



Resolution 1616 (2008)¹

The European Bank for Reconstruction and Development: a focal partner for change in transition countries

Parliamentary Assembly

1. When the European Bank for Reconstruction and Development (EBRD) was set up and signed an Agreement of Cooperation with the Council of Europe in 1992, Europe was facing major political and economic divisions. Since then, through dialogue and concerted efforts in their respective fields, the two institutions have built up large networks, platforms and partnerships to work for reform and integration. Although democratic and market-oriented reforms have advanced significantly, improving the life of millions of Europeans, countless problems subsist and call for continued ambitious involvement. Of the 29 EBRD countries of operations, those situated in the Council of Europe's close neighbourhood (Belarus and the central Asian republics) are confronted with particular difficulties and require fresh external impetus for reform.

2. The Parliamentary Assembly highly values regular dialogue with the EBRD on the social, political and economic aspects of the Bank's work. This enables parliamentarians from the Council of Europe member states and observer countries - which are among key donor and recipient countries of the EBRD - to draw on valuable information from the Bank in pursuit of their work at national and international levels and to contribute their views and proposals for the Bank's future activity.

3. The EBRD is more than just a bank. It is an institution with a unique mission and experience at the service of people and countries in search of a democratic identity and a greater role on the global scene. Confidence building, developing values such as integrity, giving strategic advice, the transfer of know-how and the bridging of mentalities between East and West are essential aspects of the EBRD's mandate that are difficult to quantify, yet of critical importance. This approach makes the EBRD a focal partner for development and modernisation in the Eurasian region, with resources being accompanied by scrutiny both from European and non-European stakeholders. Sustaining sound, dynamic and innovative development through EBRD action will be crucial for helping transition countries cope with challenges stemming from the legacy of their pasts and the new reality of globalisation. The EBRD should also persevere with its most valuable work in spreading high standards of corporate ethics and the concept of corporate social responsibility.

4. The year 2007 was another highly successful one for the EBRD, despite the turbulence in global financial markets and the fact that an increasing share of its operations were carried out in the early and intermediate transition countries with higher risk profiles. However, noting that the share of commitments to the group of early transition countries (Armenia, Azerbaijan, Georgia, Kyrgyzstan, Moldova, Mongolia, Tajikistan and Uzbekistan) was only 9.2% in 2007, the Assembly welcomes the EBRD's determination, as confirmed by the Board of Governors at the Annual Meeting in Kyiv on 18 and 19 May 2008, to reinvest 80% of its profits targeting in particular the poorest, and hence the neediest, countries, thus increasing its risk taking, but also the added value of its action.

5. The EBRD works in co-operation and complementarity with other development institutions. Joint projects and initiatives with the World Bank, the European Investment Bank (EIB), the Food and Agriculture Organisation of the United Nations (FAO), the International Finance Corporation (IFC), the Central European

1. Assembly debate on 24 June 2008 (22nd Sitting) (see [Doc. 11630](#), report of the Committee on Economic Affairs and Development, rapporteur: Mr Martins). Text adopted by the Assembly on 24 June 2008 (22nd Sitting).



Initiative (CEI), and the Council of Europe Development Bank (CEB), are particularly relevant for stimulating reform progress in the EBRD's region of activity. Technical co-operation to support projects, grant investment and co-financing amplify the impact of multilateral assistance and help avoid both duplication and lacunae.

6. The EBRD's Life in Transition survey, carried out together with the World Bank, shows generally improved absolute living standards, a growing middle class, a robust private sector and fairly strong support for democracy. The study also reveals persistent concerns about corruption, income disparity and unemployment, as well as overwhelming expectations for better public services, notably in health care and education, which suffer from underinvestment, heavy administration and inefficiencies. Improved public administration and services would broaden people's support for the painful restructuring and reforms ahead. Involving the private sector through a partnership approach should be part of the solution and offers the EBRD vast new opportunities for contributing to progress in this area.

7. Support for small enterprises and entrepreneurship lies at the core of the EBRD's mission. Targeted finance, advisory services and skills development are of the utmost importance to all the Bank's countries of operations. This is reflected in a welcome 32% rise in small-scale projects undertaken by the EBRD in 2007. Moreover, the new TurnAround Management and Business Advisory Services (TAM-BAS) strategy for 2008 foresees more support (including training) for micro, small and medium-sized enterprises, especially in rural areas of Russia and Ukraine, which should prove particularly useful in tackling the "brain drain" problem – the loss of talented entrepreneurs through emigration.

8. Rising energy prices, high energy intensity and concerns over the security of energy supplies are sobering reminders that promoting energy efficiency across the transition region is a vital, urgent and massive task. Many transition countries depend on a single supplier of oil and gas, mainly from Russian companies, and are in a weak bargaining position. With the EBRD's help, they are seeking to reduce this dependence and enhance their competitiveness by diversifying supply and rationalising energy use, starting with the private companies. Generally, a shift towards greater use of renewables is desirable, but the greatest opportunity – and challenge – lies in improving energy efficiency and conservation. The EBRD and its client countries should persevere along this path.

9. The EBRD's role as a neutral broker for intensified regional co-operation in South-Eastern Europe and the Caucasus is particularly valuable. While the economies of both regions have shown unfailing dynamism stirred by the aspirations of closer ties with the European Union, reform progress is essentially concentrated in South-Eastern Europe, notably in the Western Balkans area. The precarious calm around the zones of simmering conflict is holding back these regions' true development potential and a narrow understanding of national interest slows down regional integration on the ground. The Assembly hopes that the newly set-up Regional Co-operation Council will foster a more grass-roots approach to development projects in South-Eastern Europe, with more regional ownership and initiative, simpler co-ordination and closer parliamentary and civil society involvement at national level. Continued assistance of the international community and inspiration from other successful regional co-operation schemes should help the Regional Co-operation Council to mobilise the region's countries in capacity building, shifting from simplistic rivalry to healthy intra-regional competition and convergence.

10. The EBRD's research has revealed the strong reliance of countries in South-Eastern Europe and the Caucasus on emigrant workers' financial transfers from abroad and informal finance, whereas the institutional set-up, regulatory framework and the range of financial services available to the population are insufficient. Clearly, there are compelling reasons for the EBRD and its partners to continue investing in the services sector. The creation of the EBRD Shareholder Special Fund for support to technical co-operation to help prepare investment projects, supplementing existing donor assistance, is a welcome step. This pooling of resources will significantly boost aid to "early transition countries" and Western Balkan states, in line with the EBRD's strategic redeployment of activities to the east and south-east of the European Union, as decided in 2006.

11. The Russian Federation remains the largest beneficiary of EBRD funds. Its share in the Bank's annual business volume grew from 38% in 2006 to 41% in 2007, with 90% of investment committed to projects in the regions. A wide spread of funds in the corporate sector, municipal and environmental infrastructure, energy efficiency projects, agribusiness, financial institutions, small and medium-sized enterprises and a trade facilitation programme show a consistent approach to assisting the modernisation and diversification of the country's economic structures. It is hoped that more of the Russian Federation's own income from natural resources will be gradually employed towards further restructuring of the economy and promoting entrepreneurship, especially in micro-businesses. The Assembly pays tribute to the EBRD's considerable input in stimulating regulatory improvements via policy dialogue with state authorities, and in facilitating the participation of foreign investors in the Russian economy.

12. Despite prolonged political infighting, Ukraine's steady reformist moves are ushering the country into a new era of regional and global economic integration. After fifteen years of multilateral talks, Ukraine has joined the World Trade Organization and has launched negotiations towards a free-trade agreement with the European Union, which will further improve Ukraine's development prospects as an increasingly strong industrial and agricultural powerhouse. However, continued efforts are required for Ukraine to ease the tax and regulatory burden, overcome infrastructure bottlenecks, restructure the energy sector, improve public administration and strengthen the rule of law with a view to enhancing the country's long-term international competitiveness. The Assembly welcomes the significant breakthrough in the EBRD-led process of decommissioning the Chernobyl nuclear power plant with two key contracts signed in 2007 and a donation by the EBRD of some of its profits (€135 million) to the Chernobyl Shelter Project towards accelerating work to complete the confinement structure.

13. Against the backdrop of a difficult political environment in Belarus, the EBRD's work there has been fairly limited for the past decade. A new national strategy for Belarus adopted in December 2006 commits the EBRD to deepening its involvement with the private sector in this country between 2007 and 2008, focusing on microfinance and small enterprises, and the Bank stands ready to expand its operations beyond the private sector if sufficient progress is made with democratisation and market reforms. The Assembly believes that the EBRD should continue using every possible window for policy dialogue with the authorities with a view to encouraging long-overdue reforms and stimulating the development of the private sector. The Bank might consider extending its activity programme in Belarus by encouraging local private enterprises to invest in energy efficiency, not least via its Sustainable Energy Initiative.

14. Central Asia is a region of high geopolitical importance and deserves more attention from, and involvement by, European countries. The five landlocked Central Asian states – Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan – face many common threats (terrorism, drug and arms trafficking, corruption) and challenges (poverty, unemployment, desertification, chemical pollution of land and water, governance, the legal status of the Caspian Sea) and are highly interdependent in terms of transport routes, population movements, water resources and energy supplies. They would gain enormously from more pragmatic and effective co-operation, both economically and politically, going beyond words to deeds.

15. The Assembly believes that the Council of Europe could consider assisting the region's countries via, for example, a possible replication of the schools of political studies, on the basis of the Council of Europe's existing programme for member states, plus Belarus. At the same time, the Assembly underlines the need for the EBRD to be particularly vigilant and cautious in Central Asia, to ensure that in cases where its investments are targeted at private enterprises they do not indirectly support the abuse of human rights, including the use of child labour.

16. In the light of its earlier deliberations and its resolve to strengthen political dialogue with the Central Asian states, not least as advocated in [Resolution 1599 \(2008\)](#), the Assembly could consider associating the parliaments of the Central Asian states with its debates on the EBRD and on the state of human rights and democracy in future.

17. Following the application of Turkey to become one of the EBRD's countries of operations, the Bank may decide, in October 2008, to extend its activities to this country thereby opening the door to a more diversified field of activity going beyond the strict interpretation of its core mission in transition countries. The Assembly trusts that the EBRD will make a careful analysis of how Turkey's application could be best accommodated without compromising the Bank's level of involvement in the less advanced transition countries. This may well imply the need to increase the Bank's annual volume of operations beyond the current cap.