STRATEGIC THEMES

The growing importance of policy dialogue in EBRD activities is reflected in our initiatives. These combine reform efforts, investments and technical cooperation to address themes of strategic significance for our countries of operations. Among these themes are the green economy, small firms, local currency and capital market development, growth in economies at an earlier stage of the transition process, and the promotion of gender equality.

Green Economy Transition

Through its Green Economy Transition (GET) approach, the EBRD helps countries contribute to the collective effort against global warming agreed at the 2015 UN climate conference in Paris.

Under the GET approach, rolled out in 2016, the EBRD aims to raise the level of environmental investment to 40 per cent of its total financing by 2020. This would correspond to a GET investment of €18 billion over the period 2016-20.

GET projects signed in 2016 accounted for €2.9 billion committed in 151 projects, representing 33 per cent of total Annual Bank Investment. These ventures should reduce CO_2 emissions by 5 million tonnes per year and create an energy saving of 29 million gigajoules or 694 kilotonnes of oil equivalent. Of this €2.9 billion, the EBRD invested €629 million in 34 resource-efficiency projects that should bring annual water savings of 29 million m^3.

The GET initiative recognises that environmental sustainability is a crucial feature of a well-functioning market economy. It builds on the EBRD's record of investing in projects that advance the sustainable use of energy, water and other resources. These range from the financing of wind, solar and hydropower generation to energy- and resource-efficiency improvements in the corporate sector.

Green transport and efficiency improvements in municipal infrastructure are also included. In 2016, the Bank launched a Green Cities Framework that combines strategic planning, technical assistance and donor support with EBRD finance to help cities identify and invest in priority environmental infrastructure.

The Bank signed 36 climate-resilience projects in 2016 worth a total of €1.16 billion, including €186 million of finance dedicated to climate-change adaptation. For instance, a climate-resilience financing facility in Tajikistan is helping small businesses – including farmers – and households counter the effects of climate change, such as soil erosion and increased water shortages. And a €65 million sovereign loan to help upgrade Bosnia and Herzegovina's flood-damaged road network marked the Bank's first climate resilience project in the road transport sector.

Also last year, the Bank expanded the scope of its climate finance activities in line with the GET approach, which emphasises the importance of innovation. The Finance and Technology Transfer Centre for Climate Change (FINTECC) programme supports firms implementing cutting-edge technologies that reduce greenhouse gas emissions or increase climate resilience. Among the projects to benefit from FINTECC grants in 2016 was a loan to the Glass Container Company, a Moldova-based producer of glass bottles that will invest in lightweight glass container production.

Geothermal projects in their initial stages typically face high investment costs, development risks and very limited access to project finance once drilling has confirmed the resource. In Turkey, a new US$ 125 million (€118 million equivalent) framework, supported by the Climate Investment Funds (CIF), will provide finance and advice to private developers to help minimise these risks.

Technical cooperation (TC), concessional co-financing and incentive grants underpinned the preparation and implementation of GET projects in 2016. Important projects are implemented with support from donor funds such as the CIF and the Global Environment Facility.

Between 2006 and the end of 2016, the EBRD invested €22 billion in projects supporting the sustainable use of energy and other resources, bringing estimated reductions in greenhouse gas emissions of around 85 million tonnes per year. The Bank has a sound accounting mechanism under which the financing and the outcomes of these projects are tracked and reported in line with the MDB climate-finance tracking methodology.

Building sustainable markets through intermediaries

The Bank's sustainable energy financing facilities (SEFFs) unleash the energy-saving potential of smaller projects and build expertise by extending credit lines to financial institutions for on-lending in support of green investments. Through SEFFs and the EBRD's direct sustainable-energy lending, companies of all sizes can pursue energy efficiency or small-scale renewable energy projects that boost profitability and increase competitiveness while also minimising their carbon footprint. Meanwhile, loans to the residential sector reduce energy consumption and utility bills.

During 2016, the Bank expanded the scope of two SEFFs in Turkey to include resource efficiency components. It also launched the Green Trade Facilitation Programme (Green TFP) marketing initiative to promote the use of trade finance for the export and import of environmentally friendly products and services. In 2016, the Bank financed 150 Green TFP transactions in 13 countries.

Policy dialogue

The EBRD engages in policy dialogue activities to help countries increase their levels of green financing. Examples in 2016 included an assessment of legal, regulatory and institutional barriers to investment in sustainable energy or resource projects in Jordan, Morocco and Tunisia.

At the international level, the EBRD participated in the UN climate conference in Marrakesh, Morocco. It also worked with other IFIs in Europe to summarise their experiences of climate resilience projects to help investors contemplating new ventures in this area.

Small Business Initiative

The Small Business Initiative (SBI) applies a streamlined, strategic approach to promote the conditions in which small and medium-sized enterprises (SMEs) can flourish, thereby enhancing the competitiveness and resilience of economies in the region in line with the Bank's revised concept of transition.

In collaboration with donors and external partners, the SBI focuses on five areas: financing through financial institutions; co-financing and risk-sharing with financial institutions; direct financing for SMEs; business advice; and policy dialogue.

Finance

In 2016, the EBRD extended €1.4 billion in direct and indirect finance to small firms in 180 projects, accounting for 15 per cent of Annual Bank Investment and 48 per cent of projects. It provided debt, equity and mezzanine finance as well as other forms of risk capital. Loans in local currency represented 28 per cent of debt transactions in the SME sector. There were seven signings with partner financial institutions under the Risk Sharing Facility, which reduces the risk taken by partner financial institutions in providing funding for, or guaranteeing, a portion of their loans to local enterprises.

A new US$ 500 million (€473 million equivalent) SME Local Currency Programme, available for 21 countries, combines EBRD capital, donor resources and policy dialogue. It provides financial institutions and SMEs with access to affordable funding in local currency, while also supporting reforms for capital market development. The Bank signed 24 local currency operations in 2016 for the equivalent of €42 million under the Programme, which expands an earlier initiative that was limited to the ETCs.

Advice

The EBRD provides advice for SMEs through local consultants and international advisers on numerous topics, including business strategy, export promotion, financial management and reporting, marketing, brand development and quality management. In 2016, the Bank carried out over 2,200 projects connecting small and medium-sized firms to local consultants, and 177 projects linking medium-sized companies with international advisers. From 2014 to 2016, 74 per cent of businesses surveyed saw increased turnover in the year following their engagement with EBRD advisory projects. Furthermore, 51 per cent expanded their business, 25 per cent accessed external finance, for a total of €1.12 million, and 24,512 jobs were created.

In order to develop local consultancy markets in the 26 countries where it provides advisory services, the EBRD organises training for local experts, conferences, workshops and other activities. In total, the Bank ran 60 courses for over 750 consultants in 2016. A conference on competitive consulting, held in Tbilisi, Georgia, was one of the key events of the year.

Championing small business in Egypt

In order to bolster the private equity industry in Egypt, the Bank invested US$ 20 million (€18.9 million equivalent) in the Ezdehar Egypt Mid-Cap Fund. The Fund focuses on investment in Egyptian SMEs in various sectors, including education, food and beverages, health care, manufacturing and retail. It seeks to support companies in realising ambitious growth plans.

The Fund achieved a first closure with commitments of US$ 85 million (equivalent to €80.5 million). The EBRD's co-investors included the European Investment Bank, the Dutch development bank FMO, and CDC, the development finance institution of the UK, as well as Egyptian investors.

The Bank also held 32 sector-specific workshops across the EBRD region that brought together industry experts and entrepreneurs from the agribusiness, automotive, consumer goods, health, ICT and pharmaceutical sectors. These helped local firms access technical expertise and meet potential investors, including the EBRD.

Integrated products

The EBRD offers products that blend finance with business advisory support, investment incentives and training for small firms, as well as risk-sharing elements and technical assistance for partner financial institutions. Examples of this integrated approach include the Women in Business programmes (see page 11); a programme of common activities with the EU in Georgia, Moldova and Ukraine (see case study on page 46); and the SME Finance Facility for Central Asia funded by the EU's Investment Facility for Central Asia.

In addition, during 2016 the Bank launched Trade Ready, which blends trade finance available under the Bank's Trade Facilitation Programme with trade-related advisory services for SMEs, training courses for local banks and policy dialogue that seeks to improve the institutional and regulatory environment for trade finance.

Integrated products that support SMEs are an important part of the EBRD's refugee crisis response in Jordan and Turkey (see "Refugee crisis response" on page 11). The EBRD also launched a Blue Ribbon network that offers finance and advisory services for selected enterprises with high growth potential over five years. Last year, four companies in the Western Balkans joined the programme, which will be extended in 2017.

Policy dialogue

The Bank provided support for legal and regulatory reforms that seek to improve access to finance for SMEs. Examples included work on reforms linked to factoring and leasing in Mongolia, Montenegro and Tunisia and on SME-specific capital market instruments in Croatia. The Bank also contributed to the SME Policy Index for the Western Balkans and Turkey, which it developed with the OECD, the EU and others to identify obstacles to small business development in the policy frameworks of those regions.

Working with donors

The Small Business Impact Fund (SBIF) brings together donor financing in support of SMEs. In 2016, its first year of operation, the Fund raised €10.2 million. It funded programmes including a small business guarantee scheme in Ukraine; an integrated finance and advisory support initiative in the Kyrgyz Republic and Tajikistan; and support for the EBRD's Risk Sharing Facility.

All advisory projects operate on a cost-sharing basis and are possible thanks to the continued support and engagement of a wide spectrum of donors, including the EU, more than 20 bilateral donors and other organisations. During 2016 the Bank raised €57 million in new financial commitments from donors for advisory projects and through the SBIF. The EU was the largest donor, with significant contributions also provided by the ERBD Shareholder Special Fund (SSF), Switzerland, the United States of America, Italy, Taipei China, the Republic of Korea and Shell Kazakhstan. Moreover, donors contributed to the Bank's SME activities through financial institutions (see page 16) and the Early Transition Countries Initiative (see page 36).

Local currency and capital markets

The Local Currency and Capital Markets (LC2) Development Initiative aims to boost resilience in the region by establishing viable local currency financing and contributing to the development of efficient and self-sustaining local capital markets. It also contributes to: the integration of markets, by promoting cross border investment and trade; competitiveness, by promoting alternative sources of financing; and good governance, through higher standards of reporting and governance for publicly listed companies and instruments.

The Initiative combines policy dialogue, investments, transaction support and advice, and technical assistance. It offers local currency loans, and issues and invests in local currency bonds, including in domestic markets. Furthermore, the Initiative supports knowledge-building and sharing through seminars and other outreach activities that develop institutional capacity.

The Bank has been an active lender in local currency markets in a number of countries since 1994. In 2016, it signed the equivalent of almost €1.6 billion in 93 local currency loan and bond projects – 29 per cent of the total number of debt projects by the EBRD in that period.

The EBRD also issues its own local-currency-denominated bonds, or bonds linked to local currency, on the international and domestic markets. During 2016, the Bank issued the equivalent of €509 million denominated in or linked to eight local currencies. These 26 projects included the first Georgian lari bond to be listed on the Georgian Stock Exchange; the first Eurobond in Kazakh tenge to be linked to the local consumer price index; and the first issue of a supranational bond in Serbian dinars listed on the Belgrade Stock Exchange. All three focused on domestic investors, thereby contributing to local capital market development.

Last year the Bank also continued to diversify its hedging as well as its funding base, including through swaps with new counterparties in Croatian kuna, Mongolian tugrik, Moroccan dirham and Tunisian dinars. The Bank's proactive hedging activities and borrowing in local currency have enabled the EBRD to offer more flexible and attractive loan features to borrowers in the 25 local currencies in which it has made loans for a total value of €10.8 billion since 1994.

The aforementioned SME Local Currency Programme encourages local currency intermediation and capital market development in the 21 countries where it is available. As of end-2016, Armenia, Georgia, the Kyrgyz Republic, Moldova, Mongolia, Tajikistan, Tunisia and Ukraine had signed Memoranda of Understanding with the Bank, allowing them to benefit from the Programme.

The EBRD invests in debt capital-market instruments as well as equity. These transactions promote higher standards of corporate governance while also fostering capital market development and alternative sources of financing. In 2016, the Bank invested in 16 bond issues. Of these transactions, nine were in local currency. A notable deal in this area was the purchase of Turkish floating-rate, lira-denominated bonds issued by construction and infrastructure company Rönesans Holding.

With EBRD technical assistance, new covered-bond laws came into effect in Poland and Romania. These will facilitate the growth of the covered bond markets and open new sources of financing to banks and local governments. The EBRD was also active in policy dialogue that resulted in municipal bonds being accepted as collateral for repurchase order operations with the Central Bank of Romania. With Bank support, Armenia passed a package of laws regulating the financial markets and amendments to the law on the securities market to provide validity and enforceability in derivatives transactions.

A major outcome of the Initiative's policy dialogue work and technical assistance in 2016 was the launch of an order-routing trading platform, SEE Link, which facilitates cross-border trading between stock exchanges in south-eastern Europe (SEE). The platform links domestic stock markets in Bulgaria, Croatia, FYR Macedonia, Serbia and Slovenia that have a combined equity market capitalisation of US$ 38.5 billion (€36.5 billion equivalent) and over 500 securities eligible for trading.

Local currency and capital market development in Armenia

The LC2 Initiative enjoyed a remarkably successful year in Armenia during 2016. A reform project initiated in January contributed to the adoption of new derivatives legislation in October. The Bank renewed a Memorandum of Understanding with the government that signals Armenia's commitment to engage in reforms supporting the use of local currency and the development of domestic capital markets. The signing allows Armenia to benefit from the EBRD SME Local Currency Programme, which seeks to mitigate the exposure of small businesses to exchange rate movements.

Moreover, the EBRD and the Central Bank of Armenia organised a seminar in the capital Yerevan on strengthening the local capital market and increasing local currency lending. The event drew more than 100 participants, including regulators and market representatives.

Ongoing efforts in 2017 will include TC assistance for the development of a local repurchase order agreement, which will increase interbank and money market activities in Armenia. This project is funded by a €55,000 contribution from Japan, part of the €2.35 million it allocated in 2016 for TC projects under the SME Local Currency Programme for the LC2 Initiative in the ETCs.

Early transition countries

The Early Transition Countries (ETC) Initiative works to improve the economies and living standards of EBRD countries of operations that still face the most significant transition challenges, by strengthening private sector and SME development and municipal and environmental infrastructure. The Initiative covers Armenia, Azerbaijan, Belarus, Georgia, Kyrgyz Republic, Moldova, Mongolia, Tajikistan and Turkmenistan – all of which are recipients of Official Development Assistance (ODA).

The annual percentage of financed projects in the ETCs has increased from 8 per cent of the EBRD's total in 2003, the year before the Initiative was launched, to 30 per cent on average in 2014-16. The region's share of Annual Bank Investment has risen from less than 3 per cent to 10 per cent over the same period.

2016 saw the EBRD sign 114 projects and invest €902 million in the ETCs. Over 60 per cent of these activities supported locally owned firms – including micro, small and medium-sized enterprises (MSMEs) – in keeping with the priorities of the Initiative. Although Bank investments in the ETCs are generally smaller than in other parts of the EBRD region, they continue to be more significant as a share of GDP.

The financial sector accounted for 38 per cent of projects in the ETCs. Other significant areas of business included agribusiness, manufacturing and services, municipal and environmental infrastructure and power and energy. Meanwhile, the EBRD provided €143 million in Trade Facilitation Programme financing in the ETCs.[1]

This financing activity has been complemented by strong partnerships and commitments from the donor community since the start of the Initiative. The multi-donor Early Transition Countries Fund (whose contributors include Finland, Germany, Japan, Korea, Luxembourg, the Netherlands, Norway, Spain, Sweden, Switzerland, Taipei China and the United Kingdom), the EBRD SSF, the EU and bilateral donors have given a total of almost €100 million in grants to support the ETCs.

The EU has developed mechanisms – such as the Investment Facility for Central Asia, the Neighbourhood Investment Facility and the Asia Investment Facility – that mobilise additional funding to cover development and investment needs in infrastructure, energy, environmental projects, financial institutions and SME support and financing. These facilities cover most of the ETCs.

In the municipal and environmental infrastructure sector, thanks to projects of the Bank and donors, 2.3 million people in the region now have access to better solid-waste services, over 430,000 benefit from improved access to tap water, over 500,000 enjoy better wastewater facilities and more than 59 million a year benefit from upgraded public transport.

The SME Local Currency Programme, mentioned above, is an expansion of the ETC Local Currency Programme that was launched in 2011 and it benefits the following ETCs: Armenia, Georgia, the Kyrgyz Republic, Moldova, Mongolia and Tajikistan. The Programme addresses the over-reliance of these economies on foreign exchange financing, which the lack of conventional sources of local currency funding exacerbates. Support has come from donors – the ETC Fund, Japan, the US Treasury, the Swiss State Secretariat for Economic Affairs (SECO) and the EBRD SSF – which have allocated more than US$ 50 million (€47.4 million equivalent) of risk-sharing funds to the Programme.

A cumulative US$ 385.4 million (€365 million equivalent) of local currency loans have been financed by the Programme in the ETCs since 2011. Partner banks and microfinance institutions have on-lent these funds to more than 400,000 MSMEs. Most beneficiaries have been in the Kyrgyz Republic and Tajikistan. In 2016, the Programme enabled the EBRD to finance 23 new local currency projects in the region for a total of approximately US$ 41 million (€38.7 million equivalent).

In addition, the Bank and donors continue to support investment councils in Armenia, Georgia, the Kyrgyz Republic, Moldova and Tajikistan, another initiative that has now been extended to other EBRD countries of operations. Chaired by the president or prime minister of each country, these councils foster dialogue between the public and private sectors to improve the business environment and investment climate through changes to legislation and regulation.

[1] See footnote 1 on page 2.

Gender equality

Increasing women's economic empowerment and equality of opportunity is a core element of EBRD efforts to make the countries and clients it supports more inclusive. Economies thrive when women and men participate equally in the workplace and enjoy the same freedom to use financial and other services. Fostering gender equality contributes to sound and sustainable businesses and is critical to the advancement of transition, as recognised by the Strategy for the Promotion of Gender Equality 2016-2020 and the Bank's revised concept of transition.

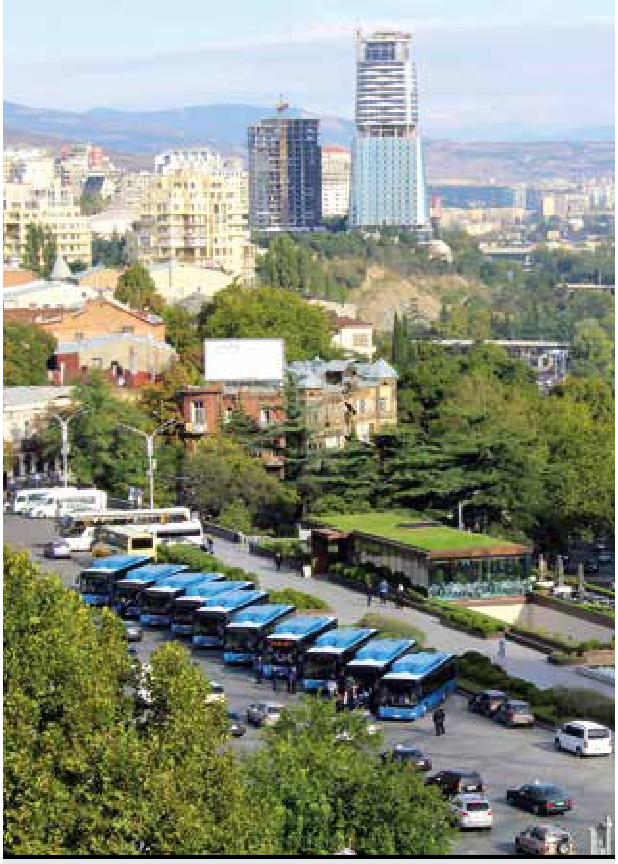
The Strategy focuses on three areas: access to finance, access to employment and skills, and access to services. Through its Women in Business programmes, the EBRD addresses structural barriers to economic empowerment by making it easier for women entrepreneurs to obtain financing and know-how. Equal-opportunity programmes and other tailored interventions aid EBRD clients to unleash the full potential of the women they employ and to enhance recruitment processes. These corporate commitments boost business performance, improve customer focus and raise the quality of decision-making. Bank investments in infrastructure help to ensure that transport and municipal services are accessible and safe for all users.

In 2016, the first year of implementation of the Strategy, the EBRD signed 29 investments with a gender focus or component, including credit lines under the Women in Business programmes in Armenia, Belarus, Egypt, FYR Macedonia, Georgia, Kosovo, Kazakhstan (see case study on page 11) and Turkey.

The Bank financed projects with a significant gender component in the natural resources and power and energy sectors, which are traditionally male-dominated and constitute strategic areas of focus for EBRD work on gender equality. Ventures with Canadian mining company Centerra Gold will support efforts to offer greater opportunities to women employees and women-led suppliers at its gold mine in Turkey. They will also enhance equal opportunities at the firm's operations in the Kyrgyz Republic and Mongolia. Meanwhile, a loan to Kazakhstan's national energy company Samruk-Energy will boost its plans to provide more employment and, critically, career growth opportunities for women.

In the municipal and environmental infrastructure sector, a €27 million sovereign loan to Georgia to upgrade the bus fleet in the capital, Tbilisi, will also help the city's bus company increase the number of women it employs (see case study).

The EBRD uses TC projects to support the due diligence, implementation and monitoring of many of its gender projects. These are typically funded through the EBRD's Gender Advisory Services Programme, which benefits from the support of the Bank's SEMED Multi-Donor Account, the EBRD SSF and the TaiwanBusiness-EBRD Technical Cooperation Fund. In 2016, both the SSF and Japan further replenished this Programme. (For more on TC-funded activities, see "Donor partnerships" on page 44). A €500,000 gender programme, funded by the SSF, was approved as part of the Bank's overall response to the refugee



Greener, more inclusive public transport in Georgia

The EBRD is helping to bring modern buses to the fast-growing Georgian capital, Tbilisi, as part of the Bank's Green Cities Framework. Up to 140 new vehicles financed by the EBRD will feature lower floors, making public transport easier for passengers with limited movement, including elderly and disabled people. The buses will run on compressed natural gas, which generates much lower levels of particulate emissions than other fuels. This will help to improve air quality in the city of 1.2 million people.

As part of the project, the bus company will introduce an equal opportunities programme and seek to increase the number of women it employs in technical positions such as that of bus driver. In addition to the €27 million sovereign loan, the EBRD is providing €1.5 million in TC funds to assist Tbilisi in developing a plan to address its environmental priorities.

The Bank loan is supported by a capital grant of up to €7 million from the Eastern Europe Energy Efficiency and Environment Partnership, a multi-donor fund managed by the EBRD.

Boosting tyre production in Turkey

The Brisa tyre company is a joint venture between Turkish conglomerate Hacı Ömer Sabancı Holding and Japan's Bridgestone Corporation, the largest tyre producer in the world. An EBRD loan of US$ 150 million (€142 million equivalent) will support the construction of a new plant in central Turkey that will serve as Brisa's strategic hub and boost the local economy. It will also finance the expansion of production at Brisa's factory in north-western Turkey.

As part of the loan, Brisa and the EBRD will develop technical and vocational training programmes that will provide young people with skills that are currently in demand.

crisis, to ensure that investments in this area address the needs of women and men.

Policy dialogue activities included work with the Kyrgyz government on removing legal barriers to women's participation in the workforce. In the international sphere, the Bank chairs the MDB working group on gender and in this capacity contributed to the Expert Panel at a meeting of the UN Commission on the Status of Women in 2016.

Economic inclusion

An inclusive economy ensures that anyone – regardless of their gender, place of birth, socio-economic environment, age or other circumstances – can access labour markets, entrepreneurship and, more generally, economic opportunities.

EBRD investments seek to promote the economic inclusion of women, young adults and people living in economically less-developed regions through direct engagement with the private sector and associated policy dialogue. Since 2013, economic inclusion has been fully integrated into the EBRD's assessment of transition impact. Inclusion impact is therefore one of the factors that the Bank takes into account in the design and selection of projects and related policy dialogue.

In 2016, the Bank signed 22 projects with an inclusion component across a wide variety of sectors and many parts of the EBRD region, particularly Central Asia, SEMED, Turkey and the Western Balkans. These projects foster systemic changes that increase the economic opportunities available to women, young adults and people in less-developed areas. Donor support remained key to the success of these ventures by mobilising client contributions to the inclusion elements of projects.

Notable investments included financing for Turkish tyre company Brisa, which will develop vocational training programmes to help young people acquire the skills they need to secure jobs in manufacturing (see case study on this page) and a loan to Anadolu Etap, a fruit juice and fresh fruit producer, that will raise skill levels in the Turkish farming industry (see case study on page 19). The Bank also signed a Memorandum of Understanding with the Turkish government on developing skills standards and apprenticeship models in partnership with the private sector. In this regard, the EBRD cooperates with the European Training Foundation, with which it has a partnership agreement covering SEMED, Turkey and the Western Balkans. This collaboration seeks to enhance private sector involvement in reducing the persistent mismatch between the skills of school leavers and the demands of the labour market.

A key milestone in 2016 was the opening of an on-site training facility in the Abdali Mall project, a highly sustainable retail and entertainment centre in Amman financed through a US$ 80 million loan (€76 million equivalent) provided by the Bank. The facility provides local young people with training programmes and job-matching opportunities at the shopping and entertainment complex. By the end of the year, 100 young people had completed the hospitality and retail training programmes, including work placements with employers.

Policy dialogue on inclusion expanded substantially throughout 2016. The Bank launched a programme to strengthen private sector engagement in the provision of high-quality, work-based learning opportunities for young people in Croatia. The initiative, which also seeks to remove obstacles to employment for women, attracted more than 100 employers who pledged to offer 500 internships and mentoring. This work aims to ensure that young people gain practical experience during their education so that the skills they acquire are more relevant to the needs of industry. This will benefit job seekers and businesses alike.

In Jordan, the EBRD worked with the government and the World Tourism Organization (UNWTO) to provide better training and jobs for young people, women and local firms through tourism.

Knowledge economy

The Knowledge Economy Initiative builds on the EBRD's longstanding support for innovation and technological dynamism by helping businesses to improve their productivity and grow sustainably. It takes into account the different levels of technological development in the region, helping each country develop its own knowledge economy.

Development of the knowledge economy enhances the competitiveness and resilience of EBRD countries of investment, many of which have a legacy of labour and resource-intensive production processes and over-reliance on extractive industries. It also fosters integration by strengthening information technology networks.

Last year, the Initiative passed a major milestone by reaching an overall investment level of €1.3 billion since its launch in 2014. These debt and equity transactions and related activities support the development of information systems and infrastructure (such as broadband), technological upgrades for industry, and financing for small, ground-breaking technology companies, for example through the Bank's Venture Capital Investment Programme (VCIP). The EBRD also uses policy dialogue to stimulate appropriate innovation policies.

Significant transactions included two new loans to Türk Telekom, the leading telecommunications company in Turkey, to support the development of advanced 4.5G mobile broadband services and a €339 million syndicated loan to OTE, Greece's largest telecommunications operator, to bolster its investment plans. There were four investments under the VCIP, an example of which was a follow-on investment in DocPlanner, an online medical care scheduling service based in Poland.

In the manufacturing and services sector, the Bank provided financing for Universal Alloy Corporation, a Romanian supplier to the aircraft industry (see case study on page 40). A €40 million subscription to a Schuldschein loan – a type of fixed debt instrument in Germany – issued by automotive supplier Draexlmaier Group will help the German company bolster vocational training and the development of knowledge-intensive industries in FYR Macedonia, Moldova, Romania, Serbia and Tunisia.

Life in Transition Survey

In order to understand how people's lives have been affected by changes since the fall of communism, the EBRD and the World Bank established the *Life in Transition Survey* (LiTS) – a large-scale, comprehensive study of the attitudes of individuals and households across the transition region.

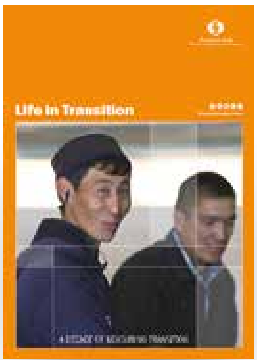
The third round of LiTS was conducted during late 2015 and early 2016 in 34 countries, comprising 32 countries where the EBRD invests and two western European comparators, Germany and Italy. The exercise did not cover SEMED or Turkmenistan.

The latest LiTS report shows that people's degree of life satisfaction has increased across the former communist bloc compared with 2006 and 2010 levels and has moved towards that of individuals in the comparator countries. Another encouraging finding is that perceptions and experiences of corruption have decreased since 2006 in many countries where the EBRD operates. However, while educational attainment is relatively similar across genders in the region, labour-market outcomes do not yet reflect this: when it comes to paid work, women are less likely to work full-time, and are less engaged in the workforce than men.

A separate chapter on Greece indicates that the impact of the economic crisis on Greek households has been deep and widespread. Over 92 per cent of Greek respondents believe that the crisis has affected them, and 76 per cent of Greek households have suffered a negative income shock such as reduced wages or pensions, job losses, delayed or suspended wages or decreased working hours.

Lastly, although attitudes towards democracy and the market economy have become less positive or remained stable relative to 2010, there is still widespread support for both in the transition region, despite the difficult economic circumstances of the recent past.

See litsonline-ebrd.com



Romanian aerospace industry takes flight

The EBRD provided support for Romania's aerospace industry by extending a €25 million loan to Universal Alloy Corporation (UAC), which makes aluminium parts for leading aircraft manufacturers such as Airbus, Boeing and Bombardier. UAC is expanding its production in response to increased demand from these companies.

The financing will enable UAC to increase production capacity and introduce innovative technologies, such as the full recycling of metal chips. The company will also bring the latest know-how to Romania with its training programme for local staff, thereby contributing to the growth of a knowledge-based economy in the country.

The EBRD also used policy dialogue and technical assistance to advance the region's knowledge economy. An assessment of the legal and regulatory frameworks related to information and communication technology infrastructure in 20 countries where the Bank invests was completed in 2016. This will inform policy work aimed at helping countries to accelerate broadband rollout and develop more competitive regulatory regimes.

Investment Climate and Governance Initiative

Launched in 2014, the Investment Climate and Governance Initiative (ICGI) aims to improve the investment climate and strengthen national and corporate governance in the Bank's countries of operations by encouraging systemic change beyond individual investment projects. In 2016, the EBRD continued to implement the ICGI to support reform-minded governments to strengthen institutions of economic governance, and the Bank's corporate clients in their efforts to increase transparency, good governance and healthy competition.

The ICGI helps to establish platforms for public-private dialogue in the shape of investment councils as well as business ombudsman institutions that provide recourse mechanisms for firms. It also promotes the use of dispute resolution mechanisms, the reform of procurement systems, judicial capacity-building, and enhancements to corporate governance. EBRD staff carry out this work in countries where the Bank has signed a Memorandum of Understanding (MoU) on ICGI cooperation (namely, Albania, Moldova, Serbia and Ukraine) as well as in other countries (for example, Armenia, Georgia, the Kyrgyz Republic and Tajikistan).

2016 marked the first full year of operations for the EBRD-supported Business Ombudsman Council (BOC) in Ukraine. The BOC addresses complaints about unfair treatment of firms by the authorities and promotes reforms to support private business. During its first 18 months, the Council successfully completed almost 700 investigations. Recommendations for systemic reform that were made to the authorities resulted in the adoption of changes to laws, regulations and administrative procedures. Project-specific recommendations were successfully implemented in 75 per cent of cases. Overall, the BOC has contributed to an improvement of the business environment in Ukraine, including by helping to decrease levels of corruption in the country.

Last year the EBRD also sought to enhance economic governance by strengthening the capacity of state administrations to design and implement reforms; helping to simplify procedures for business registration, regulation and licensing; providing support for improved customs administration; working to increase transparency on the part of public and private bodies; and promoting freedom of information. The Bank continued to expand its targeted ICGI interventions beyond those countries that have signed MoUs.

The EBRD's new concept of transition counts being well governed among the six qualities of a successfully functioning market economy. In light of this, the Bank renewed its examination of how policy work can support better governance and address shortcomings. The launch of the EBRD-UK Investment Climate and Governance Fund in 2016, supported by the UK's Good Governance Fund, provided significant donor support for the Bank's activities in this area. The EBRD created a dedicated Governance and

Political Affairs (GPA) team, within its Vice Presidency - Policy and Partnerships, to lead implementation of the ICGI. The GPA includes the Bank's governance experts as well as political counsellors, who help to strengthen the design and delivery of ICGI reforms.

Public procurement

EBRD efforts to strengthen procurement governance and maximise the efficiency of public contracting in the region bring savings that leave more public financing available for vital services including schools and hospitals.

An international master's programme in public procurement management, jointly established by the Bank and the University of Rome Tor Vergata, allows public sector officials in the Bank's countries of operations to acquire the skills they need to conduct procurement effectively. In 2016, the EBRD provided 25 donor-funded scholarships for public procurement officials enrolling on the programme. In its four years of existence the course has produced 120 graduates. Last year, the University of Rome Tor Vergata and the University of Belgrade signed an agreement to offer a similar programme in the Western Balkans that will also benefit from EBRD support.

The EBRD and the African Development Bank agreed on a co-financing framework in 2016 that establishes how the two institutions will conduct procurement associated with jointly financed contracts. This and a similar accord signed with the EIB in 2015 are the first two agreements of their kind concluded by MDBs. The EBRD peer-reviewed the procurement policies of the newly created Asian Infrastructure Investment Bank to ensure their compatibility with EBRD policies, allowing the two institutions to co-finance projects in the future. The EBRD Procurement Policy Department also supported the Islamic Development Bank's procurement reform programme.

The EBRD is a member of the OECD working group for the revision and launch of the new Methodology for Assessing Procurement Systems (MAPS Plus), a tool for accelerating the implementation of efficient, sustainable and more inclusive public procurement systems.

Legal transition

The Legal Transition Programme (LTP) helps to create an investor-friendly, transparent and predictable legal environment in countries where the Bank invests. It contributes to international standard-setting initiatives; assesses laws and practice; and aids governments to design and implement legal, regulatory and institutional reforms.

Major areas of focus include encouraging access to finance, in particular for SMEs; strengthening corporate governance; promoting resource efficiency and renewable energy; supporting the development of the ICT sector; supporting debt resolution and restructuring; strengthening the performance of commercial courts and fostering alternative methods of dispute resolution; promoting public-private partnerships in public infrastructure projects; and strengthening public procurement.

Highlights in 2016 included:

- help with Ukraine's accession to the World Trade Organization (WTO) Agreement on Government Procurement and the introduction of electronic procurement for the purchase of goods, works and services by public bodies (see case study on page 48)
- an analysis of impediments to the sale of non-performing loans in Serbia and support for a new law on financial restructuring in Ukraine, which came into force in October
- an assessment of ICT sector regulation in 20 EBRD countries of operations
- a high-level forum in Minsk on commercial mediation and how to promote its use in eastern Europe and Central Asia
- a review of how Jordan, Morocco and Tunisia must implement the Paris Agreement on climate change
- support for corporate governance improvements at Greece's four systemic banks and ongoing assistance to Ukrainian national energy company Naftogaz for corporate governance reforms
- the publication of corporate governance sector assessments for 34 countries
- training for 200 judges on commercial law matters in the Kyrgyz Republic, Montenegro and Tunisia, as well as training for 200 court bailiffs in Mongolia.

More details about these initiatives and other EBRD work on legal reform are available in *Law in transition* at lit-ebrd.com