ANNUAL REPORT 2008
The EBRD is an international financial institution that supports projects from central Europe to central Asia. Investing primarily in private sector clients whose needs cannot be fully met by the market, the Bank fosters transition towards open and democratic market economies. In all its operations the EBRD follows the highest standards of corporate governance and sustainable development.

**About this report**
The EBRD *Annual Report* provides a comprehensive overview of the Bank’s activities in its region of operations over the past year. The Report features sectoral summaries and thematic case studies.

The CD-ROM accompanying this publication contains the complete Annual Report (in a fully searchable format), the Financial Statements and a complete list of all projects signed by the Bank since 1991.
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Information online
Information within the Report or another EBRD publication
EBRD commitments in 2008

Central Europe and the Baltic states (£ million)

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Croatia</td>
<td>153</td>
<td>105</td>
<td>1,886</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>40</td>
<td>20</td>
<td>1,123</td>
</tr>
<tr>
<td>Estonia</td>
<td>11</td>
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<td>480</td>
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<tr>
<td>Hungary</td>
<td>39</td>
<td>80</td>
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<tr>
<td>Latvia</td>
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<tr>
<td>Lithuania</td>
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<td>509</td>
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<tr>
<td>Poland</td>
<td>161</td>
<td>110</td>
<td>3,695</td>
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<tr>
<td>Slovak Republic</td>
<td>74</td>
<td>3</td>
<td>1,257</td>
</tr>
<tr>
<td>Slovenia</td>
<td>13</td>
<td>10</td>
<td>752</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>546</strong></td>
<td><strong>328</strong></td>
<td><strong>11,962</strong></td>
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</table>

South-eastern Europe (£ million)

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>Albania</td>
<td>45</td>
<td>88</td>
<td>475</td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
<td>156</td>
<td>249</td>
<td>963</td>
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<tr>
<td>Bulgaria</td>
<td>203</td>
<td>207</td>
<td>1,727</td>
</tr>
<tr>
<td>FYR Macedonia</td>
<td>26</td>
<td>55</td>
<td>461</td>
</tr>
<tr>
<td>Montenegro</td>
<td>18</td>
<td>16</td>
<td>73</td>
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<tr>
<td>Romania</td>
<td>336</td>
<td>318</td>
<td>3,784</td>
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<td>Serbia</td>
<td>216</td>
<td>127</td>
<td>1,420</td>
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<td><strong>Total</strong></td>
<td><strong>1,000</strong></td>
<td><strong>1,059</strong></td>
<td><strong>8,901</strong></td>
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</table>
EBRD commitments in 2008

**Eastern Europe and the Caucasus* (€ million)**

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>17 Armenia</td>
<td>78</td>
<td>52</td>
<td>297</td>
</tr>
<tr>
<td>18 Azerbaijan</td>
<td>122</td>
<td>81</td>
<td>865</td>
</tr>
<tr>
<td>19 Belarus</td>
<td>46</td>
<td>20</td>
<td>221</td>
</tr>
<tr>
<td>20 Georgia</td>
<td>192</td>
<td>215</td>
<td>658</td>
</tr>
<tr>
<td>21 Moldova</td>
<td>36</td>
<td>107</td>
<td>319</td>
</tr>
<tr>
<td>22 Ukraine</td>
<td>647</td>
<td>835</td>
<td>4,087</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>1,120</strong></td>
<td><strong>1,310</strong></td>
<td><strong>6,448</strong></td>
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* Formerly Western CIS and the Caucasus

**Russia (€ million)**

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<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>23 Russia</td>
<td>2,297</td>
<td>1,816</td>
<td>11,279</td>
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**Central Asia (€ million)**

<table>
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<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>24 Kazakhstan</td>
<td>532</td>
<td>434</td>
<td>2,090</td>
</tr>
<tr>
<td>25 Kyrgyz Republic</td>
<td>12</td>
<td>12</td>
<td>165</td>
</tr>
<tr>
<td>26 Mongolia</td>
<td>34</td>
<td>51</td>
<td>102</td>
</tr>
<tr>
<td>27 Tajikistan</td>
<td>26</td>
<td>35</td>
<td>96</td>
</tr>
<tr>
<td>28 Turkmenistan</td>
<td>3</td>
<td>10</td>
<td>123</td>
</tr>
<tr>
<td>29 Uzbekistan</td>
<td>15</td>
<td>33</td>
<td>545</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>621</strong></td>
<td><strong>575</strong></td>
<td><strong>3,119</strong></td>
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</table>

**Turkey (€ million)**

<table>
<thead>
<tr>
<th>Country</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>30 Turkey</td>
<td>n/a</td>
</tr>
</tbody>
</table>

Note: Financing for regional projects has been allocated to the relevant countries.
Highlights of 2008

JANUARY
- The EBRD pioneers an energy efficiency facility for Romania, expected to replicate successes already achieved with similar arrangements in neighbouring Bulgaria, the Slovak Republic and Ukraine.

FEBRUARY
- The EBRD adopts a new country strategy for Hungary.

MARCH
- The EBRD co-hosts a conference with the Food and Agriculture Organization of the United Nations (FAO) on “Fighting food inflation through sustainable investment” (London, UK).

APRIL
- The EBRD issues a US$ 1 billion (€711 million) global bond, its first benchmark issue since 2004.
- The EBRD opens a regional office in Dnipropetrovsk (Ukraine).

MAY
- The EBRD’s Annual Meeting in Kiev, Ukraine. Discussions focus on progress in the whole EBRD region over the last decade and remaining challenges – the potential impact of slowing economic growth, financial market turbulence and rising inflation.
- During the Annual Meeting the EBRD Board of Governors allocates 80 per cent of the EBRD’s 2007 net income to reserves and €115 million to the newly established Shareholder Special Fund. The remaining €135 million from the profits will be paid in the form of a grant to support international efforts to clean up the site of the Chernobyl nuclear power plant, the scene in 1986 of the world’s worst civilian nuclear power disaster.
- The Board of Governors and the EBRD appoint Thomas Mirow of Germany as the Bank’s fifth President. He succeeds Jean Lemierre who steps down after two four-year terms.
- The EBRD’s 2008 Environmental and Social Policy and Performance Requirements is approved by the Board of Directors.
- The EBRD adopts a new country strategy for Romania.

JUNE
- The EBRD opens its fourth Russian regional office in the city of Samara.
- The EBRD adopts a new country strategy for Bulgaria.
JULY
- The EBRD co-hosts the “Making Roads Safe” conference (London, UK).
- The EBRD makes its first investment in primary agriculture, through a bank loan to Russian farmers, as part of its drive to increase investments in the agricultural sector and help boost production against a backdrop of spiralling world food prices.

AUGUST
- The EBRD’s Trade Facilitation Programme (TFP) passes another milestone by issuing its first guarantee in local currency, so further boosting intra-regional trade.

SEPTEMBER
- The EBRD adopts a new country strategy for Latvia.
- Russian and international capital market experts meet at an EBRD-hosted conference in London to discuss ways of driving further forward the reforms of the Russian market in derivatives.

OCTOBER
- Central European Initiative (CEI) Economic Summit (Chisinau, Moldova) discusses economic challenges for the region.
- The EBRD, FAO and Russian Ministry of Agriculture join forces to boost public-private cooperation.
- In recognition of EBRD’s commitment to promoting gender equality and women’s empowerment, Thomas Mirow is presented with an MDG3 (Millennium Development Goal 3) Torch in London.

NOVEMBER
- Turkey, an EBRD shareholder since 1991, becomes an EBRD country of operations.
- The EBRD launches the Transition Report 2008, which predicts a sharp fall in economic growth in EBRD economies in 2009 and urges countries where it invests to place a high priority on the stabilisation of banking systems.
- The Bank announces it will boost investments in 2009 to combat the global financial crisis and its severe impact on central and eastern Europe.

DECEMBER
- The EBRD disburses its first factoring loan in Ukraine.
- The EBRD is the highest-ranked international financial institution in the 2008 Global Accountability Report which looks at transparency, participation, evaluation and complaint and response mechanisms of global organisations.
2008 in numbers

Annual investments 2004-08

<table>
<thead>
<tr>
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<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of projects 1</td>
<td>302</td>
<td>353</td>
<td>301</td>
<td>276</td>
<td>265</td>
<td>2,587 3</td>
</tr>
<tr>
<td>Stand-alone projects</td>
<td>161</td>
<td>187</td>
<td>167</td>
<td>156</td>
<td>141</td>
<td>1,684</td>
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<tr>
<td>Investments under frameworks</td>
<td>141</td>
<td>166</td>
<td>134</td>
<td>120</td>
<td>124</td>
<td>903</td>
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<tr>
<td>EBRD commitments (€ million)</td>
<td>5,087</td>
<td>5,583</td>
<td>4,936</td>
<td>4,277</td>
<td>4,133</td>
<td>41,709</td>
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<td>Resources mobilised (€ million)</td>
<td>8,372</td>
<td>8,617</td>
<td>7,645</td>
<td>5,846</td>
<td>8,835</td>
<td>93,002</td>
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<tr>
<td>Total project value (€ million)</td>
<td>12,889</td>
<td>13,809</td>
<td>12,014</td>
<td>9,784</td>
<td>12,986</td>
<td>134,790</td>
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</table>

1 An operation that is not linked to a framework and involves only one client is referred to as a stand-alone project. Operations extended to a number of clients (for example, credit lines to banks) have a framework which represents the overall amount approved by the Board of Directors. Investments under frameworks represent the commitment to individual clients.

2 The calculation of “Resources mobilised” and “Total project value” has been refined to exclude amounts relating to facilities where the original commitment was made in a previous year to ensure the finance is counted only once, whereas “EBRD commitments” include incremental EBRD finance on existing operations.

3 Following the implementation of a new equity system in 2008 the Bank consolidated its equity managed funds from investments under frameworks to stand-alone operations. The impact was to reduce investments under frameworks by approximately 195 operations and increase stand-alone operations by approximately 19.

Financial results 2004-08

<table>
<thead>
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</tr>
</thead>
<tbody>
<tr>
<td>Realised profit for the year before impairment</td>
<td>849</td>
<td>973</td>
<td>1,691</td>
<td>945</td>
<td>356</td>
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<tr>
<td>Unrealised (losses)/gains on equity investments</td>
<td>(1,092)</td>
<td>773</td>
<td>754</td>
<td>375</td>
<td>126</td>
</tr>
<tr>
<td>Impairment (charge)/credit</td>
<td>(720)</td>
<td>210</td>
<td>(42)</td>
<td>196</td>
<td>(85)</td>
</tr>
<tr>
<td>Fair value movement on non-qualifying and ineffective hedges</td>
<td>361</td>
<td>(72)</td>
<td>(14)</td>
<td>6</td>
<td>5</td>
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<tr>
<td>Net (loss)/profit for the year before transfers</td>
<td>(602)</td>
<td>1,884</td>
<td>2,389</td>
<td>1,522</td>
<td>402</td>
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<tr>
<td>of net income approved by the Board of Governors</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Transfers of net income approved by the Board of Governors</td>
<td>(115)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
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<tr>
<td>Net (loss)/profit for the year after transfers</td>
<td>(717)</td>
<td>1,884</td>
<td>2,389</td>
<td>1,522</td>
<td>402</td>
</tr>
<tr>
<td>of net income approved by the Board of Governors</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Paid-in capital</td>
<td>5,198</td>
<td>5,198</td>
<td>5,198</td>
<td>5,197</td>
<td>5,197</td>
</tr>
<tr>
<td>Reserves and retained earnings</td>
<td>6,552</td>
<td>8,676</td>
<td>6,974</td>
<td>4,684</td>
<td>1,686</td>
</tr>
<tr>
<td>Total members’ equity</td>
<td>11,750</td>
<td>13,874</td>
<td>12,172</td>
<td>9,881</td>
<td>6,883</td>
</tr>
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</table>

302 Number of projects signed in 2008

€5.1 billion EBRD commitments in 2008
EBRD commitments

2004–08

<table>
<thead>
<tr>
<th>Year</th>
<th>Corporate</th>
<th>Energy</th>
<th>Financial institutions</th>
<th>Infrastructure</th>
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<tr>
<td>2004</td>
<td>4.1</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>2005</td>
<td>4.3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td>4.9</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>5.6</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>5.1</td>
<td></td>
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</tbody>
</table>

**Note:** The energy efficiency components within all EBRD projects signed in 2008 amounted to €982 million, compared with €934 million in 2007.
President’s message

The year 2008 has been an historic watershed. Within the past 12 months the world has gone from rapid economic expansion to the most severe contraction in living memory. These developments, which are far from over, are arguably the biggest challenge the EBRD’s countries of operations have faced since the Bank was established in 1991.

After displaying remarkable resilience, the region was hit hard by the global crisis in the last quarter of 2008. The rapidly worsening external environment affected many export-oriented economies. At the same time countries that depend on the export of natural resources saw their income tumbling after drastic falls in commodity prices. Growth has come to a halt and many countries this year are facing contractions.

Many countries in the transition region are now faced with a double shock: a financial crisis which has led to a steep reduction in bank lending, thus severely limiting access to finance for businesses and private individuals alike; and an economic crisis with falls in production and consumption. The situation is exacerbated in some countries by unsustainable current account deficits and high exposure to foreign currency loans at a time when national currencies have suffered substantial devaluations. Countries outside the eurozone have noticed the benefits the common currency provides.

The crisis is so severe that it seriously challenges the concepts we have been following. In many countries around the world the state is intervening where the private sector is in serious trouble. For the transition countries of our region the current problems are a severe setback. In this situation it is all the more important that we must not allow the crisis to lead to reversals of the huge progress which has been achieved over the last two decades.

The EBRD has reacted to the crisis swiftly and decisively, as the need for what we can provide – from finance to policy dialogue with governments – is greater than ever. For 2009 we have raised our planned annual business volume to €7 billion, an increase of one-third above 2008 levels of investment.
We are implementing tailor-made crisis response packages for the financial and corporate sectors with the aim of supporting viable enterprises and we are almost doubling our trade finance activities. Together with the European Investment Bank and the World Bank Group we have recently launched a €25 billion support package for the financial sector in eastern Europe.

Although the Bank recorded its first loss since 1998, disbursements were up by 22 per cent. This demonstrates the EBRD’s position as a strong, committed and reliable partner even in difficult times. The fact that we are focused on regions and sectors where needs are greatest is also shown by the strong expansion of the Bank’s activities in the early transition countries in the Caucasus and Central Asia, in the Western Balkans and under the Sustainable Energy Initiative.

This ability to work in the most challenging situations will be tested in 2009 as the global economic turmoil shows no sign of abating. As we enter preliminary discussions about the EBRD’s next five-year strategy we need to acknowledge the crisis and its long-term impact on transition. One example is our future role in the countries of central and eastern Europe where we had expected to cease investing by 2010. In light of recent events this may need to be revisited in some cases.

Another example of how the Bank’s role and activities are evolving and developing is Turkey, which joined the group of countries in which we invest late last year. Turkey is highly welcome as a new country of operations: its location between the Western Balkans, the Caucasus and Central Asia gives it a crucial role in the development of large parts of our region.

In its activities the Bank continues to enjoy the active support of the donor community and this partnership is now more important than ever. Following the EBRD Board of Governors’ approval at the 2008 Annual Meeting in Kiev, the Bank has set up the Shareholder Special Fund and furnished it with €115 million to complement technical assistance from donor countries.

These challenging times also place special importance on the dialogue we maintain with authorities and businesses. With its network of 34 resident offices from central Europe to central Asia, the Bank is uniquely placed and equipped to be at the forefront of developments.

At the EBRD we measure success not only in financial terms. Our mandate stipulates that everything we do must be for the benefit of people. The EBRD has always placed special emphasis on reaching out and we are maintaining an active dialogue with the societies where we operate to make sure our activities have lasting benefit for them.

Looking ahead, an end to the global financial crisis is not in sight. The second half of 2009 will not be any less challenging than the first. But we must draw the right conclusions from the current crisis because today we are laying the foundations for tomorrow. We are not likely for many years to see a return of the booms fuelled by an abundance of cheap finance and excessive risk-taking. The scarcity of resources will force us to make more efficient use of what we have at our disposal. Economic growth will not return to the regular levels of expansion that our region used to enjoy.

With its investments, expertise and knowledge, the EBRD is contributing to the recovery and the future sustainable development of the countries of its region. The Bank is available where and when finance and risk-appetite are needed – especially at this time of crisis – but also beyond. With our solid capital base, strong government support, a dedicated Board and committed staff we will continue to empower the countries of our region to fulfil their enormous potential from which we all stand to benefit for many years to come.
Overview

The EBRD is committed to helping its countries of operations mitigate the impact of the global financial crisis and achieve sustainable growth and development.
The EBRD has a specific mandate: to work in countries committed to the principles of multi-party democracy and to help its 30 countries of operations from central Europe to central Asia make the transition towards well-functioning market economies. See page 2 for a map of our countries of operations.

But these countries are facing very significant challenges on the road to transition. In the last quarter of 2008 the global financial crisis hit the transition region, which began to feel the full impact of the global slowdown, mainly because of its increased integration within the world economy. Loan syndications, an important market and source of funding for the EBRD and the region, were victims of the crisis. Syndications virtually disappeared due to the retrenchment of banks, the EBRD project pipeline was damaged and project preparation was made difficult.

The EBRD’s 2008 financial and operational results clearly reflect the contraction of the global economy and the upheaval and turbulence of markets. But the EBRD has responded with speed and resilience to the crisis, scaling up and refocusing its project targets to help its countries of operations mitigate the adverse impact of the crisis and provide the impetus to help the transition region continue its path to stable and sustainable economic growth.

There was a note of optimism at the end of 2008. In October the EBRD Board of Governors accepted Turkey’s request to become a recipient of EBRD investments, a decision that took effect in November 2008. The Bank plans to provide Turkey with investments worth €150 million for 2009 and €300 million for 2010. Within the EBRD region, Turkey represents the second largest economy and its further growth will be of crucial importance for the countries in the Caucasus, Central Asia and Western Balkans, where the Bank already operates. Agreement was reached between the European Commission (EC), the European Investment Bank (EIB) and the EBRD on the modalities for cooperation in Turkey.

EBRD investments will cover such key areas as agribusiness (supporting the agriculture sector with investments along the food chain), municipal environmental services (supporting the reform and the secure and efficient delivery of vital services via non-sovereign lending), energy and energy efficiency (enhancing market conditions and promoting a sensible use of scarce resources) and privatisation (supporting the country’s reform programme through EBRD investments and expertise). Another focus of investments to support the further development of Turkey’s private sector will be on financing small and medium-sized companies (SMEs) that may come under pressure from the current financial market turbulence and economic slowdown.

Response to the global financial crisis

In its overall response to the global financial crisis, the Bank increased its projected 2009 investments to €7 billion, a record amount for any single year since the Bank was founded in 1991. This is an increase of close to €2 billion and 33 per cent above 2008 levels of investment. These extra investments will target the financial sector, in particular in the EBRD’s countries of operations in central and eastern Europe, the Western Balkans and less advanced countries in the Caucasus and Central Asia.

In late 2008, the Bank began developing crisis response packages, based on a combination of transactions, technical assistance and policy dialogue, and allowing for a rapid and significant commitment of resources where needed. By the end of the year the EBRD had approved and committed €500 million in funds to support financial institutions, enterprises and infrastructure in its countries of operations.

In 2009 activities are being organised in terms of a variety of priority areas and operational initiatives to ensure that new projects are focused on the most critical areas affected by the crisis – banking, the corporate sector, energy and infrastructure. This strategic response builds on the EBRD’s knowledge of countries and clients, its capacity to deliver transactions and its ability to tailor financing products to individual client needs and circumstances.

Banking

The EBRD has moved to support sound banks in the transition region that are badly affected by the crisis on a case-by-case basis, encourage consolidation and provide equity and debt finance which is otherwise not available on the financial markets. This work to recapitalise banks is being carried out in close coordination with national authorities and (where applicable) the International Monetary Fund (IMF). It ensures that financing flows continue, in particular to SMEs – a sector that fosters entrepreneurial spirit, flexibility and resilience in the economy during volatile times and aids sustainable growth in transition. In December 2008 alone, the EBRD provided significant equity and debt finance to banks in Romania, Ukraine, Russia and Georgia.

Corporate

The EBRD is also extending its support to the broader corporate sector in its countries of operations. It has set up a framework to provide working capital and additional finance to the sector in close cooperation with international banks active in the region. The €250 million Corporate Support Facility aims to mitigate the damaging knock-on effects of the crisis on companies by providing them with relatively quick-dispensing financing. The Facility will also provide the opportunity to look at ways of strengthening and extending transition impact through loan conditionality – for example, by linking the financing to improvements in energy efficiency, environmental impact and corporate governance standards.
Overview

Trade
The Bank is doubling its financial support for foreign trade to prevent further economic downsizing. It has expanded the Trade Facilitation Programme (TFP) to a maximum of €1.5 billion. The TFP plays a crucial role in keeping trade flowing to and from the region in times of severely restricted access to finance: it guarantees trade transactions to stimulate import and export trade and provides short-term loans to selected banks and factoring companies for on-lending to local importers and exporters. The TFP is a product that is in high demand, can be delivered quickly and has a strong positive effect on bringing liquidity into the industrial sector of the economy.

Energy and infrastructure
The Bank is also engaged in critical energy and infrastructure financing, including a number of large projects (in excess of €100 million) which could not be financed without EBRD participation.

Initiatives
The EBRD has funds and instruments at its disposal, but this is a crisis which no country and no institution can solve on its own. The EBRD is therefore seeking to leverage its impact and coordinate available financial resources for the banking, SME and infrastructure sectors through various key initiatives.

For example, the EBRD’s involvement in co-financing arrangements known as “unfunded risk participations” means it shares credit risk with, but does not require financing from, cash-strapped Western banks whose financing it would normally complement through loan syndications.

EBRD response to the financial crisis
- Increasing planned annual investment
- Recapitalising sound banks
- Keeping trade open through an expanded Trade Facilitation Programme
- Financing energy and infrastructure projects
- Delivering working capital and additional finance through Corporate Support Facility
- Sharing credit risk with Western banks
- Forging greater collaboration through the IFI banking networks initiative.

www.ebrd.com/new/fin_crisis

The Bank is also forging closer collaboration with other international institutions through a joint IFI-banking networks initiative, launched together with the International Finance Corporation, the EIB, and the main international banking groups active in its region. This initiative seeks to both assess and address the recapitalisation and refinancing needs of regional banking sectors, in collaboration with both home and host country authorities and the IMF. This approach is designed to provide efficiency in delivery and a strong coordinated signal to the market. The coverage of the initiative would be the whole EBRD region of operations including Turkey.

Lastly, the EBRD is also exploring co-financing opportunities with other IFIs, in particular the EIB, in the context of large infrastructure and energy projects. Co-financing with the EIB has been largely a result of European Commission regional initiatives. Further, the European Economic Recovery Plan agreed in November 2008 calls for enhanced roles for the EBRD and the EIB in response to the financial crisis.

The people of the region are facing considerable challenges – the impact of slowing global economic growth, financial market turbulence and rising inflation. But the EBRD is committed to stand by its countries of operations to mitigate the impact of the crisis and help them preserve and secure the impressive progress already made towards fully functioning open market economies.

Highlights 2008

Economic environment in the transition region
The year 2008 was a time of great upheaval throughout the global economy, and the effects of the financial crisis that originated in the industrial western economies began to be felt strongly in the transition region in the second half of the year. After record growth of 7.5 per cent in 2007, real GDP growth fell to 6.3 per cent in 2008, and several countries ended the year with output falling and unemployment rising rapidly.

While no country has been immune to the crisis, the effects in 2008 were felt most sharply in the Baltic states, Hungary, Kazakhstan, Russia and Ukraine. Other countries had managed to stave off the worst effects of the crisis by the end of the year but the short-term outlook for the region is gloomier than at any time in the recent past. Capital flows to the region have slowed down significantly, and foreign direct investment (FDI) fell slightly to €59 billion (from €63 billion in 2007). The credit boom of recent years has evaporated, with important knock-on effects on consumer confidence, and other sources of private capital have been greatly reduced or eliminated. Inflationary pressures re-emerged in the first half of the year but they subsequently receded in the face of slowing economies and a collapse in oil and other commodity prices.
Despite the growing economic difficulties, the region continued to progress in transition in 2008 and there has been no serious backtracking on reform in any transition country during the past year (see “Economic reform” on page 25). Most countries continue to make efforts to strengthen institutions and encourage new investment and a better business environment. However, the crisis has posed new challenges to the transition process. There have been worrying instances of the state taking a more intrusive role in key sectors of the economy, and this trend may continue in 2009 if the crisis intensifies in the region.

In its *Transition Report 2008: growth in transition* (November 2008), the EBRD predicted a sharp decline in growth in the region from the near record rates of about 7 per cent in 2007 to below 2 per cent in 2009. At the start of 2009, however, the EBRD reduced its 2009 economic growth forecasts to zero, reflecting the prospects of a deepening recession in the developed world, and faster-than-expected slowing in economic activity in the transition region in the final months of 2008.

South-eastern Europe (SEE) is expected to show growth of 1.5 per cent in 2009, down sharply from the 7.3 per cent estimated for 2008. Growth in central and eastern Europe and the Baltic states is predicted at 0.4 per cent in 2009 after 3.9 per cent in 2008. Central Asia is expected to grow most robustly in 2009, showing growth of 2.3 per cent, compared with a 4.9 per cent expansion in 2008.

**Operational results**

In 2008 the Bank committed €5.1 billion to projects in its countries of operations. This is a 9 per cent decrease on 2007 (€5.6 billion). EBRD financing was spread across 302 projects, compared with the 353 that were signed in 2007. Of these, 133 were projects in the “very small” range of €5 million or less, which is a 27 per cent decrease on 2007.

The number and volume of equity investments decreased in 2008 from the record level achieved in 2007. The number of investments decreased from 91 in 2007 to 76 in 2008, while equity volume decreased from €1.7 billion in 2007 to €1.1 billion in 2008. The equity share of annual business volume in 2008 (excluding convertible debt and portage equity) was 21 per cent down from 30 per cent in 2007.

Reflecting the strategic focus on energy efficiency and active implementation of the Sustainable Energy Initiative (SEI), the Bank’s sustainable energy investments reached €982 million, accounting for close to 20 per cent of the Bank’s 2008 annual business volume. Annual business volume in the Western Balkans region was also up on 2007 levels, increasing by 16 per cent in 2008 to €524 million (excluding TFP activity), up from €453 million in 2007. A significant contribution to the 2008 annual business result also came from the TFP. Trade finance guarantees issued in 2008 and outstanding as at 31 December 2008 totalled €429 million.

The private sector share of annual business volume decreased from 86 per cent in 2007 to 84 per cent in 2008. The private sector share of the portfolio at end-December 2008 remained constant at 73 per cent. EBRD financing was spread across various sectors. Most of it was directed towards the financial sector (29 per cent) to support institutions within and outside the banking sector, as well as local enterprises, and micro, small and medium-sized enterprises, or MSMEs (10 per cent). The corporate sector attracted 26 per cent of commitments to support projects in agribusiness, manufacturing, property and tourism, and telecoms, informatics and media. The remainder of EBRD financing went to infrastructure (18 per cent) and the energy sector (17 per cent). Driven by active portfolio management and the composition of the annual business volume, disbursements of funding to reach EBRD clients totalled €5.0 billion in 2008, an increase of 22 per cent on the 2007 level of €4.1 billion. Disbursements took place across all the countries in which the Bank invests.

In terms of geographical spread, the Bank committed €1.8 billion to Russia in 2008, which represents 36 per cent of the total annual business volume. Most of the EBRD’s financing in 2008, however, went to the countries at the early and intermediate stages of transition. Investment in south-eastern Europe and eastern Europe and the Caucasus reached €2.4 billion, which represents 47 per cent of the Bank’s annual business volume. The Bank focused particularly on the countries in Central Asia, where its commitments were €574.5 million. In the advanced transition countries of central Europe, EBRD commitments were €328.4 million.

**Financial results**

The Bank recorded a net loss of €602 million for 2008 before transfers of net income approved by the Board of Governors, compared with a net profit of €1.9 billion for 2007. During the year, the global financial crisis resulted in extremely volatile financial markets, with equity markets particularly affected. In line with the fall in equity markets across its region, this has led to a significant impact on the Bank’s share investment portfolio.

As a result, net unrealised losses and impairment charges of €1.6 billion relating to a decrease in the fair value of the Bank’s share investments were recorded in the Bank’s income statement. Excluding these losses and other unrealised amounts, the Bank recorded a net realised profit before impairment of €849 million for 2008, compared with €973 million in 2007 on an equivalent basis.
Transition results
Transition impact is a key principle governing the EBRD’s project activities. The Bank continually assesses its operations in terms of their contribution to the transition process and its mandate promoting entrepreneurship and open, market-based economies. In line with the transition impact methodology introduced in 1999, there are broadly three areas in which an EBRD project can contribute to the process of transition: the structure and extent of markets, the institutions and policies that support markets and market-based behaviour patterns, skills and innovation. Transition impact potential is defined through seven categories (see box) and measured on a scale of: “Unsatisfactory”, “Marginal”, “Satisfactory”, “Good” and “Excellent”.

The Office of the Chief Economist reviews new projects before they are approved and assesses the potential impact that they are expected to have on the transition of countries of operations towards a functional market economy. It also estimates the risks of achieving such impact, and then monitors progress through the life of the project. It found that in the last quarter of 2008, the transition potential for 62 transactions, or 91.2 per cent of projects, have been rated “Good” or “Excellent”, of which 10 projects were rated “Excellent”. This percentage is higher than the 85.5 per cent achieved in the fourth quarter of 2007 and above the annual target of 80 per cent approved in the budget for 2008. The full year results show that in 2008, 157 transactions, or 88.7 per cent, were rated “Good” or “Excellent”, a level broadly consistent with the one recorded in 2007, and much better than in 2006 when 79.3 per cent were rated “Good” or “Excellent”.

The EBRD’s Evaluation Department (EvD), which is independent of the EBRD’s banking operations, revisits projects once they have been operational for a while, and measures how much of the expected impact was actually achieved. Of all EBRD projects evaluated in 2008, 56 per cent received a “Good” or “Excellent” rating from EvD.

For the full year of 2008 transactions rated “Excellent” were evenly distributed among regions. However Central Asia has the highest concentration of “Excellent” projects after Central Europe and the Baltics. Central Asia also holds the highest proportion of “high” risk projects rated with “good” potential (with three-quarters of rated projects rated in the region being “good/high”). This high proportion can to some extent be explained by the elevated number of financial institutions (FI) projects in the region, which tend to carry greater risk. Conversely, the low proportion of “high” risk operations in south-eastern Europe is possibly explained by pre- and post-accession developments that have reduced the general business risk and reform incentives in south-eastern Europe.

Among projects rated “Excellent” by EvD, it is worth highlighting two operations that focused on energy efficiency bank lending in Georgia and Kazakhstan. In Georgia, the project (CEEP – Bank Republic) entailed an energy efficiency credit line under the Caucasus Energy Efficiency Programme. In Kazakhstan (Bank Center Credit (BCC) Energy Efficiency Financing Facility), the operation involves on-lending to BCC’s clients for energy efficiency investments under the Kazakhstan Sustainable Energy Financing Framework (KAZSEFF). These energy efficiency related projects are expected to serve as models for others in the financial sector, demonstrate the effectiveness of lending for energy efficiency and show how skills in energy efficiency lending can be transferred to banks. They will also raise awareness of energy efficiency in the industrial and residential sectors.

Categories of transition impact potential

- Greater competition in the project sector
- Expansion of competitive market interactions in other sectors
- More widespread private ownership
- Institutions, laws and policies that promote market functioning and efficiency
- Transfer and dispersion of skills
- Demonstration of new, replicable behaviour and activities
- Setting standards for corporate governance and business conduct.
The crisis may have a differing impact on the pace and nature of transition across countries. In some, the crisis may provide the basis for deeper reforms, in others the impact of the crisis may be a reversal of transition in specific sectors or in the country as a whole. Beyond affecting the direction and pace of transition, the crisis also has an impact on the meaning of transition, which could be reflected in the nature of the Bank’s future operations and in how transition impact will be assessed.

**Donors**

Donor funding helps the EBRD to address the challenges facing the transition countries and this partnership between donors and the EBRD is even more crucial as the global crisis bites. Donor support ranges from agreements with single donors for specific projects to programme-wide arrangements involving multiple contributors.

**The Shareholder Special Fund**

The EBRD is now contributing more from its own resources to complement the funds provided by donors. In 2008 the Bank itself became a provider of technical assistance with the launch of the Shareholder Special Fund, approved by the Board of Directors, and with a €115 million contribution that will complement the assistance of around €80 million a year that has traditionally been contributed by donor countries. Some 80 per cent of the new Fund will be directed to countries that are eligible for Official Development Assistance, with a special emphasis on the early transition countries (ETCs) and the Western Balkans – countries and sectors where transition impact is the highest and where funding gaps exist. It will co-fund projects together with the Bank’s donors.

**The EBRD’s partnership with donors**

The EBRD is adopting a framework to improve impact assessment reporting to donors. These enhancements are part of a broader international effort to increase understanding of the effectiveness of assistance initiatives implemented through IFIs. As outlined at meetings held between the EBRD and donors during 2008, donor agencies are seeking to strengthen the reporting they receive from IFIs, with particular focus on how funds are used, and the extent to which they have been able to achieve stated goals. The EBRD is maintaining close contact with other IFIs in order to bring “best practice” to the enhanced impact assessment reporting.

Development of the impact assessment framework in the coming year will focus on two main areas. First, the reporting will be more systematic in capturing the transition and performance-related impacts of EBRD operations, and second, the Bank will begin studies of the broader impact of its operations, taking into consideration community-wide impacts such as poverty reduction, gender equality and the physical environment.

The latter work will focus on the Bank’s lower income countries in the Caucasus, Central Asia, Mongolia and the Western Balkans. Updates on studies based on this impact assessment framework will be presented to the Bank’s donors during 2009.

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**Special initiatives**

**Early Transition Countries Initiative**

The Early Transition Countries (ETC) Initiative has inspired one of the most innovative responses to the challenges of the Bank’s mandate – that of supporting countries that lag behind the rest of the region in their transition to market economies and helping them to create the conditions for prosperity. In 2008 the Initiative continued to pursue this mandate in some of the poorest of the EBRD’s countries of operations (see the box on page 18).

Created in 2004 in an effort to increase the number of loans and equity investments to the EBRD’s poorest countries of operations, the ETC Initiative now includes Armenia, Azerbaijan, Georgia, the Kyrgyz Republic, Moldova, Mongolia, Tajikistan and Uzbekistan. The Initiative is a combination of a dedicated EBRD team responsible for coordinating and expanding both the number of completed transactions and the number of projects benefiting from donor and Bank technical cooperation funds, bespoke products to address the special needs of companies in these countries, and a delegation of approval authority from the EBRD’s Board to Management for transactions meeting specific, pre-agreed criteria.

Bespoke products deployed in the ETCs include the Direct Investment Facility (DIF) to fund equity investments in medium-sized enterprises, the Direct Lending Facility (DLF) to directly finance medium to large local enterprises, the Medium-sized Loan Co-financing Facility (MCCF) to co-finance with local commercial banks loans to medium to large enterprises, and the Non-Bank Microfinance Facility to lend to microfinance institutions. These products account for one-third of EBRD transactions in the ETCs.

The ETC Initiative is achieving impressive results: since its inception the number of annual transactions has increased five-fold. For the second consecutive year, the Bank has broken the 100-level mark with 101 transactions signed in 2008 compared with 18 in 2003 (before the Initiative). In aggregate over 2004-08, the Bank has signed 379 transactions. In addition, the value of these transactions has grown considerably; in 2008 equalling €496 million compared with €416 million in 2007 and €53 million in 2003. Within the Initiative, the increased focus on eastern markets has also yielded results with Central Asia transactions increasing 71 per cent in the past two years (relative to 35 per cent growth in the Caucasus).
This increase in EBRD signings in 2008 was accompanied by substantial donor-funded commitments to the ETC Initiative, totalling around €26.5 million. Approximately 34 per cent of these funds were provided through the multi-donor ETC Fund launched in November 2004, which has been instrumental in allowing the EBRD to increase significantly its level of activity in the ETCs and offers grant financing in support of EBRD projects. In 2008, the second grant co-financing (funded through the Dutch contribution to the ETC Fund) was approved for the Dushanbe Solid Waste project in Tajikistan.

At its three Assemblies in 2008 the ETC Fund approved a wide variety of grant-funded projects aimed at encouraging the development of the private sector across the ETCs. These included support for microfinance programmes, the development and financing of municipal projects and environmental initiatives, in particular improvements in water and waste management. It also approved funding for energy efficiency and renewable energy projects.

By the end of 2008, the Fund had approved finance for almost 160 grant-funded projects totalling around €53 million.

However, as much as the EBRD will endeavour to complete as many transactions as possible, the unfolding global economic and financial crisis threatens the ETC Initiative in 2009. The projected slow-down in economic growth may affect the Bank’s ability to complete transactions and the profitability of the ETC portfolio (which has higher than average risk ratings within the Bank).

To continue to be successful by delivering transition in this challenging economic environment, the ETC Initiative will rely more than ever on its three core elements: the Bank’s ability and willingness to take on a higher level of risk while respecting the principles of sound banking in these countries; support and coordination with the donor community; and continuing to dedicate more resources to the Initiative both at Headquarters and in the Bank’s local Resident Offices. For example, in 2008 the EBRD located more sector and country bankers in Bishkek, Tbilisi and Ulaanbaatar, helping to decentralise the Bank’s presence and expertise.

**Western Balkans**

Transition is less advanced in the Western Balkans – in Albania, Bosnia and Herzegovina, FYR Macedonia, Montenegro and Serbia (including Kosovo) – than in the neighbouring countries that have become new EU members. The EBRD is placing increasing focus on the Western Balkans in order to support further development and economic growth.

In 2008 the EBRD made significant investments in the Western Balkans. The Bank committed €524 million and signed 41 projects (excluding TFP activity). Disbursements were high, exceeding €51.5 million, and the high business volume was achieved through a large number of investments in very small projects (those of €10 million and less), an increase in equity investments and a greater involvement with local enterprises.

After two years of operations, the multi-donor Western Balkans Fund is well-established as a key instrument for mobilising and coordinating funding for the region. Pledges have reached more than €20 million, of which about €17 million has been approved for projects in Albania, Bosnia and Herzegovina, FYR Macedonia, Montenegro and Serbia (including Kosovo). Funding is focused on infrastructure development, access to finance for small businesses, institutional reform and cross-border cooperation. One such significant project in the region included the Corridor Vc in Bosnia and Herzegovina, supported by the EBRD and donor funding to improve one of the key road corridors in the region (see case study on page 55).

Donor-funded activities also include the Italian-sponsored Local Enterprise Facility (LEF), which provides equity, risk-sharing and financing to local enterprises. In 2008 the EBRD signed eight projects through this Facility, bringing the total number signed to 18. The Facility was replenished in early January 2008 and now has €75 million for equity investments in the region, €61 million of which has already been invested. LEF operational territory has also been extended to cover Croatia and Turkey, the latter being the newest EBRD country of operations. The Bank also participated in and benefited from funding under the Infrastructure Project Facility.
Underlining the EBRD’s focus on sustainable energy, the Bank launched its Energy Efficiency Initiative in the Western Balkans and Croatia in 2008, supported by the European Union, and approved two new facilities of €65 million each to finance energy efficiency projects both via credit lines to local banks and as direct EBRD investment in local industrial companies. In parallel, the Bank replenished, with an additional €250 million, its SME and micro-lending facility, aimed at providing local financial institutions with debt and equity.

During 2008 the Bank also played an important role in setting up, along with the European Union, the EIB and the Council of Europe Development Bank, the new Western Balkans Investment Framework, an initiative aimed at consolidating financial instruments and resources to increase and accelerate EU and IFI investment in the region.

**Northern Dimension Environmental Partnership**

The EBRD-managed Northern Dimension Environmental Partnership (NDEP) was set up by donor governments in 2002 to address some of the most pressing ecological problems in the Northern Dimension Area, and to pool grant contributions for the implementation of environmental projects in the north-west of Russia in particular.

In 2008 the NDEP Assembly of Contributors approved up to €30 million in grant funding for St Petersburg that will help ensure full wastewater treatment in the city by 2012. This was supported by a €6 million grant from the Shareholder Special Fund. Additionally, a €3.5 million NDEP grant agreement was signed with VologdaGorVodokanal, the local municipal water company in the city of Vologda, to upgrade the city’s wastewater treatment plant.

By the end of 2008, €275 million in donor funding had been committed to the NDEP by Belgium, Canada, Denmark, the European Union, Finland, France, Germany, Norway, the Netherlands, Russia, Sweden and the United Kingdom. During the year the NDEP was also instrumental in international efforts to mitigate the environmental risks caused by the legacy of nuclear-powered ships and submarines of the former Soviet fleet in Russia. Close to €125.3 million is earmarked for environmental projects mainly to improve water and wastewater treatment, energy efficiency and management of municipal and agricultural solid waste. Over €149.7 million is assigned for nuclear safety projects addressing the legacy of the Soviet Northern Fleet.

**Energy and climate change**

Economic growth has come at a high environmental cost in the EBRD region. The legacy of central planning, with its absence of market signals, reliance on energy-intensive industry and, in some countries, abundance of energy resources, combined to make energy usage in the transition region wasteful and carbon intensive. In 2008 the EBRD was engaged in various initiatives aimed at speeding up the shift towards energy efficient/low carbon economies in its countries of operations.

In policy, the EBRD launched the Index of Sustainable Energy – a guide for policy-makers on successful energy strategies which will allow them to benchmark individual countries’ progress in reform of three key areas – energy efficiency, development of renewable energy sources and policies to address climate change.

In financing and projects, the EBRD continued to sharply increase its investments in energy efficiency, renewable and clean energy projects across its countries of operations under the Sustainable Energy Initiative (SEI). By the end of 2008, EBRD investments under this initiative had reached €2.7 billion in 166 projects in 24 countries, 77 per cent above the original target for three years (see page 47). The SEI receives strong financial support from donor governments: a total of €218 million in donor funds were committed to the SEI between 2006 and 2008 compared with the Bank’s initial target of €100 million.

The Bank’s competence in energy efficiency financing has allowed it to contribute in a pragmatic and concrete manner to the international effort to scale up climate change mitigation financing. During the first phase of the SEI (2006–08), the Bank committed close to €2.7 billion against an original objective of €1.5 billion. Building on the strong results of the first three years of the SEI, the second phase of SEI is to be launched in 2009.

**Sustainability Report 2008**

In the EBRD’s region, energy intensity remains on average over three times higher than in the European Union and the countries are among the most significant contributors to global emissions. Despite the region currently contributing around 13 per cent of global greenhouse gas emissions, it is anticipated to generate just 2 per cent of carbon credits – created when projects reduce or avoid the emission of greenhouse gases – so there is ample scope for further improvement. The Multilateral Carbon Credit Fund (MCCF) established by the EBRD and the EIB is a key instrument in cutting greenhouse gas emissions to fight climate change. By joining the MCCF, countries and companies can buy carbon credits from emission reduction projects financed by either institution.
Today the MCCF – fully subscribed with €190 million in commitments – is one of the few carbon funds dedicated to countries from central Europe to central Asia. It includes six private participants (CEZ, Endesa, Gas Natural, PPC, Union Fenosa and Zeroemissions) and six sovereign participants (Finland, Belgium (Flanders), Ireland, Luxembourg, Spain and Sweden).

Typical projects under the MCCF include industrial energy efficiency, power plant and district heating renovation, renewable energy (for example, biomass, wind and mini-hydro) and landfill gas extraction and utilisation projects across all the EBRD’s countries of operations, where the EIB also works extensively. A key strength of the MCCF is that the projects from which carbon credits are sourced are financed and appraised by either institution – or both, if projects are co-financed – in line with standard requirements for project viability and sustainability, integrity and corporate governance.

In 2008 the EBRD Fund succeeded in making one of the first carbon credit transactions for the Bank in the Ukrainian agribusiness sector which will act as a model for other companies interested in capitalising on carbon credits (see Chapter 5 on page 45).

Environmental and social development
In 2008 the EBRD demonstrated its ongoing commitment to advancing growth in the transition region in an environmentally and socially responsible way. During the year, the Bank launched its new Environmental and Social Policy, which brings various advancements for the EBRD, its 30 countries of operations and their populations. It addresses the serious legacy issues associated with the centrally controlled economies of the past and helps companies and governments in the fundamental transition mission of the EBRD.

The Policy clearly delineates between the EBRD’s responsibilities and those of its clients, providing greater clarity and certainty. It represents best practice among the Bank’s peers in commercial and international financial institutions and reflects the Bank’s commitment to EU standards. Importantly, the new policy underscores the EBRD’s commitment to strict environmental and social standards giving more prominence to key elements such as gender, labour conditions and community and worker health and safety.

Gender equality is highlighted under the Environmental and Social Policy and reinforces the Bank’s ongoing advances in promoting gender equality across the region. In 2008 for example it is estimated that female borrowers constituted almost 40 per cent of borrowers in the EBRD’s loan portfolio for small businesses.

Health and safety is integrated into the Bank’s operations at project level, along with environmental issues. In 2008, for example, the EBRD established its first credit line facility of €40 million, in partnership with two Romanian banks, specifically to address the environmental protection, product safety and quality and occupational health and safety financing needs of small and medium-sized enterprises (SMEs). The year also saw the EBRD make investments in health and safety upgrades in the nuclear sector, particularly in improving working conditions at the damaged Chernobyl nuclear plant and making the site secure and safe for Ukraine and Europe.

The Bank manages the donor funds that finance these improvement works and in 2008 made a €135 million contribution to the Chernobyl funds from its own 2007 profits. It will be paid in the form of a grant to the Chernobyl plant, contributing to the building of the New Safe Confinement and the cleaning up of nuclear waste from the 1986 accident. The EBRD’s grant is seen as a catalyst that will give momentum to Chernobyl funding from G-8 and EU donor countries.

Outlook for 2009
In 2009, the development and implementation of the EBRD’s project pipeline will be affected by a range of external factors linked to the evolution of the crisis impact in its countries of operations. Finding and financing worthwhile projects will be more difficult in a region affected by the crisis and a reduction of FDI flows. At the same time, the crisis brings opportunities to accelerate change and to support the structural reforms required to foster transition and take advantage of the return of growth.

The economic outlook is uncertain. But it should be noted that the region’s progress in the last 20 years has been truly impressive. Most goods and services are produced by the private sector and exchanged in well-functioning markets. Most countries are demonstrating continuing commitment to market reforms and democratic processes. A crisis can lead to reversals, but can also create new opportunities in healthier and stronger systems. The EBRD is committed to being the catalyst in this process.
Reform

The EBRD works with countries to develop a business and legal environment to support the private sector – all key ingredients for well-functioning, open economies. Activities include setting new standards in environment, good governance and anti-corruption measures, and promoting policy dialogue and public engagement in projects.
Democratic reform

As set out in Article 1 of the Agreement Establishing the Bank, one of the EBRD’s founding principles is that democratic and market reforms go hand in hand, and after nearly 20 years of working in the transition region, this has been borne out: the most advanced economic reformers in the region, according to the EBRD transition indicators, have also gone the furthest in building democratic institutions.

The impact of the global financial crisis varies in intensity across the transition countries, and has both economic and political implications. As economic performance has declined, political and social pressures have begun to grow, and some governments have sought to suppress these political and social pressures through non-democratic means. Should the crisis deepen and widen further in the coming year, these tendencies could become more pronounced in certain parts of the region where democratic progress has been less entrenched.

Most of the EBRD’s countries of operations remain committed to and are applying the principles of multi-party democracy and pluralism, as specified in Article 1. For many countries in central and south-eastern Europe, the commitment to core democratic values and institutions has become embedded in an overlapping set of domestic legislation, international conventions and obligations stemming from membership of regional and international organisations. For these countries, particularly the 10 EBRD countries that have already joined the European Union, most democratic institutions have been consolidated, although governance, judicial reform and the fight against corruption remain concerns in some of these countries. For the EU-aspirant countries of the Western Balkans, commitments related to the EU approximation process continue to serve as strong external anchors for democratic reform.

In the Commonwealth of Independent States and Mongolia, the depth and strength of democracy varies significantly across countries, and several experienced set-backs in their democratic reforms in 2008. National elections in Armenia, Azerbaijan and Georgia were deemed by international observers from the Organization for Security and Cooperation in Europe (OSCE) and Council of Europe to have fallen short of those countries’ international commitments, while new restrictions placed on observers in Russia made an OSCE mission to monitor national elections impossible in that country. In Ukraine, ongoing political disputes and instability have made it difficult to build on the democratic promise of the Orange Revolution at the end of 2004. In several Central Asian countries, the legitimacy of democratic elections is weakened by the continued excessive concentration of political power.

In three countries – Belarus, Turkmenistan and Uzbekistan – the EBRD has expressed concern about the lack of commitment to multi-party democracy and political pluralism, as reflected in the respective EBRD country strategies. While encouraging signs of gradual political and economic liberalisation have been observed in both Belarus and Turkmenistan, significant challenges remain. As a result, the EBRD continues to exclude funding of public sector projects in those countries, while maintaining an active dialogue with both government and non-governmental organisations on ways to strengthen democratic and market-based institutions. If sufficient progress in political and economic reform were achieved in these countries, the EBRD would review a broader range of activities in Belarus, Turkmenistan and Uzbekistan.
Economic reform

The EBRD helps countries to advance the transition process and become open, market-based economies. However, to achieve this, countries need to be committed to economic reform. The Bank’s Office of the Chief Economist (OCE) monitors economic progress in all the countries where the EBRD invests and each year publishes an analysis in the Transition Report. This assessment identifies areas most in need of reform and can act as the basis of EBRD dialogue with national authorities.

A number of important advances in transition occurred in 2008 – a commendable achievement in view of the deteriorating economic environment. Reform progress paralleled that of recent years, with significant advances in south-eastern Europe and, to a lesser extent, in eastern Europe and the Caucasus, Central Asia and Russia. There was little discernible progress in central Europe and the Baltic states.

In terms of business and industry, there was notable progress in financial services, especially in south-eastern Europe, where foreign banks are still competing vigorously to gain market share. There were also important advances in competition and commercialisation of the telecommunications sector in various countries, including Croatia, Latvia, Mongolia, Russia, Serbia, Slovenia and Turkmenistan. However, the quality of telecommunications regulation still varies from country to country.

Transition Report 2008

In 2008 some of the most visible progress occurred in two countries – Belarus and Turkmenistan – where reform had been limited or non-existent. After many years of stagnation, Turkmenistan has taken initial steps towards liberalisation by unifying the exchange rate and allowing partial foreign ownership of land. In Belarus the authorities implemented some privatisations in the corporate and natural resources sectors and abolished the “golden share” rule that had allowed the government to take over the running of privatised enterprises.

Most progress in 2008 occurred in south-eastern Europe. Following accession to the European Union, Bulgaria and Romania continued with reforms, including in the financial sector, although both countries have been urged by the European Commission (through annual monitoring reports) to increase institutional reform. Elsewhere, Bosnia and Herzegovina and Serbia both signed Stabilisation and Association Agreements with the European Union, signalling their commitment to further EU integration.

In central Europe and the Baltic states progress has slowed in recent years but all countries are at an advanced stage of transition and are engaged in environmental and legal reform, as well as major reforms to education, health and public administration. Russia progressed in several areas of infrastructure, notably in the power sector where the state-owned monopoly was abolished, but state control over key sectors, such as natural resources, has been maintained or even strengthened. In Ukraine the privatisation programme has been effectively stalled over the past year, while in Kazakhstan the state has increased its stake in the all-important mining sector.

The Index of Sustainable Energy

In addition to tracking economic reform, the EBRD is increasingly monitoring energy efficiency and encouraging the development of sustainable energy resources. For the first time, OCE published an Index of Sustainable Energy, which allows policy-makers and other sector stakeholders to measure the sustainability of existing energy management practices and the potential for improvement. The results show considerable variation across the region: EU member countries in central eastern Europe and the Baltic states generally lead the way, while energy-rich countries in the Caucasus and Central Asia, such as Azerbaijan, Kazakhstan and Turkmenistan, as well as Russia, still face a major sustainability reform agenda.

Securing sustainable energy in transition economies

www.ebrd.com/pubs
Moldova adopts new mortgage law

Mortgage lending – one of the keys to fostering economic prosperity, political stability and wider equality – is thriving in transition countries. But to sustain this growth in mortgage lending, countries need to ensure a suitable legal environment and establish rules and institutions sufficiently adapted to the market.

In 2008 Moldova adopted a new mortgage law, drafted with the assistance of the EBRD. Developing such a law had been a priority for the government of Moldova for several years and the process involved various partners from home and abroad. The Ministry of Economy and Commerce (MEC) and the EBRD set up a committee of stakeholders from the private and public sectors while mortgage specialists shared their experience of international best practice, including the systems adopted in neighbouring countries such as Romania, Russia, Serbia and Ukraine, working with local lawyers. The project was generously funded by the Swiss government.

The main goal of the legal reform was to consolidate under one single law all provisions concerning mortgage, which had often resulted in contradictory, unclear and incomplete provisions. The reform also aimed to remove the numerous impediments for development of the primary mortgage market and establish the basic framework for the refinancing of mortgage creditors, including issuing mortgage securities (secondary mortgage market).

Mortgage lending in Moldova has increased in the last few years and the features of the new law should contribute to its future expansion (although the current liquidity crisis has not spared Moldova and financial institutions are now experiencing grave funding issues). The law allows for mortgage lending to be undertaken by any financial institution, as long as it is properly regulated and expands the range of obligations that can be secured by a mortgage. It establishes a new regime for mortgage over future and unfinished buildings that should contribute to expanding the financing possibilities for property developers, as well as individual property buyers. Furthermore, the law includes a streamlined mortgage enforcement procedure that offers more security to both mortgagor and mortgagee. It allows the Moldovan provider of mortgages to apply the EBRD’s List of the Minimum Standards and Best Practices for Mortgage Lending and also contains a set of consumer protection provisions, based on the EU Voluntary Code of Conduct for Mortgage Lending.

Legal reform

The EBRD’s Legal Transition Programme (LTP) is an EBRD initiative to strengthen commercial legislation and the underlying institutions in the transition countries. During 2008 the LTP developed a number of key activities, using a mixture of donor and Bank funding.

Strengthening corporate governance frameworks

Good corporate governance is essential for stimulating private sector investments and allowing enterprises to grow. To prosper, companies need to be properly organised under domestic legislation and treat their shareholders, customers, suppliers and other stakeholders in a way that is transparent and that complies with that legislation.

In 2008 the Bank provided a significant amount of legal technical assistance, especially to the early transition countries (ETCs), which are the poorer countries where the EBRD invests. For example, the EBRD released a policy brief on corporate governance for banks in Europe and Central Asia during a conference held at the Bank’s headquarters in London in April 2008. This policy brief was developed in collaboration with the Organisation for Economic Co-operation and Development (OECD) and will be used to advise governments of the ETCs on how to strengthen governance of their banking institutions.

During the year, the EBRD also began putting in place a new corporate governance code in Armenia, in a joint project with the International Finance Corporation. The proposed soft law will be made relevant for companies and banks through a comply-or-explain mechanism.
New publication
Towards the end of 2008 a book entitled *Secured Transactions Reform and Access to Credit*, edited by the EBRD’s Legal Transition Programme specialists, was launched by a commercial publisher. The book contains the lessons of 15 years of legal reform in the secured transactions sector and highlights the way forward for international technical assistance.

Developing telecoms regulation
The EBRD published a comprehensive assessment of telecommunications regulatory regimes in its countries of operations, benchmarking local regulations against the standards of the World Trade Organization and the European Union. This new initiative will help the EBRD identify key areas for improvement and form the basis of discussions with national authorities. In 2008 the Bank had already helped Albania, Kazakhstan, the Kyrgyz Republic, Mongolia, Montenegro and Tajikistan to develop their regulatory frameworks.

Formulating laws and strengthening institutions
EBRD legal technical assistance to the Moldovan government culminated with the adoption of a new mortgage law, which entered into force in September 2008 (see case study on page 26).

The Bank is also spearheading a Clean Air Initiative in Mongolia, and has provided legal expertise on developing clean air legislation. The initiative is an EBRD project to help over 140,000 households in Ulaanbaatar switch from using the highly polluting raw coal that causes smog, a major health hazard in the capital, to a smokeless version.

Further LTP activity in 2008 included helping prepare a new law on municipal and corporate bonds in Albania, providing training for Kyrgyz judges in the commercial sector, and assisting the CIS Inter-parliamentary Assembly in formulating a model law on companies. The law will serve as a reference for countries in the Commonwealth of Independent States for harmonising their legislation with the best international standards.

Looking ahead
The global financial crisis has highlighted the significance of legal reform in responding to increased investment risk and restoring market confidence. It has also revealed major flaws in Western legal and regulatory systems, which until now were often perceived by transition countries as prime examples. The Bank intends to step up its legal technical assistance activities and will continue to promote international standards as the most appropriate models for reform in transition countries.

Environmental and social reform
The EBRD has recognised that the environment is critical to its mandate since its inception in 1991 and it promotes environmentally sound and sustainable development in all its activities. “Environment” is defined by the Bank in its broadest sense to encompass not only ecological impacts but also worker, health, safety and community issues.

The ways in which the Bank should manage the impact of its projects on people and the environment is set out in the Environmental and Social Policy (ESP).

The ESP was approved by the EBRD’s Board of Directors in May 2008 and entered into force on 12 November 2008. Before approval, the Bank consulted widely on the draft policy, beginning in 2006 a process that involved not only posting the draft policy on the EBRD’s web site in English and Russian for 45 days, but also reaching out to civil society by holding six public meetings in Georgia, the Kyrgyz Republic, Hungary, Russia, Serbia and the United Kingdom. The Bank also sought comments from its clients as well as various international organisations, such as the World Health Organization and the International Labour Organization.
The EBRD is committed to the highest ethics and good business practices in all its activities.

Over 700 comments were received and they covered the full range of environmental and social issues identified in the policy, including the environment, legislation, social and labour issues, indigenous people, international environmental conventions and treaties, and public consultation.

A list of organisations and comments, along with Bank responses, can be found in the Report on Stakeholder Consultation.

As part of its effort to promote good working practices and equal opportunities, in 2008 the EBRD published a set of guidance notes aimed at employers in the transition region. The principle of non-discrimination and equal opportunity in employment is a core International Labour Organization (ILO) labour standard that has been enshrined in the national legislation of the EBRD's countries of operations. The notes offer employers advice on gender equality, family friendly working practices and an appropriate work-life balance.

In 2008 OCCO provided advice on approximately 280 projects, which is a 15 per cent increase on 2007. This reflects the Bank’s enhanced due diligence and monitoring guidelines for projects (as of late 2007) involving certain categories of people, such as politically exposed persons, and for projects in sectors that require government licences or permits, such as the extractive industries and real estate.

During the past year OCCO continued to advise on the application of the Bank’s Codes of Conduct, and dealt with 10 reports of suspected misconduct under the Bank’s Procedures for Reporting and Investigating Suspected Misconduct (PRISM).

Policies and guidelines
Following the EBRD’s adoption in 2007 of the IFI Anti Corruption Task Force’s definitions of fraudulent and corrupt practices, the Bank approved in 2008 its new Enforcement Policy and Procedures. These set out how the Bank will process allegations of fraud, corruption, collusion or coercion in activities and projects financed from the Bank’s ordinary capital resources, Special Funds resources (that is, funds from donors that the Bank then uses for investment and technical assistance activities), or from cooperation funds administered by the Bank.

The policy and procedures also enable the Bank to take action to protect its interests, where warranted, against individuals or entities that are found to have engaged in fraudulent or corrupt practices by either a judicial process in one of the Bank’s member countries, or a finding by the sanction mechanism of another international organisation.

The Bank also adopted new guidelines on Chinese Walls in the summer of 2008. These provide for the proper handling of confidential information within the EBRD and the management of potential conflicts via appropriate means. And as part of ongoing efforts to promote ethical behaviour by staff and experts carrying out EBRD work, the Bank recently adopted a policy that promotes, and clarifies the meaning of, a workplace free from harassment, sexual harassment and abuse of authority.

Information and training
Sharing information and knowledge with those who carry out work for the EBRD is an essential part of maintaining open and ethical working practices. In the past year, the Bank has hosted three anti-money laundering training programmes for external participants – in Armenia, Mongolia and Russia. This brings the total number of attendees since 2005 to more than 650 individuals from 375 financial institutions in 17 of the Bank’s countries of operations.

Internally, in 2008 OCCO provided training to 45 EBRD staff members on anti-money laundering, countering the financing of terrorism and integrity due diligence.

Other training included courses to 190 staff members under the Bank’s Integrity Matters! Programme, as well as training for 15 bankers on their obligations and duties as nominee directors on the supervisory boards of some of the Bank’s investee companies.

Looking ahead to 2009, the EBRD will review its PRISM and disciplinary procedures, implement training on Chinese Walls guidelines and provide a refresher course on integrity due diligence, to ensure that integrity and reputation remain at the forefront of all minds in, and connected to, the Bank.
In 2008 the Bank initiated a review of the IRM. As a result, draft rules of procedure were drawn up for a new Project Complaint Mechanism to replace the IRM. These rules are expected to be submitted to the EBRD’s Board of Directors in the second quarter of 2009. While retaining the original functions of the IRM (namely compliance review and problem-solving), the new rules represent a streamlined and clearer procedure for addressing complaints, from registration to monitoring. Complaints registered under the IRM before the new rules come into force will be dealt with in accordance with those rules.

A review of the Bank’s Procurement Policies and Rules (PP&R) was also undertaken in 2008. The PP&R comprise principles and standards that must be adhered to by clients and tenderers subject to a public procurement process, and in the implementation of contracts for goods works and services financed by the Bank. To ensure the review was fully transparent and open to public comment, the proposed changes were published on the Bank’s web site for 45 days. The revised PP&R are expected to be submitted to the EBRD’s Board in the first quarter of 2009 and will be followed by staff and client training to raise awareness of the changes.

Good governance and transparency

The EBRD remains committed to the principles of good governance and sound business practices in all its operations. Key to this endeavour is the Bank’s Public Information Policy (PIP), which promotes disclosure and transparency as an important business value in the companies in which the EBRD invests.

The EBRD is guided by the underlying presumption that, whenever possible, information concerning the Bank’s activities will be made available to the public unless there is a compelling reason for confidentiality. Openness promotes the Bank’s impact on transition in its countries of operations, improves the stability and efficiency of markets and encourages adherence to internationally recognised standards.

The EBRD’s commitment to transparency has most recently been recognised by the 2008 Global Accountability Report (published by the One World Trust). In an assessment of the accountability of over 30 global organisations from the intergovernmental, corporate and non-governmental sectors, the EBRD is the highest-ranked international financial institution and takes second overall place among the organisations assessed.

The Report evaluated four areas of accountability: transparency, participation, evaluation, and complaint and response mechanisms.

In 2008, the Bank revised both the Public Information Policy (PIP) and the Environmental and Social Policy (ESP). Both policies underwent a detailed programme of public consultation to ensure the widest possible participation in the process. Revisions to the PIP included extending the period for public comment on draft country strategies from 30 calendar days to 45, and the ESP was modified to reflect more clearly the environmental and social impact of the Bank’s activities in its countries of operations.

The EBRD’s accountability mechanism ensures transparency of its decisions in relation to its banking operations. Through the Independent Recourse Mechanism (IRM), those directly and adversely affected by EBRD-financed projects can register a complaint. In 2008, no new complaints were received by the IRM and the two complaints registered in 2007 were brought to completion: one to a compliance review and the other, a problem-solving initiative.
Support for the financial sector is a core activity of the EBRD as it is integral to the functioning of a market economy. The EBRD is a sound and efficient partner that can help other financiers by identifying opportunities, sharing knowledge of the region and co-financing sound investments across sectors.
Despite the global crisis, the EBRD remained very active in the financial sector in 2008.

The financial sector in the transition countries has faced its most difficult year since the Russian crisis in 1998. The global financial crisis arrived in the region with full force towards the end of 2008 as liquidity in the banking systems disappeared and bank lending to the real economy slowed dramatically, even stopping entirely in some countries. Confidence in banks and banking systems was eroded and there was a genuine risk of the transition progress that had been achieved being reversed.

In response the Bank took some key steps: it continued to do business with existing clients, maintained the Trade Facilitation Programme (see page 34), and carried on providing loans and quasi-equity. It also worked with governments and other international financial institutions (IFIs) to take action where appropriate, such as putting together a financial package with the International Finance Corporation for the Bank of Georgia. Projects in preparation were reviewed, adjusted where necessary (in terms of pricing and terms and conditions) and completed where possible.

Despite the global crisis, the EBRD remained very active in the financial sector in 2008. The portfolio grew by 5 per cent to €7.0 billion and operating assets increased by 8 per cent to €5.2 billion. The Bank signed 153 new projects in the sector for a total of €1.9 billion. Operating assets grew more quickly than the portfolio as the overall shortage of liquidity prompted borrowers to draw down credit lines quickly and reduce both pre-payments and cancellations. In many instances, the Bank was the only source of financing in its countries of operations as other sources, such as commercial banks, adopted a very cautious approach in response to market turmoil.

Each project has its own particular objectives and the Bank uses a combination of debt and equity to support these aims. Equity investments in banks inject capital that can be used for restructuring and privatisations, which in turn promotes sector reform. In 2008, 27 per cent of new financial sector project signings were equity investments in new and existing client banks.

The EBRD also offers a variety of debt products, such as syndicated loans, mortgage financing, local currency loans and credit lines to banks that can target specific areas, such as small and medium-sized enterprises (SMEs) or energy efficiency. By providing debt to local banks, the EBRD stimulates lending to private businesses and strengthens local institutions.

In 2008 the volume of energy efficiency loans rose, lending to SMEs remained at a healthy level (see page 40), work with local partner banks continued to provide co-financing under the Medium-Sized Loan Co-Financing Facility (MCFF), and the volume of subordinated loans increased sharply. Chart 1 shows the distribution of the Bank’s new business in 2008 by product.

Non-bank financial institutions also play an important role in the financial sector, and the EBRD’s support for them in 2008 remained strong. Pension funds and insurance, leasing and consumer finance companies benefited from equity investments, capital increases and loans, as did institutions focused on micro and small businesses.

To broaden the availability of micro and small loans across the transition region the Bank was particularly active with non-bank institutions specialising in lending to the smallest businesses that have the most difficulty in accessing credit. Trade finance also continued to be a key product, particularly when liquidity is scarce and short-term financing for trade is needed (see page 34).

Geographically, most of the Bank’s support to the financial sector went to the early transition countries (ETCs) and outside central Europe. This is in line with the Bank’s strategy of focusing operations on countries further south and east in the transition region. While Russia received the largest volume of any single country at €546 million, 70 per cent of the Bank’s new business in the financial sector was outside Russia and central Europe. With €240 million in new business, consisting of 54 projects, the Bank has been a significant contributor to the financial sectors of the ETCs.
The EBRD continued to provide technical cooperation (TC) assistance to its financial sector clients. In 2008, €19 million provided consultancy advisory services and €33 million went towards incentive payments to participating banks and sub-borrowers across 22 countries of operations.

Bulgaria, Kazakhstan, Moldova, Mongolia and Romania benefited most from consultancy support, sharing €11.4 million. The new EU member states, particularly Bulgaria, Romania and the Slovak Republic, received incentive payments relating to various European Union SME programmes and Energy Efficiency Frameworks.

As in 2007, along with large ongoing programmes such as the EU/SME Finance Facilities and the energy efficiency country programmes, considerable TC resources have again been devoted to institutional reform and energy efficiency: in 2008, €8.3 million was contracted for energy efficiency credit lines and €8.1 million for institutional reform.

The stresses in the financial markets in 2008 meant that there was more scope for policy discussions with governments, as both clients and the authorities recognised the need for change. The EBRD continued discussions to respond to issues that were either project-specific or were affected by the market environment, but the Bank also engaged in a broader range of discussions on issues that were key in addressing the challenges the sector faced in 2008. The topics included remittances, corporate governance, implementation of Basel II and the implications of the liquidity squeeze.

Investing in energy efficiency in Ukraine

In Ukraine energy intensive companies use three times as much energy to produce the same output as companies in the European Union. But how long can Ukrainian companies afford to do so with energy prices rising each year?

The potential for energy efficiency gains in Ukrainian companies is huge, but the market for such investments is still in its infancy. Consider the EBRD’s Energy Efficiency Programme for Ukraine (UKEEP) and the benefits of investing in energy efficiency are obvious.

UKEEP is a €150 million credit facility developed by the EBRD for participating Ukrainian banks to finance energy efficiency and renewable energy projects in the private sector. With donor support from Austria and Sweden, UKEEP is turning the Ukrainian private sector from energy intensive into energy efficient.

In 2008 Bank Forum was the third local bank to join UKEEP, receiving a €18 million loan to on-lend to private sector industrial enterprises. These companies can apply for long-term loans of up to €4 million to finance investments in energy efficiency technologies and renewable energy projects. Such projects help businesses remain competitive by reducing their energy costs. They also contribute to cutting down emissions of greenhouse gases and so mitigate the effects of climate change.

Long-term financing is important to finance energy efficiency investments. Until recently industrial companies in Ukraine could only get short-term finance and usually for trade-related or working capital financing rather than investment or project financing. The EBRD’s UKEEP is one of the main sources of long-term financing for energy efficiency projects in the country.
The EBRD’s Trade Facilitation Programme guarantees trade transactions to stimulate import and export trade.

Banking

The EBRD plays an important role in improving the corporate governance, transparency and business practices of banks in its countries of operations. It achieves this by taking equity stakes in banks – in whose supervisory boards the EBRD usually participates – and by offering technical assistance. In 2008 the Bank made new investments totalling €35 million in seven banks, and participated in capital increases in a further 14 banks for €59 million. The EBRD currently has investments of €899 million in 55 banks in 25 countries.

Tighter liquidity throughout 2008, and particularly in the latter part of the year, has generated strong demand from banks for loans, and the EBRD has responded while adhering to its core principles of transition impact (that is, contributing to the transition to a market economy), additionality (complementing, rather than replacing, private sector finance) and sound banking.

The EBRD signed 84 projects for €517 million, giving banks the resources to lend to SMEs, and provide mortgages, energy efficiency and agricultural loans. In addition, as part of the EBRD’s support for banks’ capital, it signed eight subordinated loans for €185 million.

Trade finance

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

Trade is suffering from the lack of liquidity and it is in the current financial crisis that the Bank’s TFP has seen demand for business grow. In 2008 the EBRD financed 1,115 trade transactions totalling €890 million under the TFP, an increase of more than €100 million on 2007. Most of these transactions supported small businesses, with about 40 per cent of all deals under €100,000. Many of these transactions would not have occurred without the Programme.

By encouraging an increase in trade, the TFP helps not only to create jobs but also to improve cooperation and understanding between countries. Since a growing number of transactions supported by the TFP involve trade deals between the EBRD’s countries of operations, the Programme is also supporting the restoration of traditional trade links that may have remained dormant for some time. Since the start of the Programme in 1999, the number of transactions taking place within the Bank’s region of operations has been growing constantly. In 2008 the TFP financed 288 intra-regional transactions. These included the export of grain and food products from Kazakhstan, Poland, Russia and Ukraine to Armenia, Azerbaijan and Tajikistan or the export of machinery and equipment from Belarus, Estonia and Slovenia to Armenia, Russia and Uzbekistan. Other transactions included the export of pharmaceuticals from Georgia, Russia and Ukraine to Tajikistan and the export of canned sardines from Croatia to Serbia.

In 2008 the TFP made its first factoring transactions in Russia and Ukraine by lending to Credit Bank of Moscow and Ukreximbank, respectively. Both transactions support various factoring agreements that helped local SMEs to become more competitive through better access to finance.
The TFP also passed another milestone by issuing its first guarantee in local currency, thereby avoiding any foreign exchange risk. The guarantee facilitated wheat flour exports from Russia to Tajikistan and covered 100 per cent of the payment risk of a letter of credit worth over 4 million roubles issued by Tajprombank in Tajikistan to Sberbank Russia. Furthermore, the TFP successfully extended its risk cover to Mongolia, where the Bank’s first TFP transaction supported imports of cars from Germany and covered 100 per cent of the payment risk.

The programme currently has 117 issuing banks in the EBRD’s countries of operations and over 770 confirming banks all over the world. New TFP facilities were signed in 2008 with seven financial institutions in four of the Bank’s countries of operations (Belarus, Mongolia, Russia and Ukraine), including the two new factoring facilities in Russia and Ukraine.

The TFP plays a particularly important role in the ETCs, stimulating market activity by using a streamlined approach to financing a large number of small projects. In 2008, the EBRD financed 450 foreign trade transactions in these countries.

**Equity funds**

The EBRD invests in equity funds not only to help develop a thriving private equity industry in the transition region, but also to raise corporate governance standards in those companies receiving investment and to promote an entrepreneurial culture.

The equity funds industry had a challenging year in 2008. Private equity activity in the region slowed for the first time since 2003. The volume of funds raised was the lowest for the last four years and the number of funds raised in 2008 was approximately 40 per cent down on 2007.

Despite the difficult environment there were 20 per cent more funds seeking to raise capital. As a consequence, competition among fund managers has become intense. A similar pattern occurred during the last financial crisis (1997-99), when fundraising was constrained and the number of funds successfully closing was reduced dramatically post-crisis.

In this difficult market, the EBRD committed €178 million to six new private equity funds in 2008, compared with €400 million to 12 funds in 2007. However, the Bank’s support for the private equity industry in the transition region, particularly Central Asia, remained strong. In 2008 the Bank invested in Aureos Central Asia, a first-time fund in Kazakhstan, and UFG, a new first-time fund mainly active in Russia. It also provided crucial support in the formation of Kazakhstan’s first sovereign wealth fund (the Kazakhstan Growth Fund). With a targeted fund size of €89 million, the Kazakhstan Growth Fund will strengthen private companies in non-extractive industries, such as food production, metallurgy, wood processing and textiles, by providing equity or equity-related investments and raising standards of corporate governance and transparency. The Fund is expected to start operations in 2009.

During 2008 the Bank continued to value and support long-standing relationships and participated in three follow-on funds with Advent International, Troika Capital Partners and ARX Equity Partners. The Bank’s participation in Advent Central Eastern Europe Fund IV was critical in enlarging the fund’s regional focus to Ukraine.

Despite challenges in the global economy, the EBRD continues to be the largest investor in private equity funds in the transition region, particularly in those countries where the investors’ appetite is still volatile, and is seen as a cornerstone investor both for new funds and for well-established funds seeking to enter new countries.

**Other financial services**

The Bank maintained its support for institutions outside the banking sector in 2008. The EBRD’s portfolio in other financial services, such as leasing and insurance, remained in excess of €1 billion, with active projects in 20 countries.

New business in 2008 focused on leasing and insurance as transactions conducted through the capital markets became difficult to complete with the absence of activity in the securitisation market. Twenty-one projects were signed in 13 countries for €126 million: seven capital increases, seven follow-on loans and five new projects.

The Bank made its first financial infrastructure investment in Azerbaijan when it bought a 10 per cent stake in Millikart, a bank card services provider. The EBRD’s investment, which was made through the Bank’s Shareholder Special Fund, will strengthen the company’s capital base, support its further growth and improve its efficiency. The project is complemented with technical assistance of up to €250,000 for institutional reform.

By investing in Millikart, private banks and individuals are expected to benefit from greater competition in a market currently dominated by a single, state-owned player. Millikart is a young, quickly expanding company that subscribes to international best practice and corporate governance.

Financial infrastructure, such as payment systems, stock exchanges or deposit insurance systems, is key for the development of sustainable domestic financial systems and the Bank will be focusing increasingly on projects of this type.

[Shareholder Special Fund on page 17]
Financing for small business

Small businesses are a major engine of growth in the transition countries, creating jobs, alleviating poverty, developing economies and thus political stability. As access to credit for small businesses diminishes and threatens to inhibit expansion, the EBRD is providing support, services and products to boost the sector.
The EBRD has long supported micro, small and medium-sized enterprises (MSMEs) as they contribute fundamentally to the EBRD’s mandate of promoting market economies. This sector also promotes entrepreneurial spirit, flexibility and a resilient economy in volatile times, and holds the key to sustainable jobs.

Individual entrepreneurs and small firms in the Bank’s countries of operations often find it hard to access finance, so the EBRD’s lending programmes step in and fill that gap. Typically, the EBRD lends to local financial institutions, including banks, leasing companies and non-bank microfinance institutions (NBMFIs), which then “on-lend” to entrepreneurs and small businesses. For the funds to be used efficiently and reach the intended clients, the Bank uses donor funds to provide training to financial institutions on how to assist small businesses in the most effective way. The Bank can also provide industry-specific advice to individual enterprises through the TAM/BAS Programme (see page 68).

### Microfinance programmes

The development of a healthy small business sector is key to economic growth. The EBRD’s micro and small business lending programmes support small businesses by providing reliable access to financing from the formal financial sector. This financing is provided through 107 local banks and specialised microfinance institutions which then disburse loans to businesses through some 2,500 branches. At the end of 2008 the portfolio was close to €691.2 million and during the year, €10.4 million in technical cooperation (TC) funds was contracted to support micro-lending programmes.

At the end of 2008 there were large-scale microfinance programmes with commercial banks in 12 EBRD countries of operations: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, the Kyrgyz Republic, Moldova, Mongolia, Russia, Tajikistan, Ukraine and Uzbekistan.

One such lending programme is the Tajikistan Agricultural Finance Framework (TAFF). It was set up in 2007 to support the diversification of Tajikistan’s agricultural industry, including cotton, by providing untied, seasonal working capital finance to small farmers and so offering them an alternative to the historic method of in-kind finance – that is grants and donations – from local investors. In 2008 three partner banks received loans under the TAFF: Agroinvestbank (€6 million), Eskhata Bank (€1.2 million) and Tojiksodirot Bank (€4.6 million).

The Bank also invests equity in banks specialising in lending to micro-enterprises. One example was Belarus’s first dedicated microfinance institution, the Belarusian Bank for Small Business (BBSB), founded by the EBRD and seven other shareholders in 2007. In 2008 the EBRD provided its first loan of €3.8 million to BBSB, which will help kick-start its MSE financing with the aim of reaching microentrepreneurs and small businesses, especially in the regions outside of Minsk, where BBSB plans to open its first two branches in early 2009.
As well as lending through banks, the EBRD works with NBMFIs, which have proved to be efficient providers of microfinance, offering smaller loans and in more remote areas. Since 2005 the Bank has partnered 29 NBMFIs and provided finance and technical assistance to support institutional reform. As an example, in 2008 an EBRD loan of €3 million to MI-BOSPO, a leading NBMFI in Bosnia and Herzegovina, helped it serve even more clients and support the underdeveloped market for financing female entrepreneurs. The loan was complemented by TC funds to support the enterprise’s transformation into a commercial microfinance company.

In December 2008, along with the Consultative Group to Assist the Poor (CGAP), Citibank and the UK Department for International Development, the EBRD organised a roundtable discussion on the global impact of the financial crisis on microfinance. It brought together key players and investors to share views and start an intensive cooperative relationship to support microfinance institutions.

The EBRD places the highest importance on the social impact of its projects, and in 2008 the Bank subscribed to the Client Protection Principles. This is an industry-wide initiative that encourages microfinance providers to ensure that low-income clients are treated fairly and protected from potentially harmful financial products.

Targeting rural poverty in Tajikistan

With 70 per cent of the population living in rural areas and relying on agriculture for their livelihoods, cotton, known as the white gold, dominates life in Tajikistan. It is a vital source of export earnings and tax revenue for the country. Cotton-related indebtedness has virtually paralysed the Tajik cotton industry and debt resolution has become the focus of assistance programmes by international financial institutions in the country. The uncertainty of crop yields and quality from one season to another, the price volatility and the varying management capabilities of farmers means that lending to individual farmers is a high-risk activity for banks.

To help relieve the situation, the EBRD has established the Tajik Agricultural Finance Framework (TAFF) with €25 million available for small farmers through local banks. Giving farmers access to finance allows them to plant the crop of their choice, thus diversifying production and increasing profitability. The finance is used to purchase farming supplies such as seeds and fertilisers. Many of the farmers have never received a loan before and many of them are women who look after household plots and small farms while men have left Tajikistan to seek employment in other countries. This Facility is tailored for seasonal agricultural finance, something which is currently unavailable in Tajikistan. EBRD donor countries are covering the costs of training credit and agricultural advisers. Farmers will be trained to learn more about harmful environmental practices and to work according to best farming practices.

TAFF is a groundbreaking initiative that is helping to decrease rural poverty and, in time, change the structural economic circumstances that can lead to child labour. According to an International Organization for Migration (IOM) report, children harvest up to 40 per cent of cotton in Tajikistan. This contributes to a continuation of the cycle of poverty.

The EBRD has a strong track record of supporting the Tajik micro and small business sector with over €87 million invested in microfinance projects. The Tajik Agricultural Finance Facility builds on the successful Tajik Micro and Small Enterprise Finance Framework through which the EBRD has provided credit lines since 2003.
Providing credit lines to local banks is the main way the EBRD supports small business.

Helping small businesses survive in Romania

Small businesses in Romania are feeling the pinch, caught between cash-strapped buyers and more cautious banks. In 2008 borrowing by Romanian small and medium-sized enterprises (SMEs) fell following withdrawal of long-term debt financing from the main commercial banks. The global financial crisis forced many small businesses to shelve expansion plans and even cut jobs. But one Romanian bank continued to do what it does best: lending to small businesses.

Established in 1993 by 40 local entrepreneurs, Banca Transilvania is now the largest private locally owned bank in Romania. It was the first bank in the country to be listed on the Bucharest Stock Exchange and has more than 1.3 million clients. Importantly it is known as the small businesses bank as it counts 125,000 small business clients – from farmers to food distributors – amongst its clientele.

The EBRD owns 15 per cent of Banca Transilvania and is its largest shareholder. Since 2002 the EBRD has supported the bank’s activities by lending just over €90 million in equity and debt, to finance SME credit lines, mortgages, syndicated loans, an energy efficiency facility and recently a rural financing facility.

At the end of 2008 the EBRD provided Banca Transilvania with a €100 million loan to continue supporting the small business sector. Over 7,500 of Banca Transilvania’s SME clients stand to benefit.

This new EBRD finance in support of a solid partner in Romania will allow Banca Transilvania to continue lending to SMEs at a time when credit for small and medium-sized businesses has tightened.

Finance initiatives supporting SMEs

The Bank’s SME lending programme is designed to serve the needs of small businesses with slightly larger financing requirements and includes a range of financial products, such as credit lines to local banks for on-lending to small businesses, trade guarantees (see page 34), equity investments in banks and equity funds (see page 35), and loans to leasing companies. The EBRD also provides equity directly to small companies through the Direct Investment Facility (DIF).

By the end of 2008 the EBRD had directed over €2.5 billion towards small business projects and currently has projects in 24 countries. The Bank’s SME portfolio involves over 140 financial intermediaries.

Providing credit lines to local banks is the main way the EBRD supports small business. In 2008 the Bank signed 28 new projects with local banks totalling €257 million. The EBRD also signed eight SME-related leasing projects amounting to over €62 million. SME projects with financial intermediaries in 2008 range from a €29 million loan to Caspian Bank in Kazakhstan to a €1 million loan to Zoos Bank in Mongolia.
Donor support for SME finance

Donor support is crucial for the development of SME finance and one of the key contributors to the Bank’s SME initiative is the EU/EBRD SME Finance Facility. It is the Bank’s main instrument for financing small businesses in the new EU member states and candidate countries.

This programme is currently focusing on Bulgaria, Croatia and Romania. EBRD funding available through this facility totals €1.35 billion, including at least €80 million that is earmarked for farmers and small businesses in rural areas where financing is in very short supply.

The European Union has contributed €197 million, which is used to provide in-depth reform programmes for participating financial intermediaries, including training for local staff and upgrading of processes, products and technology, to increase the efficiency and quality of service to SMEs. It also provides financial incentives to local participating financial intermediaries to encourage them to provide financing to SMEs.

By the end of 2008, the EBRD had provided 124 credit lines totalling €1.2 billion to 43 banks and 39 leasing companies in the 11 countries covered by the programme. In total, over 100,000 transactions worth more than €2 billion have been undertaken with small businesses throughout the region. The average loan size for each business is as low as €23,000 while leases average €21,000. The small size of the transactions indicates that the smallest enterprises are being reached successfully. Many of the banks and leasing companies supported by the programme have made small business finance a significant part of their business strategy and will continue to finance SMEs from their own resources after they have graduated from support under the Facility.

How Bank projects affect people and the environment is important to the EBRD. In 2008 the Bank established its first credit line facility of €40 million, in partnership with two Romanian banks, which specifically addresses the financing needs of industrial SMEs in the areas of environmental protection, product safety and quality, and occupational health and safety. The programme is supported by €10.2 million in grant resources from the European Union and the Romanian government that will fund financial incentives and technical assistance to improve environmental and health and safety standards of SMEs.

Under financing frameworks in Armenia, the Kyrgyz Republic and Moldova, the multi-donor Early Transition Countries Fund and Shareholder Special Fund contributed €2 million in 2008. This will be used to hire consultants to train local bank staff and increase the efficiency and quality of service to SMEs. Belarus and Ukraine also benefited from €1 million of donor funding (from the European Union and bilateral donors), which is being used to engage consultants to help six banks establish or enhance their SME lending activities.
Energy

Energy is a strategic focus for the EBRD. The Bank is at the forefront in helping countries from central Europe to central Asia secure sustainable energy supplies, and it is financing the efficient use of energy that will cut demand and imports, reduce pollution and mitigate the effects of climate change.
Of all the industries, the power sector offers the greatest potential for energy efficiency and emissions reductions.

Power

The EBRD’s efforts in the power sector focus on state-of-the-art clean generating technology, efficient and reliable transmission and distribution infrastructure, and renewable energy sources.

Despite difficult market conditions in 2008, the EBRD invested a healthy €607 million in the power sector, a 47 per cent increase on the 2007 level. The funds will support projects in numerous countries with a focus on sustainability and energy efficiency.

Sustainable energy is at the core of the EBRD’s mission and, under the Sustainable Energy Initiative, the Bank promotes the efficient and rational use of energy, which in turn can help countries obtain a secure supply of energy, address regional electricity imbalances, and improve industrial competitiveness.

Of all the industries, the power sector offers the greatest potential for energy efficiency and emissions reductions. In Kazakhstan, for example, €128 million helped the national electricity grid operator, KEGOC, to modernise substations and the high-voltage transmission network to ensure reliability, safety and non-discriminatory access to the national transmission system. The project supports the Kazakh government’s Sustainable Energy Action Plan, which was developed and signed with the Bank in 2008 (see case study on page 45). And in Ukraine, a €150 million investment will help national power company Ukrenergo construct two new power transmission lines, reducing power losses and emissions.

Renewable energy, such as wind and hydropower, is high on the EBRD’s agenda. The Bank not only supports individual projects, it also seeks to participate in the wider reform of the power sector. As part of this, in 2008 the Bank initiated several technical cooperation (TC) assignments related to renewable energy, from the development of a regulatory framework for renewable energy in Mongolia, to energy efficiency improvement assessments in Kazakhstan, Russia and Ukraine. Beyond TC assignments, the Bank is also engaged in talks with governments regarding energy policy, particularly in Kazakhstan, Russia and the Western Balkans.

In 2009 the EBRD will continue to play a critical role in the power sector. As a result of the financial crisis, project sponsors and governments are looking to the EBRD to fill financing gaps. More than ever, support from the EBRD will ensure that power projects continue to move ahead, securing reform and sustainable economic growth.
Reducing carbon emissions

In 2008 the EBRD helped to save more than 8 million tonnes of carbon dioxide emissions. This is twice the total annual emissions of a country the size of Albania and equates to the carbon emissions from a 3,000 MW gas-fuelled power plant supplying the household electricity needs of half of the population of Ukraine.

Sustainable energy

One of the most important challenges in the EBRD’s countries of operations is to address the inefficient use of energy, which undermines the competitiveness of enterprises and economies, threatens energy security and contributes disproportionately to carbon emissions. In 2006 the EBRD launched the Sustainable Energy Initiative (SEI – see box on page 47) as a partnership with donors to increase investments in energy efficiency and renewable energy, and to ensure that sustainable energy is paramount across all EBRD projects. The SEI has now completed its first three-year phase of operations.

One way the Bank encourages reductions in carbon emissions is through the Multilateral Carbon Credit Fund (MCCF), an initiative set up in 2006 by the EBRD and the European Investment Bank (EIB). Through this fund, private and public companies, as well as EBRD and EIB shareholder countries, can purchase carbon credits from emission reduction projects financed by the EIB or EBRD, to meet their mandatory or voluntary greenhouse gas emission reduction targets under the Kyoto Protocol.

Promoting energy efficiency in Kazakhstan

The global economic downturn has weighed heavily on Kazakhstan, yet the national government is determined to move forward with plans to reduce the high energy intensity of the domestic economy. The Sustainable Energy Action Plan (SEAP) agreed with the EBRD is the main platform for such investments. Signed in June 2008, the Plan promotes the efficient and sustainable use of energy throughout the country.

The state-owned Kazakhstan Electricity Grid Operating Company (KEGOC) is the first company to benefit from an EBRD investment under the Plan. A €255 million syndicated unsecured loan signed in 2008 is financing the second stage of the modernisation of substations and high-voltage equipment to ensure the efficiency, reliability and safety of Kazakhstan’s transmission system. Half of the loan (€127.5 million) signed in 2008 was successfully syndicated to financial institutions working in Kazakhstan such as Bayerische Landesbank, Dexia Credit Local, Unicredit Group, RZB, Banca Infrastrutture Innovazione e Sviluppo, Cordiant Capital, Calyon and Kommunalkredit International Bank.

Kazakhstan’s available power capacity is largely located in the north; while in the south energy has to be imported. KEGOC is currently trying to eliminate the imbalance with the construction of a new north-south transmission line, which the EBRD has been co-financing under loan facilities signed in 2004 and 2005. The construction of the line will be finished in 2009.

The investment comes at a time when credit for many businesses has dried up following the severe global financial crisis. Despite the crisis, investments that cut down on energy losses and make countries energy efficient, remain a top priority for the EBRD. As part of the Sustainable Energy Action Plan, the Bank is also helping the Kazakh government to draft laws that will improve the energy sector’s regulatory framework and will introduce best international practices.
In 2008 the first carbon credit transactions under the MCCF were signed in Armenia and Ukraine.

Reforming the energy sector in Poland

Poland is a key energy market in central and eastern Europe because of its size, location and the solid economic performance in the past decade. Although the energy sector accounts for about 5 per cent of Polish GDP, the country’s ageing energy infrastructure is badly in need of investments to upgrade and reach its full potential. After previous unsuccessful attempts, the Polish government worked in 2008 with the EBRD – an experienced investor in the country – to privatise the state-owned energy supplier ENEA.

ENEA is the leading power supplier in west and north-west Poland and the second largest electricity supply company in the country, servicing 2.3 million customers or 14 per cent of the market. The company – one of four state-owned power groups created in 2003 during the integration of the sector – includes power generation, electricity distribution and electricity supply in its operations.

In November 2008 the EBRD bought a 2.5 per cent stake in the ENEA power group at the company’s initial public offering (IPO). The deal is a landmark for the privatisation of the Polish energy sector and the finance will help enable long-awaited improvements towards greater capacity and efficiency.

ENEA’s listing on the Warsaw Stock Exchange was the first IPO ever made by a state-owned Polish power company. The listing is the first step in the privatisation of the company and the EBRD’s participation is crucial in inspiring confidence and encouraging other investors to enter the Polish energy market.

The funds raised through the sale of shares will be invested in modernising ENEA’s electricity distribution network to cut energy losses. The money will also fund the construction of new power units at the Kozienice power plant in central Poland and will be invested in renewable energy projects.

In 2008 the first carbon credit transactions under the MCCF were signed in Armenia and Ukraine: four emission reduction purchase agreements (ERPAs) for a total of 790,000 tonnes of CO₂. Following a difficult start, the Fund’s objective is to complete CO₂ acquisitions of between 7 million and 11 million tonnes of CO₂.

www.ebrd.com/carbonfinance

One of the most significant energy saving projects in 2008 was the equity participation of up to €61 million that the EBRD took in Irkutsk Oil Company (see case study on page 49). Another project was a €14 million loan to Astarta, one of Ukraine’s leading sugar producers, to introduce energy efficiency improvements by updating equipment at the company’s five sugar plants. Producing sugar requires a lot of energy – more than in almost any other food production process.

It is estimated that up to 30 per cent of energy could be saved, and through the MCCF Astarta entered into a carbon credit transaction under the Kyoto Protocol. This is one of the first such transactions in the Ukrainian agribusiness sector and serves as a model for other sugar producers interested in capitalising on carbon credits.
The EBRD also promotes sustainable energy through targeted credit lines to local banks. For example, after three years of operations, the Bulgarian Energy Efficiency and Renewable Energy Credit Line (BEERECL) shows excellent progress. The participating banks have signed loans amounting to €81.5 million to finance 117 projects, which is estimated to lead to energy savings of 841,089 MWh a year (the equivalent to the electricity used by 10 per cent of the Bulgarian population). Furthermore, the Slovak Republic Sustainable Energy Financing Facility (SLOVSEFF) has proven effective in targeting energy efficiency in housing collectives for the first time.

The EBRD also takes a broader approach to sustainable energy. Through discussions with governments the Bank can help create an environment that allows SEI investments to prosper and aligns interests between the Bank and the local country. The Bank and the Kazakh government signed a Strategic Energy Action Plan (SEAP) in mid-2008, and a SEAP with Bulgaria is at an advanced stage.

### Natural resources

Natural resources – oil, gas, coal and the mining of precious and non-precious metals – is one of the most important business sectors for many transition countries. All the EBRD’s activities in natural resources provide support for the environment, health and safety and energy efficiency.

One of the most significant projects with an environmental focus in 2008 was a €54.5 million equity investment in Irkutsk Oil Company, which holds a number of exploration and development licences in the northern part of Russia’s Irkutsk region. The funds will enable Irkutsk Oil Company to cut greenhouse gas emissions from its east Siberian oilfields by re-injecting associated gas instead of flaring it.

### The SEI

In 2008 the EBRD signed 64 projects in 20 countries under the SEI and committed €982.3 million, a 5 per cent increase from 2007 and almost 20 per cent of the Bank’s total investment in 2008. Additionally, the SEI portfolio for 2008 supported 9 million tonnes of CO₂ emission reductions and 3.5 million tonnes of oil equivalent (toe) in energy savings, which is greater than the annual energy needs of a country the size of Georgia.

At the end of 2008, total SEI investments reached €2.7 billion (exceeding the SEI original target of €1.5 billion by 77 per cent) and total project investment value reached €14 billion (versus the target planned of €5 billion). In 2009 the EBRD will build on the success of the first three years by launching SEI 2, an even more ambitious programme that aims to scale up investment.

[www.ebrd.com/pubs](http://www.ebrd.com/pubs)
Improved environmental performance is a pre-requisite for the EBRD when financing the development of oil and gas fields.

The number of national and international companies exploring the transition region’s natural reserves is growing, and so is the need for support services. Therefore, a new area for the EBRD in 2008 was in oilfield services, with two noteworthy transactions signed with major Russian market participants. Integra Group benefited from a €54 million loan that will improve its balance sheet structure and provide capital expenditure financing for energy efficiency improvements and purchasing seismic and drilling equipment. North Expedition received a €37.5 million investment in the form of convertible preferred notes, which will be used to start operations with 30 new drilling rigs.

Improved environmental performance is a pre-requisite for the EBRD when financing the development of oil and gas fields. For instance, when the Bank lent Pechora Energy €5.7 million to help it evaluate subsurface resources in the Komi Republic in north-west Russia, Pechora Energy agreed to an Environmental Action Plan, the main aspect of which was the minimisation of gas flaring at the company’s oilfields. Pechora Energy is a small, independent operator committed to environmental protection and transparency, and is part of the EBRD’s effort to support private companies operating in a state-dominated sector.

The EBRD achieved a double first in 2008 when it provided a €6 million convertible loan to mining exploration company Tirex Resources. Not only is it the EBRD’s first natural resources investment in Albania, but also its first ever in the junior mining sector. The investment will fund Tirex’s continued exploration in the Mirdita district in northern Albania, bringing high standards and technology to the extractive industry in a country that has seen limited quality investment over the past decade. The EBRD will also support the company’s efforts to set up high standards of business and environmental protection.
Also in 2008 the EBRD supported the development of the Bautino Atash Marine and Supply Base, the first privately owned, permanent marine support and supply base in Kazakhstan. A loan of €7.9 million will complement an earlier equity investment and finance the construction, equipment and operation of a vessel maintenance facility. Infrastructure currently available on the North Caspian Sea coast is insufficient to support the growing number of offshore oil operators, and the need for marine base facilities is becoming increasingly urgent.

The tougher economic conditions and the sharp drop in commodity prices in 2008 will pose difficult challenges to many companies in the natural resources sector in the Bank’s countries of operations. In 2009 the EBRD will continue to support companies in natural resources, especially where this promotes good environmental and health and safety practices, energy efficiency and energy security.

Reducing greenhouse gas emissions in Russia

The flaring of gas is not only wasteful but environmentally damaging. In 2008 the EBRD signed an equity participation of up to €60 million in Irkutsk Oil Company which will, amongst other objectives, enable the Russian energy firm to cut greenhouse gas emissions from its East Siberian oilfields by re-injecting associated gas instead of flaring it. According to some estimates, the flaring of gas burns up to 5 per cent of Russia’s total gas output.

Irkutsk Oil will tackle the gas-flaring problem through construction of a re-injection facility at the company’s Yarakta field in eastern Siberia. This will allow 90 per cent of the associated petroleum gas produced over the life of the field to be used in enhancing oil and condensate recovery. The EBRD finance will also boost Irkutsk Oil’s balance sheet and strengthen its chances of obtaining further long-term finance for its development and exploration programmes. It will also help Russia meet its agreements under the Kyoto Protocol: the country has agreed to limit emissions of six greenhouse gases between 2008 and 2012 to their 1990 level. This EBRD support to Irkutsk Oil is being provided under the Sustainable Energy Initiative (SEI) which aims to help its countries of operations cut back on wasteful and polluting energy use.

Through the Initiative, the EBRD has invested €2.7 billion in 166 projects in 24 countries. Investments are improving energy efficiency in the industrial power and municipal infrastructure sectors, developing renewable energy supplies and supporting the development of the carbon market in the EBRD countries of operations.
Infrastructure

Infrastructure that boosts economies and quality of life is a major area of EBRD finance. Whether helping to improve water supply, waste management, heating systems or public transport, the EBRD is working with partners across the region to make infrastructure efficient, reliable and secure.
Municipal and environmental infrastructure

Water supply, waste management, district heating and urban public transport were all areas of municipal and environmental infrastructure (MEI) that benefited from EBRD support in 2008. The Bank provided €279 million and mobilised an additional €120 million through co-financing from commercial banks and other international financial institutions (IFIs) – an essential component for the development of the sector in light of reduced commercial lending.

Encouraging the private sector

The EBRD continued to support decentralisation, commercialisation and environmental improvement, ensuring that most financing was provided without the need for state guarantees. Over 94 per cent (€262 million) of the Bank’s financing was in the private sector or on a non-sovereign basis in the public sector.

Specifically, the Bank signed five loans with major private sector operators in the water and district heating sectors, four of which were to Russian regional operators. The Bank’s involvement was instrumental in bringing existing project service and lease agreements into line with international practice by introducing service targets; most of the contracts were not obtained on a competitive basis.

Reforming the public sector

Despite its focus on the private sector, the EBRD continued in 2008 to support reform-oriented public sector enterprises. One such project was the Bulgarian Fund for Local Authorities and Governments (FLAG), to which the EBRD extended a €35 million syndicated loan. FLAG is an innovative funding vehicle set up by the Bulgarian government that identifies, develops and finances municipal projects (such as water and sewerage, waste management and local road rehabilitation) that will ultimately be eligible for EU grants. The Fund will target municipalities that have financial capacity but are unable to access long-term financing from other sources.

For countries at an earlier stage of transition, the EBRD mobilised investment grant funding from donor countries so as to structure investment projects within affordable limits. In 2008 the Bank signed five municipal loans in Georgia and Tajikistan, focusing on water, solid waste and urban transport.

Energy

Energy efficiency continued to be a key component in many MEI projects. Around 60 per cent of MEI financing in 2008 contributed to reducing greenhouse gas emissions. Two particularly noteworthy investments were to district heating operators in Ukraine (Cherkasy and Odessa), where the investments were specifically designed to increase energy efficiency and improve operations (see case study on page 53).

Wider reform of the MEI sector

As well as supporting individual projects, the EBRD also engages in discussions with regulatory authorities to improve sector and tariff regulations. In 2008, for example, the Bank took part in a working group organised by the Russian Ministry of Economic Development focused on reforms in the water sector and provided input into a new law on heat supply (notably district heating) that is in the process of being developed. Elsewhere the Bank worked with local authorities in Bulgaria to reform water tariff regulation, and participated in a working group relating to the regional consolidation of Romanian water companies.

Energy efficiency continued to be a key component in many MEI projects.
In 2009 the EBRD will strengthen its work with private sector operators and seek to structure innovative investments in light of the increased constraints to funding. The Bank will focus on modernising district heating and urban transport systems, as well as on environmental investments in the water, wastewater and solid waste sectors. Importantly, co-financing projects and increased collaboration with other IFIs, the European Union and other grant providers is anticipated given the limited appetite of the commercial market.

**Transport**

The EBRD supports the development of efficient, reliable and secure transport systems in its countries of operations in six lines of transport: aviation, ports, railways, roads, shipping and logistics. An efficient transport system is crucial for an economy’s development and the operation of regional markets.

In 2008 the Bank invested approximately €660 million in transport infrastructure, with an additional €350 million coming from co-financing with other IFIs and commercial banks. Investments were distributed across the transition region, but Russia continued to receive a significant share. The Western Balkans were also key beneficiaries, with investments in roads, rail and airports, as were some of the poorer countries, such as Moldova.

In Russia, the Bank was able to participate in the first initial public offering (IPO) for a Russian rail operator, Globaltrans Investment, in which the EBRD bought a 3.2 per cent stake. The Bank also took part in the private placement of shares by a Russian logistics company (FESCO). By taking stakes in companies the EBRD can have an influence on company strategies and support the development of efficient structures (see case study on page 54).

**Saving heat and energy in Ukraine**

Odessa – a major city, seaport and tourist destination in Ukraine – has embarked on a project to revamp its district heating system. The system is plagued by inefficiency and excessive distribution losses because of lack of maintenance in recent years.

Over 40 per cent of the district heating system’s network is 40 years old. Moreover there are no meters in the network and so calculations of heat sales, boiler efficiency, and network losses are pure guesswork. Odessa’s district heating network is typical of the former Soviet Union as well as central European countries before the large network investments at the beginning of the 1990s. District heating systems in Ukraine are also a large source of greenhouse gas emissions, accounting for 20 per cent of carbon dioxide and 81 per cent of methane emissions produced by fossil fuel combustion in the country.

The EBRD responded to the request from Odessa’s District Heating Company for finance with a €21.9 million loan to improve services and increase energy efficiency savings. The finance will cover the cost of a series of measures aimed at reducing natural gas consumption by the heating system. Odessa District Heating Company will also begin introducing meters to measure the actual consumption of heat by customers and collect payments on this basis. The system will provide incentives for customers to invest in energy saving technologies in their homes and businesses. EBRD donors will cover some project costs to make it affordable for the company and its customers. The governments of France, Sweden and the United Kingdom have committed €0.8 million to finance, among other things, the feasibility study and implementation support for the project.

Odessa’s district heating rehabilitation is the EBRD’s second contribution to improving the efficiency of district heating in Ukraine. The city of Cherkasy in central Ukraine received €11.2 million in January 2008 to upgrade its system. Improvements in the old network are particularly urgent in Ukraine at a time when the price for gas has been rising steeply and is reaching the level paid by western and central European countries.
The EBRD often works with other IFIs to provide funding for projects.

Promoting private sector participation in Russia

It is easy to see why the Russian rail sector is key to the country’s economy. The network covers eight time zones, stretches across an 86,700 kilometre route and includes more than 127,000 kilometres of railway lines. As the second largest rail network in the world (after the United States), Russian railways handle 93 per cent of the country’s cargo transportation.

To finance rail improvements, the Russian government opened the rail sector to competition in the late 1990s. Since then private railway operators and owners of rolling stock have attracted a large share of the market by offering better services. Over 34 per cent of the total wagon fleet is now privately owned, compared with less than 20 per cent in 2003.

But even the private sector needs finance for investments, in particular in the midst of a global economic downturn. In 2008 Globaltrans Investment, one of Russia’s leading private rail freight operators, received €31.9 million from the EBRD to purchase new rolling stock, including open top wagons and cement hoppers. In addition, the EBRD acquired a stake of 3.2 per cent in Globaltrans Investment, as part of the company’s IPO on the London Stock Exchange. This is the first ever IPO by a private rail operator active in Russia’s rail freight market.

A long-term investor in Russia, the EBRD has helped to develop the Russian railways network by investing about €413 million in seven projects since 2004. This recent project underlines the EBRD’s support to expanding private sector participation in Russian’s transport infrastructure.

Also in the rail sector, the Bank provided commercial financing to state-owned railway companies and their subsidiaries in Kazakhstan and Russia, to enable them to renew freight wagons and upgrade telecommunications infrastructure. Further financing was also provided to Inproleasing, an independent railcar leasing company in Russia, and to the Montenegrin railways for emergency track improvements in Montenegro.

For the Western Balkans, integration with the rest of Europe – both economically and physically – will be furthered thanks to a €180 million loan from the EBRD in 2008. The funds will help to finance the construction of the Trans-European Corridor Vc in Bosnia and Herzegovina, a key transport artery in that region (see case study on page 55).

The EBRD often works with other IFIs to provide funding for projects. In 2008 the Bank financed, along with the EIB, the second phase of a road rehabilitation project in Moldova and the modernisation of Chisinau Airport, supporting the greater commercialisation of the airport’s activities. Both projects will also receive grant funding from the European Union under the Neighbourhood Investment Facility.
As part of the EBRD’s drive to raise corporate governance standards and boost the private sector and entrepreneurship, the Bank confirmed its participation as a first-close investor (that is, an initial investor) in the first regional infrastructure fund to be established in the transition countries. The Macquarie Renaissance Infrastructure Fund is a private equity fund that aims to mobilise institutional and private equity to finance much-needed infrastructure development in Russia and the Commonwealth of Independent States, particularly Kazakhstan and Ukraine. It will also serve as a model for other investments in promoting good business practice.

Public-private partnerships (PPPs) are another way the EBRD encourages private sector participation, such as with the construction of the M6-M60 motorway in Hungary. Other PPP initiatives in Kazakhstan, Russia and the Western Balkans were signed in 2008. The Bank also increased governments’ capacities to finance large transport projects by providing finance, where possible, without recourse to the sovereign.

As a result of the financial crisis, companies are finding it harder to access finance, so in 2009 the EBRD will place more importance on ensuring that priority infrastructure projects are not delayed or cancelled.

**Building regional links in Bosnia and Herzegovina**

The Trans-European Corridor Vc is the backbone of Bosnia and Herzegovina’s road network. Running 335 kilometres through the centre of the country, the Corridor links Bosnia and Herzegovina to Hungary and Croatia.

Bosnia and Herzegovina’s road infrastructure was badly damaged during the Bosnian war (1992-95) and fell into further disrepair as many experienced road workers fled the country due to the conflict. Since then the EBRD has invested more than €270 million to improve Bosnia and Herzegovina’s roads – €23 million for post-war emergency road repair in 1996, €70 million for the construction of a key regional road network in 2004 and €75 million for road maintenance and rehabilitation of a main primary road network in 2007. This support to Bosnia and Herzegovina was further enhanced in 2008 with an EBRD loan of €180 million to finance key sections of Corridor Vc. This is the EBRD’s fourth road rehabilitation project in Bosnia and Herzegovina and the largest infrastructure project in the country.

The EBRD finance is part of a €480 million investment in the priority motorway sections of the Corridor, financed together with the EIB. The priority sections comprise a 15.2 kilometre section from Drivusa to Kakanj, 18.9 kilometre from Vlakovo to Tarcin, 21.4 kilometre from Pocitelj to the southern border of Croatia and 10.9 kilometre from Odzak to the northern border with Croatia.

Construction will start in 2009 and is expected to finish by mid-2013. Once finalised, Corridor Vc will connect Bosnia and Herzegovina to regional traffic networks and will spur trade and development, making the country and the region more attractive for investors.
The EBRD encourages the development of the corporate sector – agribusiness, manufacturing, property and tourism, telecommunications, informatics and the media – to improve lives, livelihoods and attract investment. In 2008 the Bank’s support to this sector resulted in landmark deals in newspaper publishing and software.
The EBRD is the single biggest investor in the agribusiness sector in the region.

**Agribusiness**

The EBRD is the single biggest investor in the agribusiness sector in the region. Its involvement spans all activities throughout the production chain, from farming, processing and trading to food packaging, distribution and retail.

Despite the challenging global financial conditions in 2008, the EBRD signed 41 transactions in the agribusiness sector, totalling €508 million (compared with 40 projects for €517 million in 2007), and mobilised a record additional €400 million in the loan syndications market.

Another global concern in 2008 was soaring food prices. On the supply side, droughts and other natural disasters have reduced output while the expansion of biofuel crops has taken land out of food production. Meanwhile, demand has increased due to population growth in Africa, India and China and rising standards of living, meaning consumers are buying more meat and dairy products.

As a keen promoter of the dialogue between private sector and governments in its countries of operations, the EBRD held successful seminars during 2008 with the UN Food and Agriculture Organization (FAO) in Kiev, London and Moscow to explore untapped agricultural potential and investment opportunities in the region. These meetings brought together representatives of ministries of agriculture, industry, the banking sector and several of the EBRD’s key private agribusiness clients in ongoing efforts to create better links between the agribusiness industry and farmers, and harness private sector investments for farming infrastructure.

There was close coordination with IFIs in 2008, in particular the FAO, and through the regional agribusiness sector network “Eastagri”. The EBRD expanded its policy dialogue initiatives during 2008, including in respect of grain in Ukraine, dairy in Russia, grain receipts in Serbia and a regional review of land tenure issues. In addition, the Bank raised technical cooperation funds to embark on analyses of various agribusiness subsectors and their respective remaining transition challenges.

Agribusiness projects signed in 2008 were spread across 18 countries, with a continued emphasis on countries at the earlier stages of transition. Fifteen transactions for €50 million were devoted to the Bank’s early transition countries (ETCs). One such transaction, a loan to MCS Beverages in Mongolia, will increase its production capacity and help the company introduce new products, including juices, flavoured waters and iced teas. The loan was the first syndicated loan to a private company in Mongolia and is expected to act as a model for similar projects, showing the advantages of gaining access to long-term commercial funds (see case study on page 59).

Another company to benefit from EBRD financing in 2008 was Astarta, Ukraine’s leading sugar producer, which obtained a €14 million loan to upgrade its equipment at its sugar production plants and sugar beet farming operations. The loan should result in considerable energy savings (see page 46).
Other ground-breaking projects in the agribusiness sector signed in 2008 include the Bank’s first hryvnia local currency loan to Desnagrain in Ukraine, the subsidiary of a French farming cooperative, which aims to provide new technology to Ukrainian grain farmers, as well as the Bank’s first corporate sector project in Montenegro in the Mesopromet project (see case study on page 69). Lending in local currency helps businesses avoid foreign exchange risk and can improve the credit risk of those businesses.

In 2009 the EBRD will continue to work closely with existing and new clients to respond to the repercussions of the financial crisis, as well as liaise with governments and authorities to address key policy issues. While countries such as the ETCs, Kazakhstan, Russia and Ukraine will require particular attention, the EBRD will continue to support agribusiness projects across all its countries of operations.

Manufacturing

While much of the EBRD’s work focuses on the more significant sectors of a transition economy, such as natural resources, finance and energy, the Bank provides funding to other crucial areas related to the production of goods, ranging from pharmaceuticals and paper to cars and steel pipes.

In 2008 the EBRD invested €358 million in manufacturing projects. Most of these were in Russia (€160 million) and Ukraine (€93 million). Investments also went to Albania, Armenia, Azerbaijan, Croatia, Georgia, the Kyrgyz Republic, Mongolia, Romania, Serbia and Uzbekistan.

A recent EBRD loan to a Mongolian beverages company is set to boost production and widen consumer choice. In its third investment in the agribusiness sector in Mongolia, the EBRD is financing MCS Coca-Cola, a soft-drinks producer which holds the franchise for Coca-Cola products in the country. A loan of €9 million will see the company not only expand and broaden the product range but also improve wastewater treatment and recycling processes.

Established by two brothers Odjargal and Od Jambaljamts, MCS Coca-Cola has become one of the largest private companies in Mongolia. The soft drinks market has grown too with sales of the last two years jumping from 56 per cent to 80 per cent in volume and value. Messrs Jambaljamts’s plant is now too small to produce enough drinks to quench the thirst of the Mongolians. The company delivers soft drinks to 500-600 customers every day. Although the plant works at full capacity, it is not able to meet consumers’ demand, in particular during the summer months. Expansion has been on the company’s agenda for a long time but long-term finance from local banks is hard to access.

The EBRD finance brings the beverage business in Mongolia to a new level; promoting local manufacturing, employment and environmental production. MCS Coca-Cola is constructing a greenfield bottling plant in the outskirts of the capital, Ulaanbaatar, which will increase the company’s production capacity with new products such as fruit juices and flavoured waters for introduction to the market. Consumers will benefit from lower prices compared with similar imported products. The local community will also benefit, with more jobs created. A part of the EBRD finance will be invested in building a new wastewater treatment and recycling plant for the new bottling plant and a brewery belonging to the company.
Bringing locomotives back on track in Russia

Railways remain the backbone of Russia’s transportation system and also the most cost efficient means of transportation in the long term. But the locomotives are 30 to 35 years old, and at least one-third of the fleet is overdue for replacement.

With EBRD finance, Sinara Transport Machines, one of Russia’s biggest manufacturers of freight locomotives, is making “Made in Russia” locomotives work again. The €46 million EBRD loan will contribute to overcoming a shortage of rolling stock, which has been holding back the development of railway transport in the country. In 2008 Russia’s state-owned rail operator RZD said it would need over 11,600 new locomotives between now and 2015.

This recent investment highlights five of the EBRD’s key priorities in Russia. It contributes to the renewal of Russian infrastructure; reaches out to the regions that already receive 90 per cent of the EBRD’s funding; is targeted at a private Russian manufacturing company; contributes to the diversification of the Russian economy away from the commodities sector and helps increase production by using less energy. Of the total amount, €4 million will finance investments in energy efficiency to enable the group’s diesel shunting locomotives in the central Kaluga region to cut energy consumption by up to 15 per cent. The EBRD finance will also fund the modernisation of production facilities and will support serial production of freight locomotives, particularly the new and highly performing 2ES6 model, at its UZGM (Ural Railway Engineering Plant) unit near Yekaterinburg.

This long-term loan will be repayable in one instalment at the end of a seven-year grace period, thus strengthening the capital base of the company. By 2013 it will allow Sinara Transport Machines to create a high-tech production plant capable of building over 500 locomotive units a year, set up a service centre and continue work on developing new models.

One of the most significant projects was a US$ 150 million (€107 million) loan to General Motors for the construction of a greenfield car assembly plant. The new GM plant is being built on the outskirts of St Petersburg, a city that is rapidly turning into a major hub for foreign auto manufacturers setting up production in Russia. The plant will have an initial capacity of 70,000 cars a year and will supply the Russian market, one of the world’s fastest growing auto markets.

In another notable project, and one of the largest foreign direct investments in Albania, the EBRD extended €29.4 million in a debt and equity financing to Antea Cement. Antea Cement will use the EBRD finance to construct a cement plant north of Tirana with a capacity of 1.5 million tonnes of blended cement. The output is mainly intended for the Albanian market, with some possibly being exported to Montenegro and Kosovo.

Smaller businesses contribute fundamentally to the Bank’s mandate of promoting transition to a market economy. In the manufacturing sector, over €24.5 million was invested through facilities directed to smaller businesses and entrepreneurs. One such project was in the Western Balkans, where the EBRD invested €1.4 million (with €0.6 million being syndicated) in Edipack, the only paper-producing company in Albania. The investment will support the company’s plans to install a recycled paper production line and establish waste paper recycling networks throughout Albania. The Bank is committed to the highest environmental standards, and this project will establish a precedent.
in Albania with its environmentally friendly paper production. The €2 million equity investment is being arranged under the EBRD-Italy Western Balkans Local Enterprise Facility.

Equity investments are a good way for the Bank to encourage good corporate governance and help businesses become more efficient and transparent. In addition to the stake bought in Edipack, the EBRD also invested in Eurocable, a leading Croatian producer and distributor of low voltage cables, Russian pharmaceutical company Petrovax and cement producer Lafarge Mykolaiv in Ukraine.

**Property and tourism**

The EBRD plays an important role in attracting foreign investment to the property and tourism markets of its countries of operations.

In 2008 the EBRD invested €236 million in 12 new property and tourism projects. In line with the Bank’s shift in focus, these investments continued to move from central Europe towards the south and east, with the EBRD signing its first property projects in Armenia, Moldova and Mongolia. Other projects were signed in Bulgaria, Croatia, Romania, Russia and Ukraine.

In Armenia the EBRD committed €14.2 million to support the development of a mixed-use property in the capital, Yerevan. The project will use technology and practices that exceed national requirements for energy efficiency. It will offer excellent residential and commercial facilities, therefore raising the quality of the local property market.

In Moldova the EBRD invested €21.4 million in the capital Chişinău’s first large-scale retail development that meets international standards. The project saw the participation of a major strategic investor and so it is expected to attract a large and diverse mix of new retailers. The business model and high standards of construction mean that the project will serve as a benchmark for other property developments in the country.

The efficiency and competitiveness of Mongolia’s leading distributor, Mongolian Star Melchers (MSM), was also given a boost in 2008 with an EBRD loan of €4.3 million. The loan will finance the construction of a major new building complex on the outskirts of the capital, Ulaanbaatar, which will include office space, a vehicle showroom and workshop service area, a mining and industrial tool supply centre, and warehouses. MSM will be able to maintain and then increase its market share in the near future.
In 2008 the EBRD signed one of its largest regional projects (that is, spanning several countries); it invested €40 million in Bluehouse Equity Fund III, which has a solid track record of property development across the EBRD’s countries of operations. By investing in property funds, the EBRD promotes the development of secondary markets, which helps to increase liquidity in the sector.

The Bluehouse Fund will invest up to €250 million in the property markets of Bosnia and Herzegovina, Bulgaria, Croatia, Moldova, Montenegro, Romania, Serbia and Ukraine. A significant portion of the capital will be used for financing and developing institutional grade property (that is, well located, high quality property that offers low risk for investors) in secondary cities across the region, therefore expanding the local markets and promoting competition.

In 2009 the EBRD will invest further in eastern Europe and the Caucasus, south-eastern Europe, Russia and Central Asia. Regional funds and co-investment programmes with developers will continue to play a major role in developing the property sector, so long as strong market appetite remains. However, 2009 is predicted to be challenging, with a lack of commercial debt, and as a result the EBRD expects to be cooperating more often with other international financial institutions (IFIs), such as the International Finance Corporation, in funding property developments.

### Telecommunications, informatics and media

In 2008, the EBRD invested €235 million in communications, media and technology projects, with a further €210 million being mobilised through co-financing with other IFIs and commercial banks. By investing in information and communication technology (ICT), the EBRD is helping the transition economies to diversify by spurring innovation and competition.

In 2008 the EBRD made its first investment into newspaper and magazine publishing by investing €40 million of equity into the central European subsidiary of German media company Westdeutsche Allgemeine Zeitung (WAZ) Media Group for the acquisitions of media and distribution companies in Albania, Russia and Serbia, as well as future investments in the region. Supporting private publishers is vital to promoting editorial independence – the foundation of a free press and freedom of speech.

Another first was an investment into software services, through €10 million of equity into the European subsidiary of US firm, Via One. By developing the “pay-as-you-go” mobile telephony market and creating an electronic payment services sector, the Bank advanced innovative communication services in Bulgaria, Croatia, Hungary and Serbia.

Regional expansion in telecommunications was a dominant theme in 2008. For example, providing €26.2 million to Caucasus Online in Georgia, allowed the construction of a high capacity sub-sea fibre cable between Georgia and Bulgaria to be completed. With extensions connecting Georgia to Azerbaijan and Armenia, this cable will provide a more cost-effective means of transporting communications traffic from the service operators of the Caucasus and Central Asia to Western Europe.
A further business expansion in 2008 came with financing of €42.8 million to JSC Transtelecom, the telecoms subsidiary of Kazakhstan’s national railway company. Up to 5,000 kilometres of fibre-optic cable will be laid along the railway tracks, providing both the railway company and the general public access to a high speed national communications network.

The deployment of mobile infrastructure and services continues to be a key requirement for regional development. Whether it is €0.8 million in joint financing with the Bank of Baku to Irshad Telecom to improve its chain of mobile phone shops in Azerbaijan, or €115 million to MTS of Russia to help it expand its 3G network across Russia and Uzbekistan and upgrade existing networks in Turkmenistan, the EBRD is fully supporting the development of mobile telephony across its countries of operations.

Within the loan package to MTS, €10 million was earmarked for the Bank’s first energy efficiency project in telecommunications. The EBRD formed an industry consortium in 2008 that developed a way to reduce the energy consumption of the mobile phone industry. MTS is trialling the system in 20 cities to assess the effectiveness and operational requirements of combining wind, solar and power minimisation techniques into mobile base stations. The communications industry is consuming increasing amounts of power and is the fastest growing contributor to world carbon emissions. Technical cooperation funds to study the feasibility of these alternative energy sources for mobile base stations in rural areas in Albania, Moldova and Serbia have also been secured.

Private sector participation is key to modernising infrastructure, increasing competition and improving business practices. The EBRD provided €30 million to Calik Enerji and Turk Telecom to help them acquire and develop Albtelecom, Albania’s fixed-line operator. The Bank is continuing to encourage other transition countries to privatise their operators through bank funding which supports ICT policy development, legal reform, regulatory implementation and privatisation processes in Kazakhstan, Kosovo, the Kyrgyz Republic, Mongolia, Serbia and Tajikistan. EBRD discussions with governments are expanding to also include intellectual property rights, digital rights management and security, as countries learn to cope with the more demanding requirements of developing long-term ICT policies.

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Donor funding and co-financing with other IFIs support small businesses, energy efficiency and regional development under initiatives such as the TAM/BAS Programme, the Sustainable Energy Initiative, the Western Balkans Fund and the Early Transition Countries Fund. Through this support the Bank helps to bring innovative approaches to transition challenges in often the poorest and most indebted of the EBRD’s countries of operations.
EBRD donor-funded activity continued strongly in 2008.

Activities in 2008

Grants from donor countries are a vital resource used by the EBRD to advance the transition to a market economy in its countries of operations. Used alongside the Bank’s human and investment capital resources, these funds support the implementation of projects in the public and private sectors. Since the Bank was set up in 1991, €2 billion has been provided by donor governments, agencies and private sector entities.

EBRD donor-funded activity continued strongly in 2008, with €82 million being committed to 432 projects in the form of technical cooperation (TC). TC prepares the way for future EBRD-financed projects and improves the investment climate in the Bank’s countries of operations. Donor funds allow the EBRD to engage experts to develop the know-how of EBRD clients, such as in business management, and in providing legal assistance to help develop regulatory frameworks. Priority sectors in 2008 included micro and small businesses, sustainable energy, municipal infrastructure and transport.

The levels of TC funding in 2008 reflected the geographical spread of the EBRD’s activity during the year: the early transition countries (ETCs) and the Western Balkans received the most, with €26 million and €12 million, respectively. Other major beneficiaries were Ukraine (€10 million) and Kazakhstan (€4.2 million). TC assistance to new EU member states went principally to Bulgaria and Romania: €4.3 million to Bulgaria to promote energy efficiency and sustainable energy and €2.6 million to Romania in support of micro, small and medium-sized enterprises (MSMEs). Russia received €5.9 million to help the development of small businesses, infrastructure and sustainable energy.

The European Union is a major source of grants, having provided cumulative funding in the region of €800 million, of which since 2004 there have been grant agreements alone of €194 million. Of this, €90 million has been committed in technical assistance, with the remainder either not yet committed or being used for grant co-financing or performance fees. The European Union is also working closely with the Bank on the Sustainable Energy Initiative.

EU-EBRD cooperation has involved working together with the EIB during 2008. Cooperation between the three institutions takes place within more structured and centralised mechanisms in discrete, sector-focused areas, with emphasis on SME lending, energy efficiency and infrastructure in the different regions. An example of this is the Joint Assistance to Support Projects in European Regions (JASPERS), a technical assistance partnership between the European Commission, the EBRD and the EIB to assist central and eastern European member states to develop high quality infrastructure projects receiving support from the European Union’s Structural and Cohesion Funds.

EU-EBRD cooperation has also been strengthened in the Western Balkans and neighbouring countries. Initiatives include the Infrastructure Project Facility (also involving the Council of Europe Development Bank or CEB), which provides technical assistance in the Western Balkans to prepare the way for EBRD, EIB and CEB projects in energy, transport, the social sector and environmental infrastructure. It also includes a “municipal window” which
Donor-funded activities and official co-financing

provides grant investment co-financing for municipal investment projects. In May 2008 the European Union launched a new Neighbourhood Investment Facility (NIF), which involves the EBRD, EIB, CEB, the Nordic Investment Bank and national financing institutions. Sectors to be financed through this Fund include energy, transport and environmental infrastructure. The EBRD has been involved in eight out of nine projects that have received support so far. The European Union has committed €50 million to support IFI projects in the region. A number of member states are providing parallel contributions to a Trust Fund that will provide complementary financing to the NIF.

While the global financial crisis did not hit the transition countries with full force in 2008, its knock-on effects were felt to varying degrees. Most affected were the more advanced countries and Ukraine and Russia, because their relatively developed financial sectors were more exposed to international markets. These developments underline how important donor funding will be in crisis interventions in the coming period.

The EBRD as a TC provider
In 2008 the Bank itself became a source of technical cooperation and grant funding when the EBRD Shareholder Special Fund, approved by the Board of Governors at the EBRD’s 2008 Annual Meeting in Kiev, was launched, providing a source of funding to complement the existing efforts of donors. An allocation of €112.5 million from the 2007 profits of the Bank has been dedicated to supporting the Bank’s operations with TC and grant financing. This will support Bank projects during the Fund’s first Work Plan from July 2008 to June 2009. Two-thirds of the funding has been earmarked for TC activities with clearly defined targets and is divided as follows: at least €45 million for the ETCs; at least €25 million for the Western Balkans; €10 million for the NDEP; and €1 million for nuclear safety initiatives.

In its first six months of operation, the Shareholder Special Fund provided €37 million for 90 projects. The Fund complemented donor initiatives in particular by leveraging financing for the multi-donor ETC Fund and Western Balkans Fund (see below). It also allowed the realisation of important projects for which there was no alternative funding.

Supporting energy efficiency
Donor support is also an essential part of the Sustainable Energy Initiative (SEI), which promotes and develops energy efficiency investments in the EBRD countries of operations. In 2008 the Bank continued to scale up its investments in SEI projects, reaching €982 million by the end of the year compared with €934 million in 2007. A key element of donor funding is in helping to overcome some of the barriers to sustainable energy investments both through technical cooperation and, in some instances, grant financing in the form of incentive payments to issuing banks to encourage them to promote energy efficiency. In this regard, the Shareholder Special Fund is able to support the SEI in more complex and innovative areas.

Regional funds
The multi-donor ETC Fund coordinates donor funding in the Bank’s poorest countries of operations. In 2008, 38 projects were financed with €13.1 million going to both TC projects and grants. Not only did the Bank’s investment activities benefit from this support, enabling it to develop more projects in these countries in line with the Bank’s strategy of moving south and east, but the funds also helped to further institutional and legal reform, develop local businesses and improve the investment climate. In 2008 donors replenished the Fund by €14.9 million, securing future investment in the ETCs (see also page 17).

The multi-donor Western Balkans Fund, set up in 2006, continues to be a major source of technical assistance. Support in 2008 went to transport and municipal infrastructure, institutional reform, the development of tourism, legal reform, financial sector development, micro lending and strengthening of local businesses. The Fund, chaired by Sweden (its largest bilateral donor), has so far pledged €20 million, of which €17 million has been committed to projects. In 2008 the Fund was replenished by €6.4 million. Denmark became the 16th donor in 2008.

Small businesses are the backbone of a vibrant market economy and the Western Balkans Local Enterprise Facility (LEF), set up by the EBRD and Italy, provides equity, risk sharing and debt financing to local enterprises that may otherwise find it hard to access financing. Italy contributed around €15 million in co-investments and over €4 million in TC money to support the LEF.

The Northern Dimension Environmental Partnership (NDEP) continued to attract significant donor funding and new projects in 2008. For example, Russia confirmed its commitment to the NDEP by contributing an additional €20 million, which resulted in further pledges from the European Commission, Norway and Sweden. By the end of the year, close to €275 million had been committed to the NDEP. In addition, the EBRD Shareholder Special Fund has allocated €10 million in parallel support for the NDEP environmental work programme.
In the NDEP nuclear window, four grant agreements totalling €74 million were signed in June 2008. These included two decommissioning projects, nuclear fuel transportation and storage in Andreeva Bay, and radiation monitoring and emergency response systems in the Archangelsk region.

Official co-financing
In addition to funding by donor governments for TC operations, public sector institutions work in partnership with the EBRD to provide official co-financing for investment projects. This is mainly in the form of loans, with smaller amounts in grants and other types of participation. In 2008 co-financing of EBRD investment projects amounted to €430.7 million. The lion’s share of this funding (€292.4 million) came from international financial institutions, particularly the EIB and the International Finance Corporation (IFC).

Other investment grants, totalling €35.7 million, were provided by the Millennium Challenge Georgia, the Netherlands and Bulgaria. Participation and/or risk participation of €77.9 million came from the Deutsche Investitions- und Entwicklungsgesellschaft (DEG), the Netherlands Development Finance Company (FMO), the OPEC Fund and the government of Italy. The main beneficiaries of official co-financing were investment projects in Ukraine (€150 million), Bulgaria (€83 million) and Moldova (€32 million). Official co-financing has also been used at a regional level. Grants were provided for projects in Bulgaria, Georgia and Moldova totalling €35.7 million.

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Building stronger businesses
The Bank’s two complementary, donor-funded business development programmes – TurnAround Management (TAM) and Business Advisory Services (BAS) – are needed more than ever in the current financial climate. While continuing to assist small and medium-sized enterprises in general, the TAM/BAS Programme can also help secure EBRD investment and strengthen the management of companies lined up for potential EBRD support.

TAM focuses on broad managerial and structural changes within SMEs, bringing in executives from economically developed countries to help management teams learn new business skills, whereas BAS uses local consultants to help micro and small businesses improve performance. Both prepare the way for Bank-financed projects.

In 2008 the TAM/BAS Programme mobilised €15 million in funding, of which €9 million was from the EBRD Shareholder Special Fund (SSF). Thanks also to funding from different bilateral donors, the European Union and other multilateral initiatives, 129 TAM projects were given the necessary financial support, including SSF funding for 46 of these. BAS programmes in 19 countries, operating through 31 offices, were also fully funded for the first time.

BAS started 1,157 individual enterprise projects in 2008, established a programme in Mongolia and opened a second office in Tajikistan. TAM set up 129 new projects and, for the first time, began operations in Turkmenistan. TAM/BAS also carried out 110 market development activities.
In line with recommendations of the Task Force Review of TAM/BAS and the EBRD’s Evaluation Department, both presented in 2007, there has been a substantial change in the balance of the TAM/BAS Programme in 2008. The core aim of helping individual companies to develop and grow has been maintained but there is now more emphasis on broad market development and capacity building, such as training for MSMEs and local consultancies, and increased dissemination of market economy best practices through seminars, web sites and publications.

The Programme is linked closely to the investment priorities of the EBRD. Experts provide advice prior to EBRD financing and, in 2008, 22 enterprises were referred to EBRD banking teams and various EBRD-supported equity firms. In 2008 the Bank invested a total of €22 million in six TAM/BAS companies.

TAM/BAS continues to expand activities that are aimed at increasing energy efficiency, environmental protection, gender equality, rural development and young entrepreneurship. The Programme is also enhancing its work by preparing country briefs. These assessments delineate the main challenges and obstacles MSMEs have in developing a market economy, they define how best to further transition to a market economy and they provide recommendations for TAM/BAS actions.

Internal monitoring and evaluation methodologies will also be strengthened in 2009, and the TAM/BAS team is working with the Bank’s Office of the Chief Economist to develop new approaches to measuring the overall transition impact of the programmes.

Boosting meat production in Montenegro

The rugged mountain scenery for which Montenegro is famous contains rich pasturelands ideal for supplying locals with their similarly rugged and much loved diet of steak, sausages and cured meat. So it is not surprising that the EBRD’s first private corporate sector deal in the country should be with a meat production and processing company.

In 2008 the EBRD lent Mesopromet €5 million to improve its production facilities, reduce its environmental impact and boost its retail network. The loan is being arranged under the EBRD-Italy Western Balkans Local Enterprise Facility. This was established by the EBRD with financial contributions and support from Italy to help with the economic recovery of the Western Balkan region. The investment in Mesopromet will be used to help finish and equip a new canning facility at the company’s production plant in Bijelo Polje, northern Montenegro. The new equipment will raise health and safety standards for Mesopromet workers. The company will also use the loan to install a new wastewater treatment plant at the site, greatly reducing the facility’s environmental impact. A part of the EBRD finance will be used for setting up two new large retail centres in northern Montenegro. As well as producing meat and processing meat products, Mesopromet operates its own retail network in Montenegro.

This investment in Mesopromet follows a successful project by the EBRD’s TurnAround Management (TAM) and Business Advisory Services (BAS) Programme, which draws on an extensive database of advisers with solid experience at senior management level. The TAM team, which began its work with Mesopromet in 2005, helped the company to restructure its production facilities, improve output and develop a sales and marketing strategy. The programme also assisted Mesopromet in identifying new trade partners. The BAS project involved local consultants who assisted in setting up Financial Accounts and Management Information Systems. TAM/BAS activities in Montenegro are largely funded by the European Union.
Nuclear safety is a pressing environmental concern. The EBRD and its regional and international partners are addressing the potential risks and hazards posed by obsolete nuclear sites, machinery and military equipment, thereby making the transition region and beyond environmentally safe and secure.
In 2008 the Bank-managed donor-funded projects at Chernobyl made significant progress.

The EBRD manages six nuclear safety funds on behalf of the European Union and 29 donor governments: the Nuclear Safety Account (NSA), the Chernobyl Shelter Fund (CSF), three international decommissioning support funds (IDSFs) and the Nuclear Window of the Northern Dimension Environmental Partnership (NDEP).

Donors have contributed more than €2.5 billion to these funds since 1993, and in 2008 approved over €500 million in new grant allocations. Projects financed by these funds are subject to the same rules and policies that apply to the EBRD's loan-funded projects, in particular with regard to procurement rules and environmental policies and standards.

Chernobyl

In 2008 the Bank-managed donor-funded projects at Chernobyl made significant progress. A major achievement was the formal acceptance by the Ukrainian authorities of a comprehensive programme to stabilise the shelter structure that was hastily constructed around unit 4 of the Chernobyl nuclear power plant, destroyed in the 1986 accident.

The largest project at the site is the design and construction of the CSF-funded New Safe Confinement (NSC), an arch-shaped structure that will be assembled next to the destroyed reactor and then slid over it to enclose it. In 2008 this project made good progress: after the contract was signed in September 2007, the contractor mobilised around 150 people in offices in Paris, and Slavutych and Kiev in Ukraine, to design this complex facility. Once completed, the NSC will shield the site from water and snow and protect the environment from contaminated material. It will also provide equipment and a safe working environment for future deconstruction and waste management.

Further progress was also made with the submission of a comprehensive concept design document required by Ukrainian regulatory authorities. Elaboration of this document has provided a number of solutions to key design issues, to ensure, for instance, that the structure will be able to withstand certain events, such as strong winds.

Another important Bank-managed Chernobyl project is the NSA-funded design and completion of a facility to process and store spent fuel from units 1 to 3 to allow for their safe decommissioning. Key components such as the storage casks have been designed and tested, and the detailed design is expected to be submitted to the regulatory authorities in the second half of 2009.

Funding for the first phase of the project is secured and donors, as well as shareholders of the Bank, took steps to raise the further funds required. In 2008 donors to the NSA, led by the G-8 group of countries, raised an additional €75 million, with Russia making its first contribution to the Fund. The EBRD Governors also decided at the Annual Meeting in May 2008 to support both Chernobyl projects with €135 million from the Bank’s 2007 net income. This should give a huge boost to the international community’s efforts to find the remaining funds needed to complete CSF and NSA projects in Chernobyl.
International decommissioning support

The International Decommissioning Support Funds (IDSFs), funded by the European Commission and a number of European countries, support Bulgaria, Lithuania and the Slovak Republic in their decision to permanently close their old Soviet-designed reactor units of the Kozloduy, Ignalina and Bohunice power plants, respectively. In 2008 the second reactor of Bohunice V1 in the Slovak Republic was shut down. With this closure, only one of the original seven units will remain in operation – a reactor in Lithuania – which will also be shut in 2009.

Equally important is how to help the three countries cope with the subsequent loss of generating capacity. In 2008 an environmental upgrade at the largest conventional power plant in Lithuania was completed, and it now provides electricity in line with EU emissions regulations.

The EBRD helps countries save energy by providing funds to local banks in the form of credit lines, which the banks then on-lend to energy efficiency projects. In Bulgaria and the Slovak Republic these credit lines receive support from the IDSFs and they continue to generate impressive energy savings. In the Slovak Republic, where these energy efficiency credit lines were established in 2008, energy savings of 30 per cent were achieved last year.

Northern Dimension Environmental Partnership

In 2008 the Nuclear Window of the NDEP entered a new phase. Small, urgent projects were completed and donors approved grant agreements for major investment projects in line with the Strategic Master Plan developed in 2007. The Plan provides a comprehensive overview of how to deal with the nuclear radiological and environmental risks posed by the legacy of the Soviet Northern Fleet in north-west Russia.

Preparatory work has now started on projects to remove spent fuel and waste from the derelict service ship, the Lepse, prior to its decommissioning, to defuel a prototype nuclear submarine, to make safe an abandoned heavily contaminated former spent fuel store on the Barents Sea, and to upgrade waste management facilities at the same site.
Evaluating EBRD activities

By evaluating its operations, the EBRD is able to assess its performance and account for its decisions. The Bank looks at the outcomes of policies and projects, determines how successful they were and tries to use these lessons to improve operations in the future. Of all EBRD projects evaluated up to 2008, 79 per cent received an “Excellent-Satisfactory” rating on transition impact.
EvD reviews the impact of EBRD projects both on a particular sector and the economy as a whole.

**Independent evaluation**

EBRD projects are assessed and rated in terms of how well they meet their objectives and how much they contribute to the transition process. This is carried out by the Bank’s Evaluation Department (EvD), which is independent of the EBRD’s banking operations. EvD is headed by the Chief Evaluator, who reports exclusively to the Bank’s Board of Directors. Projects are usually evaluated one to two years after full disbursement of funds, once investment has been completed.

**Impact on the transition process**

EvD reviews the impact of EBRD projects both on a particular sector and the economy as a whole. The criteria for determining a project’s impact on the process of transition are the same as those applied during the project selection and approval stage. Key indicators include the degree to which the project promotes privatisation, develops skills, encourages competition and supports market expansion. Other key considerations include whether the project supports institutional reform, improves the functioning of markets, acts as a model for other projects and sets new standards in business conduct and governance. Each project is then assigned an overall performance rating of one of the following: “Excellent”, “Good”, “Satisfactory”, “Marginal”, “Unsatisfactory” or “Negative”.

Chart 1 shows that the share of projects with an “Excellent-Satisfactory” transition impact rating in 2008 was 83 per cent. In that year 17 per cent of evaluated projects were rated “Marginal-Negative” for transition impact. This is in line with the outcomes seen since 2003, and compares well with the period 1997-2002, when higher numbers of projects were rated “Marginal-Negative”. Projects evaluated during those years had been approved and implemented in the late 1990s when the economic climate in the region was more difficult than in recent years. This may have damaged the sustainability of some private sector projects and prevented them from realising their full potential. Current economic difficulties have not yet had a negative effect on evaluation results in 2008.

Chart 2 shows cumulative results for the transition impact of a total of 627 projects evaluated since 1996. Of these, 55 per cent achieved a rating of “Good” or “Excellent” and a further 24 per cent were assessed as “Satisfactory”. Weighting the results by volume of investment yields better outcomes, with 86 per cent “Satisfactory” or better in 1996-2008.

**Overall performance of EBRD activities**

The overall performance rating gives a high weighting to transition impact but also includes other indicators, such as the fulfilment of project objectives, financial performance, environmental performance and additionality (the Bank’s ability to complement rather than replace private sources of finance).

Since 1996, 58 per cent of evaluated projects achieved a rating of “Successful” or “Highly Successful” (see Chart 3). Weighting the results by volume of investment gives a figure of 71 per cent “Successful” or “Highly Successful” over the same period. These percentages have been higher in the last five to six years than previously. In 2007 and 2008 there were fewer projects rated “Highly Successful” than in previous years, but more were rated “Successful”, giving a similar number of positive results overall.
The “Successful” or “Highly Successful” score for overall performance is much lower than the percentage of projects that received “Excellent-Satisfactory” ratings for transition impact (83 per cent in 2008). This difference is partly due to lower ratings for financial performance reducing the overall performance score. These lower ratings are triggered by the high-risk investment climate in the countries where the EBRD operates, particularly in the countries at the early or intermediate stages of the transition process. Furthermore, the limited progress in institutional reform and the slow implementation of privatisation programmes have added to the investment risks. However, during 2008, five projects scored an overall rating of “Highly Successful”.

Based on the above findings whereby transition impact shows continued positive results and the lower overall performance ratings demonstrate that the Bank works in difficult environments, EvD concludes that the EBRD has been successful in operating according to its mandate.
A key role of evaluation is to ensure that past experience is applied to new projects.

Special study
Agribusiness sector

EvD undertook a special study to review the EBRD’s agribusiness policies and performance from 1991 to 2007. The assessment was based on the past performance of 91 evaluated operations in 20 of the Bank’s countries of operations (besides regional projects), representing one-third of the 274 operations signed in agribusiness in that period. Subsectors covered by these projects included agricultural equipment financing, beverage manufacturing, food and beverage stores, food manufacturing, support activities for crops and wholesale trade (non-durable goods).

The study evaluated the extent to which the projects met the objectives set out in the policies of 1993 and 2002 and assessed the relevance, efficacy, efficiency and overall impact of these projects. The review of the evaluation results was complemented with two case studies, one studying the targeting and overall sector impact of EBRD projects in Ukraine, and one studying the effects of supermarket/ hypermarket operations in Romania on their supply chains.

EvD concluded that the Bank’s overall activities in the agribusiness sector have been “Successful”, with “Satisfactory” to “Good” transition impact. It recommended that a new agricultural policy should address more clearly processors and marketing companies and enhance their backward linkages. Other recommendations included:

- increasing the use of technical cooperation funds to enhance sector dialogue and develop new approaches to financing agribusiness in the early transition countries
- developing new delivery mechanisms for mid-sized investments, such as regional funds and increased use of local offices for project development
- enhancing cooperation with the EBRD’s financial institutions team to improve access to finance in rural areas
- greater coordination with the development community to influence the legal framework, especially the agricultural land market
- training specialised staff in the more complex areas of backward linkages, market failures and joint initiatives with other EBRD teams.

Applying lessons to new projects

A key role of evaluation is to ensure that past experience is applied to new projects. This begins with intensive consultation between the banking teams and EvD on the lessons learned from project evaluation. Regular feedback is offered at every stage of the approval process to ensure that operational staff are aware of relevant past experience.

Project workshops are held and tailored to the needs of banking teams. EvD also presents to management and the Board of Directors on the evaluation of individual projects. To enhance the lessons learned process in the Bank, EvD maintains a lessons-learned database that contains more than 2,700 lessons (available at www.ebrd.com/evaluation).

Some examples of lessons learned in 2008 are shown in the boxes.

Evaluating technical cooperation activities

The EvD has evaluated around 580 consultant assignments funded through the EBRD’s technical cooperation (TC) programme. These assignments have been supported by over €160 million of funding from over 30 donors. When combined with TC assignments evaluated during the EvD’s special studies, this figure rises to over 1,600 assignments involving more than €470 million of funding.

www.ebrd.com/evaluation
Successful project
Brewery in eastern Europe

The EBRD provided a loan and equity totalling around €6 million for the restructuring and expansion of a brewery in eastern Europe. The rationale behind the project was to invest in a company with a management team committed to building the company into a successful national brewer that could become a target for a foreign direct investment by a leading international brewery group.

EvD rated the investment “Successful” overall. The project achieved its objectives of expanding production and improving efficiency, raising the quality and consistency of the end product, and expanding distribution channels and brand building. The aim of attracting a strategic shareholder was achieved when a competitive tendering process and negotiations involving the EBRD led to an international brewery group acquiring a substantial minority stake in the company. Transition impact is rated “Good” based on positive effects of the strategic investor, which provided high levels of support, including for the appointment of a new management team. The investment had an excellent impact on competition among local breweries and also between local and imported beer, which has been increasing its market share in recent years.

An important lesson learned from this project is that from the outset the EBRD should define clear standards for the company to meet by agreed deadlines, so ensuring important corporate governance improvements. This will facilitate the search for an appropriate strategic investor, as happened in this case. The EBRD should also ensure it allocates sufficient resources to an equity investment – in terms of TC funding and staff time – to support the restructuring process, particularly in the absence of a strategic investor.

Less successful project
Urban transport

The EBRD approved a loan of €10 million to a municipal transport company to modernise its bus fleet by acquiring new buses, and to upgrade workshops. The project also aimed to restructure the municipal transport sector in the city through the introduction of a public service contract with a transparent structure and standards for the provision of public transport. The loan was made directly to the municipal transport company, backed by guarantees and undertakings from the city and region to support the project. TC funds were made available to support the restructuring and provide assistance to company management. Further TC support for a creditworthiness enhancement programme for the city was planned but never implemented.

The project was rated “Unsuccessful” with “Unsatisfactory” transition impact. Project implementation was delayed by serious political difficulties in the city. Most of the planned bus purchases were, however, completed with significant savings, but the city did not support the company’s suggestion of using the savings to purchase additional smaller buses. The remaining part of the loan (33 per cent) was therefore cancelled just two years after it had been approved. Most of the transition-related loan covenants were not met and the workshop modernisation did not materialise, calling into doubt the sustainability of the benefits intended through the bus fleet modernisation.

The key lesson from this project is that, before instigating reform, the Bank needs to undertake a more thorough and broader-based institutional analysis. It must identify the main constituent parties, including the main stakeholders of sector reform processes, the client’s capacity to implement those reforms, ownership of the project, potential risks and the logical sequencing of the project and related milestones. Related investments need to be tailored and interlinked with these reforms in order to serve as effective leverage tools.
Procurement

Apart from its core business of financing projects, the EBRD offers a wide range of procurement opportunities for suppliers, contractors and consultants. In 2008 the Bank financed 124 public sector contracts for works, goods and services, valued at €1,198 million.
The principles of non-discrimination, fairness and transparency are fundamental in all the EBRD’s procurement activities.

The EBRD’s clients are responsible for procuring contracts for goods, works and consultancy services when using Bank financing for their projects. Contracts cover a multitude of sectors, including road works, wastewater plants or power distribution lines. The EBRD monitors the procurement process and contract implementation to ensure that the Bank’s procurement policies are being adhered to.

**Policies**

The principles of non-discrimination, fairness and transparency are fundamental in all the EBRD’s procurement activities. Enshrined within the Bank’s Procurement Policies and Rules (see box on page 83), these principles are designed to promote good practice and efficiency and to minimise risk in implementing Bank-financed projects. The EBRD expects all participants in the procurement process to observe the highest standards of ethics and conduct during contract tender and implementation.

Private sector clients can apply their own procurement practices, provided that the EBRD is satisfied that these practices are commercially sound and that fair market prices are obtained. The client must also ensure that conflicts of interest are avoided and that the best interests of all parties involved in the process are preserved. More precise rules apply to procurement in public sector operations where the EBRD requires clients to use structured, transparent procedures that maximise competition and fair treatment for all participants.

Work also continued with other multilateral development banks to harmonise procurement documentation for public sector projects procuring goods, works and IT systems.

**Activities in 2008**

In 2008 EBRD-financed projects led to 124 public sector contracts, valued at €1,198 million, of which €802 million was financed by the EBRD (representing 67 per cent of the total contract value). This compares with 138 contracts valued at €2,232 million in 2007, and indicates a 46 per cent decrease in total contract value for 2008. The total value of contracts resulting from “open” tendering procedures in 2008 was €1,170 million, or 98 per cent of total contract value. Of 124 contracts signed, 97 were for transport and municipal and environmental infrastructure and totalled €1,174 million. This represents 78 per cent by number and 98 per cent by value of all public sector contracts awarded in 2008.

The lower total of signed contract value in 2008 is due to fewer high value contracts signed during the year compared with 2007.
The EBRD saw a slight increase in the number of concerns and formal complaints it received regarding procurement practices. In 2008 the EBRD received 8 concerns and 13 formal complaints compared with 5 and 11, respectively, in 2007.

A “concern” is any issue of low complexity that is brought to the attention of the EBRD by a tenderer regarding the procurement process or contract award. The concern is referred to the contracting authority, which is expected to address and resolve the issue with the relevant party.

**Procurement opportunities**

Procurement opportunities concerning EBRD-financed projects, and information about forthcoming contracts, are regularly published on the Procurement Opportunities section of the EBRD web site.

[www.ebrd.com/oppor/procure](http://www.ebrd.com/oppor/procure)

**Review of the Procurement Policies and Rules**

Although modified and updated several times since their adoption in 1992, the Bank’s Procurement Policies and Rules (PP&R) have not been subjected to a comprehensive review, so in 2008 the EBRD launched a process to overhaul them, taking into account experience gained since inception.

The nature of the Bank’s business is changing: there is a greater focus on sub-sovereign projects to the south and east of the Bank’s region of operations and on concession financing. This brings with it greater procurement risks, especially where the tendering/contracting authorities do not have adequate experience in international open tendering and contract management. The overall aim of the review is to take stock of the evolving needs of the Bank and its clients and suppliers, as well as those of its public stakeholders, and then reflect this evolution in the PP&R.

The review included a public consultation during 2008, inviting the business community to comment on the proposed revisions. The new PP&R are expected to be presented to the EBRD’s Board of Directors in 2009.
Organisation and staffing

To achieve its mission, the EBRD seeks to recruit, motivate and retain the most talented and committed people, ensuring that employees are appropriately rewarded for their contributions and can participate in quality training and development.
Human Resources

The EBRD’s human resources strategy is in its third year. Its principles are based on positive engagement with staff, responsiveness to the needs of departments throughout the Bank, innovation, professionalism and transparency.

Staffing

EBRD staff as of 31 December 2008 totalled 1,407, with employees coming from 57 of the Bank’s 61 member countries. Of these staff members, 1,099 (or 78 per cent) were based in the London Headquarters. There were 308 employees (compared with 297 in the previous year) working across 34 regional offices in 26 countries of operations. The ratio of male to female professional staff in the EBRD is approximately 1.51:1 (down from 1.58:1 in 2007).

Recruitment

As the financial crisis began to bite in 2008, other banks and financial institutions started to cut costs and staff, but the EBRD bucked this trend by continuing to recruit for a large number of vacant positions. New staff hired in 2008 totalled 175 (of which 78 per cent were at professional level). Of the 175 new members of staff, 134 were recruited in London and 41 in the Bank’s countries of operations, where competition on the job markets remained fierce.

Recruitment was driven exclusively by staff turnover, amounting to 9.6 per cent in December 2008, and was implemented through a mix of traditional channels, internet-based tools, recruitment agencies, as well as the Bank’s revised employee referral programme. In addition, members of the human resources team visited several Resident Offices and linked with local providers of HR services to better address challenges in local job markets.

New recruits came mainly from the private sector (about 75 per cent) but also from other international financial institutions.

Compensation and benefits

Compensation and benefits decisions in 2008 were implemented within the budget and guidelines approved by the Board of Directors. Salary increases and bonuses were allocated to staff on a selective basis in April, following the usual salary review and based on the level of performance and contribution. Other measures included improving family-related benefits as well as enhancing the medical insurance scheme and the employee assistance programme. The retirement plans administration underwent a major improvement, so it now operates through a fully automated web site that staff can use to manage their pension.

To protect staff in a number of Resident Offices from significant losses of purchasing power as a result of high inflation and currency fluctuations, the Bank converted some of the staff salaries and benefits from hard to local currency. The EBRD also adjusted the salaries of locally employed staff in 18 countries affected by double-digit losses in purchasing power.

Geographic mobility

The Bank’s professional staff may be assigned temporarily (up to five years) from London Headquarters to a Resident Office and vice-versa, or between two Resident Offices. These assignments increase the Bank’s operational focus and develop talent while offering individuals the opportunity to fulfill professional goals by working in a different EBRD location. In 2008 there were 44 geographic assignments, 20 of which were from Headquarters to the Resident Offices.

Learning and development

The EBRD aims to enhance its employees’ professional skills and translate them into business performance. The entire portfolio of training for banking technical skills was reviewed in 2008, leading to a new range of programmes. These will ensure that all banking staff have the level and mix of skills to originate, structure, execute and monitor EBRD projects as required by the Bank’s business plan for 2009. Initiatives covering management development and personal effectiveness were also reviewed, with new programmes being rolled out in 2009.

In 2008 the EBRD’s technical skills and professional development programmes delivered more than 100 sessions, corresponding to almost 2,500 person-training days. In addition, the Bank delivered several sessions covering IT and health and safety.

A revised programme was introduced in 2008 to help new employees of the Bank assimilate more rapidly into the organisation and understand the Bank’s business and function more quickly. This programme features internet-based learning modules, which, together with modules on the performance appraisal process and retirement plans, complemented the range of the Bank’s distance learning resources.

Staff Council

The Staff Council is a group of staff volunteers that aims to foster a sense of common purpose in promoting the aims and objectives of the Bank through effective communication of staff views and ideas. It helps to promote the rights, interests and welfare of staff members and is involved in collaborative problem-solving and consultation.
The diagram shows functions, irrespective of size, with a direct reporting relationship to either the President, Board of Directors, Vice Presidents or the Offices of the Chief Economist, General Counsel and Secretary General.

* Chairman of the Board of Directors
## EBRD Management
### 31 December 2008

<table>
<thead>
<tr>
<th>Position</th>
<th>Name</th>
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<tbody>
<tr>
<td>President</td>
<td>Thomas Mirow</td>
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<tr>
<td><strong>Banking</strong></td>
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<tr>
<td>First Vice President</td>
<td>Varel Freeman</td>
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<tr>
<td><strong>Front Office</strong></td>
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<tr>
<td>Strategic and Corporate Planning (joint report to Banking)</td>
<td>Josué Tanaka</td>
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<tr>
<td>Operations Committee Secretariat</td>
<td>Frédéric Lucenet</td>
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<tr>
<td>Business Development (joint report to Risk Management)</td>
<td>Kamen Zahariev</td>
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<tr>
<td>Corporate Recovery</td>
<td>Lindsay Forbes</td>
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<td><strong>Energy Efficiency and Climate Change</strong></td>
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<td>Corporate Director</td>
<td>Josué Tanaka</td>
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<td>Director</td>
<td>Terry McCallion</td>
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<td><strong>Energy and Natural Resources</strong></td>
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<td>Business Group Director</td>
<td>Riccardo Puliti</td>
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<td><strong>Financial Institutions</strong></td>
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<td>Business Group Director</td>
<td>Nick Tesseyman</td>
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<td>Bank Equity</td>
<td>Anne Fossemalle</td>
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<td>Bank Relationships</td>
<td>Jean-Marc Peterschmitt</td>
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<td>Equity Funds (Acting)</td>
<td>Lindsay Forbes</td>
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<td>Group for Small Business</td>
<td>Chikako Kuno</td>
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<td>Non-bank Financial Institutions</td>
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<td><strong>Infrastructure</strong></td>
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<td>Business Group Director</td>
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<td>Municipal and Environmental Infrastructure</td>
<td>Jean-Patrick Marquet</td>
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<td>Transport</td>
<td>Sue Barrett</td>
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<td><strong>Central Europe, Western Balkans and Telecommunications, Informatics and Media</strong></td>
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<tr>
<td>Business Group Director</td>
<td>Peter Reiniger</td>
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<tr>
<td>Croatia (Zagreb office)</td>
<td>Charlotte Ruhe</td>
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<tr>
<td>Czech Republic, Hungary, Slovak Republic and Slovenia (Bratislava office)</td>
<td>François Lecavalier</td>
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<td>Poland and the Baltic states (Warsaw office)</td>
<td>Lucyna Stanczak</td>
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<tr>
<td>Albania, Bosnia and Herzegovina, FYR Macedonia, Montenegro and Kosovo</td>
<td>Claudio Viezzoli</td>
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<td>Serbia (Belgrade office)</td>
<td>Hildegard Gacek</td>
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<tr>
<td>Telecommunications, Informatics and Media</td>
<td>Michelle Senecal de Fonseca</td>
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<td><strong>Russia, Agribusiness and Property and Tourism</strong></td>
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<tr>
<td>Business Group Director</td>
<td>Alain Pilloux</td>
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<td>Russia, Corporate Sector (Moscow office)</td>
<td>Eric Rasmussen</td>
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<td>Russia, Government Relations (Moscow office)</td>
<td>Alexander Orlov</td>
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<td>Natasha Khanjenkova</td>
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<td>Agribusiness</td>
<td>Gilles Mettetal</td>
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<td>Property and Tourism</td>
<td>Sylvie Gansser-Potts</td>
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<td><strong>South-eastern Europe, Central Asia and the Caucasus</strong></td>
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<td>Business Group Director</td>
<td>Olivier Descamps</td>
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<td>Ukraine (Kiev office)</td>
<td>André Küüsvek</td>
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<td>Romania (Bucharest office)</td>
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<td>James Hyslop</td>
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<td>Michael Davey</td>
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<td>Central Asia</td>
<td>Masaru Honma</td>
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<td>Michael Weinstei</td>
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<td>Mongolia (Ulaanbaatar office)</td>
<td>John Chomel-Doe</td>
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<td>Early Transition Countries (ETC) Initiative (Acting)</td>
<td>Julian Healey</td>
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<td>TAM/BAS Programme</td>
<td>Charlotte Salford</td>
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<td><strong>Finance</strong></td>
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<td>Manfred Schepers</td>
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<td><strong>Treasury</strong></td>
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<td>Axel van Nederveen</td>
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<td>Deputy Treasurer and Head of Funding</td>
<td>Isabelle Laurent</td>
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<td><strong>Loan Syndications</strong></td>
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<td>Director</td>
<td>Lorenz Jorgensen</td>
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<td><strong>Budget and Financial Policy</strong></td>
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<td>Chris Holyoak</td>
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<td>Corporate Director</td>
<td>Josué Tanaka</td>
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<td>(joint report to Banking)</td>
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<td><strong>Controller’s Department</strong></td>
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<tr>
<td>Controller Director</td>
<td>Nigel Kerby</td>
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<td><strong>Information Technology</strong></td>
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<td>Director</td>
<td>Tim Goldstone</td>
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Organisation and staffing

**Risk Management, Human Resources and Nuclear Safety**

**Vice President**  
Horst Reichenbach

**Risk Management**

**Director**  
Michael Williams

**Credit/Transaction Analysis**  
David Klingensmith

**Treasury Credit Risk**  
Andrea Leon

**Credit Portfolio Review**  
(Acting) Andrew McDonald

**Portfolio Risk Management Group**  
Jacob Lodding

**Risk Management Systems Programme**  
Irena Postlova

**Corporate Recovery**  
Kamen Zahariev

**Operational Risk**  
Julie Williams

**Human Resources**

**Director**  
Paolo Gallo

**Deputy Director, Compensation and Benefits**  
Matthew Drage

**Nuclear Safety**

**Director**  
Vince Novak

**Official Co-financing**

**Director**  
Alexandre Draznieks

**Environment, Procurement and Administration**

**Vice President**  
Brigita Schmögnerová

**Environment and Sustainability**

**Corporate Director**  
Alistair Clark

**Procurement**

**Director**  
Jan Jackholt

**Administration**

**Director**  
Jaroslaw Wojtylak

**Consultancy Service Unit and Purchasing**

**Director**  
Dilek Macit

**Office of the Secretary General**

**Secretary General**  
(Acting) Horst Reichenbach

**Deputy Secretary General**  
Nigel Carter

**Assistant Secretary General**  
Colm Lincoln

**Evaluation Department**

**Chief Evaluator (reports to Board of Directors)**  
Fredrik Korfker

**Office of the Chief Economist**

**Chief Economist**  
Erik Berglof

**Director, Project Design and Appraisal**  
Andrew Kilpatrick

**Director, Project Monitoring and Impact Assessment**  
Gary Bond

**Director, Strategy and Analysis**  
Alan Roussou

**Director, Policy Studies**  
Jeromin Zettelmeyer

**Office of the General Counsel**

**General Counsel**  
Emmanuel Maurice

**Deputy General Counsel**  
Gerard Sanders

**Deputy General Counsel**  
Norbert Seiler

**Assistant General Counsel**  
Stephen Petri

**Operations Administration Unit**

**Director**  
Peter Robinson

**Records Management and Archives Unit**

**Head of Unit**  
Anne Crétal

**Office of the Chief Compliance Officer**

**Chief Compliance Officer**  
Eneri Quinones

**Internal Audit**

**Head of Internal Audit**  
Ray Portelli

**Communications**

**Director**  
Reijo Kemppinen

**President’s Office**

**Director**  
Hans Peter Lankes
EBRD Governors and Alternate Governors
31 December 2008

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<th>Governor</th>
<th>Alternate Governor</th>
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<tr>
<td>Albania</td>
<td>Rizvan Bode</td>
<td>Sherefedin Shehu</td>
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<td>Nerses Yeritsyan</td>
<td>Arthur Javadian</td>
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<td>Australia</td>
<td>Wayne Swan</td>
<td>Bob McMullan</td>
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<td>Josef Pröll</td>
<td>Edith Friawaliner</td>
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<td>Samir Sharifov</td>
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<td>Vladimir Semashko</td>
<td>Nikolai Ziechenko</td>
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<td>Belgium</td>
<td>Didier Reynolds</td>
<td>Jean-Pierre Arnoldi</td>
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<td>Bosnia and Herzegovina</td>
<td>Sven Alkalaj</td>
<td>Aleksandar Dzombić</td>
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<td>Plamen Oresharski</td>
<td>Dimitar Kostov</td>
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<td>James M. Flaherty</td>
<td>Leonard J. Edwards</td>
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<td>Ivan Šuker</td>
<td>Zdravko Marić</td>
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<td>Charilas Stavriskis</td>
<td>Christos Patsalides</td>
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<td>Miroslav Kalousek</td>
<td>Zdeněk Tůma</td>
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<td>Denmark</td>
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<td>Michael Dithmer</td>
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<td>Rachid Mohamed Rachid</td>
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<td>Pekka Huhtaniemi</td>
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<td>FYR Macedonia</td>
<td>Trajko Slaveski</td>
<td>Zoran Stavreski</td>
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<td>France</td>
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<td>Xavier Musca</td>
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<td>Georgia</td>
<td>Nika Gilauri</td>
<td>Roman Gotsiridze</td>
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<td>Germany</td>
<td>Peer Steinbrück</td>
<td>Jörg Assmussen</td>
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<td>Greece</td>
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<td>Ioannis Sidirooulos</td>
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<td>Hungary</td>
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<td>Géza Egyed</td>
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<td>Gylfi Magnússon</td>
<td>Kjartan Gunnarsson</td>
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<tr>
<td>Ireland</td>
<td>Brian Lenihan</td>
<td>David Doyle</td>
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<td>Israel</td>
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<td>Yaron Ariav</td>
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<td>Vittorio Grilli</td>
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<td>Masaaki Shirakawa</td>
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<td>Galyzhan Pirmatov</td>
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<td>Seongtae Lee</td>
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<td>Marat Alapaev</td>
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<td>Kaspars Gerhards</td>
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<td>Roland Marxer</td>
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<td>Algirdas Šemeta</td>
<td>Ramunė Vilija Zabulienė</td>
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<td>Jean Guill</td>
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<td>Tono Fenech</td>
<td>Michael Bonello</td>
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<td>Alejandro Werner</td>
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<td>Marin Molosag</td>
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<td>Alag Batsuuk</td>
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<td>Milorad Katnić</td>
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<td>Salaheddine Mezouar</td>
<td>Abdellatif Louden</td>
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<td>Maxime Verhagen</td>
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<td>Derek Leask</td>
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<td>Rikke Lind</td>
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<td>Slawomir Skrzypek</td>
<td>Jacek Dominik</td>
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<td>Carlos Costa Pina</td>
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<td>Gheorghe Pogea</td>
<td>Mugur Isărescu</td>
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<td>Dimitry Pankin</td>
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<td>Diana Dragutinovič</td>
<td>Mladjan Dinkić</td>
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<td>Ivan Šramko</td>
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<td>Andrej Kavčič</td>
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<td>Spain</td>
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<td>David Véega Figuerras</td>
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<td>Per Jansson</td>
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<td>Doris Leuthard</td>
<td>Beatrice Masier Mallor</td>
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<td>Jamshed Yusupov</td>
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<td>İbrahim Çañakcı</td>
<td>Cavit Dağdías</td>
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<td>Ukraine</td>
<td>Victor Pynzenyk</td>
<td>Volodymyr Stelmakh</td>
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<td>Alistair Darling</td>
<td>Douglas Alexander</td>
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<td>Henry Paulson Jr</td>
<td>Reuben Jeffery III</td>
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<td>Rustam Sadıkovich Azimov</td>
<td>Shakhlat Tulyagaron</td>
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<td>European Community</td>
<td>Joaquín Almúa</td>
<td>Marco Buti</td>
</tr>
<tr>
<td>European Investment Bank</td>
<td>Dario Scannapieco</td>
<td>Marta Gajecka</td>
</tr>
</tbody>
</table>

Chairman of the Board of Governors
Governor for Ireland (Mr Brian Lenihan)

Vice Chairman of the Board of Governors
Governor for Lithuania (Mr Algirdas Šemeta)
Governor for Morocco (Mr Salaheddine Mezouar)

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

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

**31 December 2008**

<table>
<thead>
<tr>
<th>Director</th>
<th>Alternate</th>
<th>Constituency</th>
</tr>
</thead>
<tbody>
<tr>
<td>László Andor</td>
<td>Pavel Štefánek</td>
<td>Hungary, Czech Republic, Slovak Republic, Croatia</td>
</tr>
<tr>
<td>Kurt Bayer</td>
<td>Golan Benita</td>
<td>Austria, Israel, Cyprus, Malta, Kazakhstan, Bosnia and Herzegovina</td>
</tr>
<tr>
<td>Stefania Bazzoni</td>
<td>Vacant</td>
<td>Italy</td>
</tr>
<tr>
<td>Terence Brown</td>
<td>Walter Cernova</td>
<td>European Investment Bank</td>
</tr>
<tr>
<td>Anne Counihan</td>
<td>Ib Katznelson</td>
<td>Ireland, Denmark, Lithuania, FYR Macedonia</td>
</tr>
<tr>
<td>Alain de Cointet</td>
<td>François Lefebvre</td>
<td>France</td>
</tr>
<tr>
<td>Krystyna Gawlikowska-Hueckel</td>
<td>Vacant</td>
<td>Poland, Bulgaria, Albania</td>
</tr>
<tr>
<td>Werner Gruber</td>
<td>Kalin Mitrev</td>
<td>Switzerland, Turkey, Liechtenstein, Uzbekistan, Kyrgyz Republic, Azerbaijan, Turkmenistan, Serbia, Montenegro</td>
</tr>
<tr>
<td>Sven Hegelund</td>
<td>Baldur Pétursson</td>
<td>Sweden, Iceland, Estonia</td>
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<tr>
<td>Etsuro Honda</td>
<td>Tatsuhiko Kasai</td>
<td>Japan</td>
</tr>
<tr>
<td>Ole Hovland</td>
<td>Jari Gustafsson</td>
<td>Norway, Finland, Latvia</td>
</tr>
<tr>
<td>André Juneau</td>
<td>Judith St George</td>
<td>Canada, Morocco</td>
</tr>
<tr>
<td>Tae Hwan Kim</td>
<td>Peter Reith</td>
<td>Korea, Australia, New Zealand, Egypt</td>
</tr>
<tr>
<td>Elena Kotova</td>
<td>Vacant</td>
<td>Russian Federation, Belarus, Tajikistan</td>
</tr>
<tr>
<td>Vassili Lelakis</td>
<td>Carole Garnier</td>
<td>European Community</td>
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<tr>
<td>Pedro Moriyón</td>
<td>David Martínez Hornillos</td>
<td>Spain, Mexico</td>
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<tr>
<td>Kenneth Peel</td>
<td>Vacant</td>
<td>United States</td>
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<tr>
<td>Igor Podoliev</td>
<td>Virginia Gheorghi</td>
<td>Ukraine, Romania, Moldova, Georgia, Armenia</td>
</tr>
<tr>
<td>Simon Ray</td>
<td>Jonathan Black</td>
<td>United Kingdom</td>
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<tr>
<td>Joachim Schwarzer</td>
<td>Rainald Roesch</td>
<td>Germany</td>
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<tr>
<td>Jean-Louis Six</td>
<td>Miguel Marques</td>
<td>Belgium, Luxembourg, Slovenia</td>
</tr>
<tr>
<td>Jan Willeim van den Wall Bake</td>
<td>Hans Sprokkreeff</td>
<td>Netherlands, Mongolia</td>
</tr>
<tr>
<td>Stefanos Vavalidis</td>
<td>João Cravinho</td>
<td>Greece, Portugal</td>
</tr>
</tbody>
</table>

### Composition of Board of Directors’ committees

**31 December 2008**

#### Audit Committee

<table>
<thead>
<tr>
<th>Jan Willeim van den Wall Bake (Chair)</th>
<th>László Andor (Vice Chair)</th>
<th>Werner Gruber</th>
<th>Sven Hegelund</th>
<th>Pedro Moriyón</th>
<th>Simon Ray</th>
<th>Stefanos Vavalidis</th>
</tr>
</thead>
</table>

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

#### Financial and Operations Policies Committee

<table>
<thead>
<tr>
<th>Alain de Cointet (Chair)</th>
<th>Elena Kotova (Vice Chair)</th>
<th>Stefania Bazzoni</th>
<th>Terence Brown</th>
<th>André Juneau</th>
<th>Kenneth Peel</th>
<th>Joachim Schwarzer</th>
<th>Jean-Louis Six</th>
</tr>
</thead>
</table>

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

#### Budget and Administrative Affairs Committee

<table>
<thead>
<tr>
<th>Ole Hovland (Chair)</th>
<th>Anne Counihan (Vice Chair)</th>
<th>Kurt Bayer</th>
<th>Krystyna Gawlikowska-Hueckel</th>
<th>Etsuro Honda</th>
<th>Tae Hwan Kim</th>
<th>Vassili Lelakis</th>
<th>Igor Podoliev</th>
</tr>
</thead>
</table>

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

#### Board Steering Group

<table>
<thead>
<tr>
<th>André Juneau (Chair)</th>
<th>Vassili Lelakis (Vice Chair)</th>
<th>László Andor</th>
<th>Anne Counihan</th>
<th>Alain de Cointet</th>
<th>Ole Hovland</th>
<th>Elena Kotova</th>
<th>Jan Willeim van den Wall Bake</th>
<th>Horst Reichenbach</th>
<th>Nigel Carter</th>
</tr>
</thead>
</table>

The Board Steering Group was established in 1994 to improve coordination between the Board of Directors and management on arrangements for meetings of the Board, Committees and workshops.
Further information

Exchange rates

Non-euro currencies have been converted, where appropriate, into euro on the basis of the exchange rates current on 31 December 2008. (Approximate euro exchange rates: £ 0.96, US$ 1.40, ¥ 126.83.)

Calculation of EBRD commitments

Repeat transactions with the same client for seasonal/short-term facilities, such as commodity financing, are not included in the calculation of EBRD commitments for the year.

Abbreviations and acronyms

<table>
<thead>
<tr>
<th>The Bank, EBRD</th>
<th>The European Bank for Reconstruction and Development</th>
</tr>
</thead>
<tbody>
<tr>
<td>BAS</td>
<td>Business Advisory Services</td>
</tr>
<tr>
<td>CEB</td>
<td>Council of Europe Development Bank</td>
</tr>
<tr>
<td>CIS</td>
<td>Commonwealth of Independent States</td>
</tr>
<tr>
<td>DIF</td>
<td>Direct Investment Facility</td>
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<tr>
<td>EC</td>
<td>European Community</td>
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<tr>
<td>EIB</td>
<td>European Investment Bank</td>
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<tr>
<td>ETC</td>
<td>Early transition countries</td>
</tr>
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<td>EU</td>
<td>European Union</td>
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<tr>
<td>FDI</td>
<td>Foreign direct investment</td>
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<tr>
<td>FYR Macedonia</td>
<td>Former Yugoslav Republic of Macedonia</td>
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<tr>
<td>GDP</td>
<td>Gross domestic product</td>
</tr>
<tr>
<td>IFC</td>
<td>International Finance Corporation</td>
</tr>
<tr>
<td>IFI</td>
<td>International financial institution</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>MSME</td>
<td>Micro, small and medium-sized enterprise</td>
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<tr>
<td>NDEP</td>
<td>Northern Dimension Environmental Partnership</td>
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<tr>
<td>NSA</td>
<td>Nuclear Safety Account</td>
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<tr>
<td>SEE</td>
<td>South-eastern Europe</td>
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<tr>
<td>SMEs</td>
<td>Small and medium-sized enterprises</td>
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<td>TAM</td>
<td>TurnAround Management Programme</td>
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<td>TC</td>
<td>Technical cooperation</td>
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<td>TFP</td>
<td>Trade Facilitation Programme</td>
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