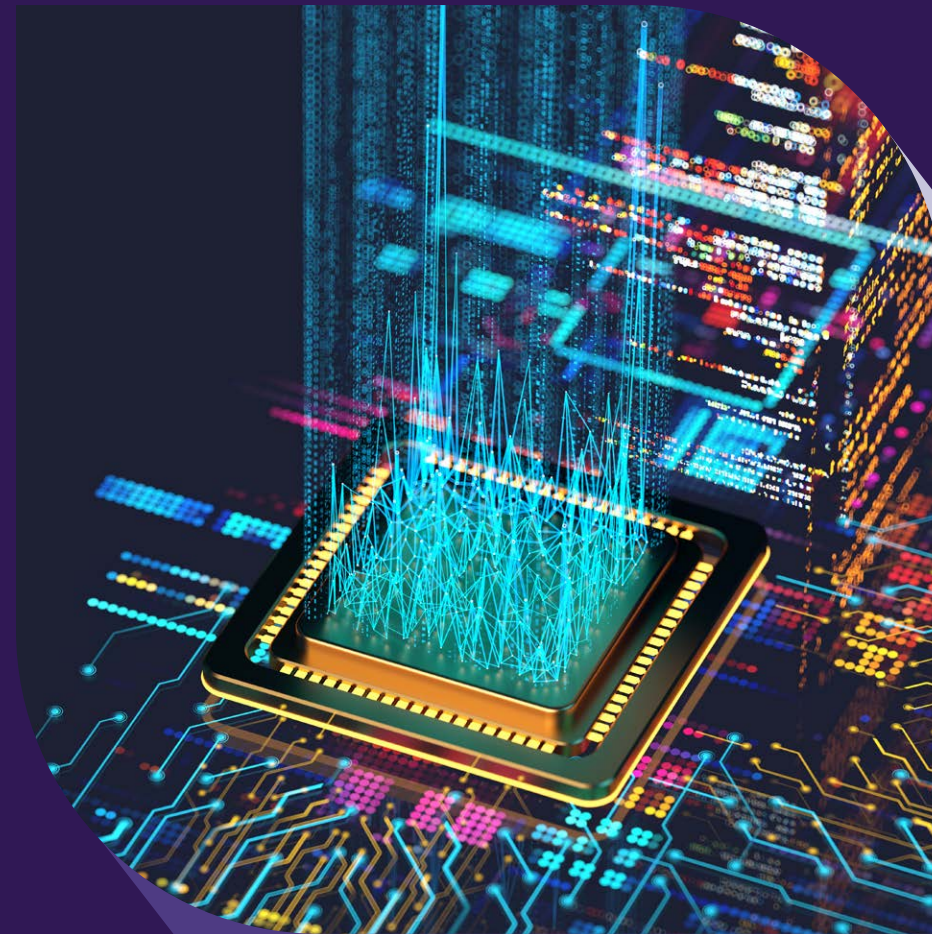


Impact on the digital transition

Building foundations,
enabling innovation



Impact on the digital transition: building foundations, enabling innovation

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Challenges and opportunities

Many economies in the EBRD regions face significant transition challenges – advances in digital technology offer them transformative solutions. Digital solutions can improve competitiveness by enabling small and medium-sized enterprises (SMEs) to diversify their offerings, expand trade and integrate into global value chains. Digital platforms and tools deployed across governmental services can enhance transparency and help fight corruption, while the digital transformation of state-owned enterprises (SOEs) can bring efficiency and cost savings. Digital technologies also promote smarter energy use and improve the reliability of energy systems.

Digital advances move private-sector growth forward, too. By capitalising on digital advances built on new and improved infrastructure, economies can unlock growth opportunities and strengthen their resilience in an increasingly interconnected world. The value of digital transformation has been reflected in the staggering growth of the information and communications technology (ICT) sector, which expanded about three times faster than the global economy between 2013 and 2023. ICT technologies and services accounted for 5.4 per cent of total value added in countries covered by the Organisation for Economic Co-operation and Development (OECD) Structural Analysis Database in 2019, up 40 per cent from 2010.³⁷

However, the pace of digital transformation is uneven.

The EBRD regions are lagging in terms of access to technology and hardware, digital skills, and ability and willingness to learn online. These issues exacerbate one another, worsen existing divides between and within countries and have implications for the long-term productivity of the EBRD’s regions. *The Life in Transition Survey IV* points to the systematically low shares of individuals with ICT skills at all levels in all EBRD regions, while many regions are also experiencing significant “brain drain” as people with strong digital skills move abroad.³⁸ The resulting low levels of digital skills are holding back people’s use of digital technologies, even where digital infrastructure and services are available.

Recent digitalisation trends point to new and rapidly evolving challenges. The environmental footprint of the ICT sector is growing due to the exponential rise in data traffic, which is driving significant increases in energy use and greenhouse gas emissions. The telecommunications, media and technology sector is responsible for 1.5-4.0 per cent of global carbon emissions.³⁹ At the same time, the increased interconnectedness of the global economy, the high rate of digital transformation, the rise of artificial intelligence and other technological advances are increasing cybersecurity risks for individuals, businesses and governments.

The EBRD is always looking for new ways to advance the digital transition. The Bank was quick to acknowledge the importance of digital technologies in the 2010s, when it linked together investments in digital infrastructure with new instruments dedicated to venture capital financing for digital and high-tech companies. In the wake of the Covid-19 pandemic, amid an acceleration of digital transformation and adoption, the Bank further deepened its ambition and scope, as outlined in *The EBRD’s Approach to Accelerating the Digital Transition, 2021-25*.⁴⁰

37. See OECD (2024).
38. See EBRD and World Bank (2024).
39. See ITU (2024).
40. See EBRD (2021a).

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The EBRD’s impact

The Bank continued to advance the digital transition in three focus areas in 2024: foundations of the digital economy, innovation and adaptation. The **foundations** focus area seeks to promote appropriate policies and regulations and improve access to connectivity through the development of infrastructure (rolling out, expanding and upgrading fixed and mobile networks). As of December 2024, the Bank is supporting 21 investments to build the foundations of the digital economy, including four new projects started last year. The second focus area advances **innovation** through the promotion of startup-friendly ecosystems, including by meeting the specific financing needs of and tackling the growth constraints suffered by digital-first startups. Such startups are vital to market economies because of their innovation, rapid scaling, job creation and revenue generation.⁴¹ In 2024, the Bank supported 16 new projects to advance innovation, bringing its total active investments in this area to 94. The third focus area is the **adaptation** and digital transformation of EBRD clients, which the Bank has been promoting since 2022. It has been doing this through enhancing digital services, assets, business processes, cybersecurity practices and value chains, ultimately contributing to greater productivity, resilience, environmental performance and inclusion. In 2024, the Bank more than doubled the number of projects it finances to promote adaptation and digital transformation, with 43 additions bringing the total to 87. Many of these investments, across all three focus areas, are complemented by policy dialogue and advisory services.

41. See EBRD (2024a).
42. See World Bank (2023), page xi.

The EBRD’s digital transition activities are tailored to context and supported by donors. Investments in all three focus areas deploy the full suite of EBRD instruments – loans, guarantees and direct and indirect equity – to maximise impact. The mix varies depending on the sector in question, the aim of the intervention and the client’s digital maturity. These investments are complemented by policy dialogue and advisory services. Support from bilateral donors, the EU and the EBRD Shareholder Special Fund is often a key enabler of these engagements, with donors supporting about one-fifth of the Bank’s active digital investment portfolio and a further €26.5 million in non-transactional technical cooperation engagements (where the EBRD supports legal and regulatory reforms, research or knowledge production to enhance the wider environment for transition).

Foundations: Building digital foundations is a cornerstone of EBRD operations in the digital economy. The Bank’s work has provided faster and more reliable internet access to individuals in multiple countries, improving digital connectivity and access. Thanks to EBRD engagements signed since 2022, some 14.5 million people are projected to have improved digital coverage, with new network infrastructure such as broadband, mobile networks or wireless hotspots available in their area. In addition, some 3.5 million people are set to benefit from better access to the internet, with improvements in connectivity issues such as speed, cost and reliability. Promoting digital connectivity creates positive spillover effects for the broader economy, as faster internet speeds can increase both employment and exports, the latter by a factor of almost four.⁴²

Projected results from 2024 investments

676,000
individuals have better digital connectivity

4.1 million
individuals have better digital coverage

Results achieved since 2022

2,346 small businesses have received digital advisory services

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Innovation: EBRD digital advisory services for small businesses serve different purposes depending on the type of business. In the case of bricks-and-mortar SMEs, the Bank’s assistance helps them understand and embed digital solutions into their production, operations and client outreach to enhance productivity and sales. Since 2022, a new EBRD flagship product, the Go Digital Programme,⁴³ has brought these advisory services together with financing solutions to provide holistic digital transformation support to eligible SMEs. This assistance helps digital-first high-performing startups focus their growth plans to achieve scale and sustainability.

Adaptation: EBRD activities supporting the digital transformation of analogue clients are diverse. Digitalisation can serve a variety of purposes, from improving operational efficiency and saving costs to enhancing the digital skills of an entire workforce and strengthening the quality of regional infrastructure. EBRD operations aim to bring these diverse benefits to its regions. Two new flagship technical cooperation packages launched in 2023 and 2024, respectively, aim to support digital transformation more generally and cybersecurity resilience more specifically.

Digital focus area 1 Building digital foundations

The EBRD is helping build the foundations of the digital economy to foster systemic change. The Bank has digital foundation projects under way in central and eastern Europe, the Western Balkans, Türkiye and the Caucasus. This involves supporting the rollout and upgrade of digital infrastructure with the aim of narrowing the digital divide – by expanding networks to underserved regions – while also supporting the twin green and digital transitions by promoting resilient and energy-efficient digital infrastructure. The EBRD achieves this through financing and policy engagements that target infrastructure improvements, increase private-sector participation in these areas and encourage the commercialisation of SOEs. It also encourages sector-wide reforms to enhance the effectiveness of key regulatory authorities in promoting competitive digital markets. Such interventions when working in unison can create systemic change in markets that have been stunted by distortive state measures, unfair competitive practices and prohibitive barriers to energy. Donors are also playing a catalytic role in financing this digital development agenda.

Case study Improving digital connectivity in Armenia

EBRD support in Armenia has improved digital connectivity for individuals, boosted competitiveness for businesses and reduced the environmental impact of digitalisation. This has helped make Armenia a technology hub in the Caucasus region, with the number of IT-focused companies reportedly more than doubling in 2024 and the number of employees in the sector increasing by 30 per cent.⁴⁴ In 2022, the Bank lent US\$ 20 million (€18.5 million) to Telecom Armenia to support its growth plans – including 4G mobile network expansion and the rollout of a state-of-the-art fibre-to-the-home network across the capital, Yerevan, secondary cities and rural areas. This in turn increased the digital connectivity and competitiveness of businesses and some 450,000 households across the country.

The upgrade also has environmental benefits. By replacing twisted copper wires with more energy-efficient technologies, CO₂ emissions are reduced and primary energy is saved. This is a critical step in the decarbonisation of a traditionally energy-intensive sector. To date, a quarter of the fixed optical-fibre network has been upgraded, allowing about 270,000 households to access ultra-high-speed intranet in the capital, 33 secondary cities and five villages. In 2024, the EBRD reaffirmed its commitment to Telecom Armenia’s environmental ambitions with a US\$ 13.5 million (€12.9 million) participation in a senior unsecured sustainability-linked bond. Telecom Armenia has committed to sustainability performance targets on further reducing and avoiding CO₂ emissions. The EBRD is also strengthening the company’s cybersecurity against distributed denial-of-service attacks, helping to make it more resilient.

43. See EBRD (n.d.a).
44. See Office of the Prime Minister of the Republic of Armenia (2023).

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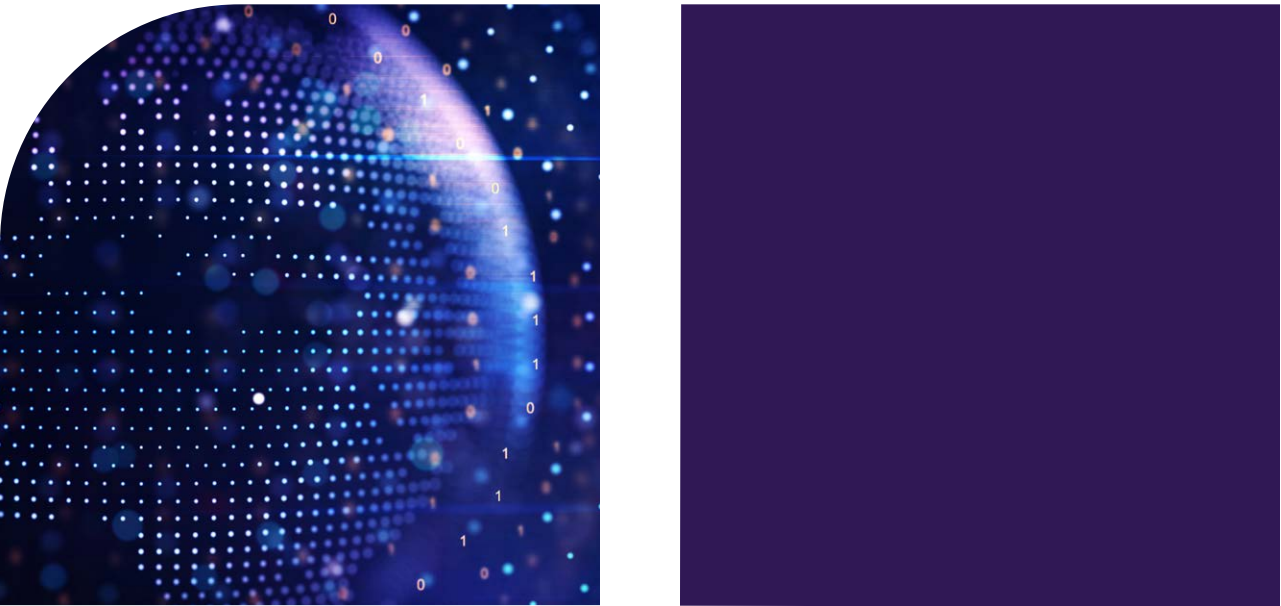
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Case study

Expanding digital access in Ukraine

The EBRD’s support for Ukraine’s digital foundations has driven systemic change. The Bank’s investments have demonstrated the broad economic and operational benefits of strategic investments in digital infrastructure. In 2021, following parliamentary approval of the Law on Electronic Communications – aimed at increasing transparency and fostering technological innovation in the Ukrainian ICT sector – the EBRD lent US\$ 65 million (€57 million) to Datagroup, a provider of data transfer services, fixed broadband and fixed telephony for corporate and residential clients. As a result, Datagroup acquired Volia, an internet and television services provider active in 34 cities and 19 regions of Ukraine, creating DatagroupVolia. DatagroupVolia’s profitability was up almost 25 per cent in 2024 compared with 2021, while customer satisfaction and loyalty in the retail category increased by 7 percentage points (net promoter score). The acquisition also combined the companies’ respective strengths in the corporate and retail sectors, creating an entity able to challenge the dominant player in the market and supporting the consolidation of the Ukrainian fixed-line telecoms market.

In 2024, the EBRD reaffirmed its commitment to the Ukrainian ICT sector. The Bank and the International Finance Corporation extended a debt package to DatagroupVolia worth US\$ 435 million (US\$ 217.5 million – or €202 million – from each party) for its merger with Lifecell, the third-largest Ukrainian mobile telephone network operator. The deal aims to create a combined fixed-mobile operator and finance the rollout of critical network components that will see 10 million mobile customers benefit from improved service coverage and 4 million households gain access to faster, more reliable broadband. The investment benefits from a guarantee, as well as technical cooperation to promote best practices and (re)skilling for the reintegration into the workforce of staff who have been mobilised for the war effort.



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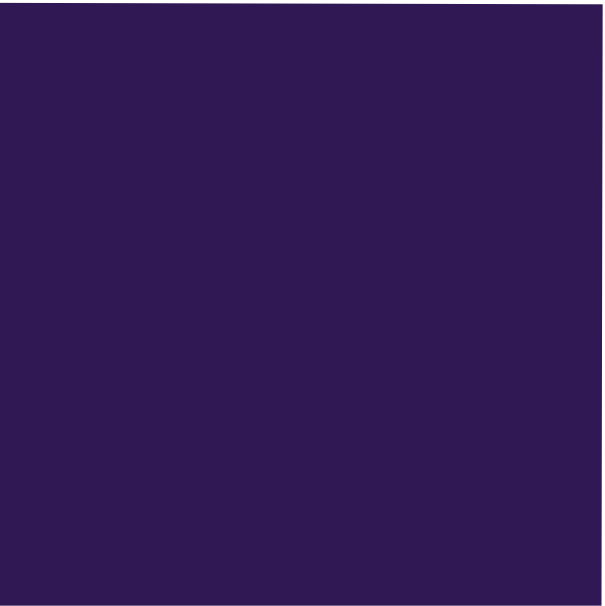
Digital focus area 2
Ensuring innovators can scale

The EBRD aims to bridge the finance gap that is impeding innovative digital businesses in their quest for growth. The vast majority of these companies are startups that may have significant growth potential, but they cannot develop and commercialise their products without access to capital. The Bank provides support for these firms in various forms, including early and growth-stage venture-capital investments. This includes direct equity under the Venture Capital Investment Programme,⁴⁵ indirect equity through the Early-Stage Innovation Facility⁴⁶ or assistance through the Bank’s other equity funds work.

The Bank also provides complementary technical support for entrepreneurs. This comes under its Star Venture programme⁴⁷, which is dedicated to fostering and strengthening entrepreneurial ecosystems by providing advisory services to local accelerators and startups. At the heart of the Star Venture programme is support for entrepreneurs who lead high-potential startups. These entrepreneurs gain 18 months’ access to an exclusive network of mentors, investors, corporate partners and advisors, along with essential tools and resources to accelerate their growth. Engagement generally involves a series of interconnected projects rather than a one-off intervention, fostering a systematic approach to building the startup’s capacity. Each year, an open call for applications selects 5-10 promising startups (younger than

10 years old) with a marketable product or service and demonstrated growth potential. This means a total of 100-150 young firms in 26 countries benefit from the programme annually.

This support is building business capabilities and creating jobs. Star Venture’s important role in fostering innovation and entrepreneurship is not just supporting startups but is empowering diverse leadership, enhancing business capabilities, facilitating access to financing and ultimately driving significant job creation. Star Venture has directly supported 389 tech startups and 36 local accelerators, all from a budget of €25.7 million. The programme has delivered 707 advisory service projects in various business areas, including new technology and product development, digitalisation, marketing, sales, operations and management, along with 543 non-project activities, including mentorship, training, workshops, business matching, access to finance and market support. Women lead more than a third of participating high-potential startups, while almost half are youth-led and focused on climate solutions. These companies have seen their average revenue grow sixfold – with more than three-quarters experiencing positive revenue growth – and have created more than 6,000 new jobs. Among the 389 portfolio startups, 283 (73 per cent) have raised more than €573 million in funding, mostly through equity financing (Box 6).



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Case study

Connecting farmers and retailers in Morocco

The EBRD supported a startup transforming agricultural supply chains with AI. Yola Fresh connects smallholder farmers directly with traditional retailers through an advanced digital platform. As well as addressing inefficiencies and a lack of transparency in the food supply chain, this empowers farmers by providing them with valuable insights into crop demand and optimal harvesting times, enabling them to manage their production more effectively and gain reliable market access.

The firm has rapidly achieved significant milestones since its launch in 2023. With EBRD support, Yola Fresh secured US\$ 7 million (€6.7 million) in pre-Series A funding, which will facilitate further product development, workforce expansion and market traction across Morocco. The company has also dramatically reduced food waste in the supply chain, lowering the typical share from 40 per cent to just 6 per cent through improved inventory management and forecasting. By fostering a more efficient, sustainable and resilient agricultural ecosystem, Yola Fresh exemplifies the transformative potential of technology. Combined with its commitment to social impact, this is contributing to food security and economic stability for smallholder farmers.

Box 6

Impact of the EBRD Star Venture programme

A rigorous impact evaluation published in November 2024 shows that Star Venture delivers measurable and sustained operational benefits.⁴⁸ The evaluation demonstrates that the programme has achieved significant gains in important metrics, with key outcomes including:

- **Increased funding.** Participating startups raised US\$ 1.34 million (€1.28 million) more in total funding within one year of joining, increasing to US\$ 2.17 million (€2.08 million) after two years.
- **Employment growth.** Startups created an average of 12 new jobs in the first year, sustaining 11 additional jobs into the second year.

Surveys of programme participants conducted in 2022-23 offer deeper insights:

- **Strategic Compass workshops.** More than 90 per cent of respondents reported greater clarity of business goals and strategic priorities.
- **Advisory services projects.** More than 70 per cent noted enhancements in market performance and management efficiency, while 54 per cent saw greater cost reductions and 60 per cent saw improved financial management.

- **Mentorship.** Participants valued mentorship on sales (55 per cent) and business development (58 per cent), but cited limited benefits in areas such as environmental, social and governance and digitalisation.

The Star Venture programme underscores the importance of tailoring interventions to specific operational challenges. The programme excels in fostering strategic planning and operational efficiency, primarily through diagnostics, mentorship and providing access to business networks. However, fewer startups report impacts on fundraising and employment. The feedback also highlights digital transformation and sustainability support as areas for enhancement. These insights are already driving programme improvements to better meet participant needs. Future iterations of the programme will expand these areas while continuing to build on the success of its customised advisory services model.

48. See EBRD (2024b).