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## Support of Economic Transition of Eastern European Countries by the European Bank for Reconstruction and Development

### *Wsparcie transformacji gospodarczej państw Europy Wschodniej przez Europejski Bank Odbudowy i Rozwoju*

#### **Streszczenie:**

Państwa Europy Wschodniej (Armenia, Azerbejdżan, Białoruś, Gruzja, Mołdawia, Rosja i Ukraina) w procesie swojej gospodarczej transformacji otrzymują wsparcie finansowe i techniczne między innymi ze strony Europejskiego Banku Odbudowy i Rozwoju. W artykule przedstawiono wartość udzielonego wsparcia od początku działania Banku (1991) dla całego regionu i poszczególnych państw, a także ocenę współfinansowanych przez Bank projektów pod względem tzw. *transition impact*. Europa Wschodnia pozostaje liderem, jeżeli chodzi o wielkość otrzymanej pomocy finansowej, ale nie przekłada się to na ocenę zaawansowania procesu transformacji: tylko dwa państwa regionu (Rosja i Ukraina) mają status średniozaawansowanych, a pozostałe wciąż zaliczane są do gospodarek słabozaawansowanych w procesie transformacji.

**Słowa kluczowe:** Europa Wschodnia, Europejski Bank Odbudowy i Rozwoju, transformacja gospodarcza, *transition impact*, pomoc finansowa

#### **Summary:**

Eastern European countries (Armenia, Azerbaijan, Belarus, Georgia, Moldova, Russia and Ukraine) receive financial and technical support among others from the European Bank for Reconstruction and Development in the process of its economic transformation. The article presents the value of support granted since 1991 for the whole region and individual countries, as well as the assessment of the projects co-financed by the Bank in terms of the „transition impact”. Eastern Europe remains the leader in terms of the amount of financial assistance received, but this does not reflect into a assessment of the progress of the transformation process: only two states in the region (Russia and Ukraine) have intermediate status and the remaining are still classified as early transition countries.

**Keywords:** Eastern Europe, European Bank for Reconstruction and Development, economic transition, transition impact, financial support

## 1. Genesis and Aim of Activity of the European Bank for Reconstruction and Development

The European Bank for Reconstruction and Development (EBRD) is one of the so-called regional banks of development. It was founded in order to support economic transformation of the countries of Central and Eastern Europe by the countries of Western Europe. The idea to create „a bank for Europe”, in imitation of built after the World War 2 the International Bank for Reconstruction and Development (IBRD), was declared by the President of France François Mitterrand during the session of the European Parliament in October 1989. The European Council approved this idea during the summit of the European Economic Community (EEC) in Strasbourg in December the same year. We can read, in its conclusions, *inter alia*, the following statement: „Its [Bank] aim will be [...] to assist the transition towards a more market-orientated economy and to speed up the necessary structural adjustment”.<sup>1</sup> The statute of a new organization was signed in Paris on 29 May 1990 by the Ministers of Finances of 38 countries. The agreement came into effect on 28 March 1990 and pursuant to Article 62<sup>2</sup> the Bank inaugurated its activity on 15 April 1991 and the first financial operation was held on 25 June 1991.

According to the conclusions of the European Council the main aim of EBRD was to support the political system transition of the Central and Eastern European countries. Originally, Article 1 of the Agreement says: „In contributing to economic progress and reconstruction, the purpose of the Bank shall be to foster the transition towards open market-oriented economies and to promote private and entrepreneurial initiative in the Central and Eastern European countries committed to and applying the principles of multiparty democracy, pluralism and market economics”.

The content of this article reflects a characteristic feature of EBRD i.e. a dual character of its activity. Apart from fostering the private initiative and the process of transition from centrally controlled economy towards market economy (economic aim) it is also to contribute to the formation and strengthening of democratic basis of the society – multiparty democracy and pluralism (political aim).

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<sup>1</sup> *Conclusions of the Presidency*, European Council, Strasbourg, 8 and 9 December 1989, item IV.B.2, pp. 11–12, <http://www.consilium.europa.eu/en/european-council/conclusions/pdf-1992-1975/strasbourg-european-council-8-and-9-december-1989/> [reading: 25 April 2017].

<sup>2</sup> The article says „This Agreement shall enter into force when instruments of ratification, acceptance or approval have been deposited by Signatories whose initial subscriptions represent not less than two thirds of the total subscriptions [...] including at least two countries from Central and Eastern Europe [...]”. Polish text in „Law Gazette” 1994, no. 100, item 483 (annex).

This second aim is carried out by the Bank through advisory services during the creation of proper institutions and putting forward „political” conditions i.e. granting financial help to those countries that accept rules of democracy and show activity in carrying out reforms.<sup>3</sup> Pursuant to Article 8, Chapter 3 of the Agreement the Board of Directors may suspend or otherwise modify access to Bank resources in cases where a member might be implementing policies which are inconsistent with those rules.<sup>4</sup> Nevertheless, it should be underlined that despite a political aim concluded in the Agreement, according to Article 13 (I) „the Bank shall apply sound banking principles to all its operations” – thus it is the bank of development and a commercial bank at the same time.

## 2. Members and Countries of Operations

Thirty eight countries were the founder members of the Bank, including all the European countries (except Albania and micro-states such as Andorra, Monaco, and San Marino) and (enumerated in alphabetical order) Australia, Canada, Egypt, Israel, Japan, Mexico, Morocco, New Zealand and the USA. There were also two organizations among the founder members: the European Economic Community and the European Investment Bank (EIB). Eight countries, described also as the countries of operation or recipient countries, formed a group of beneficiaries at the moment of signing the agreement establishing the EBDR. They were: Bulgaria, Czechoslovakia, German Democratic Republic, Hungary, Poland, Romania, Yugoslavia, and the Union of Soviet Socialist Republics (USSR). However, the status of the last state as the country of operation was, during the founding conference, questioned by the USA and Japan. Finally, they agreed under the condition that the USSR would make a written

<sup>3</sup> Since 2013 the political evaluation of beneficiaries and potential beneficiaries conducted by the Bank – with the use of many international sources of information - comprises 14 factors grouped in four groups: 1) free elections and a representative government (free, fair, and competitive elections; separation of powers, effective checks and balances; effective power to govern by elected officials); 2) civil society, media, and participation (scale and independence of civil society, independent, pluralistic media without censorship; multiple channels of civic and political participation, freedom to form political parties and existence of organized opposition); 3) the rules of law and access to the justice (supremacy of the law, independence of the judiciary, government and citizens equally subject to the law, effective policy and institutions to prevent corruption); 4) civil and political rights (freedom of speech and information, religion, conscience, movement, association, assembly and private property; political inclusiveness for women, ethnic and other minorities; freedom from harassment, intimidation, and torture. *Political Aspects of the Mandate of the European Bank for Reconstruction and Development*, <http://www.ebrd.com/news/publications/institutional-documents/political-aspects-of-the-mandate-of-the-ebrd.html> [reading: 15 May 2017].

<sup>4</sup> As CEE Bankwatch Network notices, the Bank is inconsistent in its activities and supports investments in countries regarded as undemocratic such as Azerbaijan, Tajikistan, or Egypt. CEE Bankwatch Network, *Lost in Transition. 25 years of the European Bank for Reconstruction and Development*, April 2016, p. 10, <https://bankwatch.org/sites/default/files/lost-in-transition.pdf> [reading: 6 April 2017].

commitment to limit its loans (during first three years) to the amount of paid-in capital.<sup>5</sup> As a result of geopolitical changes in Central and Eastern Europe and a widening of Bank's operations on non-European areas, the Bank consists of 65 members today<sup>6</sup> (including the European Union and EIB) and supports the development and transformation of 36 of them.<sup>7</sup> It is worth noticing that part of founding countries has changed their status in the Bank and has become the beneficiaries of its support, i.e. Cyprus, Egypt, Greece, Morocco, and Turkey.<sup>8</sup>

The value of Eastern Europe's shares has increased since the beginning of Bank's activity from 600 million ECU (in case of the USSR) to a little over 1.6 billion Euros in case of 7 post-soviet countries of this region<sup>9</sup> (see Table 1).<sup>10</sup> It constitutes about 40% of shares of all beneficiaries but only just under 5.5% of the shares of all members of the Bank. As much as 70% of shares of the East European countries and 30% of shares of all countries of operation belong to the Russian Federation.

**Table 1: Amount of Subscribed Capital of Countries, Beneficiaries from Eastern Europe**

Country	1991–1996 [in mln Ecu]	1996–2010 [in mln Ecu/Euro]	Since 2011* [in mln Euro]
USSR	600	-	-
Armenia	-	10	14.99
Azerbaijan	-	20	30.01

<sup>5</sup> E. Ambukita, K. Munyama, *Międzynarodowe instytucje finansowe w Polsce w okresie transformacji*, Poznań 2002, p. 89.

<sup>6</sup> The new members of the Bank (apart from the states that arose from the dissolution of previous USSR, Yugoslavia, and Czechoslovakia) are: Albania (accessed in December 1992), Jordan (2011), Mongolia (2000), and Tunisia (2011). China is the youngest member of the Bank without beneficiary status – accessed to the EBRD in January 2016.

<sup>7</sup> The first amendment of the content of the Article 1 of the Agreement, which widened the list of countries of operation was done in 2004 (Act no 90 of the Board of Governors of 30 January 2004 – *Amendment of the Agreement in Order to Admit Mongolia as a Country of Operations*; the Act came into force on 15 October 2006), the next one was done in 2011 (*Amendment of the Agreement Establishing EBRD in Order to Admit Southern and Eastern Mediterranean Countries as Countries of Operations*; it came into force on 12 September 2013). As a result Article 1 is as follows: „[...] Subject to the same conditions, the purpose of the Bank may also be carried out in Mongolia and in member countries of the Southern and Eastern Mediterranean [...] Accordingly, any reference in this Agreement and its annexes to „Central and Eastern European countries”, „countries from Central and Eastern Europe”, „recipient country (or countries)” or „recipient member country (or countries)” shall refer to Mongolia and each of such countries of the Southern and Eastern Mediterranean”. The full text of the Agreement see: *Agreement Establishing the European Bank for Reconstruction and Development*, in: *Basic documents of the European Bank for Reconstruction and Development*, pp. 3–36, <http://www.ebrd.com/news/publications/institutional-documents/basic-documents-of-the-ebrd.html> [reading: 13 July 2017].

<sup>8</sup> Cyprus and Greece have had temporary beneficiary status: Cyprus since 2014, Greece since 2015.

<sup>9</sup> They joined the Bank in 1992: Russia was the first one – 9 April, Armenia the last – 7 December.

<sup>10</sup> It is the result of a twofold increase of the share capital of the Bank – from 10 to 20 billion ECU in 1996 and to 30 billion Euro in 2010.

Belarus	-	40	60.02
Georgia	-	20	30.01
Moldova	-	20	30.01
Russia	-	800	1200.58
Ukraine	-	160	240.11
Total Eastern Europe	600	1070	1605.73
Other beneficiaries	745	1343.25	2427.59
Beneficiaries: Total	1345	2413.25	4033.32
Total: All members of EBRD	10 000	19 850	29 703

\* as on July 2017. Members of EBRD acquired their increased shares gradually.

Source: Annex A to the Agreement Establishing the EBRD; European Bank of Reconstruction and Development, *Annual Report 2000*, p. 87, <http://www.ebrd.com/downloads/research/annual/ar00.pdf> and *EBRD Shareholders*, <http://www.ebrd.com/pages/about/who/shareholders.shtml> [reading: 13 July 2017]

Apart from disposing its share capital, the Bank organizes additional financial means within special funds (Art. 18 of the Agreement). At the end of 2016 there were active 17 investment and technical assistance funds which disposed a total sum of 1.5 billion Euros.<sup>11</sup> *Russia Small Business Special Funds*<sup>12</sup> and *Nuclear Safety Account (NSA)*<sup>13</sup> are the oldest special funds. *RDI Special Fund*<sup>14</sup> (Azerbaijan and Georgia) and *EBRD SME Special Fund*<sup>15</sup> (among others: Armenia, Azerbaijan, Georgia, Moldova, Ukraine) concentrate on operations in Eastern European countries.

At the moment of the Bank formation, beneficiaries chose four out of 23 Directors. The rest of the Directors were chosen according to the following key:

<sup>11</sup> See: *EBRD Financial Report 2016*, p. 75, <http://www.ebrd.com/news/publications/financial-report/financial-report-2016.html> [reading: 28 May 2017].

<sup>12</sup> They are two special funds: *Russia Small Business Investment Special Fund* and *Russia Small Business Technical Co-operation Special Fund* which were formed on the decision of the Board of Directors EBRD of 18 October 1993. Their aim is to support the development of small private businesses in Russia.

<sup>13</sup> It is one of seven outer funds of the Bank to provide nuclear safety in Europe. EBRD administers and governs the fund in accordance with the agreement between the Bank and G7 of 1993. NSA disposed the sum of 385 million Euros from payments of Belgium, Denmark, Finland, France, Holland, Japan, Canada, Germany, Norway, Russia, the United States, Sweden, Switzerland, Ukraine, Great Britain, Italy, and the EU. The fund financed projects in Bulgaria, Lithuania, Russia, and Ukraine. See: <http://www.ebrd.com/what-we-do/sectors/nuclear-safety/chernobyl-nuclear-safety-account.html> [reading: 17 May 2017].

<sup>14</sup> *Regional Development Initiative (RDI) Special Fund* – set up in 2006 as a result of an agreement with British Petroleum to support social-economic sustainable development of countries in which BP is engaged in exploitation of natural resources and building pipelines.

<sup>15</sup> The Fund was set up in 2000 to support small (including micro) and medium businesses.

11 – countries members of EEC and EIB, 4 – other European countries, and 4 – non-European countries.<sup>16</sup> At the moment of the EU enlargement in 2004 (Central and Eastern countries) the separateness of the two, above mentioned categories of the Bank members, stopped existing: members of the EU and beneficiaries. Thus, the amendments in the procedure of election were made and the countries beneficiaries did not form a separate group but chose Directors within groups of mixed character. East European countries belong to five different groups: Armenia constitutes a group with China, Macedonia, Mongolia and Netherlands; Azerbaijan with Kyrgyz Republic, Romania, and Turkey; Belarus and Russia with Tajikistan; Georgia with Croatia, Czech Republic, Hungary, and Slovakia; Moldova and Ukraine with Montenegro, Lichtenstein, Serbia, Switzerland, Turkmenistan, and Uzbekistan.<sup>17</sup>

The countries of operation are now divided into 5 sub-regions and 4 particular beneficiaries i.e. Cyprus, Greece, Russia, and Turkey. The area, we are interested in, described as Eastern Europe comprises separately treated Russia and a sub-region of Eastern Europe and the Caucasus that is composed of 6 countries: Armenia, Azerbaijan, Belarus, Georgia, Moldova, and Ukraine. The engagement of the Bank gradually underwent some reallocations. In countries of Central Europe such as the Czech Republic<sup>18</sup>, Hungary or Poland with advanced economic changes financing from public institutions (such as EBRD) gave way to a private capital. Bank's operations were relocated to the East – to Eastern Europe and Central Asia; later also towards South (North Africa and Western Asia). This direction, regarded from political point of view as a correct one, arose anxieties concerning the ability as to combine greater engagement in those regions with important criteria of effectiveness and financial security. Some shareholders, mainly the members of the European Union, thought that it was not in conformity with the fundamental assumptions of EBRD and that it was supposed to be „a healthy” bank and not an institution which provided aid.<sup>19</sup>

The total aid given by the Bank in 1991–2016 to all its beneficiaries amounted to 117 billion Euros (see Table 2). The greatest beneficiary of the Bank is

<sup>16</sup> The procedure is described in Annex B to the Agreement.

<sup>17</sup> *Directors of the EBRD*, <http://www.ebrd.com/directors-of-the-ebrd.html> [reading: 2 July 2017].

<sup>18</sup> The Czech Republic is the first (and up till now the only one) beneficiary which is not a country of operation – in 2007 on the motion of Czech government, the Board of Directors of the bank regarded the Czech Republic as the country with stable market economy. The last approved direct project was in 2006, and a regional one with Czech republic participation – in 2007. The Czech Republic is regarded as an important donor in a financial field and direct foreign investments. See: *Czech Republic: EBRD shareholder profile*, <http://www.ebrd.com/who-we-are/structure-and-management/shareholders/czech-republic.html> [reading: 13 July 2017].

<sup>19</sup> See for example the utterance of the president de Larosiere in Sofia for „Nowe Życie Gospodarcze”. B. Żukowska, *Odbudować i nie stracić*, „Nowe Życie Gospodarcze” 1996, no. 17, p. 41.

Russia. The Bank gave it 26.2 billion Euro aid. However, the sums received by Russia during recent years are significantly smaller: they fell from 1816 million Euros in 2013, € 608 million in 2014, € 106 million in 2015 to only € 0.5 million in 2016 (see graph 1) which is a clear reaction of the Bank's authorities to annexation of Crimea and participation of Russia in the conflict in Ukraine.<sup>20</sup> The Eastern Europe and the Caucasus took the second place; the financial support of the Bank during its functioning exceeded € 22 billion. Totally, these two groups of beneficiaries received over 40% of the Bank's support (exactly 41.5%) out of which 22% received Russia.

**Table 2: Project Financing according to Sub-regions**

Subregion	Value of Financial support [mln Euros]	
	1991–2016	2016
1. Russia	26 220	0.5
2. Eastern Europe and the Caucasus	22 244	1166
3. Central Europe and Baltic States	21 268	1438
4. South-Eastern Europe	20 931	1576
5. Central Asia	11 371	1369
6. Turkey	9038	1925
7. Southern and Eastern Mediterranean	4764	1367
8. Greece	810	485
9. Cyprus	218	64
Total	116 864	9390

Source: European Bank for Reconstruction and Development, Annual Report 2016, pp. 2–3, <http://www.ebrd.com/news/publications/annual-report/annual-report-2016.html> [reading: 10 July 2017].

Subsequent places are taken by Central Europe and the Baltic states (Croatia, Estonia, Hungary, Lithuania, Latvia, Poland, Slovakia, and Slovenia) and Southern-Eastern Europe (Albania, Bosnia and Herzegovina, Bulgaria, Kosovo, Macedonia, Montenegro, Romania, and Serbia). The fifth place (taking the value of aid since the beginning of the Bank's activity) is occupied by the Central Asia sub-region (Kazakhstan, Kyrgyzstan, Mongolia, Tajikistan, Turkmeni-

<sup>20</sup> EBRD handles only the existing projects and clients in Russia. According to the decisions of the Board of Directors of July 2014, the Bank does not undertake any new operations in this country. *Russia overview*, <http://www.ebrd.com/where-we-are/russia/overview.html> [reading: 10 May 2017].

stan, and Uzbekistan). Subsequent places are occupied by beneficiaries with much shorter internship: Turkey (position number 6), Southern and Eastern Mediterranean (the so-called SEMED region) i.e. Egypt, Jordan, Morocco, and Tunisia and two temporary beneficiaries – i.e. Cyprus and Greece.

If we treat criterion of financial support provided by the Bank during the last year (2016) as a major one, the order will be diametrically different: Turkey will occupy the first place (€ 1.9 billion), the second place will go to South-Eastern Europe (almost € 1.6 billion), and the third to Central Europe and the Baltic States (a little over € 1.4 billion). Eastern Europe and the Caucasus is placed in the 6 position outdistancing only temporary beneficiaries and Russia (see Table 2).

### 3. EBRD Aid Operations in Eastern Europe

Since the beginning of the Bank's activity, the Board of Directors approved in seven countries of Eastern Europe (group Eastern Europe plus Russia) almost 1900 projects on the total amount of about € 48.4 billion (see Table 3). The aid for Russia still constitutes over 50% of the value of the Bank's engagement in this region (54%). Apart from Russia the first three places are occupied by Ukraine (377 projects, € 12,358 million) and Georgia (201 projects, € 2,973 million) as far as the number of implemented projects and the value of their financing are concerned.

Table 3: Financing of Projects in Eastern Europe according to Countries-beneficiaries

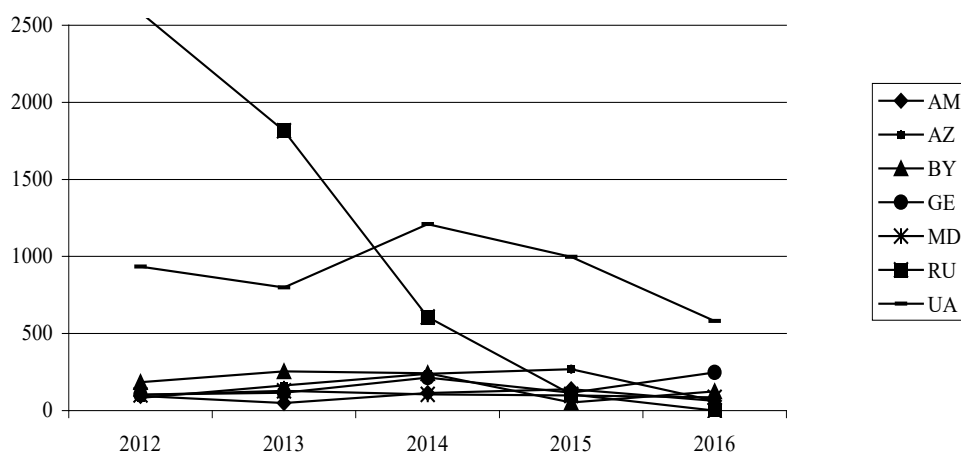
Beneficiary	1991–2016 number of projects / value of financing [mln Euro]	2016 Number of projects/ value of financing [mln Euro]
Armenia	157 / 1133	12 / 63
Azerbaijan	161 / 2660	9 / 63
Belarus	83 / 1929	15 / 124
Georgia	201 / 2973	17 / 248
Moldova	113 / 1191	10 / 86
Russia	788 / 26 220	1 / 0,5
Ukraine	377 / 12 358	27 / 581
Total	1880 / 48 361	81 / 1165

Source: *EBRD Investments. As at 31 December 2016*, <http://www.ebrd.com/work-with-us/project-finance.html> [reading: 12 May 2017]



In 2016 the order of Eastern-European beneficiaries has changed – Ukraine took the first place (27 projects financed with € 581 million), Georgia was the second (17 projects, € 248 million financial support), the third place was occupied by Belarus (15 projects, € 124 million). As Graph 1 shows, the value of aid granted by the Bank during last five years has been rather stable and fluctuated between several dozen million to more than two hundred million Euros. Ukraine received at that time clearly higher support – at the level of more than € 500 million even to one billion two hundred Euros. As it has been stated above only in case of Russia we can notice a clearly downward trend.

**Graph 1. Financing of Projects in 2012–2016 [in Euro]**



Source: data from pages on particular countries of operation: <http://www.ebrd.com/where-we-are.html> [reading: 10 July 2017].

It should be stressed that as many as nine projects from Eastern Europe were in the first ten of the greatest projects implemented from the beginning of Bank's activity until the end of 2016 (see Table 4): four Russian projects, two from Georgia, two from Ukraine, and one from Belarus (the tenth project, and sixth if we take its value into consideration, was implemented in Kazakhstan). Eight projects from Eastern Europe concerned the banking sector and consisted in setting up programs of support of foreign trade<sup>21</sup>, and the ninth concerned transportation. Bank's projects were of private character and were

<sup>21</sup> *Regional trade facilitation programme* (RTFP) was started in 1999. Its aim is to support foreign trade among member countries of the Bank. It has a form of loans for the banks for credits for local exporters and importers

supported by two instruments: loans and guarantees; transportation project, however, was of state character (for Russia railways) and was supported by a loan exclusively.

**Table 4: List of Ten Biggest Projects of EBRD (1991–2016)**

Country	Name of a project	Year of signing	Type of a sector	Sector	Kind of support	EBRD contribution (thousands Euros)
Russia	RTFP: Promsvyazbank	2004	private	banking	loan + guarantee	1 350 501
Ukraine	RTFP: Export Import Bank of Ukraine	2007	private	banking	loan + guarantee	668 203
Ukraine	RTFP: Aval bank	2003	private	banking	loan + guarantee	617 949
Russia	RTFP: Vneshtorgbank	1999	private	banking	loan	607 102
Georgia	RTFP: TBC Bank	1999	private	banking	loan + guarantee	591 875
Kazakhstan	RTFP: Kazkommertsbank	2000	private	banking	loan + guarantee	560 791
Georgia	RTFP: Bank of Georgia	1999	private	banking	loan + guarantee	510 042
Belarus	RTFP: Priorbank	2000	private	banking	loan + guarantee	490 729
Russia	RTFP: Locko Bank	2005	private	banking	loan + guarantee	476 516
Russia	Russian Railways	2009	state	transportation	loan	473 462

Source: EBRD Investments. As at 31 December 2016...

Nevertheless, it should be stressed that forms of Bank's operation (Art. 11 of the Agreement) are more varied than those of majority of traditional international financial institutions. Apart from granting or co-financing loans, the Bank may invest in share capital of enterprises or guarantee a subscription at emission of their securities, grant the enterprises guarantees which enable an access to the international capital market or – as it has been mentioned above – form separate funds for implementation special aims. The Bank also provides a technical aid, mainly preparation of the project, consultancy, training, and sectoral studies.

If we take into consideration the projects in which EBRD is engaged not as a creditor but a shareholder, thus in the first ten projects the ones from Eastern Europe prevail – six from Russia and three of them are active projects (see Table 5). The Bank acquired stakes in enterprises active in Russia in such sectors as: agribusiness, banking, power industry, finances, and transportation; it also

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and guarantees for banks confirming international trade transactions undertaken by the so-called emitting banks in the countries of operations.

has shares in: Moscow Exchange (MOEX, 6.064%), Promsvyazbanku (PSB, 11.75%) and in chain of hypermarkets Lenta (7.37%).

**Table 5: Ten Greatest EBRD Stake Projects (1991–2016)**

Country	Name of the project	Year of signing	Status	Type of sector	Sector	EBRD contribution (in thousands Euros)
Russia	MOEX Equity	2012	active	private	financial institution	201 589
Poland	Polkomtel Privatisation	2011	completed	private	telecommunication and media	188 581
Russia	OGK-5	2008	completed	private	power and energy	175 000
Russia	TGK-9	2007	completed	private	power and energy	139 162
Russia	TransContainer JSC	2007	completed	state	transport	133 035
Hungary	Erste Bank Hungary Equity Investment	2016	active	private	financial institution	125 278
Turkey	Pasabahce Glassware	2014	active	private	manufacturing and services	125 000
Russia	Lenta Hypermarkets III	2011	active	private	agrobusiness	124 978
Russia	Promsvyazbank	2009	active	private	financial institution	119 633
Croatia	Privredna Banka Zagreb (II etap)	2002	completed	private	financial institution	114 337

Source: *EBRD Investments. As at 31 December 2016...*

The Banks aid is, first of all, directed to a private sector (at least 60%). State enterprises that act on the basis of competitiveness and are able to act in market economy conditions are also entitled to such help. In case of Eastern Europe the participation of a private sector in the project portfolio is very varied: from only 20% as in the case of Moldova, 46% – Ukraine, until 84% in case of Russia and 92% in case of Belarus.<sup>22</sup> As a rule, EBRD examines credit application at the amount of at least € 5 million. The average value of projects in a private sector amounts to € 25 million.<sup>23</sup> The credits granted by the Bank are not of preference character – the value of credit interests is set on the basis of reference equivalent rate of deposits and credits on interbank market in London (*London Interbank Offered Rate* – LIBOR), and cover only up to 35% of the cost of the project. Maximum period of credit repayment is 10 years for enterprises and 15 years for projects for infrastructure development. EBRD as a rule does not

<sup>22</sup> Information on particular countries of operation are from official pages of the Bank: <http://www.ebrd.com/where-we-are.html> [reading: 7 June 2017].

<sup>23</sup> *About the EBRD. We invest in changing lives*, August 2014, p. 2, <http://www.ebrd.com/downloads/research/fact-sheets/about.pdf> [reading: 14 May 2017].

grant trade credits.<sup>24</sup> It grants funds both to entities from beneficiary countries and other enterprises that invest in various forms on the territory of the countries of operation. The bank may be a side in *joint venture* companies which are formed with the participation of capital from the countries beneficiaries and other firms. Capital shares are of minority character and do not exceed 20%. In contrast to other international credit institutions, EBRD does not demand government guarantees on credits raised by private enterprises and takes the whole risk of granting credits which is a great facilitation for those enterprises.

The Bank, recently, greatly supports widely understood entrepreneurship in Eastern Europe (see Graph 2). It comprises projects concerning agricultural economy, industry, services, including tourism and telecommunication. In this sector, Belarus and Russia were at the forefront (52% each). Projects from financial sector were the second which is, on the one hand, a continuation of the trend that started in the mid of the 1990s<sup>25</sup>, and on the other hand it was connected with the necessity to oppose negative influence of the world' financial crisis from 2008–2009.<sup>26</sup> Referring to Eastern European countries, the financial sector was in 2016 very important in case of Armenia (52%), Belarus (35%), and Georgia (29%). Infrastructural projects<sup>27</sup> dominated in case of Moldova (69%) and Azerbaijan (43%) but the ventures from the energy sector constituted an important part of support for Azerbaijan (41%), Georgia (38%), and Ukraine (35%).<sup>28</sup> These data point to great differentiation of economic situation and needs in particular countries.

<sup>24</sup> *Europejski Bank Odbudowy i Rozwoju (EBRD)*, [in:] *Współczesna gospodarka światowa*. A. B. Kisiel-Łowczyc (ed.), Gdańsk 1997, pp. 339–341.

<sup>25</sup> In the mid of the 1990s the Bank started to act as a catalyst mobilizing governments, industry, and banks for implementation of concrete projects and, instead financing firms directly, to move centre of gravity to strengthen the banking sector. J. Zieliński, *EBOR przedstawia się na inwestycje w bankach*, „Rynki Zagraniczne” 1996, no. 46, p. 1. The Bank allocated for projects connected with financial institutions as much as 33% of assets. European Bank for Reconstruction and Development, *Annual Report 2016...*, p. 04.

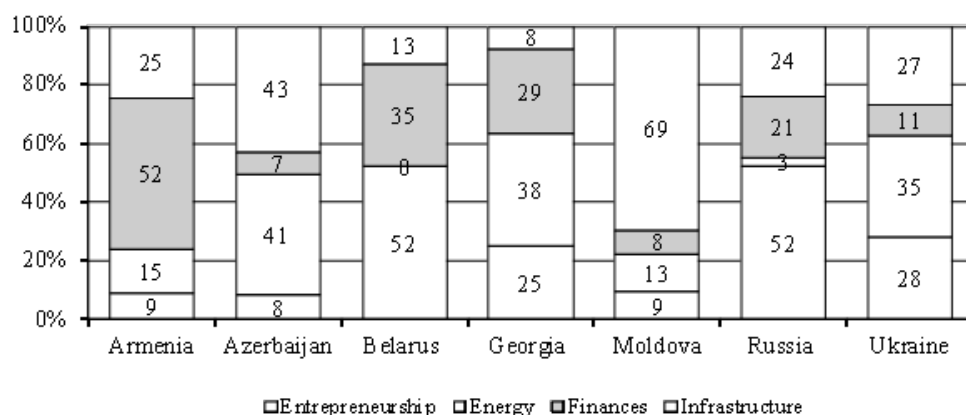
<sup>26</sup> For more information on actions undertaken by the Bank in the context of this crisis see: K. Munyama, *Europejski Bank Odbudowy i Rozwoju w warunkach globalnego kryzysu finansowego*, „Zeszyty Naukowe. Ekonomiczne Problemy Usług” no. 38 (2009), pp. 53–58.

<sup>27</sup> The bank authorities think that development of infrastructure, including municipal one, is a necessary condition for the success of reforms and contributes to the inflow of private capital to economy under reform.

<sup>28</sup> Information from the Bank pages on particular countries of operation: <http://www.ebrd.com/where-we-are.html> [reading: 7 June 2017].

**Graph 2: Sector Structure of Projects in Progress from Eastern Europe (% , 2016)**

Explanation: Entrepreneurship – agribusiness, production, services, real estate, tourism and telecommunication; Energy – natural resources and power industry; Finances – investment in micro, small, and medium enterprises through money brokers; Infrastructure – municipal environmental infrastructure and transport.



Source: Information from the Bank pages on particular countries of operation: <http://www.ebrd.com/where-we-are.html> [reading: 7 June 2017].

## 4. Evaluation of the Process of Transformation

Each project submitted to the Bank is evaluated on the basis of three basic criteria: reliable banking, additionality, and influence on transition impact.<sup>29</sup> This influence is evaluated in three fields: (1) the structure and extent of markets, (2) institutions and policies that support market, and (3) market-based behavior patterns, skills and innovation. These three areas are further divided into seven sources: greater competition in project sector, expansion of competitive market interactions in other sectors, more wide spread private ownership, institutions, laws and policies that promote functioning and efficiency of the market, transfer and dispersion of skills, demonstration of new replicable behavior and activities, setting standards for corporate governance and business conduct. Transition impact is measured on a scale of: from negative through

<sup>29</sup> Transition impact is defined as „the likely effects of a project on a client, sector or economy that contribute to their transformation from central planning to well-functioning, market-based structures”, *Annual Evaluation Review 2016*, p. iv, <http://www.ebrd.com/what-we-do/annual-evaluation-review.html> [reading: 10 July 2017].

unsatisfactory, satisfactory (moderately good), good, very good, and excellent; project for implementation must receive at least satisfactory grade.

In respect of projects approved by the Bank in 2016, the projects from Eastern Europe and the Caucasus<sup>30</sup> received the following grades: 54% – good (average for all projects 67%), 44% – very good (29%), and 2% – unsatisfactory (3%). None of the projects from the region was graded as excellent whereas the indicator for all projects was 1%. Only projects from Central Asia received higher project indicator (49%) and 4% of projects from sub-region SEMED was evaluated as excellent.<sup>31</sup>

Transition impact grades can also be assessed *ex-post*. The evaluation is conducted not earlier than 2 years after the project had been approved. This is the so-called transition impact performance.<sup>32</sup> The evaluation of all projects in progress at the end of 2016 is as follows: 75% of them are „on track”: i.e. the probability to achieve expected transition impact is great, 20% received a note „partially on track” and in reference to 5% of the projects it was considered that they would not achieve the assumed goal of influence. Unfortunately, Eastern Europe and the Caucasus achieved the worst result among all groups of beneficiaries: 68%, 25%, and 7%, respectively. Russia ranked second from the end (72%, 22%, 6%). Projects from Southern-Eastern Europe and Central Asia also received grades below average<sup>33</sup>. Thus, it can be stated that transformation effectiveness of the Bank support in case of the countries from Eastern Europe is not the highest – only 2 out of 3 financed projects fully accomplish the assumed influence on the processes of economic-political changes.

Applying the criterion of the level of progress of transition processes, the beneficiaries of the Bank are divided into advanced economies, medium advanced ones, and poorly advanced economies in the transition process (the so-called ETCs – early transition countries). There are no advanced, in the process of transition, countries among the analyzed countries of Eastern Europe; only two (Russia and Ukraine) have the status of medium advanced ones, the rest (Armenia, Azerbaijan, Belarus, and Moldova) are included in poorly advanced countries.<sup>34</sup>

<sup>30</sup> Projects from Russia were not evaluated because only one project was approved in 2016.

<sup>31</sup> European Bank for Reconstruction and Development, *Annual Report 2016...*, p. 05.

<sup>32</sup> It reflects the probability of expected, at the moment of approval of the project, transition impact. There are three grades: on track, partially on track, and likely to fail. Ibid.

<sup>33</sup> Ibid.

<sup>34</sup> In Bank's member group such status has 5 Asia economies: Kirgizstan, Mongolia, Tajikistan, Turkmenistan, and Uzbekistan. For more see: *The Early Transition Countries Initiative*, <http://www.ebrd.com/what-we-do/sectors-and-topics/early-transition-countries-initiative.html> [reading: 24 July 2017].

The classification is done, inter alia, on the basis of analysis of the so-called transformation indicators. The evaluation is done in nine fields: 1. large-scale privatization, 2. small scale privatization, 3. governance and enterprise restructuring, 4. price liberalization, 5. trade and foreign exchange system, 6. competition policy, 7. banking reform and interest rate liberalization, 8. securities markets and non-bank financial institutions, 9. infrastructure reform (electric power, railways, roads, telecommunications, water and waste water). These indicators correspond to main assumptions of the programme of neo-liberal policy, described as Washington consensus.<sup>35</sup> Particular indicators are marked in a growing scale from 1 to 4+, where 1 means little or lack of progress in reforming of centrally planned economy, 4+ means standards of advanced industrialized market economy.<sup>36</sup>

As Table 6 shows in the period since 1999 majority of the indicators of transition of Eastern European economy have improved. However, the level of this improvement is uneven both as far as fields and particular countries are concerned. The worst results of transition were received in the field of competition policy where three countries recorded stagnation (Belarus, Georgia, and Ukraine) and one country even regression (Azerbaijan). The indicator of price liberalization in three countries did not change its value (Azerbaijan, Georgia, and Ukraine) and in one (Armenia) was lower. Unfavorable change was observed in large-scale privatization (Russia). The growth of the indicator in all Eastern European economies was only noticed in trade and foreign exchange system.

**Table 6: Change of Transition Indicators of Eastern European Countries in 1999–2014**

Country Indicator	Armenia 1999 / 2014	Azerbaijan 1999 / 2014	Belarus 1999 / 2014	Georgia 1999 / 2014	Moldova 1999 / 2014	Russia 1999 / 2014	Ukraine 1999 / 2014
large-scale privatization	3.0 / 3.7	1.7 / 2.0	1.0 / 1.7	3.3 / 4.0	3.0 / 3.0	3.3 / 3.0	2.3 / 3.0
small-scale privatization	3.3 / 4.0	3.3 / 3.7	2.0 / 2.3	4.0 / 4.0	3.3 / 4.0	4.0 / 4.0	3.3 / 4.0
governance and enterprise restructuring	2.0 / 2.3	1.7 / 2.0	1.0 / 1.7	2.0 / 2.3	2.0 / 2.0	1.7 / 2.3	2.0 / 2.3

<sup>35</sup> See: Z. J. Stańczyk, *Konsensus waszyngtoński a reformy w krajach postkomunistycznych*, „Zeszyty Naukowe” Polskiego Towarzystwa Ekonomicznego, 2004, no. 2, pp. 59–72; B. Jóźwik, *Transformacja i rozwój gospodarczy w państwach Europy Środkowej i Wschodniej*, „Rocznik Instytutu Europy Środkowo-Wschodniej” 2016, no. 5: *Transformacja, integracja i kryzysy w Europie Środkowo-Wschodniej*, pp. 52–66.

<sup>36</sup> *Transition indicators methodology*, <http://www.ebrd.com/cs/Satellite?c=Content&cid=1395237866249&d=&+pagename=EBRD%2FContent%2FContentLayout> [reading: 15 July 2017]. At the beginning there were six indicators in three groups: (1) entrepreneurship – encompassing privatization, and restructuring of small and large enterprises, (2) market and trade – liberalization of prices, competitiveness, trade and foreign exchange system, (3) financial institutions – banking reform. Particular indicators were measured in scale from 1 to 4.

price liberalization	4.3 / 4.0	4.0 / 4.0	2.3 / 3.0	4.3 / 4.3	3.7 / 4.0	3.3 / 4.0	4.0 / 4.0
trade and foreign exchange system	4.0 / 4.3	3.3 / 4.0	1.0 / 2.3	4.0 / 4.3	4.0 / 4.3	2.3 / 3.7	3.0 / 4.0
competition policy	1.0 / 2.3	2.0 / 1.7	2.0 / 2.0	2.0 / 2.0	2.0 / 2.3	2.3 / 2.7	2.3 / 2.3
Average	2.93 / 3.43	2.67 / 2.90	1.55 / 2.17	3.27 / 3.48	3.0 / 3.27	2.82 / 3.28	2.82 / 3.27

Source: Author's own studies on the basis of: Transition indicators by country, <http://www.ebrd.com/what-we-do/economic-research-and-data/data/forecasts-macro-data-transition-indicators.html> [reading: 15 July 2017].

The greatest progress was noted in Belarus (an average grade was raised by 0.62 point) but it should be added that its baseline evaluation was very low and although Belarus had the highest average indicator growth, it occupied the last place in the ranking of transition progress process measured by average of those six indicators (see Table 7). On the other hand, the smallest growth of an average grade was observed in case of Georgia (0.21 point) but it still kept the first place in this ranking.

Table 7: Ranking of Transition Progress Process of Easter European Countries

Country	1999	Country	2014	Country	Change 1999–2014
1. Georgia	3.27	1. Georgia	3.48	1. Belarus	+0.62
2. Moldova	3.00	2. Armenia	3.43	2. Armenia	+0.50
3. Armenia	2.93	3. Russia	3.28	3. Russia	+0.46
4. Russia	2.82	4. Moldova	3.27	4. Ukraine	+0.45
4. Ukraine	2.82	4. Ukraine	3.27	5. Moldova	+0.27
6. Azerbaijan	2.67	6. Azerbaijan	2.90	6. Azerbaijan	+0.23
7. Belarus	1.55	7. Belarus	2.17	7. Georgia	+0.21

Source: Author's own studies on the basis of: *Transition indicators by country...*

Thus, if we compare these grades with the ranking resulting from the value of granted aid (Table 3) and as the literature on the subject says that foreign aid belongs to most important factors of economic growth<sup>37</sup>, and EBRD investments have great influence of proper direction and pace of the development of countries of operation<sup>38</sup> one can say that this relationship is not clearly seen in all cases. The data show that the projects implemented with the help of the

<sup>37</sup> B. Jóźwik, *Transformacja i rozwój...*, pp. 53–54.

<sup>38</sup> W. Włodarczyk-Guzek, *Europejski Bank Odbudowy i Rozwoju – struktura i zasady działania*, „Acta Universitatis Lodzianensis. Folia Oeconomica”, no. 180: *Wybrane zagadnienia z zakresu międzynarodowych stosunków gospodarczych*, 2004, p. 312.



Bank have not reflected the level of transition, especially in Georgia and Azerbaijan; Armenia and Belarus, on the other hand, received higher level of transformation than it should result from the value of aid they had received from EBRD. Thus it is clear that the aid of the European Bank for Reconstruction and Development is only one of, and not the most important, factors that influence the progress of economic transformation of countries of Eastern Europe.

The course of the process of transition is analysed by EBRD in 17 economic sectors and 5 categories: entrepreneurship, conventional energy, balanced energy sector, infrastructure, and finances. The last assessment (Report 2016/2017<sup>39</sup>) acknowledges the qualification of countries from Eastern Europe to the group of poorly advanced countries in the process of transition – grades 2 and 3 dominate (with possibly plus or minus; see Table 8). In none of these countries not even one of the assessed elements received the highest note (4+); the highest grade was 4- which received Ukraine twice (in infrastructure and capital market categories). The worst situation is in Belarus which is rated at 2+ (maximum) but 1's also appeared (this note was granted to both elements of conventional energy, railway infrastructure and private equity by EBRD) and it basically means keeping centrally planned economy in these sectors.

## 5. Social Assessment of Transition Aims

In conclusion, it is worth presenting the results of the third round of studies *Life in Transition Survey* (LiTS III) conducted by the Bank and concerning, inter alia, relation of the public opinion in countries beneficiaries to two aims of Bank operations: market economy and democracy. For the use of this article, the author has chosen two countries from Eastern Europe regarded by EBRD as medium advanced economies in the process of transition. (Russia and Ukraine) and two countries which took the last place in the ranking of the progress of transition process according to data of 2014 (Azerbaijan and Belarus); those who are interested in wider overview – see the full report.<sup>40</sup>

<sup>39</sup> *Transition Report* it is an annual report on market changes in countries of operation. It presents current analysis and evaluations of the progress of structural reforms and macroeconomic development of particular countries and region as a whole.

<sup>40</sup> The studies were conducted from the end of 2015 to the beginning of 2016 in 34 countries. In this group 29 countries were in a transition period, the Czech Republic, two western comparative countries (Germany and Italy), and Cyprus and Greece. Respondents could point to democracy (and market economy), authoritarianism (centrally planned economy), or say that it did not matter which political system existed in their country. The same studies were conducted in 2010 thus one can compare and evaluate the change in support for those two values. See: *Annex: The survey and the sampling methodology*, [in:] EBRD, *Life in Transition. A decade of measuring transition*, <http://litsonline-ebd.com/methodology-annex/> [reading: 7 May 2017].

Table 8: Sector Transition Indicators (2016)

	Entrepreneurship				Conventional energy		Balanced energy			Infrastructure				Finances			
	Agribusiness	Industry	Real estate	ICT	Natural resources	Electric energy	Renewable energy	Efficiency of materials	Efficiency of water	Water and waste water	City transport	Roads	Railways	Banking	Insurance and other financial services	Private equity	Capital market
Armenia	3-	3	3-	3	2+	3+	3-	2-	2	3-	2+	3-	2+	2+	2	1	2
Azerbaijan	2+	2	2	2-	2+	2+	2+	2	2-	2-	2	2+	2+	2	2	1	2-
Belarus	2+	2	2	2	1	1	2	2+	2	2-	2	2+	1	2	2	1	2-
Georgia	3-	3-	3-	3-	2	3+	3-	2-	2-	2	2+	2+	3	3-	2	1	2-
Moldova	3-	2-	2+	3	3	3	2+	2	2	2	3	3	2	2	2	2-	2
Russia	3-	2+	3-	3-	2-	3	2+	2	2	2+	3-	3-	2+	3-	2+	2	2
Ukraine	3-	3-	3-	3+	2	3+	2	3-	3-	3	3	3	4-	3-	3-	2+	4-

EBRD, *Transition Report 2016-17*, Table S1, p. 95, <http://www.ebrd.com/transition-report> [reading: 12 April 2017].

In all these four countries of Eastern Europe the support for democracy is lower than for a group of countries which undergo transition, however, the support for market economy is at an average level, only in Azerbaijan is lower. Only in case of Ukraine the support for both minimal values has grown in the period between the studies.<sup>41</sup>

In Azerbaijan the support for the values of the Western world has drastically fallen during the time between the last two research: from 60% in case of democracy and 56% in case of market economy in 2010 to 28% and 16% respectively in 2016. They are the two, lowest values in countries undergoing transition. What is important, in 2016 as many as 61% of the respondents expressed their indifference to the type of political system that should function in their country (it is the highest value in Eastern Europe) whereas 11% of respondents chose, in some circumstances, an authoritarian system. Also with reference to economic system as many as 66% of respondents do not have clear preferences for either of them (it is again the highest value in the region), while 18% of subjects would support, in some circumstances, planned economy. In other words, Azerbaijan citizens do not care whether they live in democracy and market economy or in the authoritarian system and socialist economy.<sup>42</sup>

Also in Belarus, the support for democracy and market economy has weakened decisively since the last research from 59% and 53% in 2010 to 36% and 35% in 2016. Society is divided into three almost equal parts: 35% of the respondents express indifference to the kind of economic and political system that should be in operation in this country, whereas almost one third of respondents prefer authoritarian system and planned economy.<sup>43</sup>

In Russia the support for democracy and market economy has also weakened since the previous studies but in a little smaller degree: from 38% and 28% in 2010 to 36% and 25%, respectively in 2016. About 30% of interviewees do not express a clear preference for a specific political and economy system, while 36% and 46% of Russians think that in some circumstances they would prefer the authoritarian system or planned economy – these are the two highest values in countries of transition. When they have been hypothetically asked if they would rather live in a country with full civil freedom but with low rate of

<sup>41</sup> Moldova is another Eastern European country in which the minimal support for market economy has grown (but not for democracy). Compare – in Poland the support in both items grew by 11 per cent points from 46% (democracy) and 30% (market economy) in 2010 to 57% and 41% respectively in 2016.

<sup>42</sup> Azerbaijan. *Attitudes towards democracy and the market economy*, [in:] EBRD, *Life in Transition...*, <http://litsonline-ebrd.com/countries/azerbaijan/> [reading: 7 May 2017].

<sup>43</sup> Belarus. *Attitudes towards democracy and the market economy*, [in:] EBRD, *Life in Transition...*, <http://litsonline-ebrd.com/countries/belarus/> [reading: 7 May 2017].

economic growth or in such with smaller political freedoms but strong economic growth, 83% of the respondents have chosen the second option.<sup>44</sup>

The highest support for free market and democracy in the group of Eastern European countries has been observed in Ukraine. Among Ukrainian respondents 42% have stated that democracy is better than any other form of political system and 37% have supported market economy. These numbers are in accordance with averages for the whole group of countries in a transition period. Majority of respondents think that for such people as they it does not matter which system political (21%) or economic (27%) is in a country and fewer than one third of them would prefer, in some circumstance, authoritarian regime or planned economy.<sup>45</sup>

These data point to great domestic differentiation of Eastern European countries, but also to a weak „implantation” of political and economic western values in social awareness of Eastern Europe. Politically conditioned support from the European Bank for Reconstruction and Development has not contributed in any way – in this group of countries – to strengthen these values.

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<sup>44</sup> *Russia. Attitudes towards democracy and the market economy*, [in:] EBRD, *Life in Transition...*, <http://litson-line-ebrd.com/countries/russia/> [reading: 7 May 2017].

<sup>45</sup> *Ukraine. Attitudes towards democracy and the market economy*, [in:] EBRD, *Life in Transition...*, <http://litson-line-ebrd.com/countries/ukraine/> [reading: 7 May 2017].

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