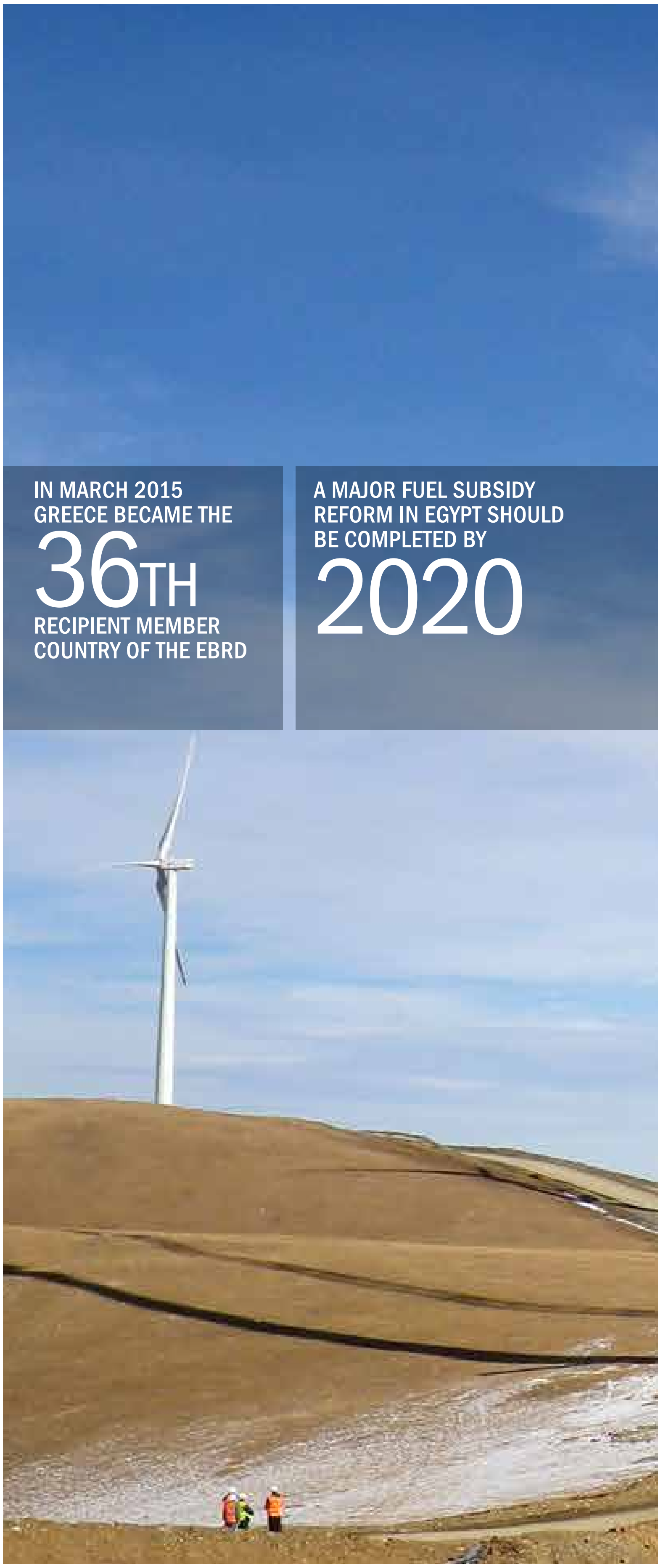
While the political and economic environment remains challenging, the outlook for market reforms appears to have improved. There are opportunities for reform in many sectors and countries that could help to bring economic structures and institutions more into line with those of advanced market economies. However, many transition countries still lag behind best practices when it comes to promoting the sustainable use of resources and inclusion.



Introduction

The last year has been another challenging one for reformers across the transition region. Many of the factors identified in the *Transition Report 2013* that keep countries "stuck" in transition and deter market-oriented reforms – such as weak or negative growth, global and regional turbulence and instability, and weak states and public administrations – continue to be observed. At the same time, however, encouraging signs of progress have been seen in selected cases. While there have been isolated instances of the reversal of reforms, the overall direction has been positive, which bodes well for longer-term growth prospects. In particular, significant progress has been made with the enhancement of infrastructure, as cash-strapped governments increasingly realise the value of fostering private-sector involvement in the building and maintenance of transport links and municipal services.

The EBRD has been systematically tracking the progress of transition and structural reforms since the first *Transition Report* was published in 1994. However, the way these assessments are carried out has evolved over the years.[1] A major advance in 2010 was the introduction of sector-level indicators. These now cover 18 sectors in each country, assessing the size of the remaining transition challenges in terms of creating market structures and building market-supporting institutions. The methodology underlying these sector-level scores is currently the subject of a thorough review and may be altered in the coming years. As a result, this year's *Transition Report* adopts a "light-touch" approach. Rather than carrying out a full update, this section reviews developments over the last year and flags major changes that could potentially – but will not necessarily – warrant an upgrade or downgrade of these sector-level scores in the future. As discussed below, the watch list that has been compiled this

[1] For a brief history of these transition indicators and details of how they have changed over time, see Chapter 1 of the *Transition Report 2010*.

STRUCTURAL REFORM

POSITIVE DEVELOPMENTS IN SECTOR-LEVEL TRANSITION INDICATORS OUTNUMBER NEGATIVE DEVELOPMENTS BY

30 TO 8

COMPARED WITH THE NEGATIVE OVERALL TREND LAST YEAR

21

OF THE 36 COUNTRIES IN THE REGION HAVE LARGE TRANSITION GAPS IN AT LEAST ONE COMPONENT OF THE NEW SUSTAINABLE RESOURCE INDEX year is, on balance, overwhelmingly positive. The horizontal country-level indicators measuring liberalisation, privatisation and enterprise reform have been discontinued this year, mainly because the measurement of transition progress has moved beyond the point where it can be adequately captured by these scores. However, developments in the area of competition policy, which is an area that still lags behind, are still being tracked carefully across the region using (among other things) a unique annual EBRD survey of competition authorities.

This year's *Transition Report* contains an important innovation, namely the introduction of two new sustainability indicators reflecting the EBRD's priorities under its Sustainable Resource Initiative (SRI). The existing sustainable energy indicator has been complemented by new indicators measuring the efficient use of water and materials. These two new components assess the extent to which the structures and institutions in the EBRD's countries of operations promote the reuse and recycling of natural resources. The results suggest that approaches to the efficient use of water and materials are even less developed than in the case of energy efficiency, with cost structures not taking account of the cost of water or environmental degradation.

Lastly, this section updates the EBRD's youth and gender inclusion scores. The problem of young people being excluded from economic opportunities has attracted attention at a global level in recent years, as it is believed to be one of the main sources of regional instability. The results show that high unemployment among youth populations is a common feature of many parts of the transition region and is exacerbated by large skill mismatches, especially in the southern and eastern Mediterranean (SEMED).

Sector-level transition indicators

Table S.1 presents the current transition scores – which range, as usual, from 1 (denoting little or no progress with market-oriented reforms) to 4+ (denoting the standards of an advanced industrialised economy) – for 15 sectors in 35 countries in the EBRD region.[2] As explained above, these scores are the same as those published in last year's *Transition Report*, since a full update has not yet been carried out. However, major reforms and other developments have taken place over the last year that may potentially entail changes to scores when the full assessment is conducted. Consequently, a number of scores in the table are shaded in green, indicating that they are on "positive watch", while others are shaded in orange, signalling that they are on "negative watch". The former outnumber the latter by a significant margin – by 30 to 8. At a broad sectoral level, the largest number of positive developments is in the area of infrastructure, with 14 scores on positive watch and just two on negative watch. However, positive developments also outnumber negative developments in the corporate sectors (by four to one), the financial sectors (by seven to four) and even the energy sector (by five to one), reflecting a more positive outlook than in recent years.

Infrastructure

The largest number of positive developments is in the road sector. In the majority of cases, this reflects an increasing interest in fostering private-sector involvement in the building of new roads or in the maintenance of existing networks. In Poland, for instance, the maintenance and reconstruction of regional roads is continuing to be tendered out on the basis of public-private partnerships (PPPs). In April 2015, for example, the Lower Silesian Road and Railway Service in Wroclaw issued a contract notice for an availability payments-based PPP involving the reconstruction and maintenance of between 90 and 315 kilometres of provincial roads in the Dolnoslaski region.

However, important developments on the PPP front are also occurring in less advanced countries. In Kazakhstan, the Almaty Ring Road PPP was tendered out in the summer of 2015. This was Kazakhstan's first PPP project, after the government amended legislation in June 2014 to facilitate PPPs. The project involves building a road of 66 kilometres around Kazakhstan's largest city under a 20-year availability payments-based concession. In Albania the government has relaunched the procurement process for the €40 million Milot-Morine Highway PPP, while preparations are under way for a first PPP road project in Belarus. Other positive developments in the road sector include the introduction of new tolling methods in Russia and Serbia, as well as ongoing discussions regarding the restructuring of a state-owned road construction and maintenance company in Croatia.

Several EU member states and candidate country Serbia have also made important progress in the area of railway-sector reform. Major restructuring of Serbia's state-owned railway company Železnice Srbije began in July 2015, while the Slovak Republic's wagon fleet is being privatised and Poland's freight operator PKP Cargo has conducted successful initial and secondary public offerings. In Croatia, meanwhile, there are several new entrants in the cargo market, including operators from Germany, Hungary and the Slovak Republic. Reforms are also under way in the urban transport sector, which has seen increases in the numbers of private bus operators and maintenance providers in Hungary, as well as a new system for collecting tolls from heavy goods vehicles to be introduced in Russia by the end of 2015.

The picture is more mixed in the water and wastewater sector. In Egypt, a new tariff adjustment schedule for water and wastewater has been endorsed by the government with the aim of achieving full cost recovery for commercial users and improving cost-recovery rates for household users within the next five years. The first tariff increases took place in July 2015. In Armenia there has been a reversal of decentralisation over the last year, with the government announcing its intention to consolidate all water assets in the country under a single operator. Generally, decentralised structures tend to be more conducive to efficiency gains, as local operators have a clear responsibility for running their operations in a cost-effective manner. In the case of Armenia, however, the government is more concerned in the short term about imposing greater discipline and curbing corruption. Once these objectives have

[2] In March 2015 Greece became a recipient member country of the EBRD. As in the case of Cyprus, the EBRD's involvement in Greece is expected to be temporary, with no new investment after the end of 2020. The EBRD is carrying out a full assessment of the sectoral challenges facing Greece as part of the development of a formal strategy for the country.

TABLE S.1. Sector-level transition indicators in 2015: overall scores and countries on positive/negative watch

	Corporate sectors				Energy		Infrastructure				Financial sectors				
	Agribusiness	General industry	Real estate	ICT	Natural resources	Electric power	Water and wastewater	Urban transport	Roads	Railways	Banking	Insurance and other financial services	MSME finance	Private equity	Capital markets
Central Europe and the Baltic states															
Croatia	3	3+	3+	4	4-	3	3+	3+	3+	3-	3+	3+	3-	2+	3+
Estonia	3+	4+	4+	4	4	4+	4	3+	3	4	4-	3+	3+	3-	3
Hungary	4	4-	4-	4-	4-	3	3+	3+	4-	3+	3	3	3	3	3+
Latvia	3	4-	4-	3+	4-	3+	3+	4-	3	4-	3+	3+	3	2+	3+
Lithuania	3+	4	4-	4-	4-	3+	3+	4-	3	3	3+	3+	3	2+	3
Poland	3+	4-	4-	4	3	3+	4-	4-	4-	4-	4-	3+	3	3+	4-
Slovak Republic	3+	4+	4	4-	4-	4	3+	3+	3+	3+	4-	3+	4-	2+	3
Slovenia	4-	3+	4	3+	3+	3	3+	3+	3	3	3	3+	3-	3-	3+
South-eastern Europe															
Albania	3-	2+	3-	3+	3-	2+	2+	3-	3-	2	3-	2	3-	1	2-
Bosnia and Herzegovina	3-	2	2-	2+	2	2+	2	2+	3	3+	3-	2+	2+	2-	2
Bulgaria	3	3+	3+	4-	3+	3	3	3+	3-	3+	3	3+	3	3-	3-
Cyprus	3-	4+	3	4-	3-	3	3+	3+	3	Not applicable	3-	Not available	Not available	Not available	3+
FYR Macedonia	3-	3	3-	4-	2+	3	2+	3-	3-	3-	3-	3-	3	1	2-
Kosovo	2+	2-	2-	2+	2	2+	2+	2+	2+	3-	2+	2	3-	1	1
Montenegro	2+	2+	2+	3+	3+	2+	2	3	2+	2+	3-	2+	3	1	2
Romania	3	3+	3+	3+	4-	3+	4-	3+	3	3+	3	3+	3	3-	3-
Serbia	3-	3-	3-	3	2	2+	2+	3-	3-	3	3-	3	3	2	2
Turkey	3-	3	3+	3+	3+	3+	3-	3	3-	3-	3+	3	3	3-	4
Eastern Europe and the Caucasus															
Armenia	3-	3	3-	3	2+	3+	3-	2+	3-	2+	2+	2	2+	1	2
Azerbaijan	2+	2	2	2-	2+	2+	2-	2	2+	2+	2	2	2	1	2-
Belarus	2+	2	2	2	1	1	2-	2	2	1	2	2	2	1	2-
Georgia	3-	3-	3-	3-	2	3+	2	2+	2+	3	3-	2	3-	1	2-
Moldova	3-	2-	2+	3	3	3	2	3	3	2	2+	2+	2	2-	2
Ukraine	3-	2+	3-	3-	2-	3	2+	3-	3-	2+	3-	2+	2+	2	2
Russia	3-	3-	3-	3+	2	3+	3	3	3-	4-	3-	3-	2	2+	4-
Central Asia															
Kazakhstan	3-	2	3	3	2-	3	2+	2+	3-	3	2+	2+	2	2-	2
Kyrgyz Republic	2+	2	2+	3	2-	2+	2	2	2-	1	2	2-	2-	1	2-
Mongolia	3-	2+	2	3	2	2+	2	2	2-	3-	2+	2	2+	2-	2-
Tajikistan	2	2-	2-	2+	1	2	2	2	2-	1	2	2-	2-	1	1
Turkmenistan	1	1	1	2-	1	1	1	1	1	1	1	2-	1	1	1
Uzbekistan	2	1	2	2	1	2+	2-	2	1	3-	1	2	1	1	1
Southern and eastern Mediterranean															
Egypt	2	2	2+	3	1	2+	1	2	2+	2-	2+	2+	2-	2	2+
Jordan	2	2+	3-	3+	2+	3	2-	2+	3-	2	3	2+	2+	2	2
Morocco	2+	3-	3-	3+	2-	2	2+	3	3-	2	3	3-	2+	2+	3
Tunisia	3-	3+	3-	3	2	2	2	2+	2+	2+	2+	2+	2	2-	2+

Green shading denotes country/sector on positive watch

Orange shading denotes country/sector on negative watch

Source: EBRD.
Note: The transition indicators range from 1 to 4+, with 1 representing little or no change relative to a rigid centrally planned economy and 4+ representing the standards of an industrialised market economy. For a detailed breakdown of each of the areas of reform, see the methodological notes in the online version of this *Transition Report* (tr-ebrd.com). A country/sector being placed on positive or negative watch is indicated by a colour code: green indicates positive developments over the past year and orange indicates negative developments. The sustainable energy indicator has also undergone an assessment of positive and negative developments, but is presented in Table S.2 alongside the other two components of the sustainable resource index.

been achieved, the authorities should consider reinstating a more decentralised structure. In Tajikistan, meanwhile, the holding company responsible for most of the country's regional water supplies has become insolvent, partly as a result of inadequate management. However, this development could also represent an opportunity to restructure the management and governance of the majority of the country's water utilities, which has the potential (if good practices are implemented) to result in a much-improved structure for the provision of water services.

Corporate sectors

In recent years it has been difficult to detect tangible progress in the region's corporate sectors. By their very nature, corporate-sector reforms tend to be more incremental and take longer to have a visible impact on the economy. However, several countries have taken steps to improve the business environment and attract investment in the last year. One notable example is Albania, where concrete reforms have been implemented in order to make it easier to start a business and transfer property, and where a concerted effort is under way to reduce the size of the informal sector. In Egypt, meanwhile, major amendments to the country's investment law have been approved and ratified, strengthening the protection afforded to investors and streamlining procedures by setting up a one-stop shop. The resolution of disputes between investors has also been improved.

There have been mixed developments in privatisation of the telecommunications sector. The incumbent in the Slovak Republic, Slovak Telekom, was fully privatised by selling all remaining shares held by the government to Deutsche Telekom but in Slovenia the attempted sale of Telekom Slovenije failed, which had a negative impact on investor appetite in the sector.

Financial sectors

Many countries' financial sectors are still feeling the impact of the various crises that have hit the region in recent years and are struggling to deal with legacy and new non-performing loan portfolios. However, the last year has seen visible progress in this area, with efforts to clean up banking systems and strengthen their resistance to further shocks.

The country that has made the most progress is Ukraine which, since 2014, has seen the closure of more than 50 banks that were characterised by non-transparent ownership, excessive related party lending and weak management and corporate governance. However, banking-sector balance sheets in Ukraine remain under pressure owing to the strong depreciation of the hryvnia and increased credit risks in the context of the country's deep recession. Bank recapitalisation is ongoing and important regulations, including rules on related party lending, have been adopted in order to make the banking sector more resilient.

Elsewhere, major reforms are under way in both Cyprus, where new legislation on insolvency and foreclosure should help to address the country's serious non-performing loan problem, and Slovenia, where steps are being taken to consolidate the banking sector and prepare for privatisation. Tajikistan's banking sector is also under pressure from increasing levels of non-performing loans. Georgia, meanwhile, has been criticised by international financial institutions for proposing a banking supervision bill that would shift the supervisory responsibility for the financial sector away from the central bank to a new agency. Despite a presidential veto, the bill was approved by the Georgian parliament in September 2015, creating uncertainty about the future independence and quality of banking supervision in Georgia. The most negative development in the region's banking sectors was observed in Moldova, where a massive fraud in three large banks resulted in up to US$ 1 billion (around 13 per cent of the country's GDP) disappearing from the system. This highlighted the severe problems faced by the Moldovan banking system in terms of weak corporate governance and limited transparency.

Certain developments in Egypt could help improve the institutional environment for MSME finance. I-Score, an Egyptian private credit bureau that focuses on SME and consumer information, has developed a separate entity that will provide SME credit ratings from 2016. The Egyptian government in collaboration with local banks is also working towards the establishment of one-stop shops where registration services and loan access are provided hand-in-hand. This could prove particularly helpful in the light of a large informal sector. In addition, a microfinance law was passed in the country in 2014, which should provide more clarity and certainty for operations in the sector.

In the non-bank financial sector, the past year has seen the adoption of a new commercial law in FYR Macedonia which provides better legal conditions for international financial institutions and private equity funds to invest in equity. FYR Macedonia is also hosting SEE Link, a new regional trading platform which brings the Macedonian, Bulgarian and Croatian stock exchanges together on a single trading platform. In Romania, the development of capital markets should be facilitated by a number of important legislative and regulatory changes that have taken place in 2014 and 2015. One negative development in the insurance sector is the backward step seen in Slovenia where the state has classified several insurance companies and pension funds as "strategic" with the intention of playing a major role in those companies. This means that the prospects for privatisation in that sector are even more remote than they were before.

Energy

Last year's *Transition Report* noted that 2014 could prove to be a turning point for reforms in the energy sector after several difficult years during which a number of countries reversed previous reforms. On the evidence of developments so far in 2015, that optimism appears to be justified. The governments of both Egypt and Ukraine have introduced measures to reduce state subsidies related to energy prices, as a result of which there has been a sharp rise in prices for consumers. While such measures are often unpopular with the general public, they can help to remedy large deficits, allow state resources to be used for other, more pressing matters and can help to attract investment in the sector.

In Serbia the first phase of the corporate restructuring of state-owned energy company EPS has begun, and the retail electricity market for households was fully opened up in January 2015. However, there have been further negative developments in the Hungarian energy sector, following a succession of reductions in administered prices in recent years. Indeed, the price that Hungarian households pay for electricity is now significantly below the EU average.

In the natural resource sector, the most notable developments in the last year have also been observed in Egypt and Ukraine. In the former, a number of measures have been introduced to create a more stable and attractive operating environment for private investors: a fuel subsidy reform programme to align oil and gas prices with international levels by 2020 and the diversification of gas imports via competitive global liquefied natural gas markets. In Ukraine, a major reform of the gas sector is under way as part of the country's negotiations with international creditors. The Ukrainian authorities have made a decisive start in this regard, embarking on a tough reform programme designed to help the sector deal with corruption scandals. These initial steps include measures to tackle inefficiencies in the governance of state-owned company Naftogaz and reduce subsidies for end users.

Sustainable resources – a new approach to measurement

The sustainable use of resources lies at the heart of successful transition. In 2013 the EBRD launched its Sustainable Resource Initiative (SRI) with the aim of promoting the efficient use of energy, water and materials. This year's *Transition Report* presents two new indicators – measuring sustainable water and sustainable use of materials – as well as updating the existing transition scores for sustainable energy (positive/negative watch). While there are differences in the way these three indices are constructed, their key principles and main features are the same in the interests of consistency (see the methodological notes in the online version of this *Transition Report* for more details). All three are based on the familiar 1 to 4+ scale.

Table S.2 presents the scores for these indicators. Two general points immediately emerge from the table. The first is that the scores are fairly low on average, mostly clustered between 1 and 2+ (with the exception of central Europe and the Baltic states [CEB] where 3- is the lowest score). This suggests that, apart from the CEB countries, the region's sustainable resource gaps are generally large, particularly in the fields of water efficiency and materials efficiency. In fact, the water and materials indices are fairly similar to each other, with only a small number of countries recording differences of more than a couple of notches. The largest gaps can be found in eastern Europe and the Caucasus (EEC), Central Asia and the SEMED region, echoing the pattern observed for the other transition scores discussed above.

Second, there are significant market failures in all three SRI areas, implying that the adoption of legislation is the main driver of improvements. This is particularly true of sustainable water and recycling projects where the cost of water and environmental degradation is not factored in, which often leads to neglect on the part of companies and public bodies.

A further examination of the three indices yields a number of other interesting conclusions.

Sustainable energy gaps

As previous scores are available for this indicator, it is possible to see how the situation has evolved over time in different parts of the transition region. Although progress with renewable energy, a sub-component of the sustainable energy index, is most advanced in the CEB region and parts of south-eastern Europe (SEE), one notable feature of these results is that progress has slowed – and even been reversed in some cases – in EU member states and accession countries. This may be due to the financial pressures faced by governments, which have rushed to modify (as in the case of Romania) or cancel (as in the case of Bulgaria) their schemes supporting renewable energy. This has often had a negative impact on installations already in operation due to the retroactive nature of the measures taken.

Elsewhere in the region, some governments are turning to renewable energy as a solution to their energy shortages. Interestingly, in some SEMED countries (such as Jordan) competitive tender procedures for wind and solar photovoltaic power have led to prices that are lower than those paid to conventional fossil fuel installations. However, the overall picture in most non-EU countries shows some success with the adoption of primary legislation but little progress with designing and implementing all the required secondary rules and regulations. The result, therefore, is a relatively poor level of performance.

In the area of energy efficiency, energy tariffs in the residential sector rarely reflect costs. In some transition countries, energy is either provided virtually free of charge or collection rates are low. Even when prices reflect (or come close to reflecting) costs and collection rates are good, capital markets are not sufficiently well-developed to provide the funding required for further efficiencies. However, some progress is being made thanks to improved regulatory structures (such as minimum standards for buildings and industrial processes) and market incentives (such as cost-recovery tariffs, and reduced grid and commercial losses). There have also been some advances in the creation of national/regional carbon markets but pilot projects launched in this area (such as those in Kazakhstan and Ukraine, which the EBRD has supported with policy advice and technical assistance) have set the CO_2 price/carbon tax too low to act as a meaningful signal to markets.

Water efficiency gaps

A number of countries (and regions within individual countries) are suffering from water shortages. Detecting this phenomenon is not straightforward. When analysis is conducted using river basins as a baseline instead of national borders, a complex picture emerges with a number of regions being affected by water stress and/or vulnerability.[3] One finding from this index is that there is little correlation between the water efficiency transition score and water stress/vulnerability. In other words, problems with the supply or availability of water have not been enough to

[3] See Gassert et al. (2013).

trigger appropriate changes to regulations and market incentives. This is probably a reflection of several factors, such as (i) the need for international coordination in the case of some river basins; (ii) the substantial investment that is required, coupled with the difficulty of charging water and wastewater prices that would allow such investment to be financed; and (iii) the existence of deep externalities – not only environmental factors but also externalities relating to split incentives, asymmetric information and "early-mover costs".

The main driver of progress in this area is the adoption and enforcement of rigorous legislation, which in the EU finds expression in the Water Framework Directive. This is used as a benchmark for methodology and all related legislation (such as the Wastewater Directive, the Drinking Water Directive, and the Integrated Pollution Prevention and Control Directive). In non-EU countries in the region, there is only very limited regulation of water issues and priority is given to the quality and availability of drinking water and irrigation, which is typically responsible for up to 80 per cent of global water consumption. As regards market structures, much remains to be done in setting water supply, wastewater and water abstraction (extraction) tariffs at cost-recovery levels. Other challenges are cross-subsidisation (for agriculture and, to a lesser extent, households) and non-payment, which often exceeds 60 per cent in Central Asia and the EEC region. Sewerage infrastructure generally covers a good proportion of the urban population but a significant percentage of rural residents and businesses tend not to be covered.

Materials efficiency gaps

When assessing materials efficiency gaps, the principle of waste hierarchy should be used to guide policy design and implementation, as is the case in EU member states under the Waste Framework Directive. It is common in Central Asian, EEC and certain SEMED countries to dump most – if not all (in the case of Armenia, for example) – waste in uncontrolled areas. Recycling rates are often close to zero.

The EU member states and most accession countries have enacted the framework law and the by-laws (regarding packaging, end-of-life vehicles, electronic equipment and batteries) required by the EU and in some cases they are doing well in terms of achieving certain targets. Difficulties normally arise at the implementation stage, with one typical example being the persistence of dumping sites and illegal landfills. Bulgaria, for instance, still sends 100 per cent of its municipal solid waste to landfill sites, despite 50 per cent recycling being the agreed EU target for 2020. In other countries enforcement is skewed to protect nationally important industries. For example, there is no scheme for oil in Estonia, where the shale oil mining industry produces around 73 per cent of total non-hazardous waste.

In SEMED countries, waste is typically a lower priority than water or energy, so they either lag behind in terms of formulating comprehensive framework legislation on waste (as in the case of Egypt and Jordan) or they devote insufficient resources to its effective implementation (as in the case of Tunisia and Morocco). The informal sector plays an important role in reusing and recycling a variety of materials, typically in very unsafe and insanitary conditions. At the same time, the lack of a suitable supply chain providing a reliable flow of waste acts as a barrier to the adoption of commercial reuse/recycling strategies, with companies sometimes preferring to import waste rather than using the waste produced locally.

Youth and gender inclusion gaps

The EBRD's youth and gender inclusion gaps have been updated for 2015, with Greece being included in the assessment for the first time. Meanwhile, the analysis of youth inclusion has been expanded this year to incorporate new information. Indicators have been added to explore the extent to which labour market structures affect youth employment, specifically with reference to labour market regulations and business constraints, the ease of starting a business and the level of labour taxes and contributions as a percentage of profit (with that information being taken from the World Bank Enterprise Survey 2014 and the World Bank Doing Business Report 2015). Youth employment gaps have also been expanded to include long-term unemployment, informal and vulnerable employment and school leaver/graduate unemployment rates (using International Labour Organization [ILO] and World Bank data for 2014).

The resulting gaps are shown in Table S.3. They paint a stark picture of the challenges that young labour market entrants face in many parts of the transition region. More than half of the young labour force (age 15-24) is unemployed in Bosnia and Herzegovina, FYR Macedonia and Greece, with youth unemployment rates also exceeding 40 per cent in Montenegro and Serbia. Youth unemployment rates remain at 30 per cent across the SEMED region with the majority of unemployed young people still searching for their first jobs after completing their education. More than 80 per cent of unemployed young people in Egypt have been unemployed for more than 12 months. In parallel, the SEMED countries experience some of the highest rates of inactivity, with a third of young people "not in employment, education or training" (NEET).

Paradoxically, high unemployment rates often co-exist with a widespread shortage of skilled workers for available entry-level jobs, suggesting a skills mismatch (that is to say, a misalignment between the relative compositions of labour demand and labour supply). In order to examine this issue, a new skills mismatch dimension has been added to the assessment of youth inclusion gaps. These gaps are based on the ILO's Key Indicators of Labour Markets (KILM; 2012 data and latest figures) and measure two types of skills mismatch (using levels of educational attainment as a proxy for skills). The first type concerns mismatches between the supply of and demand for skills and is based on a comparison of the educational attainments of employed and unemployed people. The second concerns the mismatches between the skills that young people possess and those required by their jobs. In addition, the gap assessment also includes an indicator measuring firms' perception of the extent to which the skills mismatch constitutes an obstacle to their operations (with these data taken from the fifth round of the Business Environment and Enterprise Performance Survey [BEEPS V]).

TABLE S.2. Sustainable Resource Initiative (SRI) transition gaps in 2015: overall scores

	SRI		
	Water efficiency	Materials efficiency	Sustainable energy
Central Europe and the Baltic states			
Croatia	3	3	3-
Estonia	3	3+	3-
Hungary	3+	3+	3
Latvia	3+	3	3+
Lithuania	3	3+	3+
Poland	3	3	3
Slovak Republic	3+	3+	3
Slovenia	3	3	3+
South-eastern Europe			
Albania	2	2	3+
Bosnia and Herzegovina	2+	2	2
Bulgaria	3-	3-	3-
Cyprus	3-	2+	3-
FYR Macedonia	2	2	2+
Greece	3-	3-	4-
Kosovo	2-	2	2-
Montenegro	2+	2+	2
Romania	3-	3-	3+
Serbia	2	2+	2+
Turkey	2+	3-	3
Eastern Europe and the Caucasus			
Armenia	2	2-	3-
Azerbaijan	2-	2	2+
Belarus	2	2+	2
Georgia	2-	2-	3-
Moldova	2	2	2+
Ukraine	2	2	2+
Russia	3-	3-	2
Central Asia			
Kazakhstan	2	1	2-
Kyrgyz Republic	2-	1	2
Mongolia	2+	1	2
Tajikistan	1	1	2+
Turkmenistan	1	1	1
Uzbekistan	2-	1	2-
Southern and eastern Mediterranean			
Egypt	2-	2-	2+
Jordan	2	2	2+
Morocco	2+	2	3
Tunisia	2+	2+	3-

Source: EBRD.
Note: The sustainable water and materials indicators are new this year, whereas a watch list approach similar to the one for the other sector assessments has been applied to the sustainable energy indicator. There have been seven instances of positive developments and one negative development, which are denoted by green and orange shading, respectively – Latvia and Lithuania are making good progress towards their renewable energy targets, possibly before the deadline in 2020. Poland is also progressing with the transposition and implementation of EU directives. In FYR Macedonia, tendering procedures for hydro-power plants have been improved and the penetration of renewable energy technology has increased. Serbia has also seen positive developments by passing a new Energy Law with the potential of unlocking sustainable energy investments. By adopting its "Green Economy Concept" in 2013, Kazakhstan has committed to making sustainability an important policy objective and Egypt has created stronger incentives for sustainable energy investments by creating a feed-in tariff system and increasing electricity tariffs. The negative outlook for Albania reflects the government's hesitation in approving and transposing key sustainable energy legislation and a deteriorating business environment for owners of hydro-power plants.

The largest skills mismatch gaps can be observed in the SEMED countries, Turkey, Romania and the Kyrgyz Republic, where large percentages of undereducated young people co-exist with rising graduate unemployment, highlighting the complexity of the challenge that these countries face (see column 5 of Table S.3). Skills mismatches are a particular concern in Egypt and Jordan where almost 50 per cent of employers consider an inadequately educated workforce to be a "major" constraint on their firms. Skills mismatch gaps are medium-sized in almost all other countries for which data are available (with the exception of Estonia where the gap is small). These results are broadly in line with the gaps observed in relation to the quality of education, which are large in most SEMED countries (as well as Azerbaijan, the Kyrgyz Republic, Romania and Ukraine) and medium-sized in most other countries (with the exception of Estonia, Georgia and Slovenia, where they are small), highlighting the need to realign curriculums and teaching methods, as well as the need for more effective work-based learning opportunities that are in line with the needs of the private sector.

Lastly, financial inclusion gaps for young people show signs of narrowing in Serbia and Turkey. These developments aside, financial inclusion has generally been downgraded since last year owing to the addition of a new indicator measuring the percentage of young people saving money with a formal financial institution. The youth inclusion gaps for labour market structure remain largely unchanged, with the exception of upgrades for Bulgaria and Jordan and a downgrade for the Kyrgyz Republic due to lower scores for the ease of starting a business (as shown by the World Bank Doing Business Report 2015).

The gender inclusion gaps have also been revisited and updated in 2015, with indicators added for most dimensions to strengthen the focus on social norms and women's agency, female decision-making in employment, business and administrations, and female graduates in STEM (science, technology, engineering and mathematics) subjects. The resulting gender gap assessment (see Table S.4) shows medium to large gaps in relation to legal regulations and social norms in the SEMED region and increases from small to medium-sized gaps across parts of eastern Europe and the Caucasus and Central Asia. Gaps in relation to education and training have risen to medium-sized in central Europe and some Central Asian countries (namely the Kyrgyz Republic, Mongolia and Uzbekistan) whereas gaps regarding access to finance, labour policies and labour practices have remained broadly unchanged across all regions.

TABLE S.3. Youth inclusion gaps in 2015

	Labour market structure	Youth employment	Quantity of education	Quality of education	Skills mismatch	Financial inclusion
Central Europe and the Baltic states						
Croatia	Medium	Large	Small	Medium	Medium	Medium
Estonia	Small	Medium	Small	Small	Small	Small
Hungary	Medium	Medium	Small	Medium	Medium	Medium
Latvia	Small	Medium	Small	Medium	Medium	Small
Lithuania	Medium	Medium	Negligible	Medium	Medium	Large
Poland	Medium	Large	Small	Medium	Medium	Medium
Slovak Republic	Medium	Large	Small	Medium	Medium	Large
Slovenia	Medium	Medium	Small	Small	Medium	Small
South-eastern Europe						
Albania	Medium	Large	Small	Medium	Not available	Small
Bosnia and Herzegovina	Medium	Large	Medium	Medium	Not available	Medium
Bulgaria	Medium	Medium	Medium	Medium	Medium	Medium
Cyprus	Small	Large	Small	Medium	Medium	Medium
FYR Macedonia	Small	Large	Medium	Medium	Medium	Medium
Greece	Medium	Large	Small	Medium	Medium	Medium
Kosovo	Small	Large	Not available	Not available	Medium	Small
Montenegro	Small	Large	Negligible	Medium	Not available	Medium
Romania	Medium	Large	Small	Large	Large	Small
Serbia	Medium	Large	Medium	Medium	Not available	Medium
Turkey	Medium	Large	Medium	Medium	Large	Medium
Eastern Europe and Caucasus						
Armenia	Small	Large	Small	Medium	Medium	Small
Azerbaijan	Medium	Large	Medium	Large	Not available	Medium
Belarus	Medium	Small	Small	Medium	Not available	Medium
Georgia	Small	Large	Medium	Small	Not available	Medium
Moldova	Medium	Medium	Small	Medium	Medium	Small
Ukraine	Medium	Medium	Small	Large	Medium	Small
Russia	Medium	Medium	Small	Medium	Medium	Medium
Central Asia						
Kazakhstan	Small	Medium	Small	Medium	Not available	Medium
Kyrgyz Republic	Small	Large	Small	Large	Large	Medium
Mongolia	Small	Large	Medium	Medium	Not available	Small
Tajikistan	Medium	Large	Medium	Not available	Not available	Medium
Turkmenistan	Not available	Not available	Negligible	Not available	Not available	Small
Uzbekistan	Medium	Not available	Medium	Not available	Not available	Large
Southern and eastern Mediterranean						
Egypt	Medium	Large	Large	Large	Large	Medium
Jordan	Medium	Large	Small	Medium	Large	Medium
Morocco	Medium	Large	Large	Large	Not available	Large
Tunisia	Medium	Large	Medium	Large	Large	Small
Comparator countries						
France	Medium	Medium	Small	Medium	Medium	Medium
Germany	Medium	Small	Medium	Medium	Small	Small
Italy	Medium	Large	Small	Medium	Medium	Large
Sweden	Medium	Medium	Medium	Small	Small	Small
UK	Small	Medium	Small	Small	Medium	Small

Source: EBRD.
Note: Methodological changes have been made in the following areas: labour market structure, quantity and quality of education, financial inclusion and youth employment (previously called "opportunities for youth"). Please refer to the methodological notes in the online version of this *Transition Report* (tr-ebrd.com) for more details.

TABLE S.4. Gender inclusion gaps in 2015

	Legal regulations and social norms	Access to health services	Education and training	Labour policy	Labour practices	Employment and business	Access to finance
Central Europe and the Baltic states							
Croatia	Small	Small	Medium	Medium	Medium	Medium	Small
Estonia	Small	Small	Medium	Small	Large	Medium	Medium
Hungary	Small	Small	Medium	Small	Medium	Medium	Medium
Latvia	Small	Small	Medium	Small	Large	Medium	Medium
Lithuania	Small	Small	Medium	Negligible	Medium	Medium	Medium
Poland	Small	Small	Small	Small	Medium	Medium	Medium
Slovak Republic	Small	Small	Medium	Small	Medium	Medium	Medium
Slovenia	Small	Negligible	Medium	Small	Medium	Medium	Medium
South-eastern Europe							
Albania	Medium	Small	Small	Small	Medium	Large	Medium
Bosnia and Herzegovina	Medium	Medium	Medium	Small	Medium	Large	Medium
Bulgaria	Small	Small	Medium	Small	Medium	Medium	Small
Cyprus	Small	Not available	Negligible	Not available	Not available	Medium	Small
FYR Macedonia	Medium	Medium	Medium	Small	Large	Medium	Large
Greece	Large	Not available	Small	Medium	Large	Large	Medium
Kosovo	Not available	Not available	Not available	Not available	Not available	Not available	Large
Montenegro	Small	Medium	Negligible	Medium	Large	Large	Medium
Romania	Small	Medium	Small	Small	Large	Medium	Medium
Serbia	Small	Small	Small	Small	Large	Medium	Medium
Turkey	Small	Small	Medium	Small	Large	Large	Large
Eastern Europe and Caucasus							
Armenia	Medium	Medium	Small	Negligible	Large	Medium	Medium
Azerbaijan	Small	Medium	Medium	Medium	Large	Large	Large
Belarus	Small	Small	Medium	Medium	Large	Small	Medium
Georgia	Medium	Medium	Medium	Small	Large	Medium	Small
Moldova	Medium	Medium	Medium	Small	Large	Small	Small
Ukraine	Small	Small	Medium	Small	Large	Medium	Medium
Russia	Small	Small	Negligible	Medium	Large	Medium	Medium
Central Asia							
Kazakhstan	Medium	Medium	Negligible	Medium	Medium	Medium	Medium
Kyrgyz Republic	Medium	Medium	Medium	Medium	Large	Medium	Small
Mongolia	Small	Medium	Small	Medium	Large	Small	Small
Tajikistan	Medium	Medium	Medium	Small	Large	Large	Large
Turkmenistan	Medium	Medium	Not available	Medium	Large	Medium	Large
Uzbekistan	Medium	Medium	Medium	Medium	Large	Large	Large
Southern and eastern Mediterranean							
Egypt	Large	Medium	Medium	Medium	Large	Large	Large
Jordan	Large	Medium	Medium	Medium	Large	Large	Large
Morocco	Medium	Large	Large	Medium	Large	Large	Large
Tunisia	Medium	Small	Medium	Small	Medium	Large	Large
Comparator countries							
France	Small	Small	Medium	Medium	Medium	Medium	Medium
Germany	Negligible	Small	Medium	Negligible	Medium	Medium	Small
Italy	Small	Negligible	Small	Small	Medium	Medium	Large
Sweden	Negligible	Negligible	Medium	Negligible	Small	Small	Small
UK	Medium	Small	Medium	Small	Medium	Medium	Small

Source: EBRD.
Note: Methodological changes have been made in the following areas: Legal regulations and social norms, access to health services, education and training, labour practices, employment and business, and access to finance. Please refer to the methodological notes in the online version of this *Transition Report* (tr-ebrd.com) for more details.

References

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"A weighted aggregation of spatially distinct hydrological indicators", World Resources Institute working paper.