

# **Reforms, Governance and Prospects for Economic Diversification in the Energy-producing CIS**

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# Outline

- I. Reforms and growth in the energy producing CIS
- II. Political and economic governance: democracy, corruption and trust
- III. Economic diversification: growing the SME sector
- IV. Conclusions



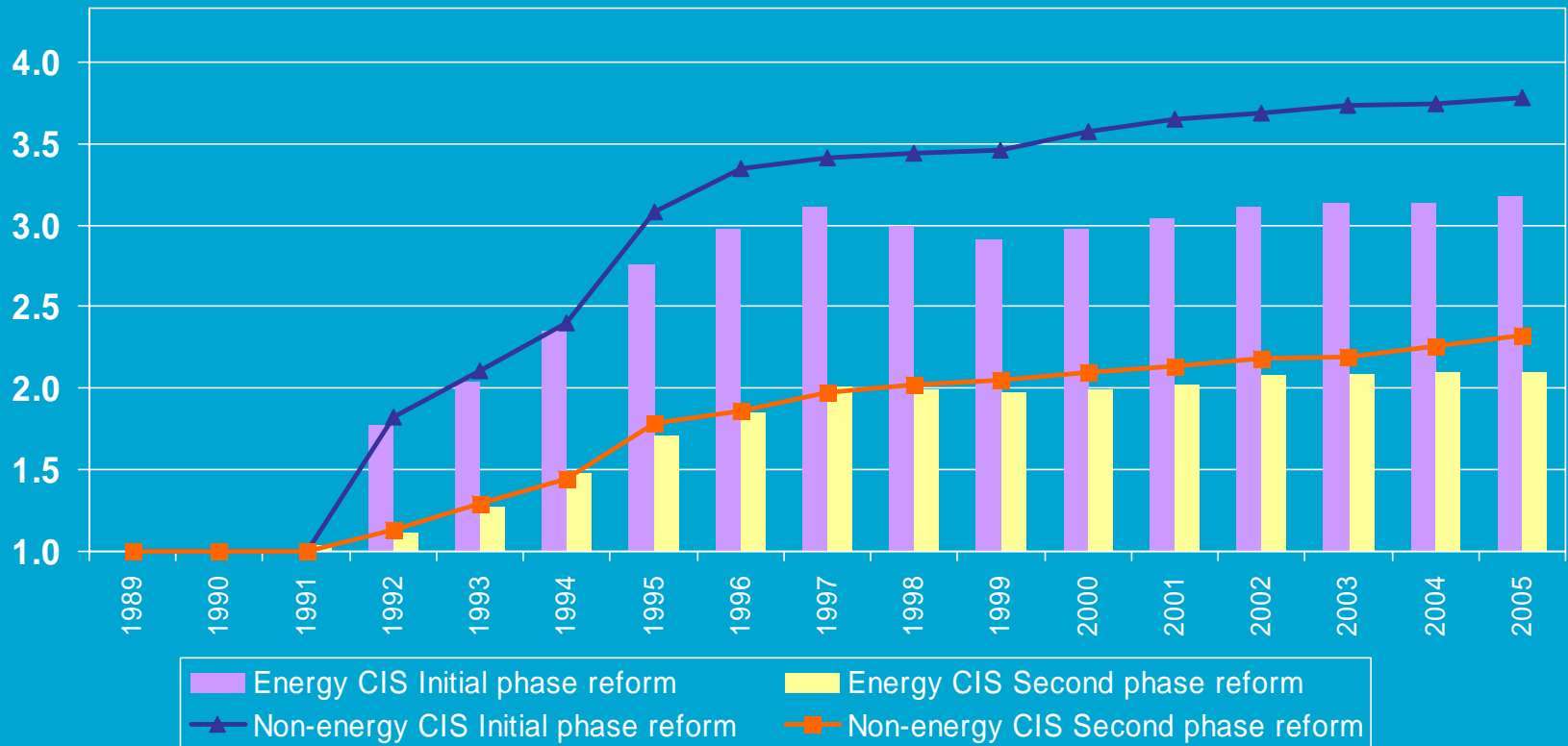
# Reforms and growth in the energy producing CIS

- CIS countries are among the slowest reformers in the transition region
- Energy-producing CIS countries, on average, lag behind non-energy CIS in reform
- High oil prices are associated with periods of reform slowdown in the energy CIS



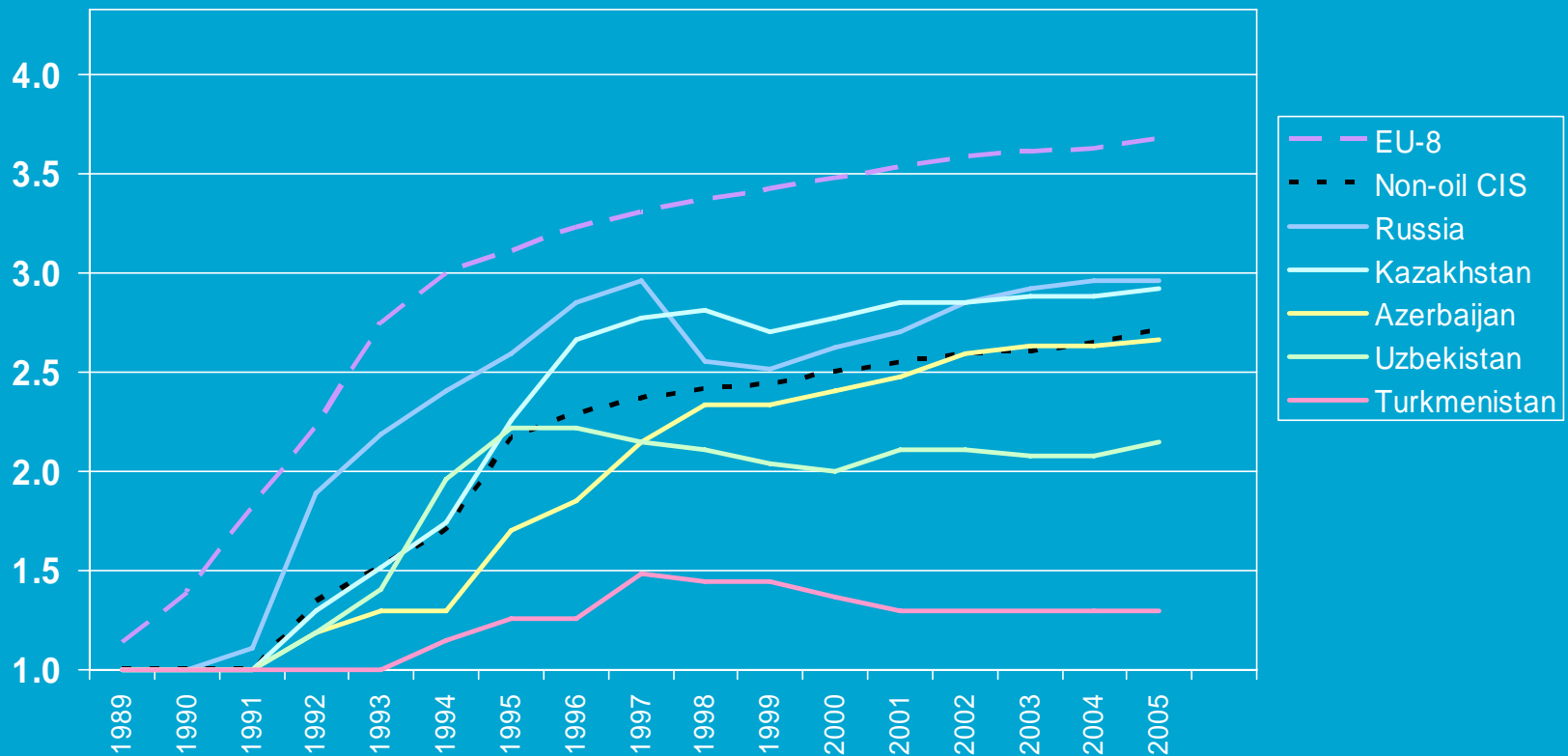
# Energy CIS lags on both initial and second phase reforms

Average EBRD Transition Indicator (including infrastructure)



# However, reform progress varies across energy-producing CIS

Average EBRD Transition Indicator (including infrastructure)

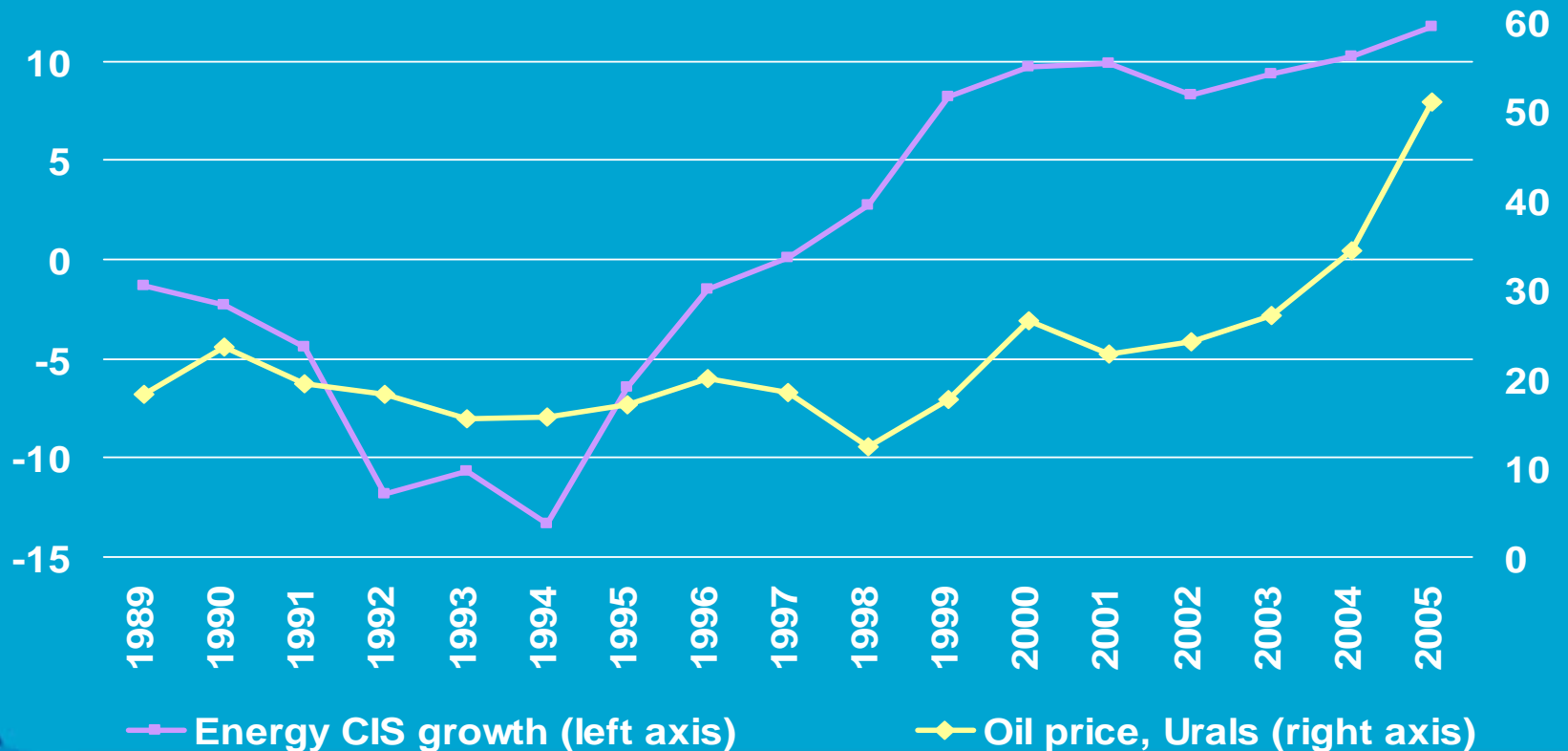


# Historically, energy CIS growth fuelled by energy price rise...

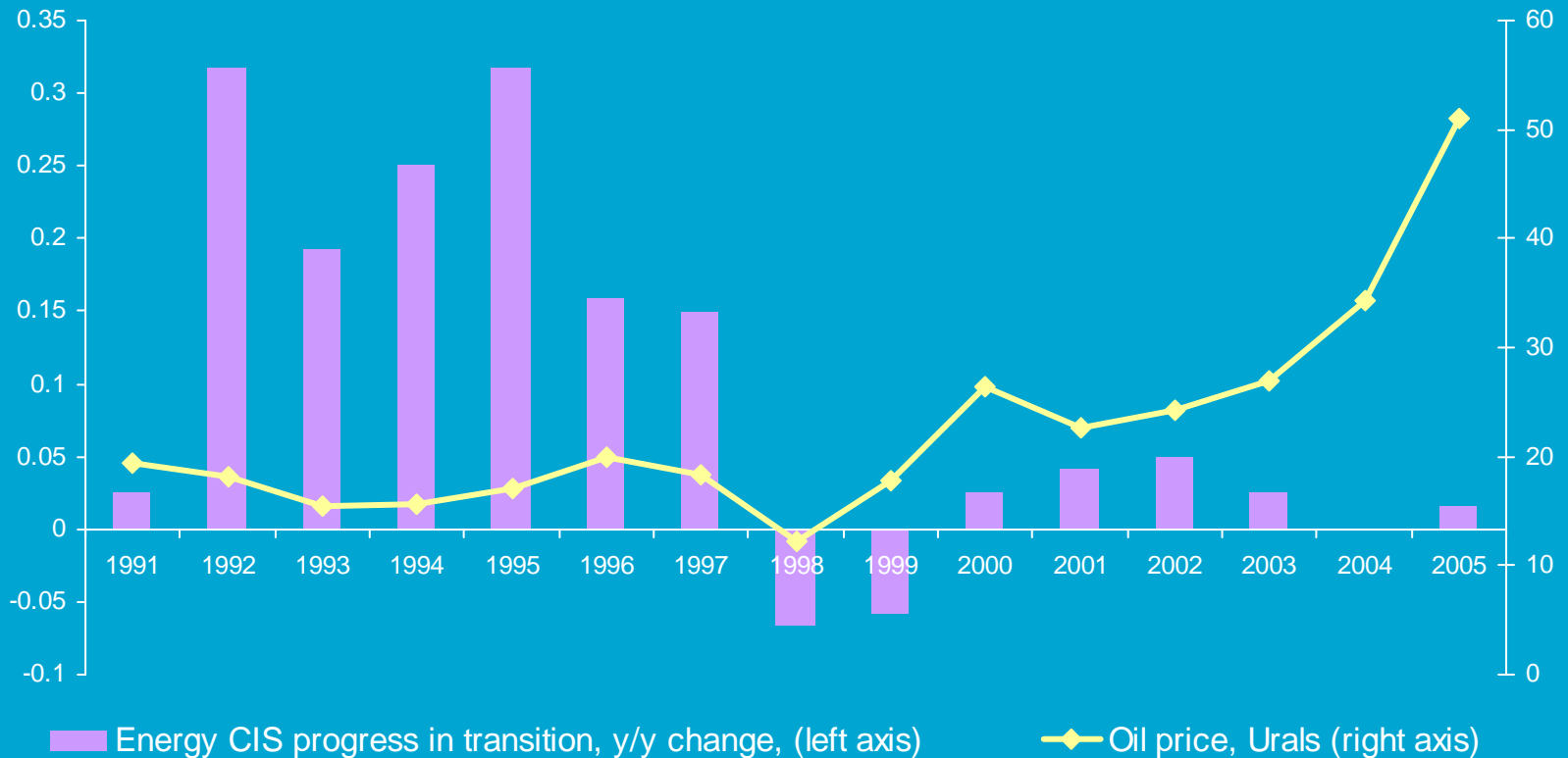
...but link may be weakening

In per cent (annual weighted average)

US\$ per barrel (annual average)



# High energy prices associated with slower reform in energy CIS



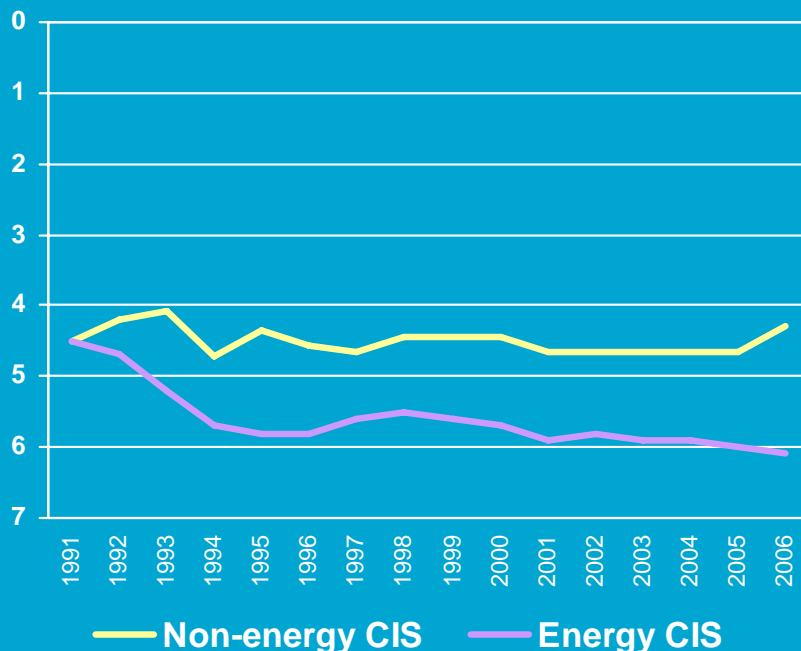
# Political and economic governance: democracy, corruption and trust

- Commitment to democracy in energy CIS has been weakening as oil revenues increase
- Corruption is also on the rise in energy CIS, due to lack of attention to reform, increased state involvement in the economy and tolerance of rent-seeking by officials
- Absence of checks and balances and weak enforcement institutions undermines trust



# Political governance is weakening in the energy-producing CIS

## Political Rights and Civil Liberties



Scale 0-7, with 0 representing full political rights and civil liberties.

Source: Freedom House.

## Corruption Perceptions Index

Country	Score	Rank (out of 158)
Armenia	2.9	88
Moldova	2.9	88
Belarus	2.6	107
Kazakhstan	2.6	107
Ukraine	2.6	107
Russia	2.4	126
Georgia	2.3	130
Kyrgyz Republic	2.3	130
Azerbaijan	2.2	137
Uzbekistan	2.2	144
Tajikistan	2.1	144
Turkmenistan	1.8	155
<b>Energy CIS</b>	<b>2.24</b>	<b>133.8</b>
<b>Non-energy CIS</b>	<b>2.53</b>	<b>113.4</b>

Scale 0-10, with 10 representing no corruption.

Source: Transparency International.



# Energy CIS has seen deterioration in the business environment since 2002

Countries	Judiciary	Crime	Corruption	Customs and trade regulations	Business licensing and permits	Labour regs.	Tax admin.
EU-8		↑	↑	↑	↑	↓	
Energy CIS			↓	↓	↓	↓	
Non-energy CIS		↑	↑	↑	↑		↑

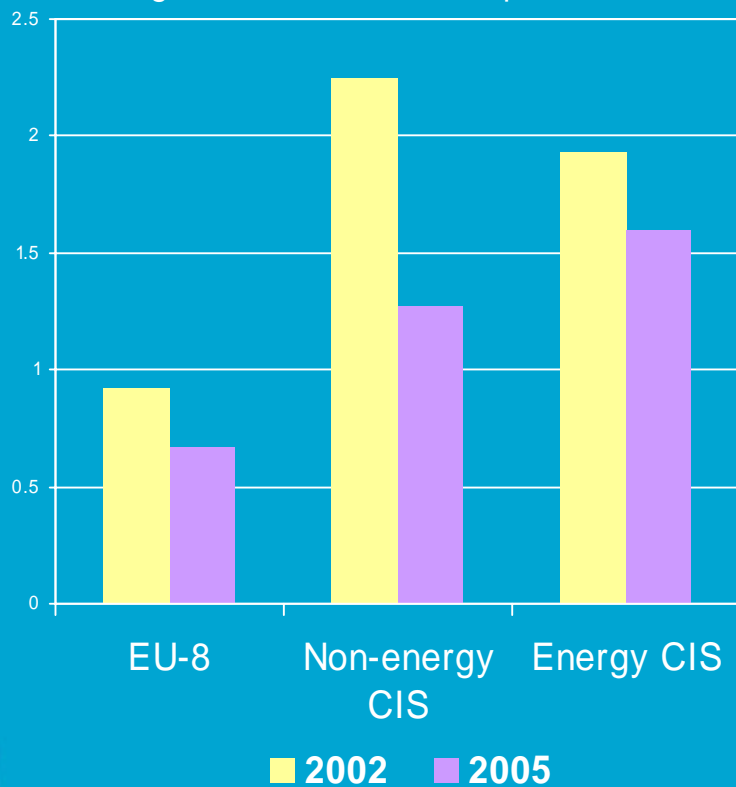


Sources: BEEPS 2002 and 2005

# Costs of corruption: the bribe tax

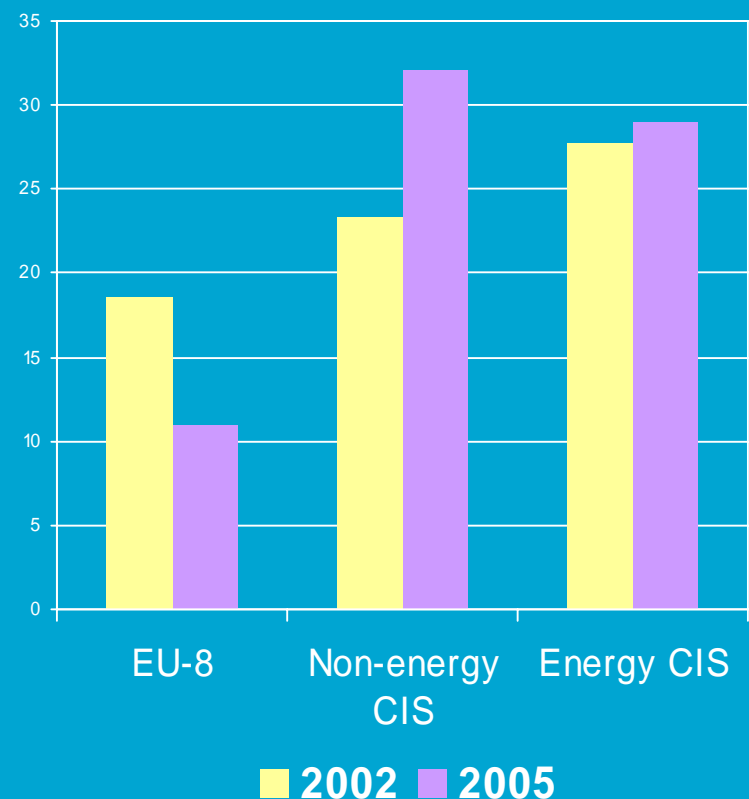
## The 'Bribe Tax'

Percentage of firms' annual sales paid in bribes



## Bribe Frequency

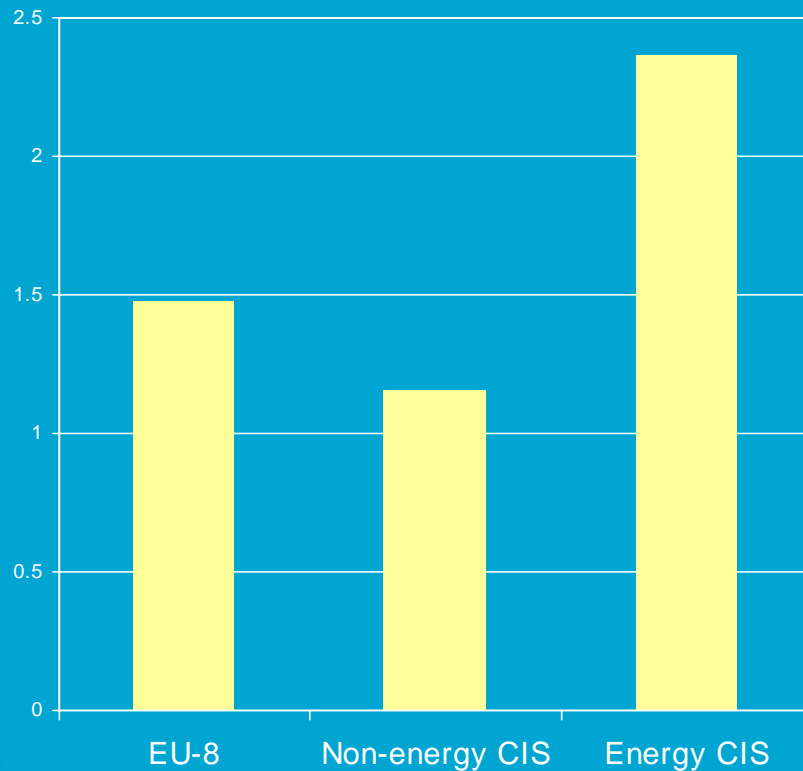
Proportion of firms that pay bribes frequently or more



# Costs of corruption: the kickback tax

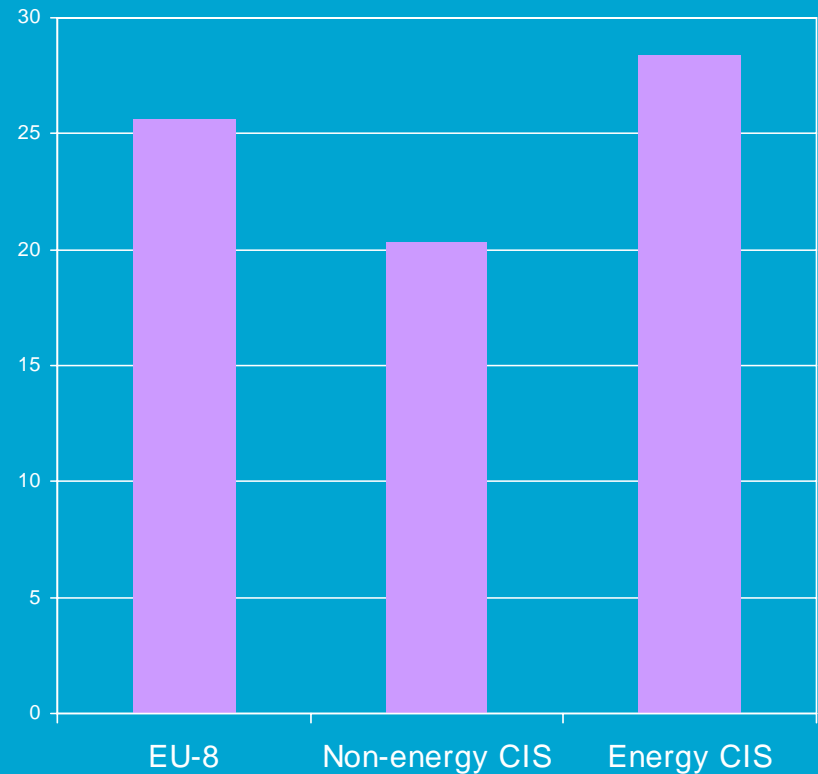
## Kickback Tax

Percent of contract value paid in bribes to secure government contracts



## Kickback Frequency

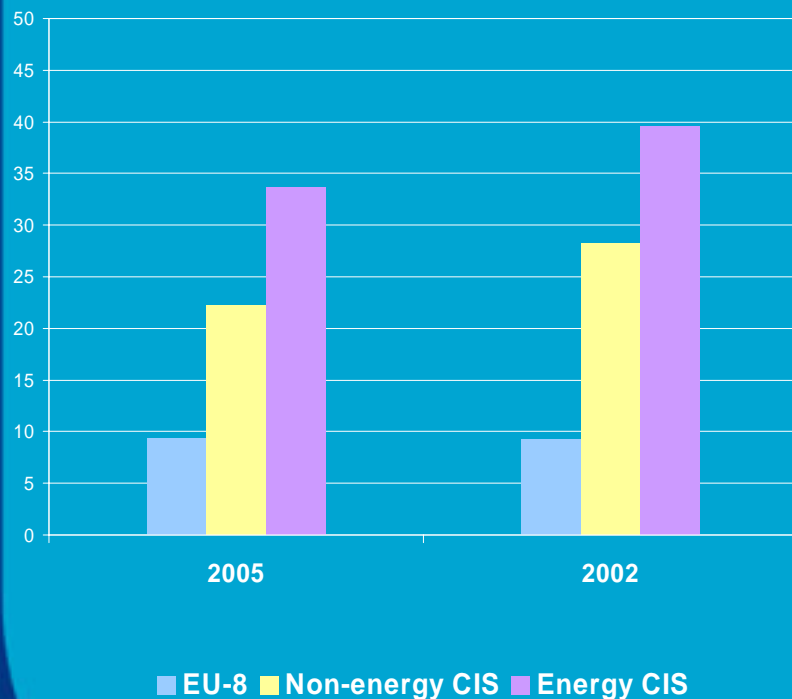
Proportion of firms that reported paying kickbacks



# Trust in the contracting environment

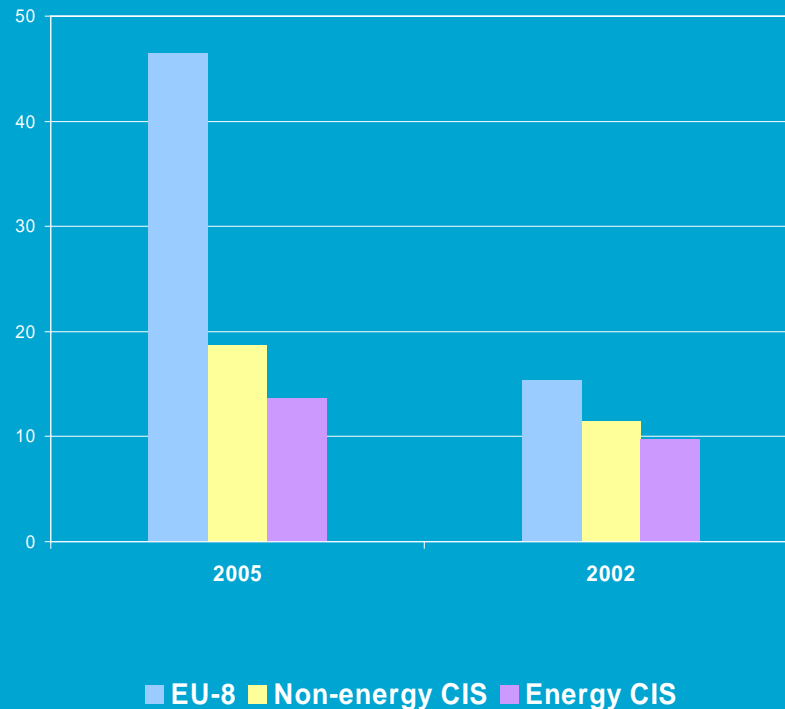
## Prepaid Sales

Percentage of annual sales paid before delivery



## Sales on Credit

Percentage of annual sales sold on credit



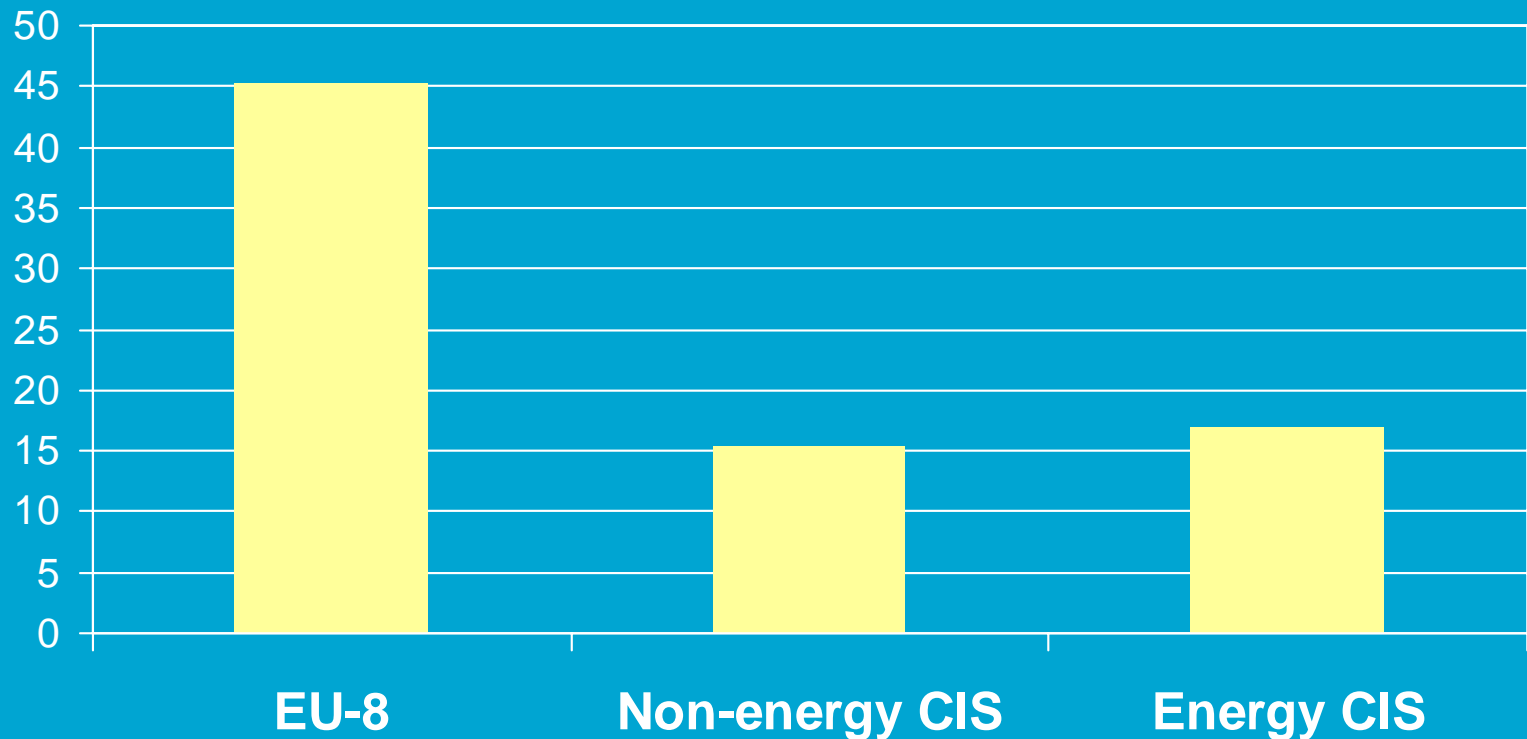
## Economic diversification: growing the SME sector

- Oil and gas production will continue to dominate the economies of the energy rich CIS
- Diversification cannot be achieved administratively – i.e., through industrial policies and picking winners
- Energy CIS can attract finance to non-energy sectors through improvements in the business environment and easing access to capital, especially for SMEs

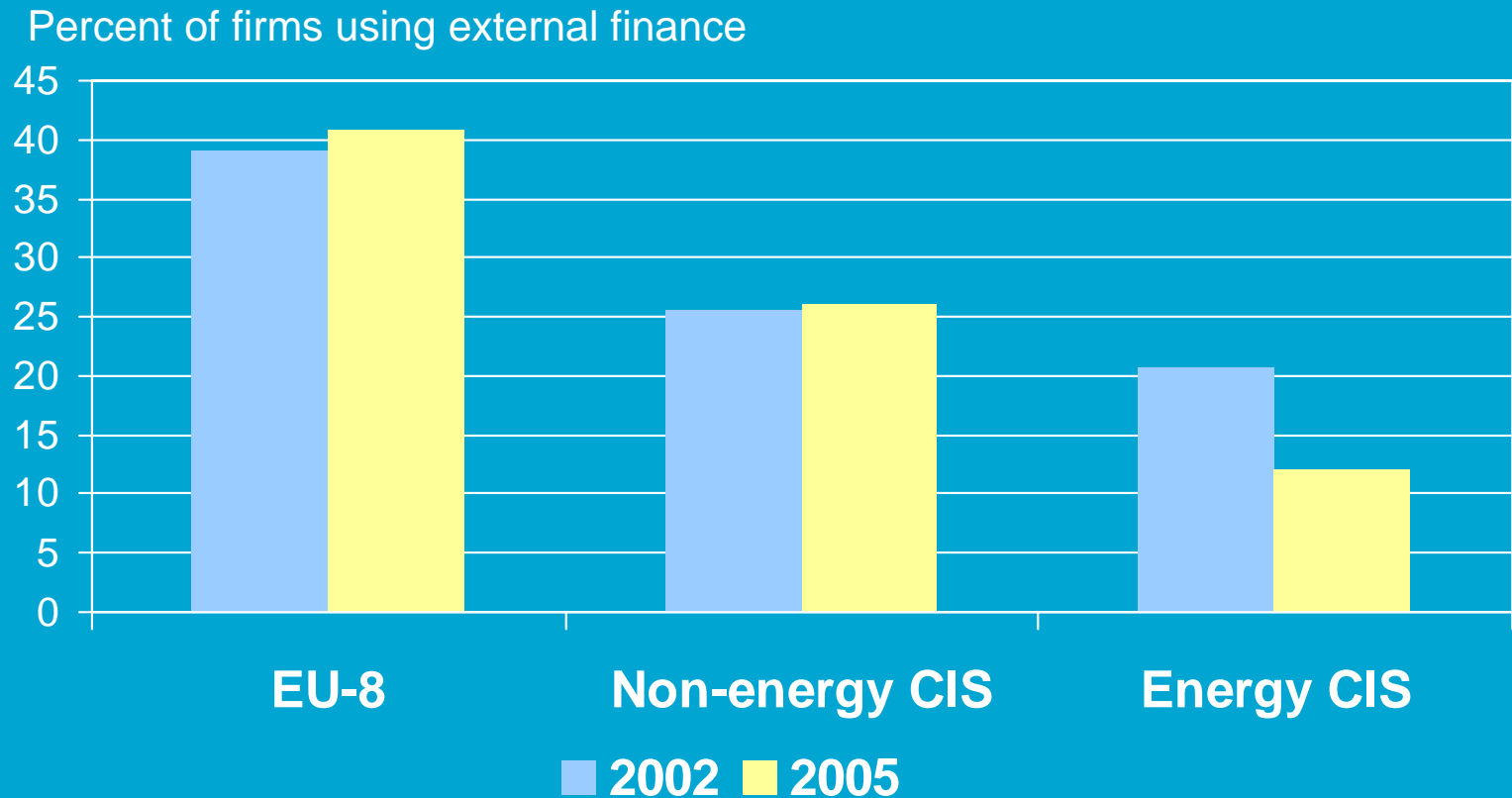


# Financial intermediation in energy CIS is low...

Domestic credit to the private sector to GDP



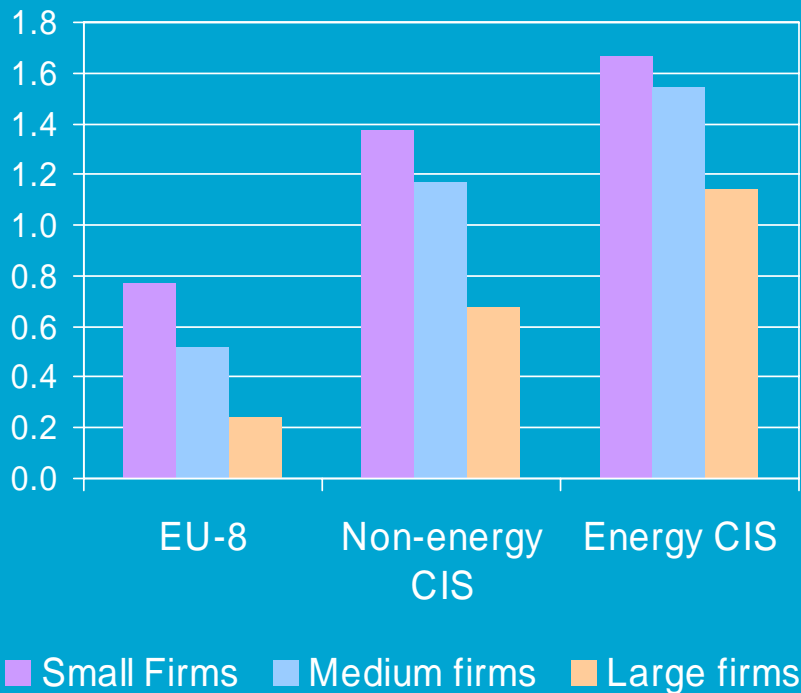
# ...and access to external finance is limited



# Small private firms pay more in bribes

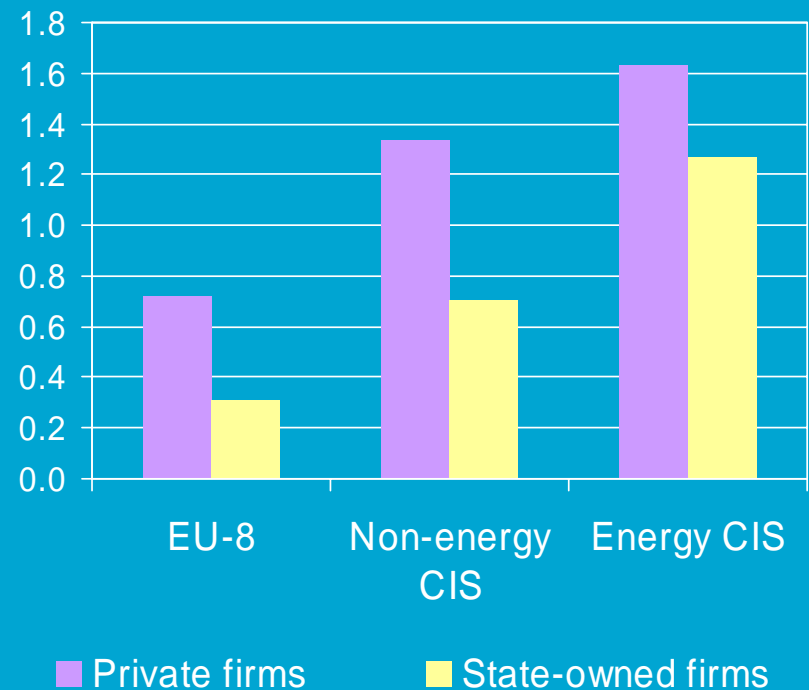
## Bribe Tax by Firm Size

Percentage of annual sales paid in bribes



## Bribe Tax by Ownership

Percentage of annual sales paid in bribes



# Conclusions

- Reforms in the energy CIS have stalled as oil prices have continued to climb
- Political and economic governance has also deteriorated in this period
- Further institutional reforms (financial sector, competition, administrative) and improvements in the business environment would facilitate economic diversification and sustainable growth

