THE INFLUENCE OF FINANCIAL CRISES ON THE INVESTMENT BEHAVIOUR OF THE EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

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ABSTRACT

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Anadolu University Graduate School of Social Sciences, June 2018
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The main objective of this thesis is to investigate the changes in the European Bank for Reconstruction and Development's (EBRD) investment behavior and whether the Bank could fulfill its objectives to support the reconstruction, transition and modernization of the former Socialist Bloc countries set at its establishment. The focus of this research is analyzing the Bank's behavior in pre-crisis, crisis and post-crisis periods. Its main task is to examine how a global institution like EBRD behaves in situations of crises and what are its strong sides and vulnerabilities. The research covers the period from the Bank's establishment in 1991 until the end of the Great Recession in 2010. The analyzed sources are official statistics about the project involvement which are created and accumulated as a result from the Bank's functioning over the years. Finally, the thesis targets to prove that despite the negative impacts of financial crises and recessions, the Bank manages to adhere its mission and objectives by playing a stabilizing and correcting functions on the investment market. The study uses SWOT analysis, with the help of the VRIO model and TOWS matrix to suggest how EBRD could optimize its impact by using the power of its strengths and opportunities to minimize the weaknesses and fights the threats. From the presented arguments, examined indicators, and phenomena it can be concluded that the Bank was negatively affected by the global financial crises but it was able to restore its usual volume of investment relatively quickly.

Keywords: EBRD, Investment behaviour, Financial crises, Former Eastern Bloc, SWOT, TOWS, Transition

ÖZET

FİNANSAL KRİZLERİN AVRUPA İMAR VE KALKINMA BANKASI'NIN YATIRIM DAVRANIŞLARINA ETKİSİ

Ivana YORGOVA

İşletme Anabilim Dalı
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Bu tezin temel amacı, Avrupa İmar ve Kalkınma Bankası'nın (AİKB) yatırım davranışlarındaki değişimleri ve bankanın kuruluşunda belirlenmiş olan eski Sosyalist Blok ülkelerinin yeniden yapılandırılması, geçişi ve modernizasyonunu destekleme hedeflerini gerçekleştirip gerçekleştiremeyeceğini araştırmaktır. Bu araştırmanın odak noktası, AİKB'nin kriz öncesi, kriz esnası ve kriz sonrası dönemlerdeki davranışlarını analiz etmektir. Araştırmanın temel görevi, küresel bir kurum olan AİKB'nin kriz durumlarında nasıl davrandığını ve güçlü yanları ile zayıf yönlerini incelemektir. Araştırmanın kapsamı Avrupa İmar ve Kalkınma Bankasının kuruluşu olan 1991 yılından 2010 Büyük Durgunluk'un sona ermesine kadardır. Analize konu olan kaynaklar, AİKB'nin yıllardır işleyişinin bir sonucu olarak oluşturulan ve toplanan proje katılımı hakkındaki resmi istatistiklerdir. Son olarak tez, finansal krizlerin ve durgunlukların olumsuz etkilerine rağmen, Banka'nın yatırım pazarında istikrar ve düzeltme işlevlerini kullanarak misyon ve hedeflerini yerine getirmeyi başarıp başaramadığını ortaya koymayı hedeflemektedir. Çalışmada, AİKB'nin uygulamalarının zayıf yönlerini en aza indirgemek ve tehditlerle mücadele etmek için sahip olduğu güçlü yanlarını ve fırsatları sayesinde yaratacağı etkiyi nasıl optimize edebileceğini önermek için VRIO modeli ve TOWS matrisi yardımıyla SWOT analizi kullanılmaktadır. Sunulan argümanlar, incelenen göstergeler ve olgulardan Bankanın küresel finansal krizlerden olumsuz etkilendiği sonucuna varılmış olmakla birlikte AİKB normal yatırım miktarına nispeten hızlı bir şekilde tekrar ulaşmıştır.

Anahtar Sözcükler: AİKB, Yatırım davranışı, Geçiş, Fnansal krizler, Eski Sosyalist Blok, SWOT, TOWS

22 June 2018

STATEMENT OF COMPLIANCE WITH ETHICAL PRINCIPLES AND RULES

I hereby truthfully declare that this thesis is an original work prepared by me; that I have behaved in accordance with the scientific ethical principles and rules throughout the stages of preparation, data collection, analysis and presentation of my work; that I have cited the sources of all the data and information that could be obtained within the scope of this study, and included these sources in the references section; and that this study has been scanned for plagiarism with "scientific plagiarism detection program" used by Anadolu University, and that "it does not have any plagiarism" whatsoever. I also declare that, if a case contrary to my declaration is detected in my work at any time, I hereby express my consent to all the ethical and legal consequences that are involved.

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Ivana Yorgova

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INTRODUCTION

European Bank for Reconstruction and Development (EBRD) is a partner of business in Europe and Asia for more than twenty years having the special role of a socially responsible investor. With its character of international creditor operating with extremely large amounts of financial means, as well as with its wide operation area, the Bank is a key factor for developing corporate sustainability and market culture.

In the course of its existence, many questions regarding the Bank's work were raised. EBRD's adequacy to the market reality, its role as a stabilizer being successfully implemented, its investments creating real conditions for the development of an open economy within the former Socialist Bloc and many other essential points, dictated by its specific presence on the investment market are just some of the examples for those questions. Economic ups and downs are a test for financial institutions, especially for those functioning within a special regime. The consistence of the Bank to its policy can be seen from the way it operates during periods of severe economic turmoil. Moreover, EBRD's behaviour often tends to divert entire economies and sectors. Detailed examination of the EBRD's investment decisions before, during, and after financial collapse can provide valuable information to the other banking institutions on how to cope with complex market conditions and outline the reasonable boundaries between state intervention in the economy and free movement of capital.

The mission of the Bank is to finance projects tailored to the needs and the specific situation in a given country, region or sector that is a subject of its investment activity. In the mission is also included providing resources under favorable conditions that are competitive on the market.

This thesis aims to prove that despite the negative impact of financial crises and recessions, the Bank manages to adhere to its mission and objectives playing a stabilizing and correcting function on the investment market. The subject of the thesis is the changes in the investment behaviour of EBRD and the fulfillment of its objectives set at the establishment to support the reconstruction and modernization of the countries of the former Socialist Bloc. The object is the market events concerning the investment policy of the Bank within the reviewed period - from 1991 to 2011.

The major events that have had a significant impact are the East Asian Financial Crisis (1997), the Russian Financial Crisis (1998), the Global Financial Crisis (2007-2008) and the ensuing Great Recession of 2008.

The main tasks of this thesis are:

- Surveying the impact of the global market changes and to what extent they deform the Bank's investment behaviour.
- Track the dynamics of its investment activity and the changes in its key performance indicators over the period 1991 – 2011.
- Determine to what extent the Bank complies with the main presumptions set out at its establishment.
- To clarify the corporate culture of the Bank and the extent to which it fits into the investment bank model.
- Analyze the reasons why it changes its course of work and its strategic decisions and to what extent those are economically justifiable.
- Determine whether its ex ante evaluation system adequately sifts the projects that are appropriate for investment.
- To analyze the strong and the weak sides in the overall performance of the Bank and in interaction with the environmental threats and opportunities.

In the first chapter EBRD's investment characteristics and more particularly the types of investments, the reasons for its establishment and the future plans for development and operation are discussed. The second chapter describes the financial crises since 1997 as a market phenomenon that have had a significant impact on the world economy, including the latest economic crisis of 2008 which started in 2007 in the United States. The third chapter examines and evaluates the behaviour of EBRD's investment policy in the conditions of financial crises for the period 1991-2011 to draw a picture of the changes in the investment behaviour. The fourth chapter synthesizes in a SWOT analysis, with the help of the VRIO model and TOWS matrix, the characteristics of EBRD, with the aim to suggest how it could optimize its impact on the transition and developing countries where it operates, by using the power of its strengths and embracing the environment opportunities, while decreasing the influence of the weaknesses and eliminating the majority of the threats.

THE FIRST CHAPTER

1. INVESTMENT CHARACTERISTICS OF EBRD

This chapter discusses the reasons for the establishment of EBRD, the types of investments included in its portfolio and the plans for future changes in its investment policies.

EBRD is a multilateral, multinational investment bank established with the main idea to foster the transition of countries which used to practice planned economy, to open market economy. It plays an important role in teaching those countries how to establish their new economic regime and supports them not only through advisory but also through significant funding. EBRD is a European Community organization which provides industries, businesses and public companies with project financing. Each of the projects in which the Bank is involved is highly adjusted to the specifics of the region, country, and sector.

EBRD's main duty is to provide financing for different businesses and industries as well as financing services for banks. The Bank's investments are distributed to many sectors like financial institutions, infrastructure and transport, industry, natural resources, climate change and sustainable energy, power, commerce, and agribusiness.

Banking and treasury are the two business segments through which the Bank operates, and the major financing instruments are loans, equity investments, and guarantees. EBRD's banking segment is responsible for the investments made in projects through the main investment products it offers. The treasury segment of EBRD is expanding the debt finance and making surplus liquidity investment. It deals with clients' asset and liability management matters and takes care of the interest rate and foreign exchange risks of the Bank.

The operating coverage of the Bank is spread from Central, Southern and Eastern Europe, Russia, the Caucasus and the Baltic States to Turkey, Central Asia, Southern and Eastern Mediterranean.[1,2]

The following table 1.1. shows the current countries in which EBRD invests.

[1] Company Profile, European Bank for Reconstruction and Development, MarketLine, Aug 2016
[2] Company Profile, European Bank for Reconstruction and Development, MarketLine, June 2012

Table 1.1. *The countries in which EBRD invests (About the EBRD, August 2015)*

Central Europe and Baltic States	**South-Eastern Europe**
Croatia	Albania
Estonia	Bosnia and Herzegovina
Hungary	Bulgaria
Latvia	FYR Macedonia
Lithuania	Kosovo
Poland	Romania
Slovak Republic	Montenegro
Slovenia	Serbia
Eastern Europe and the Caucasus	**Central Asia**
Armenia	Kazakhstan
Azerbaijan	Kyrgyz Republic
Belarus	Mongolia
Georgia	Tajikistan
Moldova	Turkmenistan
Ukraine	Uzbekistan
Russia	**Turkey**
Cyprus	
Southern and	**Eastern Mediterranean (SEMED)**
Egypt	Morocco
Jordan	Tunisia

As can be seen from the table 1.1. the Bank invests from Croatia to Slovenia, from Albania to Serbia, from Armenia to Ukraine, from Kazakhstan to Uzbekistan, from Russia to Turkey and Cyprus, and from Egypt to Tunisia.

Through the years of operating EBRD succeeded to gain the reputation of a flexible issuer providing investors debt products tailored according to their specific needs. EBRD's activities related to funding in the capital markets are a symbiosis of strategic focus, innovation, and the Bank's focus on making its bonds today's preferred investment choice.[3]

The owners of the EBRD includes the European Investment Bank, 65 countries from five different continents and the European Union. The capital of EBRD which forms the core funding is contributed by all of the shareholders. After its establishment in 1991 with headquarters in London, the first resident office of EBRD was opened in Warsaw. The next step taken in 1993 was to support small and medium enterprises (SMEs) through

[3]http://www.ebrd.com/work-with-us/capital-markets/investor-information.html

launching the Russia Small Business Fund. By 1998 EBRD have opened its resident offices in all the countries where it operated by that time.[4,5]

1.1. The Reasons for Establishing EBRD

The end of the Cold War was the time of the foundation of the European Bank for Development and Reconstruction. The idea was originally given by the French President Francois Mitterrand (October 1989). He promoted the idea for transition of the former Soviet Republics from a planned to a market economy. On the 29th of May 1990 the agreement establishing the Bank was signed by the European Investment Bank, the European Commission, and 40 countries. The actual functioning of EBRD started in 1991 with headquarters in London, UK.

EBRD was set up and is committed to supporting the transition from a closed and planned economy to *"market-oriented economies and the promotion of private and entrepreneurial initiative"*, which remains as its leading principle from the very beginning until today. EBRD gained the reputation for being an expert on transition to open market due to its focus on private sector as a main engine for change.

Transition takes a series of structural reforms to be made in the process of developing a market economy from a planned one. Right from its earliest years, the EBRD engages in activities such as transformation of the banking sector, privatization, price liberalization and the creation of a legal framework on property rights.

The expertise of the Bank proved useful on issues related to the promotion of competition, changes in the management and creation of commercial pandects and accounting systems. The Bank supports such initiatives through advice, training and technical competence, which are followed by significant investments in the private and public sectors to effectively increase the supply of goods and services. The Bank is mainly providing project finance to the private sector to accomplish their mission for supporting the market economy transition in the countries and regions where it operates. Since the national capital alone is rarely sufficient, the Bank helps attract external one - both from public sources and private organizations.

Through the years EBRD expanded its original operating coverage to Cyprus (2014), Egypt, Greece (2015), Jordan, Kosovo (2012),

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[4]Company Profile, European Bank for Reconstruction and Development, MarketLine, Aug 2016
[5]http://www.ebrd.com/who-we-are/history-of-the-ebrd.html

Mongolia (2006), Morocco, Tunisia and Turkey (2009). From the services offered by EBRD are benefiting by more than 30 countries. Czech Republic is the only country in the EBRD's portfolio, from its establishment until today, which succeeded to graduate and stop receiving investment from the Bank and remain only as a shareholder. The role of the Bank is strategic since conceptually it should serve as an engine for the changes in Central and Eastern Europe and contribute to *"the development of market-oriented economy, promote private and entrepreneurial initiative"*, as well as support projects which usually do not have potential for funding by commercial banks. As an important aspect of EBRD's activities is the development of a rapid and adequate response to the unexpected and significant market developments as it turned out to be the Global Financial Crisis and the Arab Spring.[6]

The Bank focuses its investments exclusively in countries that support a multiparty model of democracy and pluralism. Another essential component of its objectives is to promote environmental protection and creating conditions for sustainable energy production, since the concept for sustainability and environmentally sound development is set up in the concept of the mission together with the avoidance of balance of payments funding, soft loans, and bail-out financing. EBRD is responsible for serving the interests of its shareholders and maximizing the profit (respectively the profitability for shareholders) is an essential part of the objectives of the Bank. One of the credit strengths of the Bank is the high diversification of the global shareholder base combined with conservative management of the risk and financial policies which all together gives a total of stable outlook and highest ratings (AAA/Aaa). Another reason for EBRD's credit rating to be so strong is the fact that not only it as a whole, but also separately more than 39% of its shareholders hold an AAA or Aaa ratings. Moreover 91% of the callable capital holds the rating of *"investment grade"* according to Standard and Poor's or Moody's. All the countries of operations of the Bank are also shareholders. Among all multilateral development banks, EBRD has the highest quality of the callable capital.[7,8]

Currently the global shareholder base is divided as shown in the table below.

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[6]http://www.ebrd.com/who-we-are/history-of-the-ebrd.html

[7]Basic Documents of the EBRD-First published April 1991, Revised October 2006 - Article 1, Revised September 2012 - Article 18, Revised September 2013 - Article 1

[8]EBRD – Investment of choice, March 2017

Table 1.2. *EBRD's shareholders list and capital subscription (http://www.ebrd.com/shareholders-and-board-of-governors.html)*

Country	Capital subscription (€ 000)	Country	Capital subscription (€ 000)
Albania	30,01	Kosovo	5,8
Armenia	14,99	Kyrgyz Republic	21,01
Australia	300,14	Latvia	30,01
Austria	684,32	Lichtenstein	5,99
Azerbaijan	30,01	Lithuania	30,01
Belarus	60,02	Luxembourg	60,02
Belgium	684,32	Malta	2,1
Bosnia and Herzegovina	50,71	Mexico	45,01
Bulgaria	237,11	Moldova	30,01
Canada	**1,020,490**	Mongolia	2,99
Croatia	109,42	Montenegro	4,2
Cyprus	30,01	Morocco	14,78
Czech Republic	256,11	Netherlands	744,35
Denmark	360,17	New Zealand	10,5
Egypt	21,01	Norway	375,18
Estonia	30,01	Poland	384,18
European Investment	900,44	Portugal	126,05
European Union	900,44	Romania	144,07
Finland	375,18	**Russia**	**1,200,580**
FYR Macedonia	17,62	Serbia	140,31
France	**2,556,510**	Slovakia	128,07
Georgia	30,01	Slovenia	62,95
Germany	**2,556,510**	**Spain**	**1,020,490**
Greece	195,08	Sweden	684,32
Hungary	237,11	Switzerland	684,32
Iceland	30,01	Tajikistan	21,01
Ireland	90,04	Tunisia	9,86
Israel	195,08	Turkey	345,15
Italy	**2,556,510**	Turkmenistan	2,1
Japan	**2,556,510**	Ukraine	240,11
Jordan	9,86	**UK**	**2,556,510**
Kazakhstan	69,02	**USA**	**3,001,480**
Republic of Korea	300,14	Uzbekistan	44,12
China	29		

As it is visible in the table the biggest shareholder is the USA, followed by France, Germany, Italy, Japan, UK, Canada, Spain and Russia.

1.2. Types of Investments Made by EBRD

EBRD is a special type of bank and does not offer commercial products typical for retail banks. The direct financing EBRD provides is given through loans, equity investments, and guarantees. There are certain minimum eligibility requirements which the prospective clients of EBRD have to demonstrate in their project or business proposals in order to attract the Bank as an investor. Generally, the financing regarding private sector is mostly in the form of loans or equity and vary between $5 million and $250 million. $25 million is the average size of an investment made by EBRD. In some cases, financial intermediaries or special smaller direct investments programs are used to give financing to small projects in less advanced countries.

EBRD launched the Small Business Initiative for helping small and medium enterprises (SMEs) by receiving business advice and supporting innovation, which is essential for their growth and stable progressive development. (The definition for SME varies from country to country. The definition for SME according to the European Commission has a turnover < €50 million, a balance sheet < €43 million and between 10 and 250 employees.[9]) Loans and investments are provided directly through financial institutions and risk sharing facilities. Since SMEs are representing 99% of the businesses in EU[10], it takes a big effort for EBRD to acquire the ability of meeting all the complex needs of the SME sector and provide it with finance, engineering, law and industry experts and a combination of skills and expertise that are able to successfully suggest solutions and be in favor to small businesses.[11,12]

More than 99% of the businesses in the scope of EBRD's operations belong to the SME sector, which is of the utmost importance for a healthy market economy.[13] SME sector acquires 20% of EBRD's annual investment and around 50% of its banking projects. In that way, EBRD managed to help more than 15,000 small businesses, not to mention the financing through partnering banks where the number is hundreds of thousands more and comes in a total of €1,5 billion distributed to more than 200,000 businesses each year. The strength of EBRD is also concentrated in its work with local

[9]https://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition_en
[10]https://ec.europa.eu/growth/smes_en
[11]Small Business Initiative - Investing in small businesses, building big economies, SME Finance and Development Group, European Bank for Reconstruction and Development
[12]http://www.ebrd.com/what-we-do/sectors-and-topics/ebrd-small-business-initiative.html
[13]http://www.ebrd.com/what-we-do/sectors-and-topics.html

partners, which allows the Bank to lend in local currencies and this way avoid exposure to foreign exchange risk of the companies and wider financial sector.[14,15]

EBRD is targeting investments in places where it can contribute added value through investment in certain projects which do not have a chance to attract financing with similar terms. EBRD has serious eligibility criteria for funding a project. In first place the project has to be within an EBRD country of operations and to be beneficial for the local economy and the development of its private sector. It also has to have strong business prospects and involve significant equity contributions in-cash or in-kind from the project sponsor. At last, the potential project must meet the banking and environmental standards. If the project is a greenfield one EBRD can fund up to 35 % of its total cost or 35 % of the long-term capitalization of the company that the project belongs to. EBRD requires from the sponsors equity contributions, which must be equal or bigger than the Bank's investment, as well as supplementary funding and other co-financiers generated through the EBRD's syndications programme.

The sectors eligible to receive support from EBRD are agribusiness, energy efficiency, financial institutions, manufacturing, municipal and environmental infrastructure, natural resources, power and energy, property and tourism, small and medium-sized enterprises, telecommunications, information technology and media, transport. According to its investment policy the Bank doesn't involve in financing defense-related activities, tobacco industry, selected alcoholic products, substances banned by international law, stand-alone gambling facilities.[16]

1.2.1. Loans

Loans are structured to match client's and project's needs, with a high level of flexibility, while the credit risk could be absorbed fully by EBRD or any part thereof to be transferred through syndication.

Private sector projects investments of EBRD vary from €5 million to €250 million with an average size of around €25 million. EBRD loans are structured with a high degree of flexibility to meet adequately the needs of the client and the project. This determines the application of a different formula for each project, considering the interest rate and

[14]Small Business Initiative - Investing in small businesses, building big economies, SME Finance and Development Group European Bank for Reconstruction and Development
[15]http://www.ebrd.com/what-we-do/sectors-and-topics/ebrd-small-business-initiative.html
[16]Guide to EBRD financing, September 2013

the currency in which the loan is granted. Basic parameters of the loan are estimated cash flow of the project and the client's ability to repay the loan within the agreed period. A loan can be secured by assets of the borrower, converted into shares or to be linked to shares. The details are negotiated with the customer according to the case. The prices of the loans offered by the EBRD are consistent with the current market prices and aim competitiveness. After a successful investigation and after the project has already been presented to the Bank, the financial conditions may be discussed in detail with the bank staff. Loans have either a fixed or floating rate and are mostly denominated in a major foreign or local currency with maturities from five to fifteen years in the form of senior, subordinated, mezzanine or convertible debt.

The Bank offers both fixed and floating interest rates. It is preferable the project's financial structure to include both floating and fixed rate loans, due to the fact that the profitability of the project is directly affected by the type of the interest, while the proportion is assessed respecting the client and project sensitivities to interest rate movements. There is a margin combining the country risk and the specific project risk added to the base rate, which remains confidential between the Bank and the client. Additionally, other charges and fees reflecting various possible conditions may appear. EBRD also charges fees and commissions like appraisal fee, front-end commission and structuring fee, paid up-front syndication fee, if possible commitment fee, payable on the committed but undisbursed loan amount, loan conversion fee, paid at the time of interest rate, or currency conversion on the amount that is to be converted, and there are prepayment, cancellation and late payment fees where applicable.[17]

EBRD requires the companies receiving project finance to acquire insurance against normally insurable risks like theft of assets, outbreak of fire, specific construction risks but doesn't insist on insurances against political risk and non-convertibility of the local currency. Some of the most typical ways to secure a loan is through project assets like mortgage on fixed assets, such as land, plant, buildings, mortgage on movable assets like equipment and business assets, assignment of the company's hard currency and domestic currency earnings, pledge of the sponsor's shares in the company, assignment of the company's insurance policy and other contractual benefits.[18]

[17]http://www.ebrd.com/work-with-us/project-finance/loans.html
[18]Guide to EBRD financing, September 2013

EBRD usually has the practice to secure the loan with project assets depending on the certain company it is working with. As a part of the loan package required are the typical project finance covenants, which are limiting indebtedness and clarify the financial ratios and other specific issues. Equal semi-annual instalments are the typical repayment option but of course those may change according to the specifics of the project.

EBRD supports local commercial banks, through which very small projects of SMEs or municipalities, not eligible for direct EBRD investments can receive funding. The tools used for this purpose are: credit lines, bank-to-bank loans, standby credit facilities and equity investments in the local banks. It is vital to underline that EBRD doesn't offer project grants nor soft loans.[19]

1.2.2. Capital investments

The capital invested by EBRD in industry, infrastructure and financial sector varies from €2 million to €100 million. The equity instruments EBRD uses in its business are ordinary shares, preference shares, subordinated loans, debentures, income notes, redeemable preference shares and underwriting of share issues by public or private ventures.

EBRD is involved in investment funds investing in medium-sized companies that need business expansion. Equity funds target particular region, country or industry sector, have local presence and are managed by professional risk investors. Their main investment criteria are in line with the Bank's overall investment policy. (The funds through which EBRD operates and their characteristics can be seen in Appendix 1 and Appendix 2)

The terms and conditions to attract EBRD as an investor are related with the risks, potential returns and the financial structure of the project company. EBRD has limited capital resources and does not involve in long-term equity investments or significant stakes, as this would mean direct responsibility for the management of the project company. EBRD supports financial intermediaries which can be local commercial banks, micro business banks or equity funds and leasing facilities to provide better access to finance for smaller enterprises and entrepreneurs. Equity finance is provided by EBRD-supported private equity funds, donor-supported equity funds and directly from the Bank

[19]http://www.ebrd.com/work-with-us/project-finance/loans.html

itself. Equity funds support wide range of investments including business start-ups, expansion and acquisitions.

EBRD has specialized funds for financing businesses that need restructuring, are in distressed situations or mezzanine capital for a later stage. Fund investments usually have better prospective return rate and demand longer-term risk capital in comparison to standard EBRD projects. EBRD policy and investment criteria are corresponding though investment decisions are made by fund managers.[20,21]

Equity financing through financial intermediaries is provided by investment or venture capital funds in which the EBRD has made an equity investment or regional and sectorial funds.[22]

1.2.3. Funds for small businesses - Small Business Initiative

"At the European Bank for Reconstruction and Development, we believe that creating the conditions for small businesses to thrive is fundamental for economic growth. We are convinced that across the countries where we work a prospering SME sector lies at the heart of sustainable, inclusive economic growth."[23]

EBRD as a believer in the prosperity of the SME sector as a base in the general economic growth supports various financial intermediaries like micro-business and local commercial banks, leasing facilities and investment funds to provide better funding opportunities for small entrepreneurs and firms. There are funds specialized in working and financing companies that need restructuring. Those kinds of ventures require long-term risk capital and have a stronger potential return rate compared to standard projects funded by EBRD. The final investment decisions regarding potential projects and those funds are made by the managers of the respective funds being consistent with the investment criteria and the polices of EBRD.

"SMEs matter for economic development. There is a strong entrepreneurial spirit across our region but much remains to be done to foster that spirit. Supporting small

[20]http://www.ebrd.com/work-with-us/project-finance/equity-investments.html
[21]Guide to EBRD financing, September 2013)
[22]EBRD - Regional and sectoral funds EBRD - Equity financing through financial intermediaries, Country-specific investment and venture capital funds
[23]http://www.ebrd.com/smallbusiness

business is at the heart of the EBRD's mandate, and through the Small Business Initiative we can and will do more."[24]

EBRD provides a variety of support for the SME sector to give power to the entrepreneurial spirit following one of the core points in its mandate. There is a possibility for policy dialogue, business advice, direct financing for small businesses or financing through financial institutions, partnership with donors and co-financing with financial institutions. EBRD delivers financing to more than 200 local lenders (different financial institutions) to support the development of loans and financial products and though provide a better environment for small businesses. By doing this EBRD reaches small enterprises, especially putting a stress on women entrepreneurs and supports sustainable development orientated companies. In 2014 a program for advising and financing women in business was launched with €460 million and more than 10,000 SMEs led by women. The Women in Business Programme provides diverse support for women's entrepreneurship through giving support and assistance to the partnering institutions with the aim to persuade economic growth. In terms of co-financing with financial institutions, the stress comes to sharing the risk which is a significant challenge when it comes to SMEs. Through the Small Business Initiative EBRD shares its expertise and establishes a dialogue with policy-makers on developing a better business environment. The way to success is not only through providing finance but inserting it in a fruitful environment which means a lot of work on creating conditions through a large variety of actions.[25]

1.2.4. Guarantees

Financing through guarantees is covered by the framework of the "Trade Facilitation Programme", established in 1999 aiming to encourage trade between, to and from the countries in which the Bank operates. EBRD provides through this program guarantees to international banks, by taking political and commercial payment risk that can occur while performing their financial activities. Practically, the program guarantees coverage of the risk of any transaction related to the country, which is the object of investment activity of EBRD. The strategic role of the Trade Facilitation Programme is to improve the opportunities of local banks to provide trade financing. The achievement

[24]Sir Suma Chakrabarti, President in Small Business Initiative Investing in small businesses, building big economies, EBRD

[25]Small Business Initiative - Investing in small businesses, building big economies, SME Finance and Development Group European Bank for Reconstruction and Development

of this goal depends on the improvement of entrepreneurial access to trade in imports and exports. The role of financing through guarantees is essential because it emphasizes the pursuit of the institution not only to contribute to the improvement of the financial climate in a country but also to promote the development of relations with other countries.[26] Another characteristic of guarantees is their possibility to be used to secure payments of instruments issued or guaranteed by participating banks. Such instruments could be letters of credit and standby letters of credit from the issuing bank, deferred payment and "red-clause" letters of credit, advance payment guarantees, and bonds or other payment guarantees, bills of exchange and trade-related promissory notes, bid and performance bonds and other contract guarantees.

The Trade Facilitation Program is a business development tool, which offers to the participant banks cover for a wide range of trade finance instruments, unconditional guarantees payable on first written demand, guarantees for up to 100 percent of the face value of the underlying trade finance instruments, uncommitted trade finance lines and transaction approval on a case-by-case basis, attractive fee levels agreed separately for each transaction, fast and simple approval procedure to issue guarantees, short-term loans to selected local banks for on-lending to local exporters and importers. Another opportunity the Trade Facilitation Program gives is the possibility for extension of short-term loans and factoring companies in EBRD's countries of operations. The role of the factoring transactions is to further support the transfer of innovative trade finance solutions and know-how and provide financing for domestic factoring activities, in local currencies.[27]

EBRD's guarantees cover a wide variety of services, consumer goods, commodities, construction and shipbuilding contracts, cross-border engineering projects, equipment, machinery, power supply and textiles. In cases where the sustainable development policy of the Bank may not be met or there is an environmentally sensitive case additional environmental review procedures and approvals are made.

The Trade Facilitation Program has made more than 18,500 transactions with total value of € 12,8 billion. There are more than 100 issuing and 800 confirming banks in 28 of the EBRD's countries of operations. Between EBRD and the issuing banks there are standard trade finance agreements which define the issuing of guarantees. Regarding cash

[26]http://www.ebrd.com/work-with-us/trade-facilitation-programme.html
[27]http://www.ebrd.com/work-with-us/trade-facilitation-programme/products.html

advances, there are standard revolving credit facility agreements between the client banks and the EBRD. Issuing banks involved in the Trade Facilitation Program are either in the EBRD's countries of operations or in a potential recipient country from the SEMED region, as well as banks with a high percentage of foreign ownership and subsidiaries of foreign banks. EBRD reviews in details the applications of the banks interested in being a part of the Trade Facilitation Program. The criteria for approval include good corporate governance, clear shareholder structure, appropriate level of financial standing and willingness to establish or already having established international trade finance business. Confirming banks can be international commercial banks with good record of trade finance operations with banks in the scope of EBRD or banks in the EBRD experienced in trade finance instruments. Joining the Trade Facilitation Program is free of charge after EBRD gives approval and sign the legal documentation.[28]

The role of financing through guarantees is essential because it emphasizes the pursuit of the institution not only contribute to the improvement of the financial climate in a country but also to promote the development of relations with other countries. The latter concerns mainly the economies that have not yet developed their industrial production, agricultural production, and extraction of raw materials potentials.

Therefore, the implementation of Trade Facilitation Program means that the Bank is not just looking to sell their financial resources in open economies to foreign trade, but also actively contribute to further development of such openness. The difficulties regarding the implementation of a market economy after the collapse of the socialist regime suggest a strong emphasis on this aspect of banking.

1.3. Plans for Changes in the Investment Policy

One of the major points in EBRD's 2006 Annual Report was the decision to change the direction of its working focus from those countries where the transition is almost complete to countries where support is still considerably needed. The countries that joined the European Union in 2004 were planned to *"graduate from the EBRD"* by 2010 and following to that the investments of EBRD to be transmitted to Southeastern Europe, Ukraine, the Caucasus, Central Asia, Russia and especially outside the main cities. To

[28]Trade Facilitation Program – EBRD, December 2016

support this the Bank focused on opening new offices in remote areas in Russia and Ukraine.

Another point in 2006 Annual Report was the general redirection of the Bank's policy since that year was the fifteenth anniversary and an evaluation beyond the regular annual one was a necessity. The Bank's concept kept its focus on being closer to the projects it invests in and not only give loans. The fifteenth anniversary was marked by significant profits which led to the ability for the Bank to take more risk in the future. In general, after fifteen years of existence, everything for an institution of this range, which was a pioneer in transition to open markets was changing. The Bank put a stress on the work with ex-soviet countries and the Balkans. In 2006 EBRD set out a new strategy regarding its investments until 2010 to the South and East focusing on the transition to market economy, taking a risk much higher than the usually a private financial institution would take. Since EBRD is supporting sustainable development orientated initiatives in 2006 new strategy engaging with promoting energy efficiency, regional and international cooperation for reducing climate change is taking a significant part.[29]

The Global Financial Crisis and the Great Recession of 2007-2008, however, discourage the dynamic shift of financial support from Central Europe and the Baltics to Russia, Ukraine, Armenia and Central Asia. The Bank moves to a pending position until sufficient arguments are provided for a successful recovery of the Baltic states and the Central European Republics from the negative impact of the 2007-2009 market events.

In 2008 EBRD's Annual Report recorded loss for the first time since 1998, but at the same time, there was 22 percent rise in disbursements, which can be considered as a proof for the Bank's reliability, strength and stability even in critical moments. In 2009 EBRD started preliminary discussions about the Bank's next five-year strategy while the crisis situation was an ongoing and affecting the transition in a long-term manner.

The plans, for graduating some countries from its operations area by 2010 are postponed because of the crisis of 2008, but even though the idea itself shows that EBRD follows a dynamic strategy when it comes to its operations coverage. Meanwhile, Central European countries (Poland, Slovenia, Slovakia, and Hungary) and the Baltic countries (Lithuania, Latvia, and Estonia) are already part of the European Union, for most of them

[29]Annual Report 2006, European Bank for Reconstruction and Development

as well as in the Eurozone. These facts are examples of successful market adaptation to Western Europe and achieved good economic levels.[30]

By the year of 2010 EBRD and the countries in which it operates recovered from the most significant decline from the beginning of the transition period registering a growth of 4,2 percent and expecting similar or better results for the following year.[31] This chapter reviewed the tools which EBRD uses to fund transition. Even though it may seem like the opportunities are quite limited or restricted by plenty of criteria until now the Bank through its initiatives and investment tools played a vital role in the establishment and development of a great amount of transition projects. Through the years many projects were a success and a symbol of change for a region, country or industry. Those that did not bring the desired impact on transition turned out a lesson for the Bank to signal for a change in the policy or other component. The most negative effect for the market as well as for EBRD are crises. In the next chapter the crises that emerged in the period from 1991 until 2011 will be discussed to evaluate their impact on the investment of the EBRD.

[30]Annual Report 2008, European Bank for Reconstruction and Development
[31]Annual Report 2010, EBRD

THE SECOND CHAPTER

2. FINANCIAL CRISES AND THE INVESTMENTS OF EBRD

During the period between 1991 and 2011 EBRD was influenced by several significant regional and global economic developments that had a negative impact on the market environment. Due to its significant operating scale, the Bank was affected by several financial crises of different type, location, and size. The first one was the East Asian Financial Crisis which took place in 1997 and although it was concentrated in a few countries in Southeast Asia, had a worldwide reflection due to severe foreign exchange rate dependencies. After came the Russian Financial Crisis (Ruble Crisis) in 1998 affecting mainly Russia and several Eastern European countries but given that the Russian market is subject to nearly 1/3 of EBRD investments, this crisis also proved a factor for the behaviour of the Bank. The Global Financial Crisis (2007) and the subsequent Great Recession (2008) had a global impact on the world economy, and hence on the Bank.

2.1. The East Asian Financial Crisis of 1997-1998

The East Asian Financial Crisis is a financial crisis or financial contagion that comprised East Asia in July 1997 and provoked a threat of a global meltdown. The countries involved in this crisis are Philippines, Hong Kong, South Korea, Taiwan, Indonesia, Malaysia, Singapore, Thailand.

In the decades before this crisis happened, Asia was one of the world's fastest growing parts, characterized with stable environment, decreasing inflation and sound fiscal policies.[32]

There are several details that put the East Asian Financial Crisis as a memorable event in history. The crisis hit the fastest growing economies and generated the largest bailouts known even though predictions about a crisis were made. The East Asian Financial Crisis was not a single event but a result of the shortcomings of the international capital markets and the fact that those markets were vulnerable to the sudden quirks of market confidence. Another thing which the crisis provoked was a serious doubt in the approach of the International Monetary Fund towards financial confusions and disorders

[32]The East Asian Financial Crisis 1997-1998, Lionel Artige

coming from private financial markets. The most significant detail was that this turmoil represented how the policy missteps and hasty government and international community reactions could lead from a fluctuation to a big crisis.

The East Asian Financial Crisis can be shortly described as an event originating from the boom of international loaning followed by a sudden withdrawal of funds. The epicenter of the East Asian Financial Crisis is considered the enormous foreign capital inflows which are sensitive to stressful market situations. The panic of the international community, Asian governments' policy mistakes at the down of the crisis and the behaviour of the market participants led an adjustment to a panic which in the end led to a crisis.

At the beginning of 1997 in the countries of the East Asian region were concentrated half of the world's capital investments due to the high interest rates. In the years before the crisis, a significant growth of 10% of the gross domestic product of these countries was visible. Then in the middle of 1997 suddenly the investors started to withdraw their capital investments from the region and redirecting them mostly to the USA which at that time was recovering from another recession which took place in the 90s. These events led the USA to significantly increase its competitiveness and the American dollar to become stronger and increase its exchange rate which as a result made local Asian currencies strongly depreciated and interest rates significantly raised. Domestic credit portfolios diminished dramatically, and the most severe effects of the crisis were felt in South Korea, Indonesia, and Thailand.

Among the possible reasons for the emergence of the economic imbalance in East Asia was the aggressive expansion of capital, which happened due to the liberalization of the markets in developed countries. Another significant factor was also the share of short-term debt, which led to a liquidity problem. The dynamics of the investments created prerequisites for developing a market that was vulnerable to financial panic and in response to this panic inadequate political decisions were made in the countries of the region.[33]

In his 1998 analysis of the crisis, Morris Goldstein outlined Japan as the hardest hit country of the economic events. This was mainly due to its internal problems, such as the dropping of fiscal stimulus, the postponement of structural reforms and the worsened

[33]Currency Crises, Paul Krugman - The Onset of the East Asian Financial Crisis, Steven Radelet and Jeffrey Sachs

credit portfolio of the country. The Japanese economy was one of the culprits of the crisis, and later - a reason for the more difficult exit from it.[34]

The EBRD didn't account any significant impact of the East Asian Financial Crisis on the economies in which it is investing, as only 5% of its external trade relations are directed to the East Asian region. A stronger link could be found in the relative competition that exists between East Asia and Central and Eastern Europe in relation to some export goods targeting third countries. The devaluation of the East Asian currencies led to a fall in the prices of these commodities (mainly metals and alloys) and as a result, resource-rich countries lost their advantage and miss commercial benefits. An example for those was Russia, which gave a reason to consider the East Asian Financial Crisis one of the reasons for the emergence of the Russian financial crisis a few months later.

In the EBRD's Annual Report, 1997 was concluded as a record year for foreign direct investment in Russia even though, significant privatizations were delayed due to the situation in the international financial markets. Post-East Asian Financial Crisis market sentiment did not have a significant impact on long-term commitment capital in the form of foreign direct investment, equity funds, and project finance. For the transition countries' economies, it was vital to keep their external balances under control through cautious fiscal management and learning the lessons on exchange rate and debt management that the East Asian Financial Crisis provided. Some countries' current accounts weakness kept the capital flows and currencies vulnerable, regarding which EBRD underlined the importance of its role in building sound financial sectors whose weakness was the source of the problems in Asia and catalyzing foreign direct investment in the region.[35]

2.2. The Russian Financial Crisis of 1998

The Russian Financial crisis or The Ruble Crisis began in August 1998 as a following event of the East Asian Financial Crisis.[36] The fall in non-ferrous metals and oil prices, as well as the East Asian Financial Crisis, led to a decline in Russia's fiscal reserves.[37]

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[34]The Asian Financial Crisis Causes, Cures, and Systematic Implications, Morris Goldstein
[35]EBRD – Annual Report 1997
[36]Развилки новейшей истории России, Егор Гайдар, Анатолий Чубайс, Москва ОГИ 2011
[37]Дефолт, которого могло не быть, Мартин Гилман, Москва 2009

The beginning of the crisis was officially on 17 August 1998 when the government of the prime minister at that time - Sergei Kiriyenko terminated the strong ruble exchange rate against the dollar, defaulted on government domestic debt forcing its restructuring, announcing a commercial external debt payments' moratorium for 90 days.[38]

For EBRD 1998 was its most difficult period since its establishment. Transition in EBRD's countries of operations was challenged by the Russian Federation financial markets collapse and the continuing repercussions throughout the region. The Bank's work was heavily affected by the collapse of Russia's financial system in August 1998. The investments' credit quality deteriorated and led the EBRD to take additional provisions valuing 553 million in European Currency Unit (The European Currency Unit (ECU) was the precursor to the Euro, the shared single currency of the European Union's member countries. While the Euro is the actual currency of the European Union, the ECU was artificial currency developed by the initial EU member states for their internal accounting purposes. The ECU was first adopted in 1979 by the European Economic Community, the predecessor of the European Union. In 1999, the ECU was replaced by the Euro, at parity.[39]), mostly in Russia and especially in the financial sector. Even though the operating profit before provisions increased to 292 million in European Currency Unit from 194 million European Currency Unit for 1997, in 1998 the EBRD came out with a net loss after provisions of ECU European Currency Unit 261 million. Following to the East Asian and Russian Financial crises, investors' behaviour became more selective. The crisis put an emphasize on the fact that the progress in liberalization and privatization must be done parallel with institutional reforms. The need for developing effective legal framework based on the rule of law was of vital importance together with transparent and competitive business activity environment and limitation of the governmental administrative discretion. Market economies' institutional foundations in the region were crucial for the achievement of sustainable growth, macroeconomic stability and easier absorption of sudden economic shocks. From its establishment EBRD has always been an institution with an unique mandate, developing substantial skills and experience, due to which it succeeded to respond immediately to the crisis in Russia and focus on

[38]Report for Congress - The Russian Financial Crisis of 1998: An Analysis of Trends, Causes, and Implications, Updated February 18, 1999, William H. Cooper - http://congressionalresearch.com/98-578/document.php?study=The+Russian+Financial+Crisis+of+1998+An+Analysis+of+Trends+Causes+and+Implications

[39]http://www.investopedia.com/terms/e/european-currency-unit.asp

safeguarding existing investments and finding new ways regaining the investors' confidence. EBRD developed a plan for the future operations in Russia and clarified that there was no place for withdrawal of investments in the country and the region even in case of very challenging conditions. The most essential in the operational response plan was the Russian Government. Its work was what would define the reactions of the international community and affect the long-term effectiveness of the response operational plan. EBRD as a multilateral transition and development bank, kept its focus solely on projects, rather than on the crisis and the uncertainty. The Bank stressed on the need of higher standards for project selection, balancing more precisely the possible risks and future returns.[40]

In the spring of 1998, the World Bank and the IMF prepared a $ 22.6 billion package aiming to stabilize the country's financial market by buying short-term government securities against long-term Eurobonds. This, however, did not lead to a long-lasting success, as the Russian government refused to reduce the exchange rate of the ruble. There was a very serious outflow of investors from the country. On August 13, the Russian stock exchange and the Russian currency market collapsed due to investors' fears that the government would devalue the ruble. On August 17, the decision for the devaluation of the Russian currency was actually made and on 2 September the National Bank of Russia set the ruble on a floating rate.[41,42,43]

By the end of the year inflation in the country reached 84% and many banks bankrupted. The crisis spread to other countries tied to the Russian market like the Baltic republics, Ukraine, the USA, Belarus, and Kazakhstan. The underlying reasons for the emergence of the crisis are the unrealistically high ruble rate to foreign currencies, the chronic fiscal deficit and the high costs of the First Chechen War.[44] The low and insufficient tax collection rate and the total state revenues, representing only 15% of the country's gross domestic product, also had a significant impact. The attempts to improve collection in practice led to increased income hiding, corruption and grey-sector growth.

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[40]Annual Report 1998, EBRD

[41]Investing in Emerging Fixed Income Markets, Edited by Frank J. Fabozzi Ph.D., CFA & Efstathia Pilarinu Ph.D.

[42]http://www.interfax.ru/business/27579

[43]https://economics.rabobank.com/publications/2013/september/the-russian-crisis-1998/

[44]Причины и последствия финансого кризиса в России конца 90-х годов (по материалам временной комиссии по расследованию причин, обстоятельств и послествий принятия решений от 17 августа 1998 года) – Аналитический вестник (Москва), 1999 (май), № 10 (98), Дефолт, которого могло не быть, Мартин Гилман, Москва 2009

The Russian economy was recovering from the crisis in the period 1999-2000.[45] This was due to increased demand for oil and recovery of domestic production, as well as to the widespread barter trade in the country (with a share between 50 and 75% in 1997) which eliminates monetary influence. The consequences of the crisis affected significantly the EBRD's portfolio, as projects in Russia represent about one-third of it. The close economic partners of the country, including the countries of the former Soviet Union, were affected, but with the exception of Belarus, serious economic problems were not noticed. When assessing investment opportunities, the EBRD continued to follow its usual approach to risk management, which effectively eliminates inappropriate project endeavors in Russia. Based on its exposures in the country, at the end of 1998, the Bank allocated a provision sufficient to cover any adverse results. In practice, the total provisions of the Bank increased three times compared to the 1997 allocations. In addition, nearly half a billion euros of specific provisions were earmarked. As a result, the Bank reported € 908 million of provisions at the end of 1998, representing 16% of the value of its portfolio.[46,47]

2.3. The United States Housing Bubble of 2007

The Housing Bubble which is the common term for the U.S. subprime mortgage crisis was part of a group of events that led to the Global Financial Crisis. The most characteristic for this crisis was the rise in subprime mortgage delinquencies and foreclosures, which led to a decline of the securities backed by said mortgages.

The share of new subprime mortgages with lower-quality jumped from about 8% or less to about 20% in the period between 2004 and 2006. The percentages were significantly higher in some parts of the USA.[48,49] For 2006 the adjustable-rate mortgages represented more than 90% of the subprime mortgages. Those percentages reached such levels due to the visibly decreased standards for lending mortgage products with very high risk, which at the same time made the American households significantly indebted

[45]HISTORY OF THE INTERNATIONAL MONETARY FUND Tearing Down Walls, The International Monetary Fund 1990-1999 James M. Boughton-Russia From Rebirth to Crisis to Recovery
[46]Annual Report 1997, EBRD
[47]Annual Report 1998, EBRD
[48]Michael Simkovic, Competition and Crisis in Mortgage Securitization-http://ssrn.com/abstract=1924831
[49]Harvard University-The State of the Nation's Housing-2008-See Figure 4, Page 4-http://www.jchs.harvard.edu/sites/jch. harvard.edu/files/son2008.pdf

and the disposable personal income to debt ratio rising from 77% in 1990 to 127% at the end of 2007.[50,51,52]

Between 1997 and 2006, the average US property price increase reached 124%. During this period, many Americans were convinced by lenders to refinance their homes by paying lower interest rates than the average for the market over a certain period and subsequently to pay interest for the remaining period according to the average market levels. In case that customers experienced difficulty with interest payments, they were given the opportunity to refinance their debt. This mechanism was due to insufficient control over investment banks and hedge funds, which just like commercial banks are giving credits. The expansion of the "bubble" was also possible due to the so-called Mortgage-Backed Securities. Due to the lack of a real assessment of mortgage bonds, both credit and liquidity risk increased. For investors and institutions worldwide, this financial innovation opened the U.S. housing market for investment. The decline in the housing prices brought heavy losses to the global financial institutions that lent and invested heavily in Mortgage-Backed Securities. Later on, the housing crisis expanded to other branches of the economy and brought significant defaults and losses for other loan types. Globally the total losses estimated trillions of U.S. dollars. The uncertainty and the collapse in the housing market in the US increased the number of overdue mortgage payments. The failure to collect claims on bad loans brought significant losses to many US financial companies. This, in turn, caused US banks to reduce mortgage lending and to be very careful with lending. The subsequent collapse of several large corporations revealed the lack of adequate regulation on the property market in the United States and especially on mortgage bonds. Under this mechanism, the focus was shifted from the repayment of the mortgage loan to the possibility of resale of mortgage-backed bonds.[53] Sometimes EBRD's financing is reinforced by the use of private ownership and mainly of the commercial banks that increase the resources available to clients. This set of circumstances that made it possible for the EBRD to do syndicate loans to the above mentioned banks were visible in 2007 and especially in the first half of the year with the help of the bank landing market's high liquidity. Later, in the second half of 2007, in the

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[50]Zandi, Mark (2009). Financial Shock. FT Press. ISBN 978-0-13-701663-1

[51]Michael Burry-Vanderbilt Magazine-Missteps to Mayhem-Summer 2011 (http:/ / www. vanderbilt. edu/ magazines/ vanderbilt-magazine/2011/ 09/ missteps-to-mayhem/

[52]"The End of the Affair"-http://www.economist.com/world/unitedstates/displaystory.cfm?story_id=12637090

[53]"IMF Loss Estimates"-http://www.imf.org/external/pubs/ft/weo/2009/01/pdf/exesum.pdf

very beginning of the US sub-prime mortgage crisis market liquidity tightened dramatically, but EBRD's syndicated loans went on being prosperous, which was a good indicator that the market appraised the projects financed by the Bank. In the same year the Bank succeeded in gathering three and a half billion euro from the private sector that were used supporting fourteen countries of operations. Thus, the EBRD reached a twenty-seven percent increment for 2006 which is explained by experts as being due to the rise of its duties for 2007.[54]

2.4. The Global Financial Crisis of 2007-2008

The Global Financial Crisis of 2007–2008, also known as the 2008 Financial Crisis, is known as the worst market event since the Great Depression in the 1930s. It is rooted in the collapse of the US mortgage market and the emergence of the "housing bubble" as a result of mortgage bonds. Financial markets all over the world collapse due to the bankrupting of companies (the most significant of which is Lehman Brothers) and the lack of credit resources. Insufficient knowledge of financial products and the lack of appropriate risk measures are the cause of financial regulators' inability to protect the financial system.[55] The starting point was the crisis in the subprime mortgage market in the US in 2007 which later on grew into an international banking crisis when the investment bank Lehman Brothers collapsed on 15th of September 2008. The excessive amount of risk taken by banks of the Lehman Brothers rank pushed the financial impact globally. Financial institutions, monetary and fiscal policies were employed to give financial assistance to the failing economy and prevent a world financial system collapse. The Global Financial Crisis was followed by the Great Recession, which later on was followed by the European debt crisis, which affected the countries using the euro as a national currency.[56]

Economists relate the Great Depression (1929-1933) to the The Global Financial Crisis (2007-2009) and draw an analogy in the driving forces of both crises. There were many similarities like the banking system's flawed design, a boom in real estate with high households and financial institutions debt burdens, and economic inequality. The Great

[54]Annual Report 2007, EBRD

[55]MTA-ELTE CRISES HISTORY RESEARCH GROUP WORKING PAPERS IN CRISIS HISTORY/NO. 2-The Great Depression(s) of 1929-1933 and 2007-2009? Parallels, Differences and Policy Lessons, Peter Eigner and Thomas S. Umlauft First draft: December 2014 This version: July 2015

[56]UNCONTROLLED RISK THE LESSONS OF LEHMAN BROTHERS AND HOW SYSTEMIC RISK CAN STILL BRING DOWN THE WORLD FINANCIAL SYSTEM, MARK T. WILLIAMS

Depression was marked with political inaction while for the Global Financial Crisis the political quick and prompt intervention prevented the situation to turn into another Great Depression by reducing the effects on the economy.[57]

At the end of 2008, after Lehman Brothers bankruptcy in the United States, the EBRD joined the package of steps launched by G20 countries and international financial institutions to respond the crisis. This response consisted of taking steps to further assess the Bank's projects and review the medium-term plans. In its Preliminary Business Plan for 2009, the management of the Bank expressed expectations of uncertainty and vulnerability of the economies in which it invests. In the middle of the crisis, the EBRD took action that has so far not been characteristic of its behaviour. Instead of increasing the number of projects it was involved in, it redirected funds to projects already started, which have lost funding from other sources. The choice of such projects was determined by several conditions, including the level of recapitalization, the amount of operating capital and the amount of debt financing. The result of the measures taken is less disrupted projects or stagnant projects.

In 2006 until the summer of the following year or within the time before the crisis financing from outside was necessary to overcome the deficits in current accounts and growing debt. In the meantime, the quick increase of people's interest in real estate and foreign currency borrowing influenced banks decreasing the price of the assets and causing instability of the currency. This increasing uncertainty continued from September 2007 until August 2008. In 2007 until Mid-2008 the EBRD's countries of operations seemed to remain relatively unaffected regardless of the actualities on the financial markets in developed countries. The EBRD's aims at keeping the amount of its business in 2008 too did not change despite until mid-year its treasury and equity valuations were quite influenced.

After the collapse of Lehman Brothers in September 2008 it became obvious that the EBRD's countries of operations were going to be touched by the financial and commercial problems; so, the international financial institutions should answer somehow to the starting crisis. Perhaps the most suitable moment to take up and firstly debate the

[57]NBER WORKING PAPER SERIES THE GREAT RECESSION AND THE GREAT DEPRESSION Peter Temin Working Paper 15645,NATIONAL BUREAU OF ECONOMIC RESEARCH 1050 Massachusetts Avenue Cambridge, MA 02138 January 2010- http://www.nber.org/papers/w15645

problems was granted by itself: the following month the IMF–World Bank Annual Meeting was being organized, and then in November the G-20 Summit.

In an EBRD's report of November 2007, a division of markets into two categories was proposed: the first one consisting of countries that are more vulnerable to external shocks, and the second one – of the others. The report finds out that two thirds of the Bank's portfolio was located in the markets of the first category. Therefore, much of its portfolio was also at risk of external influences. The increased risk for the Bank's capital puts its capital adequacy priority as high priority. In the Bank's 2009 plan, important points were maintaining investment engagement, improving risk management, and adopting flexible approaches to meeting any market events.

The operational crisis response meant to recall of a need for technical cooperation in such situations. And the most important: the reinforcement of the risk management in the financial and corporate sectors was needed. As a result, in spring 2009 the EBRD Shareholder Special Fund was refilled by thirty million euro and four million of them was provided for crisis response. The crisis influenced the estimated risk of the EBRD's loan portfolio firstly, by adjusting loans' risk ratings with the purpose to improve the outlook; secondly, by altering its provisioning policy aiming at the growth of the loss given default and thirdly, by distributing (in 2009) special projects among countries exposed to higher risk. The above mentioned measures caused higher losses in loans and provisions in the period between 2008 and 2010, which affected EBRD's capital and crisis responding capacity. The expected loss was analyzed by country and according to it there was enormous concentration of crisis response projects in Russia and Ukraine where, for instance, in June 2010 they reached 62 percent. By the autumn of 2008 for the Central and East European as well as for the Central Asian countries significant problems and the necessity for eventual answer to them had been able distinctly to be predicted.

By October the same year it had been visible that Central and East European and Central Asian states would be financially "shaken". The situation and the necessary measures to be taken were debated at the IMF–World Bank Annual Meeting, then the G-20 Summit on Financial markets and the World Economy from Mid-November. At the latter meeting the G-20 reached a general agreement on cooperation in essential fields targeting to fight and overcome financial crisis, to help and make economies stronger, and envisaging a reform which would help keep away from future crisis. The G-20 issued an announcement where they turned to the international financial institutions and

governments and called them on responding and providing the necessary capacity. On November 2008 the Bank retreated in order to make it possible to come to consent for a certain crisis response. The Retreat Background Notes summarized all the strengths, weaknesses, opportunities and threats encountered by the Bank during the preparation of a "determined response that is grounded in the Bank's capacity and mandate". The EBRD's primary mission was and continues to be financing investment projects and not responding to crisis, investing in private sector projects and support countries in transition, but not to deal with regional crisis. So, it was not prepared in advance for such a situation but managed to adjust quickly to the new conditions. The EBRD's reaction in the event of crisis exceeded its customary practices. Its function of supplying funds for new investments was replaced by providing money no longer available from other sources. It means that such kind of funding did not broaden assets but avoided declining by the use of other, quickly disappearing financial sources. As we see from the above said the EBRD's actions taken during the crisis were quite different from its original mission and practices. In its initial budget and work plan from October 2008 the EBRD envisaged €6 billion for commitments in 2009, which was quite more compared to the €5.2 billion in 2008. In the operational response to the crisis the sum became €7 billion or one billion euro more – in case of crisis. At the end of 2009 the visionary commitment concerning pipeline and signings reached €8 billion and within it another one billion euro provided for crisis projects. In a word, real commitments developed into the sum of € 7.8 billion which constituted an increase of about fifty percent for the whole 2008. The additional amount of money was broken down by sector albeit in general the shares in percentage did not differ too much as to 2008. This was an overall consequence of business planning and pipeline management. The distributions within the EBRD's investment sector were not changed by accomplished reaction to the crises. With regard to the sector structure of the action plan the financial sector was considered by the Bank quite crises susceptible; that is why the Bank got ready to supply sufficient financing not acquirable from alternative sources.

According to the 2009 Business Plan, which was reconsidered and adapted for reaction to crisis, the first one billion euro of the annual business volume was divided mostly among financial institutions; after that no one received anything from the following one billion euro, i.e. from the one billion, coming from the plan revised in September 2009. In 2009 in all zones the new commitments were bigger than in 2008,

but the raise was not proportionate. In particular, the EBRD's clients numbered one thousand, but the total number of crisis response projects did not exceed one hundred, and in addition the latter related real clients and EBRD's countries only partially. In fact, several countries received the greater part of the crisis response projects and their subsidies. Ukraine demonstrated very high levels of risk which is why became the second largest recipient – in number of projects as well as in amount of subsidies. Nineteen of the EBRD's twenty-nine countries of operations joined the crisis response projects. Among them as a side and participant in thirty-two projects Russia is at the top of the list. Next comes Ukraine that has twenty projects. From regional point of view about 1/3 of the projects for reaction to crisis were conducted to members of the European Union, 1/3 to Russia and another 1/3 to other countries (counting regional projects, and mostly to Ukraine). Among European Union countries of operation such projects signed Bulgaria, Hungary, Latvia, Lithuania, Poland, Romania and Slovakia, bearing in mind that the biggest beneficiaries were Romania (7 projects worth 660 million euro) and Hungary (7 projects worth 567 million euro) and both together concentrated 2/3 of the whole amount of EU investments concerning coping with crisis.[58]

2.5. The Great Recession of 2008

The financial crisis that began in 2007 and continued until 2009 and its consequences are known as the "Great Recession". It caused the destruction of U.S. households own financial assets worth twenty trillion dollars; the unemployment rate increased highly – from 4.7% to 10% (not having in mind the discouraged and marginally attached workers). By 2010 the earnings of college graduates had already lowered significantly – an average of 17.5% less than before the crisis. And experts predicted that this earnings drop was going to continue the following ten years. The phenomenon went beyond U.S. The drop in consumption and income in the U.S. provoked a decrease in lots of countries' exports as well as in their investments in the U.S. It resulted in a global GDP decline – by 2% in 2009.[59]

The prolonged crisis caused by the collapse of the U.S mortgage market led to a recession all over the world. Governments worsened the situation trying to rescue the banking sector, while consumer demand significantly decreased, and unemployment

[58]The EBRD's response to the 2008-09 crisis, EBRD, November 2010
[59]Goodwin, N., J. M. Harris, J. A. Nelson, B. Roach, M. Torras. Macroeconomics in context. 2nd edition

raised. The fall in budget revenues and the high costs of bank restoration led to a budget deficit for the period 2008-2009. Many countries went through a tight regime in an attempt to calm the financial market. These measures, respectively, resulted in a profound social crisis in developed countries and had a negative impact on the banking system and international trade. As well as there was a significant reduction in output, demand and commodity prices.

The Bank exposed assumptions for quick recovery of the countries in which it operates, but forecasts differed from the actual results. At the expected average GDP growth for the countries at the rate of 3.5%, a decline of (-4.1%) was achieved. This significant difference was a sign that the Bank was not in position to anticipate adequate the consequences from the onset of a financial crisis. The regions in which EBRD operates were among the most heavily affected in the world.

The most important moment of the EBRD's investment behaviour changes was that the number of newly concluded financing contracts straitened at the expense of wider support for local commercial banks and corporate partners in their struggle to stay on the market.

The Bank also worked to maintain the financial support of large banks to their subsidiaries in the countries that are subject to its investment activities. Lack of this would lead to a loss of liquidity and hence a risk of stopping profitable and local projects, which would also affect the EBRD's portfolio.[60]

[60]EBRD, Growing Financing Needs in Unsettled Capital Markets Report, 2007

THE THIRD CHAPTER

3. ANALYSIS OF THE MARKET CRISES IMPACT ON THE INVESTMENT BEHAVIOUR OF THE EBRD

This chapter examines the Bank's project evaluation policy, its operational performance, project participation and results for the period 1991-2011, based on its Financial Report for 2011.

3.1. EBRD's Project Evaluation Policies

The base for evaluating the EBRD's investment projects is the current Evaluation Policy. The latest approved Evaluation Policy dates back to January 2013 and serves the application of the assessment techniques presented in this thesis. The evaluation of the Bank's work is independent. It is carried out by a designated unit of the Bank-Evaluation Department. By categorizing expired projects on a certain scale, the Bank is more easily guided when, where, how, and how much to invest in the future aiming to reach an effective investment contribution and a possible return. The Evaluation Unit has the responsibility to make assessments of strategies, procedures and policies, as well as to ratify the self-assessment of the Bank's management unit. The objectives of the evaluation are to create an objective, evidence-based assessment that helps for better accountability and to obtain information otherwise unidentifiable that could serve as a starting point for future operations. The Bank needs an evaluation of its individual investments, their expected costs and benefits. Usually, within 1-2 years from the payment of the resource for an investment, its effectiveness can be evaluated.[61]

3.2. Analysis of the Operational Performance of the Bank

The operational performance of EBRD aim to present the dynamics of the projects runned through the years examined in this thesis and evaluate their success rates bearing in mind the critical periods of crises as a major factor for fluctuations.

[61]EBRD, Policy Document, Evaluation Policy, Board approved: 16 January 2013

3.2.1. Overall performance and project implementation

The overall performance and project implementation covers the whole period examined in this thesis, from 1991 until 2011 and regards all the projects signed by EBRD with evaluation of their success rate. The following figure draws a picture of the success levels through the years.

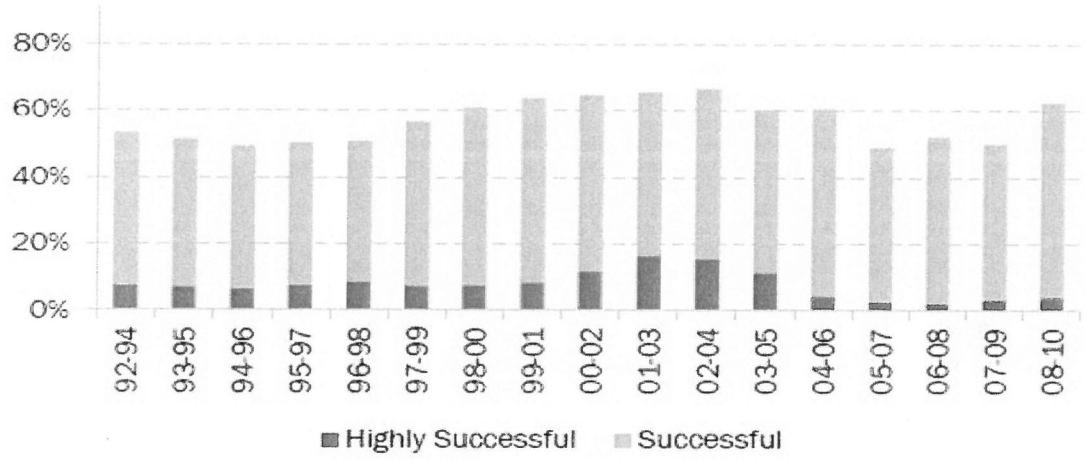


Fig. 3.1. *Overall performance by year (EBRD, Annual Evaluation Review 2013)*

There are no particular fluctuations in the overall performance from 1991 to 2010. Generally, the share of successful projects varies between 50-65%. For the period 1992-1994, 54% of the projects were successful. For the last monitored period - 2008-2010, 62% of the projects were evaluated as successful. The largest share of successful projects (68%) was achieved in the period 2002-2004. However, in the long run, there is no significant increase in this share, because the Bank's investments target problematic and often insecure sectors and countries. Therefore, there is a certain level of risk that can be overcome only within certain limits. Achieved levels of 50-65% of project success rates can be considered adequate and expected through the years. The falls and rises in fig. 3.1. can be explained by the impact of the two more significant financial crises, which were between 1994-1996 (the years before the Russian Financial Crisis) and 2005-2007 (the years before the Global Financial Crisis). Between 2005 and 2007, the share of the highly successful projects was the lowest (in the dark blue on fig. 3.1.) in the Bank's history - no more than 3%, as opposed to the period of global economic growth between 2002 and 2004, when it was around 15%. It can be concluded that the two crises have similarly affected the performance benchmark due to the similar level of success. It should be

accounted for nearly three times the share of highly successful investments in 1996-1998 than in 2006-2008. The one to two years difference between the periods of decline on fig. 3.1. compared to the actual periods of crisis is due to the fact that the project financing contracts have been concluded under conditions that involve significant resources but not predicting the risks of a possible deterioration in the economic environment. The consequent negative change in the market conditions right after the beginning of the agreed period put the contractors of a large number of the projects unable to pay their obligations to the Bank.[62]

3.2.2. Overall regional project implementation

EBRD evaluates the projects in different success levels. Figure 3.2., where CA goes for Central Asia, CEB for Central Europe and Baltics, EEC for Eastern Europe and Caucasus, RUS for Russia and SEE for South-Eastern Europe, represents the picture of the regional success level of EBRD's projects.

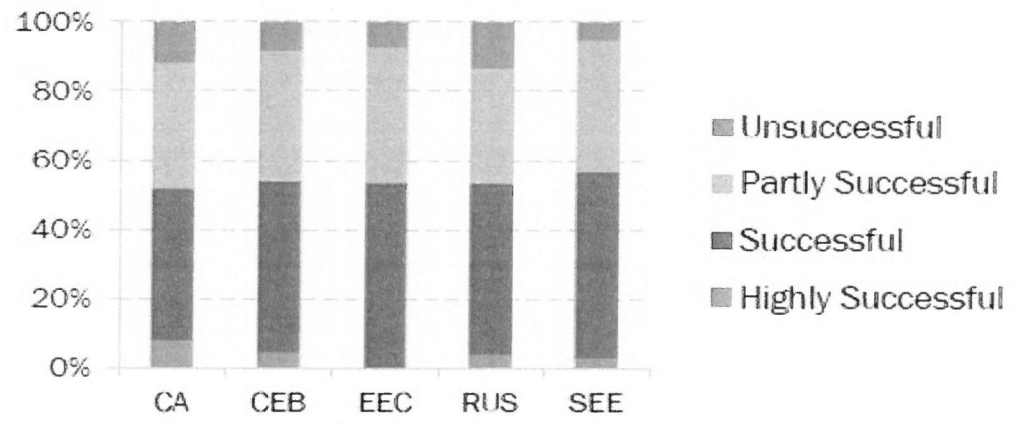


Fig. 3.2. *Overall performance by region (EBRD, Annual Evaluation Review 2013)*

Fig. 3.2. represents the period between 2005 and 2010 and shows the success rate of projects by region. The highest success rate was achieved in Central Asia - around 8% of the total was in the category highly successful. However, the share of failed investments was also high - 12%. 50% of the projects have been evaluated as successful. This indicator was similar in other regions, like Southeast Europe where the success was

[62]EBRD, Annual Evaluation Review 2013

of nearly 60%. Considering the relatively low share of unsuccessful projects for this region (5%), it could be concluded that the Balkans are a favorable region for bank investment. The largest share of unsuccessful projects was in Russia - about 14%. Due to the fact that the chart did not cover the 1997 Russian Financial Crisis, but included the Global Financial Crisis in 2008, it could be concluded that the largest country in which the EBRD positions investment activity is the most vulnerable to negative market influences. The Russian market is a factor that has a key impact on the Bank's risk management. Russia's segregation into a separate category from the rest of the region is an appropriate tool for its close monitoring in the context of the Bank's assessment function. In the group of Eastern European and Caucasus countries, there aren't very successful projects. Successful projects have a similar share to those of the other regions, but it is obviously difficult to achieve results beyond what is perceived as normal and expected. Considering the comparatively small share of unsuccessful projects, we can assume that the easiest is to predict the results of this region and that the projects have been adequately evaluated before their implementation.[63]

3.2.3. Overall sector implementation

Every industry sector funded by EBRD goes through transition with own speed and level of success. The next figure 3.3. shows in which industry the Bank has made its best performance - Energy (ENE), Financial Institutions (FIN), Industry Commerce and Agriculture (ICA) or Infrastructure (INF).

[63]EBRD, Annual Evaluation Review 2013

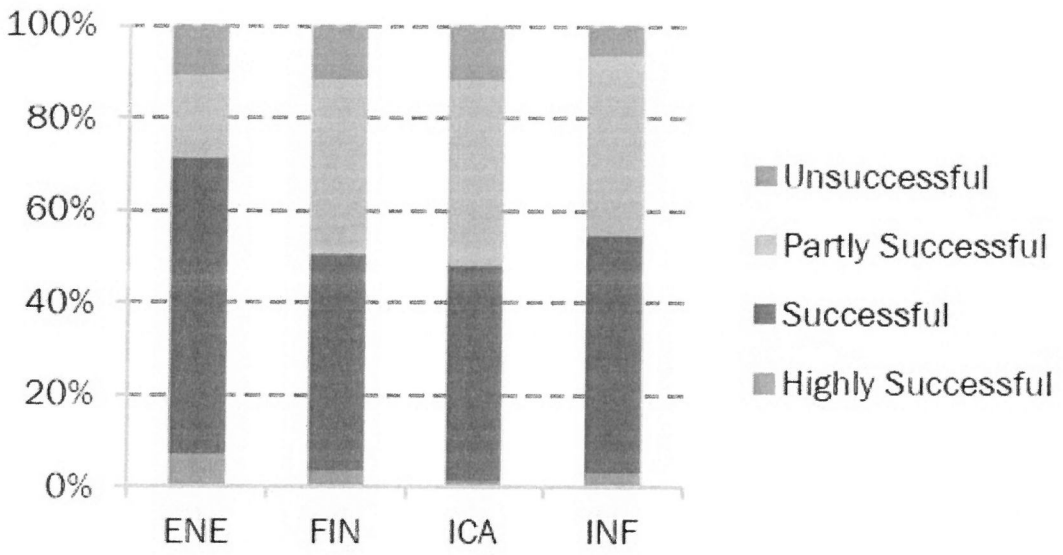


Fig. 3.3. *Overall performance by sector (EBRD, Annual Evaluation Review 2013)*

Fig. 3.3. represents the period between 2005 and 2010 with the success rates of EBRD's projects by sector. The most significant success rate was accomplished in the energy sector with around 70% successful and around 8% highly successful projects. The infrastructure projects were also with high success rate. The good results of both could be explained with the fact that they are usually part of the public sector and the state is a sponsor and/or guarantor, which could be considered a certain factor for good performance. Energy-related projects often turn out to be highly beneficial. It is a fact that the solid financial resources which are needed for a project and the high returns from them should be predictable and reliable source of income for the Bank. Many of the energy projects also the infrastructure ones are of national and regional importance plus their realization creates favorable conditions for growth. More vulnerable to financial fluctuations are the financial sector, industry, trade, and agriculture. They mainly operate through private capital, which is more sensitive to market changes. The values on fig. 3.3. largely represent the impact of the Global Financial Crisis and the following recession, which is the reason for the relatively weaker results of investment projects in these sectors.

3.2.4. Process and resource efficiency of EBRD's projects

The efficiency of the processes is determined by the Bank's behaviour throughout the project cycle, while investment performance measures resource use efficiency. In the recent years, it has been found that the reasons for unsuccessful projects are rooted in factors beyond the scope of banking control - the political environment, the economic environment and the unexpected actions of the investment partners.

Figure 3.4. shows that projects implemented in Eastern Europe and the Caucasus for 2005-2010 have relatively low efficiency in investment resources and less than half have been rated as good or excellent. The division is made by regions, where CA is Central Asia, CEB - Central Europe and Baltics, EEC - Eastern Europe and Caucasus, RUS - Russia and SEE - South-Eastern Europe.

There is a discrepancy between the expected and the achieved performance results. The project evaluation department explained this with the lack of sufficient staff to work on projects in this region. The most positive was the assessment of the projects in Southeast Europe as they are realized at almost ideal levels of utilization of the financial resource.

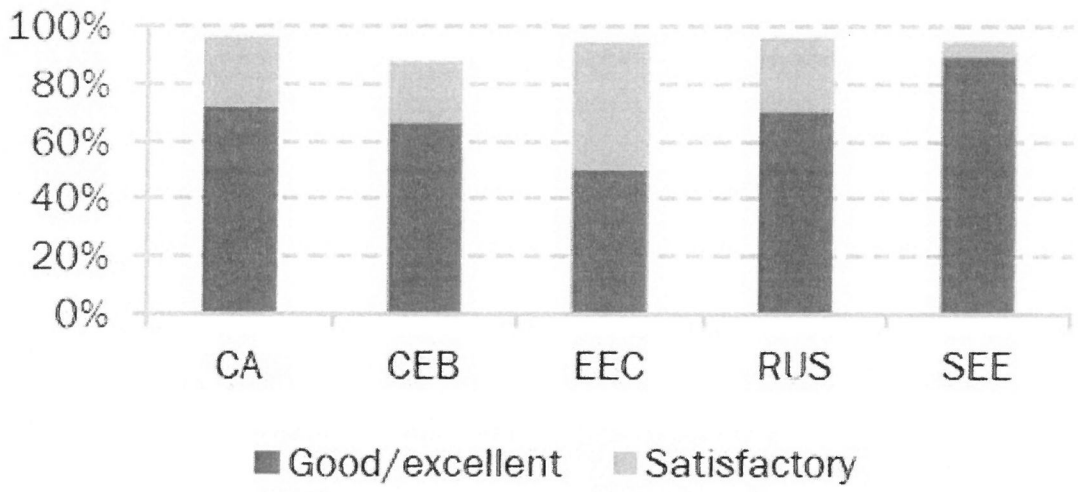


Fig. 3.4. *Efficiency of the investment resources (EBRD, Annual Evaluation Review 2013)*

3.2.5. Social and environmental impacts of EBRD's projects

The share of the projects with significant impact on the social change and the environment is relatively constant - about 30% (Fig. 3.5.). The number of projects that have some impact on the social change and the environment has risen over the years and has now grown up to almost 100%. It should be noted that the tendency of constantly seeking for sustainability and social development, which correlates with one of the basic principles of the investment activity of the Bank. By 2010, almost all the projects in which EBRD participates were related to the achievement of a set of non-financial objectives, the realization of which has a favorable impact on social and environmental problems in different countries and regions.

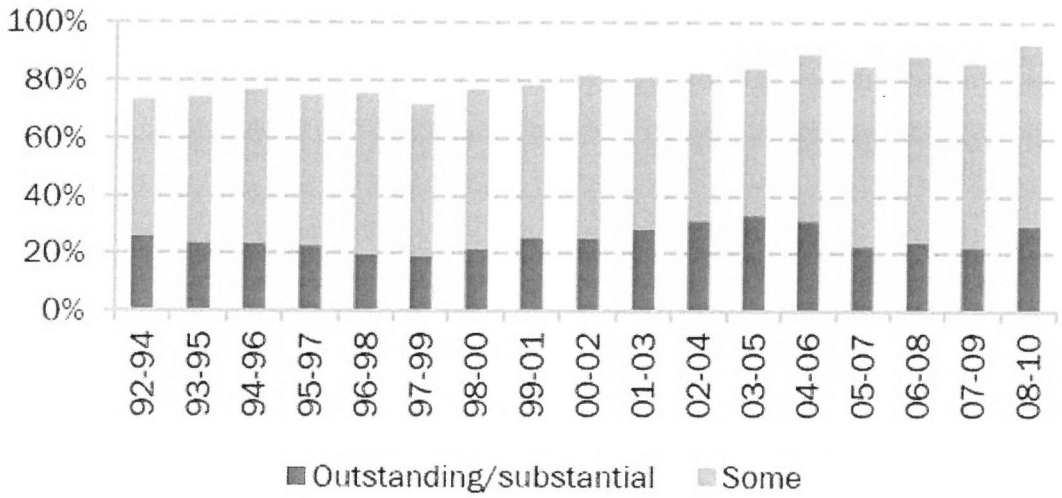


Fig. 3.5. *Impact on the social change and the environment (EBRD, Annual Evaluation Review 2013)*

3.3. Project Participation Analysis of EBRD

The analysis of EBRD's participation in project funding in the period from 1991 to 2011 puts in display the fluctuations and the distribution of investments which makes visible the changes and differences in all countries and periods.

3.3.1. Dynamics of the signed investment contracts

Statistics on the signed investment projects made by the Bank during the analyzed 20-year period from the EBRD's establishment until 2011 are presented in the following figure.

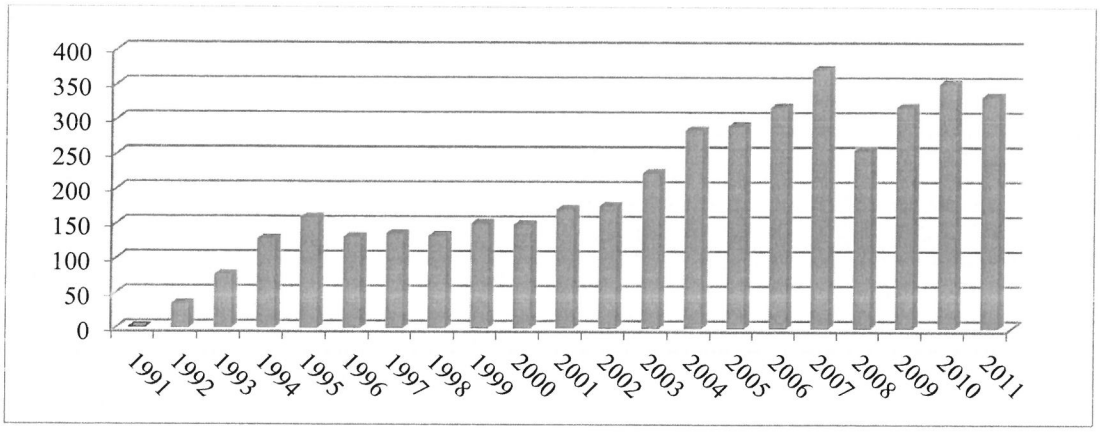


Fig. 3.6. *Dynamics of the signed investment projects (Number of signed projects) (Student's own calculations based on the data in the following link: http://www.ebrd.com/work-with-us/project-finance.html)*

The figure (fig. 3.6.) represents the number of investment contracts signed by EBRD for the period of twenty years from1991 until 2011. In the first years, there has been a constant gradual growth in the number of projects concluded. The peak in 1995 was followed by a fall in the next three years due to the impact of the East Asian Financial Crisis of 1997 and the Russian Financial Crisis of 1998. In 1999, the number of signed projects began to rise. In 2004, 285 projects were launched and in 2007 the balance was 372. The sharp reduction of 116 projects on an annual basis in 2008 is understandable due to the global financial markets collapse and the subsequent recession. In the recent years there has been a gradual recovery of the Bank's investment activity and an average of around 300 contracts annually.

3.3.2. Changes in the EBRD's shareholding for projects

The Bank invests different volumes of financial resources, which are tailored to the specifics of the projects and the degree of the risk they carry. The following figure contains information about the share with which it most often pursues investment activity.

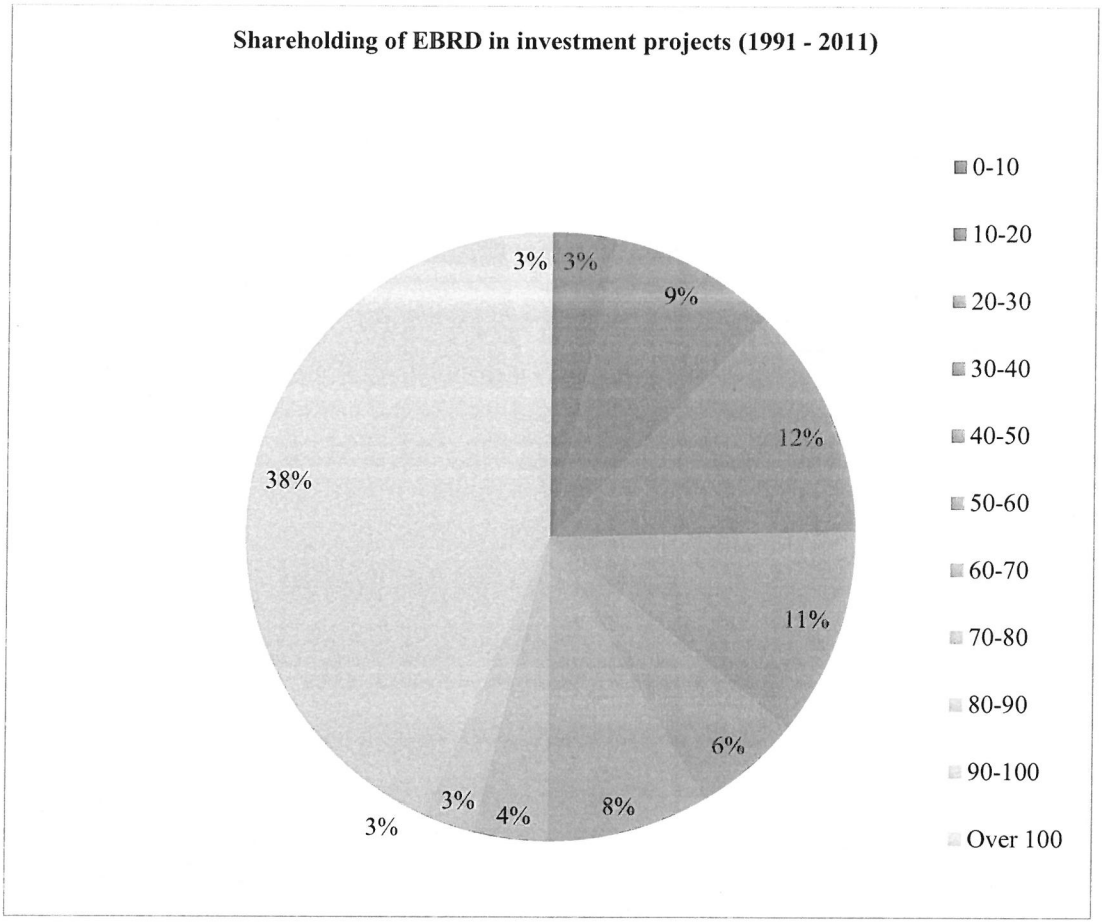


Fig. 3.7. *Project participation of EBRD in investment projects (1991 - 2011) (Student's own calculations based on the data in the following link: http://www.ebrd.com/work-with-us/project-finance.html)*

From the data included in fig. 3.7., it can be concluded that in most cases (38%), the bank provides 100% or near to 100% financing for the investment projects in which it participates. Very rarely - in 3% of cases - it provides additional capital, which we can count as a bonus for the good quality of the project. Minimum funding of up to 20% is not typical for the Bank's operations. However, participation from 20% to 40% occupy a significant share in its portfolio (23% of the total), while funding at levels of 60% to 90% is not characteristic. From the outputs, it follows that the Bank relies on two main lines of lending. The first one of full financing (capital investment) which provides all the necessary capital needed for the implementation of the projects and partial financing (lending) which provides funds in the order of 1/3 of the required capital.

In order to draw the main conclusions, several key years for the economy of the analyzed period are examined. Fig. 3.8. represents the EBRD's project participation for 1996.

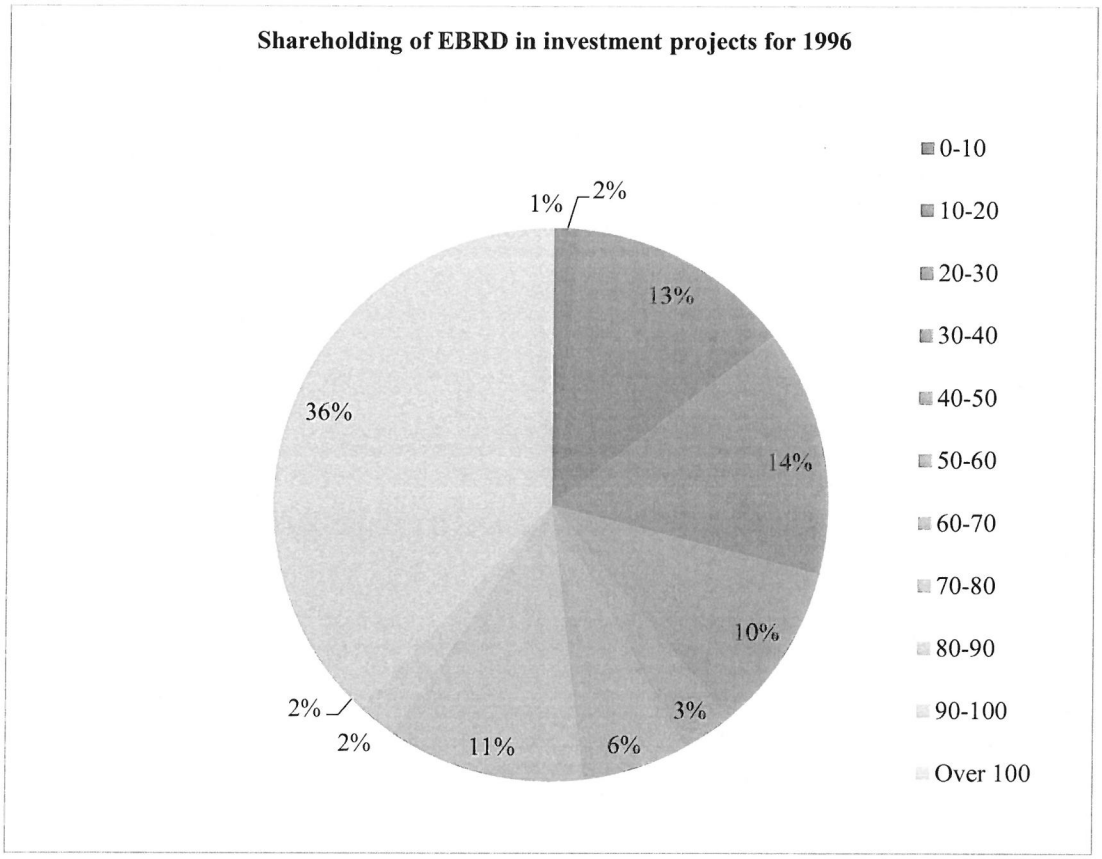


Fig. 3.8. *Project participation of EBRD in investment projects for 1996 (Student's own calculations based on the data in the following link: http://www.ebrd.com/work-with-us/project-finance.html)*

The data for 1996 is close to the average for the whole period between 1991 and 2011. The share of funding in the range 60-70% is greater compared to the previous chart, which speaks of optimism regarding the realization of the projects. This phenomenon is characteristic for periods preceding economic crises.

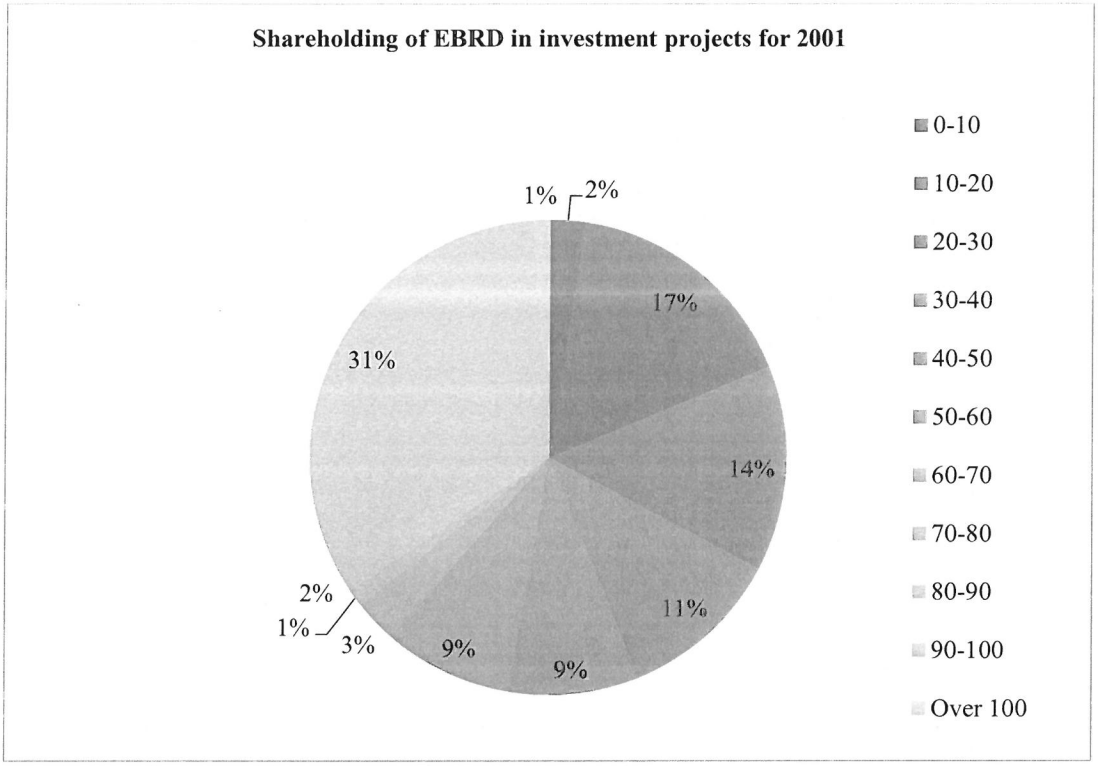


Fig. 3.9. *Project participation in investment projects of EBRD for 2001 (Student's own calculations based on the data in the following link: http://www.ebrd.com/work-with-us/project-finance.html)*

Figure 3.9. represents the project participation for 2001. In 2001, there was a more conservative policy of the Bank. As a percentage, full funding did not exceed the volume of limited funding (up to 30%).

On fig. 3.10. the project participation of EBRD in investment projects for 2007 is visualized.

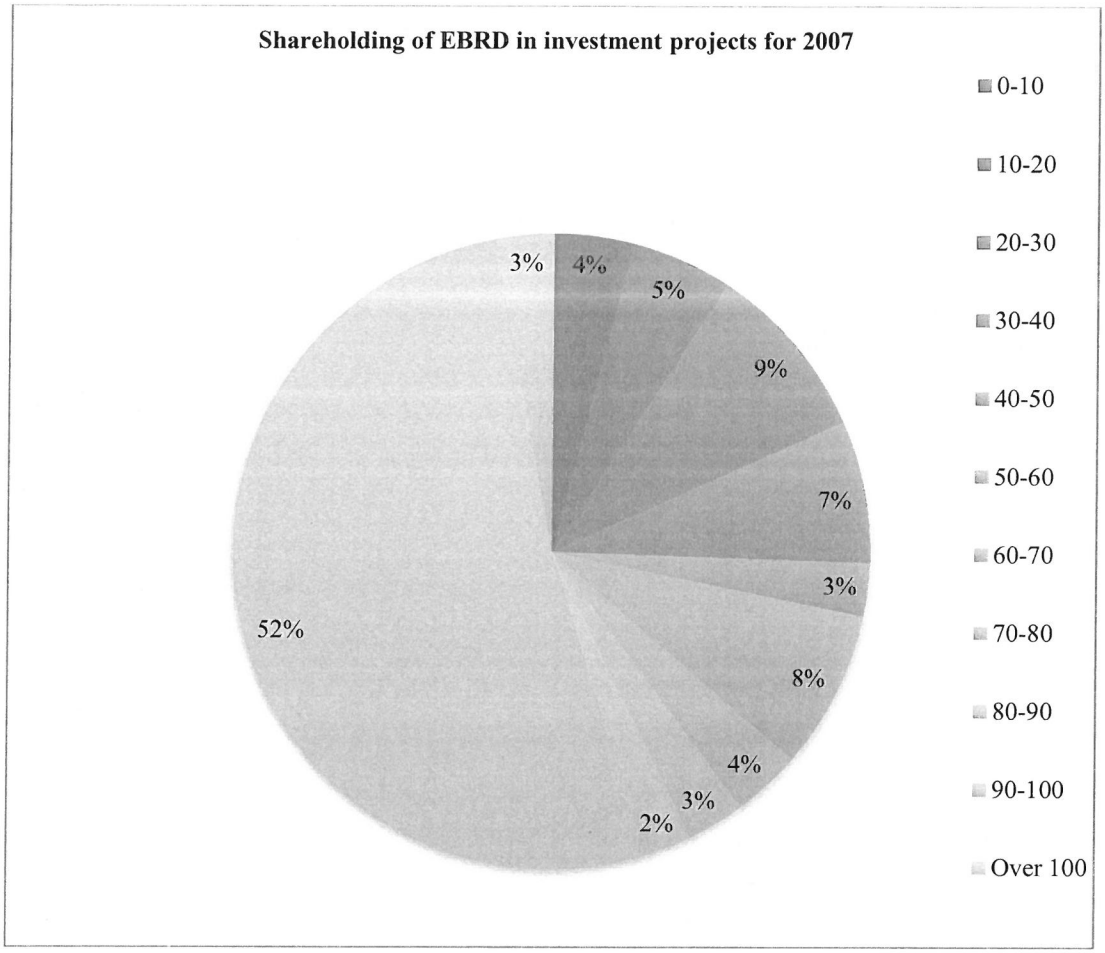


Fig. 3.10. *Shareholding of EBRD in investment projects for 2007 (Student's own calculations based on the data in the following link: http://www.ebrd.com/work-with-us/project-finance.html)*

The last economic year favorable to the global economy, before the collapse of the financial markets and the subsequent long-term recession, was 2007. Investors were optimistic about rising returns and did not have any expectations regarding the failure of the new investment contracts. Fig. 3.10. shows a peak in EBRD investments (a total of 372 contracts signed in 2007), more than half of which - 52% were in the range between 90% and 100% financing by EBRD. The remaining parts in the figure for the funding rate are allocated fairly evenly and no more distinct line of conduct is observed by the Bank.

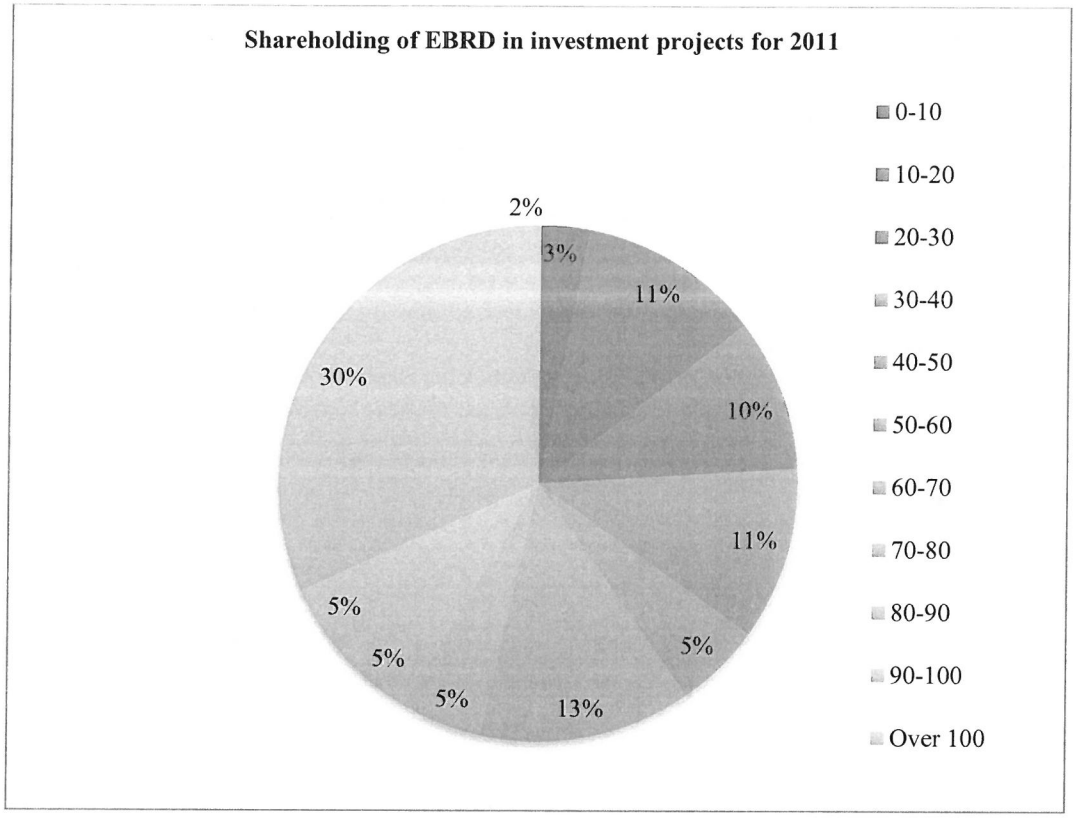


Fig. 3.11. *Shareholding of EBRD in investment projects for 2011 (Student's own calculations based on the data in the following link: http://www.ebrd.com/work-with-us/project-finance.html)*

In 2011 there was a moderation trend in the portfolio structure of the Bank. Participation in the range between 90% and 100% was seen in 23% fewer cases than in 2007, which accounted for more participation in the range of 50%. Therefore, there is a desire for diversification, which is probably due to more detailed and accurate project evaluation and better risk management. There was strive for diversification, which could be considered as a result of the more detailed and accurate project assessment and better risk management.

3.3.3. Distribution in the investment portfolio of the EBRD

The distribution of investments in not following a particular rule or concept. It is quite uneven but through the years of its operations EBRD has been drawing its behaviour model through it, so it can be used for making many conclusions.

3.3.3.1. Distribution of investments by country

The distribution of the Bank's investment by country is uneven but adequate according to the population, location (region), level of economic development, state organization and other factors.

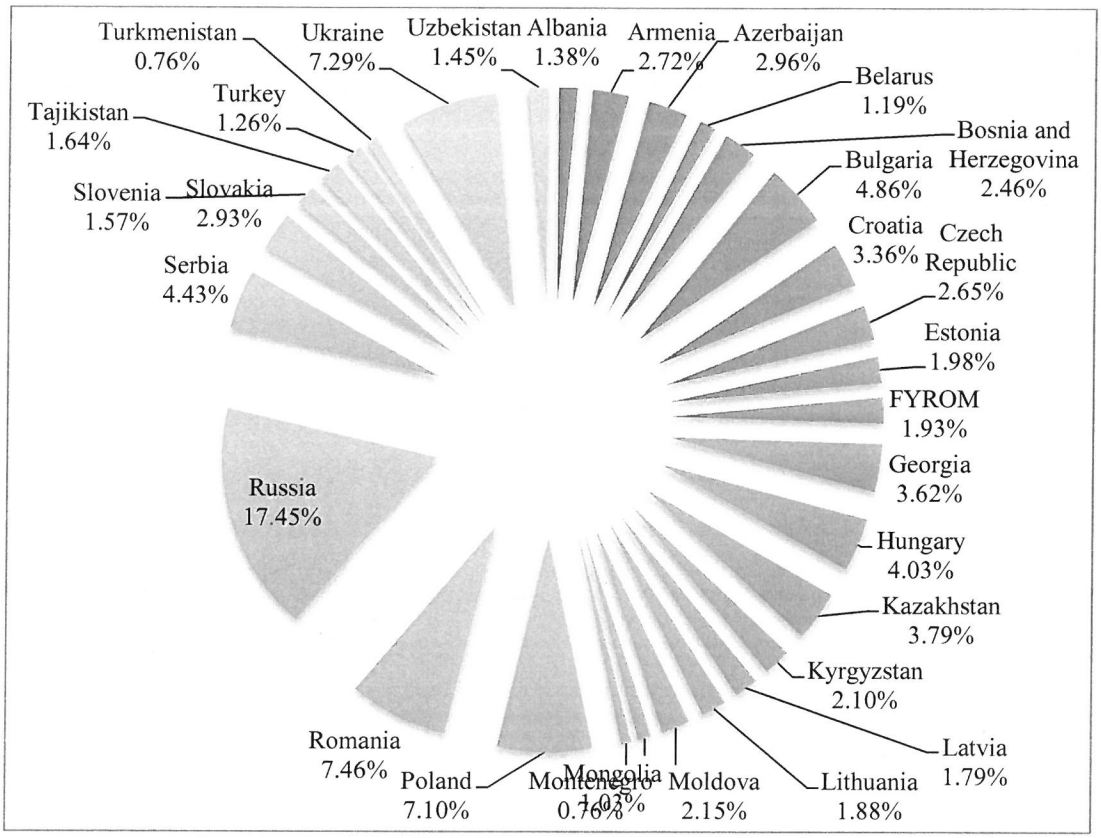


Fig. 3.12. *Project distribution by country (Student's own calculations based on the data in the following link: http://www.ebrd.com/work-with-us/project-finance.html)*

The bank most often invests in the economy of Russia - 17.45%, which is also the largest country formed after the collapse of the USSR. Significantly behind are left the other countries, with a relatively large share being Ukraine, Romania, and Poland. In Ukraine and Poland, the percentages are explained by the population of almost 40 million. In Romania, with its population of approximately 20 million is due to other factors. Romania's relatively rapid transition and the accession to the European Union in 2007, as well as factors such as natural resources and being close to the Western markets, have a favorable impact on the country's position as reliable for investment and development of long-term projects. From the bigger economies, Turkey is behind in position, due to its late inclusion in the Bank's portfolio (the first projects in the country were launched in

2009). Bulgaria is well positioned, with a share of 4.86% of the Bank's projects. Similar are the indicators for other economies of the rank of Bulgaria - Hungary, Serbia, Croatia. The share of only 2.65% for the Czech Republic is due to its unprecedented transformation from a creditor into an active investor (2008). Prior to 2008, the country did not represent a particular investment target due to its outstanding performance over other Eastern Bloc countries. Its formal status of a country receiving financial support from the EBRD was finally discontinued in 2009, and since then the country has been actively contributing to the crediting funds most commonly devoted to the Western Balkans.

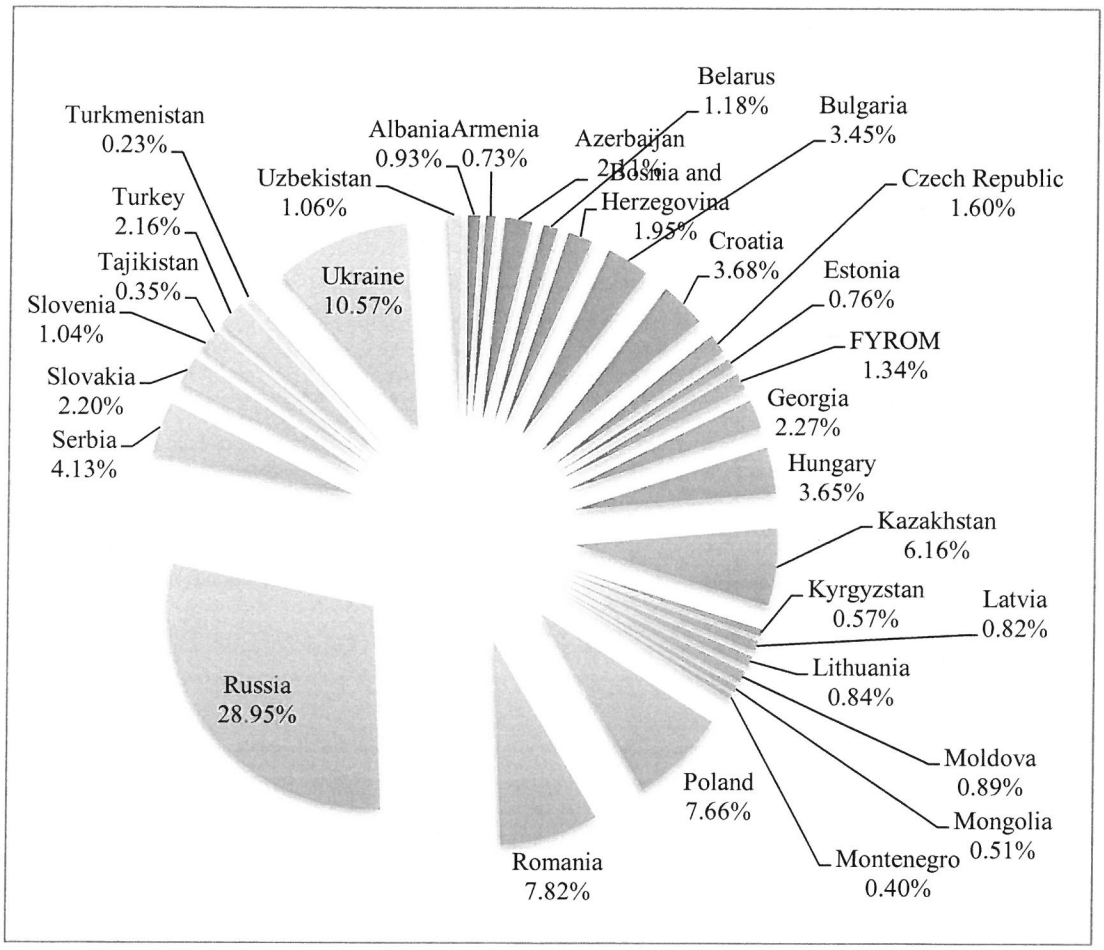


Fig. 3.13. *Distribution of the volume of investments by country (Student's own calculations based on the data in the following link: http://www.ebrd.com/work-with-us/project-finance.html)*

The number of investments has a progressive effect on the increase in the volume of investments. The volume of investment for Russia is 28.95% and Ukraine for 10.57%. In Kazakhstan, the difference is double, which shows a small number of projects with a

large volume of investment. Smaller countries sides retreat compared to the previous figure. Croatia even surpasses Bulgaria by volume of investments, which can be explained with the higher level of economic development for the former Yugoslav republic.

The analysis based on countries represents a visible legitimate investment distribution. The Balkans, Central and Eastern European countries are more preferred than the Caucasian and Middle Asian republics. This is explained by the geographical location (proximity to Western Europe), the cultural peculiarities and the political environment. In the Middle Asian republics, the penetration of the bank is more difficult, and in countries like Uzbekistan the strong influence of the totalitarian system further limits the opportunities for investment development. The difficulties for the Bank that come in attempts to penetrate Belarus and Turkmenistan are due to undemocratic systems and the risk of insecurity.

3.3.3.2. Distribution of investments by sector

The distribution of the Bank's investments is categorized into 13 major sectors. The following figure represents the breakdown of the number of projects by sector.

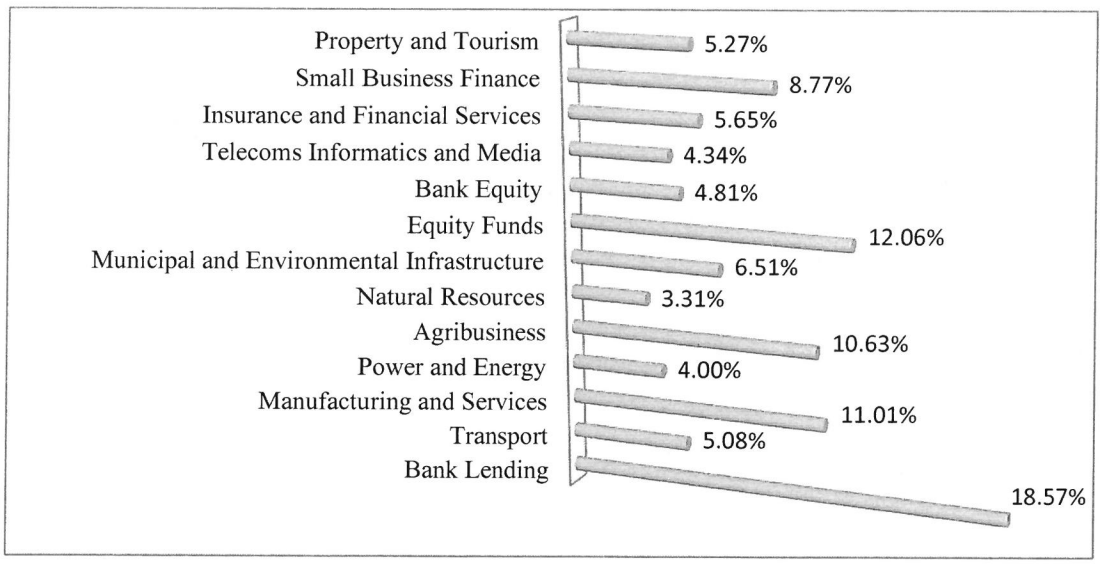


Fig. 3.14. *Distribution of projects by sector (Student's own calculations based on the data in the following link: http://www.ebrd.com/work-with-us/project-finance.html)*

Most often - in 19% of the cases EBRD provides loans to other banks and participates in investment funds (12%). Lending to other banks may be treated to a certain extent as lending to the real sector because local banks are encouraged to stimulate local businesses as a whole. EBRD's portfolio is relatively evenly distributed in other sectors, with a more significant presence in agriculture, manufacturing, services and infrastructure development. The following figure represents the distribution of the volume of investments by sector.

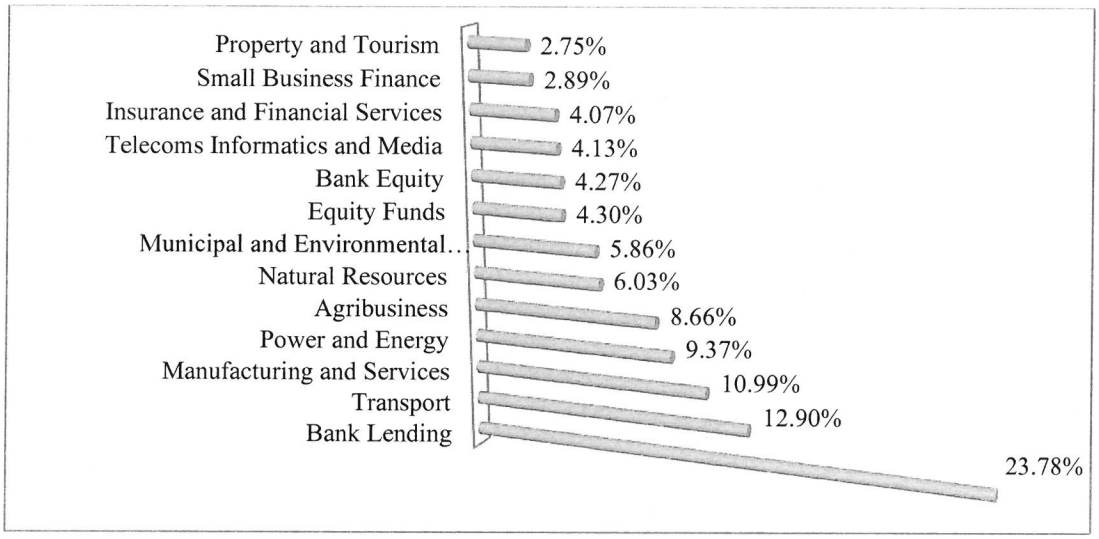


Fig. 3.15. *Distribution of the volume of investments by sector (Student's own calculations based on the data in the following link: http://www.ebrd.com/work-with-us/project-finance.html)*

In terms of the volume of investment, the largest resource is concentrated in bank lending - almost ¼. Compared to the previous figure, there is an increase in the share of transport, which speaks of particularly large projects in this sector. Consequently, the development of transport as a driver of domestic and international trade is becoming a priority for banking management.

3.4. Review of the Financial Report for 2011

In 2011, EBRD entered the markets around the Mediterranean (SEMED), which stated its support for important economic and political reforms in the region. With the inclusion of Egypt, Jordan, Morocco and Tunisia, EBRD demonstrates a desire for partnership with the Arab world and a closer economic relationship between the different dimensions of Europe, Asia and North Africa. The so-called "Arab Spring" has played an

important role in the investment penetration into the Muslim countries of the Mediterranean region.

For 2011, the Bank's participation in new projects (investment contracts signed within the year) is estimated at EUR 9.1 billion. 77% of this amount was targeted at the private sector. In comparison with 2008, the amount was 5.1 billion, which shows an increase of 78%. Overall, the Bank's portfolio grew from € 22 billion in 2008 to € 35 billion in 2011 (59% growth). Gross annual payments for 2011 are € 6.7 billion, while in 2008 € 5.0 billion - an increase of 34%. The profit for the year is 866 million euros before interest and taxes. The benchmark for the bank is its AAA rating with a stable outlook. The ratings of the largest rating agencies are a signal for security in the future of the Bank's investments and a green light for the expansion to SEMED. The overall performance for 2011 could be defined as strong. An increase was observed in all key indicators. According to data from the Bank's 2011 report, the quality of the investments to make is a main priority, which means, respectively, reduction of excessive investments with low revenue investments. In addition, the drive to foster the free economy and small and medium-sized enterprises is supported by the fact that the share of private investment is rising from 74% in 2010 to 77% a year later. The Sustainable Energy Initiative as a part of the Bank's medium-term strategy underwent development. The volume of so-called Sustainable Energy Initiative investment has increased significantly since 2009. From € 2.1 billion in 2010, they reached € 2.6 billion in 2011 (29% of the total investment). In 2011, the share of investments in Russia increased significantly - reaching 32% or € 2.9 billion. The share of investment in Southeast Europe is 17%, in Eastern Europe and Caucasian Republics - 20% and in Central Asia - 5%.[64]

After reviewing the Bank's behaviour before, during and after a significant market shock, it can be concluded that the Bank's management demonstrates a good flexibility and adequacy in terms of the key goals when this is necessary and justified by the market conditions.

[64]Financial Report 2011, EBRD

THE FOURTH CHAPTER

4. SWOT ANALYSIS OF THE EBRD

After having drawn a detailed picture of the investment behaviour of EBRD through the years examined in this thesis, analyzing the specific strengths and weaknesses of EBRD and the environment opportunities and threats aims to suggest a strategic fit between them. To strengthen the classic SWOT analysis framework, as described in the 1960's by Edmund P. Learned, C. Roland Christiansen, Kenneth Andrews, and William D. Guth in Business Policy, Text and cases, the questions of the VRIO model[65], as well as TOWS Matrix[66] are used.[67]

EBRD operates on three continents (Europe, Asia and Africa) and has existed for more than 25 years as a multilateral multinational development investment bank, with the mandate to foster the transition and building of market economies in the countries where it operates using investment as a tool as well as to promote private and entrepreneurial initiatives through offering heterogeneous debt products carefully tailored according to the specifics of the investors.[68,69]

Studying the critical periods of crises, that have emerged from the establishment of EBRD until the Great Recession showed how EBRD reacted and was affected by the crises. The VRIO framework is used to support the assessment and determination of the resources and capabilities of EBRD as strengths or weaknesses through answering the four questions of the VRIO model:

- **The Question of Value.** Do EBRD's resources and capabilities enable it to respond to environmental threats or opportunities?
- **The Question of Rareness.** How many competing firms already possess particular valuable resources and capabilities?
- **The Question of Imitability.** Do firms without a resource or capability face a cost advantage in obtaining it compared to firms that already possess it?
- **The Question of Organization.** Is EBRD organized to exploit the full competitive potential of its resources and capabilities?

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[65]Gaining and Sustaining Competitive Advantage, Jay B. Barney, Addison-Wesley, 1997
[66]The TOWS Matrix A Tool for Situational Analysis Heinz Weihrich, Professor of Management, University of San Francisco, Long Range Planning, Vol. 15, No. 2, pp. 54 to 66, 1982
[67]http://www.netmba.com/strategy/swot/
[68]http://www.ebrd.com/home
[69]Moody's Investor's Service-Credit Analysis-EBRD by Kilbinder Dosanjh Cynthia Mar, 22 July 2014

4.1. Strengths

Strengths are resources, skills, advantages or a distinctive competence of a given organization, relative to competitors which gives the organization a competitive advantage in the marketplace.[70] From the point of view of the VRIO model for a given organization's resource or a capability to be considered a strength it must make full use of and derive benefit from the environmental opportunities or neutralize environmental threats.[71]

4.1.1. Financial and credit strength

The EBRD is owned by 67 shareholders (14% of the total shareholding belongs to the countries where the Bank operates), 65 countries and two international organizations. Above 39% of EBRD's shareholders have the AAA/Aaa rating and 91% of the callable capital has investment grade or higher classification by at least one of S&P or Moody's. This makes EBRD the multilateral development bank with the highest quality callable capital. The part of the portfolio related to development characterizes with low concentration risk and high diversification in regional and sectoral aspects. The conservative leverage and liquidity limits are another part of the financial and credit strength, which together with prudent capital adequacy policies (the Required Capital divided by Available Capital, which excludes all callable capital, uses a 99.99% confidence interval to underpin the triple-A rating and is managed to a 90% prudential threshold) and substantial paid in capital and reserves (the available capital of €15.9 billion, with the level of paid-in capital of above 20%) form a value that can be hardly achieved by the competitors as well as speaks of qualifications strong enough to respond adequately to a variety of possible environmental events. These capital characteristics are both a very rare capability and hard to imitate by others. For an institution like EBRD, acquiring a characteristic like this in the scope illustrated above undoubtedly answers positively to all the VRIO model questions and states a position from which the Bank can't be significantly shaken by unexpected events that easy.[72,73]

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[70]Strategic Management: Formulation, Implementation, and Control, John A. Pearce, Richard B. Robinson, Jr. – 6th ed. 1997

[71]Gaining and Sustaining Competitive Advantage, Jay B. Barney, Addison-Wesley, 1997

[72]http://www.ebrd.com/who-we-are/how-ebrd-is-funded.html

[73]European Bank for Reconstruction and Development Investment of Choice-January 2018

4.1.2. Breadth of the product line and product-service mix

EBRD is not a retail bank, thus it doesn't offer commercial products such as mortgages and bank accounts. The Bank has a reputation for its flexibility and the diversity of its debt products, especially for that the proffered financial products are tailored to each client, but to be considered as eligible for EBRD involvement strict minimum requirements must be met.[74]

EBRD has a variety of carefully structured financial instruments the heart of which are project investments. The direct financing opportunities are loans, equity and guarantees followed by advice for small businesses as the Bank supports the belief that a healthy market economy has a sufficient small and medium-sized enterprise sector. Another addition for the SME sector is access to the know-how companies need to improve their performance and grow.[75,76]

4.1.3. Products' and services' image, reputation and quality

EBRD was established by countries with developed market economies to serve the transition process in the countries which at that time were newly shaken by the break of the Soviet Regime. It means those who are familiar and experienced with competitive market economy set up a strong institution to offer their knowledge and experience together with financial support. EBRD is renowned for possessing the skills, tools and experience needed to face the challenges of the future and accelerate reforms across its operational regions. It is an institution "well placed to exert decisive influence on change in the countries where it works".[77]

4.1.4. High level of recognized expertise in the different organization areas

EBRD regularly receives the recognition from various awarding institutions for its qualifications in the banking industry.[78]

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[74]http://www.ebrd.com/who-we-are/how-ebrd-is-funded.html
[75]http://www.ebrd.com/work-with-us/project-finance.html
[76]http://www.ebrd.com/small-business-support.html
[77]http://www.ebrd.com/news/2016/ebrd-to-have-decisive-influence-on-change-across-its-regions.html
[78]http://www.ebrd.com/work-with-us/trade-facilitation-programme/achievements.html

Recently EBRD was recognized as an "Investment Bank of the Year" together with "Cross-border Deal of the Year" award for the purchase of the controlling share in Allegro Group, which is the major and the biggest non-food online market platform in Poland.[79]

4.1.5. Bringing the public and private sectors closer and opening the market to the private sector

"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."[80]

"Promoting democratic, economic, legal, environmental and social reform is an integral part of the EBRD's activities. Through policy dialogue at all levels the Bank focuses on encouraging democratic practices, improving the investment climate, fighting corruption and ensuring the positive environmental and social impacts of all its projects."[81]

4.1.6. Major transition economies creditor

Among the strengths of EBRD is also the status of **major transition economies creditor**. Even though there are many development banks existing in the different parts of the world, EBRD remains as a sole transition-focused creditor. The Bank listed in the "Company Profile" paper from August 2016 as major competitors of EBRD AFH Financial Group PLC, European Investment Bank, and Hargreaves Lansdown PLC. Among them is also one of the establishing organizations of EBRD-European Investment Bank.[82]

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[79]http://www.ebrd.com/cs/Satellite?c=Content&cid=1395255508902&d=Mobile&pagename=EBRD%2FContent%2FContentLayout

[80]Basic Documents of the EBRD-First published April 1991, Revised October 2006 - Article 1, Revised September 2012 - Article 18, Revised September 2013 - Article 1

[81]Annual Report 2007 Review, European Bank for Reconstruction and Development, Editorial manager Jane Ross

[82]Company Profile, European Bank for Reconstruction and Development, MarketLine, Aug 2016

4.1.7. Operational strengths

One of the **operational strengths of the EBRD** is its **will to share risks including political risks**. Another operational strength is **providing finance to both private and public sector clients**, which together with **being a catalyst to access additional equity, debt and trade finance**, **having extensive knowledge of local economy, business environment and practices**, and **focus on protection of minority interests** were underlined in the Bank's retreat from January 2011 as very important.

4.1.8. Institutional strengths

The most characteristic **institutional strengths of the EBRD** like being a **strong, internationally recognized financial partner with a long-term perspective**, **close working relationships with governments and shareholders**, and **political leverage due to EBRD's unique mandate and shareholder structure** were pointed out to underline the unique impact of the Bank.[83]

4.2. Weaknesses

Weaknesses are the conditions, factors, traps or obstacles from the past experiences in an organization, country, region or certain market.[84]

4.2.1. Lack of transition preparation

In 2015, the current president of the EBRD Sir Suma Chakrabarti acknowledged in his speech at Carnegie Endowment for International Peace in Washington, DC, as the main weakness of the Bank work is the lack of suitable participants in the highly unsound privatization processes. In the very beginning the Bank made big steps to push private sector and market behaviour towards infrastructure projects which was hampered by the complete absence of preparation of the regulatory authorities and the public. The rush to make municipal services private before creating a stable state with working competitive market ended up far from the best especially in the case with water utilities in Bulgaria. The most notable mistake was the urge to replace a state monopoly with a private one before having established a state both sustainable and strong enough to be able to control

[83]Private Sector Liaison Officer Network EBRD Retreat-31st January 2011 Teresa Green Business Development

[84]Ex-ante assessment for ESIF financial instruments Quick reference guide, European Commission, European Investment Bank, Fi Compass, 2015

and maintain service quality and supply. A better step could have been focusing on establishing a reliable public sector rather than installing private sector before the environment, which takes a much more important role, was ready.[85]

4.2.2. EBRD's failure in achieving objectives

For a bank the achievement of the main objectives is a sign for its success. The main objectives of EBRD like promoting transition to market economies and privatization, mobilizing significant foreign direct investment, better public services for improving people's lives, and fostering sustainable and environmentally sound development were set in the agreement for establishing the Bank.[86]

Despite the mentioned objectives one of four euros the Bank is borrowing was taken by authoritarian country in 2015, which clearly speaks of ignoration of the objectivities to save the scope of its work.[87] As it is visible from figure 3.12. in the previous chapter a very significant part of the total investments of EBRD go to countries which in the Democracy Index issued by Economist Intelligence Unit are categorized as undemocratic or with "hybrid regime".[88]

4.2.3.The lack of flexibility

The main criticism towards EBRD is the lack of sufficient flexibility. Concentrating its work solely on the market as an end in itself is not necessarily a proper response to the problems in the countries where it operates. Making progress in the private sector is an important milestone in assessing the outcome of the investment process. However, the Bank experiences difficulties in contributing to this progress without adequate public (state) participation, which suggests that there is little likelihood of success in guaranteeing corruption and violations of human rights.

On the other hand, privatization of enterprises is not always the best solution, although EBRD supports the line of limiting the state presence in the markets. This is particularly true for major infrastructure projects where private financing may prove to be unreliable and lead to substantial negative consequences for a given country.

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[85]http://www.ebrd.com/news/2015/what-the-private-sector-needs-from-the-state-.html
[86]Private Sector Liaison Officer Network EBRD Retreat-31st January 2011 Teresa Green Business Development
[87]https://bankwatch.org/blog/for-european-development-bank-democracy-is-an-afterthought
[88]Democracy index 2010 Democracy in retreat A report from the Economist Intelligence Unit

In the recent years, the Bank has improved its safeguard policies like limiting investment in coal mining and harmful emissions industries but has seen ongoing controversial projects (e.g. hydropower plants in the Republic of Macedonia and Georgia endangering natural ecosystems, mining yields in Mongolia, affecting populated areas).

The question is how much the Bank balances between quantity and quality. It is quite logical that the expansion of its activity is faster than its profit, which creates a conflict between the high returns of shareholders and the realization of less profitable but socially and environmentally significant projects.[89]

4.2.4. Investment in authoritarian countries mostly

EBRD is targeting development of multi-party democracies and pluralism but in practice is investing mostly in authoritarian countries.

The developed countries in Australia, North America and Western Europe are a model of democracy that the Bank expects to be established in the countries in which it has an interest in investing before undertaking investment activity. How appropriate is the model of an undemocratic country that the Bank is guided by is a subjective issue, as countries in which it actively invests (Russia, Kazakhstan and Azerbaijan) are categorized by the Freedom House and Economist Intelligence Unit as undemocratic. (In 2010 Russia was classified as "hybrid regime" on 107th place in the Democracy Index, out of 167 countries, where N 1 was Norway, a "full democracy"; Kazakhstan was N 132 and Azerbaijan was N 135. Two years later in the same report but for 2012 Russia went down to N 122, Azerbaijan N 139 and Kazakhstan 143.[90,91,92,93]

The bank faces the problem of investing in not so democratic societies if it would benefit from it or isolate them but losing potential financial benefits. Due to the significant share of its investments in Russia, it can be assumed that EBRD would not narrow its definition of an "undemocratic" and "non-pluralistic" system if it would cost the loss of its largest market. So far Belarus and Turkmenistan have been categorized as inappropriate for investment in EBRD's operational region. Their economic profile is

[89]Stuck in the market? 25 years since the fall of the Berlin Wall: what now for the EBRD?, Pippa Gallop CEE Bankwatch Network, May 2014
[90]Stuck in the market? 25 years since the fall of the Berlin Wall: what now for the EBRD?, Pippa Gallop CEE Bankwatch Network, May 2014
[91]Democracy index 2010 Democracy in retreat A report from the Economist Intelligence Unit
[92]Democracy index 2012 Democracy at a standstill A report from The Economist Intelligence Unit
[93]Breaking Down Democracy: Goals, Strategies, and Methods of Modern Authoritarians by Arch Puddington, June 2017

defined as a markedly closed type, while Russia, Kazakhstan and Azerbaijan are of a markedly open type. From this, it can be concluded that the definition of multi-party and pluralist democracy is largely influenced by the "open market" factor. Probably, in the future, it will be necessary to rethink the concept of democracy as it is not convincing enough at the moment.

4.2.5. Negative environmental impact and sustainable development issue

The policy on environment and social policy set out in the EBRD's new Environmental and Social Policy is used the expression "Good International Practices" without setting specific targets for the implementation of EU standards. The Bank's operations do not integrate the necessary social standards and principles. The extent to which the Bank contributes to reducing unemployment, poverty and gender inequality is not measured. The Bank's strategy implies that the development of a market economy is a sufficient indicator to improve welfare. In the Transition Report from 2013, the Bank recognizes the need for economic inclusion, however, it is not clear enough how this could be achieved. In the report, the desire for gender balancing stands as a future but still unclearly conceived goal.[94]

While demonstrating significant progress in supporting sustainable development, EBRD made some exceptions. From 1994 to 2010, the Bank did not support large hydroplant projects, but in 2011 it financed five in Croatia, Macedonia, Georgia, Ukraine and Romania. Although supported by renewable energy plans, they remain controversial because of potential environmental damage.[95,96]

4.2.6. Unclear measurement criteria for reconstruction, development and transition

EBRD does not provide clear and statistically valid criteria for a required level of development, which should be taken as a signal that an economy has been restored. The duration of operation within a given country is a questionable choice of banking management. So far, the Czech Republic has been an example of a country that has been a borrower, and subsequently acts as a creditor, but this is not marked by concrete results. Ever since 1991, the Czech Republic has shown better performing indicators than all other

[94]Transition Report 2013, EBRD
[95]Stuck in the market? 25 years since the fall of the Berlin Wall: what now for the EBRD?, Pippa Gallop CEE Bankwatch Network, May 2014
[96]Annual Report 2011, EBRD

countries receiving EBRD funding thanks to its narrower economic relations with Western Europe. The withdrawal of an investment portfolio from the Czech Republic is in line with the Bank's mission. The difference in the development between the Central European countries and the Central Asian countries is enormous. With the significant absorption of funds in the recent years, these countries imply readiness to expand their cooperation with the EBRD. Hence the need for additional funding to be redirected to these countries. A logical solution is to make these volumes at the expense of already well-developed markets (such as the Czech one). The end of the investment flow to the Czech Republic implies that the country is "restored and developed" and there is no longer any need for the EBRD's specific support. Such development can be expected from the markets in Central Europe as well as the Baltic States. These countries show a good level of democracy and sustainable market and social prosperity. Portfolio transformation indicates that the focus shifts from Europe to Central Asia and the SEMED area. In the future, it will be necessary to review the criteria for selecting appropriate investment markets to optimize the investment portfolio. In any case, the EBRD must be prepared to respond adequately to the new challenges in the economic environment if it wants to maintain its stability and position. EBRD's position as a bank that "reconstructs" and "develops" is not so strictly defined and has a rather symbolic meaning related to the desire to support the former socialist republics. The name of the Bank has lost some of its meaning ever since it was created. It is the fruit of Western democracy and its quest to expose the failure of the eastern type socialist system. However, the abbreviation remains a trademark of the Bank and a guarantor of credibility and recognition.[97,98,99,100,101]

4.2.7. Lack of ability to compete with similar enterprises and competitive banking

EBRD's unique transition mandate give it a chance to repeat its own mistakes quite often. A good example could be the warnings from CSOs (Civil Society Organizations) regarding the involvement in projects with unjustified sustainable development impact

[97]Stuck in the market? 25 years since the fall of the Berlin Wall: what now for the EBRD?, Pippa Gallop CEE Bankwatch Network, May 2014
[98]Transition Report 2013, EBRD
[99]Are we nearly there yet? DILEMMAS OF TRANSITION AFTER 20 YEARS OF THE EBRD'S OPERATIONS, CEE Bankwatch Network, May 2011
[100]https://www.rferl.org/a/1099717.html
[101]https://theecologist.org/2011/jun/10/alarm-controversial-ebrd-eyes-middle-eastern-investment-opportunities

but were still approved later from EBRD relying more on the trust in the given client and less on the weak sides of the project. In other cases, regarding the sustainable development mandate, the shareholders itself took the initiative to raise awareness about the distraction of the Bank from its Environmental and Social Policy, but still they were not strong enough to prevent the approval of projects by the Board of Directors that have environmentally and socially harmful effects. Country profiles in the annual transition reports don't have content regarding environmental sustainability, and which is worse, moves with questionable sustainability are made by the Bank.[102]

To make the final evaluation of EBRD's resources and capabilities as strengths or weaknesses and check if they were correctly assessed the table (Table 4.1.) representing the template for assessment presented in Barney and Addison-Wesley (1997) is used.[103]

Table 4.1. *The relationship between the VRIO framework and the traditional SWOT analysis of strengths and weaknesses*

Is a resource or capability...				
Valuable?	**Rare?**	**Costly to imitate?**	**Exploited by the organization?**	**Strength or Weakness**
No	-	-	No ▲	Weakness
Yes	No	-	▲	Strength
Yes	Yes	No	▲	Strength and distinctive competence
Yes	Yes	Yes	▼ Yes	Strength and sustainable distinctive competence

Using the model for assessment the following table represents its application on the previously described resources and capabilities of EBRD.

[102]Lost in transition 25 years of the European Bank for Reconstruction and Development, CEE Bankwatch Network, April 2016

[103]*Gaining and Sustaining Competitive Advantage, Jay B. Barney, Addison-Wesley, 1997*

Table 4.2. *EBRD's strengths and weaknesses evaluation according to the VRIO framework*

Is a resource or capability...					
	Valuable?	**Rare?**	**Costly to imitate?**	**Exploited by the organization?**	**Strength or Weakness**
Financial and credit strength	Yes	Yes	Yes	Yes	Strength and sustainable distinctive competence
Breadth of the product line and product-service mix	Yes	No	-	-	Strength
Products' and services' image, reputation and quality	Yes	Yes	Yes	Yes	Strength and sustainable distinctive competence
A high level of recognized expertise in the different organization areas	Yes	Yes	No	-	Strength and distinctive competence
Bringing the public and private sectors closer and opening the market to the private sector	Yes	Yes	Yes	Yes	Strength and sustainable distinctive competence
Major transition economies creditor	Yes	Yes	Yes	Yes	Strength and sustainable distinctive competence
Willing to share risks, including political risks	Yes	Yes	Yes	Yes	Strength and sustainable distinctive competence
Providing finance to both private and public sectors clients	Yes	No	-	-	Strength
Being a catalyst to access additional equity, debt and trade finance	Yes	No	-	-	Strength
Having extensive knowledge of local - economy, business environment and practices	Yes	Yes	No	-	Strength and distinctive competence
Focus on protection of minority interests	Yes	No	-	-	Strength
Strong, internationally recognized financial partner with a long-term perspective	Yes	Yes	No	-	Strength and distinctive competence

Close working relationships with governments and shareholders	Yes	Yes	No	-	Strength and distinctive competence
Political leverage due to EBRD's unique mandate and shareholder structure	Yes	Yes	No	-	Strength and distinctive competence
Lack of transition preparation	No	-	-	-	Weakness
EBRD's failure in achieving objectives	No	-	-	-	Weakness
The lack of flexibility	No	-	-	-	Weakness
Investment in authoritarian countries mostly	No	-	-	-	Weakness
Negative environmental impact and sustainable development issue	No	-	-	-	Weakness
Unclear measurement and criteria for "reconstruction and development" end of transition and impact on -reducing unemployment, poverty and gender inequality	No	-	-	-	Weakness
Lack of ability to compete with similar enterprises and competitive banking	No	-	-	-	Weakness

4.3. Opportunities

Opportunities are the major favorable situations in an organization's environment. Opportunities are also those factors of the environment that can give an organization a competitive advantage.[104]

4.3.1. Expansion to new regions

After more than 25 years of existence EBRD still keeps broadening its countries of operations. Just recently, EBRD started investing in the SEMED region which is just one example. EBRD is also the only international financial institution which opened offices

[104]Strategic Management: Formulation, Implementation, and Control, John A. Pearce, Richard B. Robinson, Jr. – 6th ed. 1997

in this region outside the capitals. Expansions of EBRD reached also Lebanon and West Bank and Gaza.[105]

4.3.2. Making the SME sector competitive

For EBRD as a multilateral development bank the private sector support in its regions is vital. The aim is to make the EBRD regions' private sector as productive as the one in advanced economies since the Bank claims to be an expert in development of SME sector. A more productive small firms sector means creating more new jobs.

4.3.3. Sustainable growth and sustainable development embracement

In one of his latest speeches EBRD's current president Sir Suma Chakrabarti, underlined the importance and the connection between building a competitive SME sector and social inclusion. He stated that it is important to make reforms that will be beneficial for everyone. To achieve sustainable growth many improvements in public services, women inclusion, rural areas competitiveness and other should be made. Especially the women's participation and support are essential for the sustainable growth goal and for the newly added to the EBRD's regions SEMED countries need a greater stress on the women inclusion.[106]

To prevent further approval of projects with suspicious fulfilment of the sustainable criteria EBRD must develop clear and accurate environmental and social sustainability filters to make sure these concepts are not suppressed by the focus on private sector. The environmental and social impacts to which EBRD is contributor must become stronger and have clear impact on combating poverty, unemployment and pollution.[107]

4.3.4. Mandate change

EBRD was established to foster the transition to market economy from a planned one, as well as multi-party democracy and sustainable development. Through the years of operations many things changed and to ensure a brighter future of the Bank with a

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[105]http://www.ebrd.com/cs/Satellite?c=Content&cid=1395266774966&d=Mobile&pagename=EBRD%2FContent%2FContentLayout

[106]Transition Report 2017-18-Sustaining Growth

[107]Are we nearly there yet Dilemmas of transition after 20 years of the EBRD's operations, CEE Bankwatch Network, May 2011

more lasting and up-to-date mandate is an opportunity to improve its work and its contribution to the development of its countries of operations. Not solely market economies but encouraging environmentally sustainable, socially-just, and renewables-based societies is what can save the Bank. For EBRD is essential to stress on the needs of the basic market economies through making sure it does not participate in market models, which don't comply with sustainability. To improve its mandate EBRD must focus on the public interests when the public and private sector must agree on a task. Together with that the mandate change has to lead to a more effective sectoral policies and actions which are most successful in achieving the environmental sustainability and human development goals. The issues in the energy efficiency and environmental rehabilitation have to be overcome and the future strategy for those kinds of projects approval has to be improved.

4.3.5. Developing clear graduation criteria

As it was previously mentioned, the only country which has stopped receiving finance from EBRD from the beginning of the transition period until today is Czech Republic. It remains unclear based on what this graduation was achieved. There are different tools for measuring the level of development or growth, or the level of democracy but the factors which make a country eligible for graduation are not clearly defined yet. The EBRD has to define distinct criteria for the evaluation of a country's graduation eligibility. It is also essential to define a base on which clearly it could be measured when the Bank cannot any further contribute to the added value in a country. This opportunity is important because it will make the comparison between the Bank's countries of operations easier and will help in making decisions regarding future expansion plans and the general evaluation of the work and success.[108]

4.4. Threats

Threats are those circumstances in the environment that have potential to be negative for the functioning of the organization. Threats can have political or economic

[108]Are we nearly there yet Dilemmas of transition after 20 years of the EBRD's operations, CEE Bankwatch Network, May 2011

origin. There are several main threats of the environment that may negatively influence EBRD's work, which must be taken in mind to reduce their possible negative effect.[109]

4.4.1. Political interference

EBRD is the engine to privatization and liberalization in its countries of operations, but due to weak institutions and high corruption, this has never been an easy goal to achieve. In most of the cases governments are not ready to commit to public participation, democracy and sustainable development, which has led not once to EBRD's participation in projects with suspicious positive impact for the given country or region.[110] For EBRD a possible political interference could be an obstacle for entering and successfully supporting the transition because the governments in some of the countries of operations are not willing to embrace the transition and support it or are in involved in corruption which also leads to failure in the Banks works.

4.4.2. Emergence of new crises

The crises that have emerged and had an impact on EBRD's work were examined in this study as a main factor for the change in the Bank's investment behaviour, for which reason the possibility of new crises emergence is the major and already undergone threat. Even though EBRD has been through more than one crucial crises, the emergence of new ones remains a major threat for the Bank since there are many possible unpredictable market and political events. The developing markets and the investment decisions will be affected even if something happens in a country or region with advanced developed market where the strongest shareholders are.

4.4.3. Finite lifetime and uncertain future

Transition is a process in which there is a predefined end. From the beginning until today the destination of transition changed, and its elements progressed and keep progressing with different speeds. EBRD was established to support a process which should have been completed by now but what was the desired society, market and pluralism to be according to EBRD?! It was supposed that the EBRD's transition

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[109]Essentials of Strategic Planning in Healthcare-Jeffrey P. Harrison-http://docshare02.docshare.tips/files/14074/140748295.pdf

[110]Lost in transition 25 years of the European Bank for Reconstruction and Development, CEE Bankwatch Network, April 2016

countries of operations would accomplish high liberalization and privatization together with insignificant involvement of the private sector in the water and road sector. In the recent years the need for establishing strong institutions which are able to support and regulate the market and not only privatization was embraced. Economic crises put a stress on the importance of the role the state in market economies. Through the years of its operations EBRD has completely blurred the transition definition. Along with that, due to political events the Bank had to terminate its investments in its largest recipient Russia. Those factors lead to reconsidering the concept for the Bank, its contribution and its similarities to other institutions. For a decision regarding the future of the Bank, its shareholders need to reconsider what added value it has in Central Europe and come with an exit strategy.[111]

4.4.4. Loss of trust to the Bank and transition

Outside the transition region there is a common belief regarding the high corruption in it. Due to the controversial impact of EBRD's work on the countries in transition, the survey which the Bank made just before the last crisis showed that a significant part of the population involved (30 %) do not believe in the brighter future or in the fact that their life is better than before the communist regime broke. Even less (15%) believe that corruption is decreased compared to the beginning of the transition. At the same time 67% live with the impression that the level of corruption is the same or higher. Visibly transition has been associated with a dramatic increase in poverty, unemployment, human suffering, as is displayed in the scores of the Human Development Index. The general perception about if lives improved or worsened is not clear either. These findings are a clear sign for the- decreasing belief in the transition as it is until now. For most of the affected population if transition doesn't visibly make life better their hope will be lost. The loss of belief in the transition process is directly related to the loss of trust in the Bank. Approving projects that bring negative impact or which the civil society raised voice against the common trust and belief in the Bank as an institution will decrease significantly.[112]

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[111]Are we nearly there yet Dilemmas of transition after 20 years of the EBRD's operations, CEE Bankwatch Network, May 2011

[112]Life in Transition A survey of people's experiences and attitudes, EBRD, 2007

4.5. Strategic Implications of the SWOT Analysis Described in the TOWS Framework

SWOT analysis is more likely to be defined as a passive tool that only helps outline the situation in an organization. After defining the elements of the SWOT framework applying to the EBRD, implementing them in the TOWS matrix will picture the way they could possible interact and combine in the different strategic situations. Table 4.3. represents the template of the model as described in "The TOWS Matrix A Tool for Situational Analysis" by Weihrich (1982).[113] The TOWS table implied on the SWOT analysis of EBRD in Appendix 6 and 7 offers suggestions according to each strategy in the TOWS analysis.

Table 4.3. *TOWS matrix template (The TOWS Matrix A Tool for Situational Analysis Heinz Weihrich, Professor of Management, University of San Francisco, Long Range Planning, Vol. 15, No. 2, pp. 54 to 66, 1982)*

TOWS	**Opportunities**	**Threats**
Strengths	**S-O: Maxi-Maxi** The most desirable situation in which the focus is on positive maximization of both strengths and opportunities. In this strategic situation the opportunities, that fit the existing strengths of EBRD can be pursued to maximize the total effect of the strategy.	**S-T: Maxi-Mini** This strategy aims to use the strengths and maximize them while suppressing and minimizing the threats. In this case EBRD's existing strengths should target lowering the vulnerability towards the threats of the environment.
Weaknesses	**W-O: Mini-Maxi** This strategy is targeting the reduction of the weaknesses and optimization of the opportunities. In this case the Bank should search for a way to overcome its weaknesses to be able to go after the opportunities.	**W-T: Mini-Mini** This strategy is focusing on reducing the weaknesses and the threats but still the least desired scenario for an organization. In this case EBRD should take steps to prevent its weaknesses to make it more vulnerable to the threats of the environment.

4.5.1. S-O strategies

EBRD is an internationally recognized financial partner with long-term perspective. It can maximize its benefits from its financial strength with the abilities to raise additional

[113]The TOWS Matrix A Tool for Situational Analysis Heinz Weihrich, Professor of Management, University of San Francisco, Long Range Planning, Vol. 15, No. 2, pp. 54 to 66, 1982

funding and finance in both private and public sector to easily step in new countries. These strengths give the Bank a sustainable advantage over other similar organizations. Its reputation will make easier entering new countries since their governments are essential point in the success of most projects.

So far, the SMEs sector, which has major importance in the European economics, fails to achieve the desired level of productivity, innovation and stability. SME sector remains much more attractive and growing in developed economics. EBRD has strong relationships with both governments and private sector and it is up to it to find a successful method to improve the dialog between the two sides and make them benefit more from each other. The most essential is supporting the governments to provide for the private sector fertile growth environment.

EBRD's sustainable development engagement was putted under question in the past but the opportunity to change this direction is open. As a multilateral institution offering a wide variety of specialized funding, sustainability is of major importance. Having the reputation for its products a direction of giving support to projects that have clear sustainable development and growth perspective should be taken with priority. Social inclusion together with sustainable development can be considered the topics of this century and the more the Bank visibly engages in that direction the more public approval and strength it will get.

Transition is a finite period, which must come to an end sooner or later. The 30th anniversary of the Bank can be considered a perfect moment in the near future to change the direction of its work to sustain its existence as an extraordinary multinational creditor.

4.5.2. S-T strategies

In some of its countries of operations EBRD couldn't achieve the intended transition reforms and market development due to the limitations and the obstacles governments represent. As we have seen in the previous chapters countries in Central Asia remain authoritarian and did not successfully made the necessary steps towards democratic regime or open market. In countries like Uzbekistan EBRD stopped providing financing due to the strong mismatch with its polices. The Bank not always succeed to use its powerful relationships with both government and private sector to make the best of it and strengthen the dialog and the working relationships between them. Using its

strengths is able to change the situation and to motivate both sectors to establish fruitful dialog to benefit together from the opportunities EBRD provides. The threat of future crises also can be minimized by taking a step towards emergency planning. This way the finite life of the Bank can be prolonged while its status of main transition creditor and its knowledge and expertise in local economy can be used to make better future prognoses and plans. The decreasing trust and belief in the Bank's positive impact on the transition economies can be improved with a focus on the already established objectivities and the real engagement with the causes of social inclusion and equality in a sustainably developing world.

4.5.3. W-O strategies

At this stage, after almost 30 years of existence it is impossible to change the fact that the Bank was established without any preparation for transition in the recipient countries. That could have been possible at the establishment in the first years of existence. The lack of transition preparation may be the reason the Bank failed to achieve objectives and focused solely on the competitive market development, which also failed as a single concept due to the lack of preparation for market establishment. What has been done is done, from now on EBRD can change its mandate to fit the situation that transition came to this day. There is a possibility to interact more with the public sector rather than only with the private one. All of which will be done again for the market, as a healthy market is built on the bases of the public commodities.

4.5.4. W-T strategies

The establishment of EBRD was built on the base of lack of transition preparation which later on lead to failure in achieving the opportunities set in the beginning. Those factors made the already finite lifetime and uncertainty regarding the future of the Bank be criticized before transition completion is even close. To reduce the effect of those the Bank can take steps to change what is wrong first inside the Bank and then to improve the situation outside in its impact area. Reducing the sole focus on market development and returning to the governments and the institutions in its countries of operations may improve the common situation with democracy and authoritarian regime.

CONCLUSION, LIMITATIONS, AND RECOMMENDATIONS

From the presented factual arguments, the examined indicators and phenomena and the performed analyzes and evaluations the following conclusions can be made:

- The Bank is negatively affected by the global financial crises but is able to restore its usual volume of investment relatively quickly. Despite declines and negative changes in the market, over a period of 2-3 years it reached its pre-crisis levels and maintained sustainable growth.

- The East Asian Financial Crisis (1997-1998) did not have a significant impact on the Bank's investments but on the emergence of the Russian Financial Crisis.

- The Russian Financial Crisis (1998) negatively influenced the Bank's investments due to the significant share of the banking portfolio destined for the Russian market. This circumstance reveals the strong dependence of the markets in which the Bank operates, from single political and economic events, and evidence of its vulnerability to the concentration of resources in a market.

- Most adverse impact on the Bank came from the Global Financial Crisis (2008) due to the unexpected financial collapse and the subsequent long-term recession. However, with the adoption of flexible and adequate solutions, the Bank managed to restructure its investment activity, demonstrating its key performance levels close to those of the pre-2008 period between 2010 and 2011.

- The Bank benefits from favorable market conditions and maximizes its revenue and profit. The latter, however, does not happen at all costs. Projects with national and / or regional interest, which are considered effective but do not imply significant profits, are assisted, with investor profits not becoming an end in themselves.

- The Bank maintains and expands the markets in which it operates without suffering serious problems in the management of its assets. The transformation of its portfolio is in line with the economic conditions in the different countries and regions of operations. The increase in the investment in a given country or industry at the expense of another country or industry which that can be considered to have reached better development degree is usual.

- The Bank is flexible in changing its strategies by canceling or postponing its investment activities in given countries, if it considers that they are not yet sufficiently developed to gain access to financing.

-The years from the establishment of EBRD have been a period of big economic transformations and reforms however the statistics show that the population in the transition countries did not achieve the life satisfaction it should have. The West and the East still have big gaps between each other regarding not only life satisfaction, income, democracy and happiness but many other factors. There is still a lot to be done to reach the private sector and market of the developed countries, which makes EBRD's transition role even more important.

In conclusion, it can be said that the Bank remains with a significant investment role for the countries in which it operates. Its presence in more than 30 markets contributes to competitiveness and added value, which are essential for the development of private business, social welfare and environmental protection. The bank has successfully funded projects with strategic importance, and despite the changes in the market environment, it has managed to keep its mission.

To provide better understanding of this thesis it is very important to bear in mind its limitations. In this study the research was limited to examining the periods of crises that emerged and had some relation and influence only on the EBRD's investment behaviour from its establishment until the end of the Great Recession. The focus was on the Bank itself and comparison with similar institutions or other funding structures were not made. The main task was to examine how a global institution like EBRD behaves in situations of crises, what are its strong sides and vulnerabilities. The research was carried from the point of view of the Bank as well as from outside critical one but did not involve field work (in the meaning of collecting data directly by getting in contact with the recipients of the EBRD's help). To evaluate the project investments through the years official statistics from the Bank regarding the project involvement were used.

EBRD was established from developed market economy countries to support post-soviet countries build free open market economies at the time of the break of the Soviet Regime. In the beginning all recipient countries were in the same starting position and started receiving money for project investment. 20-25 years later democracy ratings show that the most money are still received by countries where multi-party democracy and pluralism is still not achieved and according to the democracy index is even worsening but still most of the project finance goes to them. This thesis did not research how EBRD keeps track on the democratization levels in the recipients, how projects are approved and how rejected. The research did not cover the process of project application and approval,

success measurements and criteria. The focus was on the behaviour of the Bank in pre-crisis, crisis and post-crisis times until 2010 which is approximately perceived as the end of the last crisis so far. The data regarding the projects were used as published by the Bank on its website but its accuracy hasn't been questioned or investigated.[114]

The fact that almost 30 years after the break of the communism the biggest recipients of project finance are authoritarian countries with suspicious funding absorption and results were used only to point out in the SWOT analysis the main weaknesses of EBRD but were not part of the main research.

The aim was researching the origin and relation of the described crises with the investment behaviour of EBRD and analyzing its powers and vulnerabilities in this matter. When explored and examined the levels of transition and development achievement used only the statistics and the official numbers regarding the situation but did not discuss the role of the cultural, geographical, demographical factors.

To evaluate the impact of the crises on the Bank's work the study was limited to examining the investment behaviour in periods of crises but didn't study in detail the characteristics of the different projects and their life cycle.

This thesis was written under the topic regarding the influence that the financial crises as an environment factor have on the investment behaviour on one of the major European banking development institutions - EBRD. It exposes the Bank to the financial crises and looks at the effects on the most important for EBRD as development banking institution-its investment behaviour.

[114]http://www.ebrd.com/work-with-us/project-finance.html

RECOMMENDATIONS

EBRD is an institution with global importance and influence over many markets both developed and developing but as any other institution it has its flows. In this thesis the researched critical periods in the Bank's history have drawn a picture of those flows and underlined the mistakes.

As it has come out from the SWOT and TOWS analyses the Bank was established to support a transition process in countries and regions which lack preparation for such a process. The mismatch between the objectives set at the Bank's establishment and the reality have occurred because of the lack of preparation and were reinforced by the external unanticipated market events.

For EBRD profit is not the most imminent part of its projects, so to fight successfully with the other issues regarding its performance it can react by taking several steps. One of the major problems of EBRD is the failure to keep up with its objectives. Taking steps towards its objectives and embracing the idea of sustainability place major importance for the improvement in the Bank's operation. Together with those, ensuring the projects' implementation which is done in a way that matches the concepts for democracy and open market economy is another vital point.

To do these EBRD has to review its Evaluation Policy and make certain changes with clear definitions regarding the main aspects on which its work is based:

- Improve the criteria for eligibility of a project for support from EBRD through drawing clear concept for evaluating projects' sustainability, transition, democracy and market impacts.

- Ensure cooperation with governments before ensuring cooperation with the direct recipients of support due to the fact that governments are in control of many market related conditions and events.

- Increase the supervision over signed projects and provide additional advisory support outside the financial one to make sure the projects are driven in a way that matches the Bank's objectives.

- Improve the analytical evaluation of the countries and markets which are receiving support from EBRD to make sure not only a project is implemented and matches the scope of the Bank but also the environment in which a project is implemented suits the policy of EBRD.

- Make clear and strict the definitions based on which evaluations are made. This includes developing a precise transition, reconstruction and development measuring tool which could show at what stage a country or region is and using that tool can also work as an indicator for the necessary following steps.

All the suggested improvements require changes on different levels within EBRD and its countries. Those who are taking the final decision within the Bank should understand the real importance of EBRD on the global stage. They should make sure to use thoughtfully their power to help the Bank improve its weak sides and to provide better profitability and more fruitful environment for its future work. To make changes happen the initiative should be taken on all levels from shareholders and managers to the small regional offices which also have great matter for the general performance.

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APPENDIXES

APPENDIX 1.

Regional and sectorial funds *(EBRD - Regional and sectoral funds EBRD - Equity financing through financial intermediaries, Country-specific investment and venture capital funds)*

Name	Description
Advent Central & Eastern Europe (ACEE) I & II	These funds provide finance and management assistance to companies in the private sector. The investment range is approximately from EUR 10 million to EUR 40 million, although larger investments can also be contemplated. The funds finance projects in Central and Eastern Europe as well as Turkey. ACEE II is now fully-invested, investing is now only from ACEE III.
AIG New Europe Fund	This fund makes direct or indirect equity and quasi-equity investments to fund investment programmes, capital expenditure or working capital requirements of companies operating primarily in the Czech Republic, Hungary, Poland and Romania (the primary region) and Bulgaria, Croatia, FYR Macedonia, Moldova, the Slovak Republic, Slovenia and Ukraine (the secondary region) to achieve long-term capital growth. The Fund will usually hold more than 15 percent of shares of a portfolio company, acquiring primary issues, typically in unquoted companies, but may acquire secondary shares, if this involves privatization or strengthening of the Fund's position in a company. The preferred investment size is between US$ 10 million and US$ 30 million.
AIG Silk Road Fund	This fund invests in equity and equity-related instruments in companies operating in Central Asia and the Caucasus, predominantly in Kazakhstan, Uzbekistan and Azerbaijan as well as Kyrgyzstan, Tajikistan, Turkmenistan, Armenia, and Georgia. The Fund's objective is to achieve long-term capital appreciation through the purchase, active management, and disposition of such direct investments.
Alliance ScanEast Fund	This fund closed investments as of 1 April 2000. The Fund co-invested with industrial partners in industrial and civil infrastructure, privatizations, greenfield projects and restructuring of existing companies in any of the EBRD's countries of operations.
Argus Capital Partners	This is a US$ 172 million private equity fund, sponsored by Prudential Insurance of America, targeting the advanced countries of central and eastern Europe. The average investment size ranges from US$ 8 million to US$ 15 million with no sector specialization. The Fund has offices in Prague, Budapest, and Warsaw and will consider deals outside its priority target countries (Czech Republic, Hungary, Poland and Slovenia).
Baring Communications Equity Emerging Europe	This fund considers equity investments in emerging private enterprises in the media and communications industry. It focuses its investments in companies operating in the EBRD's countries of operations. The fund has no specific minimum or maximum investment size, and via co-investors, can organize consortiums for any sized investment.
Black Sea Fund	The Fund invests primarily in medium-sized enterprises in the Black Sea Region, notably in Bulgaria and Romania. Other countries included in the Fund's geographic scope are Ukraine, Russia, Armenia, Azerbaijan, Georgia, Moldova and FYR Macedonia. The fund can also invest up to US$ 10 million in central Europe: Poland, Hungary, and the Czech Republic. Typical investments range from US$ 3 million to US$ 9 million.

DBG Osteuropa Holding	This fund invests capital in local companies as well as in joint ventures in the four Visegrad countries (Czech Republic, Hungary, Poland and the Slovak Republic). Typical investments range from US$ 1 million to US$ 10 million.
Dexia-FondElec Energy Efficiency and Emissions Reduction Fund	The EBRD, in conjunction with Dexia Project & Public Finance International Bank and FondElec Group Inc (which later split into 2 entities, the one involved in this fund called FE Clean Energy Group Inc.), has originated and sponsored a closed-end equity fund which makes private sector investments in energy efficiency and emissions-reducing projects in the EBRD's countries of operations. The fund (€71 mln) has invested in 2 heat and power plants in Poland and an energy services company in Hungary (the latter invests in projects mainly in Hungary). The EBRD and Dexia have each invested €20 million in the fund.
East European Food Fund	Established in 1995, the Fund is now fully invested. This fund undertook equity and equity-related investments in the food and beverage industry, with a geographic focus on central Europe. Investments ranged from US$ 1 million to US$ 10 million.
Emerging Europe Capital Investors, LDC	Emerging Europe Capital Investors, LDC is an investment fund that will acquire equity and equity-related securities of companies operating in countries that are expected to join the EU. The Fund's objective is to achieve substantial long-term capital appreciation through the purchase and active management of such investments. The investment size range is typically US$ 10 million to US$ 20 million. The fund is managed by Royalton Partners, a joint venture between State Street Corporation, a bank holding company listed on the New York Stock Exchange, and EEAM Limited, an investment firm of the management team.
Environmental Investment Partners	This fund invests in profit-making environmental businesses in central and eastern Europe. The Fund invests between US$ 0.5 million and US$ 5 million in the equity capital of environmental companies. The fund is a passive financial investor and thus usually takes a shared ownership of between 5 to 45 percent of a company.
EuroMerchant Balkan Fund	The Fund supports the expansion of international industrial companies in Bulgaria and Romania, typically in joint ventures with local partners. The Fund does not invest less than US$ 250,000 or more than US$ 4 million. As of early 1999, the Fund had committed more than 80 percent of its capital resources, with the remainder reserved for follow-up on existing projects. Another fund under the management of Global Finance (the Black Sea Fund) was established in 1998 with US$ 62 million to continue the activity of the EuroMerchant Balkan Fund in a wider region of countries. The desired investment range is between US$ 2 million and US$ 9 million.
European Renaissance Capital	This fund considers investing in emerging private enterprises, including start-up and young growth companies, management buy-outs, and spin-offs of small state-owned businesses. It will make initial investments in the range of US$ 100,000 to US$ 500,000, and follow-on investments as appropriate with ultimate portions being in the range of US$ 2 million to US$ 5 million. This fund can invest in the Czech Republic, Poland, and the Slovak Republic.
Innova/98 L.P.	Innova/98 L.P. is a US$ 125 million private equity fund managed by Innova Capital. The Fund targets emerging Europe and primarily focuses on Poland, Romania, Hungary and the Czech Republic. The fund also pursues investment in smaller or less developed markets in targeted sectors. The targeted investment range is between US$ 3 million and US$ 12 million.
New Europe East Investment Fund (NEE)	The EBRD, together with the Capital International Group and other private institutional investors, sponsor the NEE, which invests in securities of companies located in central and eastern Europe. The Fund is now fully invested. It invested in new and existing companies and in

	listed securities. It took no more than 15 percent of the equity in any enterprise and no individual investment in a single enterprise exceeded US$ 40 million. Typical investments ranged from US$ 5 million to US$ 15 million. Enterprises with strong western partners and high performing local management were preferred candidates for NEE investments.
Technologieholding Central and Eastern European Fund N.V.	This fund considers equity investments in small to medium-sized information and communications technology and industrial electronic companies primarily in the Czech Republic, Hungary and Poland, and to a lesser extent in other EBRD countries of operations. The preferred investment size is US$ 1 million to US$ 5 million. However, smaller or larger investments are considered on a case-by-case basis.
Horizonte Bosnia & Herzegovina Enterprise Fund	The Fund provides equity financing for SMEs in their startup and early growth stages.
ECM-Bulgarian Post-Privatisation Fund	This venture capital fund provides new equity capital and management assistance to private and privatized enterprises in Bulgaria. Its investments range from €1 million to €6 million.
EuroMerchant Balkan Fund	The Fund supports the expansion of international industrial companies in Bulgaria and Romania, typically in joint ventures with local partners. The Fund's investment period has ended. Another fund under the management of Global Finance (the Black Sea Fund) was established in 1998 with US$ 62 million to continue the activity of the EuroMerchant Balkan Fund in a wider region of countries. The desired investment range is between US$ 2 million and US$ 9 million.
Global Growth Fund (GGF)	The Fund was raised in 2003 with the size of Euros 20 million. It is being invested in small and medium-sized enterprises based in Bulgaria and Romania that are led by strong management teams and have significant potential for growth.
South East European Fund (SEEF)	The Fund was raised in February 2006 and is focused on regional mid-market buy-outs mainly in Greece, Bulgaria, and Romania. It has had a successful first closing at Euros 200 million. It is planned to raise more than Euros 300 million in total with the second closing at the end of 2006.
Global Emerging Property Fund (GEPF)	It was raised in July 2005 with the size of Euros 125 million (First closing). The investment profile consists of investments in commercial real Estate projects mainly in Bulgaria, Romania, and Serbia.
Croatia Capital Partnership Ltd	This fund invests in promising private SMEs based in Croatia. Buy-out and expansion investments are considered and all sectors are eligible. The average range is from US$ 1.5 million to US$ 3 million. Higher amounts may be considered due to a co-investment arrangement with Advent International.
Baltic Investment Fund Baltic Investment Fund III	The Baltic Investment Funds have a total capital of €77 million and invest private equity in medium-sized companies operating in Estonia, Latvia and/or Lithuania. The investment range is €0.3 million to €7.5 million. The fund's goal was to acquire significant minority stakes in companies that are well managed and have good growth potential.
Baltic Small Equity Fund	The Fund was set up to invest in SMEs in the three Baltic states in a broad range of industry sectors. Its operation is based on a partnership between the Fund and the investee companies. The Fund takes a minority stake in investee companies, with investments in the range of US$ 50,000 to US$ 400,000.
Baltic SME Fund CV	The Fund invested private equity in smaller growth companies in Estonia, Latvia and/or Lithuania. The concept of the fund was initiated by EBRD, with support from EU Phare under the SME Finance Facility. The Fund's objective is to promote the growth of the portfolio companies and achieve an attractive return over the medium term.

	Investment proceeds will be used to finance expansion projects. Investment companies are in growth sectors such as IT, communications, media, services, distribution, and biotechnology. The fund invested between €300,000 and €1 million to acquire significant minority equity stakes in investee companies.
SEAF Macedonia	This fund invests in promising FYR Macedonian-owned SMEs based in the country, with a focus on service, light manufacturing, information technology and agribusiness sectors. Investments range from US$ 200,000 to US$ 1 million.
Hungarian Equity Partners L.P.	The partnership invests in medium-sized Hungarian private companies to fund specific projects or investment programmes for the creation, modernization or working capital requirements of portfolio companies. Investment is predominantly in primary issues of unquoted companies but may involve investment in quoted companies' acquisition of secondary shares if this involves privatization or strengthening of the partnership's position in a portfolio investment. The partnership may also invest in early-stage companies with high growth potential and management buy-outs. The preferred investment size is between US$ 3 million and US$ 6 million.
Eagle Kazakhstan Fund (formerly GIMV Kazakhstan Post-Privatisation Fund)	This venture capital fund was launched in 1996 and is targeted at SMEs in Kazakhstan. Individual investments are normally in the range of €1 million to €5 million and are primarily in equity. The Fund is represented on the board of directors of its investee companies, but will usually not take more than 55 percent of equity. Initially, the Fund was supported by technical assistance grant provided by the EU's TACIS programme. The Fund has completed its investment period and sold most of its investments with only one remaining in the portfolio. It is currently managed by Eagle Venture Partners from Moscow.
Baltic Post-Privatisation Fund	The prime objective of the Fund is to invest equity and assist in the restructuring and development of selected private or privatized companies in Latvia, Lithuania and/or Estonia. The Fund aims to secure a return on investment commensurate with risks over a seven-year period. This will be achieved by providing new equity capital combined with technical assistance -to facilitate the restructuring and modernization of businesses and thereby to contribute to the development of the local economy as a whole. Investments will usually be between €0.5 million and €4.0 million.
Seaf-Polska Sp.zo.o. (Caresbac)	The EBRD has subscribed for US$ 5 million in equity of Caresbac, a development SME fund targeting private enterprises, particularly in Central Poland. The size of investments ranged from US$ 75,000 to US$400,000. Target companies had pre-investment capital of no more than US$ 500,000 with an annual turnover of under US$ 1.5 million and local ownership of at least 51 per. Caresbac is one of the earlier Funds for the Bank and is coming to an end of its life at the end of 2006. The possibility to extend the life of the Fund will be considered in light of progress achieved in exiting the underlying investments.
Central Poland Fund	This fund is a private equity fund that finances the development of private companies operating in Poland. It is particularly interested in services but supports other sectors as well. The objective is to invest in significant minority stakes and to provide: (i) cash for expansion; and (ii) additional services, such as strategic management assistance, international contacts, financial advice for maximum value growth and owner/management motivation. Investments range from US$ 500,000 to US$ 1.5 million. The investment horizon is three to five years, with the preferred exit strategy being through a strategic sale. The Fund is fully invested.
Nova Polonia Private Equity Fund	This fund invests in unlisted small and medium-sized companies in Poland. The Fund focuses on the regions of Poland rather than concentrating on Warsaw. Up to five percent of the Fund's

	commitments may be invested in other central European countries. The investment range is from €4 million to €6 million.
Polish Private Equity Fund	The EBRD, together with the Polish American Enterprise Fund, Creditanstalt Bankverein, and other partners, is a sponsor of a US$ 151 million equity investment fund set up to invest in Polish private companies that have strong management and potential for growth. The fund did not invest more than US$ 10 million in the aggregate in one company or more than 30 percent of the aggregate amount committed to the funds in any industry in any combination of equity and loan exceeding US$ 10 million for a single investment. The minimum size of investment by the fund is US$ 500,000. In 1995, ECC was integrated with the First Polish American Bank S.A. The funds are represented on the supervisory boards of companies in which investments are made.
Romanian Post-Privatisation Fund (RPPF)	The objective of the RPPF is to invest in private companies or companies that are to be privatized mainly through subscribing to the company's equity capital or "quasi-capital", supporting its development process, economic expansion and obtaining a return on investment that compensates for the risks undertaken. The €44 million fund invests in Romanian companies with good growth and profit potential. The investments may be to back Romanian entrepreneurs or Romanian companies supported by strategic foreign partners contributing technology, markets, and financing, or a combination of both. The participation of the RPPF can range between €0.3 million and €4.4 million. It is for a limited period and normally will represent a minority position within the company.
Baring Vostok Private Equity Fund	The fund invests primarily in Russia.
Russian Regional Venture Funds	Regional Venture Funds provide investments in private sector enterprises (maximum 25 percent state-owned) with up to 5,000 employees in all sectors. The preferred minimum investment is US$ 300,000 and maximum investment is US$ 3 million. The funds' investment targets will not necessarily have a foreign partner or hard currency earnings. The funds are expected to focus on enterprises that have a strong position in the domestic market.
Daiwa Far East and Eastern Siberia Investment Fund	(Irkutsk Oblast and regions to the east, including Primorsky Krai and Khabarovsky Krai). This fund is fully invested and is not making any new investments.
Albania Reconstruction Equity Fund (AREF)	The principal objective of the Fund is to contribute to the modernization, expansion, restructuring, and development of SMEs through equity investments in commercially viable companies and projects.
Czech & Slovak Investment Corporation Inc.	The EBRD is a co-sponsor of the Czech & Slovak Investment Corporation. This fund will provide equity finance to medium-sized local enterprises and joint ventures. Investments range from US$ 2 million to US$ 7 million.
GIMV Czech and Slovak SME Fund	The EBRD is an investor in this private equity fund, which invests in SMEs in the Czech Republic and the Slovak Republic. The Fund seeks to achieve long-term capital appreciation by taking significant stakes in portfolio companies through negotiated transactions while taking an active role to positively influence their financial structure, business strategy, operations, and management. The aggregate investment in any single company ranges from €300,000 to €1 million.
Slovak Post-Privatisation Fund	This post-privatization fund provides new equity capital, effective governance, and management assistance to private and privatized Slovak enterprises that are presently unable to raise private equity capital. The Fund invests in the range of €3 million in investee companies and has technical assistance available for pre-investment due diligence as well as post-investment support.

Horizonte Fund	The Fund provides equity financing at the start-up and early growth stages of small enterprises. It has a particular focus on high-tech ventures and those that produce specialised products with export potential.
Euroventures Ukraine II Fund	The Fund provides direct equity and/or quasi-equity investments to fund investment programmes, capital expenditure and/or working capital requirements of medium-sized companies operating in Ukraine to achieve long-term capital growth. The Fund will consider growth opportunities in any industry except for speculative real estate, alcohol products exceeding 15 percent, tobacco products, casinos, illegal or immoral activities, armaments or industries that are detrimental to the environment. The Fund will only invest in companies which are private, or at least 75 percent privatized. The Fund seeks significant minority positions in unquoted companies with shares typically acquired through primary issues. It may also acquire secondary shares if this involves privatization or strengthens the Fund's position in a company. The preferred investment size is between US$ 1.0 million and US$ 15 million.
Euroventures Ukraine Post Privatisation Fund	The Fund provides direct equity and/or quasi-equity investments to fund investment programmes, capital expenditure and/or working capital requirements of medium-sized companies operating in Ukraine to achieve long-term capital growth. The Fund will consider growth opportunities in any industry except for speculative real estate, alcohol products exceeding 15 percent, tobacco products, casinos, illegal or immoral activities, armaments or industries that are detrimental to the environment. The Fund will only invest in companies which are private, or at least 75 percent privatized. The Fund seeks significant minority positions in unquoted companies with shares typically acquired through primary issues. It may also acquire secondary shares if this involves privatization or strengthens the Fund's position in a company. The preferred investment size is between US$ 0.5 million and US$ 3 million.

APPENDIX 2.

Funds by countries *(EBRD- Equity financing through financial intermediaries, Country-specific investment and venture capital funds)*

Albania	Danube Fund Ltd.
Armenia	AIG Silk Road Fund Black Sea Fund
Azerbaijan	AIG Silk Road Fund Black Sea Fund
Belarus	Equity financing may be available through the regional sectoral funds.
Bosnia and Herzegovina	Horizonte Bosnia & Herzegovina Enterprise Fund
Bulgaria	Black Sea Fund Danube Fund Ltd ECM-Bulgarian Post-Privatisation Fund EuroMerchant Balkan Fund Global Growth Fund (GGF) South East European Fund (SEEF) Global Emerging Property Fund (GEPF)
Croatia	Croatia Capital Partnership Ltd
Czech Republic	GENESIS CAPITAL DBG Argus Capital International Advent Central &Eastern Europe Baring Communications Equity Environmental Investment Fund Innova3.
Estonia	Baltic Investment Fund Baltic Investment Fund III Baltic Small Equity Fund Baltic SME Fund CV
FYR Macedonia	Black Sea Fund Danube Fund Ltd SEAF Macedonia
Georgia	AIG Silk Road Fund Black Sea Fund
Hungary	DBG Osteuropa Holding Hungarian Equity Partners L.P. Innova/98 L.P.
Kazakhstan	AIG Silk Road Fund Eagle Kazakhstan Fund (formerly GIMV Kazakhstan Post-Privatisation Fund)
Kyrgyzstan	AIG Silk Road Fund
Latvia	Baltic Investment Fund and Baltic Investment Fund III Baltic Post-Privatisation Fund Baltic SME Fund CV
Lithuania	Baltic Investment Fund and Baltic Investment Fund III Baltic Post-Privatisation Fund Baltic SME Fund CV
Moldova	Black Sea Fund Danube Fund Ltd
Poland	Seaf-Polska Sp.zo.o. (Caresbac) Central Poland Fund DBG Osteuropa Holding GmbH

	Innova/98 L.P. Nova Polonia Private Equity Fund Polish Private Equity Fund
Romania	Black Sea Fund Danube Fund Ltd Romanian Post-Privatisation Fund (RPPF)
Russia	Baring Vostok Private Equity Fund Daiwa Far East and Eastern Siberia Investment Fund Eagle Black Earth Fund North-West and West Russia Regional Venture Fund Quadriga Central Russia Regional Venture Fund Quadriga St Petersburg & Leningrad Oblast Regional Venture Fund Russian Partners Lower Volga Regional Venture Fund Southern Russia Regional Venture Fund BCP West Siberia Regional Venture Fund
Serbia and Montenegro Kosovo	Albania Reconstruction Equity Fund (AREF)
Slovak Republic	Czech & Slovak Investment Corporation Inc. DBG Osteuropa Holding GIMV Czech and Slovak SME Fund Slovak Post-Privatisation Fund
Slovenia	Horizonte Fund
Tajikistan	AIG Silk Road Fund
Turkmenistan	AIG Silk Road Fund
Ukraine	Black Sea Fund Euroventures Ukraine II Fund Euroventures Ukraine Post Privatisation Fund
Uzbekistan	AIG Silk Road Fund

APPENDIX 3.

Number of Signed Projects for the Period 1991-2011

Year	Number of projects
1991	2
1992	35
1993	77
1994	128
1995	159
1996	131
1997	136
1998	133
1999	151
2000	149
2001	171
2002	176
2003	223
2004	285
2005	291
2006	318
2007	372
2008	256
2009	318
2010	352
2011	333
	4196

Type of investment		
Direct	3322	79%
Regional	874	21%
Total	4196	

Portfolio class		
Private	3732	89%
Public	464	11%
Total	4196	

APPENDIX 4.

Countries Distribution of Investments

Country	Number of projects	Total amount investments	% of all projects	% of the total amount of investments
Albania	58	664,726	1.38%	0.93%
Armenia	114	516,325	2.72%	0.73%
Azerbaijan	124	1,503,444	2.96%	2.11%
Belarus	50	838,723	1.19%	1.18%
Bosnia and Herzegovina	103	1,389,399	2.46%	1.95%
Bulgaria	204	2,450,419	4.86%	3.45%
Croatia	141	2,618,700	3.36%	3.68%
Czech Republic	111	1,136,278	2.65%	1.60%
Estonia	83	538,724	1.98%	0.76%
FYROM	81	949,928	1.93%	1.34%
Georgia	152	1,611,782	3.62%	2.27%
Hungary	169	2,598,494	4.03%	3.65%
Kazakhstan	159	4,377,411	3.79%	6.16%
Kyrgyzstan	88	404,568	2.10%	0.57%
Latvia	75	581,248	1.79%	0.82%
Lithuania	79	600,327	1.88%	0.84%
Moldova	90	633,387	2.15%	0.89%
Mongolia	43	364,016	1.03%	0.51%
Montenegro	32	283,395	0.76%	0.40%
Poland	298	5,444,934	7.10%	7.66%
Romania	313	5,557,592	7.46%	7.82%
Russia	732	20,581,089	17.45%	28.95%
Serbia	186	2,938,947	4.43%	4.13%
Slovakia	123	1,564,615	2.93%	2.20%
Slovenia	66	738,748	1.57%	1.04%
Tajikistan	69	246,730	1.64%	0.35%
Turkey	53	1,534,670	1.26%	2.16%
Turkmenistan	32	161,507	0.76%	0.23%
Ukraine	306	7,511,993	7.29%	10.57%
Uzbekistan	61	755,189	1.45%	1.06%
Total:	**4195**	**71,097,308**	**100.00%**	**100.00%**

APPENDIX 5.

Sectoral Project Distribution

	Sector	Invested amount	Invested amount in %
1	Bank Lending	16,906,726	23.78%
2	Transport	9,173,715	12.90%
3	Manufacturing and Services	7,812,835	10.99%
4	Power and Energy	6,664,555	9.37%
5	Agribusiness	6,155,506	8.66%
6	Natural Resources	4,290,221	6.03%
7	Municipal and Environmental Infrastructure	4,163,012	5.86%
8	Equity Funds	3,057,576	4.30%
9	Bank Equity	3,037,401	4.27%
10	Telecoms Informatics and Media	2,934,872	4.13%
11	Insurance and Financial Services	2,891,594	4.07%
12	Small Business Finance	2,055,531	2.89%
13	Property and Tourism	1,953,764	2.75%
	Total	**71,097,308**	**100.00%**

	Sector	Number of Projects	% of the Bank's number of projects
1	Bank Lending	779	18.57%
2	Transport	213	5.08%
3	Manufacturing and Services	462	11.01%
4	Power and Energy	168	4.00%
5	Agribusiness	446	10.63%
6	Natural Resources	139	3.31%
7	Municipal and Environmental Infrastructure	273	6.51%
8	Equity Funds	506	12.06%
9	Bank Equity	202	4.81%
10	Telecoms Informatics and Media	182	4.34%
11	Insurance and Financial Services	237	5.65%
12	Small Business Finance	368	8.77%
13	Property and Tourism	221	5.27%
	Total	**4196**	**100.00%**

APPENDIX 6.

SWOT Analysis of EBRD - Matrix

Strengths	Weaknesses	Opportunities	Threats
S1. Financial and credit strength	**W1.**Lack of transition preparation	**O1.**Expansion to new regions	**T1.**Political interference
S2. Breadth of the product line, product-service mix and expansion potential	**W2.**EBRD's failure in achieving objectives	**O2.**Making the SME sector competitive	**T2.**Emergence of new crises
S3. Products' and services' image, reputation and quality	**W3.**The lack of flexibility	**O3.**Sustainable growth and sustainable development embracement	**T3.**Finite lifetime and uncertain future
S4. High level of recognized expertise in the different organization areas	**W4.**Investment in authoritarian countries mostly	**O4.**Mandate change	**T4.**Loss of trust to the Bank and transition
S5. Bringing the public and private sectors closer and opening the market to the private sector	**W5.**Negative environmental impact and sustainable development issue	**O5.**Developing clear graduation criteria	
S6. Major transition economies creditor	**W6.**Unclear measurement criteria for reconstruction, development and transition		
S7. Willing to share risks, including political risks	**W7.**Lack of ability to compete with similar enterprises and competitive banking		
S8. Providing finance to both private and public sector clients			
S9. Being a catalyst to access additional equity, debt and trade finance			
S10. Having extensive knowledge of local economy			
S11. Business environment and practices, and focus on protection of minority interests			
S12. Strong, internationally recognized financial partner with a long-term perspective			
S13. Close working relationships with governments and shareholders			
S14. Political leverage due to EBRD's unique mandate and shareholder structure			

APPENDIX 7.

TOWS Matrix of EBRD

TOWS	**Opportunities** O1.Expansion to new regions O2.Making the SME sector competitive O3.Sustainable growth and sustainable development embracement O4.Mandate change O5.Developing clear graduation criteria	**Threats** T1.Political interference T2.Emergence of new crises T3.Finite lifetime and uncertain future T4.Loss of trust to the Bank and transition
Strengths S1.Financial and credit strength S2.Breadth of the product line, product-service mix and expansion potential S3.Products' and services' image, reputation and quality S4.High level of recognized expertise in the different organization areas S5.Bringing the public and private sectors closer and opening the market to the private sector S6.Major transition economies creditor S7.Willing to share risks, including political risks S8.Providing finance to both private and public sector clients S9.Being a catalyst to access additional equity, debt and trade finance S10.Having extensive knowledge of local economy S11.Business environment and practices, and focus on protection of minority interests S12.Strong, internationally recognized financial partner with a long-term perspective S13.Close working relationships with governments and shareholders S14.Political leverage due to EBRD's unique mandate and shareholder structure	**S1., S8., S9., S12. → O1.** **S5., S7. → O2.** **S2., S3., S11. → O3.** **S13., S14. → O4.** **S4., S6., S10. → O5.**	**S5., S8., S13., S14. → T1.** **S1., S4., S7., S9. → T2.** **S6., S10., S12. → T3.** **S2., S3., S11. → T4.**
Weaknesses W1.Lack of transition preparation W2.EBRD's failure in achieving objectives W3.The lack of flexibility W4.Investment in authoritarian countries mostly W5.Negative environmental impact and sustainable development issue W6.Unclear measurement criteria for reconstruction, development and transition W7.Lack of ability to compete with similar enterprises and competitive banking	**W1. → O2.** **W2., W3. → O4.** **W4. → O1.** **W5. → O3.** **W6., W7. → O5.**	**W1., W2. → T3.** **W3., W4. → T1.** **W5., W6. → T4.** **W7. → T2.**

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