

EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT'S ACTIVITIES IN RESPONSE TO THE ECONOMIC CRISIS CAUSED BY THE COVID-19 PANDEMIC

Chief Assist. Prof. Dr. Aglika Kaneva

University of National and World Economy, Sofia, Bulgaria

ABSTRACT

This paper is devoted to the European Bank for Reconstruction and Development's measures for limiting the negative impact of the coronavirus pandemic on the economies of its countries of operations. The Bank's support for the private sector recovery has been studied. The increase in the European Bank for Reconstruction and Development's investments and its advisory and policy support in response to the coronavirus crisis have been analyzed. The Bank's short-term initiatives in support of SMEs through the period of economic crisis caused by Covid-19 have been presented. The European Bank for Reconstruction and Development's activities under the Solidarity package have been analyzed assessing the effectiveness of its response to the COVID-19 crisis. The EBRD policy comparator has been explained. The state credit guarantee schemes applied in the European Bank for Reconstruction and Development countries of operations have been clarified. Conclusions from the analysis of the results of the actions taken by the European Bank for Reconstruction and Development in response to the economic crisis caused by the COVID-19 pandemic have been drawn.

***Keywords:** European Bank for Reconstruction and Development, private sector, Covid-19 crisis, Trade Facilitation Programme*

INTRODUCTION

The coronavirus pandemic has had a major impact on economies of the countries where the European Bank for Reconstruction and Development (EBRD) works, posing enormous challenges for policymakers across all EBRD regions [14]. The Covid-19 pandemic has reduced the funding of many firms, especially SMEs [8].

The main objective of this paper is to examine the measures taken by the EBRD for limiting the negative effects of the COVID-19 pandemic on the economies of its countries of operations.

THE EBRD MEASURES FOR LIMITING THE NEGATIVE IMPACT OF THE COVID-19 PANDEMIC

With its mandate to develop and foster the private sector in the 38 economies on three continents where it currently operates, the EBRD is uniquely placed to support the effort to recovery from the pandemic and build back better economies by:

- supporting the private sector's recovery and market-friendly policy reforms;
- investing in a green and just transition of the EBRD economies;
- promoting equal opportunities, especially access to skills and employment, finance and entrepreneurship for women and youth;
- supporting countries and companies to accelerate digitalisation.

The EBRD responded swiftly to the coronavirus crisis and increased its investments to a record €11 billion in 2020 along the remit defined by its mandate [11].

The Bank's shareholders approved response and recovery measures that significantly enhanced the EBRD original Solidarity Package [10]. The EBRD was the first international financial institution to approve a comprehensive series of response and recovery measures in its Solidarity Package, first unveiled on 13 March 2020 [7]. It has focused on supporting existing clients with the provision of short-term liquidity and working capital to protect viable companies and safeguard progress towards sustainable, fair and open market economies in its countries of operations [12].

The EBRD has reacted decisively to the crisis, investing at record levels within a €21 billion two-year Solidarity Package that has delivered emergency capital to firms affected by the virus, upheld the provision of vital infrastructure services and increased access to trade finance in order to keep commerce flowing [15].

The EBRD responded to the coronavirus pandemic with record investment of €11 billion in 2020 through 411 projects, addressing the urgent needs of the 38 economies where it invests. This represents a 10 % increase in annual business investment relative to 2019, when the Bank provided €10.1 billion to finance 452 projects [12]. The Bank complemented its increased financing with scaled-up policy support [15].

The provision of trade finance is vital to keep up global trade under extremely challenging circumstances. With its Trade Facilitation Programme (TFP) the EBRD is well-positioned to lend its support. Under the Trade Facilitation Programme, there were a 144 transactions worth €385.6 million in March 2020, the highest turnover ever recorded in a single month. In 2020 the EBRD has issued

424 Trade Facilitation Programme transactions for €682 million, compared with 445 transactions worth for €559 million in the same 2019 period [13].

The EBRD has joined forces with governments and bilateral and multinational donors to address urgent needs and tackle the long-term impact of the Covid-19 pandemic. The EBRD is building back better, greener economies, boosting small businesses, improving vital infrastructure and supporting policy engagement and advisory services [10].

The EBRD has proposed several financial restructuring and insolvency policy initiatives for the EBRD regions to complement the emergency financial assistance provided by national governments and the international community.

Policy initiatives are divided into three main areas:

- Immediate initiatives to support new financing and co-financing by IFIs and national banks through secured transaction and insolvency reforms that ring-fence Covid-19 and other new financing;
- Short-term initiatives to help small and medium-sized enterprises (SMEs) through the challenging period of financial and operational distress caused by Covid-19 with advisory online information platforms and digitalisation support;
- Medium to long-term initiatives to strengthen (pre)insolvency restructuring procedures and improve the efficiency of all insolvency and enforcement procedures for all stakeholders [7].

The Bank's Strategic and Capital Framework 2021-25 sets out how the EBRD is committed to preserve and accelerate transition as countries seek to build back better.

The EBRD will continue to tackle deep-rooted broader challenges and leverage new opportunities to support the transition to a green, low-carbon economy, promote equality of opportunity, accelerate the digital transition, as well as strengthen economic governance. Through all its work, the Bank is preparing its countries for the post-virus period and to safeguard everything they have achieved so far in building sustainable, fair and open market economies.

Keeping vital trade flows going, in 2020 the EBRD supported a new record of 2,090 trade finance transactions worth €3.3 billion under its Trade Facilitation Programme, involving 90 issuing and 140 confirming banks across 40 countries worldwide. Examples of transactions include the import of medicines from Spain, Turkey and Switzerland into Lebanon, Georgia and Jordan, or the export of solar power technologies from Greece to Spain and the United Kingdom.

In addition to its own funds, the EBRD also directly mobilised €1.2 billion from co-investors. The Bank continued to concentrate its support on the private sector, which accounted for 72% of total EBRD investment in 2020.

In October the Bank reaffirmed its commitment in this area with the adoption of a new five-year Strategic and Capital Framework, which aims to make the EBRD a majority green bank by 2025.

Table 1. EBRD annual results, 2020 and 2019, by region

Indicators	2020	2019
Annual Bank Investment (€ billion)	11.0	10.09
Number of projects	411	452
Annual Bank Investment by region (€ billion)		
Central Asia	1.15	1.38
Central Europe and the Baltic states	1.41	1.47
Cyprus and Greece	0.93	0.64
Eastern Europe and the Caucasus	1.93	2.06
South-eastern Europe	1.76	1.71
Southern and eastern Mediterranean	2.13	1.85
Turkey	1.68	1.00

Source: EBRD

The EBRD stepped up its investment to address immediate needs and to create the foundations for recovery, with a focus on building back better economies in the future. As the pandemic is exacerbating inequalities, especially for women, young people and other groups, the Bank reinforced its efforts with regard to gender and economic inclusion. This work resulted in a 24% increase in inclusion projects in 2020, with a total investment volume of €4 billion, and a record number of gender activities.

In the Western Balkans, in 2020 the EBRD further increased its support for SMEs and the private sector with the provision of €729 million in loans to commercial banks for on-lending to local businesses for investments that support the recovery and strengthen their competitiveness. This includes a new Guarantee for Growth mechanism introduced in Albania, providing Raiffeisen Bank Albania with an unfunded guarantee of up to €100 million in local currency equivalent linked to the bank's local-currency sovereign bond portfolio and freeing it to increase its lending to the local economy.

The Bank's Infrastructure Project Preparation Facility advisory led to the commercial close for Sofia Airport.

The coronavirus pandemic also hit the EBRD's southern and eastern Mediterranean (SEMED) region hard. The Bank stepped up its financing in Egypt

with the provision of €784 million in liquidity lines to local banks for on-lending to businesses in 2020. In Morocco, Bank of Africa - BMCE Group became the first recipient under the Bank's Resilience Framework in April, with a €145 million financing facility.

Complementing its investments, the EBRD boosted policy engagement in 2020. Together with multilateral and private-sector partners, the Bank stepped up the activities of the Vienna Initiative, a platform for key private and public stakeholders in the financial sector of Central and South-Eastern Europe.

The coronavirus pandemic also accelerated the shift towards a more digital world and triggered changes in the way that the EBRD provides support to SMEs. The Bank made a rapid adjustment to deliver services aimed at the development of skills for small business owners, employees and consultants, using digital infrastructure. More than 15,000 business professionals in countries where the EBRD invests participated in training and business mentoring sessions that the Bank delivered online in 2020. Donor funding has been crucial for this digital transition [12].

The International Labour Organization (ILO) and the EBRD have joined forces to respond to the coronavirus crisis in the Western Balkans by assessing the impact of the crisis on the region's labour markets and employment and advising the authorities on policy actions to support workers and enterprises [3].

The two country reports finalised for North Macedonia and Montenegro have noted the significant job losses that have occurred in some sectors and the risk of further substantial cuts in the employment rate [4], [6].

Recommendations include ensuring all those who lose jobs are entitled to some unemployment benefits, and introducing measures tailored to those most at risk of exclusion [3].

EBRD has responded to the economic and financial crisis triggered by the COVID-19 pandemic, by developing a COVID-19 Resilience Framework that is designed to help their existing and new clients. An important component of the COVID-19 Resilience Framework is the environmental and social assessment skills training programme, which helps boosting local environmental and social assessment skills of the Bank's local consultants and provide useful guidance to its clients [5].

The EBRD-supported Investment Councils (ICs) are a key part of the Bank's policy response to the coronavirus pandemic. These well-established platforms for dialogue help governments to develop policy responses which are supportive of business, especially where capacity has been constrained.

From the outbreak of the crisis, Investment Councils secretariats have strengthened their efforts to facilitate the dialogue between businesses and governments. As an active participant, the EBRD has direct exposure to many national stakeholders.

Active in 12 EBRD countries of operations these councils aim to provide a platform for public-private sector dialogue between the government, the private sector, as well as the donor community. The goal is to contribute to a positive business environment by supporting the implementation of agreed policies. Effective dialogue between the government and the private sector – facilitated by Investment Councils – is important under normal circumstances, but has proven crucial in supporting governments during and after Covid-19.

In order to ensure the continuation of the public-private dialogue during the pandemic, the EBRD Governance and Political Affairs (GPA) team organised a virtual conference for Investment Councils – building on the previous events in Istanbul 2015, London 2017 and Tbilisi 2018. The last conference featured the Investment Councils’ role in supporting the economic recovery of the EBRD countries of operations in the aftermath of Covid-19.

The Rapid Advisory Response framework has supported the implementation of policies that help mitigate the economic impact of the pandemic by leveraging the EBRD’s own resources and its network of policy makers and experts.

The EBRD supports the Investment Councils through secretariats, which coordinate and facilitate the work of the councils. They also provide economic and legal analysis and advice to support the work of the councils and support reform efforts. In total, over 50 experts and staff are working in 12 secretariats in Albania, Armenia, Belarus, Georgia, Kosovo, Kyrgyz Republic, Moldova, Montenegro, Tajikistan, Tunisia, Ukraine and Uzbekistan. The Investment Councils are funded with support from the EBRD Shareholder Special Fund, the EBRD Multi-donor Account for Ukraine, the Swiss State Secretariat for Economic Affairs and the UK Good Governance Fund [1].

SOLIDARITY PACKAGE

The EBRD Resilience Framework has streamlined the process for providing finance to meet the short-term liquidity and working capital needs of existing clients (existing clients are partners who have an outstanding EBRD loan or equity investment or who have repaid or exited since 1 January 2019). The Bank has expanded financing under the Trade Facilitation Programme, keeping open the channels of commerce. The EBRD has offered fast track restructuring for distressed clients. The Bank has enhanced established frameworks that can reach out especially to SMEs and corporates that are not yet its clients, making the real economy more resilient. The Vital Infrastructure Support Programme has helped meet essential infrastructure requirements, including financing for working

capital, stabilisation and essential public investment. The emergency channels targeted all sectors of the economy, but especially those badly affected by the crisis, including financial institutions, SMEs and corporate sectors such as automotive and transport providers, agribusiness, and medical supplies [7].

REPOSITORY OF POLICIES – THE EBRD POLICY COMPARATOR

The EBRD has established a repository of policies adopted in response to the pandemic to track systematically each country's experience and draw lessons, both within the regions and from selected countries elsewhere. Over time, the repository will be used to identify innovative and effective policies that bring real benefits in terms of economic resilience and recovery and can be introduced more widely. The repository includes various knowledge products, including country pages, in-depth case study analysis, webinars and other relevant materials [3].

In general, authorities in countries of operations, have reacted promptly to provide support to the economy. The two most used crisis response measures so far have been, first, deferral (combined in some cases with reduction) of taxes and social contributions, and loan deferral schemes. Also, nearly all countries of operations have raised spending on healthcare to help cope with the medical crisis. In terms of frequency, these measures are followed by policies supporting liquidity of the banking sector and those supporting more directly liquidity of firms, either by subsidizing wages or providing cheap loans/guarantees. Lastly, the only other measure taken by more than half of countries of operations is the one related to price controls, concentrated mostly in low-income countries to control food prices. Export controls have also been introduced temporarily in a few cases [3].

STATE CREDIT GUARANTEE SCHEMES

In response to the coronavirus pandemic, a number of countries in both Western Europe and the EBRD regions have scaled up state credit guarantee schemes (SCGSs) to mitigate this urgent liquidity problem and stimulate an economic recovery. This instrument, if well designed and implemented, can be an efficient crisis response mechanism, as it relies on the banking sector to channel financing to firms, while safeguarding the soundness of the banking sector by partly assuming the risk of on-lending.

Many firms, especially SMEs, have faced unprecedented liquidity strains. State credit guarantee schemes have emerged as a potentially effective policy tool for addressing the liquidity gap [2]. State credit guarantee schemes have been one of the most widely used instruments both during the global financial crisis and during the Covid-19 economic crisis. Almost two-thirds of EBRD countries of operations have been implementing or expanding this policy instrument [9].

CONCLUSION

During the crisis, the EBRD has helped protect the economy and promote further transition not only through investments but also by providing governments and other state institutions with policy advice. The EBRD has supported the authorities in its countries of operations in designing measures to cope with the immediate disruption of the coronavirus crisis. The Bank also provides an up-to-date overview of the crisis-response policies adopted in the EBRD regions, as well as analysis of best practices and policy options in the countries where it work. The Bank's Resilience Framework has provided finance to meet the short-term liquidity and working capital needs of existing clients [10].

The Bank has rapidly rolled out investments and disbursements to its clients and countries suffering from the economic shock of the crisis. The EBRD adapted and scaled up existing instruments and developed new initiatives to provide finance and rapid advisory and policy support to help businesses and government combat the economic and societal implications of the virus [7].

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