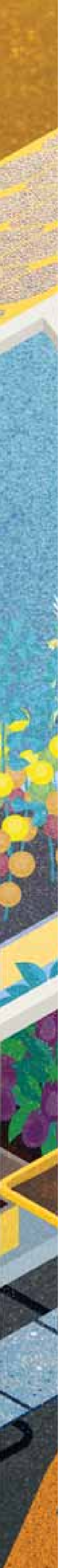
6 STRUCTURAL REFORM

While progress in the area of structural reform has been modest, positive developments outweigh negative ones in most of the economies where the EBRD invests. Competitiveness scores have been revised upwards in multiple countries, driven by improvements in the business climate. Modest progress has also been observed in the area of good governance. Green scores have improved, with countries continuing to strengthen their commitment to reducing greenhouse gas emissions. While financial inclusion has also improved, progress in respect of other areas of inclusion is lacking. Despite little change in financial resilience scores, marked progress has been seen in the area of energy resilience. Modest increases have also been observed in integration scores, driven by improvements in the quality of logistics services and related infrastructure.



Introduction

The EBRD has been tracking the progress of transition and structural reforms since the first *Transition Report* was published back in 1994. However, the methodology underlying that assessment has evolved over the years. A major change occurred last year, when the *Transition Report 2017-18* unveiled a new set of indicators based on the EBRD's revised concept of transition, which was developed in 2016.[1]

As explained in last year's report, EBRD economists have developed a methodology which measures transition economies' progress against six key qualities of a sustainable market economy, looking to see whether they are competitive, well-governed, green, inclusive, resilient and integrated. Each of the resulting "assessment of transition qualities" (ATQ) scores has a scale of 1 to 10 (where 1 is the worst and 10 is the best) and is based on a wide range of indicators.

The purpose of this section of the report is threefold. First, updated ATQ scores are presented for all of the economies where the EBRD invests, allowing us to see where each economy stands in relation to its neighbours and countries in other regions. Second, a comparison is drawn with last year's scores, highlighting countries and sectors where significant developments have occurred. And third, for selected economies (based on the availability of data), an analysis of developments over a longer period (from 2010 to 2017) is also carried out.

Transition scores

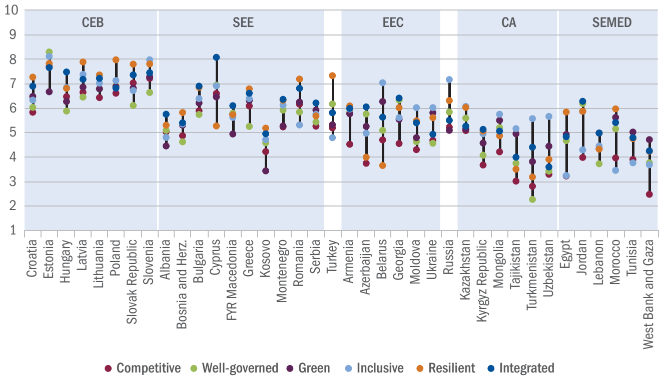
While progress with structural reforms has been slow in many areas and many countries, positive developments outweigh negative ones overall (see Table S.1 and Chart S.1).[2] It should be noted, in this regard, that the methodology has been refined further since last year's report, and the new refined methodology has been applied to calculate scores for both 2017 and 2018. Therefore, scores for 2017 may differ from those published last year. One example of such a change is the addition of a knowledge economy index to the data used to assess economies' competitiveness, as discussed below.[3]

A number of countries in south-eastern Europe (SEE) and eastern Europe and the Caucasus (EEC) have increased their ATQ scores for **competitiveness**, mainly owing to further improvements in the business climate. Several economies in the EEC region have also seen progress in the area of **good governance**. Meanwhile, many countries have achieved modest improvements in their **green** scores, following ratification of the Paris Agreement and the adoption of legislation strengthening their commitment to reducing greenhouse gas emissions and tackling climate change.

Developments across the three components of the **inclusion** score – youth, gender and regional inclusion – have been uneven. Some progress appears to have been made with financial aspects of youth and gender inclusion, but progress in other areas is still lacking. The picture is also mixed when it comes to **resilience**. Progress in the area of financial resilience has been very modest, but energy resilience appears to have improved in many economies across the EBRD regions. Ukraine has been the standout performer in this area, thanks to significant improvements in the legal and regulatory framework governing the energy sector. Lastly, the SEE and EEC regions have also seen some improvements in **integration** scores, largely owing to improvements in the quality of logistics services and related infrastructure.

Within certain indicators, one notable development is an increase in the risk of inadequate compliance with frameworks aimed at combating money laundering and the financing of terrorism (AML/CFT frameworks), particularly in a number of southern and eastern Mediterranean (SEMED), Central Asian and SEE economies. Moreover, several economies have seen declines in the perceived transparency of government policymaking. A number of indicators of financial resilience have worsened as well, with further increases in non-performing loan (NPL) ratios being observed in Kazakhstan and Ukraine, and banking-sector liquidity deteriorating in certain Central Asian countries. Meanwhile, net FDI and non-FDI capital inflows have, with few exceptions, generally remained unchanged or declined as a percentage of GDP.

CHART S.1. Transition scores for six qualities of a sustainable market economy



Source: EBRD.

ATQ SCORES FOR THE
6
KEY QUALITIES OF A SUSTAINABLE MARKET ECONOMY ARE BASED ON
139
INDICATORS

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[1] For more details, see www.ebrd.com/news/2016/ebrd-updates-transition-concept-.html
[2] Due to lags in the availability of data, ATQ scores for a given year may not correspond fully to that calendar year. In particular, ATQ scores for 2018 reflect progress in transition based primarily on data available for the years 2016-17.
[3] For more details of changes to the methodology, see the methodological notes at http://2018.tr-ebrd.com.

TABLE S.1. Transition scores for six qualities of a sustainable market economy

	Competitive		Well-governed		Green		Inclusive		Resilient		Integrated	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Central Europe and the Baltic states												
Croatia	5.8	5.9	6.0	6.2	6.5	6.2	6.3	6.4	7.3	7.2	6.9	6.9
Estonia	7.7	7.7	8.3	8.4	6.7	6.7	8.1	8.1	7.8	7.8	7.7	7.7
Hungary	6.5	6.5	5.9	5.9	6.3	6.3	6.8	6.8	6.8	6.8	7.5	7.6
Latvia	6.6	6.6	6.4	6.7	6.9	6.6	7.4	7.4	7.9	7.7	7.2	7.5
Lithuania	6.4	6.4	6.8	6.9	6.8	6.5	7.0	6.9	7.4	7.4	7.2	7.5
Poland	6.6	6.5	6.9	7.1	6.9	6.9	7.1	7.0	8.0	7.9	6.8	6.8
Slovak Republic	7.0	7.1	6.1	6.1	6.8	6.8	6.7	6.6	7.8	7.8	7.4	7.5
Slovenia	7.2	7.2	6.6	6.7	7.3	7.0	8.0	7.8	7.8	7.8	7.4	7.3
South-eastern Europe												
Albania	5.0	4.9	5.1	5.1	4.4	4.4	4.8	4.8	5.3	5.2	5.7	5.7
Bosnia and Herzegovina	4.9	4.9	4.6	4.8	5.3	5.0	5.3	5.3	5.8	5.8	5.4	5.3
Bulgaria	5.9	5.9	5.7	5.8	6.2	6.0	6.4	6.2	6.8	6.8	6.9	6.8
Cyprus	6.6	6.5	6.9	6.8	6.5	6.2	6.9	7.0	5.3	5.2	8.1	7.9
FYR Macedonia	5.7	5.6	5.8	5.8	4.9	4.9	5.6	5.6	5.7	5.6	6.1	6.0
Greece	6.1	6.0	5.2	5.3	6.3	6.3	6.4	6.3	6.8	6.8	6.6	6.3
Kosovo	4.2	4.1	4.6	4.6	3.4	3.4	4.7	4.7	5.2	5.0	4.9	4.7
Montenegro	5.2	5.2	5.9	5.8	5.3	5.3	6.1	6.1	6.3	6.3	6.4	6.2
Romania	6.2	6.2	5.8	5.8	6.2	6.0	5.3	5.3	7.2	7.2	6.8	6.7
Serbia	5.3	5.1	5.4	5.4	5.9	5.7	5.7	6.0	5.7	5.7	6.2	6.2
Turkey	5.2	5.2	6.2	6.2	5.3	5.3	4.8	4.7	7.3	7.2	5.8	5.9
Eastern Europe and the Caucasus												
Armenia	4.5	4.5	5.8	5.7	5.8	5.5	6.0	5.6	6.1	6.2	6.0	5.8
Azerbaijan	3.7	3.6	5.8	5.4	5.2	5.0	5.0	4.8	4.0	3.9	6.0	5.9
Belarus	4.7	4.5	5.1	4.9	6.3	6.3	7.0	6.9	3.6	3.6	5.6	5.5
Georgia	4.5	4.5	6.3	6.4	5.5	5.3	5.6	5.4	6.0	5.8	6.4	6.3
Moldova	4.3	4.3	4.6	4.5	4.8	4.5	6.0	5.7	5.5	5.3	5.4	5.5
Ukraine	4.7	4.6	4.6	4.4	5.8	5.8	6.0	6.0	5.6	4.9	4.9	4.9
Russia	5.2	5.1	5.8	5.8	5.1	5.1	7.2	7.1	6.3	6.2	5.5	5.4
Central Asia												
Kazakhstan	5.1	5.0	5.6	5.7	5.1	4.9	6.1	6.1	6.0	6.0	5.3	5.2
Kyrgyz Republic	3.7	3.7	4.1	4.1	4.6	4.6	4.9	4.8	5.1	5.1	5.1	4.9
Mongolia	4.2	4.2	5.2	5.3	5.5	5.5	5.7	5.7	4.9	4.9	5.1	5.4
Tajikistan	3.0	3.0	3.7	3.8	4.9	4.7	5.2	4.7	3.5	3.3	4.0	3.9
Turkmenistan	2.8	2.8	2.3	2.4	3.8	3.8	5.6	5.3	3.2	3.4	4.4	4.3
Uzbekistan	3.3	3.3	3.4	3.6	4.4	4.1	5.7	5.7	3.9	3.9	3.6	3.5
Southern and eastern Mediterranean												
Egypt	3.2	3.1	4.7	4.8	4.9	4.7	3.2	3.1	5.8	5.6	4.8	4.7
Jordan	4.0	4.0	6.2	6.3	5.9	5.9	4.3	4.3	5.9	5.9	6.3	6.4
Lebanon	4.3	4.4	3.7	3.8	5.0	5.0	4.4	4.5	4.3	4.3	5.0	5.0
Morocco	4.0	3.9	5.1	5.1	5.6	5.6	3.4	3.5	6.0	6.0	5.4	5.4
Tunisia	3.9	3.9	4.8	5.0	5.0	4.8	3.8	3.7	4.7	4.7	4.8	4.7
West Bank and Gaza	2.5	2.3	3.8	3.9	4.7	4.7	3.7	3.8	4.2	4.2	4.2	4.2

Source: EBRD.
Note: Scores range from 1 to 10, where 10 represents a synthetic frontier corresponding to the standards of a sustainable market economy. Scores for 2017 have been updated following methodological changes, so may differ from those published in the *Transition Report 2017-18*.

Competitive

Over the last year, many countries have seen improvements – albeit very modest ones – in their competitiveness scores. Increases have been observed in several SEE and EEC countries (including Albania, Azerbaijan, Belarus, FYR Macedonia, Kosovo and Serbia), driven by further improvements in the business climate.

A number of SEE and EEC countries have also taken steps to support the development of SMEs, with Greece, Romania, Serbia and Ukraine all seeing improvements in the EBRD's SME index.[4] Meanwhile, Azerbaijan has established a new Agency for the Development of Small and Medium-Sized Enterprises, which aims to improve and better coordinate the provision of public services to SMEs. Similarly, Georgia has eased the tax burden for small businesses, increased the number of firms that fall into this category and abandoned the requirement

[4] This index is an indicator that measures progress with reforms aimed at supporting the financing and development of SMEs in the economies where the EBRD invests.

for advance payment of tax, significantly improving the business environment for these firms.

Most countries have made modest progress in the area of the knowledge economy. This year, a knowledge economy index was added to the competitiveness index in order to measure progress in this area.[5] A number of countries have implemented further reforms, which are expected to bear fruit in the near future. For example, a presidential decree on the development of the digital economy was issued in Belarus at the end of 2017. The decree increases the number of activities that are subject to preferential regulatory treatment, expanding that category to include services relating to software development, marketing and advertising. In Tunisia, meanwhile, the country's parliament recently approved the Start-Up Act, which incentivises local entrepreneurs to launch new ventures. The new legislation aims to increase the number of Tunisian start-up companies, with a particular focus on the tech industry, with a view to boosting innovation and increasing the country's international competitiveness.

Well-governed

Improvements in the area of good governance have been concentrated primarily in the EEC region, with progress being observed in Armenia, Azerbaijan, Belarus, Moldova and Ukraine. Increases in these countries' scores have been driven by marginal improvements in the perceived quality of governance practices and standards in key areas, including the protection of private property and the availability of adequate frameworks for challenging regulations.

A number of changes – both positive and negative – have been observed in the perceived transparency of government policymaking. Scores have tended to be revised downwards overall, with notable declines being seen in Egypt, Latvia and Mongolia, but improvements have been observed in Hungary and Ukraine. Increases in the perceived regulatory burden have also been seen in a number of countries, particularly in Jordan, Kazakhstan and Latvia, while some improvements have been observed in Azerbaijan, Hungary and Morocco.

There has also been an increase in the risk of inadequate compliance with AML/CFT frameworks (as measured by the Basel AML Index). These risks have increased in Egypt, Hungary, Kazakhstan, Morocco, Serbia, Tunisia and Uzbekistan. However, some countries are making efforts to address this issue. For instance, Serbia recently agreed a 30-month Policy Coordination Instrument with the IMF, which involves commitments aimed at addressing weaknesses in the country's AML/CFT framework.

Green

Some improvements have been observed in green scores over the past year, especially in central Europe and the Baltic states (CEB) and the SEE and EEC regions. These have been driven primarily by changes in indicators measuring economies' commitments and actions in respect of their preliminary plans for addressing greenhouse gas emissions and tackling climate change (termed "intended nationally determined contributions" or INDCs).

In line with commitments made under the Paris Agreement, a total of 18 CEB, EEC, Central Asian and SEMED economies have now formally submitted final versions of their climate plans (termed "nationally determined contributions" or NDCs). For example, Uzbekistan's green score has been revised upwards as a result of the country signing up to the Paris Agreement and submitting its NDC (albeit it has done so slightly later than its neighbours). As regards biodiversity measures, a number of countries have seen improvements over the past year, particularly in the South Caucasus region, but notable deteriorations have been observed in Greece, Hungary, Lebanon and the Slovak Republic.

Overall, significant challenges remain across the EBRD regions in the area of green transition, particularly as regards (i) reducing emissions in the construction, industrial and energy sectors, (ii) strengthening resistance to the negative impact of climate change in the area of agricultural production, and (iii) increasing protection for land and marine areas. In many parts of the EBRD regions, additional work also needs to be carried out with a view to increasing the amount of electricity that is derived from renewable sources.

Inclusive

Modest progress has been seen across the three components of the inclusion index (youth, gender and regional inclusion) over the past year. Notable improvements have been observed in Armenia, Azerbaijan and Moldova, where percentages of women and young people with bank accounts have risen further, and improvements have also been seen in the perceived quality of education. In addition, women now account for a larger percentage of employers in Moldova. Several SEE countries have also seen some progress – albeit from a low base – in respect of financial aspects of youth and gender inclusion. In the Slovak Republic, meanwhile, a new law was adopted in early 2018 with a view to addressing regional disparities by incentivising investment in economically disadvantaged regions. At the same time, the country's newly launched 10-year educational development programme aims to reduce skills mismatches in the labour market.

Resilient

This quality consists of two distinct components: financial resilience and energy resilience. These are discussed in turn below.

Financial resilience

Very little progress has been observed over the last year in indicators of financial resilience. A number of countries have seen modest declines in the dollarisation of the financial sector, while loan-loss provision coverage ratios have increased in several economies (including Kazakhstan, Tajikistan and Ukraine). At the same time, the resilience of the financial sector remains weak in some countries, with further increases in NPL ratios being observed in Kazakhstan and Ukraine.

Ukraine's banking system has now been stabilised, following

[5] This index was established in 2018 in order to assess obstacles to innovation and the development of knowledge economies in the EBRD regions. It comprises 38 different indicators, which are grouped together in four pillars: (i) institutions for innovation, (ii) skills for innovation, (iii) the innovation system, and (iv) ICT infrastructure.

three years of intensive operations aimed at cleaning up and consolidating under-performing and poorly governed banks. At the same time, systemic risks remain, with high NPL ratios and a high degree of state ownership. After much delay, the Law on the Corporate Governance of State-Owned Banks was finally approved in 2018, which represents a positive development and is expected to reshape state-owned banks' supervisory boards. In Azerbaijan and Tajikistan, meanwhile, weak capital buffers, low levels of provisioning, rising NPL ratios and deficiencies in terms of banking regulation and supervision all represent significant challenges. Moldova's efforts to restore fit and proper ownership and governance in systemically important banks continue, following the successful sale of a 39.2 per cent stake in Victoriabank to a Romanian strategic investor in January 2018. And in Egypt, banks have weathered the aftermath of the currency depreciation seen at the end of 2016, with the chronic shortage of foreign currency in the economy having largely been resolved. In Turkey, meanwhile, the weakening of the lira, worsening asset quality and volatile investor sentiment are all weighing on the country's macroeconomic prospects, but its banking sector has proved resilient thus far.

While financial sectors in the EBRD regions remain bank-dominated, efforts are under way to foster the development of local capital markets, non-bank financial institutions, and venture capital and private equity funds. The availability of non-bank funding has the potential to enhance the corporate sector's ability to finance firms' expansion, which is particularly important for innovative firms that may not be in a position to obtain bank loans with high collateral requirements. In the EEC region and Central Asia, major challenges include further improving the adequacy of legal and regulatory frameworks, strengthening the independence and capacity of financial regulators, and introducing modern risk management and corporate governance practices.

Energy resilience

The CEB, EEC and SEE regions have seen the most notable improvements in energy resilience over the past year. Thanks to its adoption of the Electricity Market Law in 2016 and the Regulator Law in 2016, Ukraine is now compliant with the EU's Third Energy Package Directives, with a substantially improved legislative and regulatory framework governing the energy sector and a stronger role for the country's energy regulator. Meanwhile, a number of changes to the gas sector have improved the overall investment climate in the industry across the value chain.

Improved legal frameworks can also be found in Egypt, FYR Macedonia and Moldova. Moldova transposed the EU's Gas Directive in 2016 and has made significant progress in the area of implementation. In Egypt, midstream and downstream gas sectors continue to be dominated by the state monopoly, but the country's new Gas Market Law, which was approved by parliament in summer 2017, and the executive regulations that were approved in February 2018 have established the legal basis for unbundling and third-party access, supporting private-sector participation. A gas regulator has also been established, and that body has taken important steps with a view to building capacity. In FYR Macedonia, meanwhile, a new Energy Law was passed in May 2018. That law sets out a timetable for full retail market liberalisation and requires the competitive procurement of new renewable energy capacity, which is to be subsidised via a premium paid on top of the wholesale price.

In Kosovo and Latvia, significant progress has been made with the unbundling of the electricity and gas sectors respectively. In Kosovo, the unbundling of the transmission network has progressed further, with parliament assuming control of the transmission system operator KOSTT in line with the 2016 Electricity Market Law. Latvia, meanwhile, has chosen a model involving full unbundling of ownership for its gas sector, with unbundling of transmission, distribution and retail taking place throughout 2017. In Egypt, credible tariff reforms are ongoing and are being pushed through against an inflationary backdrop, although there remains uncertainty as to when cost reflectivity and market pricing will be achieved.

In Turkey, the private sector's role in the energy sector has grown significantly over the past few years, with further progress being achieved in 2017. In the area of power generation, new investment is predominantly carried out by independent producers, and the privatisation of existing public plants (especially small to medium-sized hydropower plants) is ongoing. According to the latest figures, 77 per cent of Turkey's total installed capacity (78.5 MW) is either owned or operated by private entities.

Despite recent progress, much remains to be done in terms of improving domestic and inter-country connectivity, boosting private-sector participation in the energy sector, implementing tariff reforms and further improving regulatory frameworks across the EBRD regions.

Integrated

Modest increases in integration scores have been observed in several countries over the last year, most notably in Armenia, Azerbaijan, Belarus, Kosovo, Montenegro and Romania. Those increases have been driven primarily by improvements in the quality of logistics services and infrastructure (particularly transport infrastructure), as well as further increases in net FDI and non-FDI capital inflows as a percentage of GDP. At the same time, integration scores have declined in some CEB countries, with the quality of logistics services (as measured by

UKRAINE'S ENERGY RESILIENCE SCORE HAS INCREASED BY

1.7

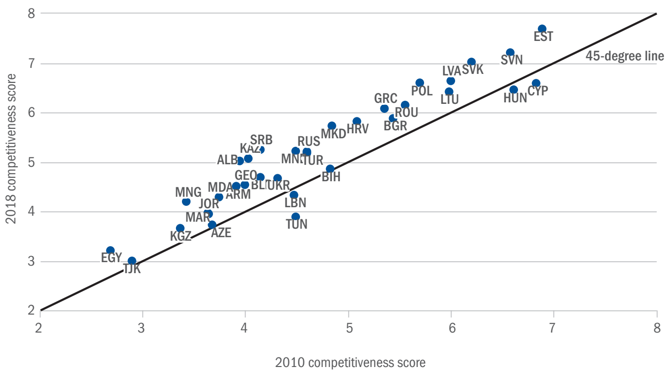
POINTS FOLLOWING SIGNIFICANT IMPROVEMENTS IN THE LEGAL AND REGULATORY FRAMEWORK GOVERNING THAT SECTOR

the World Bank's Logistics Performance Index) deteriorating in Latvia, Lithuania and the Slovak Republic. A similar trend can be observed in Egypt, Jordan and Turkey. Some improvement – albeit from a relatively low base – can also be observed in the quality of logistics and related services in certain Central Asian countries.

In many economies, domestic integration needs to improve further. While indicators of the quality of logistics services facilitating domestic trade and the timeliness of shipments have largely improved in the CEB and EEC regions, they have declined or remained unchanged in several Central Asian and SEMED economies. Further reforms aimed at improving the quality of domestic and international logistics and enhancing critical infrastructure are necessary across the EBRD regions.

When it comes to other aspects of integration, the degree of financial integration in the EBRD regions is yet to recover from the global financial crisis of 2008-09. In most economies where the EBRD invests, inward FDI has declined or remained unchanged over the past 10 years as a percentage of GDP. The strongest declines have been seen in Estonia, Hungary, Kazakhstan, Mongolia and Montenegro.

CHART S.2. Competitiveness scores, 2010 and 2018



Source: EBRD.

A multi-year analysis

The assessments above are based on score changes over a very short period of time, so they tell us little about the underlying long-term trends. In order to explore such longer-term patterns, the analysis in this section focuses on developments in respect of selected economies and qualities over the period 2010-17, on the basis of available data.

The results of this analysis point to a number of positive trends. Over the period 2010-17, there were marked improvements in competitiveness and integration across the EBRD regions, with weaker progress being observed in respect of the other qualities of sustainable market economies.

Indeed, the **competitiveness** of the EBRD regions has improved in a number of ways since 2010 (see Chart S.2). The general business climate and the business environment for SMEs have improved in many economies, particularly in Central Asia and the EEC region (albeit from a relatively low base). Significant declines in import tariffs (particularly in the SEMED region) have contributed to that improved environment. Gradual improvements have also been observed in the quality of logistics and related services.

Progress in respect of selected indicators of **good governance** was uneven over the period 2010-17. Although the perceived regulatory burden declined in many of the economies where the EBRD invests, the perceived transparency of government policymaking did not generally improve (with the exception of certain specific countries, such as Kazakhstan, Romania and Ukraine). Moreover, judicial independence and the availability of frameworks for challenging regulation were assessed as having weakened in some countries. Major obstacles remain as regards frameworks for challenging regulation, the protection of property rights, the transparency of government policymaking and the efficiency of legal frameworks for settling disputes.

The longer-term picture is also mixed as regards **inclusion**. Youth unemployment has declined somewhat, particularly in the SEE region, but it remains a key challenge for many countries. There have been marked improvements in the perceived quality of education (particularly in Armenia, Azerbaijan and Tajikistan), but some worsening has been observed in Morocco, Tunisia and a number of SEE countries. Meanwhile, the flexibility of hiring and firing practices appears to be declining, albeit with some exceptions. Significant challenges remain as regards ensuring access to critical services and infrastructure (such as heating and ICT) in economically disadvantaged regions, improving labour force participation rates among women, increasing the number of female employers, increasing the flexibility of hiring and firing practices, and improving the quality of education.

Long-term trends in the area of **financial resilience** have also been mixed. NPL ratios have declined in most countries in the CEB and SEE regions (aided by reforms in the context of an EBRD-supported regional NPL initiative). The stock of NPLs in Greece remains large, but thanks to increased provisioning, banks are making progress with the resolution of those impaired loans, with the sale of loan portfolios forming part of that approach. Meanwhile, credit has contracted in inflation-adjusted terms in a number of CEB, SEE, EEC and Central Asian countries, with deleveraging by subsidiaries of eurozone banks contributing to this trend in the CEB and SEE regions.

The overall level of **integration** and the quality of supporting hard and soft infrastructure both improved over the period 2010-17, with the exception of selected SEMED economies. The cost of trading across borders declined substantially over this period, with the largest cost reductions being observed in Central Asia. Exceptions to this trend include Egypt, Lebanon and Tunisia.

BOX S.1. How sensitive are these quality scores to the choice of methodology?

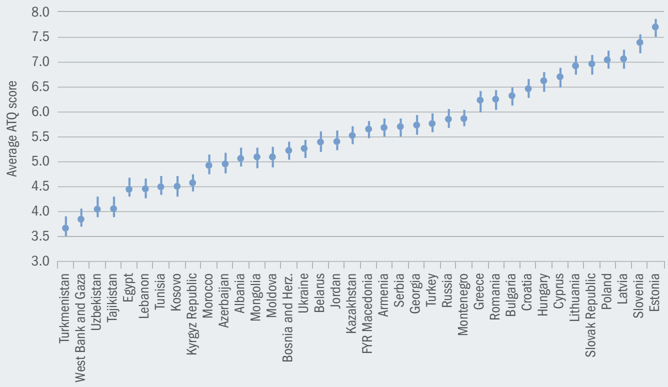
Calculating composite indicators such as the ATQ scores involves multiple steps and a number of methodological choices. If different choices are made, the values that are calculated for these composite indicators may vary, and so may the resulting rankings for each economy. The issue of the quality of the underlying data and the difficulty of measuring the phenomena of interest (such as the quality of education) introduces further measurement errors.

Sensitivity analysis can help to shed light on the extent to which final rankings are dependent on the choice of methodology. Two separate exercises have been carried out to this end, looking at both the indicators that are included in the composite index and the weights that are assigned to those various indicators when calculating an aggregate score.

In the first exercise, up to 50 per cent of the indicators included in each ATQ index were randomly excluded from the calculation in each simulation run. And in the second exercise, weights were subject to random shocks. In each exercise, the distribution of scores and rankings for each economy and each quality were obtained on the basis of 1,000 simulation runs. Charts S.1.1 and S.1.2 show the results of the first exercise, and the results of the second exercise (which are similar) are available on request.

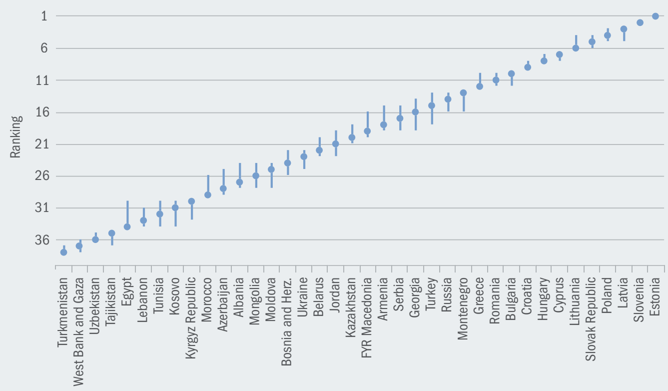
Overall, decisions regarding the specific indicators that are included in composite indices and the weights that are assigned to those indicators have a limited effect on the rankings and average ATQ scores of economies at the top and the bottom of the distribution of scores. However, the estimated variation in rankings is larger for economies in the middle of the score distribution. This needs to be taken into account when analysing the results of the EBRD's ATQ assessments. In particular, while the differences between the top-scoring economies and those at the bottom of the score distribution tend to be statistically significant, that is not necessarily the case when economies have relatively similar scores.

CHART S.1.1. Sensitivity of average ATQ scores to the exclusion of indicators



Source: EBRD and authors' calculations.
Note: The ranges shown indicate the 10th and 90th percentiles of the distributions of average scores across all six qualities. Calculations are based on 1,000 simulation runs.

CHART S.1.2. Sensitivity of country rankings based on average ATQ scores to the exclusion of indicators



Source: EBRD and authors' calculations.
Note: The ranges shown indicate the 10th and 90th percentiles of the distributions of rankings, calculated based on average scores across all six qualities. Calculations are based on 1,000 simulation runs.