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The activities of the European Bank for Reconstruction and Development (EBRD) in 2008: reinforcing economic and democratic stability

Report[1]
Committee on Economic Affairs and Development
Rapporteur: Mr Maximiano MARTINS, Portugal

Summary

The present report summarises the EBRD's activities in 2008 in the Western Balkan countries, in the Southern Caucasus, in Ukraine and in Moldova and includes some references to Russia.

The rapporteur recalls the consequences of the financial and economic crisis and in this context stresses the importance of the activities of the Bank in reinforcing economic and democratic stability in those countries.

Better co-ordination and co-operation among different financial institutions is suggested to avoid overlapping of activities. The rapporteur also proposes that the efforts to strengthen regional co-operation and integration should be stepped up.

The rapporteur suggests ways to promote joint activities by the Council of Europe and the EBRD in the member states where both institutions carry out projects.

1. Reference to committee: Standing Mandate.

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A. Draft resolution

1. The Parliamentary Assembly of the Council of Europe stresses the continuing validity of the Co-operation Agreement signed in 1992 between the Council of Europe and the European Bank for Reconstruction and Development (EBRD) as a reference document. The economic and financial crisis affecting most Council of Europe member states, in which the EBRD operates, reinforces the topicality of the present resolution. Both institutions aim at contributing to democratic stability in the European countries on the basis of the common values of the rule of law and democracy and those of economic and social development as a foundation of stability.

2. The Assembly is gravely concerned about the effects of the crisis on the living conditions of the citizens of Council of Europe member states which are benefiting from EBRD assistance, particularly in the Balkans, the Southern Caucasus, Ukraine and Moldova. The Assembly notes the significant crisis response by the EBRD and considers that its operations must be further reinforced and adjusted to tackle the challenges of the crisis.

3. The Assembly recalls its Resolution 1651 (2009) on the consequences of the global financial crisis, which points out that “it is vital that economic solidarity, co-ordination and co-operation be exercised not only among the Council of Europe member states and between the industrialised states, but also vis-à-vis the developing countries”.

4. The Assembly is convinced that the EBRD should step up its activities in the Council of Europe member states which are in transition to an open market economy within a democratic framework. The financial crisis has clearly shown the need for constant monitoring of every country’s application of the principles of multiparty democracy, pluralism and the market economy, in accordance with Article 1 of the Agreement Establishing the EBRD.

5. The Assembly notes with satisfaction that in 2008 the volume of EBRD activities increased sharply in the western Balkan countries. The Bank’s operations reflected the main elements of each country’s development strategy, namely support for enterprise, finance and infrastructure. The Assembly would stress that economic growth also reflects the results of political stability which is conducive to programming the Bank’s medium- to long-term activities.

6. The Assembly notes that the EBRD’s activities in Georgia, Armenia and Azerbaijan increased considerably in 2008 in the fields of infrastructure, banking, enterprises, the food-processing industry and energy. It should nevertheless be stressed that the Southern Caucasus region still suffers from frozen conflicts and insufficient regional co-operation. For example, the armed conflict in August 2008 between Georgia and the Russian Federation in South Ossetia seriously undermined investor confidence, damaged transport infrastructure and impacted negatively on the whole region.

7. The Assembly welcomes the fact that the EBRD has intensified its operations in Moldova to support private enterprise, local banks and infrastructure. However, growth in this country is set to be affected by the slump in demand for food exports.

8. Where Ukraine is concerned, the Bank has increased the volume of its projects, and the country remains the second most important country in terms of EBRD operations. These projects concern in particular the industrial sector, the development of national capital markets, promotion of energy efficiency and infrastructure improvement. However, the main concern is still the solidity of the banking sector.

9. The Assembly is keenly aware that the EBRD will be facing real challenges in maintaining and increasing its activities in 2009 and the ensuing years in the western Balkan region, the southern Caucasus, Russia, Ukraine and Moldova, because these countries’ economic growth has experienced a downturn.

10. The Assembly hails the joint International Financial Institutions initiative undertaken in 2009 and stresses the importance of improving co-ordination and co-operation among the EBRD, the International Monetary Fund, the European Commission and the European Investment Bank in order to avoid overlapping activities. Such co-operation should be based on the pre-accession instrument, which also covers the western Balkans, the neighbourhood partnership, which covers the southern Caucasus, and the Agreement on the investment facility, which covers Ukraine and Moldova. The Assembly considers that the EBRD should continue to increase its efforts aimed at improved regional co-operation and integration, including in the field of the cross border lending.

11. The EBRD's experience in the countries in question, its know-how, its knowledge of the economic, financial and political realities and of the national and regional partners and their specific modes of functioning make this bank the best-placed financial institution to help the Council of Europe member states concerned to face the challenges arising from the economic and financial crisis and enable them to implement lasting democratic development.

12. The Assembly is convinced that the Council of Europe and the EBRD could improve their joint activities by complying with the following criteria:

12.1. improving the co-ordination of efforts for projects conducted by both institutions in the same countries at the local and regional levels, with a dual democratic and economic strand;

12.2. studying the possibility of preparing and implementing joint projects with the Council of Europe Development Bank (CEB) in member countries where both banks are implementing projects;

12.3. promoting high standards of good governance as a major priority;

12.4. co-operating with the relevant Council of Europe bodies in preparing joint projects geared to promoting a moral and ethical code for economic and financial stakeholders and combating corruption and money-laundering;

12.5. ensuring that the EBRD makes greater use of the reports adopted by the Assembly, particularly those drafted by the Monitoring Committee, in order to reinforce the principles of the rule of law in the fields of finance and banking in the countries where the EBRD develops its activities;

12.6. improving national parliaments' knowledge of the EBRD's activities and inviting parliaments of beneficiary countries to monitor their executives in this context;

12.7. studying joint projects in order to restore citizen confidence in the democratic functioning of market economy institutions.

13. The Assembly recalls that despite the financial difficulties, all human, social and economic rights must be respected.

B. Explanatory memorandum, by Mr Martins

1. Introduction[2]

1. The global financial and economic crisis was the major factor to affect all the EBRD's countries of operation during 2008, although most countries were not affected until later in the year and will only experience the full impact during 2009 as the recession in most industrial economies takes hold. From the third quarter of 2008, the EBRD experienced increasing difficulties in attracting project finance from private sources (especially banks), and at the same time experienced a surge in demand for financing from the region. The EBRD's profitability will also be affected, although to what extent is unclear at present. There were, however, a number of other important developments during 2008 which will affect the EBRD's operations over the next few years. These included:

– Thomas Mirow succeeded Jean Lemierre, who had been the EBRD's President for eight years, at mid-year;

– In early 2008, the EBRD announced record profits of €1.9 billion following the successful outcome of its activities in 2007. The Board subsequently decided to add the bulk of these profits to reserves so that paid-in capital and reserves amounted to almost €14 billion, equivalent to a little over 40% of assets – a high level of capitalisation;

– At the annual meeting in Kyiv in May, the governors decided to pay a portion of the previous year's net income into a Shareholder Special Fund to supplement the recent growth in technical co-operation funding and grant financing. The latter are essential components of the EBRD's increasing focus on the poorer countries of the region. It remains to be seen whether such allocations will be repeated, as the EBRD's profitability is likely to fall in the immediate future;

– The Board of Directors also agreed that Turkey, a founder member of the Bank, should become a country of operation, with up to €600 million to be committed in the years 2009 and 2010. The decision partly appears to have reflected the fact that Turkish companies are active as traders and investors in the region, especially in the Balkans and the Caucasus, and it could thus give a boost to cross-border co-operation and regional projects. However, as Turkey will be the second largest country of operations in terms of population, it remains to be seen whether an overall limit on commitments might be required, so as not to affect potential flows to other countries;

– The Board also agreed that operations should not only continue, but should be increased (up to the total value of €800 million in 2009) for seven of the eight countries in the region which joined the EU in 2004 and which were due to graduate from the Bank in 2010 (the eighth, the Czech Republic, having already done so). Although the policy of graduation is still in place, the result is that the timing has been put back;

– In December, the Board confirmed that the EBRD would increase its planned commitments to €7 billion in 2009, a 20% increase compared with 2008. This was partly in response to the request from the Group of 20 (G20) at their conference in Washington in mid-November that all International Financial Institutions (IFIs) should work at full capacity in response to the crisis. Activity in 2009 is expected to focus on support for banking sectors, small and medium enterprises (SMEs) and promoting trade flows through an expansion of the Trade Facilitation Programme.

2. These factors contributed to the President's decision to bring forward the next Capital Resources Review (to 2010) to ensure that the Bank is best placed to meet the new challenges it will face over the next few years.

2. Impact of the credit crunch on the EBRD's activities[3]

3. The main ways in which the credit crunch would most likely affect the region were set out in a prescient article in the Bank's Transition Report 2007,[4] written in August of that year, at about the time the severity of the sub-prime crisis in the United States began to affect financial markets. It identified the countries most at risk in the region as those with large external financing requirements, especially if export growth were to weaken, and those with weak banking sectors, especially where there had been a rapid growth of credit. In

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2. The report focuses on Albania, Bosnia and Herzegovina, "the former Yugoslav Republic of Macedonia", Montenegro and Serbia in the Western Balkans; Armenia, Azerbaijan and Georgia in the Southern Caucasus, as well as Moldova and Ukraine and includes some reference to Russia where appropriate.

practice, during the second half of 2007, the growth of syndicated lending did begin to slow, while Kazakhstan experienced serious banking problems. Among the reasons why the region was not seriously affected until the third quarter of 2008 were the contribution that strong economic growth had made to ensuring that the public finances in many countries were in reasonable shape, the overall progress in reform and the opportunity for the exporters of natural resources to build up large reserves as commodity prices rose. Indeed, up until mid-2008, for most countries the concerns related mainly to the rapid growth of domestic credit and inflationary pressures, accentuated by higher food and energy prices.

4. The full impact of the crisis began to strike the region in August 2008, when it became clear that western banking sectors had been severely weakened, the process of deleveraging (cutting debt) began to affect emerging markets, commodity prices were falling and that world economic growth in 2009 would be appreciably lower than originally forecast.[5] With the prospect of much weaker growth in 2009 in many of the region's main markets, including the EU, Russia and China, in its Transition Report the EBRD lowered its growth forecasts for the region, with GDP growth expected to slow from 6.3% in 2008 to 3.5% in 2009. The EBRD subsequently revised these estimates downwards in late January with growth in the region (excluding Turkey) estimated at 5.5% in 2008 and 0.8% in 2009.

5. The crisis will affect most countries in the region, although to different extents. If Kazakhstan was the first victim of the crisis, certain other countries also experienced significant capital outflows and depreciation pressures in the second half of 2008, necessitating immediate and large-scale financial assistance from the IMF (including Hungary, Latvia, Belarus and Ukraine), while Serbia also concluded a precautionary loan from the IMF. Furthermore, this is an unfolding crisis. Despite the action taken by the authorities in industrial countries to support their banking sectors and stimulate growth, not only will these measures take time to have effect, but there is a risk that weaker economic growth will adversely affect asset values in the financial sector, so that financial conditions will remain tight for some considerable time to come. Furthermore, the longer the recession, the greater the strain on public finances in some countries.

6. The onset of the crisis resulted in a slowdown in the growth of domestic credit, accompanied by a toughening of payment terms in many countries, after several years of very strong credit growth. Syndicated lending – a major source of external funding for countries in the CIS in recent years, especially Russia, Kazakhstan and Ukraine – slowed markedly as the availability of funding from interbank markets became increasingly difficult and costly to arrange. As country credit ratings were adjusted in some cases, bond investors increasingly focused on high quality issuers. The financing of foreign subsidiaries by parent banks in continental Europe, relatively more important in central and South-Eastern Europe, as well as foreign direct investment (FDI) flows, traditionally longer term and more stable, therefore became even more important. However, both of these are also likely to have slowed in the final quarter of the year and there are uncertainties over future volumes. Thus, most sources of private external finance for the financial and corporate sectors in the region either vanished or became highly uncertain, a critical factor for those countries with large external debt obligations and/or external deficits.

7. There have been a number of immediate implications for the EBRD in terms of financing its existing projects. Perhaps the main effect, and one not wholly foreseen a year ago, was the potential impact on local subsidiaries in the region owned by parent banks from Austria, Italy, France and other countries, including Russia. These banks, such as Raiffeisen Zentralbank and UniCredit, made strategic decisions to expand their operations in the region some years ago, supporting their subsidiaries with credit lines, subordinated debt and capital. Over time, this has not only meant that a majority share of the assets in some banking sectors were foreign owned (for example, in the Baltic states and some Balkan countries), but several of these banks also became important financing partners for the EBRD.

8. This development was rightly viewed as a major contribution to strengthening domestic banking sectors.[6] However, as some of these foreign banks may have to seek financial assistance, such as extra capital or loan guarantees, from their own authorities, there is now some uncertainty as to the volume of financing they will be able to provide to their subsidiaries in the region in the future. To date, most indications

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3. For a fuller treatment see "The global credit crisis and the transition region", Chapter 2, Transition Report, 2008; EBRD, London, November 2008.

4. See Financial market turbulence – implications for the transition region. Box 1.2, Transition Report 2007; EBRD, London, November 2007.

5. For example, in November 2008 the IMF lowered its forecast for world economic growth for 2009 twice following its publication of the WEO in October 2008. At that time, its forecast was for world growth of some 3%. This was revised down to 2.2% in November because output in the industrial economies was expected to contract in 2009, and then to just 0.5% in late January, partly because of weaker growth in some emerging economies, including China. If realised, this would be the lowest world economic growth rate in over sixty years.

are that the parent banks will continue to support their subsidiaries. However, in practice the amount of this support will depend on the parent bank's own results for 2008 as a whole and how balance sheets are affected in future by increases in non-performing loans as the recession takes hold during 2009. In addition, for those banks that receive support from public sources, it remains to be seen whether European national authorities will seek to impose any restrictions on cross-border lending.

9. In general, the scope for bank financing either via syndicated lending or through bank subsidiaries in the region has fallen sharply, contributing to a marked fall in the number of projects that the EBRD processed during the final quarter of the year. A further complication has been that in some cases, the assumptions on which existing projects were approved, for example, with respect to economic growth or the exchange rate, are now very different. Depending on the robustness of the project this may affect the project's cash flow and financing requirements.

3. The impact of Russia

10. Although the origins of the credit crunch lie in the United States sub-prime market, the extent to which it affects Russia is also crucial for other countries in the CIS, given that Russia is a major market, that some of its banks own subsidiaries in the CIS and, for certain countries, including Armenia and Moldova, that it is an important source of workers' remittances, which contribute to these countries' external funding needs. Thus, developments in the Russian economy will also have a major bearing on developments in the region.

11. The Russian economy grew strongly up until the first half of 2008 (with some signs of overheating), reflecting strong credit growth, high oil and gas prices – the latter contributing to further large fiscal and external surpluses – and strong government spending. However, investor sentiment was adversely affected by events initially unconnected with the credit crunch, including the authorities' handling of the TNK/BP issue, evidence of government intervention in the stock market and the conflict with Georgia. These factors, combined with western banks' reluctance to lend and the collapse of the domestic stock market (which resulted in many foreign creditors having to be repaid), resulted in substantial capital outflows in the third quarter. This, in turn. put additional pressure on domestic banks, contributing to a slowdown in the growth of credit and sharp falls in industrial production by the year end. Although the Russian Central Bank had accumulated substantial foreign exchange reserves, the preference of Russian companies to finance their expansion via debt rather than FDI meant that by mid-2008, total external debt exceeded the value of reserves. The latter came under pressure during the final quarter of the year.

12. The authorities have responded to the crisis with a large-scale package of support for key sectors of the economy, including the financial sector, estimated at some 10% of GDP,[7] as well as allowing the rouble to depreciate. Russia therefore begins 2009 with the prospect of much slower growth (the EBRD forecasts GDP growth of just 1% compared with 6.5% in 2008), and sharply lower fiscal and external surpluses, especially if the oil price remains low. These trends will inevitably affect growth in other CIS countries, while a recent package of economic stabilisation measures announced by Premier Putin in December includes a limit on the quota for foreign workers, which could have a direct impact on remittances.

13. These developments and the implications of Russia's conflict with Georgia (see below) had little direct impact on the growth of the EBRD's operations in Russia during 2008. Although provisional results suggest the Bank's new commitments were slightly below the level recorded in 2007, they nevertheless amounted to €1 816 million in 2008, so that Russia accounted for 35% of the EBRD's operations. With the Bank's focus on the private sector, activity was mainly affected by the difficult investment climate. Despite progress with an anti-corruption plan and the enactment of a Law on Foreign Investment in Strategic Industries during the year, investors' concerns over the continuing absence of clear property rights and the extent of corruption remain. For the second year running, the EBRD did not raise any of the main transition indicator scores for Russia, although some progress has been made within the infrastructure sector, suggesting that the government has largely missed a period of strong growth in which to accelerate reforms.

6. One estimate suggests foreign banks account for some 45% of bank assets in the region as a whole. See Transition Report 2008, page 39.

7. The authorities have accumulated substantial surpluses from high oil revenues in the past and the government is likely to use some portion of these funds to support ailing banks and companies. At the beginning of December, about US $210 billion (about 12% of GDP) was held in two funds – the Reserve Fund and the National Welfare Fund, the revenues having been transferred from the Stabilisation Fund at an earlier date.

4. Ways in which the impact of the credit crunch can be minimised, including those involving greater regional co-operation

14. Given the severity of the global economic crisis, the immediate challenges are the need to limit the extent of the current crisis and strengthen financial regulation. The main response to date has been that of the G20 in mid-November, which recommended fiscal measures to stimulate demand, improved transparency and supervision of financial markets, as well as a greater role for the main emerging market economies in multilateral institutions, such as the IMF. Most of the steps would need to be taken at either the national or international level.

15. One of the main lessons of earlier crises which affected the region – for example the Asian and Russian crises of the late 1990s – was that those countries in the region with sound macroeconomic policies and which had progressed with economic reform were best placed to withstand the shocks. This remains true and thus the main focus of economic policy should be to address economic imbalances to reduce external financing requirements. In a number of cases where there has been a de facto exchange rate peg, as for example in Ukraine, greater exchange rate flexibility is likely to ease the adjustment process.

16. With respect to the banking sectors, there will be a need to ensure that banks have adequate capital, that liquidity management is strengthened in the ways recommended by the Basel Committee and that prudential regulations are improved, especially those relating to risk management procedures. The EBRD is likely to face strong demand for additional support from some existing clients in the financial sectors of many countries, a point noted in a letter the President wrote to the Board on ways in which the Bank could assist those countries and private sector clients under the greatest stress.[8]

17. The crisis has, however, revealed two issues on which further action is required. Given the important role played by foreign banks in the region, the crisis has highlighted the need to improve cross-border co-operation between the relevant supervisory authorities. Although a national supervisor may take the necessary steps to strengthen the position of one of its major banks, if this is an international bank with foreign subsidiaries, there is a risk that this will impact on cross-border lending. The local supervisory body has little say in this situation at present. Although this may ultimately be a matter for ensuring consistent supervisory practices across all countries, it is encouraging that the EBRD participated in a regional conference in Vienna in January 2009 with the major banks and other interested parties to address this particular issue. Secondly, where there were concerns that depositors might withdraw their deposits from particular institutions, some authorities moved quickly to increase the amount of deposit protection, in some cases to effectively 100%. This had the potential to accentuate the problems in neighbouring countries with lower levels of protection, even if the ability of the national authorities to finance the new level of guarantees was uncertain.

5. Political stability and economic development

18. The EBRD's mandate is to assist countries to make the transition to open market economies within a democratic framework. The Bank therefore continually monitors each country's application of the principles of multiparty democracy, pluralism and market economics to ensure that Article 1 of the Agreement Establishing the EBRD is being met. From the most recent country strategy documents,[9] it may be seen that six of the 10 countries reviewed here are described as either meeting the conditions or committed to and applying the conditions, (Albania, Bosnia and Herzegovina, "the former Yugoslav Republic of Macedonia", Montenegro, Serbia and Ukraine).

19. The descriptions relating to the remaining countries (Armenia, Azerbaijan, Georgia and Moldova) were qualified in certain respects, generally along the lines that although they were committed to applying the principles, progress had either been slow or uneven in certain respects during the previous strategy period. It should be noted that this is not necessarily the EBRD's latest assessment, although it is the most recently published one. Furthermore, in none of the four countries was the assessment regarded as sufficiently serious to affect either the extent or nature of the Bank's activities in that country, as has occurred, for example, in a few other countries where shortcomings relating to the rule of law and human rights have been very serious.

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8. Mr Mirow's letter to the Board of Directors of 17 October 2008.

9. The latest country strategies were Albania (April 2006); Armenia (February 2006); Azerbaijan (September 2007); Bosnia and Herzegovina (September 2007); "the former Yugoslav Republic of Macedonia" (July 2006); Georgia (November 2006); Moldova (September 2007); Montenegro (September 2007); Serbia (February 2007); and Ukraine (September 2007).

20. In 2008, there was further progress in reform in the region as a whole, according to the latest transition indicators reported in the Transition Report 2008.[10] The five countries in South-Eastern Europe (SEE) reviewed here all recorded upgrades for the third successive year. The majority of these upgrades (of which there were eight in total) reflected improvements in the banking and financial sectors. In the case of Bosnia and Herzegovina, Montenegro and Serbia, these upgrades mainly reflected the relatively late starting point rather than any significant reform effort this year. Among the remaining countries, both Armenia and Moldova recorded upgrades (for improvements in securities markets and small scale-privatisation, respectively).

21. The countries in central Europe and the Baltic states have made the most progress in transition since 1989. This is generally attributed to a combination of sound policies, a political consensus over the need to reform and the important contribution of the EU in providing assistance to enable these countries to harmonise their legislation with that of the EU, thus enabling them to join the EU in 2004. Countries in SEE were at a broadly similar stage of transition as those in the CIS in 1998 in all three categories of indicators. However, since then reform has generally slowed in the CIS while progress remained steady in the SEE group as a whole (which includes Bulgaria and Romania, also now members of the EU). By 2008, despite a later start to the transition process, SEE as a whole was well ahead of the CIS.

22. Progress in reform is important since it almost certainly contributes directly to stronger economic growth at a later stage. In its latest Transition Report, the EBRD updates some analysis first undertaken in 2004, which confirms that increases in transition indicator scores have a strong and positive effect on growth in the subsequent period. Furthermore, the analysis suggests that it is the market-sustaining reforms, the most difficult to achieve, which have the most pronounced effect on growth.

23. Whether economic progress in these countries can be directly linked to improvements in democracy is more difficult to show. Clearly, strong economic growth is possible under more authoritarian regimes. However, a priori there are good reasons for believing that the more democratic a regime, then the greater the respect of the rule of law, the less the corruption and the greater the media freedom enabling more general scrutiny of government policy, all of which might be expected to contribute to sustained growth over the medium term. For the 10 countries in question, a comparison of their transition scores and the Freedom House democracy indicator (for 2008) suggests there is no clear link. While there is a marked difference in the average levels of the democracy indicator for the two groups of countries, their overall transition scores are similar. The answer may be that the countries in SEE have better prospects in so far as their rate of progress in reform is currently higher, and their progress in democracy will allow these achievements to be translated into stronger growth in the future.

24. A related aspect is the relationship between the growth of a middle class and democracy, drawn from information contained in the Bank's “Life in Transition Survey” and published in the Transition Report 2007. This showed a striking correlation between the proportion of the population defined as “middle class” and the stage of democracy. Although the data did not allow any conclusions to be drawn as to whether the growth of a middle class was associated with demand for stronger democracy, there are a priori reasons for thinking that a growing middle class is more likely to support democratic values for reasons associated with income and status.[11]

25. Corruption remains pervasive throughout the region, a function of too many regulations which provide the scope for corruption, and low wages which provide the incentive for it, often combined with weak judicial procedures. The consequence is usually that the business environment is made more difficult and firms face additional costs, both in a financial sense as well as in time spent in dealing with essentially unnecessary procedures/inspections, etc. The 10 countries under review fall mainly in the middle range of all countries surveyed by Transparency International in 2008. Georgia was the least corrupt of all 10 countries, although in general the countries in SEE have better ratings than those in the CIS group.

26. Integrity issues have always been important to the EBRD, given that its main shareholders are governments and that it seeks to promote high standards of governance in all its activities. In 2008, the EBRD was rated as the most accountable of all the intergovernmental organisations (and second overall) by the One World Trust in their annual Global Accountability Report. The EBRD scored particularly highly in areas such as transparency, due to its information disclosure policy, and evaluation, where the Audit Committee and

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10. The EBRD measures the progress of each country in completing some of the main building blocks of a market economy. These are divided into three main categories: initial reforms such as trade and price liberalisation; market-deepening reforms, including large-scale privatisation and reform of the financial sector; market-sustaining reforms, involving institution-building, improving governance of enterprises and a more commercial approach to providing infrastructure services. See Chapter 1 “Reforms, growth and the macro economy”, Transition Report 2008.
11. See Box 3.1. “The Middle Class and Transition” EBRD, Transition Report 2007.

Board have overall responsibility. It also received relatively high ratings for its complaints procedures, especially those relating to internal (rather than external) complaints. The EBRD nevertheless implemented various measures during 2008 to strengthen its integrity procedures, including a review of the independent recourse mechanism, to address some of the concerns related to the handling of complaints from external sources.

6. Co-operation with other institutions

27. Co-operation with other institutions has intensified as a result of the financial crisis. Two specific examples are the closer contacts with the IMF to share expertise and contribute to broader sector programmes, such as is likely to occur in the banking sector in Ukraine once the IMF has completed its diagnostic studies. Secondly, the EBRD played an important role in the multilateral assessment of Georgia's financing needs following the conflict with Russia.

28. Co-operation with donors has strengthened, especially following the EBRD's decision to establish a Shareholder Special Fund, as noted above. In practice, this will be linked to both the Early Transition Countries Fund (ETCF)[12] and the Western Balkans Fund (WBF),[13] whereby the EBRD will match donors' contributions. Active co-operation with donors has always been important for the EBRD, mainly to fund the costs of technical assistance incurred in project preparation and leverage capital investment. In recent years, these arrangements have developed further with the creation of a number of specific funds, such as those mentioned above. This has contributed to an increase in the total funding that donors have committed to technical co-operation, which rose from some €70 million in 2006 to €98.2 million in 2007, although it fell back to €82 million in 2008, which in turn has had a direct impact on projects on the ground.

29. The ETCF, launched in 2004, and the WBF, launched in 2006, are similar in so far as they are untied, multi-donor funds with the objective of improving the co-ordination of TC support among the donor community and providing grant co-financing to countries in the respective country groups. The Western Balkans Local Enterprise Facility (WB-LEF), also launched in 2006, amounts to €32 million, funded mainly by Italy and to date has provided loan and equity finance to SMEs in this region. This supplements the Western Balkans SME Finance Facility, which provides loans to local banks and leasing companies for on-lending. Other funds are functional in nature, for example the Sustainable Energy Initiative (SEI), which seeks to promote energy efficiency and renewable energy across the region as a whole. The SEI was established in 2006 with a three-year financing target of €1.5 billion and achieved this in its first two years of operation.[14]

30. The Bank has also been active in 2008 in helping to establish the Western Balkans Infrastructure Initiative with the European Commission, the European Investment Bank (EIB) and the Council of Europe Development Bank (CEB). The initiative is expected to have joint loans from both the EBRD and the EIB amounting to €1 billion and will be supported by grants from the European Commission and member states. An important role for the framework will be to increase co-ordination and avoid overlap among the many agencies and donors which are active in developing the region's infrastructure.

31. Co-operation with the EU has also intensified following the adoption of the EU's main programmes in the region – the pre-accession instrument (including the Western Balkans), the Neighbourhood Partnership (including Armenia, Azerbaijan, and Georgia) and the Neighbourhood Investment Facility (including Ukraine and Moldova). The main aim of co-operation is to ensure that EBRD projects support the aims of EU policy and ensure leverage for EU budget funds.

32. Co-operation with the EIB has also strengthened, especially after the EC, the EIB and the EBRD signed a Memorandum of Understanding in 2006 on the co-financing of projects, following an increase in the EIB's funding for infrastructure projects in the neighbourhood countries. Although the EIB can offer lower financing costs than the EBRD for most infrastructure projects, where there is potential for co-financing then the EBRD would take the lead in project preparation, reflecting its greater experience in the region, with the client

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12. The Early Transition Countries are Armenia, Azerbaijan, Georgia, Kyrgyzstan, Moldova, Mongolia, Tadjikistan and Uzbekistan. Under the ETC initiative, the EBRD focuses on smaller projects, mainly in the private sector, but with some selected public sector projects. The approach is more streamlined, with the EBRD willing to accept a higher level of risk than normal, while observing sound banking principles.
13. The Western Balkans is defined to cover Albania, Bosnia and Herzegovina, "the former Yugoslav Republic of Macedonia", Montenegro and Serbia.
14. A more complete listing of the main funds and the donors may be found in the EBRD Report, "Real People and Real Change". EBRD, London, 2008.

benefiting from blended finance. In late 2008, the EBRD reached an understanding with respect to Turkey, mainly to ensure that it worked in geographical areas where the EIB was not active. Such arrangements have included other development banks, such as the Council of Europe Development Bank.

7. The EBRD's activities in 10 countries in 2008

33. In this section the 10 countries are divided into two regional groups. Each section starts with a review of some of the main regional developments, before focusing on the EBRD's activities in each country and some of the factors which have affected the growth of activity.

7.1. The Western Balkans

34. The region continued to make progress during 2008. Economic growth averaged over 6% for these countries and it was not until towards the end of the year that they began to be affected by the credit crunch. All these countries made further progress with reform, as noted above. There were also a number of positive political developments. A Regional Co-operation Council was established in early 2008 (which replaced the Stability Pact) and, *inter alia*, included a mechanism for financing projects of a regional nature. The EBRD was invited to join the Council. In Serbia, there was little serious adverse reaction to Kosovo's declaration of independence, while the elections in May produced a pragmatic coalition government intent on securing accession to the EU. In December, the EU (and the UN) finally reached an agreement with Serbia to allow its large civilian mission, EULEX, to commence its activities in Kosovo (replacing those of the UN). In addition, both Bosnia and Herzegovina and Serbia signed Stabilisation and Association Agreements (SAAs) with the EU during the year; in December Montenegro applied for EU membership ("the former Yugoslav Republic of Macedonia" is already an accession candidate), while Albania is expected to apply fairly soon. All these factors resulted in continued stability in the region and past experience indicates that regional political stability is critical for further economic and social progress.

35. Given the success of the EU's policy during the first round of enlargement, eventual EU membership would appear to be the most obvious way of securing further progress and stability in this region. In its latest Enlargement Strategy,[15] the European Commission noted that all five countries have made further progress with both political and economic reform, not least because greater focus is now given at an early stage to the rule of law and good governance. In the case of Serbia, the Commission noted that it could be possible to grant it candidate status during 2009 if all the conditions are met, including further co-operation with the International Criminal Tribunal for the former Yugoslavia.

36. The volume of EBRD activities grew strongly in 2008, especially in Albania, Bosnia and Herzegovina and "the former Yugoslav Republic of Macedonia", with the net cumulative business volume increasing to €3 391 million. The Bank was also successful in mobilising additional resources so that the total project value increased to €8 216 million over the same period in the previous year. The scope of the EBRD's operations reflected the main elements of each country strategy, which in general terms require the Bank to focus on support for the enterprise, financial and infrastructure sectors, with much of the growth for local companies in light manufacturing and the agribusiness sector. The growth partly reflected the cumulative effect of greater political stability, as well as several years of sustained reform and economic growth in the region.

37. The growth in EBRD operations was also due to the contribution of some of the newer funds such as the WB-LEF, the WB Financing Facility, as well as growth in micro-lending. The small size of these economies means that the average size of private sector projects is quite small (about €5 million) and thus potentially relatively costly to prepare and administer. However, not only do these funds allow the Bank to widen the scope of its potential client base, but also they allow faster and more streamlined procedures for project approval, thus increasing the efficiency of the EBRD's operations.

38. The credit crunch did not have a major impact on the Bank's activities in the region, partly because syndicated lending was relatively unimportant while the region is not heavily integrated into the world's capital markets. In addition, the banking sectors have proved to be fairly resilient with no serious run on deposits. There are, however, several concerns. Foreign banks are estimated to own the majority of banking assets, so much will depend on their decisions as to the scale of their future operations. A slowdown in credit growth is inevitable. FDI flows, hitherto an important source of financing, are expected to slow in 2009, while there is also uncertainty regarding the flow of remittances as job opportunities decline in other countries. Growth slowed towards the end of the year, mainly because of lower demand from the EU, which accounts for

15. Enlargement Strategy and Main Challenges 2008-09; Communication from the EC to the Council and European Parliament, November 2008.

approximately half of the region's exports. These trends could cause problems for those countries with high external deficits and will inevitably have an effect on the growth of EBRD operations in 2009. On the positive side, funding from International Financial Institutions and donors remains relatively important in the region and pre-accession funding from the EU will continue, especially for infrastructure projects. There may also be some new opportunities for the EBRD to fund projects mainly geared to supplying the domestic market.

39. In Albania, the EBRD's commitments rose strongly in 2008, increasing by €88 million, with continued support for SMEs in the private sector. Infrastructure projects focus on restructuring of the energy sector and development of transport and communications networks, most of which are public sector projects. The EBRD has also made increasing use of the WB-LEF, the Co-Financing Facility (CFF) and the Energy Efficiency Finance Facility to channel funds to medium-size enterprises. Albania's economic fundamentals remained sound in 2008, with growth estimated at 6.1% and moderate inflation (4%). Further progress was made with economic reform, especially with large-scale privatisation and banking, both of which received upgrades in the latest Transition Report. There was also a marked improvement in the ease of doing business, according to the latest World Bank survey of "Doing Business", reflecting improvements in registration procedures.

40. In "the former Yugoslav Republic of Macedonia", the EBRD's commitments rose by €55 million. The main focus of the Bank's operations is on job creation in the private sector, especially via support for SMEs and trade facilitation. This partly reflects the government's decision to limit the use of sovereign borrowing, but also the very high rate of unemployment. The latter remains well over 30%, despite another year of steady growth (estimated at 5.3%). Faster progress towards EU accession would boost FDI flows, which remain relatively low. However, there is currently no date foreseen for negotiations on accession to commence. In its latest assessment, the Commission acknowledged the progress made over the past year, but drew attention to the need for free and fair elections (following an outbreak of violence during the elections in June 2008) as well as for more progress in a number of areas including judicial reform. Progress towards EU accession (as well as NATO membership) is also hindered by the dispute with Greece over the name of the country.

41. The EBRD's commitments to Bosnia and Herzegovina rose sharply in 2008 by €249 million. The Bank's operations continue to be focused on support for private local companies, SMEs, especially through the TAM/BAS (TurnAround Management (TAM) and Business Advisory Service (BAS)) programmes and infrastructure projects, including the Pan-European (road) Corridor Vc. This was supported by strong economic growth (estimated at 6% in 2008), the success of the Currency Board in maintaining exchange rate stability despite a rise in inflation and also by further progress in reform (reflected in EBRD upgrades for progress in trade liberalisation and banking reform). However, the share of the private sector at 31% remains relatively low because of the disparity between the size of private and public sector projects. The Stabilisation and Association Agreement (SAA) with the EU was signed in mid-2008, but as the Commission notes in its Enlargement Report, political consensus between the two entities is urgently required to enable the agreement to be implemented and for EU-related reforms to proceed.

42. The EBRD's operations in Montenegro rose by €16 million, a similar amount to that recorded in 2007. Operations focused on support for enterprises in the property and tourism sectors, including SMEs through the WB-LEF, continuing support for micro-lending institutions in the financial sector and co-operation with the EIB, EU and the World Bank on infrastructure projects. However, the small size of most of the private sector projects has meant that the infrastructure sector continues to dominate the country portfolio and the private sector ratio is only 27%. GDP rose by 7% in 2008, with strong capital inflows, partly linked to growth in the property sector. Much of the banking sector is foreign owned, while the euro provided currency stability. Progress has been made with the SAA, including the adoption in April 2008 of a multiyear plan to harmonise the legal framework with that of the EU. The problems are partly structural. Output from KAP, the large aluminium producer, accounts for a significant share of both exports and GDP. Furthermore, this sector will be affected by weaker export prices in 2009 and ultimately the need to adjust to higher electricity prices. The current account deficit now exceeds 30% of GDP and is highly dependent on FDI flows for financing, although these flows could be affected by the recent fall in property prices.

43. In *S*erbia, the EBRD's new commitments were some €127 million in 2008, well below the level attained in 2007. This mainly reflected the time it took establish a government following the parliamentary elections in May, which resulted in significant delays in the signing of certain large public sector projects. Much of the new business was therefore to support new private companies and the rapidly emerging non-bank International Financial Institutions' sector. With Serbia's ambitious plans to develop its infrastructure, especially the major road corridors, the EBRD has established strong working relationships with the EU, EIB, World Bank and agencies such as the KfW, all of whom are heavily involved in these projects. The banking sector, with a large degree of foreign ownership, is well capitalised and withstood an initial run on bank deposits (partly reflecting

memories of banking crises in the early 1990s) in the autumn. Supported by an increase in the level of deposit protection, the sector remains vulnerable, however, to adverse macro-economic developments, such as currency depreciation.

44. After a period of political uncertainty in early 2008, there were a number of positive developments. These included strong GDP growth of 6.5%, further progress in reform, especially in banking and trade liberalisation, as well as the signing of an SAA with the EU in April. However, the economy did exhibit some signs of overheating, including a growing current account deficit, which was increasingly financed by foreign borrowing. The IMF programme, supported by a precautionary 15-month Stand-by Agreement (SBA) of US $518 million (approved by the IMF Board in January 2009), should assist in securing greater stability. However, with weaker external demand and a general hardening of payment terms from the banking sector, GDP growth will inevitably slow in 2009.

7.2. The CIS countries

45. The conflict between Georgia and Russia, which commenced on 8 August and was followed by a ceasefire on 12 August, with Russia also unilaterally recognising the disputed territories of South Ossetia and Abkhazia, highlighted the inherent instability of this region. Tension inevitably remains between Georgia and Russia and in December Russia vetoed a proposal for the OSCE to extend its mandate for a further year in Georgia, arguing that it should set up a separate mission within an “independent” South Ossetia.

46. However, apart from some initial disruption to trade routes, especially for Armenia, and political repercussions in Ukraine as to how to respond to the crisis, so far the conflict does not appear to have had significant wider repercussions in the region. In fact, there is some evidence that it has prompted a renewal of attempts to resolve the other “frozen conflicts” of Nagorno-Karabakh and Transnistria. At the beginning of November, the Russian Government hosted a meeting of the presidents of Armenia and Azerbaijan in an attempt to accelerate the negotiations which have proceeded slowly in the Minsk group. Building on the recent efforts of President Voronin of Moldova to settle the dispute with Transnistria, Premier Putin visited Moldova in November with proposals for the reintegration of the breakaway territory into Moldova, although these are likely to be difficult for the West to meet. Further progress may also have to await the outcome of the presidential election in Moldova.

47. These developments partly reflect Russia’s policy that the Georgian episode was not a precedent. This may have reflected the desire to avoid giving encouragement to some Russian republics who want greater autonomy and Russia’s interest in securing oil and gas supplies from Azerbaijan. But the conflict was also a stark reminder to other countries in the region of the force of Russian power. The West also appears to have chosen the path of greater co-operation, with the EU backtracking from its initial decision that negotiations on a Partnership and Co-operation Agreement with Russia could not resume until all Russian troops had withdrawn to positions held immediately before the conflict with Georgia had begun (a condition that was not met). In December, NATO members agreed on a programme of further co-operation with Georgia and Ukraine, with no commitment to immediate membership.

48. The EBRD’s operations in Georgia increased strongly for the second successive year, with commitments increasing by €215 million. Much of the growth was in the first half of the year, a reflection of strong economic growth and the successful implementation of reforms, including a favourable business environment reflected in the high ranking under the World Bank’s “Doing Business” survey for 2009 (15th out of a total of 181 countries). In addition, the EBRD’s decision in 2006 to make Tbilisi the regional hub for its operations in the Caucasus has also been beneficial. These factors contributed to investor confidence and buoyant FDI flows, at least during the first half of the year. Provisional data also suggest a sharp rise in the value of the additional resources mobilised to over €2.5 billion. The EBRD’s activities were broad based, although primarily in support of the enterprise sector, infrastructure (especially power) and the banking sector, with a private sector share of 86%. However, the main banks began to experience problems at mid-year, reflecting their large foreign currency liabilities, so that refinancing became difficult. The conflict resulted in a run on bank deposits and severely affected investor confidence, given the large current account deficit. Economic growth slowed sharply in the second half of the year.

49. Soon after the conflict with Russia ended, several multilateral institutions undertook a joint assessment of Georgia’s financing needs. The EBRD played an important role, especially with respect to the banking, power and municipal sectors. In total, these needs were assessed at US$3.2 billion, primarily for budget support, repairs to and investment in the infrastructure and strengthening the banking sector. Donors and IFIs subsequently pledged a total of US$4.5 billion at a conference in Brussels in October (including an SBA with the IMF for U$750 million), more than sufficient to meet Georgia’s immediate needs and to replace the absence of FDI. The main focus of the EBRD’s support is likely to be on some of the larger banks, but the

range of assistance pledged by other donors could provide the opportunity for projects in other sectors. In addition, the government has responded with a marked improvement in the arrangements for donor co-ordination to ensure the pledged monies are received and spent efficiently.

50. The EBRD also recorded a further significant increase in its operations in Moldova, with new commitments of €107 million. The focus was on support for private companies, intermediary finance through local banks and some infrastructure projects, including the modernisation of Chişinău airport (with the EIB). The growth partly reflects progress with the government's reform programme, reflected, for example, in improvements in trade arrangements with the EU and in progress in small-scale privatisation, supported by stronger economic growth following the partial resumption of wine exports to Russia. Although there are several foreign banks in Moldova, the banking sector has not to date been seriously affected by the financial crisis, reflecting the high deposit base, a strengthening of reserve requirements and the relatively large share of borrowing from IFIs. However, the currency did fall sharply in September (after two years of steady appreciation), but has since stabilised. Growth is, however, likely to be affected by weaker demand for agribusiness exports.

51. The EBRD's commitments in Armenia rose by €52 million in 2008, below the level recorded in 2007, but following several years of growth in commitments. The focus was on support for the corporate, property and financial sectors, including credit lines for SMEs and agribusiness. This was supported by strong growth in the economy (GDP rose by 6.8%), which was not seriously affected by either the political tensions following the disputed presidential elections in February or the credit crunch. Armenian banks are well capitalised and profitable, while most foreign banks have indicated their intention to continue to support their local operations. Trade routes were severely disrupted for a period following the Russian/Georgian conflict (about 75% of trade is via Georgia). However, there are some suggestions that this could ultimately lead to a more proactive approach on the need to open up trade routes, involving further dialogue with Turkey and ultimately Azerbaijan. Meanwhile the government intends to continue to invest in upgrading the transport and energy infrastructure.

52. The Azerbaijani economy grew strongly in 2008 with GDP estimated to have increased by 10.8% according to the EBRD, mainly because of high prices and volumes of oil exports. The financial sector has not been seriously affected by the credit crunch, partly because of the limited amount of short-term capital flows, but also because of measures taken by the central bank earlier in the year to limit credit growth. However, lower oil prices and slower world growth are expected to result in slower GDP growth in 2009. Although the government has taken steps to improve the business environment, which resulted in a significant jump in its overall ranking in the World Bank's "Doing Business" survey from 97th in 2008 to 33rd in 2009, the EBRD recorded more modest progress in its activities. New commitments rose by €81 million, less than the amount recorded in 2007, largely explained by the Bank's focus on the banking and non-oil corporate sectors, where in practice the problems surrounding corruption as well as the impact of the real appreciation of the exchange rate on profits continue to affect progress. The EBRD's portfolio is nevertheless dominated by projects in the natural resources, energy and infrastructure sectors.

53. Of the 10 countries under review, Ukraine has been the most seriously affected by the credit crunch. General concerns over macro imbalances in the first half-year, including excessive credit growth, were accentuated by signs of overheating and then adverse terms of trade movements as oil and gas prices rose and steel prices fell, thereby widening the trade deficit. The onset of the credit crunch led to significant capital outflows and a re-assessment of Ukrainian risk so that Ukrainian entities could no longer raise funds from capital markets. This led to a sharp slowdown in credit growth, exposing the currency and maturity mismatches in the banking sector, and contributing to further problems, including a run on bank deposits and the failure of the country's sixth largest bank. As downward pressures on the currency intensified, in early November the government secured a substantial US$16.4 billion emergency SBA from the IMF to enable the country to meet its external financing obligations during 2009, supported by a programme to address some of the imbalances. This included a flexible exchange rate, as well as measures to reduce demand and to recapitalise the banking sector. The latter is likely to be supported by funding from other IFIs once the IMF has completed the diagnostic studies of the main banks.

54. Weaker demand, both domestic and external, is likely to lead to a fall in GDP in 2009 (by 5% according to the EBRD) – indeed there was a very sharp fall in industrial production in November. The success of the SBA programme depends on the government implementing a tight fiscal policy and avoiding further large falls in the currency, which could lead to further deterioration in bank's balance sheets. The formation of a revised Orange coalition in December, after some months of uncertainty surrounding the prospects for an early general election, was an important step towards ensuring that the government takes the appropriate policy

actions. However, the eruption of a dispute with Russia at the end of the year over gas payment terms was a stark reminder of both countries' mutual dependence on orderly gas trading arrangements, as well as the need for Ukraine to improve its energy efficiency.

55. The EBRD's commitments to Ukraine continued to grow strongly, with new commitments growing by €835 million. Much of the increase took place in the months before August, when projects involving syndicated lending to the real economy became much more difficult to complete. By the end of 2008, the Bank had invested in 213 projects with a net cumulative business volume of just over €4 billion, sufficient to make Ukraine the Bank's second largest country of operations. The EBRD's activities in Ukraine under the current strategy are focused on support for the corporate sector, developing domestic capital markets, promoting energy efficiency (where rapid progress was made with the Energy Efficiency Facility designed to support firms investing in energy efficiency or renewable energy projects), and improving infrastructure (which included further co-operation with the EIB). The EBRD also continued to provide direct policy advice through its participation in the Energy Sector Task Force and the Transport Working Group. Important progress was also made with the two major donor-funded programmes which the EBRD administers – the Chernobyl Shelter Fund and Nuclear Safety Account – including the signing of the contract for the new safe confinement for Unit 4.

56. One immediate effect of the financial crisis in Ukraine for the EBRD is that serious consideration is being given to a sharp increase in its investments in the banking sector, reflecting the importance of the sector to the EBRD, both in terms of its direct exposure (about 20% of the portfolio) and as a means of channelling funds to micro and small enterprises. Given the urgent need for substantial amounts of additional capital in the sector (the IMF estimates that recapitalising the main domestic banks is equivalent to 3.5% of GDP), the EBRD could participate in the broader IFI programme for the sector, providing funding, especially equity capital, for selected banks.

8. Conclusions

57. Looking forward, it is clear the EBRD will face some real challenges as it seeks to expand its activities during 2009 as economic growth, including that of exports, weakens. The main challenges are likely to include the difficulties of raising adequate volumes of finance from private sources to finance projects and the problems of accurately pricing risk in current economic conditions. This applies to projects for the corporate sector, where exports have not only been an important source of growth for many enterprises, but have also constituted an obvious currency hedge for clients who borrow foreign currency from the EBRD. It also applies in the financial sector, where a period of weak growth will impact on the balance sheets of some banks in the region, at a time when some have already been weakened or where there are uncertainties over the intentions of foreign owners. Furthermore, the EBRD is also likely to have to accept some temporary reversals in the progress of reform, as some potential investment partners may be governments seeking to support ailing industries or institutions, albeit on a temporary basis, as is occurring in many industrial countries.

58. At the same time, the EBRD is likely to find some new opportunities given the strong demand for finance from clients in the region. There is no question that extra EBRD financing for the region will be essential and that it will be additional given that private sector flows are likely to remain limited for some time to come. The strong demand for finance will enable the Bank to be selective with respect to the projects it undertakes. Overall, providing the EBRD can attract some additional finance from partners, then even on a fairly conservative ratio of 2:1, the EBRD's activities will make a significant contribution to meeting the region's demand for finance

59. Building on the successful degree of co-operation that the Bank has forged with other institutions, agencies and donors, there should be scope for continuing with important infrastructure projects, even if these are mainly those in the public sector. Although this may affect the desire to improve the private sector ratio in some countries, such projects could promote regional stability in areas such as the Balkans through the improvements to transport and trade links and provide a sound basis for the eventual recovery.

60. The share of financing for the financial sector as a whole will grow sharply in many countries. This is likely to reflect the need to support individual banks, which are intermediaries in the EBRD's own lines of credit (for SMEs and energy efficiency, for example) or, more exceptionally, to participate in a wider IFI programme to support a severely weakened banking sector, for example in Ukraine. As to the means of financing, the EBRD will most probably have to consider an increase in equity financing, partly because of the difficulties in securing adequate volumes of loan finance from partners. In some cases – in the case of banks, for example – this may be the desired option in order to ensure better governance. It will, however, have implications for Bank staff resources, as well as ensuring conflicts of interest do not arise.

61. It appears that the most urgent policy initiative that the EBRD can pursue is to promote measures to improve the co-operation between national supervisors with respect to the implications for cross-border lending. This reflects not only the importance of foreign banks in the banking sectors of much of the region, but the fact that these banks, through their local subsidiaries, are an important means whereby the EBRD can assist in the financing of many smaller-sized entities through its credit lines. The steps that the EBRD has taken to date in order to promote a regional approach to this issue are encouraging.

62. There are good reasons for believing that the more democratic a regime, then the greater the respect of the rule of law, the less the corruption and the greater the media freedom enabling more general scrutiny of government policy, all of which might be expected to contribute to sustained growth over the medium term.

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Reporting committee: Committee on Economic Affairs and Development. Reference to committee: Standing Mandate. *Draft resolution* unanimously adopted by the committee on 18 May 2009.

Members of the committee: Mr Márton Braun (Chairperson)*,* Mr **Robert Walter** (1st Vice-Chairperson)*,* Mrs Doris Barnett (2nd Vice-Chairperson), Mrs Antigoni Papadopoulos (3rd Vice-Chairperson), MM. **Ruhi Açikgöz**, Ulrich Adam, **Pedro Agramunt Font de Mora**, Roberto Antonione, Robert Arrigo, Viorel Riceard Badea (alternate: Mr **Traian Constantin Igaş**), Zigmantas Balčytis, Mrs Veronika Bellmann, MM Vidar Bjørnstad, Luuk Blom (alternate: Mr **Tuur Elzinga)**, Mrs Maryvonne Blondin, MM. Predrag Bošković, **Patrick Breen**, **Erol Aslan Cebeci**,Lord David Chidgey, Mrs **Elvira Cortajarena Iturrioz**,MM. Valeriu Cosarciuc, Joan Albert Farré Santuré, Relu Fenechiu, Guiorgui Gabashvili, Marco Gatti, Zahari Georgiev, **Paolo Giaretta**,Francis Grignon, Mrs Arlette Grosskost, Mrs Azra Hadžiahmetović, Mrs Karin Hakl, MM. Norbert Haupert, Stanisław Huskowski, Ivan Nikolaev Ivanov, Igor Ivanovski, Čedomir Jovanović, Mrs Nastaša Jovanović, MM. **Antti Kaikkonen**, Oskars Kastēns, **Emmanouil Kefaloyiannis**,Serhiy Klyuev, **Albrecht Konečný**, BronisławKorfanty (alternate: Mr **Piotr Wach**), AnatoliyKorobeynikov, **Ertuğrul Kumcuoğlu**, Bob Laxton, Harald Leibrecht, Mrs **Anna Lilliehöök**, MM. Arthur Loepfe, Denis MacShane, Yevhen Marmazov, Jean-Pierre Masseret, **Miloš Melčák**, **JoséMendes Bota**, Attila Mesterházy, **Alejandro Muňoz Alonso**,Mrs Olga Nachtmannová, Mrs Hermine Naghdalyan, MM. Gebhard Negele, Jean-Marc Nollet, Mrs **Mirosława Nykiel**,Mrs Ganira Pashayeva, Mrs **Maria Pejčinović-Burić**, MM. **VictorPleskachevskiy**, Jacob Presečnik, MM. **Maximilian Reimann**, **Andrea Rigoni**, Mrs Maria de Belém Roseira (alternate: Mr **MaximianoMartins**), MM. **Giuseppe Saro**, Hans Christian Schmidt, Samad Seyidov, Steingrímur J. Sigfússon, Leonid Slutsky, Serhiy Sobolev, Christophe Steiner, Vyacheslav Timchenko (alternate: Mr **Nikolay Tulaev**), Mrs Arenca Trashani, Mr Mihai Tudose, Mrs Ester Tuiksoo, MM. Oldrich Vojir, **Konstantinos Vrettos**, Harm Evert Waalkens, **Paul Wille**, Mrs Maryam Yazdanfar (alternate: Mr **Göran Lindblad**).

NB: The names of the members who took part in the meeting are printed in **bold**. *Secretariat to the committee:* Mr Newman, Mr de Buyer, Mr Chahbazian, Mr Pfaadt.