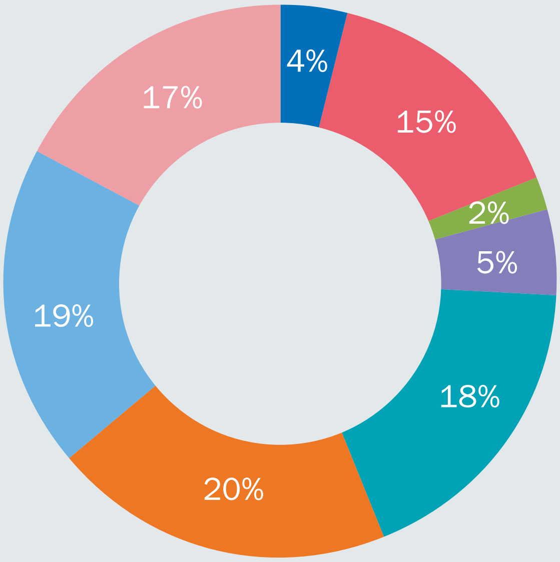
ACTIVITIES BY SECTOR

Through investments in the financial and corporate sectors, infrastructure and energy, the EBRD helps to build sustainable, well-functioning market economies with high levels of private ownership.

Chart 2.1.

Financial sector Annual Bank Investment by sub-region, 2016



- Central Asia
- Central Europe and the Baltic states
- Cyprus
- Greece
- Eastern Europe and the Caucasus
- South-eastern Europe
- Southern and eastern Mediterranean
- Turkey

Financial sector

In the countries where it invests, the EBRD plays a leading role in the development of a strong, sustainable and inclusive financial sector. The Bank combines debt, equity and trade finance projects with extensive policy dialogue, cooperation with external partners and donor-funded activities to support banks and non-bank financial institutions, mostly in the private sector.

In 2016, the EBRD signed new business worth €3.06 billion in the financial sector, covering 120 projects in 30 countries (2015: €2.95 billion for 133 projects in 30 countries). Turkey was the biggest recipient of investment in this sector, followed by Egypt and Bulgaria. Innovative projects and policy dialogue sought to reduce the burden of non-performing loans (NPLs) and diversify the funding base of financial institutions. Countries in the Caucasus, Central Asia and the southern and eastern Mediterranean (SEMED) continued to face significant challenges and EBRD transactions in many countries in those regions focused on support for small businesses and trade finance.

Throughout its countries of operations, the Bank increasingly used integrated products that blend indirect financing with elements funded by donors.

MSME financing

Many countries in the EBRD region continue to rely heavily on micro, small and medium-sized enterprises (MSMEs) for jobs and growth, but these firms often struggle to access the finance they need to operate or expand. EBRD credit lines to banks and non-bank financial institutions, and loans to providers of leasing or factoring services, increase the amount and range of financing available to MSMEs.

In line with the EBRD's Small Business Initiative (SBI), in 2016 the Bank financed 76 MSME-focused projects for €892 million. Among these was a local-currency loan package worth US$ 50 million (€47.3 million equivalent) to the Bank of Georgia for on-lending to small businesses in that country. The EBRD made available the equivalent of €23.7 million in funding for the National Bank of Kuwait - Egypt to finance a credit line for Egyptian SMEs. It also extended loans worth a total of €95.4 million to leasing subsidiaries of Raiffeisen Bank International for operations in Bosnia and Herzegovina, Bulgaria, Croatia and Poland. Meanwhile, the purchase of a TRY 263 million (€79 million equivalent) stake in Odea Bank will support the Turkish bank's efforts to increase access to finance for SMEs.

The EBRD launched dedicated programmes to support agribusiness companies, including SMEs, in Albania and Tajikistan. These blended finance facilities, delivered through partner banks and microfinance institutions, with risk-sharing protection and other financial incentive elements that benefit from donor support.

In Georgia, Moldova and Ukraine, the EBRD and the EU have established programmes of joint activities dedicated to supporting SMEs. The programmes seek to improve the export potential of small firms in the Deep and Comprehensive Free Trade Area (DCFTA) established by Association Agreements between the EU and those three countries. Lending to partner banks in Georgia and Moldova under the programme began in 2016 (see case study on page 46).

Green financing

The EBRD is a world leader in the provision of credit lines for investment in sustainable energy and resource and climate resilience projects. In 2016, projects under the Green Economy Transition (GET) approach accounted for 17 per cent of signings in the financial sector. The Bank financed water efficiency and waste minimisation investments in the Kyrgyz Republic and Turkey, which were new areas for Bank financial-sector ventures, and continued to increase its level of energy-efficiency and renewable-energy commitments.

In Poland, the Bank provided a €50 million loan to Bank Zachodni WBK under a framework aimed at financing investment in the energy and resource efficiency of residential buildings. A loan worth US$ 2 million (€1.9 million) to ACBA-Credit Agricole's leasing subsidiary in Armenia will support SMEs wishing to reduce their energy costs by investing in more energy-efficient equipment. The EBRD also provided sustainable energy and resource credit lines in Belarus, Bulgaria, Egypt, Georgia, Kosovo, Morocco, Mongolia, the Slovak Republic and Tajikistan.

Strengthening financial infrastructure

In large parts of the EBRD region, the financial sector is still recovering from the effects of the 2008 crisis and its ability to lend to the real economy remains constrained. In 2016 the Bank deepened efforts to stabilise financial institutions and make them more resilient to future shocks. Notable ventures included a €300 million loan to the Bulgarian Deposit Insurance Fund to boost confidence in that country's banking sector (see case study on this page) and the purchase of a 15 per cent stake in Erste Bank Hungary to facilitate its support for businesses.

Efforts to restructure the financial sector in Greece continued with the acquisition of a stake in the insurance company European Reliance. The EBRD also increased its equity participation in Victoriabank, Moldova's third-largest lender, to strengthen its corporate governance and shareholder transparency.

The Bank works with public officials and other stakeholders on policy dialogue aimed at speeding up the resolution of NPLs across the region and reducing the likelihood of high NPL levels in the future. Legal reform work in this area concentrated on Serbia. On the project side, the EBRD invested TRY 30 million (€8 million equivalent) in a bond issued by Turkasset, an NPL asset manager, to help finance the expansion of its operations in Turkey.

Capital markets and local currency financing

To assist in diversifying the funding base of financial institutions and encourage lending to businesses, the EBRD supports bond issues and securitisation projects. In 2016, the Bank participated in SME securitisations originated by the National Bank of Greece and Alpha Bank, also in Greece. The Bank engaged in its first covered bond transactions, subscribing to issues by PKO Bank Hipoteczny in Poland and VakifBank in Turkey. The EBRD provided 40 loans financed

Bolstering the Bulgarian financial sector

In order to boost the resilience of the financial sector in Bulgaria, in 2016 the EBRD extended a €300 million loan to the country's sole deposit insurer.

The financing will help the Bulgarian Deposit Insurance Fund, an independent public institution, optimise its funding structure and replenish its funding base following a major bank failure in 2014. The loan was conditional on the Fund implementing measures in line with new legislative frameworks for deposit insurance and bank recovery and resolution.

The project increases the financial independence and long-term sustainability of the Fund. By reinforcing the deposit insurance system, it also raises confidence in the Bulgarian banking sector and supports the efficient functioning of the country's financial market.

through local currency instruments in order to minimise the exposure of partner institutions and their clients to foreign exchange risks.

Women in business

In 2016, the Bank expanded its Women in Business programmes with 15 new projects in eight countries: Armenia, Belarus and Georgia in the Eastern Partnership; Kazakhstan (see case study on page 11); FYR Macedonia, Kosovo and Serbia in the Western Balkans; and Turkey. Similar programmes are active in other countries in the Eastern Partnership (Azerbaijan, Moldova and Ukraine) and the Western Balkans (Albania and Bosnia and Herzegovina) as well as in Croatia and Egypt. Women in Business programmes provide women-led MSMEs with advice and indirect finance. They also offer participating financial institutions technical assistance and, for some programmes, risk mitigation in the form of first-loss cover.

Meanwhile, in Bosnia and Herzegovina, a €3 million loan to MI-BOSPO will help the microfinance provider expand its support for micro and small enterprises, especially those run by women.

Trade finance

The Trade Facilitation Programme (TFP) operates in countries where foreign banking groups hesitate to engage in trade finance because of higher levels of risk. It provides short-term trade finance facilities to selected banks for on-lending to local exporters, importers and distributors of imported products. In 2016, the EBRD financed 1,359 trade transactions worth a total of €1.5 billion, working with 71 banks across 24 countries.

The Programme enables partner banks to continue to support local businesses in those countries and regions experiencing difficulties: in Central Asia, SEMED and Ukraine, the EBRD processed trade transactions worth over €920 million during 2016. The early transition countries (ETCs) continued to have a significant share of trade finance business, accounting for 34 per cent of the number of TFP transactions.

Last year, the TFP launched two new initiatives: Trade Ready, which blends trade finance and trade-related advisory services to boost the trade potential of SMEs; and Green TFP, a marketing initiative that seeks to promote the use of trade finance for the import and export of products and services that use environmentally friendly technology.

Industry, commerce and agribusiness

EBRD investments in industry, commerce and agribusiness (ICA) promote competition and foster resilience by helping to develop a private corporate sector that is strong and well-governed and by encouraging economic diversification. These ventures also generate sustainable and inclusive growth and contribute to the emergence of an integrated knowledge economy. The Bank uses loans, bonds, equity investments, participation in equity funds, policy dialogue and donor-funded technical assistance to support clients.

During 2016 the Bank invested €2.46 billion in 137 ICA projects. The sector accounted for 26 per cent of Annual Bank Investment and 36 per cent of the number of operations.

Agribusiness

The EBRD works with producers, processors and retailers to maximise the export potential of the agribusiness sector while ensuring that local consumers have access to high-quality, competitively priced food and beverages. Combining investments with policy dialogue and grant-funded activities, the Bank supports the development of strong supply chains that boost value, promote the economic inclusion of underserved communities and meet stringent environmental and animal welfare standards.

In 2016, the EBRD invested a total of €817 million (2015: €770 million) through 51 projects in agribusiness. These included debt and equity ventures in local and foreign currency. An example of an equity project was the purchase of a US$ 100 million (€94 million equivalent) stake in the United Sugar Company of Egypt. As part of that transaction, the Bank also converted an earlier loan for the same amount into equity in the sugar refinery. This financing will help the company maintain its exports and local sales in extremely difficult market conditions.

EBRD agribusiness ventures promote the use of local currency: in the Kyrgyz Republic, the Bank converted an existing euro-denominated loan to beer and bottled-water producer Bear Beer into Kyrgyz som.

The EBRD financed projects in countries whose agribusiness industries are at very different levels of development. In Poland, a €100 million loan to German retailer Schwarz Group will support the expansion of its Kaufland chain of stores, while in Serbia another €100 million loan to the same group will finance the development of its outlets under the Lidl brand. In Turkey, the Bank extended a €50 million loan to fruit and juice company Anadolu Etap (see case study on page 19).

In Turkmenistan, meanwhile, the EBRD extended a US$ 2.8 million (€2.6 million equivalent) loan to Berk Group to help it launch a range of salty snacks in addition to its beer production. The SME investment received co-financing from the Taiwan International Cooperation and Development Fund through its contribution to the EBRD's Financial Intermediary and Private Enterprises Investment Special Fund.

Improving the environmental performance of agribusiness clients remained a priority for the Bank. In Ukraine, for example, a US$ 20 million (€18.9 million equivalent) loan to the agricultural holding company Astarta will support efforts to make its sugar production process more energy and water efficient, while also increasing productivity and raising quality standards.

EBRD ventures that help countries to further unlock their export potential also play a part in efforts to address global food security challenges. G N Terminal Enterprises, which operates a grain terminal open to third-party users in the Ukrainian port of Odessa, benefited from a US$ 40 million (€38 million equivalent) loan (see case study page 12). A €5 million loan to the Tunisian subsidiaries of Sovena Group, the leading Portuguese producer of olive oil, will support the growth of Tunisia's olive oil exports.

The EBRD engages extensively with donors and in 2016 launched technical assistance and agribusiness advisory programmes on topics including export promotion, corporate governance, the development of cooperatives, alliances with universities and direct advisory support for agribusiness firms. Much of this work focused on creating strong value chains linking producers to processors, retailers and ultimately consumers, as well as on raising the quality standards of food. The Bank's Advice for Agribusiness programme continued to provide targeted international advice to agribusiness SMEs in underserved markets in the ETCs, SEMED and Ukraine.

Under its Private Sector for Food Security Initiative, the Bank collaborated with the Food and Agriculture Organization (FAO) of the United Nations to facilitate dialogue between producers and governments in the grain sector in Egypt, the meat and dairy sectors in Serbia, and the meat sector in Ukraine. The EBRD and FAO also worked on raising skill levels in the dairy and grain industries in Kazakhstan and in the olive oil sector in Morocco and Tunisia; local sourcing of fruit and vegetable production in Moldova and Tajikistan; and supporting innovation in the dairy industry in Armenia, Georgia and Ukraine. The EBRD and FAO assisted Serbia with the launch of its first voluntary food-labelling scheme for meat products to enhance the sales potential of locally made, premium goods.

Equity

In order to help compensate for the lack of equity financing in EBRD countries of operations, the Bank makes direct and indirect equity investments in companies that are private, listed or about to be listed. These projects contribute to the development of local capital markets and provide reassurance to foreign investors who may be unfamiliar with this region.

Continued economic instability and market volatility in countries where the EBRD invests required a revamped approach to equity and highlighted the importance of attracting new equity capital to the region. Accordingly, in 2016 the EBRD strengthened its processes of equity pipeline and portfolio management. It also mobilised financing from global institutional investors through the Bank's Equity Participation Fund (EPF). Last year, the Fund secured a total of €350 million from China's State

Raising skill levels in Turkish farming

A €50 million loan to Anadolu Etap will help the Turkish fruit juice and fresh fruit producer expand its business while also raising skill levels in the Turkish farming industry, promoting rural development and fostering gender equality.

The EBRD loan will finance investments in new fruit farms, sophisticated machinery and packing facilities. A technical assistance programme will support the company's efforts to secure a sustainable supply of high-quality raw materials. This will feature training opportunities with a special focus on increasing the skills of female farmers. As a condition of the financing, Anadolu Etap will also align its corporate governance standards with international best practice.

Administration of Foreign Exchange and the State Oil Fund of the Republic of Azerbaijan in its inaugural round of fundraising. The EPF enables investors to access a diversified portfolio of direct equity investments in the EBRD region.

Direct equity investments by the EBRD in 2016 totalled €506 million for 21 projects across a wide variety of sectors. Since 1992, the Bank has invested over €12 billion in more than 650 direct equity investments across the region. At the end of 2016, its direct equity exposure was €4.6 billion in 210 investments. The Bank takes only minority positions and during the year these ranged in value from €500,000 to €80 million. Notable projects included the purchase of a stake in one of the largest banks in Turkey and a co-investment alongside private equity funds in Allegro Group, owner of the largest online marketplace in Poland.

The Bank signed four investments under the EBRD's Venture Capital Investment Programme (VCIP): one new project and follow-on funding for three existing investee companies. VCIP transactions supply the financing that innovative companies need in order to grow and to attract capital from strong strategic investors.

Significant exits included the sale of stakes in Moldova's leading cable and TV operator Sun Communications to Orange Moldova and in Sompo Japan Sigorta in Turkey. These highlighted the EBRD's role as a bridge for companies entering the region. Moreover, they created strong demonstration effects for local businesses through the introduction of best practices in corporate governance and the successful pursuit of market expansion despite the challenging business environment.

Indirect equity investments by the Bank involve participation in private equity and venture capital funds. These operations mobilise institutional investors' capital alongside that of the EBRD and offer beneficiary companies transformative equity finance, which is often lacking in the region. With its deep, regional knowledge and ability to combine finance with policy dialogue, the EBRD is a strong partner for private equity and venture capital firms in its countries of operations.

In 2016, the EBRD committed €219.5 million to seven private equity funds (compared with €223 million for nine funds in 2015). Investments included a €100 million participation in Meridiam Infrastructure Europe III, an infrastructure fund that will invest in greenfield projects in the EBRD region such as hospitals and motorways. The Bank also invested in SME-focused funds in Egypt, Greece and Poland, as well as a venture capital fund that specialises in early-stage technology companies in Egypt.

In addition, the EBRD signed an agreement with INVEGA, the Lithuanian guarantee agency, under which the Bank will cooperate with INVEGA on the implementation of SME-targeted risk capital funds that benefit from EU structural funding.

Since 1993, the Bank has invested in over 175 funds and by mid-2016 more than 1,400 investee companies had benefited from EBRD indirect equity financing.

Manufacturing and services

EBRD investments in manufacturing and services foster diversification, thus strengthening the resilience of countries to economic shocks, and support industries with high levels of added value. Bank activities in this sector also promote the transition to a green economy, innovation, foreign direct investment and capital market development. The Bank invests in a broad spectrum of industries, including (in 2016) automotive manufacturing, aerospace, chemicals, construction materials, consumer and capital goods, forestry products, health care, pharmaceuticals and retail.

During 2016 the EBRD invested €773 million in the sector, signing 55 projects (compared with €765 million for 53 projects in 2015) worth between €0.4 million and €134.2 million. SME development remained a strong focus, with 22 transactions.

Projects in this sector delivered €340 million of investment in the sustainable use of energy and resources under the GET initiative, reducing CO_2 emissions by an estimated 1.15 million tonnes every year. These included a €75 million loan to the Erdemir Group, Turkey's largest steelmaker, to finance measures aimed at improving the company's energy and resource efficiency, and financing to help the TAMEH power plant in Poland switch from coal to gas as its main source of fuel.

The manufacturing and services sector is both a vital contributor to and a major beneficiary of the knowledge economy. EBRD investments in research and development and technology upgrades enhance the productivity and competitiveness of firms. Notable transactions in 2016 included financing for a Romanian supplier to the aerospace industry.

The Bank continued its work to attract foreign direct investment in its region, for example through a US$ 150 million (€142 million equivalent) loan to tyre company Brisa in Turkey (see case study on page 38). A €40 million subscription to a Schuldschein loan – a type of fixed-debt instrument in Germany – issued by automotive supplier Draexlmaier Group will help the German firm expand production capacity in FYR Macedonia, Moldova, Romania, Serbia and Tunisia.

EBRD investments in the manufacturing and services sector assist capital market development, opening up alternatives to loans from banks as sources of financing for growing businesses. A €5.9 million participation in a bond issue by Greek retailer Housemarket and a €15 million subscription to the Eurobond issue by the cement company Titan, for its operations in Egypt, illustrated the Bank's work in this area. The EBRD also purchased a stake in MS Pharma, a leading pharmaceutical company based in Jordan. Equity represents a quarter of the Bank's €3.4 billion of operating assets in the manufacturing and services sector.

In addition, Bank ventures in manufacturing and services foster gender equality in the workplace and promote inclusion by creating job opportunities for women and young adults and for people living in remote regions. Policy dialogue in the sector concentrated on creating a regulatory regime that encourages sustainable and resource-efficient practices in industries including cement production and pharmaceuticals.

Information and communication technologies

The EBRD more than trebled its investment in the information and communication technology (ICT) sector in 2016, committing €516 million through 13 projects in the region (2015: €156 million for 14 projects). Of this amount, €475 million was debt and the rest was equity. These ventures help businesses compete successfully in a technology-driven global economy while ensuring that citizens from all sections of society enjoy the benefits of the digital and mobile revolutions. Activities in this sector, including projects under the VCIP, are a critical element of the Knowledge Economy Initiative, which last year reached €1.3 billion in cumulative investment levels.

Notable transactions included a €114 million debt and equity investment in leading Polish online marketplace Allegro and a €339 million syndicated loan to OTE, Greece's largest telecommunications operator. The Bank provided €150 million of the financing to OTE and arranged the remaining €189 million from other lenders (see case study on page 11).

The Bank also extended two new loans to Türk Telekom, a formerly state-owned telecommunications company that is still the leading operator in the sector in Turkey. The dollar-denominated loans worth a total of €142 million

Improving the business climate in the Middle East and North Africa

The private sector can be an important driver of growth and prosperity in the Middle East and North Africa (MENA) if effective policies are put in place to address obstacles, according to a joint report from the EBRD, the European Investment Bank and the World Bank.

The report, titled *What's Holding Back the Private Sector in MENA?*, presents the findings of surveys conducted in 2013 and 2014 among the top managers of more than 6,000 firms in Djibouti, Egypt, Jordan, Lebanon, Morocco, Tunisia, the West Bank and Gaza, and Yemen.

The publication provides insights into the key factors that determine firms' performance and the challenges of the business environment in which they operate. Many firms cite political instability, corruption, frequent power cuts and inadequate access to finance as factors that hold them back. SMEs face a particularly challenging operating environment.

There is considerable scope for improvements in policies on education, employment and skills, according to the report. Notably, policies should remove barriers to women entering the labour market and provide more targeted education for young people. They should also provide incentives to increase the intensity of training that firms offer.

The report notes that increased productivity by firms requires greater openness to international trade, which in turn would benefit from more effective customs and trade regulations for imports and exports. Reducing restrictions on starting and closing a business, and on foreign investment, could also bring greater competition.

will support the development of advanced 4.5G mobile broadband services, which is particularly important given Turkey's low levels of fixed-line penetration. They will also help to finance the laying of a high-capacity, fibre-optic submarine cable connecting Turkey to western Europe and South-East Asia, thereby supporting high-quality access to international data traffic.

The purchase of euro-denominated bonds worth €12 million issued by Telekom Slovenije will finance the company's investments in essential ICT infrastructure in Kosovo. The operator is seeking to improve the coverage and penetration of advanced fixed and mobile broadband services, which will enhance the competitiveness of Kosovo's economy.

The EBRD supports the convergence of fixed and mobile telephony and the expansion of broadband services in the ETCs. A US$ 75 million (€71 million equivalent) loan to MagtiCom enabled the Georgian telecommunications company to acquire the country's second-biggest broadband internet network. This will allow MagtiCom to become the first Georgian operator to offer bundled internet, mobile phone and TV services. The Dutch development bank FMO contributed US$ 25 million (€23.7 million equivalent) to the financing package.

The VCIP contributes to the development of a venture capital ecosystem that can support innovative, high-growth technology companies. Four investments were signed under this programme in 2016. They included a follow-on investment in DocPlanner, an online medical care scheduling service based in Poland.

Property and tourism

The EBRD bolsters the resilience of countries by supporting projects in the property and tourism sector, which is a vital source of jobs and foreign revenue for many economies in the region. Bank investments in hotels, offices, retail centres, logistics and mixed-use facilities also stimulate urban regeneration, economic inclusion and resource efficiency.

In 2016, the EBRD committed a total of €138 million to 11 property and tourism projects (2015: €172 million for 13 projects). Investments included the purchase of preferred stock worth US$ 50 million (€47 million) issued by Turkish restaurant operator TFI TAB Gıda to finance its growth plans. TFI will foster the economic inclusion of young people by creating job and training opportunities and by working with the Bank to establish occupational standards for the fast-food industry.

The Bank made its first investment in private student accommodation with a €27.6 million loan to a company developing student housing projects across Poland (see case study on page 23). In Georgia, a €2.2 million loan to a subsidiary of the Adjara Group Hospitality firm in support of a hostel in Tbilisi was the EBRD's inaugural investment in this type of affordable accommodation. Elsewhere, the EBRD provided a €14 million loan to Sigur Retail Group, owned by the private equity fund Polish Enterprise Fund VII, for the acquisition and expansion of sports retailer Intersport ISI in Croatia, Slovenia and the Western Balkans.

Lastly, a local currency loan worth the equivalent of €7.6 million will finance the refurbishment of buildings in the centre of Egypt's capital, Cairo, and their conversion into commercial and entertainment spaces. Austria provided €610,000 in donor funding to support a strategic plan for downtown Cairo's regeneration and related energy audits and policy dialogue.

The EBRD worked with the UN World Tourism Organization on promoting inclusive and sustainable tourism in the SEMED region (see Economic Inclusion on page 38). A Memorandum of Understanding signed by the World Green Building Council and the Bank aims to promote energy efficiency in real estate in countries where both institutions operate.

Providing sustainable housing for students in Poland

Poland has the sixth-highest number of students in higher education in Europe. The current student housing stock mainly consists of university-owned dormitories and limited private accommodation offered by local individuals and small-scale private investors.

But now the EBRD is supporting the development of a network of privately owned, purpose-built student housing in Poland. A loan in local currency worth up to the equivalent of €27.1 million to a Polish-owned company controlled and managed by Griffin Real Estate and Oaktree Capital Group will finance a portfolio of student housing assets and developments. These will be located in Łódź, Lublin, Poznań, Warsaw and other Polish cities.

The student housing projects will be designed to be as energy efficient as possible. This is particularly significant given that buildings are estimated to be responsible for 41 per cent of energy consumption and 36 per cent of CO_2 emissions in Poland. Griffin will operate the assets in a sustainable manner and will implement a community engagement plan to encourage students to save energy.

Infrastructure

Integration is central to a market economy's competitiveness, growth and ability to create jobs. By improving transport networks and municipal and environmental utilities, infrastructure investments deliver a vital contribution to efforts to strengthen integration in the EBRD region at the national, regional and urban levels.

In 2016, the Bank deepened its support for infrastructure projects, responding to the need for innovative ventures that mobilise private sector resources, as recognised by the Sustainable Development Goals of the UN and the G20. Highlights included a risk-mitigation scheme for bonds for greenfield infrastructure projects and the development of a Green Cities Framework (see below).

The Infrastructure Project Preparation Facility (IPPF), created to improve the efficiency and replicability of infrastructure projects, completed its first full year of operations in 2016. Combined with a focus on strategic projects, the IPPF helps to deepen the Bank's impact and responsiveness to its clients.

Municipal and environmental infrastructure

EBRD investments in municipal and environmental infrastructure (MEI) help lead to cleaner air, better waste collection and safer drinking water, a more reliable supply of heating, improved urban mobility, and increased access to modern hospital care. MEI investments also seek to make the utilities that deliver these services more sustainable and environmentally friendly and help them to address the needs of underserved sections of the population.

Backing Turkey's first greenfield infrastructure project bond

The EBRD provided €89 million in standby liquidity facilities to support a €288 million bond for the construction and operation of a state-of-the-art hospital with more than 1,000 beds in the city of Elazığ in eastern Turkey. The project was part of an innovative credit-enhancement mechanism developed jointly with the World Bank's Multilateral Investment Guarantee Agency (MIGA).

The EBRD liquidity and MIGA political-risk insurance were instrumental to achieving an investment-grade rating for Turkey's first greenfield infrastructure project bond, making the issuance more attractive to buyers. The project bond was issued by a joint venture between leading global infrastructure investor Meridiam and Rönesans Holding, a major Turkish construction company.

A major focus of MEI investments in 2016 was the response to the Syrian refugee crisis. The displacement of millions of people is placing enormous strain on the municipal infrastructure of neighbouring countries Jordan and Turkey. The Bank signed three projects under its new Municipal Resilience Refugee Response Framework, a €375 million facility for fast-tracking MEI investments in those urban areas in Jordan and Turkey hosting the largest refugee communities. (See “Refugee crisis response” on page 11.)

In total, the EBRD committed €664 million to 50 projects in the MEI sector in 2016 (compared with €713 million for 45 projects in 2015). These investments in municipal infrastructure (including water and sanitation services, waste management and district heating) are expected to benefit an estimated 24 million people, while investments in urban transport systems will improve travel conditions for more than 312 million passengers every year.

Bank ventures in the municipal sector also promote more environmentally friendly services, for example by improving the energy efficiency of district heating or water treatment facilities. MEI signings in 2016 should reduce annual carbon emissions by 358 tonnes of CO_2 equivalent. Projects to modernise urban bus fleets or encourage the use of trams generally help to reduce emissions of fine particulate matter, which create smog and are especially harmful to children and elderly people, by up to 90 per cent compared with the pre-investment levels.

The components of MEI projects that contributed to the Bank’s Green Economy Transition approach accounted for €467 million in 2016, 58 per cent of total commitments in the sector. Notable transactions included a €15 million loan to the wastewater treatment company in the Ukrainian city of Lviv for the installation of a biogas-fuelled heat and power plant. In the Georgian capital, Tbilisi, a €27 million sovereign loan financed the acquisition of up to 140 buses that will be powered by compressed natural gas to reduce local emissions (see case study on page 37).

In 2016 the EBRD also launched a Green Cities Framework to help municipalities address their environmental priorities in a more systematic way. The region-wide Framework’s initial focus is on Armenia, Georgia and Moldova. The first project signed under it was a €10 million loan to the administration of the Moldovan capital Chisinau for energy efficiency improvements to public buildings.

An area of considerable growth for MEI investments by the Bank in recent years has been the hospital infrastructure sector. In 2016, the EBRD provided €194 million in financing for three hospital construction projects in Turkey that follow the public-private partnership (PPP) model. All three ventures came under an EBRD investment framework launched in 2014 to help fund Turkey’s €12 billion hospital infrastructure PPP programme. In the cities of Izmir and Kocaeli, the Bank provided financing through syndicated loan structures. In Elazig, meanwhile, the Bank worked closely with the Multilateral Investment Guarantee Agency to develop an innovative credit-enhancement mechanism in support of Turkey’s first bond for a greenfield construction project (see case study on page 24).

The Bank also continued to support capital markets as a means of financing critical infrastructure. It was a key investor in a local currency bond issued by the Croatian capital Zagreb’s municipal holding company, as well as in local currency bonds issued by Turkish construction firms Rönesans Holding and YDA to finance hospital infrastructure projects.

In Kazakhstan, the Bank continued to develop projects in water and district heating under enhanced partnership framework arrangements (EPFAs) with the government. Significant signings included six loans worth a total of 15.7 billion Kazakh tenge (equivalent to €45.3 million), co-financed with government grants under EPFAs, for the rehabilitation of water and/or district heating systems in Kostanay, Pavlodar, Petropavlovsk, Shymkent and Ust-Kamenogorsk. The EBRD also signed its first solid-waste management project in the country.

MEI ventures in the early transition countries (ETCs) help utility companies to modernise infrastructure after decades of underinvestment. They also assist these companies in establishing tariff systems that ensure the long-term financial sustainability of their operations. The Bank invested in its first solid waste project in Mongolia and invested in improvements to essential urban services in Armenia, Belarus, Georgia, Moldova, the Kyrgyz Republic and Tajikistan.

Transport

Investments in the transport sector foster integration by supporting improvements to road, rail, maritime, aviation, logistics and intermodal networks. The Bank also promotes transport projects that foster the use of energy efficient technology and assist countries in adapting to climate change. Road safety is a priority for EBRD policy dialogue related to transport ventures.

In 2016, the Bank signed 23 projects in the transport sector for a total EBRD investment of €1.05 billion (matching 2015's investment volume). Non-sovereign projects accounted for 44 per cent of Bank ventures in transport by value. Projects under the GET approach accounted for €160 million of the EBRD's investment in this sector, bringing to a total of €1.9 billion the Bank's commitment to energy efficiency and mitigation projects in transport since 2009.

Investments in road infrastructure were particularly important in 2016. The EBRD extended a €200 million loan to Croatia's motorways agency to support the financial and operational restructuring of the national highways sector. The project, which benefits from consultancy services funded by donors under the IPPF, will improve the financial sustainability of the agency. In the Slovak Republic, the Bank provided €148.4 million in debt financing for the construction of new sections of the D4 and R7 motorways under a PPP contract (see case study on page 27).

Two loans worth a combined total of US$ 189 million (€179 million equivalent) will help Kazakhstan's national road operator upgrade a stretch of road linking the capital, Astana, to Almaty. In their first joint project, the EBRD and the Asian Infrastructure Investment Bank (AIIB) each committed US$ 27.5 million (€26 million equivalent) for the rehabilitation of a key section of the motorway connecting the capital of Tajikistan, Dushanbe, to neighbouring Uzbekistan.

The EBRD invested in its first climate resilience project in the road sector by providing a €65 million sovereign loan to Bosnia and Herzegovina for road repairs and upgrades that will strengthen the road network's flood resilience. Moreover, a €76 million loan will bolster the development of the Pan-European Corridor Vc in Bosnia and Herzegovina, which will in turn reinforce regional integration.

Signing its first rail project in Albania, the EBRD provided a sovereign loan worth nearly €37 million for the rehabilitation of the railway line between the capital, Tirana, and the port city of Durres. The investment will also support the development of a new rail link between the centre of the capital and Tirana International Airport.

In Kazakhstan, the Bank signed an amendment to previous loans to the national rail company KTZ, a longstanding client. This will allow KTZ to convert US$ 181 million (€171.3 million equivalent) of debt into local currency with funding from the Bank's first consumer price index-linked bonds in Kazakh tenge.

Ventures in maritime transport included the EBRD's first engagement with a private client in the transport sector of Azerbaijan. The Bank extended a US$ 20.4 million (€19.3 million equivalent) loan to Caspian Marine Services, an operator of supply vessels for oil and gas platforms in the Caspian Sea, for the purchase of a fast boat to transport crew. A €10 million loan to improve facilities at the river port of Brčko in Bosnia and Herzegovina constituted the first inland waterway investment by the Bank.

Improving Slovak road connections

The EBRD is supporting the construction of new sections of the D4 highway and the R7 expressway in the Slovak Republic with debt facilities of up to €150 million. The funds are part of a larger package totalling €875 million provided to the concessionaire Zero Bypass under a public-private partnership scheme. Other participants include the European Investment Bank, the Slovak Investment Holding, Spain's Instituto de Credito Oficial and commercial lenders.

The new road sections will play an important role in easing traffic congestion around the capital Bratislava, improve connections between industrial zones and urban districts, open up access to other parts of the country and connect the Slovak Republic with Trans-European Networks.

In order to ease transport bottlenecks in Ukraine's grain export sector, the Bank invested in grain terminals in the ports of Odessa (in a joint venture between the Agribusiness and Transport teams within the EBRD) and Yuzhny (see case study on page 12).

Investments in logistics and projects that support the more efficient movement of cargo across different modes of transport contribute significantly to regional integration. They also help to combat climate change by reducing the amount of energy consumed in the carriage and storage of freight. A project that promoted green logistics was a US$ 8.2 million (€7.8 million equivalent) loan to postal and logistics company Meest Express in Ukraine. Additional funding for the project was provided under the Green Logistics Programme initiated by the EBRD and the Global Environment Facility.

Energy

Power and energy utilities

In 2016, the EBRD signed a record number of investments in the power sector as it increased efforts to integrate energy infrastructure in the region, boost competition and help countries reduce their greenhouse gas emissions in line with the Paris Agreement on combating climate change.

During the year, the Bank invested nearly €1.2 billion in 31 projects across 15 countries. Projects that contributed to the GET approach accounted for 87 per cent of EBRD financing committed to the power and energy sector.

Notable signings included a US$ 135 million (€127 million equivalent) loan to aid modernisation of the power distribution network in north-western Turkey. The financing will enable TREDAŞ and TREPAŞ, subsidiaries of electricity company IC Elektrik, to expand, upgrade and increase the efficiency of their grid, thereby reducing power losses (see case study on page 44).

The Bank provides strong support for the emergence of a modern power sector and a green economy in Kazakhstan. A loan worth the equivalent of €100 million in Kazakh tenge or Russian roubles will assist the ambitious privatisation programme of national energy company Samruk-Energy. And a project aimed at modernising the gas distribution network will reinforce Kazakh efforts to switch to less carbon-intensive energy sources (see case study on page 28). Following extensive policy dialogue between the EBRD and the Kazakh authorities, the Board approved a financing framework of up to €200 million for primarily private renewable-energy projects in Kazakhstan.

A series of innovative, renewable power projects across the region confirmed the Bank's position as a leader in this field. The EBRD backed the development of the first commercial wind farm in the Caucasus by arranging a syndicated loan for the construction of a wind power plant at Gori in Georgia (see case study on page 10).

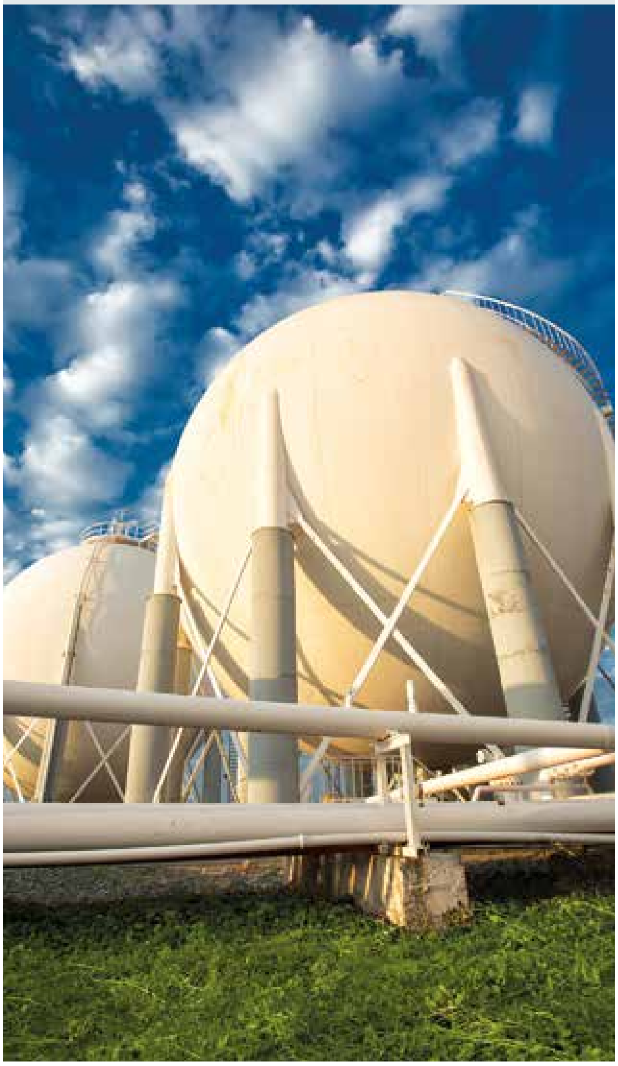
In Jordan, meanwhile, the EBRD arranged a syndicated loan that will finance a new solar power plant in the country's northern Mafraq region. A notable feature of

Helping Kazakhstan to go green

Natural gas produces nearly half as much CO_2 per unit of energy compared with coal. It is widely considered a bridge fuel that can help countries reduce their carbon emissions while they move from fossil fuels to renewable, carbon-neutral forms of energy.

In order to help Kazakhstan reduce its dependence on coal and use more domestically produced natural gas, the Bank invested in two projects by subsidiaries of national gas firm KazTransGas. Total EBRD financing, mainly in local currency, was equivalent to €319 million.

The first project will increase the capacity of a natural gas storage facility in Bozoi in western Kazakhstan to ensure a reliable supply of the fuel to the densely populated south-east of the country. The second venture involves the expansion and upgrade of the natural gas distribution network in several regions of Kazakhstan.



the project is that it will supply electricity at a cost of a US$ 0.61 (€0.57 equivalent) per kilowatt hour, which is the lowest wholesale rate seen in an EBRD country of operations and cheaper than electricity from competing thermal sources.

The EBRD and the Japan International Cooperation Agency (JICA) jointly financed the construction of a 50 MW wind farm in southern Mongolia. The Tsetsii wind farm could form part of the proposed Asia Super Grid that would transmit electrical power from renewable sources in areas such as the Gobi Desert to China, Japan, the Republic of Korea and Russia.

The EBRD financed its first projects in the power sectors of Greece and Tunisia during 2016. A €46.5 million loan to the Société Tunisienne de l'Electricité et du Gaz, a state-owned utility company, will finance improvements to the Tunisian transmission grid. The investment, complemented by a European Investment Bank (EIB) loan for the same amount, will increase the reliability of the power network and prepare it for additional generation capacity from renewable and other sources.

The large potential for low-carbon energy generation in Greece received a boost in the form of a €50 million EBRD loan to Terna Energy. The loan will help the company expand its portfolio of wind farms, small hydroelectric plants and waste-to-energy units.

Natural resources

EBRD investments in the natural resources sector strengthen the resilience and competitiveness of countries by reducing their reliance on imports of oil, gas or minerals and, where appropriate, by enabling them to export these commodities. These projects also seek to make economies greener by fostering the use of less carbon-intensive energy sources. Through its financing and extensive use of policy dialogue, the Bank promotes adherence to the best international standards in the areas of corporate governance, energy efficiency, the environment, health and safety, and socially responsible development.

In 2016, the EBRD signed 17 projects in the natural resources sector for an overall volume of €964 million (compared with the 2015 record of €1.36 billion). Bank ventures in the sector are in line with the transparency and disclosure principles of the Extractive Industries Transparency Initiative, which requires companies to reveal what they pay to governments to extract natural resources.

The EBRD delivered a major contribution to Kazakhstan's efforts to combat climate change, providing the equivalent of €262 million, principally in local currency, to a subsidiary of national gas company KazTransGas for the modernisation of an underground gas storage facility in Bozoi in the west of the country (see case study on this page).

In Turkey, the Bank funded an ambitious resource-efficiency programme at oil refiner Tüpraş with a US$ 150 million (€142 million equivalent) loan, 100 per cent of which was signed under the GET approach. The upgrades to refineries will reduce CO_2 emissions by 270,000 tonnes per year and generate significant water savings.

The Bank bolstered the export potential of the Kyrgyz Republic and Mongolia by extending a US$ 150 million (€142 million equivalent) loan to Canadian gold-mining company Centerra Gold, which operates in both countries. A second loan, worth US$ 75 million (€71 million equivalent), will support the development of Centerra's Öksüt gold deposit in Turkey. With the EBRD's help, Centerra will explore ways of offering greater opportunities to female employees and to suppliers in Turkey led by women.

Two loans worth a total of US$ 95 million (€90 million equivalent) to Energean Oil & Gas, the only oil and gas producer in Greece, will facilitate the development of offshore projects and reduce gas flaring, which is the burning of gases in crude-oil production. In Moldova, the EBRD enhanced the security of the country's gas supply by extending a €41 million loan for the construction of a 120 km pipeline that will bring gas to the capital, Chisinau, from Romania.

Policy dialogue in Kazakhstan focused on helping the government to implement international reporting standards for mining and hydrocarbon reserves and on removing legal barriers to the employment of women in mining. In Egypt, the EBRD held a workshop with senior public and private stakeholders on reducing gas flaring and began a study of regulatory barriers to investments that would support flaring reduction. Also in Egypt, the Bank launched a plan to bolster efforts by a leading international oil and gas company to counter the under-representation of women in technical and leadership roles in the sector. In Ukraine, meanwhile, the Bank pursued extensive corporate governance reform efforts linked to a loan to the national energy company Naftogaz signed in 2015.