



**Resolution 1218 (2000)<sup>1</sup>**

## **European Bank for Reconstruction and Development (EBRD) and the progress of transition**

Parliamentary Assembly

1. The Assembly has taken note of the report prepared by its Committee on Economic Affairs and Development on the activities of the European Bank for Reconstruction and Development (EBRD). It commends the Bank on its consistent, decade-long effort to assist the countries in transition in central and eastern Europe, as they steadfastly pursue a difficult overhaul of their economies and seek to perfect democracy in recognition of its vital importance to lasting development. Such assistance is of continuing value given the magnitude of the reforms under way, the long way remaining for some of the Bank's countries of operation, and the new challenges facing those further ahead, especially those set to join the European Union. Poverty, social hardship and widening income inequality continue to beset many countries in the region.
2. The Assembly welcomes the Bank's increased emphasis on the building of strong public institutions and administrations capable of supporting markets and private enterprise, and its recognition that economic crime, corruption and the disregard for the rule of law will seriously jeopardise growth by distorting decisions and competition and by undermining morality. The EBRD and the Council of Europe should further intensify their co-operation in this field, which is increasingly considered as a top priority by the international community.
3. The EBRD's increasing focus on the promotion of new companies and the growth of small and medium-sized enterprises (SMEs) is to be welcomed, as are its support of local banks with an SME orientation and its close co-operation with local and regional partners. The Bank thus recognises not only the role of SMEs as the driving force behind innovation, growth and popular involvement in market reform, but also the need to ensure a level playing field for their creation and development. To achieve this goal and speed up technological development in transition countries, the EBRD should widen its focus so as to also promote co-operation between SMEs and universities.
4. EBRD countries of operation depend vitally on strong growth in the developed market economies, especially in nearby western Europe. The Assembly therefore calls on the latter to pursue and accelerate their own structural reform process, thereby permitting such growth to take place, and to refrain from any measures harmful to trade with countries in transition. Remaining trade barriers have to come down, especially in metals, textiles, mining and agriculture, as well as those resulting from unjustified or arbitrary anti-dumping duties.
5. The Assembly notes with satisfaction the Bank's recovery from its financial exposure in the wake of Russian Federation's 1998 financial crisis, leading it to sign, in 1999, eighty-eight projects totalling 2.2 billion euros in the totality of its twenty-six countries of operation. It underlines the Bank's sober conclusion from this experience that even the soundest project cannot succeed unless the state reliably discharges its administrative, legal and judicial role, and there is a proper macroeconomic and social framework.

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1. Assembly debate on 27 June 2000 (19th Sitting) (see [Doc. 8758](#), report of the Committee on Economic Affairs and Development, rapporteurs: MM. Kacin and Kittis). Text adopted by the Assembly on 27 June 2000 (19th Sitting).



6. The Bank's operations must therefore increasingly be directed toward encouraging host country policies conducive to such a state of affairs. They include, for example, clear, non-discriminatory and stable business legislation; the overcoming of corruption and economic crime; the promotion of good corporate governance; enterprise restructuring; a strengthening of fiscal systems; and the building of an adequate social safety net.

*The Russian Federation plus eastern Europe*

7. The Russian Federation and eastern Europe may well be reaching a turning point in the transition process, provided structural reform, institution-building and the fight against economic crime and corruption can be pursued with the necessary resolve and lead to the restoration of confidence and credibility at home and internationally. It is therefore important that the Bank, a high-profile foreign participant of the transition, should remain committed to the Russian Federation and the countries of eastern Europe as a long-term, reliable partner. Building on its unique mandate and experience with transition, the Bank's strategy should be to give comprehensive assistance to the Russian Federation and the countries of eastern Europe permitting the current credibility and confidence crisis in these countries' social and economic life to be overcome. The Bank should, however, be particularly circumspect in its selection of projects and partners, so as to ensure good business conduct, implementation of commitments and a positive impact on the country's overall transition process.

8. The Assembly welcomes the political decision of Ukraine to close down Chernobyl nuclear power plant on 15 December 2000. It calls upon the EBRD to start immediate implementation of projects to resolve the outstanding issues concerning Chernobyl.

*Southeastern Europe*

9. The Assembly welcomes the EBRD's position as the most important source of, and lead agency for, private sector finance in Southeastern Europe. Considering the importance of private sector development for the realisation of the Stability Pact for the region, the EBRD therefore also has a major role in assessing investment risks and opportunities for others. In so doing, the Bank could usefully draw on experiences gained from its Foreign Investor Advisory Councils in the Russian Federation, Kazakhstan and Ukraine.

10. The Assembly supports the Bank's "bottom-up" approach in Southeastern Europe, emphasising a better investment climate and support for SMEs, notably through setting up micro-finance institutions for new companies in co-operation with local banks and an intensified policy dialogue to help reduce impediments to SME development. It encourages the Bank to commit itself more strongly to building up an equity portfolio in companies and local banks in order to promote good corporate governance.

11. Governments throughout the region must do much more than has hitherto been the case to create the conditions under which the private sector will invest. The Assembly, in this context, recalls its [Recommendation 1423 \(1999\)](#) on Southeastern Europe: economic reconstruction and renewal and its follow-up colloquy: One Year of Stability Pact for Southeastern Europe: The Way Forward, held in Dubrovnik in May 2000. Such conditions include:

- 11.1. transparent and effectively enforced laws protecting property rights;
- 11.2. a tax system that raises resources without punishing honesty and success;
- 11.3. administrative practices that minimise scope for corruption and cronyism and ensure a predictable and stable business environment.

12. The Bank should tackle even more intensely the transition challenges related to cross-border co-operation, wherever possible in co-financing with other international financial institutions. Intra- and inter-regional infrastructure and development of trade facilitation should be a priority.

13. The Bank should also develop a co-ordinated approach with the World Bank and other international financial institutions as well as with the European Union, in order to encourage the governments of the countries concerned to protect and enhance social and environmental priorities during economic restructuring.

14. Finally, the Assembly encourages the Bank to reconsider its policy vis-à-vis the Montenegrin Government, in particular through the extension of existing cross-border investment projects into the territory of Montenegro, and by using grant financing in lieu of the Bank's own funds for project preparation as well as legal, regulatory and training projects.