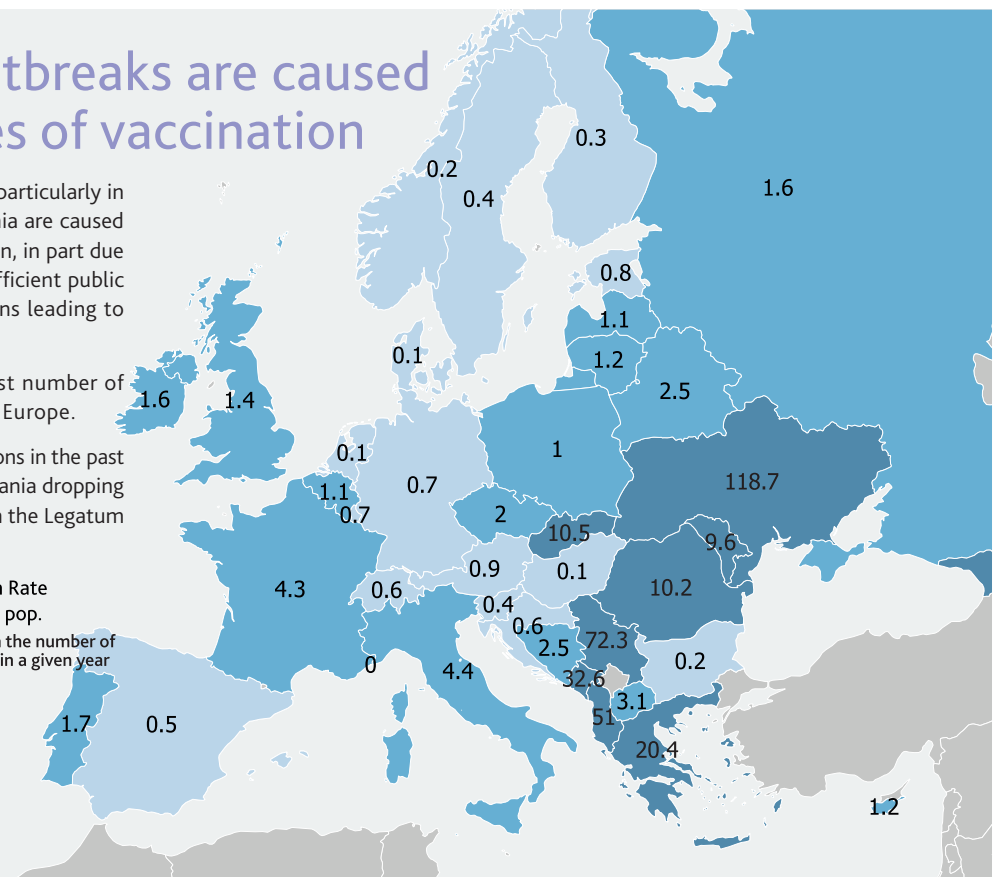
Serbia reported the highest number of fatalities from measles in Europe.

The fall in measles vaccinations in the past decade has resulted in Romania dropping from 49th to 102nd place in the Legatum Prosperity Index™.

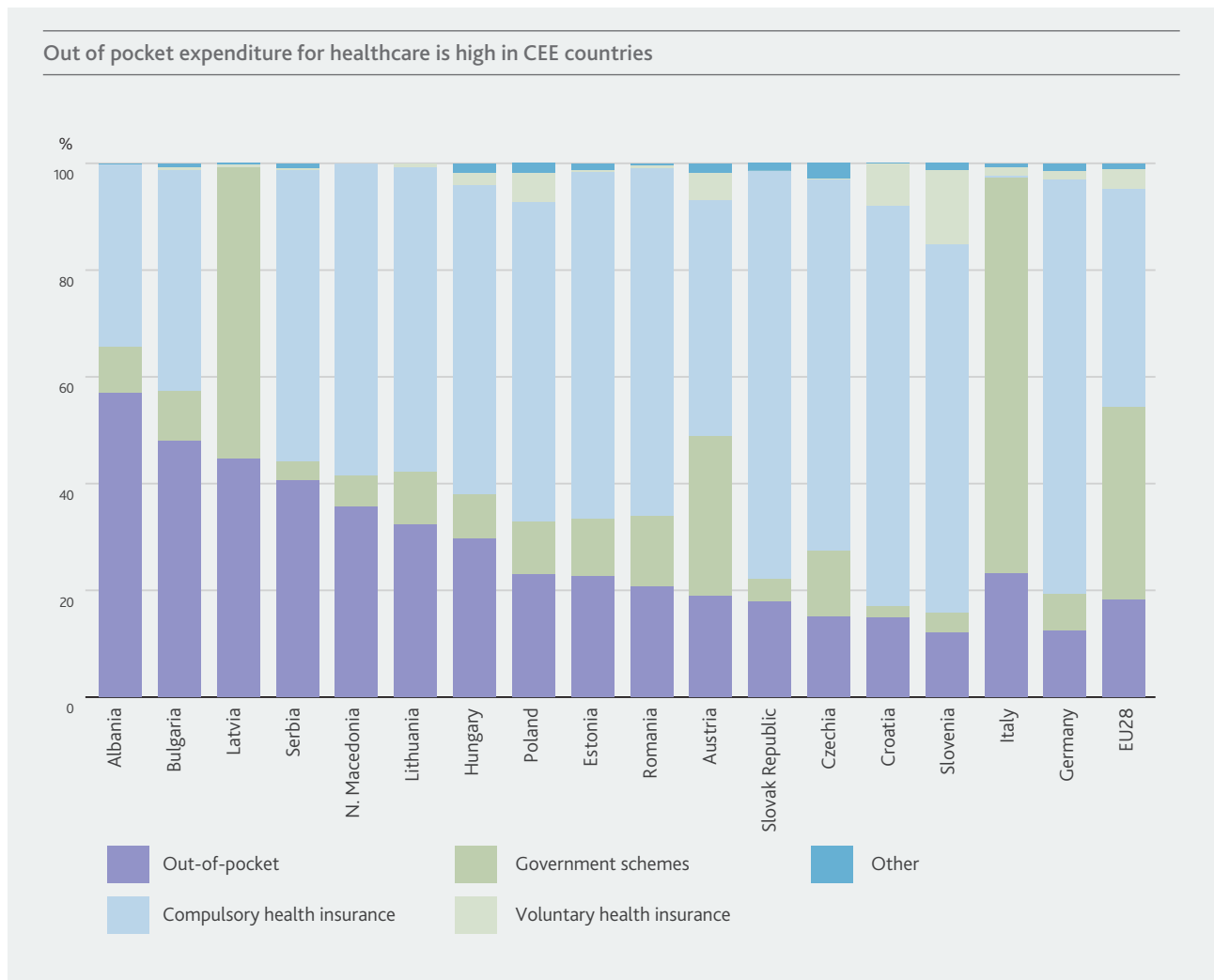
Europe – Measles Notification Rate
Notification rate per 100,000 pop.

* the notification rate is based on the number of patients diagnosed with measles in a given year

- Less than 1
- 1 - 5
- 5+
- No data



Source: "Measles notification rate," European Centre for Disease Prevention and Control (Accessed May 2019)



Source: "Healthcare expenditure by financing scheme," Eurostat (Accessed May 2019)

More generally, lack of access to care based on affordability continues to be a problem within CEE. In Latvia, 12% of the overall population in 2012 reported not going to the doctor, because it was too expensive, too far, or because they faced long waiting times. For poorer Latvians, that level was 22.4%, which is the highest in the EU.¹⁰⁴

Access to care also restricted by long waiting times and geography

Access to healthcare is restricted not only by affordability, but also by geography. Many people living in isolated and rural areas are poorly served by doctors, who earn more by practising in urban centres. Tele-health advice is in trial and allows urban based doctors to serve rural communities without the need to travel and therefore at lower cost. This could lead the way for a wider solution.

Access is also constrained by long waiting times. For example, Poles wait 464 days (on average) for Cataract

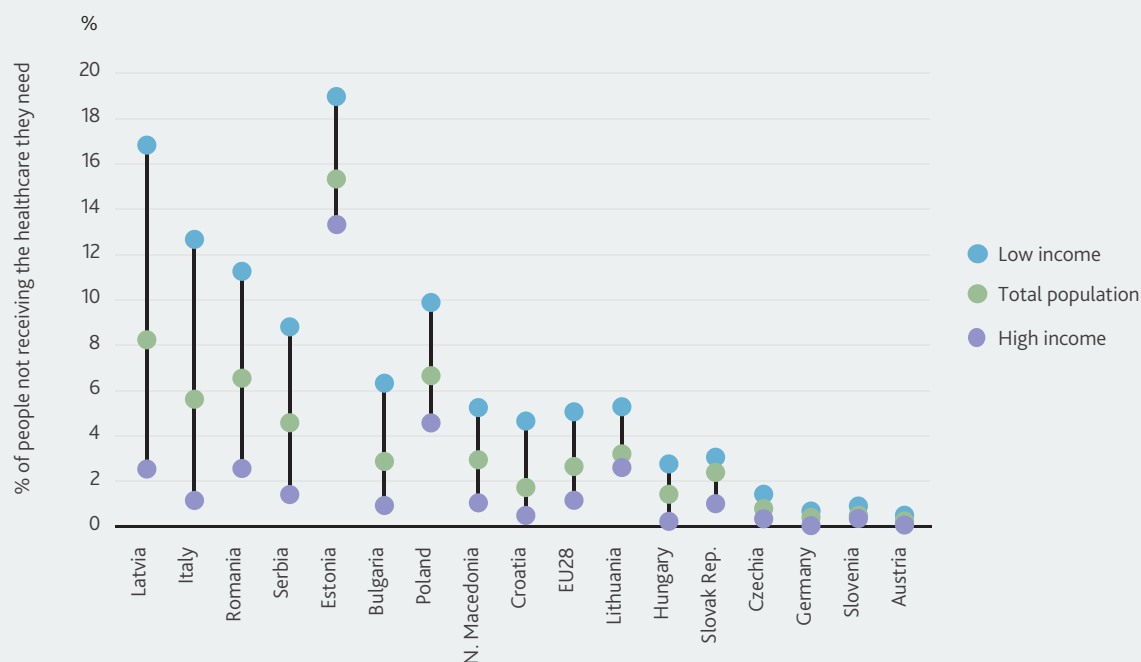
treatment, compared to the OECD average of 121 days, or even 21 days in the Netherlands. Some countries are solving this problem through private providers, who are compensated by state funding as well as private health insurance to increase access to primary and out-patient care that deliberately shifts care away from hospitals.

What next?

Despite the challenges in funding and a reliance on hospital-based care across the region, there are signs that governments recognise the existing approach as unsustainable in the face of rising chronic and age-related disease, and things are starting to change in several areas.

First, an increasing number of interventions are being undertaken on an out-patient basis, a trend that is in keeping with medical advancement in the rest of the world.¹⁰⁵ Across the region, there have also been efforts to introduce gatekeeping to deter patients from making avoidable visits to specialist and hospital care.¹⁰⁶ Most countries (except Latvia)

Low income and rural populations are less likely to receive the healthcare they need



Source: "Unmet needs for healthcare," Eurostat (Accessed May 2019)

also have policies in place to minimise co-payments when accessing primary care, to encourage more people to use these services, rather than relying on hospital provision.¹⁰⁷

Second, governments can follow the lead of Poland, Czechia, Slovakia and Hungary, where private healthcare companies are offering more services to patients covered by both state and private insurance and providing higher quality care with more modern equipment than state-owned clinics.¹⁰⁸ These higher standards of care can help adjust the balance towards more primary care.

Third, countries in the region have begun to introduce electronic healthcare records, allowing patient data to be shared between care-givers. The expectation is that this will reduce duplication and give the patient greater mobility to choose a healthcare provider based on perceived quality, waiting times or proximity.

Last, tele-health has the potential to drive down costs and improve the quality and accessibility of care.¹⁰⁹ This will be of greatest benefit in rural areas, where physicians and healthcare workers can use technology for remote diagnosis, and so reduce the need for setting up costly clinics. This would bring higher quality and lower cost care to those

who live with unmet healthcare needs in remote areas. The Baltic States and Romania have invested in 4G and 5G networks with ubiquitous coverage of urban and rural areas, and initial trials show that Estonia, Latvia, Romania and Bulgaria would have the lowest cost of tele-health delivery in Europe with ongoing government investment in the internet infrastructure.¹¹⁰

To make improvements in health outcomes, CEE governments need to reboot their efforts on health education to promote healthy lifestyles and invest more resources behind primary care and prevention. In turn, this could reduce an over-reliance on hospitals and the financial pressure on secondary care, and lead to improvements in people's low satisfaction with health systems.

Lived Experience

The following section includes interviews with the CEO of Erste Group Bank and a number of individuals whose stories bring to life the themes explored in this report.



A word from Andreas Treichl, CEO, Erste Group Bank AG

“We want to play a role in establishing well-functioning, healthy and wealthy societies in CEE”

In the thirty years since the fall of communism in Central Europe, Erste Group has had its part in the region’s development. The bank expanded strongly after its 1997 IPO on the Vienna Stock Exchange, and is now present in seven countries across CEE.

Twenty-two years after taking the helm at the bank, the man who has led Erste Group through this transformation reflects on the successes of the region’s transition, and the challenges ahead as its countries look to close the gap with Western Europe.

“Anyone expecting thirty years ago that we’d be a lot more advanced in CEE than we are now would be very naïve, given the history of these countries,” says Andreas Treichl. “There has been a lot of pressure for these countries to develop an institutional framework that is acceptable for European Union standards. And there has actually been a very rapid development of the middle class. If you compare what happened here to China, I think Europe is a better showcase, as these countries are truly democratic.”

As the region looks back at three decades of transition, not everyone is positive, given the political, economic, and social challenges that have hampered development, and the continuing gap with Western Europe in terms of income and social capital.

But Treichl sees specific successes in areas including declining corruption, the thriving automotive sector, and indeed in banking.

“We didn’t have six, seven, eight percent growth, but continuously three, four, five percent. Banking for the people didn’t become available until the late 1990s, but that was I think by and large extremely well-handed, and catalysed the dramatic push of wealth across the region.”

He notes that development has been uneven, partly because some countries (such as Hungary) had better-developed institutions in the last years of the communist era.

“I think it would be completely naïve to believe that this process ends up with having 17 Switzerlands in the region, and I’m not sure whether you’d actually want this. But we have a much better institutional framework, and an emerging middle class.”

Nonetheless, the gap in social capital development highlighted in the first edition of this report weighs heavy on the region, and Treichl sees addressing it as a priority for policymakers and businesses for the coming decade and beyond.



The gap is apparent from Erste's recent drive to recruit young, technically-skilled people for George, its new digital platform. The bank had planned to locate most in cities like Bratislava, Bucharest, and Prague. But they found that young upwardly-mobile people were keener to live in Vienna, despite significantly higher living costs, due to the better social infrastructure.

"In the end, it was about the best place to live, to have a family," Treichl says. "Where will I have the best transportation, the best housing? I may have €500 less a month, but I'd like to be somewhere with good education and medical care, and everything else. It's not all about money – it's a decent environment in which they can have a decent life. And if we don't get these other cities up to this level in the next ten years, we have a problem."

This has become a vicious circle: doctors, nurses, and teachers have moved west partly thanks to the poor social infrastructure, further reducing the pool of skilled social-sector workers in CEE.

One reason for the weaker social infrastructure in many CEE countries is that civil society is less-well developed, Treichl argues. One challenge is that while the best-paid people in CEE earn salaries comparable with those of elsewhere in Europe, they have only done so for ten or fifteen years, meaning that they have not necessarily built up the capital to support philanthropic activities – or have the time to dedicate to them. And, of course, decades of communism hampered civil society development. Nonetheless, Treichl is confident about the long-term outlook: "I'm absolutely convinced that civil society will develop to Western European levels, if maybe 30 years from now."

Erste's CEO considers himself fortunate to have headed an institution that has its roots in social banking, and through its Erste Foundation contributes to supporting civil society and boosting social capital across the region.

"It's not a CSR exercise," he says. "It's in our DNA. It's part of the reason why we were created; to make sure that we help to create a healthy middle class in every country in which we work. So we take our job seriously."

But his arguments for social investment do not apply just to Erste: they are applicable to all businesses.

"We benefit from a well-functioning, healthy and wealthy society. And because we benefit from it, we want to play a role in helping to establish it."

But Treichl would like to see more support and cooperation from policy-makers who too often consider social development "their job", or have created tax and regulatory barriers to private-sector involvement in the social sector. For example, banks could be allowed to classify NPLs of social enterprises differently from those of profit-making businesses. Treichl argues that the social sector could benefit from private sector rigour in management, including financial management.

"This could be a fantastic region, if we have politicians that are also willing to work in a professional manner with civil society and business to create a really good social environment," he says. "All the opportunities are there."

But social capital requires financial capital to back it up. Treichl highlights several areas in which he would like to see CEE develop and broaden its economic base: most importantly, broader and deeper capital markets. Over the medium term, the region must become less dependent on tax and labour arbitrage. He would also like to see financial education from school level to reduce a worrying knowledge gap.

As he prepares to take the helm of the Erste Foundation, Treichl's hope is that in a decade's time, Erste will refer to itself as a "financial health group", further asserting its social as well as business role. He has relished the mix of extraordinary business expansion paired with a growing involvement in social investment from the Tatras to the southern Adriatic.

"I have the feeling of doing something useful. And that's wonderful."

“Non-profit does not mean non-professional”

Capturing peoples lived experiences is difficult to do through data alone. Here, Lukas Kvockacka provides an insight into the world of NGOs and the people who rely on their valuable services.

When Lukáš Kvockačka spotted a lady he knew in tears in a café in his hometown of Prešov, he was understandably concerned. She was the mother of Peter, a disabled man Kvockačka knew through his work at the Barlička Citizens' Association, which supports disabled people in the city in north-eastern Slovakia.

But when he rushed to talk to her, he saw that she was shedding tears of joy.

“I never thought my son would invite me to join him for a coffee with the money he earned,” she said.

Her son is one of the hundreds of young people who have been supported by Barlička since its foundation in 1999 by a group of parents of disabled children, led by Kvockačka's mother, Dr. Anna Kvockáčková. Aware that their children, in their early teens, were about to come to the end of their elementary schooling, they were concerned about what would come next. High schools were poorly-adapted to their needs, and there were few jobs in the area suitable for young disabled people. Too many in their position had left school at

15, and spent much of the rest of their youth at home, with minimal stimulation and interaction with others.

“After five or ten years, they start having social anxiety, sometimes requiring psychiatric care,” says Kvockačka, 35. “Sometimes they self-harm.”

Had Kvockačka's mother not founded Barlička, the same might have happened to his younger sister, Patricia. In the wake of the collapse of communism, parts of the public health and care system were cut back. This created gaps that left families in the Kvockáčkas' position stranded, sometimes travelling hundreds of kilometres seeking diagnosis and treatment. Patricia was not expected to survive childhood, but now is a 30-year-old independent enough to live alone.

Barlička started as a centre where disabled young people who had left school could come. Now it has three areas of activity: its original purpose, providing activities and care for young adults, as well as opportunities for work in making handicrafts.



Secondly, an attached old people's home, which provides further employment for younger disabled people in the kitchen and reception. Thirdly, support to families of younger children with disabilities has become an increasingly important part of Barlička's work. It can be an intensely challenging period for the parents and other siblings. The joy of a new baby can rapidly be overcome by distress.

The experience and company of others can provide reassurance to shell-shocked parents that the situation will improve, but the support network is also geared to help those whose children are the most severely disabled.

From its beginnings as a group of 20 families, Barlička now supports around 250 people a day. But the going has not always been easy. Running an NGO can be a hand-to-mouth existence.

"There's a huge pile of challenges running the space from month to month; every month you have to pay the electricity, the heating, and you can't not pay your staff," says Kvokačka. "You can't keep going to your donors every month. Money problems were always part of the story."

Barlička sometimes managed to negotiate with suppliers to delay payment, but otherwise had to be extremely careful about the allocation of funds. It was helped by local organisations offering space for free, and later by negotiation with the local authority to lower rent. Securing EU funding turned into "a never-ending story" as the cash was delayed. Kvokačka says that changing government policies and priorities can also see financing for NGOs cut.

Barlička is now flourishing, supported by income from several social services it provides, and Kvokačka gave up his job as a tax consultant in London to run the organisation in 2016.

"I was on the phone to my mum a lot saying things like, this would be a good idea, or this might solve a problem, and then in one phone call I said 'well, if I were there' three times," he says. "And I realised that being there was maybe something that I should consider."

His experience in the private sector has helped him develop skills that he can bring to bear on the running of Barlička including operating under pressure, managing others, and structuring workflow. Too often, he says, NGOs are well-meaning but poorly-managed, and run out of momentum – or cash. "It's not about the money" may seem an admirable philosophy for the non-profit sector, but it is no way to be sustainable. Sometimes, organisations must be unsentimental and cut programmes which are not effective, but are "eating a huge amount of money".

"We need to be aware of management techniques of the for-profit sector in order to save enough money to support non-profit activities," he says. "Non-profit doesn't need to mean non-professional. Even with a good cause, you need to pay the bills."

Early on, Barlička was able to benefit from Anna Kvokačková's network and experience as a doctor, and the help of other organisations in the community. Kvokačka argues that building and using networks can help non-profits develop in CEE, particularly outside capitals, benefitting from the

experience, expertise, and access to finance of the private sector and funding organisations.

"If we don't know something, we will just pick up the phone and say, how do we do this?," he says. "Or what do you think of this idea? And on a very regular basis, we meet people who are really eager to help."

An increasing number of these are, like Lukáš, repatriates of the post-communist generation. He sees a shift in attitude now Slovakia is a more prosperous, secure society. Those returning to eastern Slovakia are bringing skills and capital, and building those networks on which the social sector depends.

"In '89, everything fell down," he says. "We were really a very poor country, and people wanted to get a decent income, and smart people went into business or politics. And all the people who wanted to change the world went to the capital or further afield; they thought it's not possible here. But really they are needed here. I think that's changing with people of my generation – they're making the choice of coming back. We've been fighting for decades, and now we are fighting for development."

“It's the perfect time to innovate – and change Romania”

After studying or working in Western Europe, many migrants are returning to CEE. Razvan Creangă explains how this group are applying skills learned abroad to fuel a vibrant tech start-up environment in Romania.

Of all the countries in CEE outside the former Yugoslavia, Romania has had one of the most difficult transitions. A bloody revolution was followed by political strife and economic hardship; European Union membership was delayed amid concerns about corruption and stalled reform. Large-scale protests against successive governments became a recurrent feature of politics. Many Romanians will look back at the past three decades with mixed feelings.

Perhaps unusual, then, that 28-year-old tech entrepreneur Răzvan Creangă says that his generation “were lucky to be born in that time”.

Born a year and a half after the fall of dictator Nicolae Ceaușescu, Creangă is the co-founder and CEO of hackajob, a UK-based startup with operations in the Romanian university city of Iași. Creangă has reasons to be upbeat about his own

story: in November 2018, hackajob raised \$6.7m in a funding round from major investors.

Creangă says that he is one of a generation of young tech professionals from Romania who unlike those before them had access to modern computers. But they found IT education at school stuck in the 1980s – and thus are to a significant extent self-taught. His parents bought their first computer when he was seven, and he was instantly fascinated by it. At the time, the internet was becoming a global phenomenon.

“I think the situation created this wave of developers,” he says. “You can look at a developer’s CV and see she was only recruited six years ago, but she may have 15 years’ coding experience. She’s a guru!”



While IT schooling may have lagged behind, Romania's strong tradition of science and maths education has also helped create one of CEE's liveliest tech scenes; there are 80,000 active developers, according to Creangă.

It is said that Silicon Valley companies that have Romanian founders or engineers may be US-registered, but have "Romanian DNA". Creangă says that it is much the same for UK-based hackajob, with its 25-strong team in Iași, and a co-founder steeped in Romania's tech culture.

He moved to the UK in 2008 to study computer science at City University London, then an MSc in marketing at King's College London. The city's thriving start-up ecosystem helped Creangă build on his entrepreneurial instinct: hackajob is the third start-up which he has built in the UK.

The idea for hackajob came to Creangă when he was working for a recruitment company. He was struck by how recruitment processes often overlooked strong candidates, particularly in the tech sector, due to human factors: bias and a lack of understanding of the skills needed on the part of those recruiting. Hackajob aims to optimise the process and minimise these effects.

"Promoting meritocracy in recruitment," is how Creangă himself puts it. But it is more than that; with close to one million unfilled jobs in tech across Europe, hackajob's technology can also help companies find scarce talent. It could prove particularly effective in the tight labour markets of CEE.

Having gleaned so much from the UK's start-up ecosystem, hackajob's co-founder is keen to return to Romania and help contribute to the budding scene there.

"This is the perfect time in history to innovate, and to change Romania," he says. "There are people who can drive change, and that change will be accelerated in the next five to ten years."

The youthful bedroom coders like Creangă have grown up, built successful businesses, and often worked abroad, acquiring new skills and contacts. And in many cases, like Creangă, they are now looking to return.

"What we need is to get critical mass, and there are lots of smart people abroad who care," he says. "They see what's happening in Romania, and that things are changing. More and more people are going to get involved."

Creangă highlights several areas in which Romania could improve the tech ecosystem – and all of which would have a more broadly beneficial impact on social and economic development.

"I believe there has been a lot of progress made recently, especially because of highly visible success stories," he says. "However, there is still a long way to go to get closer to the simplicity and effectiveness of the ecosystems in the UK and Estonia."

First, strengthening the business environment. He describes the experience of his parents, also entrepreneurs, and his own interactions with bureaucracy in Iași that can be time-consuming and expensive, putting stress on businesses and those running them.

"Romania has made great progress," Creangă says. "But here in the UK you can set up a new company in 24 hours, setting up a bank account is easier, tax is more straightforward. We need to incentivise angel investors and building businesses."

Second, establishing better tech educational infrastructure. Creangă cites the UK's coding bootcamps as an example of the sort of institution that can boost IT skills, including for those who would benefit from upskilling in a changing global economy.

"We need to get people to learn more about digital in Romania, especially people that were born before the 70s and 80s who haven't been exposed to the digital tech at an early age," he says. "A lot of low-skilled jobs are going to be lost to AI, and that will have a huge social and economic impact. English skills are also vital."

But most of all, Creangă says that entrepreneurs must engage and build their networks to support one another and budding new businesses.

"In the UK if I have a question, a challenge, I can find a person to talk to in an hour. In Romania there are lots of incredibly smart and successful people, but less of a network for entrepreneurs."

Across the region and indeed beyond, there is often a gap between technical innovation and business skills. Too many promising start-ups fail not because of their technology but difficulties in taking that technology to market. Successful businesspeople like Creangă can play an active role in bridging the gap.

"It'd be great if we could develop a network over the next ten years to support tech entrepreneurs and digital businesses," he says. "We need to bring people who know how tech start-ups work and how to scale. Things like product to market speed, scaling strategy. How to work with VCs, how to pitch. And we need to build the mindset: it's OK to take risks."

Creangă already spends time in Romania talking to start-ups and students about his experience, and sharing his advice. He'd like to see this on a much bigger scale.

"We need to take time to share what we've learned, our story. I can contribute, and that's why I want to go back."

Engagement is Creangă's watchword: with other entrepreneurs, with schools and colleges, with emerging tech innovators. And also, with the government.

"We need a good relationship with the government, there should be more communication between policymakers and people in the trenches like me," he says. "Politics is not my thing, but I believe we need to learn more from Romanian professionals who have spent a long time studying or working abroad. We should create a regular forum where these voices can be heard and their feedback implemented."

Creangă's post-communist generation increasingly has the means and will to give something back to their country.

“Looking beyond the city”

Private companies are drivers of growth and can provide first class training opportunities. Charlotte Symmons explains how private companies can help develop rural areas by locating their businesses outside main cities.

Lying amid fields and forested hills of Hungary's Nógrád County, Szirák may seem like a typical Central European village, with its two white-steepled churches, and single-storey houses. Its most celebrated feature is an elegant and imposing 18th-century baroque stately home, now a hotel popular with weekenders from Budapest. It lies in one of the poorest regions of the EU.

But Szirák is also home to a ground-breaking biotech company, quietly established here twenty years ago, and now exporting across the world.

The company, SCICONS, was established by Hungarian biologist Noémi Lukács following her discovery in the 1990s of antibodies that identify double-stranded RNA. Independent research in the late 2000s provided a significant boost to the company: it has grown at more than 30% a year – achieving remarkable 85% growth in 2018 – and has annual turnover of around €500,000. Half of its sales are to the US, and most of the remainder to Europe and Asia. SCICONS' products have been cited in more than 600 published papers, more than any competitor's, a strong affirmation from the scientific community.



At a time when there is increasing economic disparity and cultural polarisation between urban and rural areas, the success of SCICONS is a sign that the future of Europe need not be bound up in cities, says Charlotte Symmons, Noemi's daughter, SCICONS' co-owner and sister of CEO Johanna Symmons.

“We have a product we are 100% sure of; even if we were based on the moon, it would work,” she says. “We just have to take care of the logistics. If you're sure of your product and your company's success, then it doesn't matter where you are: you don't need to be based in a city.”

Charlotte perceives a trend across Europe in which rural areas are increasingly marginalised and forgotten – one that is affecting countries regardless of their economic wealth. Dr Lukács's family came from Szirák, but they chose Szirák not only because of the property they had in which to establish labs and production lines, but out of principle.

“In Budapest, an extra dollar doesn't mean that much,” says Charlotte. “But we thought that, if we can, we should pay as many people as possible. And if we create job here and pay taxes here, then it will make a much bigger impact than in a city.”

The commitment to the community is manifested in 'SCICONS' recruitment policy. The company employs people over 50 where possible, in a region – indeed a world – in which less-skilled unemployed people in their later years are unlikely to get another job.

The company has also invested in skilled young people from the region. She cites the example Alexandra, a girl from a nearby village, who was hired to work in the lab, and who has continued working on her BSc while working at SCICONS, contributing immensely to the company's work. She was able to live with family while working at SCICONS. Without this opportunity, she might not have been able to complete her studies, or gain the experience that will help her further research and career development.

“Employers want ready-made employees, and those may exist in a city, but you're not going to find them in a village,” says Charlotte. “You have to give people a chance – and that's what needs to be there for rural areas to develop.”

Alexandra has higher education; whereas 90% of people in Szirák do not study beyond school. Too many avoid further study because they fear it will make them more expensive to employ, and thus less employable for the sort of jobs available in the region.

It is a part of Hungary that typifies the low levels of social capital that continue to hold back Central European countries. But the family's decision to return to Szirák and invest time, money, and effort in the region goes beyond

SCICONS' success. The family is behind the Foundation for the Civic Advancement of Szirák, of which Dr Lukács is president.

The foundation has gained momentum thanks partly to the commitment of older members of the community, and the determination and dedication of the Lukács-Symmons family. In a place in which aspiration and civic engagement had been worn down by economic difficulty, the foundation has brought renewed vigour.

"The projects in Szirák are important because they give people a sense of belonging within a community, and make people believe in themselves and being able to build a better future," says Charlotte.

Its most significant initiatives include a cultural centre for the whole village, restoring the built environment, and educational programmes that build skills and expand horizons.

The educational initiatives include coding classes, which were Johanna's brainchild. She was inspired by movements like Girls Who Code in the US, and the Foundation teamed up with Kódgarázs, a Hungarian organisation which organises tech classes for children. The family wanted to make best use of the space available to help develop skills that would be useful for the 21st century. Basic programming courses seemed an obvious fit.

To launch them, the foundation needed to win three separate grants: one to install high-speed internet in an old house it has restored in the village; one to buy the equipment; and the third, in collaboration with the Roman Catholic parish, for the tutoring fees and catering, among other costs. The project has had two pilot rounds, and a third is planned for the summer.

"We'd like to have these training courses as a constant feature in the village," says Charlotte. "For this, it would be very important to gain funding for a longer period of time, five years, to be able to train youth to enter the workforce for the 21st century."

Other projects have included acquiring and renovating the old parish house for the foundation, re-greening urban spaces, and restoring monuments. Like some of the repatriates featured in our other stories, the Lukács-Symmons family have brought their energy, skills, and experience to bear in improving others' lives in Central Europe.

"The added value that my family could provide to the community was a vision and a firm belief that implementing that vision was possible: bettering the place where we live is possible, and bettering ourselves is possible," says Charlotte.

Nonetheless, the going is not easy. The foundation depends almost entirely on volunteers, and projects are mainly funded through grants and ad hoc contributions. This model may not be sustainable in the longer term, particularly as EU funds to Hungary start to taper down. As well as making important projects in Szirák permanent, Charlotte would like to see other longer-term investments that can bring the village closer to the wider economy, physically and in terms of skills. A better bus service would be provide a boost – there are three buses a day to Budapest, an hour and a half away, which puts off some of those who could bring their knowledge to Szirák, whether

as teachers or businesspeople. Charlotte would also like to see mobile education units in the region to address the skills gap, that otherwise is likely to grow.

"We are constantly on the lookout for innovative solutions and potential partners," she says. "But we are also aware of our limitations. After all, we are not experts in infrastructure or education. We are just local people who care. That's why we'd like to see NGOs like the Foundation work with regional policy makers and private companies willing to invest in education and training of their future workforce to develop strategies for a better future together."

SCICONS and the dynamic and dedicated family behind it have chosen Szirák and invested in both a globally-facing business and social capital in a part of the world that exemplifies the rural areas that have been too long overlooked. It can be done. Perhaps others will follow their example. As Charlotte says: "Why not give not-a-city a chance?"

“We need to spark the transformation of Czech education”

This report has explained how tertiary education prepares young people for employment, increases earning potential, and leads to a high standard of living. Here, Zdenek Slejska observes that education serves a wider purpose in enriching the lives of entire communities.

It's a strange paradox. Czechs as a whole report being happy with their education system, but large numbers of both teachers and pupils report being unhappy at school. Indeed, the country ranks at the bottom of OECD tables on the latter measure. Czechia, one of the most economically-developed countries in CEE, has seen a little-observed decline in educational standards. Teacher Zdeněk Slejška wondered why this might be.

“Aside from a conservative approach to education by the majority in society, the main reason is insufficient information about how education can be,” he says. “I concluded that educational policy and instruction in schools can only change when dissatisfaction with the status quo turns the topic into a publicly-discussed theme. Only then will political representatives become interested in innovation in the education system.”

This lack of awareness had allowed the system to atrophy. Given education's importance to economic and social

development, as well as general human wellbeing, backsliding presents a serious national challenge.

Yet until a few years ago, while there were organisations lobbying for greater public awareness of and involvement in other aspects of public life, there was a strange lack of activity in the education sector. This inspired Slejška and his wife to found EDUin in 2013, “to support transformation in education in Czechia by systematically informing the public.”

The organisation has helped put education back where it belongs, at the front and centre of public and political attention, achieving this by an active programme of media and public engagement. This has included schemes to encourage parental involvement in schools, whether from offering their own skills and expertise or merely becoming more aware of what is being taught and how classes are delivered. Slejška also cites the Extra Class project, in which students engaging in extra-curricular charitable work in their communities worked to engage the people whom they met with their schools.



In the Cities of Education programme, EDUin works with a wide range of stakeholders in regional centres to help municipal policymakers build strategies to improve education. Going well beyond schools, the programme also encompasses institutions including libraries, youth centres, theatres, and educational organisations. The project in the town of Dvůr Králové nad Labem in Eastern Bohemia, active since 2013, has been particularly successful.

"We tried to do everything inclusively, in order to draw people in and allow them to talk to one another about their ideas before they start to implement things," says Slejška.

EDUin can rapidly provide detailed information and other assistance to the media, and has played a central role in driving education to the forefront of the news agenda.

"The topic has turned into one that makes front-page headlines," Slejška says. "Every large newspaper now has an education specialist who knows his field. With the topic appearing in the media more frequently and prominently, and thanks to the related shift in public perceptions, from a marginal to an important topic, political representatives have also started paying more attention."

The organisation emphasises the centrality of education to public life, and the health of society as a whole, underlining the importance of participation. Its importance has been acknowledged by the Ministry of Education, which integrated some of EDUin's work in its 2020 Strategy. It has also helped shift perceptions of the importance of education.

"Good-quality education has an impact on many other things – for example the crime rate, health, but also feeling of happiness, and many other things," EDUin's founder says. "So an investment in education pays back many times over. EDUin's role is to make people aware about the need of making education a priority, and about thinking critically about transformation in the education system. I think that this contributes to general critical thinking in people and to enhancing their engagement."

That emphasis on multilateral involvement and discussion applies also to how EDUin runs its projects. Evaluating whether new programmes are applicable to communities on the ground is essential. Like some of our other interviewees, Slejška advocates a rigorous and practical approach to NGO work, taking lessons from the private sector.

"This rule is probably applied more thoroughly in the business world," he says. "In the non-profit sector, there is more of excitement and the conviction that "this" must be desired by everyone. That is not the case, and for me personally it was a very important lesson."

Indeed, EDUin is in the process of slimming down its portfolio, winding down some activities and handing over others. This is partly due to the cost of running such a large number of projects, but also to allow the organisation to focus on core activities.

Meanwhile, Slejška has also moved on, to help found and lead Educhange, an education endowment fund backed by organisations including the Open Society Foundation Prague, Česká spořitelna Foundation, Avast Foundation and Karel Janecek Foundation. Educhange focuses on "supporting individual systemic changes in education that may allow

a comprehensive transformation over time," in Slejška's words. It will start with a five-year pilot in a selected region of Czechia, with the view to integrating people better into the education system and driving institutional change and development. Modelled broadly on a similar programme in Slovakia, it aims to identify innovative practices in education and scale them up, supported by groups of donors.

Over the longer term, the organisers hope that it can develop a model of education transformation that can be applied nationally and regionally. Priorities include closing the gap between schools' quality and performance, and again there will be a focus on education's role in other spheres of citizens' lives. Slejška acknowledges that the long-term goal is ambitious: "comprehensive social transformation".

The challenge ahead is considerable. While Slejška notes some policy successes over the past two decades, he highlights several pressing shortcomings. The teaching profession is under pressure due to low wages for such a demanding career, and the erosion of the social status of educational roles. Systemic problems are holding back progress.

Czechia has the lowest teachers' salaries of any of the 24 OECD member states, and among the lowest PISA student test scores, according to a recent report by Česká spořitelna. The report estimated that over the past 25 years, teachers have lost a total of CZK500bn thanks to wages lagging behind developed-country norms, a gap that the bank says has a direct impact on the country's human capital.

"There's an issue with constantly being convinced how great Czech education is and the inability to reach an agreement across society on a transformation of education," he says. "Secondly, there's a lack of a clear concept in educational policy. And thirdly, there are increasing differences in the quality of education due to children's socioeconomic background and the willingness or lack thereof among schools to change."

But Slejška's work has developed models that could help catalyse re-engagement with education across a region which risks being left behind in a global race to innovation.

Partly thanks to EDUin's work, more Czechs are aware of the need to accelerate educational development to revitalise the broader economy; and not a moment too soon.

"I am convinced that many of the things it has done can be replicated," Slejška says. "It is only a question of capacity as to who can implement which project. With Educhange, we have only begun. But we are already doing it knowing that we want to scale the regional education support model up. If the project is successful, I can imagine it being transferred abroad. This will naturally have its other specifics. It is turning out that education systems are greatly culturally conditioned and all experience must be evaluated critically."

Conclusion





Conclusion

This report has shown that three decades after the fall of communism, and one decade after the height of the financial crisis, CEE has successfully emerged with a strong degree of both political and economic success. In terms of people's expectations of the quality of their lives and levels of prosperity, the gap has narrowed, especially among the educated younger generation who have much higher expectations than their parents. They are part of the first generation throughout CEE who are growing up in relative prosperity, without the lived experience of war or communism, enjoying a sophisticated lifestyle and a global outlook.

The CEE is at a crossroads, the region's rate of convergence with Western Europe is slowing and, while wages have risen steadily with decades of GDP growth, they are struggling to keep pace with the rising cost of living, now rising faster than in Western Europe. They also do not yet match average wages in Western Europe (ranging from 25-40% of German levels).¹¹¹

Countries across the region are also facing significant internal challenges including rising in-work poverty and inequality and the need to continue to improve and, in some cases, transform health and education systems. Combined with external threats from tumultuous global change and an unpredictable economic outlook, it is no surprise that the middle class feels vulnerable and young and old alike are concerned about their future prospects.

In spite of all this, we are hopeful about the region's prospects as the new global digital revolution that we are entering presents more opportunities for the region than it does risks and challenges.

One of the best-known strengths of the CEE is the technical ability of its people and an education system that produces technically skilled graduates that are in high demand from employers in their home markets. Skilled graduates are a pull for foreign businesses and investors who have located new manufacturing plants, tech hubs and service centres across the region. As the knowledge economy spreads, so too will continued demand for high-skill workers, and demand is set to be higher for these skills across CEE than Western Europe.

The challenge for CEE governments is to ensure that their workforce adapts to changes in the globalised workplace to avoid a mismatch of skills. Success here depends first on evolving the education system to maintain high attainment in STEM subjects whilst also teaching students interpretative skills and critical thinking that translates into innovation, productivity and leadership in the workplace. Second, that mid-skilled, mid-income workers are able to access the training they need to up-skill and thrive in the knowledge economy. The threat of in-work poverty amongst lowest paid workers is already visible in many countries and governments could support low-income families that are struggling with the affordability of healthcare, housing, caring for family members and making ends meet.

True prosperity also extends beyond economic considerations. The three measures of prosperity explored in this report – education, health and living conditions – all tell a similar story of significant progress, closing gaps with Western Europe, improving outcomes and rising prosperity. Each of these areas, however, faces unique challenges that require action and changes if people in the region are to fulfil their potential and find pathways to prosperity.

While big-picture macroeconomics matters hugely, there is also much that governments, institutions and the private sector can do together to improve the education of young people and the health and living standards of all citizens to ensure they prosper and reach their full potential. CEE has come far in three decades and is well-placed to prosper in the next three decades but changes are needed to navigate a path to full prosperity.

Annex – Overview of Prosperity in Central and Eastern Europe

Overall trends

Having plateaued between 2008 and 2014, prosperity in Central and Eastern Europe (CEE) has continued to rise, with 2018 reflecting a fourth consecutive year of convergence with Western Europe.

The country whose prosperity has improved the most over the last year has been Lithuania, followed by most of the countries of the South East. Over the last five years, the South East has seen the greatest improvements, followed by the Entrepreneurial Sea, and then the Industrial Hinterlands – all of which converged with Western Europe.

Over the last year, **three CEE countries declined in prosperity: Czechia, Latvia and Austria.** Czechia continues to score poorly in the business environment, with the ease of starting a new business seeing a pronounced drop in the past year. Latvia has not yet managed to recreate the success of its Baltic neighbours on a number of fronts, including investor protection, labour market flexibility and the affordability of financial services. In particular the perception of whether Latvia is a good place to start a business has dropped, placing the country 142nd in the global rankings.

While Austria leads the rankings of the countries in this report, its prosperity has effectively stagnated over the last five years. Improvements in Governance and Natural Environment have been counterbalanced by declines in Social Capital (5th to 17th over five years) and Business Environment (17th to 21st over five years). The biggest drop in social capital has been in the arena of personal and social relationships, where the reported opportunity to make new friends has dropped for the past five years and the frequency of giving informal financial help remains low. Performance in business environment has been mixed, with improvements in the ease of starting a new business and sustained improvements in business infrastructure over the past decade. However, both affordability and ease of access to credit have declined, leading to a relatively low ranking of 54th, compared to neighbouring Czechia, which ranks at 30th for access to credit.

Other than Austria, Slovenia is the most prosperous country of the region, ranked 18th globally, and has been so consistently. Slovenia ranks highly across all pillars, with safety and security, personal freedom and social capital in the global top 20. Its performance is particularly strong in terms of its Natural Environment and Education. Slovenia has ranked first globally in terms of natural environment for the past 10 years, exhibiting continuous improvement in preservation efforts, especially its terrestrial protected areas. Slovenia also leads the region in education scores, ranking 7th out of 149 countries in the Legatum Prosperity Index™, with school satisfaction rising from 47th to 12th and the

ranking for universities in the top 1000 rising from 30th to 28th. Globally, Slovenia ranks 1st for access to education, 2nd for the levels of education in the workforce, and 5th in the region for technical skills – a position it has maintained for the fifth year in a row.

Over the last year, the country that has shown the greatest improvement in prosperity is Lithuania, which has continued its improving trend over the last five years, rising ten places from 46th in 2013 to 36th in 2018. Recent improvements have occurred in Personal Freedom and in Social Capital, which has been marked by a rise in how people participate in society; for instance volunteering (132nd to 78th), voicing opinion (129th to 79th) and giving donations (163rd to 93rd) have all risen in the past year. As too, has trust in the police (59th to 50th) and respect as a social norm (148th to 139th). These gains have followed on from longer-term improvements in Education (particularly the perception of children learning), Safety and Security and Government Integrity, with corruption falling for the 6th year in a row.

Albania (ranked 64th globally) is the least prosperous of the 16 countries analysed in this report. While it ranks relatively well in Personal Freedom (47th) and Health (48th), its overall prosperity is held back by poor performances in Economic Quality (109th), Social Capital (126th) and Natural Environment (103rd). It has made steady progress in Governance (83rd to 74th over the last five years) with confidence in elections (top 10 in CEE) and transparency in policy making (3rd in CEE) continuing to rise. Education continues to improve, with performance improving from 83rd to 64th over the last 5 years. The overall quality of education has risen across all levels, which has fed through to an increased proportion of workforce with a secondary education, now ranking 20th globally.

Open Economies

CEE has continued its long-term improvement in its Business Environment, faster than Western Europe for the last ten years. While this has continued in the last year, the Entrepreneurial Sea's Business Environment has plateaued over the last year, with both Lithuania (52nd to 58th) and Latvia (37th to 55th) declining. As a result, its modest overall five-year improvement has been eclipsed by that of Western Europe as a whole. In contrast, both the Industrial Hinterlands (especially Slovenia and Hungary) and the South East (especially Romania and Albania) have posted improvements over the last year and posted five-year improvements well above the Western European average.

In common with Western Europe, CEE's Economic Quality declined significantly from 2009-2014, but since then it has improved significantly, and in 2018 surpassed the 2009 peak, with all countries other than Latvia improving over the last year. The Industrial Hinterlands has matched the slower improvement of Western Europe, and has yet to return to its

2009 peak. The South East has shown the greatest pace of recovery, led by improvements in Serbia, North Macedonia and Romania.

Inclusive Societies

Safety and security continued a ten-year uninterrupted improvement in CEE, virtually halving the gap with Western Europe over that time. The most significant gains in recent years have been made in the South East, especially Montenegro, Serbia, Croatia, and Romania. Serbia has improved in terms of personal safety (45th to 33rd), and Romania has seen improvements in night-time safety in the past 2 years from a ranking of 96th to 55th. Some countries in Southern Europe have maintained weaker scores for crimes against property such as theft, with Albania ranking 80th.

Governance in CEE has seen a second consecutive year of aggregate decline, led by Poland, Latvia, and Czechia (Hungary having declined in the previous year). The Industrial Hinterlands' long-term decline in Governance has continued. The early gains in the Entrepreneurial Sea have not been continued in recent years. Poland, Latvia and Czechia have all seen declines in Government Integrity and the Rule of Law, with Poland ranking 125th in the transparency of policy. Latvia's scores have fallen for political rights and confidence in government (133rd), while Czechia has fallen to 120th in the efficiency of regulations.

The recent decline in Personal Freedom across CEE countries has been arrested in 2018. Personal Freedom in the Industrial Hinterlands continues to decline, especially in Austria and Hungary, which has declined from 49th to 57th in the world in just one year. In contrast, Lithuania and Latvia have both seen their Personal Freedom rankings improve five places, with Lithuania improving in terms of tolerance of immigrants (140th to 121st) and of members of the LGBT community (from 81st to 75th).

The long-term trend in improving Social Capital in CEE has plateaued this year, not least because the dramatic long-term strengthening of Social Capital in the South East has stalled, with reversals in North Macedonia (71st to 121st) and Romania. Within the Entrepreneurial Sea, Social Capital in Latvia has declined over the last five years from 89th to 113th in the world.

Empowered People

Since 1990, **CEE countries have steadily improved their Education scores,** closing the gap with Western Europe. The strongest gains have been made in the Entrepreneurial Sea, and the Industrial Hinterlands, with countries such as Estonia, Slovenia and Poland making the Global top 20 in the PISA ranking, ahead of the UK or France. Education for women has improved, with girls in Montenegro, Serbia and North Macedonia spending on average 2 more years in school than they did in the 1990s. Albania has made the most progress in university enrolment, which has risen six-fold between 1990 and 2016. Similar success has been seen in Croatia, Montenegro and Bulgaria where university enrolment has more than doubled in the past 30 years.

However, there is evidence to suggest that **the quality of education has not kept pace with enrolment.** Over the past 10 years, Hungary has dropped in the ranking for quality of education from 17th to 25th, North Macedonia has dropped from 57th to 85th and Slovakia has fallen from 30th to 41st place in the rankings. Differences in the type of education that students are choosing at tertiary level has also been reflected in the workplace, with **CEE countries falling in the rankings for workforce with a technical skillset.** Austria has dropped from 6th to 13th place, Czechia from 6th to 10th and Serbia from 9th to 14th.

Health scores have generally improved over the past 30 years, with key indicators such as mortality and probability of suffering a restrictive health problem falling to, or even below Western European levels. Romania has seen satisfaction in healthcare more than double over the past 10 years, moving from 100th to 42nd position, while Estonia has risen 113th to 66th in the past decade. The rates of tuberculosis have declined in Latvia, which has moved from 83rd to 73rd position.

However, **improvements have not been universal, with countries performing poorly for long-term conditions.** Serbia ranks 134th for diabetes and Czechia 118th for obesity. Montenegro scores poorly for vaccines, ranking 148th for measles and Romania ranks 102nd for diphtheria. Healthcare systems are declining in performance. Seven countries in the region rank below 70th in the aggregate health ranking.

Living conditions have seen improvements across all CEE countries over the past 30 years, with Lithuania, Albania, Estonia and Romania seeing the biggest improvements in rankings on the Legatum Prosperity Index™. In Lithuania, the security of living conditions has improved from 69th to 35th place in the past five years, and the standard of living has improved from 124th to 97th during these years. Employment has been on the rise with Poland, which rose from 113th in 2008 to 82nd in 2018. However, rankings for Economic Inclusiveness have generally declined, with Latvia's rank falling from 35th to 48th, while Czechia's has fallen from 27th to 37th in the past 5 years.

The Natural Environment in CEE has continued to improve, as it has done in aggregate since 2014, with the greatest improvements seen in the Entrepreneurial Sea, with Latvia, Lithuania and Estonia continuing to strengthen. Serbia, Slovakia and Slovenia were the only countries whose Natural Environment score declined over the last year. Latvia was successful in continuous improvement in wastewater treatment, rising from 36th to 1st on the past decade. Lithuania has taken steps to improve its marine protected areas rising from 51st to 16th. Estonia has improved its pesticide regulation ranking from 56th to 1st. Countries that remain in poor positions for environment most often have low scores in preservation efforts: North Macedonia (126th), Montenegro (135th) and Albania (108th). Countries in the Hinterlands perform poorly on air quality, with Poland ranking 136th, Austria 93rd and Czechia 125th.

Annex – Past Reports

For the past three years, the Legatum Institute has worked in partnership with ERSTE Group to examine the key trends shaping the region's transformation and the challenges that its people face in the years ahead.

Legatum Prosperity Index™, CEE country ranking

COUNTRY	2016	2017	2018
Austria	15	15	15
Slovenia	20	19	18
Estonia	26	26	26
Czechia	25	25	27
Slovakia	34	32	32
Poland	33	31	33
Lithuania	41	41	38
Latvia	38	37	40
Hungary	44	43	41
Croatia	43	42	43
Romania	48	47	45
Bulgaria	53	49	48
Serbia	68	58	54
North Macedonia	51	55	56
Albania	73	71	64
Moldova	94	97	97

2016

The report focused on social capital as a key component of prosperity, and identified the challenges faced by the countries of CEE.



2018

The report looked at the economic foundations of prosperity and the system of governance necessary to underpin them.



2019

This report looks at economic prosperity and the 'lived experience' for people living in CEE.



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LEGATUM INSTITUTE

11 Charles Street
London W1J 5DW
United Kingdom

t: +44 (0) 20 7148 5400

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