



**Resolution 1561 (2007)<sup>1</sup>**

Final version

## **European Bank for Reconstruction and Development (EBRD): focus on eastern and south-eastern Europe**

Parliamentary Assembly

1. The Parliamentary Assembly appreciates the ongoing dialogue with the European Bank for Reconstruction and Development (EBRD) under the 1992 Agreement of Co-operation between the Council of Europe and the EBRD as a valuable means of analysing the economic, political and social aspects of the Bank's work and presenting parliamentary views on the challenges for its action in its 29 countries of operation ranging from central Europe to central Asia. The Assembly recalls that the Council of Europe member and observer states are among the core donor or recipient countries, whereas five countries of central Asia, where the EBRD is increasingly involved, as well as Belarus, are among the Council of Europe's close neighbours.
2. The Assembly has examined the EBRD's performance over the last few years and views the Bank as a very successful financial institution faithful to its mission as a development bank with a political dimension. Its strong commitment to promoting market-oriented economies, good corporate governance and entrepreneurial spirit in central and eastern Europe has earned the EBRD a firm reputation as the leading institutional investor with unique expertise of the region. Although the Bank is now gradually disengaging from central Europe, its steady policy dialogue with partner governments and market operators continues to play the role of catalyst for continued reforms throughout all countries of operations.
3. Following the decisions taken at its 2006 Annual Meeting, the EBRD will gradually shift the bulk of its operations to regions to the east and south-east of the European Union, thus leaving the Union's new member states by 2010 (except for Bulgaria and Romania) and concentrating on countries with a more complex political profile, riskier business environment and rapidly expanding economies. Despite impressive growth in the region, averaging 6.9% in 2006, the gap between the so-called "early transition countries" and more mature economies is growing as a result of a slowdown in reforms across most of the former group of countries. This represents a structural challenge for the EBRD's work and calls for more detailed short-term planning, enhanced field presence and local reach, more diversified financing offers, closer co-operation with other international financial institutions, project associates and local partners, as well as increased vigilance regarding the integrity of clients.
4. The Russian Federation is and will remain the largest beneficiary of EBRD's funding. Its share in the Bank's annual business volume was 38% in 2006 and is projected to grow further, approaching half of all EBRD new lending in 2007. This strengthening participation is a sign of improving investor confidence in the Russian economy and will hopefully pave the way for increased foreign investment across all regions and economic sectors. The Assembly recalls its Resolution 1523 (2006) on Europe's interest in the continued economic development of the Russian Federation and reiterates its support for the action plan set out therein. The Assembly trusts that the EBRD will assist the Russian Federation in overcoming its excessive dependence on natural resources, improving corporate governance, modernising infrastructure, promoting financial intermediation, especially in favour of SMEs and regional development, and better exploiting scientific and technological potential.

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1. Assembly debate on 26 June 2007 (22nd Sitting) (see [Doc. 11300](#), report of the Committee on Economic Affairs and Development, rapporteur: Mr Gasóliba i Böhm). Text adopted by the Assembly on 26 June 2007 (22nd Sitting).



5. The South Caucasus region (Armenia, Azerbaijan and Georgia) has enjoyed sustained growth in recent years and made steady progress towards completing the first phase of economic reform, despite persisting political tensions, but lags behind other EBRD client countries in terms of overall development. Weaknesses in democratic institutions and the rule of law, corruption allegations, corporate governance problems and deficiencies in infrastructure, competition policy and financial markets are cause for concern throughout the region. The Assembly strongly encourages the EBRD to intensify further its work in these countries and facilitate regional co-operation, notably under the Early Transition Countries Initiative, thereby contributing to political and macroeconomic stabilisation of the region.
6. The Assembly welcomes the involvement of the Council of Europe and the EBRD, together with other international organisations, in the Kyiv Initiative Regional Programme designed to promote a democratic and participative society by contributing to sustainable cultural, social and economic development in Armenia, Azerbaijan, Georgia, Moldova and Ukraine. The Assembly believes that more such co-operation initiatives will be identified in the future, not least in the light of the recent signature by the EBRD of a memorandum of understanding with the European Investment Bank (EIB) and the European Commission with a view to facilitating joint projects in eastern Europe, the Southern Caucasus, the Russian Federation and central Asia, under the European Union's European Neighbourhood Policy and other bilateral partnership programmes.
7. The Stability Pact for South Eastern Europe has stimulated the revival and dynamism of the region's economies. It has nurtured stability, regional co-operation and common approaches to many challenges, including organised crime and corruption, as well as assisting in the creation and consolidation of a regional electricity market and free trade area. As the Stability Pact is undergoing transformation into a regional co-operation council that should foster the implementation of regional projects, the EBRD should remain a major actor in the change and in boosting private entrepreneurship, not least through its Western Balkans Initiative launched in May 2006, as well as the TurnAround Management and Business Advisory Services Programmes (TAM/BAS).
8. EBRD studies and expert estimates show that one third of GDP in most transition countries is generated by the informal economy. This anomaly signals imbalances in taxation systems, social security contribution levels, overly complex regulatory frameworks and a lack of employment opportunities in the formal sector, especially in rural areas. The EBRD should pay special attention to screening the integrity of its clients and partners, strengthen project monitoring and use its authority among policy makers in order to seek the rebalancing of business regulation, taxes, minimum wages, social benefit levels and incentives for the creation of highly-skilled jobs with a view to diminishing informal activities.
9. Healthy financial systems are essential for feeding growth and development in the transition countries. Their extraordinary transformation, driven by wide institutional improvements, privatisations and competition from foreign entrants on the market, has mobilised substantial domestic and foreign resources towards enterprise creation, strengthening private ownership and structural reforms. However, many smaller firms, especially in the Commonwealth of Independent States (CIS) countries, still do not have access to the formal financial system; the proportion of non-performing loans, peaking at 15% in the CIS, remains to be lowered to the average level of mature economies; and the range of financial services and products needs to be broadened. The EBRD should seize large untapped opportunities in this domain while contributing to continued improvements in the regulatory framework and business environment, promoting corporate responsibility and minimising entrepreneurs' reliance on informal financing.
10. One of the most pertinent development challenges in central and eastern Europe is the need to enhance the efficiency of energy use in order to ensure greater competitiveness of local enterprises, reduce greenhouse gas emissions as economies expand and improve energy security. The EBRD's special role in promoting energy efficiency in the region has been widely recognised by other international financial institutions. The Assembly, in this context, underlines the importance of the EBRD's 2006 Sustainable Energy Initiative, designed to more than double the Bank's investments in energy efficiency and cleaner technologies over the next three years. Accordingly, the Bank will invest about €1.5 billion over the 2006-2008 period while supplementary donor support could reach around €100 million. This is in addition to multiple industrial energy efficiency projects, energy efficiency credit lines and support for renewable energy facilities, district heating projects and urban transport system modernisation programmes that the Bank has financed since 2001, as well as the management of the international community's nuclear safety funds for central and eastern Europe.
11. The Assembly, in conclusion, calls on the EBRD to:
  - 11.1. keep strengthening its field presence in client countries by setting-up new offices or reinforcing staff, as may be appropriate, especially in the regions of the Russian Federation and in other CIS countries;

- 11.2. diversify and customise its financing offers so as to include more loans in the local currency of its client countries and more microcredit facilities;
- 11.3. continue its support for the financial sector of its client countries with a view to promoting high corporate responsibility and enhancing credit availability through the official institutions to both enterprises and households;
- 11.4. promote cross-border investment projects in the Southern Caucasus;
- 11.5. seek closer co-operation in the co-financing of projects with other international financial institutions, especially the World Bank, the International Finance Corporation, the European Investment Bank and the Asian Development Bank, as well as project associates such as the Investment Centre of the Food and Agriculture Organisation of the United Nations and the Central European Initiative;
- 11.6. facilitate the transfer of know-how to the early and intermediate transition countries, especially with regard to environmental risk management, energy efficiency and quality tourism services, notably through its TAM/BAS programmes;
- 11.7. boost infrastructure investment through enhanced participation in public-private partnerships and lending to municipalities.