CEE bankwatch network

22 March 2011

Comments on EBRD country-level transition indicators

CEE Bankwatch Network welcomes the EBRD's ongoing revision of its transition indicators and the opportunity to contribute to the process. For some time we have felt a disconnection between the situation on the ground and the level of success in transition shown by the country-level indicators, so we believe it is very much appropriate to make adjustments in the methodology.

While it may be argued that the indicators relate to transition and not to the health of the society and economy as a whole, we believe that unless the transition leads to a healthy society and environment, it is not a transition worth pursuing. Our comments are therefore premised on the point that the ultimate goal of transition is not only a market economy, but an environmentally sustainable and socially just one.

We would not claim to have extensive knowledge on all of the indicators – our experience is mostly in the sectors with most environmental and social impact. We therefore make comments only on those indicators where we feel we have comments based on our experience in the transition countries. We first lay out our general arguments, followed by specific comments on the existing country level transition indicators. We are aware that country-level transition indicators are not related to individual projects and that the project level indicators are not aligned with the country level ones – although we hope that they will be in the future - however we sometimes use individual projects here to illustrate our points about the changes taking place and how desirable or otherwise they may be.

What is still missing or needs to be strengthened?

Environmental sustainability

We believe that the concept of transition needs to aim more explicitly at creating low-carbon and socially just economies, not only market ones. The EBRD, as an institution mandated to promote sustainable development in the full range of its activities, has a duty to ensure that transition results in sustainable societies, and that the concept of transition is understood as having environmental sustainability at its heart. The challenge of climate change has added particular urgency to this goal. However, achieving a market economy in itself is not sufficient to ensure environmental sustainability. While market economies ensure a certain level of efficiency in production, and legislation in most advanced markets has helped to avoid some of the most visible kinds of environmental damage seen in the former Eastern Bloc[1], it should not be forgotten that market economies – often due to unpaid external costs - are nevertheless responsible for huge environmental damage[2], and that an increasingly central challenge for the economic growth model is how to continue promoting economic growth on a planet of largely finite resources.

In terms of the EBRD's activities, there are several examples of projects where the sponsor has succeeded in introducing market practices, but where the project has not resulted in environmental sustainability, and thus where market-based indicators would not provide a sufficient picture. Loans as varied as the Tbilisi public transport project, the loans to ArcelorMittal in several countries and motorway construction projects all illustrate this point.[3]

Thus, to measure any transition worth pursuing, **as well as market indicators, additional environmental indicators are needed, focusing on institutions and outcomes as well as legislation**.

The inclusion of the new indicator on sustainable energy is therefore very welcome. It is particularly important that it focuses not only on having renewables legislation in place but that it also takes into account the **results**, ie. the actual amount of energy generated from renewable sources.

This **approach needs to be expanded into other sectors with an environmental impact**, particularly transport and

1 Some of the most environmentally destructive activities to emerge in recent years, such as mountain-top removal mining and tar-sands oil extraction – which in many ways even surpass the kind of large-scale environmental damage seen in former Eastern Bloc countries - have arisen in advanced market economies.

2 While we would in no way wish to belittle the environmental problems caused by the state socialist regimes in the former Eastern Bloc, some environmental problems are more serious in market economies, eg. overconsumption resulting in massive production waste and post-consumer waste, over-fishing, overuse of individual transport etc.

3 For more details on these cases see: Tbilisi public transport project: www.bankwatch.org/documents/EBRD_transport_tbilisi.pdf, ArcelorMittal: http://www.bankwatch.org/publications/document.shtml?x=2181974. In the case of motorways, the reduced travel time results in increased competitiveness of road transport compared to rail transport.

water and wastewater. Indicators need to include both environmental framework indicators (eg. Institutions and legislation) and environmental performance indicators (eg. indicators on decreasing or increasing use of public transport/individual transport, recycling rate etc).

Social sustainability

Social sustainability is difficult to measure, however without it a successful transition cannot be said to have taken place. A country can be an advanced market economy but still be an unpleasant and difficult place to live for many of its inhabitants. We do not have a ready-made answer on how socio-economic indicators should be included in the country level transition indicators however the following may offer some pointers:

1) The EBRD has recognised in its project work that it needs to be better able to measure its impact on **poverty**. Could the results of this work provide an indicator or indicators that could be used as part of the country transition indicators work?
2) There is increasing interest, not least on the part of the UK government, in the use of **wellbeing indicators**. Could these be used as part of the transition assessments? Does the data exist? Could the results of the Life in Transition surveys feed in to an indicator or indicators on social sustainability?
3) While the EBRD has expressed reservations about using **employment** as an indicator of its *project* successes, given that some of the projects involve laying off workers, we believe it is crucial to monitor this issue. A society with a high number of unemployed people cannot be sustainable in the long run.
4) As well as employment in terms of statistics, it is crucial to ensure that labour conditions are satisfactory. Therefore we propose to incorporate an indicator based on the implementation of the Core Labour Standards set out in the International Labour Organisation conventions.

Tackling corruption

One of the cross-cutting issues affecting the *quality* of transition is corruption. Is it good enough to be a market economy, or would we like a non-corrupt one? We believe that most people would insist on the latter. However the indicators as they currently stand seemingly would not pick up differences between countries on this issue (although this is difficult to tell for the older indicators because the new ones are more detailed). For example a country would get points for undertaking privatisations, but it seems that it would not lose any points if these privatisations were riddled with corruption and ultimately failed to bring significant benefits for the population and state budget.

As this issue is cross-cutting through many sectors we would suggest a separate indicator reflecting a country's efforts and successes in tackling corruption. This may be based on Transparency International's Corruption Perceptions index or other existing research in this field.

Democracy

As part of the EBRD's mandate to promote multiparty democracy and pluralism, we believe it is imperative for the bank to include democracy indicators in its transition indicators, eg. the Economist Intelligence Unit index.

What kind of market economy?

In some areas it seems that the EBRD indicators go beyond what is required for a basic market economy and place significant emphasis on aspects such liberalisation, private sector participation in the provision of public services etc. **These emphases need to be reviewed in the light of the financial crisis to ensure that the indicators reflect a resilient economy**.

While we would not claim to have expertise in this topic, we were interested by Myant and Drahokoupil's[4] observations on the crisis that: "*As far as the influence of institutional structures is concerned, good EBRD scores for price, trade, and foreign exchange liberalization appear to be associated with higher GDP falls*", and that the EBRD is "failing to incorporate features that, in its own analysis, could mitigate vulnerability, such adequate coverage for credits from household savings". We would encourage the EBRD to look into these claims.

Individual indicators

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

4 Myant, Drahokoupil: International integration, varieties of capitalism, and resilience to crisis in transition economies, Manuscript submitted for review to *Europe-Asia Studies,* 21 January 2011

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.

Here we would like to see some assessment of the general **quality** of the privatisations and their **–** after all privatisation is not an end in itself, but may, if carried out all, be one way of developing economically stable and efficient enterprises. however, many privatisations have taken place in our region, and far too many of them have failed to realise their potential benefits for the population and state budgets. One stark example is the KAP Aluminium plant in Podgorica, Montenegro, which uses more than 40 percent of the country's energy production[5]. The government granted the private investor subsidised electricity, yet the plant was still partly renationalised during the financial crisis. Yet according to these indicators, as far as we can see, Montenegro would – at least until the partial renationalisation – have gained high points for privatisation, even if it was a highly controversial and not particularly successful one.

Another one which raises questions is OJS Luganskteplovoz – one of major Ukrainian machine-building enterprises. Although the privatisation has been unsuccessful by any standards[6], if we put this aside and assume it had gone ahead as planned, questions must be asked about the quality of the process. Some major competitors to the final buyer, Transmashholding, were not allowed by the participation criteria to take part, only two companies participated and the final bid was only 10 million higher than the start price. Other potential buyers would have increased the competition and the state budget would have received more money as a result of this privatization. In this case, as far as we can see from these indicators, the country would still have got marks for going ahead with the privatisation, even if done in a way that did not bring significant benefits to the country.[7]

Many of the small-scale privatisations have also had bad results – perhaps on a lesser scale, but each one resulting in real difficulties for the former employees. An example is the textile company Kamensko in Zagreb where a functional and profitable firm employing almost all women appears to have been deliberately run into the ground by those who bought it, in order to sell off the land for retail development. This appears to have been achieved at least partly by members of its supervisory board creating fictitious debts to other companies that have nothing to do with Kamensko's operations - including one which trades horses and donkeys – but are run by those same members of Kamensko's supervisory board. Kamensko is now bankrupt, and its former workers have not been paid for several months' work.

With examples such as these in mind, **it may be appropriate to ask whether it is actual privatisations that are important to measure, or is it more about improvements in corporate governance and management of the companies? How can these aspects be given greater weighting in the indicators, with less emphasis put on privatisation per se?**

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

5 Figure for 2006. Ministry of Economic Development, Energy Development Strategy of Montenegro by 2025, December 2007 http://www.mipa.co.me/userfiles/file/Energy%20Development%20Strategy%20by%202025%20(White%20Book).pdf

6 The company was sold to Russia's Transmashholding for USD 51 million in June 2010, but the money was not transferred, the State Property Fund went to court and obtained a decision cancelling the privatization and in the meantime an appeal from Transmashholding is being processed in court. Moreover, the same Transmashholding already won the auction for this enterprise in 2007 but the contract between it and State Property Fund was cancelled in 2009 based on a court decision.

7 For more information see: http://www.epravda.com.ua/news/2010/12/7/261053/

financial institutions and markets, fostering market-driven restructuring.

In our opinion the transition indicators need to incorporate an indicator in the **use of offshore financial centres** – with higher points for low use. This section may be the most appropriate one. However the definition of offshore financial centres needs to be wide enough to include all jurisdictions used for tax minimisation purposes which may have a development impact on a transition country. A good example is Ukraine – companies operating there are often registered in Cyprus, which has an impact on the Ukrainian government's tax revenues.

We believe this would be an appropriate place to insert an indicator on the existence of social programmes to ensure that people losing their jobs due to enterprise restructuring have access to re-training schemes and social support. There is a big difference between a controlled transition with carefully managed consequences and an uncontrolled transition that simply leaves people to cope on their own.

We also have a question regarding how subsidies would be reflected by this indicator, or by the one below on General Industry. For example Fiat Serbia is a case of a company that probably would not exist without subsidies – but **would Serbia get positive points for restructuring the company and attracting investment, or negative points for heavily subsidising a private company**? Or both? In our opinion subsidies to private companies should be limited to new sectors that are explicitly being encouraged to develop, such as renewable energy, not well-established sectors with high environmental impacts such as car production.

To illustrate the question: Fiat Serbia was established in 2008 and is owned 67% by Fiat and 33% by the Serbian state. As one of the preconditions Serbia closed down production of the Zastava car and at the moment Fiat is temporarily using the existing facilities for assembling the Fiat Punto model. The Serbian state is subsidizing every car through a scrapping scheme, with 1000 EUR/unit for an old car. Up to now more than 30 000 units have been sold. The Serbian state has also invested at least EUR 100 million in supporting infrastructure and the modernization of the existing facilities. The Serbian state is further subsidising the company though its social programme for former workers. At the beginning of 2011 the workers of Zastava were laid off. More than 1400 workers accepted the 'social programme' which means 300 EUR per year of experience plus re-training. The new company took over only 100 workers and 47 found work in another sub contracting company.

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.

No comments here

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.

Here we would 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, job creation.

We also believe that environmental aspects of trade should be taken into account. 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?

Regarding 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.

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.

We would welcome more information about what is considered here to constitute excessive market concentration. Would it perhaps be desirable to develop an indicator on the competitiveness of the economy based on the number of enterprises producing a certain percent of GDP?

Banking reform and interest rate liberalisation
1 Little progress beyond establishment of a two-tier system.
2 Significant liberalisation of interest rates and credit allocation;
limited use of directed credit or interest rate ceilings.
3 Substantial progress in establishment of bank solvency and of a framework for prudential supervision and regulation; full interest rate liberalisation with little preferential access to cheap refinancing; significant lending to private enterprises and significant presence of private banks.
4 Significant movement of banking laws and regulations towards BIS standards; well-functioning banking competition and effective prudential supervision; significant term lending to private enterprises; substantial financial deepening.
4+ Standards and performance norms of advanced industrial economies: full convergence of banking laws and regulations with BIS standards; provision of full set of competitive banking services.

What would be the definition of well-functioning banking competition here? Does it take into account the

Securities markets and non-bank financial institutions
1 Little progress.
2 Formation of securities exchanges, market-makers and brokers; some trading in government paper and/or securities; rudimentary legal and regulatory framework for the issuance and trading of securities.
3 Substantial issuance of securities by private enterprises; establishment of independent share registries, secure clearance and settlement procedures, and some protection of minority shareholders; emergence of non-bank financial institutions (for example, investment funds, private insurance and pension funds, leasing companies) and associated regulatory framework.
4 Securities laws and regulations approaching IOSCO standards; substantial market liquidity and capitalisation; well-functioning non-bank financial institutions and effective regulation.
4+ Standards and performance norms of advanced industrial economies: full convergence of securities laws and regulations with IOSCO standards; fully developed non-bank intermediation.

No comments here

Sectoral transition scores

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%]	Price liberalisation (EBRD *Transition Report*, 2009) Forex and trade liberalisation (EBRD *Transition Report*, 2009) Producer price of wheat in USD per tonne (Food and Agricultural Organization (FAO), PriceSTAT, 2007) Simple average MFN applied imports tariffs on agricultural products (WTO, 2008) NRAs to agriculture in per cent (World Bank distortions, 2004-07) WTO membership (WTO)
	Development of private and competitive agribusiness [40%]	Wheat yields per ha (FAO ProdSTAT, 2008) Independent grocery retail sales in per cent of total grocery retail (BMI, 2008) Mass grocery retail sales in per cent of total grocery retail (BMI, Food and Drink, 2008) Small-scale privatisation (EBRD *Transition Report*, 2009) EBRD enterprise reform indicator (EBRD *Transition Report*, 2009)
	Development of related infrastructure [25%]	EBRD railways infrastructure (EBRD *Transition Report*, 2009) EBRD road infrastructure (EBRD *Transition Report*, 2009) Tractors in use per 100 inhabitants (FAO, 2007) Ratio of producer price over world wheat price (FAO PriceSTAT, 2007)
	Development of skills [20%]	Ratio of a percentage of tertiary graduates in agriculture over a percentage of agricultural share in GDP (UNESCO 2007, own calculations) Value-added per worker in 2005 in constant USD (World Bank World Development Indicators Database, 2009)
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*, 2010) Registering property (World Bank *Doing Business*, 2010) EBRD Business Environment and Competition (EBRD *Transition Report*, 2009)
	Enforcement of traceability of produce, quality control and hygiene standards [40%]	Overall TC 34 (www.iso.ch, 2009) Quality index based on average of TC34/SC4, TC34/SC5 and TC34/SC6 (www.iso.ch, 2009) Extent of Disclosure Index (World Bank *Doing Business*, 2010) Extent of Director Liability Index (World Bank *Doing Business*, 2010) Strength of Investor Protection Index (World Bank *Doing Business*, 2010)
	Creation of functioning rural financing systems [20%]	Ratio of percentage of lending to agriculture/relative to percentage of agricultural share in GDP (own calculations)

Source: EBRD.

First, we have some questions regarding the indicators above:

- Does the *liberalisation* indicator rule out targeted subsidies for keeping basic foodstuffs affordable for vulnerable groups? If so, this is a matter of concern. During recent years food prices have increased, sometimes rapidly, and this is expected to become an increasing pattern with the changes in climate. The EBRD rightly assesses water for their affordability for the population, and it is crucial that food is also affordable. Therefore, where basic foodstuffs cost more than a certain percentage of household income, states must not be penalised for implementing targeted subsidies for vulnerable groups.
- *Independent grocery sales in percent of total grocery retail* – is this seen as something which scores highly if there is a higher percentage or higher if there is a lower percentage?

Our comments on the existing indicators centre around the need for environmental and social sustainability to be taken into account:

WTO membership should not be an indicator in the agriculture sector, as the WTO in its current form sometimes impedes rather than encouraging sustainable development. First, for as long as transportation costs are artificially low and do not cover their external costs, breaking down barriers to trade in agricultural products is likely to result in very large-scale export-led agriculture, and a 'race to the bottom' in terms of environmental and social standards. Those who pay their workers a pittance and squeeze the most food out of the soil will produce the most food for the lowest prices and make the most money. Furthermore, by interpreting some measures aimed at public and safety and environmental protection as 'barriers to trade' (eg. regulations on GMOs) the WTO pits itself against countries' food sovereignty and their right to decide what they will eat.

The wheat yield indicator needs to be balanced with soil quality indicators, otherwise those countries doing the most damage to their soil may score well. Indicators for soil quality may include:

- average soil humus content,
- nitrogen fertiliser per hectare (more points for complying with the EU Nitrates Directive)

The indicator on 'tractors in use per 100 inhabitants' should in our opinion be changed to 'tractors in use per square unit of cropland', as this would show how mechanised farming is becoming without being distorted by varying population densities.

In addition, the agribusiness indicators do not reflect the whole spectrum of the agribusiness sector: for example most of the indicators have little relevance to the distribution and retail part of the sector. Nor environmental and social sustainability aspects, the indicators should be widened to encompass the whole sector. We would therefore propose indicators on:

- Existence of a national agriculture strategy incorporating social and environmental sustainability elements such as greenhouse gas reduction and reductions in agri-chemical use.

- Percentage of arable land where crop rotation is practiced
- Existence of functioning organic certification scheme
- Diversity of crop varieties – more variety means more resistance to disease and climatic factors
- Percentage of rural population living below the poverty line
- Percentage of household income spent on an average basket of foodstuffs
- Balance between wages for women and men in the agribusiness sector (more points for more aligned wages).
- Percentage of locally or nationally sourced produce used by retail chains
- Soil erosion and desertification – cropland loss
- Self-sufficiency in key foodstuffs - this may seem like an old-fashioned goal in today's globalised world however in order to build environmentally sustainable societies, the transportation of food needs to be drastically reduced.
- Percentage of food crops used for animal feed – lower points for a higher percentage. Although this issue has received relatively little coverage so far, it is set to become more important in the future: Using crops for feeding animals is much less efficient than people eating them directly.[8] Thus in terms of ensuring the sustainability of the food supply and the ready availability of food globally, it is important that not too high a share of cropland is dedicated to feeding animals.
- Retail concentration – fewer points for countries which have very concentrated retail or processing and therefore little competition. (eg. Konzum in Croatia; Danube Foods Group monopoly in the milk market in Serbia[9]).
- Agricultural energy intensity.

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

Components	Criteria	Indicators
Market structure [60%]	Market determined prices [20%]	Price liberalisation (EBRD *Transition Report*, 2009) Subsidies in % of GDP (CEIC database, 2008) Energy intensity (World Bank Databank, 2007)
	Competitive business environment [40%]	MFN trade weighted tariff (World Bank World Trade Indicators, 2009/2010) Lerner index (EBRD calculation from UNIDO dataset, 2007) Large scale privatisation (EBRD *Transition Report*, 2009)
	Productivity and efficiency [40%]	Expenditures on R&D in % of GDP (UNESCO 2007) Value-added, manufacturing, per employee (UNIDO 2006 and CEIC Database 2007) Knowledge economy index (World Bank, 2009)
Market-supporting institutions and policies [40%]	Facilitation of market entry and exit [40%]	Starting a business (World Bank *Doing Business*, 2010) Closing a business (World Bank *Doing Business*, 2010) 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*, 2009)
	Corporate governance and business standards [30%]	Composite country law index (EBRD Legal Transition Team 2010) New ISO 9001 and ISO 14001 registrations/number of firms (ISO Survey 2008)

Source: EBRD.

Here we see a need for a more social and environmental dimension to the indicators including:

- gender balance – equality of pay levels between women and men
- worker safety – death and injury statistics (higher points for lower deaths per 1000 workers)
- existence of a minimum wage which is proportionate to the cost of living
- environmental standards: percentage of large industrial installations in compliance with EU legislation (obviously large would need to be defined but this could be explored further later)

At some point in these indicators the question of waste and resource efficiency needs to be brought in: the general industry sector may be the best place to address this question. A society which is doing well in the transition to a sustainable future must:

- produce little waste per capita
- recycle a high percentage of municipal waste and industrial waste
- have a comprehensive system for the neutralisation and where possible re-use of industrial and hazardous waste.

8 See for example: http://www.news.cornell.edu/releases/Aug97/livestock.hrs.html

9 See for example http://www.b92.net/eng/news/politics-article.php?yyyy=2010&mm=11&dd=02&nav_id=70657

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

Components	Criteria	Indicators
Market structure [50%]	Sufficient supply of quality assets in all sub-segments (warehouse/office/retail) [40%]	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)
	Availability of property-related financing [30%]	Construction share in GDP (EBRD, latest available year) Residential mortgage debt (EBRD, EMF Hypostat, latest available year) Availability (tenor) of construction debt finance (EBRD Syndications dataset)
	Market saturation and penetration of innovative construction technologies [30%]	Market saturation index (EBRD, 2010) Index on penetration of innovative construction technologies (EBRD, 2010)
Market-supporting institutions and policies [50%]	Tradeability and accessibility of land [20%]	Tradeability of land (EBRD *Transition Report*, 2009) Access to land (BEEPS, 2008)
	Development of an adequate legal framework for property development [50%]	Quality of primary legislation in the property sector (EBRD, 2010) Quality of secondary legislation in the property sector (EBRD, 2010) Mortgage market legal efficiency indicators (EBRD Legal Transition Team)
	Presence and effectiveness of energy efficiency support mechanisms [10%]	Sustainability of government support mechanisms (EBRD, 2010)
	Adequacy of property-related business environment [20%]	Registering property (World Bank *Doing Business*, 2010) Dealing with construction permits (World Bank *Doing Business*, 2010)

Source: EBRD.

The inclusion of the indicator on energy efficiency support mechanisms is very much welcome here.

Does the definition of an adequate legal framework include environmental and public participation provisions in property development? One of the problems in the transition countries is the poor spatial planning, which has many causes but is greatly exacerbated by corruption and poor implementation of established processes such as the approval of urban plans and Environmental Impact Assessment – not to mention Strategic Environmental Assessment, which is poorly understood and implemented even in the more 'advanced' transition countries. We believe that these aspects need to be included in the section on market-supporting institutions.

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 [40%]	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 [20%]	Degree of private sector participation in generation and/or distribution
	Competition and liberalisation [40%]	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

Source: EBRD.

Our comments here are rather questions:

- Why is sustainable energy treated differently from electricity? Although a long way off in many of the transition countries at the moment, the aim is surely that all energy will be sustainable at some point, rather than renewables being an add-on.
- Related to this, energy efficiency issues are mentioned below in the sustainable energy indicator and not here, and cost-reflective tariffs are mentioned in both places. Would it not be possible to have one big sustainable electricity indicator, double-weighted if considered necessary?
- Regarding cost-reflective domestic tariffs and cross-subsidisation among consumers, how is the question of subsidisation of nuclear power seen here? Is it somehow included? If not, it ought to be.

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 Degree of transparency and corporate governance
	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 [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 Extent of transparency and accountability on revenues from extractive industries and management of the oil stabilisation fund, EITI/PWYP compliance
	Establishment of an independent energy regulator [40%]	Degree of financial and operational independence of the regulator Level of standards of accountability and transparency

Source: EBRD.

This indicator seems to mostly be about oil and gas. It is understandable that the indicators here are limited by the fact that not all countries have significant natural resources extraction. Nevertheless, most countries have at least some, whether it is metal or coal mining, quarries or peat extraction. For those countries where some of the indicators do not fit, we propose to give greater weighting to the remaining indicators.

One sustainability issue missing here in the oil and gas sector is gas flaring – points should be deducted for ongoing gas flaring or awarded for significant gas flaring reductions.

We also propose to add some mining-related sustainability indicators.

- Percentage of people living above the poverty line, especially in countries where extraction of natural resources and export of commodities are main drivers of economic development.
- Percentage of properly recultivated closed down mines.
- Percentage of mining waste facilities in compliance with their discharge permits and with relevant legislation for management of mining wastes, eg. the EU Directive 2006/21/EC.
- Presence of an effective monitoring system for mining waste facilities – in use and abandoned - and health monitoring of population exposed to the negative impact of extractive industries facilities.

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 incentives [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, CC and RE Number of projects in EE, CC and RE Expenditure data on projects in EE, CC and RE

Source: EBRD.

We very much welcome the fact that this section reflects not only on the framework for sustainable energy but also the outcomes. Several countries in the region formally have regulations on renewable energy, yet difficulties such as grid access and overly complicated permitting procedures mean that the actual number of installations is disappointing, and it is right that this is reflected here.

As with the section above, we would like to ask whether the quality of energy pricing issue includes a preference for not cross-subsidising nuclear power?

Regarding the presence of carbon taxes or emissions trading mechanisms, in our opinion the indicator should be not only about their existence but also based on their effectiveness in terms of concrete CO2 reductions.

Infrastructure

Table M.1.4.1
Rating transition challenges in the railways sector

Components	Criteria	Indicators
Market structure [55%]	Restructuring through institutional separation and unbundling [40%]	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 [40%]	Number of new private operators Extent of privatisation of freight operations and ancillary services
	Competition and liberalisation of network access [20%]	Extent of liberalisation of network access according to non-discriminatory principles Number of awards of licences to the private sector to operate services
Market-supporting institutions and policies [45%]	Tariff reform [50%]	Extent of freight tariff liberalisation Extent of introduction of public services obligations (PSO)
	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

Source: EBRD.

Here we would point to the need for an **emphasis on outcomes** in the railway sector. As the EBRD has a mandate to promote sustainable development in the full range of its activities it follows that success in transition must include a functioning and well-used public transport and railway system.

Therefore **we propose indicators on the increase or decrease of rail passenger-kilometres and freight-kilometres in the year in question and/or on the modal share of rail.**

We would question whether the private sector participation indicator is very meaningful in this sector, as the success of the rail sector does not depend so much on private sector participation as on policies, pricing and regulation.

We consider that **the environmental pricing aspect needs to be examined more** here. In order to encourage a shift to rail, rail pricing needs to be set at a level which makes it attractive to use rail relative to road transport. Principles such as full cost recovery may not encourage rail transport if road transport does not pay its external costs. Track access charges should be set at levels competitive with the charges for alternative road infrastructure usage. If this means more subsidies and less cost-recovery, then so be it.

Table M.1.4.2
Rating transition challenges in the roads sector

Components	Criteria	Indicators
Market structure [55%]	Restructuring through institutional separation and unbundling [40%]	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 [40%]	Extent of private sector companies in construction and maintenance (BOT-type concessions, management or service contracts, other types of public-private partnerships (PPPs))
	Competition and liberalisation of network access [20%]	Index on rules for open tendering of construction and maintenance contracts Index on practices for open tendering of construction and maintenance contracts
Market-supporting institutions and policies [45%]	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%]	Extent and quality of PPP legislation Existence of road act
	Development of the regulatory framework [25%]	Creation of a road agency Index of road agency effectiveness (decision making power, resource allocation, management capacity across road networks)

Source: EBRD.

In our opinion it is not appropriate to include road PPPs as a condition of transition. This is because undertaking road PPPs is a policy choice that is a possibility, but not inherent, in a market economy. Many market economies have been functioning for years with no road PPPs.

Road PPPs in our region have also performed poorly – with high costs but not succeeding in transferring a significant degree of risk to the private sector during the operation stage. The early Hungarian PPP motorways did so, but then failed to make the expected income. Since then the PPP arrangements have either been on the basis of an availability fee, which means very little risk for the concessionaire during the operational stage – just maintenance and some snow clearance - or state guarantee for toll incomes, which means no risk at all for the concessionaire. We believe that these are more than teething problems and that there are very few routes in our region where road PPPs would function well.

The issue of off-balance sheet debts and future budget commitments caused by multiple PPPs has also come to the fore during the financial crisis, and Hungary, thus far the largest PPP user in the region, has announced that it will not undertake new PPPs in the near future. This does not make Hungary less of a market economy, as the EBRD's other transition impact ratings for the country show.

We would propose to give the tariff reform a greater weighting in the road sector, as it is key for ensuring an environmentally sustainable transport policy in which road transport pays for its external costs, and rail and urban public transport are affordable and competitive. While railroad transport remains mainly in public hands (not only in "transition" countries but in many "developed" ones as well), road transport is highly private by nature with the exception of the infrastructure which is still public and heavily subsidised. Paradoxically the cost-recovery for rail is in many transition countries much more advanced than on roads which distorts the competition between the two transport modes and increases the negative environmental impact (e.g. GHG emissions). From this point of view tariffs for use of roads which cover internal and external costs are crucial.

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 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

Source: EBRD.

The main issue that is missing here in our opinion is the **outcome**, ie. levels of public transport usage. In terms of environmental sustainability it is vital to ensure high public transport usage levels, and the other aspects mentioned here are rather means to this end.

We would also point to the need for an indicator on the existence of **good quality, publicly-consulted urban transport plans** – preferably in all cities, but at least in larger cities (eg. Over 500 000 inhabitants). Without these there is little chance of implementing an effective public transport system, and it is likely, as often happens in our region, that the authorities will lurch from project to project with no overall strategy in place.

In our opinion the **weighting accorded here to private sector participation is too high**, as it is more important to get the service and regulation right and less important whether it is done by a private or public entity.

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 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

Source: EBRD.

Again we would recommend indicators on **outcomes** here, eg.:

- percentage of people with access to drinkable tap water
- percentage of water leaking (higher points for lower percentage)
- percentage of wastewater treated before discharge

The private sector participation indicator also seems to be unnecessary here, as private sector involvement in water

supply is not a pre-condition for a market economy (see eg. the Netherlands, which few people would claim is not a market economy). More important in our opinion are the outcomes above and the sustainability of the water management (that investments are made into the infrastructure) rather than whether this is done by a public or private entity.

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 (International Telecommunications Union and World Bank, 2009) Mobile penetration rate (International Telecommunications Union, 2009) % of private ownership in the incumbent mobile operator (Business Monitor International *Global Insight*, 2010) Market share of the largest mobile operator (Business Monitor International, BuddeCom via ISI, 2010) Mobile number portability (Business Monitor International, BuddeCom, *Global Insight*, 2010)
	Competition and private sector involvement: fixed telephony [20%]	Fixed-line teledensity (International Telecommunications Union, 2010) % of private ownership in fixed telephony incumbent (Business Monitor International *Global Insight*, 2010) Market share of the fixed telephony incumbent/Presence of alternative operators (Business Monitor International, *Global Insight*, 2010) Fixed number portability (Business Monitor International, *Global Insight*, 2010)
	IT and high-tech markets [40%]	Internet users penetration rates (International Telecommunications Union, 2009) Broadband subscribers penetration rate (International Telecommunications Union, 2009) Piracy rates (Business Software Alliance, 2009) Expenditure on R&D as a percentage of GDP (UNESCO, 2007)
Market-supporting institutions and policies [50%]	Institutional framework assessment [30%]	Regulatory independence (EBRD, Legal Transition Team, 2009) Dispute resolution and appeal (EBRD, Legal Transition Team, 2009)
	Development of the regulatory framework aimed at promoting the emergence of competition within the sector [60%]	Market access assessment (for non-scarce resources) (EBRD, Legal Transition Team, 2009) Operational environment assessment: SMP and safeguards (EBRD, Legal Transition Team, 2009) Operational environment assessment: interconnection and special access (EBRD, Legal Transition Team, 2009)
	Preparedness of the country to develop a knowledge economy [10%]	Knowledge Economy Index (World Bank, 2009)

Source: EBRD.

No comments here.

Financial institutions

Table M.1.5.1
Rating transition challenges in the banking sector

Components	Criteria	Indicators
Market structure [35%]	Degree of competition [33%]	Based on net interest margin, loan-deposit interest spread, overhead cost to assets, and asset share of five largest banks (EBRD Banking Survey, official statistical sources, 2010)
	Ownership [67%]	Asset share of private banks (EBRD Banking Survey, official statistical sources, 2010) Asset share of foreign banks 2009 (subjective discount relative to home/host coordination) (EBRD Banking Survey, 2010 and latest EBRD assessment)
Market-supporting institutions and policies [65%]	Development of adequate legal and regulatory framework [50%]	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 and creating capital buffers by requiring higher capital adequacy ratios in good times (EBRD assessment, latest estimates) Deposit insurance scheme with elements of private funding (EBRD assessment, latest estimates)
	Enforcement of regulatory measures [40 %]	Compliance with Basel Core principles values (FSAP/IMF, EBRD assessment, latest estimates) Currency mismatch index (EBRD Banking Survey 2010, national statistical sources via CEIC, latest estimates) Banking strength – actual risk weighted capital to assets ratio (IMF Global Financial Stability Report 2010, National Sources, latest estimates) Sophistication of banking activities and instruments (EBRD assessment, latest estimates) Deposits to GDP (EBRD Banking Survey, 2010 and latest EBRD assessment)
	Corporate governance and business standards [10%]	Proportion of banks which have good corporate governance practices (EBRD assessment, latest estimates)

Source: EBRD.

The main indicator which we are unsure about here is the foreign bank ownership. We understood from the EBRD's analysis of the crisis that it was felt that the presence of foreign banks had had both advantages and disadvantages. Therefore it does not seem clear that it is something to measure transition by.

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, 2008/2009) Leasing portfolio (% of GDP) (Leaseurope, national statistical sources, latest estimates) Availability of insurance products (UBS and own EBRD assessments, latest estimates)
	Private sector involvement [20%]	Share of private insurance funds in total insurance premia (UBS, national authorities, EBRD, latest estimates)
	Development of skills [20%]	Skills in the industry (UBS and own EBRD assessments, latest estimates)
Market-supporting institutions and policies [55%]	Development of adequate legal and regulatory framework [80%]	Existence of private pension funds (Social Security Administration - ISSA, latest estimates) Pillar 2 legislation (Organisation of Economic Co-operation and Development, World Bank, national official sources, EBRD, latest information) Quality of insurance supervision assessment (UBS, EBRD, latest estimates) Legislation leasing (National authorities, International Finance Corporation, EBRD, latest information)
	Business standards [20%]	IAIS member (International Association of Insurance Supervisors- IAIS, 2010)

Source: EBRD.

No comments here

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

Components	Criteria	Indicators
Market structure [40%]	Market penetration [35%]	Stock market capitalisation traded annually 2007 (World Bank, Financial Structure Database, 2010)
	Market infrastructure and liquidity (65%)	Money Market Index (EBRD 2010 Survey) Government Bond Index (EBRD 2010 Survey)
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)

Source: EBRD.

No comments here

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 (EMPEA, Prequin, Mergermarket, and EVCA, latest available)
	Market penetration [65%]	Scope of fund type/strategy (EMPEA, Prequin, Mergermarket and EVCA, latest available) PE capital available for investment as % of GDP (EMPEA, Prequin, Mergermarket and EVCA, latest available) Active capital as % of GDP (EMPEA, Prequin, Mergermarket and EVCA, 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)

Source: EBRD.

We are surprised to see a whole indicator dedicated to private equity, a very controversial and relatively new aspect of market economies. We have doubts as to whether this is an appropriate indicator, as the effects of private equity on society and economies are not fully understood. If the EBRD decides to keep this indicator, at the very least there should be indicators on the use of offshore financial centres by private equity funds – fewer points for more widespread usage of OFCs. In addition there need to be indicators on impacts on employment and other potential negative social and economic consequences of private equity, which are hardly mentioned in the EBRD's Corporate Governance Framework Assessment 2007.

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

Components	Criteria	Indicators
Market structure [50%]	Market saturation and penetration of MSME financing [20%]	Number of years firms operated without formal registration, (World Bank/EBRD Business Environment and Enterprise Performance Survey, 2008)
	Availability of MSME related financing [80%]	Access to checking/savings accounts (World Bank/EBRD Business Environment and Enterprise Performance Survey, 2008) Access to overdraft facility (World Bank/EBRD Business Environment and Enterprise Performance Survey, 2008) Access to credit loan from financial institution (World Bank/EBRD Business Environment and Enterprise Performance Survey, 2008) Access to finance presents a major/severe obstacle (World Bank/EBRD Business Environment and Enterprise Performance Survey, 2008)
Market-supporting institutions and policies [50%]	Development of adequate legal and regulatory framework [50%]	Registering property (World Bank *Doing Business*, 2010) Getting credit (World Bank *Doing Business*, 2010)
	Business environment [50%]	Closing a business (World Bank *Doing Business*, 2010) Enforcement of contracts (World Bank *Doing Business*, 2010)

Source: EBRD.

We believe it would be useful here to assess the interest rate levels for financing to MSMEs by commercial banks, if this is not already taken into account in the “access to finance presents a major/severe obstacle” indicator.

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