5 STRUCTURAL REFORM

This section of the report presents updated transition scores for the economies in the EBRD regions and discusses the reforms that have been carried out in those economies over the last year. Successfully implementing structural reforms is not an easy task at the best of times, and it is even more difficult in times of crisis, when policymakers' focus shifts from addressing longer-term issues to tackling immediate challenges. In the EBRD regions, the ongoing coronavirus pandemic has probably affected governments' ability to implement further structural reforms in the short term. At the same time, however, the economic and social fallout from the pandemic has emphasised the need for continued structural reform measures across the EBRD regions in order to ensure that economies recover quickly and become more resilient to external shocks.

Introduction

Governments across the EBRD regions have implemented a wide range of measures in response to the coronavirus pandemic. Those actions, which have been unprecedented in terms of their scope and the speed of their implementation, have ranged from the provision of liquidity to the banking system and moratoriums on loan repayment to various tax breaks for businesses and direct payments for households. With policymakers having so many urgent health and economic issues to deal with, the likelihood of structural reforms being postponed – or abandoned altogether – has increased. However, while it might well be more difficult to implement structural reforms during a crisis (see Box S.1), carrying out essential reforms has the potential to facilitate a stronger economic recovery and make the economy more resilient to future shocks.

As this section shows, many countries have continued to carry out essential structural reforms over the last year, with successful initiatives including the upgrading of governance frameworks for state-owned enterprises, the strengthening of anti-corruption policies, the digitisation of government services, the expansion of technical and vocational education and training (TVET) programmes, and a number of effective public-private partnerships. Most of those reforms were initiated before the onset of the pandemic, but in most cases their implementation has continued despite the challenging environment. However, some measures have been delayed. In Kazakhstan, Romania and Ukraine, for instance, the privatisation of major assets has been postponed on account of the adverse economic outlook and the potential disruption to the operations of state enterprises.

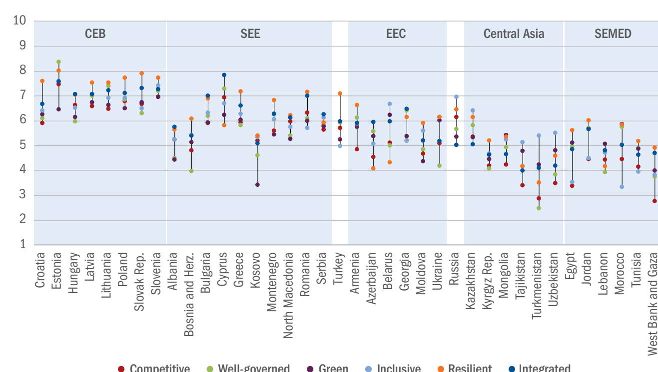
The assessment in this section focuses on six key qualities of a sustainable market economy, looking at whether economies are competitive, well-governed, green, inclusive, resilient and integrated. Analysis of changes to "assessment of transition qualities" (ATQ) scores over the last year points to a number of specific developments across the EBRD regions. Across those six areas, increases in scores have been observed primarily in eastern Europe and the Caucasus (EEC), south-eastern Europe (SEE) and Central Asia. At the same time, declines have tended to be moderate and have been concentrated in scores for green transition and governance, and have been seen primarily in central Europe and the Baltic states (CEB) and the SEE region (see Table S.1 and Chart S.1).

Competitiveness scores have increased modestly across economies over the last year. In several countries, consistent improvements in the business climate over a number of years have resulted in steady improvements in competitiveness scores over a longer period. Over the period 2016-20, for example, economies have made progress in terms of making it easier to start a business (Montenegro, Tunisia and Turkey), resolving insolvencies (Azerbaijan, Georgia, Kosovo and Morocco) and the overall ease of doing business (Azerbaijan, Jordan and Kosovo).

However, developments in terms of **governance** scores have been mixed, with both increases and declines being observed over the last year. Notable increases have been recorded in Armenia, Azerbaijan and Tajikistan, while scores have declined in Albania, Mongolia, Poland, Turkey and Ukraine. Over the period 2016-20, the largest increases have been observed in Armenia, Azerbaijan, Cyprus, Egypt, Montenegro and Morocco, while scores have declined in Albania, Bosnia and Herzegovina, Mongolia, North Macedonia and Poland. Improvements have been driven mainly by progress in the areas of contract enforcement, compliance with standards aimed at tackling money laundering and the financing of terrorism (AML/CFT standards), protection of intellectual property, and corporate transparency and disclosure. In Albania, Bosnia and Herzegovina, Mongolia, North Macedonia and Poland, falling scores have been caused mainly by gradual declines for indicators measuring the effectiveness of courts, informality and the perception of corruption, and frameworks for challenging regulations.

CHART S.1.

ATQ scores for six qualities of a sustainable market economy, 2020



Source: EBRD.
Note: Scores range from 1 to 10, where 10 denotes the synthetic frontier for each quality.

TABLE S.1.

ATQ scores for six qualities of a sustainable market economy

	Competitive			Well-governed			Green			Inclusive			Resilient			Integrated		
	2020	2019	2016	**2020**	2019	2016	**2020**	2019	2016	**2020**	2019	2016	**2020**	2019	2016	**2020**	2019	2016
Central Europe and the Baltic states																		
Croatia	5.91	5.85	5.84	6.10	6.04	6.21	6.27	6.40	6.18	6.41	6.36	6.49	7.60	7.49	7.27	6.67	6.59	6.68
Estonia	7.48	7.45	7.42	8.38	8.39	8.41	6.45	6.45	6.68	7.61	7.58	7.58	8.03	7.94	7.86	7.57	7.57	7.63
Hungary	6.64	6.58	6.48	5.98	5.96	5.69	6.14	6.27	6.39	6.53	6.54	6.69	7.06	7.14	6.76	7.08	7.18	7.73
Latvia	6.58	6.49	6.45	7.00	6.95	6.77	6.74	6.87	6.51	7.07	6.99	7.16	7.53	7.50	7.39	7.08	7.16	7.53
Lithuania	6.49	6.38	6.48	7.41	7.17	7.21	6.63	6.75	6.45	6.91	6.83	6.83	7.53	7.37	7.46	7.23	7.20	7.35
Poland	6.78	6.81	6.67	6.86	7.00	7.28	6.51	6.51	6.65	6.93	6.89	6.65	7.74	7.71	7.92	7.11	7.01	6.93
Slovak Republic	6.67	6.61	6.59	6.31	6.34	6.14	6.74	6.87	7.02	6.51	6.50	6.39	7.90	7.92	7.80	7.32	7.31	7.56
Slovenia	6.96	6.91	6.84	7.20	7.09	7.08	6.97	7.11	6.81	7.43	7.42	7.32	7.73	7.69	7.72	7.28	7.38	7.32
South-eastern Europe																		
Albania	5.25	5.18	4.88	4.50	5.16	5.09	4.43	4.43	4.50	5.25	5.26	5.31	5.65	5.44	5.15	5.76	5.85	5.57
Bosnia and Herzegovina	4.80	4.72	4.88	3.98	4.12	4.49	5.14	5.15	4.95	5.43	5.41	5.21	6.09	6.08	5.84	5.41	5.35	5.19
Bulgaria	5.90	5.82	5.72	6.19	5.97	5.84	5.93	6.06	5.85	6.32	6.27	6.19	6.89	6.82	6.81	7.01	7.02	7.06
Cyprus	6.94	6.90	6.85	7.30	7.34	6.84	6.24	6.36	6.07	6.69	6.65	6.62	5.82	5.71	5.09	7.85	7.82	7.60
Greece	5.94	5.90	5.95	5.82	5.64	5.54	6.03	6.16	6.18	6.28	6.19	6.13	7.19	7.04	6.85	6.61	6.59	6.16
Kosovo	5.21	5.13	4.49	4.61	4.75	4.74	3.41	3.41	3.41	5.34	5.33	5.33	5.41	5.21	5.09	5.10	4.97	4.74
Montenegro	5.60	5.56	5.28	6.27	6.11	5.86	5.44	5.45	5.08	6.07	6.06	5.99	6.83	6.45	6.33	6.29	6.18	5.84
North Macedonia	5.98	5.94	5.74	5.40	5.43	5.71	5.27	5.27	5.03	5.76	5.74	5.75	6.21	5.96	5.63	6.13	6.07	5.80
Romania	6.32	6.29	6.19	6.10	6.17	5.89	5.99	6.13	5.88	5.70	5.71	5.64	7.17	7.19	7.20	7.01	7.00	6.88
Serbia	5.64	5.54	5.30	5.84	5.77	5.66	5.78	5.79	5.55	6.13	6.06	6.33	5.94	5.85	5.74	6.25	6.24	6.26
Turkey	5.71	5.51	5.53	5.92	6.08	6.01	5.24	5.25	5.32	4.99	4.95	4.94	7.09	7.04	7.13	5.98	5.87	6.00
Eastern Europe and the Caucasus																		
Armenia	4.84	4.76	4.49	6.13	5.80	5.68	5.76	5.75	5.51	5.89	5.94	5.78	6.63	6.52	6.22	5.91	5.80	5.45
Azerbaijan	4.54	4.30	4.14	5.58	5.31	5.04	5.37	5.37	5.14	5.07	4.93	4.73	4.09	4.00	4.11	5.95	5.85	5.61
Belarus	5.11	5.04	4.56	5.01	4.86	4.63	6.24	6.24	6.20	6.68	6.68	6.69	4.32	4.36	3.62	5.97	5.94	5.59
Georgia	5.21	5.15	4.73	6.42	6.45	6.46	5.38	5.37	5.16	5.20	5.17	5.08	6.16	6.19	5.84	6.49	6.48	6.17
Moldova	4.67	4.58	4.64	4.84	4.92	4.49	4.36	4.36	4.21	5.61	5.51	5.68	5.90	5.87	5.30	5.21	5.21	5.18
Ukraine	5.10	5.03	4.99	4.18	4.39	4.08	6.01	6.01	5.75	6.14	6.17	6.20	6.14	5.80	4.92	5.19	4.99	4.98
Russia	6.16	6.11	5.57	5.66	5.65	5.35	5.35	5.10	5.10	6.97	6.96	6.74	6.45	6.40	6.44	5.02	5.06	5.00
Central Asia																		
Kazakhstan	5.35	5.26	5.14	5.81	5.64	5.53	5.34	5.34	4.85	6.42	6.38	6.37	6.14	6.04	6.06	5.04	4.99	5.00
Kyrgyz Republic	4.19	4.00	3.85	4.08	4.05	3.99	4.45	4.44	4.50	4.67	4.56	4.83	5.20	5.19	5.14	4.64	4.67	4.56
Mongolia	4.24	4.20	4.09	4.94	5.07	5.28	5.42	5.41	5.39	5.25	5.12	5.39	5.36	5.40	5.26	4.66	4.76	5.13
Tajikistan	3.40	3.23	3.16	4.17	3.81	3.85	4.78	4.78	4.58	5.13	5.02	4.67	4.16	3.89	3.43	3.99	3.72	3.42
Turkmenistan	2.87	2.73	2.80	2.48	2.43	2.43	4.23	4.23	4.10	5.39	5.49	5.29	3.51	3.29	3.41	4.11	4.08	4.22
Uzbekistan	3.48	3.42	3.36	3.84	3.81	3.76	4.80	4.79	3.93	5.51	5.50	5.60	4.58	3.98	3.84	4.18	4.06	4.06
Southern and eastern Mediterranean																		
Egypt	3.38	3.18	3.35	4.95	4.71	4.42	5.11	5.10	4.78	3.54	3.56	3.62	5.62	5.31	5.12	4.85	4.78	4.43
Jordan	4.45	4.15	4.11	5.72	5.62	5.65	5.66	5.78	5.84	4.49	4.39	4.49	6.01	6.04	5.74	5.67	5.66	5.92
Lebanon	4.44	4.43	4.43	3.92	3.96	3.97	5.07	5.08	5.09	4.71	4.71	4.86	4.17	4.51	4.20	4.80	4.82	4.94
Morocco	4.45	4.17	4.09	5.76	5.58	5.33	5.87	5.86	5.90	3.33	3.18	3.45	5.85	5.82	5.84	5.02	5.07	5.07
Tunisia	4.15	4.02	4.13	4.90	4.96	4.95	4.88	4.88	4.68	3.94	3.85	4.06	5.17	5.09	4.76	4.64	4.58	4.38
West Bank and Gaza	2.75	2.67	2.44	3.76	3.64	3.60	4.00	4.00	4.02	3.82	3.88	4.00	4.91	4.98	4.80	4.70	4.60	4.54

Source: EBRD.

Note: Scores range from 1 to 10, where 10 represents a synthetic frontier corresponding to the standards of a sustainable market economy. Scores for years prior to 2020 have been updated following methodological changes, so they may differ from those published in the *Transition Report 2019-20*. Owing to lags in the availability of underlying data, ATQ scores for 2020 and 2019 may not fully correspond to that calendar year.

Green scores have not generally seen significant changes over the last year – with the sole exception of Russia, where a notable increase has been observed as a result of the ratification of the 2015 Paris Agreement on climate change in September 2019. Over the period 2016-20, green scores have increased significantly in Egypt, Kazakhstan, Montenegro and Uzbekistan.

Inclusion scores have increased modestly over the last year across a number of economies. Over the period 2016-20, the strongest increases in scores for the gender component of the inclusion index have been seen in Bosnia and Herzegovina, Poland and Tajikistan, driven by increases in women's shares of total managerial positions and total employers, as well as improvements in women's financial inclusion. At the same time, gender scores have declined in the Kyrgyz Republic, Moldova, and the West Bank and Gaza as a result of the gender gap in terms of saving and borrowing rates, as well as declines in women's share of total employers. Meanwhile, scores for the youth component of the inclusion index have increased in Armenia, Moldova and Tajikistan on account of a rapid increase in the number of bank accounts held by young people.

ATQ scores for **energy resilience** have increased in Montenegro, Tajikistan, Ukraine and Uzbekistan over the last year as a result of improvements in the regulation of the power sector and progress with the restructuring of the energy sector. Meanwhile, the largest increases in **financial resilience** scores have been observed in Egypt, Kosovo, Montenegro, North Macedonia, Ukraine and Uzbekistan, driven by improved capital adequacy ratios, improvements to the funding structure of the banking sector, and advances in respect of risk management and corporate governance frameworks. Lebanon, on the other hand, has seen its score fall as a result of significant vulnerabilities in its financial sector. Over the period 2016-20, financial resilience scores have improved in a number of countries (including Albania, Belarus, Cyprus, Moldova, North Macedonia and Ukraine).

Improvements in **integration** scores have been observed in a few economies over the last year (including Kosovo, Tajikistan, Ukraine and Uzbekistan). Those increases have been driven mainly by reductions in the cost of cross border trading.

THE UZBEK GOVERNMENT PLANS TO ABOLISH
70
TYPES OF BUSINESS LICENCE AND
35
TYPES OF PERMIT AS OF 2021

Competitive

ATQ scores for competitiveness have increased modestly over the last year, being driven primarily by gradual improvements in indicators measuring the ease of doing business. The largest increases have been observed in the southern and eastern Mediterranean (Egypt, Jordan and Morocco) and Central Asia (the Kyrgyz Republic and Tajikistan), driven by improvements in the ease of doing business and the quality of workers' skills. Turkey and Azerbaijan have also seen their scores rise, with increases in those countries being driven by declines in the cost of starting a business and improvements to their arrangements for resolving insolvencies. No significant declines have been observed over the last year.

Over the period 2016-20, economies have made significant progress in terms of the cost of starting a business (Montenegro, Tunisia and Turkey), the arrangements for resolving insolvencies (Azerbaijan, Georgia, Kosovo and Morocco) and the overall ease of doing business (Azerbaijan, Jordan and Kosovo). The largest increases in competitiveness scores over that period have been seen in Azerbaijan, Belarus, Georgia and Kosovo (reflecting improvements in the ease of doing business), as well as in Russia (reflecting an increase in credit to the private sector, improvements in the performance of logistics, trade-enabling infrastructure, and reductions in subsidies and other transfers).

Despite the pandemic, many countries have carried on with their reform efforts, which should support the further structural transformation of their economies and aid their recovery following the Covid-19 crisis. Several countries, for example, have pushed ahead with reforms to their agricultural sectors. In March 2020, for instance, Ukraine overturned a ban on the sale of private farmland with effect from 2021. While some restrictions on the sale of agricultural land remain in place (with private individuals able to buy land from 2021, but legal entities unable to do so until 2024), this still represents an important step in terms of opening up the country's farmland market and making the sector a more attractive destination for investment. Uzbekistan, meanwhile, launched agricultural reforms in October 2019, after adopting a new development strategy that seeks to gradually end the state's close control over cotton and wheat production and introduce market-based pricing mechanisms. Those reforms should support the expansion of private enterprise in the agricultural sector (which remains heavily dominated by the state) and improve its competitiveness.

Several countries have implemented reforms aimed at making it easier to do business, with particular emphasis on SMEs. For example, following its establishment of the Agency for Support of SMEs in 2017, the government of Azerbaijan opened its first House of SMEs in March 2020 in the north of the country – the first in a series of one-stop shops providing a range of government services to SMEs in a single location. Similarly, Jordan, Kazakhstan and Uzbekistan have carried out

substantial reforms over the last year with the aim of making it easier to do business, which has resulted in significant improvements in their Doing Business rankings. Those reforms have ranged from the enhancement of the countries' tax regimes to reductions in the number of checks and control measures. The Uzbek government also plans to abolish 70 types of business licence and 35 types of permit from 2021, with a large number of business activities expected to move to a notification-only basis. Uzbekistan has also embarked on a reform of its competition policy framework with the support of international financial institutions (including the EBRD), increasing the autonomy of the country's competition authority (by making it accountable to parliament, rather than the government) and giving that authority broader powers to investigate and prevent anti-competitive behaviour.

A number of countries have carried out reforms focusing on state-owned enterprises, although the ongoing pandemic has affected the pace and timing of such measures. Kazakhstan, for instance, has continued to implement its 2016-20 privatisation programme, but the Covid-19 crisis has resulted in delays to the initial public offerings (IPOs) of some large state enterprises (including the national oil and gas company, KazMunayGas, and the country's flag carrier, Air Astana). IPOs have also been delayed in Romania after the country's parliament approved a law in August 2020 stipulating that publicly owned shares in state enterprises could not be sold for the next two years. That law also allows the state to acquire stakes in companies operating in a number of specific areas, including the manufacturing of medical products, energy, transport, and information and communication technology. Uzbekistan has also pushed ahead with its privatisation programme, making state assets available for purchase in a range of industries (including the banking sector) in 2020. Ukraine, meanwhile, has taken a number of initial steps in its efforts to privatise state assets. In October 2019, for example, the Ukrainian government lifted restrictions preventing the privatisation of more than 1,000 state enterprises, and ownership of more than 500 firms was transferred to the state property fund with a view to facilitating privatisation. However, in September 2020 the Ukrainian parliament put the sale of large state assets on hold for the duration of the pandemic (albeit preparations for the privatisation of such assets are continuing). Similarly, Serbia has proceeded with the privatisation of Komercijalna banka, the country's third-largest bank. Following its purchase in November 2019 of a 34.6 per cent stake held by international investors, the Serbian government sold its entire stake in the bank (83.2 per cent) to Slovenian bank NLB in February 2020. That transaction is expected to be completed by the end of 2020.

IN UKRAINE, FORMAL OWNERSHIP OF MORE THAN 500 STATE-OWNED ENTERPRISES WAS TRANSFERRED TO THE STATE PROPERTY FUND IN OCTOBER 2019 IN PREPARATION FOR PRIVATISATION

Well-governed

Effective governance will be crucial in order to deliver a green, resilient and inclusive recovery across the EBRD regions. The various subcomponents of the governance index suggest that governments in those regions still need to do more to improve communication with their citizens, make public spending more transparent and strengthen their capacity for sound policymaking. At the same time, the crisis has placed greater emphasis on governments' ability to make sound policy decisions, mobilise the necessary resources and coordinate actions across multiple stakeholders (both at domestic level and internationally).

Developments in governance scores have been mixed over the last year, with both increases and declines being observed. Notable increases have been recorded in Armenia, Azerbaijan and Tajikistan on account of improvements in frameworks for challenging regulations, as well as transparency and disclosure (with Armenia and Tajikistan also seeing improvements in their compliance with AML/CFT standards). At the same time, ATQ scores for governance have declined in Albania, Mongolia, Poland, Turkey and Ukraine, with notable declines being observed for the effectiveness of courts (Albania, Bosnia and Herzegovina, Kosovo, Poland and Ukraine), and the perception of corruption and political stability (Albania, Mongolia, Poland, Turkey and Ukraine).

Over the period 2016-20, the largest increases have been observed in Armenia, Azerbaijan, Cyprus, Egypt, Montenegro and Morocco, driven by improvements in the enforcement of contracts, compliance with AML/CFT standards, protection of intellectual property, and transparency and disclosure. Meanwhile, scores have declined in Albania, Bosnia and Herzegovina, Mongolia, North Macedonia and Poland, driven by deterioration in indicators measuring the effectiveness of courts, informality, the perception of corruption and the framework for challenging regulations. Over the period 2016-20, scores for the effectiveness of courts and judicial

independence have declined in many countries. In contrast, scores for e-government, protection of property rights and enforcement of contracts have generally improved.

Many countries have continued to push ahead with governance-related reforms, particularly as regards anti-corruption policies, compliance with AML/CFT standards, the governance of state enterprises and the digitisation of government services. In May 2020, for example, Lebanon adopted a law aimed at combating corruption in the public sector and established a National Commission for Fighting Corruption. This follows a number of earlier initiatives (such as laws on access to information, the protection of whistle blowers, transparency in the oil and gas sectors, and illicit enrichment) and is a welcome step, given that widespread corruption remains a significant obstacle to the development of the private sector in that country. Uzbekistan, meanwhile, established a new anti-corruption agency in June 2020 with a mandate to implement anti-corruption control systems within the government and across state enterprises and state-owned banks. Effective implementation of those measures will be key if the initiative is to be a success. In October 2019, the Armenian government approved its anti-corruption strategy for 2019-22, which foresees the establishment of a single specialist agency for the detection and investigation of corruption-related crimes in 2021. In November 2019, Ukraine made illicit enrichment a crime again, following a ruling by the Constitutional Court in February 2019 which had overturned a law that was adopted in 2015. And in June 2020, Morocco approved a bill strengthening the role of its anti-corruption authority. At the same time, however, little progress has been made with the adoption of the country's proposed law on illicit enrichment.

Some countries have also made progress in terms of their compliance with AML standards and practices. In May 2020, the Mongolian government met the requirements set by the Financial Action Task Force (FATF) for removal from its "grey list", having been added to that list in October 2019 on account of several deficiencies in the country's AML procedures. Similarly, Bulgaria strengthened its AML framework in November 2019 by adopting the additional provisions contained in the EU's Fifth Anti-Money Laundering Directive. Among other things, those amendments increased the number of entities that are subject to AML standards and introduced enhanced due diligence requirements.

A number of countries have made progress with reforms focusing on the governance of state-owned enterprises. For example, Bulgaria's new law on public enterprises, which entered into force in October 2019, has increased transparency and independent decision-making at state-owned firms and has resulted in the country being declared compliant with the OECD's Guidelines on Corporate Governance of State-Owned Enterprises. That new law also provides for the establishment of an Agency for Public Enterprises and Control, which is expected to ensure stronger coordination of ownership functions and enhanced monitoring of state enterprises' performance. Similarly, Armenia has strengthened its reporting requirements for large enterprises (including state-owned firms) by adopting a law on mandatory audits and the publication of financial reports. Serbia, meanwhile, has made progress with the development of its state ownership policy, with that new policy expected to be adopted by the end of 2020. And in Azerbaijan, a holding company was set up in August 2020 to manage the state's portfolio of publicly owned enterprises. That represents a significant development, with the company seeking to increase the efficiency and transparency of the country's state-owned enterprises.

One important development – especially given the ongoing pandemic – is the increased attention that has been paid to the digitisation of government services in a number of countries. In Greece, for example, a digital services platform was launched following the onset of the pandemic, allowing a number of government services to be delivered online. In September 2020, the Greek government then announced further digitisation plans involving simplified arrangements for the registration of businesses and related services. Similarly, Moldova launched a one-stop electronic shop in March 2020, enabling firms to submit reports digitally and reducing the reporting burden on companies. In July 2020, the Moldovan authorities then announced more than 30 additional measures aimed at speeding up the digitisation of government services. In May 2020, the Tunisian government approved special provisions relating to the electronic transmission of data, giving electronic documents legal force and paving the way for the digitisation of public services. Tunisia has also launched a digital wallet scheme to facilitate payments and social support measures for its citizens. In December 2019, the North Macedonian government launched a dedicated electronic platform, providing more than 700 public services online by September 2020. And in March 2020, Turkmenistan adopted a law on electronic documents and digital services, laying the foundations for the digitisation of public services.

IN JULY 2020, THE MOLDOVAN AUTHORITIES ANNOUNCED MORE THAN 30 ADDITIONAL MEASURES AIMED AT SPEEDING UP THE DIGITISATION OF GOVERNMENT SERVICES

Green

Green scores have not generally seen significant changes over the last year – with the sole exception of Russia, where a notable increase has been observed as a result of the ratification of the 2015 Paris Agreement on climate change in September 2019. In several countries, however, downward revisions have been made to scores measuring the effectiveness of carbon-pricing mechanisms, with declines being recorded for Croatia, Jordan, Latvia, Romania, the Slovak Republic and Slovenia as a result of a recommended carbon price of US$ 40 being used as a benchmark in 2020 (up from US$ 10 previously).[1]

Over the period 2016-20, green scores have increased significantly in Egypt, Kazakhstan, Montenegro and Uzbekistan as a result of the ratification of GHG emission reduction commitments (Egypt, Kazakhstan and Uzbekistan), improved implementation of carbon pricing (Egypt and Kazakhstan), a reduction in fossil fuel subsidies (Uzbekistan) and an increase in the percentage of electricity that is produced using renewable sources (Montenegro).

Several countries have made progress with reforming their regulatory environment from the perspective of energy efficiency and green investment. Georgia, for example, has adopted new laws on energy efficiency and the energy performance of buildings by transposing the relevant EU directives. These new pieces of legislation should help the country to fulfil its emission reduction commitments, improve energy performance standards for buildings and reduce the economy's overall energy intensity. North Macedonia also adopted a comprehensive new law on energy efficiency in February 2020, paving the way for green investment and facilitating improvements in energy efficiency. Similarly, the Slovenian government unveiled a draft energy efficiency law in July 2020, which has yet to be adopted. Meanwhile, a new energy efficiency law in Uzbekistan, which was adopted in 2019, entered into force on 1 January 2020. That legislation sets mandatory energy efficiency standards for new buildings and restricts the use of energy-intensive lighting and industrial equipment. Moreover, after delay, Serbia has now adopted its National Emission Reduction Plan, strengthening its commitment to cutting emissions (particularly those produced by thermal power plants). And in Ukraine, operators of industrial equipment will, as of 2021, be required to monitor and report on their emissions in order to improve the country's monitoring framework for GHG emissions. This requirement should help Ukraine to align its GHG monitoring framework with EU legislation and facilitate the launch of a national emission trading system in the near future.

In 2020, the EU launched a Just Transition Mechanism for its member states (including those in the EBRD regions) in order to help ensure that the transition towards a climate-neutral economy takes place in a fair way. It is aiming to mobilise at least €150 billion over the period 2021-27 in the most affected subnational regions in order to address the socio-economic impact of that transition. It is expected that investment (which will be underpinned by the preparation of "territorial just transition plans") will support local employment opportunities in new sectors, offer reskilling opportunities for existing workers, and facilitate access to clean, affordable and secure energy.

IN DECEMBER 2019,THE NORTH MACEDONIAN GOVERNMENT LAUNCHED A DEDICATED ELECTRONIC PLATFORM, PROVIDING
MORE THAN
700
PUBLIC SERVICES ONLINE BY SEPTEMBER 2020

Inclusive

Overall, ATQ scores for inclusion have increased modestly over the last year across a number of economies. Notable increases have been seen in Mongolia and Morocco (on account of increases in the proportion of total employers that are women) and Azerbaijan (following improvements to the flexibility of hiring and firing for young people).

Over the period 2016-20, scores for the gender component of the inclusion index have improved most in Bosnia and Herzegovina, Poland and Tajikistan, driven by increases in women's shares of total managerial positions and total employers, as well as improvements in financial inclusion for women. At the same time, however, gender scores have declined over that period in the Kyrgyz Republic, Moldova, and the West Bank and Gaza, driven by the widening gender gap in terms of saving and borrowing rates and declines in women's share of total employers.

Over the same period, scores for the youth component of inclusion have improved in Armenia, Moldova and Tajikistan, reflecting a rapid increase in the number of bank accounts held by young people. Prior to the onset of the pandemic, youth unemployment was on a downward trend in many economies, especially in SEE and Western Balkans countries (such as Bosnia and Herzegovina, Cyprus, Greece and North Macedonia). The Covid-19 crisis may reverse that trend, given its strongly negative impact on youth employment opportunities.

A number of countries have pushed ahead with major reforms aimed at enhancing education and labour market

[1] Following its latest assessment, the High-Level Commission on Carbon Prices has recommended a carbon price range of US$ 40-80 in 2020, rising to US$ 50-100 by 2030.

outcomes (especially for young people) over the last year, with initiatives aimed at improving the provision of TVET programmes and making them more relevant to the labour market being particularly worthy of note. In Serbia, for example, the new law on dual education and training that was adopted in 2017 took effect in the 2019-20 academic year, with early results from participating TVET programmes indicating that students had increased exposure to workplace learning. In addition, Serbia also adopted a law on dual-study models in higher education in 2019. Similarly, many provisions of Poland's new law reforming the TVET system entered into force in 2019, improving cooperation between TVET providers and employers and introducing new qualifications and quality control mechanisms. In Jordan, meanwhile, a new Vocational and Technical Skills Development Commission was established in October 2019 under a new law on vocational and technical skills that was adopted in July 2019. That entity has been tasked with setting standards in terms of skills and leading the country's TVET sector through the establishment of sector skills councils (with the support of, and in cooperation with, the EBRD). In Romania and Croatia, the availability of dual-learning components of TVET programmes was expanded in the 2019-20 academic year following increased interest from employers, while Slovenia has adopted a new labour market law aimed at facilitating access to employment for older people and boosting social protection for the unemployed. Egypt, meanwhile, established its first sector skills council in 2019 (with support from the EBRD) in an attempt to institutionalise the private sector's role in the standardisation and development of skills.

Resilient

Energy

ATQ scores for energy resilience have remained unchanged in most economies over the last year, with the exception of increases in Montenegro, Tajikistan, Ukraine and Uzbekistan (as a result of improvements in regulation and progress with the restructuring of the power sector).

Those developments appear to be consistent with longer-term trends observed over the period 2016-20. For instance, scores for Ukraine and Uzbekistan have increased considerably over that period on account of continued efforts to improve the regulations governing the power sector. In particular, following a multi-year process supported by international financial institutions (including the EBRD), the Ukrainian state-owned gas company Naftogaz was unbundled in 2019 in line with the EU's Third Energy Package and a new gas transport company was created. It is expected that the unbundling of the main incumbent in the Ukrainian gas sector will pave the way for further liberalisation of the country's gas market.

Many other countries have reformed the regulatory framework governing the energy sector over the last year, which should contribute to increased energy resilience in the future. In October 2019, for example, Georgia took a significant step towards aligning its regulatory framework with EU energy legislation (the Third Energy Package) and the Treaty Establishing the Energy Community by adopting the Law on Energy and Water Supply and the Law on Renewable Energy Sources. Under those laws, which lay the foundations for the development of a competitive power market through the unbundling of transmission and distribution system operators, renewable energy is to account for 35 per cent of total energy consumption by 2030. In May 2020, Albania amended its Power Sector Law with a view to improving compliance with EU energy legislation and allowing for the effective unbundling of its distribution system operator. Bulgaria has amended its Energy Law, taking steps towards further liberalisation of the natural gas market (introducing a framework for gas exchange, as well as rules on gas balancing and the organisation of trading points). In a significant development, the Romanian government has announced the cancellation of several measures that were introduced in 2019 through an emergency order that undermined the functioning of Romania's open energy markets, with price caps in the electricity and gas markets expected to be phased out by the end of 2021. In Tajikistan, meanwhile, a new regulatory unit was established for the electricity sector in 2019 (supported by the EBRD's ongoing policy engagement) in order to improve the regulatory environment in that sector and lay the foundations for the creation of a fully independent regulator. Tajikistan has also made progress with the unbundling of the integrated state-owned electricity sector operator, Barqi Tojik, by creating two separate companies responsible for the transmission and distribution segments of the power network, though full unbundling has yet to be completed in that sector.

UNDER NEW GEORGIAN LEGISLATION, RENEWABLE ENERGY IS TO ACCOUNT FOR 35% OF TOTAL ENERGY CONSUMPTION BY 2030

Several economies have taken important first steps towards improving network integration. In Montenegro, for instance, a 600 MW electricity interconnector linking the country to the Italian power network began operating in November 2019. That project should allow the Western Balkans countries to diversify their electricity supply and strengthen the reliability of the regional electricity grid. In a related development, a national electricity market operator, MEMO Ltd, began operating in North Macedonia in October 2019. That operator has been tasked with establishing a day-ahead electricity market and supporting the implementation of the country's market-coupling project with Albania and Bulgaria.

Financial institutions

On balance, increases in financial resilience scores have outnumbered declines over the last year. The largest increases have been observed in Egypt, Kosovo, Montenegro, North Macedonia, Ukraine and Uzbekistan, driven by improved capital adequacy ratios, improvements to the funding structure of the banking sector, and advances in respect of risk management and corporate governance frameworks. However, Lebanon's financial resilience score has declined on account of significant vulnerabilities observed in its financial sector.

Several countries (including Albania, Belarus, Cyprus, North Macedonia and Ukraine) have seen consistent increases in their financial resilience scores over the period 2016-20, driven by improvements to the funding structure of the banking sector (as measured by the loan-to-deposit ratio), declines in NPLs as a percentage of total loans, increased competition, and improvements to supervisory and regulatory frameworks.

Several economies have pushed ahead with measures reforming the regulatory framework for the financial sector over the last year, in some cases even after the onset of the pandemic. In February 2020, for instance, the National Bank of Moldova made a number of improvements to the country's supervisory framework and ended the special administration regime at Moldindconbank (the country's second-largest bank) following the establishment of the bank's new supervisory and management boards. Bulgaria, meanwhile, has adopted several European Banking Authority (EBA) guidelines on the management of NPLs and internal bank governance. In addition, the Bulgarian and Croatian central banks entered into close cooperation with the European Central Bank (ECB) in 2020, and a number of systemically important banks in those two countries will now be supervised directly by the ECB. In Egypt, meanwhile, a new banking law was adopted in May 2020, which gives the Central Bank of Egypt additional powers to regulate the sector and, if necessary, intervene through short-term bailouts for struggling banks. That law also contains provisions on the regulation of new financial technology and introduces further safeguards to prevent conflicts of interest on the boards of commercial banks, as well as increasing capital requirements. Moreover, in another positive development, Romania has removed the tax on the total assets of commercial banks that was introduced through an emergency order in 2019.

A 600 MW ELECTRICITY INTERCONNECTOR LINKING MONTENEGRO TO THE ITALIAN POWER NETWORK BEGAN OPERATING IN NOVEMBER 2019

In Ukraine, steps have been taken to safeguard the ongoing clean-up of the banking sector. In particular, the Ukrainian parliament has approved a law preventing former owners of banks that have recently been nationalised or liquidated (as a result of the cleaning-up of the financial sector) from reclaiming ownership or receiving monetary compensation. At the same time, the recent (and unexpected) resignation by the Governor of the National Bank of Ukraine has raised concerns about the central bank's ability to operate independently and ensure adequate supervision of the sector.

Latvia, meanwhile, finished implementing the FATF's 40 recommendations in February 2020, thereby making its financial crime prevention system more robust. And Uzbekistan has adopted a banking sector reform strategy for the period 2020-25, which foresees the privatisation of six state-owned banks, an increased role for non-bank financial institutions and simplified issuance of securities by commercial banks. In addition, Uzbek legislation on banking activity and the Central Bank of Uzbekistan has been substantially amended, strengthening the central bank's supervisory powers. Moreover, in April 2020 Uzbekistan consolidated the regulation of payment system providers in a single law, which also introduced the concept of electronic money.

Integrated

A few economies (including Kosovo, Tajikistan, Ukraine and Uzbekistan) have seen their ATQ scores for integration improve over the last year, mainly reflecting reductions in the cost of cross-border trading.

Integration scores have improved for many economies over the period 2016-20, with significant increases being observed in Armenia, Egypt, Greece, Montenegro and Tajikistan on account of continued improvements in the performance of logistics, greater inflows of capital other than foreign direct investment (FDI), improved conditions for attracting FDI and greater financial openness. At the same time, scores have declined significantly in Hungary, Latvia and Mongolia over that period as a result of a sustained drop in FDI inflows as a percentage of GDP (Hungary and Mongolia) and a deterioration in the performance of logistics (Latvia).

Many countries have pushed ahead with reforms in this area. In 2019, for example, the Ukrainian government approved a reform plan for the railway sector and put the relevant legislation before parliament. Proposed reform measures include the restructuring of the national rail operator Ukrainian Railways and preparations for an IPO, the establishment of separate infrastructure and transport management companies, and moves to open the sector up to competition. In April 2020, Ukraine also adopted a law on river transport with a view to opening that sector up to foreign vessels and simplifying registration procedures. In Uzbekistan, meanwhile, the government has outlined plans to restructure and modernise

the air and rail transport sectors, as well as embarking on a reform of its customs regime. The government intends to reduce the processing time for customs declarations to one day as of November 2020 (down from three days at present), introduce risk-based inspection mechanisms and increase the use of online customs declarations.

Progress has also been made with a number of major infrastructure projects in the EBRD regions. In Kazakhstan, for example, a construction project building a ring road around Almaty was brought to a financial close in August 2020, with its total financing standing at US$ 585 million (making it Central Asia's largest public-private partnership). Once the project has been completed, the road will direct traffic away from Almaty, Kazakhstan's largest city, reducing traffic congestion and pollution. In another important public-private partnership, the Bulgarian government signed a 35-year concession agreement with a consortium of French, German and Austrian companies in July 2020 in order to upgrade and operate the country's main airport in Sofia, with improvements to infrastructure and operations at the airport facilitating the expansion of the country's international air network. In Ukraine, meanwhile, the government signed long-term concession agreements with strategic foreign investors in 2020 for the upgrading and operation of two Black Sea ports (Kherson and Olvia), following the adoption of a new law on concessions in 2019. The Ukrainian government has also announced plans to privatise or offer concession arrangements for several more ports.

BOX S.1.

Implementing reforms in times of crisis

The Covid-19 crisis has resulted in rising unemployment, a decline in consumer demand and liquidity constraints for both businesses and households. In such circumstances, the government can play a key role by limiting the lasting economic damage caused by the crisis. In these kinds of situation, structural reforms (which are often regarded as yielding benefits primarily in the long term) could potentially be overlooked in favour of short-term stimulus measures. This raises an important question as to whether crises alter the costs and benefits of structural reforms and whether they warrant the postponement or overhaul of such measures. With that question in mind, this box summarises empirical evidence on the implementation of reforms during crises.

While there is a well-established consensus regarding the beneficial impact that structural reforms have on the economy in the longer term, the short-term effects of structural reforms are more difficult to assess.[2] Product market reforms, for instance, can lead to both positive and negative outcomes in the short term, depending on the speed with which resources and human capital are reallocated from unproductive firms that exit the market to more efficient new entrants. Meanwhile, reforms aimed at making the labour market more flexible may have a contractionary effect in the short term as labour market frictions make it more difficult to immediately replace less productive employees.[3] In contrast, reductions in unemployment benefits have no immediate negative effects on labour force participation, are less costly to implement and increase competition in the labour market.[4]

Available evidence suggests that the short-term effect of structural reforms may depend on the prevailing economic conditions. Using a theoretical framework, Cacciatore et al. (2016) show that any negative short-term effects of labour market deregulation may be amplified if those reforms are implemented during adverse productivity shocks, whereas product market reforms are less sensitive to market conditions (as larger mark-ups resulting from the reduced number of firms in the market may incentivise higher levels of production). Empirical evidence[5] also suggests that deregulation of the labour market triggers more severe negative short-term effects in weak economic conditions, whereas such conditions have little bearing on the impact of product market reforms.[6] Nevertheless, product market reforms that are implemented during downturns may potentially have adverse effects in the short term if inefficient firms exiting the market are not replaced by new entrants as a result of weak market prospects or a lack of access to credit.[7]

At the same time, however, certain reforms may produce additional benefits in times of crisis (as is the case, for instance, with reforms that remove administrative barriers and reduce the cost of starting a business).[8] Reforms in sectors such as retail trade, telecommunications and professional services often result in declining prices and cause output and employment to rise at a faster pace, thus having an expansionary effect even during periods of falling demand.[9]

Expansionary fiscal and monetary policies can help to mitigate the negative short-term impact of structural reforms during economic contractions. Increases in public spending on infrastructure can, in particular, produce short-term productivity gains in times of contraction.[10] The short-term benefits of structural reforms have also been shown to increase when government policymaking is more credible, as that encourages firms and households to respond more quickly to new rules and regulations and accelerates the positive effects of reforms, which may otherwise take longer to materialise.[11]

In conclusion, therefore, some structural reforms may potentially have a contractionary effect in the short term, which could be amplified in weak economic conditions. Pairing reforms with increases in public spending, measures aimed at improving credit conditions and action with a view to fostering trust in public governance can help to alleviate the short-term costs of structural change, while preserving its long-term benefits.

[2] See Bouis et al. (2020).
[3] See Cacciatore et al. (2016).
[4] See Duval and Furceri (2018).
[5] See, for instance, Duval and Furceri (2018).
[6] See Bouis et al. (2012).
[7] See Lee and Mukoyama (2015) and Barlevy (2003), as referred to in Sánchez et al. (2016).
[8] See Ciriaci (2014).
[9] See Bertrand and Kramarz (2002), and Faini et al. (2006).
[10] See Duval and Furceri (2018), and Dabla-Norris et al. (2015).
[11] See Adjémian et al. (2007), as referred to in Sánchez et al. (2016).

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