

PUBLIC



COUNTRY EVALUATION

# Advanced markets in New Realities

## Regional-level Evaluation of EBRD's Operations in Baltic Countries

IEvD ID: SS25-200



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## Abbreviations

|             |  |                |   |
|-------------|--|----------------|---|
| <b>ABI</b>  | Annual Bank Investment                     | <b>MAB</b>     | Multi-apartment building  |
| <b>AMI</b>  | Annual Mobilised Investment                | <b>MSCI</b>    | Morgan Stanley Capital International  |
| <b>ATE</b>  | Advanced Transition Economies              | <b>MDB</b>     | Multilateral Development Bank   |
| <b>ATQ</b>  | Assessment Transition Quality              | <b>MEI</b>     | Municipal and Environmental Infrastructure  |
| <b>BCV</b>  | Board consultation visit                   | <b>MREL</b>    | Minimum Requirement for Own Funds and Eligible Liabilities  |
| <b>CEB</b>  | Central Europe and Baltics                 | <b>MW</b>      | Megawatt  |
| <b>CEE</b>  | Central and Easter Europe                  | <b>NIB</b>     | Nordic Investment Bank  |
| <b>CoO</b>  | Country of Operations                      | <b>NPL</b>     | Non-performing loans  |
| <b>CS</b>   | Country Strategy                           | <b>OECD</b>    | Organisation for Economic Co-operation and Development  |
| <b>CSDR</b> | Country Strategy Delivery Review           | <b>PD</b>      | Policy Dialogue   |
| <b>CSO</b>  | Civil Society Organisation                 | <b>PE</b>      | Private Equity  |
| <b>DFI</b>  | Development Financial Institution          | <b>PPP</b>     | Public Private Partnership  |
| <b>EIB</b>  | European investment Bank                   | <b>R&amp;D</b> | Research and Development  |
| <b>EIF</b>  | European Investment Fund                   | <b>RO</b>      | Resident office   |
| <b>ESG</b>  | Environmental Social Governance            | <b>SI</b>      | Sustainable Infrastructure  |
| <b>EU</b>   | European Union                             | <b>SLB</b>     | Sustainability-linked bond  |
| <b>FI</b>   | Financial Institutions                     | <b>SME</b>     | Small and Medium Enterprises  |
| <b>GDP</b>  | Gross Domestic Product                     | <b>SOE</b>     | State-Owned Enterprises   |
| <b>GET</b>  | Green Economy Transition                   | <b>TC</b>      | Technical Cooperation   |
| <b>GCAP</b> | Green Cities Action Plan                   | <b>TI</b>      | Transition Impact   |
| <b>GHG</b>  | Greenhouse Gas                             | <b>ToR</b>     | Terms of Reference  |
| <b>HQ</b>   | Headquarters                               | <b>TQ</b>      | Transition Quality  |
| <b>ICT</b>  | Information and Communication Technologies | <b>VC</b>      | Venture Capital   |
| <b>ILTE</b> | National Development Bank (Lithuania)      | <b>VIPA</b>    | Viešųjų Investicijų Plėtros Agentūra (Lithuanian state-owned National Promotional Institution and financial agency) |
| <b>IPO</b>  | Initial public offering                    |                |   |
| <b>IEvD</b> | Independent Evaluation Department          |                |   |
| <b>IFI</b>  | International Financial Institution        |                |   |
| <b>LPAs</b> | Limited Partner Agreements                 |                |   |

## REGIONAL-LEVEL EVALUATION BALTIC COUNTRIES

Estonia  
Latvia  
Lithuania

2016

2024

### Engagement in countries



**Estonia:** high concentration of operations in Financial Institutions sector

**Latvia:** the smallest portfolio with dominance of regional allocations

**Lithuania:** the largest portfolio with breadth and sector balance



### Strategic relevance

Well-aligned with the core transition needs of the three advanced transition economies, while delivery lagged in 2016-2021



### Additionality

**Financial additionality:** context-dependent, elevated since 2022.  
**Non-financial additionality:** driven by selective, innovative structuring, first-of-kind instruments, governance support and credibility



### Regional approach

Consistent and substantive in capital markets development, but not replicated in other sectors



### Expertise on the ground

Local presence and technical expertise are EBRD's key advantages

### Impact across strategic priorities



#### ENERGY AND GREEN TRANSITION

Contributed to significant **renewable energy capacity** additions across the Baltic states

Early institutional and financing foundations for Vilnius as the first **Baltic Green City**, with tangible city level outcomes still emerging

**Sustainable finance** reforms in Lithuania delivered early green results



#### EQUITY FUNDS AND ACCESS TO CAPITAL MARKETS

Assessing impact of EBRD's **private equity** and **venture capital** investments was challenging due to weak transition pathways and limited metrics

EBRD achieved success in driving **Pan-Baltic Capital Markets integration**: results are clearer across regulatory and market infrastructure rather than volumes of transactions

### In the next strategic cycle in the Baltic countries

#### the Bank should consider:

- 1 Capitalising on its capabilities as a **trusted adviser** and **convener** of the three Baltic governments beyond the Regional Capital Markets area
- 2 Including an explicit **strategic additionality** framing that clearly defines Bank's expected role
- 3 Conducting a review of its **risk appetite** as part of future investments in Equity Funds
- 4 In **Green Cities Programme**: supporting the governments in implementing legal changes that enable municipal lending

## Executive Summary

**This regional-level evaluation assesses the European Bank for Reconstruction and Development's (EBRD) operations in Estonia, Latvia and Lithuania over the period 2016–2024.** It applies a country-level approach with a regional perspective, reflecting the shared characteristics of the Baltic States as small, advanced transition economies and the significant role of regional operations in EBRD's portfolio. The evaluation was conducted by the Independent Evaluation Department (IEvD) to inform the preparation of the next country strategies, due for approval in 2026. It assessed the Bank's relevance, additionality, efficiency, and effectiveness, with a focus on its contribution to systemic changes and their sustainability.

### EBRD's strategic ambitions were relevant but not fully implemented

The Bank's country strategies were well aligned with the Baltic states' core transition needs, particularly the green transition, energy security, and developing and deepening capital markets. These priorities addressed structural constraints such as energy import dependence, shallow capital markets, and limited financing diversification which negatively affect growth and competitiveness of private sector. While strategic relevance was strong, delivery lagged in the first strategic period, with several planned activities not materialising. Engagement broadened and intensified in the second period, with higher investment volumes and stronger green and resilience focus. This was shaped by dynamically changing context, while rising security pressures and defence spending create new strategic and financing challenges going forward.

### Operational delivery in the Baltics only partially reflected the breadth of the strategic ambitions, particularly in the first strategic period

The EBRD's ABI delivery in the Baltic countries was uneven, strongly backloaded into the second strategic period and concentrated in Lithuania, which received over half of total volumes. Engagement differed across countries, with Lithuania showing the broadest, most balanced portfolio, Estonia more focused on Financial Institutions, and Latvia the smallest and most regional -channel dependent. Beyond capital markets (including equity funds segment) and sustainable finance, policy engagement was limited. Operational delivery was often opportunity -led, especially in the first strategic period, reflecting transaction readiness and cautious risk appetite rather than systematic targeting of binding transition constraints.

### EBRD's consistent regional approach was relevant and substantive in capital markets development, but not replicated in other sectors

The Bank was a leading driver behind capital market integration into a single Pan-Baltic one through sustained policy dialogue, technical assistance and regional coordination since 2016. Its efforts focused on overcoming small market fragmentation by promoting common frameworks, instruments and standards, aligned with EU and national strategies. Stakeholders valued universally the EBRD's credibility and co-ordinating role in advancing reforms, overcoming domestic resistance, and demonstrating how regionally co-ordinated engagement can unlock market development.

## EBRD's additionality in the Baltics reflected the shifting context, market gaps and a selective operating model

The EBRD's financial additionality in the Baltics was highly context-dependent and increased sharply after 2022 as geopolitical shocks, sanctions and tighter financing conditions raised demand for countercyclical, risk bearing capital. Half of total ten-year investment was signed in 2023–25. Before 2022, additionality in energy and infrastructure was mainly catalytic and declining as markets deepened, while remaining consistently strong in private equity and venture capital due to structural fundraising constraints. Post-2022, EBRD became essential for some energy and infrastructure transactions, expanding equity, long tenor debt and risk mitigation tools. Overall, EBRD's strongest value in mature Baltic markets lies in selective, innovative structuring, first-of-kind instruments, governance support and credibility, rather than investment scale alone.

## Local presence and rigour underpin successful delivery, with a need to improve operational efficiency

The on the ground presence in the Baltic countries is a key competitive advantage of the EBRD, enabling strong understanding of local political economy, governance and investment conditions. Stakeholders value the expertise and accessibility of Vilnius regional office and resident bankers in Tallinn and Riga for efficient engagement, coordination and relationship building. Equally, clients appreciate the expertise and daily engagements with the teams in Warsaw regional hub and London headquarters. However, operational efficiency is constrained by-complex, slow and bureaucratic processes, conservative risk practices in routine deals, limited transparency for clients, and internal silos, which reduce responsiveness despite high technical rigor and credibility.

## Recent renewable scale-up across the Baltics and sustainable finance reforms in Lithuania delivered early green results

The EBRD support contributed to significant renewable energy capacity additions across the Baltic states, with delivery accelerating mainly after 2022 despite earlier strategic prioritisation. Around 1,891 MW of renewable capacity is associated with EBRD supported projects, though attribution is indicative rather than proportional. The impact was most pronounced in Latvia, where EBRD investments nearly doubled national solar and wind capacity from a low base due to the historical legacy of regulatory uncertainty around renewables in the country. In Lithuania and Estonia, EBRD reinforced already strong wind deployment during periods of rapid transition. Results remain recent and largely project level, limiting evidence of system-wide transformation. Beyond energy, EBRD helped strengthen Lithuania's sustainable finance framework and invested in several aligned projects which when fully implemented will contribute to substantial reduction in the GHG emissions and increased energy efficiency, specifically in building sector. It also supported early institutional and financing foundations for Vilnius as the first Baltic Green City, though tangible city level outcomes are still emerging. Also, further deepening of engagement in the Green City Programme might be dependent on changes to the existing fiscal rules for municipalities.

## Results in Private Equity/ Venture Capital Funds are harder to evaluate, while Capital Markets development results are clearer across regulatory and market infrastructure rather than volumes of transactions

Assessing the impact of EBRD supported private equity and venture capital funds on innovation and the knowledge economy in the Baltic states is difficult due to

insufficiently articulated weak transition pathways and limited metrics. While 81 companies received investments via EBRD's supported funds (the assessment of impact at sub-borrower level was beyond the scope of this evaluation) and two Baltic unicorns benefited from the EBRD support, links to innovation outcomes remain unclear and crowding in of international investors was limited in the equity fund space. The Bank acted at times as cornerstone investor with successful examples of mobilising local capital but favoured established rather than first-time funds. Beyond equity, EBRD made important contributions to Capital Market development through policy dialogue, capacity building, and anchor investments in covered bonds, securitisation, green bonds, and energy Initial Public Offering (IPOs). These efforts delivered tangible but often early-stage, uneven, or reversible results, with more durable gains in governance and institutional capacity than in market depth or liquidity.

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## Recommendations

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When preparing the new country strategies for Estonia, Latvia and Lithuania, the Bank should consider a number of changes based on lessons learned from delivery over the previous ten years. IEvD has two strategic and two operational recommendations.

### Strategic:

1. In the next strategic period, the Bank should capitalise on its capabilities as a trusted adviser and convenor of the three Baltic governments in the area of Regional Capital Markets, and leverage these strengths in the areas where a regional approach is warranted and highly additional, for example in clearly defined subsectors of Sustainable Infrastructure and Energy.
2. Include an explicit strategic additionality framing that clearly defines Bank's expected role over the next strategic period.

### Operational:

3. When defining its country strategic priorities for the next cycle the Bank should conduct a review of its risk appetite as part of future investments in Equity Funds targeting the Baltic region, including degree of its focus on first-time funds. In addition, it should also clarify its intentions and key actions to crowd-in international institutional investors. Both should factor in evolving gaps and the dynamic context in the region.
4. When considering further expansion of the Green Cities Programme in the Baltic countries or deepening existing engagement in Vilnius, the Bank should combine those with supporting governments of Lithuania, and, potentially, Estonia and Latvia in making legal changes that enable municipalities and their companies to raise funds on sub-sovereign debt market.

## The evaluation in a snapshot

|                      |  |
|----------------------|--|
| Objective            | To provide evidence-based lessons and recommendations to inform future performance and guide the preparation of the next country strategies, due for approval in 2026. The evaluation will gather evidence on relevance, efficiency, effectiveness and impact of EBRD's operations, insights into Bank's additionality in three Baltic countries. It will use a country-level approach with a regional perspective, focusing on systemic change in the priority areas outlined in each country strategy; and potential complementarities and synergies across these priority areas.  |
| Scope                | The time scope of the evaluation is 2016-2024, covering two strategic periods for the Baltic countries, 2016-2020 and 2021-2026 to provide more perspective on effectiveness and results. The focus of the evaluation is on the impact of EBRD activities in the Baltic countries. In line with IEvD's Country-level Evaluation Guidelines, the evaluation will focus on the combined impact of EBRD's interventions over the evaluation period and the systemic change it triggered in the Baltic economies.  |
| Portfolio            | All approved and signed operations within the evaluation period 2016-2024, specifically investment, technical co-operation and policy dialogue in Estonia, Latvia, Lithuania, and at regional level.   |
| Evaluation Questions | <p><b>Overarching question:</b> <i>To what extent has the Bank contributed to the systemic changes in Estonia, Latvia and Lithuania and in the Baltic region as a whole?</i></p> <p><b>Specific evaluation questions:</b></p> <ol style="list-style-type: none"> <li>1. To what extent did the EBRD's activities address the needs of the three Baltic countries in the last decade, and how additional were they vis-à-vis actions of other international stakeholders and private sector investors?</li> <li>2. To what extent did the EBRD implement activities and projects on time, within budget and in line with its sound banking mandate?</li> <li>3. To what extent has the EBRD achieved, or is expected to achieve, its strategic priorities in Estonia, Latvia, and Lithuania and is there evidence of its contribution towards systemic change on these markets?</li> <li>4. How lasting are the results of EBRD's investments, policy dialogue and technical assistance in the focus sectors after the Bank's operations have concluded?</li> </ol> |

# 1. Background and context

## 1.1. Objective and rationale of regional-level evaluation

1. **The Independent Evaluation Department (IEvD) 2025-2027 Work Programme and Budget<sup>1</sup> includes a regional-level evaluation of EBRD's operations in the three Baltic countries – Estonia, Latvia and Lithuania.** It uses a country-level approach with a *regional* perspective, focusing on systemic change in the priority areas outlined in each country strategy. It also looks at complementarities and synergies across these priority areas.

2. **Adopting a tailored regional approach for the three Baltic countries is justified by several factors.** These are relatively small countries of operation with limited volumes of investments, especially in Latvia and Estonia before 2022. Countries' challenges are comparable, although they are not identical. Also, EBRD has common strategic priorities in the three countries, while regional operations represent a significant share within the countries' portfolios (€1.3 billion or 44% of ABI in 2016-2025).

3. **The objective of the evaluation is to provide evidence-based lessons and recommendations to inform the preparation of the next country strategies, due for approval in the second half of 2026.<sup>2</sup>** Additionally, EBRD's Annual Meeting in Riga in June 2026 provides an opportunity to discuss in more detail the effects and prospects of the Bank's operational model and additionality in Estonia, Latvia, and Lithuania.

4. **The report offers evidence on the relevance, the additionality in three Baltic countries vis-à-vis private sector financiers and other IFIs active in the region, the efficiency, and results of EBRD's operations.** It reflects multidimensional scope of the evaluation, where certain insights are relevant either for a specific country or for the entire region, also some of them are sector specific, while others are manifested more universally.

5. **The Baltic region represents a small but rapidly growing part of the EBRD's portfolio, especially with regard to driving the green transition agenda and delivering on the Bank's private sector investments mandate.** The Baltic region's geopolitical and geoeconomic position in Europe means that it is greatly affected by global and regional crises, most recently by Covid-19 pandemic and war on Ukraine. This requires new flexible solutions to support furthering the green agenda and resilience and competitiveness of private businesses.

6. **Country- and region-level evaluations respond to the great importance of country strategies in the EBRD's strategic architecture and their primary role as accountability framework for Bank's operations in the given geography.** Country is the unit of reference and accountability for the Bank's transition mandate and results.<sup>3</sup> In line with IEvD's Country-level Evaluation Guidelines<sup>4</sup>, the evaluation focuses on the combined impact of EBRD's interventions<sup>5</sup> over the evaluation period and the systemic change it triggered in the Baltic economies (Box 1: for definitions).

<sup>1</sup> IEvD (2024) *Work Programme and Budget 2025-27*

<sup>2</sup> Current strategies for Estonia, Latvia and Lithuania expire in 2026

<sup>3</sup> EBRD internal document (2018) *BIS Transition Results Management Architecture Overview and Update* SGS18-402 <https://pegasus.ebrd.com/viewdocument/23266>

<sup>4</sup> IEvD (2024) *Country-level Evaluation Guideline*

<sup>5</sup> EBRD (2016) *Transition Concept Review* BDS16-181 (Final) <https://pegasus.ebrd.com/viewdocument/37695>

**Box 1: Definitions of systemic change**

- **Systemic change** is change in the underlying causes of market system performance, typically in the behaviour and relationships of system actors, that is significant in scale and sustainable over time.<sup>6</sup> It is based on **three components**: (i) change in the system (structure, functions, rules); (ii) system's response to change (resilience and adaptability) and (iii) attribution to intervention (link between programme and observed change).
- **EBRD's definition of systemic change** introduced in the 1997 Transition Concept paper and maintained since then refers to the transformational and lasting changes to market structures, behaviours, or institutions triggered by Bank's project(s). Driving systemic change often involves changing the underlying roles, norms, structures, and incentives within a market system rather than focusing on the outputs from an individual project. EBRD's transition mandate focuses on contribution along three dimensions: (i) competitive market structures; (ii) institutions, laws and policies that support markets; and (iii) market-based skills and behaviour.
- **Most recent changes to the EBRD's Transition Impact assessment (Q1 2025)** further expand these dimensions to support capturing Bank's impact beyond client/ beneficiary level. It identifies four triggers that are considered when assessing individual project's measurable contribution to systemic change at portfolio or market level: a) novelty; b) market structures, c) skills transfer, and d) policy scope (change).<sup>7</sup>

IEvD's evaluation synthesis of the EBRD's approach to transition impact (TI), provides a comprehensive overview of how systemic change is treated under the Bank's current TI monitoring systems, and the interrelation between systemic change and project-level outcomes.<sup>8</sup>

**7. This report does not provide an assessment of the performance of three Baltic economies.** Nor does it focus solely on the effectiveness and efficiency of country strategies' delivery, or operations of the Resident Office (RO). Nevertheless, the country strategies provide an important framework for understanding the Bank's intent in the countries.

**8. IEvD's Work Programme for 2025-27 also includes a thematic evaluation of the EBRD's activities in the Advanced Transition Economies (ATEs) (2010-2024), with specific focus on Bank's additionality and demonstration effects.**<sup>9</sup> There are some complementarities between this Regional-level evaluation and the ATE thematic evaluation, specifically with Lithuania being in the scope for both. The delivery process for two evaluations was closely co-ordinated, with joint mission and streamlined interviews and evidence collection process. This report includes clearly signposted insights and conclusions of ATE evaluation without duplicating the effort.

## 1.2. Scope and evaluation methodology

**9. The evaluation timeframe is 2016-24 which encompasses two Country Strategies periods for each of the Baltic States: 2016-2020 and 2021-2026.** 31 December 2025 is the cutoff date for input and activity analysis; however, results are not considered for operations approved after 31 December 2024 (with only few exceptions). This approach ensures that report context and content is up-to-date and useful for the decision-making by the Board and management counterparts, to enhance timeliness of findings.

**10. The evaluation scope covers all approved and signed operations within this timeframe, specifically Bank's investment and Policy Dialogue workstreams with corresponding technical**

<sup>6</sup> Springfield Centre (2019) "What is Systemic Change?"

<sup>7</sup> EBRD internal document (2025) SGS25-066 Board Information Session "Transition Impact Assessment Methodology Update"

<sup>8</sup> IEvD (2023) Evaluation synthesis of the EBRD's Approach to Transition Impact

<sup>9</sup> IEvD (2025) SS25-198 Evaluation of EBRD's activities in Advanced Transition Economies 2010-2024 – Approach paper with short summary presented in Annex 5

**cooperation, both at country and regional level.** To inform the scope and depth of the research, the evaluation prioritised the inquiry on the investments and Policy Dialogue workstream that exhibited a higher likelihood of significant impact, including potential systemic-level impact. This was done in collaboration with the EBRD country and sector teams.

**11. Four main workstreams correspond to a significant concentration of EBRD's interventions, and were therefore prioritised in the analysis:** (1) Policy Dialogue workstreams supporting creation of the single Pan-Baltic regional capital market; (2) investments in equity funds in three Baltic countries; (3) investments in energy sector in three countries; and (4) investments in municipal infrastructure and transport in Lithuania. These deep dives are presented as stand-alone case studies in Annexes 5, 6 and 7 of this report. In addition, the report also includes an evaluation of some other strategic areas from the Country Strategies for Estonia, Latvia and Lithuania on a case-by-case basis.

## Evaluation questions

**12. This report seeks to answer the overarching question:**

*To what extent has the Bank contributed to systemic changes in Estonia, Latvia and Lithuania and in the Baltic region as a whole?*

To answer this question, the evaluation team identified four evaluation questions:

1. (*Relevance and Coherence*): To what extent did the EBRD's activities address the needs of three Baltic countries in the last decade, and how additional were they vis-à-vis actions of other international stakeholders and private sector investors?
2. (*Efficiency*): To what extent did the EBRD implement activities and projects on time, within budget and in line with its sound banking mandate?
3. (*Effectiveness and Impact*): To what extent has the EBRD achieved, or is expected to achieve, its strategic priorities in Estonia, Latvia, and Lithuania and is there evidence of its contribution towards systemic change on these markets?
4. (*Sustainability*): How lasting are the results of EBRD's investments, policy dialogue and technical assistance in the focus sectors after the Bank's operations have concluded?

**13. These questions served as a foundation for developing the evaluation matrix (Annex 1) which guided the delivery of this evaluation.**

**14. The evaluation employed a mixed methods approach.** It included: (i) review of internal and external documents; (ii) portfolio and wider market and macro data analysis; (iii) 87 semi-structured interviews with internal and external stakeholders<sup>10</sup>; (iv) focus group discussion with the representatives of business community in Riga; (v) three case studies with deep dive into the sectors with the significant concentration of the EBRD's investment and policy engagement; (vi) analytical inputs prepared by local consultants in the areas of green transition and capital markets.

## Challenges and mitigating actions of the evaluation

**15. The evaluation was conducted in a compressed timeframe to be delivered on time for the launch of preparation of new Country Strategies for Estonia, Latvia and Lithuania and covered considerable scope.** This short timeframe did not allow for the deeper assessment of some elements, specifically impact of the EBRD's indirect equity investments at investees level, and the tracing of potential systemic impact in corporate sector which had very limited policy

<sup>10</sup> This includes meetings in Estonia, Latvia and Lithuania with 100 representatives of clients, government, business community and civil society

engagement and capacity building activities. These gaps however are not material relative to the structure and focus of EBRD's activities in the three Baltic countries in 2016-2025 and insights and recommendations are grounded in the analysis of the most significant interventions and their results.

**16. Anticipated challenge of the gaps in the historical perspectives and institutional knowledge of the Bank's operations in three Baltic countries has materialised.** The EBRD team present in Vilnius is relatively new, with majority of bankers joining since 2021, and many of them lacking knowledge of the Bank's operations prior to 2021. Also, both on-the-ground banking positions in Riga and Tallinn were opened in the last 2-3 years, which could not support IEvD's intention to analyse the long-term results of some implicit policy engagements that could not be captured through existing databases. IEvD mitigated this through: (i) triangulation with available secondary sources, and where possible (ii) discussions with former staff members with relevant knowledge and wider groups of stakeholders in the country who had engaged with the EBRD in earlier years.

**17. The additional regional dimension of this evaluation required a greater understanding of the national and regional context to make distinction of the variety of issues and the appropriate level of addressing them.** Hiring local consultants helped to address the challenge of in-depth understanding of local context and local language skills.

**18. Notwithstanding these limitations, the reliability and validity of the evaluation are sound.** A team of experienced senior evaluators, supported by local consultants, has performed extensive analysis and synthesis of a wide range of data and information, applying triangulation to ensure that the evaluative conclusions are based on robust evidence and insights into results observed at the market level.

### 1.3. Country and regional context

**19. Estonia, Latvia and Lithuania's position on the map of European continent determines the opportunities and challenges they face in economic development and security.** Sometimes referred to as "*frontline states*",<sup>11</sup> with significant border length with Russia and Belarus, these are some of the smallest countries of the European Union, with 1.3% of the total EU population and 4.1% of its territory.

**20. The Baltic countries have undergone fundamental transformations since regaining their independence in 1991.** They implemented a wide range of institutional and policy reforms that aimed to liberalise markets, address corruption, transform public sector, and establish political rights and civil liberties.<sup>12</sup> For example, according to the Freedom House rating 2025,<sup>13</sup> Estonia scored 96 out of 100 points, ahead of many Western nations, while both Latvia and Lithuania scored 89 out of 100 points.

**21. The Baltics' EU and NATO membership accelerated their socio-economic development and positioned them as innovation leaders among EBRD Countries of Operation (CoOs).** Along with the strong domestic reforms, accession to the European Union and NATO in 2004, and then adoption of the Euro<sup>14</sup> further strengthened the countries' competitiveness, contributed to significant advancement in the socio-economic development, sustainability and resilience practices, and digitalisation. As analysis in this report illustrates, in some areas Baltic states are

<sup>11</sup> Oliver Moody (2025) Baltic. The future of Europe

<sup>12</sup> Fiona Harrigan (2021) The Baltic Way

<sup>13</sup> Freedom House rates people's access to political rights and civil liberties in 208 countries and territories through its annual Freedom in the World Report.

<sup>14</sup> 2011 in Estonia, 2014 in Latvia and 2015 in Lithuania

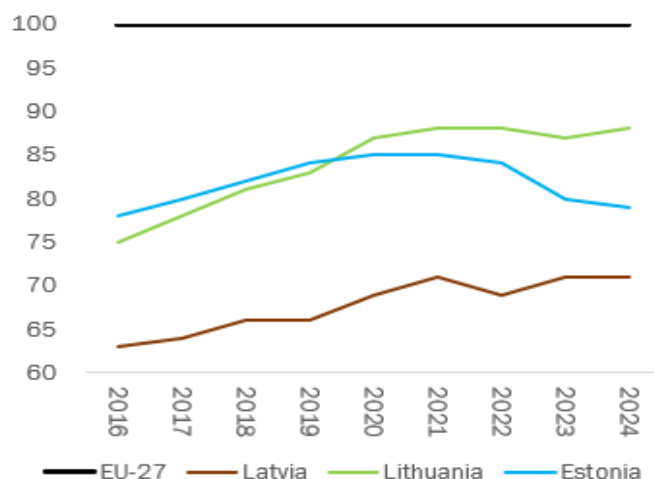
championing innovative actions and policies and creating new narratives where other European countries are more muted.

**22. The accession to the EU and the subsequent opening of the borders has compounded the pace of depopulation and rapidly ageing population.** Increased emigration flows augmented demographic problems of low birth rates. It is particularly severe in Lithuania and Latvia, which lost respectively 20% and more than 30% of total population in the period 1992-2024.<sup>15</sup> Estonia has more positive trends, and after two decades of steady decline its population grew since 2016 due to immigration. These challenges demand faster adoption of reforms in fiscal, innovation, and migration domains to increase productivity and growth, including through greater automation and deepening of capital resources, as noted in the most recent EBRD Transition Report.<sup>16</sup>

**23.** The full-scale Russian invasion led to a notable inflow of refugees from Ukraine, as well as from Russia and Belarus, into the three Baltic countries. Many have entered the labour market, helping to alleviate shortages in specific sectors. The long-term demographic and economic impacts of this population change remain uncertain.

**24. The Baltic States achieved good progress in closing the gap with the EU-27 in terms of GDP per capita (PPP) over 2016-2021, but plateaued or even retrenched since then.** All three experienced a robust growth in late 2010s, albeit with slowdown in Latvia kicking in already in 2019. COVID-19 pandemic affected the three economies and recovery from it, interrupted by the shock of Russian's war on Ukraine, also fed through unevenly. Overall, since 2016, Lithuania has seen the fastest convergence with the EU-27 average, while Estonia has lost nearly all advancement it made over 2016-2020<sup>17</sup> (Figure 1).

**Figure 1: GDP per capita (PPP) in Estonia, Latvia and Lithuania relative to EU-27, 2016-2024**



Source: Eurostat, 2025. <https://ec.europa.eu/eurostat/databrowser/view/tec00114/default/table?lang=en>

**25. Financing conditions in each country have varied.** The banking sector in Latvia and Lithuania has been well capitalised, and Non-Performing Loans (NPLs) ratios have declined. Capitalisation of Estonian banks has steadily declined and lending to companies fell sharply recently. For all

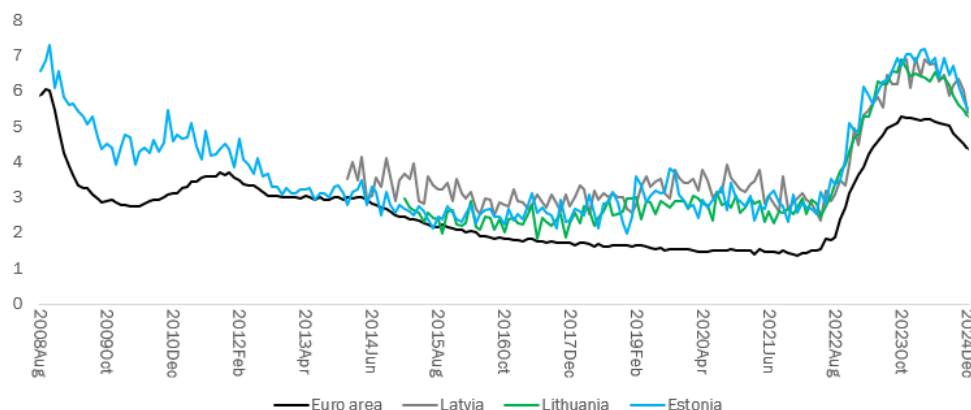
<sup>15</sup> According to data from national statistics offices

<sup>16</sup> EBRD Transition Report 2025-26 Brave Old World

<sup>17</sup> Eurostat, 2025. <https://ec.europa.eu/eurostat/databrowser/view/tec00114/default/table?lang=en>

three countries, spread on cost of borrowing for corporates has been consistently above Euro-area (Figure 2).

**Figure 2: Cost of borrowing for corporations, in % 2008-24**



Source: ECB data

**26. The Baltic countries have consistently improved their economies along all six transition dimensions used by the EBRD.** Annex 2 includes the trend of the Assessment Transition Quality (ATQ) scores for the period 2016-2024 for the three Baltic countries within the CEB region. All six ATQ scores – competitive, well-governed, green, inclusive, resilient and integrated – have increased over the period. Notable is the leading position of all three Baltic states in the Well-governed TQ, as well as Estonia's lead in Competitive.

**27. Each of the three countries is unique and reached different tiers of advancement in different domains.** Estonia excels in innovation and digital infrastructure. Its position in the Global Innovation Index is 16<sup>th</sup> out of total 133 countries and it is 9<sup>th</sup> among 39 European economies (2024).<sup>18</sup> Although it does face a challenge of translating innovation investments into high-quality outputs – an area identified as a priority in the EBRD operations (see Chapter 2.1). In the same ranking Lithuania and Latvia are on 35<sup>th</sup> and 42<sup>nd</sup> places respectively. In IMD's World Competitiveness Index 2025<sup>19</sup> Lithuania is ranked 21<sup>st</sup>, Estonia is 33<sup>rd</sup> and Latvia is 38<sup>th</sup> among 67 global economies. While Estonia's position worsened since the beginning of full-scale Russian war on Ukraine in 2022, Lithuania and Latvia notably improved their position, which illustrates different approaches to handling the new challenges, but also specificity of national economies and their sensitivity/ resilience to external shocks. For example, Lithuania's strategic focus of becoming a significant fintech hub through streamlined regulatory regime attracts companies working in this sector, most notably Revolut, which obtained full banking licence in the country in 2021.

**28. While investment climate as a whole is supportive of businesses and investments, there are areas that require material improvements.** Strict regulations, or the inflexible interpretation of transposing the EU standards and practices, or sometimes deficiencies in design and enforcement of certain rules lead to lost opportunities for faster economic growth and greater productivity and innovation. Each country has its own challenges. For example, in Latvia, business growth and expansion are mostly organic, driven by companies' own resources, due to stricter rules in the banking system. The fallout from the large-scale money-laundering case against the third largest bank in the country in 2018 led to the overhaul of the banking system. Banks continue to be very cautious in anti-money laundering and know-your-client domains, and

<sup>18</sup> Global Innovation Index 2024, [Estonia](#)

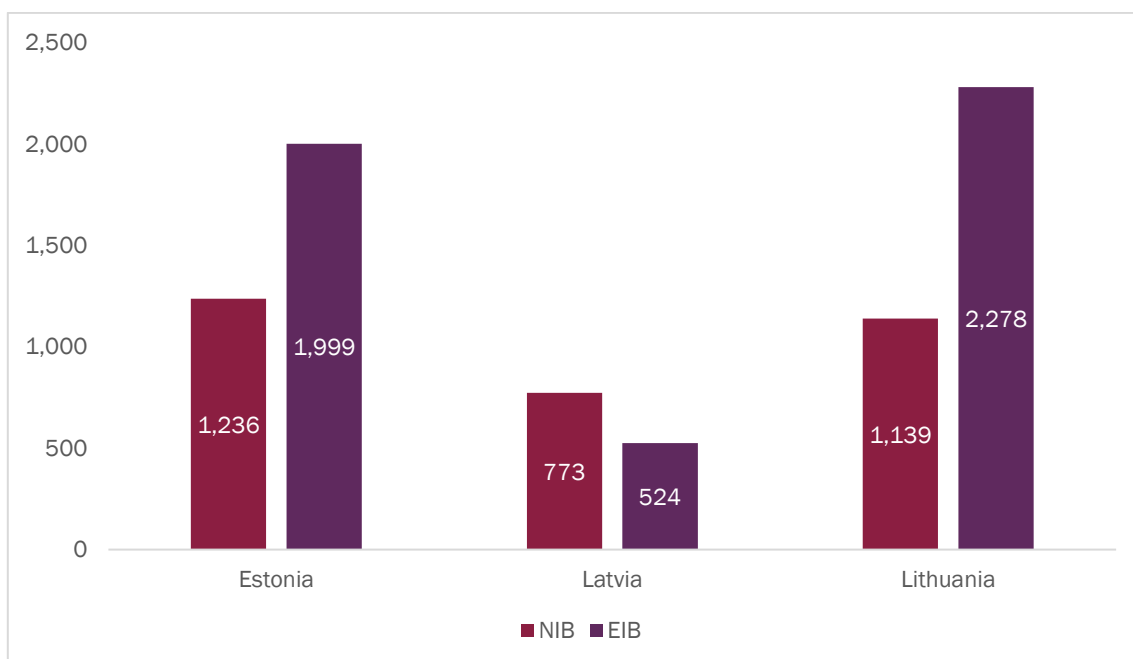
<sup>19</sup> International Institute for Management Development, [World Competitiveness Index 2025](#)

availability of capital for small, usually family-owned, businesses to finance their growth is limited. This leads to the situation where the country lacks substantial number of mid-cap companies, and the demand for financial and capital market products – between €5-10 million – is outside EBRD's operational focus.

**29. The Baltic countries are recipients of significant financing from the European Investment Bank (EIB) Group and Nordic Investment Bank (NIB).** Both institutions have substantial portfolio of projects, strong pipeline, and a range of financial instruments that were actively deployed in Estonia, Latvia and Lithuania. There was an elevated level of support in the wake of Covid-19 pandemic and most recently, war on Ukraine that posed significant new challenges to the trajectories of Baltic economies (see Figure 3).

**30. Co-operation among EBRD, EIB and NIB is strong, and each institution can be additional, especially in large-scale projects with higher risk profiles.** Banks' mandates limit their ability to invest in certain products. For example, NIB cannot participate in direct equity and equity funds, while EIB does not usually provide subordinated debt<sup>20</sup>, and neither does NIB. EBRD can issue all these products, within acceptable risk appetite, and in the last several years there were several examples of successful collaboration among three institutions in blended financing structures in three Baltic countries. EIB and NIB usually provide cheaper financing to larger-scale projects.

**Figure 3: NIB and EIB investments in three Baltic countries, 2020-2024, EUR million**



Source: NIB country profiles; EIB database

<sup>20</sup> EIB's mandate includes specifically designated schemes under which subordinated debt is possible, i.e. Investment Facility

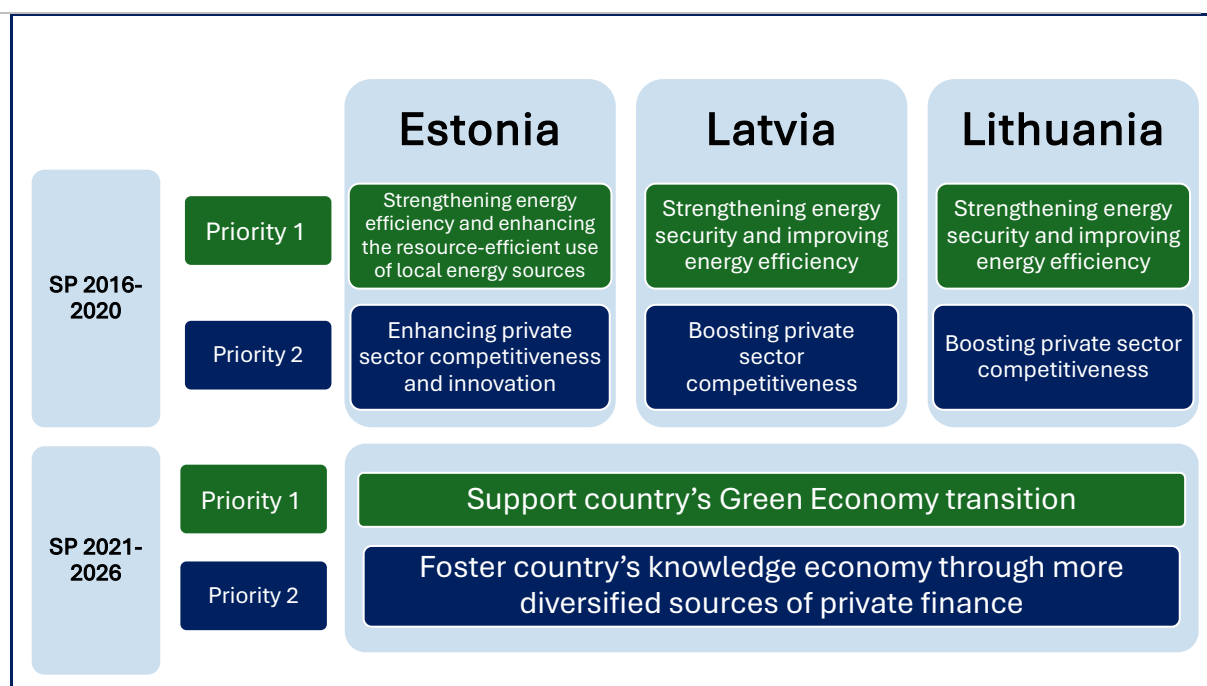
## 2. How did the EBRD deliver?

### 2.1. EBRD's strategic ambitions were relevant but not fully implemented

#### EBRD's country strategic priorities were broadly relevant to the Baltics' transition needs

31. EBRD's country strategies were well aligned with the Baltics' core transition challenges, reflecting both long-standing structural gaps and emerging priorities. Across both strategic periods, the Bank consistently prioritised areas that corresponded closely to country needs, notably the green transition, energy security and capital market development (Figure 4). These priorities responded to the constraints faced by three small, advanced transition economies: high dependence on energy imports, the need to accelerate decarbonisation, highly concentrated banking sector, and structurally shallow and fragmented capital markets that limit access to diversified sources of finance.

Figure 4: EBRD's priorities in Baltic countries across two strategic periods



Source: EBRD Country Strategies

32. In the green transition, strategic priorities directly addressed the dual challenge of decarbonisation and security of energy supply, which became more acute after 2022. The emphasis on renewable energy, energy efficiency and system resilience aligned closely with national objectives to reduce reliance on imported fossil fuels and to strengthen domestic generation capacity. Taken together, these priorities were well matched to the scale, nature and urgency of the energy transition challenges faced by all three Baltic countries.

33. In capital markets and private sector finance, EBRD's strategic focus responded to persistent structural weaknesses that domestic and EU frameworks alone had not resolved. The prioritisation of Pan-Baltic capital market integration, diversification of financing sources beyond bank lending, and support for equity and venture capital addressed well-documented constraints related to small market size, limited liquidity and fragmented investor bases. Similarly, support for innovative, export-oriented firms and equity financing aligned with the Baltics' growth model and ambition to deepen their knowledge economies.

34. More specifically, the strategic relevance of a standardised, Pan-Baltic covered bond and securitisation framework was driven by the regulatory drive and market demand. Memorandum of Understanding (MoU) signed in 2017 between three Ministries of Finance, together with the EC and EBRD included the ambition to introduce new instruments, including covered bonds and securitisation. The EU issued its covered bond directive in 2019 with the deadline for transposition in 2021<sup>24</sup>. The continued relevance of such work is also evidenced by the 2025 joint statement by Baltic Ministers of Finance seeking to renew and deepen cooperation under the MoU, explicitly crediting it with having "led to the development of a pan-Baltic capital market."<sup>22</sup>

However, the Bank's ambitions in terms of planned strategic activities along the two strategic cycles at times didn't materialise, especially in the first strategic period

35. A review of the intensity of activities<sup>23</sup> against country strategic priorities, objectives and activities shows incomplete picture, with a few planned strategic activities not materialising. Tables 1 and 2 below provide a synthetic visualisation of the review, based on available project reports, annual CSDRs and interviews with the Bank experts and country counterparts.

Table 1: Energy and Green Economy Transition Priority in Estonia, Latvia and Lithuania

|  | 2016 |    |    | 2021 |    |    |
|--|------|----|----|------|----|----|
|  | EE   | LV | LT | EE   | LV | LT |
| <b>OBJECTIVE: Energy mix diversification (EE) / Energy security (LV, LT) &gt; Reduced GHG emission, increased renewable energy (ALL)</b> |      |    |    |      |    |    |
| Financing to local (renewables) generating companies (ALL)   | ✓    | ✓  | ✓  | ✓    | ✓  | ✓  |
| Policy: Regulatory framework for renewable energy (EE)   | ✓    |    |    | ✓    |    |    |
| Policy: Unbundling in the gas sector (LV)  |      | ✓  |    |      |    |    |
| NEW: green transport & infrastructure (ALL)  |      |    |    | ✓    | ✓  | ✓  |
| NEW: private sector in Just Transition (EE)  |      |    |    | ✓    |    |    |
| NEW: green skills in industry and agriculture (LV)   |      |    |    |      | ✓  |    |
| NEW: Green cities (LV, LT)   |      |    |    |      | ✓  | ✓  |
| NEW: district heating and cooling infrastructure (LT)  |      |    |    |      |    | ✓  |
| <b>OBJECTIVE: Improve energy efficiency (ALL) &gt; Improved energy and resource efficiency (ALL)</b>                                     |      |    |    |      |    |    |
| Energy efficiency investments (ALL)  | ✓    | ✓  | ✓  | ✓    | ✓  | ✓  |
| Access to finance for ESCOs (ALL)  | ✓    | ✓  | ✓  |      |    | ✓  |
| Policy: regulatory structure for EPCs (ALL)  | ✓    | ✓  | ✓  |      |    |    |
| NEW: financing of recycling and waste management (ALL)   |      |    |    | ✓    | ✓  | ✓  |
| NEW: Sustainable urban development (LV, LT)  |      |    |    |      | ✓  | ✓  |
| NEW: Water infra (LV)  |      |    |    |      | ✓  |    |
| NEW: Green skills (LT)   |      |    |    |      |    | ✓  |

<sup>21</sup> National rules had to apply from 8 July 2022, but the legal transposition deadline itself was 8 July 2021

<sup>22</sup> This paragraph is derived from the IEVD' evaluation report on Advanced Transition Economies (2026, forthcoming)

<sup>23</sup> Intensity was determined by analysing the operational and transition objectives of the implemented investment projects, TC projects, policy engagements and capacity building activities with clearly defined goals and expected deliverables.

| OBJECTIVE: Regional energy market integration (LV, LT) > X                               |  |  |  |   |   |  |
|--|--|--|--|---|---|--|
| Boost pan-Baltic transmission and storage capacity by financing interconnectors (LV, LT) |  |  |  | ✓ | ✓ |  |

|                 |   |                               |
|-----------------|---|-------------------------------|
| Both strategies | ✓ | Strategic objective           |
| 2021 only       | ■ | Substantial activity observed |
| 2016 only       | ■ | Some activity observed        |
|                 | ■ | No activity observed          |

Table 2: Access to Finance and Capital Markets in Estonia, Latvia and Lithuania

|  | 2016 |    |    | 2021 |    |    |
|--|------|----|----|------|----|----|
|  | EE   | LV | LT | EE   | LV | LT |
| <b>OBJECTIVE: Strengthen private sector competitiveness through investment in innovative and export-oriented companies (ALL) &gt; Foster Knowledge Economy through More Diversified Sources of Private Finance (ALL)</b>   |      |    |    |      |    |    |
| Debt and equity investments in support of <b>export-oriented and innovative producers</b> (ALL) > Support <b>growth of corporates</b> including their expansion abroad, inclusion and gender equal opportunities and explore opportunities to finance <b>innovative scale-ups</b> (including fin-techs and the IT sector). (ALL) | ✓    | ✓  | ✓  | ■    | ■  | ■  |
| NEW: Continue participation as active investor in <b>VC/equity/property funds</b> . (ALL)  |      |    |    | ■    | ■  | ■  |
| NEW: Invest in <b>private infrastructure</b> that supports <b>innovation, inclusion and green digitalisation</b> . (ALL)   |      |    |    | ✓    | ✓  | ✓  |
| NEW: Explore opportunities to finance <b>innovative scale-ups</b> (including fin-techs and the IT sector) (LV, LT)   |      |    |    |      | ■  | ✓  |
| NEW: Policy: Support continued <b>policy engagement</b> . (LV, LT)   |      |    |    |      | ■  | ■  |
| <b>OBJECTIVE: Diversify sources of finance, including private equity and venture capital, as alternatives to the banking sector (ALL) &gt; Deepened and diversified debt and equity capital markets (ALL)</b>  |      |    |    |      |    |    |
| Under the Baltics IA, investments in regional <b>PE and VC funds</b> targeting the Baltics (ALL) > <i>shift to PS competitiveness objective</i>  | ✓    | ✓  | ✓  |      |    |    |
| Policy: Improve the <b>legal and regulatory environment</b> (ALL) > Continue policy engagement to develop the <b>pan-Baltic capital market</b> through leveraging Technical Support Instrument funds. (ALL)  | ✓    | ✓  | ✓  | ■    | ■  | ■  |
| Support <b>diversification of banking sector</b> and second tier and smaller banks (LT) > Explore opportunities to promote competition in the financial sector. (LT)   |      |    | ■  |      |    | ■  |
| NEW: Grow investor and issuer base through <b>financing and introduction of new and green instruments</b> (ALL)  |      |    |    | ■    | ■  | ■  |
| NEW: Explore further opportunities to support and invest in <b>IPOs, incl. SOEs</b> (e.g. energy sector). (ALL)  |      |    |    | ✓    | ■  | ■  |
| NEW: Policy: advisory for commercialisation and <b>corporate governance improvements to prepare SOEs</b> (LV)  |      |    |    |      | ■  |    |
| <b>OBJECTIVE: Increase use of private sector-led solutions to enable sustainable funding and efficient management of transport infrastructure services (LV, LT) &gt; X</b>   |      |    |    |      |    |    |
| Encourage <b>private sector participation and promote use of PPP</b> structures in <b>transport infrastructure</b> via finance and policy dialogue   |      | ✓  | ✓  |      |    |    |
| Policy: Development and <b>structuring of PPP</b> projects   |      | ✓  | ✓  |      |    |    |
| <b>OBJECTIVE: COVID-19 recovery (2021-2023)</b>  |      |    |    |      |    |    |
| NEW: Deploy equity, debt and risk sharing products focused on <b>Covid-19 recovery</b> to Build Back Better, focusing on areas of additionality. (ALL)   |      |    |    | ■    | ✓  | ■  |

|                 |   |                               |
|-----------------|---|-------------------------------|
| Both strategies | ✓ | Strategic objective           |
| 2021 only       | ■ | Substantial activity observed |
| 2016 only       | ■ | Some activity observed        |
|                 | ■ | No activity observed          |

**36. The range of strategic activities under CS1 was narrower, yet many did not materialise.** In particular, the anticipated objective of increasing the use of public-private partnership (PPP) structures in transport infrastructure in Latvia and Lithuania through policy engagement and investments was not implemented. Planned support for energy service companies (ESCOs), energy performance contracting and certification (EPC), as well as renewable energy policy dialogue and generation, did not materialise, aside from one small and early-terminated initiative in Latvia. In Energy, the objective of financing interconnectors in Lithuania and Latvia for regional market integration was also not implemented.

**37. Under CS2, the range of engagement widened, and the majority of strategic priorities saw some progress at both the investment and policy levels.** Investment volumes increased significantly across all three sectors, with advances in several areas driven by synergies between national decarbonisation and energy security strategies and the Bank's green commitments.

**38. Transition expectations were dominated by the Resilient and Green Transition Qualities, reflecting country strategic priorities over both strategic periods.** Resilient was the primary transition quality for most Equity Fund investments in the Corporate sector and for all but two Financial Institutions (FI) operations. Green was the second most prominent primary transition quality, delivered predominantly through Sustainable Infrastructure (SI) and Corporate sector investments, and frequently featured as a secondary transition quality alongside Resilient. Reflecting this orientation, the share of GET (Green Economic Transition) in ABI increased markedly between strategic periods, from 49% in CS1 to 83% in CS2.

**39. The COVID-19 response was a time-limited strategic priority during 2021–2023, but engagement varied across the Baltic countries.** Latvia and Lithuania saw only a small number of pandemic-related projects, while Estonia had none, illustrating the availability of alternative funding sources, particularly through the EU's Recovery and Resilience Facility (RRF), which for example in Estonia amounted to €1.1 billion.

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### Dynamic context in Estonia, Latvia and Lithuania presents strategic and operational challenge for the EBRD

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**40. Security concerns featured significantly during the interviews with the EBRD's clients and stakeholders in Estonia, Latvia and Lithuania (66 in total).** Half of them raised concerns about the growing insecurity due to the war on Ukraine and potential further escalation in Europe, while 30% mentioned defence industry, infrastructure and cybersecurity as national priorities and were willing to know what role EBRD can potentially play in the growth of this sector. It aligns with the risk analysis of the countries, where among top risks are potential damage from cyberattacks on digital infrastructure and complex sanctions having negative effect on local business activity.<sup>24</sup>

**41. All three Baltic countries and the European Union are significantly shifting their expenditures into defence and security (including cyber).** It means that other sectors are facing potential increasing financing gaps. For example, in the period 2020-2024 the share of defence in the total government spending in three countries increased from about 5% to between 7.5-8% (comparing to 0.24% of EU average). The military expenditures to GDP ratio increased from about 2% to 3.1-3.4% in the same period, while per capital spending on defence are at €758 in Latvia, €916 in Lithuania and €1054 in Estonia (2024) compared to €26.4 in EU average.<sup>25</sup>

**42. Two IFIs with significant presence in the three Baltic countries, EIB and NIB have recently updated their corporate policies and strategies enabling greater investments in defence, military technologies, and dual use projects.** Box 2 provides some details of these changes. With

<sup>24</sup> EUI Viewpoint: Lithuania Report, Latvia Report, 2025

<sup>25</sup> SIPRI MILEX database of military expenditures

the significant fiscal pressure, the potential for increased amount of public investments is limited, representing a challenge for fundamental sectors of the economy that require further enhancements, including energy, transport and sustainable infrastructure.

### Box 2: European Investment Bank and Nordic Investment Bank Policies on financing defence and dual-use projects<sup>26</sup>

**EIB Group stepped up its support to defence and security sector in May 2024.** Among other things the Board of Directors approved:

- Updates to its corporate policies that define dual-use goods and infrastructure eligible for EIB Group financing
- Security and Defence Industry Action Plan, which includes access to EUR 6 billion investments in this sector and established “one-stop shop” to streamline processes and speed-up the deployment of capital;
- Dedicated intermediate financing to support financing of SMEs in security and defence industry.

**NIB revised its corporate policies in summer 2024 after request from all shareholding countries.** It then did further revisions in summer 2025, including public consultations on the subject. The changes initially allowed financing of defence-related projects excluding manufacturing of weapons and ammunition. It then further changed the rules permitting the Bank to finance producers of conventional weapons and ammunition, but excluding producers of controversial weapons.

In May 2025 NIB and Government of Lithuania signed EUR 400 million uncommitted credit facility to finance national defence investments in 2025-2027.

## 2.2. Operational delivery in the Baltics only partially reflected the breadth of the strategic ambitions, particularly in the first strategic period

### ABI delivery in the Baltics was uneven: significantly back-loaded into the second strategic period and geographically concentrated in Lithuania

**43. ABI volumes in the Baltics expanded sharply in the second strategic period, driven by a late-period surge, with 2024-25 alone contributing 40% of total 10-year ABI volume.** Total ABI across the three countries reached €2.95 billion in 2016–2025, of which €2.2 billion was signed in the second strategic period – almost three times the €783 million in the first. The most recent two years alone (2024-2025) delivered 40% of the ABI of the whole 10-year period, €1.2 billion. In geographic distribution, Lithuania (€1.5 billion) accounted for the majority of ABI, far exceeding Estonia (€789 million) and Latvia (€700 million). (Figure 5)

<sup>26</sup> EIB Board of Directors steps up support for Europe's security and defence industry and approves €4.5 billion in other financing; EU Finance Ministers set in motion EIB Group Action Plan to further step-up support for Europe's security and defence industry; NIB Sustainability Policy; NIB's revised Sustainability Policy allows increased defence financing - Nordic Investment Bank Lithuania's Minister of Finance: security is a new priority for NIB - Nordic Investment Bank

Figure 5: Baltics ABI and number of projects by country and strategic period, 2016-2025



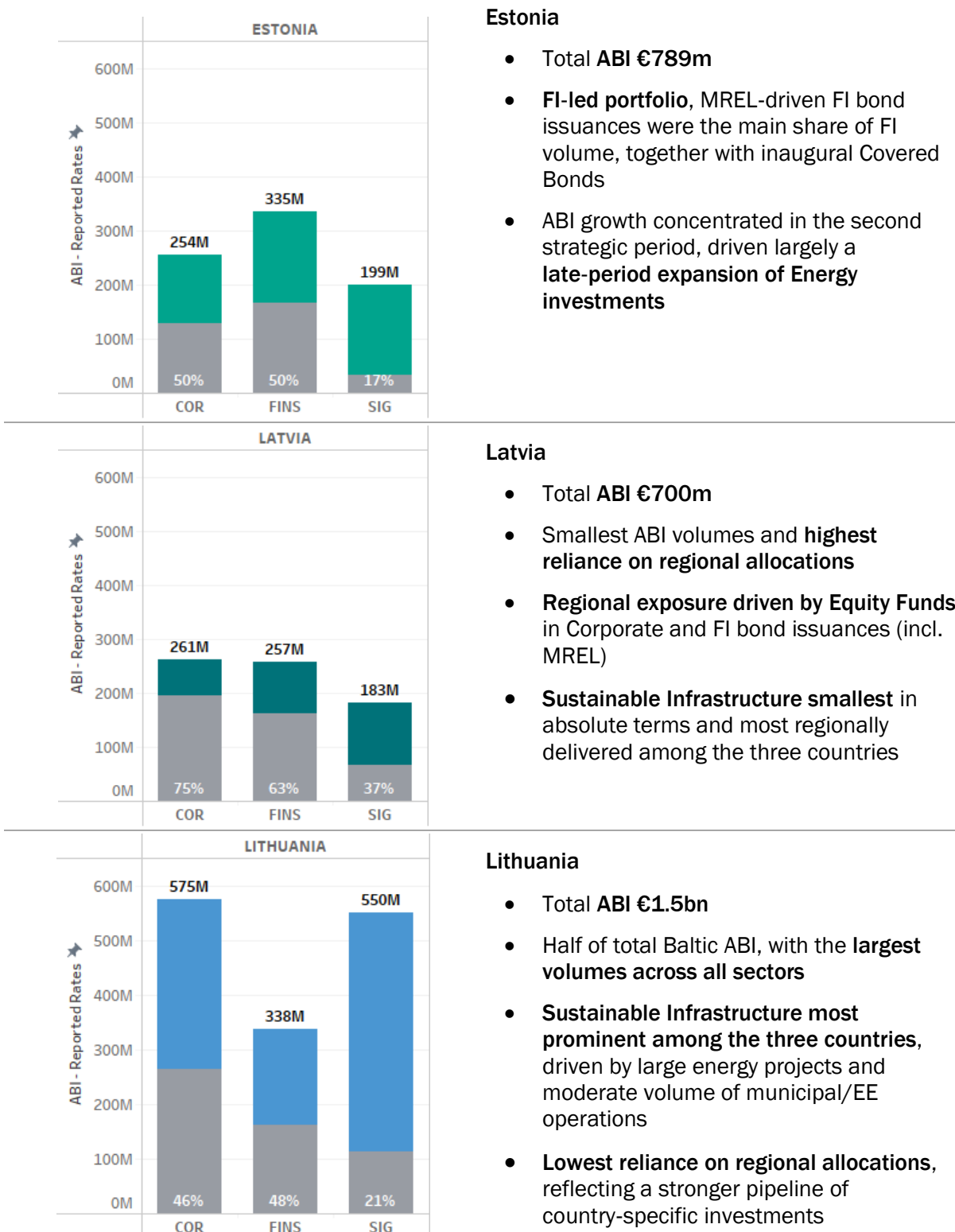
Source: *dw\_banking\_operational* dataset, IEvD analysis

### Despite shared strategic priorities, EBRD engagement differed markedly across the three Baltic countries

44. **EBRD investments in Lithuania were leading in scale and balance, while Estonia had a narrower FI-driven focus with late-period surge in Energy, and Latvia was smallest and relying most heavily on regional channels.** Lithuania accounted for more than half of total Baltic ABI and displayed the broadest and most balanced engagement, with the largest volumes across all sectors and a particularly strong Sustainable Infrastructure profile driven by large-scale energy investments alongside municipal and energy-efficiency operations, supported by a relatively strong pipeline of country-specific projects. Estonia's portfolio was more narrowly concentrated and dominated by Financial Institutions activity, with ABI growth in the second strategic period driven by a late-period expansion of energy investments, resulting in a limited but growing Sustainable Infrastructure footprint. Latvia recorded the smallest ABI volumes and the highest reliance on regional delivery channels, with regional equity funds driving Corporate allocations, regional bond issuances dominating Financial Institutions activity, and Sustainable Infrastructure both the smallest in absolute terms and the most dependent on regional allocations. (Figure 6)

**Figure 6: Sectoral ABI per country (€), and share of ABI from regional allocations (%), 2016-2025**

Note: Grey areas represent ABI volume delivered through regional projects



Source: dw\_banking\_operational dataset, IEvD analysis

**45. Regional projects varied in geographic scope, with regional FI activity implemented solely through Baltics-only regional projects while Corporate regional delivery was driven by allocations from wider regional equity funds.** Of the €1.3bn Baltic ABI delivered through regional operations, the majority (€949m) originated from regional projects implemented exclusively within the Baltic states, driven by investments in regional FI bond issuances (€491m). €345m of Baltic ABI was allocated from regional projects with wider regional scope, driven by €255m from wider regional Equity Funds investments.

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### Besides capital markets development, policy engagement and capacity building activities in other areas in the three Baltic countries were limited

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**46. Beyond capital markets development, detailed below, the EBRD's policy dialogue in the three Baltic countries was limited, reflecting their advanced transition status, strong EU institutional presence, and the Bank's focus on private sector operations.** As advanced transition economies, the Baltic countries have well-established and well-governed institutions, robust legal and regulatory framework, and strong private sector. During the first strategic period in particular, the EBRD's engagement was largely opportunity-led, within identified strategic remit, with very limited number of investments, especially in Latvia and Estonia. Most investments were in the private sector, focusing on corporate clients, equity funds and financial institutions where the scope for policy engagement and capacity building is limited. Investments in energy and infrastructure SOEs were mainly delivered through capital market instruments, with engagements at the client level to support preparation for the issuance/ use of the new financial instrument. In addition, EBRD delivered several non-transactional TC (technical co-operation) projects related to implementation of the EU Green Taxonomy and National Sustainable Finance Roadmap (covering both Estonia and Latvia), and feasibility study of issuing municipal green and sustainability-linked bonds (covering all three Baltic countries and some other CEE countries). Vilnius Green City Action Plan launched in 2023 was underpinned by dedicated TC project and more details are provided in Annex 7.

**47. Delivering stand-alone TC projects in the three Baltic countries was also challenging due to difficulty to mobilise donor funding.** Estonia, Latvia and Lithuania benefit from substantial amounts of the EU funds, including structural funds and pots of money aimed at supporting green transition, climate neutrality and energy security, often channelled through EIB and EIF. The European Commission was by far the largest financier of non-transactional TC projects implemented by EBRD in the three Baltic countries, ensuring complementarity. In some instances, meaningful capacity building activities were delivered mainly by EBRD's in-house experts, who remained engaged with the clients for substantial period of time supporting them in institutional and governance transformations. This is particularly evident in the Equity Funds and Capital Market development sectors.

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### Operational delivery was at times opportunity-led, reflecting transaction readiness more than the most pressing transition gaps, affecting strategic coherence

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**48. In some areas, EBRD's operational delivery was shaped more by market and client readiness than by a systematic prioritisation of binding transition constraints.** This pattern was most evident in the energy sector prior to 2022, where investments were largely concentrated in bond issuances and IPOs by state-owned utilities. While these transactions supported capital market development and governance improvements, they aligned primarily with State-Owned Enterprises' (SOEs) capital-raising cycles rather than with the strategies' stated objectives of accelerating renewable energy deployment or addressing interconnector financing. As a result, operational activity reflected what was coming to market, rather than what was most constraining progress in the energy transition as identified in the country strategy at the time.

49. A similar tension was present in EBRD's investments in equity funds, where stated objectives were not at times matched by commensurate risk appetite; and articulation of pathway to market transformation was not clear. While the Bank highlighted support for *first-time* funds and the crowding-in of *international* (as well as local) institutional investors as strategic objectives, in practice, it backed limited number of *first-time* Venture Capital (VC) or Private Equity (PE) funds during the evaluation period, reflecting a lower risk appetite vis-à-vis some other market players, which was also noted by fund managers and other stakeholders in interviews. At the same time, the Bank lacked a clear and concrete approach to overcoming the structural constraints that limit *international* limited partners (LP) participation, notably the Baltics' small-scale market and limited track record of premium risk-adjusted returns. A more deliberate, constraint-driven selection of instruments and risk-sharing approaches, with considerations of existing institutional ecosystem, could have strengthened alignment between strategic objectives and operational delivery in this area.

### 2.3. EBRD's regional approach was relevant and substantive in capital market development, with other sectors' delivery being focused on specific national priorities

**EBRD has been a leading promoter of the development of a single Pan-Baltic Capital Market through extensive policy dialogue activities.**

50. The Bank engaged most consistently and intensively in Policy Dialogue (PD) on the development of the Baltic regional capital market and the deepening of domestic capital markets, particularly during 2016–2020. It was grounded in the earlier approved Integrated Approach for the Further Development of the Venture Capital and Private Equity Ecosystem in the Baltic States (Baltics IA) (2013) where PD, along with the investments in VC/PE sector, was the main priority. Strategic nature of this engagement was reinforced by the signing of the Memorandum of Understanding (MoU) between the Ministries of Finance of Estonia, Latvia and Lithuania in 2017, with the support from the European Commission (EC), EBRD and Nasdaq under the Structural Reform Support Programme (SRSP).

51. Developing an integrated Pan-Baltic capital market has been EBRD's overriding principle for years. It has been widely recognised in the EBRD that due to the "tyranny of small size" of the individual Baltic states' capital markets, the only way to break the development deadlock was to create one and truly broad, deep and liquid Pan-Baltic market. For that, Policy Dialogue promoting the integration and exploring new instruments for all three markets at the same time, has been EBRD's key tool. The theme has been also prioritised in each EBRD Country Strategy.

52. Overall, the EBRD undertook 18 PD workstreams<sup>27</sup> in the area of capital markets development over the period 2016-24, supported with €5.2 m TC funding<sup>28</sup>. These numbers indicate a scale of Bank's effort in Baltic region<sup>29</sup>. The TC-funded PD workstreams were equally distributed across three Baltic countries with vast majority having a Pan-Baltic character i.e. targeting two or all three states. 2017 was particularly prolific year where nine PD workstreams

<sup>27</sup> Defined as sum of PD workstreams supported by the TCs.

<sup>28</sup> Budget for TCs signed between 1 January 2016 and 31 December 2024 supporting corresponding PD workstreams.

<sup>29</sup> Due to current limitations of the EBRD's data, comparison with other countries of operations needs to be made with caution. However, the total value of TC contracts in three Baltic states in the capital markets area (excluding 'regional' ones) and for 2016-24 period was €1.86 m. Greater than for Poland (€0.96 m) and not far smaller than for all six Western Balkan countries (€2.2 m)..

started – with signed MoU<sup>30</sup> on Capital Markets Development between three Baltic countries, EU and EBRD, and generous EU funding available providing impetus.

**53. EBRD support was evidently steered by the concept of a single Pan-Baltic capital market and was therefore (highly) relevant.** Some most significant PD workstreams included developing legal and regulatory framework for derivatives, repos, covered bonds, securitisation and commercial papers, developing foundations for obtaining single regional MSCI classification, and Structuring a Capital Market Development Accelerator Fund (CMDAF). Annex 6 outlines the rationale for those with the full list of all 18 PD workstreams.

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### Strategic coherence with domestic and regional frameworks is strong, but feasibility and coordination remain uneven

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**54. EBRD's strategic priorities are well co-ordinated with national and EU level strategies, supporting the relevance of its interventions across the Baltics.** This alignment has ensured consistency with overarching objectives such as decarbonisation, energy security and capital market development. However, there is a need for more critical approach to the national strategic frameworks and their action plans, including how realistic the vision and the scale of ambition are. Short political cycles in all countries do not correspond to strategic and investment cycles needed for the sustainable energy transition and deepening of capital markets.

**55. Stakeholder feedback points to gaps between strategic ambition, regulatory coherence and market realities for delivery at regional level, particularly in Energy transition.** National energy strategies were widely perceived as challenging to implement in their current form: while broadly similar in objectives, with focus on energy independence, accelerated renewables and potential energy exports, the countries diverge in regulatory standards, support mechanisms and permitting regimes, impacting the ability and willingness of potential investors to consider the region as a whole. Stakeholders noted that policy and political decisions do not always reflect the reality and wider geoeconomic and geostrategic context: *“sometimes political decisions are made with complete misunderstanding of the issues... if they are not aligned with the reality on the ground there will be a lot of disappointments”*. Greater cross-government coordination and clearer signalling were identified as prerequisites for mobilising private capital at scale.

**56. The Bank's experience in capital markets demonstrates that more proactive, regionally coordinated engagement can help to overcome these constraints, raising the question of whether this model could be extended to other sectors.** EBRD's sustained role in building strong Pan-Baltic capital markets platform, underpinned by strong joint commitments from the three countries, and supported by EU institutions, was widely recognised by stakeholders as instrumental in advancing reforms that initially faced domestic resistance. In some interviews partners expressed their explicit appreciation of EBRD *“just being there and providing robust technical reports and evidence that helped us to argue with our government and regulatory bodies to approve and implement certain mechanisms which initially were met with scepticism”*. Without EBRD's backing as highly qualified expert and trusted non-partisan advisor, these changes and coherence in the implementation approach would not be possible. While such coherence has been harder to achieve in energy and infrastructure where national mandates and policy autonomy remain stronger, the capital markets experience suggests that EBRD could play a more proactive and coordinating role in fostering cross-border alignment in sectors where fragmented approaches risk slowing transition.

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<sup>30</sup> The initiative sought to attract investment through the creation of a common capital market by combining the strengths of the three Baltic States and overcoming the constraints they often face due to their limited size.

## 2.4. EBRD's additionality in the Baltics reflected the dynamic context, market gaps and a selective operating model

### EBRD's financial additionality in the Baltics was context-dependent, with a clear inflection after 2022

**57. In the context of advanced transition status of three Baltic economies, the financial additionality of EBRD's interventions increased markedly after 2022.** Heightened geopolitical risk and tighter financing conditions increased demand for risk-bearing, counter-cyclical capital, a role primarily filled by EBRD and other IFIs. This shift is evident in investment dynamics: the ABI signed in 2023–2025 (€1.5 billion) accounted for a half of total EBRD investment in the region over the 10-year period.

**58. EBRD's financial additionality in the Baltics varied across areas of engagement before 2022, reflecting generally favourable financing conditions and differentiated market gaps.** In the Energy and Infrastructure space, EBRD's role was most visible as a catalytic and credibility-enhancing financier, particularly in capital market transactions with state-owned utilities and in the gradual development of innovative financing mechanisms for energy efficiency. However, as market access improved and domestic and international capital became more readily available, the Bank's marginal financial additionality in these segments was gradually declining.

**59. The post-2022 geopolitical shock marked a clear inflection in EBRD's additionality, though the scale and nature of this shift differed across sectors.** Financial additionality of EBRD's investments in PE and VC funds remained consistently strong throughout the period. Here, Baltic-focused funds continued to face persistent fundraising constraints linked to, among others, market size, and limited exits, pension reforms and heightened geopolitical risk due to war that put off some potential international investors. Higher risk perceptions can be compensated through higher risk premiums for investors. However, insights from the capital market case study indicate that this premium didn't materialise, which reduces market attractiveness for international institutional investors (see Annex 6 for details).

**60. In the equity funds' area, the post 2022's shift was more muted with other factors (apart from war) also playing a role.** EBRD's presence became more valuable at the margin as international LP appetite weakened. But arguably, other factors such as very limited number of exits in Baltics market, BaltCap Infrastructure Fund fraud case discovered in later 2023 and pension reforms in Estonia (2021) and Lithuania (2025) curtailing pension funds ability to invest, all enhanced EBRD's additionality as well.

**61. The Russian war on Ukraine substantially increased the urgency of the energy transition on both climate and energy-security grounds, while available sources of funding do not necessarily match this new urgency.** Across the sectors, and especially in the Energy and Infrastructure sector, heightened risk perceptions, tighter bank balance sheets and increased revenue uncertainty reduced the availability of commercial finance, elevating EBRD's role from catalytic to, in some instances, essential. The Bank responded by expanding its use of equity, long-tenor debt and risk-mitigation instruments, enabling transactions that clients and co-financiers indicated would not have proceeded otherwise.

**62. Estonian, Latvian and Lithuanian economies also took a big blow from the sanctions after Russia invaded Ukraine in 2022.** Many stakeholders in all three countries have noted that “pre-

war and post-war realities are completely different”<sup>31</sup> and they need to invest significant resources in enhancing their preparedness and resilience to potentially escalating conflict. Sanctions’ regimes against Russian and Belarus companies in the three Baltic countries were among the strictest, while their integration with the Russian economy at the time of large-scale war in 2022 was one of the highest. The three countries decided to act in close co-ordination.<sup>32,33</sup> The economic impact of sanctions was significant, from ten-fold reduced imports from Russia/Belarus to Estonia<sup>34</sup>, to increased cost of energy and fuel, dramatically changed logistics and value chain, and total ban of Russian gas.

**63. When the war is finished the risk profiles of three Baltic countries might promptly improve, thus reducing Bank’s financial additionality.** However regardless short-term scenarios, these countries face some significant structural challenges, while security and defence will remain at the core of development projects in the Baltic region and the EU.

### In mature Baltic markets, EBRD’s strongest value proposition lies in selective, catalytic, and innovative engagement rather than scale only

**64. Across the Baltic states, EBRD’s contribution has been most effective where it has played a selective and catalytic role, rather than acting as an exclusively volume-driven financier.** This reflects not an absence of financing gaps, although those increased post-2022, but the nature of those gaps in advanced transition economies: typically concentrated around risk appetite, market innovation, coordination failures and first-of-kind structures, rather than aggregate capital shortages in the context of EU funds and other IFIs. The evidence shows that EBRD adds most value by anchoring and structuring complex transactions, filling specific risk-bearing gaps and setting standards, particularly at moments of heightened uncertainty, rather than by seeking scale only. Table 3 provides a selection of first-of-kind investment instruments launched by the EBRD in Baltic countries.

**Table 3: First-of-kind financial instruments introduced by EBRD in three Baltic countries**

| Client   | Date | Type of investment product   | Rationale and EBRD Investment   |
|--|------|--|---|
| Luminor Bank, Estonia                              | 2020 | Covered bond   | First issuance in Baltics; EBRD’s contribution: € 28m   |
| Maxima, Lithuania                                  | 2021 | Commercial paper   | First issuance in Baltics; finance working capital needs during pandemic with limited credit headroom available from banks; EBRD’s contribution: € 4.2m |
| EPSO-G, Lithuania                                  | 2022 | Sustainability-linked bond   | First issuance of SLB in Baltics; total volume: € 75m; EBRD: € 22.5m  |
| EFTEN Capital, Baltic                              | 2024 | Private equity real estate fund  | EFTEN Special Opportunities Fund (SOF), first PE fund exclusively focused on energy efficient real estate projects; total volume: € 75m; EBRD: € 20m    |
| The Baltic Storage Platform OU (Evecon OU) Estonia | 2025 | BESS project structured around revenues generated by energy storage assets | First utility stand-alone BESS deployment in the Baltic region; total volume: € 176.4m; EBRD: € 40m   |

<sup>31</sup> Quote from the interview

<sup>32</sup> in 2023 they signed Joint Declaration; and on 26 January 2024 signed Co-operation Agreement that enacted harmonised risk assessment, sanctions-monitoring process, strengthened border controls, and rapid information exchange. Finland and Poland joined this agreement later in 2024

<sup>33</sup> [Customs authorities of the Baltic countries, Finland and Poland signed a cooperation agreement for more uniform implementation of trade sanctions](#) | Estonian Tax and Customs Board

<sup>34</sup> [Report: Estonia’s imports from Russia are decreasing, exports are not](#) | News | ERR

|   |      |   |  |
|---|------|---|--|
| ILTE, Lithuania   | 2025 | Senior notes: true sale asset-backed securitisation | First issuance in Baltic region; total volume: € 112m; EBRD: € 50m   |
| Pan-Baltic Capital Markets Development Accelerator Fund | 2025 | Financing for pre-IPO, small and mid-cap companies  | First-of-kind initiative in Baltics. No financing by EBRD, but advice and support throughout the process since 2020. € 18.8m invested by ILTE (Lithuania) and € 20m by Altum (Latvia). |

Source: project documents, IEVD analysis

**65. In the Energy sector EBRD played earlier catalytic role through anchor participation in state utility bonds and IPOs, governance and standards and then later through enabling financing for merchant renewables and storage.** Prior to 2022, the Bank's additionality was strongest in anchoring and structuring initial capital market transactions with state utilities, supporting governance improvements and standard setting at a time when these issuers were establishing market credibility. Following the post-2022 shift in market conditions, EBRD adapted its role towards enabling financing for merchant renewables and energy storage where commercial risk appetite proved insufficient.

**66. In municipal infrastructure and transport, EBRD's catalytic value has stemmed primarily from its ability to design and deploy innovative financing solutions rather than from sector-specific technical expertise.** The Bank's contribution has focused on improving bankability and scalability through novel financial instruments, access to capital markets, efficient public procurement processes and the (re)design of Public Service Contracts. Rather than catalysing change through direct subject-matter leadership in areas such as transport systems or building decarbonisation, EBRD has played a pivotal role in enabling investment pipelines and accelerating delivery by unlocking financing capacity and institutional readiness. This was also illustrated by EBRD's participation in the IPO of the Port of Tallinn, which enabled the client to widen the range of its economic activities through an appropriately funded investment action plan.

**67. In equity funds' area, the EBRD has been selective and relative scale of its investments should not be overstated.** Although any comparison demands caveats due to some limitations of the available data<sup>35</sup>, contrasting the EBRD's annual investments in Baltic focused VC and PE funds<sup>36</sup> with total fundraising at the market<sup>37</sup> shows that the EBRD's share was either limited i.e. 15.4%, 7.4% and 7% in 2021, 2023 and 2024 respectively, or nil given absence of any Bank's investments in 2022 and 2024. Though, the Bank's updated Enhanced Equity Approach (2021) has explicitly prioritised quality over volumes. The EIF – the only other IFI that offers indirect equity investments in the Baltic region – invested €640 million, nearly x 3 more than the EBRD over 2016-24<sup>38</sup>, of which considerable share (38%, or nine out of 24 funds) in *first-time* funds. However, life-for-like comparison of the EIF with the EBRD, if any, would need to be very careful – since the bulk of the EIF's invested capital was not from its balance sheet but rather via external mandates e.g. large EU mandates such as Invest EU and Recovery and Resilience Facility<sup>39</sup>.

**68. In corporate sector Bank's financial additionality sometimes manifested in supporting cross-border investments that otherwise would not be possible.** Specifically, there were several corporate clients in Lithuania with export-oriented business model who benefited from comprehensive support and assistance through one-stop shop at Invest Lithuania<sup>40</sup> and

<sup>35</sup> As per KPMG (2025) market data NB: Note, for instance, that the fundraising data related to the VC includes Plural - London-based VC fund with very significant exposure in Baltics, which would not qualify for EBRD investments.

<sup>36</sup> A fund was defined as having a main focus if ≥ 50% of EBRD's investment was expected to be directed to companies based in Baltic region. For 20 out of 29 funds in which EBRD invested Baltic region was only one among other regions with expected investment in local Baltic companies being less than 50%.

<sup>38</sup> Considers Baltic focused funds. Figure for the EIF excludes investments in Baltic Innovation Fund

<sup>39</sup> EIF, 2022. The EIF and Invest EU. Available at: <https://www.eif.org/flagship-initiatives/investeu/overview>

<sup>40</sup> Interview with clients

launched their production facilities in the country's Free Economic Zones. While the role of the national investment promotion institutions was crucial, clients could not get financing for their cross-border operations from local banks. That's where the Bank could step in and offer financing that was aligned with the country's export-oriented model of economic development.

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### **EBRD's non-financial additionality in Energy and Infrastructure sector was strongest in structuring, credibility and governance, where it offers a distinctive value among IFIs**

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**69. EBRD's non-financial additionality in the Baltics was most evident where complex transactions, coordination across stakeholders or credibility were required.** Across several landmark operations, private financiers and IFI partners highlighted that EBRD added value beyond financing by helping to structure investable transactions and by providing reassurance to other investors through its technical scrutiny and participation. Counterparts from the EIB, EIF and NIB noted that EBRD tends to focus on areas where it has distinct comparative strengths, particularly financial structuring and capital markets related expertise. European Commission stakeholders also valued the Bank's role as a technically credible, non-partisan counterpart in discussions involving multiple governments and EU bodies, especially where proposals initially faced political or regulatory hurdles.

**70. The EBRD's non-financial additionality in green sectoral policy design outside the financial domain has been more limited, reflecting strong domestic and EU-level capacity.** In advanced Baltic economies, national authorities and EU institutions already provide substantial expertise, regulatory frameworks and concessional instruments. As a result, EBRD's competitive advantage has not been in shaping green policies per se, but in translating existing policy frameworks into bankable investments.

**71. In the Energy sector, EBRD's non-financial additionality was strongest in governance, standards-setting and transaction-level structuring.** In capital market transactions with state-owned utilities, EBRD's engagement went beyond anchoring finance to include support on governance arrangements, disclosure practices and alignment with international ESG standards, in the context of bond issuances and IPOs. This role was most visible in pre-2022 transactions, where EBRD's early involvement helped establish credibility with investors and contributed to landmark issuances in relatively shallow markets. Post 2022 in project-level financing for renewables and storage, EBRD's contribution was reflected in the application of environmental and social standards exceeding local requirements, the integration of governance and risk-management provisions into project design. In private equity investments in renewable energy developers, EBRD integrated corporate governance action plans, strengthened board oversight, and applied ESG and reporting standards aligned with international investor expectations.

**72. EBRD provided advice and support in strengthening corporate governance standards in private sector, which is crucial for preventing unethical behaviour and corruption.** EBRD's presence on the Board and committees in some client companies, along with the support in developing corporate governance policies, standards and ensuring their enforcement, was noted as contributing factor to enhancing economic governance standards. Over the evaluation period all three countries experienced large-scale corruption cases. Due to the small size of the market, each has a potential to have mid- and long-term effects on the entire market. EBRD has invested in two clients who have been directly involved in significant corruption cases in Estonia and Lithuania. Both were dealt with appropriately in line with the national legislation. But some market operators still refer to those cases as examples of events that undermine trust of international investors in the entire sector and economy. Box 3 provides some details.

**73. Another aspect of non-financial additionality that is important to some clients is Bank's ethical standards and values.** For example, one client active across the region noted that their activities are value-driven, with strong commitment to the social, sustainability and circularity objectives. Therefore, they were looking for financiers who have similar values, and EBRD was fully aligned (along with one private wealth management company).

### Box 3: Recent malpractice and corruption cases in Baltic countries

- ABLV Bank, Latvia, 2018.** The fallout from the large-scale money-laundering case against ABLV Bank, third largest bank in the country in 2018 led to the overhaul of the banking system and its oversight with strict new standards in anti-money-laundering (AML) and know your client (KYC). While it led to substantial improvements in the system, reductions in servicing shell companies, non-resident deposits (from 50% in 2015 to 9% in 2024)<sup>41</sup>, it also had long-lasting effects on the availability of financing for growth and expansion. Banks continue to be very cautious in AML and KYC domains and availability of capital to small, usually family-owned businesses to grow is limited.
- Tallinn Porto Franco, Estonia, 2021.** In 2021 corruption scandal around Tallinn Porto Franco project had significant impact in Estonia. It was in relation to the provision of €39 million bridging loan from state KredEx and accusations of political corruption. Anti-corruption agencies' reaction confirmed Estonia's high standards of enforcement, however further changes were required to build back trust in the investment climate. With court proceedings finalised the project is still under development, however struggling to find anchor tenant and investors due to trust issues. EBRD signed € 63 million senior loan with SPV Porto Franko OU in February 2020, with parallel loan from private bank, contributing to total € 205 million redevelopment project of former military shipyard in central Tallinn. Project was aimed to deliver a mixed-use development at the highest standard of building energy efficiency (LEED Gold). The EBRD withdrew from the project immediately after the corruption charges were made, without disbursing the loan.
- BaltCap Infrastructure Fund, Lithuania/Regional, 2023.** BaltCap was established in 1995 and is one of the most experienced and largest private equity investors in the region. EBRD has invested in several BaltCap-managed funds, including the BaltCap sponsored Infrastructure Fund in 2018 with €20 million commitment to the €100 million fund. The Fund was the first local infrastructure fund in the Baltics. The embezzlement of over €40 million by former BaltCap Infrastructure Fund partner discovered by BaltCap in 2023 dealt a blow to the trust of some institutional investors in the industry. Anecdotally, for instance, some local pension funds paused any investments in the funds for over a year. Since then, BaltCap strengthened internal risk management procedures and financial controls. In 2024, BaltCap has reached an agreement with investors, including EBRD, on the main terms of the recovery plan.

## EBRD's non-financial additionality in the Equity Funds' area came overwhelmingly at pre-investment rather than post-investment stage

**74. EBRD's non-financial added value as Limited Partner (LP) came overwhelmingly at pre-investment rather than post-investment phase.** Based on twelve PE and VC funds interviewed by the IEvD, it appears that the Bank's important area of inputs were Limited Partner Agreements (LPAs), especially for some funds from earlier vintages. In a few instances, the EBRD approach to negotiate the LPAs was seen as '*exceptionally demanding*', and although overall funders appreciated improvements brought by it, number of them viewed the length of it and EBRD's specific requirements as excessive and lacking transparency.<sup>42</sup> Besides, few funds alluded to the EBRD as having important inputs to shape the geographical allocation of funds and ESG standards but otherwise limited/ no impact in terms of shaping the investment strategy. Lastly, given much larger volumes invested in local funds by the EIF relative the EBRD, some

<sup>41</sup> <https://dbrs.morningstar.com/research/448041/morningstar-dbrs-confirms-republic-of-latvia-at-a-stable-trend>

<sup>42</sup> In a few cases, interviewed funds noted substantial differences between the EIF and EBRD requirements while negotiating LPAs, at times leading to challenges to align those and overall process spanning beyond a timeline for a standard market transaction.

interviewees suggested that the latter offers more bespoke and deeper non-financial inputs at pre-investment stage.

**75. Post-investment, the EBRD routinely holds a seat on the fund's LP Advisory Committee.** Here, the Bank's role was typically more of an oversight rather than a proactive advisory nature.

## 2.5. Local presence and rigour underpin delivery, with operational efficiency having some potential for improvement

**Presence on the ground is a competitive advantage that enables the Bank to have a greater understanding of the political economy, governance and investment climate**

**76. EBRD's physical presence in the Baltics has been widely valued by stakeholders as a source of operational efficiency and contextual understanding.** Clients, partners and public counterparts consistently emphasised the importance of the Bank's regional office in Vilnius, complemented by resident banking positions in Tallinn and Riga more recently, in enabling a deeper understanding of local political economy, governance arrangements and investment conditions. The strengthening of the on-the-ground presence coincided with a period of increased engagement in Estonia and Latvia, where earlier activity had been limited, and was seen as facilitating closer involvement in day-to-day dialogue, relationship building and the identification of new business opportunities.

**77. Local presence has enhanced EBRD's ability to engage effectively in both formal and informal coordination with key actors.** The advantage of local presence is the ability to take part in the regular meetings and events, and to bring in expertise from London HQ, Warsaw regional hub, or other offices, when required, to ensure that Bank is truly involved in the implicit/ tacit policy dialogue, coalition building and finding new collaborative opportunities with other financiers. Both NIB and EIB<sup>43</sup> local representatives in Vilnius and Tallinn highly appreciate the opportunity of regular meetings to learn more and co-ordinate actions that deliver maximum impact for the specific country and Baltic region.

**78. The size and significance of Vilnius resident office (RO) grew in recent years, reflecting new geopolitical realities in the region.** Increased number of senior bankers working across different sectors means that clients have more engaged relationships and can get answers to their questions quicker. Universally all clients cited high efficiency of EBRD staff based in Vilnius, Warsaw or London, and their commitment to supporting clients in different situations throughout design and implementation.

**79. International partners and clients have universally high opinion about the EBRD's banking and policy teams.** In joint projects and engagements with the European Commission, the Bank's specialists in the capital markets were frequently described as trusted, technically credible and non-partisan counterparts. They were often delivering in the challenging circumstances of annual funding and policy cycles, while maintaining the consistency and depth of the engagement on substantial reforms that require time to mature.

**80. Views differed on the appropriate scale of EBRD's local footprint in Estonia and Latvia, but there was broad agreement on the importance of staff experience over headcount.** While some stakeholders saw the value in a larger on-the-ground presence, others noted that the small size of the countries may not justify a significantly expanded footprint. Instead, interviewees

<sup>43</sup> EIB traditionally had presence in Vilnius and opened regional office in Riga in 2024

emphasised the importance of having experienced staff with strong country knowledge, embeddedness in the local networks, and with the “super-connector” capabilities which can help to mobilise specialist teams from other EBRD offices if and when needed.

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### To enhance operational approach and resource allocation efficiency in advanced markets of three Baltic countries the Bank needs a clearer theory of change with well-defined triggers of systemic change

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**81. Currently the operating model in Estonia, Latvia, and Lithuania is often being driven by transactions rather than identified transition bottlenecks, unless strategies explicitly map where EBRD can be additional.** Bank can leverage its resources more effectively through better connection in country strategies between the diagnosed transition gaps with EBRD additionality vis-à-vis other market actors and plausible systemic outcomes. Clearer identification of systemic change triggers and which ones can be delivered with the Bank's resources will be an improvement to current situation. Based on the available evaluation evidence over the next period the most catalytic contribution is likely to come from being explicit about which system constraints EBRD will choose to address and in what way it can be additional.

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### EBRD's operational efficiency is a recurring constraint. The Bank is valued for its rigor and engagement, but prolonged and bureaucratic processes, high transaction costs, and lack of transparency in decision making reduce its appeal.

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**82. EBRD's operational efficiency is frequently constrained by complex and time intensive internal processes, despite the high value placed on its technical rigor and engagement.** Clients and partners consistently described EBRD as slower and more demanding than other IFIs active in the region, particularly the EIB/EIF and NIB. This partly reflects the Bank's involvement in first-of-kind or complex transactions, which require longer lead time for developing regulatory environment, creating appropriate internal institutional processes and structures, and ensuring they are functioning in accordance with the Bank's own risk policy and aligned with sound banking principles.

**83. EBRD's approach to risk has supported catalytic, first-of-kind transactions in some instances, but has also contributed to efficiency constraints in more routine operations.** Stakeholders recognised that the Bank has been willing to assume risk where this served an additionality rationale in more complex transactions. At the same time, some clients characterised EBRD's overall risk appetite as conservative in more routine operations, with a reliance on tried and tested instruments and internal safeguards. In advanced Baltic markets, where counterparties often expect more innovation and flexibility, this tension was seen as limiting responsiveness and increasing preparation times.

**84. EBRD's rigorous due diligence standards, technical expertise and ability to engage long-term and consistently with clients in different sectors are highly valued, but these strengths are not always matched by proportional process differentiation.** Clients consistently recognised the quality of the Bank's due diligence, technical expertise and advisory input, including where EBRD commissions and delivers technical reports or suggests (re)design of PSC, leading to improved outcomes for the companies or regulators. However, repeated feedback indicated relatively slow processes, heavy requirements, regardless of the investment product type, and limited transparency regarding investment decision (or lack thereof).

**85. In Equity Funds' area, Bank's modus operandi was often perceived as lengthy and lacking transparency.**

Several interviewed funds pointed to the relative thoroughness of the Bank's due diligence. In a few instances, the EBRD approach to negotiate the LPAs was seen as 'exceptionally demanding', and although overall funders appreciated improvements brought by it, number of them viewed the length of it and EBRD's specific requirements as excessive<sup>44</sup>. More broadly, some funds pointed to the overall EBRD's investment process as lacking transparency (quote). Additional challenge in this sector is EBRD's geographical mandate, which is limited to its regions of operation. In the Baltic region, due to the market size and economic integration model, regional composition of the Equity Funds often expands beyond Estonia, Latvia, Lithuania, or CEE countries to Nordic countries, Germany and further. In these situation funds have to be compartmentalised to ensure the EBRD's investments are focused on companies in the regions of its operation.

*"Negotiations with the EBRD are slow and complicated. It is also not very clear who and by when decides. Fundraising should not be easy, but still, it can be predictable."*

**Venture Capital fund focusing on Baltic region**

**86. In the energy sector, EBRD's rigorous due diligence, decision-making and ESG standards, while central to its value proposition, have also contributed to longer transaction timelines and higher procedural burden.** Stakeholders acknowledged that these standards distinguish EBRD from other financiers and support sound governance and sustainability outcomes. At the same time, some clients noted that EBRD's internal requirements extended beyond those applied by other IFIs, resulting in additional documentation and review processes. While most clients accepted these requirements as part of working with EBRD, some perceived them imposing additional costs and reducing flexibility, particularly in competitive or time-sensitive transactions. This indicates an inherent trade-off between standards-setting objectives and operational efficiency in the energy sector in advanced markets.

**87. Some clients in Sustainable Infrastructure pointed to internal silos within the Bank as an efficiency-reducing factor.** Clients engaging with multiple EBRD teams over time noted of inconsistencies in institutional knowledge and, in some cases, duplicative information requests. While certain separations, such as Chinese walls between debt and equity operations, are structurally required, stakeholders suggested that better internal knowledge-sharing and coordination could reduce unnecessary burden without compromising governance or conflict of interest safeguards.

<sup>44</sup> In a few cases, interviewed funds noted substantial differences between the EIF and EBRD requirements while negotiating LPAs, at times leading to challenges to align those and overall process spanning beyond a timeline for a standard market transaction.

## 3. What systemic changes has the EBRD contributed towards?

88. This evaluation identified a number of observable systemic changes beyond client level that are aligned with the Bank's two strategic priorities in Estonia, Latvia and Lithuania across two strategic periods: (i) supporting green transition and contributing to enhanced energy security; (ii) enhancing the competitiveness of the private sector by strengthening regional capital markets and expanding the range of financial products available to companies. Some of these changes are specific for one country, and / or for one sector, while others could be observed at the regional level and for wider group of sectors. This is clearly identified for each evaluative insight.

### 3.1. Recent renewable scale-up across the Baltics and sustainable finance reforms with aligned investments in Lithuania delivered early green results

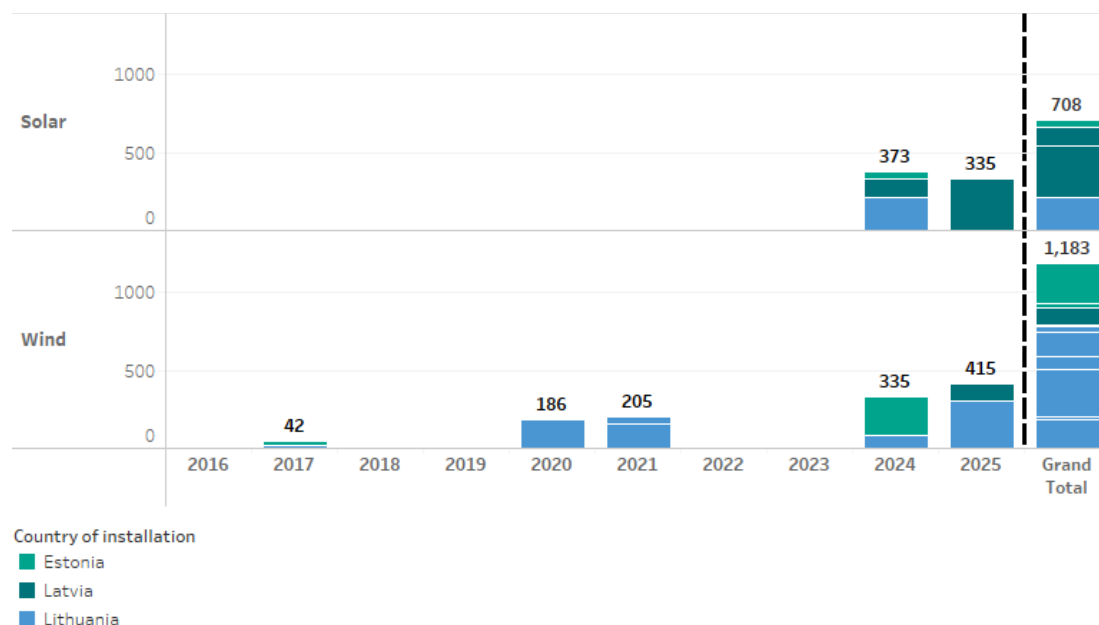
#### EBRD-supported renewable energy capacity additions contributed meaningfully to national deployment trajectories, with particularly significant scale relative to market size in Latvia

89. **EBRD consistently prioritised renewable energy deployment in its country strategies across both strategic periods, but material delivery against this objective occurred largely after 2022.** While increasing renewable generation was a stated priority in both 2016 and 2021 strategies for all countries Energy sector investments translated into significant renewable installations mainly from 2023 onwards. Prior to this, EBRD engagement was concentrated in capital markets transactions with state utilities, with limited direct support for new renewable capacity, resulting in a clear lag between strategic intent and implementation.

90. **National renewable energy trajectories differed markedly across the Baltic states, shaping both the timing and the relative significance of EBRD's later interventions.** Lithuania and Estonia entered the evaluation period with earlier momentum in wind deployment, while Latvia's renewable expansion beyond (traditional) hydropower began much later and only accelerated after 2022. As a result, EBRD investments coincided with more mature expansion phases in Lithuania and Estonia, but with an early scale-up phase in Latvia, where wind and solar capacity started from a comparatively low base.

91. **EBRD investments during the evaluation period are associated with approximately 1,891 MW of renewable energy capacity across the three countries, though significant attribution caveats apply.** These figures reflect renewable capacity linked to EBRD-supported projects at signing rather than completion and are not consistently pro-rated to EBRD's share of total financing. In capital market and equity transactions in particular, the reported capacity substantially exceeds EBRD's financial contribution; for instance, the Enefit Green IPO, where EBRD invested €12m, is associated with 159 MW of installed wind capacity in Lithuania, while the total financing for these projects reported at around €350m. Therefore, the figures should be interpreted as indicative of the scope of engagement rather than a direct measure of attributable impact.

Figure 7: RE installed capacity associated with EBRD investments (MW); 2016-2025



Note: Data on installed capacity associated with EBRD investments are taken from the GET database. Year as per EBRD investment (signing), not project completion. Most recent reporting on progress is presented in data annex.

92. **EBRD's contribution to renewable deployment is most pronounced in Latvia, where supported projects represent a large proportional increase in national capacity despite smaller absolute volumes.** The Sunly solar investment alone, supporting 335 MW of capacity from a 2025 signing, represents meaningful scale-up from Latvia's approximately 470 MW of installed solar capacity in 2024. In total, EBRD-associated investments in Latvia are linked to 456 MW of solar capacity, nearly doubling the existing base in a country where solar deployment commenced only post-2022. Similarly, the Simpson Wind project at 112 MW will almost double Latvia's 2024 wind capacity of 128 MW (2024). While Latvia's absolute capacity additions remain modest compared to Estonia and Lithuania, EBRD's proportional engagement represents more substantial participation in a market characterised by later-stage renewable deployment.

93. **In Lithuania, EBRD engagement supported large-scale wind deployment that reinforced an already rapid national transition trajectory.** EBRD-associated projects account for close to 800 MW of wind capacity, including the Kelme Wind project at 303 MW, reported as the largest wind farm in the Baltic states. These investments contributed to Lithuania's sharp increase in domestic electricity generation after 2022 and to a material reduction in electricity import dependency.

94. **In Estonia, EBRD-financed projects supported renewable expansion during a period of rapid fossil fuel phase-out.** EBRD-associated investments include around 255 MW of wind capacity and additional solar projects, equivalent to a substantial share of Estonia's installed wind base of approximately 572 MW in 2024. However, the scale of oil-shale generation withdrawal meant that renewable additions only partially compensated for lost capacity, with Estonia becoming a net electricity importer despite accelerated renewable growth.

95. **Green results to date primarily reflect project-level capacity additions rather than demonstrable system-level transformation.** Most renewable investments were signed in 2023-25 and remain under construction or recently commissioned, limiting evidence of wider market effects such as replication by commercial financiers or sustained shifts in investment patterns.

The timing of delivery therefore constrains assessment of transformational impact within the evaluation period.

**96. EBRD's post-2022 financing increasingly enabled merchant renewable projects, supporting continued deployment under heightened risk conditions.** By financing projects without long-term power purchase agreements, EBRD facilitated renewable investments aligned with liberalised electricity markets during a period of reduced commercial risk appetite. This contributed to green outcomes by sustaining investment momentum, while also exposing projects to market volatility that will shape longer-term performance.

**97. EBRD added environmental value at project level by strengthening standards beyond national regulatory requirements.** Environmental additionality included enhanced biodiversity protection measures, such as advanced bird-collision mitigation at wind farms, and strengthened supply-chain due diligence in solar projects. These measures improved the quality of green outcomes, even where clients perceived associated compliance costs as significant.

**98. Overall, EBRD's green results in Energy are tangible but recent, with the durability and systemic nature of impacts yet to be demonstrated.** The evidence supports a positive contribution to renewable deployment across all three countries, particularly where investments coincided with critical expansion phases. However, the concentration of delivery late in the evaluation period means conclusions on lasting, system-level green transition effects remain necessarily forward-looking.

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### **EBRD support contributed to the systemic strengthening of Lithuania's sustainable finance framework**

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**99. EBRD's support to the development of Lithuania's Green Finance Strategy and Action Plan contributed to a set of institutional, regulatory and market-enabling changes in the sustainable finance system.** Prepared in response to EU-level requirements under the European Climate Law and financed through EU technical cooperation, the Strategy provided a coherent framework for aligning public finance, financial instruments and institutional mandates with green transition objectives. Its adoption was associated with system-level changes, including the consolidation of national development institutions into ILTE with expanded capitalisation, and the establishment of clearer policy and regulatory frameworks to support climate-aligned investment across the public sector

**100. EBRD's contribution was most evident in operationalising the Strategy through institutional design, standards and market instruments.** This included support to the creation of the Green Growth Institute within ILTE, mandated to oversee implementation of the Strategy and to act as a centre of excellence and a bridge between public and private segments of the sustainable finance system. EBRD engagement also supported the development of a public sustainable bond issuance plan, including for state-owned enterprises, and contributed to changes in public procurement practices, with a marked increase in sustainability-aligned procurement (from 5% to 94% in 2020-2024).<sup>45</sup> Stakeholders highlighted the Bank's role in strengthening understanding of sustainable finance labelling, monitoring and reporting requirements, as well as in reviewing the legal and regulatory foundations underpinning the sustainable finance framework. While several elements of the Strategy are still under implementation, including the creation of a single pipeline of sustainable PPP projects, the evidence indicates that EBRD's contribution was in translating EU-driven policy objectives into implementable institutional arrangements and market-ready instruments.

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<sup>45</sup> [Open Contracting Partnership, 2024: Putting green procurement at the center of public services](#)

## Green Cities engagement in Vilnius created early institutional and financing foundations

**101. Vilnius is the first Green City in the Baltic region. It completed and approved Green City Action Plan (GCAP) and signed three aligned investment projects since the programme launch in 2023, although it is too early to evaluate the actual results.** Vilnius city council has approved GCAP in 2025 and it was first Green City that combined GCAP and Climate City Contract (CCC) which was developed in parallel as part of city's membership commitment of EU's 100 Climate Neutral and Smart Cities and where main objective is to cut city's greenhouse gas emissions (GHG) by 80% by 2030. City is yet to prepare its first report on progress achieved across GCAP strategic priorities, so evidence is limited.

**102. EBRD has delivered on its commitment of Green City Programme of “going deep rather than wide”.** It prepared and signed three investment projects (including trigger project) with the cumulative EBRD's ABI of €85 million and the parallel funding from EIB, NIB and private investors. All three projects are on track to deliver several GCAP strategic objectives in the areas of public transport and decarbonisation of built environment. Additionally, Vilnius has recently signed a municipal water and wastewater project with EIB for the total amount of €50 million which is aligned with the GCAP priorities in the water sector.<sup>46</sup>

**103. The Green Cities engagement in Vilnius created a platform for future municipal access to sustainable capital market instruments, although key legal and capacity constraints remain.** EBRD has worked with partners to build fundamental legal and institutional infrastructure in sustainable green finance, however currently Lithuanian legislation does not allow city of Vilnius (or any other city) to issue bonds. EBRD is working on leveraging the capabilities of GCAP matrix for supporting member cities in issuing green or sustainability-linked bonds (SLB). Potentially policy dialogue with the Lithuanian government and municipal authorities can lead to changes where city and/ or its municipal companies can tap into the sub-national debt market. However it will require substantial build-up in expertise and capabilities, which are currently lacking, as confirmed by the recent EBRD-led Feasibility study of municipal bond market in Lithuania.<sup>47</sup> Similar challenges exist in Estonia and Latvia, where feasibility study was conducted along with several other CEE countries.

## 3.2. Results in equity funds and capital markets are clearer across regulatory and market infrastructure rather than volumes of transactions

### Assessing results of the EBRD's Equity Fund investments remains difficult

**104. The role of PE and VC funds (supported by the EBRD) in fostering innovation and knowledge economy in three Baltic countries is challenging to gauge.** While Equity Funds by default invest in the fast-growing, export oriented and innovative companies, assessment of their impact remains problematic. This is due to complex transition pathways, inapt systems used in the Bank to define the key causal pathways and relevant results' metrics to assess the progress. As *Fostering Knowledge Economy and Innovation* has been the Bank's key priority in both strategic periods for all three countries, this is a material shortcoming. Similar finding was

<sup>46</sup> EIB, 2025

<sup>47</sup> EBRD implemented TC project by DG Regio “Market feasibility study to evaluate the potential of leveraging green and sustainability-linked bonds for municipalities in Croatia, Czech Republic, Estonia, Latvia, Lithuania, Poland and Romania under the EU Cohesion Policy”

revealed by 2023 IEvD's Evaluation of Venture Capital Investment Programme (VCIP) I (2012-19) pointing to weak articulation of the link between EBRD's investments and innovation.<sup>48</sup>

**105. However, information and data that the evaluation team was able to access and analyse point to some results.** PE and VC funds that received EBRD financing over 2016-24 invested in the total of 81 companies. 34 and 35 companies were based in Estonia and Lithuania respectively, with 12 in Latvia. Some existing literature on the impact of EBRD's backed PE funds on the investees pointed to significant and positive effects, lasting even after exits<sup>49</sup>. However, for this evaluation period and sample, due to compressed timeline for this evaluation, the analysis of *before/ after* PE and VC funds' investments at investees level e.g. investees' operational improvements, export, turnover and profitability, was beyond the scope of this assessment.

**106. Further, EBRD invested (indirectly or directly) in 2 out of 11 'unicorns'<sup>50</sup> that emerged from Baltic region over 2016-24.** While not part of the formalised EBRD's approach to equity funds, one of the key approaches to galvanise the local start-up & VC eco-systems, has been to aim at financing and nurturing start-ups that then gain 'unicorn' status, which would then trigger subsequent positive spillover effects e.g. significant rise in interest from international investors. Over 2016-24, there were 11 unicorns across three Baltic states, of which seven were in Estonia, with some like *Bolt* and *Nord Security* achieving remarkable success. The EBRD, via direct and indirect equity, managed to invest in two of these companies (Veriff and Printful). By contrast, the EIF invested indirectly in seven out of 11 unicorns.

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### In the Equity Funds' selection, the Bank's prevailing stance was to take less risk rather than more

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**107. Contrary to its stated objective, the EBRD investments in *first-time* VC and PE funds in Baltic region over 2016-24 were limited.** The Enhanced Equity Approach (2021) envisaged 'to deploy capital across a range of strategies and fund sizes, with strong support for *first-time funds*'. In practice, over 2016-24, out of 29 PE and VC funds that received EBRD financing and intended to invest at least 1% of EBRD's commitment in companies based in Baltics, three were qualified by the IEvD as *first-time funds*. Full list of funds, including indication of *first-time funds*, is presented in Annex 6.

Distinguishing *first-time fund* (also called '*debut fund*') may be in some cases a matter of interpretation. In this evaluation, *first-time fund* is defined as first institutional investment vehicle raised by a new GP team or firm. Conversely, follow-on fund to an initial fund where the latter already demonstrated, inter alia, a proper institutional level governance structure, team, institutional LP presence and some track-record of investment, were not considered as *first-time funds*. In addition, new funds but launched by long standing and very well-established investment platforms were not considered as *first-time funds* neither.

**108. Majority of interviewed funds<sup>51</sup> expressed opinion that EBRD's has had a fairly limited risk appetite.** Part of this perception stems from the Bank's more thorough due diligence as well as some extra requirements and lengthier approval process compared to a standard market practice. Further, from Bank's internal incentives point of view, this does not come entirely surprising. Especially in the earlier years, lack of incentives for the indirect equity team to pursue riskier projects e.g. no reward as part of the EBRD's Scorecard system, may have fundamentally skewed the motivation towards pursuing deals with more established and repeated clients. Of

<sup>48</sup> EBRD, 2023. Financing for Innovation: An evaluation of Venture Capital Investment Program I (2012-19)

<sup>49</sup> See for instance Biesinger, M, Bircan, C, Ljungvist, A, 2020. Value Creation in Private Equity

<sup>50</sup> Start-up company with a valuation over US\$ 1 bln.

<sup>51</sup> Both, EBRD clients and non-clients

course, risk appetite is also relative. There are also international institutional investors whose perceived and actual risk appetite to invest in Baltic region may have been lower than EBRD.

### The EBRD acted at times as cornerstone investor in the equity funds, although despite strategic intent, the evidence of crowding-in international LPs is limited

109. IEvD granular analysis of its indirect equity deals shows that the Bank achieved the cornerstone status in nearly 60% of cases<sup>52</sup>. Presence of the EBRD (and EIF with which it frequently co-invested) was in some cases instrumental to crowd-in private sector non-DFI/IFI institutional investors. Many domestic pension funds, for instance, had limited in-house expertise in PE/VC and relied on the IFIs' due diligence and their negotiations of the LPAs. More recently though, pension funds' reliance on IFIs' due diligence somewhat reduced (quote).

However, when it comes to *international* institutional investors,<sup>53</sup> there was little evidence of EBRD's catalytic role, against its overarching objective on the market.

*“Before, if you did not get EIF and EBRD, you could forget about closing a fund. Pension funds would rely on institutional investors like EBRD and EIF. Now it is different – they have already that experience.”*

Local institutional investor

#### Box 4: Attracting *international* institutional LPs in Baltics – still a hard sell

Attracting *international* investors has been the Bank's key goal. Arguably though, unlike crowding in local institutional investors, attracting *international* ones poses much greater challenges.

The goal is to demonstrate that the investments in the region can generate consistently attractive returns. For instance, some investors may be inclined to broaden their portfolio if funds in a region offer top quartile or top decile returns. Obtaining a comprehensive data on the key metrics such as DPI or IRR generated by Baltics focused funds has been problematic. Generally, international investors do not perceive Baltics as offering higher risk adjusted returns. Limited number of exits in the region added further to the challenge. As put by one fund manager: *“Until we see large exits – which will trigger questions of ‘why we are not on this’ – I do not see much movement on the market”*.

In addition, relatively small size of funds in Baltic region (commensurate to the size of the market), has also made the region less attractive. Many US and Western Europe LPs would seek a minimum ticket of €50 million or more, while the size of many local funds would fall within a range of €70-100 million.

IEvD analysis of the profile of LPs that co-invested in the funds along with the EBRD showed limited number of *international* institutional investors and little evidence that the Bank was instrumental in crowding-in those few.

Source: IEvD interview program; EBRD indirect equity portfolio data

### The Bank made widely recognised contributions to development and integration of capital markets through policy engagement and capacity-building activities, but with mixed investment outcomes to date

110. In some cases, very tangible results were already achieved. In others, results have not materialised within a scale and timeline that had been originally hoped. First, some initiatives such as the set-up of the Capital Markets Development Accelerator Fund (CMDAF) only very recently have taken off, hence no results can be validated at this stage. Second, others like development of regulatory frameworks for covered bonds, securitisation and commercial paper, are dependent on the market uptake – which has been mixed for a number of reasons. Tangible benefits of the single MSCI Baltic States Index may materialise in the long-run subject to further

<sup>52</sup> Four out of seven funds in invested in. NB: counting funds where EBRD's ABI directed to B3 was ≥ 50%

<sup>53</sup> LPs outside of Baltic region

developments, which are beyond Bank control. Remaining part of this section delves into more detail of the key initiatives.

**111. The new single MSCI Baltic States Index came into market in August 2023, but there is no evidence of tangible impact from it so far.** The EBRD was the lead promoter of the initiative and as put by MSCI representative: “*without EBRD it would not have happened*”. Undeniably, creation of the Index was a major milestone in integration of capital markets of three Baltic countries. Yet, while the move achieved much publicity, there is no evidence that it has translated into inflow of capital into the region e.g. from passive index-tracking investors. Rising the Index classification from the current *Frontier Market*<sup>54</sup> to *Emerging Market* – plausibly resulting in a significant inflow of capital – would first require dramatic increase in the size and liquidity of Nasdaq Baltics’ capitalisation. And to achieve it, multiple and large listings of currently unlisted SOEs in combination with large *primary* listing of successful unicorns on Nasdaq Baltics would be needed. Both are currently only hypothetical.

**112. Capital Markets Development Accelerator Fund (CMDAF), conceptually a valid idea, was launched only in October 2025, despite the work on the fund initiated already back in 2017.** The Fund volume of €49 million, aiming to unlock €250 million in future IPOs, will support Latvian and Lithuanian SMEs and small mid-cap companies seeking initial listings and inclusion in the Baltic States securities market, by investing in IPO or private equity and bond (IBO) offerings on the Nasdaq Baltic Stock Exchange. Since 2020, the EBRD supported conceptualisation stage including market diagnostics and selection of the Fund managers. As at end-2025, no single investment has been made, and it is pre-mature to gauge the results.

**113. A dedicated legal securitisation framework was developed and tested only in Lithuania so far.** But it allowed a first landmark transaction in 2025, with likely demonstration effects. Since as early as 2017, the EBRD has supported the development securitisation frameworks in all three states. Lithuania adopted a new Law on Securitisation and Covered Bonds in 2022. And in 2025, ILTE completed the first true-sale green public securitisation of €112 million (including €50 million from EBRD and €31 million from NIB) in Baltic region broadly seen as landmark transaction. It will finance renovation of 10,000 multi-apartment buildings by 2030. Artea Bank in Lithuania uses a securitisation framework from 2022 through Renovation Fund 1 & 2 (with EBRD’s investment in Fund 2). Yet, Latvia still did not introduce a comprehensive, dedicated securitisation law comparable to Lithuania, and Estonian legislation still needs to be revised to ensure full alignment with the EU securitisation *acquis*.

**114. Commercial paper (CP) framework was successfully established in 2021, but the market has not eventually taken off.** EBRD, based on MoU signed in 2020 with three central banks and Nordic Investment Bank (NIB) amid COVID-19 pandemic, played a leading role in creating the legal framework. Subsequently, along the NIB, the Bank also supported the inaugural issuance of the €40 million commercial paper by retail chain Maxima in 2021 by investing €4.2 million. Maxima's second €35 million CP placement with Bank’s investment of €5 million followed in 2022. However, there were eventually no further issuances in Baltics since then, and the Bank’s intention to establish a deeper self-sustaining market did not materialise. This is mostly due to lower demand by corporates for products like CP – designed to manage short-term liquidity needs, amid a gradual recovery of commercial bank working capital funding supply.

**115. Lastly, the EBRD’s capacity building delivered to ILTE (formerly INVEGA) over 2016-19 was instrumental in its entry into equity markets.** Over 2016-19, the Bank provided an extensive programme of training and expertise to set-up a qualified team within the agency and to allow it the roll-out of the equity instruments – previously entirely missing in ILTE’s portfolio<sup>55</sup>. The

<sup>54</sup> In 2025 MSCI introduced *Advanced Frontier* market sub-category as part of *Frontier* universe, of which the Baltic Region is currently part of.

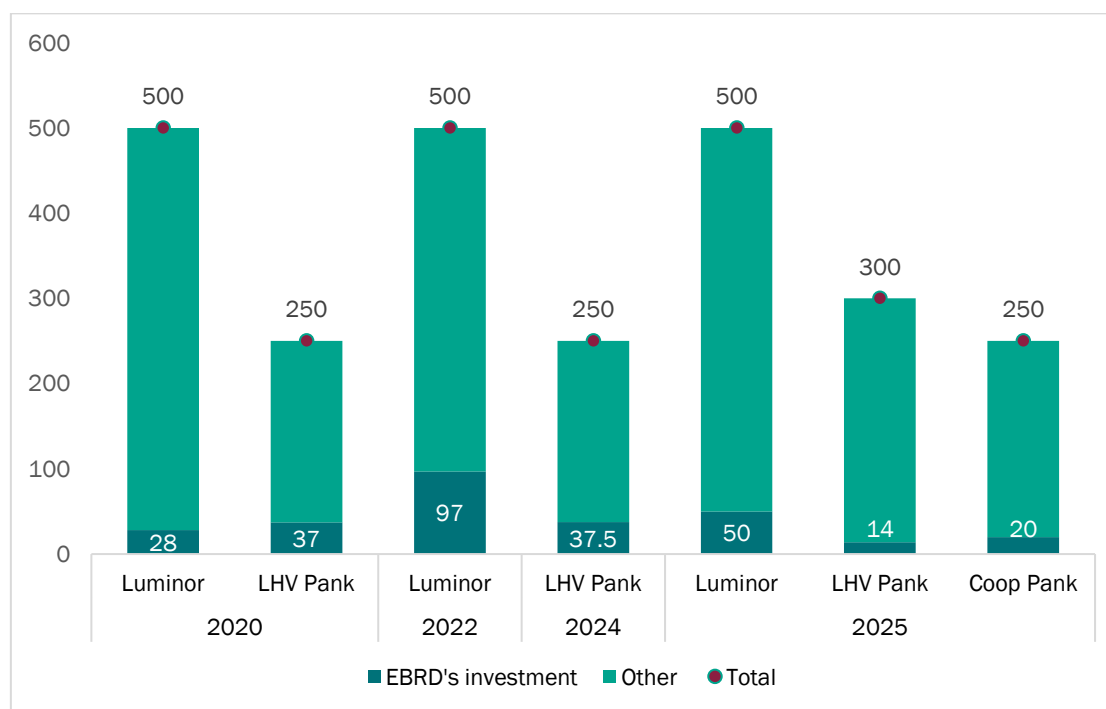
<sup>55</sup> ILTE, 2016. EBRD and INVEGA join forces for risk capital funds in Lithuania. Available at: <https://ilte.lt/en/news/108/ebrd-and-invega-join-forces-for-risk-capital-funds-in-lithuania:1018>

initiative has had a profound and lasting impact. It subsequently resulted in ILTE's investments in several local PE and VC funds, with the agency now being a significant LP in the region. Finally, related to capacity building, EBRD equity funds team, in collaboration with local PE & VC associations, played a leading role in designing and organising a series of bespoke capacity building training programs in Baltics<sup>56</sup>, including for the local fund managers, national development institutions, and institutional investors, over 2015-17.

### The EBRD contributed to systemic change in the financial sector through a combination of policy dialogue and investments in covered bonds and securitisation instruments<sup>57</sup>

116. The Bank played a catalytic and coordinating role in introducing and rolling out some new products to the region e.g. covered bonds and securitisation (the latter covered in the insight above). Its support began in 2017 following the signing of the Pan-Baltic MoU on Regional Capital Market, and included policy engagement and capacity building activities enabled by TC projects funded by SSF and SRSS<sup>58</sup>. Together with the European Commission and national authorities, EBRD established the steering committee among the three governments, provided expertise to review national financial legislation, proposed amendments, and supported the design of aligned covered bond laws across all three countries. At the time Estonia was most advanced in the legislative development process and EBRD capitalised on this. The outcome of this work was approval of the Covered Bonds legislation in Estonia in 2019, in Latvia in 2021, and in Lithuania in 2022. The three laws are not identical, which according to some stakeholders in countries is a limiting factor for investors' confidence in regional products. However other opinions and issuance data suggests that the investors found confidence in this new instrument.

Figure 8: Covered bond issuances in the Baltics and EBRD's contribution, 2020-2025, € million



<sup>56</sup> Some trainings brought together global experts including Tim Jenkins (Oxford University), Jonathan Blake (investor), Humphrey Battcock (investor), generated substantial interest among local fund managers and institutional investors

<sup>57</sup> This text is derived from the IEVD's evaluation of the Advanced Transition Economies (2026, forthcoming)

<sup>58</sup> Both a Lithuania-specific TC 6546 and the overarching SRSS - Local Currency and Capital Markets Initiative TC FW (8347), which is a group of TC projects across countries all supported by the EU SRSS.

Source: EBRD project documents

**117. Alongside policy work EBRD acted as an anchor investor in inaugural transactions under the framework.** It directly supported first issuances to validate the framework and added value by building investor confidence in the viability of the instrument. In 2020-2024 there were 11 covered bond issuances in Baltic countries (Figure 8), for seven of which EBRD played the role of an anchor investor. The total volume of issuances for these 7 bonds by Luminor, LHV Pank and Coop Pank was at €2.55 billion with EBRD's investments reaching € 283 million. Only two of Luminor issuances were against Pan-Baltic cover pool, while others were Estonia pool only. Due to oversubscription EBRD's contributions were scaled back but played important signalling role.

**118. Other EBRD's operations in the FI sector focused on investments in MREL and bail-in-able products.** EBRD invested in locally owned banks in Estonia, Latvia and Lithuania, supporting their compliance with the regulatory requirements. Recent IEvD's evaluation of the MREL and bail-in-products concluded that their contribution to the market systemic change is limited, and effects are observable at the client level only, supporting them in achieving new regulatory requirements.<sup>59</sup> One aspect that does advance Bank's transition mandate in this segment is that along with the Resilience quality most MREL and bail-in-able investments also had Green transition quality. Their alignment with EBRD's GET finance principles means that local banks can issue higher volumes of green lending to final beneficiaries, which is one of the Bank's strategic goals in three Baltic countries.

### EBRD's bond market engagement in the Energy sector addressed the investable securities gap and supported international investor introduction

**119. EBRD's participation in energy-sector bond issuances expanded the supply of investable securities in Baltic capital markets, primarily at the level of primary issuance.** Through anchor investments in green and sustainability-linked bonds issued by state utilities, EBRD contributed to increasing the volume and visibility of energy-related fixed-income instruments listed on Nasdaq Baltic exchanges. These transactions responded to a recognised shortage of large, creditworthy corporate issuers in domestic bond markets.

**120. EBRD support was most effective in early and first-of-a-kind transactions, where execution risk and investor unfamiliarity were highest.** Issuer evidence indicates that EBRD's early commitments helped de-risk inaugural green bond programmes and facilitated placement with international institutional investors, particularly in Lithuania and Latvia. This role was most pronounced before 2022, when labelled energy instruments were still relatively novel in Baltic markets.

**121. Bond market results were concentrated on market access and investor signalling rather than on secondary-market development.** While EBRD-supported bonds broadened the range of locally listed energy securities available to domestic pension funds and insurers, secondary market liquidity remained limited. Trading activity was generally low, with bonds predominantly held to maturity, indicating that capital-market results were achieved mainly through issuance capacity rather than market depth.

**122. The catalytic effect of EBRD's bond market engagement diminished as issuers demonstrated independent access to capital markets.** In the most recent years, several state utilities successfully placed large, oversubscribed green and hybrid bonds without EBRD participation. This suggests EBRD's contribution to attracting international institutional investors,

<sup>59</sup> IEvD (2024) Forging Resilience: An Evaluation of the transition impact and additionality of the EBRD's MREL and Bail-in-able products (2016-2023)

particularly for first-of-a-kind labelled issuances, may represent the most concrete capital markets development outcome. The subsequent ability of issuers to access markets independently indicates this catalytic function has achieved its objective and may no longer represent ongoing additionality.

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## **IPO participations in Energy sector supported landmark privatisations that expanded Baltic equity markets, though subsequent renationalisation illustrates sustainability challenges**

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**123. EBRD's anchor participation in energy-sector IPOs supported landmark listings that expanded Baltic equity markets.** The Ignitis (2020) and Enefit Green (2021) IPOs represented the largest equity offerings in the region and materially increased the investable universe of Baltic equities, particularly in the energy and green transition segments. EBRD's involvement provided execution confidence at a critical stage, supported index inclusion, and helped attract international institutional investors to markets characterised by limited depth and few large issuers.

**124. The IPO transactions delivered visible equity market results but with limited structural resilience.** Both offerings resulted in lower-than-initially envisaged free floats, constraining secondary market liquidity and leaving ownership structures relatively concentrated. While the listings enhanced the visibility of the energy sector and broadened investment opportunities, they did not fundamentally alter the small scale, shallow liquidity, or vulnerability of Baltic equity markets to issuer-specific or policy-driven shocks.

**125. The renationalisation and delisting of Enefit Green reversed the capital markets development outcomes.** The Enefit Green renationalisation in 2025, driven by the commercial rationale of integrating renewable generation with retail supply to compete more effectively with fully integrated regional utilities, demonstrates the potential reversibility of capital-market transition outcomes dependent on sustained government commitment to partial privatisation. While the delisting reflected operational imperatives in a more volatile and competitive energy market, the opportunity costs for local equity market development, including the loss of a major listed renewable issuer, remain substantial.

**126. Governance improvements achieved through IPO preparation represent the most durable capital market result of energy sector listings.** Pre-IPO engagement led to strengthened corporate governance frameworks, including enhanced board independence, formal committee structures, and improved disclosure and oversight practices aligned with international investor expectations. Evidence indicates that these governance standards were to some extent retained even after Enefit Green's renationalisation, suggesting that institutional and governance improvements proved more durable than market-structure outcomes linked to continued public listing.

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## **Long-term engagement with Lithuania's ILTE and more recent operation with Artea Bank have paved the way for tangible and sustainable results in the decarbonisation of the built environment**

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**127. EBRD supported pioneering investment in secure notes of Lithuania's National Development Institution Bank ILTE through multi-year engagement.** ILTE issued first publicly rated AAA green bonds in December 2025 at NASDAQ Vilnius and raised €112 million, including €31 million from private investors. It is first true sale assets-backed securitisation structure that enables a significant scaling-up of financing of decarbonisation of buildings, specifically MABs, which will lead to significant energy savings and reduction of GHG emissions. This is critical

contribution as Lithuania demonstrated the lowest level of reduction of GHG emissions from energy use in buildings among all EU countries in the period 2005-2023, below 5% compared to 31% average in EU-27.<sup>60</sup>

**128. The ILTE's path towards a publicly listed green bond was charted over two strategic periods.** This was achieved through lending operations with condition for developing a national legal and regulatory base, strengthening the institution's corporate governance standards, intensive policy dialogue, and capacity development to ringfence a solid pool of assets as the basis for securitisation. The client gradually advanced its capabilities to manage financial instruments, moving from largely grant-based funding to loans, and then to secure notes on a fully asset-based securitisation through a special purpose vehicle (SPV).

**129. This issuance is fundamental for the capital market of Lithuania and the Baltic regional capital market.** It deepens an otherwise shallow market, demonstrates the attractiveness of financial products to private institutional investors, and signals the growing maturity of ILTE and the potential for further issuances. The green bond issue through an SPV has strong potential for demonstration effects and replication in other countries with developed legal and regulatory environments and well-functioning institutions.

**130. More recently, the EBRD engaged with another major investor in the deep renovation of MABs.** In 2024, the EBRD provided a subordinated loan to the investment platform managed by Artea Bank as part of the Vilnius Green Cities Programme. Together, Artea and ILTE are custodians of Lithuania's entire MABs modernisation loans programme, with market shares of two-thirds and one-third, respectively. The EBRD's investment in the Artea Fund, alongside the EIB and NIB, facilitated the participation of private sector investors, enhancing client's capacity to significantly expand the scale of its MABs modernisation programme.

**131. By supporting two key players, the Bank has a greater opportunity to contribute to systemic change across the entire MABs sector of Lithuania, which is responsible for a significant share of energy use and GHG emissions.** However, at the time of evaluation, it was too early to validate the ex-post green outcomes of these operations.

**132. Both Estonia and Latvia have national development institutions that manage similar asset classes and face the challenge of scaling up financial volumes to achieve decarbonisation and energy efficiency targets on schedule.** There is potential to apply the Lithuanian experience in the other two countries and to expand the use of securitisation instruments to attract private investors into sectors otherwise dominated by public companies.

<sup>60</sup> European Environmental Agency, more information is provided in Annex 7

## 4. Insights and Recommendations

### 4.1. Key insights

**133. While activities in Estonia, Latvia and Lithuania in the period of 2016-2020 were limited, EBRD's largely opportunity-led approach yielded increase in scale and additionality of operations since 2022.** Additionality constraints in these Advanced Transition Economies were strong before pandemic and war on Ukraine. However, dramatically changed geopolitical context underscores essential counter-cyclical nature of EBRD's operations. It also highlights importance of EBRD's institutional capabilities to be present on the ground and to stay engaged in the long-term to deliver institutional and regulatory changes and to contribute to investment climate while geopolitical risks remain high and security concerns are augmented.

**134. Evidence of systemic change is strongest where EBRD interventions altered regulations, standards or market structures, rather than individual transactions.** Across sectors, the clearest signals of systemic influence emerged where EBRD engagement contributed to changes in frameworks, market infrastructure or institutional practices that responded to real market demand and proved resilient over time. Examples include capital market standardisation, governance frameworks embedded through IPO preparation, and securitisation and covered bond regimes where enabling conditions were created. By contrast, where portfolios are recent or heavily transaction-focused, evidence of systemic change remains necessarily limited, reflecting both time lags and the early stage of market absorption rather than lack of relevance.

**135. The EBRD demonstrated a distinctive comparative advantage in regional policy dialogue in the Baltic countries, which led to enhanced integration; however, this has yet to be translated into a material increase in market scale and depth.** The evaluation found that EBRD's ability to convene, coordinate and sustain Pan-Baltic policy dialogue is a core strength, particularly in capital markets where regional integration is a precondition for overcoming small market size and liquidity challenges. Initiatives based on standardisation and joint frameworks, such as MSCI Baltic Index or regime for covered bonds, demonstrate the Bank's capacity to influence beyond the national level. However, results to date are mixed: in-country implementation has sometimes been protracted, and the translation of regional frameworks into materially deeper, more liquid markets depends on factors beyond EBRD's control. These include the geopolitical environment, sustained national commitment to capital market reforms, the scale of further SOE privatisations, and listing decisions by successful Baltic start-ups.

**136. The sustainability of results is exposed to political economy dynamics and market depth constraints, with reversals remaining a material risk.** Several findings point to the vulnerability of transition outcomes in small, shallow markets to shifts in political priorities and commercial strategies. The renationalisation of Enefit Green illustrates how capital-market gains linked to partial privatisation can be reversed when strategic, commercial or political considerations change. More broadly, limited liquidity and narrow investor bases constrain the durability and scalability of market-based solutions, even where initial reforms or first-of-kind transactions are successful. These vulnerabilities are compounded by adverse policy decisions, such as changes to pension systems that reduced the pool of long-term domestic institutional capital, which have weakened capital market development and investor confidence. This underscores that sustaining results in the Baltics requires not only sound frameworks, but also sufficient market depth, strong institutions, and long-term policy consistency.

**137. In small markets corporate failures can have market wide effects, elevating the importance of governance and credibility building mechanisms.** Instances of corporate malpractice or governance failure can disproportionately undermine investor confidence and

damage entire segments of the market. Recovery requires strengthened regulatory enforcement, visible corrective action and the presence of credible anchor investors to help restore trust. In this context, preventive mechanisms that ensure high standards of economic governance and transparency in public and private sector are essential. EBRD's ability to contribute to these safeguards through standards-setting, governance engagement and signalling credibility represents an important channel of systemic influence in small markets.

**138. In Advanced Transition Economies of Baltic region, EBRD's contribution is less about closing financing gaps and more about shaping how markets function.** The evaluation found that in Estonia, Latvia and Lithuania, EBRD's role increasingly lies in influencing market behaviour, standards and co-ordination rather than in providing large volumes of capital. Financial additionality has been most pronounced during periods of stress, while non-financial additionality, through structuring, credibility and governance, has been more persistent. This suggests that traditional metrics of scale or volume are less informative indicators of success in advanced markets. Instead, EBRD's effectiveness should be assessed by its ability to catalyse, de-risk and institutionalise changes that enable markets to function more effectively and to support replicable and scalable outcomes. Although capturing these outcomes is challenging when the toolkit for developing and delivering transition narrative is limited and does not offer adequate set of benchmarks.

**139. Augmented geopolitical and geoeconomic risks in the Baltic region create new opportunities for the Bank to be additional in the future, both financially and through its unique market expertise.** Estonia, Latvia and Lithuania are facing new challenges related to greater needs to enhance security and resilience of the economy. It requires additional public spending and reorientation of the economy towards building defence capabilities. At the same time critical infrastructure, energy, innovative solutions for the industry and services require increasing volumes of private financing. EBRD along with other IFIs can offer opportunities for mobilising private capital through new financial structures and products that can absorb greater risks.

## 4.2. Recommendations

140. IEVD's recommendations are directed towards new Country Strategies for Estonia, Latvia and Lithuania and operationalisation tools used by the banking and policy teams to implement identified strategic priorities and actions. They are forward-looking and are focused on maximising the systemic change of Bank's operations, which was the primary purpose of this evaluation.

### Strategic recommendations

**Recommendation 1: In the next strategic period the Bank should capitalise on its capabilities as a trusted adviser and convenor of the three Baltic governments in the area of Regional Capital Markets, and leverage these strengths in areas where a regional approach is warranted and highly additional, for example in the clearly defined subsectors of Sustainable Infrastructure and Energy**

| Issue   | Recommendation   |
|---|--|
| <ul style="list-style-type: none"> <li>EBRD has successfully maintained its position as key trusted adviser and broker in the Capital Markets, strengthening existing policy and regulatory frameworks. Although some initiatives are yet to materialise in positive market effects (i.e. regional MSCI index), others have led to</li> </ul> | <p>To achieve a greater regional integration and synergies in the foundational sectors that are driving growth and are critical for resilience of the economies of Estonia, Latvia and Lithuania, the Bank should continue in its role</p> |

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| <p>notable advancements in the market infrastructure and increased volumes of certain instruments.</p> <ul style="list-style-type: none"> <li>• National energy strategies are perceived as challenging to implement in their current form, while policy and political decisions do not always reflect the reality on the ground and wider geoeconomic and geostrategic context. Greater cross-government coordination and clearer signalling were identified as prerequisites for mobilising private capital at scale.</li> <li>• Future action can focus on potential of replicating EBRD's positive experience of Pan-Baltic action in the sectors and projects in Sustainable Infrastructure and Energy that have regional significance. Supporting three governments in building similar level of commitment to co-ordination and joint action, and aligning institutional and governance standards.</li> </ul> | <p>of the trusted adviser and convenor of the national stakeholders.</p> <p>The EBRD should remain engaged in the crucial Regional Capital Market initiatives during their implementation stage.</p> <p>The Bank should consider applying a similar regional approach in selected sectors of Sustainable Infrastructure and Energy that would benefit from a synergetic regional approach. It can bring together decision-makers from Estonia, Latvia, and Lithuania to address policy, legal, regulatory and economic governance issues that are essential for mobilising investments – including private capital – for regionally significant projects, such as Rail Baltica. Regional approach should be additional to clearly defined country-specific priorities and actions.</p> |
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**Recommendation 2: Include an explicit strategic additionality framing that clearly defines Bank's expected role over the next strategic period**

| Issue   | Recommendation   |
|---|--|
| <ul style="list-style-type: none"> <li>• Financial additionality in advanced markets is dynamic and expands during crises and more challenging geopolitical and geoeconomic context.</li> <li>• The regional case study of Energy Sector and Lithuania's case study of Municipal Infrastructure and Transport show additionality declining pre-2022 as markets matured, and then re-emerging after 2022 as financing conditions tightened and risk perceptions shifted.</li> <li>• This pattern suggests that EBRD's value proposition in the Baltics is increasingly counter-cyclical and risk-specific.</li> <li>• This highlights the importance of viewing additionality at market level and over time, distinguishing between periods when markets are deepening and additionality diminishes and periods when risk appetite tightens.</li> <li>• This raises strategic questions for the next Country Strategy period regarding whether the post-2023 elevated levels of Bank ABI are expected to persist,</li> </ul> | <p>While performing strategic additionality assessment in the in the context of the preparation of the next Country Strategies for Estonia, Latvia and Lithuania, the Bank should combine transition-constraint diagnostics with a market-level additionality perspective over time. It should clarify:</p> <ol style="list-style-type: none"> <li>Where EBRD remains additional as markets deepen, most typically in innovation activities, market-building and investing in higher-risk niches;</li> <li>Where the EBRD may continue to play a counter-cyclical role in periods of tightened risk appetite and/ or liquidity.</li> </ol> |

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| normalise, or fluctuate depending on evolving market and risk conditions |  |
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## Operational recommendations

**Recommendation 3: When defining its country strategic priorities for the next cycle the Bank should conduct a review of its risk appetite as part of future investments in Equity Funds targeting the Baltic region, including degree of its focus on first-time funds. In addition, it should also clarify its intentions and key actions to crowd-in international institutional investors. Both should factor in evolving gaps and the dynamic context in the region**

| Issue   | Recommendation   |
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| <ul style="list-style-type: none"> <li>Baltic countries have one of the largest concentrations of EBRD's investments in the equity funds: they account for more than a third of all corporate sector investments in 2016-2024.</li> <li>Over 2016-24, EBRD investments in the <i>first-time</i> funds focused on Baltic region were limited (3 out of 29), despite the strategic intent..</li> <li>Generally, attracting <i>international</i> institutional investors at scale has been instrumental in developing Baltics PE and VC ecosystems. For the EBRD specifically there has been little evidence of Bank crowding-in <i>international</i> institutional investors, despite the Bank's strategic intent.</li> </ul> | <p>The Bank should review its focus on <i>first-time</i> funds and how it intends to crowd-in <i>international</i> institutional limited partners (LPs) in the three Baltic countries, including based on a comprehensive diagnostic.</p> <p>This recommendation does not assert what choices may be optimal in the context of the Baltic region going forward. However, if these should remain key strategic orientations, like in the previous strategic periods, then the Bank should articulate its intentions transparently and define concrete and feasible actions that the Equity Funds team may consider. These should be clearly articulated in the upcoming Country Strategies.</p> |

**Recommendation 4: When considering further expansion of the Green Cities Programme in the Baltic countries or deepening existing engagement in Vilnius, the Bank should combine those with supporting governments of Lithuania, and, potentially, Estonia and Latvia in making legal changes that enable municipalities and their companies to raise funds on sub-sovereign debt market**

| Issue   | Recommendation   |
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| <ul style="list-style-type: none"> <li>EBRD launched first Green City (GC) in Vilnius in 2023 and currently it has 3 GCAP aligned investment projects. To further Bank's ambition for GC programmatic approach "to go deeper rather than wider" EBRD is working on leveraging the capabilities of GC Action Plan matrix for supporting member cities in issuing green or sustainability-linked bonds (SLB). <i>This in fact is in response to IEvD's earlier recommendation made in the framework of Interim Evaluation of the EBRD's Green Cities Programme (2023).</i></li> </ul> | <p>EBRD can leverage its strong position of trusted advisor to three Baltic governments in the Capital Markets and support them in planning potential scenarios of opening new investment opportunities for municipalities and their companies via issuing green and SL bonds. This will depend on the willingness and readiness of country stakeholders to reform fiscal rules that regulate responsible sub-national borrowing.</p> <p>This will require substantial build-up in expertise and capabilities, which are currently lacking. Launching this work in Baltic countries might potentially deliver strong</p> |

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| <p>Currently Lithuanian legislation does not allow city of Vilnius (or any other city) to issue bonds. Similar challenges exist in Estonia and Latvia, where the Bank has recently conducted a regional feasibility study of municipal green and SL bonds' issuance, along with several other CEE countries.</p> <p>EBRD has worked with partners to build fundamental legal and institutional infrastructure in sustainable green finance and capital markets. It can potentially support Baltic authorities in deepening capital markets through opening them for municipalities and their companies.</p> | <p>demonstration effect for other countries of operation.</p> |
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**POTENTIAL RISK FOR THE EBRD IF RECOMMENDATIONS ARE NOT IMPLEMENTED:**

**In advanced markets facing altered risk realities, the absence of a clear, strategy-driven response risks constraining the EBRD's ability to remain a distinctive and effective actor in the Baltics at a time when more selective, coordinated and resilient approaches to transition finance are required.**

If the evaluation's recommendations are not reflected in the next iteration of country strategies for Estonia, Latvia and Lithuania, the Bank risks responding to heightened risk conditions through fragmented or opportunity-led engagement rather than using counter cyclical moments to shape markets more sustainably. Without a stronger regional and across-the-cycle framing, EBRD may under-leverage its comparative advantages as a convenor, market-shaper and standards-setter, particularly in addressing structural constraints such as capital market fragmentation, shallow investor bases and misaligned policy incentives in energy and sustainable infrastructure. At the same time, if strategic ambitions are not aligned with realistic risk appetite, institutional incentives and implementation capacity the Bank risks recurring gaps between strategic intent and observable results, reinforcing perceptions among some stakeholders that EBRD's additionality in advanced transition economies is diminishing, and weakening its ability to mobilise private capital and sustain credibility in small and exposed markets.