Policy and partnerships

In 2015 the EBRD intensified efforts to foster policy reform and improve the business climate. The Bank deployed a range of good governance measures in close cooperation with recipient countries, other international organisations and donors. Partnerships with donors were also crucial to the success of EBRD activities in areas ranging from climate finance to infrastructure, small business and nuclear safety.

Good governance

In response to the stalling of reforms that followed the financial crisis, the EBRD increased its policy dialogue efforts aimed at combating corruption and improving the business environment. The Bank engages in intensive policy work with governments and other partners to strengthen the institutions that market economies need to function efficiently and generate sustainable growth.

Investment Climate and Governance Initiative

The EBRD launched the Investment Climate and Governance Initiative (ICGI) in 2014 as part of the Bank's focus on re-energising transition by reaching beyond projects to encourage broader systemic change.

Weak public and corporate governance are serious obstacles to transition in many EBRD countries of operations; surveys of enterprises show clearly the impact of a poor investment climate on starting, operating and expanding businesses and on foreign investment. The less-advanced EBRD countries of investment traditionally rank at the bottom of global league tables on the business environment and corruption.

The ICGI approach combines existing tools and instruments – such as platforms for public-private dialogue, ombudsman functions, procurement reform, judicial capacity-building and corporate governance enhancements – with new instruments addressing business registration and regulation, licensing and customs administration, transparency, and freedom of information. The Bank works with other IFIs, intergovernmental organisations and domestic and international NGOs in this field.

The EBRD develops full ICGI country programmes in countries where there is strong demand for its engagement, demonstrable political will to introduce reforms that improve the investment climate and governance, and a clear role for the EBRD to add value to the reform landscape. During 2015 the Bank implemented ICGI programmes in Albania, Moldova and Ukraine (see page 46), and signed a memorandum of understanding with the government of Serbia for an ICGI programme in that country.

In addition, the Investment Climate and Governance team coordinated focused interventions in a number of other countries. These activities were strongly linked to the Bank's Country Strategy priorities and designed to build on its ongoing policy dialogue and technical cooperation work in the area of investment climate reform. As part of these interventions, the EBRD, with strong donor support, worked to strengthen the impact and effectiveness of Investment Councils (ICs) in Armenia, the Kyrgyz Republic, Moldova and Tajikistan and established new ICs in Albania and Georgia in 2015.

Improving the business climate in Ukraine

The EBRD is a champion of business climate reforms in countries where it invests and took concrete steps to support reformers in Ukraine during 2015.

After signing a memorandum of understanding for an anti-corruption initiative with the government of Ukraine, the OECD and five local business associations in 2014, the Bank assisted in the creation of the Business Ombudsman Council for Ukraine (BOC).

The BOC addresses complaints of unfair treatment of firms by the authorities and promotes reforms to support private business. It became operational in May 2015 and received more than 500 complaints during the first six months of its operations, of which about two-thirds were eligible for further investigation. More than 100 investigations were completed during this period. The BOC also issued four systemic reports analysing access to electricity; problems for businesses affected by the situation in the east of the country; the administration of business taxes; and issues affecting cross-border trade. The BOC is funded through the EBRD-Ukraine Stabilisation and Sustainable Growth Multi-Donor Account (Ukraine MDA).

Strengthening the governance of companies and banks

The EBRD works extensively on strengthening corporate governance in order to improve the business climate in its region. A large number of investments in 2015 were conditional on clients implementing corporate governance reforms, for which they received support from the Bank. For example, the Ukrainian national energy company Naftogaz agreed to adopt a corporate governance action plan, developed with the EBRD, in order to access Bank financing for the purchase of winter gas. The Bank also helped prepare a new corporate governance code in Romania, adopted by the Bucharest Stock Exchange. It provided advice that led to the approval of a new supervision methodology for the Bank of Slovenia and helped prepare a new banking law now approved by the Slovenian parliament.

Public procurement

Strengthening public procurement procedures is an important aspect of the Bank's work on good governance. The EBRD and the UN Commission on International Trade Law lead a joint programme to enhance public procurement legislation in countries where the Bank invests.

During 2015, the Kyrgyz parliament adopted a new law on public procurement that incorporated advice from this initiative. Under a joint programme with the World Trade Organization, the EBRD helped prepare instruments leading to Moldova and Ukraine being accepted as members of the WTO Agreement on Government Procurement (GPA), which mutually opens government procurement markets among parties to the agreement. The Bank is also a member of the OECD working group for the revision of the

Case study

Credit line supports climate resilience in Tajikistan

A new financing facility from the EBRD seeks to help small businesses and households in Tajikistan counter the effects of climate change, such as soil erosion and water shortages.

The facility provides commercial and concessional funding through local banks and microfinance institutions, as well as offering advice to clients.

The first loan was for the somoni equivalent of US$ 3 million (€2.76 million equivalent) to Bank Eskhata, a longstanding partner of the EBRD. Half of this loan was extended by the EBRD, and the other half was provided by the PPCR, a funding window of the multilateral Climate Investment Funds.

The funds will be on-lent in local currency to SME clients and households to help them adopt technologies and practices to reduce soil erosion and pressure on water and energy resources, which are key environmental threats in Tajikistan. Advice to borrowers is funded by the EBRD and the UK.

"In 2015 donors signed agreements to contribute €359 million in new donor financing."

Methodology for Assessing Procurement Systems (MAPS Plus).

To help public sector officials acquire the skills and experience needed to conduct procurement procedures effectively, the EBRD and the University of Rome Tor Vergata jointly established an international master's programme in public procurement management. The Bank provides donor-funded scholarships to students from the EBRD region and last year 33 people graduated from the programme, now in its third intake.

For public sector projects financed by the EBRD, the Bank launched an e-tendering portal allowing suppliers and contractors to engage in online procurement. This will eventually replace paper-based procedures, including invitations to tender and tender documents. In addition, the EBRD and the European Investment Bank (EIB) agreed on co-financing frameworks that establish how the two institutions will conduct procurement associated with jointly financed contracts.

Donor partnerships

Donors continued to work closely with the EBRD to address the transition challenges in its region. In 2015 they signed agreements to contribute €359 million in new donor financing, extending the range and depth of the Bank's investments, balancing risks and rewards, temporarily compensating for market failures and nurturing the development of market-based institutions, skills and behaviour. EBRD products blend commercial financing with grant-funded elements. These instruments enable donors to achieve impact on a greater scale than would otherwise be possible.

Infrastructure, small firms and the sustainable use of resources remained the central focus of donor activity. Initiatives with a robust element of policy dialogue delivered through grant co-financing continued to grow in importance. Good governance and local currency are two examples of this type of initiative. Other areas of focus for donors include promoting private sector competitiveness, economic inclusion and gender equality.

The European Union (EU) is the EBRD's largest single donor, contributing 35 per cent of donor funding received over the last five years in support of Bank activities. In recent years, the EU has increasingly channelled its funding through regional facilities created to blend EU grants with investment financing from financial institutions such as the EBRD. These facilities include the EU Neighbourhood Investment Facility (NIF), the EU Investment Facility for Central Asia (IFCA) and the Western Balkans Investment Framework (WBIF). Bank projects in EU member states have also benefited from funding provided through the Structural and Cohesion Funds.

In 2015 the EU provided support worth €179.3 million for 30 projects. This was a record year in terms of EU contributions to the EBRD. Last year the Bank and the EU signed a Framework Administrative Agreement that standardises how the two institutions work together and provides the basis for deeper cooperation in future. The EBRD also doubled the number of staff at its EU Representative Office in Brussels.

Donor instruments

Donor funding at the EBRD takes the form of technical cooperation (TC) and non-TC grants.

TC grants focus on specific tasks in support of a particular project or programme, such as project preparation and implementation, training, sector support, building a client's expertise and technical skills, policy dialogue and other forms of assistance. Last year donor funds worth €218 million were used to finance 809 TC assignments.

Donor funds were also used for 54 non-TC grants worth a total of €187 million. The main types of non-TC grant are as follows:

- investment grants that provide an alternative source of funding for projects where there may be constraints on the use of loan financing (for example, in heavily indebted countries facing borrowing limits) or affordability pressures that could lead to low income and/or vulnerable groups being excluded from public services
- performance fees and incentives that encourage financial institutions to extend EBRD loans to sub-borrowers likely to achieve priority objectives set by the Bank and donors
- risk-sharing facilities used to support transactions funded through initiatives such as the EBRD Trade Facilitation Programme as well as lending to micro, small and medium-sized enterprises (MSMEs) and resource-efficiency credit lines
- concessional loans that the EBRD uses to co-finance projects where donors provide part of the overall financing package in the form of subsidised lending.

Types of donor

Bank activities are complemented by donor support from bilateral donors, including the EU, multilateral donor funds and the shareholders of the EBRD.

Bilateral donors are governments and other partners. In 2015 the following donors signed agreements to contribute additional resources to the EBRD: Austria, Armenia, Finland, Germany, Italy, Kazakhstan, Korea, Luxembourg, the Netherlands, Norway, Poland, Romania, Sweden, Switzerland, Taipei China, the United Kingdom, the United States of America, the EU and private sector donors.

Multilateral donor funds are characterised by the involvement of not only a number of donors but also a number of IFIs as recipients and often feature significant involvement from beneficiary countries. These funds can provide TC grants as well as non-TC assistance. In 2015 the EBRD was a recipient of grants from multilateral donor funds such as the EU NIF, the WBIF, the EU IFCA, the Climate Investment Funds, the Global Environment Facility, the Northern Dimension Environmental Partnership and the Eastern Europe Energy Efficiency and Environment Partnership. The EBRD's Nuclear Safety team manages the Nuclear Safety and International Decommissioning Support Funds, which donors set up for specific nuclear safety work in the region (see page 52).

Bank shareholders allocate funds from net income to a number of funds, the largest of which is the EBRD Shareholder Special Fund (SSF), established in 2008. The SSF complements other donor funds by providing TC and non-TC grants.

The impact of microcredit

In 2015 the Bank published a summary of the key findings of a multi-year research programme, partly funded by the EBRD Western Balkans Fund, on the impact of microcredit.

Microcredit is designed to support entrepreneurship and alleviate poverty, but recent research from seven countries shows that giving poor people access to microcredit does not typically lead to a substantial increase in household income. There also appear to be no significant benefits in terms of education, or empowerment of women.

What microcredit does do, however, is allow low-income households to better cope with risk and to enjoy greater flexibility in how they earn and spend money. In short, microcredit is a useful financial tool but not a powerful anti-poverty strategy. For more information see **ebrd.com/publications/impact-of-microcredit**

How donors provide support

Donors provide support directly or through a range of funds, including bilateral funds and the aforementioned multilateral donor funds. The Bank manages multi-donor funds, which pool resources from donors for specific purposes that meet strategic objectives on a larger scale than would otherwise be possible. The most active in 2015 were, among others, the Early Transition Countries (ETC) Fund, the Southern and Eastern Mediterranean (SEMED) Multi-Donor Account (MDA) and the Ukraine MDA. Last year also saw the establishment of the Small Business Impact Fund.

"Donor funds are used in all EBRD recipient countries."

Donor priorities

Donor funds are used in all EBRD recipient countries, with a greater focus on the early transition countries, the SEMED region and the Western Balkans. Projects in these challenging markets often require donor-funded assistance in order to achieve the Bank's aims. Besides directly co-financing EBRD investments, donors provide grants for projects covering areas such as investment preparation and implementation, the improvement of managerial skills, capacity-building, regulatory development, policy dialogue and legal transition.

Strategic areas for which donors allocated resources in 2015 were:

- improving the environment, including through tackling climate change and advancing resource efficiency, and increasing energy security
- diversifying economies by providing finance and advisory support for small firms
- building a stable financial sector by supporting financial institutions and local capital market development
- accelerating transition in infrastructure through projects in the municipal and environmental infrastructure, transport, power and energy, and natural resources sectors
- promoting private sector competitiveness and initiatives mobilising private sector support in areas such as food security
- improving the business environment through regulatory reform
- integrating considerations of gender and social inclusion into EBRD projects.

Reform of donor fund management

In 2015, the Bank set out a five-year vision for its grants activities. This recognises the growing role played by donors in supporting the EBRD's transition objectives and commits the organisation to being a selective and strategic user of grants; a modern development partner to its donors, operating in line with best international practice and with a firm country focus; and an efficient manager of grants activities.

In keeping with this vision, the Bank made improvements to the management of the Shareholder Special Fund to ensure its alignment with strategic EBRD priorities. The Bank also made progress on reforming its IT systems for managing grants and prepared for the launch of a new system in 2016.

For more information on donor partnerships, see **dr-ebrd.com**

Cooperation with external partners

The EBRD worked with other multilateral development banks (MDBs) to agree on a financing framework to support the 2030 Agenda for Sustainable Development, which includes the 17 UN Sustainable Development Goals (SDGs). Notably, the banks announced their intention to extend more than US$ 400 billion (€368 billion equivalent) in new financing over the next three years.

With its expertise in the private sector, the EBRD is well positioned to act on the emerging consensus that private finance will be essential to implementation of the SDGs. In this context, the Bank's specialist knowledge was in high demand from regional development banks as they strengthened their private sector activities, as well as from new MDBs.

As in previous years, the EBRD engaged strongly with the G20 forum of the world's leading economies, in close partnership with other MDBs. Core areas of focus in 2015 under the Turkish presidency were infrastructure, SMEs and energy efficiency.

Sustaining efforts to deepen their cooperation, the EBRD and the EU held the first in a series of joint Country Days to consider shared priorities in Bulgaria, Croatia and Romania. Similar events covering other countries are scheduled for 2016. EBRD President Suma Chakrabarti visited Brussels twice in 2015 to meet with EU leaders. (Read about EU donor funding on page 47).

> **"High levels of non-performing loans are a major obstacle to economic growth."**

Vienna Initiative and Joint IFI Action Plan

A unique private-public coordination platform created to safeguard financial stability in emerging Europe, the European Bank Coordination "Vienna" Initiative, pursued several major priorities during 2015.

The Initiative continued to support dialogue on enhanced regulatory cooperation between non-EU member countries in south-eastern Europe and the institutions of the Banking Union, including the European Banking Authority (EBA) and the European Central Bank. This work culminated in the signing of a memorandum of cooperation between the EBA and supervisory authorities from Albania, Bosnia and Herzegovina, FYR Macedonia, Montenegro and Serbia.

The Initiative made strides in creating the conditions for credit recovery. It launched a Regional Non-Performing Loan (NPL) Action Plan that aims to reduce the excessively high levels of NPLs, which are a major obstacle to new credit and economic growth in the region. The plan will initially focus on Albania, Croatia, Hungary, Montenegro and Serbia, in which countries the ratio of NPLs to total loans ranged from 13 to 23 per cent in 2015. Three areas are covered under the plan: transparency of the restructuring environment and reform efforts; capacity-building; and knowledge sharing. Last year work concentrated on diagnostic and preparatory activities in these three areas.

Case study

Turkish electronics company champions gender equality

A €50 million loan to Vestel, a leading Turkish producer of consumer electronics, will support the company's research and development programme in the white goods sector and promote equal opportunities for the women and men it employs.

Vestel will use the EBRD financing as part of a €100-million investment programme aimed at increasing the share of high-tech components in the white goods it produces. The company will work with universities in its research and development programme and will involve local suppliers in the production of advanced specialised components, thereby contributing to the spread of new technologies within this sector in Turkey.

As part of the project, Vestel has committed to further improving its labour practices in relation to gender equality, in particular through the implementation of an equal opportunities action plan. Technical assistance funded by the EBRD Shareholder Special Fund will support the development of this plan and other efforts to improve women's participation in managerial and technical roles within the company.

Lastly, the Initiative continued to closely monitor deleveraging and credit trends in emerging Europe.

The Joint IFI Action Plan for Growth in Central and South Eastern Europe was a shared initiative between the EBRD, the European Investment Bank (EIB) and the World Bank. It was launched in 2012 in response to the impact of eurozone problems on the economies of emerging Europe.

The final report of the Action Plan in 2015 showed that the three institutions had far exceeded their financial target of €30 billion, investing a total of €42.7 billion. This was equivalent to 1.5 per cent of regional GDP and supported more than 770 individual projects.

Around one-third of the financing aimed to reinforce local financial institutions and enable them to lend to SMEs. Another third was invested in transport, energy and communications infrastructure, including the Trans-European Networks in each of these sectors. The Action Plan also financed investments in energy efficiency and renewable energy, promoted the development of local capital markets and improved the productivity, innovation and export strategies of firms in the region.

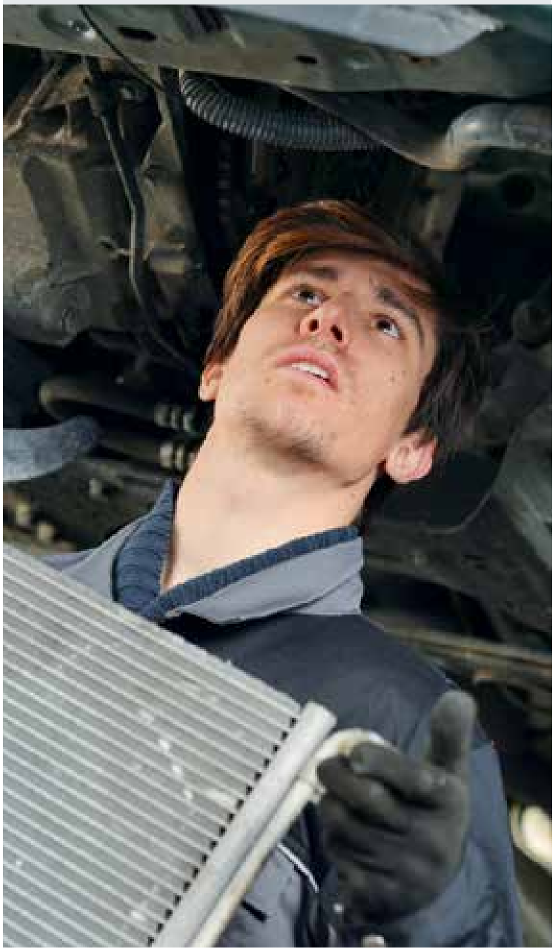
Case study

Kyrgyz company to raise output and improve working conditions

A joint financing mechanism between the EBRD and the Kyrgyz Investment and Credit Bank (KICB) will allow Avtomash Radiator, a maker of radiators for tractors and other heavy motor vehicles, to invest in increased capacity and health and safety improvements at its production plant in the Kyrgyz capital, Bishkek.

Avtomash, which exports mainly to Belarus and Russia, will use the financing to introduce new lighting and ventilation systems. These will benefit the company's 550 employees while also increasing energy efficiency and reducing maintenance costs at the plant.

The US$ 1 million (€920,000 equivalent) loan is financed on a 50:50 basis by the EBRD and KICB. The financing is being made available under a special Medium-Sized Loan Co-Financing Facility (MCFF), through which the EBRD and its partner banks jointly provide small and medium-sized enterprises with longer-term loans for capital investments.



"The EBRD manages seven nuclear safety donor funds and associated programmes."

Nuclear safety

As a manager of multilateral nuclear safety donor funds, the EBRD plays a leading role in efforts to remediate a number of safety issues surrounding nuclear legacies. It administers funds to make the Chernobyl site safe and secure, supports the decommissioning of first-generation Soviet-designed nuclear power plants in the new EU member states, helps address the environmental legacy of the Soviet nuclear-powered fleet in north-western Russia and carries out other nuclear safety work in the EBRD region.

The EBRD manages seven nuclear safety donor funds and associated programmes. It does this on behalf of more than 40 donors, who have together contributed more than €4 billion for the purpose, including more than €2.5 billion for the completion of projects in Chernobyl. In addition to its role as fund manager, the EBRD has committed €675 million of its own resources to support work at Chernobyl.

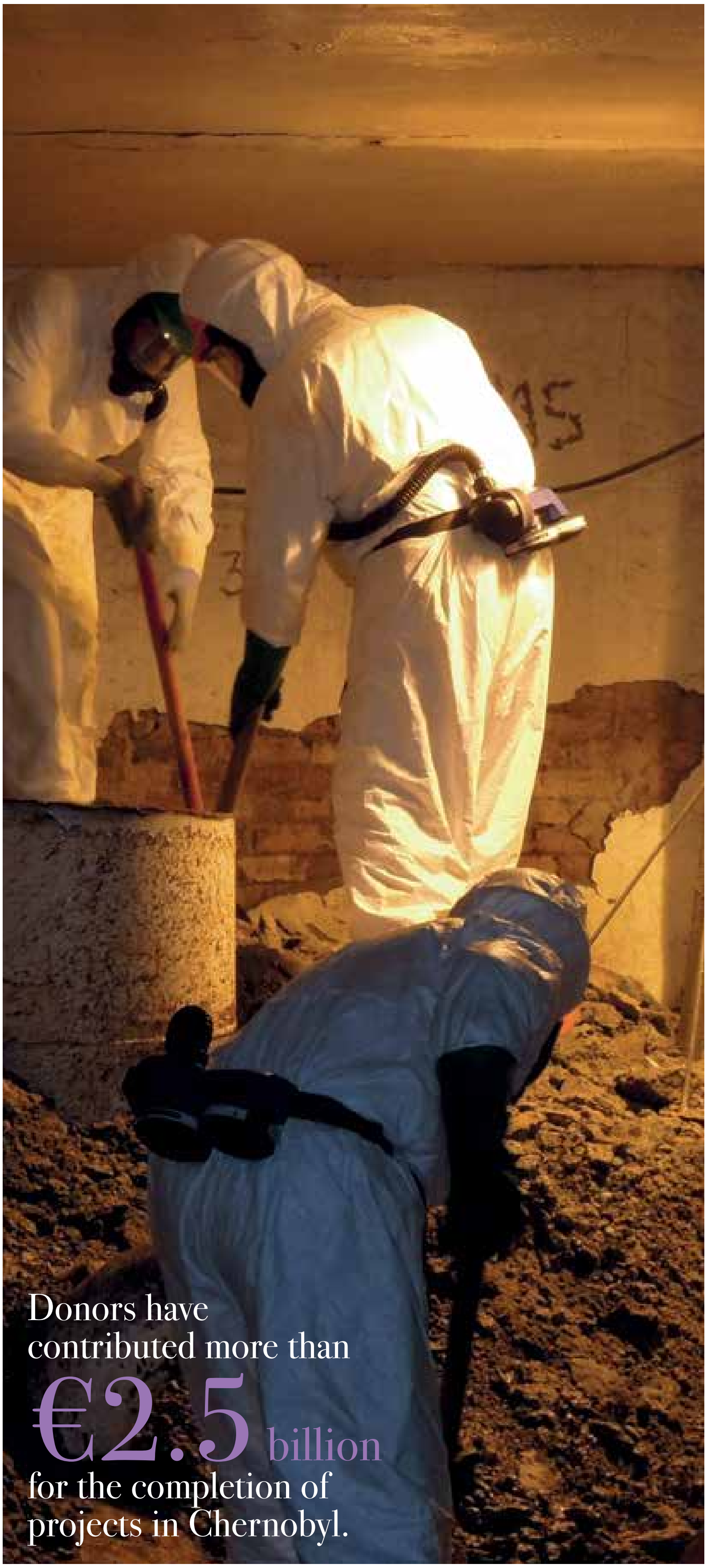
In 2015 construction of the Chernobyl New Safe Confinement (NSC) reached a major milestone when the two halves of the arch-shaped steel structure were joined together. Remaining tasks include the installation of a sophisticated ventilation system which will keep the structure corrosion-free during its lifespan of 100 years; the construction of a building that will serve as the control centre; and fitting the arch with heavy-duty cranes for deconstruction and other auxiliary systems.

Upon completion, scheduled for late 2017, the NSC will cover the destroyed reactor 4 at Chernobyl, the site of the 1986 nuclear accident, and its construction will have cost in the region of €1.5 billion.

Also at Chernobyl, a plant to treat liquid radioactive waste started operations in 2015. The EBRD-managed Nuclear Safety Account funded the facility, which solidifies the waste currently kept in concrete tanks and prepares it for final storage. The treatment plant has cost more than €35 million.

Progress was also made on finalising construction of the Interim Spent Fuel Storage Facility (ISF2), which will treat and store more than 20,000 fuel assemblies from Chernobyl units 1 to 3 for a minimum of 100 years. Completion of the facility is scheduled for 2017. Once all the fuel has been transferred to the ISF2, the current wet storage, which is derelict, can be decommissioned. This will be a major step forward in increasing nuclear safety at the site.

In 2015, the G7 group of countries and the EU confirmed an additional €165 million contribution to the Chernobyl Shelter Fund for completion of the NSC, while other donors pledged close to €50 million. EBRD governors had already said in 2014 that the EBRD would provide an additional €350 million to help close



a funding gap of €615 million. Efforts to raise the remaining shortfall of €50 million continue.

The EBRD manages the Nuclear Window Support Fund of the Northern Dimension Environmental Partnership (NDEP), which receives contributions from nine countries and the EU and finances vital projects removing spent nuclear fuel and other radioactive waste from unsafe facilities in north-western Russia.

Construction of the infrastructure and systems for retrieval and transport of the 22,000 submarine spent-fuel assemblies stored in Andreeva Bay made excellent progress in 2015 and was supported by a €61 million grant. A €53 million grant also from the Fund is dedicated to efforts to dismantle the Lepse service ship and safely dispose of its cargo of spent nuclear fuel and radioactive waste from the USSR's nuclear-powered fleet. In 2015 preparatory work continued on installing special equipment at the Nerpa shipyard on the Kola peninsula where the Lepse is held on the slipway undergoing dismantling. The Lepse and Andreeva Bay pose a significant environmental threat to the marine environment of the northern Atlantic and surrounding countries. Defueling of the Papa-class nuclear submarine in the Zvezdochka shipyard was completed and its highly-enriched fuel safely transported to the Mayak reprocessing plant in the Ural Mountains.

Last year, to help address the legacy of uranium mining in Central Asia, the EBRD set up a new fund to finance a programme to rehabilitate Soviet-era mines. The EU is providing an initial €16 million, with additional funding under consideration, and efforts are underway to secure pledges from other donors. The rehabilitation programme aims to reduce the environmental risk posed by disused and deteriorating sites containing radioactive materials in the Kyrgyz Republic, Tajikistan and Uzbekistan. In 2015 work focused on legal arrangements with these countries in preparation for mine remediation projects.

Also in 2015, the EBRD continued to support programmes that help Bulgaria, Lithuania and the Slovak Republic deal with the decommissioning and wider consequences of the shut-down of their Soviet-era nuclear power plants. Key milestones included construction of a facility to store spent fuel from the closed Ignalina plant in Lithuania as well as a facility for the treatment of solid radioactive waste at the same site. Both facilities, which are required for the safe decommissioning of Ignalina, are undergoing cold (non-nuclear) testing ahead of full operations in 2017. Dedicated donor funds finance these programmes as part of assistance agreed during EU accession negotiations. As well as supporting decommissioning, the funds contribute to energy sector projects to help the countries cope with the loss of generating capacity.