CEE bankwatch network

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Input on EBRD country level transition indicators

On 30 November 2011 a meeting was held between representatives from CEE Bankwatch Network and representatives of the EBRD's Office of the Chief Economist, at which it was discussed that the bank is planning to revise its country level transition indicators. Bankwatch welcomes this revision, as we have long argued that it is crucial to ensure that transition does indeed lead to positive results for ordinary people and the environment rather than just assuming that this is the case. Indeed, the economic crisis, the increasingly urgent need to address climate change, and the new challenges facing the bank as it expands its mandate to the southern and eastern Mediterranean countries give new urgency to ensuring positive development and environmental outcomes from the bank's operations. Likewise, the EU's Lisbon Treaty (Article 21.2) brings new obligations for the EU's external action in developing countries, requiring poverty eradication to be the primary focus[1]. Although we understand that the bank's interest in measuring social satisfaction comes more from the angle of ensuring widespread buy-in to the transition process than measuring its development impacts per se, we believe that there are several indicators which would serve both purposes.

Country Transition Indicators in 2011

In 2011 the Country Transition Indicators used were as follows:

Enterprises:

- *Large-scale privatisation*
- *Small-scale privatisation*
- *Governance and enterprise restructuring*

Markets and trade:

- *Price liberalisation*
- *Trade and foreign exchange system*
- *Competition policy*

We believe that some of these indicators should be replaced:

Enterprises

It would be appropriate to delete this indicator altogether. The practical reason is because privatisation and governance and enterprise restructuring are already well represented in the EBRD's sector level indicators so do not need to be replicated here. In addition we have previously expressed doubts about the use of blanket privatisation indicators which do not show anything about the *quality* of the privatisation.[2] This is illustrated by a recent report by the Serbian government Socio-Economic Council which showed that while privatisation of more than 3000 companies in Serbia in the last decade has brought in 2.6 billion euro to government coffers, its wider impacts have been devastating. 65 percent of the companies have stopped working or are about to end operations, and about 83,000 jobs, or two thirds of all jobs prior to the privatisation, have been lost.[3] An indicator which simply rewards a high proportion of companies having been privatised risks condoning such results, which in our opinion go well beyond what can be justified under the maxim 'the end justifies the

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[1] While the EBRD is not directly an EU institution, 60 percent of its shares are held by EU countries plus the EU itself, thus it should share EU goals. In addition, while many of the EBRD's countries of operation are not classed as developing countries, this goal should apply to those which are.

[2] See previous comments on country level and sector level transition indicators at http://bankwatch.org/documents/Submission_EBRD_country_level_transitionindicators.pdf and project level transition indicators at: http://bankwatch.org/publications/comments-and-proposals-ebrds-project-level-transition-indicators

[3] Socio-Economic Council of the Republic of Serbia: Effects of privatisation in Serbia, Solidar Suisse – Swiss Labour Assistance SLA, November 2011. Report available in Serbian at: http://www.socijalnoekonomskisavet.rs/doc/efektiprivatizacijeusr.pdf A summary news article in English is available at: http://www.setimes.com/cocoon/setimes/xhtml/en_GB/features/setimes/features/2011/12/05/feature-05

means'. It may well be a better policy to redouble efforts in tackling corruption *before* encouraging policies such as privatisation.

Indicators rewarding privatisation on the country level also do not distinguish between sectors which are suitable for privatisation and those which are less suitable or unsuitable, such as natural monopolies. In our opinion it would be far more useful to focus on governance of companies than whether they are publicly or privately owned. The governance indicators that are already included to some extent in the sector level indicators should be strengthened rather than repeating the same topic on the country level.

Markets and trade

As market and trade policy is not necessarily sectoral in nature, it makes more sense to keep measuring this within the country indicators rather than the sectoral ones. However we would here put more emphasis on the outcomes which liberalisation should promote, rather than the liberalisation as an end in itself, ie. creation of foreign exchange reserves, stabilisation of the financial system, improvement of balance of payments etc.

The environmental aspects of trade also need be taken into account here. For example the unlimited export of raw materials (timber, minerals, palm oil etc.) is unsustainable and export quotas or duties may be a solution towards sustainability. Would the current indicators penalise countries seeking to promote sustainable exploitation of natural resources through such measures? It must be ensured that this not the case.

The current indicators include WTO membership. We believe that it should not be an indicator unless its social and environmental benefits are proven, a point on which there is a great deal of disagreement globally.

The competition indicators are generally useful, although it would be still more useful to understand how the EBRD defines excessive market concentration.

Proposals for new indicators

One source of existing indicators is the Europe 2020 strategy, which consists of the following headline targets and indicators[4]:

Target	Indicators
75% of the population aged 20-64 should be employed	Employment rate by gender, age group 20-64
3% of the EU's GDP should be invested in R&D	Gross domestic expenditure on R&D (GERD)
Reduction of GHG emissions by 20% compared to 1990 Increase of the share of renewable energy sources in final energy consumption to 20% 20% increase in energy efficiency	Greenhouse gas emissions, base year 1990 Share of renewables in gross final energy consumption Energy intensity of the economy (proxy indicator for Energy Savings, which is under development)
The share of early school leavers should be under 10% and at least 40% of 30-34 years old should have completed a tertiary or equivalent education	Early leavers from education and training by gender Tertiary educational attainment by gender, age group 30-34
Reduction of poverty by aiming to lift at least 20 million people out of the risk of poverty or exclusion	People at risk of poverty (union of the three sub-indicators below): - People living in households with very low work intensity - People at-risk-of-poverty after social transfers - Severely materially deprived people

These indicators provide some useful suggestions, but certain features are missing which would be relevant for the EBRD region of operation. In addition we see the R&D indicator as of limited value unless it relates to socially and environmentally useful R&D (for example excluding military research). Due to the limited statistical

[4] Source: http://epp.eurostat.ec.europa.eu/portal/page/portal/europe_2020_indicators/headline_indicators

systems in many EBRD countries it seems much simpler to leave it out altogether.

The main issues we see as missing here are:

- **Inequality**. Excessive income inequality is increasingly being seen as being correlated with a wide range of social problems ranging from mental health issues to teenage pregnancies, and it has been demonstrated that the issue cannot be addressed simply by looking at absolute poverty figures, no matter how important, but that it is also inequality itself that is the problem.[5] The Gini Coefficient is one indicator which could be used here.
- **Gender**: The Economist Intelligence Unit results for the Women's Economic Opportunity index could be used here.[6] Perhaps an adjustment would need to be made to exclude EIU's fifth block of indicators on General Business Environment, which may replicate other aspects of the transition indicators and lead to double-counting.
- **Labour standards**: Employment is only useful if it meets minimum standards that enable people to work safely and to earn a living wage. We propose an indicator based on an International Labour Organisation assessment of labour conditions in transition countries.
- **Life satisfaction** – can the results from the Life In Transition survey be used here? Although this is not updated every year, if there are plans to carry out the survey every 2-3 years it would be sufficiently often to use the result in the Transition Report.
- **Resource efficiency, not only climate issues**. The efforts to include some environmental aspects such as energy intensity in the sectoral indicators are welcome however these cover only a limited scope of environmental issues and economic sectors.

Therefore we propose the following two blocks of indicators for the country level transition indicators:

Inclusion	Resource efficiency
Income inequality indicator Gini Coefficient	**Energy and climate:** Indicators: **CO2 emissions per capita** **Energy intensity of the economy (J/GDP)**
Gender inequality indicator EIU Women's Economic Opportunity	**Material intensity:** Indicators: **GDP/domestic material consumption (DMI)** – shows how efficient an economy is in its use of resources, not only energy. Although there is an overlap here with Energy Intensity, we believe the energy intensity issue is serious enough in the transition countries to warrant an indicator of its own. **Household waste arising per person**: one of the key measures for indicating the effective use of resources at personal level.
Life satisfaction indicator based on the Life In Transition survey	**Water intensity:** Indicator water intensity m3/GDP
Employment indicator based on national gender-disaggregated statistics	**Land use intensity and biodiversity** Indicators: **Land use** km2/GDP including for imported products **Percentage of territory in protected natural areas** Further **biodiversity indicators** have been identified as part of the Convention on Biological Diversity process. We suggest contacting the Biodiversity Indicators Partnership for input on which of the indicators proposed at http://www.bipindicators.net/indicators can be applied immediately for the transition countries.
Labour conditions Indicator: The ILO is presumably able to provide a ranking of	

5 Richard Wilkinson and Kate Pickett: The Spirit Level: Why more equal societies almost always do better, Penguin, 2009/2010.

6 Economic Intelligence Unit: Women's Economic Opportunity, June 2010, p.10 ff. http://graphics.eiu.com/upload/WEO_report_June_2010.pdf

working conditions in the transition countries, even though none appears to be available online. Otherwise, a composite indicator could be made up from sub-indicators such as the existence and implementation of a meaningful minimum wage, the number of deaths and injuries per year, legal limits and implementation of maximum working hours.	
Education: Indicators: Early leavers from education and training by gender Tertiary educational attainment by gender, age group 30-34	
Poverty: People at risk of poverty (union of the three sub-indicators below): - People living in households with very low work intensity - People at-risk-of-poverty after social transfers - Severely materially deprived people* It would also be highly useful to use an **energy poverty** indicator. If such data is not available in the EBRD countries of operation the bank could serve a useful role in encouraging governments to keep statistics on the number of people spending more than 10 percent of their income on energy needs, for example through technical co-operation projects.	

* These exact statistics may not be available in the EBRD countries of operation, and the indicators can be adjusted as necessary. The most important thing is to ensure that there are clear and consistent measures on poverty.

Additional indicators which we see as necessary such as the **number of households with drinkable water** and the **modal split of passenger and freight transport** should also be measured. However they are not inserted here because they are more connected to the EBRD's sectoral indicators, and we would propose that these indicators also be revised to take account of development and environmental indicators other than climate.

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