

# Effectiveness of the EBRD Strategies in the Eurasian Economic Union Countries



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**Abstract:** *The given research is devoted to studying the experience of the European Bank for Reconstruction and Development (the EBRD) in term of developing a roadmap of its strategic plan in the countries of the Eurasian Economic Space. The aim of the article is to consider the results the EBRD investment activity in the Republics of Armenia, Belarus, Kazakhstan, Kyrgyzstan, Tajikistan and in the Russian Federation, to indentify the specific nature of the bank financing strategies of projects in each particular country. The objectives of the article are to consider the investment projects in the EAEU countries from the content point of view, to compare them in terms of implementation conditions, duration, capital investment and volumes of financing, to analyze the effectiveness of ongoing projects, to identify ineffective activities in order to adjust the EBRD strategic plans. Methodology. The research is carried out within the institutional approach, the theory of collective action and the concept of political opportunities. Results. The EBRD projects are categorized in terms of bank activities, a comparative analysis of projects of the same type in the countries of the Eurasian Economic Space was conducted. Conclusion. Studying the experience of the European Bank for Reconstruction and Development in the field of investment projects that implement the Bank's strategies for the development of "green economy", energy conservation, quality of corporate governance and road infrastructure shows that the scope of activity of traditional banking institutions and their interests are expanding to global institutional projects taking into account the objective circumstances of the modern stage of development of the countries of operations.*

**Index Terms:** *the EBRD, investments, Eurasian space, bank strategies, implementing bank strategies, operational settings, the Eurasian Economic Union, regional and global integration.*

## I. INTRODUCTION

"The EBRD strategies in the countries of operations in terms of bank activities including investments imply both the effective use of their shareholders' funds and strengthening

the Bank's support for the reforms necessary for systemic long-term transformations in emerging market countries and enhancing the transition process" [1]. With the approval of its shareholders in 2015 the Bank put into effect the Strategic and Capital Framework 2016-2020. This roadmap includes three main areas: improving the economic sustainability of investment countries; enhancing their integration into regional and global economy; meeting global and regional challenges such as combating climate change and improving energy security.

In carrying out these tasks the EBRD continues to be guided by its key operational settings: the impact on the transition process, the principles of sound banking and complementarity.

In most of the countries in the EBRD region of operations the political and economic situation remains complex. At the same time, the prospects for market reforms, in our opinion, improved in 2017. This conclusion was made possible on the basis of the results of an annual analysis of structural reforms by the EBRD, which are presented in the Bank's "Transition Report 2015-2016" [2].

## II. METHODS

Weak public and corporate governance systems are major obstacles to the transition process in many of the EBRD's countries of operations. The EBRD is working hard to strengthen corporate governance systems in order to improve the business climate in the region. A large number of investments in 2015-2016 were carried out under the condition that the clients would reform corporate governance, for which they were provided with the Bank's support. In order to provide the EBRD with the additional tools needed to improve its performance, the Board of Directors approved the Concept of Green Economy Transition (CGET) last year. Its implementation began in 2016 and it is aimed at increasing the level of environmental investments up to 40% of the total EBRD financing by 2020.

We shall consider the situation with implementing the strategic aims of investment projects in the Eurasian Economic Union countries. This Union includes the following countries: The Republic of Armenia, the Republic of Belarus, the Republic of Kazakhstan, the Republic of Tajikistan, the Republic of Kyrgyzstan and the Russian Federation.

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### III. RESULTS

In December 2015 the EBRD approved a new four-year "Strategy for Armenia". According to it, over the next four years, the EBRD will give priority to increasing the competitiveness of the private sector, improving the business environment, developing the local capital market (including assistance in finance through the local currency for implementing pension reforms) and financing the infrastructure development (in the energy and energy efficiency sector, transport and municipal infrastructure). The EBRD is one of the leading institutional investors in Armenia that invested more than 1.1 billion Euros in 153 projects in the financial sphere, infrastructure, energy and corporate sectors of the country. About 88 per cent of the investments are in the private sector [3].

In view of the goals set, the implementation of the strategy was manifested as follows:

1. Due to the fact that the EBRD is interested in developing local capital markets and participating in them by means of interest rate swaps, currency hedging instruments and other tools, in 2016 the Bank held a seminar on the development of the money and securities market together with the Central Bank of Armenia for the financial sector of the country [4]. The bank is currently working on a capital market development strategy, which also includes an application for Armenia.

2. Another goal is to harmonize transactions between the market participants (between two banks or between a bank and a non-bank organization). To do so it is necessary to master the GMRA standard developed by ISDA (International Association of Swaps and Derivatives). This standard is very complex: even its short version is posted on 150 pages, so technical support will take several years, but the EBRD is ready to provide technical support as long as it takes.

3. The provision of the second loan to the microfinance organization Vision Fund through a credit line opened for SEF International. The purpose of the loan issued in the local currency and equivalent to 1 million USD will be the financing of energy efficiency projects in rural areas. The loans ranging from 300 to 600 thousand USD that has been issued since August 2016 are intended for the development of energy efficiency and economizing of heating, cooling, ventilation and small office equipment. Technical assistance from the EBRD Shareholder Special Fund will also be available.

4) The EBRD will provide 55 million USD for the improvement of tourism and cultural infrastructure, in particular, for reconstruction works in the villages of Areni, Tatev and Tandzatap. In these villages the facades of buildings and roofs, roads, street lighting, water supply and sewerage will be restored. In addition, credit funds will be spent on the improvement of such cultural heritage monuments as Zorats Karer, the Garni temple and gorge, the museums of Geghardavank and Dvin, the Khor Virap monastery, cultural monuments in Khndzoresk, Yeghegis, Haghpat and Sanahin.

5) In May 2016 the EBRD approved a 14.6 million Euros loan for the improvement of the city of Gyumri, the second largest city of Armenia. This loan is the beginning of the program,

under which it is planned to create three or four cities in Armenia that can become centers of development. The project contains a grant component of 7.3 million Euros.

6) In September 2016 the EBRD approved a new four-year strategy for the Republic of Belarus. As a part of this strategy, the EBRD is ready to support government initiatives by providing financing in the form of direct and portfolio investments and technical assistance to develop the private sector, promote privatization, and increase the resilience of public infrastructure (in the municipal, transport and energy sectors) [4].

7) The EBRD will support lending to small and medium-sized enterprises (SMEs) by developing a sustainable and commercially oriented banking sector, and will continue to provide advice to SMEs in order to increase their competitiveness. In addition, the Bank will promote the privatization of state-owned enterprises by strategic investors who can provide capital and know-how to increase competitiveness and productivity. Priority in these areas will be given to projects that are in line with the concept of transition to "green economy", thereby helping Belarus to transit to low-carbon economy.

The implementation of the strategy was manifested in the decision to open two new credit lines with a total amount of up to 10 million Euros for projects in Belarus. The loans are a part of the privatization plan of Belinvestbank agreed by the government of Belarus and the EBRD in May 2015. It involves a credit line of 8 million Euros within the Belarus Sustainable Energy Finance Facility (BelSEFF) and a first-priority loan of 2 million Euros within the EBRD Women in Business Program.

The BelSEFF credit line will be used by Belinvestbank to finance energy efficiency and renewable energy projects throughout the country, in particular, in order to support small and medium-sized private enterprises as well as individual public sector enterprises.

The access to a free technical assistance package to support lending under the BelSEFF credit line will become an additional advantage for Belinvestbank. The loan under the EBRD Women in Business Program will help Belinvestbank finance the development of women's entrepreneurship in Belarus. The program is funded by the EBRD, the EU, Sweden and the Fund for the Support of Countries in Transition at an Early Stage of Development.

A new three-year strategy for Kazakhstan was adopted on 17 December 2013. In accordance with this strategy, the EBRD gives priority to the following areas [5]:

1. Diversification and support for the non-primary sector. The EBRD is already the largest investor in the oil and gas sectors of the economy but will continue to support the development of other sectors by financing projects that increase productivity in the corporate sector, improve the business environment, contribute to the modernization of the agribusiness sector and the growth of the SME sector. The EBRD will also work to further develop the banking and non-banking sectors of the financial market.

2. Balancing the role of the state and the market. The EBRD will support the commercialization and growth of private sector enterprises and modernize infrastructure that ensures proper risk sharing between the private and public sectors.

3. Assistance to the economic growth of low-carbon production and increasing energy efficiency. The recently announced Green Economy Strategy of the Government of Kazakhstan is a national priority, and the EBRD will assist in the implementation of key aspects of this strategy in the energy sphere, renewable energy sources, agriculture, water supplies, waste management, transportation and other projects.

As a result of the implementation of banking initiatives, almost 60 per cent of urban transport in Almaty is now

environmentally friendly. The EBRD works with clients in the agribusiness sector such as RG Brands; provides support to the private sector in the creation of production infrastructure, for example, Olzha, a supplier of railway cars; helps to contribute to the energy efficiency of the energy sector by financing clients like CAEPCO.

The EBRD Small Business Support Program has provided consulting support to more than a thousand private enterprises, and donor funds from the government of Kazakhstan are now represented in 7 regions of Kazakhstan. The EBRD is working to expand its SME finance program through local partner banks.

The EBRD portfolio in Kazakhstan in the fourth quarter of 2015 and the first quarter of 2016 included the following projects (Table 1):

Table 1. The list of the EBRD projects in Kazakhstan by implementation stages

15 September 2016	Shalkiya Zinc Privatization loan	Natural resources	Public	The review of the concept
01 September 2016	FIF - Forte Bank Loan for small businesses	Financial institutions	Private	Final review, approval by the Bank Council
01 September 2016	FIF - Kazakhstan WiB - Forte Bank	Financial institutions	Private	Final review, approval by the Bank Council
18 August 2016	Kulanskaya solar electric station	The power of energy	Private	The review of the concept is over, the creation of an operational structure is expected
17 August 2016	Louis Dreyfus Company Cotton Kazakhstan	Agriculture	Private	Approved by the Council
27 July 2016	South Kazakhstan water supply project	Municipal and ecological infrastructure	Public	The review of the concept
22 June 2016	Kyzyl-ordinsk waste management	Municipal and ecological infrastructure	Public	The review of the concept
13 May 2016	Ust-Kamenogorsk culvert	Municipal and ecological infrastructure	Public	The project is signed
13 May 2016	Investments into KIPF shares	Agribusiness	Private	The review of the concept
21 April 2016	FoodMaster	Agribusiness	Private	The treaty is signed
24 March 2016	DH metering devices installment program	Municipal and ecological infrastructure	Public	Final review, approved by the Bank Council
20 April 2016	Shinhan Bank Kazakhstan MSME loan	Financial institutions	Private	The treaty is signed
24 March 2016	Extended partnership	Municipal and ecological infrastructure	Public	Approved by the Bank Council
18 March 2016	Gas networks modernization	The power of energy	Public	The treaty is signed
18 March 2016	Gas storing equipment Bozoi	Natural resources	Public	The treaty is signed
17 March 2016	"Samruk-Enegro" modernization loan	The power of energy	Public	The review of the concept

14 March 2016	Water modernization in Astana	Municipal and ecological infrastructure	Public	Approved by the Bank Council
15 February 2016	Kostanay water	Municipal and ecological infrastructure	Public	The treaty is signed
15 January 2016	Subproject of heating Kostanay region	Municipal and ecological infrastructure	Public	The treaty is signed
3 December 2015	Family water	Municipal and ecological infrastructure	Public	The treaty is signed
5 November 2015	Atyrau energetic project	The power of energy	Private	Paid
5 November 2015	Kyzylorda street lights project	Municipal and ecological infrastructure	Public	Approved by the Bank Council
12 October 2015	Universal logistics	Transport	Private	The treaty is signed

In February 2015 a four-year strategy of activities for Kyrgyzstan was approved by the EBRD. New strategic priorities of the EBRD in Kyrgyzstan include cross-border communications, development and improvement of competitiveness of small and medium-sized enterprises (SMEs) as well as the development of sustainable municipal infrastructure [6]. The Bank supports economic and trade cooperation and integration, stimulates sustainable growth, reduces regional economic disparities, and addresses gaps to promote gender equality and youth integration in all sectors.

The implementation of the EBRD strategy in Kyrgyzstan.

A recent loan to the country's leading bank, KICB, equivalent to 7 million USD in local currency to support micro, small and medium businesses can serve as an example of the implementation of the EBRD's strategy in the region. The loan is provided by the Early Transition Countries Fund and administered by the EBRD.

Another project with the same borrower is financing of energy saving within the KyrSEFF Sustainable Energy Saving Program in the amount equivalent to 3 million USD in local currency. The total budget of the KyrSEFF Program is 55 million USD and is intended for partner banks of the EBRD in Kyrgyzstan. The program is reinforced with a package of technical assistance and grants in the amount of 18 million USD allocated to energy efficiency projects. These projects are extremely relevant for the region, where there is a peak in both summer and winter temperatures, as a result of which the region consumes 3.5 times more energy than any European country.

Also, within cross-border cooperation and in connection with the development of a new strategy, in July 2016 the ministers of Tajikistan and Kyrgyzstan met with representatives of the EBRD to discuss projects in the field of eliminating the consequences of uranium mining in the region. Many radioactive waste dumps are located along the Syr Darya River, which flows through the fertile Fergana Valley, which is an agricultural center not only for Kyrgyzstan but also for Tajikistan and Uzbekistan.

After improving the environmental situation in these areas the question of further economic development and investment will be considered. The EBRD may become a potential investor. The idea of creating a fund for financing

environmental impacts and the share of EU funding were discussed at the July meeting. Currently, the EU has contributed 16.5 million Euros to the authorized capital of the future Fund, and it is also engaged in the environmental impact assessment of such fields as Min-Kush, Shekaftar and Mailuu-Suu in Kyrgyzstan, Taboshar and Degmai in Tajikistan.

Since its inception in Tajikistan in 1992 the EBRD has invested over 600 million Euros in more than 100 projects. The Bank has carried out operations in all sectors of the economy, with a special focus on the infrastructure and energy sectors. In August 2015, the EBRD approved a new strategy that will determine its activities in Tajikistan over the next four years [7]. The main priorities of the Bank in this country will include: the promotion of private entrepreneurship, especially small and medium-sized enterprises, as well as their operational and financial efficiency through commercialization and incorporation; the assistance in improving the business environment; the improvement of the quality of public services and strengthening regional ties and economic integration. In all areas of its work the EBRD will promote the development of climate resilience technologies and gender equality.

A new strategy will enable to stimulate investments and reforms, in financial and energy sectors in particular, as well as in agro-industrial sector. The EBRD gradually increases its investments into this region by financing large-scale projects such as the infrastructure modernization of the electricity transmission systems in Tajikistan.

Within the suggested strategy the Bank has implemented the following projects:

1. A loan was provided to the second largest microcredit deposit organization "Arvand" in Tajikistan in the equivalent of 2 million USD in national currency for the purpose of subsequent lending to local micro, small and medium-sized businesses. This loan is a part of a large financing package approved for MDO "Arvand", which also includes an agricultural component.

2. MDO "Arvand" has a wide distribution network. The company plays an active role in the innovation and development processes of SME in the country and is a long-standing partner of the EBRD. A wide network of branches of MDO "Arvand" also allows reaching entrepreneurs located in remote areas of the country.

**IV. DISCUSSION**

A new strategy of the EBRD for Russia should have been approved in May 2015, however, Russian officials refused to accept a new strategy since it was dissatisfied with the involvement of the EBRD in political debates, which, according to Russia, stopped the Bank's business growth in Russia (introduced in July 2014 on the advice of the EBRD's western shareholders) that caused an even greater slowdown in the Russian economy as well as a deterioration in the EBRD's financials in 2015 (in 2015 the EBRD suffered losses). In 2015 Russia sent a formal request to the EBRD Board of Directors to consider the fact that such a strategy is contrary to the mandate and financial model of the bank, however, the Board of Directors did not find any contradictions [8].

In September 2016, the Ministry of Finance of the Russian Federation planned to arrange a number of working meetings with the EBRD regarding the resumption of financing projects in the Russian Federation. Moreover, the EBRD Board of Directors reconsidered the issue of renewing investment into new projects in Russia but the decision has not been made on it yet. Therefore, for the time being, the EBRD is only continuing to finance the existing projects: in 2015 such the investments amounted to 106 million USD against 608 million USD in 2014. The total volume of funds invested by the EBRD in the Russian economy amounts to 25

billion USD with 90% of the investments in private projects.

Thus, as of October 2016, the EBRD strategy for Russia dated 2012 is in effect, which includes the following priorities:

- investments in modernization and innovation (including, in terms of raising the level of corporate governance standards, transparency, energy efficiency and gender inclusion);
- support for privatization and development of the private sector of the economy (including strengthening the role of small and medium-sized businesses, encouraging competition among state-owned companies, supporting state-private partnership principles in order to reduce the state's share in the economy);
- support for regional development (to eliminate the economic imbalance between the center and the regions and to improve the investment climate).

In addition to being a country of operation for the EBRD, Russia is also a donor of technical equipment. For instance, in 2013, for the first time, Russia established a bilateral technical assistance fund with the authorized capital fund of 40 million Euros and the program for the next 5 years in order to support strategically important projects of the EBRD in Russia. More than 50% of the Fund's resources are intended for the development of transport and infrastructure, while the rest of the Fund will be implemented to develop energy efficiency projects, agriculture and to support small and medium-sized businesses [9]. Russia is also the largest donor within the Northern Dimension Environmental Partnership with a total funding share of 60 million Euros (including 5 million USD contributed in 2015).

**V. CONCLUSION**

**Table 2. Summary table of the investment activity of the EBRD in the EAEU countries**

The main investor	Other investors	Main investor's product	Other investor's product	Project's name	Project's description	Volume of financing of the main investor	Volume of financing of other investors	Project's type	Project's status	Project's total cost
NDB	TBC	Lending	TB C	Eskom	Eskom is a part of policy providing sustainable energy for long-term economic growth	2 billion RUB	TB C	Sovereign	Approval in 2016	N/A

NDB	TBC	Co-financing		Moscow-Kazan high-speed railway line					Mentioned in September 2016	20 billion USD
	Borrower (JSC "Samarga") + TBC	Co-financing	TBC	Khabarovsk-Primorsky Krai: port Samarga, logistics terminal, railway		1 billion USD	TBC	Private		1 billion USD

The EBRD continued to expand its equity finance operations so that the companies it invested could diversify their funding sources and improve corporate governance. The EBRD Board of Directors approved the proposal of the Bank’s Board of Governors to establish a Participation Fund for Equity Investments, which will allow global institutional investors access to the Bank’s direct investment portfolio in all countries of the region (Table 2) [10].

The initiative to support the use of national currencies and the development of national capital markets is aimed at creating a sustainable system of financing in national currencies and contributes to the formation of effective and independent national capital markets, thus, reducing the main vulnerability factors that exist in the region of operations of the EBRD.

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