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# Private sector growth in transition

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# Concept of transition evolved over time



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- Initially, transition focused on reducing the role of the state / state ownership to move from a planned economy to a market economy
- Over time, focus shifted to defining the “optimal” role of the state
- And building high-quality economic institutions

# Measurement of transition also evolved



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- EBRD transition indicators measured progress along key dimensions:
  - Privatisation and enterprise restructuring
  - Price and trade liberalisation
  - Competition
  - Financial intermediation
  - Infrastructure
- In 2009-10 focus shifted to assessing transition challenges in 16 sectors
  - In terms of market structure
  - And market-supporting institutions

# Three phases of market reforms



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- **Market-enabling reforms:**
  - Small-scale privatisation
  - Price liberalisation
  - Exchange rate liberalisation
- **Market-deepening reforms:**
  - Privatisation of larger enterprises
  - Strengthening of financial institutions
- **Market-sustaining reforms:**
  - Fundamental reforms of governance of enterprises
  - Development of institutions to promote competition
  - Commercialisation of approach to the provision of infrastructure projects

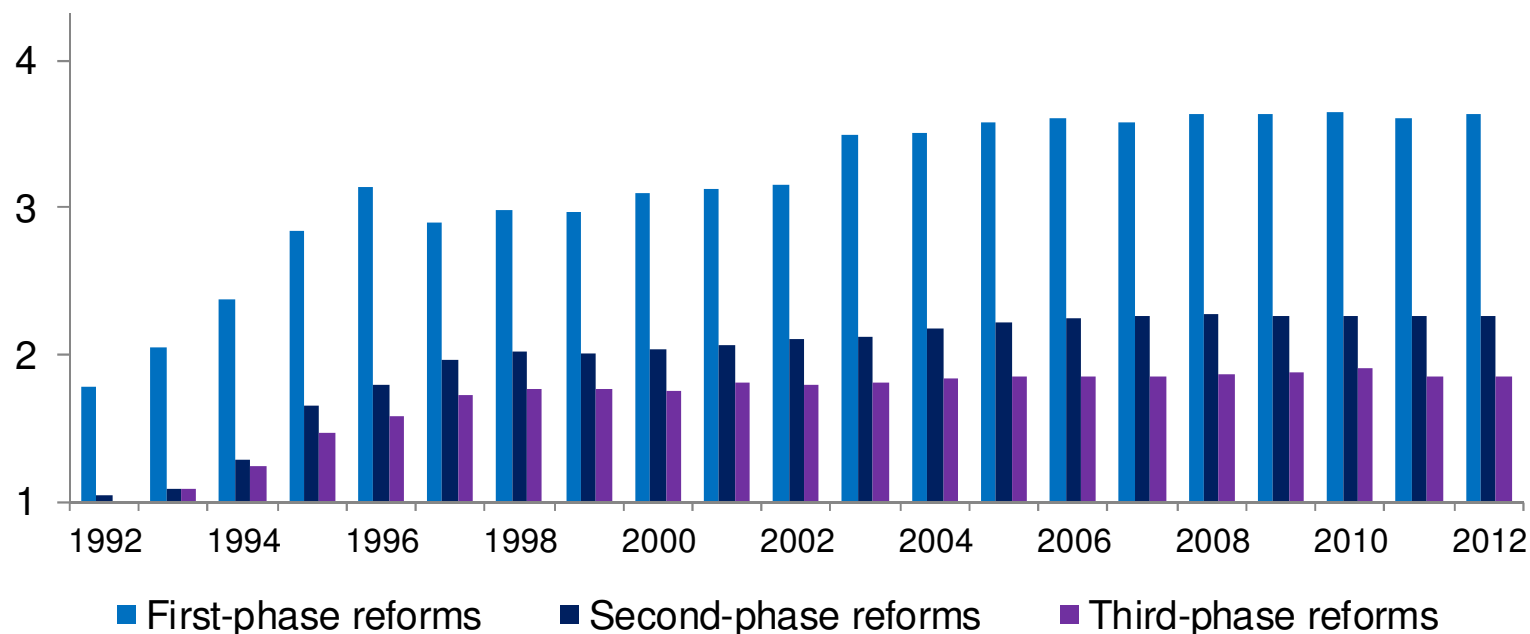
# Challenge of market-sustaining reforms



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- Phase I reforms largely completed
- Phase II reforms well-advanced in many countries in the region
- Market-sustaining reforms remain a major challenge – crucial to sustainable long-term growth

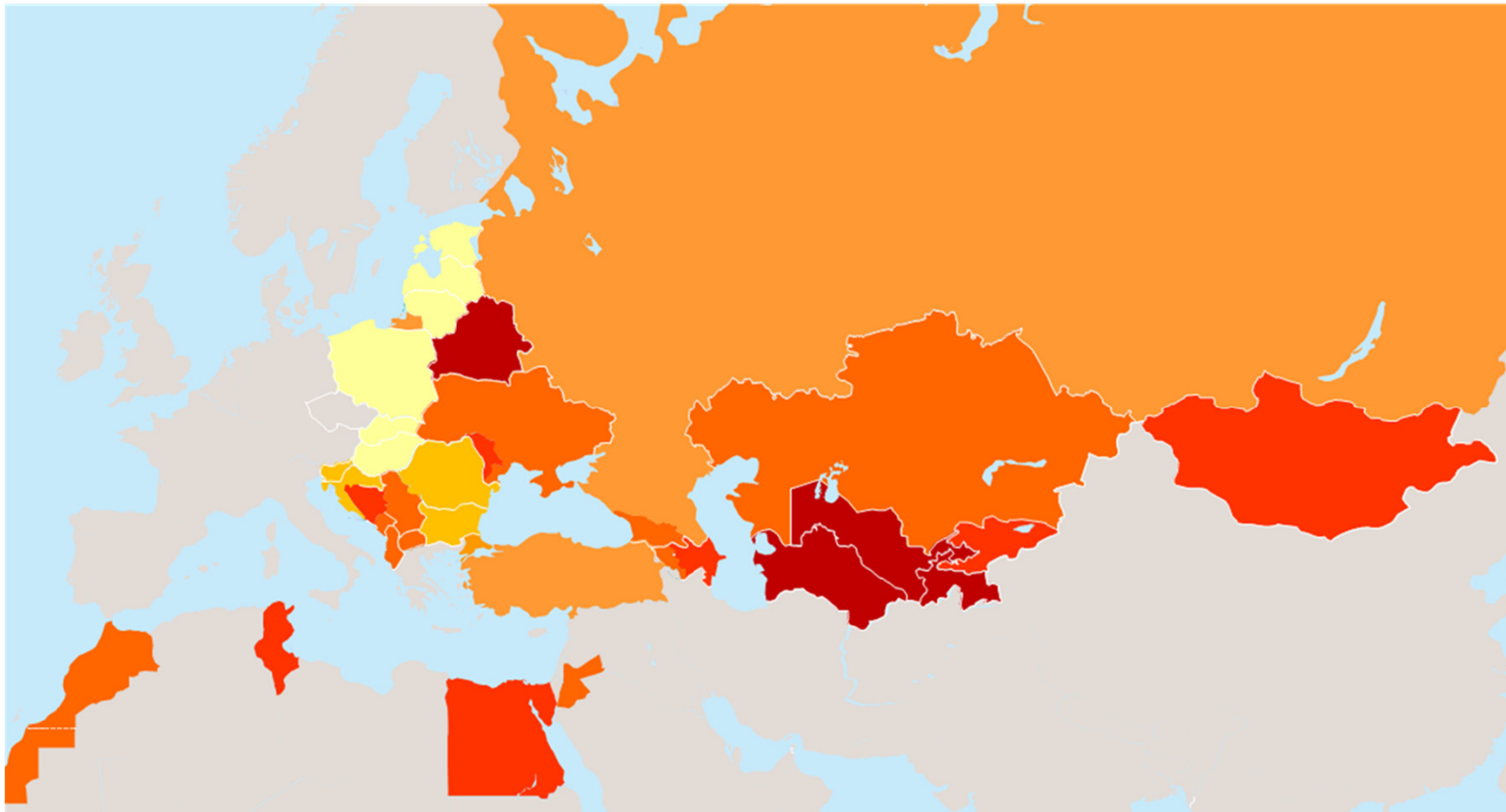
## Three stages of reforms in CCA: Average Transition Indicators



Source: Transition Reports. Transition indicators are on the scale of 1 to 4.33; unweighted averages of 8 countries.



## Average Sector Transition Indicators, 2012



Note: Countries coloured according to the average of 16 sector transition indicator scores in 2012; darker colours correspond to more significant challenges.

# Medium to large transition gaps in terms of market structure



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## EBRD Sector Transition Indicators 2012: Market Structure

	Corporate sector				Energy			Infrastructure				Financial sector				
	Agribusiness	General industry	Real estate	Telecoms	Natural resources	Sustainable Energy	Power	Water & wastewater	Urban transport	Roads	Railways	Banking	Insurance & fin services	MSME	Private equity	Capital markets
Armenia	M	M	L	M	M	M	M	M	L	M	M	L	L	M	L	L
Azerbaijan	M	L	L	L	L	L	L	L	L	M	M	L	L	L	L	L
Georgia	M	M	L	M	L	M	S	L	L	L	M	M	L	M	L	L
Kazakhstan	M	L	M	M	M	L	L	L	M	M	M	M	M	L	L	M
Kyrgyz Rep.	M	L	L	L	L	L	M	L	M	L	L	L	L	L	L	L
Mongolia	M	L	L	L	M	L	L	L	L	L	M	L	L	L	L	L
Tajikistan	M	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L
Turkmenistan	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L
Uzbekistan	L	L	L	L	L	L	L	L	L	L	M	L	L	L	L	L

Source: Transition Report 2012. Transition gaps in terms of market structure are assessed on the scale of “negligible”, “small”, “medium” or “large”.



## EBRD Sector Transition Indicators 2012: Market Institutions

	Corporate sector				Energy			Infrastructure				Financial sectors				
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Georgia	M	M	S	S	L	L	M	L	L	M	M	M	M	M	L	L
Kazakhstan	M	L	S	M	L	L	M	L	L	M	M	M	M	L	M	M
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Uzbekistan	L	L	L	L	L	L	L	L	L	L	M	L	L	L	L	L

Source: Transition Report 2012. Transition gaps in terms of market supporting institutions are assessed on the scale of “negligible”, “small”, “medium” or “large”.



# Some progress with market institutions






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- In particular in the corporate sector and infrastructure
- While challenges in the energy sector remained/increased

## Changes in market-supporting institutions scores, 2005-12

	Corporate sector				Energy			Infrastructure				Financial sectors				
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Uzbekistan	L	L	L	L	L	L	L	L	L	L	M	L	L	L	L	L

 Single upgrade  
 Double upgrade  
 Small gap since 2005

 Downgrade

# Yet to fully translate into better market structure



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- Institutional improvements tend to lead to better market structures – but with a lag
- Effects already seen in infrastructure
- Financial sectors deeply impacted by the crisis

## Changes in market structure scores, 2005-12

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Uzbekistan	L	L	L	L	L	L	L	L	L	L	M	L	L	L	L	L



Single upgrade

Double upgrade

Small gap since 2005



Downgrade

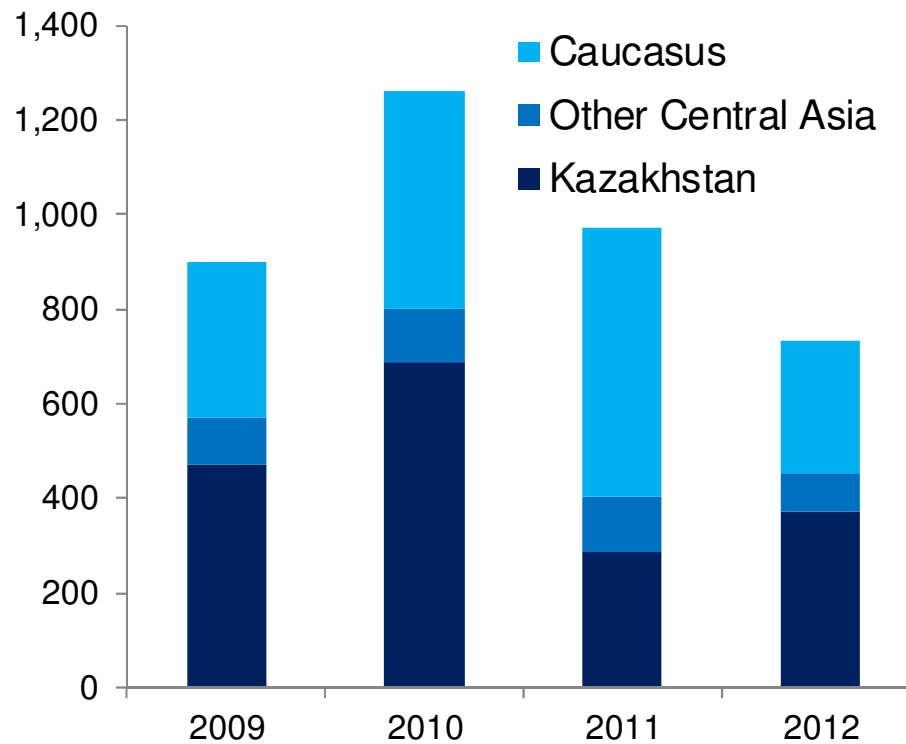
# EBRD: ~100 projects signed annually in CCA



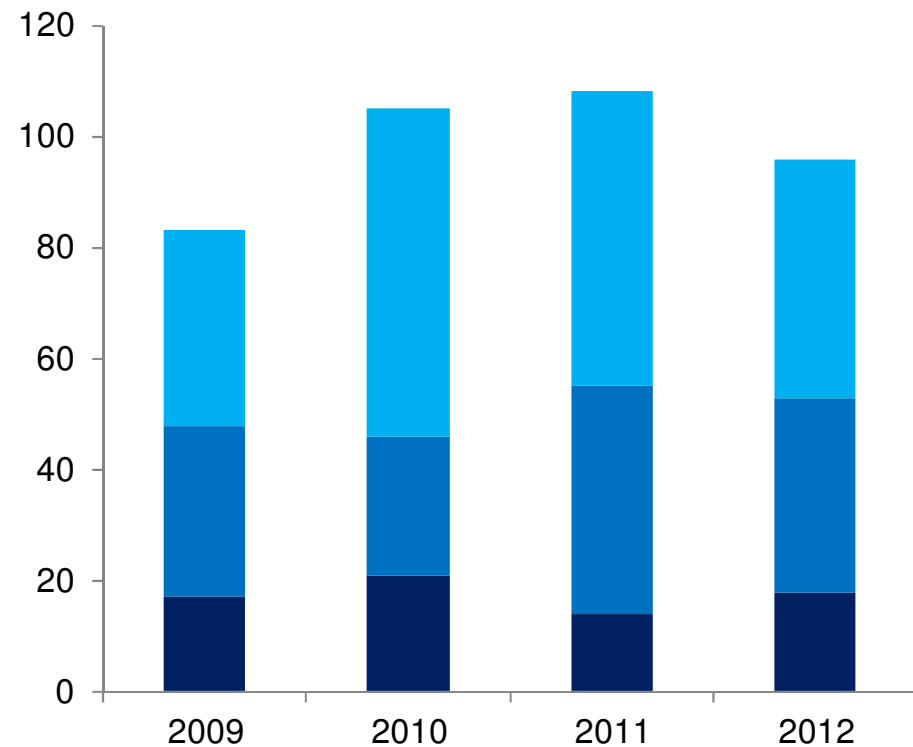
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- Current portfolio  $\approx$  €4 billion; cumulative €6 billion
- Greater emphasis on technical assistance supporting institutions and regional economic cooperation

**Business volume, € million**



**Number of projects signed**



# Improving business environment remains a key challenge



- Business Environment and Enterprise Performance Survey (BEEPS):
  - Survey of firms conducted by EBRD and World Bank in 30 countries of Emerging Europe and Central Asia
- 4 rounds: 1999, 2002, 2005, 2008-09
  - 5th round currently in the field
- Results comparable across countries and with enterprise surveys in 40+ more countries
- Firms are randomly selected
  - Small, medium-sized and large enterprises
  - Manufacturing, retail trade and other services
  - Local and foreign-owned

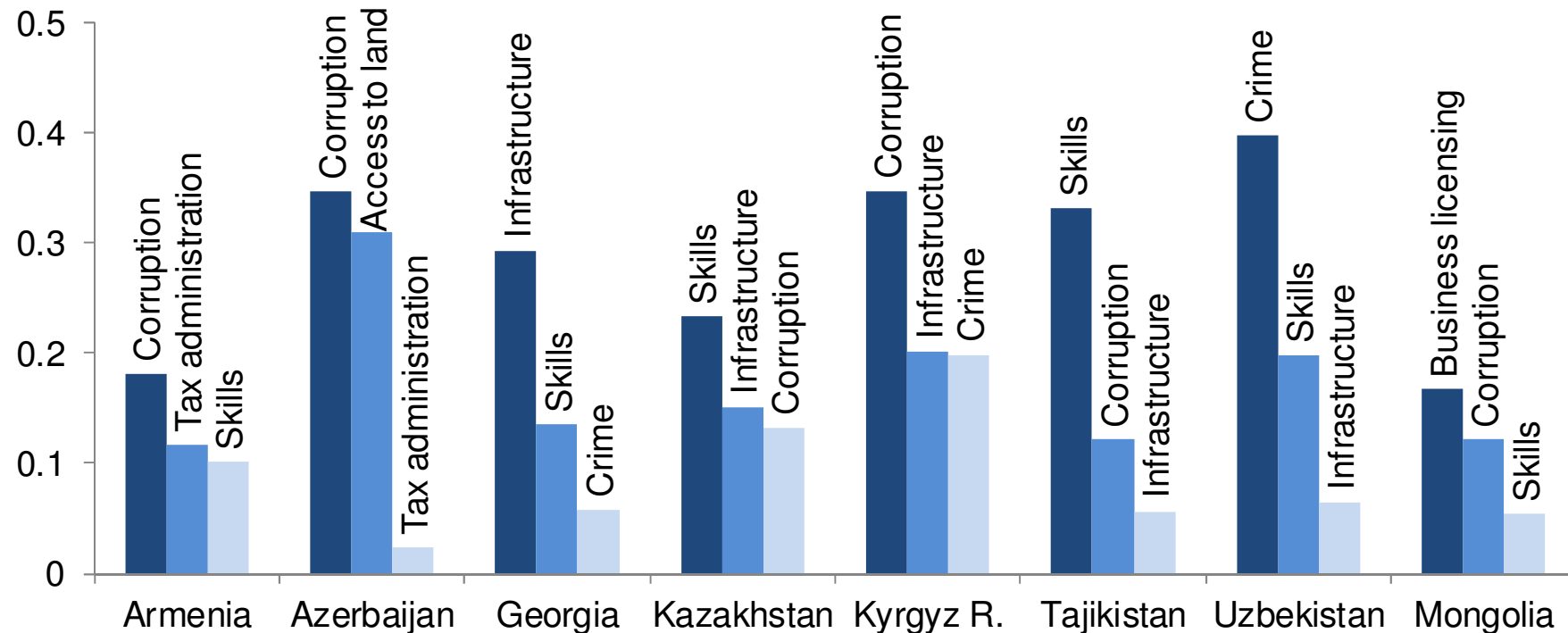
# Corruption, skills, infrastructure as top constraints



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Corruption, lack of skilled labour force and infrastructure quality were perceived to be the most binding constraints to firm operations and growth in the region

**Top 3 obstacles to firms' operations**

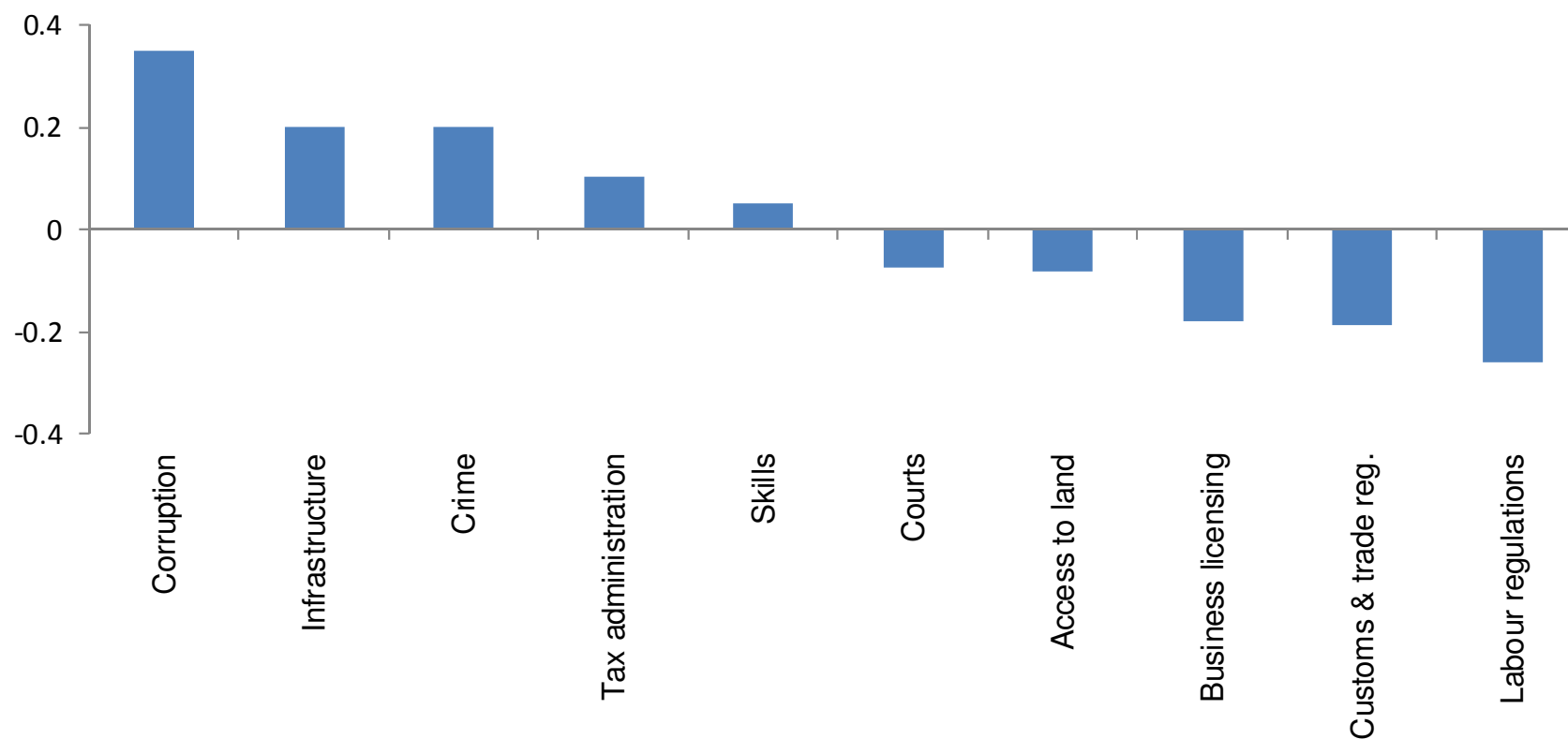


# In the Kyrgyz Rep., corruption, infrastructure and crime are seen as top constraints



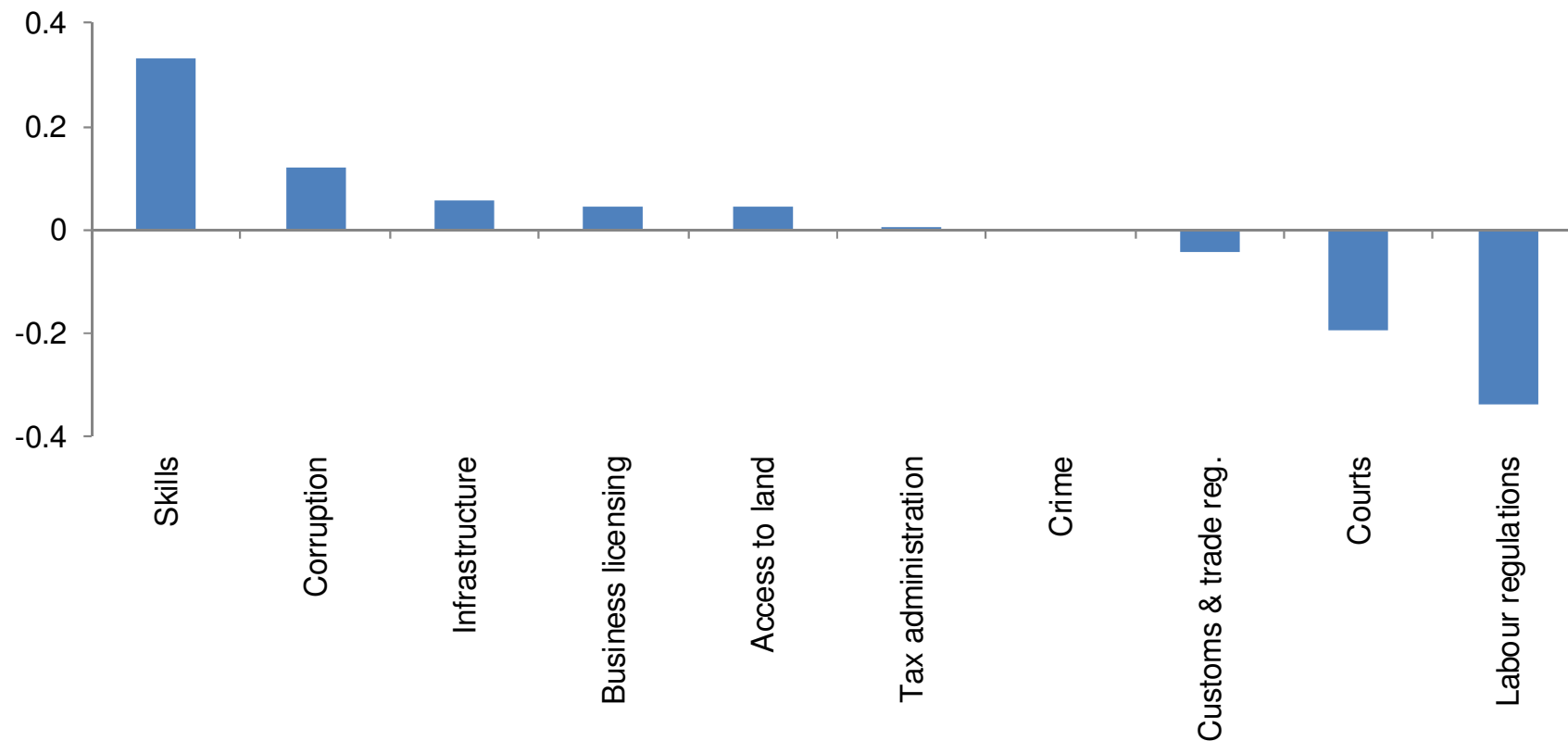
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## Kyrgyz Republic: Relative severity of business environment constraints



# In Tajikistan, business are particularly concerned about skills

## Tajikistan: Relative severity of business environment constraints

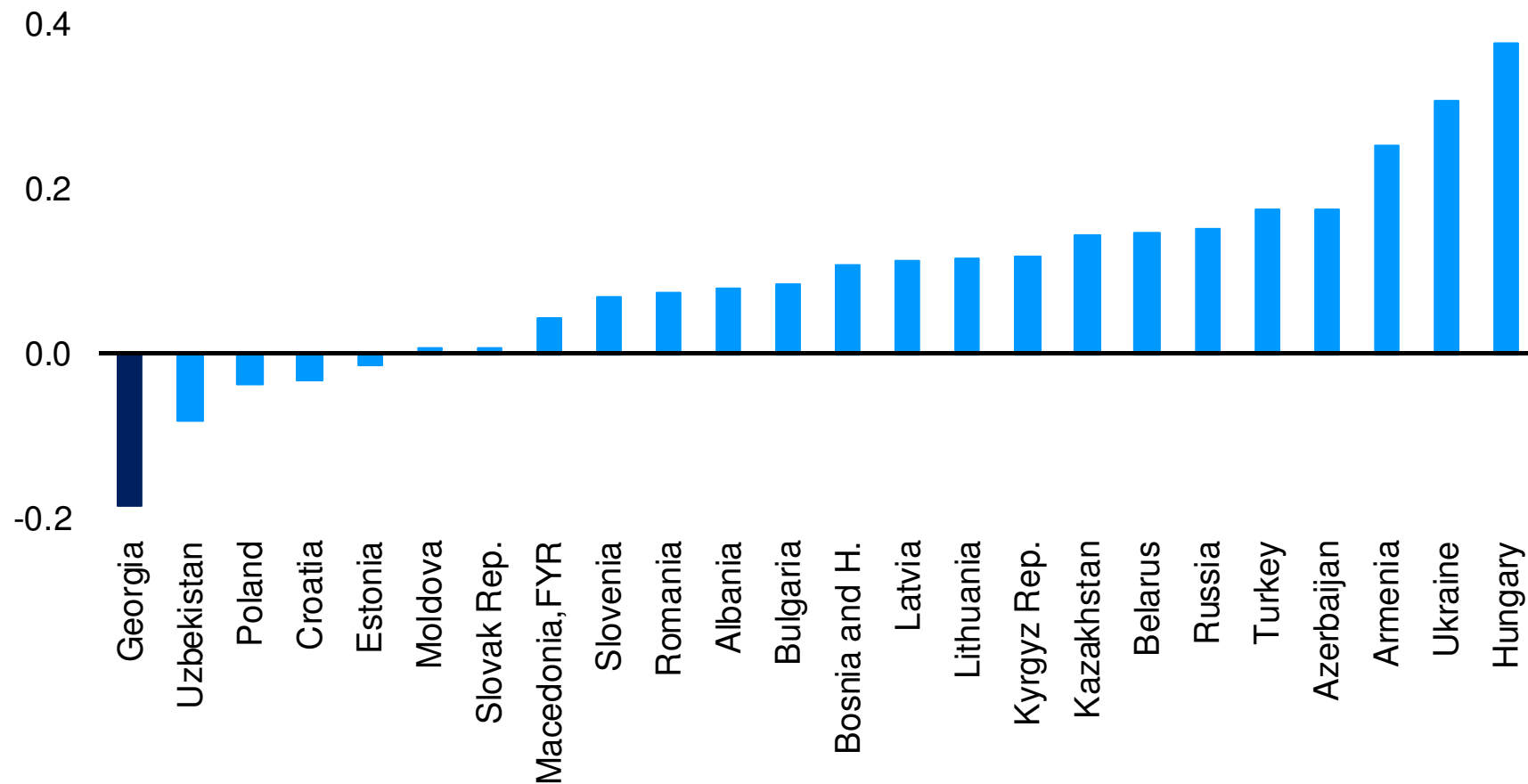


# Georgia: progress with fighting corruption



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## Difference in relative severity of corruption constraint, 1999-2008





# Business environment: key to attracting FDI



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- FDI is key for growth of domestic firms: additional capital, expertise, technology, quality of management and best practices
- FDI has been growing in the region, particularly in the commodity sectors
- Improvements in the quality of business environment would help to leverage FDI further in the non-resource sectors

# Concluding remarks



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- Countries in the region made progress in terms of private sector development and transition
- Key challenge is to advance market sustaining reforms, improve quality of economic institutions
- And create a more favourable business environment for private sector firms -- by relaxing constraints that are most binding in each country
- This will help to diversify economies of resource-rich countries -- and further strengthen constituencies supporting economic diversification