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CEE Bankwatch Network's mission is to prevent environmentally and socially harmful impacts of international development finance, and to promote alternative solutions and public participation.

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CEE Bankwatch Network comments on the EBRD draft financial sector strategy

CEE Bankwatch welcomes the opportunity to comment on the EBRD's new draft financial sector strategy, which is clearly of even greater importance during this difficult financial period. While not claiming detailed knowledge of the financial sector, we would like to offer some comments related to the environmental and social impacts of the EBRD's financial sector operations.

1 Foreign currency lending

The draft strategy outlines the EBRD's intentions to develop local currency markets in order to minimize the problems caused by loans taken by consumers and SMEs in foreign currency, and we welcome the steps taken by the EBRD so far to address this problem. However **it is not clear whether the EBRD is planning to phase out support for foreign currency lending for consumers and non-exporting SMEs in countries where local currency lending is already somewhat developed, and we would ask the bank to clarify its position on this.**

2 Disclosure of beneficiaries and impacts of financial intermediary operations

As we have previously stated in communication with the bank, considering the public resources dedicated to the EBRD's financial sector operations, it is unacceptable that the general public has no insight into who the final beneficiaries are of these operations or what development impacts have been attained. We are aware of and acknowledge the systemic impact of the bank's crisis interventions, however this cannot form the regular pattern of the bank's operations and with the most urgent interventions into the banking sector already carried out, it is time to take a look beyond the banks themselves to see where this financing has ended up and what impact it has had.

We understand that there are issues of resource allocation in exactly how much information to disclose about beneficiaries, however we believe there are all kinds of possibilities available for disclosing more information than is currently the case, for example by disclosing A and B-category sub-projects, or by disclosing sub-projects over a certain value.

In addition – and in the context of the financial sector strategy – it would be possible and desirable to show which sectors and which sizes of business have benefited from sub-projects and what the average size of financing has been. In addition where renewable energy or energy efficiency is concerned it would be useful to know how many sub-projects have been financed, the average project cost, and the CO2 emissions saved for each sub-project.

3 Type of institutions targeted

There are a few mentions of specialised microfinance institutions, however there is little information about the extent to which the EBRD has or intends to support other small-scale alternatives to banks, for example credit unions or building societies and whether the EBRD considers such models feasible in the region. **We would ask the bank to add information on small-scale alternatives to banks in the region and whether it intends to support the development of such models.**

4 Offshore financial centres

During the past year the EBRD has been requested by some key shareholding companies such as France and Germany to tackle the issue of financing which is channelled through offshore financial centres, also known as secrecy jurisdictions or tax havens. We understand from discussions with bank staff that the EBRD is awaiting the results of the OECD's work on this issue before adopting a full policy, however in the interim **we would ask the bank to insert an addition into its financial sector strategy stating the extent to which offshore financial centres are an issue affecting the bank's operations in the financial sector and how it plans to address this during the coming strategy period.**

5 Gender impacts

There is not a word in this strategy regarding the gender-specific impacts of the EBRD's financial

sector operations and how the bank intends to ensure that negative impacts are minimised while the benefits are shared between men and women. **We ask the bank to make additions regarding the gender impact of its financial operations.** If it currently has no information about this then we recommend that it states what it will do to assess the impacts.

6 Affordability of loans

On p.29 the strategy states that *“At the same time, the cost of finance has increased, thus pricing some smaller borrowers out of the market, although it should be noted that reliable access to funding is often of more concern to MSMEs than the cost of funds.”* Naturally it is hard to be concerned about the cost of loans if there are none available at all, however we believe that the cost of loans is nevertheless very important for MSMEs. **We ask the bank to make clear how it ensures that the cost of financing through its financial intermediaries is not too high and how it assesses what constitutes “too high”.**

7 Support for retail lending

p. 29 of the draft strategy states that the EBRD aims to *“Provide continued support for retail lending, including mortgages and consumer finance, provided they are undertaken on a suitably prudent basis, follow best practice standards and reflect an assessment of the prevailing regulatory environment.”* **How does the EBRD define ‘a suitably prudent basis’ and where is the list of best practice standards outlined?**

8 Achieving transition and the role of private equity

The priorities to achieve transition impact in the financial sector have been reoriented in the context of the current economic and financial crises, as the draft Strategy notes and the second Transition Impact Retrospective elaborates. The draft Strategy

acknowledges that an improved regulatory environment is an important lesson learned from these crises that will enable transition impact in the financial sector.

We believe that, in addition to strengthening institutional aspects of the financial sector like corporate governance, regulation and risk management, any successful measure of achieving financial sector transition must necessarily account for the social well being of the public in the bank's region of operations. We are therefore concerned that, in the primacy the EBRD places on the development of the private equity industry in the region to achieve transition impact, there is no mention of the social implications of this sector's activities.

With private equity's focus on the quick resale of target companies to maximize short-term returns, evidence of the negative impacts on employment and the workforce has been documented. A report of the 2008 World Economic Forum¹ notes that job losses tend to be more significant in the leveraged buy-out activities of private equity firms, with workers in target companies experiencing higher tolls of unemployment.

Similarly as the management culture of private equity is well-known for cutting costs in all possible instances to maximize returns and increase the industry's allure for generating huge profits, pressure on wages, benefits and working conditions, refusal to engage in collective bargaining, and outright harassment of workers who organise in trade unions have been some of the results. **We therefore ask the EBRD to elaborate in the draft strategy how its focus on the development of private equity as a contributor to achieving transition impact will ensure that solid industrial relations are maintained and workers' rights are upheld.**

9 Environmental and social impacts of Trade Facilitation transactions

At this year's annual meeting the issue of assessing the environmental and social impacts of Trade Facilitation transactions was raised, and it was stated that the Evaluation Department's report was being awaited, and then the Environment and Sustainability Department would look at ways to ensure that the risks were being properly assessed. **It would therefore be useful if this strategy included information about which sectors have been and will be supported by the bank's trade facilitation transactions, and whether any changes have been or are likely to be made as a result of the Evaluation Department's findings.**

¹ WEF (2008) 'The global economic impact of private equity report 2008, Globalization of alternative investments', Working Papers, Vol. 1. http://www.weforum.org/pdf/cgi/pe/Full_Report.pdf