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REPORT

on the activities of the European Bank for Reconstruction and Development
(EBRD)
(2002/2095(INI))

Committee on Economic and Monetary Affairs

Rapporteur: Helmuth Markov

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PROCEDURAL PAGE

At the sitting of 13 June 2002 the President of Parliament announced that the Committee on Economic and Monetary Affairs had been authorised to draw up an own-initiative report, pursuant to Rule 163 of the Rules of Procedure, on the activities of the European Bank for Reconstruction and Development (EBRD) and that the Committee on Budgetary Control had been asked for its opinion.

The Committee on Economic and Monetary Affairs had appointed Helmuth Markov rapporteur at its meeting of 15 April 2002.

It considered the draft report at its meetings of 1 October, 5 November and 28 November 2002.

At the last meeting it adopted the motion for a resolution unanimously.

The following were present for the vote: John Purvis acting chairman; Helmuth Markov, rapporteur; Generoso Andria, Pervenche Berès, Roberto Felice Bigliardo, Hans Udo Bullmann, Ingo Friedrich, Lisbeth Grönfeldt Bergman, Brice Hortefeux, Christopher Huhne, Othmar Karas, Christoph Werner Konrad, Astrid Lulling, David W. Martin, Fernando Pérez Royo, Alexander Radwan, Bernhard Rapkay, Olle Schmidt, Peter William Skinner, Helena Torres Marques, Bruno Trentin, Theresa Villiers, Richard A. Balfe (for Jonathan Evans), Bert Doorn (for José Manuel García-Margallo y Marfil), Werner Langen. (for Renato Brunetta), Thomas Mann (for Hans-Peter Mayer), Luis Berenguer Fuster (for Robert Goebbels), Ieke van den Burg (for Mary Honeyball), Harald Ettl (for Giorgos Katiforis), Manuel António dos Santos (for Christa Randzio-Plath), Elly Plooijs-van Gorsel (for Carles-Alfred Gasòliba i Böhm), Herman Schmid (for Philippe A.R. Herzog).

The Committee on Budgetary Control decided on 10 September 2002 not to deliver an opinion.

The report was tabled on 4 December 2002.

MOTION FOR A RESOLUTION

European Parliament resolution on the activities of the European Bank for Reconstruction and Development (EBRD) (2002/2095(INI))

The European Parliament,

- having regard to the Agreement Establishing the European Bank for Reconstruction and Development (EBRD), which was signed in Paris on 29 May 1990,
 - having regard to the By-Laws of the EBRD and the Rules of Procedure of the Board of Governors,
 - having regard to its resolution of 4 October 2000 on the enlargement of the European Union¹,
 - having regard to its resolution of 3 April 1998 on the Community contribution to the EBRD for the Chernobyl Shelter Fund²,
 - having regard to its resolution of 17 January 1997 on the European Community subscribing for extra shares as a result of the decision to double the capital of the EBRD³,
 - having regard to Resolutions 1287 (2002)⁴, 1254 (2001)⁵, 1218 (2000)⁶ and 1192 (1999)⁷ of the Parliamentary Assembly of the Council of Europe,
 - having regard to the Annual Reports of the European Bank for Reconstruction and Development (EBRD) from 1991 to 2001,
 - having regard to the speech by Mr Lemierre, President of the EBRD, to the Committee on Economic and Monetary Affairs on 1 October 2002,
 - having regard to Rule 163 of its Rules of Procedure,
 - having regard to the report of the Committee on Economic and Monetary Affairs (A5-0421/2002),
- A. whereas the Agreement Establishing the European Bank for Reconstruction and Development (EBRD) (subsequently referred to as 'the Agreement') was signed in Paris on 29 May 1990 and entered into force on 28 March 1991,
- B. whereas the EBRD is one of the four big regional development banks, alongside the African Development Bank, the Asian Development Bank and the Inter-American Development Bank,

¹ OJ C 178, 22.6.2001, p. 68-122

² OJ C 138, 4.5.1998, p. 202-221

³ OJ C 033, 3.2.1997, p. 111-116

⁴ Assembly debate on 25.6.2002 (19th Sitting)

⁵ Assembly debate on 26.6.2001 (19th Sitting)

⁶ Assembly debate on 27.6.2000 (19th Sitting)

⁷ Assembly debate on 22.6.1999 (19th Sitting)

- C. whereas 62 countries, together with the European Community and the European Investment Bank, currently hold shares in the EBRD, which operates in 27 countries in Europe and Asia which are undergoing transition (Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Georgia, Hungary, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Macedonia, Moldova, Poland, Romania, the Russian Federation, the Slovak Republic, Slovenia, Tajikistan, Turkmenistan, Ukraine, Uzbekistan and Yugoslavia),
- D. whereas the EU Member States hold between them 57% of the EBRD's capital (together with the associated voting rights),
- E. whereas in April 1996 the shareholders unanimously approved an agreement to double the EBRD's capital to EUR 20 billion, an agreement which entered into force in 1997,
- F. whereas the EBRD is unique among multilateral development banks in having both a political and an economic mandate; whereas the purpose of the EBRD, pursuant to Article 1 of the Agreement, is to '... foster the transition towards open market-oriented economies and to promote private and entrepreneurial initiative in the central and eastern European countries committed to and applying the principles of multiparty democracy, pluralism and market economics',
- G. whereas the EBRD, pursuant to Article 2 of the Agreement, is required '... to promote in the full range of its activities environmentally sound and sustainable development',
- H. whereas the EBRD was given responsibility for managing the following funds:
- the Nuclear Safety Account (NSA),
 - three international funds to support the decommissioning of nuclear reactors (IDSFs) in Bulgaria, Lithuania and the Slovak Republic,
 - the Chernobyl Shelter Fund (CSF), the aim of which is to stabilise the existing reactor and build a shelter,
- I. whereas the EBRD, pursuant to Article 11 of the Agreement, is required to effect more than 60% of its investment in the private sector, this being an exception among multinational investment banks, since they usually restrict themselves to lending backed by State guarantees,
- J. whereas the EBRD bases its investment policy on three principles: making a contribution to the transition process, additionality (the capacity not to squeeze out private sources of finance) and sound banking principles,
- K. whereas the EBRD's sphere of operations was extended to include the States which emerged after the collapse of the Soviet Union and Yugoslavia; whereas there are substantial differences in the level of investment per capita by EBRD funds in the various countries, with Estonia, Slovenia and Croatia receiving the most resources and Ukraine, Yugoslavia, Belarus and Tajikistan the least,
- L. whereas the EBRD operates in a highly unstable and changeable environment, which

manifests itself in problems such as political instability, economic mismanagement, widespread corruption and nepotism, management of businesses based on State privileges, impoverishment and ineffective public administrations,

- M. noting and welcoming the fact that the EBRD has given solid support to the candidate countries, which, partly with the EBRD's help, have now nearly achieved a market economy with free competition,
- N. reminding the EBRD that it should regularly monitor its organisation so as to ensure that the Bank's resources are effectively used,

Assessment

1. Congratulates the EBRD on its successful involvement in Central and Eastern Europe and the former CIS States;
2. Notes with satisfaction that the EBRD, unlike many other public investment banks, is involved in more than 800 medium-sized projects and is not pursuing a strategy of promoting large-scale, political motivated prestige projects; calls on other multilateral development banks to take the EBRD's pragmatic approach as a model;
3. Expresses its appreciation of the EBRD's willingness to take risks and considers that it is an original part of the mandate of a public bank to commit itself to projects which are deemed by private banks to be too risky; takes the view that a greater willingness to take risks necessarily entails increased research and implementation efforts which can only enhance the Bank's knowledge and operating skills, and thus also has positive effects on the Bank; notes that the technical expertise and competence of EBRD staff are widely acknowledged and valued;
4. Welcomes the fact that, despite the EBRD's active involvement in public- and private-sector projects in Eastern Europe which are fraught with risk, it has always received the highest rating (AAA) from rating agencies;
5. Welcomes the EBRD's willingness to promote sound, transparent business management; stresses that it refuses all finance for dubious institutions, even where such institutions are a powerful and influential force in the region in question; welcomes the systematic conduct of integrity checks on potential business partners seeking finance from the EBRD;
6. Welcomes the principle of additionality in the EBRD's investment policy; stresses the need to encourage local, dynamic firms and, in particular, small and medium-sized businesses; acknowledges, however, the need to support larger businesses if they develop entire value-added chains which then work for the regional market or if, as a result of major political instability, these firms encounter serious difficulties in developing and carrying out their projects;
7. Points out that Article 2 of the Agreement explicitly lays down the promotion of small and

medium-sized businesses as part of the EBRD's mandate; emphasises the special role of small and medium-sized firms in creating and securing training places and jobs; therefore expects the EBRD to step up its involvement and thereby help to boost the capital base of such firms, especially in Russia, where only 10% of the workforce is employed in small and medium-sized firms;

8. Welcomes the outstanding results of the micro-financing projects (loans of EUR 8000 on average) and supports the EBRD's intention of extending this programme to all project countries;
9. Reaffirms its belief that support for the process of transition is not just a matter of the amount of funding, but also includes the transmission of experience and knowledge to business and public administrations, so as to ensure the optimum use of the financial resources made available and achieve the requisite pace of transition to a fully democratic, pluralistic and market-orientated structure;
10. Notes that there are substantial differences between the levels of EBRD financing in the more highly developed countries and in the weaker countries; in this connection, welcomes the new EBRD strategy of focusing more on the least-developed countries in the Caucasus and in Central Asia; notes that investment is badly needed in Russia and the Ukraine, provided that the national and local authorities demonstrate their resolve to continue on the path of reform; notes that the process of transition in Central and Eastern Europe is far from complete even in the most highly advanced countries, and calls for active policies to be continued after their accession to the European Union;
11. Regrets the fact that the EBRD has not managed to present any analysis of the effects of its operations in the countries and regions in transition in relation to economic data such as productivity, company turnover, employment, wages and salaries, etc.;
12. Takes the view that the EBRD should not attempt to operate in the same way in every country, but should tailor its policies to local circumstances, instead; considers, in particular, that the EBRD should respect political decisions taken by democratically elected governments, and consequently should not influence the division between the public and private sectors in each country;

Recommendations

13. Recommends that the focus should gradually shift to more equity investment, which would both signal the EBRD's willingness to promote the development of local firms in the medium and long term with much needed risk capital and to develop public markets for such investments with increasing local participation;
14. Recommends that the EBRD pursue an integrated approach designed to help entire value-added chains – from the processing of raw materials to the sale of the product at local level – get established, and thus contribute to the promotion of regional economic and social flows;

15. Recommends that the EBRD take account of the objectives of the Lisbon strategy, as added to by the conclusions of the Göteborg European Council, when considering, monitoring and assessing the projects it finances;
16. Calls on the EBRD to step up its investment in municipal projects, particularly where better utility services for the public, at reasonable prices, can be achieved by improving the management of public utility companies;
17. Recommends that the EBRD make more resources available for the internal development of technical know-how relating to industry, with the aim of developing its staff's ability to identify promising projects with certainty and of having solid expertise available for the companies financed by the Bank, especially as (quite correctly) many of its staff come from the client countries on short term contracts and whose return to their own country will be of significant benefit;
18. Recommends that the EBRD use its experience in dealing with firms with liquidity problems to provide competent support for firms which, through no fault of their own, are suffering losses owing to the weakness of economic activity;
19. Calls on the EBRD to check, in connection with projects leading to rationalisation measures (especially in the production sector), whether local social security systems are sufficiently well-developed to provide for large numbers of temporary unemployed; calls on the EBRD to link restructuring measures to micro-loans and risk capital for those starting up businesses and made redundant by rationalising industries;
20. Recommends that the EBRD extend its network of local representations and set up regional offices, especially in Russia and the Ukraine, where there are huge regional disparities;
21. Applauds the thorough critical assessment process, which is carried out by the EBRD project evaluation department after projects are completed and which measures development of competition, enlargement of the market, development of institutions, knowledge transfer, demonstration effects and standards of sound business management; calls on the EBRD to include effects on employment as an additional criterion in project assessment;
22. Considers that the EBRD, by concentrating projects in one region, can create cluster synergy effects which increase the value of each individual investment made; advises the EBRD to implement such a strategy in a number of particularly needy areas, but also to build on already successful or nascent clusters wherever they are located so that their success can ripple outwards; notes that Kaliningrad is now expected to need extra support when the Baltic States become members of the EU because of its extreme poverty and serious concerns about rising crime;
23. Reminds the EBRD that enlargement will mean new borders for the EU and that consequently the Bank's strategies in Ukraine and Moldova should be stepped up; points out that priority should be given to projects which support the development of democracy, which in the case of Belarus, could most sensibly be done through NGOs rather than directly by the EBRD;

24. Reminds the EBRD that the situation in the Commonwealth of Independent States (CIS) is still critical and urges the Bank to step up its strategy in all these countries;

Relations with other institutions

25. Calls for an ongoing partnership between the Commission and the EBRD, so as to link together economic growth and social well-being for the people of the candidate countries;
26. Welcomes the EBRD's active commitment to nuclear safety; calls on the EBRD to commit itself where feasible to upgrading nuclear plants to fully acceptable EU standards and to step up its investment in projects to tap alternative energy sources, in order to offset potential supply bottlenecks arising from the possible closure of inadequately safe nuclear power stations and to promote sustainable development in the energy sector of the countries in transition;
27. Calls on the EBRD and the Commission to make support for the reform of tax systems in the countries in transition a priority, so that these countries can count on a solid tax base, and thereby help them to develop a competent, skilled and trustworthy administrative apparatus, whose day-to-day contribution to the implementation of adopted legislation and to the effective application of the *acquis communautaire* is crucially important;
28. Emphasises the importance of developing legally certain property ownership rights and urges the EBRD to make this a high priority for its client countries;
29. Calls on other national and international investment banks involved in the process of transition to collaborate more actively with the EBRD so as to avoid a costly duplication of activities; encourages the EBRD and the EIB, in particular, to work together fairly and with mutual respect for their spheres of operation;
30. Calls on the shareholder States to concentrate their activities, with the EBRD's assistance, in special funds such as the Northern Dimension Environmental Partnership (NDEP), thereby putting the Bank in a position to monitor the funds better and to prevent differences arising between the original objective and the position reached through the funds;
31. Welcomes the regular dialogue which takes place between the Council of Europe and the EBRD about the human rights situation in the States in which the EBRD operates;
32. Encourages the EBRD to continue to step up its dialogue with democratically elected representatives, both in the European Parliament and at national and regional level;
33. Supports the freezing of current investment plans in countries where the human rights situation is worrying; calls nonetheless for micro-financing projects to be implemented in those countries, so as to help independent small businesses;
34. Welcomes the significant increase in EBRD activities in Yugoslavia and calls on the

EBRD, in the context of the Stability Pact for South Eastern Europe, to assist these countries to step up their contacts still further and to pursue targeted investment in projects which increase trade between the former warring parties in the Balkans;

35. Instructs its President to forward this resolution to the Council and Commission, as well as the European Bank for Reconstruction and Development (EBRD), the European Central Bank, the European Investment Bank and the national parliaments of the Member States and the candidate countries.

EXPLANATORY STATEMENT

Comments and expressions of opinion about the activities of this little-known development bank are rare. This may be connected with the fact that the Bank, unlike the European Investment Bank, is not linked to the European Union. Nor is the EBRD a global development bank, akin to the Asiatic Development Bank or the African Development Bank, coming under the umbrella of the World Bank group. Its capital derives instead from more than 60 countries with an interest in the future of Central and Eastern Europe, following the fall of the Berlin Wall. Over the last 12 years of transition the EBRD has had to tackle many challenges. Under the leadership of Jacques Attali, the Bank swiftly became a target of public criticism on account of its ambitious personnel policy and the massive costs of its head office in London. The next President, Jacques Delarosière, restored the institution's credibility. Staff costs remained stable between 1993 and 1998. The doubling of the EBRD's capital to ECU 20 million in 1997 finally demonstrated that the shareholder States accepted the EBRD's policy of consolidation. However, the Bank's funding potential continued to be under-exploited. By 1997 it could show a total of ECU 13.9 billion in pledged funding since starting operations in 1991, but actual commitments (following signature by investors and the Bank) amounted to only ECU 10.2 bn, and actual disbursements were, ultimately, far below the level of commitments, at only ECU 5.9 bn. Horst Koehler had just taken over the helm at the Bank when the Russian crisis broke in 1998. Up to 1997 the Bank had invested in the Russian financial sector in order to reform it from the inside out. The shock was huge. The EBRD had invested substantial sums, and as a result it went into the red for the first time in its history. It later admitted, exercising self-criticism, that certain risks arising from companies' questionable business standards had been underestimated. Similarly, the Bank had overestimated its ability to exercise influence over firms with the aim of raising low business standards. The Bank nonetheless made it abundantly clear that even in the most difficult economic circumstances it would not withdraw from Russia. The experience with Russia shows the scale of the structural risk to which the Bank was exposed through its operations. In 2000 and 2001 rising raw materials prices and faster economic growth worldwide meant that there was a greater need for investment in Eastern Europe and Russia, where the Bank was running several major energy projects. In 2001 the level of investment reached a record figure of EUR 3.6 bn, and this increase pointed to the Bank's increasing self-confidence.

Assessment

Your rapporteur wishes to highlight the fact that the EBRD is prepared to court risks in its activities in the countries in transition, and does not systematically seek State guarantees. Taking risks is a fundamental task of this public bank. Its mandate is to invest in places where other banks do not dare to tread. Consequently, your rapporteur is unable to join those who have complained about and criticised the Bank's losses from its operations in Russia. Losses result from taking risks, and EBRD staff can learn from both successes and failures and use them in future to improve their management.

For some time now the EBRD has concentrated its activities on developing small and medium-sized businesses. Your rapporteur explicitly supports this change of emphasis. The EBRD's role cannot be to finance multinationals such as Coca Cola or Siemens. There are many entrepreneurs in Eastern and Central Europe who are prepared to invest, but who cannot obtain the requisite resources to do so from their national banking system. The EBRD must

give priority to supporting them, and to do so it must follow a twin-track policy:

- first, it must develop aid programmes for local banks, so that they can learn how to deal with small-scale lending; the rate of lending to business and private customers in Eastern and Central European countries, as a proportion of GDP, is very low compared with Western Europe;
- secondly, banks must be developed which specialise in lending to small and medium-sized businesses and in micro-loans; the EBRD's experiences in this area are very encouraging, and show that micro-credit banks are greatly in demand and enjoy a very high level of return flows.

Your rapporteur, accordingly, supports the extension of these initiatives to all the States in transition. The success of the initiatives also proves that there continues to be great potential/a great need for investment which has to be met. At the same time the EBRD stresses, however, that the capacity of these countries to absorb investment is still limited. This problem must be considered afresh. Absorptive capacity also depends on the financing arrangements. It may be that the capacity to absorb large-scale projects really is limited, because administrative institutions are inefficient. On the other hand, focusing on smaller projects and setting up micro-credit banks can help to overcome current obstacles.

Your rapporteur wishes to express a more critical view of the two-edged sword that the EBRD's political mandate represents. Democracy can prevail in the States in transition only if the underlying economic and social conditions permit it to do so. In other words, the EBRD's primary role must be to contribute to economic development and improved living conditions for all. In this respect, its work is very constructive. However, were the Bank to set itself up as the herald of ultra-liberalism, were it to set itself the goal of subjecting the governments of the States in transition to the dogma of nothing but privatisation and uncontrolled liberalisation, this would be a misinterpretation of its role. We are all familiar with the devastating effects of the IMF's activities in developing countries. We have experienced the failure of the much-acclaimed policy pursued by international organisations in Russia, when the attempt to set up a capitalist structure ended in a government of kleptocrats and impoverishment of the public. The EBRD must respect the decisions taken by all democratically elected governments, particularly where the division between the public and private sectors is concerned.

In addition, the EBRD should pay more attention in its work to social cohesion, and especially employment. It is really rather surprising, after all, that there is no place for employment in the long list of criteria for assessing completed projects, yet the retention and creation of jobs is a decisive factor in the process of transition, because economic success and political stability are thereby combined. It would also be beneficial if the EBRD were to measure and assess the effects of its operations on the macroeconomic development of the countries in transition. This is undoubtedly not an easy thing to do, but it is essential, since the Bank is supposed to report not only to its shareholders but also to institutions such as the European Parliament. Accordingly, your rapporteur calls on the EBRD to give more consideration to employment in its strategy.

EBRD – Highlights

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
(a) Annual commitments	0.9	1.8	1.9	2.0	2.2	2.3	2.4	2.2	2.7	3.7
(b) Projects approved (per annum)	48	80	109	134	119	143	82	99	107	111
(c) Loans (balance sheet)	0.1	0.4	0.8	1.6	2.5	3.5	3.9	4.8	4.9	6.1
(d) Share investments (balance sheet)	0.1	0.2	0.4	0.5	0.6	0.8	1.1	1.2	1.4	1.7
(e) Private-sector projects as a proportion of total volume of projects financed				61%	64%	65%	67%	68%	68%	69%
(f) Gross income	183	349	345	470	435	712	817	855	1237	1075
(g) 'Active' income/gross income	3%	10%	20%	35%	48%	50%	64%	54%	51%	53%
(k) Profit/Loss	-6	4	1	8	5	16	-261	43	153	157
(h) Staff	522	795	925	1053	1114	1189	1169	1207	1225	1306
(j) Success rate of completed projects:										
Unsuccessful		11%	18%	18%	24%	11%	24%			
Partly successful		33%	24%	33%	27%	37%	20%			
Successful/very successful		56%	58%	49%	49%	52%	56%			

Notes: _

(a) (c) (d) in EUR bn

(f) (k) in EUR m

(g) 'Active' income = interest from loans, dividend income from share investments, net fee and commission income and net profit on sale of share investments

EBRD cumulative commitments by country (1991-2001)		
	<i>(in EUR 000 000)</i>	<i>(per capita, 100 = average)</i>
Estonia	367	536
Slovenia	414	424
Croatia	937	410
Slovak Republic	899	339
Latvia	353	297
Hungary	1357	277
Macedonia	270	270
Lithuania	437	241
Romania	2017	183
Czech Republic	869	172
Bulgaria	536	137
Poland	2560	135
Bosnia and Herzegovina	201	103
Kazakhstan	797	100
Moldova	211	100
Azerbaijan	393	100
Georgia	249	96
Albania	126	82
Kyrgyzstan	190	79
Turkmenistan	177	76
Armenia	140	75
Russian Federation	4276	60
Uzbekistan	690	56
Ukraine	1294	53
Yugoslavia	233	45
Belarus	190	38
Tajikistan	38	13

Source: EBRD