

SECTORAL TRANSITION INDICATORS

(see Table 1.1 on page 9)

The sectoral transition indicators reflect the judgements of the EBRD's Office of the Chief Economist about progress in transition by sector and the size of the remaining transition "gap" or challenges ahead. The scores range from 1 to 4+ and are based on an assessment of the size of the challenges in two components: market structure and market-supporting institutions and policies. The scoring for the components is based on either publicly available data or observable characteristics of market structure and institutions. Based on the results of this scoring exercise, remaining transition gaps for market structure and institutions were classified as either "negligible", "small", "medium" or "large". The final numerical score is based on these gap ratings as well as the underlying information. The table to the right serves as a guide, defining the ranges for those cases where the two component assessments are the same, however exceptions can be made to this rule.

Table M.1.1.1
Transition cut-off points

Cut-off points	Potential scores
Transition gaps (MS/MI)	
Large/Large	from 1 to 2+
Medium/Medium	from 2+ to 3+
Small/Small	from 3+ to 4
Negligible/Negligible	4+

The following tables show for each sector the weighting attached to the two components (market structure and market-supporting institutions and policies), the criteria used in each case (and the associated weights), and the indicators and data sources that fed into the final assessments. For the corporate and financial sectors, the exact sources are listed in the tables. The assessment of remaining transition challenges in the energy sectors is based on cross-country factual data and information on the energy sector (oil, gas, mining, electric power) in the EBRD's countries of operations, including from external agencies (International Energy Agency, EC Progress Reports on accession countries, Business Monitor International sector reports, Energy Regulators Regional Association, and so on). For infrastructure sectors, the assessment relied both on quantitative indicators (for example, cost recovery tariffs based on information from EBRD projects) and qualitative assessments of the less quantifiable measures, such as the relations between municipalities and their utilities. Sources encompassed in-house information from investment projects and cross-country data and assessments from several external agencies (including the World Bank, the European Commission and the OECD).

Corporates

Table M.1.2.1
Rating transition challenges in the agribusiness sector

Components	Criteria	Indicators
Market structure [50%]	Liberalisation of prices and trade [15%]	Wheat: producer price to world price ratio (FAO GIEWS and PriceSTAT, 2008) MFN applied tariff, simple average, agricultural products (WTO, 2010) NRA to agriculture (World Bank Distortions, 2004-07) WTO membership (WTO)
	Development of private and competitive agribusiness [40%]	Wheat: yields per ha (FAO ProdSTAT, 2012) Wheat: average change in yields per ha (FAO ProdSTAT, 2012) Mass grocery retail sales in per cent of total grocery retail (BMI, latest available data) Processing mark-up in agriculture (EBRD calculation based on UNIDO, 2008)
	Development of related infrastructure [25%]	EBRD railways infrastructure (EBRD Transition Report, 2011) EBRD road infrastructure (EBRD Transition Report, 2011) Tractors per 100 ha arable land (World Bank, 2009) Pump price for gasoline (World Bank Development Indicators, 2010)
	Development of skills [20%]	Ratio of a percentage of tertiary graduates in agriculture over a percentage of agricultural share in GDP (EBRD calculations based on UNESCO and CEIC, 2012) Value-added per worker in agriculture (World Bank World Development Indicators, 2010)
Market-supporting institutions and policies [50%]	Legal framework for land ownership, exchanges and pledges [40%]	Tradeability of land (EBRD Transition Report, 2009) Warehouse Receipt Programmes (FAO Investment Centre WP, 2009) Building a warehouse: Dealing with construction permits (World Bank Doing Business, 2012) Registering property (World Bank Doing Business, 2012)
	Enforcement of traceability of produce, quality control and hygiene standards [40%]	Overall TC 34 (ISO, 2009) Hygiene standard implementation (EBRD assessment, latest available)
	Creation of functioning rural financing systems [20%]	Ratio of percentage of lending to agriculture relative to percentage of agricultural share in GDP (EBRD calculations, latest available)

Table M.1.2.2
Rating transition challenges in the general industry sector

Components	Criteria	Indicators
Market structure [60%]	Market determined prices [20%]	Subsidies in % of GDP (CEIC, latest available data) Energy intensity (World Bank Development Indicators, 2012)
	Competitive business environment [40%]	MFN applied tariff, simple average, non-agricultural products (WTO, 2011) Lerner index (EBRD calculation based on UNIDO, 2008) Large scale privatisation (EBRD Transition Report, 2011)
	Productivity and efficiency [40%]	Expenditures on R&D in % of GDP (UNESCO, 2009) R&D effectiveness (EBRD calculation based on WIPO and UNESCO, 2005-09) Value-added, manufacturing, per employee (UNIDO, 2008) Knowledge Index (World Bank, 2012)
Market-supporting institutions and policies [40%]	Facilitation of market entry and exit [40%]	Starting a business (World Bank Doing Business, 2012) Closing a business (World Bank Doing Business, 2012) Percentage of firms identifying permits and licenses as major constraint (EBRD and World Bank, 2005-09)
	Enforcement of competition policy [30%]	Competition index (EBRD Transition Report, 2012)
	Corporate governance and business standards [30%]	Composite country law index (EBRD Legal Transitional Team 2010) ISO certification (EBRD calculation based on ISO and World Bank data, 2009) Investor Protection (World Bank Doing Business, 2012) Investor Protection (World Bank Doing Business, 2012)

Table M.1.2.3
Rating transition challenges in the real estate sector

Components	Criteria	Indicators
Market structure [40%]	Sufficient supply of quality assets in all sub-segments (warehouse/office/retail/hotels) [60%]	Class A industry supply per capita (Colliers, DTZ, King Sturge, CB Richards Ellis, Jones Lang LaSalle) Modern office space per capita (Colliers, DTZ, King Sturge, CB Richards Ellis, Jones Lang LaSalle) Prime retail space per capita (Colliers, DTZ, King Sturge, CB Richards Ellis, Jones Lang LaSalle) Hotel room supply per capita (WEF Tourism Competitiveness Index, 2011)
	Market saturation and penetration of innovative construction technologies [40%]	Market saturation index (EBRD, 2012) Index on penetration of innovative construction technologies (EBRD, 2012)
Market-supporting institutions and policies [60%]	Tradeability and accessibility of land [20%]	Accessing industrial land: Lease rights (World Bank, 2010) Accessing industrial land: Ownership rights (World Bank, 2010) Access to land (BEEPS, 2008)
	Development of an adequate legal framework for property development [30%]	Quality of primary legislation in the property sector (EBRD, 2012) Quality of secondary legislation in the property sector (EBRD, 2012) Mortgage market legal efficiency indicators (EBRD 2011)
	Presence and effectiveness of energy efficiency support mechanisms [10%]	Sustainability of government support mechanisms (EBRD, 2012)
	Adequacy of property-related business environment [40%]	Registering property (World Bank Doing Business, 2012) Dealing with construction permits (World Bank Doing Business, 2012) Property rights (WEF Tourism Competitiveness Index, 2011-12) Level of corruption for construction related permits (BEEPS, 2008)

Energy

Table M.1.3.1
Rating transition challenges in the electric power sector

Components	Criteria	Indicators
Market structure [40%]	Restructuring through institutional separation, unbundling and corporatisation [33%]	Extent of corporatisation (setting up of joint stock companies, improved operational and financial performance) Extent of legal unbundling of generation, transmission, distribution and supply/retail Extent of financial unbundling of generation, transmission, distribution and supply/retail Extent of operational unbundling of generation, transmission, distribution and supply/retail
	Private sector participation [33%]	Degree of private sector participation in generation and/or distribution
	Competition and liberalisation [33%]	Degree of liberalisation of the sector (third party access to network on transparent and non-discriminatory grounds) Ability of end-consumers to freely choose their provider Degree of effective competition in generation and distribution
Market-supporting institutions and policies [60%]	Tariff reform [40%]	Presence of cost-reflective domestic tariffs Existence of cross-subsidisation among consumers Degree of payment discipline as measured by collection rates and payment arrears
	Development of an adequate legal framework [20%]	Energy law in place to support full-scale restructuring of the sector and setting up of a regulator Quality of taxation and licensing regime Existence and relative strength of the regulatory framework for renewables
	Establishment of an independent energy regulator [40%]	Degree of financial and operational independence of the regulator Level of standards of accountability and transparency

Table M.1.3.2

Rating transition challenges in the natural resources sector

Components	Criteria	Indicators
Market structure [40%]	Restructuring through institutional separation and corporatisation [40%]	Degree of unbundling of different business lines into separate legal entities (joint-stock companies) Existence of separate financial accounts for different lines of businesses Extent of unbundling of different business lines into separate legal entities Extent of measures adopted to improve operational and financial performance
	Private sector participation [20%]	Degree of private sector participation in upstream and/or downstream/supply
	Competition and liberalisation [40%]	Degree of liberalisation of the sector (third party access to network) Ability of end-consumers to freely choose their provider Degree of effective competition in upstream/extraction, supply and retail
Market-supporting institutions and policies [60%]	Tariff reform and price liberalisation [40%]	Presence of cost-reflective tariffs Existence of cross-subsidisation among consumers Degree of payment discipline as measured by collection rates and payment arrears
	Development of an adequate legal framework [20%]	Energy law in place to support full-scale restructuring of the sector and setting up of a regulator Quality of taxation and licensing regime Extent of transparency and accountability on revenues from extractive industries, EITI/PWYP compliance
	Regulatory structure [40%]	Degree of financial and operational independence of the regulator Level of standards of accountability and transparency

Table M.1.3.3

Rating transition challenges in the sustainable energy sector: energy efficiency (EE), renewable energy (RE) and climate change (CC)

Components	Criteria	Indicators
Market structure [67%]	Market determined prices [50%]	Quality of energy pricing: end-user cost-reflective electricity tariffs Level of enforcement of pricing policies: collection rates and electricity bills Amount of wastage: transmission and distribution losses Quality of tariff support mechanisms for renewables (tradeable green certificate schemes / feed-in tariffs/no support) Presence of carbon taxes or emissions trading mechanisms
	Outcomes [50%]	Level of energy intensity Level of carbon intensity Share of electricity generated from renewable sources
Market-supporting institutions and policies [33%]	Laws [25%]	Index on laws on the books related to EE and RE (such as those that support renewable technologies, compel minimum standards in various areas of energy use, provide guidance for sectoral targets in terms of energy savings and provide incentives and penalties for achieving desirable targets) Stage of institutional development in implementing the Kyoto Protocol
	Agencies [25%]	Existence of EE agencies or RE associations (autonomous/departments within government) Index on employment, budget and project implementation capacity of agencies Index on functions of agencies: adviser to government, policy drafting, policy implementation and funding for projects
	Policies [25%]	Sustainable energy index: existence, comprehensiveness and specific targets of policies on SE Renewable energy index: existence of specific sectoral regulations for RE (renewables obligation, licensing for green generators, priority access to the grid) Climate Change Index: existence of policies (emissions targets and allocation plans)
	Projects [25%]	Index on project implementation capacity in EE, RE and CC Number of projects in EE, RE and CC Expenditure data on projects in EE, RE and CC

Table M.1.4.4
Rating transition challenges in the water and wastewater sector

Components	Criteria	Indicators
Market structure [50%]	Decentralisation and corporatisation [33%]	Extent of decentralisation (that is, transfer of control from the national to the municipal or regional level) Degree of corporatisation of local utilities to ensure financial discipline and improve service levels, including in smaller municipalities
	Commercialisation [33%]	Level of financial performance (no concern for financials/a few financially sound utilities in the country/solid financial performance is widespread) Level of commercial investment financing (only through grants/selective access to commercial finance/widespread access to commercial finance) Level of operational performance: progress in tackling cost control (labour restructuring, energy cost control, reduction of network losses), demand-side measures (metering and meter-based billing, e-ticketing), focus on quality of service
	Private sector participation and competition [33%]	Extent of legal framework and institutional capacity for PPP and competition Extent and form of private sector participation
Market-supporting institutions and policies [50%]	Tariff reform [50%]	Degree of tariff levels and setting (cost recovery, tariff methodologies) Existence of cross-subsidisation among consumers
	Contractual, institutional and regulatory development [50%]	Quality of the contractual relations between municipalities and utility operators Degree of regulatory authority capacity and risks of political interference in tariff-setting

Table M.1.4.5
Rating transition challenges in the telecommunications sector

Components	Criteria	Indicators
Market structure [50%]	Competition and private sector involvement: mobile telephony [40%]	Expansion of services to rural areas, proxied by % of population covered by mobile signal (World Bank, 2009) Mobile penetration rate (International Telecommunications Union, 2010) Percentage of private ownership in the incumbent mobile operator (Global Insight, BuddeCom, 2011) Market share of the largest mobile operator (Business Monitor International, Global Insight, BuddeCom, 2011) Mobile number portability (Business Monitor International, Global Insight, BuddeCom, 2011) Level of competition for mobile telephone services (World Bank, 2009)
	Competition and private sector involvement: fixed telephony [20%]	Fixed-line teledensity (International Telecommunications Union, 2010) Percentage of private ownership in fixed telephony incumbent (Business Monitor International, Global Insight, 2011) Market share of the largest fixed telephony provider (Global Insight, BuddeCom, 2011) Fixed number portability (Business Monitor International, Global Insight, 2011) Level of competition for international long distance services (World Bank, 2008) Mobile and fixed line subscribers per employee (World Bank, 2008)
	IT and high-tech markets [40%]	Internet users penetration rates (International Telecommunications Union, 2010) Broadband subscribers penetration rate (International Telecommunications Union, 2010) International internet bandwidth (World Bank, 2009) Level of competition for internet services (World Bank, 2009) Piracy rates (Business Software Alliance, 2010)
Market-supporting institutions and policies [50%]	Regulatory framework assessment [70%]	Market liberalisation (EBRD, 2012) Sector organisation and governance (EBRD, 2012) Market entry for wired networks & services (EBRD, 2012) Fees and taxation on electronic communication services (EBRD, 2012) Progress towards implementation of information society (EBRD, 2012)
	Preparedness of the country to develop a knowledge economy [25%]	Knowledge Economy Index: Economic incentives (World Bank, 2012) Knowledge Economy Index: Innovation (World Bank, 2012) Knowledge Economy Index: Education (World Bank, 2012)
	Freedom of media [5%]	Freedom of press (Reporters without borders, Freedom House, 2011 / 2012)

Infrastructure

Table M.1.4.1
Rating transition challenges in the railways sector

Components	Criteria	Indicators
Market structure [60%]	Restructuring through institutional separation and unbundling [33%]	Extent of corporatisation of railways Extent of unbundling of different business lines (freight and passenger operations) Extent of divestment of ancillary activities
	Private sector participation [33%]	Number of new private operators Extent of privatisation of freight operations and ancillary services
	Competition and liberalisation of network access [17%]	Extent of liberalisation of network access according to non-discriminatory principles Number of awards of licences to the private sector to operate services
	Institutional Development [17%]	Extent of introducing good corporate conducts (for example, Business Plans, IFRS, MIS and so on) Extent of introducing good corporate governance standards Extent of introducing best practice energy and/or energy efficiency accounting and management
Market-supporting institutions and policies [40%]	Tariff reform [50%]	Extent of freight tariff liberalisation Extent of introduction of public services obligations (PSO) Extent of cost recovery tariffs Extent of elimination of cross subsidies
	Development of an adequate legal framework [25%]	Presence of railways strategy and railways act
	Development of the regulatory framework [25%]	Establishment of a railway regulator to regulate the network access according to non-discriminatory principles Degree of independence of the regulator and level of accountability and transparency standards Level of technical capacity of the regulator to set retail tariffs and regulate access to the track

Table M.1.4.2
Rating transition challenges in the roads sector

Components	Criteria	Indicators
Market structure [60%]	Restructuring through institutional separation and unbundling [33%]	Degree of independence of the road management from the Ministry Extent of divestment of construction from road maintenance, engineering and design activities
	Private sector participation [33%]	Extent of private sector companies in construction and maintenance (BOT-type concessions, management or service contracts, other types of public-private partnerships (PPPs)) Degree of decentralisation of local roads responsibility
	Competition [17%]	Index on rules for open tendering of construction and maintenance contracts Index on practices for open tendering of construction and maintenance contracts Degree of privatisation of road construction and maintenance units
	Institutional Development [17%]	Extent of introducing good corporate conducts (for example, Business Plans, IFRS, MIS and so on) Extent of introducing good corporate governance standards Extent of introducing best practice energy and/or energy efficiency accounting and management
Market-supporting institutions and policies [40%]	Tariff reform [50%]	Level of road maintenance expenditures (that is, it should be sufficient to maintain the quality of state roads and motorways) Introduction of road user charges based on vehicles and fuel taxes Level of road user charges (that is, it should be sufficient to cover both operational and capital costs in full) Comprehensiveness index of road user charges (extent of accordance with road use, extent of incorporation of negative externalities, and so on)
	Development of an adequate legal framework [25%]	Existence and quality of road act and other road related legislation Extent and quality of PPP legislation
	Development of the regulatory framework [25%]	Extent that the regulatory and policy making functions are separated from the road administration functions Degree of regulatory capacity on roads safety availability, environmental aspects, pricing and competition for road construction and maintenance, etc

Table M.1.4.3
Rating transition challenges in the urban transport sector

Components	Criteria	Indicators
Market structure [50%]	Decentralisation and corporatisation [33%]	Extent of decentralisation (that is, transfer of control from the national to the municipal or regional level) Degree of corporatisation of local utilities to ensure financial discipline and improve service levels, including in smaller municipalities
	Commercialisation [33%]	Level of financial performance (no concern for financials/a few financially sound utilities in the country/solid financial performance is widespread) Level of commercial investment financing (only through grants/selective access to commercial finance/widespread access to commercial finance) Level of operational performance: progress in tackling cost control (labour restructuring, energy cost control, reduction of network losses), demand side measures (metering and meter-based billing, e-ticketing), focus on quality of service
	Private sector participation and competition [33%]	Extent of legal framework and institutional capacity for PPP and competition Extent and form of private sector participation
Market-supporting institutions and policies [50%]	Tariff reform [50%]	Degree of tariff levels and setting (cost recovery, tariff methodologies) Existence of cross-subsidisation among consumers
	Contractual, institutional and regulatory development [50%]	Quality of the contractual relations between municipalities and utility operators Degree of regulatory authority capacity and risks of political interference in tariff setting

Financial institutions

Table M.1.5.1
Rating transition challenges in the banking sector

Components	Criteria	Indicators
Market structure [35%]	Degree of competition [43%]	Asset share of five largest banks (EBRD Banking Survey 2012) Net interest margin, (EBRD Banking Survey 2012) Overhead cost to assets (EBRD Banking Survey 2012, official statistical sources)
	Ownership [29%]	Asset share of private banks (EBRD Banking Survey 2012, bankscope official statistical sources) Asset share of foreign banks (subjective discount relative to home/host coordination) (EBRD Banking Survey 2012 and latest EBRD assessment)
	Market penetration [14%]	Assets/GDP (EBRD Banking Survey 2012, official statistical sources)
	Resource mobilisation [14%]	Domestic credit to private sector/ total banking system's assets (EBRD Banking Survey 2012, official statistical sources)
Market-supporting institutions and policies [65%]	Development of adequate legal and regulatory framework [40%]	Existence of entry and exit restrictions (EBRD assessment, latest estimates) Adequate liquidity requirements (EBRD assessment, latest estimates) Other macro prudential measures (EBRD assessment, latest estimates) Supervisory coordination (home-host country) (EBRD assessment, latest estimates) Dynamic counter cyclical provisioning (EBRD assessment, latest estimates) Deposit insurance scheme with elements of private funding (EBRD assessment based on official sources, latest estimates)
	Enforcement of regulatory measures [50%]	Compliance with Basel Core principles (EBRD assessment, latest estimates) Unhedged FX lending to the private sector / total lending to the private sector (EBRD Banking Survey 2012, national statistical sources via CEIC, latest estimates) Banking strength – actual risk weighted capital to assets ratio (IMF, National Sources) Sophistication of banking activities and instruments (EBRD assessment, latest estimates) Deposits to GDP (EBRD Banking Survey, 2012, official statistical sources) Non-performing loans (IMF, EBRD Banking Survey 2012, official statistical sources)
	Corporate governance and business standards [10%]	Proportion of banks which have good corporate governance practices (EBRD assessment, latest estimates)

Table M.1.5.2
Rating transition challenges in the insurance and other financial services sector

Components	Criteria	Indicators
Market structure [45%]	Market penetration [60%]	Insurance premia (% of GDP) (National Insurance Associations, UBS, World Bank, EBRD, latest available) Life insurance premia (% of GDP) (National Insurance Associations, UBS, World Bank, EBRD, latest available) Non- life insurance premia (% of GDP) (National Insurance Associations, UBS, World Bank, EBRD, latest available) Leasing portfolio (% of GDP) (Leaseurope, national statistical sources, latest available) Availability of insurance products (UBS and own EBRD assessments, latest estimates) Mortgage debt/GDP (EBRD Banking Survey 2012) Type of pension system (Pillar I, II, III) (Axco) Pension fund assets/GDP (Axco, Renaissance Capital, other official sources, latest available)
	Competition [10%]	Market share of top 3 insurance companies (Axco, EBRD, latest available)
	Private sector involvement [10%]	Share of private insurance funds in total insurance premia (UBS, national authorities, EBRD, latest available)
	Development of skills [20%]	Skills in the insurance industry (UBS and own EBRD assessments, latest estimates)
	Market-supporting institutions and policies [55%]	Development of adequate legal and regulatory framework [88%]
Business standards [12%]		AIS member (International Association of Insurance Supervisors- IAIS) Internationally accredited actuarial body (official sources)

Table M.1.5.3
Rating transition challenges in the capital markets sector

Components	Criteria	Indicators
Market structure [40%]	Market penetration [50%]	Stock market capitalisation/GDP (World Bank, FESE, FEAS, national stock exchanges, 2011) Number of listed companies (World Bank, FESE, FEAS, official statistical sources, 2011) Securities (bonds and stocks) traded as % of GDP (World Bank, FEAS, ASEA, official statistical sources, 2011)
	Market infrastructure and liquidity (50%)	Money Market Index (EBRD 2010 Survey) Government Bond Index (EBRD 2010 Survey) Turnover ratio (World Bank, FEAS)
Market-supporting institutions and policies [60%]	Development of adequate legal and regulatory framework (100%)	Quality of securities market legislation (EBRD Legal Transition Survey, 2007) Effectiveness of securities market legislation (EBRD Legal Transition Survey, 2007)

Table M.1.5.4
Rating transition challenges in the private equity sector

Components	Criteria	Indicators
Market structure [50%]	Competition [35%]	Effective number of fund managers per thousand companies (Company websites, Prequin, EMPEA, latest available)
	Market penetration [65%]	Scope of fund type/strategy (EMPEA, Prequin, Mergermarket and EVCA, EBRD estimates, latest available) Active PE capital as % of GDP (EMPEA, Prequin, Mergermarket and EVCA, EBRD estimates, latest available) PE capital available for investment as % of GDP (EMPEA, Prequin, Mergermarket and EVCA, EBRD estimates, latest available)
Market-supporting institutions and policies [50%]	Development of adequate legal and regulatory framework [70%]	Barriers to institutional investor participation (EBRD, latest estimates) Quality of securities market legislation (EBRD Legal Transition Survey, 2007) Effectiveness of securities market legislation (EBRD Legal Transition Survey, 2007)
	Corporate governance [30%]	Effective framework (EBRD Corporate Governance Legislation Assessment, 2007) Rights and role of shareholders (EBRD Corporate Governance Legislation Assessment, 2007) Equitable treatment of shareholders (EBRD Corporate Governance Legislation Assessment, 2007) Responsibilities of board (EBRD Corporate Governance Legislation Assessment, 2007) Disclosure and transparency (EBRD Corporate Governance Legislation Assessment, 2007)

Table M.1.5.5
Rating transition challenges in the MSME finance sector

Components	Criteria		Indicators
Market structure [50%]	Non-banking financing [10%]		Leasing (respective ATC score) Private equity (respective ATC score) Capital Markets (respective ATC score)
	Banking financing [90%]	Competition Access to bank lending Skills	Competition in banking (respective ATC score) Interest margin between bank lending to SMEs and large corporates (short-term and long-term) Share of SME lending to total lending/ weighted by distance of domestic credit to GDP to that in EU area Outreach of commercial banks (branches per 100,000 adults) Existence of Specialised SME department in banks (Internal EBRD survey 2012) Extent of use of SME lending methodologies (Internal EBRD survey 2012) Presence of trained loan officers in SME lending (Internal EBRD survey 2012)
Market-supporting institutions and policies [50%]	Development of adequate legal framework [50%]		Ability to offer and take security over immovable property (cadastre) Credit information services Registration system for movable assets - Ability to offer and take non-possessory security over movable property Collateral and provisioning regulatory requirements Enforcing secured creditor rights

COUNTRY TRANSITION INDICATORS

(see Table 1.2 on page 12)

The country transition indicators in Chapter 1 reflect the judgement of the EBRD's Office of the Chief Economist about country-specific progress in transition.

The scores range from 1 to 4+ and are based on a classification system that was originally developed in the 1994 Transition Report, but has been refined and amended in subsequent Reports.

LARGE-SCALE PRIVATISATION

- 1 Little private ownership.
- 2 Comprehensive scheme almost ready for implementation; some sales completed.
- 3 More than 25 per cent of large-scale enterprise assets in private hands or in the process of being privatised (with the process having reached a stage at which the state has effectively ceded its ownership rights), but possibly with major unresolved issues regarding corporate governance.
- 4 More than 50 per cent of state-owned enterprise and farm assets in private ownership and significant progress with corporate governance of these enterprises.
- 4+ Standards and performance typical of advanced industrial economies: more than 75 per cent of enterprise assets in private ownership with effective corporate governance.

SMALL-SCALE PRIVATISATION

- 1 Little progress.
- 2 Substantial share privatised.
- 3 Comprehensive programme almost completed.
- 4 Complete privatisation of small companies with tradeable ownership rights.
- 4+ Standards and performance typical of advanced industrial economies: no state ownership of small enterprises; effective tradeability of land.

GOVERNANCE AND ENTERPRISE RESTRUCTURING

- 1 Soft budget constraints (lax credit and subsidy policies weakening financial discipline at the enterprise level); few other reforms to promote corporate governance.
- 2 Moderately tight credit and subsidy policy, but weak enforcement of bankruptcy legislation and little action taken to strengthen competition and corporate governance.
- 3 Significant and sustained actions to harden budget constraints and to promote corporate governance effectively (for example, privatisation combined with tight credit and subsidy policies and/or enforcement of bankruptcy legislation).
- 4 Substantial improvement in corporate governance and significant new investment at the enterprise level, including minority holdings by financial investors.
- 4+ Standards and performance typical of advanced industrial economies: effective corporate control exercised through domestic financial institutions and markets, fostering market-driven restructuring.

PRICE LIBERALISATION

- 1 Most prices formally controlled by the government.
- 2 Some lifting of price administration; state procurement at non-market prices for the majority of product categories.
- 3 Significant progress on price liberalisation, but state procurement at non-market prices remains substantial.
- 4 Comprehensive price liberalisation; state procurement at non-market prices largely phased out; only a small number of administered prices remain.
- 4+ Standards and performance typical of advanced industrial economies: complete price liberalisation with no price control outside housing, transport and natural monopolies.

TRADE AND FOREIGN EXCHANGE SYSTEM

- 1 Widespread import and/or export controls or very limited legitimate access to foreign exchange.
- 2 Some liberalisation of import and/or export controls; almost full current account convertibility in principle, but with a foreign exchange regime that is not fully transparent (possibly with multiple exchange rates).
- 3 Removal of almost all quantitative and administrative import and export restrictions; almost full current account convertibility.
- 4 Removal of all quantitative and administrative import and export restrictions (apart from agriculture) and all significant export tariffs; insignificant direct involvement in exports and imports by ministries and state-owned trading companies; no major non-uniformity of customs duties for non-agricultural goods and services; full and current account convertibility.
- 4+ Standards and performance norms of advanced industrial economies: removal of most tariff barriers; membership in WTO.

COMPETITION POLICY

- 1 No competition legislation and institutions.
- 2 Competition policy legislation and institutions set up; some reduction of entry restrictions or enforcement action on dominant firms.
- 3 Some enforcement actions to reduce abuse of market power and to promote a competitive environment, including break-ups of dominant conglomerates; substantial reduction of entry restrictions.
- 4 Significant enforcement actions to reduce abuse of market power and to promote a competitive environment.
- 4+ Standards and performance typical of advanced industrial economies: effective enforcement of competition policy; unrestricted entry to most markets.

This *Transition Report* was prepared by the Office of the Chief Economist (OCE) of the EBRD, under the general direction of Erik Berglof. It also includes a contribution from the Office of the General Counsel (Annex 1.2).

This year's editors were Jeromin Zettelmeyer, Franto Ricka and Peter Sanfey.

The writing teams for the chapters, boxes and annexes comprised:

Chapter 1

Written by Heike Harmgart, Hanan Morsy, Peter Sanfey and Nafez Zouk.

Annex 1.1 was prepared by Katrin Weissenberg, based on assessments prepared by OCE sector economists. **Annex 1.2** was prepared by Alan Colman.

Chapter 2

Written by Jonathan Lehne and Franto Ricka, with inputs from Heike Harmgart, Hannah Levinger and Hoda Youssef and with research support from Marina Kaloumenou, Beatriz Perez and Cecilia Rolander.

Box 2.1 was prepared by Jonathan Lehne.

Chapter 3

Written by Jeromin Zettelmeyer and Ralph de Haas, with inputs from Alexander Lehmann, Piroska M. Nagy and Peter Tabak and research support from Krisztina Gyovai, Jonathan Lehne and Marek Waskiewicz.

Box 3.1 was prepared by Jonathan Lehne, **Box 3.2** by Ralph de Haas, **Box 3.3** by Alexander Lehmann, **Box 3.4** by Peter Tabak and Marek Waskiewicz, **Box 3.5** by Alexander Lehmann and **Box 3.6** by Achim Dübel.

Comments from and discussions with Bas Bakker, Katia D'Hulster, Achim Dübel, Christoph Kligen, Beatrice Weder di Mauro, Stefan Nyberg, Nicolas Véron and the European Commission are gratefully acknowledged.

Chapter 4

Written by Zsoka Koczan and Alexander Plekhanov, with contributions from Veronika Zavacka.

Boxes 4.1, 4.2, 4.3 and **4.5** were prepared by Zsoka Koczan.

Box 4.4 was prepared by Zsoka Koczan, Alexander Plekhanov and Veronika Zavacka.

The country assessments were prepared by the regional economists of the Office of the Chief Economist and edited by Peter Sanfey. Piroska M. Nagy provided comments and general guidance and Marina Kaloumenou data support. The main authors were:

- Central Europe and the Baltic states (excluding Croatia): Alexander Lehmann, assisted by Marek Waskiewicz.
- South-eastern Europe and Croatia: Peter Sanfey, assisted by Marija Kuzmanović.
- Eastern Europe and Caucasus: Alexander Pivovarsky, assisted by Asset Irgaliev.
- Russia: Nienke Oomes, assisted by Asel Isakova.
- Turkey: Heike Harmgart, assisted by Nafez Zouk.
- Central Asia: Alexander Plekhanov, assisted by Asel Isakova.
- Southern and eastern Mediterranean: Heike Harmgart and Hanan Morsy, assisted by Nafez Zouk.

Editorial and production guidance was provided by Dan Kelly, Amanda Railson, Jane Ross, Natasha Treloar and Bryan Whitford in the EBRD Communications department and by Richard German and Matthew Hart.

The Report was designed and print managed by Andy Ritchie and Julia Aleksieieva, with project management by Clare Ritchie from bn1creative.

The Report benefited from comments and feedback from the EBRD Board of Directors and their authorities, the EBRD Executive Committee, the EBRD's Resident Offices and Country Teams, and staff from the European Commission, International Monetary Fund and the World Bank.