6 STRUCTURAL REFORM

This section of the report presents updated transition scores for all of the economies in the EBRD regions. Over the past year, many countries have implemented reforms in the area of competitiveness, seeking to improve their tax regimes, develop support mechanisms for SMEs and restructure state-owned enterprises. A number of economies have achieved advances in the area of legislation with a view to tackling corruption or facilitating out-of-court dispute resolution. Several countries have made progress with the implementation of carbon pricing, while Montenegro, North Macedonia and Russia have all ratified the Paris Agreement. And new laws aimed at strengthening gender equality in the workplace have been adopted in a number of countries. At the same time, negative developments have been observed in several countries in terms of the degree of media freedom.

Introduction

This section of the report presents updated "assessment of transition qualities" (ATQ) scores for all of the economies where the EBRD invests. It measures those 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. It then compares those findings with last year's scores, highlighting significant developments that have occurred since the publication of last year's *Transition Report*. It also discusses major reform initiatives across the EBRD regions. As in 2018, the calculation methodology for the ATQ scores has undergone a number of changes, including the addition of new indicators for the inclusion, integration and resilience scores. The scores for previous years have been recalculated to reflect these changes, so they may differ from the scores published in 2018. The updated methodology is available online at 2019.tr-ebrd.com.

There have been a few sizeable changes in the scores for competitiveness, governance, green transition and resilience over the past year (see Table S.1 and Chart S.1). In this analysis, a change is considered sizeable if it exceeds 1 standard deviation of all changes in scores across all qualities and economies during the period 2018-19.

Changes to competitiveness scores largely reflect gradual improvements in the business environment, with a number of countries (including Azerbaijan, Georgia, Morocco and Turkey) making progress in this area. Meanwhile, Albania, Armenia, Hungary and Uzbekistan have all embarked on major reforms of their tax regimes, and new mechanisms supporting access to finance for SMEs have been introduced in Belarus, Georgia, Ukraine and Uzbekistan. Several countries (including Cyprus, Greece, Ukraine and Uzbekistan) have also made further efforts to restructure state-owned enterprises and banks. In contrast, Romania's business environment has deteriorated, resulting in a modest decline in its competitiveness score.

CHART S.1.

Number of sizeable improvements and deteriorations in transition scores in 2018-19

Source: EBRD.
Note: An improvement or deterioration is considered to be sizeable if it exceeds 1 standard deviation of all score changes across all qualities and countries during the period 2018-19.

TABLE S.1.

Transition scores for six qualities of a sustainable market economy

	Competitive		Well-governed		Green		Inclusive		Resilient		Integrated	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Central Europe and the Baltic states												
Croatia	5.64	5.62	5.97	6.04	6.38	6.38	6.39	6.36	7.47	7.26	6.54	6.59
Estonia	7.63	7.61	8.27	8.30	6.42	6.55	7.66	7.73	8.11	7.87	7.49	7.50
Hungary	6.36	6.34	6.01	5.91	6.27	6.27	6.65	6.66	7.15	6.85	6.84	7.61
Latvia	6.48	6.45	6.66	6.46	6.77	6.77	7.07	7.05	7.89	7.87	7.00	6.98
Lithuania	6.27	6.24	6.85	6.77	6.63	6.63	6.94	6.92	7.34	7.35	7.05	7.04
Poland	6.76	6.76	6.82	6.88	6.52	6.64	6.81	6.72	7.86	7.99	6.81	6.81
Slovak Republic	6.76	6.73	6.21	6.10	6.87	6.87	6.54	6.53	7.97	7.96	7.10	7.13
Slovenia	7.09	7.09	6.65	6.64	7.08	7.21	7.35	7.37	7.73	7.62	7.14	7.22
South-eastern Europe												
Albania	5.14	5.11	5.11	5.09	4.49	4.49	5.31	5.30	5.22	5.25	5.66	5.68
Bosnia and Herzegovina	4.68	4.66	4.53	4.64	5.20	5.20	5.48	5.46	5.91	5.90	5.08	5.08
Bulgaria	5.71	5.69	5.79	5.73	6.04	6.04	6.24	6.27	6.91	6.85	6.85	6.86
Cyprus	6.68	6.66	7.07	6.94	6.32	6.32	6.66	6.60	5.60	5.23	7.68	7.68
Greece	5.78	5.78	5.22	5.25	6.13	6.13	6.24	6.26	7.04	6.68	6.41	6.36
Kosovo	4.78	4.75	4.56	4.58	3.47	3.47	5.28	5.30	5.18	5.23	4.67	4.72
Montenegro	5.44	5.42	6.11	5.93	5.41	5.15	5.98	5.91	6.44	6.42	6.15	6.13
North Macedonia	6.02	6.01	5.57	5.81	5.16	4.92	5.90	5.85	5.93	5.91	5.75	5.78
Romania	6.01	6.06	6.04	5.86	6.14	6.14	5.74	5.71	7.11	7.17	6.75	6.73
Serbia	5.36	5.34	5.52	5.44	5.79	5.79	6.16	6.13	5.86	5.78	5.99	5.99
Turkey	5.42	5.19	6.18	6.17	5.28	5.28	5.01	5.01	7.02	7.34	5.70	5.71
Eastern Europe and the Caucasus												
Armenia	4.97	4.90	5.78	5.82	5.72	5.72	5.97	5.96	6.40	6.08	5.45	5.43
Azerbaijan	4.39	4.22	5.79	5.75	5.35	5.35	4.94	4.94	3.97	4.10	5.59	5.60
Belarus	5.17	5.12	5.15	5.11	6.22	6.22	6.63	6.64	4.16	3.65	5.43	5.44
Georgia	4.98	4.96	6.40	6.34	5.32	5.32	5.14	5.14	6.19	5.99	6.35	6.33
Moldova	4.36	4.32	4.81	4.68	4.68	4.67	5.58	5.73	5.82	5.50	4.94	4.95
Ukraine	4.77	4.74	4.78	4.61	5.87	5.74	6.21	6.21	5.67	5.41	4.75	4.75
Russia	5.83	5.80	5.90	5.85	5.09	5.08	6.83	6.83	6.42	6.40	5.00	5.08
Central Asia												
Kazakhstan	5.26	5.22	5.67	5.62	5.36	5.11	6.46	6.43	5.95	6.17	4.91	4.96
Kyrgyz Republic	4.04	3.90	4.12	4.11	4.48	4.48	4.62	4.62	5.12	5.08	4.92	4.90
Mongolia	4.22	4.21	5.11	5.19	5.36	5.36	5.19	5.18	5.37	5.20	4.53	4.49
Tajikistan	3.25	3.26	3.63	3.70	4.84	4.81	5.05	5.04	3.68	3.52	3.51	3.51
Turkmenistan	2.81	2.80	2.28	2.28	4.09	4.09	5.41	5.41	3.21	3.26	3.97	3.96
Uzbekistan	3.39	3.36	4.45	4.42	4.41	4.31	5.41	5.41	3.96	3.77	3.93	3.93
Southern and eastern Mediterranean												
Egypt	3.08	2.96	4.83	4.68	5.19	5.06	3.51	3.51	5.60	5.51	4.43	4.42
Jordan	4.18	4.15	6.23	6.18	5.85	5.84	4.36	4.36	6.18	5.89	5.81	5.83
Lebanon	4.36	4.35	3.84	3.74	5.10	5.09	4.73	4.73	4.48	4.14	4.70	4.72
Morocco	4.49	4.26	5.34	5.15	5.87	5.87	3.17	3.17	5.73	5.81	4.88	4.90
Tunisia	3.93	3.84	4.88	4.82	4.92	4.92	3.82	3.82	5.10	4.77	4.33	4.33
West Bank and Gaza	2.87	2.86	3.88	3.80	4.07	4.07	3.84	3.80	4.95	4.84	4.65	4.66

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 2018 have been updated following methodological changes, so they may differ from those published in the *Transition Report 2018-19*. Owing to lags in the availability of data, ATQ scores for a given year may not fully correspond to that calendar year. In particular, ATQ scores for 2019 reflect data spanning the period 2017-19.

As regards governance reforms, a number of countries (including Azerbaijan, Cyprus, Georgia and Kazakhstan) have recently embarked on judicial reforms and introduced alternative dispute resolution mechanisms. At the same time, several countries have adopted policies that could potentially restrict the independence of judges and undermine public trust in the judicial system.

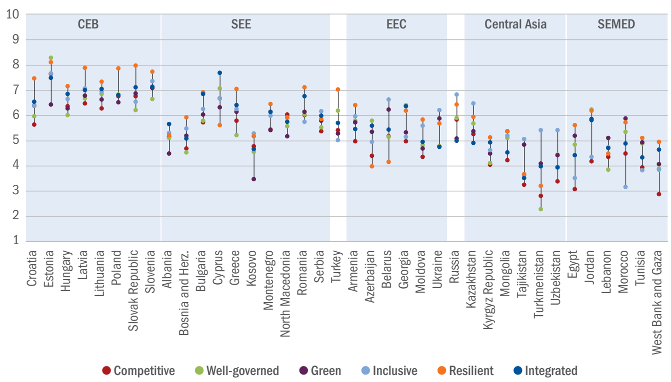
Green scores – measuring transition to a green economy – have been revised upwards in several countries (including Egypt, Kazakhstan, Ukraine and Uzbekistan) on the back of progress with intended nationally determined contributions (INDCs) and carbon-pricing mechanisms, while Montenegro, North Macedonia and Russia have now ratified the Paris Agreement on climate change. In the area of inclusion, various countries (including Russia, Tunisia and Uzbekistan) have adopted new laws and regulations aimed at strengthening gender equality in the workplace.

Changes to resilience scores have been driven largely by declines in levels of non-performing loans (with Cyprus and Greece making particular progress in this area), as well as improvements to the regulatory environment and standards of governance in the financial sector (albeit some worsening of scores has also been observed in this area).

Changes to integration scores – measuring the degree of economic integration across the EBRD regions – have largely been limited to a few declines in central Europe and the Baltic states (CEB) on account of reduced capital inflows. At the same time, a number of countries (including Albania, Greece, Kazakhstan, the Kyrgyz Republic, Serbia, Ukraine and Uzbekistan) have adopted measures aimed at reducing barriers to cross-border trade and improving air connectivity.

CHART S.2.

Transition scores for six qualities of a sustainable market economy



Source: EBRD.
Note: Scores range from 1 to 10, where 10 represents a synthetic frontier corresponding to the standards of a sustainable market economy.

Competitive

Competitiveness scores have been revised upwards in several countries. In Turkey, the upward revision reflects improvements to the country's World Bank *Doing Business* scores for resolving insolvencies, starting a business and accessing credit. Similar improvements have been observed in Morocco's business environment, resulting in a similar increase in its competitiveness score. Meanwhile, Azerbaijan and Georgia have improved their business environments and the quality of their logistics, while Mongolia has seen an increase in its global value chain participation score. At the same time, Romania's *Doing Business* ranking has fallen, following the introduction of additional procedures that have made it more difficult to start a business. This change has been reflected in the country's competitiveness score.

Several countries have implemented reforms in the area of competitiveness with the aim of improving their tax regimes, developing support mechanisms for SMEs and restructuring state-owned enterprises. In May 2019, for instance, Hungary announced a series of measures aimed at simplifying its tax regime, lowering the tax burden on firms and facilitating access to finance for SMEs. Similarly, amendments to the tax regime aimed at reducing incentives for SMEs to evade tax have now come into force in Albania. Reforms aimed at simplifying the tax regime have also been launched in Uzbekistan. These include simplified tax reporting, the reduction of rates for several types of tax, and broadening of the base for VAT, with a revised tax code expected to come into force in January 2020. Similarly, Armenia amended its tax code in June 2019, switching to a flat income tax with a view to improving compliance. Meanwhile, a package of tax reforms adopted in Azerbaijan in December 2018 aims to address tax evasion and pervasive informality.

A number of countries have introduced new institutional structures with the aim of strengthening their competitiveness. In particular, following up on recommendations by the Council of the European Union, an Economy and Competitiveness Council was set up in Cyprus in 2018 with the aim of monitoring the competitiveness of the Cypriot economy and making policy recommendations in this regard. Meanwhile, Ukraine established an SME Development Office in 2018 to boost the competitiveness of SMEs, and Uzbekistan has established a similar agency with a view to supporting entrepreneurs and providing training in the area of business standards.

Several countries have taken steps to improve access to finance for SMEs. In some countries this has involved reforms to existing credit guarantee schemes, while other countries have launched new programmes. For example, a credit guarantee fund that was set up in Belarus in April 2019 is able to guarantee up to 60 per cent of the principal amount of a loan or leasing contract, while a credit guarantee scheme that was launched in Georgia in April 2019 targets sectors where SMEs have limited access to finance. Meanwhile, Tajikistan has established a modern collateral registry for movable property with a view to facilitating the use of such assets as collateral

– particularly by SMEs. Similar reforms aimed at expanding credit information systems or improving laws and systems to support the collateralisation of movable assets have been carried out in Azerbaijan, Egypt, Jordan and Turkey. In addition, some countries have made progress with legal and regulatory reforms aimed at supporting the take-up of non-bank financing instruments such as leasing and factoring (Kosovo and Montenegro) and investment-based crowdfunding (Kazakhstan, Morocco and Turkey).

Several countries have continued to work on reducing state-owned enterprises' footprints in the economy. Ukraine, for instance, has continued to successfully implement the small-scale privatisation programme that it launched in 2018 using the Prozorro.Sale electronic sales platform, with a privatisation programme for large state-owned enterprises expected to follow in 2020. Meanwhile, a large-scale privatisation programme that was launched in Uzbekistan in April 2019 is aiming to sell shares in 29 companies in the chemicals, oil and gas, construction and food processing sectors, among others. In addition, Uzbekistan adopted its first law on public-private partnerships (PPPs) in May 2019 with a view to boosting private-sector participation in a number of areas that are traditionally dominated by state owned enterprises. With that in mind, a newly established PPP Development Agency has been tasked with planning and implementing PPP projects.

At the same time, several countries have adopted policies that could potentially undermine their competitiveness. For example, Turkey has ordered retail chains to freeze or reduce the price of food products following significant declines in the value of its currency, while an emergency order that was issued by the Romanian government in December 2018 introduced additional taxes in the banking sector, price caps and distribution restrictions in the electricity and gas markets, and new capital requirements for private pension funds. Those measures, which were introduced without public consultation, were partially reversed in early 2019 following strongly negative feedback from the private sector.

While some countries have succeeded in reforming state-owned enterprises, many economies' privatisation programmes have lacked momentum. This has been the case, for example, in Cyprus, Greece and Kazakhstan. Belarus has continued to reduce the amount of direct financial support and subsidies it provides to state-owned enterprises, but progress in terms of improving the governance standards and efficiency of state-owned firms has been slow. In Bosnia and Herzegovina, meanwhile, Aluminij Mostar, a major state-owned manufacturer of aluminium, has continued to experience financial difficulties as a result of its high level of indebtedness and the continued low-price environment for aluminium.

IN 2019, THE GOVERNMENT OF UZBEKISTAN ANNOUNCED THE SALE OF SHARES IN
29
COMPANIES
IN THE CHEMICALS, OIL AND GAS, CONSTRUCTION AND FOOD PROCESSING SECTORS, AMONG OTHERS

IN NOVEMBER 2018, THE SLOVAK REPUBLIC INTRODUCED
36
MEASURES
AIMED AT EXPANDING THE PROVISION OF GOVERNMENT E-SERVICES

Well-governed

On balance, improvements in governance scores have tended to outweigh negative developments over the past year. The improved scores in Azerbaijan, Latvia, Lithuania, Montenegro, Morocco, Romania and the Slovak Republic largely reflect better perceived protection of private property rights and stronger frameworks for challenging regulation and protecting shareholders' rights. Meanwhile, Kazakhstan's governance score has been revised upwards on the back of stronger protection of shareholders' rights and a reduced regulatory burden.

On the other hand, governance scores have been revised downwards in North Macedonia and Bosnia and Herzegovina, reflecting worsening scores for regulatory burdens, the protection of private property rights and judicial independence. Meanwhile, the downward revision seen in Mongolia reflects a lower score for compliance with standards for anti-money laundering and for countering the financing of terrorism (AML/CFT). In Tajikistan, scores for judicial independence and regulatory burdens have been revised downwards. Reduced scores for perceived independence of the judicial system also contributed to the declines seen in the overall governance scores of Croatia and Poland.

A number of countries have launched reforms aimed at increasing the efficiency of the government and improving the quality of public services. For instance, a third anti-bureaucracy package adopted in the Slovak Republic in November 2018 includes 36 measures aimed at expanding the provision of government e-services and simplifying procedures for granting and renewing business licences. And in May 2019, Armenia approved a restructuring package aimed at increasing the effectiveness of government operations. As part of that restructuring, the number of ministries was cut from 17 to 12, with some being turned into government agencies.

Several countries have embarked on reforms of their judicial systems. For instance, Cyprus has begun the process of establishing new specialist courts, including a Commercial Court, a Court of Appeal and an Administrative Court for International Protection. However, the implementation of that judicial reform programme (which includes an e-justice system) has been slow overall, and Cyprus remains one of the lowest-ranked economies in the EU's Justice Scoreboard. In Azerbaijan, meanwhile, a Law on Mediation was adopted in March 2019 with a view to enabling alternative dispute resolution mechanisms to operate in commercial, civil, family, labour and other disputes. Azerbaijan has also begun establishing specialist commercial courts to provide entrepreneurs with access to efficient dispute resolution.

In Kazakhstan, new legislation adopted in January and February 2019 seeks to improve the selection and training of new judges, strengthen judicial independence and reduce courts' caseload by promoting more efficient out-of-court resolution options for certain types of commercial dispute. In addition, the Astana International Financial Centre has introduced a new arbitration-mediation mechanism, which seeks to resolve commercial disputes in a cost-effective manner. Similar initiatives aimed at reforming the judiciary have also been launched in Georgia (albeit their implementation has been subject to delays), with the Georgian government indicating a willingness to establish specialist commercial chambers within courts to make dealing with commercial disputes more efficient. Meanwhile, Georgia's new insolvency law, which will seek to strengthen the protection of creditors' rights and increase the efficiency of insolvency procedures, has yet to be finalised.

A number of countries have adopted measures aimed at fighting corruption. In December 2018, for instance, the Lebanese parliament adopted legislation establishing a new National Anti-Corruption Commission, which is responsible for initiating anti-corruption investigations looking at public officials. The establishment of that commission followed the adoption of a series of laws aimed at curbing corruption, including a 2017 law on the right to access information, a 2018 law on protecting whistleblowers and a 2018 law on fighting corruption in oil and gas contracts. Meanwhile, Uzbekistan's State Anti-Corruption Programme for 2019-20, which was adopted in May 2019, seeks to strengthen the independence of the judiciary, gradually introduce income declarations for public officials and establish effective means of protecting whistleblowers.

Despite these positive developments, there is cause for concern in other parts of the EBRD regions in the area of governance. In a report published in June 2019, the Council of Europe's Commissioner for Human Rights raised a number of concerns regarding the judicial reforms that have been implemented in Poland in recent years, calling for efforts to ensure that those reforms do not curtail the independence of Poland's judiciary and undermine confidence in the judicial system. In Mongolia, meanwhile, concerns have been raised regarding legislative amendments that were approved in March 2019 concerning the status of judges and their independence. In particular, those amendments give Mongolia's National Security Council greater powers to revoke the mandates of chief judges, the head of the state prosecutor's office and the head of the country's anti-corruption agency. Similarly, legislative amendments giving the executive branch greater influence over the appointment of judges were approved in several SEMED economies during the past year, giving rise to concerns about the potential impact on the independence of the judiciary.

Another worrying development is the fact that Hungary has gone from a "free" to a "partly free" country in Freedom House's latest assessment of key freedoms. That change in status follows a number of recent developments in the country that are regarded as having negatively affected the operations of the media, civil society and other key institutions. Hungary has also dropped 14 positions (to 87th place) in the latest World Press Freedom Index following increases in the concentration of media ownership in the past year, leading to concerns about weaker competition in the media sector and reduced pluralism. Similarly, the Slovak Republic has fallen 8 positions in that list this year (now standing in 35th place) on account of a deterioration in press freedom, having already fallen 10 positions in the previous year.

HUNGARY HAS FALLEN
14
PLACES
IN THE LATEST WORLD PRESS FREEDOM INDEX

MEANWHILE, THE SLOVAK REPUBLIC HAS FALLEN
8
PLACES

Green

Montenegro and North Macedonia have both seen significant increases in their green scores this year, following their ratification of the Paris Agreement in 2018. Meanwhile, Russia – one of the world's top ten emitters of greenhouse gases – ratified and fully adopted the agreement in September 2019 by means of a government decree (having originally signed up to the agreement back in 2016).

Several countries have enhanced their regulatory environments in this regard. In Egypt, Ukraine and Uzbekistan, for instance, increases in green scores reflect progress with the implementation of carbon pricing. On the other hand, slow implementation of carbon-pricing mechanisms has resulted in scores falling in Estonia, Poland and Slovenia. Meanwhile, Kosovo has adopted a new law on energy efficiency, equivalent legislation is in the process of being drafted in North Macedonia, and Uzbekistan has adopted a number of policies aimed at increasing the energy efficiency of its economy. Support schemes for renewable energy have undergone changes in a number of countries (including Kazakhstan, Latvia and Ukraine), and Kazakhstan, Kosovo and Ukraine have all established specialist funds with the aim of assisting firms with energy efficiency.

Inclusive

A number of economies where the EBRD invests have seen their inclusion scores increase modestly on account of improvements in indicators measuring youth and gender inclusion. Poland, for instance, has improved its performance in the World Bank Group's Women, Business and the Law Index following the removal of restrictions on the employment of women in certain sectors and further reforms to its paid parental leave system. Numbers of female employers and managers in Poland have also risen, while youth unemployment has fallen. Meanwhile, the female labour force participation rate has improved in both Montenegro and the West Bank and Gaza, and the percentage of women in managerial positions has increased in Montenegro. In Estonia and Moldova, on the other hand, the percentage of female employers has fallen.

A number of countries have adopted legislation aimed at addressing the gender pay gap and strengthening gender equality. In November 2018, for instance, Tunisia adopted a law guaranteeing equal treatment of men and women in relation to inheritance practices. Uzbekistan, meanwhile, adopted a comprehensive new law on equal rights and opportunities for men and women in August 2019. That law introduces the concept of gender discrimination, as well as a framework for reviewing new legislation to ensure that principles of gender equality are upheld. It also calls for the collection of data in order to monitor progress against national gender equality targets. In Russia, a new regulation will reduce the number of occupations that are officially closed to women from 456 at present to 100 by 2021. Examples of positions that will be opened up to women include jobs driving tractors, trains and lorries.

Several countries have reformed their vocational education and training systems. Croatia, for example, has established a network of regional centres of competence, with the first 25 vocational education and training schools joining the network in July 2018. Those schools are expected to cooperate closely with potential employers. Serbia, meanwhile, has made further progress with reforms to its qualifications framework. Following the adoption of a law on the national qualifications framework in April 2018, it has established sectoral skills councils and a dedicated Qualifications Agency. These reforms have created formal feedback mechanisms that can help to ensure that the evolving needs of the job market are reflected in education programmes.

Resilient

Changes to overall resilience scores reflect both financial resilience and energy resilience. These are discussed separately below.

Financial resilience

A number of countries in the EBRD regions have made progress in the area of financial resilience. In Belarus, for example, the sizeable improvement seen in the country's financial resilience score reflects improvements to its regulatory environment, risk management practices and governance standards, as well as higher levels of liquidity in the financial sector. In Cyprus and Greece, meanwhile, improved scores reflect lower levels of non-performing loans, higher liquidity levels in the financial sector, and improvements to governance standards and risk management practices. Strengthening of the regulatory environment and improved governance standards have also been observed in Armenia, Hungary, Moldova and Ukraine. In the case of Jordan, the country's financial resilience score also reflects legislative amendments approved in 2019 which extend the scope of the country's deposit insurance scheme to include Islamic banks.

Several countries have improved the risk management practices in their financial sectors. Legislation adopted in Latvia in June 2019 aims to help tackle money laundering and strengthen supervision of the country's banking system, in line with the recommendations of the Council of Europe's MONEYVAL committee (which evaluates anti-money laundering measures) and the provisions of the European Union's Fifth Anti-Money Laundering Directive. In Kazakhstan, meanwhile, the country's central bank, the National Bank of Kazakhstan, has introduced risk-oriented supervision of the banking sector as of 2019. This should allow the bank to conduct a more holistic evaluation of the sector and its participants (including as regards the nature and complexity of operations, corporate governance standards and capital adequacy) and identify early risks that could potentially affect the overall resilience of the banking sector. In addition, an asset quality review (AQR) looking at the 14 largest banks in the country is expected to be completed by the end of 2019.

Following the completion of a similar AQR exercise in Mongolia, the country's central bank, the Mongol Bank, is carrying out a forensic audit of all banks that require recapitalisation on the basis of the recommendations of the AQR.

In some countries, authorities have initiated reforms with the aim of improving the governance and efficiency of state-owned banks. In Ukraine, for instance, a law on the functioning of the financial sector was adopted in October 2018 with a view to improving corporate governance practices in several state-owned banks and increasing the professionalism of their supervisory boards. Uzbekistan, meanwhile, has announced plans to partially privatise selected banks.

Further progress has also been made with the restructuring of Moldova's banking sector, following the crisis of 2014. In March 2019, for example, a Bulgarian investment fund acquired a controlling stake in Moldindconbank, Moldova's second-largest bank. This followed the purchase of the state's 41 per cent stake in Moldova Agroindbank (MAIB), the country's largest commercial lender, by a consortium of international investors (including the EBRD) in October 2018. The country's third-largest bank, Victoriabank, had already been acquired earlier in 2018 by Banca Transilvania, a Romanian lender, in partnership with the EBRD. Such strategic investment in the country's three largest commercial banks should help to restore confidence in Moldova's banking sector. In Serbia, meanwhile, the privatisation of Komercijalna banka, the country's third-largest commercial lender, has gained momentum. The government has increased its stake in the bank to 83 per cent with a view to offering it to a strategic investor through a tender procedure. That tender procedure, which was launched in May 2019, was still ongoing when this report went to print.

At the same time, a number of developments in the financial sectors of economies in the EBRD regions have prompted concerns. Turkey's financial resilience score has fallen, for example, reflecting a decline in its score for risk management practices and weaknesses in its governance standards. The unexpected dismissal of the governor of the Central Bank of Turkey has also been viewed with concern by market participants. Scores have also declined in Poland, owing to a reduction in the percentage of assets held by private banks.

As indicated above, an emergency order issued by the Romanian government in December 2018 introduced additional taxes in the banking sector, price caps and distribution restrictions in the electricity and gas markets, and new capital requirements for private pension funds. Moreover, those measures were introduced without public consultation. Although some of the measures have already been reversed, they appear to have affected international investors' confidence in Romania's economy. Despite recent reform efforts, there remains significant scope for progress as regards the governance standards of financial institutions (including state-owned banks) in a number of countries (including Azerbaijan, Belarus, Tajikistan, Ukraine and Uzbekistan).

Energy resilience

The upward revision of Uzbekistan's energy resilience score reflects significant progress with the restructuring of the sector following the creation of the Ministry of Energy, which is responsible for policy setting in the sector. The Uzbek government has also begun dividing the country's main energy company, Uzbekenergo, into separate entities responsible for the generation, transmission and distribution of electricity. Moreover, Uzbekneftegaz, the country's main state-owned oil and gas company, has now been split into two distinct entities responsible for production and distribution activities. Tariff reforms in the electricity sector have also been initiated with a view to introducing a cost-reflective methodology for determining tariffs, although the implementation of those reforms has been subject to delays. Some initial steps have also been taken towards restoring the regional power network in Central Asia, with Tajikistan and Uzbekistan starting work on enabling trade in electricity between the two countries.

A number of countries have adopted measures aimed at bringing energy-sector regulation closer to the standards applied in the European Union. The Albanian government, for instance, has announced plans to establish a national power exchange in order to operate day-ahead and intraday trading platforms. This will help the Albanian energy sector to meet its obligations under the Energy Community acquis and pave the way for further deregulation of the electricity market. Meanwhile, the Ukrainian parliament has ratified the updated annex to the EU-Ukraine Association Agreement with a view to bringing the country's energy-sector regulation into line with EU law. This updated document covers the whole of Ukraine's energy sector, including electricity, gas, oil, renewable energy and nuclear energy. Full implementation will result in a significantly reformed regulatory environment in Ukraine's energy sector.

AN ASSET QUALITY REVIEW LOOKING AT THE

14

LARGEST BANKS IN KAZAKHSTAN IS EXPECTED TO BE COMPLETED BY THE END OF 2019

At the same time, Romania's energy resilience score has been revised downwards following the issuance of the abovementioned emergency order in December 2018. That order demanded that electricity be supplied to distribution companies (which, in turn, supply electricity to households) at regulated prices. The government also capped the price of gas produced in Romania and stipulated that gas could not be sold to suppliers until household demand had been met. These policies undermine the functioning of Romania's open energy markets and are not in line with key provisions of the EU's Electricity and Gas Directives. Following criticism from the business community, the Romanian parliament's Industrial and Services Committee has now voted to cancel the gas and electricity price caps and return to liberalised price-setting in the energy market. Those revised provisions, if adopted by the Romanian parliament's Chamber of Deputies, will align Romania's energy market with the Gas and Electricity Directives and should help to restore investor confidence.

Integrated

A number of countries have adopted measures aimed at facilitating cross-border trade and improving air connectivity. In October 2018, for instance, Ukraine approved a law simplifying border clearance procedures, enabling the implementation of a "single window" for clearing imports and exports and providing for wider use of electronic documentation. Meanwhile, Kazakhstan rolled out a new "single window" web portal in March 2019. That portal allows standardised documentation to be submitted electronically and reduces the time needed to obtain customs clearance, as well as cutting costs. A few months earlier, in December 2018, Kazakhstan also launched an e-freight system for electronic clearance of transit air cargo. In February 2019, Azerbaijan launched a "green corridor" system in an attempt to significantly simplify export and import clearance procedures for authorised firms. And in November 2018, Uzbekistan simplified its customs clearance processes and launched a new system involving "authorised economic operators" – entities assessed as being low-risk, which are able to clear exports or imports under a simplified regime.

Several countries have also taken steps towards improving air connectivity and the quality of related infrastructure. In February 2019, for example, Greece signed a concession agreement for the construction, operation and maintenance of a new international airport on Crete, the country's largest island, in order to address capacity constraints at the existing airport. In addition, in April 2019 Greece initiated concession procedures for 23 regional airports that are not yet in private hands or operating under concession agreements. The Greek government has also announced a plan to sell its remaining 30 per cent stake in Athens International Airport. The modest increase in Greece's integration score also reflects larger non-FDI capital inflows and an improved assessment of the quality of roads.

In Serbia, the concessionaire that had been selected to develop Belgrade's airport took charge of airport operations in December 2018. This – the country's first ever large-scale airport concession agreement – is expected to significantly increase the airport's passenger and cargo capacity.

In January 2019, the Kyrgyz Republic approved the open skies policy and the fifth air freedom (thus lifting restrictions on foreign carriers flying to and from the country's airports). This is expected to contribute to increases in passenger and cargo traffic and improve the affordability of air services. Uzbekistan, meanwhile, has announced the adoption of the open skies policy and the fifth air freedom in respect of four regional airports, effective from October 2019. In addition, the Uzbek government has unveiled a plan to unbundle Uzbekistan Airways, the country's state-owned airline, creating two separate companies: an airline and an airport operator. A number of regulatory functions and responsibilities that were previously assigned to Uzbekistan Airways have been transferred to the sectoral regulator. These changes should help to modernise the regulatory environment in the aviation sector and facilitate the further development of Uzbekistan's aviation industry.

At the same time, the integration scores for Croatia and Slovenia have been revised downwards, reflecting declines in net capital inflows in 2018. Russia has also seen a small reduction in its integration score, reflecting a more restrictive regime for FDI.

IN APRIL 2019, GREECE INITIATED CONCESSION PROCEDURES FOR
23
REGIONAL AIRPORTS

THE GREEK GOVERNMENT HAS ANNOUNCED A PLAN TO SELL ITS REMAINING
30%
STAKE IN ATHENS INTERNATIONAL AIRPORT