Transforming Markets

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Part III

The Role of the EBRD
Chapter 10
The EBRD after 30 Years

1. Global and Regional Challenges

The 30th anniversary of EBRD operations is taking place in the midst of a pandemic, with some observers making comparisons to the “Spanish flu” one hundred years ago. It follows other pandemics in recent years, although these were less damaging to the global economy.

This is not the only exceptional challenge facing the global community in 2021. The past seven years have seen the top seven hottest average annual temperatures across the planet since figures were first compiled in 1880. The CO₂ in the atmosphere since 2000 has increased 10 times faster than any sustained rise in CO₂ in the past 800,000 years. The change is so significant that some scientists have christened our time as a new epoch: the Anthropocene.

There can be little doubt that these challenges are immense. They are present in every region and have grown in the past 30 years.

There is better news elsewhere. When it comes to standards of living the picture is less bleak. There has been a very substantial reduction in levels of poverty. Some 13 per cent of the world’s population lived on less than US$ 1.90 per day in 1990: this has fallen to less than 3 per cent on the latest comparable estimates.

Notwithstanding a 50 per cent increase of the world’s population during this time to almost 8 billion people, incomes per capita have risen by 75
Economic growth, which is now based on a market orientation in almost all but the most fragile and conflict-ridden states, has been good overall despite the interruptions of major crises.

Most people and their families are better off in terms of basic necessities—food, access to electricity and water, secure housing. They are also significantly better connected to sources of knowledge than 30 years ago when the internet was in its infancy.

Standards of living will continue to depend on trade and economic activity being strong in the future, especially in areas where populations are rising fast such as in the MENA and SSA regions.

Yet, for all this progress, inequality of opportunity still stands in the way of a fairer distribution of the benefits of economic and social advancement. Awareness of the need to improve opportunities for all has risen but place of birth, parental education, ethnicity, age and gender continue to play a major part in determining life chances.

The world committed in 2015 to a sustainable development future by subscribing to a set of Sustainable Development Goals (SDGs) with a target of meeting them by 2030. The 17 goals seek to tackle these global and regional challenges—and more—while maintaining economic growth.

The deadline is less than nine years away. Time is short.

2. Where the EBRD fits in

The EBRD is part of the international community that aims to make a difference to development and the lives of individuals in the 38 economies in which it is active.

The EBRD’s goal has always been transition. Its original task was to integrate east and west Europe as former communist countries moved away from command systems and towards market economies.

Over 30 years circumstances change.

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4 World Bank data between 1990 and 2019, measured at purchasing power parity (constant 2017 international US$).
5 Equivalent figures for CEB were an increase of 133 per cent, while for Europe and Central Asia (excluding high income countries) they were lower at 41 per cent.
For the first half of its life, the EBRD’s job was to bring market structures and disciplines to countries that had no recent experience of a market economy, and in some cases indeed no experience at all. For the past decade and a half, the task has been broader, taking in new territories bordering the Mediterranean and seeking to deepen existing but weak market structures and institutions.

The objective throughout, however, has remained the transformation of economic systems so that countries of operations can become better functioning and sustainable market economies. In so doing, the EBRD has helped them grow and develop closer to their potential.

This has meant a number of things for the way that the EBRD has operated. It has consistently made an effort to ensure that a well-functioning market system is in place. In other words, a competitive economy which encourages innovation and motivates people to succeed. It has also meant promoting the virtues of an open economy which benefits from free trade, internally and externally, and integration into the global economy.

Over time, there has been a greater understanding of the role the state can play to influence markets in a supportive but benign way. The Bank intervenes to help public authorities provide fair and effective regulations and laws and to make well-judged interventions that deal with market externalities.

But a sustainable economy, which is able to meet global challenges and the SDGs, requires more than this.

It must be resilient and well-prepared for unexpected shocks, whether from financial or other sources, as today, from the impact of disease.

It must be ready to counter the threats from climate and environmental change which have the potential to destabilise economies over the longer—but getting shorter—term, through famine, fire, flood or air pollution.

And it must pay attention to fairness and the will of the people, expressed through democratic means. Opportunities must be open to all, there must be good governance of markets and related institutions and corruption must not be tolerated.

These dimensions are captured in the transition qualities which underpin the mandate of the EBRD and its application to countries of operations. The EBRD’s principles are focused on highly relevant concerns facing today’s developing economies.

Principles need to be turned into practice. The EBRD has a tried and tested method for doing this. Its transition impact methodology, first
developed over 25 years ago, embeds these principles and qualities in its operational work in countries of operations.

Most projects aim to raise these countries’ competitive strengths, through new products and processes that support growth, and many improve connectivity through exports and supply chains.

Around one-fifth of new projects contribute to improving inclusion outcomes, while considerable law reform activities are devoted to strengthening the governance of market institutions, making the business environment more investment-friendly, and to raising standards of corporate governance.

The Bank accelerated its operations on “green” activities around the halfway point of its life and now aims for more than one-half its business volume to be devoted to such investment-related activities by 2025.

As commercial sources of finance have expanded, the EBRD’s addi
tionality has diminished in more conventional finance products.6 However, the Bank has been able to stretch the boundaries of investible projects and crowd in commercial finance by blending its standard finance with concessional funds from donors. Projects initiated through the use of these funds have grown rapidly in the last decade, particularly with the help of the EU and multilateral funds, mainly to support GET-related activities and infrastructure investments in less advanced transition economies.7

The disruption to normal life brought about by the Covid-19 pandemic prompted an unprecedented number of requests for support. As a result, the EBRD said in April 2020 that it would devote the entirety of its activities in 2020 and 2021 (expected to amount to at least €21 billion) to meeting the needs of both small and large companies in its regions facing the negative impact of Covid-19 on the demand for their products and services, and their ability to supply them.

The EBRD plays its part in helping to address some of the key global and regional challenges that its countries of operations face and are likely to confront in the foreseeable future—the consequences of the pandemic, the need for resilient economic growth, the eradication of corruption, harnessing the

6 Over the 30 years in which the EBRD’s original countries of operations have developed, the scale of available finance in many has grown enormously. Whereas the EBRD was a significant conventional foreign investor in its region in the early days, it is less so now though it still makes similarly substantial contributions in many of the less advanced transition countries and in a crisis-affected country such as Greece.

7 Annual grants and other donor concessional finance have increased from well under €100 million towards the end of the 2000s to around €750 million in recent years, with about one-half supplied by the EU and one-quarter from multilateral donor funds.
potential of technology, the problem of inequality of opportunity and the causes and impacts of climate change.

3. Seven Pillars of the EBRD

In his introduction to the first volume of this history, the then EBRD President Suma Chakrabarti described the EBRD as “the indispensable bank”. While he was looking to the future he was also drawing attention to the past.

In the beginning, several of the Bank’s founding shareholders saw the EBRD not exactly as a dispensable bank, but as one which should not outlive its usefulness. They saw that as bringing markets and market disciplines to the former communist countries of central and eastern Europe.

This transition happened in most of these countries, with the EBRD in support. But the EBRD did not disappear.

Putting recent circumstances affecting Russia to one side, the EBRD remains active within the same geography as when it made its first investments in 1991. Even the Czech Republic, the only ‘graduate’ of the EBRD, is returning as a country of active operations because it sees the EBRD as able to make a valuable contribution to its Covid-hit economy and to its recovery.

It is not just in the original countries of operations that the EBRD has proved its usefulness. Its expansion to Turkey and the southern and eastern Mediterranean has been widely applauded by stakeholders in these regions. So too in Greece and Cyprus, members of the eurozone.

This is not simply because the Bank offers another source of finance. It is based more on a recognition of its expertise and know-how, derived from dealing with the challenges and disruptions to markets in its original region. These countries went through similar upheavals and found the EBRD’s advice especially valuable and both different and additional to support from other institutions.

While there has been waxing and waning of debate over countries’ graduation from EBRD activities once they reach a certain level of advancement, there has been no similar wavering over the direction that the EBRD has taken in expanding geographically or in deepening its response to 21st century global challenges in its regions.

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8 The German Democratic Republic (GDR), an original member, was absorbed into West Germany before the Bank started operations.
In short, the EBRD has turned out to be a rather useful bank. There are several reasons why shareholders and recipients alike have found good value in the EBRD. They may be summarised in seven pillars: the EBRD is profitable, agile, private-sector led, has a strong local presence, possesses deep sector expertise, combines policy capacity with investments and applies a focused, systemic approach towards change.

**Profitable**

As a public institution, the EBRD offers a very efficient way of using taxpayers’ money to further international development goals.

At its base is public capital. But this is only a cost to the taxpayer if it is lost or if the economic and social returns are lower than for any alternative use for the funds. There is no annual drain on finance ministries in the same way as there is from expenditure by development departments.

Provided the capital is managed carefully, the investment capacity it provides is a highly effective way to support countries to develop and grow, offering “win-win” outcomes for both the recipient countries and the providers of the capital. Reinvestment of returns builds up capital and helps expand the business and leverages additional finance. A virtuous circle is thus established and maintained.

This has been the case with the EBRD. The capital supplied by shareholders remains intact, with only €6 billion paid-in (the rest is callable), financial returns have been consistently sound and the Bank’s self-generated reserves amount to nearly twice as much as paid-in funds at the end of 2020. With this capital, the Bank has delivered more than €150 billion of investment finance in over 6,000 projects in its countries of operations.

A particular advantage of a multilateral institution like the EBRD, holding capital guaranteed by a range of top-rated sovereign issuers, is that it confers a status which allows the entity to borrow in the markets at fine rates. This advantage gives the Bank the financial security to accept risks which the market does not or cannot finance.

The EBRD has held a triple-A status as judged by the leading rating agencies Moody’s Investors Service and S&P Global Ratings since 1991 and the Bank’s debt, which is treated as eligible ‘High Quality Liquid Assets’ in

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9 Fitch Ratings has made a similar assessment since December 2002 when it first rated the EBRD’s debt.
most jurisdictions, is heavily sought after by international investors looking for safe havens for their funds.\textsuperscript{10}

Every President has cherished the EBRD’s triple-A status and sought to maintain it. They have been helped by a conservative gearing policy and the vigilance of the Treasury Department, as well as by sound banking in EBRD operations. This has been especially important in recent times with several sovereigns, such as the USA, UK and France, losing their triple-A status.

The EBRD has thus offered financial advantages to its shareholders and its clients.

Agile response

The EBRD has always been an agile institution.

As a “front line” development institution, with close connections to G7 policymakers and country authorities, a staff committed to making a difference and having money at stake, the EBRD has been consistently quick on its feet.

But the key to its agility comes by virtue of it being a small, pioneering organisation, which has helped avoid unnecessary bureaucracy, allowed the fast redeployment of resources when needed and ensured unfiltered views of experts are quickly heard, and acted on, by top management.

The EBRD has stayed in tune with its leading shareholders’ development goals where they have been relevant to its regions, and been ready to offer rapid support.

As a new and small IFI, the EBRD wanted to make its mark on the global stage. From the start, EBRD Presidents maintained strong links with the G7 (and later the G20) Finance Ministers’ and Deputies’ network that drives the official side of the international financial agenda. Its close business ties with major international banks in the private sector provided an additional perspective compared with most other MDBs.

On many occasions when the G7, G20 or the EU called on the IFIs to assist with a pressing development finance issue, the EBRD was able to contribute to a solution. It played a unique role in nuclear safety in its earliest days for example, culminating in 2017 with the final sliding in place of

\textsuperscript{10} ‘High Quality Liquid Assets’ is a designation by a bank regulator in the relevant country of the best assets for which the banks have minimum holding requirements.
the New Safe Confinement over the Chernobyl accident site. The EBRD’s first major green strategic initiative, the SEI, was launched within a year of the 2005 Gleneagles Summit which called for an MDB response on global warming. The Bank’s reaction to the global and EU financial crises led to the widely praised Vienna Initiative coordination platform. And its strong partnership with the IFC on private sector development issues, for instance in response to G20 requests on additionality and blended finance, has proven highly valuable.

The EBRD has been quick to respond and able to adjust to new or rapidly changing situations, devising solutions that fit the problems as they appear. As an institution with staff from the private sector, many from its regions, the EBRD has been primed for this.

In the volatile conditions of many countries of operations, business clients often faced pressures from changing market conditions and evolving government policies. EBRD bankers had to be adept at fashioning deals to meet the particular circumstances and in this they excelled at crafting solutions in difficult conditions. Their “can do” culture spread through the organisation, facilitated by weekly meetings of an open and widely-attended cross-departmental Operations Committee, chaired by the First Vice President.

Project or client crises were frequent so procedures for dealing with them were well-tested. This made for good preparation when broader problems arose. The Bank had the mechanisms and skills in place to deal with larger crises promptly.

An especially important contribution to the Bank’s agility came from staff in the field—from sector bankers talking to their clients and those in resident offices who were in touch with local business organisations and government ministers and officials. They supplied an intelligence gathering service whereby the instant that trouble was brewing in a country or sector, senior EBRD management would become aware and able to take action.

Many employees came from countries of operations and knew what might work in that context and felt a strong commitment to making a difference. They and other operational staff learned through experience how to deal with local businesses and authorities, which helped the Bank respond rapidly and effectively to new situations.

The EBRD fought major external crises all along the way. From dealing with the impact of the collapse of the Soviet system to war in the Balkans in
the 1990s and the Russian debt crisis in 1998, the Bank quickly learned how to operate in volatile and uncertain circumstances.

After a period of relative calm at the start of the millennium, a succession of crises requiring the EBRD to react swiftly punctuated the end of the first decade and into the next: conflict in Georgia, the global financial crisis and its consequences for the region, followed by the European sovereign debt crisis, the Arab Spring, economic collapse in Greece and Cyprus, revolutions in Ukraine, the implications of Russia’s annexation of Crimea and conflict in eastern Ukraine and, most recently, the devastating effects of the spread of Covid-19.

The EBRD understood it was paramount to help its corporate clients and countries of operations cope with the difficulties they faced. Its clear mission—the transition of the region’s countries towards market-oriented economies—was threatened by each of these crises and motivated management and staff to do the best they could to avoid the negative repercussions of these events.

These experiences made the EBRD adept at moving fast to respond to changing economic and political conditions.

Private sector led

The EBRD’s unique character has made a difference to its contribution to international development.

Its private sector-led model enabled it to exploit new ideas and business opportunities, introduce new systems, products and processes, raise capacity utilisation and transfer knowledge across borders to corporates, financial institutions and SMEs in its regions.

It was able to help large and small companies—both local and foreign-owned—with its wide project size range, from transactions of less than €1 million to over €500 million. Many of its operations helped state-owned enterprises commercialise their activities and progress towards privatisation. The Bank developed a specific line of work in project preparation and financing for infrastructure projects and PPPs. In its direct financing of SMEs, the EBRD combined business advisory services alongside its investments, furnishing them with strong support.

Taking care always to be additional—not crowding out but complementing other commercial finance—the EBRD has mobilised substantial private
sector co-finance: for every euro of finance the Bank has provided, more than this amount has been mobilised from private co-financiers for a project value over three times greater than the Bank’s financial contribution.

The Bank has been able to offer a full range of financial instruments, from equity (direct and via equity funds) and quasi-equity to debt and a range of guarantee instruments. It has provided financial support for debt capital market transactions, including securitised and green bonds, and mobilised significant additional finance through its syndication capacity. Risk-sharing facilities, such as first loss cover arrangements, and local currency loans in a wide variety of markets add further to the list.

Alongside its financial instruments there has been technical assistance, other advisory services and the use of concessional finance in appropriate circumstances to draw in additional private finance.

In keeping with its private sector approach, the EBRD takes risks on its balance sheet while respecting the principle of sound banking. In its lending to the private sector, which amounts to nearly two-thirds of the existing portfolio,11 pricing is risk-based in line with commercial risk-adjusted return on capital (RAROC) models. It takes account of market conditions and is subject to robust scrutiny and risk management practices.

By taking on risks in its many investments alongside private investors—in equity and debt—the Bank has had “skin in the game”. This is something private entrepreneurs understand and respect.

Strong local presence

As the biggest international investor in many countries of operations, the EBRD carried particular clout with national authorities and its visibility gave encouragement to many entrepreneurs and investors otherwise unsure whether to take risks with their savings and capital.

The Bank’s client-facing approach combined with a strong local presence—“boots on the ground”—to give it strong credibility. It opened local offices very soon after it began to make investments and developed them to include banking staff, who could develop new and maintain existing

11 Under Article 11, paragraph 3 of the AEB the EBRD is required to ensure no more than 40 per cent of its total committed loans, guarantees and equity investments be provided to the state sector. See Kilpatrick, After the Berlin Wall, Chapter 1.
relationships with clients, as well as staff who could make links with the authorities and business community more generally.

The EBRD now has a significant reach within its regions, with over 50 well-staffed resident offices, including in many secondary cities. Some regional offices, such as in Kyiv and Istanbul, have up to around 100 staff.

A strong local presence helped to open up opportunities for local enterprises, creating jobs and opportunities for less well-off members of society. Local companies and entrepreneurs also greatly appreciated the fact that bankers were able to bring in non-banking expertise—legal, environmental, economic, financial, accounting or risk—to support them.

The way in which the Bank operated as a trusted and lasting partner, sticking with deserving clients through thick and thin, and offering finance in crisis situations that no other commercially-oriented bank or institution was prepared to do was another local feather in the EBRD’s cap.

Deep sector expertise

An important facet of the Bank, which helped business clients and policymakers alike, has been its deep sectoral expertise.

In all the major areas where it has invested—in financial institutions, energy and infrastructure and in agribusiness, manufacturing and services—bankers were highly-skilled and able to offer sound sector advice. When specialist knowledge was needed, as for example with energy efficiency techniques, public service contracts or capital market instruments, internal experts were available to call on.

Working with clients in situ and providing in-house expert advice meant tailor-made solutions could be found for particular country circumstances, reinforcing the Bank’s value added and increasing trust.

In some areas, the EBRD was a true pioneer, spreading new knowledge and developing innovative solutions. For example, conducting sub-sovereign lending from the earliest days opened up a hugely important and successful line of business in assisting municipal utilities, helping them and other public authorities to raise their game.

Three decades of investing in water and wastewater treatment plants, solid waste management, district heating and urban transport—a unique

12 At the end of 2020, more than one-third of EBRD staff were based in its Resident Offices.
attribute of the EBRD for most of this time—put the EBRD at the forefront of this activity. The value of the Bank’s expert knowledge on project preparation and feasibility of different types of project structures in municipal settings can be seen in the recent high demand for the Bank’s Green Cities Programme.

**Combining policy capacity with investments**

The EBRD has the rare capacity to be able to deploy a full suite of financial instruments for investments, conduct policy dialogue at sector and country levels and give technical assistance where it is needed, in support of the products and services it offers its clients.

For example, policy engagement with authorities on tariff-setting methodologies, regulatory requirements and environmental standards were regular features of the Bank’s work with utilities as it conducted its operations. Similarly, significant policy-related efforts were made with investments in state-owned enterprises, where commercialisation and a path to privatisation featured strongly.

Early on, policy work had a specific transactional nature as the EBRD contributed to the creation of markets by prising entities out of the state sector and into private ownership to face market disciplines. But, as the transition economies grew and their markets matured, the orientation of the Bank’s policy efforts became deeper and broader as it began to focus more concretely on the sustainability of these market economies.

The Bank used its policy engagement and investments in tandem as a means of promoting reforms to support private sector development. This has become an increasingly relevant part of its work in the last decade following the stagnation of sector reforms in many countries of operations as they reached a more difficult stage of transition, and as political directions became more complicated in some.

A further aspect of policy work has been to improve the enabling conditions for investments by strengthening the investment climate and business environment.

In many cases of policy work combined with transactions, the EBRD has collaborated with other international actors, especially with the EU, IFC, EIB, IMF and the World Bank. With the pressing challenges of meeting the SDGs this is increasingly important.
Collective action involving the EBRD, as for example in the Joint Action Plans to assist central and south-eastern Europe recover from financial crises or in the Western Balkans Investment Framework, has been significant. The EBRD’s collaborations with multilateral institutions to secure reform have also mattered, as in Ukraine or in addressing the heavily distorted banking sector in Moldova.

The integration of policy advice and investments by the EBRD, alongside the private sector’s contributions, has featured in the Bank’s thematic initiatives. This has been especially true of the Bank’s climate change agenda and has been joined more recently by a strong push to provide local currency finance to unhedged clients, especially SMEs in the ETCs, and in work to develop capital markets where transition progress has lagged behind, even in the more advanced transition countries.

A focused, systemic approach

The EBRD has always had a clear mission. The Agreement Establishing the Bank, and especially its Articles 1 and 2, laid down a set of principles that has withstood the test of time. Even when the first stages of transition were largely completed, a review found that the transition concept could still provide the intellectual lodestar for the Bank’s mission by focusing on sustainable market economies.

The EBRD has also always sought to generate systemic impact. Achievement of the greatest outcomes derives not so much from direct effects but from indirect effects—from the power of demonstration and dissemination of ideas and technologies, from changes in behaviour and, above all, from the results of changes to economic and management systems.

The biggest and best example, to which the EBRD’s activities contributed, was associated with the Bank’s origin: support for the move from a command economy, with its gross inefficiencies, to a market economy.

The first stage of this market transformation resulted in a substantial gain in countries of operations’ productivity, with more than three-quarters of growth in the EBRD region up to 2010 resulting from a more efficient use of resources.\(^\text{13}\)

\(^{13}\) EBRD Transition Report 2013, p. 12.
Once basic markets were in place, deeper efforts were needed to improve their functioning and sustainability, including through sector structural reforms and by advancing environmental, governance and inclusivity objectives.

This systemic approach to transition impact, combined with the principles of additionality and sound banking, created the right incentives for the Bank to push market frontiers and extend opportunities for its private and public sector clients.

The EBRD continues to pursue system change in each of the six qualities needed for a sustainable market economy, assessing its operations in each area against system yardsticks—not just the direct outcomes expected but how they will be achieved and by looking at the dynamics of their impact.

These seven pillars have served the EBRD well during the three decades of its existence. But there was also the matter of its working culture—the creative tensions and partnerships that help drive organisations forward, for better or worse.

Before turning to that, however, there is the issue of the EBRD’s political mandate enshrined in the Agreement Establishing the EBRD.

4. The Political Mandate

The EBRD is the only IFI which requires that its countries of operations are committed to and applying principles of multiparty democracy and pluralism. Over the years this has raised many questions on the wisdom of Bank operations when certain countries appear to have slipped behind or departed from these norms.

Thirty years ago, when the Eastern Bloc began to embrace democracy and western values, the position was much clearer than it is today. The intervening years have clouded notions of democracy and led to a questioning of democracy’s links with economic advancement, though not its association with personal freedom.

It cannot be said that progress on the democratic front, despite the Bank’s urging, has kept pace with the remarkable changes seen on the economic side in the EBRD’s regions.

Given the EBRD’s size and its primary role in supporting private sector investment and development, the more limited impact of the EBRD in this
sphere is no real surprise. Broadly interpreted however, the political aspects of the Bank’s work have served to promote a set of political values and standards expected of its countries of operations. It has done so as part of a concerted effort to bring about changes for the better and, especially in the last decade, to improve standards of public and private sector governance.

The experience of the EBRD makes clear that political economy is critical to an international financial institution seeking to build sustainable economies in emerging markets. In these countries, attention needs to be paid both to the nature of institutions—political and economic—as well as to the management of resources—human and physical—and their interactions.

Unlike mature economies, political institutions in some of these countries are not well-established and can interfere with the smooth workings of the market. Tracking and supporting their governance and development therefore matters for the delivery of the economic and political aspects of the EBRD’s mandate.

As well as an economic perspective, every EBRD country strategy involves a political assessment, now based on 14 criteria, and an unalloyed description of current political circumstances using trusted reference sources. These assessments have given room for explicit Board discussions on political issues, as well as bracing discussions with recipient country authorities. The EBRD, including its Presidents, and the countries concerned each come under scrutiny in this context—one for telling it like it is, the other for explaining how it conforms to democratic values.

It can be a delicate business. There is a power to raise political issues with countries. The EBRD is unusual in that its Board votes on the country strategy including the political assessment that it contains. Many difficult conversations can take place ahead of these decisions. In cases where questions have been raised about a country’s commitment to the political aspects of the Bank’s mandate, strategies are designed to link the composition and scale of EBRD investments to the country’s progress in reform via an approach of “more for more”; that is, the more a country reforms the more investment it can expect from the EBRD. Conversely, if a country regresses it can expect to receive less investment.

Nonetheless, bringing about change in this field is not something the EBRD has been able to do on its own. The EBRD’s contribution lies in being able to reference problems in a multilateral setting, engage with the authorities—most successfully when they seek reform—and confirm the
acceptance of democratic values and the country’s destination of travel. To effect change the EBRD has to be part of a wider effort.

5. Core Partnerships Behind the EBRD’s Culture

The EBRD benefitted from two important partnerships—one that stretched across the Atlantic, the other mainly within the confines of its Boardroom—that often saw tensions but ultimately made significant contributions to the Bank’s success. Behind them was agreement on what the Bank was ultimately trying to do, and a desire to reach common ground, even if there were different views on how to go about it.

A true multilateral: ‘European character’ with a trans-Atlantic perspective

Back in 1991, when the EBRD was a start-up IFI designed to foster the transition of former communist countries towards market-oriented democracies, the EBRD was a symbol of the end of the Cold War and of antagonism between east and west, especially between the USA and the Soviet Union. Its charter—and later its *modus operandi*—was forged primarily by an agreement between countries on two sides of the Atlantic, represented by the USA and the EU. It brought together, in one place, two initially quite different conceptions of a market economy.

On the one side was the view of the private sector as the essential driver of economic growth with minimal engagement by the state and other public sector entities, while on the other public sector interventions were both an important and necessary safeguard against market excesses and an enabler of private sector development through provision of the required infrastructure.

The shareholding structure of the EBRD meant that while the USA held the largest number of shares, it could not drive the EBRD, even with the support of Japan and Canada. The EU and its institutions, in holding a majority of the shares, could. But they preferred to work by consensus. Agreement had to be found and, with various compromises made, it was.\(^\text{14}\)

There were however common views on the appropriateness of a multilateral effort, the involvement of countries of operations in decisions and the

\(^\text{14}\) See Kilpatrick, *After the Berlin Wall*, Chapters 1 and 2.
values that underpinned market economics—especially on the rule of law and its fair application.

Tensions between sometimes radical private enterprise and market-driven ideas and a more willing acceptance of the role of the state and public investment persisted throughout much of the EBRD’s life and surfaced from time to time in Board meetings over particular projects and strategies.

There were reasonable arguments on both sides. But decisions had to be made, week in week out. Just as with other successful alliances, a method was found to reach agreements.

This continuous engagement helped to balance the different views and foster a common perspective for the Bank’s operations. The Bank benefited from this strong union among its major shareholders, also supported by countries of operations whose representatives on the Board of Directors participated actively in the debates.

A real public and private partnership

There was another important partnership that stood behind the EBRD’s culture of solving problems and finding a way to make public and private work together in an effective way. This was played out between Board Directors, representing shareholders, and the EBRD’s management.

What distinguished the EBRD from other MDBs was not its resident Board, nor their almost daily meetings with management through committees and other discussions, although these interactions significantly helped to iron out difficulties. It was the pooling of public and private perspectives in a consensus-driven setting focused on clear goals that made the key difference.

Most Directors were officials from ministries, usually finance ministries, with long-standing public service to their name. A majority rotated after a few years in their EBRD role. Very few had a private sector background or business experience or training. Their careers and knowledge were mainly policy-based and their task was to look at the Bank from a policy viewpoint, at the impact of its activities on the transition. They were however making decisions every two weeks on operations as members of an investment bank.

The Banking Department on the other hand, represented at the Board by the First Vice President (FVP), was populated by bankers from the private
sector. Project documents set out the financial case for each investment in a way that would be familiar to any private sector investment bank decision-making committee.

The FVPs were top level international or investment bank executives with a lifetime of deal-making experience behind them, all US-based (until the most recent incumbent), and understood every last nuance behind each project—how the risks would be managed and profitability secured. However, they were also responsible for the impact of projects on the transition purpose of the EBRD.

There was thus potentially a considerable gulf in perspectives, with differences in views and understanding that were often frustrating to one side or the other. Nonetheless, the process worked.

The transaction-led nature of the EBRD and regularity of interactions between its Board and management helped keep a focus on decisions. Use was made of iterative processes where consensus was difficult to reach right away. Delivery of the EBRD’s mission—its transition task to foster strong market-driven economic performance within a multiparty democracy setting as dictated by its political mandate—was always in the background to the decision-making of Board Directors and management.

Directors learned to understand what drove financial success in projects and where the risks lay. On the Banking side, attention had to be paid not just to these matters, but also to the difference their operations would make to the wider transition picture, and what additional efforts might be needed at the sector and policy level to help secure business and transition success. As policy engagements and investments by the Bank became more closely entwined, the two sides increasingly found they had more in common.

The frequent meetings, familiarity of the actors with one another and an enduring spirit of ‘let’s make it work’, supported by Presidents with public policy experience and by independent voices like that of the Chief Economist, created a culture that melded together the best of both public and private world perspectives.

This partnership helped the Board become an effective decision-making body, which neatly combined the goals of the EBRD as an investment bank and development bank: finding profitable operations that delivered transition impact.
6. The EBRD Regions: Progress but More to Do

The EBRD’s impact on transition is seen more easily in individual transactions and sectoral efforts, including in policy work with the authorities, than at a macro level. Nonetheless, it is useful to review briefly how the region, including its newer parts, has fared over this period of the EBRD’s history.

Income convergence

Over the past 30 years, many countries in the original EBRD region have made progress in the convergence of per capita incomes towards those of advanced economies. However, some parts of the region remain a long way behind.

The most remarkable picture is for central Europe and the Baltics (CEB). Here, per capita incomes are now almost three-quarters (72 per cent) of the G7 average on a purchasing power parity (PPP) basis, having risen from a low point of 39 per cent in 1993 (Figure 10.1).

In the rest of the pre-2008 EBRD region, Emerging Europe and Central Asia, however, per capita incomes are around one-third of those of the G7, and only 7 percentage points higher than in 1991. They have risen substantially from their lows of just over 16 per cent in the 1990s.

Poland provides an example of the path in CEB. It began its transition with shock therapy, recovered quickly from the initial experience of the change to its economic system and advanced steadily towards a market orientation to join the EU, less than a decade and a half later in 2004. Other central European countries did similarly well once they were able to implement market reforms.

The massive shock from the break-up of the Soviet Union took its toll on other countries, and was prolonged. The CEB had managed to start growing again within a few years after the collapse of communism, but it took until the end of the 1990s before the rest of the region managed to grow faster than the average of the G7 countries. The CEB had surpassed their 1991 position relative to G7 per capita incomes within 10 years, whereas the rest of the region was unable to do so until 2008.

Turkey’s path, after its financial crisis in 2001, was similar to CEB’s until it flattened off from 2017. Per capita incomes in 2019 were around 58 per cent of the G7 average. The SEMED countries on the other hand have remained stuck for a long time at a low income level, reaching only 21
per cent of the per capita incomes of the G7 in 2019, only a few percentage points higher than in 1991.

**Figure 10.1** Average income per capita (PPP 2017 dollars) 1990–2020: CEB and other EBRD countries, relative to the G7 average

*Source:* Authors’ calculations based on IMF and World Bank data.
*Note:* Figures are measured at 2017 US dollar purchasing power parity. 15

**Productivity**

Market-driven efficiencies had the desired effect that policymakers hoped for in the first period of transition. There was a striking improvement in total factor productivity (TFP) in EBRD countries of operations in its first two decades:

As countries emerged from the initial transition recession, the catch-up in terms of TFP levels enabled by the broad market-oriented reforms was the single most important factor that supported fast income convergence between the mid-1990s and the end of the next decade. No other region experienced such fast productivity growth as the transition region. 16

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15 In cases where GDP measured at market exchange rates and purchasing power parity differ considerably, as in Turkey’s case for example, the figures may flatter the relative position to G7 countries (where this discrepancy is generally small).

Estimates suggest, however, that total factor productivity made little significant contribution to growth in the following decade other than in Central Asia. With capital utilisation falling as a result of the global financial crisis, TFP may even have been a negative influence in some EBRD regions. Capital accumulation appears to have been the major influence on growth during this period.17

Labour productivity continued to grow during the EBRD’s third decade, but only slowly compared with the previous 10 years, at an annual rate of just over 2 per cent.

GDP growth

Before the global financial crisis, the annual GDP growth across the original EBRD region from the start of the transition averaged under 2 per cent, but was higher in CEB (3.2 per cent) and Central Asia (2.6 per cent). For sub-regions outside CEB, however, the figures disguise the sharp falls in output seen during the 1990s, which were followed by a strong recovery until 2009 when growth turned negative once again.18 This pattern is shown in Figure 10.2.

Like productivity, output growth was noticeably slower after the 2008–09 financial crisis compared with its average from the turn of the millennium, falling back particularly sharply in Russia and eastern Europe and the Caucasus (EEC) to barely 1 per cent a year and low figures for emerging economies. Table 10.1 shows that during this time annual growth in south-eastern Europe was a bit more than 2 per cent.19

After a modest fall in 2009, post-crisis output in CEB recovered strongly, limiting the fall back in growth, to record an average annual rate of 2.7 per cent between 2009 and 2019. Central Asia did even better (5.4 per cent), and growth rates improved relative to the period from 1991.

Since the start of the transition, the average annual growth of 3.0 per cent in CEB and 2.1 per cent in south-eastern Europe stand in sharp contrast to the figures of 0.6 per cent and 1.0 per cent for EEC and Russia, respectively. The latter is especially weak in view of commodity price increases during

18 Other than in Central Asia where positive growth of 3.5 per cent was recorded in 2009.
19 The definition here excludes Greece and Cyprus.
this period, which helped to bolster average growth rates for example in Central Asia to 3.7 per cent a year.

The faster growing economies of Turkey and the SEMED countries boosted overall growth in the EBRD regions as a whole in the decade to 2019, although only Turkey raised its growth performance between this period and the one from 1991–2008.

### Table 10.1 Average GDP growth rates in EBRD regions, 1991–2019

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<thead>
<tr>
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<tbody>
<tr>
<td>EBRD</td>
<td>-1.0</td>
<td>6.0</td>
<td>2.5</td>
<td>2.5</td>
</tr>
<tr>
<td>EBRD (Original Region)</td>
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<td>2.0</td>
<td>1.8</td>
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<td>2.7</td>
<td>3.0</td>
</tr>
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<td>6.0</td>
<td>2.2</td>
<td>2.1</td>
</tr>
<tr>
<td>Eastern Europe and Caucasus</td>
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<td>8.4</td>
<td>0.7</td>
<td>0.6</td>
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<tr>
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<td>-5.1</td>
<td>7.0</td>
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<tr>
<td>Central Asia</td>
<td>-3.5</td>
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<td>Turkey</td>
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<td>4.5</td>
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<tr>
<td>Greece &amp; Cyprus</td>
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<td>3.6</td>
<td>-1.9</td>
<td>1.2</td>
</tr>
<tr>
<td>Southern and Eastern Mediterranean</td>
<td>4.4</td>
<td>5.0</td>
<td>3.6</td>
<td>4.3</td>
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</tbody>
</table>

*Source: Authors’ calculations based on IMF and World Bank data.*

*Note: Some observations for countries that did not exist are missing for early years.*

### Figure 10.2 Average GDP growth rates in EBRD regions: the 1990s, pre- and post-global financial crisis

*Source: Authors’ calculations based on IMF and World Bank data.*

*Note: Some observations for countries that did not exist are missing for early years.*
Country performance pre- and post-global financial crisis

A comparison of the performances of countries in receipt of EBRD finance, based on rankings of GDP per capita growth before and after the global financial crisis, shows how some countries have performed well throughout the period, and others that have done well post-crisis. (Figure 10.2).

Consistently good performances through 1991 to 2019, shown in the top right-hand quadrant of the Figure 10.2, occurred in Poland, Lithuania and Albania for example. At the other end of the scale lie Ukraine, Jordan, and Kyrgyz Republic.

The most improved per capita growth performances in the post-crisis period (top left-hand quadrant and distance from the 45° line) have been in Uzbekistan, Georgia, Bulgaria and Tajikistan. Most affected in the other direction were Lebanon, Cyprus and Greece.

Figure 10.2  Relative per capita GDP performance of countries of operations, 1991–2008 and 2009-2019

Source: Authors’ calculations based on IMF and World Bank data. Note: Countries are ranked on average growth rate of GDP per capita in each period and the ranks are then compared.
Structural reform

The assessment of transition qualities presented in the *Transition Report* shows the distance of countries of operations from a synthetic frontier representing the position of a fully sustainable economy for each quality. Figure 10.3 shows the latest pattern.

Among EBRD regions, CEB countries show a clear lead, with Estonia at the top of five qualities and Slovenia showing a strong and consistent performance, including best performer in the ‘green’ category. By contrast, West Bank and Gaza, Kosovo, and Turkmenistan are a very long way behind, particularly in the well-governed and resilient qualities in Turkmenistan’s case. Elsewhere, Morocco, Egypt, Tajikistan, and Uzbekistan have catching up to do in a number of transition qualities.

![Figure 10.3](image-url)  
*Source: EBRD Transition Report 2020–21*

Energy intensity

The EBRD’s focus on energy efficiency from the start of its operations was driven by the very high energy intensity of its countries of operations. Encouragingly, there has been good progress in the reduction of energy intensity in this region over the past 30 years.
GHG emissions per US dollar of GDP (at PPP) have fallen threefold in CEB, and by more than one-half in the rest of the original EBRD region (excluding Russia) during this time. Emissions in Russia have also halved but, unlike other original EBRD countries, the trend has been flat for over a decade. In all these cases, emissions per unit of GDP are now much closer in absolute terms to the average of G7 countries, with CEB very close to the G7 level.20 (Figure 10.4).

In the case of Turkey and SEMED, emissions per unit of GDP have been relatively low. In these two regions only Turkey has maintained a level consistently below the G7 average, though there has been little change since the mid-2000s, while SEMED has made some progress since then but is now some way above the G7 average.

Despite the significant falls in GHG emissions per unit of output in south-eastern Europe, Russia, eastern Europe and the Caucasus and Central Asia, the overall rate of decline has slackened somewhat in recent years and the level

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20 The G7 figure is strongly influenced by the relatively high level of the USA’s GHG emissions, which fell from 0.55 kg to 0.29 kg CO₂ equivalent per US$ GDP (PPP at constant 2017 prices) between 1990 and 2018.
remains twice as high as in the G7 and CEB, and even more compared with Turkey. Significant efforts will be needed to match performances elsewhere.

More to do

In sum, the picture of the EBRD regions is one of good progress in several areas but that there remains a lot more to do. The current Covid-19 pandemic makes this all the harder but even more important.

7. The EBRD Contribution

This history has described how in various ways the EBRD fostered the transition of its countries of operations towards more open and sustainable market economies.

There have been many advances, as the previous section noted and as the EBRD’s annual Transition Reports have documented in more detail over the years. However, a full disentangling of the contributions of the EBRD from everything else that was happening in the rapidly changing circumstances of these countries is a close to impossible task.

At a micro-level, many transition indicators, country reviews, client surveys and internal project scores suggest that the EBRD made a genuine difference to businesses and economic development in every region in which it has worked. Although rates of progress differed—across regions and over time—significant changes have occurred right across the EBRD’s regions over the 30 years of Bank operations.

The long view

The independent Evaluation Department (EvD) has looked in detail at many projects and strategies from the start of the Bank’s operations, identifying their strengths and weaknesses, talking to clients and making suggestions for improvements. However, when it comes to reaching a considered answer on the impact of the EBRD, Joe Eichenberger, EvD’s Managing Director of 10 years, admits it is difficult to offer any simple conclusion.

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21 Eichenberger joined the EBRD in January 2011, after spells as Vice President at the African Development
One aspect of importance, he recalls, was the EBRD’s role in supporting FDI in the 1990s. “In the first decade the EBRD was substantially associated with FDI. That matters for its enduring legacy”, he says. Sustained engagement at times of great challenge is also important, with Ukraine an example of that long-term commitment: “After the protests in 2014, at a moment of deep crisis and peril in that country, the EBRD was the single largest lender. For a small regional institution in the context of a relatively large and important lynchpin country, that was a substantial contribution.”

In Eichenberger’s view, the EBRD offered steadiness and reliability. During the global financial crisis, he says that the EBRD set an example of an institution “without a mandate for countercyclical activity moving with real speed and capitalising on its client relationships to create a signal effect.”

As a relatively small organisation in which key relationships are with private clients, the EBRD is positioned differently from more traditional development banks. Unlike in those institutions, Eichenberger notes, there is little ‘programme capture’ at the EBRD—the tendency for internal resources to be spent on keeping big programmes alive or funded. Instead, the attitude is more one of deploying funds if they can be useful but otherwise move on. “That’s a very different cultural character. It’s pragmatic, it’s delivery-oriented.”

He suggests this culture—driven and outward-looking—was strongly influenced by the EBRD’s early “near death” experience and the restructuring that followed under President de Larosière and his First Vice President, Ron Freeman.

Those events, the trauma, absolutely created inside the EBRD a dynamic of “we’ve got to get things done”. It was a terminal moment that shaped the personality of the place from the very outset, leading to this powerful cultural characteristic.

He is also impressed by how much policy-solving work goes on below the radar, by drawing on experience and “pockets of expertise across the

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22 Interview, 2021.
Bank” with “bankers taking an active interest in [relevant] issues”. He believes this “distinctive aspect of the EBRD offer to clients” has helped “keep the Bank in demand.”

Alain Pilloux, a highly experienced banker who joined the EBRD in 1992 and is now Vice President for Banking, believes the Bank’s role in mitigating risks was a significant plus for investors in the early days, especially for foreign players, and mattered more than the finance. There were many examples of rogue behaviour by individuals, judges and authorities where the EBRD’s interventions helped resolve difficulties for its clients and improved countries’ understanding of western business practices, he says.

Even more important, in Pilloux’s view, was the EBRD’s contribution to the emergence of local middle class entrepreneurs, supporting a growing mittelstand in countries of operations.

Nowadays, 80 to 90 per cent of Bank activity is with local businesses. We have spent our lives supporting, encouraging and financing local people with ideas and ambitions. Our model is to make investments of a modest average size but to do a large number of them. The multiplication of these transactions with local players has had a significant impact in every single country, in all EBRD geographies. Overall, it is the core value add of the EBRD over the last 30 years. Not only has it supported sustainable growth in those countries, by relying on local production and local players’ ideas and innovations, but it has also contributed to the anchoring of democracy.

Pilloux sees two other aspects as valuable. “Reliability is a major attribute of the EBRD,” he says.

There is a general sentiment among clients that the EBRD can be relied upon whether the sun shines or not. This was proven in the 2008-2009 crisis and now during the pandemic. [Business] people may complain about the fact we require high standards and that due diligence can be cumbersome or a bit long. But even those who complain the most, they always return. We manage clients in a smooth way and are known for our flexibility. And our large presence in the field is a jewel, an extraordinary asset of the EBRD, especially with the pandemic.
And then there is the “unique way” in which the EBRD integrates policy and business which “concentrates on those aspects or reform that unlock investment and growth”.

We work beforehand on legislation, and with the authorities, helping to design the processes which lead to practical and concrete investments, and then we help to implement them. As in renewables for example.²⁴

Views of four Chief Economists

In gathering to celebrate 30 years of the EBRD, three former Chief Economists, and the current incumbent, expressed their views on the role and impact of the EBRD.²⁵

Looking back at the importance of the Bank’s founding charter, Nick Stern, the EBRD’s second Chief Economist, commented:

It’s remarkable how solid those principles of the EBRD have been. Article 1 on open market economies ... Article 2.1 (vii) which has environment in it quite explicitly, and sustainability too. The people who wrote [these] did a very good job. It’s those first principles, and of course fundamentally sound banking, additionality and transition impact, [that give] the logical structure need[ed] to drive the whole story forward.

He pointed to three “multipliers” behind the EBRD that make a difference:

The EBRD has the advantages of a development bank, of being on the frontier and moving as the frontier moves. That embodies the power of example, the multiplier of example. [Then] we have the multiplier of the private sector, through the management and reduction of risk, and the multiplier of collaboration with other IFIs to share risk in different ways and to create the policies, frameworks and platforms to foster investment.

For Erik Berglof, the EBRD contribution has come through its “large staff on the ground and a unique business model which developed over

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²⁴ Interview, 2021.
²⁵ EBRD Press release and podcast, 16 April 2021. ‘The EBRD at 30: what’s next?’. 
time, combining engagement with the private sector but also engaging with the state to build the private sector.” Beata Javorcik sees the EBRD as the “ultimate impact investor”, sending a signal whereby impact goes beyond an individual project, while Sergei Guriev, noting the private sector development bank role and its impact in creating a competitive business environment, says “countries and businesses know that if they’re partnering with the EBRD they will use technology and business models that are the future.”

When it comes to the more visible changes over 30 years, a great success of the transition, Javorcik says, is that “young people today [in the region] feel no different than their peers in western Europe.” Stern adds that “the rise in living standards and the ability to choose have been quite spectacular.”

For Guriev, it is the creation of a new services sector, in which the EBRD played a key role. Not only in its most visible form of shopping malls and entertainment centres (one such EBRD investment for example being in Surgut, Siberia), but also in knowledge-based areas such as pharmaceuticals (such as Petrovax in Russia or Hikma in Jordan), and in the use of new technological platforms (as with MICEX-RTS, Yandex or UiPath).²⁶

He explains that the EBRD assisted with the move out of heavy industry towards a services-based economy—in part the consequence of introducing market forces and helping to make them work—“where you create businesses which provide middle class jobs and services that are much needed and make life in these countries so much better.” Continuing, Guriev said:

The EBRD’s job was to create systemic impact, to change the whole economy. In many countries you can see that the leading companies in the services sector are EBRD clients. This is a great achievement.

On other impacts in its regions, Javorcik emphasises the EBRD’s role in helping with privatisation and improvements to the governance of state-owned companies, even if “it’s by no means done”.

Stern says the impact of the EBRD has to be seen in the context of its overall story, especially its role in making a market economy function well. But, he notes, “the skills that the EBRD developed in particular areas were

²⁶ The EBRD’s interest in Yandex and UiPath was through its investments in private equity funds managed by Baring Vostok and Earlybird Venture Capital (Digital East Fund), respectively.
extremely important,” for example with an early and sustained effort to build up its energy efficiency capacity.

Berglof says it should not be forgotten how the original EBRD countries of operations “came into the transition without anything remotely resembling what we think of today as financial systems”.

The EBRD played a very important role in building financial systems in its countries … and using them as delivery mechanisms, for trade credit, for targeted credit lines for energy efficiency and for women entrepreneurs. That has changed opportunities for people and allowed different parts of these countries to develop. Using the financial sector to achieve development aims—that for me is the single most important achievement.

Stern concludes that “as well as helping [with] the change in living standards and institutions we should recognise also the influence of the EBRD on what a good development bank is.”

I was very much involved in setting up the AIIB and NDB27 and we had very much the EBRD as a model. [We said] look at what it does, look at its articles of association, look at its emphasis on the private sector, look at its emphasis on additionality and being on the frontier and on transition impact. That’s the model you should use.

Furthermore, Stern says:

It’s going to be really important moving forward because if we’re going to make investments that take us to net zero [emissions] the development banks are absolutely centre stage, …[they] have never been more important. The EBRD is the best model of these.

Some external perspectives

Many of the international organisations the EBRD has worked closely with during this time appreciate the role it plays in the region. The IMF Managing

27 The Asian Infrastructure Investment Bank (AIIB), based in Beijing, and the New Development Bank (NDB), based in Shanghai. Both banks were established in 2015 and opened for business in 2016.
Director Kristalina Georgieva notes how, after contributing to “building a new, post-Cold War era in central and Eastern Europe”, the EBRD “evolved to support the drive towards market-oriented economies on three continents: Europe, Asia and Africa”. She says today’s EBRD support “remains just as critical to help economies transition to a post-Covid world.”

Christine Lagarde, Georgieva’s predecessor at the IMF and now President of the European Central Bank, has commented on “the fantastic partnership that we’ve had together, EBRD and ECB, particularly during the great financial crisis under the Vienna Initiative”. And the current President of the European Commission, Ursula von der Leyen, says: “In 30 years you have achieved so much. You are a unique institution—a true bridge between the European Union and our neighbouring countries.”

Perhaps the best testament to the EBRD’s impact comes from the views of people in countries of operations themselves. There are many examples of clients who value the contributions made by the Bank to the success—and survival—of their projects.

One example comes from Levan Mebonia, Chairman of Enguri Hydro Power Plant in Georgia which supplies 40 per cent of the country’s electricity, who was an engineer when the EBRD first invested over 20 years ago. He says:

The plant was in a very dire state. With the EBRD’s support its dam and tunnel became safe and we now produce twice as much energy as before. The EBRD has a very good reputation in Georgia. Everyone knows that projects funded by the EBRD will be completed and be well done. I personally cannot imagine a better partner than the EBRD.

Another example comes from National Bank of Greece, one of the largest commercial banks in that country, reflecting on its long-term strategic partnership with the EBRD in Greece and elsewhere in south-eastern Europe. It said in a statement that the “EBRD’s investments have been instrumental in enhancing resilience, supporting restructuring and enabling re-establishment of access to international capital markets.”

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28 Interview, 2021.
29 Interview, 2021.
30 Interview, 2021.
31 Statement to the EBRD Resident Office, 2021.
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Seen from Belgrade, one local EBRD senior officer, Svetlana Strizovic, says a key factor for local clients has been the consistency and quality of advice. “They see [the EBRD] as a very reliable partner. As soon as the EBRD is involved, it lifts everything up onto a higher, more trusted level.” When there is a crisis, she says, “The Bank deals with it in a very British way: toughen up and carry on. The Bank does not lose its wits and keeps a steady course. This has been an inspiration.”

The sense of long-lasting partnerships to support countries’ transition progress is echoed by the Turkish Ministry of Treasury and Finance:

Cooperation with [the] EBRD has not only brought alternative financing to the country, but also provided crucial technical assistance, international best practices, high standards and good governance principles to the private sector as well as to the public sector. In this regard we call EBRD lending as [a] quality partnership.

8. A Model for the Future: Coordinated Multilateral Solutions

The EBRD has an appealing business model when it comes to raising the level of private finance for development and engaging private businesses in finding innovative solutions for global and regional problems.

The Bank could do more with its existing capital, not just to help deal with the consequences of the Covid-19 epidemic and climate change, as it is doing now, but also—should shareholders agree—to support potential transition countries further afield in MENA and parts of sub-Saharan Africa, which have close ties to Europe but have important development needs, including better functioning markets.

The EBRD, nonetheless, will always be too small on any measure to make the critical difference on its own. Its model will be most effective when coordinated efficiently with other DFIs, which would be consistent with the conclusions of the 2018 G20 Eminent Persons’ Group report *Making the Global Financial System Work for All.*

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32 Interview, 2021.
33 Information supplied by the Turkish Ministry of Treasury and Finance, January 2021.
Billions to trillions: the role of the private sector

In its submission to the Development Committee for the 2015 World Bank/IMF meetings, the EBRD, other MDBs and the IMF pointed to the wide range of domestic and international financing options beyond official development assistance (ODA) that was available for development. They stressed that all these channels would be needed to support and accelerate the scaling up of finance for development to move from ‘Billions to Trillions’. The international community recognised the critical role that private sector finance could contribute to meeting the SDGs.

The Paris Agreement on Climate Change later that year, and the national commitments made by 189 countries to increase investment in a low-carbon future,35 paved the way for the important part the private sector can play to keep the rise in global temperatures to manageable levels.

Less attention was paid, however, to models through which the public sector could play its part in this effort and efficiently engage with the private sector to reach these goals.36

The EBRD model of using public capital to work with and draw in private finance for development is an important one. It relies on alignment of interests in a market context to generate finance for the investments needed to effect change. Market signals are an important driver of change, as we see today with consumers increasingly taking climate change and other environmental dimensions into account in their product choices.

Transforming weak markets to become more robust and ensure their signals are transmitted clearly and effectively has been a backbone of the EBRD’s work. Where signals are missing or distorted by externalities, the EBRD has had the means to step in and help the private sector take on additional risks or, where this cannot be achieved, find efficient public sector solutions.

Multilateral development banks have been the traditional means to date for tackling development issues. Yet over the last three decades global finance

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35 Renewable energy, energy efficiency, sustainable infrastructure and climate-smart agriculture were mentioned.

36 An exception is the IFC’s report ‘Creating Markets for Climate Business’, published in 2017, which describes how US$ 23 billion of investment opportunities could be exploited with the help of the private sector.
has been dominated by the private sector. The link is only now getting the wider attention it deserves. It has been present all along in the EBRD.

The EBRD is one of only a handful of financial institutions that has successfully shown how private sector finance can be harnessed alongside public funds for public purposes. The EBRD’s approach, in coordination with others deploying similar models, appears to be a valid—and scalable—way of using limited taxpayer funds to meet development and climate change goals.

Sub-Saharan Africa: geographic expansion once more?

In recent years, the Bank has looked into further areas of possible geographic expansion, in particular to a limited number of countries in sub-Saharan Africa and to Iraq. According to its latest strategy: “The context ... was ... geopolitical and development priorities, as well as the growing links between many countries in sub-Saharan Africa and Iraq and current EBRD countries of operations.”

Large unmet needs in these countries, where progress on the SDGs is lagging, implies a role for private sector development where certain minimum conditions of stability and security exist and where there is a willingness and ability to build on existing market conditions. The EBRD sees itself as a complementary actor to other development finance institutions, as it has been in its previous expansions, with its transition mandate, private-sector led business model and full set of financial instruments able to add value.

The 2021–2025 Strategic Capital Framework (SCF) explains the importance of the additional contribution that the EBRD could make: “Private sector development will be key to supporting jobs and better livelihoods and providing the basic services and infrastructure all people need. This will decrease the risk of social unrest and help reduce levels of unplanned migration.”37

The EBRD has shown in several previous geographic expansions—and in facing up to many crises—that it has the capacity to adapt quickly and flexibly to new situations.

The debate on a possible expansion into sub-Saharan Africa and Iraq is set to continue. Governors are expected to give direction at the 2021 Annual

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37 Strategic and Capital Framework 2021-2025, September 2020, p. 44.
Meeting in London on further preparatory work to be undertaken to allow the consideration of any next steps at a subsequent Annual Meeting.

**Towards a New Era**

A capability for MDBs to work with the private sector and accelerate finance for development is essential for the future. The EBRD has evolved as a reliable private sector-focused institution with a proven track record over its 30 years, encompassing several geographies and coping with many crises.

The EBRD is proof that public and private sectors can work well together when they have clear goals and the right incentives. The model has demonstrated wide applicability.

Looking back over 30 years to when the EBRD started operations in 1991, we might ask what a 30-year-old then involved in creating the EBRD might have seen in the future institution.

They would have been born in 1961, the year the East German government started building the Berlin Wall, the most visible symbol of the Iron Curtain that divided east and west.

It is perhaps no surprise that when the Berlin Wall fell, and the Cold War era ended, our 30-year-old saw market-oriented democracies as a way forward for both sides of the divide with the EBRD as a way to help this process. The hope was that at last peace and prosperity could reign in Europe.

Looking back further it is worth recalling the succession of conflicts that would have coloured the thinking of similar 30-year-olds during the 20th century. One born at the end of the Victorian era would have been scarred by the experiences of World War I; their counterpart born 30 years later lived through the Great Depression and World War II; and then, for our new EBRD-er, came the possibility of World War III—and the overshadowing threat of nuclear war and the annihilation of Europe.

Today’s 30-year-old, born in the same year as the EBRD, has not lived under the reality or the shadow of world war. Globalisation has driven the biggest reduction in poverty in human history. Peaceful international connectivity has perhaps never been greater.

But this Panglossian end to the story misses out an important new existential threat. That of climate change. No longer the risk of a sudden clash of powers perhaps, or imminent death, but a relentlessly growing threat to
the quality of human existence and the future of the planet itself. It cannot
be left unchecked.

What war was to the 20th century, climate change is to the 21st. It calls
for the same comprehensive mobilisation of political will and effort.

Clausewitz regarded war, inter alia, as the “realm of uncertainty ... the
realm of chance”, making intelligence and judgement crucial. In this con-
text, he wrote:

Two qualities are indispensable: first, an intellect that, even in the dark-
est hour, retains some glimmerings of the inner light which leads to truth;
and second, the courage to follow this faint light wherever it may lead. The
first of these qualities is described by the French term, coup d’oeil; the sec-
ond is determination.38

The EBRD has shown these qualities.

It saw the light on climate change early on and had a vision how it could
develop market-based solutions to tackle global warming and help bring
about the transformation required. The EBRD was ahead of its time, as it
has been in other areas.

It showed determination in its efforts to harness the private sector in
support of public goals, in its region and beyond.

The EBRD has done so by fostering economic growth through better
market performances and greater resilience, through trade and integration
and by encouraging innovation and entrepreneurship. It continues to trans-
form market economies, making them more sustainable by being better gov-
erned and more inclusive. Above all, it is helping to lead a transition towards
net zero greenhouse emissions by invoking private sector-oriented solutions
and operating at the frontier of public and private finance.

The EBRD has shown a way forward on development. The international
community should not dither over architecture. There is already a well-tuned
model and the world needs all the resources it can muster to complete the tasks.

This is indeed why, 30 years on, the EBRD remains an essential develop-
ment bank.

38 Carl von Clausewitz, On War, Chapter 3 ‘On Military Genius’, translated by M. Howard and P. Paret,