

# ANNUAL REPORT 2013



**European Bank**  
for Reconstruction and Development



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The EBRD's *Annual Report* provides a comprehensive overview of the Bank's activities and achievements in its region of operations over the past year.

The 2013 edition demonstrates that, amid economic turbulence and the deterioration of economies, the EBRD remains a strong, resilient and trusted partner.

The report describes the transition impact of the Bank's investments, projects and policy work, highlights its innovation in key sectors and geographical initiatives, and shows how the Bank continues to promote sustainable growth and recovery.

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Front cover: Ulaanbaatar, Mongolia

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# President's message

A quarter of a century has passed swiftly. 2014 marks the 25th anniversary of the first free elections in Poland, the fall of the Berlin Wall and the collapse of communist rule in central and eastern Europe. Those defining events in modern history led directly to the founding of the European Bank for Reconstruction and Development.

Since then, the EBRD has worked hard to change lives in the countries where it invests, and 2013 continued that trend of engagement. Our number of projects was close to record levels and their transition impact was high. We invested €8.5 billion in more than 30 countries. Another page in EBRD history was written as Jordan, Morocco and Tunisia became recipient countries and the Bank completed its first full year of investment in the new southern and eastern Mediterranean (SEMED) region. That impact on transition, which lies at the heart of our mission, was accomplished not only through investment. Enhanced policy dialogue, technical assistance and international cooperation all played vital parts in fulfilling our goals.

All this was achieved despite another year when the EBRD faced a challenging external economic environment as we worked to help build and strengthen open-market economies. The past few years have seen a marked slowdown in growth and economic development due to the shockwaves from the global financial crisis. In some countries this has been exacerbated by domestic factors, such as the lack of a good business climate, or insufficient economic and democratic reforms. In such countries, transition gains since the collapse of central planning have not only slowed but have been reversed. These nations are now stuck in transition, as defined in the EBRD's *Transition Report 2013*.

We have put a great deal of effort into developing our response to this problem. As the largest foreign investor in most of the countries where we work, we have built up a unique reservoir of expertise over more than two decades. Our focus in 2014 will be on drawing up a comprehensive approach to re-energising transition, as we move towards the Bank's next capital resource planning period. New areas of emphasis that were agreed by our Board of Directors in 2013 will certainly help in this regard. We launched the Small Business Initiative, which allows us to enhance our support for small and medium-sized enterprises (SMEs) by bringing a more coordinated and country-focused approach to the Bank's activities in this area. SMEs are an important source of jobs and growth. Around half of all EBRD projects and a fifth of our investments are in this sector. We have also broadened

the scope of our highly successful Sustainable Energy Initiative with a new Sustainable Resource Initiative. This development goes beyond our current targeting of the efficient use of energy and focuses on the efficient use of water and materials; addressing these key sustainability issues should make businesses more competitive.

If we are to reinvigorate transition, we must be far more ambitious and innovative in seeking solutions. Policy dialogue at all levels, leading to sustained reform, will be crucial if we are not to end up with successful projects but little systemic change. There is a pressing need to improve the business climate in many countries, which includes supporting governments in tackling corruption at all levels. If they do not, investment will continue to move elsewhere in a recovering and highly competitive global economy. Revitalising transition will not be easy, but it is our duty to attempt this if we are to stay true to our mandate.

As we encourage companies and countries to change, we must ensure that the EBRD practises what it preaches. Over the past year we have made progress on internal modernisation. We have introduced a programme to ensure that we are as effective as possible and continue to deliver what our clients need, in a world that is far more complex and challenging than in 1991. We have begun the work of improving the management skills of our staff and have laid the ground for a full process and cost-efficiency review in 2014. We continue to innovate, including in the way that we increase the mobilisation of external finance to work alongside our own. The end result should be more transition impact and greater value for both our clients and shareholders.

The 2013 Staff Engagement Survey showed that EBRD employees remain highly committed to supporting the transition process in countries where we work. This commitment should bolster our belief that we can make a significant contribution to revitalising transition. Our efforts remain as needed as ever, as the Bank prepares for the challenges ahead.



**Suma Chakrabarti**  
President, European Bank for  
Reconstruction and Development



## Who we are

The EBRD is investing in changing people's lives and environments across a region that stretches from central Europe to Central Asia, the Western Balkans and the southern and eastern Mediterranean.

Working together with the private sector, we invest in projects, engage in policy dialogue and provide technical advice that fosters innovation and builds sustainable and open-market economies.

## What we do

We provide funds for well-structured, financially robust projects of all sizes (including many small businesses), both directly and through financial intermediaries such as local banks and investment funds. The Bank works mainly with private sector clients, but also finances municipal entities and publicly owned companies. Our principal financing instruments are loans, equity investments and guarantees. We maintain close policy dialogue with governments, authorities, international financial institutions, and representatives of civil society, and provide targeted technical assistance using funds donated by member governments and institutions.

## Where we invest

### EBRD ANNUAL BANK INVESTMENT IN 2013<sup>1</sup> (€ MILLION)

#### Central Europe and the Baltic states

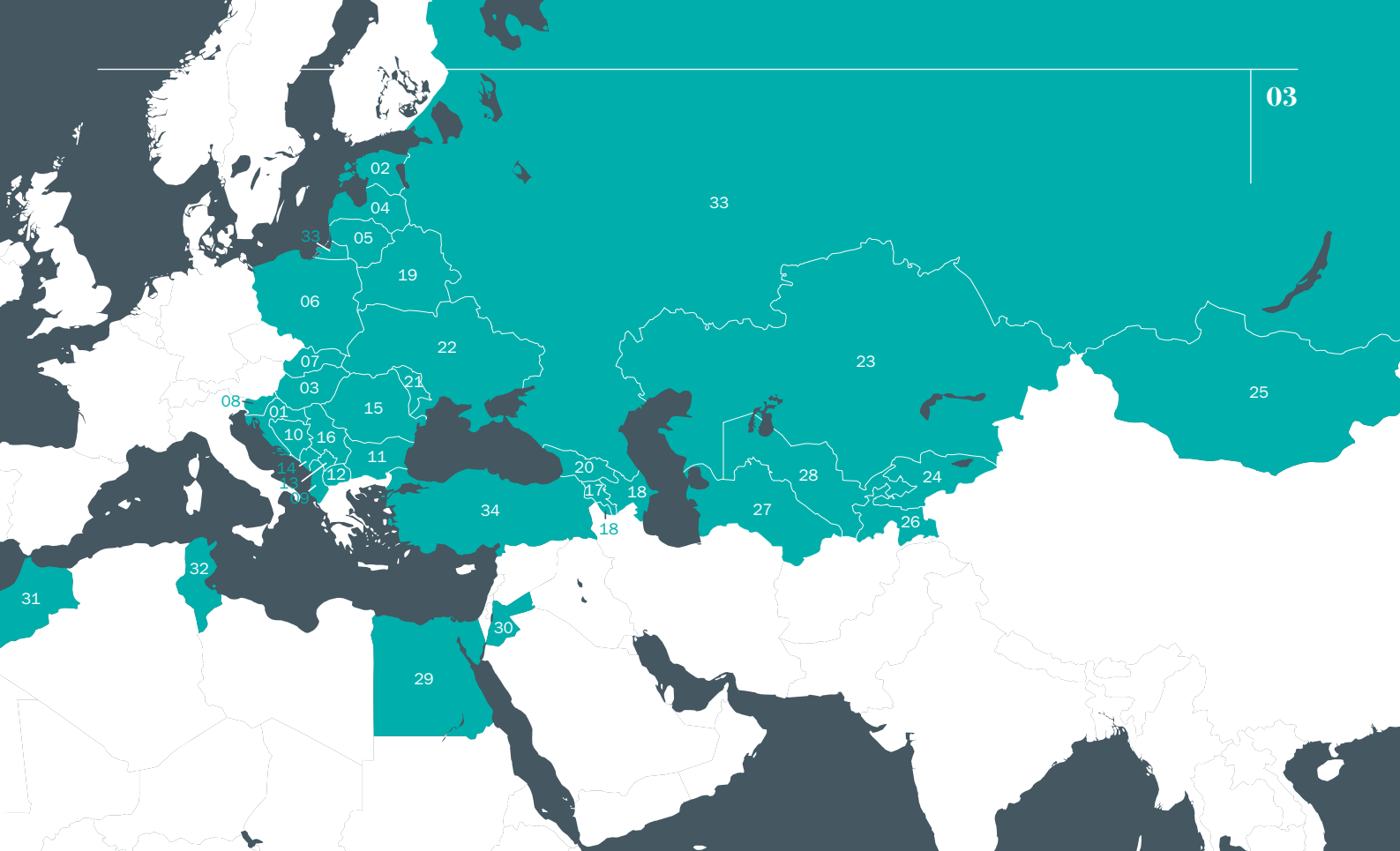
Map ref.	Country	2013	2012	Cumulative 1991-2013
01	Croatia	288	210	3,037
02	Estonia	23	4	566
03	Hungary	200	75	2,863
04	Latvia	23	4	598
05	Lithuania	32	37	672
06	Poland	756	672	6,849
07	Slovak Republic	237	185	2,024
08	Slovenia	48	28	813
<b>Total</b>		<b>1,607</b>	<b>1,215</b>	<b>17,422<sup>2</sup></b>

#### South-eastern Europe

Map ref.	Country	2013	2012	Cumulative 1991-2013
09	Albania	138	69	870
10	Bosnia and Herzegovina	208	125	1,682
11	Bulgaria	197	246	2,858
12	FYR Macedonia	74	157	1,159
13	Kosovo <sup>3</sup>	22	5	88
14	Montenegro	78	39	401
15	Romania	508	612	6,618
16	Serbia	424	269	3,530
<b>Total</b>		<b>1,648</b>	<b>1,522</b>	<b>17,206</b>

#### Eastern Europe and the Caucasus<sup>4</sup>

Map ref.	Country	2013	2012	Cumulative 1991-2013
17	Armenia	49	94	662
18	Azerbaijan	163	83	1,717
19	Belarus	255	185	1,305
20	Georgia	116	103	1,835
21	Moldova	128	102	862
22	Ukraine	798	934	8,946
<b>Total</b>		<b>1,509</b>	<b>1,500</b>	<b>15,327</b>



### Central Asia

Map ref.	Country	2013	2012	Cumulative 1991-2013
23	Kazakhstan	328	374	4,916
24	Kyrgyz Republic	134	16	548
25	Mongolia	64	419	754
26	Tajikistan	14	46	299
27	Turkmenistan	8	14	180
28	Uzbekistan	N/A	2	741
<b>Total</b>		<b>549</b>	<b>871</b>	<b>7,438</b>

### Southern and eastern Mediterranean<sup>5</sup>

Map ref.	Country	2013	2012	Cumulative 1991-2013
29	Egypt	151	10	161
30	Jordan	60	123	183
31	Morocco	168	23	191
32	Tunisia	69	25	94
<b>Total</b>		<b>449</b>	<b>181</b>	<b>629</b>

### Russia

Map ref.	Country	2013	2012	Cumulative 1991-2013
33	Russia	1,816	2,582	24,759
<b>Total</b>		<b>1,816</b>	<b>2,582</b>	<b>24,759</b>

### Turkey

Map ref.	Country	2013	2012	Cumulative 1991-2013
34	Turkey	920	1,049	3,496
<b>Total</b>		<b>920</b>	<b>1,049</b>	<b>3,496</b>

N/A – not applicable

<sup>1</sup> “Annual Bank investment” (ABI) – volume of commitments made by the Bank in the year to finance investment operations, including to restructured operations, less cancellations or sales of such commitments within the same year. In previous EBRD Annual Reports, ABI was shown as annual business volume (ABV).

<sup>2</sup> This figure excludes investments totalling €1,137 million made in the Czech Republic before 2008.

<sup>3</sup> Kosovo became a member of the EBRD and an EBRD recipient country on 17 December 2012.

<sup>4</sup> Formerly Western CIS and the Caucasus.

<sup>5</sup> In May 2012, the EBRD Board of Governors allocated funds from the Bank's net income to implement early investment operations in the southern and eastern Mediterranean region. The Board of Governors also granted the four countries the status of potential recipient countries under Article 18 of the Agreement Establishing the Bank. In November 2013, Jordan, Morocco and Tunisia became EBRD recipient countries.

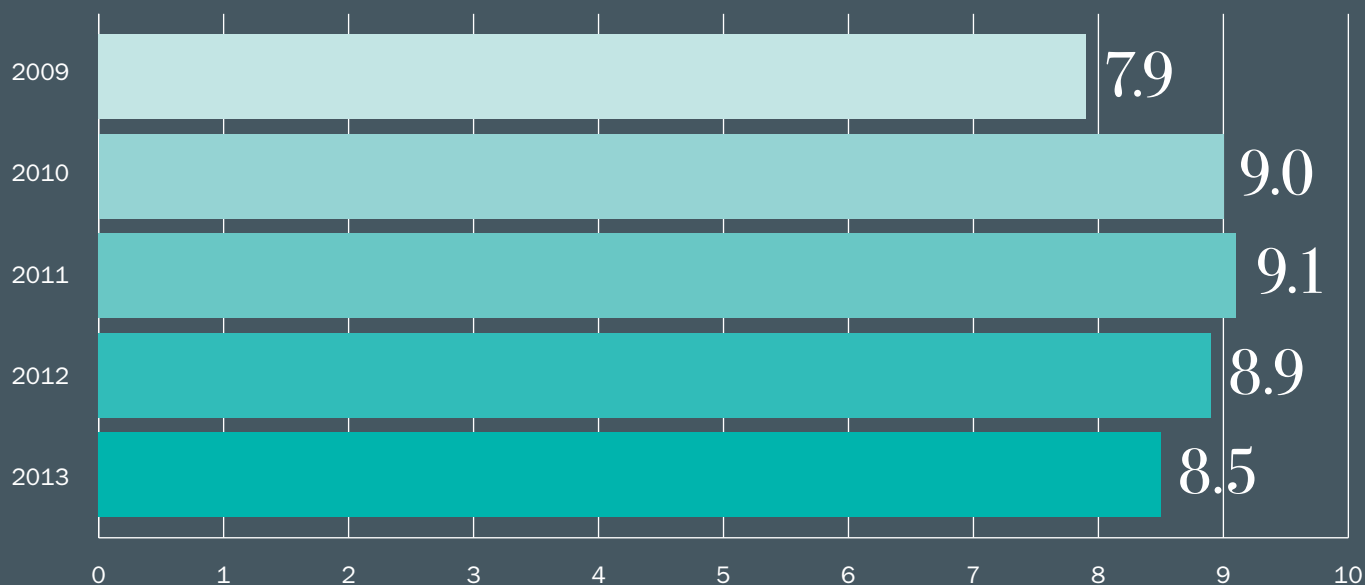


# 2013 in numbers

## EBRD ANNUAL BANK INVESTMENT BY SECTOR 2013



## EBRD ANNUAL BANK INVESTMENT 2009-13 (€ BILLION)



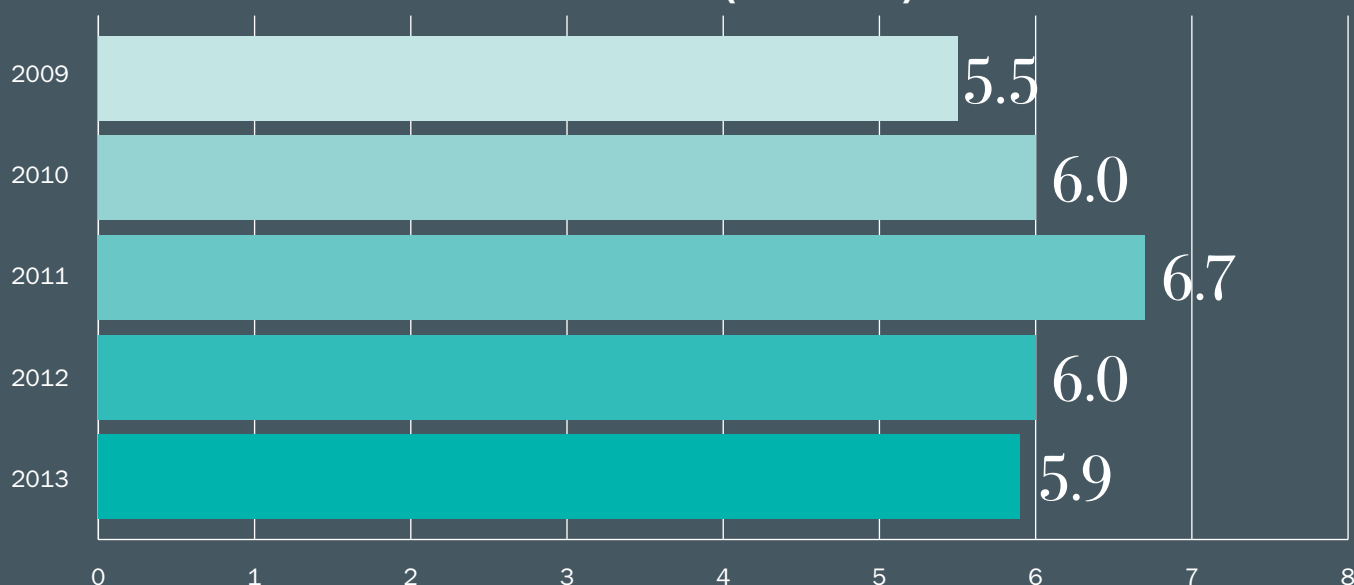
## OPERATIONAL RESULTS 2009-13

	2013	2012	2011	2010	2009	Cumulative 1991-2013
Number of projects	392	393	380	386	311	3,944
Annual Bank investment (€ million)	8,498	8,920	9,051	9,009	7,861	84,757
Non-EBRD finance (€ million)	13,488	17,372	20,802	13,174	10,353	168,283
<b>Total project value<sup>6</sup></b>	<b>20,527</b>	<b>24,871</b>	<b>29,479</b>	<b>22,039</b>	<b>18,087</b>	<b>253,349</b>

## FINANCIAL RESULTS 2009-13

€ million	2013	Restated 2012	2011	2010	2009
Realised profit before impairment <sup>7</sup>	1,169	1,007	866	927	849
Net profit/(loss) before transfers of net income approved by the Board of Governors	1,012	1,021	173	1,377	(746)
Transfers of net income approved by the Board of Governors	(90)	(190)	–	(150)	(165)
Net profit/(loss) after transfers of net income approved by the Board of Governors	922	831	173	1,227	(911)
Paid-in capital	6,202	6,202	6,199	6,197	5,198
Reserves and retained earnings <sup>8</sup>	8,674	7,748	6,974	6,780	6,317
<b>Total members' equity (€ million)</b>	<b>14,876</b>	<b>13,950</b>	<b>13,173</b>	<b>12,977</b>	<b>11,515</b>

## GROSS ANNUAL DISBURSEMENTS 2009-13 (€ BILLION)



<sup>6</sup> "Total project value" is the total amount of finance provided to a project, including both EBRD and non-EBRD finance, and is reported in the year in which the project first signs. EBRD financing may be committed over more than one year with "annual Bank investment" (ABI) reflecting EBRD finance by year of commitment. The amount of finance to be provided by non-EBRD parties is reported in the year the project first signs.

<sup>7</sup> Realised profit is before unrealised fair value adjustments to share investments, provisions and other unrealised amounts and transfers of net income.

<sup>8</sup> The movement in reserves and retained earnings reflects the net profit after transfers of net income, the movement in other comprehensive income and the retention of internal tax.



# Overview

In 2013 the EBRD provided strong support to emerging economies, helping them back to a path of recovery despite a difficult business environment marked by general reticence on the part of investors. The Bank invested €8.5 billion in 392 projects across more than 30 countries. The EBRD's priority throughout the year was to maintain its position as a reliable partner while also breaking down barriers to investment, engaging in policy dialogue with stakeholders and promoting reforms that will encourage sustainable growth. Robust financial results at the end of the year put the Bank in a strong position for the work ahead.



## OPERATIONAL RESULTS

During 2013 the global economic and political context continued to present major challenges for the countries where the EBRD invests, affecting the pace of transition and economic development. Despite this difficult investment environment, the Bank provided strong support for transition and recovery, with total annual investment for 2013 of €8.5 billion compared with €8.9 billion the previous year.

The number of EBRD operations reached 392, close to the record of 393 delivered in 2012. In November 2013, the Bank welcomed Jordan, Morocco and Tunisia as recipient countries and continued to increase its investment levels in the southern and eastern Mediterranean (SEMED) region, signing 21 operations for almost €450 million in 2013. This included six investments in Egypt for €151 million funded through the EBRD's SEMED Investment Special Fund (SEMED ISF).

A strong focus on transition impact was maintained, with 91 per cent of projects signed in 2013 assessed as having good or excellent transition impact potential. The EBRD's mandate to deliver transition and reform by working with the private sector was reflected in the private sector share of annual Bank investment (ABI)<sup>9</sup> which was 79 per cent in 2013, similar to 2012's 80 per cent figure. The volume of equity investments was €1.2 billion in 2013, (2012: €1.1 billion), and the equity share of annual Bank investment was 14 per cent (12 per cent in 2012).

The EBRD seeks to maximise the impact of its activities through strategic initiatives. These are designed to underpin its work in early transition countries (ETCs),<sup>10</sup> create conditions in which small and medium-sized enterprises (SMEs) can flourish and to stimulate and encourage the development of capital markets. These initiatives also promote climate change mitigation, sustainable energy and resource efficiency, which are important components of EBRD transition strategy in its region of operations.

Launched in 2013, the EBRD's Sustainable Resource Initiative (SRI) builds on the Bank's achievements under the existing Sustainable Energy Initiative (SEI). It extends the EBRD's activities to tackle water and materials efficiency in the countries where the Bank invests, while pursuing the SEI objectives of energy efficiency, renewable energy and climate change adaptation. The EBRD financed 32 projects with water and/or materials efficiency components in 2013 across 16 countries. In addition, it delivered strong results under the SEI, with €2.5 billion of ABI directly related to SEI activity. This is estimated to yield reductions of 6.84 million tonnes of CO<sub>2</sub> emissions.

Working to create the conditions in which SMEs can flourish is firmly anchored in the EBRD's transition mandate and its business model. This commitment was re-emphasised in 2013 with the launch of the Small Business Initiative, which aims to streamline and strengthen the support that the EBRD provides to SMEs. More than a quarter of the Bank's transactions in 2013 were undertaken in the ETCs with investment of almost €1.0 billion. Since most companies in these countries are locally owned, and considered to be SMEs by international standards, 89 per cent of operations had a value of less than €10 million, with an average investment size of under €3 million.

Around a quarter of ETC transactions were completed in local currency, demonstrating the importance the EBRD attaches to the creation of conditions, and financial infrastructure, that make

*“The EBRD seeks to maximise the impact of its activities through strategic initiatives that are designed to underpin its work.”*

local capital markets viable and local currency debt attractive for lenders, borrowers and investors. The Local Currency and Capital Markets Development Initiative (LC2) provides a coordinated approach to policy dialogue, the EBRD's investment and Treasury operations, and legal and regulatory technical assistance. In 2013, 26 per cent of all loans extended by the EBRD were through local currency instruments aimed at reducing foreign exchange risk for the Bank's clients.

In 2013 the EBRD invested in more than 30 countries. Excluding investments in SEMED, ABI by region was as follows: Central Asia accounted for 7 per cent of 2013 activity, Turkey 11 per cent, eastern Europe and the Caucasus 19 per cent, south-eastern Europe 20 per cent, central Europe and the Baltic states 20 per cent and Russia 23 per cent.

The EBRD continued to support key economic sectors in line with its operational strategy. Annual Bank investment in the diversified corporate sectors accounted for 31 per cent of 2013 activity, the financial sector 28 per cent with SME financing a priority, the infrastructure sector 20 per cent and the energy sector 21 per cent.

The Bank's portfolio of investment operations (including undisbursed commitments) increased marginally from €37.5 billion in 2012 to €37.8 billion by the end of 2013. Reflows rose by 20 per cent, from €4.9 billion in 2012 to €5.9 billion in 2013, reflecting strong repayments supported by low impairment levels and high prepayment and divestment activity. Gross disbursements reached €5.9 billion in 2013, compared with the 2012 level of €6.0 billion, reflecting the rising impact of non-disbursing commitments such as trade finance, guarantees and restructurings. Operating assets remained constant at €26.4 billion at end 2013.

The Bank's projects included additional external financing of around €13.5 billion in 2013 (2012: €17.4 billion) with the EBRD directly mobilising €759 million of syndicated loans (2012: €1.0 billion). In addition, the Bank's activities remained strongly supported by donor funding, including the Special Funds programme and technical and investment cooperation funds.

These broad-based results reflect an ongoing commitment to the transition of countries in the EBRD region as they build and strengthen open-market economies.

<sup>9</sup> “Annual Bank investment” (ABI) – volume of commitments made by the EBRD in the year to finance investment operations, including restructured operations, less cancellations or sales of such commitments within the same year. In previous EBRD Annual Reports, ABI was shown as annual business volume (ABV).

<sup>10</sup> The early transition countries are those in the EBRD region which still face the most significant transition challenges. They are: Armenia, Azerbaijan, Belarus, Georgia, Kyrgyz Republic, Moldova, Mongolia, Tajikistan, Turkmenistan and Uzbekistan.

## FINANCIAL RESULTS

In 2013, the Bank continued to experience good financial health with a robust capital position, high levels of liquidity and strong support from its shareholders.

The EBRD recorded a net realised profit of €1.2 billion before provisions, unrealised losses on share investments and other unrealised amounts (2012: €1.0 billion). Including provisions and unrealised amounts, net profit was €1.0 billion for 2013, unchanged from 2012. The net realised profit of €1.2 billion is primarily attributable to net interest income of €845 million (2012: €875 million) and net gains, including dividends, on the equity portfolio of €544 million (2012: €304 million). This portfolio, including associated derivatives, is valued at €347 million above cost. The contribution from share investments to the Bank's income statement is expected to continue to show significant variability from year to year, given the volatility of equity markets and the timing of exits.

The performance of the EBRD's loan assets remains relatively strong, with the average credit profile of the portfolio stable in 2013 and the ratio of non-performing loans at 3.3 per cent, in line with 2012.

At 31 December 2013 the value of assets under Treasury management was €20.0 billion compared with €20.5 billion at the close of 2012. Although Treasury is managed conservatively, and not to maximise profits, Treasury operations reported an operating profit of €176 million before hedge accounting adjustments, compared with €202 million in 2012. Despite the continued rating downgrades of Treasury counterparties, the EBRD maintained a superior average credit risk during 2013 by investing new liquidity in triple-A rated sovereign and other highly-rated assets. Credit quality was also enhanced by increasing the Bank's senior collateralised exposures such as covered bonds while reducing investments in subordinated debt. The

small number of non-performing assets in the Treasury portfolio, whose aggregate value was €52 million at the end of 2012, was disposed of during the year to leave no non-performing assets at the end of 2013.

The capital strength of the EBRD is reflected in its triple-A rating, with a stable outlook, which all three major rating agencies reaffirmed in 2013. The Bank raised €6.5 billion of long-term funding in 2013 under its annual borrowing programme, with an average maturity of 5.1 years. The bonds were issued in 14 currencies, with US dollar issuance accounting for 71 per cent of the total. This included three new five-year benchmark bonds for a total of US\$ 3.25 billion (€2.5 billion equivalent) and the Bank's first seven-year benchmark for US\$ 1.0 billion (€743 million equivalent). These bonds saw significant demand from a global investor base comprising predominantly central banks and bank treasuries.

Budgetary discipline and rigorous cost controls remained key areas of focus for the EBRD during 2013. General administrative expenses for 2013 were €345 million (2012: €295 million). Sterling general administrative expenses for 2013 totalled £295 million (2012: £260 million).

Overall, the Bank's reserves increased to €8.7 billion at the end of 2013 (2012: €7.8 billion), reflecting the net profit for the year.

Full details and financial statements are provided in the EBRD's *Financial Report 2013*.

## DONOR-FUNDED ACTIVITIES

Donors play a major part in the transition process by providing financing and promoting policy dialogue that helps to prepare the way for Bank projects, foster reform and improve the investment climate. Grants from donor countries, the European Union (EU), multilateral donor funds and the EBRD Shareholder Special Fund, among others, act as catalysts for Bank investments and support key strategic initiatives across almost all of the EBRD's activities. In 2013, total donor funding amounted to €349 million.

Donors are active throughout the EBRD region and have a particular focus on those areas facing the biggest challenges: the early transition countries (ETCs), the Western Balkans and the SEMED region. Key priorities for donors in 2013 included tackling climate change and boosting energy efficiency and security; supporting small businesses; building a stable financial sector and promoting local capital market development; accelerating transition in infrastructure; fostering the region's ability to contribute to global food security; encouraging legal reform; and championing gender and social inclusion in Bank projects.

In 2013, the EBRD began implementing changes to the reporting process for technical cooperation (TC) projects to capture their outcome more clearly and include them in the Bank's overall scorecard. It also revised the approval process for TC activities to ensure they reflect donor priorities.

More information is available in the Bank's *Donor Report*.

The EBRD recorded a net realised profit of

€1.2 billion

At 31 December 2013 the value of assets under Treasury management was

€20 billion





## CASE STUDY

### EXTENDING RURAL ELECTRIFICATION Morocco

An EBRD loan is supporting Morocco's goals for extending rural electricity supply and paving the way for smart metering and decentralised renewable energy generation.

The Bank provided a €60 million sovereign loan to the Office National de l'Electricité et de l'Eau Potable (ONEE), Morocco's national power utility, to support the last phase of its rural electrification programme, extending electricity supply to remote rural communities. The loan also finances a pilot smart metering project in order to help the Moroccan grid prepare for decentralised electricity generation, particularly rooftop solar voltaic.

The EBRD investment promotes systemic change in the Moroccan power sector in several ways. The loan requires ONEE to improve its environmental, corporate governance and accounting standards while a technical cooperation project will assess how the rural electrification programme can best take into account the needs of various social groups, including women. The programme will also cover health and safety, living conditions and education.

## CASE STUDY

### PROMOTING FINANCIAL INCLUSION Early transition countries

Many people in the EBRD's early transition countries (ETCs) rely heavily on remittances – money sent by relatives working abroad – to meet their day-to-day living costs. But few of these remittance recipients have bank accounts or save with a formal financial institution.

In 2013 the EBRD completed a successful programme in several ETCs, including Azerbaijan, Georgia, Kyrgyz Republic and Tajikistan, to strengthen the financial inclusion of remittance recipients. World Bank figures show that in these four countries fewer than 20 per cent of adults have a bank account and fewer than 5 per cent save with a formal financial institution.

The programme, funded by the EBRD's multi-donor ETC Fund, helped to promote a culture of saving via the formal banking system and taught potential bank customers how to plan their budgets. Financial advisers provided free consultations to customers, giving particular attention to women to help them manage family budgets and plan for the future.

The programme has provided 120,000 remittance receivers with a financial consultation. Of these, 18 per cent opened a bank account after receiving training and deposited in their new accounts a total equivalent to US\$ 20 million (or €15 million).

## POLICY DIALOGUE, INITIATIVES AND IMPACT

To maximise the impact of its operations, the EBRD has developed a range of policy initiatives in areas of strategic importance to the countries where it invests. With strong support from donors, these initiatives coordinate efforts to address key transition challenges through investments, policy dialogue, TC and knowledge and capacity-building.

The Sustainable Energy Initiative (SEI) aims to reduce carbon emissions and make the economies of the EBRD region more energy efficient and independent. Since the launch of the SEI in 2006, the EBRD has invested more than €13.4 billion in sustainable energy projects. In 2013 SEI investments accounted for 28 per cent of ABI. The EBRD broadened the scope of the initiative by approving the Sustainable Resource Initiative, which also promotes the efficient use of materials and water.

The Local Currency and Capital Markets (LC2) Development Initiative works to mitigate key vulnerabilities that emerged in the EBRD region following the financial crisis. It aims to establish sustainable local currency financing and contribute to the development of efficient and self-sustaining local capital markets. The Bank undertakes a comprehensive approach to meet the objectives of the Initiative, working closely with other international financial institutions (IFIs). It supports this through projects which range from loans and equity investments in local currency to participation in emerging capital markets and the issuance of local currency bonds.

In response to the increased pressure on food supply resulting from climate change and the growing global population, the EBRD has developed a Private Sector for Food Security Initiative. This focuses on unlocking the vast agricultural potential of the countries in which the Bank invests, overcoming constraints on market supply and improving the efficiency of food production and distribution. In this area, the Bank works closely with

partners, including the Food and Agriculture Organization (FAO) of the United Nations.

In 2013 the EBRD approved a Strategic Gender Initiative, which sets out how the Bank promotes women's socio-economic empowerment, equality of opportunity and participation in the labour market through its activities. The SGI recognises that equal opportunities for men and women contribute to the efficient use of all resources and are a fundamental aspect of a modern, well-functioning economy.

The EBRD also launched a Small Business Initiative in 2013 and since 2004 has promoted the Early Transition Countries (ETC) Initiative. Other areas of strategically-focused EBRD activity include a key role with partners in the Vienna Initiative and IFI Joint Action Plan, as well as the Legal Transition Programme and operations in the Western Balkans. For more information, see Chapter 3: "Policy dialogue, initiatives and impact".

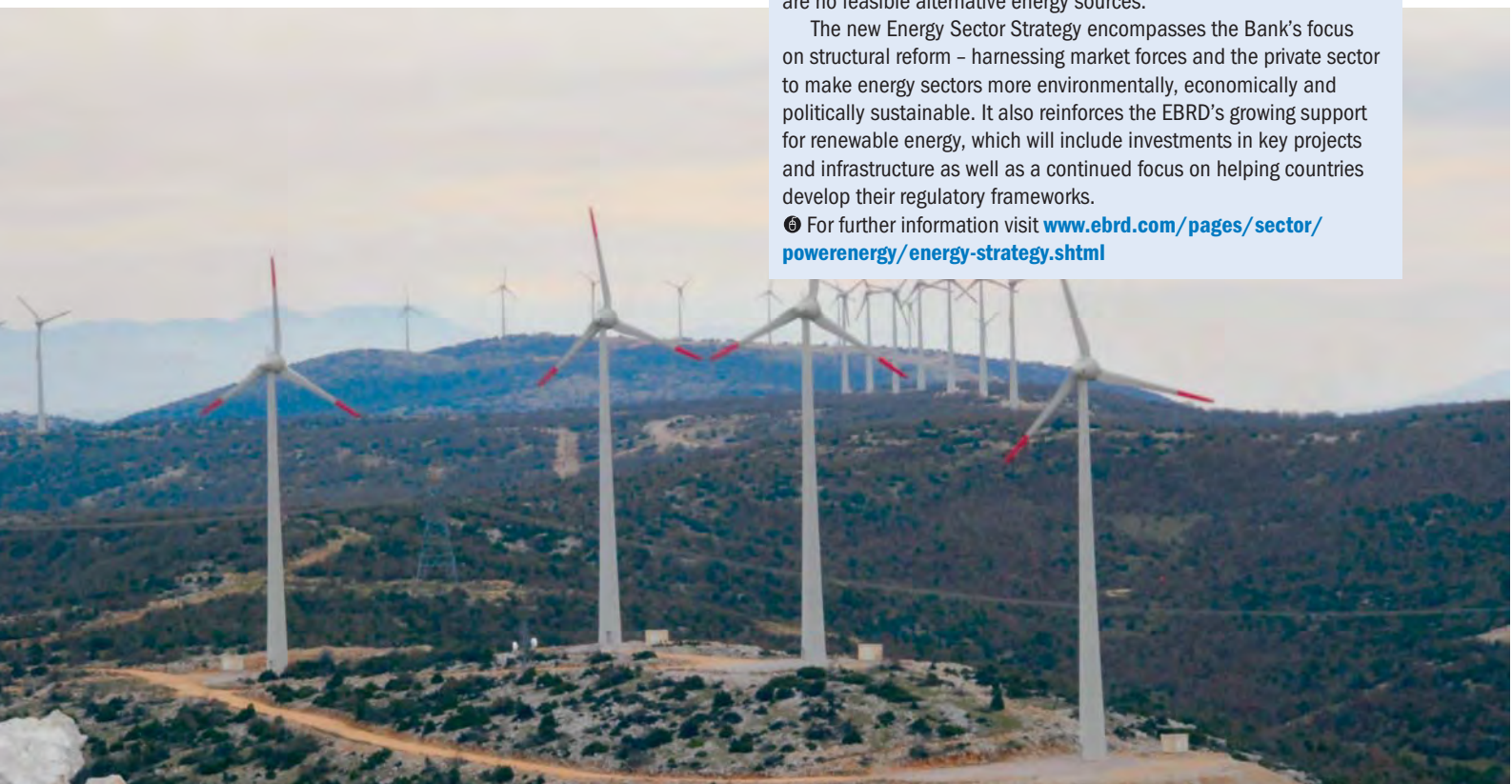
### Energy Sector Strategy

In late 2013 the EBRD adopted a new Energy Sector Strategy, replacing a policy that had been in place since 2006. The Bank developed the new Strategy after more than a year of reflection and intensive consultation with civil society, academia, industry and its shareholders. In this document the EBRD, already the largest investor in renewable energy and energy efficiency in its region, sets out a commitment to helping countries move towards a sustainable energy future.

The overarching priority is energy efficiency, based on the recognition that saving energy is the first and best response to the challenge facing the EBRD region: the need to provide sustainable, secure and affordable energy. In a context in which concerns about competitiveness and affordability match the growing urgency of the transition to low carbon, energy efficiency addresses all of these issues concurrently. The Strategy also sets out a revised policy for thermal generation, highlighting that the Bank will help countries switch from coal to gas, and that it will not finance coal-fired generation except in rare and exceptional circumstances where there are no feasible alternative energy sources.

The new Energy Sector Strategy encompasses the Bank's focus on structural reform – harnessing market forces and the private sector to make energy sectors more environmentally, economically and politically sustainable. It also reinforces the EBRD's growing support for renewable energy, which will include investments in key projects and infrastructure as well as a continued focus on helping countries develop their regulatory frameworks.

For further information visit [www.ebrd.com/pages/sector/powerenergy/energy-strategy.shtml](http://www.ebrd.com/pages/sector/powerenergy/energy-strategy.shtml)





## SOUTHERN AND EASTERN MEDITERRANEAN REGION

2013 was the EBRD's first full year of operations in the SEMED region, where it works to support economic change in the wake of the historic events that took place across the Middle East and North Africa in 2011. In this new region of investment, the Bank focuses on assisting financial institutions, developing infrastructure and supporting SMEs and other private businesses, as well as on promoting sustainable energy and energy efficiency. Through investments and other activities, the EBRD helps to address the pressing economic issues facing SEMED countries – such as high levels of youth unemployment – and contributes to a stable political future for the region.

Building on the extensive preparatory work undertaken the previous year, in 2013 the EBRD invested €449 million in 21 projects covering Egypt, Jordan, Morocco and Tunisia – commitments signed despite difficult circumstances in several of these countries.

The Bank opened permanent offices in Amman and Tunis while the opening of permanent offices in Egypt and Morocco is planned for 2014. It appointed heads of office and recruited staff in all four countries. In November 2013, Jordan, Morocco and Tunisia became EBRD recipient countries. Egypt continues to have potential recipient country status, which is expected to be reviewed in 2014. The Bank continues to invest in Egypt through the EBRD SEMED Investment Special Fund.

Notable investment projects in 2013 included a US\$ 50 million credit line to the National Bank of Egypt to support SMEs, marking the EBRD's first investment in the Egyptian financial sector. In Jordan, the Bank invested US\$ 80 million in a shopping and entertainment centre in Amman that will help regenerate the centre of the city and provide important training and work placement opportunities for young people. In Morocco, a €60 million commitment is supporting the completion of a rural

*“The EBRD helps to address pressing economic issues facing SEMED countries – such as high levels of youth unemployment – and contributes to a stable political future for the region.”*

electrification programme, while in Tunisia a €5 million loan went to a local software development company to support its growth. The Bank also invested in several equity funds active in SEMED countries.

The EBRD's Trade Facilitation Programme signed three agreements with banks in SEMED for a total value of US\$ 175 million (€128 million equivalent) in 2013. These agreements help local companies obtain the trade finance they need to import and export goods and expand.

The Bank carried out a wide range of donor-funded activities in the new region, many of them aimed at facilitating project preparation and implementation and building institutional capacity. Since the start of EBRD operations in the region, the donor-funded Small Business Support programme has pursued 276 projects in SEMED to help SMEs access expertise and reach their growth and employment potential.

### Economic inclusion

The EBRD believes that economic inclusion – the opening up of economic opportunities to previously under-served social groups – is integral to development. If people are given a chance to succeed, they are more likely to participate in the workforce, pursue education, or engage in activities that lead to economic growth. This, in turn, strengthens wider public support for economic reforms and the transition process.

For the Bank, promoting economic inclusion has become imperative in view of growing youth unemployment, the low participation of women in the workforce – especially in the SEMED countries – and the stark differences in economic performance between regions, particularly in south-eastern Europe (SEE). It also responds to the business needs of many clients, who increasingly seek ways to reach under-served groups such as women entrepreneurs or to tap under-utilised human resources.

For these reasons, in 2013 the EBRD extended its transition assessment methodology to incorporate economic inclusion into its assessment of structural transition gaps. Based on the concept of equality of opportunity, the Bank now measures the extent to

which economic institutions, markets and education systems extend economic opportunities to individuals regardless of their circumstances, such as their gender, place of birth or – with regard to young adults – social background. The resulting inclusion gaps then guide the identification of projects that are either already set to narrow these gaps or that could be developed further to do so.

Economic inclusion is particularly important to four aspects of the transition process that the Bank promotes through its investments. These are market expansion (through access to labour markets and to market-based finance); skill building (at the level of clients, potential employees or suppliers); corporate standards and governance; and demonstration effects.

After a six-month pilot study ended in July 2013, the EBRD extended the inclusion methodology across all sectors and countries in which it invests. Examples of achieving inclusion impact include helping young people progress from vocational training to employment, and a project to create new credit lines for women entrepreneurs in Turkey. Other examples include water projects in rural parts of Central Asia that substantially increase access to drinking water for large sections of the local populations, thereby improving health and economic opportunities.

**CASE STUDY****MAINTAINING BIODIVERSITY  
Mongolia**

The EBRD is the largest foreign investor in Mongolia. It works with the country's authorities and investors to develop an open, transparent market economy while caring for and managing Mongolia's environmental and socio-economic resources. For example, the Bank is carrying out technical assistance work to help the Mongolian authorities with an initiative to help maintain biodiversity and conserve the unique environment of the Southern Gobi.

Another aspect of the EBRD's technical cooperation comes in the form of support for the implementation of the Extractive Industries Transparency Initiative (EITI), a global fiscal transparency standard for the sector. Mongolia is seen as a leading EITI country. With the Bank's support, it has the potential to continue to lead global good practice in EITI implementation and broader transparency.

Among the tasks of the EBRD's Legal Transition team are the preparation of an EITI law and elaboration of an institutional framework to sustain the initiative; training; communications and public outreach; as well as the establishment of an online electronic reporting system. The Bank's backing in these areas provides the Mongolian government and civil society with key tools for the implementation of a framework for open, transparent, accountable and environmentally-sensitive extraction, benefiting all citizens.





## TRANSITION PROGRESS IN THE EBRD REGION: DEMOCRATIC AND MARKET REFORMS

The EBRD monitors democratic reform in the region in which it invests, in accordance with its Article 1 mandate. The Article states that the Bank's purpose is to foster transition to open markets in countries committed to and applying the principles of multi-party democracy, pluralism and market economics. In general, countries that have joined the EU or have a strong prospect of future membership have attained a high level of democratic consolidation. Elsewhere, much of the region has seen a levelling-off of democratic progress since the early 2000s. This has been accompanied by a flattening of the market transition trajectory in the same period. These issues of countries becoming stuck in a lower-than-optimal level of political and economic reform are addressed in the EBRD's *Transition Report 2013*.

Countries in the Western Balkans region continued with democratic reforms in 2013, supported by the process of EU approximation and by intensified regional cooperation. Although inter-ethnic issues represent a long-term challenge in the Western Balkans, the process of reconciliation continued, notably through the EU-facilitated dialogue between Belgrade and Pristina. While there is no consensus in sight between the ethnic leaders and between the two entities regarding the optimal internal organisation of Bosnia and Herzegovina, progress towards a more efficient and democratic state and implementation of the EU agenda may be difficult to achieve without comprehensive reform of the constitutional set-up. In Turkey, the firm response to public protests against the demolition of Gezi Park in Istanbul raised concerns. However, Turkey's now well-established tradition of holding free elections remains intact ahead of three crucial polls in 2014-15.

The track record in the European Neighbourhood was mixed: Georgia and Moldova continued to make progress toward well-functioning democracies, which was recognised in their initialling of Association Agreements with the EU. Ukraine faced significant ongoing challenges, particularly with regard to governance and the rule of law. Towards the end of 2013, escalating popular protests called for greater democratic accountability and good governance.

*“The past few years have seen a marked slowdown in economic and structural reforms, as countries in the region have grappled with the fallout from the global economic crisis.”*

Russia held truly competitive elections at the local level, with opposition candidates winning contests in two regions and the main opposition candidate receiving over 27 per cent of the votes in the Moscow mayor's race. However, challenges remain with regard to the enabling environment for civil society and for some minorities. Two countries in Central Asia – the Kyrgyz Republic and Mongolia – made further democratic gains. Democratic progress in most other countries in the Commonwealth of Independent States (CIS) was at best slow, and concerns regarding widespread corruption, weak adherence to the rule of law, and human rights violations were noted by prominent international organisations and civil society representatives. The Bank remains seriously concerned about the lack of progress on democratic reform in Belarus and Turkmenistan. It continues to employ a calibrated strategic approach to operations, matching the scope of its activities to progress against well-defined political and economic benchmarks.

The democratic transition process has been uneven in the countries in the SEMED region. In Jordan and Morocco, political reforms strengthened the role of the elected parliaments. In Tunisia, increasing polarisation led to a period of stalemate. However, an agreement reached in December 2013 indicated the willingness of the main political forces in the country to work together towards finalising the constitution and laying the groundwork for parliamentary elections in 2014. In Egypt, the political transition process that began with the uprising and change of government in 2011 was interrupted by mass demonstrations against elected President Mohamed Morsi and his ultimate removal. A period of acute violence ensued, deepening divisions within the country and raising international concerns. A new transition process and democratic roadmap were put in place, the first milestone of which – amending the 2012 constitution – was completed in December 2013. This should lay the foundations for parliamentary and presidential elections in 2014.

The *Transition Report 2013* observed that the past few years have seen a marked slowdown in economic and structural reforms, as countries in the EBRD region have grappled with the fallout from the global economic crisis. While most of the broad economic reforms introduced in the previous two decades remain intact, there are numerous examples across the region of reforms being “stuck” and failing to advance at the pace seen before the crisis. The Report analysed in detail the close interrelationships between democracy and economic reform and the reasons for the slowdown in transition-related reforms.

With regard to cross-cutting, countrywide reforms such as price and trade liberalisation, privatisation, corporate governance, and competition policy, the past year saw few significant developments in either direction. Notable positive steps that will affect the broader liberalisation agenda were Croatia's accession to the EU in July and Tajikistan's accession to the World Trade Organization in March. However, growing state interference and a weakening of institutions in charge of enforcing competition policy occurred in some of the most advanced countries in central Europe such as Hungary and the Slovak Republic.

To better define transition goals and prioritise its activities as countries make progress, the EBRD conducts an annual assessment of transition progress and remaining challenges for 16 sectors in all countries where it invests. This assessment of “transition gaps” (classified as either “negligible”, “small”,

“medium” or “large”) is made in terms of the changes to market structure or market-supporting institutions necessary to bring them up to the standards of the most advanced market economies. (For a discussion of the methodology and to view the scores, see: [www.ebrd.com/pages/research/publications/flagships/transition.shtml](http://www.ebrd.com/pages/research/publications/flagships/transition.shtml)).

Overall, the past year saw more progress than backtracking. While deeper reforms to different corporate sectors were mostly absent, there was particularly notable progress in the financial sector, with upgrades in non-banking sectors such as capital markets, insurance and private equity. Capital market development advanced in 2013 in several countries, including Estonia and Turkey. The continued resilience of most financial sectors was encouraging, but vulnerabilities remain in a number of countries and in some cases the level of non-performing loans is still rising.

The energy sector emerged as one of the toughest policy areas in the EBRD region. The need for enhanced energy efficiency, investment in renewable energy and cost-reflective tariffs is well recognised but politically difficult to implement, particularly under economic and social pressures. As a result, political interference in the energy sector and reform reversals have become more common.

In the infrastructure sectors there are also difficult reform challenges. These are usually linked to tariff reform and the need, in many cases, for deep restructuring of large state-owned companies. Notable progress occurred in 2013 in the transport sectors of Kazakhstan and in the Slovak Republic. In the water and wastewater sector there were upgrades for the Kyrgyz Republic and Romania.

### Measuring results

The EBRD has undertaken a review of how it measures its activities, with the aim of more accurately capturing the results and impact of its work and the systemic changes they bring about.

As part of its performance management system, the EBRD has revised its institutional scorecard. This provides a framework for aligning the organisation to the strategy set out by the Bank's shareholders. The EBRD has expanded its scorecard to include a results framework for the Early Transition Countries, Sustainable Resource, Local Currency and Capital Markets, and Small Business initiatives. The scorecard also includes measures for transition impact, the number of projects signed and the amount of investment provided or mobilised by the EBRD for the countries in which it works.

This review introduced a new way to measure the results of donor-funded TC projects and improve the flow of information to donors and other stakeholders. For instance, rather than simply reporting that donor funds had been used for a training programme, the results framework would also specify the expected goal of the training programme – for example, the proportion of workers able to pass a given test after training – and compare these with the actual outcome – for example, the proportion of workers that passed the test after training. Since July 2013, 100 new TC projects have been approved and their performance tracked using the new results framework.

For each project that the Bank undertakes, the EBRD's transition impact monitoring system (TIMS) tracks the results of projects under implementation and assesses their systemic impact on the transition process in countries where the Bank invests. A review of TIMS resulted in improvements to enhance the measurement of expected transition impact and actual transition results achieved for projects under implementation.

In addition, the EBRD will pilot in 2014 the introduction of a country strategy results framework which includes clear and measurable objectives for each country, based on an analysis of challenges, opportunities and risks. The framework will also take into consideration the Bank's specific transition mandate and business model and help guide the EBRD's priorities in each of the countries where it invests.





*“The need for enhanced energy efficiency, investment in renewable energy and cost-reflective tariffs is well recognised but politically difficult to implement, particularly under economic and social pressures.”*

#### CASE STUDY

##### CUTTING ENERGY WASTE IN DISTRICT HEATING

###### Russia

People living in the main city on the Russian island of Sakhalin can look forward to more reliable heating and hot water services thanks to an EBRD-funded project which aims to modernise the area's district heating system. The Bank is lending 450 million roubles (€10 million equivalent) to the utility company SKK to upgrade the outdated and inefficient heating infrastructure in Yuzhno-Sakhalinsk, a city of 193,000 people.

As well as improving the service provided to residents and keeping prices at affordable levels, the investment will cut the current high rate of heat and water losses by replacing the network's old and worn-out pipes. SKK will also install heating meters in a bid to encourage residential customers to save energy. Major efficiencies in the consumption of gas, electricity, heat input and chemically-treated water are expected by 2016 as a result of the investment programme.

This project marks the first time in 20 years that Yuzhno-Sakhalinsk's district heating system has benefited from major external investment.

A technical cooperation programme funded by donors will help SKK, which is majority-owned by the city of Yuzhno-Sakhalinsk, to upgrade its pipes and other infrastructure, improve its financial and environmental management and promote service-oriented customer relations.





## Activities by sector

- 17 Financial sector
- 20 Industry, commerce and agribusiness
- 25 Transport

- 26 Municipal and environmental infrastructure

- 28 Power and energy

- 29 Natural resources

- 30 Nuclear safety

# Activities by sector

To improve the lives of people in the countries where it invests, the EBRD promotes sustainable growth and the development of the private sector. In order to achieve this the Bank makes use of integrated investment, technical cooperation and policy dialogue in key areas of the economy, including the financial, SME and corporate sectors and infrastructure, power and natural resources.





## FINANCIAL SECTOR

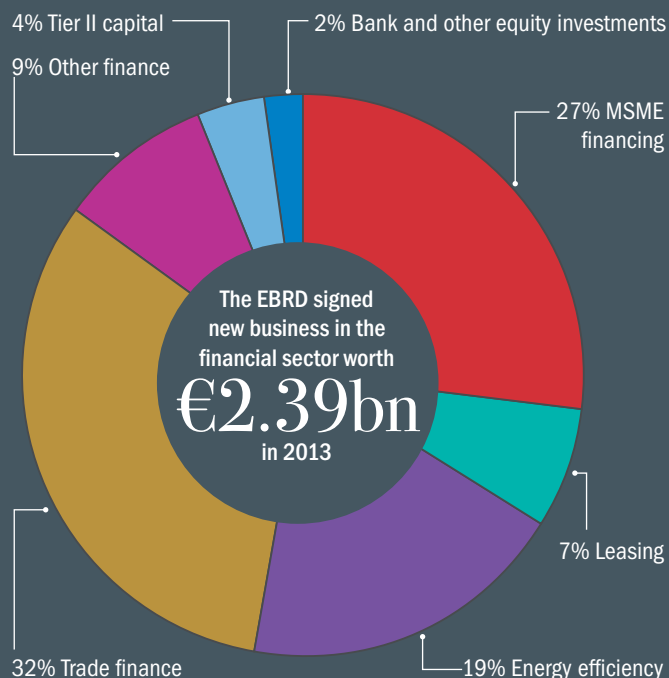
The EBRD recognises that strong financial institutions play an essential part in the economic development of the countries where it invests. It therefore provides the funding that businesses need in order to grow, and financial services that help individuals build a secure future. By combining project work with policy dialogue, the EBRD and its donors foster systemic change aimed at making financial institutions more stable and competitive.

In 2013, the financial sector in the EBRD region continued to face multiple challenges stemming from sluggish economic growth in many countries, increased regulatory scrutiny of asset quality and capital buffers, and long-running eurozone stresses. These pressures resulted in limited credit growth and highlighted the need to build sustainable local sources of finance.

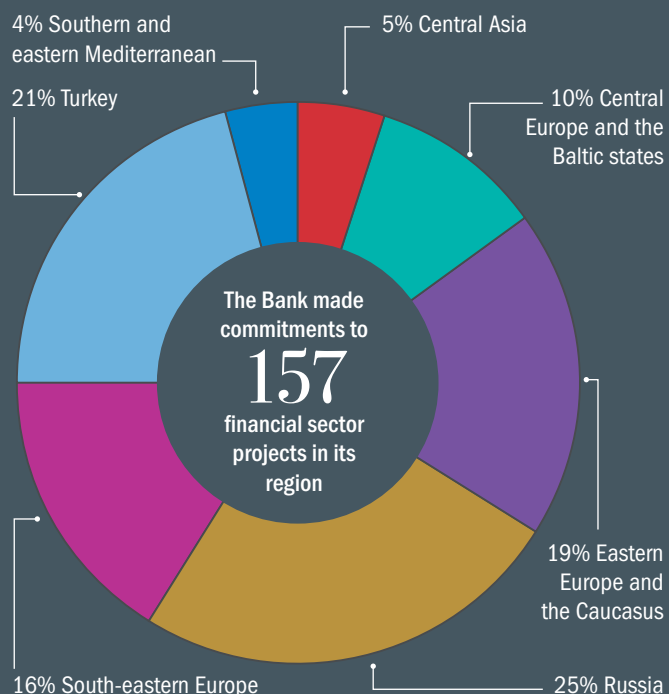
In response to these developments the EBRD signed new business in the financial sector worth €2.39 billion in 2013 covering 29 countries (compared with €2.85 billion covering 26 countries in 2012).

The Bank made commitments to 157 financial sector projects and, demonstrating the EBRD's support for the Joint IFI Action Plan for Growth in Central and South Eastern Europe, 39 per cent of these projects targeted this region.

### Financial sector annual Bank investment by product (2013)



### Financial sector annual Bank investment by sub-region (2013)



In addition, the Bank maintained its strong focus on the financial sector in the early transition countries (ETCs) where 50 projects were signed for over €167 million. The Trade Facilitation Programme (TFP) also made a significant contribution to this region.

The EBRD continued to develop new financial sector projects in the SEMED region despite the difficult business environment. Key transactions included the EBRD's participation in the first Eurobond issue by a Moroccan bank, the Banque Marocaine du Commerce Extérieur. Another notable project was an SME credit line with the National Bank of Egypt. The EBRD also organised a number of workshops to promote the TFP and SME programmes as well as local capital market development.

### Policy dialogue

Major focus areas for policy dialogue were the Local Currency and Capital Markets Development Initiative (LC2), deeper financial inclusion and efforts to strengthen the safety net of the banking system in Albania and Kosovo. New initiatives included a conference on mobile banking that led to intensive discussions with regulators about mobile banking in the region. On financial inclusion, the EBRD completed an innovative project in the ETC region that enabled client banks to engage with remittance recipients and encourage them to open bank accounts (see case study on page 9).

Under LC2, a wide-ranging policy dialogue programme aimed to improve the functioning of financial markets in many countries where the Bank invests. In cooperation with the International Swaps and Derivatives Association (ISDA), the EBRD undertook policy discussions on the financial reporting of derivative transactions in Russia. In Poland, in light of significant changes to the private pensions industry, the Bank involved the regulator in working groups on reforming the long-term local currency debt market. Policy dialogue also continued apace in Romania aimed at promoting corporate bond issuance, including covered bonds.

### Banking

As major European banking groups continued to deleverage, their local subsidiary banks faced critical decisions about how to build and grow sustainable bases of local funding. In addition, weakened loan demand and the increase in non-performing loans (NPLs) in a number of countries restricted balance sheet growth and sector development. The Bank helped to fill financing gaps by providing stable sources of funding in both foreign and local currencies, with a particular focus on local capital market development. It also sought to reignite lending to the real economy by increasing its trade finance, micro, small and medium-sized enterprise (MSME) and energy efficiency lending activities.

*“The Bank helped to fill financing gaps by providing stable sources of funding in both foreign and local currencies.”*



## Trade finance

The EBRD's Trade Facilitation Programme (TFP) guarantees trade transactions to stimulate import and export trade. It also provides short-term loans to selected banks and factoring companies for on-lending to local exporters, importers and distributors of imported products.

In 2013, demand for the TFP continued to grow steadily and the EBRD financed 2,033 trade transactions worth a total of over €1.2 billion, working with 78 banks across 21 countries. New banks from the SEMED and SEE regions joined the programme and the EBRD concluded its first TFP transactions in Jordan and Morocco. The programme also expanded through increased demand for factoring facilities.

The Bank continued to perform strongly in priority areas: the ETCs accounted for 47 per cent of the number of TFP transactions (and 27 per cent of the volume) while intra-regional trade represented 25 per cent of deals. The number of funded cash advances rose, especially in the ETCs, due to growing imports of fast-moving consumer goods. These mostly involve short-term cash advances and predominantly support local SME traders and distributors.

Although trade activity continued to recover slowly in many countries in which the Bank invests, a reduced appetite for risk continues among foreign commercial banks in trade finance operations. Therefore demand for the TFP is expected to remain high among small and medium-sized banks in the region, and among banks in the ETCs.

## Sustainable energy financing

Sustainable Energy Financing Facilities (SEFFs) – dedicated credit lines to local financial institutions for investments in sustainable energy projects – remained a core component of the EBRD's Sustainable Energy Initiative (SEI).

Growth in energy efficiency lending through the SEFF model continued in 2013. The Bank provided new loans worth a total of €454 million to 38 financial institutions across 16 countries, including Azerbaijan and Kosovo for the first time. There are currently 23 SEFFs operating in 18 countries. Last year the programme widened its outreach, particularly in the Western Balkans, by extending financing through banks to the public sector. Between the launch of the SEFFs in 2006 and the end of 2013, the EBRD had disbursed loans worth €1.9 billion to partner institutions, which on-lent €1.6 billion to sub-borrowers, thereby supporting over 55,000 sustainable energy projects.

## MSME financing

In the countries where it invests, the EBRD has long supported MSMEs by improving their access to funding and financial services. Small businesses are an important source of jobs and growth in transition countries, fostering entrepreneurship and innovation. Encouraging financial institutions to lend to this sector, and in particular to under-served borrowers such as farmers and female entrepreneurs, is part of the Bank's effort to create sustainable sources of finance for the real economy. One project with Garanti Bank in Turkey is piloting a methodology for financing SME clients that clusters them according to their industry or region.

In 2013, the Bank continued to facilitate credit flow to MSMEs by concluding 81 MSME credit lines and bonds for over €810 million to partner institutions such as banks, leasing companies and specialised microfinance institutions across 26 of the countries in the EBRD region. In addition, a number of energy efficiency credit lines and subordinated debt projects supported finance to SMEs. Importantly, the Bank provided loans through local currency instruments in order to reduce the foreign exchange risks for both partner institutions and their MSME clients.

The EBRD actively supports MSMEs through over 200 partner institutions in 28 countries. As of mid-2013, these partner institutions had portfolios of two million MSME loans totalling €12 billion.

## Equity

There was less demand for equity transactions in 2013 owing to the depressed financial environment. The Bank committed to two new investments in the financial sector, taking its first equity stake in a microfinance institution by investing in IMON International in Tajikistan and acquiring a stake in an insurance company in Slovenia. It also provided additional capital to six existing financial sector investments.

With regard to exits, the Bank secured nine full and three partial divestments from a range of institutions in its portfolio. The EBRD has investments of €1.9 billion in 72 financial institutions across 25 of the countries in which it invests.

## Other financial services

In response to rising NPLs in the region, the Bank worked with firms specialising in NPL resolution to minimise this obstacle to credit growth. The Bank supported two such projects in 2013: one in Turkey and one involving a regional NPL finance company working in Russia and Ukraine.

To help financial institutions diversify their funding base and to develop local capital markets, the EBRD invested in a number of bond issues. In 2013, the Bank participated in 12 bond issues, some of which encouraged important developments in the capital markets. An example was the groundbreaking Kyrgyz Investment and Credit Bank bond issue in Kyrgyz som, in which the EBRD acted as a catalyst by backing policy dialogue with transaction support and investment. More broadly, a significant number of issuances were made in local currency by institutions in the Bank's region as they sought to attract domestic institutional investors and better match their assets and liabilities.

The EBRD strongly encourages local currency lending. Using funding raised directly by the Bank, it provided 24 local currency loans in Georgian lari, Kazakh tenge, Polish zloty, Romanian lei and Russian roubles for a range of financing purposes. In addition, the EBRD extended 26 loans to financial institutions via the Currency Exchange Fund, in which it invests.

The Bank also continued to respond to the currency mismatch issues faced by some financial institutions by extending its cross-currency swap product to Romanian and Serbian financial institutions.

## Technical cooperation

Thanks to support from donors, technical cooperation (TC) remained an integral part of the EBRD's business model for financial institutions. Technical assistance supported EBRD investments and enhanced policy dialogue in priority areas such as sustainable energy, LC2 and MSME lending. In 2013, there were 99 TC assignments issued in the financial institution sector with a total value of €26 million. Donors funded €31 million in incentive payments to participating institutions and their clients in the areas of energy efficiency and SME competitiveness.

Existing and new SEFFs received 78 per cent of TC funding in the financial institution sector in 2013. A TC framework designed to identify and support local currency reforms led to five assignments. Donor support for MSME lending activities continued primarily in the ETCs, Turkey and the Western Balkans, while donor engagement in the SEMED region maintained its momentum via the successful TFP programme and assignments related to project preparation.

Donor support for policy dialogue and regulatory reform allowed the Bank to explore mobile banking in 2013, resulting in a project to develop a regulatory framework in Tajikistan for mobile money. The EBRD also increased cooperation with the EU and IFIs to achieve even more effective and complementary use of donor resources in the financial sector.

## INDUSTRY, COMMERCE AND AGRIBUSINESS

Through investments in industry, commerce and agribusiness (ICA), the EBRD supports diversification of the real economy, innovative and sustainable development and inclusive growth in countries where the Bank invests. It uses loans, equity investments, participation in equity funds, policy dialogue and donor-funded technical assistance to promote a private corporate sector that is strong, competitive and a source of job creation.

In 2013 the Bank invested €2.6 billion through 137 projects in ICA. The sector accounted for 31 per cent of annual Bank investment and more than 35 per cent of the number of operations (including 40 per cent of ETC transactions, and 72 per cent of equity transactions).

As part of efforts to reinvigorate the transition process, the Bank worked on developing a knowledge economy initiative to deliver a more cohesive and cross-sectoral approach to ICA investments. The new focus will bring together research and development investments in traditional industries, support for access to finance for small innovative companies and greater investment in information and communication technology (ICT) sub-sectors, such as IT services. Policy dialogue aimed at improving the innovation systems and business environment in countries where the Bank invests will support the initiative, which is being implemented in 2014.

### ICA SEMED

In 2012 the EBRD established ICA SEMED to coordinate industry, commerce and agribusiness operations in the new southern and eastern Mediterranean (SEMED) region. In 2013, this focused approach allowed the Bank to sign 13 projects for a total commitment of €209 million in the SEMED ICA sector.

Significant projects included the EBRD's first agribusiness investment in Egypt – a local currency loan to the Juhayna Group, a leading integrated dairy and fruit juice producer. In addition, the Bank supported urban regeneration by investing in the Abdali Retail and Entertainment Centre in Jordan, a project that includes US\$ 33 million (€24 million equivalent) for investments in sustainable resources. (see case study on page 27). The EBRD continued to support the development of private equity in SEMED, investing in three private equity funds with coverage wholly or partially in the region (Capital North Africa Venture Fund II, Mediterranean Capital II, and Earlybird Digital East Fund).

Other SEMED projects included four in manufacturing (a white goods manufacturer and a plastic pipes manufacturer, both in Egypt; a multinational car parts supplier with a subsidiary in Morocco; and a leading pharmaceutical group based in Jordan) and one in ICT (support for the expansion of a Tunisian software developer).

The EBRD sees significant growth opportunities in the ICA sector in SEMED for 2014 and will start the year with a strong pipeline.

### ICA RUSSIA

The EBRD's strategy for Russia emphasises diversification of the economy and investment in the regions. Although 2013 was a challenging year for EBRD business in the country, with slowing growth, clients being more cautious about capital investment, and liquidity

In 2013 the Bank committed

**€209** million  
to 13 projects in the SEMED ICA sector.

in the domestic banking market, the EBRD invested more than €606 million in 24 projects across the Russian corporate sector.

Almost 50 per cent of these projects were equity or quasi-equity investments, reflecting the Bank's goal of helping to improve corporate governance standards in Russia. The EBRD also managed a significant portfolio of existing investments in the country. Several larger projects involved foreign sponsors but the majority of investments were below €20 million and conducted with local counterparties.

In the agribusiness sector, the Bank worked with three existing clients already active in the country (John Deere, Louis Dreyfus Commodities and Globus). In manufacturing, the EBRD worked with equipment makers and suppliers as part of its efforts to modernise Russia's outdated automotive industry.

Transactions also covered pharmaceutical distribution and manufacturing of wood products. The Bank invested in Russia's knowledge economy by financing an IT service provider's acquisition strategy aimed at meeting the increasing data storage and transfer needs of business and society. The EBRD also continued work to deepen and strengthen the private equity markets by investing in equity funds and supporting the venture capital ecosystem.





## Agribusiness

The Bank's work in the agribusiness sector aims to unlock the enormous agricultural potential in the EBRD region, raise standards within the food industry and help companies operating at different stages of the food production chain to become major national, regional and international players.

In 2013, the EBRD once again delivered significant annual Bank investment in the sector, including investments in support of Bank activities in the SEMED region, the Sustainable Energy Initiative and other policy dialogue initiatives. The Bank committed a total of €871 million (compared with €874 million in 2012) through 54 transactions in the sector in 2013, while mobilising an additional €110 million in commercial syndication, resulting in total commitments of close to €1 billion.

In order to fulfil its objectives in the agribusiness sector, the EBRD blends policy dialogue and investment activity, drawing on expertise from across the Bank. The agribusiness technical cooperation portfolio includes work on: (i) the Private Sector for Food Security Initiative (see page 36), which remains at the centre of the Bank's policy dialogue in the sector; (ii) agribusiness resource efficiency – linked to both the Sustainable Resources Initiative and the Private Sector for Food Security Initiative; (iii) quality standards and animal welfare; (iv) capacity-building for agribusinesses; and (v) retail.

The Bank made a strong start in the agribusiness sector in the SEMED region, with four projects exceeding an aggregate commitment of €60 million, including investments in the dairy and fruit juice sectors. One example was a loan to Moroccan fruit juice producer Citrumba, the EBRD's first agribusiness deal with a locally-owned company in the region. The Bank's agribusiness activities remained strong in other countries where it works, as the investment in the MK Group demonstrates (see case study above).

### CASE STUDY

#### ENHANCING THE AGRICULTURAL VALUE CHAIN

##### Serbia

By making a €50 million equity investment in MK Group, which is part of the Agri Europe holding company, the EBRD is helping one of the leading agribusiness companies in the region to expand its farming and meat processing operations in Serbia.

More specifically, the project will enable MK Group to finance an irrigation system, silo construction and the acquisition of additional agricultural land. By facilitating third party access to storage facilities, the project also supports small farmers and addresses key infrastructure bottlenecks in Serbia.

With regard to technical cooperation, MK Group is engaged in policy dialogue activities with the EBRD, the Serbian government and the Food and Agriculture Organization (FAO) to establish a crop receipt law that can facilitate pre-harvest financing. Moreover, Carnex – another company in the Agri Europe group – is involved in a joint EBRD-FAO Geographical Indication initiative in Serbia, to enhance the global recognition and competitiveness of local meat products.

*“In order to fulfil its objectives in the agribusiness sector, the EBRD blends policy dialogue and investment activity, drawing on expertise from across the Bank.”*

## Equity funds

The EBRD has the largest private equity fund investment programme dedicated to central and eastern Europe (CEE) and Central Asia, with investments in a total of 147 funds since 1993. Through its investments and other activities in support of the private equity industry, the Bank helps growing companies in the region access new sources of financing. By mid-2013 over 1,300 investee companies had benefited from our funds.

In 2013, the EBRD committed €334 million to 10 private equity funds. Enhancing its position as a reliable partner in SEMED, the EBRD invested in two private equity funds dedicated to the region and a third that includes Jordan as a target country. The Bank invested in two Russia and CIS-focused private equity funds raised by long-standing partners Almaz Capital and CapMan Russia. It also invested in a fund focused on Russia and the Commonwealth of Independent States (CIS) with Da Vinci Capital, known to the Bank through its investment in the Moscow Exchange.

To support access to finance for innovative technology companies, the Bank invested in local venture capital players Almaz Capital and a leading German venture capital house, Earlybird. Complementing these two funds was the Bank's investment in the 3TS TCEE Fund III, which will focus on the telecommunications, media and technology sectors in central and south-eastern Europe.

The Bank has developed two integrated approaches<sup>11</sup> aimed at building a sustainable and sophisticated private equity and venture capital industry in the region: the Integrated Approach to Supporting a Sustainable Polish Private Equity Industry (the Polish IA) approved in 2012; and the Integrated Approach for the Further Development of the Venture Capital and Private Equity Ecosystem in the Baltic States (the Baltics IA) approved in 2013.

The Polish IA aims to address the reliance on IFI financing that characterises the private equity industry in CEE. This is due to the lack of a domestic investor base and the withdrawal of many international investors since the financial crisis. The EBRD's approach also aims to ensure the long-term sustainability of the industry. During 2013, the Bank supported events that promoted private equity investment in the region; worked with the Polish Venture Capital Association to provide independent performance benchmarks for investors; and engaged with institutional investors, both domestic and international, to facilitate their potential investments in CEE private equity.

Despite the difficult fundraising environment, the four operations presented under the Polish IA to date have successfully attracted international investors, including some new to private equity funds in the region. The fourth private equity fund, 21 Concordia, was signed in 2013.

The Baltics IA helps to develop a sustainable and regionally-integrated venture capital/private equity sector in the Baltic

## CASE STUDY

### EXTENDING THE OUTREACH OF VENTURE CAPITAL AND PRIVATE EQUITY Estonia, Latvia and Lithuania

An equity fund aimed at turning Baltic companies into leaders in their region and beyond, and at making them attractive to international investors, benefited last year from an EBRD commitment of up to €20 million.

The BaltCap Private Equity Fund II has a target size of €100 million and focuses on equity and equity-related investments in small and medium-sized enterprises and small mid-cap companies, such as Air Maintenance Estonia, in these countries.

Boosting the provision and use of venture capital and private equity is one of the EBRD's main priorities in the Baltic states, especially at a time when other sources of long-term finance remain scarce. Small companies, in particular, need equity financing. Extending this outreach is part of the EBRD's new integrated approach for the further development of the venture capital and private equity ecosystem in the three countries.

Under this approach, the Bank will combine project investments with policy dialogue and technical assistance to help innovative companies with far-reaching potential obtain the financing they need to grow.



<sup>11</sup> Integrated approaches represent a coordinated approach to the EBRD's operations whereby transition challenges are addressed through a combination of investment projects, associated policy dialogue and technical assistance to enhance the Bank's potential impact at the sector level.



states so that equity and quasi-equity financing are available at all stages of a company's lifecycle. The approach addresses several key challenges, including a lack of data on the private equity industry in the Baltic countries; regulatory and legislative hurdles; and insufficiently-developed regional and global networks. It also works to build capacity and support the commercialisation of ideas.

The Baltics IA uses a combination of policy dialogue and sector engagements alongside Bank-led investments such as the 2013 commitment to the BaltCap Private Equity Fund (see case study opposite).

## Information and communication technologies

Given significant changes in the information and communication technologies (ICT) sector during 2013, the Bank took stock of its ICT activities and worked on updating its strategy for the sector. The ICT Sector Strategy, posted for public consultation, is expected to be approved in early 2014. The EBRD continued to invest in the telecommunications sector and ICT infrastructure, but also invested in subsectors such as production (IT systems, software) and services (IT services, internet firms). The Bank's investments in the sector were above 2012 levels, with €307 million invested through nine projects across the region (compared with €213 million for nine projects in 2012).

The Bank continued to implement the Venture Capital Investment Programme (VCIP), increasing its own expertise and contributing to the development of the venture capital ecosystem in the region through networking and event sponsorship. One additional investment under this programme was closed, in Turkey. Certain terms of the programme were amended in 2013 and are expected to result in increased investment activity during 2014.

The Bank signed two projects to help improve the Russian ICT services sector: an equity investment in MAYKOR, an equipment and IT maintenance company with 84 regional offices; and a loan of US\$ 20 million (€15 million equivalent) to DataLine, a leading datacentre operator in Moscow. The Bank signed its first ICT operation in the new SEMED region, providing a loan to Vermeg, a Tunisian software developer, to support the development of its product range and the expansion of its business.

In Turkey the Bank signed two operations: a deal with consumer internet company Evim.net, concluded under the VCIP; and a loan to TurkNet, an independent provider of broadband internet and fixed telephony services, to help finance the company's growth and strengthen its service delivery, including in the regions.

In order to better understand the knowledge economy in countries where the EBRD invests, it commissioned two studies, funded by the EBRD Shareholder Special Fund, mapping innovation opportunities and gaps in Morocco and Tunisia. In Tunisia, sectors such as e-payments, software security, applied electronics and pharmaceuticals stood out as potential knowledge drivers, while in Morocco payment processing, software security and applied electronics showed the most promise. The Bank also continued its work on legal and regulatory reform in the telecommunications sector.

## Manufacturing and services

To support economic diversification, the EBRD invests in a broad spectrum of industries, including (in 2013) chemicals, automotive supply, non-ferrous metal processing, capital goods, construction materials, forestry products and pharmaceuticals. The Bank addresses transition gaps by backing innovative projects that make efficient use of energy, other resources and skills to boost productivity.

The EBRD is increasing its focus on the development of the knowledge economy in countries where it invests, and industry provides significant scope for innovation in the EBRD region. Examples include the Bank's investments in the Italian company Danieli in Croatia and Russia and with TürkTraktör in Turkey. The Bank also works to attract foreign direct investment to the EBRD region, improve corporate governance and provide local currency financing to limit client exposure to foreign exchange risk.

For the fourth year in a row, in 2013 the EBRD invested close to €900 million in the manufacturing and services sector, signing 51 debt or equity projects despite a reduced average deal size owing to the more cautious business environment. Transactions ranged in size from €500,000 to €110 million. The Bank is committed to reaching out to small and medium-sized enterprises (SMEs); over half of the transactions in the manufacturing and services sector in 2013 were for less than €10 million.

Equity capital is another essential tool for advancing transition. An example was the Bank's €72 million investment in Polish chemicals company Grupa Azoty which reduced the level of state ownership.

In the SEMED region, the EBRD invested in four manufacturing and services projects in 2013, investing in both foreign and domestic companies.

## Property and tourism

The EBRD invests in property and tourism to support sustainable development in countries where it invests, and focuses on energy efficiency and regeneration.

Despite uncertain market conditions, in 2013 the EBRD remained active in the property and tourism sector, investing a total of €240 million (compared to €148 million in 2012) in 13 projects in Bulgaria, Croatia, Georgia, Jordan, Poland, Romania, Russia, Serbia and Ukraine. Of this amount, €177 million was debt and the remainder equity. The Bank also closely monitored existing operations to ensure that the ongoing constraints in the market do not adversely impact its portfolio.

As the property sector continued to struggle in some parts of the EBRD region, the Bank completed two significant restructurings. It merged investments in three Europolis real estate funds into one fund and extended the fund life to 2016. In addition, it restructured the syndicated debt on a retail portfolio in south-eastern Europe.

The property and tourism team also explored urban regeneration opportunities in 2013. For its first project in the sector in SEMED, the EBRD invested in a new shopping and entertainment centre in Amman that will help spur economic activity in the Jordanian capital (see case study on page 27).

The Bank also invests in property and tourism to support the regional knowledge economy. An example of this work is the investment in the Odessa IT Centre in Ukraine, which will

## CASE STUDY

**BOOSTING PUBLIC TRANSPORT**  
Hungary

The Hungarian capital is justifiably proud of its metro network, which dates back to 1896 and is the oldest in continental Europe. But public transport in Budapest still relies on separate paper tickets for each mode of transit, making commuting a sometimes complicated process and one that is out of step with the city's growing population of professionals. That is why the EBRD has invested €54.5 million in an electronic ticketing system for Budapest which commuters can use across all modes of municipal public transport.

The loan to transport authority BKK will help develop a contactless travel card valid for use on the city's metro, bus, tram and trolleybus networks. By making it quicker and easier for passengers to get through fare collection points and switch between different modes of transport, BKK hopes to make public transport more attractive and reverse the trend of rising car use in the city. This would boost Budapest's transport revenues while also cutting the capital's carbon emissions.



## CASE STUDY

**SUPPORTING WOMEN IN BUSINESS**  
Bosnia and Herzegovina

Herbal products company Faveda is owned by women and is one of the three largest firms of its kind in Bosnia and Herzegovina, producing more than 2.5 tonnes of dried herbs a year. The EBRD's Small Business Support team helped Faveda change its marketing, target younger consumers and increase sales.

With donor funding from Luxembourg, SBS connected Faveda with a local consultant, who helped the company redesign its packaging and logo, produce promotional items, improve its retail space and create a new web site enabling customers to make online purchases.

These developments helped open up Faveda's products to a much wider range of customers. For instance, the company moved into new markets in Turkey and expanded its exports to Kosovo. In 2013, turnover increased by 25 per cent, exports by 10 per cent and Faveda was in negotiations to supply a large retailer in Denmark.





provide local IT companies with purpose-built infrastructure. The Norwegian government funded technical assistance for the project, including an energy efficiency audit, as well as the technical design review and an assessment of energy performance and compliance with international energy benchmarks.

In the Western Balkans, the Bank invested in an affordable retail development in the Serbian capital, Belgrade, that will use the best available technologies, including thermal protection and an advanced system of building management.

In Georgia, the EBRD helped a local company finance the construction of a new mid-range hotel that will be the country's first under the Hilton Garden Inn brand. The project responds to the improved business environment and rising tourist numbers and will set new energy efficiency standards in the region.

## Small Business Support

The Small Business Support (SBS) team helps small and medium-sized enterprises access the know-how that can transform businesses. From strategy to marketing, quality management, export promotion or energy efficiency, in 2013 SBS continued to draw on the expertise of thousands of local consultants and international advisers to help small businesses reach their growth and employment potential.

SBS also works to build a strong, competitive market for business advice in each country, through training courses, workshops, seminars and other activities. All SBS projects operate on a cost-sharing basis and are possible thanks to the continued support and engagement of a wide range of donors, including the European Union (EU) and over 20 bilateral donors and other organisations. In 2013, SBS raised €40 million in donor funding in new financial commitments. The EU remained the largest donor, with important contributions also coming from Austria, Czech Republic, Finland, Germany, Japan, Korea, Luxembourg, the Netherlands, Norway, Switzerland, Sweden, Taipei China and the United States.

SBS carried out more than 1,430 projects in 2013 connecting SMEs to local consultants for specific business advice, and over 330 projects providing medium-sized enterprises with the industry expertise of international advisers. The impact of these projects is clear: over 2011-13, 71 per cent of enterprises showed increased turnover in the year following their projects and 59 per cent showed a positive change in employment, resulting in the creation of 25,428 new jobs. Increasing access to finance also remains a key goal of the programme. Over 2011-13, 67 clients secured finance from the EBRD and 594 from local banks, including EBRD partner banks.

In 2013, the team focused on the development of a more comprehensive approach to supporting female entrepreneurs through programmes for women in business. These augment advisory projects with training in core business skills, mentoring, longer-term coaching and links to EBRD partner banks and other financial intermediaries, helping to overcome knowledge differentials and barriers to accessing finance. New programmes for women in business were launched in the Samsun province of Turkey in 2013, funded by the EU, and in Egypt, funded by the Middle East and North Africa Transition Fund and undertaken in cooperation with the Social Fund for Development.

A second key initiative was the export promotion programme for Central Asia, funded by the United States SME Special Fund, which continued into its second year, having helped more than 70 businesses to expand their export potential. The popularity of this type of advice led SBS to develop a bespoke training course for local consultants to better serve the development needs of SMEs in relation to export markets.

Furthermore, SBS developed a new set of training courses to enhance the skills and knowledge of local consultants. These ranged from introductory courses to help consultants learn core skills, to more sophisticated considerations of marketing strategies, business diagnostics and project management. The first such training took place in the final quarter of 2013 and will be rolled out across all 25 countries in which SBS operates. In the medium term SBS will seek to engage local consulting institutes and associations to deliver the courses and ensure a sustainable source of professional development for consultants.

Moreover, as part of continuous efforts towards sustainability, SBS has been working with national government partners in Croatia and Kazakhstan to build capacity and transfer methodology.

## TRANSPORT

The EBRD recognises that transport is a key enabler of economic growth and transition by providing businesses with access to suppliers and markets, as well as promoting economic diversification and regional integration. A vital component of economic inclusion, transport also connects individuals with labour markets and with essential services such as health and education. But transport consumes resources and contributes to climate change. The Bank is therefore dedicated to developing sustainable transport systems that balance economic, environmental and social needs while embodying market principles.

In October 2013, the EBRD's Board of Directors approved a new Transport Sector Strategy, which sets out how the Bank will invest in transport in the coming years. The Strategy focuses on promoting private sector involvement in sustainable solutions to the transport needs of the region.

For the last five years, EBRD investment in the transport sector has consistently exceeded €1 billion annually. The Bank signed 24 transactions in 2013 for a total EBRD investment of €1.1 billion. Throughout the year, the Bank addressed constraints on commercial activity and competitiveness and supported the private sector as a provider of transport infrastructure and services. Non-sovereign projects accounted for almost 60 per cent of the number and volume of Bank projects in the aviation, maritime, rail, road and intermodal sectors. Commitments covered a wide range of countries and modes of transport. They ranged from a relatively small investment in the construction of the first modern logistics complex in Georgia to large infrastructure projects supporting regional integration in Azerbaijan, Serbia and the Slovak Republic.

Flagship projects that were expected to have demonstration effects in the region included a €100 million loan for a road rehabilitation and safety project in Serbia, a ZI 155 million (€37 million equivalent) equity investment via partial privatisation in a Polish freight operator and a US\$ 79.5 million (€58 million equivalent) participation in the inaugural Turkish infrastructure bond.

## Rail

Throughout 2013 the EBRD focused on investments in railway infrastructure and operators, rolling stock renewal and railcar production facilities. Building on a well-established relationship with the Polish national railways, the Bank participated in the partial privatisation of PKP Cargo, the principal rail freight operator in Poland, through an initial public offering (IPO) on the Warsaw Stock Exchange. This is the first example of a privatisation by IPO in the rail sector in central Europe and its success may propel other public rail operators in the region to privatise their freight businesses.

The Bank also continued to support the introduction of energy efficient technologies in the rail sector. It extended a US\$ 40 million (€30 million equivalent) loan to the Kazakh national rail company to help finance improvements to infrastructure and reduce operating costs; and a €40 million loan to HŽ Infrastruktura in Croatia to finance the purchase of track maintenance machinery and support a reform programme.

A market-based approach to the provision of transport lies at the core of the EBRD's transport business model. The Bank committed approximately €190 million to help private freight transportation groups purchase new rolling stock. Projects included the Bank's largest transaction in the rail sector in 2013: a US\$ 150 million (€109 million equivalent) investment in preferred shares of Brunswick Rail, the largest private freight railcar leasing company in Russia. The Bank also financed a private freight railcar leasing company in Kazakhstan.

## Road

In 2013, the EBRD's largest transaction in the transport sector was a landmark €200 million participation in a €1.2 billion infrastructure bond. The issue aimed to optimise the long-term financing of recently-built sections of the R1 Motorway in the Slovak Republic, as well as supporting the sustainability of public-private partnerships (PPPs). This was the first infrastructure project bond in the EBRD region and one of the first issued post-economic crisis in Europe. The Bank hopes that the success of the bond issuance will encourage other transport entities in its region to diversify their sources of funding by accessing the capital markets.

The Bank's activity in the road sector focused on the rehabilitation of key road corridors and regional roads to progress regional integration and raise road safety standards. Examples included a €100 million loan to upgrade part of the Serbian national road network and a US\$ 120 million (€87 million equivalent) loan to support the ongoing programme of regional road reconstruction in Azerbaijan. Both projects include measures to tackle road safety and encourage competition and efficiency in the road maintenance market through the introduction of performance-based maintenance contracts.

The EBRD also continued to support key transport corridors. In Kazakhstan, it financed the reconstruction of a section of the south west corridor road, which is part of an international transport corridor linking western Europe and western China. In Bosnia and Herzegovina, the EBRD helped finance the construction of sub-sections of the Corridor Vc and the Banja Luka to Doboij motorway that will link to Pan-European Corridor X. Other road transactions signed in 2013 included the construction of bypass roads in the cities of Fier and Vlorë in Albania and

regional road reconstruction projects in Albania, Moldova and Montenegro. The Bank's contributions attracted co-financing from other IFIs and donors to support road sector financing reform and the implementation of road safety programmes.

## Maritime

The Bank worked with maritime and intermodal operators – those covering multiple modes of transport such as shipping, rail and road – to strengthen infrastructure and facilitate increased trade. Key projects signed during the year included two maritime projects in Turkey: a landmark US\$ 79.5 million (€58 million equivalent) investment in a US\$ 450 million (€326 million equivalent) Eurobond launched by Mersin International Port to help fund a capital investment programme; and a US\$ 92 million (€67 million equivalent) loan to finance the completion of the deep sea container terminal at Asya Port. Through these projects, the Bank contributes to the much-needed capacity expansion of the port sector in Turkey and the development of transshipment hubs for more efficient transport chains.

## Logistics

The need for integrated services covering the transport, storage and management of freight has grown substantially in the EBRD region in recent years. This trend is closely tied to the growth of containerisation, which has created demand for streamlined freight movements and lower transportation costs. Key logistics projects in 2013 included financing the construction of a modern intermodal logistics terminal in Tbilisi, Georgia, which will be a strategically important platform between Asia and Europe, and the provision of financing to a local logistics provider in Turkey.

## Aviation

In the aviation sector, the Bank supported the upgrade and renewal of the air navigation system of the Macedonian Air Navigation Service Provider under the Local Single Sky Implementation (LSSIP) programme. The project aims to ensure compliance with EU performance standards, improve safety, boost capacity and strengthen the institution. The Bank also invested in runway resurfacing and safety equipment for Khujand International Airport in Tajikistan.

## MUNICIPAL AND ENVIRONMENTAL INFRASTRUCTURE

The EBRD's operations in the municipal and environmental infrastructure (MEI) sector give millions of people access to safe drinking water, sanitary waste disposal services, green public transport, well-maintained urban roads and energy-efficient district heating. The Bank works with local governments, private operators and donors to bring these very tangible improvements to people's daily lives.

The Bank financed 36 projects in the MEI sector during 2013 (33 transactions in 2012), representing a total EBRD commitment of €556 million (€554 million in 2012) – a record figure for the Bank in this sector. The investments in water and sanitation services, waste disposal and district heating in 2013 are expected to benefit in excess of five million people in the



EBRD region, while 4.2 million passengers per day are expected to use urban transport systems benefiting from Bank support over the year. MEI investments in 2013 should also reduce annual carbon emissions by 548,000 tonnes of CO<sub>2</sub> equivalent. Overall, the sustainable energy components of MEI projects accounted for €363 million in 2013, a record 65 per cent of total MEI commitments.

The Bank's MEI investments leveraged considerable volumes of loan and grant co-financing from the EU and other sources. This included €614 million of grant funding from the EU Cohesion Fund, which Bulgarian and Romanian municipalities were able to access thanks to EBRD-supported projects in water and public transport. Donor backing also allowed the EBRD to establish an innovative MEI financing instrument in the Western Balkans. The integrated use of technical cooperation and policy dialogue remained a key part of the Bank's work in the MEI sector.

The EBRD region faces a legacy of under-investment in municipal infrastructure, which is coming under increasing pressure as a result of growing urbanisation. At the same time, public budgets are constrained due to the ongoing effects of the economic crisis. In order to help fill the MEI funding gap and bring commercial expertise into the sector, the Bank works extensively with private companies. Five MEI projects were concluded with the involvement of the private sector during 2013.

Since entering the MEI sector in 1994, the EBRD has signed over 300 transactions and committed close to €5 billion of its own resources to urban projects that make people's lives better thanks to more efficient, reliable, financially sustainable and environmentally friendly services.

Donor generosity remains central to the Bank's operations and impact in the MEI sector (see Chapter 4: "Donor partnerships").

## Water and wastewater

The Bank signed 14 projects in the water and wastewater sector in 2013. It invested a total of €163 million in improving the quality and efficiency of drinking water, sewage and effluent treatment services for under-served populations in Armenia, Bosnia and Herzegovina, Croatia, Kazakhstan, Kyrgyz Republic, Moldova, Romania and Russia. More than half of this amount was invested in Romania as part of efforts to modernise services in cities across the country, in line with EU standards. This work also enabled regional water companies in Romania to access grant funding from the EU Cohesion Fund worth €565 million (€560 million in 2012).

## Solid waste

By helping cities to collect refuse and dispose of it in a way that is sanitary and has a limited environmental impact, the Bank makes a considerable difference to the welfare of citizens in countries where it invests. In 2013 the EBRD signed three operations in the solid waste sector – two in Tajikistan and one in the Kyrgyz Republic – for a total investment of €22 million including the large grants provided by donors to support the affordability of these projects. The frequency of garbage collection will increase and the projects will help to ensure waste is disposed of in well-managed sites that do not pose a threat to public health or the local environment.



## CASE STUDY

### CREATING EQUAL OPPORTUNITIES FOR EMPLOYMENT

#### Jordan

A plan to revitalise the centre of Amman and give its citizens a focal point for leisure and retail activities will also provide unemployed young people with much-needed training and work placement opportunities.

In 2013 the EBRD extended a US\$ 80 million (€58 million equivalent) loan to help finance the construction of the Abdali Retail and Entertainment Centre, which will act as a focus for the Abdali Urban Regeneration Project in the Jordanian capital.

Innovative design will see the facility use natural cooling and lighting and maximise water and energy efficiency. As a result, it will consume 25 per cent less energy than comparable retail buildings in Jordan, setting an example for the country's construction sector. The centre is expected to employ some 2,000 people during its building phase and a similar number once it is open.

As part of the project, the owners of the centre will offer young men and women work placements and training schemes in retail, facilities management and related services. Jordan has one of the region's highest rates of young people not engaged in education, employment or training (23 per cent) while women make up only 17.6 per cent of the national workforce.

## Urban transport

Investments in urban transport represented 45 per cent of MEI investments in 2013 with €253 million committed (2012: €191 million) across nine projects. The Bank's activities in this sector focused heavily on reducing greenhouse gas emissions by supporting clean modes of transport such as electric trams or buses running on compressed natural gas. The EBRD also invested in modern mass transit systems such as fast ferries or electronic ticketing services that encourage people to switch to public transport instead of using cars.

## Energy efficiency

As part of the MEI contribution to sustainable energy, the Bank invests in district heating projects that reduce the amount of heat wasted in derelict networks, outdated facilities and energy-inefficient buildings. It committed €83 million to eight projects in 2013 (2012: €113 million). Much of this work related to the EBRD-managed Eastern Europe Energy Efficiency and Environment Partnership (E5P), which a number of international donors established to help combat a legacy of energy waste in Ukraine and other countries of the EU Neighbourhood.

## Less-advanced economies

MEI projects have a significant impact on communities in those countries facing bigger transition challenges, namely the ETCs and the Western Balkans. The EBRD achieves this impact by investing in projects that improve water services, rubbish collection, public transport or energy efficiency. In 2013 the EBRD invested €168 million in 11 projects that benefit those challenged communities. Many of these projects took gender considerations into account – for example by involving women in users' committees in Tajik water projects.

One notable innovation was the creation, in partnership with German development bank KfW and three donors (Austria, Germany and Switzerland), of the Municipal Infrastructure Development Facility (MIDF) in the Western Balkans. The EBRD committed up to €40 million to this groundbreaking fund, which will establish a lending market for small and medium-sized municipalities that struggle to obtain affordable funding. The MIDF, which is expected to have a total size of €100 million, will support infrastructure projects in Albania, Bosnia and Herzegovina, FYR Macedonia, Kosovo, Montenegro and Serbia.

## POWER AND ENERGY

The EBRD is the leading investor in energy efficiency and renewable energy in countries where it invests. The Bank supports innovative power generation, transmission and distribution projects that address the EBRD region's legacy of inefficient energy use and unlock its enormous potential in wind, hydro- and other forms of renewable power. Through investments, policy dialogue and technical assistance, the Bank supports the growth of a modern and sustainable energy sector in which private enterprise plays a key role.

In 2013 the challenges facing the energy sector came into sharp relief. Both inside and outside the EBRD region, issues of affordability became particularly acute, putting pressure on

investments. At the same time the Intergovernmental Panel on Climate Change began releasing the conclusions of its Fifth Assessment Report, which emphasised the urgency and scale of the challenge facing the energy sector as it moves towards a more sustainable model.

In this context, the EBRD invested over €1.2 billion in 24 projects in the power sector across 12 different countries, a 14 per cent increase in volume compared with 2012. A key area of focus was networks and cross-border links; the Bank recognises that the power sector of the future will need increasing integration across markets and regions in order to accommodate the widespread adoption of renewable energy. Greater integration will also facilitate the growing participation of electricity consumers in markets.

2013 was also the first full year of EBRD investment in the southern and eastern Mediterranean (SEMED) region. The Bank signed its first energy project in Morocco, a €60 million loan to the Office National de l'Electricité et de l'Eau Potable to fund rural electrification and bring power to communities that are currently not connected to the grid (see case study on page 9). The project also includes a pilot programme to help prepare for the deployment of smart metering and decentralised renewable energy generation.

Reflecting the importance of moving towards integrated electricity markets and developing the regional electricity market in south-eastern Europe, the EBRD provided a €60 million loan to the Lastva-Pljevlja transmission line in Montenegro. This forms part of the first high-voltage interconnection between the Western Balkans and Italy. Together with the EBRD's continued support for the Coordinated Auction Office, which facilitates the sale and purchase of cross-border transmission capacity in south-eastern Europe, this project will both promote the integration of the Western Balkans' currently fragmented power markets and stimulate the development of renewable energy in the region.

The EBRD's support for cross-border energy trade recognises the benefits that larger markets bring in terms of efficiency and diversity of supply. Such trade also brings opportunities to develop more renewable energy resources, which are often found in remote locations. In 2013 the Bank provided €25.2 million in financing to the Georgian national transmission company for a vital new connection between its main region of hydropower potential in the north-west and the main consumption centres in central and eastern Georgia. The EBRD also made its first loan in the power distribution sector in Russia, providing 4.4 billion roubles (€97 million equivalent) to support the modernisation of electricity networks in Russia's Far East region.

The power sector continued to be the largest contributor to the EBRD's Sustainable Energy Initiative with over 64 per cent, or €790 million, of the Bank's power sector investments coming under this strategic initiative. These included investments in wind, biomass and solar energy generation, efficient transmission systems and the optimisation of electricity distribution networks. Another key area of work in this sector is helping the countries where the EBRD invests to make the transition from their existing stock of polluting and ageing infrastructure to modern, cleaner technologies.

An example of this work is the loan of 7 billion roubles (€155 million equivalent) to a subsidiary of Russia's Inter RAO.



This will finance the replacement of old coal-fired power units with a new high-efficiency 446 MW combined cycle gas turbine (CCGT) power unit at the Verkhnetagil'skaya thermal power plant in the Urals region of Russia. The new unit will employ the highest technological standards in the world, meeting EU standards for the adoption of the best available techniques. It will thus set an important benchmark in terms of efficiency and environmental standards in the region, going far beyond the existing national practices.

The EBRD typically combines investments with policy dialogue and technical cooperation projects, using its experience as a commercially-oriented investor to inform the structuring of regulatory frameworks. This work is particularly relevant in the area of renewable energy, which depends heavily on the appropriate institutional structure.

In recent years the Bank has supported large technical cooperation projects to develop renewable energy in Kazakhstan and Ukraine, both large countries with a high dependence on fossil fuels but with great potential for renewable energy. The renewables sector in Ukraine is rapidly reaching critical mass. In 2013, the EBRD helped Ukraine maintain this momentum by committing €54 million to finance a range of solar, biomass and wind generation projects. These investments will help Ukraine to reduce the country's dependence on imported fossil fuel and improve its energy security.

The EBRD also supported the power sector in Ukraine through a €300 million loan to the Ukrainian nuclear safety upgrade programme, an estimated €1.4 billion project that will upgrade the safety of 13 nuclear units commissioned between 1980 and 1995. This will address deficiencies identified by the International Atomic Energy Agency and bring the country's operating nuclear reactors in line with international standards.

Finally, 2013 ended for the EBRD with the adoption of a new Energy Sector Strategy, following more than a year of reflection and intensive consultation with stakeholders. (For more on the Strategy, see Chapter 1: "Overview".)

## NATURAL RESOURCES

Responsible development of the natural resources sector can make a vital contribution to sustainable economic growth for many countries in the EBRD region. If managed properly, natural resources can be a key source of jobs, government revenue and a wide array of other benefits. The Bank recognises that climate change, energy security and affordability are challenges that require a long-term, strategic response from the natural resources industry.

The EBRD's task in the oil, gas, and mining sectors is to help countries realise the benefits of natural resources in a

### CASE STUDY

#### IMPROVING ENERGY SECURITY Poland

The EBRD provided a 12-year loan of PLN 300 million (equivalent to €75 million) to Gaz-System SA, Poland's gas transmission system operator, to create the first liquefied gas terminal in Poland and in the whole of the EBRD's region of operations.

The terminal, due for completion in 2014, will be able to re-gasify enough liquefied gas to supply nearly one-third of the country's consumption.

Other financiers in the project included the European Investment Bank, the EU and Gaz-System itself. Approximately two-thirds of the capacity has been secured on a long-term basis, while the remainder is being offered to interested users in accordance with third party access rules.

The Polish economy is one of the most energy intensive in central and eastern Europe with coal and lignite-fired power plants accounting for over 80 per cent of the primary fuel mix in the country. This project will not only improve Poland's energy mix but also improve energy security across central and eastern Europe.



responsible and transparent way. The Bank provides financing and advice for private sector clients and promotes the best international standards and practices in the fields of energy efficiency, the environment and health and safety protection. Its projects also adhere to the best international standards for corporate governance and responsible social development. In addition, the EBRD helps governments adopt fair and reliable regulations, strengthen their capacity to develop these industries across the value chain and manage the transition to a low-carbon economy.

As well as supporting private investment in the natural resources sector, the EBRD works to ensure that local communities enjoy concrete benefits from its projects. The Bank does this by helping to develop small businesses; by investing in local infrastructure; and by requiring transparency and disclosure in line with the Extractive Industries Transparency Initiative.

The overall decrease in commodity prices in 2013 put pressure on small and medium-sized companies, which have limited access to traditional forms of financing. The EBRD responded by stepping up investments aimed at supporting smaller private companies and by assisting them in applying the best international standards to their operations, as well as improving the energy efficiency of their activities.

In 2013, the EBRD signed 14 transactions in the natural resources sector for an overall volume of €569 million in debt and equity investments in countries including Bulgaria, Egypt, Hungary, Mongolia, Morocco, Romania, Russia, Tunisia, Turkey, Turkmenistan and Ukraine. In the SEMED region, the Bank signed three transactions to improve energy efficiency, environmental management and gender inclusion in the sector.

## NUCLEAR SAFETY

The EBRD plays a leading role in efforts to improve nuclear safety. It oversees work to make the Chernobyl site safe and secure, supports the decommissioning of outdated nuclear power plants, 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 Bank manages six nuclear safety donor funds and their associated programmes. It does this on behalf of more than 40 donors, who have together contributed more than €4 billion for the purpose.

2013 saw rapid progress in the construction of the Chernobyl New Safe Confinement (NSC) structure (see photo), work on energy sector projects financed by decommissioning support funds and the signing of a €300 million loan for safety upgrades to Ukrainian nuclear power plants.

The NSC is a structure intended to cover the destroyed reactor unit four at Chernobyl, the site of the world's worst nuclear accident. Workers began assembling the new structure at a safe distance from the unit in 2012 and then carried out a sequence of lifting operations. The second lift took place in March 2013 and the third in October. Since then, the first half of the arch-shaped steel structure, which is financed by the Chernobyl Shelter Fund, has reached its full height of more than 100 metres.

In 2013, workers at Chernobyl erected a large protective wall on the western side of the old shelter, which was hastily built

## Nuclear safety



after the 1986 accident. It will protect against radiation during work on a building to house the confinement's control room and auxiliary facilities.

Workers also dismantled the red and white ventilation shaft located between units three and four to allow engineers to slide the NSC into place over unit four. The removal involved separating the shaft into seven segments, each weighing up to 50 tonnes, and took place in December before the onset of winter conditions made work on the site impossible.

Also at Chernobyl, construction of a plant to treat liquid radioactive waste reached completion. The EBRD-managed Nuclear Safety Account funds the facility, which will solidify the waste currently kept in concrete tanks and prepare it for final storage. Final tests on the facility are under way and the start of operations is expected early in 2014. Construction has cost more than €35 million.

The EBRD carries out decommissioning support programmes to help Bulgaria, Lithuania and the Slovak Republic deal with the consequences of the shut-down of Soviet-designed nuclear power plants. Dedicated donor funds finance these programmes as part of assistance agreed during European Union accession negotiations. As well as supporting decommissioning, the funds contribute to energy sector projects to help the countries cope





## CASE STUDY

### FINANCING NUCLEAR SAFETY Northern Dimension initiative

The service ship Lepse contains spent nuclear fuel and radioactive waste from the USSR's fleet of nuclear-powered icebreakers and poses a significant environmental threat to the Baltic states, Nordic countries and north-western Russia.

The EBRD plays a key role in efforts to dismantle the ship and safely dispose of the nuclear and radioactive materials aboard the Lepse by managing the Nuclear Window Support Fund of the Northern Dimension Environmental Partnership (NDEP). This fund, which receives contributions from numerous European countries and the European Union, finances vital nuclear safety projects in the Northern Dimension Area. A €53 million grant from the fund is dedicated to work to make the Lepse safe.

In September 2012, vessels towed the Lepse from its previous mooring point near the city of Murmansk to the Nerpa shipyard, also on the Kola Peninsula, where workers experienced in dismantling nuclear submarines will take the ship apart.

In 2013, the project reached another major milestone when experts submitted plans for the vessel's dismantling and the removal of nuclear and radioactive material from the ship to the Russian regulatory authorities for approval. Taking the ship apart will require the installation of special equipment at the shipyard.

Preliminary work on dismantling the Lepse began in 2013. In 2014 workers are expected to place the vessel on a slipway ahead of further dismantling operations. The whole project is expected to be completed by the end of 2017.

with the loss of generating capacity. These range from the construction of a 450 MW gas-fired plant in Lithuania (completed in 2012) to electricity grid upgrades and energy efficiency improvements. Last year saw progress in work on refurbishing schools, kindergartens and hospitals in Bulgaria and the Slovak Republic and the last projects are expected to reach completion in 2014.

In March 2013, the Bank signed a loan agreement with Energoatom, the Ukrainian nuclear operating company, to help finance urgently-required safety upgrades. Energoatom operates 15 nuclear power units in Ukraine and is implementing a safety upgrade programme for 13 of these units, estimated to cost €1.4 billion.<sup>12</sup> The EBRD and the European Commission each provided €300 million for this programme.

In addition to the EBRD's management of six nuclear safety donor funds, the Bank's shareholders have contributed €325 million of EBRD capital towards the completion of projects in Chernobyl.

<sup>12</sup>The safety upgrades of two other units were previously financed by EC and EBRD loans.



**Policy dialogue, initiatives  
and impact**

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# Policy dialogue, initiatives and impact

To maximise the impact of its operations, the EBRD conducts policy dialogue and initiatives in areas of strategic importance to the countries in which it invests. Aimed at addressing key transition challenges, these benefit from strong donor support and they blend investments, technical cooperation and knowledge and capacity-building. 2013 was notable for the way in which anti-corruption became an increasingly important strategic focus for the Bank.





## SUSTAINABLE ENERGY

Countries where the EBRD invests continue to face significant climate change and energy intensity challenges, creating economic, environmental and social risks for their people, businesses and governments. The Bank launched the Sustainable Energy Initiative (SEI) in 2006 to address these challenges by reducing carbon emissions and making the region's economies more energy-efficient and independent. Between 2006 and the end of 2013, the EBRD invested €13.5 billion in sustainable energy projects.

In 2013, the second year of the three-year SEI Phase 3, the Bank financed 154 sustainable energy projects providing €2.4 billion of climate mitigation investment. These accounted for 28 per cent of annual Bank investment (ABI) and should result in 6.84 million tonnes of annual CO<sub>2</sub> emission reductions, or a saving of 1.9 million tonnes of oil equivalent. Furthermore, 20 projects included climate adaptation activities, representing an additional investment of €95 million.

The SEI business model for climate change mitigation and adaptation combines commercial project financing; technical

assistance to overcome barriers through market analysis, energy audits, training, awareness-building and grant co-financing; and policy dialogue to support the development of a strong institutional and regulatory framework that incentivises sustainable energy projects. Donor support remained crucial, with €39 million of technical cooperation (TC) and €104 million of grant co-financing and incentive grants supporting effective enabling environments for sustainable energy, and the successful implementation of projects.

With this array of instruments, the EBRD undertakes sustainable energy work across all of the sectors and countries in which it invests.

### Building sustainable markets through intermediaries

The EBRD's Sustainable Energy Financing Facilities (SEFFs) unlock energy-saving potential and build expertise by extending credit lines to financial institutions. They provide these institutions and their clients with expert guidance on designing lending products and assessing opportunities to turn sustainable

energy projects into sound investments. Through these facilities and the EBRD's direct sustainable energy lending, companies of all sizes can pursue energy efficiency or small-scale renewable projects that boost profitability and increase competitiveness while also reducing their carbon footprint. Loans to the residential sector, meanwhile, contribute to reducing energy consumption and utility bills. In 2013, the EBRD invested €454 million in 47 energy efficiency projects across these financing facilities.

While Turkey continued to lead in overall SEFF business volume, this year saw growth of more than 136 per cent in disbursements to Russian businesses through the Russia Sustainable Energy Financing Facility (RuSEFF). The Bank achieved this through effective targeting of small and mid-sized banks and the integration of sustainable energy lending products into their existing portfolio.

### Blending climate finance for implementation

The EBRD also responded to calls for multilateral development banks to engage in the financing of clean energy projects through participation in multi-donor funds such as the Climate Investment Funds (CIF) and the Global Environment Facility (GEF). These seek to leverage global climate finance through information sharing, technology transfer, advisory support and concessional financing.

The EBRD blended its commercial financing with CIF grant co-financing and technical assistance to increase the affordability and accelerate the implementation of projects such as the modernisation of the district heating network of CAEPCO, Kazakhstan's largest private heat and power company. As part of its work on climate change adaptation, the EBRD provided a €2 million loan to the municipal authority of Talas in the Kyrgyz Republic to upgrade its water supply and make it more resilient to climate change (see case study opposite). This project benefited from a further €3 million of grant and co-financing from other multilateral and multi-donor funds.

Partnerships with donors and multilateral funds helped the EBRD to expand its industrial energy efficiency core business while also developing innovative new projects. In cooperation with the GEF and the EBRD Shareholder Special Fund (SSF), the Bank established the Finance and Technology Transfer Centre for Climate Change (FINTECC). This supports EBRD clients as they introduce innovative technologies to reduce greenhouse gas emissions or water consumption.

### Broadening the scope into resource efficiency

To address other key sustainability issues while enhancing business competitiveness, in 2013 the EBRD approved the Sustainable Resource Initiative (SRI). This is an umbrella initiative that builds on the experience of the Sustainable Energy Initiative to promote the efficient use of materials and water, particularly in the water-scarce SEMED region. The full rollout of the SRI is expected in 2014. It will build on the successful experience of incorporating sustainable energy work into the entire spectrum of Bank activities.

## LOCAL CURRENCY AND CAPITAL MARKETS

The EBRD's Local Currency and Capital Markets (LC2) Development Initiative is one of the Bank's key strategic initiatives and a major focus of EBRD efforts to revitalise and deepen the transition process in countries where it invests. Launched in 2010 in the wake of the financial crisis, it aims to establish viable local currency financing and contribute to the development of efficient and self-sustaining local capital markets, thereby mitigating the key vulnerabilities that emerged in the EBRD region.

The LC2 Initiative focuses on the following interrelated areas that strengthen the business climate: building stable and sustainable macroeconomic policy frameworks; improving the legal and regulatory environment to support capital market activity; promoting local currency usage; developing financial market infrastructure, including clearing and settlement; developing the institutional investor base; and promoting a more efficient transaction environment and expanding product range.

The Initiative is supported by all departments within the EBRD as well as by a dedicated team of LC2 experts who focus on longer-term development strategies based on needs assessments in individual markets. From there, the Initiative's contribution and added value come in the form of policy dialogue, transaction support and advice and technical cooperation work. It also supports knowledge-building and sharing through seminars and other outreach activities that develop institutional capacity.

Projects range from loans and equity investments in local currency to participation in emerging capital markets and the issuing of local currency bonds. The Bank closely coordinates its LC2 actions with those of other IFIs. In 2013, the Bank signed the equivalent of almost €1.5 billion in local currency loan and bond transactions – 26 per cent of all debt extended by the EBRD in that period.

Highlights of the Initiative in 2013 included the development of bond frameworks to promote participation in pilot local currency debt market issues in countries such as the Kyrgyz Republic, Poland, Romania and Turkey, as well as participation in local equity initial public offerings (IPOs) in some countries. Under these integrated facilities, the EBRD helps the issuer, the investors and the regulator to improve issuance standards and enhance corporate governance. The Kyrgyz bond deal was supported by the ETC Local Currency Loan Programme.

In 2013, the EBRD launched work with stock exchanges in south-eastern Europe (SEE) on establishing an order-routing trading platform aimed at facilitating cross-border trading and improving liquidity in equity markets. The Bank was also active as an issuer in local currency markets, for example by issuing bonds in Russian roubles. These included the first bonds linked to the three-month rate for Russia's RUONIA Overnight Interest Rate Swaps (ROISfix), a benchmark supported by the Central Bank of Russia. The EBRD has taken an active part in developing money-market indices, through such issuance, as well as through the swaps market. Further issues are planned in other markets in 2014.

Last year the Bank also undertook policy dialogue in countries including Morocco, Poland, Russia and Ukraine on the legal and regulatory framework of capital market development, working closely with private investors and other market players.





## CASE STUDY

### ADDRESSING WATER SUPPLY NEEDS Kyrgyz Republic

The city of Talas' water and wastewater systems are deteriorating due to limited fundraising capability for new investment, operations and maintenance. Like much of the Kyrgyz Republic, Talas is extremely vulnerable to climate change. It will be the first Kyrgyz city to implement adaptation and climate resilience activities as part of its water and wastewater investment plan.

The project is expected to improve the climate resilience of the city's water supply by reducing water demand from 4.8 million m<sup>3</sup> in 2012 to 1.7 million m<sup>3</sup> in 2017, switching to more sustainable and climate-resilient water sources and better protecting the water infrastructure against extreme events such as floods. After the full implementation of the project, expected water use per person will be comparable to that of the UK.

The analytical work undertaken as part of this project has also informed further EBRD-led initiatives for adaptation and climate resilience activities in the water sector across the country. With support from the GEF's Special Climate Change Fund (SCCF) and US bilateral funds, the EBRD is able to further support much-needed adaptation activities in other cities in the Kyrgyz Republic. Through implementing capacity-building, technical cooperation and awareness-raising alongside investment interventions, the EBRD is mainstreaming climate change considerations into water infrastructure rehabilitation.

## CASE STUDY

### BOOSTING RENEWABLE ENERGY PRODUCTION Ukraine

Supported by the Clean Technology Fund (CTF) and the Global Environmental Facility (GEF), the Ukraine Sustainable Energy Lending Facility (USELF) has enabled the first non-recourse financed renewable energy projects in Ukraine. These are projects for which loans are only secured by the project collateral itself. The USELF has supported seven projects, covering a range of renewable technologies.

A good example is the EBRD's support to CKSC Ecoprod – a large agricultural and dairy producer – with a €3.1 million USELF loan to construct a biogas plant that will use 44,500 tonnes of agricultural waste per year to produce 5.8 million m<sup>3</sup> at standard temperature and pressure (STP) of biogas per year, resulting in 10 GWh per annum of electricity for sale to the grid, and heat for internal drying processes. This will lead to emission reductions of 9,800 tCO<sub>2</sub>e per annum and energy savings of €35,000 per annum, and reduce the amount of organic waste going to landfill, leading to further reductions in greenhouse gas emissions from avoided methane emissions from landfill. Additional support for successful implementation was received from the CTF, in the form of concessional grant co-financing, and from the GEF for policy dialogue and project implementation support for renewable energy feed-in-tariffs in Ukraine.





TC projects are an essential part of the Initiative. Related TC activities cover all key areas of the capital market development process, including policy dialogue, knowledge and capacity-building, legal and regulatory reform, transaction-enabling and support for specific LC2-related transactions.

Since 1994, the EBRD has advanced local currency loans worth a total equivalent to €8 billion in 21 currencies.

## FOOD SECURITY

The rising global population and changing dietary habits are creating greater demand for food at a time when climate change and water scarcity are putting worldwide food supply under pressure. In order to help meet the world's growing need for food, in 2011 the EBRD launched the Private Sector for Food Security Initiative to unlock the agricultural potential of the countries where it invests.

The Initiative seeks to overcome constraints on market supply and improve the efficiency of food production and distribution through investments, technical assistance, policy dialogue and coordinated action with our partners. Generously supported by donors, this work helps to ensure increased and more efficient agricultural output, which will ultimately contribute to greater food security.

In 2013, the Initiative facilitated more liquidity in primary agriculture to enable producers to invest in their farms and boost output. It did this by supporting legal frameworks for pre- and post-harvest financing mechanisms, such as warehouse and crop receipt systems, in Russia, Serbia and Ukraine. The Bank also increased its cooperation with a number of banks to implement agriculture and agribusiness credit lines.

The EBRD continued to support dialogue between the public and private sectors. For example, the Ukraine Grain Working Group, which the EBRD and the FAO lead together, resulted in public officials agreeing to notify the grain industry in advance if they plan to introduce export restrictions. Policy dialogue in this area has enabled the EBRD to invest more than €400 million in Ukraine's grain sector and stimulated private sector investments. The EBRD and FAO created a similar working group for the Ukraine dairy sector at the request of the country's dairy industry and government.

The Private Sector for Food Security Workshop held in Cairo in June 2013 brought together grain exporting and importing countries and fostered dialogue between Egypt's public and private sectors. In 2013 the EBRD and the FAO conducted a joint in-depth review of the olive oil sector in Morocco and Tunisia. They also launched the MedAgri Network to facilitate knowledge sharing between international financial institutions (IFIs) and private banks investing in agriculture in the SEMED region. This complements the EastAgri Network for eastern Europe, Central Asia and the Caucasus.

In the ETCs, the Bank launched a technical assistance programme to provide companies with expert advice so that they can upgrade their operations, access finance and ultimately produce more food. A similar programme is active in all SEMED countries and paved the way for EBRD investments, such as a loan to Moroccan juice maker Citrumba.

To widen export opportunities for Serbian producers, the Bank began TC work promoting compliance with higher food safety

and quality standards in the meat and horticultural sectors – a necessary first step for prospective exporters. The EBRD and FAO also worked with clients on developing Geographical Indications or other premium labels as a way to boost sales of high-quality products.

At the global level, the EBRD continued co-chairing the Multilateral Development Banks Working Group on Food and Water Security and participated in the Aspen Institute's global Food Security Strategy Group in Morocco with leading private sector companies.

### CASE STUDY

#### WINNING SUSTAINABILITY AWARDS

##### Turkey

TAV Group, Turkey's leading airport operator, has been honoured with a sustainability award from the Turkish branch of the World Business Council for Sustainable Development. The award praises its "innovative sustainability practices" in building the new terminal for domestic flights at Adnan Menderes airport in Izmir, the country's third-largest city.

TAV Group, which received a €145 million financing package from the EBRD last year for the €250 million project, is recycling and reusing 99 per cent of the old terminal building to construct the new one. The Bank has continued to work closely with the TAV Group on its sustainability agenda during 2013, including monitoring the successful implementation of their waste minimisation and recycling plans.

In addition to the recycling of the construction waste, the new terminal will incorporate the latest energy-efficient technology in building design and smart water management: heat pumps; solar collectors; a combined heat, power and cooling (CHPC) plant; rainwater harvesting; and grey water re-use systems. As part of the EBRD's support for the project, the Bank and TAV Group have also agreed to develop and implement a gender action plan to increase women's participation in the project and supporting businesses and services.





## GENDER

The EBRD recognises that equality of opportunity for women and men contributes to the efficient use of all resources and is a fundamental aspect of a modern, well-functioning market economy. Through its investments and other activities the Bank is committed to addressing gender inequalities in the economies of countries where it works.

The Strategic Gender Initiative, which was approved in April 2013, sets out how the Bank promotes women's socio-economic empowerment, equality of opportunity and participation in the labour market. In particular, the EBRD will focus on supporting access to employment, skills development, finance and services to ensure that women and men benefit equally from Bank investments.

The Initiative draws on the experience of the three-year Gender Action Plan, under which the Bank identified and introduced gender considerations in 15 projects in a variety of sectors, from natural resources to financial institutions. Under the Initiative, the Bank has widened its approach. As well as assessing the direct impact of projects on women so it can mitigate any adverse effects they might have had, the EBRD now considers how its investments can play a systemic role in promoting economic opportunities for both women and men.

A newly-created Gender team performs this task by screening all EBRD projects in the preparatory phase. As a result, the Bank signed five investments with a gender focus or component in 2013. These included two projects in Turkey providing dedicated credit lines for women; a natural resources project in Egypt; and a retail property project in Jordan that has a wider impact on employment prospects. The Gender team

also carries out TC projects for due diligence purposes and to support the implementation of Bank investments. These are in addition to eight TC assignments under the Clean Technology Fund. (For more on TC-funded activities, see Chapter 4: "Donor partnerships")

As well as supporting project work, the Gender team commissions research, engages in policy dialogue with stakeholders and takes an active part in international dialogue on the promotion of gender equality. In 2013, it commissioned a report on legal barriers to women's access to credit in the Kyrgyz Republic and Morocco. This found that legal provisions – such as restrictions on inheritance rights for women in Morocco or the presumption of shared property ownership for married Kyrgyz women – limit the ability of women entrepreneurs in these countries to accumulate the collateral they need to obtain loans.

The report inspired a conference entitled 'Bridging the Gap' (EBRD Headquarters, London, September 2013). The NGO Women for Women International co-hosted the event, which brought together representatives from the World Bank, the International Labour Organization, private enterprise and civil society. The EBRD will use the report and the conference findings to structure relevant investments in a way that ensures fair and equitable access to finance, services and employment.

The work of the Gender team benefits significantly from the support of donors. In 2013, donor contributions included, among others, a €1.5 million grant for the Gender Advisory Services Programme and a €300,000 grant from the Climate Investment Fund.

## SMALL BUSINESS

SMEs are an important source of jobs and growth and an essential part of a healthy modern economy. In the countries where the EBRD invests, they also make a major contribution to the transition process by promoting and consolidating reforms that contribute to long-term economic development. At the same time, SMEs are particularly vulnerable to some of the transition gaps that exist in the region, such as financing constraints, difficult business conditions and an economic legacy dominated by large state-owned companies. There is a pressing need to improve the business climate in many countries, which includes supporting governments to tackle corruption at all levels. (Read more in the EBRD's *Integrity and Anti-corruption Report 2013*.)

The EBRD is dedicated to creating conditions in which SMEs can flourish. This commitment is firmly anchored in the Bank's

*"The Private Sector for Food Security Initiative helps unlock the agricultural potential in countries where the EBRD invests."*



transition mandate and business model. As part of an institution-wide modernisation plan, in December 2013 the Board approved the launch of the Small Business Initiative (SBI) to strengthen its support for SMEs by bringing a more coordinated and country-focused strategic approach to the EBRD's many activities in this area.

Small businesses have long constituted a major focus for the Bank and its donors, who generously support the EBRD's efforts in this field. Just under one-half of Bank projects and around one-fifth of its ABI are directed at SMEs. These investments take the shape of direct financing and indirect financing via partner institutions, with local currency lending playing an important role. In addition, the EBRD engages in co-financing and risk-sharing with SMEs and provides business advisory services. It also conducts non-financial activities such as policy dialogue and support for legal reform.

The SBI aims to build on this work by developing SME action plans in the context of EBRD country strategies. It will also improve information management systems to better track the large number of SME financing activities across the Bank and their impact, streamline decision-making processes for relevant projects and create a dedicated SBI team.

In this way, the EBRD plans to deliver greater impact in the field of SME support. By making it easier for small and medium-sized businesses to access finance, overcome regulatory hurdles and emerge from the informal economy, the SBI will make a significant contribution to re-energising the transition process across the region.

## VIENNA INITIATIVE

The EBRD continued to play a vital role in the re-launched European Bank Coordination "Vienna" Initiative, originally created to safeguard financial stability in emerging Europe in response to the global economic crisis. Vienna 2 addresses the conflicts of interest between the banking sector's home and host countries. Countries in which foreign banks' subsidiaries or branches are systemic face particular challenges in safeguarding financial stability and ensuring adequate credit supply for their economies. The re-launched Vienna Initiative has two principal objectives: to avoid disorderly deleveraging and to achieve policy actions that are in the best joint interests of home and host countries.

In line with the first objective, Vienna 2 provided regular updates on deleveraging trends in the region through the Deleveraging and Credit Monitor, a quarterly report that is widely publicised and followed by markets, and issued quarterly bank surveys. The Initiative also looked at ways of addressing the high level of non-performing loans (NPLs) and continued weakness in credit growth in emerging Europe. Both of these represent significant structural challenges for the region's banking sector. Recommendations for action in these two areas should be published in 2014.

In line with its second objective, Vienna 2 continued to play a very active role in facilitating coordination between home and host countries on policy actions. It was a key participant in the debate on the shaping of the Banking Union, acting as an advocate for central, eastern and south-eastern European countries and in particular those outside the EU. The EBRD chaired the Initiative's work in this area.

*"Nearly 50 per cent of all EBRD projects are directed at small and medium-sized enterprises."*

As well as the aforementioned issues, the Vienna Initiative 2 Full Forum in Brussels in October 2013 drew special attention to the challenges facing south-eastern Europe. This is the region most affected by the fallout from the eurozone crisis, particularly as non-EU members are excluded from the EU's home-host country coordination mechanisms. Over the year the Initiative also organised events in Albania, Bosnia and Herzegovina, Croatia, Serbia and Slovenia, focused on encouraging stakeholders to work together on reducing financial stability risks.

Vienna 2 brings together all the key stakeholders in the EU-based cross-border bank groups that are active in emerging Europe. These include international financial institutions (the International Monetary Fund, the EBRD, the European Investment Bank and the World Bank); European institutions (European Commission, and the European Central Bank as observer); home- and host-country regulatory and fiscal authorities of large cross-border banking groups; and the largest banking groups operating in the EBRD region. The Initiative has been widely credited with helping to avoid a potential region-wide systemic crisis in emerging Europe's banking sector following the global economic downturn.

## JOINT IFI ACTION PLAN

The second Joint IFI Action Plan for Growth in Central and South Eastern Europe is a shared initiative between the EBRD, the European Investment Bank (EIB) and the World Bank, launched in response to the impact of eurozone problems on the economies of emerging Europe. These institutions are likely to invest around €30 billion by the end of 2014 to help countries in this region reorient their growth strategies towards greater competitiveness and increased exports. The Action Plan's first progress report, issued in mid-2013, showed that the IFIs had so far made €16 billion available for private and public sector initiatives.

The EBRD has signed up to €2.48 billion worth of projects from its total commitment of €4 billion over this period. This includes corporate and SME investments in the form of debt, equity and trade financing, as well as investments in sustainable energy and national and municipal infrastructure. In the financial sector, the EBRD is helping countries deal with high levels of NPLs and foreign exchange-denominated loan stocks. The Bank also supports corporate and bank restructuring.

The Initiative is modelled on the previous, successful 2009-10 Joint IFI Action Plan which made available more than €33 billion in crisis-related support for financial sectors in central and south-eastern Europe, Turkey and the former Soviet countries of the Commonwealth of Independent States (CIS).



## CLOSER COORDINATION WITH EXTERNAL PARTNERS

In 2013, the EBRD created an External Policy Coordination team and opened an office in Brussels to enhance collaboration with key external partners, including other IFIs and EU institutions, in support of the Bank's mandate. The team also coordinates the Bank's participation in global discussions and processes such as the G8 Deauville Partnership, the Global Partnership for Effective Development Cooperation and discussions on a post-2015 development framework.

## EARLY TRANSITION COUNTRIES

In order to accelerate transition, increase financing and strengthen the business climate in the EBRD's less advanced countries of operations, in 2004 it established the Early Transition Countries (ETC) Initiative. The Initiative works to mobilise more financing and donor funds to improve the economies and living standards of people in this region, which includes Armenia, Azerbaijan, Belarus, Georgia, Kyrgyz Republic, Mongolia, Moldova, Tajikistan and Turkmenistan – all of which are recipients of Official Development Assistance (ODA).

Financing activity in the ETC region has been a major growth area for the Bank since the Initiative began. The annual percentage of financed projects in these countries has increased from 8 per cent of the EBRD's total in 2003 to 30 per cent or more in 2008-13. In total, the Initiative has accounted for more than 940 projects worth a total of approximately €6.5 billion in financing.

2013 saw strong activity in the ETCs, with the Bank providing financing in 115 projects for €970 million. More than 89 per cent of projects supported micro, small and medium-sized enterprises (MSMEs), in line with the Initiative's priorities.

Strong commitments from the donor community have complemented this financing activity since the start of the Initiative. The multi-donor Early Transition Countries Fund (whose contributors include Canada, Finland, Germany, Ireland, Japan, Korea, Luxembourg, the Netherlands, Norway, Spain, Sweden, Switzerland, Taipei China and the United Kingdom), the EBRD Shareholder Special Fund (SSF), the European Union (EU) and bilateral donors have provided a total of more than €400 million in grants to support the countries. The EU has designed mechanisms – such as the Investment Facility for Central Asia (IFCA) and the Neighbourhood Investment Facility (NIF) – to mobilise additional funding to cover development and investment needs in infrastructure, energy, environmental projects, financial institutions and small and medium-sized business support and financing. These facilities cover most of the ETCs.

Priority areas for EBRD financing and transition activity and for donor support in the ETCs are private sector and SME development, capital market development and municipal and environmental infrastructure. Thanks to Bank projects and donors, millions of people in 64 cities in the region now have access to better water supplies, improved waste services and modern public transport.

Another important focus for donors and the Bank is catalysing local currency lending and developing local capital markets.

Through the US\$ 320 million (€232 million equivalent) ETC Local Currency Programme in Armenia, Georgia, Kyrgyz Republic, Moldova, Tajikistan and Mongolia, the Bank addresses the over-reliance on foreign exchange financing, which is exacerbated by the lack of conventional sources of local currency funding. Donors to the ETC Fund, the US Treasury, the Swiss State Secretariat for Economic Affairs (SECO) and the SSF have supported the Programme by allocating US\$ 37 million (€27 million) of risk-sharing funds.

The Programme has financed more than US\$ 220 million (€160 million) of local currency loans, which partner banks and microfinance institutions have on-lent to more than 150,000 MSMEs. The largest number of beneficiaries have been in the Kyrgyz Republic and Tajikistan – the Bank's two lowest-income countries – helping more than 70,000 MSMEs borrow in the same currency as their revenues and avoid foreign exchange risk. The Bank and donors also support investment councils in Armenia, Kyrgyz Republic, Moldova, Mongolia and Tajikistan. These councils, chaired by the president or prime minister of each country, are vehicles for fostering public-private sector dialogue to improve the investment climate through changes to legislation and regulation.

## WESTERN BALKANS

In 2013, the EBRD continued paying special attention to the Western Balkans with the aim of promoting stability, regional cooperation and economic development. A series of initiatives lent support to SMEs and the wider private sector, fostering sustainable energy projects and promoting strategic investments in infrastructure and other areas. The EBRD works closely with the EU and other donors on these programmes.

Last year the Bank invested €943 million in 66 projects in the Western Balkans (Albania, Bosnia and Herzegovina, FYR Macedonia, Kosovo, Montenegro and Serbia). The impact of the global financial crisis remains strong in these countries with no visible sign of sustained recovery. Domestic demand is sluggish as financial systems continue to unwind imbalances, and consumer and investor confidence remain low. Consequently, transition lags in comparison with the neighbouring countries in the region.

### Long-term financing for SMEs

The EBRD has concentrated on the promotion of private sector development in the region through the Local Enterprise Facility (LEF). LEF is a €400 million investment vehicle for SMEs in the Western Balkans, Croatia, Bulgaria, Romania, Turkey and the SEMED region. It provides long-term financing to such businesses because their needs are not sufficiently addressed by existing financing instruments. LEF also provides them with pre- and post-investment support to deliver transition impact. Established in 2006, the Facility includes a €20 million contribution from the Italian government and €380 million from the EBRD. Since its launch, LEF has financed projects in a broad range of sectors such as agribusiness, manufacturing, natural resources, property and telecommunications.

**CASE STUDY****STRENGTHENING JUDICIAL TRAINING  
Tajikistan**

The EBRD is helping to train more than 200 judges in Tajikistan in key areas of business law as part of its Commercial Law Judicial Training Project. This is a topic that concerns the whole country, yet the problems facing judges and businesses in remote areas can differ greatly from those arising in the main cities.

That is why in 2013 the Bank sponsored a conference on commercial law reform in the least developed region of the country, the Gorno-Badakhshan Autonomous Oblast (GBAO).

The main objective of the conference in Khorog, the regional capital, was one of inclusion – to ensure the involvement of the GBAO in the national discussion about commercial law reform. The event was attended by the head of the regional government, representatives from the Presidential Administration, local business leaders, bankers, judges and lawyers. It was organised by the Council of Justice and the Judicial Training Centre of Tajikistan, the EBRD Legal Transition team's counterparts in its judicial training project.

Many of the judges at the conference had undergone the training and spoke about how their increased knowledge had helped them in their work, especially in ruling on land law disputes. In the past two years, the Bank has supported similar conferences in the Tajik capital Dushanbe and in the northern city of Khujand.

**CASE STUDY****DIVERSIFYING SOURCES OF FUNDING  
Romania**

Efforts to develop Romania's capital markets and make it easier for local businesses to obtain financing received a significant boost in 2013, when the EBRD launched a €150 million programme to back medium to long-term bonds issued by Romanian financial institutions.

Under this programme, known as the Financial Institutions Bond Market Framework for Romania, the EBRD subscribed to 20 per cent of a bond issue by UniCredit Tiriatic Bank worth 550 million lei (equivalent to €121 million). It also subscribed to 25 per cent of Raiffeisen Bank Romania's bond issue equivalent to €49.5 million.

By backing these bonds, the EBRD is helping Romania's financial institutions diversify their funding sources and ensure a better match between their assets and liabilities.

The programme comes under the Joint IFI Action Plan for Growth in Central and South Eastern Europe launched in 2012 (see page 38).



## Promoting green investments

The Western Balkans Sustainable Energy Direct Financing Facility (WeBSEDF) is a regional facility for providing direct debt financing, including on a project finance basis, of between €1 million and €6 million to local enterprises pursuing industrial energy efficiency and small renewable energy projects. In addition to financing, WeBSEDF also provides TC related to project preparation, plus incentive payments upon completion based on the quantity of CO<sub>2</sub>e emissions avoided by each project. To date, the Facility has financed 15 projects for €63.9 million and with expected CO<sub>2</sub> emission reductions amounting to a total of 446,765 tonnes a year.

The EBRD has also undertaken an institutional capacity-building programme in the region. Its objective is to propose new and/or refine existing mechanisms, procedures and standards in the area of sustainable energy. The capacity building also supports local governments and others in incorporating and implementing sustainable energy development measures into energy market design and regulatory development.

## Working with the EU

The EU launched the Western Balkans Investment Framework (WBIF) in December 2009. This has developed rapidly, becoming a key instrument of support to socio-economic development and EU accession across the Western Balkans. It provides finance and technical assistance for strategic investments, particularly in infrastructure, energy efficiency and private sector development.

The Framework pools resources from the EU, international financial institutions (IFIs) and bilateral donors and has amalgamated stakeholder resources (grants and loans) and expertise to prepare and finance strategic projects, as well as to strengthen overall strategy and policy coordination. A total of 24 grants were approved under the framework for €22.1 million in 2013. Of these, 23 grants concern technical assistance with one focused on investment co-financing, altogether corresponding to investments with an estimated total value of €1.2 billion.

Another EU initiative, the Western Balkan Enterprise Development and Innovation Facility (WB EDIF), is expected, over 2011-15, to mobilise €145 million of initial capital from the European Commission, the EBRD, the EIB Group and bilateral donors. This will leverage over €300 million for SMEs. The EBRD is playing a key role in the launch and development of this Facility and its Enterprise Expansion Fund (ENEF), which are expected to become flexible channels of pooling and leveraging financing.

## LEGAL TRANSITION PROGRAMME

Through its Legal Transition Programme (LTP), the EBRD aims to improve the investment climate in the countries where it invests by helping to develop the laws and institutions upon which a vibrant market-oriented economy depends. In other words, the programme operates as a trouble-shooter for regulatory impediments to investment. The LTP is promoted by the EBRD's Office of the General Counsel and its activities range from assisting governments with the drafting of new legislation to designing new institutions (for example, pledge registries) and training public officials and judges.

During 2013 the LTP pursued many different avenues:

As part of wider EBRD efforts to re-energise the transition process and stimulate growth, the LTP worked to increase access to credit by helping countries develop more efficient regimes for secured transactions. The Bank advised the Moroccan and Russian authorities on pledge law reform; helped to increase the availability of securitised pre- and post-harvest financing instruments in Serbia, Russia and Ukraine; and assisted Croatia in establishing a factoring framework to aid companies faced with liquidity problems.

The EBRD sees the promotion of better corporate governance in commercial and financial companies as a key priority and the LTP plays a vital role in this effort. Last year's highlight was the programme's contribution to the preparation of a new corporate code for Russia, at the request of the Russian Financial Markets Service. Implementation of the code is expected to begin in 2014. The LTP also introduced new internal procedures to promote better corporate governance in the Bank's investee companies, for example by encouraging them to adopt corporate governance action plans.

One legacy of the global financial crisis is the presence of significant NPLs on the balance sheets of many banks in the EBRD region. In 2013 the LTP advised Serbia, Slovenia and Tunisia on legislative measures to address these pools of bad assets and on reorganising insolvent entities.

Another bottleneck to investment in the region is the difficulty businesses have with enforcing contracts through judicial channels. The Bank works to improve the efficiency of court systems by organising training programmes for judges. In 2013, a total of 900 judges underwent EBRD-sponsored training sessions in Bosnia and Herzegovina, Bulgaria, FYR Macedonia, Mongolia, Montenegro, Russia and Tajikistan, including 200 Mongolian and over 200 Tajik judges.

In addition, the LTP looked at the enforcement of court decisions. The Programme found that a lack of appropriate training, among other issues, undermined the effectiveness of court bailiffs in the countries of the CIS and Mongolia. The Bank began a pilot project to help the Mongolian authorities improve training for bailiffs and redesign their system for enforcing court decisions. The EBRD hopes to launch similar actions elsewhere in future.

Transparent public spending remains at the top of the LTP's agenda, in particular in the Caucasus and Central Asia where collaboration with UNCITRAL, the UN's international trade law commission, reached new heights in 2013. The Bank helped Armenia, Kyrgyz Republic, Mongolia and Tajikistan to begin reforming their public procurement legislation and adopt electronic procurement tools. In a similar context, the Bank intensified its assistance to Mongolia to implement the Extractive Industries Transparency Initiative (EITI), which aims to encourage transparent financial practices in the mining sector.

During 2013, the Bank used its legal journal *Law in Transition* as a platform to deliver key messages to policy-makers in the region. The spring issue was dedicated to financial law reform in transition countries, whereas the autumn edition focused on current reform agendas in the public procurement sector.

For more information go to:

[www.ebrd.com/pages/sector/legal/what.shtml](http://www.ebrd.com/pages/sector/legal/what.shtml)



# Donor partnerships

Donor governments and partners make a vital contribution to the transition process by providing funds that act as a catalyst for EBRD investments and support other Bank activities. They are particularly active in those parts of the EBRD region that face the biggest obstacles to recovery and growth, as well as in the infrastructure, sustainable energy and small business sectors. Donor partnerships provide a wide range of funding instruments through many different channels that improve lives and environments across the region.





## DONOR FUNDING IN 2013

Donors continued to work very closely with the EBRD to address the transition challenges in its region. In 2013, they contributed €349 million in donor financing, helping to extend the range and depth of the Bank's investments, balancing risks and rewards, temporarily compensating for market failures and supporting the development of market-based institutions, skills and behaviour.

Infrastructure, sustainable energy and small businesses remained the main focus of donor activity, while a new trend saw the growth of initiatives with a strong element of policy dialogue delivered through grant co-financing. Local currency and food security are two examples of this kind of initiative.

The European Union (EU) is the EBRD's largest single donor, contributing 37 per cent of donor funding received over the last five years in support of the Bank's activities across the EBRD region. In 2013, the EU provided support worth €114 million, representing nearly one-third of the donor funding made available to the EBRD in that year. Bank projects in EU member states have also benefited from funding provided through the Structural and Cohesion Funds. In recent years the EU has increasingly channelled its funding through a number of regional facilities created to blend EU grants with investment financing from financial institutions, including 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). The WBIF also benefits from bilateral contributions from 19 donor governments.

### Donor instruments

Donor funding at the EBRD takes the shape 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 providing other forms of assistance. Last year donors approved €142.5 million of TC grants that supported over 600 TC assignments.

There are four main types of **non-TC grant**:

- 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)
- 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 Trade Facilitation Programme, as well as lending to micro, small and medium-sized enterprises (MSMEs) and providing energy efficiency credit lines
- Concessional loans used by the Bank to co-finance projects where donors provide part of the overall financing package in the form of subsidised lending.

In 2013, donors contributed

€349 million  
to foster transition in the EBRD region

### Types of donor

Donor support for EBRD activities comes from bilateral donors, multilateral donor funds, the Bank's shareholders and the EU (see page 43).

**Bilateral donors** are governments, international financial institutions (IFIs) and other partners. In 2013, they provided nearly €119 million in TC and non-TC grants. Bilateral donors in 2013 were: Austria, Czech Republic, Estonia, Finland, Germany, Italy, Japan, Kazakhstan, Korea, Luxembourg, Norway, Poland, Russia, Slovak Republic, Sweden, Switzerland, Taipei China, Turkey and the European Investment Bank.

Kazakhstan and Russia, which are countries where the EBRD invests, featured among the list of bilateral donors for the first time in 2013 after signing agreements to start providing TC funds in support of Bank projects in their respective countries. Furthermore, alongside the EU, Turkey co-financed a lending and advisory programme dedicated to Turkish businesswomen.

**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 2013, 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 (NDEP) and the Eastern Europe Energy Efficiency and Environment Partnership (E5P).

The EBRD's Nuclear Safety team manages the Nuclear Safety Accounts and International Decommissioning Support Funds, which donors set up for specific nuclear safety work in the region (see Chapter 2: "Activities by sector").

**Bank shareholders** control the EBRD Shareholder Special Fund (SSF), which they established in 2008. The SSF complements other donor funds by providing TC and non-TC grants and provides an element of funding predictability in circumstances where delays in the approval process or gaps in funding occur. In 2013, the SSF was replenished with a further €90 million, including funding for the SEMED region.

### Donor funds

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. Among the most active in 2013 were the Early Transition Countries (ETC) Fund, the Southern and Eastern Mediterranean (SEMED) Multi-Donor

Account, the E5P, the EBRD Water Fund, the ETC Local Currency Risk Sharing Fund and the NDEP.

### Donor priorities

In terms of geographic reach, donors operate in all of the countries where the EBRD works, with a greater focus on the Western Balkans, the Early Transition Countries and the SEMED region.

EBRD projects in these challenging markets often require donor-funded assistance in order to achieve the Bank's aims. Besides directly co-financing Bank investments, donors provide TC 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 2013 are:

- Tackling climate change and boosting energy efficiency and security
- Diversifying economies by providing small business finance and advisory support
- 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
- Agribusiness projects and food security
- Policy dialogue including legal transition reform and environmental sustainability
- Promoting the incorporation of gender and social inclusion into Bank projects.

### Donor funding review

For reasons that include the impact of the financial crisis on public finances, EBRD donors have become even more focused on obtaining demonstrable results from their contributions, and on the efficient use of their financing. In response – and as part of a wider effort to report more accurately on the impact of EBRD activities – the Bank undertook a review of donor funding management in 2012.

As a result, in 2013 the EBRD began implementing changes to the reporting process for TC projects to capture their outcome more clearly and to include them in the Bank's overall scorecard. It also updated the approval process for TC activities to ensure that they reflect donor priorities and made good progress on overhauling the IT systems for managing the complex network of donor funds at the EBRD. (See box on measuring impact in Chapter 1: "Overview".)

For more information on donor partnerships, read the *Donor Report*.



**DONOR  
REPORT  
ONLINE**



[dr.ebrd.com](http://dr.ebrd.com)





## CASE STUDY

### BOOSTING SUSTAINABLE ENERGY Western Balkans

Countries in the Western Balkans have enormous potential to cut energy costs, boost profits and reduce their carbon emissions by investing in renewable energy and energy efficiency. Since 2008 the EBRD has supported Bosnia and Herzegovina, FYR Macedonia and Serbia in this endeavour by delivering finance for sustainable energy projects and engaging in policy dialogue.

In 2013, the EBRD launched an extension to its successful Western Balkans Sustainable Energy Financing Facility (WeBSEFF), which provided €60 million in indirect loans to the private sector for smaller investments in energy efficiency and renewable energy. Operating via local banks, WeBSEFF funded 131 sub-projects that save more than 166,000 tonnes of CO<sub>2</sub> emissions per year. The projects have helped transform the market for sustainable energy lending in these countries.

Its successor, WeBSEFF II, is a €75 million facility that continues to provide financing to private enterprise but also targets public sector bodies, such as municipalities and energy service companies (ESCOs). It uses policy dialogue to enhance the regulatory frameworks for sustainable energy and to overcome market barriers. This encourages investment in sustainable energy and the development of ESCO markets while technical assistance helps municipalities to launch pilot projects.

Through these financing facilities, and with generous support from donors, the EBRD is taking a comprehensive approach to addressing the sustainable energy financing needs of the region.

The facilities are supported by grant funding from the EBRD Western Balkans Multi-Donor Fund, the EU and the EBRD Shareholder Special Fund.

**Organisation and governance**

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# Organisation and governance

The commitment and talent of its staff are crucial to the EBRD's success and an internal modernisation programme aims to further strengthen the Bank's performance. The highest standards of governance, integrity and transparency, plus an unwavering commitment to environmental and social sustainability, lie at the heart of the institution's mission.





## CORPORATE LEADERSHIP AND MANAGEMENT STRUCTURE

Since 2012, the EBRD has been working on a programme of internal modernisation aimed at maximising impact in the countries where it invests and the value it gives to shareholders. The One Bank change programme, initiated by EBRD President Sir Suma Chakrabarti, seeks to build on the institution's successful business model. It aims to modernise the Bank's management culture, streamline internal processes, develop innovative products and use policy dialogue to achieve impact beyond individual projects in a challenging environment.

In 2013, the EBRD began work on improving the leadership and people management skills of its most senior staff who make up the Corporate Leadership Group, and formally identified a set of core values: professionalism, integrity, leadership, innovation, diversity and teamwork. Managers will issue a revised statement of values to the entire organisation in the first quarter of 2014.

As part of efforts to modernise the way it manages staff, the EBRD created a new Vice Presidency for Human Resources and Corporate Services, appointing Luise Holscher to the post and the Bank's Executive Management Team in October. It also appointed a new Managing Director for Human Resources and a new Head of Recruitment. The Bank worked to support diversity and inclusion by joining the Global Diversity Champions programme of Stonewall, a leading lesbian, gay and bisexual lobby group. It also supported the launch of Connect4Women, a network for female staff, and introduced compulsory training on inclusive leadership for people managers.

To streamline its working practices, the EBRD prepared the groundwork for a comprehensive process and cost efficiency review of its banking operations which it will roll out in 2014. The Bank also looked at the decentralisation and delegation of decision-making in a bid to move closer to clients and be more responsive to their needs. With regard to innovation, the EBRD explored ways to increase its catalytic role in mobilising financing (see "Local currency and capital markets" in Chapter 3: "Policy dialogue, initiatives and impact"). It considered sectors and areas where the EBRD could do more in the future (see "Gender" in Chapter 3).

All of these efforts have one goal, which is to ensure that the Bank delivers stronger impact.<sup>13</sup> To this effect, the EBRD created a new role of Vice President for Policy in 2012 and appointed András Simor to the position and the Executive Management Team in mid-2013. The emphasis on policy is part of the Bank's work to re-energise the transition process and strengthen the link between investments and reforms at the broader sector or country level. The EBRD therefore expanded its criteria for project selection and design to become more effective in the areas of inclusion and equal opportunity (see box on economic inclusion in Chapter 1: "Overview"). The Bank also began to take steps, in partnership with political leaders in its region, and in coordination with other key international stakeholders, to improve the investment climate and good governance in the region.

## STAFFING OVERVIEW

The EBRD relies on a highly-skilled, dedicated and diverse workforce to deliver its mission of advancing transition in the countries where it invests. As of 31 December 2013, EBRD staff totalled 1,781 with employees coming from 60 of the Bank's 64 member countries. Of these staff members, 1,352 (or 76 per cent) were based in the London Headquarters. There were 429 employees (compared with 392 in the previous year) working across 39 Resident Offices in 31 of the countries where the Bank invests.

### Proportion of staff based in London Headquarters and the Resident Offices as at December 2013

HQ/RO	Total	Percentage
London Headquarters	1,352	76
Resident Offices	429	24
Total	1,781	100

<sup>13</sup> For more information on the EBRD's improved impact reporting to donors and shareholders see Chapter 1: "Overview".

## Staff mobility

A mobile workforce helps the EBRD to deploy skilled and experienced resources to help the Bank achieve its mission. It also fosters organisational cohesion, develops cultural awareness and stimulates innovative thinking while enhancing staff development.

The Bank provides mobility opportunities to staff in a number of ways:

- Temporary geographic assignments from a Resident Office to London HQ, vice versa, or between Resident Offices
- Temporary assignments to another department within the same location
- Temporary secondments to other organisations, particularly to other IFIs, which can help build cooperation between organisations and also provide developmental opportunities for staff
- Permanent transfer to another department or office location.

### Active assignments as at 31 December 2013

Geographic assignments	Total
HQ to RO	75
RO to HQ	34
RO to RO	1
<b>Total</b>	<b>110</b>

## Management and leadership development

Helping managers further develop their leadership skills is vital for the Bank's modernisation agenda. To support this, in 2013 the EBRD rolled out a compulsory training programme for managers to complete over two years, which covers inclusive leadership, conflict management and performance coaching. Underpinning this is a set of leadership competencies on which all people managers are assessed.

## Diversity and inclusion

A diverse workforce with the right knowledge and skills enables the EBRD to connect with its clients, be more creative, make better decisions and attract, retain and motivate the best talent. EBRD staff are already characterised by a rich diversity of nationalities, cultures and opinions and the Bank aims to sustain and build on this strength. In 2013, the EBRD commissioned a Diversity Steering Group, a committee representing a cross-section of staff at all levels, to develop a diversity policy and action plan. The policy is due to be launched in 2014.

## Staff engagement

The Bank recognises that staff engagement is crucial to sustaining high productivity and quality performance. The EBRD continues to monitor levels of staff engagement and satisfaction via an annual staff survey and ensures that appropriate follow-up at institutional and team level is undertaken to address areas for improvement. The Bank is fully committed to listening to staff and taking action as a result of their views.

## Recruitment

Recruitment volume over the course of 2013 remained consistent with 2012 levels. In 2013, there were 166 new hires in the Banking department compared with 162 in the previous year. In total, 238 of the 316 new hires across the Bank were recruited in London and 78 in the countries where the EBRD invests. Thirty-seven staff were hired specifically to focus on the SEMED region.

The Bank launched an EBRD careers page on LinkedIn in late 2013. In 2014, it will continue to increase its use of social media for recruitment advertising to reach as diverse a talent pool as possible.

The International Professionals Programme, launched in 2011, is designed to develop possible future leaders of the EBRD. The two-year programme saw its first intake of 12 professionals graduate in September 2013. During the year, 11 of them took up permanent positions within the organisation.

## GOVERNANCE AND INTEGRITY

The EBRD is committed to achieving the highest standards of governance, integrity and transparency in the conduct of its business and sees promoting these standards as an essential part of the transition process. The Bank continues to strengthen key policies and mechanisms in support of these goals.

Within the Bank, the Office of the Chief Compliance Officer (OCCO) is headed by the Chief Compliance Officer, who reports directly to the President and the Audit Committee of the Board of Directors. OCCO ensures that the highest standards of integrity are applied to all staff and throughout the EBRD's activities in accordance with international best practice.

OCCO provides advice and assistance in evaluating integrity and reputational risks relating to proposed and ongoing transactions, through which it enhances the transition impact of EBRD projects.

The Office is also responsible for investigating any allegations of misconduct with regard to staff. The types of acts or omissions by staff members that may be considered to constitute misconduct, as well as the principles to be observed and steps

*“The EBRD is committed to achieving the highest standards of governance, integrity and transparency in the conduct of its business.”*



to be taken in response to the behaviour, are set out in part in the *Code of Conduct for EBRD Personnel* and in the *Conduct and Disciplinary Rules and Procedures* introduced in 2011.

The revised *Code of Conduct for EBRD Personnel*, as well as the *Code of Conduct for Officials of the Board of Directors*, were approved by the Board of Directors and entered into force on 29 February 2012. These codes are robust, in line with those of comparator institutions. They articulate clearly the values, duties and obligations, as well as the ethical standards, that the EBRD expects of its officials and staff. Significantly, the codes:

- have been aligned with the current best practice of comparator organisations
- have clarified and simplified certain provisions of the previous codes while providing guidance on compliance
- recognise the duty of loyalty owed by officials and staff to the Bank
- reaffirm, and in the case of Board officials establish, the obligation to report suspected misconduct and the duty to refrain from retaliation against whistleblowers
- allow for the possibility of disclosure of alleged misconduct to local, national or supranational authorities where there is reason to believe that the laws of a member country may have been violated
- provide a more transparent procedure for dealing with alleged breaches of the codes.

In addition to matters relevant to staff misconduct, OCCO is responsible for investigating allegations of fraud and corruption in relation to Bank projects or counterparties. In the course of 2013, OCCO received 27 separate allegations of fraud and corruption, of which 16 allegations were subject to investigation under the Bank's *Enforcement Policy and Procedures* (EPPs).

Following the entry into force of the Agreement for Mutual Enforcement of Debarment Decisions in June 2010, in 2013 the Bank cross-debarred 303 entities and 25 individuals based on 53 debarment notices received from the World Bank Group, four notices received from the Asian Development Bank and five notices received from the Inter-American Development Bank. The list of all EBRD-debarred entities and persons can be found at [www.ebrd.com/pages/about/integrity/list](http://www.ebrd.com/pages/about/integrity/list)

## POLITICAL AND ECONOMIC ANALYSIS

### Political analysis

The Bank's political counsellors in the External Relations and Political Affairs Department (EAPA) provide regular updates and insights into critical political developments in the transition countries, thus contributing to policy dialogue with governments and informing the EBRD's operations.

In 2013, EAPA completed a review of the Bank's political methodology – the tools and criteria it uses to assess countries' compliance with the political aspects of the Article 1 mandate – which the Board of Directors approved in February. The methodology and criteria for applying the political aspects of the Bank's mandate, devised and approved by the Board in 1991 in the *Procedures to Implement the Political Aspects of the Mandate*, were updated and expanded to allow for comparability across countries and over time, and take account of specific aspects of the extended SEMED region.

### PROJECT COMPLAINT MECHANISM

OCCO also oversees the effective administration of the Project Complaint Mechanism (PCM), the EBRD's accountability mechanism for assessing and reviewing complaints about Bank-financed projects. It provides individuals and local groups that may be directly or adversely affected by an EBRD project, as well as civil society organisations, with a means of raising complaints or grievances with the Bank, independently of banking operations. The PCM has two functions. Through its Compliance Review function, it reviews complaints that the Bank has failed to adhere to applicable policies in a particular project. Through its problem-solving initiative it also affords members of the affected community an opportunity to obtain the Bank's help in addressing their grievances with the project sponsor. Affected parties can make a request for one or both of these functions of the PCM.

In 2013, the PCM registered three new complaints (four in 2012) and continued working on different stages of the review process for six ongoing complaints registered in 2012 and 2011. Five of these complaints were closed following completion of the compliance reviews.

For further information on the PCM, see the *Sustainability Report 2013*.

Details of all complaints and all published reports, together with the *PCM Annual Report* for 2013, are available from the PCM web site. <sup>5</sup> See [www.ebrd.com/pages/project/pcm.shtml](http://www.ebrd.com/pages/project/pcm.shtml)



The core elements of the existing methodology – the listing of factors that define what constitutes a pluralistic multi-party democracy, the use of credible international reference points to inform the assessment of progress on these factors and the reliance on qualitative political judgement – remain firmly in place. As a result of the review, the Bank's political assessments now cover more systematically issues of political accountability, civil society and political participation, the rule of law (including control of corruption), and civil and political rights (including rights for women and minorities).

In addition, EAPA undertook a year-long project to investigate the relationship between markets and democracy, which is at the core of the Bank's Article 1 mandate. EAPA organised a high-level conference on the margins of the 2013 Annual Meeting in Istanbul to consider the impact of economic development and market reform on democracy and vice versa. The event attracted EBRD Board members, policy-makers, academics and experts from think-tanks and civil society organisations. This was followed

by collaboration with the Office of the Chief Economist on the *Transition Report 2013*. EAPA prepared a chapter with a well-known expert on the subject of democracy and development, Carles Boix. This concluded that over time economic development – in the form of income growth per capita – and market reforms support the establishment and consolidation of democracy.

## Economic analysis

Economic research by the Office of the Chief Economist (OCE) remained at the core of the Bank's activities in 2013, informing project selection, design and evaluation; country and sector strategies; and policy dialogue. OCE also continued to shape the debate about transition and development through its publications. Among these were quarterly assessments of economic prospects, working papers, impact briefs and blogs, and the annual flagship publication, the *Transition Report*. Publication highlights included:

- The fifth round of the *Business Environment and Enterprise Performance Survey* (BEEPS V) – a joint EBRD and World Bank project – was completed in Russia. For the first time the Russian BEEPS contained data at the regional level. OCE used the BEEPS V data to analyse issues relevant to Russia's economic development, such as the relationship between regional banking and the ability of firms to innovate. In 2013, OCE also rolled out BEEPS V in all other countries where the EBRD invests, including the equivalent Middle East and North Africa enterprise survey in SEMED.
- In 2013, the EBRD began to analyse the data of the second *Banking Environment and Performance Survey* (BEPS II), for which over 600 bank CEOs were interviewed. First results were discussed during a conference at EBRD Headquarters and summarised in the eBook *Understanding Banks in Emerging Markets*. Moreover, the Bank launched a web site with country profiles highlighting the key banking strengths and weaknesses in individual countries.
- In the wake of the global trade collapse of 2008-09, OCE has stepped up its research efforts in this important area. Projects have focused on the impact of tariff changes on trade flows in the customs union between Belarus, Kazakhstan and Russia and on how the quality of infrastructure affects trade flows.
- The theme of the *Transition Report 2013* was “*Stuck in Transition?*”. The Report investigated what determines the quality of economic institutions and how such institutions can be improved given a certain level of maturity of democratic institutions. The evidence suggests that countries can promote and accelerate the return of reform, particularly if international integration, domestic leadership and broader social movements work hand in hand.
- OCE worked with the Asian Development Bank Institute on a special report examining the economic linkages between emerging Europe and emerging Asia. These trade and financial linkages are increasingly relevant for the Bank's day-to-day operations.
- Lastly, OCE intensified its efforts to analyse the impact of EBRD operations and policies. One project considered the effectiveness of the Vienna Initiative, a policy initiative to stabilise lending flows to emerging Europe after the collapse of Lehman Brothers (see page 38). Other projects integrated evaluation into EBRD projects. In Morocco, the Bank began



a randomised controlled trial (RCT) to measure the long-term impact of access to credit on female entrepreneurship. In Tajikistan, an RCT has analysed the effectiveness of capacity training for improving the professionalism of judges. In the Kyrgyz Republic, a study rigorously measured the impact of water infrastructure at the household level.

## ENVIRONMENTAL AND SOCIAL SUSTAINABILITY

Environmental and social sustainability are embedded throughout the Bank's activities and are key aspects of the EBRD's overall transition agenda. The Bank invests in projects that promote sustainable energy and gender equality and has robust processes for environmental and social due diligence and for project monitoring. The EBRD's Environmental and Social Policy and Performance Requirements, operating in conjunction with its Public Information Policy and the Bank's independent Project Complaint Mechanism, establish a framework for projects to achieve good environmental and social standards in an inclusive and transparent way. (See boxes “Project Complaint Mechanism” and “Review of good governance policies”).



## REVIEW OF GOOD GOVERNANCE POLICIES

2013 saw extensive work and consultation by the EBRD on the simultaneous reviews of its three good governance policies: the Environmental and Social Policy (last updated in 2008), the Public Information Policy (2011) and the Rules of Procedure for the Bank's independent Project Complaint Mechanism (2009).

The purpose of such reviews is to ensure that each policy remains fit for purpose. Reviews take into account the lessons of experience, changes in international best practice and the views of stakeholders including clients, industry associations, civil society, peer organisations and the Bank's shareholders. Detailed stakeholder engagement plans were published on the Bank's web site at the beginning of the year and have been updated as necessary.

The initial stage of the 2013 reviews included a request for comments on the existing policies from 8 March to 20 May. This time period was extended to 30 May at the request of civil society organisations. The Environmental and Social Policy Unit received 14 sets of comments. These included some comments that had been previously submitted to the EBRD in the context of the Mining Operations Policy review in 2012, but were more appropriate to the ESP review. The Public Information Policy received three sets of comments and the Project Complaint Mechanism received 15 sets of comments.

Draft revised policy documents will be released and a series of public meetings are due to be held in early 2014. Each policy will release a summary report on the consultation, including comments received and staff responses. These will be released with the final revised policies, once approved by the Board of Directors.

See [www.ebrd.com/pages/about/policies/governance.shtml](http://www.ebrd.com/pages/about/policies/governance.shtml)

As well as ensuring compliance with its Environmental and Social Policy, the EBRD aims to identify opportunities to improve environmental and social performance in ways that deliver additional value to projects, clients and local communities. For example, the Bank has been proactive in Moldova on work-related road safety, seeking to reduce both the human and economic cost of accidents.

The EBRD ensures that its clients in the financial services sector adopt environmental and social risk management systems for their own investment operations. Capacity-building is a significant component of this work. A key development in 2013 was the EBRD's launch of a new e-learning programme, which is available to banks and private equity funds in the region at no charge.

Monitoring the environmental and social performance of projects already in the EBRD's portfolio remained a strong focus for the Bank. Environmental and social experts carried out site visits for selected projects in all parts of the EBRD region, based on a regular assessment of priorities. Occupational health and safety was one of a number of key themes targeted for monitoring during the year.

The EBRD remained closely involved in a range of international cooperation activities during 2013. This included work on

establishing new approaches to biodiversity protection and greenhouse gas accounting, and contributions to events promoting gender equality and the role of women in business.

2013 also saw continued success under the Northern Dimension Environmental Partnership (NDEP) and the Eastern Europe Energy Efficiency and Environment Partnership (E5P), specialised multi-donor funds that provide grants for priority environmental projects in the north-west of Russia and Belarus (NDEP) and Ukraine (E5P). A key milestone for the NDEP in 2013 was the inauguration of the Northern Tunnel Collector in St Petersburg. This project raised the level of wastewater treatment in the city to over 98 per cent. Last year the E5P Contributors approved an additional €15.5 million in grant funding for new energy efficiency projects in district heating and public buildings in the cities of Donetsk, Luhansk and Severodonetsk. Based on the initial success of E5P in Ukraine, the Partnership is now expanding to Armenia, Georgia and Moldova.

Further details of the Bank's environmental and social activities and results are available in the EBRD *Sustainability Report 2013*.

## ENGAGING WITH CIVIL SOCIETY

The EBRD engages with a wide range of civil society organisations as part of its commitment to democracy and good governance. It believes that open and inclusive dialogue with external stakeholders is essential to achieving sustainable development. In 2013, the Bank increased its engagement with civil society by working with more groups and holding more meetings, including high-level gatherings attended by President Chakrabarti. This dialogue focused on the EBRD's review of key policies and strategies, including the Energy Strategy and complex investment projects.

In 2013, over 2,300 civil society organisations (CSOs) were registered with the EBRD and over 530 civil society representatives participated in 45 thematic meetings organised by the Bank. This compared with 1,900 registered CSOs and 400 participating representatives attending 29 meetings in 2012.

The Civil Society Programme is the flagship event of the Bank's engagement with civil society and takes place alongside the EBRD Annual Meeting and Business Forum. It provides a high-level platform for dialogue between civil society and the President, Board of Directors, Bank senior management and staff. The 2013 event took place on 10-11 May in Istanbul and drew 107 CSO representatives from 31 countries.

For further information go to [www.ebrd.com/pages/about/workwith/civil/ebird.shtml](http://www.ebrd.com/pages/about/workwith/civil/ebird.shtml)

### High-level dialogue

President Chakrabarti is committed to broadening the Bank's engagement with civil society. During his official visits in 2013, he met with CSO representatives in Azerbaijan, Bosnia and Herzegovina, Croatia, Jordan, Romania and Russia. Civil society stakeholders also had the opportunity to meet with other senior managers and members of the Board of Directors in eight countries where the Bank invests, and in London.

## Early engagement

In 2013, the EBRD piloted an early-engagement approach in Serbia and Slovenia by consulting with civil society stakeholders during the pre-drafting stage of the respective country strategies. The Bank also piloted a two-stage consultation process for the development of the Energy Strategy and the review of its good governance policies (see box on page 51). This consisted of gathering feedback from civil society on the implementation of existing policies and strategies before opening formal consultation on the new drafts.

For an overview of the 2013 dialogue with civil society see [www.ebrd.com/pages/about/workwith/civil/news.shtml](http://www.ebrd.com/pages/about/workwith/civil/news.shtml)

## Project dialogue

The EBRD engaged with international and local CSOs in 2013 on the planning, implementation and monitoring of 56 investment projects in 24 countries and on regional investment facilities. The main areas of interest included:

- Natural resources in Armenia, Egypt, Kyrgyz Republic, Tunisia and Turkmenistan
- Power and energy in Egypt, Georgia, Kazakhstan, Romania, Russia, Ukraine and the Western Balkans
- Municipal and environmental infrastructure in Bosnia and Herzegovina, Croatia, Jordan, Kazakhstan, Romania and Russia
- Agribusiness in Serbia and Ukraine.

## Consultation on the energy strategy

In December 2013, the Board of the EBRD approved a new Energy Sector Strategy for the period 2014-18 (see Chapter 1: "Overview"). This followed an extensive programme of public consultation and stakeholder engagement in accordance with the Public Information Policy.

Over the course of the public consultation, the Bank contacted more than 1,000 organisations, seeking comments on the strategy from stakeholders including companies, CSOs, governments, academics and others. It organised four public meetings in Belgrade, Istanbul, London and Moscow. These were attended by a total of 121 stakeholder representatives who provided comments. The EBRD received 83 sets of written comments as well as two petitions from 350.org and the Price of Oil campaign.

The Bank compiled a summary of public comments and staff responses and provided them to the Board of Directors before final approval of the strategy. Following final approval it published the summary and staff responses online: [www.ebrd.com/downloads/policies/sector/energy-strategy-comment.pdf](http://www.ebrd.com/downloads/policies/sector/energy-strategy-comment.pdf)

## INDEPENDENT EVALUATION

### Evaluating the EBRD's activities

The shareholders and management of the EBRD view independent and effective evaluation as critical to accomplishing the institution's core purposes. By evaluating the performance of past projects, the Bank can improve the design of future investments and maximise its contribution to the transition process. The Evaluation Department (EvD) operates independently of Bank management, reporting directly to the Board of Directors.

Evaluation is a Bank-wide effort. It involves multiple, interconnected roles and responsibilities for EvD, the Board of Directors and management. EvD has primary responsibility for delivering the Bank's overall evaluation programme and for evaluation policy and procedures. The Department conducts independent evaluations of operations, programmes, strategies





and policies and monitors and validates self-evaluations prepared by management. EvD analysis provides the basis for an overall assessment of institutional operational performance. It is also a means of identifying insights and lessons from experience that can then be used to improve the effectiveness of future operations. The Department's mandate, scope and key processes are set out in the EBRD's Evaluation Policy, approved by the Board in January 2013.

## Contributing to accountability and learning

The core purposes of evaluation in the EBRD are:

- an objective, evidence-based assessment of performance that contributes to institutional accountability
- extraction of operationally-relevant insights from experience that strengthen institutional performance through learning.

The evaluation methods and practices reflect international good practice standards developed jointly with other multilateral financial institutions under the auspices of the evaluation cooperation group.

EvD produces a range of project-specific evaluation products. They focus on particular EBRD investments to assess their performance and outcomes relative to their objectives, and to identify lessons that may have wider applicability. Other evaluation work takes a broader perspective, reviewing evidence and seeking insights at a sector, thematic or country level by examining groups of related transactions. Still others may explore issues identified as being particularly interesting or topical. Individual projects are normally evaluated one to two years after the full disbursement of funds, once an investment has been completed.

## Transition impact and overall Bank performance

Project design and documentation include expectations or targets for transition impact. These may include the degree to which a project is expected to promote private sector development, develop skills, encourage competition, support market expansion and/or contribute to transition at the policy or institutional level. EvD's ex-post evaluations seek to assess and rate transition impact using a six-point scale.

Chart 5.1 on page 54 shows historical data for the transition impact ratings of evaluated projects approved between 1992 and 2009. Of a sample of 807 projects, 55 per cent achieved a transition impact rating of "good" or "excellent," while a further 25 per cent were rated "satisfactory".

EvD also provides an overall performance rating that includes, in addition to transition impact, other key indicators such as the fulfilment of project objectives, financial performance, environmental performance and additionality. This final metric gauges the degree to which Bank investment catalyses or complements, rather than substitutes for, private finance. Chart 5.2 on page 54 shows overall ratings of "successful" or "highly successful" for 58 per cent of evaluated projects approved between 1992 and 2009.

Aggregate results from evaluated projects are available in more detail in the *EvD Annual Evaluation Review*. Key evaluation reports and summaries of project evaluations are available on the Bank's web site. <sup>6</sup> See [www.ebrd.com/evaluation](http://www.ebrd.com/evaluation)

## Special studies

EvD completed several major studies in 2013 to provide insights useful to the Bank's future work. Studies included the following:

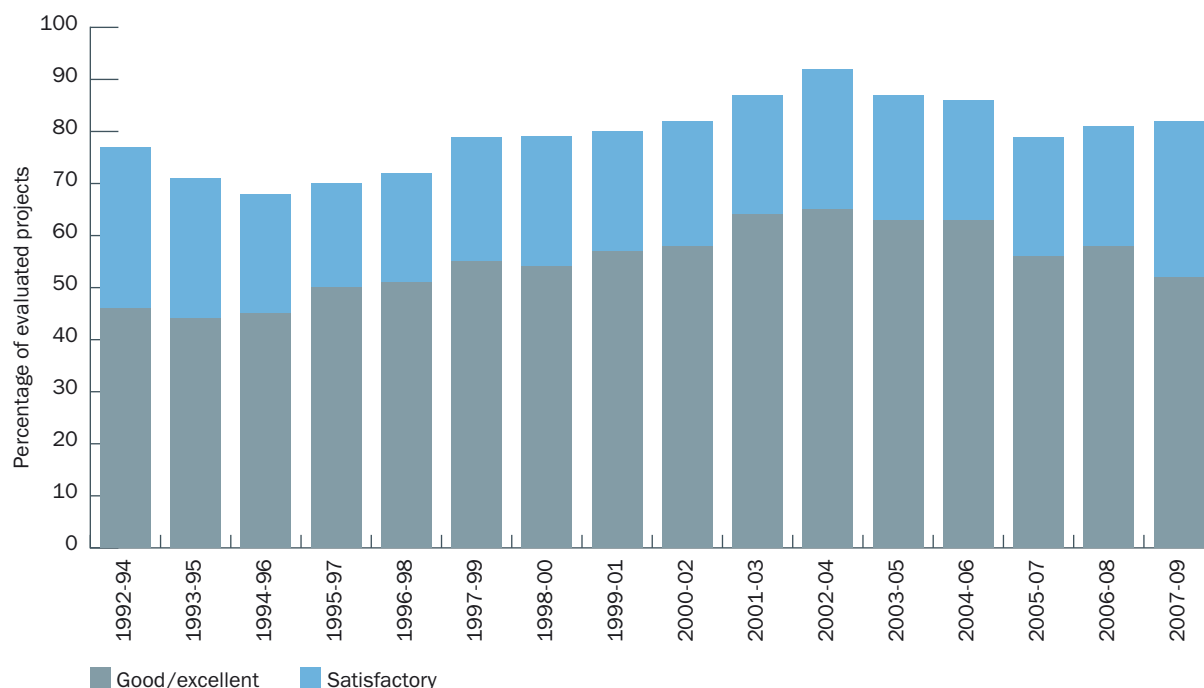
- A review of Bank activities in the telecommunications sector for input into a new policy on information and communication technologies.
- A review of the EBRD's local currency borrowing and lending activities over the course of a decade.
- An evaluation of the implementation of various initiatives related to the Bank's equity operations, which suggested a variety of measures to improve results focus, monitoring and management.
- A study of 10 years of private sector participation in municipal and environmental infrastructure projects. It produced a number of recommendations likely to be useful for policy formulation and operations in future.
- A major evaluation of the EBRD's policy dialogue with Ukraine. This was the first evaluation of its kind, with findings likely to contribute significantly to operational design and programme management.
- An examination of the performance of the Mongolia Cooperation Fund, a TC initiative, identified the needs for a results framework to better track results, embedded policy dialogue and more efficient implementation of TC commitments.

## EvD tools and engagement with management

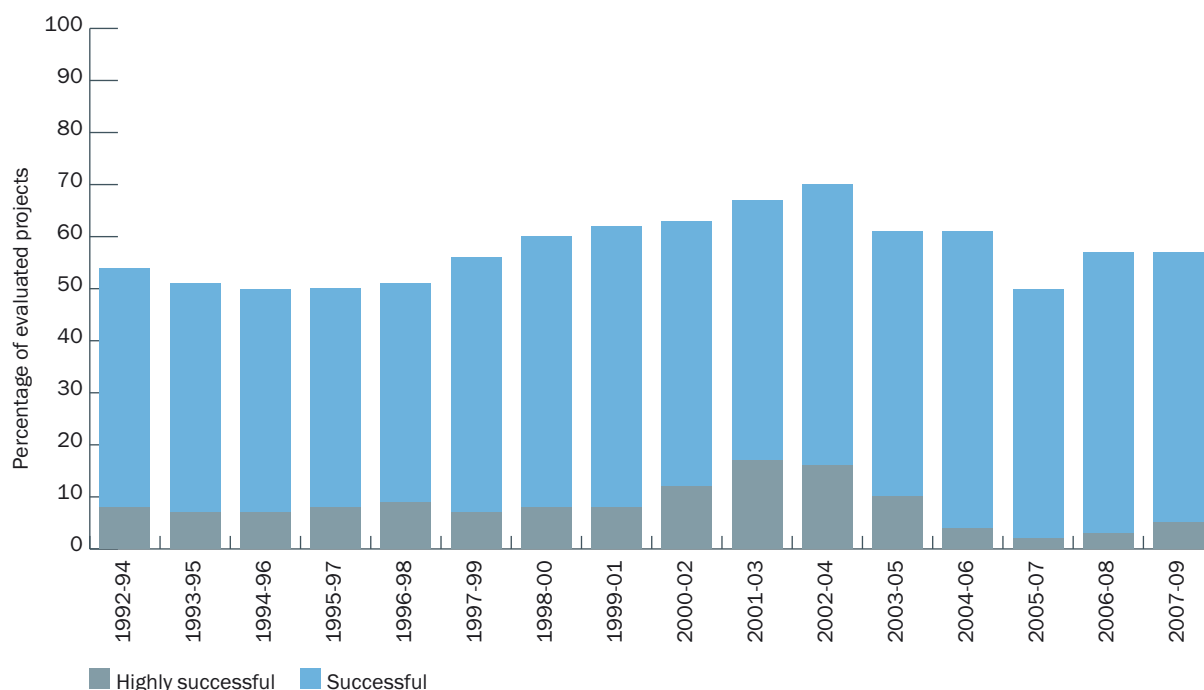
The department continues to implement a strategic approach outlined in 2011 and subsequently incorporated into its work programmes and new evaluation policy. The key pillars of this approach are as follows:

- **Management focal points within strategy or policy and banking teams to improve coordination and widen the uptake of evaluation work.**
- **Engagement on technical cooperation (TC) initiatives.** Evaluation contributed significantly to initiatives to strengthen the effectiveness of TC activities, including design of a TC results matrix; a simple checklist for TC quality assurance; tools for improved management and monitoring; and a major training initiative.
- **Launch of a new lessons tool.** This enables bankers to easily identify lessons for improved project planning. It includes functions to track feedback and use, and incorporates lessons from the new self-assessments introduced for the Banking department in 2012.
- **Increased staff training.** This included a new web-based evaluation module; presentations at the Core Skills Banking Academy course for new bankers; and provision of case studies, lessons and other materials for a new monitoring course facilitated by Learning and Development staff.

**Chart 5.1: Transition impact ratings of evaluated EBRD projects shown on a three-year rolling basis by approval year, 1992-2009<sup>14</sup>**



**Chart 5.2: Overall performance ratings of evaluated EBRD projects shown on a three-year rolling basis by approval year, 1992-2009<sup>14</sup>**



<sup>14</sup> In 2012, EvD moved from reporting by evaluation year to reporting by approval year. Projects are evaluated a few years after approval. 2009 is the most recent approval year from which a substantial number of operations have subsequently been evaluated.



## EBRD Governors and Alternate Governors 31 December 2013

Member	Governor	Alternate Governor
Albania	Shkëlqim Cani	Vacant
Armenia	Vahram Avanesyan	Vardan Aramyan
Australia	Joe B. Hockey	Steven Ciobo
Austria	Maria Fekter	Edith Frauwallner
Azerbaijan	Shahin Mustafayev	Samir Sharifov
Belarus	Vladimir I. Semashko	Nikolai Snopkov
Belgium	Koen Geens	Marc Monbaliu
Bosnia and Herzegovina	Zlatko Lagumdžija	Muhamed Ibrahimović
Bulgaria	Petar Chobanov	Dimitar Kostov
Canada	James M. Flaherty	Daniel Jean
Croatia	Slavko Linić	Boris Lalovac
Cyprus	Harris Georgiades	Christos Patsalides
Czech Republic	Jan Fischer	Miroslav Singer
Denmark	Henrik S. Larsen	Michael Dithmer
Egypt	Ziad Bahaa El-Din	Vacant
Estonia	Jürgen Ligi	Veiko Tali
European Investment Bank	Wilhelm Molterer	László Baranyay
European Union	Olli Rehn	Marco Buti
Finland	Jutta Urpilainen	Matti Anttonen
FYR Macedonia	Zoran Stavreski	Vladimir Pesevski
France	Pierre Moscovici	Ramon Fernandez
Georgia	Nodar Khaduri	David Lezhava
Germany	Wolfgang Schäuble	Thomas Steffen
Greece	Kostas Hatzidakis	Panagiotis Mitarachi
Hungary	Mihály Varga	Kornél Kisgergely
Iceland	Bjarni Benediktsson	Guðmundur Árnason
Ireland	Michael Noonan	John Moran
Israel	Karnit Flug	Oded Brook
Italy	Fabrizio Saccomanni	Carlo Monticelli
Japan	Taro Aso	Haruhiko Kuroda
Jordan	Ibrahim Saif	Saleh Al-Kharabsheh
Kazakhstan	Bakhyt T. Sultanov	Marat Kusainov
Korea, Republic of	Oh-Seok Hyun	Choongsoo Kim

Member	Governor	Alternate Governor
Kosovo	Besim Beqaj	Vacant
Kyrgyz Republic	Djoomart Otorbaev	Olga Lavrova
Latvia	Andris Vilks	Daniels Pavļuts
Liechtenstein	Thomas Zwielfhofer	Roland Marxer
Lithuania	Rimantas Šadžius	Aloyzas Vitkauskas
Luxembourg	Pierre Gramegna	Arsène Jacoby
Malta	Edward Scicluna	Josef Bonnici
Mexico	Luis V. Caso	Fernando A. Rodriguez
Moldova	Valeriu Lazar	Marin Moloşag
Mongolia	Chultem Ulaan	Naidansuren Zoljargal
Montenegro	Radoje Žugić	Nikola Vukićević
Morocco	Mohammed Boussaid	Driss E. A. El Idrissi
Netherlands	Jeroen Dijsselbloem	Lilianne Ploumen
New Zealand	Murray McCully	Robert Taylor
Norway	Siv Jensen	Dilek Ayhan
Poland	Marek Belka	Jacek Dominik
Portugal	Maria Luís Albuquerque	Manuel Rodrigues
Romania	Daniel Chitoiu	Mugur Isarescu
Russia	Alexey V. Ulyukayev	Dmitry Pankin
Serbia	Zorana Mihajlović	Lazar Krstić
Slovak Republic	Peter Kažimír	Jozef Makúch
Slovenia	Uroš Čufer	Mitja Mavko
Spain	Luis de Guindos Jurado	Fernando J. Latorre
Sweden	Anders Borg	Mikael Lundholm
Switzerland	Johann N. Schneider-Ammann	Beatrice Maser Mallor
Tajikistan	Farrukh M. Khamraliev	Jamshed Z. Yusufiyon
Tunisia	Lamine Doghri	Noureddine Kaabi
Turkey	Ibrahim H. Çanakci	Cavit Dağdaş
Turkmenistan	Muratniyaz Berdiyev	Merdan Annadurdyev
Ukraine	Yuriy Kolobov	Igor Sorkin
United Kingdom	George Osborne	Justine Greening
United States	Jacob J. Lew	Vacant
Uzbekistan	Rustam S. Azimov	Shavkat Tulyaganov

### Chair of the Board of Governors

**2012-13:** Governor for Bulgaria (Petar Chobanov)

### Vice Chairs of the Board of Governors

**2012-13:** Governor for Georgia (Nodar Khaduri), Governor for Turkey (Ibrahim H. Çanakci)

All the powers of the EBRD are vested in the Board of Governors. The Board of Governors has delegated many of its powers to the Board of Directors, which is responsible for the direction of the general operations of the Bank and, among other activities, establishes policies and takes decisions concerning loans, equity investments and other operations in conformity with the general directions of the Board of Governors.

The President chairs the Board of Directors. Under the direction of the Board, the President conducts the business of the Bank and, as head of staff, is responsible for its organisation and for making staff appointments.

## EBRD Directors and Alternate Directors 31 December 2013

Director	Alternate	Constituency
Sang Goo Byun	Bob McMullan	Korea, Australia, New Zealand, Egypt
Claire Dansereau	Brian Parrott	Canada, Morocco, Jordan, Tunisia
Alain de Cointet	Jérôme Baconin	France
Evren Dilekli	Virginia Gheorghiu	Turkey, Romania, Azerbaijan, Kyrgyz Republic
Seán Donlon	Ole Blöndal	Ireland, Denmark, Kosovo, Lithuania
Toshiyuki Furui	Nobuyuki Oyama	Japan
Michel Grilli	Heinz Olbers	European Investment Bank
Zbigniew Hockuba	Stefka Slavova	Poland, Bulgaria, Albania
Ole Hovland	Jorma Korhonen	Norway, Finland, Latvia
Marisa Lago	Christina Segal-Knowles	United States of America
András Kármán	Klára Król	Hungary, Czech Republic, Slovak Republic, Croatia, Georgia
Heinz Kaufmann	Artem Shevalev	Switzerland, Ukraine, Liechtenstein, Turkmenistan, Serbia, Montenegro, Moldova
Giorgio Leccesi	Dante Brandi	Italy
Vassili Lelakis	Peter Basch	European Union
Abel Mateus	Anthony Bartzokas	Portugal, Greece
Denis Morozov	Sergey Verkashanskiy	Russian Federation, Belarus, Tajikistan
Jonathan Ockenden	Gary Roberts	United Kingdom
Antonio Oporto	Enrique Bal	Spain, Mexico
Joachim Schwarzer	Joachim Steffens	Germany
Johannes Seiringer	Eran Pollak	Austria, Israel, Cyprus, Malta, Kazakhstan, Bosnia and Herzegovina
Jean-Louis Six	Irena Sodin	Belgium, Slovenia, Luxembourg
Eva Srejber	Anna Björnermark	Sweden, Iceland, Estonia
Paul Vlaanderen	Ronald Elkhuisen	Netherlands, Mongolia, FYR Macedonia, Armenia



## Composition of Board of Directors' Committees

### 31 December 2013

Audit Committee	Budget and Administrative Affairs Committee
Paul Vlaanderen (Chair)	Jonathan Ockenden (Chair)
Abel Mateus (Vice Chair)	Michel Grilli (Vice Chair)
Sang Goo Byun	Seán Donlon
András Kármán	Giorgio Leccesi
Antonio Oporto	Denis Morozov
Johannes Seiringer	Joachim Schwarzer
Eva Srejber	Christina Segal-Knowles (Alternate Director)
	Jean-Louis Six

The **Audit Committee** considers the appointment and scope of work of the external auditors. It also reviews financial statements and general accounting principles, policy and work of the Internal Auditor, expenditure authorisation, control systems, procurement policy and project evaluation.

The **Budget and Administrative Affairs Committee** considers general budgetary policy, proposals, procedures and reports. It also considers personnel, administrative and organisational matters, and administrative matters relating to Directors and their staff.

Financial and Operations Policies Committee	Board Steering Group
Ole Hovland (Chair)	Joachim Schwarzer (Chair)
Claire Dansereau (Vice Chair)	Vassili Lelakis (Vice Chair)
Alain de Cointet	Claire Dansereau
Evren Dilekli	Michel Grilli
Toshiyuki Furui	Ole Hovland
Zbigniew Hockuba	Abel Mateus
Heinz Kaufmann	Jonathan Ockenden
Vassili Lelakis	Paul Vlaanderen
	Enzo Quattrocio
	Colm Lincoln
	Milica Delević

The **Financial and Operations Policies Committee** reviews financial policies, including borrowing policy and general policies relating to operations, as well as reviewing procedures and reporting requirements.

The **Board Steering Group** facilitates coordination between the Board of Directors and management on arrangements for meetings of the Board, Committees and workshops.

## FURTHER INFORMATION

### Exchange rates

Non-euro currencies have been converted, where appropriate, into euros on the basis of the exchange rates current on 31 December 2013. (Approximate euro exchange rates: £0.83, US\$ 1.38, ¥144.68.)

### Abbreviations and acronyms

<b>ABI</b>	Annual Bank investment
<b>The Bank, EBRD</b>	The European Bank for Reconstruction and Development
<b>BAS</b>	Business Advisory Services
<b>CIF</b>	Climate Investment Funds
<b>CIS</b>	Commonwealth of Independent States
<b>CTF</b>	Clean Technology Fund
<b>EIB</b>	European Investment Bank
<b>EITI</b>	Extractive Industries Transparency Initiative
<b>ETCs</b>	Early transition countries
<b>EU</b>	European Union
<b>FAO</b>	Food and Agriculture Organization of the United Nations
<b>FI</b>	Financial institution
<b>FYR Macedonia</b>	Former Yugoslav Republic of Macedonia
<b>GEF</b>	Global Environment Facility
<b>ICT</b>	Information and communications technology
<b>IFCA</b>	Investment Facility for Central Asia
<b>IFI</b>	International financial institution
<b>LEF</b>	Local Enterprise Facility
<b>MEI</b>	Municipal and environmental infrastructure
<b>MSMEs</b>	Micro, small and medium-sized enterprises
<b>NIF</b>	Neighbourhood Investment Facility
<b>OCCO</b>	Office of the Chief Compliance Officer
<b>OCE</b>	Office of the Chief Economist
<b>PCM</b>	Project Complaint Mechanism
<b>PPP</b>	Public-private partnership
<b>RuSEFF</b>	Russia Sustainable Energy Financing Facility
<b>SBS</b>	Small Business Support
<b>SEFF</b>	Sustainable energy financing facility
<b>SEI</b>	Sustainable Energy Initiative
<b>SEMED</b>	Southern and eastern Mediterranean region
<b>SMEs</b>	Small and medium-sized enterprises
<b>SRI</b>	Sustainable Resource Initiative
<b>SSF</b>	EBRD Shareholder Special Fund
<b>TC</b>	Technical cooperation
<b>TFP</b>	Trade Facilitation Programme
<b>WBIF</b>	Western Balkans Investment Framework



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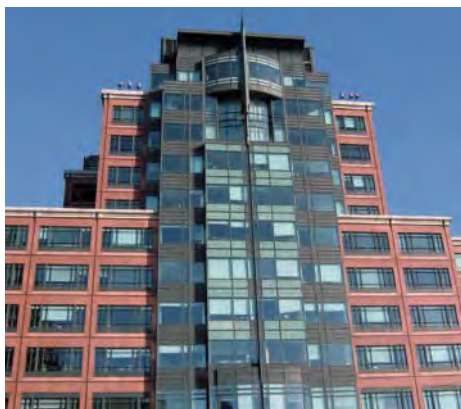
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