

ANNUAL REPORT 2014



European Bank
for Reconstruction and Development



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ABOUT THIS REPORT

The EBRD's *Annual Report* provides a comprehensive overview of the Bank's activities and achievements over the past year in the regions where it invests.

The 2014 edition demonstrates that, amid economic and political 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 EBRD continues to promote sustainable growth and recovery.

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Geopolitical tensions, market and currency volatility, and slowing growth were just some of the obstacles facing the Bank in many countries in which we work.

PRESIDENT'S MESSAGE



2014 will be remembered as a year in which the EBRD overcame serious challenges, once again delivering significant investment and transition impact. Geopolitical tensions, market and currency volatility, and slowing growth were just some of the obstacles facing the Bank in many countries in which we work. In July, shareholders gave

guidance to EBRD management that they would not, for the time being, approve new projects in Russia.

In this difficult operating context, the Bank demonstrated impressive flexibility, delivering results in line with its business plan. Annual Bank investment reached €8.9 billion across 377 operations, an increase of €355 million on the 2013 figure. These results were partly driven by the Bank's ability to swiftly boost operations outside Russia. The EBRD stepped up its investments in Ukraine to help counter the worsening economic situation and support renewed reform efforts, committing over a billion euros to a wide range of private and public sector projects. We also performed strongly in central and eastern Europe and the Caucasus, south-eastern Europe, Turkey and the southern and eastern Mediterranean (SEMED) region.

Our activities in the SEMED countries – Egypt, Jordan, Morocco and Tunisia – are now firmly established. It is just two years since we started full investment there, at the behest of the international community, and already our total portfolio stands at over €1.7 billion. The SEMED region illustrates the relevance of the Bank's business model in countries that have no history of central planning but are in transition to more efficient market economies. This was also evident in Cyprus, which became an EBRD recipient country in May 2014 and will remain so for a limited period until 2020. Within weeks of this development we made our first investment there – a testament to our capacity to move swiftly in supporting our clients.

2014 was also the year in which, at our Annual Meeting in Warsaw, Governors considered our new Medium-Term Directions (MTDs). These set the high-level strategic objectives of the organisation. Based on analysis showing that transition in the EBRD region has stalled in recent years, the MTDs aim to "re-energise transition" through three main areas: building transition resilience, through strong policies, institutions and economic structures; supporting market integration, to reinforce efficient markets and promote reform;

and addressing common global and regional challenges such as climate change and food security.

In keeping with these priorities, we put further effort into policy dialogue. We launched an Investment Climate and Governance Initiative (ICGI) in coordination with national and international partners. The ICGI aims to build institutional frameworks that can improve the investment climate and combat corruption. Under the Initiative, we signed agreements with the Albanian, Moldovan, Serbian and Ukrainian governments to help them pursue reforms. We also launched the Ukraine Crisis Response Framework, the Small Business Initiative, the Sustainable Resource Initiative and the Strategic Gender Initiative, all of which combine investment activities, policy dialogue and capacity-building to ensure balanced impact.

The flexibility shown by the Bank in 2014 was supported by ongoing organisational improvements. Our programme of internal modernisation, designed to ensure that we provide the most efficient support to our countries, has made significant progress. We launched a People Management Framework and introduced compulsory training for managers to enhance their skills. The final pieces of the internal reform programme should be delivered by the end of 2015.

But we cannot afford to be complacent. Our region faces significant economic and geopolitical challenges. The global economic outlook is uncertain, with implications for our region in terms of trade, capital flows and other key areas.

In 2015 the United Nations will launch the Sustainable Development Goals, which will replace the Millennium Development Goals. The associated Financing for Development programme will tackle the implementation of the post-2015 development agenda and the 21st Conference of the Parties (COP 21) meeting will seek agreement on how to limit climate change.

In light of all the geopolitical and economic factors affecting the regions, our Governors will decide on the Bank's future orientation, discussing the Strategic and Capital Framework (SCF) at our 2015 Annual Meeting in Tbilisi. Building on the MTDs agreed at the 2014 Warsaw Annual Meeting, the SCF will set the high-level strategic framework for EBRD operations in 2016-20.

Many of the challenges of 2014 remain with us, but I believe that the EBRD is in a strong position. The foundations have been laid for another demanding but impactful year.

Suma Chakrabarti
President, European Bank for
Reconstruction and Development

ABOUT THE EBRD

WHO WE ARE

The EBRD is investing in changing people's lives and environments from central Europe to Central Asia, the Western Balkans and the southern and eastern Mediterranean region. With an emphasis on working 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 direct financing 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 2014¹ (€MILLION)

Central Europe and the Baltic states

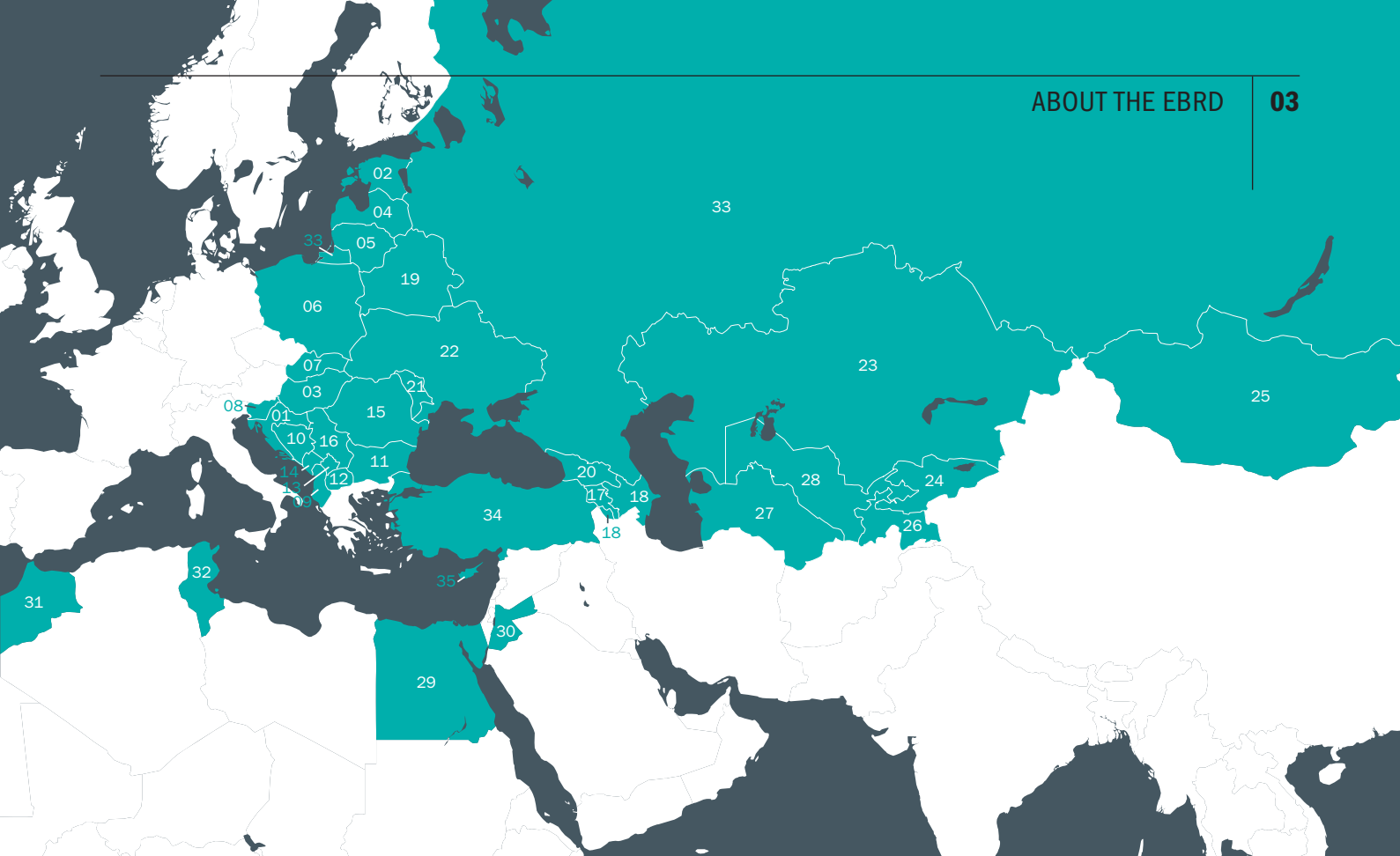
Map ref.	Country	2014	2013	Cumulative 1991-2014
01	Croatia	298	288	3,075
02	Estonia	40	23	595
03	Hungary	6	200	2,740
04	Latvia	4	23	585
05	Lithuania	32	32	629
06	Poland	594	756	7,269
07	Slovak Republic	62	237	2,064
08	Slovenia	35	48	818
	Total	1,068	1,607	18,988²

South-eastern Europe

Map ref.	Country	2014	2013	Cumulative 1991-2014
09	Albania	119	138	917
10	Bosnia and Herzegovina	68	208	1,706
11	Bulgaria	83	197	2,940
12	FYR Macedonia	252	74	1,463
13	Kosovo ³	37	22	124
14	Montenegro	75	78	439
15	Romania	592	508	6,927
16	Serbia	453	424	3,812
	Total	1,679	1,648	18,328

Eastern Europe and the Caucasus⁴

Map ref.	Country	2014	2013	Cumulative 1991-2014
17	Armenia	114	49	828
18	Azerbaijan	238	163	2,086
19	Belarus	242	255	1,642
20	Georgia	214	116	2,291
21	Moldova	105	128	973
22	Ukraine	1,210	798	10,377
	Total	2,124	1,509	18,198



Central Asia

Map ref.	Country	2014	2013	Cumulative 1991-2014
23	Kazakhstan	576	328	5,655
24	Kyrgyz Republic	35	134	535
25	Mongolia	117	64	1,065
26	Tajikistan	62	14	384
27	Turkmenistan	12	8	206
28	Uzbekistan	N/A	N/A	797
Total		803	549	8,640

Southern and eastern Mediterranean⁵

Map ref.	Country	2014	2013	Cumulative 1991-2014
29	Egypt	593	151	762
30	Jordan	138	60	337
31	Morocco	225	168	450
32	Tunisia	114	69	215
Total		1,070	449	1,764

Russia

Map ref.	Country	2014	2013	Cumulative 1991-2014
33	Russia	608	1,816	24,316
Total		608	1,816	24,316

Turkey

Map ref.	Country	2014	2013	Cumulative 1991-2014
34	Turkey	1,394	920	4,962
Total		1,394	920	4,962

Cyprus⁶

Map ref.	Country	2014	2013	Cumulative 1991-2014
35	Cyprus	108	N/A	108
Total		108	N/A	108

¹ "Annual Bank investment" (ABI) is the volume of commitments made by the Bank during the year. This includes: (i) new commitments (less any amount cancelled or syndicated within the year); (ii) restructured commitments; and (iii) amounts issued under the Trade Finance Programme (TFP) during the year and outstanding at year-end. In EBRD Annual Reports before 2013, ABI was shown as annual business volume (ABV).

² This figure excludes investments totalling €1,213 million made in the Czech Republic before 2008.

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

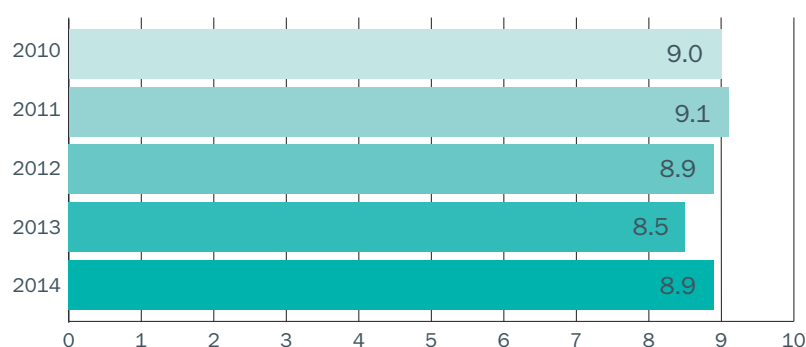
⁴ Formerly Western CIS and the Caucasus.

⁵ 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.

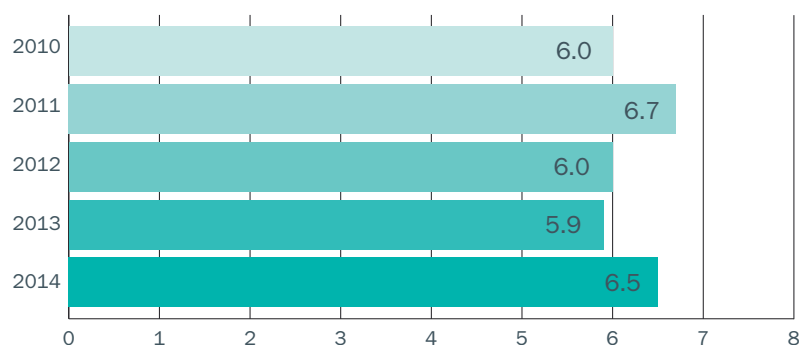
⁶ Cyprus became a member of the EBRD and an EBRD recipient country on 15 May 2014.

2014 IN NUMBERS

EBRD ANNUAL BANK INVESTMENT 2010-14 (€ BILLION)



GROSS ANNUAL DISBURSEMENTS 2010-14 (€ BILLION)



EBRD ANNUAL BANK INVESTMENT BY SECTOR 2014

26%

Corporate

Comprises agribusiness, manufacturing and services, property and tourism and information and communication technologies.

32%

Financial institutions

Includes investments in micro, small and medium-sized enterprises via financial intermediaries.

19%

Energy

Comprises natural resources and the power sector.

23%

Infrastructure

Comprises municipal and environmental infrastructure and transport.

OPERATIONAL RESULTS 2010-14

	2014	2013	2012	2011	2010
Number of projects	377	392	393	380	386
Annual Bank investment (€ million)	8,853	8,498	8,920	9,051	9,009
Non-EBRD finance (€ million)	13,867	13,488	17,372	20,802	13,174
Total project value⁷ (€ million)	20,796	20,527	24,871	29,479	22,039

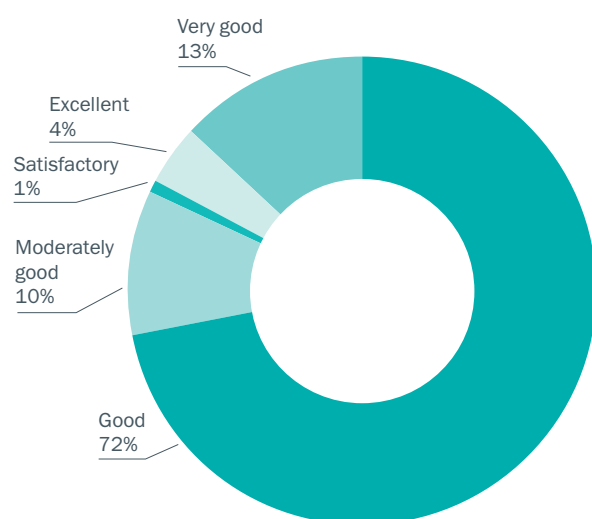
FINANCIAL RESULTS 2010-14

€ million	2014	2013	2012	2011	2010
Realised profit before impairment ⁸	927	1,169	1,007	866	927
Net (loss)/profit before transfers of net income approved by the Board of Governors	(568)	1,012	1,021	173	1,377
Transfers of net income approved by the Board of Governors	(155)	(90)	(190)	–	(150)
Net profit/(loss) after transfers of net income approved by the Board of Governors	(723)	922	831	173	1,227
Paid-in capital	6,202	6,202	6,202	6,199	6,197
Reserves and retained earnings	7,947	8,674	7,748	6,974	6,780
Total members' equity (€ million)	14,149	14,876	13,950	13,173	12,977

⁷ "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 (see Footnote 1). The amount of finance to be provided by non-EBRD parties is reported in the year the project first signs.

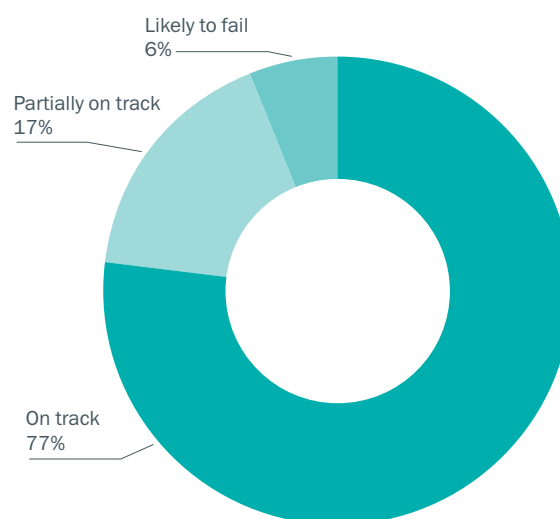
⁸ "Realised profit before impairment" is before unrealised fair value adjustments to share investments, provisions, loan write-offs, other unrealised amounts and transfers of net income.

TRANSITION IMPACT POTENTIAL OF NEW PROJECT SIGNINGS IN 2014



As well as considering the transition impact potential of projects, the Bank takes into account the risk (low, medium, high, or excessive) of not achieving that impact. Based on these two factors, it gives projects an Expected Transition Impact (ETI) rating.

TRANSITION IMPACT PERFORMANCE OF ACTIVE PORTFOLIO (AT LEAST TWO YEARS SINCE SIGNING) AT END-2014



Transition impact performance reflects how likely projects in the active portfolio are to achieve the transition impact that was expected of them at signing.



OVERVIEW

Despite a difficult economic and political environment, in 2014 the EBRD increased its total annual investment to €8.9 billion and signed 377 projects across more than 30 emerging economies. These projects cemented the Bank's reputation as a reliable partner in times of need and produced a major contribution to the transition process, which is vital for sustainable long-term growth. Major areas of engagement alongside investment activities included support for reforms aimed at combating corruption and improving the business climate.

THE EBRD INVESTED IN 34 COUNTRIES IN 2014



OPERATIONAL RESULTS

In 2014 major economic and political challenges affected the pace of transition in many countries where the EBRD works. The Bank responded to this difficult investment environment by increasing its support for transition and recovery, with total annual Bank investment (ABI)⁹ for 2014 of €8.9 billion, compared with €8.5 billion the previous year. The rise in EBRD financing came despite a sharp fall in its investments in Russia following guidance from a majority of shareholders in July that for the time being they would not consider new projects in the country. Investments were made to 377 operations in 2014, compared with 392 in 2013.

The Bank continued to increase its investment levels in the southern and eastern Mediterranean (SEMED) region, signing 34 operations and investing close to €1.1 billion in 2014. This included 15 projects in Egypt, where ABI reached €593 million and business was funded through the EBRD's SEMED Investment Special Fund. In May 2014 the Bank welcomed Cyprus as a recipient country and took a stake in the Bank of Cyprus to help stabilise the country's financial sector.

⁹ "Annual Bank investment" (ABI) is the volume of commitments made by the Bank during the year. This includes: (i) new commitments (less any amount cancelled or syndicated within the year); (ii) restructured commitments; and (iii) amounts issued under the Trade Finance Programme (TFP) during the year and outstanding at year-end. In EBRD Annual Reports before 2013, ABI was shown as annual business volume (ABV).

Business activity was strong in Turkey in 2014, with €1.4 billion invested and 37 transactions signed across a wide range of sectors. A third office was opened in the country, in the south-eastern city of Gaziantep, in response to demand for Bank funding outside large metropolitan areas.

The EBRD reacted to the crisis in Ukraine with new lending – as well as renewed commitments – exceeding €1.2 billion in a range of public and private sector projects after the new administration embarked on a programme of economic reform. The Ukrainian authorities also signed an Anti-Corruption Initiative, a major step forward in the bid to improve the investment climate.

Altogether, the EBRD invested in 34 countries in 2014, with investments by region as follows: Central Asia €0.8 billion, central Europe and the Baltic states €1.1 billion, Cyprus €0.1 billion, eastern Europe and the Caucasus €2.1 billion, Russia €0.6 billion, SEMED €1.1 billion, south-eastern Europe €1.7 billion and Turkey €1.4 billion.

The EBRD continued to support key economic sectors in line with its operational strategy. ABI in the financial sector reached €2.8 billion in 2014 (with SME financing a priority), in the diversified corporate sectors €2.3 billion, in the infrastructure sector €2.0 billion and in the energy sector €1.7 billion.

In 2014 the EBRD increased its efforts to prepare economies for more robust growth once the recovery is under way and to make them more resilient to future external shocks. These efforts are part of a broader strategy that also involves forging greater economic integration and addressing global challenges, such as climate change and energy security. The high transition relevance of projects signed in 2014 reflected this work, with 89 per cent of them assessed as having good, very good or excellent transition impact potential. Some 94 per cent of active EBRD projects well into implementation were assessed as generally on track to achieving envisaged transition objectives (see Transition Impact charts on page 5).

The EBRD's mandate to deliver transition and reform by working with the private sector was reflected in the private sector share of ABI, which was 72 per cent in 2014. This private sector focus was supported by the Bank's ability to offer equity investment alongside traditional debt financing, with the EBRD providing €0.9 billion of equity to 39 companies in 2014 (2013: €1.2 billion). The organisation took measures to strengthen its direct equity activities and will pursue this work in 2015.

Through the implementation of strategic initiatives the EBRD seeks to deepen the impact of its activities. These initiatives are designed to promote the sustainable use of resources, support early transition countries (ETCs), create conditions in which small and medium-sized enterprises (SMEs) can flourish and stimulate the development of local capital markets.

The EBRD's Sustainable Resource Initiative (SRI) promotes sustainable energy, climate change resilience and resource efficiency, which are important components of EBRD transition strategy in the countries where it works. As well as tackling water and materials efficiency, it supports energy efficiency, renewable energy and climate change adaptation. The EBRD invested a record €3.0 billion in 168 projects under the SRI in 2014, accounting for 34 per cent of total annual Bank investment. This is estimated to yield annual reductions of 7.3 million tonnes of CO₂ emissions.

The ETC Initiative, which increases financing and strengthens the business climate in the EBRD's less economically advanced countries of investment, marked its 10th anniversary in 2014. Close to one-third of the Bank's transactions in that year were undertaken in the ETCs, with investment of more than €1.1 billion. Since most firms in these countries are locally owned, and considered to be SMEs by international standards, 87 per cent of operations had a value of less than €10 million, with an average investment size of under €3 million.

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 2014 with the creation of the SME Finance and Development group within the EBRD's Banking department to implement the Small Business Initiative, which aims to streamline and strengthen the support that the EBRD provides to SMEs. (For more information, see page 24). In 2014, in addition to investments of €1.2 billion in 87 financial intermediaries for on-lending to SMEs, the Bank made direct investments in 39 SMEs.

The EBRD's Local Currency and Capital Markets (LC2) Development Initiative aims to establish viable local currency financing and to encourage the development of efficient and self-sustaining local capital markets, thereby mitigating key vulnerabilities in the EBRD region. Banks in most EBRD recipient countries continue to face significant challenges, making local capital market development more important than ever. In 2014, the Bank signed 81 local currency loan and bond transactions – 24 per cent of the total number of debt transactions by the EBRD during the year.

The Bank's portfolio of investment operations (including undisbursed commitments) increased from €37.8 billion in 2013 to €38.7 billion by the end of 2014, with finance provided through new investment operations exceeding reflows from existing investment operations and cancellations of unused amounts.

Gross disbursements reached €6.5 billion in 2014, up from €5.9 billion in 2013, with loan repayments of €4.7 billion and equity divestments of €1.2 billion resulting in operating assets of €27.2 billion at end 2014, up from €26.4 billion at end 2013.

In accordance with aspects of its mandate, which cover the mobilisation of domestic and foreign capital for clients, the EBRD maintained a strong record of raising debt and grant co-financing from a variety of sources, despite difficult economic and geopolitical circumstances.

The Bank's projects included additional non-EBRD finance of around €13.9 billion in 2014 (2013: €13.5 billion), with the EBRD directly mobilising €1.2 billion of investment from co-financiers – principally through €865 million of syndicated loans using the Bank's A/B loan structure (2013: €759 million) in 22 transactions. These spanned numerous sectors and brought finance to borrowers in Albania, Azerbaijan, Croatia, Georgia, Kazakhstan, Poland, Romania, Turkey and Ukraine.

In addition, the EBRD raised €312 million for 37 projects from bilateral or other lenders, either through parallel loans or through its Special Funds structures. EBRD 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 countries in the EBRD region as they build and strengthen open-market economies.



The portfolio of investment operations increased from €37.8 billion in 2013 to €38.7 billion by the end of 2014.

FINANCIAL RESULTS

In 2014 the EBRD recorded a net realised profit of €0.9 billion before provisions, unrealised losses on share investments and other unrealised amounts (2013: €1.2 billion profit). The main contributor to realised profit is the Bank's strong net interest income.

Including provisions and unrealised amounts, the Bank recorded a net loss of €0.6 billion for 2014 (2013: €1.0 billion net profit). This loss was primarily due to a decline in the value of its equity investment portfolio, with the weakening of the Russian rouble having a notable effect, together with increased provisions raised on the Bank's loan book which was affected by the economic deterioration in Ukraine.

The ratio of non-performing loans increased to 5.6 per cent at year-end (2013: 3.3 per cent) and the average credit rating of the loan portfolio overall equated to B+. While the Bank is now operating in an environment of more difficult political and economic conditions in some countries, it will maintain its high standards of project selection and enhance the monitoring of its portfolio.

The value of assets under the EBRD's Treasury management at 31 December 2014 was €22.5 billion compared with €20.1 billion at the close of 2013, the increase primarily explained by the revaluation of assets denominated in the US dollar due to the appreciation of the latter against the euro. Before hedge accounting adjustments and the impact of currency basis swap spreads, the operating profit of Treasury was €137 million compared with €147 million in 2013. Treasury uses currency swaps to fund its banking loan operations, mainly the Russian rouble-denominated portfolio. These swaps are held to maturity and therefore the unrealised losses caused by volatility in currency basis swap spreads reverse over time. After allowing for the impact of hedge accounting and currency basis swap spreads, Treasury returned a profit of €46.0 million (2013: €221 million).

The EBRD continues to enjoy a triple-A rating, reaffirmed by all three major rating agencies in 2014. The Bank raised €5.2 billion of long-term funding in 2014 under its annual borrowing programme, with an average maturity of 4.2 years. The bonds were issued in 14 currencies, with US dollar issuance accounting for 54 per cent of the total.

UKRAINE CRISIS RESPONSE

In response to adverse macroeconomic and geopolitical conditions for Ukraine, the EBRD stepped up its investments in the country by committing over €1 billion to public and private sector projects, reinforced by technical assistance and extensive policy dialogue.

Significant investments were made in Ukraine's gas transport, road, municipal and agribusiness infrastructure, and in agribusiness production. The Bank also increased the availability of its trade finance to support financial institutions as they facilitate international trade. In addition, it launched a specialised facility for existing clients to address their needs for liquidity and working capital, helping them to overcome difficulties caused by the financial crisis and the reduced availability of external funding.

Governors of the EBRD approved additional Bank contributions for the completion of the New Safe Confinement on the site of the 1986 nuclear accident at Chernobyl (see Chapter 2). EBRD shareholders established the EBRD-Ukraine Stabilisation and Sustainable Growth Multi-Donor Account (MDA), which will support the country's efforts to reform its economy, improve the business climate and return to a path of sustainable growth.

In the use of EBRD funding there will be a strong emphasis on improving the investment climate and combating corruption, stabilising the banking sector, increasing energy security, enhancing the competitiveness of the private sector and upgrading municipal infrastructure. The Bank played a pivotal role in driving anti-corruption efforts in Ukraine, in particular by devising an appropriate structure and effective legal foundation for the Business Ombudsman Institution. The institution will be financially supported by the EBRD-Ukraine MDA.

General administrative expenses for 2014 were €355 million (2013: €345 million). Sterling general administrative expenses for 2014 totalled £300 million (2013: £295 million).

Overall, the Bank's reserves decreased to €7.9 billion at the end of 2014 (2013: €8.7 billion), reflecting both the net loss for the year and net income allocations.

The geopolitical uncertainty in the EBRD region is likely to continue contributing to volatility in the Bank's earnings.

Full details and financial statements are provided in the EBRD's *Financial Report 2014* (see www.ebrd.com).

DONOR-FUNDED ACTIVITIES

Donors play a major part in the transition process. They provide financing – for example, through technical assistance, investment grants, concessional financing, risk-sharing facilities and incentive payments – and promote policy dialogue that helps to prepare the way for Bank-funded 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 EBRD activities. Total donor funding in 2014 amounted to €340.6 million.

Donors are active throughout the EBRD region, with a particular focus on those areas that face the biggest challenges: the early transition countries, the Western Balkans and the SEMED region. Among the priorities for donors in 2014 were: tackling climate change and boosting resource efficiency and energy security; supporting small firms; building a stable financial sector and promoting the development of local capital markets; accelerating transition in infrastructure; fostering the region's contribution to global food security; encouraging legal reform; and championing gender and social inclusion in Bank-funded projects.

Technical cooperation (TC) projects feature in the Bank's overall scorecard. Their outcomes are tracked in the TC results framework, which was created in 2013 to monitor the results of the Bank's efforts and to improve the flow of information to donors and other stakeholders. In 2014 the EBRD continued work on reforming the management of its grant resources. More information is available in the *Donor Report 2014* (see dr-ebrd.com).

POLICY DIALOGUE AND INITIATIVES

To achieve the highest impact through its projects, the Bank has developed policy initiatives addressing key transition challenges in the countries in which it invests. With strong support from donors, these initiatives link investments, policy dialogue, TC, and knowledge and capacity-building in sectors of strategic importance.

The four strategic initiatives reflected in the EBRD's corporate scorecard are the Sustainable Resource Initiative (SRI), the Early Transition Countries (ETC) Initiative, the Local Currency and Capital Markets (LC2) Development Initiative and the Small Business Initiative (SBI) (see "Operational Results" on page 7).

37

PROJECTS BENEFITED FROM
€312 MILLION RAISED FROM
BILATERAL AND OTHER LENDERS

THE EBRD DIRECTLY MOBILISED

€1.2 billion

OF INVESTMENT FROM CO-FINANCIERS

CASE STUDY**JORDAN TAPS INTO VAST SOLAR
POWER POTENTIAL**

Jordan's renewable energy sector received a major boost in 2014, with four investments by the EBRD in solar power plants worth a total of US\$ 75 million (€62 million equivalent).

The four plants will together deliver 60 megawatts of much-needed generating capacity from a clean, reliable domestic resource, thereby reducing the country's dependence on expensive imported hydrocarbons. Jordan, which has a rapidly growing demand for power, imports 97 per cent of the energy it consumes.

Helping to develop sustainable energy resources and increase energy security are key objectives of the EBRD's strategy in Jordan, a country with huge potential for solar power generation.

**CASE STUDY****SAFE DRINKING WATER FOR RURAL
MOROCCANS**

Nearly half a million people living in rural communities and medium-sized cities of Morocco will enjoy improved access to safe drinking water thanks to a water-supply investment programme supported by the EBRD. A €65 million sovereign-backed loan extended by the Bank to the Office National de l'Electricité et de l'Eau Potable (ONEE) will finance the provision of EU-quality drinking water to approximately 260 towns and rural communities in the Azilal, Ben Guerir and Ouarzazate regions. The loan is backed by €4.6 million in TC funds from Austria, the SEMED Multi-Donor Account and EBRD shareholders through the SEMED cooperation funds account.

As well as contributing to better health, the project features an important economic inclusion component as it will facilitate access to drinking water for people in economically less-advanced parts of Morocco. Women and girls in rural villages will benefit in particular as they are typically tasked with water collection, often from distant supply points. Thanks to the improved system of drinking-water delivery, they will have more time to engage in economically productive activities or education.

KNOWLEDGE ECONOMY AND INNOVATION

In order to compete successfully on the world stage, the EBRD region needs to harness the power of technology and embrace innovation in all areas of economic activity. This is particularly important in the countries where the Bank invests, as many of them have a legacy of energy waste, labour-intensive production processes and over-reliance on natural resources.

In 2014 the Board approved the Knowledge Economy Initiative, which brings a more strategic focus to the EBRD's successful support for innovation and technological dynamism. Under the Initiative, the Bank uses investments and related activities to foster appropriate innovation policies, the development of information systems and infrastructure (such as broadband), technological upgrades for industry, and financing for small, innovative technology companies, for example through the Bank's Venture Capital Investment Programme. This approach takes into account the different levels of technological development in the region, helping each country develop its own knowledge economy.

Among the notable investment projects that supported the knowledge economy in 2014 were financing worth €50 million to research the development of energy-efficient smart TV sets by Turkish electronics producer Vestel Elektronik (see case study on page 22), and a €20 million loan to Bulgarian company Bulsatcom to expand its mobile and fibre-optic broadband networks. The EBRD also engaged in extensive policy dialogue and provided technical assistance to help improve the region's innovation policies, including telecoms regulation, and create ecosystems that allow venture capital and private equity firms to grow.

Through these activities, the EBRD helps businesses to improve their productivity and contribute to sustainable economic growth.

A range of other initiatives support Bank efforts to deepen the transition process. Launched in 2014, the Investment Climate and Governance Initiative (ICGI) reaches beyond projects to encourage broader systemic change. ICGI programmes are developed in countries showing strong demand for EBRD engagement, demonstrable political will to improve governance and the investment climate, and a clear role for the Bank to add value to reform of the business climate. ICGI programmes were developed for Albania, Moldova and Serbia. The Bank also signed an Anti-Corruption Initiative with the new government of Ukraine, focused on establishing an independent Business Ombudsman Institution.

The EBRD also engaged in extensive high-level policy dialogue to support the launch of its Infrastructure Project Preparation Facility, which aims to improve the efficiency and replicability of infrastructure projects. The Facility will help strengthen local capacity to close the infrastructure gap that exists in many countries where the EBRD works.

The Strategic Gender Initiative (SGI) 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 an essential aspect of a modern, well-functioning economy. Since 2013, the EBRD has formally taken the promotion of

economic inclusion – the opening-up of economic opportunities to previously underserved social groups – into account when assessing the potential transition impact of investments. The Bank's work on economic inclusion focuses on women, young adults and people from economically less-developed regions.

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, improving the efficiency of production and distribution and promoting food quality and animal welfare. In this area, the Bank works closely with partners, including the Food and Agriculture Organization (FAO) of the United Nations.

The EBRD pays special attention to the Western Balkans in order to promote stability, regional integration and economic development. A highlight of 2014 was the hosting of a gathering at which all seven prime ministers of the Western Balkans (Albania, Bosnia and Herzegovina, FYR Macedonia, Kosovo, Montenegro and Serbia) and Croatia discussed economic cooperation and investment opportunities in the region.

Other areas of strategic focus for the EBRD include the knowledge economy, a key role with partners in the Vienna Initiative and Joint IFI Action Plan and the Legal Transition Programme. (For more information on these areas of work, see the box to the left, and the "Policy Dialogue and Initiatives" section, page 32).

MEASURING RESULTS

As part of institution-wide modernisation efforts, the EBRD has been reviewing how it measures the transition impact of its work. The Bank focuses on results at the investment and technical co-operation (TC) project level as well as at country and institutional levels.

In September 2014, the Board approved the design 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 reflects the Bank's specific transition mandate and business model and helps guide the EBRD's activities in each of the countries where it invests.

At the institutional level, the EBRD has revised its corporate scorecard. This provides a framework for aligning the organisation to the strategy set out by the Bank's shareholders.



In 2014 the EBRD increased efforts to prepare economies for more robust growth and to make them more resilient to external shocks.



Since the Bank began working in the SEMED countries in 2012 it has invested over €1.7 billion in the region.

The expanded scorecard tracks the performance of the Early Transition Countries, Sustainable Resource, Local Currency and Capital Markets, and Small Business initiatives. The scorecard sets targets for the transition impact objectives of investments at their approval stage; measures how successful their implementation has been against these objectives; and tracks the number of projects signed, the amount of investment provided or mobilised by the EBRD and the proportion of successfully completed technical cooperation assignments.

At the project level, the Bank measures the results of investments and TC projects. Work on improving the results framework for investment projects is ongoing. The EBRD has already developed a TC results framework that specifies the results expected and enhances the flow of information to donors and other stakeholders.

SOUTHERN AND EASTERN MEDITERRANEAN REGION

In 2014 the EBRD invested €1.07 billion and signed 34 projects in the SEMED region, bringing the total the Bank has invested in this region since it began operating there in 2012 to €1.76 billion and the total number of projects to 58. This strong financial engagement, supported since 2012 by some 130 donor-funded TC projects, demonstrates the EBRD's commitment to economic growth and private sector development in Egypt, Jordan, Morocco and Tunisia following the historic events across the Middle East and North Africa in 2011.

Important areas of focus for the Bank's work in SEMED countries include assisting financial institutions, developing infrastructure, supporting SMEs and other private businesses, and promoting the sustainable use of energy, water and other resources. Through investments complemented by TC projects and extensive policy dialogue, the EBRD helps to address the pressing economic issues facing SEMED countries – such as high levels of unemployment among women and young adults – and contributes to a stable political future for the region.

The Bank opened permanent offices in Egypt, Jordan and Tunisia – one was scheduled to open in Morocco in the first quarter of 2015. Jordan, Morocco and Tunisia are EBRD recipient countries while Egypt continues to have potential recipient country status. The Bank invests in Egypt through the EBRD SEMED Special Investment Fund.

Landmark transactions in 2014 included: major modernisation investments in Egypt's power and rail sectors; solar power deals in Jordan that will help the country reduce its dependence on expensive energy imports; support for the expansion of drinking water services for rural communities in Morocco; property and tourism projects with important economic inclusion elements in Egypt and Morocco; and credit lines in all four countries to facilitate access to finance for SMEs, particularly those led by women.

The EBRD supported the development of local currency lending and capital markets in SEMED, including through participation in a bond issue by Moroccan agribusiness group Zalagh Holding and currency swap agreements in Egypt and Tunisia. The Bank's Trade Facilitation Programme remains an important means of establishing banking relationships in the region. The programme signed eight agreements with banks in SEMED for a total value of €205 million in 2014. These agreements help local companies obtain the trade finance they need to import and export goods and expand.

A wide range of donor-funded activities were carried out in the region, many of which aimed to facilitate project preparation and implementation and build institutional capacity. The donor-funded Small Business Support programme increased its activities across SEMED, providing approximately 250 small and medium-sized firms with business advice in 2014 to help them grow. The programme formally launched in Jordan, Morocco and Tunisia in 2014, having previously launched in Egypt. TC funds for the region are provided from the SEMED Multi-Donor Account and by EBRD shareholders through the SEMED cooperation funds account.

Coordination with other IFIs active in SEMED remained an important feature of Bank engagement in the region. In 2014 the EBRD hosted the secretariat of the IFI Coordination Platform for the Arab Transition Countries under the Deauville Partnership.

TRANSITION PROGRESS IN THE EBRD REGION: DEMOCRATIC AND MARKET REFORMS

In accordance with its Article 1 mandate, the EBRD monitors democratic reform in the region in which it invests. 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. While transition countries that have joined the European Union (EU) or have attained candidate status have mostly reached a high level of democratic consolidation, there have been setbacks in some countries where populism is on the rise, and achievements in democratic reform in the rest of the EBRD region remain uneven.

Countries in the Western Balkans region continued with democratic reforms, supported by the process of EU approximation. Montenegro made further progress in EU accession negotiations, while Serbia formally opened them in January. Albania was granted the status of EU candidate country in June, and in July Kosovo initialled the Stabilisation and Association Agreement with the EU. This positive process is further supported by inter-ethnic reconciliation and intensified regional cooperation, notably through enhanced dialogue in

CASE STUDY TAJIK HYDROPOWER PLANT MEETS CLIMATE CHALLENGE

Tajikistan experiences chronic electricity shortages during the winter months as demand exceeds supply. These outages are exacerbated by climate change; hydropower plants depend on river basins fed by glacial meltwater and snowmelt, which are vulnerable to the effects of a warming climate.

A US\$ 76 million (€62.5 million equivalent) financing package from the EBRD and donors will support the modernisation of the Qairokkum hydropower plant in Tajikistan and help the country cope with a changing and more variable climate.

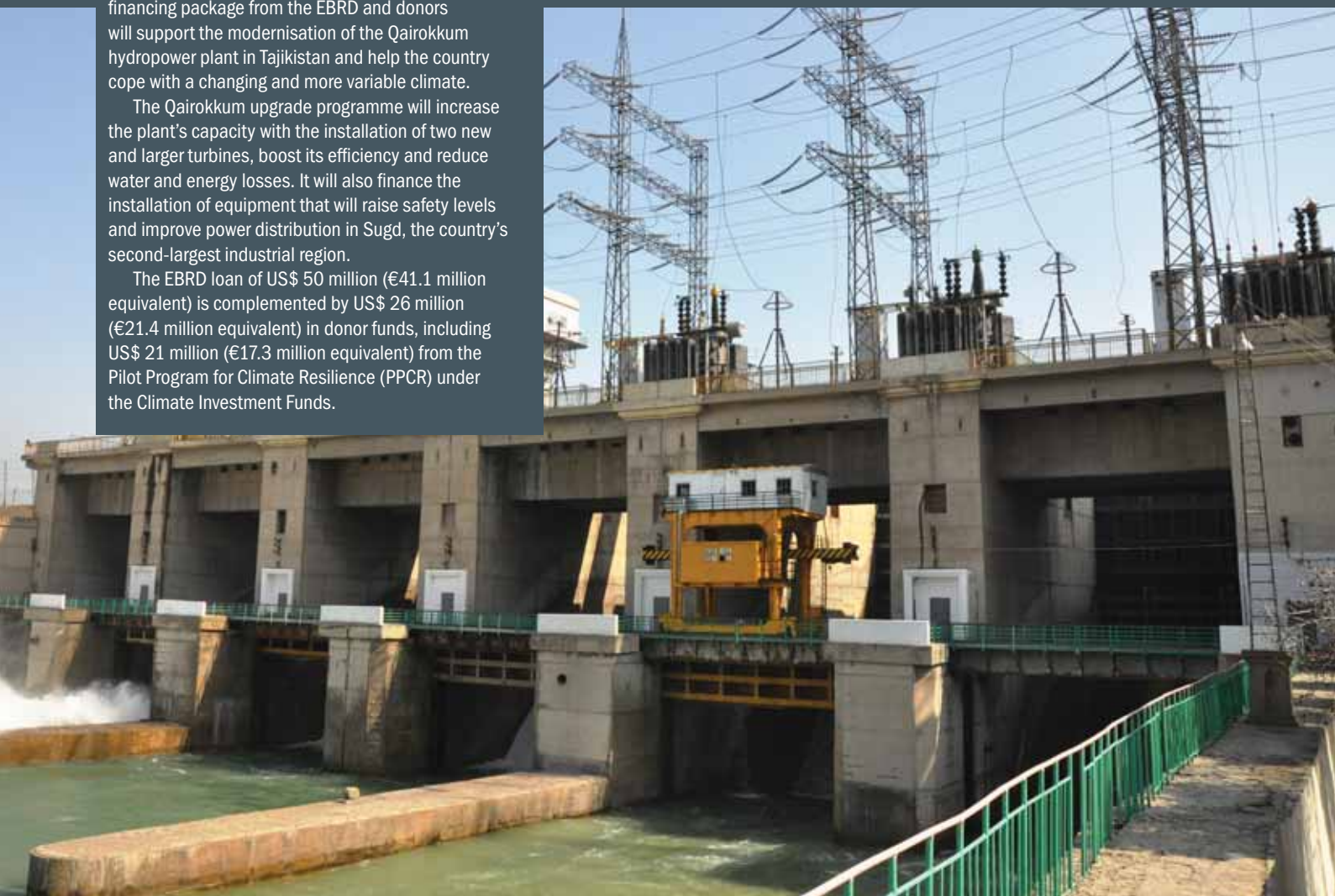
The Qairokkum upgrade programme will increase the plant's capacity with the installation of two new and larger turbines, boost its efficiency and reduce water and energy losses. It will also finance the installation of equipment that will raise safety levels and improve power distribution in Sugd, the country's second-largest industrial region.

The EBRD loan of US\$ 50 million (€41.1 million equivalent) is complemented by US\$ 26 million (€21.4 million equivalent) in donor funds, including US\$ 21 million (€17.3 million equivalent) from the Pilot Program for Climate Resilience (PPCR) under the Climate Investment Funds.



CASE STUDY STABILISING THE FINANCIAL SECTOR IN CYPRUS

The EBRD participated in the successful €1 billion capital-raising by the Bank of Cyprus, to help stabilise the largest financial institution in its newest country of investment. The EBRD holds a 5 per cent stake in the bank, which is implementing a comprehensive restructuring programme in line with a €10 billion international support package aimed at helping the island emerge from a deep financial crisis. Due to its size, the stabilisation of the Bank of Cyprus is critical for the full recovery of the Cypriot economy and financial sector. A key focus for the EBRD in its role as a shareholder will be to ensure that the bank adheres to the best international standards of corporate governance.



the format of the “Western Balkans Six” launched in the course of 2014. The EBRD contributed to this process by organising a historic summit of regional leaders at its London headquarters in February 2014. Despite these developments, the quality of political dialogue within the countries remains uneven. This was highlighted by the opposition boycotting parliament for prolonged periods in Albania and in FYR Macedonia, and by the failure to convene parliament in Kosovo for six months after the general elections in June. International organisations and NGOs expressed concerns regarding press freedom in most countries of the region.

The ruling Justice and Development Party (AKP) won a convincing victory in Turkish local elections, and the former Prime Minister Recep Tayyip Erdoğan won the first direct presidential elections. However, questions have arisen regarding the strength of checks and balances in the system.

The countries of eastern Europe and the Caucasus were affected by a rise in geopolitical tensions in 2014, which was associated with democratic advances in some countries and a deepening of their ties to the EU. In Ukraine, the Maidan protests calling for more democratic accountability, a stronger rule of law and fight against corruption culminated in the transfer of power to an interim government followed by free and fair presidential and parliamentary elections. Ukraine signed an Association Agreement with the EU and an accompanying Deep and Comprehensive Free Trade Area (DCFTA) agreement in June. However, intense fighting with separatists in eastern Ukraine leading to the loss of control of some territories placed the newly elected authorities under extreme pressure. Georgia and Moldova, continued to make progress on the path to democratic reform; both countries signed EU Association Agreements and accompanying DCFTAs in June. In Georgia, however, selective justice remains an issue affecting democratic transition, while in Moldova, enforcing the rule of law and fighting corruption, particularly in the judiciary, remain major challenges.

Political trends in Russia and other parts of Europe, the Caucasus and Central Asia in 2014 were partly shaped by the crisis in Ukraine, the annexation of Crimea and the associated rise in geopolitical tensions. The imposition of Western political and economic sanctions against Russia contributed to Russia's economic downturn, while domestic support for the country's policies and leadership remained robust. Independent NGOs and opposition groups in Russia continued to face pressure. Russia reinforced its efforts to advance integration with Armenia, Belarus and Kazakhstan under the Eurasian Economic Union (EEU), which comes into force in January 2015. Others in the region, including Kyrgyz Republic, may also join the EEU.

Democratic progress in several countries of Central Asia and the Caucasus remained slow and uneven in 2014. The major challenges were highly centralised decision-making mechanisms, weak checks and balances in the political system, widespread corruption and reported human rights violations. In Azerbaijan, prominent international organisations expressed concerns regarding freedom of the media and restrictions on the activities of independent civil society organisations. Two countries with a parliamentary form of government – the Kyrgyz Republic and Mongolia – made further progress in democracy-building, but the process was not linear and many challenges remain. The Bank remains seriously concerned about the lack of progress toward multi-party democracy and pluralism in Belarus



CASE STUDY

MAJOR BOOST FOR WOMEN IN BUSINESS

In 2014 the EBRD launched an innovative Women in Business programme that brings together financing and advisory services to help women manage and grow their own small and medium-sized enterprises (SMEs).

In the Bank's region, SMEs led by women tend to be relatively small and to focus on economic activities with low added value. Reasons for this include legal and cultural barriers to accessing capital, restricted opportunities for acquiring business management skills, and the frequent need to reconcile business and family responsibilities. At the same time, credit supply is restricted as many financial institutions have limited understanding of women-led SMEs as a market segment.

The Women in Business programme helps address these issues by providing dedicated credit lines for women entrepreneurs and by offering tailored advice and training to increase their know-how and networking opportunities. In addition, the programme advises partner financial institutions on how to reach more potential borrowers among women entrepreneurs through improved marketing and product development and by introducing a risk-mitigation scheme.

2014 saw Women in Business credit lines signed in Bosnia and Herzegovina, Egypt and Turkey and the programme is being developed across a wider range of countries. It benefits from the generous support of donors.

INNOVATION IN TRANSITION

Why do certain firms in the region innovate and grow while others become stuck in terms of their development? Drawing on unique data, the EBRD's *Transition Report 2014* reveals that innovative firms in the Bank's region continue to suffer disproportionately from constraints imposed by the business environment, such as pervasive corruption, shortages of skilled labour, excessive customs and trade regulations or lack of access to finance. While governments cannot directly make firms improve their performance, they can ensure that economies are open to trade and investment. They can also help companies learn about more efficient ways of doing business, enable workers to acquire the right skills, and promote competition which puts pressure on laggard firms to improve.

The Report argues that, as firms transform themselves, innovation policies should also be reshaped: there is no one-size-fits-all innovation policy. At the initial stages, policy-makers should focus more on improving the country's capacity to absorb technologies that

have been developed elsewhere. As firms gradually close the gap to the global technological frontier, the focus of policies needs to shift to nurturing creativity and providing highly specialised human capital.

The overall message of the *Transition Report 2014* is a hopeful one: regardless of a country's progress in transition or its level of economic development, individual businesses can make a difference. As firms move along their transition path, so will the countries in which they operate.

The *Transition Report* is produced by the EBRD's Office of the Chief Economist (OCE), which evaluates macroeconomic developments in the region, produces data and analysis and contributes to the development of the Bank's country and sector strategies. OCE also assesses the transition impact of projects and manages an economic research programme, disseminating the output through publications such as the *Transition Report* and the Regional Economic Prospects series. For more information on the work of OCE in 2014, see www.ebrd.com.



Individual firms can make a difference to the economic development of countries, according to the *Transition Report 2014*.

and Turkmenistan. It therefore continued to employ a calibrated strategic approach to operations, matching the scope of its activities to progress against well-defined political and economic benchmarks.

Turbulence in the Middle East in 2014 affected political conditions and reforms in the SEMED region. Militant jihadism and the rise of the Islamic State in Iraq and Syria (ISIS) put significant pressure on Jordan, which now hosts over 750,000 refugees. Egypt adopted a new constitution in January and held presidential elections in May, which were major milestones on the country's democratic roadmap. However, questions regarding the inclusiveness of political processes remain. Tunisia completed its cycle of free, fair, and inclusive parliamentary and presidential elections. In doing so, the country's political parties demonstrated their commitment to genuine consensual democracy.

During 2014, the political and economic situation in many countries continued to provide a challenging environment for market reforms. The crisis in Ukraine and the rise in geopolitical tensions had damaging implications for regional confidence and growth. Indeed, the region's annual growth in 2014 was significantly lower than in the previous year, reaching just 1.6 per cent. Against this backdrop, market reforms struggled to gain traction and reversals were observed in several cases.

The EBRD's annual assessment of transition progress and remaining challenges for 16 sectors in all countries where the Bank invests once again revealed the size of "transition gaps" still facing the region. (An extensive discussion of the methodology and scores is available in the *Transition Report 2014*.) For the first time, assessment of progress in reform by sector contained more downgrades than upgrades. The downgrades were mainly concentrated in the financial sector where a number of additional structural challenges have been revealed, even though the assessment of institutional reforms remained largely unchanged. Downgrades in non-financial sectors were concentrated in EU countries. In several cases, disproportionate government interference across different sectors had a negative effect on market function.

Positive developments were observed in the infrastructure sector, which saw the successful introduction of commercially based mechanisms to ensure the efficiency of services, notably in Moldova and the Slovak Republic. In addition, small improvements in access to finance for SMEs led to upgrades in related financial-sector indicators. Reform advances remained scarce in the energy sector, and there was another downgrade in Hungary (for the third year in a row) owing to a deterioration in market-supporting institutions in this sector.

Two countries were upgraded in one of the EBRD's traditional country-level indicators – competition policy. Croatia was upgraded from 3 to 3+ in light of its accession to the EU and important amendments to the country's Competition Act that entered into force in mid-2013. In Montenegro, the establishment of a fully independent competition authority and increased prosecution of cartels led to an upgrade of the competition policy indicator from 2 to 2+. On the negative side, the region's largest economy, Russia, was downgraded on trade liberalisation as a result of trade restrictions introduced in 2014. ●

ACTIVITIES BY SECTOR

The EBRD invests in the financial, corporate and SME sectors and in infrastructure, power and natural resources. By combining these investments with technical cooperation and policy dialogue, the Bank makes an important contribution to sustainable growth and private sector development.





FINANCIAL SECTOR

The EBRD supports the development of a resilient and competitive financial sector in the countries in which it invests. By blending investments with donor-funded technical assistance and policy dialogue, the Bank fosters strong financial institutions that drive economic growth, promote energy efficiency and reach underserved sections of the population.

In 2014 the financial sector in the EBRD region continued to face significant challenges. A slow crisis-recovery in many countries, the ongoing cross-border deleveraging of banks, tighter regulation of the financial sector, and structural economic problems all combined to limit the amount of credit available to firms.

By signing new business in the financial sector worth €2.8 billion in 2014 covering 135 projects in 30 countries (2013: €2.4 billion covering 157 projects in 29 countries) the Bank supported lending to the real economy. It provided around 18 per cent of its loans through local currency instruments in order to reduce foreign exchange risks for partner institutions and their clients.

The EBRD delivered financial sector projects across the whole region (see chart on page 18), including a high level of activity in Poland and Turkey, where 11 transactions were signed in each country for annual Bank investment (ABI) of close to €750 million. The Bank also expanded its activities in Albania, Armenia, Croatia, Romania, Serbia, the Slovak Republic and new recipient country Cyprus.

Despite the difficult business environment in the southern and eastern Mediterranean (SEMED) region the Bank continued to develop new financial sector projects there, signing 11 transactions and trade finance for ABI of €300 million. It also remained very active in the early transition countries (ETCs), where 54 projects were signed and ABI reached €372 million.

The Trade Facilitation Programme (TFP) also made a significant contribution to the Bank's business in 2014, including in the ETC region, and was instrumental in EBRD efforts to support the Ukrainian economy.



A resilient financial sector drives economic growth and development.

POLICY DIALOGUE

Major focus areas for policy dialogue included strengthening the infrastructure of the financial sector and improving access to long-term financing. In line with its Local Currency and Capital Markets (LC2) Development Initiative, the EBRD worked to improve the legal and operating environment to enable more local currency and capital market activity. It also combined extensive policy dialogue with investments to strengthen the deposit insurance system in Albania and Serbia.

The Bank continued policy dialogue activities aimed at promoting financial inclusion, which is the extension of financial services to people outside the formal banking system. The EBRD supported the central bank of Tajikistan in creating a regulatory framework for mobile financial services in the country. This resulted in a pilot project that allows banks and other financial institutions to deliver their services using innovative technologies.

In addition, the EBRD cooperated closely with other international financial institutions (IFIs) to support the health of the financial sector across the region. The Vienna 2.0 Initiative, the Joint IFI Action Plan for Growth in Central and South Eastern Europe and the Ukraine Financial Forum were among the main platforms for this work.

BANKING

Tighter regulation of the financial sector, along with high levels of non-performing loans (NPLs) and unprofitable assets constrained bank capital and reduced profit margins for banks in many parts of the EBRD region. Continued deleveraging by major European banking groups further reduced the availability of long-term investible capital.

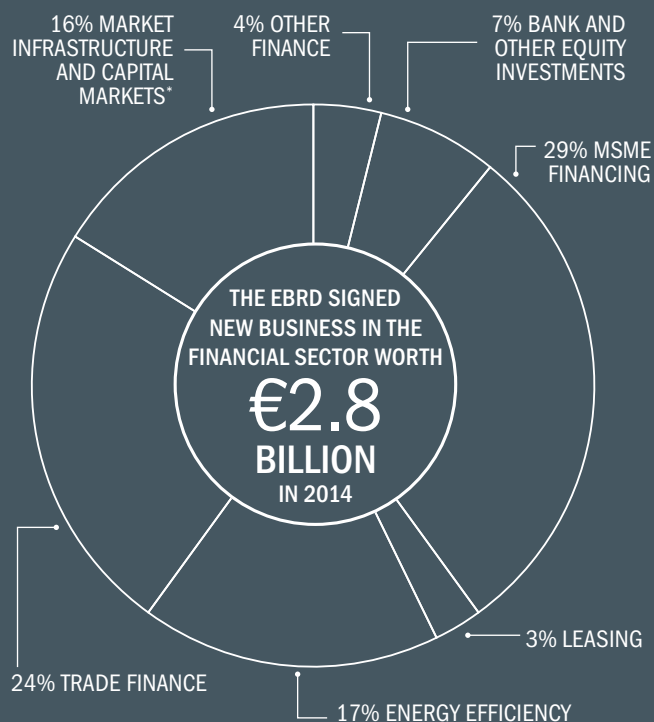
To help strengthen the banking sector, the EBRD participated in capital increases by banks in Cyprus and Poland and invested in bank bond issues in Poland and Romania. The institution encouraged bank lending to the real economy through its trade finance, micro, small and medium-sized enterprise (MSME) and energy-efficiency activities.

TRADE FINANCE

The Trade Facilitation Programme (TFP) of the EBRD 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. The Programme plays an important role in supporting economic activity in countries where foreign banking groups are reluctant to engage in trade finance because of higher levels of risk.

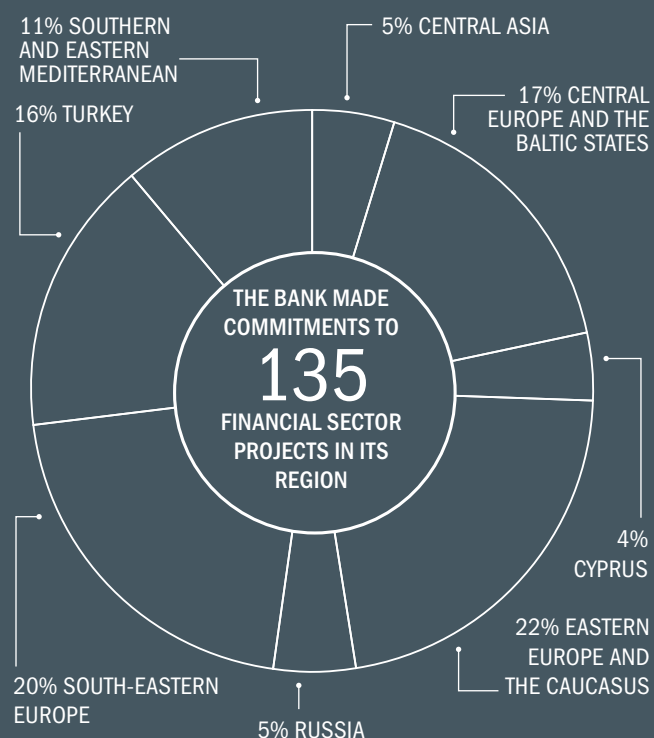
In 2014 the EBRD financed 1,756 trade transactions worth a total of €1.3 billion, working with 82 banks across 22 countries. In response to the current difficulties in Ukraine, the Programme intensified its support for local businesses by processing trade transactions worth €347.6 million. The Bank concluded its first TFP transactions in Egypt and Tunisia and the Programme remained an important means for the EBRD to establish banking relationships in the SEMED region. The ETCs continued to represent a major share of trade finance business: they accounted for 45 per cent of the number of TFP transactions (and 22 per cent of the volume).

FINANCIAL SECTOR ANNUAL BANK INVESTMENT BY PRODUCT, 2014



* The market infrastructure and capital markets segment includes bonds (not linked to SME financing), an asset-backed securitisation and credit lines to deposit insurance agencies.

FINANCIAL SECTOR ANNUAL BANK INVESTMENT BY SUB-REGION, 2014





Financing for MSMEs is vital to stimulate lending to the real economy.

SUSTAINABLE ENERGY AND RESOURCE 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 Resource Initiative (SRI), which builds on the Sustainable Energy Initiative (SEI) launched in 2006.

The Bank provided new loans worth a total of €479 million to 35 financial institutions across 17 countries, including Mongolia for the first time. In Turkey the EBRD contributed US\$ 282.5 million (€233 million equivalent) to a US\$ 350 million (€288 million equivalent) financing facility to help homeowners cut energy consumption. Launched in partnership with the multi-donor Clean Technology Fund, the facility combines long-term financial support to Turkish banks and technical advisory services for banks and homeowners. The Bank also extended a €105 million loan to Turkey's Isbank, of which €74 million is dedicated to energy efficiency loans while the remainder will finance women entrepreneurs and agricultural projects.

Between the launch of the SEFFs in 2006 and the end of 2014, the EBRD disbursed loans worth €2.1 billion to partner institutions, which on-lent €1.9 billion to sub-borrowers, thereby supporting over 73,900 sustainable energy projects.

Under the umbrella of the SRI, which launched in 2013, the EBRD last year extended its first resource-efficiency credit line to a financial institution. The €50 million loan to Türkiye Sınai Kalkınma Bankası A.S. (TSKB) will be on-lent to companies for water efficiency, waste minimisation and energy efficiency projects.

MSME FINANCING

The promotion of financing for MSMEs is central to the EBRD's efforts to stimulate lending to the real economy. Small businesses are a traditional driver of job creation and economic growth in the countries where the Bank invests but have been particularly affected by the shortage of liquidity resulting from the financial crisis.

In 2014 the Bank continued to facilitate credit flow to MSMEs by concluding 68 MSME credit lines and bonds for over €895 million to partner institutions such as banks, leasing companies and specialised microfinance institutions across 25 of the countries in the EBRD region.

To help increase and strengthen the role of women entrepreneurs in Egypt, Turkey and the Western Balkans, the Bank launched Women in Business programmes that will provide companies run by women with advice and finance via credit lines to local banks. Women in Business programmes will be launched in 15 of the countries where the Bank invests.

Energy-efficiency credit lines also supported finance to small and medium-sized enterprises (SMEs). The EBRD actively supports MSMEs through over 69 partner institutions in 25 countries. As of mid-2014, these partner institutions had portfolios of 2.5 million MSME loans totalling €16.8 billion.

EQUITY

Demand for equity investments in the banking sector remained low in 2014 due to the difficult financial environment. The EBRD participated in the recapitalisation of the Bank of Cyprus to help stabilise the bank's operations and increased its investment in Meritum Bank in Poland. In its first equity investment in an asset management company since the financial crisis, the EBRD took a stake in Altus TFI in the Polish company's initial public offering (IPO) on the Warsaw Stock Exchange.

With regard to exits, the Bank secured 10 full and 5 partial divestments from a range of institutions in its portfolio, including Bank of Georgia and Bank Intesa, Russia. The EBRD has investments of €1.74 billion in 66 financial institutions across 25 of the countries where it invests.



CASE STUDY POLISH INSURER EYES GROWTH WITH BOND ISSUE

The EBRD backed the international expansion plans of a leading Polish insurance company, PZU, by buying €40 million of senior unsecured Eurobonds in the insurer's €500 million debut bond issue.

PZU plans to establish itself as a regional player in the fragmented insurance market of central and eastern Europe and will use the bond issue proceeds to acquire significant stakes in insurance companies or other financial institutions in the region.

This expansion will increase competition in the regional insurance market, which ultimately will benefit customers. The bond acquisition is an example of EBRD efforts to strengthen financial institutions and contribute to the development of local capital markets in the countries where it invests.

OTHER FINANCIAL SERVICES

To help diversify the funding base of financial institutions and encourage lending to the real economy, the EBRD supported bond issues and securitisation, factoring and leasing projects. Business with non-banking financial institutions grew as the Bank diversified its investments and contributed to the development of market infrastructure and capital markets. It extended funding to deposit insurance agencies in Albania and Serbia to bolster confidence in the financial sector. The acquisition of a stake in the Bucharest Stock Exchange demonstrated EBRD support for Romania's efforts to strengthen local capital markets.

The Bank strongly encourages local currency lending and financed 50 local currency loans and bonds in 2014. It continued to respond to the currency mismatch 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 assistance supported EBRD investments and policy dialogue in priority areas such as sustainable energy, LC2, financial inclusion, trade finance and MSME lending. In 2014 there were 98 technical cooperation (TC) assignments issued in the financial institutions sector with a total value of €28.9 million. Donors funded €28.3 million of incentive payments to participating institutions and their clients in the areas of energy and resource efficiency and SME competitiveness.

Technical assistance is an important element of the Women in Business programme launched in Egypt, Turkey and the Western Balkans last year. TC assignments will help partner financial institutions reach out to companies managed by women and will provide women entrepreneurs with advice.

INDUSTRY, COMMERCE AND AGRIBUSINESS

Through investments in industry, commerce and agribusiness (ICA), the EBRD promotes the development of a strong private corporate sector that generates sustainable growth. It uses loans, bonds, equity investments, participation in equity funds, policy dialogue and donor-funded technical assistance to support clients.

In 2014 the Bank invested €2.3 billion through 136 projects in ICA. The sector accounted for 26 per cent of annual Bank investment and 36 per cent of the number of operations (including 37 per cent of ETC transactions and 78 per cent of equity transactions).

To boost the competitiveness of companies in its region, the EBRD launched its Knowledge Economy Initiative (KEI) in 2014. This promotes innovation in a systematic way across the Bank and addresses policy, financing, infrastructure and technology gaps to help clients increase productivity. (For more information on the Initiative, see the box "Knowledge Economy and Innovation" on page 11.)



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In 2014 industry, commerce and agribusiness accounted for 26 per cent of annual Bank investment.

AGRIBUSINESS

EBRD investments and policy dialogue aim to unlock the enormous agricultural potential of the Bank's region in a way that contributes to economic growth and global food security while promoting resource efficiency and animal welfare.

In 2014 the EBRD invested a total of €859 million (2013: €871 million) through 56 transactions in agribusiness, including €232 million in support of the Sustainable Resource Initiative (SRI). In Ukraine, the Bank increased its financing for agribusiness companies to make up for the reduced availability of commercial funding and engaged in extensive policy dialogue to help make the sector more attractive to investors.

The EBRD continued its innovative engagement with the agribusiness sector in Turkey. Investments included participation

in a bond issue by food and beverage producer Yaşar Holding and an equity stake in dairy company Yörsan. Among the notable projects in other parts of the EBRD region were financing for the first hypermarket in Tajikistan and equity funding for the expansion of the Axereal grain collection cooperative into Croatia, Romania and Serbia.

Investments in agribusiness make an important contribution to the Bank's efforts to promote greater economic inclusion. An example is the EBRD's loan to Turkish confectionery company ETI. The Bank will support the firm's investment programme, including the commissioning of a greenfield confectionery production facility near Craiova, Romania. ETI will provide training opportunities to address regional inclusion gaps in regard to education.

The Private Sector for Food Security Initiative remained a central focus for the EBRD's work in agribusiness. Food quality and improved logistics emerged as key themes within the Initiative and this was reflected in the Bank's investments and policy dialogue. Animal welfare was also very important; the EBRD's revised Environmental and Social Policy formalised the requirement that the Bank only invest with clients who commit to bringing their animal welfare standards in line with those of the EU. Several agribusiness investments in 2014 saw the Bank support companies committed to these high standards, including Ukrainian pig farming company Nyva (see case study on page 45).

MANUFACTURING AND SERVICES

In the manufacturing and services sector, the EBRD's activities promote the sustainable use of resources as well as the development of the knowledge economy and innovation in the region. To support economic diversification, the Bank invests in a broad spectrum of industries, including (in 2014) automotive

supply, capital goods, chemicals, construction materials, electronics, forestry products, glassware and pharmaceuticals.

In 2014 the EBRD invested €890 million in the manufacturing and services sector, signing 50 projects (compared with close to €900 million for 51 transactions in 2013). Transactions ranged in size from €0.2 million to €125 million and helped mobilise an additional €120 million in syndicated financing. The Bank is committed to reaching out to SMEs: 32 of the transactions in the manufacturing and services sector in 2014 were for €10 million or less, and many of these were in the ETCs and the Western Balkans.

In the SEMED region, the EBRD committed US\$ 50 million (€41 million equivalent) to pharmaceutical group Hikma to finance the expansion of facilities in Jordan, Morocco and Tunisia and to support investments in intellectual property related to new, sophisticated medicines.

The EBRD backs innovative industrial projects that make efficient use of energy and other resources. Examples include the Bank's investment in energy efficiency and glass recycling at leading Turkish glass producer Şişecam and financing for the construction of an environmentally friendly cement plant by Mongolian company Senj Sant. The EBRD also invests in research and development and technology upgrades that enhance the productivity and competitiveness of manufacturing companies.

In addition, the Bank works to attract foreign direct investment to industry in the region and provides local currency financing to limit client exposure to foreign exchange risk. Improving corporate governance is another focus, including through equity capital transactions, such as the purchase of a stake in glass tableware producer Paşabahçe in Turkey.

GLOBAL INVESTMENT FIRM MAKES REGIONAL DEBUT

As part of efforts to attract major international investors to the EBRD region, and in support of its Knowledge Economy Initiative, the Bank increased its investment in SBB/Telemach, now part of the United Group, upon the acquisition of a controlling interest in the group by leading global investment firm KKR.

The EBRD invested €50 million alongside funds affiliated with KKR, which was making its first direct investment in central and eastern Europe. United Group is a leading regional provider of pay-TV platforms and telecommunications, with operations in Bosnia and Herzegovina, Croatia, FYR Macedonia, Montenegro, Serbia and Slovenia. With the support of KKR and the EBRD, the group will undertake ambitious expansion plans.

The EBRD investment promotes competition within the telecommunications sector in the region. It also demonstrates the appeal of the Western Balkans to world-class private equity players, who bring large amounts of capital and the highest standards of corporate governance to their investee firms.

HELPING YOUNG EGYPTIANS FIND JOBS

Through an investment in a retail and entertainment centre in a Cairo suburb, the EBRD is helping to address the skills gap among young Egyptian job-seekers while boosting retail infrastructure. Nearly two-fifths of Egyptians under the age of 24 are unemployed and a third are not in any form of employment, education or training.

The EBRD is providing US\$ 60 million (€49.4 million equivalent) to fund the development of the Mall of Arabia, the first phase of the Arabian Centres development in 6th of October City, an important satellite town on the edge of Cairo. The project will create some 5,000 jobs in total. Twenty-five international and local fashion brands operating in the centre will form a partnership to provide on-site, work-based training for youth – young women in particular – that is based on best international standards and meets the needs of employers. At least 100 young job-seekers will undergo vocational training in subjects including customer relations, store and facilities management and English.

The project is expected to have a systemic impact on vocational training in Egypt. The private employers providing on-site training will help to develop national training standards for the retail sector, thereby ensuring a better match in the long term between the requirements of industry and the skills of young people.

100
YOUNG JOB-SEEKERS

WILL UNDERGO VOCATIONAL TRAINING IN ENGLISH,
CUSTOMER RELATIONS, STORE AND FACILITIES MANAGEMENT.

INFORMATION AND COMMUNICATION TECHNOLOGIES

The EBRD promotes the development of a liberalised and financially self-sufficient information and communication technologies (ICT) sector that enables citizens and firms to benefit fully from the digital revolution. Activities in this sector are a critical element of the Bank's Knowledge Economy Initiative, launched last year. (See box on page 11).

In 2014 the Bank adopted a new ICT Sector Strategy, replacing a policy that had been in place since 1999. The Strategy, approved after public consultation, sets out three operational objectives: (i) promoting access to communications and information for more people, including through increased broadband penetration; (ii) helping incumbent telecommunications operators and governments accelerate privatisation; and (iii) fostering innovative ICT services with the potential to strengthen local innovation systems.

Last year the EBRD invested €158 million in the ICT sector through 10 projects in the region (2013: €307 million for nine projects). These included two transactions with major international private equity groups that are new to the EBRD region: a €50 million participation in the acquisition of United Group (SBB/Telemach) by KKR, the leading global investment firm; and a US\$ 50 million (€41 million equivalent) loan to Turkish electronic security provider Pronet, which is majority-owned by Cinven, a leading European private equity firm.

The Bank invested €24 million in the second phase of the switchover from analogue to digital TV broadcasting in Serbia and conducted extensive policy dialogue related to the digital switchover in that country, as well as in Albania and Moldova. It provided €10 million in growth capital to help Virgin Mobile Central and Eastern Europe, a mobile virtual-network operator, expand in Poland and launch services in Turkey.

The Bank continued to implement its Venture Capital

CASE STUDY STRENGTHENING TURKEY'S KNOWLEDGE ECONOMY

Turkish electronic goods manufacturer Vestel Elektronik is investing in research for the development of energy-efficient smart TV sets and light-emitting diode (LED) products thanks to EBRD financing.

The Bank extended a €50 million loan to the company, which makes TV sets and white goods for global brands and produces tablet PCs, phones, smart boards and set-top boxes under its own brand name. Vestel Elektronik uses LEDs in most of its products and the research and development programme aims to help the company reduce the cost of these and dependence on foreign suppliers.

The firm will conduct its research with local universities, ensuring a transfer of skills that is expected to result in patents, academic publications and improved university laboratories.

Investment Programme (VCIP), contributing to the development of a venture capital ecosystem in the region that can support innovative, high-growth technology companies. Three new investments under this programme were signed in 2014, in addition to a follow-on investment in a new financing round for an existing investee company.

PROPERTY AND TOURISM

In property and tourism, the EBRD works to support sustainable development and finances projects that promote resource efficiency, regeneration, gender equality and economic inclusion. It invests in hotels, offices, retail centres, logistics and mixed-use facilities.

In 2014 the EBRD committed a total of €227 million in 11 projects (2013: €240 million for 13 projects) in the EBRD region. Of this amount, €122 million was debt and the remainder equity. The purchase of a stake in Alliances Hotel Investment in Morocco marked the Bank's first direct equity investment in the SEMED region. It also acquired a minority stake in Amtel to support property developments in a number of countries including Belarus and Georgia.

“ The EBRD supports property projects that make efficient use of power and other resources.

Recognising that buildings are major consumers of energy and water, the EBRD supports property projects that make efficient use of power and other resources. An example is its US\$ 60 million (€49.4 million equivalent) financing of the Arabian Centres retail and entertainment complex in the Cairo area, which will employ advanced technology to save water and energy.

The Bank contributed to economic inclusion by investing in property projects that improve routes from training to employment for women and young adults. Examples include the Arabian Centres and Alliances Hotel projects in Egypt and Morocco and an investment in the refurbishment of Croatia's Marina Dalmacija, the largest marina on the Adriatic Coast.

Projects in the ETCs and the Western Balkans included a loan to finance the completion of the Orion Hotel in the Kyrgyz capital, Bishkek. The Bank continued to support clients facing challenging market conditions, for example by restructuring its financing for the Tirana East Gate shopping mall in Albania and restructuring its loan to the Hilton Podgorica in Montenegro.

EQUITY

The Bank takes both direct and indirect equity positions in companies and projects. It is the single largest investor in private equity funds in the EBRD region and focuses mainly on growth and expansion capital. In 2014 the Bank enhanced its equity activities by bringing direct and indirect equity operations and portfolio management under a single Managing Director for Equity. It also created a network of equity specialists across the Bank. Equity investment themes have been developed and this work will be intensified in 2015.

Measures were taken to strengthen the Bank's capacity to identify and pursue investment opportunities and maximise the value of equity transactions. The Bank also increased its cooperation with global institutional investors, such as sovereign wealth funds, with a view to creating co-investment opportunities in the region. These investors can provide a major contribution to addressing the continued shortfall in long-term investment capital in many countries where the Bank invests.

DIRECT EQUITY

EBRD equity investments significantly improve the corporate governance of investee companies and are an essential instrument for deepening the transition impact of Bank activities. They also help compensate for the current lack of equity available to medium-sized enterprises in the EBRD region and provide reassurance to international co-investors entering new markets.

Since 1992, the Bank has invested over €14 billion in more than 820 equity investments across the region, including €10.8 billion in direct equity. At the end of 2014, its equity exposure was €6.1 billion in 352 investments, of which €4.6 billion was in direct equity. Taking only minority positions, the Bank makes direct equity investments ranging from €1 million to €250 million in energy, infrastructure, and the financial sector, as well as industry, commerce and agribusiness. It also supports private equity funds in the region (see below).

Noteworthy transactions in 2014 include participation in the IPOs of Romanian power distribution company Electrica and Polish asset management company Altus TFI and a significant pre-IPO equity investment in glassware maker Paşabahçe (Turkey) of up to €125 million. The Bank also successfully secured a full exit from Russian pharmaceutical company Petrovax and a partial exit from Russian hypermarket chain Lenta.

EQUITY FUNDS

With investments in over 150 funds since 1993, the EBRD has the largest private equity fund investment programme dedicated to central and eastern Europe (CEE) and Central Asia. Through its investments in private equity funds, the Bank helps to create a private equity industry in the region, as well as supporting growing companies that seek to access new sources of financing and improve their corporate governance. By mid-2014 over 1,300 investee companies had benefited from EBRD funds. Through its policy dialogue the Bank helps develop a robust private equity and venture capital ecosystem.

In 2014 the EBRD committed €185 million to nine private equity funds (compared with €334 million for 10 funds in 2013).

Enhancing its position as a reliable partner in SEMED, the Bank invested in a fund affiliated with the Abraaj Group that is dedicated to countries in the region such as Egypt, Morocco and Tunisia. The EBRD also invested in the Badia Impact Fund, an early-stage venture capital fund active in the SEMED region under the Early-Stage Innovation Facility (see case study on page 25) and increased its support for an existing fund sponsored by one of the leading private equity firms in Tunisia and Morocco.

The EBRD continued to back small companies by investing in two funds that will provide growth capital to SMEs in CEE. In addition, it participated in the restructuring of its existing commitment to the Accession Mezzanine Capital III Fund, which provides mezzanine financing to companies in the same region. The Overseas Private Investment Corporation (OPIC) contributed to the restructuring; this was the first time OPIC and the EBRD had found themselves in the same vehicle.

The Bank invested in a first-time fund, Romanian Foundations, which will provide capital to Romanian SMEs. It also invested €5 million in the Enterprise Innovation Fund (ENIF), which provides equity and quasi-equity funding for innovative SMEs in the Western Balkans. ENIF is led by a fund manager selected by a competitive process that is run by the European Investment Fund (EIF), a member of the European Investment Bank (EIB) Group.

The equity funds and agribusiness teams worked closely together on a US\$ 100 million (€82.3 million equivalent) commitment to NCH Agribusiness Partners II, a private equity fund seeking to make investments in a portfolio of agricultural land and agribusiness-related assets in Ukraine and other countries. The EBRD also invested €16.5 million in the EMF

New Europe Insurance Fund, the first fund of its kind focused on investing in the insurance sector in Armenia, Azerbaijan, Belarus, Georgia, Moldova, Turkey, Ukraine and the Western Balkans.

The Bank has developed two integrated approaches 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 EBRD's commitment to the BPM Mezzanine Fund, which extends financing to companies in Estonia, Latvia, Lithuania and Poland, was signed under the Baltics IA in 2014.

Policy dialogue related to equity funds concerned individual projects and cooperation with other development finance institutions (DFIs) on improving market conditions in the region. The EBRD meets DFI partners twice a year to coordinate efforts to stimulate the growth of equity fund activity in the countries where they invest.

SME FINANCE AND DEVELOPMENT

SMEs are an important source of jobs and growth and an essential part of a healthy modern economy. At the same time, they are particularly vulnerable to some of the transition gaps that exist in the EBRD region, such as financing constraints, difficult business conditions and an economic legacy dominated by large state-owned companies.

The Bank created an SME Finance and Development group in 2014 to lead implementation of the Small Business Initiative (SBI), approved the previous year as part of an institution-wide modernisation plan. The new team builds on the EBRD's support for small and medium-sized firms by gathering these activities under a single umbrella, providing a more streamlined and strategic approach. The new group works with other departments, donors and external stakeholders to promote the conditions in which SMEs can flourish.

The SME Finance and Development group prepared and began executing its operational action plan in 2014. It also began improving information management systems to better track the large number of SME financing activities across the Bank, monitor their impact and streamline decision-making processes for relevant projects.

In 2014 the EBRD extended €1.34 billion to small businesses in 126 transactions, accounting for 33 per cent of its projects.

EBRD investments in small firms take the shape of direct financing and indirect financing via partner institutions, with local currency lending playing an important role. In addition, the Bank engages in co-financing and risk-sharing with SMEs and conducts non-financial activities such as policy dialogue, the provision of advisory services and support for legal reform. There is a pressing need to improve the business climate in many countries, which includes supporting governments to tackle corruption at all levels. Donor support is crucial to many aspects of the EBRD's work with small businesses.

The first integrated product offered under the Small Business Initiative is the Women in Business programme combining access to finance with advice to support women entrepreneurs



The Bank drew on the expertise of local consultants and international advisers to help small firms reach their potential.

in the EBRD region. The first Women in Business programme loans were signed in Egypt, Turkey and the Western Balkans in 2014 with other regions to follow.

A major tool for promoting small business development is the Local Enterprise Facility (LEF), a €505 million investment vehicle for private SMEs in the Western Balkans, Bulgaria, Croatia, Cyprus, Romania, Serbia, Turkey and the SEMED region. It provides long-term financing in a broad range of sectors and pre- and post-investment support. Established in 2006, the Facility includes a €20 million contribution from the Italian government and €485 million from the EBRD.

SMALL BUSINESS SUPPORT

The Small Business Support (SBS) team operates in 25 countries in the Caucasus, Central Asia, central and eastern Europe – including Russia – and the SEMED region and helps SMEs to access the know-how that can transform businesses. It is a pillar of the EBRD's SME strategy under the Small Business Initiative. From business strategy to marketing, quality management, export promotion or energy efficiency, in 2014 the Bank continued to draw on the expertise of thousands of local consultants and international advisers to help small firms reach their potential for growth and employment.

It worked 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 2014, SBS raised €33.2 million in donor funding in new financial commitments. Sweden was the largest donor, with important contributions also coming from the EU, Italy, BG International Limited (Kazakhstan), Korea, Luxembourg, Taipei China, the United States, the Global Environment Facility, the EBRD Shareholder Special Fund, the SEMED Multi-Donor Account and the Ukraine Multi-Donor Fund. Russian projects in 2014 continued to benefit from the bilateral TC funding committed by Russia in the previous year.

The EBRD carried out more than 1,746 projects in 2014 connecting SMEs to local consultants for specific business advice, and over 166 projects providing medium-sized firms

with the industry expertise of international advisers. The impact of these projects is clear: from 2012 to 2014, 82 per cent of enterprises surveyed showed increased turnover in the year following their projects. In addition, 61 per cent increased their staff numbers, creating 30,417 new jobs. Greater access to finance also remains a key goal of the SBS programme. From 2012 to 2014, 76 clients secured finance from the EBRD and 687 from local banks, including EBRD partner banks.

In 2014 the SBS team launched a 'Know How' information campaign across 25 countries to promote the value of external advice for SMEs. Through events, videos, feature stories and other communication tools, the campaign highlighted individual EBRD advisory projects and the resulting improvements in performance. It also targeted local and international consultants and showcased the vital role that SBS donors play in the success of the programme.

The EBRD pursued its work on promoting exports through its dedicated programme in three countries of Central Asia, funded by the United States SME Special Fund. The programme entered its third year, having helped more than 150 businesses to expand their export potential since 2012, with 36 projects in 2014. The EBRD also continued to support the Advice for Agribusiness programme, which helps agribusiness firms in the ETCs, SEMED and Turkey obtain international know-how as well as direct financing through the EBRD.

Furthermore, SBS introduced six new training courses to enhance the skills of local consultants. Training took place across all 25 countries in which the SBS programme operates. In the medium term the Bank will seek to engage local consulting institutes and associations to deliver the courses and ensure a sustainable source of professional development for consultants.

TRANSPORT

The EBRD invests in transport projects that connect businesses to suppliers and markets and give people access to economic opportunities and essential services. Promoting the creation of sustainable transport networks, developing the private market for transport services and fostering regional integration are key priorities for the Bank's investment and policy dialogue activities in this sector.

In 2014 the Bank signed 26 transactions in the transport sector for a total EBRD investment of €1.3 billion. Of this amount, €480 million was provided for energy efficiency and climate change mitigation investments under the Sustainable Resource Initiative (SRI). Non-sovereign projects accounted for 50 per cent of Bank projects in the aviation, maritime, rail, road and intermodal sectors by value. Transport projects were concluded across the region including, for the first time, in the SEMED countries.

SUSTAINABLE TRANSPORT

Since 2006, the EBRD has committed €1.6 billion to energy efficiency and mitigation investments in the transport sector. Flagship transport projects signed under the SRI in 2014 include a €126 million investment to help fund the modernisation of Egypt's railway system. The loan will support Egyptian National Railways as it replaces its ageing fleet with safer modern rolling stock, secures their long-term maintenance and implements an energy efficiency action plan. The Bank also provided a tranching €52.5 million loan to Moldova's national rail company to finance fleet modernisation and improved energy management.



CASE STUDY

SEMED TECH SECTOR GETS VENTURE CAPITAL BACKING

The EBRD demonstrated its support for early-stage, technology-oriented MSMEs, predominantly in Jordan but also in Egypt, Morocco and Tunisia, by investing US\$ 8 million (€6.6 million equivalent) in the Badia Impact Fund, an early-stage venture capital fund focused on the southern and eastern Mediterranean (SEMED) region.

The project contributes to the expansion of the venture capital industry in SEMED, providing much-needed long-term equity financing for innovative MSMEs at an early stage of growth. The Bank made the investment under its Early-Stage Innovation Facility (ESIF), a dedicated €100 million facility through which the EBRD will selectively invest in commercially oriented early-stage venture capital funds. The transaction forms part of EBRD efforts to promote the knowledge economy in the countries where it invests, in particular by fostering the development of the early-stage venture capital ecosystem.

In Ukraine the EBRD extended a US\$ 60 million (€49.4 million equivalent) loan to private stevedoring company Brooklyn-Kiev LLC to finance the development of a new grain transshipment terminal in the Port of Odessa. The new terminal will boost Ukraine's grain export potential and reduce carbon emissions thanks to the use of advanced technology and shorter distances of travel for inland grain deliveries.

Climate change mitigation and adaptation are important areas of the EBRD's work in sustainable transport. In Poland a €31 million investment in the DCT Gdansk deep-water container terminal will support measures to boost its resilience to climate change and rising sea levels. The Bank also promotes green logistics to minimise the environmental impact of logistics activities, by supporting the use of more energy-efficient practices by freight transport and storage operators. Logistics projects in 2014 included the second tranche of financing for the construction of a modern intermodal logistics terminal in Tbilisi, which will be a strategically important platform between Asia and Europe.

ROAD SAFETY

The number of traffic-related deaths per 100,000 of population is considerably higher in the EBRD region than in OECD countries and emerging markets with similar income levels. The Bank strongly promotes road safety as part of its commitment to sustainable transport. Last year it engaged in road safety campaigns in Azerbaijan, Moldova and Ukraine linked to major investments in regional roads. These campaigns aimed to improve conditions for the most vulnerable road users – including children travelling to school – and raise awareness among drivers, local officials in charge of road infrastructure, and public transport operators. The Bank works closely with local and international partners on this issue and is a founding member of the Multilateral Development Banks' Road Safety Initiative. Donors strongly support this work on road safety, including extensive policy dialogue.

CASE STUDY

SUPPORTING HOSPITAL CONSTRUCTION IN TURKEY

The EBRD is co-financing the construction of a high-tech hospital in south-eastern Turkey that forms part of a major Turkish government programme to expand the provision of quality hospital infrastructure in the country. The Bank extended a €215 million syndicated loan and €65 million notional interest rate swap to private developer ADN PPP Sağlık Yatırım, which will design, build, equip and manage the Adana hospital campus under the public-private-partnership (PPP) model. Clinical services inside the PPP hospital will remain the responsibility of Turkey's Ministry of Health.

The company is owned by a consortium of Turkish and international firms, including the biggest Turkish construction company, Rönesans Holding, and the private equity fund Meridiam in which the EBRD is an investor. As well as being the largest lender, the EBRD played a key role in securing a total of €433 million in long-term financing for the project, including €120 million in parallel financing from the International Finance Corporation, the French development agency Proparco and the German development bank DEG.

Adana hospital is one of the first to be built under a €12 billion Turkish government programme to construct or expand about 60 hospitals across the country. By tapping the know-how and resources of the private sector through the facility-management PPP model, the programme aims to build hospitals more quickly and manage them more efficiently than in the past, thereby responding to Turkey's growing need for quality hospital infrastructure. The EBRD conducted extensive policy dialogue with the Turkish Ministry of Health to facilitate the use of the PPP model in the building programme.



“ By financing key transport corridors the EBRD promotes regional integration.

REGIONAL INTEGRATION

The EBRD plays an important role in promoting regional integration by financing key transport corridors. As part of the international community's support for the Ukrainian economy, the EBRD committed €200 million to a project, financed together with the EIB, to support the rehabilitation of key road approaches to Kiev, several of which form part of Pan-European Corridor IX.

In FYR Macedonia, the Bank committed €145 million in financing for part of a key rail corridor linking the Adriatic coast to the Black sea coast (see case study on page 40) and €74 million

of a €160 million tranché facility to modernise the country's national road network, linking industrial centres and tourist destinations to international corridors. Meanwhile, in Moldova a €40 million tranche was extended as part of an ongoing project to rehabilitate 200 km of the country's major motorways. The improvements will help spread economic development to remote parts of Moldova and strengthen its ties with neighbouring countries. In Bosnia and Herzegovina, the EBRD provided a further €35 million towards financing construction of sub-sections of the Corridor Vc and the Banja Luka to Doboj motorway that will ultimately link to Pan-European Corridor X.

LOCAL CURRENCY AND CAPITAL MARKETS

The EBRD continued to encourage transport entities to reduce their exposure to foreign exchange risk by borrowing in local currency and to diversify their sources of funding by accessing the capital markets. In Kazakhstan the Bank extended a 30 billion tenge (€135 million equivalent) loan to the national rail company, Kazakhstan Temir Zholy (KTZ), to finance the purchase of equipment for logistics and infrastructure maintenance. The EBRD also participated in a Eurobond issuance by KTZ to further develop its logistics business on the critical EU-China trade route.

Meanwhile, in Turkey, the Bank subscribed to 40 million Turkish lira (€14.1 million equivalent) of a bond issue by the construction and infrastructure management subsidiary of conglomerate YDA Group to support projects under public-private partnership (PPP) arrangements. These include the construction of a new domestic terminal at Dalaman Airport, which the Bank is also supporting with a €87.3 million loan.

MUNICIPAL AND ENVIRONMENTAL INFRASTRUCTURE

EBRD operations in the municipal and environmental infrastructure (MEI) sector promote access to safe drinking water, sanitary waste-disposal, green urban transport, energy-efficient heating and cooling, and other urban facilities. The Bank works with local governments, private operators and donors to foster systemic changes that bring tangible improvements to the lives of millions of people in the EBRD region.

The Bank financed 41 projects in MEI during 2014 (36 transactions in 2013), representing a total EBRD commitment of €726 million (€556 million in 2013). These included the EBRD's first MEI transactions in the SEMED region. The sustainable energy components of MEI projects accounted for €361 million in 2014, 50 per cent of total commitments in the sector. MEI investments in 2014 should reduce annual carbon emissions by 312,000 tonnes of CO₂ equivalent.

In 2014 the EBRD responded strongly to the needs of MEI clients facing exceptional circumstances. Its crisis response in Ukraine included long-term support to projects in public transport and road repairs in Lviv as well as investments in energy-efficient district heating in Ivano-Frankivsk and Lutsk. In Serbia, the city of Belgrade benefited from a Bank investment in district heating modernisation and from help to fund a recovery plan for infrastructure affected by the spring floods.

The Bank's investments in water and sanitation services, waste disposal, district heating and other municipal infrastructure



in 2014 are expected to benefit more than 5 million people in the EBRD region, while investments in urban transport systems will improve travel conditions for an estimated 36 million passengers every year. Promoting the economic inclusion of underserved social groups through improved access to essential services was an important focus of activity, particularly in the first MEI projects in SEMED.

MEI investments by the Bank leveraged considerable volumes of loan and grant co-financing from the EU and other sources. The integrated use of technical cooperation and policy dialogue remained a key part of the Bank's work in the sector and donor generosity remains central to its operations and impact in MEI (see "Donor partnerships" on page 42).

Since entering the MEI sector in 1994, the EBRD has signed over 326 transactions and committed close to €5.2 billion of its own resources – while leveraging an additional €7.4 billion from other financiers – to urban projects that support more efficient, reliable, financially sustainable and environmentally friendly services.

WATER AND WASTEWATER

The Bank signed 16 projects in the water and wastewater sector in 2014, investing €195 million in improving the quality and efficiency of drinking-water, sewage and effluent-treatment services for underserved populations. Projects included two inaugural MEI investments in the SEMED region: a €65 million loan to Morocco's Office National de l'Electricité et de l'Eau Potable (ONEE) to support the expansion of drinking water services in rural communities (see case study in on page 10); and a €55 million loan to the Kafr El-Sheikh water company in Egypt's Nile delta for an expansion of wastewater services that will benefit around 500,000 people.

The EBRD also invested in water and wastewater projects in Bosnia and Herzegovina, Jordan, Kazakhstan, the Kyrgyz Republic, Romania, Tajikistan and Turkey. Some €28 million was invested in Romania using the highly successful framework to co-finance with EU funds (€300 million invested by the Bank to date) as part of efforts to bring services in cities across the country in line with EU standards. The project enabled regional water companies to access grant funding from the EU Cohesion Fund worth €166 million in 2014 (with a cumulative €2 billion in EU funds mobilised to date). Policy dialogue work included the hosting of a regional seminar in Belgrade for Western Balkans stakeholders on improving water and wastewater management as well as co-organising with the United Nations Economic Commission for Europe (UNECE) an international workshop on private sector participation in water services held at the United Nations Office at Geneva.

SOLID WASTE

By helping cities to collect refuse and dispose of it in a way that is sanitary and protects the environment, the Bank makes a considerable difference to the welfare of people in countries where it invests. In 2014 the EBRD signed two operations in the solid waste sector – in Armenia and Tajikistan – for a total investment of €10 million (including investment grants provided by donors to support the affordability of these projects). A seminar was undertaken in Yerevan to disseminate information and policy dialogue in this expanding field.

URBAN TRANSPORT

The EBRD invested €320 million in urban transport in 2014 (2013: €253 million) across 12 projects. Its activities focused heavily on reducing carbon emissions by supporting greener modes of transport such as electric trams or buses running on clean diesel engines. In the historic Romanian city of Sibiu, the EBRD supported the construction of a new, environmentally friendly bus depot away from the medieval city centre. In Izmir, Turkey, the Bank made a strong commitment to sustainable transport with an investment in efficient urban rail. The second-biggest city of the Kyrgyz Republic, Osh, will get 20 new trolleybuses and 24 new buses thanks to a €5.7 million EBRD loan complemented by a €3.1 million donor grant. The financing package will also promote employment opportunities for women in the city's urban transport sector.

ENERGY NETWORKS

As part of the MEI contribution to sustainable energy activities, the Bank invests in district heating and cooling projects that reduce the amount of power wasted in derelict networks, outdated facilities and energy-inefficient buildings. It committed €91 million to 10 projects in 2014 (2013: €83 million). A €7 million investment in upgrading district heating in Balti, Moldova, mobilised grant funding from the EBRD-managed Eastern Europe Energy Efficiency and Environment Partnership (E5P), representing E5P's inaugural investment in Moldova.

INNOVATION IN MEI: FACILITY MANAGEMENT OF PUBLIC BUILDINGS

Last year, the MEI team opened a new area to Bank investments: facility management in public buildings through PPPs. A major policy dialogue effort resulted in a €600 million investment framework approved by the Bank to fund Turkey's hospital infrastructure PPP programme. Under the framework, a first project was signed for the city of Adana (see case study on page 26). The framework is the fruit of 18 months of policy dialogue on PPP viability with Turkey's Ministry of Health. It is supported by a comprehensive technical assistance package to build the ministry's capacity to assess and monitor hospital facility-management PPPs.

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 invests in projects that improve water services, rubbish collection, public transport or energy efficiency, such as the financing of a biomass boiler in the city of Prijedor, Bosnia and Herzegovina. In 2014 the EBRD invested €129 million in 15 projects that benefit those challenged communities.



Over €1 billion was invested in 25 power sector projects across 12 countries.



POWER AND ENERGY

The EBRD is the leading investor in energy efficiency and renewable energy in the countries where it works. The Bank supports power generation, transmission and distribution projects that address the region's legacy of inefficient energy use and allow it to unlock its enormous potential in wind, solar, hydro- and other forms of renewable power. By helping countries diversify their energy sources through its investments, policy dialogue and technical assistance, the EBRD boosts the energy security of the whole region and promotes the growth of a modern and sustainable energy sector in which private enterprise plays a central role.

In 2014 the energy sector faced major challenges. The crisis in Ukraine and the rise in geopolitical tensions underlined the need for countries to establish secure energy supplies, while issues of affordability continued to put pressure on investments. The UN's Intergovernmental Panel on Climate Change finished releasing the conclusions of its latest review of climate science, emphasising 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 billion in 25 power-sector projects across 12 countries, (2013: €1.2 billion in 24 projects). A key area of focus was the SEMED region; the Bank committed a total of US\$ 75 million (€62 million equivalent) to four solar power deals in Jordan that will help the country reduce its dependence on expensive hydrocarbon imports (see case study on page 10). The Bank also supported Egypt's efforts to address its severe energy shortage by investing in efficiency improvements at two power plants.

The power sector remained the largest contributor to the EBRD's Sustainable Resource Initiative (SRI) with over 88 per cent, or €935 million, of the Bank's power-sector investments coming under this strategic initiative. These included investments in biomass, hydro-solar and wind power generation, efficient transmission systems and the optimisation of electricity distribution networks. A flagship project signed in 2014 was the US\$ 50 million (€41.1 million equivalent) investment in the

CASE STUDY SUPPORTING UKRAINE'S GAS SECTOR

As part of efforts to support the Ukrainian economy and promote reforms, the EBRD is providing a loan of up to €150 million to finance the upgrade and repair of a key section of Ukraine's gas transmission system.

The sovereign loan will be on-lent to a subsidiary of NAK Naftogaz, the national oil and gas holding company, for modernisation work on the 120 km-long western part of the Urengoy-Pomary-Uzhgorod pipeline. The pipeline transports gas from Russia towards European markets and allows for reverse gas flows from the EU to Ukraine, which has the largest gas storage capacity in Europe.

In addition to reducing gas losses by one-fifth, the project will improve the corporate governance of Naftogaz and its subsidiary and the Ukrainian government has committed to reforms in the gas market as part of the transaction. The pipeline modernisation programme is also supported by a €150 million loan from the European Investment Bank.



The EBRD works to ensure that local communities enjoy concrete benefits from its projects.

modernisation of the Qairokkum hydropower plant in Tajikistan. The transaction, the EBRD's largest to date in Tajikistan, makes a significant contribution to the country's resilience to climate change (see case study on page 13).

The EBRD provided a total of €98 million to finance windfarm projects in Poland and invested 14 billion tenge (€63 million equivalent) in a wind farm in Kazakhstan, considered a highly promising country for renewable energy development. The Bank signed wind and solar energy projects in Romania and financed the construction of a new hydropower plant in Georgia that will be one of the country's few privately owned, greenfield hydropower plants.

Another priority 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 a US\$ 200 million (€165 million equivalent) loan to finance the construction of a high-efficiency combined-cycle gas turbine (CCGT) power plant near the city of Kirikkale in Turkey. The loan is part of a US\$ 1 billion (€823 million equivalent) package arranged by the EBRD that brings together international financial institutions and commercial banks.

Reflecting the importance of developing the regional electricity market in south-eastern Europe, the EBRD provided a €30 million loan to Kosovo's power transmission operator to finance improvements to the grid. As well as boosting the reliability of the country's power network, the transaction will help Kosovo fulfil its potential to become a major energy transit hub for the Western Balkans. The Bank financed upgrades to Montenegro's power distribution grid to reduce losses, foster integration of the Western Balkans' fragmented power markets and stimulate the development of renewable energy.

Support for local capital markets was an important focus for the Bank's work in the power sector. The EBRD financed windfarm projects in Poland and Kazakhstan and the modernisation of a hydropower plant in Kazakhstan in local currency to shield borrowers from foreign exchange risk. The Bank purchased a stake in Electrica, Romania's major electricity distribution company, worth 320 million Romanian lei (€75.2 million equivalent) when it began trading on the London and Bucharest stock exchanges in July. The equity participation will support Electrica as it aligns its corporate governance with international standards.

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 infrastructure. For example, in 2014 the Bank supported a large technical cooperation project to develop renewable energy in Poland and help that country reduce its reliance on coal-fired generation.

NATURAL RESOURCES

Responsible development of the natural resources sector can make a major contribution to sustainable economic growth for many countries in which the Bank works. If managed properly, natural resources can be a major 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 responsible and transparent manner. The Bank provides financing and advice for private and public 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 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 investment in the natural resources sector, the EBRD works to ensure that local communities enjoy concrete benefits from its projects. Bank efforts in this area include investing in local infrastructure and requiring transparency and disclosure in line with the Extractive Industries Transparency Initiative.

Oil prices fell in 2014, while metals prices remained low, and the operating environment continued to be very challenging for small and medium-sized companies in the EBRD region which have limited access to finance. The Bank responded by supporting smaller private firms, helping them apply the best international standards to their operations and improving the energy efficiency of their activities.

In 2014 the EBRD signed 14 transactions in the natural resources sector for an overall volume of €634 million in debt

BANK SHAREHOLDERS HAVE CONTRIBUTED ALMOST

€700 million

OF EBRD FUNDS TOWARDS THE COMPLETION OF PROJECTS IN CHERNOBYL.

and equity investments in countries including Armenia, Azerbaijan, Egypt, Georgia, Kazakhstan, Mongolia and Ukraine. In Egypt, the Bank signed two transactions to support responsible energy exploration and help the country meet rising domestic demand for oil and gas. These projects feature a strong emphasis on health and safety, environmental management and corporate governance.

The Bank supported the introduction of environmentally friendly technologies in Kazakhstan's oil sector by arranging a US\$ 200 million (€165 million equivalent) syndicated financing package for private company KOM Munai, a subsidiary of Romania's OMV Petrom SA. The project will result in considerable water savings and carbon emission reductions. In Georgia, meanwhile, a US\$ 40 million (€33 million equivalent) loan was provided to support the expansion of gas filling stations that offer compressed natural gas (CNG), an environmentally friendly alternative to conventional fuels.

The EBRD helped strengthen energy security in Estonia by extending a €35 million loan to oil shale processing company Viru Keemia Grupp AS to fund a major investment programme that features energy efficiency improvements and an environmental upgrade.

Policy dialogue work in the sector last year focused on improving health and safety within the extractive industries and reforming Ukraine's gas sector payment system to strengthen the government's financial position. The Bank also signed a €150 million loan to Ukraine to finance emergency repair work on a gas transit pipeline and reform of the Naftogaz group (see case study on page 29). The financing was matched by a similar-sized loan from the EIB for the same project.

NUCLEAR SAFETY

As a manager of decommissioning funds, the EBRD plays a leading role in efforts to improve nuclear safety. It administers funds to make the Chernobyl site safe and secure, supports the decommissioning of first-generation Soviet-designed nuclear power plants in eastern Europe, 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 associated programmes. It does this on behalf of more than 40 donors, who have together contributed more than €4 billion for the purpose. Bank shareholders have contributed almost €700 million of EBRD funds towards the completion of projects in Chernobyl.

In 2014 construction of the Chernobyl New Safe Confinement (NSC) reached a major milestone when the two halves of the arch-shaped steel structure were lifted and joined together. Upon completion, scheduled for late 2017, the NSC will cover the destroyed reactor 4 at Chernobyl, the site of the 1986 nuclear accident. Workers began assembling the new structure, which will cost €1.5 billion, at a safe distance from the reactor in 2012 and then carried out a sequence of lifting operations of the two halves.

The structure will now be fitted with equipment including an automated crane and a ventilation system to prevent corrosion and ensure it lasts for 100 years. Once fully assembled, the NSC will be slid over the old shelter housing reactor 4. It will prevent

the intrusion of water and snow and provide equipment for the eventual dismantling of the old shelter and the remnants of the damaged reactor.

Also at Chernobyl, a plant to treat liquid radioactive waste received its operating licence in December. 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. The start of operations is expected early in 2015. Construction of the treatment plant has cost more than €35 million.

Progress was also made on finalising construction of the Interim Spent Fuel Storage Facility (ISF-2), which will prepare more than 20,000 fuel assemblies from Chernobyl units 1 to 3 for final storage. Completion of the facility is scheduled for 2016. Once all the fuel has been transferred to the ISF-2, the current storage can be decommissioned. This will be a major step forward in increasing nuclear safety at the site.

In 2014, the governors of the EBRD approved additional Bank funding for the Chernobyl Shelter Fund for completion of the NSC. The EBRD will provide an extra €350 million to help close a funding gap of €615 million, in anticipation of a €165 million contribution by the G7 group of countries and the European Commission. More funding is expected from other donors in 2015, although EBRD governors agreed that the Bank would cover any shortfall left after their pledges.

In Russia, the EBRD plays a key role in efforts to dismantle the Lepse service ship and safely dispose of its cargo of spent nuclear fuel and radioactive waste from the USSR's nuclear-powered fleet. The Lepse poses a significant environmental threat to the marine environment of the northern Atlantic and surrounding countries. In 2014, work to make the Lepse safe reached a significant stage when the ship was lifted out of the water and placed in a dry dock at the Nerpa shipyard on the Kola peninsula. Preparatory work continued on installing special equipment at the shipyard that will allow workers to remove nuclear and radioactive material from the Lepse and then dismantle it. The whole project is expected to be completed by the end of 2017.

The EBRD manages the Nuclear Window Support Fund of the Northern Dimension Environmental Partnership (NDEP), which receives contributions from a number of countries and the European Union and finances vital nuclear safety projects in the Northern Dimension Area. A €53 million grant from the Fund is dedicated to work on the Lepse project.

Last year the EBRD continued to support programmes to help Bulgaria, Lithuania and the Slovak Republic deal with the decommissioning and wider consequences of the shut-down of their Soviet-era nuclear power plants. 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 with the loss of generating capacity.

Also in 2014, to help address the legacy of uranium mining in Central Asia, the EBRD undertook preparatory work for a programme to rehabilitate Soviet-era mines. The programme aims to reduce the environmental risk posed by disused and deteriorating sites containing radioactive materials. ●

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POLICY DIALOGUE AND INITIATIVES

Policy dialogue with governments, regulatory authorities and other international institutions is a vital part of the EBRD's work. To re-energise the transition process, the Bank has developed a set of Medium-Term Directions and related initiatives in areas of strategic importance. The initiatives combine investments with policy dialogue and technical assistance in a highly coordinated manner to increase economic resilience, foster integration and address common global and regional challenges such as climate change. Under one of these initiatives, 2014 saw record sustainable resource financing of over €3 billion.

SUSTAINABLE RESOURCES AND CLIMATE CHANGE

With the publication of the Fifth Assessment Report of the UN Intergovernmental Panel on Climate Change, which states that atmospheric and oceanic warming threaten irreversible impacts, and with the upcoming UN climate conference in Paris, there is a greater urgency to address the challenge of climate change. This is particularly true for the countries in which the EBRD works. Many of these lag behind economies at a similar level of development when it comes to the sustainable use of energy, water and other resources. To help mitigate the economic, environmental and social risks this creates for the region, the EBRD launched the Sustainable Energy Initiative (SEI) in 2006.

The SEI aims to reduce carbon emissions, make the region's economies more energy efficient and independent and help them adapt to climate change. In 2013, its scope was broadened with the launch of the Sustainable Resource Initiative (SRI) to promote the efficient use of water and materials. The EBRD undertakes climate projects across all of the sectors and countries in which it invests. Transactions range from support for wind, solar and hydropower generation to investments in industrial and residential resource efficiency, green transport and municipal infrastructure, the reduction of transmission losses, and cleaner power plants.

Between 2006 and the end of 2014, the EBRD invested €16.4 billion in projects supporting the sustainable use of energy and other resources. In 2014, these accounted for a record €3.03 billion of climate finance committed in 168 transactions, representing 34 per cent of total annual Bank investment (ABI). These should result in 7.3 million tonnes of annual CO₂ emissions reductions, or a saving of 2.7 million tonnes of oil equivalent.

Of this €3.03 billion, the EBRD invested €433 million in 38 water and materials efficiency projects that are expected to result in annual water savings of 10 million cubic metres. Furthermore, 26 climate investments signed in 2014 and worth a total of €169 million included activities aimed at assisting clients as they adapt to a changing and more variable climate.

The organisation invested €490 million in 16 resource efficiency projects in Turkey, including the EBRD's first sustainable resource credit line (with TSKB) and the Şişecam resource efficiency project (see case study on page 38). Sustainable energy investments in the southern and eastern Mediterranean (SEMED) region increased sharply, reaching €467 million for 17 projects including energy efficiency projects in Egypt and renewable energy projects in Jordan. Energy efficiency financing in Ukraine reached €274 million, including the Naftogaz pipeline upgrade (see case study on page 29) and district heating projects in Ivano-Frankivsk and Lutsk.

The EBRD business model for climate finance 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 resource projects. Donor support remained crucial, with €54.9 million of technical cooperation (TC) plus additional grant co-financing and incentive grants supporting the preparation and implementation of projects.

BUILDING SUSTAINABLE MARKETS THROUGH INTERMEDIARIES

EBRD 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 energy 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 2014, the EBRD invested €504 million in 39 energy efficiency projects through financial institutions, including a US\$ 282.5 million (€232.5 million equivalent) Bank contribution to a US\$ 350 million (€288.0 million equivalent) residential energy efficiency programme in Turkey.

BLENDING CLIMATE FINANCE FOR IMPLEMENTATION

The EBRD responded to calls for multilateral development banks (MDBs) to finance 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 risk sharing, technology transfer, advisory support and concessional financing. The EBRD blended its commercial financing with CIF grant co-financing and technical assistance to improve the affordability and accelerate the implementation of projects, such as the modernisation of the Qairokkum hydropower plant in Tajikistan (see case study on page 13). Between 2006 and the end of 2014, donors provided a total of €1.05 billion in grant contributions in support of EBRD climate projects.

COOPERATION WITH MULTILATERAL PARTNERS

The Bank maintained a prominent role in international efforts to address climate change. It participated in the UN Climate Summit in New York in September and President Suma Chakrabarti accepted an invitation to join the advisory board of the UN's Sustainable Energy for All (SE4All) Initiative which promotes energy access for all, energy efficiency and renewable energy. Regarding the Bank's commitment to SE4All, set at the Rio +20 Conference in 2012, the EBRD exceeded its US\$ 8 billion (€6.58 billion equivalent) target for the end of 2014 by US\$ 2 billion (€1.65 billion equivalent).

President Chakrabarti attended the Global Green Growth Forum in Copenhagen in October to take part in discussions on investing for a low-carbon future and sustainable urban development. EBRD delegates participated in December's UN Climate Change Conference in Lima, Peru, in preparation for the 2015 conference in Paris.

The EBRD and other MDBs leverage large volumes of private investment through their climate finance activities. In 2014 they pledged to track these investments in the same way, with a view to cooperating more closely on climate action. The EBRD also worked on improving its internal monitoring and reporting of climate investments.

EARLY TRANSITION COUNTRIES

2014 marked the 10th anniversary of the Early Transition Countries (ETC) Initiative, which was established in order to accelerate transition, increase financing and strengthen the business climate in the EBRD's less-developed recipient countries. The Initiative aims 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).

The annual percentage of financed projects in the ETCs increased from 8 per cent of the EBRD's total in 2003 to 33 per cent in 2014 while the region's share of annual Bank investment (ABI) rose from less than 3 per cent to 13 per cent over the same period. In total, the Initiative has accounted for more than 1,100 financing projects and a total of approximately €7.9 billion in financing. Over the last decade, the number of Bank projects in Tajikistan and the Kyrgyz Republic – the EBRD's two lowest-income countries – has increased from fewer than 5 per year to 11 and 19 respectively in 2014.

In 2014 the EBRD invested more than €1.1 billion in the ETCs, a record figure for its activities in the region – and signed 124 projects. More than 80 per cent of projects supported locally owned companies – mostly micro, small and medium-sized enterprises (MSMEs) – in line with the Initiative's priorities. The Bank was particularly active in the agribusiness, financial, manufacturing and services, municipal and environmental infrastructure, and power and energy sectors. The EBRD provided €195 million in Trade Facilitation Programme (TFP) financing in the ETCs.

Strong partnerships and 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 enterprise (SME) 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. In the latter area, thanks to projects of the Bank and donors, millions of people in 80 municipalities 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 to reduce systemic foreign exchange risk in the ETCs, many of which have large current account deficits and a high percentage of unhedged MSMEs. Through the US\$ 320 million (€263 million equivalent) ETC Local Currency Programme in Armenia, Georgia, Kyrgyz Republic, Moldova, Mongolia and Tajikistan, the Bank addresses overreliance on foreign exchange financing, which is exacerbated by the lack of conventional sources of local currency funding. Donors – the ETC Fund, the US Treasury, the Swiss State Secretariat for Economic Affairs (SECO) and the EBRD SSF – have supported the Programme by allocating US\$ 40 million (€32.9 million) of risk-sharing funds. The Programme has financed US\$ 269 million (€221 million equivalent) of local currency loans, which partner banks and microfinance institutions have on-lent to more than 450,000 MSMEs. The largest number of beneficiaries have been in the Kyrgyz Republic and Tajikistan and the Programme has helped more than 120,000 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 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 business environment through changes to legislation and regulation. In 2014 the EBRD participated in Tajikistan's first foreign-investment conference.

LOCAL CURRENCY AND CAPITAL MARKETS

The EBRD Local Currency and Capital Markets (LC2) Development Initiative is one of the Bank's strategic initiatives and a major focus of EBRD efforts to revitalise and deepen the transition process in countries in which 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 key vulnerabilities in the EBRD region. Banks in most EBRD countries of investment continue to face significant challenges that make capital market development very important.

The LC2 Initiative focuses on the following interrelated areas that contribute to the broader use of local currencies and the development of local capital markets: building stable and sustainable macroeconomic policy frameworks; improving the legal and regulatory environment to support capital market activity; promoting the use of local currency; developing financial market infrastructure, including exchanges, clearing

CASE STUDY POLISH PORT BUILDS CLIMATE CHANGE RESILIENCE

The EBRD is supporting the expansion of Poland's only deep-water container port facilities, located in Gdansk. A gateway port for the country, the city is also a major transshipment hub for the southern and eastern Baltic region. The Bank invested €31 million to co-finance the construction of a second deep-water terminal at the port operated by DCT Gdansk.

As well as creating much-needed extra capacity, the transaction supports measures to boost the terminal's resilience to climate change and sea level rise. For example, work will be undertaken to increase the height of the quay and establish channels for receiving information about sea-level extremes and wave-overtopping of port structures. As part of the project, which is backed by €259 million in commercial financing, DCT Gdansk has also committed to improving its energy efficiency through the use of state-of-the-art technologies.

and settlement; developing the institutional investor base; promoting a more efficient transaction environment; and expanding product range.

The Initiative combines policy dialogue, transaction support and advice and technical assistance. It also supports knowledge-building and sharing through seminars and other outreach activities that develop institutional capacity.

A dedicated team of LC2 experts coordinates the Initiative, working with – and supported by – all departments of the EBRD. LC2 activities range from loans in local currency to investments in equity and debt capital-market instruments, capital market infrastructure and the EBRD's own issuing of local currency bonds. The Bank closely coordinates its LC2 actions with those of other international financial institutions (IFIs).

In 2014, the Bank signed the equivalent of almost €1.2 billion in 81 local currency loan and bond transactions – 24 per cent of

the total number of debt transactions by the EBRD in that period. Since 1994, the EBRD has advanced local currency loans and bonds in 24 countries.

Highlights of the Initiative in 2014 included strong growth in the number of bond transactions in countries such as Morocco, Poland, Romania and Turkey, in the financial sector in particular but also in other sectors. The Bank invested in 13 bond issues last year, nine in local currency and four in foreign currency.

The EBRD worked with stock exchanges in south-eastern Europe (SEE) to establish an order-routing trading platform aimed at facilitating cross-border trading and improving liquidity in equity markets. It also acquired a 4.99 per cent equity stake in the Bucharest Stock Exchange to help strengthen Romania's capital markets.

The Bank has been an active issuer in local currency markets in a number of countries since 1994 and continued expanding its ability to fund projects in local currency. In 2014, the Bank for the first time issued bonds in Armenian dram and Georgian lari in the domestic market. In Kazakhstan, two facilities with the National Bank of Kazakhstan will enable the EBRD to lend up to US\$ 1 billion (€823 million equivalent) in Kazakh tenge, while in Morocco the financial market regulator granted domestic banks authorisation to conduct currency swaps with the EBRD, allowing the Bank to offer financing in Moroccan dirham.

Policy dialogue and TC projects are an essential part of the Initiative. Many of the policy dialogue and capacity-building activities related to LC2 are linked to the conduct of country assessments and the implementation of assessment recommendations. By the end of 2014, the LC2 team had assessed 20 countries.

In 2014, the Bank also undertook significant policy dialogue in various countries, notably in Morocco, Poland and Turkey,



The Bank signed 12 investments with a gender focus or component in 2014.

focusing on the legal and regulatory framework of capital markets, working closely with private investors and other market players. It pursued work under the Early Transition Countries Local Currency Programme aimed at helping countries in that region improve their monetary policy management in a way that encourages greater use of local currency. As an example of targeted analytical work, a comparative study of local capital market transaction costs for debt securities was completed covering nine countries, and has already resulted in the review and adjustment of issuance charges in Romania and Turkey.

SMALL BUSINESS INITIATIVE

Working to create the conditions in which SMEs can flourish is firmly anchored in the EBRD's transition mandate and business model. This commitment was re-emphasised in 2014 with the creation of the SME Finance and Development group within the EBRD's Banking department to implement the Small Business Initiative, which aims to streamline and strengthen the support that the EBRD provides to SMEs. (For more information on the Initiative, see "SME Finance and Development" on page 24).

GENDER EQUALITY

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

The Strategic Gender Initiative sets out how the Bank promotes women's socio-economic empowerment, equality of opportunity and participation in the labour market. The Bank works with clients on tailor-made solutions to ensure the promotion of gender equality in the workplace, in customer service provision, in access to finance and in the design and delivery of infrastructure, thereby promoting economic opportunities for both women and men.

In 2014 the Bank signed 12 investments with a gender focus or component, including credit lines extended under Women in Business programmes launched in Egypt, Turkey and the Western Balkans. These programmes address the supply and demand side of financing for women-led businesses and combine financing with capacity-building and advisory services (see case study on page 14).

The EBRD helps clients put in place human resources and equal opportunity policies that meet international standards of best practice while also supporting the design of training and skill-enhancement packages. A recent example

is a €140 million financing package for Turkish vehicle-maker Ford Otosan.

Safe and efficient access to public transport is an important issue for all. But for women in many parts of the SEMED region and Central Asia the lack of safe access to public transport is a barrier to free movement and full economic engagement. EBRD support for the modernisation of Egypt's national railway system will include capacity-building and other measures to help the company respond appropriately to the needs of all passengers, including women.

The EBRD's Gender team uses TC projects for due diligence purposes and to implement the gender component of Bank investments with funds provided by a range of donors in addition to the Clean Technology Fund. (For more on TC-funded activities, see "Donor partnerships" on page 42).

The Bank engages in policy dialogue with stakeholders and takes an active part in international dialogue on the promotion of gender equality. The EBRD chairs the MDB working group on gender and co-organised the last MDB workshop held in Manila. It also hosted the London launch of the World Bank report *Voice and Agency: Empowering Women and Girls for Shared Prosperity* in September 2014.

ECONOMIC INCLUSION

Economic inclusion – the opening up of economic opportunities to previously underserved social groups – is now fully integrated into the EBRD's assessment of transition impact. Promoting economic inclusion has become imperative for the Bank in view of growing youth unemployment, the low participation of women in the workforce – especially in SEMED countries – and the stark differences in economic performance between regions, particularly in SEE.

Investments with inclusion components are operational in many sectors across large parts of the EBRD region, particularly Turkey, SEMED, the Western Balkans and Central Asia. In 2014, the Bank initiated retail developments, such as the Arabian Centres project in Egypt, that help young people gain skills and find jobs. In addition, it launched Women in Business programmes combining finance and advice in Egypt, Turkey and the Western Balkans, and introduced partnerships between schools and businesses, including Atlantic Grupa in Croatia, to facilitate transition routes for young people from training into jobs. The main inclusion impact of these projects stems from their fostering of systemic changes that increase the economic opportunities available to women, young adults and people in rural areas.

The EBRD's approach to economic inclusion creates value for clients, particularly those who seek to reach new customer segments, diversify their workforce, improve the skills of their staff and reach out to new talent through links with local schools and universities. In 2014, the Bank was approached by clients in sectors such as retail or agribusiness for advice on how to set up job fairs or links to vocational schools because they recognise the value that such measures add to their operations and the support that the EBRD can offer.

Economic inclusion is increasingly a priority at the country strategy level, particularly for Jordan, Morocco and Turkey, where the Bank is strengthening its focus on policy dialogue. Building

on its strong private sector engagement and expertise, the Bank works with local and international partners to address, through vocational and work-based learning, the skills mismatch that prevents many young people in the EBRD region from finding jobs.

The Bank sets operational priorities based on inclusion gap analyses in relation to youth, regions and gender equality. These analyses include an assessment of the specific constraints faced by women entrepreneurs within the wider business environment. Further details on the inclusion methodology and project examples are presented in the Bank's newly launched economic inclusion section on www.ebrd.com.

INVESTMENT CLIMATE AND GOVERNANCE

The Investment Climate and Governance Initiative (ICGI) was launched in 2014 as part of the Bank's efforts to re-energise transition by reaching beyond projects to encourage broader systemic change. The ICGI was designed to strengthen the Bank's capacity to enhance the investment climate and good governance institutions and address the stalling of transition in many countries where the EBRD works.

The ICGI approach combines existing tools and instruments – such as platforms for public-private dialogue, dispute resolution, reform of procurement systems, judicial capacity-building and corporate governance enhancements – with new instruments addressing issues such as business regulation, licensing and customs administration, transparency, freedom of information and business registration. The ICGI functions in a multi-stakeholder framework involving other IFIs, intergovernmental organisations and domestic and international NGOs specialised in this field.

ICGI country programmes are developed only in those countries where there is strong demand for EBRD engagement, demonstrable political will to introduce reforms that can improve the investment climate and governance, and a clear role for the Bank to add value to reform of the investment climate. The Initiative consists of tailored programmes in selected countries that are articulated in memoranda of understanding with governments.

KYRGYZ COMPANY EXPANDS WITH EBRD LOAN

Granit Yug, a Kyrgyz company that specialises in quarrying and processing decorative stone, has weathered an earthquake, avalanches and political upheaval since its creation in 2001. Now it is seeking to increase production and exports to Kazakhstan and Uzbekistan by purchasing a fleet of trucks and processing equipment with the help of a loan.

The EBRD is providing half of the US\$ 500,000 (€411,472 equivalent) loan from the Kyrgyz Investment and Credit Bank (KICB) through the Medium Sized Co-Financing Facility (MCFF), which co-finances up to 50 per cent of loans extended by partner banks.

Loans to companies like Granit Yug constitute part of the EBRD's strategy to support SME development. In the early transition countries, the MCFF is supported by donors to the ETC Fund who finance training programmes for credit officers from partner banks. The loan is also part of a programme with the EU Investment Facility for Central Asia (IFCA) to strengthen small and medium-sized enterprises in Central Asia.

In 2014 ICGI country programmes were developed for Albania, Moldova and Serbia. The specific interventions for each country – enshrined in memoranda of understanding signed by the EBRD and prime ministers – were designed to build on the Bank's ongoing policy dialogue and technical cooperation work in the area of the investment climate while also providing new, concrete reform initiatives. The Bank also signed an Anti-Corruption Initiative with the new government of Ukraine, focused on establishing an independent Business Ombudsman Institution.

LEGAL TRANSITION PROGRAMME

The Legal Transition Programme (LTP) is the Bank's initiative to promote a better legal environment for businesses in transition countries. The programme aims to reduce legal impediments to investment and encourage the creation of the rules and institutions that a vibrant market economy needs.

LTP activities match EBRD investment strategies and complement strategic initiatives such as the Local Currency and Capital Markets Development Initiative, the Sustainable Resource Initiative or the Early Transition Countries Initiative. They include the preparation of diagnostic tools and the provision of advisory services to governments and regulators in transition countries.

In 2014 the LTP facilitated the adoption of important pieces of legislation in the countries where the Bank invests, including:

- a law on factoring in Croatia, regulating for the first time this new sector for the Bank
- a crops receipt law in Serbia that helps unlock lending for primary agriculture
- new legal provisions for secured transactions in the Russian Civil Code, accompanied by the launch of the first collateral register in the country
- a brand-new corporate governance code adopted by the Central Bank of Russia that aims to increase transparency
- a law on energy performance in buildings in Moldova to boost energy efficiency in the residential sector
- public procurement legislation in the Kyrgyz Republic, prepared under a joint programme between the Bank and the United Nations Commission on International Trade Law (UNCITRAL)
- instruments leading to the accession of Montenegro to the World Trade Organization (WTO) Government Procurement Agreement, completed under a joint initiative between the Bank and the WTO.

In November 2014, the Interparliamentary Assembly of the CIS adopted a model law on public-private partnerships (PPP), prepared with EBRD assistance. It is expected that this new standard will play a crucial role in modernising PPP frameworks in CIS countries.

As part of its efforts to address cross-cutting problems in the business environment, the LTP also aims to strengthen contract enforcement, including by the courts. In 2014 the Bank trained some 900 judges in nine countries on matters of commercial law and started work on strengthening the profession of bailiff in Mongolia.

CASE STUDY
INVESTING IN RECYCLING IN TURKEY

As part of wider efforts to promote the sustainable use of resources, the EBRD is supporting an investment in energy efficiency and glass recycling by Turkey's Şişecam Group, one of the world's leading glassware manufacturers.

The Bank's €30 million loan will support the expansion of a pilot glass-recycling scheme by financing an awareness-raising campaign and the acquisition of bottle banks, collection vehicles and glass bottle crushers. Şişecam will also invest in a range of energy efficiency measures at several plants, thereby setting a standard for environmental performance in Turkey's manufacturing sector.

Also in 2014, the EBRD took a €125 million equity stake in Paşabahçe, a subsidiary of Şişecam that specialises in glass tableware. As a shareholder, the Bank will support efforts to improve Paşabahçe's corporate governance and help it to attract more women employees by boosting its equal opportunity policies.

**CASE STUDY**
PROMOTING FOOD QUALITY IN SERBIA

The EBRD is supporting the efforts of Serbian fruit juice producer Nectar to develop food quality labels that recognise premium local products. Nectar is taking a leading role in promoting the certification of raspberries from the Arilje region in western Serbia under the Geographical Indications (GIs) project of the EBRD and Food and Agriculture Organization (FAO) of the United Nations. Some 100 farmers are involved and stand to benefit from improved sales of their high-quality products once they receive GI certification.

As Nectar is the leading fruit juice producer in the Western Balkans, its support will help raise awareness of the GI concept in Serbia and the wider region. It will set an example that can be replicated in other food sectors, boosting the attractiveness of local products on domestic and international markets.

EBRD financing worth €30 million will ensure Nectar's continued backing for the GI concept by refinancing its existing debt portfolio and supporting the stability of its operations. The investment will also finance future energy efficiency improvements and other capital expenditure.



The LTP contributed to the Vienna Initiative (see below), which has made tackling the large number of non-performing loans (NPLs) a high priority, by working with officials on legal and regulatory obstacles to NPL resolution. In February, together with the Bank's Office of the Chief Economist, it conducted a conference on corporate debt restructuring in Slovenia. The LTP also prepared a diagnostic tool on the legal and regulatory obstacles to NPL resolution in Hungary, which has been endorsed by that country's central bank. The EBRD assisted with the implementation of the Consensual Financial Restructuring Law in Serbia – promoting out-of-court multi-creditor restructuring via a mediation system.

Lastly, 2014 saw the first LTP TC projects in the SEMED region, including work on secured transactions and derivatives (Morocco), SME development (Egypt) and judicial capacity-building (Jordan).

FOOD SECURITY

The growing global population and changing dietary habits are increasing demand for food at a time when climate change and water scarcity have put food supply under pressure worldwide. Consumers are also increasingly aware of food safety and quality issues. In order to help meet the world's need for more and better quality 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 and quality of food production and distribution through investment, technical assistance, policy dialogue and coordinated action with our partners. This work helps to ensure increased and more efficient agricultural output, which will ultimately contribute to greater food security. The Initiative benefits from the generous support of donors and in 2014 they contributed €4.4 million to its work.

In 2014, the Initiative increased its focus on food quality and animal welfare, while maintaining the original emphasis on food security. The EBRD and the Food and Agriculture Organization (FAO) of the United Nations worked with clients on developing Geographical Indications or other premium labels as a way to boost sales of high-quality products and exports to the EU. The two organisations maintained their support for the EastAgri Network for eastern Europe, the Caucasus and Central Asia, which held its annual meeting in Belgrade in March 2014 on the theme of raising food quality. The EBRD continued its work with producers on adding value to olive oil exports from Morocco and Tunisia.

Higher standards of animal welfare respond to growing consumer concerns about food traceability and safety, as well as being of intrinsic value. The EBRD's revised Environmental and Social Policy formalised the requirement that the Bank only invest with clients who commit to bringing their animal welfare standards in line with those of the EU. The Bank supported animal welfare improvements through investments and technical assistance projects in Turkey and Ukraine.

Water scarcity is an acute worldwide challenge and agribusiness is particularly water-intensive. A forum in Amman attended by policy-makers and investors in March 2014 looked at increasing water efficiency along the food chain in Jordan. The

EBRD also worked with the FAO on the efficient use of water in the food sector in the Kyrgyz Republic, Turkey and Ukraine.

The Initiative continued to facilitate more liquidity in primary agriculture, enabling 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 grain warehouse and crop receipt systems, in Croatia, Russia, Serbia and Ukraine. The Bank also increased its cooperation with a number of banks to implement agriculture and agribusiness credit lines.

The EBRD supported dialogue between the public and private sectors. In Ukraine, a consultation with the private sector, led by the EBRD in collaboration with the FAO and the International Finance Corporation, identified investment constraints that need swift resolution. The Bank worked on facilitating a high-level meeting between officials and companies on agribusiness sector reform.

Successful grain and dairy working groups in Ukraine, which the EBRD and FAO lead together, were replicated in Serbia in 2014 to help raise food safety and quality standards and facilitate exports to the EU. The EBRD and FAO also promoted public-private sector dialogue on food safety in Georgia and the grain sector in Kazakhstan.

A conference in Ankara in November 2014 focused on facilitating access to finance for farmers and improving government policies on agriculture. In Egypt, a joint study by the EBRD and FAO highlighted barriers to strengthening the country's grain import infrastructure and, as a result, its food security. This informed ongoing public-private sector dialogue about increasing investment in this area.

In Kazakhstan, Turkey and Ukraine, 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 in the ETC region.

At the global level, the EBRD participated in the Aspen Institute's global Food Security Strategy Group in Morocco with leading private sector companies.

VIENNA INITIATIVE

The European Bank Coordination "Vienna Initiative", a unique private-public coordination platform created to safeguard financial stability in emerging Europe, pursued several major priorities during 2014.

The first was to support the set-up of the Banking Union, acting as an advocate for central, eastern and south-eastern European countries. A working group, led by the EBRD, analysed issues pertinent to this region and informed EU decisions on opting-in conditions for non-eurozone EU members. The Initiative's focus then moved to non-EU members in SEE, whose banking sectors are mostly owned by eurozone-based parent banks but cannot opt into the Banking Union's single supervisory mechanism (SSM), which was launched in November. The Initiative had a productive dialogue with the European Banking Authority (EBA) and other European institutions on creating the conditions for enhanced regulatory cooperation between SEE countries and the institutions of the Banking Union, including the EBA and the European Central Bank.

The Initiative also made strides in creating the conditions for credit recovery. A region-wide NPL action plan is being developed. The objective is to start reducing the very high levels of NPLs in the region, which are a major obstacle to new credit and ultimately to economic growth. The Initiative analysed credit enhancement mechanisms and proposed measures to increase their effectiveness and use, so as to reduce risk perceptions which remain high in some countries and sectors. Lastly, the Initiative continued to closely monitor deleveraging and credit trends in emerging Europe.

Using the platform of the Vienna Initiative, a Ukraine Financial Forum was launched by the Ukrainian authorities, commercial banks, IFIs and other key stakeholders to enhance dialogue between the public and private sectors in support of major reforms in Ukraine's financial sector. The first meeting took place in Kiev in June 2014 and another in Brussels in November 2014 under the aegis of the European Commission.

JOINT IFI ACTION PLAN

The 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, and was launched in response to the impact of eurozone problems on the economies of emerging Europe. By July 2014 these institutions had invested €33.6 billion (compared with an original target of €30 billion by the end of 2014) to help countries in this region reorient their growth strategies towards greater competitiveness and increased exports. This was equivalent to 1.5 per cent of regional GDP and came at a time when private inflows were significantly reduced.

Assistance under the Action Plan targeted key sectors of these economies. Support for the financial sector aimed to strengthen financial institutions and enable them to lend to businesses – SMEs in particular. The Action Plan helped to increase the competitiveness of the region by supporting export facilitation and innovation while major investments in the energy sector fostered energy security, increased the use of energy markets, promoted more efficient energy use and raised the share of renewables in consumption.

The initiative also supports longer-term projects integrating these countries more fully with European infrastructure networks. For example, the EBRD and EIB are financing key sections in Bosnia and Herzegovina of the Trans-European Corridor Vc and a motorway between Banja Luka and Doboj that will ultimately connect link to Pan-European Corridor X. Large infrastructure projects such as these have a stronger positive effect on national income levels compared with other forms of public investment.

COORDINATION WITH EXTERNAL PARTNERS

In 2014 the External Policy Coordination team stepped up its engagement with EU institutions to promote a better understanding of strategic priorities in common regions and sectors. This also served to outline joint policy agendas as new EU legislative and financing cycles got underway. Following the



CASE STUDY IMPROVING RAIL LINKS IN THE WESTERN BALKANS

The EBRD delivered a boost to regional integration in the Western Balkans and beyond by financing the construction of part of a key rail corridor linking Albania's Adriatic coast to the Black Sea coast in Bulgaria. The Bank extended a €145 million loan to finance the completion of a 34 km stretch of railway in north-eastern FYR Macedonia that will form a section of Trans-European Rail Corridor VIII.

This is the second phase of an EBRD project to modernise the international corridor and upgrade the country's rail infrastructure in order to improve trade routes within the region; phase one in 2012 saw the Bank finance the construction of a 30.8 km section of Corridor VIII within FYR Macedonia.

Under the latest transaction, the Bank will facilitate agreements with Serbia and Kosovo to simplify border-crossing procedures and encourage more freight transport by rail. The investment also promotes improved corporate governance, better environmental management and increased private sector involvement in rail sector of FYR Macedonia.

THE BANK EXTENDED A

€145 million

LOAN TOWARDS COMPLETION OF PART OF THE
TRANS-EUROPEAN RAIL CORRIDOR VIII.



In 2014 the Bank invested €1 billion and signed 52 projects in the Western Balkans.

announcement of the EU support package for Ukraine in March 2014, the EBRD worked closely with the EU to foster the reform agenda in the country, improve its business climate, support small firms and reform the energy sector.

The team coordinates the EBRD's relationship with other IFIs. An important area of collaboration between multilateral development banks last year was a financing framework for the UN post-2015 Sustainable Development Goals (SDGs). The EBRD's expertise in the private sector is well aligned with the emerging consensus that private finance will be essential to the SDGs.

In 2014 the EBRD hosted the Secretariat of the IFI Coordination Platform for the Arab Transition Countries under the Deauville Partnership. The platform uses the collective resources of the 10 IFIs working in the region to encourage reforms that foster job creation and inclusive growth. Last year, areas of focus included SME development, developing local capital markets, and improving investment climates.

The EBRD made progress in reaching out to potential partners in the Gulf, including donors, private companies and sovereign wealth, pension and development funds. President Suma Chakrabarti visited the United Arab Emirates, Kuwait and Saudi Arabia in December in the first trip to the Gulf by a serving EBRD president.

WESTERN BALKANS

In 2014 the EBRD continued paying special attention to the Western Balkans with the aim of promoting stability, regional integration and economic development. The Bank plays a central role in fostering regional dialogue and in February 2014 hosted a gathering of all seven prime ministers of the Western Balkans (Albania, Bosnia and Herzegovina, FYR Macedonia, Kosovo, Montenegro and Serbia) and Croatia to discuss economic cooperation and investment opportunities in the region.

Last year the Bank invested €1 billion and signed 52 projects in the Western Balkans. A large proportion of this amount supported improvements to transport and power networks in order to boost regional integration. The Bank extended a €145 million loan to finance the completion of a 34 km stretch of railway in FYR Macedonia that forms part of a key rail corridor linking the Adriatic coast to the Black Sea. The EBRD also financed major road projects in Bosnia and Herzegovina and FYR Macedonia and supported major investments in power transmission and distribution in Kosovo and Montenegro.

Another important focus of the Bank's work in the Western Balkans was increasing confidence in the financial sector and facilitating access to finance for SMEs, which continue to suffer from restricted credit opportunities in the wake of the global financial crisis. The EBRD also extended direct financing to private SMEs through a number of facilities, including the Local Enterprise Facility.

Extensive policy dialogue complements EBRD investments in the Western Balkans and focuses on improving the investment climate. In 2014 the Bank signed a memorandum of understanding with Albania aimed at cooperation to support the investment climate and good governance.

SUSTAINABLE ENERGY

The Western Balkans Sustainable Energy Direct Financing Facility (WeBSEDFF) provides direct debt financing of between €1 million and €6 million to local enterprises pursuing industrial energy efficiency and small renewable energy projects. WeBSEDFF also provides TC related to project preparation, plus incentive payments upon completion based on the quantity of CO₂e emissions avoided by each project. To date, the Facility has financed 15 projects for €63.9 million, and the expected CO₂e emission reductions total 446,765 tonnes a year on average.

WORKING WITH THE EU

The EU launched the Western Balkans Investment Framework (WBIF) in December 2009. This key instrument of support to socio-economic development and preparation for EU accession provides finance and technical assistance for priority infrastructure investments in the transport, energy, environment and social sectors as well as private sector development. The Framework pools resources from the EU, IFIs and bilateral donors. In 2014, six grants amounting to €11 million were approved.

Another EU initiative, the Western Balkan Enterprise Development and Innovation Facility (WB EDIF), is expected, over the period 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 plays a central part in this Facility and its Enterprise Expansion Fund (ENEF), which are flexible channels for pooling and leveraging financing. For more details of EU work with the EBRD, see page 43. ●



DONOR PARTNERSHIPS

The EBRD relies on the support of donor governments and partners in order to fulfil its transition mandate. Donors provide funds through various channels to facilitate Bank investments and other activities, including efforts to foster reform and improve the business climate. 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 climate finance, infrastructure and small business sectors.

DONOR FUNDING IN 2014

Donors continued to work closely with the EBRD to address the transition challenges in its region. In 2014 they contributed €340.6 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, small firms and the sustainable use of resources remained the central 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 type of initiative. Other areas of focus for donors include promoting the development of a stable financial sector, accelerating transition in infrastructure, improving the business climate and supporting gender equality and social inclusion.

The European Union (EU) is the EBRD's largest single donor, contributing 33 per cent of donor funding received over the last five years in support of Bank activities. In 2014 the EU provided support worth €105 million, representing 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 such as the EBRD. These facilities include the EU Neighbourhood Investment Facility (NIF), the EU Investment Facility for Central Asia (IFCA) and the Western Balkans Investment Framework (WBIF). The WBIF also benefits from bilateral contributions worth over €3.3 million from 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 made available €138.6 million of TC grants that supported over 650 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) or affordability pressures that could lead to low income and/or vulnerable groups being excluded from public services
- performance fees and incentives that encourage financial institutions to extend EBRD loans to sub-borrowers likely to achieve priority objectives set by the Bank and donors

- risk-sharing facilities used to support transactions funded through initiatives such as the EBRD Trade Facilitation Programme as well as lending to micro, small and medium-sized enterprises (MSMEs) and resource-efficiency credit lines
- concessional loans used by the Bank to co-finance projects where donors provide part of the overall financing package in the form of subsidised lending.

TYPES OF DONOR

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

Bilateral donors are governments, international financial institutions (IFIs) and other partners. In 2014 bilateral donors contributed €113 million to support the Bank's activities. The following bilateral donors made funds available to the EBRD in 2014: Austria, Denmark, Finland, France, Germany, Italy, Japan, Korea, Luxembourg, the Netherlands, the Slovak Republic, Sweden, Switzerland, Taipei China, the United Kingdom, the United States of America, the European Union and the European Investment Bank (EIB).

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 2014 the EBRD was a recipient of grants from multilateral donor funds such as the EU NIF, the WBIF, the EU IFCA, the Climate Investment Funds, the Global Environment Facility, the Northern Dimension Environmental Partnership and the Eastern Europe Energy Efficiency and Environment Partnership.

The EBRD's Nuclear Safety team manages the Nuclear Safety and International Decommissioning Support Funds, which donors set up for specific nuclear safety work in the region (see page 31).

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 offers an element of funding predictability in circumstances where delays in the approval process or gaps in funding occur.

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. The most active in 2014 were, among others, the Early Transition Countries (ETC) Fund, the Southern and Eastern Mediterranean (SEMED) Multi-Donor Account and the EBRD Water Fund. New multi-donor funds were also established, such as the Ukraine Stabilisation and Sustainable Growth Multi-Donor Account and the Postgraduation Special Fund. In addition, work has been ongoing to develop a multi-donor fund, due to be adopted in 2015, to support the Bank's Small Business Initiative.



Donors continued to work closely with the EBRD in 2014, contributing €340.6 million in donor financing.

DONOR PRIORITIES

Donors operate in all countries in which 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 2014 were:

- tackling climate change and boosting resource efficiency and energy 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
- promoting agribusiness projects and food security
- improving the business environment through regulatory reform
- incorporating considerations of gender and social inclusion into Bank projects.

REFORM OF DONOR FUND MANAGEMENT

In 2012 and 2013, the Bank conducted the Grant Co-Financing Strategic Review to help ensure the optimal use of donor resources. Since then, it has adopted a new framework for measuring TC results and worked on reforming the management of its grant resources.

In 2014 the Bank carried out further reform work to:

- standardise reporting and monitoring of results, building on the development of the TC Results Framework in 2013
- implement a revised policy for securing client contributions to the overall cost of technical assistance
- put forward proposals for a more streamlined and efficient funding architecture, closely aligned with the strategic initiatives of the Bank
- prepare for the launch of the Donor Funds information technology (IT) project, which will transform the IT infrastructure used to manage donor funds.

For more information on donor partnerships, please read the *Donor Report* at dr-ebrd.com ●

CASE STUDY RAISING ANIMAL WELFARE STANDARDS IN UKRAINE

A US\$ 30 million (€25 million equivalent) loan to Ukrainian pig farming company Nyva Pereyaslavshchyn (Nyva) will finance the expansion of its pig-breeding operations, meat-processing facilities and grain storage, along with new land purchases and the acquisition of state-of-the-art agricultural machinery.

As well as promoting the use of modern farming practices in Ukraine, the investment will support Nyva's adoption of EU animal welfare standards across all of its pig-breeding facilities, far exceeding the requirements of Ukrainian law. This will enable Nyva to become a national benchmark for animal welfare and environmental standards.

An associated technical cooperation project, conducted jointly with the Food and Agriculture Organization (FAO) of the United Nations and funded by Japan, aims to reduce the possibility of an outbreak of African swine fever, which has affected Russia and the Caucasus region in recent years and threatens to spread to Ukraine. The project will improve government response mechanisms, raise awareness among smallholders and vets and conduct a simulation exercise to verify skills within the private and public sectors.





ORGANISATION AND GOVERNANCE

In fulfilling its mission, the EBRD observes the highest levels of integrity and transparency and maintains a strong commitment to environmental and social sustainability. The Bank recognises that a highly skilled and diverse workforce with exceptional leadership abilities lies at the heart of its success.

CORPORATE LEADERSHIP AND MANAGEMENT STRUCTURE

In 2014 the EBRD continued its programme of internal modernisation aimed at maximising its impact in the countries where it invests and the value it gives to shareholders. The programme seeks to modernise the management culture of the institution, improve its efficiency, develop innovative products and enhance the delivery and measurement of impact.

In 2014 the Bank formally articulated core values for the organisation: professionalism, integrity, leadership, innovation, diversity and teamwork, and highlighted them through an internal publicity campaign. In addition, the EBRD introduced new management and performance tools to help senior staff maximise their leadership and people-management skills.

Last year also saw a number of changes within the Senior Executive group: Marie-Anne Birken joined as the new General



Counsel, András Simor was appointed to the position of Vice President and Chief Financial Officer, Philippe Le Houérou was named as the new Vice President for Policy, and Lisa Rosen took the role of Chief Compliance Officer.

The Bank continued a comprehensive review of its processes to improve organisational effectiveness. One example of this was the ongoing work to delegate decision-making in a bid to move closer to clients and be more responsive to their needs. Another was the strengthening of equity activity by bringing direct and indirect equity operations under a single Managing Director for Equity and by creating a network of equity specialists across the Bank. In recognition of the structural lack of equity growth capital in its region, the Bank enhanced efforts to increase its direct equity investment. In addition, it pursued innovative ways of mobilising financing for the region, for example by attracting third-party equity capital from institutional investors and continuing to encourage the participation of non-traditional B-lenders in loan syndications.

All of these efforts helped the EBRD deliver stronger impact. To support this goal, the Bank engaged in extensive policy dialogue and worked on strengthening the link between investment and reform. An important element of this work was the Bank's Investment Climate and Governance Initiative (ICGI), which supports a number of reform-minded countries in their endeavours (see page 37).

The Bank also continued to improve its transition impact methodology and reporting of results, and to reinforce the links between the organisation's strategic priorities, country and sector-level goals and individual projects.

STAFFING OVERVIEW

The EBRD achieves its mission of advancing transition through a highly-skilled, dedicated and diverse workforce. EBRD staff totalled 1,848 (see Table 5.1 on page 48) with employees coming from 60 of the Bank's 64 member countries. Of these staff members, 1,382 (or 75 per cent) were based in London Headquarters. There were 466 employees (compared with 429 in 2013) working across 38 Resident Offices in 32 of the countries where the Bank invests.

STAFF MOBILITY

A mobile workforce helps the EBRD to deploy skilled and experienced resources and 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 or vice versa, or between Resident Offices (see Chart 5.2 on page 48)
- temporary assignments to another department within the same location
- temporary secondments to other organisations, particularly to other international financial institutions (IFIs), which can help build cooperation between organisations and also provide developmental opportunities for staff
- permanent transfer to another department or office location.

MANAGEMENT AND LEADERSHIP DEVELOPMENT

Helping managers enhance their leadership skills is vital for the Bank's modernisation agenda. To support this agenda, in 2014 the EBRD continued its compulsory training programme for managers, which covers inclusive leadership, conflict management and performance coaching. A new People Management Framework was introduced to provide greater clarity for staff on career progression and enable the Bank to manage its resources more effectively. The organisation also updated its behavioural competency framework, which will be integrated

TABLE 5.1. PROPORTION OF STAFF BASED IN LONDON HEADQUARTERS AND THE RESIDENT OFFICES AS AT DECEMBER 2014

HQ/RO	Total	Percentage
London Headquarters	1,382	75
Resident Offices	466	25
Total	1,848	100

TABLE 5.2. ACTIVE ASSIGNMENTS

Geographic assignments	Total
HQ to RO	93
RO to HQ	16
RO to RO	15
Total	124*

* As at 31 December 2014, just under 7 per cent of staff were on geographical assignments.

into performance management, learning and development programmes, and recruitment and succession planning in 2015.

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 build on this strength. In 2014 the Board approved a Diversity and Inclusion Policy formalising the Bank's efforts to provide equal opportunities and respect for staff regardless of age (taking into account the organisation's mandatory retirement age of 65), disability, nationality or race, religion or belief, gender identity, sex or sexual orientation. Work began on a related action plan, which will include a diversity census in 2015.

STAFF ENGAGEMENT

Staff engagement is crucial to nurturing productivity and high-quality performance. With a view to gaining greater insight into what drives or obstructs engagement, the EBRD began work on the renewal of its approach to measuring staff engagement. The updated method will be designed to derive even more meaningful and effective planning at institutional and team level. The Bank is fully committed to listening to staff and taking action as a result of their views.

RECRUITMENT

In 2014 there were 274 new hires in the Banking department compared to 300 in the previous year. In total, 322 of the 501 new staff across the Bank who are on regular, fixed-term or short-term contracts were recruited in London and 179 in the countries where the EBRD invests.

The Bank continued its proactive approach to talent acquisition by drawing on social media and targeted internet advertising to announce career openings and using its

presence at international career events to raise the profile of the organisation. Greater use of social media and online tools has brought cost efficiencies without compromising the quality of recruitment. The Bank connects with potential talent via university and business-school networks, occasionally hosting events for interested groups. This investment enables outreach to as diverse a talent pool as possible.

ALUMNI

2014 saw the launch of the EBRD Alumni Association, which aims to mobilise the 5,000 alumni spread throughout the EBRD's member countries. During this first year, substantial momentum was achieved, alumni interest demonstrated and key activities launched.

As well as helping alumni to establish contacts with each other and maintain links with the Bank and the region, the initiative supports the mission of the EBRD by enhancing its external communication, brand ambassadorship, business development and recruitment activities. The Alumni Association is a valuable resource on which the Bank can draw for potential advice, expertise, contacts and strategic partnerships.

INTEGRITY AND ACCOUNTABILITY

Committed to achieving the highest standards of integrity and transparency in the conduct of its business, the EBRD sees promoting these standards as an essential part of the transition process. It 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. The mission of OCCO is to protect the integrity and reputation of the Bank, promote ethical standards of behaviour and strengthen the Bank's accountability and transparency. The annual *Integrity and Anti-Corruption Report* published by OCCO describes the Bank's strategy to promote integrity and prevent fraud and corruption and highlights the most recent measures taken.

The *Integrity Risks Policy and Terms of Reference* for OCCO, were last revised in June 2014. The purpose of this policy is to set out, for the benefit of EBRD stakeholders, the manner in which OCCO helps the Bank manage integrity risks.

Integrity due diligence is integrated into the Bank's normal approval of new business and the monitoring of its existing operations. OCCO provides advice on significant integrity concerns, through which it enhances the transition impact of EBRD projects.

OCCO is also responsible for investigating allegations of staff misconduct. These are investigated under the *Conduct and Disciplinary Rules and Procedures* (CDRPs), most recently revised in 2014 to reflect the adoption by the Bank of an enhanced whistleblower protection regime. The CDRPs specify the rights and duties of both the Bank and staff members during the investigative and disciplinary processes and provide safeguards for the subject of any investigation.

Allegations of misconduct on the part of Board Officials on the one hand, and on the part of the President, Vice Presidents,

Chief Evaluator and Chief Compliance Officer on the other, are dealt with in accordance with the provisions of the Code of Conduct for EBRD Board Officials or *Code of Conduct for EBRD Personnel*, respectively.

Allegations of fraud and corruption in relation to Bank projects or counterparties are investigated under the Bank's *Enforcement Policy and Procedures* (EPPs). In 2014, following investigations under the EPPs, the Bank debarred one individual and one corporate entity.

The EPPs also describe the process by which the Bank applies debarments imposed by other multilateral development banks (MDBs), pursuant to the Agreement for Mutual Enforcement of Debarment Decisions. In 2014 OCCO recommended to the EBRD Enforcement Committee that 48 Notices of Mutual Enforcement be issued after receiving debarment decisions from the World Bank Group, Asian Development Bank, Inter-American Development Bank and African Development Bank with respect to a total of 54 incorporated entities and 33 individuals. The EBRD's Enforcement Committee approved OCCO's recommendations and determined that sanctions should be imposed on all of the entities and individuals noted in the 48 Notices.

The list of all EBRD-debarred entities and persons can be found at www.ebrd.com/pages/about/integrity/list.shtml *Integrity and Anti-corruption Report*
www.ebrd.com/integrity-and-compliance.html
Integrity Risks Policy and Terms of Reference for OCCO
www.ebrd.com/downloads/integrity/integrityriskpol.pdf

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 (CR) function, it reviews complaints that the Bank has failed to adhere to applicable policies in a particular project. Through its problem-solving initiative (PSI) it also affords members of the affected community an opportunity to obtain the Bank's assistance in addressing their grievances with the project sponsor. Affected parties can make a request for one or both of these functions of the PCM.

Following an extensive review process, involving comprehensive stakeholder and public consultation, revised PCM Rules of Procedure came into force in November. In addition, following competitive recruitment in 2014, three new members will be appointed to the panel of PCM Experts in early 2015.

In the course of 2014, the PCM registered five new complaints and continued working on different stages of the review process for four ongoing complaints registered in 2013 and 2012. In addition, following findings of non-compliance in relation to the Boskov Most Hydro Power (FYR Macedonia), Ombla HPP (Croatia) and Paravani HPP (Georgia) projects, in 2014 the PCM



prepared the first of its *Compliance Review Monitoring Reports*. In these reports the PCM Officer monitors the implementation of the recommendations found in the respective *Compliance Review Reports*.

Details of all complaints and all published reports, together with the PCM Annual Report for 2014, are available on the EBRD website. See www.ebrd.com/work-with-us/project-finance/project-complaint-mechanism.html

ENVIRONMENTAL AND SOCIAL SUSTAINABILITY

Environmental and social sustainability is embedded throughout the Bank's activities and is a key aspect of the EBRD's transition agenda. In addition to investment activities that promote the sustainable use of energy and other resources, as well as fostering gender equality and economic inclusion, implementation of the EBRD's sustainability mandate includes robust processes for environmental and social due diligence and for the monitoring of all Bank-financed projects. 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, transparent way.

In 2014 the Bank undertook a major review of its Environmental and Social Policy, which involved one of the largest public consultation exercises the EBRD has undertaken. This review aimed to build on the experience of implementing the previous policy and maintain the EBRD's position at the forefront of good practice. The revised Policy introduced some new areas of focus and codified existing practice in others, including human rights, gender, road safety and animal welfare



(see box on good governance policies for more detail).

As well as ensuring compliance with the 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, an EBRD investment of €60 million is supporting the expansion of the national grid in Morocco to bring electricity to 1,200 small villages. Crucially, the EBRD

LAUNCH OF REVISED GOOD GOVERNANCE POLICIES

In May, the EBRD Board of Directors approved revisions to three major EBRD 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 Project Complaint Mechanism (2009).

This followed a parallel review of the three policies that took into account lessons learned, changes in international best practice and the views of stakeholders, including clients, industry associations, civil society, peer organisations and the Bank's shareholders. Public meetings were held in Bulgaria, Georgia, Kazakhstan, Morocco, Russia and Ukraine and at EBRD headquarters in the UK. The new policies went into effect in November and are available on the Bank's website.

Key changes to the Environmental and Social Policy included: emphasis on the importance of human rights; explicit references to the need for gender considerations to be identified and addressed at the project level, in line with the Bank's Strategic Gender Initiative; and more emphasis on resource efficiency, reflecting the Bank's Sustainable Resource Initiative. The Policy also broadened the concept of vulnerability to include gender identity and sexual orientation. The policy's performance requirements were revised to include new issues, such as

road safety and animal welfare, and included further detail on supply chain and biodiversity requirements.

Under the revised Public Information Policy the EBRD will publish environmental and social impact assessments on the Bank website; prepare project summary documents (PSDs) for a wider range of transactions, including technical cooperation projects over €300,000; and will update PSDs annually for those projects requiring environmental and social impact assessments. For the first time, the Bank will disclose transition impact ratings for public sector projects in PSDs and publish aggregate information on transition impact with geographical and sectoral breakdowns in the Annual Report.

The revised Rules of Procedure for the Project Complaint Mechanism allow a request for a Problem-solving Initiative to be submitted by an individual and/or group with social or cultural interests in the area affected by a Bank project, not just economic interests. Complaints are now eligible for a Compliance Review for two years after final repayment, exit from equity or cancellation of a project. In the case of equity funding, a Problem-solving Initiative can be requested for as long as the Bank has not sold or exited from its investment.



Integrity due diligence is integrated into the EBRD's approval of new business and monitoring of existing operations.

is also helping to improve the sustainability of the service by financing the first smart metering installations. Smart meters, which can also measure electricity being sent to the grid, are essential for developing the capacity for decentralised generation of renewable energy, in particular for rooftop solar-power generation.

In Georgia, the Bank is supporting an innovative pilot programme to reforest areas adjacent to a hydropower project. Restoring forested areas is expected to have multiple benefits, including offsetting carbon emissions associated with the project's construction, reducing soil erosion and creating local job opportunities associated with both timber and non-timber forest products.

In 2014 the EBRD launched its Financial Intermediary Sustainability Index (SI). This has been designed to help partner financial institutions understand how they are responding to sustainability issues and the extent to which they have implemented a systematic approach to managing such issues. By the end of 2014 some 250 banks had signed up to participate in the index.

The EBRD remained closely involved in international cooperation activities during last year. 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.

2014 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). Building on its success in Ukraine, E5P has now expanded to two new countries, Georgia and Moldova. Donors have pledged €20 million for each new recipient country, with the EU contributing half of the total.

The EBRD has also focused on the sustainability of its own operations, with investments in energy-efficient air conditioning and IT equipment and the launch of the Bank's first Green Week event, which encouraged staff to reduce their own environmental footprint at work and at home.

Further details of the Bank's environmental and social activities and results are available in the *EBRD Sustainability Report 2014*, at sr-ebd.com

ENGAGING WITH CIVIL SOCIETY

The EBRD engages with a wide range of civil society organisations (CSOs) 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 2014, the EBRD increased its dialogue with civil society by working with more groups and by launching the Civil Society Capacity Building Framework, which aims to enhance awareness and capacity among CSOs affected by Bank projects and policy initiatives.

Last year, 470 civil society representatives participated in 42 thematic meetings organised by the EBRD and more than 2,700 CSO representatives were registered with the Bank, compared with 2,300 in 2013.

The Civil Society Programme, a flagship event of the Bank's engagement with civil society, took place on 14-16 May 2014 in Warsaw alongside the EBRD Annual Meeting and Business Forum. The event attracted 52 CSO representatives from 23 countries.

For further information see

www.ebrd.com/who-we-are/civil-society-overview.html

PARTNERSHIPS

The Civil Society Capacity Building Framework seeks to raise awareness and improve technical knowledge and organisational capacity among community-based civil society groups and organisations. These CSOs are directly or indirectly affected by specific EBRD investment projects and policy dialogue initiatives.

The Framework uses donor funds to partner with local and international CSOs and consultants in order to provide training for civil society groups and organisations. A pilot phase from July 2013 to July 2014 featured technical cooperation projects in the Kyrgyz Republic, Moldova and Montenegro, reaching 150 CSOs and other beneficiaries, whose capacity improved substantially as a result of the venture. Projects were subsequently launched under the Framework in Albania, Egypt, the Kyrgyz Republic, Tajikistan and Ukraine with support from donors, EBRD shareholders, external partners and the private sector.

HIGH-LEVEL DIALOGUE

President Chakrabarti is committed to broadening the Bank's engagement with civil society. During his official visits in 2014, he met with CSO representatives in Kazakhstan, Moldova, Poland, Serbia and Tajikistan. Civil society stakeholders also had the opportunity to meet with other senior managers and members of the Board of Directors in six countries where the Bank invests, and in London.

COUNTRY STRATEGIES

In 2014 the EBRD consulted with civil society stakeholders in Armenia, the Kyrgyz Republic, Romania and Tajikistan during reviews of the respective country strategies. It also consulted with civil society on initial country strategies for Cyprus, Jordan and Morocco.

PROJECT DIALOGUE

The EBRD engaged with international and local CSOs in 2014 on the planning, implementation and monitoring of 45 investment projects in 19 countries and on 3 regional investment facilities. The main areas of interest included:

- agribusiness in the southern and eastern Mediterranean (SEMED) region and eastern Europe
- mining in the Caucasus and Mongolia
- municipal and environmental infrastructure in the Western Balkans and eastern Europe
- natural resources, power and energy in the Western Balkans, central and eastern Europe and the Caucasus, Central Asia, Russia and SEMED
- property and tourism in SEMED
- transport in the Western Balkans and Russia.

CONSULTATION ON GOOD GOVERNANCE POLICIES

The Bank completed the consultation process for the review of its Environmental and Social Policy, Public Information Policy and the Project Complaint Mechanism Rules of Procedure (see box on page 50). This two-stage process began in 2013 and consisted of gathering feedback from civil society on the implementation of existing policies and strategies before opening formal consultation on the new drafts.

In 2014 the Bank organised public meetings in Almaty, Casablanca, Kiev, London, Moscow, Sofia and Tbilisi. These were attended by a total of 190 stakeholder representatives who provided comments. In addition, the EBRD arranged a video conference with CSOs in Belgrade at the request of local organisations in Serbia. It compiled a summary of public comments and provided them to the Board of Directors before final approval of the revised policies.

For an overview of the 2014 dialogue with civil society see www.ebrd.com/who-we-are/civil-society/news-and-events.html.

INDEPENDENT EVALUATION

EVALUATING THE EBRD'S ACTIVITIES

The shareholders and management of the EBRD see independent and effective evaluation as critical to accomplishing the core purposes of the institution. By evaluating the performance of past projects, the Bank can improve the design and delivery of future operations 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 at the EBRD 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 Bank operations, programmes and strategies, and monitors and validates self-evaluations prepared by management. EvD analysis provides the basis for an overall assessment of the institution's operational performance. It is also a means of identifying lessons from experience that can be used to improve the effectiveness of future operations. The mandate, scope and



key processes of EvD are set out in the Bank's Evaluation Policy.

EvD's evaluation methods reflect international standards for good-practice developed jointly with other multilateral financial institutions under the auspices of the Evaluation Cooperation Group.

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 2010, with between 45 to 50 per cent achieving a transition impact rating of "good" to "excellent".



EvD also provides an overall performance rating that includes, in addition to transition impact, other important 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 shows overall ratings of “successful” or “highly successful” among evaluated projects approved between 1992 and 2010.

There is broad consistency in the institutional success rate of EBRD projects, in the range of 40 to 50 per cent. Both charts show a pattern of slight decline in the years preceding the 1998 Russia crisis and the 2008 financial crisis.

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 website.

SPECIAL STUDIES

In 2014 EvD completed several major thematic evaluations. These included: an interim evaluation of the EBRD Shareholder Special Fund, performed at Management’s request; the first evaluation of the Bank’s policy dialogue work, in this case in

Ukraine; and an evaluation of the Bank’s operations in the municipal sector in connection with a review of its sector strategy. EvD contributed to a major joint-MDB evaluation of the Climate Investment Funds. In addition, EvD completed around 70 project evaluations and produced a summary of findings and ratings. All completed evaluation reports are available at www.ebrd.com/evaluation.

Work was initiated and substantially progressed in 2014 on special studies covering: operations in the agribusiness sector; operations in the Russian railway sector; transactions with state-owned firms; the sustainability of transition impact over the long term; and the Bank’s sustainable energy efficiency facilities. For further information about upcoming evaluations visit www.ebrd.com/evaluation.

EVD TOOLS AND ENGAGEMENT WITH MANAGEMENT

EvD continues to implement a strategic approach outlined in 2011 and subsequently incorporated into its work programmes and new evaluation policy. Further steps taken in 2014 towards implementing the strategy include:

- establishment of management focal points within strategy or policy and banking teams to improve coordination and widen the uptake of EvD work
- development of a new performance-rating methodology for the evaluation of results. This work coincides with the wider Bank review of results frameworks
- development of a new tool for follow-up on EvD recommendations, designed to ensure they are implemented as planned, with regular progress reporting to the Board; an initial report was issued in late 2014, reporting on all recommendations issued in 2013 and 2014 to date
- implementation of new procedures for management review of evaluation reports
- increased training for staff, which included: a web-based evaluation module; presentations at the Core Skills Banking Academy course for new bankers; presentations on evaluation and self-assessment to some regional offices; and provision of case studies, lessons and other materials for a new monitoring course facilitated by Learning and Development
- wider dissemination of evaluation reports and findings internally and to the Board including a presentation and seminar on the special study, *The EBRD’s experience with policy dialogue in Ukraine*; a semi-annual update on project evaluation findings and ratings; presentation of selected project evaluations to the Audit Committee; and, a follow-up report to the Board on the implementation of evaluation recommendations.

“
By evaluating past projects the Bank can maximise its contribution to the transition process.”

CHART 5.1. TRANSITION IMPACT RATINGS OF EVALUATED EBRD PROJECTS BY APPROVAL YEAR, 1992-2010¹⁰

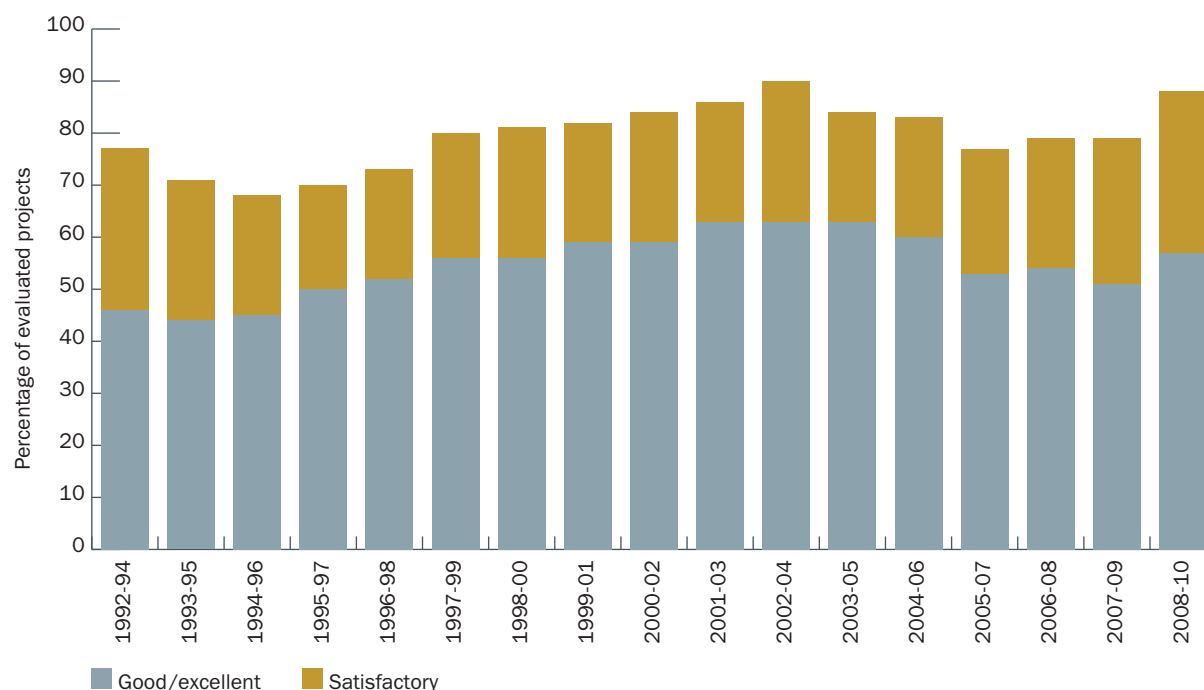
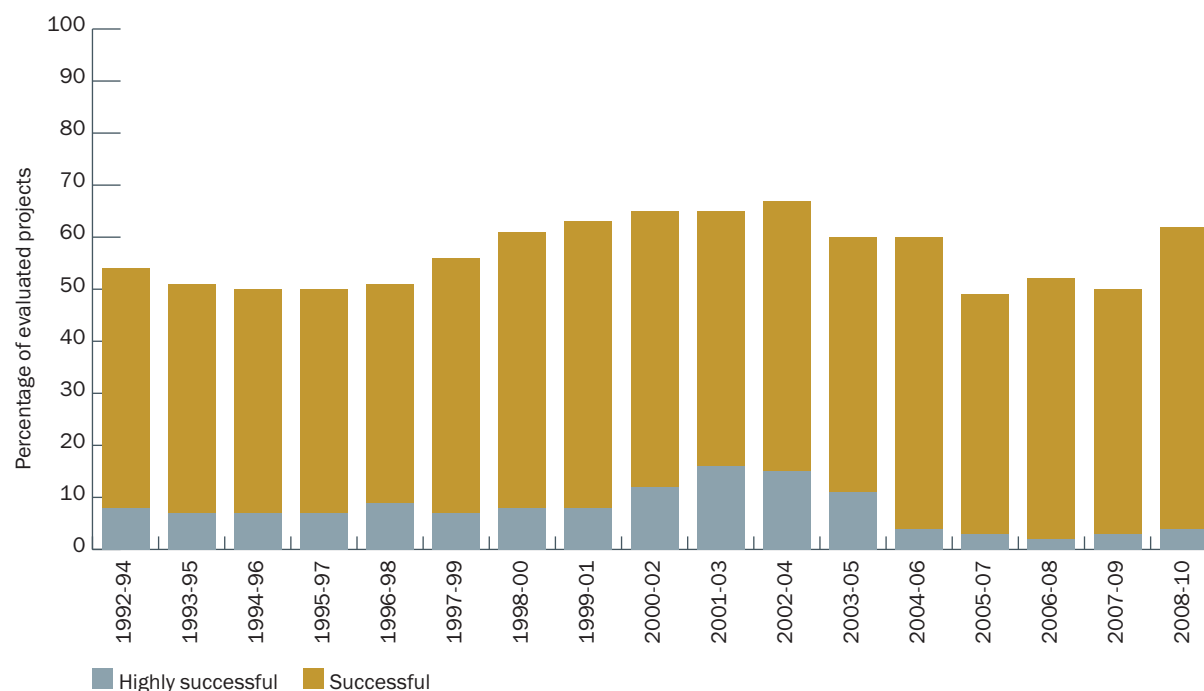


CHART 5.2. OVERALL PERFORMANCE RATINGS OF EVALUATED EBRD PROJECTS BY APPROVAL YEAR, 1992-2010¹⁰



¹⁰ Figures are reported on a three-year rolling basis. In 2012 EvD moved from reporting by evaluation year to reporting by approval year. Projects are evaluated a few years after approval. 2010 is the most recent approval year from which a substantial number of operations have subsequently been evaluated.

EBRD GOVERNORS AND ALTERNATE GOVERNORS

31 DECEMBER 2014

Member	Governor	Alternate Governor	Member	Governor	Alternate Governor
Albania	Shkëlqim Cani	Erion Luci	Kyrgyz Republic	Temir Argembaevich Sariev	Olga Lavrova
Armenia	Karen Chshmaritian	Vakhtang Mirumyan	Latvia	Jānis Reirs	Dana Reizniece-Ozola
Australia	Joe B. Hockey	Steven Ciobo	Liechtenstein	Thomas Zwiefelhofer	Roland Marxer
Austria	Johan Georg Schelling	Edith Frauwallner	Lithuania	Rimantas Šadžius	Aloyzas Vitkauskas
Azerbaijan	Shahin Mustafayev	Samir Sharifov	Luxembourg	Pierre Gramegna	Arsène Jacoby
Belarus	Vladimir I. Semashko	Nikolai Snopkov	Malta	Edward Scicluna	Josef Bonnici
Belgium	Johan Van Overtfeldt	Marc Monbaliu	Mexico	Luis V. Caso	Fernando A. Rodriguez
Bosnia and Herzegovina	Zlatko Lagumdžija	Muhamed Ibrahimović	Moldova	Andrian Candu	Marin Moșag
Bulgaria	Vladislav Goranov	Dimitar Kostov	Mongolia	Jargaltulga Erdenebat	Zoljargal Naidansuren
Canada	Joe Oliver	Daniel Jean	Montenegro	Radoje Žugić	Nikola Vukićević
Croatia	Boris Lalovac	Igor Rađenović	Morocco	Mohammed Boussaid	Driss E. A. El Idrissi
Cyprus	Harris Georgiades	Christos Patsalides	Netherlands	Jeroen Dijsselbloem	Lilianne Ploumen
Czech Republic	Andrej Babiš	Miroslav Singer	New Zealand	Murray McCully	Robert Taylor
Denmark	Henrik S Larsen	Michael Dithmer	Norway	Siv Jensen	Dilek Ayhan
Egypt	Naglaa El-Ehwany	Ashraf Salman	Poland	Marek Belka	Artur Radziwiłł
Estonia	Mauris Lauri	Veiko Tali	Portugal	Maria Luís Albuquerque	Manuel Rodrigues
European Investment Bank	Wilhelm Molterer	László Baranyay	Romania	Darius-Bogdan Vâlcov	Mugur Isarescu
European Union	Olli Rehn	Marco Buti	Russia	Alexey V Uluykaev	Dmitry Pankin
Finland	Antti Rinne	Matti Anttonen	Serbia	Dušan Vujović	Željko Sertić
FYR Macedonia	Zoran Stavreski	Vladimir Pesevski	Slovak Republic	Peter Kažimír	Jozef Makúch
France	Michel Sapin	Bruno Bézard	Slovenia	Dušan Mramor	Irena Sodin
Georgia	Nodar Khaduri	Giorgi Kadagidze	Spain	Luis de Guindos Jurado	Iñigo Fernandez de Mesa Vargas
Germany	Wolfgang Schäuble	Thomas Steffen	Sweden	Magdalena Andersson	Karina Ekholm
Greece	Konstantinos Skrekas	Panagiotis Mitarachi	Switzerland	Johann N. Schneider-Ammann	Beatrice Maser Mallor
Hungary	Mihály Varga	László Balogh	Tajikistan	Jamolidin Nuraliev	Jamshed Z. Yusufiyon
Iceland	Bjarni Benediktsson	Guðmundur Árnason	Tunisia	Hakim Ben Hammouda	Noureddine Zekri
Ireland	Michael Noonan	John Moran	Turkey	Cavit Dağdaş	Burhanettin Aktaş
Israel	Karnit Flug	Oded Brook	Turkmenistan	Muratniyaz Berdiyev	Merdan Annadurdyev
Italy	Pier Carlo Padoan	Carlo Monticelli	Ukraine	Oleksander Shlapak	Stepan Kubiv
Japan	Taro Aso	Haruhiko Kuroda	United Kingdom	George Osborne	Justine Greening
Jordan	Ibrahim Saif	Saleh Al-Kharabsheh	United States	Jacob J. Lew	Vacant
Kazakhstan	Bakhyt Sultanov	Marat Kusainov	Uzbekistan	Rustam S. Azimov	Shavkat Tulyaganov
Korea, Republic of	Kyunghwan Choi	Juyeol Lee			
Kosovo	Besim Beqaj	Vacant			

Chair of The Board of Governors

2013-14: Governor for Poland (Marek Belka)

Vice Chairs of The Board of Governors

2013-14: Governor for Latvia (Andris Vilks), Governor for Malta (Edward Scicluna)

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 2014

Director	Alternate	Constituency
Tamsyn Barton	Michel Grilli	European Investment Bank
Anthony Bartzokas	Abel Mateus	Greece, Portugal
Raphaël Bello	Gustave Gauquelin	France
Anna Brandt	Anna Björnermark	Sweden, Iceland, Estonia
Sang Goo Byun	Bob McMullan	Korea, Australia, New Zealand, Egypt
Claire Dansereau	Greg Houlahan	Canada, Morocco, Jordan, Tunisia
Evren Dilekli	Virginia Gheorghiu	Turkey, Romania, Azerbaijan, Kyrgyz Republic
Raffaella Di Maro	Dante Brandi	Italy
Seán Donlon	Ove Jensen	Ireland, Denmark, Lithuania, Kosovo
Toshiyuki Furui	Makoto Honda	Japan
Ole Hovland	Jorma Korhonen	Norway, Finland, Latvia
Vacant	Klára Król	Hungary, Czech Republic, Slovak Republic, Croatia, Georgia
Heinz Kaufmann	Artem Shevarev	Switzerland, Ukraine, Liechtenstein, Turkmenistan, Serbia, Montenegro, Moldova
Marisa Lago	Luyen Tran	United States of America
Kalin Mitrev	Zbigniew Hockuba	Bulgaria, Poland, Albania
Denis Morozov	Sergey Verkashanskiy	Russian Federation, Belarus, Tajikistan
Jonathan Ockenden	Vanessa MacDougall	United Kingdom
Antonio Oporto	Enrique Bal	Spain, Mexico
Joachim Schwarzer	Joachim Steffens	Germany
Johannes Seiringer	Eddy Azoulay	Austria, Israel, Cyprus, Malta, Kazakhstan, Bosnia and Herzegovina
Jean-Louis Six	Miguel Marques	Belgium, Luxembourg, Slovenia
Maarten Verwey	Peter Basch	European Union
Paul Vlaanderen	Ronald Elkhuisen	Netherlands, Mongolia, FYR Macedonia, Armenia

COMPOSITION OF BOARD OF DIRECTORS' COMMITTEES

31 DECEMBER 2014

Audit Committee	Budget and Administrative Affairs Committee
Anthony Bartzokas (Chair)	Antonio Oporto (Chair)
Johannes Seiringer (Vice Chair)	Heinz Kaufmann (Vice Chair)
Anna Brandt	Tamsyn Barton
Seán Donlon	Sang Goo Byun
Denis Morozov	Claire Dansereau
Jonathan Ockenden	Raffaella Di Maro
Director for Hungary	Kalin Mitrev
	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)	Jean-Louis Six (Chair)
Evren Dilekli (Vice Chair)	Denis Morozov (Vice Chair)
Raphaël Bello	Anthony Bartzokas
Toshiyuki Furui	Evren Dilekli
Marisa Lago	Ole Hovland
Joachim Schwarzer	Heinz Kaufmann
Maarten Verwey	Antonio Oporto
Paul Vlaanderen	Johannes Seiringer
	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.

ABBREVIATIONS AND ACRONYMS

ABI	Annual Bank investment
The Bank, EBRD	The European Bank for Reconstruction and Development
CIF	Climate Investment Funds
CIS	Commonwealth of Independent States
CSO	Civil society organisation
EvD	Evaluation Department
CTF	Clean Technology Fund
ECB	European Central Bank
EIB	European Investment Bank
EITI	Extractive Industries Transparency Initiative
ETC	Early transition countries
EU	European Union
FAO	Food and Agriculture Organization of the United Nations
FI	Financial institution
FYR Macedonia	Former Yugoslav Republic of Macedonia
GEF	Global Environment Facility
ICT	Information and communication technologies
IFCA	Investment Facility for Central Asia
IFI	International financial institution
LEF	Local Enterprise Facility
MDB	Multilateral development bank
MEI	Municipal and environmental infrastructure
MSMEs	Micro, small and medium-sized enterprises
NDEP	Northern Dimension Environmental Partnership
NIF	Neighbourhood Investment Facility
NPL	Non-performing loan
OCCO	Office of the Chief Compliance Officer
OCE	Office of the Chief Economist
PCM	Project Complaint Mechanism
PPP	Public-private partnership
SBS	Small Business Support
SEFF	Sustainable energy financing facility
SEI	Sustainable Energy Initiative
SEMED	Southern and eastern Mediterranean region
SMEs	Small and medium-sized enterprises
SRI	Sustainable Resource Initiative
SSF	EBRD Shareholder Special Fund
TC	Technical cooperation
TFP	Trade Facilitation Programme
WBIF	Western Balkans Investment Framework

EXCHANGE RATES

Non-euro currencies have been converted, where appropriate, into euros on the basis of the exchange rates current on 31 December 2014. (Approximate euro exchange rate: US\$ 1.22.)

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**ANNUAL
REPORT
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European Bank
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