

22 March 2011

Dear Sir/Madam,

Civil society concerns about EBRD expansion into North Africa

As a result of the recent revolutions in North Africa, on 8th March 2011 the European Commission issued a *Communication on a Partnership for Democracy and Shared Prosperity with the Southern Mediterranean*. Among the most concrete recommendations of the Communication are the following:

*“The EBRD, not currently active in the Southern Mediterranean, could extend operations if the Bank’s statutes were amended. If agreed by all shareholders this could allow an annual EBRD business activity of an initial EUR 1 billion to be reached with the Bank’s existing resources. **The Commission supports the extension of EBRD operations and calls on EU Member States and other shareholder governments to support it urgently.**”¹*

We, the undersigned civil society organisations, are writing to express our concern at this suggestion and to ask the EBRD's shareholders not to approve such an expansion.

First, we believe **it is premature to make commitments for EBRD financing for the Mediterranean region when it is by no means clear what kind of governments will follow the recently overthrown regimes** of Ben Ali and Hosni Mubarak in Tunisia and Egypt. The EC Communication's proposals for promoting democracy are gradual and medium-term, yet the proposal to send in the EBRD and increase the EIB's financing in the region are given much more urgency. It must not be forgotten that banks have very limited tools for promoting democracy, and that sending them in prematurely may be counterproductive. The EBRD has a mandate to work only in countries committed to multiparty democracy and pluralism, and it can in no way be ascertained that new governments in the Mediterranean region will fit this description.

We also have serious concerns about the abilities of the bank to deliver meaningful development outcomes in the region.

Just a few years ago, serious questions were being asked about the future of the EBRD. As a public bank which had begun operations in 1991 to promote transition to market economies, multiparty democracy and pluralism in the countries of the former Eastern Bloc, its greatest measure of success would be if it put itself out of business, with all countries 'graduating' from operations. Yet while several states have come far enough in the transition to join the EU, and the Czech Republic has officially graduated from being an EBRD recipient, after 20 years many of the EBRD's countries of operation are still far from being either market economies or functional multiparty democracies. While the EBRD's shareholders on one hand pressed for the bank to move east and south in order to put additional emphasis on these countries, some also began to ask broader questions about the EBRD's long-term role.

These questions were underlined by the Life in Transition survey published by the EBRD in 2007 – before the economic crisis hit the region - which included the alarming finding from 29,000 respondents across the region that trust in society had plummeted since 1989 and that only 30 per cent of people believe that their household lives better today than in 1989.²

The economic crisis then brought mixed fortunes for the EBRD: on one hand it gave the bank a new lease of life in central and eastern Europe as it churned out loans to prevent the collapse of the banking sector in the region, but on the other the highly

¹ http://ec.europa.eu/commission_2010-2014/president/news/speeches-statements/pdf/20110308_en.pdf, p.8

² EBRD: Life in Transition, May 2007 <http://www.ebrd.com/pages/research/analysis/publications/transition.shtml>

liberalised type of market economics promoted by the bank took a severe knock. The crisis revealed the weaknesses in the under-regulated financial sector, and made clear the vulnerabilities of a market economy without adequately developed regulation by the state. Direct state intervention – quite at odds with the EBRD's preference for all things private – also made a comeback, with the nationalisation of certain banks, bailouts and public financing for infrastructure projects bringing home the message that ultimately many activities and risks can never be fully transferred to the private sector, as there are many areas of economic activity which are too important to be allowed by the state to fail. Thus, many of the underpinnings of the transition concept were brought into question: if there were serious failures in the West, where was the model that the transition would actually aim to lead to?

The EBRD has therefore in the last few years started to re-examine transition, as well as what had happened in the crisis and what the implications are for its work – a process which is still ongoing. At the same time, the bank is in the very early stages of exploring and trying to improve the impact of its activities on poverty reduction and gender, and to document the impacts of its financial intermediary activities, whose impacts on small and medium enterprises are completely opaque to the public. While we welcome these examinations by the bank of how it can improve its operations, we believe that **until the bank has a much clearer and more proven idea of how to promote a transition that does not only deliver a developed private sector, but also socially just and environmentally sustainable societies, it is extremely unwise for the EBRD to move into a completely different region of the world.**

This is particularly the case with countries of North Africa, where the EBRD has no experience, and where two pressing issues are exactly those that the EBRD has only during the last two years begun to try to look at in detail: the impact of its operations on poverty and gender issues. **It can therefore in no way be concluded that the EBRD has sufficient expertise in poverty reduction and gender issues to venture into a new region where these problems are high on the agenda.**

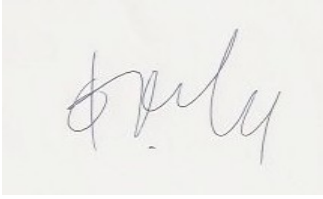
Furthermore the EBRD's success in achieving its mission to support the transition to market economies and democracy varies greatly in the different countries where it operates. When discussing the bank's possible role in North Africa, it would be more relevant to consider EBRD's experience and contribution in still authoritarian states in the Caucasus and Central Asia, rather than with the progress made in Central European countries that joined the European Union. The economic reforms and liberalisation supported by the EBRD in resource rich countries, such as Azerbaijan, has translated in unsustainable dependence on commodities exports, but not in improved democracy, transparency and pluralism. Therefore it is doubtful that the EBRD is the right institution to address the needs for political and economic reforms in North Africa.

Finally, as the EIB's operations are expanding into some of the EBRD's countries of operation, and now the EBRD's mandate is proposed to expand into countries where the EIB is already operating, it is becoming less and less clear what is the exact division of labour between these two banks. Increasingly in the former Eastern Bloc region, they are investing in the same projects, which may lead to a duplication of efforts. This said, we are not suggesting that the EIB is currently a suitable vehicle to deliver the EU's development goals in the region either: we are concerned about the bank's performance in its external mandate, and do not believe that additional financing will help. We therefore believe that a thorough review of the EIB and EBRD's functions and overlaps should be undertaken before any expansion of the EBRD's operations, in order to clarify the future of the institutions and how they will work together without duplication of efforts.

We would be glad to receive your feedback on our concerns and to hear about your position on the expansion of the EBRD's operations being considered.

Thank you for your time,

Yours faithfully,



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