When the European Bank for Reconstruction and Development started operating in 1991, it seemed like the countries of Eastern Europe and the former Soviet Union would transition to market economies with help from the bank. However, it has not gone as planned, writes Fidanka Bacheva-McGrath.

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Even according to the bank’s own metrics, things have not developed as they were expected to. In its 2013 Transition Report the EBRD had to admit that many of its countries of operation were ‘stuck in transition’.

Quite how stuck is difficult to say, because there is no consensus on what economic transition ought to look like, and the mechanisms by which it is supposed to contribute to environmental and social development are far from clear. The bank measures the ‘transition impact’ of its projects with indicators like ‘more widespread private ownership’ or ‘demonstration of new replicable behaviour and activities’ that are devoid of real-life meaning.

Even if a project scores points for increasing private sector participation in road maintenance in Armenia, how does it actually improve people’s lives? Is “supporting the market expansion of the private equity asset class in Turkey” what the average person needs most right now?

As well as applying far-fetched transition justifications, sometimes the bank has defied its own economic advice. In spite of its calls to diversify commodity-dependent economies, the EBRD has demonstrably contributed to such unsustainable models in Azerbaijan and Mongolia.

In Azerbaijan, the EBRD’s financing for large oil and gas developments has spanned more than a decade, including the controversial BTC oil pipeline. More recently the bank has provided two loans worth €414 million for the development of the Shah Deniz II gas field, making natural resources the largest beneficiary sector of EBRD financing in Azerbaijan in the last five years. As a result of its failure to diversify, the country is currently gripped by an economic crisis triggered by low oil and gas prices.

In Mongolia the EBRD has backed a series of coal and metals-mining projects, including arranging its largest ever syndicated loan of $1.2 million for Rio Tinto’s massive Oyu Tolgoi copper and gold mine. Apart from the impacts on local herders, biodiversity and water supply, the Mongolian government’s participation in mining projects has left it with high debts, setting off a vicious circle of needing ever-expanding mining income to pay them off.

Not only are these economically problematic moves, they also contradict the other aspects of the bank’s mandate: to promote sustainable development and to operate only in countries

committed to and applying the principles of multiparty democracy and pluralism.
No fewer than nine of the EBRD’s countries of operation are considered ‘authoritarian’ in the Economist Intelligence Unit’s Democracy Index 2015. The bank has only formally restricted operations in two of them – Turkmenistan and Belarus, though a de facto moratorium on new operations in Uzbekistan has been in place for several years. A 2014 request from its shareholders also halted finance for new operations in Russia due to its activities in Ukraine.
This leaves Azerbaijan – whose human rights situation has seen a stark deterioration in recent years, with at least 80 journalists and activists currently in jail – Egypt, Jordan, Kazakhstan and Tajikistan as full countries of EBRD operations with authoritarian-rated governments. Egypt and Jordan might not be the first countries to come to mind as part of Eastern Europe and the former Soviet Union, but since the Arab Spring the EBRD has also moved into the southern and eastern Mediterranean region, where only Tunisia has graduated into a “flawed democracy”.
The EBRD’s financial and implicit political support for these countries sends the wrong message to governments. It also casts serious doubt on the bank’s ability to ensure meaningful public consultation and benefits in its investment projects, especially those with serious environmental and social impacts such as energy infrastructure.
The EBRD is also taking an overly flexible approach to the sustainable development element of its mandate. The impact of the bank’s positive investments in energy efficiency and renewable energy and its withdrawal from financing new coal power plants in 2013 has been overshadowed by its continued involvement in notoriously damaging sectors such as mining, oil, and gas – often at odds with the bank’s repeated commitments to contribute to the global effort to tackle climate change. The bank claims to raise standards in such projects, but our experience shows that such confidence is rarely justified.
Take the three hydropower projects financed by the EBRD in Georgia for example. As well as damage to biodiversity and inadequate water levels left downstream, in the case of the Dariali plant near the Russian border, an inadequate assessment of geological risk failed to foresee the May and August 2014 mudflows that killed around ten workers and truck drivers near the construction site. Yet the bank is still considering financing a further Georgian hydropower project, Nenskra, which exhibits many of the same weaknesses as previous ones.
Why is the EBRD repeating the same mistakes over and over again? Mainly because it is allowed to. There have been some positive examples of its shareholders – who include the United States, Japan and the European Union and its member states – taking an active role

in improving standards in the bank. Yet, the loss of Russia as its largest country of operations in 2014 leaves the EBRD with a surplus of funds on its hands, which may exacerbate the conflict between quality and quantity as the bank tries to keep up lending volumes. Ukraine is a particular cause for concern at the moment as €1 billion annually until 2020 has been allocated for possible EBRD financing in the country.
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